



Administration of Revenue in Local Bodies- A Critical Analysis

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1. INTRODUCTION

The Indian tax structure has been subjected to numerous changes since Independence to have a structure that fulfills all the necessary conditions. However, these reforms have continued even today and thus lead to a variety of changes. But even after all these changes India still does not have uniform tax structure.

Taxes are a form of fee paid by citizens including organizations for the economic development and smooth functioning of all the services provided to them. Revenues form the basis of all expenditures incurred for the growth and development of a nation. That is why Kautilya, the great India Philosopher, remarked “all undertakings depend upon finance, hence foremost attention should be paid to the treasury¹. The revenue generated in the form of taxes eventually comprises of the budget which then prescribes the allocation of funds for various needs of the nation. This revenue is usually incurred from taxes, services fees and other charges.

For the purpose of economic growth and the need to correct the fiscal imbalances many tax reforms in India were adopted. The main purpose of all these reforms was to promote the integration of the nation’s economy into the world economy. The transition to a market economy to smoothen the participation of markets in strengthening the economy of the nation was another reason for these tax reforms. These reasons created a much needed environment of tax reforms as a response to globalization. As a result India also realized this necessity and decided to move from a centralized structure to an open economy by the 1990 LPG reforms. A record number of committees looked into this matter and drafted the various changes which lead to the current tax regime. Though the problem essentially was that how to create a structure for such a large nation and to effectively generate revenue from all the entities of the nation. The majority part of the nation is involved in informal sectors and the main income source of those labourers who are employed in unorganized sectors are the cash based transactions. This

¹Kautilya, “Arthashastra”, Mysore, Raghuvver Printing Press, 1956, p. 65.



realization lead to the aspect that only a limited variety for collection of taxes can be maintained. The current tax regime acknowledges all these perspectives and this forms the foundation.

When local administration is analyzed from this perspective, the revenue generated from the local bodies form the foundation of the revenue collection system. The revenue generated from these bodies forms the basis of the majority portion of their funding for the functions they are entrusted to perform. The main purpose of these revenues is to maintain adequate funds for their normal functioning. These revenues eventually contribute to the national fund known as the National Revenue Fund which is eventually allocated to the local bodies. This process as to how this fund is created and what revenues form a part reflects the economic equity. The Reserve Bank of India in its bulletin discusses about this economic equity and has rightly stressed the importance of local Government finances as follows: - “With the increasing industrialization and urbanization under the impetus of development and planning, the local authorities from a growing part of the expanding public sector, with powers to raise and spend considerable amounts of public funds for development purpose. Local authorities form an important segment of public sector in India. The contribution of the local bodies to income in general and capital formation is of considerable significance, in view of their large number and the area and population they cover.”²

This revenue generated eventually forms a part of the operating revenue. This operating revenue involves purposes like administration of salaries, items necessary for their functioning which will be required throughout the year, administrative items etc. However this recovery of arrears is generally a challenge for the local bodies as there are instances of non conformity. The other stand is the weak economic position of a large portion of this nation. As India being a socialist nation, this issue of being a welfare nation and simultaneously inflicting the citizens with the burden of taxes is the highlight of this problem. Even the rapid urbanization and the bent towards the desire of globalization also demonstrates the need of adequate funds. The importance of finance is so great in administration that Uyod George is said to have once remarked that “government is finance”³.

²Reserve Bank of India, (Bombay, RBI, 1962), Chapter on local government Finances

³ M.P. Sharma, “Public administration : Theory and Practice” (Allahabad : Kitab Mahal, 1978) p. 449.



1.1 BACKGROUND:

Owing to the colonial past of India, even then the States were under the supervision of the Provincial government. After Independence these States were transferred under the supervision of the Central government. However to avoid the situation of over burdening of the Centre, various authorities were created and thus certain powers were delegated to them. Though these authorities work under the authority of Central government, they are essentially autonomous bodies and their work is usually not interfered with. But these reforms were introduced by a Committee which was headed by Balwanraj Mehta established in 1957 and they provided a report on the subject of rural local government. This structure of rural local government was coined as “Panchayati Raj Institutions” (PRI). However this structure existed in Pre-Independence phase as well, but after Independence it was completely remodeled to conform to the changes adapted by the Indian Government. This model was inspired by the Soviet model and was delegated the powers of governance at the rural level. Similarly in urban areas a new local administration under the term of “Municipal authorities” were created. They were established on the recommendations of Mehta Committee established in 1960’s.

India later went on to adopt the quasi-federal structure i.e leading to a structure with centralization tendencies. This went on the change the relationship of Centre-state and thereby the relationship of Centre and local authorities. However the Municipal authorities were given full authority and therefore they were authorized to raise their own finances for their financial needs. As provided by The Economic Survey 1991-92, it has been stated that : “The financial sector is the centre of economic activity, its health affects the entire economy, municipal government are directly linked with the availability and utilization of financial resources.⁴”

Thus Indian model as inspired from the Soviet model created a new model of planning and resources allocation and distribution. But the trend of centralization has somewhat reduced the effect of the local authorities. There have been many instances observed after Independence where the Executive’s interference with the functions of local authorities has lead to the nullification of powers of local authorities. This often leads to arbitrary suppressions and to remove this there were two Bills introduced in Parliament in 1989, and both of them failed to get the required majority.

⁴ Indian Economic Survey, 1991-92 (New Delhi : Government of India, 1992), Part-I, p. 25.



1.2 SIGNIFICANCE:

Felix A. Nigro has rightly observed: “Finance administration is of great importance today because of the tremendous increase in the amount of money expended for government services. Every government does requires money. It is utterly essential that sound principles and techniques of financial administration be employed.⁵ Finances are the core need for any organization to function effectively. In an effective administration set-up every activity either creates a contribution to the funds or either withdraws from that fund for it’s functioning. Taxes are important because they contribute to the finances for the administrative functioning and that is why they are termed to be the backbone of the nation. These finances later fuel the administrative setup for it’s smooth functioning and that is why an effective financial regulation is needed at all phases be it at the stage of central, state or local. This is the reason why Financial planning is very necessary as it tries to set up an effective strategy and implementation policies regarding the evaluation, collection and thus the administration of resources. This in turn helps the identification and then attaining the policy goals of India. This is where the contribution of local authorities is observed in the complete structure. As provided by Thavraj: - Finance is the lifeblood of all monetized socioeconomic formations ranging from simple nuclear families to complex national and international organizations. Financial administration relates to the system which generates, regulates and distributes the monetary resources needed for the subsistence and growth of organization . In this respect, financial administration is similar to the circulatory system in complex living organism⁶. Even Ursula K. Hicks says in this regard: - “If local bodies are to play any significant part in economic or social development, they must clearly have access to adequate finances⁷.”

2. ORGANIZATIONAL STRUCTURE:

As found by various reports and research articles “Local finances is comparatively neglected part of public finance, just as local administration is a comparatively neglected part of politics and public administration”⁸. They have continued to receive neglect from States since Independence. The double burden imposed on these authorities has been neglected even by the professionals and scholars.

⁵ Felix A, Nigro, “Public Administration – Readings and Documents” (New York, Rinehart and Co. Inc 1951), p. 312.

⁶ M.J.K. Thavraj, “Financial Management of Government, New Delhi, Sultan Chand, 1978, p. 1.

⁷ Hicks U.K., “Development from Below”, Oxford, Clarendon Press, 1966, p. 276.

⁸ K. Venkataraman, “Local finance in perspective”, Asia Publishing House, 1965, p. 1



In the colonial stage local authorities were of five types: three in the urban areas (municipal corporations, municipal councils, and town or notified area authorities) and two in the rural areas (district boards and union boards)⁹. These authorities were mandated to be under the control of the respective State governments. All of the decisions regarding their administrative, executive and financial aspects were taken by their superiors in this era owing to higher officials who were authorized to control their functioning. However these authorities functioned separately and had no or very little interference in each other's matters. But Post-Independence, there were two bodies created as mentioned above PRI's and Municipal Authorities for rural and urban areas respectively. The model of PRI's inspired from the Soviet structure made the various institutions under the PRI's and MA's linked to each other in order of hierarchy. In PRI's the whole structure was divided into three levels comprising of the "Village, Block and District level". The authorities are termed as Gram Panchayats, Anchal and Zila Parishads respectively. The control over these bodies observed during the colonial times, tightened in the free India.

These local authorities' officials as appointed by the officials of State administration are termed to be civil servants appointed by the State. There are a few exceptions to this structure, which is observed in some States where the Mayor of the urban area is considered to be the Chief executive. This exception is observed only in certain specific Municipal Councils and this power is only vested in an elected Chairman. An example of this exception is West Bengal where this structure is observed. In this State the elected heads the Executive which is in the model of a Cabinet type.

This structure signifies that at the local level, the State is supreme and has complete control over all operations of the local authorities including the administrative and financial power. In any multilevel pattern of government the effectiveness with which the local units would operate, is determined to a large extent on how their finances are organized in relation to their functional and responsibilities¹⁰. But even that power is not provided to them. This power is even extended to the power of the delivery of services entrusted upon these authorities and even the local tax powers come under this operational control. This is the evidence to the fact that the local authorities are not autonomous bodies and they have no control over their interests and makes them prone to the manipulations made by the Executive.

⁹Abhijit Datta, "Local Government Finances: Trends, Issues and Reforms" ,p. 2

¹⁰S.K. Sharma and V.N. Chawla (Ed.), "Municipal Administration in India – some reflections" (Jalandhar), 1975, p. 175.



2.1 POWER OF TAXATION:

Prof. M.A. Muttalib with Mohd. Akbar Ali Khan had in their attempt to write a “theory of local finances stated:- “A number of factors contribute to the structural construction of local finance, pattern of local polity, size and level of local units, local functions and government control”, and “the local revenue is primarily based on distribution of functions between state government and local government for the performance of obligatory functions local resources are identified. In order to ensure that priority is given to such functions. Obligatory budgetary provision is made for them.¹¹” Even C.M. Tiebout says in his concluding remarks that “Local government represents a sector where the allocation of public goods (as a rejection of the references of the population) need not take a back seat to the private sector¹². These points when observed from the perspective of the Indian local administration leads out to the lacunae of this structure.

As propounded by the Indian Constitution, the Indian Republic is postulated to be federal in nature. This led to the division of administration into the three tiers: Centre, State and the local. However having a unified fiscal policy was an extremely important aspect to have development and growth for all. This was also required to avoid chaos. India owing to its Preamble is clearly a socialist country which clearly provides that social welfare for all is extremely important for a developing nation like India. Owing to this principle, eventually there is a pattern observed in the kind of machinery adopted for planning related to finances by the various levels of government. While a super planned and effective mechanism is observed at the Centre, the State lacks such Planning Commissions. This similar absence of planning has been observed at the root level as well. Though there is a system of biasness observed in the cases of urban local governments with the fact that they have annual budgets allocated to them which leads out to the foundation of their economic planning and development. But the effect of biasness is dependent on their conformity to the five year planning structure.

It cannot be denied that local revenues have a power which will lead to a profound impact on the lives of people if administered appropriately. But issues of “financial bankruptcy” and “economic chaos” have hampered this idea. There were suggestions by professionals like Mr. V.K. Venkataraman to address this issue and to resolve the problem of local finances. He

¹¹M.A. Muttalib and Mohd. Akbar Ali Khan, “Theory of Local Government” Sterling, New Delhi, 1982, pp. 180-203.

¹²C.M. Tiebout, “A Pure theory of Local expenditure” in R.W. Houghten (ed.) Public Finance selected readings. 2nd edn., Penguin Education, 1973, pp. 204-217.



suggested that the Central government should address this matter and consider it to be important. This acknowledgement needs to be made for the purpose of maintaining the supply of adequate resources and thereby leading to effective functioning.

The relative importance of local government in country is usually judged by the share of its expenditure in total government expenditure, the accepted norm in the developed countries ranges between 20 per cent and 29 per cent¹³. But for India this rate ranges to around 8.6 percent which is way below the desired percentage. Even owing to India's developing nation status, a percent of 15percent would have acceptable and establishes the need of rise of allocation of funds.

2.2 EXPENDITURES:

There are two categories of functions demarcated to local functions which are propounded to be obligatory and discretionary. Where no specific directions have been given to the authorities only there these two demarcations are applicable. This system is adhered to even by urban authorities. And these two demarcations then make the foundation of expenditures.

A similarity has been observed in terms of expenditure when analysed from the perspectives of rural and urban governments. In spite of the differences observed in the functions of these two authorities, there is an uncanny similarity in terms of expenditures. Even when a comparison is drawn in terms of expenditure incurred in cases of social services and civic services, a similarity is observed despite the differences in nature of these services. In cases of rural authorities, most of the expenditures are funded by the government as a part of social services. Nearly all the expenditures are borne by function specific grants provided to them and thus subjects like education, health are also covered by these grants. But the urban authorities are not provided such grants and are usually self-funded. According to the study by the National Institute of Urban Affairs Income from taxes constitute about two third of the revenue accounts of the municipalities and over one half of the total income from all the sources.¹⁴ A comparative study of revenue sources of states like Punjab and Haryana reflected that around 80 % of the recue is generated in the form of taxes. These taxes are mainly in forms of property taxes, technical taxes, animal taxes, all sorts of entertainment taxes. In Punjab, the contribution of House tax to

¹³Marshall, A.H.(1969): Local Government Finance, The Hague: IULA.

¹⁴R. Sheshadhri, "Financing Urban Development in India" Centre for urban studies, Indian Institute of Public Administration, New Delhi, 1990, p. 63-64.



153 the total income from all source is 8% and to the tax revenue approximately 13%¹⁵..Their primary concerns are regarding healthcare and adequate sanitation facilities. However owing to inflation and lack of adequate funds to fulfill the salaries of the adequate number of staff required which are putting financial strain on these authorities. These authorities are hereby forced to reduce expenditures. The complaints regarding the negligent attitude of local authorities towards their obligations are a result of these factors. As a result they are forced to focus only on their designated functions which are officially authorized to them and therefore this leads to the neglect of social services. By focusing on their core functions in form of community services they try to cope up with such instances of financial strain. This is where the rural local authorities are successful because of their grants. However there is a difference observed that this application of functions is more influential at the local level or village level as compared to district level. The search for economy and effectiveness in local government expenditures seems to lie in the direction of obtaining "value for money" through (1) cheaper technology, (2) greater productivity, (3) increased competition, and (4) promotion of joint services¹⁶. This is where the issue of local authorities and their conflict with manpower turns out to be reflected in political issues. There have been instances where inspite of such issues, local authorities have turned out to be successful which needs to be observed, studied and then implemented in similar situations.

3. REVENUES & TAXATION:

In the cases of urban and rural governments, there is a clear distinction in the forms of revenue generated. Where in the case of rural, a majority amount is funded by the State itself, in urban areas the revue generated is a result of taxation. This lead to a structure where rural authorities had no structure of their own because of their dependence on external sources for their revenue, while the urban authorities are being marginalized as per the inspired structure of Soviets. There are states like Kerela and Uttar Pradesh have a high rate of revenue collected in case of rural areas, and there are also states like Orissa and West Bengal where there have been very low rates of revenue generated from rural areas. In cases of urban administration there are states like Punjab and Haryana who are at the top of revenue generated and Bihar has failed to balance both urban and local revenues.

¹⁵Report of First Punjab Commission, 1995 at p. 66.

¹⁶Abhijit Datta, "Local Government Finances: Trends, Issues and Reforms" ,p. 5



When it comes to power of taxation, there is a clear distinction of powers. Where urban authorities have their 90 percentage of revenue generated from taxes, only a minor percentage of taxes is allocated to rural authorities. The rural authorities need the devolution of tax and they need the allocation of power to incur compulsory taxes. Where urban authorities have the power of imposing house taxes, property taxes, rural authorities are restricted to limited taxation powers and need the power of land taxes to be provided to them and the process of land cess to be dissolved.

Though urban authorities have not been provided with the power of taxation explicitly, their revenue is generated from this mechanism only. There is no provision regarding this power in Constitution of India as well. However in the Pre-Independence phase a majority of this power was explicitly mentioned in the Government of India Act,1919 which provided the following provisions to be exclusively under the power of local authorities:

1. Taxes generated from toll.
2. Tax on land and land values
3. Tax imposed on buildings.
4. Tax incurred by vehicles and boats
5. Tax applied to individuals having menials and domestic servants
6. Tax on control over animals.

This list included various other terms like taxes on professionals, other factors of market including the private ones. Taxes involving terminal ones were provides under this domain. They also included taxes for various services like water, drainage, markets and other facilities provided to public. However there were changes made later on by the Act of 1935 and 1937. Where the Act of 1935 did not mention these powers, the act of 1937 stripped away these powers from the local authorities. Even in respect of the current regime in 1951 an amendment was produced by the Local Finance enquiry committee which proposed that the current system where certain powers of taxation were divided between the Union and the State to be changed. They proposed that out of these powers 13 powers of taxation should be transferred specifically to the local authorities. Out of these powers 12 were under the Union List while one power was mentioned under the State list. This list contained entries regarding entertainment taxes, tolls, vehicles, profession, capitation taxes, taxes on boats and similar other taxes. There was another Enquiry Committee in (1953-54) which was known as Taxation Enquiry Commission also



addressed this question and asked for certain taxation powers for local authorities. This Committee also demanded these powers to be free from any effect of the State government and to be autonomous institutions. The list proposed by the Committee contained 10 entries, adding, however, that “the recommendations should not be construed as precluding transfer of other taxes to any local body, wherever appropriate, if the state governments consider such a source desirable¹⁷. This list contained taxes like octroi, buildings, vehicles, professions, theatre and similar other kinds of taxes. They neglected the need for a constitutional amendment and proposed that these changes must be adopted on the basis of a mutual understanding where the obligation lies upon the State. This Commission clearly held that amendment in the Constitution was uncalled for and the State should clearly not encroach upon the authority of the local authorities with reference to these taxes. The state governments should realize this power and devolve if they exercise these powers and the balance revenue should be provided to local authorities for their powers. However no major changes were adopted. Then the Rural-Urban Relationship Committee proposed certain recommendations for the urban local authorities regarding the taxes imposed by municipal authorities. They proposed the bifurcation of taxes into compulsory and optional. They also proposed the idea of prescribing limits when it came to the domain of compulsory taxes. Method of changes was also proposed which stated that only in cases where there was a reduction, only then the State government had the authority to interfere and in no other situation. They also proposed certain taxes to be included under the heading of compulsory taxes including taxes on buildings, vehicles, professions etc. However State government had the power to direct Municipal Councils in case of optional tax rates and they would have to comply to these directions.

4. KINDS OF TAX REVENUE:

RURAL LAND TAX :

These taxes are the forms of revenue incurred by imposing the “land cess” or the taxes imposed on lands which have no structures on them, thereby leading them to be vacant. These taxes are mainly observed in rural areas and are not a part of urban taxes. Also known as “laldora” these taxes do not have agricultural taxes as their part. The taxes imposed on agricultural lands comprises to be agricultural income tax and are quite different from the land cess as they are

¹⁷ "Report of the Taxation Enquiry Commission 1953-54", Vol. III, Ministry of Finance, Government of India, 1955, p. 363.



usually applied on vacant lands. Though these taxes are only a minor form of tax and are mainly assigned or shared in nature. These taxes are mainly a surcharge on the already charged land revenue and do not comprise as a main tax, which is why the nature of assigned or sharing arises. However certain states do impose these taxes on rental property as well like Orissa, Bihar and West Bengal. But the difference of these states with other states is mainly because of the reason that these taxes are a part of their property taxes.

There have been contentions raised to remove these taxes from the overall land revenues. There were also recommendations on the matter that local authorities should not be given such power and the land revenues of rural areas should follow the structure of the property taxes followed by urban authorities. Earlier thinking of the Santhanam Committee to separate the land rate from combined property and circumstances tax seems somewhat short-sighted in this context¹⁸.

But the problems of these recommendations were observed regarding the rental taxation as there was no specific procedure in rural areas to determine if the property was rental or not. Therefore the recommendation of the transformation of rental taxes into capital taxes was not implemented inspite of it being a good recommendation.

PROPERTY TAXES:

These taxes are usually implemented by the urban authorities. These taxes are those which are imposed on the owners of buildings. This tax is also known as to be “House tax” and includes appurtenant land. In these taxes there is a limited scope of applicability of the principle of ability to pay due to their *in rem nature*. Among all the different taxes imposed by the local authorities, there has always been a conflict of the authorities with the State government with reference to authority on these taxes. These taxes which bear similarity to US mode of “wealth taxes” have lead to conflicts which lead to various instances of interference by the State government into the taxation powers of the authorities. Due to these instances there were demands raised for certain Constitutional provisions to avoid such interference and promulgate the authorities as autonomous bodies.

These taxes also include the provisions of taxes applied on vacant lands having no buildings. Usually there are no taxes imposed in such cases and even in case of a few exceptions like Delhi, U.P, Vishakhapatnam, Ahmedabad and Calcutta only a basic rate is charged. However

¹⁸(1963a), Ministry of Community Development and Cooperation: Report of the Study Team on Panchayati Raj Finances, Part I, Fardiabad.



for these taxes there are barely any collection records available for reference. There are also instances of increasing the application of these taxes on vacant lands in metropolitan towns in order to make up for the growing demands of land and to ensure optimum use of resources. But these taxes had no effect on the curtailment of increasing prices of land as observed from the instance of Tamil Nadu's application of urban taxes on lands. However government owned properties are exempt from any taxes as imposed in Article 285 which has been questioned in the light of practice followed by the UK administration.

There are Article 243W and 243X which deal with the provision of the power of taxation to be provided to the urban authorities i.e municipal bodies. Under these provisions, an obligation is created upon the State government to enable the municipalities to have access to resources to gain funds necessary for their functioning. These provisions clearly establish that State governments should provide adequate taxation powers to these authorities. But there has been no clear take on what entries should be allocated to these authorities or what will be the kind of fees, taxes allowed to municipalities. There have been certain state legislations which have cleared this conflict like the Punjab Municipal Act, 1911. In this act several sections like Section 61 & 62 provide for certain devolution of taxation powers upon the municipal authorities as directed by the State government. There were certain clear boundaries for authorities where a clear sanction from the State was required which helped to clear out the powers allocated to the authorities.

In the case of *Model Town Residents Association v. State of Punjab*¹⁹ the power of municipalities was questioned under the section 3 (1)(a) and 3(1)(b) of the Punjab Municipal Act, 1911 and it clearly held that as the S.3(1)(b) provided immense power of taxation to the municipalities, this section was declared to be unconstitutional as this was considered to be beyond the scope of the legislation. They relied on the Hon'ble Supreme Court's judgement in the case *Devan Daulat Rai Kapoor v. New Delhi Municipality*²⁰.

PROFESSIONAL TAX:

This is levied on persons according to occupation, in order to obtain revenue from those who do not pay the property tax but who should also bear their just burden of local expenses²¹. These taxes are usually procured by the Urban authorities and are the second type of taxes to be

¹⁹RLR 2002 (4) 249 Punjab & Haryana High Court.

²⁰AIR 1980 SC 541

²¹Alderfer, H., "Local Government in Developing Countries", New York, 1964, p. 152.



imposed by them. These taxes are a local version of local income taxes. It is directly proportional to the rise in income and population. Moreover, since it is a personal tax, it assures quick and easy payment²².

These taxes are usually an imposition on any trade, profession which is carried out by any individual within the municipality. Due to the realization of it being a local version of income tax there have been demands raised against this double imposition of taxes. It is recognized that “the profession” tax is a type of income tax²³. “The logical solution to this problem is to impose a supplemental levy on the income tax to be distributed among the urban local bodies on the basis of origin²⁴.

ENTERTAINMENT TAX:

Entertainment tax is levied on programmes and luxuries including betting and gambling²⁵. These taxes are usually imposed and then collected by State authorities and then a portion of it is given back to municipalities for their basic functioning. The committee on Augmentation of Financial Resources of Urban local bodies had suggested that entire proceeds from this tax which at present go to the state exchequer, should be earmarked for the local bodies as it has a local basis and can also be best administered by a local authority with a certain degree of autonomy²⁶.

TOLL TAX:

The word ‘tolls’ has a variety of meaning and commonest of them is where a committee or a local authority prescribes a levy for vehicles and animals passing overroad, ferries and bridges etc, within the control of that authority²⁷. The power under this subject has been given to State authorities as mentioned under List II Entry 59 of the Constitution. As mentioned in the case of *T.S. Shergill and others v. State of Punjab*²⁸ defines this term and clearly provides that it is a remuneration provided by the individual who is entitled to pay in return for the service he used. While in the case of *Jubilee Highway Transport Private Ltd., Pathankot v. State of Punjab*²⁹ it was provided that Municipal authorities had the power to take such payment from any private vehicle entering it’s jurisdiction.

²²Gyan Chand, “Local Finances in India” (Allahabad), 1947, p. 130

²³ Abhijit Datta, “Municipal Finance in India”, p. 60.

²⁴ Abhijit Datta, “Financing Municipal Services”, p. 60

²⁵ Entries 33, 34 and 62 of state list, seventh schedule, the constitution of India.

²⁶ Report of the Committee on Augmentation of Financial Resources of urban local bodies, 1963, p. 54.

²⁷ P. RamanathaAiyer’s law Lexicon, 2001, p. 1900.

²⁸ 1973 PLR 232 (P&H)

²⁹ AIR 1964 P&H 506



There are certain other varieties of taxes like Sanitation tax, additional excise duties, other sources of tax imposed on transfer of properties, water taxes, pilgrimage taxes. But owing to their small share in the total tax collection, they are usually not discussed in length. There were various reports stating the issue of not giving full power to exploit taxation power by municipal authorities in the light of these taxes thereby leading to the aspect where the full potential of these taxes are still under wraps.

GRANTS:

Grant-in-aid can be defined as “Money payments furnished by a higher to a lower level of government to be used for specific purposes and subject to conditions spelled out in law or administrative regulations.³⁰” As it is already specified that in cases of urban authorities, very limited grants are provided inspite of the issues of global inflation observed and the problems faced by the authorities in solving their own issues. Whatever funds are made available to the local bodies for capital investment are restricted to what each state government is prepared to dole out from its own plan allocations under various heads³¹ A majority of rural and urban authorities depend on these grants for their functioning. .The First Finance Commission of Punjab has observed that there are no criteria for the devolution of grants, indicating the absence of predictable grants policy³². There are provisions of block grants, specific grants which are usually provided in cases where certain basic grants are provided for covering civic duties. Similarly in cases of urban authorities there are grants provided in the form of general purpose grants, specific purpose grants and statutory and compensatory grants.

However all of the mentioned grants are provided by the State government and not the Central government. Consider a scenario where the state government itself does not have adequate funds in the scenario of inflation and poverty then it is the duty of the Central government to step up and provide assistance to the authorities. Their constitutional duty to the local authorities is neglected in an outright manner in this case.

³⁰ Reagan, M. and Sanzane J.G., “The New Federalism”, New York, Oxford University Press, 1981, p. 54.

³¹R. Sheshadri, "Financing urban development" 1986 p. 69.

³² Sahib Singh & Surinder Singh, “Development and Local Administration”,2001, p. 331.



5. CONCLUSION:

In order to conform to the need of globalization, it is necessary for the local authorities as well as to have certain powers and to have full scope for their development. If these authorities would have access to their own funds then that would ensure an upgraded level of qualitative competence in their services the community. Above all, this will help in maintain independence of these authorities, free from any kind of influence from the Executive and also reduce instances of corruption and pleasing the senior officials. This will also create a liability towards their own constituencies and thus increasing their accountability to the citizens rather than working in accordance with the whims and fancies of the government. The essence of this issue is that by creating a direct source of revenue, unlike grants and budgets allocated there will be a direct liability towards the public and no one else which will further increase their accountability towards the public. Also in comparison to various international reforms with respect to local authorities provide that there is a need to have basic changes regarding their organizational structure, finances, decision making factors. This will help to create a more productive form of local authorities, thereby increasing their efficiency, which will also help to increase the fiscal development of the nation.