

**Mobilisation of Resources by *Panchayats*:
Potential and feasibilities
(A case study of six selected *panchayats* in Kerala)**

R.P. Nair

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**Kerala Research Programme on Local Level Development
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**Mobilisation of resources by local bodies –
Potential and feasibilities
(A case study of six selected *Panchayats* in Kerala)**

R. P. Nair

1. The Problem, methodology, and sample design

The seventy-third Constitutional amendment carried out in 1992 by the Union Government envisaged vastly enhanced expenditure responsibilities for the village *panchayats* in the country. However, it had not made any specific assignments of taxes to these bodies to meet their enhanced expenditure. It had been left to the State Legislature to authorise village *panchayats* to collect taxes, duties, tolls, and fees or to assign such taxes to them and also to provide grant-in-aid to them. Though the State Legislature was competent to do this even before the constitutional amendment virtually none of the States took initiative in this matter.

The Kerala *Panchayat Raj* Act 1994, passed in the wake of the aforesaid constitutional amendment, while entrusting the village *panchayats* with vastly enhanced functional and expenditure responsibilities, had not made any change in the resource-raising potential that existed prior to the passing of the Act. This had only widened the already existing mismatch between resources and responsibilities.

The problem

Before the constitutional amendment, a number of committees and commissions both at the national and State level had gone into the issue relating to local finances in the country.

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At the national level the Local Finance Enquiry Committee (1951), the Taxation Enquiry Committee (1953-'54), the Study Team on *Panchayat Raj* Finance (1963), and the Rural Urban Relationship Committee (1965-'66) were some of the important committees, which had dealt with this subject. In Kerala, the Taxation Enquiry Committee (1968) and the *Panchayat* Finance Commission (1985) were the two important committees, which looked into the various aspects of local finance with special reference to the Village *Panchayat*. The common point emphasised in all these studies and reports was the serious mismatch between expenditure responsibility and financial resources of the *panchayats*. This imbalance had become more serious since the *Panchayat Raj* Act 1994, which aimed at wide decentralisation of expenditure without disturbing the existing centralisation of resources.

The enlarged responsibilities of Village *Panchayats* fell into two main categories namely (1) the traditional responsibilities which these bodies had been performing before the constitutional amendment and (2) responsibility conferred on them by the 73rd amendment covering both Plan and non-Plan activities. The traditional functions were funded by revenues raised by the *panchayats* supplemented by grants from the State government while the new additional responsibilities were to be financed by resources available to the State government.

At present Village *Panchayats* in Kerala have a set of exclusive revenue sources such as building tax, profession tax, entertainment tax, service tax for providing civic amenities, advertisement tax, land cess (optional), and cess on conversion of land use. The other revenue resources now available to them are the assigned taxes (basic tax and surcharge on stamp duty), shared taxes (motor vehicles tax), non-tax revenue consisting of income from properties, markets, and licence fee and grants from the State government, both conditional and untied.

For discharging the new additional responsibilities under the *Panchayat Raj* Act 1994, *panchayats* have to depend solely on the largesse of the State government. If this situation is to change, adequate availability of funds to village *panchayats* has to be ensured. These can come in two ways namely, (1) improving productivity of the existing sources of revenue and (2) getting additional funds through increased assignment of existing taxes, sharing of additional State taxes or levy of new taxes by local bodies. It has become imperative for the village *panchayats* to play an active role in raising revenue both by way of improving collection from existing sources and tapping new sources, which remain to be identified.

The State Finance Commission (1996) has made a general observation that the resource mobilisation on the part of the local bodies has been uneven and that the possibility of better exploitation of the resources even within the framework of the existing access to sources of income does exist. The findings of this study support this view of the commission.

Objectives

- (1) To estimate the fiscal potential of village *panchayats* on the basis of a selective sample study.
- (2) To compare the fiscal potential with actual efforts made by the village *panchayats* for the latest year for which data are available.
- (3) To identify the constraints faced by the village *panchayats* in resource mobilisation.

Methodology

To achieve the above objectives, information was gathered primarily at three levels viz. *panchayats*, units engaged in non-agricultural activities, and households. Separate questionnaires have been designed for each unit of study taking into account the data requirements for improving the resource base of the *panchayats*. The main survey was conducted in six *panchayats* distributed equally over Thiruvananthapuram-Cochin and Malabar region. Within each region three *panchayats* are selected purposively, one on the basis of proximity to urban areas, second on the basis of typical agriculture-dominated area, and the third prominently backward and dominated by Scheduled Caste Scheduled Tribe population. On this basis, the following six *panchayats* are selected for detailed study:

1. Kuttichal - Thiruvananthapuram district
2. Noolpuzha - Wayanad district
3. Thakazhy - Alappuzha district
4. Thirunavaya - Malappuram district
5. Thrikkakara - Ernakulam district
6. Elathur - Kozhikode district

Classification of *panchayats* on the basis of their income was adopted as early as in 1983. After 1983 and till date the State Government had ordered no revised classification. Based on the criteria adopted in 1983, more than 90 percent of the *panchayats* fall under special grade now. Since this classification is found to be out of date, an alternate procedure has been adopted in this study. From the angle of mobilisation of resources, it is not known whether any difference exists between Thiruvananthapuram-Cochin and Malabar regions. Selection of *panchayats* from these two regions is also intended to investigate this phenomenon. Before collecting information at the *panchayat* level, particular attention was given to prepare a ward-wise list of non-agricultural enterprises working in each of the selected *panchayats* and it was arranged according to broad industry groups. Information was gathered from 100 such units in each *panchayat* and the distribution of these 100 units to various industry groups was done in proportion to the total number in each industry group. Similarly for collecting information from households, ward wise-list of exempted households available in the *panchayat* was made use of. From each *panchayat* ward, 12 households in the exempted category were selected at random for detailed investigation.

Before launching the main survey, a pilot investigation was conducted in three *panchayats* in Thiruvananthapuram-Cochin area to gain familiarity with the field conditions and to test the efficacy of the survey instruments. Data gathered through the pilot investigation revealed that the information relating to non-agricultural activities, and exemptions granted for tax and non-tax revenue, lacked coverage. Necessary changes had been incorporated in the questionnaire.

The main survey commenced on 1 October 1999 and was completed by February 2000. Based on the detailed comments received on the draft report submitted in October 2001 from the Programme, the draft report was further revised, incorporating the comments/suggestions as much as possible and revised version was submitted.

Schedules of enquiry

Three schedules have been used for the main enquiry as detailed below.

Panchayat schedule: This is intended to collect a wide variety of parameters like general features of the *panchayat*, infrastructure facilities, nature and type of agricultural and non-agricultural activities, revenue realisation, tax exemptions given and reasons thereof, the pattern of expenditure and a host of other related matters which have a bearing on the resource mobilisation capacity of the village *panchayats*.

Enterprise schedule: This is designed for collecting exhaustive information from non-agricultural enterprises located within the selected *panchayats*. The important information gathered are identification particulars of the enterprise like name and address of the enterprise, name of owner/operator etc, basic particulars of the enterprise viz. type and nature of the activity, type of ownership, type of power used, type of registration, operational details of the enterprise like number of days worked, number of workers, and financial aspects of the enterprise which include assets owned, working capital, material and non-material inputs and outputs, operating surplus, gross margin, and also the amount of taxes, and licence / registration fees paid by the enterprise.

Household schedule: Households are the ultimate decision making units in the informal sector and it is appropriate to utilise the source to gather the data on the nature of economic activities pursued from the household level, main source of household income, and participation of the household in the resource mobilisation efforts of the *panchayats* and other relevant information. The important information sought to be collected through the household schedules are general particulars of the household like location, type of ownership, land owned and leased, religion and social status, nature of housing, demographic particulars of the household, number of persons working, annual income of the household from various sources, and the number of persons in the household paying various kinds of taxes.

Plan of the study

The study is organised in the following manner: from Section 2 onwards the analysis of survey results is presented. The analysis is presented in the form of three profiles viz. *Panchayat* Profile, Enterprise Profile, and Household Profile. Section 2 gives the analysis and interpretation of data collected under *panchayat* schedule. Section 3 presents the corresponding findings of the information contained in household schedule. Section 4 presents the results based on data obtained through enterprise survey. Revenue potential of important items of taxation for the selected *panchayats* is presented in Section 5. The actual revenue collection under each item is also shown for comparison. The problems faced by selected *panchayats* in resource mobilisation are also briefly discussed in this section. A summary of the findings together with recommendations for improving revenue collection is presented in Section 6.

2. Analysis of Survey Results: *Panchayat* profile

The data collected through *Panchayat* Schedule from six selected *panchayats* have been analysed and presented in this section. The main survey was conducted in six *panchayats* distributed equally over Thiruvananthapuram-Cochin and Malabar regions. Within each region three *panchayats* have been selected purposively, one on the basis of proximity to urban area, the second on the basis of typically agricultural dominated, area and the third a comparatively backward panchayat dominated by SC/ST population. Based on these criteria, the six *panchayats* already mentioned have been selected for detailed study.

Questionnaire-based personal interviews with different categories of persons associated with administration of *panchayat* office viz. President, Secretary, and members of various committees. were conducted to gather required information. A wide variety of preliminary data have been collected by using the *panchayat* schedule. Important among them are, General features of the *panchayat*, infrastructure facilities, nature and type of agricultural and non-agricultural activities, revenue realisation, tax exemption given, and the pattern of expenditure. It is important to note that the geographical conditions as well as the level of social and economic development vary widely among the selected *panchayats*. A comparative profile of the six *panchayats* is presented in Table 2.1.

Table 2.1 comparative profile of basic amenities in the six selected village *panchayats*

| Basic Details | Kutti-chal | Nool-puzha | Thaka-zhy | Thiru-navaya | Thrika-kara | Elathur |
|--------------------------------|-----------------|------------------|-----------------|-----------------------|-------------|-----------------------|
| Geographical Area (Hec) | 1976 | 24297 | 2780 | 1958 | 2746 | 1358 |
| Forest Area (Hec) | 215 | 19287 | Nil | Nil | Nil | Nil |
| Gross Cropped Area (Hec) | 1751 | 4960 | 2280 | 1840 | 2185 | 1086 |
| Area sown more than once (Hec) | 12 | 1630 | 1000 | 425 | 325 | 10 |
| Net Cropped Area (Hec) | 1739 | 3330 | 1280 | 1415 | 1860 | 1076 |
| Irrigated Area (Hec) | 70 | 200 | 400 | 470 | 45 | 400 |
| Major Sources of Irrigation | Lift irrigation | Canals and wells | Canal and wells | Tanks, wells and lift | Wells | Canal, tank and wells |
| Total no. of house holds | 3697 | 4627 | 3797 | 5342 | 10468 | 5929 |
| Cultivating house holds | 2100 | 1954 | 3280 | 5006 | 330 | 5224 |

| | | | | | | |
|---|-------|-------|-------|-------|-------|-------|
| Population | 17048 | 23151 | 19136 | 37867 | 51166 | 36787 |
| Male | 8345 | 11806 | 9216 | 17904 | 25731 | 18057 |
| Female | 8703 | 11345 | 9920 | 19963 | 25435 | 18730 |
| No. of hospitals, 11 P H centres, Dispensaries etc (All systems) | 32 | 9 | 15 | 20 | 7 | |
| No. of High schools | 1 | 3 | 2 | 2 | 10 | 4 |
| No. of Colleges | Nil | Nil | Nil | Nil | 2 | Nil |
| No. of Post Offices | 3 | 8 | 4 | 3 | 4 | 2 |
| No. of Banking institutes (including private banks and money lenders) | 3 | 4 | 7 | 11 | 15 | 13 |
| P D S Out lets Public water | 9 | 9 | 10 | 27 | 16 | 9 |
| Supply facility | No | Yes | No | No | Yes | Yes |
| Village Office | 1 | 1 | 1 | 2 | 2 | 1 |
| Taluk Office | Nil | Nil | Nil | Nil | Nil | Nil |
| Public Call Offices | 3 | Nil | 1 | 1 | 4 | 1 |
| Telegraph Office | Nil | Nil | 1 | 1 | 1 | 1 |

The data clearly reveal the inter-*panchayat* variations in terms of certain basic indicators like the cropped area, number of cultivating house holds, sex ratio, health facilities, educational facilities, availability of drinking water, and also banking and communication facilities. It is seen that *panchayats* located close to urban areas enjoy better amenities in terms of health, education, and communication compared to other *panchayats* selected for the study. This has an impact on the working of these *panchayats* and also on their capability for mobilising resources internally. Noolpuzha *Panchayat* has an area of nearly 243 sq.km whereas Thrikkakara, an urban proximity *Panchayat*, has an area of 27 sq.km. Yet, when these basic amenities are worked out per sq. km and compared, the backwardness and lack of amenities for Noolpuzha is clearly revealed.

Kuttichal and Noolpuzha *panchayats* are comparatively backward and dominated by SC/ST population. The share of SC/ST population and other details are furnished in Table 2.2.

Building tax is an important item in the own revenue of the *panchayat* and its exemption has an important bearing on *panchayat* revenues. The need for reforming the present system of taxation was felt by the Naha Commission as early as in 1985 and also by the first and second Municipal Finance Commissions (1976 and 1993). The Naha Commission did not recommend any substitution of the annual rental value as the basis for the levy but suggested a number of other changes – the most important of which are listed below.

Table 2.2 Population and SC/ST population of different *panchayats*

| <i>Panchayat</i> | Total Population | SC/ST | |
|------------------|------------------|------------|------------|
| | | Population | Percentage |
| 1) Kuttichal | 17048 | 2580 | 15.0 |
| 2) Noolpuzha | 23151 | 9861 | 43.0 |
| 3) Thakazhy | 19136 | 2559 | 13.0 |
| 4) Thirunavaya | 37867 | 2017 | 5.3 |
| 5) Thrikkakara | 51166 | 7017 | 13.0 |
| 6) Elathur | 36787 | 1993 | 5.4 |

- (1) The work of tax revision should be entrusted to the officers outside the *panchayats*.
- (2) The maximum reduction that could be effected by the *panchayats* on the enhanced building tax should be restricted to 20 percent of the enhancement assessed by the Tax Revision Officer.
- (3) Only those huts whose rental value is Rs 240 and below should be exempted from the purview of Building Tax. The first State Finance Commission (1996) examined this issue in detail and came to the conclusion that the potential of building tax had not been exploited to a satisfactory extent by the local bodies. The SFC was of the opinion that even without raising the rates of taxation it should be possible to obtain substantial increases from this source. The Commission recommended that the present system of assessing rental value of residential buildings in rural and urban local bodies might be dispensed with and plinth area might be adopted as the basis for arriving at the rental value.

As per the data obtained from the *panchayats*, the exemption of building tax of residential and non-residential buildings in the selected *panchayats* is of the following order.

Table 2.3 Number of houses and number exempted from taxation in selected *Panchayats*

| <i>Panchayats</i> | Residential | | | Non Residential | | Total |
|-------------------|-------------|--------------|------|-----------------|-------|--------------|
| | No. | No. exempted | No. | No. exempted | No. | No. exempted |
| Kuttichal (TVM) | 5247 | 2454 (47) | 939 | 487 (52) | 6186 | 2941 (48) |
| Noolpuzha (WYD) | 5877 | 3584 (61) | 841 | 342 (41) | 6718 | 3926 (58) |
| Thakazhy (APY) | 4310 | 1840 (43) | 751 | 88 (12) | 5061 | 1928 (38) |
| Thirunavaya (MLM) | 6757 | 1497 (22) | 2468 | 301 (13) | 9225 | 1798 (20) |
| Thrikkakara (EKM) | 16346 | 3133 (19) | 1646 | 389 (24) | 17992 | 3522 (20) |
| Elathur (CLT) | 7805 | 431 (06) | 1140 | 236 (21) | 8945 | 667 (07) |

Figures in brackets are percentages.

Exemption of houses (both residential and non-residential) is minimum in the two urban proximity *panchayats* (20 percent and 7 percent respectively) whereas exemption is the highest in backward and SC/ST dominated *panchayats* (48 percent and 58 percent respectively).

Non-agricultural units functioning in the *panchayats* are another source of income generation where economic activities are being organised and executed on a regular basis. These units are, therefore, a potential source of resource mobilisation. This is a most vital area. Due to paucity of relevant data, it was decided to collect the required information regarding the number of non-agricultural units functioning in each of the selected *panchayats* before commencement of enterprise survey. This information was used as a frame for selection of samples for the enterprise survey. The following table reveals the extent of variation in the data availability of total number of non-agricultural units functioning in each *panchayat* as per the survey and as per the *panchayat* records.

Table 2.4 Non agricultural enterprises functioning in selected *panchayats*

| Name of <i>panchayat</i> | Number of non-agricultural units in the <i>panchayat</i> | |
|--------------------------|--|-----------------------------|
| | As per <i>panchayat</i> records | As per complete enumeration |
| Kuttichal (TV M) | 91 | 480 (19 percent) |
| Noolpuzha (WYD) | 287 | 396 (72 percent) |
| Thakazhy (ALPY) | 114 | 341 (33 percent) |
| Thirunavaya (MLM) | 347 | 877 (40 percent) |
| Thrikkakara (EKM) | 424 | 1231 (34 percent) |
| Elathur (KZD) | 427 | 852 (50 percent) |

Note: Figures in brackets indicate the extent of coverage in the *panchayat* data.

The survey data revealed that the *panchayat* records contained only 40 percent (average) of the actual number of units functioning in each *panchayat*. The exceptions noted are Elathur and Noolpuzha *panchayats* where the percentage coverage ranged from 50 to 70.

Revenue realisation by *panchayats*

The main sources of income of the *panchayat* may broadly be classified under four heads: tax revenue, non-tax revenue, grants and loans.

Under tax revenue, main sources are: own taxes, assigned taxes, and shared taxes.

Own taxes are those assigned to the *panchayats* and collected by them. The entire proceeds of own taxes are appropriated by the *panchayat*. Assigned taxes are those assigned to the *panchayats*, but collected by the State and given to the local bodies after deducting the cost of collection. Shared taxes are levied and collected by the State, but a portion is shared with the local bodies.

Non-tax revenue consists of licence fees, market fees, contributions, and deposits. Grant component is a transfer from the State government, which may be either tied or untied. Loans are conspicuously absent in most cases and constitute a negligible portion of the total receipts.

The composition of tax revenue of the selected *panchayats* from 1993-'94 to 1999-2000 is presented in the following Table.

Table 2.5 Composition of total receipts of selected *panchayats*
(Average for 1993-'94 to 1999-2000 - Percentage)

| Name of Panchayat | Tax revenue | Own tax revenue | Tax transfer (assigned & shared) | Total Non-tax revenue | Grants* | Loans | Total |
|-------------------|-------------|-----------------|----------------------------------|-----------------------|---------|-------|-------|
| 1. Kuttichal | 64 | 21 | 43 | 7 | 29 | - | 100 |
| 2. Noolpuzha | 58 | 11 | 47 | 23 | 19 | - | 100 |
| 3. Thakazhy | 52 | 24 | 28 | 9 | 39 | - | 100 |
| 4. Thirunavaya | 58 | 29 | 29 | 20 | 22 | - | 100 |
| 5. Thrikkakara | 80 | 48 | 32 | 12 | 8 | - | 100 |
| 6. Elathur | 78 | 50 | 28 | 7 | 15 | - | 100 |

* Excluding Plan Grants

The Table makes it evident that own tax revenue as a percentage of total revenue is the lowest for Noolpuzha followed by Kuttichal *panchayat*.

Among the four components of revenue, tax revenue constituted the highest share in all the six *panchayats*, even though the share varied from 52 percent in the case of Thakazhy (agricultural dominated) to 80 percent in the case of Thrikkakara (urban proximity) *panchayat*. It is also noted that Elathur (another urban proximity *panchayat*) has also the highest share of own tax revenue. The share of non-tax revenue is comparatively low in all these *panchayats*. Among them, the contribution of non-tax revenue is comparatively high in Thirunavaya and Noolpuzha *panchayats*, where sizeable collection is from licence fees and other sources. This can be seen from the following Table.

Inter-*panchayat* differences between *panchayats* are reflected in differences in the composition of receipts in per capita terms. Tax transfers in per capita terms from the State Government have gone up for most of the selected *panchayats* between 1993-'94 and 1999-2000. Own tax revenue had increased significantly in all *panchayats*. Per capita non-tax revenue has also gone up in all the selected *panchayats* except Noolpuzha. The

most significant increase in the per capita non-tax revenue is seen in the case of *panchayats* like Thrikkakara where it had increased from Rs 12.3 to Rs 26.6 and Thirunavaya where it had increased from Rs. 4.1 to Rs. 23.8. In all *panchayats*, except Elathur and Noolpuzha, per capita grant had declined appreciably in the same period.

Table 2.6 Different components of *panchayat* receipts in per capita terms (units: Rupees)

| Name of <i>Panchayat</i> | Period | Tax transfer | Own tax | Non-tax Revenue | Total grants* | Total Receipts |
|--------------------------|--------|--------------|---------|-----------------|---------------|----------------|
| Kuttichal | 93-94 | 49.5 | 10.9 | 2.3 | 23.7 | 86.4 |
| | 98-99 | 36.2 | 15.0 | 6.2 | 7.7 | 65.1 |
| Noolpuzha | 93-94 | 18.1 | 9.7 | 20.3 | 17.0 | 65.0 |
| | 98-99 | 72.6 | 15.0 | 12.9 | 17.5 | 118.0 |
| Thakazhy | 93-94 | 13.7 | 13.7 | 2.8 | 61.6 | 91.8 |
| | 98-99 | 21.4 | 16.3 | 7.7 | 20.1 | 65.5 |
| Thirunavaya | 93-94 | 23.3 | 11.2 | 4.1 | 5.2 | 43.8 |
| | 98-99 | 24.3 | 26.1 | 23.8 | 3.9 | 78.2 |
| Thrikkakara | 93-94 | 18.7 | 35.3 | 12.3 | 5.6 | 71.9 |
| | 98-99 | 35.0 | 77.1 | 26.6 | nil | 138.8 |
| Elathur | 93-94 | 11.7 | 26.6 | 3.5 | 5.8 | 47.7 |
| | 98-99 | 21.8 | 45.7 | 4.2 | 6.2 | 77.9 |

• Excluding Plan Grants

The main objective of fiscal transfer is to bring about progressivity; or, in other words, equality in the fiscal strength of the *panchayats* earning different levels of income. To achieve this objective, the mechanism of transfer should be used in such a way that *panchayats* with lower income should get higher transfers from the State. In other words, to achieve fiscal equalisation across the *panchayats* there should be an inverse relationship between per capita own revenue and per capita grants. But data presented in the above tables reveal that there is no systematic inverse relationship between per capita own tax revenue and per capita grants across the *panchayats*. Two out of six *panchayats* have high per capita own tax revenue as well as high per capita grants. In four *panchayats* per capita grant has declined with increase in per capita own revenue. The data reveals an erratic trend.

Own revenue of *panchayats*

Own revenue comprises of own tax and non-tax revenues. Own revenue is the single

largest component of total receipts of three selected *panchayats*. For the other three, mostly less developed and tribal-dominated *panchayats*, contribution of own revenue is not significant. This is mainly due to their very low tax base. A detailed analysis of the different components of own revenue is presented in the following sections.

Own tax revenue

Major components are building tax, profession tax, and entertainment tax, and show tax. As is evident from the table below, during the period 1993-'94, building tax accounted for nearly 65 percent of the total own tax revenue except in the case of Kuttichal and Thrikkakara. But its share had either gradually dwindled or did not register much variation by the end of 1998-'99. The share of profession tax has remained almost stagnant around 30 percent in all *panchayats* during the period of study. The share of entertainment tax fluctuated between 3 to 6 percent in most of the *panchayats* except Elathur and Thirunavaya during the six-year period. The contribution of show tax and surcharges on show tax is negligible.

Table 2.7 Major items of own tax revenue of selected *panchayats* and its percentage share

Percentage share to total own Tax revenue

| <i>Panchayats</i> | Building tax | | Profession tax | | Entertainment tax & Add. entertainment tax | | Show tax and surcharge | | Total own tax revenue | |
|-------------------|--------------|-------|----------------|-------|--|-------|------------------------|-------|-----------------------|-------|
| | 93-94 | 98-99 | 93-94 | 98-99 | 93-94 | 98-99 | 93-94 | 98-99 | 93-94 | 98-99 |
| Kuttichal | 54 | 57 | 36 | 39 | 9 | 3 | 1.0 | 1.0 | 100 | 100 |
| Noolpuzha | 63 | 71 | 37 | 29 | — | — | — | — | 100 | 100 |
| Thakazhy | 69 | 67 | 26 | 28 | 4.8 | 2 | 0.2 | 3.0 | 100 | 100 |
| Thirunavaya | 68 | 54 | 29 | 31 | 2.9 | 14.5 | 0.1 | 0.5 | 100 | 100 |
| Thrikkakara | 53 | 61 | 40 | 37 | 6 | 1.8 | 1.0 | 0.2 | 100 | 100 |
| Elathur | 54 | 57 | 20 | 19 | 25.7 | 23.6 | 0.3 | 0.4 | 100 | 100 |

A detailed analysis of each component of own tax revenue is presented below.

Own tax revenue: Building tax

Taxes on immobile assets are best suited for taxation at local level on equity and efficiency criteria. It is also seen that building tax is the most productive of all sources of own tax revenue. The local body decides the rate of building tax within the statutory minimum and maximum limits. The assessments are made every five years by the official machinery available with the local body. The Naha Commission of 1985 (Report of the Panchayat

Finance Commission, Govt. of Kerala) had reported that 70 percent of the village *panchayats* are levying building tax at the minimum rate of 6 percent.

The rate of building tax imposed by all the six selected *panchayats* is one and the same, viz. 6 percent of the annual rental value of the residential buildings, though they have power to increase it up to 10 percent without any government sanction. This rate, it is known from the survey, is in force from 1992 onwards.

The following Table presents a summary picture of the building tax as a percentage of own tax revenue, total tax revenue and total own revenue of the selected *panchayats* during the period 1993-‘94 to 1998-‘99. The comparative position for the total *panchayats* is also presented.

Table 2.8 Building tax as a percentage of own tax revenue, total tax revenue and total own revenue of selected *panchayats*

| <i>Panchayats</i> | BT/OTR | | BT/TTR | | BT/TOR | |
|--------------------------------|---------------|-----------|---------------|-----------|---------------|-----------|
| | ‘93-‘94 | ‘98-‘99 | ‘93-‘94 | ‘98-‘99 | ‘93-‘94 | ‘98-‘99 |
| Kuttichal | 54 | 57 | 19 | 18 | 45 | 25 |
| Noolpuzha | 63 | 71 | 22 | 12 | 20 | 38 |
| Thakazhy | 69 | 70 | 34 | 29 | 21 | 29 |
| Thirunavaya | 68 | 54 | 22 | 28 | 50 | 28 |
| Thrikkakara | 53 | 61 | 35 | 42 | 39 | 45 |
| Elathur | 54 | 57 | 37 | 40 | 48 | 20 |
| Total <i>panchayats</i> | 52 | 53 | 26 | 29 | 47 | 48 |

No definite trend is seen in the case of the above ratios involving building tax except in the case of Thrikkakara *panchayat* where it has shown nominal increase together with other tax revenues. But in the case of other selected *panchayats*, the ratios exhibited divergent trends. It indicates that the percentage increase recorded in the case of total own tax revenue, total tax revenue, and total own revenue is not necessarily due to the percentage increase recorded in building tax. This is mainly due to large-scale evasions and absence of concerted effort on the part of tax collection machinery to mobilise maximum resources from this sector.

Own tax revenue: Profession tax

Profession tax, a levy on local income, is an important source of revenue for rural local bodies. The *panchayats* levy this tax by virtue of section 204 of Kerala *Panchayat Raj* Act 1994. All companies and individuals transacting business or engaged in a profession for not less than 60 days in a half-year are liable to pay this tax at rates prescribed by the local

body, subject to the maximum rates prescribed by the State Government. The following Table presents profession tax as a percentage of own tax revenue, total tax revenue, and total own revenue

Table 2.9 Profession tax as a percentage of own tax revenue, total tax revenue and total own revenue of selected *panchayats*

| <i>Panchayats</i> | P/OTR | | P/TTR | | P/TOR | |
|--------------------------------|--------------|-----------|--------------|-----------|--------------|-----------|
| | '93-'94 | '98-'99 | '93-'94 | '98-'99 | '93-'94 | '98-'99 |
| Kuttichal | 36 | 39 | 13 | 12 | 29 | 28 |
| Noolpuzha | 37 | 29 | 13 | 5 | 12 | 15 |
| Thakazhy | 26 | 28 | 13 | 12 | 22 | 19 |
| Thirunavaya | 29 | 31 | 9 | 16 | 21 | 29 |
| Thrikkakara | 40 | 37 | 26 | 25 | 29 | 28 |
| Elathur | 20 | 20 | 14 | 13 | 18 | 6 |
| Total <i>panchayats</i> | 28 | 29 | 14 | 20 | 25 | 26 |

Report of the *Panchayat* Finance Commission, 1985, Govt. of Kerala.

The above ratios indicate that revenue from this source is almost stagnant in majority of the selected *panchayats*. It is also seen from the data presented in appendix I that the revenue from profession tax had gone up in absolute terms in all the selected *panchayats*. Nevertheless, the share of profession tax in the case of own tax revenue, total tax revenue and also total own revenue has either fallen or remained almost static in most of the cases. The full potential of this tax is yet to be realised by the rural local bodies.

Own tax revenue: Entertainment tax and Additional entertainment tax

Section 200 of KPRA (1994) mentions entertainment tax as one of the taxes that could be levied by village *panchayats*. Entertainment tax and additional entertainment tax are leviable on any fair, performance, amusements, games, sports or cinema (which is the largest single source for any *panchayat*). The rate of entertainment tax is to be fixed on the price of tickets between the minimum of 15 percent and maximum of 30 percent, and the additional entertainment tax is fixed at 60 percent of the entertainment tax. The tax is collected in advance either at the time of stamping or at the retail sale point. The following Table presents entertainment tax and additional entertainment tax as a ratio of own tax revenue, total tax revenue and total own revenue.

The data clearly reveals that the yield from this particular tax is steadily falling in the case of all the selected *panchayats* except Noolpuzha where the revenue from this source is practically nil. The same trend is reflected in the case of 'total *panchayats*' also. Very poor

collection drive on the part of *panchayats*, and also massive evasion of tax, may be the causes.

Table 2.10 Entertainment tax as a percentage of own tax revenue, total tax revenue, and total own revenue

| <i>Panchayats</i> | ET/OTR | | ET/TTR | | ET/TOR | |
|--------------------------------|---------------|----------|---------------|----------|---------------|----------|
| | '93-'94 | '98-'99 | '93-'94 | '98-'99 | '93-'94 | '98-'99 |
| Kuttichal | 9 | 3 | 3 | 1 | 7 | 2 |
| Noolpuzha | — | — | — | — | — | — |
| Thakazhy | 5 | 2 | 2 | 1 | 4 | 2 |
| Thirunavaya | 3 | 15 | 15 | 8 | 15 | 8 |
| Thrikkakara | 6 | 2 | 4 | 1 | 5 | 2 |
| Elathur | 26 | 23 | 18 | 15 | 22 | 8 |
| Total <i>panchayats</i> | 9 | 8 | 5 | 4 | 8 | 7 |

Own tax revenue: Show tax

Under section 200 of KPR Act (1994), village *panchayats* in Kerala are empowered to levy and collect show tax and surcharge on every exhibition performed in the territory. The rates of show tax as per Kerala *Panchayat Raj* (levy of show tax) rules, 1995 are as follows:

1. Regular cinematographic exhibitions in licensed theatres — Rs 2 per show
2. Other cinematographic exhibitions — Rs 10 per show
3. Regular exhibitions other than cinema — Rs 5 per show
4. Other exhibitions — Rs 30 per show.

The show tax on dramatic performances and circus shows, fixed as early as in 1965, has not been revised. In addition to show tax, local bodies are empowered to levy and collect on every show a surcharge on show tax at the rate of 25 percent of show tax. The trend of receipts from show tax and surcharge for the period 1993-'94 to 1998-'99 is presented below.

Show tax forms a very meagre source of own tax revenue. Its contribution is negligible since it constituted less than one percent of the major tax sources (vide table above). It is also evident that yield from this source of revenue is almost stationary or falling during the period 1993-94 to 98-99.

Assigned and shared taxes

Though the assigned and shared taxes are not directly collected by *panchayats*, a portion

of the total collections from this source is given to the *panchayats*. This formed roughly 25 to 30 percent of their total tax revenue.

Table 2.11 Show tax including surcharge as a percentage of own tax revenue, total tax revenue, and total own revenue in selected *panchayats*

| <i>Panchayats</i> | ST/OTR | | ST/TTR | | ST/TOR | |
|-------------------|---------|---------|---------|---------|---------|---------|
| | '93-'94 | '98-'99 | '93-'94 | '98-'99 | '93-'94 | '98-'99 |
| Kuttichal | 1.1 | 0.8 | 0.4 | 0.2 | 0.9 | 0.5 |
| Noolpuzha | — | — | — | — | — | — |
| Thakazhy | 0.4 | 0.3 | 0.2 | 0.1 | 0.4 | 0.2 |
| Thirunavaya | 0.1 | 0.2 | 0.02 | 0.1 | 0.04 | 0.1 |
| Thrikkakara | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Elathur | 0.6 | 0.4 | 4.1 | 0.3 | 0.5 | 0.4 |

Assigned taxes

Tax assignment and tax sharing are indicators of fiscal decentralisation. Revenue sharing is the closest approximation for an unconditional grant. Some tax bases are assigned to the exclusive use of the particular levels of Government – central, State or local – while other taxes are shared. Different levels of Government may use the same tax base or one level may collect the tax from a given base and share the revenue with other levels. In Kerala, surcharge on stamp duty on transfer of property and basic tax or land tax are the assigned taxes. The stamp act of 1959 empowers the State government to levy stamp duty on transfer of property subject to certain conditions. Section 206 of KPRA (1994) empowers village *panchayats* to levy a surcharge on stamp duty not exceeding 5 percent of the value of the property transferred. Surcharge on stamp duty is collected together with the stamp duty. Under 1960 Act, the stamp duty on transfer of property was pooled taluk-wise, but under KPRA, 1994 *taluk*-wise pooling had been dropped and replaced by State-level pooling. At present, 75 percent of the State pool is distributed among village *panchayats* on population basis, after deducting three percent for collection charges.

The under-valuation of properties in both rural and urban areas is a regular phenomenon observed during purchase or sale of properties. (A series of discussions, which I had with the sub-registrars in charge of the selected *panchayats*, gave me this information.) It was also revealed that often the value of the properties transacted as shown in the document was far below the prevailing market rates (in most cases less than 25 percent). But no authentic data to prove this under-valuation could be obtained from any of these offices. The second category of assigned tax is the basic tax or land tax. The State Government collects the basic tax and the entire proceeds are statutorily assigned to village *panchayats*. Basic tax or land tax is levied by the land revenue department on all lands except lands belonging to Government and a few other exempted categories. Under section 202 of the

KPRA, 1994, State Government is required to pay annually to each panchayat in the State a grant, viz. Basic Tax Grant, equal to the total collection of the basic tax in the preceding year. Seventy-five percent of the tax collected is to be given on the basis of collection and the balance 25 percent is for distribution among *grama panchayats* on the basis of area, population, availability of financial resources and development requirements. The following table shows the composition of assigned taxes and their share to total tax revenue of the six selected *panchayats*.

Table 2.12 Composition of assigned taxes and its percentage to total tax revenue (Rs in lakh)

| Particulars | | Kutti chal | Nool puzha | Thakazhy | Thiru navaya | Thrikka kara | Elathur |
|--|-------|---------------|---------------|----------|-----------------|-----------------|---------|
| Duty on transfer of property | 93-94 | 3.12 | 1.89 | 0.66 | 5.76 | 9.06 | 4.21 |
| | 98-99 | 1.23 | 4.26 | 0.58 | 5.73 | 12.50 | 6.46 |
| Land tax | 93-94 | 0.23 | 2.38 | 0.63 | 0.24 | 0.46 | 0.19 |
| | 98-99 | 0.53 | 5.38 | 0.70 | 0.53 | 1.63 | 0.50 |
| Total assigned tax | 93-94 | 3.35 | 4.27 | 1.29 | 6.00 | 9.52 | 4.40 |
| | 98-99 | 1.76 | 9.64 | 1.28 | 6.26 | 14.13 | 6.96 |
| Total tax revenue | 93-94 | 5.25 | 6.56 | 5.34 | 13.33 | 28.17 | 14.40 |
| | 98-99 | 9.36 | 21.73 | 7.72 | 20.47 | 61.41 | 26.61 |
| Percent of assigned tax to total tax revenue | 93-94 | 64% | 65% | 24% | 45% | 34% | 31% |
| | 98-99 | 19% | 44% | 17% | 31% | 23% | 26% |

The relative significance of assigned tax to total tax revenue (own tax revenue + assigned taxes + shared taxes) of each of the selected *panchayats* may be seen from the data presented above. Though the assigned taxes occupied a significant share during early nineties, its contribution to total tax revenue of all selected *panchayats* has come down, in certain cases drastically, by the end of 1998-'99. This is because the rate of increase of own tax revenue and shared tax are much higher during the reference period. The main reason for the fall in relative share of assigned taxes, especially income from stamp duty, is under-valuation of properties both in rural and urban areas. Though every year concerned authorities detect cases of under valuation, it hardly touches the fringe of the problem and can hardly succeed in discouraging this malpractice and consequent loss of revenue to local bodies.

Shared tax

Motor vehicles tax is the only shared tax and sharing is based on the compensatory principle. According to section 19 of the Motor vehicles Taxation Act, 1976 the State Government

should give every year to each local body from the proceeds the tax collected under the act such compensation as may be fixed by Government in accordance with such principles as have been prescribed from time to time. As per rule 11 of Kerala Motor Vehicles Tax Rules, 1975, the cost of collection and the administrative costs for the control of motor vehicles should be deducted from the receipts and the net amount divided between Government and local bodies on the basis of recommendations of a committee appointed by Government. The Act or rules do not earmark a specific portion of the proceeds to local bodies.

The Committee constituted by Government under Rule 11 of the Kerala Motor Vehicles Rules 1975 for fixing the share to the local bodies for the five year period from 1-4-1978 to 31-3-1983 recommended payment of 10 percent of net Motor Vehicles tax collected by Government in proportion to length of roads maintained by each local body and the type of such roads. The next Committee constituted as per GO MS No 63/84/T&D dated 10-9-84 to make recommendations for the five years from 1-4-1983 to 31-3-1988 could submit only an interim report covering 1983-'84, 1984-'85 and 1985-'86. Despite the recommendations contained in the above reports, Government. did not enunciate any clear principle or policy on devolution of Motor Vehicles tax. The Committee constituted in GO MS No 75/89/PW&T dated 4-7-89 and reconstituted as per GO MS No.40/93/PW&T dated 6-5-1993 under the Chairmanship of Sri Babu Paul in its report submitted in January 1995 recommended that 65 percent of the net proceeds of the tax should be distributed among Government and the local bodies in proportion to the length of roads under each agency. But the Government so far has not accepted this formula. The quantum of Motor Vehicles Tax grant given, and more specifically its inter-se distribution among local bodies, does not follow any definite pattern and is found to be dictated more by budgetary constraints than by any rational principles.

The share of Motor Vehicles Tax obtained by the six selected *panchayats* is furnished in the following Table.

Table 2.13 Shared tax as percentage of total tax revenue of the selected *panchayats*

| <i>Panchayat</i> | Shared tax (Rs. Lakh) | | Total tax revenue (Rs. Lakh) | |
|-----------------------|-----------------------|---------|------------------------------|-----------------|
| | 93 - 94 | 98 - 99 | 93 - 94 | 98 - 99 |
| Kuttichal | 0.23 | 4.25 | 5.25 (4.4) | 9.36 (45.4) |
| Noolpuzha | 1.30 | 2.05 | 14.40 (9.0) | 26.61 (7.7) |
| Thakazhy | 1.39 | 3.09 | 5.34 (26.0) | 7.72 (40.0) |
| Thirunavaya | 3.00 | 3.62 | 13.33 (22.5) | 20.47 (17.6) |
| Thrikkakara | 0.23 | 5.03 | 28.18 (0.8) | 61.42 (8.2) |
| Elathur | 0.23 | 8.35 | 6.56 (3.5) | 21.73 (38.4) |
| All <i>panchayats</i> | 1231.18 | 4590.00 | 87.23 (14.1) | 20135.21 (23.0) |

(figures in brackets are percentages)

Motor vehicles tax, both in absolute terms and as percentage to total tax revenue, exhibited marginal increase during the two reference periods. But its growth during the five-year period was highly uneven and did not show any definite trend. This is primarily due to the fact that the norms followed by the State Government in assigning this tax revenue to *panchayats* were ad hoc.

Non-tax revenue

Apart from major sources of tax revenue, *panchayats* mobilise revenue through non-tax sources like income from property, license fees, income from markets, contributions, deposits and miscellaneous sources like sale proceeds of agricultural and industrial products, lease of land, kuthakapattom, and sale proceeds of river sand. This internally mobilised or autonomous non-tax sources formed 30 percent of the revenue receipts of the *panchayats*. The composition of non-tax revenue earned by the selected *panchayats* for few years is indicated in the Table 2.14.

Table 2.14 Composition of Non-tax revenue and its share (percentage) to total own revenue of *panchayats*

| | Kuttichal | | Noolpuzha | | Thakazhy | | Thirunavaya | | Thrikkakara | | Elathur | |
|--------------------------------------|-----------|-------|-----------|-------|----------|-------|-------------|-------|-------------|-------|---------|-------|
| | 93-94 | 98-99 | 93-94 | 98-99 | 93-94 | 98-99 | 93-94 | 98-99 | 93-94 | 98-99 | 93-94 | 98-99 |
| Licence fees | 18.0 | 6.1 | 3.6 | 6.6 | 14.7 | 5.3 | 8.0 | 2.9 | 2.2 | 9.7 | 15.4 | 15.8 |
| Reg. Fees | 0.1 | 0.0 | 0.0 | 0.0 | - | - | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Gate fees | 41.0 | 25.2 | 16.7 | 9.4 | 46.0 | 11.9 | 1.2 | 0.0 | 5.0 | 1.5 | 5.2 | 1.4 |
| Other fees and Permits | 3.0 | 3.7 | 0.2 | 1.1 | - | - | 0.2 | 0.0 | 0.2 | 0.1 | 34.8 | 32.4 |
| Rent etc. | 0.1 | 0.6 | 0.0 | 0.0 | 20.2 | 73.1 | 13.7 | 4.6 | 23.5 | 15.7 | 5.0 | 14.0 |
| Shares | - | - | - | - | - | - | - | - | - | - | - | - |
| Income from other sources | 37.8 | 64.4 | 79.5 | 82.9 | 9.7 | 69.1 | 76.9 | 92.5 | 69.1 | 73.0 | 39.6 | 36.4 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| NT revenue as % of Total own revenue | 17.5 | 29.3 | 67.7 | 46.2 | 32.2 | 25.8 | 27.0 | 47.7 | 25.8 | 25.7 | 11.7 | 8.4 |

It may be seen from the above Table that the share of non-tax revenue to total own revenue

of the selected *panchayats* vary widely, four *panchayats* showing a slightly upward trend while two *panchayats* in the northern region exhibiting a declining trend. But in absolute terms the non-tax revenue has increased over the years, though the rate of increase is much lower compared to other revenues. Among the different components of non-tax revenue, the major share is from licence fees, gate fees, and other miscellaneous sources. In the section of KPRA, 1994 dealing with licensing of various activities, the Government had reserved for itself the power to make rules, which cover the licence fee also. Licences are required for conducting private markets, private cart stands, private slaughter houses, use of places for dangerous and offensive trades, construction or establishment of factories, workshops, work places, construction of buildings, for occupation of *poramboke* lands vested with *panchayats*. In addition to the above, the *panchayats* levy fees from public markets/cart stands/slaughter houses run by the *panchayats* and also for various other purposes contemplated under Registration of Births and Deaths Rules 1970. It is observed that the income from various items under this source (non-tax revenue) is well below its potential because of the low rate of fees and the long periods for which the rates remain without revision.

The single most important source of non-tax revenue is “other miscellaneous sources” which mainly comprised of sale proceeds of trees, river sand, agricultural and industrial products, lease of lands, *kuthakapattam*, fines and penalties imposed by secretary and others. The item occupies a significant share. It may be stated in this context that income from ‘other sources’ at disaggregated level mentioned above is not available in most of the *panchayats*, especially in none of the selected ones. From the discussion I had with the *panchayat* officials, I could gather authoritatively that the rates charged under every item coming under “other sources” date back to early 1970s and in certain cases even 1960s.

Grant-in-aid

Grant-in-aid from State Government to local bodies falls under two main categories: Plan grants and Non-plan grants. [Government of India is also providing Plan funds to local bodies for the implementation of Centrally-sponsored schemes, but the quantum of assistance and norms followed varied from plan to plan. Central plan and non-plan grants are not therefore dealt with in this study]. Plan grants are those required for development projects under schedules 3, 4, and 5 of KPR Act, of 1994. Prior to the implementation of KPR Act, State Government also gave untied plan funds. Non-plan grants to local bodies are either statutory or non-statutory. Statutory grants are given in the form of share of surcharge on stamp duty, basic tax, and motor vehicles tax; and non-statutory grants are given as specific or general-purpose grants. Consequent on the introduction of the provisions of KPR Act of 1994, plan grants to *panchayats* are distributed on the basis of the recommendations made by the working group constituted by Government. (Weightages approved for the distribution of Plan Grants to village *panchayats* by the working group were: Population-65 percent, Area excluding forest-5 percent, Area under paddy-5 percent, Own income of panchayat-10 percent, Composite index-15 percent (agricultural labours, persons engaged in livestock, fisheries etc. and marginal workers)

In this study non-plan statutory grants have already been discussed in detail under assigned and shared taxes. Other types of grant-in-aid viz. Plan and non-statutory non-plan grants – fall outside the scope of this study, and are therefore, not considered for detailed analysis.

Expenditure performance of selected *panchayats*

The expenditure pattern of six selected *panchayats* for the period 1993-‘94 to 1998-‘99 for major items may be seen from the data presented in the following Table.

Before discussing the expenditure pattern of the six selected *panchayats*, it may be pointed out that the data obtained from the six selected *panchayats* have certain limitations. The data are not sufficiently disaggregated for analysing the individual items of expenditure. The existing practice of panchayat offices is to show expenditure under several items in one lump. For example, the expenditure on public health, water supply, and sanitation are shown together under “Core functions”. Also under the category “miscellaneous”, a major share of total expenditure is shown together and the break-up of this item of expenditure is not readily available even with the concerned *panchayat* offices.

The break-up of the expenditure incurred by the six selected *panchayats* for the period 1993-‘94 to 1998-‘99 is presented in the Table shown above. It may be seen that administrative expenditure (management and collection) is the single most important item in the six selected *panchayats*, but the extent varied from 35 percent in Thrikkakara (EKM District), to 73 percent in Kuttichal and 68 percent in Thakazhy *panchayats*. Expenditure on education is low in most of the selected *panchayats*, its share to total expenditure ranging from 0.4 percent to 7 percent during the entire period of five years. Moreover, its share to total expenditure is gradually dwindling in most of the selected *panchayats*. It implies that the local bodies in Kerala do not seem to be playing a significant role in education. This sector is financed by various communities or organisations aided by State Government. Another important aspect is that the ‘core functions’ that comprise sanitation, drainage, water supply, and street lighting (traditional functions performed by the village panchayat) absorb only a very low percentage of the total expenditure in most cases. It is between 15 to 20 percent in majority of the selected *panchayats*. Another disturbing phenomenon is that the expenditure on ‘core functions’ in 4 out of 6 *panchayats* recorded a falling trend. It is also significant that none of the *panchayats* incur any worthwhile expenditure on irrigation. Expenditure on public works, the main development activity by the *panchayats*, is also negligible except in Thrikkakara and Elathur. Expenditure under miscellaneous items, which include land development, town planning, and public health is also negligible in majority of the selected *panchayats* except in Elathur and Noolpuzha.

Another undesirable trend noticed in the selected *panchayats* is the comparatively low level of capital expenditure. This formed only less than 26 percent of the total expenditure in all the selected *panchayats* during 1998-‘99. It is also clear from the data that the expenditure on this important item has steadily declined over the years, especially from 1993-‘94.

Table 2.15 (o) Expenditure pattern of selected *panchayats* (Rs. in lakh)

| Item | Kuttichal | | Noolpuzha | | Thakazhy | | Thirunavaya | | Thrikkakara | | Elathur | |
|--|----------------|----------------|----------------|-----------------|----------------|-----------------|----------------|-----------------|-----------------|-----------------|----------------|-----------------|
| | 93-94 | 98-99 | 93-94 | 98-99 | 93-94 | 98-99 | 93-94 | 98-99 | 93-94 | 98-99 | 93-94 | 98-99 |
| I General Account | | | | | | | | | | | | |
| a) Management & collection | 3.87 (73.0) | 7.73 (23.3) | 4.62 (38.4) | 8.53 (58.6) | 2.02 (68.0) | 12.28 (43.1) | 4.20 (56.7) | 10.29 (32.3) | 8.23 (35.2) | 13.74 (31.8) | 5.78 (48.3) | 14.02 (47.1) |
| b) Education | 0.16 (2.0) | 0.76 (7.2) | 0.97 (4.9) | 0.33 (1.5) | 0.10 (2.9) | 0.14 (0.8) | 0.14 (1.4) | 0.33 (1.8) | 0.37 (1.4) | 0.16 (0.4) | 0.13 (0.7) | 0.15 (0.5) |
| c) Irrigation | 0.12 (1.4) | 0.09 (0.8) | NIL - | NIL - | NIL - | NIL - | NIL - | NIL - | NIL - | NIL - | NIL - | 0.04 (0.4) |
| d) Public work | 0.40 (4.8) | 0.27 (2.5) | 3.80 (19.1) | 0.43 (1.9) | 0.58 (18.0) | 2.68 (14.8) | 2.95 (30.3) | 2.37 (13.0) | 8.91 (35.0) | 16.23 (42.0) | 8.03 (44.3) | 6.52 (22.7) |
| e) Core functions (sanitation, drainage, water supply and street lighting) | 1.14 (13.6) | 1.27 (12.0) | 2.25 (11.3) | 1.81 (8.3) | 0.62 (18.0) | 1.72 (9.5) | 1.48 (15.2) | 4.12 (22.7) | 6.46 (25.5) | 6.98 (18.0) | 2.51 (13.8) | 5.91 (20.5) |
| f) Social welfare | 2.56 (30.8) | 0.30 (2.8) | 0.10 (0.5) | NIL - | NIL (1.25) | 0.69 (7.0) | 0.69 (7.0) | 0.48 (2.6) | 1.42 (5.5) | 1.36 (3.6) | 0.23 (1.3) | 0.01 - |
| g) Miscellaneous | 0.03 (0.4) | 0.18 (1.7) | 8.12 (40.9) | 11.07 (49.9) | 0.13 (3.7) | 1.25 (6.9) | 0.25 (2.6) | 0.57 (3.2) | 0.07 (0.3) | 0.30 (0.8) | 1.47 (8.1) | 2.17 (7.5) |
| Total | 8.28 (100) | 10.60 (100) | 19.86 (100) | 22.20 (100) | 3.45 (100) | 18.07 (100) | 9.75 (100) | 18.16 (100) | 25.46 (100) | 38.77 (100) | 18.15 (100) | 28.78 (100) |
| II Capital A/c | 2.40 (22.0) | 2.87 (21.0) | 0.25 (1.2) | NIL - | 1.21 (26.0) | 4.23 (19.0) | 6.85 (41.0) | 2.08 (10.0) | 11.09 (30.3) | 10.63 (21.5) | 3.20 (15.0) | 4.08 (12.4) |
| Total (Excluding expenditure on debt head)) | 10.68 | 13.47 | 20.11 | 22.20 | 22.29 | 16.60 | 16.60 | 20.24 | 36.55 | 49.40 | 21.35 | 32.86 |

Note: Figures in brackets are percentages

Summary and conclusions

Inter-*panchayat* variations in terms of basic facilities like health, education, and drinking water reveal that *panchayats* located close to urban areas enjoy better amenities compared to other *panchayats*. This has an impact on the working of these *panchayats* and also their capability for mobilising resources internally. Building tax is an important item in the own revenue of the *panchayat* and its exemption has an important bearing on their revenues. The need for reforming the present system of taxation is also felt. Non-agricultural units functioning in the *panchayats* are another source of income generation where economic activities are being organised and executed on a regular basis. The study reveals that the *panchayat* records contained on an average only 40 percent of the actual number of such units functioning in each *panchayat*.

Among the different components of revenue, tax revenue constitutes the highest share, which varied from 52 to 80 percent among the selected *panchayats*. The urban-proximity *panchayats* have the highest share of tax revenue. Own revenue is the single largest component of total receipts of the urban-proximity *panchayats*. For other less-developed and tribal-dominated *panchayats*, the contribution of own revenue is not significant. This is mainly due to their very low tax base. In majority of the cases, the building tax and profession tax together accounted for nearly 90 percent of the total own tax revenue. The balance is made up of entertainment tax and show tax.

Tax assignment and tax sharing are indicators of fiscal decentralisation. In the early nineties, the assigned taxes occupied a significant share of the total tax revenue, but towards the end of 1998-'99 its contribution has come down in the case of all *panchayats*. The main reason for the fall in relative share of assigned taxes, especially income from stamp duty, is under-valuation of properties both in rural and urban areas. The motor vehicles tax is the only shared tax and its sharing is based on the compensatory principle. It is seen that the growth of motor vehicles tax during the five-year period (1993-'94 to 1998-'99) is highly uneven and does not show any definite trend. This is primarily due to the fact that the norms followed by the State government in assigning this tax revenue to *panchayats* are *ad hoc*.

Apart from major sources of tax revenue, *panchayats* mobilise revenue through non-tax sources like income from property, licence fees, and income from markets. This internally mobilised non-tax sources form 30 percent of the revenue receipts of the *panchayats*. It is observed from the available data that income from various items under this source is well below its potential because of the low-rate of fees and other charges and the long periods for which these rates remain without revision.

The break-up of expenditure incurred by the six selected *panchayats* reveal that administrative expenditure is the single most important item. Expenditure on education and core items comprising sanitation, drainage, and water supply absorb only a very low percentage of expenditure in most cases. Another trend noticed in the selected *panchayats* is the comparatively low level of capital expenditure, which in most cases is less than 25 percent of the total expenditure.

3. Analysis of Survey Results - Household Profile

Households are the ultimate decision making units in the informal sector. So it was decided to utilise this source to gather information on the nature of economic activities followed at the household level, type of agricultural and non-agricultural activities pursued, the participation of households in the resource mobilisation efforts of the *panchayats*, and other relevant information. From each *panchayat* ward, 12 households from the house tax-exempted category were chosen at random for the detailed enquiry. Hence the number of households selected in each *panchayat* varied according to the number of wards existing in each of them, the variation ranging from 108 in Kuttichal to 180 in Thrikkakara.

The distribution of house tax-exempted households (percentage) according to social status in selected *panchayats* is presented below.

Table 3.1 Distribution of households (percentage) according to social status in selected *panchayats*

| Social status | Kutti chal | Nool puzha | Thakazhy | Thiru navaya | Thrikka kara | Elathur |
|--------------------------------------|---------------|---------------|----------|-----------------|-----------------|---------|
| Scheduled Caste | 19 | 8 | 29 | 23 | 32 | 13 |
| Scheduled Tribe | 7 | 35 | 0 | 0 | 1 | 5 |
| Hindu Backward | 33 | 26 | 41 | 1 | 20 | 62 |
| Hindu Forward | 12 | 3 | 11 | 1 | 1 | 4 |
| Others (Muslims, Christians etc.) | 29 | 28 | 19 | 75 | 46 | 16 |
| Total | 100 | 100 | 100 | 100 | 100 | 100 |

The Hindu Backward and Others (mainly Christians and Muslims) constituted 55 to 78 percent of the house tax-exempted households in the selected *panchayats*. Scheduled Caste / Scheduled Tribe households ranged from 18 percent (Elathur) to 43 percent (Noolpuzha). Hindu Forward households were only less than 12 percent in all the *panchayats*.

House tax is also called as building tax. Who owned the house was relevant for determination of house tax-exempted households. Irrespective of social status and the type of *panchayat*, more than 90 percent of the houses were owned by the respective social groups as is evident from the data given in the Tables below. Rented or other categories (allotted under other programmes) constituted only a small percentage among the households studied.

A follow-up survey had been conducted among a sample of house tax paying households (six households from each ward) from three selected *panchayats*. No tangible results

could be obtained owing to lack of prescribed norms to arrive at the annual rental value of a building. The criteria for exemption from building taxation was clearly enunciated in the *Panchayati Raj* Act of 1994 and applied to the following categories of buildings:

1. Places of worship;
2. Free or Charitable Institutions;
3. Buildings of recognised educational institutions;
4. Protected ancient monuments;
5. Burial and burning grounds;
6. Govt. property other than buildings exempted by Government; and
7. Huts whose annual rental value did not exceed Rs 300.

Table 3.2 Ownership status of households - Selected *Panchayats* (percentage)

| Panchayat | Owned | Rented | Others | Total |
|------------------|--------------|---------------|---------------|--------------|
| Kuttichal | 98 | 1 | 1 | 100 |
| Noolpuzha | 98 | 0 | 2 | 100 |
| Thakazhy | 89 | 2 | 9 | 100 |
| Thirunavaya | 99 | 0 | 1 | 100 |
| Thrikkakara | 94 | 0 | 6 | 100 |
| Elathur | 90 | 1 | 9 | 100 |

In addition to statutory exemptions, Government had issued orders from time to time exempting other categories of houses such as those constructed under one lakh housing scheme, building for SCs/STs constructed by Government.

The exemption of building tax given to huts (with a plinth area of less than 20 sq.m) in *panchayats* with mud walls and thatched roofs was widely misused by stretching the definition beyond reasonable limits. Such misuse of exemptions was self-perpetuating in nature and adversely affected the finances of local bodies. The informants selected for “household profile” belonged to tax-exempted category. This implied that they were living in huts with thatched roof with mud wall/mud floor whose annual rental value did not exceed Rs 300. But surprisingly the data collected revealed that nearly 30 to 40 percent (average) of these households came under *pucca* or semi-*pucca* (permanent and semi-permanent houses) category (Table 3.3). These two categories of households (*pucca* and semi-*pucca*) did not certainly deserve exemption from building tax.

In the tribal-dominated Kuttichal and Noolpuzha *panchayats* 75 to 95 percent of the tribesfolk lived in *kacha* (thatched) houses. When all social groups were combined, the percentage of *kacha* houses varied from 29 in the case of Thirunavaya (Malappuram) to 78 percent in Noolpuzha (Wayanad). The distribution also revealed that *pucca* and semi-*pucca* houses in majority of *panchayats* except Thakazhy and Noolpuzha constituted more than 50 percent

of the total. Thakazhy and Noolpuzha were predominantly agricultural and tribal-dominated *panchayats* where *kacha* houses far exceeded other types of houses.

Table 3.3 Distribution of households (exempted) according to social status and condition of house (Percentage)

| Name of <i>Panchayat</i> | Condition of houses | SC | ST | Hindu forward | Hindu backward | Others | All |
|--------------------------|------------------------------|-----|-----|---------------|----------------|--------|-----|
| Kuttichal | <i>Kacha</i> | 45 | 75 | 44 | 31 | 39 | 44 |
| | Semi-Pucca/ <i>Pucca</i> | 55 | 25 | 56 | 69 | 61 | 56 |
| | All | 100 | 100 | 100 | 100 | 100 | 100 |
| Noolpuzha | <i>Kacha</i> | 90 | 95 | 77 | 33 | 56 | 77 |
| | Semi-Pucca/ <i>Pucca</i> | 10 | 5 | 23 | 67 | 44 | 23 |
| | All | 100 | 100 | 100 | 100 | 100 | 100 |
| Thakazhy | <i>Kacha</i> | 84 | 0 | 75 | 50 | 62 | 72 |
| | Semi-Pucca / <i>Pucca</i> | 16 | 0 | 25 | 50 | 38 | 28 |
| | All | 100 | 0 | 100 | 100 | 100 | 100 |
| Thirunavaya | <i>Kacha</i> | 33 | 0 | 50 | 100 | 26 | 29 |
| | Semi-Pucca/ <i>Pucca</i> | 67 | 0 | 50 | 0 | 74 | 71 |
| | All | 100 | 0 | 100 | 100 | 100 | 100 |
| Thrikkakara | <i>Kacha</i> | 61 | 50 | 21 | 100 | 31 | 39 |
| | Semi-Pucca/ <i>Pucca</i> | 39 | 50 | 79 | 0 | 69 | 61 |
| | All | 100 | 100 | 100 | 100 | 100 | 100 |
| Elathur | <i>Kacha</i> | 38 | 62 | 49 | 50 | 62 | 51 |
| | Semi-Pucca/ <i>Pucca</i> | 62 | 38 | 51 | 50 | 38 | 49 |
| | All | 100 | 100 | 100 | 100 | 100 | 100 |

The main source of energy for lighting was electricity in majority of the *panchayats* except Kuttichal and Noolpuzha which were SC / ST-dominated *panchayats*. Almost the same trend was visible in the case of different social groups also. In the case of cooking, almost all the households in all the villages (irrespective of social groups) used firewood for this purpose.

Table 3.4 Distribution of households by source of energy for lighting and cooking by selected *panchayats* (percentage)

| <i>Panchayats</i> | Lighting | | | Cooking | | | | |
|-------------------|--------------|-----------|-----|--------------|-----------|-----|-----------|-----|
| | Electri-city | Kero-sene | All | Electri-city | Kero-sene | LPG | Fire-wood | All |
| Kuttichal | 44 | 56 | 100 | — | — | 2 | 98 | 100 |
| Noolpuzha | 19 | 81 | 100 | 1 | 1 | — | 98 | 100 |
| Thakazhy | 61 | 39 | 100 | — | — | 3 | 97 | 100 |
| Thirunavaya | 64 | 36 | 100 | — | — | 2 | 98 | 100 |
| Thrikkakara | 76 | 24 | 100 | 2 | 4 | 8 | 86 | 100 |
| Elathur | 64 | 36 | 100 | 1 | — | — | 99 | 100 |

The availability of other basic facilities like drinking water and latrine in the selected *panchayats* is presented in Table 3.5.

Table 3.5 Distribution of households by primary source of water supply and type of latrine (percentage)

| Source of water supply | Kutti chal | Nool puzha | Thakazhy | Thiru navaya | Thrikka kara | Elathur |
|------------------------|------------|------------|----------|--------------|--------------|---------|
| Public water supply | Nil | 3 | 41 | 4 | 65 | 22 |
| Tube well | 1 | 3 | 1 | 2 | 2 | — |
| Pucca well | 88 | 88 | 25 | 94 | 32 | 78 |
| Ponds, Canals etc. | 11 | 6 | 33 | — | 1 | — |
| All | 100 | 100 | 100 | 100 | 100 | 100 |

Latrine facility

| Source of water supply | Kutti chal | Nool puzha | Thakazhy | Thiru navaya | Thrikka kara | Elathur |
|------------------------|------------|------------|----------|--------------|--------------|---------|
| Not available | 40 | 55 | 38 | 12 | 19 | 28 |
| Available | 60 | 45 | 62 | 88 | 81 | 72 |
| All | 100 | 100 | 100 | 100 | 100 | 100 |

Except in Kuttichal and Thakazhy *panchayats* for certain social groups (SC & ST), all other households had safe drinking water. Latrine facilities were also found lacking mostly in the case of SC/ST families in tribal-dominated *panchayats*. On the whole, basic facilities like electricity, drinking water, and latrine were available to majority of the selected households. Only exceptions noticed were in the two SC and ST-dominated *panchayats*, Kuttichal in Tiruvananthapuram district and Noolpuzha in Wayanad, where 40 to 50 percent of the households lacked basic facilities like safe drinking water and latrine. In Thakazhy panchayat also nearly 30 percent of the households did not have this basic facility.

Age-sex composition and marital status of the members of the selected households in the six selected *panchayats* are presented in Table 3.6.

Table 3.6 Sex Ratio by age group

| Age group | Kutti chal | Nool puzha | Thakazhy | Thiru navaya | Thrikka kara | Elathur |
|--------------|---------------|---------------|----------|-----------------|-----------------|---------|
| Less than 15 | 871 | 892 | 1000 | 983 | 976 | 1282 |
| 15 – 45 | 1267 | 1140 | 1318 | 1170 | 1037 | 1005 |
| 45 — 75 | 1106 | 1039 | 1140 | 1069 | 1024 | 1159 |
| 75 & above | 667 | 1000 | 700 | 1000 | 1000 | 1429 |
| All | 1102 | 1044 | 1169 | 1091 | 1021 | 1109 |

Sex ratio (number of females per 1000 males) presented above shows that females outnumbered males in all the selected *panchayats*. But in the case of certain age groups below 15 and above 75, males dominated in certain *panchayats*.

The educational backgrounds of the selected households in six *panchayats* reveal the following salient features.

The highest rate of illiteracy was seen in Noolpuzha (*panchayat* dominated by tribal population) and the percentage of illiteracy among males and females were of the order of 24 and 32 respectively. Illiteracy was lowest in the case of Elathur *Panchayat* (urban-proximity panchayat), and the male-female break-up of illiteracy was of the order of 11 percent and 16 percent respectively (total illiteracy was 13 percent). The total illiteracy among sample households in selected *panchayats* varied from 13 to 28 percent. In the selected households, those who had studied up to SSLC or below varied from 71 percent in Noolpuzha to 85 percent in Elathur. When male-female break-up is considered, it was of the order of 75 percent and 67 percent respectively in Noolpuzha and 87 percent and 82 percent respectively in Elathur. Those who had gone beyond SSLC constituted roughly three percent of the total population of the selected households.

Table 3.7 Distribution of selected households by sex and educational status (percentage)

| Educational Status | | Illiterate | Below primary | Primary | Middle | SSLC | Degree and above | All |
|---------------------------|--------|-------------------|----------------------|----------------|---------------|-------------|-------------------------|------------|
| Kuttichal | Male | 16 | 17 | 21 | 19 | 25 | 2 | 100 |
| | Female | 22 | 11 | 19 | 16 | 29 | 3 | 100 |
| Noolpuzha | Male | 24 | 13 | 20 | 23 | 19 | 1 | 100 |
| | Female | 32 | 7 | 21 | 12 | 27 | 1 | 100 |
| Thakazhy | Male | 15 | 9 | 24 | 18 | 32 | 2 | 100 |
| | Female | 17 | 10 | 22 | 18 | 30 | 3 | 100 |
| Thirunavaya | Male | 22 | 11 | 25 | 31 | 10 | 1 | 100 |
| | Female | 28 | 7 | 22 | 33 | 10 | 0 | 100 |
| Thrikkakara | Male | 19 | 7 | 25 | 19 | 28 | 2 | 100 |
| | Female | 21 | 8 | 24 | 19 | 24 | 4 | 100 |
| Elathur | Male | 11 | 6 | 26 | 27 | 28 | 2 | 100 |
| | Female | 16 | 7 | 27 | 21 | 27 | 2 | 100 |

Table 3.8 Distribution of persons by activity status in selected *panchayats* (%)

| Activity status | Kutti chal | Nool puzha | Thakazhy | Thiru navaya | Thrikka kara | Elathur |
|--|-------------------|-------------------|-----------------|---------------------|---------------------|----------------|
| Self employed in Agri & other agri labour | 21 | 35 | 19 | 10 | 0 | 12 |
| Self employed in non agri& other non agri labour | 15 | 4 | 14 | 16 | 28 | 18 |
| Regular salary/ wage employment | 4 | 3 | 4 | 1 | 1 | 3 |
| Unemployed | 6 | 3 | 7 | 1 | 8 | 2 |
| Students | 24 | 24 | 19 | 30 | 20 | 21 |
| Others * | 30 | 31 | 37 | 42 | 43 | 44 |
| Total | 100 | 100 | 100 | 100 | 100 | 100 |

* household work, old and disabled, too young to work, pensioners, etc.

Distribution of persons by activity status revealed that in the selected *panchayats*, household members engaged in agricultural pursuits ranged from nil in the case of Thrikkakara (urban-proximity *panchayat*) to 35 percent in Noolpuzha (SC & ST-dominated *panchayat*). Nearly 15 to 16 percent of the household members were engaged in non-agricultural occupations. Exceptions to this were Thrikkakara where 28 percent of the household members were engaged in non-agricultural professions and Noolpuzha where only 4 percent were engaged in this activity. Regular salary employment constituted only 4 to 5 percent, while unemployed accounted for 2 to 8 percent of the total population interviewed in the selected households. Students formed nearly 19 to 24 percent of the total population. The other categories like old and disabled, too young to go to school, pensioners, and rentiers constituted 30 to 44 percent.

The following general observations regarding Tables on socio-economic profile of the exempted households are made to add clarity.

- (1) Some of the Tables viz. 3.1, 3.2, and 3.6 are intended to provide a general background of each *panchayat* selected which may not have a direct bearing on the assessment of resource potential.
- (2) But certain Tables like: (a) distribution of households according to social status and condition of houses, (b) distribution of households by source of energy for lighting and cooking and (c) distribution of households by primary source of water supply and type of latrine etc. are certainly relevant for assessing condition / status of the house for fixation of annual rental value or for granting exemption. The conclusions that emerge from the above tables (a), (b), and (c) are that a significant number of the houses that are exempted from building tax are those that are enjoying all modern basic facilities and hence need to be taxed.

Table 3.9 Number of members paying different kinds of taxes in selected households in various *panchayats*

| <i>Panchayat</i> | Number engaged in Non-agricultural occupations | Number of members paying | | | |
|------------------|--|--|-------------|-------------|-------------|
| | | Profession tax | | Other taxes | |
| | | Number | Amount (Rs) | Number | Amount (Rs) |
| Kuttichal | 3369 | 3 | 400 | 75 | 1509 |
| Noolpuzha | 1897 | 4 | 940 | 102 | 5908 |
| Thakazhy | 1149 | 1 | 360 | 41 | 1250 |
| Thirunavaya | 1109 | 1 | 150 | 173 | 3229 |
| Thrakkakara | 16187 | No tax payers reported in the households | | | |
| Elathur | 8488 | Nil | Nil | 12 | 3265 |

The information gathered through the household survey regarding various kinds of taxes paid revealed that the contribution of households towards resource mobilisation by *panchayats* was negligible. The details presented below regarding profession and land taxes reinforce that conclusion.

The above data include two categories: (1) Those who are paying Profession tax (2) those who are paying other kinds of taxes, mainly land tax which is included under own revenue of the *panchayat*. Information relating to number of members paying these taxes is assumed to indicate the nature of co-operation extended by the public to the revenue mobilisation efforts of the *panchayats*. Without their co-operation, it may not be easy for *panchayats* to identify the persons liable to pay Profession tax.

As part of the household survey, qualitative information on the nature and scope of functioning of the *panchayat* and suggestions for improvement were collected from selected households. No household had expressed the opinion that the functioning of the *panchayat* was of a very high quality. Forty to 50 percent of the households felt that the performance of the *panchayats* in their respective areas was satisfactory. The remaining households held a very poor impression regarding the functioning of the *panchayats*. It was also enquired from the selected households whether there was scope for increasing the revenue of the concerned *panchayats*. Only 10 to 12 percent of the households had a positive view in this matter. They recommended improving revenue collections. Regarding People's Planning Programme, an important programme implemented by the *panchayats* for its all-round development, majority of the households (nearly 65 percent) expressed the view that drawbacks in its implementation have to be rectified. Another interesting highlight is that in all the selected *panchayats*, more than 60 percent of the households are regularly participating in the *Grama Sabhas* convened by *panchayats*. This obviously showed that the general public is quite enthusiastic about the developmental activities undertaken by the *panchayats*. Regarding frequency of contact of the selected households with *grama panchayat*, very few (viz 8 to 10 percent) have frequent contacts (either weekly or monthly). Others have contacts only once in six months or once in a year (Table 2.10 in the appendix). For improving the services rendered by the *panchayats*, the members of the selected households suggested that more attention had to be focused on providing the following services: (1) Supply of good drinking water, (2) regular supply of power, and (3) improving the condition of roads and other infra-structural facilities.

Summary and conclusions

The distribution of selected households according to social status revealed that Hindu Backward and Others (Muslims and Christians) constituted 55 to 78 percent of the house tax exempted households. Among them, SC/ ST families formed 18 to 43 percent depending on the nature of the *panchayat*. In the detailed study, it was found that more than 50

percent of the houses (except in Thakazhy and Noolpuzha *panchayats*) were either *pucca* or semi-*pucca*. Basic facilities like electricity, drinking water, and latrine were available to majority of the selected households. The exceptions noticed were in two SC / ST-dominated *panchayats*, Kuttichal and Noolpuzha where 40 to 50 percent of the households lacked basic facilities like safe drinking water and latrine. In Thakazhy *panchayat* also nearly 30 percent of the households did not have this facility.

The information gathered through the household survey regarding various kinds of taxes paid revealed that the contribution of households towards the finances of *panchayats* was negligible. No household had expressed a very good opinion regarding the functioning of the *panchayat*. Only 10 to 12 percent of the households expressed the view that there was possibility for increasing the revenue of the *panchayats*. Among the selected households, more than 60 percent were participating in *grama sabha* meetings. This provided proof of the interest taken by the households in the developmental activities undertaken by the *panchayats*.

4. Analysis of Survey Results - Enterprise profile

Panchayat records did not contain much information regarding non-agricultural activities and the pattern of their income generation. Yet it would only be prudent to gain adequate insight into the nature and dimensions of these activities and prospects of income generation from them. It would also be worthwhile to ascertain the extent of benefits accruing to the entrepreneurs on account of locating the units in the *panchayat* area vis-à-vis their contribution to the resource mobilisation efforts of the *panchayats*. This sector assumes importance since a lot of income generation activities are being undertaken here on a continuous basis. Prior to undertaking any economic activity, each unit is supposed to obtain a licence from the concerned *panchayat*. The available data with the *panchayats* relating to the number of these units functioning on the date of the survey was too incomplete and out of date. The information relating to the above aspects were gathered through a separate enterprise schedule. For obtaining a realistic picture, it was decided to undertake a complete census of all non-agricultural establishments functioning as on the date of the survey in all the six selected *panchayats*. Before collecting information from these units at *panchayat* level, a ward-wise list of non-agricultural enterprises working in each of the selected *panchayats* was prepared and it was arranged according to broad industry groups. Information was gathered from 100 such units in each *panchayat* and the distribution of these 100 units to various industry groups was done in proportion to the total number of units in each industry group. The number of units selected for detailed study was fixed at 100 mainly to ensure a reasonable sample size (around 10 percent) for all *panchayats*. The total sample was distributed among different industry groups mainly to obtain industry-wise differences in output, employment, and s margin, which have a direct impact on resource mobilisation efforts. This was done primarily with two main objectives:

- (1) to find out the non-realisation of licence fee which is an important component of non-tax revenue and
- (2) to form a rough estimate of the possible number of employees paying profession tax.

For estimating tax potential, the data collected under enterprise schedule were mainly used. Important data collected in the enterprise schedule were: (1) Type of taxes paid by the enterprise viz. *Panchayat* license, Profession tax, registration fee under SSI, etc. (2) Average number of days worked (3) Number of workers employed, and (4) Financial details like fixed assets, working capital, labour cost, and gross margin. These data formed the main source of information for estimating the potential as well as actual amount of taxes collected from them.

The total number of enterprises functioning in each of the selected *panchayats* and the number selected for detailed investigation are presented in Table 4.1.

The major findings of the enterprise survey are presented in the following paragraphs.

In most of the selected *panchayats*, perennial activity dominated (nearly 96 percent). As

regards type of enterprise, slightly more than 60 percent of the enterprises run their business without hired workers, though variations in this respect are noticed according to type of activity. The above aspects are revealed in the following Tables.

Table 4.1 Distribution of enterprises by type of activity in selected *panchayats* and the number selected for detailed study

| Type of Activity | Kutti chal | | Nool puzha | | Thakazhy | | Thiru navaya | | Thrikka kara | | Elathur | |
|------------------------|---------------------|-------------|---------------------|-------------|---------------------|-------------|---------------------|-------------|---------------------|-------------|---------------------|-------------|
| | Total No sele | No. sele | Total No sele | No. sele | Total No sele | No. sele | Total No sele | No. sele | Total No sele | No. sele | Total No sele | No. sele |
| Mining and quarrying | Nil | Nil | Nil | Nil | Nil | Nil | Nil | Nil | 4 | 4 | Nil | Nil |
| Manufacturing | 47 | 16 | 42 | 20 | 38 | 17 | 141 | 17 | 271 | 25 | 157 | 19 |
| Trade | 276 | 65 | 197 | 46 | 182 | 52 | 511 | 60 | 501 | 40 | 407 | 48 |
| Hotel and Restaurants | 56 | 13 | 65 | 15 | 32 | 9 | 73 | 12 | 78 | 6 | 63 | 7 |
| Professional services | 14 | 6 | 5 | 8 | 9 | 8 | 9 | 8 | 104 | 14 | 32 | 11 |
| Other general services | 87 | 23 | 87 | 11 | 80 | 14 | 143 | 21 | 273 | 17 | 193 | 18 |
| Total | 480 | 123 | 396 | 100 | 341 | 100 | 877 | 118 | 1231 | 106 | 852 | 103 |

Table 4.2 Distribution of Enterprises by nature of Activity (percentage)

| Type of Activity | Kutti chal | | Nool puzha | | Thakazhy | | Thiru navaya | | Thrikka kara | | Elathur | |
|-----------------------|---------------|-----|---------------|-----|----------|-----|-----------------|-----|-----------------|----|---------|-----|
| | P | S | P | S | P | S | P | S | P | S | P | S |
| Mining | Nil | Nil | Nil | Nil | Nil | Nil | Nil | Nil | 50 | 50 | Nil | Nil |
| Manufacturing | 56 | 44 | 70 | 30 | 88 | 12 | 35 | 65 | 44 | 56 | 63 | 37 |
| Trade | 100 | 0 | 98 | 2 | 100 | 0 | 92 | 8 | 100 | 0 | 100 | 0 |
| Hotel and Restaurants | 100 | 0 | 93 | 7 | 78 | 22 | 100 | 0 | 100 | 0 | 100 | 0 |
| Professional services | 100 | 0 | 88 | 12 | 100 | 0 | 100 | 0 | 93 | 7 | 100 | 0 |
| General services | 100 | 0 | 82 | 18 | 94 | 6 | 76 | 24 | 94 | 6 | 100 | 0 |
| Total | 94 | 6 | 86 | 14 | 96 | 4 | 90 | 10 | 95 | 5 | 98 | 2 |

P – Perennial, S – Seasonal

Table 4.3 Distribution of enterprises by type of activity and type of enterprise (percentage)

| Type of Activity | Kutti chal | | Nool puzha | | Thakazhy | | Thiru navaya | | Thrikka kara | | Elathur | |
|--------------------------|---------------|-----|---------------|-----|----------|-----|-----------------|-----|-----------------|----|---------|-----|
| | 1 | 2 | 1 | 2 | 1 | 2 | 1 | 2 | 1 | 2 | 1 | 2 |
| Mining | Nil | Nil | Nil | Nil | Nil | Nil | Nil | Nil | 50 | 50 | Nil | Nil |
| Manufacturing | 56 | 44 | 70 | 30 | 88 | 12 | 35 | 65 | 44 | 56 | 63 | 37 |
| Trade | 82 | 18 | 80 | 20 | 88 | 12 | 77 | 23 | 77 | 23 | 71 | 29 |
| Hotel and Restaurants | 92 | 8 | 73 | 27 | 89 | 11 | 75 | 25 | 50 | 50 | 29 | 71 |
| Professional services | 50 | 50 | 88 | 12 | 88 | 12 | 63 | 37 | 64 | 36 | 73 | 27 |
| General services | 48 | 52 | 64 | 36 | 78 | 22 | 48 | 52 | 41 | 59 | 50 | 50 |
| Total | 72 | 28 | 76 | 24 | 87 | 13 | 64 | 36 | 58 | 42 | 63 | 37 |

(1) Without hired worker (2) with hired worker.

The distribution of enterprises according to type of activity and type of energy used presented below reveal that nearly 75 percent of the selected enterprises do not require energy for their normal activity. Others use either firewood or electricity for their day-to-day activities. Among the industries not using power, majority comes under trade sector. Similarly, more than 95 percent of the enterprises (in all the selected *panchayats*) have separate premises. Those who do not possess this facility are obviously very small units run mostly as household enterprises on a very limited scale. Regarding the type of ownership, majority of the enterprises in selected *panchayats* belong to proprietary type and the remaining ones are partnerships or co-operative units. These features are summarised in Table 4.4.

An enquiry into the type of taxes/licence/registration fees paid by the selected enterprises in different *panchayats* revealed that the percentage of units not paying any tax varied from 26 in the case of Elathur and Noolpuzha *panchayats* to 75 in the case of Thirunavaya. As regards payment of taxes, every enterprise functioning in the *panchayat* was bound to take a licence from the concerned authority for starting any commercial activity. But it was found from the enterprise survey that the percentage of units obtaining this licence varied from 24 in the case of Thirunavaya to 69 in the case of Elathur.

Table 4.4 Distribution of enterprises according to type of power used, existence of premises, and type of ownership (percentage)

| <i>Panchayat</i> | Type of energy used | | | Type of premises | | Type of Ownership | |
|------------------|---------------------|-------------|----------|------------------|-----------------|-------------------|------------------------|
| | Not needed | Electricity | Kerosene | with premise | without premise | Proprietary | Partnership and others |
| Kuttichal | 73 | 19 | 8 | 94 | 6 | 97 | 3 |
| Noolpuzha | 71 | 9 | 20 | 60 | 40 | 87 | 13 |
| Thakazhy | 50 | 42 | 8 | 100 | Nil | 98 | 2 |
| Thirunavaya | 64 | 24 | 12 | 98 | 2 | 96 | 4 |
| Thrikkakara | Nil | 97 | 3 | 99 | 1 | 90 | 10 |
| Elathur | 70 | 23 | 7 | 99 | 1 | 88 | 12 |

Another important source of revenue to the village *panchayats* is profession tax paid by the enterprises. All companies and individuals transacting business or engaged in a profession for not less than 60 days in a half-year are liable to pay the tax. The maximum tax leviable, as fixed in Article 276 (2) of the constitution, is Rs 2500 per year. Government in SRO 674/90 in Kerala Gazette No. 24/1980 have exempted *panchayats* with half-yearly income Rs 2400 and below from levying the tax. Companies or persons engaged in business are assessed either on the basis of their income or on the basis of turn over. The full potential of this tax is yet to be realised by the local bodies. The optimisation of the potential of this tax source is dependent upon the local body compiling a complete list of assesseees. The record of local bodies in this regard is far from satisfactory. Based on the report of the first State Finance Commission, profession tax has been revised in village *panchayats*. The existing rates are shown below.

| Slab. | Half-yearly Income (Rs) | Maximum Half-yearly tax |
|-------|---------------------------------------|-------------------------|
| 1 | More than 12000 but less than 18000 | Rs 120 |
| 2. | More than 18000 but less than 30000 | Rs 180 |
| 3. | More than 30000 but less than 45000 | Rs 300 |
| 4. | More than 45000 but less than 60000 | Rs 450 |
| 5. | More than 60000 but less than 75000 | Rs 600 |
| 6. | More than 75000 but less than 100000 | Rs 750 |
| 7. | More than 100000 but less than 125000 | Rs 1000 |
| 8. | Above 125000 | Rs 1250 |

Wide variation is seen among *panchayats* in collecting this vital source of revenue. In *panchayats* like Kuttichal, Elathur, and Noolpuzha, 30 to 60 percent of the units pay

profession tax whereas the tax compliance of enterprises from other *panchayats* like Thakazhy, Thrikkakara, and Thirunavaya is very poor. It is also revealed from the survey that enterprises paying other kinds of fee/taxes are also far from satisfactory. This is shown in Table 4.5.

Table 4.5 Type of tax paid by Selected Enterprises - *Panchayat*-wise

| Type of Tax | <i>Panchayats</i> | | | | | |
|---|-------------------|---------------|----------|-----------------|-----------------|---------|
| | Kutti chal | Nool puzha | Thakazhy | Thiru navaya | Thrikka kara | Elathur |
| 1. No. of units selected for the survey | 123 | 100 | 100 | 118 | 106 | 103 |
| 1. Panchayat Licence No. of units paying this tax | 69 | 67 | 54 | 28 | 52 | 71 |
| % of units paying this tax | 56 | 67 | 54 | 24 | 49 | 69 |
| 2. Profession tax No. of units paying this tax | 37 | 63 | 15 | 4 | 1 | 40 |
| % of units paying this tax | 30 | 63 | 15 | 3 | 0.9 | 39 |
| 3. Other taxes, fees etc. No. of units paying this tax | 23 | 33 | 30 | 7 | 9 | 4 |
| % of units paying this tax | 19 | 33 | 30 | 6 | 8 | 4 |
| 4. Units not paying any tax | 38 | 25 | 32 | 88 | 50 | 27 |
| % of units paying this tax | 31 | 25 | 32 | 75 | 47 | 26 |

Regarding operational details of the selected enterprises, it is seen that the average number of days worked in a month is around 25 in the case of all enterprises irrespective of activity status; and the average number of workers employed (all activity status combined) in majority of the *panchayats* is around 1.8. Nearly 75 percent of the enterprises in the

selected *panchayats* do not have any peak period. For the remaining enterprises the peak period varies from 6 months to one year (Table 3.5 in the appendix).

The present study has identified six major factors affecting the enterprise activity viz. raw material, power, markets, labour, rising cost and others, if any and collected information about them. Data furnished by the enterprises reveal that barring rising costs and market facilities, no other factor seems to have affected the working of these enterprises significantly. In the case of rising costs, nearly 70 percent of the units (all activities combined) surveyed are affected by this factor. The Table below summarises the results of three of those factors and also that of roads and markets.

Table 4.6 Factors affecting enterprise activity in selected *panchayats* (percentage)

| Factors affecting enterprises (percentage number of units) | Panchayat | | Kutti chal | Nool puzha | Thakazhy | Thiru navaya | Thrikka kara | Elathur |
|--|-----------------|------------------|---------------|---------------|----------|-----------------|-----------------|---------|
| | Rax material | Does not affect | 78 | 53 | 100 | 92 | 95 | 98 |
| | | Affect adversely | 22 | 47 | - | 8 | 5 | 2 |
| | Power | Does not affect | 92 | 79 | 77 | 83 | 79 | 100 |
| | | Affect adversely | 8 | 21 | 23 | 17 | 21 | 0 |
| | Roads | Does not affect | 91 | 98 | 95 | 95 | 92 | 100 |
| | | Affect adversely | 9 | 2 | 5 | 5 | 8 | 0 |
| | Markets | Does not affect | 73 | 51 | 68 | 89 | 66 | 68 |
| | | Affect adversely | 27 | 49 | 32 | 11 | 34 | 32 |
| | Rising cost | Does not affect | 26 | 4 | 25 | 20 | 22 | 46 |
| Affect adversely | | 74 | 96 | 75 | 80 | 78 | 54 | |

The co-operation received by the non-agricultural enterprises from the concerned *panchayats* for running their business activity is an indicator of the initiative taken by the local body in promoting economic activities in their respective areas. The opinion of the enterprises regarding the co-operation/assistance received by them has also been ascertained through this survey and the findings are presented in the summary Table given below.

Only in Thrikkakara *panchayat* 17 percent of the enterprises felt that the co-operation received from the local body was good. Majority of the enterprises in the other selected *panchayats* expressed their opinion regarding co-operation received as satisfactory. This evidently showed that there is room for more initiative to be shown by selected *panchayats* in promoting business activity in their respective areas.

Table 4.7 The co-operation received by the enterprises / establishments on selected issues from the village *panchayats*

| <i>Panchayats</i> | Number expressing views on co-operation received (percentage) | | | |
|-------------------|---|--------------|-----------------|-------|
| | Excellent/good | Satisfactory | Bad/No comments | Total |
| Kuttichal | Nil | 72 | 28 | 100 |
| Noolpuzha | 7 | 57 | 36 | 100 |
| Thakazhy | 5 | 54 | 41 | 100 |
| Thirunavaya | 2 | 92 | 6 | 100 |
| Thrikkakara | 17 | 45 | 38 | 100 |
| Elathur | Nil | 55 | 45 | 100 |

Another indicator of the extent of patronage received from the local/district/State level bodies by the enterprises is the frequency with which they contact these agencies. Data collected in this regard clearly revealed that nearly 80 percent of the enterprises in various selected *panchayats* do not maintain any contact with local-, district- or State-level bodies. The remaining small percentages of enterprises maintain contacts with local bodies only very rarely, once in six month or once in a year. The Table below gives the details of survey findings.

Table 4.8 Contact of the enterprises with the local bodies (Percentages)

| | <i>Panchayat</i> | Kutti chal | Nool puzha | Thakazhy | Thiru navaya | Thrikka kara | Ela thur |
|-----------------------------|----------------------|---------------|---------------|----------|-----------------|-----------------|-------------|
| Local bodies | No contact | 64 | 40 | 54 | 94 | 60 | 92 |
| | Once in a month | - | - | - | - | - | - |
| | Six months and above | 36 | 60 | 46 | 6 | 40 | 8 |
| District level bodies | No contact | 89 | 97 | 80 | 98 | 98 | 90 |
| | Once in a month | - | - | - | - | - | - |
| | Six months and above | 11 | 3 | 20 | 2 | 2 | 10 |
| State level bodies | No contact | 99 | 100 | 93 | 91 | 94 | 97 |
| | Once in a month | - | - | - | - | - | - |
| | Six months and above | 1 | - | 7 | 9 | 6 | 3 |

Through the enterprise survey, the specific requirements of the units in promoting this business activity were identified and their views were obtained. The specific requirements

were classified under five heads viz. improving infrastructure, ensuring regular water supply, ensuring regular power supply, organising fairs/markets for their products, and providing financial assistance. It is found from the survey data that irrespective of the type of activity, more than 60 percent of the selected units suggested that the *panchayats* should provide financial assistance for their business activity. Next in the order of priority is the requirement regarding the setting up of markets/fairs by the *panchayats* for their products. For other requirements, only casual mention has been made by most of the enterprises. The details collected in this regard are presented in the Table below.

Table 4.9 Role of *panchayats* in helping the business prospects of the enterprises located in their region

| <i>Panchayats</i> | Number of units (percentage) expressing various kinds of help from <i>panchayats</i> | | | | | |
|-------------------|--|-----------------------------|-----------------------------|------------------------|-----------------|-----|
| | Improving Infra structure | Ensure regular water supply | Ensure regular water supply | Organise fairs/ market | Provide finance | All |
| Kuttichal | 4 | - | - | 3 | 93 | 100 |
| Noolpuzha | 11 | - | - | 15 | 74 | 100 |
| Thakazhy | 7 | - | 16 | - | 77 | 100 |
| Thrunavaya | 20 | - | - | - | 80 | 100 |
| Thrikkakara | 27 | - | - | 10 | 63 | 100 |
| Elathur | - | - | - | 1 | 99 | 100 |

The opinion of the enterprises clearly indicated that financial assistance was the most needed help, which they expected from the local bodies. The opinion of the enterprises was mixed regarding the prospects for improving their business. In the selected *panchayats*, less than 30 percent of the enterprises expressed lack of prospects for improving their business. Among the reasons reported, the most prominent were lack of finance, lack of assured market for their products, and huge overheads.

Summary and conclusions

Evidence on the number and types of non-agricultural activities and the pattern of their income generation is very scanty in *panchayat* records. Hence it was decided to prepare a ward-wise list of non-agricultural enterprises working in each of the selected *panchayats* and a separate enterprise schedule was canvassed from 100 such units from each selected *panchayats*. The important findings of the enterprise survey are:

1. More than 50 percent of the units are engaged in trading activities followed by manufacturing and general services;

2. Nearly 60 percent of the enterprises run their business without hired workers though slight variations are reported according to type of activity;
3. Nearly 75 percent of the selected enterprises do not require power for their normal activity;
4. As regards types of ownership, majority of the enterprises in the selected *panchayats* belong to proprietary type;
5. An enquiry into the type of taxes/licence/ registration fee paid by the selected enterprises in different *panchayats* reveal that the percentage of units not paying any tax varied from 26 in the case of Elathur and Noolpuzha to 75 in the case of Thirunavaya;
6. In the case of payment of profession tax also compliance is reported to be only 40 to 50 percent;
7. Data furnished by the enterprises reveal that rising cost and lack of market facilities affected their working significantly;
8. In the opinion of the selected enterprises, *panchayats* are not showing any initiative in promoting business activity in their respective areas;
9. Nearly 80 percent of the enterprises in the selected *panchayats* do not maintain any contact with the local / district or State level official bodies;
10. In the opinion of the enterprises, financial assistance is the most needed help, which they expect from the local bodies.
11. Evasion of tax, licence fees, and registration fees by the non-agricultural enterprises, and profession tax by the employees in them, are major sources of loss to the finances of *panchayats*.

5. Revenue potential of Local Bodies with Special Reference to Six Selected *panchayats*

Tax potential from existing sources of revenue

Local bodies in Kerala have a set of exclusive revenue sources such as building tax, profession tax, entertainment tax to finance their activities. But those revenue sources are insufficient to cover even their establishment expenditures. Almost all the tax instruments recommended by various expert committees as suitable for exploitation by local bodies have been placed at their disposal well before 1994 Acts. Thus the structure of fiscal devolution to local bodies (viz. village *panchayats*) in Kerala has not undergone any significant change as a result of 1994 Acts. The financial picture of local bodies as disclosed by their income and expenditure statements masks a number of deficiencies and inadequacies. There are a number of *panchayats* whose own income is insufficient to pay even their establishment expenditure. A still larger number falls under the category of “minus funds *panchayats*” which means that funds placed at the disposal of *panchayats* by Government for purposes other than meeting of housekeeping expenses are in fact being used for housekeeping expenses. Also, there are many local bodies, which owe a huge sum of arrears to various authorities like Kerala Water Authority, Kerala State Rural Development Board etc. In addition, a number of local bodies are regular defaulters in remitting Provident Fund of the employees, pension and leave salary contributions. The ultimate result of all these commitments implies that the local bodies have very little resources at their command for an effective up gradation of the level of civic services and also to generate economic activities. Thus there is urgent need to explore various sources, existing as well as new, for augmenting the resource base of the *panchayats*.

Before examining the additional sources of revenue to village *panchayats*, it is necessary to examine the present sources and their potential and to quantify source wise the possible enhancement of revenue receipts now accruing to village *panchayats*. A detailed estimate of the revenue potential of the six selected *panchayats* is attempted according to each source of revenue (tax-wise). A comparison of the potential estimate along with actual collection made by each of the *panchayats* is presented.

The estimate of revenue potential is attempted only for own revenue (own tax and non-tax revenues) sources of the six *panchayats*. The other two categories of revenue, viz. assigned and shared taxes, have not been considered for the estimation of revenue potential owing to the absence of reliable information pertaining to these two sources. There are other reasons also for the omission. Under assigned tax, the two categories of revenue sources are: surcharge on transfer of property and basic tax. The main issue with surcharge on transfer of property is gross under-valuation of properties and the consequential loss in revenue to *panchayats*. Though government has taken some steps to prevent this anomaly, this questionable practice still continues. Unless effective steps are taken by government to overcome this problem, an increase, either in stamp duty or surcharge, may not in any way yield higher revenue. This being the case, a potential estimate with regard to this item

will not be meaningful. Regarding basic tax/ land tax, another item coming under assigned tax category, its levy and collection are under the jurisdiction of Revenue Department. At present, there are no proposals before Government to entrust the collection of basic tax to *panchayats*. The rate charged at present is quite low (Rs 0.50 per are per annum). As per the recommendation of the State Finance Commission, any further enhanced receipts from this source of revenue due to rate revision will be earmarked to both block and district *panchayats*. Thus the village *panchayats* are not likely to get any benefit from this source of revenue. Hence no purpose will be served by estimating the revenue potential from this source also.

Regarding shared taxes (motor vehicle tax is the only item under this category), Government did not enunciate any clear principle on devolution of motor vehicles tax to local bodies with the result the decisions taken on this issue were purely ad hoc. The latest committee on this subject is Babu Paul Committee of 1995, which recommended that 65 percent of the net proceeds of the motor vehicle tax should be distributed among government and local bodies in proportion to the length of roads under each agency. Government have not so far accepted this suggested formula. The quantum of motor vehicle tax grant given, or more specifically its inter-se distribution among local bodies, does not follow any definite pattern. It is more probably dictated by budgetary constraints than by any rational principles. Under these circumstances, it was decided not to attempt estimate of revenue potential from this source.

A detailed estimate of the revenue potential from each source (tax-wise) of the selected *panchayats* is attempted here. It is compared with their actual effort as revealed by the realisations. A brief discussion of the problems faced by the selected *panchayats* in the mobilisation of resources is also presented. Potential estimates of own revenue (which includes own tax and non-tax revenue sources) are presented below.

Own tax revenue

Building (or House) Tax

Taxes on completely immobile factors are considered to be best suited for the local level on equity and efficiency criteria (Musgrave R A, 1973). Land, and structures such as buildings, is among the most immobile tax bases. Experience during the past three decades in Kerala also demonstrates that building tax is the most productive and quite elastic source of local government revenue and that the local bodies especially village *panchayats* should be prepared to realise its full potential. Survey data reveals that nearly 30 to 70 percent of the houses now exempted from building tax are actually coming under the category of *pucca* or semi-*pucca* houses. Hence the potential of building tax for yielding resources is quite high, but has not been exploited to a satisfactory extent by the local bodies. Another factor affecting the potential is the rate of building tax, which is decided by the local body within the statutory minimum and maximum limit, which in this case is from 6 to 10 percent. It is found from the survey that all the six selected *panchayats* are levying only the basic minimum tax, 6 percent (of the annual rental value of the building). Even with a nominal increase in this rate periodically, the *panchayats* can earn a higher income.

One of the major criticisms against the present system of building taxation is that it is based on estimated annual rental value, which is often arbitrary. A number of Expert Committees including the first State Finance Commission had recommended that the annual rental value should be replaced by a tax based on plinth area and type of construction of the building. Even then, there will be differences in rents due to the differences in importance of localities, type of construction, and similar other attributes. So, before the change over to plinth area as the basis for arriving at the rental value, it is necessary to conduct a field study to decide the division of local bodies into different zones and localities and the categorisation of buildings in accordance with the quality of construction.

Unfortunately, for the assessment of tax potential on the basis of alternate criteria, an amendment of KPRA Act alone had materialised at present. The corresponding rules are yet to be formulated. In these circumstances a reasonable estimate based on this alternate criteria is difficult to arrive at and hence is not attempted in this study. The methodology followed for the estimation of potential resource in the case of building tax is briefly explained below:

The number of residential and non-residential buildings in selected *panchayats* is taken from concerned *panchayat* records, the latest available data related to the year 1998-'99. For estimation of potential, kacha (thatched) houses alone are exempted. The ratio of *kacha* houses to the total houses in the selected *panchayats* is obtained from the household survey and is used for estimation of the balance of houses, which are liable to pay tax. The annual rental value in the conventional sense is difficult to arrive at through household survey especially in a rural area where there is little demand for houses on rent. Hence for estimating potential, a minimum annual tax rate is subjectively fixed at a low level according to the type of *panchayat* viz. Rs 100 for tribal-dominated *panchayat*, Rs 250 for urban-proximity *panchayats*, and Rs 150 for others, mainly agriculture-dominated areas. At these low rates, the potential estimate worked out will naturally be a very modest one.

The tax potential in respect of building tax for the six selected *panchayats* is worked out only for one year, 1998-'99. For corresponding figures for actual collection, since there was considerable fluctuation from year to year, the average for the period 1993-'94 to 1998-'99 is used in the Table below.

Table 5.1 Building tax - Potential as well as actual collection in the six selected *panchayats* for 1998-'99

| <i>Panchayats</i> | Tax potential (Rs. lakh) | Actual collection (Rs.lakh) | Percentage Realisation |
|-------------------|-----------------------------|--------------------------------|------------------------|
| 1. Kuttichal | 4.89 | 1.28 | 26 |
| 2. Noolpuzha | 3.65 | 1.88 | 51 |
| 3. Thakazhy | 5.51 | 2.03 | 37 |
| 4. Thirunavaya | 13.05 | 3.54 | 27 |
| 5. Thrikkakara | 33.24 | 16.16 | 48 |
| 6. Elathur | 17.21 | 6.18 | 36 |

Profession Tax

Profession tax, a levy on local income is another source available to the rural local bodies. All companies and individuals transacting business or engaged in a profession for not less than 60 days in a half year are liable to pay the tax at such rates as fixed by the local body subject to the maximum rates prescribed by the State Government. The maximum rate leviable is Rs 2500 per year. The growth in revenue from the source is almost stagnant in majority of the selected *panchayats*. The full potential of this tax is yet to be realised by the rural local bodies. This is because none of the local bodies possesses a complete and up to date list of persons who ought to pay profession tax at the appropriate rate. Also, the database of the *panchayats* relating to self-employed persons is poor and hence many of them escape the tax net. For estimation of tax potential from this source, the data about the number of employees available from the enterprise survey have been made use of.

In the enterprise survey, information was collected from selected enterprises on the average number of days worked and the number of workers employed. A complete census of non-agricultural establishments functioning in all the six selected *panchayats* was conducted as on the date of the survey. Utilising these two sets of data, the number of employees working in different establishments in selected *panchayats* are estimated. These estimates together with the data available from *panchayat* records are presented below for highlighting the existing data gaps in this regard.

Table 5.2 Data gaps in *Panchayat* Records for Assessing Profession tax

| Name of <i>Panchayat</i> | No. of persons paying profession tax as per panchayat records | No. of persons, who ought to pay profession tax as estimated in the enterprise survey |
|--------------------------|---|---|
| 1. Kuttichal | 330 | 1080 |
| 2. Noolpuzha | 700 | 1129 |
| 3. Thakazhy | 345 | 905 |
| 4. Thirunavaya | 1230 | 2070 |
| 5. Thrikkakara | 3500 | 8154 |
| 6. Elathur | 1300 | 2377 |

The existing rates of profession tax applicable to various income groups fixed in 1990 need a suitable revision. For the estimation of tax potential, the rates proposed by the first State Finance Commission and accepted by Government have been made use of. These rates are indicated in section 4. The survey and census provides only estimates of the number of employees. It does not provide data regarding their wages and salaries. Since the number of employees under each income slab is difficult to obtain, an indirect method is randomly substituted here for estimation. The rate applicable to the minimum income slab (i.e., up to

a monthly salary of Rs 3000) viz. Rs 240 per year has been applied to 90 percent of the total employees in each *panchayat*. Similarly for obtaining revenue from the remaining 10 percent of the employees, the moderate slab (i.e., up to a monthly salary of Rs 7500) viz. Rs 600 per year has been used. Hence the potential estimate for profession tax presented here is also very moderate and gives only a broad indication of the extent of additional revenue that could be obtained. The potential estimates of profession tax for 1998-'99 and actual collections made by the selected *panchayats* are presented below. In the case of actual collection, since there is considerable fluctuation from year to year, the average for 1993-'94 to 1998-'99 is used.

Table 5.3 Profession tax - Potential as well as actual collection in the six selected *panchayats* for 1998 – '99

| <i>Panchayats</i> | Tax potential (Rs. lakh) | Actual collection (Rs.lakh) | Percentage Realisation |
|-------------------|-----------------------------|--------------------------------|------------------------|
| Kuttichal | 2.59 | 0.85 | 33 |
| Noolpuzha | 2.98 | 1.13 | 38 |
| Thakazhy | 2.75 | 0.80 | 29 |
| Thirunavaya | 5.65 | 1.67 | 30 |
| Thrikkakara | 22.53 | 10.54 | 47 |
| Elathur | 6.61 | 2.17 | 33 |

It may be seen that the overall actual realisation is below 50 percent of the potential. This indicates that there is further scope for mobilisation of revenue on this account.

Entertainment tax and Additional Entertainment tax

Section 200 of the Kerala *Panchayat Raj* Act, 1994 lists entertainment tax as one of the taxes leviable by village *panchayats*. Among the southern States, Kerala alone has delegated the powers to levy entertainment tax to the local authorities. The rate of entertainment tax is fixed between the minimum of 15 percent and the maximum of 30 percent on the price of the tickets; and the additional tax is fixed at 60 percent of the entertainment tax. These rates were fixed as early as in 1961, and no revision has been effected so far.

Entertainment tax and additional entertainment tax are leviable on any exhibition, performances, amusements, games, and sports within the *panchayat* limits, but the single largest source is the cinema. The data collected from the six selected *panchayats* reveal that majority of them levy only the minimum of 15 percent as entertainment tax. This source of revenue is completely absent in Noolpuzha *panchayat* where there is no cinema house functioning. Cinema as an entertainment is becoming more and more popular among the rural population in Kerala and hence income from entertainment tax and additional

entertainment tax ought to have registered a significant growth. But the data obtained from the six selected *panchayats* give a different picture altogether. The low level of collection of this tax from most of the *panchayats* is a reflection of the extremely weak tax administration at the *panchayat* level. At a daily minimum of two shows on weekdays and three shows on weekends, there will be 68 shows in a month (excluding extra shows on festival days). Assuming an average number of seats per cinema house as 200, an occupancy rate of 40 percent and average ticket value of Rs 5 per seat, the collection should not be less than Rs 600 per show. We attempted to calculate the *panchayat*'s estimated collection per show by working backwards on the basis of the annual collection of this tax in selected *panchayats*. That calculation of the collection per show works out to be a very meagre amount with which no exhibitor can meet even the cost of establishment, interest charges, rent, electricity charges, and insurance charges. It clearly indicates that there is large-scale evasion at present. This is supported by the following data collected from two selected *panchayats*.

Table 5.4 Entertainment Tax – Collection per Show

| Kuttichal (No. of theatre – 1) | Thrikkakara (No. of theatre – 2) |
|--|---|
| 1. ET & Addl. ET collected = 8654 (1998-99) | 1. ET & Addl. ET collected - Rs. 87,470 (1998-99) |
| 2. At minimum rate of ET & Addl. ET (15% + 60% of ET) the total collection for 1988 - 89 - Rs. 36058 | 2. At minimum rate of ET & Addl. ET (15% + 60% of ET) the total collection for 1988 - 89 = 364458 |
| 3. Collection per show = Rs. 44/- for two theatres | 3. Collection per show = Rs. 446/- |

The system as it exists today offers ample opportunities for evasion of tax by all conceivable means and several malpractices resulting in huge loss of tax revenue to *panchayats*. To overcome these irregularities in assessment and collection of entertainment tax and additional entertainment tax, it is suggested that levy of this tax should be on the basis of seating capacity. Also, the entertainment tax and additional entertainment tax should be merged into a single item and the tax rate should be refixed at not less than 30 percent of the gross collection per show based on 40 percent of the value of total seating capacity of each theatre. The data relating to seating capacity of the theatres functioning are taken from *panchayat* records. The potential estimates are prepared and presented below for each selected *panchayat* on the basis of norms suggested above.

Note: The potential is estimated on the basis of gross collection with reference to seating capacity of the theatre. Forty percent occupancy rate is assumed. The calculation is based on 30 percent of the gross collection after merging entertainment tax and additional entertainment tax.

Percentage realisation of entertainment tax in *panchayats* located in Malabar region is relatively

high when compared to their counterparts in Thiruvananthapuram-Cochin region. This is due to better tax administration rather than compliance.

Table 5.5 Entertainment Tax / Additional Entertainment Tax: Actual collection and potential estimate for selected *panchayats*

| <i>Panchayats</i> | Tax potention (Rs. in lakh) (1998-99) | Actual collection, ET & Addl. ET (Rs. in lakhs) (Average for 1993-94 to 1998-99) | Percentage realisation |
|-------------------|--|---|-----------------------------------|
| Kuttichal | 1.06 | 0.14 | 13 |
| Noolpuzha | NIL | NIL | - |
| Thakazhy | 0.88 | 0.10 | 11 |
| Thirunavaya | 2.64 | 1.33 | 50 |
| Thrikkakara | 3.52 | 0.81 | 23 |
| Elathur | 7.93 | 3.48 | 44 |

The existing system of collection of entertainment tax should be replaced with a more effective method that will minimise, if not fully eliminate, the nefarious practices through which evasion and malpractices are perpetuated. Levying tax on the basis of seating capacity per show will prevent the evasion to a great extent besides assuring a fixed percentage of income to *panchayats*. This system should be introduced as quickly as possible to prevent the erosion of revenue now faced by the *panchayats*.

Non-tax revenue

Panchayats mobilised revenue through non-tax sources. These internally mobilised revenue formed 30 percent of the own revenue receipts of the *panchayats*. The data collected from the six selected *panchayats* revealed that the non-tax revenue had increased over the reference period (1993-'94 to 1998-'99), though the rate of increase was much slower compared to other revenues. The major components of non-tax revenue have been stated earlier. The data collected as part of the study revealed that in most cases, licence fee, gate fees, and income from other sources were the major components of non-tax revenue. Incomes from all those sources were well below its potential because of the low rate of fees/charges and the long period for which those rates remained without revision. Majority of those rates now in force were those fixed during 1960s.

Income from "other sources" at disaggregated level is not available in most of the *panchayats*, especially in any of the selected ones. But from the discussion I had with the *panchayat* officials, I could gather authoritatively that the rates charged under every item coming under "other sources" date back to early 1970s and in certain cases even to 1960s. Some relevant examples are indicated below.

Table 5.6 Rules and Regulations relating to non-tax revenue – Dates from which rates are in force

| Items | from when in force |
|--|-----------------------|
| (i) Kerala panchayat / compounding of offences – Rules 1966 | 1966 |
| (ii) Kerala <i>panchayats</i> (landing place, halting place & cart stand) Rules 1964 | 1978 |
| (ii) Kerala <i>panchayats</i> /public and private markets – Rules 1964 | 1988 |
| (iv) Kerala panchayat (Taxation and Appeal) rules | 1963 |
| (v) Kerala <i>panchayats</i> (licensing of dangerous and offensive trades) | 1965 |
| (vi) Kerala Cinema Regulations Rules | 1988 |
| (vii) Kerala Hindu marriage ‘Registration’ Rules 1957 | 1988 |
| (viii) Registration of births and deaths Rules 1970 | 1970 |
| (ix) Kerala Places of Public Resorts Rules - 1965 | 1969 |
| (x) Kerala Prevention of Food adulteration Rules-1957 | 1969 |
| (xi) Kerala <i>Panchayats</i> (Removal of Encroachments and Imposition & Recovery of Penalties for Unauthorised Occupation) Rules – 1964 | 1964 |

The tax potential under this category could be improved. However there are two impediments: (1) lack of reliable information on the part of the *panchayat* regarding the number of units functioning in their areas which require licence for their business activity (2) the extremely low rates of fees/fines prevailing for a considerably long period. As part of this study, the total number of non-agricultural units functioning in each of the *panchayats* has been prepared. It is found that the data available with the selected *panchayats* do not cover even 50 percent of the actual number existing in their jurisdiction. Similarly rates/fees prevailing were fixed long ago and if they are revised in the same proportion as the rate of increase in inflation, there is scope for increase in income at least to the extent of 5 to 8 times of the present level. The potential estimates of non-tax revenue have been worked on the basis of minimum rates suggested by the First State Finance Commission. It is further suggested that in future all kinds of licence fees, other fees, and fines should be reviewed and revised at least once in five years. The potential estimates of non-tax revenue for the six selected *panchayats* together with their actual collection are furnished below. For actual collection, since there is wide fluctuation from year to year, average figure for 1993-‘94 to 1998-‘99 is used.

Tax potential resulting from new sources of revenue

By and large the *panchayats* are still dependent on the conventional sources of income. Suggestions are made earlier to augment that income. However, those sources do not

indicate any encouraging trend for growth in relation to the growing needs of the *panchayats*. The scope for further budgetary devolution from the State Government is also limited due to resource constraints. Hence there is an empirical need to identify fresh areas that would appreciably augment the revenues of the *panchayats*. The following paragraphs contain a brief discussion on new measures, which are suggested to raise additional resources to *panchayats*.

Table 5.7 Non-tax revenue — Potential as well as actual collection

| <i>Panchayats</i> | Tax – potential (1998-99) (Rs. in lakh) | Actual collection (Rs in lakh) Average for 93-94 to 98-99 | Remarks |
|-------------------|--|--|---|
| Kuttichal | 3.56 | 0.72 | The potential estimates are worked out on the basis of minimum rates suggested by the First State Finance Commission. |
| Noolpuzha | 9.42 | 6.62 | |
| Thakazhy | 4.93 | 1.06 | |
| Thirunavaya | 29.55 | 5.18 | |
| Thrikkakara | 46.62 | 6.63 | |
| Elathur | 5.44 | 1.42 | |

Note: The actual realisation ranges between 25 to 70 per cent of the potential.

Court fee stamps on documents submitted to the local bodies

Local bodies, especially village *panchayats* receive a large number of applications for prescribed licences, and permits as well as a number of petitions on various statutory and non-statutory matters. Court fee stamps have to be affixed in all these applications as per the provisions of Kerala Court Fees and Suits and Valuation Act of 1959. Court fee stamps are also prescribed for presenting petitions before the government and its agencies. The entire income by sale of court fee stamps now goes to the State Exchequer. The income from this source is approximately Rs 950 lakh during 1998-'99. A preliminary review of this matter reveals that it is difficult to make an estimate of the relative volumes of petitions, and applications bearing court fee stamps made to government on the one hand and to local bodies on the other. There is every justification for local bodies, especially village *panchayats*, to request for their share of income from court fee stamps, which are affixed to documents filed before them. In fairness it is suggested that the income derived from this source may be distributed equally between government and local bodies after deducting a small portion as collection charges. Among local bodies, the horizontal distribution may be made on the basis of population.

Tax on advertisement

Municipal corporations and municipalities in the State are levying tax on advertisement other than those published in newspapers. Cine-wall posters, cut outs, advertisements on erected structures displayed by manufacturing firms and their dealers for publicity on road sides and building are the main items on which advertisement tax is levied by municipalities. If the relevant rules are made applicable to *panchayats* also, they can also levy such tax in respect of advertisements of similar categories exhibited in *panchayat* areas and thereby mobilise additional resources. There is scope for collecting sizeable income by way of advertisement tax. This tax will in no way affect the common man. Government may issue necessary notification conferring powers to village *panchayats* for levy of advertisement tax and the rates may be fixed as those prevailing in third grade municipalities.

Extension of Municipal Building Rules to all village *panchayats*

According to the above rules, prior permission of the local authority is required for construction, reconstruction, and extension of building for which fee as prescribed under the rules have to be charged. These building rules are in force only in very few *panchayats*. Other *panchayats*, where these rules are not extended, are not getting any income from this source. Apart from an additional source of income, the application of the provisions of the building rules will enable the *panchayats* to gather information regarding the number of building units that is coming up in their jurisdiction. Hence it is suggested to extend these rules to all village *panchayats* in the State.

Tax on operators of Cable Television

Entertainment tax under the existing legislation is payable by exhibitors of cinemas and others staging plays, circus, etc. In the past three or four years cable television has assumed importance as a source of entertainment. Proprietors of cable television, video parlours, and video games derive income from providing the service besides providing entertainment to the public. Cinema exhibitors are liable for entertainment tax. There is no reason why the cable operators alone should be exempted from a similar tax. Neighbouring States like Karnataka and Tamil Nadu have already initiated legislation to levy a tax on operators providing entertainment through cable television. In Kerala, cable television has made a good start and is likely to register further expansion in future years. Cable television as a mode of entertainment should be subjected to entertainment tax to be levied and appropriated by village *panchayats*. An annual licence fee of Rs 1000 (minimum) may be charged on each cable operator functioning in the *panchayat* area.

Share of income from minerals and forests

Panchayats have a right to share the State revenue generated from minerals as well as forest products. Fifty percent of share from this source should be allocated to village *panchayats* on the basis of area / production accounted by them.

Problems faced by village *panchayats* in mobilisation of resources

- (1) The first and foremost problem faced by the *panchayats* is the non-availability of basic information. Important among them are:
 - a. Inadequate data regarding the number of residential / non-residential buildings and their additions every year.
 - b. The number of non-agricultural establishments functioning at the beginning of every year.
 - c. Number of employees working in each *panchayat* from whom profession tax has to be collected.
 - d. Receipts under tax and non-tax revenue (number of units/assessees and value).These data gaps make it difficult either to verify the correctness of the figures furnished or to find the reason for abnormal fluctuations of the key variables from year to year. The optimum level of resource mobilisation also could not be aimed at owing to non-availability of required information. To overcome this problem it is suggested that a minimum level of data base should be maintained by the *panchayats* that will include among other things data on income, expenditure of the *panchayats* and the level of services provided by them in the local area, general characteristics of the *panchayat* like total population, SC/ST population, total area, level of literacy, number of health centres, number of schools, and also information relating to land use pattern like cultivated area, irrigated area, and area under crops.
- (2) The *Panchayati Raj* Act of 1994 had entrusted with the local bodies (village *panchayats*) substantial additional responsibilities for executing plan and non-plan schemes and projects hitherto handled by the State Government. Though there was provision for providing adequate staff to *panchayats* to handle this increase in workload, the deployment of staff to *panchayats* as envisaged has not taken place in majority of cases. This obviously affects the efficient functioning of these agencies both in terms of execution of different programmes as well as collection of revenues from different sources. Proper assessment of various own tax revenues due to the *panchayat* is also not being done at present owing to lack of trained personnel. Even the available information on receipts and expenditure is not properly maintained in various registers due to non-availability of trained personnel.
- (3) The potential of the own tax revenue sources like building tax, professional tax, and entertainment tax could not be tapped fully in any of the selected *panchayats* owing to the prevailing practice of local bodies to charge only the lowest rate prescribed by the Government. These rates, it is found, are in force for quite a long period without undergoing any revision. To cite a few examples, building tax rate in all the selected *panchayats* is only the minimum rate of six percent for about one decade. It is gathered from discussions with concerned officials that majority of the *panchayats* are reluctant to enhance the tax rates. This is exactly the case with other sources of revenue for the *panchayats* like profession tax, and entertainment tax. The net result is the sizeable loss in revenue to the concerned authorities on this account. Another difficulty in mobilising resources is the existing practice of granting large-scale exemptions to households from levying building tax.

6. Summary and Conclusions

1. The first and foremost difficulty experienced in the study was the lack of reliable data at the *panchayat* level. In spite of vigorous efforts we could gather information pertaining to a limited period only. Research on fiscal aspects of the local government institutions (especially village *panchayats*) is seriously hampered by the non-availability of a State-wide (with adequate break-up up to local level) database. On many cases aggregate level data is only available. This creates serious difficulty when we attempt to build data on specified formats. In certain other cases, though local finance data exist, they are not accessible due to state policy denying access citing concerns of data protection and confidentiality. Also, much of the local finance data available are gathered for administrative and budgetary purposes. In their original format, they are not meant for scientific analysis. They could be put to scientific use only with great difficulty. The result is that there is no way of finding out what is spent on each important item separately. The unavoidable task of providing standardised and comparable local finance data has to be undertaken by the State Finance Commission.
2. The 1994 Acts, while conferring substantial additional responsibility on local bodies, have not enhanced the tax domain of the local bodies – especially village *panchayats*. The tax domain of the village *panchayats* remains almost exactly the same as were available in the pre-1994 period. This amplifies the already existing mismatch between functional responsibility and financial resources required to fulfil that responsibility. This mismatch needs to be corrected by locating additional sources of revenue to village *panchayats*.
3. The study is based on the information gathered from three main sources viz., *panchayats*, units engaged in non-agricultural activities, and households. The analysis of survey results has been presented under three profiles: the *panchayat* profile, the enterprise profile and the household profile. Apart from basic details of the selected *panchayats*, the information collected through panchayat schedule is used for the analysis of revenue receipts and expenditure pattern. The estimates for revenue potential of the selected *panchayats* are also based on the data contained in this proforma. One of the important income generation area in the *panchayats* is the non-agricultural enterprises functioning in their jurisdiction. The data canvassed through enterprise schedule from these non-agricultural units are the main source of data for estimates of revenue potential under profession tax and licence fees. The household profile is mainly focussed on the analysis of socio-economic indicators in the selected households along with a fact finding mission to ascertain how-far the exemptions granted in the case of building tax are justified as really deserving.
4. Inter-*panchayat* variations in terms of basic facilities reveal that *panchayats* located close to urban areas enjoyed better amenities compared to other *panchayats* and this has an impact on the working of these *panchayats* and their capability for mobilising

resources internally. Building tax is an important component in the own tax revenue of the *panchayat* and its exemption has an important bearing on the revenues of the *panchayats*. The need for reforming the present system of building taxation is also felt. Non-agricultural units functioning in the *panchayats* are another source of income generation. The study reveals that the panchayat records contain only 40 percent of the actual number of units functioning in each of the selected *panchayats* and this has its implication on the extent of loss in revenue.

5. Own revenue (which includes own tax and non-tax revenue) is the single largest component of the total receipts of the urban proximity *panchayats*. For less developed and tribal dominated *panchayats* the contribution of own revenue is not significant. This is mainly due to their very low tax base. Major components of own tax revenue are building tax, profession tax, and entertainment tax. In majority of the cases, building tax and profession tax together contributed nearly 90 percent of the total own tax revenue. Though assigned taxes (surcharge on stamp duty on transfer of property and basic tax) contributed a significant share of the total tax revenue during the early nineties, its contribution had come down in the case of all *panchayats* towards the end of 1998-'99. The motor vehicles tax is the only shared tax and its growth in all the selected *panchayats* during the period (1993-'94 to 1998-'99) is highly uneven and does not show any definite trend. This is mainly because the norms followed by the State government in assigning this tax revenue to *panchayats* are ad hoc. Apart from major sources of tax revenue, *panchayats* mobilise revenue through non-tax sources like income from property, licence fees, and income from markets. The income from various items under this source is well below its potential because of the low rate of fees and other charges and the long periods for which these rates remain without revision.
6. A review of the expenditure incurred by the six selected *panchayats* reveals that administrative expenditure is the single most important item in all cases absorbing 40 to 50 percent of the total. Expenditure on education, public works, and core functions absorb only a very small percentage of the total expenditure. Another undesirable trend noticed in the selected *panchayats* is the comparatively low level of capital expenditure, which in most cases is less than 25 percent of the total.
7. The potential estimates of own revenue reveals that there is enough scope for increasing the revenue receipt of the existing tax sources, provided the *panchayats* revise the existing tax rates at least in keeping with the inflation rate and build up a data base containing up-to-date data regarding essential variables. The potential estimates of own revenue of the selected *panchayats* implies that actual realisation of the potential revenue varies from 40 to 70 percent in the case of building tax and profession tax. As regards entertainment tax, the realisation percentage is still lower except in the case of Thrikkakara and Thirunavaya *panchayats*. Non-tax revenue realisation is also equally poor, being below 30 percent of the potential in most cases.

8. Regarding new measures intended to raise additional resources of the *panchayats*, the following suggestions are made:
 - a. Income derived from court fee stamps may be distributed equally between the Government and the *panchayats* .
 - b. Necessary notification may be issued conferring powers to village *panchayats* for levy of advertisement tax at the rates now prevailing in 3rd grade municipalities.
 - c. The provisions of the Kerala building rules should be extended to *panchayats* also so that they could charge a prescribed fee for construction/extension of buildings in their jurisdiction.
 - d. Village *panchayats* may be empowered to levy a licence fee on each cable TV operator functioning in the *panchayat* area. We have suggested a fee of Rs 1000 per operator.
 - e. *Panchayats* may be allowed to share the State revenue generated from minerals and forest produce according to a suitable criteria.
9. We conclude by reiterating that a close scrutiny of the exemptions for building tax granted by the selected *panchayats* reveal that nearly 40 to 50 percent of the residential houses which enjoy exemption at present actually fall under the category of *pucca* or semi-*pucca* (permanent or semi-permanent) structures in our survey. They certainly do not deserve any immunity because their owners are obviously not the poorest. It is suggested that exemptions should be strictly limited to *kucha* (temporary-thatched) constructions only.

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