

# Why panchayats aren't able to boost revenues

Structural and empowerment issues in States are restricting the expansion of property tax and user fees for basic service

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Since its enactment in 1993, the 73rd Constitutional Amendment has significantly overhauled the spirit of federalism at the rural level. It has empowered the Panchayati Raj Institutions (PRIs) to levy and appropriate taxes, duties and user charges within their jurisdiction, thus reducing their dependence on governments' grants-in-aid. Respective State PRI Acts authorise the PRIs, especially the Gram Panchayats (GPs), to levy several taxes (including property tax, entertainment tax, vehicle tax), user charges on water and sanitation and also raise revenue from Common Property Resources (CPRs).

Despite these financial powers, PRIs face significant challenges in mobilising sufficient own source revenue (OSR). According to the RBI Report on 'Finances of Panchayati Raj Institutions', OSR generation in PRIs remains meagre; with property tax revenue being the dominant revenue source in the majority of the States. A recent study by NIPFP, titled 'Preparation of a Viable Financial Model for Generation of Own Sources of Revenue', highlights some structural and procedural issues limiting OSR mobilisation.

Property tax accounts for nearly 40 per cent of GPs' OSR collections nationwide, yet India's property

tax-to-GDP ratio remains among the world's lowest at around 0.2 per cent (World Bank). This stems from both structural and empowerment issues in some States. Several States like Uttar Pradesh and Odisha have not yet authorised GPs to levy property tax, while others face ambiguities regarding definitions, valuation, rate revision and limited State support. Disputes over property ownership also discourage taxation, especially of commercial buildings on contested land.

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In contrast, States such as Maharashtra, Karnataka and Andhra Pradesh, where clarificatory orders and clear directives have been issued with sufficient State hand-holding, show improvements in property tax collections. For GPs lacking manpower or technical capacity, States could set simple, flat rates based on house area to ensure a minimal collection of property tax. GPs with adequate specialised staff should follow the rules and amendments from the above high-performing States.

GPs are also empowered to collect fees/user charges from users of basic services, such as drinking water and solid waste management (SWM). However, distinct agencies under State and Central schemes — like Jal Jeevan Mission, Rural Drinking Water Supply Department, Public Health Engineering Department — handle these services. According to the guidelines, once the Central and State Governments



**PANCHAYATS:** Financially hamstrung

construct the required systems, the long-term implementation, management, operationalisation and maintenance (O&M) of these systems are to be vested with the PRIs. This has still not happened, which prevents GPs from collecting any user charges.

However, field surveys by NIPFP found that in some States, the water supply and SWM systems are maintained informally outside the PRI system either through users' associations or by self-help groups (SHGs). Officially handing over these systems to PRIs from the line departments would not only facilitate their proper O&M but also aid GPs in generating revenues.

The other major source of revenue for the GPs is licence fees from commercial establishments. However, GPs often lack clarity in deciding the appropriate fee amounts. In the absence of such clarity, GPs auction out the collection of such revenue to a third party, resulting in sub-optimal collection. GPs must

prepare a comprehensive list of all eligible taxpayer commercial establishments in their jurisdiction then calculate the actual levy based on the shop characteristics such as year turnover, profits, location, etc.

The last issue pertains to community-owned CPRs such as forests, pastures or grazing lands and water bodies. Though GPs are encouraged to monetise the proceeds from these CPRs, ownership of several of these resources frequently overlaps with other line departments such as Forest Department. Officially transferring the control of CPRs would not only allow for their more efficient management but would also add to the coffers of GPs.

To realise the full potential of OSR, MoPR has also rolled out a specialised training module for PRI functionaries developed in collaboration with IIM Ahmedabad. The Ministry has also developed a digital platform called 'Samartha' which can be used by States for end-to-end digitisation of OSR management of panchayats. Efforts are also being made to handhold identified GPs, having either high revenue collections or situated in peri-urban areas, in formulating commercially viable projects which could create a virtuous economic cycle with spill-effects.

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