

**property tax and the granting of exemptions be minimised. The assessment of properties may be done every four or five years and the urban local bodies should introduce the system of self-assessment. We recommend that action be taken by the States to share information regarding property tax among the municipalities, State and Union Governments.**

#### **Use of Land-based Instruments**

9.91 Some SFCs have observed that the urban local bodies do not have a systemic approach to listing of vacant lands. Therefore, such lands often go untaxed and the vacant land tax is demanded only when owners approach authorities for approval of building plans. The SFCs have observed the need to rationalise the rates of taxes on vacant land and have suggested that the tax be fixed as a percentage of the tax on buildings, depending on the class of the city. In our view, this tax, if administered properly, has the potential to earn large revenues for the urban local bodies. **We suggest that the levy of vacant land tax by peri-urban panchayats be considered. In addition, a part of land conversion charges can be shared by State Governments with municipalities and panchayats.**

9.92 Some SFCs have observed that betterment tax is available to both gram panchayats and municipalities as an optional tax. In rural areas, the tax was linked to the improvement in property under schemes carried out by the gram panchayat. As such works were generally small, these did not result in any appreciable improvement in the value of the property and so the tax realised does not increase substantially. The urban local bodies were generally not levying this tax, even though they are allowed to. **We, therefore, recommend that the States should review the position and prepare a clear framework of rules for the levy of betterment tax.**

#### **Advertisement tax**

9.93 The reports of some SFCs revealed the fact that panchayats reported low income from advertisement in cases where it was being collected by the district administration for passing on to the panchayats. Even in cases where the panchayats were empowered to collect the tax, most of them were not doing so. In the case of urban local bodies, the tax had two components - tax on hoardings and the tax on advertisements on buses, cars, lamp posts and compound walls. The SFCs also pointed out that in some States, relevant legislation allowed the municipal corporations to collect advertisement tax, but did not give powers to the Tier II and III municipalities to levy the tax. **We are of the view that there is no reason why the incomes of local bodies from advertisement tax cannot increase significantly. In this context, we suggest that States may like to consider steps to empower local bodies to impose this tax and improve own revenues from this source.**

#### **Entertainment tax**

9.94 The study on municipal finances indicates that the collection of entertainment tax reported by urban local bodies was low. Three States accounted for most of the collections reported by the States. The study suggests that States should exploit entertainment tax effectively through improved methods of levy and collection. In our view, the entertainment tax legislation and rules in States require a comprehensive review. Newer forms of entertainment such as boat rides, cable television

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and internet cafes should be brought into the entertainment tax net and no exemptions should be given without compensating local bodies for the loss. **We, therefore, recommend that States review the structure of entertainment tax and take action to increase its scope to cover more and newer forms of entertainment.**

#### **Tax on professions, trades, callings and employments**

9.95 Article 276 of the Constitution provides for the levy of a tax on professions, trades, callings and employments for the benefit of the State or local bodies at a rate not exceeding Rs. 2,500 per tax payer per annum. The States, SFCs and local bodies have expressed the view that this tax can be a major source of income for the local bodies if the ceiling can be raised periodically and the tax can be collected efficiently.

9.96 At present, twenty-one states impose professions tax through various laws, adhering to the limit of Rs. 2,500. The coverage of the tax varies - it is generally applicable to all persons engaged in any employment or in any profession in some States, but only to certain specified professions in others. In some States, the tax is levied and collected by the State Government alone, while in others such as Kerala and Tamil Nadu, local bodies also levy and collect the tax under the State legislation. In our view, the low contribution of professions tax to the revenues of the State is largely due to poor collection mechanisms and enforcement at the State level as well as the low limit fixed. The FC-XI had suggested that the rates should be suitably revised to bring them nearer to the ceiling prescribed under the Constitution. They further recommended that the ceiling had been fixed in 1988 by amending the Constitution and needed suitable enhancement. The Commission suggested that Parliament should be empowered to fix this ceiling without going in for a Constitutional amendment each time. Even after fourteen years, no action has been taken to enhance the ceiling on professions tax.

9.97 In our view, professions tax could be one of the important sources of revenue for local bodies, if they are allowed to levy and collect it under the State legislations within the ceilings set by the Parliament. To arrive at a reasonable estimation of the ceiling for professions tax we considered three methods. First, was to index the ceiling on professions tax to the annual growth rate of per capita nominal GSDP. The second method was to consider the historic growth of professions tax in between 1935 and 1988 and from 1950 to 1988 using compound annual growth rate for the two periods as well as the trend growth rate from 1935 to 1988. The third method was to index it to the per capita emoluments of public sector employees. These methods yielded different estimates for the ceiling. **Therefore, taking into consideration all factors, we recommend raising the ceiling from Rs. 2,500 to Rs. 12,000 per annum. We further recommend that Article 276(2) of the Constitution may be amended to increase the limits on the imposition of professions tax by States. The amendment may also vest the power to impose limits on Parliament with the caveat that the limits should adhere to the Finance Commission's recommendations and the Union Government should prescribe a uniform limit for all States.**

#### *Non-Tax Measures*

9.98 We noted that the SFC reports have identified the main issues that affect the income of gram panchayats from non-tax revenue sources. First, certain productive assets such as village

ponds and orchards, which can generate revenues, have not been assigned to the gram panchayats in some States. Similarly, in some States, gram panchayats do not get incomes from market fees because these are assigned to market committees. Second, rates of fees have not been revised for several years, in some cases for more than five to six decades. Thirdly, in certain States the rural local bodies were unable to collect tolls, fees and duties as the rules for this purpose had not been framed and notified. To improve incomes by obtaining better rates, one SFC suggested that the annual sale value should be determined before auctioning common resources such as fisheries, ponds, ferries, markets and halls for rent. **In this context, we recommend that State Governments take action to assign productive local assets to the panchayats, put in place enabling rules for collection and institute systems so that they can obtain the best returns while leasing or renting common resources.**

9.99 The study on municipal finances pointed out that the urban local bodies are reporting an increase in user charges collected. However, the study suggested that the user charges need rationalisation and also need to be linked with improvement in service levels. We noted that the SFCs have observed that there was a need in urban areas to rationalise and collect charges for basic services provided and that the charges should be so fixed such that the local body is able to recover at least the operation and maintenance cost of the services from the beneficiaries. The SFCs have also stressed on the need to review and periodically update the charges and fees for all the services being provided by the local bodies. Some SFCs have pointed out the need to educate elected representatives, local body functionaries as well as the general public on the importance of own revenues for local bodies and the need to pay for improved delivery of public services. **We recommend that the urban local bodies rationalise their service charges in a way that they are able to at least recover the operation and maintenance costs from the beneficiaries.**

#### **Income from cess or royalty on minor minerals**

9.100 Royalty or cess on royalty on minor minerals is shared by some States with local bodies, mainly panchayats. In one State, the royalty on sand had been removed and regulation of sand mining had been entrusted to panchayats. In a few States where royalties were shared, SFCs have observed that the full amounts of the share were not being released to the local bodies. Another SFC noted that the revenues from royalty on minor minerals had not grown in proportion to the increase in the consumption of materials. The SFC of another State pointed out that only Class C municipalities were allowed a share of the cess on royalty.

9.101 **We are of the view that mining puts a burden on the local environment and infrastructure, and, therefore, it is appropriate that some of the income from royalties be shared with the local body in whose jurisdiction the mining is done. This would help the local body ameliorate the effects of mining on the local population.**

#### **Service charges on government property**

9.102 Article 285(1) of the Constitution exempts all properties of the Union Government from all taxes imposed by a State or any other authority within a State, unless Parliament expressly provides for such levy by law. The FC-XI had recommended that all government properties of the Union as well as the States should be subject to levy of user charges which should be regulated