Fiscal federalism means division of governmental function and finance at every level by government.

Fiscal federalism is the basis of a decentralized democracy system which has enable by various laws of constitution through us.

1. 173rd & 74th Amendment Act
2. PESA act
3. Article 371
4. 7th Schedule

It was needed because of following reasons:
1. To reduce corruption
2. To counter checks and balance theory
3. To reduce administration inefficiency
4. To enhance state-central relations
5. To achieve federalism in true sense

But in achieving this federalism there are some challenges like:
1. Large number of laws & inefficiency in implementation
2. Central dual face while showing federalism. Ex: States are not listened while suggesting.
3. Constitutional rigidity towards Centre.
4. Division of states, state can only recommend what they want, but it isn't guarantee that they will be listened.
5. Misuse of concurrent list
6. Forcing centrally sponsored schemes on states.
(Don't write anything in this part)

11) Constitutional difficulty towards Centre
Ex-Centre will decide which tax rates
to be passed down

12) States having no say in formation of
Finance Commission

13) Having major minerals in Centre list

Thus to establish a better Centre-State
relation, government should implement

(i) Sarkaria Commission
(ii) Panchay Commission
(iii) ARC report
(iv) Report on Central-State relations

(v) Should give more powers to States to
decide in this ray

(vi) Enhance AP (Agricultural Produce
Markets Act) 73rd and 74th amendment
Act as various constitutional provisions
defining taxation structure

(vii) Gradually determine narrow down the
items in concurrent list towards
state list

Hence by following said methods, there
is a chance to build India as a Union
of indistinguishable self-reliant
States