

## CHAPTER 2

### THE STATUS OF STATE FINANCES

**5.2.1.** An analysis of the fiscal position of Tamil Nadu Government is an essential step to assess the dimensions of devolving finance to Local Bodies.

**5.2.2.** A study of the State's budgetary transactions over the period 1988-89 to 1994-95, (Appendix Nos.107 to 114) shows a mixed trend of surplus for three years and deficits for four years. However, revenue receipts have fallen short of revenue expenditure over the entire period, with the deficit rising from Rs.274 crores in 1988-89 to a peak of Rs.1,904 crores in 1991-92, before falling to Rs.416 crores in 1994-95, despite concerted efforts by the State Government to augment their resources substantially. The capital account, on the other hand, has been in surplus since 1990-91. This, together with the surplus generated on the public account over the entire period, has either contained the overall deficit, or generated a surplus, thus mitigating the effect of the revenue deficit.

#### Revenue Receipts

**5.2.3.** State revenue comes from tax and non-tax revenues and grants-in-aid from the Central Government. Tax revenues are predominantly from indirect taxes, which are levied on commodities and services like State Excise, Sales Tax, Motor Vehicles Tax, etc. and include the State's share in Union Excise Duties. Direct taxes are levied on income, property and capital transactions, and include the State's share of income tax, agricultural income, land revenue, stamp duty and registration fees, urban land tax etc. Over the seven-year review period, direct taxes accounted for around 15% and indirect taxes for 85% of tax revenue, on an average. The sales tax is the single largest revenue earner for the State - Rs.3,914 crores in 1994-95. The State's own non-tax revenue has grown from Rs.335 crores to Rs.773 crores - with interest receipts contributing around 37%, general services around 16% and social services around 13%, while grants from the Centre have increased from Rs.437 crores to Rs.878 crores.

#### Revenue Expenditure

**5.2.4.** Expenditure on the revenue account has grown from Rs.3,763 crores in 1988-89 to Rs.9,635 crores in 1994-95, i.e. an increase of over 2.5 times, indicating an average annual growth rate of around 26%. The compensation and assignment to local bodies exhibited among the expenditure of the State refers to assistance given to all Local Bodies viz. Village Panchayats, Panchayat Unions, Town Panchayats, Municipalities and Corporations. This has grown from around Rs.78 crores to Rs.133 crores over the period of analysis, and accounted for around 2% of the State's revenue expenditure. In addition, the Government has been giving tied and untied revenue grants

to Local Bodies, besides passing on the revenue collection from the Taxes earmarked for Local Bodies.

**5.2.5.** Revenue expenditure over the period 1988-89 to 1994-95 worked out to 22% of the NSDP, on the average. Per capita revenue expenditure has increased from Rs.674 in 1988-89 to Rs.1,725 in 1994-95 - an average annual growth of 26% approximately

**5.2.6.** The State's resource gap has been met by (i) State's share in Central taxes, (ii) grants-in-aid from the Centre, (iii) capital receipts and (iv) ways and means advances. During the period 1988-89 to 1993-94, on average, capital receipts have contributed 86%, State's share in Central taxes 9% and grants 5% towards bridging the basic resource gap.

**5.2.7.** The fiscal picture of the state is indeed not comfortable. In this context, the State Finance Commission is expected to make its recommendations covering devolutions for the period 1997-2002, as per the terms of reference. On the request of State Finance Commission, the Finance Department of the State Government has furnished a forecast of Revenue Generation Plan for the period 1997-2002 as given below:-

**Table 5.1 Forecast of Revenue Generation Plan (Rupees in Lakhs)**

Tax Revenue	1997-98	1998-99	1999-2000	2000-2001	2001-2002
Taxes on Agricultural Land	1936.88	2033.72	2135.41	2242.18	2354.29
Land Revenue	4082.61	4286.74	4501.07	4726.13	4962.44
Stamps and Registration	63828.25	68934.51	74449.27	78171.73	82080.32
Taxes on Immovable Property other than Agricultural Land	1237.05	1298.90	1363.85	1432.04	1503.64
State Excise	81808.77	89989.65	98988.61	103938.04	109134.94
Sales Tax	549866.26	615850.21	689752.23	724239.84	760451.84
Taxes on Vehicles	41895.06	43570.87	45313.70	47579.39	49958.36
Taxes on Goods and Passengers	12736.95	13373.80	14042.49	14744.62	15481.85
Taxes & Duties on Electricity	13244.69	13906.92	14602.27	15332.38	16099.00
Other Taxes and Duties on Commodities and Services	16093.57	16898.25	17743.16	18630.32	19561.83
Total State own Tax Revenue	786730.09	870143.56	962892.07	1011036.67	1061588.50
Total Tax Revenue and Receipts from GOI	1110608.50	1218899.74	1338515.33	1415682.21	1497591.74
Total Revenue Account Expenditure	1465355.53	1685158.86	1937932.69	2228622.60	2562915.99
Surplus/Deficit	- 354747.03	-466259.13	-599417.36	-812940.39	-1065324.24

**5.2.8.** This forecast reveals an uncomfortable position in terms of financial health. The deficit, as indicated in the forecast, would be increasing year after year. In other words, the portion of the cake of financial resources to be shared would be shrinking over the next five years. It will be useful to gain an insight into the nature of assumptions made by the State Government. It has been indicated to us by the State Government that the latest actual and the optimum growth rates suggested by 10th Finance Commission have been adopted in working out the forecast of revenue generation.

**5.2.9.** However, having granted the status of an autonomous institution by the fiat of Constitutional amendments with an expanded list of functions and responsibilities, it is imperative on the part of Central and State Governments to explore ways and means to meet the Resource Gap of Local Bodies.