The decision to grant special category status to States lie with the National Development Council composed of the Prime Minister, Union Ministers, Chief Ministers and members of the Planning Commission, who guide and review the working of the Planning Commission. Initially, three states namely Assam, Nagaland and Jammu & Kashmir were accorded special category status and later on eight other states were also given special category status namely: Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Uttarakhand, Tripura, Himachal Pradesh, and Sikkim and thus the list is now increased to eleven. The bases on the basis of which NDC decides whether a State should be accorded special status or not includes: hilly and difficult terrain; low population density and or sizeable share of tribal population; strategic location along borders with neighboring countries; economic and infrastructure backwardness and non-viable nature of state finances. At the time of resource allocation by the centre to States, these special category States are at a beneficial position. After the Report of Fifth Finance Commission, a formula was fixed for the distribution of resources between the states. This formula was named after the then deputy Chairman of Planning Commission Dr. Gadgil Mukherjee. The Gadgil-Mukherjee Formula adopted by consensus in 1991 was made the basis for the distribution of tax revenue and grants during 8th Five Year Plan (1992-97) and has since been in use. Among states, the distribution of tax revenue and grants is determined through the formula accounting for population (25%), area (10%), fiscal capacity (47.5%) and fiscal discipline (17.5%). The Finance Commission and the Planning Commission are bodies entrusted with the work of transferring the resources from the Centre to the States.

The Planning Commission allocates funds to states through central assistance for state plans. Central assistance can be broadly split into three components: Normal Central Assistance (NCA), Additional Central Assistance (ACA) and Special Central Assistance. Normal Central Assistance favours special category states and they get 30% of the total assistance while the other states share the remaining 70%. NCA is in the form of 90% as grants and 10% loans for special category states, while the ratio between grants and loans is 30:70 for other states. There is no fixed formula for Special Central Assistance and it depends on the basis of the state’s plan size and previous plan expenditures. Besides this, special category states enjoy concessions in excise and customs duties, income tax rates and corporate tax rates as determined by the government. The Planning Commission also allocates funds for ACA for the purpose of assistance for externally aided projects and other specific project.

* Teaching and Research Associate, Gujarat National Law University, Gandhinagar.
The Finance Commission is entrusted with the work of distribution of central tax revenues among states. The Finance Commission also recommends the principles governing non-plan grants and loans to states.

In order to achieve the status of a special category state, a state has to project itself as socio-economically or strategically vulnerable state however it is ironical that a number of states are demanding their names to be included in the list of special category states in order to exploit the numerous benefits conferred to states which are accorded this special status by NDC.