LAW MANTRA THINK BEYOND OTHERS
(I.S.S.N 2321- 6417 (Online)
Ph: +918255090897 Website: journal.lawmantra.co.in
E-mail: info@lawmantra.co.in contact@lawmantra.co.in

THE JOURNEY TOWARDS CORPORATE FEDERALISM: AN ANALYTICAL STUDY*

ABSTRACT

"The financial crisis should not become an excuse to raise taxes, which would only undermine the economic growth required to regain our strength".- George W. Bush

Fiscal Imbalances between the Centre and the State- Finance is a pre-requisite of good governance. The "Central biased taxing system" has been a debatable topic since a very long time in India. There has always been an unequal sharing of the taxes and revenues between the three tiers of the state, resulting to poor governance further leading to lack of funds in the units. This leads to a major setback in the growth and development of these units.The present paper focuses on the fiscal relations in India. The cobweb of finance and functions lead the governance to a mixed bag of success and failure. It is high time that the policies under the Democratic sub-structure provides a shade to all the tiers of federal governance in India. The term government emanates the essence of governance that is good and approachable. A comparative analysis manifest the lacuna in proficient corporate federalism.in India.. Hence, restructuring of governmental functions and finances between the national and lower levels of government has been an essential need for the state. The government having similar view has tried making changes in the fiscal policies of the state by means of Financial and Planning Commissions. A general conclusion emerging from this review of empirical and theoretical literature on inter-governmental fiscal relations is that the units or the states should be given access to adequate resources to do the job, they are entrusted with. The government by introducing several programmes like the NITI Aayog is making several attempts to do so. The government is making conscious attempts to give states the tax levying powers which they require. The developing state is at a progressive stage in the area of Finance and aims to be a corporate federation in the years to come.

I.INTRODUCTION: AN OVERVIEW OF FISCAL RELATIONS

Government in most of the countries are divided into two tiers being, the national level and the sub national levels. The sub national level include the provincial and local governments. As there are two sets of governments in a federation having functions to discharge, it is essential for the effective working of each government that it be endowed with power to raise financial resources of its own. This necessitates the taxing power between the centre and the states.[1] In a federation, there is a problem relating to a inter-governmental financial relationship which does not end with allocating taxing powers between the two tiers of government. Every federation aims at being a corporate federation i.e., a political concept that emphasizes the decentralisation of powers.Hence,

* **Ms.Shruti Poddar & Ms. Paridhi Sharma, BBA-LL.B (2014-19), KIIT Law School, KIIT University.**
[1] M P Jain, *Indian Constitutional Law*, 596-597, (7th ed. 2014)

there is a fiscal policy made in every country for the maintaining the balance and for the effective working of the government.This does not only maintain balance but also reduces the disputes arising between the centre and the state.

Fiscal policy is the use of government revenue collection (mainly taxes) and expenditure (spending) to influence the economy[2]. The major functions of Fiscal policy are:

a) Allocation: The allocation of funds depends upon the collection of taxes and government using that revenue for specific purposes. A specific amount of fund is set aside for purposes specifically laid out by the government is determined by the national budget. Allocation of funds are primarily done in 4 ways.
b) Distribution: After allocation of the funds, fiscal policy is to determine more specifically how those funds are to be distributed throughout each segment of the economy. Distribution provides the specific explanation of what allocation what intended for in the first place.
c) Stabilization: The important function of stabilization in fiscal policy for the purpose of budgeting is to provide stable economic growth. If there is a lack of stability in the economy, it would result in serious consequences which was experienced by the stock market crash of 1929. Fiscal policy is designed to anticipate and mitigate the effect of such economic breakdowns.
d) Development: After allocation, distribution and stabilisation, development is the major function of fiscal policy which determines the economic growth. Development is an indicator of the growth of the economy. Economic growth is not only dependent of how much tax has been collected or spent. It occurs when various projects are funded for the development of the economy. The private sector funds and the borrowed funds both are required for the government to bring about development in the economy.

As India was spread in a vast region, the new central government, post-independence had to delegate some of the powers to the local regional authorities. India has a federal structure which follows a three-tiered constitutionally demarcated system. The allocation of the funds are listed in three separate mandates i.e., Union list including 97 subject matters, State List including 66 subject matters and the concurrent list including 47 subject matters, according to the macro and micro nature of the issue. The roles and responsibilities are divided among the three tiers in the 7th schedule of The Constitution of India, 1950 in article 246.

The primary purpose of the Inter-governmental distribution of funds are to close the fiscal gap and to balance inter-state capacities. A viable scheme of centre-state financial relationship is *sine qua non* for the proper functioning of a federal polity as a whole.[3]

II.INDIA'S ATTEMPT TOWARDS BETTERMENT OF FISCAL RELATIONS

i. Origin of Fiscal Relations in India

Britishers introduced municipal governments in 1860 in order to decentralise the British rule as the crown rule was consolidated in the second half of the 19th century based on administrative consideration. The Britishers started developing the Fiscal structures and in the year 1870. The process of decentralisation started spreading in order to meet the perceived need of the local self-government. In the initial stages only some expenditure categories were assigned to the provincial government which had separate budgets allocated and they received the annual lump sum grants.

[2]David N. Weil, *Concise Encyclopaedia of Economics: Fiscal Policy,* (2008) http://www.econlib.org/library/Enc/FiscalPolicy.html, (Last visited on:April 27, 2016)
[3]Supra note 1

Many changes were put forth by the Montague Chelmsford reform in the year 1918 with a vision of decentralised Federation. Based on this report the government of India Act 1919 made many financial changes as per which the provinces now had control over the resources such as land irrigation and judicial stamps which were only restricted to sum earlier.

New fiscal proposal were introduced by The Indian Statutory Commission of 1928 headed by Lord Simon , which include the sharing of income tax between the centre and provinces along with it various innovation in taxing policies were also proposed. In order to meet the new proposal of Income tax sharing between the provinces and centre various commodities met in order to derive a function for sharing taxes i.e. to what extent the power can be shared. Subsequently later in the year 1935, Government of India Act was introduced which as per many jurist had loose federal structure. Considering the Fiscal changes the act provided many provision like assignment of tax authorities and revenue sharing scheme leading to the foundation of Fiscal federation in Independent India. Hence, the delegation of work or decentralisation in not a new concept and division of the government in several tiers for the purpose of revenue collection has been an age old practise.

ii. Finance Commissions in India

The responsibility of fund allocations is limited in the Finance Commission only to the non-plan current expenditures due to the presence of planning commission performing similar function. In India finance commission came into existence in 1951 under article 280 of the Indian constitution by the president of India. According to the finance commission act 1952, the Commission is to consist of a Chairman and four other members appointed by the President.

As per article 280 of the constitution, the Prime minister appoints the finance commission every five years. The commission transfers the funds through the following steps:

a) Estimating the overall budget available as per the total resource requirement of the union and the states;
b) Estimating the current revenues and non-plan expenditure of states;
c) Assessing the proportion of central tax proceeds to be assigned to the states and allocation of these among them; and
d) Providing grants-in-aid to close any gap between non-plan current expenditures and revenue.[4]

In India till date, fourteen finance commissions have submitted their report and all have made significant changes in the fiscal relations between the Centre and State. All these commissions were made with the view of betterment or improvement of the financial status of the state. The recent finance Commission is the 14th Finance Commission which marked as one of the milestones as it introduced such policies which had never been recommended before.

14th Finance Commission in India headed by Dr .Y.V Reddy former governor Reserve Bank of India, has submitted its recommendation to the president. The Government has in principle accepted the recommendations. The most important recommendations were:

a) Sharing of union taxes – In India 14th finance commission has made recommendation regarding the share of tax devolution which was recommended to increase to 42%
b) Assured source of funding for NDRF(national Disaster Response force)
c) Recommendation of Rs.1,94,821 was made as Total revenue Deficit Grant for 11 states. Namely Andhra Pradesh, Himachal Pradesh, Jammu Kashmir, Manipur , Mizoram, Nagaland , Tripura, Assam ,Kerala, Meghalaya, west Bengal.

[4]Prashant Kumar, Tanoubi Ngangom, The Centre-State Fiscal Relationship: A Critique & Recommendations, 4-5, (August, 2014)

d) For establishment of an Independent Council for assessing of fiscal policy for proper implication of budget proposal.
e) Replacement of FRBM act with fiscal responsibility law.
f) For maintaining all disinvestment funds through the consolidated fund of India
g) For amendment of electricity act for Penalties for delay in payment of subsidies by state government.

Like any other Commission, it had few positive implications and few downward risks. By giving the states a greater fiscal space, they made a path for the states to develop and grow their regions which in turn would add to the growth of the nation and it would also help in efficient utilisation of government resources. On the other hand, huge tax devolution could lead to an imbalance in the Centre's finances especially till the good and services tax is implemented and a major centrally sponsored scheme gets delinked.

iii. Planning Commission

The Planning Commission was set up by a Resolution of the Government of India in March 1950 in pursuance of declared objectives of the Government to promote a rapid rise in the standard of living of the people by efficient exploitation of the resources of the country, increasing production and offering opportunities to all for employment in the service of the community. The Planning Commission was charged with the responsibility of making assessment of all resources of the country, augmenting deficient resources, formulating plans for the most effective and balanced utilization of resources and determining priorities. Jawaharlal Nehru was the first Chairman of the Planning Commission.[5]

The first Five-year Plan was launched in 1951 and two subsequent five-year plans were formulated till 1965.

For the first eight Plans the emphasis was on a growing public sector with massive investments in basic and heavy industries, but since the launch of the Ninth Plan in 1997, the emphasis on the public sector has become less pronounced and the current thinking on planning in the country, in general, is that it should increasingly be of an indicative nature.[6]

There are many planning commission but the latest commission that has been introduced is the 12th planning commission (five year plan 2012-2017) which recommended 12 strategic challenges related to the development of the state. Strategic challenges means the core area that require new approaches to produce the desired result. The major recommendations aimed at decentralisation and empowerment.

iv.NITI Aayog

NITI Aayog is a group of people with authority entrusted by the government to formulate/ regulate policies in social and economic issue with expertise in it. National institution for transforming India Aayog came into force on 1st Jan 2015 replacing the planning commission which was set up in 1950 by the Government of India. Head quarter of NITI Aayog is in Delhi. The Chairperson is Shri Narendra Modi, Hon'ble Prime Minister, the Vice Chairperson is Shri Arvind Panagariya and the Chief Executive Officer is Shri Amitabh Kant.

The major thought of the NDA Government behind NITI Aayog was to improve the centre-to-state one-way flow of policy, which was the hallmark of the Planning Commission era, which should to be replaced by a genuine and continuing partnership of states. NITI Aayog shall emerge

---

[5]Planning Commission, Government of India, (November 05, 2014), http://planningcommission.gov.in/aboutus/history/index.php?about=aboutbdy.htm, (Last visited on: April 29, 2016)
[6]*Ibid.*

as a "think-tank" that will provide Governments at the central and state levels with relevant strategic and technical advice across the spectrum of key elements of policy.[7]

NITI Aayog (National Institution for Transforming India) would help,

a. To evolve a shared vision of national development priorities sectors and strategies with the active involvement of States in the light of national objectives
b. To foster cooperative federalism through structured support initiatives and mechanisms with the States on a continuous basis, recognizing that strong States make a strong nation.
c. To develop mechanisms to formulate credible plans at the village level and aggregate these progressively at higher levels of government.
d. To ensure, on areas that are specifically referred to it, that the interests of national security are incorporated in economic strategy and policy.
e. To pay special attention to the sections of our society that may be at risk of not benefitting adequately from economic progress.
f. To design strategic and long term policy and programme frameworks and initiatives, and monitor their progress and their efficacy. The lessons learnt through monitoring and feedback will be used for making innovative improvements, including necessary mid-course correction.
g. To provide advice and encourage partnerships between key stakeholders and national and international like-minded Think tanks, as well as educational and policy research institutions.
h. To create a knowledge, innovation and entrepreneurial support system through a collaborative community of national and international experts, practitioners and other partners.
i. To offer a platform for resolution of inter-sectoral and inter¬ departmental issues in order to accelerate the implementation of the development agenda.
j. To maintain a state-of-the-art Resource Centre, be a repository of research on good governance and best practices in sustainable and equitable development as well as help their dissemination to stake-holders.
k. To actively monitor and evaluate the implementation of programs and initiatives, including the identification of the needed resources so as to strengthen the probability of success and scope of delivery.[8]

NITI Aayog is an attempt to equip the state to face complex challenges within the nation and from the world as well.

v. NITI Aayog vs. Planning Commission

NITI Aayog was in a way an improved form of the Planning Commission and was introduced to fill in the loop holes of the Commission. There are various differences between the two but the major ones are:

a) Both NITI Aayog and Planning Commission are advisory bodies but a simple distinction is that planning commission had powers to allocate funds to ministries and states but now the allocation of funds is in the hands of finance ministry whereas NITI Aayog is considered to be the “think-tank” and is truly an advisory board.

[7],Narendra Modi, Government establishes NITI Aayog (National Institution for Transforming India) to replace Planning Commission, (January 1, 2016), http://www.narendramodi.in/government-establishes-niti-aayog-national-institution-for-transforming-india-to-replace-planning-commission-7105 (Last visited on: April 29, 2016)
[8]NITI Aayog (National Institution for transforming India), Government of India, (2016), http://planningcommission.gov.in/aboutus/history/index.php?about=aboutbdy.htm, (Last visited at: April 29, 2016)

b) Role of states is limited in planning commission as compared to that of NITI Aayog where the states have greater role to play in implementing planning policies as NITI Aayog has all chief ministers of states and administrators of UT in its Governing Council hence they have a bigger role in planning/ implementation of policies. In Planning Commission the states had to come annually to get their budgets approved.
c) A new function has been given to the NITI Aayog i.e. to address the need of the national security in the economic strategy which was earlier not in the hands of the Planning Commission.
d) The provision of regional council is there in NITI Aayog to address local / regional development issues which lacked in the Planning Commission.

vi. Past Amendments

To improve the financial status of the State a number of attempts in the form of amendments were made. But the most significant ones were:

46TH AMENDMENT ACT 1982:

The constitution (forty-sixth amendment) act was passed in 1982. This amendment was designed to improve the financial positions of the state. The purpose of amendment was to enable the parliament to levy and collect tax on the consignment of goods taking place in the course of inter-state trade or commerce. The proceeds of the tax so levied were to be assigned to the states. The new tax was complimentary to the tax on inter-state sales.

Accordingly, to achieve the purpose, a new Entry 92B was added to LIST I in the 7th schedule; Art 269 and union List were amended an art 366. Was amend by adding a clause (29A) after clause (29) to expand and clarify the meaning of the phrase “tax on the Sale or Purchase of Good”. The amendment also empowers the sates to levy tax on the supply of food and drink.[9][10]

60TH AMENDMENT 1988:

This amendment amended article 276(2) of the constitution as per which states were permitted to levy taxes on profession, trade, or calling and employment up to Rs 2500instead of Rs 250 hitherto. This is to enable the state to collect more revenue under this head. Also , the maximum ceiling of Rs 250 hade made the profession tax regressive in affect as even people with high salaries had to pay Rs 250 per annum,. The higher ceiling now fixed will enable the states to levy tax on a progressive basis.[11]

73RD AMENDMENT 1993:

Through this amendment the government recognised the local government and states The amendment stipulated a long list of function and sources of funds for both rural and urban local bodies. Additionally, each state was mandated to appoint a state finance commission for location of taxes and fees to local government as well as recommending the state’s tax devolution and grants.[12]

74TH AMENDMENT ACT, 1992:

In 74 amendment, provision is made for the appointment of a finance commission by a state to review the financial position of the municipalities and to recommend division of financial resources between the states and the municipalities within the states. Hitherto, the institution of

---

[9] M P Jain, Indian Constitutional Law, 1732-1733, (7th ed. 2014)
[10] K. Damodarasamy Naidu & sons v state of Tamil Nadu,(2001) 1 SCC 521

[11] M P Jain, *Indian Constitutional Law*, 1736, (7th ed. 2014)
[12] M P Jain, *Indian Constitutional Law*, 1739-1740, (7th ed. 2014)

municipal bodies has not been functioning very effectively in the states. The amendment seeks to make these institution as effective instruments of administrations [13]

80TH AMENDMENT ACT, 2000:

It seeks to restructure financial relation between centre and state following the recommendation of the finance commission.

In the first place article 269 has been amended clauses (1) and (2) thereof has been substituted by new clauses the purport of these clauses being to-

a) empower the centre to levy taxes on the sale or purchase of good in inter-state trade or commerce and on the consignment of goods in inter-state trade or commerce;
b) assign the revenue arising from these taxes to the states after 1st April 1996

The principle of distribution of the revenue among the states are to be formulated by parliament. In the second place, art 270 has been replaced by a new article with effect from 1st April, 1996 the new article seeks to achieve the following:

(1) A percentage of all central taxes and duties shall be distributed among the states.

(2) The following levies are exempted from the divisible pool-

   a) Duties and taxes referred to in article 268 and 269;
   b) Surcharge on taxes and duties referred to in article 271;and
   c) Any cess levied for specific purposes under any law made by parliament

(3) The percentage, manner and form of distribution are to be prescribed by the president after considering the recommendation of the finance commission.

(4) Article 272 has been omitted.[14]

III. TAXING POWERS IN OTHER FEDERATIONS: A COMPARITIVE ANALYSIS

The Indian Constitution has a very elaborate fiscal policy. In drawing this scheme, the Constitution framers took reference from laws of various countries and adopted certain techniques of these other federation but also avoided the backdrops or bad-laws which had developed there. Not all the laws are fit for all the federations. The laws are made according to the languages, culture and traditions of the countries which vary from time to time and place to place.

There is no elaborate distribution of taxing powers in the federation of U.S.A, Canada, and Australia. The general method of elaboration is that the central government in each country is authorised, subject to some restrictions, to levy any tax but the powers of the constituent units are somewhat restricted. The tax levying laws for all these federations and different from each other according to the needs of the states. However the power to levy some of the major taxes in all these states and divided between the centre and the constituent units. Some of the major taxes are:

i.Custom Duty

In all the countries the custom duties are levied by the centre whereas, in U.S.A. no export duties are levied by either of the governments. The export tariffs in India aims at doubling India's export

[13] Ibid
[14]M P Jain, *Indian Constitutional Law*, 1741-1742, (7th ed. 2014)

and generate additional employment complimenting the stupendous growth of Indian economy. The export tariffs in India is formulated complimenting the export import policy of India which again forms a part of the India's foreign trade policy. The current export tariffs in India covers exports tariff rates for different goods and services.[15] Whereas, U.S.A. follows a no export duty policy as the Export Taxation Clause was one of the many accommodations that the Framers made to cement unity among the various sections of the union. Many of the Southern delegates at the Constitutional Convention regarded the clause as a prerequisite to gaining their approval of the Constitution. The primary exporter of goods in the late eighteenth century, the South would have borne a disproportionate burden from export taxes. In addition to this the framers also stated the South's fear that a tax on exports would create a mechanism through which the more numerous Northern states could overwhelm the Southern states' economies. They also worried that export taxes could be used indirectly to attack slavery. There were several disputes about this in the Court of Law and the government in certain cases also wanted to levy the export taxes. However in the case of, United States v. IBM Corp. (1996)[16], the court stated that, Cases interpreting the Export Taxation Clause have made clear that the clause "strictly prohibits any tax or duty, discriminatory or not, that falls on exports during the course of exportation," and that the protection extends to "services and activities closely related to the export process. The Export Taxation Clause does not prohibit federal taxation of goods and services before they enter the course of exportation, or even of services and activities only tangentially related to the export process. Thus, the Court has invalidated taxes on bills of lading, ship charters, and marine insurance; but it has upheld federal assessments on pre-export goods and services.[17]

ii. Income Tax

In India the power to levy tax has been divided among the state and the centre according as the income is non-agricultural and agricultural. Whereas, in U.S.A. Canada and Australia the income tax is levied concurrently by the centre and the states.

In India, non-agricultural income is taxable whereas agricultural income is not completely taxable. According to the Indian Income Tax Act, 1961, agricultural income means, that income earned from agricultural operations and the same is defined under section 2(1A) of the Act. Agriculture Income is exempted from central taxation because the constitution gives exclusive powers to make laws with respect to taxes on agriculture income to the state legislature. Agriculture Income is exempted under Section 10(1) of the Income Tax Act, 1961. According to Taxability of Agricultural Income post amendment by Finance (No. 2) Act, 2015 agricultural income is considered for rate purposes while computing the income tax liability, if following 2 conditions are cumulatively satisfied.

a) Net agricultural income exceeds Rs.5000 for previous year and,
b) Total income excluding net agricultural income, exceeds the basic exemption limit.[18]

Taxing income has huge scope from activities which is non-agricultural in nature. There are thousands of middlemen like the wholes sellers, retailers etc. who earn substantial income from trading in agriculture. The tax department make concerted efforts to recover tax from them.

[15]M P Jain, *Indian Constitutional Law*, 650-651, (7th ed. 2014)
[16](95-591), 517 U.S. 843 (1996).
[17]The Heritage Guide to the Constitution, (2012), http://www.heritage.org/constitution/#!/articles/1/essays/65/export-taxation-clause, (Last visited on: April 28, 2016)
[18]CA Sandeep Kanoi, Riya Dani, *Agricultural Income – Tax treatment / Taxability*,4-5,(August 01, 2015)

Whereas, in countries like Canada, Australia and U.S.A. income tax is levied by both the centre and states. Internal revenue service (IRS) a branch of United States treasury collect federal income tax in U.S.A. States like Texas, Florida, Washington, South Dakota have no state income tax. Tennessee and New Hampshire only apply state income tax to interest and dividend income. The states which do not collect the income tax charge a higher rate of sales tax or property tax or even any other taxes to balance the income tax that they don't take. In U.S.A. they even have the concept of city income tax or even municipality income tax in some places. At the same time, in Australia and Canada as well, the same practise is followed but the only difference being that all the states levy taxes on the tax payers as income tax is the major source of revenue income of the state which is taken for personal earnings (such as salary and wages), business income and capital gains.

iii. Sales Tax

In U.S.A. and Canada both levels of governments, can levy this tax but in Australia only the centre can levy the taxes. In India, states levy sales tax except on an inter-state sale which fall within the purview of centre.

The states' power to levy sales tax has been subjected to few restrictions with a view to keep inter-state and international trade and commerce, all trade in goods of special importance, free from haphazard state taxation.

First, a state is debarred from levying a tax on inter-state sale or purchase.

Secondly, no state can tax a sale or purchase taking place outside the state.

Thirdly, a state is debarred from levying a tax on sale or purchase taking place in course of import or export.

Fourthly, Parliament is empowered to impose restrictions on state taxation of sale or purchase of goods of special importance. [19]

On the other hand, in Australia, the sales tax rate is a tax charged to consumer based on the purchase price of certain goods and services. The major part of the revenue of the Government of Australia is from the sales tax that is collected from the tax payers. Australian GST revenue is collected by the Federal government, and then paid to the states under a distribution formula determined by the Commonwealth Grants Commission (CGC). CGC recommends how the revenues raised from the goods and services tax (GST) should be distributed to the states and territories to achieve horizontal fiscal equalisation (HFE), a central feature of the Australian federation.

Whereas, in Canada and U.S.A. boththe federal Government and the state government levy sales tax. In addition to state-level sales taxes, consumers face local-level sales taxes in several states as well. This provides a population-weighted average of local sales taxes in an attempt to give a sense of the statutory local rate for each state.[20]

The Indian system of taxation comprises of various forms of taxation. While, U.S.A., Canada and Australia lack rigid separation of taxing powers leading to acute problems like overlapping and multiple taxation. Perhaps, the division among the three lists in India avoids such overlapping. The problem in Indian taxing system marks the levy of major part of the taxes is by the Centre and the units which do not get sufficient revenue for their own development.

[19] M P Jain, *Indian Constitutional Law*, 652, (7th ed. 2014)
[20] Scott Drenkard, Jared Walczak, *State and Local Sales Tax Rates*, 1-2, (April 08, 2015)

IV. CONCLUSION

In a nation where there are 675 districts and 638,596 villages, it is a burdensome task for the Central Government to administer and look into the needs of people effectively. As the major part of the population lives in these villages, decentralisation of power is of extreme importance. This is the major reason why India has a three tier government comprising of the Union, State and Local Government. But unfortunately due to the "Central biased fiscal policy" the state and the local government fail to cater the needs of the people of the villages resulting into poor growth of these parts of the states. It is of prime importance to provide the states with sufficient revenuefor the states to develop and grow their regions which in turn would add to the growth of the nation.

Inspite of the government having to spend a lump sum amount on the defence and other services it still manages to have a strong financial capacity than the units. And the units on the other hand have a great amount of revenue deficit and strive to meet their basic needs. Therefore, it is necessary to transfer revenue from the centre to the states so as to maintain balance of sources and responsibilities to become an effective instrument of government. The framers of our constitution have made a provision for the same. Article 293, Constitution of India, 1950 gives the option to the states to borrow the consolidated funds from the centre in case of any revenue deficit. But the political aspect plays a role in this making it unfair for certain states in need. The centre in certain instances refuses to give sufficient funds to the states. Like in the recent cases when Bihar and Jammu and Kashmir wanted consolidated funds from the centre, the centre did not provide them with sufficient funds which they needed and only gave a part of what they demanded. This does not only lead to the states not being able to develop their regions but also makes the centre-state relations bitter.

In the corporate federations like U.S.A., Canada and Australia there is overlapping and multiple taxation due to the lack of rigid separation of powers but still these countries work smoothly and have effective financial governance, because the ambit of their tax is wides and they have made it flexible and government friendly. India is striving for the same now and trying to increase the ambit of their taxes. Like in the 14^{th} Finance Commission they changed the sales tax to the Goods and services tax (GST) to increase its ambit.

There are several such problems in India regarding the fiscal policy but the government makes a constant effort to improve the same for the smooth functioning of the state. Several finance and Planning Commissions were made in these 69 years of independence, each with a motive of development and growth in the financial status of the state. But the major change was made by the NDA Government by introducing NITI Aayog whose main objective was to bring to an end the one-way-policy from the centre-to-state and to create a genuine partnership of states. The Aayog would look into the matters of the villages and the farmers and even the higher level would be involved in catering to the interests of the farmers who include the major population of our country.

Any sound federal system is the one which tries to maintain a balance and equilibrium between the resources of the state and the centre. Absence of this balance at any level of government leads to a bad government and create tensions, jeopardising the smooth functioning. Hence the Government of India is making conscious effort to improve the system and turn the state from a competitive federation to a corporate federation.