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Financial Assignments to Panchayat Raj Institutions in India- A Perspective

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Abstract: *An attempt is made in this paper to explain the sources of income of the Panchayat raj institutions. For self-sufficiency and fiscal autonomy of the PRIs, it is important that the State should assign some of the buoyant and income elastic sources to the PRIs. According to the Acts, there a number of taxes levied at different levels of the PRIs. With the exception of some states, most of the Panchayats Acts does not make any distinction between obligatory and optional levy.*

Key words: *Panchayat raj, 73rd Amendment, Consolidated Fund*

Introduction

In India, where about 75 per cent of population live in rural areas, until recently, there were no legally recognized institutions to look after the provision of public goods to the rural masses. This scenario changed with the Constitution (73rd Amendment) Act, 1992 adopted by Parliament. The states have amended their Panchayat Acts accordingly. For financing of the functions, as mentioned in the XI Schedule, assigned to the Panchayti Raj institutions (PRIs), the Acts also make provision for the financial powers to the PRIs. Article 243H of the 73rd Amendment act states that the state may be law (a) authorize a Panchayat to levy, collect and appropriate such taxes, duties, tolls, and fees; (b) assign to a Panchayat such taxes, duties tolls, and fees; and (c) provide for making such grants-in-aid to the Panchayats from the Consolidated Fund of the State.

Since then three years have elapsed and the State governments have made provisions for financial powers to the PRIs. An investigation of the Panchayat Acts of the States would probably answer the question how financially powerful are the PRIs? The finances of the PRIs are, generally drawn from three major sources, i.e tax assignment, tax sharing and grants-in-aid. They are discussed below.

Tax assignment by States to PRIs:

For self-sufficiency and fiscal autonomy of the PRIs, it is important that the State should assign some of the buoyant and income elastic sources to the PRIs. According to the Acts, there a number of taxes levied at different levels of the PRIs. With the exception of some states, most of the Panchayats Acts does not make any distinction between obligatory and optional levy. In addition, there are no floor rates prescribed. The PRIs at the lowest level i.e., Gram Panchayats/village Pachayats (GPs/VPs) are generally empowered to levy taxes, fees and charges. The first and second tiers, i.e. Zilla Parishads and Panchayat Samitis/Janpad Panchayats are not entrusted with the taxing powers. Even if the power of levying taxes, fees and charges are entrusted to the district level (ZPs) or block (PSs) level, they are levied at the ZP or PS, but are mostly collected at the village level and then passed no to the upper tier of the PRIs. The taxes, fees and charges levied by the ZP and PS are either in the form surcharge on the taxes and charges levied by the VP s or on the same base us used by the VPs. Therefore, in this paper the tax assignment and tax and tax sharing are discussed with respect to village Panchayats only. The types of grants-in-aid existing at various levels of PRIs have also been touched upon.

Tax assignment-Village level:

The village Panchayats is entrusted with a number of taxes, the important among being:

1. Land tax (non-agricultural)
2. House building tax
3. Vehicle tax
4. Tax on profession, trade and callings
5. Tax on fair and other entertainments
6. Tax on advertisement
7. Octroi on animals or goods or both brought for sale
8. Lump sum levy on factories in lieu of taxes and
9. Special tax for construction and public works.

In addition to theswe taxes, there are fees and charges (user charges) levied by the VPs for the provision of public facilities. They include

1. Water rate

2. Lighting fee/rate
3. Street cleaning fee
4. Conservancy fee
5. Drainage fee
6. Sanitary fee for public latrines and pilgrimage fee (sanitation tax/fee)
7. Fee for the use of Panchayt shelter
8. User charges for hospitals and schools
9. Fee for the use of common resources (grazing land etc
10. Fee on markets and weekly bazaars
11. Fee on animals sold.

Of the 14 major states, about eight states levy the land tax on non-agricultural land. The on house and building is common in all the states except in Bihar and Uttar Pradesh. The third important tax is the tax on non-motorized vehicles. It is commonly levied in 11 states, but it is optional. Another important tax is, a tax on profession, trade and callings which is levied in nine states. Himachal Pradesh, Madhya Pradesh and Punjab have an obligatory levy. In Bihar and Uttar Pradesh, levy is income-based. The tax on fairs and other entertainments, though, levied in seven states, is found obligatory in Kerala, Punjab and West Bengal. The tax on advertisement is levied in only three states- Andhra Pradesh (obligatory), Karnataka and Kerala. The VPs in Gujarat, Maharashtra and Rajasthan also levy octroi on goods and animals. Another tax levied frequently across the states is a special tax on construction of public works. It is generally levied on adult male member of the household and commutable into a labour contribution. A betterment levy is found only in Maharashtra.

The second important instrument of raising resources at the PRIs level (VP) is the fees levied on public facilities and on the use of common resources. The water rate and lighting fee for the maintenance of street lighting and water supply are levied in 13 and 10 states respectively. The VPs in Andhra Pradesh do not levy water fee, whereas in Tamil Nadu, it is collected along with the land revenue. In Kerala, it is an obligatory levy. Only Kerala and Madhya Pradesh have the lighting fee for the maintenance of street lights. Some states like Andhra Pradesh, Karnataka Rajasthan and Tamil Nadu do not charge this facility. For the maintenance of cleanliness in the villages, there are a street cleaning fee and a drainage fee, but the former is levied in only four states- Andhra Pradesh, Haryana, Himachal Pradesh, Uttar Pradesh and the latter is levied only in Kerala, Madhya Pradesh and Rajasthan. There are eight states which levya conservancy fee, with Kerala and Madhya Pradesh having the obligatory nature. The sanitary cess is not found common in many states. The user charges on hospitals and schools are levied only in Bihar, Rajasthan and Madhya Pradesh. For providing the sanitary facilities to the pilgrims, seven states levy a kind of pilgrim (sanitation) tax/fee.

For the use of common resources the VPs of only seven states levy a fee, whereas about 11 states levy a fee for the use of panchayat shelters with the exception of Haryana and Himachal Pradesh.

Another important source is the fee on market and weakly bazaars. Ten states levy the fee. In Madhya Pradesh, it is obligatory. The VPs in Andhra Pradesh collect a fee on the village produce, while in Rajasthan it is charged on commercial crops brought for sale in the market. Other kinds of fees, though less common, are fee on animals sold and a lump sum levy on factories in lieu of taxes.

Shared taxes:

Next to tax assignment, tax sharing is the second important instrument of resource mobilization at the PRIs level. While probing the Conformity Acts (Cas) of the major states, it was found that the land revenue an stamp duty are the two important taxes which are in the fiscal domain of the state government shared with the panchayats. The basis of levy of land revenue is agricultural land and the stamp duty is levied on the transfer of properties. The major tax base of the rural areas-agricultural land-is tapped by the state leaving non-agricultural land and rural houses and building to the fiscal domain of the PRIs.

a. Land revenue: of the two important shared taxes, land revenue is commonly shared with PRIs across the states, even in respect of basic levy, with the exception of Haryana. In five states-Gujarat, Karnataka, Kerala, Maharashtra and Punjab-land revenue is shared on the basis of origin of collection, while in the remaining States, the levy is shared by formula. The shared basic levy is passed on to one or more of the three-tiers of PRIs. It is worth mentioning that land revenue is not levied in Haryana.

b. Stamp duty: the second important shared tax is stamp duty which is a tax on transfer of property. The contribution from stamp duty is about 7.5 percent of the aggregate tax yield of the states, indicative of the revenue significance. Unlike land revenue, which contributes a little over one percent of the aggregate state government revenue, it is also a buoyant source of revenue for most States.

c. Seigniorage royalties: In states like Andhra Pradesh, Maharashtra and Tamil Nadu, the royalties (seigniorage) collected by the state government on minor minerals and quarried materials like granite and sand are shared with the Panchayats (VPs), whereas, sharing is not done in other states. The VPs in Andhra Pradesh are also empowered to a levy a local surcharge on materials.

d. Forest revenue: the revenue from forest areas collected by the state government is basically part of the PRIs' fiscal domain. Most states do not share the forest revenue with Panchayats (PRIs). Gujarat and Maharashtra are the only states where the forest revenue is shared with the PRIs at ZP level. The sharing is done on the basis of origin. Presently, 5-7 percent of the forest revenue are assigned to ZPs. The importance of sharing of forest revenue with the PRIs is indicated in the Gujarat Panchayat Act. In the Act, there is an additional provision of sharing of forest revenue with the lowest level of PRIs (VPs) whose province covers forested villages but is not assessed for land revenue. The sharing is done on the basis of per capita rate capped by average per capita land revenue. Hence, the sharing of forest revenue with Panchayats is very important. The Gujarat and Maharastra pattern is worth emulating by other states.

e. Other taxes: the sharing of entertainment tax with panchayats is not found commonly across the states. The powers of levy are generally assigned to the panchayats in Tamil Nadu, the tax is shared based on formula while in West Bengal, and the basis of sharing is by origin.

Grants-in-aid:

The use of intergovernmental transfers (grants-in-aid) becomes a prominent feature of fisal institutions in the countries with the federal set-up. Broadly, grants can be grouped into two:

1. Conditional (specific purpose)
2. Unconditional (General purpose)

1. Conditional grant: in the specific purpose grant there is a condition attached to them to ensure that apart from spending the amount for the purpose for which it was given, a certain standard has also to be maintained. The amount of specific purpose grant can be determined in many ways. A certain percentage of locally financed expenditure may be assigned to a given service, i.e. a certain amount may be assigned to each unit of need.

2. Unconditional grant: in the general purpose grant, no such conditions are attached. Local bodies (recipients of grants) can use this grant according to their own local priorities. Generally, the grants are given to the poor or financially weak local bodies to uplift the standard of services provided by the same.

In the specific purpose grant, there is a 'matching grant'. Local bodies are required to match each grant rupee they accept (a certain portion of funds) with their own revenue, as per the special formula.

There are other types of grants, viz block grants establishment grants, road maintenance grants, minor irrigation grants and miscellaneous grants. The block grant constituting the major proportions of total grants are given to the PRIs for the execution of public works programme based on the application (requirement) received from them. The quantum of the grant varies with the type of the project proposed by the panchayats. The allocation of the grant is generally made arbitrarily to be determined by the state. As a result, the panchayat has to create political lobby pressure for getting the block grants and in process the weak panchayats may become sufferers.

Grants-in-aid and Conformity Acts:

1. Zilla Parishad level (district level) : in about 10 states (other than Gujarat, Haryana, Himachal Pradesh, Kerala and Orissa), there is provision of grants from the Centre and State to PRIs. In states like Bihar and Punjab, there is also a provision of grants from local authorities. In the case of Andhra Pradesh and Orissa, there is a provision of grants from all-India bodies and institutions for the development of cottage, village and small-scale industries, etc. In Andhra Pradesh, there is also a provision that the government shall on population. In Gujarat, there are three types of grants provided in the Act-(a) special grants in accordance with the rules, (b) grans of 2 percent of forest revenue (in Maharashtra it is 5 percent) and c) special grants to backward districts. In the Conformity Act of Haryana, there is provision of 5-10 percent of the founds to be allotted to district as grants-in-aid by the government under the plan scheme for development and panchayat departments. In Kerala, a kind of discretionary grant is provided for while in Karnataka, Maharashtra and Tamil Nadu, the establishment grant to cover the expenses of establishment are provided for Maharashtra also makes the provision of: a) purposive grant per annum by the State, b) grants for plan scheme c) incentive grants and d) distict equalization grant to remove inter district disparities in economic development.
2. Block level grant (Panchayat Samiti): like ZP, in eight states, there is also a provision of grants at the block level from the Centre and State governments (also on the recommendation of the State Finance Commissions). In West Bengal and Karnataka, the grant from ZP and toehr local authorities is also provided. Based on population, an annual grant of Rs 5 person residing in the block is provided in Andhra Pradesh. Haryana makes the provision of grants for the implementation of community development and rural development programme. The discretionary grant and establishment grant to cover the

expenses of establishment is provided in Karnataka, Maharashtra and Tamil Nadu provide local cess matching grants (in Tamil Nadu it is surcharges). In Tamil Nadu there are also provisions for grants and local road grants for the maintenance of roads. In Orissa also, there is also provision of grants from any organization, authorities or staturory bodies.

3. Village level (Village Panchayat): at the village level, the grant from government, Zilla Parishad, Mandal Parishad/Panchayat Samiti (Block Level), and /or other local authorities 9also at the recommendation of the State Finance Commissions-SFCs) is found to be most common among the major 12 states. In addition, Gujarat also provides forest revenue grant in certain GPs and the special grants to backward panchayats. A kind of discretionary grant and an annual grant of Rs. 1 lakh to every VP for maintenance of electricity, water supply, sanitation and other welfare measures are provided in Karnataka. In the conformity act of Kerala, there is provision of basic tax grants, project grants, specific purpose grants and the grants from any institution or individual. Maharashtra provides a grant of a sum equal to average amount of land revenue and equalization from ZP for reducing disparities in the economic development of the village panchayats. Orissa has provision of grants from any source. Tamil Nadu is the only state which provides village house tax matching grant for every rupee of house tax collected.

Conclusion:

Keeping fiscal autonomy in view, the buoyant and income elastic sources should be assigned to the PRIs. The states taxes having local base of collection need to be shared with the PRIs. For financing of the functions, as mentioned in the XI Schedule, assigned to the Panchayti Raj institutions (PRIs), the Acts also make provision for the financial powers to the PRIs. Article 243H of the 73rd Amendment act states that the state may be law (a) authorize a Panchayat to levy, collect and appropriate such taxes, duties, tolls, and fees; (b) assign to a Panchayat such taxes, duties tolls, and fees; and (c) provide for making such grants-in-aid to the Panchayats from the Consolidated Fund of the State.

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