

## **The Economic and Institutional Constraints of own source revenue of few Gram Panchayats in Howrah District of West Bengal in India**

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### **Abstract**

Own source revenue of Panchayats is the resultant of tax revenue and non-tax revenue. Various issues relating to participation of people in own resource mobilization of Gram Panchayats were discussed at the disaggregate level involving 300 sample households randomly selected from 6 sample villages of 3 Gram Panchayats of Bagnan I block of Howrah district. The amounts of tax paid were low and largely varied across the sample households. The low amount paid in the form of tax on land and buildings is, according to the sample households, mainly due to the lack of proper assessment on the value of land and buildings, irregularity in collection of tax by the Panchayats and lack of political will of the Panchayat members. Per capita income and percentage of non-farm workers are treated as economic factors and per capita land holding may be treated as institutional factor. There are some institutional constraints on mobilization of tax revenue by the Gram Panchayat (GP). The economic and institutional problems constitute the major constraints of the own resource mobilization of Panchayats of Howrah district of West Bengal. The estimated tax per household as per Panchayat Rules was several times higher than actual amount realized at the Gram Panchayat level. The relatively low performance of GPs in tax revenue mobilization is attributed to their unwillingness in optimally applying the tax instrument for fear of unpopularity at the Panchayat level. Besides, in the absence of any post of tax assessor Gram Panchayat find it difficult to assess the present value of land and buildings on which the tax amount has to be scientifically assessed.

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### **Introduction:**

Own source revenue mobilization of Gram Panchayats is meaningful only when the panchayats have adequate own funds to provide public services assigned to them which require the assignment of tax powers. As per Panchayat Rules tax ought to be assessed on the basis of existing market value of land and building and annual value of the premises. This may be treated as potential tax revenue but actually the value of land and building is assessed and the tax rate is fixed arbitrarily and hence the actual tax amount for individual households is far less than the potential tax amount. We here make an attempt to analyze the constraints of own source revenue of Gram panchayats based on relevant data from randomly selected households of Bagnan I Block.

The objective of the paper is to evaluate major constraints of own source revenue of Gram Panchayats of Bagnan I Block in Howrah District of West Bengal in India.

We have analysed this chapter based on the primary data. The data have been collected from 300 sample households. These households are randomly selected from 6 sample villages of 3 Gram Panchayats of Bagnan1 block of the district.

**Households’ Payment of Tax and Non-Tax Revenue to Gram Panchayats :**

Gram Panchayat alone has been empowered to assess and realize any tax, viz. tax on land and buildings. In this section we analyse the sample households’ payment to Gram Panchayats during financial year 2014-15. Households’ payment to Gram Panchayat may be in the form of tax on land and buildings and fees for different services of Panchayats.

It is observed that 41.7 per cent sample households pay tax on land and buildings to the amount less than Rs 10 while 44.3 per cent sample households pay the amount varying between Rs 10 and Rs 30. Only 8.7 per cent families pay tax varying between Rs 31 and Rs 50 while only 5.3 per cent of the sample families pay within the range Rs 51 to Rs 100 as tax on land and buildings. It is revealed that the amount of tax to the tune of Rs 71 to Rs 100 is paid by the maximum number of households in Bagnan I GP while the minimum number of households of GP Bainan pay even this amount. As per contribution of tax to Gram Panchayat Bagnan I GP leads sample GPs (Table 1.1).

**Table1.1 Frequency Distribution of Sample Households by Payment of Tax to GP**

(Rs)

Amount of Tax (Rs)	Bagnan I			Bagnan II			Bainan			Grand total	Per cent
	Hijla k	Tenpurnaba san	Total I	Chandr apur	Khadin an	Total	Kari a	Khajut ti	Total I		
	(V <sub>i</sub> )	(V <sub>ii</sub> )		(V <sub>iii</sub> )	(V <sub>iv</sub> )		(V <sub>v</sub> )	(V <sub>vi</sub> )			
0-09	20	20	40	20	25	45	20	20	40	125	41.7
10--30	20	25	45	18	20	38	25	25	50	133	44.3
31-50	5	3	8	9	4	13	3	2	5	26	8.7
51-70	4	1	5	2	1	3	2	2	4	12	4
71-100	1	1	2	1	1	1	0	1	1	4	1.3

101 & above	0	0	0	0	0	0	0	0	0	0	0
<b>Total</b>	<b>50</b>	<b>50</b>	<b>100</b>	<b>50</b>	<b>50</b>	<b>100</b>	<b>50</b>	<b>50</b>	<b>100</b>	<b>300</b>	<b>100</b>

Source: Household Survey

The low amount paid in the form of tax on land and buildings is, according to the sample households, mainly due to the lack of proper assessment on the value of land and buildings, irregularity in collection of tax by the Panchayats and lack of political will of the Panchayat members. There are some institutional constraints on mobilization of tax revenue by the Gram Panchayat.

**Institutional Constraints:** As per Panchayat Rules tax ought to be assessed on the basis of existing market value of land and building and annual value of the premises. The annual value should be determined at the rate 6% of the market value of the land and building and the rate of tax be varied between 1 and 2 per cent depending upon the annual value. This may be treated as potential tax revenue but actually the value of land and building is assessed and the tax rate is fixed arbitrarily and hence the actual tax amount for individual households is far less than the potential tax amount.

We here make an attempt to compare the actual tax amount and the potential tax amount based on relevant data from 100 randomly selected households of Bagnan I GP.

**Potential Tax Revenue:** To estimate the potential tax revenue we need to study the relevant provisions of the Panchayat Act. Section 46 of the West Bengal Panchayat Act, 1973 as modified up to the 31<sup>st</sup> January, 2004 specifies the tax rate as well as procedure for assessment of the annual value of lands or buildings. It reads as:

46 (1) Subject to such rules as may be made in this behalf, a Gram Panchayat shall impose yearly –

(a) on lands and buildings within the local limits of its jurisdiction<sup>1</sup>, a tax –

(i) at the rate of <sup>2</sup> (one per centum) of the annual value of such lands and buildings when the annual value does not exceed rupees one thousand, and

(ii) at the rate of <sup>3</sup>(two per centum) of the annual value of such lands and buildings when the annual value exceeds rupees one thousand, to be paid by the owners and occupiers thereof:

“annual value”, in relation to any lands or buildings, means an amount equal to six per centum of the market value of such land or buildings at the time of assessment estimated in the prescribed manner:

It is revealed that the estimated tax per household is several times higher than actual amount realized at the GP level. The relevant data are presented in Table 1.2.

1. The West Bengal Panchayat Act, 1973 as modified up to the 31<sup>st</sup> Jan, 2004
2. Government of India (2001), Report of the Working Group on Decentralized Planning and Panchayati Raj Institutions, for the Tenth Five Year Plan, Ministry of Rural Development.
3. Government of India (2001), Report of the Task Force on Panchayati Raj Institutions (PRIs), Planning Commission, December, p9-12.

**Table 1.2 Estimated and Actual Tax Paid by 100 Sample Households of Bagnan I Gram Panchayat**

Number of Sample Households	Average land holding per household (Katha)	Average annual value of land & building per household (Rs in lakh)	Average tax amount estimated /potential per household (Rs)	Average actual tax paid per household (Rs)
20	2.5	0.56	1120	25
60	3.5	0.78	1560	55
12	4.47	1.01	2020	90
8	5.5	1.23	2460	150

Notes: 1 Katha = 1.65 decimal.

Source: Household Survey of 100 Households of Bagnan I G.P.

Hence Panchayats realize the amount of tax very much less than their potential amount at the existing rate. They are reluctant and not prepared to realize the full potential of the tax on land and building for fear of loss of public support. Thus the relatively low performance of GPs in tax revenue mobilization is attributed to their unwillingness in optimally applying the tax instrument for fear of unpopularity at the Panchayat level. Besides, in the absence of any post of assessor Gram Panchayat find it difficult to assess the present value of land and buildings on which the tax amount has to be scientifically assessed.

This may be treated as institutional constraint on own resource mobilization of Panchayats in Howrah districts.

**Payment of Fees :** Amount of fees paid by the sample households to Gram Panchayats is low. Only 34 sample households pay fees to the amount of Rs 30 and below while only one household pays fees of Rs 101. Voluntary contribution of the sample households for completion of development projects in terms of payment in kind or money has been either zero or very meager. Their contributions mainly relate to the projects like sinking

and repair of tube wells and construction of morum roads. Here also we observe that only households of GP Bagnan I have contributed to the Panchayats in terms of fees of Rs 101 and above (Table 1.3).

**Table 1.3 Frequency Distribution of Households by Payment of Fees to GP (Rs)**

Amount of Fees(Rs)	Bagnan I			Bagnan II			Bainan			Grand Total
	Hijlak	Tenpu rnabasan	Total	Chandrapur	Khadinan	Total	Karia	Khajutti	Total	
	(V <sub>i</sub> )	(V <sub>ii</sub> )		(V <sub>iii</sub> )	(V <sub>iv</sub> )		(V <sub>v</sub> )	(V <sub>vi</sub> )		
0-10	2	5	7	4	3	7	3	2	5	19
11--30	4	2	6	2	5	7	1	1	2	15
31-50	1	1	2	5	0	5	2	1	3	10
51-70	2	2	4	1	1	2	0	0	0	6
71-100	2	1	3	2	1	3	0	0	0	6
101 & above	1	0	1	0	0	0	0	0	0	1
Total	12	11	23	14	10	24	6	3	10	57

Source: Household Survey

Per Capita Payment : Per capita payment (PCP) in the form of tax and fees etc. varies widely across the selected households of the sample villages. PCP is the ratio of total tax and non-tax payment to total population of selected households. Since these villages vary widely in respect of PCP to Panchayats, we may relate this variation in PCP to PCI, NWF and PLH at the village level (Table 1.4).

**Table 1.8 Per Capita Payment to Gram Panchayat in Relation to Per Capita Income of Sample Households, Percentage of Non-Farm Workers and Per Capita Landholding in Six Sample Villages**

Villages	Per Capita Payment (Rs)	Per Capita income (Rs)	Percentage of NFW to Total Worker	per capita land holding (Katha)
v1	32.7	3200	63.89	1.10
v2	35.4	3800	72.41	1.55
v3	30.5	3100	53.85	0.93
v4	20.2	2700	48.15	0.76
v5	10.4	1800	31.14	0.43
v6	15.6	2200	45.26	0.66

Notes: NFW = Non-Farm Worker. 1Katha = 1.65 Decimal

It is observed that the PCP is highest in village 1 followed by village 2 and village 3, the lowest value being witnessed in village 5 led by village 6 and village 4. PCI, PCL and NFW are seen to be highest in village 2 followed by village 1, the lowest being observed in village 5 led by village 6 and village 4. Intuitively, there appears to be high correlation between the pairs of these values of the variables.

Correlation Matrix concerning per capita payment (PCP) to Gram Panchayat, per capita income (PCI) of sample households, percentage of non-farm workers (% of NFW) and per capita landholding (PCL) is shown in Table 1.5. It is observed that all the correlation coefficients presented in Table 1.9 are statistically significant at 1 per cent level.

**Table. 5 Correlation Matrix concerning PCP, PCI, PCL and NFW**

Variables	PCP	PCI	NFW	PCL
PCP	1			
PCI	0.973**	1		
NFW	0.951**	0.97**	1	
PCL	0.921**	0.968**	0.975**	1

Notes: \*\*Indicates 1% level of significant.

The variation in PCP is explained by PCI and PCL jointly to the extent of 92 per cent. The coefficient of the variable PCI is significant at 10 per cent level. The variation in PCP is significantly explained by PCI, PCL and NFW separately (Table 1.6).

**Table 1.6 Regressions Equations Concerning Six Sample Villages**

Regressions Equations	R <sup>2</sup>	Adj R <sup>2</sup>	F
PCP = -19.08 + 0.018*PCI - 8.8PCL (0.115) (2.65) (-0.69)	0.95	0.92	31.6**
PCP = -14.2 + 0.014**PCI (-3.05) (8.5)	0.95	0.93	72.1**
PCP = 2.40 + 24.01**PCL (0.486) (4.7)	0.84	0.81	22.3**
PCP = -10.8 + 0.66**NFW (-1.8) (6.12)	0.9	0.88	37.5**

Notes: PCP = Per Capita Payment. PCI = Per Capita Income. NFW = Percentage of Non-Farm Workers. PCL = Per Capita Land holding.

1 Katha = 1.65 Decimal

\*\* Indicates significance at 1% level.\* Indicates significance at 10 % level.

Per capita income and percentage of non-farm workers are treated as economic factors and per capita land holding may be treated as institutional factor. Thus the economic and institutional problems constitute the major constraints on the own resource mobilization of Panchayats of Howrah district of West Bengal. Alternatively we may go for

considering the values of the above-mentioned four variables at the household level direct and finding out the relationships among these variables.

Percentage distribution of sample 300 households by classes of per capita payment to Gram Panchayat, per capita income, per capita land holding and percentage of non-farm workers is shown in Table 1.7.

**Table 1.7 Percentage Distribution of Sample 300 Households by Classes of Per Capita Payment to Gram Panchayat, Per Capita Income, Per Capita Land Holding and Percentage of Non-Farm workers**

Class of Per capita payment (Rs)	Percentage of HHs	Class of Per capita Income(Rs)	Percentage of HHs	Class of Percentage of Non-farm Workers	Percentage of HHs	Class of Per Capita Land Holding (Katha)	Percentage of HHs
0.5-9.9	65.7	Below 1000	27.7	Below 50.0	50.0	Below 0.5	78.0
10-29.9	27.3	1000-4999.99	48.7	50.0-74.9	32.7	0.5-0.99	15.0
30-49.9	4.0	5000-9999.9	21.0	75.0-99.9	15.0	1-1.499	4.3
50 and above	3.0	10000 and above	2.7	100.0	2.3	1.5 And Above	2.7
Total	100	Total	100	Total	100	Total	100

Notes: 1 Katha= 1.65 Decimal, HHs =Households. Source: Household Survey.

It is observed that most of the sample households belong to the class of PCP below Rs 10, to the class of PCL below 0.5 katha, to the class of NFW below 75 per cent and PCI below Rs 5000. These class-wise distributions of PCP, PCI, NFW and PCL may be correlated. It is observed that correlation coefficients between PCP and PCI, PCP and PCL and PCP and NFW classes are 0.98, 0.96 and 0.95 respectively, which are significant at 1 per cent level.



The results of the regression equations concerning the PCP as a function of PCI, PCL and NFW for 300 sample households are presented in Table 1.8. The adjusted  $R^2$  and F of the estimated regression equation are such that the relevant regression model is fitted to the data set. The result of the regression equation concerning per capita payment to the Panchayats indicates that the variation in PCP is positively and significantly explained by per capita income (PCI), percentage of non farm workers to the total workers (NFW) and per capita land holding (PLH) to the extent of 86 per cent. The model is significant at 1% level. High level of per capita income, per capita land holding and high percentage of non-farm workers lead to economic prosperity of the households. Per capita payment of households to the Panchayat is positively influenced by the economic prosperity of the households.

**Table 1. 8 Regression equation Concerning PCP by 300 sample households**

Regression Equation	F-value	$R^2$	adj $R^2$
$PCP = -201.4 + 0.002^{**}PCI + 2.24^{**}NFW + 0.78^{**}PLH$ (-13.3)      (13.2)      (7.4)      (4.6)	633.7**	87%	86%

Notes: \*\*1% level of significance.

The values within parenthesis indicate 't' ratios.

**Summary:** Amount of fees and Taxes paid by the sample households to Gram Panchayats is meager. Voluntary contribution of the sample households for completion of development projects in terms of payment in kind or money has been either zero or very meager. Their contributions mainly relate to the projects like sinking and repair of tube wells and construction of morum roads. Here also we observe that only households of GP Bagnan I, the relatively developed one, have contributed much to the Panchayats.

Per capita payment (PCP) in the form of tax and fees etc. varies widely across the selected households of the sample villages. Correlation Matrix concerning PCP of Gram Panchayat, per capita income of sample households, percentage of non-farm workers and per capita landholding shows that all the correlation coefficients were statistically significant at 1 per cent level.

The variation in PCP was positively and significantly explained by per capita income (PCI), percentage of non-farm workers to total workers (NFW) and per capita land holding (PLH) to the extent of 86 per cent. The model was significant at 1% level. Thus the tax revenue of Panchayats is significantly related to the economic conditions of the households under Panchayats. Hence the economic and institutional problems constitute the major constraints of the own resource mobilization of Panchayats of Howrah district of West Bengal.

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