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State Finances in Transition:

An Analysis of Revenue Receipts and Fiscal Dynamics in India During the XV Finance Commission Period

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An Analysis of Revenue Receipts and Fiscal Dynamics in India During the XV Finance Commission Period

Introduction

The impending recommendations of the XVI Finance Commission (FC) mark a significant milestone in the evolution of fiscal federalism in India. With its upcoming award period set to commence in April 2026, and against a backdrop of heightened state-level demands for a greater share and flexibility in tax devolution, this report seeks to situate the question of state revenues front and centre in India's fiscal and development discourse.

This is especially pertinent as the trajectory of state receipts—not just their quantum, but also their structural composition—will shape not only public expenditure priorities but also the very nature of fiscal autonomy, development equity, and crisis resilience for the next half-decade and beyond.

States are and always have been at the forefront of service delivery and development, and their ability to mobilise and manage revenues is critical, not only for sustaining public expenditure but also for ensuring fiscal autonomy and flexibility in responding to emerging economic and social challenges

Recent shifts in the fiscal landscape from landmark reforms such as the Goods and Services Tax, the rising prominence of cesses and surcharges outside the divisible pool, and increasing pressure on conditionalities in grant-in-aid and performance-based financing have placed new pressures and opportunities on state finances.

The Economic Survey 2024-25 highlighted the significant dependence of several states on GST as a primary revenue source. In fact, the survey highlighted high dependence on GST in 23 states, with Manipur and Nagaland exhibiting the highest reliance at 78 per cent and 72 per cent respectively.[1]

The recent reductions in GST rates, coupled with the discontinuation of the GST compensation cess, are expected to pressure state revenues further, especially since the cess is no longer providing additional funds to states. This dependence poses a systemic risk to states' fiscal stability, as recent reforms and rate cuts could exacerbate revenue shortfalls in the short term, demanding cautious fiscal management and alternative revenue strategies.

Added to that is the fact that States' capacity to innovate in public service delivery or climate adaptation is closely linked to the share and nature of untied versus tied resources. Over 22 states, in their submissions to the XVI FC, have articulated their collective position for raising the vertical devolution share from the current 41 percent in the XV FC to at least 50 per cent,[2] while seeking formulaic changes to address both demographic realities and developmental performance. The debate is further complicated by North-South divides, as southern states underline demographic management and GDP contributions while populous northern states emphasise the need to account for population and equity in revenue distribution.

This report is the first in a two-part series devoted to unpacking the dynamics of state finance as India steps towards the XVI FC era. This first part provides an in-depth examination of the receipts side: the sources, structure, and trends in own revenues, tax devolution, grants-in-aid, and borrowings. It documents the persistent divides across regions and economic strata and examines the implications of recent reforms on state fiscal autonomy and room.

The sequel to this analysis will shift focus to the expenditure side, tracing how states deploy these receipts to deliver development and manage public goods while grappling with growing fiscal pressures. Many states continue to face substantial committed liabilities, alongside increases in subsidies and income transfer schemes, which together constrain fiscal space and complicate budget management.

Together, these reports aim to provide timely and comprehensive insights, equipping stakeholders with the evidence needed to interpret and respond to the XVI FC's imminent recommendations amid these fiscal challenges.

As India stands at this fiscal crossroads, the combined findings aim to support informed discourse and policy choices to strengthen fiscal federalism for a more equitable and sustainable future.

Methodology

This study on State finances assesses the flow of resources to State governments. The analysis covers 31 States and Union Territories with legislatures—all 28 States, along with Delhi, Puducherry, and Jammu & Kashmir. For the purpose of analysis, these States, and UTs are divided into two clusters:

(i) larger and economically well—off States, including those of strategic fiscal significance, and

(ii) hilly States, North—Eastern States (NER), and

(iii) UTs with legislatures.

This categorisation enables clearer comparison by distinguishing fiscally stronger States from smaller and structurally constrained ones, highlighting variations in revenue capacity, fiscal space and dependence on union transfers.

The study looks at both the interim XV FC period (FY 20-21) and the full XV FC award period (FY 21-26). Given the significant shifts introduced in the XV FC—such as grants for health, disaster management, performance incentives, and enhanced support to local bodies—the analysis evaluates how states have utilised these fiscal instruments, particularly in the context of pandemic recovery, evolving federal dynamics, and climate resilience requirements.

For analysing State borrowings, the report focuses on gross borrowings, which represent the total funds raised by States during a financial year. Gross borrowing offers a clearer picture of market dependence and liquidity pressures, whereas net borrowing, adjusted for repayments, only captures incremental debt. Thus, for the purpose of this report, gross borrowing is a more suitable indicator for assessing fiscal behaviour and market exposure.

Data for the analysis has been drawn from State budget documents, the Reserve Bank of India (RBI) database, the Union Budget, FC reports, and relevant government releases, including information published by the Press Information Bureau.

Receipts of the States

State finances are fundamentally shaped by the nature and composition of their receipts. How much States are able to raise on their own, how much flows from the Union government, and the extent of their fiscal liabilities directly influences both their spending priorities and their fiscal autonomy. Each budget cycle, States lay out estimates of their likely resources, but it is the trends over time that reveal the deeper shifts in India's fiscal federal landscape.

This section reviews State receipts over the past six years, with a particular focus on the XV FC period (FY 21-22 to FY 25-26 Budget Estimates (BEs)). Receipts represent the money earned or received by the government and are classified into two categories: Revenue Receipts and Capital Receipts.

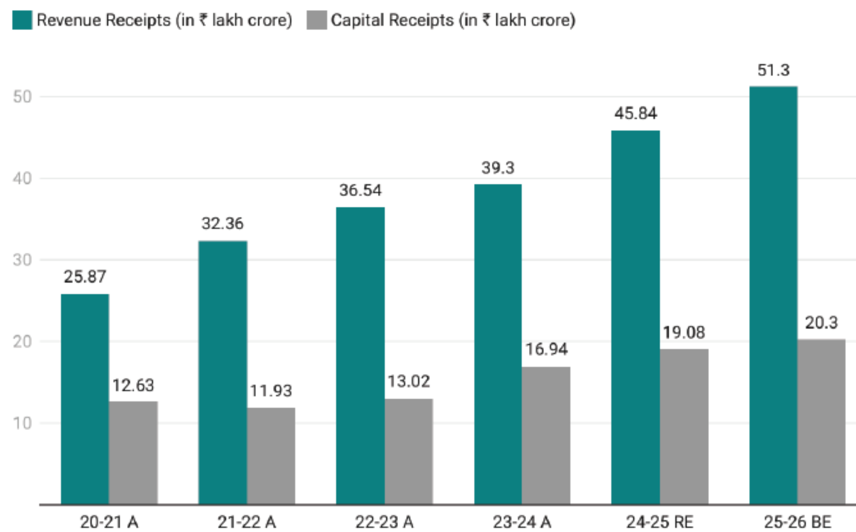
Revenue receipts which do not create liabilities include revenue from own sources (tax and non-tax) and transfers from the Union government, including devolution of taxes and Grants-in-Aid (GIA) and,

Capital receipts, which increase liabilities and consist of borrowings—such as internal debt of the State Government and loans and advances from the Union Government, recoveries of loans and advances, and miscellaneous capital inflow.

The fiscal position of States is significantly impacted by the composition and source of their revenues. The analysis is structured in two parts: first, we undertake an overview of the two broad components—Revenue Receipts and Capital Receipts. This is followed by a detailed examination of their individual constituents.

Revenue Receipts are the largest source of financing for states. As shown in the Figure 1 below, for the 31 States and UTs with legislatures, in FY 20-21, revenue receipts stood at ₹25.87 lakh crore, accounting for 67 per cent of total receipts. This increased in FY 22-23 to ₹36.5 lakh crore (74 per cent) and further in FY 23-24 to ₹39.30 lakh crore, reflecting an average annual growth of 15 per cent. Revenue receipts are projected to rise further in FY 25-26 BE to ₹51.3 lakh crore, forming 72 per cent of total receipts. In contrast, capital receipts grew at around 10 per cent annually between FY 20-21 and FY 23-24, rising from ₹12.63 lakh crore to ₹16.94 lakh crore, and are estimated to reach ₹20.3 lakh crore by FY 25-26 BE.

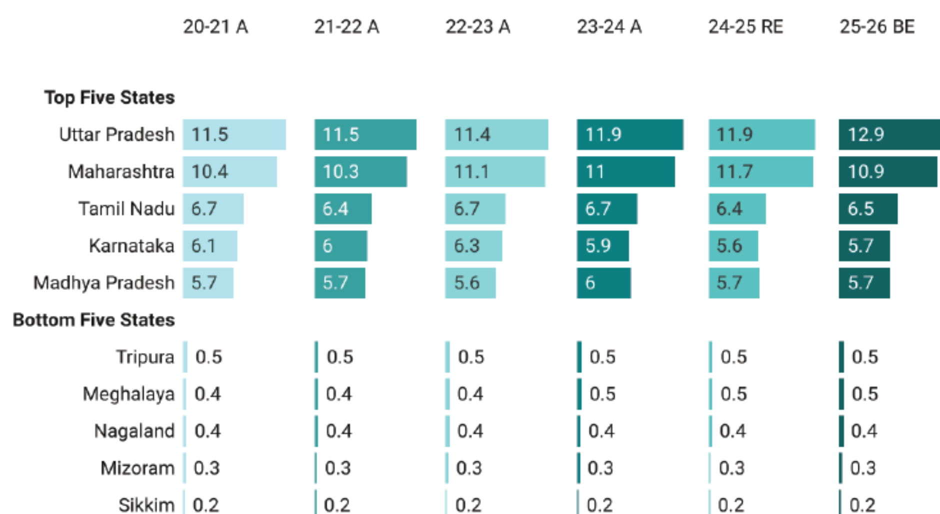
Figure 1: State's Revenue and Capital Receipts (in ₹ lakh crore)



Source: Author's calculations from budget documents.

Across the 31 States and UTs analysed, significant disparities exist in revenue - raising capacity, primarily reflecting differences in size and economic strength. On average, between FY 20-21 and FY 23-24, five larger and economically better States—Uttar Pradesh (11.6 per cent), Maharashtra (10.7 per cent), Tamil Nadu (6.6 per cent), Karnataka (6.1 per cent), and Madhya Pradesh (5.7 per cent), together accounted for over 40 per cent of total revenue receipts. Projections for FY 24-25 REs and FY 25-26 BEs suggest that their share will remain above this level. In contrast, the smaller north-eastern states namely Sikkim (0.2 per cent), Mizoram (0.3 per cent), Nagaland (0.4 per cent), Meghalaya (0.4 per cent) and Tripura (0.5 per cent) had the lowest share in total revenue receipts. These differences suggest that the fiscal space of smaller and resource—constrained states remains narrow compared to larger states. At the same time, higher revenues of larger states underscores the strong correlation between economic and demographic size and the capacity to mobilise public resources.[3]

Figure 2: Proportion of Revenue Receipts to Total Receipts (in %)



Source: Author's calculations from budget documents.

Between FY 20-21 and FY 23-24, capital receipts too reveal sharp variations, reflecting differences in borrowing requirements and fiscal liabilities. Between FY 20-21 and FY 23-24, five States—Rajasthan (11.8 per cent), Tamil Nadu (8.4 per cent), Maharashtra (8 per cent), Uttar Pradesh (6.5 per cent), and Punjab (5.5 per cent)— together accounted for around 40 per cent of total capital receipts. While the higher share in states such as Maharashtra, Tamil Nadu are driven by their large economic size, for others such as Kerala and Punjab - greater dependence on borrowings is driven by fiscal stress. These trends suggest that capital receipts are shaped not only as a function of economic size, but are also deeply tied to the fiscal stress states face and the choices they make in financing their budgets.

For capital receipts too, the north eastern states- Sikkim, Mizoram, Nagaland, Meghalaya, and Tripura—together accounted for just over 1 per cent of total capital receipts, highlighting their limited revenue base and significantly lower borrowing capacity. Projections for FY 24-25 REs and FY 25-26 BEs, suggest that these patterns are unlikely to change.

Components of Revenue and Capital Receipts

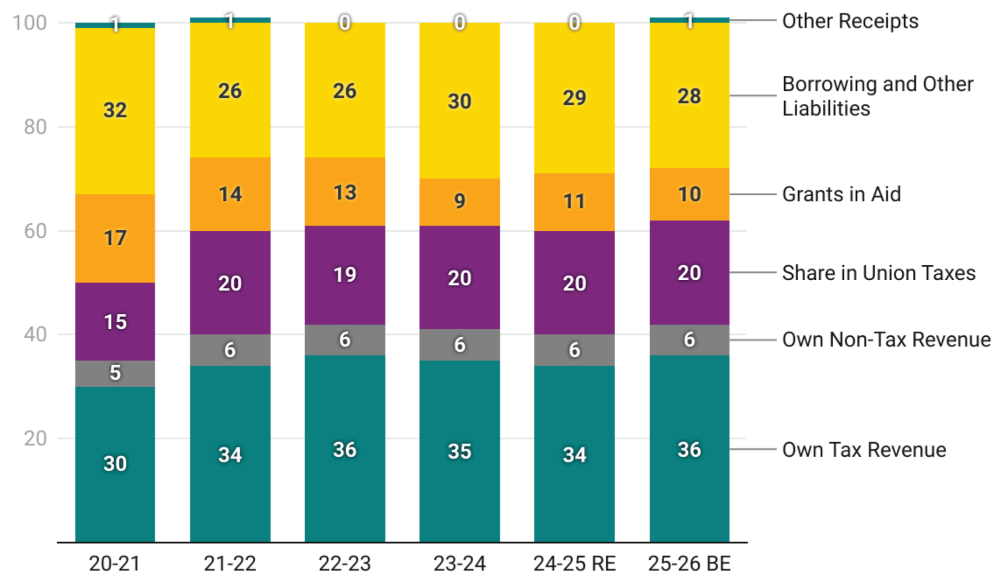
In this section, we analyse the different components of revenue as a share of total receipts. Using total receipts as the denominator provides a comprehensive view of how States finance their budgets, capturing both recurring revenues and borrowings. This approach highlights the balance between self-generated resources, intergovernmental transfers, and reliance on debt.

Looking at the consolidated picture for the 31 States and UTs, Own Tax Revenue (OTR) has been the most stable and significant source of receipts. In FY 20-21, it accounted for 30 per cent of total receipts, increasing to 35 per cent in FY 23-24. A similar level is expected to be maintained in FY 25-26 BEs, reflecting steady tax mobilisation by States. Own Non-Tax Revenue (ONTR), by contrast, has remained small, averaging just 6 per cent across years.

The share in Union Taxes rose from 15 per cent in FY 20-21 to 20 per cent in FY 21-22 and has since held steady, reflecting the higher tax devolution started from the XIV FC period and continued during the XV FC period. In contrast, GIA experienced a decline in this period, falling from 17 per cent in FY 20-21 to 9 per cent in FY 23-24, and is estimated to be 10 per cent in FY 25-26 BEs. These trends highlight the structural shift away from fiscal transfers in the form of grants, which are usually tied and inconsistent in nature, towards predictable and untied tax devolution within Union transfers.

Borrowings and Other Liabilities remain the second largest source of financing after States' own taxes. In FY 20-21 the pandemic year, its share peaked at 32 per cent, when States resorted to higher borrowing, and has since stabilised between 26-30 per cent. Other Receipts or miscellaneous capital inflows have been negligible at 1 per cent or less.

Figure 3: Share of Total Receipts Components (in %)



Source: Author's calculations from budget documents.

Overall, at an all-India level, the analysis reveals a high dependence on debt despite moderate growth in own revenues. From the union government perspective, it reveals a change in union transfers from more tied GIA towards greater share of tax devolution. It is important to note, however, that these trends vary across States, and the following sections examine state-wise trends over time.

Revenue Receipts

While analysing total receipts gives a broad overview, looking specifically at the composition of revenue receipts provides a clearer picture of states' fiscal capacity. Revenue Receipts comprise Own Revenues-both Tax and Non-Tax-and Transfers from the Union government through Tax Devolution and Grants-in-Aid. At the all-India level (31 states and UTs), Own Tax Revenue accounts for the largest share, followed by Tax Devolution.

The following sections will describe trends for each of these in more detail as this composition varies significantly across states.

Own Tax Revenue (OTR)

Typically, OTR can be of two types - direct taxes such as income tax, corporation tax or indirect taxes, which are taxes on sales of goods or services. The power to levy most direct taxes rests with the Union government and thus States' OTR is dominated by indirect taxes. The few direct taxes available to States—such as Land Revenue and Taxes on Income and Expenditure—contribute only marginally. The few direct taxes available to States—such as Land Revenue, Urban Immovable Property Tax, and Taxes on Income and Expenditure—contribute only marginally. As per the RBI report on State Finances, around 1.5 per cent of the OTR was from direct taxes between FY 22-23 and FY 24-25 (BE).[4]

Since the implementation of Goods and Services Tax (GST), most indirect taxes have been subsumed under its framework, with only a few exceptions like petroleum products, property taxes, and excise on alcohol. This leaves states with a much narrower tax base. Between FY 22-23 and FY 24-25 (BE), around 43 per cent of the total OTR was contributed by the State GST, while about 21 per cent came from Sales Tax.[5]

OTR is highly concentrated in a few large and economically strong States. Of the total OTR collected across the 31 States and UTs, Maharashtra, Uttar Pradesh, Tamil Nadu, Karnataka, and Telangana together account for nearly 50 per cent of the overall collections.

Among the 18 major States analysed, seven states recorded, on average, more than half of revenue receipts coming from OTR between FY 20-21 and FY 23-24. Haryana stood out with 69 per cent of its revenue receipts from OTR, followed by Telangana (68 per cent), Maharashtra (67 per cent), Karnataka (64 per cent), Tamil Nadu (61 per cent), Gujarat (60 per cent), and Kerala (54 per cent). For FY 24-25 RE and FY 25-26 BE, with the inclusion of Punjab, a total of 8 states are estimated to have OTR contributing more than 50 per cent revenue receipts.

In contrast, large states with a relatively lower share of OTR included Bihar (24 per cent), Odisha (30 per cent), Jharkhand (31 per cent), Chhattisgarh (36 per cent) and Madhya Pradesh (37 per cent), between FY 20-21 and FY 23-24.

Figure 4: OTR out of Revenue Receipts in Large States (in %)

	20-21 A	21-22 A	22-23 A	23-24 A	24-25 RE	25-26 BE
Haryana	62	71	71	72	73	72
Karnataka	62	62	63	70	70	71
Maharashtra	61	66	68	70	68	69
Tamil Nadu	61	59	62	63	66	67
Telangana	66	72	67	66	64	63
Gujarat	55	59	63	60	64	63
Kerala	49	50	54	60	61	60
Punjab	44	48	48	53	56	57
Andhra Pradesh	49	47	49	49	54	50
Rajasthan	45	41	45	46	46	48
Uttar Pradesh	40	40	42	41	38	45
Goa	37	41	45	48	44	43
West Bengal	41	40	43	45	44	42
Chhattisgarh	36	34	35	37	38	38
Madhya Pradesh	37	36	36	39	37	38
Odisha	33	27	31	30	28	28
Jharkhand	30	31	31	32	31	28
Bihar	24	22	25	25	22	23

Source: Author's calculations from budget documents.

The Northeastern Region (NER) and hilly States, have relatively lower OTR collection. For most NER States, it remained below 20 per cent of revenue receipts, except for Assam. Similarly, OTR has averaged 20 per cent in the hilly states of Jammu & Kashmir between FY 20-21 and FY 23-24. Uttarakhand is the exception at 35 per cent and Himachal Pradesh at 27 per cent. For FY 24-25 RE and FY 25-26 BE, Himachal Pradesh is expected to see some improvement, whereas Uttarakhand's share is projected to remain the same.

Unlike States, Union Territories (UTs) with legislatures are not constitutionally entitled to receive a share of Union Taxes under Article 270, as devolution is reserved for States. So, these UTs rely predominantly on OTR. For example, on average, OTR accounts for 81 per cent of total receipts in Delhi and 46 per cent in Puducherry, between FY 20-21 and FY 23-24. To bridge their fiscal gaps, these UTs depend on GIA from the Union government. Most notably in the case of Jammu & Kashmir, GIA remains the major source of receipts.

Figure 5: OTR out of Revenue Receipts across Hilly, NER and UTs (in %)

	20-21	21-22	22-23	23-24	24-25 RE	25-26 BE
Delhi	70	81	76	95	94	84
Puducherry	50	52	45	39	40	41
Uttarakhand	31	33	35	38	37	38
Himachal Pradesh	24	26	28	30	31	38
Assam	26	24	27	31	30	30
Jammu & Kashmir	17	25	18	20	24	24
Sikkim	17	18	18	21	18	17
Meghalaya	19	16	18	18	17	17
Tripura	18	15	16	16	15	15
Manipur	10	12	12	8	8	12
Mizoram	8	9	11	10	10	11
Nagaland	9	10	10	10	10	10
Arunachal Pradesh	8	8	9	10	9	10

Source: Author's calculations from budget documents.

Indicative OTR for States

The XV FC provided indicative projections of States' OTR for FY 21-22 to FY 25-26. Out of 28 States, 20 recorded OTR levels above these projections. Of the eight states that had lower OTR than projected, Andhra Pradesh and Kerala consistently fell short across all the years of the XV FC period.

Proportion of Own Tax Revenue to GSDP

It is also useful to examine OTR as a proportion of GSDP, since the size and growth of the economy directly impact state's revenue potential. A higher OTR-to-GSDP ratio reflects stronger revenue mobilisation capacity and a healthier fiscal position.

At the aggregate level, the combined share of OTR in GSDP across 28 States remained around 6 per cent between FY 20-21 and FY 23-24, and is marginally estimated to increase to about 7 per cent in FY 25-26 (BE). However, there are significant variations across States. During FY 20–21 to FY 23-24, States such as Telangana, Uttar Pradesh, Goa, Chhattisgarh, and Maharashtra recorded relatively higher OTR-to-GSDP ratios, averaging around 7-8 per cent.

In contrast, NER states such as Nagaland, Mizoram, Tripura, and Sikkim, along with Bihar, Gujarat, and West Bengal, reported comparatively lower ratios, averaging around 3-5 per cent during the same period. For FY 25-26 (BE), the ratio is projected to remain the highest in Uttar Pradesh (10 per cent), followed by Telangana, Chhattisgarh, and Maharashtra (8 per cent). The lowest ratios are expected among the North-Eastern and lower-income States such as Bihar and West Bengal, where OTR-to-GSDP levels are likely to stay around 4-5 per cent.

Own Non-Tax Revenue (ONTR)

Own Non-Tax Revenue (ONTR) refers to the recurring income earned by State governments apart from taxes. This includes interest receipts, dividends and profits from public sector enterprises, and charges for various government services—such as police, social and community services, and economic services. At an All-India level non-tax revenue remains the smallest component of total receipts; however, its contribution varies considerably across States.

Between FY 20-21 and FY 23-24, ONTR played only a marginal role in most States' finances. Eleven of the 18 major States derived less than 10 per cent of their revenue receipts from this source, and in four of them, the share was below 5 per cent. However, exceptions included Odisha, where ONTR accounted for 29 per cent of total receipts, followed by Goa (24 per cent), Jharkhand, (15 per cent), and Chhattisgarh (15 per cent). The higher contributions largely reflect these States' reliance on royalties from minerals and natural resources. Similar patterns are projected for FY 24-25 REs and FY 25-26 BEs.

Figure 6: ONTR out of Revenue Receipts across Larger States (in %)

	20-21	21-22	22-23	23-24	24-25 RE	25-26 BE
Goa	25	27	22	23	28	27
Odisha	19	35	28	30	27	26
Jharkhand	13	14	16	15	18	21
Chhattisgarh	11	17	16	15	14	16
Telangana	6	7	12	14	13	14
Kerala	8	9	11	13	13	13
Punjab	6	6	7	8	10	11
Gujarat	8	8	9	11	9	9
Rajasthan	10	10	11	9	10	9
Andhra Pradesh	3	3	3	4	4	9
Tamil Nadu	6	6	7	10	10	9
Haryana	10	9	10	8	8	8
Madhya Pradesh	7	8	10	9	8	7
Maharashtra	6	6	4	5	6	6
Karnataka	5	6	6	6	6	6
Uttar Pradesh	4	3	3	3	2	4
West Bengal	4	1	1	2	1	4
Bihar	5	3	2	3	3	3

Source: Author's calculations from budget documents.

The NERs, Hilly States, and UTs also have a low share of ONTR. These States and UTs have smaller economies and lower per capita incomes which limits revenue collection from fees, fines, and charges for government services. Unlike the mineral rich States, they don't have mineral royalties or industrial PSU dividends that boost ONTR.

Between FY 20-21 and FY 23-24, eleven of the 13 NER and Hilly States/UTs derived less than 10 per cent of their revenue receipts from this source, a trend projected to continue in FY 24-25 RE and FY 25-26 BE. The only exceptions are Puducherry and Sikkim, where ONTR contributed significantly higher shares over 20 per cent for Puducherry and above 10 per cent for Sikkim. While Sikkim's share is estimated to decline in the subsequent years, Puducherry's is projected to rise further, reaching around 26 per cent. Puducherry stands out due its urbanised and service driven economy which relatively generates higher revenue.

Figure 7: ONTR out of Revenue Receipts across Hilly, NER and UTs (in %)

	20-21	21-22	22-23	23-24	24-25 RE	25-26 BE
Puducherry	22	24	20	25	26	26
Jammu & Kashmir	8	8	7	9	10	11
Himachal Pradesh	7	7	8	8	10	10
Mizoram	7	7	10	10	8	9
Sikkim	12	10	12	10	9	8
Assam	4	4	6	6	8	7
Uttarakhand	11	6	9	9	8	7
Arunachal Pradesh	5	4	4	3	3	4
Nagaland	2	2	3	4	4	3
Meghalaya	5	4	3	3	3	3
Tripura	2	2	2	2	2	2
Manipur	1	1	3	1	1	2
Delhi	2	2	1	2	1	1

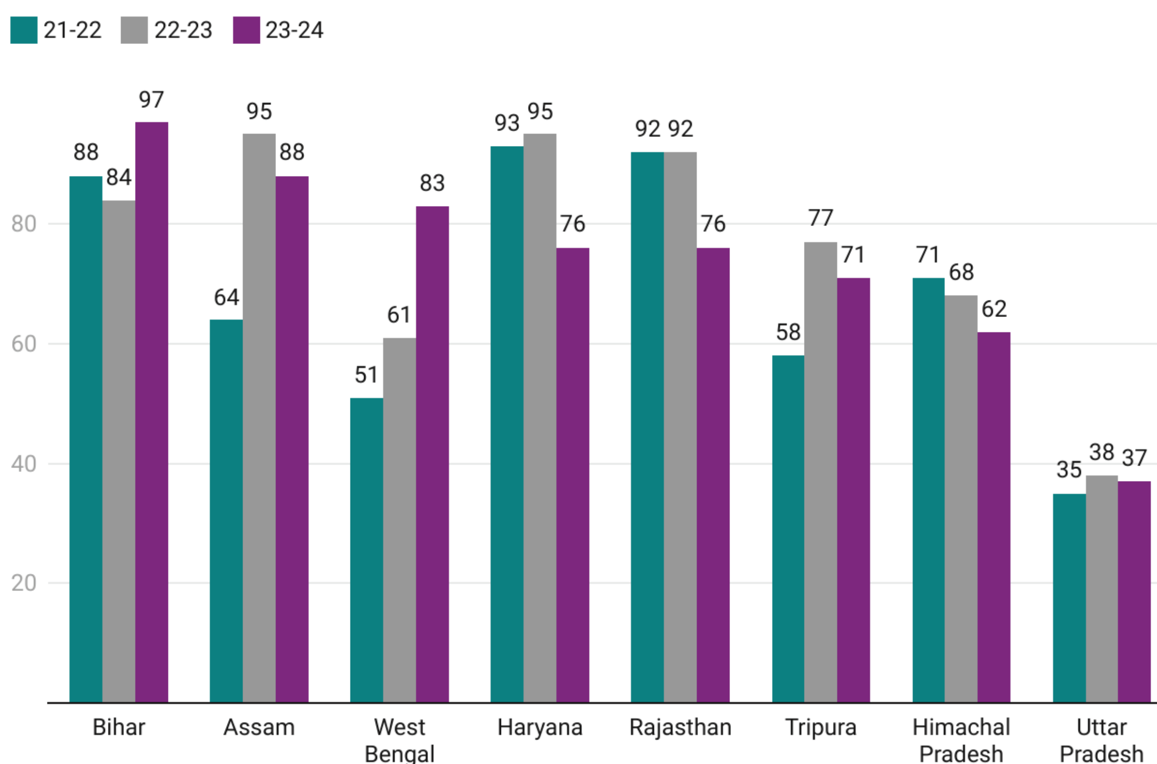
Source: Author's calculations from budget documents.

Indicative ONTR for States

The comparison of actual ONTR with the XV FC's projections highlights significant underperformance in several States.

Eight States namely Bihar, Assam, West Bengal, Haryana, Rajasthan, Tripura, Himachal Pradesh, and Uttar Pradesh, consistently fell short across FY 21-22 to FY 23-24. In particular, West Bengal and Tripura collected less than two-thirds of the estimated ONTR in FY 21-22. While the ONTR collection improved in subsequent years, it remained lower than those projected by the XV FC Rajasthan and Haryana, while close to estimates in the first two years, also witnessed a sharp fall in FY 23-24 In contrast, Assam and Bihar largely improved, with Bihar even almost achieving estimates in FY 23-24.

Figure 8: Share of Actual ONTR Out of XV FC Projections (in %)



Source: Author's calculations from FC reports and budget documents.

Share in Union Taxes

Several States and UTs are highly dependent on the Union government for funds. One of the main sources of funds from the Union government is the States share in Union taxes. These are taxes collected by the Union government that are shared with the State governments based on recommendations of the FC. The XV FC recommended a 41 per cent vertical devolution of the divisible pool of total taxes to states for the 2021-26 period, a 1 per cent reduction from the XIV FC period. This was due to the changed status of the erstwhile State of Jammu & Kashmir, reorganised as two Union Territories—Jammu & Kashmir and Ladakh—which reduced the number of States entitled to share in that pool.[6]

The share of taxes devolved to states are based on a formula which takes into account income distance (45 per cent weight), population and area (15 per cent weight each), 10 per cent for forest and ecology, 12.5 per cent for demographic performance, and 2.5 per cent for tax effort.[7] The shares received by states are mentioned in Annexure 1.

The share of taxes transferred to states are untied funds, and States can spend them according to their own priorities. For our analysis in this section, we have looked at the funds devolved to States during XV FC, including the initial interim year.

For the 28 States, the share of Union transfers in revenue receipts in FY 20-21 increased from 24 per cent to 28 per cent in FY 21-22, the first year of the XV FC period, but slightly decreased in FY 22-23 to 27 per cent, before increasing again in FY 23-24 to 30 per cent. The share is estimated to marginally decline to 29 per cent in FY 24-25 RE and FY 25-26 BE.

Across 18 major States, the share of tax devolution from the Union in revenue receipts increased for all States between FY 20-21 (the XV FC interim year) and FY 21-22 (the first year of the XV FC award period). The rise was particularly sharp among fiscally weaker States more dependent on Union transfers. For example, Bihar's share increased from 47 per cent to 58 per cent, West Bengal from 30 per cent to 37 per cent and Uttar Pradesh from 36 per cent to 43 per cent.

Bihar has consistently depended on tax devolution with on average over 50 per cent of its revenue receipts coming from it. Tax devolution as a share of revenue receipts has also been high in Jharkhand and Uttar Pradesh ranging from 35-43 per cent. Similarly, Madhya Pradesh and West Bengal also recorded high shares.

For Chhattisgarh, in FY 20-21, the tax devolution increased from 32 per cent to 37 per cent in FY 23-24. In FY 25-26 BE, it is projected to marginally decline to 35 per cent. Odisha also has similar trends; in FY 22-23, its share reached 29 per cent, and it is estimated to decline in FY 25-26 BE to 28 per cent. Economically stronger States, with higher own-revenue capacity have consistently received lower proportions and also demonstrated low reliance on tax devolution. Between FY 20-21 and FY 23-24, States such as Gujarat, Kerala, Karnataka, Tamil Nadu, Maharashtra, and Telangana had tax devolution accounting for 10-20 per cent of its revenue receipts, while Haryana had the lowest share, with only 10-12 per cent coming as tax devolution over the years. These levels are expected to persist through FY 25-26.

Figure 9: Share of Tax Devolution out of Revenue Receipts (in %)

	20-21	21-22	22-23	23-24	24-25 RE	25-26 BE
Bihar	47	58	55	59	53	53
West Bengal	30	37	37	42	42	40
Uttar Pradesh	36	43	41	43	42	39
Madhya Pradesh	32	37	37	38	39	38
Jharkhand	35	40	39	42	39	38
Chhattisgarh	32	36	34	37	36	35
Rajasthan	26	29	29	33	30	29
Odisha	26	25	29	28	27	28
Andhra Pradesh	21	23	24	26	30	26
Goa	20	23	21	24	23	24
Punjab	15	20	20	23	22	23
Gujarat	16	19	17	18	19	20
Kerala	12	15	14	17	19	19
Karnataka	14	17	15	18	18	18
Tamil Nadu	14	18	16	17	18	17
Maharashtra	14	16	15	17	15	16
Telangana	13	15	12	14	13	13
Haryana	10	11	12	12	12	12

Source: Author's calculations from budget documents.

The dependence on tax devolution is even more pronounced in the NER and hilly States, as these transfers account for a much bigger share—often one-third to two-thirds of revenue receipts—highlighting their structurally higher fiscal dependence on the Union government.

Among the NER and Hilly States, Arunachal Pradesh saw the most reliance on tax devolution. In FY 20-21, the share was 61 per cent, which increased in FY 21-22 to 69 per cent and further to 72 per cent in FY 23-24. For FY 25-26 BE, it is estimated to remain at a similar level. Mizoram also showed a rise. In FY 20-21, it was 39 per cent, and in FY 23-24 it increased to 49 per cent. In FY 25-26 BE, it is projected to rise sharply to 55 per cent.

Tax devolution in Tripura, Meghalaya, and Sikkim accounted for around 35-50 per cent of total receipts. For Tripura, in FY 20-21, the share was 32 per cent, which increased in FY 23-24 to 39 per cent, while for Meghalaya it increased from 43 to 48 per cent and for Sikkim increased from 41 to 51 per cent during the same time. For FY 25-26 (BE), Tripura is projected to increase to 42 per cent, while Meghalaya and Sikkim are estimated to decline to 43 per cent and 45 per cent, respectively.

Assam, being the largest economy among NER, shows relatively moderate dependence. In FY 20-21, share of tax devolution out of revenue receipts was 28 per cent, which increased in FY 23-24 to 39 per cent and is estimated to marginally decline to 38 per cent in FY 25-26 BE. Indicating that, on average, tax devolution contributes more than one-third of the state's revenue receipts.

Himachal Pradesh and Uttarakhand, though hilly States, have among the lowest dependence among smaller states.

Figure 10: Share of Tax Devolution in Revenue Receipts for Hilly, NER and UTs (in %)

	20-21	21-22	22-23	23-24	24-25 RE	25-26 BE
Arunachal Pradesh	61	69	70	72	67	72
Mizoram	39	46	46	49	48	55
Manipur	33	43	43	55	38	46
Sikkim	41	46	48	51	46	45
Nagaland	30	36	38	40	42	43
Meghalaya	43	46	49	48	41	43
Tripura	32	35	37	39	42	42
Assam	28	35	33	39	36	38
Himachal Pradesh	14	20	21	24	24	28
Uttarakhand	17	23	22	25	24	25

Source: Author's calculations from budget documents.

Finance Commission Recommendation vs Actual Tax Devolution

As previously mentioned, the XV FC recommended 41 per cent of the divisible pool to be devolved to states, one percentage point lower than the XIV FC due to the reorganisation of Jammu and Kashmir and Ladakh. Even though the percentage share fell by one point, the recommended devolution as per the XV FC was more than the XIV FC period.

Improved tax collection during this period despite COVID-19 pandemic has also meant that the total quantum of funds devolved to states has increased significantly between the XIV and XV FC periods.

For instance, in the XIV FC period, the quantum of funds devolved to states increased from ₹5,06,193 crore in FY 15-16 to ₹7,61,454 crore in FY 18-19, but declined to ₹6,50,678 crore in FY 19-20, marking a 15 per cent decrease. While year-on-year actual devolution increased, it was significantly below the amount recommended by the XIV FC. Not only were the targets missed each year, but overall, at the end of the XIV FC period, actual devolution was 19 per cent less than recommended. The reason for this decline was lower-than-expected GST revenue collections, along with weaker-than-anticipated direct tax revenues, from Personal Income Tax (PIT) and Corporate Tax.[8]

On the contrary, under the XV FC, not only did actual devolution increase significantly, but for all the years it was more than the recommended amount. While actual data is not available, for FY 24-25 and FY 25-26, looking at previous trends and Controller General of Accounts (CGA) data, the actual devolution is anticipated to be 35 per cent higher than recommended figures.

The higher tax devolution is due to the increase in both direct and indirect taxes. PIT and GST collections, in particular, consistently exceeded projections each year. Strong buoyancy in GST and PIT significantly expanded the divisible pool, leading actual devolution to States to surpass recommended amounts throughout the XV FC period.

Table 1: Devolution of Taxes to States (in ₹ crore)

XIV FC				XV FC			
Year	Recommended Tax Devolution to States	Actual Tax Devolution	Difference	Year	Recommended Tax Devolution to States	Actual Tax Devolution	Difference
15-16	5,79,282	5,06,193	-73,089	21-22	6,58,591	8,98,392	2,39,801
16-17	6,68,425	6,08,000	-60,425	22-23	7,32,628	9,48,407	2,15,779
17-18	7,72,304	6,73,005	-99,299	23-24	8,24,385	11,29,494	3,05,109
18-19	8,93,430	7,61,454	-1,31,976	24-25	9,36,567	12,86,885	3,50,318
19-20	10,34,745	6,50,678	-3,84,067	25-26	10,72,589	14,22,444*	3,49,855
15-20	39,48,186	31,99,330	-7,48,856	21-26	42,24,760	56,85,622**	14,60,862

Source: Author's calculations from FC reports and budget documents.

Note: Figures are in crores of rupees and are Actuals between FY 21-22 and FY 23-24 and REs for FY 24-25 and BEs for FY 25-26.

Looking Ahead on Tax Devolution

As the XVI FC prepares its report, which will apply from the next financial year, discussions have increased around tax devolution formulae, fiscal federalism, and the potential impact of GST 2.0 reforms on state revenues.[9]

Several states have also proposed changes to the horizontal devolution criteria such as Income-distance; many states have requested a reduction in the weight from 45 per cent to 30-35 per cent to reduce the penalty on relatively higher-income states.[10] Large northern states, such as Uttar Pradesh, have sought an increase in the population weight from 15 per cent to 22.5 per cent to reflect their demographic size.[11] Southern states, such as Tamil Nadu, Kerala, and Karnataka, have emphasised indicators like demographic performance, population control, urbanization, and contributions to national GDP to ensure states that manage population growth and fiscal effort are not penalised. Additionally, states have requested revisiting the treatment of cesses and surcharges, possibly including them in the divisible pool to increase revenue transfers.[12]

The GST 2.0 reforms reduced the number of tax slabs from four to three and introduced measures to boost compliance. In the short term, these measures may lead to a revenue decline, particularly for states that are heavily reliant on GST collections.[13]

These concerns are crucial for the XVI FC, as they involve both equity and fiscal incentives. While most states have asked for vertical devolution to increase, some states prioritise population-based devolution, while other states emphasise

demographic performance, fiscal effort, and GDP contribution. Integrating these demands is challenging, since increasing weight for one can reduce allocations for others.

Provisional revenue uncertainties from GST 2.0 and the rising share of cesses and surcharges further add to the complexities in designing an inter–governmental fiscal transfer system. Including part of cesses and surcharge collections in the divisible pool could partially offset short-term GST revenue shortfalls. The XVI FC formula design will need to balance fairness, incentive, and stability in state finances.

Grants-in-Aid

Another form of Union transfers to states, apart from tax devolution, is Grants-in-Aid (GIA). GIA has emerged as a substantial mode of spending for the Union Government to support states in the provision of public goods. These transfers are made under Article 275 and 280 of the Constitution and can be both general and specific in nature—covering revenue deficit grants, sector-specific schemes, and discretionary transfers. Over the years, GIAs have been a critical instrument for financing development programmes, incentivising reforms, and addressing inter-state disparities.

Over the years, the share of GIA out of total receipts has been decreasing for all 31 States and UTs, driven partly by the acceptance of the recommendations of the XIV FC, and partly due to the increase in disbursement of tax devolution to states during XV FC period.

Among the 18 major states, analysis shows that fiscally weaker but larger states remain the most dependent on GIA. Bihar, West Bengal, Madhya Pradesh, Andhra Pradesh, Odisha, and Jharkhand consistently record some of the highest shares of GIA in their revenue receipts, reflecting their higher expenditure needs and relatively weaker own-revenue bases.

In FY 20-21, for instance, Bihar (25 per cent), Andhra Pradesh (27 per cent), West Bengal (26 per cent), Madhya Pradesh (24 per cent), Odisha (22 per cent), and Jharkhand (21 per cent) had high dependence, but their shares since been declining and fell sharply by FY 23-24 to 14 per cent in Bihar, Andhra Pradesh (20 per cent), West Bengal (11 per cent), Madhya Pradesh (15 per cent), Odisha (12 per cent), and Jharkhand (10 per cent). Share of GIA, however, is estimated to marginally increase again in FY 24-25 RE and FY 25-26 BE, except for Andhra Pradesh which is expected to further decline.

The largest declines between FY 20-21 and FY 23-24 were in Kerala (32 per cent to 10 per cent), Punjab (35 per cent to 16 per cent), and Maharashtra (20 per cent to 8 per cent). These shares are further estimated to decline or remain the same in FY 24-25 RE and FY 25-26 BE. By contrast, fiscally stronger states such as Haryana, Karnataka, and Telangana have consistently shown the lowest dependence on GIA, with their shares remaining low throughout the period.

Figure 11: GIA out of Revenue Receipts across larger States (in %)

	20-21	21-22	22-23	23-24	24-25 RE	25-26 BE
Bihar	25	18	17	14	22	21
Odisha	22	13	12	12	18	18
Madhya Pradesh	24	19	18	15	16	17
Andhra Pradesh	27	26	23	20	12	15
West Bengal	26	22	20	11	12	14
Jharkhand	21	15	14	10	13	14
Rajasthan	18	20	15	11	14	13
Uttar Pradesh	19	14	14	12	17	13
Chhattisgarh	20	13	14	11	11	11
Telangana	15	7	8	6	10	10
Punjab	35	27	25	16	11	9
Maharashtra	20	12	13	8	11	9
Kerala	32	26	21	10	6	9
Gujarat	21	14	12	11	8	8
Haryana	18	9	8	8	7	8
Tamil Nadu	19	17	15	10	7	7
Goa	17	9	11	5	5	6
Karnataka	19	15	16	7	6	5

Source: Author's calculations from budget documents.

NER, hilly states, and UTs showed significant variation. For States such as Assam, Mizoram, Arunachal Pradesh, Sikkim, Manipur, and Meghalaya, GIA share in total receipts like with larger States has been declining between FY 20-21 and FY 23-24. For instance, Assam's share fell sharply from (41 per cent to 24 per cent), Mizoram (45 per cent to 31 per cent), and Arunachal Pradesh (26 per cent to 14 per cent).

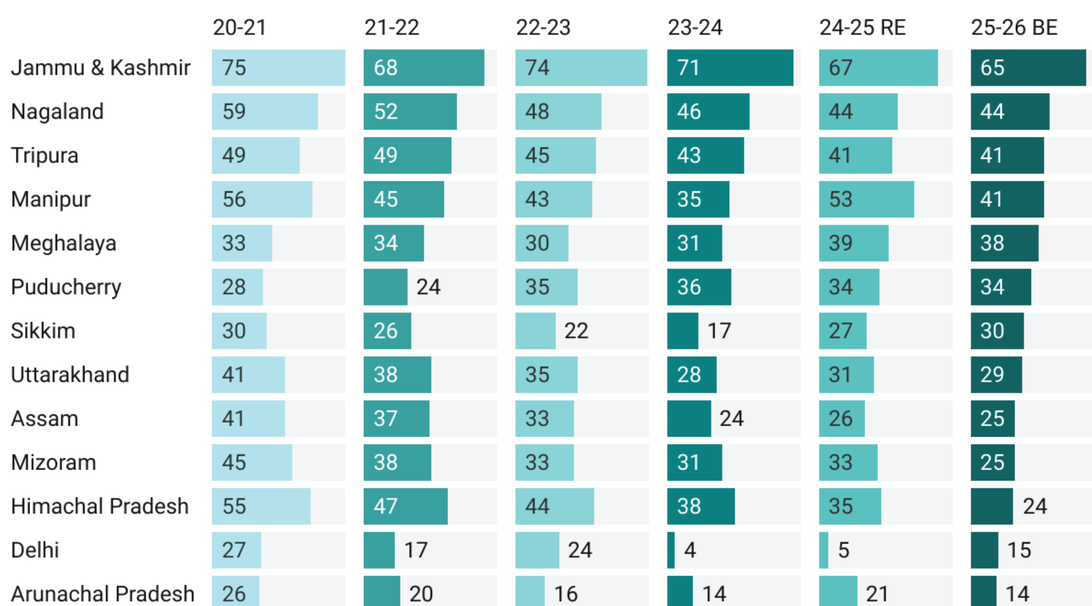
Tripura and Nagaland showed relative stability despite the decline in their GIA proportions, both states remain highly reliant on GIA for their revenues.

Hilly states such as Himachal Pradesh and Uttarakhand also experienced declining dependence, with shares falling for Himachal Pradesh in FY 20-21 from 55 per cent to 38 per cent in FY 23-24 and for Uttarakhand from 41 per cent to 28 per cent.

Among UTs, for Delhi in FY 20-21 GIA share was 27 per cent of the revenue receipts and saw a sharp decline in FY 23-24 to 4 per cent, while Jammu & Kashmir remained heavily reliant on GIA despite small fluctuations. For Puducherry, in contrast, the GIA share in FY 20-21 was 28 per cent which increased in FY 23-24 to 36 per cent.

In FY 25-26 BE, some states such as Manipur, Meghalaya, and Sikkim have estimated a marginal increase in their dependence on GIA compared to FY 23-24. Tripura's share is estimated to decline but remains moderately high at 41 per cent. Hilly states continue their declining trajectory, while Delhi maintains low dependence at 15 per cent. In contrast, Jammu & Kashmir remains highly reliant on GIA at 65 per cent.

Figure 12: GIA out of Revenue Receipts across Hilly, NER and UTs (in %)



Source: Author's calculations from budget documents.

Trends show that dependence on GIA for large states has declined and overall shares remain well below FY 20-21 levels. On the other hand, for fiscally weaker but populous states, and several NER states and UTs GIA remains an important source of revenue for meeting expenditure needs despite improvements in tax devolution.

Composition of GIA

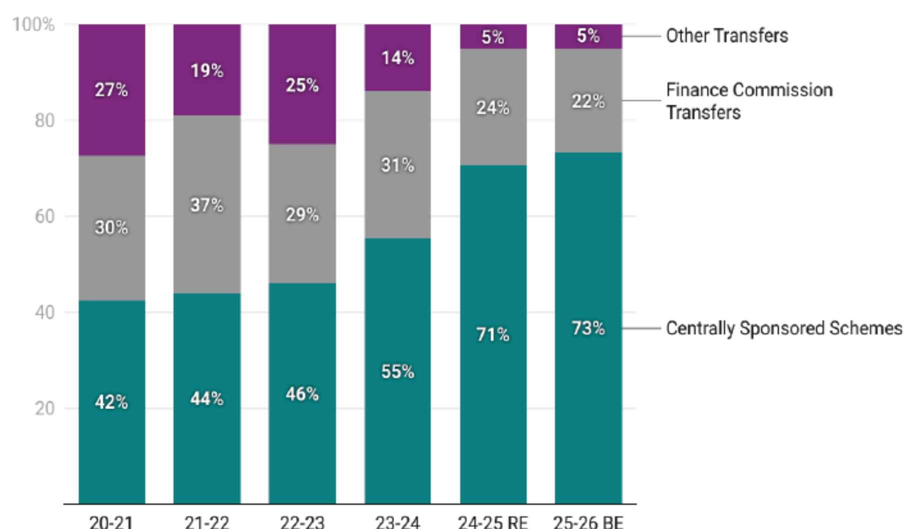
GIA is disbursed by the Union Government to State governments under three components: Grants as determined by the FC, Centrally Sponsored Schemes (CSS), and Other transfers which include GST compensation cess and other grants to meet operational expenses, generate capital assets, and for the delivery of public services. A breakdown of the different components of GIA across 28 states shows that CSSs constitute the largest share of GIA transfers.

In FY 20-21, 42 per cent of total GIA was accounted for by CSS, which increased to 55 per cent in FY 23-24. In the FY 25-26 BE, this share is further estimated to rise to 73 per cent.

The second highest share are FC grants which were 30 per cent in FY 20-21, and increased to 37 per cent in FY 21-22, but declined to 31 per cent in FY 23-24, Share of FC grants is further estimated to fall to 22 per cent in FY 25-26 BEs.

During the same period, the proportion of Other transfers nearly halved, from 27 per cent in FY 20-21 to 14 per cent in FY 23-24, and is further estimated to decline to 5 per cent in FY 25-26 BE. This decline was primarily due to the end of the GST compensation cess in June 2022. Although the Union government extended the compensation cess until March 2026, the extension was intended only to repay the borrowings undertaken in FY 20-21 and FY 21-22 to compensate states for GST revenue losses.[14]

Figure 13: GIA out of Revenue Receipts across Hilly, NER and UTs (in %)



Source: Author's calculations from budget documents.

Centrally Sponsored Schemes (CSSs)

CSSs, also referred to as specific purpose transfers, are one of the primary instruments through which the Union government directs social policy financing with an aim to ensure that minimum standards of public services are provided to all citizens. For States in particular, their relative importance lies in the fact that they are the primary source of non-wage funds available to States.

Over time, the dominance of CSSs has been evident in both the number of schemes and quantum of funds flowing through CSSs. For instance, of the total ₹8.61 lakh crore transferred by the Union government to States between 2012 and 2015, ₹5.88 lakh crore (68 per cent) was released as assistance under CSS.[15] In a more recent period, between FY 21-22 and FY 23-24, ₹27.36 lakh crore was transferred to states, of which ₹13.36 lakh crore (49 per cent) was for CSSs.[16] While CSSs continue to play a significant role, their relative importance for many states as a share of total revenues has decreased over time, reflecting ongoing rationalisation and a gradual shift toward other forms of funding. Following the recommendations of successive committees notably the Chaturvedi Committee (2011) Union government restructured and consolidated numerous smaller schemes into broader umbrella programmes, reducing their number from 142 to 66. Subsequently, the 2015 NITI Aayog Sub-Group of Chief Ministers on Rationalisation of CSS introduced a three-tier classification of schemes-Core of the Core, Core, and Optional along with revised funding pattern.[17] As of May 2025, as per the Ministry of Finance, 54 CSSs schemes remain approved only until 31st March 2026, after which most would require re-appraisal and fresh Cabinet approval.[18] The XVI FC may also propose additional restructuring when its cycle begins in April 2026.

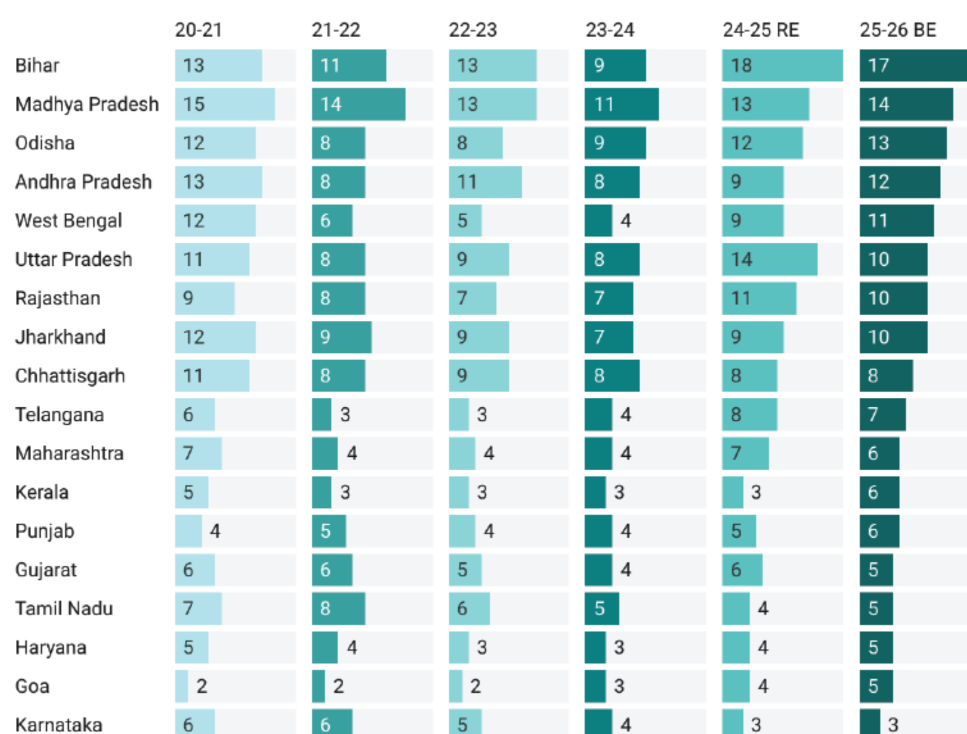
The share of GIA via CSSs in revenue receipts highlights the fiscal dependence of states on Union transfers. While CSSs are designed to fund specific central schemes, they are jointly financed by the Union and the states, with the state's share varying across schemes and categories. This increases the fiscal burden on states and limits their flexibility to allocate resources to state-specific priorities. Moreover, CSSs, apart from being tied to specific schemes, also involve a degree of unpredictability in fund release due to conditionalities associated with their disbursement.

Across 18 major States, the share of CSS in total revenue receipts declined for the majority of the states. Despite the decline, States such as Bihar, Madhya Pradesh, Odisha, Andhra Pradesh, Uttar Pradesh, and Jharkhand, accounted for higher reliance on CSS, highlighting their importance in financing State budgets.

For Bihar, for instance, in FY 20-21, share of CSSs in revenue receipts was 13 per cent, which declined in FY 23-24 to 9 per cent. In FY 25-26 BE, the share is estimated to increase sharply to 17 per cent showing continued heavy reliance on CSS transfers. Similarly, for Madhya Pradesh the share declined gradually from 15 per cent in FY 20-21 to 11 per cent in FY 23-24. In FY 25-26 BE, it's estimated to be 14 per cent.

This trend is similar for Odisha, Uttar Pradesh, Jharkhand, and Andhra Pradesh. On the other hand, fiscally stronger States such as Kerala, Maharashtra, Punjab, Gujarat, Tamil Nadu, Haryana, Karnataka, and Goa show low and stable dependence, with CSSs contributing 8 per cent or less of their revenues.

Figure 14: CSS out of Total Revenue Receipts across Larger States (in %)



Source: Author's calculations from budget documents.

For the NER and other hilly states, the Union government typically contributes 90 per cent of the funds with States contributing 10 per cent. In these states, the share of revenue coming via CSS is also much higher compared to larger states, underlining their higher fiscal dependence on Union support.

Manipur, Meghalaya, and Assam have the highest dependence on CSS transfers. For Manipur, CSS share in revenue receipts in FY 20-21; was 30 per cent, which dipped in FY 23-24; to 18 per cent, but is estimated to increase in FY 24-25 REs to 43 per cent.

Meghalaya has maintained consistently high reliance, with CSSs contributing around one-fourth of its revenues across years. By contrast, Himachal Pradesh and Arunachal Pradesh reflect comparatively lower reliance with CSSs ranging 12 to 15 per cent and 12 to 19 per cent respectively, between FY 20-21 and FY 23-24. In FY 25-26 (BE), this share is estimated at 14 per cent for Himachal Pradesh and 12 per cent for Arunachal Pradesh.

Figure 15: CSS out of Total Revenue Receipts across Hilly States and NER (in %)

	20-21	21-22	22-23	23-24	24-25 RE	25-26 BE
Manipur	30	25	27	18	43	24
Meghalaya	24	21	22	26	26	23
Assam	21	22	24	18	21	21
Uttarakhand	16	12	12	11	17	21
Mizoram	17	15	16	16	23	19
Sikkim	16	11	14	11	21	18
Nagaland	22	16	14	18	15	15
Himachal Pradesh	13	15	12	14	18	14
Arunachal Pradesh	19	15	12	12	18	12

Source: Author's calculations from budget documents.

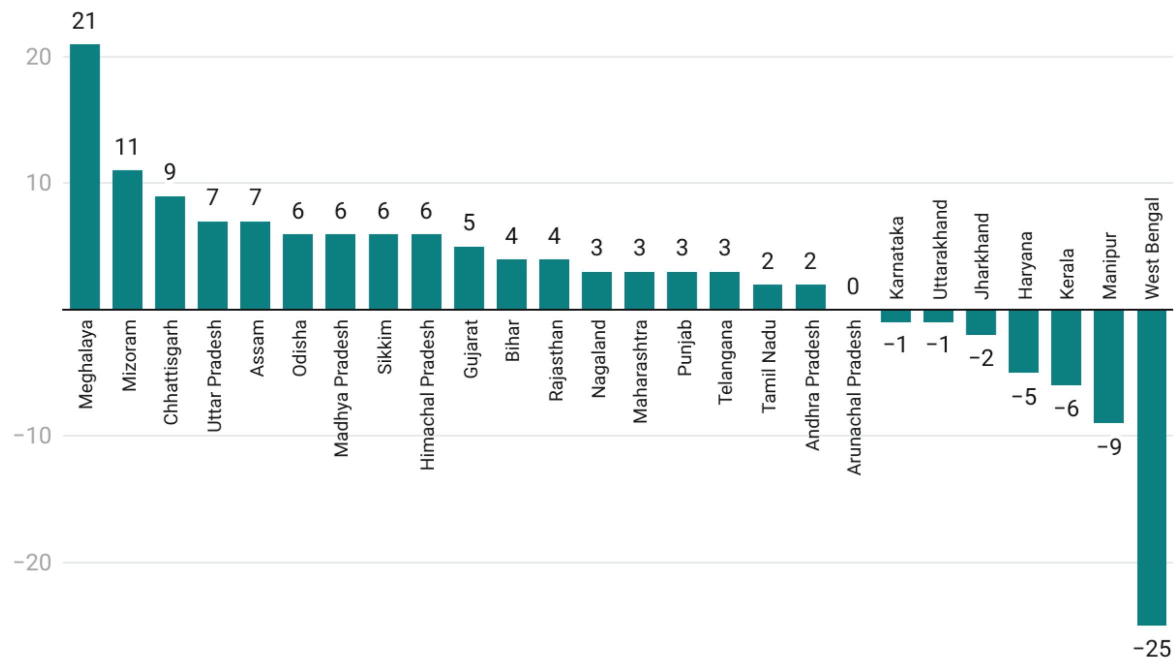
While the section above analyses the extent of CSS dependence, as a share of total revenue receipts, it is equally important to assess how the quantum of funds coming through CSSs have changed over time.

As can be seen in the graph below, the average annualised growth rate of CSS between FY 20-21 and FY 23-24 varied widely across States. Meghalaya registered the highest growth at 21 per cent, followed by Mizoram (11 per cent) and Chhattisgarh (9 per cent). Several States, including Assam, Odisha, Madhya Pradesh, Sikkim, Himachal Pradesh, and Gujarat recorded moderate increases in the range of 5 - 7 per cent.

On the other hand, several States also experienced negative growth. West Bengal witnessed the steepest decline at -25 per cent, followed by Manipur (-9 per cent) and Kerala (-6 per cent). Haryana (-5 per cent), Jharkhand (-2 per cent), Uttarakhand (-1 per cent), and Karnataka (-1 per cent) also showed contraction in funds coming for CSSs.

Overall, the analysis suggests that economically weaker States, particularly in the NER, saw a significant increase in the quantum of funds coming via CSSs, while several larger and fiscally stronger States such as Kerala, Haryana, and Karnataka recorded significant contractions and Maharashtra, Telangana and Tamil Nadu saw slow-paced growth.

Figure 16: Average Annualised Growth Rate of CSS (in %)



Source: Author's calculations from budget documents.

Finance Commission Grants

The FC constituted every five years under Article 280, recommends the distribution of tax revenues between the Union and States to address fiscal imbalances. Besides tax devolution, it also suggests GIA to States, including support for local bodies (PRIs and ULBs). Under Article 275, it can recommend grants to bridge revenue–expenditure gaps.

The XIV FC did not recommend State- or sector-specific grants, arguing that such schemes are best financed by States and that greater flexibility was needed. Instead, it increased tax devolution (untied funds) and provided additional grants of ₹2.87 lakh crore for local bodies, along with ₹55,097 crore for disaster management and ₹1,94,821 crore as post-devolution revenue deficit grants.

The XV FC recommended several additional grants, including for health, new city incubation, a National Data Centre, state-sector specific, and state-specific purposes. Of these, the Union Government accepted only the health grants and other grants for the incubation of new cities and shared municipal services. Total allocations during this period thus included ₹4.36 lakh crore for local body grants (including health grants and Other Grants), ₹2,94,514 crore for post-devolution revenue deficit grants, and ₹1,22,601 crore for disaster management.

The FC plays an important role in determining the design and scale of grants. Between the XIV FC and XV FC period, GIA to states via FC grants rose from ₹5,37,354 crore to ₹8,53,476 crore, marking a 59 per cent increase.

With the XVI FC period coming up, it remains to be seen what recommendations it will make on grants and what will be accepted by the Union government. States, in their submissions, have already stressed the need for greater flexibility in grant design, revival of state-specific/sector-specific grants, and enhanced support for disaster management and local bodies.

Table 2: FC Grants to States, as per Recommendation of XIV and XV FC (in ₹ crore)

Components of GIA as per FC	XIV FC	XV FC
Revenue deficit grants	1,94,821	2,94,514
Rural Local Bodies	2,00,292	2,36,805
Urban Local Bodies	87,144	1,21,055
Health Grants	-	70,051
Other Grants	-	8,450
Disaster management grants	55,097	1,22,601
Sector-specific grants	-	NA
State-specific grants	-	NA
Total	**5,37,354**	**8,53,476**

Source: Author's calculations from FC reports and budget documents.

Note: NA- Not Accepted by the Union Government.

While the quantum of funds received via FC GIA has increased, the share of FC grants in total revenue receipts has steadily declined across all major States between FY 20-21 and FY 25-26 BE.

This decline is visible even in states such as Kerala, Punjab, Andhra Pradesh, and West Bengal which started with relatively high dependence on FC grants. For instance, FC grants in Kerala in FY 20-21 accounted for 18 per cent of total revenue receipts. This declined to 6 per cent in FY 23-24 and is estimated to further decline to 3 per cent in FY 25-26 BE. A similar trend is seen in Punjab, where the share fell from 17 per cent in FY 20-21 to 8 per cent in FY 23-24, and is expected to decline further to 4 per cent in FY 25-26 BE.

For States like Madhya Pradesh, Gujarat, Chhattisgarh, Karnataka, Haryana, Telangana, and Maharashtra, dependence on FC grants was comparatively low and remains low. In FY 20-21, the share of FC grants in these states ranged between 3-4 per cent, declining to 2 per cent in FY 23-24, and is projected to rise marginally to 2-3 per cent in FY 25-26 BE.

The changes in proportions are largely driven by the post-devolution revenue deficit grant which went to specific states. Consequently, states that received the revenue deficit grant, saw an increase in the proportion of funds coming via FC GIA during the time period of receiving those grants. As the share of revenue deficit grants decreased or stopped, the share of FC GIA in total revenue receipts also declined.

Figure 17: FC Grants out of Total Revenue Receipts across larger States (in %)

	20-21	21-22	22-23	23-24	24-25 RE	25-26 BE
Kerala	18	19	12	6	3	3
Punjab	17	16	12	8	5	4
Andhra Pradesh	10	14	8	6	3	2
West Bengal	8	13	10	7	4	3
Bihar	7	4	4	4	4	4
Uttar Pradesh	5	3	3	3	3	3
Jharkhand	5	3	2	3	2	3
Tamil Nadu	5	5	2	2	2	2
Odisha	5	3	3	3	3	3
Rajasthan	5	9	5	3	3	2
Madhya Pradesh	4	3	3	2	4	3
Gujarat	4	2	3	2	2	3
Chhattisgarh	4	3	2	2	2	2
Karnataka	4	3	2	2	2	2
Haryana	3	1	2	2	3	3
Telangana	3	1	2	2	2	2
Maharashtra	3	2	2	2	3	2

Source: Author's calculations from budget documents.

Similarly, for some NER and hilly states such as Himachal Pradesh, Nagaland, Manipur, Mizoram, Uttarakhand, and Assam, post-devolution revenue deficit grants accounted for a major portion of their FC grants. As a result, these states had the highest share of FC grants across those years. In contrast, states like Sikkim and Meghalaya had a smaller share of post-devolution revenue deficit grants, so their overall FC grant quantum was low, while Arunachal Pradesh, which did not receive such grants, consistently had the lowest reliance on FC grants.

Figure 18: FC Grants out of Total Revenue Receipts across Hilly States and NER (in %)

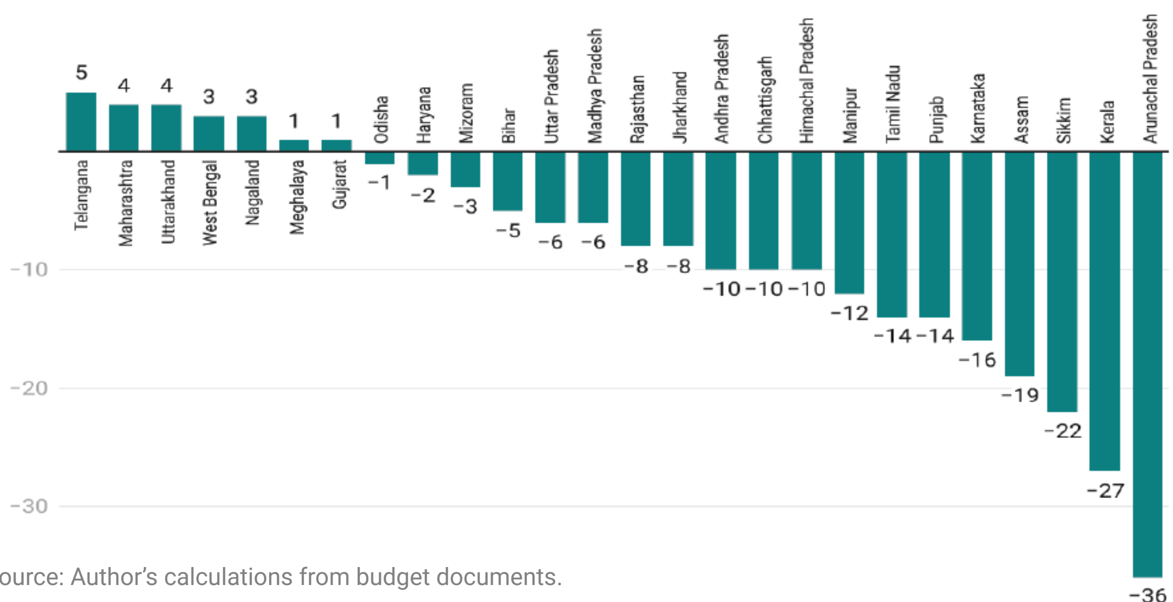
	20-21	21-22	22-23	23-24	24-25 RE	25-26 BE
Himachal Pradesh	37	30	28	22	17	10
Nagaland	36	35	33	28	28	28
Manipur	24	19	15	14	8	6
Mizoram	22	21	17	14	9	6
Uttarakhand	18	22	17	16	12	8
Assam	16	11	8	6	4	4
Sikkim	11	11	7	4	1	2
Meghalaya	6	10	8	4	3	1
Arunachal Pradesh	5	2	1	1	2	2

Source: Author's calculations from budget documents.

There are also differences across states with respect to the average annual growth rate of FC grants. For instance, states like Telangana (5 per cent) and Maharashtra (4 per cent), have shown modest growth. Similarly, states such as Uttarakhand (4 per cent), West Bengal (3 per cent), and Nagaland (3 per cent), have also recorded positive annualised growth rates.

On the other hand, the majority of States showed negative growth. Arunachal Pradesh saw the sheer decline at 36 per cent, followed by Kerala (27 per cent), Sikkim (22 per cent), Assam (19 per cent), Karnataka (16 per cent), Tamil Nadu (14 per cent), Punjab (14 per cent), Manipur (12 per cent).

Figure 19: Average Annualised Growth Rate of FC Grants (in %)



Source: Author's calculations from budget documents.

Local Government Grants

The FC recommends transfers to rural and urban local governments, including untied grants, sector-specific grants, and performance-based incentives, to strengthen local fiscal autonomy and service delivery.

The XV FC recommended ₹2,36,805 crore for RLBs and ₹1,21,055 crore for Urban ULBs for the period FY 21-26. A comparison between recommendations of the FC and actual release finds that between FY 21-22 and FY 23-24, actual releases to RLBs amounted to about 96 per cent of the FC recommended amount, while ULBs received roughly 80 per cent of the projected amounts. For FY 24-25 REs, 91 per cent of the recommended funds for RLBs and 82 per cent for ULBs had been released. For FY 25-26, both RLBs and ULBs are expected to fully meet the recommended allocations.

Table 3: RLBs and ULBs Grants (in ₹ crore)

	Rural Local Bodies (RLBs)			Urban Local Bodies (ULBs)		
Year	Recommended as per FC	Actual	Difference	Recommended as per FC	Actual	Difference
21-22	44,901	40,312	-4,589	22,114	16,147	-5,967
22-23	46,513	45,578	-935	22,908	17,779	-5,129
23-24	47,018	47,260	242	24,222	21,223	-2,999
24-25	49,800	45,000	-4,800	25,653	21,000	-4,653
25-26	48,573	48,573	0	26,158	26,158	0
21-26	2,36,805	2,26,723	-10,082	1,21,055	1,02,308	-18,747

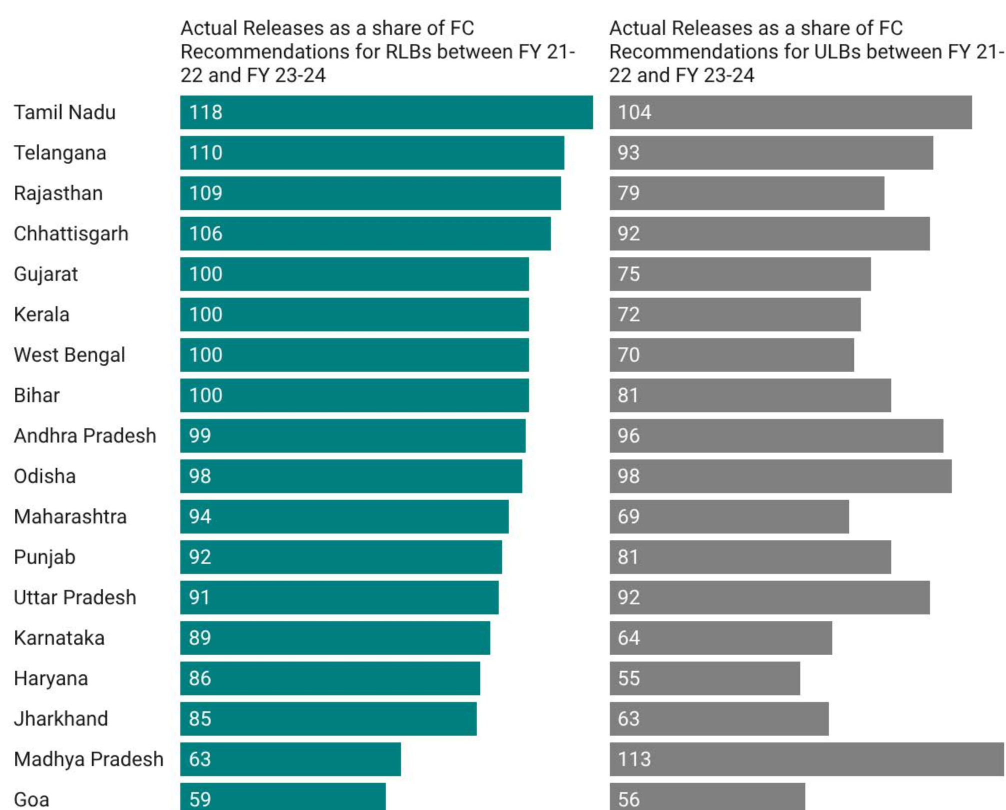
Source: Author's calculations from FC reports and budget documents.

Note: Figures are in crores of rupees and are Actuals between FY 21-22 and FY 23-24 and REs for FY 24-25 and BEs for FY 25-26.

A detailed examination across the 18 larger states; reveals that most states received FC grants for RLBs as recommended, or even more. For example, in Tamil Nadu, Telangana, Rajasthan, and Chhattisgarh—actual releases exceeded recommended amount between FY 21-22 and FY 23-24, while for Gujarat, Kerala, West Bengal, and Bihar, it was 100 per cent of the recommended amount. In contrast, Goa received the lowest share at 59 per cent, followed by Madhya Pradesh at 63 per cent.

For ULBs, Madhya Pradesh and Tamil Nadu received more than the recommended ULB grant amount between FY 21-22 and FY 23-24. Other states with high releases include Odisha, Andhra Pradesh, Telangana, Chhattisgarh, and Uttar Pradesh, each receiving over 90 per cent of the recommended ULB grant. In contrast, Karnataka, Jharkhand, Goa, and Haryana received less than two-thirds of the recommended amount.

Figure 20: XV FC Recommendations and Releases for RLBs and ULBs in Larger States (in %)

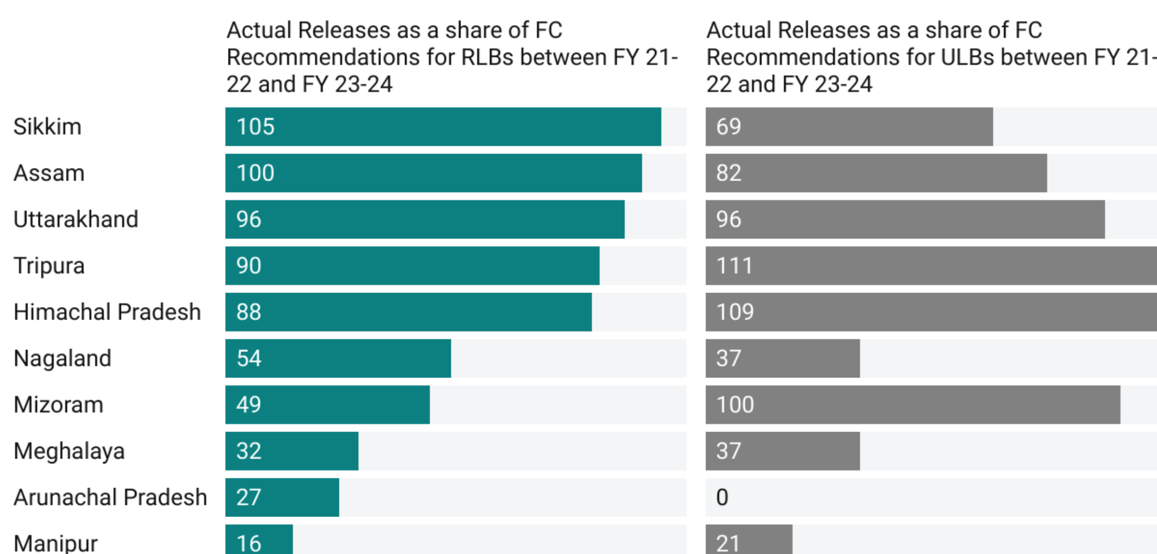


Source: Author's calculations from FC reports and budget documents.

In the NER and hilly states, Sikkim and Assam received 100 per cent or more of the recommended releases for RLBs. Uttarakhand and Tripura received 96 per cent and 90 per cent of the recommended allocations for RLBs, respectively. In contrast, states such as Mizoram (49 per cent), Meghalaya (32 per cent), and Arunachal Pradesh (27 per cent) saw relatively low releases, while Manipur recorded the lowest release during this period at just 16 per cent.

For states such as Tripura and Himachal Pradesh, ULB actual releases were higher than the recommended amounts, while for Mizoram, 100 per cent of the recommended amount was released. In contrast, Meghalaya, Nagaland, and Manipur received less than 40 per cent of the recommended amount between FY 21-22 and FY 23-24, while for Arunachal Pradesh no amount was released during this period.

Figure 21: XV FC Recommendations and Releases for RLBs and ULBs in Hilly States and NER (in %)



Source: Author's calculations from FC reports and budget documents.

Health Grants

The XV FC also recommended ₹ 70,051 crore as health grants to RLBs and ULBs from FY 21-22 to FY 25-26. These grants are meant to bridge critical gaps in primary health infrastructure and services by empowering Panchayats and Municipalities directly, rather than relying solely on state or central schemes.

Release and utilisation of funds to states under this has been slow. Between FY 21-22 and FY 25-26 BE only ₹51,584 crore, or 74 per cent of the total recommended amount by the XV FC, has been allocated and 65 per cent is released.

There are year-on-year variations. In FY 21-22, the recommended amount was ₹13,192 crore, of which ₹12,252 crore (93 per cent) was released. In FY 22-23, the recommended amount was also ₹13,192 crore, but only ₹8,895 crore was allocated by the Union Government, of which ₹3,309 crore was released—equivalent to 37 per cent of the allocated amount and 25 per cent of the recommended amount.

Releases picked up in FY 23-24. The recommended amount was ₹13,851 crore, of which only ₹4,000 crore was allocated, but ₹4,693 crore was released—equivalent to 34 per cent of the recommended amount. For FY 24-25, the allocation is ₹10,225 crore, which is 30 per cent lower than the recommended amount. Health grants are estimated at ₹15,272 crore in the FY 25-26 BE, the final year of the grant period, which is similar to the recommended amount.

Table 4: XV FC Health Grants Recommendations and Releases (in ₹ crore)

Year	FC Recommendations Grants for Health Sector	Actual Release for Health Sector	Difference
21-22	13,192	12,252	-940
22-23	13,192	3,309	-9,883
23-24	13,851	4,693	-9,158
24-25	14,544	10,225	-4,319
25-26	15,272	15,272	-
Total	**70,051**	**45,751**	**-24,300**

Source: Author's calculations from FC reports and budget documents.

Note: Figures are in crores of rupees and are Actuals between FY 21-22 and FY 23-24 and REs for FY 24-25 and BEs for FY 25-26.

State-wise information is only available for two years. In FY 21-22, 17 states received 100 per cent of the allocated amount. Meghalaya, Tripura, Haryana, and Bihar received 99 per cent of the recommended health grants. States such as Uttar Pradesh, Manipur, Assam, and Arunachal Pradesh received more than 95 per cent of the recommended amount. The states with the lowest share of the recommended amount were Maharashtra (58 per cent), Kerala (76 per cent), and Rajasthan (79 per cent).

In FY 22-23, health grant releases were highly uneven across states. Telangana and West Bengal received the full recommended amounts, while Tamil Nadu received 99 per cent. Gujarat and Madhya Pradesh received 58 per cent and 48 per cent, respectively. Odisha and Rajasthan received less than 30 per cent, Kerala less than 20 per cent, and Uttar Pradesh, Maharashtra, and Haryana less than 3 per cent. Notably, 15 states did not receive any health grants during the year.

Revenue Deficit Grants

Since states differ in fiscal capacity and expenditure needs, formula-based devolution alone cannot bridge the gap. To address this, the FC provides revenue deficit grants. These grants are provided to states whose revenue needs remain unmet even after their own tax and non-tax receipts and the devolution of Union taxes.

The share of revenue deficit grant increased from 1.81 per cent of the Union's gross revenue receipts during the XIV FC period to 1.92 per cent in the XV FC award period, equaling ₹ 2,94,514 crore.

For the XV FC period, 17 states received revenue deficit grants. Between FY 21-22 and FY 23-24, states were projected to get ₹2,56,326 crore, and all 17 states received the recommended amounts during this period. A similar trend can be seen in the FY 24-25 RE and FY 25-26 BE, with states continuing to receive the recommended amounts.

State Disaster Risk Management Fund

The State Disaster Risk Management Fund (SDRMF) is a consolidated state-level disaster financing framework introduced under the XV FC. It has two key components a) State Disaster Response Fund (SDRF), a fund primarily for immediate disaster relief and response and b) the State Disaster Mitigation Fund (SDMF), a fund dedicated to mitigation, preparedness, and long-term risk reduction. After acceptance of the recommendations of the XV FC, the Union Government constituted the National Disaster Mitigation Fund (NDMF) in February 2021, providing the framework for states to establish their own SDMFs.

The total SDRMF corpus for the XV FC period is ₹1,60,153 crore, comprising ₹1,22,601 crore from the Union government and ₹37,552 crore from States. With 80 per cent allocated to SDRF and 20 per cent to SDMF, the fund ensures a comprehensive disaster management framework, linking immediate response with proactive risk reduction and resilience building.

For the analysis below we have looked at the Union share. Analysis has been done in two ways - first, a comparison between FC recommendation and actual release and the second, a look at the proportion of the allocations released to different states.

In FY 21-22, actual releases for SDRMF were 91 per cent of the recommended amount, which declined to 85 per cent in FY 22-23. In FY 23-24, this gap narrowed and 97 per cent of the recommended grants were released. This gap was majorly driven by low releases under SDMF. In FY 24-25 and FY 25-26 the full recommended amount is estimated to be released.

Table 5: FC Grants for SDRMF Released and Recommended by XV FC (in ₹ crore)

Years	FC Recommended Grants for SDRF	FC Recommended Grants for SDMF	FC Recommended Grants for SDRMF	Actual Release for SDRF	Actual Release for SDMF	Actual Releases for SDRMF
21-22	17,747	4,437	22,184	17,747	2,525	20,272
22-23	18,635	4,659	23,294	16,393	3,500	19,893
23-24	19,573	4,893	24,466	19,420	4,254	23,673
24-25	20,550	5,138	25,688	20,550	5,138	25,688
25-26	21,575	5,394	26,969	21,575	5,394	26,969

Source: Author's calculations from FC reports Reports and budget documents.

Note: Figures are in crores of rupees and are Actuals between FY 21-22 and FY 23-24 and REs for FY 24-25 and BEs for FY 25-26.

In FY 21-22, while all states received their SDRF grants, SDMF saw lower disbursements, with only 57 per cent of the allocated amount released. For example, out of 28 states, 18 received 100 per cent of their allocation, while 10 states- Goa, Gujarat, Haryana, Jharkhand, Maharashtra, Mizoram, Punjab, Tamil Nadu, Telangana, and Uttar Pradesh—received no releases.

In FY 22-23, about 88 per cent of the SDRF allocation was released. Most states received their full share, except for Chhattisgarh, Gujarat, Meghalaya, Telangana, and Uttar Pradesh, which received only 50 per cent of their allocation, while Jharkhand received no releases.

In FY 23-24, 22 states received their full allocated amount under the SDRF, while Gujarat and Uttar Pradesh received 98 per cent, followed by Jharkhand with 95 per cent. The lowest releases were recorded in Chhattisgarh (52 per cent), Manipur (50 per cent), and Meghalaya (47 per cent). For SDMF, 10 states received 100 per cent or more of their allocated funds (this also included arrears of SDMF from the previous year, which made the releases higher). In contrast, states such as Goa, Gujarat, Himachal Pradesh, Tamil Nadu, and Tripura received half or less of their allocation. Meanwhile, Andhra Pradesh, Arunachal Pradesh, Haryana, Jharkhand, Karnataka, Manipur, Meghalaya, and Telangana received no releases under SDMF.

In FY 24-25, 22 states received their full allocated amount under SDRF, while Chhattisgarh, Meghalaya, and Uttar Pradesh received about 95 per cent or more of their allocation. The lowest releases were recorded in Arunachal Pradesh (50 per cent), Gujarat (49 per cent), and Uttarakhand (50 per cent). Nine out of 28 states—Assam, Chhattisgarh, Gujarat, Jharkhand, Karnataka, Manipur, Meghalaya, Telangana, and Tripura – did not receive SDMF allocations.

In FY 25-26, as of September 2025, all states except Andhra Pradesh have received the first installment of SDRF, while Himachal Pradesh, Punjab, and Uttarakhand have also received the second installment. In contrast, under SDMF, seven states — Assam, Chhattisgarh, Kerala, Manipur, Meghalaya, Mizoram, and Tripura are yet to receive their first installment.

Overall, while SDRF releases have generally been timely, SDMF disbursements remain inconsistent – with many states receiving only partial allocations or none. The Gulati Institute of Finance and Taxation (GIFT) has highlighted that the present criteria for disaster fund allocation are flawed, as they rely heavily on broad measures such as area and past expenditure, which disadvantage high-risk states like Kerala. GIFT recommends that the FC adopt a more scientific approach, factoring in population density, geographical features, and a comprehensive disaster vulnerability index to ensure fairer distribution.[19] In their submissions to the XVI FC, Uttar Pradesh proposed raising the cap on state-notified disasters from 10 to 25 per cent of the fund and allowing inter-head flexibility,[20] while Punjab specifically sought conversion of SDRF/SDMF into a non-interest-bearing reserve, citing the anomaly of being penalised through interest accumulation.[21]

Grants to Million-Plus Cities for Ambient Air Quality

The XV FC introduced the Million-Plus Cities Challenge Fund (MCF) to provide performance-based grants to cities with populations exceeding one million. While the SDRMF provides resources for disaster management, the MCF air quality component is one of the few grants explicitly tied to urban climate and environmental outcomes. For FY 20-21, ₹9,229 crore was allocated, with ₹4,400 crore for air quality and ₹4,829 crore for service-level benchmarks.[22] From FY 21-22 to FY 25-26, FC recommended ₹38,196 crore under MCF, comprising ₹12,139 crore for ambient air quality and ₹26,057 crore for achieving service-level benchmarks in drinking water, sanitation, and solid waste management.[23]

Grants under MCF are tied to city performance in improving air quality and meeting benchmarks for urban drinking water, sanitation, and solid waste management.

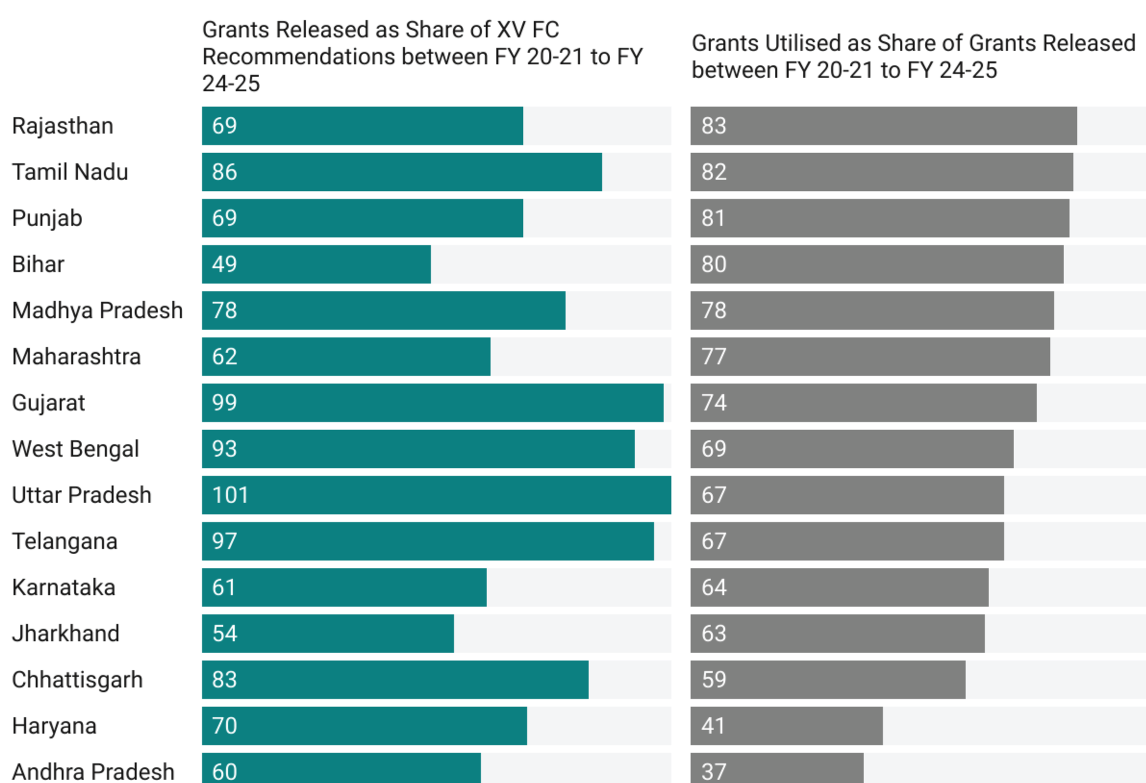
We focus specifically on the portion of the MCF allocated for ambient air quality as detailed data on the second component is not separately available.

Across 15 states, 43 cities have received these performance-linked grants, enabling an examination of how air quality fund flows are released and utilised. Between FY 20-21 and FY 24-25, states like Uttar Pradesh (101 per cent) received the full recommended

XV FC allocation for ambient air quality followed by Gujarat (99 per cent) and Telangana (97 per cent). States such as Bihar (49 per cent), Jharkhand (54 per cent), and Andhra Pradesh (60 per cent), Karnataka (61 per cent) and Maharashtra (62 per cent) had low releases i.e., less than two-thirds of the recommended amount.

Utilisation of released funds has been low and no state fully utilised the released funds. States such as Rajasthan (83 per cent), Tamil Nadu (82 per cent), Punjab (81 per cent), Bihar (80 per cent), and Madhya Pradesh (78 per cent) utilised more than three-fourths of the released amount. States with high releases showed relatively low utilisation, such as Uttar Pradesh (67 per cent), Gujarat (74 per cent), and Telangana (67 per cent). Less than two-third of the released amount was also utilised by ULBs in Chhattisgarh (59 per cent), Jharkhand (63 per cent), and Karnataka (64 per cent). Utilisation was even lower than half in Andhra Pradesh (37 per cent), and Haryana (41 per cent).

Figure 22: MFC Grants for Ambient Air Quality Released out of XV FC Recommendations (in %)



Source: Author's calculations from FC reports, PRANA national dashboard, and budget documents.

In FY 25-26, as of 29 September, states have not received any releases yet, even though there has been utilisation from the unspent balance of previous years.

Capital Receipts

Capital receipts constitute a significant portion of the overall resources mobilised by State governments, supplementing revenue receipts that fund everyday expenditure. These receipts primarily include borrowings from both internal and external sources, recoveries of loans and advances, and other miscellaneous capital inflows. Examination of the data across 31 States and Union Territories reveals that borrowings overwhelmingly dominate the capital receipts segment, accounting for the majority of funds.

Between FY 20-21 and FY 23-24, capital receipts grew moderately compared to revenue receipts, with borrowings accounting for nearly all of this increase—around 98–99 per cent of total capital receipts. For most states, borrowings represent a critical financial tool to bridge gaps in resources and meet committed expenditure liabilities, especially in the face of constrained revenue mobilisation. Given the predominance of borrowings in capital receipts and the fiscal implications of rising debt, this report focuses its detailed examination on the trends, patterns, and fiscal impact of State borrowings in the subsequent sections.

Borrowings

Borrowings remain a critical component of States' finances, often bridging the gap between revenues and expenditures. The analysis shows that dependence on debt financing varies widely across States, reflecting differences in revenue raising capacity, expenditure commitments, and fiscal management.

Among the 18 major States, Haryana, Punjab, Rajasthan, Kerala, and Telangana have the highest reliance on borrowings.

For Punjab, in FY 20-21, the share of borrowing out of the State's total receipts accounted for 48 per cent, which declined to 34 per cent in FY 21-22 but increased sharply to 54 per cent in FY 23-24, highlighting fiscal stress. Further estimates show borrowing remaining high in FY 25-26 BE at 52 per cent.

Kerala saw a steady decline from 42 per cent in FY 20-21 to 29 per cent FY 22-23, but increased in FY 23-24 to 45 per cent, with estimated borrowings projected to reach 50 per cent in FY 25-26 BE.

In contrast, for Haryana, borrowing increased from 44 per cent in FY 20-21, to 47 per cent by FY 23-24. In FY 25-26 BE it is estimated to slightly decline to 44 per cent, returning to FY 20-21 levels. Rajasthan also saw a similar pattern.

Telangana has the highest borrowing in FY 20-21, which accounted for 54 per cent of the receipts. In FY 23-24, it declined to 47 per cent. Though it's projected to drop sharply in FY 24-25 RE and FY 25-26 BE to 23 per cent, the extent to which it decreases will only be visible once Actuals for the two years are available.

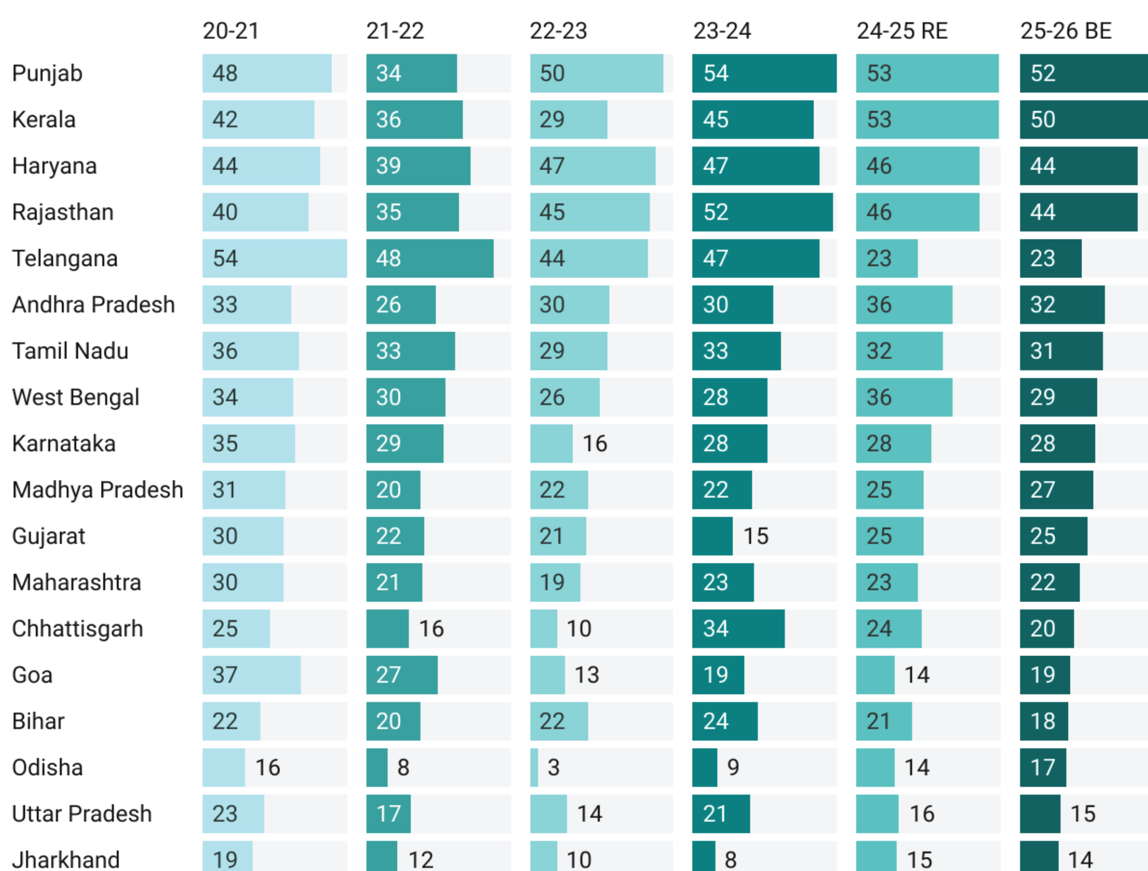
States such as Andhra Pradesh, Tamil Nadu, West Bengal, and Karnataka also display a high dependence on borrowings, which reflects substantial debt levels. They are, however, relatively better than the debt stressed states mentioned above.

This indicates persistent fiscal stress even in States considered economically well-off, and suggests that a strong GDP or revenue bases do not automatically translate into low borrowing dependence. These States not only have high committed liabilities but also carry the heavy burden of subsidies, which together drive sustained borrowing levels.

Fiscally stronger States such as Maharashtra and Gujarat maintained a lower reliance on debt, with borrowings consistently below 25 per cent of the total receipts. The exception was FY 20-21, the pandemic year, when borrowing went up to meet expenditure needs amid falling tax collections. Their generally low dependence reflects robust own-tax revenues and effective fiscal management.

For economically weaker or revenue-constrained States, including Bihar, Jharkhand, and Uttar Pradesh, the share of borrowings remained relatively low reflecting either constrained borrowing capacity or a heavier reliance on central transfers and Union tax devolution. In the case of Odisha, borrowings are lower as it is the only State where non-tax revenue contribution is significantly high and similar to own tax revenue.

Figure 23: Borrowing out of Total Receipts across Larger States (in %)



Source: Author's calculations from budget documents.

Borrowing patterns in the NER, hilly States, and Union Territories (UTs) shows substantial differences.

Fiscally weaker States and UTs with very low own-source revenues, such as Nagaland, Manipur, Himachal Pradesh, and Uttarakhand rely more on borrowings, while others like Arunachal Pradesh and Tripura show limited reliance on debt, depending instead

on higher devolution of taxes and GIA from the Union government. Puducherry has also shown less reliance as it was mostly dependent on its own source revenue and GIA from the Union government.

The NER states of Nagaland and Manipur have among the highest borrowings. For instance, Share of borrowing in Nagaland was 50 per cent of total receipts in FY 20-21, indicating severe dependence on debt. In FY 21-22 it declined to 39 per cent and further to 27 per in FY 23-24, reflecting some fiscal consolidation. In FY 25-26 BE is projected to fall further to 25 per cent.

Manipur displayed a similar pattern. In FY 20-21, borrowing was 42 per cent of total receipts, which increased in FY 21-22 to 47 per cent. In FY 23-24, it declined to 40 per cent. It is projected to decline sharply in FY 25-26 BE to 23 per cent, driven by higher GIA inflows, though fiscal pressures still persist.

States such as Assam and Sikkim and Mizoram had moderate borrowing. However, volatility in Assam and Mizoram suggests vulnerability due to Union transfers and own-revenue performance. Sikkim borrowing has ranged between 20-25 per cent from FY 20-21 to FY 25-26 BE.

Arunachal and Tripura had relatively lower dependence on borrowing though there are year on year fluctuations. Borrowing accounted for 8-13 per cent in Arunachal Pradesh and 5-18 per cent in Tripura between FY 20-21 and FY 25-26 BEs.

Figure 24: Borrowing out of Total Receipts across Hilly States, NER and UTs (in %)

	20-21	21-22	22-23	23-24	24-25 RE	25-26 BE
Uttarakhand	28	16	16	36	32	38
Nagaland	50	39	33	27	29	25
Himachal Pradesh	33	20	37	28	35	24
Assam	20	15	24	32	27	23
Sikkim	22	21	20	25	25	23
Manipur	42	47	41	40	25	23
Delhi	27	18	5	0	6	16
Meghalaya	19	22	26	29	11	16
Puducherry	18	14	12	11	16	15
Tripura	18	6	5	6	16	15
Mizoram	25	33	28	36	13	15
Arunachal Pradesh	8	7	9	12	11	13

Source: Author's calculations from budget documents.

Scheme for Special Assistance to States for Capital Investment (SASCI)

In FY 20-21, the Union government launched the Scheme for Special Assistance to States for Capital Investment (SASCI) under which financial assistance is provided to State governments in the form of 50-year interest-free loans for capital investment projects.

Even though repayment for loans is far in the future, it still counts as debt. Over the years, states have been utilising this scheme. In FY 20-21, states received ₹11,830 crore, which increased to ₹14,186 crore, a rise of 20 per cent, in FY 21-22. In FY 22-23, states received ₹81,196 crore, nearly five times the allocation of FY 21-22, which further increased to ₹1,09,554 crore in FY 23-24. In FY 24-25 RE, states are estimated to receive ₹1,49,484 crore under SASCI[24], and ₹1,50,000 crore in FY 25-26 BE.[25]

While examining states' SASCI share in total borrowings, in FY 20-21, across 18 large states, less than 3 per cent of total borrowing was through SASCI. In FY 21-22, for Odisha, 4 per cent of total borrowing was from SASCI, whereas for Bihar, Chhattisgarh, Jharkhand, and Madhya Pradesh, 3 per cent of total borrowing came from SASCI. For the remaining states, the share was less than 3 per cent.

In FY 23-24, Jharkhand saw 56 per cent of its borrowings coming from SASCI, the highest among the states. For Madhya Pradesh and Odisha, the share was 19 per cent; for Goa and Uttar Pradesh, 16 per cent; followed by Bihar (15 per cent), and Gujarat (11 per cent). For the remaining states, the share was less than 10 per cent.

For FY 25-26 BE, Jharkhand is estimated to have 25 per cent of its total borrowings through SASCI, followed by Goa (17 per cent), Odisha (15 per cent), Chhattisgarh (12 per cent), Madhya Pradesh (10 per cent), and Andhra Pradesh (10 per cent).

Figure 25: SASCI out of Total Borrowing across Hilly, NER and UTs (in %)

	20-21	21-22	22-23	23-24	24-25 RE	25-26 BE
Jharkhand	2	3	32	56	14	25
Goa	1	2	22	16	37	17
Odisha	2	4	1	19	20	15
Chhattisgarh	1	3	28	6	16	12
Andhra Pradesh	1	1	9	5	8	10
Madhya Pradesh	2	3	13	19	14	10
Gujarat	0	1	8	11	8	7
West Bengal	1	1	5	6	8	7
Rajasthan	1	1	3	4	4	6
Telangana	0	0	2	1	5	6
Maharashtra	0	1	7	4	5	5
Karnataka	0	1	8	4	5	4
Tamil Nadu	0	0	4	4	5	4
Haryana	0	0	2	2	2	2
Kerala	0	0	4	0	2	2
Punjab	0	1	1	0	2	0.2
Bihar	2	3	18	15	23	NA
Uttar Pradesh	1	2	12	16	17	NA

Source: Author's calculations from budget documents and lok sabha questions.

Note: (1) SASCI figures for FY 24-25 are Actuals, while total borrowings are REs.
(2) NA-Data not available in the budget document.

There are significant year on year variations in utilisation of SASCI for the NER and HIlly States. For instance, Arunachal Pradesh's SASCI share increased from 15 per cent in FY 20-21to 63 per cent in FY 23-24. For Tripura, it increased from 11 per cent to 47 per cent during the same period. In FY 25-26 (BE), despite a decline, it is estimated to remain high at about 42 per cent.

Mizoram and Sikkim also show substantial increases over the years, with their SASCI shares in FY 25-26 BE projected to reach 34 per cent and 28 per cent, respectively.

Figure 26: SASCI out of Total Borrowing in Larger States (in %)

	20-21	21-22	22-23	23-24	24-25 RE	25-26 BE
Arunachal Pradesh	15	25	63	63	60	64
Tripura	11	11	40	47	34	42
Mizoram	8	7	7	12	66	34
Sikkim	13	16	27	29	46	28
Manipur	3	2	4	6	18	25
Assam	3	4	15	13	17	24
Himachal Pradesh	3	9	3	10	10	8
Uttarakhand	4	3	12	7	9	4
Meghalaya	8	7	20	17	78	NA
Nagaland	2	3	7	16	23	NA

Source: Author's calculations from budget documents and lok sabha questions.

Note: (1) SASCI figures for FY 24-25 are Actuals, while total borrowings are REs.
(2) NA-Data not available in the budget document.

Conclusion

The analysis of state receipts during the XV FC period shows a fiscal landscape marked by steady growth in Own Tax Revenue (OTR) but continued dependence on Union transfers and debt financing. While OTR remains the single largest and most stable source of revenue for states, which is heavily concentrated among a few large economies, highlighting persistent regional disparities in fiscal capacity. Non-tax revenue continues to play only a marginal role except in mineral-rich states such as Odisha, Goa, Chhattisgarh and Jharkhand.

Among Union transfers, the composition has shifted toward a greater share of tax devolution and a relative decline in Grants-in-Aid, reflecting a gradual move from tied to untied funds. Despite the reduction in the devolution share from 42 per cent to 41 per cent under the XV FC, actual transfers through devolution were nearly 35 per cent higher than the Commission's projections. However, the evolving GST 2.0 rate structure and the phasing out of compensation arrangements could affect the size of the divisible pool in the coming years. It is therefore critical that the devolution share does not decline further in the XVI FC cycle, as any reduction, coupled with potential moderation in GST collections-may significantly constrain states' fiscal capacity.

The XV FC had recommended several sector-specific grants, but the Union Government accepted only those related to the health sector, making them the sector specific grants implemented during this period. These grants were largely driven by the need to strengthen public health systems in the aftermath of the COVID-19 pandemic, focusing on improving hospital infrastructure and primary health facilities. However, despite their flexible design, the performance of health grants has been below expectations, with low levels of utilisation reported across most states. As the XVI FC takes shape, it remains to be seen whether the Commission will continue with sectoral grants or move toward a more integrated approach, especially given the mixed experience with the health sector grant.

At the same time, high reliance on borrowings-accounting for nearly 98-99 per cent of capital receipts-underscores the limited revenue flexibility of many states and their growing fiscal vulnerability. As the XVI FC prepares its recommendations, the balance between enhancing states' fiscal autonomy through higher vertical devolution and ensuring fiscal prudence will be essential.

With the XVI FC's tenure now extended to November 2025, the landscape of India's fiscal federalism stands at a pivotal moment of transformation. A majority of states have asked to increase in their share of the divisible tax pool from 41 per cent to around 50 per cent, but are also raising questions on the weights of criteria such as economic contribution and reducing the income-distance criterion. Southern states have sought a reduction in the income-distance weight from 45 per cent to 30-35 per cent, while fiscally stronger states like Gujarat, Karnataka, Telangana, and Tamil Nadu have argued for recognition of their higher contribution to national GDP. Meanwhile, populous northern states such as Uttar Pradesh have pushed for a greater weight on population to account for demographic realities and development needs. These varied positions highlight the competing priorities and complexities the XVI FC must reconcile-reflecting a growing demand for autonomy and flexibility amid mounting fiscal pressures from post-pandemic recovery, climate adaptation, and expanding welfare responsibilities.

In conclusion, the XVI FC has the opportunity to redefine India's fiscal federalism not merely through adjustments in vertical and horizontal devolution but by advancing into a new phase of cooperative, climate-conscious, and performance-driven intergovernmental finance. Ensuring a transparent, responsive, and equitable transfer system will be pivotal in empowering states.

ANNEXURE 1

State	States share in divisible pool
Andhra Pradesh	4.047
Arunachal Pradesh	1.757
Assam	3.128
Bihar	10.058
Chhattisgarh	3.407
Goa	0.386
Gujarat	3.478
Haryana	1.093
Himachal Pradesh	0.830
Jharkhand	3.307
Karnataka	3.647
Kerala	1.925
Madhya Pradesh	7.850
Maharashtra	6.317
Manipur	0.716
Meghalaya	0.767
Mizoram	0.500
Nagaland	0.569
Odisha	4.528
Punjab	1.807
Rajasthan	6.026
Sikkim	0.388
Tamil Nadu	4.079
Telangana	2.102
Tripura	0.708
Uttar Pradesh	17.939
Uttarakhand	1.118
West Bengal	7.523

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