

Saarth

E-Journal of Research

ISSN NO: 2395-339X

ECONOMIC SITUATION OF LOCAL SELF GOVERNMENTS IN INDIA

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ABSTRACT

Fiscal decentralisation for rural local governments can be meaningful only when the Panchayat has adequate untied funds to provide public services assigned to them. Untied funds would imply that either the Panchayat should be able to raise tax and non-tax revenues from the sources assigned to them or higher level governments should provide unconditional transfers by way of a share in taxes or block grants. Even though transfers are inevitable at local levels as they do not have the comparative advantage in raising revenues, it is important that they mobilise their 'own' revenues for greater efficiency and accountability.

The provision of services in a decentralised government system is largely dependent upon the willingness and ability of local governments to raise their own revenues. The 73rd and 74th Constitutional amendments assigned state governments the exclusive legislative authority to empower the Panchayat to levy taxes. The major objective of devolving revenue-raising powers to the Panchayat was to enable them function as effective institutions of self-governance by improving their autonomy in planning and decision-making.

KEY WORDS: Panchayat, Revenue, Local Self Government Taxes, Service

INTRODUCTION

While recent studies on Panchayati raj institutions (PRIs) in India have focused on issues relating to the role of the Panchayat bodies in poverty alleviation and employment generation for disadvantaged groups and improved participation of women in decision-making processes, the revenue-raising efforts of the Panchayat has received little attention.

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Two relevant articles published in 2008 in Economic and Political Weekly by Rao and Rao (Expanding the resource base of panchayats: Augmenting own revenues), and Jena and Gupta (Revenue efforts of panchayats: Evidence from four states) analyse the status of revenues raised by the PRIs. The current paper reviews the statutes (Panchayati Raj Acts) of different states in order to study the assignment of revenue raising rights—both tax and non-tax to the three tiers of the Panchayat bodies and examines the extent to which the PRIs has exploited their statutorily designated revenue rights based on a survey conducted in Gujarat, Madhya Pradesh, Maharashtra and Rajasthan for the fiscal year 2018-19. The paper looks into the sources of own revenues of the Panchayat comprising of taxes levied by the community at the grassroots level and non-tax sources as provided by the Central Finance Commissions (CFCs) and finds them to be inadequate (a fact also supported by the survey of PRIs in the four states) thereby underlying the need for undertaking reforms to empower the PRIs to augment revenues. Finally, it suggests measures to augment own revenues of the Panchayat units.

STRUCTURE

In the three-tier PRI structure it is the lower-most tier or the gram Panchayat, which is largely endowed with revenue-raising tax and non-tax powers. Review of the statutes of 23 states reveal that in most states it is only the gram Panchayat that are assigned tax rights. In some states, the block Panchayat is empowered and in about six states, the district Panchayat is empowered to levy taxes, though the number of taxes which they can levy is very limited (NIPFP 2016 study 'Fiscal decentralisation to rural local governments in India: Selected issues and reform options' by Rao *et. al*).

Some taxes assigned to PRIs are designated as obligatory while others are optional. Both in case of obligatory and optional tax the tax rate and the base is decided by the state governments; however, statutes stipulate that optional taxes can only be levied with the prior permission of state governments. The relevant state statute or executive orders issued by the state government lay down the tax rates, tax base and exemptions for taxes assigned to PRIs, along with the maximum rate at which the Panchayat bodies can levy tax. The house and

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building tax, which is the core element in the PRI fiscal domain, is assigned to the gram Panchayat in most states. In states where this tax is assigned to the Panchayat it may either be (i) a specific absolute levy not linked to floor area, or (ii) may have different slabs depending upon the floor area. In many states, the revenue from house tax is virtually stagnant, as rates are not revised periodically in accordance with market values.

In addition to taxes, the Panchayat is also empowered to collect non-tax revenues in the form of fees, fines, and user charges from public property such as irrigation sources, ferry Ghats, wastelands, community lands, orchards, tanks, markets and fairs. Besides, income from properties built by the Panchayat such as public roads, buildings also contribute to non-tax revenues.

PANCHAYAT REVENUES - CURRENT STATUS

A major handicap in analysing Panchayat revenues is the paucity of information and low quality of data on Panchayat finances. There is no national database on Panchayat finances in India and reports of the CFCs are the only source of information. Besides, the data reported by successive CFCs are not comparable or reliable, as was noted by the 13th Finance Commission which is why it did not utilise it.

Table: Revenue Current Source of Anand District

Year	Gram Panchayat		Taluka Panchayat		Zilla Panchayat	
	Own Source	Govt. Grant	Own Source	Govt. Grant	Own Source	Govt. Grant
2015	34%	66%	42%	58%	44%	56%
2016	32%	68%	36%	64%	38%	62%
2017	36%	64%	39%	61%	41%	59%
2018	39%	61%	42%	58%	56%	54%
2019	37%	63%	40%	60%	44%	56%

Source: www.gujgov.in/revenue

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As per the information the on own revenues collected by the Panchayat as a per cent of the gross state domestic product (GSDP) from agriculture and allied activities. Revenue mobilisation by the Panchayat is extremely low and there are significant interstate variations. Among the general-category states the PRI revenue as a percentage of agriculture GSDP varies from 0 per cent in case of Bihar and Jharkhand to 1.45 per cent for Maharashtra. If we include special-category states, this variation is even larger. For all states taken together, this percentage varies between 0.35 and 0.42. It is also evident that the inter-state variation is not only high but has also shown a steady increase over the years. The coefficient of variation of revenue as percentage of agriculture GSDP has increased from 1.417 in 2013-14 to 1.676 in 2017-18. Over the years, own-revenue mobilisation has shown a decline. The all-state own revenue as a per cent of all state agriculture GSDP which was 0.40 in 2013-14 declined to 0.35 in 2017-18 after registering an increase to 0.42 in 2014-15. This only reiterates the point that revenue mobilisation by the Panchayat bodies is abysmal and efforts should be made by the PRIs to mobilise their own revenues.

State-wise per capita own and total revenues at current prices. The figure reveals that during 2013-14 and 2017-18 both per capita own revenue and per capita total revenue have registered an increase. All India per capita own revenue increased from Rs 24.70 in 2013-14 to Rs 34.07 in 2017-18 while per capita total revenue registered an increase from Rs 409.56 to Rs 745.52 during this period. Own revenues of PRIs constitute a very small portion of their total revenues. The generation of own revenues by the Panchayat has been extremely low and they are dependent on fund transfers from the central or state government for their functioning. Such dependence considerably reduces the autonomy of the Panchayat thereby reducing their role to merely performers of agency functions.

The data also suggests that per capita own revenues are higher in states that have higher per capita agriculture GSDP. The correlation coefficient of per capita own revenues and per capita agriculture GSDP is 0.524. Thus, while the revenue mobilisation by the Panchayat is in general low, the states with higher per capita agriculture GSDP mobilised larger revenues.

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OWN REVENUES – SURVEY RESULTS

A survey of 780 gram panchayats, 78 block panchayats and 17 district panchayats in Gujarat, Madhya Pradesh, Maharashtra and Rajasthan for the year 2015-16 corroborates the above results. The data also indicates that a large percentage of gram Panchayat units (74.36) in these states have not collected any tax revenue from the sources assigned to them and around 20 per cent of gram Panchayat units have exploited only one source. The gram Panchayat units generally earn from house tax, water tax and animal taxes. About 27 per cent of surveyed gram Panchayat units do not raise non-tax revenue. Income from physical properties vested with the Panchayat is the major source of non-tax revenues for gram Panchayat units followed by interest receipts from unspent funds received by them under various central and state schemes. Other sources include fees for issuing certificates, fees from shops and buildings in markets and fairs, user charges on services provided by GPs, sale of scrap, and fines.

POOR REVENUE GENERATION – THE REASONS FOR

Although quite a few taxes and fees are assigned to the PRIs, very few sources have been exploited. Poor performance of the Panchayat bodies in generating own revenues can be attributed to a number of factors. Excessive state control over the Panchayat tax domain has limited the autonomy of PRIs. The recommendations of State Finance Commissions (or CFCs) to expand the tax domain of the PRIs have not been heeded by state governments. Besides, tax rates are specific and are not periodically reviewed or revised. For many taxes, a floor rate is absent as only an upper limit is prescribed. This adversely affects revenue mobilisation.

Even within their limited tax domain, PRIs are reluctant to levy taxes and suffer from poor administrative capacity, and electoral politics. Political factors like proximity to voters also act as a disincentive to levy taxes. Besides, elected representatives are often handicapped by the lack of clarity as regards their functional responsibilities and powers to levy taxes.

The gram Panchayat by and large is provided with one secretary who acts as record keeper. However, not all record keepers are gram Panchayat appointees. State appointed record keepers in many instances manage more than one gram Panchayat, resulting in the

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ISSN NO: 2395-339X

Panchayat having less control over them. With greater emphasis on PRIs as the preferred implementing agency for various central and state development schemes, the Panchayat is over stretched. As a result, augmenting their own revenues takes a backseat.

CONCLUSION

It is important to build the capacity of PRIs to administer and enforce taxes assigned to them. The basic requirement for building their capacity is to create a reliable data and information system. It is also necessary to re-look the tax powers assigned to them and examine the possibility of assigning additional productive revenue handles. With the introduction of value added tax (VAT) at the state level, some of the revenue handles like entertainment tax are been merged with VAT and others like octroi are also (except some area of Maharashtra) abolished for reasons of efficiency and competitiveness. Therefore, new tax handles has become necessary even to maintain the revenues at the prevailing level. It is pertinent to make efforts to augment own revenues of the Panchayat bodies and build its capacity to administer and enforce the taxes assigned to them. A reliable data and periodically updated information system is the key to enforce tax at the grassroots level.

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