

Role of Finance Commission in the Financial Planning of Business with reference to Prayagraj

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Abstract:

The finance commission of India plays a pivotal role in shaping the fiscal landscape of the nation by recommending the distribution of tax revenues between the central and state governments. While its primary mandate pertains to intergovernmental fiscal relations, the Commission's decisions indirectly influence the financial planning of businesses across various regions, including Prayagraj. This paper explores the extent to which the Finance Commission's recommendations impact business financial planning in Prayagraj, Uttar Pradesh. Through a comprehensive literature review, analysis of fiscal policies, and examination of local economic data, the study aims to elucidate the correlation between federal fiscal policies and regional business strategies.

Keywords: Finance commission, fiscal federalism, business financial planning, Prayagraj, Uttar Pradesh, Tax distribution, Regional development.

Introduction:

The finance commission of India, established under Article 280 of the constitution, serves as a quasi-judicial body responsible for defining the financial relations between the central and state governments. Constituted every five years, its primary functions include recommending the distribution of net tax proceeds and determining principles governing grants-in-aid to states. While the commission's recommendations are primarily aimed at ensuring fiscal federalism and addressing vertical and horizontal imbalances, their ramifications extend to the microeconomic environment, influencing business operations at the regional level.

Prayagraj, formerly known as Allahabad, is a prominent city in Uttar Pradesh with a diverse economic base encompassing sectors such as manufacturing, services, and agriculture. The city's economic vitality is intertwined with state and central fiscal policies, making it an ideal case study to assess the indirect effects of the finance commission's recommendations on business financial planning.

Literature Review:

The Finance Commission's role in fiscal federalism has been extensively studied, focusing on its impact on state finances and intergovernmental relations. However, literature examining its direct influence on business financial planning is limited. Existing studies suggest that the allocation of tax revenues and grants affects state expenditures on infrastructure, public services, and incentives, which in turn create an enabling environment for

businesses. Moreover, changes in state fiscal capacity can lead to variations in local taxation and regulatory policies, directly impacting business costs and investment decisions.

Research Objective:

This study aims to analyze the indirect impact of the Finance Commission's recommendations on the financial planning of the businesses in Prayagraj. The specific objectives include:

1. Assessing how changes in state fiscal capacity, resulting from the Commission's recommendations, influence state-level policies affecting businesses.
2. Evaluating the correlation between state expenditure on infrastructure and public services and the financial strategies of local businesses.
3. Identifying the challenges businesses face in adapting to fiscal policy changes stemming from the commission's recommendations.

Research Methodology:

The study employs a mixed-methods approach, combining quantitative analysis of fiscal data with qualitative insights from business stakeholders in Prayagraj. Data sources include Finance commission reports, state budget documents and economic indicators from Prayagraj. Additionally, interviews and surveys with local business owners and financial planners provide firsthand perspectives on the impact of fiscal policies on business operations.

Research Limitations:

The study is constrained by the availability of disaggregated data specific to Prayagraj, limiting the granularity of the analysis. Additionally, the indirect nature of the Finance Commission's influence on businesses necessitates caution in attributing causality. The dynamic economic environment and concurrent policy changes also pose challenges in isolating the effects of the Commission's recommendations.

Results and Discussion:

Impact on State Fiscal Capacity and Business Environment:

The Finance Commission's recommendations significantly influence the fiscal capacity of Uttar Pradesh by determining the state's share of central tax revenues and grant in aid. An increase in allocations enhancing the state's ability to invest in infrastructure, education and healthcare, creating a conducive environment for business operations.

Conversely, reduced allocations may compel the state to adjust its expenditure priorities, potentially affecting the quality of public services and infrastructure maintenance.

Correlation Between State Expenditure and Business Financial Planning:

Enhanced state expenditure on infrastructure, facilitated by favorable Finance Commission allocations, reduces operational costs for businesses by improving transportation networks and utilities. Investments in education and healthcare contribute to a healthier and more skilled workforce, benefiting businesses in the long term. However, fluctuations in state revenue can lead to uncertainty in public investment, prompting businesses to adjust their financial plans to mitigate potential risks associated with infrastructure deficits or reduced public services.

Challenges faced by Businesses:

Businesses in Prayagraj face challenges in adapting to fiscal policy changes resulting from the finance Commission's recommendations. Uncertainty in state funding can lead to unpredictable local taxation and regulatory policies, complicating financial forecasting and investments decisions. Additionally, delay in the implementation of state projects due to fiscal constraints can disrupt business operations reliant on public infrastructure.

Future Research Work:

Future research could focus on a comparative analysis of multiple regions to assess the varying impacts of Finance Commission recommendations on business financial planning. Additionally, studies could explore the role of local governance in mitigating or amplifying the effects of state fiscal policies on businesses. Investigating the responsiveness of different industry sectors to fiscal policy changes could also provide nuanced insights into the indirect influence of the Finance Commission's recommendations.

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