PART - II

AUGMENTATION OF RESOURCES

CHAPTER - 1

REVENUE SOURCES OF LOCAL BODIES

2.1.1. The general principles to guide the assignment of revenue sources among the three different levels of government in a federation is the a Congruence principle, namely, the less mobile a tax base and stronger the spatial concentration of the tax base and ownership, the lower should be the level of government to which those taxes should be assigned. Using the criteria of equity and efficiency, Musgrave (1984) suggested the following broad principles of revenue assignment:

1. Taxes suitable for economic stabilisation should be central;

2. Progressive redistributive taxes should be assigned to central governments;

3. Tax bases distributed highly unequally between jurisdictions should be centralised;

4. Taxes on mobile factors of production are best handled centrally;

5. Residence - based taxes such as sales of consumption goods to consumers or excises are suited to States;

6. Taxes on completely immobile factors of production are best suited for local levels;
7. Taxes of lower levels of government should be cyclically stable;

8. Benefit taxes and user charges are to be used appropriately at all levels;

9. Resource taxes and Value - added Tax (VAT) are appropriate for sharing between governments.

2.1.2. The local bodies under different tiers have been vested with powers for local taxation (which have been) devolved over the years under various circumstances and spheres. The local bodies enjoyed such powers even before the advent of British rule. During the British rule, the entire system underwent changes and the system of local government was given effect to under various stages with limited devolution of powers and finances. They could be seen from the reports of the various Committees constituted during the British rule like Royal Commission on Devolution (1906) and Indian

Taxation Enquiry Committee (1924). The pre-Independent situation more or less continues even after Independence. The powers of local Taxation have been examined by various Committees/ Commissions and also different Enquiry Commissions from time to time, and several recommendations were made to Government of India. The significant of these commissions are Local Finance Enquiry Committee (1950), Taxation Enquiry Commission (1953-54) and Santhanam Committee (1963) in respect of rural bodies and Zakaria Committee (1963) in respect of Urban bodies, and Rural-Urban Relationship Committee (1966).

2.1.3. The Local Finance Enquiry Committee(1950) recommended as many as 12 items of revenues out of the State and Central lists for making available the net proceeds of the revenues exclusively to the local bodies.

2.1.4. 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.

2.1.5. The following guidelines are indicated for the choice of local taxes by (Vide Working Group Reports on Municipal Finance)

1. The tax base should be immobile, to allow the local authorities some freedom to vary the tax rates without the tax base vanishing.

2. The tax yield should be adequate to meet local needs and be sufficiently buoyant (i.e.expanding, at least, as fast as expenditure over a period of time);

3. The tax yield should be stable and predictable and it should not be susceptible to cyclical fluctuations;

4. The tax should be perceived to be reasonably fair (in terms of progressivity) by taxpayers;

5. The tax should be easy to administer efficiently (at minimum resource costs) and effectively;

6. It should not be possible to export much if any, of the tax burden to non-residents;

7. The tax base should be visible, to ensure accountability on the part of Local government.

2.1.6. The Taxation Enquiry Commission (1953-54) considered it desirable and necessary that out of the various recommendations made by the Local Finance Enquiry Committee (1950), certain items of Resources should be reserved for being utilised solely by/or/for the local bodies. It also indicated that these taxes should be allowed to be developed only by the local bodies, or for them; where the State Governments are utilising any of the taxes for the purpose of the State revenues, the State Government should gradually withdraw from the field and meanwhile allot the proceeds from these taxes to the local bodies. The items recommended by the Taxation Enquiry Commission (1953-54) to be earmarked for Local Taxation are:

i. Taxes on lands and buildings, (Property/House/Vacant land Tax)

ii. Taxes on the entry of goods into the area of a local authority for consumption, use or sale therein, popularly known as octroi,

iii. Taxes on vehicles other than those mechanically propelled.

iv. Taxes on animals and boats.

v. Taxes on professions, trades, callings and employment, (Profession Tax) and

vi. Taxes on advertisements other than advertisements published in the newspaper.

The above recommendations mostly fall in line with the general principles of Local Body Finance indicated in the earlier paragraphs. Besides, the Taxation Enquiry Commission also suggested certain types of grant-in-aid in addition to tax assignments by the government to the local bodies, the details of which will be discussed at the appropriate context. The Santhanam Committee on Panchayat Raj Finance (1963) felt that the financial resources have to be adequate for the functions allotted to each Panchayat Raj institution and substantial assistance should come from the Government. At the same time, it should not detract the dignity and autonomy of a self-governing institution due to dependency on assistance from higher level. It is essential that for stability and growth of these institutions, they should have substantial and growing resources entirely within their power to exploit and to develop.

2.1.7. The Committee of Ministers of Local Administration (1963), in their report, indicated that making a few recommendations for augmenting the resources of local bodies will be futile without proper assessment of their actual needs. The Committee, therefore, recommended that the over-all needs in respect of basic minimum services should be assessed and resources found out to bridge the gap between the resources and needs. According to the recommendations of various Commissions and Committees, adequate assistance has been suggested to the local bodies for discharging the obligatory and discretionary functions. However it is found, in practice difficult to assess the level of needs and services and also the levels in the stages of development in each of the various local bodies and quantify and classify them into various categories for the purpose of financial assistance. This has resulted in adoption of ad-hoc measures for financial assistance.

2.1.8. The present Constitutional requirement (73rd & 74th Amendments) for a three tier system of Panchayat Raj and a uniform three types of urban local bodies and the suggested devolution of additional functions to these local bodies involve corresponding additional financial responsibilities for the local bodies which have to be taken care of by the Centre and State. The need for a State Finance Commission to review the finances of the local bodies has therefore arisen as exhibited under 243.I of 73rd Constitutional Amendment Act(1992). It is also found necessary that the State Finance Commission's recommendations will have to precede those of the Union Finance Commission so that the requirements of Local bodies could be considered by Union Finance Commission.

2.1.9. The District Planning Committees and Metropolitan Committees envisaged under the Constitutional Amendments devolve the Constitutional responsibility to consolidate the plans prepared by the DPCs for all the local bodies which ought to be taken care of by the State Planning Commissions to adequately provide financial resources for the various functions now allocated to each of the tier of the local bodies. Mere transfer of power or transfer of funds may not achieve the objective of the Constitutional amendments made. It is necessary to adopt an integrated approach of functions, finance and functionaries, while making recommendations for augmentation of resources as well as for assistance from the various levels of Government. The resources of Local bodies can be generally grouped under four broad heads, viz.,

1. Own Resources
2. Assigned/Shared Revenues
3. Grants and
4. Loans.

2.1.10. Own Resources consist principally of own taxes, fees and other non-tax revenues. The own taxes comprise generally Property/House Tax, Profession Tax, Vehicle Tax, Tax on agricultural land, Pilgrim Tax, Tax on animals, in all the local bodies. In Tamil Nadu, only in the case of Madras Corporation, a few more taxes are levied, namely, Tax on Companies, Tax on Timber, and Tax on Advertisements. Tax on Advertisement is levied by Municipalities in Kanyakumari District also.

2.1.11. Assigned Revenues as on date contain two parts, (1) Taxes levied, collected and passed on to local bodies by State Government (2) Taxes levied, collected and shared by the State government with the local bodies.

2.1.12. So far as the Grants are concerned, there is no specific system of grant-in-aid and there is no general purpose grant such as per capita Grant for

Establishment as envisaged by the Taxation Enquiry Commission (1953-54). The grants are given either as incentive for tax efforts or for matching the efforts in maintenance of services. Mostly, the grant-in-aid is discretionary and unpredictable and no specific provision has been made in the statute to make them compulsory, except in a few cases. Loans are availed of for creating infrastructural facilities with the permission of the Government subject to the capability to discharge the debt service.

EXISTING RESOURCES OF LOCAL BODIES AND TAXES WHICH ARE COMMON IN NATURE.

2.1.13. In Tamil Nadu, the resources of local bodies are mainly derived from various sources, namely, taxes, non-taxes, assigned revenues and grants by the different tiers as indicated below:

1. Municipal Corporation

Own taxes	Assigned revenues	Grants	Other revenues
1.Property Tax	1.Entertainment tax	----	Non tax
	2.Stamp duty surcharge	Centrally	Revenues likeincome
2.Vacant Land Tax	3.Surcharge on Sales Tax	sponsored	from properties like
	4.Income from minor minerals	special	Shops, Bus stands,
3.Profession Tax		schemes	Guest house etc.
4.Vehicle Tax			
5.Tax on animals			2. Licence fees on D & O Trade
6.Tax on Timber			
7.Tax on Companies			3. Licence fees on building regulations
8.Tax on advertisement			
* Applicable only for Chennai city Corporation.			4. User charges;
			5. Misc.Revenues.

2. Municipalities

Items 1 to 5 as in Municipal Corporation	- Do -	Grants for Specific schemes & for other services like Maternity Centres on ad -hoc basis	- Do -

3.Town Panchayats

Own taxes	Assigned revenues	Grants	Other revenues
1. House Tax 2. Profession Tax 3. Vehicle Tax 4.Tax on Agricultural land for specific purpose.	- Do -	1. Road Maintenacne and improvement grant. 2.Lighting grant (Both on ad hoc basis) 3. Other grants for Agency functions.	-Do-

4.Village Panchayats

-do-	1.Local Cess 2.Entertainment Tax 3.Stamp duty surcharge 4.Surcharge on Sales Tax 5.Minor Minerals	1.House Tax matching grant 2.Water Supply grant 3.Lighting grant 4. Rural Development Programmes grant (1. statutory 2-3Adhoc)	-do-

5.Panchayat Unions

Local cess surcharge on Land Revenue	1.Local Cess 2.Entertainment tax	1.Local Cess surcharge matching grant. 2. Local Roads grant. 3.Discretionary grants for entrusted functions like Dispensary, Maternity Centres, Minor Irrigation. (All on ad hoc basis.) 4. Agency Function grants.	Income from properties & Misc Revenues

6.District Panchayats

(Not yet specified)

2.1.14. It may be seen from the above that the tax on property, tax on profession, trades, calling and employment (Profession Tax), and Vehicle Tax are common in nature in both urban and rural local bodies. In respect of non-tax items, almost all the items, namely, user charges like water charges, licence fees on D & O trade, licence fees on buildings and income from properties and income through remunerative enterprises are common in respect of all the civic bodies. The perceptible difference in the tax and non-tax structure is found only in respect of intermediary Panchayat Raj bodies, namely, Panchayat Unions (Samithis).

2.1.15. As far as Tamil Nadu is concerned, the District level tier viz. District Panchayat has been newly constituted and its powers for taxation as well as for other Resources have not yet been defined. Similarly, the functions envisaged for the local bodies are mostly common in respect of Municipal Corporations, Municipalities, Town Panchayats and Village Panchayats, though they may differ in area coverage and degree of operation. In respect of Panchayat Unions and District Panchayats, the obligatory as well as discretionary functions vary from those of the other local bodies. These bodies are mainly intended to monitor the developmental activities viz. Agency functions. The Village Panchayats are given limited responsibility on the civic functions like maintenance of panchayat roads, provision of sanitation, garbage clearance, street-lighting and water-supply. The major aspects like health protection, provision of medical facilities, provision of primary education and the maintenance of roads linking the villages have been vested with the Panchayat Unions. While the entire ranges of civic functions of providing civic amenities including Public health, medical care and Education are looked after by the urban local bodies themselves, in the rural set-up, the functions have been segregated and entrusted to the grass-root level body, namely, Village Panchayat and the intermediary body, namely,Panchayat Union, depending on the capability and the infrastructural facilities available at the village and Panchayat Union level.

2.1.16. In the case of Town Panchayats, they have all along been under the Rural set up and only after 74th Amendment, they have been brought under District Municipalities Act 1920. Though they have been included under urban Local bodies most of the characteristics are still of rural nature and they still continue to adopt the provision of Tamil Nadu Panchayats Act 1994 relating to Taxation powers of village panchayats as a transitional arrangement. These details need to be explained, since augmentation of resources of the various tiers has to be clearly defined, taking into account the responsibilities entrusted to them. The functional domain has been briefly indicated even though they are dealt with in detail in different Chapters. Any effort for augmentation of resources in isolation of the duties and responsibilities identified for the local bodies may prove futile. Considering these aspects, the various avenues and resources available to local bodies, both urban and rural, have been discussed in detail in the succeeding Chapters, institution-wise to facilitate better understanding of the over-all position of the resources of each of the institutions. Wherever the principles of taxation, assessment, collection and appropriation of proceeds are common in nature they have been discussed in detail under one tier of local body, and the distinct differences in respect of the other local bodies alone have been dealt with under the respective appropriate local bodies.