

CHAPTER - 4

TOWN PANCHAYATS

2.4.1. Town Panchayats were, for the first time constituted, under the Tamil Nadu Panchayats Act 1958. They were among the constituents of the Panchayat Union Councils. The entire community development schemes implemented in early 60s were executed Town Panchayats also. The origin of Town Panchayats and their relative position in the previous Acts and how this nomenclature has adversely affected the Town Panchayats as well as Tamil Nadu in the allocation of resources made available to panchayats by the Government of India under various Employment oriented schemes have been dealt with in greater detail under the Part IV relating to ‘ ‘Organisation and Powers’’. It has also been explained that most of the Town Panchayats now in existence do not satisfy the ingredients prescribed for the upgradation of Village Panchayats as Town Panchayats. Most of them still do not have the Urban characteristics barring a few, who are also very weak financially. Once they become Town Panchayats they lose the assistance available to a Village Panchayat and they are also saddled with higher establishment expenditure.

2.4.2. The revenue sources now available to the Town Panchayats are based on Tamil Nadu Panchayats Act 1994 as detailed below.

1. House Tax
2. Profession Tax
3. Vehicle Tax
4. Tax on agricultural land for specific purposes.

2.4.3. The income from these sources in the years 1991-92 to 1993-94 is given below:

Table 2.35. Town Panchayats - Composition of Own Tax Revenues
(Rs. in Crores)

Own Taxes	1991/92		1992/93		1993/94	
	Amount	%	Amount	%	Amount	%
House Tax	15.67	72.89	15.92	79.80	16.82	49.58
Water Tax	1.48	6.90	1.56	7.82	1.74	5.12
Profession Tax	4.04	18.77	2.12	10.64	14.89	43.87
Tax on Carriages & Animals	0.01	0.06	0.01	0.04	0.15	0.43
Tax on Carts/ Vehicles	0.06	0.27	0.06	0.29	0.06	0.17
Tax Agricultural Land	0.07	0.32	0.07	0.34	0.10	0.29
Pilgrim Tax	0.17	0.79	0.21	1.07	0.18	0.52
Own Tax : Total	21.50	100.00	19.95	100.00	33.94	100.00

House Tax:

2.4.4. The Town Panchayats levy house tax while the other urban local bodies levy property tax. The distinction in the ingredients between the Property tax and house tax is that the House Tax is levied only on the building and property tax is levied on the building and also on the land appurtenant to that building. The Property tax has components for services while House Tax does not have such components. Though the Town Panchayats have been brought under the 74th Constitutional Amendment Act and included under the District Municipalities Act 1920 as transitory area, they are allowed to continue the same taxes levied under the Tamil Nadu Panchayats Act 1994 till they switch over to taxation under the District Municipalities Act.

2.4.5. During the course of District sittings and also in the conference of the Executive Officers of Town Panchayats, views in favour of switching over to the municipal taxation was stressed. Though these institutions are considered as a transitional area between the rural and urban, they may be allowed to switch over to the municipal taxation, so that, when they are upgraded as Municipalities, there may not be difficulty in following all the taxation policies.

2.4.6. At present the House Tax does not have any service components and only those who have protected water supply schemes, levy water tax in addition to House Tax under Public Health Act. Under the property tax, components for various services like scavenging, lighting, water and drainage are included. In the case of Town Panchayats no education tax could be levied since they have no responsibility on primary education. A General Purpose property tax and a service tax consisting of water, drainage, lighting and scavenging can be levied by the Town Panchayats on par with the other urban local bodies.

2.4.7. At present the house tax is levied at a maximum of 20% on the Annual Rental Value or at 1% of the capital value per year. Most of the Town Panchayats have resorted to levy based on ARV. The rate of levy ranges from 5 to 20 %. The details of income from House Tax is given below:

Table 2.36 Town Panchayats - House Tax - No. of Assesseees

	Assesseees Nos. (In lakhs)	%in Nos.	Demand yield (Rs.in Crores)	Per centage
Residential	18.26	83.01	12.60	71.28
Non-Residential	3.57	16.23	4.11	23.25
State Government	0.16	0.70	0.91	5.14
Central Govt.	0.01	0.06	0.06	0.33
TOTAL	22.00	100.00	17.68	100.00

Exempted cases	Demand
Education :	Rs. 1.01Crores
Charities :	Rs. 0.40 Crores

2.4.8. The income from House tax ranged from Rs.15.42 crores to Rs.16.53 crores in the years 1991-92, 1992-93 and 1993-94, and contributed about 19.24% of the total income. The percentage of income has fallen down during the years 1992-93, 1993-94 (From 24.4% in the year 1991-92 to 21.9% in 1992-93 and 19% in 1993-94.) In terms of per capita the income ranges between Rs.18 and Rs.19. The per capita income from this source is very low. The income per assessee was as below:

Table 2.37 Town Panchayats - House Tax - Income per Assessee

Residential :	Rs. 69.00
Non-Residential :	Rs.115.13
Ratio :	1:1.47

The tax on non residential should contribute at least two to three times the tax on residential. Hence there is scope for tapping from non-residential. The collection performance under this tax is very low and varies widely in the different grades of Town Panchayats from 54% to 69%. The tax yield is static without any substantial growth.

2.4.9. The tax administration in the Town Panchayats needs revamping. The reason for low performance is attributed to the ban on general revision for two decades. Though the ban has been lifted in Municipalities the Town Panchayats are still awaiting instructions. Sizable amounts have been lost due to non-revision for two decades, namely, 4 general revisions. It will be difficult to enforce the general revision based on the current value of the properties since it will lead to steep rise in the tax amount which will be resisted by tax payers. The views expressed during District sittings, the replies received to the questionnaires from public, VIPs and NGOs and opinion gathered through in-depth study, reveal that the local public are not unwilling for increase in tax. They prefer general revisions regularly and in a systematic manner. They are averse to the steep increase consequent to non revision for several years. This aspect was discussed by Damodaran Committee in 1990. The loss of income to Town Panchayat is due to the policy of Government. That committee recommended compensation in cases where such postponements are ordered by higher authorities. The Acts and Rules should be suitably amended to prohibit postponements. The law should also be specific to the effect that compensation should be paid to the local bodies whenever any tax or cess or other levies of the local bodies are either waived or postponed by Government.

2.4.10. The main reform needed in Town Panchayats is to introduce property tax. Other reforms on assessment, levy, appeal, collection and distraint under Municipal Corporations/ Municipalities should apply to the Town Panchayats.

Tax rates which may be adopted by Town Panchayats. The General revision of taxes zone wise during the course of 3 years, instead of undertaking revision at the end of the 3rd year, has also been suggested based on experience of the Municipal Corporations like Chennai, Coimbatore and Madurai This and the other suggestions relating to 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 the tax collection payers for prompt and advance payments, introduction of incentive to the tax collection machinery made under Municipal Corporations may be made applicable to Town Panchayats also.

2.4.12. The percentage of components under the service tax may be examined in detail by the department keeping in mind the priority of the service within the maximum ceiling prescribed for the property tax The Government have prescribed in the Tamil Nadu Panchayats Act, the minimum and maximum level for House Tax but no such ceiling is available for the municipal bodies. A minimum of 15% per year may be prescribed including components for Town Panchayats. Those who levy already higher than the minimum will continue at that level and any reduction of rate should have approval of 'Inspector'. This tax can be divided into two components viz. general purpose and service tax as recommended under Municipal Corporations.

2.4.13. Recommendations:

The SFC recommends the following:

1. 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.
2. All Tax reforms and recommendations on assessment, levy, appeal, collection and distraints suggested under Municipal Corporations/ Municipalities will apply to Town Panchayats also.
3. 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.
4. 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.
5. 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

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 also .

6. 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.
7. A minimum of 15 % and maximum of 30% per year of plinth area based ARV may be prescribed as Property tax including the service tax in Town Panchayats.

Profession Tax:

2.4.14. The details of Profession Tax assesseees in Town Panchayats are given below:

Table 2.38. Town Panchayats - Profession Tax - Details of Assesseees

	No. of Assesseees (In Lakhs)	Demand (Rs. in crores)
Salaried	2.89	6.02
Shops and Establishment	0.68	1.23
Companies	0.17	0.78
Banks	0.03	0.27
Other Professionals Consultants Lawyers and Medical Practitioners	0.88	0.51
Total	4.65	8.81

2.4.15. Profession Tax is levied in Town Panchayats on the same basis as in other local bodies viz., Corporations and Municipalities since the present enactment is common to all the Local bodies. There are about 3.77 lakhs assesseees under the salaried class and about 0.88 lakhs assesseees under the non-salaried sector of which professionals like Doctors, legal practitioners, consultants etc. account for 2.27% Town Panchayats derive about Rs.8.30 crores from salaried classes and Rs.0.51 crores from others. In terms of per capita the income from this source accounted for Rs.5 in 1991-92, Rs.2 in 1992-93 and Rs.17 in 1993-94 and in terms of percentage this source contibuted 6.4 % in 1991-92, 3% in 1992-93 and 17.1% in 1993-94 of the total income. The jump in revenue in 93-94 was due to the implementation of the new enactment of 1992.

2.4.16. Recommendation:

The SFC recommend the following:

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

Vehicles Tax:

2.4.17. The Town Panchayats levy Vehicles Tax under the Tamil Nadu Panchayats Act, 1994. When they switch over to the Municipal Act, they will be eligible to levy Tax on Animals and Carriages and Tax on Carts as envisaged under the District Municipalities Act. The Vehicles Tax has since been abolished by Government. The recommendations made under other Municipal bodies will be applicable to the Town Panchayats.

2.4.18. Recommendation:

The SFC recommend the following:

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

Tax on Agricultural and for Specific purposes:

2.4.19. The Town Panchayats are eligible to levy tax on agricultural land for specific purposes under the Tamil Nadu Panchayats Act, 1994. This tax was available even under the Tamil Nadu Panchayats Act, 1958. During the last 40 years, negligible number of Panchayats utilised the provision. Even with a matching grant provision the Town Panchayats have not exploited this source, Damodaran Committee (1990) discussed this and recommended modification of the provision by necessary amendment to enable levy of development charges on all assesseees in the locality without specific reference to agricultural land. When the Town Panchayats switch over to the taxation under Municipal Act they will become ineligible to utilise this provision under the Tamil Nadu Panchayats Act, 1994.

Pilgrim/Tourist Tax:

2.4.20. The recommendations made under 'Municipal Corporations' may be extended to Town Panchayats also.

Assigned/Shared Revenues:

2.4.21. The details of Assignments/Shared Taxes available to Town Panchayats are as below:

Table No.2.39 Town Panchayats - ASSIGNED/SHARED REVENUES BY SOURCES
(Rs. in Crores)

Sources	1991/92		1992/93		1993/94	
	Amount	%	Amount	%	Amount	%
Surcharge on Stamp Duty	17.68	83.54	23.43	84.83	22.47	83.82
Surcharge on Sales tax	0.27	1.29	0.68	2.46	0.33	1.23
Local Cess	0.26	1.25	0.37	1.35	0.39	1.44
Entertainment Tax	2.85	13.47	3.05	11.05	3.54	13.21
Toll Compensation	0.01	0.07	0.03	0.13	0.03	0.11
Lease:						
Mines & Minerals	0.08	0.39	0.05	0.18	0.05	0.20
Shared revenue : Total	21.15	100.00	27.61	100.00	26.81	100.00

2.4.22. The assigned revenues available to Town Panchayats are the same as those that are available to the Municipal Corporations and Municipalities, viz., Entertainments Tax, Surcharge on Stamp Duty, Surcharge on Sales Tax, Income from minor minerals. No Toll compensation is however available to Town Panchayats. These items have already been discussed and the recommendations made in earlier chapters will be applicable to the Town Panchayats also.

2.4.23. Local Cess and Local Cess Surcharge under T.N.P.Act 1958 was levied in the Town Panchayat areas. Since the Town Panchayats now come under the Municipalities Act 1920 the revenue cannot be collected in these areas. Since these taxes were already in force in these areas, they may be continued by suitable amendments to the Municipal Act as suggested earlier under Municipalities and proceeds of both LC and LCS passed on to Town Panchayats.

2.4.24. Recommendations:

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

Grants:

2.4.25. The income from various grants available to Town Panchayats is given below:

Table 2.40 Town Panchayats - Details of Grants From State Government
(Rs. in Crores)

DETAILS	1991/92		1992/93		1993/94	
	Amount	%	Amount	%	Amount	%
For General Purpose	1.01	46.73	1.34	45.90	1.17	39.24
For Specific Purpose						
Roads	0.50	23.03	0.65	22.18	0.60	19.93
Public Health	0.22	10.11	0.37	12.51	0.20	6.71
Medical	0.01	0.48	0.01	0.20	0.01	0.47
Noon-Meal Centres	0.00	0.06	0.00	0.14	0.00	0.13
Education	0.02	0.87	0.03	1.14	0.32	10.86
Total specific purpose	0.75	34.55	1.06	36.18	1.13	38.11
Incentive Grants						
Small Savings incentive	0.01	0.44	0.05	1.95	0.15	5.11
House Tax Matching Grant	0.29	13.59	0.31	10.43	0.33	10.96
Total Incentive	0.30	14.03	0.36	12.38	0.48	16.07
Compensation Grants	0.10	4.69	0.16	5.54	0.20	6.59
Grants : Total	2.16	100.00	2.92	100.00	2.98	100.00

House Tax Matching Grant:

2.4.26. The Tamil Nadu Panchayats Act provides for grant to match the house tax collection in Village Panchayats. The Town Panchayats transferred from Kerala State to Tamil Nadu, are allowed the benefit of Matching Grant. All the other Town Panchayats in the State are claiming matching grant for the house tax. This issue was discussed by Damodaran Committee, (1990) and recommendations were made that Village Panchayats upgraded as Grade II Town Panchayats, may be continued to be given such assistance till they improve finances. Since more than two-thirds of the Town Panchayats are having rural characteristics even now, and many of them are even at the verge of being downgraded as Village Panchayats, the assistance to the Town Panchayats by means of matching grant is found necessary for the following reasons:-

1. When the Village Panchayats are upgraded, they lose matching grant which was equivalent to house tax collection which formed a substantial revenue before upgradation.
2. With upgradation as Town Panchayat, a minimum level of managerial staff with an Executive Officer and secretarial assistance have to be provided. which increases the cost of administration.

2.4.27. Even before initiating steps to augment resources, the withdrawal of matching grant very much affects the financial condition of the upgraded Town Panchayats. The upgraded Town panchayats could be allowed to continue to avail the assistance to which they were eligible as village panchayats for a period of 3 years, by which time they should improve the financial condition. The Town Panchayats should in the meanwhile switch over to property tax applicable to Municipal bodies. The Government could however ensure to equalise the loss involved through a special per capita grant for a specific period after the period even after the period of three years. This needs amendment to District Municipalities Act 1920.

2.4.28. Recommendation:

The SFC recommends the following:

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 avail the assistance given by Kerala Government at the time of transfer.

Half Grant for Dustless Surfacing and Road Grant for improvement:

2.4.29. The Government provides ad hoc grant every year for improvement of the roads and also a 50 % grant for dustless surfacing of the roads in Town Panchayats. The quantum of allocation is very small and it can be distributed only to a few Town Panchayats, on reimbursement basis. Only such of those Town Panchayats which can afford to incur the expenditure in advance can avail the grant. It does not really help the Town Panchayats which are in dire need of such assistance. Town Panchayats which are finding it difficult even to meet the payment of salary to staff, cannot think of availing this grant.

2.4.30. The Town Panchayats have been claiming a regular road grant. Necessary steps have been taken for taking into account the length of the roads available in all the local bodies, for the purpose of distribution of the share of Motor Vehicle Tax to the local bodies. The distribution principles proposed by the SFC will take care of the requirements of all the Town Panchayats, based on performance and need.

2.4.31. Improvement of the roads can be taken under special schemes extended to Town Panchayats. The capital investment in local bodies is being dealt with separately in Part III of the report.

2.4.32. Recommendation:

The SFC Recommends the following:

1. 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.
2. The State Finance Commission recommends that improvement to roads can be taken up 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:

2.4.33. Weaker Town Panchayats are given ad hoc grants for lighting to enable them to meet the cost of electricity consumption charges. The SFC considers that Town Panchayats should be given assistance from Government to meet the current consumption charges on par with Village Panchayats. Recommendations made under Village Panchayats may be applied to Town Panchayats also. However, till such time the said recommendations are examined and implemented the lighting grant now given may be continued .

2.4.34. Recommendation:

The SFC recommends the following:

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:

2.4.35. A two third grant for construction of drainage is now being sanctioned to Town Panchayats. The provision in value is very small. In view of the need for encouraging the Town Panchayats to take up such work, at least all the Town Panchayats in special and selection grades may be assured of a regular yearly grant on a matching basis. This

need has been examined by the Task Force on Norms and level of service and included in the investment need for five years in part III of the report.

2.4.36. Recommendation:

The SFC recommends the following:

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:

2.4.37. The source of non-tax revenues in Town Panchayats are the same as available to Municipal Corporations and Municipalities. Various Recommendations indicated under Municipal Corporations will apply to Town Panchayats also.

2.4.38. The details of Non Tax Revenue sources and income derived are given below:

Table 2.41 Town Panchayat Non-Tax Revenue by Soruces (Rs. in Crores)

	1991/92		1992/93		1993/94	
	Amount	%	Amount	%	Amount	%
D&O Trade Licence Fees	0.70	3.78	0.77	3.65	0.79	3.37
Encroachments fees	0.05	0.25	0.06	0.29	0.05	0.20
Building Licence fees	1.19	6.46	1.27	5.95	1.32	5.69
Tourist Bus fees	0.15	0.83	0.16	0.74	0.22	0.96
Fees from other services	1.02	5.54	1.22	5.73	1.42	6.11
Fairs and festivals	0.22	1.18	0.24	1.12	0.28	1.18
Total	3.33	18.04	3.72	17.48	4.08	17.52
Income from properties Lands & Buildings Parks						
Avenue Trees produce	0.51	2.76	0.52	2.47	0.63	2.70
Markets	0.48	2.58	0.62	2.94	0.49	2.09
Shops/Shopping Complex	2.33	12.59	2.79	13.11	2.87	12.34
Slaughter houses	1.12	6.05	1.32	6.23	1.69	7.26
Bus/Cart & Vehicle stands	0.16	0.89	0.18	0.82	0.21	0.91
Pay & Use latrines	1.36	7.36	1.62	7.61	1.66	7.11
Income from other properties	0.11	0.59	0.17	0.80	0.15	0.64
Total	7.35	39.77	8.87	41.76	9.28	39.83
Income from special services						
Lighting	1.28	6.95	1.65	7.78	1.58	6.78
Water Supply & Drainage	0.12	0.65	0.07	0.35	0.07	0.28
Medical Institutions	4.23	22.87	4.87	22.91	6.04	25.95
Sewage Farms	0.05	0.25	0.09	0.40	0.10	0.43
Sale: Rubbish, grab., manure	0.07	0.37	0.08	0.39	0.12	0.53
Town Planning	0.07	0.39	0.07	0.32	0.06	0.26
Income from other services	0.05	0.26	0.05	0.24	0.04	0.19
Total	4.67	25.23	5.32	25.02	6.52	28.03
Miscellaneous receipt						
Income from investments	1.06	5.76	1.10	5.20	1.08	4.64
Interest from L.F. Deposits	0.13	0.68	0.12	0.57	0.13	0.56
Lapsed Deposits	0.21	1.11	0.23	1.07	0.27	1.14
Recov. Charges for services	0.05	0.25	0.08	0.36	0.08	0.34
Any other Miscellaneous	1.69	9.17	1.82	8.54	1.85	7.93
Total	3.14	16.96	3.35	15.74	3.41	14.61
Non Tax : Total	18.49	100.00	21.26	100.00	23.29	100.00

2.4.39. Recommendation:

The SFC recommend the following:

All recommendations for augmentation, change in procedure indicated under "Municipal Corporations" will apply to Town Panchayat also.