UPSC Mains practice – reference note

GS-II · 17-11-2026 · 15 marks · https://www.shanmugamiasacademy.in/upsc-mains-practice/2026-11-17-sixteenth-finance-commission

The Sixteenth Finance Commission submitted its report on 17 November 2025. For 2026–31 it kept the States' share of the divisible pool at 41% but reworked the formula for sharing it among States. Examine how far the new formula balances equity with efficiency, and suggest how the concerns of States such as Tamil Nadu can be addressed within the framework of fiscal federalism. (15 marks, 250 words)

1. The news hook (17 November 2026)

- One year ago, on 17 November 2025, the Sixteenth Finance Commission chaired by Arvind Panagariya submitted its report for 2026–31 to President Droupadi Murmu (All India Radio News).
- The report and the Action Taken Report were tabled in Parliament on 1 February 2026, the day of the Union Budget 2026-27.

2. Key facts to quote

Fact	Detail
Constitutional base	Article 280 (Finance Commission), 270 (sharing of central taxes), 275 (grants-in-aid), 281 (report laid before Parliament)
16th FC	Constituted 31 December 2023; Chairman Arvind Panagariya; award period 2026-27 to 2030-31
Vertical share	41% of the divisible pool (unchanged from the 15th FC; the 14th FC had 42%)
Horizontal weights	Income distance 42.5, population (2011) 17.5, area 10, forest 10, demographic criterion 10, contribution to GDP 10 (new); tax and fiscal effort dropped
Grants	Revenue deficit grants discontinued; local-body grants ₹7,91,493 crore for 2026–31 (rural : urban = 60 : 40; basic 80% : performance 20%; half of the basic grant tied to sanitation and solid waste management and/or water) – Finance Ministry Explanatory Memorandum, February 2026
Fiscal rules for States	Fiscal deficit ceiling 3% of GSDP; off-budget borrowings to be brought on budget
Tamil Nadu	9th FC 7.931% → 15th FC 4.079% → 16th FC about 4.10%, a relative rise of only 0.44% (Kerala +23.74%, Karnataka +13.27%) – cited by the then Finance Minister Thangam Thennarasu (previous DMK government) in the Interim Budget 2026-27, 17 February 2026

3. Static links

- Fiscal federalism – Seventh Schedule, Articles 268–293; GST and the GST Council (Article 279A).
- Inter-State Council (Article 263); Rajamannar Committee (1969), Sarkaria (1983) and Punchhi (2007) Commissions on Centre–State relations.
- Local finance – State Finance Commissions (Articles 243-I, 243Y).

4. Previous-year question (UPSC)

- GS-II 2021 (10 marks): "How have the recommendations of the 14th Finance Commission of India enabled the States to improve their fiscal position?"

5. Common mistakes

- Saying the Finance Commission's recommendations are binding – they are advisory.
- Treating the 41% as the share of all central revenue – cesses and surcharges are outside the divisible pool.
- Writing only the southern grievance – the question asks you to weigh equity as well.

Official sources

- All India Radio News – 16th Finance Commission submits 2026–31 report to President Murmu (17 November 2025) – https://www.newsonair.gov.in/16th-finance-commission-submits-2026-31-report-to-president-murmu
- NIPFP (National Institute of Public Finance and Policy) – India's 16th Finance Commission: status quo amidst grand bargain – https://nipfp.org.in/publication-index-page/blog-index-page/indias-16th-finance-commission-status-quo-amidst-grand-bargain
- Ministry of Finance – Explanatory Memorandum on the action taken on the 16th Finance Commission recommendations (February 2026) – https://www.indiabudget.gov.in/doc/16fc.pdf
- Finance Commission of India – Report of the Sixteenth Finance Commission (2026–31) – https://fincomindia.nic.in/commission-reports-sixteenth

Shanmugam IAS Academy – your next step

- **Courses:** TNPSC Group 1, 2 / 2A (Prelims + Mains), Group 4, UPSC / IAS, Bank, SSC, SI – Coimbatore · Madurai · Online – https://www.shanmugamiasacademy.in/fees
- **Books (PDF):** TNPSC PYQ books, UPSC books – https://www.shanmugamiasacademy.in/study-materials
- **More free PDFs:** https://www.shanmugamiasacademy.in/free-pdf-download · This page: https://www.shanmugamiasacademy.in/upsc-mains-practice/2026-11-17-sixteenth-finance-commission

Admissions – call / WhatsApp: 99941 46662 · 99944 27714 · www.shanmugamiasacademy.in