

**13.14 Pooling of select Assigned Revenues (Local Cess, Local Cess Surcharge, Surcharge on Stamp Duty and Entertainment tax) at State level and apportionment to rural Local Bodies**

Rural Development and Panchayat Raj (C4) Department

G.O. (Ms) No. 168

Dated : 4.10.2007

Read :

From the Director of Rural Development and Panchayat Raj, Chennai-15, Letter Roc. No.50205/2007/PRI.3-1, dated 13.8.2007.

**ORDER**

The Assigned Revenues of Local Bodies include the class of taxes and levies like Entertainment Tax levied under Entertainment Tax Act, 1939, Surcharge on Stamp Duty levied under Tamil Nadu Panchayats Act, 1994, and Local Cess/Local Cess Surcharge on Land Revenue levied under the Tamil Nadu Panchayats Act, 1994, traditionally collected by the Government and assigned to the Local Bodies. The Entertainment Tax is collected by the Commercial Taxes Department and adjusted directly to the Local Bodies on quarterly basis. The Surcharge on Stamp Duty on transfer of property is collected by the Registration Department along with the Stamp duty and adjusted directly to the Local Bodies by District Collectors on quarterly basis. The Local Cess and Local Cess Surcharge collected along with the Land Revenue by the Revenue Department are adjusted directly to the Rural Local Bodies by District Collectors after completion of Jamabandhi.

2. It has been brought to the notice of the Government that the existing system of assigning revenues to the various Rural Local Bodies through adjustments, leads to considerable delay in transferring funds and also involves a higher degree of paper work disproportionate to the amount involved. In addition, the distribution of resources is also not equitable. Hence, there is a definite need to evolve a system of assignment, which would ensure that the funds are transferred quickly in an equitable manner.

3. The Government, after examining the above issues, has decided that, except social forestry receipts and income from mines and minerals, the other components of assigned revenue such as Local Cess/Local Cess Surcharge on Land Revenue, Surcharge on Stamp Duty and Entertainment Tax be pooled at the State level and apportioned among Village Panchayats, Panchayat Unions and District Panchayats on the same lines as the State Finance Commission devolution. This principle of Global sharing has been brought to the knowledge of the Legislature in May 2007 by inclusion in the **Explanatory Memorandum on the Action Taken on the Recommendations of the Third State Finance Commission.**

4. The Tamil Nadu Panchayats Act, 1994 has been amended by the Tamil Nadu Panchayat (Third Amendment) Act, 2007. The amended Act has the following provisions:

- a) According to Section 169, the Government may make Rules not inconsistent with this Act-
  - (i) for regulating the collection of local cess under section 167, local cess surcharge under section 168 and surcharge on the duty on transfers of property under section 175;
  - (ii) for fixing the proportions in which the proceeds of local cess, local cess surcharge and Surcharge on the duty on transfers of property shall be distributed among Village Panchayats, Panchayat Union Councils and district Panchayats; and
  - (iii) for deduction of the expenses incurred by the Government in the collection of local cess, local cess surcharge and surcharge on the duty on transfers of property.
- b) According to the newly inserted Section 175-A, notwithstanding anything contained in section 13 of the Entertainment Tax Act, 1939, so far as Panchayats are concerned,

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10% of the proceeds of the tax under section 4, section 4-F and section 4-H of that Act collected every year shall be credited to the Government and the balance of 90% distributed among Village Panchayats, Panchayat Union Councils, and district Panchayats in such proportions as the Government may fix.

5. In the letter read above the Director of Rural Development and Panchayat Raj has submitted proposals as detailed below to pool the assigned revenue at State level and apportion to Rural Local Bodies:

- a) It is proposed that at least two-third of the total revenue to be assigned to the Rural Local Bodies from out of the amount pooled at State level may be apportioned to Village Panchayats, Panchayat Unions, and district Panchayats in the ratio of 60:32:8. It is further proposed, that the actual amount due to the respective Village Panchayats, Panchayat Unions and district Panchayats, from out of the share allocated to each tier may be in proportion to the rural population of that Local Body as per 2001 census. So far, this amount was released to the Local Bodies on quarterly basis. Hence it may be released to the Rural Local Bodies by the Director of Rural Development and Panchayat Raj on quarterly basis.
- b) The Surcharge on Stamp Duty and Entertainment Tax are released to the Local Bodies by the department concerned on quarterly basis based on actual collection. However, Local Cess and Local Cess Surcharge due to the Local Bodies are released in the subsequent year on completion of Jamabandhi. In all four cases, the actual amount due to the Local Bodies would be known only after the completion of financial year. Hence, it is proposed that a tentative allocation may be sanctioned based on the actual amount due to Local Bodies in the previous year. The difference between the tentative allocation and the actual entitlement may be adjusted in the succeeding financial year. For example, the actual amount due to the Local Bodies during the year 2006-2007 under Surcharge on Stamp Duty is Rs.228.00 Cr. This may be taken as a tentative allocation for 2007-2008. In the event of Rs.240.00 Cr. being collected as Surcharge on Stamp Duty in 2007-2008, Rs.12.00 Cr. being the difference amount due may be released in the year 2008-2009 in addition to regular allocation. Likewise, the difference between the tentative allocation and the actual entitlement for Local Cess, Local Cess Surcharge and Entertainment Tax should be arrived at and released in 2008-2009.
- c) As per the reports of the Special Commissioner and Commissioner of Revenue Administration, Commissioner of Commercial Taxes and Inspector General of Registration, the total assigned revenue due to the Rural Local Bodies in the year 2007-2008 based on the collection during the year 2006-2007 (In respect of Entertainment Tax the amount collected during 2005-2006 is adopted) is as follows:

Sl. No.	Tax	Rs. Cr.
1.	Local Cess	6.34
2.	Local Cess Surcharge	31.75
3.	Surcharge on Stamp Duty	228.73
4.	Entertainment Tax	2.50
	<b>Total</b>	<b>269.32</b>

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The Director of Rural Development and Panchayat Raj has proposed to sanction a sum of Rs.269.32 Cr. as tentative allocation for the year 2007-2008 as assigned revenue from local cess, local cess surcharge, surcharge on stamp duty, and entertainment tax to Rural Local Bodies and to authorize him to draw and disburse the amount in the manner as proposed above.

6. The Government after careful consideration of the proposal submitted by the Director of Rural Development and Panchayat Raj, issue following orders:

- a) The assigned revenue due to the Rural Local Bodies from the proceeds of the Local Cess, Local Cess Surcharge, Surcharge on Stamp Duty, and Entertainment Tax shall be pooled out at State level;
- b) The two-third of apportionment of the assigned revenue to the Rural Local Bodies shall be done by the Director of Rural Development and Panchayat Raj on quarterly basis, following the procedure applicable to the State Finance Commission devolution.
- c) The balance one-third of the pooled amount shall be credited to a Fund (to be constituted separately) on behalf of Rural Local Bodies on half yearly basis as contribution and the Fund shall be utilized for implementing specific development schemes in the Rural Local Bodies;
- d) The quantum of the pooled amount shall tentatively be fixed on the basis of the collection of taxes during the previous year for making necessary budgetary allocation;
- e) The apportionment of assigned revenue to Rural Local Bodies and contribution to the fund shall initially be done to the level of tentative allocation for the pooled amount in the budget and finally adjusted in the next financial year after determining the entitlement of the Rural Local Bodies;
- f) The present system of adjustment of assigned revenue from the Entertainment Tax and Surcharge on Stamp Duty to Local Bodies directly from the revenue receipt heads by the Commercial Taxes Department and Registratoin Department respectively, shall be restricted only to Urban Local Bodies; and
- g) The present system of adjustment of Local Cess and Local Cess Surcharge to Rural Local Bodies by the Revenue Department shall be discontinued.

7. The Government now sanctions a sum of **Rs.270 Cr.** (Rupees two hundred and seventy crore only) as detailed below, toWards the tentative allocation for the pooled amount of assigned revenue for the year 2007-2008.

- a) **Rs.180 Cr.** (Rupees one hundred and eighty crore only) toWards the two-third of the pooled amount for apportionment to Rural Local Bodies by the Director of Rural Development and Panchayat Raj on quarterly basis; and
- b) **Rs.90 Cr.** (Rupees ninety crore only) toWards the one-third of the pooled amount for making contribution to the Fund.

8. The Heads of Department collecting the Local Cess, Local Cess Surcharge, Surcharge on Stamp Duty, and Entertainment Tax shall intimate the details of monthly collection, assigned revenue with Rural and Urban Local Bodies break-up to the Director of Rural Development and Panchayati Raj with a copy marked to Government in Rural Development and Panchayat Raj and Finance (Resources I/RD) Departments so as to determine the entitlement of Local Bodies.

9. The Director of Rural Development and Panchayati Raj shall formulate budget proposals for assigned revenue in consultation with the Heads of Department involved in the collection of taxes.

10. The expenditure sanctioned above shall constitute an item of '**New Service**' and the approval of the Legislature will be obtained in due course of time by inclusion in the **Supplementary Estimates for 2007-2008**. The expenditure shall be incurred after the Supplementary Estimates are voted by the Legislature.

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11. The expenditure sanctioned above shall be debited to new heads of account to be opened under ***Demand 42 Rural Development and Panchayat Raj Department*** as detailed below:

### **a) Apportionment of two-third of assigned revenue (Rs.180 Cr.)**

#### **(i) Land Revenue (Rs.25.46 Cr.)**

3604 00 Compensation and Assignments to Local Bodies and Panchayat Raj institutions – 101 Land Revenue – I Non-Plan – AD Assignment under Global Sharing of Assigned Revenue to Rural Local Bodies – 09 Grants-in-Aid – 09 Others (DPC 3604 00 101 AD 0997)

#### **(ii) Stamp Duty (Rs.152.87 Cr.)**

3604 00 Compensation and Assignments to Local Bodies and Panchayati Raj institutions – 102 Stamp Duty – I Non-Plan – AA Assignment under Global Sharing of Assigned Revenue to Rural Local Bodies – 09 Grants-in-Aid – 09 Others (DPC 3604 00 102 AA 0991)

#### **(iii) Entertainment Tax (Rs.1.67 Cr.)**

3604 00 Compensation and Assignments to Local Bodies and Panchayati Raj Institutions – 103 Entertainment Tax – I Non-Plan – AD Assignment under Global Sharing of Assigned Revenue to Rural Local Bodies – 09 Grants-in-Aid – 09 Others (DPC 3604 00 103 AD 0993)

### **b) Contribution to the fund (Rs.90 Cr.)**

#### **(i) Land Revenue (Rs.12.73 Cr.)**

3604 00 Compensation and Assignments to Local Bodies and Panchayati Raj institutions – 101 Land Revenue – I Non-Plan – AE Contribution on behalf of Rural Local Bodies to the Fund for Priority Schemes in Rural Areas – 10 Contributions – 01 Contribution to Specific Funds (DPC 3604 00 101 AE 1010)

#### **(ii) Stamp Duty (Rs.76.44 Cr.)**

3604 00 Compensation and Assignments to Local Bodies and Panchayati Raj institutions – 102 Stamp Duty – I Non-Plan – AB Contribution on behalf of Rural Local Bodies to the Fund for Priority Schemes in Rural Areas – 10 Contributions – 01 Contribution to Specific Funds (DPC 3604 00 102 AB 1014)

#### **(iii) Entertainment Tax (Rs.83 lakh.)**

3604 00 Compensation and Assignments to Local Bodies and Panchayati Raj institutions – 103 Entertainment Tax – I Non-Plan – AE Contribution on behalf of Rural Local Bodies to the Fund for Priority Schemes in Rural Areas – 10 Contributions – 01 Contribution to Specific Funds (DPC 3604 00 103 AE 1016)

12. The Director of Rural Development and Panchayat Raj (code: 4202) shall be the Estimating, Reconciling and Controlling authority for the above new heads of account.

13. The Pay and Accounts Officer/Treasury Officer concerned shall open the above new heads of account in the books of accounts.

14. The Director of Rural Development and Panchayat Raj shall submit necessary Supplementary Notes to Finance (BG.I) Department at the appropriate time.

15. The Special Commissioner and Commissioner of Revenue Administration, Commissioner of Commercial Taxes, and Inspector General of Registration shall take into account the above changes while formulating proposals for Revised Estimates 2007-2008 and Budget Estimates 2008-2009 in respect of tax revenue receipts.

### **13. ASSIGNED REVENUES**

16. The orders for constituting the Fund as contemplated above; framing the guidelines for utilizing the Fund and identifying schemes to be implemented under it will be issued separately.

17. This order issues with the concurrence of Finance Department vide U.O.No.64507/Resources I/2007-1, dated 3.10.2007 and with Additional Sanction Ledger No.1050 (One Thousand and Fifty)

(By order of the Governor)

**K.ASHOK VARDHAN SHETTY**  
SECRETARY TO GOVERNMENT