



Enhancing Tax Revenues of Local Self Governments

What is the issue?

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- In India tax collection at local self-government level is comparatively less than in developing countries.

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- Tax collection at panchayat level must be enhanced to address this issue.

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What is the financing mechanism at local self-governments?

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- Constitution has established a financing mechanism to the local self-governments of panchayat and municipalities by empowering state legislature to

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1. Authorise a panchayat/ municipality to levy, collect and appropriate taxes, duties, tolls and fees.
2. Assign to a panchayat taxes, duties, tolls and fees levied and collected by the state government.
3. Provide grant-in-aid to the panchayats/Municipalities from Consolidated fund of the state.
4. Provide for constitution of funds for crediting all moneys of the panchayats/municipalities

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- Due to this the institutions at the lower levels like rural local governments or panchayats can mobilise high resources, from their tax collection.

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- For instance, ULGs (urban local governments) are generating around 45% of total revenues from own sources.

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What is the actual level of tax collection at panchayat level?

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- The RLGs (rural local governments) rely overwhelmingly, or to the extent of about 95%, on devolution.

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- The per capita own revenue collected by ULGs is about 3% of the urban per capita income while the corresponding number for RLGs is just 0.1%.

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- States such as Uttar Pradesh depend almost entirely on transfers while Karnataka, Kerala and Andhra Pradesh collect some taxes.

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- The panchayats are permitted to collect property taxes which account for the bulk of their revenues but not land taxes but even such provisions are not used by the third tier government.

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- At the third tier government, India's RLGs reliance on own resources at about 6% is way below that of 40% for third tier governments in Brazil and Germany.

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- And panchayats raise only about 4% of their overall resource envelope in the form of direct taxes compared with about 19% and 26% in Brazil and Germany, respectively.

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What measures can be taken?

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- To increase the tax collection at the panchayat and municipal level union government and state government must empower the lower level of

governments to collect taxes.

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- Central taxation like GST must be made flexible to increase the tax revenues from the rural areas.

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- Taxing daily wage population at rural level is not possible, taxing large land holding farmers will increase the tax revenues at lower levels.

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Source: Financial Express

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