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## 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.

## Principles of Federal Finance

In the case of federal system of finance, the following main





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# Principles of Federal Finance

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

1. Principle of Independence.
2. Principle of Equity.
3. Principle of Uniformity.
4. Principle of Adequacy.
5. Principle of Fiscal Access.
6. Principle of Integration and coordination.
7. Principle of Efficiency.
8. Principle of Administrative Economy





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Economy.

## 9. Principle of Accountability.

# 1. Principle of Independence

Under the system of federal finance, a Government should be autonomous and free about the internal financial matters concerned. It means each Government should have separate sources of revenue, authority to levy taxes, to borrow money and to meet the expenditure. The Government should normally enjoy autonomy in fiscal matters.



## 2. Principle of Equity

From the point of view of equity, the resources should be distributed among the different states so that each state receives a fair share of revenue. The allocation of resources should be made in such a way as to give equitable treatment to the individuals and business firms in different places.

## 3. Principle of Uniformity

In a federal system, each state should pay equal tax payments for federal finance. But this principle cannot be followed in practice because the taxable capacity of each unit is not of the same. Since this principle of uniformity emphasizes on the uniformity of



^ ern of expenditure in all the states, equality of contribution imposes heavy burden on backward states.

## 4. Principle of Adequacy of Resources

The principle of adequacy means that the resources of each Government i.e. Central and State should be adequate to carry out its functions effectively. Here adequacy must be decided with reference to both current as well as future needs. Besides, the resources should be elastic in order to meet the growing needs and unforeseen expenditure like war, floods etc.

## 5. Principle of Fiscal Access



## Principle of Fiscal Access

In a federal system, there should be possibility for the Central and State Governments to develop new source of revenue within their prescribed fields to meet the growing financial needs. In nutshell the resources should grow with the increase in the responsibilities of the Government.

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## 6. Principle of Integration and coordination

The financial system as a whole should be well integrated. There should be a perfect coordination among different layers of the financial system of the country. Then only the federal system will prosper. This should be done in



such a way to promote the overall economic development of the country.

## 7. Principle of Efficiency

The financial system should be well organized and efficiently administered. There should be no scope for evasion and fraud. No one should be taxed more than once in a year. Double taxation should be avoided.

## 8. Principle of Administrative Economy

Economy is the important criterion of any federal financial system. That is, the cost of collection should be at the minimum level and the major portion of revenue should be made available for the other





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## 9. Principle of Accountability

In a federal set up, the Governments both Central and States enjoy financial autonomy. Thus, in such a system each Government should be accountable to its own legislature for its financial decisions i.e the Central to the Parliament and the State to the Assembly.

