

## **ABSTRACT**

The State finances in India have been through drastic changes over the past decade. From a very low performance in terms of collecting tax revenue and excessive expenditure and borrowing before 2003, the states have now out performed themselves today. The study using Stochastic Frontier Method tracks the efficiency record of the states over from 2003 to 2008. The Stochastic Frontier Method similar to a Production Possibility Curve analysis estimates the frontier for each state and deriving its maximum tax potential only difference is the agent in this case is not a firm but the state itself. The Stochastic Frontier Production Method is being estimated through a panel data approach and the state efficiency estimated on a relative basis, meaning one state is assumed to have full efficiency. The results show a considerable improvement in the Tax efficiency of all the states.

Key Words: State Finances , Tax Efficiency ,Stochastic Frontier Method