

# **Own Source Revenue of Panchayats with focus on Property Tax**

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**A study for The World Bank**

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# Objectives of the Study

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- Enumeration of different taxes by type and number at various levels of PRIs
- Exploring the property tax in greater detail in states of West Bengal, Maharashtra and Uttar Pradesh
- Identifying broad trends in local tax collection- Property tax
- Examining the CFC and SFC recommendations on local taxation
- Understanding the role of Ministry of Panchayati Raj on local taxation

# Methodology

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- **Review and analysis of legal provisions, rules and administrative orders relating to local taxations (Panchayat Raj Acts, rules and G.Os)- for the first time covering all the 25 states**
- **Field visits to states of West Bengal, Maharashtra and Uttar Pradesh to understand OSR and property tax in greater detail**
- **Analysis of local tax collection ( Own source revenues) using the 13<sup>th</sup> Finance Commission data**

## **Taxes and Non Taxes Levied by PRIs (25 states)**

<b>Type of levy</b>	<b>Number</b>
<b>Taxes on movable and immovable property</b>	<b>13</b>
<b>Other Taxes</b>	<b>14</b>
<b>Surcharge and Cess</b>	<b>10</b>
<b>Fees and Licenses</b>	<b>29</b>
<b>User Charges</b>	<b>12</b>
<b>Total</b>	<b>78</b>

# Local Taxes – Features and Issues

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- **GPs collect most of the tax devolved to PRIs ; variation exists across states**
- **Tax on House/building is obligatory in all states with few exceptions**
- **Variations in levying of user charges (water, electricity, lighting, etc.) – level of panchayat, rates, and how is it collected**
- **State Governments decide on Tax Base, Tax Rate and Ceiling.**
- **All taxes mandated by legislation are not levied and collected**
- **No Clarity on terminology- Tax and Non-tax are used interchangeably ( Water Tax and Water rate are synonymous) which affects calculations and comparison across States**

# Tax on Property

Name	No	States
Tax on House/building	10	AP, ArP, Assam, HP, Goa, Haryana, Rajasthan, Sikkim, TN, Gujarat
Tax on Land and Buildings	11	Bihar, Chhattisgarh, Jharkhand, Karnataka, Kerala, Maharashtra, MP, Manipur, Punjab, Tripura, WB
Tax on Vacant Land	11	AP, Assam, Chhattisgarh, Goa, HP, Kerala, Maharashtra, MP, Rajasthan, UP, Uttarakhand
Additional stamp duty/Surcharge on Stamp duty	15	Ar P, Chhattisgarh, Gujarat, Maharashtra, MP, AP, Assam, Haryana, HP, Karnataka, Kerala, Punjab, Rajasthan, TN, WB
Land Revenue and Cess thereon	12	AP, Assam, Chhattisgarh, Gujarat, HP, Maharashtra, MP, Punjab, Rajasthan, TN, UP, Uttarakhand,
Tax on Circumstances and Property	2	UP and Uttarakhand
No Property Tax	2	J&K, Odisha

# Property Tax- Maharashtra

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- **GPs levy and collect it. It is ARV based. Type of property, location and use are also considered**
- **Rates revised once in every 4 years by the State; GPs allowed to revise within prescribed range - Usually they don't do**
- **Collection Process: Efficient - Also collect water tax, sanitation tax and lighting tax together – Tax intimation is followed up with the notice and house visits.**
- **Higher collection rate – also higher collection cost**
- **Maintenance of Registers –Assessment list updated regularly, DCB registers are maintained, State monitoring exists. Incentives given for GPs with >70% collection**
- **Data on Tax collection available in public domain**

# Property Tax- West Bengal

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- **GPs levy and collect it ( Except for property tax other tax/non tax are subject to byelaws passed by the GP)**
- **Capital value based: 6% of the capital value is considered as ARV. 1-2% of ARV is charged as tax depending upon capital value**
- **BLRO determines the guidance value which is used for registration purposes; guideline values are lower than market value**
- **Easy to administer but low per capita collection. High coverage efficiency - GPs recommend the change inland use**
- **Separate budget prepared for OSR at GP level. Maintenance of Registers is good. OSR data in public domain and State monitoring is very good. Incentives for higher OSR collection and reporting**



# Property Tax (C&P Tax)- Uttar Pradesh

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- **ZPs levy and collect it. It is called Tax on Circumstances and Property. Circumstances refers to the income level**
- **Collected @3% (Rs 630-6000)**
- **No clearly defined procedure for assessing the circumstances and calculating the C&P Tax. Depends on the assessing officer and there is a provision for appeal**
- **SFC has recommended detailing the procedure which is yet to happen**
- **Only 60 out of 75 ZPs levy and collect C&P Tax**
- **Assessment lists and Registers were not available**
- **Data is not available in public domain**

# Factors contributing to higher local tax collection

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- **Population size of the GP- Bigger GPs have higher percapita collection records. Variation exists across States and within States.**
- **Extent of Functions devolved plays a role**
- **Staffing Pattern of the GP- 5 permanent staff in WB while one secretary for 5-6 GPs in UP. Impacts on collection effort and efficiency**
- **Linking of the services (certificates, water connection, electricity, ration card) in GP with taxation has a positive effect**

# Status of SFCs

States which have constituted	State Finance Commission				
	5 <sup>th</sup>	4 <sup>th</sup>	3 <sup>rd</sup>	2 <sup>nd</sup>	1 <sup>st</sup>
Assam (1)	√				
Bihar, Haryana, Himachal Pradesh, Kerala, M.P. Maharashtra, Punjab, Rajasthan, Sikkim, Tamil Nadu and Uttar Pradesh (12)		√			
A.P., Gujarat, Karnataka, Odisha, Tripura, Uttrakhand and West Bengal (7)			√		
Arunachal Pradesh, Chhattisgarh, Goa, Jharkhand & Manipur (5)				√	
Jammu & Kashmir (1)					√

Recommendations of SFC can be categorized into a) Action yet to be taken; b) Referred to Committee or Department; c) Accepted; d) Not yet implemented and (e) Not Accepted

Only reports of 16 states and Action Taken Reports of 5 states are available in public domain

# CFC and SFC Recommendations -Local Taxation

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- **CFC:** 11<sup>th</sup> and 12<sup>th</sup> FC stressed the need for good database (also allocated money for it) of PRI revenues. 13<sup>th</sup> FC recommended the constitution of SFC regularly and Action Taken Report be placed in legislature
- **SFC :** Land revenue to be devolved to GP(Manipur) Land conversion tax (Manipur) Tax on vacant lands(Non agri) (KL, CH ), leasing out land (CH)
- Property tax board (WB, KL). Strict enforcement of penalties for non-payment of PT (KA)
- PT as a proportion of income of people is low (0.15-0.2%) indicating the potential ( TN)
- Creation and updating of database, designing clearer structure of taxes for GPs

# Own Source Revenue- Trends and Analysis

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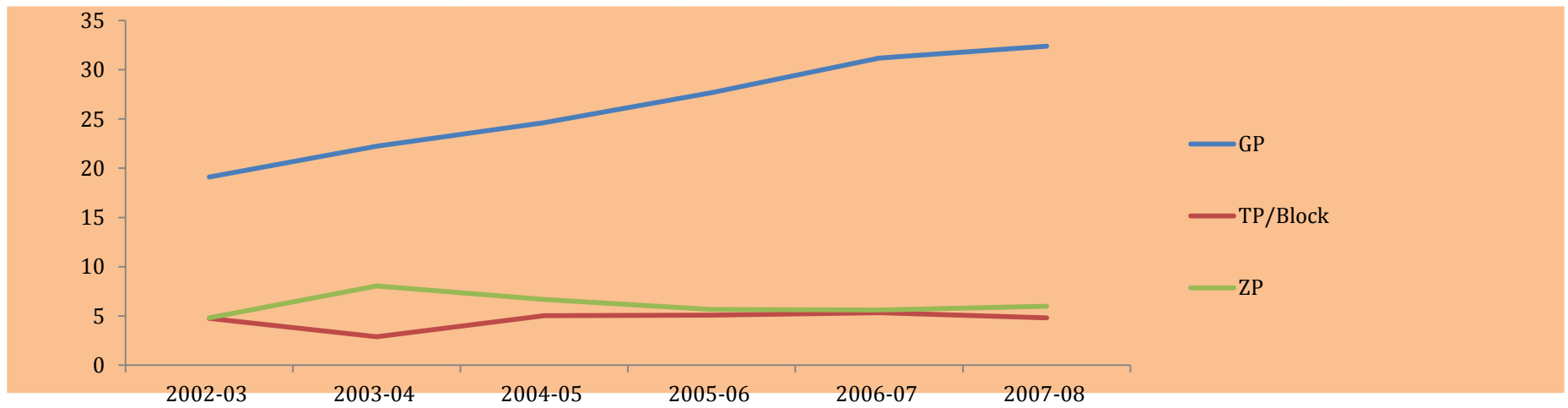
- **Data scattered, not necessarily validated and complete, definitions varied, upward reporting possible – caution needed in interpretation**
- **CFC and SFCs major sources; data on demand, collection and balance not available in public domain in most cases**
- **OSR stagnated around 0.05 % of GDP (Rajaraman 2013)**
- **Less than half per cent of total revenue generated in the country; OSR less than 5 per cent of total revenue of the PRIs**

## Own Source Revenue- Analysis of 13<sup>th</sup> FC data

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	AAGR (%)
<b>Own Source Revenue (Rs in Crore)</b>							
<b>GP</b>	<b>1209.76</b>	<b>1406.48</b>	<b>1558.01</b>	<b>1749.98</b>	<b>1972.37</b>	<b>2049.73</b>	<b>11.20</b>
<b>TP/Block</b>	<b>300.58</b>	<b>182.38</b>	<b>319.08</b>	<b>322.17</b>	<b>337.69</b>	<b>305.13</b>	<b>6.35</b>
<b>ZP</b>	<b>303.46</b>	<b>510.06</b>	<b>422.14</b>	<b>358.30</b>	<b>354.35</b>	<b>379.69</b>	<b>8.35</b>
<b>Total OSR</b>	<b>1813.80</b>	<b>2098.92</b>	<b>2299.23</b>	<b>2430.45</b>	<b>2664.41</b>	<b>2734.55</b>	<b>8.65</b>

# Own Source Revenue- Percapita

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
<b>Per capita Own Source Revenue (Rs)</b>						
<b>GP</b>	<b>19.12</b>	<b>22.23</b>	<b>24.63</b>	<b>27.66</b>	<b>31.18</b>	<b>32.40</b>
<b>TP/Block</b>	<b>4.75</b>	<b>2.88</b>	<b>5.04</b>	<b>5.09</b>	<b>5.34</b>	<b>4.82</b>
<b>ZP</b>	<b>4.80</b>	<b>8.06</b>	<b>6.67</b>	<b>5.66</b>	<b>5.60</b>	<b>6.00</b>
<b>Total OSR</b>	<b>28.67</b>	<b>33.18</b>	<b>36.34</b>	<b>38.42</b>	<b>42.12</b>	<b>43.22</b>



## Financial Autonomy Ratio\* 2006-07 (13<sup>th</sup> FC data)

Financial Autonomy Ratio (FAR)	No.	States
>1 and above	3	AP, Meghalaya and Uttarakhand
0.4-0.99	2	Haryana, MH
0.1-0.39	7	Goa, Kerala, Odisha, Punjab, TN, Assam, Karnataka
< 0.1	8	HP, Chhatisgarh, MP, WB, Rajasthan, UP, Gujarat, Tripura

FAR is defined as GP Own Revenue/GP Current Expenditure

\*Shikha Jha (2004) and Abhay pete (2008) adopted in their study of GPs



## **Own Source Revenue- Performance of States**

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- **Karnataka recorded highest growth rate of percapita OSR - 43% followed by TN (28%), WB (22%) and Gujarat (21%)**
- **Financial Autonomy ratio of more than 1 in AP.**
- **Karnataka and TamilNadu despite higher percapita OSR growth rate show lower FA ratio**
- **Between 2002-03 and 2007-08, Goa and MH have done well in improving FA ratios while UP and MP have performed poorly**

# **Role of MoPR (Union Government)**

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- **Studies related to PRIs- Devolution index across states, working of SFCs and DPCs**
- **Panchayat Raj ministers conference and PR secretaries conference- introduced National Capacity Building Framework**
- **Implements Panchayat Empowerment and Accountability Incentive Scheme (PEAIS) which and gives awards to best panchayats**
- **Compiles capacity building efforts of states**
- **Implements Rajiv Gandhi Panchayat Sashaktikaran Abhiyan**
- **Training and capacity building is largely confined to scheme implementation.**

# Recommendations

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- **MoPR should make available on its website:**
  - **all state PR Acts, rules in its website and update it regularly; and**
  - **compendium of taxes and non taxes of PRI ( state wise) along with rates and collection process**
- **Lay down standard definitions and terminology for easy inter state comparison**
- **Costs of services be made basis for renewal of tax and non tax of GPs: MoPR can initiate estimations of costs**

# Recommendations

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- **Initiate rethinking on the largely varying size of GPs that impact OSR collection as well as service delivery efficiencies**
- **Updating the enumeration of properties and issuing of titles could improve the OSR potential**
- **Strengthen Institutions: PT board, DAC/SFC cell, District Council (WB), Panchayat Parishad(KN)**
- **Capacity building efforts exclusively on taxation needed**

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**Thank You**