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**Part II**

**AUGMENTATION OF RESOURCES**

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## CHAPTER 2 : MUNICIPAL CORPORATIONS

### PROPERTY TAX: (Paragraph 2.2.40)

1. SFC recommends switching over from the **present Annual value system to the area linked unit value system** which ensures better acceptability by people and more revenue yield for Local Body.

2. Basic Ratable plinth area monthly rental value with ranges proposed by SFC is given in the Schedule in Appendix No.11. The rates applicable to all urban bodies are furnished in the schedule.

3. SFC recommends:

- (1) As an immediate step, a revision may be carried out. General revision may be done thereafter once in three years for administrative ease.
- (2) ARV may be revised once in three years based on inflation rate with reference to consumer price index. If the average rate of inflation goes down then the revision rate should be based on that index. On the other hand, if it goes up, the revision rate should also go up in the same proportion. Such a revision to adjust for inflation should be made known to the tax payers in advance.
- (3) For example, the average inflation rate is 10% and so at the end of 3 years the ARV will have to be revised upwards by about  $(1.1)^3 - 1 = 33\%$ . Allowing for the 10% depreciation (=3.3%) the net ARV increase eligible for taxation will be 29.7% .
- (4) If such **inflation indexing** is done, then the revision will lead to growth in the real revenues from the property tax and also avoid indiscriminate increase in the tax payable by the taxpayers.
- (5) General revision is proposed once in three years to have effective implementation without deployment of additional staff. General revision can be done by dividing the area into Zones and revision made zone-wise or for a group of divisions/wards every year.

### COMPUTERIZATION:

4. The average number of property tax assessees per corporation are 1,37,968, per municipality are 21,981 and per town panchayat are 3,184. Since a large number of records have to be maintained in order to administer this tax efficiently, SFC recommends that the urban local bodies may computerize their property tax records and their property tax systems. Computerization is desirable in the case of Town Panchayats also.

**5. Service Tax Component:** The total property tax may be divided into two parts, one as general purpose tax and the other as service tax on 50:50 basis. Purposes in common like water supply, lighting, scavenging, and drainage may be met from Service tax with flexibility for utilising the income realised from service tax to the components with reference to top priority in the area. However, out of the service component tax of 50 %, the Local Body should uniformly set apart at least half the amount towards water supply and sewerage/drainage.

**6.** A directory of property tax may be printed and made available to tax payers indicating the rate of taxation adopted areawise with all exemptions/ concessions and incentives and penal provisions. This should be reprinted whenever a general revision is done. This will go a long way to fetch transparency and reduce litigation.

**7.** A preliminary analysis of the revised structure reveals that it will lead to an additional revenue generation by a minimum of 30-40% for the Corporations, (for Madras alone, it is likely to be more than 50%), 25-35% for the municipalities and 35-45% for the Town Panchayats.

#### **EXEMPTIONS:**

**8.** Total exemption for all educational institutions from taxation is not equitable since the institutions avail all the civic facilities like roads, lighting, water supply etc. Instead of total exemption, concession may be given in the levy of general purpose tax by restricting the levy to service tax alone.

**9.** In the case of Industrial Estates, the tax concession should not be available for more than a period of 5 years. Thereafter, concession on service tax can be given proportionate to services locally provided but not on general purpose tax.

**10.** The taxation of properties of the Central Government is recommended as a matter of principle even though the tax derived may not be appreciable.

**11.** In the case of Central Government buildings as also in the case of educational institutions and other charitable institutions, service tax may be levied in addition to the user charges now collected.

**12.** Public sector undertakings which have their own provision for services within their areas may be levied general purpose property tax in full and service tax in proportion to the service provided by local body from its funds in its locality.

#### **GENERAL REVISION:**

**13.** There should be no restrictions, concessions, abolition or write-off of tax or other revenue sources available/ earmarked to Local Bodies by Government without consulting the LBs.

14. If such intervention is found necessary by Government in the interest of public cause, compensation for loss of revenue should be simultaneously made available to Local Bodies by Government.

**COLLECTION PROCEDURE:**

15. The SFC recommends that the responsibility of paying tax should devolve legally on tax payers, by suitable provisions in the enactments.

**16. The new system for collection may be as under:**

At the time of first assessment/General Revision a pass book or a card may be issued to the assesseees. The pass book/card will contain particulars about tax levied, due date of payment, grace time allowed for payment, penalty for delayed payment separately for each half year for the next 3 years i.e. upto the next general revision. The amount of tax indicated will be final, unless the tax had to be revised in the meantime for any reason.

17. It is the responsibility of the tax payer to pay the tax at the appropriate counters in the Zones or in the specified branches of nationalised banks declared as the collecting agency. At the time of payment, entries will be made in the pass book or card and such entries will stand as proof for payment of tax.

18. A rebate of 2% may be allowed for prompt payment before the expiry of the due date and 5% for advance payment of tax for more than a year. These rebate rates may be indicated in the Pass Book/Card itself, so that the collecting agency can accept the tax allowing the rebate at the time of collection of tax.

19. In the case of defaulters a penalty of 5 % of tax may be added for each half year concerned and collected.

**FURTHER REFORMS RECOMMENDED IN PROPERTY TAX ADMINISTRATION**

20. A Minimum and maximum rate of Tax (consisting of General Purpose and Service Tax) may be fixed, to avoid low level of taxation as below:

	Minimum	Maximum
Municipal Corporations	20%	40%
Municipalities	15%	35%
Town Panchayats	15%	30%

21. A Tariff and Valuation Cell consisting of technically qualified people like Engineers, Town Planners and Revenue Officers may be created at State Level/with Regional Centres to help local bodies, in the valuation of properties and assist in any determination of cost of services for user charges.

**22.** A Tax Squad under the Valuation Cell may be created at Headquarters for making surprise checks to avoid evasion of tax mapping. The Squad may be given powers to direct assessment by the Local Body in cases of omission.

**23.** Application of the Rent Control Act to rental value adopted by local bodies should be eliminated by laying down guidelines for the procedure for valuation in the respective Local Body Acts.

**24.** A minimum performance of tax collection should be ensured. Government assistance to Local Body should be related to Tax performance. Action may be taken for poor performance, against the concerned machinery, if no improvement is found even after direction.

**25.** Tax collection machinery may be given incentive for higher collection of tax involved.

**26.** Permitting distraint against immovable properties will enable improvement in collection.

**27.** Reduction in Tax for vacancy remission may be given for vacancy for a continuous period of 90 days, instead of 30 days now adopted.

**28.** The present Rules provide for request from assessee for revision of tax every half year. This provision should be limited to only twice within 3-year period after the initial assessment/ general revision, to avoid frequent requests.

**29.** Write - off of arrears should be allowed only after exhausting all methods of collection, including filing of suit. Indiscreet write-off should be subjected to question.

**30.** Instead of suit, in civil courts, all tax matters could be dealt with by a Special Tax Tribunal to avoid delay in disposal and to ensure uniformity in decisions. Initially District Courts may be the Tribunals. Based on the need and experience, Special Tribunals may be created.

**31.** If the assessees/Lessees resort to legal proceedings, or if the Local Body is compelled to resort to legal action for collection, a special provision should be made in the enactment concerned whereby the assessees may have to deposit 50 % of the tax assessed in case of new assessments or to deposit the old tax and 50% of increase in new tax in the case of general revision, and the Lessees may have to deposit the accepted lease amount. In case of habitual defaulters, distraint proceedings against immoveables should be resorted to instead of filing suits. Recovery under Revenue Recovery Act may also be allowed for collection of arrears.

**PROFESSION TAX : (Para 2.2.53)**

32. Local Body should take immediate steps for tax mapping of all kinds of assessees. Notices may be issued to those who have not registered. Penal action may be initiated at least in a few cases which will make others to seek voluntary registration and enrolment.

33. The following professionals who have not been specifically mentioned in the enactment need to be notified under the item "Others"

1. Computer/Typewriting, Shorthand, Accountancy Training Institutes.
2. Tutorial Colleges.
3. Small Scale Garments/Leather goods manufacturers and Exporters.
4. Beauty Parlours and Beauticians.
5. Legal Consultants other than Legal Practitioners.
6. Non-Bank Financial Service Companies
7. Foreign Exchange Dealers
8. Providers of Transit/Temporary Offices
9. Travel Services/Tour Organisers
10. Employment Recruitment Agencies
11. Cable TV Operators
12. ISD/STD/FAX Operators
13. Photo Copying Shops
14. Commercially Organised Music Parties
15. Lending Libraries
16. Dry Cleaners
17. Petty traders (not covered by turn over system)

34. The Government may issue a special notification under the proviso to section 3(3) of the new Profession Act 1992 to include them under "Others" and also to make the provision applicable to all Local Bodies both Urban and Rural.

35. The present rates finally notified by Government after negotiations may be in force for the next five years and any revision can be considered later.

**VEHICLES TAX: (Para 2.2.56)**

36. Tax on carts and bicycles has been abolished. Instead of totally deleting the provision of Vehicles Tax, Local Bodies may be allowed to levy tax on motorised vehicles which do not come within the purview of the Motor Vehicles Taxation Act and also on other two wheelers and tractors. The rate for levy may be as below:

<b>Vehicle Type</b>	<b>Tax (Rs.)</b>
Bicycles and Carts	Exempted
Two Wheelers	10 - 50
Tractors	15 - 30

**TAX ON ANIMALS AND CARRIAGES: (Para 2.2.58)**

37. Tax on animals may be abolished. A uniform pattern of licensing of animals like dogs, pigs and other domestic animals may be introduced,

**TAX ON TIMBER: (Para 2.2.61)**

38. This Tax now collected in Chennai Corporation may be continued and extended to other Corporations also by Government.

**COMPANY TAX: (Para 2.2.64)**

39. This tax available to Chennai Corporation may be continued and extended to other Corporations.

**VACANT LAND TAX: (Para 2.2.72)**

40. The levy of Vacant Land Tax is considered necessary since these lands derive the incremental price benefit due to basic amenities provided in the location for the existing inhabitants at high cost.

41. The burden of Vacant Land Tax should not be mulcted upon the buyer, since the incremental benefits of price are mainly availed of only by the seller and not the buyer.

42. A one-time vacant land tax may be levied for a specific period namely, ten years on the promoter of a lay out at the time when the promoter gets approval from the planning authorities.

43. A tax rate of 0.5 to 1% of the capital value is considered to be a normal rate on vacant urban land.

44. The following life-cycle vacant land tax system may be adopted in the case of subsequent sellers of vacant land. Under this system, the tax for 10 years may be collected at one go in the following manner. Any vacant urban land, at the time of transfer should have paid up one time tax for 10 years. During the first round of transfer, the seller should pay 10 years' taxes on the vacant land and this can be collected on the basis of present value computation at the range of rates indicated, depending on the resolution of the Local Body concerned. The value determined for land and property as per guidelines of Registration Department can be used for determining the amount due. The Registrar can collect this tax and pass it on directly to the local body concerned.

**EXAMPLE:** If the land is assessed to have a capital value of Rs.10000, the present value of the taxes at 0.5 % for the next 10 years, discounted will be Rs.337.90.

**PILGRIM TAX: (Para 2.2.78)**

**45.** Pilgrim tax or a similar tax may be levied in respect of (1)places of holiday resorts and seasonal specialities (2) temple towns (3)places of geological or archaeological importance.

**46.** Scope of the tax may be modified by giving some other nomenclature.

**47.** Identification of the areas falling within the three categories should be notified by Government with identification of seasons when these centres attract pilgrims/ tourists.

**48.** Tax may be levied for the seasonal period at higher rates or can be uniformly levied at a lesser rate throughout the year. The scope of collection of Pilgrim Tax to cover both railway and bus passengers may be notified. In the case of bus and railways, notification of rates can also be made.

**49.** Such tax on bus passengers may be levied as an addition to bus fares. It may be collected at the place of pilgrimage/tourism on their return journey. A stamp on the back side of the ticket or the issue of separate tokens will ensure collection of tax. The stamp or the tokens may be made available to the Transport Corporations or private bus owners periodically or as and when necessary.

**50.** The amount of Pilgrim/Tourist Tax may be collected in a lump sum from Transport Corporations or fleet owners once in a month based on the capacity of the buses and the number of daily trips at Rs.100-150 per trip ( i.e. Rs.2-3 per passenger on an average). This will relieve the Local Body of the task of identifying individual pilgrims and tourists. The rate can be fixed after taking into account the average number of visitors to the place.

**OR IN THE ALTERNATIVE:**

**51.** A flat rate can be levied per bus per trip based on the seating capacity of the bus and the amount can be collected from the Transport Corporations or the fleet owners, allowing them to collect pilgrim tax from the passengers.

**52.** Regarding people visiting the tourist or pilgrim centres in vans, lorries and private vehicles, cars etc., the Local Bodies may make their own arrangements to collect the tax.

**53.** Rates recommended for private vehicles are as follows:-

Bicycles and Two wheelers	No tax
Private cars and taxi cabs	Rs. 10 to Rs.25 per trip
Vans, lorries etc.	Rs. 25 to Rs.50 per trip
Private Tourist Buses	Rs.100 to Rs.200 per trip

## **ASSIGNED TAXES AND REVENUES:**

### **SURCHARGE ON DUTIES ON TRANSFERS OF PROPERTY: (Para 2.2.92)**

54. The Government may consider giving legal backing for issue of periodical guidelines, on value of properties to be adopted for registration now being followed.

55. It is brought to notice of the Government that huge evasion of stamp duty and surcharge is observed in the case of transfers of high-rise buildings. The Government may consider bringing in a proper legislation to curb this evasion. SFC also recommends a study of the pattern adopted in Karnataka State to levy stamp duty on built-up area in high-rise buildings for adoption with suitable modifications. Amendments to the provisions of law are needed in this regard.

56. Regarding flight of documents to neighbouring States for registration, the re-registration of the documents may be made compulsory as per the value of land obtaining in Tamil Nadu with reference to the guidelines. (Government of Tamil Nadu have already initiated action). The Government may also consider rationalising the rate of levy by widening the base to avoid flight of documents to nearby States.

57. The SFC feels that there is much scope for increasing revenue by plugging the loopholes and by checking evasions.

58. The procedure similar to the one adopted in the case of Entertainments Tax may be adopted for adjustment of the revenue to local bodies.

59. The District Registrar may indicate the distribution for the various local bodies as is done now and authorise, the local body concerned to get credit in their accounts in the Treasuries by drawing necessary bills. This will expedite early adjustments and avoid unnecessary delay. The system of routing adjustment through the Collector may be dispensed with.

### **ENTERTAINMENTS TAX: (Para 2.2.100)**

60. SFC considers that this tax being earmarked as one of the local taxes, the benefits should go to the local bodies in entirety subject to deduction of only collection charges.

61. SFC recommends the assignment of 90 % of the total realisations of this compounded Tax to the Local Bodies.

62. SFC considers that any concessions/remissions in the tax affecting local bodies may be resorted to by Government after consulting the Local Bodies.

**SURCHARGE ON SALES TAX: (Para 2.2.108)**

63. Since the surcharge on Sales Tax levied has been merged with the compounded Sales Tax, 15% of the compounded tax (equivalent to the rate of surcharge previously levied) may be assigned to Local Bodies and taken to a divisible pool.

**TOLL COMPENSATION : (Para 2.2.109)**

64. Since share of Motor Vehicles tax is being recommended for divisible pool, no separate toll compensation will be necessary.

**NEW TAX DOMAINS**

**ADVERTISEMENT TAX: (Para 2.2.114)**

65. All the hoardings should be under the control of the concerned Local Bodies and the revenue earned should go to the Local Body concerned.

66. In the case of hoardings in Highways, the taxation may be permitted to be done by the Local Body within whose jurisdiction the hoardings are situated and provided for in the respective enactments.

67. If, in the interest of proper regulation, the Highways Department has to regulate the hoardings, the yield may be made available to the Local Body concerned, after retaining collection charges.

68. The Local Bodies may take an inventory of all the hoardings within their limits, with size and type for ensuring a uniform method of levy of tax.

69. The rates for different Local Bodies may be adopted as suggested below in No.70.

70. The following is the suggested classification and rate of levy of tax:

Classification		Basic Rate of Tax
(a) SIZE	( i) below200 sq.ft.	Rs.1.00/sq.ft.
	(ii) above 200 sq.ft.	Rs.1.50/sq.ft.
(b) LOCATION (Increase)	( i) Chennai & Coimbatore Corporations	250%
	(ii) Other Corporations	200%
	(iii) Municipalities	175%
	(iv) Town Panchayats	150%
(c) TYPE	( i) High - rise	Rs.1000
	(ii) Others	Rs. 500
(d) MESSAGE	( i) Social	Rs. 100
	(ii) Commercial	Rs. 500

**71. Computing the fees liability:**

Use the square foot rate to compute the base rate and to that add the charges pertaining to the locational parameters.

**Example:** A 20' X 20' hazardous hoarding, in Chennai Corporation carrying a commercial message should yield Rs.3,000 per year.

**72.** Other types of advertisements on lamp posts and posters and writings on walls should also be subjected to levy of tax/fee by Local Bodies.

**73.** Advertisement through slides in cinema houses was subjected to levy but later on it was discontinued. This levy may be revived.

**74.** All types of advertisements, except through newspapers and cut-outs, should be brought under taxation.

**CABLE TV :** (Para 2.2.117)

**75.** Leeway rights in all Roads in Local body area for each Cable T.V. connection at Rs.60 per year may be levied by LBs.

**76.** The collection may be done by Government along with Entertainment tax. The entire money will be due to the Local Bodies, after retaining the collection charges.

**TAX ON LUXURIES IN HOTELS AND LODGING HOUSES:** (Para 2.2.121)

**77.** The SFC recommends that 25% of the income accrued may be assigned to the local body.

**BETTING TAX:** (Para 2.2.122)

**78.** A share of at least 25% out of this tax revenue may be distributed to Chennai Corporation and Udhagamandalam Municipality.

**STATE EXCISE REVENUE:** (Para 2.2.123)

**79.** The SFC considers that the local bodies may be allocated a share on this revenue. It is not possible to fix any specific percentage of sharing to different types of local bodies. Hence 25 % of this revenue may be allocated for inclusion in general divisible pool for distribution to all local bodies.

**MOTOR VEHICLES TAX:** (Para 2.2.127)

**80.** 40 % of the Motor Vehicles Tax collection is recommended to be set

apart by the Government for sharing through divisible pool between the various types of local bodies. Norms are indicated separately for distribution.

**81.** The toll compensation now available may be withdrawn after this allocation.

**AGRICULTURAL INCOME TAX : (Para 2.2.128)**

**82.** A share of 25 % of this tax may be allocated to the areas covered by Plantations.

**SUGAR CANE CESS : (Para 2.2.130)**

**83.** Since the local body is very much concerned with roads within its area, SFC considers, it desirable that the money allocated for the purpose in the area should be passed on to the local bodies or IN THE ALTERNATIVE the local body and the Sugar Mill concerned should be made jointly responsible for the upkeep of roads of the local body concerned which lead to the area where the Mill is situated.

**URBAN LAND TAX : (Para 2.2.132)**

**84.** A share of 50 % out of this revenue may be allocated to concerned urban local bodies.

**TERMINAL TAX ON PASSENGERS AND GOODS: (Para 2.2.133)**

**85.** The State Government may pursue with the Government of India for getting a recurring annual grant from the Railways on account of Terminal Tax as suggested by Taxation Enquiry Commission, 1953-54 and Zakaria Committee, 1963.

**SURCHARGE ON BUS TICKETS: (Para 2.2.134)**

**86.** The SFC considers that to meet the problems involved due to floating population in specific areas a surcharge may be collected on bus fare from persons travelling from a distance of 150 KM to Metropolitan Cities/important centres of trade and industry and made available to the concerned local body.

**LOCAL BODY CESS ON PASSENGERS TRAVELLING BY BUS: (Para 2.2.135)**

**87.** A levy of 5 paise on Local Town buses, 25 paise on Mofussil buses and 50 paise on long distance buses in addition to ticket fare is likely to yield good income. This could be pooled and distributed on need basis to various local bodies.

## **NON TAX REVENUES :**

### **USER CHARGES : (Para 2.2.147 & 153)**

**88.** After a careful situation-analysis it is considered that urban local bodies like Municipal Corporations and Municipalities of special and selection grade have scope for charging higher user charges under water supply at least 200 % more than what is collected at present.

**89.** SFC recommends the following steps to streamline the principles for user charges to ensure higher level of income and service:

- (1) The local body should prioritise the services depending upon local needs and meet the cost involved from out of user charges and from out of service tax.
- (2) Wherever the user charges cannot be identified it should be set off against the service tax such as sanitation and sewerage/drainage.
- (3) The Local Body should aim for full cost recovery of these services in the Corporations and Municipalities of special and selection grade area by cross subsidy against affordable community and by higher commercial and institutional rates.
- (4) The community who cannot afford higher rates may be subsidised or totally exempted.
- (5) In the case of industrial undertakings and industries special charges may be collected for providing adequate service for clearance of sewerage/drainage/garbage not attended to by them.
- (6) For clearance of septic tanks and cess pools, special charges can be levied and the local public may be advised to have cess pools rather than leave the sewage water in roads.
- (7) Similar charges may be levied for hotels, lodges, hospitals, nursing homes and Kalyana Mandapams and other public places for clearance.

**90.** Privatisation can be aimed at by involving the local public or by forming NGOs like Exnora International. Local Bodies can be encouraged to explore the system of contract for clearance of garbage and for solid waste management by private agencies. The experience of Coimbatore Corporation may be considered in this context.

**91.** The Tariff and Valuation cell proposed at the State level with regional level branches for Property Tax administration may be entrusted with the following role in respect of user charges:

- (1) To prepare a pricing guidelines manual for circulation among all the local bodies.

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- (2) To assist the local bodies in arriving at the right price/tax structure for their services in order to make them economically viable.
  - (3) For already existing services, to work out economic charges and to re-  
the pricing policy. If the hike in the charges is very high, then the  
can be imposed gradually over two to three years.
  - (4) In the case of new schemes to work out the charges to cover O & M  
costs, debt service, and depreciation.

92. In the case of projects financed with loans, capital cost recovery should not normally be spread over periods exceeding 15 years. If, however, the annuity payable is found not affordable, it can be spread further up to 20 years.

93. Formation of Costing Cell in Local Bodies:

- (1) SFC considers that it must be made the duty of the Accounting side of Local Body to prepare Balance Sheet and statement of assets and liabilities at the end of each year and in respect of each service.
- (2) It should act as costing cell within the local body following the guidelines of Valuation and Tariff Cell at State level.
- (3) There is a need for change in the system of budgeting and accounting to commercial type instead of the present Governmental system of accounting and also for computerisation of Accounts to achieve the objective.

### LICENCE FEES AND OTHER CHARGES

**D & O TRADE:** (Para 2.2.161)

94. The local bodies will have to undertake tax mapping to prepare a computerised list based on immediate survey and the additions and deletions can be made once a year. Computerisation will enable quicker issue of licences.

95. The time limit for application, enquiries and issue may be streamlined to suit the current situation and published through a common pamphlet in all local bodies and also published in common places.

96. The Revised Rates for the various trades, taking into consideration, the recommendations of the Damodaran Committee (1990) are proposed by the SFC for urban/rural bodies separately as Schedules in Appendix Nos.(12 & 17). Any industry or trade not covered in the list may be brought under 'Others' provided for in the schedule.

**97.** If more than one trade is conducted in one premise, the higher rate will be collected. Minimum levy has been prescribed for collection compulsorily.

**98.** The penalty for default may be three or four times the normal licence fee. A grace time for renewal with penalty may be given for a period 3 months from April to June. Prosecution may be launched in July of every year. The local body should have power to recover through distraint. on immoveable properties in the case of defaulters in addition to prosecution powers.

**99.** At the time of registration of traders under the ST Act, the authorities concerned may be required to insist production of the licence issued by the local body and even insist on quoting the number of licence in the form of application itself.

**100.** The licence fee prescribed should be suitably updated once in three years based on inflationary rates, based on Consumer Price Index.

**101.** The local body may also issue a licence for a period of 3 years on collection of licence fee in advance for those willing with a rebate of 10%.

**102.** In the case of installation of machinery, in addition to the collection of licence fee on the basis of Horse Power of Motors, fee should be collected in respect of additional or subsidiary machinery run with the aid of the prime motor.

**103.** Changes in Motors with higher capacities are liable to be informed failing which heavy penalty equivalent to 3 or 4 times the normal fee should be levied and deterrent action by prosecution should also be taken. The owner should be compelled to take permission while changing the motor with higher capacity.

#### **INCOME FROM PROPERTIES: (Para 2.2.169)**

**104.** The SFC recommends the following for improvement of income from properties:

- (1) The local bodies could resort to commercial line and think of switching over to a system of advertising the proposed project calling for applications from the intending allottees even at the initial stage. The allottees could be selected in advance and the rent fixed in accordance with the prevailing market rate.
- (2) The local bodies may take advances from intending allottees and this will reduce the financial burden substantially in the creation of assets.
- (3) The local bodies may create the assets by deploying their own departmental officials or local contractors. They should not be compelled to give such projects to monopolised Government machinery.

- (4) The allottees should be made aware of the condition that there will be progressive increase of rent or lease amount every year at an agreed percentage and that they can continue to be in occupation provided there is no default in payment of rent or lease amount or no violation of terms of lease.
- (5) In case of default, the defaulter should be compelled to vacate and the allotment made to a new bidder through auction-cum-tender and the advance paid be forfeited or returned to the defaulter after adjusting the arrears of rent to be paid with cost of re-auction with a penal fee for default.
- (6) The local body can also adopt the method of Build, Operate and Transfer (BOT) in respect of assets to be created.
- (7) The privatisation of the maintenance of these commercial assets on contract system, can also be tried with a view to have economy in maintenance and to avoid deployment of special staff and to provide for a net return.
- (8) In all these types of transactions, the Government may prescribe suitable built-in check to ensure accountability.

**INCOME FROM SPECIAL SERVICES :** (Para 2.2.179)

105. (1) The SFC considers that under Town Planning, there is a high potential for collection of development charges.
- (2) In the case of new lay outs, the cost of providing basic amenities like roads, lights and drainage can be met through development/betterment charges.
- (3) This can be tried in Corporations, in industrial areas and in upper middle class and rich neighbourhoods.
- (4) The charges can be fixed in accordance with the norms of the CMDA depending upon the width of the road and the frontage of the property.
- (5) If charges are considered high, it may be collected in instalments. The money collected should not be diverted for other purposes but should form a separate Development Fund.

**BUILDING LICENCE FEE/UNAPPROVED LAYOUTS:** (Para 2.2.179)

- 106 (1) SFC suggests that necessary and suitable safeguards may be provided for avoidance of unapproved lay outs in future with deterrent additional levy as penalties.

- (2) Even when the promoter hands over the lay out as per present regulations after laying roads etc., the standard of road is stated to be very bad and the Local Bodies are compelled to relay them. The cost of laying roads as per standard norms may be required to be deposited by the promoters at the time of approval of layouts, so that Local Body itself can take up the work of laying of roads.
- (3) SFC considers that the responsibility of Local Body to provide initial basic amenities in the newly developed areas is very heavy and therefore at least a portion of the development charges collected by CMDA should be set apart to the concerned Local Body to meet the cost of provision of basic infrastructure for new developing areas. The Planning authorities should make available their technical advice in the projects to be taken up by the Local Bodies.
- (4) Wherever people of a particular locality want extension of certain services and are also willing to contribute a portion of the cost, the local bodies may be permitted to collect such contributions from the public. This is likely to create local participation coupled with increased sense of responsibilities on local public against misuse of the assets.

**LAND USE: (Para 2.2.184)**

**107.** (1) Both in urban and rural Local Bodies, a survey should be made to list out all the porambokes and vacant lands of Local Bodies and a list of such assets should be prepared.

- (2) Vacant lands should be put to proper use by opening shopping complexes, markets, bus stands, slaughter houses etc.
- (3) In the new lay outs, open spaces are indicated for schools, shops, parks etc. Excepting the space indicated for parks, other places are not handed over to local body. If such open spaces are not utilised for the purpose for which they are reserved within a year, the promoter is permitted to sell it as house sites. All the open spaces reserved should be handed over to the local bodies to avoid conversion by collusion and evasive tactics. The local bodies will then have adequate space for earmarked activities.
- (4) Any encroachment within the local body area should be permitted to be removed by the local body itself.
- (5) In the case of lands not entrusted to local body, the revenue authorities may coordinate and help the local bodies to remove the encroachments.

- (6) The road margins on Highways should be cleared of all encroachments and the local bodies should have power to use the road margins to have their own shops or to issue licences to private people for short term leases, with powers to resume as and when required by Highways Department. This will ensure proper regulation of road margins and also augmentation of income for the local body.

**LICENSING OF EXISTING MARKETS AND SHOPPING COMPLEXES AND BUS STANDS: (Para 2.2.191)**

**108.** The SFC recommends the following:-

- (1) In the matter of lease or extension of lease, there should be no outside interference.
- (2) Tender-cum-auction may be adopted and period of lease may be three years with gradual increase in lease amount or rent once in a year at a pre-determined percentage.
- (3) At the end of three years, fresh auction with an upset price according to prevailing market rates may be conducted. The existing lessee may also bid and be given preference to continue at higher rates quoted. The defaulters in rent/lease amount should be ineligible for the bidding.
- (4) For collection of lease amount and arrears, the Local Bodies should have the powers of distraint against moveables as well as the immoveable properties.
- (5) Tender cum auction will eliminate cartels and depression of lease amount in the auction and sub leasing or sub letting.
- (6) Auction should be liable for cancellation by the local body if it is proved that there is subletting of the property.

**FIXING OF FEES IN THE BUS STANDS: (Para 2.2.194)**

**109.** For collection of bus stand fees from buses, the Transport Corporations may be made to pay a lumpsum to the local body at a rate to be agreed upon depending upon the trips which will avoid the necessity of each local body employing a person to collect the amount. and also avoid leakage. The private bus operators also can be asked to pay a lump sum amount to the local bodies concerned. The amount may be collected in two instalments in advance.

**110.** In big urban areas, dormitories or lodges may be constructed by the local body in or near the bus stand to enable the travellers to stay overnight and this will fetch a sizable income to the local body concerned.

**PRIVATE MARKETS:** (Para 2.2.196)

**111.** The SFC recommends that in view of the need for regulating the markets, even if share of income from private markets could not be got, specific service charges may be collected for special services like environmental sanitation by way of garbage clearance, sewerage, water supply etc. by the Local Body from the private markets.

**PARKING FEES:** (Para 2.2.198)

**112.** Local Body can take up the parking spaces in their areas and run them and earn sizable income by maintaining cycle stands near the bus stand, railway station and other important places.

**INCOME FROM MARKETING COMMITTEES :** (Para 2.2.199)

**113.** Marketing Committees collect fees and retain them for maintaining their infrastructure. The maintenance of infrastructure of Local Body like roads, environmental sanitation around the market committees is with the Local Bodies. Hence SFC recommends that the fees may be increased by 50 % and the collections may be transferred to the concerned Local Body to compensate for the cost of maintenance of roads and other necessary infrastructure in and around the marketing committees. This may need necessary amendment of the relevant legislations.

**GRANTS:** (Para 2.2.207)

**114.** SFC recommends that specific purpose grants like Maternity, Dispensary, Family Welfare etc. will be covered by devolutions under 73rd and 74th Amendments to the Constitution and the funds allocated for the purpose by the Central and State Governments should be passed on to Local Bodies on the basis of the prescribed norms.

**115.** Incentive and untied grants now available will be taken care of while devolutions are distributed since such grants are necessary to ensure additional resource generation (Like House Tax Matching Grant and LCS Matching Grant to Rural Local Bodies)

**116.** Principles of distribution of funds from State to local bodies are being recommended separately. After experimenting the system of distribution, the need for further grants in aid can be studied. If there is still need, Equalisation grants will be necessary. This has been recommended in the Chapter "Resource Allocation Mechanism".

117. SFC recommends the reimbursement of D.A. increases to the local bodies outside the General Devolution. There is every justification in the claim, even though the percentages may vary among the local bodies.

**PENALTIES AND FINES:** (Para 2.2.208)

118. Penalties and fines to be levied for violations furnished in the schedules to enactments relating to each Corporation may be suitably amended with reference to rates proposed under the Tamil Nadu District Municipalities Act, 1920.

**CAPITAL FUND:** (Para 2.2.209)

119. A Capital Fund may be created by transfer of contributions as under:

Corporations, S.G. & Spl. Grade Municipalities	15%	of Total Revenue every year
Other Municipalities and S.G. & Spl. Grade TPs.	10%	of Total Revenue every year

From out of the above Capital Fund, the LBs can meet their future capital expenditure for taking up remunerative and entrepreneurial investments.

### **CHAPTER 3 : MUNICIPALITIES**

**PROPERTY TAX:** (Para 2.3.19)

120. (1) A minimum of 15% Tax on ARV a year (excluding education tax and library cess levied under separate enactments ) may be prescribed by suitable amendments to the Tamil Nadu District Municipalities Act, 1920 and the Rules.
- (2) If a minimum level of taxation and a common pattern of assessment are ensured, there is adequate scope for improvement of resources.
- (3) The collection of Property Tax in Municipalities needs improvement. Better control and review by supervisory authorities at Regional level is necessary to reduce the pendency through court cases as well as arrears and to improve performance of collections.
- (4) Property tax can be divided into two components (1) General Purpose Tax (2) Service Tax, as recommended under Municipal Corporations.
- (5) The levy of service tax can be imposed on those who claim exemption from payment of property tax as recommended under Municipal Corporations.

- (6) The various rates recommended in Schedule in Appendix No.11 may be adopted by the Municipalities.
- (7) The method of assessment, levy and collection of Property Tax, Service component tax and vacant land tax recommended under Corporations will be applicable to Municipalities also.
- (8) All tax reforms recommended under Corporations shall apply to the Municipalities.

**PROFESSION TAX:** (Para 2.3.21)

**121.** The income under this head is likely to increase substantially if efforts are made to bring all the assesseees in the area into the Tax net and initiate penal action for non-compliance of enrolment and registration as required in the new enactment. Issue of notices and enforcing penal provision in a few cases are likely to make all the assesseees apply for registration. All recommendations under Municipal Corporations will apply to Municipalities.

**122.** Recommendations relating to Tax on carriages, animals, carts etc. under Municipal Corporations will apply to Municipalities.

**123.** All the recommendations relating to vehicles tax, tax on advertisements, pilgrim/tourist tax and other taxes recommended under Corporations shall be applied to the Municipalities also.

**NEW TAX ASSIGNMENTS:** (Para 2.3.25)

**124.** All the recommendations relating to sharing of revenue from the following State Taxes indicated under Municipal Corporations will be extended to Municipalities also:

1. Tax on luxuries in hotels and lodging houses.
2. Betting tax
3. State Excise Revenues
4. Motor Vehicles Tax
5. Agricultural Income Tax
6. Sugarcane Cess
7. Urban Land Tax
8. Terminal Taxes on goods or passengers carried by railways.

**TAX ON AGRICULTURAL LANDS:** (Para 2.3.27)

**125.** The State Finance Commission recommends that the Government may permit the Municipalities/ Town Panchayats to tax on the agricultural lands authorised under sub-section (4)(a) of section 81 of Tamil Nadu District Municipalities Act, 1920 or pass on the land revenue collected in the area to the Urban bodies concerned.

126. The State Finance Commission recommends that a Local Cess and surcharge as in the case of Rural bodies may be provided for in the District Municipalities Act 1920 and collected in Municipal /TPs areas and passed on to Municipalities/Town Panchayats. Newly constituted Municipalities/Town Panchayats have sizeable agricultural lands within their areas.

**ASSIGNED / SHARED TAXES:** (Para 2.3.29)

127. Recommendations made under Municipal Corporations regarding all assignments under Surcharge on Stamp Duty , Entertainment Tax, Sales Tax will apply to the Municipalities.

128. Regarding the income from Minor Minerals the recommendations made under the Panchayat Unions will apply to Municipalities.

**GRANTS:** (Para 2.3.36)

129. The State Finance Commission considers it necessary that the Municipalities have to be considered for a regular system of Revenue grants from the State Government.

130. To avoid complacency on the part of Municipalities, the eligibility for grant-in-aid may be related to the fiscal capacity as well as performance of the Municipality in the different grades. A distribution system has been formulated by State Finance Commission.

131. The recommendations relating to D.A. Subsidy under Municipal Corporation will apply to Municipalities also.

132. Specific Purpose and Incentive grants now available may be continued.

**NON TAX REVENUES:** (Para 2.3.39)

133. Various suggestions and recommendations for improvement of existing source of income by revision of rates, simplification of procedures and better enforcement in respect of all items of Non-Tax Revenues made under the Municipal Corporations will apply to the Municipalities also.

**PENALTIES AND FINES:** (Para 2.3.40)

134. The revised rates for penalties and fines adopted in Schedules VII and VIII of Tamil Nadu District Municipalities Act, 1920 are indicated in Appendix Nos. 13 & 14. This will apply to Town Panchayats also.

**D & O TRADE:** (Para 2.3.41)

**135.** Recommendations made under Municipal Corporations will apply to Municipalities and Town Panchayats also.

#### **CHAPTER 4 : TOWN PANCHAYATS**

**HOUSE TAX:** (Para 2.4.13)

**136.** The main reform needed is to introduce property tax in Town Panchayats by switching over from the House Tax now levied under Tamil Nadu Panchayats Act, 1994.

**137.** All Tax reforms and recommendations on assessment, levy, appeal, collection and distraints suggested under Municipal Corporations/Municipalities will apply to Town Panchayats also.

**138.** The Property tax at plinth area monthly rental value specifically proposed for Town Panchayats for various locations and furnished in Schedule in Appendix No.11 may be adopted by Town Panchayats.

**139.** The General Revision of Property Tax in Town Panchayats may be taken up every year dividing the total area zone-wise on a cyclic system in three years instead of undertaking revision at one time at the end of the final year.

**140.** All recommendations relating to formation of Tax Tribunal, dispensing with demand notices, introduction of Pass Book system, collection through counters and banks, follow-up of the defaulters through bill collectors, awarding of incentives to tax payers for prompt and advance payment, introduction of bonus to collection staff who achieves higher percentage of collection as indicated under Municipal Corporations will apply to Town Panchayats.

**141.** The components falling under the service tax (viz., part of Property Tax) may be examined in detail and fixed keeping in mind the priority of service in the Town Panchayats subject to the maximum ceiling prescribed for the property tax. However, at least 50 % of service tax may be made available for water supply.

**142.** A minimum of 15 % per year of plinth area based ARV may be prescribed as Property tax including the service tax in Town Panchayats.

**PROFESSION TAX:** (Para 2.4.16)

**143.** All the recommendations made under Municipal Corporations will apply to Town Panchayats.

**VEHICLES TAX :** (Para 2.4.18)

**144.** Vehicles Tax has since been abolished by the Government. The recommendations made under Municipal Corporations to cover two wheelers and Tractors will be applicable to Town Panchayats also.

**TAX ON AGRICULTURAL LAND FOR SPECIFIC PURPOSES:** (Para 2.4.19)

**145.** This provision is now available to Town Panchayats under the Tamil Nadu Panchayats Act 1994. When the Town Panchayats switch over to taxation under the District Municipalities Act 1920 they will become ineligible to utilise this provision under the Tamil Nadu Panchayats Act, 1994.

**PILGRIM/TOURIST TAX:** (Para 2.4.20)

**146.** All the recommendations made under Municipal Corporations shall be extended to Town Panchayats.

**ASSIGNMENTS/SHARED TAXES:** (Para 2.4.24)

**147.** The recommendations made under Municipal Corporations and Municipalities will be applicable to Town Panchayats also.

**GRANTS**

**HOUSE TAX MATCHING GRANT:** (Para 2.4.28)

**148.** The Village Panchayats upgraded as Town Panchayats may be allowed to continue to avail the assistance to which they were eligible as village panchayats for a period of three years by which time, they should improve their financial condition. In the meantime, the Town Panchayats should switch over to Property Tax applicable to Municipal Bodies. The Government could however ensure the equalisation of loss involved by means of a special grant for a specific period wherever found necessary even after the period of 3 years. In the case of transferred territories from Kerala State, the matching grant may be continued since they were allowed to continue the assistance given by Kerala Government at the time of transfer.

**HALFGRANT FOR DUSTLESS SURFACING AND ROAD GRANT FOR IMPROVEMENT**  
(Para 2.4.32)

**149.** Recommendations have been made for taking into account the length of the roads available in all the local bodies for the purpose of allocation of the share out of Motor Vehicles Tax to the divisible pool. The distribution principles recommended by SFC are expected to take care of the requirements of the Town Panchayats, based on performance and need.

**150.** The State Finance Commission recommends that improvement to roads can be taken under special schemes formulated for Town Panchayats. The maintenance of the roads should be from out of own Revenue and distribution of funds from Government under Revenue Account.

**LIGHTING GRANT:** (Para 2.4.34)

**151.** Pending decision on the recommendation for general distribution of share of tax revenue of State to Local Bodies, the existing lighting grant may be continued.

**DRAINAGE GRANT:** (Para 2.4.36)

**152.** The grant now available is paltry and not adequate. All the Town panchayats in Special and Selection Grades may be initially assured of a regular yearly grant on a matching basis for taking up drainage schemes .

**NON TAX REVENUE:** (Para 2.4.39)

**153.** All recommendations for augmentation, change in procedure indicated under "Municipal Corporations" will apply to Town Panchayats.

## **CHAPTER 5 : PANCHAYAT UNIONS**

**OWN TAXES:** (Para 2.5.16)

**154.** Local Cess Surcharge

- (1) The SFC recommends the continuance of the rate of LCS now in force and that the PUs may be encouraged to avail the provision to the maximum extent possible.
- (2) The SFC recommends adoption of the following procedure for adjustment of the revenue to Panchayat Union: To avoid delays involved in identifying the demand and collection under LC/LCS from Taluk Accounts in view of the combined levy of LR consisting of all items defined as LR like Water Cess, Penalties, Encroachment fees etc., a revised procedure may be adopted for easy adjustment of revenue under LC/LCS. The basic land revenue has not undergone any perceptible change for many years. An average land revenue can be arrived at, once in five years, The Local Cess Surcharge could be arrived at on the average LR and adopted as the basis for the assignment of LCS to be released during the course of next 5 years It need not be related to demand and actual collection. The average land revenue now worked out by the SFC for the purpose of arriving at Revised classification of the blocks can be the basis for adjustments for the next five years. Reductions can however

be allowed to cover the deficiencies in collection. The Government can therefore decide to release 85 or 90% of the LCS arrived at on the basis of Average L.R. demand. There is no need for any adjustments based on actual collections every year. 10 or 15% reduction allowed on average demand may be retained by Government to compensate the fluctuation in the figures. This will ensure regular adjustment of the revenues from the Government account to the Panchayat Unions. The collection officials could also be motivated to ensure that collection does not fall below 85 or 90%.

**155.** While remission or waiver is given to agriculturists, under LR in view of the special condition, the loss due to such waiver/remission of LR should not affect the LC & LCS payable to Local Body. If however Government needs waiver of LC & LCS also government should pay the full amount due as compensation to Panchayat Unions.

**156.** The LCS should be credited to General Funds only as envisaged under the Act. The executive instructions directing remittance to "Education fund account" may be withdrawn since there is no need for a separate "Education fund account" in Panchayat Unions as at present. The maintenance of school buildings could be ensured from General Fund itself.

**157.** A regular monthly review of adjustment of the revenues to PUs by revenue authorities may also be prescribed at District and State levels to minimise abnormal delays now noticed at lower levels.

**158.** Alternative suggestion to link the levy to Land holdings instead of on Land Revenue may be studied further.

#### **ASSIGNED/SHARED REVENUE**

**LOCAL CESS:** (Para 2.5.25)

**159.** The SFC recommends the following options for apportionment of Local Cess:

- (1) The entire LC may be passed on to Village Panchayats. in view of the sizable increase of income under LCS to Panchayat Unions.
- (2) Apportionment of 25% Local Cess due to Panchayat Unions in the District to the concerned District Panchayats.
- (3) 25 % of L.C.available to Panchayat Unions may be pooled at State Level for distribution to District Panchayats on a formula basis.

**160.** Recommendations made by SFC for easy and regular adjustment of LCS based on average land revenue demand may be adopted for LC also.

**161.** Local Cess due to Village Panchayats may be directly credited to VPC Fund instead of routing through Panchayat Union General Fund to avoid delay in adjustment.

**ENTERTAINMENTS TAX:** (Para 2.5.27)

**162.** The SFC considers that there is no justification for altering the present sharing pattern between Panchayats and Panchayat Unions.

**163.** This tax has been earmarked as a local taxation by Local Finance Taxation Enquiry Commission 1954, and the total revenue can be passed on to the local bodies as already recommended under "Municipal Corporations". In such a case, the revenue can be divided between the Panchayat Unions and the Village Panchayats in the ratio of 30:70.

**164.** The SFC recommends that the constraints in budgetary allocation for adjustment of ET can be avoided in the following manner:

This apportionment may be exhibited under "Deduct Refunds" in the State Revenue Budget under the respective revenue head as adopted in the case of all other assigned revenues like LC, LCS, Surcharge on Stamp Duty and Mines and Minerals. The SFC recommends that the amount due to Village Panchayats/ PUs may be credited direct to VPC Fund/ General Fund of PU instead of routing the entire amount through General Fund of Panchayat Union to avoid delay in adjustment to VPs.

**MINES AND MINERALS:** (Para 2.5.33 & 34 )

**165.** Avoidable delay in adjustment of Revenue to Local Body has been noticed for many years. The revenue has to be adjusted only at the district level by the Assistant Director of Mines in the Collectorate with the sanction of the Collector. There are no budget constraints. This income is one of the major revenue to the local bodies. The arrears adjustable to Local Bodies will be on an average more than Rs.25 crores per year. This will amount to more than Rs.125 crores over a period of the last five years. The arrears may be released immediately to Local Bodies concerned by District Officials.

**166.** The SFC recommends the following simplified procedure to ensure prompt adjustment to Local Bodies:

The Collectors could ensure adjustments immediately after confirmation of leases in respect of all those cases where confirmation is ordered. Orders to be issued confirming the leases may simultaneously direct the party concerned to remit the amount finalised in the local body concerned (PUC) and produce the receipt before issue of permission to quarry. The Local Presidents and Block Development Officers may also be permitted

to supervise the quarrying according to licence or permit and bring to notice the excess exploitation, if any.

**167.** The revenue collected on granite appears to be very low compared to its export potentiality. The rates may be enhanced. The amount due on granites may be distributed to Local Bodies of Origin at 50 % and the balance of 50 % may be pooled at State level and taken to an "Incentive Fund" to be created. The respective administrative head will distribute to the Local Bodies the amount allocated to the Department.

**168.** In the case of major minerals, 25 % share of the royalty received by the State Government should be assigned to the local bodies. Of this, 50 % may be adjusted to local body of origin and the balance taken to the incentive fund mentioned in earlier paragraph.

#### **GRANTS-IN-AID**

##### **LOCAL CESS SURCHARGE MATCHING GRANT: (Para 2.5.47)**

**169.** The SFC considers that decision will have to be taken on the revised formula applicable to the rates of Levy of LCS (from Rs. 5 to 10) as well as on the commitment thereon to the Government. Revised formula and the commitments to State Government are given in Appendix No.15 with reference to revised classification of blocks for adoption.

##### **LOCAL ROADS GRANT: (L.R.G.) (Para 2.5.47)**

- 170.** (1) The formula for LRG is based on Tracts (Terrains). This may be changed and the rates may be related to surface of the roads as per the latest rates indicated by CE(HW) to the State Finance Commission. The LRG may be on the existing principle of population and length of roads. The rate for length of roads may be adopted at the revised rates indicated by CE (HW).
- (2) The amount so needed for maintenance of PU Roads has been arrived at on the basis of the rates given by the Highways Department and has been taken into account for arriving at the share of LBs from Motor Vehicle Tax.
- (3) Since the share on MVT is proposed to be taken to the divisible pool for distribution no separate Roads grant may be made thereafter. Till then the grant may continue.

## NON STATUTORY GRANTS

### GRANT FOR MAINTENANCE OF MATERNITY CENTRES: (Para 2.5.51)

171. The Government should reimburse the entire cost of the Ayahs to Panchayat Unions as grant and continue them as Panchayat Union staff up to the time of their retirement from service, till the subject is decided under devolution of functions.

### GRANT FOR MAINTENANCE OF DISPENSARIES: (Para 2.5.53)

172. (1) The existing dispensaries may be continued by the Panchayat Unions with grant to meet the full cost of maintenance till the subject is decided under devolution of functions.
- (2) The Government may consider whether there is need for continuance of Rural Dispensaries which were formed in the days of the District Boards when there were no medical facilities in the rural areas
- (3) Rural Dispensaries could be privatised by permitting local willing doctors to use the building.
- (4) The working of the dispensaries in PUs needs detailed examination.

### IRRIGATION GRANT : (Para 2.5.55)

173. A regular cycle system of undertaking repairs may be evolved with a predictable yearly grant for maintenance for a period of five years.

## DEVELOPMENT GRANTS

### CENTRALLY SPONSORED EMPLOYMENT PROGRAMMES (Para 2.5.59)

174. The SFC recommends the following:

The role of SFC is mainly concerned with the deficiencies in the maintenance of the assets created by Local Body from its resources and assets created through other schemes and handed over to the local bodies. The maintenance grants are in the nature of discretionary grants and they can neither be predicted nor insisted. The Massive Employment oriented programmes are currently based on certain guidelines indicated by the concerned Ministries and administrative departments and relate to capital formation. The guidelines may be re-examined as a part of devolution for more flexibility to include civic services infrastructures also for better public utility.

## CHAPTER 6 : VILLAGE PANCHAYATS

### HOUSE TAX: (Para 2.6.16)

175. The SFC recommends the following:

- (1) A revised rate based on the plinth area rental value (Appendix No.16) may be adopted since the existing tax structure based on plinth area will be static and no future revisions based on value could be done. In addition, as in the case of Library Cess, an additional Surcharge at the rate to be decided by Government, may be levied for meeting the cost of provision and maintenance of Radio/Television sets of the Panchayats.
- (2) The general revision once in five years now adopted may be revised as once in three years. There will not be any steep increase of taxation on the tax payers in villages and at the same time the Village Panchayats will also have the benefit of incremental increase in prices for the purpose of taxation.
- (3) The House Tax payer in Village Panchayats may be given the same types of concession allowed to Tax payers in urban local bodies for prompt/advance payment of Taxes.
- (4) The SFC recommends that the system of Passbook proposed to be introduced to urban Local Bodies to avoid the issue of demand notice every time may be adopted in Village Panchayats. The Local Public may be educated about the change of system and also the benefits of rebate for prompt and advance payments. This will reduce scriptory work and avoid the deployment of additional personnel for that purpose. If necessary the system may be implemented after a pilot study in select panchayats.
- (5) The SFC considers that in village panchayats it will not be difficult to fix the dates for collection centres consisting of specific wards and issue of receipts on the spot of collection. This will reduce the number of employees needed for the purpose of collection.
- (6) Only in the case of defaulters, the Officers of Village Panchayats will have to contact assessees and arrange for early collection.
- (7) The SFC recommends that all the procedures indicated under Municipal Corporations and also the publication of the assessment list in the village panchayat may be resorted to, so that the appeal and revision cases can be reduced to the minimum.

- (8) The enabling provisions for distraint proceedings against immovable properties may help clearance of arrears in VPs also.
- (9) The existing procedure for revision and appeal of House Tax may continue in Village Panchayats.

**PROFESSION TAX:** (Para 2.6.18)

176. The recommendations made in respect of Municipal Corporations and Town Panchayats will apply to VPs also.

**VEHICLES TAX:** (Para 2.6.20)

177. The Vehicle tax has already been discontinued.

All power driven vehicles like tractors, and two wheelers may be made liable for vehicles tax at different ranges of rates proposed, under Municipal Corporations.

**PILGRIM/TOURIST TAX :** (Para 2.6.21)

178. All the recommendations made under Municipalities may be made applicable to the VPs also.

**TAX ON AGRICULTURAL LAND FOR SPECIFIC PURPOSES:** (Para 2.6.23)

179. The SFC considers that instead of this tax, an enabling provision for levy of betterment charges can be made on all the properties in the area. The Panchayats can levy and collect whenever funds are needed. The owners of vacant lands also may be made liable for this levy of betterment charges. The Tamil Nadu Panchayats Act, 1994 may be suitably amended.

**WATER TAX :** (Para 2.6.27)

180. (1) A suitable provision may be made in the Tamil Nadu Panchayats Act, 1994 enabling the compulsory levy of water tax as an addition to house tax in village panchayats.
- (2) In the case of house connections, user charges can be claimed at a flat rate as applicable to the neighbouring urban or rural local body.
- (3) The Government may permit the house connections in village panchayats where adequate water is available for supply, so that there will be more yield in revenue.

**ASSIGNED/SHARED REVENUES:** (Para 2.6.35)

181. Assignment of Local Cess, Surcharge on Stamp Duty, Entertainment Tax and Mines and Minerals have been discussed in detail under "Panchayat Unions"

and recommendations made there under will apply to VPs.

**SURCHARGE ON STAMP DUTY: (Para 2.6.36)**

- 182.** (1) The SFC considers that any change in the procedure for distribution of surcharge on stamp duty will require amendment of the Tamil Nadu Panchayats Act 1994. It is also likely to affect adversely the amount realised by the various Panchayats at present, if distribution is based on population. Hence the existing procedure based on LR may be continued.
- (2) To avoid delay, Damodaran Committee recommended that the distribution can be made based on the average demand of settled land revenue now adopted for levy of local cess and local cess surcharge instead of waiting for the receipt of collection figures every year. These figures may be collected Panchayatwise and kept at Panchayat Union level. This can be linked to the number of land holdings if a system of levy of LC/LCS is to land holdings as suggested in para 2.5.15 & 2.5.16.
- (3) The amount sanctioned is now initially credited to the Panchayat Union Funds and then the Panchayat Union Commissioner transfers the amount to the Village Panchayat account after working out the amount due to the various Panchayats. This revenue may be directly adjusted to the account of VPs and the Panchayat Union Council can work out the amounts due to each VP and give credit to individual Panchayats.

**INCOME FROM FEES AND CHARGES: (Para 2.6.39)**

**INCOME FROM SOCIAL FORESTRY:**

- 183.** (1) The SFC considers that Social Forestry is a rich potential to Village Panchayats. The Panchayats may be permitted to raise forestry in all poramboke lands and tank bunds irrespective of ownership. The right of auctioning should be left to the local bodies and a regular system of tender cum auction should be prescribed to enable realisation of real income.
- (2) The procedure of auctioning should be suitably revised with provision for participation by the local panchayats. The amount realised should be straightaway credited to the Village Panchayats instead of taking it to the Government account and then transferring it to Village Panchayats through Panchayat Unions.
- (3) This scheme needs study on simplification of procedure with reasonable freedom to Local Bodies on expenditure relating to planting and rearing. Expert opinion may be confined to officers in the District.

- (4) These recommendations may also be made applicable to urban Local bodies where urban Forestry schemes are implemented.

**FISHERY RENTAL :** (Para 2.6.42)

184. (1) The power of auctioning local body assets should be only with the concerned local body. If necessary a committee consisting of representatives of panchayats and officials can be formed for ensuring proper implementation. Collectors may be given powers to interfere where the implementation is not properly done. Fish Farmers' Development Co-operative Agencies should also be a bidder along with others and no monopoly should be given to them.
- (2) Regarding PWD tanks also, a share of proceeds should be made available to the local panchayats and the local bodies should be permitted to supervise the lease so that over exploitation could be watched and brought to notice to avoid future leases.
- (3) In respect of bigger tanks covering more than one panchayat or panchayat union, auction may be done through a Committee consisting of the representatives of the local bodies involved and the proceeds shared between those local bodies at the rates to be prescribed by the Inspector/Collector.
- (4) The above recommendations may be extended to urban Local bodies wherever the fishing operations are in existence.

**2-C PATTA TREES:** (Para 2.6.45)

185. (1) Wind fallen trees should be auctioned by a committee consisting of representatives of PU Council, Panchayat, PU Commissioner and Revenue official concerned. The auction should be decided by the Committee, to ensure better price.
- (2) The auction amount may be remitted to the PU Council Treasury for credit to the Village Panchayat funds.
- (3) In respect of Town Panchayats, the amount may be directly credited to Town Panchayat Funds.
- (4) In case of dead trees, the Panchayats should be given powers to report the fact and initiate action to remove them from the roads and sell them, ensuring quick disposal of the trees and realisation of better revenues.

**FAIRS AND FESTIVALS:** (Para 2.6.48)

- 186.** (1) Levy of Pilgrim/Tourist Tax has been discussed under Municipal Corporations. They may be applied to Village Panchayats also.
- (2) In view of the difficulty in getting a share on expenditure during festivals from the temples, as an alternative, the temples having a sizable income throughout the year through pilgrims may be required to share or contribute to the expenditure on civic amenities to be provided by the local bodies concerned. The Temple at Tiruchendur has been contributing from its own funds for laying of roads etc. and a similar attempt can be made in respect of other big temples in Tamil Nadu. OR The temple may collect an additional fees along with their entrance tickets for the Local Body and pass on that money to concerned Local Body.

**PENALTIES AND FINES:** (Para 2.6.51)

**187.** The revised rates proposed by Damodaran Committee (1990) in lieu of rates indicated in Schedules II and III of the Tamil Nadu Panchayats Act, 1994 and suitably revised by SFC may be adopted and the Act amended suitably. (vide Appendix Nos.18 &19)

**GRANTS:**

**HOUSE TAX MATCHING GRANT (STATUTORY):** (Para 2.6.55)

- 188.** (1) The new system of devolution of funds other than statutory grants takes into account the tax performance as one of the criteria for devolution of funds.
- (2) The existing system of House Tax matching grant can also be linked to collection performance instead of providing equal amount.
- (3) Based on the categories of village panchayats now evolved, the question of considering higher percentage to the lowest categories can be thought of by keeping the present level of matching grant as the base for the higher categories. Specific recommendations given in Appendix No.20 may be adopted.

**GRANTS FOR WATER SUPPLY AND STREET LIGHTING (DISCRETIONARY):** (Para 2.6.57)

**189.** Till a decision is taken on the recommendation on divisible pool the present method of assistance by way of grant for street lighting and for water supply will have to continue on a regular basis. **The consumption charges in public lighting and**

**also the repair charges for water sources, may be met by Government in full.**

**DEVELOPMENT GRANTS : (Para 2.6.59)**

190. (1) The grants intended for Village Panchayats may be directly adjusted to the Panchayat Funds by the District authorities to avoid delay in routing through the Panchayat Unions.
- (2) If freedom is given to the local bodies, they may utilise the funds under Employment schemes for priority items in the area rather than sticking to the purpose indicated for the grant. This will be a major policy decision to be taken at the higher levels of government.

**REMUNERATIVE ENTERPRISES: (Para 2.6.61)**

191. (1) In village panchayats with higher population/income, remunerative schemes like shops, markets, bus stands and stalls and community centres may be encouraged with assistance from Government.
- (2) The Assistance should not be entirely on loan basis as in Urban bodies but should be on the basis of Grant-cum-Loan.
- (3) The freedom to implement the schemes should be left to the Panchayats except for technical guidelines and supervision. These aspects have been dealt with under "Municipal Corporations". They may be extended to Village Panchayats also. The Panchayat Union Commissioner may be the liaison as well as supervisory authority for implementation, auction and other related matters in respect of "Remunerative Enterprises".

**CHAPTER 7 : DISTRICT PANCHAYATS (Para 2.7.3)**

192. The SFC has taken the view that out of the total allocations to be made by State Government to the LBs and to be divided between Urban and Rural as per the norms proposed by SFC, the amount needed for actual expenditure of the DPs will be retained out of the Rural allocation and the balance will be distributed to PUs and VPs on principles proposed by SFC. The amount retained for DPs will be distributed as Block Grant, In addition devolution of a share on Local Cess has also been recommended. The Government have recently distributed funds to District Panchayats to an extent of Rs.1 crore for 1996-97. Taking this as guidelines, devolution of block grant to District Panchayats is discussed in Part V Resource Allocation Mechanism of the report.

**CHAPTER 8 : DEBT SERVICING AND LIABILITIES: (Para 2.8.7) (2.8.15)**

**193.** In the case of schemes already completed, unless special assistance is given, LBs will not be able to repay the debt amount. To ensure repayments, the SFC makes the following recommendations;

- (i) The payment schedule may be revised with more number of instalments.
- (ii) Interest rate may be subsidised by the Government to the LBs in the lower level grades.
- (iii) Clause for penal interest may not be insisted upon in view of the slender financial resources of the LBs, default in payment being not wilful.
- (iv) The cost of maintenance claimed by TWAD Board under the combined water supply schemes may be re-worked out to avoid high overhead cost included therein.
- (v) The LBs may be allowed to clear off the arrears by paying current annuity with one instalment towards arrears without additional interest on outstandings.
- (vi) It has been informed that certain expenses incurred by LBs like D.A. were agreed to be compensated by the Government. They are stated to be still in arrears for a number of years. The SFC, therefore, recommends that the arrears towards D.A. subsidy not paid by the Government may be sanctioned and adjusted towards the debts due from the local bodies.
- (vii) It is brought to the notice of SFC that the assignments of revenues due to Local Bodies from out of Surcharge on ST, Local Cess, LCS and Mines and Minerals have not been adjusted for a number of years and that the amount has been accumulated in the Government account. The SFC, therefore, recommends that the above amounts may also be sanctioned and adjusted towards the debts due by the L.Bs. wherever possible.
- (viii) If timely adjustment of all revenues is ensured by Government in future years, compulsory repayment of current annuities with one instalment of over-due annuity can be insisted upon.
- (ix) The SFC recommends to the Government to consider the scaling down of the loan commitment of the LBs or for re-scheduling of loan repayments suitably after adjusting the dues from Government to Local

Bodies. Rebates on interest element including waiver of penal interest may also be given.

- (x) In the case of remunerative schemes, the LBs should be given liberty to fix rentals suitable to market conditions to enable them to discharge their liability.
- (xi) The technical agencies implementing the Local Body schemes should be made jointly responsible for escalation in cost because of the time over-run. The Local Bodies should have a say in cases of time over-runs.

#### **PENSION CONTRIBUTION AND COMMITMENT ON PAYMENT OF PENSION:**

(Para 2.8.31)

- 194.** (i) The SFC considers that the gap between the pension contributions and actual pension payments is of recurring nature. Since the Local Bodies are already paying 20% Pension Contribution they cannot be asked to meet the entire pension liability. It was not visualised when the pension scheme was introduced. It will not be practical also, because the Local Bodies are not in a position to meet even the monthly salary payments and the pension contribution.
- ii) The SFC, therefore, considers that the Government may have to bear the commitment
  - iii) SFC feels that the separate fund created and now administered by the Director of Local Fund Accounts and Audit is not viable. The Government will have to contribute to the Fund from time to time to cover the deficit. Instead, the contributions of LBs may be adjusted against releases to be made by Government, or may be got remitted to Government account by compulsion. The entire pensionary payments of Local Bodies may be taken over by the Government and pension paid to the LB pensioners direct through the treasuries.
  - (iv) The Director of LF Accounts may continue to be the authority to sanction pensionary benefits.

#### **PROVIDENT FUND : (Para 2.8.32)**

**195.** The SFC recommends that the Provident Fund administration may be taken out of the control of the concerned LB since all the Local Bodies have appropriated the collections without any investment. It may be centralised and the total PF deduction by LBs may be worked out once in a half year and got compulsorily remitted to the

authority concerned. In case of defaulters, amount may be adjusted from Government assistance to be released to the concerned Local Bodies. Unless some drastic action is taken, the appropriation of the PF accumulations by the Local Bodies cannot be avoided. This may be given to Director of Local Fund Accounts and Audit.