

## CHAPTER 7

### Panchayat Finances : Internal Resource Mobilization

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7.1 In India, several States had reserved a few tax and non-tax sources for their local government units even before the 73<sup>rd</sup> and 74<sup>th</sup> Amendments to the Constitution. Though Art.243-H and X empower the State legislatures to authorise, by law, the Panchayats and municipalities to levy, collect and appropriate specified taxes, duties, tolls, and fees, they do not seem to alter the basic structure of the Indian Constitution which envisaged a two-layer governmental structure at the national and State levels. Though theoretically the local government is the third tier of Govt. by virtue of their Constitutional status, the absence of a separate 'local list' in the Constitution and the various discretionary powers with the States on several vital matters, the local government units still remain the subordinate units of the State governments.

7.2 As is the practice in most of the States, the revenues statutorily assigned to the Panchayats under the Chhattisgarh Panchayati Raj Adhiniyam, 1993 (the Panchayat Act) in Chhattisgarh are divided into obligatory and optional levies comprising tax and non-tax sources. The rationale behind making the levy of certain taxes and non-taxes mandatory or compulsory is to assure at least a minimum core of autonomous revenues for the Panchayats to enable them to meet at least their recurring expenditure.

7.3 In Chhattisgarh the obligatory levies of GPs are listed in Schedule-I of the *Panchayat Act*, optional levies in Schedule-II (Sec. 77 of Act). **Table-7.1** shows the various taxes and non-taxes that are statutorily assigned to different levels of Panchayats in the State. However, the statute stipulates that the optional levies of both Gram and JPs can be imposed only with the previous approval of the JP and the Zila Panchayat concerned respectively. Moreover, the Act also provides (Sec. 83) that the State government may abolish any tax or suspend or reduce the rate of any tax, and also reserves the right to exempt any person or class of persons or any property from the payment of any tax in whole or in part [(Sec.83(2))].

**Table-7.1 : Statutory Assignment of Tax and Non-tax Sources of Revenue to Panchayats**

Level of Panchayat	Obligatory Levies		Optional Levies	
	Tax	Non-tax	Tax	Non-tax
1. GPs (Section 77 and Schedules-I & II)	a) Property tax on lands or buildings or both b) Tax on Private Latrines c) Light tax d) Tax on persons exercising a profession or carrying on any trade or calling	a) Market fees on persons exporting goods for sale in the Panchayat area b) Fees on Registration of Cattle sold within the Panchayat area	a) Tax on building not covered by the property tax b) Tax on Animals c) Tax on non-motorized vehicles d) Water Rate e) Tax on persons carrying on the profession of purchaser, agent, commission agent, weighman or a measure in the Panchayat area f) Temporary tax for special works of public utility g) Tax for the construction or maintenance of public latrines h) General scavenging tax for removal and disposed of refuse	a) Fees for the use of sarais, dharmasalas, rest houses, slaughter houses and encamping grounds. b) Drainage fees where system of drainage is introduced by the panchayats c) Fees on entry of vehicles into the Panchayat area d) Fees for bullock-cart stand and tonga stand e) Fees for temporary structure or any projection over public place or temporary occupation thereof f) Fees for grazing cattle over Panchayat grazing grounds.
2. JPs (Section 77 and Schedule-I)	a) Tax on Theatres or theatrical performances and other public entertain-ments b) Development tax on agricultural land	Nil	Nil	a) Fees for licenses or permissions granted b) Fees for use occupation of lands or other properties vested in or mentioned by the JP
3. Zilla Panchayat (Section 74 (2))	Nil	Nil	Increase in the Cess on land from Re.0.50 per rupee upto Rs.10.	Nil

*Gram Panchayats :*

**Property Tax on Lands and Buildings**

7.4 (1) Among the obligatory taxes assigned to the GPs in the State, the most important is the property tax on lands or buildings or both. This is a direct tax which by far is the most

fiscally productive source of revenue to the local governments, particularly to urban local government units, all over the world. In India, this tax is a normal feature of local tax powers of GPs, though its basis of assessment and the rates may vary across the States. Some State statutes also empower the GPs to levy the tax also on vacant non-agricultural lands. Various systems of assessment like annul value, annual letting value, capital value, plinth area, unit-linked, etc., are in vogue in the country.

(2) The State government has framed guidelines in the form of statutory rules [The Chhattisgarh GP Obligatory Taxes and Fees (Conditions and Exceptions) Rules, 1996] governing levy, assessment and collection of property tax on lands or buildings or both. Accordingly, taxable buildings are expected to be assessed on capital value basis. The maximum and minimum tax rates are specified by the government for all taxable buildings in an uniform manner. The statutory rules provide for exemption of buildings and lands owned and vested in the Union or State government, and Panchayats at all levels; and buildings and lands or portions thereof used exclusively for religious or educational purposes, including boarding houses from the tax.

**Table-7.2 : Prescribed Minimum and Maximum Rates of Tax on Lands and Buildings**

Sl. No.	Capital Value of the Building	Minimum Rate	Maximum Rate
(a)	Between Rs.6,000/- and Rs.12,000/- including the value of land	Re.0.20 per Rs.100/- of capital value	Re.0.30 per Rs.100/- of capital value
(b)	More than Rs.12,000/-	Re.1.00 per Rs.500/- of capital value	Re.1.50 per Rs.500/- of capital value

(3) The statutory provisions and the rules would show that the guidelines appear inadequate and in the light of lacking in clarity. *First*, Rule 5 of the Rules of 1996 makes it mandatory for the GPs to impose a "tax on lands or buildings or both", but does not define the term 'land'. *Second*, the Rules do not provide any guidance as regards the manner in which 'capital value' of a building is to be assessed. It is not clear whether the capital value of a building includes the value of the land on which the taxable building is erected. *Third*, valuation of taxable lands is not provided for in the Rules. *Fourth*, the Rules do not provide for frequency and mode of revaluation and the authority responsible for valuation/revaluation of taxable properties. Finally, there is a blanket exemption of all buildings used exclusively

for religious and educational purposes, regardless their size, value, manner of utilization of their income.

(4) The First SFC had made a detailed review of the status of this tax, and made important recommendations for rationalizing it. The State government in its Action Taken Report had indicated their acceptance of these recommendation for switching over from capital value to classified plinth area basis for the property tax. However, for operationalising the change over, a Committee under the chairmanship of the Director of Panchayats and Social Welfare was constituted in December 2011 which has yet to submit its report.

(5) *The Commission had sought information on the revenue yield of property tax from all the GPs in the State. However, most of the responding GPs did not provide us the disaggregated statistical information on their IRM. A significant number of Panchayats chose to report only the consolidated figure of their revenue from the obligatory levies. Only 1945 GPs had however specified the revenue that accrued to them through property tax. Reasons for non-compliance are obviously failure to levy and / or collect the tax, absence of a proper accounting system, non-maintenance of the relevant records and registers at the GP level, etc.*

(6) The following are the conclusions from the data we have collected:

- (i) *The annual average revenue from property tax on houses is a mere Rs.1712 per GP. Though it constitutes 21.42 per cent of its total tax revenue, its share in the IRM of a GP is only 7.11 per cent (Annexure 7.4). The revenue from this important source accounted for as low as 0.16 per cent of the total receipts of a GP in the State during the five-year period of 2006-07 to 2010-11.*
- (ii) *Inter-district differences in fiscal importance of property tax are also very wide. In absolute terms, during our reference period, its revenue per GP varied between Rs. 6 in Kondagaon and Rs. 7,279 in Bilaspur (Annexure 7.1).*
- (iii) *In terms of its fiscal importance in the total receipts of GPs, as our sample data amply demonstrates, the percentage share of property tax revenue across the districts present a pathetic picture. While the share exceeded 0.50 percent in Balarampur (1.18), Bilaspur (0.67) and Bastar (0.54), in 20 other districts the corresponding figure is less than 0.50. In four districts, namely Bijapur, Dantewada, Narayanpur, and Sukma (sample - 94 GPs), none of the GPs had either levied and/or collected property tax during any year of our 5 year reference period (Annexure 7.1).*

(7) *With a view to making the property tax on lands and buildings contribute significantly to the revenues of the GPs, we recommend the following measures:*

- (i) *The Commission is in agreement with the recommendations of the FSFC as regards the need to switchover from capital value to 'classified plinth area' basis of assessment. However, the Committee constituted to look into the whole matter has not taken any initiative in this regard even though one year elapsed since its constitution. We urge the State government to ensure that the Committee submits its report within a specified time frame and to bring out the relevant statutory amendments, as may be necessary, as early as possible.*
- (ii) *Property tax should have two components, namely, a tax on buildings, and a tax on non-agricultural vacant lands. As plinth area basis is recommended for the buildings, capital value can still continue to be the basis of assessment for the non-agricultural lands.*
- (iii) *The changeover from capital value to classified plinth area basis of assessment will require revaluation of all taxable buildings and lands by an agency which is independent of the GP concerned. The First SFC had recommended appointment of 80 Valuation Officers for this task. We do not think that would be necessary. We now have the services of 146 Senior Internal Audit & Taxation Officers and 373 Internal Audit & Taxation (IA&T) Officers at our disposal. We propose that the Government entrust this task of revaluation of property and determination of tax liability in respect of each such property in GPs by the 244 Internal Audit & Taxation Officers presently available. Each such officer is required to look after 25 GPs. They can take-up the task of revaluation in the same 25 or more GPs in their charge under the supervision of the Senior IA&T officers and under the overall supervision of CEO of the concerned JP. The task can be completed within a period of one year. They can do this work in addition to their present responsibilities. The Panchayat Department may prepare a programme of action accordingly. Their tasks should include not only valuation of each property but also preparation of Demand Register of Property Tax.*
- (iv) *One of the duties of the IA & T Officers at the Janpad level should be to report to the CEO of the Zila Panchayat, through the CEO of the JP concerned, the names of the GPs which default in levying and / or collecting any or all of the*

*obligatory taxes. The State government should initiate action in terms of the provisions of the Panchayat Act against all recalcitrant GPs.*

- (v) *All properties, lands and buildings, which are privately-owned and used for educational purposes and which charge a fee from the students must be brought under the ambit of the property tax without any exception. Such lands and buildings should include play grounds, boarding houses, hostels, etc., as well.*
- (vi) *Property tax being the most important source of revenue for GPs, an incentive scheme to induce better recovery of this tax should be introduced by the State Government. Under the scheme a GP which recovers atleast 75% of its property tax demand of the year, may be given a matching grant by the Government as incentive. Similarly, a GP which recovers atleast 75% of its arrears, in a year should also be given a matching grant incentive. However, the incentive scheme should operate under certain guidelines which may include verification of the records of demand and recovery to confirm the veracity of the claim for incentive. The verification should include Demand Register being properly maintained and all moneys collected being duly accounted for in the Cash Book.*

### **Tax on Private Latrines**

7.5 (1) A tax for arranging cleaning of private latrines is another obligatory tax statutorily assigned to the GPs. The State government has not prescribed any rate or guidelines for this tax administration. In fact, the proceeds of this tax are meant to defray the expenses involved in arranging cleaning the latrines. This tax is in the nature of a 'fee' or 'user charge'.

(2) *The Commission, after reviewing the relevant data concerning the revenue from this tax for the years 2006-07 to 2010-11, strongly feels that this tax is neither found favour with GPs in general nor its revenue contribution is worth costs of its administration. A large number of GPs did not levy this tax during our reference period. For instance, this tax was not levied or collected by 911 sample GPs spread over as many as 15 districts. The annual average revenue realized from this tax is a paltry Rs.185 which constituted an insignificant 0.02 per cent of the total receipts of a GP in the State (Annexure-7.1). The Commission is of the view that this tax, should be abolished, simultaneously making efforts to motivate the rural households to opt for sanitary latrines for which funding from many sources are available.*

## Lighting Tax

7.6 (1) Another obligatory tax is the lighting tax, to be imposed by a GP on all buildings on capital value basis, except on buildings used exclusively for religious or educational purposes including boarding houses, and yielding no rent to the owner or trustee thereof. The State government has not framed any rules governing this tax also. However, it has laid down that it is mandatory for a GP which made lighting arrangements for public streets and other public places, to levy this tax.

(2) *The Commission reviewed the revenue realized from this tax. It is observed that 588 sample GPs spread over nine districts did not receive any revenue from this tax during the entire 5-year reference period. Besides, the annual average revenue per sample GP from this source was Rs.605 which accounted for 0.06 per cent of its annual average total receipts during the said period. Across the districts, its percentage share in the total receipts of a sample GP however ranged from 0.01 to 0.52 (Annexure 7.1).*

(3) *Grant of exemption from property tax to buildings used exclusively for religious or educational purposes, including boarding houses, only on the ground that they do not yield rent to the owner or trustee concerned, is not justifiable. The important yardstick for granting exemptions should be the 'income' being derived from these and nature of its use by the owner or trustee(s). Exemption to buildings used by private educational institutions where no rent is paid to the owner but yield substantial regular income to the owner(s)/managers through fees collected from the students do not deserve to be exempt from property tax as well as service taxes like sanitation, water supply and lighting. Exemptions are justified only for those buildings used for charitable, religious or educational purposes only when the income derived from the use of such properties is entirely and exclusively used for the specified purposes. Even here, such exemption should apply to property tax but not to service taxes. Since even the buildings and lands owned by the Union government are subject to such service taxes, there appears to be no reason why the above should be exempted.*

(4) *Since in our State serious efforts have been made to electrify the villages and significant coverage achieved, it is necessary that the rural people who enjoy the facility should be made to pay at least a part of the O&M costs involved in the delivery of this service. We have found that many GPs are not in a position to pay their electricity bills because they do not recover this tax.*

## **Tax on Professions, Trades, Arts and Callings**

7.7 (1) GPs are required to levy a tax on persons exercising any profession or carrying on any trade or calling within the limits of the Panchayat area. The State government has prescribed the minimum and maximum limits of this tax within which GPs are free to decide their own rates. While the statute exempts all persons whose annual income is less than Rs.11,000, the maximum rate prescribed for incomes exceeding Rs.50,000 is fixed at Rs.1400. The State Govt. has, however, abolished professional tax which we consider a lucrative and elastic tax in an expanding economy. This tax is levied by GPs mainly on trades and calling.

(2) The Commission in its review of the obligatory taxes of GPs observe that (i) the annual average yield per sample GP during our reference period worked out to Rs.314, which accounted for a mere 0.03 per cent of its total receipts; (ii) 147 sample GPs belonging to five districts have neither levied nor collected their profession tax during our 5-year reference period ; and (iii) across the other districts, the contribution of this tax to the total kitty of a sample GP varied between 0.01 per cent in Korba and 0.20 per cent in Korlia district.

## **Market Fees**

7.8 (1) Apart from listing four taxes, the statute also makes levy of two non-taxes also mandatory for the GPs. First, market fees on persons exposing goods for sale in any market or at any place or any building or structure therein belonging to or under the control of the GP concerned. Rules have been framed by the State government providing for minimum and maximum rates of levy.

(2) *The rate structure of market fee shows that the rates are either space and unit-centric in nature. Besides the rates are very low having been fixed more than a decade ago and no attempt has been made to classify the goods sold into different categories of for purposes of fixing different fees for each category depending upon their relative importance.*

(3) *This is a source that should be leased out, instead of a GP deploying separate staff for its collection, which in any case it does not have. In practice, several GPs are understood to have opted for this course of action.*

(4) *Among the tax and non-tax sources of GPs, the maximum revenue is derived from the fees realized by them from local daily and weekly markets. Our data indicate that the*



*volume of market fees accrued to the sample GPs constituted 43 per cent of their total non-tax revenue, and 28 per cent of their total internal resources mobilized. However, in terms of the aggregate receipts of a sample GP, revenue from even this major local source is still low at 0.64 per cent (Annexure 7.4). As this source of non-tax revenue seems to have good revenue potential in the rural areas of the State, it is necessary to step up efforts to mobilize its potential to the fullest extent. There is a need to increase the prescribed rates of the fee to a realistic level. The Commission recommends that goods being sold in the Panchayat markets be classified into a few broad categories and different rates of fee for these categories be fixed. The rates of fee must be commensurate with the present price levels of the goods being sold.*

### **Fees for Registration of Cattle Sold in Markets**

7.9 (1) Another non-tax obligatory levy is the fee on registration of cattle, sold in any market or in any place belonging to or under the control of the GP. The State government had prescribed minimum and maximum rates of levy for different categories of animals sold in the market.

(2) This is also an important source of revenue for GPs. *The revenue yield from this source accounted for 4 per cent of their IRM (Annexure 7.4).*

(3) *We consider that it is still possible to increase the volume of revenue from this source by raising the existing minimum and maximum rates which were fixed more than 15 years ago.*

### *Janpand Panchayats*

#### **Theatre Tax**

7.10 (1) The Panchayat Act provides for the levy of an obligatory tax on theatres or theatrical performances and other performances of public amusement by the JPs in the State. The Government had framed rules for its administration and prescribed the minimum and maximum rates of its levy by the JPs

(2) This tax is a show/exhibition tax as it is levied at a flat rate per show or exhibition. The rates fixed by the State government for the tax range from Rs. 3 to Rs. 10 and maximum from Rs. 5 to Rs. 20 for different types of performance.

(3) JPs do not seem to be very enthusiastic to exploit this tax. *Our analysis of the IRM of 66 sample JPs spread over 22 districts of the State reveals that only in 6 districts, some JPs*

had taken the initiative to levy and collect this tax. However, the revenue yield from this tax is negligible. Of a meager annual average IRM of Rs.2.25 lakh per sample JP, the revenue from this tax was a mere Rs.5,000 accounting for 2.22 per cent of its annual average IRM (Annexure 7.7). In fact, this tax is not a dependable and elastic source of revenue as its chance yield depends primarily on the cinematographic shows held in the JP jurisdiction.

(4) The FSFC had recommended that this tax on cinematographic exhibitions be entrusted to JPs and tax on all non-cinematographic exhibitions be assigned to the GPs. The State government had accepted the recommendation and the follow-up measures like amending the statutory provisions and the rules are yet to be taken by them. *The Commission urges the State government to expedite the process of amending the relevant sections in the Act and the concerned Rules to give effect to this.*

### *Zila Panchayats*

7.11 Like their counterparts in most of the States in India, Zila Panchayats in Chhattisgarh are not empowered to levy any *obligatory* tax.

### **Optional Levies of Panchayats**

#### *Gram Panchayats*

7.12 The Panchayat Act provides a list of revenue items whose levy is optional. The GP is required to obtain permission of the JP to levy any optional tax/non-tax. The list of optional taxes which can be imposed by a GP as specified in Schedule-II of the Act may be seen from Table- 7.1. The State government had prescribed the maximum rates for each of these optional levies which consist of both tax and non-tax items. Of the optional taxes only the water rates and the vehicle tax are of any consequence. The others like drainage tax and scavaging tax are imposed by very few Panchayats. The statute empowers a GP to lease out collection of fees levied by it, except in the case of vehicle tax and advertisements tax.

7.13 Among the *optional taxes* of the GPs, statistical information to a limited extent has been made available to the Commission only in respect of water rate, drainage rate, vehicle tax and scavenging tax. Revenue accruing to the GPs from all other tax and non-tax optional revenue sources is clubbed together and are exhibited under the broad head "others". Similarly, in respect of the two obligatory non-tax sources, namely, market fees, and registration fee from cattle sold in markets, GPs had however provided the quantum of revenue accrued to them.

**7.14 Water Rate:** *Most Panchayats do not either impose or if imposed, do not recover this tax which is in the nature of a user charge. Charges are not recovered even from those who have been provided private tap connection. As a result they are unable to pay even the electricity charges for pumping water, not to speak of the maintenance charges. As per the data provided to the Commission, water rate yielded an annual average revenue of Rs.1611 for a sample GP which accounted for a mere 0.15 per cent of its total receipts, occupying second place next to property tax revenue in terms of the revenue yield of its individual taxes. Our data had also shown that this rate is not levied by 162 GPs (8 per cent of their total) in five districts. Among the other districts where the sample GPs levied this rate, its revenue yield accounted for 0.01 per cent in Kondagaon and Korba districts and 0.45 per cent of their total receipts in Balod district during the period under review (Annexure 7.1).*

**7.15 Drainage Rate:** *The optional levy of drainage rate was not levied by as many as 907 sample GPs spread over 15 districts during our 5-year reference period. In the other 12 districts, its contribution to the annual average total receipts of the sample GPs ranged from 0.01 per cent to 0.13 per cent. For the entire State, the all-district annual average share of this rate in the total annual average receipts of GPs worked out to 0.01 per cent (Annexure 7.1).*

**7.16** So far as the vehicle tax and scavenging tax are concerned, *the annual average yield for a sample GP from these two taxes was Rs.13 and Rs.23 respectively. While the vehicle tax was not tapped in as many as 20 districts, the scavenging tax was not levied by the sample GPs in 13 districts in the State during the reference period (Annexure 7.1).*

**7.17** During 2011, the State Govt. had taken initiative to fix fees in respect of a few non-tax items of GPs which are described below:

- 1) The State Govt. had prescribed the fee to be paid by the people who want to avail some specified services of the GPs. The prescribed fee varies between Rs. 10 for caste/income/domicile certificate to Rs. 500/- for regularization of constructions or licence fee for hotel/dhaba.
- 2) Similarly, the State Govt. has fixed the daily penal fee payable by the owners in respect of their cattle seized and kept in kanji house/cattle depending upon the type of animal concerned.
- 3) In regard to installation and control of mobile towers, cable lines and relay stations, in March, 2012 the State Govt. informed the District Collectors and the CEOs of Zila Panchayats that in terms of Sec. 77 of the Panchayat Act and the Indian Postal Act, a

GP is competent to accord permission for them. The fee prescribed for obtaining such permission is either one-time payment of Rs. 25,000 or Rs. 10,000 per year.

### *Janpad Panchayats*

#### **Development Tax on Agricultural Lands**

7.18 (1) The Panchayat Act gives the JPs with the discretionary power to levy a 'development tax on agricultural lands' which is payable in the same manner as land revenue. The State government has issued necessary rules for the administration of this tax. The proceeds of the tax realized by the Tahsildar is credited to the District Panchayat Raj Fund initially. The District Collector who is the administrator of the Fund is required to transfer 50 per cent of the net revenue from the tax to the GPs in the Block concerned in proportion to their respective population, and the balance of 50 per cent to the JPs which levied the tax.

(2) *Instead of the tax in its present form, the feasibility of a simple and transparent land development tax leviable at different specific rates on each category of agricultural land may be explored. For this purpose, all agricultural lands could be divided into irrigated, semi-irrigated, and dry lands, and a simple flat rate of levy per acre for each category of these lands could be specified as the minimum rate by the government.*

### *Zila Panchayats*

#### **Increase in the Statutory Minimum Rate of Land Cess**

7.19 The only discretionary/optional tax that can be levied by a Zila Panchayat in the State relates to effecting an increase in the rate of cess on land from the stipulated statutory minimum rate of Re.0.50 up to a maximum rate of Rs.10.00 per rupee of land revenue. However, our data show that no Zila Panchayat has exercised this option.

#### **A Review of Internal Revenue Mobilization Efforts of Panchayats**

##### **Gram Panchayats:**

7.20 *The data the Commission has collected, as also the detailed field studies conducted by 'Pradan' and 'Samarthan' reveal that the GPs generally do not take much interest in mobilization of internal financial resources. In the responses we have received to our questionnaire, from 5492 GPs, the number of GPs who impose any tax at all is 2153 which is about 40%. They are generally shy of imposing any tax including property tax, on the local people for obvious reasons. The elected representatives do not want to impose any tax on political grounds. But the other contributing factors are also the incapacity of the Panchayats*

*in terms of manpower and training to impose and collect tax revenues, and in PESA areas in particular the incapacity of the people to pay tax and the very limited resource base. Bulk of the revenues of the Panchayat come from non obligatory non tax revenues and other sources, such as lease money of tanks, auction of market etc. The rates have not been revised since years and hence the yield is not even commensurate with the efforts, put in by the GPs.*

**7.21** *The IRM of GPs in absolute terms across the 27 districts of the State reveals that while a sample GPs in the districts of Janjgir-Champa, Balod, and Raipur districts mobilized an annual average internal revenue of more than Rs.40,000, it was less than Rs.20,000 in 18 other districts, including two districts (Dantewada and Sukma) which reported 'nil' revenue from IRM. On the whole, for the entire State, the annual average IRM of a sample GP worked out to Rs.11.96 during the 5-year reference period reviewed by the Commission.*

**7.22** *Regarding the relative shares of tax and non-tax revenues in the total receipts of sample GPs among the districts, it may be seen from Annexure 7.6 that tax revenue accounted for a maximum 3.85 % in Raipur district, and for a minimum 0.02 % in Kondagaon district. The corresponding minimum and maximum shares of non-tax revenue however ranged from 0.06 % in Sarguja district to 7.29 % in Raipur district. The combined share of tax and non-tax revenue, i.e., IRM, in the total receipts of sample GPs varied between 0.09 % in Narayanapur district and 11.14 % in Raipur district. One noteworthy feature that emerged from the analysis of the available data is that the contribution of non-tax revenue is more than that of the tax revenue to the total IRM of GPs in the State in most of the cases.*

**7.23** *As stated earlier, due to the lack of reliable data on the finances of Panchayat, both at the district and State levels, and in view of the highly volatile nature of Panchayat receipts, the Commission had to adopt the '5-year annual average method' for the data it could access from about 20 per cent of the total number of GPs in each district of the State. Accordingly, a total of 1945 GPs were chosen at random for the collection of data relating to their IRM. The data thus obtained for the period 2006-07 to 2010-11 were suitably classified and tabulated district-wise, and the aggregate annual average IRM figures per sample GPs for each district of the State arrived at. The results of the sample data were then extrapolated to all the 9734 GPs in the State which may be seen from Annexure 7.8. This indirect method of estimating the approximate IRM of the GPs in the State had given the results which may be seen from Table-7.3.*

**Table- 7.3 : Tax and Non-tax Revenue of GPs**

<i>Component of IRM</i>	<i>Annual Average IRM for</i>	
	<i>A Sample GP (Rs.)</i>	<i>9734 GPs in CG. (Rs.Lac.)</i>
(a) <i>Tax Revenue</i>	7993 (0.75)	778.04 (0.75)
(b) <i>Non-tax Revenue</i>	16,092 (1.50)	1,566.39 (1.50)
<i>Total</i>	24,085 (2.25)	2,344.43 (2.25)

*Note: Figures within parentheses indicate percentage share in total receipts.*

7.24 Among the districts in the State, GPs in Raipur district had recorded the highest per capita IRM of Rs.57.52, followed by their counterparts in the districts of Balod (Rs.40.39), and Janjgir-Champa (Rs.18.15). On the other hand, with the exception of Dantewada and Sukma whose sample GPs reported 'nil' figures, the per capita IRM of the GPs varied between Re.0.15 (Bijapur) and Rs.16.81 (Rajanandgaon). In as many as in 19 districts, per capita IRM of the GPs did not exceed Rs.10. Nevertheless, the analysis of available data by the Commission indicates that in terms of the provisional rural population figures of the 2011 Census, the per capita tax revenue and non-tax revenue of GPs in the State worked out to Rs.3.97 and Rs.7.99 respectively during the reference period of their review. Thus the per capita IRM of the GPs in the State can tentatively be put at Rs. 11.96 only.

7.25 The analysis above is based on the sample size of 1945 which is about 20% of GPs in the State. We have also analysed the total responses of 5492, more than 50% of the GPs in the State we have received. Of this sample size (5492) only 15% have imposed and or recovered property tax; less than 1% tax on private latrines; 6.5% lighting tax and 6.2% trade tax. The market fees have been recovered by 15.3% of GPs and registration fees on animal sold, by about 12.1%. If only these obligatory taxes and non-taxes are imposed by GPs in the State, even at its present level of levy and recovery, the earning per GP will be Rs.58,863 per year as may be seen from Table 7.15. If this is projected to the total number of GPs in the State, the total income which can be generated in GPs is more than Rs.58 crore. We have covered only the obligatory levies, both tax and non tax, which GPs are required under law to impose. From this it can be concluded that if the GPs recovered even only the obligatory levies, the per GP income per annum can be, in many cases, more than Rs.1 lakh, enough to meet their financial requirements for maintenance. In

addition are the optional taxes and non-taxes which yield good revenue to GPs, more than tax revenue.

7.26 While the universally-adopted division of IRM is usually 'tax' and 'non-tax' revenue of a public authority, in several States in the country, revenue sources assigned to the Panchayats are divided into 'obligatory/mandatory' and 'optional/discretionary' categories. In this State, the Panchayat Act makes such a division, and each of these two categories consist both tax and non-tax items. In view of this, the taxes and non-taxes of the GPs and JPs have been presented as obligatory and optional levies in Table-7.4 below:

**Table-7.4 : Tax and Non-tax Revenues of GPs & JPs**

Category (Rs.Lac.)	AAR of a SGP	AAR of a SJP	Projected AAR	
	(Rs.)	(Rs.Lac.)	9734GPs.	146JPs
<b>I. Obligatory Levies</b>				
(a) Tax Revenue	2816	0.05	274.11	7.30
(b) Non-tax Revenue	7837	-		762.85
<b>Total Obligatory Levies</b>	<b>10,653</b>	<b>0.05</b>	<b>1036.96</b> <b>: 1044 .26 (31</b>	<b>7.30</b>
<b>2. Optional Levies</b>				
(a) Tax Revenue	5177	-	503.93	-
(b) Non-tax Revenue	8255	2.20	803.54	321.20
<b>Total Optional Levies</b>	<b>13,432</b>	<b>2.20</b>	<b>1307.47</b> <b>: 1628 .67 (69 %)</b>	<b>321.20</b>
<b>3. Total IRM</b> <i>328.50</i>	<i>24085</i>	<i>2.25</i>	<i>2344.</i>	<i>43</i> <b>: 2672 .93 (100 %)</b>

Note : AAR : Annual Average Revenue for the period 2006-07 to 2010-11.

From Table-7.4 it may be observed that *the total revenue from optional levies of GP put together, both tax and non-tax, is much larger than that of their obligatory levies. It may also be seen that the ratio of their obligatory and optional levies in the total IRM was 31:69.*

### Janpad Panchayats

7.27 From Annexure 7.7, it may be observed that some of the JPs in the State had mobilized some non-tax revenue from a few sources like licence fees, ferry rents, market fees, fairs, and other administrative receipts. However, in the aggregate volume of their resources, their tax and non-tax revenue still play a very insignificant role. The data presented

in the said Table indicate that *the volume of their annual average non-tax revenue during our 5-year reference period per sample JP stood at Rs.2.20 lakh. The corresponding size its tax revenue was a mere Rs.0.05 lakh. The total IRM of a sample JP has thus recorded the figure of Rs.2.25 lakh.*

### **Case Studies by PRADAN and SAMARTHAN**

7.28 The Commission had sponsored two case studies on the status of GP finances and other related matters, and entrusted them to two reputed NGOs, namely, Professional Assistance for Development Action (PRADAN), and SAMARTHAN respectively. Each of these had conducted a study in 32 GPs spread equally over 16 Blocks of 4 districts which belong to different geographical zones in the State. The study of PRADAN was conducted in the districts of Bilaspur, Dhamtari, Kanker and Raigarh, while the SAMARTHAN's study is confined to the districts of Rajanandgaon, Mahasamund, Sarguja and Bastar. Greater emphasis was laid by these studies on the internal resource mobilization efforts of the select GPs. Among their findings, observations and suggestions, the following are considered important.

#### **Study by PRADAN**

7.29 This study relied mostly on the budgeted figures of three fiscal years, 2009-10 to 2011-12, of the select/sample GPs (SGPs), though in a few cases, for want of statistical information of the preceding years, it had to adopt the figures of the latest fiscal year, i.e., 2011-12 only. Accounts of these GPs have not been so far audited by the statutory auditor though in the case of 20 Panchayats they have undergone 'general audit' conducted by the Panchayat Internal Audit and Taxation Officer concerned who is not their statutory auditor.

- (1) As for the IRM of the SGPs, the following are their *study findings*.
  - (a) The annual average IRM of a SGP is Rs.1.22 lakh, though the district-wise figure of a SGP varies widely between Rs.13,533 in Bilaspur to Rs.2.55 lakh in Raigarh;
  - (b) Revenue from obligatory levies, on an average, accounted for 54 per cent of their total IRM;
  - (c) Among the obligatory levies of the SGPs, a lion's share of 90.20 per cent has been claimed by one non-tax source, namely, the market fees which was collected only from 34 per cent of their SGPs; while the share of four obligatory taxes was a mere 6.8 per cent;



- (d) While none of the 32 SGPs levied the tax on private latrines, the percentage shares of select GPs which did not levy the tax on buildings and lands, lighting tax, and profession tax in the total SGPs were 84, 91, and 78 respectively;
- (e) 81 per cent of the SGPs did not raise any optional revenue. Of the total number of 32 SGPs, only 5 levied water rate, and one levied a vehicle tax;
- (f) Revenue generated from water rate by the 5 SGPs in Dhamtari and Kanker districts was as much as a little over Rs.4.00 lakh, while the only SGP that levied the vehicle tax in Raigarh could mobilize as much as Rs.1.76 lakh from this impost;
- (g) Apart from the revenue from the obligatory and optional levies, SGPs in all the four study districts raised a little over Rs.38,000 each from 'other non-tax sources' like rental/lease income from Panchayat properties/assets like Panchayat bhavans, talab, sand royalty, kanji house, etc. of the SGPs..However, the revenue realized from these sources by individual SGPs varied between Rs.6620 in Bilaspur district to Rs.57,778 in Kanker district during 2011-12;
- (h) The percentage shares of revenue from obligatory levies, optional levies, and other non-tax revenue of the 32 SGPs stood at 54,15, and 3 respectively;
- (i) The average per capita revenue receipts of a SGP was Rs.1382, while the corresponding figure for per capita revenue expenditure was Rs.1098. For IRM, the figure was Rs.63;
- (j) The IRM of SGPs accounted for as low as 0.7 per cent in Bilaspur, and as high as 30.5 per cent in Raigarh, as a proportion of their revenue expenditure;
- m) Among the various components of revenue expenditure of the SGPs, expenditure on physical infrastructure claimed a lion's share of 54 per cent, followed by expenditure on livelihood (14%), education (12%), and public health (5%); and
- (2) On the basis of their qualitative and quantitative information gathered from the 32 SGPs, as well on the basis of interactions with various official and elected functionaries of the panchayats, PRADAN has made several *observations* among which the following are relevant for our purpose.
- (a) Current method of valuation of buildings for the tax on buildings is not based on any technical parameter. In fact, the assessed capital value of a taxable building is

based on the mutual and tacit consent of the tax payer and the member of the GP of the locality concerned;

- (b) GPs do not maintain any inventory of the taxable buildings or registers showing their nature, size, location, and capital value; and
- (c) No Demand, Collection, and Balance (DCB) Register for Panchayat tax and nontax dues is being maintained by any GP.

3. The study report makes the following *recommendations* for augmenting the internal revenue of the GPs.

- (a) Each GP should prepare and maintain a separate register for building tax assessment which should contain all the relevant details about the taxable buildings;
- (b) Profession tax should also be levied on small industrial and commercial enterprises like rice mills, lac mills, etc.;
- (c) For improved tax compliance, civic services need to be provided to the tax payers by the GPs;
- (d) GPs can augment their income also by levies on muroom and getti by taking the requisite permission (chalan) from the Mining department of the State government;
- (e) DCB Register should be maintained by the GPs and the details of it should be discussed in Gram Sabha Meetings; and
- (f) An incentive matching grant for improved revenue collections may be introduced.

#### Study by SAMARTHAN

7.30 The study conducted by SAMARTHAN has also shared several findings of PRADAN. However, its recommendations which we consider relevant for our purpose are listed below.

- 1) As some of the terms found in the Panchayat Raj Act of 1993 in regard to the obligatory taxes like the *vritti kar* (profession tax) are not explicitly defined, it is necessary for the government to provide to the GPs appropriate guidelines in the form of a booklet in simple vernacular language;

- 2) GPs need to be educated through PIATOs and advised that they do not need the approval of Gram Sabha for levying their mandatory levies in order to avoid delays in the imposition of such levies;
- 3) GPs whose roads which are exposed to heavy or regular vehicular traffic need to be compensated by the government by offering a share in the proceeds of motor vehicle tax;
- 4) As the task of recovery of Panchayat levies is hampered by shortage of staff at GP level, revenue collection of GPs can be entrusted to a dedicated individual or SHG of the village;
- 5) The revenue being earned by the *Krishi Upaj Mandi* may be shared with the GPs;
- 6) The Revenue Department of the State government may permit the GPs to put the government land vested in the latter to remunerative purposes;
- 7) Management of minor irrigation projects, stop dams, etc., should be devolved on GPs in order to enable them to use them for income-generating purposes;
- 8) GPs may be empowered to lease out all the unused land in their villages for agricultural purposes for a period of 3 years so as to arrest the trend towards their unauthorized encroachment;
- 9) GPs in PESA areas may be granted a share of 25 per cent in the revenue from minor forest produce;
- 10) A land revenue surcharge on lands used for commercial crops on the owners of such lands exceeding 10 acres may be levied; and
- 11) An important observation made in the study relates to the converse relationship between tax compliance and provision of civic amenities to the rural people.

#### **Other Recommendations of the Commission**

**7.31** *It is essential that the Panchayats raise their own revenues. They are better placed to raise their financial resources locally, spend these resources with a greater sense of responsibility and in a cost effective manner. The cost of collection of any tax at GP level is minimal. To be true local government units and have some measure of financial autonomy, the GPs must raise their own revenues. This will inculcate a sense of responsibility and ensure greater degree of accountability. With a view to help them in doing so the State*

Government, must remove the fetters on taxation power imposed at present Our other recommendations on IRM are as under:

- (1) Tax rates were fixed decades back. Reportedly rates of property tax fees for registration of cattle and market fees were fixed way back in 1962, though this could not be confirmed. The colonizer registration fees continue to be Rs.5000/- and renewal fees Rs.2000/-. It is high time these are revised. The minimum and maximum rates in the relevant rules must be changed upward.
- (2) GPs should not be required to obtain the approval of JPs for raising optional levies. This provision in the law which discourages GPs levying new taxes must be removed.
- (3) Some GPs have their own land. This is a big resource which can be leased out and can yield substantial revenues to the GPs. The State Govt. should also consider transfer of non-nistari fallow land in villages to GPs which may be leased out by them to earn revenue. The Panchayat Deptt. should frame suitable rules for leasing out Panchayat land.
- (4) The Department of P&RD, as part of their suggestions to the Commission, has proposed upward revision of the initial lease amount of fishing ponds and a provision for increase of lease amount by 10% every year on the basis of average productivity of the ponds. In our regional consultations the Panchayats strongly urged that they should be allowed to auction ponds for fishing every year. Presently they are allowed, as a matter of policy, to lease out such ponds only to fishermen's co-operative societies. They also allege that in many cases it is the contractors who take the ponds in the name of societies. In this state, ponds can be a good source of revenue to Panchayat if auction is permitted. However, if in the interest of fishermen this is not desirable, at least the lease amount should be raised and revised every year as proposed by the Department of P&RD.
- (5) It should be examined if the number of taxes both obligatory and optional should be reduced and rationalized as has been done in the case of the municipalities. The taxes on street lights, on general water supply, on conservancy (optional taxes on public latrines and scavenging) should be combined to form one levy preferably as a percentage of property tax, with a view to ease both the raising of demand and of recovery. In view of the fact that some GPs have water supply and other do not have and similarly, some have street lights and other do not have, and property tax is also not paid by all, this proposal needs to be examined

*in some detail. We suggest that the charter of the Committee appointed by the State Government to examine operationalisation of the recommendations of the First Financial Commission, under the Chairmanship of Director Panchayat, should be expanded to include rationalization of tax structure at GP level and in that context examination of the above suggestion.*

- (6) The Government should issue detailed instructions regarding raising of demand for various taxes, preparation of demand registers, modes of recovery and accounting of tax receipts etc. The Commission noticed that Panchayats follow their own procedure in these matters which adversely affects internal resource mobilization. The State Government should issue detailed instructions in simple language and also provide printed forms for demand registers and various returns.*
- (7) The services of IA & T Assistants incharge of 5 GPs and IA & T Officers incharge of 25 GPs, are even now not utilized to the full extent. One of their duties should be to help the GPs in preparing the Demand Register annually and assist them in the recovery of taxes and non-tax levies.*
- (8) Wherever possible recovery of taxes may be made through women's self help groups (SHGs) on payment of a percentage of the total recovery as incentive. We would recommend that this should be started on pilot basis in districts where SHGs are strong e.g. Rajnandgaon.*
- (9) Government should incentivize collection of their revenues by GPs. In our interim report for the year 2012-13 we have recommended that any GP which recovers atleast 10% more than last year, of its own taxes, should be given a matching grant by the State Government equivalent to the incremental own revenue collected over last year. This may continue during the five years of the award period. We also recommend that the Panchayat Sachiv or Patel of the village or any other functioning responsible for the recovery of additional revenue be given a reward. We have in this report recommended a special incentive for recovery of property tax in view of its importance. This incentive will be in addition to that.*
- (10) All GPs should be required to maintain an inventory of their assets like land, building, water bodies etc. and update these atleast once in three years. The IA & T Officers concerned should be required to submit a certificate to the CEO, JP that such register is being maintained and also state their present status and use. Every year the GP budget must provide for maintenance of these assets.*