Chapter-III

Resources of the Local Self-Governments in Kerala

3.1: Classification of funds

Recent classification of the funds available to the LSGIs is different from the earlier classifications. Again, the funds of the LSGIs are classified differently as per different Government Orders issued from time to time and different Reports. For instance, one of the latest Government Orders classifies the funds at the disposal of the LSGIs into 7 categories (categories A to G) whereas the Report of the Comptroller and Auditor General of India (CAG) for the year ended 31 March 2006 classifies the funds into 6 categories (categories A to F). Here, we have chosen to follow the classification found in the CAG Report. Accordingly, the receipts of the LSGIs are first classified into four groups: grant-in-aid, loan, own funds and other receipts. These groups are further placed in categories A to F as shown in Chart 3.1.

3.1.1: Category ‘A’

Category ‘A’ funds are Plan funds provided by the State Government from the State Annual Plan Outlay to carry out the projects relating to the functions transferred to, and formulated by, the LSGIs under People’s Plan Campaign now renamed as Kerala Development Plan. The share of each LSGI in the Plan fund is given in Appendix IV of the Detailed Budget of the State every year. In 1996, the Government envisaged implementation of 35-40 percent of State’s Plan Schemes through LSGIs from the year 1997-98 with corresponding devolution of funds to the LSGIs. However, only 29.68 percent of Plan funds (Category ‘A’ funds) were transferred during the period 2002-03 to 2005-06 (Comptroller and Auditor General of India, March 2006: 7). Against a total State Plan expenditure of Rs.14502.28 crores, the amount of Category ‘A’ funds released to the LSGIs was Rs. 4304.85 crore.

As per Appendix IV of the State Budget for the year 2006-07, the Plan allocation to the LSGIs was Rs.1400 crore. In this allocation, Rs. 936.5 crore was under General Sector, Rs.403 crore under Special Component Plan (SCP) and Rs.60.5 crore under Tribal Sub Plan
Chart 3.1
Classification of the Resources
of the Local Self-Governments in Kerala

RECEIPTS

Grant in aid
Category A
Grant to Decentralized Plan

Loan
Category B
State-sponsored Scheme

Own fund
Category C
General & Maintenance Grant

Other receipts
Category D
Centrally sponsored Scheme

Category D
Loan from World Bank/ ADB

Category E
Own revenue

Category F
Receipts from other sources

General Purpose Grant

Maintenance Grant

Road assets

Non-road assets

Tax

Non-tax
The Plan allocation under the General Sector was divided between rural and urban local Governments according to the ratio of 83:17, which reflected the non-SC/ST population living in rural and urban areas respectively (as per 2001 Census). Thus, Rs.77729.5 lakh was set apart to the three-tier Panchayats. This provision to the three-tier Panchayats had again been apportioned in the ratio of 70:15:15 among the Grama, Block and District Panchayats. Thus, the GPs alone would get Rs.54410.64 lakh. Out of this allocation, Rs.54175.64 lakh was to be distributed to the 999 GPs in the State and the balance of Rs.235 lakh to be kept undistributed for giving special incentives to outstanding GPs.

The Plan allocation under SCP was divided between rural and urban local governments in accordance with the ratio of SC population in rural and urban areas (88.45:11.55 as per 2001 census). Thus, the Plan allocation of Rs.40300 lakh was divided into Rs. 35645.35 lakh for the three-tier Panchayats and the balance to the urban local bodies. The total share of the three-tier Panchayats together had again been apportioned in the ratio 60:20:20 among the Grama, Block and District Panchayats. Accordingly, the allocation was Rs. 21387.21 lakh to the GPs alone.

The Plan allocation under TSP was divided between rural and urban local governments on the basis of the ratio of ST population in rural and urban areas (97.2:2.8 as per 2001 census). Thus, the Plan allocation of Rs. 6050 lakh was apportioned as Rs.5880.6 lakh for the three-tier Panchayats and the balance for urban local governments. The share to the three-tier Panchayats was apportioned in the ratio of 50:20:30 among Grama, Block and District Panchayats.

Inter-se distribution of SCP/TSP funds was based on the Scheduled Caste/ Scheduled Tribe Population in the respective local Governments. While distributing TSP funds, inter-se shares were kept a minimum of Rs. 10000 and for those local governments for which share was less than Rs.10000 as per the norm, the share was not to be provided. Inter-se distribution of General Sector funds among the GPs was done according to weightages as indicated in Table 3.1.

While distributing funds, it was ensured that a minimum allocation of Rs.35 lakh was made available to each GP. Similarly, an upper limit of Rs. 150 lakh was fixed for each one of them. In the case of GPs having high Tribal Plan Component, the General Sector funds
would get reduced drastically since TSP was to be protected. In order to avoid this, for those GPs having TSP allocation of at least Rs. 25 lakh, the maximum amount of allocation to individual Panchayat was fixed as Rs.200 lakh.

Table 3.1: Weightage for inter-se distribution of General Sector Funds among the GPs.

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Indicators</th>
<th>Weightage (%) for GPs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Population (excluding SC/ST)</td>
<td>60</td>
</tr>
<tr>
<td>2</td>
<td>Tribal population</td>
<td>5</td>
</tr>
<tr>
<td>3</td>
<td>Geographical area excluding area under forest</td>
<td>5</td>
</tr>
<tr>
<td>4</td>
<td>Area under paddy</td>
<td>5</td>
</tr>
<tr>
<td>5</td>
<td>Own income of GP</td>
<td>10</td>
</tr>
<tr>
<td>6</td>
<td>Composite index of agricultural labourers, persons engaged in livestock, fisheries, etc., and marginal farmers</td>
<td>15</td>
</tr>
</tbody>
</table>

Source: Appendix IV of the Budget for 2007-08.

The total provision to the LSGIs during the year 2007-08 is increased by 10 percent from the outlay in 2006-07. Therefore, the shares under each tier for different categories are also increased by the same percentage from the figures in 2006-07. Thus, as per the State Budget for 2007-08, the GPs alone will get Plan allocation of Rs.86667.28 lakh (Rs.59851.71 lakh under General Sector Plan, Rs.23525.93 lakh under SCP and Rs. 3289.64 lakh under TSP). Of the total provision to the GPs under General Sector, Rs.59616.71 lakh is to be distributed to the 999 GPs. The balance amount of Rs.235 lakh is to be kept undistributed for providing special incentive to outstanding GPs. The budget provisions to the GPs of Kannur District alone in 2007-08 are: Rs.4707.42 lakh under General Sector Plan, Rs.625.16 lakh under SCP and Rs. 294.29 lakh under TSP, making a total provision of Rs. 5626.87 lakh.

3.1.2: Category ‘B’

Category ‘B’ funds consist of Plan and non-Plan funds for implementation of State schemes transferred to the LSGIs. The major State-sponsored plan schemes are Special
Livestock Breeding Programme, distribution of house sites to rural landless workers, etc., whereas distribution of unemployment wages, agricultural worker’s pension, widow pension, etc. are the non-Plan schemes. The share of each LSGI is not provided in the budget and is decided by the Head of the Department to which the scheme relates. The District officers of the Department concerned make the allotments of funds. Against a total budget provision of Rs.7119.67 crore, the State Government released to the LSGIs during the period from 2002-03 to 2005-06, Rs.6054.82 crore under category ‘A’ and ‘B’ (CAG Report, March 2006), the amount released under category ‘B’ alone standing at Rs.1749.97 crore.

3.1.3: Category ‘C’

Category ‘C’ funds are non-plan grants provided by the State Government to the LSGIs to meet their non-plan expenditure such as office expenses, water and electricity charges, maintenance charges, etc. Funds are separately provided for maintenance and for other purposes. Funds received for the maintenance of assets of the LSGIs, including the assets transferred to them as part of decentralized planning, constitute the ‘Maintenance Grant’ (MG) and funds received for other purposes form the ‘General Purpose Grant’ (GPG). GPG is in the place of Basic Tax⁴, Stamp Duty⁵, Vehicle Tax Compensation⁶, Rural Pool⁷ and various non-statutory grants-in-aid⁸. It is the Second SFC that has recommended the provision of GPG and MG to LSGIs. Government issued orders⁹ accepting inter-alia recommendations of the SFC to provide these two categories of Grants to the local bodies. Accordingly, 3.5 percent of the own taxes of the Government were allotted as GPG and 5.5 percent of the own taxes as MG to the LSGIs. (In recent Government orders, GPG is found described as Fund for Traditional Functions and included in the category of non-plan grant-in-aid to the local bodies).

Maintenance Grant, as per the above Government Order, is allowed under two categories:

i. Maintenance of roads.

ii. Maintenance of own assets and transferred assets other than roads.

Since GPG is the one, which the Panchayats are entitled to receive, they do not get lapsed. On the other hand, MG should be spent in the financial year itself. The Government
Order also clarifies that the particular LSGI can use the GPG for any purpose decided by it. However, the first priority should be given to the following obligatory expenses:

a) Water charges to be given to KWA.
b) Electricity charges to be given to the KSEB.
c) Rent, rates and taxes on buildings of the GP, including those transferred to it.
d) Telephone bills of the offices and institutions transferred to LSGIs.
e) Water charges and electricity charges of the offices and institutions under the control of the LSGIs, including those transferred to them.
f) The operation/maintenance expenditure in respect of the vehicles of the offices/ institutions of the LSGIs, including the offices/institutions transferred to them.
g) Stationery and postage expenses.

If necessary, a maximum of 10 percent of the MG (road and non-road) can be diverted to the above purposes. Those LSGIs having hospitals can use the fund, subject to the above limit, for the purchase and distribution of medicines to the hospitals.

The first priority in the use of MG (non-road) is for the purpose of replacing thatched roofs of school buildings with permanent or semi-permanent roofs. The second priority is for the maintenance of equipments and furniture in respect of hospitals, including veterinary hospitals. Third priority should be the maintenance of *anganwadees* and hostels transferred to LSGIs. The Government Order specifically clarifies that MG (roads) should not be used for the construction of new roads.

Following the recommendations of the SSFC, the Government have provided an amount of Rs. 21470 lakh for PRIs\(^{10}\) during 2005-06 as GPG (non-plan). During the period 2004-05 and 2005-06, the GPG released to the LSGIs was Rs. 442.4 crore as against Rs. 596.83 crore admissible - that is 74.12 percent of the admissible amount under GPG was released (CAG Report: March 2006).

Though MG equal to 5.5 percent of State's tax revenue of the previous year was to be provided for maintenance of road assets and non-road assets including transferred assets, during 2004-05 and 2005-06, Government released MG of only Rs. 481.05 crore to the LSGIs in the State as against Rs. 937.87 crore that LSGIs were entitled to receive. That is,
the Government did not release 48.71 percent of the eligible amount to the LSGIs during the period.

The total budget provision of funds under categories ‘A’, ‘B’ and ‘C’ to the GPs alone during the period from 2002-03 to 2005-06 was Rs.5021.3 crore. However, the amount actually released to them was Rs.4296.85 crore which forms 85.57 percent of the budget provision.

The Third SFC the recommendations of which cover the 5-year period 2006 to 2011, has stressed that the LSGIs, after the Seventy-third Constitutional Amendment, are taking over the load of a part of the functions of the State Government. Naturally, this should entitle them to higher proportion of State tax revenues for three purposes: to augment their own resources to meet their traditional functions, to maintain the services and institutions newly transferred to them, and to extend and develop those services and institutions. Therefore, the Commission recommended that an amount coming to around 25 percent of the total state tax revenue of the year 2003-04 might be transferred to the LSGIs during the year 2006-07. During each of the four subsequent years, amounts derived by applying annual growth of 10 percent may be so transferred. Thus, the total share of state taxes proposed to be transferred

Table 3.2: Share of State’s taxes to the LSGIs during 2006-2011 as per the recommendations of the Third SFC, Kerala. (Rs. crore)

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Traditional functions</td>
<td>300</td>
<td>330</td>
<td>363</td>
<td>399</td>
<td>439</td>
<td>1831</td>
</tr>
<tr>
<td>Maintenance purpose</td>
<td>350</td>
<td>385</td>
<td>424</td>
<td>466</td>
<td>512</td>
<td>2137</td>
</tr>
<tr>
<td>Expansion &amp; Development</td>
<td>1400</td>
<td>1540</td>
<td>1694</td>
<td>1863</td>
<td>2050</td>
<td>8547</td>
</tr>
<tr>
<td>Total</td>
<td>2050</td>
<td>2255</td>
<td>2481</td>
<td>2728</td>
<td>3001</td>
<td>12515</td>
</tr>
</tbody>
</table>

to the LSGIs during 2006-07 was Rs. 2050 crore. Applying 10 percent annual growth rate, the total share of taxes transferred to the LSGIs in the 5 years 2006-2011 will be Rs. 12515 crore. This is shown in Table 3.2.

The budget provisions for 2006-07 and 2007-08 to the LSGIs based on the recommendations of the Third SFC are as given in table 3.3.

Table 3.3: Budget provisions to the LSGIs based on the recommendations of the Third SFC, Kerala. (Rs. lakh)

<table>
<thead>
<tr>
<th>Purpose</th>
<th>2006-07</th>
<th>2007-08</th>
</tr>
</thead>
<tbody>
<tr>
<td>Traditional functions</td>
<td>23988.55</td>
<td>26387.34</td>
</tr>
<tr>
<td>Maintenance purpose</td>
<td>28784.04</td>
<td>31661.53</td>
</tr>
<tr>
<td>Expansion &amp; Development</td>
<td>119356.00</td>
<td>131291.60</td>
</tr>
<tr>
<td>Total amount</td>
<td>172128.59</td>
<td>189340.47</td>
</tr>
</tbody>
</table>

Source: Appendix IV to the budgets for 2006-07 and 2007-08.

As per the budget provisions to LSGIs in 2007-08 for traditional functions and maintenance of assets, the allotments to the GPs of Kannur District alone amounted to Rs. 1872.57 lakh for traditional functions, Rs. 1010 lakh for maintenance of non-road assets and Rs. 728.84 lakh for maintenance of road assets.

3.1.4: Category ‘D’

Category ‘D’ funds are grants received from the Government of India, including State share, for implementation of various Centrally Sponsored Schemes such as *Sampoorna Grameen Rozgar Yojana*, *Indira Awas Yojana*, *Swarna Jayanthi Grama Swarozgar Yojana*, *National Slum Development Programme*, *Valmiki Ambedkar Awas Yojana*, *Swarna Jayanthi Shahari Rozgar Yojana*, etc. This category (Category ‘D’) included assistance provided by the World Bank, Asian Development Bank, etc. The funds under this category are disbursed through agencies such as District Rural Development Agencies, State Poverty Eradication Mission, Directorate of Urban Affairs, District Collectors, etc., and are to be kept in Bank
Accounts and utilized for purposes specified by the fund provider. In 2005-06, the LSGIs in Kerala received Rs. 331.49 crore as Central assistance and Rs. 101.12 crore as State share out of which Rs.413.6 crore was utilized (CAG Report: March 2006).

3.1.5: Category ‘E’

Category ‘E’ funds consist of tax and non-tax revenue of LSGIs, which are also known as ‘own funds’. Property Tax, Profession Tax, Service Tax, Entertainment Tax, Advertisement Tax, etc., constitute tax revenue. Non-tax revenue consists of license fee, registration fee, rent, interest, fines, etc. LSGIs except District Panchayats and Block Panchayats are empowered to collect the above tax and non-tax revenues. As pointed out in the CAG Report (2006: 6), the details of own funds were not gathered from LSGIs and consolidated Statewide by the Government as envisaged in the Acts. Hence the details of own fund collection of all LSGIs were not available. However, the figures submitted to the Twelfth Finance Commission by the Government of Kerala showed that in 2002-03, the total tax and non-tax receipts of the GPs were respectively Rs.123.18 crore and Rs.102.83 crore.

3.1.5 (a): Tax receipts

The major items of tax receipts for the GPs in Kerala are as follows:

Building Tax (the term substituted by ‘Property Tax’ as per Act 13 of 1999 with effect from 24-03-99)

Section 203 of the Kerala Panchayat Raj Act, 1994 states that every Village Panchayat shall, in accordance with the rules prescribed for the purpose, levy a tax on all buildings other than huts and buildings exempted by the provisions of this Act in the Panchayat area, at such percentage of the net annual rental value of the building as may be fixed by the Panchayat by resolution, subject to a maximum of 10 percent and a minimum of 6 percent. The Property Tax shall be levied annually and be payable in two equal half-yearly installments. As is clarified in the Kerala Panchayats (Building Tax) Rules 1963, the net annual rental value of buildings shall be deemed to be the gross annual rent at which they may reasonably be expected to be let from month to month or from year to year, less a deduction of 10 percent of such annual rent, and the said deduction shall be in lieu of all allowances for repairs or any other account whatever:
Provided that in the case of –

i. any Government building, or

ii. any building of a class not ordinarily let\textsuperscript{11}, the gross annual rent of which cannot, in the opinion of the Executive Authority be estimated, the annual rental value shall be deemed to be 6 percent of the total estimated value of the appurtenant land\textsuperscript{12} and estimated present cost of erecting the building after deducting for depreciation a reasonable amount which shall in no case be less than 10 percent of such cost. The aforesaid Section 203 has been modified by Act 13 of 1999, with effect from 24-3-'99, as follows: “Every Village Panchayat shall, in accordance with the rules prescribed for the purpose, levy a Property Tax on all buildings and land appurtenant thereto situated within the Panchayat area and not exempted under this Act at such percentage as may be determined by the Village Panchayat on the net annual value determined on the basis of the plinth area and considering the site of the building, its use, type of construction and other determined factors: provided that in the case of buildings given on rent, tax shall be levied by adding 25 percentage also for the net annual value calculated according to plinth area”.

The need for considering appurtenant land in fixing Property Tax was implied in the Kerala Panchayats (Property Tax) Rules, 1963, which stated that for the purpose of levy of Property Tax under Section 68 of the Kerala Panchayats Act, 1960 (32 of 1960), every building shall be assessed together with its appurtenant structures unless the owner of the appurtenances is a different person from the owner of the building.

The Section 203 of the Kerala Panchayat Raj Act (KPRA), 1994 has required the Government to make rules providing for the method of fixing the annual value of property based on plinth area of the building, maximum tax to be paid by the owner of the building, returns to be filed by the owner, rate of deductions to be allowed based on the age and use of the buildings, the grant of exemption from the tax on the ground of poverty, the grant of vacancies and other remissions, etc. Though amendment has been brought about in the KPRA, 1994 to introduce plinth area-based assessment of Property Tax for both residential and non-residential buildings including commercial buildings, rules and operational instructions have not been issued till July 2007. Therefore, Property Tax continued to be
assessed as per the old system based on rental value. Expecting a switch over to the new method of assessment, majority of the Village Panchayats in Kerala have not had any revision of Property Tax since 1993. This has prevented the usual periodic increases in Property Tax receipts on account of tax revision.

KPRA, 1994 also provided that a Village Panchayat may levy either from the whole Panchayat area or any specified portion thereof and for a specified time a surcharge not exceeding 5 percent on the Property Tax levied, to cover any unusual expenses incurred by it in respect of any plan, project or work: provided that not more than 2 surcharges shall be imposed on such property. It is noteworthy that even with specific quid pro quo, Panchayats, with the exception of a few, have been reluctant to impose surcharges.

Section 207 of the KPRA provided that the following buildings and lands shall be exempt from the levy of tax, cess or duty:

- Places set apart for public worship, and either actually so used or used for no other purpose, choultries for the occupation of which no rent is charged and choultries where the rent charged for the occupation is used exclusively for charitable purpose.

- Buildings, including hostels under the ownership and use of educational institutions recognized by Government, public buildings used for charitable purposes of providing shelter to destitute and animals, and libraries and playground open to public*.

- Such ancient monuments protected under the law relating to the protection of ancient monuments for the time being in force, or parts thereof as are not used as residential quarters or as public offices.

- Burial and burning grounds.

- Building or land belonging to the Panchayats.

- Such property of the Government not being buildings as may, from time to time, be notified by the Government in the Gazette.

- Building with mud walls or roofs thatched with leaves or light weight sheets and having a plinth area of less than 20 square metres*, residential building constructed
by a person, who belongs to an economically weaker section, using Government subsidy and having a plinth area of less than 20 square metres.

(*substituted by Act 13 of 1999).

In 2006, the Government have clarified\(^\text{13}\) that the buildings belonging to SC/ST families will be exempted from the payment of Property Tax to the Village Panchayats if they are-

a) constructed under various schemes of Government or local Government, or
b) constructed by agencies including NGOs for the benefit of the members of SC/ST.

As per the Government clarification, the eligibility criteria for getting tax exemption are:

i. Buildings should belong to SC/ST persons below poverty line
ii. Occupants should be families belonging to SC/ST
iii. Plinth area of houses should be less than 30 sq. metres.

Actually, in Kerala, specific set of norms for taxation of buildings in Panchayat area did not exist until June 2007. Government revised the Kerala Building Rules 1984 viz. Kerala Municipality Building Rules 1999, which should be applied to all the Municipalities in the State with effect from 1-10-1999. The Government have clarified\(^\text{14}\) that the provisions of the Kerala Municipality Building Rules 1999 should apply to all Panchayats where the relevant provisions of the Kerala Municipality Act and rules issued therein stand extended until separate orders are issued and enforced under the Kerala Panchayat Raj Act, 1999.

In the meantime, the Government have instructed\(^\text{15}\) the LSGIs to take some steps urgently which, according to the Government, are pre-requisites for Property Tax reforms: One is the classification of the GP area into primary zone and secondary zone taking into account the extent of development activities that have taken place in an area, and also considering the concentration/absence of some of the Government/private institutions like hospitals, film theatres, Government offices, trading centers, etc. The second requirement is that GPs should publish zonal maps within a month.

However, after the issue of the said Order, no effective steps were taken to ensure compliance by the GPs until the Panchayat Directorate issued a circular\(^\text{16}\) once again revealing the intention to switch over to plinth area-based assessment of Property Tax. As per
the circular, it was proposed to conduct a sample survey in 184 selected GPs in Kerala, preceding the switch over to the new method of tax assessment. As part of the sample survey, it was proposed to collect detailed information pertaining to the buildings such as category (residential, industrial and commercial) and sub category of buildings, total plinth area of the building, both of open as well as closed portion, the type of road from which entry to the building is possible, nature of roof (concrete, tiled, covered with asbestos sheet, covered with fiber sheet, thatched, etc), nature of floor (whether covered with tile, wood, marble, mosaic, granite, cement, clay, etc), age of the building, average consumption of electricity, total air-conditioned area, etc.

The next step from the Government came in June 2007 when Orders were issued for revising the Property Tax of GPs along with the guidelines for the same.

**Profession Tax**

In the case of Village Panchayats, Profession Tax is levied from individuals and companies by virtue of Section 204 of the KPRA. The tax shall be levied every half year in every Village Panchayat area on

1. every company which transacts business in such Panchayat area for not less than 60 days in the aggregate in that half year, and
2. every person who, in that half year
   - exercises a profession, art or calling or transacts business or holds any appointment, public or private
   - within such Panchayat area for not less than 60 days in the aggregate or
   - outside such Panchayat area but who resides in it for not less than 60 days in the aggregate or
3. resides in such Panchayat area for not less than 60 days in the aggregate and is in receipt of any income from investments.

The Profession Tax shall be levied at such rates as may be fixed by the concerned Village Panchayat subject to the maximum rates prescribed by the Government. However, Article 276(2) of the Indian Constitution has fixed the maximum tax leviable per year at Rs. 2500. Now, the Eleventh Finance Commission had recommended that this provision be taken out of the Constitution and be made part of a Central Act so that its amendment could be
easily made. Based on the Report of the First SFC, Profession Tax had been revised in Village Panchayats as shown in Table 3.4.

Every head of office or employer in relation to an office or undertaking or institution where persons are employed for salaries or wages shall as soon as, may be, on receipt of the bill or notice of demand of Profession Tax, serve such notice or bill on the employees. The head of office or the employer shall, after the expiry of the period specified in the bill or notice of demand, recover or collect the amount of Profession Tax by deduction or otherwise from the salaries or wages of the employees and remit it to the Village Panchayat. In the case of self-drawing officers also, the head of office or employer should take steps to ensure remittance of Profession Tax.

Table 3.4: Rate of Profession Tax in the GPs.

<table>
<thead>
<tr>
<th>Class</th>
<th>Half-yearly income</th>
<th>Maximum half-yearly tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>Between Rs.12,000 and 17,999</td>
<td>Rs.120</td>
</tr>
<tr>
<td>II</td>
<td>Between Rs.18,000 and 29,999</td>
<td>Rs.180</td>
</tr>
<tr>
<td>III</td>
<td>Between Rs.30,000 and 44,999</td>
<td>Rs.300</td>
</tr>
<tr>
<td>IV</td>
<td>Between Rs.45,000 and 59,999</td>
<td>Rs.450</td>
</tr>
<tr>
<td>V</td>
<td>Between Rs.60,000 and 74,999</td>
<td>Rs.600</td>
</tr>
<tr>
<td>VI</td>
<td>Between Rs.75,000 and 99,999</td>
<td>Rs.750</td>
</tr>
<tr>
<td>VII</td>
<td>Between Rs. 1,00,000 and 1,24,999</td>
<td>Rs.1,000</td>
</tr>
<tr>
<td>VIII</td>
<td>Above Rs. 1,25,000</td>
<td>Rs.1,250</td>
</tr>
</tbody>
</table>


The Second SFC points out that Profession Tax constitutes the second largest source of own income for the Village Panchayats and has the fifth position for the urban local bodies. During the consecutive 6 years ending 2000, the tax has grown by 101.6 percent in the case
of Village Panchayats (Second SFC: 45). This has been mainly due to the steep increase in salary following the implementation of the Pay Commission recommendations.

As per the Kerala Panchayat Raj (Profession Tax) Rules, 1996, Village Panchayat may exempt any one or more of the classes shown in the above table from the liability of Profession Tax, provided that no class shall be exempted when persons in the lowest class are liable to pay the tax.

**Service Tax**

Service Tax shall be levied at the rate fixed by the Village Panchayat, for sanitation, water supply, scavenging, street lighting and drainage wherever such services are provided by the Village Panchayats. A Village Panchayat may levy a fixed percentage of the annual value of the whole building or land or both situated within that Panchayat as Service Tax, save those building or land or both exempted from tax under the 1994 Act. A Village Panchayat may exempt any person or class of persons residing in any part of the Panchayat area from the levy of all or any of the Service Tax on the ground that such part is not deriving the full benefit of the service rendered by the Panchayat. The Service Tax shall not exceed the following rates, namely-

- **For sanitation purposes:** Of the expenses for preserving general sanitation, of the Village Panchayat area and for removing of the rubbish, filth and carcasses of animals and birds from private premises = 1 percent.

- **For water supply:** Of the expenses for repair, development and reconstruction of the existing water reservoirs and the water supply systems, both entrusted and not by the Kerala Water Authority and also for the water supply works to be implemented = 2 percent.

- **For Street lighting:** Of the expenses for lighting of the Village Panchayat area by using various kinds of power = 2 percent.

- **For drainage, scavenging, etc.:** Of the expenses for repair, development and reconstruction of the existing drainage systems and for drainage and scavenging facilities to be provided = 1 percent.
The rules and procedures for the assessment, levy and collection of Property Tax issued under Section 203 of the 1994 Act shall be observed *mutatis mutandis* for the assessment, levy and collection of Service Tax.

**Show Tax**

This tax is levied as per Section 200 of the KPRA which empowers the Panchayat to levy and collect Show Tax on every show which includes any entertainment, exhibition, performance, amusement game, sport or race, that is performed in their territory and to which persons are admitted on payment. A surcharge on Show Tax was collected as per the Additional Entertainment Tax Act and Surcharge on Show Tax Act, 1963. Now, with the repeal of this Act, surcharge cannot be realized. The tax is payable by the owner of the premises where the show is conducted if he receives rent for the show. If no rent is paid, the organizer of the show should pay the tax. The rates of Show Tax applicable to GPs are indicated in Table 3.5.

**Table 3.5: Rates of Show Tax applicable to the GPs.**

<table>
<thead>
<tr>
<th>Nature of Show</th>
<th>Rate of tax per Show</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1). Regular cinema shows at licensed theatres</td>
<td>Rs.2*</td>
</tr>
<tr>
<td>(2). Other cinema shows</td>
<td>Rs.2</td>
</tr>
<tr>
<td>(3). Regular shows other than cinemas</td>
<td>Rs.5</td>
</tr>
<tr>
<td>(4). Other shows</td>
<td>Rs.30</td>
</tr>
</tbody>
</table>


*discontinued as per Government Order cited in Ref. 18.

In the case of other shows coming under item (4) above, two shows conducted at a place in a day, with not more than one hour's interval between them, shall be deemed to be a single show.

**Entertainment Tax**

While the Show Tax is levied on conducting of a ‘show’, the Entertainment Tax is levied by the Panchayats in the form of an additional duty on all payments for admission to
any ‘show’. It is collected according to the provisions of Section 3 of the Local Authorities Entertainment Tax Act. Consequent on the recommendations of the First SFC, Additional Tax on Entertainment has been merged with Entertainment Tax and the Kerala Additional Tax on Entertainment and Surcharge on Show Tax Act 1963 has been repealed. As per the unified Act, Entertainment Tax was fixed between 24 to 48 percent of the price of admission. In 2004, the Government had revised Entertainment Tax as follows:

1. Films – General Category: Municipal Corporation = 35%; Municipalities = 30%; and Panchayats = 25%.
3. Show Tax to be discontinued.

Entertainment Tax is the third largest source of income for the Village Panchayats. The Second SFC points out that though Entertainment Tax constitutes a significant local government income, there are no theatres either temporary or permanent in 331 Village Panchayats at the time of preparation of its Report. Further, the Commission has estimated that in the case of Village Panchayats, the Tax has grown by 48.98 percent over the six-year period ending 2000 (Second SFC: 45).

The issue of ‘escaped’ tax was considered in detail by the First SFC which recalled that both the earlier Municipal Finance Commission viz., the Naha Commission 1985, and the Mohandas Commission 1993 had recommended the collection of Entertainment Tax on the basis of gross seating capacity in theatres and optional switch over to taxation based on seating capacity. Though Entertainment Tax Act has been amended and an enabling provision introduced to tax on the basis of seating capacity, the rules have not yet been formed.

**Advertisement Tax**

Advertisement Tax is collected as per the provisions of section 209 of the KPRA, 1994. The Tax is collected based on the byelaws framed by the Village Panchayats. There are no rules issued by the Government regarding the minimum rate or the mode of collection. Section 209 of the KPRA, substituted by Act 13 of 1999 with effect from 24-3-1999,
provides that every person who erects, exhibits, fixes or retains upon or over any land, building, wall, hoarding or structure, in a Village Panchayat area any advertisement or who displays any advertisement to public view, in any manner whatsoever in any place in such area whether public or private shall pay to the Village Panchayat on every such advertisement a tax calculated at such rates and in such manner and subject to such exemptions as the Village Panchayat may with the approval of the Government and by resolution determine.

Advertisement or notice of a public meeting, of an election to any legislative body, or a Municipality or a Panchayat, or of a candidate in respect of such an election are exempted from Advertisement Tax. Again, no Advertisement Tax shall be levied on any advertisement that is not a sky-sign and which

- is exhibited inside the window of any building which is not a public place,
- relates to the trade or business carried on within the land or buildings upon or over which such advertisement is exhibited, or to any sale or letting of such land or building or to any sale advertisement or meeting to be held upon or inside the same;
- relates to the name of the land or building upon or over which the advertisement is exhibited or to the name of the owner or occupier of such land or building;
- relates to the business of any railway administration or airport authority.

Advertisement Tax has relatively good potential in a consumerist State like Kerala. But, the realization of revenue under this head has been quite low. The Second SFC had found that only 121 Village Panchayats were collecting Advertisement Tax and its share in their own revenue was a paltry 0.04 percent (Second SFC: 46).

**Cess on Conversion of Land Use**

A Village Panchayat may levy from a land owner a land conversion cess, at such rates not exceeding seventy-five rupees per one are of land as prescribed, in respect of paddy fields, marshy land, pond or wet land which he has been holding and has been converted into garden land or land on which there is a building subject to the provisions of the Kerala Land Utilization Order 1967 issued under the Essential Commodities Act. Since there are several restrictions on conversion of land use in Kerala, the collection has been naturally low.
3.1.5 (b): Non-tax revenue

GPs in Kerala have different sources of non-tax revenue, the most important of which are listed below.

Fees:

There are different fees that can be collected by the GPs in Kerala.

i. License Fees: These constitute the most important source of non-tax revenue for majority of the GPs and comprise fees in respect of trade licenses, licenses of factories, workshops and workplaces, licensing under the Prevention of Food Adulteration Act, under the Kerala Cinema Regulation Act and under the Kerala Places of Public Resorts Act, licensing of private slaughter houses, markets, meat stalls, landing places, halting places, cart stands, bus stands, and burning and burial grounds, licensing of domestic animals (dogs, pigs, etc.) and of animal stalls kept for commercial purposes, licensing of technical experts and of special traders like butchers, fishmongers, poulterers, commission agents and brokers, etc.

ii. Registration Fees: These include fees for registration of marriages, births and deaths, registration of private hospitals, private paramedical institutions, parallel colleges and lodges.

iii. Permit Fees: These are: (a): fees in respect of building permits under building rules such as permits for new construction, addition and alteration of buildings, and (b): fees for permits for the construction, establishment or installation of factories, workshops or workplaces where electricity is used.

iv. Gate Fees: These are fees, which are normally farmed out by auction to the highest bidder who is then given the right to regulate entry based on certain fees. These can be collected with respect to public markets, public slaughterhouses, public landing, parking and halting places, public cart stands and bus stands, etc., either directly or through contractors.

v. Other fees: There are several other fees that can be charged by GPs. These are: extract fees for the grant of copies of office records such as birth and death registrations and
assessment registers, fees in respect of demand notice, warrant and distraint, compounding fees and fees from the beneficiaries of the institutions run by the Panchayats.

**Service charges**

Service charge is the fee levied for the particular service rendered to an individual or an institution and is different from the Service Tax levied on the provision of a particular utility for the public at large. Most important of the service charges are water charges, charges for toilet services, for special service rendered to private hospitals, for parking convenience and for other comforts.

**Contributions**

Contributions from beneficiaries or from other Panchayat agencies for the implementation of schemes or projects also constitute another source of revenue to the GPs.

**Rent**

Rent includes ground rent of lands with respect to public market place, public mini stadium and other public places, rent on buildings owned by the GPs such as community halls, shops and stalls in public markets, in shopping complexes and other public places, rooms in mini civil station, in tourist bungalow, in public landing places, halting places, cart stands and bus stands, rent from comfort stations, cloak rooms and rooms attached to waiting sheds, rent on buildings let out for private agencies, firms, etc., hiring charges on road roller, agricultural tools, tractors, tillers, transporting vehicles, ambulance, etc., and ferry service rent.

**Other sources of non-tax revenue**

There are several other sources of non-tax revenue such as sales proceeds of usufructs of trees, of agricultural and industrial products, confiscated properties, river sand, waste materials and unserviceable articles, tools, plants, machinery, furniture, etc., income from cattle pounds, fisheries and unclaimed investments, income from institutions and services run by the GPs, return on investments like shares, income through lease of land, interest on bank investment, fines and penalties (realized when there is contravention of regulations or there
are belated payments), income from ferries (either by auctioning of the right to ply ferries or by charging from the users), etc.

3.1.6: Category ‘F’

Category ‘F’ funds consist of all other receipts which do not come under other categories. This includes voluntary contributions in money as well as in kind, and loans other than from the World Bank, the ADB and other international agencies. These funds are utilized for specific purposes.

Notes:

4. Basic Tax, which is a general tax on land, was earlier assigned by the State Government to the local governments under a separate head. The entire collection was given to the rural self-governing institutions after deducting a collection charge of 3 percent. 3/8th of the Basic Tax was given to the Village Panchayats, 3/10th to the Block Panchayats and 1/5th to the District Panchayats. The remaining 1/8th was credited to the Rural Pool. Except in the case of Rural Pool, the distribution was as per the area of the concerned Panchayat. Now, Basic Tax forms part of the General Purpose Grant.
5. Under the provisions of the Kerala Stamp Act 1959, for every transaction relating to land, Stamp Duty and Registration fee are levied. As per Section 206 of the Kerala Panchayat Raj Act, Village Panchayats are entitled to levy 5 percent of the amount of the value of the property transacted as Stamp duty. But, in practice, only the pre-1994 rate of 4 percent for Village Panchayats is levied. Earlier, the proceeds of Stamp duty were distributed to the Village Panchayats on population basis (other than the 25 percent credited to the Rural Pool) under a separate head. Now, just as Basic Tax, Stamp duty also forms part of the General Purpose Grant.
6. Motor Vehicle Tax is the only tax shared between the State and the local Governments and the share to the latter is called Vehicle Tax Compensation (VTC). Share is given to the local governments as per Section 19 of the Motor Vehicles Taxation Act 1976. Twenty percent of the net collection of
Motor Vehicle Tax is distributed among the Village Panchayats and ULBs as per road length according to a formula based on unit length of roads maintained by the local bodies.

7. Rural pool was constituted as per the recommendation of the First SFC in the final report 1996. This ‘Rural Pool’ would comprise of: (1) various non-statutory non-plan grants consolidated into one general grant (2) 25 percent Basic Tax; and (3) 25 percent Surcharge on Stamp Duty. It would be left to the local bodies to decide on the application of non-plan grants according to their own priority and perception of their needs. As per the Government Order constituting the Rural Pool for the year 1999-00 [GO (MS) No. 74/2000 LSGD dated Trivandrum, 7-3-2000], the Director of Panchayats will distribute the amount in the Rural Pool on the following criteria:

- Gap between income and expenditure of the GPs during 1998-99 would be determined.
- 75 percent of this gap would be met in the case of Second and Third Grade GPs and 25 percent in the case of Special Grade GPs from the Rural Pool.
- The remaining amount in the Rural Pool would be devolved as 90 percent based on population and 10 percent based on area of the GP.

8. Some of the non-statutory grants that were made available under separate heads to the GPs in Kerala were; Village Roads Maintenance Grant; Minor Irrigation Grant; Establishment grant; grants for the construction of tube wells; maintenance of protected water supply, maintenance of burning and burial grounds, maintenance of railway level-crossings, lighting public roads, establishing mini stadium, etc.

9. As per the G.O No. (MS) 330/04/LSGD dated Thiruvananthapuram, 9-12-04.

10. As per G.O. (MS) No. 262/2005/LSGD TVM dated 25-8-05.

11. As per rule 4 of the Panchayat Property Tax (Rule 1965), the fact that the building is occupied by the owner or for certain reasons is not being let at all is immaterial, and it will not make the building of a class not ordinarily let. Further, as per 1973 K.L.T. 42: Part – 2, if a building is so designed or constructed to house a hostel, it may fall within the class of buildings not ordinarily let; on the other hand, if the building is designed or constructed in such a fashion as to be a residential building, it may fall within the class of buildings ordinarily let, though the intention at the time of the construction was not to let the building on rent. From the design or mode of construction of buildings, if they can be considered as buildings falling under a class ordinarily let then the buildings shall fall within the class of buildings ordinarily let and taxed accordingly.

12. The term ‘appurtenant land’ as per the Kerala Panchayats (Property Tax) Rules 1963 means the land on which the building is constructed plus the adjacent land, not exceeding 25 percent in extent of
the area of the land occupied by the building, in the possession of the owner of the building and without which the value of the building will be less.


15. As per G.O. No. 3763/2001 /LSGD dated TVM 7-12-01.

