

Study of Own Source Revenues of Panchayats with a Focus on Property Tax

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Executive Summary

The 73rd Amendment resulted in creation of a three tier local government in rural areas collectively referred to as Panchayat Raj Institutions (PRIs) viz. District Panchayat, Intermediate Panchayat and Gram Panchayat. The amendment provided the legal basis for the independent functioning of local government as envisaged in Article 40 of the Constitution. Article 243G of the Constitution directs the states to devolve such powers and functions to the PRIs so as to enable them to function as local self-governments. While the 11th and 12th schedule of Constitution lists the functions that may be devolved to the PRIs by the State, the taxes that may be devolved to PRIs are not listed making it more discretionary on the part of States. The SFCs to be constituted are expected to assess the revenue requirements of local governments after taking into account their role and responsibilities and recommend sharing of states revenues with the PRIs and ULBs.

The panchayat finances have been the subject of many studies. The present study aims at a stock taking exercise to map the tax laws and list the taxes and non taxes that are collected by PRIs across all states (25 states excluding 3 states exempted from 73rd Amendment) of the country. A field study to understand the property tax in detail has been attempted as a part of this study. The study also reviews the recommendations of Union and State Finance Commissions and role of Ministry of Panchayat Raj and State training institutes in the matter of local taxation.

The mapping of tax laws involved listing various taxes and non taxes collected at three tiers of PRIs, taxes collected by the state on behalf of PRIs, powers and flexibility given to the PRIs in terms of tax base, tax rates, collection and utilisation of the revenue. The analysis draws from Acts of Panchayat Raj in different states along with a review of studies done on panchayats taxation or own source revenues. Gram Panchayats are empowered with the most number of taxation powers relative to district and intermediate panchayats and property tax forms the most important source of own revenue.

In order to understand the property tax in greater detail, property tax administration, collection procedure and collection efficiency, its monitoring by the state, the inefficiencies associated with the method of levy and collection was analysed by visiting GPs (one rural and one semi urban) in the states of Maharashtra, Uttar Pradesh and West Bengal. It was found that the taxation was simple in terms of administering in West Bengal while it was more remunerative in Maharashtra by use of multiple criteria like area, type of roof, type of use the building etc.

The study analysed the secondary data on panchayat finance compiled by the 13th CFC as no reliable data of PRIs in the different states was available in public domain. The secondary data analysis involved the analysis of trends of panchayats in per capita terms and the financial independence of PRIs. From the analysis, it was found that there was a progress in

terms of own revenue generated while most gram panchayats are dependent on transfers from higher levels of government to perform its functions.

The recommendations of Union and State Finance commissions on tax reforms of local government were reviewed to understand the status of devolution of taxing powers and sharing of taxes. The Action Taken Reports on State Finance Commissions were also reviewed to understand the effectiveness of SFCs in implementation of tax reforms. It was found that SFCs face severe constraint in their ability to evaluate the financial performance of local governments for lack of reliable data on local finances and thereby provide appropriate recommendations. The other concern is the non acceptance of important SFC recommendations by respective states.

A brief overview of the coordinating and facilitating efforts of Ministry of Panchayat Raj (MoPR) to improve local taxation is done. A review of training programmes provided by States/NGOs for panchayat elected representatives and administrators relation to panchayat taxation is done. Though the Ministry is coordinating several programmes related to training and capacity building of PRIs, focus is on the efficient implementation of the development schemes or flagship programmes of Government.

The study flags the issues of the non availability of important information like the acts, rules, SFC reports and financial data in the public domain and discusses the possible role of MoPR in making it available in public domain in a systematic manner with regular updates. The study also identifies the difficulties in comparing the tax and non tax revenues of PRIs across the states because of the definition issues. The words ‘cess’, ‘rate’ and ‘tax’ are used interchangeably in the context of local government. The study highlights the need for taxation powers of PRIs to be complemented with functionaries and adequate capacity to realize the potential tax and non tax revenues.

Report

Study of Own Source Revenues of Panchayats with a Focus on Property Tax ¹

Introduction

1. **Decentralized governance is placed on a firm legal footing with constitutional mandate.** The 73rd and 74th Constitutional Amendments mandated establishment of a third level of government across the country to provide decentralized governance. These constitutional amendments resulted in creation of a three tier local government in rural areas collectively referred to as Panchayat Raj Institutions (PRIs) viz. District Panchayat or zilla panchayat, intermediate panchayat at block or taluk level and gram panchayat at the village level; and in creation of urban local governments (ULBs) or municipalities. The amendment also mandated formation of State Finance Commission (SFC) on the lines of Central Finance Commission (CFC) to facilitate sharing of resources at state level with PRIs and municipalities. Individual states followed suit by passing conformity legislations within the broad parameters of the newly inserted constitutional provisions to give effect to creation of functioning rural and urban local governments.
2. **Discretion allowed to the states to define the scope of devolution leaves decentralization deficient in many ways.** The realization of decentralized governance, however, critically hinges on the devolution of not only functions (based on principle of subsidiarity) and functionaries but also the wherewithal in terms of powers of taxation. The 11th and 12th schedule of Constitution prescribe functions² that may be devolved to the PRIs and municipalities respectively by the State. As for powers of taxation, Article 243G of the Constitution provides that ‘the states may, by law, endow the Panchayats with such powers and authority as may be necessary to enable them to function as institutions of self-government’. As the scope for devolution was left open, many state governments devolved functions and taxation powers to PRIs and municipalities at their discretion. The SFCs were expected to fill this gap by assessing the revenue requirements of local governments after taking into

¹ This Report has been prepared by Mr. B V Madhusudhan Rao, Research Adviser and Mr. Shreekanth Mahendiran, Research Associate with assistance from Ms. Shobha S Veigas, Consultant and Ms. Suma, Research Assistant under the guidance of Dr. Jyotsna Jha, Director, CBPS. The Team is grateful to Ms Farah Zahir, Senior Economist, World Bank, Ms. Elin Bergman, Junior Professional Officer, World Bank, Mr. Raghunandan, Consultant and Prof. Paul Bernd Spahn, Consultant, for their insightful comments on the initial draft which have helped the authors to add value to the report.

² ‘EU has explicitly recognized the principle of ‘subsidiarity’ in its inter governmental relations by which functions should be exercised at the lowest tier of government unless they are positively provided more efficiently at a higher level.’ (Spahn, 1995)

account their roles and responsibilities and to recommend allocation of state resources through some defined criteria which the state government may accept with or without changes.

3. **Financial autonomy, an important element of decentralized governance, is insufficient.** The funds for provision of services by the PRIs come largely through tied grants in the form of schemes and a very small portion in the form of untied grants which gives limited scope for local priorities. The other untied money for PRIs is the revenue earned through taxation which can be used for the purposes decided by the local government. The tax base of PRIs varies across the states again depending upon the devolution made by state government.
4. **Local taxes create a two way relationship between the elected and the citizens, which is the very spirit of decentralized governance.** Power of taxation could be potentially a major resource of revenue for PRIs. Apart from the revenue earnings from taxation, this establishes the accountability of PRIs to the citizens through provision of public services. Ability of panchayats to collect taxes and in turn provide certain basic public services is the very essence of local government. It is seen that there is a positive correspondence between willingness of the rural people to pay and the quality of services provided by the local government (GP). Panchayats which raise higher revenue provide better quality public services. Increased proportion of the own revenues in the public service expenditure was seen to have resulted in increased participation in Gram Sabha (GS) meetings and has impacted quantity and quality of public services (Joshi & Nagarajan, 2013).
5. **Significant inflows of funds under central schemes, while not helping local taxes, might have had a dampening effect on them.** It has been nearly two decades since the amendment to the Constitution brought about decentralized governance, with whatever deficiencies in the manner in which it has been implemented in practice. While PRIs have generally been deficient in raising own sources of revenue, there has been a significant flow of money to them through schemes such as MGNREGS, Indira Awas Yojana, Social Security Pensions, etc. While such infusion of funds has resulted in changes in employment patterns, income levels, etc. they have not made any significant impact on the local taxes collected by PRIs. On the contrary, there is a widely held view that proliferation of centrally sponsored schemes and state schemes has actually resulted in panchayats being converted into agencies of central / state government compromising their ability and motivation to collect own taxes.

6. **Field studies support the view that large inflow of scheme funds discourage local governments from raising own taxes for various reasons.** The impact of large inflow of scheme funds (grants) has been studied by P Shaheena based on data relating to Kerala's plan grants and other transfers to gram panchayats. The tests confirmed the hypothesis that untied plan grants have a dampening effect on revenue mobilization. Tax efforts relating to optional taxes can be affected by unconditional grants (Oommen, 2008). Sahasranaman (2012) argues that 'when there are plethora of schemes, political economy considerations dictate that local panchayat officials are better served by attempting to spend these funds in a timely manner in their constituencies rather than trying to raise own revenues through taxes and fees'. Surprisingly another study (Bahl, Sethi, & Wallace, 2009) in West Bengal showed that for gram panchayats, per capita grants and transfers are positively and significantly related to own source revenues per capita. The latter results suggest that own source revenues and intergovernmental transfers do not substitute for one another but rather are complementary i.e. the more grants received, the more own source revenue raised.

Objectives of the Study

7. There is a felt need for studies that provide an inter-state comparison of own source revenues of PRIs and related issues to provide sufficient evidence to suggest suitable policy options. This study is an attempt in that direction.
8. This study is undertaken with the following objectives in focus:
- a. Understand the types and number of taxes devolved to the local governments, the manner of their collection and authority deciding the rates, and so on by analyzing legal provisions, rules, administrative orders and circulars relating to local taxation across all the states;
 - b. Take stock of recommendations made in respect of reforms relating to local taxes suggested by field studies as also by the Central and State Finance Commissions;
 - c. Understand the role of Ministry of Panchayat Raj in improving the collection of local taxes;
 - d. Identify broad trends in local tax collection particularly the property tax among states;
 - e. Explore in detail the local taxation with respect to property tax in three states of Maharashtra, West Bengal and Uttar Pradesh.

- f. Understand the efforts made to build capacities of local government in tax collection through training programmes conducted by the State-run training institutions and NGO for Panchayat elected representatives; and
- g. Based on the information gathered, prepare a set of policy options or recommendations for national, state and local level to strengthen the local taxation.

Methodology

- 9. **The study is based largely on review and analysis of data and information available in secondary sources.** The study, excepting the part relating to the three states, is entirely based on secondary data available in public domain such as the government departmental websites (please see Annexure A) and those of academic and research institutions (e.g. online database of PRS Legislative Research); and reports of the studies on panchayat finances available in public domain. Libraries of Institute of Socio-Economic Change (ISEC), Bangalore, Institute of Social Sciences and Indian Institute of Public Administration (IIPA), New Delhi were also accessed to obtain reports and data.
- 10. **Three parts of the report discuss various dimensions of local taxes.** This report is divided into three parts. In Part A, a comprehensive review of local taxes across states along with review of literature and reports of CFC and SFC is given. It provides an analysis of property tax as levied in different states as also in three states of W. Bengal, Maharashtra and Uttar Pradesh based on field visits. It provides a brief overview of role of Ministry of Panchayat Raj with respect to PRIs. Part B provides an analysis of data relating to local taxes based on data collected by XIII FC. Part C sums up the study and provides some recommendations and policy options emanating from the analysis in the first two parts.

Part A

1. Local Taxes: Mapping of laws³

11. A review of legislation shows that as many as 78 types of taxes, surcharges, cesses, user charges and fees are devolved to the local governments at different levels (Table 1 below).

Table 1

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

12. **While gram panchayat, is empowered to collect maximum number of taxes, there are otherwise large variations in local taxation across the country.** It is seen that local government at gram panchayat level is empowered to levy the most number of taxes and non-taxes within its jurisdiction [See Appendix: Table A1 to A5]. Table 2 below provides details of the common taxes and non-taxes that are devolved to different levels of local government. There are minor variations with respect to levying of tax / non-tax by panchayats across states. In most states, tax on house, building and land are obligatory⁴ with the exception of Bihar, Rajasthan Himachal Pradesh, Jharkhand, Sikkim, Tripura and Arunachal Pradesh. The major variations across states are in collection of user charges such as water rate, lighting rate, sanitary rate and drainage rate.

³ From the search of websites and other sources of information, we were able to access laws, rules, etc. of all (25) states excepting three states viz. Meghalaya, Mizoram, Nagaland which have been exempted from application of 73rd Constitutional Amendment (see Article 243M (2)).

Somewhat similar exercise has been carried out in the past by M A Oommen (2004) for sixteen states; M Govind Rao et al (2011) for four states of Chattisgarh, Madhya Pradesh, Orissa and Rajasthan; and V N Alok (2013) for 16 states.

⁴ These states use the word 'shall' with respect to levy of property tax whereas in case of others the Acts use the word 'may' levy property tax making it optional. Madhya Pradesh and Chattisgarh actually list taxes under categories - 'obligatory' and 'optional'.

Table 2: Devolution of Revenue Mobilization to different levels of local government

Table 2: Devolution of Revenue Mobilization to different levels of local government		
Gram Panchayat	Intermediate Panchayat	District Panchayat
Moveable/Immovable Tax		
House Tax/Building Tax		Tax on circumstances and property
Tax on Buildings and/or Lands/Property Tax		Special tax on lands and buildings
Vehicle Tax		Tax on lands benefited by Irrigation works or Development Schemes
Animal Tax	Development Tax on Agriculture Land	
Tax on professions, trades, calling etc		
Other Taxes		
Entertainment tax/Addl. Entertainment tax	Tax on theatres or public entertainment	Special tax for community services/civic purposes/public works
Tax on Advertisements	Road cess	Pilgrim Tax/Fees
Pilgrim Tax/Fees	Public work cess	
Kolagram tax/Tax on goods sold in market, hut etc.,	Education cess	
Octroi		
Special tax for community services/civic purposes/public works		
Tax on fairs, melas and other entertainment		
Surcharge/Cess on Moveable/Immovable tax		
Surcharge on house/building tax		
Land conversion cess		
Land cess/Surcharge/Cess on Land revenue/Local rate on lands		
	Additional stamp duty	
Fees/Licenses		
Fee for registration of animals sold	Fee on permission of haats and markets	Fee for registration of animals sold
Fee for grazing cattle		Boat or Conveyance Registration fee
Fee for the use of Dharmshalas, Rent houses, slaughter		Fee for the use of Dharmshalas, Rent houses, slaughter
	Fees at fairs, agricultural shows and industrial exhibitions	
Fee for temporary occupation of village sites roads or place		
Fee on registration of vehicles		
Tolls		
User Charges		
Sanitary cess/rate/tax		Sanitation tax
Drainage rate		Drainage fee
Conservancy tax/rate		
Lighting Tax/Rate		
Water Rate/Tax		
Fee for providing sanitary facilities		

Source: Primary data compiled from PR Acts from 25 states by CBPS

13. In Table 2, there are few taxes, rates, etc. (e.g. lighting tax / rate) which overlap with another level of panchayat. This is only to show that what might be devolved to one level of panchayat might be devolved to another level of panchayat in another state; the law clearly prohibits a panchayat from levying a tax / non-tax which is already levied by another level of panchayat.

1.1 Tax Autonomy

14. **Autonomy in respect of tax bases and rates:** The principle to devolve taxation powers to local body should envisage the taxes over which the local governments should have full control in terms of determination of tax rate, assessment, collection and appropriation of the proceeds. It should depend on the suitability to meet the civic obligations, since the local governments provide many essential services. Their tax resources should be such that they ensure the smooth discharge of local functions (Report of the First State Finance Commission, Tamil Nadu).
15. **Own source revenues are important because they are the very foundation of decentralization.** Roy Bahl et al (2009) suggest that some potentially productive tax bases must be assigned to gram panchayats, along with powers to set the tax rates. Oommen (2004) also argues in favour of making the tax and non-tax revenues of local governments more productive and elastic through rationalizing the tax base, rates and more importantly tax administration along with greater autonomy and empowerment to the GPs. The share of OSR in total expenditure is the key to autonomy, participation and accountability. James Ford (undated) discussing the important conditions of successful decentralization indicates that it must link, at the margin, local financing and fiscal authority to service provision responsibilities and functions of the local government, so that local politicians can deliver on their promises and bear the costs of their decisions.
16. There are essentially three types of revenues that a PRI receives – own source revenues (tax and non tax), assigned revenues and grants-in-aid / scheme related funds. According to Article 243H of the Constitution, the Legislature of a State may, by law,
- authorize a Panchayat to levy, collect and appropriate such taxes, duties, tolls and fees in accordance with such procedure and *subject to such limits*;
 - assign to a Panchayat such taxes, duties, tolls and fees levied and collected by the State Government for such purposes and subject to such conditions and limits*; and

- c. provide for making such grants-in-aid to the Panchayats from the Consolidated Fund of the State. (emphasis added)
17. **Local governments do not enjoy any autonomy over fixing tax rates or deciding on tax bases as that power is wielded by the state government.** As can be seen while the first category of taxes, duties, etc. are levied and collected by the panchayats, the second category of taxes, duties, etc. are levied and collected by the state government *but are either entirely passed on to PRIs or shared with them*. In both the cases, the law provides the state government *to set the limits*. In most cases the states have set the exact rates for different taxes, duties, fees and rates; and in some cases, ranges (maximum-minimum) have been specified. The PRIs have no freedom in defining tax base either. If a PRI finds an opportunity of raising revenues by bringing in new types of taxes (e.g. taxing mobile towers which have mushroomed all across the country), it can do so only with the prior approval of the state government. Thus local taxation has been so designed as to completely deny the local governments any autonomy in the matter. The fact that none of the State or the Central Finance Commissions has commented on the lack of fiscal autonomy at the local government level shows that the existing framework of local taxation being determined by state government has acceptance of sort at policy level.
18. **It seems hardly likely that local governments would exercise taxation powers, if given, considering the many compulsions and limitations.** On the other hand, given the general reluctance on part of local governments to collect taxes, it is a moot point whether tax autonomy would have given them any greater financial elbow room. The fact that in some states certain taxes have to be named as obligatory taxes (meant to be compulsorily levied and collected by the panchayats) shows the maturity level of the local taxation in India. For instance, Gupta and Jena (2008) note in their study⁵ that of the seven taxes that are devolved to GPs in Rajasthan, only three are collected. Other states also follow similar trend. They also find that the not all GPs collect all the taxes and there is a wide variation across the GPs within the same state. They argue that the GPs do not collect taxes because of lack of willingness and also poor administrative capacity. They observe that the elected representatives are more willing to collect the charges for the local services provided by them like water supply, street lighting, sanitation, drainage, etc. as these services are visible and acknowledged by the citizens.

⁵ Study was conducted in four states of Madhya Pradesh, Orissa, Rajasthan and Chhattisgarh

19. **There is a need to device ways to compel local governments to raise local taxes.** Where ranges have been specified the panchayats tend to tax at lower end of the band. Therefore, it has been suggested (Sahasranaman, 2012) that each new SFC could come up with fresh recommendations on appropriate tax bands, thus ensuring that panchayats will have to calibrate their tax rates every five years. This arrangement ensures that while tax rates are set within SFC-defined bounds, panchayats have the autonomy to choose the rates in the band that best suit their situation.
20. **Tied scheme funds tend to distract local governments from raising local taxes.** It is the funds transferred under several state schemes and centrally sponsored schemes that are tied to scheme guidelines. These transfers tend to distract the panchayats from their efforts at raising their own source revenues. This happens in two ways – one, the limited human resource capacity of local bodies is diverted to implementation of schemes at the expense of raising own source revenues; and two, local bodies find it more convenient and also rewarding to pursue implementation of schemes as compared to collecting local taxes from the residents.
21. **It is seen that the taxation powers when accompanied by responsibilities can work very effectively.** The GPs in Karnataka under Jal Nirmal project have been given the responsibility of managing the water supply along with collection of water charges; they are able to collect higher water charges by managing the water supply systems efficiently.
22. **Local governments enjoy complete autonomy over tax proceeds.** Although the local governments lack autonomy in fixing tax rates and defining tax bases, they have full freedom over the proceeds of tax and non tax. Even the assigned taxes (e.g. additional stamp duty or cess on land revenue) are transferred unconditionally. The grants (Central Finance Commission and State Finance Commission) may be earmarked (such as the one provided by XII CFC for creating a database of local taxes) or completely untied. The state grants as also Finance Commission grants generally supplement local tax revenues.

1.2 Definition of tax and non tax revenues

23. **There is no common understanding or a standard defining what constitutes a tax and what is a non tax / user charge, fee, etc.** Except for property tax, there is a wide spread confusion regarding tax and non tax classification. For instance, what are referred to as water charges in one State are referred to as water tax, water cess in some other States. Same is the case with vehicle tax and

fee on registration of vehicles, lighting tax and lighting rate, and so on. The confusion in categorization of tax and non tax revenue has serious implications for understanding the finances of local governments. This affects the reporting and interpretations thereon. The data on tax and non tax revenue, for example, was different as per West Bengal Third SFC report as compared to that reported by the state's Panchayat Raj Department.

2. Taxes on Property

2.1. Analysis by Methods and Objectives

24. **Property tax is among the most important tax instruments for local governments.** Property tax is an important source of revenue for the local governments across the world. While it has high potential, it is difficult to ensure corresponding realization. According to Bird and Enid Slack (2000) any instrument that taxes land has a great potential to influence social policy and economic decisions (stimulating more efficient use of land, better environment for economic development, improving the equity of distribution of overall tax burden). They also argue that it is a way of empowering the rural populations to raise revenues to finance badly needed local public services.

BOX - 1

Roy Bahl and Jorge Mattinez-Vazquez (2008) analyzing the advantages of property tax as an important local revenue source describe it as follows:

- Property tax is potentially revenue productive and revenue income elastic because it has large and rapidly growing base (property values);
- It can be progressive to the extent that it can be so structured that burden falls on owners of land and on those who own or occupy structures with a higher value;
- Under certain circumstances, it can be quasi benefit charge in that land values will respond to the level and quality of public services provided; and
- Local governments have a comparative advantage in identifying and valuing properties because they are familiar with the local base.

On the other hand, property tax in developing countries is plagued by problems such as:

- *High administrative cost*: efficient administration involves high cost and that does not necessarily translate into higher revenue;
- *Enforcement issues*: very difficult to enforce for want of adequate penalties, leaders in community may be the members who default; and
- *Tax payer attitudes*: Increase in tax rate determined in an uncertain manner can evoke negative reactions.

The factors that positively influence the property tax are found to be:

- Administrative short cuts: because of higher administrative costs, increasingly short cuts are adopted such valuation based on area and location, self assessment, indexing between valuation periods and exempting properties that are hard to tax.
- Use of technology: satellite aided mapping, cross referencing for updating the records.
- Decentralisation: increased expenditure at local levels for public services with more fiscal decentralization can be very effective.

This has a greater role in building the institutional social capital needed for the development. Rural property taxes are more likely to be accepted compared to the central taxes imposed by higher levels of government as it aids in the local provision of services.

25. Taxes on property fall broadly under the following six categories (see Appendix - Table A1):

- a. *House /Building Tax*
- b. *Tax on Buildings and/or Lands/Property Tax*
- c. *Tax on cultivable land lying fallow*
- d. *Tax on Agricultural land for specific purpose*
- e. *Betterment tax on lands*
- f. *Tax on commercial crops*

26. In addition the following additional surcharges / cess⁶ are levied on property:
- Land Cess /Surcharge / Local Rate on Lands*
 - Land Conversion Cess*
 - Surtax on Addl. Stamp Duty / Duty on transfer of property*
27. **Property tax is, in most cases, devolved to the lowest tier of gram panchayat.** Property tax in all states, except Uttar Pradesh and Uttarakhand, is assigned to gram panchayats. Orissa and J&K do not have property tax at any level in PRIs. In states where tax is levied only on the building it is referred to as house / building tax, whereas it is referred to as tax on building and land when the appurtenant land is included in the property. In UP and Uttarakhand, property tax has two distinguishing features – a) it is levied by the District (Zilla) Panchayat and b) it is termed Circumstances and Property Tax which factors in income from not only property but other sources unrelated to property.
28. Bases for levying property tax are given Appendix Table A.7. Table 3 below provides a detailed analysis of different types of taxes on property by method and objective.

Table 3 – Analysis by method and objective

Tax	States	Method	Objective	Remarks
Tax on House / Building	AP Arunachal Pradesh Assam Goa Haryana HP Rajasthan Sikkim TN	Annual Rental Value ARV system uses multiple criteria such as the road width for the access to property, type of floor and roof, the use of property (self occupied or rented out; or residential, commercial or industrial) and so on with unit area as the base.	Tax on income generated from property	ARV requires periodic revision of schedule of rates and is a little complex to administer

⁶ A surcharge and cess are additional levies added on to a tax. They are levied as a percentage of tax. For instance, a surcharge on stamp duty would be worked out as follows. If stamp duty is, say, 10 percent of transaction value of property and surcharge is 2 percent; for a property transaction of Rs 100,000, stamp duty will be Rs 10,000 (10 percent of Rs 100,000) and surcharge will be Rs. 200 (two percent of Rs 10,000). The difference between a surcharge and cess is that in case of cess, the purpose to which the proceeds are to be applied are specified.

Tax	States	Method	Objective	Remarks
		Capital Value Method The capital value is largely based on the value of land (provided by the registration department) which is indicative of the land value rather than the investment made on developing the land or use it is put to.	Tax on wealth	Easy to administer
		Hybrid of Capital Value and ARV ARV is arrived at as a percentage of capital value (e.g. West Bengal ARV is taken as 6 percent of capital value)	Tax on income	Easy to administer
Tax on land and buildings	Bihar, Chhattisgarh Gujarat Jharkhand Karnataka Kerala Maharashtra MP Manipur Punjab Tripura WB	The land appurtenant to the buildings is also subjected to tax. The tax rate is generally lower than that of tax on the building. The calculation is based on ARV or Capital value as discussed above.	Tax on income (ARV) and wealth (capital value of land)	
Tax on (vacant) land	AP Assam Chhattisgarh Goa HP Kerala Maharashtra MP Rajasthan UP Uttarakhand	Taxing the fallow land, tax on vacant land not subjected to agricultural assessment, tax on lands developed by panchayat funds, etc	To encourage use of property and is levied in few states which demarcate village residential area from agricultural areas by a notification	
Additional stamp duty or surcharge on stamp duty	Arunachal Pradesh Chhattisgarh Gujarat Maharashtra MP AP Assam Haryana, HP Karnataka Kerala	Stamp Duty is a state government tax on registration of property transactions viz. sale, lease, gift, etc. based on the transaction value. Additional stamp duty /surcharge is an add-on duty on base stamp duty.	Fee on registering the transactions for making them legally enforceable. In the process it captures the appreciation in value and benefits from	The guidance values are set by the government and used for the purpose of registering the transactions which undergo periodic revisions.

Tax	States	Method	Objective	Remarks
	Punjab, Rajasthan TN, WB		such appreciation. ⁷	
Land revenue and cess thereon	AP Assam Chhattisgarh Gujarat HP Maharashtra MP Punjab Rajasthan TN UP Uttarakhand	Land Revenue is levied and collected by the State government. It is a flat rate based on either area or produce (commercial crops). It is shared with panchayats in some states. Land revenue cess is levied by GPs and is collected by the State along with the land revenue	Tax on income generated from use of farm land / farming	Land revenue is levied at a very low rate. In reality income earned by the way of land revenue is itself very small and states are not making effort to collect it.
Tax on Circumstances and Property	UP and Uttarakhand	The income earned from the property is estimated along with income from other sources. A maximum of 3 percent is levied as C&P tax subject to a maximum of Rs. 6000 per annum. This is levied by Zilla Parishad (District Panchayat)	Tax on income derived from property , profession business etc together	No clarity on the assessment procedure.
No property tax	Jammu and Kashmir Odisha			

2.2. Field Studies in three States

29. **Field studies in three studies were carried out to gain a better appreciation of local taxes, particularly property tax.** As a part of the study on the local taxes with special reference to the property tax, three states viz. West Bengal, Maharashtra and Uttar Pradesh were visited to understand the levying of property tax, its administration, its calculation procedure, financial and accounting systems and the related political and democratic processes involved to realize its potential. Field study involved visit to two GPs⁸ with one of them being semi urban to understand the urbanization effect as well. However, in UP

⁷ Additional stamp duty has great potential in cases of semi-urban areas which still fall under the ambit of PRIs. It can become one of the major sources of income if the non-agricultural activities pick up, along with the property value and land conversion frequency. However, Rajaraman et al (1996) point out that the tax evasion is a major problem with respect to this revenue source. In addition, the state should preferably transfer the actual duty collected by a panchayat in order to incentivize the collection instead of sharing it on the basis on population or such other criteria.

⁸ Two GPs visited were – in West Bengal - Tatla II (Nadia district) and Kemia Khamarpara (North 24 Paraganas district); in Maharashtra Pisoli and Undri both in Pune District; and in U.P Rae Bareli district and six GPs in the Rahi Block of district.

in addition to GPs, the ZP was also visited as the property tax is levied by the ZP. A brief outline of the characteristics of GP is provided in the below Table 4.

Table 4: Characteristic of Gram Panchayats

State	Maharashtra	UP	West Bengal
Average Population per GP##	1999	2536	17244
Functions devolved to PRIs			15
Functionaries at GP	One (gram sevak) and a clerk	One secretary	Five (excluding bill collector)
Property tax levied by	Gram Panchayat	Zilla Panchayat [@]	Gram Panchayat
Basis for property tax	Annual ratable value	NA	Capital value
Method	Tax demand notice	NA	Self Assessment
Payment	Annually	NA	Quarterly
Payment to bill collector	Honorarium	NA	Commission basis
Role of State	Prescribes Maximum and minimum rates	NA	1-2 percent of the annual value [*]
Revision of property tax rates	Done every four years	NA	Every 5 years after elections to PRIs
Year when last revision done	2010-11	NA	2009-10
Non tax	Electricity, public health rates are collected with Property tax	NA	Other than property tax non taxes to be levied only through GP resolutions
Incentives by state	More than 70 percent collection of property tax (one of the criteria for GP award along with sanitation achievement)	NA	GPs are awarded for OSR collections CFC grants (20%) for OSR efforts including regular reporting
Computerization of Accounts	Done [#]	NA	Done
Per capita OSR of PRIs (2006-07) ^{\$} in Rs,	98.4	5.5	16.3
Availability of DCB data in public domain	Yes (CAG reports,)	NA	Yes (CAG reports, department annual reports and SFC reports)

[@] Circumstances and Property tax or CP tax

^{*} Determined as 6 percent of the market value of the property

[#] Implementation of 12 computer applications for PRIs is underway but GP level applications are yet to be implemented fully

^{\$} VN Alok - (Alok, 2013)

a. West Bengal

30. The GPs are empowered to collect the property tax and few other non-taxes (tolls, fees, user charges etc) while the PS and ZP can only levy non tax (tolls, fees and user charges). Except for the property tax the other assigned taxes / non- taxes can be collected only after bye law is passed by the concerned panchayat⁹.

31. **GPs collected property tax on the basis of market value of the property.** Six percent of market value of property (house including the land appurtenant) is taken as Annual (Rental) Value, on which tax is levied at 1-2 percent.

⁹ It was informed by the Panchayat Raj Development Department and also observed during the field visit that not all panchayats have passed bye-laws to collect all the assigned taxes / non taxes.

Properties with annual value of Rs. 250 and less are exempt from tax. Tax at the rate of one percent is levied if the annual value is between Rs. 250 to Rs. 1000 and at the rate of 2 percent if annual value is more than Rs. 1000. To illustrate, if the value of the property is Rs. 100,000, the taxable value of property at 6 percent amounts to 6000; and 2 percent of 6000 works out to Rs. 120 which is the tax to be paid by the owner (i.e. 0.12 percent of the value of property). As for the value of property, self assessment is given by the property owner to the GP (in Form 5A). This together with field verification by GP forms the basis for calculation of property tax.

32. **The market values of the property are determined by the Block Land Revenue Office (BLRO).** Every property in the area of GP becomes part of 'assessment list' when land use change and/or constructions in the property take place. The GP as the authority for issuing building plan ensures the above. This is done at the time of recommending the change in land use to the BLRO who is the approving authority. Panchayat Development Officer (PDO) certifies additions and deletions in the assessment list every year.
33. **Assessment of property tax based on market value has many limitations.** The basis for fixing 6 percent of the market value for arriving at the annual (rental) value is not known. Further the assessment of market value is based on land value expected to be periodically estimated by stamps and registration department which does not happen. On the other hand, changes in the use and construction on the property happen more frequently but are not factored into the calculation of property tax. The use of building for self occupation or renting out has no effect on the tax to be paid. Thus, assessment based on the market value alone does not reflect the true value of the property or income earned from the property.
34. The tax collector is paid on commission basis (10 percent up to a collection of Rs. 6000, 15 percent for a collection between Rs. 6000 and Rs.8000 and 20 percent for collection of Rs. 8000 and above.) and this varies across GPs.
35. **The monitoring of the property tax collection (OSR as a whole) is prevalent.** The incentive grant also considers the regular financial reporting to the state. The monitoring is online and every GP uploads revenue (including OSR) and expenditure details (before 5th working day) every month. Officers at block level and State level supervise and verify the process.
36. **The budget is another process that provides significant importance to the OSR including property tax.** A separate budget from own fund needs to be prepared and placed before gram sabha. This also provides opportunity for the

people to understand and appreciate the utilization of OSR. There is also provision for reading the names of defaulters in the gram sabha which is generally not followed. Self assessment of GPs is another mechanism for the evaluation of OSR collection efforts, which includes an assessment of OSR collection and its utilization. Top ranking GPs' self assessment is shared with those at the bottom for verification by way of learning among the GPs. This has now changed and verification is done by an officer at the block level.

37. Property tax collection in the Tatla II GP and Kemia Khamarpara GP was Rs. 16.8 lakh and Rs. 3.54 lakh with a collection efficiency of 85 and 70 percent respectively. The collection for the Tatla II GP for 3 previous years was Rs. 13.9 lakh 15.5 lakh, 16.2 lakh with a collection efficiency of around 85 percent. The year wise collection can be seen in the GPMS website (form 26 and form 27¹⁰)
38. The accounts of the PRIs are maintained as per Budget and Accounts Rules 2003 - for ZP and PS and 2007 for GPs. The audit of the PRIs is placed under Examiner of Local Audit (ELA) of the CAG. These reports are tabled in legislature. The accounts of the PRIs have been computerized in phases. For GPs, the GPMS (Gram Panchayat Management System) software is being used and for PS and ZP, IFMS (Integrated Fund Management System) has been put in place. The accounts of the GPs, PS and ZP can be viewed online (consolidated reports).

b. Maharashtra

39. **Bases of property tax in Maharashtra are more elastic.** GPs are empowered to collect property tax. The state fixes the minimum and maximum rates that the GP could levy by the type of houses (kutchra/ pucca, open space, different types of roof and floor) and type of GPs (close to municipalities, rural and with higher population, higher tribal population). The taxes would be higher if the property is used for commercial or industrial purposes. The GPs are required to pass resolution fixing / revising the rates. The water cess / tax, electricity tax and public health tax are also levied based on the area of the property/house and purpose (residential/commercial/ industrial). The revision by state is done regularly once in 4 years. GPs can increase tax rates every year within the prescribed limit but majority of them do not do it.
40. **Property tax collection follows a predetermined and efficient process.** The rates adopted by the panchayat through resolution are made public by the GP

¹⁰ www.wbgpms.in

office. GP by applying the rates assesses the property tax in respect of all properties in the assessment list and intimates property owners to pay tax within 15 days. A notice is served for the collection of arrears which gives one month period to the property owner to pay it up. Till the month of December people come and pay the taxes at GP office and thereafter GP embarks on a collection drive to complete tax collection. The charges for sanitation and streetlight are also collected by the GP along with the tax. The tax demand often would include the charges for water, sanitation and street lighting.

41. The GPs also collect non-taxes such as parking fee, market fee, notice fee, water connection fee, etc. The taxes shared by the state government with GPs include the stamp duty, royalty and land revenue. Apart from Gram Sevak, the clerk, bill collector, driver, and other staff are directly employed by the GP. The monitoring of the tax collection is regular by the block level office though not rigorous as compared to the monitoring of implementation of the development schemes. The registers pertaining to assessment, DCB are maintained by the GPs. The resolutions of changes in the tax rates or water rates are recorded in the meeting minutes.
42. Both gram panchayats i.e. Pisoli and Undri had their assessment registers computerized. Assessment extract (Form 8) is an enclosure for availing many services from the government. The linking of the issue of certificate (residential certificate, Form 8) with the tax collection has paid off well for the GPs. The water connection is also often connected to the property tax collection (depends upon the political willingness of the GP).
43. The tax collections of the Pisoli GP for the years 2009-10, 2010-11, 2011-12 and 2012-13 was Rs. 35.9 lakh, Rs. 45.06 lakh, Rs. 52.85 lakh and 53.41 lakh accounting for 70 percent, 81 percent 87 percent and 78 percent of the demand respectively. The Undri GP close to Pune city had higher property tax demand of Rs 131.7 lakh for the year 2013-14¹¹.
44. **Parameters used for assessing property tax, while making eminent economic sense, are administratively difficult to implement.** The concept of calculating the property tax by the type of roof, floor, along with use of the property (residential, commercial etc) and closeness to city, makes it advantageous for the GP to better mobilize taxes. This is very much dependent on the effort and willingness of the GP to monitor the changes in area, type of floor/roof, the use the building is put to, etc. However, this is a cumbersome

¹¹ Gram Sevak was busy with a meeting and the data on DCB (for previous years) was not made available.

process and keeping a tab on the changes in property would mean higher administration costs. This also means that there is a possibility of not stating the proper use of property (like rented is shown as own, commercial shown as residential, marble flooring shown as cement flooring, etc.) which could result in lower tax collection. The estimation of tax demand potential is a challenging work and is often met with political resistance. There are properties which are left out of the ambit of taxation, especially in GPs which are more rural and have tribal population.

c. Uttar Pradesh

45. The Uttar Pradesh Kshetra Samiti and Zilla Parishad Act, 1961 was modified in April, 1994 in accordance with the 73rd Constitutional Amendment. The Zilla Parishad at district level, Kshetra Panchayat at block level and Gram panchayats at village level were created accordingly. The own funds of the PRIs are limited. The Zilla Parishad and the GPs are vested with the taxing powers while the Kshetra Panchayat is not given any taxing powers.
46. **In UP, property tax is combined with tax payer's income level.** Only ZP has the power to tax property which is termed as Circumstances and Property tax or C&P tax. The rate of tax should not be more than 3 percent of the taxable income with minimum and maximum limit being Rs. 630 and Rs. 6000 per annum. The tax cannot be levied if the individual's income is equal to or below Rs. 12000 per annum. There is no laid down procedure for calculating C&P tax. The assessment officer has the discretion and power to assess the property and other circumstances and fix the tax. The assessment officer / tax inspector sends a written notice of property tax to the concerned owner / tax payer. There is a provision for appeal against assessment in case the tax payer is not satisfied with the assessment. The assessment list is revised and approved by Chief Executive Officer of the Zilla Parishad every year.
47. **Field visit proved futile as officers were either not available or were not able to provide the required information.** During the field visit, District Panchayat Raj Officer (DPRO) at Zilla Parishad and Assistant Rural Development Officer (ARDO) at Rahi block were not able to provide any details of the process of levy and collecting the property tax (C&P tax). The field team was not able to view the assessment list, assessment procedure, registers and records kept for the same. Visiting 6 GPs was futile as the GP offices were found locked and the officials and elected representatives were unavailable. The officials at the ZP were not willing to discuss about the procedure of levying the CP tax, its collection, its efficacy, database and so on. The following assessment is, therefore, based on the secondary data sources.

48. The second SFC report¹² recommended that the State should set objective norms for levying CP tax, detailed directions for assessee's identification, procedure of assessment and recovery mechanism. It had suggested that the CP tax limits be revised from 3 percent to 5 percent (Rs. 6000 to Rs. 10000 per annum). It also recommended that property (CP) tax be devolved to the GPs.
49. The other own source of ZP include the taxes on professions, entertainment tax, taxes on goods sold in market or *haat*, and water rate. Only taxes on animals sold in market and license fees are collected. The GPs are empowered to collect few taxes and non taxes such as entertainment tax, water charges and fees on sale of goods in the market area. Very few GPs are collecting the same. On an average there is only one secretary for 6-8 GPs. This is also the reason quoted for taxes and non taxes being not collected at GP.
50. **There are many issues with collection of C&P tax.** No data is available in the public domain except for the CAG reports. A study by Reethika and Prajapathi (Tiwari & Prajapati, 2013) on the tax revenues of Zilla Parishads in Uttar Pradesh for the periods 1998-99 and 2010-11 indicated that C&P tax per capita had grown from Re. 0.61 to 0.95. The tax share in the total revenue decreased from 12.06 percent to 10.16 percent during the same period. The study also found that only 60 out of 75 ZPs were levying C&P tax. The study also referred to the 3rd SFC report which reiterated the need for defining the C&P tax in a clearer manner along with procedures to collect it so that the buoyant source is exploited fully.

2.3 Recommendations on property taxes by State Finance Commissions

51. A brief summary of some of the more salient recommendations of State Finance Commissions on property tax is given below.
52. **State Finance Commissions have made useful recommendations on property tax.** The state finance commissions of Odisha, Chhattisgarh, Manipur and Kerala have recommended introduction and revision of property taxes on reviewing prevailing local conditions in these states. In Odisha, the First and Second SFCs had recommended re-introduction of panchayat tax (property tax) which was not accepted by the state government. In line with earlier SFC recommendations, the Third SFC of Odisha had also recommended that PRIs should be allowed to levy property tax. In Chhattisgarh, First SFC recommended leasing out of land available with gram panchayats since it can be a good source of revenue for the gram panchayats. On similar lines, Kerala Fourth SFC

¹² Retrieved from http://www.nrcddp.org/file_upload/Status%20of%20Panchayati%20Raj,%20Uttar%20Pradesh.pdf

requested the Central government to expedite its decision on the possibility of levying taxes on its properties by local government to increase the tax base. It also proposed that 50 percent of the property tax may be levied as a cess when the ownership of a property changes. In case of change of occupier of a property, the commission proposed a registration fee of 25 percent of the property tax to be imposed.

53. **There is a case for devolving land revenue to gram panchayats according to Second SFC of Manipur.** It observed that collection of land revenue was poor. The Commission attributed the loss in land revenue to the failure of periodic revision of rates due to populist policies, rise of other sources of revenue and increase in cost of collection. Since the commission believed that land revenue as a source of revenue should belong to gram panchayats, it recommended that collection of land revenue along with the collection staff to be transferred to the gram panchayat. It also recommended that the gram panchayats may be allowed to retain the revenue collected, except for 15 percent which should be paid to Zilla Parishad to be equally shared between Zilla Parishad and Block Panchayat.
54. **As change in land use entailed provision of more public services, a case is made for empowering local governments to levy land conversion tax.** Manipur Second SFC recognized the increase in burden of local governments to provide core services and other basic amenities due to change in land use. As a result, it recommended that local governments should be empowered to levy land conversion¹³ tax as a onetime charge which may be collected on the minimum capital value of the land as may be notified by the state government and the responsibility of valuation of the land was suggested to be placed in the ambit of Sub-Deputy Collector of the area.
55. **SFCs of Chhattisgarh and Kerala have made property tax recommendation on assessment and monitoring mechanism of property tax respectively.** The Second SFC of Chhattisgarh recommended that components of property tax should be categorized into (a) tax on buildings and (b) tax on non-agricultural vacant lands to facilitate proper assessment of property tax. In addition, it also suggested that plinth area basis to be considered for assessment of buildings and capital value basis of assessment for the non-agricultural vacant lands. This recommendation is to facilitate the PRIs to properly assess and evaluate the property tax within its jurisdiction.

¹³ Land conversion is defined as change of land use from agriculture to non-agriculture purposes. The non-agriculture purpose includes both housing and commercial purposes.

56. **Property Tax Board and GIS based property tax database are two important recommendations made by SFCs.** In terms of monitoring mechanisms of property tax, Kerala Fourth SFC recommended establishment of a Property Tax Board on the lines of West Bengal Valuation Board for the purpose of providing overall policy guidance and supervision of local government zoning and classification process. The Property Tax Board, thus created, shall also assist in the revision of property tax rates every five-year time period. Further, the commission recommended creation of a Geographic Information System (GIS) based property tax database to capture and maintain additional information about properties, their change in usage, construction etc to facilitate assessment of properties and increase of property tax revenue. This recommendation was based on the success of the Kolkata Municipal Corporation which managed to increase its property tax by 30 percent (year-on-year) as a result of introducing a GIS based property tax database.

2.4. Summing up on property tax

57. **Studies on local taxes mostly relate to either property tax in urban local bodies or all taxes in rural local bodies.** Property tax is by far the most productive tax among all the taxes devolved to local governments. There is no uniformity across states as they have adopted different methods of property tax calculation. While Rao (2013) and NIUA (2010) analyze issues and practices of property taxes but with reference to urban local bodies. Most studies of panchayat finances relate to the entire range of taxes and non taxes and do not focus on property tax alone. In the absence of hard evidence, it is not possible to make any comment on the effectiveness of different methods of calculating property tax. Moreover, efficient property tax collection presupposes at the minimum a) political will on part of elected representatives to fix reasonable rates and ensure collection; and b) systems in terms of property records and their regular updating. Gram Panchayats have been seen to be wanting in respect of both.
58. **Good tax administration, relative size of GP and proximity to urban areas are some factors that positively impact local taxes.** The other factors that positively impact property tax collection are – good tax administration including availability of dedicated staff (bill collector), overall development of the area where panchayat is located and proximity to urban area, and so on. As can be seen from the amount of property tax collected by the two sample GPs in W Bengal and Maharashtra, there is a marked difference which is attributable to the fact that GPs in Maharashtra are not only much larger in size but also very close to Pune city.

59. **Property tax as a proportion of income of people is seen to be very low indicating its untapped potential.** Sahasranaman (2012) in his study of panchayats in Tamil Nadu identifies the gap between the tax potential and the actual tax collected by the GPs. It was seen that when revenues of the three GPs were compared with the incomes of the people of the GPs, the revenues of GPs were very low at 0.15 percent and 0.2 percent of the income of people. The study also noted that the tax compliance was 100 percent because payment of property tax was a precondition for getting water connection and electricity connection, which did not necessarily mean the collection of property tax, was optimum. It was also observed that provision of services like water, streetlights and severely undercharged by the GPs and there is good potential for improving the same.
60. **Another study in Karnataka also shows why property tax collection is so low.** Rao et al (M. Govinda Rao et al., 2011) analysed the resource base of GPs in Karnataka. They found that the property tax rates and the tax collected were abysmally low and stressed the need for a proper enumeration of properties leading to creation of database that would be essential for proper collection of property tax. They also emphasized the need for stricter enforcement of the rules and penalties for non-payment of property taxes. They suggest providing incentives such as rewarding the GPs which collect over and above 80 percent of property tax target, and disincentives for nonpayment by disqualifying the defaulters from contesting elections, getting loans in co-operatives or banks etc.

3. Other Revenue Sources

61. **Vehicle Tax¹⁴:** The vehicle tax is levied at the gram panchayat level in 12 states¹⁵. The district and intermediate panchayats are not empowered by the legislature to levy tax on vehicles. The Panchayati Raj Act of Andhra Pradesh explicitly states that this revenue source is more of regulatory mechanism rather than a revenue yielding source. In Andhra Pradesh and Goa, the state provides a range within which the local government can levy tax on vehicle and collect revenue from it. In these two states, the vehicle tax levied varies by two-wheelers, four wheelers and vehicles drawn by animals. A maximum rate is provided to the local governments within which it can levy this tax in the remaining 10 states. In Jammu and Kashmir, the tax on vehicle is levied at Rs 50 per annum on all vehicles.

¹⁴ Vehicle Tax levied by local government refers to tax on non motorized vehicles such as rickshaws, carts, bullock carts, etc.

¹⁵ Andhra Pradesh, Assam, Goa, Gujarat, Jammu and Kashmir, Karnataka, Madhya Pradesh, Maharashtra, Odhisha, Rajasthan, Tripura and Uttar Pradesh

62. **Water, Lighting and Sanitation rates:** The water, lighting and sanitation rate are user charges which may be levied and collected by the panchayats for providing these services to the public. Water rate is the most common user charge which is levied and collected by panchayats in the 23 states. In 19 states, the gram panchayats are empowered to levy and collect revenue for providing and maintaining the water supply. In Jammu and Kashmir, the water rate is levied and collected by the intermediate panchayat. And in Tripura and Manipur, it is levied and collected by the district panchayats.
63. The lighting rate is levied and collected at the gram panchayat level in 19 states. In Bihar, Jharkhand, Punjab, Uttar Pradesh and West Bengal the intermediate panchayats can levy and collect revenue from lighting rate. And in some states it is levied and collected by the district panchayat.
64. The sanitation rate is levied and collected by panchayats in only 6 states out of the 23 states. Himachal Pradesh, Haryana, Manipur, Sikkim and Tripura are the states where the gram panchayats may levy and collect revenue for providing sanitation services to the public. In Jharkhand, the intermediate panchayat levies a sanitary management fee and collects revenue. In Manipur, Sikkim and Tripura, the district panchayats are empowered by the legislature to levy and collect revenue for providing sanitation services to the public. In 12¹⁶ states, there is a variation of sanitation rate which is levied and collected by the gram panchayats. This variant of sanitation rate is termed as conservancy rate. The conservancy rate is a fee which is levied by the gram panchayat in cases where the cleaning of private latrines and urinals is made by the gram panchayat. It should be noted that gram panchayats in Haryana and Himachal Pradesh levy a service fee for the cleaning of streets.
65. **Market fee:** The fee on market is a fee which is levied on persons who expose their goods in any market place. The fee on market is levied and collected at the gram panchayat level in 5 states viz. Goa, Gujarat, Karnataka, Sikkim and Tripura. The state determines the maximum rate within which the gram panchayats are allowed to levy a fee on market and collect revenue from it. In Karnataka, the gram panchayats can levy a maximum of 50 paise per day on persons who expose their goods over a plot measuring not more than one square meter. An additional fee of 25 paise per day is levied if the person takes an additional plot of one square meter. Further, the fee also varies by the basket and cart of any commodity that is exposed in any market. The gram panchayats in Karnataka are allowed to charge a fee of 25 paise per day for every basket or

¹⁶ Andhra Pradesh, Arunachal Pradesh, Assam, Bihar, Gujarat, Kerala, Madhya Pradesh, Manipur, Odhisha, Punjab, Uttar Pradesh and West Bengal.

bag of any commodity. And Rs 5 per month can be charged by gram panchayats on every cart load bag of any commodity.

66. **Apart from vehicle tax, water rate, lighting rate, sanitation rate and market fee, there are other revenue sources which are available to the panchayats.** These revenue sources include pilgrim tax, animal tax, fee on cattle pounds, fee for grazing cattle, fee for the cost of maintaining any livestock that is seized, fee on application for creation or recreation of building, octroi etc. The State government determines the rates at which the panchayats can levy its taxes and non-taxes.
67. **Apart from there being no standard definition of taxes, fees, rates, etc., effort of levying the available taxes, rates, etc. is also very poor.** In conclusion, there is no uniformity in categorization of revenue sources into taxes, fees and other charges in panchayats across States. It is found that some states fail to recognize the tax potential of fees, licences and not levy them at all. Rao and Rao (M Govinda Rao & Rao, 2008) point out that about 44 percent of the panchayats did not collect any user charges for supplying water to households. And, less than Rs 10 were levied as water charges by 99 percent of the panchayats in 2000-01. These revenue sources if raised by the Panchayats to its full potential will add to its revenue base.

4. Review of CFC and SFC observations:

68. **Central Finance Commissions have recommended measures to streamline constitution of SFCs and to augment local taxes.** The Thirteenth Finance Commission (TFC) highlighted the need for constituting the SFCs at regular intervals and also the placing Action Taken Reports (ATR) in legislature. The TFC suggested the amendment to Article 243(I) of the constitution to include phrase ‘or earlier’ after the words ‘every fifth year’. The TFC also suggested an amendment of Article 280 (3) bb and c of the constitution¹⁷. The TFC also suggested the template for the SFC report which lays emphasis on the detailed analysis of the revenues and expenditure of PRIs and ULBs. It emphasized the need for the proper database, its maintenance and use by the SFC for suggesting suitable recommendations. The use of the template was also recommended by the twentieth anniversary report of expert committee on leveraging panchayats for efficient delivery of public goods and services. As a move to incentivize the

¹⁷ Constitution should be amended such that the words ‘on the basis of the recommendations of the Finance Commission of the State’ are changed to ‘after taking into consideration the recommendations of the Finance Commission of the State’.

PRIs and ULBs to collect their own source revenue, TFC recommended mandating of some taxes or all local taxes as obligatory in nature. It also suggested that states could provide a matching grant for OSR or deduct the deemed own revenue collection from transfer entitlements.

69. The XI and XII Finance Commissions also stressed the need for improving database of finances of PRIs and ULBs. They also focused on the need for improved services like water supply, street lighting and roads in the rural areas. The XII Finance Commission recommended the grants to PRIs for water and sanitation subject to recovery of 50 percent of the water charges by them.

4.1 Status of constitution of SFC and acceptance of their recommendations

70. Article 243(I) of the 73rd Amendment provides for the mandatory constitution of a finance commission every five years at the State level. The finance commission, thus constituted, has to make recommendations to the Governor on the following issues:

- Distribution of States' revenue between the State and the Panchayats;
- Determination of the taxes, duties, tolls and fees which may be assigned to, or appropriated by, the Panchayat;
- Grant-in-aid to the panchayats from the Consolidated Fund of the State;
- Measures needed to improve the financial position of the panchayats; and
- Any other matter referred to the Finance Commission by the Governor in the interests of sound finance of Panchayats.

71. It has been more than two decades since the introduction of 73rd and 74th Amendment to the Constitution. As setting up of SFC every five years is clearly mandated in the Constitution, it can be expected that in all States it's the Fourth SFC ought to have submitted the report and it's the Fifth SFC should have be constituted. However, it is found that very few states have actually constituted SFC every five years (Please see Table 5 below).

Table 5

States which have constituted	State Finance Commission				
	5 th	4 th	3 rd	2 nd	1 st
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, Uttarakhand and West Bengal (7)			√		
Arunachal Pradesh, Chhattisgarh, Goa, Jharkhand & Manipur (5)				√	
Jammu & Kashmir (1)					√

Source: Ministry of Panchayati Raj, Report of the Task Force on State Finance Commissions and related matters, 2013

72. The SFC reports are available for 16 States in the public domain (See Appendix Table A9). Further, the Action Taken Reports are available for only 5 States in the public domain. Appendix - Table A.10 provides a comprehensive list of recommendations relating to tax reforms of PRIs provided by the SFCs and Appendix Table A.11 status of acceptance or otherwise of SFCs' recommendations by the states.
73. The recommendations of SFC reports relate to topics ranging from property tax, sharing of state revenues, revision of other tax / fees, seignorage, mineral or resource related fee, monitoring mechanisms and to incentivizing strategies. The recommendations relating to devolution of taxes to local government are relatively few and relate to entertainment tax, re-introduction of panchayat tax, advertisement tax, permit fees for construction etc. In most cases, the recommendation on introduction of new taxes is not accompanied with the possible rates at which the taxes/fees can be levied. Only the second SFC of Manipur had recommended that the tax base for Entertainment Tax should be based on seating capacity and occupancy ratio.
74. The first SFC of Chhattisgarh has recommended that gram panchayats should be enabled to make use of their vacant lands by leasing them out so as to raise additional revenue. Besides, the 3rd SFC of Kerala has put forth the request to the Central Government to expedite its decision on whether the local government should be allowed to levy taxes on central government properties. The Kerala SFC recognizes the importance of this buoyant revenue source which would increase the revenue base of panchayats in Kerala significantly. One possibility is that the central and state governments could consider transferring some funds in lieu of the tax not levied on their properties.
75. The recommendations of the SFCs on monitoring mechanisms deal with (a) building up of proper data base and designing a clear structure of the taxes at the GP level in order to improve the tax collection efforts by PRIs and (b) determination of target rates which should form the basis of evaluating the performance of panchayats tax collection effort on a regular basis
76. **Ambiguity about the manner of dealing with SFC recommendations has results in weakening the SFC.** Rao et al (2011) point out the ambiguity that exists in the decisions reported in the ATRs of several states. The decision by the State on the 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. The ambiguity arises due to the non-availability of information about the follow-up on the government decision in cases of 'Referred to Committee or Department', 'Action yet to be taken' and

‘Not yet implemented’. The ATR does not provide information on a) whether the follow-up on these decisions are carried out and (b) the date before which a final decision will be taken on the recommendation of SFC.

77. For instance, the ATR in respect of the Third Kerala SFC, out of 25 recommendations, only one recommendation was accepted by the government and remaining 24 recommendations have been referred to Committee consisting of Secretaries of Local Self-Government Department and Finance Department for detailed examination. However, there is no mention of time by which the Committee has to revert back with its results on the matter referred.
78. Recommendations of the Task Force on SFC and related matters, 2013 appointed by MoPR may please be seen at Appendix Table A-12.

5. Ministry of Panchayati Raj - Role and Responsibilities

79. The Results Framework Document for 2012-13 of Ministry of Panchayat Raj (MoPR) lists the following as its objectives:
 - a. Empowerment - Progressive devolution of Functions, Funds and Functionaries (3Fs) upon the Panchayati Raj Institutions (PRIs)
 - b. Enhancing reservation for women in PRIs from 33% to 50%.
 - c. Implementation of Panchayats Extension to Scheduled Areas (PESA) Act, 1996.
 - d. Deepening decentralised governance in the Sixth Schedule Areas.
 - e. Enablement - Building the organisational capacity of PRIs, the professional capacity of Elected Representatives and functionaries so that they can perform their mandated roles effectively.
 - f. Institutionalizing and using integrated decentralized participatory planning through the PRIs and DPCs for convergence of plethora of schemes and pooling of diverse resources for better outcomes.
 - g. Mitigating regional backwardness through PRIs.
 - h. Accountability - Supporting Panchayats to achieve transparency and accountability in their functioning through e-enablement.
 - i. Strengthening Gram Sabhas for effective social audit to ensure transparency and accountability of PRIs.
80. The MoPR also initiates studies focusing on the issues related to PRIs. Prominent among them are Calculation of Devolution Index to assess extent of

devolution in different states. It has also initiated studies on working of State Finance Commissions and District Planning Committees.

81. The MoPR also organizes conference of state ministers of panchayat raj where the issues of SFC, devolution of taxes to PRIs, etc. are discussed. As a follow up of Panchayat Raj ministers conference in 2004, the Ministry came up with National Capacity Building Framework (NCBF) in 2006 to guide the states to undertake the training and capacity building of elected representatives so that they are able to discharge their roles effectively, ensure effective implementation of programmes and ensure inclusive participatory development. The exercise was, however, largely related to the implementation of centrally sponsored schemes and not concerned with taxation.
82. The MoPR activity focuses on the overall performance of PRIs which in turn has a bearing on the taxation by PRIs. MoPR also awards prizes to the panchayats (all 3 tiers) for their performance in various aspects including the own source revenue mobilization. It also publicizes the success stories of these panchayats under Panchayat Empowerment and Accountability Incentive Scheme (PEAIS).
83. The capacity building for local governance (CDLG) project aimed at building capacities of the elected representatives (ER) and functionaries at PRI level in the states of Bihar, Chhattisgarh, Jharkhand, Madhya Pradesh, Orissa, Rajasthan and Uttar Pradesh focused on better delivery of the rural development schemes. Functioning of gram sabha, sensitization of GP members on gender issues were the focus of these training programs.
84. The MoPR compiled the capacity building and training (CB &T) efforts of states in the status report during the year 2011. This was to assess the CB&T efforts undertaken through the funds for under programmes of Backward Region Grant Fund(BRGF), Rashtriya Gram Swarj Yojana (RGSY), and Panchayat Mahila Evam Yuva Shakti Abhiyaan (PMEYSA). Trainings were focused on the role of ERs and officials under the activities of these schemes. The status report summarized the need for training of all ERs once a year for better performance. The RGSY had financial management as one of its thematic curriculum wherein the OSR and its importance were discussed.
85. As a part of building capacities of panchayat, Rajiv Gandhi Panchayat Sashaktikaran Abhiyaan (RGPSA) is implemented by MoPR from the year 2013. This has clubbed the earlier capacity building programmes RGSY, PMEYSA, PEAIS and e panchayat into one beginning from twelfth five year plan. The RGPSA, apart from focusing on the capacity building and training, is

also focused on the devolution of funds as well as taxation powers. Funding is linked to improving the accounting system, budget and audit as well as timely transfers of state and central finance commission grants to PRIs. It has also made provision of funds for providing the staffs for GP (one Panchayat development officer, one data entry operator, one panchayat sahayak for a GP of population 5000) which is one of the critical steps towards database building at GP.

Part B

6. Revenue through local taxes and fees: Trends & Analysis

86. Indira Rajaraman (2013) argues that panchayats' own revenues have at best stagnated at around 0.05 percent of GDP over last two decades. She holds that 'Panchayat Raj is challenged today not by political opposition at the level of states but by lack of data on finances and service delivery'.
87. **Despite taxation powers devolved to panchayats, it has been found that the revenue generated by panchayats to be extremely low.** In 2007-08, the panchayat revenue accounted only 0.46 percent of the total revenue¹⁸ generated in India. Further, Dr C Rangarajan observed that 'in practice, internal revenue mobilization (IRM) has been observed to play a very limited role in the finances of the Panchayats. The data on Panchayat Finances supplied to the Eleventh Finance Commission showed that the IRM constituted only 4.17 percent of the revenue of Panchayats at all levels in 23 states during 1990-91 to 1997-98. In a few states like Bihar, Rajasthan, Manipur and Sikkim, IRM by the Panchayats during the period was totally absent' (CBPS, 2012).
88. **In this section, we analyze the revenue collected through taxes and non-taxes by PRIs in India.** For this purpose, the data on panchayat finances compiled by the XIII Finance Commission is used. The section is structured in two parts: a) a discussion of problems with respect to data; and b) within the limitations imposed by data gaps we analyze the panchayat finances of PRIs.

6.1 Gaps in secondary data

89. **Non availability of data on local taxes and lack of standardized definitions pose major challenge.** Lack of credible data besides standardized terms and definitions for different taxes and non taxes (already pointed out earlier)

¹⁸ Total revenue includes centre revenue, state own revenue and panchayats own revenue. The centre and state own revenue is sourced from Indian Public Finance Statistics (2009-10) and panchayat own revenue from the data compiled by the Twelfth Finance Commission.

severely constrains any evaluation of panchayat finances¹⁹. ‘..there is no routine reporting of tax collection figures for the third tier as there is at central and state levels’ (Rajaraman, 2004.).

90. **Data on panchayat finances is available only as it is reported to and collected by the CFC and SFC.** There is no central database of panchayat finances in the country. Panchayat finances data provided by the states to both the CFC and SFC were found to be inadequate and unreliable (GOI, Report of the 12th CFC, 2004: 147). Several SFCs²⁰ have also expressed their concern over the quality of data provided by the states. Given the absence of reliable data, SFCs and CFCs have collected data on panchayat finances by devising their own formats. The data collected by several SFCs cannot be used for inter-state comparison due to lack of standardized approach to data definition by different SFCs. Further, the data from SFCs is also not available for the recent years since not all states have constituted SFC on time and in many cases the data is not available in public domain.
91. **CFC devises incentives for creation and maintenance of tax data to no avail.** The XI CFC allocated Rs 200 crore for the creation of database relating to the finances of local bodies. In addition, it also set apart Rs 98 crore per annum for the maintenance of panchayat finance data at village and intermediate level panchayats. The data thus created and updated periodically was to facilitate the monitoring of panchayat financial status by the state as also for the use of SFC and CFC. Though Eleventh Finance Commission earmarked Rs. 200 crore for the building of credible database of finances of PRIs and ULBs, only Rs. 90 crore was utilized. The formation of state level property tax board also was not adhered to by the States.
92. **Poorly designed incentives for maintaining tax database result in biased reporting.** The XI and XII CFCs designed grants to local bodies using a formula with 10 percent to 20 percent weight given to the local revenue collection effort. But this has in a way back fired as it had led to wrong reporting due to incentive mechanism which sought to reward local bodies based on reported revenue collection. Rajaraman (Rajaraman, 2013) observes that the expectation shaped by these formulae led to an upward bias in reporting of local revenue to finance commissions. Nevertheless, given the separate grants earmarked by the XI and XII CFC, one would have expected that updated and reliable data on panchayat finances would be available readily. However, in reality, there is no comprehensive system of collecting, compiling and

¹⁹ May please see Jun-ichi Okabe (Okabe, 2011) for a detailed discussion on the subject

²⁰ 1st, 2nd and 3rd SFC Assam, 1st SFC Rajasthan and 3rd SFC West Bengal

monitoring the status of PRIs finance regularly. There is also lack of information about initiatives undertaken by PRIs to create and maintain database for which funds were earmarked by 11th and 12th CFCs (M. Govinda Rao et al., 2011).

93. The data on demand, collection and balance (DCB) of panchayats is not available in public domain for any state except for West Bengal. Even in the case of West Bengal, the DCB data is available only for 2004-05, 2005-06 and 2007-08 making any meaningful analysis difficult. Therefore, the main limitation in analysis of panchayat revenues is the non-availability of reliable of panchayat finances of all states. Given this limitation, the analysis of panchayat finances should be taken with some measure of caution.

6.2 Overall analysis of panchayat revenue

93. **Analysis of total revenue of panchayats shows that it has grown considerably over time.** The total revenue of panchayats consists of (a) own source revenue²¹ and (b) other revenues which include grants, tied and untied, received from national and sub-national governments. The own source revenue are those revenue which are collected by the panchayats subjected to the legal provisions and rules fixed by the State government. The combined total revenue of all PRIs in the country was Rs 59,857crore for the year 2007-08. The consolidated revenue of PRIs has grown more than twice the total revenue of PRIs in 2002-03, which was Rs 27,888.76 crore.
94. Table 6 provides details on the revenue mobilized at each panchayat level during the five year time period. Among the three panchayats, the gram panchayats were able to increase their revenue collected by 11.20 percent on average. The taluk and district panchayat registered an annual average growth rate of 6.35 percent and 8.35 percent respectively.

²¹ Own source revenue includes tax and non tax (fees, rates and user charges) revenues of local government. This is the definition of OSR as per the XIII FC data and used in this paper.

Table 6: OSR and per capita own source revenue at different levels (2002-08)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	AAGR (%)
Own Source Revenue (Rs in Crore)							
Gram Panchayat	1209.76	1406.48	1558.01	1749.98	1972.37	2049.73	11.20
Taluk Panchayat	300.58	182.38	319.08	322.17	337.69	305.13	6.35
District Panchayat	303.46	510.06	422.14	358.30	354.35	379.69	8.35
Consolidated OSR	1813.80	2098.92	2299.23	2430.45	2664.41	2734.55	8.65
Per capita Own Source Revenue (Rs)							
Gram Panchayat	19.12	22.23	24.63	27.66	31.18	32.40	
Taluk Panchayat	4.75	2.88	5.04	5.09	5.34	4.82	
District Panchayat	4.80	8.06	6.67	5.66	5.60	6.00	
Consolidated OSR	28.67	33.18	36.34	38.42	42.12	43.22	

Source: Data compiled for XIII Finance commission

95. **Expectedly gram panchayats have the highest per capita own source revenue among PRIs.** The per capita own source revenue is used as an indicator to measure the performance of panchayats' tax collection effort. In 2002-03, the per capita own source revenue of all tiers was Rs 28.67 and it has almost doubled in 2007-08 to Rs 43.22. Among the three panchayats, the revenue generated is highest by gram panchayat and it can be seen that district panchayat performs better than taluk panchayat in generating its own revenue. The gram panchayats consistently collect almost five times the revenue generated by taluk and district panchayat.
96. For this purpose, the gram panchayat finances of 20 states are considered even though the data is available for 27 states. This is primarily due to the inconsistencies that exist in the data. For example, Jharkhand and Sikkim show zero own source revenue for the entire time period. Jammu and Kashmir and Manipur have zero current expenditure for the entire time period as well.

Table 7: State-wise Per capita OSR of all gram panchayats (Rs)

State	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	AAGR (%)
Andhra Pradesh	41.20	46.23	52.68	56.84	62.81	78.53	14
Assam	1.50	1.35	1.34	1.37	1.92	2.49	12
Chhattisgarh	11.50	11.86	12.45	13.08	13.73	14.90	5
Goa	118.30	146.07	133.07	169.70	202.63	207.06	13
Gujarat	3.78	3.74	6.80	4.70	5.82	7.78	21
Haryana	69.61	69.74	81.99	94.30	121.80	110.90	11
Himachal Pradesh	11.64	8.04	10.29	9.63	9.90	10.20	-1
Karnataka	18.92	33.25	24.14	36.06	46.29	87.91	43
Kerala	85.28	92.61	105.61	124.35	130.11	109.50	6
Madhya Pradesh	7.77	8.34	8.85	10.51	10.69	12.58	10
Maharashtra	51.25	56.75	62.03	68.31	77.09	84.80	11
Meghalaya	137.39	171.34	198.58	273.50	285.19	315.28	19
Odisha	2.91	3.05	3.10	3.15	3.23	3.33	3
Punjab	61.32	54.04	66.85	66.10	72.96	0.00	5
Rajasthan	1.48	1.55	1.64	1.53	1.81	1.74	4
Tamil Nadu	18.27	36.07	42.53	45.48	50.53	55.03	28
Tripura	0.60	0.68	0.87	0.87	1.55	1.06	17
Uttar Pradesh	0.89	1.02	0.94	0.89	0.79	0.75	-3
Uttarkhand	0.40	0.40	0.40	0.40	0.44	0.44	2
West Bengal	4.27	5.82	7.21	7.83	9.46	0.00	22

Source: Authors - Primary Data compiled for XIII Finance Commission

97. In terms of per capita OSR, Karnataka registers the highest average annual growth rate (AAGR) of 43 percent. In 2002-03, the gram panchayats in Karnataka were able to collect Rs. 18.92 per person. And in 2007-08, it was able to increase the per capita OSR to Rs 87.91. The gram panchayats in Tamil Nadu have the next highest AAGR of 28 percent in terms of revenue collected. In 2007-08, the gram panchayat in Tamil Nadu were able to collect OSR of Rs 55.03, which is more than three times the OSR it generated in 2002-03. The worst performing states are Uttar Pradesh and Himachal Pradesh which have managed to collect less amount of revenue in 2007-08 in comparison to revenue generated by these states in 2002-03. Overall, there has been progress in terms of revenue collection of gram panchayats.
98. **Fiscal Autonomy should be measured by panchayat's ability to meet its own expenditure from its own revenues.** The revenue collected of gram panchayats need to be compared with the expenditure of gram panchayats to understand their actual financial condition. The key ratio in this regard is

Financial Autonomy²² (FA) ratio which indicates extent of financial autonomy enjoyed by gram panchayats. This ratio indicates whether the gram panchayats have been able to raise enough revenues to be self-sufficient in terms of meeting their current expenditure.

99. The FA ratio should be interpreted as follows: a value of a) more than 1 means that the gram panchayats in a particular state are able to raise more revenue than their current expenditure; b) equal to 1 shows that they are just able to raise enough revenue to meet their current expenditure; and c) less than 1 implies that they are not able to raise enough revenue to meet their expenditure.
100. From the data presented in Table 6, it is evident that gram panchayats in most states are not able to raise enough revenue to meet their current expenditure. Andhra Pradesh is the only state where the gram panchayats are able to raise more revenue than their revenue expenditure. The case of Uttarkhand must be taken with a bit of caveat. Since the consistent value of 1 across the five years indicates that there exists some problem with the data. It should be noted that such inconsistencies in data hampers any meaningful analysis

²² Financial Autonomy = GP own revenue/GP Current Expenditure. Shikha Jha (Jha, 2004) and Abhay Pethe (2008) have calculated Financial Autonomy Ratio (FAR) and adopted it in their study to understand the level of financial autonomy enjoyed by gram panchayats. In both the studies, the FAR is defined as the ability of GP's own source revenue (tax and non-tax) to meet its total expenditure. However, in this report, the FAR is defined as the ability of GPs own source revenue (tax and non-tax) to meet its current expenditure. The FAR is calculated by taking a ratio of GP's own revenue to GP's current expenditure. The reason for considering current expenditure rather than total expenditure is because current expenditure cover operational costs and it is expected that these are at least met by own source revenues.

Table 8: Financial Autonomy Ratio

State	Years						Rank		Change in Rank
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2002-03	2007-08	
Andhra Pradesh	1.18	1.25	1.33	1.31	1.43	1.70	1	1	0
Assam	0.22	0.16	0.19	0.10	0.13	0.15	11	11	0
Chhattisgarh	0.17	0.14	0.12	0.10	0.08	0.07	12	15	3
Goa	0.32	0.36	0.34	0.38	0.29	0.00	9	6	-3
Gujarat	0.02	0.02	0.03	0.02	0.02	0.02	15	19	4
Haryana	0.74	0.65	0.87	0.68	0.86	0.73	3	4	1
Himachal Pradesh	0.60	0.17	0.17	0.10	0.09	0.08	3	13	10
Karnataka	0.23	0.23	0.20	0.11	0.12	0.17	7	10	3
Kerala	0.51	0.29	0.29	0.29	0.29	0.25	6	7	1
Madhya Pradesh	0.51	0.60	0.13	0.11	0.06	0.05	7	17	10
Maharashtra	0.52	0.42	0.36	0.39	0.41	0.42	7	5	-2
Meghalaya	0.83	0.84	0.83	1.09	1.19	0.78	6	3	-3
Odisha	0.19	0.21	0.31	0.28	0.24	0.22	8	8	0
Punjab	0.57	0.46	0.47	0.37	0.20	0.00	8	9	1
Rajasthan	0.09	0.09	0.04	0.04	0.05	0.07	12	14	2
Tamil Nadu	0.10	0.20	0.22	0.18	0.18	0.15	11	12	1
Tripura	0.00	0.01	0.00	0.00	0.01	0.00	13	20	7
Uttar Pradesh	0.10	0.10	0.08	0.06	0.03	0.04	13	18	5
Uttarakhand	1.00	1.00	1.00	1.00	1.00	1.00	1	2	1
West Bengal	0.10	0.07	0.07	0.08	0.06	0.00	13	16	3

Source: Data compiled by XIII Finance commission

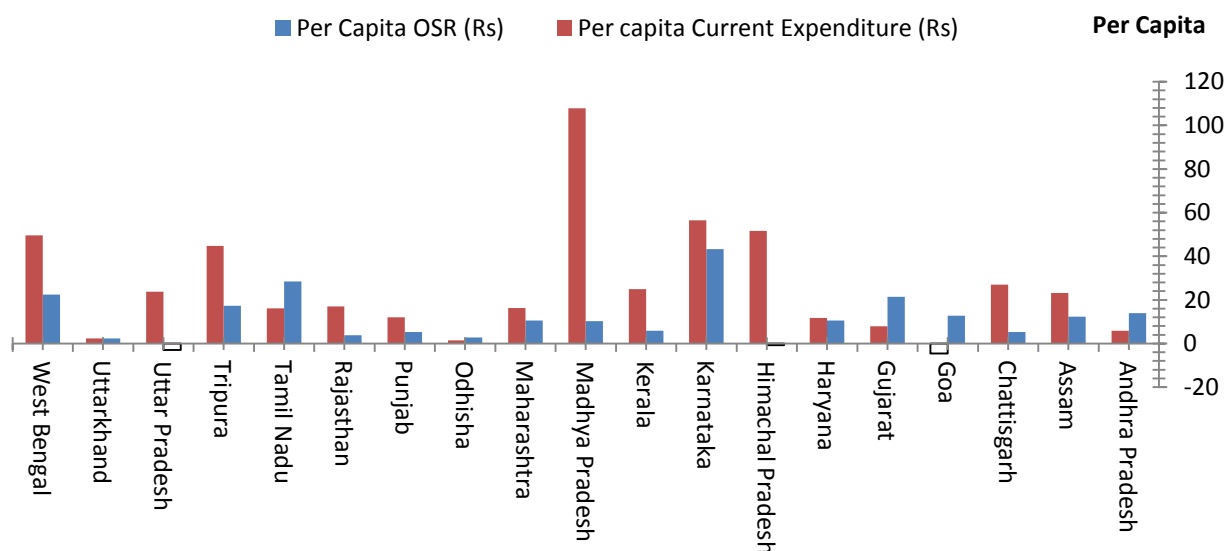


Figure 1: Average OSR and Revenue Expenditure (in per capita terms) during 2002-03 to 2007-08

101. **Karnataka and Tamil Nadu present an interesting example where increase in OSR seems to be matched with corresponding increase in expenditure.** In terms of progress, gram panchayats in most states seem to be not being able to close the gap between its OSR and current expenditure. Karnataka and Tamil Nadu despite generating higher growth rate in per capita revenue collection are not able to raise more revenue than their current expenditure. It should be noted that per capita current expenditure has also increased over the time period, almost following closely with each increase in per capita own revenue generated by gram panchayats. Therefore, it can be concluded that their expenses have also increased significantly making them financially dependent on transfers from higher levels.
102. **The inter-temporal comparison of ranks based on FA ratio indicates the progress made by gram panchayats towards financial autonomy.** This is interpreted by the movement in ranks of states between 2002-03 and 2007-08. Goa and Maharashtra are two states which have managed to improve their financial position. GPs in Maharashtra especially have managed to reduce their gap between own revenue and revenue expenditure in 2007-08 in comparison to its FA ratio in 2006-07. The poor performing states include Himachal Pradesh, Madhya Pradesh and Uttar Pradesh. These states have gone down in their rank with respect to FA ratio. In case of Himachal Pradesh and Uttar Pradesh, there is a fall in revenue collected (per capita terms) in 2007-08 when compared to the per capita revenue generated in 2002-03. This implies that the gram panchayats in these states are not able to meet their own past performance in terms of revenue collection. In the case of Madhya Pradesh, the per capita revenue collected has actually increased from Rs 7.77 in 2002-03 to Rs 12.58 in 2007-08. However, the per capita revenue expenditure has also increased more than one hundred times to Rs 230.69 (Refer Appendix Table A.8).
103. Per capita revenue generated has increased significantly overall as well as in most states. However, this increase in per capita revenue is not sufficient to meet the significant increase in per capita revenue expenditure. Therefore, it is evident that there is progress in terms of own revenue generated but most gram panchayats are still dependent on transfers from higher levels of government to perform its functions.

7. Capacity building of panchayats

104. GPs across Karnataka were entrusted with distribution of ration card (new with biometric application) and GPs linked it with the property tax and water charges and there was a significant improvement in the collection of current as well as the arrears of the taxes.

105. It was seen that Tatla II GP in West Bengal had insisted on production of tax receipts for the issuance of certificates and it was able to collect the taxes efficiently. Similarly in Pisoli GP in Maharashtra the collection drive was undertaken to collect tax arrears and was linked with certificates provided by GP (Form 8 which is extract of the property and its tax details).
106. Yavlishahid GP, Amaravathi district, Maharashtra took an innovative step for OSR collection. The GP with the help of few contributors (including sarpanch and members) instituted a lottery and the eligibility was to pay the house tax. With this innovative idea, the GP collected over 80 percent of the tax demand.

Part C

8. Recommendations for improving local taxation

107. MoPR is the state agency that is primarily responsible for overseeing the PRIs. As the apex nodal agency MoPR should ensure availability of Panchayati Raj Acts, up-to-date Rules and administrative orders of all states in public domain through its website. *The Ministry must consider making available all the Acts, Rules and government orders relating to PRIs on a web portal so as to facilitate state level and central level monitoring and for supporting policy options.*
108. An important issue highlighted by this study is the lack of standard definitions for taxes, rates and charges. It would be very helpful if Ministry could facilitate the process of developing a common standard definition of what these terms imply. Also it is important to bring about standard formats for financial statements so that the figures they contain are comparable across the country. *This may require constituting a committee of experts in consultation with the states to study the issue in all its dimensions and making suitable recommendations.*
109. There are gaps in information and financial data relating to panchayati raj institutions as mentioned in this report as also by the Central and State Finance Commissions and by several other studies. The Ministry, in consultation with the states, should explore the possibility of creating and maintaining a database of local finances. Karnataka Government has set up a Decentralization and Analysis Cell (DAC)²³ under the Department of Rural Development and Panchayati Raj which collects the PRIs' financial data regularly and uploads it on the department's web site. *Uploading of audited financial statements of PRIs*

²³ DAC was set up under the World Bank funded Gram Swaraj project

into a central database should be facilitated through some suitable mechanism such as DAC.

110. As a database of local taxes would take while to be available (assuming that suitable action is initiated soon), it would be worthwhile for ministry / the World Bank to commission studies related to local taxation to identify trends in collection, issues, and innovations in local taxation. The compendium of good practices on local taxation should be compiled for every state and should be widely disseminated across states.
111. As studies have pointed out, taxation and service delivery are closely linked. The relation between taxation and service delivery also indicate the need for establishing the link for the same. People would be willing to pay more if they see its utilization in improved provision of the services provided to them. *MoPR / the World Bank can similarly institute studies to estimate cost of services provided by PRIs under different circumstances (size, location, etc.). This could be used as basis for the revising of tax and non tax rates at regular intervals.*
112. An important issue in this respect is the size of gram panchayat. They typically range from as small a population size as 2000 to very large populations of fifteen to twenty thousand. Large number of gram panchayats makes monitoring them in any manner administratively difficult. In UP, for instance, which has about 52,000 GPs, there is one secretary for every 5 GPs. Also studies (CBPS, 2012; Roy et al, 2008) have suggested that population size was positively correlated to per capita own source revenues because agglomeration effect. *There is perhaps a case for reconstituting gram panchayats into a population size that is administratively and economically viable. Even if no action is taken immediately, there is a need for further examination and deliberation on this issue, which may be facilitated by the Ministry / the World Bank.*
113. The property tax depends on the non agricultural land. However, there are properties outside of the village limits in revenue plots which are not included in the assessment list. There are properties in villages wherein there are no clear titles and it is difficult to assess them for taxation. However, these problems become very real once the GP grows into an urban area. *A proper enumeration of the land along with the system of issuing titles can significantly help in this regard and GP is the right point to start with.*
114. The non taxes are not exploited effectively at the GP level while some GPs collect more types of non taxes while some collect less. However, there is no sharing of learning among GPs. Awareness about the role and working of the

SFCs with regard to devolution of taxes and transfer of resources is rather poor at the GP level. The timely transfers of the assigned taxes as well as the devolution of the taxes are not discussed at PRI level (by elected members). GPs (PRIs) do not have access to data that can inform them of financial status of comparable GPs (by area and population), their relative tax collection, efficiency, steps followed, etc.²⁴ In Karnataka, there used to be Panchayat Parishad where the panchayat members (PRIs) would debate with the state level elected representatives and officials regarding the allocations before budget every year and seek changes. This is now discontinued and there is no mechanism for interaction of PRIs with the states. Creation of formal forums for the interaction of representatives of third tier government among themselves and with the state government will help in strengthening the local taxation. *The state government should consider facilitating setting up such formal forums (such as District Council as in West Bengal and Panchayat Parishad in Karnataka) for interaction and exchange of information and good practices.*

115. The ministry has to pursue the finance commission recommendations of formation of property tax board at the state level which would delve on the issues related to local taxation on a regular basis and interact with PRIs to improve their tax collection. The property tax board should be able to look into new sources of taxation (like mobile towers, cyber cafes, public areas in GPs, vehicle stands, etc) and advise GPs on improving the taxation.
116. Local taxation guide in local language could be made available to the GPs which should be useful to elected representatives as well. This could discuss the different taxes levied, exemptions, efficient ways of collection, cross referencing with information on electricity connections, ration cards etc to update and verify the assessment lists as well as the data on the collections in the block or district.
117. There is a need for Constitutional Amendment to ensure regular constitution of SFC, timely placement of ATR in legislature, creation of a continuous state government funded SFC cell to support the SFC by maintaining database of local finances (both PRIs and ULBs) as well as following up on the recommendations of the past SFCs.
118. State wise compendium of PRI taxes and non taxes (district wise) along with the rates (maximum and minimum) and collection process. (This may be inserted as a part of conditionality under RGPSA).

²⁴ There are forums but are not effective. Federations of women members also exist.

List of web sites accessed for secondary data

Annexure -A

States	Links
Andhra Pradesh	http://www.rd.ap.gov.in/ http://www.apard.gov.in/ http://www.aponline.gov.in/apportal/departments/GosbyDepts.asp?deptId=27 http://www.aponline.gov.in/apportal/departments/GosbyDepts.asp?deptId=27 http://www.aponline.gov.in/apportal/departments/departments.asp?dep=27&org=178&category=about http://www.aponline.gov.in/Apportal/Downloads/Socio%20Economic%20Survey/Annexures%203.pdf http://www.chittoor.ap.gov.in/zpctr/revenues-of-pris.html https://www.apct.gov.in/Archives/ArcGos.aspx http://saiindia.gov.in/english/home/Our_Products/Audit_Report/Government_Wise/local_bodies/Tabled_Legislature/Andhra_Pardesh/Andhra_pardesh.html
Arunachal Pradesh	http://secap.nic.in/docs/Act/AP_PR_ACT.pdf
Assam	http://pnrdassam.nic.in/Index.htm http://pnrdassam.nic.in/CircularOrder1011.html http://pnrdassam.nic.in/NREGAGuidelines/guideline%20DRDA%20Admin.pdf http://sfcassam.nic.in/reports.html http://artassam.nic.in/Panchayat%20and%20Rural%20Development%20%20Department/The%20Assam%20Panchayat%20Act.%201994.pdf http://www.stateelectioncommissionassam.in/Panchayat/act/Panchayat%20Act%20Assam%201994%20with%20rules.pdf http://www.lawsonline.com/state-bareacts/assam/assam-panchayat-act-1994.htm http://sirdassam.in/PDF/Panchayati_Raj/Book_Publication/Strengthening_Panchayati_Raj_Institutions.pdf http://pnrdassam.nic.in/State_profile_modified.pdf http://saiindia.gov.in/english/home/Our_Products/Audit_Report/Government_Wise/local_bodies/Issued_State_Govt/Assam/Assam.html
Bihar	http://biharprd.bih.nic.in/Home.aspx# http://www.nrcddp.org/file_upload/Status%20of%20Panchayati%20Raj.%20Bihar.pdf http://finance.bih.nic.in/Budget/Economic-Survey-2013-EN.pdf http://finance.bih.nic.in/Documents/4th-FCR-June-2010.pdf http://saiindia.gov.in/english/home/Our_Products/Audit_report/Government_Wise/local_bodies/Issued_State_Govt/Bihar/2005_2006_Panch/pri_chap_1.pdf http://biharprd.bih.nic.in/StateActRules/RULE_THE_CONSTITUTION_OF_BIHAR_DISTRICT_PLANNING_COMMITTEE_AND_CONDUCT_OF_BUSINESS_RULES_2006.pdf http://saiindia.gov.in/english/home/Our_Products/Audit_Report/Government_Wise/local_bodies/Issued_State_Govt/Bihar/Bihar.html http://biharprd.bih.nic.in/Achievement/Best%20Practices/Presentation%20for%20Hon'ble%20Minister%20MoPR,GOI%20revised%20on%2029th%20reviewed%20by%20DPR.pdf
Chhattisgarh	http://finance.cg.gov.in/ http://www.lawsofindia.org/pdf/chhattisgarh/1995/1995CG5.pdf http://cgsird.gov.in/films.html
Goa	http://sirdoldgoa.gov.in/annualreport-2009-10.pdf http://rdagoa.nic.in/girda.htm http://goaprintingpress.gov.in/uploads/Panchayat%20Raj%20Act%20and%20Rules.pdf http://saiindia.gov.in/english/home/Our_Products/Audit_Report/Government_Wise/local_bodies/Issued_State_Govt/Goa/Goa.html
Gujarat	http://saiindia.gov.in/english/home/Our_Products/Audit_report/Government_Wise/local_bodies/Issued_State_Govt/Gujrat/2007_2008/chap_1.pdf

	http://saiindia.gov.in/english/home/Our_Products/Audit_Report/Government_Wise/local_bodies/Issued_State_Govt/Gujrat/Gujrat.html http://gstfc.gujarat.gov.in/showpage.aspx?contentid=1 http://panchayat.gujarat.gov.in/panchayatvibhag/english/kayado_niyamo-index.htm
Haryana	http://www.haryanarural.gov.in/ http://megcnrd.nic.in/webrelated.htm http://dolr.nic.in/dolr/actandrule.asp http://www.haryanarural.gov.in/DRDA-R-Final.pdf http://www.issin.org/PRU-English-May-2012.pdf http://finhry.gov.in/sfc.aspx http://haryanapanchayat.com/UsefulForms.aspx http://www.right2info.org/resources/publications/asset-declarations/india_punjab-panchayati-raj-act http://hbh.nic.in/Tenders/Final%20DNIT%20for%20sector-%2036A%20&%2037,%20Rohtak.pdf http://www.lawsofindia.org/state/15/Haryana.html# http://www.hirdnilokheri.com/Training%20Calendar%202013-14.pdf
Himachal Pradesh	http://hppanchayat.nic.in/pdf%20files/PRsetupHP.pdf http://hppanchayat.nic.in/ActRule.htm http://hppanchayat.nic.in/pdf%20files/PRACTRules/THE%20HIMACHAL%20PRADESH%20PANCHAYATI%20RAJ%20(ELECTION)%20RULES,%201994%20(Eng.).pdf http://saiindia.gov.in/english/home/Our_Products/Audit_Report/Government_Wise/local_bodies/Issued_State_Govt/Himachal/Himachal.html http://hipashimla.nic.in/events.htm http://hipashimla.nic.in/HD.htm
Jammu and Kashmir	http://drdk.nic.in/J&K%20Panchayati%20Raj%20Act%201989%20and%20Rules%201996.pdf http://jklegislativecouncil.nic.in/Governor/Bill%20introduced%20in%20LC/B-7.pdf http://jkhudd.gov.in/pdfs/J&K%20Panchayti%20Raj%20Amendment%20Act%202011.pdf
Jharkhand	http://www.jharkhand.gov.in/depts/Panra/THE%20JHARKHAND%20PANCHAYAT%20RAJ%20ACT.pdf http://jharkhand.gov.in/New_Depts/panra/panra_pr_act_eng.html http://www.jharkhandpanchayats.gov.in/documents/6183151/0/1345192397587_Jharkhand_Panchayat_Raj_Act_2001_English3186.pdf http://www.jharkhandpanchayats.gov.in/documents/6183151/0/1345192305733_Jharkhand_Panchayat_Raj_Act_2001_Hindi9439.pdf?version=1.0&t=1374567122862 http://saiindia.gov.in/english/home/Our_Products/Audit_Report/Government_Wise/local_bodies/Issued_State_Govt/Jharkhand/Jharkhand.html http://himachal.nic.in/finance/instfin.htm http://jharkhand.gov.in/New_Depts/panra/panra_fr.html
Karnataka	http://rdpr.kar.nic.in/ http://rdpr.kar.nic.in/circulars/panch_raj/gp_rel.htm http://www.finance.kar.nic.in/others/TSFC%20Report-English-Full.pdf
Kerala	http://rdd.kerala.gov.in/ http://sfc.kerala.gov.in/download/fileDownload.htm http://finance.kerala.gov.in/index.php?option=com_docman&task=cat_view&gid=143&limit=20&limitstart=0&order=hits&dir=DESC&Itemid=57 http://www.nrddp.org/file_upload/THE%20KERALA%20PANCHAYAT%20RAJ%20ACT%201994.pdf http://www.sanchitha.ikm.in/node/289
Madhya Pradesh	http://www.lawsofindia.org/pdf/madhya_pradesh/2009/2009MP19.pdf http://www.lawsofindia.org/pdf/madhya_pradesh/1957/1957MP18.pdf http://www.lawsofindia.org/pdf/madhya_pradesh/1995/1995MP19.pdf

	http://www.humanrightsinitiative.org/publications/rti/rti_&_panchayati_raj_institutions.mp.pdf http://www.odi.org.uk/sites/odi.org.uk/files/odi-assets/publications-opinion-files/2702.pdf http://saiindia.gov.in/english/home/Our_Products/Audit_Report/Government_Wise/local_bodies/Issued_State_Govt/MP/MP.html
Maharashtra	https://ruraldev.maharashtra.gov.in/ http://chanda.nic.in/htmldocs/elibrary-new/e%20Library/BOMBAY%20VILLAGE%20PANCHAYAT%20ACT,%201958.pdf http://www.mahasec.com/PDF/The%20Bombay%20Village%20Panchayat%20Act%201958.pdf http://bombayhighcourt.nic.in/libweb/acts/2012.22.pdf http://bombayhighcourt.nic.in/libweb/acts/1980.14.pdf http://latur.nic.in/html/elibrary_2.htm http://igrmaharashtra.gov.in/writedata/PDF/Amendment%20X%20of%2012.pdf http://agmaha.nic.in/Audit%20Reports/Pr_Aud_mum/2009-10/State_Finance_0910.pdf http://www.cbgaindia.org/files/policy_briefs/Maharashtra.pdf
Manipur	http://manipur.nic.in/msfc/atr/2actionreport.PDF http://manipur.nic.in/msfc/report/2ndReport.pdf http://manipur.nic.in/planning/DraftMSDR/Draft_SDR_pdf/Chapter%2018_Decentralisation.pdf
Meghalaya	http://books.google.co.in/books?id=vWM1LBZ-wK0C&pg=PA106&dq=panchayati+raj+in+meghalaya&hl=en&sa=X&ei=p3HCUrHnM8PsrAepvIHgAw&ved=0CC8Q6AEwAA#v=onepage&q=panchayati%20raj%20in%20meghalaya&f=false
Mizoram	http://www.lawsofindia.org/statelaw/6172/TheMizoramTaxesonLandBuildingsandAssessmentofRevenueAct2004.html http://www.lawsofindia.org/pdf/mizoram/2006/2006Mizoram7.pdf
Nagaland	http://nlsic.gov.in/chapter/sird.pdf http://www.lawsofindia.org/pdf/nagaland/1968/1968NL4.pdf http://www.lawsofindia.org/pdf/nagaland/2005/2005NL7.pdf
Odisha	http://www.odishapanchayat.gov.in http://orissa.gov.in/e-magazine/Orissareview/2012/Feb-March/engpdf/94-98.pdf http://saiindia.gov.in/english/home/Our_Products/Audit_Report/Government_Wise/local_bodies/Issued_State_Govt/Orissa/Orissa.html http://www.chittabehera.com/PanchayatiRaj/PRIA%20Manuals/Manual%205-%20Tax%20Income%20of%20Panchayats.pdf http://orissa.gov.in/panchayat/SIRD/SIRDTrainingCal1.pdf
Punjab	http://www.doitpunjab.gov.in/notifications/sept/3rd%20Punjab%20Finance%20Commission%20Report.pdf http://punjabrevenue.nic.in/panchayat_act1.htm
Rajasthan	http://www.rajsec.rajasthan.gov.in/PanchayatiRaj_English.pdf http://gramsevak.org/others/ordldc.pdf http://www.rajpanchayat.gov.in/common/toplinks/act/act.pdf http://www.rajsec.rajasthan.gov.in/PanchayatiRaj_English.pdf http://www.rajpanchayat.gov.in/common/PESARules2011.pdf http://finance.rajasthan.gov.in/fincommission.shtm
Sikkim	http://sikkimfred.gov.in/FCD/Documents/RTF.pdf http://saiindia.gov.in/english/home/Our_Products/Audit_report/Government_Wise/local_bodies/Tabled_Legislature/Sikkim/2009_10/Chap_1.pdf

	http://sikkimpanchayat.act.blogspot.in/
Tamil Nadu	http://www.tnrd.gov.in http://www.tnrd.gov.in/Pt_Raj/pt_rules.html http://www.tnrd.gov.in/pract/chapter_IX.htm http://www.tnrd.gov.in/panchayatraj_2013.html http://www.tnrd.gov.in/archi_policynotes.html http://www.tn.gov.in/ssfc/ http://www.sird.tn.nic.in/pdf/Annual%20Training%20Calendar%20-%202008-09.pdf
Tripura	http://panchayat.tripura.gov.in/eng/tp10.pdf http://www.lawsofindia.org/state/9/Tripura.html#
Uttar Pradesh	http://www.downtoearth.org.in/dte/userfiles/images/Finance_Commission.pdf http://saiindia.gov.in/english/home/Our_Products/Audit_report/Government_Wise/local_bodies/Issued_State_Govt/UP/ http://saiindia.gov.in/english/home/Our_Products/Audit_report/Government_Wise/local_bodies/Issued_State_Govt/UP/2010_11/PRI/Chap_1.pdf http://planningcommission.nic.in/plans/stateplan/upsdr/vol-2/Chap_b13.pdf http://saiindia.gov.in/english./home/Our_Products/Audit_Report/Government_Wise/state_audit/recent_reports/Uttarakhand/2013/Report_2/chap_4.pdf http://saiindia.gov.in/english/home/Our_Products/Audit_report/Government_Wise/local_bodies/Issued_State_Govt/UP/2008_2009/PRI/CH%20II%20PRI%2008-09.pdf http://saiindia.gov.in/english/home/Our_Products/Audit_report/Government_Wise/local_bodies/Issued_State_Govt/UP/2010_11/PRI/Chap_2.pdf http://www.pria.org/publication/Micro%20Planning%20and%20Panchayats.pdf http://www.sahashindia.org/Panchayat_Raj_Act_1947_english.pdf http://www.humanrightsinitiative.org/publications/rti/up_panchayati_raj.pdf http://www.nrcddp.org/file_upload/Status%20of%20Panchayati%20Raj.%20Uttar%20Pradesh.pdf http://www.manulawbooks.in/onlinebook/OnlineBook/Image/TOC/Digest/Uttar%20Pradesh%20Panchayat%20Raj%20Act%201947.pdf http://www.sahashindia.org/Panchayat_Raj_Act_1947_english.pdf http://www.lawsofindia.org/state/7/Uttar%20Pradesh.html# http://www.lawsofindia.org/state/7/Uttar%20Pradesh.html# http://esangraha.up.nic.in/ShowGOforDept.aspx?dept=080
Uttarakhand	http://uk.gov.in/pages/view/479/473-third-state-finance-commission-report http://agua.cag.gov.in/contents/listing/1/76-state-finance-report-(report-1) http://www.lawsofindia.org/state/16/Uttarakhand.html
West Bengal	http://www.siprd.org.in/upload_file/pri_rd_acts/wb_pachayat_act_1973_rules.pdf http://www.nregajalpaiguri.com/mgnrega/acts_guidelines/WB%20Panchayat%20Act.%201973.pdf http://www.wbsec.gov.in/Laws_Doc/The%20W.B.%20Panchayat%20(Const.)%20Rules.%201975.pdf http://siprd.org.in/upload_file/pri_rd_acts/WB%20The%20Panchayat%20Election%20Act.%202003.pdf http://www.wbsec.gov.in/Laws_Doc/The%20Kolkata%20Gazettee.PDF http://www.wbsec.gov.in/Laws_Doc/W.B.%20Panchayat%20Elections%20Rules,2006.pdf http://www.aheadinitiatives.in/pdf/sfc.pdf http://shodhganga.inflibnet.ac.in/bitstream/10603/2970/13/13_chapter%209.pdf http://www.wbfin.nic.in/writereaddata/EconomicReview11_Part2.pdf
Finance commission report	http://fincomindia.nic.in/writereaddata%5Chtml_en_files%5Coldcommission_html/fincom13/tfc/13fceng.pdf

2010-15	
Rural department, GoI	http://www.rural.nic.in/ http://rural.nic.in/sites/downloads/programmes-schemes/DRDA_Guidelines.pdf
	http://drd.nic.in/
Planning commission, GoI	http://planningcommission.gov.in/plans/finres/index.php?state=frbody.htm
Comptroller and Auditor General of India	http://saiindia.gov.in/english/home/Our_Products/Audit_Report/Government_Wise/local_bodies/Tabled_Legislature/Tabled_Legislature.html http://saiindia.gov.in/english/home/Our_Products/Audit_Report/Government_Wise/local_bodies/Issued_State_Govt/Issued_State_Govt.html

List of Places Visited

Annexure B

State	Maharashtra	Uttar Pradesh	West Bengal
Gram Panchayats visited	Pisoli Undri	Allawalpur, Behikore, melawa sahab, Bansi Rahiyak, Govindpur, Bhadokhar	Tatla II Kemia Khamarpara
Zilla Parishad	Pune	Rai Bareli	--
State level office	Rural Development and Panchayat Raj Department, Cell for Panchayats E panchayat	Rural Development and Panchayat Raj Department	Department of Panchayat Raj
State training institute	YASHADA, Pune	SIRD Lucknow	SIPRD, Nadia
Delhi			
Institute of Social Sciences, National Institute of Public Finance and Policy and IIPA New Delhi			

List of people consulted

West Bengal:

- State Institute of Panchayats and Rural Development, Nadia- Deputy director, training faculty (3 persons)
- Tatla II GP : Prodhan, Executive Assistant, Secretary and GP karmee
- Kemia Khamarpara GP : Prodhan, Secretary, GP Karmee
- Panchayat and Rural Development Department, Kolkatta: Deputy secretary
- Former Principal Secretary Panchayat and Rural Development Department: M.N. Roy

Maharashtra:

- Yashwant Rao Chavan Academy of Development Administration (YASHADA) Director, Deputy director,
- Pisoli GP: Gram sevak , clerk and bill collector
- Undri GP: Gram sevak and bill collector.
- Mumbai: Project director,

Uttar Pradesh

- Director and Joint Director Rural Development and Panchayat Raj Lucknow
- DPRO Rae Bareli
- 3.ARDO- Rae Bareli
- Head clerk and officer record section- Rae Bareli

Appendix Tables

Table A.1: Levy of tax on moveable/immoveable property at different levels of panchayats (V = Gram Panchayat ; I = Intermediate Panchayat and D = District Panchayat)²⁵

No	Tax/Rate/Cess	AP	ArP	Ass	Bih	Ch	Goa	Guj	Har	HP	J&K	Jhar	Kar	Ker	MP	Mah	Mani	Ori	Pun	Raj	Sik	Tri	TN	UP	UK	WB
1	House /Building Tax	V	V	V			V		V	V										V	V		V			
2	Tax on Buildings and/or Lands/Property				V	V	V	V		V		V	V	V	V	V	V		V			V				V
3	Tax on cultivable land lying fallow			V																						
4	Tax on Agricultural land for specific purpose	V																								
5	Betterment tax on lands															V ²⁶										
6	Tax on commercial crops																			V						
7	Vehicle Tax/Fees	V		V	V	V	V	V			V	V	V		V	V		V		V		V		V	V	

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AP = Andhra Pradesh ; ArP = Arunachal Pradesh ; Ass = Assam ; Bih = Bihar ; Ch = Chattisgarh ; Guj = Gujarat ; Har = Haryana ; HP = Himachal Pradesh ; J&K = Jammu and Kashmir ; Kar = Karnataka ; Ker = Kerala ; MP = Madhya Pradesh ; Mah = Maharashtra ; Mani = Manipur ; Ori = Odisha ; Pun = Punjab ; Raj = Rajasthan ; Sik = Sikkim ; Tri = Tripura ; TN = Tamil Nadu ; UP = Uttar Pradesh ; UK = Uttarkhand and WB = West Bengal

*Sources: The Andhra Pradesh Panchayat Raj Act, 1994 ; Arunachal Pradesh Panchayat Raj Act 1997 ; Assam Panchayat Act 1994 ; Panchayat Raj Act 2006 (amended upto 2011) ; Goa Panchayat Raj Act 1994 and Rules ; Gujarat Panchayat Act 1961 ; Haryana Panchayati Raj Act 1994 ; Himachal Pradesh Panchayati Raj Act 1994 ; J&K Panchayati Raj Act 1989 (amended up to 2011) ; Jharkhand Panchayati Raj Act 2001 ; Kerala Panchayati Raj (Amendment) bill 2009 ; The Madhya Pradesh Zila Yojana Samiti Adhiniyam 1995 ; Manipur Panchayati Raj Act 1994 ; Orissa Gram Panchayat Act 1964 ; Orissa Panchayati Samiti Act 1960 ; Orissa Zilla Parishad Act 1991 ; Punjab Panchayati Raj Act ; Rajasthan Panchayati Raj Act ; Sikkim Panchayat Act 1993 ; Tamil Nadu Panchayat Act 1994 (updtated till 2008) ; Tripura Panchayats Act 1993 (amended up to 1998) ; Uttarkhand Panchayat Act (amended 2005) ; Uttar Pradesh Panchayat Raj Act 1947 ; West Bengal Panchayat Act 1973

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Lands which have benefited from schemes of panchayat spent out of village fund.

Report - Study of Own Source Revenues of Panchayats

8	Animal Tax					V		V			V				V	V		V						V	V	V,I, D
9	Tax on Factory Areas/Lump sum Contribution						V	V					V													
10	Development Tax on Agriculture Land					I								I	D											
11	Tax on circumstances and property																							D	D	
12	Special tax on lands and buildings														D											
13	Tax on public institutions								D																	

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A.2: Levy of Other Taxes at different levels of panchayat (V = Gram Panchayat ; I = Intermediate Panchayat and D = District Panchayat) ²⁷																										
No	Tax/Rate/Cess	AP	ArP	Ass	Bih	Ch	Goa	Guj	Har	HP	J&K	Jhar	Kar	Ker	MP	Mah	Mani	Ori	Pun	Raj	Sik	Tri	TN	UP	UK	WB
1	Tax on professions, trades, calling etc			V,I	V,D	V	V	D ²⁸		V	V	V		V	V	V			V	I						
2	Entertainment tax/Addl. Entertainment tax					V	V	V			V		V	V	V				V			V		V	V	V
3	Pilgrim Tax/Fees						V	V			V		V			V,D				V						
4	Tax on Advertisements	V					V						V	V									V			
5	Kolagaram Tax / Tax on goods sold in market, hut etc.	V						V		V	V							V						V	V	
6	Tax on hawkers and pheriwalas										V															
7	Tax on Sale of firewood and thatch, conservancy and slaughter houses			V																						
8	Tax/Fee on gharats, rice			V							V															

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AP = Andhra Pradesh ; ArP = Arunachal Pradesh ; Ass = Assam ; Bih = Bihar ; Ch = Chattisgarh ; Guj = Gujarat ; Har = Haryana ; HP = Himachal Pradesh ; J&K = Jammu and Kashmir ; Kar = Karnataka ; Ker = Kerala ; MP = Madhya Pradesh ; Mah = Maharashtra ; Mani = Manipur ; Ori = Odisha ; Pun = Punjab ; Raj = Rajasthan ; Sik = Sikkim ; Tri = Tripura ; TN = Tamil Nadu ; UP = Uttar Pradesh ; UK = Uttarkhand and WB = West Bengal

*Sources: The Andhra Pradesh Panchayat Raj Act, 1994 ; Arunachal Pradesh Panchayat Raj Act 1997 ; Assam Panchayat Act 1994 ; Bihar Panchayat Raj Act 2006 (amended upto 2011) ; Goa Panchayat Raj Act 1994 and Rules ; Gujarat Panchayat Act 1961 ; Haryana Panchayati Raj Act 1994 ; Himachal Pradesh Panchayati Raj Act 1994 ; J&K Panchayati Raj Act 1989 (amended up to 2011) ; Jharkhand Panchayati Raj Act 2001 ; Kerala Panchayati Raj (Amendment) bill 2009 ; The Madhya Pradesh Zila Yojana Samiti Adhiniyam 1995 ; Manipur Panchayati Raj Act 1994 ; Orissa Gram Panchayat Act 1964 ; Orissa Panchayati Samiti Act 1960 ; Orissa Zilla Parishad Act 1991 ; Punjab Panchayati Raj Act ; Rajasthan Panchayati Raj Act ; Sikkim Panchayat Act 1993 ; Tamil Nadu Panchayat Act 1994 (uptdated till 2008) ; Tripura Panchayats Act 1993 (amended up to 1998) ; Uttarkhand Panchayat Act (amended 2005) ; Uttar Pradesh Panchayat Raj Act 1947 ; West Bengal Panchayat Act 1973

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The tax is levied by the Zilla Parishad and to be collected by gram panchayat.

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	husking mills, brick kilns and oil mills																									
9	Tax on fairs, melas and other entertainment			D	I,D				I			D								I,D	V,D	D				V,I,D
10	Tax on Private Hat and Private fisheries			V																						
11	Special Tax for Community services/civic purposes/Public works					V		V	V	V					V					V	V,D					
12	Tax/Addl. Tax on GP Taxes							D																		
13	Tax on Shops, Pharmacies and Repair Shops			V																						
14	Octroi					V	V								V					V						

Report - Study of Own Source Revenues of Panchayats

No	Tax/Rate/Cess	AP	ArP	Ass	Bih	Ch	Goa	Guj	Har	HP	J&K	Jhar	Kar	Ker	MP	Mah	Mani	Ori	Pun	Raj	Sik	Tri	TN	UP	UK	WB
1	Land Cess/Surcharge/Local Rate on Lands	V		I		V		V		V					V	I				I			V,I	V	V	
2	Land Conversion Cess													V												
3	Surtax on Addl. Stamp Duty/Duty on transfer of property	V		V					V	V			V	V					V	D			V			V
4	Addl Stamp Duty		V			I		I,D							I	D				D						
5	Public work cess																D									
6	Education cess							I												I						
7	Surcharge on any Tax imposed by GPs	I						I						V						I						I
8	Road Cess																D									
9	Surcharge on Market fee																			D						
10	Surcharge on seniorage, minerals other			V																						

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AP = Andhra Pradesh ; ArP = Arunachal Pradesh ; Ass = Assam ; Bih = Bihar ; Ch = Chattisgarh ; Guj = Gujarat ; Har = Haryana ; HP = Himachal Pradesh ; J&K = Jammu and Kashmir ; Kar = Karnataka ; Ker = Kerala ; MP = Madhya Pradesh ; Mah = Maharashtra ; Mani = Manipur ; Ori = Odisha ; Pun = Punjab ; Raj = Rajasthan ; Sik = Sikkim ; Tri = Tripura ; TN = Tamil Nadu ; UP = Uttar Pradesh ; UK = Uttarkhand and WB = West Bengal

***Sources:** The Andhra Pradesh Panchayat Raj Act, 1994 ; Arunachal Pradesh Panchayat Raj Act 1997 ; Assam Panchayat Act 1994 ; Bihar Panchayat Raj Act 2006 (amended upto 2011) ; Goa Panchayat Raj Act 1994 and Rules ; Gujarat Panchayat Act 1961 ; Haryana Panchayati Raj Act 1994 ; Himachal Pradesh Panchayati Raj Act 1994 ; J&K Panchayati Raj Act 1989 (amended up to 2011) ; Jharkhand Panchayati Raj Act 2001 ; Kerala Panchayati Raj (Amendment) bill 2009 ; The Madhya Pradesh Zila Yojana Samiti Adhiniyam 1995 ; Manipur Panchayati Raj Act 1994 ; Orissa Gram Panchayat Act 1964 ; Orissa Panchayati Samiti Act 1960 ; Orissa Zilla Parishad Act 1991 ; Punjab Panchayati Raj Act ; Rajasthan Panchayati Raj Act ; Sikkim Panchayat Act 1993 ; Tamil Nadu Panchayat Act 1994 (updated till 2008) ; Tripura Panchayats Act 1993 (amended up to 1998) ; Uttarkhand Panchayat Act (amended 2005) ; Uttar Pradesh Panchayat Raj Act 1947 ; West Bengal Panchayat Act 1973

	than minerals																									
	and minor minerals	Table A.4: Levy of Fee/Licences at different levels of panchayat (V = Gram Panchayat ; I = Intermediate Panchayat and D = District Panchayat) ³⁰																								

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No	Tax/Rate/Cess	AP	ArP	Ass	Bih	Ch	Goa	Guj	Har	HP	J&K	Jhar	Kar	Ker	MP	Mah	Mani	Ori	Pun	Raj	Sik	Tri	TN	UP	UK	WB
1	Adda Fee										V															
2	Fee on cattle pounds										V							V								
3	Fee on tongas					V		V			V				V											
4	Fees for the use of slaughter houses and encamping grounds										V							V						V	V	
5	Fee for registration of animals sold			V		V	V		V	V			V		V	V					V,D			V	V	
6	Fee for use of any building or structures, shops, stalls, pens or stands in the market																	V								
7	Fee for grazing cattle					V	V			V	V		V		V	V					V					V
8	Market Fee					V	V	V	V	V	V	I	V		V	V		V	I		V,D	I				
9	Fee on bus stand/ taxi stands/ auto stands/cart stand/tonga stand					V	V						V		V	V										

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10	Fee for every notice of demand issued						V																			
11	Fee for every distraint						V																			
12	Fee for the cost of maintaining any live stock seized						V																			
13	Fee for extraction of sand/laterite stones/other stone						V																			
14	Fee for putting up any projection					V		V						V	V				V							V
15	Fees for temporary occupation of village sites, roads and other similar public places	V				I		V			V			I	V				V		V,D					
16	Fee on Application for creation or re-creation of building										V															
17	Fee for use of or benefits derived from public hospitals, dispensaries, schools, sarais, markets, rest houses and																									

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	other public institutions																								
18	Fee for the use of or benefits derived from the supply, storage and preservation of water for drinking, bathing and agricultural purposes								I,D									V							
19	Fee on registration of vehicles										V,I							V,I			V,I,D				V
20	Fees at fairs, agricultural shows and industrial exhibitions								I,D		D					D									
21	Boat or Conveyance Registration fee			D							D					D					D				
22	Fee for the use of Dharmasalas, Rent houses, Slaughter houses and encamping grounds	V				V				V				V			V			V,D					
23	Licence for restaurants, hotel, sweet, meat stall			V																					
24	Licence fee on brokers,					V								V			V								

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	commission agents, weighman etc.																									
25	Fee for use of common lands	V																								
26	Fee for use or benefits derived from preservation and reclamation of soil and drainage and reclamation of swamps								I,D																	
27	Fee on registration for running trade or wholesale or retail																								V	
28	Fee on registration for motor driven pump sets and installed for irrigation and commercial purposes																								V	
29	Tolls	V	V	I,D	I,D			V				I,D					D		I			V,I,D	V			V,I,D

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Table A.5: Levy of User Charges at different levels of panchayats (V = Gram Panchayat ; I = Intermediate Panchayat and D = District Panchayat) ³¹																										
No	Tax/Rate/Cess	AP	ArP	Ass	Bih	Ch	Goa	Guj	Har	HP	J&K	Jhar	Kar	Ker	MP	Mah	Mani	Ori	Pun	Raj	Sik	Tri	TN	UP	UK	WB
1	Conservancy Rate	V	V	V	V									V			V	V	V			V		V	V	V
2	Lighting Rate	V	V	V,I,D	V,I,D	V	V	V	V	V		V,I,D		V	V	V	V,D	V	V,I			V,I,D		V,I,D	V,I,D	V,I,D
3	Water Rate	V	V	V,I,D	V,I,D	V	V	V	V,I	V		V,I,D	V	V	V	V,I,D	D	V	V,I	V,D	V, D	V,I,D		V,I,D	V,I,D	V,I,D
4	Special Water Rate			V				V								V										
5	Sanitary cess/rate/tax					V		V	V	V		V			V	V					V, D	V				V
6	Special Sanitary rate							V								V										
7	Drainage Rate	V				V	V	V		V				V	V			V			V			V	V	V
8	Garbage Disposal Tax						V			V																
9	Sanitary arrangement / management fee				V	V						I,D			V	V										
10	Fee for providing sanitary facilities							V		V							V,D		V,I			V,D				
11	Drainage fee																				D					
12	Service fee for cleaning of streets								V	V																

³¹ AP = Andhra Pradesh ; ArP = Arunachal Pradesh ; Ass = Assam ; Bih = Bihar ; Ch = Chattisgarh ; Guj = Gujarat ; Har = Haryana ; HP = Himachal Pradesh ; J&K = Jammu and Kashmir ; Kar = Karnataka ; Ker = Kerala ; MP = Madhya Pradesh ; Mah = Maharashtra ; Mani = Manipur ; Ori = Odisha ; Pun = Punjab ; Raj = Rajasthan ; Sik = Sikkim ; Tri = Tripura ; TN = Tamil Nadu ; UP = Uttar Pradesh ; UK = Uttarkhand and WB = West Bengal

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Table A.6: Number of taxes/fees/cess levied at different tiers of local government³²

States	Gram Panchayat	Intermediate Panchayat	District Panchayat
Andhra Pradesh	13	1	0
Arunachal Pradesh	5	0	0
Assam	15	5	5
Bihar	4	4	5
Chhatisgarh	15	2	0
Goa	21	0	0
Gujarat	18	3	3
Haryana	8	6	5
Himachal Pradesh	15	0	0
J&K	17	0	0
Jharkhand	6	6	6
Karnataka	12	0	0
Kerala	7	0	0
Madhya Pradesh	15	2	0
Maharashtra	15	2	5
Manipur	4	0	6
Odisha	12	0	0
Punjab	10	6	0
Rajasthan	9	5	5
Sikkim	9	0	9
Tripura	7	5	7
Tamil Nadu	4	1	0
Uttar Pradesh	9	2	3
Uttarkhand	9	2	3
West Bengal	13	5	4
Average	11	2	3

Source: Compiled from the Panchayat Acts of respective states

³² The values provide an indication of taxation powers at each tier of local government and not the actual taxes/fees/cess that is levied at the local level.

Table A.7: Property Tax Base and Rate as from Panchayati Acts and Rules

Tax/Rate/Cess	House Tax/Building Tax	Tax on Buildings and Lands/Property Tax	Tax on Land	Cess on land revenue	Additional Stamp duty / Surcharge on stamp duty
Andhra Pradesh	CV/ARV; (R)		D; (M) ³³	D	S
Arunachal Pradesh	ARV; (M)				A
Assam	ARV; (M)		D; (M) ³⁴	D	S
Bihar		ARV; (M)			
Chhattisgarh		CV; (R)	D; (R) ³⁵	D	A
Goa	ARV; (R)		D; (M) ³⁶		
Gujarat		ARV; (M)		D	A
Haryana	ARV; (M)				S
Himachal Pradesh	ARV; (M)		D; (M) ³⁷	D	S
Jammu & Kashmir					
Jharkhand		ARV; (M)			
Karnataka		ARV; (M)			S
Kerala		ARV; (R)	D; (M) ³⁸		S
Maharashtra		ARV; (R)	D; (M) ³⁹	D	A
Madhya Pradesh		CV; (R)		D	A
Manipur		ARV; (M)			
Odisha					
Punjab		ARV; (M)		D ⁴⁰	S
Rajasthan	ARV; (M)		D; (M) ⁴¹	D	S
Sikkim	ARV; (M)				
Tripura		ARV; (M)			
Tamil Nadu	ARV; (R)			D	S
Uttar Pradesh		C&P	D; (R) ⁴²	D	
Uttar khand		C&P	D; (R) ⁴³	D	
West Bengal		ARV; (M)			S

Notes:

³³ Tax on agricultural land for specific purpose and Tax on Vacant land

³⁴ Tax on cultivable land lying fallow

³⁵ Development tax on agriculture land

³⁶ Tax on land not subjected to agricultural assessment

³⁷ The tax rate is fixed at 25% of annual value of land, where annual value of land is defined as land revenue.

³⁸ Land conversion cess which is a one time charge levied on the conversion of wet land to garden land or building.

³⁹ Betterment tax on land where a property is benefited by investments through panchayat schemes

⁴⁰ Tax on all lands where a local rate is levied by Panchayat Samiti.

⁴¹ Tax on commercial crops in lieu of tax on land

⁴² The act says tax on land however it is cess on land revenue levied by the gram panchayat.

⁴³ The act says tax on land however it is cess on land revenue levied by the gram panchayat.

- * Rates determined by the State government are provided within brackets
- * CV = Capital Value; ARV = Annual Rental Value; M = Maximum Rate; R = Range - Minimum and Maximum Rate; D = Devolved to PRIs; A = Additional Stamp Duty; S = Surcharge on Stamp duty; C&P = Circumstances and Property.

Source: Compiled from PR Acts, rules and circulars of respective states

Table A.8: Details of Per capita Revenue Expenditure (Rs)

State	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	AAGR (%)
Andhra Pradesh	34.78	37.02	39.52	43.32	43.99	46.11	6
Assam	6.96	8.30	6.91	13.44	14.94	16.11	23
Chhattisgarh	69.32	83.19	99.83	124.78	162.22	227.11	27
Goa	365.98	409.69	388.87	450.16	696.07	0.00	-5
Gujarat	221.22	229.90	248.64	288.69	327.77	321.51	8
Haryana	93.54	106.92	94.10	138.94	141.78	150.99	12
Himachal Pradesh	19.52	46.40	59.21	99.96	111.25	125.07	52
Karnataka	82.39	143.13	121.94	331.50	400.29	523.16	56
Kerala	166.95	318.70	369.86	422.18	447.43	437.73	25
Madhya Pradesh	15.33	13.79	68.01	93.28	173.59	230.69	108
Maharashtra	98.61	135.18	169.96	173.37	189.86	202.77	16
Meghalaya	165.82	204.96	239.02	251.41	239.34	406.77	22
Odisha	15.51	14.48	10.10	11.15	13.53	15.23	1
Punjab	107.21	116.88	142.29	180.67	365.09	0.00	12
Rajasthan	16.90	16.98	36.76	40.17	36.84	24.68	17
Tamil Nadu	179.27	178.78	191.29	248.32	285.94	369.32	16
Tripura	130.40	100.10	236.45	244.06	261.73	524.56	45
Uttar Pradesh	9.07	10.26	11.33	14.05	27.98	20.12	24
Uttarkhand	0.40	0.40	0.40	0.40	0.44	0.44	2
West Bengal	40.67	82.65	104.50	94.16	169.47	250.97	50

Source: Data compiled by 12th Finance Commission.

Table 9. State-wise availability of SFC reports

State	1st SFC report	2nd SFC report	3rd SFC report	4th SFC report
Assam	x	x	x	x
Bihar				x
Chhattisgarh		x		
Gujarat	x	x		
Haryana		x	x	
Himachal Pradesh	x	x	x	
Karnataka			x	
Kerala	x	x	x	x
Manipur		x		
Odisha		x	x	
Punjab			x	
Rajasthan	x	x	x	
Sikkim			x	
Tamil Nadu	x	x	x	
Uttarakhand			x	
West Bengal			x	

Source: Primary Data compiled by CBPS

Table A.10 List of Recommendations from State Finance Commission:

Recommendations on Structural Issues:	
1.	Implementing activity mapping such that each tier of PRI is allotted clear-cut functions and responsibilities for those of the 29 activities listed in Schedule IX which has been devolved by the State Government to PRIs. [13 th CFC]
2.	Gram Panchayats should not be required to obtain the approval of intermediate panchayats for raising optional levies. Further, intermediate panchayat should not be required to obtain the approval of district panchayat. The provision relating to this in the law should be remove [Chhattisgarh 1 st SFC]
3.	Tax on cinematographic exhibitions should be entrusted to intermediate panchayat and all Non-cinematographic exhibitions to gram panchayats [Chhattisgarh 1 st SFC]
4.	Water charges on drinking water supply for private domestic connections be entrusted to panchayats and 50 percent of the charges thus collected be retained by the GPs. [Himachal Pradesh 3 rd SFC]
5.	GP may be entrusted the collection of Abiana charges for irrigation and 50 percent of the proceeds be allowed to be retained at their level for minor repairs in the distribution system. [Himachal Pradesh 3 rd SFC]
Recommendations on Property Tax:	
6.	Central Government to expedite its decision on levying taxes on its properties by local governments. [Kerala 4 th SFC]
7.	The State government should consider transfer of non-nistari fallow land in the villages to gram panchayats and permit them to lease out these land [Chhattisgarh 1 st SFC]
8.	Gram panchayat should be allowed to lease out its lands to raise revenue [Chhattisgarh 1 st SFC]
Recommendation on Sharing of State Taxes:	
9.	Panchayati Raj Institutions share in net proceeds of stamp duty should be 3%. Further, the share of PRIs so worked out distributed on the basis of the formula recommended by the commission for sharing of state taxes. The share of GPs, IPs and DPs would be in the ratio of 75:15:10. And further share of IPs and GPs be distributed on the basis of population and area and other considerations as recommended by the commission in its scheme of revenue sharing. [Haryana 3 rd SFC]

10. Electricity charges are to be fixed at 5 paise per unit of electricity. The charge should be levied in its respective panchayat area and transferred to the district panchayat. The amount consolidated at the district panchayat should then be distributed among GPs, IPs and ZPs in the ratio of 75:15:10. [Haryana 3 rd SFC]
11. Tax on consumption of energy be raised to 3 paise per unit for ensuring full coverage of the energy bills of street lighting and the entire proceeds should be passed on to GPs. [Himachal Pradesh 3 rd SFC]
12. Cess on liquor at the rate of Rs 2 per bottle should be transferred to the LBs instead of retaining half of the proceeds by the State government. The cess to be raised to Rs 3 per bottle if the State Government wishes to retain Rs1 per bottle. [Himachal Pradesh 3 rd SFC]
Recommendations on Introduction and Revision of Other Tax/Fees:
13. Centre Government has accepted the recommendation of Kerala 2 nd SFC to raise the ceiling on Profession Tax. Thus, the ceiling may be raised to Rs 10000 with permission to increase it by 50 percent every five years. [Kerala 4 th SFC]
14. Land Conversion Tax as a onetime charge may be imposed and collected on the minimum capital value of the land as may be notified by the State Government.[Manipur 2 nd SFC]
15. PRIs can levy taxes or fee (a) on services which are buoyant source of revenue; (b) activities like poultry, fisheries, hatcheries and other non-farming activities ; (c) on advertisements, hoardings, cable operators, micro-towers, public schools, coaching centres, technical and commercial institutions and other commercial establishments like shops, restaurants etc. [Haryana 3 rd SFC]
16. Trade licences to vary by different kinds of trades including factories, plants and machinery. [Manipur 2 nd SFC]
17. The prescribed rates of market fee should be increased to realistic level. Further, market fee may be leased out rather GP deploying its staff for its collection [Chhattisgarh 1 st SFC]
18. Fee on registration of cattle sold in market should be increased [Chhattisgarh 1 st SFC]. The recommendation is a result of fees on registration of cattle sold in market being unchanged for the last 15 years.
19. Re- introduction Panchayat tax, advertisement tax, permit fees for construction, establishment or installation of factories, workshops or work places where electricity is used, cess on conversion of agricultural land for non-agricultural uses, social development and ecology protection fees, licence fees from shops, transfer of Sairat sources and minor

minerals to the GP, Toll / user fees for using village, GP and PS roads. [Odisha 3 rd SFC]
20. Introduction of Entertainment tax where the assessment is based on seating capacity and occupancy ratio. [Manipur 2 nd SFC]
21. Advertisement Tax to be introduced in the State. The following process should be followed: (a) State Government may fix minimum rates for different types of advertisements for different locations; (b) Penalty for escaped/evaded tax should at least be 5 times the normal tax and © There should be system of authenticating advertisements by the local bodies so that unauthorized advertisement can easily be detected. [Manipur 2 nd SFC]
Recommendations on Seignior age, Mineral or Resource related fee:
22. Royalty on sand should be revived and the net proceeds transferred to gram panchayat. [Chhattisgarh 1 st SFC].
23. State government should consider sharing a small percentage of royalty receipts with gram panchayats. Such sharing can be with such gram panchayats are affected by the mines. [Chattisgarh 1 st SFC]
24. State government should consider sharing a small percentage of royalty receipts with GPs. Such sharing can be with such GPs as are affected by the mines
25. Gram Panchayats should be allowed for the commercial use of village ponds for the purpose of fisheries and use of clay for brick manufacturing when the ponds remain empty. [Gujarat 2 nd SFC]
Recommendations on monitoring mechanisms:
26. Building up of a proper database and designing a clear structure of the taxes at the GP level are prime requirements to radically improve revenue collection efforts by the PRIs, especially the GPs. The State Govt. should issue necessary guidelines to enable the PRIs for taking steps in this direction and should also provide for specialized tax collection staff to the GPs and other PRI bodies. [West Bengal 3 rd SFC]
27. Taluk Development Officer and District Development Officer should make periodic review to achieve at least 80 percent of recovery. [Gujarat 2 nd SFC]
28. A minimum target of taxation as percentage of the local body budget to be introduced. The minimum target for the local bodies is (a) (a) Nagar Panchayat: 15 percent of total budget; (b) GPs: 10 percent of total budget and © ZP/District Council: 5 percent of total budget. [Manipur 2 nd SFC]

Recommendation on Incentives and Penalties:
<p>29. Any GP which recovers at least 10 percent more than last year of its own taxes should be given a matching grant by the State Government equivalent to the incremental revenue collected over last year. This incentive may be provided in all the five years of the award period. It is also recommended that the Panchayat Sachiv or Patel of the village or any other functionary responsible for the recovery of additional revenue be given a reward. [Chhattisgarh 1st SFC]</p>
<p>30. An incentive scheme to induce better recovery of property tax should be introduced under which a gram panchayat which recovers atleast 75 percent of its property tax demand of the year is given a matching grant by the State government Government as incentive. Similarly, a gram panchayat which recovers atleast 75 percent of its arrears in a year should also be given a matching grant as incentive, under certain guidelines. [Chhattisgarh 1st SFC]</p>
<p>31. Incentive fund to be created at district level for PRIs and ULBs. 50 percent of the annual accruals in the Fund may be allotted to those LBs which meet the Criteria 1 - 10 percent higher growth in own tax and non-tax revenue; Criteria 2 - minimum recovery of 60 percent of total annual demand from own tax and non-tax revenue with 5 percent points increase each year upto 75 percent by the end of award period of the Commission. The remaining 50 percent balance in the fund should be allocated to all tiers of LBs which show higher performance over the standard norms to be fixed by the State Government. [Haryana 3rd SFC]</p>
<p>32. Every year an amount of Rs 50 crores should be set apart as Incentive grant to award GPs on the basis of its performance in fiscal responsibility and other functions. Rs 3 lakh should be given as 'incentive grant' to GP every year. [Karnataka 3rd SFC]</p>
<p>33. The responsibility for collection of house tax and other taxes levied by the Gram Panchayat may be fixed on Panchayat Secretaries, who could be paid 5 percent of collection as incentive subject to the condition that a minimum of 50 percent of the tax due (current demand + arrears) are collected.[Punjab 3rd SFC]</p>
<p>34. Gram Panchayats should be enabled by law to levy penalties on pollution industries and use the funds to undo, at least partly, the damage done by the industries. [Chhattisgarh 1st SFC]</p>

Table A11. Status of State Finance Commission Latest Recommendations on Tax			
State	Recommendation	Present Status	Source
Assam	Decisions by local governments to exempt tax/waive off tax arrears/not raise any tax should not be allowed to be implemented and should be struck down by competent authority	Accepted. Action by Panchayat & Rural Department	ATR on 3rd SFC
	Adoption of targets (PRIS: Rs 50 crores in 2008-09, Rs 55 crores in 2009-10 and Rs 60 crores in 2010-11). Should be adopted as the targets of tax and non-tax collection by PRIs during the financial years of 2008-2011	Accepted. Action by Panchayat & Rural Department	ATR on 3rd SFC
	PRIs should at least raise to cover 50 percent of the cost of each facilities offered by PRIs. The amount should be raised from the users of the facilities.	Accepted. Action by Panchayat & Rural Department	ATR on 3rd SFC
	PRIs running irrigation should organize Users Association and levy water charges to recover part of the costs.	Accepted. Action by Panchayat & Rural Department	ATR on 3rd SFC
	Government should fix the minimum floor rates of all taxes and non-taxes	Accepted. Action by Panchayat & Rural Department	ATR on 3rd SFC
	Revision of all tax and non-tax rates	Accepted. Action by GD Department	ATR on 3rd SFC
	The markets now being run by the State Agriculture Marketing Board should be transferred to the concerned PRIs/ ULBs.	Accepted. Action by Agriculture Department	ATR on 3rd SFC
	Revision of rates in case of non-tax revenues raised from ferries, fisheries and ponds	Accepted. Action by Panchayat & Rural Department	ATR on 3rd SFC
Gujarat	Gram Panchayats should be allowed for the commercial use of village ponds for the purpose of fisheries and use of clay for brick manufacturing when the ponds remain empty. These activities may yield good financial returns to the Gram Panchayats for their self-reliance. The brick manufacturing activities would help in resolving the problem of silting of the village ponds also	Not yet implemented	ATR on 2nd SFC
	The 12th Finance Commission has recommended that atleast 50 percent of the expenditure incurred on the facilities	Action yet to be taken	ATR on 2nd SFC

	provided by the Gram Panchayats should be recovered from the village community		
	As per the legal provision, assessment of houses and property taxes has to be made every four years. Punitive actions should be taken against defaulting Gram Panchayats	Action yet to be taken	ATR on 2nd SFC
	Recovery rate of taxes imposed by Gram Panchayats is very low. TDO and Ddos should make a periodic review to achieve at least 80 percent recovery. Gram Panchayats having cent per cent tax recovery should be motivated financially from Samkari Fund	Action yet to be taken	ATR on 2nd SFC
Kerala	An amount equivalent to the collection of Entertainment Tax during the last year of the tax to each eligible Gram Panchayat whenever the Goods and Services Tax is introduced and the Entertainment Tax is merged with it	Accepted by the Government in principle	ATR on 3rd SFC
	Urgent Action towards operationalizing the new property tax regime. It is also recommended a biennial inflation neutralization may be made compulsory as recommended by 2nd SFC. In case of deflation Government may do well to make suitable downward adjustment as well	Referred to a Committee consisting of Secretaries of Local Self Government Department and Finance Department for detailed examination	ATR on 3rd SFC
	Expedite framing of rules to enabling the local government to levy a surcharge not exceeding 50 percent of the property tax to meet any extra-ordinary expenses incurred by them towards any scheme or project or plan	Referred to a Committee consisting of Secretaries of Local Self Government Department and Finance Department for detailed examination	ATR on 3rd SFC
	Database of tax shall be computerized and uploaded in the public domain as a proactive disclosure of information to the tax payers. Creation of a GIS based property tax database to provide additional information about properties, their change in usage, additional construction etc will be of much help to streamline the assessment. It may be useful to note that the Kolkatta municipal corporation has created a GIS database of	Referred to a Committee consisting of Secretaries of Local Self Government Department and Finance Department for detailed examination	ATR on 3rd SFC

property tax and the assessment of tax etc. is being done with the help of a special software; there was 30 percent year on year increase in property tax as a result of enterprise wide approach of IT implementation		
Government may look into the possibility of bringing the land developed for non-agricultural purpose into the property tax domain, as the change in land use pattern in gaining unusual momentum all over the State in recent times. For this purpose, the present definition of property in section 203 (I) as 'building (including the land appurtenant there to) situated within the area of the gram panchayat' is insufficient. Property for the purpose of section 203 of Kerala Panchayati Raj Act and 233 of Kerala Municipality Act needs to be clearly redefined	Referred to a Committee consisting of Secretaries of Local Self Government Department and Finance Department for detailed examination	ATR on 3rd SFC
Government may fix only the minimum rate and the local government be given freedom to determine the rate according to the land value etc. of the particular local government	Referred to a Committee consisting of Secretaries of Local Self Government Department and Finance Department for detailed examination	ATR on 3rd SFC
Establishment of property tax board on the lines of West Bengal Central Valuation Board for overall policy guidance and supervision of local government zonation and classification process for assessment of property tax. The establishment charges of the Board shall be fixed by Government and it is to be functioned as a no-profit-no-loss basis with the service charges collected from the local government concerned. The Board shall engage sufficient personnel as and when required on contract basis. The five yearly enhancement or revision as the case may be, shall also be done with the help of the Board as is the case with new constructions	Referred to a Committee consisting of Secretaries of Local Self Government Department and Finance Department for detailed examination	ATR on 3rd SFC

When the ownership of a property which was assessed under property tax is changed, 50 percent of the property tax may be levied as a cess on transfer of property from the seller. So also when the occupier of a property is changed that shall be got registered in the gram panchayat and a registration fee equivalent to 25 percent of the property tax shall be imposed on the new occupier	Referred to a Committee consisting of Secretaries of Local Self Government Department and Finance Department for detailed examination	ATR on 3rd SFC
Government to take urgent steps to frame new Taxation and Finance Rules to enable speedy collection of revenue dues	Referred to a Committee consisting of Secretaries of Local Self Government Department and Finance Department for detailed examination	ATR on 3rd SFC
Incentivize those who pay taxes in advance by giving a 1 percent concession. It has also been recommended to discontinue the practice of exempting penal interest at the fag end of the financial year through Government orders	Referred to a Committee consisting of Secretaries of Local Self Government Department and Finance Department for detailed examination	ATR on 3rd SFC
Mapping of all professionals and institutions	Referred to a Committee consisting of Secretaries of Local Self Government Department and Finance Department for detailed examination	ATR on 3rd SFC
Introduction of computerized ticketing and a seat-based tax system to streamline collection of Entertainment Tax from cinema theatres. Simultaneously a study to classify theatres may be got done, introduced as appropriate to the location and class of the theatre	Referred to a Committee consisting of Secretaries of Local Self Government Department and Finance Department for detailed examination	ATR on 3rd SFC
Entrance fees are collected in many centers like Periyar Tiger Reserve (PTR), Periyar Lake, Pookkode Lake, Edakkal Caves etc. and certain agricultural farms. Houseboats are plying in backwaters and lake. But the provisions in the Local Authorities Entertainment Tax Act and Rules are not sufficient to bring these activities under entertainment tax. Huge fees are collected for boat rides, elephant rides etc. These entertainments also are to be brought under Entertainment Tax	Referred to a Committee consisting of Secretaries of Local Self Government Department and Finance Department for detailed examination	ATR on 3rd SFC

Act. Entertainment Act and Rules need a revisit and comprehensive updation		
Periodic revision of minimum rates of advertisement tax to take into account the advertisement in the competing advertisement media and the cost incurred by the society from the proliferation of hoardings. Considering the negative externalities of the hoardings, the commission has suggested that the rate of tax of hoardings may be increased substantially so as to have a deterrent effect upon the advertisers. Also, Government should prescribe an optimum size of a hoarding and larger size may be taxed double the rate so as to disincentives and discourage larger hoardings	Referred to a Committee consisting of Secretaries of Local Self Government Department and Finance Department for detailed examination	ATR on 3rd SFC
Immediate issue of Service Tax Rules	Referred to a Committee consisting of Secretaries of Local Self Government Department and Finance Department for detailed examination	ATR on 3rd SFC
Updation of fee structure and to rechristen the title of Rules as KPR (Regulation of Trades, Services and Industries) Rules, instead of the present archaic title of 'Licensing of Dangerous and Offensive Trades and Industries Rules'	Referred to a Committee consisting of Secretaries of Local Self Government Department and Finance Department for detailed examination	ATR on 3rd SFC
Government should enable local governments to impose fees for installation of machinery	Referred to a Committee consisting of Secretaries of Local Self Government Department and Finance Department for detailed examination	ATR on 3rd SFC
Government to expedite the issue of new Kerala Panchayat Building Rules	Referred to a Committee consisting of Secretaries of Local Self Government Department and Finance Department for detailed examination	ATR on 3rd SFC

	Plinth area-wise property tax may be implemented with effect from 1st April 2011 for revision and immediately in the case of new buildings. A cap on increase of tax may be reviewed, if it is not possible, rectification may be spread out over the next assessments	Referred to a Committee consisting of Secretaries of Local Self Government Department and Finance Department for detailed examination	ATR on 3rd SFC
	Conversion tax may be realized at the rate of 5 percent of the capital value in the case of conversion of paddy lands. If the conversion is without prior permission, ten times the rate should be realized	Referred to a Committee consisting of Secretaries of Local Self Government Department and Finance Department for detailed examination	ATR on 3rd SFC
	Gram Panchayats may be given same powers which Municipalities and Corporations have under section 376 of the Kerala Municipality Act for auctioning the right to set up temporary shops in public lands	Referred to a Committee consisting of Secretaries of Local Self Government Department and Finance Department for detailed examination	ATR on 3rd SFC
	A DCB statement of all revenue items should be prepared and discussed in meeting of local government once in a quarter. The summary should be presented in the Gram Sabhas.	Referred to a Committee consisting of Secretaries of Local Self Government Department and Finance Department for detailed examination	ATR on 3rd SFC
	Legislative provision may be introduced for indexing non-tax revenue items and taxes like property tax and advertisement tax based on Consumer Price Index for Agricultural Laborers for the State in the case of gram panchayats. For property tax five yearly revisions may be done	Referred to a Committee consisting of Secretaries of Local Self Government Department and Finance Department for detailed examination	ATR on 3rd SFC
	List of major defaulters of property tax should be published in the website of the local government concerned	Referred to a Committee consisting of Secretaries of Local Self Government Department and Finance Department for detailed examination	ATR on 3rd SFC
	Before ordering any exemption/reduction in tax which is in the domain of local governments, Government should obtain the consent of local government concerned	Referred to a Committee consisting of Secretaries of Local Self Government Department and Finance Department for detailed examination	ATR on 3rd SFC
Rajasthan	Government should ensure collection and compilation of financial data of PRIs on regular basis	Financial data are being collected and compiled regularly in the prescribed proforma by the Panchayati Raj Department	ATR on 2nd SFC

	PRIs should increase their own income by levy of taxes and fees as provided under the Rajasthan Panchayati Raj Act/Rules	PRIs have been encouraged to levy of taxes and fees as provided under the Rajasthan Panchayati Raj Act/Rules	ATR on 2nd SFC
	The Panchayati Raj Act/Rules may be amended to make recovery of certain taxes and fees obligatory for the PRIs	Action is being taken to make recovery of certain taxes for the PRIs by amending the Panchayati Raj Act/Rules	ATR on 2nd SFC
Tamil Nadu	Entertainment tax dues from 1997-2002 and from 2002-2006 should be adjusted to local bodies in 2007-08 by the Government failing which the local bodies are entitled for interest at the maximum for the period of delay	Accepted with a modification that the arrears if any will be released but without interest	ATR on 3rd SFC
	Collection charge shall be 1 percent of the tax proceeds and the balance 99 percent of Entertainment tax shall be transferred to local bodies with effect 1.4.2007	Status quo shall continue	ATR on 3rd SFC
	The shareable components of the tax collected under Entertainment tax should clearly be exhibited in the Revenue Budget by the department authorities so as to verify the deduct entry under transfer to local bodies	Separate head is not necessary. Hence, the recommendation is not accepted	ATR on 3rd SFC
	The local bodies should be consulted whenever any reduction in Entertainment Tax rate is contemplated and the loss in income should be compensated till the end of the award period of the 3rd SFC	It is the prerogative of the Government to offer concessions etc on taxes. Hence, consulting local bodies before making any reduction in Entertainment Tax rates does not arise. However, the Government has announce to compensate the loss. The recommendation is deemed to be accepted	ATR on 3rd SFC
	The Government should get the concurrence of the local bodies before effecting the reduction in rates of Surcharge on Stamp Duty as the quantum is assumed based on the present rates. If at all reduction is effected, the loss in income should be compensated based on the level of flow of transfer prior to reduction.	Not Accepted. Revision of Stamp Duty rates is in consonance with the MoU signed with Government of India on Fiscal Reforms. The local bodies may not suffer much on account of reduction in rates due to the fact that there is steady increase in the number of instruments registered and also due to upward revision of guideline values	ATR on 3rd SFC

	Uniform rate of 1 percent of the surcharge collected shall be retained by Government as collection charges.	Accepted with a modification that 3 percent of the surcharge shall be retained by the Government.	ATR on 3rd SFC
	As recommended by 2nd SFC, the rural share shall be 50 percent on population and 50 percent on collection for which Section 175 of Tamil Nadu Panchayats Act, 1994 may be amended	In view of the proposed pooling at the State level and apportioning of this assigned revenue in respect of rural local bodies, this issue will not arise. Recommendation not accepted	ATR on 3rd SFC
	Ceiling on local cess may be enhanced from Rs 1 to Rs 3 with a minimum of Rs by amending Section 167 of Tamil Nadu Panchayats Act, 1994	Recommendation not accepted. Except social forestry receipts and minor minerals, assigned revenue such as LC/LCS on land revenue, surcharge on stamp duty and entertainment tax shall be pooled at the State level and apportioned among Gram Panchayats, Panchayats Union and District Panchayats on the same lines as the SFC devolution	ATR on 3rd SFC
	Minimum local cess surcharge may be enhanced from Rs 5 to Rs 10 and further enhancement of local cess surcharge may be left to the Panchayats Unions by suitably amending section 168 of Tamil Nadu Panchayats Act, 1994	Not accepted.	ATR on 3rd SFC

Appendix A 12 - Recommendations of the Task Force on SFC and related matters, 2013

Qualifications of SFC members: SFCs should comprise of persons of eminence and competence.

Consistency in the period of coverage: As far as possible an SFC, once constituted, the award period of the Commission or the composition of SFC should not be changed midway as it causes lack of uniformity regarding the period of coverage of SFCs across the States, as well as for the different SFCs within a single State making inter-state and intrastate comparisons difficult.

SFC Secretariat: Such an arrangement will facilitate (a) implementation of recommendation of previous SFC, (b) functioning of incumbent SFC (c) prepare background material for the next SFC.

Time limit and synchronization of SFC reports: We recommend that States while constituting the SFCs should prescribe a period of two years for submission of the reports for the entire award period.

Implementation of SFC reports: A time frame of six months should be fixed for placing the Action Taken Report before the State Legislature. In addition, the final compliance report on the ATR by the State Government should be submitted to the State Legislature before the next SFC is constituted.

Preconditions for release of Performance Grants: the following conditionalities for release of Performance Grant -

(i) SFC should be constituted every fifth year and their reports shall be submitted within 24 months of their constitution.

(ii) Action Taken Reports should be tabled in the State Legislature within six months of the submission of the reports

(iii) Annual Budget Document of the State should contain a statement of devolution made to Local Bodies and information on implementation of other SFC recommendations.

Acceptance of recommendations of SFC: The Task Force also recommends that State governments should follow the practice of the Union Government by considering all the major recommendations of the SFCs relating to transfer of funds to Local Bodies for acceptance.

Maintenance of Database: The Task Force is of the view that the SFC must maintain reliable and up-to-date data of internal revenue and expenditure of Panchayat Finances, funds transferred from upper levels of Government through devolution and grants, assignment of functions, taxes from State Governments, etc. Data generated and scrutinized by previous SFCs should also be available to the subsequent SFCs. MoPR has circulated template for collection of data by the States. FC XI and FC XII had also provided funds for database building for PRIs by SFCs. Adoption of the 8 database formats for maintenance of accounts by all States is also one of the conditions for drawal of Performance Grants by States. The database formats were finalized with the approval of the C&AG in March, 2012 and sent to States for adoption. So far 22 States have adopted these formats. The Task Force recommends that all data collected in the data base format be consolidated and maintained in the SFC Secretariat for facilitating its analysis.

Divisible Pool : Under paragraph 3.2, we have observed that one reason of weakness of SFC, in contrast with Thirteenth Finance Commission, is the absence of any indication what a divisible pool of a State should constitute for the purpose of transfer of funds to LSG. Therefore, the SFC will have to determine what the divisible pool from the State's own source revenue is, keeping in mind the fact that some of the borrowings of States are also related to activities which are civic functions implemented by the local bodies.

Inter-state Consultation of SFCs: A system of regular consultation of SFCs of all the states will enable replication of best practices. Of course, this consultation will be more effective if there is a continuous

secretariat of every SFC. MoPR should initially anchor such consultation; but in due course the SFCs will be able to host these meetings.

Creation of SFCs website: The Task Force recommends the creation of a website for SFCs as it will facilitate their smooth functioning. The Governments of Assam, Kerala and Rajasthan have already created respective SFC websites. The Governments of Haryana, Odisha and Himachal Pradesh have been utilizing the websites of other state departments. The Government of Tamil Nadu has designed a common website linked with Rural Development Department and CFC. The MoPR will provide linkages to websites of SFCs.

Capacity building : As we have stated, financial empowerment of Panchayats, including strengthening of SFCs is ultimately a matter of political process. The institution of SFCs is also weak when LSGs are weak. Political empowerment can happen through devolution. But this will not happen if Panchayats do not make the demand. Panchayats will not be able to make this demand if their capacity is not enhanced. The capacity building framework of MoPR should have a special module on SFCs and Panchayat finances. Exchange visits outside the states (with both stronger and weaker 'Panchayat finance systems' / SFCs) should be included in the module. This will enable Panchayats to raise informed demands.

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