

# Concerns Raised over Panchayat Fiscal Health

Govt will ask states to issue clear guidelines on tax and levying of user charges after study red flags ambiguous rules to lack of manpower

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**New Delhi:** With the 16th Finance Commission pitching for Panchayats to raise their Own Source Revenue (OSR) to gain financial autonomy, the Centre recently instituted a study to build a viable financial model for the same and has asked states to fix gaps red flagged in the report, **ET** has learnt.

The Centre will soon be asking states to implement the slew of recommendations made in the study—from issuing clear cut guidelines on tax assessments and levying of user charges at Panchayat level besides ensuring appointment of Panchayat Secretaries in every Gram Panchayat backed with

tax trained staff to address the 'skill gap' at GP level.

Examples of West Bengal and Maharashtra are cited to pitch for panchayats to maintain local services like water supply besides the need for standardised rate structure and tariff rates for trade licenses backed with community-based monitoring mechanisms, as per the study conducted by the National Institute of Public Finance & Policy (NIPFP) which also moots legal amendments where necessary.

There is a good reason—data compiled by the Ministry of Panchayati Raj (MoPR) shows that Gram Panchayats could raise no more than ₹5,118.98 crore as OSR between 2017 to 2022. This amounts to just ₹59 per capita and ₹2.27 lakh per panchayat even though there



are nearly 20 types of taxes/charges that the Panchayat is empowered to levy and collect.

Overall, it is estimated that Panchayats raise no more than 1% of their revenue—the rest is borne through central devolution and state government funding.

## KEY FINDINGS

The NIPFP study flags several concerns. For instance, the number of empowered taxes for GPs varies across states— from just two in Bihar, Punjab and West Bengal to eight in Gujarat, Karnataka and Kerala.

Even among these, a handful of states actually levied the taxes that they are empowered to levy, leading to near 'negligible' collection, as per the report.

**The study points to 'ambiguities' in laws and orders which often prevents levying and collection of both taxes and charges.**

It has recommended clarificatory orders be issued on a range of issues from property tax collection—the highest contributor to Panchayat re-

venue—to taxes such as water tax, taxes on mobile towers and commercial establishments and so on. **It has also red flagged that the functioning of GPs is 'further constrained by human resources and capacity building challenges'.**

For instance, in case of UP, a single secretary was found managing multiple GPs leading to inefficiency and delays. Similar situations were seen in many other states.

Overall, top 10 GPs with the highest per capita income were mostly from Karnataka, Andhra, Maharashtra and Gujarat. In user charges, it was found that GPs in Eastern and Southern India performed significantly better than the Northern counterparts, as per the study.