



Federal Finance System

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Introduction

The financial structure prevailing in the world on the basis of power can be divided in two parts;

- (1) Unitary Structure,
- (2) Federal Structure

In unitary structure, all the powers are given to the Centre through constitution. The states and local self-governed organizations can enjoy only those powers which are given to them by the Centre. In U.K., France, Germany etc. countries have unitary structure.

While in federal structure, centre and States are given some responsibilities. There is a clear provision at every level about the sources from which the financial resources can be collected to meet the responsibilities.

WHAT IS FEDERAL FINANCE?

“Federal finance refers to the system of assigning the source of revenue to the Central as well as State Governments for the efficient discharge of their respective functions i.e. clear-cut division is made regarding the allocation of resources of revenue between the central and state authorities.”

So, the Federal finance is basically about the division of resources and functions between different levels of governments. India represents a typical case of a federation with a constitutional demarcation of functions and finances between the Union and the states. The Seventh Schedule of the Indian Constitution has arranged for a clear division of financial powers and expenditure responsibilities between the Centre and state governments. The Constitution of India has also made a number of enabling provisions for fiscal transfers like the formation of Finance Commission for formula-based transfers from the Centre to states.



Federal System of India

Indian federal finance has mainly three components in recent time i.e.

(1) Central Government (2) State government (3) Local self government

According to Article 268 to 300 of Indian constitution of India the distribution is made between the Centre & the State government for the functions and financial resources. Both the government have the powers to framing their Laws in the matters which are given to them. Tax connected with Inter state is kept in the Centre list and the tax which is connected with local matters is kept in the state list.

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graph TD; A[Federal Government] --> B["Two Level Of Government  
(Central Government & State Government)"]; B --> C["Political Power Shared  
(Between Centre & State)"]; C --> D["Different types of Law  
(Centre & States)"]; D --> E["Constitution is Codified & Rigid"]
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Federal Government

Two Level Of Government
(Central Government & State Government)

Political Power Shared
(Between Centre & State)

Different types of Law
(Centre & States)


Constitution is Codified & Rigid



Features of Federalism

The best way to comprehensively understand the federal system is to learn about its features. These characteristics combined to reflect the true essence of federalism. Let us study them.

- There are two levels of governance in the country
- Each level have a specific powers
- Both level have clearly marked Jurisdiction
- It must be prescribed and Guaranteed by the Constitution
- Power and Duties of both the governments are listed down in the Constitution
- It is Necessary to take approval of all level of Government

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- Court has a right to Solve the conflicts between two level of Governance
 - Both levels of government should have their own autonomous revenue streams to functioning efficiently
 - Power and Duties of both the governments are listed down in the Constitution
 - It is Necessary to take approval of all level of Government
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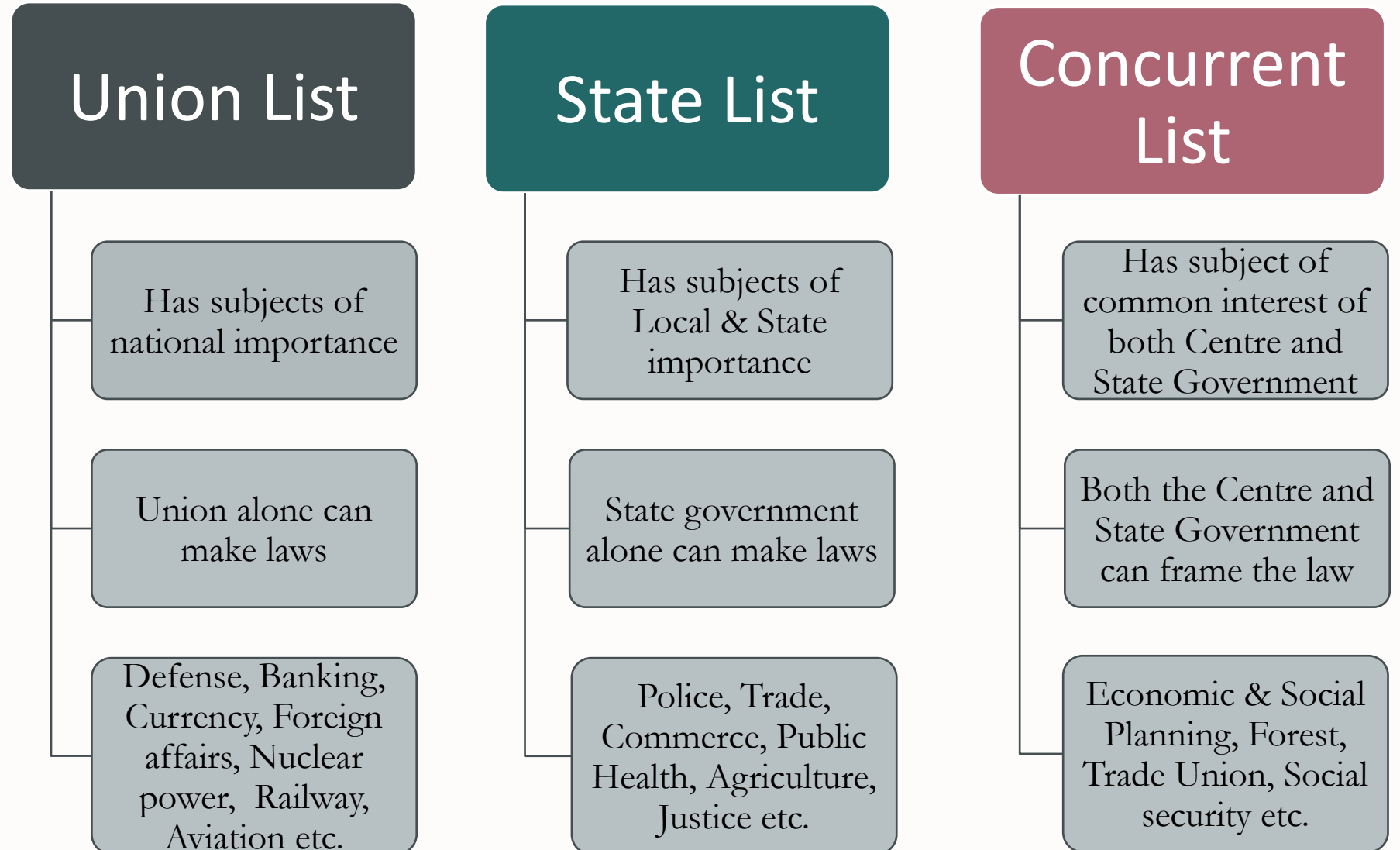


PRINCIPLES OF FEDERAL FINANCE

In the case of federal system of finance, the following main principles must be applied:

- Principle of Independence
- Principle of Equity
- Principle of Uniformity
- Principle of Adequacy
- Principle of Fiscal Access
- Principle of Integration and Coordination
- Principle of Efficiency
- Principle of Administrative Economy
- Principle of Accountability

Allocation of Functions



The left side of the page features a vertical column of decorative leaf motifs. These motifs are arranged in two parallel lines, with each line containing six identical leaf-like shapes. The leaves are stylized, with three main lobes and a central vein, rendered in a light grey color.

Thank You