



**REPORT**

**OF**

**THE LOCAL FINANCE ENQUIRY  
COMMITTEE**

**PUBLISHED BY THE MANAGER OF PUBLICATIONS, DELHI  
PRINTED BY THE MANAGER P. B. I. PRESS, NEW DELHI**

**1951**

*Price Rs. 4/2/- or 6 sh. 6 d.*



30 JUL 1951

**REPORT**

**OF**

**THE LOCAL FINANCE ENQUIRY  
COMMITTEE**

PUBLISHED BY THE MANAGER OF PUBLICATIONS, DELHI  
PRINTED BY THE MANAGER P. B. I. PRESS, NEW DELHI  
1951

## TABLE OF CONTENTS

	Paragraph	Page
CHAPTER I.—APPOINTMENT AND TERMS OF REFERENCE OF THE COMMITTEE	1—21	1—6
CHAPTER II.—HISTORY OF LOCAL FINANCE	22—99	7—52
✓ Lord Mayo's Resolution of 1870	26—28	
Lord Ripon's Resolution of 1882 ✓	29—32	
Functions of Municipalities in Lord Ripon's time ✓	33	
Financial resources of Municipalities in Lord Ripon's time ✓	34	
Functions and financial resources of rural boards in Lord Ripon's time	35	
Govt. of India Resolution of 1896	36	
Municipal income ✓	37—38	
Municipal expenditure ✓	39	
Govt. of India Resolution of 1897	40	
Income of Rural Boards (1895-96)	41	
Expenditure of Rural Boards (1895-96)	43	
The Decentralisation Commission (1907-08)	44	
Mr. Gokhale's Resolution in the Indian Legislative Council	47	
Govt. of India Resolution, 1915	48	
Municipal income and expenditure (1912-13) ✓	50	
Municipal Taxation (1912-13) ✓	51	
Municipal control over services	54	
Control over Municipal Budgets	55	
Control over sanction to works	56	
Control over municipal establishment	57	
Finances of District Boards ✓	58	
Income and expenditure of District Boards ✓	60	
Power to raise cesses	61	
Control over district board budgets	62	
Control over sanctions to works	63	
Control of district boards over establishments	64	
Functions and finances of village panchayats	65	
The Declaration of 20th August, 1917	66	
The Montagu-Chelmsford Report ✓	67	
Govt. of India Resolution of May, 1918	69	
The Simon Commission Report	71	
The Govt. of India Act, 1935 and after	77	
Incidence of taxation and total income (per capita) 1946-47 ✓	82	
Incidence of taxation and income—City Corporations (1894-95 to 1947-48)	83	
Inadequacy of financial resources of local bodies ✓	84	
Elementary Education	85	
Roads	86	
Water Supply	87	
Sanitation	87	
Medical Relief	91—93	
CHAPTER III.—FUNCTIONS AND FINANCIAL RESOURCES OF LOCAL BODIES	100—126	53—59
Education	106	
Public Health & Sanitation	107	
Medical Relief	108	
Public Works	109	
Rural Boards	110—126	
CHAPTER IV.—POWER OF TAXATION	127—161	60—67
Position before Govt. of India Act, 1919	127	
Position after Govt. of India Act, 1919	128—129	

## CONTENTS

	Paragraph	Page
Position under Govt. of India Act, 1935 ✓	130	
Position under the present Constitution and recom- mendation ✓	131	
Present position of power taxation in various States ✓	132-158	
General observations ✓	159-161	
<b>CHAPTER V.—PROPERTY TAX—GENERAL ✓</b>	<b>162-345</b>	<b>68-116</b>
<b>PART I.</b>		
Position regarding levy of property tax	162-168	
Income	169	
Rates	171-177	
Compulsory levy of property tax	178	
Recommendations regarding rates, maximum and minimum; and progressiv scale	179-181	
Exemptions from property tax	182-189	
Vacancy remissions	190-194	
Basis of assessment and valuation	195-212	
Machinery of assessment, revision and appeal	213-227	
Revision of assessment	228	
Assessment of properties belonging to executive authorities	229	
Right of appeal to local bodies	230	
Creation of a Central Valuation Organization	232-234	
<b>PART II.</b>		
Madras	236-247	
Bombay	248-262	
West Bengal	263-270	
Uttar Pradesh	271-284	
Punjab	285-300	
Bihar	301-319	
Orissa	320-323	
Madhya Pradesh	324-335	
Assam	336-345	
<b>CHAPTER VI. PROPERTY TAX—SERVICE TAXES ✓</b>	<b>346-427</b>	<b>117-136</b>
General	346-348	
Water Rate	349-373	
Lighting Rate	374-391	
Drainage Rate	392-405	
Latrine Rate	406-421	
Recommendations	423-427	
<b>CHAPTER VII.—LOCAL FUND CESS ✓</b>	<b>428-449</b>	<b>137-144</b>
Levy of cess and the basis of assessment	428-433	
Income	434-535	
Rates of cess in each State and recommendations regarding	434-446	
Abolition of zamindari and its effect on cess	447-449	
<b>CHAPTER VIII.—OCTROI AND TERMINAL TAXES ✓</b>	<b>450-485</b>	<b>145-158</b>
History of octroi upto the G. of I. Act, 1919	450-462	
Position of octroi and terminal taxes under G. of I. Act, 1919	463-465	
Terminal taxes under the G. of I. Act, 1935	466	
Terminal taxes under the Constitution	467-470	
Recommendation for retransferring Terminal taxes to the State List	471	
Recommendations	472-473	
Present position regarding levy of octroi in various States	474-475	
Bombay ✓	476-478	
Levy of octroi on Government trading enterprises	479	
Levy of octroi on articles received through post	480-482	
Uttar Pradesh	483	
Madhya Pradesh	484	
Punjab	485	



## CONTENTS

	Paragraph	Page
<b>CHAPTER IX—PROFESSION TAX</b>	<b>486—515</b>	<b>159—173</b>
Constitutional limitations on the levy of profession tax	487—496	
Position in each State	497—505	
Income	506	
Basis of assessment	507—511	
Recommendations	512—513	
Compulsory levy basis of assessment	514	
Agency for assessment and collection	515	
<b>CHAPTER X—LICENCE FEES</b>	<b>516—523</b>	<b>174—178</b>
Income	517	
Position in each State	518	
General Observations	519	
Municipal monopoly of markets	520	
Licensing to be self-supporting	521	
Periodical review of fees for licences	522	
Distinction between licensee fee and tax	523	
<b>CHAPTER XI—TAXATION OF RAILWAYS</b>	<b>524—548</b>	<b>179—190</b>
Difficulty of valuing Railways	524	
Railways Act, 1890	525	
Enunciation of policy, 1901	527	
Declaration of policy, 1907	528	
Change of attitude	529	
G. of I. Act, 1935 and after	530	
Railways (Local Authorities Taxation) Act, 1941	531	
Present policy of the Railway Board	532	
Criterion of 'services rendered'	533	
Position under the Constitution	534	
Railway Board's Memorandum of 1948	535—536	
Position in other countries	537—538	
Present system of assessment of Railway properties	539	
British system of valuation of Railways	540—544	
U. K. Local Government Act, 1948	545	
Recommendations	546—548	
<b>CHAPTER XII—TAXATION OF GOVERNMENT PROPERTY</b>	<b>549—563</b>	<b>191—198</b>
Position before G. of I. Act, 1935	550	
Position under G. of I. Act, 1935	551	
Position under the Constitution	552	
Position in other countries	553—555	
Arguments against local taxation of Union Government property	356	
Arguments in favour of local taxation of Union Government property	557—558	
Observations and Recommendations	559—561	
Betterment levy of Union property	563	
<b>CHAPTER XIII—TAXATION OF PORT TRUST PROPERTIES</b>	<b>564—576</b>	<b>199—206</b>
Madras	566—567	
Calcutta	568—570	
Bombay	571—575	
General	576	
<b>CHAPTER XIV—TAXATION OF FLOATING POPULATION</b>	<b>577—584</b>	<b>207—210</b>
Tax on Railway passengers	582	
Hotel tax	583	
Tax on Food Ration Cards	584	
<b>CHAPTER XV—TAXATION OF MINES</b>	<b>585—594</b>	<b>211—213</b>
Basis of assessment	586	
Mining Boards	587	
Special cesses for Mining Boards	588	
Special laws	589	
General Observations	590—593	
Quarries	594	

CONTENTS

	Paragraph	Page
<b>CHAPTER XVI—COLLECTION OF TAXES</b>	<b>595—606</b>	<b>214—223</b>
Position State-wise	595—596	
Need for improvement in collections	597—598	
Levy of penal interest	599	
Coercive processes	600—601	
Need for improving the efficiency of financial personnel	602—604	
Disqualification of members of local bodies in arrears	605—606	
<b>CHAPTER XVII—GRANTS-IN-AID AND ASSIGNMENTS OF REVENUE</b>	<b>607—639</b>	<b>224—237</b>
General	607—609	
Grants-in-aid in England	610—614	
U. K. Local Government Act, 1929	615	
U. K. Local Government Act, 1948	616	
General Exchequer grants and transitional grants.	617	
Grants in India	618	
Madras	619	
Bombay	610	
West Bengal	621	
Uttar Pradesh	622	
Punjab	623	
Bihar	624	
Orissa	625	
Madhya Pradesh	626	
Assam	627	
General Observations	628—631	
Assignment and sharing of Provincial Taxes	632—637	
Grants to supplement assigned taxes	638	
Information about grants-in-aid	639	
<b>CHAPTER XVIII—EDUCATION</b>	<b>640—658</b>	<b>238—253</b>
General	640—642	
Madras	643—644	
Bombay	645—646	
West Bengal	647—648	
Uttar Pradesh	649	
Punjab	650—651	
Bihar	652—653	
Orissa	654—655	
Madhya Pradesh	656—657	
Assam	658	
<b>CHAPTER XIX—MEDICAL AND PUBLIC HEALTH</b>	<b>659—675</b>	<b>254—264</b>
General	659—660	
Total expenditure	661	
Per Capita Expenditure (Urban)	662	
Per Capita Expenditure (Rural)	663	
Government assistance	664	
Madras	665	
Bombay	666	
West Bengal	667	
Uttar Pradesh	668	
Punjab	669	
Bihar	670	
Orissa	671	
Madhya Pradesh	672	
Assam	673	
General Observations	674—675	
<b>CHAPTER XX—COMMUNICATIONS</b>	<b>676—702</b>	<b>265—274</b>
General	676—677	
Road Mileage Statistics	678	
Statewise positions regarding grants for communications :—		
Madras	679—680	
Bombay	681—682	

CONTENTS

	Paragraph	Page
West Bengal	683—685	
Uttar Pradesh	686—687	
Punjab	688	
Bihar	689	
Orissa	690	
Madhya Pradesh	691	
Assam	692	
Need for prescription of standards of road maintenance	693	
Tax on Bullock Carts	694—695	
Tax on Road Transport	696	
Tax on Rickshaws	697	
Payment of compensation from Motor Vehicles Tax	698	
Extraordinary damage to local roads during the war and partition	699—702	
<b>CHAPTER XXI—FINANCES OF IMPROVEMENT TRUSTS/DEVELOPMENT BOARDS</b>	<b>703—714</b>	<b>275—282</b>
General	703	
History of Improvement Trusts	704	
Finances	705—708	
Financial aid for Housing in other countries	709	
Recommendations	710—714	
<b>CHAPTER XXII—FINANCES OF VILLAGE PANCHAYATS</b>	<b>715—732</b>	<b>283—295</b>
General	715	
Constitution	716	
Functions	717	
Finances	718—728	
General Observations & Recommendations	728—732	
<b>CHAPTER XXIII—FINANCES OF CITY CORPORATIONS</b>	<b>733—759</b>	<b>296—321</b>
Madras	733—741	
Bombay	742—749	
Calcutta	750—759	
<b>CHAPTER XXIV—PUBLIC UTILITY UNDERTAKINGS</b>	<b>760—776</b>	<b>322—326</b>
General	760—762	
Transport	763—766	
Cinemas, etc.	767	
Electricity Distribution	768—776	
<b>CHAPTER XXV—BORROWINGS</b>	<b>777—794</b>	<b>327—332</b>
General	777	
Local Authorities Loans Act, 1914 and Rules	778—786	
Ways and Means Advances	787	
Rate of Interest	788	
Repayment	789	
Position of securities of local bodies as 'trustee securities'	790—792	
Municipal Banking	793—794	
<b>CHAPTER XXVI—AUDIT</b>	<b>795—811</b>	<b>333—337</b>
General	795—797	
Internal Audit	798—802	
Extension of scope of audit	803	
Surcharge	804—811	
<b>CHAPTER XXVII—BUDGET</b>	<b>812—846</b>	<b>338—354</b>
Power to sanction budgets	813—821	
Allotment of fixed proportions of revenue to particular objects	822	
Power of sanction to works expenditure	823	
Investment of funds	824	
Control over establishment	825—834	
General Observations	835—846	
Minute of dissent by Shri S. N. Sapru		

## CONTENTS

---

	Page
Minute of dissent by Shri M. B. L. Dar	356
Minute of dissent by Shri Chunilal D. Burfiwala	357—453
Minute of dissent by Shri P. B. Gole	454
Minute of dissent by Shri R. K. Sidhva	455—461
Minute of dissent by Shri R. D. Kapila	462—485
Summary of Recommendations	487—502
Appendices (General)	I—XXXVI
Statistical Appendices	XXXVII—CXV

# REPORT OF THE LOCAL FINANCE ENQUIRY COMMITTEE

## CHAPTER I

### APPOINTMENT AND TERMS OF REFERENCE OF THE COMMITTEE

A conference of Provincial Local Self-Government Ministers was held at New Delhi on the 6th and 7th August, 1948 under the Chairmanship of the Honourable Minister of Health, to consider various matters relating to local bodies in the Country. The conference was inaugurated by the Honourable the Prime Minister. In the course of his address, he said :—

“Local Self-Government is, and must be, the basis of any true system of democracy. We have got rather into the habit of thinking of democracy at the top and not so much below. Democracy at the top will not be a success unless it is built on this foundation from below.”

It is obvious that no system of local self-Government can be successful unless it is provided with adequate finance.

In his presidential address to the Provincial Local Bodies Conference at Surat in 1935, the (Honourable) Sardar Vallabhbhai Patel, (who was Chairman of the Ahmedabad Municipality) said :—

“It is being said that the franchise of the electorate has been enlarged and the local bodies have been given very wide powers. True, I accept it. But what good would come out of it unless and until the question of local finances is settled first. The extension of franchise and widening the scope of duties would be like dressing a dead woman.”

In her opening address to the Ministers' Conference (1948), the Honourable Rajkumari Amrit Kaur, Minister of Health, said :—

“It is almost always explained that local bodies have not been able to discharge properly the numerous and important functions devolving on them because their financial resources are slender. While this is no doubt largely true, I am not sure whether it can be claimed that local bodies everywhere have been careful to mobilise all their resources carefully and to use them in the best manner possible for the good of the community. You must all be aware of the criticism that in many local bodies under-assessment of taxation is a serious evil and in many places the authorities fail even to collect in full the taxes actually assessed, leaving large arrears uncollected. As no organisation can function properly without adequate finance, it is obviously essential for local authorities to see that their taxes are properly assessed and collected.”

2. One of the points on the agenda of the Conference was :—  
“Finances of Local Bodies.

(a) Review of existing sources of local board revenue and suggestions for improvement.

(b) Should Government subsidize local bodies? If so, to what extent

When this item came up for discussion, representatives from various provinces dwelt on the financial position of local bodies in their respective areas and made suggestions for improving their financial condition. As conditions vary widely from province to province, the Conference felt that the problem required more detailed study. It accordingly passed the following resolution :—

“The Conference agrees that the financial resources of the local bodies are inadequate. It is also recognised that even the available resources are not fully utilised, the evils of under-assessment and failure to collect taxes in full being widespread.

In view of the complexity of the problem of local finance the Conference recommends that the Central Government should appoint a committee to enquire into the question of the finances of local bodies and to make recommendations for the improvement of local finance.”

3. **Appointment of the Committee.**—In pursuance of the above resolution, the Government of India in the Ministry of Health were pleased to constitute under their letter No. 13-7/48-63 LSG, dated the 2nd April 1949, a Committee in the following terms :

“I am directed to say that in pursuance of a resolution passed by the Local Self-Government Ministers' Conference held at New Delhi in August 1948, the Government of India are pleased to constitute a Committee to be known as the Local Finance Enquiry Committee, which will be composed of the undermentioned persons :—

**Chairman :**

Shri P. K. Wattal (Retired Accountant General)

**Members :**

1. Shri R. K. Sidhya, Member, Constituent Assembly of India, New Delhi.
2. Shri C. D. Barfiwala, Director, Local Self-Government Institute, Bombay.
3. Shri Rameshwar Narain Agarwala, Chairman, Bhagalpur Municipality, United Press Buildings, Bhagalpur City (Bihar).
4. Shri T. K. T. Veeraraghavachariar, Retired District Board Engineer, Gandhi Road, Chittoor, Madras.
5. Shri P. B. Gole, President, Akola Municipality, Akola (C. P. & Berar).
6. Shri R. D. Kapila Secretary, Local Self-Government Reforms Committee, East Punjab, Kennedy House, Simla.

APPOINTMENT AND TERMS OF REFERENCE OF THE COMMITTEE

7. Shri L. T. Gholap I. C. S.,  
Secretary to the Government of Bombay,  
Health and Local Self-Government  
Department, Bombay.
8. Shri M. B.L. Dar, Secretary to the  
Government of the United Provinces,  
Health and Local Self-Government  
Department, Lucknow.
9. One more member whose name will be communicated later.

**Secretary :**

Shri Labhu Ram Mehra.  
(Retd. Assistant Examiner, Local Fund Accounts),  
27, Todar Mal Lane, New Delhi.

2. The terms of reference of the Committee are as follows :—  
To enquire into the question of the finances of local bodies  
and to make recommendations for the improvement of local  
finance and for that purpose,
  - (1) to examine whether the existing-resources are adequate  
for the performance of the functions assigned to the  
local bodies and to consider whether and, if so, what  
further sources of revenue should be provided ;
  - (2) to examine the methods of Government assistance to  
local bodies ;
  - (3) to examine the existing machinery and methods of (i)  
assessment and (ii) collection of taxes."

4. Since the constitution of the Committee the following additions and alterations in personnel have taken place :—

(1) Shri S. K. Gupta, I.C.S., Secretary to the Government of West Bengal, Local Self-Government was appointed as a member of the Committee,

(2) On the resignation of Shri T. K. T. Veerarayachariar, Shri K. A. Nachiappa Gounder, M. L. A. of Salem (Madras) was appointed in his place.

(3) On his appointment as Chairman, Bombay Port Trust, Shri L. T. Gholap, I. C. S. resigned his membership and in his place Shri B. D. Mirchandani, I.C.S., Secretary to Government of Bombay, Health and Local Government Department, was appointed.

(4) Consequent on the inclusion of Improvement Trusts within the scope of the Committee, the membership was increased and Shri S.N. Sapru, Chairman Delhi Improvement Trust, was appointed as a member of the Committee in Government of India, Ministry of Health, letter No. D. 2875(5)—LSG/49 dated the 21st September, 1949.

Shri Labhu Ram Mehra could not join his duties as Secretary and was replaced by Shri D. P. Gupta, Retired Assistant Examiner of Local Fund Accounts, Uttar Pradesh. Shri Gupta worked as Secretary from 6th May 1949 to 22nd October, 1949. He was succeeded by Shri Dayaldas Sobhraj Parwani, Retired Assistant Secretary to the Government of Sind. Shri Parwani joined on the 27th October, 1949.

(5) The membership of the Committee was increased by the appointment of Raizada Hansraj of Jullundur but he expressed his inability to serve on the Committee. In his place, Shri Yashwant Rai, M. P. was appointed but he also resigned soon after his appointment.

5. The Chairman took over charge of his duties on 14th April, 1950. The selection of office personnel took a little time and it was not till the 2nd May, 1949 that the office of the Committee began to function. The headquarters of the Committee were fixed at Simla by the Government of India.

6. The first session of the Committee was held on the 9th and 10 May, 1949 at Simla. At these meetings the questionnaire was approved for issue. A copy of the questionnaire is appended to this report (Appendix—I). On the receipt of the decision of the Government of India that Improvement Trusts should also be included within the scope of the enquiry, a supplementary questionnaire was issued. A copy of this is also appended (Appendix—I-A).

7. 4000 copies of the questionnaire were printed and 3400 actually issued to State Governments, local bodies, Chambers of Commerce, Universities, District Officers, Commissioners of Divisions, Heads of Provincial Departments concerned with local bodies members of the Constituent Assembly of India and the Provincial Legislatures and other non-officials interested in local finance.

8. The subject of local taxation of Central Government and Railway properties was particularly included in the questionnaire in pursuance of an understanding reached at the Local Self-Government Ministers' Conference that this question would also be referred to this Committee. The subject is of importance from the point of view of local finance.

9. A question arose as to what local bodies should be included within the scope of the enquiry, particularly whether the enquiry should be confined to municipalities and rural boards, omitting the finances of primary units like village panchayats. The Committee held that the enquiry should include all units of local self-government from City Corporations down to village panchayats.

10. The Government of India in their letter No. D. 1395-LSG/49 dated the 20th August, 1949 informed the Committee that the terms "local bodies" occurring in the terms of reference should be interpreted to include Improvement Trusts. Improvement Trusts in various parts of the country were informed of this decision and requested to send replies to the supplementary questionnaire specially framed in respect of them.

11. During the course of evidence, certain proposals were made for altering the structure of local bodies as constituted at present. It was suggested that these alterations would result in economy in working. A doubt arose whether such proposals came within the terms of reference of the Committee. A reference was accordingly made to the Government of India in letter No. 6-36/49-LFEC dated the 21st December, 1949. The Government of India in their reply No. 5007-LSG/49 dated the 7th January 1950 ruled that the Committee should frame its recommendations on the basis of the existing structure of local bodies. A copy of the letter to the Government of India and their reply thereto are reproduced as appendices to this report (Appendices II and II-A).

12. At its meeting held on the 9th May, 1949, the Committee considered what territorial units should be included within its purview. The committee was not clear whether the scope of the enquiry was to include centrally administered areas other than the Chief Commissionerships of Delhi, Ajmer-Merwara and Coorg, such as Himachal Pradesh and States Unions. A reference was accordingly made to the Government of India for a ruling on this point. The Government of India decided that the scope of the enquiry of the Committee should not be extended to either those Indian States which now form centrally administered areas or those which have combined to form Unions of States.



## APPOINTMENT AND TERMS OF REFERENCE OF THE COMMITTEE

---

13. In regard to the above decision a further question arose whether States which had been merged in provinces were or were not included within the scope of enquiry of the Committee. The point was referred to the Government of India, who ruled that the scope of the enquiry should include such merged States. The Government of India, however, directed that such enquiry should be undertaken by the Committee only after it had been ascertained from the provinces concerned that there were local bodies in the merged States, whose finances the Committee could usefully enquire into. Action was duly taken on these lines and evidence from merged States was received in Bombay and Cuttack.

14. The Committee allowed a period of two months for the submission of replies to the questionnaire, but the number of replies received at the end of this period, i.e., by the end of August 1949, was so small and the material at the disposal of the Committee for the pursuit of its enquiry so scanty that work had to be held up and special reminders issued to expedite replies. After a sufficient number of replies was received, the Committee framed its tour programme, issued invitations to selected officials and non-officials from whom written memoranda had been received and informed the State Governments of their impending visit to their capitals. The State Governments were requested to make arrangements for the holding of the meetings of the Committee and particularly to allow officials to give evidence before the Committee as well as to select other non-officials, who, in their opinion, could give useful evidence to the Committee.

15. The Committee proceeded on tour on the 7th December, 1949 and visited all the major (Part A) States by 31st March, 1950. A copy of the tour programme of the Committee together with a list of witnesses examined at each place is appended to this report (Appendices III & IV). Representatives of Coorg were examined in Madras, and representatives of Ajmer-Merwara and Delhi were examined in Delhi.

16. During the course of its tour the Committee held informal discussions with the Hon'ble Chief Minister and the Finance and Local Self-Government Ministers of each State. We are grateful to them for giving us the benefit of their first-hand knowledge of conditions of local bodies and their finances.

17. The Committee examined representatives of Finance, Local Self-Government, Education, Public Health and Public Works Departments in each State. In addition the Chairmen of Improvement Trusts and Development Boards, the executive heads of departments connected with local bodies, such as Directors of Public Instruction, Director of Public Health, Inspectors of Local Bodies, Directors and Assistant Directors of Panchayats, Commissioners of Divisions and selected Deputy Commissioners and District Collectors were also examined. Among non-officials, the Committee had the advantage of receiving the evidence of Shri Bijoy Prasad Singh Roy and Shri Ananda Prasad Chaudhury, Ex-Ministers of Local Self-Government in Bengal and the Mayors of Bombay and Madras, Shri S. K. Patil and Dr. P. V. Cheriyan. The Administrative Officer, Calcutta Corporation and the Municipal Commissioners of the City Corporations of Bombay and Madras also gave evidence on points specially concerning their respective Corporations. The Chairmen and Executive Officers of important municipalities and District Boards also helped the Committee. The Committee wish to thank them as well as other witnesses for helping the Committee in their investigation by sending written memoranda or giving oral evidence.

18. In Madras, Uttar Pradesh and West Bengal the Committee found that the State Governments had already appointed Committees of their own to deal with questions affecting local bodies in their respective areas. For instance, the Corporation of Calcutta Investigation Commission, whose report has already been published, dealt *inter alia* with the question of the finances of the Calcutta

## CHAPTER I

---

Corporation. Similarly, the Madras Municipal Reforms Committee, appointed by the Government of Madras, had within its terms of reference the improvement of the finances of local bodies in that State. Likewise, the Uttar Pradesh Government had appointed a Grant-in-aid Committee.

19. The Committee felt that it would be useful to exchange views with these Committees and requested the State Governments concerned to arrange meetings with them. The Committee is grateful to the State Governments as well as to the Committees mentioned above for agreeing to this request. We had full and frank exchanges of views with them.

20. The Committee also wishes to place on record its grateful thanks for the various facilities extended to it by State Governments without which it would not have been possible to complete the work within the time at its disposal.

21. We are also indebted to the International Union of Local Authorities, 5, Paleisstraat, The Hague, for very valuable assistance in sending literature, brochures and special notes in response to our requests for information on various points concerning local finance in foreign countries. The British and U.S. Information Services in New Delhi also helped us by collecting information and allowing the use of their libraries. Our grateful thanks are due to them.

## CHAPTER II

### HISTORY OF LOCAL FINANCE

22. Municipal government flourished in cities in ancient India but, in the sense in which it is understood today, it was first introduced in the town of Madras in the days of the East India Company. In 1687, the Court of Directors, acting on authority delegated to them by King James II of Great Britain, ordered that a corporation composed of British and Indian members, should be formed for purposes of local taxation. Funds were needed for the carrying on of administration, and it was felt that it would be easier to collect taxes if Indians were associated in some manner with their imposition. This corporation was formed on the model of similar institutions then existing in England. It was empowered to levy taxes for the building of a guildhall and a jail and a school house; for "such further ornaments and edifices as shall be thought convenient for the honour, interest, ornaments, security and defence" of the Corporation and inhabitants; and for the payment of the salaries of the municipal officers, including a schoolmaster. The experiment had a brief and unsuccessful trial. The people strenuously resisted the imposition of anything in the nature of a direct tax. The town hall, schools and sewers, which were to have been the first work of the new Corporation, could not be undertaken and the Mayor had to ask for permission to levy an octroi duty on certain articles of consumption in order that he might provide the necessary funds for cleaning the streets. A charter of 1726 superseded the Corporation by a Mayor's Court, which was more a judicial than an administrative body. Similar institutions were introduced in Bombay and Calcutta in 1726, but it was not until 1793 that the municipal administrations were placed on a statutory basis by the Charter Act of that year. This Act empowered the Governor-General to appoint justices of the Peace for the towns of Madras, Bombay and Calcutta. These Justices of the Peace were authorised to levy taxes on houses and lands to meet the cost of scavenging, police and maintenance of the roads. A uniform system of fixing the house tax at 5 per cent. of the annual rental value was introduced for the three Presidency towns. This method of assessment was borrowed from the English municipal system prevalent at the time. Though the rates have varied, the basis of assessment remains the same to this day, namely, the annual value.

23. The introduction of municipal institutions in mofussil towns began with the Bengal Act of 1842. This Act was applicable only to Bengal and was passed to enable "the inhabitants of any place of public resort or residence to make better provision for purposes connected with public health and convenience". It, however, proved inoperative since it was based upon the voluntary principle and its introduction in any town required the application of two-thirds of the householders. The taxation enforceable under it was of a direct character and for this reason also the law nowhere met with popular acceptance. It was introduced in one town, and there the inhabitants, when called on to pay the tax, not only refused but prosecuted the Collector for trespass when he attempted to levy it. The authorities were by this time convinced of the futility of direct taxation for local purposes. Accordingly, 1850 a new Act was passed, which was applicable to the whole of India. This Act also was permissive in nature, but it was more workable than its predecessor and, unlike it, made provision for the levy of indirect taxes, to which the people of the country were accustomed from time immemorial. It was largely used in several towns in the North-Western Provinces and Bombay, while in Madras and Bengal it had practically no effect. In Bombay the success of the Act was due to the fact that the taxes collected under it found their prototype in those levied by the Mahratta Government under the designation of town duties and

mohturfa\*. It was not utilised in Madras, where voluntary associations for sanitary and other municipal purposes took the place of regularly constituted municipalities. In Bengal, the Town Police Act of 1856 permitted the levy of taxation for conservancy purposes.

24. The next stage in the growth of municipalities owes its inauguration to the Report of the Royal Army Sanitary Commission published in 1863, which, though primarily dealing with army affairs, drew prominent attention to the filthy condition of the towns. In the six years following the publication of this report, a series of Acts were passed providing for a wider extension of municipal administration and a number of municipalities were constituted in every province. The Bengal, North-Western provinces and Punjab Acts made the election of members of municipal councils permissive, but, except in the Punjab and the Central Provinces, they were in fact all nominated.

25. In the meanwhile, a parallel development of local institutions in rural areas was taking place. Local funds had been established for local improvements for some time, but the levy of rates for local purposes was not authorised by statute in any part of India until 1865 when an Act authorising the imposition of a cess of one anna in the rupee on land and *sayer* (miscellaneous) revenue, and a tax on shops in Sind was passed. A similar Act was passed in Madras in 1866 authorising the Government to levy a road cess at 3½ per cent. on the annual rent of land. Bombay followed suit with Act III of 1869, providing for the creation of a local fund committee in each district, with the Collector of the district as president. These Committees were empowered to levy a cess of one anna in the rupee of land revenue and received certain other sources of revenue, and were to provide for the requirements of the district in regard to local public health, education and convenience. As a measure of local self-government these Acts did not go far, but they were of service in improving the sanitary condition of the areas concerned.

26. **Lord Mayo's Resolution of 1870.** Local self-government as a conscious process of administrative devolution and political education dates from the financial reforms of Lord Mayo's Government. The need for financial decentralisation as an aid to economy and efficiency of administration provided the occasion for a departure in policy. By resolution No. 3334 dated the 14th December, 1870, the Government of India made over to provincial governments certain departments of administration of which education, medical services and roads deserve particular mention, as they still constitute the principal activities of local bodies. The provincial governments were given a grant smaller than the actual expenditure on these departments and were required to meet the balance by local taxation. The beginnings of a system of local finance are thus to be found in the new scheme of provincial finance. As will be seen during the course of this review, many of the present day problems of local finance vis-a-vis provincial finance are similar in character to those which the provinces had to face in their dealings with the Government of India.

27. The resolution of Lord Mayo's Government went on to say :—

“Local interest, supervision, and care are necessary to success in the management of funds devoted to education, sanitation, medical relief, and local public works. The operation of this Resolution in its full meaning and integrity will afford opportunities for the development of self-government, for strengthening municipal institutions, and for the association of Natives and Europeans to a greater extent than heretofore in the administration of affairs.”

\* A general tax, which was also in a sense a house tax, was levied under the Mahrattas under the name of mohturpha [paragraph 421, Indian Taxation Committee Report].

28. To carry out this policy new municipal Acts were passed in all the provinces. In Madras the country was divided into local fund circles, and consultative boards nominated by the Government under the presidency of the Collector of the district were constituted to administer the affairs of these circles. The Bengal District Road Cess Act of 1871 was the first step in the direction of local self-government in rural Bengal. It provided for the levy of a rate on real property for the improvement of communications and for the establishment of local bodies the members of which might either be nominated or elected by the rate-payers. Similar Acts were passed in the North-Western Provinces (now Uttar Pradesh) and the Punjab.

29. **Lord Ripon's Resolution of 1882.** Matters stood thus when the Government of Lord Ripon issued their famous Resolution dated 18th May, 1882. Reviewing the progress made in local self-government since 1870, the Government of India pointed out that a large income from local rates and cesses had been secured and in some provinces the management of this income had been freely entrusted to local bodies. Municipalities had also increased in number and usefulness. But there was still, it was remarked, a greater inequality of progress in different parts of the country than varying local circumstances seemed to warrant. In many places services admirably adapted for local management were reserved in hands of the provincial administration, while everywhere heavy charges were levied on municipalities in connection with the police over which they had no executive control. A fresh step forward was, therefore, considered to be both desirable and necessary.

30. Lord Ripon's Government desired that provincial governments should apply to their financial relations with local bodies the principle of financial decentralisation which Lord Mayo had introduced and which had worked satisfactorily between the Government of India and the provinces. The provincial governments were invited to undertake a careful scrutiny of provincial, local and municipal accounts, with a view to ascertain :—

- (1) what items of receipt and charge could be transferred from 'Provincial' to 'Local' heads for administration by Committees comprising non-official and, wherever possible, elected members.
- (2) what re-distribution of items was desirable, in order to lay on local and municipal bodies those which were best understood and appreciated by the people.

It was added that incidentally to this scrutiny provincial governments would probably notice and might carefully consider.

- (3) ways of equalising local and municipal taxation throughout the Empire, checking severe or unsuitable imposts and favouring forms most in accordance with popular opinion or sentiment.

31. It was pointed out that it was not the intention of the Government of India that the proposed transfer of control of expenditure of a specially local character to local bodies should involve any addition to existing local burdens ; and it was therefore shown to be necessary to arrange for a simultaneous transfer of receipts sufficient to meet any net balance of additional expenditure which in any instance might arise. The receipts to be thus transferred should, it was suggested, be such as to afford a prospect that, by careful administration, with all the advantages due to local sympathy, experience and watchfulness, they would be susceptible of reasonable increase. In cases where larger assignments of funds were required, the receipts from cattle pounds, or a share of the assessed taxes collected within the jurisdiction of a local body, were indicated as suitable sources of revenue to be made over.

32. In consequence of the issue of this Resolution, Acts were passed in the provinces between 1883 and 1885 which greatly altered the constitution, powers and functions of municipal bodies. Arrangements were also made to increase municipal resources and financial responsibility. Municipal revenues were relieved of the charges for the maintenance of the town police\* in most provinces, on the understanding that they were to incur an equivalent expenditure on education, medical relief and local public works. At the same time some items of provincial revenue, suited to and capable of development under local management, were transferred from the provincial account, with a proportionate amount of provincial expenditure, for local objects.

33. **Functions of municipalities in Lord Ripon's time.** The primary functions of municipalities under the Acts passed during this period were :—

- (1) the construction, upkeep and lighting of streets and roads, and the provision and maintenance of public municipal buildings ;
- (2) public health, including medical relief, vaccination, sanitation, drainage and water-supply, and measures against epidemics ;
- (3) education.

34. **Financial resources of municipalities in Lord Ripon's time.** The principal sources of revenue were :—

- (1) octroi, principally in Northern India, Bombay and the Central Provinces (now Madhya Pradesh) ;
- (2) taxes on houses and lands in Madras, Bombay, Bengal, Burma and the Central Provinces (now Madhya Pradesh) ;
- (3) a tax on professions and trades in Madras and the United Provinces (now Uttar Pradesh) ;
- (4) road tolls in Madras, Bombay and Assam ;
- (5) taxes on carts and vehicles ;
- (6) rates and fees<sup>6</sup> for services rendered in the shape of conservancy, water supply, markets and schools.

35. **Functions and financial resources of rural boards in Lord Ripon's time.** The services entrusted to rural boards were similar to those made over to municipalities, the principal ones being communications, education and sanitation and, occasionally, famine relief.

The main income of these boards was derived from a cess on land, which was collected by Government agency along with the land revenue, the proceeds being subsequently adjusted to the credit of the boards. In some provinces, however, a portion of the cess was utilised for provincial purposes.

---

\*In accordance with the principle adopted by the Government of India in Resolution No. 2245 dated 31st August 1864 that the expense of police for town populations should be defrayed by local funds, municipalities were required to defray the cost of all police employed on duties the performance of which was necessitated solely by the existence of the town. These were designated "watch and ward" in contradistinction to those of "Law and Order". This policy continued till the year 1881 when fresh orders were issued and published in Finance Department Notification No. 3622 dated 13th October 1881. The purport of these orders was to relieve municipal bodies altogether of the charges for police, contingent on their undertaking an equal charge for education, medical relief and local public works. The Government of the North-Western Provinces and Oudh did not, however, at the time act on these orders and considered that municipalities should at any rate pay for watch and ward. In the Punjab also police charges continued to be borne by municipalities for a long time.

The functions and financial resources of local bodies continue to this day to be very much the same as those in Lord Ripon's time.

**36. Government of India Resolution of 1896.** The progress made in municipal administration since Lord Ripon's time was reviewed by the Government of India in Home Department Resolution dated 24th October, 1896. Municipal bodies were subject to the control of the Government in so far that no new tax could be imposed, no loan raised, no work costing more than a prescribed sum undertaken, and no serious departure from the sanctioned budget for the year made without the previous sanction of the Government; and no rules or bye-laws could be enforced without similar sanction and full publication. These restrictions, as will be seen later, exist more or less to this day.

**37. Municipal income.** The income from mofussil municipal taxation throughout India during the years 1886-87 and 1894-95 increased from a little over a crore to about a crore and a half of rupees. The total income from all sources increased from Rs. 1,59,53,853 to Rs. 2,48,92,308. The increase in the one case was 35.1 per cent. and in the other 56 per cent. In 1876-77 the income from taxation was Rs. 97,12,153 and from all sources Rs. 1,23,72,210. The ratio of increase was, therefore, very much more rapid since the development of municipal institutions under Lord Ripon's legislation.

The incidence of taxation per head of municipal population increased from Rs. 0-14-1 to Rs. 1-1-5. The rate was highest in the Punjab, where it amounted to Rs. 1-6-6; in Bombay Rs. 1-5-6; and in Assam Rs. 1-2-11. Among the major provinces the rate was lowest in Bengal, where it amounted to only Rs. 0-13-7, and in Madras, where it was Rs. 0-13-10.

The figures by provinces are given below:—

Incidence of municipal taxation and municipal income per head of population in each province for the years 1886-87 and 1894-95.

Province	Incidence of taxation.	Incidence of income.
1886-87) MADRAS	Rs. 0-12-0	Rs. 1- 3-6
1894-95)	„ 0-13-10	„ 2- 5-10
1886-87) BOMBAY	„ 1- 4-5	„ 1-13-5
1894-95)	„ 1- 5-6	„ 2- 5-10
1816-87) BENGAL	„ 0-11-0	„ 0-15-1
1894-95)	„ 0-13-7	„ 1- 7-8
1886-87) N.W.P & OUDH	„ 0-11-1	„ 0-14-6
1894-95)	„ 1- 0-7	„ 1-10-11
1886-87) PUNJAB	„ 1- 2-3	„ 1-10-4
1894-95)	„ 1- 6-6	„ 2- 0-1
1886-87) LOWER BURMA	„ 0-15-0	„ 3-13-1
1894-95)	„ 1- 1-4	„ 2-14-5
1886-87) CENTRAL PROVINCES	„ 0-14-4	„ 1- 6-0
1894-95)	„ 1- 2-0	„ 2- 1-3
1886-87) ASSAM	„ 0-11-8	„ 1- 9-11
1894-95)	„ 1- 2-11	„ 2- 4-3
1886-87) HYDERABAD	„ 0- 6-10	„ 1- 4-1
1894-95) ASSIGNED DISTRICTS (BERAR)	„ 0- 9-10	„ 1-10-2
1886-87) COORG	„ 0-12-6	„ 1- 9-2
1894-95)	„ 0-13-2	„ 2- 4-11

As regards the principal sources of municipal income, the percentages by provinces for the year 1894-95 are given below:—

Provinces	Percentage of total income from municipal rates and taxes derived from							Percentage of total income excluding loans and advances derived from					
	Octroi	Tax on houses & lands	Tax on animals and Vehicles.	Tax on Professions and Trades.	Tolls.	Water rate	Conser-vancy Tax.	Other Taxes	Taxa-tion	Under special Acts*	Munici-pal pro-perty@	Grants from Govt. and other sources	Misce-laneous
...ras	...	46.9	11.2	16.8	23.9	1.2	...	...	59.8	0.3	18.3	18.5	3.1
Bombay	52.4	17.7	3.3	0.3	6.8	6.9	7.8	4.8	69.6	1.0	17.5	8.6	3.
Bengal	...	35.3	8.2	1.6	6.0	1.9	19.5	5.72	79.9	3.5	10.3	4.2	2.1
N.W.P. & Oudh.	81.6	3.2	1.3	4.3	1.4	5.4	0.6	2.2	80.7	2.0	14.2	1.9	1.2
Punjab	93.0	5.0	1.1	...	...	0.1	0.2	0.6	71.7	0.9	13.9	6.4	7.1
C.P.	71.7	4.0	0.1	1.8	0.9	6.4	10.3	4.8	68.8	3.6	11.0	5.0	11.6
Lower Burma	...	58.8	7.2	...	11.3	3.6	11.3	7.8	38.7	1.7	56.5	2.4	0.7
Assam	...	47.4	5.9	...	20.0	11.6	15.1	...	49.9	10.8	17.0	19.3	3.0
Hyderabad Assigned Distts.	...	...	0.8	49.8	6.8	20.5	19.9	...	39.1	2.9	32.8	19.6	5.6
Coorg	...	56.1	3.2	40.7	...	...	...	...	41.4	25.2	31.3	2.1	...

\* Pounds, hackney carriages, licenses for sale of spirits, etc.

@ Rents of lands, conservancy receipts, fees from markets, municipal fines, interest on investments, etc.



## HISTORY OF LOCAL FINANCE

38. It will be seen from the above table that the main features of municipal revenue were :—

- (a) The very large proportion of municipal income derived from octroi in the Bombay Presidency (52.4 per cent), the North-Western Provinces and Oudh (81.6 per cent), the Punjab (93 per cent), and the Central Provinces (71.7 per cent), while elsewhere octroi did not form an item of municipal revenue.
- (b) The large proportion of income derived in Madras (46.9 per cent), Bengal (35.3 per cent), Coorg (56.1 per cent) and Assam (47.4 per cent) from taxes on houses and lands ;
- (c) Only in Madras (16.8 per cent), Coorg (40.7 per cent), and the Hyderabad Assigned Districts or Berar (49.8 per cent) did the tax on professions and trades form an appreciable part of the revenue.
- (d) The large proportion of the income derived from tolls on roads and ferries in Madras (23.9 per cent) and Assam (20 per cent).
- (e) The large contributions by Government to the municipal income in Madras (18.5 per cent) and Assam (19.3 per cent).

39. **Municipal Expenditure.** As regards municipal expenditure, the percentages by provinces for the year 1894-95 were the follows:—

### PERCENTAGE OF MUNICIPAL EXPENDITURE ON

Provinces	General Admini- stration	Public Safety.	Water Supply and Drain- age.	Conser- vancy.	Public Works	Other Measur- es for Public Health & Conven- ience.	Public Instruc- tion.	Miscel- laneous.
Madras	7.8	4.4	17.0	20.3	17.0	14.6	13.2	5.7
Bombay	10.1	5.6	20.8	18.4	13.5	10.6	14.7	6.3
Bengal	9.0	5.4	28.0	23.4	16.0	10.1	3.6	4.5
N.W.P & Oudh	10.6	13.1	25.5	19.7	12.0	6.3	3.0	9.8
Punjab	11.8	16.3	8.1	13.6	10.0	14.3	15.3	10.6
C. P.	13.3	0.9	20.4	21.8	13.0	11.5	12.7	6.4
Lower Burma	11.9	5.3	1.4	20.6	22.6	28.8	7.4	2.0
Assam	10.0	2.9	21.7	28.8	20.8	9.7	3.2	2.9
Hyderabad								
Assigned Districts	7.4	5.3	12.3	28.0	15.0	20.3	7.9	3.8
Coorg	5.8	2.4	32.8	17.9	7.0	25.9	6.5	1.7

It will be seen from the above table that the main features of municipal expenditure at the time were :—

- (a) under 'general administration' the expenditure was more or less uniform throughout India, averaging about 9 or 10 per cent. of the income ;
- (b) police charges, under the name of 'public safety' were still borne by municipalities, except in the North-Western Provinces (13.1 per cent) and the Punjab (16.3 per cent) ; in others it varied between 4 or 5 per cent ;

CHAPTER II

- (c) a large proportion of the annual expenditure, varying from 20 to 30 per cent, was concerned with projects of water supply and drainage;
- (d) the expenditure on conservancy was substantial, varying from 13.6 per cent. in the Punjab, and 18.4 per cent. in Bombay to 28 per cent. in Assam and the Hyderabad Assigned Districts (Berar);
- (e) the expenditure on roads was fairly large, varying from 10 per cent. in the Punjab, to 17 per cent. in Madras and 20.8 per cent. in Assam.
- (f) the expenditure on education was not very high, varying from 3 per cent. in North-Western Provinces and Oudh and 3.6 per cent. in Bengal to 12.7 per cent. in Central Provinces, 13.2 per cent. in Madras, 14.7 per cent. in Bombay and 15.3 per cent. in the Punjab.

40. **Government of India Resolution of 1897.** The progress made by local boards in rural areas was separately reviewed in a resolution dated 20th August 1897. Though in all the more advanced provinces district boards had been constituted by then, their financial powers were not uniform. In Madras the boards had the power of proposing local taxation, and in Bengal they were empowered to decide at what rate, within the statutory maximum, the road cess might be levied in each district. But for the most part the district boards did not possess power of taxation. They administered funds, or the yield of specific imposts, made over to them for expenditure on roads, schools, hospitals, and sanitation, within their jurisdiction.

41. **Income of rural boards.** The percentages by provinces for the year 1895-96 are given below :—

Provinces	Total Boards' income (exclud. ing Loans and Advances).	Percentage of Total Income, excluding Loans and Advances derived from—									
		Rates	Cattle pound Receipts	Education Receipts	Medical Receipts	Miscellaneous Receipts	Received from Civil Works	Contributions.			Other Items
								From provincial to local	From other sources		
	Rs.										
Madras	85,62,000	62.3	—	2.6	.3	7.1	11.9	3.8	10.1	1.9	
Bombay	50,16,742	57.3	3.8	3.1	.8	.3	12.2	21.1	.4	1.0	
Bengal	59,62,871	63.8	7.0	.9	.4	3.0	18.3	8.6	.0	1.0	
N.W.P. & Oudh	37,84,420	49.9	4.6	5.8	3.8	.9	.1	29.9	2.8	2.2	
Punjab	30,58,137	75.6	1.9	2.8	.9	1.3	9.1	2.5	.1	5.8	
C.P.	8,13,869	49.3	21.3	1.1	1.0	3.2	9.6	14.0	.2	.3	
Assam	10,47,556	61.8	6.0	.0	—	1.5	10.6	20.1	—	—	
Hyderabad Assigned Districts.	5,60,663	50.6	2.5	8.8	—	32.5	.5	3.4	—	1.7	

## HISTORY OF LOCAL FINANCE

The main features relating to the income of the rural bodies were as under :—

The total income increased during the seven years 1889-90 and 1895-96 from Rs. 2,67,83,682 to only Rs. 2,93,38,306 or by 11 per cent. These figures bring to light the comparatively unexpansive nature of the sources of revenue open to local bodies.

Among the main heads of income, the most important item is provincial rates or the local fund cess. In Madras the maximum was 2 annas per rupee of the assessment, but in 1895-96 the actual rate at which it was collected was, except in three districts, one anna in the rupee of assessment. In Bengal the income under this head represented the balance of the road cess after deducting the cost of collection and revaluations. In the Punjab rural boards generally received four-fifths of the local rate, the rest being utilised by the provincial government for its own purposes.

42. All the other items of income were comparatively insignificant. The incidence of taxation per head of population was Re. 0-1-5 in 1889-90, and remained at that figure in 1895-96. The incidence of income per head of population showed a small rise from Re. 0-2-5 in 1889-90 to Re. 0-2-6 in 1895-96.

The incidence of taxation and of total income per capita by provinces for the years 1889-90 and 1895-96 are given below :—

Provinces		Incidence of taxation per capita	Incidence of total income per capita
		Re.	Re.
Madras	1889-90	0-2-7	0-4-3
	1895-96	0-2-8	0-4-5
Bombay	1889-90	0-2-9	0-4-4
	1895-96	0-2-8	0-4-8
Bengal	1889-90	0-0-11	0-1-9
	1895-96	0-0-11	0-1-9
Punjab	1889-90	0-2-0	0-2-5
	1895-96	0-2-0	0-2-8
N.W.P.&	1889-90	0-0-9	0-1-7
Oudh	1895-96	0-0-8	0-1-4
C.P.	1889-90	0-0-6	0-1-5
	1895-96	0-0-8	0-1-6
Assam	1889-90	0-1-8	0-3-11
	1895-96	0-2-1	0-3-11

43. **Expenditure of rural boards.** The following table shows the proportion of expenditure in 1895-96 under each head in different provinces :—

Province	Education	Medical	Civil Works	Refunds and drawbacks	(Administration) General Expenditures of local funds	Cattle-pounds charge	Miscellaneous	Famine Relief	Contributions	Other items
Madras	13.6	15.4	48.7	.2	4.3	—	3.6	—	13.5	.7
Bombay	31.1	5.2	55.6	—	2.7	—	2.4	—	1.4	1.6
Bengal	19.3	3.9	70.4	.0	4.7	.3	1.2	.0	.1	1.0
N.W. P & Oudh	34.4	14.0	49.1	—	1.5	—	.6	—	—	.4
Punjab	20.9	11.2	35.4	1.9	4.0	.7	1.2	—	18.2	6.5
Central Provinces	30.7	8.2	44.6	.4	4.3	7.2	1.4	.1	1.7	1.4
Assam	17.8	6.3	63.8	4.5	.2	—	2.3	—	—	.1
Hyderabad Assigned Districts	30.4	1.2	45.7	2.9	6.4	—	9.2	—	.1	4.1

The review by the Government of India brought out the following main features :—

- (1) Expenditure under education increased in every province. The aggregate expenditure amounted in 1895-96 to Rs. 63,44,723 as compared with Rs. 51,01,466 in 1889-90. Compared to the size of the population included within the jurisdiction of local boards these amounts must seem very small.
- (2) The expenditure under 'medical' was generally much smaller than on education, less than half, though it increased from Rs. 22,10,929 in 1889-90 to Rs. 27,88,780 in 1895-96. The largest expenditure was on civil works. It aggregated Rs. 1,58,29,536 in 1895-96 as compared with Rs. 1,41,05,028 in 1889-90. This expenditure was mostly on roads and sanitary improvement. None of the other items call for any remarks.

44. **The Decentralisation Commission.**—In 1907-08 the entire subject of local self-government was considered by the Royal Commission on Decentralisation. During the course of the evidence it was clearly brought out that the resources of local bodies were not adequate to the proper execution of the duties assigned to them. For instance, Sir Herbert Risley, then Home Secretary to the Government of India, said :—

'I think it must be admitted that the resources of district boards and district municipalities are not sufficient to enable them to work up to modern standards of local administration. In municipalities this is most conspicuously the case in respect of schemes of water supply and drainage, the advantages of which, especially

## HISTORY OF LOCAL FINANCE

of the former, are now pretty generally realised. Similarly, in some rural areas in Bengal the old sources of water supply have fallen into disrepair and the district boards are approached with demands far beyond their financial resources. In other parts of the same province the silting up of old channels and changes of levels are believed to cause malarial fever, and large schemes of drainage are advocated which the local bodies are unable to carry out."

45. The evidence of Sir James Meston, then Finance Secretary to the Government of India, was equally clear on the point :

"Q. 44989 : With regard to the division of the financial burden between local funds and provincial funds, has not the tendency been in recent days to impose too many responsibilities of Local Boards without giving them sufficient funds to meet them ?

A. I quite agree; Local Boards in many provinces—I do not say all—have been very much curtailed in their financial independence, I should like to see that matter reminded."

"Q. 44990 : The evidence before us is that there is very little popular interest taken in Local Boards, one reason being that they were starved, and that they were called upon to do work without having the money to pay for it ?

A. That is a reasonable grievance, but I do not think it is the only 'one.'

"Q. 44991 : It is not the only one, but it is said that there is not enough money for village demands because most of it is swallowed up by Government departments such as the Medical Department, the Veterinary Department, and the Education Department, and so on ?

A. Yes."

"Q. 44992 : Would you, as a matter of general policy, be inclined to meet that by relieving Local Boards of certain of their responsibilities or by giving them a larger assignment of revenue ?

A. Personally speaking I should like to see the Local Boards given much larger responsibilities and revenues to meet them."

"Q. 44993 : Local Governments give them grants for specific purposes as it is, but do not these grants vary from year to year in many cases ?

A. Yes : local governments give them special grants for special works frequently and they also give them general assignments to supplement their defective revenue."

"Q. 44994 : Would you approve of giving these grants on a stable basis and making them lump assignments, on the analogy of the settlement made by the Government of India with the provincial Governments :

A. Precisely; I should like to see District Boards (speaking with personal experience of only one province—the United

Provinces) placed on a semicontractual relation with the provincial government, receiving either the rates or a definite share of the revenue, also the miscellaneous receipts which they at present enjoy, tolls, ferries and the like ; and if necessary having their revenues supplemented by fixed assignments from provincial funds. I should like to see that arrangement made in the form, to begin with, of a quinquennial settlement."

46. The main conclusions and recommendations of the Commission in relation to functions and finances of local bodies were as follows :—

### A-Village Organisation

The functions of village panchayats must be largely determined by local circumstances and experience. Generally, they might be entrusted with the following functions :—

- (a) Summary jurisdiction in petty civil and criminal cases ;
- (b) Incurring of expenditure on the cleansing of the village and minor village works ;
- (c) Construction and maintenance of village school houses and some local control in respect of school management ;
- (d) Management of small fuel and fodder reserves in selected panchayats.

The Commission considered it essential for the success of the panchayat system that it should not be concomitant with any new form of local taxation. Panchayats should receive a portion of the land cess levied for local board purposes in the village, special grants for particular objects of local importance, receipts from village cattle pounds and markets entrusted to their management, and small fees on civil suits filed before them. The application of the funds entrusted to them should be judged by general results and should not be subjected to rigid audit.

With the panchayat system thus developing, the Commission did not consider it necessary to retain artificial local agencies such as village unions and sanitary committees.

Such outside supervision of panchayat affairs, as was necessary must rest with the district officers. The panchayats should not be placed under the control of district or sub-district boards.

### B-Rural Boards

(1) The Commission was of the opinion that sub-district boards should be universally established and that they should be the principal agencies in rural board administration.

(2) Ordinarily a sub-district board should be established for each taluka or tehsil but where sub-divisional boards have been working and/or may be made to work satisfactorily, the sub-division may remain jurisdictional area.

(3) The Commission did not propose the abolition of district boards or to make them mere councils of delegates from the sub-district boards for the settlement of matters of common interest. Nor did they desire to place sub-district boards entirely under the control of the board for the whole district. They suggested a scheme under which the sub-district boards would have independent resources, separate spheres of duty and larger responsibilities within their sphere ; while the district board, besides undertaking some district functions for which it seemed specially fitted, would possess coordinating and financial powers in respect of the district as a whole.

## HISTORY OF LOCAL FINANCE

(4) Sub-district boards should have the charge of minor roads in the district; of primary and (where they desired it) middle vernacular education; of medical work; of vaccination; and of sanitary work in rural areas where this had not been entrusted to panchayats.

(5) The district board should keep up the main roads in the district, with the exception of trunk roads which should be a Government charge; and should maintain district services for work under the sub-district boards, in respect of roads, education, medical relief and sanitation.

(6) District boards which desired to maintain their own engineers should be allowed to do so and it should be left to the discretion of the local Government to employ such engineers to execute minor works for Government.

The restrictions on the sanction of ordinary works and sanitation estimates by rural boards should be abrogated, but they should have the right to call upon Government engineers and sanitary officers for assistance in regard to such matters.

(7) The Government should place rural boards on a sounder financial footing—

- (a) by letting them have the whole of the land cess;
- (b) by rateable distribution of the special grant of 25% on the land cess now made;
- (c) by increasing this grant when circumstances permitted;
- (d) by taking over charges in respect of trunk roads; famine and plague relief; local veterinary work, and any charges now incurred by the boards in regard to police, registration of births and deaths, etc. Nor should rural boards be required to make any contribution in respect of provincial services for other items of provincial administration, or for assistance rendered to them by Government officers in the ordinary course of their duties.

(8) Where poor districts required special grants from Government, these should be made in lump sums or as percentages of expenditure incurred on specific services and they should be given under a quasi-permanent settlement.

(9) District board should not be allowed to increase the land cess beyond one anna in the rupee on the annual rental value, and sub-district board should not raise any separate land cess. Otherwise, rural boards should be able to levy rates and fees at their discretion within the limits laid down by law. Where no definite limits have been prescribed the sanction of the Commissioner of the Division should be required to changes in the rates.

(10) Sub-district boards should receive a fixed proportion, generally one-half of the land cess raised in their areas and certain sources of miscellaneous revenue. Additional resources would come from grants distributed by the district board.

(11) The principal items of revenue of the district board would be the rest of the land cess less the amount to be assigned to village panchayats; certain miscellaneous receipts and grants from Government. Such monies as are not required for direct district board services should be distributed among the sub-district boards with reference to their varying needs.

(12) Rural boards should not be bound to spend specific proportions of their income on particular services. Sub-district boards should not have borrowing powers. District boards may borrow under present conditions.

(13) Rural boards, whether district or sub-district, should have full power to pass their own budgets. They should, however, maintain prescribed minimum balances, which should not be drawn on without the sanction of the Commissioner of the Division in the case of district boards and of the district board in the case of sub-district boards.

(14) The sanction of the Commissioner of the Division should be required in regard to the appointment, removal and salary of district board engineers, paid secretaries and health officers where these are entertained. Otherwise the only outside-control over rural boards in establishment matters should be the promulgation by the Provincial Government of model bye-laws or schedules, laying down general rules in regard to such matters as leave, acting and travelling allowances, pension or provident funds and the maximum salary to be given to officials of various classes. Departure from these schedules should require the sanction of the provincial government, or of the Commissioner of the Division in salary matters.

### C-Municipalities

(1) Municipalities should have the same full powers as suggested for rural boards in respect to the services assigned to them.

(2) They should undertake primary education and may—if they are able and willing to do so—devote money to middle vernacular schools. Otherwise, the Government should relieve them of any charges which they now have to incur in regard to secondary education, hospitals at district headquarters, famine relief, police, veterinary work, etc.

Nor should they contribute for services which are made provincial, or be made to devote specific proportions of their income to particular objects.\* The Commission was of the view that municipalities should have full discretion as to the application of their revenues to the services which they had to render to the public.

(3) While the Commission did not propose that municipalities should receive a regular subvention from Government, corresponding to the 25 per cent. on the land cess given to rural boards, they thought that municipalities should receive assistance in respect to specially large projects, such as those concerned with drainage or water supply; and in the case of the poorer municipalities some subvention for general purposes would probably be required. Grants of this latter description should, as in the case of rural boards, be of a practically permanent character.

It is interesting to note that the Commission were not in favour of regular grants-in-aid to municipal funds, except for large projects mentioned above. This was on the ground that municipalities are more advanced and more wealthy than rural areas and that in their case they recommended the withdrawal of existing restrictions on powers of taxation.

(4) In regard to taxation the position at the time was that a municipality could not levy a tax or charge provided for in the municipal law, or vary the rate of incidence, without the sanction of the provincial government, as in Madras, or of the Commissioner of the Division, as was usually the case in Bombay.

The Commission recommended that municipalities should have full liberty to impose or alter taxation within the limits laid down by the municipal laws; but that where an Act did not prescribe a maximum rate, the sanction of an outside authority should be required to any increase in taxation. Such autho-

---

\*The Commission said that in the Punjab, municipalities had, like rural boards, been subjected to orders laying down specific percentages of their income which must be applied to particular services; and in the United Provinces municipal councils had to devote a certain proportion of their revenues to education.



rity would ordinarily be the Commissioner, but in the case of cities it should be the provincial government. Mr.R.C. Dutt, a member of the Commission, thought that the sanction of the Local Government, or preferably of a special Local Government Board, should be necessary to any variation in municipal taxation, in order to prevent frequent changes in rates which would be harassing to the people. Similar outside control should be required (as was usually the case) where a municipality desired specially to exempt any person or class of persons from municipal taxation.

(5) Government control over municipal borrowing should continue, and any permanent alienation of municipal property, or lease of the same for periods of seven years and upwards, should require outside sanction.

(6) Subject to the maintenance of prescribed minimum balances, municipalities should have a free hand in respect to their budgets.

(7) The control of municipalities over their establishments should be of the same character as suggested for rural boards.

(8) In some of the larger cities it might be desirable to vest the executive administration in the hands of a full time nominated official, apart from the chairman of the municipal council. Such an officer would, however, be subject to the control of the council as a whole, and of a standing committee thereof.

(9) The Corporations of the Presidency towns should all have powers as large as those which the Bombay Municipality possessed.

(10) Where it was considered expedient that hospitals and educational institutions in a Presidency town should be directly controlled by Government, the municipality should not be forced to contribute thereto.

**47. Mr. Gokhale's Resolution in the Indian Legislative Council.** While the report of the Decentralisation Commission was under consideration, a resolution was moved on 13th March, 1912 in the Indian Legislative Council by the Hon'ble Mr. Gopal Kishna Gokhale in the following terms:—

“That this Council recommends to the Governor General in Council that a Committee of officials and non-officials may be appointed to enquire into the adequacy or otherwise of the resources at the disposal of local bodies in the different provinces for the efficient performance of the duties which have been entrusted to them, and to suggest, if necessary, how the financial position of these bodies may be improved.”

Mr. Gokhale, in moving his resolution, said that though the Decentralisation Commission went at some length into the general question of local self-government, its enquiry into the adequacy or otherwise of the resources at the disposal of local bodies was extremely slight. He added that local self-government continued to be where it was carried by the late Marquis of Ripon. There were altogether 717 municipalities in the country, 197 district boards and about 517 sub-district boards. Taking the four leading Municipal Corporations of Bombay, Calcutta, Madras and Rangoon, their total revenue was Rs. 2½ crores. The average revenue of the remaining 713 municipalities was only about Rs. 55,000 each. The incidence of taxation was highest in Rangoon, being Rs. 11.61 per head; Bombay City came next with Rs. 10 per head; Calcutta followed with Rs. 8.5 and Madras came last with a little over Rs. 3 per head. In the remaining mofussil areas, the average was about Rs. 2 per head in Bombay, Punjab, Burma and the North West Frontier; in the Central Provinces it was Rs. 1.75; in the United Provinces and Bengal it was a little over Rs. 1.5 and in Madras

it was only Rs. 1.33. The municipalities had power of taxation within certain limits, with the previous sanction of the local government. The rural boards had no power of taxation; they were limited to the one anna cess. In rayatwari areas it was levied on the Government assessment, and in other areas it was assessed on the annual rental value of land. The total revenue from taxation from provincial rates in rural areas was about Rs. 2.33 crores and another Rs. 2.5 crores was received from various sources, including a small grant from Government. This gave an incidence of less than 4 annas per head. The local boards, moreover, did not get the entire proceeds of this one anna cess in all the provinces. In the United Provinces, one-third was taken by Government for village chowkidari police and, in the Punjab, 20% had to be paid to Government for general services. In Bengal, a portion went to Government for public works cess, and in the Central Provinces, only 5% of the land revenue was levied as the one anna cess and went to local bodies. The resources of local bodies were pitifully unequal to a proper performance of the functions entrusted to them. Only about 3% of the towns had got a filtered water supply and even a smaller proportion had got efficient drainage. In villages over the greater part of the country good potable water was a crying want. The total number of hospitals and dispensaries in the country was less than 2,700 and disease carried away annually large numbers of people, at least one-third of which mortality ought to be preventible with better sanitation and water supply. This resolution was looked upon with disfavour by the government of the day, which had an official majority in the Council. Rather than see his resolution defeated, Mr. Gokhale withdrew it on receiving an assurance from the Finance Member of the Government of India that the views expressed at the meeting would receive due consideration when dealing with this question.

While withdrawing his resolution, Mr. Gokhale said that he was quite sure that some day or other the Government would have to make an inquiry into the subject. The Local Finance Enquiry Committee is the first all-India †Committee appointed to consider this subject, although there have been committees in several provinces which have gone into the question as affecting local bodies in their areas.

**48. Government of India Resolution of 1915.** The views of the Government of India on the proposals of the Decentralization Commission were embodied in a resolution dated the 28th April, 1915.\* In this resolution the Government of India referred to 'the smallness and inelasticity of local revenues' and 'the difficulty of devising further forms of taxation' as some of the factors which impeded the free and full development of local self-government.

49. The total income of 701 municipalities (excluding Presidency towns and Rangoon) at the close of 1912-13 was Rs. 4,92,42,675 or an average of about Rs. 70,245 a year. This compared favourably with the total income of Rs. 2,76,61,215 for 753 municipalities in 1902-03.

**50. Municipal income and expenditure.** The following statements show the proportions under various heads of municipal income and expenditure respectively in the different provinces for the year 1912-13 :—

---

† The question of local taxation which is an important part of local finance, was dealt with in the Report of the Indian Taxation Enquiry Committee, 1924-25.

\* Government of India, Department of Education, Nos. 55-77 (Municipalities) dated the 28th April, 1915.

INCOME

23

PR OVINCES	Percentage of total income from Municipal rates and taxes derived from								Percentage of total income excluding loans and advances derived from				
	Octroi	Tax on houses & lands	Tax on animals and vehicles	Tax on professions & trades	Tolls	Water rate	Conservancy tax	Other taxes	Taxation	Under special Acts	Municipal property	Grants from Government and other sources	Miscellaneous
Madras	—	45.0	10.2	8.6	19.0	16.8	—	0.4	44.0	0.3	15.1	36.4	4.2
Bombay	46.9	16.3	3.2	0.3	4.5	16.9	8.0	3.9	62.6	0.5	16.4	17.1	3.4
Bengal	—	37.2	5.5	1.8	2.1	13.9	25.1	14.4	75.8	2.1	8.4	11.5	2.2
United Provinces	69.2	5.4	1.0	3.8	2.8	6.6	1.1	10.1	62.8	1.6	19.7	13.6	2.3
Punjab	89.7	6.8	0.8	—	—	1.3	1.2	0.2	63.1	0.8	19.3	13.7	3.1
Burma	—	42.5	3.7	—	14.0	9.2	20.6	10.0	38.1	1.1	42.3	17.2	1.3
Bihar and Orissa	1.7	40.7	9.5	1.8	5.6	3.5	21.6	15.6	62.5	.4	9.9	25.1	1.1
Central Provinces	61.6	3.3	4.3	0.1	1.2	15.3	10.9	3.3	60.3	2.7	16.3	16.4	4.3
Berar	—	20.7	4.3	26.8	10.4	4.6	20.5	12.7	47.9	3.2	13.5	29.5	0.9
Assam	—	40.5	7.6	—	9.9	11.6	22.1	8.3	36.8	4.0	10.8	47.3	1.1
North West Frontier Province.	98.0	0.6	0.1	—	—	—	0.1	—	42.1	.2	15.9	41.1	0.7
Coorg	—	62.7	3.9	18.9	7.1	7.4	—	—	28.1	2.6	11.9	56.8	—
Delhi.	80.2	13.1	4.8	—	1.9	—	—	—	38.5	0.3	19.8	39.5	1.9

**EXPENDITURE.**  
Percentage of Municipal Expenditure on

PROVINCE	General Administration	Public Safety	Water supply and drainage	Conservancy	Public Works	Other measures for public health and convenience	Public instruction	Miscellaneous
Madras ...	6.9	4.2	10.5	20.3	27.6	13.2	10.2	7.2
Bombay ...	8.5	5.2	25.1	14.1	14.3	10.5	15.2	7.1
Bengal ...	7.2	6.9	24.7	26.8	16.4	7.5	3.3	7.2
United Provinces	10.2	6.0	27.7	17.2	13.9	6.2	4.5	14.3
Punjab ...	12.0	6.1	16.8	13.8	15.5	15.9	4.3	5.2
Bihar and Orissa	8.2	5.5	12.7	28.3	15.7	21.9	3.0	4.7
Central Provinces	11.1	3.2	30.4	15.9	10.3	11.9	10.2	7.0
Berar ...	9.4	4.6	24.4	21.6	8.9	10.5	18.3	2.3
Assam ...	5.7	3.8	32.6	23.3	19.4	7.9	4.2	3.1
North-West Frontier Province	10.8	7.4	11.1	16.5	13.7	21.3	14.3	4.9
Coorg ...	10.8	8.4	1.6	19.3	8.6	8.4	16.5	30.4
Delhi ...	7.4	4.0	33.5	18.0	10.9	11.0	1.8	13.4

51. **Municipal Taxation.** The most important taxes in force in 1912-13 (as well as now) were octroi duties, levied principally in Bombay, the United Provinces, the Punjab, the Central Provinces and the North-West Frontier Province, and the tax on houses and lands which held (and still holds) the chief place in the other provinces as well as in Bombay City. A tax on professions and trades yielded a considerable revenue in the provinces of Madras, Bengal, U. P. and the C. P. A pilgrim tax, which is a form of terminal tax, was imposed in Banares, Calcutta, Hardwar, Ayudhia and Thaneshwar.

52. The Government of India did not accept in full the recommendation of the Decentralisation Commission that municipalities should have full liberty to impose or alter taxation within the limits laid down by the municipal laws, but agreed that the sanction of an outside authority to any increase in taxation should be required, where the law did not prescribe a maximum rate. It was pointed out that maximum rates were prescribed in the Madras, Bengal and Burma Acts, and in the Punjab, U. P. and C. P. so far as regards the tax on buildings and lands, but none was laid down in Bombay. One objection was that if such a power were given, a municipality might reduce its taxation without due consideration to the needs of the administration and the security of loans. The Government of India, while recognising the force of such objections, were, on the whole, in general sympathy with the Commission's recommendations. They thought, however, that power to vary any tax might be reserved by such provincial governments as were

unable to accept in full the recommendation of the Commission and that in the case of indebted municipalities the previous sanction of higher authority should be required to any alteration of taxation.

53. The municipal boards had by this time been relieved of all charges for the maintenance of police within municipal limits, as also from financial responsibility for famine relief. The principle was also generally accepted that, in the event of severe epidemics, they should receive assistance from Government.

54. **Municipal control over services.** The Commission recommended that if a municipal or rural board had to pay for a service it should control it, and that where it was expedient that the control should be largely in the hands of Government, the service should be a provincial one. The Government of India, while not prepared to accept the proposal in full, approved it in a somewhat modified form. They considered that charges should be remitted in cases where a local body contributed to Government for services inherent in the duty of supervision and control by Government officers, or for services which could not expediently be performed except by Government agency.

55. **Control over municipal budgets.** Commenting on the minute control exercised in some provinces over municipal finance, the Decentralisation Commission recommended that municipalities should have a free hand with regard to their budgets; the only check required should be the maintenance of a minimum standing balance to prescribed by the provincial government. They acknowledged that relaxed control might lead to mistakes and mismanagement, but they were of opinion that municipal bodies could attain adequate financial responsibility only by the exercise of such powers and by having to bear the consequences of their errors. Owing to divergence of opinion among provincial governments on this point, the Government of India issued no definite instructions, beyond saying that they regarded the recommendations of the Commission as expressing a policy to be steadily kept in view and gradually realised.

56. **Control over sanction to works.** The Decentralisation Commission were of the view that the restrictions on municipalities which required outside sanction for works estimated to cost more than a certain amount should be removed but that Government should scrutinise and sanction estimates of projects to be carried out from loan funds. On this point also the Government of India issued no definite instructions, beyond saying that they were in favour of extended freedom for local bodies, subject, where necessary, to proper precautions against extravagant and illconsidered projects the precise extent of relaxation of existing restrictions they left to the provincial governments.

57. **Control over municipal establishment.** The Commission recommended that the degree of outside control over municipal establishments should be relaxed, that the appointment of municipal secretaries or other chief executive officers, of engineers and health officers, where these existed, should require the sanction of the provincial government in the case of cities, and of the Commissioner of the Division elsewhere, and that the same sanction should be required for any alteration in the emoluments of these posts, and for the appointment and dismissal of the occupants. As regards other appointments, the Commission proposed that the provincial governments should lay down for municipal boards general rules in respect to such matters as leave, acting and travelling allowances, pensions or provident funds and maximum salaries, and their sanction should be required for any deviation therefrom. The Government of India, while considering that government control over other posts might reasonably be relaxed, accepted the view that outside sanction should be required to the appointment or dismissal of secretaries, engineers and health officers.

58. **Finances of district boards.** Coming to the financial condition of district boards, the Government of India observed that their funds were mainly derived from a cess levied on agricultural land over and above the land revenue, with which it was collected and not usually exceeded one anna in the rupee (6¼%) on the annual rent value. Since 1905 this income had been specially supplemented by a Government contribution amounting to 25 per cent. of the then existing income. Besides this, special grants were frequently made to district boards by provincial governments.

59. Up to 31st March 1908, the proceeds of the local fund cess were included in the general revenues and assignments from them made to the boards. From April 1908 the accounts of the district boards were excluded from the general provincial accounts, and their funds treated independently in the same way as municipal funds. The total number of district and sub-district boards in 1912-13 was 199 and 536 respectively, with an aggregate income of Rs. 5,68,08, 292. Prior to 1913 the district boards of several provinces did not receive the whole of the land cess. For example, the cess in Bengal and Bihar and Orissa was divided into two parts, namely, the road cess and the public works cess. The district boards only received the road cess while the public works cess belonged of right to the provincial Government, which returned, however, a portion in the shape of discretionary grants. In the other provinces, e.g. the U. P. the Punjab and the North-west Frontier Province, considerable deductions were made by the provincial governments concerned from the cess for various purposes. In 1913 the Central Government made assignments to the provincial governments concerned, to enable them to hand over the entire net proceeds of the cess to the boards. The relief thus given amounted to Rs. 82,33,000 a year and the provinces which benefited were Bengal, U.P., Bihar and Orissa, and to a smaller extent, the Punjab and the N. W. F.P. The income of district boards in Bengal, the U. P. and Bihar and Orissa increased mainly by this measure by 44, 43 and 55 per cent. respectively in the year 1913-14.

60. **Income and expenditure of district boards.** Apart from the cess, the boards had other sources of income, such as cattle pound receipts, educational receipts, medical receipts, tolls from ferries and bridges, and contributions for specific purposes from the provincial funds. The expenditure of the boards was chiefly for roads and bridges, hospitals, vaccination, conservancy, drainage, water supply, primary education, markets and rest houses. The following statement shows the proportions under various heads of income and expenditure of the district boards in the different provinces for the year 1912-13 :—

HISTORY OF LOCAL FINANCE

INCOME

PROVINCES	Percentage of total income excluding loans and advances derived from								
	Rates	Cattle pound receipts	Educational receipts	Medical receipts	Miscellaneous receipts	Receipts from Civil Works	From provincial to local	From other boards	Other items
Madras	36.8	—	1.9	0.4	5.1	10.5	34.0	0.9	10.4
Bombay	43.2	2.0	2.5	0.1	0.3	6.4	40.5	1.7	3.3
Bengal	46.2	5.7	0.9	0.1	0.4	7.4	34.3	2.6	2.4
U. P.	45.8	6.3	3.6	0.3	0.4	8.4	27.2	6.5	1.5
Punjab	45.8	1.4	4.0	0.3	1.3	10.2	30.7	2.1	4.2
Bihar and Orissa	53.9	4.9	0.7	—	0.4	7.6	29.5	1.5	1.5
C. P.	33.3	20.9	0.5	0.1	3.5	4.0	34.2	2.7	0.8
Berar	41.4	16.7	0.1	—	16.1	1.6	18.0	5.2	0.9
Assam	32.8	3.2	0.9	—	0.1	5.4	55.4	0.3	1.9
N. W. F. P.	36.5	0.6	1.5	0.1	0.2	3.3	52.9	1.2	3.7
Coorg	28.2	3.1	2.9	1.8	4.0	15.7	39.3	0.3	4.7
Delhi	48.5	3.3	2.1	0.2	0.2	5.7	35.1	1.8	3.1

EXPENDITURE

PROVINCES	Education	Medical	Civil works	Refunds and drawbacks	Administration (general establishments of local funds.	Cattle pound charges	Miscellaneous	Famine relief	Contributions	Other items
Madras	10.3	10.0	50.6	0.1	2.9	—	2.6	—	8.4	15.1
Bombay	38.6	4.5	46.6	—	2.3	0.1	1.3	0.1	2.9	3.6
Bengal	25.3	5.9	53.7	—	3.3	0.4	0.3	—	0.5	10.6
United Provinces	31.7	12.5	45.2	—	2.7	2.0	0.1	—	2.2	3.6
Punjab	23.7	7.8	41.4	—	2.9	1.1	1.0	—	13.6	8.5
Bihar and Orissa	17.1	6.4	56.3	—	2.8	0.3	0.3	—	1.4	15.4
Central Provinces	30.0	6.3	30.0	—	3.8	6.3	0.3	—	1.0	19.3
Berar	31.7	8.4	37.8	—	3.8	3.2	0.2	—	4.6	10.3
Assam	26.4	8.7	57.8	0.2	1.5	—	0.9	—	1.6	2.9
N.W.F.P.	30.0	12.5	34.5	—	3.8	0.1	0.3	—	7.5	11.3
Coorg	21.8	11.6	51.3	—	2.3	1.8	1.4	—	1.2	8.6
Delhi	24.4	9.2	51.0	—	3.5	1.3	0.9	—	3.3	6.4

**61. Power to raise cesses.** On the recommendation of the Commission that district boards should not be empowered to raise the land cess beyond one anna in the rupee on the rental value, the Government of India did not consider it necessary to make any pronouncement, as under the conditions then obtaining any proposal to raise the limit imposed by the law required the previous sanction of the Government of India.

**62. Control over district board budgets.** The Commission recommended that rural boards should be given full power to pass their budgets subject only to the maintenance of a prescribed minimum balance. This procedure was already in force in the province of Bombay. Other provincial governments were not prepared to accede to this complete removal of restrictions, although some of them proposed some relaxation in the existing rules. The Government of India were of the view that the restrictions on the powers of the boards should gradually be relaxed with due regard to local conditions and requirements. The fact that an official was almost invariably president of a rural board and that powers of inspection and control by certain officers of Government were provided under the Acts relating to rural boards should, ordinarily, they thought, be sufficient safeguards against gross inefficiency or mismanagement.

**63. Control over sanctions to works.** The Government of India were unable to agree to the proposal of the Commission that the restrictions on rural boards with regard to estimates for public works should be removed. They, however, accepted the view of the Commission that in districts where there were sufficient works to justify the special appointment of a trained engineer a district board which desired to entertain such an officer and could afford to pay him an adequate salary should be permitted to do so.

**64. Control of district boards over establishments.** In regard to control over establishments, the Government of India were of the same opinion as in the case of municipalities.

**65. Functions and finances of village panchayats.** In regard to functions and finances of panchayats the view of the Government of India were briefly as follows:—

(1) Experiments should be made in selected villages or area larger than a village, where the people in general agreed.

(2) Legislation, where necessary, should be permissive and general. The powers and duties of panchayats, whether administrative or judicial, need not and, indeed, should not, be identical in every village.

(3) In areas where it was considered desirable to confer judicial as well as administrative functions upon panchayats the same body should exercise both functions.

(4) Existing village administrative committees, such as village sanitation and education committees, should be merged in the village panchayats where these were established.

(5) The jurisdiction of panchayats in judicial cases should ordinarily be permissive, but in order to provide inducement to litigants' reasonable facilities might be allowed to persons wishing to have their cases decided by panchayats. For instance, court fees, if levied, should be small, technicalities in procedure should be avoided and, possibly, a speedier execution of decrees permitted.

(6) Powers of permissive taxation might be conferred on panchayats, where desired; subject to the control of the local Government or Administration, but the development of the panchayat system should not be prejudiced by an excessive association with taxation.



(7) The relations of panchayats on the administrative side with other administrative bodies should be clearly defined. If they were financed by district or sub-district boards, there could be no objection to some supervision by such boards.

**66. The Declaration of 20th August, 1917.** After that came the declaration of 20th August, 1917 regarding the future policy of constitutional advance in India. In commenting on this pronouncement, Lord Chelmsford explained in the Indian Legislative Council on 5th September 1917, that the first road along which advance could be made towards the progressive realisation of responsible government in India was in the domain of local self-government. To make local self-government really representative and responsible the Montagu Chelmsford Report on Indian Constitutional Reforms, dated April 22, 1918 suggested the following formula :

“ There should be, as far as possible, complete\* popular control in local bodies, and the largest possible independence for them of outside control.”

**67. The Montagu-Chelmsford Report.** The recommendations of the Montague-Chelmsford Report as regards the financial aspects of local self-government† were briefly as follows. In regard to municipalities, the Report accepted the recommendation of the Decentralisation Commission that municipalities should have full liberty to impose and alter taxation within the limits laid down by law, but that where the law prescribed no maximum rate, the sanction of an outside authority should be required to any increase. In the case of indebted municipalities the sanction of higher authority should still be obtained before altering a tax. The same power should be given to rural boards by allowing them to levy rates and fees within the limits of the existing Acts. Wherever a board paid for a service it should control such service ; and where it was expedient that control should be largely centred in the hands of Government, the service should be provincialised. If, for example, a board provided for civil works or medical relief, it ought, subject to such general principles as the Government might prescribe to have real control over the funds which it provided and not be subject to the constant dictation, in matters of detail, of government departments. Similarly, provincial governments should give boards a free hand with their budgets subject to the maintenance of a minimum standing balance, with the necessary reservations in the case of indebtedness or against gross default. The government should discard the system of requiring local bodies to devote fixed proportions of their revenues to particular objects of expenditure and should rely on retaining powers of intervention from outside in cases of gross neglect or disregard. Local bodies should also be given control over their establishments except in regard to certain special officers as recommended by the Decentralisation Commission. The accepted policy should be to allow the boards to profit by their own mistakes and to interfere only in cases of gross mismanagement.

**68.** In regard to village panchayats, the Report said that the prospect of their successful development must depend very largely on local conditions, and that the functions and powers to be allotted to them must vary accordingly. But where the system proved a success, they might be endowed with civil and criminal jurisdiction in petty cases, some administrative powers as regards sanitation and education, and permissive powers of imposing a local rate. They expressed the hope that, wherever possible, an effective beginning should be made.

**69. Government of India Resolution of May, 1918.** In their resolution dated 16th May, 1918, the Government of India again reviewed the question of

\*Paragraph 183 of the Report on Indian Constitutional Reforms, 1918.

†Paragraphs 192 to 198 of Report on Indian Constitutional Reforms, 1918.

local self-government in the light of the declaration of 20th August 1917. They were of the view that in order to give effect to the new policy local bodies should be as representative as possible of the people whose affairs they were called on to administer, their authority in the matters entrusted to them should be real and not nominal, and they should not be subject to unnecessary control, but should learn by making mistakes and profiting by them. The views contained in the Resolution of 1915 were liberalised accordingly to the following extent :—

- (1) As regards powers of taxation of municipal boards, the Government of India in their Resolution of 1915 expressed general sympathy with the Decentralisation Commission's recommendations. They thought, however, that power to vary any tax might be reserved by such provincial governments as were unable to accept in full the recommendations of the Commission and that in the case of indebted municipalities the previous sanction of higher authority should be required to any alteration of taxation. The suggested proviso that provincial governments should have power to vary any tax practically rendered the general principle nugatory, as it enabled provincial governments to decline to act upon it. The Government of India, on reconsideration, were of the view that this proviso should be given up in the case of boards which contain substantial elected majorities. As regards the further proviso with regard to indebted municipalities, the Government of India were of the view that it was undoubtedly sound. Where Government had lent money to a municipality or guaranteed repayment of its loans, the sanction of Government should obviously be required to any alteration in taxation which might reduce the municipality's resources. Subject to this proviso, the Government of India considered it most important that municipal boards should be allowed to vary taxation in the manner proposed by the Commission.
- (2) As regards powers of taxation of district boards, the Decentralisation Commission held that district boards should not be empowered to raise the land cess beyond the then existing limits. The Government of India in their Resolution of 1915 did not consider it necessary to make any pronouncement on the subject. Under the general principle indicated above in respect of municipalities the Government of India, on reconsideration, laid down a somewhat similar policy. Where no limit was imposed by law on the rate of the cess, a change in the rate at which the cess is levied should need the sanction of outside authority but where a limit was imposed a rural board should be at liberty to vary the rate at which the cess is levied within the limits imposed by law without the interference of outside authority.
- (3) In the matter of control of services paid for by local bodies, the Decentralisation Commission proposed that, if a municipal or rural board had to pay for a service, it should control it; and that, where it was expedient that the control should be largely in the hands of Government, the service should be a provincial one. The Government of India, though not prepared to accept the proposal in full, declared in their Resolution of 1915 that they approved of it in a somewhat modified form. They considered that charges should be remitted in cases where a local body contributed to Government for services inherent in the duty of supervision and control by Government officers or services which could not expediently be performed except by Government agency. For example, Government might properly cease to charge for clerical establishments in the offices of supervision and control or for the collection of district cesses which it was clearly expedient to realise

along with the Government revenue. The Government of India, on reconsideration, were of opinion that in this matter it would be well to go the whole way with the Commission, in accordance with the general principle that if local bodies have to raise funds for any particular object they should have the control of those funds. If a board is to provide, for instance, for civil works or medical relief, it ought, subject to such general principles as the Government may prescribe, to have real control over the funds thus provided, and should not be under the constant dictation of government departments in matters of detail.

- (4) As regards the power over budgets of local bodies, the Decentralisation Commission recommended that municipalities should have a free hand with regard to their budgets. The only check required should, in their opinion, be the maintenance of a minimum standing balance to be prescribed by the provincial governments. They acknowledged that relaxation of control might lead to mismanagement but they were of opinion that municipal bodies could attain adequate financial responsibility only by the exercise of such powers and by having to bear the consequences of their errors. Further check would be provided by the control which provincial governments would exercise over loans and by the power which should be reserved to compel a municipality to discharge its duties in cases of default. In dealing with these proposals in their Resolution of 1915 the Government of India, while introducing exceptions suggested by various provincial governments, declared that, though they would accept these reservations for the present, they nevertheless regarded the recommendations of the Commission as expressing a policy to be steadily kept in view and gradually realised. The Government of India, on reconsideration, expressed the desire that provincial governments should make every effort to attain the full realisation of the recommendations in question as soon as possible.
- (5) A similar recommendation was made by the Decentralisation Commission in respect of rural boards, and the Government of India in their Resolution of 1915 considered that the restrictions on the powers of these boards with regard to the general principle of budget expenditure should be gradually relaxed with due regard to local conditions and requirements ; the fact that an official would almost invariably be the chairman and that powers of inspection and control were retained by Government being sufficient safeguards against gross mismanagement. In this case, as in that of municipalities, the Government of India expressed the desire that the recommendations of the Commission should be realised as soon as possible, subject only, as in the case of municipalities, to control in the case of rural boards which were indebted to Government and in cases of gross default.
- (6) As regards the specification of income and earmarking of grants the Government of India endorsed the recommendation made in the Decentralisation Commission's Report that the system of requiring local bodies to devote fixed portions of their revenues to particular objects of expenditure should be done away with as unduly limiting their freedom of action, subject, as indicated by the Commission to outside intervention in the cases of grave neglect or disregard. If the Government gave a grant for a particular object, the money must, of course, be supplied thereto, but the Government of India endorsed the Commission's recommendation that grants-in-aid should normally take

the form of a lump grant or a percentage contribution towards specific services rather than be more definitely earmarked. If again, funds were raised locally for particular objects, they must necessarily be applied to those objects; but otherwise, the general principle laid down by the Commission was one which the Government of India wished to see ordinarily observed.

- (7) In regard to sanction for works, the Decentralisation Commission proposed that existing restrictions on municipalities which required outside sanction for works estimated to cost more than a certain amount should be removed, but that Government should scrutinize and sanction estimates of projects to be carried out from loan funds. In their Resolution of 1915 the Government of India observed that the majority of the provincial governments were prepared to relax the existing rules in the direction of giving more freedom to municipal boards, and the Government of India expressed themselves in favour of extended freedom subject, where necessary, to proper precautions against extravagant and ill-considered projects.

With reference to a similar recommendation made by the Decentralisation Commission in respect of rural boards the Government of India in their Resolution of 1915 expressed the opinion that the grant to rural boards of full powers in the allotment of funds and in the passing of estimates could not for the present at least be conceded, but the extent of the necessary financial control might depend in the case of rural boards on the competence of the staff employed, and where this varied it would not be desirable to lay down hard and fast rules for the whole of a province. The Government of India still adhered to the views expressed by them in 1915, but they desired to go somewhat beyond the general pronouncement then made and suggested that provincial governments, allowing for the necessarily different circumstances of different boards, should make a material advance in the direction of the proposal made by the Decentralisation Commission. They thought that it might be found convenient to arrange for this advance by a classification of bodies according to the character of their local technical staff, and to divide them into classes accordingly as sanction was not required, or was required, in the case of works whose cost was calculated to exceed certain specified amounts.

- (8) In the matter of control over establishments of local bodies, it was also recommended by the Decentralisation Commission that the degree of outside control over municipal establishments should be relaxed, but that the appointments of municipal secretaries or other chief executive officers, of engineers and health officers, where these existed, should require the sanction of the provincial government in the case of cities and of the Commissioner elsewhere, and that the same sanction should be required for any alteration in the emoluments of these posts and for the appointment and dismissal of the occupants. As regards other appointments, the Commission proposed that the provincial government should lay down for municipal boards general rules in respect to such matters as leave, acting and travelling allowances, pensions or provident funds and maximum salaries, and that their sanction should be required for any deviation therefrom. The system recommended by the Commission was already substantially in force in Bombay, and almost all the provincial governments expressed their willingness to relax outside control over the appoint-

ment of the staff employed by local bodies. The Government of India, on reconsideration, were of opinion that steps should be taken to carry out the general recommendations of the Commission in respect of municipalities ; and that as regards rural boards, for which the Commission made similar recommendation, similar action should be taken. They considered, moreover, that the requirements of Government sanction to the appointment and dismissal of the special officers above mentioned might properly be accompanied by the right on the part of Government to require their dismissal in cases of proved incompetence.

70. So far as village panchayats were concerned, the Government of India Resolution of 1918 looked upon them not as mere mechanical adjuncts of local self-government but as associations designed to develop village corporate life on the basis of the intimacy existing between the inhabitants, who had not only common civic interests, but were also kept together by ties of tradition and of blood. The need for making an effective beginning in the field was also impressed on provincial governments. It was suggested.

- (a) that village officials should be associated with panchayats, other members being chosen by informal election by the villagers,
- (b) that their function should be to look after village sanitation, village education and petty litigation, both civil and criminal,
- (c) that it should be permissible, though not as the Decentralisation Commission suggested universally necessary, that the panchayat should receive some portion of the land cess raised in their village. The panchayat should also have voluntary powers of supplementary taxation, the proceeds of which would be devoted to the special purpose or purposes for which the tax was levied.

71. **The Simon Commission Report.** With the coming into force of the Government of India Act, 1919, local self-government became a transferred subject. From 1921, therefore, the implementation of the policy and principles formulated in the Resolution of May 1918 devolved on elected Ministers and the Government of India ceased to issue any official instructions to provincial governments. Under the Scheduled Taxes Rules, the taxes which could be imposed by local bodies were separated from those which could be imposed for provincial purposes. A detailed reference to these rules will be found in the chapter on powers of taxation. A number of Acts relating to local self-government were passed soon after the inauguration of the Reforms. In November 1922 an Act was passed in the United Provinces (Act X of 1922) which conferred on district boards the power to impose taxes on circumstances and property and to increase the local rate. (The general position relating to municipal finance when the Simon Commission dealt with the subject\* is given in paragraph 345 of their Report, Vol. I in the following terms :

"Municipalities are given a wide choice in the form of the taxes which they may levy. Octroi duties, terminal taxes, taxes on personal income, fixed property, professions and vehicles, have all been utilised, while for particular services, such as education and water supply, special taxes or cesses are imposed. The Government's control in financial matters is limited generally to cases in which the interests of the general public call for special protection. It has the right to alter a municipal budget, if it considers that due provision has not been made for

[The report is dated May 27, 1930].

loan charges and for the maintenance of a working balance, and it may intervene in the administration of a council by way of preventing or initiating action in matters affecting human life, health, safety or public tranquility. But these powers have been very infrequently exercised."

72. The functions of district boards were very much the same as those of municipalities, after allowing for the different conditions of town and country, and the powers of control and intervention by the provincial governments were similar. The finances of rural authorities are dealt with in paragraph 348 of the Simon Commission Report Vol. I, in the following terms :—

"The main source of revenue of rural authorities is a tax or cess levied on the annual value of land and collected with the land tax, though this may be, and often is, supplemented by taxes on companies and professional men and by tolls on vehicles. A very large proportion of the revenue of these authorities, however, consists of subventions from the provincial governments. These are given not only as grants-in-aid for particular services, but not infrequently in the form of capital sums for the provision of works of construction."

73. As regards village panchayats, their functions at the time the Simon Commission reported were :—

- (1) to look after such matters as walls and sanitation ;
- (2) to look after minor roads and management of schools and dispensaries and
- (3) in Madras also village forests and irrigation works.

74. In some provinces, village panchayats were also given power to deal with petty civil and criminal cases. Despite great efforts to establish these village authorities, the Simon Commission observed that it had not proved possible to progress very rapidly. Development had gone further in the United Provinces, Bengal and Madras. Outside these provinces, the movement was completely in its infancy. The common obstacle was the refusal of the villagers to have anything to do with the constituting of a fresh taxing authority.

75. As against the grant of freedom stressed in the Government of India Resolution of 6th May 1918, the Simon Commission stressed the need for control by the provincial governments over local self-government authorities. They pointed out that in Great Britain the state of efficiency of local government was largely due to ever increasing pressure by the departments of the central government. "By numerous administrative devices, by inspection, by audit, by the giving of grants-in-aid on conditions ensuring efficiency and by insisting on standards of competence in the municipal staff, the local Government Board and its successor, the Ministry of Health, have steadily raised the standard of administration in our local authorities....." It is significant that where, as in Madras, the authority at the headquarters of the province has made use of a system of specifically earmarked grants-in-aid to keep a controlling hand on district board administration, the fall in efficiency has been far less."

76. In relation to the financial difficulties of local bodies the remarks of the Simon Commission have great force even to this day and are worth quoting :

"It is a commonplace of administration in India that financial resources are generally quite inadequate to meet needs and this is specially true of local self-government. Undoubtedly one of the

reasons for the failure to develop a trained municipal personnel is the poverty of the municipalities and the district boards. But it is not only actual poverty which cramps their resources but the reluctance of the elected members to impose local taxes. This is a feature by no means confined to India; indeed the willingness of a community to impose high taxation on itself for common needs is proof of a very advanced civic consciousness. In rural India, the method of financing district boards is, as we have seen, by an addition to the land tax. It is naturally difficult to get bodies composed of land-holders to increase the burden on themselves, and the tendency is to refrain from adding increased cesses and to demand larger subsidies from the provincial government. The system of grants-in-aid has done much in our own country to stimulate the development of particular services, but such grants are generally made conditional on the imposition of adequate taxation and the acceptance of a considerable measure of central control by the local authorities themselves. In India, the giving of grants, often unconditionally, to local authorities has gone so far as to divorce control of policy from financial responsibility. In Bombay, government grants amounted to nearly 60 per cent. of the revenue of district boards.

While the rural authorities have the advantage of the machinery of revenue for the collection of their basic source of income, cess on land, municipalities adopt a variety of expedients for raising revenue. The most disturbing feature, however, is the failure to collect the direct taxes imposed. In Great Britain, a municipality expects to collect up to 98 or 99 per cent. of the rates imposed by it, and a drop in collection to 95 per cent. would be subject of very close enquiry. But in municipalities in India since the reforms, uncollected arrears have been mounting up to very large sums. This feature is referred to by almost every provincial government in reviewing the work of the municipalities, and it is clear that there is great laxity in this respect. Another very general criticism is directed to the prevalence of embezzlement by employees. This is clearly to some extent the result of the failure to pay salaries sufficiently high to secure trust-worthy officials. But it is also due to carelessness, want of system and inefficient supervision. Generally speaking, the management of the finances of local authorities has deteriorated since the Reforms, and this laxity is not adequately corrected by such powers of audit as the provincial governments possess."

77. **The Government of India Act 1935 and after.** With the inauguration of provincial autonomy in April 1937, local self-government received a further impetus and several Acts were passed by the Provincial Legislatures practically in every province with the object of widening the powers and functions of local bodies. With the achievement of independence, this process is still going on. The stress now is more on building from the bottom upwards by the establishment of village panchayats and endowing them with real powers.

78. Article 40 of the Constitution of India says that the State should take steps to organise village panchayats and endow them with such powers and authority as may be necessary to enable them to function as units of self-government. In every State that we visited, we found that village panchayat Acts had already been passed or new bills were under active consideration. It is understood that there are nearly 80,000 village panchayats functioning in the country today, 35,000 or a little less than half, are functioning in U. P. alone. The U. P. Government describe this scheme as a bold experiment in the realm of local self-

government. And so it really is. Much wider powers and duties have been assigned to these small institutions than were contemplated in the past. Elections to Gaon Sabhas were held in February 1949 and the U. P. Government provided them with necessary funds for the first six months to give them a start. There is in U. P. a big administrative organisation for inspection and supervision of these panchayats, for which a provision of Rs. 36,19,500 was made in the budget for the year 1950-51. An account of financial resources of village panchayats is given in a separate chapter of this report.

79. So far as the financial resources of municipalities and district boards are concerned no enlargement was made during this period and the taxes which local bodies levied after the coming into force of the Government of India Act 1935 were more or less the same as in the days of Lord Ripon. On the other hand, with a widening of functions there was a restriction of financial powers. The demarcation of taxation between provincial and local which prevailed during the entire period of the Montagu-Chelmsford reforms was done away with. Certain taxes such as the terminal tax, the taxes on trades, callings and professions and the tax on circumstances and property were subjected to new restrictions. Under the Government of India Act 1919,\* terminal taxes on rail-borne goods and passengers were included in the provincial list. But with the grant of autonomy they were transferred to the central list. After April 1937, terminal taxes on goods and passengers could only be levied and collected by the Central Government, though the proceeds thereof were assignable to provinces. Those municipal boards which were already levying the terminal and pilgrim taxes before April 1937 were allowed, by virtue of the saving provided in section 143 (2) of the Government of India Act, to continue to levy either or both, as the case may be, until a provision to the contrary was made by the Central Legislature. They could not, however, increase the existing rates of terminal tax on any article, or add a new item to an existing schedule, with the result that the revenue from such taxes remained static over a series of years. Applications from local bodies for the levy of terminal tax and pilgrim tax were as a rule refused by the Government of India, with the result that municipalities began to replace terminal taxes by octroi duties.

80. As regard taxes on trades, callings and professions, there was no restriction under the Acts of the various provincial legislatures on the powers of local bodies as to the amount of tax leviable by them, but by an amendment to the Government of India Act, 1935 their levy at an amount in excess of Rs. 50 per annum from any single assessee was prohibited by section 142-A of the Government of India Act read with the Professions Tax Limitation Act 1941, which was passed by the Central Legislature. Under the latter, the profession tax levied by the Calcutta Corporation, the Circumstances and Property Tax levied by certain municipalities in the U.P., the Profession Tax levied by the municipalities in C.P. & Berar and the tax on trades, professions and callings under sub-section 1 of section 123 of the Bengal Municipal Act were exempted. Otherwise, all profession taxes were subject to the limit of Rs. 50 per annum for any single assessee. This caused specially heavy losses to local bodies in Madras which were levying profession tax up to a maximum of Rs. 1,000 in the Madras Corporation and Rs. 550 per annum elsewhere. The Madras Government had to pay compensation of Rs. 12 lakhs per annum to local bodies affected by this change. Local bodies in other provinces had simply to reduce their income and received no compensation from their provincial governments.

81. So far as the powers of taxation were concerned, the provincial governments did not, as a rule, grant wider powers as recommended by the Decentralisation Commission and endorsed by the Government of India in their resolution of

\* Terminal taxes on passengers are commonly known as pilgrim taxes.



16th May, 1913. Generally, every fresh proposal for taxation, for reduction or abolition of an existing tax continued to be subject to the previous sanction of the provincial government. Not only this but many of the provincial governments, finding perhaps that local bodies were unwilling to exercise such powers of taxation as they possessed, obtained through the legislature special powers to direct imposition of taxation in emergencies in the interest of public health and safety or to prevent grave detriment to the public interest. As practically every local body was dependent on grants-in-aid, the system was further strengthened and with this widening of the system of grants-in-aid greater scrutiny over the budgets of expenditure became inevitable. Provincial governments sometimes used this power of giving grants-in-aid to compel local bodies to do certain things or to abstain from doing certain others under the threat of withholding grants-in-aid on failure to comply with their directions. In this manner they obtained control both over income and expenditure policies of the local bodies, which they did not possess prior to 1st April 1937. This tendency was augmented by the heavy rise in prices after world war II, when local bodies found it impossible to balance their budgets. They were forced to raise the scales of pay of their staff or grant dearness allowances to them and such increase of expenditure they could not meet without financial assistance from the provincial governments. The position, therefore, today is that in matters of finance the control of the provincial governments over local bodies is very substantial.

82. **Incidence of taxation and total income per capita.** The incidence of local taxation and total income per head of population for all local bodies for the year 1946-1947 is given in the statement below :—

**STATEMENT SHOWING THE AGGREGATE POPULATION, TOTAL INCOME, INCOME FROM TAXATION AND PER CAPITA INCIDENCE OF CITY MUNICIPAL CORPORATIONS, MUNICIPALITIES AND DISTRICT BOARDS FOR THE YEAR 1946-47.**

Description of local body	Number	Population	Total income from all sources  Rs.	Income from taxation		Incidence per head of population			Remarks
				Amount  Rs.	Percentage to the total income	Total income from all resources Rs. As. Ps.	Income from taxation Rs. As. Ps.		
1. City Municipal Corporations (1947-48)	3	4,755,547	123,521,810	89,242,505	72.24	25 15 7	18		
2. Municipalities ...	628	21,946,887	151,819,055	104,094,627	68.56	6 14 7	4 11 10		
3. District Boards ...	176	204,522,250	155,531,309	52,228,921	33.58	0 12 2	0 4 1		
Total ...	797	231,224,684	430,872,174	245,566,053	56.99	1 13 1	1 0 11		

It will be seen from this statement that the incidence of taxation for all local bodies taken together was as low as Rs. 1-0-11 per head of population. When we consider the income from all sources, the incidence is only slightly larger, viz., Rs. 1-13-1.

From a report recently issued by the Economic Advisor to the Government of India on the National Income of the Indian Union Provinces in 1946-47, it appears that the total net national income was Rs. 5,580 crores. The total estimated population was 244.4 millions. This gives a per capita income of Rs. 228. The incidence of local taxation is, therefore, less than half per cent. of the per capita national income.

(a) **City Corporations.**

**Incidence of taxation and income.** The incidence of taxation and total income per capita in the three Corporations of Madras, Bombay and Calcutta from 1894-95 to 1947-48 is given below :—

Year	MADRAS			BOMBAY			CALCUTTA											
	Incidence of total income			Incidence of taxation			Incidence of total income			Incidence of taxation								
	Rs.			Rs.			Rs.			Rs.								
1894-95	2	6	11	2	0	3	11	14	10	6	12	7	6	10	10	5	0	10
1907-08	5	0	6	2	11	8	12	5	5	10	14	7	8	9	6	6	1	5
1918-19	7	5	5	5	0	5	17	15	3	15	11	5	14	0	4	10	2	5
1952-26	13	1	0	7	10	6	26	1	1	23	2	8	19	0	5	15	1	7
1932-33	10	4	10	7	0	8	25	13	8	22	1	1	19	1	9	15	12	2
1935-36	11	3	7	7	4	2	27	14	5	22	5	1	21	2	0	17	8	0
1939-40	12	0	5	8	6	2	29	13	11	24	11	11	22	6	2	18	10	7
1940-41	10	11	7	7	9	7	23	1	15	19	13	7	22	3	8	18	5	0
1946-47	16	2	2	10	2	3	36	0	10	30	10	11	13	0	2	8	4	0
1947-48	20	0	8	10	15	0	44	6	5	36	2	6	19	12	11	11	7	3

(N.B. The sources of tax and non-tax revenue of the three Corporations are not identical).

It will be seen that the incidence of taxation is highest in Bombay City, next comes Calcutta and after that Madras. The incidence of taxation has increased five times during the period from 1894-95 to 1947-48 in Madras, nearly six times in Bombay and over two times in Calcutta. When we look to the total income the incidence is in the following order :—

Bombay,  
 Madras,  
 Calcutta..

Calcutta which occupied the second place in regard to incidence of taxation occupies the third place in regard to incidence of total income. This means that other sources of income are more highly developed in the Madras Corporation than in the Calcutta Corporation. The Bombay Corporation retains the first place both in regard to incidence of total income as well as of taxation.

The incidence of taxation in the City Corporations is naturally higher than in other municipalities (as will be seen from the paragraph below) and consequently the standard of amenities provided is also much higher.

**(b) Other Municipalities.**

The incidence of taxation in other municipalities per head of population in 1946-47 was Rs. 4-11-10\*

Figures for previous years are given below :—

Year	Incidence of taxation.		
	Rs.	As.	Ps.
1880-81	0	13	1
1887-88	0	14	1
1890-91	0	14	4
1895-96	1	1	5
1900-01	1	3	4
1918-19	4	0	0
1921-22	4	9	11
1929-30	6	9	11
1931-32	5	8	8
1940-41*	4	0	6

The incidence shows an upward tendency. Between the years 1900-01 and 1918-19 the incidence increased four times. The rate of increase has since slackened and has not kept pace with the large increase in prices between the years 1933 and 1949.

The incidence of total income per head of population for other municipalities is given in the statement below :—

\*Figures relate to India as after partition.

INCIDENCE OF TOTAL INCOME PER HEAD OF THE POPULATION OF MUNICIPALITIES IN INDIA

Year	All India	Madras	Bombay	Benga	Uttar Pradesh	Punjab	Bihar	Orissa	Madhya Pradesh	Assam	Del hi	Ajmer Merwara	Coorg
	Rs. as. ps	Rs. as. ps	Rs. as. ps	Rs. as. ps	Rs. as. ps	Rs. as. ps	Rs. as. ps	Rs. as. ps	Rs. as. ps	Rs. as. ps	Rs. as. ps	Rs. as. ps	Rs. as. ps
1884-85	0-0-2	1-5-2	1-9-5	1-0-5	0-10-7	1-4-10	Included in Bengal		1-7-8	1-10-5			
1894-95		1-11-8	2-11-3	1-7-6	1-15-	2-9-3			2-6-6	2-6-7			
1907-08		1-9-6	3-6-5	1-15-3	2-1-11	2-14-8			2-5-10	2-11-5			
1918-19	6-1-3	3-10-3	5-3-3	3-3-8	3-14-5	6-7-0	2-13-3	Included in Bihar	5-12-10	4-10-0			
1925-26	8-8-9	4-2-6	8-7-6	3-12-4	4-8-1	7-5-0	3-0-4		4-9-3	5-11-2			
1927-28	8-14-7	6-13-9	8-9-11	3-15-3	5-6-0	7-6-5	2-13-4		6-14-3	6-9-10	6-9-4	4-1-10	4-4-5
1932-33	7-9-3	5-0-4	7-10-2	3-11-3	4-14-2	5-6-4	2 9-0		4-13-4	5-7-2	7-10-10	4-0-10	3-11-9
1935-36	8-3-7	5-5-8	7-15-5	3-15-2	5-2-1	6-9-2	3-0-11		4-11-7	5-12-6	14-7-3	4-13-3	3-13-9
1938-39	8-6-2	6-7-8	7-9-1	4-7-0	5-6-9	6-4-4	2-15-1	3-6-8	4-14-7	6-0-2	15-6-9	4-10-3	3-14-4
1939-40	8-7-0	6-13-11	7-8-1	4-2-6	5-6-6	6-1-4	2-12-4	3-4-11	5-2-3	6-3-5	15-4-6	4-8-4	4-7-8
1940-41	8-4-8	7-1-5	7-12-2	4-8-11	5-12-2	6-3-8	3-4-11	3-11-3	..	4-9-5	11-8-2	3-12-9	4-1-0
1946-47	6-14-7	10-9-0	8-0-0	5-1-9	9-2-10	5-3-11	4-13-0	8-6-2	9-8-	6-13-5	—	—	5-15-3

Note. (a)—The all India figures from 1884-85 to 1940-41 are in respect of undivided India as given in the Statistical Abstract for British India. The figures for 1946-47 are in respect of partitioned India calculated from statistics furnished by State Governments.

(b) Similarly the figures from 1884-85 to 1940-41 are in respect of the undivided Provinces of Bengal and Punjab. The figures for 1946-47 are in respect of the States of West Bengal and Punjab (I).

It will be seen that the all-India incidence of total income in municipalities (other than Corporations) per head of population is Rs. 6-14-7. As the incidence of taxation per capita is Rs. 4-11-10, this means that two-thirds of the total income is derived from taxation and one-third from other sources, such as properties, commercial undertakings, Government grants, etc. The proportion of two-thirds from taxation cannot be considered to be low, taking all the circumstances of the Indian population into account.

The incidence of municipal taxation in the major states of India for the period 1884-85 to 1946-47 is given in the statement below :—

**INCIDENCE OF MUNICIPAL TAXATION PER CAPITA IN THE DIFFERENT STATES OF INDIA**

Year	All India	Madras	Bombay	West Bengal	Uttar Pradesh	Punjab	Bihar	Orissa	Madhya Pradesh	Assam	Delhi	Ajmer Merwara	Coorg	
	Rs. as. ps.	Rs. as. ps.	Rs. as. ps.	Rs. as. ps.	Rs. as. ps.	Rs. as. ps.	Rs. as. ps.	Rs. as. ps.	Rs. as. ps.	Rs. as. ps.	Rs. as. ps.	Rs. as. ps.	Rs. as. ps.	
1884-85	0-21-0	0-12-0	1- 3-5	0-12-0	0-10-1	1- 1-8	Included in Bengal.		1- 1-0	0-11-3				
1894-95		0-13-9	1-10-8	0-13-7	1- 0-7	1-13-5			1- 5-5	1- 2-1				
1907-08		1- 3-9	1-14-9	1- 7-5	1- 9-9	1-14-9			1- 9-6	1- 7-5				
1918-19	4- 0-0	1-15-0	3- 4-1	2- 9-1	2- 3-0	3- 5-7	1- 8-9	Included in Bihar.	2- 8-7	2-11-				
1925-26	6- 0-6	2- 3-3	5-11-6	3- 1-5	3- 7-7	4- 2-7	2- 2-0		2-15-9	3- 5-5				
1927-28	6- 4-3	2-10-6	5-13-0	3- 4-0	3-11-0	4- 4-1	2- 1-8	Included in Bihar.	3-15-4	3-14-3	- 8-1	2-11-9	-11-8	
1932-33	5- 8-2	2- 5-9	5-10-7	2-15-1	3- 5-9	3- 2-9	1-15-1		3- 3-11	3-10-11	- 9-0	2-14-3	3-4	
1935-36	5-14-5	3- 4-1	6- 0-2	3- 4-6	3- 8-1	4- 3-6	1-14-7	...	3- 5-11	3-13-3	9-14-6	3- 4-11		
1938-39	9- 2-0	3-15-1	5-10-4	3- 7-11	3-10-2	3-14-6	1-14-7		2- 1-7	4-14-7	6- 0-2	11- 3-1	3- 4-10	- 0-7
1939-40	6- 3-6	4-	5-11-1	3- 6-0	-10-1	3-14-1	2-12-4	3- 4-11	3- 9-3	3-14-9	11- 5-11	3- 2- 2	2-10-9	
1940-41	6- 1-4	4- 4-4	0-	3-10-4	3-14-7	3-15-3	2- 3-5	2- 2-0	2- 4-9	2-13-9	8- 5-10	2- 9- 7	1-10-5	
1946-47	4-1 1-10	3-15-10	5-15-6	3- 7-8	6- 1-4	3-10-6	2-12-0	2- 6-6	6- 1-3	3- 9-9			3- 6-5	

*Note.* (a) The all India figures from 1884-85 to 1940-41 are in respect of undivided India as given in the Statistical Abstract for British India. The figures for 1946-47 are in respect of partitioned India calculated from statistics furnished by State Governments.

(b) Similarly the figures from 1884-85 to 1940-41 are in respect of the undivided Provinces of Bengal and Punjab. The figures for 1946-47 are in respect of the States of West Bengal and Punjab (I).

















## CHAPTER II

---

decreased and assessment and collection figures have mounted up. Audit reports throw a flood of light on slackness of administration and slackness in assessment and collection. We deal with these matters in the following pages and it is our hope that the recommendations we have made may lead to some improvement in the existing state of affairs. But we are satisfied that the stopping of all such loopholes, irregularities and human weaknesses, though very necessary, will not be enough. The local bodies will still need larger resources and it is on this task that attention will have to be concentrated in the coming years.



## CHAPTER III

### FUNCTIONS AND FINANCIAL RESOURCES OF LOCAL BODIES.

100. The terms of reference of this Committee are confined purely to financial matters and have nothing to do with the functions of local bodies. But as finance is correlated with function, it is necessary to state what functions are assigned to local bodies in order to see whether the financial resources placed at their disposal for the discharge of those functions are, or not, adequate. So far as functions are concerned, there will be no recommendations and the survey will be purely of a factual nature.

101. There are two main principles regarding the functions which may be exercised by local authorities. One is that a local authority may do anything which it considers to be for the good of the community provided that it is not specifically forbidden by law or assigned by law to some other authority. The other is that no local authority may do anything which it is not definitely entitled to do by virtue of a statute.

102. A third principle, which is operative in the U.S.S.R. only, is that whereas by law there is nothing which is beyond the scope of any local authority's powers, its action may be over-ruled by any higher authority.

103. Germany is the outstanding example of the first principle. The United Kingdom illustrates the second. As most of the Acts constituting local bodies in India were passed in the days of British power, they follow the line of British enactments, i.e., functions have been defined in the Acts and local bodies cannot do anything which is not covered by the specific terms of their respective constituent Acts.

104. Local bodies in India may be broadly placed into two classes, urban and rural. There are many Acts governing the constitution of these bodies all over the country and they are not all identically worded. It is, therefore, not easy to present a detailed picture of functions without repeating the various clauses of the enactments themselves, which would be very tedious besides being unprofitable. An attempt is, therefore, made below to give in general terms an idea of the functions of local bodies under certain main heads.

105. Urban bodies are mostly known as municipalities and functions of municipalities in most States are similar. In some Acts functions are divided into two classes, obligatory and discretionary, but not in others. Generally, their duties are to provide, maintain and promote the amenities of life for the civic population. Their activities fall generally under five heads; namely, education, public health, sanitation, medical relief and public works.

106. **Education.** Under education their primary concern is the construction, maintenance or aiding of elementary schools and not infrequently, of secondary schools. In some States, they are also principal agents for the introduction and promotion of the policy of compulsory primary education.

107. **Public Health and Sanitation.** In the sphere of public health they concern themselves with drainage, water-supply, conservancy, the control of epidemics and regulation of offensive and dangerous trades, vaccination and registration of births and deaths.

108. **Medical Relief.** To provide medical relief, they may establish and maintain or aid public hospitals and dispensaries including infectious hospitals.

109. **Public Works.** Public works under their control include the construction and maintenance of tramways, roads, bridges, culverts and public markets and slaughter houses, the removal of dangerous buildings, obstructions and projections in or upon streets and other public places, the lighting, waterings and cleansing of public streets, the establishment and maintenance of public gardens and parks, libraries, museums and picture galleries and the planting and maintenance of trees along the public highways. Municipalities also construct and maintain veterinary hospitals and fire brigades and hold fairs and industrial exhibitions.

110. **Rural Boards.** The principal local bodies operating in rural areas are district boards, which are charged generally with the adoption and promotion of measures calculated to improve the safety, health, comfort and convenience of the people living within their jurisdiction. The principal duties of rural boards are the construction and maintenance of roads, the planting of avenues along public highways, the provision and protection of the water-supply for human consumption and of canals, tanks etc., for irrigation for the use of cattle and generally for purposes connected with agriculture, the opening, aiding and maintaining hospitals, dispensaries and schools, the dissemination of sanitary knowledge, the establishment of rest houses, markets, etc., management of pounds and ferries and properties and institutions entrusted to them, the inception and control of relief works in time of famine, and the aiding of agriculture by the promotion of agricultural exhibitions or the establishment of model farms. The maintenance of veterinary hospitals is a duty common to boards in all States except in Madras; the provision of facilities for improving the breed of cattle is specially entrusted to them in some States. Vernacular education is their principal charge; but other forms of education are not outside their purview. The training of teachers, school inspection and the granting of scholarships are also included in their duties.

111. In relation to rural areas, village panchayats have begun to play a greater part in local affairs than in the British period. The functions and finances of village panchayats will form the object of study in a separate chapter.

112. In regard to functions, two very diverse tendencies are in operation at the present day. One is the tendency to transfer functions from local bodies to the State Government; another is in the reverse direction, namely, to transfer fresh functions to local bodies which are not mentioned in the previous constituent enactments. As regards the first tendency, namely, transfer of functions from local bodies to the State Government, the information at the disposal of the Committee is not complete, but generally speaking the position is briefly as follows.

113. In the matter of primary education district boards in some States like Bombay and West Bengal have been more or less relieved of the responsibility of primary education and this responsibility has been placed on ad hoc boards constituted for the purpose and known as district school boards which are some times financed from sources which were previously at the disposal of district boards. In relation to public health and medical relief the tendency to provincialisation has become quite marked; principally as a result of the recommendations of the Health Survey, and Development Committee, popularly known as the Bore Committee. Here also the position varies from State to State. Provincialisation has proceeded farther in some States than in others. For instance, in West Bengal, Government have provincialised the health services under local bodies with effect from 1st February, 1947. As a result of this, the entire health organisation in West Bengal is under a single authority, namely, the Director of Health Services operating through a unified executive staff.

114. In the State of Madras provincialisation is proceeding as part of a definite policy promulgated by the State Government. In the field of medical relief the policy of the Government is to take over five or six local fund or municipal medical institutions every year subject to availability of funds. There is no proposal to take over any functions relating to public health or elementary education. In the field of communications the present policy is that roads which are important from the through traffic point of view, namely, highways and major district roads including municipal stretches of such roads, should be maintained by government and other roads of local importance should be left with local bodies. The question whether any revision of this policy is necessary and whether all roads should be re-vested in the local bodies is separately under consideration.

115. In the Punjab, since the partition of the province, some hospitals have been taken over by State Government from local bodies. But the local bodies concerned are required to contribute to Government the amount of annual expenditure incurred on the upkeep of these hospitals during the two years prior to provincialisation. Provincialisation will thus bring no immediate relief to local bodies, except that they are saved from the liability to additional financial outlay on their expansion and improvement. In regard to roads, the policy of the State Government is to take over second class district board roads, specially those which are important in the interests of general communications as finance permit. Several roads have already been taken over in pursuance of this policy.

116. Trunk roads and national highways are under the control and management of the State Government. Municipalities are generally in charge of roads within the municipal area (excluding trunk roads and national highways) and district boards are responsible only for roads of local importance and for the opening and improvement of communications in the interior and for construction and maintenance of village roads.

117. During the course of evidence it was pointed out to us that with this tendency to transfer of functions from district boards to the State Government and the policy of establishing panchayats in practically every important village, district boards will have very little work to do in the near future and the question of their abolition as a measure of economy was put to us. We understand that in Uttar Pradesh, where a large number of village panchayats have been established, the question of coordination of functions between district boards and village panchayats has been referred to a Committee by the State Government. We only mention this point but express no opinion as we have to frame our recommendations on the basis of the existing structure of local bodies.

We now come to the second tendency mentioned above, namely, the enlargement of the functions of local bodies. There is generally a feeling that with the new forces released by the grant of independence, local bodies will have to take an increasing part in public affairs. A good instance of this tendency is to be found in the Bombay Provincial Municipal Corporations Act 1949. Section 63 of this Act enumerates the functions of the Corporations among which the following two new items find a place:—

- (1) Provision of relief to destitute persons in times of famine and scarcity and the establishment and maintenance of relief works in such times ;
- (2) the construction and maintenance of residential quarters for the municipal conservancy staff.

118. In Madhya Pradesh, an even more striking experiment is being made. The district councils, which previously did the work of district boards in other States, have been abolished and in their place Janapadha Sabhas have been constituted. These Janapadha Sabhas have, at present, more or less the same functions as district boards in other States, but the intention is to decentralise and to transfer to the Janapadhas even such functions as are at present performed by the State Government. In this connection section 52 of the Central Provinces and Berar Local Government Act, 1948 will be read with interest :—

- (1) "The Provincial Government may entrust either conditionally or unconditionally to the Janapada authority functions in relation to any matter specified in the schedule or in relation to any other matter to which the executive authority of the province extends or in respect of which functions have been entrusted to the Provincial Government by the Dominion of India ; and the Janapada authority concerned shall be bound to perform these functions.
- (2) Where, functions are entrusted the Janapada authority under this section the Janapada authority shall, in the discharge of those functions, act as agents for the Provincial Government.
- (3) Where by virtue of this section powers and duties have been conferred or imposed as agency functions upon a Janapada authority, there shall be paid by the Provincial Government to the Janapada authority, such sum as may be determined by the Provincial Government in respect of any extra costs of administration incurred by the Janapada authority in connection with the exercise of those powers and duties.
- (4) In so far as the Janapada authority is required to act under this section, it shall be under the general control of, and comply with such particular directions if any, as may from time to time be given to it by the Provincial Government in this behalf".

Such is generally the position in regard to functions of local bodies.

119. We now come to their financial resources. Financial resources at the disposal of local bodies are of two kinds :—

- (1) Tax revenues and
- (2) Non-Tax revenues.

Under tax revenues may be grouped the following heads :—

- (1) taxes on property,
- (2) taxes on trade,
- (3) taxes on persons, and
- (4) fees and licences.

Non-tax revenues generally comprise the following items :—

- (1) rents of land, houses, rest houses and dak bungalows,
- (2) sale proceeds of land and produce of land,
- (3) fees and revenue from educational institutions,
- (4) fees and revenue from medical institutions,
- (5) fees and revenue from markets and slaughter houses,
- (6) fees and revenue from commercial undertakings, such as motor buses, tramways, electric supply etc.

(7) interest on investments,

(8) Government grants.

Taxes on property fall under the following four classes :—

(1) tax on buildings and lands.

(2) cess on lands, generally with reference to their use for agricultural purposes.

(3) tax on unearned increment in connection with betterment schemes.

(4) tax in the shape of a surcharge on stamp duty on transfers of property.

120. Of these four classes item (1) is generally of importance in Madras, Bombay, West Bengal and Madhya Pradesh. Item (2) is levied in rural areas and is the main source of income of district boards. Item (3) is not of much importance financially. Betterment taxes are levied under the Bombay Town Planning Act 1915 and the Madras Town Planning Act, 1920 in the Bombay and Madras States respectively. Item (4) is levied only in the State of Madras and by the Calcutta Improvement Trust.

121. Taxes on trade are mostly octroi and terminal taxes and are important principally in Punjab, Uttar Pradesh, Bombay and Madhya Pradesh. Tolls at one time used to be levied for the maintenance of roads in most parts of the country but have now been abolished, except in one or two States. District boards, derive some income from ferries within their jurisdiction.

122. The principal taxes on persons now levied by local bodies are the following :—

(1) taxes on circumstances and property in Madhya Pradesh, Uttar Pradesh, Bihar and Orissa.

(2) tax on professions, trades, and callings in Bengal, Madras, Uttar Pradesh, Madhya Pradesh and Punjab.

(3) a tax on companies in Madras.

(4) a tax on pilgrims in Madras, Bombay, Uttar Pradesh, Madhya Pradesh, Bihar and Orissa.

(5) a terminal tax on passengers in Calcutta.

(6) a tax on motor bus passengers in Bihar.

123. Fees and licences are numerous and are levied by almost every municipality in India. They may be classified under three principal heads :—

(1) fees for specific services rendered by the municipality, such as private scavenging.

(2) fee which are partly in the nature of luxury taxes and partly for purposes of regulation, such as licences for music, vehicles, dogs and other animals.

(3) licence fees, the primary object of which is regulation, such as fees for offensive and dangerous trades.

124. In Bengal profession tax is also levied in the form of licence fees. Income from non-tax revenue is generally from markets and slaughter houses and rents of buildings and lands owned by the local bodies and it cannot be said that this is very important source of income, except in certain municipalities. The public utility undertakings consist mostly of tramways motor bus

services and electric supply. Tramways are of importance only in the three cities of Bombay, Calcutta and Madras. It is only in Bombay that they are run by the local body. In Calcutta the tramways are run by a private company. Motor bus transport is being provincialised in almost all States. Only a few local bodies are allowed to run bus services of their own. In Bombay, Simla and Ahmedabad the municipalities run bus services but so far as is known their financial results are not very striking. Electricity which is a good source of income is also being gradually provincialised. Where local bodies are allowed to run such concerns they make a good income from them. But there is no prospect of local bodies deriving a considerable part of their income from public utility undertakings as in some European countries like Germany, Holland etc.

125. The other main item of non-tax revenue is Government grants. Government grants play a very insignificant part in the finances of the City Corporations of Calcutta, Bombay and Madras, a slightly larger part in the finances of other municipalities, but a very large part in the finances of district boards.

126. The position described above is reflected in figures as follows :—

Table showing the income and percentage to total income under main heads of local bodies in India (1946-47 excluding village authorities)

State	Property tax	Octroi and terminal taxes	Local fund cess	Profession tax (including tax on circumstances & property tax on persons and haisiyat tax	Other taxes	Total rates and taxes	Government grants	Miscellaneous	Total ordinary income
Madras	2,37,56,847 (21.6)	60,534 (.05)	1,82,51,554 (16.6)	19,70,957 (1.7)	1,13,39,831 (10.3)	5,53,79,523 (51.9)	2,12,87,256 (19.4)	3,28,58,526 (28.7)	10,95,25,305
Bombay	5,65,58,489 (41.6)	79,28,196 (5.8)	61,74,191 (4.5)	1,59,510 (.01)	63,09,394 (4.6)	7,70,29,780 (56.7)	78,16,787 (.5.7)	5,09,38,740 (37.8)	13,57,85,307
West Bengal	2,66,20,601 (47.1)		37,13,818 (6.5)	21,76,436 (3.8)	9,15,531 (1.6)	3,34,26,386 (59.2)	1,15,22,268 (20.4)	1,14,57,157 (20.4)	5,64,06,811
Uttar Pradesh	72,60,000 (10.5)	1,73,60,000 (25.2)	92,10,000 (13.4)	3,30,000 (.4)	26,20,000 (3.8)	3,67,20,000 (53.5)	2,27,70,000 (33.1)	91,40,000 (11.4)	6,86,30,000
Punjab (I)	9,37,024 (4.8)	29,25,123 (15.1)	25,78,351 (13.3)	3,697 (.01)	14,85,034 (7.7)	79,29,229 (41.1)	69,41,031 (36)	44,04,954 (22.9)	92,75,214
Bihar	37,50,463 (10.86)		85,10,913 (24.66)	92,336 (0.27)	26,66,657 (7.7)	1,50,20,369 (43.22)	1,39,56,468 (40.43)	55,36,043 (16.35)	3,45,12,860
Orissa	4,45,761 (11.9)		6,53,906 (8.5)	31,729 (.42)	9,92,024 (13.3)	18,23,420 (24.12)	49,63,413 (66.4)	6,84,689 (9.4)	74,71,522
Madhya Pradesh	39,99,880 (13.0)	36,21,924 (11.77)	37,96,872 (12.35)	1,27,602 (.42)	33,47,188 (10.88)	1,48,93,476 (48.62)	52,56,378 (17.0)	1,06,02,865 (34.38)	3,07,52,710

## CHAPTER IV

### POWER OF TAXATION.

127. Prior to the enactment of the Government of India Act, 1919, local authorities imposed certain taxes under legislation passed by the Provincial Legislative Councils, with the previous approval of the Government of India, but in several cases the imposition of such taxes was subject to general rules made or special orders issued by the Governor General in Council. Control by the Government of India over the powers of taxation of local authorities was thus almost unrestricted.

128. This position was completely changed by the Government of India Act, 1919, under which local self-government became a transferred subject and came under the control of elected ministers in each province. The control of the Government of India over the administration and finances of local bodies was abolished. Certain taxes were specified in statutory rules and included in what were known as the Scheduled Taxes. For the levy of a scheduled tax the sanction of the Governor General was not necessary. These scheduled taxes were divided into two classes :—

- (1) Taxes which may be imposed by a Provincial Legislative Council without the previous sanction of the Governor-General for the purposes of the Local Government.
- (2) Taxes which a Provincial Legislative Council may impose or authorise a local authority to impose for the purposes of such local authority.

✓ 129. We are concerned here with list (ii) only, in which were included the the following taxes :—

- (1) A toll
- (2) A tax on land or land values.
- (3) A tax on buildings.
- (4) A tax on vehicles or boats.
- (5) A tax on animals.
- (6) A tax on menials and domestic servants.
- (7) An octroi.
- (8) A terminal tax on goods imported into or exported from a local area, save where such tax is first imposed in a local area in which an octroi was not levied on or before the 6th July, 1917.
- (9) A tax on trades, professions and callings.
- (10) A tax on private markets.
- (11) A tax imposed in return for services rendered, such as :—
  - (a) a water rate,
  - (b) a lighting rate.
  - (c) a scavenging, sanitary or sewage rate,
  - (d) a drainage tax.
  - (e) fees for the use of markets and other public conveniences.



In pursuance of this authority, the taxes specified above were included in the provincial enactments in the list of the taxes which local bodies might impose for their own purposes. There are, of course, slight difference. For instance, in provinces like Madras, Bengal, Bihar and Assam, where octroi has not been allowed, there is no mention of such a levy in the Acts constituting local bodies. But, otherwise, the general structure of the list of taxes is the same.

130. The Scheduled Taxes Rules were repealed with the enactment of the Government of India Act, 1935, the Seventh Schedule to the Act of 1935 contained three lists of subjects : the Federal List, the Provincial List and the Concurrent List. Local authorities and the taxes which they might impose were not mentioned separately. List (ii) of the former Scheduled Taxes was included in the Provincial List, without any indication that the taxes in question were reserved for local authorities. This change has proved rather unfavourable for local authorities, as State Governments have, in certain cases, utilised what were previously recognised to be purely local taxes for their own purposes.

131. This position is (continued in the new Constitution of India.) It contains three lists of subjects, the Union List, the State List and the Concurrent List. These lists deal with the allocation of subjects between the Union and the States. Local bodies are not mentioned separately. Some of the items which belong to local bodies and were included in List (ii) of Scheduled Taxes during the Montagu-Chelmsford Reforms are included in the Union List, such as terminal taxes, while the majority of them are included in the State List. In some States taxes on property and in other taxes on professions, trades, callings, and employments are being used for the purposes of the State, though these taxes are allocated to local bodies under their constituent Acts. In order to give to the local bodies definite sources of revenue, it is suggested that a convention may be established by which net proceeds from the following sources of revenue shall be exclusively available for the local authorities :

**Union List** ✓

- (1) Item No. 89.  
Terminal taxes on goods or passengers carried by railway, sea, or air ;

**State List**

- (2) Item No. 49.  
Taxes on lands and buildings.
- (3) Item No. 50.  
Taxes on mineral rights subject to any limitations imposed by Parliament by law relating to mineral development.
- (4) Item No. 52.  
Taxes on the entry of goods into a local area for consumption, use or sale therein.
- (5) Item No. 53.  
Taxes on the consumption or sale of electricity.
- (6) Item No. 55.  
Taxes on advertisements other than advertisements published in the newspapers.
- (7) Item No. 56.  
Taxes on goods and passengers carried by road or on inland waterways.
- (8) Item No. 57.  
Taxes on vehicles, other than those mechanically propelled.

## CHAPTER IV

- (9) Item No. 58.  
Taxes on animals and boats.
- (10) Item No. 59.  
Tolls.
- (11) Item No. 60.  
Taxes on professions, trades, callings, and employments.
- (12) Item No. 61.  
Capitation taxes.
- (13) Item No. 62.  
Taxes on entertainments including amusements.

132. The power of taxation of local bodies depends on their respective constituent enactments. So far as City Corporations are concerned, their power is confined to a few items; they cannot go outside those items. The taxes they can impose are of a compulsory nature; they have no option in selecting them. They can only vary the rates within the statutory limits, where these are prescribed. But within the list of items allotted to them their power is final and is not subject to the approval of any external authority.

133. This cannot be said of other local bodies. They operate over a wider range of taxes. In some Acts it is stated that local bodies may impose any tax which it is within the competence of the State Legislature to impose. But their power to impose fresh taxation or modify or abolish an existing tax is not unrestricted, as in the case of City Corporations.

134. In their Resolution dated 16th May, 1918, the Government of India expressed the view that boards, both municipal and rural, with substantial elected majorities, should have full liberty to impose or alter taxation within the limits laid down by law; where no limits were imposed by the law the sanction of outside authority should be required to increase an existing tax. Boards which were indebted to Government should not be allowed to reduce a tax without the sanction of Government.

135. With the coming into force of the Government of India Act 1919, and the transfer of local self-government to elected ministers in the provinces, the above views of the Government of India were no longer binding on Provincial Governments. The principle enunciated is, however, valid even to-day and it is, therefore, necessary to see what progress has been made in enlarging the power of taxation of local bodies during the last 30 years or so. As the position varies from State to State, it is necessary to review it State-wise.

### MADRAS

136. The taxes leviable by local bodies in this State are :—

- (1) Property tax in the case of Madras Corporation and mofussil municipalities and house tax in the case of panchayats.
- (2) Profession tax.
- (3) Tax on vehicles and animals.
- (4) Tax on carts.
- (5) Surcharge on stamp duty.
- (6) Tax on pilgrims.
- (7) Tax on timber brought into the City of Madras.
- (8) Tax on companies.
- (9) Tax on advertisements by the Madras Corporation.

Local bodies are at full liberty to impose or alter the rates of the profession taxes, taxes on vehicles, animals and carts subject to the maximum rates prescribed in the Acts.

137. As regards the property tax, the Madras City Municipal Act, 1916, provides for the minimum and maximum rates at which property tax in Madras City may be levied. The Corporation of Madras is at full liberty to fix the rates of the tax subject to the maximum and minimum laid down in the Act. No such maximum rate has been laid down in the Madras District Municipalities Acts in regard to mofussil municipalities, but in the case of vacant lands maximum rates have been prescribed in the rules issued under section 81 (iii) of the Act which the local bodies have to follow. Mofussil municipalities are at liberty to levy the property tax at any rate, subject to the maximum mentioned above in the case of vacant lands. The Madras District Municipalities Act at the same time confers power on the State Government to compel municipal councils to levy property tax at the rates fixed by the Government.

Local bodies have to obtain the sanction of the Government for abolition or reduction in the rate of tax, if they are indebted.

138. The surcharge on stamp duty is levied at 5 per cent. in the Madras City and mofussil municipalities and at 4 per cent. in non-municipal areas of the value of properties transferred.

139. Municipal Councils and Local Boards are empowered to levy a tax on pilgrims leaving municipalities or local board areas or their neighbourhood by rail at the rates specified in the Acts. No new pilgrim tax or an increase in the rate of any existing tax can now be made without the sanction of the Government of India, as pilgrim taxes are included in the Union List.

140. The tax on timber is levied at a rate approved by the Madras Corporation but the rate cannot exceed five rupees per ton as prescribed in the Act. As long as they keep within this maximum limit, no sanction of the State Government is necessary.

141. A tax on advertisements is levied at such rates and in such manner as may be fixed by the Madras Corporation with the approval of the State Government.

142. A tax on companies which is distinct from profession tax and therefore not subject to the money limit to the Profession Tax Limitation Act, 1941, is levied by the Corporation of Madras at rates prescribed in the Act.

## BOMBAY

143. Local bodies in this State can impose any of the taxes which such local body is authorised to levy under the respective Acts. However, before a tax is imposed or altered the sanction of the competent authority, viz, the Government or the Commissioner as the case may be, is necessary. No limits as regards taxes are laid down either in the Bombay District Local Boards Act, 1923, or the Bombay Village Panchayats Act, 1933, or the Bombay District Municipal Act, 1901, or the Bombay Municipal Boroughs Act, 1925. However, maxima and/or minima for certain taxes are laid down in the Acts governing the Bombay Corporation and the other City Corporations. Subject to those limits, the Corporations have full liberty to levy taxes permitted to them by law without reference to Government. It will be clear from the above that local bodies in this State other than municipal corporations, have no independent powers of taxation.

## WEST BENGAL

144. The relevant Municipal Acts, viz. the Calcutta Municipal Act and the Bengal Municipal Act prescribe the maximum limits for the different taxes leviable and the municipalities are free to impose or alter these taxes within such limits. No sanction of Government or any other authority is required for the purpose. The only exceptions are (i) tolls on ferries and bridges under the Bengal Municipal Act 1932 and (ii) tax on petroleum leviable under section 181 of the Calcutta Municipal Act, 1923, which requires the sanction of the Central Government and has not actually been levied in Calcutta.

The scales of license fees levied by municipalities under sections 123 (2) and 370 (3) of the Bengal Municipal Act are also subject to Government approval.

145. The only notable power of taxation district boards possess is the power to fix the annual rate of the road cess under section 38 of the Cess Act, 1880, read with section 46 of the Bengal Local Self-Government Act of 1885. The maximum limit is prescribed by section 6 of the former Act. Both the road and the public work cesses are being levied at the maximum rates. As in the case of municipalities, the power of District Boards to levy tolls is also subject to the sanction of outside authorities. (Section 86A and 86E of the Bengal Local Self-Government Act, 1885.)

146. Union Boards, which operate in rural areas over groups of villages, have also fairly wide powers of taxation subject to the maximum limit of Rs. 84 per annum for an individual assessee and to the power of the District Magistrate to revise the assessment at any time (Sections 48 and 40 of the Bengal Village Self-Government Act, 1919).

147. The suggestion made by the Government of India for control over reduction of taxation by indebted Boards was not acted upon in this State. The proposal was considered reasonable but no amendment of the law was made for this purpose. Provision has, however, been made in section 116 of the Bengal Municipal Act 1932, for exercising control, where necessary, over the budgets of indebted municipalities and ample provisions also exist in Chapter VIII of the Calcutta Municipal Act, 1923 as regards the Calcutta Corporation and in the Local Authority Loans Act, 1914, as regards other local bodies, to ensure repayment of Loans granted or guaranteed by Government.

## UTTAR PRADESH

148. No municipal board, district board, notified area committee or town area committee has liberty to impose or alter taxation irrespective of the fact whether any limits are laid down by the law or not. Under the existing enactments relating to these bodies proposals for imposition or alteration of any tax require the sanction of the State Government in the case of city municipalities and district boards and of the Commissioner of the division in the case of other municipalities and notified area committees and of the District Magistrates concerned in the case of town area committee. Section 130A of the U.P. Municipalities Act, 1916, even empowers the State Government to compel a municipal board to impose additional taxes or to modify the rate of any tax already levied. There is generally no limit prescribed by law for the taxes obtaining in these four classes of local bodies, except for the circumstances and property tax in the district boards and also for their local rate.

149. However, the Development Board of Kanpur and the Improvement Trusts of Agra and Banaras do not require the sanction of any outside authority to impose the taxes available to them under their respective enactments, namely, a betterment tax and a surcharge on stamp duty, but the rates and other incidents of these levies are laid down in those enactments.

## PUNJAB

150. A municipal committee may levy any tax included in the list of permissible taxes, within the limits laid down by the law. This power is, however, subject to the provision that the committee shall not impose any tax without the previous sanction of Government when

- (a) it consists of members less than three-fourths of whom have been elected, or
- (b) its cash balances have, at any time within the three months preceding the date of the passing of the resolution imposing the tax, fallen below Rs. 20,000 or one-tenth of the income accrued in the previous financial year, whichever amount shall be less.

With the previous sanction of Government, the municipal committee may levy any other tax which Government has power to levy in the State.

151. A district board may levy any tax which the State Government can levy in the State. It cannot, however, reduce or enhance any tax without the previous sanction of Government. All district boards are bound to levy a local rate which is a land cess levied on the basis of annual value of land,

152. Panchayats can levy any tax which the State Government can impose in the State with the previous sanction of Government. They cannot abolish, reduce or enhance any tax except with the previous sanction of Government.

## BIHAR

153. The district boards have not been given any power of taxation under the existing provisions of the Bihar and Orissa Local Self Government Act (Bengal Act III of 1895). They have, therefore, no discretion in the imposition or alteration of a tax. The municipalities are competent to fix the rates of taxes and fees subject to the maxima laid down in the Bihar and Orissa Municipal Act (the Bihar and Orissa Act VII of 1922). They cannot, however, decrease the rate of any tax levied by them without the previous sanction of Government (vide section 104 of Bihar and Orissa Municipal Act. 1922).

## ORISSA

154. Under the Madras District Municipalities Act, 1920 (Section 78) which is applicable to Ganjam district a municipality may levy any permissible tax at a rate determined by a resolution of the Municipal Council. The rate of levy of a new tax or increase in the rate of an existing tax, however, shall be published in the Gazette. No limit is imposed by the Act for such taxes. The Municipal Council cannot abolish an existing tax or reduce its rate without the prior sanction of the State Government and municipalities which have an outstanding loan either from Government or from public or any other local body can give effect to the abolition reduction only after obtaining the sanction of the State Government.

Municipalities in North Orissa are subject to the same restrictions as regards taxation as municipalities in Bihar.

Under the unified Orissa Local-Government Act, 1950, which was passed by the Orissa Legislative Assembly recently and under the Orissa Municipal Bill, restrictions on the maximum rate as in Bihar and Orissa Municipal Act have been proposed.

155. Under the Orissa Gram Panchayats Act 1949, panchayats may levy certain taxes within the limits prescribed in the Act. There is no provision regarding sanction of outside authority for the levy of such taxes.

**MADHYA PRADESH**

156. The first imposition of any tax by a municipal committee requires Government sanction under section 67 (5) of the Municipalities Act. No limits prescribing rates have been laid down by Government. The proposal for reduction of any tax by a municipal committee does not require Government sanction under section 68 (2) of the Municipalities Act. If a Municipal Committee is, however, indebted to Government such sanction is necessary under proviso to section 66 (4) of the Municipalities Act. In the case of Janapada Sabhas imposition of taxes under section 89 of the Local Government Act does not require Government's sanction. All proposals regarding taxation—whether first imposition or reduction or increase in the rates—have to be published through Government for inviting objections.

**ASSAM**

157. Under section 52 (D) of the Assam Local Self-Government Act, 1923, a district board may impose within its jurisdiction any of the permissible taxes, but the previous sanction of the State Government is necessary. Under section 59 of the Assam Municipal Act, a municipal board may impose any tax permitted to it, but when the board has taken a loan from or guaranteed by the State Government the board shall not without the previous sanction of the State Government make any alteration in respect of any tax which may have the effect of reducing the income of the board.

158. A municipal board may from time to time, and in accordance with the scale of fees to be approved by the Commissioner in the case of the Assam Valley Division and by the State Government in the case of the Surma Valley and Hill Division, charge of a fee in respect of the issue and the renewal of any license which may be granted by the board under the Act and in respect of which no fee is leviable under sub-section (1).

The sanction of the State Government is required to the levy of fee on boats, including steam boats and other vessels mooring within the municipality.

**GENERAL OBSERVATIONS**

159. We are charged with the duty of making recommendations for the improvement of financial resources of local bodies. A consideration of this matter raises two issues :—

- (1) whether the existing financial resources have or have not been fully utilised ; and
- (2) whether the existing resources are inadequate and are in need of enlargement ?

In regard to (1) the resolution of the the Local Self-Government Ministers' Conference (1948) recommending the appointment of this Committee (recognised that the local bodies were not utilising even the existing resources fully.) In order to see what justification there was for such an assumption, we addressed an enquiry to ten selected municipalities in each State asking them about rates of taxation and license fees prevalent in the years 1931, 1941, 1947-1948 and 1949.) The result of this enquiry re-inforced by the evidence received confirms the presumption made in the above-mentioned resolution) We consider that no useful purpose will be served by going into details of cases where rates of taxation have remained unchanged over long periods of time. We would only bring the point to the notice of the State Governments so that they might take appropriate action with the local bodies in question. Local bodies which do not utilize their existing powers of taxation can have no claim on the financial resources of the State.

160. In order to make the best use of the existing financial resources, it is not only necessary to utilise the existing powers of taxation to the full, but also to improve the machinery for budgetting, accounting, assessment and collection of taxes, recruitment and control of personnel etc. We will deal with these points in their proper places.

161. Coming to the second question, viz., enlargement of existing financial resources, there is no doubt that existing resources are inadequate but in considering the question of the enlargement, we have to deal with the following matters :—

- (1) enlargement of existing powers of taxation ;
- (2) sharing of taxes with the State Government ;
- (3) entrusting more and more public utility undertakings to local bodies.

Points (2) and (3) will be dealt with in separate chapters. In this chapter we are concerned only with point (1). We have already suggested that (there should be a definite earmarking of the proceeds of certain taxes for the purposes of local bodies.) This position prevailed during the entire period of the Montagu-Chelmsford Reforms when the Scheduled Taxes Rules were in operation. We recommend a practical reversion to that position which cannot be said to have worked unsuccessfully. It is (necessary to give elastic sources of revenues to the local bodies, in view of the fact that their expenditure is constantly increasing and the revenues at their disposal at present are comparatively static.) The recommendations that we have made regarding the new taxes will, we hope, give the local bodies expanding sources of revenue. More than thirty years ago, the Government of India recommended that municipal and rural boards, with substantial elected majorities, which are not indebted to Government should have independent powers in respect of taxes which they were permitted by law to raise. As will be seen from the review made above of the existing position this recommendation has not been adopted by several States, even though the principle of election has been accepted so far as the constitution of local bodies is concerned. The position, therefore, is that while the initiative in regard to proposals for taxation lies with the local bodies, the power of sanctioning such proposals rests, in the majority of cases, with the State Governments. (Responsibility thus gets blurred and it is not possible to say whether the inadequacy of financial resources of local bodies is due to the reluctance of local bodies to tax themselves or to the refusal of the State Government to sanction such proposals of taxation as were made by local bodies. We were given to understand in evidence that there have been cases where local bodies have approached State Governments with proposals for taxation but the Governments concerned have not accepted them. This is a position which is fair neither to the local bodies nor to the State Governments themselves. We think that where local bodies have not got independent powers of taxation, they should be given such powers, subject to maximum and minimum limits in each case to be prescribed by the Acts or the rules framed thereunder.

Within these limits, local bodies should have a fresh hand in determining the rates of taxes. Where a local body is unwilling to impose a tax at an adequate rate, the State Government should have the right, in the first instance, to give friendly advice and if the local body fails to carry it out the State Government should in the last resort have the power to impose or raise the tax themselves and particularly the power to deal with emergencies. Two of our colleagues are, however, of the view that the State Government should not have any such power. They think that where a local body disregards any such advice given by the State Government, they should dissolve the local body and if the newly elected body also refused to act upon the advice of the State Government they should supersede the local body.

CHAPTER V .  
PROPERTY TAX (GENERAL)  
PART—I

162. Property tax is levied by local bodies in India under the Acts constituting them. It comprises:—

- (a) a tax for general purposes on lands and buildings ,
- (b) a water and drainage tax ;
- (c) a lighting tax ;
- (d) a conservancy or scavenging tax.

It is optional with municipalities to levy this tax, except in the City Corporations of Bombay and Calcutta where it is compulsory. Following English practice property tax levied by local bodies in India is assessed on real estate and not on personality, or movable property. The question whether movable property should not also be taxed by local authorities has been discussed on many occasions in England. The decision taken has always been the same, namely, to confine local taxation to immovable property and leave movable property for Central taxation.

163. In England, property tax is a charge on the occupier and not on the owner. In India, the tax is a charge on the owner. In Calcutta and Howrah where a consolidated rate (including also service taxes (b), (c) and (d) above) is levied, half of the tax is payable by the owner and the other half by the occupier.

164. There is difference of opinion as to whether rates on property are the most appropriate form of taxation for local purposes. At one extreme is the view that tax should be based on the income or capacity of the payer and that the rateable value of the premises which a person happens to own is no index of this capacity.\* The objection is particularly applicable in the case of persons who have inherited big ancestral residential houses without having the financial resources adequate for their maintenance or payment of rates. The other view is that the characteristic of a good local tax being its stability and the localisation of the tax based within the jurisdiction of the taxing authority, a tax on land and buildings for local purposes has much to recommend it.† We have received evidence that the imposition of this tax on impecunious owners of big houses has often caused hardship, but no suitable alternative could be suggested by anybody especially for States where no octroi is levied. Levying local tax on the basis of income is an ideal which would be difficult of achievement even in a unitary state; in a federation, where income tax is the prerogative of the Centre and where States are left with certain specific items of revenue, it is impossible to devise a method by which this can be done. In view of this practical difficulty, we are of the opinion that the existing system should continue, though hardship to owner-occupiers may be alleviated by introducing some flexibility in method of valuation of properties of different categories.

165. In district boards, property tax is levied in the form of a cess on land but there is no house tax, except in one district board. The cess on land

---

\*Cole—Local and Regional Government.

†Mrs. Ursula Hicks—Public Finance, page 276.



is discussed in a separate chapter. The Coorg District Board is the only district board in India which levies a house tax under section 4-A of Coorg District Fund Regulation, 1900. Some district boards and municipalities levy what is called a 'tax on circumstances and property'. This is levied on a comprehensive basis on both income and property, and partakes of the nature of a tax on income as well as a tax on property. In village panchayats in Madras, Bombay, Madhya Pradesh and Orissa, the property tax is compulsory under the Acts constituting them. It is optional in village panchayats in Uttar Pradesh, Bihar and Assam. No property tax except a 'union rate' (which is assessed according to the circumstances and property of the inhabitants within a union) is levied by Union Boards in West Bengal, which are the counter-parts of panchayats in other States.

166. In the States of Punjab and Bombay, an urban immovable property tax is levied by the State governments for provincial purposes. In Bombay, the tax is levied only in the three cities of Bombay, Ahmedabad and Poona. But in Punjab, it is levied in all district headquarter towns. Owing to the super-imposition of this provincial tax over the local property tax, municipalities in the areas concerned find it difficult to increase the rates of their house tax. Property tax seems to us a tax particularly suitable for exploitation by local bodies and we think it desirable that State governments which are now levying such a tax should withdraw from this field on the condition that an equivalent local tax is imposed by the municipality.

167. In Bombay the Honourable Minister for Finance, in his speech on the Finance Bill for 1949, made the following statement:—

"Government have, however, in order to help this municipality (Bombay Municipality) and other Urban municipalities where the Urban Immoveable Property Tax is imposed, agreed that when these municipalities raise the level of the general tax, Government will correspondingly reduce the rate at which the Urban Immoveable Property Tax is levied".

Though no official orders in this sense have been issued, it is understood that the Government of Bombay is willing to consider the reduction of the provincial property tax on the merits of each case when such a request is made by any of the municipalities concerned. In the case of Poona such a reduction has already been made.

168. The Punjab Government seem to take a different view. We would earnestly request them to reconsider the matter and withdraw the provincial tax in favour of local bodies.

169. **Income.** The income derived by municipalities from property taxes in all the major States of India in 1925-26 and in 1946-47 is given in the statement below:—

CHAPTER V

Statement showing the growth of income from property taxes with reference to the total income from rates and taxes of City Corporations and Municipalities in the various States of India from 1925-26 to 1946-47.

The figures given in brackets represent percentages to total tax income

1925-26					
Province	Total taxation income	Income from tax on houses & lands and percentage to column 2 (in brackets)	Income from conservancy rate & percentage to column 2	Income from water rate & percentage to column 2	Income from lighting rate & percentage to column 2
1	2	3	4	5	6
MADRAS (excluding Madras City)	70,10,632	27,68,430 (39.4)	...	12,38,986 (17.6)	...
Madras City ...	40,33,826	16,19,733 (40.10)	...	10,83,927 (26.62)	...
BOMBAY (excluding Bombay City)	1,53,09,561	26,81,469 (17.5)	13,33,112 (8.7)	33,10,954 (21.6)	...
Bombay City ...	2,72,51,808	1,28,75,545 (47.25)	31,79,773 (11.67)	64,93,447 (23.83)	...
WEST BENGAL (excluding Calcutta)	62,11,862	22,58,288 (36.3)	16,21,863 (26.1)	10,79,639 (17.3)	...
Calcutta City ...	1,57,78,474	1,40,92,259 (89.43)	76,667 (0.48)	...	...
UTTAR PRADESH	1,01,80,680	9,05,139 (8.8)	1,32,886 (1.3)	1,39,818 (13.0)	...
PUNJAB ...	72,68,183	6,08,868 (8.0)	11,248 (0.14)	1,94,029 (2.57)	...
BIHAR & ORISSA	24,82,309	9,97,028 (40.0)	6,35,154 (25.6)	2,68,087 (10.8)	...
MADHYA PRADESH	38,89,569	1,22,041 (3.11)	4,68,046 (12.0)	5,52,026 (14.1)	...
ASSAM ...	5,56,930	1,68,244 (30.2)	1,42,529 (25.6)	1,06,713 (19.1)	...

**PROPERTY TAX (GENERAL)**

Province	1946-47				
	Total taxation income	Income from tax on houses & lands and percentage to col. 2	Income from water rate and percentage to col. 2	Income from conservancy rate and percentage to col. 2	Income from lighting rate and percentage to col. 2
1	2	3	4	5	6
MADRAS (excluding Madras City)	25,620,441	69,41,582 (27.09)	30,53,109 (11.9)	9,63,616 (3.7)	54,34,726 (21.2)
Madras City	1,07,72,642	48,58,855 (45.10)	6,26,877 (5.81)	...	...
BOMBAY (excluding Bombay City)	2,05,89,098	35,21,860 (17.105)	49,33,351 (23.93)	14,67,816 (7.12)	3,14,300
Bombay City	5,43,10,763	87,75,728 (16.15)	1,34,81,288 (24.82)	43,54,811 (8.93)	...
WEST BENGAL (excluding Calcutta)	78,35,453	42,77,935 (54.5)	3,95,868 (5.05)	16,06,902 (2.5)	3,06,919 (3.9)
Calcutta City.	2,41,59,100	2,19,50,600 (9.0)	levied as a consolidated rate		
UTTAR PRA-DESH	2,75,10,000	2,370,000 (8.6)	46,90,000 (17.0)	2,00,000 (0.7)	...
PUNJAB	53,50,878	5,00,027 (9.34)	4,18,191 (7.8)	18,806 (0.3)	...
BIHAR	44,63,948	19,28,366 (43.13)	5,26,278 (11.74)	12,73,996 (28.55)	21,823 (0.48)
ORISSA	6,31,113	2,15,909 (34.2)	52,205 (8.8)	1,77,647 (0.8)	...
MADHYA PRA-DESH	1,10,96,594	8,66,784 (7.8)	14,09,595 (13.8)	14,73,539 (14.4)	30,521 (0.30)
ASSAM	10,42,102	4,12,734 (39.6)	2,09,303 (2.08)	3,18,469 (3.5)	44,682 (4.2)

It will be seen that this tax is of major importance in Madras, West Bengal, Bombay, Bihar, Orissa and Assam. In Bombay the rates of house tax in many municipalities are far lower than in municipalities of corresponding size in Madras. In Punjab and Uttar Pradesh it is of comparatively minor importance. It is levied in a few municipal areas and where levied the rate is very low. There seem to us great possibilities of development of this source in these two States. In Madras, West Bengal, Assam and Orissa the property tax is levied by all municipalities. In Bombay the house tax is levied by all municipalities, except three, namely Ahmedabad, Gudguddapur, and Ulvi. These exceptions are only nominal, as Ulvi and Gudguddapur are pilgrimage centres and the municipalities there function only during the pilgrim season. Ahmedabad municipality levies a high water rate which partakes of the nature of a house tax and would not be levied at that rate but for this fact. In Bihar, house tax is levied by 54 out of 57 municipalities. In Uttar Pradesh, it is levied only in 33 out of 110 municipalities.

170. Generally the tax is levied at a flat rate, but in certain municipalities, such as Madras City, Poona, Lucknow, Brach and possibly a few others, the tax is levied at a progressive rate; i.e., at a higher percentage on houses having larger annual value.

171. In the Calcutta Municipal Act, a maximum of 23 per cent. of the annual value is prescribed for the consolidated rate leviable by the Corporations, which includes the general property tax plus the water, lighting and conservancy rates. There is no prescribed minimum for the consolidated rates. In the case of the Corporation of Madras, a maximum of 20 per cent. and a minimum of 15½ per cent. have been fixed. In the City of Bombay Municipal Act, a minimum of 8 per cent. and a maximum of 21 per cent. have been prescribed for the general tax. For district municipalities of West Bengal, Bihar, Orissa and Punjab maximum rates for the levy of the tax are prescribed. In the remaining States there is no prescription of maximum or minimum rates.

172. The City Corporations of Madras, Bombay and Calcutta are competent to fix any rate for this tax within the statutory limits without obtaining the previous sanction of the State Government. In West Bengal no prior sanction of the State Government is necessary for the imposition of the rates within the prescribed limit. In Madras such district municipalities as are not indebted can also do so without such sanction. In all other cases, the prior sanction of the State Government is necessary to the levy of the tax.

173. Taxation in any form is unpopular and municipal boards are generally reluctant to impose fresh taxation. As between direct and indirect taxation, direct taxation is much more unpopular. In Madras and Bengal, which have been accustomed to property tax from the early days of British rule, the tax does not provoke the same degree of opposition. But in States like Uttar Pradesh and Punjab, proposals to levy house tax are strongly opposed and that is why the levy of house tax is restricted to a small number of municipalities and even there the rate is generally low. In view of this feeling and the consequent reluctance of municipal councils to impose property tax within their areas, State Governments have acquired or are considering the needs of acquiring power to levy property tax for local bodies on a compulsory basis. Where, however, statutory power is already vested in Government such indirect pressure is out of place. As almost all local bodies are receiving financial assistance in one shape or another from State Governments, they are generally not in a position to refuse compliance with such pressure. In one State, we were told by the Minister in charge of Local Self-Government that, in his view, the power of taxation should be taken away entirely from local bodies and vested in the State Government itself. In this manner, he said, the State Government, which is cognisant of the circumstances of each locality would be able to impose appropriate taxation and thus leave the municipal councillors free to discharge their proper functions without fear of losing their seats at the next election. They would then be able to tell their voters that they had no responsibility in the matter of taxation and consequently were not to blame.

174. Under section 81-A of the Madras District Municipalities Act, as amended in 1944, the State Government have power to fix the rate of property tax in any mofussil municipality as they may deem desirable without the consent of the municipal council. In exercise of this power the Government of Madras have in recent years increased the rate of property tax in several municipalities. The rates of property tax in force in Madras municipalities are given in an annexure to this chapter. It will appear therefrom that the rates are generally higher than the rates prevalent in most other States. In addition to the property tax proper there is an education cess in Madras in the form of a surcharge on the property tax. Government have also power to fix the rates of this cess and they have exercised this power in respect of all municipalities.

175. The Government of Madras consider that the rates of property tax and education cess levied in all municipalities in the State are adequate. We endorse this view and do not, therefore, suggest any additional taxation of property in Madras municipalities.

## PROPERTY TAX (GENERAL)

176. In Uttar Pradesh, the State Government has taken statutory power to enforce the levy of house tax as a compulsory measure in urban areas. Where municipalities refuse to accept advice the State Government has the power to dictate the rates of tax. Section 130-A of the U.P. Municipalities Act runs as follows :—

- "130-A (1) The Provincial Government may, by general or special order published in the official gazette, require a board to impose any tax mentioned in section 128, not already imposed, at such rate and within such period as may be specified in the notification, and the Board shall thereupon act accordingly.
- (2) The Provincial Government may, require a board to modify the rate of any tax already imposed and thereupon the Board shall modify the tax as required.
- (3) If the Board fails to carry out the order passed under sub-section (1) or (2), the Provincial Government may pass suitable order, imposing or modifying the tax, and thereupon the order of the Provincial Government shall operate as if it had been a resolution duly passed by the Board."

177. In Bombay, the State Government has not specifically taken powers to impose house tax or to dictate the rate at which it should be levied, but the State Government, in certain circumstances, such as insufficiency of funds etc., can require a municipality to impose any of the authorised taxes. The State Government has, however, advised the municipalities to levy a consolidated tax on buildings and lands of not less than 20 per cent. of their annual value, or 1.5 per cent. of their capital value, in lieu of the following taxes :—

- (a) house tax ;
- (b) general sanitary cess ;
- (c) general water rate , and
- (d) lighting tax.

In commenting upon the actual exercise of those powers, the Secretary to the Government of Bombay, observes as follows :—

"Since the issue of these orders by Government, the municipalities have generally shown initiative to increase their property taxes. This is partly attributable to the pressure of increasing expenditure of local bodies due to the grant of higher scales of pay to their staff and higher cost of providing municipal services. In many cases, the cumulative burden of taxes on property has reached 16, 17 or 18 per cent. although it is true that in very few cases has it reached 20%. The pressure of increasing expenditure will however soon compel the municipalities to increase the rate of taxation on property to 20% if not higher especially as owing to financial stringency the Government in the next few years will not be in a position to sanction further grants to municipalities." The Government, therefore, in order to avoid unnecessary hardship to property owners have not rigidly enforced the orders contained in the G. R. and left the desired result to be achieved by the operation of economic factors mentioned above. Nor is this Government contemplating any legislation with a view to take power to impose taxation in municipal areas as has been done in Madras and U.P."

178. We are of the opinion that in the place of the present optional provision for the levy of the property tax in the various Municipal Acts, there should be an obligatory provision as it is in the Acts constituting the City Corporations of Bombay and Calcutta (Section 139 of the City of Bombay Municipal Act, 1888 and Section 124 of the Calcutta Municipal Act, 1923). Should, however, any municipality fail to levy the tax in spite of such statutory provision, the State Government should have power to levy the tax at such rates as they deem fit in such municipal area for the benefit of the municipality. We would suggest that this power should be exercised by the State Government only when a municipality has refused the advice tendered to it by the State Government in the first instance. One of our colleagues is, however, of the view that should any municipality be able or willing to find adequate revenues in some other manner or from some other alternative source, the State Government should have discretion to exempt such municipality from the statutory obligation to levy the property tax.

179. As regards the rates to be prescribed, we recommend that a maximum rate for the property tax should be prescribed by statute, where it is not done at present. Some of our colleagues, however, are of the view that such a provision is not necessary.

180. We would also recommend that a minimum should likewise be prescribed in the Acts. A few of us, however, are of the view that a statutory minimum rate is not necessary.

181. We have also carefully considered whether a progressive scale of rates would be suitable for the levy of the property tax. We are generally in favour of a progressive scale, adoptable at the discretion of the municipality concerned, as has been provided in the Bombay Provincial Municipal Corporation Act, 1950. One of our colleagues, while supporting generally the adoption of the principle of progression, is, however, of the view that this principle should not apply in respect of houses which are occupied by the owners themselves. The actual scale of progression to be applied should, we think, be left to the municipality concerned. Some of our colleagues are, however, opposed to the principle of progression in municipal property taxes.

182. **Exemptions and remissions of property tax.** Most of the Acts constituting local bodies or the rules made thereunder provide for exemption of certain classes of properties. The properties generally exempted are :—

- (1) places set apart for public worship ;
- (2) dharmshalas for the occupation of which no rents are charged ;
- (3) places used for charitable purposes ;
- (4) burning and burial grounds ;
- (5) buildings used for educational purposes (in some States) ;
- (6) buildings or lands belonging to the municipal council.

183. In relation to the Union and State Government properties there are special provisions. These will be dealt with separately.

184. In the U.P. municipalities Act, no list of properties exempted is given, but under section 157 a municipal board has power to grant exemptions, subject to the approval of the Commissioner of the Division, to any person or class of persons or any property or description of property. Under the same section the State Government has the power to grant such exemptions.

185. The Chief Commissioner of Delhi has, at the instance of the Government of India, exempted all Ambassadors, Ministers and High Commissioners and

## PROPERTY TAX (GENERAL)

their staff holding diplomatic status from the payment of all municipal taxes imposed by any municipality or Notified Area Committee in the State of Delhi. Outside Delhi, there are no properties owned by diplomatic representatives. They generally live in rented houses and as municipal taxes are paid by landlords no question of exemption from property tax arises. But they are exempt from local taxes which are payable by occupiers, such as wheel tax, dog tax, etc.

186. We also understand in this connection that the Government of India had similarly requested the Government of West Bengal to sponsor legislation in order that Ambassadors, Ministers, etc. of foreign Governments may be exempted from the payment of the occupier's share of the consolidated rate in Calcutta. It is understood that legislation on these lines is being sponsored by the State Government.

We are of the opinion that in all cases where exemption is granted at the instance of a Government, an equivalent contribution should be paid by the Government to municipal funds.

187. Exemptions from rating in full or in part are also granted in England in respect of the following properties :—

- (1) property occupied by the Crown or used for the purpose of the Crown, e.g., Government Buildings, Post Offices, Police Stations, etc., but in most cases contributions are made in lieu of rates ;
- (2) properties covered by the Scientific Societies, Act, 1843.
- (3) Sunday Schools (optional) ;
- (4) registered places of worship ;
- (5) lighthouses, buoys and beacons as defined in Merchant Shipping Act, 1894 ;
- (6) agricultural land and buildings ;
- (7) Ambassador's residence ;
- (8) polling booths ;
- (9) voluntary schools ;
- (10) land struck with sterility, e.g., highways ;
- (11) personal property ;
- (12) machinery not forming part of the hereditament.

188. It will be seen that the Indian list of exemptions is not exactly the same as the English list. In England charitable institutions are not generally exempt ; nor are hospitals, cemeteries and burial grounds. Educational institutions like Board Schools, Universities, Libraries, Reading Rooms, etc. are also not exempt. As regards charitable institutions we are of the view that it is necessary to ensure that an institution claiming exemption on the ground of being a charitable institution is actually being used for purposes of charity. We also think that the list of charitable institutions, which at present get exemption from property tax, should be subjected to periodical review in order to see whether the exemption given in each case is justified or not. This review should be undertaken either by the State Government or the municipality according as the exemption is under the Act or the rules made thereunder.

Where an actual service, like supply of water, is rendered, there should be no exemption, as is being granted by the Lucknow Municipality to the Government Hospital. To our knowledge in no other municipality in India is water supplied free to Government Hospitals and we see no justification either for continuing this

exemption or for converting it into a grant-in-aid, as was proposed by the Administrator, Lucknow Municipality, during the course of his evidence before us. It does not appear that a complete list of exemptions granted (together with annual value in each case) is kept by every local body. This should be done, so that the ratepayer may know what these exemptions are costing him. Further this list should be scrutinised carefully from year to year with a view to see that the exemption is fully deserved in every case.

189. There is in some Acts a money limit of annual rateable value (ranging from Rs. 6 to Rs. 36) properties below which are exempt from taxation. But in others no such limit is prescribed and discretion is allowed, which is exercised rather liberally. During the course of evidence, it was brought to our notice that the exemption limit in some municipalities is much higher than even in the City Corporations of Bombay and Calcutta. We are of the opinion that there should be no exemption from the property tax merely on the ground of the annual value falling below a particular monetary limit. Such exemptions, wherever they exist, should be done away with. One of our colleagues, however, is of the view that properties below a particular level of annual value may be exempt under rules framed by the municipality subject to the sanction of the State Government. Another of our colleagues is in favour of not limiting the discretion of municipalities in regard to exemptions in any manner.

In England agricultural land is exempt from the local rate. The position regarding rating of agricultural land in each State in India is analysed below :—

In Madras there is specific reference to the liability of agricultural lands in urban areas to the general property tax in sub-section (4) (a) of section 81 of the Madras District Municipalities Act, 1920, which lays down the procedure for the assessment of such lands to the tax. The Madras Government state that 31 Municipal Councils are levying property tax on agricultural lands under this sub-section, while the remaining are levying the tax under Section 81 (2) of the Act at such proportions as they fix of the annual value of such lands.

Section 83 (2) provides that water and drainage tax shall not be levied on such lands.

In Bombay there is no specific reference in the Acts to agricultural lands but it is understood that such lands are not assessed to property tax in municipal areas, but are liable to the local fund cess, which goes to the district board.

In Bengal, the tax on holdings is described as a tax on land and buildings. Sub-section (28) of Section 3 of the Bengal Municipal Acts, 1932 defines land in the following terms :—

“Land includes benefits arising out of land and things attached to the earth, or permanently fastened to the earth”.

Agriculture being a benefit arising out of land, it may be taken that agricultural lands are also liable to the tax on holdings, which is a tax on buildings and lands.

The same is the case in U. P., i.e., there is no specific reference to agricultural lands. However, Section 129 of the U. P. Municipalities Act, 1916, states that the water tax shall not be levied on land exclusively used for agricultural purposes.

In the Bihar and Orissa Municipal Act, 1923 “holding” means any land. Agricultural lands have been specifically exempted only from the payment of the water, drainage and latrine taxes *vide* S.86 (1) (b), S.86 (A) (1) (b) respectively of the Act.



In Madhya Pradesh, the C. P. Municipalities Act, 1923, describes the property tax "as a tax on land and buildings". There is no specific provision for the exemption of such lands from water and drainage taxes.

In Assam it is apparent from the definitions of 'holding' and 'land' given in Section 3 of the Assam Municipal Act, 1923 and the provisions of S.61 (1) (b), S.62 (b) and S.64 (b) laying down that only the water, lighting and drainage taxes shall not be levied on lands used exclusively for agricultural purposes that such lands are liable to the 'tax on holding'. The general position would appear to be as follows:—

Agricultural land in almost all the provinces is subject to municipal taxation in addition to the land revenue payable to the State Government. There is, however, a specific provision in Madras, U. P., Bihar, Orissa and Assam for the exemption, from the water and drainage tax of agricultural land exclusively used for agricultural purposes. Though there is no such provision in other Act, there would seem to be no justification for levy of water and drainage taxes on agricultural lands when no such service is rendered.

190. **Vacancy Remissions.** Section 87 (1) of the Madras District Municipalities Act, 1920 relating to vacancy remission states:—

"When any building has been vacant for 30 or more consecutive days in any half year the executive authority shall remit so much not exceeding one-half of such portion of the tax as relates to the buildings only proportionate to the number of days during which the building was vacant and unlet in the half year'.

191. U. P. Municipalities Act, 1916 contains slightly different provisions.

"In municipality — other than one situated wholly or partly in a hilly tract — where a building or land has remained vacant and unproductive of rent for 90 or more consecutive days during any year, the board shall remit or refund so much of the tax of that year as may be proportionate to the number of days that the said building or land has remained vacant and unproductive of rent".

192. In Bihar, under Section 111 of the Bihar and Orissa Municipal Act, remission can be claimed when any holding has been unoccupied for 60 or more consecutive days.

193. Similar provision exists in every other Act except that the quantum of remission varies. In Bombay two-thirds of the tax due may be remitted while in Calcutta remission is restricted to one-half of the owner's share of the consolidated rate. As there is no occupier, the occupier's share remains automatically uncollected. No remission is allowed in respect of land or buildings belonging to the Calcutta Improvement Trust on the ground that they are unoccupied. In the Bengal Municipal Act remission is allowed up to three-fourths of the tax due.

194. In view of the fact that the major portion of the services rendered by local bodies such as street repairs, maintenance of main roads, fire brigades, public lighting, drainage, street cleaning, etc. has to be performed whether the building remains occupied or not, there seems no justification for giving a greater remission.

than one-half of the tax due in all such cases. It seems also desirable that remission should not be granted for a vacancy of less than 90 consecutive days in a year. The Calcutta Corporation Investigation Commission has recommended that no rate payers who are in arrears should be entitled to vacancy remission anywhere. The majority of our colleagues support this recommendation.

195. **Basis of assessment.** The basis of assessment in most cases is the 'annual value' of lands and buildings. In a few cases a basis other than annual value is adopted, which will be mentioned later. Annual value has a special signification in this context quite apart from its ordinary meaning and is variously determined, as under :—

196. In relation to lands and buildings which are generally let, the annual value is the gross annual rent at which such lands and buildings may, at the time of assessment, reasonably be expected to let from month to month or from year to year, less a deduction, in the case of buildings, of 10 per cent. on such annual rent, for repairs and for all other necessary expenses to maintain the building in a state to command the rent. The term used is 'reasonable' rent and not actual rent. During the course of the evidence taken by us, it was brought to our notice that in actual practice assessing authorities rely almost completely on actual rent paid and make no attempt to determine independently what the reasonable rent is. No instances were forthcoming in which 'reasonable' rent was assessed at a figure higher than actual rent. The Calcutta Corporation Investigation Commission have commented severely on the incorrectness of the practice of relying exclusively on actual rents in regard to municipal assessments in Calcutta. The Calcutta Commission have also given instances of cases in which actual rents on which assessments are made are quite out of relation to economic rents. They quote\* the following extracts from the judgement of the House of Lords in *Popular Assessment Committee versus Roberts* (92, Volume II-I.A.G. Page 93)

"The tenant referred to is by common consent an imaginary person. The actual rent paid is no criterion, unless indeed it happens to be the rent that the imaginary tenant might be reasonably expected to pay in the circumstances mentioned in this section". Reasonable rent is the measure of the annual value and of the tax. It is only used as a standard which must be examined "without regard to the actual limitation of the rent paid by virtue of covenant as between landlord and tenant, and, also the statutory restrictions that may be imposed upon its receipt. The statutory measure of the rateable value is the annual rent which a tenant might be reasonably expected to pay one year with another ..... less certain deductions. "That is the measure, and the only measure, of the rateable value, which is provided. "This imaginary rent is not to be confounded with the rent which the actual tenant in possession in fact pays. It may naturally be assumed that the hypothetical tenant would take this last into consideration along with many other things, including the capacity of the hereditament and its adaptabilities in calculating the rent he might be expected to pay, but the actual rent paid by the actual tenant is not and cannot be treated as a measure of or a substitute for, the hypothetical rent which conceivably might be expected from a hypothetical tenant."

197. The judgment of the House of Lords quoted above is based on the wording of the Parochial Assessments Act of 1836, which defines the standard by which the value of properties for rating purposes should be determined

\*(Calcutta Corporation Investigation Commission Report Volume II—Part I. Paragraph 23, page 14.)

## PROPERTY TAX (GENERAL)

as "an estimate of the net annual value of the several hereditaments rated thereunto; that is to say, of the rent at which the same might reasonably be expected to let from year to year, free of all usual tenant's rates and taxes and the commutation rent charge, if any, and deducting therefrom the probable average annual cost of repairs, insurance, and other expenses, if any, necessary to maintain them in a state to command such rent."

198. The Royal Commission on Local Taxation in England and Wales 1901, in commenting upon this provision says :—

"It will be observed that the actual rent paid is not necessarily to be the standard of value but the rent which might reasonably be expected to be paid from year to year or the annual rent which the tenant might reasonably be expected taking one year with another, to pay for an hereditament"...The Legislature contemplates letting at an yearly rent as a normal, or at least a conceivable, condition of rateable property. And it is no doubt the case that a considerable proportion of urban properties, (especially dwelling houses) are in fact, let on terms sufficiently similar to those contemplated by the Act. In such cases, the rent actually paid is usually assumed to represent the true annual value, subject, of course, to deduction in order to arrive at the rateable value if the landlord bears the cost of repairs, insurance, etc. But the rent actually paid under an old contract may not represent the true present value; and it obviously does not do so in cases where premiums (\*) have been paid or collateral bargains entered into, such as are frequently made with regard to licensed premises."

199. It was pointed out to us during the course of evidence that Rent Control Acts have made the yield from property tax static by stabilizing rents. The Calcutta Corporation Investigation Commission have stated that the operation of Rent Control Laws has no bearing on the assessment of 'reasonable' rent. While this may be technically correct, it is at the same time a hardship that landlords should have to pay a larger property tax without being able to recover that increase from their tenants. At the time they put up the buildings they expected a certain economic return from their investments. And if by any increase of municipal tax that investment should become economic it would have a deterrent effect on building enterprise. Where property taxes are paid, as in England, by the occupier, building enterprise is not affected. But, where, as in India, they are paid by the owner they do have such undesirable effect. There is already an acute shortage of housing in almost all the big towns of India and we should be reluctant to recommend any step which would perpetuate such a shortage and also affect prejudicially the growth of municipal revenue. In this connection we recommend for adoption, the provision in Section 10 of the Bombay Rents, Hotel and Lodging House Rates Control Act, 1947, which permits an increase in rent on account of an increase in rates. This section is as under :—

"10. Where a landlord is required to pay to a local authority in respect of any premises any rate, cess or tax imposed or levied for the purposes of such authority, he shall be entitled to make an increase in the rent of the premises by an amount not exceeding the increase paid by him (by way of such rate, cess or tax over the amount paid) in the period of assessment which included the date of the coming into operation of this Act (or the date on which the

(\*) The payment of premium has become quite a common feature since the introduction of Rent Control Acts in India.

premises were first let; whichever is later) and such increase in rent shall not be deemed to be an increase for the purposes of section 7”.

200. Similar provision is to be found in Section 11 of the Central Province and Berar Regulation of Letting of Accommodation Act, 1946, which runs as under :—

“ If the tax or rent payable in respect of the land under or appurtenant to a house is enhanced after the extension of this chapter, then notwithstanding anything contained in the preceding clauses, the landlord may increase the rent of the house in the following manner, namely :—

- (a) If the landlord holds the said land as a malik-makbuza or as a raiyat he may increase the house rent by an amount equal to the sum by which the land revenue in respect of the said land has been enhanced ;
- (b) if the landlord holds the said land as a proprietor of a mahal or as a tenant as defined in the Central Provinces Tenancy Act, 1920 (I of 1920), he may increase the house rent by an amount equal to the sum by which the rental assessment or rent in respect of the said land has been enhanced; and
- (c) if the landlord holds the said land under a lease by the terms of which the lease money may be enhanced if the land revenue is enhanced, then he may increase the house rent by an amount equal to :—
  - (i) the sum by which the land revenue has been enhanced in the case of land held by the person responsible for the payment of land revenue as a malik-makbuza or as a raiyat malik ;
  - (ii) the sum by which the rent of the land has been enhanced in the case of land held by a person as a tenant under the Central Provinces Tenancy Act, 1920, (I of 1920); and
  - (iii) the sum by which the rental value of the land has been enhanced in the case of land held by the person responsible for payment of land revenue as a proprietor of the mahal ;

Provided that if there are more houses than one on such land, then the landlord may increase the rent of each house in a fair and equitable manner but not so that the aggregate increase in such rents shall exceed the amount by which the land revenue, rent or rental value, as the case may be, is enhanced.”

201. In view of the fact that the wording of the Indian Municipal Acts as regards the basis of assessment is the same as that of the English Act, we are of the opinion that municipalities should take as the basis of assessment not actual rent, but the ‘reasonable rent’ intended by law. It may be that in a large number of cases the actual rent does represent the ‘reasonable rent’. But there may be cases where it does not, as, for example, where a premium is paid or where collateral bargains are entered into or premises are let out at ridiculously low rents to relations or friends to avoid a high municipal rate. In such cases the actual rent may not be an accurate basis.

202. The main difficulty in municipal assessment, however, lies not with regard to properties which are generally let, but with regard to properties which are not usually let, such as schools, colleges, government buildings, hospitals, cinemas, mills, factories, theatres, railways, port-trust properties, etc. In regard to such properties, the basis of assessment is still the annual value, but the method of determination of the annual value is not so simple and also not the same in all the States. In some States, the wording of the English law has been adopted, viz., it is the annual rent at which such buildings may reasonably be expected to let and the assessing authorities are expected to employ this formula in the best manner applicable to the circumstances of the case. In other States, it is the 'capital' value, that forms the basis of assessment. Capital value is defined as the estimated value of the land at the time of assessment and the estimated cost of erecting the building at such time (not at the time of construction) after deducting for depreciation a reasonable amount which is not less than 10 per cent. of such cost. From such valuation, machinery and furniture are excluded in some states, but in certain others only machinery is excluded and no mention is made of furniture. The annual value in such cases is assumed to be 5 to 7½ per cent. of the capital value as determined above. The assessment is then made on the annual value so arrived at.

203. It has been stated above that the English Law prescribes only one basis of assessment, namely, the gross annual rent at which the property may reasonably be expected to let. It has also been stated that some States have only one basis as prescribed in England. It will be, therefore, of interest to see how cases of properties which are not usually let are dealt with in England. As a result of common law and judicial decisions certain principles of valuation have grown up in England and these are briefly dealt with below :—\*\*

1. **Comparison basis.** Where there is no rent of the particular hereditament is not let at a rack rent such as schools, colleges, halls, hospitals and clubs, the valuation is often fixed by comparison with similar premises.
2. **Contractor's test.** Consists of adding together a percentage on the value of the site, and a percentage on the value of the buildings and applying a commercial rate of interest to the capital value found in this way.
3. **Revenue basis.** In certain other properties which have to some extent the character of monopolies and which are seldom or never let on a rental basis (viz., canals, tramways, docks, water-works, gasworks, electric supply and undertakings, etc) the "contractors' test" principle as only partially applied, e.g. to the buildings as distinguished from the line, pipe, etc. In these cases the main valuation is made upon another principle. The rent, therefore, which a tenant might give cannot be determined merely by taking a percentage on the cost of construction. In such cases the courts have approved of a method of valuation starting from the receipts earned, and arriving at the annual value of the rateable portion of the undertaking by a series of deductions. Many such properties extend into several parishes and counties. The valuations in such counties have to be made on the basis of what a hypothetical tenant might give for the portion of the undertaking in each parish.
4. **Output method.** Where some other form of payment than rent is made, e.g., royalty payments, the valuation is fixed by multiplying

---

\*\*CLARKE—Outlines of Local Government in the United Kingdom.

output by a rate of royalty per unit of output. This method is adopted for mines.

5. **Accommodation unit basis.** e.g. per school place, per bed in hospitals, per seat in theatre or cinema.
6. **Zoning basis.** A method whereby a scale of value based on one hereditament is used to apply to other similar hereditaments, adjustments being made for situation, a different unit value applying to the zones into which the hereditament is divided.
7. **Railways.** Cumulo method, i.e., by taxing the undertaking as a whole instead of taxing each part lying within a local area separately.

204. In Bombay City, the Municipal Commissioner states that in cases where a building is not ordinarily let, the rateable value is determined either on a comparative basis (i.e. by comparing the rental value of similar property in each locality) or on a profit basis or by applying the 'contractor's test'. It will be noticed that these are the same as the methods followed in similar cases in England. There is, however, one difference of substance between English and Indian practice, and that is with regard to valuation of machinery. In England the following classes of machinery are definitely rateable :—

- (1) machinery and plant used mainly or exclusively for the generation, storage, primary transformation or main transmission of power ;
- (2) plant and machinery mainly or exclusively used for heating, cooling, ventilating, lighting, draining; supplying water to or protecting from fire the land or buildings, but not such plant used exclusively or mainly for trade purposes ;
- (3) lifts and elevators mainly or usually for passengers ;
- (4) railway and tramway lines and tracks ;
- (5) such part of any plant or any combination of plant and machinery including gasholders, blast furnaces, coke ovens, tar distilling plants, cupolas, water towers with tanks, as is, or is in the nature of, a building or structure.

205. But in India all classes of machinery are excluded.

It was pointed out to us in evidence in Calcutta that in Calcutta Corporation was losing a large sum of money every year by this departure from English practice. We see no reason why such machinery as is rateable in England should be excluded in India, and recommend that the Acts of the various States may be amended on the lines of English practice in this matter.

206. With regard to furniture we are not in favour of the inclusion of furniture for valuation.

207. It was pointed out to us that the adoption of capital value in place of rental value would lead to a large increase in the revenues of local bodies, as there has been a great rise in the capital value of property all round. In the United States of America and certain countries of Southern America, this basis has been adopted for local taxation. This system, it is stated, gives rise to graft and serious dissatisfaction. One of the complaints regarding municipal assessment in this country is that it is marked by favouritism and corruption generally. When such is the case with regard to a fixed and easily ascertainable basis of assessment viz., rent, we fear that such complaints would grow in volume with the adoption of such a highly speculative basis as the determination of what a property would fetch if it were sold in the market at the time of assessment. No two persons can give an identical

## PROPERTY TAX (GENERAL)

value for the same property at any one time. It would be difficult even to produce records to show what the cost of construction has been much less to show what the cost might be. We, therefore, are definitely of the opinion that there should be no change from the well tried basis of rent to the more or less uncertain basis of capital value. Where, however, municipalities are actually adopting capital value as the basis and there is no cause for complaint that basis may continue.

208. We were informed in Calcutta that the existence of two alternative basis of assessment under clauses (a) and (b) of section 137 of the Calcutta Municipal Act, namely, the rental basis and the cost of construction basis, has afforded opportunities to owners of premises to apply for adoption of the method which reduces the rateable valuation and consequently the amount of rate chargeable to them. There is no doubt that these two methods sometimes lead to widely divergent valuations even in respect of two similar plots of land having the same area, frontage and other advantages. It happens frequently that where rent is high and the cost of construction and value of land is low, valuation on the basis of cost of construction would be considerably lower than valuation on the basis of rent. There is then a temptation on the part of owners to seek a change in the basis of valuation from 'rental' to 'dwelling' a process which has been facilitated by judicial decisions which have held that clause (b) of Section 127 would apply when a part of the premises is in the occupation of the owner even if the larger part is leased out to tenants. Thus for a building long valued on a rental basis and assessed to certain rates, the Corporation may at any time find itself faced with the necessity of reducing the rate because the owner has in the meantime succeeded in securing a foot-hold in a small part of the house and applied for the entire premises being valued under Section 127 (b). The inconvenience and confusion due to the existence of alternative basis of valuation have been severely commented upon by the Calcutta Corporation Investigation Commission. We did not receive similar complaints in Madras, Uttar Pradesh, Bihar, Orissa, Madhya Pradesh, Assam and Punjab, where also the Provincial Acts contain alternative basis for determining the annual valuation. This may be due to the fact that the choice of the basis in these latter States does not lie with the owner of the property but is left exclusively to the judgment of the executive authority of the municipality. If alternative basis are to be retained, we think that the choice of basis should not, either directly or indirectly, be left with the owner of the property. We are, however, in agreement with the Calcutta Corporation Investigation Commission that there should be only one basis of assessment, namely, the rental basis, as it would result in improvement of revenues and prevention of favouritism. This, as already stated, is the case in England and in some of the States in India. We suggest that where alternative basis are in existence, the position may be reviewed and remedied, if necessary.

209. In relation to agricultural lands and open lands not forming part of any building, the basis of assessment is different in different States. In Madras City, agricultural lands are assessed to property tax on the basis of their annual value, which is the land revenues plus the water rate payable to government. Non-agricultural lands are assessed by the Corporation of Madras to property tax on the basis of their annual value which is, in practice, assumed as 3% of the capital value. There is an alternative basis prescribed in section 102 of the Madras City Municipal Act for assessment of these lands on the basis of the extent in lieu of annual value, subject to the following maximum rates per ground of 24000 Sq. ft. per annum, but this has not been availed of:—

- |                              |         |
|------------------------------|---------|
| (1) Water and drainage       | Rs. 3/- |
| (2) lighting tax.            | Rs. 1/- |
| (3) tax for general purposes | Rs. 4/- |

The provisions regarding the basis of assessment in Madras district municipalities are the same as in the Madras City Corporation except in regard to non-agricultural vacant lands which are assessable either on the basis of their extent or in the basis of their capital value and not on the basis of their annual value. The Madras Government have fixed the following maximum rates for the several classes of property tax to be levied by municipalities on vacant lands :—

Class of Property tax.	Maximum percentage of capital value at which the tax per half-year may be levied.	Maximum rate for every 320 sq. yards or portion thereof per half-year.
	Per cent.	Rs.
(i) Tax for general purposes.	1/4	4/-
(ii) Water and drainage tax.	1/4	4/-
(iii) Lighting tax.	1/16	1/-
(iv) Scavenging tax.	1/16	1/-

210. In the State of Bombay the local fund cess is levied on agricultural lands even in municipal areas, but such agricultural lands are not subject to any municipal taxation. The proceeds of the local fund cess on agricultural lands in municipal areas are credited to district boards and not to municipalities. Several witnesses from areas have questioned the correctness of this practice. They think that there is no justification for the appropriation of the local fund cess on lands within municipal areas by the district local boards. It is understood that there are not many agricultural lands in municipal limits and consequently the local fund cess collected within the municipal limits be very small. We recommend that the practice may be changed and the entire proceeds of the of the local fund cess within municipal areas be handed over to municipalities instead of to district boards. This recommendation applies to all States where such practice is in vogue.

211. Several witness suggested to us that nazul lands should be handed over to municipalities. While the proprietary rights may continue to vest in Government, the majority of the Committee are of the opinion that the income from such lands should be handed over to municipalities.

We understand that in U.P. the State Government transfers nazul land to municipalities for management. This authorises municipalities to give leases subject to such restrictions as the Government may prescribe. The income from leases is distributed between Government and the local bodies in a certain proportion. We recommend the adoption of this method. Two of colleagues are not, however, in favour of the transfer of nazul lands.

212. In the Municipal Acts of Bengal, Bihar and Orissa, it is provided that where the actual cost of the building exceeds one lakh of rupees, the percentage on the annual value to be levied in respect of so much of the value as is in excess of one lakh of rupees shall not exceed one-fourth of the percentage on rate ordinarily leviable on that class of property. No such concession is to be found in the Acts of other States in spite of similarity in economic conditions. It was pointed out to us in evidence in Calcutta that there is no justification for this differentiation. Some witnesses said that it was intended to be a special



concession to jute mills and industrial concerns, when they were first started. That may be so. We see no reason for the continuance of this concession and support the recommendation made by the Secretary to Government Local Self-Government, West Bengal in his note to us:—

“One provision greatly resented by municipal authorities is the proviso to section 128 (2) by which, when the value of a building or buildings in a holding exceeds 1 lakh of rupees, the rate on that part of the value which is in excess of lakh is reduced to 25 per cent. of what it would otherwise have been. This concession though generally worded, is available only to big industrial and commercial concerns which alone have buildings whose annual values, calculated at 7½ per cent. of capital cost, would exceed Rs. 1 lakh. Mills, factories, workshops, etc., which have their own special arrangements for the treatment and disposal of sewage or which make a lump contribution to the construction of the municipal sewerage system, already enjoy an exemption of 75 per cent. of conservancy rate under section 126 (3), and the further exemption granted by the proviso to section 128 (2) increases the burden on the ordinary ratepayers and makes the tax sharply regressive so far as the big industries are concerned. A comparison with the derating provision of the English Act of 1929 will show that the concession enjoyed by big business concerns in Bengal is much larger than that in England. The 1929 Act provided that property used in the business of mining, manufacture and transport should be valued at 25 per cent. of their net annual rental value for the purpose of rating. These provisions were sought to be justified on two grounds; first, that local government services benefited residents more than industrial concerns, and secondly that it was a recovery measure intended to arrest the decline of British industry. Both the grounds may be assailed on high authority. On the first point it has been observed, “disregarding for the moment the fact that rates are commonly justified on the theory of ability to pay rather than benefit, it is not clear that industrial establishments are in no way responsible for local government cost for education, houses, health and relief. It is true that immediate benefit is accrued to the employees, not to the industrial establishments, but it is also true that these costs are heaviest in industrial cities.” (Mabel Newcomer, page 200). As regards the second point it may be said that rates do not bulk largely in factory cost and derating benefits industries irrespective of whether they are prosperous or depressed. If this is true of the provisions of the English Act, it is much more true of the provisions of the Bengal Municipal Act 1932. The difference between the English Act and the Bengal Municipal Act should be noted. Here the 75 per cent. derating which begins after the 1 lakh mark is reached applies to all kinds of buildings, industrial as well as commercial, while the application in England is limited to industries of mining, manufacture and transport. Secondly and even more important from the point of view of local bodies, was the guarantee of compensation contained in the proposed revision of the system of grants-in-aid by which the actual amount of loss due to derating and to the discontinuance of a large number of allocated grants together with 5 million pounds was to be distributed amongst local bodies according to a certain formula. There can be no legitimate objection to reducing the conservancy rates in case of industrial holdings which have their own sewerage system or

which have contributed to the cost of municipal sewerage but the provision that valuation for rates should be reduced by 75 per cent. over Rs. 1 lakh has no apparent justification and should be done away with. This will immediately put many of the municipalities in industrial areas on sound financial footing."

One of our colleagues, however, is in favour of the continuance of such a concession.

213. **Machinery of assessment, revision and appeal.** The machinery of assessment, revision and appeal varies from State to State according to the category of each local body. Municipal corporations are a class by themselves and have an elaborate machinery which is not to be found in district municipalities. In the Municipal Corporation of Bombay, the Municipal Commissioner who is appointed by Government, is the head of executive administration including the assessment of taxes. Appeals against assessments, made by the Municipal Commissioner, are heard by the Small Causes Court. There is a further appeal, on points of law, to the High Court. In the newly constituted corporations of Poona and Ahmedabad the Bombay model has been followed. Appeals against assessments, made by the Municipal Commissioners, are heard by the Court of Small Causes, and a further appeal lies to the district court.

214. In the Madras Corporation, the Municipal Commissioner is in much the same position as the Municipal Commissioner of Bombay. The main difference between the powers of these two officers lies in respect of appeals against assessments. Appeals against assessments made by the Municipal Commissioner, Bombay lie to the Small Causes Court whereas appeals against assessments made by the Municipal Commissioner, Madras Corporation, lie to the Taxation Appeals Committee, which is a statutory committee of the Corporation, consisting of a Chairman nominated by the Government of Madras and two members elected by the Corporation from among themselves.

In the Calcutta Corporation, the position is theoretically the same as in the Bombay Corporation. The Chief Executive Officer is the final authority in matters of assessment. He is, however, not as independent as the Municipal Commissioners of Madras and Bombay. He is appointed by the Calcutta Corporation for a specified period, with the approval of the Government of West Bengal. Though the powers regarding assessment of taxes are conferred on him by statute, the major portion of the executive powers are delegated to him periodically and are not prescribed in the Act itself, as in the Madras and Bombay Corporation Acts. We were told by persons with experience of that office that the Councillors used this power of delegating authority as a lever for exercising pressure on the Chief Executive Officer in revising; (mostly reducing) assessments against his better judgment. If they found the Chief Executive Officer amenable to pressure they would enlarge his powers. If not, they would take away his powers at the next available opportunity. This practice has been criticised by the Corporation of Calcutta Investigation Commission.

With a view to reconcile democratic control with administrative efficiency, the Investigation Commission consider it essential (1) to separate the policy-making function and the administrative function of the Corporation, and (2) to integrate responsibility with authority by providing a unifying executive head. The Commission also recommend the creation of the post of a Chief Revenue Officer to work under the Chief Executive Officer. This officer will be in charge of all departments concerned with assessment and collection of taxes.

215. In Bombay the responsibility for getting the assessment list prepared lies on the Chief Officer under section 78 (1) of the Bombay Municipal Boroughs Act, 1925. After its preparation, the assessment list has to be published. Any objections received are heard by the Standing Committee, but the Standing Committee may transfer these powers and duties to any other Committee appointed by the Municipality or, with the permission of the Commissioner, to any officer or pensioner of government. After the objections have been disposed of, the list is finalised and authenticated by the signatures of the Chairman and at least one other member of the Standing Committee, or by the signatures of at least two members of the Special Committee or of the officer or pensioner as the case may be. The procedure is more or less similar under the Bombay District Municipal Act, 1901.

216. We are informed that the Government of Bombay have advised all municipalities to entrust the work of preparing assessment list to a Mamlatdar (Tehsildar) nominated by them and the power of hearing objections to a senior Mamlatdar also nominated by them. In this manner they point out that the machinery of assessment in practice has been made independent.

217. In Bombay State, even after the assessment list is finalised, the Acts provide for an appeal by the assessee after the presentation of the bill to him, to a Magistrate, subject to the condition that the objection against the assessment had been made to the Standing Committee etc. earlier. The decision of the Magistrate, at the instance of either party, is subject to revision by a higher court.

218. In Madras, the independence of the executive has been secured in every district municipality by the appointment of a Municipal Commissioner in whom all executive authority has been vested and who works subject to the administrative control and discipline of the Government of Madras, very much the same as in relation to the Madras Municipal Corporation. He is responsible for the preparation of the assessment list. Objections against any assessments made by him, are, however, heard by the municipal council or by a committee thereof. We were told in evidence that, in several cases, assessments made by the Municipal Commissioner were reduced by the municipal councillors. There is, however, provision under Rule 28 of Schedule IV to the Madras District Municipalities Act for the appointment of a Special Officer by Government to exercise all the appellate powers of the Municipal Council. We were also told that the Government of Madras had actually exercised this power and appointed Special Officers when they considered such a step desirable.

219. In West Bengal the work of assessment is done by an Assessor, whose appointment is made by the municipal council from a panel of Assessors approved by the State Government. Assessments made by this officer are subject to review by the members of the municipality. Objections against assessments made by the Assessor are heard and determined by a committee consisting of the Chairman and not less than two nor more than four members of the municipality. The decision of this committee is final. There is no provision for any further appeal.

220. In Uttar Pradesh, the responsibility for assessment vests entirely with the municipal boards or municipal councils. There is no system of separation of executive officers rests with the municipal boards. Objections against original assessments are heard and determined by the board or a committee empowered by delegation in this behalf or an officer of government or the board to whom, with the permission of the Divisional Commissioner, the municipal board delegates these powers. Appeals against the decision of this authority are made to the district Magistrate or to any other officer empowered by the Government. Jurisdiction of civil and criminal courts in matters of municipal taxation is barred under section 164 of the U.P. Municipalities Act.

221. Section 162 of the U.P. Municipalities Act, however, provides that if during the hearing of an appeal a question about the liability to or the principle of assessment of a tax arises on which the officer hearing the appeals entertains a doubt, he may, either of his own motion or on the application of a person interested, make a reference to the High Court.

222. In the Punjab, executive administration in important municipalities is vested in an Executive Officer under the Punjab Executive Officers Act with powers clearly defined under the Act. The Executive Officer is appointed for a renewable term of five years by the Municipal Committee\* at a special meeting by five-eighths majority. The appointment is subject to the approval of Government. Where, however, within three months from the date of notification by Government applying the provisions of the Executive Officers Act to a municipality, the Municipal Committee fails to make an appointment; the State Government may appoint any person they consider suitable for a renewable term of five years. The Executive Officer may at any time be suspended or removed from office by the State Government and shall be suspended or removed if at a meeting specially convened for the purpose, the Municipal Committee votes in favour of such removal or suspension by a majority of five-eighths of the total number of members constituting the committee. Under sub-section (a) to Section 4 of the Executive Officers Act the preparation of the assessment list, hearing of objections and revising the assessment list are vested in the Executive Officer.

223. In municipalities where there are no Executive Officers the responsibility for the preparation of the assessment list, hearing objections and finalisation of list is placed on the Municipal Committee by Section 63 to 68 of the Punjab Municipalities Act. Appeals against assessment in all municipalities lie under section (84) (1) of the Punjab Municipalities Act, to the Deputy Commissioner of the district or to such other officer empowered by the State Government. If, however, the Deputy Commissioner or other authorised officer is or was a member of the committee at the time the tax was imposed the appeal lies to the Commissioner of the division. On points of law, the Deputy Commissioner or other officer hearing the appeal may make a reference to the High Court. As in U. P., jurisdiction of civil courts is barred under section 86 of the Punjab Municipalities Act in matters of valuation or assessment or the liability of any person to be assessed or taxes.

224. In Bihar responsibility under the Act lies on the members of the municipality for the preparation of the list. In practice the municipality applies to the State Government for the services of a sub-Deputy Collector or Deputy Collector to make the assessment. Objections against assessments made by this officer are heard by a committee consisting of not less than three members of the municipality. The decision of this committee is final.

225. Under Section 113 of the Bihar Act whenever it appears to the State Government that the assessment made in any municipality or by an assessor appointed under section 37 is inequitable, the Government may require the municipality to revise and amend such assessment. If the municipality fail to comply with such an order, or in the opinion of government, the revised and amended assessment is insufficient or inequitable, the Government may require the municipality to appoint an assessor of municipal taxes. Under Sub-section (4) of Section 113 the assessment made by an assessor so appointed shall rescind and take the place of the assessment which was held to be insufficient or inequitable.

---

\* In Bombay and Madras the term used is Municipal Council, in Uttar Pradesh and Assam it is Municipal Board; in Punjab and Madhya Pradesh it is Municipal Committee. In Bengal, Bihar and Orissa the members are referred to as 'Municipal Commissioners'.

226. The Secretary to the Government of Bihar is satisfied with the above system, as would appear from the following extracts from his note to us:—

“Government have no evidence to show that the assessments made by municipalities are insufficient or inequitable. Under Section 113 of the Bihar and Orissa Municipal Act, 1922, Government have power to intervene when the assessment as carried out by a municipality has been found to be insufficient or inequitable and to have the assessment in that case properly revised. There have been very few cases, if at all, in which Government have found it necessary to take recourse to the provisions of this section. Municipalities are competent to make their own assessment of taxes, but generally speaking they make request to Government when revision of assessment falls due for the services of Sub-Deputy Collectors or Deputy Collectors to revise their assessment. The assessments made by these officers are subject, later on, to review by Committees of the municipal commissioners, but, as just explained, there have been few cases in which Government have had to intervene under section 113 of the Municipal Act, on evidence having been brought to their notice that the review made by the municipal commissioners in appeal had been inequitable. Thus, there appears to be no evidence to warrant any change in the existing methods of assessment. Indeed, if assessments were made by independent agencies, there might be a risk of their being used as an excuse for low collections”.

227. The machinery of assessment in Madhya Pradesh is the same as in Uttar Pradesh and Punjab. The jurisdiction of Civil Courts in matters of taxation is also barred as in Uttar Pradesh and Punjab. The provisions regarding appeals are also the same.

**Orissa.** In North Orissa which at one time formed part of Bihar, the machinery of assessment is the same as in Bihar. In South Orissa, which at one time formed part of Madras, the machinery of assessment is the same as in Madras State. A new unified Municipal bill for the whole State is on the anvil. Under clause 72 of the bill every municipal council is required to have an Executive Officer who should be a servant of the State Government. Under clause 140 the Executive Officer has to determine the annual value of all holdings and prepare the valuation list. Under clause 152, all objections against the assessment list are to be heard by a committee consisting of not less than three councillors. The decision of the committee is final.

**Assam.** Under section 73 of the Assam Municipal Act, the municipal board is responsible for the preparation of the assessment list. Objections against such assessments are heard either by a committee of the municipality or by an officer of the Government whose services are lent to the municipality. The decision of the committee or such officer is final. As in Bihar there is a provision in section 77 (b) of the Assam Act conferring powers on the State Government to ask the municipality to revise the assessments where it considers such assessments insufficient and inequitable. The jurisdiction of Civil Courts in matters of taxation is barred in this State also as in Bihar, Uttar Pradesh and Punjab.

228. **Revision of assessment.** The machinery for the revision of assessment is the same as for the original assessment. Except in Calcutta where a period of six years is prescribed and in Bombay City where no period is prescribed, in every other Municipal Act, a period of three to five years is prescribed for the revision of assessments. New properties or additions and alterations to old properties can, of course, be assessed at any time during the currency of an assessment

list but, otherwise, an assessment once made on a property lasts for the prescribed period. The revision and revaluation is also made simultaneously in all the wards of a municipality and not by rotation as is done in Calcutta, namely, one-sixth of the wards in each year. It was brought to our notice that this rotational revision in Calcutta is causing much loss of revenue to the Corporation. The Government of West Bengal has, we understand, issued an ordinance for a general simultaneous revaluation in Calcutta and this is expected to have a beneficial effect on the revenues of the Corporation. We are of the opinion that the Calcutta Municipal Act should be amended so as to bring it into line with the other Acts, *i.e.*, to provide for a simultaneous revision in all wards.

**229. Assessment of properties belonging to Chief Executive Officer.** There is provision in the Madras City Municipal Act and the District Municipalities Act to the effect that the Chief Executive authority should not assess his own properties. Under the proviso to sub-section (3) of Section 99 of the Madras City Municipal Act, 1919, the annual value of any building or land the tax for which is payable by the Commissioner shall be determined by the Mayor in the City of Madras and under the proviso to rule 6 of Part I-Taxation Rules Schedule IV to the Madras District Municipalities Act, 1920 the value of any land or building, the tax for which is payable by the executive authority—commissioner—shall be determined by the revenue divisional officer or, if the revenue divisional officer is also the executive authority, by the council. Such a provision is not found in other Acts. We consider this a very salutary provision and recommend its adoption in relation to property owned by the Chief Executive Authority.

**230. Right of appeal for local bodies.** In no Municipal Act is a revising authority required to state the grounds for any reduction in assessments and valuation which he may sanction. On enquiry we find that though this provision is not required by law in actual practice such reason are generally recorded. The Corporation of Calcutta Investigation Commission have, however, found that in the Calcutta Corporation this is not the practice; no reasons for reductions are recorded. This appears to us very unsatisfactory. We think that the Acts should be amended to provide for the recording of the grounds for each reduction of valuation or assessment.

**231.** The Indian Acts do not also allow the right of appeal to a municipality against any reduction in assessments or valuations made by any revising authority. We see no reason why the local body should not also have the right of appeal when it feels aggrieved by any decision of a revising authority. This is the case in England and we feel that the law in India should be amended accordingly. In view of this recommendation it will become all the more necessary that reasons for reduction of assessment should be recorded by revising authorities.

**232. Creation of a Central Valuation Organisation.** Valuation of property is such a highly technical business that it cannot be entrusted to any person who has not received training, however competent he may otherwise be. There is a great difference between ordinary administrative work and the valuation of immovable properties, particularly, properties other than residential houses. In the determination of their annual value so many principles and standards of valuation have to be applied that the work can not be entrusted even to members of the Civil Services from whom usually Executive Officers of municipalities are recruited. While the taxing authority should continue to be vested in the local bodies, the detailed work connected with the preparation of the valuation list of all the properties within the jurisdiction of a local body should be entrusted to a central organisation (to be created for this purpose) which will consist of trained valuers as in western countries. Even in England, where local bodies are tenacious of their rights, the task of valuation has been taken away from them under the local

## PROPERTY TAX (GENERAL)

Government Act of 1948 and vested in the Board of Inland Revenue. We are of the opinion that a similar step should be taken in each State in India. A valuation department should be brought into being for all the local bodies within the State. Its duty will be to see that the valuation list is correct and up to-date for each local body. The valuation list as prepared by this department should be forwarded to the local body concerned and should be published. Any person, including the local body, itself, will have the right to object to any valuation included in that list. But it will be not open to the local body to alter any entry as made by the Valuation Department. It will have to make a representation against such entry and if the Valuation Department is not satisfied with the objection and the local body or the person making the objection feels aggrieved by such action it will have the right to appeal to a local tribunal called the local valuation court. The decision of the valuation court will be final on points of fact. On points of law an appeal might be allowed to a District Court, or even to a High Court, as may be deemed proper. But no person will have the right to withhold the payment of the tax pending the disposal of his appeal. What the constitution of the local valuation court should be, is not a matter into which we need enter. This can be dealt with by the State Government. It should be a tribunal in whose independence and fairness of judgement both parties have confidence. The creation of a trained staff of land valuation experts is a matter of time. In three or four years the scheme should begin to work satisfactorily.

233. The position is not very dissimilar from that which existed in relation to assessment of income tax prior to the creation of a separate Income Tax Department when the work was done by the District Collectors. The income-tax collected was very small but with the formation of a separate Income Tax Department and the special training given to Income Tax Officers, the yield of income tax has increased enormously. We expect that with the creation of a separate department of land valuation, the income from property tax in every municipality will increase very considerably and the complaints now generally heard of under-assessment and partiality in assessment will become a thing of the past.

234. Some of our colleagues do not support the above recommendation.

### PROPERTY TAX—GENERAL—PART II

235. In Part I a general survey of the position with regard to the levy of property tax has been given. It was not possible to include therein particular features relating to each State, which are not necessarily the same all over the country. As, however, the subject is one which peculiarly concerns each State and has to be dealt with due regard to the statutory provisions and administrative practice prevailing in each, it is necessary, in order that the subject may be properly appreciated, to deal with the special features governing the levy of property tax in each state. A State-wise survey is accordingly given below.

#### 1. MADRAS

236. Property tax is levied by all district municipalities under Section 81 of the Madras District Municipalities Act 1920. It is levied on all buildings and lands within municipal limits save those exempted by or under the Acts or any other law. The property tax comprises :—

- (a) a tax for general purposes ;
- (b) a water and drainage tax ;
- (c) a lighting tax ;
- (d) a scavenging tax.

Items (b), (c) and (d) are intended to provide for the expenses in connection with the provision of the respective services. In addition there is an education

CHAPTER V

tax levied as a percentage of the property tax or profession tax under Section 37 of the Madras Elementary Education Act, 1920.

237. **Rates.** No maximum or minimum rates are prescribed in the Act as in the case of Madras City Corporation. Under section 81-A of the Madras District Municipalities Act, 1920 as amended in 1944, the State Government has power to fix the rate of property tax in any mofussil municipality at such rate as it may deem desirable without the consent of the Municipal Council. In exercise of this power, Government has in recent years increased the rate of property tax in several municipalities.

238. The tax is levied by all municipalities in the State at rates varying from 12 per cent. (inclusive of education tax) in Chirala to 27 per cent. (inclusive of education tax) in Nagapattinam of the annual rental value. The education tax is also levied at varying rates.

239. Under the proviso to sub-section (1) of Section 84 the aggregate property tax leviable in the case of lighthouses, piers, wharves, jetties and passenger sheds, latrines, cart-stands, retiring rooms and platforms belonging to a railway administration shall not exceed 4 per cent. of their annual value.

240. **Income.** The income derived from property tax by district municipalities in Madras in 1946-47 is shown below :—

Name of Tax	Receipts in 1946-47 Rs.	Percentage of total income from rates and taxes which each source represents
(1) General Tax.	6,941,582	27.09
(2) Water & drainage tax.	3,053,109	11.90
(3) Conservancy rate (scavenging tax).	963,816	3.70
(4) Lighting tax.	5,434,726	21.20
Total receipts from property tax in 1946-1947.	16,398,233	63.89

In 1884-85 the property tax levied by district municipalities in Madras yielded an income of Rs. 4,27,803 and formed 42.5 per cent. of the total income from rates and taxes. The percentage now is 63.50. It will, therefore, be obvious that both the yield from this source and its importance have grown.

241. **Remissions.** The owner is entitled to vacancy remission if the building has been vacant and unlet for 30 or more consecutive days in any half year, the remission being proportionate to the number of days during which the building was vacant or unlet.

242. **Basis of assesment.** The basis of assesment in Madras district municipalities is the gross annual rent at which lands and buildings may (at the time of assesment) reasonably be expected to let from month to month or from year to year, less a deduction (in the case of buildings only) of 10 per cent. on such annual rent, provided that (a) in the case of (i) any Government or railway building ; or (ii) any building of a class not ordinarily let, the gross annual rent of which cannot in the opinion of the Commissioner be estimated, the annual value of the premises shall be deemed to be six per cent. of the total of the



## PROPERTY TAX (GENERAL)

estimated market value of the land at the time of assessment and the estimated cost of erecting the building at such time after deducting for depreciation a reasonable amount which shall in no case be less than ten per cent. of such cost, and (b) machinery and furniture shall be excluded from valuation.

243. Agricultural lands are assessed to property tax on the basis of their annual value, which is the land revenue plus the water rate payable to Government. Nonagricultural vacant lands are assessable either on the basis of their extent or on the basis of their capital value and not on the basis of their annual value.

244. **Machinery of assessment.** In district municipalities there are paid Executive Officers designated as 'Commissioners', appointed and controlled by Government. The Government of Madras consider that the assessments of property made by these Commissioners are adequate. Appeals against assessments lie to the Municipal Councils or to Committees appointed by them. Sometimes the assessments are reduced on appeal. Where it appears to the State Government that municipal councils have abused their appellate powers to any appreciable extent, they appoint a special officer, in exercise of the power conferred under Rule 28 (a) of Schedule IV to the Madras District Municipalities Act, 1920 to exercise the appellate powers of the municipal councils. Where the abuse of powers by the municipal council is persistent, Government supersede the municipal council. There is no provision for a judicial appeal in matters of assessment.

245. The revision of assessment is quinquennial and is done by the same machinery as does the original assessment and is subject to the same rights of appeal, etc.

246. **District Boards.** The only property tax levied by District Board is the local fund cess, which is dealt with separately.

247. **Village Panchayats.** House tax is compulsory in all village panchayats under the Madras village Panchayats Act, 1950. It is levied every half year at such rates as may be fixed by the panchayat not being less than the minimum rates and not exceeding the maximum rates prescribed by Government. The house tax is levied on all houses as well as huts in the village either on the basis of annual value, or on the basis of capital value, or such other basis as may be prescribed. All notified major panchayats have Executive Officers appointed and controlled by Government. They are responsible for assessment. The Government of Madras consider that assessment of house tax in all the bigger panchayats is adequate.

## 2. BOMBAY MUNICIPAL BOROUGHS AND DISTRICT MUNICIPALITIES

248. When the Committee took evidence in Bombay, there was only one Municipal Corporation, i. e. the Bombay City Corporation. Since then the Bombay Legislature has passed a new Act known as the Bombay Provincial Municipal Corporation Act, 1949, under which municipal corporations can be established in other cities also. Two new corporations at Ahmedabad and Poona have since been established under this Act. The powers of taxation of these two corporations are the same as of the municipal boroughs including the power to levy property tax on a graduated scale. The minimum rate of the general tax prescribed under the Act is 12 per cent. Besides the Act permits the Corporations to levy the general tax on buildings and lands in which a particular class of trade or business is carried on at higher rates, but not more than 50 per cent. higher than ordinary rates. The position regarding the assessment and collection of taxes is the same in the Poona Corporation as in the Bombay Corporation. Section 406 of the Act provides for an appeal against the valuation of any property to the Small Causes

Court. A further appeal is provided under Section 411 from an order of the Judge of the Small Causes Court to the District Court in respect of any dispute about the valuation of a property, the rateable value of which has been fixed at a sum exceeding two thousand rupees and in respect of all properties upon a question of law or usage having the force of law or the construction of a document.

249. As in the City of Bombay, buildings and lands used for the disposal of the dead, buildings and lands solely occupied and used for public worship or for a public charitable purpose are exempt from the general tax on property.

250. Under rule 56 of the Taxation Rules, Chapter VIII to the schedule in the Provincial Corporations Act, when any building or land or any portion of such premises has been vacant for not less than sixty consecutive days the Commissioner shall refund two-thirds of the amount of the general tax, if any, paid for the number of days that such vacancy lasted.

251. Property tax is levied in municipal boroughs and district municipalities under section 73 and section 59 of the Bombay Municipal Boroughs Act, 1925 and the Bombay District Municipal Act, 1901 respectively. The tax is optional in both cases but all municipalities are levying it. No maximum or minimum rates are prescribed.

252. **Rates.** The rates prevalent in some of the municipalities are given below :—

**BROACH.** The tax is levied on a progressive basis on the capital value, ranging from Re. 1 in the case of residential or rented houses of the capital value of which is between Rs. 300 to Rs. 800 to Rs. 49 in the case of houses the capital value of which is between Rs. 19,000 and Rs. 20,000 and thereafter at rates of Rs. 5, 6, 8 and 10 for every thousand or fraction of a thousand of the capital valuation of houses between Rs. 20,000 and Rs. 30,000, Rs. 30,000 and Rs. 40,000 and Rs. 40,000 and Rs. 50,000 and above Rs. 50,000 respectively. The rate in respect of buildings or lands or portions thereof used for business or industrial purposes is  $1\frac{1}{2}$  times the rate mentioned above for ordinary properties.

**SATARA.** The rates of house tax at present prevalent are those fixed in 1891. The rates vary from 0-8-0 in the case of houses, the annual rent of which is between Rs. 6 and Rs. 12 to Rs. 8 between Rs. 96 and Rs. 108 and in the case of houses the annual rent of which exceeds Rs. 108 at 8%.

**DHARWAR.** 9% of the annual letting value.

**BELGAUM.**  $6\frac{1}{4}$ % in the case of houses with an annual letting value from Rs. 12 to Rs. 50 and rising to 11% in the case of those above letting value of Rs. 301 and above.

**HUBLI.** Consolidated rate of 25%.

**NASIK.**  $9\frac{3}{8}$ % of the letting value.

253. In Ahmedabad municipality (Corporation from 1.7.1953) there is at present no house tax. Only a water rate is levied. There is, however, the usual urban immovable property tax levied by the State Government in Ahmedabad and Poona. The rate payable in some of the smaller municipalities was as high as 25% in Hubli and the Municipal Commissioner, Poona was of the opinion that Poona cannot bear a higher rate than 15%, which is the rate levied at present.

254. The Government of Bombay noticed considerable variations from municipality to municipality, even at times justifiable, between municipalities in

## PROPERTY TAX (GENERAL)

the same district, in the rate of taxation based on letting values. With a view to removing such anomalies, the Government has by an executive order directed that municipalities should levy a consolidated rate on buildings and lands of not less than 20% of their annual letting value or 1.5 per cent of the capital value and that the consolidated rate should take the place of (a) house tax (b) general sanitary cess (c) general water rate and (d) lighting tax. In case of refusal on the part of a municipality to so raise the taxes, the State Government has informed them that they will withdraw all voluntary grants. The Government has further directed that in the case of business premises the rates should be 50% more than on other kinds of premises.

255. **Income.** The income from property taxes was Rs. 270,162 and Rs. 10,242,827 in the years 1884-85 and 1944-45 respectively and formed 19% and 48% respectively of the total taxation income of municipalities in Bombay. The corresponding percentages for Madras are 42.5% and 63.8%. It will be seen therefore that the tax is not levied at the same rate and to the same extent at which it is levied (in municipalities) in Madras.

256. **Exemptions.** No list of exemptions is specified in the Acts but under section 75 (a) and section 60 (a) (iii) of the Bombay District Municipal and Borough Municipal Acts respectively it is left to the discretion of the municipality to provide for such exemptions as they like, subject to the approval of the State Government. It is understood that, as a matter of practice, exemptions from property tax are given in very much the same cases as in the Bombay Corporation.

257. **Remissions.** Sections 86 and 69 of the Bombay Municipal Boroughs and District Municipal Acts respectively provide for a remission of property tax in respect of a building which has remained vacant and unproductive of rent throughout the year or portion of the year.

258. **Basis of assessment.** In the Bombay Municipal Boroughs Act, the basis of assessment is not specified but is left to be determined by each municipality. It is generally either the annual letting value of the capital value, in most cases the former. The annual letting value is defined in section 3 of the Act as the annual rent for which any building or land, exclusive of furniture or machinery, might reasonably be expected to let from year to year, and shall include all payments made or agreed to be made by a tenant to the owner of the building or land on account of occupation, taxes, insurance or other charges incidental to tenancy. Under section 78, clause (2) where annual letting value is used as the basis a sum equal to 10% of the said valuation is deducted in lieu of allowance for repairs or any other account whatsoever.

259. The provisions in this matter in Bombay district municipalities are the same as for municipal boroughs.

260. There is no separate provision in the Bombay Acts regarding the basis of assessment of open lands.

261. As the cities of Ahmedabad, Poona and Sholapur present special problems in respect of the variety of properties to be valued, the present practice in the matter of assessment in these cities is described below:—

**Ahmedabad.** The Ahmedabad Municipality does not levy any separate house tax as such. It levies a fairly heavy general water rate on properties.

For the purpose of the levy of the general water rate the properties are divided in three classes as given below:—

- (1) All non-residential buildings belonging to mills and factories, except hotels, shops, stalls and stables, but including tanks, out-houses, store-yards, etc., and open yard and lands appertaining thereto and in the case of all open yards and lands belonging to the railway company.

(2) Stalls, booths, tents, pandals, show-places, theatres and the like temporarily erected on open private or Government land together with the lands occupied for the purpose of or for purposes connected with, exhibitions, cinema or amusement shows, cricket tournaments, carnivals, fancy fairs or other shows where admission to the place is by tickets or by fees.

(3) All other properties not included in (1) and (2) above, in other words, all residential properties.

The general water rate on buildings and lands in class (1) is levied at the rate of 1½% on the valuation based on capital. The general water rate on lands and structures or erections specified in class (2) is levied in the case of revenue survey land at the rate of 0-1-0 per 100 sq. ft. per day and in the case of city survey land at the rate of 0-2-0 per 10 sq. ft. per day for the area occupied. The general water rate on buildings and lands in class (3) is levied at the rate of 11¼% on the net annual letting value. The net annual letting value is calculated after deducting 10% allowance for repairs, etc.

As regards the capital basis for assessment of properties in class (I) the appropriate rule as sanctioned by Government with effect from April 1, 1947 is as follows :—

“Valuation based upon capital shall be the capital value of buildings and lands as may be determined from time to time by the valuers of the municipality who shall take into consideration such reliable data as the owners or the occupiers thereof may furnish either of their own accord or on being called upon to do so.”

**SHOLAPUR.** The position in regard to the levy of property tax by Sholapur Municipality is as follows :—

“ A general rate on buildings and non-agricultural lands on the scale defined below shall be recoverable in respect of all buildings and non-agricultural lands except Government buildings recovered by proviso (i) to Section 73 of the Bombay Act VIII of 1925.

(a) in the case of every building or any plot of non-agricultural land yielding or capable of yielding a yearly rent of more than Rs. 10 but not more than Rs. 15.....Rs. 1-2-0

(b) in the case of every building or any plot of non-agricultural land yielding or Capable of yielding a yearly rent of more than Rs. 15 but not more than Rs. 20.....Rs. 1-8-0.

(c) in the case of buildings or any plot of non-agricultural land yielding or capable of yielding a yearly rent of more than Rs. 20, for every Rs. 10 or portion thereof.....Rs. 0-12-0.

(d) in the case of mills and factories and buildings and lands connected therewith, the general rate on buildings and lands shall be levied at the rates stated in clauses (a) to (c) above, on the annual letting value calculated at 6% of the capital value of the said buildings and lands.

Explanation—The expression ‘buildings and lands connected therewith’ means and includes warehouses, godowns, mills, shops and open yards and lands etc. which are within the compound of the mill premises, but does not include residential buildings such as bungalows, outhouses and open lands attached to them.

Note—Buildings and lands which are not taxed under sub-clause (d) should be taxed under the ordinary rules.”

**Poona.** The Poona Municipality makes no distinction in the matter of levy of rate on buildings between residential properties and industrial properties. It levies 15% on the annual letting value of all buildings. It, however, charges a concessional rate of 5% on properties used for public worship or for charitable or educational purposes.

262. **Machinery of assessment.** The provisions in the Municipal Boroughs Act in respect of assessment are that the Standing Committee shall prepare the assessment list and hear objections against the list. There is no provision for any further appeal to an administrative or judicial tribunal. In view, however, of the observations made by an Official Committee (appointed by the State Government in 1947) on the working of Standing Committees or Revision Committees of municipalities that

- (i) the rental values accepted by the tenants themselves have been reduced by the Revision Committees;
- (ii) properties of the same nature or specification are differently assessed;
- (iii) distinction has been made in the assessment of portions of the same building occupied by the owner and the tenants--the portion occupied by the owner himself being assessed at a comparatively very low figure;
- (iv) the assessment of the houses of councillors of some of the municipalities or of their relatives is lower than what it ought to be; and
- (v) drastic reductions are generally made by the Revision Committee and with a view to assessing the values correctly, the Government of Bombay has accepted the recommendations of the Committee that an officer of the rank of Mamlatdar with no local interest should be appointed for each district and entrusted with the duty of re-assessing the values of houses in each municipality in the district independently, and another officer of a status not lower than that of a Mamlatdar should be appointed to hear objections and fix the assessments finally and has issued orders accordingly.

### 3. WEST BENGAL

263. The levy of the general property tax in the municipalities of West Bengal is governed by Sections 123 and 124 of the Bengal Municipal Act, 1932 and of the lighting, conservancy and water rates by sections 123, 125 and 126. Though the language of the Act makes the imposition of the property tax optional and not compulsory as in the case of the Calcutta Corporation, in actual practice all the municipalities are levying the general property tax as this is the only substantial source of income.

264. Under Section 124 of the Bengal Municipal Act, the general rate on holdings should not exceed 15% of the annual value in the municipalities of Darjeeling and Kurseong and 10% in other municipalities. The maximum rates for the water, lighting and conservancy rates are 7½%, 3% and 7% respectively. The only exception is Howrah, which levies a consolidated rate on the lines of the Calcutta Corporation, the maximum limit being 23%. Under Section 135 this rate is to be determined every year with reference to the requirements of the municipality. Where the amount standing to the credit of the municipality is, in the opinion of the State Government, insufficient to meet the liabilities of the municipality, no decrease in the percentages of any rate levied can be made without the previous sanction of the State Government. The rates levied in some of the bigger municipalities in the State are shown in the table below:—

CHAPTER V

	House tax	water rate	Conservancy rate
Midnapore	7½%	6½%	7%
Burdwan	7½%	6%	7%
Murshidabad	6%	...	7%
Krishnagar	7½%	7½%	7%
Horah	consolidated rate of 21¼%		

265. **Income.** The average annual income from property taxes of district municipalities in West Bengal for the years 1946-47 and 1948-49 are given below :-

Tax	Average income	Percentage of yield to average annual income
(a) Tax on houses and lands	4,955,765	37.3
(b) Water rate	976,435	7.4
(c) Lighting rate	347,643	2.6
(d) Conservancy (including scavenging and latrine rate)	1,742,400	13.1

266. **Exemptions.** Under Section 124(b) of the Act no property tax is payable by any holding which is used exclusively as a place of public worship, to which the public has a right of free access without payment or as a mortuary or as a burial ground or burning ground duly registered under the Act. A municipality has also the power to exempt either wholly or partially from the rate on holdings any holding which is used exclusively for purposes of public charity. Further exemptions may be granted where the annual aggregate value of all the holdings held by any one owner does not exceed Rs. 6.

267. **Remission.** When any holding has been unoccupied and unproductive of rent for sixty or more consecutive days, the municipality shall refund three-fourths of the amount due on account of such period. There is also provision for remission on ground of excessive hardship.

268. **Basis of assessment.** The basis of assessment is the annual value of a holding as mentioned above. The term 'annual value' is defined in section 123 as the 'gross annual rental at which the holding may reasonably be expected to let'. There is no provision in this Act for any deductions on account of repairs or maintenance charges. In other Act 10% is allowed. It is further provided that if such gross annual rental value cannot, in the opinion of the Assessor, be easily estimated or ascertained, the annual value of such holding shall be deemed to be an amount which may be equal but may not exceed 7½% of the value of the building or buildings on such holding at the time of such assessment plus a reasonable rent for the land compared in the building. There is a further proviso that, where the value of a building or buildings on a holding exceeds one lakh of rupees the percentage of annual value to be levied in respect of so much of the value as is in excess of one lakh of rupees shall not exceed ¼% of the percentage levied on other buildings.

269. **Machinery of assessment.** Under Section 145 the State Government prepares a list of persons qualified in its opinion to be appointed as Municipal Assessors. When a new valuation list has to be prepared for any municipality

## PROPERTY TAX (GENERAL)

the Municipal Commissioners have to appoint a person from this approved list on such salary and with such establishment as may be fixed by them with the approval of the State Government. Any other person may also be appointed as an Assessor with the approval of the State Government. When the assessment list is prepared it is published and objections invited from the public. All applications for revision are heard by a Committee consisting of the Chairman and from two to four Commissioners. It is provided in section 151 that when an objection to an assessment as valuation has been made, the rate shall, pending the final determination of the objection, be paid on the previous assessment or valuation. There is an apparent conflict between sub-section (4) of section 149 which says that the decision of the Review Committee is final and clause (c) of sub-section (1) of section 138 which says that the Municipal Commissioners may at any time alter the valuation or assessment on any holding, which, in their opinion, has been incorrectly valued or assessed. We are informed that by interpretation the application of section 138 (1) (c) has been restricted only to cases where no objection has been preferred. Once objections are preferred and have been finally determined by the Review Committee, no further appeal lies to the Municipal Commissioners.

270. There does not also seem to be any provision in the Bengal Municipal Act for a definite period after which the original assessment should be revised as there is in the Calcutta Municipal and other Municipal Acts.

### 4. UTTAR PRADESH

271. Property tax is levied in Municipalities in Uttar Pradesh under Section 128 of the U. P. Municipalities Act. Under the Act, the levy of property tax is optional and not compulsory. The State Government has concurrent power to impose the tax and prescribe the rates. No maximum or minimum rates are prescribed in the Act. The general property tax has not been used to any appreciable extent by municipalities in this State. It is levied only in 33 out of 110 municipalities. The rates of tax in the various municipalities generally range between 2½% and 15%. A progressive scale of rates is adopted in some municipalities e.g. Lucknow, where the rate varies from 3½% of the annual value on lower rentals to 15% of the annual value on houses with a rental of Rs. 1800 per annum or above.

272. The tax was levied in 18 municipalities in 1908-09 and the present position does not appear to be much of an improvement on what it was three or four decades back. While in some cases there has been some increase, in the majority of cases the rates of tax have remained where they were in 1908-09, in fact in some cases, there has been a reduction as shown below:—

Name of Municipal Board	Rate in force 1908-09	1948-49
1. Mussorie	7½	6¾
2. Saharanpur	7½	7½
3. Roorkee	6	3¾—7½
4. Muzaffarnagar	4-11/16	4¾
5. Meerut	6½	6½
6. Bareilly	5	7½
7. Sahaswan	2½	No house tax
8. Ujhani	2½	do
9. Kanpur	3-1/8	6¾
10. Allahabad	4½	4-1/16
11. Jhansi	5	3-1/8—5

Name of Municipal Board	Rate in force	
	1908-09	1948-49
12. Orai	5	5
13. Banaras	1 to 3 1/8	1-9/6 to 4 1/2
14. Nainital	10	10
15. Unnao	7 1/2	7 1/2
16. Hardoi	5	No house tax
17. Shahabad	7 1/2	No house tax
18. Lakhimpur	6 1/4	5—6 1/4

273. Commenting on this inadequate utilisation of a potentially prolific source of municipal income, the U. P. Municipal Taxation Committee (1908-09) pointed out that the tax is exceedingly unpopular. They gave several reasons why this was so. In the first place was the difficulty of assessing the annual rent value in a country, "where it is the custom to own rather than rent dwelling houses", and consequently the assessment was more a matter of guess work than scientific deduction. Secondly, the owning of a house in this country did not indicate the occupier's ability to pay. They quote Professor Bonar who wrote :

"It is really on the whole a faithful index for the middle classes, who are the great bulk of the ratepayers ; it is less so for the very rich, and hardly so at all for the very poor."

Further, they observe that there was no custom of changing residence with variation in means, as there is in Western countries. The poor man may become rich but he will continue to live in his ancestral hovel. Conversely, the descendant of the rich man may become miserably poor and find it difficult to supply himself with the necessaries of life, but he will not desert the ancestral home. They also dilated at length on the difficulties in the matter of recovery of taxes by distraint which is looked upon as particularly odious and opprobrious. Taking all these facts and arguments into consideration, the Committee were of the opinion that though the house tax could not be looked upon as a general substitute for octroi, in certain exceptional cases, where cities are developing and prosperity is general this form will probably prove a productive source of municipal revenue.

274. They were further of the view that the difficulties in the matter of assessment were not insuperable. One advantage of the house-tax, in their view, as against a tax on circumstances and property, was that the house was there to be inspected for varification and a security for municipal claims. They added that in the case of the larger commercial centres and of towns which have progressed rapidly during the last half century, the general level of prosperity is high, and the people do in fact occupy houses of a value roughly commensurate with their means, and thus it was in these cases an index on ability to pay.

275. In his reply to an item in the questionnaire on this point, the Secretary to the Government of Uttar Pradesh in the Municipal Department stated that :—

"It is generally recognised that house tax should form the mainstay of local bodies revenue. As such, it should be compulsorily levied on all house property both in the urban as well as rural areas."

276. The U.P. Pay Committee for Employees of Local Bodies (1948) has also made the following remarks\* in its report :—

\*Page 63 of the Report.



## PROPERTY TAX (GENERAL)

"There are several sources in municipalities which have not yet been fully tapped. One of these sources is the house tax which is not levied at present in as many as 53 municipalities. We strongly recommend that all municipalities must impose house tax compulsorily at rates ranging from 6½% to 15% on a sliding scale varying with the annual value of the building according to local condition and requirements.

This measure would give an extra income of Rs. 1,34,00,000."

277. We have accepted this suggestion for the compulsory levy of house tax and dealt with it in the general survey.

278. Income from the general property tax amounted to Rs. 905,135 and formed 8.8% of the total income in 1925-26. The total yield of this tax for the years 1945-46 and 1946-47 was Rs. 18 lakhs and 24 lakhs, respectively, which means an average of Rs. 21 lakhs, i.e., more than 5% of the total annual income of all municipal boards in the State. It will be clear that this source has not been fully exploited by municipalities in the State.

279. **Exemptions**—Under Section 157 of the Act: (1) a board may exempt, for a period not exceeding one year, from the payment of a tax, or any portion of a tax, imposed under this Act, any person who is in its opinion; by reason of poverty, unable to pay the same and may renew such exemption as often as it deems necessary.

(2) a board may by a special resolution confirmed by the Commissioner exempt from the payment of a tax or any portion of a tax, imposed under this Act any person or class of persons or any property or description of property.

(3) the State Government may by order exempt from the payment of a tax, or any portion of tax, imposed under this Act, any person or class of persons or any property or description of property.

We are of the view that where an exemption is granted at the instance of the State Government, which has not been proposed by the municipality, the municipality should be given compensation to that extent by the Government.

As regards sub-clause (2) we are of the view that it should be retained. Two of our colleagues dissent from this view, as in their opinion the power of exemption in individual cases should not rest with the municipality. Another colleague is of opinion that the power of exemption should absolutely vest in the municipality and the Commissioner should have nothing to do with it.

280. Under section 151 (1) of the Act, when, in a municipality other than one situated wholly or partly in a hill tract, a building or land has remained vacant and unproductive of rent for ninety or more consecutive days during any year, the board shall remit or refund so much of the tax of that year as may be proportionate to the number of days that the said building or land has remained vacant and unproductive of rent. Remissions are also granted in the case of partial vacancies, i.e., when only a portion of any land or building has remained vacant or unproductive of rent.

281. **Basis of assessment.** The house tax is assessed on the annual value of all lands and buildings. This is the one and only basis prescribed in the Act. Annual value is defined in Section 140 as :

- (1) in the case of railway stations, hotels, colleges, schools, hospitals, factories and other such buildings, a proportion not exceeding five per cent. to be fixed by rule made in this behalf of the sum obtained by adding the estimated present cost of erecting the building to the estimated value of the land appurtenant thereto ;

- (b) in the case of a building or land not falling under (a), the gross annual rent for which such building, exclusive of furniture or machinery therein, or such land is actually let, or where the building or land is not let or in the opinion of the board is let for a sum less than its fair letting value, might reasonably be expected to let from year to year.

There is also a provision enabling a board in exceptional circumstances to reduce the amount of the annual value of any building or land to an equitable amount when the annual value arrived according to the normal procedure would be excessive.

282. **Machinery of assessment.** In municipalities in this State there is no separation of executive from deliberative functions as in the City Corporations of Bombay and Madras and in district municipalities in Madras where the executive authorities are quite independent of the local bodies concerned being appointed and removed by the State Government. The statutory obligation for the preparation of the original assessment list rests on the Boards. For the purpose of assessment, the Board may appoint any person or persons, with or without remuneration, whether members or not. The persons so appointed have the right to inspect the properties to be assessed. When the assessment list has been prepared, the Board is required to publish it. Objections to an assessment or valuation contained in the list have to be made to the Board. The Board may, under Section 143 (3) either by itself, or by a Committee empowered by delegation or an officer of Government or the Board to whom, with the permission of the Commissioner, the board delegates powers, investigate and dispense of the objections and cause the necessary consequential alterations or amendments to be made in the list, after allowing the objector an opportunity of being heard in person or by agent.

283. Under section 145 an assessment list has ordinarily to be prepared once in every five years.

284. **Appeals.** After an objection has been disposed of under section 143, any person aggrieved may file an appeal against the assessment or an alteration of an assessment to the District Magistrate or to such other officer as may be empowered by the State Government in this behalf. Under section 162, if during the hearing of an appeal under section 160 by the District Magistrate or other authority a question as to the liability to, or the principle of assessment of, a tax arises on which the officer hearing the appeal entertains reasonable doubt, he may, either of his own motion or on the application of a person interested, draw up a statement of the facts of the case and the point on which doubt is entertained and refer the statement with his own opinion on the point for the decision of the High Court. Under Section 164 the orders passed by the authority under Section 160 are final; no objection to a valuation or assessment can be taken to any other court.

## 5. PUNJAB

285. Property tax is levied by a few municipalities in the Punjab under section 61 (1) (a) of the Punjab Municipalities Act, 1911. The general property tax is described as a tax payable by the owner on buildings and lands not exceeding twelve and a half per cent. on the annual value. In addition, in the hill Municipalities of Dharamsala, Dalhousie and Simla, a tax may be levied at a rate not exceeding one anna and four pies and in other municipalities at one anna per yard of the ground area or not exceeding in the hill municipalities of Simla, Dharamsala and Dalhousie four rupees and in other municipalities three rupees per running foot of frontage in streets or bazars. In Simla, or in any part thereof, a tax may be imposed both on buildings and on lands. The tax is payable by the owner; except where in the case of lands and buildings the occupants are tenants in perpetuity, the tax is payable by such tenants.

## PROPERTY TAX (GENERAL)

286. As already stated, the property tax is not widely prevalent in the Punjab due to popular opposition to direct taxation. The main source of municipal income is octroi and terminal taxes and real estate occupies a much less important position among local taxes.

287. As in West Bengal and Bihar, there is also a statutory maximum on the rate of the tax.

288. The Government of Punjab have stated in reply to a query that in order to compel municipalities to impose property tax coercive action in the shape of withdrawal of discretionary grants, etc., would be feasible. On account of the dislocation caused by the partition of the State and its aftermath complete statistics are not available to illustrate how far house tax is levied by municipalities in the State. But out of the 22 municipalities which had replied to the questionnaire issued by us, house tax is levied only in the undermentioned municipalities at the rates shown against each:—

Amritsar	10%
Simla	10%
Ambala	6½%
Jullundur	12½% (maximum permissible)
Ludhiana	(rate not known)
Kalka	10%
Shahabad	12½%
Sirsa	2%
Hansi	4-11/16%

Almost all the municipalities that have sent in replies except Panipat, Urmar, Tanda, Thanesar and Gurdaspur are of the opinion that a house tax should be compulsorily levied. The excepted municipalities are emphatically opposed to the house tax. The opposition of the Gurdaspur Municipality is qualified in that it is prepared to levy a house tax if the Urban Immovable Property Tax levied by the State Government is withdrawn.

289. **Income.** The income from property tax in 1925-26 in undivided Punjab was Rs. 814,135 and it formed 10.7% of the total income from taxation of municipalities in the State. In 1946-47 the income from the 13 districts which now form Punjab (I) was Rs. 937,024 and it formed 17.4% of the total income from taxation.

290. **Exemptions.** The Punjab Municipalities Act does not give a list of exemptions from property tax. Under clause (c) of sub-section (2) of section 70 of the Act, a municipality may by a resolution passed at a special meeting and confirmed by the State Government exempt in whole or in part from the payment of any tax, any person or class of persons or any property or description of property.

291. Under sub-section (1) of section 71 the State Government may by order exempt in whole or in part from the payment of any tax any person or class of persons or any property or description of property.

292. **Remissions.** Under sub-section (1) of section 72 when any property assessed to a property tax or ground rent under clause (a) of sub-section (1) of section 61, which is payable annually or in instalments, has remained unproductive of rent and unoccupied throughout the year or the period in respect of which any instalment is payable, the committee shall remit the amount of the tax or of the instalment as the case may be.

293. Under clause (a) *ibid* when any such property or portion thereof has not been occupied or productive of rent for not less than sixty consecutive days or is wholly or in greater part demolished or destroyed by fire or otherwise, the Committee may remit such portion of the tax or instalment as it may think equitable.

294. **Basis of assessment.** The basis of assessment mentioned in Section 61 (1) (a) (i) is the annual value. Annual value is defined in sub-section (1) of Section 3 as follows :—

(1) "annual value" means :—

(a) in the case of land, the gross annual rent at which it may reasonably be expected to let from year to year :—

Provided that in the case of land assessed to land revenue or of which the land revenue has been wholly or in part released, the annual value, shall, if the Provincial Government so direct; be deemed to be double the aggregate of the following amounts, namely :—

(i) the amount of the land revenue for the time being assessed on the land, where such assessment is leviable or not; or when the land revenue has been wholly or in part compounded for or redeemed the amount which, but for such composition or redemption, would have been leviable; and

(ii) when the improvement of the land due to canal irrigation has been excluded from account in assessing the land revenue the amount of owner's rate or water advantage rate, or other rate imposed in respect of such improvement;

(b) in the case of any house or building, the gross annual rent at which such house or building, together with its appurtenances and any furniture that may be let for the use or enjoyment therewith, may reasonably be expected to let from year to year, subject to the following deductions :—

(i) such deduction not exceeding 20 per cent. of the gross annual rent as the committee in each particular case may consider a reasonable allowance on account of the furniture let therewith;

(ii) a deduction of 10 per cent. for the cost of repairs and for all other expenses necessary to maintain the building in a state to command such gross annual rent. The deduction under this sub-clause shall be calculated on the balance of the gross annual rent after the deduction (if any) under sub-clause (i);

(iii) where land is let with a building, such deduction not exceeding 20 per cent. of the gross annual rent, as the committee in each particular case may consider reasonable on account of the actual expenditure, if any, annually incurred by the owner on the upkeep of the land in a state to command such annual rent;

**Explanation—I.** For the purpose of this clause it is immaterial whether the house or building, and the furniture and the land let for use or enjoyment therewith, are let by the same contract or by different contracts whether such contracts are made simultaneously or at different time.

**Explanation—II.** The term "gross annual rent" shall not include any tax payable by the owner in respect of which the owner and tenant have agreed that it shall be paid by the tenant.

(c) in the case of any house or building, the gross annual rent of which cannot be determined under clause (b), 5 per cent. on the sum obtained

## PROPERTY TAX (GENERAL)

by adding the estimated present cost of erecting the building, less such amount as the committee may deem reasonable to be deducted on account of depreciation (if any) to the estimated market value of the site and any land attached to the house or building.

Provided that :—

(i) in the calculation of the annual value of any premises no account shall be taken of any machinery thereon ;

(ii) when a building is occupied by the owner under such exceptional circumstances as to render a valuation at 5 per cent. on the cost of erecting the building less depreciation excessive, a lower percentage may be taken".

It will be seen from the above extract that a agricultural land in municipal areas is as much liable to property tax as non-agricultural open land.

295. In the case of premises which are not let and in respect of which the determination of annual value is not possible in accordance with clause (b), the annual value is assumed to be 5% of the present capital cost of the building. In the case of owner occupied buildings, discretion is allowed to the municipality to fix a lower percentage.

296. The annual value is generally assumed to be the actual rent unless there is reason to believe that the actual rent is absurdly low and there is collusion between the landlord and tenant.

297. **Machinery of assessment.** Under sections 63 to 68 of the Act the responsibility for the preparation of the assessment list, hearing objections against it and the finalisation of the list is placed on the municipal committee. The committee is required to give an opportunity to any person interested in such amendment or alteration to be heard. The assessment list need not be revised every year ; in fact no period has been prescribed in the Act for the preparation of a fresh assessment list.

298. In some of the major municipalities, however, the Punjab Municipal Act, 1931 has been applied. Under sub-section (a) of section 4 of this Act, the powers of preparing the assessment list, hearing objections and revising the list specified in sections 63 to 68 of the municipalities Act are vested in the Executive Officer. The Executive Officer is appointed for a renewable term of five years by the Municipal Committee at a special meeting by five-eighths majority ; the appointment is subject to the approval of the State Government. Where, however, within three months of the date of notification by Government applying the provisions of the Executive Officer Act to a municipality, the Municipal Committee fails to make an appointment, the State Government may appoint any person they consider suitable as Executive Officer for a renewable term of five years. The Executive Officer may at any time be suspended or removed from office by the State Government and shall be suspended or removed if at a meeting specially convened for the purpose, the Municipal Committee votes in favour of such removal or suspension by a majority of five-eighths of the total number of members constituting the committee. Section 4 of the Act vests the entire power for the execution and carrying on the administration of the municipality subject to the provisions of the municipal Act or any rules made thereunder in the Executive Officer and the power of assessment and revision is one of the powers so delegated to him statutorily. It will thus be seen that in municipalities where there is an Executive Officer, the assessing and revising authority enjoys a reasonable degree of independence and freedom from interference by Councillors.

299. **Appeals.** Under section 84 (i) an appeal against an assessment or levy of any tax or against the refusal to refund any tax under this Act lies to the Deputy Commissioner or to such other officer as may be empowered in this behalf by Government. If, however, the Deputy Commissioner or the other authorised officer is or was a member of the committee at the time the tax was imposed, the appeal lies to the Commissioner of the division.

300. Under sub-section (2) of the above section it is provided that if, at the hearing of an appeal under the section, any question as to the liability to, or the principle of assessment of a tax arises on which the officer hearing the appeal entertains reasonable doubt, he may, either of his own motion or on the application of any person interested, draw up a statement of the facts of the case and the point on which doubt is entertained, and refer the statement with his opinion on the point for the decision of the High Court.

The above mentioned provisions are similar to the provisions in section 163 of the U.P. Municipalities Act, 1916.

### BIHAR

301. The general property tax called "a tax on holdings" is levied by municipalities in Bihar under clause (b) of sub-section (i) of section 82 of the Bihar and Orissa Municipal Act, 1922. Clause (a) of the said sub-section states that "a tax upon persons in sole or joint occupation of holdings within the municipality according to their circumstances and property within the municipality:" may also be levied. The proviso to the section lays down that the tax on holding and the tax on persons shall not be levied in the same ward. It will further be seen that while the tax on holdings is a tax on owners of property, the tax on persons is a tax on occupiers of property. Section 84 provides that the tax on holdings shall not be imposed at more than twelve and a half per cent. on the annual value.

302. The tax on holdings is widely prevalent, while the tax on persons is levied only in some municipalities. The tax on holdings was levied by all municipalities in 1943-44 except one and all Notified Area Committees except one at rates shown against each :—

#### Statement showing the rates of levy of the tax holdings by municipalities in Bihar

Name of Municipality	Rate of the tax on holdings in 1943-44	Present rate of the tax on holdings where known
1. Patna City.	9½%	12½%
2. Barh (only on Government and public bodies buildings.)	7½%	
3. Bihar.	7½%	
4. Dinapur Nizamat.	7½%	
5. Khagaul.	7½%	
6. Patna Administration Committee.	7½%	
7. Gaya.	7½%	12½%
8. Tekari.	7½%	
9. Arrah.	7½%	10%
10. Daudnagar.	10%	
11. Jagdishpur.	10%	
12. Buxar.	10%	
13. Dumraon.	10%	
14. Bhabua.	10%	

PROPERTY TAX (GENERAL)

Name of Municipality	Rate of the tax on holding in 1943-44	Present rate of the tax on holdings where known
15. Sasaram.	10%	
16. Dehri-Dalmianagar N. A. C.	7½%	
17. Chapra.	7½%	
18. Revelganj.	7½%	
19. Siwan.	7½%	
20. Motihari.	7½%	10%
21. Bettiah.	7½%	12½%
22. Luathaha Notified Area Committee.	7½%	
23. Muzaffarpur.	7½%	12½%
24. Hajipur.	7½%	10½%
25. Lalganj.	7½%	7½%
26. Sitamarhi.	7½%	
27. Dumara N. A. C.	7½%	
28. Dharbhanga.	7½%	10%
29. Madhubhani (Government and public buildings only)	10%	
30. Reserah. (Government and public buildings only)	10%	
31. Samastipur. (Government and public buildings only)	10%	
32. Monghyr.	7½%	
33. Jamalpur.	7½%	7½%
34. Bhagalpur.	7½%	
35. Colgong.	6½%	
36. Purnea.	7½%	
37. Kishanganj.	6½%	10%
38. Katihar.	7½%	10%
39. Forbesganj (on Government and public buildings only).	8½%	
40. Deoghar.	7%	8½%
41. Sehibang.	7½%	10%
42. Dumka.	7½%	7½%
43. Madhupur.	7%	9%
44. Hazaribagh.	7½%	8½%
45. Giridih.	7½%	7½%
46. Ranchi.	7½%	12½%
47. Lohardaga.	10%	
48. Doranda.	7½%	
49. Daltonganj.	10%	7½%
50. Purulia.	7½%	12½%
51. Chalda.	6½%	
52. Dhanbad.	7½%	
53. Chibassa.	7½%	7½%
54. Chakradharpur.	7½%	12½%
55. Jugsalai.	7½%	

In addition the undermentioned municipalities levied a tax on the annual value of arable lands at rates shown below :—

1. Dinapur Nizamat	6½%
5. Monghyr.	7½%

303. On the question whether there is scope for increase in the rates of taxation, the Secretary to the Government of Bihar states :—

“The paying capacity of the people is necessarily a limiting factor. The power of fixing the percentage at which a tax or fee can be imposed subject to the maximum permissible under the Bihar and Orissa municipal Act in each case, vests in the municipal commissioners. Government see no reason to hold that the percentages fixed by municipal commissioners are, generally speaking, lower than they might be, or that tax rates in the province are much too low.”

304. **Income.** The income from all the property taxes in the composite province of Bihar and Orissa in 1925-26 was Rs. 1,901,269 and it formed 76.5% of the total taxation income. The corresponding figures for the State of Bihar for 1946-47 are Rs. 3,750,461 and 83.9%. Though the percentage figures do not show much increase (being only 7.4) the actual income in 1946-47 when compared with the figures for the composite province for 1925-26 has nearly doubled.

305. **Exemptions.** Under section 83 of the Act, the tax on persons shall not be imposed on any person in respect of occupation of any public place of worship or of any public burial or burning ground nor in respect of the occupation of any building which is the property of Government or of local authority.

306 Under section 84 sub-sections (2) and (3) any holding which is used exclusively as a place of public worship or religious assemblage or as a dharamshala, or as a mortuary, or which is duly registered as a public burial or burning ground shall be exempt from the tax on holdings.

307. Under sub-section (3) *ibid*, the State Government may, on the recommendation of the Commissioners, exempt any holding or portion thereof which is used exclusively for any charitable purpose from the payment of the holding tax.

308. Under section 93 (i) the Commissioners may exempt any person from the tax on persons who may by them be deemed too poor to pay. Under section 93 (2) the State Government may, on the recommendation of the Commissioners, exempt any person in sole or joint occupation of a holding which is used exclusively for charitable purposes.

309. Under section 110, when the levy of a tax on any holding in the municipality would be productive of excessive hardship to the person liable to pay the same, the Commissioners may reduce the amount payable on account of such holding, or may remit the same. This is a provision peculiar to the Bihar and a few other Acts.

310. **Remissions.** Under section 111 (i) when any holding has been unoccupied and unproductive of rent for thirty or more consecutive days in any quarter the Commissioners shall remit or refund as the case may be, one-half of so much of the tax of that year as may be proportionate to the number of days the said holding has remained so unoccupied.

311. **Basis of assessment.** The basis of assessment is the annual value. Section 98 (i) of the Act states that the annual value of a holding shall be deemed to be the gross annual rental at which the holding may reasonably be expected to let. Sub-section (2) states that in the case of buildings which are not intended for letting or for the residence of the owner himself the annual value is deemed to be an amount which may be equal to but not exceeding 7½% of the actual cost of erection of the building in addition to a reasonable ground rent for the land comprised in the holding, provided that where the actual case so ascertained or estimated exceeds one lakh of rupees, the percentage on the annual value, so ascertained, in respect of so much of the cost as is in excess of one lakh of rupees



## PROPERTY TAX (GENERAL)

shall not exceed one-fourth of the percentage. This sub-section is similar to sub-section (2) of Section 128 of the Bengal Municipal Act 1932 both in respect of the quantum of the value and in respect of the provision for the concessional treatment to be accorded to properties the cost of which exceeds one lakh of rupees. Similar provisions for the ascertainment of annual value as a percentage of the capital value exist in Madras, Uttar Pradesh and Punjab Acts but only the quantum of the capital value to be taken into account is different namely 5 per cent. There is special treatment for properties the value of which exceeds one lakh of rupees anywhere, except in Bihar, Orissa and Bengal.

312. But there is one vital difference between the provision in the Bihar Municipal Act and the other Municipal Acts in this respect. Whereas in all other Municipal Acts the value of the property is taken as the estimated cost of construction of the building and value of land, *at the time of assessment*, the provision in Bihar is to the effect that the actual ascertained cost or the estimated actual cost of erection of the building plus a reasonable ground rent should be taken as the value of the holding. In view of the large rise in land values and building material in recent years, the annual value calculated on the basis provided in the Bihar Act would be very low when compared with the annual value of buildings calculated in the manner provided in the other Acts. There will be a perceptible increase in municipal income from this source if the provision of the Bihar Act were amended to bring it into line with the provisions of the other Acts. We would strongly commend this to the Government of Bihar.

313. The value of machinery and furniture is not taken into account for the determination of the annual value of a holding. We have commented on this in the general survey and have, therefore, no further comments to make here.

314. **Machinery of assessment.** The Bihar and Orissa Municipal Act does not make any reference to any Executive Officers or Secretaries. Whatever is required to be done by the Municipal Commissioners. Under section 37 of the Act, the Commissioners are competent to appoint such officers and servants as are deemed necessary, subject to any rules made by Government under the Act. The sanction of the State Government is necessary to the creation of any post with a salary exceeding Rs. 100 per mensem.

315. Under section 101 of the Act the Commissioners shall, after making such enquiries as may be necessary, determine the annual value of all holdings and enter such value in a valuation list. Section 107 empowers the Commissioners at any time to alter or amend the assessment list (a) by entering therein the name of any person or any property which ought to have been entered, or any property which has become liable to taxation after the publication of the assessment list (b) by substituting therein for the name of the owner or occupier of any building the name of any other person consequent on a change in ownership or occupancy (c) by enhancing the valuation of, or assessment on, any holding, which has been incorrectly valued or assessed by reason of fraud, misrepresentation or mistake; (d) by revaluing or re-assessing any holding the value of which has been increased by additions or alterations to buildings; (e) by reducing the valuation of any holding which has been wholly or partly demolished or destroyed (f) by revaluing and re-assessing any holding or class of holdings on the ground of general improvement in the locality where such holding or class of holdings are situated.

316. Under section 115 (1) the assessment list has to be published and under section 116 (1) any person who is dissatisfied with the amount assessed upon him or with the valuation or assessment of any holding may apply to the Commissioners to review the amount of assessment or valuation. Under section 117 (1) all applications against assessment under sections 89, 105, 107 and

113 are to be heard and determined by a committee consisting of two Commissioners and two tax-payers of the municipality, nominated or elected by the Commissioners in the prescribed manner and one Government servant not below the rank of a Deputy Magistrate, nominated by the District Magistrate. Under section 117 (2) applications against valuation or assessment presented under section 116 are to be heard and determined by a Committee consisting of not less than three Commissioners. Under sections 117 (3) the Committee constituted under sub-sections (1) and (2) of section 117 may pass any order they deem fit and under section 117 (4) the decisions of such Committees are final.

317. Under section 113 whenever it appears to the State Government the assessment made in any municipality or by an assessor appointed under section 37 is inequitable, the Government may require the Commissioners to revise and amend such assessment. If the Commissioners fail to comply with such order or in the opinion of Government, the revised and amended assessment is insufficient or inequitable, the Government may require the Commissioners to appoint an assessor of municipal taxes. In that order the Government shall fix the pay of the assessor etc. Under sub-section (4) of section 113 the assessment made by an assessor so appointed shall rescind and take the place of the assessment which was held to be insufficient or inequitable.

318. The same machinery as makes the original assessment is responsible for the periodical revision thereof. Under section 106 a new assessment list has to be prepared once in every five years.

319. **Appeals.** Once the assessment list is finalised after disposing of applications for review in the manner in the prescribed in section 117, no other appeal lies to any authority in respect of assessment or valuation.

### ORISSA

320. As the State of Orissa was constituted from portions taken from the old composite province of Bihar and Orissa, the Madras Presidency and the Central Provinces and Berar, the levy of the property tax is regulated by the provisions of the Bihar and Orissa Municipal Act, 1922,\* in the districts of Cuttack, Puri and Balasore, by the Madras District Municipalities Act, 1920† in the districts of Korapat and Ganiam and by the Sambalpur Local Self-Government Act in the district of Sambalpur. The provisions of these Acts have already been detailed in the portions of this chapter dealing with the States concerned; the Sambalpur Act is on the basis of the Central Provinces Municipalities Act, 1922 and will be dealt with under Madhya Pradesh. No general house tax is levied in the Sambalpur Municipality, the main source of its income being octroi.

321. **Rate.** The rate at which the property tax is at present levied in the various municipalities in this State are given below :—

Cuttack	7½%	
Puri	7½%	
Balasore	10%	(calculated for holding and lighting).
Jajpur	10%	(only on public and Government buildings)
Kendrapara	10%	(—do—)
Berhampur	8%	
Parlakimedi	5%	

\*Cuttack, Puri, Balasore, Jajpur, Kendrapara.

†Berhampur, Parlakimedi.

## PROPERTY TAX (GENERAL)

In Jaipur and Kendrapara the holding tax is not levied on private properties but only on Government and public buildings; instead a tax on persons is levied.

322. The income from all property tax in Orissa municipalities in the year 1940-41 was Rs. 394,903 and it formed 85 per cent. of the total income from rates and taxes. The corresponding figures for 1946-47 are Rs. 445,751 and 70 per cent. It will be observed that the figure for actual income for 1946-47 has shown an appreciable increase over that for 1940-41, while the percentage figure records a fall. This is due to the increase of income from other taxes in the meanwhile.

323. **Machinery of assessment.** The Government of Orissa have made the following remarks on this subject (in their memorandum to us):—

"The assessment of all taxes, particularly property taxes, should be done by an independent agency. Under the Municipal Acts in force in this province, Provincial Government have power to appoint assessors to undertake periodical revision of assessment. In municipalities in the ex-Madras area there is provision for appointment of a Government Officer as the Commissioner of a Municipality. A similar provision is being adopted in the unified municipal Bill which is under consideration of Government. The assessment of taxes will be conducted by the Executive Officers of the Municipalities who will receive a short course of training in a recognised institute, in accordance with a proposed scheme of training under contemplation by Government."

## MADHYA PRADESH

324. The property tax is levied by municipalities in this State under clause (a) of sub-section (1) of section 66 of the Central Provinces Municipal Act, 1922. It is not a compulsory tax. The tax is levied on the owners of buildings or lands situate within a municipality with reference to the gross annual letting value of the buildings or lands. The tax is not levied by all municipal committees, notable among the municipalities which do not levy this tax is Jubbalpur which has not been raised to the status of a Corporation. Of the 37 municipalities that have sent in replies to the Committee's questionnaire the tax is levied by the unmentioned 14 municipalities at the rates shown against each :—

Burhanpur	6½%
Gondia	9¾%
Khandwa	...
Akot	6½%
Arvi	6½%
Digras	7½%
Betul	7%
Hinghanghat	6½%
Khangaon	6½%
Akola	9%
Basim	...
Manendragarh	3%
Durg	...
Nagpur	6½% (subject to a maximum of Rs. 240)

325. The tax is not levied by the majority of municipalities. Out of 107 municipalities only 49 levy a house tax. Even where it is levied the rate does not exceed 10% in any single instance. The tax was levied by only two municipalities out of 51 in the Central Provinces and 24 out of 31 in Berar in the year 1943-44. The corresponding figures for 1939-40 are 3 in Central Provinces and 25 for Berar. It will be seen, therefore, that as in U.P. and Punjab property tax is not one of the chief sources of income in this State.

326. **Income** The total income from all property taxes of municipalities in this State in 1925-26 was Rs. 142,113 and it formed 29.2% of the total taxation income. The corresponding figures for 1946-47 are Rs. 478,04,439 and 36.30%. There is an appreciable growth both in the size of the income from property taxes as well as in their importance.

327. **Exemptions.** Under section 69 a municipality by resolution passed at a special meeting, may exempt in whole or part from the payment of any tax any person or class of persons or any property or description of property. Only in the case of municipalities which are indebted to Government are such resolutions regarding exemptions subject to the approval of Government. No details of the properties exempted from the property tax are given in the Act.

328. **Remissions.** The Act does not contain any provision for vacancy remissions.

329. **Basis of assessment.** The basis assessment of the property tax is the "annual letting value". No definition of this term so far as buildings which are generally let is given in the Act. Only in the case of lands, the annual letting value is deemed to be the gross annual rental at which the lands may reasonably be expected to let. The Act does not, therefore, make it clear whether the annual letting value of rented buildings is the "actual rent" or a reasonable rent, which is a hypothetical tenant would, other things being equal, be expected to pay. But it is observed from the rules sanctioned by Government for the Nagpur Municipality in Notification No. 9431-5256-M-XIII dated the 8th December, 1941 (which are identical with those sanctioned for other municipalities) that the annual value is deemed to be gross annual rental at which the building or land may, reasonably be expected to let.

330. In the case of buildings not erected for letting purposes and not ordinarily let the annual letting value is deemed to be [under section 73 of the Act] five per cent. of the aggregate sum obtained by adding (i) the estimated *present* cost of erecting the building after deducting a reasonable amount of account of depreciation to (ii) the estimated present value of the land valued as an occupied site. Machinery is excluded in the determination of the annual value. There is also a proviso to this section to the effect that if any building is occupied in such circumstances as to render a valuation of five per cent. unreasonable, the municipal committee may, at its discretion, reduce the percentage accordingly.

331. There have been complaints in some places that the Rent Control Acts, by stabilising house rents at a level existing in a particular year have a deleterious effect on municipal income from property taxes. Though the actual rent has under the law nothing to do with 'reasonable' rent, which is the basis of assessment to municipal property tax and which is not within the mischief of the Rent Control Acts, yet, owing to the inability of landlords to pass on any increases in property taxes to their tenants in the shape of increased rents, municipalities in other States have not found it possible to raise their rates of property taxes to a satisfactory figure. However in this State section 11 of the C.P. and Berar Regulation of Letting of Accommodation Act, 1946 permits increases in rent consequent on increases in municipal taxation.

## PROPERTY TAX (GENERAL)

332. **Machinery for assessment.** The Municipal Act itself does not contain any specific mention of a Secretary or Chief Executive Officer, but the bye-laws under the Act provide that the Secretary is the Chief Executive Officer. The executive and administrative power is vested in the President; the Executive officer or Secretary, wherever such exist being only subordinate appointed by the municipal committee under section 25. The Act does not contain any provisions for the machinery of assessment. This has been left to be regulated by rules to be made by the Government under section 71. We think that the Municipal Act in this State should, in this respect, be brought into line with the Municipal Acts in other States and the power to make provision for them by rules framed by the Executive Government withdrawn.

333. Valuation and assessment are the responsibilities of the Committee (vide rules for House Tax in respect of the Nagpur Municipality sanctioned in Government Notification No. 9431-5256-M-XIII dated the 8th December 1941). Under rule 5, the valuation has to be made by an officer specially appointed for the purpose by the Committee. Under rule 6, the Committee shall cause to be prepared on the 31st January of every third year an assessment register. Under rule 9 objections against the valuation or assessment contained in the register have to be made within one month of the publication thereof. Under Rule 11 the Committee may delegate the power to hear and dispose of finally all such objections either to sub-committee or to one of its officers.

334. A valuation once made remains in force for three years. Re-valuation is to be made in all the wards of the municipality simultaneously. At any time during the currency of a valuation the committee has got the power after giving due notice to the party affected to revise the valuation of any property for material alterations in the circumstances on which the valuation of any property was at the time of the general valuation based.

335. **Appeals.** Under section 83 appeals against any assessment or valuation for any tax lie to the Deputy Commissioner of the district or such other officer as is empowered by Government in this behalf. If, however, the Deputy Commissioner or the other authorised officer is or was when the tax was assessed a member of the Committee, the appeal shall lie to the Commissioner. If during the hearing of the appeal, any question as to the liability to or the principle of assessment of a tax arises, on which the officer hearing the appeal entertains reasonable doubt, he may, either of his own motion or on the application of a person interested, make a reference to the High Court for final decision. Under sub-section (3) of section 83 the jurisdiction of Civil Courts in matters of taxation is barred.

## ASSAM

336. The general property tax called a 'tax on holdings' is levied by municipalities in Assam under clause (a) of sub-section (1) of section 59 of the Assam Municipal Act, 1923. The tax is payable by owners on the annual value of their holdings situated within the municipality. As in other States, the tax is levied on both buildings and lands in accordance with the definition of 'holding' given in sub-section (10) of section 3, as below:—

"Holding means land held under one title or agreement and surrounded by one set of boundaries, provided that where two or more adjoining holdings form part and parcel of the site or premises of a dwelling house, manufactory, warehouse, or place of trade or business, such holdings shall be deemed to be one holding for the purpose of this Act."

337. No maximum or minimum rates have been prescribed in the Act.

338. The tax was levied by all municipalities and town committees in the year 1945-46 at the rates noted against each :—

1. Silchar	8%
2. Karimganj	7%
3. Dhubri	3%
4. Shillong	7½%
5. Goalpara	6½%
6. Gauhati	7½%
7. Barpeta	7½%
8. Tezpur	7%
9. Nowgong	7½%
10. Sibsager	6%
11. Jorhat	6%
12. Golaghat	7%
13. Dibrugarh	6%
14. Tinsukhia	5½%
15. Hailakandi	7%
16. Haflong	7½%
17. Gauripur	6%
18. Palasbari	5%
19. Nalbari	6%
20. Mangaldai	6%
21. Nazira	7½%
22. North Lakhimpur	4%
23. Doom Dooma	6%

It will be observed that the rates are low. Perhaps this is due to the general backwardness and poverty of the people in the State and is not due to lack of civic consciousness. It is creditable that the tax is levied by all municipal bodies which is not the case in some other States.

339. **Income.** The income from all property taxes amounted to Rs. 4,18,486 in 1925-26 and it formed 74.9% of the total taxation income, the corresponding figures for 1946-47 and Rs. 9,84,588 and 95.1%. It will thus be seen that there has been a substantial increase in the income from this source in the course of twenty years *pari passu* with the growth of its importance in the field of local taxation. Further, real estate taxes account for almost the entire taxation income of municipal bodies in this State at present. There is no octroi in Assam.

340. **Exemptions.** Under section 60, holdings, the annual value of which is less than six rupees are exempt from the tax on holdings. Under sub-section (1) of section 83, the holding tax is not leviable on any holding which is used exclusively as a place of public worship or on any holding which is registered as a public burial or burning ground. Under sub-section (2) of section 83, a municipality may exempt from assessment to the holding tax any holding which is used for purposes of public charity.

341. **Remission.** Under sub-section (3) of section 83, a municipal board may reduce or remit entirely the amount payable in respect of the holding tax if from the circumstances of the case the levy of the tax would be productive of ex-

cessive hardship to the person liable to pay the same. This is evidently on the analogy of the powers of municipalities to reduce the quantum of the capital cost to be taken for the purpose of determining the annual value in Uttar Pradesh and Punjab. We are not in favour of such discretionary power in individual cases. It would be better to prescribe a progressive scale of taxation instead.

Under section 92, when any holding has been vacant for sixty or more consecutive days in any year, the municipality has to remit or refund, as the case may be, one-half of so much of the tax of that year as may be proportionate to the number of days, the holding was unoccupied.

**342. Basis of assessment.** The basis of assessment to the general tax on holdings is the 'annual value'. In the case of holdings which are generally let, the annual value is taken under section 71 as the gross annual rent at which the holding may reasonably be expected to let. The annual value of any building vesting in Government and of any other holding, the gross annual rent at which it may reasonably be expected to let cannot, in the opinion of the Board, be satisfactorily ascertained, is assumed to be such percentage of the cost of erection of the building or buildings on the holding as may be determined by the Board, with the approval of the State Government, in addition to a reasonable ground rent for the land comprised in the holding. The percentage may be fixed at different rates for different types of buildings and for different localities. In calculating the annual value of any holding, any machinery and its foundation contained in the holding is not to be taken into account. The amount of municipal taxes paid by a tenant shall be excluded in calculating the gross annual rent. There is a provision in the Act to the effect that where the annual value of a holding exceeds Rs. 7,500, the tax on the excess over Rs. 7,500 shall be leviable at one-fourth of the rate. We see no justification for this concession and suggest that it may be withdrawn.

**343. Machinery of assessment and revision.** Under section 73 of the Act, the duty of preparing the assessment list is cast on the Board. Both the valuation list prepared under section 66 and the assessment list prepared under section 73 have to be published for objections. Every application for a review of the assessment or valuation is to be heard and determined by a committee consisting of not more than five members or by a Government servant deputed by Government to whom the powers of the Board under section 89 are delegated. The Chairman and Vice-Chairman of the Board are ex-officio members of the Committee. The decision of this Committee or the officer empowered to hear such objections is final. Under section 91 the jurisdiction of civil courts in the matter of taxation is barred.

**344.** Under section 77 (B), whenever it appears to the State Government that the valuation in a municipality is insufficient and excessive, the Government may require the Board to revise such valuation. If the Board fails to comply with such a direction and the cause shown is inadequate or the revised valuation also is insufficient, excessive or inequitable, the Government may require the Board to appoint an assessor. The appointment and conditions of service, salary, etc. of such assessor are fixed by the Government. Applications for the review of assessment under section 88 are heard and determined by the review committee of the municipality or an officer appointed by the Government under section 89 (1). The decision of the review committee or the reviewing officer is final.

**345.** A valuation once made cannot be revised within five years; nor left unrevised beyond five years without the sanction of the Government. At any time during the currency of a valuation, the Board may value and assess any holding which was unauthorisedly omitted from the valuation list or which has become liable to valuation and assessment, subsequent to the publication of a valuation list. The Board may also enhance the valuation and assessment of any

holding which may appear to have been insufficiently valued or assessed through mistake, inadvertence or fraud; and may revalue and reassess any holding, the value of which has been increased by additions or alterations. The Government of Assam made the following observations on this subject in their memorandum to the Indian Statutory Commission :—

“Re-assessments from between 1920-21 and 1926-27 which were reported to have produced an increase of more than Rs. 1,000 were :—

	<i>Increase.</i>	
	Rs.	
Shillong	14,922	
Ditto	26,772	
Tezpur	2,085	
Ditto	1,695	
Barpeta	1,270	
Silchar	5,205	
Dhubri	1,756	(including new water tax)
Nowgong	1,060	
Dibrugarh	9,612	
Karimganj	1,640	
Goalpara	1,107	
Gauhati	5,709	
Jarhat	1,537	
Ditto	3,265	
Sylhet	5,201	
Habiganj	2,164	
Maulvi Bazar	3,604	

There were 22 revisions of assessment altogether. Nearly half the value of re-assessment occurred therefore in Shillong, where it was made by Government officers.

Any rate-payer can apply to the board for a review of his assessment. All such appeals are heard by a committee consisting of not more than five members of the board, the Chairman and the Vice-Chairman being ex-officio members. Experience has shown that at present in Assam there is general reluctance on the part of municipal boards to insist on a proper valuation and a full assessment. In Sylhet, for example, an assessor was appointed whose valuation would have produced an increase in the rates of Rs. 22,154. After review by the Committee the increase of the assessment was reduced to Rs. 4,597. No advantage has been taken of the procedure offered by section 89 of the Act under which on the request of the board an officer of Government can be appointed to deal with appeals against taxation. The result of this is that the municipal income, which under ordinary circumstances would be insufficient to meet modern requirements, is in the case of most boards totally inadequate and requests for Government assistance are frequent.”

The position has not improved much since then as will be obvious from the following extracts from the memorandum of the Government of Assam to this Committee :—

“It is no use talking of improving the finances of Local Bodies unless the position about assessment and collection of taxes is also considered. The present method of assessment is not satisfactory. The assessor should invariably be appointed by Government. He should be an officer of considerable experience, independent in judgement and free from influence or bias.”



## CHAPTER VI

### PROPERTY TAXES—SERVICE TAXES

346. In addition to the general property tax on immoveable property assessed on the annual value, there are a few taxes levied by municipalities and assessed, like general property tax, on the annual value of immoveable property within municipal limits, which can, for facility of reference, be called by the generic term "service taxes" because they are levied by municipalities as charged for specific services rendered to the inhabitants. These service taxes fall under the following heads :—

- (1) Water rate levied for the provision of water supply to the inhabitants of a town.
- (2) Lighting rate levied to meet the cost of lighting the public streets and highways in a town. This is a tax for a service rendered collectively to the citizens *qua* citizens and not as individuals for the provision of domestic lighting. Wherever the municipalities supply electric energy for domestic lighting, the charges are recovered on a commercial basis in the shape of so many annas per unit of electric energy consumed. This has to be distinguished from the water rate in that the latter can be levied both in the form of a general water rate irrespective of the fact whether a particular holding is connected specially for supply of water or not and in the form of a charge based on the size of the ferrule or on the quantity of water consumed.
- (3) Drainage rate, also called general sanitary cess in Bombay or conservancy rate in Madras, levied for the purpose of providing public drains and sewers and their regular cleansing and maintenance. This is similar to the lighting rate in that it is a charge collectively on all owners of immoveable property and not on particular individual making use of the service in question.
- (4) Latrine rate, also designated "special sanitary cess" in Bombay and "scavenging tax" in Madras, levied on all holdings, which have latrines or cess for the cleansing of which the municipality makes arrangement.

This has to be distinguished from the lighting and drainage rate in that it is a charge for specific services rendered thereto

347. In addition to the four taxes mentioned above, there is another tax, called a Fire tax, levied at a percentage of the rateable value of properties in the city of Bombay. The tax is levied at  $\frac{3}{4}$ % but occupies an insignificant place in the category of municipal taxes.

348. The law and practice relating to the levy of the service taxes in each State is given below.

#### I—Water Rate

349. **Madras.** The water and drainage tax is a composite tax that is permitted to be levied in the City of Madras by the Madras City Municipal Act, 1919 under section 98 (4) read with section 99 (1) "for the purpose of defraying the expenses connected with the water and drainage systems of the City". The Council has to declare what proportion of tax is rateable to the provision of water and the remainder is assumed to be in respect of drainage.

## CHAPTER VI

The water tax is at present levied in Madras City at 1½% of the annual value of houses. In addition there is provision in the Act for levying a special charge, when water is consumed in excess of a specified quantity. Water supplied for non-domestic consumption can be charged at such rates as the Standing Committee may fix.

350. The Madras Corporation has to maintain under the statutory rules separate accounts for receipts and charges in connection with water supply. Below is an extract from the Administration Report of the Madras Corporation for 1947-48.

	RECEIPTS			EXPENDITURE		
	1947-48	1946-47	1945-46	1947-48	1946-47	1945-46
Normal Capital	1,777,363	1,868,974	2,065,286	1,583,424	1,388,794	1,276,776
(1) Grants from Govts.	595,138	358,453	20,127	—	—	—
(2) Loans from Govt.	1,250,000	1,013,700	77,400	—	—	—
Total Capital	1,845,138	1,372,153	97,527	1,904,899	1,223,839	571,366
Grand Total	3,622,501	3,242,127	2,162,803	3,488,323	2,613,633	1,848,142

It will be observed from the above figures that the receipts have always exceeded the expenditure in the aggregate.

351. In Madras District Municipalities the provisions of the Act are similar to those of the Madras City Municipal Act. The water tax is also levied on non-agricultural as well as agricultural lands which derive benefit from the Municipal water supply in the city and in the mofussil. The rate have already been indicated in the chapter on property tax (general).

352. Unlike the City Municipal Act there is no provision in the Madras District Municipalities Act for the maintenance of separate accounts for water supply, but the maintenance of such accounts is enforced by executive orders. The Government of Madras have issued orders to the effect that "no Municipal Council which levies a water and drainage tax or lighting tax, shall, without the previous sanction of the Government, spend annually more than Rs.2,000 out of its general revenues towards the expenditure debitable to the water and drainage account or the lighting account." When applications for sanction for transfer of amounts in excess of Rs. 2,000 from the general revenues to the special accounts are received or when budgets of municipal councils are reviewed by Government, the need for making the special service self-supporting is pointed out to the municipalities concerned and they are advised to raise the rates of special taxes or re-adjust the several components of the property tax to make the special accounts self-supporting.

353. Out of the 91 municipalities in Madras, the water tax is levied in 75 at present. An extract from the subsidiary accounts relating to water supply is given below for 1948-49.

PROPERTY TAXES—SERVICE TAXES

D. Water supply and Drainage account.

1. Water supply

<i>Receipts ordinary</i>		
(i) Water tax	Rs.	2,715,085
(ii) Other		958,914
	<b>Total Receipts ordinary</b>	<b>Rs. 3,773,999</b>
<i>Receipts Capital</i>		
(i) Grants from Govt.	Rs.	1,365,637
(ii) Loans		914,500
(iii) Others		224,476
	<b>Total Receipts Capital</b>	<b>Rs. 2,494,613</b>
	<b>Total Receipts</b>	<b>Rs. 6,268,612</b>
<i>Expenditure</i>		
	<b>Ordinary</b>	<b>Rs. 2,703,895</b>
	<b>Capital</b>	<b>Rs. 2,359,371</b>
	<b>Total Expenditure</b>	<b>Rs. 5,063,266</b>

The figures given above show an appreciable excess of receipts over expenditure. It will further be seen that generous grants-in-aid and loans are given by the Government of Madras for capital expenditure in connection with water supply to the Madras City Corporation as well as to mufussil municipalities.

353. **Bombay.** Unlike the provision in the Madras City Municipal Act, the City of Bombay Municipal Act lays down that a water tax shall be levied by the Corporation. The Act does not lay down any maximum or minimum rate. It states merely that "a water tax of so many per cent. of their rateable values as the Corporation shall deem reasonable for providing a water supply for the city" shall be levied (section 140). Before 1947, the provision in the section was "with reference to the expenses of" instead of "for". The genesis of this amendment is given in the following extract from the Report of the Bombay Municipal Finance Committee 1948 :—

"17. The Mills which were charged at the rate of Rs. 1-8-0 per thousand gallons in 1946-47 filed a suit against the Corporation contending that the charges levied should have some relation to the cost of providing the water. As the Corporation was legally advised that this contention of the Mills had some substance a compromise was arrived at by which the old rate of Rs. 1-1-0 was restored, the reduced rate remain in force till the end of 1949-50. This has resulted in a fall of about Rs. 13 lakhs in the revenue from this source. The Municipal Act has now been amended so that with effect from the year 1950-51 the municipality will be able to charge at higher rates again."

Under Section 169 the Corporation may, instead of levying the water tax, charge in respect of any premises for the water supplied to such premises by measurement at such rate as may be fixed by the Standing Committee.

354. It is observed from the Municipal Chief Auditor's report as well as the Administration Report of the Corporation that separate accounts are maintained in respect of each of the services. The Administration Report gives both

CHAPTER VI

receipts and charges account as well as a commercial assets and liabilities account in respect of the services. An extract from the accounts relating to water supply is given below :—

	1948-49	1947-48
INCOME	13,436,995	13,665,062
EXPENDITURE	10,095,001	8,539,873

The Corporation has incurred up to the 31st March, 1949 an aggregate capital expenditure of Rs. 109,048,079 of which a sum of Rs. 4,031,394 relates to the expenditure during 1948-49. Of the figures of income shown, 91% represent the income from water-tax and rents from meters. The figures of income and expenditure show an excess of receipts over expenditure.

The provisions relating to the levy of the water-tax in the Bombay Provincial Municipal Corporation Act, 1950 [under which the Municipal Boroughs of Poona and Ahmedabad have been constituted into city Corporations] are identical with those of the City of Bombay Municipal Act, 1888.

365. In Bombay Municipal Boroughs Act the provision regarding the levy of the water rate runs as follows :—

“73                    x                    x                    x                    x

a municipality may impose                    x                    x                    x

(x) a general water rate or a special water-rate or both for water supplied by the Municipality, which may be imposed in the form of a rate assessed on buildings and lands or in any other form, including that of charges for water-supply, fixed in such mode or modes as shall be best adapted to the varying circumstances of any class of cases or of any individual case.”

While in Municipal Boroughs, both a general water rate and a special water rate can be imposed at the same time in district municipalities this is not the case. The provision in the District Municipal Act is that either a general water rate or a special rate (but not both) can be imposed.

356. The Government of Bombay have made the following remarks on the levy of service taxes by Municipalities in Bombay :—

“The levy of these depend on the particular services provided by the municipalities and the incidence is bound to vary in accordance with variations in the standards observed by different municipalities. The Kale Committee has not made any specific recommendation in regard to these taxes. Several municipalities are reluctant to levy these taxes at adequate rates so as to provide the requisite income to cover the full cost of the service rendered. Government insists on adequate rates being imposed for the purpose when assistance or sanction is sought to water supply and drainage schemes of local bodies.”

The departmental committee presided over by Mr. D. R. Pradhan, I.C.S., has made the following observations in this respect :—

“We recommend that Government should insist that special services like special conservancy and special arrangements for supply of water in buildings should be made self-supporting and that the rates of the special water rate and the special sanitary cess should be so fixed as to cover the full cost of these services. We would take this opportunity to suggest that the Bombay District Municipal Act, 1901 should be amended so that it may be brought into line with

PROPERTY TAXES—SERVICE TAXES

the Bombay Municipal Boroughs Act, 1925, in regard to the levy of both general water rate and special water rate. There should be no exemption from the general water rate when a special water rate is levied.

As recommended by this Committee the municipalities in this State have been advised to make the special sanitary service and special arrangement for supply of water self-supporting."

357. An extract from the Statistical Appendix to the review on the administration of Municipalities in Bombay by Government for the year 1944-45, relating to receipts and charges under the head 'water supply' is given below:—

Income	Rs. 4,933,851
Expenditure	
Capital	Rs. 502,009
Current	Rs. 2,258,638
Total expenditure	Rs. 2,760,647
Balance :	Rs. 2,173,204

The figures show an excess of income over expenditure.

358. In reply to a specific query on the point whether there is generally such an excess of income over expenditure in each municipality, the Examiner of Local Fund Accounts states as follows:—

"Regarding water cess, a statement of proforma account showing the self-sufficiency or otherwise of the cess is appended to the Audit Notes of local bodies concerned and the advisability of increasing the rates, wherever necessary, to make the service self-supporting is impressed on the local bodies concerned. A statement of municipalities where this service was not self-supporting is also enclosed.

Name of Municipality	1945—46		1946—47		1947—48	
	Income	Expenditure	Income	Expenditure	Income	Expenditure
Jejuri	267	1,388	...	634	22	601
Poona	2,80,763	2,97,078	2,87,11	356,001	...	...
Thana	49,967	81,336	...	...	...	...
Kapadwanj	...	...	44,416	79,819	...	...
Sirur	...	...	2,823	5,878	4,280	5,772
Ahmednagar	...	...	...	...	78,000	107,500
Borsad	...	...	...	...	22,027	22,908"

359. West Bengal. Water rate is levied by municipalities in West Bengal under clause (a) of sub-section (1) of Section 123 of the Bengal Municipal Act, 1932. Under section 125 the levy of the rate is subject to the undermentioned restrictions:—

- (1) It should be imposed only on holdings within an area for the supply of water to which scheme involving the laying of pipes etc.

CHAPTER VI

has been sanctioned by Governments. It can be imposed even if other arrangements for supplying water are made.

(2) It should not be imposed on lands used exclusively for the purpose of agriculture or on any holding no part of which is within a specified radius from the nearest standpipe or other source of supply of water.

(3) It should not be levied until a supply of water has actually been provided in the area to be supplied.

A maximum rate 7½% is laid down for the water rate. The Act also provides for the fixation of different rates in respect of holdings to which communication pipes are attached (in which case the rates may be higher) and in respect of premises not having such facilities.

360. Under section 111 all monies received or recovered whether as taxes or for the execution of works or in any respect relating to the water-supply system shall, after deduction of the proportionate share of the cost of collection, supervision, etc. be spent on providing, extending or maintaining the water-supply. The Government of West Bengal have stated that while they have not issued any directions to local bodies to the effect that the services should be self-supporting the intention of section 11 seems to be so. The Government have, however, stated that in actual practice, it has not been possible to make these services self-supporting.

361. The water rate is at present levied by 28 out of the 75 municipalities in the State. An extract from the accounts showing the income and expenditure in this account is shown below :—

	Income from water rate			percentage of Col. 3 to total average income.
	1946-47	1947-48	Average	
	895,868	1,057,003	976,435	7.4
	1946-47 1947,48 Average			Percentage of Col. 4 to total average expenditure.
(1) Capital outlay	46,339	46,252	49,295	
(2) Establish-ment etc.	536,692	724,301	655,496	
Total expenditure	633,031	770,553	701,791	8.7

362. In the city of Calcutta and in the municipality of Howrah, a consolidated rate is levied in lieu of separate service rates for water, drainage, lighting and conservancy.

363. Uttar Pradesh. The water rate is levied by municipalities in Uttar Pradesh under clause (x) of sub-section (1) of section 128 of the U. P. Municipalities Act, 1916. Under section 129, the water tax is not leviable on land used exclusively for purposes of agriculture or in certain radius of the nearest standpipe. Further, the tax can be imposed solely with the object of defraying the

expenses connected with the construction, maintenance extension of improvement of municipal water-works. All monies received in respect of water-supply have to be spent thereon. The Government have not issued any directions to the municipalities to make this service self-supporting. No statutory maximum rates have been fixed. The water rate is at present levied only by 21 out of 88 municipalities in the State. The rates vary from 2½% in Hathras to 12½% in Ghazipur, of the annual rental value. The water tax can be levied both in the form of a percentage on the rateable value of holdings and in the form of a specified charge according to the quantity of water supplied. It is actually levied in both forms in several places.

364. The Government of Uttar Pradesh have made the following observations regarding water tax in their memorandum to the Committee :—

“**Water Tax** : Water tax being of the nature of a service tax is only to be levied by municipal boards having water-works and its proceeds have to be co-related with, and earmarked for, the expenditure on the water-supply arrangements alone, under section 130 of the Municipalities Act. Thus, water tax cannot be resorted to as a general source of income nor can be imposed by any board having no water-supply. The rates of tax in various municipalities range between 3½% and 11½% on the annual rental value of buildings or lands taxes, and the exemption limit ranges from Rs. 15 per annum to Rs. 96 per annum. The tax is levied in 21 municipalities, and its total yield for the years 1945-46 and 1946-47 was Rs. 37 lakhs and 29 lakhs respectively which means an average of about 7% of the total annual income of all municipalities.”

365. **Punjab.** Water tax is not specifically mentioned in the Punjab Municipal Act, 1911, as one of the taxes that may be levied. It is evidently being levied under the general power conferred on municipalities under sub-section (2) of section 61 to levy any tax, which the State Legislature has power to levy. Under section 96 a municipal committee may, and when so directed by the State Government shall, provide the local area with a supply of water. No statistics are available regarding the number of municipalities which levy this tax in this State. The Examiner, Local Fund Accountants, Punjab, has stated :

“The water works and Water Tax Departments are generally self-supporting in all municipal committees because the water rate recovered by them usually covers the cost of these departments”.

Water tax in 1947-48 amounted to Rs. 4,18,191. The total expenditure on water supply was Rs. 6,03,774.

366. **Bihar.** Water tax is levied by municipalities in Bihar under clause (c) of sub-section (1) of section 82 of the Bihar and Orissa Municipal Act, 1922. The levy of water tax is subject to the same restrictions as in Bengal. It is laid down in section 85 (1) (d) that, in fixing the rate at which the tax is to be imposed, regard should be had to the principle that the total net proceeds of the tax, together with the estimated income from payments for water supplied under special contract, shall not exceed the amount required for making, extending, or maintaining the water-supply system together with an amount sufficient to meet the proportionate cost of collection and supervision and the repayment of, and payment of interest on, any loan incurred in connection with any such supply. A maximum of 7½% of the annual value is prescribed for the water tax. A provision similar to that in section 69 of the Bengal Act, namely, that receipts

under the head "Water supply" are to be spent entirely on the water supply system and no portion thereof should be diverted to other objects. The Government have not issued any specific direction to local bodies to make these services self-supporting. They have, however, stated that the intention of the statutory restriction detailed above is such.

367. An extract from the annual statement on the working of municipalities in Bihar for 1943-44 issued by the State Government relating to water supply is given below :—

Income	Rs. 4,26,047
Expenditure	Rs. 5,27,904

It will be observed that there is actually deficit in the water supply account.

368. **Orissa.** As has been stated elsewhere, North Orissa is governed by the Bihar and Orissa Municipalities Act, 1922 and South Orissa by the Madras District Municipalities Act, 1920. The provisions in these Acts relating to the water rate have already been dealt with in the respective State sections. In the new unified Orissa Municipal Bill 1950, which is now on the legislative anvil, the provisions of the Bihar Act have been adopted. The Government of Orissa have stated that they have not given any specific direction to local bodies to make these services self-supporting. However, it is observed from a note of the Examiner of Local Fund Accounts, Orissa that a water tax is at present levied only by the Berhampur Municipality and there the service is self-supporting.

369. **Madhya Pradesh.** Water tax levied by Municipalities in Madhya Pradesh under clause (k) of sub-section (1) of Section 66 of the Central Provinces and Berar Municipalities Act, 1922. No statutory maximum rate is laid down. There are no statutory restrictions on the levy of the water tax similar to those contained in the Bengal and Bihar Acts. The State Government have stated that instructions have in the past been issued impressing on local bodies the desirability of making their services self-supporting, if necessary by resorting to direct taxation. The results achieved have not been spectacular, though the majority of municipal committees have kept their water supply expenditure within their income from the tax. The Government add :

"The Committees are taking action to enhance the rates of taxes including water rate and conservancy tax. The Provincial Government, therefore, feel that their result will be reflected in additional income in the immediate future and it is likely that the services will be self-supporting".

370. The Examiner of Local Fund Accounts, Madhya Pradesh has stated that in 1947-48 the water supply account was not self-supporting in one municipality. He has added that the services which are not self-supporting are invariably commented upon in the Audit Reports issued to local bodies with a view to enable them to take expeditious action to make them self-supporting.

371. The income and expenditure under this head for 1943-44 are given below :—

Income	Water tax	Rs. 12,55,671
Expenditure	Capital	Rs. 2,74,890
	Recurring	Rs. 8,64,031
		<u>Rs. 11,38,921</u>



**PROPERTY TAXES—SERVICE TAXES**

372. **Assam.** Water tax is levied by municipalities in Assam under clause (1) of sub-section (1) of section 59 of the Assam Municipal Act, 1923. The levy of the tax is subject to the same statutory restrictions as are contained in the Bihar Act with the exception that no statutory maximum rate has been prescribed. The Government of Assam have not issued any special instructions to municipalities that these services should be self-supporting. The Examiner of Local Fund Accounts has stated that where these services are not self-supporting the fact is brought to the notice of the local bodies concerned as well as Government.

373. The figures of income and expenditure of municipalities in Assam under this head for 1945-46 are given below :—

Income	Rs. 209,303
Expenditure :—	
Capital	Rs. 10,499
Recurring	" 250,463
	Rs. 260,962

There is a deficit of Rs. 50,000 in the water supply account.

**II—Lighting-rate**

374. **Madras.** A lighting tax is levied by the the Madras Corporation under section 98 (a) read with section 99 (1) (i) of the Madras City Municipal Act, 1919. Though no statutory maximum rate is prescribed for this tax, under section 98 the rates of all the taxes on property together cannot exceed 20% of the annual value. The lighting tax is at present levied in Madras City at 1½%. Under statutory rules the Commissioner is required to maintain a separate account for lighting.

375. An extract from the lighting account of the Corporation for 1947-48 is given below :—

<i>Receipts—normal</i>	
(1) Lighting tax	Rs. 633,104
(2) Other receipts	Rs. 14,819
	Rs. 647,923
Capital loans	Rs. 100,000
Total receipts	Rs. 747,923
<i>Expenditure—normal</i>	
Non-recurring	Rs. 825,646
Capital	Rs. 19,731
	5,461
Total Expenditure	Rs. 859,538

The lighting services is not self-supporting in Madras City.

376. A lighting tax is levied by municipalities in Madras under section 78 (1) (a) of the Madras District Municipalities Act, 1920, read with section 81 (1) (i). No maximum rate is prescribed and there are no restrictions on the levy of the tax. The restriction on spending annually more than Rs. 2,000 out of general funds on lighting without the sanction of the Government are similar to those obtaining

CHAPTER VI

in respect of water rate, and when applications for such sanction are received the need for making the special account self-supporting is impressed upon the municipalities. Out of 91 municipalities in the State, a lighting tax is at present levied in 64.

377. The figures of receipts and charges under 'lighting' for 1948-49 of municipalities in Madras are given below :—

Receipts :	(1) Lighting tax	Rs. 923,078
	(2) Contribution from general allowance	Rs. 147,140
	(3) Other receipts	Rs. 7,499
		Rs. 1,062,719
Receipts :	Capital Loans	Rs. 1,933
	Other	Rs. 32,242
		Rs. 34,225
	<b>Total Receipts</b>	<b>Rs. 1,096,944</b>
Expenditure :	Ordinary	Rs. 970,834
	Capital	Rs. 20,959
		Rs. 1,000,793

There is an excess of receipts over expenditure.

378. **Bombay.** In the City of Bombay Municipal Act, 1888, there is no provision for a lighting tax or rate even though under section 61(2) of the Act, the lighting of public streets is one of the obligatory functions of the Corporation. The expenditure on lighting is met from the general funds of the Corporation. Likewise, there is no provision for the levy of a lighting tax in the Bombay Provincial Municipal Corporations Act, 1950.

379. There is, however, provisions for the levy of a lighting tax both in the Bombay Municipal Boroughs Act, 1925 (section 73 (XV)) and the Bombay District Municipal Act, 1901 (section 59(a)(ix)).

380. A lighting tax was levied in 1944-45 in 27 municipalities out of 131. The figures of income and expenditure under this head for 1944-45 are given below :—

Income	Rs. 3,14,300
Expenditure	Rs. 11,23,956
	Rs. 8,09,656

It will be observed that there was an overall deficit under this head of Rs. 8,09,656.

381. **West Bengal.** As already observed, the Corporation of Calcutta does not levy any separate service tax but only a consolidated rate.

382. In mofussil municipalities in West Bengal a lighting rate is levied under clause (1) of sub-section (1) of section 123 of the Bengal Municipal Act,

PROPERTY TAXES—SERVICE TAXES

1932. Under section 125 the imposition of the lighting rates is subject to the following restrictions :—

- (1) The rate should be imposed only on holdings within an area for the lighting of which a scheme has been sanctioned by the Government.
- (2) The rate should not be imposed on lands used exclusively for purposes of the agriculture.
- (3) The rate should not exceed three per cent. of the annual value.
- (4) The rate should not be imposed until arrangements for lighting the lamps in the area have been completed.

383. A lighting tax is at present levied in 26 municipalities out of 76. In the remainder, no tax is levied because no lighting service is provided. The figures of income and expenditure under this head for 1946-47 and 1948-49 are given below :—

<i>Income</i>	1946-47	1948-49	Average income.	Percentage of Col. 4 to total average annual income.
	Rs.	Rs.	Rs.	
Lighting tax	3,06,919	3,88,367	3,47,643	2.6
<i>Expenditure</i>				Percentage of Col. 4 to total average annual expenditue
Lighting	4,45,109	7,86,901	6,16,005	4.7

It will be observed that the deficits in the lighting account are large.

384. **Uttar Pradesh.** There is no specific provision in the U.P. Municipalities Act 1916 for the levy of a lighting tax but there is a general provision permitting the levy of any tax which the State can impose, with the sanction of Government. Under this provision, the Municipal Boards of Mussoorie, Meerut, Khurja and Muzaffarnagar, who have their own electric supply undertaking, charge a general lighting rate to defray expenses of lighting the public streets.

385. **Punjab.** The statutory position in Punjab is similar to that in Uttar Pradesh. There is no provision in the Punjab Municipalities Act, 1911, for the levy of a lighting tax.

386. **Bihar.** A lighting tax is levied by municipalities in Bihar under clause (d) of sub-section (1) of section 82 of the Bihar and Orissa Municipal Act, 1922. The imposition of the lighting tax is subject to the same restrictions as in the case of the water rate. Under section 85, a maximum of 3% is prescribed in the Act. As regards the disposal of the proceeds of the tax, section 69 prohibits the diversion of such proceeds to objects other than those connected with the lighting system.

387. In 1943-44 the lighting tax was levied only by 2 out of 57 Municipalities and Notified Area Committees in the State. The income was Re. 6,036. Figures for expenditure for that year are not available but the total expenditure on lighting of all municipalities in 1944-45 was Rs. 193,202.

388. **Orissa.** Though a lighting tax can be levied by all municipalities in Orissa (in North Orissa under the Bihar and Orissa Municipal Act, 1922 and in South Orissa under the Madras District Municipalities Act, 1920) no such tax is at present levied by any municipality. We have only been supplied with figures for 1940-41 when an expenditure of Rs. 56,478 was incurred on lighting.

389. **Madhya Pradesh.** The lighting rate is levied by municipalities in Madhya Pradesh under clause (1) of section 66 of the C.P. Municipalities Act, 1922. The only restriction on the imposition of this tax is that it may be imposed only where the lighting of public streets is undertaken by the municipality. The lighting rate is levied only by a very few municipalities in this State.

390. **Assam.** A lighting tax is levied by municipalities in Assam under clause (d) of sub-section (1) of section 59 of the Assam Municipal Act, 1923. The imposition of the tax is subject to restrictions similar to those which apply in the case of the water tax.

391. The tax is levied by only 3 municipalities in 1945-46 out of a total of 28 municipalities and town committees even though expenditure on the lighting of public streets were incurred by 18 municipalities. The figures of income and expenditure for 1945-46 under this head are given below :—

Income	Rs. 44,632
Expenditure	Rs. 88,936

### III—Drainage Rate

392. **Madras.** As already observed, the water and drainage tax is a composite tax that is permitted to be levied in the City of Madras by the Madras City Municipal Act, 1919 under section 98(4) read with section 99(1) "for the purpose of defraying the expenses connected with the water and drainage systems of the City". The drainage rate is at present levied at 2% of the annual value.

393. An extract from the drainage account for 1947-48 is given below :—

#### Receipts—normal

(1) Drainage tax	Rs. 13,07,788
(2) Miscellaneous receipts less rupees (-)	Rs. 5,749
	<u>Rs. 13,02,038</u>

#### Capital

(1) Government grants	Rs. 2,50,000
(2) Government loans	Rs. 6,00,000
	<u>Rs. 8,50,000</u>

#### Total receipts.

Rs. 21,52,638

#### Expenditure—normal

Non-recurring	Rs. 19,01,744
Capital	Rs. 81,447
	<u>Rs. 12,99,935</u>
	<u>Rs. 32,83,126</u>

As in the lighting account, there is a large deficit in the drainage account also in Madras.

394. The provisions in the Madras District Municipalities Act regarding the levy of the drainage tax are similar to those in the City Municipal Act. The drainage tax is at present levied by 60 municipalities. An extract from the account for 1948-49 is given overleaf :—

PROPERTY TAXES—SERVICE TAXES

Receipts—ordinary.

(1) Drainage Tax	Rs. 12,60,044
(2) Government Grants	Rs. 19,297
(3) Other receipts	Rs. 2,17,099

Rs. 14,99,440

*Contribution from general account.*

Rs. 6,67,517

Receipts—capital.

(1) Loans	Rs. 2,12,050
(2) Government Grants	Rs. 2,63,808
(3) Contributions from General Account	Rs. 96,679
(4) Other receipts	Rs. 16,360

Rs. 5,88,897

Total :—

Rs. 27,55,854

Expenditure.

Ordinary	Rs. 15,05,896
Capital	Rs. 30,21,628

Total :—

Rs. 45,27,524

It will be seen that there is a deficit in the drainage account in the district municipalities also.

395. In addition there is provision in the Madras District Municipalities Act, 1920 for the levy of a scavenging tax "to provide for expenses connected with the removal of rubbish, filth or the carcasses of animals from private premises." It is not known in how many municipalities this tax is levied, as figures of income and expenditure under this head are not included in the printed statement of accounts of municipalities.

396. **Bombay.** There is no provision either in the City of Bombay Municipal Act, 1888 or in the Bombay Provincial Municipal Corporations Act, 1950 for the levy of a drainage rate. There is provision for the levy of a drainage rate in the Bombay Municipal Boroughs Act, 1925 [section 73 (XII)] but not in the Bombay District Municipal Act, 1901. Only five municipalities levy this rate.

397. The figures of income and expenditure under this head for 1944-45 in respect of municipalities in Bombay are given below :—

Receipts.

Drainage tax	Rs. 10,23,033
--------------	---------------

Expenditure.

Capital	Rs. 2,83,356
Recurring	Rs. 5,43,170

Total :—

Rs. 8,26,526

It will be seen that there is a surplus in the drainage account.

**CHAPTER VI**

398. **West Bengal.** There is no provision for the levy of a drainage rate. Instead, under clause (d) of sub-section (1) of section 123 of the Bengal Municipal Act, 1932, a composite tax, called a conservancy rate is levied to meet the cost not only of cleaning and maintaining the drains but the cost of the specific service rendered to holdings, such as the cleansing of latrines as well as sweeping and watering the streets. Under section 126 the rate is not leviable at more than seven per cent. on the annual value of any holding. The service is not self-supporting in any municipality.

399. The figures of income and expenditure under this head for two recent years are given below :—

Income.				
	1946-47	1947-48	Average income Rs.	Percentage on average income
	Rs.	Rs.		
Conservancy (including scavenging)	16,06,902	18,77,899	17,42,400	13.1
Expenditure.				
	1946-47	1948-49	Average expenditure	Percentage on average annual expenditure
<b>III. (b) Drainage.</b>				
(1) Capital outlay	39,504	51,371	48,437	5.3
(2) Recurring	536,692	7,24,301	6,55,496	
(3) Conservancy	33,65,232	51,69,679	45,17,480	34.2
	44,91,478	59,45,351	52,18,413	39.5

There is a large deficit of nearly Rs. 40 lakhs in the conservancy account. The conservancy rate is at present levied by 64 municipalities out of 76.

400. **Uttar Pradesh.** There is no drainage tax in Uttar Pradesh. But under clause (vi) of sub-section (1) of section 128 of the U. P. Municipalities Act, 1916, a scavenging tax can be levied. Under section 130, the imposition of the tax is subject to the following restrictions

- (1) The tax should be imposed solely with the object of defraying the expenses connected with scavenging and that all monies derived therefrom should be expended solely on this object
- (2) The tax should not be imposed on any holding in respect of which the municipality has not undertaken the work of scavenging.

No direction has been issued to municipalities to the effect that the service should be self-supporting. The Government of Uttar Pradesh have stated :—

"The basis of assessment is the number of cess-pools, panalas (gutters) or abchaks (small drains) served. The tax is in force in only a few municipalities and its yield is small."

401. **Punjab.** There is no drainage rate in the Punjab.

402. **Bihar.** A drainage rate is leviable under certain restrictions as laid down in section 86-A of Bihar and Orissa Municipal Act, 1922. No municipality in this State, however, levies a drainage tax, though expenditure on drainage and sewerage is incurred by almost all municipalities. The total expenditure municipalities in Bihar on drainage in 1943-44 was Rs. 2,57,112.

403. **Orissa.** Though there is provision in both the Bihar and Madras Municipal Acts which apply to this State for the levy of a drainage tax, the tax is

**PROPERTY TAXES—SERVICE TAXES**

not levied by any municipality, except Berhampur which levies a consolidated water and drainage tax of 8% of annual valuation.

404. **Madhya Pradesh.** The drainage tax can be levied by municipalities in Madhya Pradesh under clause (m) of sub-section (1) of section 66 of the C.P. and Berar Municipalities Act, 1922, "where a system of drainage has been introduced." The tax is, however, not levied by any municipality. An expenditure of Rs. 2,75,624 was incurred on drainage in 1943-44.

405. **Assam.** A drainage tax can be levied by municipalities in Assam under clause (f) of sub-section (1) of section 59 of the Assam Municipal Act, 1923. The imposition of the tax is subject to the following restrictions, under section 64:—

- (a) that the tax shall not be levied on land used exclusively for purpose of agriculture ;
- (b) that in fixing the amount or amounts of the tax regard shall be had to the principle that the proceeds of the tax should not exceed the amount required for constructing, extending, improving or maintaining the system of drainage, and,
- (c) that the tax shall not be leviable until a system of drainages shall have been made in the area to be so provided.

The drainage tax is not at present levied by any municipality. An expenditure of Rs. 52,859 and Rs. 35,567 was incurred on this account by municipalities during 1945-46 and 1944-45 respectively.

**IV—Latrine Rate**

406. **Madras.** There is no tax in Madras corresponding to the latrine rate.

407. **Bombay.** The Bombay Municipal Corporation has to levy under section 139 read with section 140 (b) of the City of Bombay Municipal Act, 1888 a halalkhore, tax at a rate not exceeding three per cent. of the rateable value for cleaning privies, urinals and cess pools and for efficiently maintaining the municipal drains.

408. The figures of income and expenditure under this head for 1948-49 are given below:—

**Income.**

	1948-49 Rs.	1947-48 Rs.
Street cleansing and conservancy, road watering and Halalkhore service		
A. Halalkhore Tax (3%)	5,063,233	4,854,811
B. Miscellaneous	143,503	138,972
	5,206,736	4,993,783

**Expenditure.**

Street cleansing and conservancy, road watering and Halalkhore service	5,933,882	5,501,278
Roads, Drains and Sewers		
D-Cleansing of drains and sewers	744,926	660,447
<b>Total</b>	6,678,808	6,161,725

It will be observed that the service is not self-supporting.

409. In mofussil municipalities in Bombay there are two separate taxes corresponding to the latrine rate, viz ; (1) the general sanitary cess "for the construction and maintenance of public latrines and for the removal and disposal of refuse;" and (2) the special sanitary cess for private latrines, premises or compounds cleansed by municipal agency.

410. The Government have issued instructions to the municipalities that these services should be self-supporting. In a communication to this Committee the Examiner of Local Fund Accounts, Bombay, states :—

"Though the Bombay Government have specifically directed the local bodies to keep the special conservancy services self-supporting, the special sanitary service of the local bodies in this Province is not generally self-supporting, partly owing to the heavy cost involved in the payment of dearness and other allowances to sanitary staff and partly to the reluctance of local bodies to levy an adequate rate to cover the cost of these services".

411. The figures of income and expenditure under this head for 1944-45 are given below :—

Income from general sanitary cess	Expenditure on general sani- tation and con- servancy	Income from special sani- tary cess	Expenditure on special sanita- tion and conser- vancy
Rs.	Rs.	Rs.	Rs.
632,321	3,533,677	834,595	1,238,165

It will be seen that the income from general sanitary cess is only one-fifth of the expenditure on general sanitation and conservancy. Similarly, the income from special sanitary cess is sufficient to cover only two-thirds of the expenditure on special sanitation and conservancy.

412. **West Bengal.** Although the Corporation of Calcutta levies only a consolidated rate in lieu of a general property rate and the several service rates, a scavenging tax is permitted under section 179 of the Calcutta Municipal Act 1923 and is realised in the form of a licence fee in respect of certain trades and callings involving the maintenance of animals which are likely to throw a lot of filth and excrement on the roads and other public places and impose additional burden on the municipal services. It is of course impossible in this case to relate the receipts to the expenditure involved.

As already stated when dealing with drainage rate conservancy rate leviable by municipalities in Bengal under clause (d) of sub-section (1) of section 123 of the Bengal Municipal Act 1932 is a composite tax pertaining to conservancy, drainage and latrine services.

413. **Uttar Pradesh.** A latrine rate, described as a "tax for cleansing of latrines and privies;" is levied by municipalities in U. P. The tax is subject to the following restrictions :—

- (a) the tax should be imposed solely with the object of defraying the expenses connected with the cleansing of latrines and privies, and that all moneys derived therefrom should be expended solely on that object.
- (b) the tax should not be assessed on any house or building unless the municipality has undertaken the cleansing of latrines and privies in respect of such house or building.

The tax is levied by 21 municipalities and its average annual yield is Rs. 2 lakhs. As no figures of expenditure in respect of this particular service are available it is difficult to make any comparisons.



**PROPERTY TAXES—SERVICE TAXES**

414. **Punjab.** There is no latrine rate in the Punjab. But "a tax payable by the owner or occupier of any building in respect of which the committee has undertaken the house scavenging" is leviable by municipalities under clause (e) of sub-section (1) of section 61 of the Punjab Municipalities Act, 1911. No figures of income or expenditure under this head are available. The Examiner of local Fund Accounts observes;

"Drainage, sanitation, and conservancy are essential beneficent activities which are statutory liabilities of local bodies. They are seldom, if ever, self-sufficient. Sanitation tax and conservancy tax have been levied by very few municipalities and even where these taxes are levied the incidence of these taxes is very low".

415. **Bihar.** A latrine rate on the annual value of holdings is levied by municipalities in Bihar under clause (e) of sub-section (1) of section 82 of the Bihar and Orissa Municipalities Act, 1922. Under section 86, the tax should be fixed at a rate so that the total net proceeds of the tax shall not exceed the cost of the service plus a proportionate share of the cost of supervision and collection.

416. The State Government have not issued any instructions to local bodies to the effect that the service should be self-supporting. The Accountant General, Bihar, however, states in a communication to the Committee:—

"An attempt is always made by a municipality to make the conservancy fund self-supporting. Where in the course of audit, it is noticed that the conservancy fund has a debit balance. Suggestions are made through the audit reports to take measures to increase the rate of taxation to make the fund self-supporting and such suggestions are generally accepted".

417. The latrine rate is at present levied by 49 out of 57 municipalities and Notified Area Committees in this State. The figures of income and expenditure under this head for 1943-44 are given below:—

Income from latrine tax	Rs. 922,814
Expenditure on clearing of latrines and urinals)	Rs. 874,738
Total expenditure on ) conservancy )	Rs. 1,460,924

418. **Orissa.** There is no provision in the Madras District Municipalities Act, 1920 which applies to the South Orissa Municipalities of Berhampur and Parlakimedi for the levy of a latrine rate which are governed by the Bihar and Orissa Municipalities. North Orissa Municipalities, Act, 1922 can levy a latrine rate. The Municipality of Berhampur levies a scavenging tax at the rate of 4%. All the six North Orissa Municipalities levy a latrine rate at 7½%. The income of municipalities in Orissa from latrine rate was Rs. 174,945 in 1946-47. As the figure of expenditure under the head for the corresponding year is not available it is not possible to make any comments. The Comptroller, Orissa, observes that in the municipalities of North Orissa where a separate account is kept for latrine rate, the service is not self-sufficient. No separate account is kept for other services. He further observes that in the case of municipalities where the tax is already levied at the highest limit prescribed by the Act, the municipalities are advised to reduce expenditure on the maintenance of special establishment in order to wipe out the debit balance of the special account. Such suggestions are generally accepted by the local bodies and acted upon as far as practicable. He admits, however, that the conservancy establishment and the accessories required for the purpose during these abnormal days renders it difficult to keep the expenditure on the special service within the receipts.

419. **Madhya Pradesh.** A latrine or conservancy tax is levied by municipalities in this State. The tax is payable by the occupier in respect of private latrines, privies or cess-pools or premises or compounds cleansed by municipal agency. In addition to this, "a tax for the construction and maintenance of public latrines" is also leviable by municipalities.

420. As regards the self sufficiency of this service the Government of Madhya Pradesh write that instructions have been issued in the past, impressing on the local bodies the desirability of making their services self-supporting, if necessary, by raising indirect taxation before resorting to indirect taxation. Results achieved in pursuance of such directions have not been very spectacular though in the case of water supply the majority of the municipal committees have kept their expenditure within their income from the tax from this source.

421. The Examiner of Local Fund Accounts has made the following observations on this point:—

- (i) The services were not self-sufficient in all the local bodies. During the year 1947-48 the conservancy service was not self-supporting in 24 municipalities, drainage and water service in one each.
- (ii) The services which are not self-supporting are invariably commented upon in the audit reports issued to local bodies with a view to enable them to take expeditious action to make the services self-supporting. In some cases this has resulted in the services being made self-supporting during the subsequent year".

422. **Assam.** A latrine tax, payable by the occupier, on the annual value of holdings is levied by all the municipalities in Assam. The imposition of this tax is subject to the restriction that the total proceeds of the tax shall not exceed the amount required for cleansing latrines, urinals and cess-pools. The Government have not issued any instructions to the local bodies that the service should be self-supporting. The figures of income and expenditure under this head for 1945-46 are given below :—

Income.

Conservancy rate	Rs. 318,469
Other receipts under conservancy.	,, 7,379
Total	Rs. 325,848

Expenditure.

	Rs. 565,135
--	-------------

There is a deficit of Rs. 2 lakhs in this account.

423. **General observations.** The foregoing analysis makes it clear that while the auditors have invariably pressed for self-sufficiency in the matter of service taxes and the State Governments have generally followed suit, the ideal has seldom been achieved except in the case of water supply. Water supply is self-supporting in all the States but Bihar and Orissa. But street lighting is not self-supporting in any of the States whose figures have been supplied to us and in some of the States (e.g. in the City of Bombay) such a levy is not permissible at all. In a few other States (e.g. Uttar Pradesh and Punjab) the Acts do not specially provide for levying a lighting rate though there is a general provision which entitles the local authorities to levy, with the consent of the State Government, any tax which the State Government itself is entitled to levy. The

aggregate deficit on this account in the States of Madras, Bombay, West Bengal, Orissa, Madhya Pradesh and Assam is nearly Rs. 15 lakhs. As regards conservancy and drainage, although there is a multiplicity of taxes in different States (*e.g.* drainage rate, latrine rate, scavenging tax and the general and special sanitary cesses in Bombay) the service is not self-supporting anywhere. The question, therefore, arises whether it is desirable to make a service self-supporting and, if so, what steps should be taken to achieve the purpose?

The Committee gave very anxious consideration to this question but could not come to a unanimous decision. The majority of members are of the opinion that the cost of services principle, however equitable it may seem in the abstract, is not always capable of practical application.

424. The principle of self-sufficiency in respect of these specific services is not laid down in any of the Municipal Acts, but seems to have been derived from an extension of the language used in those Acts. The relevant sections, as we have already shown, merely say that the rate should be fixed in such a way that the receipts do not exceed the amount required for providing the services. They prohibit the diversion of the proceeds of such taxes to other purposes but do not lay down the converse proposition that the expenditure on such services must be limited to such receipts and cannot be supplemented from general revenues in case the yield is insufficient. Such an extension of the meaning seems to be hardly justified because of the prescription of maximum limits on the percentage of service taxes in the different Acts. In West Bengal, for example, a maximum of 8½% is prescribed for water rate, 7% for conservancy and 3% for lighting. In the City of Bombay Halalkhore tax cannot exceed 3% and fire tax 1%. The expenditure incurred for providing such services on an adequate scale may conceivably and often does, exceed the receipts under those heads. The logical corollary to the principle of self-sufficiency, while the maximum statutory limit remains unaltered, would, therefore, be that if the expenditure shows a tendency to outrun receipts from the particular rate, the service itself should be cut down. This, in fact, is the length to which an auditor went when he suggested cutting down a service when the cost exceeded receipts. If this suggestion were accepted, the conservancy service in many municipalities, which are already in a poor way, but whose cost has gone up on account of the recent rise in wages, will have to be drastically reduced. The Committee cannot view this possibility with equanimity and are of opinion that the existing provisions of different Acts cannot be interpreted to mean that the principle of self-sufficiency must be rigidly adhered to in respect of service taxes.

425. We are not, of course, precluded from recommending that the Acts should be modified if we were convinced that the principle is sound. But we are not convinced that it is. The present classification of the municipal services into two categories, one to be financed from general revenues and the other from special rates, does not appear to rest on any logical basis. Nobody contends that municipal roads should be financed from a special levy; probably because it is impossible to calculate the special benefits that individual citizens derive from their use. If so, why should not the same principle apply to street lighting and even to the provision of piped water supply through street stand pipes?

How can we differentiate between the general benefits derived from communications and those derived from conservancy and drainage, where such services are uniformly developed throughout the entire municipal area? In what category would education and medical relief fall? The second has always been financed from general revenues, while the trend of all progressive countries in modern times has been to make the first free and compulsory (upto a certain stage)

without making it exclusively dependent on any special education tax. Yet it may plausibly be argued that they offer special benefits, if not to the individual rate-payer, at least to the recipients of medical relief or primary education.

426. The fact is that it is impossible to have a clear-out division between the services which, from their vital importance to the health and well-being of the residents of the urban area, are to be regarded as a legitimate charge on the general revenues and services which are to be regarded as ancillary conveniences to be purchased at a special price at the will of the rate payers. The principle which has gradually converted the old "police state" into the "welfare state" in the larger body politic has to be recognised even in the municipal sphere and functions hitherto regarded as optional have gradually to be brought within the ambit of the necessary duties of the local authorities. Moreover, if the ideal is that civic consciousness and a sense of unity of the community shall grow, it is more likely to be achieved if the burden is so distributed as to fall more heavily upon those capable of bearing it than upon those that cannot. Some of the poorest members of the community living in slums require more services in the nature of water supply and sanitation, but it would be unfair to impose upon them a proportionately heavy burden on that account which would follow from the acceptance of the cost of service principle. A special service rate is justified when the areas within municipal limits are differently developed. It would obviously not be proper to charge the entire body of rate-payers for services which benefit only a particular area. But when the development is uniform and all the services are evenly spread throughout the area, the case for special service rates disappears.

427. The conclusion of the Committee may be summarised as follows. Where special service rates exist they should yield as large a proportion of the cost as possible though it is probably impossible to expect them to pay for the cost in full. Such special service rates are justified in unevenly developed areas. They are also justified when an individual rate-payer derives any special benefit or makes use of a service in excess of the normal standard. But as the area tends to be uniformly developed, the case for consolidated rates becomes gradually stronger.

CHAPTER—VII  
LOCAL FUND CESS

428. The sheet anchor of the revenues of district boards in this country is a cess on land called the local rate or the local fund cess in different States. It is assessed as a surcharge on land revenue or rent at varying rates in each State. It is collected through Government agency along with the land revenue and credited to the district board funds after deducting the cost of collection, which is not the same for all provinces, but varies generally from 2 to 4 per cent. The land revenue staff which collects the land cess would in any case have to be maintained for the collection of land revenue, and the cost of special staff for the adjustment of accounts between the Land Revenue Department and the district boards must be comparatively insignificant. We, therefore, think that state Governments might as well remit this charge altogether.

429. The following table shows the rates and basis of assessment of the cess in the various states :

TABLE SHOWING THE RATES AND BASIS OF ASSESSMENT OF  
LOCAL CESS

State	Name of Cess	Basis of assessment	Rate
1	2	3	4
Madras	Land Cess	Of annual rent value of land which shall be the full assessment payable plus water rate in the case of ryotwari and inam lands and annual rent in the case of others.	Two annas in the rupee.
Bombay	Local Fund Cess	of land revenue	Three annas in the rupee.
West Bengal	Road and Public Work Cess	(a) of annual value of lands or of annual net profits from mines, quarries, tramways, etc. (b) on land used for tea, coffee and cinchona cultivation.	Half anna per rupee  Rupees ten per acre.
Uttar Pradesh	Local Rate	of the annual value of land which is defined as twice the land revenue payable.	9-3/8% compulsory maximum.
Punjab	do	do	One anna to four annas per rupee.

CHAPTER VII

1	2	3	4
Bihar	Road and Public Works Cess	(a) of annual value of lands	2 annas in the rupee.
		(b) of the annual net profits from mines and quarries	One anna per rupee.
Orissa	Local Cess Land Cess	(a) of the annual value of lands or annual net profits.	from annas 2 to annas 4 per rupee.
		(b) of the Kamilzama assessed on every zamindari and Malguzari village in Sambalpur District.	12½%
Madhya Pradesh	Land Cess	of land revenue or annual rent	18 pies per rupee.
Assam	Local Rate	(a) Revenue free land or land paying land revenues at a rate not exceeding rupee one per acre.	Rs. 1/- per acre.
		(b) Other revenue paying lands	Annas eight per acre or upto a maximum of annas two per rupee whichever is higher.
Ajmer Merwara	do	of the land revenue	4½ pies per rupee.
Coorg	Land Cess	of the annual rent value of all lands which is assumed as equivalent to the assessment leviable.	Three annas in the rupee.

It will be noticed that the cess is differently designated in each State as under :—

Land Cess :—

Madras, Madhya Pradesh, Coorg and two southern districts of Orissa.

Local Cess :—

Orissa.

Local Fund Cess :—

Bombay.

Local Rate :—

Uttar Pradesh, Punjab and Ajmer-Merwara

Road and Public Works Cess :— Bengal and Bihar.

430. Similarly, the basis of assessment is not uniform in all the States. It is (i) "annual rent value" in Madras and Coorg ;

(ii) "annual value" in West Bengal Uttar Pradesh, Punjab, Bihar and Orissa ;

(iii) "Land Revenue" in Bombay, Madhya Pradesh and Ajmer-Merwara.

## LOCAL FUND CESS

The annual rent value is defined as 'full assessment' in Madras and Coorg. The 'annual value' in Uttar Pradesh and Punjab, is twice the land revenue. Thus in effect the levy of the cess at least in the case of seven States is based on the land revenue. In Bengal, Bihar and Orissa the sum total of all rents payable by a cultivating tenant plus a sum total of what would have been the reasonable rent of rent-free land or lands held in *Khas* is adopted as the 'annual value of land'. Thus the basis of calculation is the rent actually paid or potentially payable by the actual tiller of the soil. Wherever levied as a surcharge on land revenue, the cess like the former has the feature of certainty in incidence in as much as the individual liable knows the amount he has to pay. Nor is it inconvenient as regards the time and manner of payment, as it is recovered along with the land revenue assessment. Also its recovery through Government agency makes it economical to the district boards who have not to maintain any special staff for its collection. It is devised on a flat rate basis regardless of the ability to pay of the individual concerned or the taxable capacity of the lands on which it is imposed.

431. There is further variation between States as regards the person who pays the cess. In ryotwari areas it is levied from the landholder, who may or may not shift it when subletting his land. In the Central Provinces and Berar the Izardar is liable to pay the cess in a village in which the proprietary title has been conferred under the Waste Land Rules of 1865. In an unalienated village the cess is payable by the occupants; in the case of alienated plots by the holders thereof.

432. In the United Provinces, the cess is payable by the land-lords but every tenant is liable to pay to his land-lord such number of pies per rupee of his rent or of the rental value of the land held by him as the State Government may prescribe. In the Punjab, the landholder is liable for the local rate. When the rate is payable by a landholder in respect of lands held by a tenant with a right of occupancy holding at a favourable rent, the landholder may realise from the tenant a share of the rate.

433. In the permanently settled areas in Madras the cess is collected from the landholder, who is empowered to recover one-half from his tenant. In Bengal, the landlord pays the entire amount of the cess, less a deduction calculated at half the rate of the cess for every rupee of land revenue paid by him. He is, however, entitled to recover from the tenure-holders the entire cess demand, less an amount determined at half the rate of the cess for each rupee of rent payable by the latter. The cultivating ryot is liable to pay to the person to whom his rent is payable one half of the cess due on the land held by him at the prescribed rate or rates.

434. The sub-joined table gives the all-India figures of income from local cess since the year 1889-90 :

Year	Total income of district boards in India	Local Cess	Percentages
	Rs.	Rs.	
1889-90	2,67,83,682	1,57,58,643	58.8
1894-95	2,98,09,539	1,70,24,930	57.1
1907-08	4,75,40,991	2,31,06,784	48.6
1918-19	8,53,83,671	3,70,17,914	43.3
1925-26	12,06,04,058	4,85,05,906	40.2
1946-47	15,55,31,309	5,22,28,921	33.5

## CHAPTER VII

It will be seen from the above figures that while the increase in total income during the period has been roughly 13 crores, the total increase in the local cess, which forms the only major source of independent income, has been only 3.66 crores. The balance of the increase has been chiefly made up by Government grants.

435. The table below shows the income during 1946-47 from local cess of the district boards in the various States and the percentage it represents of the total income from all sources and its per capita incidence in each :—

State	Number of District Boards	Total income from all sources	LOCAL FUND CESS .		
			Income from local cess	Percentage of total revenue	Per capita incidence
1. MADRAS	24	5,72,78,682	1,09,37,407	10.0	-/3 8
2. BOMBAY	20	4,63,30,468	61,74,191	13.0	-/6 1
3. WEST BENGAL	13	74,31,976	37,13,618	49.9	-/3 5
4. U. P.	49	2,95,30,000	92,10,000	47.1	-/3 1
5. PUNJAB	13	1,16,03,637	25,78,351	22.2	-/4 1
6. BIHAR	17	1,60,38,438	85,10,913	53.06	-/3 9
7. ORISSA	6	44,59,825	6,53,906	14.6	-/1 2
8. MADHYA PRADESH	25	79,70,713	37,86,978	50.02%	-/4 1
9. ASSAM	19	56,30,806	16,48,532	29.2%	-/3 1

It will be observed from the above statistics that the per capita incidence of this tax varies from Rs. 0-1-2 in Orissa to Rs. 0-6-1 in Bombay. The average per capita incidence for all the States works out at Rs. 0-3-7. Similarly, the column showing the percentage result discloses that the lowest percentage recorded, viz., 10 is in respect of Madras, and the highest 53.06 for Bihar. The average of the percentages works out at 32.12 which roughly approximates to one-third of the aggregate revenues of the district boards.

### RATE

436. **Madras.** The land cess in Madras is at present levied at a uniform rate of annas two in the rupee of land revenue of which one-fourth is credited to panchayat areas and the balance paid to the district boards. We do not recommend any increase in the cess in view of the fact that the education cess is being levied separately at a fairly high rates.

437. **Bombay.** The cess is known as 'Local Fund Cess' in Bombay. Its levy is traced to the year 1860, when it was the practice to levy a cess of one anna on every rupee of land revenue for provision of local amenities like dispensaries, schools and roads. The levy was for the first time placed on a statutory basis by the Bombay Local Fund Act, 1869. That Act was repealed by the Bombay Local Boards Act, 1884, which ultimately was superseded by the present Bombay Local Boards Act, 1923. Under section 93 of that Act, the Local Fund Cess was leviable at the rate of one anna on every rupee payable as ordinary land revenue or which would be so payable had there been no alienation of land revenue, but the rate could be enhanced up to two annas in the rupee on a resolution passed by the district local board. The rise in prices during the war years obliged most of the boards to increase the rate to the permissible maximum of annas two per rupee, but even this proved inadequate. The Act was, therefore, amended in 1945 to



provide for a minimum and maximum of annas two and three respectively. In 1948 it was further amended to provide for the levy of a compulsory uniform rate of annas three per rupee. The Government have also power under section 95 of the Act to levy Local Fund Cess at a rate exceeding three annas on every rupee of water rate leviable under the provisions of the Bombay Irrigation Act, 1879. Local Fund Cess levied on agricultural lands in municipal limits is credited to the district local boards and not to municipalities. As a rule agricultural lands within municipal limits are few and the local fund cess collected in respect of them small. We do not think that any further increase in the cess is called for.

**438. West Bengal.** There is no tax known as local fund cess in Bengal. There is, however, a provision for the levy of road public works and education cesses, the assessment and collection of which is arranged by the Government. The collections of the road and public works cesses are paid to district boards after deducting the cost of collection. The proceeds of the education cess are credited to the District Primary Education Fund, which is managed by the District School Board, a body quite distinct from the District Board. The maximum rate at which the road cess can be imposed is half an anna per rupee on the annual valuation of land. The district boards in West Bengal are actually levying this cess at the maximum rate. The rate of public works cess is determined entirely by Government, and is being levied at the maximum rate. The road and public work cesses are both levied under the Cess Act of 1880 (Bengal Act IX of 1880) on the annual value of lands.

It was pointed out to us in evidence that a Conference of District Board Chairmen unanimously resolved that for the improvement of district board finances it was essential that these cesses be doubled. A proposal to that effect was made to the Government of West Bengal some time ago. But no decision has yet been arrived at. We consider that in view of the large increase which has taken place in the price of paddy, this proposal to double the cesses is sound and should be expedited. Bihar has already doubled the rate and there is no reason why Bengal should not follow suit. The Bihar and Bengal rates are based on almost identical considerations.

**439. Uttar Pradesh.** The cess is known as 'local rate' in Uttar Pradesh. Section 108 of the District Boards Act, 1942 provides that "with the previous sanction of the Provincial Government, a district board may, by notification impose and may in the like manner abolish or alter the rate of either or both of the following taxes:—

- (a) a local rate
- (b) a tax on circumstances and property"

Up to April, 1938 the local rate was assessed at a prescribed amount not exceeding 6½% upon the 'annual value' of any estate. Annual value in this context means:—

- (a) where the settlement of the land revenue is liable to periodical revision, double the amount of the land revenue for the time being assessed on an estate.
- (b) where such settlement is not liable to periodical revision, or where the land revenue has been wholly or in part released, compounded for, redeemed or assigned, double the amount which, if the settlement were liable to periodical revision, or if there had been no such release, composition, redemption or assignment, would have been assessed as land revenue on the estate.

Since May 1948 the imposition of local rate at 9-3/8 per cent. of the annual value has been made compulsory for all district boards, whereby the district boards are

expected to receive an additional income of Rs. 60 lakhs per annum. As the rate is already three annas in the rupee of land revenue we have no further recommendation to make.

440. **Punjab.** In the Punjab also the cess is designated as local rate. Section 5 (1) of the Punjab District Boards Act, 1883, provides that "all land shall be subject to the payment of a rate, to be called the local rate, at one anna per rupee of its annual value. The latter is defined in section 3 (4) as double the land revenue for the time being assessed on any land whether the assessment is leviable or not. Thus the statutory minimum is 12 pies per rupee on the annual value of land or 24 pies per rupee of the land revenue. The average rate in most of the districts is, however, reported to be 24 pies per rupee. In the absence of a statutory maximum, the rate in some districts is reported to be as high as four annas per rupee. In district boards where the cess is being levied at 24 pies in the rupee of land revenue, we recommend that the cess should be raised to at least 36 pies in the rupee.

441. **Bihar.** The Bihar Local Self-Government Act, 1885, embodies identical provisions on the lines of the Bengal Act. Section 46 of that Act reads as under :—

"A District board, on or before the day prescribed in the rules made by the Local Government under this Act, shall hold a meeting for the purposes of fixing the rate at which the road cess shall be levied in the district during the ensuing year".

The cess is assessed at a rate not exceeding one anna on each rupee of the annual value of lands and on the annual net profits from mines and quarries and from tramways, railways and other immovable property.

With effect from April 1949 the rate has been increased to annas two in the rupee of the annual value of lands in all districts. The State Government, however, consider that the resultant increase in the yield is not likely to improve the financial position of the boards as the excess over the previous income is ear-marked for expenditure on primary education. We are of the opinion that this rate of two annas in the rupee should be earmarked for general purposes and a separate education cess of one anna levied for educational purposes.

442. **Orissa.** Having been carved out partly from the old Madras and Bengal Provinces two different systems of local cess prevailed in Orissa. In the northern districts the levy was regulated by the provisions of Bihar and Orissa Local Government Act, 1885, while in the southern districts of Koraput and Ganjam by the provisions of the Madras Local Boards Act, 1920. The result was that in the northern districts the rate of cess was Rs. 0-2-6 in the rupee on the annual value of the holdings, whereas in the southern districts of Koraput and Ganjam the rate was Rs. 0-2-0 (land cess) for general purposes plus 4½ pies (education cess) per rupee of the land revenue payable by the tenants to the Government. The levy in the Sambalpur district was on the other hand regulated by the entries in the settlement proceedings because the Bengal Cess Act had ceased to be in operation. With a view to improving the finances of district boards a new unified Act provides for the levy of a minimum of annas two and a maximum of annas four per rupee and for an enhanced rate of 12½% for the Sambalpur district. We think that the actual rate should be raised to annas three per rupee.

443. **Madhya Pradesh.** In the Madhya Pradesh, the former District Councils (as the District Boards were called) have been abolished and replaced by new units designated as Janapada Sabhas created under the C. P. & Berar Local Government Act, 1948. Under the scheme of that Act (sec. 31) for the purposes of

local government the State is divided into administrative areas known as "Janapadas". Section 85 provides that

"every proprietor of an estate, mahal or malik-makbuza plot and every holder of a survey number and every tenant (other than sub-tenant) shall be liable to pay a cess at the rate of 18 pies per rupee or part thereof on the land revenue or rent, as the case may be, payable thereon, or if the land revenue or rent or any portion thereof be compounded for or redeemed, on the kamilzama of such estate, mahal or malik-makbuza plot or survey number or if the land is held rent free or at reduced rent or on favourable conditions, on the rent fixed on such land, for the maintenance of schools or roads or for any other purpose under this Act."

Section 86 further vests in the Janapada Sabhas the option to levy additional cess for this purpose as follows:—

"With the previous sanction of the Provincial Government, a Sabha may by a resolution passed at a special meeting convened for the purpose, impose an additional cess for the maintenance of schools or roads or for any other purpose of this Act, at a rate not exceeding twelve pies in the rupee."

The rate at present levied is low and should be raised to three annas in the rupee.

444. **Assam.** The levy of "local rates" as they are called in Assam is regulated by the Assam Local Rates Regulation III of 1879 as amended by Assam Act VI of 1926 and XIV of 1949. Under the scheme of these enactments, the rates vary from one anna six pies to two annas per rupee of the land revenue from district to district. The rate of rupee one per acre is, however, charged for revenue free lands and lands paying land revenue at the rate not exceeding rupee one per acre. For other revenue paying lands the rate is eight annas per acre or varying between  $1\frac{1}{2}$  to 2 annas per rupee of the land revenue, whichever is higher. As the economic condition of the cultivator has substantially improved, the Government of Assam consider that there exists a case for further increase in rate by an additional anna in the rupee to which at least some of the Boards are reported to be favourable. We think that the local rate should be raised to three annas in the rupee.

445. **Ajmer-Merwara.** Under Section 2 of the Rural Boards Regulation, 1886, the levy of a local rate not exceeding three pies per rupee was authorised in Ajmer-Merwara. This was raised to  $4\frac{1}{2}$  pies in 1926 (Regulation V of 1926). Further enhancement of this rate is reported to be under consideration. This is, in view of present prices, a very low rate. It should be raised to annas  $1\frac{1}{2}$  and later to three annas by gradual stages.

446. **Coorg.** Section 3 of the Coorg District Fund Regulation 1900 provides that the Provincial Government may by notification in the Coorg Gazette impose a land cess being a tax on the annual rent value of lands. Section 3-A lays down that the land cess shall be levied on the annual rent value of all occupied lands on whatever tenure held and shall consist of a tax not exceeding three annas in the rupee on the annual rent value (equal to assessment) of all such lands as may be fixed from time to time by the Chief Commissioner by notification in the official Gazette. Since April 1948 the cess is being levied at the maximum permissible rate of annas three in the rupee. Coorg is in all respects similar to Madras, and the standard of living is a little higher. The rate for Coorg should not be lower than that for Madras.

447. When we took evidence in Patna, it was brought to our notice that the Bihar Abolition of Zamindari Act has affected the payment of cess by the holders

of such estates. In some district boards the cess collections were as low as 63 per cent. of the demand. The arrears of cess before the September 1949 Kist are said to be Rs. 1,10,81,206 which is a very large sum. We were informed that there is some legal difficulty which comes in the way of cess collections being treated in the same way as collections of land revenue. The State Government is adopting what was described as certificate procedure and attachment of estates under section 99 of the Cess Act for realisation of arrears of cess. In the meanwhile, the State Government is giving district boards temporary loans to enable them to tide over this financial emergency.

In the two other States which are concerned with the question of abolition of zamindaries, namely, Madras and U. P., it was not represented to us that the district boards have suffered the kind of loss which boards in Bihar are suffering. But the problem is the same in all the three States.

448. The Madras Government have informed us that they have under consideration a proposal to amend the Madras Local Boards Act, 1920, so as to provide that when zamindaries are abolished, land cess shall be paid on the present zamindari lands by the ryots concerned on the basis of the ryotwari assessments which be fixed for payment by the ryots. If the income from land cess is reduced considerably under this arrangement the question of increasing the rate of land cess payable by the ryots will have to be considered in due course.

The Government of Bihar have, as far as we could gather, not decided on any policy in this matter. But we are satisfied that they will not leave this question unsettled very long. In our discussion with them they assured us that they will see that the financial interests of district boards in the matter of cess collections are not adversely affected by the abolition of Zamindaries.

449. With the abolition of Zamindari, the responsibility for the payment of cess will have to be definitely fixed either on the government or on the tenant who holds directly from the government. Who the person should be and what should be his share of financial responsibility is matter of policy on which we do not wish to express any opinion. Our entire concern is to stress the point that the interest of district boards should not be prejudicially affected by the abolition of Zamindari.

## CHAPTER VIII OCTROI AND TERMINAL TAXES

450. **History of octroi.** Town and market dues of a character similar to the existing octroi duties were in vogue under the ancient Hindu rulers of India, although they were assessed and collected on a very different system to the one now in existence. They are described by Manu. Magasthenes and Strabo refer to them in some detail. The *Ain-i-Akbari* records that octroi duties were in force during the period of Moghal power and that the duty of collection was in the hands of the City Kotwal. At that time these duties formed part of the revenues of the State, and were called "Chungi", a persian word, meaning a handful, to denote handfuls taken from merchants in satisfaction of the demand of the State. In the 18th century, the transit of goods by road and river was subject to Inland duties and the East India Company enjoyed a valuable concession from the Moghal rulers in the shape of exemption of its trade from these duties.

451. Not only in India but on the continent of Europe also, octroi has been familiar since the days of the Roman Empire. The tax was originally levied by Roman towns on wines and certain articles of food imported or exported. It was introduced by the Romans in Gaul and continued there after the invasion of the Franks. The privilege of levying this tax was granted to French towns by the King but occasionally the Government claimed a percentage of the proceeds. The tax has, however, been abolished in European countries as it was an impediment to industry and commerce and raised the prices of common commodities and necessaries of life. Belgium, Holland, Denmark, Sweden and Norway are among the countries which have, it is understood, replaced octroi by other taxes.

452. In the early years of the nineteenth century, various legislative attempts were made in India to regulate town duties and the customs duties which they resemble. Both these imposts were dealt with in Regulation VI of 1805. At the time of this regulation the octroi barrier was similar in nature and purpose to the "customs line" each being machinery for the collection of revenue for the Government. From an item of State revenue, octroi developed by successive stages to its present position as an important source of municipal income. Under the Regulation of 1805, octroi was levied on articles imported for consumption or use within the town a form which this impost has retained to the present day.

453. In the days of the East India Company, the evil effects of octroi duties were repeatedly brought to notice. The East India Company being originally a trading company, felt the vexatious character of these hindrances to trade. In 1828 Lord William Bentinck employed Sir Charles Trevelyan to make an enquiry into these inland transit duties. His report showed that the evils of the transit duties and considerably increased under British rule and that inland trade and manufactures were stifled by this system. In 1835 Lord Ellenborough commented very severely on the evils of the system. He wrote to the East Indian Company :—

"No less than 235 separate articles are subjected to inland duties. The tariff includes almost everything of personal or domestic use, and its operation, combined with the system of search is of the most vexatious and offensive character, without materially benefiting the revenue. The power of search, if really exercised by every custom-house officer, would put a stop to internal trade by the delay it would necessarily occasion. It is not exercised except for the purpose of extortion",

"The effect upon the national morals is yet more serious than the effect upon national wealth. Every merchant, every manufacturer, and every traveller is, as it were, compelled, for the security of his property or the protection of his personal comfort, and not infrequently for that of the feelings of the females of his family, to enter into unlawful collusion with the officers of Government. It is a system which demoralises our own people, and which appears to excite the aversion of all the foreign traders of Asia."

Still the East India Company was reluctant to take any action but the publication of Sir Charles Trevelyan's report and the action of some of its own servants in India forced its hand. Sir Charles Metcalfe abolished the inland customs duties in Bengal in 1835 and soon after the two duties which had developed as part of the system. In 1843 Lord Ellenborough abolished both in Sind and Madras.

454. An important enunciation of the principles on which octroi should be levied was drawn up in 1864 by Sir Charles Trevelyan. The following extract from a resolution issued in that year indicates the attitude of the Government of India at that time—

"Town duties are very effective for raising money. They existed under the Native regime, under the name of *Choonjee*, or handful, implying that everything that passed had to pay a small contribution, and in some parts of India they are more popular than direct taxes of any kind. If they could be confined to things consumed in the town without interfering with the trade, they could be only open to the objection that they fall in undue proportion upon the poor. But after a full trial of this tax in Bengal and the North-Western Provinces, it was abolished in 1835, as being alike injurious to the general trade and to the towns immediately affected. Town duties have been lately re-established as a municipal tax in many places in the North-Western Provinces, Oudh and the Punjab, and the old vice of interference with the general trade immediately reappeared, with the additional aggravation that this time the public at large were mulcted for the advantage of local interests.

"The unchecked multiplication of these local exactions would soon reproduce the worst evils of the old transit and town duties.

"The town duties which were abolished in 1835 were levied only upon eight articles of local consumption, but there appears to be no limit to the number of articles upon which they are exacted since they have been revived as a municipal tax. There are 197 articles, many of which branch out into numerous sub-divisions, upon which town duties are levied in Sitapore in Oudh. At Broach they amount to 182 under the head of 'Articles imported for consumption, 5 under 'Raw material imported to be manufactured' and 51 under 'Articles exported', or 238 in all, without including sub-division. This multiplication of petty exactions is open to great objection. The tax ought to be confined to a few articles of local consumption, such as ghee, firewood, fruit, vegetables, fowls, eggs and animals for slaughter which do not enter into the general trade of the country, and which being recognisable at first sight, do not involve the stoppage and search of other commodities'.

455. These principles were reiterated in 1868 and accompanied by orders as to the articles on which octroi could be levied. The imposition of octroi was

prohibited on salt, opium, fermented or spirituous liquors and articles liable to customs duty and imported by sea into India. The levy was permitted in the case of the following articles :—

- (1) Articles of food or drink.
- (2) Animals for slaughter.
- (3) Articles for fuel, for lighting or for washing.
- (4) Articles used in the construction of buildings.
- (5) Drugs, gums, spices and perfumes.
- (6) Tobacco.

To this list were subsequently added piece-goods and other textile fabrics and metals and articles of metal.

The Government further ordered :—

- (1) that on the exportation from a town of dutiable goods the octroi levied on them should be refunded ;
- (2) that municipalities should provide bonded ware-houses or other appliances for the storage of goods in transit, for the use of which reasonable fees might be levied ;
- (3) that tolls on entering municipal limits should not be levied except for the use of any bridge, quay, wharf, lock or other work constructed or maintained at the cost of the municipality ; and
- (4) that goods the property of Government should be exempt from municipal taxation.

456. The next important declaration was made in 1890, when the Government of India, finding that many abuses had arisen, considered it necessary to intervene again. They advised the provincial governments that :—

- (1) the articles taxed should be main staples of local consumption and should be as few as possible ; and
- (2) the utmost facility should be given by way of arrangements either for passing articles through town limits under bond or for facile refund on exit of duties levied on entrances.

457. **A change of policy begins in 1903.** In 1903, for the first time, this policy was radically altered. It was then found as a result of enquiries that there was a consensus of authoritative opinion that indirect taxation by the population of Northern and Western India and that the Government of India, coupled with the increasing demands of the administration, had been to compel municipalities either to enhance their rates of octroi on the necessaries of life or to resort to the unpopular expedient of a house-tax. In deference to these views the Government of India modified their earlier policy and issued the following instructions for the guidance of municipalities—

- (1) The articles taxed should be as a rule the main staples of consumption and should in any case be as few as possible.
- (2) Articles which were mainly products of the country might be taxed more heavily than those which were not.
- (3) The necessaries of life should in all cases be taxed moderately.
- (4) Luxuries might be taxed more heavily than necessaries but a high octroi should not be imposed on tobacco, which was almost the only luxury of the poorer classes.

458 The United Provinces Committee of 1903. In 1903 a committee appointed to inquire into the question of municipal taxation in the United Provinces examined the whole question of octroi in great detail. They found innumerable abuses and condemned the system of octroi in very severe terms. Their main recommendations were.—

- (1) Abolition of octroi in those towns in which it would be replaced by direct taxation, for instance, by the imposition of a tax on circumstances and property;
- (2) The substitution for it elsewhere of a terminal tax on the lines indicated below:—
  - (a) The tax should be imposed on all imports at rates lower than the existing octroi rates.
  - (b) There should be no refunds.
  - (c) There should be no advalorem assessment. The tax should be on the maundage passed and the rates applied equally to all goods.
  - (d) It should be collected by the railways.
  - (e) Passengers' luggage and parcels under 20 seers should be free.
  - (f) Goods imported and rebooked without breaking bulk should not be charged.
  - (g) A corresponding impost on goods imported by road should be levied in the shape of a toll, fixed with reference to the maundage rates on rail-borne goods.
  - (h) The anomaly that uniform maundage rate would cause the tax to fall most lightly on the most valuable classes of commodities, should ordinarily be rectified by a direct tax on traders in those classes of goods, preferably in the form of a license tax.
  - (i) Uniform rates in every municipality were undesirable, and rates should be fixed to suit circumstances.
  - (j) No attempt should ordinarily be made to meet the whole requirements of the municipality from such a tax.

459. The Government of India, after consulting the Governments of provinces in which octroi duties were in existence yielded to the volume of practical experience and the unanimity of opinion against the system of octroi taxation and agreed to the imposition of a terminal tax as being one which was on the whole less likely to be burdensome on through trade than octroi with a problematical refund. They sanctioned as an experimental measure the substitution in the United Provinces of direct taxation for octroi in the smaller towns, and the application to a large number of other towns in which conditions were suitable of the system of a terminal tax, or light transit duty on import or export, subject to no refunds.

460. The next stage is marked by the issue of a resolution in April 1915, in which the Government of India laid down the restrictions subject to which a terminal tax should be levied. These were as follows:—

- (1) The terminal tax, wherever imposed, should be substantially lower in its rates than the octroi which it replaces;
- (2) It should be limited to places where there were special grounds for applying it, which must be adequately demonstrated;
- (3) It should be regarded as facilitating the transition to a system in which direct taxation would form an increasingly important



## OCTROI AND TERMINAL TAXES

factor, not as an elastic means of progressively increasing the resources of municipalities apart from normal developments due to increase of traffic; and

- (4) It should not be adjusted with the primary object of compensating municipalities for the loss of octroi.

461. **Further change of policy in 1917.** These orders failed to a great extent of their purpose and in the year 1917 the Government of India made a further advance towards the position which the municipal administrations were anxious to secure. This is illustrated by the memorandum of principles governing the imposition and collection of the terminal tax which was issued for the guidance of provincial Governments on 6th July 1917. The more important of these principles were :—

- (1) That in municipalities where octroi had not been previously levied the previous sanction of the Government of India must be obtained to the imposition of a terminal tax
- (2) That the tax should not necessarily be looked upon as a step towards an increasing degree of direct taxation, but might be introduced merely in order to replace octroi, provided that the receipts from the terminal tax did not materially exceed those from the octroi which it superseded.
- (3) That the tax should ordinarily be imposed on imports only, but there was no objection to the taxation of exports as well as imports in places where municipalities were large centres of export trade.
- (4) That the taxation of salt, opium and excisable articles, including materials used in manufactures and mineral oil, should always be kept at low figures.
- (5) That refunds in the usual sense of the term should not be allowed.
- (6) That the description of the articles to be taxed should as far as possible be adapted to the railway classification of goods.

These rules were intended to provide the necessary safeguards to secure that the tax was kept light, that it was worked as simply as possible, and that the convenience of the railways, through whose agency it was to be collected, was always consulted.

462. Up to this stage all powers of taxation were centralised in the Government of India and Provincial Governments had no independent powers of taxation. With the inauguration of the Montagu-Chelmsford Reforms specified sources of revenue were placed at the disposal of Provincial Governments for purposes of provincial administration. In addition Provincial Governments were authorised to impose without the previous sanction of the Governor-General, any of the taxes specified in the Scheduled Taxes Rules, while for other taxes the sanction of the Governor-General was necessary. The taxes which could be levied by local authorities under legislation passed by the Provincial Legislature were specified in Schedule 2 of the Scheduled Taxes Rules. Octroi formed item 7 of this schedule. Item 8 related to terminal tax and read as follows:—

“Terminal taxes on goods carried into or exported from a local area save where such tax is first imposed in an area in which octroi was not levied on or before the 6th July, 1917”.

The result was that a reference to the Government of India was necessary only when terminal tax was imposed for the first time in an area in which an octroi was not levied on or before the 6th July, 1917, but once a terminal tax was sanctioned or where the terminal taxes were substituted for octroi by the Provincial Government, the sanction of the Government of India was not required to the revision of the rates and Provincial Governments were free to raise them to any figure they considered necessary. In the case of the Central Provinces (Madhya Pradesh) even this restriction did not apply since, with previous approval of the Government of India a clause was inserted in 1921 in the C. P. Municipalities Act 1922 to levy a terminal tax without reference to them.

It was during that period the terminal taxes were introduced in several municipalities in India.

463. The Indian Taxation Enquiry Committee (1924-25) criticised the octroi and terminal taxes in the following words :—

“In the form in which they (octroi and terminal tax) are levied in India, they offend against all canons of taxation. They are uncertain in their incidence. Their collection and the system of refunds, which form an essential feature of octroi puts the person paying the tax to a great amount of inconvenience. Where they are imposed on the necessaries of life as in India, they do not proportion the burden to the means of the payer and the expense of collection and the facilities for fraud are disproportionately large, with numerous bodies independently taxing trades, it is impossible to know what are the burdens trade is really carrying and quite impossible to ensure their being adjusted in any way fairly among different articles and goods. The popularity of these taxes is due to the fact their incidence is shifted and that it is very difficult to determine on which classes the burden ultimately falls. The collection of terminal tax through the railway agency has removed all the administrative difficulties inherent in a system of octroi and there is a tendency among municipalities to resort to the tax whenever they are in financial difficulties because the local authority can in this case transfer the odium of collection to the railway company. The tax is also very defective from the educative point of view, since it does not encourage sense of responsibility among the electors, who do not directly feel the burden of the tax. Sir Josiah Stamp sums up the case as follows :—

‘In my judgement, both theoretically and on the result of experience, no country can be progressive that relies to any extent upon octroi, which has nearly every vice.’”

464. Some of the improvements suggested by the Taxation Enquiry Committee were :—

- (1) The rates of taxation should be low in all cases and especially so in the case of necessaries of life and articles that are subject to Imperial or Provincial Taxation.
- (2) In order to prevent the tax from developing into a transit duty, arrangements should be made for prompt refunds on exported goods, and for bonding goods intended for through transit.
- (3) The tax should not be levied on goods imported and re-exported without break of bulk.
- (4) Where it is though legitimate to derive a municipal revenue from a single staple, e.g., from cotton ginning in a town, it is better to impose the tax direct on the output of the ginning mill.

- (5) The levy of a tax on goods exported from a municipality should not be permitted, save in exceptional cases where it is already in existence.
- (6) Goods not leaving a railway yard, or only leaving part premises for a railway, and merely transhipped at the yards or port premises should not be subject to any duty whatever.

465. While affirming the view that the terminal tax "should be eliminated altogether in due course from the tax schedule of the Corporation", the Delhi Municipal Organisation Committee (1947) considered that "the immediate objective may be reform rather than abolition" and accordingly recommended that "in the imposition of the tax, the Corporation might distinguish between articles of consumption which are imported ready for use and those which are imported as raw material or in a semi-manufactured condition and are mainly re-exported after manufacture. The important point to remember is that Delhi's trade and industry should be encouraged and the tax should be so adjusted that the incidence on categories of articles which are received in Delhi and re-exported is less than on those finally consumed in Delhi. Indeed, it might be considered necessary altogether to exempt articles which form the basic raw materials of industry. Further, low rates or even no tax at all should be levied on articles of necessary consumption and the levy of high rates on luxury articles might be considered."

463. With the inauguration of provincial autonomy under the Government of India Act, 1935, terminal taxes were removed from the Provincial to the Federal List and section 137 of the Act provided that terminal taxes could be levied and collected only by the Centre. A saving clause in section 143 (2) provided that terminal taxes levied prior to 1st April, 1937 might continue to be so levied but any further resort to this tax was virtually closed to local bodies. During the period the Act of 1935 was in force, very few applications for levy of terminal tax were sanctioned by the Government of India. The result was that octroi once again came into favour, an additional reason being that it provided an expanding source of income, whereas terminal tax was static in character.

467. The constitution of India carries the position one step further by including the carriage of goods and passengers by air in the Union List. Entry 89 of the Union list of subjects reads as follows :

"Terminal taxes on goods or passengers carried by railway, sea or air".

It will be seen that taxes on goods or passengers carried by road are not covered by this entry ; such taxes will continue to be within the jurisdiction of the States. However, this entry does not debar the levy of tax on pilgrims travelling by road. Pilgrim taxes will be dealt with in a separate chapter. The remarks in this chapter relate only to taxes on goods and not on passengers.

Article 277 of the Constitution contains a saving clause that any taxes which were being levied immediately before the commencement of the Constitution, namely, January 26, 1950, by any municipality, district board or other local authority may continue to be so levied notwithstanding the fact that those taxes are mentioned in the Union List, until provision to the contrary is made by Parliament by law.

468. In relation to certain municipalities, which were to be raised to the status of Corporations and which were levying terminal tax a question recently arose whether they could continue to do so under the Constitution after the change in their status. The question was referred to the legal advisers of the Government of India, who are of the opinion that a municipality which is levying a terminal tax can continue to do so at the existing rates even after it has been raised to the status of a Municipal Corporation. Such Municipalities need not, therefore, change their system of taxation from terminal tax to octroi, merely to save themselves

from the operation of the provisions of the Constitution with regard to terminal taxes. The inclusion of a new item in the terminal tax schedule or of an increase in the existing rates, however, is not permissible.

469. Though included in the Union List this tax cannot be utilised for the purposes of Central finance, as under Article 269 a terminal tax is one of the taxes which can only be levied and collected by the Union but the proceeds of which have to be assigned to the States.\*

470. Prior to the enactment of the Constitution, this Committee, at its meetings held in New Delhi on the 10th and 11th June, 1949 (at which certain representatives of the Government of India in the Ministries concerned were also present), made a representation to the Government of India to persuade the Drafting Committee of the Constituent Assembly of India to remove the entry relating to terminal tax from the Union List and place it in the State List. That representation did not succeed. No reasons were given for rejecting the suggestion and it is therefore not possible to deal with them in this report.

471. While this entry was being debated in the Constituent Assembly of India, an amendment was moved by Shri R. K. Sidhva, one of our colleagues and a member of the Assembly that the entry relating to terminal tax be deleted from the Union List and put in the State List. He pointed out that terminal taxes were entirely in the region of the Provincial Governments and local bodies and they had been levying such taxes throughout the country and that it would be wrong for the Centre to take away this power. In replying to the debate, the Hon. Dr. Ambedkar, Chairman of the Drafting Committee, stated as follows :

“This matter was debated last time and I said that although these taxes were leviable by the Centre, the proceeds of all of them would be distributable among the different Provinces. The Centre would not claim any interest. If the provinces after getting the proceeds want to pass on any part of these proceeds to the local bodies they are free to do so. It is not possible in this Constitution to make a provision for any matter of taxation that may be available to a local authority. That is a matter *inter se* between the State and the local authority, and therefore it is not possible now to alter this entry either by way of amending it or by way of transferring it to List No. II”.

Shri. Sidhva thereupon withdrew his amendment.

The Committee wish to point out that the question still remains where it was. No great harm to trade apparently occurred during the entire period when this power was vested in the provinces and there is no reason to apprehend such harm now when there is complete identity of interest between the Union and the State Governments. We would urge on the Government of India to reconsider the position and arrange to transfer this entry back again to the State List. It seems to us that the object which the Government of India apparently had in view in centralising terminal taxes, namely, to prevent the imposition of abnoxious levies on trade and commerce is being defeated and in place of a lighter burden is being substituted a heavier burden in the shape of octroi. We have reason to believe that State governments, if they were consulted, would prefer terminal tax in place of octroi. In States where octroi is not levied at present, we did not find much support for it, either from officials or non-officials. The Chambers of Commerce throughout the country are unanimous in their opposition to octroi, as it hampers trade and

## OCTROI AND TERMINAL TAXES

causes unnecessary harassment. It is true there is a provision for refund of octroi on goods passing through the limits of a local body, but in actual practice no refund is obtainable until several days after the payment. This practice has in a number of places either created a new class of brokers who obtain refunds of octroi on payment of some brokerage to them or encouraged corruption amongst the octroi staff who for a consideration allow the dutiable articles to pass through without any payment of octroi.

472. Should the Government of India consider it inadvisable to bring in a constitutional amendment so soon after the enactment of the Constitution, we would recommend that they might consider favourably any proposal which may be made to them by State Governments for the levy and collection of terminal taxes.

We fear that if even this suggestion cannot be adopted, there is no alternative to octroi, as it is financially the most productive single item of indirect taxation open to municipalities. We cannot think of any substitute in place of octroi apart from terminal tax which will be less objectionable.

473. Even though we reluctantly recommend octroi on practical grounds, we would suggest that there should be in each State a model schedule for octroi approved by the State government and that departures from this schedule should not be permitted by any subordinate authority, except with the previous approval of Government. Such a schedule should prescribe the list of articles and the maximum rates permissible therefore, in order that wide variations in the rates may be avoided. At present the schedule of rates varies from State to State and even from one local body to another within the same State in respect of the same article. We would further suggest that in framing the model schedule the rates on necessities of life should be kept as low as possible.

474. The position at present is that octroi is in vogue in the four major States of Bombay, Uttar Pradesh, Punjab and Madhya Pradesh. In the State of Madras there is no octroi except in the Madras City, where a duty on timber is levied. The sub-joined statement gives the figures of income from octroi and terminal taxes in the four states of Bombay, Uttar Pradesh, Punjab and Madhya Pradesh :—

Year	Income from rates & taxes	Receipts from octroi and terminal tax	Percentage to total tax income
1884-85	74,22,311	60,31,731	81.2
1894-95	1,13,39,117	87,43,752	77.1
1907-08	1,50,50,340	1,01,13,739	67.1
1918-19	2,16,67,603	1,10,23,947	50.8
1925-26	3,66,47,993	1,16,11,322	31.6
1946-47	7,94,68,747	2,92,55,946	36.8

It will be seen that octroi does not form the same proportion of income from taxes which it did sixty years ago.

475. The procedure for introducing this tax or amending the existing schedules or the octroi limits is the same as prescribed for other taxes. The statutory provision in the relevant enactments of each State, in this behalf, is more or less identical and may be stated as under. The proposal must be approved and adopted by the municipal committee concerned by a resolution at a meeting of the general body specially called for the purpose. Then it must be published for inviting objections from the public. The objections, if any,

must be considered by the municipality at a meeting and then submitted along with the original proposals to the higher authority for sanction before they can be enforced. Under the Central Provinces Municipalities Act, 1922 and the Bombay Municipal Boroughs Act, 1925 prior sanction of the Provincial Government is necessary; while under Bombay District Municipal Act, 1901, Punjab Municipal Act, 1911 and the Utter Pradesh Municipalities Act, 1916 the sanction of the Commissioner of the Division must be obtained. The same procedure has to be followed for the abolition of or reduction in the scale and rates of octroi.

The position State-wise is as follows.

**Bombay.**

476. The five local self-government enactments noted in the margin in
1. The City of Bombay Municipal Act, 1888. force in this State all provide for the levy of octroi.
  2. The Bombay District Municipal Act, 1901. Unlike similar enactments in other States, the Bombay Local Boards Act, 1923
  3. The Bombay Local Boards Act, 1923. Local Boards Act, 1923 also provides for the levy of octroi by district-boards as well (vide sec : 102-B of that
  4. The Bombay Municipal Boroughs Act, 1925. Act).
  5. The Bombay Provincial Municipal Corporations Act, 1950. well (vide sec : 102-B of that

Act). The Bombay Municipal Corporation levies a town duty, which during the year 1948-49 fetched an income of Rs. 62 lakhs and constituted 9.22 per cent. of its total income. The Bombay Municipal Boroughs Act, 1925, and the District Municipal Act, 1901 provide for the levy of both octroi and terminal taxes. Out of 130 municipalities in this State during the year 1944-45 as many as 74 levied octroi and 33 terminal tax. Among the district boards only the District Local Board, Ratnagiri, levies octroi. That is because of its favourable geographical position which makes the collection of the tax comparatively easy.

The subjoined table shows the growth of income from this source in this State :—

Year	Total income from rates and taxes	Receipts from octroi and terminal tax	Percentage to total tax income
1884-85	23,13,048	14,66,079	63.3
1894-95	37,84,906	23,34,888	61.6
1907-08	45,14,969	21,20,651	46.9
1918-19	77,36,710	19,20,355	25.6
1925-26	1,53,09,561	28,21,582	18.4
1946-47	3,55,11,275	63,09,726	17.7

It will be seen from the above statement that while the income from octroi has increased 4½ times over a period of 60 years, its percentage to total tax income has fallen from 63 to 17.

477. The Government of Bombay make the following observations on octroi and terminal taxes :—

“These two taxes, between them, account for the major portion of the total income of all the municipalities. They constitute the

largest single source of municipal income and, despite their growing disadvantages, apparently retain their position as the favourite form of local taxation. The taxes are a survival from a more primitive economy in which the regulation and taxation of the exchange of goods between different towns and between urban and rural areas was a comparatively simple matter. In present circumstances, with the multiplication of the means of transport and growth of the volume and complexity of trade, octroi and terminal taxes have become more difficult to assess and collect; transit traffic is seriously hampered and there is great scope for fraud, evasion, under-assessment and petty harassment. As the range of the taxes is gradually widened to meet the complexities of modern commerce the basis of assessment has in several cases been changed from weight to value, and for a large range of goods correct valuation is not an easy matter. The introduction of a Provincial Sales Tax on a wide range of goods has further complicated the position.

Several municipalities in the province have been levying the octroi or terminal tax by weight instead of an ad valorem basis. In view of the recommendations made by the Municipal Finance Committee, Government had advised the municipalities to levy the duty on an ad valorem basis in all possible cases in which this practice is not being followed at present as this will give them some additional income in view of the appreciation of prices of all kinds of articles which has occurred during the last few years.

478. The Committee is in favour of the view that if octroi is levied, it should be levied, generally on an ad valorem basis but in the case of articles where that basis is not suitable, there should be no objection to the adoption of a maundage or other basis.

479. The Bombay Municipal Corporation representatives brought to our notice that the Corporation was losing annually nearly Rs. 15 lakhs, because town duty was not paid on foodgrains imported by the Government of India, on the strength of the provision contained in section 194 of the City of Bombay Municipal Act, 1888. The section provides that "no town duty shall be leviable on any article, which at the time of its importation is certified by an officer, empowered by the Government concerned in this behalf, to be the property of the Crown". It was submitted by the witnesses that the operation of the exemption should be restricted to Government stores required for the purposes of the State and should not include commodities handled as part of a State trading enterprise. The position in this regard is different under the Bombay Municipal Boroughs Acts, 1925 and the Bombay District Municipal Act, 1901. Proviso (a) to section 73 of the Bombay Municipal Boroughs Act says that "no tax.....other than a special sanitary cess, a drainage tax or a water rate, shall, without the express consent of the Crown, be leviable in respect of any building..... or of any vehicle, animal or other property, belonging to His Majesty and used solely for public purposes and not used or intended to be used for purposes of profit; and proviso to section 59 of the Bombay District Municipal Act is in similar terms. But section 194 of the City of Bombay Municipal Act does not exclude from the exemption articles and other property of the State, used for purposes of profit. We see no justification for this. All public utility and commercial undertakings of Government should be treated, so far as local taxation is concerned, in the same manner as if they were conducted by private enterprise. If they are to be exempted from local taxation, the Government concerned should make a contribution in lieu of such taxation. In view of Article 285 of the

Constitution it will now, we presume, be not open to the State Legislature to bring section 194 of the City of Bombay Municipal Act into line with the corresponding provisions of the Bombay Municipal Boroughs Act and the Bombay District Municipal Act. For Art. 235 says "The property of the Union shall, save in so far as Parliament may by law otherwise provide, be exempt from all taxes imposed by a State or by any authority within a State". We feel that this provision in the Constitution is unfair to local bodies as it deprives them of a part of their legitimate income. As state enterprise increases, the extent of this loss to local bodies will become greater. We, therefore, recommend to Government that Parliament might be moved as soon as possible, to pass a law providing for local taxation of State property used in connection with State trading or running of public utility concerns.

480. During the course of evidence in Bombay, it was brought to our notice that postal parcels received within municipal limits escape payment of octroi duties, because the Postal Department does not give the municipalities the necessary facilities. In this manner, parcels containing valuable articles like silks, gold, silver, jewellery, etc., on which a good amount of octroi can be collected, escape payment. The municipal authorities suggest that the Postal Department should give them a list of the persons who receive postal parcels so that they can recover the duty from them. We enquired whether there was any similar complaint in respect of railway parcels but we were told that in respect of railway parcels octroi was regularly collected.

481. We feel that the agency of the post office should not be used as a means of evading legitimate municipal dues and that the post office should render every assistance to the municipalities consistently with the discharge of its responsibility in the matter of safe delivery of parcels.

482. We referred this point to the Postal Department and give their reply below :—

"The question of allowing facilities to municipalities and local authorities for levy of octroi duties on goods passing through the post has been examined several times in detail and so far no radical change in the existing procedure has been considered to be necessary. The existing procedure is to deliver the postal parcels to the addresses without informing the municipal authorities. Thus parcels passing through the post are not subject to octroi duties. The general policy of Government so far has been not to supply any such information to municipalities.

2. Recently, however, on receipt of a strong representation in the matter from a State Government the matter has been re-examined. The most that this Department can do is to allow an officer of the Municipal Board to get from the local post office on payment a list of the parcels received for tradesmen, the idea being to subject parcels addressed to tradesmen only to octroi duty and exempt parcels received by other person from such duty. For compelling the addressees to open the parcels in the presence of municipal authorities with a view to assessment of octroi duty, the Provincial Government would have to make a rule or take power by an Act themselves. The duty of the post offices would finish after they had given particulars of the parcels to the municipal board officers. It was considered that the post office could not go beyond this as its duty to the public was to deliver the parcels as expeditiously as possible without subjecting the addressee to any inconvenience in the process.



## OCTROI AND TERMINAL TAXES

We are of the opinion that the matter requires further examination and the action proposed in the case of tradesmen should be extended to parcels received by other persons also.

483. **Uttar Pradesh.** Section 128 of the U. P. Municipalities Act, 1916 provides for the levy of "an octroi on goods or animals brought within the municipality for consumption or use therein" as also for the levy of "a tax on goods imported into, or exported from, any municipality in which an octroi was in force on the 6th day of July 1917 or with the previous sanction of the Central Government, any other municipality": The U. P. Municipal Act thus provides of the levy of both octroi and terminal taxes. The former is in force in 46 out of 110 municipalities while the terminal tax is levied in 20 municipalities. The latter is collected through the agency of the railway administration and transmitted to the local bodies after recovering 2 to 3 per cent. collection charges. In places where terminal tax is in force there is also a countervailing terminal toll on imports by road. The State Government point out that the Government of India have held that a terminal toll is, like a terminal tax, also outside the jurisdiction of the State Government, as it is different from ordinary toll and is not mentioned in the State List. Terminal toll is levied in 19 municipalities. In some municipalities, a terminal tax is levied on the export of certain goods; these goods are exempt from any terminal tax on import at the destination, thus avoiding double taxation. The tax is levied both on ad valorem as well as maundage basis.

The sub-joined statement shows the growth of receipts from this source in the State since the year 1884-85.

Year	Total income from rates and taxes	Receipts from octroi and terminal tax	Percentage to total tax income
1884-85	19,52,250	16,35,772	83.8
1894-95	33,97,726	27,73,166	81.6
1907-08	50,10,603	36,01,568	71.9
1918-19	66,71,875	37,43,355	56.0
1925-26	1,01,80,680	39,45,002	38.7
1946-47	2,75,10,000	1,73,00,000	62.8

The income from this source has grown from Rs. 16.35 lakhs in 1884-85 to Rs. 173 lakhs in 1946-47. Of the income of Rs. 173 lakhs in 1946-47, 110 lakhs was contributed by octroi, Rs. 44 lakhs by terminal tax and the balance by terminal tolls. According to the U. P. Government this tax is "the main source of income of the municipalities in the U. P. The declared policy of the U.P. Government was to abolish octroi, but ever since terminal tax became a Central subject this policy has been thwarted and octroi is resuming its former place of importance in local finance. House tax is more unpopular in this State than octroi."

484. **Madhya Pradesh.** Among the several taxes authorised for levy in municipal areas by sec. 66 of the Central Provinces Municipalities Act, 1922, are "an octroi on animals or goods brought within the limits of the municipality for sale, consumption or use within those limits" and "terminal tax on goods or animals imported into or exported from the limits of a municipality" subject to the condition that the terminal tax and octroi shall not be in force in any municipality at the same time". It will thus be observed that under the municipal Act the levy of both the octroi and the terminal tax is not permissible. From the Government resolution reviewing the working of municipal committees during the year 1939-40, it appears that out of 82 municipalities in the State 16 were levying octroi and 24 terminal tax.

The sub-joined table indicates the growth of income from this source, since the year 1884-85 :—

Year	Total income from rates and taxes	Receipts from octroi and terminal tax	Percentage to total tax income
1884-85	7,84,979	6,69,720	85.3
1894-95	10,28,951	7,13,042	69.3
1907-08	14,31,150	8,10,852	56.6
1918-19	23,47,437	10,02,641	42.7
1925-26	38,89,569	13,49,019	34.6
1945-46	1,01,71,951	32,18,567	31.6
1946-47	1,10,96,594	36,21,924	32.6

It will be observed that receipts from this source alone account for nearly one-third of the total income from municipal taxation. The figures further indicate that during the sixty years under review the receipts from this source increased from Rs. 6.69 lakhs in 1884-85 to Rs. 36.26 lakhs in 1946-47, thus disclosing a growth of nearly six times. The State Government have not expressed any opinion on the respective merits or demerits of octroi and terminal taxes. But from the evidence tendered it appears that the opinion generally is in favour of retaining octroi and replacing it by terminal tax wherever possible.

485. **Punjab.** Both octroi and terminal tax are levied in this State. "Alive to the defects inherent in the system of octroi" the State Government pleaded inability to "abolish it because of the universal and deep-seated popular prejudice against direct taxation and for want of a better substitute"; octroi is levied by weight as well as ad valorem. One of the standing instructions for the preparation of octroi schedules is that "Octroi should as far as possible be imposed at ad valorem rates except in the case of articles the price of which varies greatly at different times of the year." The advantages of terminal taxation as compared with octroi taxation are fully appreciated. But in view of the constitutional restrictions, it is stated that "it is not possible to sanction either the imposition of fresh terminal tax or even the revision or amendment of existing terminal tax schedules so as to increase the rates of taxation".

The income realised from octroi and terminal taxes in 1947-48 in Punjab (I) was Rs. 20,24,296 out of a total income from rates and taxes of Rs. 53,50,873 or a percentage of 37.7.

## CHAPTER IX PROFESSION TAX

### I

486. A tax on professions and trades has been familiar in India from very early times. It was levied under the British Government between the years 1867 and 1886 under various Licence Acts, which, for a time, took the place of income tax. As levied at that time, it was part of the general revenues of India, but it has since been used principally by local bodies except in Assam where it is levied by the State Government.

487. **Constitutional limitations on the levy of Profession Tax.** In view of the fact that the profession tax impinges on income tax, constitutional limitations have been placed on the amount of tax which can be levied by a local body. Under the Montagu-Chelmsford Reforms, a tax on trades, professions and callings was included in the Scheduled Taxes as one of the taxes which provincial legislative councils could impose or authorise a local authority to impose for the purposes of such local authority. Accordingly, this tax was included in the list of permissible taxes in the various provincial enactments governing the constitution of local bodies, passed after the coming into force of the Government of India Act, 1919. At this time there was no constitutional limit on the amount of the tax. Taking advantage of this, several local bodies began levying profession taxes without any limit.

488. When the Government of India Act, 1935 was enacted and brought into force from 1st April, 1937, the tax on trades, callings and employments was placed in the provincial list and even then there was no limit on the amount of the tax. When an attempt was made by one province to levy such a tax on a graded basis of income, the Central Government became apprehensive as to its effect on income tax. Consequently, the Act of 1935 was amended by the British Parliament and a new section 142-A inserted therein. This section provided that the total amount payable in respect of any one person to a province or to a local authority in the province by way of taxes on professions, trades, callings and employments shall not, after the 31st March, 1939, exceed Rs. 50/- per annum. This was, however, subject to the proviso that if in the financial year ending with that date there was in force in the Acts of any province, or any local authority any such tax, the rate or the maximum rate of which exceeded Rs. 50/- per annum it could continue to be levied at the then existing rate, unless provision to the contrary was made by a law of the Indian Legislature.

489. There were at that time several local bodies in various parts of the country which were levying profession tax in excess of this limit of Rs. 50/-. They could have continued to levy it under the proviso to section 142-A, but some of them were prevented from doing so by an Act of the Indian Legislature, known as the Professions Tax Limitation Act 1941, passed in accordance with the authority conferred under the proviso to Section 142-A of the Act. Under this Act only four taxes were exempted from the annual limit of Rs. 50/- .

- (1) The profession tax levied by the Calcutta Corporation.
- (2) The profession tax levied by local bodies in Bengal.
- (3) The tax on trades and callings carried on within municipal limits and deriving special advantages or imposing special burdens on municipal services, imposed under clause (ii) of sub-section (1) of section 128 of the United Provinces Municipalities Act, 1916.

- (4) The profession tax levied by municipalities in Central Provinces and Berar.

490. The profession taxes levied by municipalities and district boards in the province of Madras, particularly, where they were a good source of income to them, were not exempted. This caused a large fall in the income of local bodies which was made good to them by the Government of Madras in the shape of a compensatory grant-in-aid of about Rs. 12 lakhs per annum.

491. A circumstances and property tax is levied in Uttar Pradesh by municipal boards under section 128 (1) (ix) of the Municipalities Act and by district boards under section 108 (b) of the District Boards Act. The term 'circumstances' has been interpreted by the Uttar Pradesh High Court as meaning financial position, which may be judged, among other things, by taking into account income from business or profession. This tax was not mentioned in any of the Legislative Lists in Schedule VII of the Government of India Act, 1935, nor is it mentioned in any list under the present Constitution. The reason for this, apparently, is that it is a composite tax, composed of two taxes quite different in nature, profession tax and property tax.

492. In section 128 of the U. P. Municipalities Act, there are two types of taxes on trades and callings, namely :—

- (1) "a tax on trades and callings carried on within the municipal limits and deriving special advantages from, or imposing special burden on municipal services."

This tax was exempted from the operation of the limit of Rs. 50/- by reason of having been included in the schedule to the Professions Tax Limitations Act, 1941. It is understood that this tax is levied only in respect of such specific trades as sugar refineries, brick-manufacture, tobacco and potato growing etc. The tax has generally to be regulated with reference to the cost of the service.

- (2) "a tax on trades, callings and vocations including all employment remunerated by salary or fees."

This seems to be the general profession tax to be found in other provincial Acts. The type mentioned in (1) above is special to Uttar Pradesh and is not found in any other provincial enactment.

In addition to these two types of taxes on trades and callings, there is under item (ix) of section 128(1) a tax on inhabitants assessed according to their circumstances and property. Though these taxes are listed separately, sub-section (2) of section 128 prohibits the imposition of both the tax on circumstances and property and the type of profession tax described in (2) above, at the same time.

493. In view of the fact that the tax on circumstances and property was being assessed in Uttar Pradesh partly on the basis of income, a question arose whether the limitations regarding the tax on professions and trades imposed by section 142-A of the Government of India Act, 1935, did in any way affect the circumstances and property tax. When a reference about this was made to the Central Government they stated that the said section had no application to it. Consequently, it was being held that the municipalities and district boards that were levying the circumstances and property tax before 1st April 1937, could continue to levy it after that date without raising its pitch or incidence, whereas other boards in which the tax was not in force on March 31st, 1937, could not impose it at all. Some district boards were deriving from this tax an income per head as much as Rs. 2,000 per annum. In many cases the limit was in excess of Rs. 50/- per annum.

494. This position was altered by a full bench decision of the Allahabad High Court on 11th May, 1948. The facts of the case are briefly as follows. The District Board, Farrukhabad assessed Messrs Prag Datt & Brothers to circumstances and property tax at Rs. 379/3/- for the year 1944-45. The total estimated income of the assessee was Rs. 18,200 (Rs. 18,000 from trade and Rs. 200 from property). Against this assessment, a suit was filed in the Court of the Munsiff, who dismissed it with costs on the ground that the suit was barred by section 131 of the District Boards Act. Against this decision, an appeal was filed in the Court of the District Judge, and a new point was raised that under the Profession Tax Limitation Act of 1941 no tax in excess of Rs. 50 could be levied as profession tax. The District Judge accepted this contention and issued an injunction restraining the District Board from realising more than Rs. 50 per annum from the plaintiffs as circumstances and property tax in so far as it was assessed on the income derived from professions, trades, callings and employments.

495. In view of this decision of the High Court many local bodies in U.P. would have had to refund large sums of money which would have seriously embarrassed them financially apart from their inability to impose in the future the circumstances and property tax in excess of Rs. 50 per head which they were already levying. To save them from this predicament the Governor-General promulgated an ordinance amending the Professions Tax Limitation Act and validating the imposition of the tax in the United Provinces by including it in the schedule of taxes exempted from the provisions of the Act of 1941. Under the protection thus granted, local bodies in U.P., which were levying the tax in excess of Rs. 50/- per head per annum prior to 1st April, 1937, are still continuing to do so.

496. This was the position prior to the enactment of the new Constitution. In the new Constitution also there is a money limit on the levy of profession tax. Article 276 of the Constitution is reproduced below for ready reference :

- (1) Notwithstanding anything in Article 246, no law of the Legislature of a State relating to taxes for the benefit of a State or of a municipality, district board, local board or other local authority therein in respect of professions, trades, callings or employments shall be invalid on the ground that it relates to a tax on income.
- (2) The total amount payable in respect of any one person to the State or to any one municipality, district board, local board or other local authority in the State by way of taxes on professions, trades, callings and employments shall not exceed two hundred and fifty rupees per annum ; provided that if in the financial year immediately preceding the commencement of this Constitution there was in force in the case of any State or any such municipality, board or authority a tax on professions, trades, callings and employments the rate or the maximum rate of which exceeded two hundred and fifty rupees per annum such tax may continue to be levied until provision to the contrary is made by Parliament by law, and any law so made by Parliament may be made either generally or in relation to any specified States, municipalities, boards, or authorities.
- (3) The power of the Legislature of a State to make law as aforesaid with respect to taxes on professions, trades, callings, and employments shall not be construed as limiting in any way the power of Parliament to make laws with respect to taxes on income accruing from or arising out of professions, trades, callings and employments."

It will be noticed that the old limit of Rs. 50/- has been raised to Rs. 250/-, which is undoubtedly a welcome change, and powers already exercised by local bodies in levying profession tax in excess of Rs. 250/- are not disturbed. It will

now be for State Governments to advise local bodies to revise their schedules of profession tax so as to correspond to the limit permitted by the Constitution. It will obviously be futile for us to suggest that the limit be raised still further or be done away with entirely if the Government of India find that the State Governments are unwilling to offer such advice to local bodies or, that the local bodies are unwilling to revise their schedules of Profession tax in accordance with the higher limit now permitted under the Constitution.

II

**Position in each State.** The position in the major States with regard to levy of profession tax is as follows :—

497. In Madras, it is levied by all municipalities, some district boards and several panchayats. The income from this source is substantial. The maximum before the enactment of the Profession Tax Limitation Act, 1941, was Rs. 550 per annum in the case of mufassal municipalities and district boards and Rs. 700 in the case of the City of Madras. Under the Profession Tax Limitation Act, the maximum was reduced to Rs. 50 per annum. In view of the raising of the limit to Rs. 250/- the Madras Government have advised local bodies to revise their schedules up to the maximum permissible. The compensatory grant hitherto being paid will now be withdrawn.

498. In Bombay, no municipality levies profession tax as such but some of them levy small taxes in the form of licence fees on specified trades and callings which are subject to municipal control. This tax is also levied by four or five district boards. The income from this source is negligible. The Government of Bombay are of the opinion that profession tax can never be a source of much income owing to the disproportionately large collection charges. —

499. In Orissa, profession tax is at present levied by municipalities and panchayats in the ex-Madras areas of the State. In ex-Bihar areas, it is levied to the same extent as in Bihar, in the form of a tax on circumstances and property. The State Government have now decided to extend the levy of profession tax to all the local bodies in the State.

500. In Uttar Pradesh, there are two taxes which are akin to profession tax :—

(1) A tax on trades, callings, etc., which is assessed on the annual income in ascending scales. This tax is levied only in 13 municipalities out of 110 and yields Rs. 1½ lakhs annually ; and

(2) A tax on circumstances and property, which is at present levied by 12 municipalities and 29 district boards. In rural areas agricultural income is exempt from taxation and the maximum rate is 4 pies in the rupee on income subject to an aggregate maximum per assessee. Districts boards are dependent on this tax to a much greater extent than municipalities. They derive an income of Rs. 12 lakhs per annum from this source.

There is no provision for the levy of a profession tax in the U. P. District Boards Act. Only certain trades and callings can be licensed. The panchayats have got powers to levy such a tax.

501. In Madhya Pradesh, profession tax is not of much importance and is not levied in all municipalities in Berar. Though there is statutory provision for the levy of such a tax by municipalities, it formed only one per cent. of the total ordinary income of municipalities in the State in 1945-46. There are now no district boards in Madhya Pradesh. In Janapadas which do the work of taluka (tahsil) boards, there is no provision for a 'haisiyat' tax, which means a tax on

## PROFESSION TAX

---

the financial circumstances of an individual. This is assessed on the same lines as the profession tax.

502. In Punjab, there is no profession tax in municipalities though there is provision in the Municipal Act. There is a haisiyat tax levied by district boards on income.

503. In West Bengal, profession tax is levied in the City of Calcutta and other municipalities. A profession tax is levied in rural areas, but the income goes to District School Boards under the Primary Education Act. The Union Boards levy what is called a Union rate, which is their principal source of income and is assessed on the lines of a tax on circumstances and property subject to a maximum of Rs. 84.

504. In Bihar municipalities there is at present a tax on circumstances and property which is levied in substitution of a tax on holdings. There is no such tax in rural areas.

505. In Assam, as already stated elsewhere, the profession tax is a provincial tax and is not levied by any local body.

506. The table below gives the income of local bodies from profession tax in each State for the year ending 1946-47 :—

Statement showing the growth of income from profession tax in the various States of India  
(MUNICIPALITIES)

STATES	Total Income		Income from profession tax		Percentage of income from profession tax to total municipal income	
	1925-26	1946-47	1925-26	1946-47	1925-26	1946-47
ALL INDIA (including the City Corporations of Madras and Calcutta.)	139,652,437	285,340,865	2,694,823	4,210,398	2.07	1.47
Madras (excluding Madras City.)	7,110,632	25,620,441	728,397	1,080,539	10.3	4.2
Madras City Corporation.	4,033,826	13,500,946	162,363	510,378	4	3.8
Bengal (excluding Calcutta City).	6,211,862	7,835,453	137,050	398,856	2.2	5.06
Calcutta City Corporation.	15,778,474	37,466,700	1,266,175	1,977,600	8.0	5.6
Uttar Pradesh.	10,180,680	27,510,000	429,357	360,000*	3.9	1.2
Punjab.	7,268,183	5,350,878	57,761	3,697	0.76	0.06
Madhya Pradesh.	3,889,569	11,096,594	16,118	127,602	2.0	1.1
Bihar.	...	4,463,948	...	102,776†	1.8	2.34
Orissa.	2,482,309	631,113	47,042	31,729†		4.9

\* Includes figures for the tax on circumstances and property.

† These are figures of the "tax on persons" assessed on the circumstances and property of the inhabitants levied in these States in substitution of the tax on holdings.



## PROFESSION TAX

The above statement brings out two points :—

- (1) That the profession tax is not of equal importance in every state. It is only in Madras and Bengal that the percentage of income is of any importance. In all other States, the yield is more or less negligible.
- (2) That in 1925-26 the percentage of income from profession tax to total tax income was much greater than the corresponding percentage in 1946-47. In 1925-26 there was no limit on the amount of tax leviable on an individual. But in 1946-47, section 142-A of the Government of India Act, 1935 and the Profession Tax Limitation Act, 1941 were in operation and local bodies, which were levying the tax at higher rates, were, with a few specified exceptions, obliged to reduce them. In view of the raising of the limit in the Constitution from Rs. 50 to Rs. 250, it is hoped that, in the next few years, even if no further raising of the money limit takes place, the yield from this tax is likely to be considerable.

### III

**Basis of assessment.** The basis of assessment varies in different States as described below :—

507. **Madras.** The basis is income. The tax is accordingly more or less of the nature of a local income tax. Prior to the enactment of the Profession Tax Limitation Act, 1941, the rates in the Madras City Corporation were as under :—

#### Assessment of Companies.

Companies were assessed on the following scale :—

Paid up capital (Lakhs of rupees)	Half-yearly tax Rs.
A Less than one	30
B One and more than one, but less than two	50
C Two and more than two, but less than three	100
D Three and more than three, but less than five	150
E Five and more than five, but less than ten	250
F Ten and more than ten, but less than twenty	500
G Twenty and more than twenty	1000

Provided that any company, the head or a principal office of which is not in the city and which shows that its gross income received in or from the city in the year immediately preceding the year of taxation—

- (a) has not exceeded Rupees 5,000 shall pay only 25 rupees per half-year.
- (b) has exceeded Rupees 5,000 but has not exceeded Rupees 10,000 shall pay only 50 rupees per half-year.
- (c) has exceeded Rupees 10,000 but has not exceeded Rupees 20,000 shall pay only 100 rupees per half-year.
- (d) has exceeded Rupees 20,000 shall pay per half-year 100 rupees together with a sum calculated at the rate of 25 rupees per half-year

for every 5,000 rupees or part thereof, of gross income in excess of Rs. 20,000 subject to a maximum half-yearly tax of 1,000 rupees.

Provided further that when a company the head or a principal office of which is not in the city becomes liable to tax for the first time, it shall pay in the first year a tax of 25 rupees ; but if the gross income of the company during such year is subsequently found to have exceeded 5,000 rupees, it shall pay the tax calculated in accordance with the above-mentioned scale less the initial payment of 25 rupees.

The tax on persons was on the following scale :—

	Half-Yearly	
	Maximum	Minimum
	Rs. As.	Rs. As.
<b>Class I.</b>		
(1) All persons holding any appointment upon a monthly salary of five thousand rupees or upwards.	500 0	350 0
(2) All other persons (exercising any profession, art or calling or transacting business) or their agents or servants in their absence.		
<b>Class II.</b>		
(1) All persons holding any appointment upon a monthly salary which amounts to three thousand or upwards but is less than five thousand rupees.	300 0	210 0
(2) All other persons described in class I, but not assessed under class I.		
<b>Class III.</b>		
(1) All persons holding any appointment upon a monthly salary which amounts to two thousand or upwards but is less than three thousand rupees.	200 0	140 0
(2) All other persons described in class I, but not assessed under class I or II.		
<b>Class IV.</b>		
(1) All persons holding any appointment upon a monthly salary which amounts to one thousand or upwards but is less than two thousand rupees.	90 0	60 0
(2) All other persons described in class I, but not assessed under any of the previous classes.		

PROFESSION TAX

		Half-Yearly	
		Maximum	Minimum
		Rs. As.	Rs. As.
Class V.			
(1) All persons holding any appointment upon a monthly salary which amounts to 750 rupees or upwards but is less than one thousand rupees.	}	45 0	30 0
(2) All other persons described in class I, but not assessed under any of the previous classes.	}		
Class VI.			
(1) All persons holding any appointment upon a monthly salary which amounts to five hundred or upwards but is less than seven hundred and fifty rupees.	}	30 0	20 0
(2) All other persons described in class I but not assessed under any of the previous classes.	}		
Class VII.			
(1) All persons holding any appointment upon a monthly salary which amounts to two hundred or upwards but is less than five hundred rupees.	}	12 0	8 0
(2) All other persons described in class I but not assessed under any of the previous classes.	}		
Class VIII.			
(1) All persons holding any appointment upon a monthly salary which amounts to one hundred or upwards but is less than two hundred rupees.	}	5 0	4 0
(2) All other persons described in class I but not assessed under any of the previous classes.	}		
Class IX.			
All hotel-keepers, lodging, boarding or eating or refreshment-house keepers and shop-keepers not assessed under any of the previous classes ...		1 0	0 8

CHAPTER IX

The tax in district municipalities and district boards was on the following scales :—

RATES OF PROFESSION TAX TO BE LEVIED HALF-YEARLY

Class	Half-yearly income	Half-yearly tax.—1930	Half-yearly tax—1948
I	More than 21,000	275	...
II	18,000 less than 21,000	225	...
III	12,000	18,000	150
IV	9,000	12,000	85
V	More than 9,600	...	25
	6,000	9,000	55
	7,800	9,600	...
VI	6,000	7,800	...
	4,200	6,000	28
	3,000	4,200	20
VII	3,000	4,200	20
VIII	1,800	3,000	10
IX	1,200	1,800	6
X	600	1,200	3
XI	300	600	1½
XII	150	300	½

With the enactment of the Professions Tax Limitation Act, the maximum limit was reduced to Rs. 50 per annum. Consequently all the above schedules had to be revised. The rates in force in respect of all local bodies are as shown below :—

Class	Half-yearly income	Maximum	Half-yearly tax
I	More than Rs. 9,600		25 0 0
II	7,800 but not more than Rs. 9,600	9,600	18 0 0
III	6,000	7,800	13 0 0
IV	4,200	6,000	9 0 0
V	3,000	4,200	6 0 0
VI	1,800	3,000	3 0 0
VII	1,200	1,800	2 0 0
VIII	600	1,200	1 0 0
IX	300	600	0 8 0

(Note: Persons in receipt of incomes below Rs. 600 per half-year are not assessed to tax in the City of Madras.)

From April 1, 1950 the rates have been revised in conformity with the enhanced limit of Rs. 250 in Article 276 of the Constitution, as shown below :—

I	more than Rs. 18,000		125 0 0
II	12,000 but not more than Rs. 18,000	18,000	100 0 0
III	9,000	12,000	75 0 0
IV	6,000	9,000	50 0 0
V	4,800	6,000	25 0 0
VI	3,000	4,800	12 0 0
VII	1,800	3,000	6 0 0
VIII	1,200	1,800	4 0 0
IX	600	1,200	2 0 0
X	300	600	1 0 0

(Note :—Persons in receipt of incomes below Rs. 600 per half year are not assessable to tax in the City of Madras).

**PROFESSION TAX**

It will be seen from the above schedule that the rates have been designed on a progressive basis. The minimum income on which the tax is assessed continues to be Rs. 600 per annum, but this class now pays twice the tax which it paid before, that is, from Re. 1 to Rs. 2 per annum and people with incomes in the higher grades pay much more than they were paying before. For the City of Madras the minimum taxable income per annum is Rs. 1,200 instead of Rs. 600 in the mufussil in view of the higher cost of living in the city.

508. **West Bengal.** Trades and professions are divided into a number of classes and are required to take out licences for carrying on their trade or profession on the payment of a fee fixed with reference to the assumed average income of the class to which they have been assigned. Schedule IV of the Bengal Municipal Act, 1932, contains four classes and the tax payable, which is also half-yearly as in Madras, varies from 4 to Rs. 400 per annum. The schedule is reproduced below :

**Schedule IV.**

(See sections 123, 182, 215 and 557)

Serial No.	Classes	Maximum half-yearly tax in rupees
1	Company transacting business within the municipality for profit or as a benefit society (not being a registered cooperative society) of which the paid up capital is equivalent to :—	
	(a) more than Rs. 10,00,000	200
	(b) more than Rs. 5,00,000 but not more than Rs. 10,00,000	100
	(c) more than Rs. 1,00,000 but not more than Rs. 5,00,000	50
	(d) Rs. 1,00,000 or less	20
2	Merchant, Lanker, (not being a registered cooperative society), money-lender, wholesale trader, owner or occupier of a market, bazaar or theatre or place of public entertainment, broker or dalal in jute, cotton, precious stones, landed property, country produce, silk or other merchandise :— whose place of business is valued under this Act, at not less than—	
	(a) Rs. 100 per mensem	50
	(b) Rs. 50 per mensem	25
	(c) Rs. 25 per mensem	12
3	Commission agent, broker not included in Serial No. 2, architect, engineer, contractor, medical practitioner, dentist, barrister, legal practitioner ;	
	(a) in respect of whose income, income-tax is payable	10
	(b) in respect of whose income, no income-tax is payable	5
4	Retail trader or shop-keeper, boarding-house keeper, hotel-keeper, lodging house keeper, tea-stall keeper and eating house keeper — whose place of business is valued under this Act at not less than	
	(a) Rs. 25 per mensem	8
	(b) Rs. 12 per mensem	2

It will be seen from the above schedule that on companies the tax is payable on the basis of paid up capital; in the case of merchant, wholesale trader, etc., it is based on the annual value of their place of business. In this respect the basis is the same as that for property tax. In the case of doctors, lawyers, engineers, commission agents and contractors, etc., who really come under the category of professional persons, the basis is still different. Those who pay income tax pay only Rs. 20 per annum as profession tax, irrespective of the size of their income and those who do not pay any income tax pay Rs. 10 per annum as profession tax. In the case of retail shop keepers, boarding house keepers, etc., the assessment is, as in the case of merchants, on the basis of the letting value of their place of business.

The Calcutta City Corporation is governed by a different Act and has more or less similar system for the assessment of profession tax, except that the tax is payable yearly and not half-yearly as in the mofussil municipalities. Schedule VI of the Calcutta Municipal Act contains 9 classes. The different classes pay annually as profession tax the amount mentioned against each in the table below:—

Class I	Rs. 500 per annum
II	Rs. 250
III	Rs. 200
IV	Rs. 100
V	Rs. 50
VI	Rs. 25
VII	Rs. 12
VIII	Rs. 4
IX	Rs. 1

It will be seen that in Calcutta the maximum in respect of Class I is already higher than Rs. 250 prescribed by the Constitution. For a few trades and professions there is a fixed licence fee. For stevedores, the fee is Rs. 100, for the keeper of a liquor shop the fee is the same as for Class IV. Similarly, commercial travellers or dealers in precious stones are in Class V, whatever their status may be. Leaving aside a few such professions, the rest of the trades and professions have been thrown into certain categories and each of these categories is put into a higher or lower class according to their status, as indicated by the rental value of their business premises; and in the case of certain professions by the income tax they pay. In class I are put companies with a registered capital of Rs. 20 lakhs or upwards; companies with a paid up capital of Rs. 10 lakhs or more but less than Rs. 20 lakhs are in class II; companies with a paid up capital of Rs. 1 lakh or more but less than Rs. 10 lakhs are in class III; when paid up capital is less than Rs. 1 lakh in class IV. The classification of merchants is on the basis of annual value of premises. They are in class III if the monthly value of the business premises is Rs. 1000, in class IV if it is Rs. 350, in class V if it is Rs. 100. A shopkeeper is in class IV if the monthly value of his business premises is Rs. 350, in class V if it is Rs. 100, in class VI if it is Rs. 30 in class VII if it is Rs. 15, and it is not in any of these classes in class VIII. Professional men, such as lawyers and doctors are put into two classes, in class V if they pay an income tax of Rs. 2,000 or more and in class VI if they do not fall in class V. This follows more or less the lines of the Bengal Municipal Act. During the course of oral evidence in Calcutta, it was pointed out by some witnesses that there was much scope for an increase of income under this head, particularly in relation to professional men like doctors and lawyers.

## PROFESSION TAX

All Union Boards in West Bengal levy what is called a Union rate, which is more or less in the nature of a tax on circumstances and property of the inhabitants within the union. Persons who are assessed to less than half an anna a month are exempt from the payment of this rate. The maximum rate payable in respect of any one person is Rs. 84 per annum.

**509. Uttar Pradesh.** In Uttar Pradesh the profession tax, levied by certain municipal boards, is assessed on the basis of the annual income of an assessee according to a prescribed scale of rates which are graded in an ascending order at certain percentages of the tax-payer's income.

**510. Punjab.** In the Punjab the profession tax is levied by district boards and municipalities on the basis of income. Trades and professions are graded on this basis and the tax payable is as follows :—

Annual income exceeding Rs. 300		
but not exceeding Rs. 400		Rs. 3
exceeding Rs. 400 but not exceeding Rs. 500		Rs. 6
exceeding Rs. 500 but not exceeding Rs. 600		Rs. 9
exceeding Rs. 600 but not exceeding Rs. 800		Rs. 12
exceeding Rs. 800 but not exceeding Rs. 1000		Rs. 15
exceeding Rs. 1000 but not exceeding Rs. 1300		Rs. 20
exceeding Rs. 1300 but not exceeding Rs. 1500		Rs. 25
exceeding Rs. 1500 but not exceeding Rs. 2000		Rs. 30
exceeding Rs. 2000 but not exceeding Rs. 3000		Rs. 35
exceeding Rs. 3000 but not exceeding Rs. 4000		Rs. 45
exceeding Rs. 4000		Rs. 50

**511. Madhya Pradesh.** There is in this State a *haisiyat*\* tax which is payable by occupiers of buildings or lands within the limits of the municipality, according to their circumstances and property. Persons are assessed to this tax on what is known as the 'unit system'. This system is quite peculiar to this State and is not to be found in any other State in India. The total amount to be raised by the tax is first determined by the State Government on an estimate submitted by the municipality through the Deputy Commissioner of the district. In making the assessment the following principles are observed :—

- (a) Persons who cannot afford to pay 12 annas per year are exempted.
- (b) Persons assessed in the lowest class are classed at four units each.

All persons in the assessment list are then classed at four or more units.

In determining the number of units at which each person is to be classed, regard is to be had not only to his relative tax-paying capacity but also his social position, the size of his family and the extent of his property within the municipality. The maximum tax on any one person is limited to Rs. 240/a Year. After every person has been classed, the total number of units are added up, the approximate amount to be raised by the tax is divided by the total number of units, the quotient is the value of one unit. From this the

---

\* (The word 'haisiyat' is a Persian word and means financial position)

## CHAPTER IX

assessment of each person is ascertained by multiplying the value of one unit by the number of units at which he is classed.

The Government of the State have issued a circular letter to all local bodies inviting their attention to the provisions of Art. 276 of the Constitution, under which they can increase the rate of the tax subject to a maximum of Rs. 250 per annum in respect of any one person.

Some municipalities in Berar levy what is known as the 'Bales and Boja' tax. This is a tax on persons engaged in the cotton trade. The basis of assessment is neither income nor circumstances and property. The tax is levied as follows—

For each boja of 392 lbs. of cotton ginned	Annas 4 to Annas 6
For each bale of 392 lbs. of cotton pressed	Annas 4 to Annas 6

The rates vary from place to place but the method of assessment is the same

### IV

**Recommendations.** The above is a general survey of the position in regard to profession tax. Our recommendations as regards the future are given below:—

512. We have already suggested in a preceding paragraph that State Governments should advise local bodies within their jurisdiction, as a few have already done, that they should revise their schedules of profession tax in order to bring them into line with the new limit of Rs. 250/-permitted by the Constitution. We repeat that recommendation here. While we appreciate the improvement that will result from the raising of the money limit of the tax from Rs. 50 to Rs. 250 is much too low a limit in the present day economic conditions and high prices. As will be seen from the previous paragraphs, the State of Madras as long ago as 1922 fixed a maximum limit of Rs. 550 for profession tax in mofussil areas. In Madras City the limit was Rs. 700. Considering prices in 1922 and comparing them with what they are today, we feel that if Rs. 550 was a good maximum limit then, nothing less than double this figure will do for conditions as they prevail to-day. Similarly, in Calcutta, the money limit is already Rs. 500. Also some district boards in U. P. are realising as much as Rs. 2000 per head per annum in some cases. While we have no desire to increase the tax burden on the poorer classes, there is no reason why joint stock companies which, as managing agents in big cities, sometimes control several large industrial concerns, should be limited to paying a tax of only Rs. 250 per annum, while the burden falls more heavily on other sections of professional and business people. In view of the increasing tendency to industrialization of the country and the heavy financial demands which modern industries and large business concerns make on municipal administration, we consider that the present limit of Rs. 250 is very low and should be raised substantially. Some witnesses suggested the raising of this limit to Rs. 2,500, but we consider that a limit of Rs. 1000 would not be unreasonable. We do not think that the raising of the limit to this extent would have any effect at all on the yield of Central Taxes on income.

513. We recommend that wherever there is no provision in the Municipal or Local Board Acts for the levy of profession tax, necessary provision should be incorporated. We are, however, not in favour of the tax being made com-



## PROFESSION TAX

pulsory in the case of all local bodies in India. It may be possible in the case of many local bodies to raise sufficient funds by the levy of tax and octroi (or terminal tax); in such cases it may not be necessary to compel the local bodies to levy a profession tax also. There should be no objection to their levying a profession tax in addition if they desire to do so. We would, however, like the State Government to have powers to compel a local body, which is not levying either house tax or octroi (or terminal tax), to levy a profession tax. We feel that three major sources of revenue should be open to local bodies, viz., (1) the house tax (2) octroi (or terminal tax) and (3) profession tax. Unless a local body is levying at least two of these taxes, it will not have sufficient funds. We would, therefore, recommend the compulsory levy of profession tax under the orders of the State Government only in cases where only one of the other two taxes, house tax or octroi (or terminal tax), is being levied. ✓

514. As regards the basis of assessment, we feel that the basis of actual income would be the ideal one (as it is at present in Madras) but the practical difficulties in the way of the adoption of such a basis appear to us to be very great. We, therefore, recommend that local bodies should have the choice to adopt all or any of several basis according to their convenience and local conditions as at present. Where, however, income is easily ascertainable, as for example, in the case of the salaried classes, the income basis should be adopted, provided that the basis adopted for other classes secures justice between the salaried and the other classes.

515. The adoption of the income basis gives rise to the following problems:—

- (1) what the agency for assessment and collection should be;
- (2) whether such agency should have the power to call for accounts;
- (3) whether such agency should be in a position to impose penalties for false statements of the financial position?

As regards urban areas, we are of the opinion that the assessment and collection of profession tax should be done by the municipalities themselves. We are also of the view that municipalities should not have the power to call for accounts.

So far as rural areas other than those covered by village panchayats are concerned, we think that in view of the large areas to be covered, the agency for assessment and collection should be the Revenue Department. We should particularly request State Governments to come to the assistance of local bodies in this matter. In areas where village Panchayats are constituted, we think that profession tax should be assigned to the panchayats and should be assessed and collected by them. In view of the very nature of village panchayats such as compactness of the area and knowledge of the status and financial position of one other, the question of calling for accounts and award of punishments for false statements does not arise.

CHAPTER X  
LICENCE FEES

516. Licence fees are a source of considerable income to all categories of local bodies in every State. These fees are levied in order to recover the cost of supervision of certain trades and callings and for granting certain privileges which impose a special burden on the municipal services, such as the running of brick-kilns and hotels and the keeping of cattle, horses, etc.

517. **Income.** The total income of local bodies from such fees and licences in the various States in 1946-47 is given in the table below :—

**Income from Licences and fees of local bodies  
in the various States of India.**

Municipalities  
1946-47.

State	Markets and slaughter houses		Other Licence fees.	
	Income	Percentage to total income	Income	Percentage to total income
Madras	22,66,186	6	19,08,980	5
Bombay	11,76,014	3	2,99,157	.8
West Bengal.	1,68,057	1.5	5,54,810	4.8
Punjab.	26,447	.34	88,823	1.16
Bihar	3,08,959	3.9	3,95,865	5
Orissa	38,233	1.73	86,339	3.9
Madhya Pradesh.	6,60,355	1.73	4,35,405	2.2
Madras City.	2,57,221	1.9	1,77,025	1.3
Bombay City.	22,66,833	4	9,30,365	1.7
Calcutta	16,04,519	4.2	2,28,969	.6

Figures for U.P. and Assam are not available.

It will be observed that licence fees are of importance only in the Corporation of Calcutta and mufussil municipalities in Madras and West Bengal. Markets and slaughter houses are of importance only in Madras (municipalities) and Calcutta City.

518. While by their very nature only urban bodies are concerned with the licences, there are also a few licence fees leviable by local bodies in rural areas. The following paragraphs contain a brief resume of the law and practice relating to the levy of licence fees in each State :—

(a) **Madras :** In the Madras City Municipal Act, 1919, a separate chapter is devoted to "Licences and Fees". (Chapter XII of part IV). Section 278 exempts the Central and the State Governments from the necessity to take out any licences.

## LICENCE FEES

The following are the acts and trades and callings which require the taking out of a licence from the Corporation :—

- (1) Keeping of lodging-houses, eating-houses, tea-shops, coffee-houses, cafes, restaurant or refreshment rooms ;
- (2) Keeping of birds and animals ;
- (3) Use of municipal landing places and cart-stands ;
- (4) Keeping of private cart stands ;
- (5) Removal of carcasses of animals by municipal staff ;
- (6) Running of industries and factories, putting any premises to the uses specified in Schedule VI ;
- (7) Use of municipal wash-houses and bath-houses ;
- (8) Use of municipal slaughter houses ;
- (9) Starting private slaughter-houses ;
- (10) Sale of milk ;
- (11) Fees collected in markets ;—
  - (i) for the use of or for the right to expose goods for sale in market ;
  - (ii) for the use of shop stalls, pens, or stands in such markets ,
  - (iii) on vehicles or pack-animals carrying, or on person bringing, goods for sale in such markets ;
  - (iv) on animals brought for sale into or sold in such market ;
  - (v) for licences to brokers, commission agents, weighmen and measures practising their calling in such market.
- (12) Licensing of private markets ;
- (13) Carrying on the trade of butcher, fishmonger or poulterer ;
- (14) Use of places for the disposal of the dead.

The Corporation has got plenary power under sub-section (2) of section 365 to fix the rate of licence fees in respect of all these cases.

In the Madras District Municipalities Act 1920, the provisions regarding the levy and collection of licence fees are similar to those in the City Municipal Act, 1919. The fees are to be laid down by the Municipal Council.

(b) **Bombay** : In the City of Bombay, the licence fees that are leviable are similar to those in Madras with the addition of the following :—

- (1) Hawkers
- (2) Use of skill in handicraft or rendering services for purposes of gain in public place or street ;
- (3) Surveyors and plumbers.

The fees are fixed by the Corporation. While there is a tax on advertisements in the City of Madras, in Bombay City advertisements and sky signs are licensed. The provisions of the City of Bombay Municipal Act, 1888, in regard to licences and fees have been incorporated in the Bombay Provincial Municipal Corporation Act, 1950, under which the municipal boroughs of Poona and Ahmedabad have been constituted into City Corporations.

The list of fees and licences in respect of mofussil municipalities in Bombay is not so long or exhaustive as in Bombay City or in the Madras district municipalities. The Municipal Boroughs Act, 1925 mentions the following :—

- (1) Projections.
- (2) Markets and slaughter houses.
- (3) Dairies and cattle sheds.
- (4) Lodging houses.

The District Municipal Act, however, contains a specific reference only to markets and slaughter houses.

(c) **West Bengal.** Cases in which licences have to be taken out under the Calcutta Municipal Act are generally the same as in Bombay and Madras. In addition, the tax on trades, professions and callings and scavenging tax on certain specified trades and callings are levied and collected in the form of licence fees. Licence fees on dangerous and offensive trades, horses and cattle, sheep and goats, private markets, slaughter-houses, butchers, melas, fairs and dairymen are leviable under the Bengal Municipal Act, 1932 by municipalities in West Bengal.

(d) **Uttar Pradesh.** The list of licences and fees under the U. P. Municipalities Act, 1916 is not so exhaustive. The licensed trades are cinemas, vehicles, slaughter houses, markets and shops.

(e) **Punjab.** In Punjab the licences issued and fees levied therefor by municipalities under the Punjab Municipalities Act, 1911, are on dangerous and offensive trades, cinemas, slaughter houses, fairs, festivals, vehicles plying for hire, hotels, lodging houses and markets.

(f) **Bihar.** The position in Bihar under the Bihar and Orissa Municipal Act, 1922 is analogous to that in Bengal. Municipalities are empowered to issue licences and charge fees therefor in respect of dangerous and offensive trades, horses and cattle, markets and shops, slaughter houses and sale of milk and drugs.

(g) **Madhya Pradesh.** The list of licences and fees has, we understand, been recently enlarged and is more or less the same as in Madras.

(h) **Orissa.** In Orissa the position is analogous partly to that in Bihar and partly to that in Madras.

(i) **Assam.** Under the Assam Municipal Act, 1923, municipalities in that state can levy fees and rents in respect of public markets, private markets, food and drugs and factories and trades.

(j) **Rural Boards.** There are in a few States certain fees and licences leviable by rural boards, such as district boards; local boards and panchayats. Village panchayats in Madras have been empowered to issue licences and levy fees therefor under the Madras Village Panchayats Act, 1950, in respect of markets, public halting places and cartstands, slaughter houses, industries and factories. Similarly, panchayats in Bihar can levy fees in respect of markets and fairs under the Bihar Panchayat Raj Act, 1947. Janapada Sabhas in Madhya Pradesh can levy fees in respect of markets, factories and cartstands under the C. P. & Berar Local Government Act, 1948. District boards are also levying sand and quarrying fees and also derive appreciable income from markets and fairs, cattle-shows, etc., especially in the Punjab.

## LICENCE FEES

519. **General observations.** We are of the opinion that markets and slaughter houses should generally be self-supporting. We would refer in this connection to the observation of the Biswas Commission that "the duty was imposed on the Corporation of augmenting the income from the markets as a source, in importance potentially next only to the consolidated rate." We think that while the endeavour should be to make the markets and slaughter houses a remunerative enterprise bringing an appreciable net income to the local bodies, in no case should the investment of capital and the recurring expenditure on markets and slaughter houses be a burden on the local revenues. The State Government should issue instructions to the local bodies to this effect and from time to time see that this is done whenever the account or budget of a body or the audit report comes up for review.

520. We received evidence from representatives of both municipalities and district boards in Bengal that the municipalisation of private haats and bazars, which are at present under the control of zamindars, would result in a substantial increase in income. We would refer in this connection to a proposal which the Government of Madras are considering, namely, to vest the monopoly of opening markets henceforth in municipalities and prohibit by legislation the opening of private markets. We recommend that other State Governments should consider whether such a step would be feasible.

521. As regards licence fees, there have been quite a large number of cases in which the schedule of fees is very old. The cost of regulation and supervision of the trades and activities licensed must in many cases have increased considerably owing to rise in prices, resulting in the payment of increased salaries and dearness allowances etc. to the executive staff. We think that the scale of the various licence fees levied by municipalities should come in for a regular periodical review, at least once in three or five years.

522. So far as the fees for individual items are concerned it is not possible for us to make any recommendations. We would only recommend that the rates fixed should be adequate to cover the cost of regulation and supervision of the trade or activity licensed. In actual practice it may not be possible, as pointed out by the Commissioner of the Madras City Corporation to apportion the expenditure on general administration to each individual head. But an attempt should be made to keep proforma accounts in relation to receipts and expenditure of the licensing branch and to ensure that these balance each other. Where, however, there is a separate Licence Department, as in the Calcutta City Corporation, the expenditure on that department should not entail a net charge on the general funds of the local body.

523. A licence fee, by its very nature, is different from a tax. In evidence the question whether the power to licence could be used as a power of taxation so that the proceeds could be a source of net income to the local bodies has been raised. It will be clear from the following extracts from two judgments of the Madras High Court that it would not be proper to levy licence fees as a means of taxation or source of revenue:—

"x x x x but that a tax is not the same as a licence fee is clear from the fact that no permission has to be obtained before the tax becomes payable and the tax is not paid for such permission, whereas the licence fee is payable in respect of a permission which is granted by the Corporation x x x x x x x x".

"x x x x I am satisfied that taxes cannot be treated as being in the same category as licence fee under the Act. x x x x x x Beasley J. has held that the fees are leviable as compensation to

the Corporation for the expenses incurred in the issue of licences and the general regulation of the trades and other occupations which are licensed and there must be some relation between expenses and the amount of fees leviable x x x x x x x x x x x x x x

"x x x x the fee income must be more or less proportionate to the trouble and expense incurred by the Corporation in issuing licences and in controlling trades and other matters for which licences are issued x x x x." (Mr. Justice Phillips)

"I agree with the finding of the learned Judge on the Original Side that the power given by the Madras City Municipal Act to the council to levy licence fee cannot be used as a power of taxation x x x x."

"x x x x then we must say that as a whole the fees charged by the Corporation must not be very much in excess of what the duties cast upon them and their staff in connection with the licences cost them x x x x x x x." (Mr. Justice Reilly)

(Judgement of a Division Bench of the Madras High Court in Original Side Appeal No. 71 of 1928—The Corporation of Madras *versus* Messrs. Spencer and Co., Ltd., Madras).

This distinction between a licence fee and a tax must be carefully noted. A licence fee is levied for regulatory purposes and for recouping municipal expenses incurred on such regulation. The Courts would be entitled to interfere in the case of licence fees if they are harsh or unreasonable. The plea of unreasonableness would, however, be barred in the case of taxes. If a proper scrutiny of various licence fees levied in different States is made, it would appear that some of the trades, professions, callings or occupations which are subjected to licence fees may be more suitably made the objects of a profession tax. This would enlarge this source of income to the maximum per head permissible under the Constitution. We recommend such a scrutiny and the change in the method of this imposition, wherever suitable.

## CHAPTER XI

### TAXATION OF RAILWAYS

524. **Difficulty of valuing railways for local taxation.** Railway property presents special features to which the ordinary principles of local taxation do not apply. Railways in India are now almost entirely owned and managed by the Central Government. Consequently the question of local taxation of railways gets involved with the question of taxation of Government property. Moreover, the property of a railway administration lies in the territory of more than one State and, for this reason, is subject to more than one set of laws governing local taxation. Not only this, but even within the same State, railway property lies within the jurisdiction of several local bodies, each of which has different classes and rates of taxation and different methods and machinery of assessment. The calculation of 'net annual value', which is the basis of local taxation, becomes a task of considerable difficulty in the case of railways. The railway undertaking is never let, it is very seldom, if at all, the subject of any contract or transaction of the nature of letting (or even of sale); and there is no other property resembling railways in such a way that it could be used as a comparative standard for estimating its value.

525. **Railways Act, 1890.** The earlier Railways Acts of 1854 and 1875 contained no provision as to the taxation of railways by local authorities, but municipal taxes were levied in many provinces before the Act of 1890 was passed. Meanwhile, guaranteed and State Railways in Bengal were specifically exempted from cesses by means of a notification issued by the Government under the Bengal Cess Act, 1880, and a similar exemption was granted in some other provinces. The Indian Railways Act, 1890 specifically dealt with the question of local taxation in section 135, which runs as follows:—

"Notwithstanding anything to the contrary in any enactment, or in any agreement or award based on any enactment the following rules shall regulate the levy of taxes in respect of railways and from railway administrations in aid of the funds of local authorities, namely:—

- (1) A railway administration shall not be liable to pay any tax in aid of the funds of any local authority unless the Governor-General in Council has, by notification in the official Gazette, declared the railway administration to be liable to pay the tax.
- (2) While a notification of Governor-General in Council under clause (1) of this section is in force the railway administration shall be liable to pay to the local authority either the tax mentioned in the notification or, in lieu thereof, such sum, if any, as an officer appointed in this behalf by the Governor-General in Council may, having regard to all the circumstances of the case, from time to time determine to be fair and reasonable.
- (3) The Governor General in Council may at any time revoke or vary a notification under clause (1) of this section.
- (4) Nothing in this section is to be construed as debarring any railway administration from entering into a contract with any local authority for the supply of water or light, or for the scavenging of the railway premises, or, for any other service which the local authority may be rendering or prepared to render within any part of the local area under its control.

- (5) "Local authority" in this section means a local authority as defined in the General Clauses Act, 1887, and includes any authority legally entitled to or entrusted with the control or management of any fund for the maintenance of watchmen or for the conservancy of a river".

526. The Indian Taxation Enquiry Committee commented on the above section in the following terms:—

"The Government can, by refusing to issue a notification under sub-section (1) to section 135, prevent the imposition of any new tax on a railway by a local body. They can, by revoking an existing notification under sub-section (3), exempt any railway area from the operation of any particular tax, or of all local taxes that are being levied. They can further, under sub-section (2), have a fair and reasonable charge substituted for any specific tax. The railway company have also power to enter into a contract with a local authority for payment for any service. What the Government of India have no power to do is to prescribe methods of determining what is fair and reasonable or to decide in cases of dispute what is a fair contract payment for a particular service....." \*

527. **Enunciation of policy in 1901.** In a letter issued by the Government of India in the Public Works Department No. 20-RT dated the 7th January, 1901, they explained their intention in enacting section 135 in the following terms:—

"The subject of the Legislature was not to relieve railway administrations altogether from liability to local taxation, but to obtain control over the demands on railway administrations by municipalities and other local authorities. It is necessary to see that railway administrations are not unfairly exploited for the benefit of local authorities. But there is no reason why they should not pay for such specific services in the shape of water supply, scavenging, etc., as may be actually rendered, nor why they should not, like other holders of property within the areas administered by the various local authorities *bear their fair share of the general taxation imposed for purposes by which they directly or indirectly benefit.*"

It will be seen that the Government of India, for the first time in clear and authoritative terms, accepted the principle that railways should be taxed not only in respect of specific services rendered to them, but also in respect of indirect services rendered by local authorities.

528. **Declaration of Central Government's policy in 1907.** The next important step was the issue of Notification No. 9977 dated the 29th November, 1907, which runs as follows:—

"In pursuance of clause (i) of section 135 of the Indian Railways Act, 1890 (IX of 1890), and in supersession of the notification of the Government of India in the Public Works Department, No. 270, dated the 12th June, 1890, and No. 136, dated 5th April, 1893 the Governor-General in Council is pleased to declare that *every railway administration in British India shall thereafter be liable to pay in respect of property within any local area, every tax which may lawfully be imposed by any local authority in aid of its funds, under any law for the time being in force.*"

This notification was even more emphatic in its terms than the previous one of 1901 and its effect was to place railway administrations upon exactly the same footing as private residents of municipal areas, in respect of liability to

\*Paragraph 459, page 326 of the Report of Indian Taxation Enquiry Committee, 1925, Vol. I.



municipal taxation, subject to the special procedure provided in accordance with sub-section (2) of section 135 of the Indian Railways Acts, 1890.

529. **Change of attitude.** The issue of the notification of November 1907 caused great concern to the British Railway Companies which were then working most of the railways. They pointed out that:—

- (1) where the value of property was the subject of assessment no definite principles for ascertaining the rateable value were laid down, although the question was one of great complexity, and had in fact been treated in the most diverse manner by individual municipalities, and
- (2) where the value of property was not the basis of taxation, the difficulties of assessment and the uncertainty as to the amount of taxation constituted an even greater evil than the previous one.

They also objected to the appointment of a provincial government officer as arbitrator under sub-section (2) of section 135. Usually, Commissioners of Divisions were so appointed. They felt that such an officer could not be an impartial authority.

The existence of more or less self-contained railway colonies in some places further complicated the matter. In these colonies the railways provide many of the conveniences afforded by the municipalities, such as water-supply, coservancy, and in some places even roads and lighting. The railway administrations objected to have such colonies included within the municipal limits for purposes of taxation and to paying for municipal services which they did not use.

Generally speaking, the result over a series of years was that while in some cases applications for the levy of general taxation were admitted, the Government of India issued fresh notifications under section 135 only in cases where the local authority was able to convince them that some service was actually being rendered.

530. **Government of India Act, 1935 and after.** In the meantime the policy of nationalisation and state management of railways was in operation and the status of railway properties changed gradually to that of Government properties. When the Government of India Act, 1935, came into force on 1st April, 1937, further restrictions were imposed by section 144 which exempted the properties of the Central Government from provincial or local taxation, subject to the proviso that properties which were liable to taxation before the commencement of the Act were to continue to be so liable until a Federal Law enacted a provision to the contrary. The effect of this was that:—

- (a) an existing tax could not be varied from what it was on 1st April, 1937;
- (b) no enhancement was possible even if the railway premises were enlarged or the area added to; and
- (c) the right being subject to withdrawal or modification at any moment if the Central Legislature thought fit, was of a precarious character.

531. **Railways (Local Authorities Taxation) Act, 1941.** With the enactment of the Government of India Act, 1935, no Government railway property not taxed at the time could be subjected to local taxation under a notification issued under section 135 of the Indian Railways Act, 1890. Such property could only be taxed under a Central law enacted after the coming into force of the Act of 1935. (Section 135 of the Indian Railways Act is still in force and would presumably apply to local taxation of non-Government railways even today). To provide for such taxation the Central Legislature enacted the Railways (Local Authorities Taxation) Act, 1941. Under section 3 of this Act, the liability of a railway administration for local taxes does not arise until the Central Government, by a

notification in the Official Gazette, declares a railway administration to be liable to pay a specified tax to a specified municipality. The Central Government have the power to vary or revoke any notification already in force under section 135 of the Indian Railways Act, 1890. They have also the power to appoint an Arbitrator to decide the actual amount payable in any individual case.

So far the Act proceeds on the lines of the Act of 1890, but it goes further and, to a certain extent, revokes of the official declarations of policy of 1901 and 1907, by laying down that the amount payable by way of local taxes is to be determined *with due regard to the service to the railways* and all the relevant circumstances of the case. This is not to be found in the Act of 1890. For the first time, the principle of a definite *quid pro quo* as the *raison d'être* of paying a local tax has been specifically emphasised and embodied in a statute on behalf of the railways.

532. The position taken today by the Ministry of Railways of the Government of India is summed up in the following communication from the Railway Board (No. F. 42/TX 17/15 dated the 5th December, 1942) :—

“.....The Central Government cannot concede the criterion..... that the railway administration should pay municipal taxes on the same basis as any individual tax-payer for the enjoyment of the general benefits conferred by municipal authorities and not necessarily in proportion to the benefits derived by the railway administration nor do they agree that the analogy between the Provincial Governments and the Railway Administration is responsible both under section 135 (1) of the Indian Railways Act, 1890, (Act IX of 1890) and under section 3 (1) of the Railways (Local Authorities Taxation) Act, 1941 (Act XXV of 1941), the power to impose tax on railway administration vests only in the Central Government and it is therefore entirely for them to decide under what circumstances the tax would be justifiable. Their policy in this matter is generally envisaged in section 3 (2) of the Act of 1941 itself, *viz.*, that the tax will be in consideration of the services rendered and the relevant circumstances of the case.”

533. It will be seen that the insistence is on service rendered and no liability is accepted for general taxation. In relation to services rendered, the arrangement in force in Madras, and possibly, in some other States also is roughly as follows :—

- (1) *Water and drainage tax.*
  - (a) where a railway administration derives no direct benefit—one-third of the tax.
  - (b) where a railway administration derives only partial benefit—half of the tax.
  - (c) where railway administration derives full benefit—full tax.
- (2) *Scavenging tax.*
  - (a) where a railway administration has made efficient arrangements of its own for the daily removal and disposal of rubbish, filth, etc., from its premises—no tax.
  - (b) where the railway administration has made efficient arrangements for removal of filth etc. but where the local authority is responsible for its final disposal—one-half of the tax.

(3) *Lighting tax.*

- (a) where the railway administration does not take power from the local authority for lighting its premises and where the roads leading to the Railway Station are not lit by the local authority—no tax.
- (b) where the railway administration does not take power from the local authority for lighting its premises, but the roads leading to the railway station are lit by the local authority—half the tax.
- (c) where the railway administration takes power from the local authority for lighting its premises—full tax in addition to the charges for energy consumed.

534. The position under the present Constitution is the same as under the Government of India Act, 1935. The existing taxes may be continued but no fresh taxes or enhancement of the rate of an existing tax or the levy of taxation on a new building constructed after the coming into force of the Constitution would be permissible. The Government of India have, however, admitted increased liability due to revision of the annual value of property already subject to taxation\*.

535. This question was discussed by the Committee with the representatives of the Ministry of Railways of the Government of India at the meeting held in New Delhi on the 11th/12th June, 1949. A note outlining the position taken by the Railway Board in regard to local taxation, which was submitted to the Local Self-Government Ministers' Conference in 1948, was sent to the Committee as conveying the views of the Railway Board in the matter. A copy of this note is attached as appendix (No. V) to this report. The note deals with the previous history of the question of local taxation of railway properties and in referring to the policy governing the enactment of section 135 of the Indian Railways Act, 1890 quotes the following extract from a report by Major Temple, (who was placed on special duty in 1890 to go into the whole question) as defining the policy of the Government of India on the question of local taxation of railway :—

"To permit municipalities and local authorities to tax railway administrations only so far as to recoup themselves reasonably for the cost of services rendered to the administration ; to prohibit the levy of any taxes which are not raised for services to be directly rendered ; not to assess railway property on its rateable value only."

There is no reference in the note to the subsequent declarations of 1901 and 1907 of the Government of India, (which we have already quoted) in which liability for general taxation was admitted by them. A reference is also made to the recommendations of the Indian Taxation Enquiry Committee, 1925 in the following terms :—

"They (the committee) have clearly stated that in many cases, where the railway administrations have provided self-contained railway colonies, the local authorities are levying taxes which cannot be considered reasonable. They have also pointed out that there are cases in which municipalities attempt to include within their limits railway colonies which have been provided with the civic amenities long before

\*Letter No. FIII. 45/TX 17/6., dated the 25th May, 1945 from the Secretary, Railway Board, Railway Department, Government of India, New Delhi, to the Secretary, to the Government of Bengal, Public Health and Local Self-Government Department, Municipal Branch, Calcutta.

the constitution of the local authorities themselves. Therefore, they have stressed that "services rendered" should be the criterion for the payment of local taxes. They recommended that railway buildings and lands should be assessed at fixed percentages on their cost according to particular classes of buildings and properties and that permanent way and bridges should be altogether exempted."

536. It is true that so far as railway colonies are concerned the Taxation Committee dwelt on the services rendered as a point to be taken into consideration. But so far as the general question is concerned what the Todhunter Committee actually recommended for adoption was the Bombay system to which we make a reference later. The stress which is supposed to have been laid by the Todhunter Committee on 'services rendered' is not so apparent as the note in question seems to make out.

In subsequent paragraphs the note refers to section 154 of the Government of India Act, 1935 and the statutory immunity created thereunder as also to the passing of the Railway (Local Authorities Taxation) Act, 1941, in which undoubtedly stress is laid on payment for services rendered. In the concluding paragraphs it is pointed out that railways are exempt from local taxation in foreign countries and also enjoy a privileged position in the United Kingdom in which they pay only 25% of the local rates. We will deal with these points in detail later on. The question of exemption of railways from local taxation in foreign countries is dealt with below.

537. Through the courtesy of the British Information Service, New Delhi, we have been able to obtain detailed information regarding the rating of railways in Great Britain. A memorandum, specially prepared for this Committee by Mr. A. Endicott, Chief Estate and Rating Surveyor, British Railways, is attached as appendix (No. VI) to this report. It will be seen therefrom that, while it is true that railways in Great Britain pay rates to local authorities on only one-fourth of the net annual value of their properties, there is this fundamental difference that the three-fourths relief is not retained by the railways but is required to be paid into funds out of which rebates in carriage charges, etc., are given to specified classes of goods and traders. This privileged position is part of a derating scheme which applies to some other industries also and is not peculiar to railways.

538. We also tried to obtain information about the practice in this matter in other countries through the International Union of Local Authorities. We are indebted to them for the survey which they have prepared for us regarding the taxation of railway properties in certain western countries. A copy of this survey is also reproduced as appendix (No. VII) to this report. The position is summarised below :—

**Canada.** There are two major railway systems, the Canadian Pacific Railway which is privately owned and the Canadian National Railways, which are owned by the Federal Government. The privately owned Canadian Pacific Railway system is subject to normal municipal taxation on its buildings including stations within municipal limits. The Federal Government owned Railway, the Canadian National Railway, being Crown property, and therefore not subject to municipal taxation, under the British North America Act, pays an amount in lieu of taxes which, generally speaking, although not in all cases, is roughly equivalent to what it would be paying if it were assessed at the normal tax rate.

**France.** Railway property is subject to general and special local taxes. It is also subject to the land tax as it is of a revenue yielding character.

**U. S. A.** American railroads are owned by private enterprise and are subject to full local taxes.

**Netherlands.** There is no general exemption of railway property from local taxation. It depends on the local authorities whether these properties are exempt from their taxes or not. In this respect municipalities are entirely autonomous. In many cases, however, the municipalities have decreed that Government and Railway properties should be taxed.

**Belgium.** The properties of the National Railway Companies are free from local taxation. The same applies also to objects and personnel directly used for the construction of railways.

It will be seen from the above review that, with the exception of Belgium, the position in Western countries is in favour of local taxation of railways, rather than otherwise.

**539. Present system of assessment of railway properties.** Owing to the fact that assessment of railway properties is made by each local bodies for the portion of the railway undertaking within its jurisdiction according to its own laws and system of assessment, there is no uniformity in regard to assessment of railway properties throughout the country. By way of illustration, the systems prevailing in the three cities of Madras, Bombay and Calcutta are described below :—

(1) **Madras.** Railway buildings and lands are assessed on their cost basis. The annual value is worked out at 6% of the estimated market value of the land and the estimated cost of erecting the building at the time of assessment, less a deduction for depreciation not exceeding 10% of the cost of the building. Machinery and furniture are excluded from valuation for purposes of municipal assessment,

(2) **Bombay.** Prior to 1937 railway properties were being assessed on a comparative basis, having regard to the level of rents for simialar properties in the respective localities *e.g.* offices, workshops, residences, etc. The Indian Taxation Enquiry Committee, which examined the methods adopted by local authorities throughout India for purposes of valuation of railway properties, in 1924-25 recommended the Bombay system for general adoption. The system then in force is described in the Report of the Committee\* as under :—

- (1) "All buildings, such as railway stations, goods, engine, carriage and other sheds, signal boxes, godowns, etc., used for carrying on the traffic of the railway, at 6 per cent. on the cost of the buildings and land.
- (2) Workshops and necessary offices connected with the working, at 6 per cent. on the cost of buildings and lands.
- (3) Offices used for general administrative purposes as distinguished from offices connected with the working of stations, at the amount for which such offices might reasonably be let to the public.
- (4) Residences for railway employees, including such portions of the railways as may be used for residential purposes, at the sums at which such residential quarters might reasonably be let without regard being had to the building cost or rents actually paid by the railway employees.
- (5) Lands under rails and sidings, lands used for sorting, stacking or for similar purposes, at 5 per cent. on the actual value of the land at the time the rent is fixed.

This method is, however, no longer in force. From the year 1937-38 railway properties in Bombay are assessed on the profit basis. The Bombay Municipality is not satisfied with the change. It says that when profits are less, the railways

\*Paragraph 466, page 331 of the Report of the Indian Taxation Enquiry Committee 1925, Volume I.

claim to be assessed on the "profit basis", and when they are more they claim to be assessed on "service basis" namely, the basis on which actual services are rendered by the Municipality as against those provided by the railway for themselves.

The Municipality points out that while during the war years the profits made by railways increased very considerably, the tax payable by the railways to the Municipality diminished in spite of an increase in the rate of general tax. For instance, the amount payable by the G. I. P. Railway upto 1936-37 when the rate of general tax was 11½%, was Rs. 5,59,853 and by the B. B. & C. I. Railway Rs. 4,58,719 per annum. But from 1944-45 to 1948-49 during which period the rate of general tax was increased to 14½%, the tax payable by the G. I. P. Railway was Rs. 3,79,963 per annum and by the B. B. & C. I. Rly Rs. 2,89,197 per annum. The municipality further points out that these amounts are fixed on the basis of awards by arbitrators appointed under the Act of 1941, against which there is no appeal nor do the arbitrators give the details of the calculation on the basis of which the amounts are arrived at.

(3) **Calcutta** Rolling stock and machinery are not assessable to local taxation. Lands, buildings and structures including bookstalls, refreshment and retiring rooms and structural parts of workshops are valued under section 127 (b) of the Calcutta Municipal Act, 1923. The present cost of these structures less depreciation and the present value of the lands are taken as the basis and 5% of this sum is taken as the annual value for the purpose of applying the consolidated rate thereon. Residential quarters let out to railway servants on rent are separately valued under section 127 (a) of the Act, i. e., on the rental basis and, in that case, the fair rent at which they can be expected to let less 10% is taken as the annual value. But, if such quarters are occupied rent-free they are assessed along with other railway property under section 127(b) of the Act as set out above.

**540. British system of valuation of Railways :** In view of the fact that the Indian system of local taxation of railways was originally based on the English system in so far as it was applicable to conditions in this country, it would be interesting to know what the British system was and what changes have been made therein from time to time to meet the peculiar conditions of railways. Prior to the enactment of the Railways (Valuation for Rating) Act, 1930, railways were valued in accordance with the Parochial Assessments Act, 1836, upon an estimate of the net annual value of each part within a parish. The net annual value was arrived at by the adoption what is known as the 'profits' principle. This principle is that a tenant would give as rent a sum equal to the receipts from the property less the expenses of earning them and less the ordinary profit which he would expect. The further problem of estimating what a tenant would pay for the portion of railway within any given parish was still more baffling. For what could a tenant would pay for a mile of trunk line, if he were precluded from making any use of the remainder of the system? But the English Courts laid down that although it was the value of the particular portion within the parish which was to be ascertained it was proper to take into account the fact of its connection with the portion outside the parish. On the other hand, the value of any portion of the undertaking outside the parish must be excluded.

**541.** The Royal Commission on Local Taxation, in their report dated the 28th May, 1901 made the following recommendation:-

"The plan of making independent valuations of small sections of each railway cannot, we think, produce entirely satisfactory results and we, therefore, now propose that a Central authority should be appointed,

whose duty it should be to value each railway as a whole and to allocate the valuation thus obtained between the various rating areas. Besides being much simpler than the existing system, this plan would we think, entail less expenditure upon valuation and appeals, by both railway companies and local authorities, and would also secure that different railways and different parts of railways should be valued on uniform lines."

The comments of the Royal Commission extracted above apply *mutatis mutandis* to the conditions prevailing in India to-day and would seem to require similar treatment.

542. This question was further examined by the Department Committee on Local Taxation in England and Wales, who, in their report dated the 3rd March, 1914, made the following unanimous recommendation:—

"Special properties, such as railways, canals, tramways, gas, water and electricity undertakings, whether comprised within one parish or not, should be valued as a whole and, where necessary apportioned between the various parishes concerned."

It may be pointed out here that the parochial system described above was not in force in Scotland, where the system of valuing railways as a whole and then apportioning the total value among the rating area and the parishes was in force since 1855. A similar system was in force in Ireland since before the present century.

Even though the principle of valuing railways as a whole was accepted it took a long time for it to be placed on the statute book.

543. The purpose of the Act of 1930 is to provide for the railway hereditaments to be valued upon which local rates could be levied. This Act is concerned with valuation only and not rating and, moreover, with the valuation of a certain class of hereditament. A railway hereditament is defined in the Act as any hereditament occupied for the purpose of the undertaking of a railway company, but it does not include a dwelling house, hotel or place of public refreshment or premises so let out as to be capable of separate assessment. In relation to such premises the ordinary rules of local taxation apply and not the procedure prescribed in the Act of 1930. Such premises exist also in connection with railway undertakings in India and should be treated similarly.

544. Under the Act of 1930 there are three stages in arriving at the net annual value of a railway hereditament:—

(1) The first stage is that the average net receipts of the undertaking as a whole for certain specified years are ascertained. The meaning of the term 'net receipts' is defined in the Act.

(2) Next comes the estimation of the net annual value of the railway undertaking as a whole. This is a task of some difficulty, as it means estimating the rent at which the railway hereditaments might reasonably be expected to let *as a whole* from year to year.

(3) The third stage is the apportionment of the net annual value between the individual hereditaments. This is done in accordance with the apportionment scheme described in section 13 of the Act.

The Act sets up a Railway Assessment Authority, which is concerned with the preparation of the Railway Valuation Roll every five years. On this authority local bodies are represented. Local authorities also have a certain right of representation and appeals against the valuation roll.

545. **The Local Government Act, 1948.** The Local Government Act 1948 repeals almost all the provisions of the Act of 1930 including those relating to the Railway Assessment Authority and prescribes the payment of certain amounts in aid of local authorities to be apportioned by the Minister of Health in accordance with certain rules.

We in India have not yet arrived at a stage when the procedure laid down in the English Local Government Act of 1948 could be adopted. Railway Valuation Rolls for at least three or four quinquennia must first be prepared, as they were in England, before the amounts to be paid by railways in aid of local authorities could be standardised.

546. **General Recommendations.** The system prevailing in India is what might be called the 'parachial system' as it prevailed in England prior to the enactment of the British Railways (Valuation for Rating) Act, 1930. We are of the opinion that until the system of local taxation of railways in this country is rationalised and railway undertakings considered as a whole it will not be possible to secure any worth while improvement in the existing position. The reluctance of the Railway Board to relax the restrictions in regard to taxation of railway by local authorities is apparently based on the apprehension that with so many taxing authorities, each applying its own system and method of assessment, the railways would be exploited for the benefit of local revenues. We are not in a position to make detailed recommendations regarding changes in the system of local taxation of railways in the country. But we are satisfied that the present lack of uniformity and piecemeal valuation should go. An Act of Parliament should prescribe the principles of valuation, taxation and apportionment. If an authority like the former English Railway Assessment Authority is set up for administering these provisions, it should be so constituted as to secure adequate representation of local bodies. Local bodies at present have no right of appeal against the awards of arbitrators appointed by the Government of India under the Railway Acts. This right should be conferred upon them and a tribunal constituted under parliamentary authority for hearing such appeals. The liability of railways for both general and service taxes should be recognised as in the notification of 1907.

547. The stress now laid on payment for services rendered as a criterion for local taxation is, in our opinion, not justified. The point has been gone into the great detail by two Arbitrators appointed by the Government of India in disputes as regards municipal taxation between the Bombay Municipality and the Bombay Railways. The first award is by Mr. W. R. Tennant, I. C. S., dated 22nd December, 1937. The second is by Sir Sajba Rangnekar dated 9th December, 1948 in connection with a second dispute between the same parties. Both the Arbitrators held that the determination of local taxation on the 'services rendered' basis is unsound. As this point is still being raised (*vide* the Railway Board's note to which reference has been made above), we consider it worth while to give relevant extracts from these :—

Extract from Mr. Tennant's award :—

"It has been held that, as Municipal taxation is essentially a levy for services rendered or amenities provided to the citizens, it should be possible to fix the levy on railways on the value of services actually rendered. The idea seems an attractive one, but the trouble is that there is no accurate measure of most of the services rendered. The only services are which accurate measurements are possible are the metered services such as water, gas and electricity (if supplied by the Municipality). The Municipality supplies in addition roads, street lighting, hospitals, schools,



drains and other sanitary services and municipal improvements. None of these is capable of accurate measurement. It is true that the Railway as a corporate body does not use the municipal schools or hospitals; but neither do private corporations such as banks, importing firms, etc., which are municipally rated for their office premises. The staffs of these corporations undoubtedly use these services but they pay taxes for them as individual householders. Moreover, a large part of the Bombay Municipal expenditure goes in improvement schemes; and these schemes have certainly attracted population to Bombay thereby adding to the Railway traffic both passenger and goods. A progressive municipality therefore, renders a real though totally incommensurable service to the railways by providing an attractive city for residential and business purposes. On the other hand, Bombay would never have attained its present size and commercial importance had it had no railways; but no one can say what is mutually owed by the one to the other. Moreover, the railways owe much of their traffic to the migration to the suburbs started in plague years but continued and fostered thereafter by an enlightened policy of suburban development both in the north part of the Bombay island and in the adjacent parts of Salsette. Enough, I think, has been said to show that the mutual services are real but mostly incommensurable; and therefore the determination of local taxation on the 'services rendered' basis is an utopian idea for Bombay. It has real merit, however, in other places where railway station and tracks are not interspersed throughout the municipal area but are merely two contiguous circles intersecting only to a very slight extent, and where the municipal services are themselves scanty and of little practical use to the railways."

Extract from Sir Sajba Rengnekar's award:—

"Under Section 61 of the Municipal Act, it is clear that the duty of the Municipality is to provide for the services mentioned in that Section, and the Section does not say in terms that it is the duty of the Municipality to render service to the owners or occupiers and other citizens in Bombay. Short of physically compelling the railway employees to go to the Municipal Hospital for instance or to send their children to a Municipal School, one cannot say that when Municipal Services are open to every one in the City of which they can take the full benefit that the railway employees do not get the full benefit of the services when they reside within the railway area. The municipality has provided drains and drainage works, public latrines, urinals, etc., water is supplied, agency for scavenging and removal and disposal of excrementations and filthy matter, refuse, etc., is provided, there is a provision for reclamation of unhealthy localities there is a provision for obnoxious vegetables etc., cemeteries and grave-yards are provided; there is provision for registration of births and deaths, places for vaccination are provided measures are taken for preventing and spreading of dangerous diseases, there are public hospitals and dispensaries, markets and slaughter houses, there is a provision for reclaiming dangerous streets, fire-brigade is there, dangerous buildings are removed; construction of public streets and roads and their lighting is there; streets are named, premises are numbered; there are Municipal Schools

and also Municipal Offices. How in the face of all this does it lie in the mouth of the Railways to say that no service are rendered to them, passes my comprehension."

548. Some apprehension is felt that on a cumulo method, such as that recommended above, the bigger local bodies would stand to lose. It is difficult without any data to say whether this apprehension is or is not justified. We only hope that such will not be the case. If our main proposal is accepted, it should be possible to safeguard the interests of the bigger local bodies by giving them representation on the authority which would be responsible for perparing the details underlying the scheme.

## CHAPTER XII

### TAXATION OF GOVERNMENT PROPERTY

549. Local taxation of railways has been dealt with in the preceding chapter. This chapter deals with the taxation of Government property other than railways.

550. Prior to the enactment of the Government of India Act, 1935, the position as regards local taxation of both Provincial and Central Government property was governed by the Acts, regulating the constitution of local bodies. The practice was not uniform. Certain Central Government properties paid local taxes and others did not. Even Provincial Government properties in some provinces were exempt from taxation, in others they paid concessional rates and in some others they paid local taxes at full rates, as in the case of private properties.

551. Section 154 of the Government of India Act, 1935 raised the problem of exemption of Government properties in a pointed form. It was worded as follows :—

“154. Property vested in His Majesty for purposes of the Government of the Federation shall, save in so far as any Federal Law may otherwise provide, be exempt from all taxes imposed by, or by any authority within, a province or acceding State :

Provided that, until any Federal Law otherwise provides, any property so vested which was immediately before the commencement of Part III of this Act liable, or treated as liable, to any such tax, shall, so long as that tax continues, continue to be liable, or to be treated as liable thereto.”

552. The same position is continued in Article 285 of the Constitution of India which runs as follows :

“(1) The property of the Union shall save in so far as Parliament may by law otherwise provide, be exempt from all taxes imposed by a State or by any authority within a State.

(2) Nothing in clause (1) shall, until Parliament by law otherwise provides, prevent any authority within a State from levying any tax on any property of the Union to which such property was immediately before the commencement of this Constitution liable, or treated as liable, so long as that tax continues to be levied in that State.”

It will be noticed that, under the proviso in clause (1), Parliament may permit local taxation of Union property which is not at present paying any such tax. No amendment of the Constitution is necessary for such permission. In the case of railway property only a notification by the Government of India is enough. But in relation to non-railway property local taxation not levied at present can only be levied by an Act of Parliament. It seems desirable to put fresh taxation of non-railway Union property on the same level as of railway property.

553. During the course of the evidence taken by the Committee much dissatisfaction was expressed with the present position which, it was said, was causing heavy losses to local bodies. State Governments seem to be unanimous in supporting the view that there should be a change of policy in regard to this important matter. The Committee also discussed this question with representatives

of certain departments of the Central Government at the meeting held in New Delhi on 11th June, 1949. Stress was laid by the Central Departments on the legal position which, it was said, was not peculiar to India but prevailed in other countries also, irrespective of the fact whether the constitution was federal or unitary.

554. It has, therefore, become necessary to ascertain the position in other countries in regard to this matter. Through the courtesy of the Ministry of External Affairs, Government of India, much valuable information on this subject has been obtained. A memorandum prepared at the request of this Committee by the International Union of Local Authorities dealing with the position in Western countries, the United States of America and Canada is attached as an appendix to this report.

555. The information received as summarised below would indicate that the same problem which confronts India is or has been present in almost all other countries in one form or another. No uniformity of practice is discernible. Generally speaking, in most countries the property of the Central Government is not taxable. Despite statutory or customary exemptions many such countries have, however, provided for the payment of taxes or payments in lieu of taxes on their property. Some have limited their payment to certain types of Government property. The nature of the financial and Governmental interrelationships between the Central and local governments have had an important bearing upon the nature of the solution arrived at. In addition, it is understood that in Australia, New Zealand and the United States of America, the matter is under active consideration at the present time. Because fiscal and governmental relationships between the central and local governments vary widely throughout the world, the solution adopted in one country cannot be readily translated to the problems of another. This is particularly true when contrasting a unitary State with a federal State and it is even true when contrasting one federal State with another. None the less it is worth looking at the practice of a few countries which have attempted to adjust the matter.

(a) **United Kingdom.** In the United Kingdom, Crown property is not legally subject to taxation by the local authorities, but this exemption is a mere technicality as the Central Government makes payment to the local authorities equivalent to the local rates in respect of all its real property. The procedure is worth noting in that the Treasury retains its own valuing officers who assess the property in consultation with the local authorities. An additional feature is connected with those nationalised properties which do not pay rates direct to the local authorities. Such a case is that of the National Electricity Commission. This type of national property pays an equivalent to the sum of all local taxes on all its property into central fund common to all other nationalised properties of this type and out of this fund payments are made to the local authorities on an equalization basis. Although the United Kingdom has in effect granted full taxes on its property, it has felt it necessary to retain the right to make its own assessment. This is a point which is especially worth emphasizing in relation to taxation of Central Government property in India.

(b) **United States of America.** In the United States of America, dating from a judgement of Chief Justice Marshall, it has been judicially interpreted that the property of the Federal Government of the United States is exempt from taxation by State and local governments, exempt as otherwise provided by Congress. The

United States situation in regard to Federal relationships is one which is more comparable to India than any other. However, the problem under discussion is much more complicated in that country, because of the much larger undertakings of the Federal Government in certain fields and its vast holdings in connection with its ownership of the public domain, national forests, and its large housing and soil reclamation and conservation projects. Several Acts have been passed by Congress providing for payments in lieu of local taxes. In the case of strictly Governmental buildings, such as post offices and custom houses, there is no local tax whatever, but there is considerable agitation to permit the Government to make a payment to the locality in lieu of tax for municipal services. Organisations such as the Tennessee Valley authority pay, under legislative provision, a certain percentage of their revenue to local governments affected. Although the United States has made many concessions to municipalities, they are far from having achieved a comprehensive treatment of the problem.

(c) **Canada.** The legal position in regard to the liability of Federal Government property to taxation is unequivocal. Section 125 of the British North America Act reads 'No lands or property belonging to Canada or any province shall be liable to taxation.' The practice, however, is more liberal than the legal position. Although protected from taxation by law, the Federal Government have made several concessions in the matter of payment in lieu of taxation where special problems have existed. The City of Ottawa, the Federal Capital, receives large sums of money on account of concentration of Federal property within its boundaries which necessitate additions to municipal services. For almost the same reasons, liberal payments have been made to the municipalities of Halifax and Esquimalt. In addition, the courts have held that taxes for water are, in effect, not taxes but service charges, and, in consequence, are payable by the Federal Government. In general it may be said that the Government has met some of the problems arising out of its 'tax exempt' position in respect of its real property by:—

- (a) making an annual grant ;
- (b) payment of service charges ;
- (c) payment of local improvement charges ;
- (d) payment of the entire cost, or a portion thereof, of roads required for its own use ;
- (e) providing in such instances as harbours and military camps, its own services fighting, policing, water mains, etc.
- (f) providing for payment of taxes by the lessee by standard provisions in its leases when property is let on a rental basis :
- (g) a wide variety of adhoc deals and arrangements. While these payments have all been made on an ex-gratia basis, the Federal Government have moved away from the position of complete exemption granted to it under the British North America Act. All such payments and grants have been made on individual basis and not on related principle. It is understood that the question of systematising these payments is under the consideration of the Federal Government.

(d) **Australia.** In Australia, the constitution exempts the Commonwealth from paying rates on lands owned by the Commonwealth, under section 114 of the

Commonwealth of Australia Act. Because of the numerous factories and other properties erected by Commonwealth during the War the position has been modified somewhat as follows :—

The Commonwealth has not surrendered its legal rights under the constitution. Any payments based on the principle of general rates are regarded as being strictly ex-gratia payments only. A payment as the equivalent of rates is not paid where the property is used exclusively for Commonwealth purposes, such as departmental offices, post offices etc. Payment is made for services rendered such as water, sewage, electricity and road construction. Property belonging to or occupied by the Commonwealth let on a rental basis, generally includes in the rent an amount equivalent to the rates and such rates are paid to local authorities. Leases of Commonwealth property for a period of one year or more provide that the lessee should pay the equivalent of rates ordinarily levied and failing such payments, the lessee should pay to the Commonwealth an additional rent equivalent to such rates. Where an ex-gratia payment as the equivalent of rates is proposed, the amount of such payment is determined after discussion between the Commonwealth and the rating authority having regard to :—

- (1) the value of the property, improved or unimproved in accordance with the usual practice of the rating authority concerned.
- (2) any services or amenities provided by the Commonwealth, such as roads, lighting, water, sewage, etc.
- (3) the services to be rendered by the rating authority for the payment of that amount.

The question of the payment of rates on the property leased to the Commonwealth is governed by the terms and conditions agreed upon between the land and the Commonwealth, as the lessee.

The policy of the Australian Government would appear to be, therefore, to preserve its immunity, under the Constitution, to make payments for specific charges, to make payments in connection with certain of its extra-ordinary governmental activities and to prevent its statutory immunity being used by lessees of its property to escape taxation.

(e) **New Zealand.** All lands vested in the Crown and actually occupied by the Crown are exempt from local body rates. In addition to minor statutory variation from this position, the government has accepted liability for normal local authority rates on all occupied residential properties provided by it under its housing projects. It does not accept liability for payment of rates on the land acquired for development during the period of development, but rates commence to accrue as from the date of occupation by the tenant. Houses built for and occupied by departmental officers are not rateable. On lands acquired for development, for rehabilitation and settlement of servicemen, full rates are paid during the period the lands are held by the government. On lands required for development for civilian settlement purposes, the Crown does not pay rates. With regard to all properties on which the government does not pay rates, it pays charges for services by way of water supply, electricity supply and refuse removal services where such are utilised. It does not, however, pay a fee for the disposal of sewage through the common drains of the local authority. Government owned corporations such as the National Airways Corporation and the Bank of New Zealand pay full local rates. Certain government departments such as the Government Life Insurance Office and State Fire and Accident Insurance Office do not pay rates. There is a persistent demand from local authorities that all state trading undertaking should pay rates.

(f) **Denmark.** In Denmark ever since 1933, a Public Facilities Tax has been payable on all real property belonging to the Danish Government not used for agriculture, horticulture, and forestry, nor leased, and the Royal castles and places. It was recognised that a special charge should be paid on the property in question as a contribution towards the municipal expenses for the maintenance, scavenging, lighting, etc., of the streets and roads. The charge is levied in the same way as ordinary municipal charges on real property but only half the rates normally levied as municipal land tax and building tax on ordinary properties of the municipality are paid on the government properties. The main feature of this arrangement would seem to be that although the Danish Government has recognised that it has a responsibility in connection with its property in relation to the municipal financial situation, it is something less than full responsibility, to be exact, fifty per cent. of full responsibility.

(g) **Ireland.** In Ireland, property owned or occupied by the state is not legally rateable. Nevertheless, state-owned properties are valued like other similar property and the state makes an ex-gratia contribution equal to the full rates on that valuation to the local authority. Where property is occupied by the State as a tenant the owner who draws the rent from the state is liable to rates calculable on the special valuation fixed at half of the rent. In such cases the state does not make a contribution towards the rates to the local authority except when the rates at the half rent are not equal to the rates on the ordinary valuation. The practice of Ireland would seem to follow closely that of the United Kingdom.

556. **Arguments against local taxation of Union Property.** The arguments generally made to support the exemption of Central Government property are:—

(1) It is impossible theoretically to conceive of any property of a person who is not represented, or whose interests are not represented in any particular organisation, to allow that organisation a right *ad infinitum* to levy any tax upon the property of such persons. It is a principle contrary to the principles of natural justice. As there is no representative of the Central Government on local bodies, they cannot be permitted to tax Central Government property.

(2) The taxing authority of a local body is derived from a law made by the local legislature, the legislature of the States. It is quite impossible for the Centre to know what particular source of taxation, which has been made over by the Constitution to the State legislature, will be transferred by such State legislature to the local authority. Consequently, not knowing what is to be the nature of the tax, what is to be the extent of the tax, it is impossible to expect the Central Government to submit itself to the authority of the local body.

(3) There is a certain amount of reciprocity in the matter which it is undesirable to disturb. State Governments are exempt from Central taxation under Article 289 of the Constitution. So also are profit-making concerns of local bodies exempt from income tax in respect of income arising from the supply of a commodity or service within the jurisdictional area under section 4 (3) (iii), of the Indian Income Tax Act. Several local bodies would suffer heavily if they were deprived of the existing concession.

(4) The benefit to a municipality from the presence of Government property compensates for the added cost of municipal services. This argument is supported by several studies which have been made in the United States of America and which have shown that property tax rates in communities in which public property is concentrated are not higher than those in which it is absent.

(5) Government property is used for promoting the general welfare of the country and consequently should be exempt. For welfare reasons the municipalities exempt property of religious, educational and charitable institutions. These institutions also to some extent provide services which otherwise would have to be maintained by Government. Tax exemption in these cases is also a subsidy to the country as a whole, for the benefits from such institutions in many cases are as widespread as those from Government.

**557. Arguments in favour of local taxation of Union property.** Arguments in favour of taxation or payments in lieu of taxation in respect of federal property are based largely on the change of circumstances which has occurred during recent years. In the early years, the property involved was negligible and in the main consisted of legislative and administrative buildings. The increased activity of the Central Government during the War in recent years and particularly the adoption of a policy of nationalisation and state trading has brought with it increased property holdings by the Central Government. What is more important is that the nature of the property has altered considerably to include properties used for purposes which could be definitely considered as commercial or profit-making. As a result municipalities and others point to these revenue-producing properties which, if they were in private hands, would be taxable. It has been much easier to demonstrate a tax loss in connection with commercial enterprises operated by the Government than to make such a case in connection with legislative or administrative buildings or properties. However, even in connection with the latter, municipalities have been pointing out that these, taken in conjunction with the growth in holdings of other types of property such as defence establishments, have often resulted in a heavy concentration of tax-exempt government properties within the boundaries or certain municipalities, as in New Delhi. It is argued that the existence of tax-exempt properties within the municipal boundaries throws an added burden upon the balance of tax paying property and is discriminatory in effect and when such property is unduly concentrated the resultant tax loss has serious effects on municipal financial arrangements.

558. The principle that a tax will be paid only if it is proved that a service is rendered and that the onus of proof lies on the local body concerned, is fundamentally unsound. No tax-payer can take such a position and if he went to a court of law he would lose his case. The Government alone can take it because of its statutory immunity. It is difficult to measure to a nicety the exact service rendered to each Central Government building. One could only put negatively or measure the inconvenience which would be caused by the absence of the civic amenities which are provided by the local body in the neighbourhood. We have dealt with this argument more fully in connection with taxation of railways as this plea has been advanced by railways quite frequently and has even been given statutory recognition.

**559. General Observations.** The above review serves to bring out two points :—

(1) the statutory immunity which Union Government property enjoys from local taxation is not a peculiar feature of the Indian Constitution, but is to be found practically in every country.

(2) in other countries, while the statutory immunity remains, in practice a contribution is made to local bodies by the Central Government in lieu of such taxes. Such contribution is made after taking into consideration the rate of tax at the time of making the contribution. In India this practice has not been adopted but an artificial date line has been fixed beyond which no further claim to local taxation is admitted.



## TAXATION OF GOVERNMENT PROPERTY

Not only is new Union Government property exempt from local taxation, but existing properties pay only the rate of tax which was in force prior to April 1, 1937 and no liability for any increase in the rate of the tax is admitted. It is held that an increase in the rate of an existing tax is tantamount to a new tax. The Federal Court decided not long ago that under Section 154 of the Government of India Act, 1935, buildings constructed by the Government of India after April 1, 1937 on requisitioned lands are also exempt from payment of municipal taxes.

560. During our investigation of this question we were necessarily led to enquire what the position of State government properties was in relation to local taxation. It seemed to us that we could not make any recommendation relating to Central Government properties without making it applicable to State government properties also. We find that the position with regard to State government properties is not uniform. In some States there is no privilege and State government properties are treated in the same manner as private properties. But in others some classes of State Government property are either exempt from local taxation or pay a concessional rate of tax. Under the general powers which the State Government have got of exempting from local taxation any class of property, they have exempted certain classes of State Government properties. We feel that State governments must first divest themselves of any privilege that they enjoy in the matter of local taxation before they can ask the Central Government to give up its legal privileges in this matter. We, therefore, recommend that State Government properties should be subject to local taxation as they are in most of the States. Where State Government properties are not liable to local taxation under the Acts constituting local bodies, the Acts should be amended to provide for such taxation. If this liability is accepted, there should be no objection to an independent machinery for valuation of Government property. Such properties should either pay the tax in full or full contribution in lieu thereof.

561. Having thus cleared the ground in so far as State Government properties are concerned, we are in a better position to deal with Union Government properties, while such properties may continue to enjoy legal immunity from local taxation, the Union Government should adopt the practice of other Governments and make a contribution to local bodies in lieu of such taxes. That contribution should not be limited by any artificial date line as 1st April, 1937 under section 154 of the Government of India Act, 1935. The contribution should be calculated with reference to the rate of tax prevailing at the time of assessment and not with reference to the rate of tax on the date of coming into effect of the Constitution or any such artificial date. There may be certain classes of properties such as military, naval and air force establishments which may be exempted from general taxes imposed by local bodies, but even these classes should not be exempted from the payment of service taxes. All other classes of properties should be subject to both general and service taxes of local bodies, irrespective of the date on which such properties were constructed. In regard to valuation of these properties, we recommend that the procedure prevailing in England may be adopted i.e., the valuation may be done by a special machinery constituted by the Central Government. Once the valuation is fixed, the rate of tax will be that prevailing in the locality in which the property is situated at the time of assessment.

562. We would bring out one particular point in regard to valuation of official residences. It has been represented to us that such valuation is made on the basis of the concessional rent paid by Government servants (in which the cost of land is not taken into account) and not on the basis of 'reasonable rent'

as provided in the municipal Acts. This actually results in serious losses to municipalities. We consider that in this matter also the privilege claimed may be withdrawn and the law allowed to take its course.

563. **Betterment fees on Central Government property.** Another question in connection with local taxation of Government property arises regarding the levy of betterment contribution by local bodies on the properties of the Central Government in their jurisdiction with reference to the increase in the value of such properties as a result of a town planning scheme. Betterment fees, are, in some cases, levied by Improvement Trusts in this country and also by Municipalities where they act as the Town planning authority. In law, no distinction is made with regard to liability to betterment fee between properties owned by the state and those owned by an individual. We, therefore, do not think that there is any reason to treat the property of the Central Government different from other property in this matter. Should, however, there be any constitutional or other objection to the payment of betterment charges in the form of taxes or fees, an equivalent contribution should be made in lieu of the fees as is done, for example, in Canada.

## CHAPTER XIII

### TAXATION OF PORT TRUST PROPERTIES

564. As in the case of property belonging to railways, the valuation of property vesting in the Port Trusts in the three cities of Madras, Bombay and Calcutta for the purposes of municipal taxation presents special features. Properties vesting in the Port Trusts comprise a bewildering variety of structures, such as wharves, docks, quay sides, the determination of the annual value of which for purposes of rating is a highly complex job. It is not possible to determine the annual rent at which such structures could reasonably be expected to let, as such holdings are never let and so no comparison with similar structures is possible. Apart from these problems, though the Port Trusts are now administered by the Central Government, the method of valuation and assessment of their properties is not uniform, owing to the fact that before commencement of the Government of India Act, 1935 the Port Trusts were administered by the provincial governments concerned and were subject to provincial legislation. This naturally led to divergences in the three cities both as regards the basis of assessment and the extent of concessional treatment, if any, to the Port trusts. In order to facilitate a proper understanding of the problems, the law and practice relating to the valuation and assessment of properties vesting in the Port Trusts of Madras, Bombay and Calcutta are explained in the following paragraphs.

565. As the Bombay and Calcutta Corporations expressed considerable dissatisfaction with the way in which the properties of the respective Port Trusts are valued and assessed and as it was thought desirable that there should be some uniformity in the manner of valuation of such properties to municipal taxation in all the three cities, the Committee invited the representatives of the three City Corporations and the Port Trusts to appear before them to discuss the issue. The Government of India, Ministry of Transport were also requested to depute some representatives to be present at the discussions. These representatives appeared before the Committee in September 1950 at Delhi and the recommendations that follow have been made as a result of such discussion and on the basis of written memoranda submitted by the parties concerned.

566. **Madras.** Section 102 (c) of the Madras City Municipal Act, 1919 provides that :

“In the case of lands and buildings vesting in the Trustees for the Port of Madras, the property tax leviable in any year shall not exceed 4 per cent. of the gross earnings made by the Port Trust in that year.”

Prior to 1919, the Port Trust did not pay any tax to the Madras Municipality. When the provision was introduced for the first time in 1919, the Port Trust did not contest the question of its liability to municipal taxation. It recognised right of the municipality to levy taxes on its properties for the performance of municipal functions. It was thought at that time desirable to evolve a simple method of assessment, which would be equitable to both parties and would, at the same time, obviate the difficulties and friction that arise in adopting the ordinary 'rental value' method of assessment to municipal property taxes. The maximum rate of 4 per cent. of the gross earnings was determined after inquiring as to what proportion, roughly, the municipal taxes paid by other ports to the municipalities concerned bore to the total collections of the ports at that time. It was ascertained that in

Rangoon and Calcutta it was about 4 per cent. and in Bombay and Karachi a smaller percentage. As the entire income of the Port Trust was derived from the goods handled in the port and as any increase in the commitments of the Port Trust would have resulted in an increase in the rates payable by the trade, it was not considered desirable to impose a heavy burden on the trade and commerce of the city by imposing a heavy municipal rate on the Port Trust. It was, therefore, considered that an upper limit of 4 per cent. of the gross earnings would not be unfair.

The Corporation of Madras has not expressed any dissatisfaction with the present system as the procedure is simple and leaves no room for dispute.

The Chairman of the Madras Port Trust is satisfied with the present simple method of assessment of the tax. He has mentioned that the present basis has the following advantages:—

(1) The gross earnings being easily ascertainable from the audited accounts of the Port Trust the calculation of the tax payable to the Corporation is simple.

(2) There is no delay or difficulty in the assessment and payment of the tax to the Corporation.

(3) Inasmuch as the tax is fixed as a percentage of the gross earnings of the Port Trust, the Corporation is enabled to share the fruits of the prosperity of the Port when its earnings are high, while in lean years, the Port Trust does not feel the tax payable by it to the Corporation as an undue burden as the amount of the tax stands automatically reduced with the decrease in the earnings of the Port Trust.

(4) As the basis of assessment is easy and specific, no dispute ever arise between the Port Trust and the Corporation.

(5) Property tax is generally levied on the basis of the annual rental value, which is the rent at which the property is reasonably expected to let. The rent is the earning of the property and the earnings of the Port Trust are thus comparable to the rental value of its property.

(6) The alternative to the existing basis of assessment which, in the case of buildings which are not ordinarily let, is the cost of construction basis, i.e., the estimated market value of the land and the estimated cost of erecting the buildings at the time of assessment. This is both complicated and laborious.

(7) No quinquennial revision of the valuation or tax is necessary. No special staff for the valuation and assessment are also necessary.

567. The City Corporation as well as the Port Trust are in favour of the continuance of the existing system. In view of this and the decided advantages of this system, which far outweigh any small monetary gain which might accrue to either body by the adoption of any other system, we recommend that the existing arrangement be continued.

568. **Calcutta.** The Calcutta Municipal Act, 1923, does not contain any provision for the levy of the consolidated rate on properties vesting in the Commissioners for the Port of Calcutta, the requisite provision being incorporated in the Calcutta Port Act, 1890, (sections 59 to 68). The present position in this respect is described as follows in paragraph 50 Chapter III of Volume II, Part I, of the Report of the Corporation of Calcutta Investigation Commission:—

**“Port Commissioners’ properties.** Properties of the Commissioners of the Port of Calcutta falling within this municipality are assessed under section 59 to 68 of the Calcutta Port Act (Bengal Act III of 1890) which govern the matter. The annual value in the case of

Port Commissioners' buildings is 5 per cent. of the aggregate expenditure on construction plus the value of the land, and the amount payable by any other person. The Corporation determines the annual value, but in these cases there is no difficulty, as the figure for annual value is not an estimate, but actual cost. Usually it is done upon a return of capital cost construction submitted by the Port Commissioners. The appeal from the assessment is to the local Government. The valuation, once made, remains effective for six years, and may be revised after that period. As to tenants' buildings on the Port Commissioners' land, the method is the same as that in section 127(b) of the Calcutta Municipal Act, but without adding the value of the land. The valuation of these structures may be made annually but until a new valuation is made, the assessment remains in force. The rates for these buildings are paid by the Port Commissioners with a deduction of 1/10th."

The relevant sections which lay down the basis of valuation and assessment are reproduced below :—

- "59. For the purposes of municipal assessment the annual value of the property vested in the Commissioners within the municipal limits of Calcutta shall be ascertained in the following way :—
- (1) The aggregate expenditure incurred in the construction of all docks, wharves, quays, stages, jetties, piers and other works belonging to the Commissioners, also in the purchase of land ; also in the construction of offices, warehouse and other buildings belonging to them within the limits of Calcutta, as defined by the Calcutta Municipal Consolidation Act, 1888, shall be determined.
  - (2) Expenditure incurred in procuring or putting up machinery shall not be included in such aggregate expenditure.
  - (3) Expenditure incurred from time to time on account of repairs necessary to maintain any works or buildings in good order shall not be included in such aggregate expenditure.
  - (4) Expenditure for the purpose of materially adding to or improving any work or building shall be included in such aggregate expenditure.
  - (5) Five per cent. on the aggregate expenditure determined in the manner herein before provided shall be the annual value of the rateable property of the Commissioners within the meaning of section 122 of the Calcutta Municipal Consolidation Act, 1888.
60. The sum to be paid to the Corporation of Calcutta as the consolidated rate payable on the annual value determined as in the last preceding section provided shall be nine-tenths of the amount which would be payable by an ordinary owner occupying his own buildings and lands.
- 66A. (1) For the purpose of municipal assesment in cases where any land vested in the Commisisoners is let out to tenants and any building or structure is erected thereon by such tenants, the annual value of such building or structure, when erected shall be five per cent. on the estimated present cost of erecting such

building or structure, less a reasonable amount to be deducted on account of depreciation, if any.

(2) The buildings and structures in each holding, as recorded in the rent register of the Commissioners, shall be separately valued and assessed.

It will be noticed that the municipal assessment is based on the cost of construction and not on the value of the land at the time of assessment, as required by section 127 (b) of the Municipal Act. Most of the lands now vesting in the Port Commissioners were acquired nearly a century ago, when land values were very low as compared with present day values of land in Calcutta. Owing to this differentiation, the valuation of Port properties has been very low and the Corporation has been sustaining a big loss.

569. It was pointed out to us that this discrimination in favour of Port Trust properties should be ended. As a result of the representations made by the Corporation from time to time and in pursuance of the recommendations on the subject by the Biwas Commission, the Government of West Bengal informed the Government of India of their intention to sponsor legislation to amend the relevant sections of the Calcutta Port Act, 1890. When we invited the Corporation of Calcutta and the Calcutta Port Commissioners to send representatives to New Delhi to discuss the matter with us, the Corporation and the Port authorities entered into discussions as a result of which an agreement has been reached between the two bodies on all the outstanding points at issue. The terms of the agreement reached on the 21st, September, 1950, are briefly as follows:—

(1) Land covered by roads, water areas of the docks, canals and railways will continue to be assessed as at present on the actual cost of acquisition.

(2) All land, except land rented to tenants, will be valued at Rs. 1,000 per cottah on the basis of the actual area.

(3) Land acquired and accreted at a future date will be assessed on the actual cost of acquisition.

(4) Land rented out to tenants will be assessed on the basis of the annual rent payable to the Commissioners.

(5) Structures and buildings erected by tenants on land vested in the Commissioners and let out to them will be assessed at 6 per cent. of the estimated present cost less a reasonable amount to be deducted on account of depreciation, if any.

(6) 5 per cent. of the annual rent from rented lands as under (4) will be deducted from the total annual assessed value of the Commissioners property to cover the annual value of improvements on rented land.

(7) All future expenditure on capital improvements on rented land will be excluded from taxation.

The agreement is expected to result in an annual increase of Rs. 11,65,344 in the amount of tax payable by the Port Commissioners. In view of the fact that both the parties have expressed satisfaction with the agreement we would suggest that it may be adopted and that steps taken to give legislative effect to its terms.

570. Another point that strikes us is that it is somewhat anomalous that provisions relating to municipal valuation and assessment should appear in the Port and not, as in Madras, in the Municipal Act. We find that in the case of

Bombay Port Trust also the position is the same. Provisions regarding municipal taxation of the Bombay Port Trust properties appear in the Bombay Port Trust Act and not in the City of Bombay Municipal Act. At the time that the Calcutta and Bombay Ports Acts were enacted, the Ports as well as the Corporations in question were the concern of the Provincial Governments. But now that the ports of Calcutta and Bombay have been removed from the jurisdiction of the State Governments and form a Central subject, the provisions relating to municipal assessment should appear in the State Acts, which can be amended by the State Legislature and not in a Central Act, the amendment of which by a State Legislature seems somewhat incongruous. We brought this point to the notice of the Ministry of Transport, who said that they would consult the Ministry of Law on the point. We accordingly do not wish to make any further comment on this matter.

571. **Bombay.** The provision regarding municipal assessment of Bombay Port Trust properties is contained in section 36 of the Bombay Port Trust Act 1879, which runs as under :—

- “(1) The Board shall pay annually, on the thirtieth day of September, to the Municipal Corporation of the City of Bombay, in lieu of the general tax leviable by the said Corporation in respect of the property or some portion of the property, vested in the Board, which would otherwise be liable to be assessed to the said tax, a sum ascertained in the manner provided in sub-sections (2) and (3).
- (2) The rateable value of the buildings and lands in the city vesting in the Board in respect of which the said tax would be leviable from the Board shall be fixed from time to time by the Central Government. The said value shall be fixed with a general regard to the provisions contained in the City of Bombay Municipal Act, 1888, concerning the valuation of property assessable to property taxes, at such amount as the Central Government shall deem to be fair and reasonable. Every such decision of the Central Government shall hold good for a term of five years, subject only to proportionate variation, if in the meantime the number or extent of the buildings and lands vesting in the Board materially increases or decreases.
- (3) The sum to be paid annually to the Corporation by the Board shall be nineteen-twentieths of the amount which would be payable by an ordinary owner of building or lands in the city, on account of the general tax on a rateable value of the same amount as that fixed under sub-section (2).

The assessment of the properties of the Port Trust is made under the following general heads :—

- (1) Docks, wharves and railway : Assessment calculated on ‘profits’ basis.
- (2) Buildings outside dock limits : Assessment calculated on rents actually realised.
- (3) Lands temporarily occupied : Assessment calculated on rents actually realised.
- (4) Lighthouses ; Assessment calculated on cost of construction.
- (5) Vacant lands : Assessment calculated at 4% of the estimated value of the lands, with a rebate of 2/3rds of the general tax.
- (6) Lands let on buildings leases : Leases are assessed direct.

572. So far as categories (2) to (6) are concerned there is no dispute between the Port Trust and the Corporation. The system of assessment is in accord with the principles laid down in the Municipal Act for assessment of other properties. It is only in relation to item (1), namely, docks, wharves, and railway where the assessment is made on the profits basis that there is a dispute. The dispute is not with regard to the basis but with regard to details. With the profits basis both the parties are satisfied and do not wish to make any change. They are not in favour of the adoption of the Madras system, which we suggested to them.

573. The profits basis is not mentioned in the Municipal Act. It is, as we have shown in the chapter on property tax (general), generally followed in England in relation to certain classes of property. Sir Sajba Rangnekar explained this basis in his arbitration award on the dispute between the G.I.P. and B.B. & C.I. Railways and the Bombay Municipal Corporation, 1919 :—

“It becomes necessary, therefore, to consider first the system known as the ‘profit basis’. To put it in plain words, the system known as ‘profits basis’ seems to be intended to be an application of the economic theory of rent, and it founded on an enquiry as to how much, the hypothetical tenant will pay for the privilege of occupying the premises and making what he can out of the undertaking he carries on there. The system, broadly speaking, is that the gross receipts of the undertaking are taken for the year of calculation ; from these are deducted the expenses of earning these receipts ; from the residue the tenant’s share is ascertained—a hypothetical sum which represents what the tenant might reasonably be satisfied with, for his profits which will include interest on his capital, remuneration for his industry and compensation for risk, and the residue will be the landlord’s share of the rent.”

To the same effect are the observations of the court in the Kingston Union versus the Metropolitan Water Board (1926) A.C. 331.

These observations are as follows :—

“That method may be stated thus :—

From the gross receipts of the undertaking are deducted the expenses of earning those receipts, the balance representing the net receipts of the undertaking. From the net receipts so ascertained is deducted the tenant’s share representing what the hypothetical tenant might reasonably be satisfied with for his profit, which includes interest on his capital, which he will have to provide, remuneration for his industry, and compensation for risk. The residue represents the rent which he would be willing to pay for the undertaking, and is the net annual value thereof.”

574. The main point under dispute is as to what items should be included in gross receipts and what should be excluded. The Chairman of the Bombay Port Trust in his evidence before us said that demurrage should not be included. Demurrage, we find, forms a large item in the earning of the Port Trust. The Corporation holds that it is a normal item of receipt and should be included. We do not wish to enter into the merits of the dispute. We understand that the Central Government are already dealing with this question and no doubt they will pass appropriate orders on the point. We are only concerned with the principle involved in the point. For any system based on calculation of profits to work satisfactorily, it is necessary that the form of keeping accounts should be



determined in a disinterested and authoritative manner by competent authority. What items are to be included and what items are to be excluded from the calculation of profits should be settled by this authority so that no disputes may arise in the future.

575. Once it is settled how the profits are to be calculated the determination of rateable value should be comparatively simple. But it is possible that even in the determination of this rateable value there may be a difference of opinion between the Port Trust and the Corporation. At present such differences are referred to the General Government, who finally decide the matter. The Corporation considers that this amounts to an assessee determining his own assessment. We think there is some force in this contention and would suggest the constitution of a tribunal to deal with such disputes. Such a tribunal may consist of a qualified Accountant and an experienced Engineer and be presided over by a High Court Judge. The award of this tribunal should be binding on both the parties.

576. **General.** We tried to devise a uniform system of taxation of Port Trust properties. The Madras system seem to us very simple and we requested the Ministry of Transport to give us corresponding figures for the ports of Bombay and Calcutta showing the percentages which the taxes now paid form of the total earnings of the the Port Trust. A statement giving these figures is attached. It will seen that both the Bombay Corporation and the Calcutta Corporation stand to gain if the municipal tax were paid on the basis of 4% of gross earnings. In the case of Calcutta under the new agresment, the increased tax more or less amounts to 4%. As to the application of the Madras system to Bombay, we have reason to belive that the Bombay Corporation may agree if a provision were made to the effect that in case the municipal General Tax and Fire Tax are increased the percentage of gross earnings payable by the Port Trust as municipal tax could be proportianately increased. We recommend that Government may consider the feasibility of applying the Madras method to Bombay and Calcutta.

Statement showing the annual income and the amount of municipal taxes paid by the Port Trusts of Madras, Bombay and Calcutta for the years 1937-38 to 1948-49.

YEAR	MADRAS PORT TRUST		BOMBAY PORT TRUST			CALCUTTA PORT COMMISSIONERS		
	Income	Municipal Tax	Income	Municipal Tax	Percentage of municipal tax to income	Income	Municipal Tax	Percentage of municipal tax to income
1937-38	34,13,565	1,31,019	2,81,35,096	2,95,107	1.05	3,23,85,622	16,09,141	4.97
1938-39	35,41,643	1,55,202	2,62,79,656	2,95,412	1.10	3,16,91,899	22,48,338	7.09
1939-40	38,88,783	1,49,878	2,70,61,589	5,74,369	2.10	3,55,93,950	24,31,539	6.83
1940-41	31,09,524	1,40,913	2,95,11,048	5,74,369	1.90	3,07,89,188	17,30,165	5.62
1941-42	30,44,486	1,16,992	3,61,53,625	2,95,158	0.80	3,48,75,100	17,67,835	5.06
1942-43	19,27,027	71,520	4,23,63,035	5,63,484	1.30	2,66,74,021	17,66,379	6.62
1943-44	41,57,251	1,51,215	4,76,55,723	5,63,484	1.17	5,62,96,677	17,66,483	3.14
1944-45	95,50,188	4,32,006	4,74,65,437	17,26,674	3.60	7,03,16,448	17,71,023	2.52
1945-46	1,39,37,896	5,56,694	5,23,56,231	18,76,820	3.60	6,42,57,206	17,74,865	2.76
1946-47	1,04,01,336	4,72,224	5,23,03,578	21,77,112	4.10	5,08,26,530	17,69,131	3.48
1947-48	94,21,984	3,83,851	5,84,75,470	21,95,880	3.70	6,54,84,143	19,20,850	2.93
1948-49	1,12,88,228	4,78,445	6,77,13,520	22,14,648	3.27	7,58,60,525	20,50,464	2.71

Note:— The percentage in Madras is 4.2 (4% Property Tax and 0.2% Education Tax).

## CHAPTER XIV

### TAXATION OF FLOATING POPULATION

577. The speed at which urbanisation is proceeding in this country has, among other things, led to the growth of substantial suburbs and satellite townships round about important centres of trade and industry and port towns. The growth of this class of residential areas has produced in its wake problems for urban authorities. The dwellers of such localities visit the main city during the day for their work and return by night to their homes beyond the municipal limits. In this way, they derive benefit from the amenities provided by the local authority but contribute nothing towards their provision and maintenance. Then there is the seasonal labour, which migrates to industrial centres the working season and comes away during the off-season. This class of population quite often has no fixed dwelling abode on which any property tax could be chargeable. So than, while imposing a heavy strain on municipal services such as constevancy and water supply, it also contributes nothing towards their maintenance. The urban witnesses and the municippal executives made a grievence of this state of affairs. At almost every important centre which the Committee visited the desirability of taxing these classes of the population was urged.

578. The Municipal Commissioner for the City of Bombay said that the Corporation was considering the imposition of a profession tax to make the suburban population contribute to municipal revenues. For the casual visitor who stays in a hotel he suggested a graded surcharge on the hotel bill, with an exemption limit if necessary. Shri M. Y. Nurie considered that the Bombay Corporation should adopt a system of surcharge on railway tickets for every visitor to the City. The President of Ahmedabad Municipality also favoured such a method of taxing visitors.

The Calcutta Municipal Corporation authorities suggested a terminal tax on passengers of 3 pies per head or a small surcharge of annas two per week on every ration card. The Chief Executive Officer, Calcutta Corporation suggested a terminal tax on passengers coming into and going out by Howrah and Sealdah stations, just as the Howrah Bridge Commissioners and Calcutta Improvement Trust are doing. He endorses the suggestion made by the Administrator Calcutta Corporation regarding a surcharge on ration card in the following words :—

“A vast number of people, who enjoy the civic amenities provided by the Corporation escape local taxation altogether, Levying a tax on ration cards is a very easy and effective way of taxing such people and incidentally of curbing ghost ration cards. A fee of annas eight per card in advance at the time of their issue and periodically thereafter at the time of drawing rations will be easy of collection and will bring in very good revenue.”

The Municipal Commissioner, Corporation of Madras also stated that certain sections of the population escaped municipal taxation altogether while enjoying the amenities provided by the municipal authorities. He suggested that every person coming to the City from outside 50 miles distance, whether by rail, boat or motor, should be taxed. The Chairman, Ootacamund Municipality, suggested a terminal tax of six pies per head to be collected through the Bus Service Company or the railway from every passenger visiting Ootacamund. Shri T. V. S. Chalapathi Rao, Member, Municipal Reform Committee Madras, was of the

view that every one residing within the municipal limits for a particular period should be made to contribute something. This witness further brought to notice that the Vijayawada Municipality had suggested that every citizen, who is the head of a family consisting of three or four members and had been residing within the municipal limits for a period of 120 days and had not paid any tax to the municipality, should be made to pay annas eight per family for half year or Re. 1/-per year.

Shri J.C. Das Gupta, retired Secretary, Howrah Municipality was in favour of a tax on persons in municipal areas who were neither house-owners nor rent payers. Realising the difficulties in the way of enforcing such a tax, the witness suggested the levy of a charge of one pice per ration card per week to be realised through the ration shops. According to this witness such a levy would bring about Rs. 4 lakhs to Howrah Municipality even after making allowance for exemptions to indigent persons and minors. Another witness Shri M. K. Ghosh (West Bengal), proposed that people not paying any tax to the local authority should, if in receipt of an income of Rs. 200 a month, contribute 2% to the municipality in the form of a tax or licence fee. He was of the opinion that by levying a tax on ration cards alone the entire floating population would not be roped in, as there existed a class of people who had no ration cards whatsoever. They came from outside and got their supplies in their own villages or mofussil towns. That is why he suggested a specific tax for such classes.

579. The Indian Taxation Enquiry Committee was of the view that "a light terminal tax on passengers may be justified in the case of a large city on the ground that as a centre of trade or amusement or of public offices many non-resident persons come in and make use of the amenities provided by the local governing body."\*

580. A terminal tax on passengers in the form of pilgrim tax is in vogue in almost all the important pilgrim centres in this country. Such taxes are usually levied on the railway tickets and are collected by the railway company (except in Nasik where they are collected by the Municipality) for a small commission. They apply only to certain pilgrim centres and in many cases they can be imposed only during certain festivals. There is usually a free zone, all passengers coming from stations within the free zone being exempt from the tax. The rate is so low that it involves little hardship. On the other hand, the receipts are generally earmarked for the very necessary purpose of providing conveniences for pilgrims and taking measures to prevent the spread of epidemics.

581. Taxes on railway passengers cannot be levied without the sanction of the Government of India as they are included in the Union List of subjects. To obtain such sanction it has to be demonstrated that the towns desiring to levy them are exceptionally circumstanced and therefore justified in taxing passenger traffic. Pilgrim taxes are being levied in Bombay, Uttar Pradesh and Madhya Pradesh. In the U. P. owing to the All-India importance of several places of pilgrimage, the tax is more important.

While the Government of India have been permitting levy of passengers tax in pilgrim centres more or less freely they do not appear to favour its levy in places which are not centres of pilgrimage. Only recently they declined to entertain the proposal of the Delhi Municipality to introduce a tax on visitors to Delhi. Having recognised the principle of permitting a levy of tax on passengers where large number of visitors congregate temporarily, we cannot see why this privilege should be limited by the Government of India to places of pilgrimage alone and why it cannot be extended to important centres of trade and industry

\* Paragraph 448, page 319 of the Report.

## TAXATION OF FLOATING POPULATION

where an equally large number of visitors congregate and thereby similarly impose a heavy strain on the resources of local authorities. The only difference appears to us to be that while the former congregate for the good of the soul the latter congregate for worldly benefit.

582. We accordingly recommend that the levy of a tax on railway passengers in places like Bombay and Madras and other important centres of trade and industry may be permitted on the same lines as is done in Calcutta at present. We have in another chapter suggested the imposition of a tax on passengers by road. This will tend to equalise the conditions under which traffic by road takes place at present and not place undue handicap on transport by rail.

One of our colleagues is of the opinion that there should be small surcharge on all railway tickets, irrespective of whether the passengers go to important trading centres or to any other stations. We have in another chapter recommended that passengers by road transport should be surcharged at rates ranging from 3 pies to 12 pies according to the distance travelled. On this analogy he holds that even in the case of railway passengers a similar small surcharge should be imposed and the income therefrom should be made available to local bodies. We, however, do not agree with this view.

583. We also suggest that the State Governments might authorise municipalities to levy a tax on such visitors to important centres of trade and industry as reside in hotels. Such a tax might be levied in the form of a surcharge on the hotel bill subject to a minimum exemption limit per visitor for each visit. It is understood that in certain places on the Continent of Europe, which are generally frequented by visitors, such a tax is not uncommon.

But a tax on passengers or hotel visitors will not cover those classes of the community, who are habitually resident in these places but make no contribution to municipal taxation. It is to cover such classes, that a tax not exceeding two annas per week or eight annas a month per ration card has been suggested.

584. According to data supplied by the Ministry of Food, the number of ration cards actually issued in each State during the years 1948 and 1949 was as under:—

### STATEMENT SHOWING THE NUMBER OF FOOD RATION CARDS

States	Number of ration cards issued during the year 1948	Number of ration cards issued during the year 1949
1. Assam	71,346 (F & I)	91,354 (F & I)
2. West Bengal	950,000 ( I )	925,000 (I) *
3. Bombay	5,107,865 ( I )	7,744,492 (F & I)
	1,983,505 ( F )	4,243,300
4. Bihar	280,966 (F & D)	369,025 (F & I)
5. Madhya Pradesh	NIL	222,694 (F)
6. Madras	5,189,708 (F)	8,095,583 (F)
7. Orissa	21,419 (I)	24,608 (I)
8. Punjab	915,970 (F & I)	1,254,880 (F & I)
9. Uttar Pradesh	953,072 (F)	1,634,921 (F)
10. Ajmer	332,242 (F & I)	250,707 ( F & I)
11. Coorg	NIL	9,907 (F & I)
12. Delhi	1,143,883 (F & I)	755,062 (F & I)
<b>Total</b>	<b>16,647,976</b>	<b>25,621,533</b>

F indicates Family Ration Cards

I indicates Individual Ration Cards.

F&I indicates both Family and Individual ration cards.

\* Actual number of cards in use must be considerably more.

## CHAPTER XIV

---

The number of ration cards during the year 1949 was 256.21 lakhs. Assuming that this number has remained stationary a surcharge at the rate of Rs. 6/- per annum (or annas two per week) would produce an annual income of Rs.1537.26 lakhs.

We are, however, not in favour of such a levy, as it would increase the already high cost of living in the country and would fall heavily on the poorer section of the community. It would be regarded as something in the nature of a poll tax and thus be highly unpopular, besides falling even on those classes which are at present making their due contribution to local taxation in other ways.

## CHAPTER XV TAXATION OF MINES

585. The problems presented by the taxation of mines for local purposes are special in the sense that in the working of a mine it is not easy to distinguish between the annual and the capital value. In subjecting a mine to taxation on the basis of its annual value we are also simultaneously subjecting it to taxation on its capital value, as the total value of the mine is diminished by the degree of the output actually raised in any particular year. This is not the case in relation to any other property subject to local taxation.

586. **Basis of assessment.** There is considerable diversity at present in different states, not only in the matter of imposition of local taxation of mines but also in the basis of assessment of the taxes imposed. No special tax is levied in the Punjab, U.P. or Madras. In Assam it is leviable on the surface rent only. In Bombay a cess at the same rate as the local fund cess on agricultural land is collected by the Government on the rent and royalty payable on mining leases and credited to local funds. In Madhya Pradesh under section 51 of the Local Self-Government Act, a tax called coal tax on the output of coal raised is levied at the rate of nine pies per ton. This tax is a source of income to the Janapada Sabha, Chhindwara, in whose jurisdiction almost all the coal mines in the state are situated. In Bengal, Bihar and Orissa, there is a general cess on mines levied under the Cess Act and special cesses for particular objects are levied under special Acts in the coal-fields. The former cess is assessable at the rate of one anna in the rupee on the annual net profits from mines. Mines belonging to railways have been exempted from this assessment.

587. **Mining Boards.** Special cesses are levied for the benefit of Health Boards specially established in Bengal, Bihar and Orissa within the colliery settlements for the purpose of ensuring water supply, sanitation, conservancy and housing in mining areas. For Jharia coal fields there is, in addition to the Mining Board, a Water Board, which looks after the water supply of the collieries in that area. These bodies are quite distinct from district boards, though they perform the functions which a municipality or a district board would have performed had they not been in existence. In States other than Bengal, Bihar and Orissa there are no Mining Boards and the functions of water supply, conservancy, sanitation etc. which they perform for mines in these three States are performed by the ordinary local bodies within whose jurisdiction the mines are situated. No evidence from these bodies was received in Bengal, but in Bihar evidence as to the special problem which Mining Boards have to face was tendered to us. In no other province did we receive any evidence on the subject of local taxation of mines.

588. **Special cesses for Mining Boards.** The special cesses levied by mining Boards in Bengal, Bihar and Orissa comprise :—

- (1) a tonnage cess based on the output of the three years preceeding the year of assessment, payable by the operating company; and
- (2) a royalty cess payable by the landlord.

These special cesses are for services rendered and the amount collected may not exceed the cost of the services. The general cess is paid to the district board and railway collieries are exempt from it.

589. **Special laws.** Special Acts applicable to coal fields are in West Bengal the Bengal Mining Settlements Act, 1912 and in Bihar and Orissa the Bihar

and Orissa Mining Settlements Act, 1914. The two Mining Settlements Acts provide for the establishment of Boards of Health, which are financed in the manner indicated in the preceding paragraph. The Jharia Water Supply Act was passed in order to finance an elaborate water supply scheme to serve a particular colliery area. The cost of the scheme is met by a tonnage cess on the annual despatches of coal and coke from the mines at rates determined from time to time. The cess is payable by the companies working the mines. In addition to this a further cess is levied on any person who receives royalty from any mine situated within the area benefited, assessed at rates not exceeding a prescribed percentage of the royalty received. This again is a payment purely for services rendered. The sources of finance of the Jharia Water Board are distinct from those of the Jharia Mining Board.

590. **General observations.** In connection with this subject the following questions arise.—

- (1) whether in view of the peculiar nature of the conditions of mining areas, they should be constituted into separate districts for the purposes of local self-government and allowed to work out their own solutions of their special problems;
- (2) whether the present divergence in the basis of assessment from state to state should continue;
- (3) whether the rate of taxation applied to mines should not be lower than the rate for the rental value of agricultural land.

591. In regard to (1), we can express no opinion as we have to frame our recommendations on the basis of the existing structure of local bodies. We feel that it would be outside the scope of our terms of reference to suggest that separate authorities should be constituted for the purpose of local self-government in mining areas, in which case district boards will have no function to perform for these areas and no right to levy any tax.

592. In regard to point (2), namely, the lack of uniformity in the existing basis of assessment, we find that even in foreign countries there is no uniformity in regard to the taxation of mines. In England mines are assessed on the output method—the valuation is fixed by multiplying output by a rate of royalty per unit of output. In America local assessors are left to their own devices in the matter, but the taxation of mines on the basis of output is becoming increasingly common. In our view, there is some justification for basing local taxation on the putout of mines, and we feel that, if there is no great difficulty, this basis may be adopted by States which are not doing so at present. As regards the existing rates of taxes we understand that they are working satisfactorily and we therefore do not suggest any variation.

593. Should for any reason there be difficulty in introducing the output method recommended above, we have to consider the third point, which has been raised in paragraph 475 of the Report of the Indian Taxation Committee. We find that the existing practice has remained unchanged since the Committee reported. No mining interest took up this point with us. It is true that the net profits of a mining area must be much larger than if that area had been used for purely agricultural purposes. It is for this reason that the Taxation Committee suggested a differentiation in the rate of taxation. To quote their words :—

“Mines sometimes situated in out-of-the-way corners of a district, may pay a very large proportion of the local taxation of the whole, or again some comparatively undeveloped and sparsely peopled districts may secure, by reason of the existence of mines in them, a revenue much larger than that of their more developed neighbours.”



## TAXATION OF MINES

---

This raises the same question as in the case of railways, namely, whether mines should or should not be subject to general local taxation in addition to the special cesses which they already pay to the special bodies constituted for their benefit in Bengal, Bihar and Orissa. We have given reasons why we are unable to support the argument advanced for exempting railways from general local taxation or for applying a lower rate to them. We think that the same arguments apply in the case of mines. All mines, including collieries owned by railways, should be subject to the general cess levied by the district boards and the rate also should be the same. We have suggested that the land cess on agricultural lands in West Bengal should be doubled. If this suggestion is accepted, it would automatically follow that the general cess payable by mines in West Bengal would also be doubled. In Bihar and Orissa the rate is already doubled and we see no reason why mines in West Bengal should be subject to a lower rate of local taxation than the mines in Bihar and Orissa. Wherever a mine yields a substantial net income, it should bear its fair share of taxes either on the basis of output as in Madhya Pradesh or on the basis of special and general cesses as in West Bengal, Bihar and Orissa.

594. Though we have not specifically mentioned quarries, the local taxation of quarries should be on the same basis as for mines.

## CHAPTER XVI

### - COLLECTION OF TAXES

595. The last all-India review of the question of collection of local taxes was made by the Simon Commission whose remarks have already been quoted in a previous chapter. The Commission stated :—

“The most disturbing feature is the failure to collect direct taxes imposed. In Great Britain, a municipality expects to collect upto 98 or 99 per cent. of the rates imposed by it, and a drop in collection to 95 per cent. would be the subject of very close enquiry. But in municipalities in India, since the Reforms uncollected arrears have been mounting up to very large sums. This feature is referred to by almost every Provincial Government in reviewing the work of the municipalities, and it is clear that there is a great laxity in this respect.”

596. The position as disclosed in the above extract has not improved, even now after 20 years, since the Simon Commission reported. This is clear from the notes submitted to us by State Governments.

(a) The Government of Bihar write as follows :—

“The third method of augmenting municipal income with the existing sources of taxation continuing as at present is improvement of collections. During the year 1946-47 the total percentage of collection to current demand was 89.27. The percentage cannot be regarded as satisfactory but similar percentages of collections have obtained over a long stretch of years. Collections are, generally speaking, unsatisfactory, mainly because of the unwillingness displayed by municipal commissioners to make use in the matter of collecting their taxes, of the coercive processes provided for by the law. Cases of levy of taxes by distress on failure to pay them on the due date are not very common and taxes are allowed to fall into arrears without stern measures being taken for their recovery. Inspection notes recorded by inspecting officers show from time to time how collections in individual municipalities are unsatisfactory and Government on their part issue detailed instructions where necessary, to effect improvement in this respect. The position might improve slightly if, for instance, each municipality has an Executive Officer with well-defined powers in regard to the detailed administration of the municipality, including the recovery of taxes. The Provincial Government are at present examining a thorough overhaul of the existing provisions of the Bihar and Orissa Municipal Act and it is probable that they may decide to have in the Act a provision, which does not exist at present, for the appointment by each municipality of an Executive Officer charged with specified duties and vested with defined powers under the Act. The improvement, however, which the appointment of an Executive Officer might bring about in this respect would not probably raise the income of municipalities by more than about 10% of their present income.”

(b) In the Bombay State, the Annual Report on the working of the Local Audit Department for the year 1947-48 contains the following remarks :—

COLLECTION OF TAXES

"In the borough municipalities of Malegaon, Kalyan and Kurla, the arrears of taxes recoverable were rather high, being 36, 33 and 32 per cent. of their total demands of taxes. In the borough municipalities of Bandra, Broach and Bijapur, the arrears were slightly over 20 per cent. In the remaining, the arrears were below 20 per cent. Godhra, Gadag and Hubli deserving special mention each having recovered all but about two per cent. of taxes. In district municipalities, however, several instances of heavy arrears were noticed. The worst case was of Indapur Municipality where nearly 90 per cent. of the taxes were not recovered. More than 40 per cent. of the taxes were in arrears in the district municipalities of Athni, Bhagpur, Bhiwandi-Nazampur, Byadgi, Jeiuri, Karwar, Nargund, Sirur, Yawal, and Yeola. Reluctance on the part of the municipalities to have recourse to the coercive measures provided in the Municipal Act mainly contributed to these heavy arrears. Better collection was noticed in the municipalities of Alandi, Bulsar, Dhanduka, Islampur, Jambusar, Khed, Satara Suburban, Taloda, Tasgaon and Vita where less than 10 per cent. of the demand remained in arrears.

Listed in Statements III and IX of Appendix III are cases of municipalities where Councillors were in arrears in payment of municipal taxes. Compared with 1945-46 no appreciable improvement in the recovery of arrears was noticed in 1946-47. The Presidents have, during the course of audits and inspections, been advised to issue special notices of demands against the defaulting Councillors immediately after the tax falls in arrears as per G.R., G.D., No. 4468/33-A dated 24th July 1941, as any failure to pay taxes within the stipulated period of 3 months would entail their disqualification as Councillors.

STATEMENT NO. III.

**Municipal Boroughs whose Councillors were in arrears on 31st March 1947**

Name of municipal Borough	Number of councillors who were in arrears on 31st March 1947	Total amount of arrears due from councillors on 31st March 1947			Remarks
		Rs.	As.	Ps.	
1	2	3	4		
<i>Northern Division.</i>					
Bandra	7	5,952	1	0	
Kural	4	779	2	0	
<i>Central Division.</i>					
Ahmednagar.	1	24	0	0	Recovered during audit in 1947-48.
Dhulia	1	3	5	0	
Karad.	1	26	12	0	No special notice was issued.
Lonavla.	1	48	1	0	Due for 1945-46, recovered in 1946-47 on 15th May 1946.

CHAPTER XVI

1	2	3			4
Malegaon	1	30	0	0	No special notice was issued.
Poona	2	419	2	0	Rs. 115-1-0 were recovered in 1946-47 on 18th October 1946.
Satara	1	26	12	0	Since recovered on 29th July 1947.
<i>Southern Division.</i>					
Belgaum	2	37	8	0	Since recovered.
Bijapur.	2	230	0	0	No special notice was issued.

STATEMENT NO. IX

District Municipalities and Notified Area Committees whose councillors were in arrears on 31st March, 1947.

Name of Municipality or Notified Area Committee	Number of councillors who were in arrears on 31st March, 1947	Total amount of arrears due from councillors on 31st March, 1947			Remarks
		Rs.	As.	Ps.	
1.	2.	3.			4
<i>Northern Division.</i>					
Borivil Notified Area Committee.	2	43	13	0	
Kapadwanj.	1	15	12	0	No special notice was issued.
Rander.	4	44	10	0	—do—
Sanand.	1	16	10	0	—do—
Umreth.	2	23	10	0	—do—
<i>Central Division.</i>					
Baramati.	4	161	0	0	Includes Rs. 128-8-0 due from a councillor as shop rent.
Dhond	6	867	5	0	
Nandurbar	2	27	5	0	
Shahada.	3	59	11	0	
Sirur.	6	290	12	0	The councillors failed to pay the taxes even though they were served notices under section 15 (2) (f) of the Act. Rs. 125 were since collected from 3 councillors on 9th May 1947, 2nd July, 1947 & 3rd July 1947.

COLLECTION OF TAXES

1	2	3	4
<i>Southern Division.</i>			
Alibag	4	131 4 0	*
Bagalkot	2	39 13 0	%
Byadgi.	2	10 12 0	Since recovered on 15th & 17th June 1947.
Kaliyal	2	61 5 6	&
Haveri	1	4 6 0	£
Karwar	1	133 8 0	No special notice was issued.

(c) In Madras the position is satisfactory, as will be seen from the following figures taken from the note of the Government of Madras to us :—

Year	Percentage of collection to demand.
1944-45	97.4
1945-46	97.5
1946-47	96.7

(d) In relation to Bengal the position of collection is generally unsatisfactory, as will appear from the following extract from the note of the Government of West Bengal to us :—

"If assessment is low and collection unsatisfactory, there is an obvious means of augmentation of income even within the existing provisions of the Act. The position has not improved since Mr. Majumdar reviewed it in 1939-40 and the following observations abridged from paragraphs 20—35 of his report are true even today :—'It is not the actual rate of levy on which the tax revenue depends as on the effort municipal assessors and tax collectors. The assessment of land and building values is an extremely complicated affair and unless elaborate rules are laid down for the guidance of assessors and discrimination exercised in selecting personnel, the assessment is likely to be unjust and municipal income will decrease. The panel of assessors should consist of technically the best qualified persons. Assessment proceedings are completed only when they have been reviewed and approved of by municipality. Unfortunately, the Act provides for a purely lay committee for whose ignorance of the highly complicated procedure of valuation and misplaced sympathy, municipal assessment has suffered severely. It is important that the work of review should be entrusted to a quasi-judicial standing tribunal to which representatives of the local municipality should be attached as assessors. The work of collection is still more important. The percentage of total collection to total demand was 65 in 1936-37 and 64 in 1937-38. It is unusual for a local

\* Dues have since been recovered from three of the councillors and the fourth councillor was disqualified for non-payment of the dues.

% Special notice was issued to one councillor only.

& No special notice was issued. Rs. 51-5-6 due from one councillor since recovered on 9th April 1947.

£ No special notice was issued. Since recovered on 4th Sept. 1947.

CHAPTER XVI

authority in England to collect less than 95 per cent. of the annual demand. Compared with this record the leakage of municipal tax revenue in this country is startling. In the years that have followed the publication of that report collection has not improved and assessment has actually deteriorated since advantage has not been taken of the extraordinary rise in house-rent due to inflation and immigration.

The report of the Examiner, Local Fund Accounts for 1947-48 discloses heavy accumulations of arrears in several municipalities. Arrears of taxes were on the increase in many municipalities.

(e) The arrears of taxes in the Calcutta Corporation have been the subject of severe comment by the Calcutta Corporation Investigation Commission. In paragraph 15 of their report they state that the position has been steadily deteriorating. In 1916-17 and 1917-18 the percentage of collection to assessment was 96.9 and 99.1 percent respectively. For 1946-47, the percentage was 79.29 and for 1947-48 it was as low as 76.74 per cent. The corresponding figure for the Madras Corporation is 97 per cent. for 1947-48. For the Bombay Corporation the position is not quite so satisfactory as in Madras. The percentage uncollected varies from 12 to 17, as per figures given below :—

Particulars	Total gross demand.	Total net demand (after allowing drawback and after amending and cancelling certain bills)	Collect-ions during 1949-50.	per-centage.	Amount outstand- ing on 31st March 1949	Per-centage.
	Rs.	Rs.	Rs.		Rs.	
1948-49						
1. Property taxes.	54,002,973	53,315,700	44,035,780	82.59	9,279,920	17.41
2. Wheel tax.	3,185,339	3,073,308	2,469,187	80.34	604,121	19.66
Total 48-49	57,188,339	56,389,003	46,504,967	82.47	9,884,041	17.53
1947-48	52,151,573	51,401,941	44,154,935	85.47	7,247,063	14.10
1946-47	46,667,633	49,126,683	43,180,411	87.80	5,946,472	12.10

(f) Regarding local bodies in the Punjab the Examiner Local Fund Accounts writes as follow :—

“ Heavy arrears of taxes levied by local bodies accumulate mainly because of belated assessment of taxes and dues in most of the local bodies. The assessment lists are not prepared and authenticated till the fag end of the year, although under the rules these are required to be authenticated before the commencement of the year to which the taxes or dues pertain. At places assessments are made and reduced arbitrarily to the benefit of the assessee concerned, at times even below the amounts declared by the assessee themselves.

Another disquieting feature is the lack of supervision over the collecting staff and the unwillingness of the executive to take prompt and timely steps for recovery of the taxes or dues. Members invariably feel hesitant to take coercive measures admissible under the Act against the defaulting assessee. At places even the members or employees of local bodies are among the defaulters.”

## COLLECTION OF TAXES

(g) In Madhya Pradesh also the position is not very satisfactory. The report of the Examiner Local Fund Accounts for the year 1946-47 contains the following remarks :—

“The percentage of collections to total demand was, out of the 97 municipalities in the State in 1946-47 between 91-100 in 14 municipalities, between 81-90 in 15 municipalities, between 71-80 in 16 municipalities, between 61-70 in 12 municipalities between 51-60 in 10 municipalities, between 11-50 in 5 municipalities and between 31 to 40 in 4 municipalities.”

(h) District boards get the land cess collected for them through Government agency and have accordingly no such problem of collection as municipalities have. But where district boards collect taxes themselves, as the circumstances and property tax in Uttar Pradesh, they have to face the same problem of heavy arrears. The following figures taken from the “Notes for the U. P. Local Bodies Grants-in-Aid Committee” issued by the Uttar Pradesh Government (1949), will bear out this point.

<i>District Board</i>	<i>Percentage of arrears of taxes to total demand</i>
Ballia	58
Banaras	54.9
Garhwal	53.2
Meerut	48.53
Mirzapur	38.9
Farrukhabad	34.52
Saharanpur	35.42
Moradabad	34.23
Kanpur	31.2
Aligarh	28.84
Azamgarh	26.84
Dehra Dun	25.4

With such poor collections as above, it is not a matter for surprise that the financial condition of the district boards is bad. Before any suggestions for the levy of new taxes can be made, it is obviously necessary that collection of existing taxes should improve.

The examiner of local fund accounts, Uttar Pradesh in his memorandum to the Committee makes the following remarks:—

“It is common knowledge that the collection of taxes by local bodies is seldom made in full. Interested parties create such a situation that the permanent officials in charge of collection become seriously handicapped and quite a good portion of legitimate income becomes irrecoverable and is written off. Provision exists for penal measures ; but ways and means are found to evade them even. It is difficult to suggest how 100% recoveries should be effected. Coercive methods as, for instance, recovery of dues like the recovery of land revenue combined with grant of rebate in cases of prompt payment, may be adopted. For good collections made by collecting agencies a proper system of rewards and recognition may also be introduced.”

(j) In Orissa the percentage of collections to total demand was 92.0 in 1940-41. The figures for 1945-46 and 1946-47 are :—

North Orissa	95	95
South Orissa	88.6	88

The Government of Orissa state that the standard of collection of taxes is not up to the mark. This is due to inefficiency of the collecting staff or the apathy of the tax-payers. In order to improve the collection work it is suggested that a rate of interest may be levied on the arrears of taxes and the arrears of interest be recovered by distraint as prescribed in the respective municipal Acts.

(k) For Assam the following extract from the note of the State Government gives the position regarding collection of taxes :—

"The periodical Audit report on the accounts of Local Bodies received from the Examiner of Local Accounts revealed a somewhat unhappy state of things as regards collection of taxes and about the manner and method of expenditure. Penal action should be resorted to whenever necessary to realise taxes in arrears. An officer of administrative experience and of the standing of the now defunct Commissioner of Division should regularly inspect the offices in all departments of the Local Bodies. His inspections will have a salutary effect on the control of expenditure of the Boards' Fund collected from tax-payers money".

The above review of the position in the major State brings out two features which are common to them all :—

- (1) with the exception of Madras, the state of collection is generally unsatisfactory, and
- (2) no effective action is taken to cope with this situation.

597. Things are allowed to slide and the same complaint is repeated time after time. It is, therefore, necessary that each State Government should prescribe for their local bodies a standard of collection and should see that it is adhered to. This means the strengthening of the machinery of collection.

598. We also suggest that the Examiner of Local Fund Accounts should be instructed to give full figures in his report of the percentage of collection to demand for each and every local body under his audit. In some States this information is given, but not in all, with the result that we are unable to present a complete picture of the percentage of collection to demand based on the audit reports. The figures should be collected on a uniform basis so that they may be comparable with figures in other States.

599. It is obvious that improvement in the machinery of assessment would by itself produce no effect if the machinery of collection is also not simultaneously improved. Various suggestions were made to us in regard to improvement in collections, e.g., grant of rebates, imposition of surcharge, greater use of coercive methods, etc. We are not in favour of any rebates, as this will result in the deterioration of the financial position and not lead to any improvement. No rebate worth stating can be granted without exceeding the present cost of collection. We suggest that penal interest at 6½ per cent. per annum should be charged on arrears of municipal taxes.

600. As regards coercive processes, in the Acts of most of the States, where the powers are inadequate we suggest that necessary amendments should be made to incorporate these powers. The powers of distraint should be vested in the local body, where it does not enjoy this power. Where, however, adequate powers already exist, it is necessary to impress upon the local bodies that freer use should be made of these coercive processes in the collection of taxes. We find that in the Bengal and the Punjab Acts, the Government have power to take over any department of the municipality if the municipality shows persistent incompetence or is guilty of persistent default in its management. We suggest that there should be power in all the Acts to take over the work of collection in the case of persistent default in the collection of taxes.



## COLLECTION OF TAXES

601. In relation to the power to distrain for recovery of dues, two main issues arise :—

(1) for the recovery of what categories of municipal dues should the powers of distraint be employed ?

(2) what kind of properties should be distrained and sold for the recovery of such dues ?

As regards (1) above, we are not generally in favour of issuing distress warrants for recovery of contractual dues but only for recovery of taxes and fees. So far as rents of land vested in or managed by municipalities are concerned, we recommend the adoption of the procedure prescribed in section 291\* of the U.P. Municipalities Act, *i.e.*, the Municipality should apply to the Collector for the recovery of such rents as arrears of land revenue and the Collector, on being satisfied that the sum is due, should proceed to act accordingly.

As regards (2), *i.e.*, what categories of properties, etc., should be liable to be distrained, the provisions in the Acts differ from State to State. In some States local bodies have only to distrain moveables from the recovery of their dues. We are of the view that local bodies should have the power to proceed not only against movables but also against immovable property for the recovery of their taxes and fees. Some of us, however, feel that this power of proceeding against immovable property should not be exercised directly by the local bodies but through the District Magistrate.

602. It is, however, no use remedying the system without improving the efficiency of personnel. No system, however sound, will work if the personnel is not upto the mark. The fact that municipal service does not attract promising men has to be recognised and steps taken to attract good men and keep them contented. We are not concerned with the general question of municipal services but only with financial services. It is desirable that the head of the financial administration of a local body should be a qualified, and specially selected person particularly in the bigger municipalities with an annual income exceeding Rs. 1 lakh. He should be in charge of all the accounts work and it should be his duty to examine the position with regard to collection of taxes and submit monthly reports to the chief executive authority, to bring to his notice any failures in collection and suggest a suitable remedy.

603. In order to improve financial administration it is desirable that the position of the head of the accounts department should be strengthened. In all matters of finance, the chief executive authority should consult him. No liabilities of a financial nature should be incurred before he has examined and reported thereon.

604. With regard to recruitment of the higher financial personnel, we are of the opinion that there should be a Provincial Cadre for such services. In this connection we wish to bring to notice the following resolution passed by the Local Self-Government Minister's Conference held in New Delhi on the 6th and 7th August, 1948 :—

“In view of the fact that a Provincial Cadre will facilitate recruitment of suitable personnel from a wider field and provide for a more efficient and contented service, this conference is of opinion that there should

---

\*Section 291 of the U.P. Municipalities Act, 1916 runs as follows. —

**Recovery of rent on land.** “(1) Where any sum is due on account of rent from a person to a board in respect of land vested in, or entrusted to the management of the board, the board may apply to the Collector to recover any

arrears of such rent as if it were an arrear of land revenue.”  
(2) The Collector on being satisfied that the sum is due shall proceed to recover it as an arrear of land revenue.”

be provincial cadres for the higher executive and technical staff employed by local bodies."

With a Provincial cadre such as that suggested above the question of control would at once arise. We suggest that such a cadre should be controlled by a board with statutory powers on which there should be representatives of local bodies. We understand that the provincialisation of the higher cadres is already under consideration it necessary to suggest a cut and dried scheme regarding the composition and functions of this Board.

**605. Disqualification of members of local bodies arising from being in arrears in respect of municipal dues.** A transcript of the relevant statutory provisions, disabling municipal councillors from continuing as such when in arrears of municipal dues, is given below:—

**'Madras' City Municipal Act, 1919.**

*Section 53(1) (hh)* Subject to the provisions of section 54 a, councillor or alderman shall cease to hold office as such if he fails to pay arrears of any kind due by him (otherwise than in a fiduciary capacity) to the Corporation, within three months after a bill, notice or direction has been served upon him under the Act or where in the case of any arrear this Act does not require the service of any bill, notice or direction, within three months after a notice requiring payment of the arrear (which notice it shall be the duty of the Commissioner to serve at the earliest possible date) has been duly served upon him by the Commissioner.

**Madras District Municipalities Act, 1920.**

*Section 50(1) (hh)* Provision same as above.

**City of Bombay Municipal Act, 1888.**

*Section 16(1) (ee)* A person shall be disqualified for being elected and for being a councillor if such person—(ee) fails to pay any arrears of any kind due by him (otherwise than as a trustee) to the Corporation within three months after a special notice in this behalf has been served upon him.

**Bombay Municipal Boroughs Act, 1925.**

*Section 28(1) (e)* If any councillor during the term for which he has been elected or nominated—fails to pay any arrears of any kind due by him to the municipality within three months after a special notice in this behalf has been served upon him, he shall, subject to the provisions of sub-section (2), be disabled from continuing to be a councillor and his office shall become vacant.

**Bombay District Municipal Act, 1901.**

*Section 15(2) (f)* If any councillor during the terms for which he has been elected or appointed fails to pay any arrears of any kind due by him to the municipality within three months after a notice in this behalf has been served upon him, he shall subject to the provisions of sub-section (3), be disabled from continuing to be a councillor and his office shall become vacant.

The Calcutta Municipal Act, 1923 contains no provision in this respect. But in respect of other municipalities the State Government under Section 62 (2) (f) of the Bengal Municipal Act, may remove any councillor who is in arrears of municipal rates and taxes for over a year.

No such provision exists in the

- (1) Punjab Municipalities Act, 1911.
- (2) Bihar and Orissa Municipal Act, 1922.
- (3) Assam Municipal Act, 1923.

The provision embodied in the Madras enactments is more comprehensive inasmuch as the disqualification is incurred three months after a bill, notice or direction has been served upon such councillor. The Bombay Acts provide for the service of the special notice on the defaulting councillor and the period of three months, allowed for making payment, counts from the date of the service of such special notice.

Under sub-section (1) of section 40 read with section 14 (3) (f) of the U. P. Municipalities Act, the State Government in the case of a City municipality and the Commissioner in other cases may remove a member if he is in arrears.

Under section 22-B of the C. P. & Berar Municipalities Acts, 1922, a member shall cease to hold office if he fails to pay the arrears of any tax due by him and shall be disqualified for re-election until the arrears due by him are paid.

606. **Recommendation.** We recommend that :—

- (1) Members of local bodies, falling into arrears should be disqualified and removed from office ;
- (2) Nobody should be eligible to stand for election to any office in a local body, if, on the date of filing nominations, he is in arrears of local taxes ;
- (3) If within three months of the notice of demands of any dues to the local body, member of such body fails to pay up the arrears, a warning notice that if he does not pay the arrears before the date of expiry of the original notice of demand, he becomes disqualified under the relevant section of the Act, should be given. One of our colleagues, however, is not in favour of the giving of any special notices.

## CHAPTER XVII

### GRANTS-IN-AID AND ASSIGNMENT OF REVENUE

607. Local self-government in this country developed after the British model naturally adopted in the beginning more or less the same system of state assistance to local bodies as in vogue in the United Kingdom at the time.

608. Functions performed by local bodies are either purely local or what may be described as national or seminational in character. The performance of local services in any area has to be sole responsibility of the local body concerned. But in the case of more important services, the nation as a whole having a predominant interest in their efficiency, it is against social well-being to let the limitations of local financial resources determine the level of their attainment. Provision of education, communications and health services fall under this category and in their case the nation has to ensure against their falling below the minimum national standard of efficiency.

609. Articles 45 and 47 of the Constitution deal with the standards to be aimed at in respect of education and health by the State Governments :—

*Article 45* :—The State shall endeavour to provide within a period of ten years from the commencement of this Constitution, for free and compulsory education for all children until they complete the age of fourteen years.

*Article 47* :—The State shall regard the raising of the level of nutrition and the standard of living of its people and the improvement of public health as among its primary duties.

It is felt that if these functions are to continue to be the responsibility of local bodies as a means of encouraging local initiative, enterprise and co-operation, the State must come to their assistance by way of adequate grants-in-aid where the local bodies are unable, out of their own resources to achieve the minimum national standard of efficiency.

610. In England, the grant-in-aid is a subvention payable from the Exchequer to a local government authority in order to assist that authority in the execution of some or all of its statutory duties. In that country, therefore, grant-in-aid is given to local bodies to augment their financial resources in preference to their sharing of central taxes.

611. Such a grant or subvention may be an isolated payment, but is usually recurrent or annual. It may be a matter of statutory obligation or dependent on the decision of the Minister incharge of a particular department. It may, again be given unconditionally as a fixed amount or made variable according to the circumstances of each case. Again, the variation in the amount may depend on all or any of the following factors :—

- (1) The growth of population or of a particular section of it.
- (2) The extent of some particular service.
- (3) The number of officers appointed or the sum of their salaries.
- (4) The expenditure of the receiving authority.
- (5) The rateable value of its district.
- (6) The efficiency of its work.

In England as expenditure of local bodies mounted, an increasing part was met from grants-in-aid rather than from the local property taxes known as rates.

612. Until 1929 the grants-in-aid were almost wholly allocated for specific local functions, but in that year a block or consolidated grant was substituted for the specific grants for major functions excepting education, police and primary roads, which still received specific grants. The block grant was introduced to simplify and unify the grant system, to permit more flexible national supervision with more local freedom in minor details, to give more weight to local needs and capacities in the distribution of national funds, to give tax relief to agricultural and other industrial property, and to provide more national aid for the local governments.

613. The various measures of financial assistance given in England are as follow :—

(a) **Assigned Revenues.** The Local Government Act of 1833 gave to local authorities the proceeds of various national taxes and for a few years it seemed as if this method of assistance might become popular. It is probable that "whisky-money"—the linking of education to the yield of the spirit duty—turned public opinion against the principle. Later, a lump sum payment was substituted for the proceeds, till in 1930, this also was discontinued as a part of the changes made by the Local Government Act of 1929. County and county borough councils, however, still receive the proceeds of the dog, gun, and game licences taken out in their areas.

(b) **The Allocated or Substantive Grant.** The allocated grant consists in making grants towards specified branches of service. For example, the grant which the central authority made towards Poor Relief was not a single grant, but was composed of a number of grants, each one allocated to a particular branch of the service, the salaries of Union Officers, the maintenance of pauper lunatics, the education of pauper children and the salaries of teachers in Poor Law Schools. The advantage of the system is that the central authority has the power to encourage or discourage, in some detail the development of the various parts of the service. But it has its disadvantages. The Central Authority must carefully define the items to which it will attach a grant. While the local authority must provide carefully kept accounts to show that expenditure has been exactly within the lines required, the central authority must burden its staff with the calculation of each of the several items. The local authority is, thus, deprived of discretion in the application not only of governmental subventions but also of its own money which to earn the grant, must be spent in the services as required by the Central authority.

(c) **The Block Grant.** The essential characteristic of the block grant is that it is given in respect of generally named service only, without itemized specification of the objects to which it is to be applied. For example, one may give for the services of police in general a quarter of a half or three-quarters of the total expenditure, without specifying how much thereof is in respect of and to be spent upon say, uniforms, motor-bicycles, police stations or subsidies for the rent of police men's dwellings. This generality of grant, however calculated, has advantages, in the words of the Committee on Local Taxation, of being 'more suited to the complex and ever-changing character of present day administration and to the varied circumstances of local authorities'.

614. Both allocated and block grants are capable of calculation on either (i) the percentage system, (2) the unit system or (3) the formula system, described below :—

(i) **Percentage System.** It consists of giving a local authority a percentage of its expenditure upon certain objects approved by government department. The

percentage varies a good deal, on the whole being greatest when the council is acting largely as the agent of the government as in Civil Defence, the grants varied from 60 per cent. to 100 per cent. or where the object to be attained is of importance to the government without being one that would by itself stir the local authority to action. For instance, the abolition of toll bridge is a matter that interests the Central Government because it helps the easy movement of people and of goods, but the local authorities are used to tolls and probably regard them as matters of course. Therefore authorities willing to buy out toll owners are offered 75 per cent. of the cost. The merits of this method of calculation are ease and flexibility.

(ii) **Unit System.** This type of grant, which varies with the service provided, is ordinary used for housing, a subsidy being given of a certain sum for each house built by the local authority (together perhaps with a certain yearly contribution towards the loan charges) or per person displaced by slum clearance. Other examples of this kind of grant are those for afforestation (a sum not exceeding £ 4 per acre), and midwife training (£ 35 per trainee).

The great advantage of unit grants is, that should a local authority be extravagant in its views of what should be spent, or spend more heavily per unit than necessary because of its lack of skill and wisdom, the local community and not the Government will suffer by the need to find the excessive expenditure. Moreover, the expenditure is easily calculated and reviewed.

(iii) **The Formula System.** Formula grant means a grant calculated by reference to a number of factors including the necessity for the service and an allowance for the wealth or prosperity of the area. Though it was suggested by the Royal Commission of 1901 it was actually adopted in 1929 in the case of education grant. The great advantage of this method of calculation is that it provides a sum for each authority directly related to its own particular necessities. It overcomes the great difficulty which issues from the existence of small areas of local administration whose needs and capacity do not correspond, and cannot otherwise be equalised, because of the extreme divergence of the variations. The disadvantage of the system is that it is extremely difficult to discover all the factors of need and ability which will produce a really just combination, it involves the central authority in arduous calculations, and, therefore, the calculation once having been accomplished, almost that it shall not be revised for a considerable period.

615. The Local Government Act of 1929 substituted a new system of block grants for certain assigned revenues and percentage grants at the same time increasing the total to compensate local authorities for their losses under derating. The grant was distributed on a formula of some complexity, designed to give more proportionately to the poor than to the rich, not by taking from the latter but by adding to the former.

It thus brought about a very limited amount of rate equalisation. It was also arranged to give more per head of population to urban than to rural authorities, on the ground of the greater responsibilities of the former.

The scheme was introduced in stages to allow for adjustment, and would have been fully in operation by 1947 but for the World War II.

616. The Local Government Act, 1948, altogether abolishes the old system of block grants, and substitutes equalisation grants, to be recalculated each year payable to County authorities in England and Wales, and to counties and large boroughs in Scotland if their resources are not up to the level calculated from the average rateable value ahead of the weighted population. The weighting is done in such a way that old industrial areas and rural districts will particularly benefit. These grants are of two kinds, the one paid from the exchequer, the other raised from certain county districts and paid to others by the county council by means of the machinery of precept.

617. In addition to the above, special grants to local authorities have also been made by the Exchequer. As a result of the introduction of the General Exchequer grant, for instance, certain special sums had to be paid to those authorities which lost revenue as a result of the plan. The war of 1939-45, again, led to the payment of special grants to towns hard hit in their finances by the destruction of rateable property and the evacuation of population. Peace has seen reconstruction grants paid to certain towns such as seaside resorts to help them with the work of putting themselves in order, while under 1948 Act transitional grants are payable for the first five years in addition to the equalisation grants. Both percentage and block grants have firmly established themselves in England. The experiments in abolishing or reducing percentage grants have foundered on the fact that they are much too potent an instrument for developing and maintaining local services at the requisite standard. The percentage element which is of importance in initiating a new service, however, has tended to give way to equalising elements which are more important once the service is established and parity in standards between different areas becomes a prime consideration. In this development the block grant which it was hoped would supersede the percentage grant has served as a model.

618. In our country, State governments at present give financial assistance to local bodies in one or more of the following ways:—

- (a) By paying such grants as represent cost of certain items of expenditure incurred in relation to particular services. An example of this is found in several provinces where a proportion of the salaries of Health Officers is paid by the State Government out of state revenues while in the matter of education subsidies are given to the local bodies by the State Government for specific items such as buildings or equipment, or salaries and allowances of teachers.
- (b) By payment of block grants as financial assistance to poorer local bodies to enable them to balance their budgets. Such block grants are distinguishable from grants for specific purposes. The system of block grants has, in recent years, been largely discontinued.
- (c) By proportional grants including percentage and unit grants in which grants made by the State Government bear a specific proportion to the total expenditure. Grants for education and medical relief in many states are of such a nature.

In India, grants-in-aid have been growing in importance in thirty years and the rural local bodies particularly have come to depend upon them for a very large proportion of their income.

619. Madras. In Madras, grants-in-aid are given by Government to local bodies for the purposes mentioned below:—

- (i) Roads, bridges, culverts etc.
- (ii) Payment of dearness allowance to staff to the extent to which local bodies are unable to meet the expenditure.
- (iii) Education ;
- (iv) Medical and public health purposes including grants for protected water supply and drainage schemes.

**GRANTS-IN-AID AND ASSIGNMENT OF REVENUES**

The sub-joined figures indicate the pace at which Government assistance to local bodies has progressed in this State :—

<i>Municipalities</i>			<i>District Boards</i>		
1890-91	Rs.	2.11 lakhs.	Rs.	3.07 lakhs	
1900-01	"	1.34 "	"	2.85 "	
1910-11	"	*7.48 "	"	21.63 "	
1920-21	"	17.95 "	"	74.76 "	
1930-31	"	21.42 "	"	167.19 "	
1940-41	"	30.20 "			
1948-49	"	47.54 "	"	202.59 "	

620. **Bombay.** In Bombay, Government assistance in the case of municipalities is for the following purposes :—

- (1) Fifty per cent, grant-in-aid to meet the cost of dearness allowance to the staff except Ahmedabad, Poona, Surat, Sholapur and Hubli municipalities which being big industrial centres were expected to raise income by means of additional taxes to meet expenditure on this account.
- (2) *Water Supply and Drainage.* Fifty per cent. towards capital cost in the case of dsistrict municipalities and 33.1/3% in the case of borough municipalities.
- (3) *Health Officers and Sanitary Inspectors.* Government bear one-half the cost on account of medical officers of health appointed by municipalities and one-third in the case of Sanitary Inspectors and Chief Sanitary Inspectors.
- (4) *Housing of Harijan employees.* Government pay subsidies towards capital cost equivalent to
  - (1) 33.1/3% to Borough municipalities and
  - (2) 50% in the case of district municipalities.
- (5) *Primary Education.* Government bear one-half the approved expenditure in the case of authorised municipalities except Ahmedabad which gets only one-fourth and Poona City, Surat and Sholapur which get one-third.
- (6) *Non-recurring grants towards epidemic control.* In the case of District Boards the Government assistance is in the following form :—

**I. Statutory grants on account of—**

- (a) salaries of Chief Officer or Engineer and Health Officer (two-thirds) provided, appointment approved by Government.
- (b) *Grants for the abolition of tolls.* This is a compensatory grant equal to the net average annual income of the board from tolls during the three years ending 31st March 1936, plus 10 per cent.
- (c) *Primary Education Grants.* Local Boards contribute 15 pies out of 36 pies of local fund cess collected by them. The balance is borne by Government.

**II. Non-Statutory—**

- (a) Grants for local public works.
- (b) Dearness allowance grants—50% of the expenditure on this account.

\*Includes Rs. 3.5 lakhs grant-in-aid of sanitation.



CHAPTER XVII

(c) Village water-supply ;

(d) Dispensary grants.

The sub-joined figures indicate the extent of State assistance to local bodies during the years 1948-49 and 1949-50.

(In thousands of rupees)

Year	Municipalities			District Boards			
	Provincial Revenues	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total
1948-49	50,93,97	55,77	50,29	106,06	4,82,34	230	4,84,64
				2.1%			9.5%
1949-50	52,85,76	73,66	...	75.56	5,11,30	311	5,14,41
				1.3%			9.7%

621. **West Bengal.** In West Bengal, State assistance to municipalities is made by means of grants-in-aid for the following purposes :—

(1) Dearness allowance to staff

(2) Health grants.

(3) Public Works grants.

In addition to the above grants, the District Boards receive the following :—

(4) Annual subsidy not exceeding Rs. 2,000 to approved thana health units maintained by district boards.

(5) Two-fifths of the annual cost of permanent thana vaccinators who are district board employees and subsidies.

(6) The pay of health assistant per thana health unit for compilation of vital statistics.

(7) Kala-azar grants.

(8) Grants to thana and village dispensaries maintained by district boards at the rate of Rs. 5,000 and 250 respectively per annum.

The provision included in the 1948-49 budget estimate for this purpose was as under :—

A. 1.	Calcutta Corporation	Rs. 81,17,725
2.	Other municipalities	„ 26,01,500
3.	District Boards	„ 37,88,321

Total Rs. 145,07,546

B. Total amount of Road and Public Works cess } received by district boards. Rs. 32,73,040

C. Total revenue receipts of the State „ 31,76,52,000

Percentage of total grants-in-aid to local bodies } (excluding receipts from Roads and P. W. Cess) to total revenue. 4.56

622. **Uttar Pradesh.** In Uttar Pradesh, grants-in-aid out of the general pool of State revenues are given to local bodies towards :

(a) general expenditure.

(b) expenditure on education.

(c) „ „ medical relief ;

## GRANTS-IN-AID AND ASSIGNMENT OF REVENUES

- (d) expenditure on public health ;
- (e) " " drainage & water works ;
- (f) " " roads & civil works ;
- (g) " " grant of dearness allowances ;
- (h) " " on other activities ;

The principles generally observed in making grants for education, medical relief, public and communications are described in detail in the special chapters under the above heads. The grant-in-aid for general purposes includes the following items :—

(1) Contract grants in aid for miscellaneous purposes to 15 district boards consequent on the transfer of local rates, (which were appropriated for expenditure on rural police). On the receipt of certain additional grant-in-aid from the Government of India, the U. P. Government fixed on the eve of world War I a standard expenditure to be incurred by district boards under certain heads and the boards which could not keep their expenditure upto the prescribed standard were given grants-in-aid by Government in order to enable them to do so. These are known as contract grant-in-aid, and their amounts were fixed in 1914-15. Only 15 district boards get these grants and the system has remained unchanged till to day.

(2) Contract grants in aid to Saharanpur and Bullandshahr district boards for general purposes. This represents amounts which were decided in 1926 to be given to these two district boards because they had been required to spend substantial portions of their income on education and were in consequence crippled and were unable to provide sufficiently for ordinary administration.

(3) Grant-in-aid to District Board Dehra Dun for veterinary purposes. It was decided in 1914 at the time of overhauling the system of contract grants-in-aid that Dehra Dun District Board must receive a special grant-in-aid of Rs. 1,295/- for veterinary purposes and therefore this sum was made an integral part of the contract grant in aid to the Board.

(4) Contract grant in aid to District Board Ballia. It represents a special grant to Ballia District Board owing to a revision ordered by Government in the acreage rate in force in the district which adversely affected the Board's receipts from acreage cess. It was then decided to make a permanent increase of Rs. 5,626/- in the contract grant in aid to this board to cover the loss.

(5) Grant-in-aid to District Board Ballia on account of the surplus receipts of Ballia ferry managed by the District Magistrate. In 1920 owing to the shifting of the river, Ballia ferry came within the municipal limits and the management was entrusted to the District Magistrate on behalf of the district board who were given the whole of the net ferry income as grant-in-aid.

(6) Special grants-in-aid to 3 hill district boards in Kumaun. It was decided in 1918 to make grants-in-aid totalling Rs. 77,375/- to the three hill district boards in Kumaun division because it was considered desirable and necessary to allow the hill boards a share out of the Government profits from Kumaun forests particularly in view of the general backwardness of their administration. Besides this, the district boards in Kumaun receive annual grants-in-aid totalling Rs. 2 lakhs from the forest department.

(7) Grant-in-aid to District Board Jhansi as compensation for loss of certain groves. In 1932 certain groves which had till then been managed by the district board were transferred to the management of the Board of Revenue and it was decided to compensate the Board on the basis of the average of the preceding 5 years.

(8) Grant-in-aid to District Board, Naini Tal of Rs. 40,000/- to compensate it for the loss resulting from the exemption of certain Government estates in Tarai and Bhabhar from local rates.

(9) Certain recurring grants are also given to a few municipal boards as compensation or subsidy for loss of income from (a) certain taxes (b) Nazul property or state lands resumed by Government and (c) as maintenance charges for flood protection works etc.

**Grant-in-aid towards expenditure on drainage and Waterworks.**

In 1947-48, Government started a scheme with a provision of Rs. 20 lakhs for giving grants-in-aid, to the extent of half the cost of the projects, to municipalities for execution of drainage and water supply projects as part of Government's Post War Development programme entitled to participate in the Government of India's subsidy.

**Grants-in-aid towards expenditure on dearness allowance.**

Government gives a grant to all local bodies towards expenditure incurred by them on account of dearness allowance to their low paid employees. The scheme was started in 1944-45. The present rate of subsidy amounts to Rs. 6 per permanent employee drawing a salary of Rs. 40/- p. m. or less except in the case of teachers in whose case subsidy is payable irrespective of their pay. The expenditure during 1946-47 on this account was about Rs. 63.6 lakhs which in subsequent years increased to about Rs. 70.2 lakhs.

**Grants-in-aid towards expenditure on other activities of local bodies.**

Grants-in-aid are paid from time to time under the above head for some of the other activities of local bodies e.g. for the development of cottage industries, for veterinary hospitals etc. Grants-in-aid aggregating over Rs. 1.5 lakhs were paid to district boards in 1947-48 towards the cost of elections. Again grants-in-aid amounting to about Rs. 3.4 lakhs were given in the year 1947-48 towards the provision of relief to displaced persons from Pakistan. There are no fixed principles for giving such grants-in-aid. They are made to enable the boards to meet unforeseen emergent contingencies.

Grants-in-aid were also given to local bodies equivalent to (1) certain receipts from cattle pounds under the Cattle Trespass Act (2) proceeds from ferries (3) proceeds from magisterial fines under certain enactments. Prior to the Government of India Act, 1935 these sources of income belonged to the local bodies but since then have begun to be credited to the provincial revenues and grants given to compensate the local bodies for the loss sustained by them due to constitutional changes. The total grants paid in this connection during 1946-47 were as follows :—

Equivalent to cattle pound	
receipts	Rs. 17.7 lakhs
“ „ ferry receipts.	Rs. 11.3 „
“ „ magisterial	
fines.	Rs. 3.2 „

Grants equivalent to 45 per cent. of receipts from Tehbazari fees on provincial roads running through local areas are paid to local bodies concerned, Government retaining the remaining 55%. The total amount of such grants comes to about Rs. 10,000 per annum only. Moreover the receipt from provincial ferries, after deducting the expenditure on maintenance of the ferries are distributed as grants-in-aid among the district boards concerned. The total amount of grants-in-aid given on this account in the year 1946-47 was over Rs. 1 lakh,

**GRANTS-IN-AID AND ASSIGNMENT OF REVENUES**

	1946-47		1947-48
	(In lakhs of rupees)		(In lakhs of rupees)
District Boards	178		214
Municipalities	69		86.5
Town Areas	3.5		3.6
Notified Areas	2.5		2.6
	<hr/>		<hr/>
	253		306.7
	<hr/>		<hr/>

Total grant-in-aid was only 8% of the total revenues of the State during the above two years.

1948-49	Rs. 247 lakhs	Rs. 49.2 crores.
1949-50	Rs. 373 „	Rs. 56.2 „

623. **Punjab.** In the Punjab no specific policy has been laid down for regulating State assistance to local bodies. Grants are paid under the heads (1) Education (2) Medical (3) Public Health (4) Engineering works (5) Miscellaneous (6) General such as block grants to district boards and panchayats. The State Government are of the opinion that no grants-in-aid should be distributed in the form of block grants for each service but according to the needs of the localities. The ability of each local body to raise local funds and the necessity for local expenditure upon each service by it should be determined, by fixing a minimum standard rate which every local body should impose. The grant should in their opinion, be the difference between the amount of expenditure based on the minimum standard expenditure and the amount produced from minimum rate. This scheme has two characteristics ; it makes (i) for economy and (2) for equalizing the burden of local taxation.

The budgetary provision on this account for the year 1950-51 is as under :—

Grant-in-aid	...	Rs. 1,45,93,270
Loans & Advances	...	Rs. 8,00,070
Total State Revenues		16,63,59,000
Percentage of Govt. grant to total revenues.		8.7

624. **Bihar.** Municipalities in this State receive no statutory grants but only non-statutory grants for specific purposes are sanctioned to them such as grants for educational purposes, for medical purposes, for maintenance of roads out of the proceeds under the Motor Vehicles Taxation Act and for general purposes such as purchase of equipment and construction of quarters for harijan employees. They also get grant in lieu of fines and penalties under the various Acts such as the municipal Act, the Prevention of Cruelty to Animals Act and fees under the Petroleum Act which used to be credited to them prior to the adaptation of these Acts by the Adaptation of Indian Laws Orders 1937. Grants for purposes other than the above *e.g.*, capital projects also have been made to municipalities. The determining factor in these cases being the requirements of the individual municipality applying for such grants and whether by reason of efficient management of municipal affairs it deserves some assistance from Government.

District boards do not receive any statutory grants for any specific purposes. On the other hand they get the following non-statutory grants for specific objects :—

- (1) grant from Motor Vehicles Taxation proceeds and other grants for improvement of communications,
- (2) grants for maintenance of hospitals or dispensaries,

- (3) education grant for maintenance of schools,
- (4) proceeds from petrol tax are given by the Central Government to State Governments who distribute it to local bodies in the form of subvention for repairs of roads.

The present system of grant-in-aid is not based on any fixed principle. For instance district boards get fixed education grants for maintenance of schools on the condition that they spend a certain minimum fixed by the State Government over education. The principle of giving grants for education and public health purposes etc. on the basis of the population of a district or on its financial capacity has not been worked out. Grants are made according to the requirements of district boards and Governments capacity to sanction them.

*Grants-in-aid*

1847-48	Rs. 1,62,46,919
1948-49	„ 1,42,75,986
1949-50	„ 1,85,37,599

625. **Orissa.** The State Government are giving grants in-aid to district boards and municipalities for purposes relating to medical relief (medical and public health) education and communications. The principles regulating grants for such purposes are outlined in the relevant chapters. The figures for the year 1949-50 were as under :—

Grant-in-aid	Rs. 56,88,617
Total State revenue	10,98,04,000
Percentage of grant in aid to total revenue	5.18

**Details of grant-in-aid.**

1. Civil Works & Miscellaneous	Rs. 10,49,925
2. Education	18,01,522
3. Medical	2,35,769
Total	Rs. 30,87,216

**Assignments.**

Land Cess	Rs. 18,87,700
-----------	---------------

**Compensation payable to Local Bodies.**

1. Entertainment tax	Rs. 14,086
2. 27-Administration of justice	18,758
3. M. V. Taxation Act.	6,54,530
4. 57-Miscellaneous,	27,027
Total	7,14,401

626. **Madhya Pradesh.** The State Government is of opinion that State subventions should be restricted to semi-national services or those which are administered by local authorities but in which the State has at the same time so marked an interest in their efficiency as to justify a claim to the supervision of their administration. These services which are both centrally and locally administered and intimately concern the health and well being of the residents of the State fall into three main groups,

- (a) Education

**GRANTS-IN-AID AND ASSIGNMENT OF REVENUES**

---

(b) Public Health

(c) Communications.

Government at present contribute towards the expenditure on these services on certain conditions detailed in the relevant chapters of this report.

The sub-joined figures indicate the extent of financial assistance to various local bodies in this State as provided in the budget estimates for the year 1950-51.

**I. Compensation.**

Share of revenue from Court fee stamps	2,000
Motor Vehicles Taxation Act	Rs. 45,000

**II. Grant-in-aid.**

Education	72,11,000
Public Health	4,83,000
Subsidy towards composing town refuse.	54,300
Veterinary	5,31,000
Miscellaneous	72,55,000
	<hr/>
Total	1,62,05,000
	<hr/>

Percentage of total grant-in-aid to total revenue (17,57,63,000)	10.8
--	------

626. **Assam** In Assam, the payment of Government aid is regulated by the needs of particular localities, due regard being given to the backward or undeveloped character of the areas as also the capacity of the bodies to execute works. This principle appears to the State Government sound as the main function of grants-in-aid according to them is to equalise the resources of different local bodies and to serve as a supplement to local be earmarked for particular resources. They, however, consider that grants should purposes to ensure that those services are rendered and that there should be detailed scrutiny of expenditure on grant-in-aid works.

The following figures indicate the extent of state assistance for the year 1948-49 :—

Grant in aid	Rs. 58,34,582
Total Provincial revenue	7,63,68,000
Percentage of grant-in-aid to total revenue.	7.6

The details of the grant-in-aid are as under :—

Education	28,29,763
Medical relief	4,10,800
Public Health	9,57,736
Communications	12,50,869
General purposes	2,16,414
	<hr/>

Total	58,34,582
	<hr/>

628. From the details given, it would be clear that the existing scale of Government assistance towards education, medical relief, public health and communications has proved inadequate and is likely to prove more so, when action is initiated to achieve the targets laid down in the Constitution.

It must be admitted that inspite of some improvement in the policy of State Government since 1921 and consequent widening of the powers of local bodies, the present position regarding grant-in-aid in India is not satisfactory. The State Government while investing local bodies with wider responsibilities must also place at their disposal adequate funds to supplement their revenue; as even with the utmost development of their own resources, they cannot expect to have adequate funds for an efficient functioning of their services.

629. Grants-in-aid should be so given that, while achieving clearly defined objects of policy and administration, they do not encourage in the local bodies an unwillingness to develop their own resources. Self-help is essential for the development of local government; and although it may not be possible to make that it needs, the principle of self-help does not become any the less important on that account.

State Governments should, therefore, continue to make use of the grants for stimulating self-help. This, however, ought not to be the only or the most important object of their grant-in-aid policy. That object must be the equalization of opportunities and resources. As a necessary corollary of such policy, the local bodies have to be guided by national considerations in the administration of their services. They should maintain the national minimum of efficiency, but more important that is the necessity of evolving, formulating and adopting common policies. To achieve this central coordination appears to be more necessary than central control.

The grants should therefore be so administered as to fit in with the needs of a system for the efficiency and success of which both local initiative and national purpose are equally essential. The State Government have, at present to work the system of grants-in-aid on the basis of the assessment of means and needs, but in assessing both they should appreciate the effect of national factors on the resources and requirements of local authorities and the system consciously used as a device for pooling resources, ideas and needs, so that local self-government may without impairing its autonomy, gain in effectiveness and unity of purpose.

630. The criticism generally levelled against the present system of grant-in-aid is that it ignores local needs and hampers progress of social services in the less developed areas. What is needed, therefore, is a reorientation of policy so as to render local bodies capable of bringing the maximum benefit to the common man.

631. With a view to rationalise the entire policy of the state assistance of local bodies so that they may be enabled to meet the enlarged responsibility in the domain or nation building activities like primary education, public health and communications imposed on them by the Constitution, it is necessary to evolve a workable basis or some rational formula for such grants (as in the case of educational grants in England) with reference to a number of factors including the necessity for the services, and an allowance for the wealth or prosperity of the area concerned. The greatest advantage of a formula grant is that this method of calculation provides an amount for each of the services on the basis of data related to the particular necessity of the area under its jurisdiction. The disadvantage of such a system on the other hand is that it is extremely difficult to discover all the necessary factors of requirements and ability which would produce a really fair and equitable formula. The points arising for decision therefore in regard to a system of grants-in-aid to local bodies by State Government are.—

(1) what should be the guiding principle for making such grants ?

(2) on what basis should the amount of grant be distributed ?

632. It is not easy to provide definite answers to the questions posed above. We are generally of that opinion that wherever possible, local bodies should be assigned sources of revenue in preference to grants. Where it is not possible to meet the full requirements of local bodies from assigned revenues, grants should be given as a last resort. During the course of evidence in almost every state we were told that the grants at present given were based on no understandable principles and that generally they were not based on needs. We are not in a position to say how for this is true, we are only concerned with placing the existing system on a regular basis and not with individual grievances. The system of assignment of revenues suffers from the defect that it does not offer equal financial assistance to every body. Some get more and some get less, even though their needs may be greater. To remedy such inequalities we have suggested that grants-in-aid should be given. Otherwise, generally, we would prefer that independent sources of revenue should be placed at the disposal of local bodies. They would then know what funds they were going to get in any particular year and plan accordingly. At present, we are told, they live a more or less hand to mouth existence not knowing what government grants they will get in any particular year. This uncertainty will be removed and they will feel more secure when revenues are assigned to them.

633. The next question that arises is what sources of revenue are suitable for such assignments ? We have in the chapter on power of taxation already recommended that the net proceeds of certain taxes (including some taxes which are at present used for State purposes) should be definitely earmarked for the purposes of local bodies. In addition, we consider that certain taxes which are now allocated entirely to state governments should be shared by them with the local bodies.

634. The first tax that we recommend for such consideration is the land revenue. The needs of rural areas are very great and the financial resources at their disposal are very inadequate compared to urban areas. The only manner in which district boards can discharge their functions adequately is by being allowed to share in the net proceeds of land revenue. We recommend that 15% of the net proceeds of land revenue accruing within the area of a district board (which is not already assigned to panchayats within the district) should be assigned to the district board.

635. We also recommend for such consideration the motor vehicles tax. Several local bodies, including some of the bigger ones, have made this demand. So far as the loss from toll income is concerned, we have suggested in the chapter on communications that the question of revising the compensation paid to local bodies should be reopened. But there are many local bodies which though not entitled to compensation on this account, but still feel that they have a good case for sharing the net proceeds of the motor vehicles tax with the State Government on account of wear and tear to their roads and increasing cost of construction and repair of such roads. We find that the position with regard to local taxation of motor vehicles is not the same in all states. Some states permit the levy of a wheel tax by local bodies on motor vehicles ; others do not. We are not in favour of the imposition of a separate vehicle tax on motor cars by local bodies in addition to the State tax. We recommend the sharing of the net proceeds of the motor vehicle tax with the State Government. We leave it to the State Governments to determine the principles on which these proceeds will be shared as the circumstances in each state are not the same. One of our colleagues is in favour of sharing the net proceeds on a fifty-fifty basis. Another is of the view that where



local bodies are permitted to levy wheel tax on motor vehicles the question of sharing the tax with the State Government does not arise.

636. Another suggestion made to us was that there should be surcharge for the benefit of local body on stamp duties on transfer of immovable property. Such surcharge is already levied for the benefit of some Improvement Trusts and also for local bodies in Madras. We do not recommend any change in the status quo but are not in favour of extending the system to local bodies generally. We have, however, recommended such a surcharge for village panchayats as a special case, because we cannot think of any other suitable means of increasing their financial resources which are exceedingly poor. That is the only exception we would wish to make in this matter.

637. Several witnesses asked for a share in the sales tax or, alternately a surcharge on the sales tax for local purposes. We have considered all the arguments in favour of such a suggestion, but we regret we cannot recommend it. We are of the view that the sales tax should remain wholly a State source of revenue.

638. We have recommended above that grants should be given in order to supplement resources wherever deficient. The question then arises on what basis should such grants be regulated. Grants are of two kinds; statutory and non-statutory. With regard to statutory grants fixed principles already obtain in certain states and there is not the same complaint from local bodies. It is chiefly with regard to voluntary grants that local bodies insist upon their regulation on certain fixed principles. We regret we are unable to suggest what should be the basis for each grant in the various states. We have neither the material at our disposal nor the time to go into this question. We suggest that this question may be considered by each government in accordance with the local conditions and requirements. It is desirable that all grants whether statutory or non-statutory should be given on some definite and understandable principles, as is done in European countries, particularly in England.

639. We find that the information at present available regarding the financial assistance rendered by each state government to the local bodies within its jurisdiction is not easily ascertainable and is scattered over various heads of the state budgets, from which it is not easy to collect full information. It is accordingly suggested that each State Government may at the time of preparing the budget include in the finance department's explanatory memorandum, a statement showing the assistance to local bodies. Such a statement should also include items which do not appear in the budget such as transfer of land, or any other form of financial assistance for which vote of the legislature is required.

## CHAPTER XVIII.

### EDUCATION

640. Elementary education is one of the obligatory functions of local bodies under the Acts constituting them. There is no such obligation with regard to the other branches of education such as, secondary, technical or collegiate which are entirely discretionary. In the early stages of their existence, local bodies did not have to spend much on elementary education, as the Government of India did not have any particular policy regarding free and compulsory primary education. But ever since the Montagu-Chelmsford Reforms, the pace of expenditure on elementary education has increased and with it the expenditure incurred by local bodies. In addition to this some local bodies are incurring a small expenditure on secondary and technical education and, in a few cases, there are also colleges maintained by local bodies. In respect of these, we consider that there should be no financial responsibility on local bodies and that they should be relieved entirely of this liability.

641. Article 45 of the Constitution says that the State shall endeavour to provide within a period of ten years from the commencement of the Constitution for free and compulsory education for all children until they complete the age of fourteen years. This directive is bound to increase the financial liability of local bodies in the years to come if any portion of this liability is to be placed on them.

642. Some of us feel that the entire responsibility for primary education including control and finance should vest in the State Government. We are, however, doubtful, if we would be justified in making such a far-reaching recommendation as regards transfer of functions and have not gone into the question. The recommendations that follow are based on the assumption that the present system of distribution of financial responsibility for primary education between the State Government and local bodies will remain as it is.

643. **Madras.** The first Madras Elementary Education Act was passed in 1920. Since then it has been considerably revised. It was amended in 1931, 1934, 1935, 1938, 1939, 1941, 1943, 1946 and 1948. In its present form the Act envisages the establishment of an elementary education fund for each local authority (section 32) to which shall be credited ;—

- (i) Proceeds of education tax ;
- (ii) Contribution from local authority ;
- (iii) Government grant ;
- (iv) Fines & penalties under the Act ;
- (v) Income from endowments and property owned or managed for the benefit of elementary education ;
- (vi) School fees, if any collected ;
- (vii) All other moneys received for the purposes of the Act.

The levy of the education tax is provided for in section 34 of the Act. Under that section, any municipal council or any district board may, with the previous sanction of the Provincial Government and shall, if so directed by them, levy within its area (or in any part in the case of the district boards) taxes at such percentage (as may be considered suitable) of the taxation levied in any such area

CHAPTER XVIII

(or part thereof in the case of district boards) under the law for the time being in force governing them under all or any of the following heads, namely.

(i) Municipal councils=(Property tax, tax on companies and profession tax)

(ii) District Boards =(Land Cess, Profession tax and house tax).

The rate of education tax is 15% of property tax within the limits of the City of Madras Municipal Corporation. In the district board areas, the rate varies from 10 pies in the rupee of land revenue in Bellary and Tanjore district to 37 pies in Salem and the average works out at 20.5 pies in the rupee. In the case of municipal areas the education tax is levied as a surcharge on property tax at rates varying with each municipality. The actual rates in force in each urban area are given in the chapter on Property Tax. The receipts from this source during the decennial period ending 1947-48 were as under :—

	Receipts from education tax (in lakhs of rupees)
1938-39	29.49
1939-40	26.60
1940-41	28.52
1941-42	38.06
1942-43	48.89
1943-44	55.97
1944-45	75.34
1945-46	89.71
1946-47	93.43
1947-48	116.74

It will be seen from the above figures that local taxation in regard to education has increased four times within this period.

For the purpose of contributions by local bodies to the Elementary Education Fund, section 32 of the Madras Elementary Education Act, 1920, contains the following provision :—

“32—(1-a) an annual contribution from the general funds of such authority, not being less than a minimum fixed by the Provincial Government in that behalf.

(1-b) such additional contribution from the general funds of such authority as the Provincial Government may decide to be necessary in any year in order to balance the budget of the fund for such year.

The contributions made by local bodies from their general funds during the period under review were as under :—

Year	Contributions from local bodies ( in lakhs of rupees).
1938-39	28.18
1939-40	32.49
1940-41	33.46
1941-42	28.12
1942-43	24.45
1943-44	27.97
1944-45	36.41
1945-46	45.58
1946-47	55.58
1947-48	99.59

## EDUCATION

It will be seen from the above figures that the expenditure borne by general funds of local bodies has increased  $3\frac{1}{2}$  times.

As against this, the Government grants for elementary education were as under :—

Year	Government Grants (in lakhs of rupees)
1938-39	89.13
1939-40	89.23
1940-41	89.43
1941-42	91.39
1942-43	92.92
1943-44	95.91
1944-45	110.80
1945-46	145.44
1946-47	169.22
1947-48	153.00

The figures given above are inclusive of grants to the Madras City Corporation. It will appear that as against Rs. 216.32 lakhs contributed by local bodies, the Government grant was only Rs. 153 lakhs.

Prior to 1941, the Government contributions were fixed with reference to the entire proceeds of the education tax realised by local bodies. In that year Government amended the Elementary Education Act withdrawing from the obligation to make a contribution in respect of taxation sanctioned after that year. Thus local bodies get more or less fixed contributions in respect of education tax realised by them. The total figure of Rs. 153 lakhs for Government grants was made up as under :—

- (i) Rs. 33 lakhs —grant in respect of education tax.
- (ii) Rs. 68 lakhs —subsidies for opening schools in schoolless areas.
- (iii) Rs. 45 lakhs —subsidies for introduction of compulsion in district board areas.
- (iv) Rs. 7 lakhs —Grants for construction of school buildings at half the estimated cost.

The Government of Madras state that of the grant of Rs. 153 lakhs only Rs. 60 lakhs is statutory, the balance being discretionary.

They consider that “the administration of elementary education is not a burden on the finances of local bodies which are able to bear it”, and that “the finances of the provincial government cannot afford to bear any appreciable expenditure above that already incurred in the past few years”. They, however, state that the question of increasing the incidence of the education tax and of raising the rate of contribution payable by Government is under examination.

CHAPTER XVIII

The over-all position is portrayed in the sub-joined statement :—

Year	Local bodies expenditure on primary education	Receipts from education tax	Government grants	Net expenditure from local funds
(In lakhs of rupees)				
1938-39	146.80	29.29	89.13	28.18
1939-40	148.32	26.60	89.23	32.49
1940-41	151.41	28.52	89.43	38.46
1941-42	157.57	38.06	91.39	28.12
1942-43	166.30	48.89	92.96	24.45
1943-44	179.85	55.97	95.91	27.97
1944-45	222.55	75.34	110.80	36.41
1945-46	280.73	89.71	145.44	45.58
1946-47	318.23	93.43	169.22	55.58
1947-38	369.33	116.74	153.00	99.59

According to these figures the growth under each head during the period under review was as under :—

Yaar	Total expenditure on primary education	Education tax	Government Grants	Expenditure from general funds of local bodies
(In lakhs of Rupees)				
1947-48	369.33	116.74	153.00	99.59
1938-39	146.80	29.49	89.13	28.18
	222.53	87.25	63.87	71.41
	or	or	or	or
	151.5%	295.8%	71.6%	253.4%

It will thus be seen that while the government grants have increased by 71 per cent, the growth of education tax has been 295 per cent, and that of expenditure from general funds of local bodies 253 per cent.

644. It is recommended that after the levy of education tax at a proper level, of which the State Government must be the judge, contribution from general funds of local bodies for educational purposes should not exceed the proportion that such contribution now bears to the income (excluding government grants) of such local bodies and the whole of the remaining expenditure should be borne by the State Government.

645. **Bombay.** The first Bombay Primary Education Act was passed in February 1918 and provided for the introduction of compulsory education for boys and girls in municipal areas. In 1920 the City of Bombay Primary Education Act was passed extending the provisions of the Act of 1918 to the Corporation of Bombay. In February 1923, the Act of 1918 was repealed and a new Primary Education Act passed which provided for the control of primary education by school boards of municipalities and district boards and for the introduction of compulsion for boys and girls in all local areas on the initiative of a local authority, or at the discretion of Government. Since then the measure

has been replaced by a new enactment known as the Bombay Primary Education Act 1947. Its application extends to the whole of the province except the City of Bombay. In the matter of control and scope, the new Act follows the pattern of the Act of 1923.

The promotion of primary education is contemplated through the agency of district school boards in rural areas and through municipal school boards in the case of authorized municipalities. The latter are defined as municipalities authorised to control primary schools. For financing the activities of the school boards, the Act also provides for the maintenance of primary education funds. The following shall form part of or be paid into, the primary education fund :-

- (a) the balance of the primary education fund maintained under section 8-A of the Bombay Primary Education Act, 1923 ;
- (b) the contribution payable by non-authorized municipalities ;
- (c) fees and fines under the Act ;
- (d) in the case of district school boards such portion of the income of the district local board as the Provincial Government may fix ;
- (e) in the case of an authorised municipality the grant paid or payable by the authorised municipality on account of primary education ;

Explanation :—For the purposes of clause (e) the grant payable shall be the amount of expenditure on account of primary education in any year less the grant paid by the Provincial Government in that year and fees and sums of money from other sources belonging to the fund ;

- (f) the grant paid or payable by Provincial Government on account of primary Education ;
- (g) such other sums as may from time to time be received on account of primary education.

Despite this formidable list the principal sources for feeding the primary education funds are mainly three namely :—

- (i) contribution from local funds ;
- (ii) Government grants ; and
- (iii) payments by 'non-authorized' municipalities.

With respect to the first, it will have been observed that in the case of municipal school boards the municipalities have to provide for the entire expenditure from their own funds less the receipts from Government grants and income from any other sources including contributions from non-authorized municipalities. In the case of district school boards, the requirement is that every district local board shall pay over annually to the district school board for the purpose of primary education such portion of its income from its revenue, described in classes (b) and (c) of section 75 of the Bombay Local Board Act, 1923, as the Provincial Government may from time to time fix in the behalf."

**Extract from section 75 of the Bombay Local Boards Act, 1923  
(VI of 1923)**

- (b) the net proceeds (after deducting the expenses of assessment and collection) of any residue of the cesses payable in the district under the Sind Local Funds Act, 1865 and Bombay Local Funds Act, 1865.

(Note :—These Acts have been repealed by Bombay Act VI of 1923)

**CHAPTER XVIII**

(c) the net proceeds (after deducting the expenses of assessment and collection of the cesses in the district authorised by sections 93 and 95.

(section 93 : cess on land revenue)

(section 95 : cess on water rate)

As regards non-authorised municipalities it is provided that they shall, "pay over annually to the district school board or the authorised municipality, as the case may be, for the purposes of primary education such proportion of the rateable value of properties in the area of the municipality as may from time to time be fixed in this behalf by the Provincial Government and the income accruing from any funds (including trust funds) held and all monies received by it for the said purposes".

The provincial Government's contribution, in the case of municipal school boards, shall be half the additional recurring and non-recurring cost of the scheme, "in addition to that payable under the Act of 1923" before the present Act come into force. In the case of district school boards "the Provincial Government shall pay a grant equivalent to the amount by which the expenditure in accordance with the budget sanctioned exceeds the receipts." In other words, in the case of urban areas under "authorised municipalities"; the latter have to provide for the balance of expenditure over and above the receipts from Government grants while in the case of rural areas, the Government have to bear the whole of the expenditure minus the contribution of the local bodies. Comparatively, therefore, primary education in rural areas may be held to be better placed than in the urban areas in the matter of assistance from provincial revenues. It was disclosed in the course of oral evidence that on the recommendations of the Ghate-Parulekar Committee (1925) the Government of Bombay laid down certain scales of pay and dearness allowance for the primary teachers and practically made it compulsory for the local bodies to adopt them. This raised the cost of primary education but the proportion of grant remained the same with the result that the municipalities find it difficult to balance their budgets.

The subjoined table shows the growth of expenditure of local bodies on primary education during the period from 1937-38 to 1945-46 (the latest year for which figures are available).

Year	Total expenditure on primary education by local bodies	Government assistance (excluding grant to Bombay Corporation)	Net expenditure from local funds
1937-38	1,40,46,618	75,19,530	65,27,088
1938-39	1,58,42,489	91,67,596	66,74,893
1939-40	1,61,08,962	79,73,063	81,35,899
1940-41	1,63,56,950	82,63,094	80,93,856
1941-42	1,76,31,695	89,50,202	86,81,493
1942-43	1,79,84,285	92,95,165	86,89,120
1943-44	1,96,29,875	1,03,70,841	92,59,034
1944-45	2,13,71,662	1,04,08,931	1,09,62,731
1945-46	2,36,16,533	1,22,56,968	1,13,59,565

It will be seen that the total expenditure has grown from Rs. 140.46 lakhs in 1937-38 to Rs. 236.16 lakhs in 1945-46, or by 95 lakhs in nine years. The net expenditure from local bodies' funds has increased from Rs. 65 lakhs to 113 lakhs,

or by 48 lakhs in nine years. The Government grant has increased from Rs. 75 lakhs to Rs. 122 lakhs, or by 47 lakhs in nine years. The growth of expenditure from local funds has, therefore, been at a slightly higher rate than the growth in the grant from Government.

646. We learn from the Government of Bombay that since the coming into force of the Bombay Primary Education Act, 1947, Government bears almost 95 per cent. of the approved expenditure of district school boards on primary education the remainder 5 per cent. being met from other sources, including the contribution by the district local boards. In urban areas, Government bears 50 per cent. of the approved expenditure of the authorised municipalities on primary education.

In the circumstances, the State Government may consider whether an education cess may be levied as in Madras.

647. **West Bengal.** For the promotion of primary education, this State has no its statute book two separate enactments—one for urban areas and the other for rural areas. The Bengal Primary Education Act, 1919, originally provided for the introduction of compulsory education for boys only in municipal areas and for the levy of an education cess. It has since been amended to include girls as well (sec. 17-A). While the Bengal (Rural) Primary Education Act was enacted in 1930 and came into force with effect from January 1931, its application extends to the whole of West Bengal except the town of Calcutta.

Under the scheme of the former Act, every municipality had to submit within 12 months a statement showing particulars of the existing arrangements for the imparting of primary education, future requirements, the cost involved as also the estimates of its existing and future income and expenditure. On the basis of these data the Provincial Government had to determine the financial assistance necessary in each case.

With the prior permission of the Provincial Government, the municipalities may also introduce compulsion. For this purpose, the municipalities have to appoint school Committees of which the Deputy Inspector or Sub-Inspector of schools, at least one Municipal Commissioner and one or more residents of the area must be members. If the existing resources of any municipality are not sufficient to cover the cost of primary education, it may, with the previous sanction of the Provincial Government, impose an "Education Cess" at a rate amounting to the sum required to meet the expenditure on primary education plus an additional 10% to meet charges incidental to collection and non-realisation, etc.

In August 1920, Mr. E. E. Biss, I. E.S., was placed on special duty to formulate a programme for the expansion of primary education. The report submitted by Mr. Biss contained a recommendation that half the cost of primary education should be borne by Government and the other half by the local bodies concerned. This proposal was approved by the Government of Bengal in relation to the districts of Burdwan and Howrah. During the course of oral evidence tendered to us in Calcutta, it was pointed out that the intention was to extend the scheme to all the districts. But this was not carried out and the share of the expenditure on primary education now borne by municipalities in West Bengal is much greater.

For elementary education to district board areas, district school boards have been constituted, thus relieving district boards of all responsibility for primary education. Sec. 37 of the Bengal (Rural) Primary Education Act, 1930 provides that "there shall be formed for each district, a district primary education fund, to which shall be credited.—



- (i) All sums granted by the provincial Governments :
  - (a) as grants to primary education.
  - (b) for the institution and maintenance of primary schools and payment to teachers and
  - (c) for scholarships in primary schools ;
- (ii) Proceeds of education cess
- (iii) Proceeds of the tax on trade, business or professions
- (iv) All sums surcharged in audit
- (v) Any other income under the provisions of the Act, derived from :—
  - (a) Endowments and property
  - (b) Fines and Penalties
  - (c) School fees if any collected
  - (d) All other sums of money which may be received.”

The education cess is collected by Government and paid to district school boards. With the financing of district school boards this Committee is not concerned, as they are not “local bodies” within our terms reference.

648. The total expenditure of municipalities on education for the year 1948-49 was Rs. 5,48,902 and the grants from Government amounted to Rs. 1,04,719 or about 20% of the total expenditure. It is not known how much of the total expenditure was incurred on secondary schools and schools other than elementary. We understand that with very few exceptions, no education cess is levied by municipalities in West Bengal. There seems no reason for this discrimination. We suggest that in every municipality an education rate should be levied at the rate fixed in the Bengal Primary Education Act, 1919. Any increase in expenditure considered necessary to introduce compulsory primary education should, we think, not exceed the proportion which the present expenditure of municipalities on this object bears to their total income.

649. **Uttar Pradesh.** In June 1919, the U.P. Primary Education Act was passed and provided for the introduction of compulsory education for boys in municipal areas only. The U.P. District Boards Primary Education Act, passed in 1926, extended the provisions of the 1919 Act to rural areas as well.

Of the total number of municipalities in the State, 36 are reported to have introduced compulsory primary education for boys. Compulsory education for boys is also in force in selected areas of 26 district boards. Compulsory education for girls is in force in selected areas of Lucknow and Etawah district boards and Kanpur, Mirzapur and Mathura municipalities. Government bear the full cost of the scheme in the Etawah District Board and two-thirds in the remaining areas.

Recurring grants for compulsory primary education are regulated as under :—

### I. MUNICIPALITIES

- (1) two-thirds of the extra recurring cost involved including the remitting of fees, as also of
- (2) the total cost of bringing the minimum pay of primary teachers up to the minimum prescribed for district boards ;

provided that the total Government contribution shall not exceed 60% of the total cost.

[Note : With effect from the year 1948-49 the proportion has been raised to three-fourths of the additional cost of the sanctioned scheme.]

## EDUCATION

### II. DISTRICT BOARDS

- (1) whole of the extra recurring cost in the case of boards receiving less than two-thirds expenditure until the total Government assistance reaches two-thirds of the total expenditure.
- (2) two-thirds of the extra recurring cost in the case of those receiving more than two-thirds of their prescribed education expenditure.
- (3) not more than two-thirds of the estimated cost of primary school buildings and initial equipment.

The total expenditure on education in rural areas under district boards during the year 1948-49 was Rs. 1,53,55,690/- out of which Government contributed Rs. 1,15,780/- or 75 per cent., and the boards' share was Rs. 37,67,910/-. The Government contribution included a sum of Rs. 25,76,279/- towards the increase of Rs. 5 in the pay of primary school teachers sanctioned in 1946-47. During the year 1949-50 Government grant to district boards was Rs. 1,41,78,700/-.

Total Government grant for education to municipalities in 1948-49 was Rs. 42,80,500/- and in 1949-50 Rs. 48,82,400/- inclusive of grant for compulsory primary education which was + Rs. 30,78,000/- in 1948-49 and Rs. 42,37,570/- in 1949-50.

It is understood that the State Government has a programme of expansion of primary education at the rate of 4,400 new schools every year. But during the current year, the number has been reduced to 550 on account of financial stringency. It is also understood that the State Government is now transferring all its primary schools to the district boards. This step will, by saving duplication of effort, lead to substantial savings in due course to the State Governments.

The subjoined table exhibits the growth of expenditure on primary education during the decennial period ending 1948-49.

Year	Total expenditure on primary education	Net expenditure from local funds	Government Grants	Receipts from fees and other sources
	Rs.	Rs.	Rs.	Rs.
1939-40	97,80,506	31,09,533	60,25,023	6,45,950
1940-41	97,85,357	30,85,100	60,48,011	6,53,246
1941-42	99,24,862	30,19,769	62,00,384	7,04,709
1942-43	99,70,290	30,66,629	62,03,437	7,41,739
1944-45	1,03,69,167	33,16,726	62,11,597	8,40,844
1945-46	99,06,890	32,37,436	57,51,908	9,17,546
1946-47	1,33,00,734	41,67,010	80,66,046	10,76,678
1947-48	1,63,63,816	48,86,050	1,02,55,496	13,22,271
1948-49	2,06,43,381	55,93,690	1,34,75,153	15,74,539

Accordingly the rate of progress in expenditure works out as under :—

Year	Total expenditure	Net expenditure from local funds.	Government Grant.
1948-49	2,06,43,381	55,93,690	1,34,75,153
1939-40	97,80,506	31,09,533	60,25,023
	1,08,62,875	24,84,157	74,50,129
	or 111.07%	or 79.88%	or 120.6 %

## CHAPTER XVIII

It will be seen from the above figures that the growth of government grants has been greater than the growth of local fund expenditure. Government may consider the desirability of levying an education cess at a rate they consider suitable. Some of us, however, feel that in rural areas the local fund cess plus the education cess should together not exceed three annas in the rupee.

**650. Punjab.** The first Punjab Primary Education Act was passed in April 1919 and provided for the introduction of compulsory education for boys in municipal areas. In 1941 it was replaced by the Punjab Primary Education Act, 1940. Under the scheme of the latter enactment any local authority (which term includes district boards, municipalities, town committees and notified areas) may, by a resolution passed by a two-thirds majority at a meeting specially called for the purpose, decide that primary education shall be compulsory for all boys and girls of school age (6-12 years for boys and 6-11 years for girls) within its limits or any part thereof. The local body has to submit the proposal to the Government supported by estimates of requirements and anticipated income and expenditure. It is for Government to reject or sanction the proposal.

The Act does not embody any provision for the financing of primary education or for regulating Government assistance for this purpose. The system of Government grants was devised in 1915-16 and the amounts then paid are treated as basic grants. For rural areas, however, a system of grading of district boards has been evolved to regulate their eligibility for additional grants over and above the basic grants based on the educational needs of each area and its capacity to finance them as under :—

District Boards	Limit eligibility for additional grants
(1) Amritsar, Gurdaspur, Ferozepur, Jullunder, Hoshiarpur, Amhala and Karnal.	60 p. c.
(2) Hissar and Ludhiana	70 p. c.
(3) Rohtak and Gurgaon	80 p. c.
(4) Kangra	90 p. c.
(5) Simla	100 p. c.

As the system proved unworkable, specially in the preparation of budgetary estimates, an upper limit of Rs. 7,000/- was introduced. This has since been gradually reduced and now stands at Rs. 3,000/- per annum. Grants are also paid for recurring expenditure, like repairs to school buildings, supply of furniture, equipment, library books, rent, etc. These are outside the limit of Rs. 3,000/-. Government have also agreed to treat district board expenditure on compulsory education as approved for grant purposes. In view of financial difficulties, Government have in recent years been assisting district boards on cent percent. basis for all fresh schemes of development and improvement.

In the case of urban bodies, in addition to the basic grants of 1915, Government contribute (i) for new schools on the following scale :—

	Primary Schools	Middle Schools	Hostels
1. For Boys	Rs. 200/- p. a.	Rs. 1300/- p. a.	Rs. 50/- p. a.
2. For Girls	Rs. 150/- p. a.	Rs. 1100/- p. a.	Rs. 50/- p. a.

(ii) For compulsory education, half the actual cost subject to a maximum of Rs. 5/- per pupil per annum.

(iii) On improvement of pay scales of primary teachers half the additional expenditure,

EDUCATION

(iv) On dearness allowance one-third the expenditure.

The expenditure recorded for the year 1948-49 was as under :—

	Gross expenditure on education.	Government grant.	Percentage.
District Boards	1,32,90,497	87,68,343	65.9
Urban Bodies	18,96,000	5,55,418	29.2
	1,51,86,497	93,23,761	61.3

Owing to the partition of the province, no comparison with earlier years' figures is possible.

651 It will be observed that Government assistance in the case of rural bodies is nearly twice as much as that given to urban bodies and was 61.3% of the aggregate gross expenditure. There is no education cess in this province. We suggest that such a cess should be levied in urban and rural areas at rates approved by Government in each case. The balance of expenditure should met from State funds in accordance with the same formula as we have suggested for other States.

652. **Bihar.** The Bihar and Orissa Primary Education Act was passed in February 1919 and provided for the making of education compulsory for boys in municipal and rural areas by the levy of an education cess. Under the scheme of the Act, a local authority\* may by a resolution passed by two-thirds majority at a meeting specially called for the purpose decide that the primary education of children ordinarily residing in the area within its jurisdiction or any portion thereof shall be compulsory and after satisfying the Provincial Government that it is in a position to make adequate provision for the purpose, may by a notification in the Government Gazette so declare. After taking this step, the local authority may appoint a school committee for the direction of education and the regulation of primary schools in the area. For financing the promotion of the scheme, the Act provides that if the resources including grants from Provincial Government at the disposal of the local authority are inadequate for the provision of efficient primary education, the local authority may by a resolution passed at a general meeting specially called in this behalf and supported by at least two-thirds of the members present at such meeting and with the sanction of the Provincial Government impose a cess to be called education cess at such rate not exceeding :—

- (i) thirty-three and a third per cent. of the maximum rate of property tax in municipalities, and
- (ii) fifty per cent. of the Union rate, where no education cess is levied.

The Act also provides for the levy of school fees at rates to be fixed by the local authority in areas where no education cess is levied.

The rate of education cess in this State has with effect from the year 1949-50 been raised from 1½ to 2 annas per rupee.

**Article 98 of the Bihar Education Code.** Grants to municipalities are calculated on two separate scales, one for those which have introduced compulsion and another for those which have not. In the former case there is no limit to the amount of the non-recurring grant admissible, but the municipality is required to contribute (unless specifically exempted) a sum equal to that to be paid by Government, subject to a limit of 10 per cent. of its ordinary income. The recurring grant admissible is limited to two-thirds of the cost of educating 10% of the male population of the municipality as recorded at the previous census at Rs. 11/- a

[\* The term includes municipalities and Union Committees.]

head and the municipality is required to find from its own funds half as much as is paid by Government. In the latter case the non-recurring grant admissible is 20% of the ordinary income of the municipality and the municipality is required to find from its own funds, save under general or special sanction of Government, a sum equal to that to be paid by the Government. The recurring grant admissible is limited to the sum given in 1922-23, or half the cost of educating 5% of the male population of the municipality as recorded at the previous census at Rs. 8/- a head, whichever is greater. As a condition to any addition to the grant sanctioned for 1922-23, the municipality is required to find from its own funds as much as is paid by the Government. The Government of Bihar consider that the minimum which any municipality should spend on primary education should be 5% of its ordinary income and no increased grant is made to any municipality unless it undertakes to spend not less than this proportion of its income on primary education. Grants to district headquarter municipalities are, however, not regulated by the above formula.

In the case of district boards, recurring grants are given according to the resources of the district board and the population of the district. For this purpose they have been divided into three classes, viz, (a) those which have a cess income of less than Rs. 150/- per thousand head of population (b) those with a cess income of over Rs. 150/- but not more than Rs. 250/- and (c) the richest district boards. Each class receives a fixed grant per head of population, class (a) receiving the largest sum and so on. The amounts now given per head are—

- (a) annas 2
- (b) annas 1½
- (c) annas 1½

As a condition to these grants, district boards in class (a) are normally required to spend 10% of their income on education; boards in class (b) 12½% and boards in class (c) 15%. The principle is that the richer boards receive less from government and are expected to spend more from their funds.

The subjoined table traces the growth of expenditure on the servicing of primary education by local bodies during the decennial period ending 1948-49:—

Year	Total local bodies expenditure on primary education.	Fees and other sources	Government assistance	Net expenditure from local fund
1939-40	51,56,603	13,43,178	29,14,949	8,98,476
1940-41	53,78,791	12,96,885	31,33,484	9,28,422
1941-42	54,56,903	12,71,047	35,36,307	6,49,549
1942-43	55,25,950	13,18,692	32,01,038	10,06,220
1943-44	60,55,193	15,29,140	32,53,293	12,72,760
1944-45	60,96,982	15,86,054	32,68,625	12,42,303
1945-46	70,50,705	17,99,949	33,14,518	19,36,238
1946-47	83,07,424	20,09,907	48,00,237	14,97,280
1947-48	123,73,463	23,90,608	78,53,563	21,29,292
1948-49	134,42,320	24,48,451	80,50,242	29,43,627

The growth thus disclosed may be summarised as under:—

1948-49	1,34,42,320	24,48,451	80,50,242	29,43,627
1939-40	51,56,603	13,43,178	29,14,949	8,98,476
Increase	82,85,717	11,05,273	51,14,949	20,45,151
	or 160.6%	or 82.2%	or 176.1%	or 227.4%

## EDUCATION

In other words the increase under each head was

- (i) By 160.6% in total expenditure.
- (ii) By 227.4% in expenditure from local funds and on the receipts side.
- (iii) By 176.1% in the case of Government grants and
- (iv) By 82.2% from fees and other sources.

653. The growth of net expenditure from local funds has been greater than the growth of government grants. It is presumed that the education cess now levied is adequate. If it is not adequate for any area, it should be raised to the level considered adequate by the State government. The balance of the expenditure not covered by the education cess should be met from provincial funds in the same manner as recommended by us in the case of other States.

654. **Orissa.** The provisions of the Bihar and Orissa Primary Education Act, 1919 and the rules framed thereunder apply to this State as well except the area comprised in the Ganjam district. The latter was taken over from the former Madras Presidency and consequently the provisions of the Madras Elementary Education Act, 1920 permitting the levy of education cess at a rate not exceeding 25% of the land cess and profession tax apply to that district for financing elementary education. The scheme of the former Act has been explained under 'Bihar.' In order to do away with this divergence the Government of Orissa have enacted a unified Local Government Act\* in which the above provision of the Madras Act has been incorporated to permit the levy of education cess on a uniform basis in all districts of that state as under.

"Sec : 265:—Education Taxes—Any district board may with the previous sanction of the Provincial Government, and shall if so directed by them, levy within its area or any part thereof taxes not exceeding twenty-five per cent of the taxation levied in such area or part under the law for the time being in force under all or any of the following heads, namely:—

- (i) Land Cess or local cess and
- (ii) Profession tax."

The assistance from state revenues is regulated by the provisions of the Bihar and Orissa Education Code, except in the case of ex-Madras areas. In the case of the latter the assistance is regulated by section 37 of the Madras Elementary Education Act 1920, viz, an amount equal to the proceeds of the education cess levied under the Act. It seems that the Orissa Government have not limited the grant to the proceeds of the education cess in 1941 as the Madras Government have done. In this respect Ganjam is in a more favourable position. There is also a grant in addition which is equal to the recurring expenditure incurred from state funds before the coming into force of the Madras Elementary Education Act, 1920. A teaching grant to meet the cost of teachers in new schools opened after the introduction of the Act is also paid. This grant is not statutory.

The subjoined table shows the growth of expenditure on primary education from local funds and the Government assistance given during the period of ten years ending 1948-49:—

\*The Orissa Local Government Act, 1950.

CHAPTER XVIII

	Total expenditure.	From district funds (cess income.)	From municipal funds	Government grants	Other sources.
1939-40	11,14,249	1,26,105	45,182	9,33,803	4,159
1940-41	10,72,797	1,11,073	44,618	8,78,442	38,664
1941-42	10,87,704	1,21,084	41,541	8,69,530	55,559
1942-43	10,49,257	1,19,117	38,853	8,88,586	2,701
1943-44	12,05,183	1,24,138	43,004	9,65,001	73,041
1944-45	11,95,523	1,28,639	40,732	9,80,725	41,082
1945-46	13,30,056	1,29,989	43,497	12,08,957	40,613
1947-48	28,59,576	1,50,409	66,068	25,46,502	96,597
1948-49	28,53,082	1,92,668	51,839	25,27,776	80,745

655. It will be observed that the growth of total expenditure on primary education in this state has been somewhat slower than in others. During the last 10 years, the expenditure increased  $2\frac{1}{2}$  times. The income from education cess has increased very little. The increase in expenditure from municipal funds has been insignificant. As against this the government grant is very nearly three times the figure for 1940-41. It, therefore, appears that the financial assistance which local bodies receive from Government in Orissa is not inadequate, and we have no further recommendation to make.

656. **Madhya Pradesh.** The Central Provinces Primary Education Act was passed in May 1920, and provided for the introduction of compulsory education for boys and girls in municipal and rural areas. Under the scheme envisaged in the Act, any local authority (which includes municipalities, notified areas and district councils) may at any meeting convened for the purpose resolve to submit an application to the Provincial Government for the introduction of compulsion in any area under its control, after publishing the said resolution for inviting objections, which along with the decision of the local authority shall be submitted with the application to the Provincial Government who may pass any orders on it, rejecting or sanctioning the proposal.

For financing the scheme, the Act embodies a provision enabling the Provincial Government to "prescribe the proportions in which the cost of providing primary education shall be divided between the local authorities and the Provincial Government." The relevant provision is included in rule 14 of the C.P. and Berar Compulsory Education Rules, which is as follows:—

Subject to the provision of funds in the sanctioned budget, the Provincial Government undertakes to pay to a local authority

- (a) An annual recurring grant equal to
  - (i) one half of the approved additional recurring expenditure involved by the introduction of compulsory education.
  - (ii) one half of the fee income remitted as a result of compulsion in recognised primary schools.
  - (iii) the grant-in-aid paid to private primary schools before the introduction of compulsion.
- (b) A non-recurring grant equal to one-half of the approved additional expenditure involved by the introduction of compulsory education e. g. school buildings and equipment.

Local bodies open schools and come up to Government for grant-in-aid, which is given if the schools satisfy certain minimum prescribed conditions regarding building, staff, equipment, etc. Expenditure upto  $6\frac{1}{2}$ % of the total income is borne

## EDUCATION

entirely by the municipalities. Over and above this they become eligible for Government grant-in-aid which is 50% for non-recurring and 33% for recurring expenditure.

Compulsion is reported to have been introduced in 28 out of 92 janapadas and 24 out of 82 municipalities.

The total expenditure on primary schools through local bodies during 1949-50 was Rs. 1,06,84,846 towards which State revenues contributed Rs. 63,07,306 or 59 per cent.

The Government of Madhya Pradesh have sanctioned the opening of 1144 primary schools by Janapadas with effect from 1-9-1949, and agreed to meet the total recurring cost amounting to Rs. 5,78,864/-.

The sub-joined table shows the growth of expenditure of local bodies in this State on primary education, during the decennial period ending 1947-48 :—

Year	Total income	Total Expenditure on Primary Education.	Net Expenditure from local fund.	Government grants.	Receipts from other sources.
1938-39	71,86,018	40,60,004	21,17,000	15,70,640	3,72,364
1939-40	78,01,441	42,35,367	22,07,492	16,59,867	3,68,008
1940-41	90,88,295	42,12,122	22,61,322	15,83,363	3,67,437
1941-42	82,08,271	43,06,668	23,30,688	16,01,033	3,69,947
1942-43	95,40,692	45,71,073	25,35,213	16,37,377	3,98,483
1943-44	1,12,15,194	47,29,976	26,13,549	16,58,512	4,47,905
1944-45	1,15,18,719	56,70,048	30,54,747	20,83,946	5,32,175
1945-46	1,32,17,134	61,88,727	32,31,123	23,60,391	5,96,213
1946-47	1,18,43,901	98,81,083	36,63,614	55,51,659	6,65,810
1947-48	1,78,27,250	1,13,21,316	39,72,061	66,07,646	7,41,602

Accordingly the growth under each was as under :—

	Total expenditure	Net from local funds.	Government grant.
1947-48	1,13,21,316	39,72,061	66,07,646
1938-39	40,60,004	21,17,000	15,70,640
	<u>72,61,312</u>	<u>18,55,061</u>	<u>50,37,006</u>
	or	or	or
	177.7%	87.6%	420%

657. The position in Madhya Pradesh of more favourable to the local bodies than in other States. The net expenditure on primary education at the end of the decade is less than double of what it was at the beginning, while the Government grant has increased more than four times.

We understand that the State Government has decided to take over compulsory primary education, and have therefore no recommendations to make.

658. Assam. The first Assam Primary Education Act passed in 1926 provided for the gradual introduction of compulsion in approved local areas, local bodies contributing one-third of the cost and Government two-thirds. Owing presumably to lack of enthusiasm on the part of local bodies to take advantage of the provisions of the Act, it appears to have been replaced in 1947



## CHAPTER XVIII

---

by the Assam Primary Education Act, 1947, which came into force with effect from 1st November, 1948. Under the scheme of the new Act, local bodies have been relieved of the responsibility of managing primary education and its administration has been vested in an independent body comprising the Director of Public Instruction, three representatives of the Legislative Assembly and one representative of the Legislative Council and a Secretary appointed by Government. In view of this, the question of apportionment of expenditure on primary education in Assam between local bodies and the State government does not arise.

## CHAPTER XIX MEDICAL AND PUBLIC HEALTH

659. Among the several functions assigned to local bodies in this country, "Medical and Public Health" are two which have been declared obligatory by the relevant enactments. Actually, however, they constitute the curative and preventive aspects of one and the same function, *viz*; the maintenance of the health of the individual and the community. In addition, certain responsibilities have also been imposed on local bodies by special enactments like the Epidemic Diseases Act, 1897. Some functions under the Prevention of Food Adulteration Acts have also been assigned to local bodies. Thus to quote the Bhoze Committee, "the local bodies are responsible for health administration in their respective areas including the control of epidemic diseases".

660. Their duties and powers in this respect as incorporated in the relevant Acts may be summarised as under:—

- (a) the construction, maintenance and cleaning of drains and drainage works and of public latrines, urinals and similar conveniences;
- (b) scavenging and the removal and disposal of excrementitious and other filthy matter and of all ashes, refuse and rubbish;
- (c) the reclamation of unhealthy localities, the removal of noxious vegetation and generally the abatement of all nuisances;
- (d) the regulation of places for the disposal of the dead and the provision of new places for the said purpose;
- (e) the registration of births and deaths;
- (f) public vaccination;
- (g) preventing and suppressing the spread of dangerous diseases;
- (h) establishing and maintaining public hospitals and dispensaries and carrying out other measures necessary for medical relief.

The powers for the control of infectious diseases are, broadly speaking, larger in the case of municipal than of rural authorities. They relate to the notification or the reporting of cases of infectious diseases to the local health authority, the segregation and treatment of patients and the carrying out of other measures necessary for the prevention of the spread of infection.

Thus the work in this sphere is distinguishable into several activities e.g. conservancy, sanitation, medical relief, anti-epidemic work, prophylactic public health (such as vaccination and anti-malarial) work and vital statistics.

661. The expenditure incurred on this function by local bodies is given below for the year 1946-47:-

MUNICIPALITIES

	Public Health.	Medical Relief.	Drainage.	Conservancy.	Total expenditure.	Total income.	Percentage of 5 and 6.	Per capita incidence of total expenditure.
	1	2	3	4	5	6	7	8
								Rs. As. P.
Madras.	18,46,626	7,56,121	14,42,567	75,58,874	1,16,04,188	3,87,45,677	29.9	3 2 8
Bombay.	8,68,169	29,25,496	7,11,466	70,30,445	1,15,35,576	3,55,11,275	32.4	2 12 11
W. Bengal.	3,90,045	4,83,139	6,26,196	38,65,282	53,14,662	1,15,08,056	46.1	2 5 9
Uttar Pradesh.	11,80,000		11,70,000	75,30,000	98,80,000	3,91,00,000	25.2	1 7 0
Punjab.	2,68,961	5,08,125	2,39,407	11,72,914	21,89,407	76,71,577	28.5	1 7 11
Bihar.	1,79,259	1,88,905	3,97,322	23,97,783	31,63,269	80,55,965	39.2	1 15 1
Orissa.	61,181	37,862	21,353	3,89,813	5,10,209	22,02,603	23.1	1 15 1
Madhya Pradesh.	12,68,764	26,145	5,22,762	31,28,654	49,46,325	73,95,560	28.3	2 11 4
Assam.	59,668	52,900	52,859	5,65,125	7,30,552	19,73,714	37.01	2 8 6
<b>CITY CORPORATIONS</b>								
Madras Municipal Corporation.	15,34,232	4,62,511	19,50,593	26,43,317	65,90,653	1,55,78,468	42.8	8 7 7
Bombay Municipal Corporation.	16,68,682	41,29,149	6,60,447	55,01,278	1,19,59,556	6,61,69,242	18.7	8 0 5
Calcutta Municipal Corporation.	9,31,280	11,20,589	13,32,991	38,87,909	72,72,775	4,17,74,100	17.4	2 14 9

DISTRICT BOARDS

	Public Health.	Medical Relief.	Drainage.	Conservancy.	Total expenditure.	Total income.	Percentage of 5 and 6.	Per capita incidence of total expenditure.
								Rs. As. P.
Madras.	16,92,806	31,47,487			48,40,293	5,72,78,682	8.4	0 1 8
Bombay.	6,97,407	6,63,717			13,61,124	4,63,30,468	2.9	0 1 4
W. Bengal.	13,74,822	10,86,743			24,11,565	74,31,976	32.4	0 2 3
Uttar Pradesh.	8,80,000	24,40,000			27,20,000	2,95,30,000	9.2	0 0 10
Punjab.	6,30,925	8,33,463			14,64,388	1,16,03,637	12.6	0 2 3
Bihar.	13,98,785	1,02,556			35,01,341	2,58,56,960	13.5	0 1 6
Orissa.	1,79,042	3,96,760			5,75,742	52,68,919	10.9	0 1 1
Madhya Pradesh.	3,57,592	3,27,429			6,84,951	1,55,14,895	4.4	0 0 8
Assam.	89,527	7,00,033			7,89,560	61,65,666	12.7	0 1 4

**MEDICAL AND PUBLIC HEALTH**

662. It will be observed that in the case of City Municipal Corporations the highest per capita expenditure (*viz.* Rs. 8-7-7) was incurred by the Madras Municipal Corporation and the lowest (Rs. 2-14-9) by the Calcutta Corporation. The per capita figure for the Bombay Municipal Corporation was only slightly below that of Madras (*viz.* Rs. 8-0-5). In the case of other municipalities also the State of Madras leads with a per capita figure of Rs. 3-2-0 while the lowest of Rs. 1-7-0 was recorded in the case of Uttar Pradesh. The overall position disclosed may be described as under :—

- (a) Over Rs. 3/-                      Madras (Rs. 3-2-8)
- (b) Over Rs. 2/-                      (i) Bombay (Rs. 2-12-11)  
  (ii) Madhya Pradesh (Rs. 2-11-4)  
  (iii) Assam (Rs. 2-8-6)  
  (iv) West Bengal (Rs. 2-5-9)
- (c) Over Rs. 1/-                      (i) Bihar and Orissa (Rs. 1-15-1)  
  (ii) Punjab (Rs. 1-7-11)  
  (iii) Uttar Pradesh (Rs. 1-7-0).

663. In the case of rural areas the figures are generally insignificant. That indicates the poverty of resources for dealing with the problem of high mortality and low standard of public health, which generally prevail in the country. Taking the figures as they are, the highest per capita figure (Rs. 0-2-3) is for West Bengal and Punjab while the lowest (Rs. 0-0-8) for Madhya Pradesh and the position may be stated as under :—

- (a) Over 0/2/0                      (i) West Bengal and Punjab (Rs. 0-2-3)
- (b) Over 0/1/0                      (i) Madras (Rs. 0-1-8)  
  (ii) Bihar (Rs. 0-1-6)  
  (iii) Bombay and Assam (Rs. 0-1-4)  
  (iv) Orissa (Rs. 0-1-1)
- (c) Less than 0/1/0                      (i) Uttar Pradesh (Rs. 0-0-10)  
  (ii) Madhya Pradesh (Rs. 0-0-8).

664. Unimpressive as the above figures are, it may be mentioned, that even this much effort the local bodies were able to put in only with financial assistance from State revenues which was as under :—

	Expenditure Medical and Public Health.	Government Grant-in-aid.	Percentage.
Madras Municipal Corporation.	65,90,653	1,790	0.02
Bombay Municipal Corporation.	1,19,59,556	7,120	0.05
Calcutta Municipal Corporation.	72,72,775	8,304	0.11

CHAPTER XIX

OTHER MUNICIPALITIES

Madras.	1,16,04,188	7,39,000	6.3
Bombay.	1,15,35,576	5,55,713	4.8
West Bengal.	53,14,662	56,270	0.1
Uttar Pradesh.	98,80,000	2,47,809	2.5
Punjab.	21,89,407	...	...
Bihar.	31,63,269	8,41,681	26.6
Orissa.	5,10,209	...	...
Madhya Pradesh.	12,94,909	...	...
Assam.	7,30,552	4,644	0.6

DISTRICT BOARDS

Madras.	48,40,293	2,20,000	4.5
Bombay.	13,61,124	5,50,406	40.4
West Bengal	24,11,565	6,37,102	26.4
Uttar Pradesh.	27,20,000	6,06,795	22.3
Punjab.	14,64,388	3,89,966	26.6
Bihar.	35,01,341	19,90,105	56.8
Orissa.	5,75,742	...	...
Madhya Pradesh.	6,84,951	71,628	10.4
Assam.	7,89,560	1,46,812	18.5

The payment of Government grants-in-aid for this purpose is regulated differently in each state.

665. **Madras.** In Madras no grants are paid by Government to local bodies towards recurring and non-recurring expenditure on the maintenance of rural dispensaries. There is, however, a system of subsidies for rural medical practitioners and midwives. Grants to the extent of half the cost of medical buildings approved by Government and also towards equipment for medical institutions are sanctioned by Government provided the local body concerned is in a position to meet the other half from its funds. In the case of institutions opened prior to 1928, the Government contribute half-grant towards the pay of the medical officers. The policy after 1928 is to provincialise every year five local medical institutions situated in the taluka (tehsil) headquarters. In the case of the latter, if under the control of local bodies, Government medical officers are employed and the local bodies pay one-half of their pay, the other half being met by Government. The orders regulating provincialisation of medical institutions are subject to the following conditions :—

- (a) that the local body concerned shall agree to hand over to the Government, free of cost, the buildings, (together with the site) in which the institution is located and also the furniture and equipment ;
- (b) that out of the savings accruing as a result of the transfer, the local boards should open and maintain within their areas one or more additional regular or rural allopathic dispensaries and the municipal councils should similarly agree to earmark the savings for the purposes of installing a water supply or drainage scheme in the town.

Out of 48 municipal councils consulted 32 have accepted the conditions referred to above. Out of 63 local boards consulted 42 have agreed. Actually, however, six institutions were provincialised under the scheme during 1949-50. In view of the second condition attached to the scheme of provincialisation, it is hardly likely to result in any saving to the local bodies.

Half the expenditure on plague is generally met from State revenues. For anti-malaria measures Government usually pay one-third but where a local body is not able to meet its share of 2/3rds, more than the usual one-third grant is sanctioned. If a local body is not in a position to meet even a portion of the cost of the scheme and the scheme is imperative, Government as a special case meet the entire expenditure. Local bodies in whose areas filariasis is endemic are held eligible for Government grant to the extent of one-third of the actual expenditure. In other cases, a grant to the extent of one-fourth of the actual expenditure is paid. Since 1942-43, the Government have agreed to pay grants equal to one-fourth the expenditure on maternity and child welfare schemes. With effect from 1947-48, this proportion has been raised to one-half in the case of bodies that cannot find three fourths from their own funds. Half-grants towards the construction of buildings, for maternity and child welfare centres according to approved type designs are also given by Government. In the case of drainage works which are generally financed by loans, the additional amount required towards the capital cost over and above the amount raised by loan is borne by Government. To sum up, in the words of the Director Public Health, Madras, "Grants are now given as far as Public Health is concerned in respect of water-supply, drainage, maternity and child welfare and anti-malarial or anti-filarial measures. Substantial assistance is rendered to local bodies by the Government themselves shouldering a good portion of the expenditure on medical relief in rural and urban areas. The health staff are mostly provincial service personnel and their salaries are met in part by the Government."

666. **Bombay.** In Bombay, the Government bears one-half of the cost on account of health officers and one-third of the cost on account of sanitary inspectors appointed by the municipalities. Non-recurring grants are made to local boards and municipalities towards their expenditure on anti-epidemic measures if during the year their expenditure on anti-epidemic measures, medical and public health has not been less than 10% and 4% of their income respectively. Dispensary grants are also made to local boards and municipalities upto a maximum of the salary and allowances of the medical officer in charge of the dispensary. If these dispensaries have on their staff a nurse or midwife, Government pays also a grant of Rs. 360/- per annum. Government further bears diet charge at annas 6 per day per each indoor patient admitted to District Local Board dispensaries and to those municipal dispensaries which are in charge of Government medical officers. With a view to encourage medical practitioners to settle in rural areas the Government subsidises more than 400 medical practitioners and the cost on this account is shared between the Government and the District Local Boards, in the ratio of 4:1. The Government also bears 33-1/3% and 50% of the capital cost of piped-water supply and drainage schemes undertaken by District and Borough Municipalities respectively. Subsidy on the same scale is paid to municipalities for their housing schemes for Harijan employees. Vaccination in municipal and local board areas is done by Government staff towards the cost of which local bodies make a fixed contribution. In the case of six District Local Boards and one Municipality, however, this work has been transferred to them, and the Government makes a grants-in-aid towards the expenditure. The Government has in addition undertaken in the rural areas the following schemes the cost on which is borne entirely by Government :—

- (1) Combined Medical and Public Health Units, which carry out sanitary improvement and provide maternity and child-welfare service in the group of villages covered by each unit. 23 such units have been started.
- (2) Mobile Hospital Units, each of which is equipped with a 50-bedded mobile hospital in charge of a medical officer, for being rushed to places affected by epidemics. Three such units are functioning at present.
- (3) Malaria Control Schemes for regular spraying of D. D. T. have been started in 9 Districts of the State. The annual expenditure on this account is roughly Rs. 27 lakhs.

667. **West Bengal.** In West Bengal, the Government pays to municipalities :—

- (a) half the pay of the health officers and in a few cases of the sanitary inspectors.
- (b) two-thirds of the capital cost of sewerage or drainage schemes.
- (c) small grants for jungle cutting, kerosenisation etc. if equal amount is spent from the municipal funds.
- (d) a fixed capital cost for establishment or improvement of maternity and child welfare centres plus recurring cost of the pay of a health visitor.
- (e) small contributions for T. B. Chest clinics or antileprosy clinics in a few municipalities and
- (f) small grants for school hygiene.

In the case of district boards the Government pays :—

- (1) An annual subsidy not exceeding Rs. 2,000 to approved Thana health units maintained by district boards.
- (2) two fifths of the annual cost of the permanent Thana vaccinators who are district board employees and subsidies for the pay of vaccination inspectors and sub-inspectors (at Rs. 90 and Rs. 50 respectively) who are still borne on the district board cadre. The latter are now being provincialised as vacancies occur.
- (3) The pay of health assistant per thana health unit for compilation of vital statistics.
- (4) Small Kala-azar grants
- (5) Grants to thana and village dispensaries maintained by district boards at the rate of Rs. 500 and Rs. 250 respectively per annum.
- (6) Hospitals and dispensaries at District and sub-divisional headquarters have been provincialised.

668. **Uttar Pradesh.** District hospitals located within municipal areas were previously maintained by district boards to which the municipal boards paid a contribution but these hospitals are now maintained by Government. The need for subsidiary hospitals over and above the district hospitals arises only in the larger towns like Lucknow, Kanpur, Banaras, Allahabad, Agra etc., and these have been provided by municipal boards of these places. Medical units in the smaller towns were provided by district boards and since their conversion into municipalities they continue to be maintained by them. There are about 20 municipal dispensaries in the whole of Uttar Pradesh on which



the expenditure incurred by municipal boards was Rs. 12,20,441/- in the year 1947-48. Similarly, municipal boards and notified areas are responsible for general sanitation, epidemic control and vaccination in their beats and are generally required to meet the cost of such measures from own funds. Municipal boards in the State also maintain 16 Infectious Diseases Hospitals, for specialised treatment of such diseases. Grants-in-aid given by Government during the financial year 1949-50 for anti-epidemic measures which comprise anti-rat campaign, anti-cholera measures and opening of temporary hospitals amounted to Rs. 11,080/-. Grants for drainage and waterworks paid to the municipal boards during 1949-50 amounted to Rs. 9,07,700/-. Grants given by the Provincial Health Board to the municipalities for various purposes of sanitation and public health amounted to Rs. 4,74,575 during 1949-50.

The district boards maintain about 750 dispensaries and meet the entire cost of them. Their total expenditure on these units during the year 1949-50 amounted to about Rs. 34 lakhs against which they received grants-in-aid aggregating Rs. 2,47,300/-. The district boards also run unani and ayurvedic dispensaries in the rural areas. In view of the inelastic resources of district boards, the State Government has embarked upon a programme of opening allopathic, unani and ayurvedic dispensaries spread over a number of years. 63 general hospitals and 59 women's hospitals at district headquarters and other places which were maintained by district boards have been taken over by Government as State institutions. The State gives grants aggregating Rs. 3,46,800/ per annum to the district boards for running subsidized units and for giving subsidy to medical practitioners. A grant of Rs. 2,55,400 is also given to the local bodies for the improved maintenance of their dispensaries. The State Government have assumed responsibility for control of epidemics in rural areas because the district boards have not the resources for dealing with widespread epidemics. Government expenditure in the field of public health is roughly Rs. 20 lakhs per annum. Some district boards supplement Government's efforts in this field by providing small amounts for subsidiary measures. They also meet all charges on vaccine. Their expenditure on public health activities during 1946-47 amounted to Rs. 9,12,997/- out of a total income of Rs. 302 lakhs i.e. 3% of their entire income.

669. **Punjab.** The total amount of Government grants in Punjab for public health is Rs. 3.76 lakhs. Half the pay of municipal health officers is contributed by Government. In head-quarter municipalities which do not have a Health Officer the District Medical Officer of Health acts as such on payment of a small conveyance allowance half the cost of which is paid by government. The posts of sanitary inspectors and lady health visitors have been provincialised. But the cost of additional Lady Health visitors is paid by local bodies. In the case of epidemics the initial responsibility is on the local bodies. Government steps in only when the finances of local bodies are not sufficient. For this purpose Government provide yearly some amount in their budget, irrespective of the finances of local bodies. If during an epidemic, the local body concerned has no funds, Government assist it with grants-in-aid which may be 50 per cent. or even cent percent.

670. **Bihar.** In Bihar, the municipalities receive no statutory grants for medical purposes as such, but are assisted with grants for specific purposes. The determining factor in all cases is the need of each municipality and the efficiency of its administration.

In the case of district boards, there are non-statutory grants for the maintenance of hospitals and dispensaries. The present system is not based on any fixed principles e.g. population or financial capacity. Grants are made according

to requirements of district boards and Government's ability to sanction them. Apart from this, Government have of late provincialised hospitals at the district headquarters and a few at sub-divisional head quarters, which formerly were maintained entirely or partly by district boards.

**671. Orissa.** The principle governing grant-in-aid to local bodies in Orissa for expansion of medical relief is that there should be a dispensary or a hospital within the jurisdiction of a police station and that the district board should spend on medical relief not less than the annual average expenditure incurred exclusively on medical relief during the years 1939-40 to 1943-44 or not less than 10% of their cess demand, whichever may at any time be greater. The State Government are also sanctioning Rs. 20,612 annually to the North Orissa district boards for maintenance of rural dispensaries. They are also meeting the entire cost of dispensaries now opened in the rural areas under their post-war programme of expansion of medical relief, the management of which is entrusted to the local bodies concerned. In South Orissa, Government pay half as well as percentage grants to certain local fund dispensaries in lieu of services rendered to Government servants and for the post-mortem work etc. The half grant represents half the expenditure over a dispensary whereas the percentage grant is limited to 10 per cent. of the pay of the medical officer. Government also pay half grant for the construction and repair of buildings of local fund dispensaries. Subsidised dispensaries are opened under the management of district boards for each of which Government pays a subsidy of Rs. 500/- a year for the doctor and the district board concerned pays Rs. 300/- for medicines, etc. Subsidised ayurvedic dispensaries have also been opened at some centres. In order to afford further relief to local bodies certain hospitals under their control at sub-divisional headquarters and other important villages have been provincialised.

Recurring grants formerly given to district boards in the coastal districts for public health purposes, have been withdrawn after the health organisation under the district boards was provincialised with effect from the 1st February, 1947. As a result of this the pay of the staff is met from State revenues, while the local bodies have to spend on contingencies, travelling allowances, and drugs such as vaccine, etc.

**672. Madhya Pradesh.** In Madhya Pradesh, Government assists municipalities with small annual recurring grants towards the maintenance of hospitals and dispensaries. These have since been raised by 50% subject to a minimum of Rs. 300, as a temporary measure. The extent of assistance is, in each case, determined with reference to the efficiency with which each such institution is run. Building and other non-recurring grants (generally equal to half the estimated cost) are given in deserving cases. On the preventive side, grants are paid to municipal committees to meet half the cost of health officers and sanitary inspectors as also for women Assistant Medical Officers or midwives employed on the prevention of infant mortality. Grants equal to half the expenditure are also paid for rat destruction work subject to certain conditions. Government also contribute not more than half the cost of drainage schemes plus P. W.D. charges, where the work is carried out through their agency. Grants to Janapadha Sabhas for the improvement of water supply in rural areas are made provided they undertake to provide 33% of the expenditure out of which half is contributed by the Sabha and the other half (in the shape of cash or materials or both) by the residents benefited, and the remaining 67% is met from Government grants.

**673. Assam.** In Assam the payment of medical and public health grant is regulated by the needs of particular localities, due regard being had to the back-

ward or undeveloped character of the areas as also the capacity of the bodies to execute works. This principle appears to the State Government sound as the main function of the grants-in-aid, according to them, is to equalise the resources of different local bodies and to serve as a supplement to local resources. They, however, consider that the grants should be earmarked for particular purposes to ensure that those services are rendered and that there should be a detailed scrutiny of expenditure on grant-in-aid works.

674. **General Observation.** It will be observed that the system of Government assistance does not follow any fixed principle, much less is there any uniformity regarding the basis on which grants are given. The grant is generally inadequate and that explains the low state of public health prevalent in large parts of the country. In some states, like Madras, Uttar Pradesh, Bihar and Orissa gradual provincialisation of medical relief has been initiated. The Government of Orissa has also undertaken the provincialisation of the public health service. A similar policy is being pursued by the Government of West Bengal in rural areas. In relation to public health the prevention and control of malaria, cholera, plague, and other epidemic diseases is a function which in our opinion should be completely provincialised. Local bodies have not got the resources to deal with epidemics. Wherever the cooperation of a popular body is desired for the furtherance of any public scheme such as inoculation or vaccination, the services of the local body might be availed of, but they should not bear any financial responsibility. The raising of the standard of public health is a matter which can not be entrusted to local bodies with their slender financial resources. As the Bhoré Committee has pointed out, one of the causes of the low level of efficiency of health administration in the country is that the financial resources of local bodies are, "in the majority of cases, insufficient to maintain adequate services staffed with well qualified personnel".\* As long as this responsibility is shared with local bodies there can be no hope of any material improvement in the physical condition of the people. It is well known that the average expectation of life at birth in this country is only 26 years, whereas it ranges from 50 to 60 years in western countries. It is low even when compared with Asiatic countries like Japan, where the average expectation of life at birth is 45 years. One of the directives of State policy, as contained in Article 47 of the Constitution of India, is that

*"The State shall regard the raising of the level of nutrition and the standard of living of its people and the improvement of public health as among its primary duties".*

---

Paragraph 37, page 33, Volume I of the Report of the Health Survey & Development Committee.

675. In accordance with the views expressed above, the distribution of expenditure in regard to public health should be as follows :—

**Local Bodies.**

- (a) the construction, maintenance and cleansing of drains and drainage works and of public latrines, urinals and similar conveniences ;
- (b) scavenging and the removal and disposal of excrementitious and other filthy matters and of all ashes, refuse and rubbish.
- (c) the reclamation of unhealthy localities, the removal of noxious vegetation and generally the abatement of all nuisances ;
- (d) the regulation of places for the disposal of the dead and the provision of new places for the said purpose ;
- (e) the registration of births and deaths.

**State Governments.**

- (f) public vaccination
- (g) prevention and suppression of infectious and dangerous diseases ;
- (h) establishing and maintaining public hospitals and dispensaries and carrying out other measures necessary for public medical relief.

While we are of the opinion that the expenditure should be apportioned as above, some of us apprehend that when the State Governments take over the liability for expenditure they may also wish to take over the administration and control of that expenditure. As we are concerned only with financial matters, we are not in a position to express any opinion on this point. We trust, however, that it may be found possible to let the division of functions remain as it is at present.

## CHAPTER XX COMMUNICATIONS

676. The provision of communications is one of the main functions assigned to local bodies. It includes the construction of roads, bridges, culverts, planting of road-side trees, etc.

677. As a result of the Nagpur Plan, the entire road system of the country has been classified into (1) National highways, (2) Provincial or State highways, (3) Major District roads, (4) Minor District roads and (5) Village roads. Under entry No. 23, List I, Seventh Schedule to the Constitution of India, "Highways declared by or under law made by Parliament to be National highways" is a Union subject. Consequently, the responsibility for their construction and maintenance devolves on the Centre. The Provincial highways are looked after by the Provincial P.W.D. while the district and village roads may be considered to be the legitimate domain of local bodies.

678. The sub-joined figures extracted from the Statistical Abstract for India, 1946-47 show the total road mileage vesting respectively in the State Governments and local bodies in each State as on 31st March, 1945.

## ROADS EXPENDITURE 1944-45

(Vide Statements No. 210 & 211, Statistical Abstract for 1946-47)

STATE	Total Road mileage		Expenditure on maintenance, repairs and minor improvements.				REMARKS
	P. W. D.	Local Bodies	Provincial	Local	PER MILE		
					Provincial	Local	
<b>IN LAKHS OF RUPEES</b>							
					Rs.	Rs.	
Madras	4,282	33,321	56.91	121.04	1329.05	363.2	
Bombay	6,975	13,774	75.03	21.83	1075.6	544.7	
Bengal (undivided)	2,243	27,533	7.99	37.90	356.20	137.6	
266 Uttar Pradesh	5,007	26,606	97.40	39.26	1945.20	142.2	
Punjab (undivided)	6,168	18,610	86.70	17.20	1405.60	92.4	
Bihar	1,302	28,231	*20.23	29.36	1553.70	103.9	*Provincial figure.
Orissa	3,056	82,57	9.10	5.35	297.70	64.7	
Madhya Pradesh	7,572	1,568	38.95	1.70	514.30	108.4	
Assam	4,427	6,959	37.90	7.18	856.10	103.1	
	41,032	165,859	430.21	280.82	@ 1048	@ 169	@ Average per mile.

## COMMUNICATIONS

It will be observed that while the total road mileage in charge of local bodies is four times that vesting in the State Governments, the aggregate maintenance expenditure is only half of that incurred by the State Governments. The average expenditure per mile on roads of local bodies was Rs. 169/-, while that for Government roads was Rs 1048/-, or, in other words, the funds with local bodies should have been on the P.W.D. standard of maintenance, nearly six times larger than they actually were. In these circumstances, it is not fair to compare the condition of roads of local bodies with P.W.D. roads.

The grants-in-aid given for this purpose by each State Government are dealt with below :—

679. **Madras.** The total expenditure on communications by local bodies in 1946-47 was as follows :—

Municipalities	Rs.	35,52,574
District Boards	Rs.	1,04,62,000

Prior to 1871 all roads in the State were under the direct control of Government. With the passing of the Madras Local Fund Act, 1871, all public roads came to be vested in local bodies, with the exception of a few roads leading to hill stations and strategic roads. Local bodies were given full grants for capital works on trunk roads and half-grants for capital works on important marketing roads and second class roads. Experience showed that it was not possible for the district boards to maintain all roads up to the required standard, mainly on account of the inelasticity of their revenues and the necessity for meeting increasing expenditure on public health, education etc. Government, therefore, decided to assume full responsibility for the maintenance of all main roads in the province with effect from 1-4-1946. As a result of this decision, Government took over nearly 14,000 miles of main roads. District Boards were still left with 21,000 miles of roads which are mainly 'district roads' and 'village roads'. The provincial Government, have, however, assured district boards that they would continue payment of non-recurring half-grants for capital works on roads left with them. In very rare cases where the district board is unable to bear even half the cost, full grants are made.

With a view to prevent dust nuisance in built-up areas, Government announced in 1941 their willingness to contribute 75% of the cost of approved schemes for initial surfacing. Since September, 1947, however, the percentage of assistance has been reduced from 75 to 50.

Under the Famine Code, the Collector of a district may direct local boards to initiate special works. For such relief works, District Boards like Anantapur, Bellary and Kurnool are paid full grants or half grants as circumstances require.

In 1930, the Government of India constituted a fund known as the 'Road Fund' out of the proceeds of an extra duty of 2 annas per gallon on motor spirit used for purposes other than civil aviation. Eighty-five per cent. of the proceeds is allocated to States in the ratio of the consumption of motor spirit in their respective areas. Subject to the previous approval of the Central Government, grants may be given from this fund for the following objects :—

- (1) Construction of new roads and bridges ;
- (2) Reconstruction or substantial improvement to existing roads and bridges.

Since 1925, Government have been giving grants to local bodies for the improvement of village communications. The grant in each case is sanctioned subject to the condition that the local board shall spend an equal amount from its

funds. In the case of district boards the grant given should be utilised for the construction of bridges and culverts on existing village roads, and metalling or gravelling earthen roads for the first time, while panchayat boards may utilise the grant only on capital works relating to culverts, bridges and inter-village roads.

After the main roads were taken over by Government in 1946, grants for the maintenance of roads have been withdrawn, except in a few special cases, aggregating Rs. 58,800 a year.

680. The Madras Motor Vehicles Taxation Act, 1931, abolished the levy of tolls and taxes by local bodies on motor vehicles and introduced a new provincial tax on motor vehicles. The power of local bodies to levy license fee on motor vehicles plying for hire was abolished by the Madras Traffic Control Act, 1938. The former Act provided that local bodies which had been deriving income from the tax and tolls should be paid compensation for the loss of their income out of the net proceeds of the provincial tax. By a subsequent amendment, the Act has provided for a similar compensation in respect of loss of income to local bodies from the levy of license fees on motor vehicles. The total compensation payable annually to local bodies is Rs. 90.25 lakhs as under :—

(a) For loss of income from fees for licences granted to motor vehicles.	Rs. 21,91,400
(b) For loss of income from tolls and taxation of motor vehicles.	Rs. 68,34,000
Total	Rs. 90,25,400

The amount provided in the Budget Estimates for 1950-51 on account of grants-in-aid to local bodies for communications aggregates Rs. 55.54 lakhs. This is exclusive of the above-mentioned compensation of Rs. 90.25 lakhs under the Motor Vehicles Taxation Act.

681. **Bombay.** The total expenditure on communications by local bodies in 1946-47 was as follows :—

Municipalities	Rs. 17,15,065
District Boards	Rs. 30,02,279 ✓

Municipalities receive hardly any financial assistance from Government in respect of roads. The total grant paid by Government to local boards in the years immediately preceding the last War was about Rs. 8 lakhs. This has since been increased to over Rs. 23 lakhs in the Budget Estimates for 1950-51. The grants are distributed after taking into account (i) the income of each local board in relation to the area to be provided for and the length of roads (ii) the comparative cost of maintenance and construction, (iii) the manner in which the previous year's grant was utilised (iv) amount spent by the board from its own funds and (v) additional amounts, if any, required to meet expenditure on special object, like bridges, etc.

682. On the enactment of the Bombay Motor Vehicles Tax Act in 1935, the local bodies were prohibited from levying tolls. The Act, however, provides for payment by way of compensation of a statutory grant to every local body equal to the net average annual income of the body from tills during the three years ending 31st March, 1936, plus ten per cent. The provision on this account in the budget estimates for 1950-51 is Rs. 7.05 lakhs.

683. **West Bengal.** The total expenditure on communications by local bodies in 1946-47 was as follows :

Municipalities	Rs. 10,71,320
District Boards	Rs. 18,24,023



## COMMUNICATIONS

Public Works Department grant to municipalities in this State consists exclusively of motor vehicles tax receipts. In pre-war days, the amount depended upon

- (a) road mileage within the municipality
- (b) the relative proportion of metalled and surfaced roads to unmetalled roads, and
- (c) the average expenditure on these two types of roads.

684. The Calcutta Corporation which alone had the right to tax motor vehicles prior to the Motor Vehicles Act, 1932, received a fixed annual grant of Rs. 4½ lakhs. No other local body receives any compensation on this account. During the War, when provincial finances were stretched to the limit, all discretionary payments from the Motor Vehicles Tax receipts were withheld. After the War, local bodies have been asking for a share not only of current receipts but also of damage to their roads by military traffic during the War. In the meantime the State Government's postwar schemes for national highways and trunk roads had made some progress and funds were required for financing them. The result is that between the competing claims of the State P. W. D. and the local bodies, no acceptable formula for division of the receipts has been devised.

685. The average grant to district boards under communications on the basis of the two years 1946-47 and 1948-49 was Rs. 6,56,324. The Budget Estimates for 1950-51 include a provision aggregating Rs. 22.50 lakhs on account of grants-in-aid to local bodies for communications.

686. **Uttar Pradesh.** The total expenditure on communications by local bodies in 1946-47 was as follows:—

Municipalities	Rs. 37,80,000
District Boards	Rs. 34,80,000

The State Government gives financial assistance to local bodies from two sources:—

- (1) from State revenues, and
- (2) from Uttar Pradesh Road Fund.

**Assistance from State Revenues.** Grants-in-aid are given to selected municipalities for renewal, reconstruction and maintenance of roads in 1946-47 as a part of the U. P. Government Postwar Programme. Under this scheme the following amounts were distributed:

1946-47	Rs. 22.5 lakhs
1947-48	Rs. 10 „
1948-49	Rs. 7 „

This grant is now steadily diminishing because the Government is not able to give the subsidy which was at one time promised. These grants are given on the basis of requirements of municipal boards which are judged from the condition of their roads. Financial position is not always taken into consideration. Municipal boards with tolerably good roads do not get any grants-in-aid under this scheme.

District boards get grant-in-aid for improvement of roads under the scheme started for from the financial year 1949-50 for which a provision of Rs. 10 lakhs was made. The basis of distribution of the allotment was not decided at the time of writing.

687. The U. P. Motor Vehicles Taxation Act, 1935, deprives local bodies of the power to tax motor vehicles. Further, according to section 19 of the Act, the

entire receipts from taxes levied on motor vehicles thereunder were to be credited to a fund called the Road Fund. Subsequently it was decided that half of the receipts in the 'Road Fund' should be made over to local bodies as

- (1) compensation to such of them as had suffered a loss of income consequent on the passing of the Act, and
- (2) grants-in-aid for construction and improvement of roads.

The compensation under (1) above is Rs. 2,13,800 on the basis of average receipts which the local bodies got prior to the enforcement of the Act, after deducting 50% as collection charges. The grants-in-aid under (2) are variable and depend on the amount of receipts in any particular year.

Subsequently section 19 of the Act was repealed by the Government of India (Adaptation of India Laws) Order, 1937, but the arrangement referred to above has been continued by executive orders of the Government and the compensation under (1) above has also remained unchanged. The grants-in-aid under (2) are distributed to certain bigger municipalities only, whose needs are considered greater and not to all boards, as in the latter case each board's share will be too small to be usefully utilised. It has been decided that municipalities with population over one lakh according to 1941 census should receive these grants and on this basis only eight municipal boards are entitled to get them. The total amount paid to the municipal boards in this connection for the year 1946-47 amounted to Rs. 6.9 lakhs.

The other half of the Road Fund is utilised for meeting collection charges of the tax and for construction and improvement of roads. Generally, provincial roads are constructed and repaired out of this portion of the Fund but sometimes grants are given to local bodies in special and emergent cases for improvement of their roads.

The Budget Estimates, 1950-51, include a provision aggregating Rs. 26.66 lakhs on account of grant-in-aid to local bodies for communication works as under :—

Grants-in-aid	Rs. 24.53 lakhs
Compensation under the Motor Vehicles Taxation Act.	Rs. 2.13 lakhs

688. **Punjab.** The total expenditure on communications by local bodies in the Punjab in 1947-48 was as under :—

Municipalities	Rs. 4,82,053
District Boards	Rs. 8,03,637

The budgetary provision during the year 1950-51 for the purposes of grants-in-aid to local bodies for communications in this State aggregated Rs. 4.60 lakhs.

689. **Bihar.** The total expenditure on communications by local bodies in Bihar in 1946-47 was as under :—

Municipalities	Rs. 4,68,864
District Boards	Rs. 47,13,400

The present system of grants-in-aid is not based on any fixed principle. Grants are made according to the requirements of district boards and Government's capacity to sanction them. District boards do not receive any statutory grants for specific purposes, but they get the following non-statutory grants :—

- (1) grants from motor vehicle taxation proceeds and other grants for improvement of communications.
- (2) subventions for repair of roads from the Road Fund.

**COMMUNICATIONS**

The provision included in the Budget Estimates 1950-51 for this purpose aggregated Rs. 2.17 lakhs.

The State Government has recently provincialised some of the important inter-district and provincial roads. This was considered necessary in order to afford relief to district board finances.

690. **Orissa.** The total expenditure on communications by local bodies in this State during the year 1946-47 was as under :—

Municipalities	Rs. 1,75,804
District Boards	Rs. 6,75,573

There are no definite principles in regard to grants to local bodies in the districts of Cuttack, Puri, Balasore and Sambalpur for communications. But in the ex-Madras area, road grants are given to Ganjam district board for maintenance of second class roads on the basis of half of actual expenditure on maintenance subject to a fixed maximum. The Budget Estimate for 1950-51 include the following provision on account of assistance to local bodies for communication works :—

Compensation to local bodies for loss of income from tolls and taxation of motor vehicles	Rs. 2,40,000
Grants-in-aid for civil works	Rs. 5,08,005

691. **Madhya Pradesh.** The total expenditure on communications by local bodies in this State during the year 1946-47 was as under :—

Municipalities	Rs. 14,88,008
District Boards	Rs. 3,95,338

In Madhya Pradesh, it is understood that grants-in-aid for rural communications have now been stopped.

The Budget Estimates 1950-51, however, include provision aggregating Rupees fifty five thousand on account of (1) Compensation under the Motor Vehicles Taxation Act (Rs. 45,000) and (2) Grant to Pachmari Municipality for development of plateau roads (Rs. 10,000).

692. **Assam.** The total expenditure of local bodies on communications in this State during the year 1946-47 was as under:—

Municipalities (1945-46)	Rs. 2,23,451 *
District Boards	Rs. 11,65,031

The principle on which grants-in-aid to local bodies are made is based on the needs of the localities concerned, with due regard to the backward and undeveloped character of the area as also the capacity of local bodies to execute the works. The Budget Estimates for 1950-51 include the following provision for this purpose :—

Compensation to local bodies under the Motor Vehicles Taxation Act	Rs. 1,71,000
Grants-in-aid to local bodies for communication works.	Rs. 5,33,409

693. **General Observations.** It will be observed from the above resume that, as in the case of grants for medical and public health purposes, no uniform

\*The figures for municipalities for 1946-47 have not been furnished by this State.

policy is followed in regulating assistance from State funds for the development of communications, except in the States of Madras, Bombay and West Bengal. It is obviously necessary that grants for the maintenance of roads should be based on the road mileage which has to be maintained. The State P.W.D. prepare their own budgets on the basis of such mileage and have definite standards of maintenance for the various classes of roads which have to be adhered to. No development in communications can be expected if the funds at the disposal of local bodies are comparatively small, as has been shown in the statements given at the beginning of this chapter. The first step, therefore, is for State Governments to prescribe certain standards of maintenance for metalled and non-metalled roads and to make grants on such a basis in rural areas, where the need for financial assistance in this matter is very great. In municipalities, the mileage maintained is generally small and, therefore, the need for financial assistance on a large scale is not great. We realise that, as a result of such prescription of standards, the financial burden on State Governments will become heavy and they may not be able to give adequate grants-in-aid within the next few years, but it is better to prescribe standards and reach them by slow stages than to allow the present unregulated state of affairs to continue.

694. In this connection we wish to bring to notice two measures taken by the Government of Bihar recently which in our opinion, if adopted by other States, will provide funds for the development of communications in rural areas. It is understood that the Government of Bihar have provided, by an amendment to the Bihar and Orissa Local Self-Government Act, 1885, for registration and taxation of bullock carts on the following scale :—

- (1) for a cart fitted with pneumatic tyres, not less than Rs. 12 and not more than Rs. 24, and ;
- (2) for carts not so fitted, not less than 6 rupees and not more than 12 rupees as the district board may fix from time to time.

This tax is payable for registration for one year and half the sum for registration for half-year. It is also understood that the additional income from this source is estimated by them at Rs. 18 lakhs.

695. Several proposals were made to us in evidence for such taxation. The number of bullock carts in this country is estimated to be not less than 40 lakhs. Consequently the income from such a tax should not be small. It was suggested that exemption will have to be given from such taxation to carts used by agriculturists for their own domestic purposes and not used for hire. We do not know exactly what the Government of Bihar is doing in this matter. It seems to us that it would be very difficult in practice to discriminate between carts used for hire and carts not used for hire and we, therefore, are not in favour of such an exemption. We agree in principle that a tax on bullock carts should be levied in rural areas. The question of the rate at which the tax might be levied we would leave to the discretion of each State Government. Where a tax on bullock carts is already being levied in any panchayat and is at the same level as the tax now proposed for levy the district board, there should be no further levy on the individual paying the panchayat tax. But should the level of taxation of the panchayat be lower than that of the district board there would be no objection to the district board levying the tax at the difference between the two rates. We are further of the opinion that the net proceeds of such taxation should be earmarked for purposes of road development in rural areas and should not be spent on any other object.

696. The other measure which the Government of Bihar has taken is the imposition of a tax on passengers travelling by hired road motor transport. This

tax is being levied as a provincial tax and will, we understand, be shared between Government and the local bodies concerned in the proportion of 7 : 3. From this source the Government of Bihar expects to derive an annual income of Rs. 36 Lakhs.

We are in favour of such transport paying a tax which should be levied as a State Tax in the first instance. The tax should range between 3 pies to 12 pies according to distance. From the net proceeds of the tax, not less than two-thirds should go to local bodies and the remaining one-third may be retained by the State Government. The basis of allocation of the portion which is intended for local bodies should be either population or road mileage within the jurisdiction of each local body as may be considered suitable by the State Government.

697. Rickshaws are now being used to a large extent, but in certain States it was pointed out to us that no tax can be levied on them until the Acts are amended. We suggest that the power to impose taxation on rickshaws should be conferred on local bodies where it does not exist already by amending the Acts if necessary.

698. On the question of payment of compensation for loss of income derived from motor vehicles, local bodies feel very strongly. This grievance was brought to our notice by every local body from city corporations down to rural boards. Compensation, we understand, was fixed on the basis of income derived more than fifteen year ago. The number of motor vehicles has increased very considerably since then and the cost of road construction and maintenance has also gone up.

We are of the opinion that the basis of the compensation paid to local bodies should be re-opened and fresh amounts fixed in the light of altered facts. Some witnesses even went to the extent of suggesting that local bodies should be allowed to re-impose tolls. But we consider this suggestion very unsuitable and retrograde in character. It is far better to revise the compensation than to revert to a system which would lead to harassment and inconvenience to users of roads.

699. The question of payment of compensation to local bodies for extraordinary damage done by military trucks during the war was raised before us in evidence in more than one State. This is to a certain extent allied with the question of compensation for similar damage done by heavy trucks of industrial concerns plying on particular roads maintained by local bodies. Neither the Defence Department nor the industrial concerns admit any liability for such damage.

700. We learn, however, that in Uttar Pradesh, a cess is levied on sugar cane and is credited to a fund called the Sugar Cane Compensation Fund. In recent years, grants have been paid from this fund to local bodies towards repairs of roads damaged by sugar cane traffic.

Similarly, in West Bengal, grants to the extent of Rs. 20 lakhs are paid from a surcharge levied on the sale of internally procured rice for improvement of village roads in heavy procurement areas. These instances seem to us to admit the principle that where extraordinary damage is done some compensation should be paid. As local bodies cannot impose any taxation on motor vehicles, the only way in which, it seems to us, the damage done to their roads can be made good is either by sharing the proceeds of the motor vehicles tax with them or by the levy of a surcharge on trucks above one ton in weight, which should be made over to the local bodies concerned within whose jurisdiction such trucks ordinarily ply.

701. As regards the damage done by motor trucks during the War, we feel that there is a good case for compensation but the matter is one which should be pursued by the State Governments concerned with the Defence Department.

702. There is a similar case for compensation, to certain local bodies in the Punjab particularly the Amritsar municipality, for damage done to roads in consequence of the partition of the province.

## CHAPTER XXI

### FINANCES OF IMPROVEMENT TRUSTS/DEVELOPMENT BOARDS

703. **General.** Improvement Trusts are *ad hoc* bodies constituted for the general purpose of city development including opening up of congested areas and removal of slums. They are semi-autonomous bodies which have been created by statute. Their composition, powers and duties as well as the procedure for initiating schemes and their transference to the municipality on completion are all prescribed under the various Acts governing them.

704. **History.** A brief account of the origin of some of the Improvement Trusts is given below:-

(1) **Bombay.** The Bombay Improvement Trust was the first to be established in the country. In 1864 a report on the sanitary state of the island pointed to the need of ventilating the town of Bombay by opening up avenues 80 to 100 ft. wide from the sea shore. The matter was discussed from time to time but nothing of importance emerged, chiefly due to financial difficulties and the priority the corporation attached to the provision of water supply and drainage. In the meantime the density of population continued to grow at a somewhat alarming pace. In 1896 there was an outbreak of bubonic plague in an epidemic form in the city. The havoc wrought by the epidemic brought home to all concerned the need for wholesale reconstruction of the city on sanitary and scientific lines. In September 1897, the Government of Bombay put forward definite proposals for the establishment of an Improvement Trust for the City constituted on the lines of the Bombay Port Trust. The Government's view was expressed in the following terms:-

"Any scheme to be effective must be on a thoroughly comprehensive scale and must provide not only for opening up crowded localities by the construction of new streets and acquiring frontages thereon for the erection of improvement dwellings, and for the levelling up of low lying areas, but also for improving existing insanitary dwellings and housing a very large number of poor class people in the new sanitary dwellings to be let out at an extremely low rate of rent. It must in addition provide room for the accommodation of the population to be displaced in the process of relieving congested area and lastly room for the future expansion of the city".

It was realised that the cost of execution of such a comprehensive project which required persistent and sustained efforts on systematic lines was beyond the resources of the already overburdened Corporation and it was therefore imperative that the task should be entrusted to a separate statutory body which could devote its entire energy to the problem. This scheme having been generally approved by the Municipal Corporation, the Bombay Port Trust and the Chamber of Commerce was given statutory form by the passing of Act IV of 1898. This Act contained a provision for the dissolution of the Trust and for the transference of its property to Corporation after the Trust had carried out its schemes of development and improvement. In 1925 when the allotted work was completed the Trust was merged with the Municipal Corporation by the city of Bombay Transfer Act 1925. The object of the 1925 Act was to transfer to the Corporation the property of the Trust, not absolutely for the general purposes of the Corporation but specially for the purpose of the improvement of the city and to confer upon the Corporation certain of the rights previously vested in the Improvement Trust. This resulted in a specially constituted Committee of the Corporation designated the Improvement Committee, being set up within the Corporation to carry on the work of the Trust.

(2) **Calcutta.** The starting point in Calcutta was the report of the Calcutta Building Commission in 1897. This Commission was charged with an enquiry into the extent of over-crowding in the city, the history and operation of the existing laws and byelaws relating to buildings and the desirability of opening up congested parts of the City by the most feasible plans. The proposals of the Commission were centred round the driving of over 15 miles of new roads through congested localities and the provision of open spaces. The Commission suggested that the execution of the scheme should be entrusted to a special and separate body like an Improvement Trust and the cost of the scheme be met half by recoupment of sale proceeds of lands and the other half by loans on the security of a tax on jute. Considerable time was taken up in discussions. Eventually certain tentative decisions were taken and published, but nothing of importance occurred until the beginning of 1904 when the matter was taken up by an Advisory Conference. This conference made important recommendations including the enlargement of the scope of the earlier scheme and the delimitation of the functions of the proposed Improvement Trust which eventually formed the basis of the Calcutta Improvement Trust Bill 1910, which later became the Act of 1911. The object of this Act, as stated in the preamble, was comprehensive, namely, to make provision for the improvement and expansion of Calcutta by opening up congested areas, laying out or altering streets, providing open spaces for ventilation and recreation, demolition or construction of buildings, acquisition of land for the above purposes and for rehousing of persons of the poorer and working classes displaced by the execution of improvement schemes.

3. **Lucknow Kanpur, Allahabad. (U.P.)** The history of Town Improvement Trusts in U. P. begins in 1907 when the Government of India, following the report of the Plague Commission of 1905, called the Provincial Government's attention to the question on provision of model dwellings and preparation of schemes for the demolition of insanitary areas and opening up of congested quarters. After necessary investigations made in 1908 concerning the cities of Lucknow, Kanpur and Allahabad about the need of each town and necessary funds having been made available it was decided to draw up a Trust deed which was executed by the three municipal bodies in 1909. Under this deed the Municipal Boards were each given a grant for acquiring land and executing schemes, the sale proceeds of the land being treated as Trust property. It was stipulated that on the creation of an Improvement Trust by subsequent legislation the Trust property was to be transferred to it. On the allotment of Government grants, boards were formed to administer the Trust, the Chairman of the Board being the Chairman of the Trust. The condition in the trust deed that Trust property would be transferred to an Improvement Trust when created shows that legislation was contemplated from the very beginning. A draft Bill was prepared in 1914, but this was held up for a time pending decision on the question whether there should not be a Town Planning Act for the whole of India. This suggestion was negatived in 1917, after which the earlier draft bill was taken up. It finally became law in 1919, when the Improvement Trusts for Lucknow and Kanpur were constituted. The Improvement Trust for Allahabad was constituted in 1920. Later in 1945, the Kanpur Act was replaced and substituted by the Kanpur Urban Area Development Act.

(4) **Nagpur (Madhya Pradesh)** The Nagpur Improvement Trust was established at the beginning of the year 1937 by the Nagpur Improvement Act which came into force on 1st January of that year. This Act was the outcome of the Report of the Committee appointed by Government on a proposal made by the Nagpur Municipal Committee in 1928, which itself was the consummation of a series of earlier discussions going back to about 15 years. The municipal request resulted in a preliminary survey of the problem and a report was submitted to Government in 1930. This in turn led to the setting up of a Committee to examine



and report on the advisability of setting up of a trust. This Committee remained dormant for 3 to 4 years, but eventually a draft bill was submitted to Government, with the Committee's report, in April 1935, which became law in 1937.

(5) **Delhi.** The constitution of the Delhi Improvement Trust was the outcome of a report by an Officer on Special Duty appointed by the Government of India, to investigate the nature and magnitude of the problem of congestion, the extent to which measures already under taken or in progress could provide a solution, what supplementary measures could be taken, and the agency to carry out these measures. This report, which was presented to Government in 1936, while indicating the nature and extent of overcrowding in Delhi, expressed the view that the only body which could be entrusted with the dual task of administration of a large Government estate and town planning and slum clearance would be an Improvement Trust equipped with statutory authority. As a result the Delhi Improvement Trust was constituted in 1937. Unlike other bodies the Trust was constituted by Government notifications extending, under the Delhi Laws Act, the U. P. Town Improvement Act, 1919 which formed the basic Act. In it were grafted, under the same authority, appropriate sections of the Rangoon Development Trust Act, 1911. Certain sections of the latter Act were again extended to Delhi in 1940.

(6) **Other Improvement Trusts.** Within recent years Improvement Trusts have been established for Madras City, for Agra and Banaras in the U. P. and for Amritsar, Jullundur and Ludhlana in Punjab (I). In all cases the basic object of the creation of the Trust has been more or less uniform, namely, the opening up of congested localities, provision of sanitary dwellings and orderly expansion of the town.

**705. Finances of Improvement Trusts.** The sources of revenue of the various Improvement Trusts or Development Boards, other than revenue derived by disposal of land, are set forth below :—

- |                     |   |
|---------------------|---|
| (i) <b>Calcutta</b> | (a) Stamp duty at 2% on transfer of immovable property;   |
|                     | (b) terminal tax on passengers;   |
|                     | (c) export duty on jute;  |
|                     | (d) municipal contribution at 2% of the annual rateable valuation;  |
|                     | (e) Government grant of Rs. 1.50 lakhs; and   |
|                     | (f) Betterment fees.  |
| (ii) <b>Madras</b>  | (a) Annual contribution by Corporation 2.5 lakhs ;  |
|                     | (b) Annual contribution by Government 2.5 lakhs ;   |
| (iii) <b>Nagpur</b> | (a) Municipal contribution (2% on annual rateable valuation of houses) ;  |
|                     | (b) Surcharge on stamp duty ;   |
|                     | (c) betterment fee and abandonment charges; and   |
|                     | (d) grant out of Nazul income (temporary).  |
| (iv) <b>Delhi.</b>  | (a) Betterment fee and abandonment charges;   |
|                     | (b) Government subsidy out of Entertainment tax to meet deficit on poor class re-housing (Approximately 25,000/- p. a.) |

- (c) Income from Nazul after deducting Government's share as it stood immediately before the constitution of the Trust (this income is credited to Nazual fund and cannot be appropriated by the Trust for its own purposes).
- (v) **Kanpur Development Board :**
- (vi) **Lucknow.**
- (vii) **Amritsar.**
- (viii) **Jullundur.**
- (ix) **Ludhiana.**
- (a) Stamp duty of 2% ; and
- (b) Betterment tax ;
- (a) Betterment Tax ;
- (b) Stamp duty of 1% ; and
- (c) Railway passenger tax ;
- (a) Contribution from municipality at 2% on the gross annual income ; and
- (b) Grant-in-aid from Government.
- (a) Contribution from municipality at 2% on the gross annual income ; and
- (b) grant-in-aid from Government.
- (a) Contribution from municipality at 2% on the gross annual income ; and
- (b) grant-in-aid from Government.

} These are not  
in force yet  
but are expected to be available in future.

706. We have visited most of the principal towns in India where Improvement Trusts are functioning and everywhere the Trusts have complained of inadequate finances. The Improvement Trusts have a very wide field of activities ; in fact so wide that there is hardly any aspect of city development which does not fall within their scope. Their responsibilities have greatly increased in recent years and this is specially the case in respect of housing. The large influx of refugees practically in all important towns and the general tendency of the people to migrate to larger towns have made housing shortage, which had been steadily growing since the war, more acute than ever. We are of the opinion that Improvement Trusts have an important part to play in helping to relieve this shortage and specially in improving the living conditions in the bigger towns where a large population lives virtually in slums.

707. In 1948, the Ministry of Health called a conference of the Improvement Trusts and Development Boards in India to discuss important subjects of common interest and applicability. On a message to the conference the Hon'ble Minister of Health, Government of India, stated as follows :—

"To any one who has had the opportunity of doing social service over a long period of years in both cities and villages and therefore seen the hovels and insanitary conditions in which the vast majority of our population lives, it is not necessary to emphasize either the importance or the necessity of bodies such as 'Improvement Trusts'. That our cities and our villages should be cleared of slum areas and hovels and our people given decent dwelling houses at the earliest possible opportunity is vital to the nation's well-being. . . . Many of the diseases which ravage our land are due to causes which are preventible. And the main cause of epidemics and some diseases, for example, tuberculosis, which is playing havoc with us today, are bad housing and lack of sanitation.

Improvement Trusts have, in my opinion a tremendous responsibility, for, on the successful outcome of their endeavours, depend the happiness and well being of millions. But theirs is also a fascinating task. To plan, to experiment, to bring into the lives of people who have had to bear nothing but the heat and burden of the day in the most dreary and squalid environment, something of the beauty and restful joy of a decent home, the cleanliness of hygienic surroundings, the health-giving air accruing from parks and garden plots, must surely be their own reward".

708. Our investigation has shown that Improvement Trusts have not been able to do any appreciable work in clearing slums. Their difficulty has been mainly financial. As several Chairmen of Improvement Trusts have told us slum clearance involved not only paying heavily for acquisition of slum areas but also incurring large expenditure on construction of sanitary dwelling for rehousing of the slum evictees. We are satisfied that the problem of slums is by far the most difficult of the problems relating to city improvement. Under the existing law the only practical way of clearing a slum is to acquire the whole area and demolish all buildings unfit for human habitation within it. Such areas being highly congested the rents paid by the dwellers are generally high and in consequence the cost of acquisition, which is based on rental value, is very heavy. All slum clearance schemes are thus deficit schemes and unless sufficient funds are made available from public revenues by Government, it is not possible, in our view, for an Improvement Trust or any other authority to carry out schemes of slum clearance with any success.

Of all Improvement Trusts in the various States, the Calcutta Trust is the only one which is well provided with funds. The revenue account of this Trust shows a recurring annual income of over 50 lakhs from taxes and municipal and Government contributions. Even so we have been told by the Chairman of the Calcutta Improvement Trust that while their revenues were sufficient for carrying out ordinary development schemes, they could not undertake housing schemes for lower income groups without State subsidy. The argument for State help is even stronger in the case of other Trusts which are in a much worse position financially.

709. **Housing measures in other countries.** In this connection it will be of interest to mention briefly the contribution of Government in some other countries towards relieving the acute housing shortage which is practically universal.

**United Kingdom.** The Housing Act of 1946 contains the following features :—

- (a) There is provision for a 'standard' subsidy of £.16/10/- per house for sixty years. This was coupled with a statutory rate contribution of £.5/10/-.
- (b) There is a special standard subsidy of £.25/10/- and a corresponding diminution in the rate contribution to £ 3 per dwelling. This higher subsidy is intended to help those districts where the local authorities' financial position is not strong.
- (c) The Act also recognises the continuing need to provide special subsidies for housing on expensive sites in central areas. The local authority's contribution is one-third of the appropriate state subsidy.

- (d) Provision was made for special grants in respect of permanent prefabricated houses. It was meant to cover the difference in capital cost between the traditional house and the particular type of prefabricated house.
- (e) The provision of houses for the poorer members of the community has remained largely the responsibility of the State and the local authority.
- (f) Originally the idea was simply to provide houses. Now the Act covers inspection and clearance of insanitary houses, slum property, control of overcrowding, the provision of laundries, furniture, community centres and many other amenities. Housing has become a permanent service and not just a temporary social palliative.

- France :**
- (a) Mortgage institutions have been created by the Government to finance building houses.
  - (b) Such institutions get money from Government at 2% interest payable in 35 years. Individual mortgage is given credit at 2½% interest redeemable within 35 years.
  - (c) Cooperative societies for building cheap houses have been encouraged by Government by giving loans upto 90% of the capital cost payable in 35 years.

**Sweden.** Since the war, the Swedish Government has worked out a scheme for a permanent system of financial support to housing intended to eliminate the present shortage and to raise materially the general housing standards over a period of five years. Undertakings owned by a town or controlled by local authorities receive loans upto the full value of the property, co-operative enterprises upto 95% and private ventures from 85 to 90%. As regards the direct subsidies the supplementary loans without interest introduced during the war are still payable. The most important types of subsidies are those made on dwellings let to families with 2 or more children. They are paid as discounts on the annual operating expenses of the dwellings. A capital subsidy at a certain fixed amount is paid on small houses with a maximum area of 120 sq. metres. It equals 15 to 20% of the total cost of the usual type of dwellings. Special Government grants may be made for a limited number of flats built and administered by municipalities or public utility associations for the benefit of poor class families. Finally another form of subsidy is given on dwellings for old people with old-age pensions.

**Norway.** The problem of financing house-building and of administering public subsidies was solved by the establishment of the Housing Bank of the Norwegian State on March 1, 1946. The State bears administration expenses and two-thirds of possible losses; the rest is borne by the local authorities. The Bank grants loans upto very high limits in special cases upto 95% of estimated value. For co-operative houses or houses built by local bodies, the limit is generally 90% and 85%. As a rule, loans (and subsidies) are only granted for one-family house of 50 to 150 sq. metres gross floor area and flats of 50 to 130 sq. metres. The rate of interest has been established between 2½ and 3%. It is computed that more than half the houses are financed by Housing Bank loans.

**Denmark.** The principle behind the new Danish State Loan Legislation upto the war has been to grant loans, after the normal primary loan has been raised upto a high loan limit, and at an interest almost corresponding to the interest at which the Government itself raised loans. Thus Government took the place of a guarantor between the building concern and the loan market. The great rise in prices caused by the war, however, made an actual subsidy arrangement necessary and this was effected by granting Government loans at a *lower interest* than the interest which the Government has to pay on its own loans, while at the same time the redemption of the Government loan is suspended for a period upto 20 years. In addition all new buildings whether intended for residence or business have been exempt from taxes.

- United States of America.** (1) The Housing Act of 1949 provides for
- (a) Federal loans and grants to assist in clearing slums and
  - (b) Federal loans and annual contributions towards construction of low rent public housing by local public authorities.
- (2) Funds to the extent of 1,000 million dollars for loans and 500 million dollars for grants to such local authorities have been allotted for expenditure over a period of five years. Federal capital grants which are intended to meet the losses involved on the slum clearance operations are subject to a maximum of 2/3rds of the total losses in any area ; the balance has to be made up the local authorities concerned.
- (3) The number of low rent public housing units which was fixed at 168,000 by the Housing Act of 1937 has been raised to 810,000 by the Act of 1949—construction to be completed in a period of six years at the rate of 135,000 units per year.
- (4) Loans have been authorised for a period not exceeding 40 years.
- (5) Similarly annual contributions have been authorized for the same period representing the difference between economic rents and what the individual concerned is required to pay on the basis of his capacity.

**Canada :** (a) Financial aid is given through mortgage institutions,  
 (b) private building is subject to 4½% mortgage, the Government share being 25% at 3% interest.

**710. Recommendations.** We are satisfied that the existing resources of the Improvement Trusts are not adequate for carrying out their objectives. We are of opinion that it is the responsibility of the Government to make these bodies financially self-sufficient so that they may be able to discharge their obligations. We therefore recommend that Improvement Trusts and Development Boards should have the following sources of revenues :—

- (1) annual contribution of 2% of the annual rateable value from municipal funds ;
- (2) share of the proceeds of the entertainment tax ;
- (3) share of the proceeds of the terminal tax on passengers coming by rail, road or inland waterways,
- (4) betterment tax.
- (5) Government grants.

In regard to item (2) above, the Madras Corporation at present gets practically the whole of the entertainments tax. Similarly in regard to item (3) the Calcutta Improvement Trust gets the entire income of the terminal tax on

CHAPTER XXI

passengers coming by rail to Calcutta. We do not suggest that either of these arrangements should be disturbed by the recommendations made above.

711. We understand that Calcutta, Nagpur and some other Trusts are permitted to levy a surcharge on stamp duty on transfer of immovable property. Where this is actually being done, we have no desire to propose a change. But we are not in favour of fresh additions to this list.

712. The following table shows the rate of interest which the Improvement Trusts/Development Boards have had to pay on their borrowings :—

	Amount of out- standing loan Rs. lakhs.	Rate of interest (percent.)	remarks.
Calcutta	270.50	varying from 6% in 1922 to 3% in 1936-37-38	All debenture loans raised in the open market.
Madras	No heavy loan taken yet.	3½%	Borrowed from Government.
Delhi	45.42	3½ to 4½	.....do.....
Nagpur	82.64	3½ (average rate)	.....do.....
Lucknow	2.93	½ to 7	.....do.....
Allahabad	20.69 (some loans are interest free)	3	.....do.....
Kanpur	100.00 (some loans are interest free)		.....do.....

It will be seen that the Calcutta Improvement Trust has been able to raise loans more cheaply in the open market than others which have had to borrow from Government. The Chairman of the Calcutta Improvement Trust is of the view that Trusts should have freedom to raise loans in the open market. There is a fairly large volume of evidence before us which supports this view. We have dealt with the question of loans in another chapter. It will be sufficient for us to say here that on the whole it is better for Improvement Trusts/Development Boards to borrow from Government. At the same time we would recommend that the rate of interest should be kept as low as possible in no case more than 1/4 per cent. above the rate at which Government have borrowed themselves.

713. As regards the question of acquisition of lands for purposes of slum clearance, we find that under the present law the owners of slum properties receive a heavy premium in the shape of rack rents for having allowed slum conditions. We would recommend the adoption of the provisions of the English Housing Act which require slums to be cleared at the cost of the owners. We therefore suggest that the law should be so amended that compensation for acquisition of properties for purposes of slum clearance should be limited to the market value of land without any payment being made for the structure and without adding the 15 per cent. solatium on account of compulsory acquisition under the Land Acquisition Act.

714. We received evidence at some places that it would conduce to economy if the Improvement Trusts were merged with the municipalities in the area concerned. We have also received evidence that Improvement Trusts should be retained as separate bodies. As we are required to frame our recommendations on the basis of the existing structure of local bodies, we wish to express no opinion on the merits of this question.

## CHAPTER XXII

### FINANCES OF VILLAGE PANCHAYATS

**715. Resolution of May 1918.** The one feature of India's social fabric, which has impressed all observers throughout the ages, is the institution of village panchayats and its survival through all vicissitudes. In paragraph 70, we have referred to the importance attached to the institution of village panchayats by the Government of India "as associations designed to develop village corporate life on the basis of intimacy existing between the inhabitants, who had not only common civic interests, but were also kept together by ties of tradition and blood." In the succeeding paragraph, it has further been shown that with the coming into force of the Government of India Act 1919 and local self-government becoming a transferred subject the implementation of the policy and principles formulated in the resolution of May 1918, devolved on elected Ministers. In consequence of this transfer control, the statute book of every province was enriched by the addition of separate legislation on village panchayats. The years 1946 onwards witnessed further large-scale legislative activity in this field as most of the states remodelled their village panchayat Acts so as to confer wider powers and enlarged functions on these bodies in order to render them active units of local self-government.

The country-wide recognition of village panchayats as the foundation of local self-government found expression in the Constitution of the country, wherein fostering of village panchayats is included as a "Directive Principle of State Policy". Article 40 of the Constitution of India provides that "the State shall take steps to organise village panchayats and endow them with such powers and authority as may be necessary to enable them to function as units of self-government."

**716. Constitution.** The administration of these basic units of local self-government is regulated by separate enactments in each State as under :

(1) **Madras.** The Village Panchayats Act of 1950 (Madras Act No. X 1950) removed Village Panchayats from the operation of the Madras Local Boards Act of 1920. The new Act exclusively governs the administration of the village panchayats. Similarly, the Madras Village Courts Act, 1818, has been amended and now incorporates the provisions regarding the judicial powers of these bodies embodied in the Village Panchayats Act of 1950. This change brings the Madras panchayats in line with the distinctive legal position they occupy in other States. The new Act divides panchayats into two classes—Class I, those with a estimated population of 5,000 and over, and having an estimated annual income of not less than Rs. 10,000/-; Class II, panchayats other than those in class I, with a minimum population of 500 persons. Class I panchayats may be 'notified' by Government for the appointment of whole-time executive officers with statutory powers enumerated in the Act. In other panchayats, not so notified, the President who is elected under the new Act—not by the members but by the voters (Section 21) exercises these executive powers. The Government grant out of a fund constituted by a 12½% contribution from land revenue is payable only to the Panchayats of class II. (Section 71).

(2) **Bombay.** The Bombay Village Panchayats Act, 1933 (Bombay Act. No. VI of 1933) as amended from time to time governs village panchayats in the State of Bombay.

(3) **West Bengal.** The Bengal Village Self-Government Act, 1919 (Bengal Act No. V of 1919) aims at the development of self-government in rural areas. Union Boards are established under this Act for 'Unions' constituted by Government for such local areas or parts thereof as may be found expedient.

(4) **Uttar Pradesh.** Village panchayats in Uttar Pradesh are governed by the U. P. Panchayat Raj Act, 1947 (U. P. Act No. XXVI of 1947). Under this Act all adult residents of a village are incorporated under the name of a Gaon Sabha, and the Gaon Panchayat is the executive Committee of the Sabha. 35,000 village panchayats for 1,10,000 villages in the State have been established under this Act.

(5) **Punjab.** The Act governing the village panchayats in this State is the Punjab Panchayat Act, 1939 (Panjab Act No. XI of 1939). It is understood that the existing enactment is proposed to be replaced by fresh legislation as represented by Punjab Bill No. II of 1950.

(6) **Bihar.** The Village panchayats in this State are governed by the Bihar Panchayat Raj Act, 1947 (Bihar Act VII of 1947). The panchayat under this Act is a body corporate consisting of all adult residents of the area for which a Gram Panchayat is established. The village panchayat is the policy-laying and budget-making body, whereas the executive functions are performed by an executive committee of which the head is known as the Mukhiya who is directly elected. The Mukhiya appoints the members of the executive committee from among the members of the Gram Panchayat.

(7) **Orissa.** The village panchayats of Orissa are governed by the Orissa Gram Panchayats Act, 1948 (Orissa Act XV of 1948). The general body consisting of all adult residents of a local area is incorporated and called the Sabha and the Gram Panchayat is the executive committee of the Sabha. The village panchayats are placed under the control of the Register of Co-operative Societies.

(8) **Madhya Pradesh.** The Gram Panchayats of Madhya Pradesh are governed by the Central Provinces and Berar Panchayats Act 1946 (Act 1 of 1947).

(9) **Assam.** The panchayats of Assam are governed by the Assam Rural Panchayat Act, 1948 (Assam Act XXVII of 1948), which repeals the Assam Local Self-Government Act 1915.

717. **Functions.** Like the district boards and municipalities, the functions of village panchayats are also distinguishable into 'obligatory' and 'discretionary' categories. The allocation not being uniform in all States an attempt has been made to show against each function the name of the state in which it is exercised:—

(1) **Obligatory Functions.**

- |  |   |
|--|---|
| 1. Supply of water for domestic use.   | Bombay, U. P., Punjab, Bihar, Orissa and Madhya Pradesh.                      |
| 2. Cleansing of public roads, drains, bunds, tanks, wells (other than tanks and wells used for irrigation) and other public places or works. | Madras, Bombay, U. P. & Orissa.   |
| 3. Construction, maintenance and repair of public roads, drains and bunds and bridges.   | Madhya Pradesh, Bombay, Madras, Bihar, Orissa, Assam, West Bengal and Punjab. |
| 4. Sanitation, and conservancy, prevention and abatement of nuisance.  | Bombay, Madras, Madhya Pradesh, Bihar, Orissa, West Bengal and Punjab.        |
| 5. Preservation and improvement of the public health.  | Madras, Bombay and West Bengal.   |



## FINANCES OF VILLAGE PANCHAYATS

- |   |  |
|---|--|
| 6. Maintenance and regulation of the use of public buildings, grazing lands and forest lands and tanks and wells under control of panchayats.                       | Bombay, U.P., Bihar, Orissa and Madhya Pradesh.  |
| 7. Lighting.  | Madras, Bombay, West Bengal, U. P. and Orissa.   |
| 8. Control of fairs, bazars, slaughter houses and cart stands.  | Bombay, U.P., Punjab and Orissa.   |
| 9. Provision, maintenance and regulation of burning and burial grounds.   | Madras, Bombay, U.P., Punjab, Orissa and Assam. (In case of Assam the function is exercisable under the orders of the district board.) |
| 10. Supervision and maintenance of village schools.   | Bombay, U. P., Orissa and Assam (In Bombay the funds are provided by the district board).  |
| 11. Management and maintenance of cattle pounds.  | Bombay and Punjab only.  |
| 12. Sinking and repairing of wells, excavation, repairs and maintenance of ponds and tanks, construction of water works for bathing, washing and drinking purposes. | U. P. and Punjab.  |
| 13. Medical relief and first aid.   | U. P., Bihar, Orissa, Madhya Pradesh and Assam.  |
| 14. Registration of births and deaths.  | U. P., Orissa and Madhya Pradesh. (In Madhya Pradesh including marriages.)   |

(2) **Discretionary Functions.** Among the discretionary functions may be mentioned the construction and maintenance of public latrines, markets and slaughter houses; laying out playing grounds and public gardens; planting trees; establishment of village libraries and reading rooms, relief of the destitute and the sick; control of fairs; opening and maintaining public landing places, cart stands and cattle sheds; registration of births and deaths, opening and maintaining elementary schools and dispensaries, including maternity and child welfare centres; regulating or abating of offensive and dangerous trades and practices; opening and regulating burning ghats and burial grounds; lighting of village streets.

718. **Finances.** For discharging these functions the panchayats in each State have been given financial resources as under.

719. **Madras.** (a) *Compulsory taxes.* There are four taxes which are compulsory for every panchayat viz. the house tax, the vehicles tax, the profession tax and a duty on transfer of property.

(1) **The House tax** :—Every panchayat has to levy this tax which is payable half yearly. The minimum and maximum rates of the tax are prescribed. The basis of the tax is the annual value or the capital value of 'such other basis as may be prescribed'. It is important to note that 'huts' as distinguished from other 'houses' are exempt from the operation of this compulsory levy. The definition of a 'hut' is any building which is constructed mainly of wood, mud, leaves

grass or thatch and includes any temporary structure of whatever size or any small building of whatever material made, which the panchayat may declare to be a hut for the purpose of the Act. (Section 2 (10)).

Rules prescribed by Government may provide for exemptions of different classes of properties from payment of the house tax, one of such exemption being on the ground of poverty. [Section 64 (4) (iv)].

(2) **The Profession Tax** :—The levy of this tax is compulsory on (i) individuals exercising any profession or holding any appointment and (ii) companies transacting business in the village. Even those transacting business outside the village but residing in the village for 60 days in six months have got to pay this tax. The minimum and the maximum rates for the levy are provided by rules.

(3) **Vehicles Tax** :—This is leviable on all vehicles kept or used in the village, except motor vehicles. Maximum and minimum rates are prescribed by Government.

(4) **Duty on transfer of immovable property**.—This is levied at a rate not exceeding 5% of the amount involved in the transfer of property within a village. All kinds of transfers of immovable property have been included in the taxable list given under section 67, e.g. sale, exchange, gift, mortgage, lease, etc. This is in the nature of surcharge on a State tax viz. the stamp duty. This tax is collected by the Registration Department and later paid by the collector of the district to the panchayats after deducting collection charges incurred by Government.

(b) **Optional taxes and fees**. In addition to the taxes compulsorily leviable, the panchayat may levy with Government sanction, the following three imposts :—

- (1) **Land Cess**. Leviable at the rate of 3 pies in a rupee of the annual rental value of "Occupied lands in the Village" (except those occupied by buildings);
- (2) **Tax on agricultural land** : The levy is permissible for a specific purpose. e.g. for construction of big works such as bridges, etc ;
- (3) **Fees on commercial crops bought and sold in the village**. (Except crops covered by fees levied under the Madras Commercial Crops Market Act, 1933).

**Other Fees**. A large variety of fees may be levied by the panchayats e.g. for (1) temporary occupation of village sites, roads and other public places (2) markets (3) cart-stands (4) dangerous and offensive trades (5) licensing of brokers and commission agents (6) landing and halting places (7) slaughter houses (8) permits for different works or acts etc.

(c) **Grants and assignments of state revenues**. Over and above the taxes and fees mentioned above, there are other items. The foremost among them are assignments of specified revenue or grants and transfer of proceeds under certain heads such as :—

- (1) **Land Cess**. The Village Panchayats are entitled to receive 1/4th of the Land Cess received by the District Boards under section 78 of the Madras Local Boards Act, 1920 ;
- (2) **Land Revenue of 12½%** : Government sets apart not lessn than 12½% of the total Land Revenue (including water cess) collected in the State and distributes the sum to class II Village Panchayats as grants on the basis of their population ;

**FINANCES OF VILLAGE PANCHAYATS**

- (3) **Pilgrim Tax** : Proceeds of Pilgrim Tax levied under the Madras Local Boards Act, 1920, for village festivals which are not classified as District Festivals are received by panchayats ;
- (4) **Proceeds of Taxes and Tolls** levied in the Village under sections 117 and 118 of the Madras Public Health Act, 1939 :
- (5) Net assessments on service *inams*, resumed by the Government ;
- (6) **Judicial Fines** : Fines imposed in the village for offences under the Village Panchayats Act are first credited to the Government treasury and 9/10ths of the proceeds assigned to village panchayats ;

**Contributions from District Boards** : There are three heads under which contributions are recoverable from the District Boards :—

- (1) In respect of markets in the village which are classified as District Markets ;
- (2) In respect of ferries managed by District Boards ;
- (3) Contribution, if any, in respect of opening and running elementary schools.

In each case, Government fixes the scale or amount of contribution payable by district boards.

720. **Bombay.** The compulsory taxes in this State are two. viz., the tax on houses and land, not liable to agricultural assessment and any one of the following optional taxes, namely, pilgrim tax, tax on fairs and festivals, entertainments tax, tax on marriages, adoptions and fees octroi, tax on shops and hotels, etc. The levy of some of these is subject to the following limits :—

Name of taxes.	Minimum and/or maximum rate authorised by the State Government.	
1	2	
1. Tax on houses and lands.	For tax based on	Maximum rate.
	(i) capital valuation of the buildings and lands	8 annas per Rs. 100/- of the capital valuation.
	(ii) letting value of the buildings and lands.	15% the annual letting value.
2. Pilgrim	6 annas for every pilgrim (maximum)	
3. Tax on fairs and festivals.	(1) For shop, booth or stall :—	(Maximum)
	4 annas upto 9 sq. ft. plus 6 pies for every additional 9 sq. ft. or less per day.	
	(2) For cinema, circus or other amusements—	
	Rs. 50/- per acre per day (Maximum)	

1	2																				
4. Tax on sales	(1) For tax based on the size of the plot occupies. 4 annas for 9 sq. ft. plus 6 pies for every additional 9 sq. ft. or less per day.																				
	(2) For tax based quantity of goods exposed for sale.																				
	<table border="0"> <thead> <tr> <th></th> <th style="text-align: center;">vegetable Rs. as. ps.</th> <th style="text-align: center;">grain. Rs. as. ps.</th> <th style="text-align: center;">other articles. Rs. as. ps.</th> </tr> </thead> <tbody> <tr> <td>Basket</td> <td style="text-align: center;">0 - 0 - 6</td> <td style="text-align: center;">...</td> <td style="text-align: center;">...</td> </tr> <tr> <td>Head Load ...</td> <td></td> <td style="text-align: center;">0 - 0 - 6</td> <td style="text-align: center;">0 - 0 - 6</td> </tr> <tr> <td>Gunny Bags</td> <td style="text-align: center;">0 - 1 - 0</td> <td style="text-align: center;">0 - 2 - 0</td> <td style="text-align: center;">0 - 2 - 0</td> </tr> <tr> <td>Cart</td> <td style="text-align: center;">0 - 4 - 0</td> <td style="text-align: center;">0 - 4 - 0</td> <td style="text-align: center;">0 - 4 - 0</td> </tr> </tbody> </table>		vegetable Rs. as. ps.	grain. Rs. as. ps.	other articles. Rs. as. ps.	Basket	0 - 0 - 6	...	...	Head Load ...		0 - 0 - 6	0 - 0 - 6	Gunny Bags	0 - 1 - 0	0 - 2 - 0	0 - 2 - 0	Cart	0 - 4 - 0	0 - 4 - 0	0 - 4 - 0
	vegetable Rs. as. ps.	grain. Rs. as. ps.	other articles. Rs. as. ps.																		
Basket	0 - 0 - 6	...	...																		
Head Load ...		0 - 0 - 6	0 - 0 - 6																		
Gunny Bags	0 - 1 - 0	0 - 2 - 0	0 - 2 - 0																		
Cart	0 - 4 - 0	0 - 4 - 0	0 - 4 - 0																		
5. Octroi	(a) Building Materials Rs. 2-0-0 per 1000																				
	Bricks, corrugated ,, 0-12-0 ,, "																				
	Iron sheets, Mangau,, 3-2-0 ,, value																				
	lore Tiles, stones of 100																				
	&c.																				
	Cement or anything made																				
	of cement. Rs. 3-2-0 —do—																				
	Sand for building. ,, 3-2-0 —do—																				
	Lime ,, 3-2-0 —do—																				
	Iron and steel																				
	material for building ,, 3-2-0 —do—																				

Besides these taxes, the State Government gives a grant to every panchayat equivalent to 15% of the ordinary land revenue or 25% of the local fund cess, realised in the previous year within the limits of the village whichever is greater. In addition to the above, section 33 (2) provides that "the porvincial Government shall pay three-fourths of the salary and allowances of the Secretary." There are also non-statutory grants paid by Government, namely, 50% towards dearness allowance of the staff and towards public health schemes like drainage and water supply (60% grant) etc. Other sources of revenue include proceeds of all dust, dirt, dung or refuse including the dead bodies of animals, judicial fees and fines, compensation amounts, contributions by district boards, etc.

**721 West Bengal.** The only tax compulsorily leviable in this State is the Union rate. This rate is an assessment imposed yearly on persons who are owners or occupiers of buildings according to their circumstances and property within the Union.

Section 54 of the Bengal Village Self-Government Act, 1919, makes a special provision for the imposition and collection of a supplementary assessment. This assessment is imposed when the amount collected from Union rate is found by the District Magistrate to be insufficient to meet the liabilities of the Union.

Besides the Union rate the following further items constitute the Union fund :—

- (1) All sums realised as fines, fees or costs recovered under the Act, and donations or contributions from private persons;
- (2) Rents or other income from works constructed by and vested in the union boards (Section 19);

- (3) License fees at prescribed rates for carrying on any trade or business declared by the State Government to be offensive or dangerous (Section 34);
- (4) Grants-in-aid from the district fund. The District Board may make such grant-in-aid as it thinks fit, to enable the Union Board to carry out any of the purposes of the Act on such conditions as the District Board may consider desirable, and shall do so if the Union Board imposes any rate under section 37 (b) *i.e.*, for development work.

722. **Uttar Pradesh.** There are no compulsory taxes in panchayats in this State. But the permissible taxes include the following :—

- (a) A tax not exceeding one anna in a rupee of the rent payable under the U. P. Tenancy Act, 1939 payable by persons severally or jointly in cultivatory possession or in respect of sayer income therefrom. In case the land is cultivated by the sub-tenant the amount is payable between the sub-tenant and superior holder in the proportion 3 : 1.
- (b) A tax not exceeding six pies in the rupee on rent received by any proprietor on account of land as defined in the U. P. Tenancy Act 1939, payable by persons in proprietary or under-proprietary possession as provided in section 32 of the U. P. Land Revenue Act, 1901.
- (c) A tax not exceeding one anna in the rupee on the assumed rental value of 'Sir' and 'Khundkasht' in accordance with the Land Revenue Act, 1901—payable by persons in proprietary or sub-proprietary possession of 'Sir' land as provided in the U. P. Land Revenue Act, 1901.

The above taxes are to be imposed, if at all, together and not singly and in the same ratio as the maximum rates prescribed therein bear to one another.

- (d) A tax on trades, callings and professions not exceeding such rates as may be prescribed.

In addition to the above, grain, cloth and sugar merchants, refiners and persons carrying on any other trade may, if the panchayat so resolves, be required to pay a tax on the annual income of their trade. The rates are subject to limits prescribed by the State Government.

- (e) A tax on buildings owned by persons who do not pay any of the taxes aforesaid under (a) to (d) not exceeding such rate as may be prescribed. Rules framed under the Act provide that the rate of tax on houses and buildings shall not exceed 5% of the annual rental value. Persons who from poverty are unable to pay a tax are exempt. No assessment is to be imposed on any house or land belonging to the Government or the district board which is not used for residential purposes, but the Government or the District Board, shall, if the District Magistrate so directs in any case be liable to pay the panchayat in lieu of assessment, such sum as he may from time to time determine to be fair and reasonable. Where, however, as assessment is imposed on a house, building or land belonging to Government or district board, which is used for residential purposes, it shall be payable by the owner or occupier as the Government or district board may decide.

In addition to the above, proceeds from the following items are credited to the Gaon Fund :—

- (1) Court fees and fines,

- (2) Sums paid by way of composition when a Gaon panchayat compounds an offence on panchayat of a cash payment.
- (3) All sums received from district or other authority.
- (4) All sums handed over or assigned by the State Government.
- (5) Such portion of the rent or other proceeds of the Nazul property as the State government may direct to be placed on the credit of the Gaon Fund.
- (6) Sums received by panchayat from any individual, Corporation or State Government as collection charges of rents due to these parties from persons liable to pay the rent to them when the panchayat contracts to collect such rent. (Section 24.)
- (7) The sale proceeds of all dust, dirt, dungs, or refuse including the dead bodies of animals collected by the servants of the Gaon Panchayats.

723. **Punjab.** There is no compulsory tax for village panchayats in this State. All taxes are optional. The power of taxation is described generally as the power to levy, with Government sanction, any tax which the State Government has power to impose. The village panchayats generally levy the following taxes:—

(i) **Tax on Hearths.** This seems to be very popular and is levied on different classes of people the maximum rate per annum being prescribed for each class as under:—

- |   |                      |
|---|----------------------|
| (1) on unskilled people                     | @ Rs. 1/- per hearth |
| (2) on artisans                             | @ Rs. 2/- per hearth |
| (3) on tenants                              | @ Rs. 3/- per hearth |
| (4) on proprietors of land and shop-keepers | @ Rs. 5/- per hearth |

(ii) **Tax on Professions:** This is leviable at Rs. 5/- per shop. The maximum payable by a taxpayer on whom both the hearth tax and profession tax are levied shall not exceed Rs. 8/- per annum.

(iii) **Tax on animals.** Some panchayats levy a tax on animals required for transport, commonly mules. The rate for different animals varies from annas 2 to Rs. 2/- per annum.

**Sources other than taxation and fees:** These are mainly non-judicial fees levied e.g. for copying or inspecting non-judicial records of the panchayats and grants-in-aid by Government, which fall under the following classes:—

(1) Government give a grant of an amount equal to the sum collected by each village panchayat during the previous year from taxes and non-judicial fees. This is an important source of income for panchayats in this State.

(2) Grants-in-aid in the form of compensation for the loss of income from judicial fees and fines imposed by the panchayats. The income from these sources forms part of State revenue and is creditable into the Government treasury and the panchayat acts as a collecting agency for the State.

(3) Grants for panchayat libraries. Government set apart Rs. 4,000/- annually for library grants at the rate of Rs. 50/- per panchayat which contributes an equal amount from its own funds for this purpose.

(4) Grants from local and other bodies are also received sometimes. Contributions and donations from individuals are sometimes received for specific objects of village benefit e.g., a school building, a panchayat ghar, etc.

**FINANCES OF VILLAGE PANCHAYATS**

724. There are two compulsory taxes for village panchayats in this State viz.

- (1) **Labour tax**—All able-bodied males between the prescribed age-limits have got to render a prescribed number of units of labour (one unit of labour means four hours of labour). No person can be made to render manual labour for more than 12 units of labour during any one year. There is an option provided for paying cash in place of labour on the basis of the rates for wages of labour prevailing in the village as determined by the Mukhiya.
- (2) **Tax on owners of immovable property** :—This tax is payable in cash at the prescribed rates.

**Optional taxes.** There are several optional imposts in the form of taxes, rates, licence and other fees, tolls etc. as under :—

- (1) A licence fee on persons practising as professional buyers, brokers, commission agents, weighers or measurers.
  - (2) Profession tax on persons exercising any calling (other than agriculture), profession or trade.
  - (3) Tax on vehicles, pack animals and porters bringing goods for sale into the village.
  - (4) Market fees on goods exposed for sale in markets or places belonging to or controlled by panchayats.
  - (5) Registration fees on animals sold in the village.
  - (6) Fees for use of sarais, dharmshalas, rest-houses and camping grounds vested in the panchayats.
  - (7) (a) Water rate  
(b) Latrine tax  
(c) Lighting rate  
(d) Drainage fee
- } If village\* panchayat renders these services.
- (8) Pilgrim Tax at places of worship within the village.
  - (9) Any other tax, toll, fee or rate approved by Government.

In addition to the above the Executive Committee authorised to levy an emergency tax on the occurrence of an emergency.

- (10) A further source of revenue is income from public properties in the village panchayat area which vest in the panchayat, proceeds of markets and fairs managed by the Executive Committee, etc.
- (11) Collection charges for collecting State taxes and dues on behalf of Government.

725. **Orissa.** Only one tax is compulsory for village panchayats in this State viz. a tax upon the owners of immovable property and occupiers of any building within its area, according to the circumstances and property of such owner and occupier. The panchayats are authorised to exempt partially or wholly any owner or occupier if in the opinion of the Gram Panchayat he is too poor to pay.

There are in addition, the following imposts which a panchayat may levy, the maximum and minimum rates being prescribed by government.

- (1) License fee on brokers, commission agents, weighmen and measurer, practising their callings within the local area of the panchayats.

- (2) Tolls on vehicles, pack animals and porters bringing goods for sale into the local area.
- (3) Rents from dealers occupying ground or structures belonging to panchayats.
- (4) Fees on registration of animals sold within the local area.
- (5) Fees for right to expose goods for sale in any market or for use of any structure therein.
- (6) Fees from slaughter house maintained by panchayats.
- (7) Latrine and conservancy tax, water rate, lighting and drainage tax if these services are rendered by panchayats.
- (8) Fees for use of sarais, dharamsalas, rest-shades and slaughter-houses.
- (9) Fees on vehicles kept in the village.
- (10) Any other tax, toll, fee or rate approved by Government.

The Registrar of Cooperatiye Societies is empowered to require the panchayat to increase its income by the levy or increase of any tax, toll, fee or rate.

**Compulsory Labour.** A gram panchayat may direct that an able-bodied person between the ages of 18 and 50 residing in the area shall render either by himself or by a proxy free manual labour to it, for a fixed number of days not exceeding 4 days a year or 2 days at a stretch. Besides the proceeds of the above imposts the following items also form the 'Gram Fund' :—

- (1) Judicial fines, fees, penalties, etc.
- (2) Sale proceeds of dust, dirt, dung, or refuse including the dead bodies if animals collected by the panchayat servants.
- (3) Rent or other proceeds of Government property as Government may direct to be placed to the credit of the Gram Fund.
- (4) Contributions from district board or any other local authority.
- (5) Sums assigned by Government.
- (6) One-third of the local cess, and additional cess levied under the Bihar and Orissa Local Self-Government Act, 1885, the Madras Local Boards Act, 1920 and the Sambalpur Local Self-Government Act, 1939 as shall be assigned in the prescribed manner.

It may be added that all public property in the village vests in the panchayat. Whatever income is received from such property including that from markets and fairs upon public land, is placed to the credit of the Gram Fund.

**726. Madhya Pradesh.** The following three taxes or fees are compulsorily leviable by panchayats in this State.

(1) **Tax on buildings and non-agricultural land.** This tax is levied on all buildings and non-agricultural lands and is payable by the occupier and where there is no occupier by the owner at such rate and by such method of assessment as may be prescribed subject to a prescribed minimum value below which an assessment is not levied.

(2) **Licence fees.** Every person practising the calling of buyer, broker, commission agent, weigher or measurer is required to take out a licence on payment of a prescribed fee.

(3) **Profession tax.** This is the third compulsory tax which a panchayat has to impose at such rates as may be prescribed, on persons practising any profession, trade or calling within the panchayat area.



## FINANCES OF VILLAGE PANCHAYATS

In addition to the above mentioned compulsory imposts the following optional taxes tolls, fees or rates may be levied by the panchayats.

- (1) Tolls on vehicles, pack animals and porters bringing goods for sale into the panchayat area.
- (2) Fees for exposing goods for sale or for registration of animals sold in a market or place owned by or under control of village panchayat or for use of any structure therein.
- (3) Fees for use of sarais, dharamshalas, rest-houses, slaughter houses and encamping grounds.
- (4) Water rate.
- (5) Latrine cleaning fees.
- (6) Lighting rate.
- (7) Drainage fees.
- (8) Tax payable by owners of animals kept in the area.
- (9) Any other tax, toll, fee or rate approved by the State Government.

Where these services are provided by panchayats.

**Impressment of Labour.** Besides the taxes and other imposts leviable by the panchayats, a gram panchayat may call upon persons resident in the area to perform such labour as it may specify on works of public utility which in the opinion of the panchayat are likely to benefit such persons and which the Gram panchayat has undertaken to construct, maintain or repair as part of its duties. But a person required to perform labour may have it performed by another on his behalf or pay for its performance at such rates as may be determined by the Gram Panchayat. No panchayat shall call upon any person who on account of age, sex, ill-health or custom cannot be expected to perform such labour nor any one for more than 15 days in a year or more than 4 consecutive days.

If in the opinion of the Janapada Sabha the income of a Gram Panchayat is or likely to be inadequate for the proper discharge of the compulsory duties (Section 30), or optional duties which it has undertaken (Section 31) the Janapada Sabha may require the panchayat to levy or increase any tax, toll, fee or rate specified in section 42 subject to the maximum prescribed.

Among other sources of income may be mentioned the following :—

- (1) A cess at the rate of 6 pies per rupee on land revenue on agricultural land (Section 40).
- (2) Such portion of the profits made by the village granary if any, as may be specified by the Gram panchayat from time to time.
- (3) Income from matters the control of which vests in or has been taken over by Gram panchayat by agreement as provided in the Act.
- (4) Income from all sums payable to Gram Panchayat under the Act or contributed by Government or local body or private persons or from other sources as the State Government may, from time to time, determine.

727. **Assam.** There is no compulsory tax for panchayats in this state. Among the permissible taxes are :—

- (1) a tax on land revenue not exceeding one anna in a rupee payable by the recorded 'pattadars' in possession of land as cultivators. This appears to be a variety of the local cess levied in other States.

- (2) Tax at a rate not exceeding one anna per bigha payable by occupiers of land. This is leviable in permanently settled areas.
- (3) A tax on uncultivated but cultivable lands.
- (4) A tax on buildings at prescribed rates.
- (5) Taxes on marriage, cattle, boats, cycles and carts at prescribed rates.
- (6) Any other rate, tax, cess or licence or other fees with Government approval.

(7) **Labour tax.** A panchayat is entitled to levy a labour tax involving the rendering of manual labour by able-bodied male persons between the ages of 18 and 40 for a prescribed number of units of labour—(one unit of labour is equal to a normal manual labour done in a day) not more than 36 days in a year or more than three days at a stretch. There is a proviso that a person assessed to labour tax, may, instead of rendering manual labour pay to the Panchayat Fund an amount equal to the wages of double the units of labour at the rate prescribed when he is asked to do the manual labour (Section 71).

Other sources of revenue include:—

- (1) Judicial fees and fines.
- (2) Allotment from sub-divisional development Fund (mentioned above).
- (3) Other sums and contributions assigned or received from Government, other authorities or individuals.
- (4) Fees for the use of permits which panchayats are empowered to impose under the Act or Rules or Bye-laws framed.

728 **General Observations.** From the above review of the financial resources of village panchayats, it will be seen that they rely chiefly on two sources of income.

- (i) income which they raise themselves; and,
- (ii) funds placed at their disposal by Government.

729. In regard to income which they raise themselves, we are of the opinion that every panchayat should levy the following two taxes compulsorily:—

- (i) House tax or chulla tax or circumstances and property tax; and
- (ii) General sanitary cess.

The remaining taxes may be raised by panchayats according to their needs and local conditions. As regards labour tax, there should be no compulsion. If a person renders such labour willingly, he should be allowed to do so. Alternatively he may be permitted to make a payment in kind in lieu thereof. Should he be unable to work or to make any payment in kind on account of poverty, he should not be subjected to any penalty.

730. As the financial condition of most of the village panchayats is far from satisfactory, it will be necessary to give them financial assistance from other sources also. We are in favour of an unconditional allotment to the village panchayats of 15% of the land revenue raised in the panchayat areas. In addition there should be surcharge on the transfer of immovable property within the panchayat jurisdiction, the proceeds of which should go to panchayat funds.

731. So far as the financial responsibility of village panchayats for elementary education is concerned, we consider that they should be dealt with on the same lines as we have suggested in the chapter on education for other local bodies.

732. In addition to the above, village panchayats should be assisted in the following manner. Salaries and allowances of panchayat officers should be borne by the State government at least to the extent of three-fourths, as in Bombay. Wherever panchayats are compulsorily required to maintain chowkidars and daffadars for watch and ward duties, the State government should bear the cost on account of their salaries and allowances. Panchayats should be allowed the use of state lands within their jurisdiction. When alienation of land takes place it should be subject to the sanction of the State Government. Village panchayats, wherever possible, should be encouraged to collect land revenue and land cess on behalf of the State Government on a commission basis. They should also be encouraged to undertake as many remunerative enterprises as possible, namely, markets, slaughter houses, cart and bus stands and ferries. Some of these are at present undertaken by some village panchayats. They may also be encouraged to take up cooperative farming, dairies and such like activities under the guidance of the State Government.

## CHAPTER XXIII-

### FINANCES OF CITY CORPORATIONS

733. The City Corporations of Madras, Bombay and Calcutta present certain special features which we propose to deal with here. The recommendations which we have made in other chapters apply generally to all local bodies and city corporations will, to that extent benefit by the adoption of our general proposals by the governments concerned. We have been unable to go into the expenditure side of any city corporation. In general terms we enquired from them what scope there was for retrenchment or economy in expenditure. We will take into account the replies we have received, but whether there is or is not any scope for retrenchment or economy, we are unable to say. Our remarks in this chapter are confined mostly to suggestions for improving either the existing sources of revenue or for making fresh sources available.

We deal first with the Madras Corporation :—

#### Madras Municipal Corporation

734. **Receipts & Expenditure.** A general idea of the finances of the Corporation will be obtained from the statement given below showing the receipts and expenditure of the Corporation from the year 1939-40 to 1948-49.

	Receipts in lakhs	Expenditure in lakhs
1939-40	70.74	73.65
1940-41	75.23	75.12
1941-42	73.87	75.39
1942-43	79.62	72.01
1943-44	80.28	82.64
1944-45	100.77	99.75
1945-46	119.28	120.52
1946-47	135.01	141.36
1947-48	155.78	160.83
1948-49	176.53	182.44

It will be seen from the above statement that since 1945-46 the growth of revenue has not kept pace with the growth of expenditure and there is usually a small deficit from year to year. The growth of expenditure is largely due to the high cost of materials and labour and payment of dearness allowance. Up till 1947-48, there was no deficit closing balance, the excess expenditure being covered by the small surplus opening balance. At the end of 1948-49, the revenue account closed with a deficit of Rs. 4.64 lakhs.

735. **Main heads of revenue.** The main sources of income of the Corporation, receipts under each source and the percentage of each item to total income are as under ;

FINANCES OF CITY CORPORATIONS

Sources of income	Receipts in 1948-49	Percentage of total income each source represents
<b>Tax Revenues.</b>		
(1) Property Tax		
(a) General Tax	57,16,702	32.38
(b) Lighting Tax	9,12,976	5.17
(c) Water Tax	7,03,701	3.99
(d) Drainage Tax	9,71,480	5.50
(e) Education Tax (by way of sur- charge on prop- erty tax.)	12,45,729	7.06
(2) Tax on Companies.	4,01,077	2.27
(3) Profession Tax	5,83,393	3.30
(4) Tax on animals and carriages.	2,23,711	1.27
(5) Tax on timber.	1,85,922	1.05
(6) Tax on advertise- ments.	1,10,943	0.63
(7) Duty on Transfer of Property.	9,97,972	5.65
(8) Entertainments Tax (Government contri- bution).	13,29,373	7.56
<b>Non-Tax-Revenue.</b>		
(9) Compensation for loss of toll revenue (Govern- ment contribution).	7,79,339	4.41
(10) Market Fees.	2,18,845	1.24
(11) Slaughter House Fees	1,67,576	0.95
(12) Rents from Corpora- tion lands & build- ings.	10,44,099	0.91
(13) Licence Fees.	10,44,099	5.91
(14) Excess water con- sumption charges.	12,16,722	6.89

(Based on the final figures for the year 1948-49)

It will be noticed that the main item of tax revenue of the Corporation is the property tax which yields 54.1% of the total income of the Corporation. The rates at which the tax is levied is dealt in the two chapters on property tax. The education tax which is included under the head 'property tax' is levied under section 34 of the Elementary Education Act and collected along

with the property tax. The tax is at present levied at the rate of 15% of the property tax. The tax on companies and profession tax have been dealt with separately in the chapter of Profession Tax. The tax on companies is peculiar to Madras and is not to be found in any other State. Item (4) is common to all municipalities in India and does not need any special comment. The tax on timber is a tax peculiar to the Madras Corporation and is the only instance of an octroi duty levied in the State of Madras by any local body. Under the Madras City Municipal Act, 1919, the tax on timber was leviable at a rate not exceeding Rs. 5/- per ton subject to a refund of 9/10th of the tax on timber re-exported to mofussil stations. By the Amendment Act X of 1936, the system of refund was done away with and timber in transit was exempted from the levy, but the levy but the maximum rate of the tax remained the same. The present rate of tax is Rs. 5/- per ton.

**Tax on advertisements.** An income from tax on advertisements is derived mostly from posters in cinemas and tramcars and from advertisements in public places within the city.

**Duty on transfer of property.** A surcharge at 5% of the stamp duty on transfer of property is levied and collected for the Corporation by the Registration Department.

**Entertainments Tax.** This tax is levied and collected by the State Government and the Corporation is paid the net proceeds after deducting 10% for collection charges.

**Non-tax revenue.**

*Compensation for loss of toll revenue:* The Corporation receives compensation from the Government of Madras, for loss of income from tolls which were abolished when the Motor Vehicles Taxation Act was introduced in 1931. Prior to 1931, the Corporation was deriving a net annual income of Rs. 3,75,000 from tax on motor vehicles from the levy of tolls on all vehicles entering the City. Since 1934, a sum of Rs. 3,38,000 is paid as annual contribution to the Corporation on this account.

**Market fees.** The fees on stalls in the various markets were increased by 25% to 50% in 1947-48.

Rents from municipal lands and buildings and model tenements were raised by 25% in 1947-48.

**Slaughter houses.** The fees on slaughter houses were increased by 25% in 1947-48.

**Licence Fees.** There has been a steady increase in the demand under licence fees during the years 1943 to 1949 as shown below :

Year	Demand
1943-44	Rs. 2,10,662
1944-45	Rs. 3,45,000
1945-46	Rs. 3,62,793
1946-47	Rs. 4,76,880
1947-48	Rs. 9,01,935
1948-49	Rs. 9,90,649

It will be seen that the income under this head has increased more than four times during the last six years.

**FINANCES OF CITY CORPORATIONS**

**Government Grants.** In addition to the above sources of income, the Corporation receives financial assistance from the Government of Madras in the form of (a) statutory grants for specific objects and (b) non-statutory grants for specific objects :—

(a) Statutory grants for specific objects. The State Government pays a statutory grant for Elementary Education at 8% of the actual collections under Property Tax for the year, on the post-payment system. No other statutory grant is paid to the Corporation by the State Government.

(b) Non-statutory Grants for specific objects :—The State Government pays the Corporation the following grants :—

**Road Maintenance.**

	Per annum Rs. 20,000
(1) For the maintenance of Trunk Roads.	
(2) For the maintenance of bridges over the Cooum and the Buckingham Canal within the City.	Rs. 4,220
(3) For the maintenance of Chepauk Roads belonging to P. W. D.	Rs. 1,340

**Public Health.**

(4) For the maintenance of infectious diseases hospital.	Rs. 2,100
--	-----------

**Water Supply.**

- (5) Half the expenditure on the post-payment system on all water supply capital works intended to improve the water supply of the City.
- (6) Half the expenditure on the post-payment system on all underground sewers—capital work intended to improve the drainage of the City.

736. **Incidence of taxation income per capita.** The incidence of income from taxation per capita for years from 1894-95 to 1949-50 is given below :—

Year	Incidence of income from taxation per capita.		
	Rs.	As.	Ps.
1894-95	2	2	3
1901-02	2	1	1
1907-08	2	11	9
1911-12	3	5	9
1918-19	4	12	11
1921-22	6	14	11
1931-32	6	15	6
1938-39	8	6	9
1942-43	6	15	11
1946-47	9	1	2
1947-48	10	15	0
1948-49	12	7	9
1949-50	13	5	7

737. **Budgets for future years.** The Municipal Commissioner for the Corporation has, at our request, given tentative budgets of revenue and expendi-

CHAPTER XXIII

ture for the five years from 1950-51 to 1954-55, which are given as an annexure to this chapter. The total figures for revenue and expenditure for each of those years are reproduced below :—

Years	Revenue	Expenditure	Surplus (+) Deficit (-)
1950-51	2,03,55,980	1,92,94,130	(+) 10,61,850
1951-52	2,03,55,980	2,01,26,000	(+) 2,29,980
1952-53	2,03,55,980	2,04,11,000	(-) 55,020
1953-54	2,03,55,980	2,07,91,000	(-) 4,35,020
1954-55	2,03,55,980	1,10,81,000	(-) 7,25,010

It will be seen that the Municipal Commissioner has not taken account of the normal growth of revenue, but has assumed it to be static. On that assumption, the revenue and expenditure will during the following three years there will be a small deficit varying from half a lakh to seven lakhs. In the circumstances, the financial position of the Madras Corporation cannot be said to give any cause for real anxiety for the period in question. This does not, of course, mean that there is no need to develop existing sources of revenue or for making fresh sources of revenue available for the Corporation.

**738. Possibilities of developing existing sources of revenue.** Property Tax : The level of property tax in Madras City is lower than in Calcutta and Bombay. A proposal to raise the rate of property tax in respect of properties with annual valuation of Rs. 500 and below from 16½% to 17½% was not accepted by the Corporation. Had the Corporation accepted such a proposal, the increase in revenue would have been about Rs. 1.25 lakhs per annum. In view of corresponding taxation of similar properties in Calcutta and Bombay we consider that the proposal needs to be revived.

**739.** The attached statement shows the growth in the annual valuation of all buildings and open lands in the City of Madras from 1930-31 to 1949-50. It will be seen from that statement that the annual valuation was about Rs. 2,16,00,000 in 1930-31 and Rs. 4,79,00,000 or a little more than double in 1949-50. The Municipal Commissioner reports that the increase in land values has been nearly 8 to 10 times during this period. Corresponding to that the growth in the annual valuation seems small. The possibility of increasing the yield of property tax by re-examining the annual valuation is suggested.

**Statement showing the Annual valuation of all buildings and open lands in the City of Madras from 1930-31 and 1949-50.**

Year	Annual valuation of all buildings and open lands in the City. Rs.
1930-31	2,16,14,208
1931-32	2,20,22,843
1932-33	2,24,33,893
1933-34	2,28,10,270
1934-35	2,32,79,214
1935-36	2,35,81,004
1936-37	2,42,41,959
1937-38	2,48,46,426
1938-39	2,52,97,629



## FINANCES OF CITY CORPORATIONS

	Rs.
1939-40	2,65,86,327
1940-41	2,70,18,950
1941-42	2,72,24,041
1942-43	2,60,48,003
1943-44	2,70,57,956
1944-45	2,92,71,554
1945-46	3,09,98,656
1946-47	3,59,64,608
1947-48	4,12,93,004
1948-49	4,45,00,204
1949-50	4,79,08,665

The Municipal Commissioner points out that the Corporation loses not less than Rs. 1 lakh annually owing to the concessional treatment of Central Government and railway properties. We have already dealt with this matter in separate chapters and hope that if these recommendations are accepted, the position will improve.

**Profession Tax.** The Madras Corporation has already revised the schedule of profession tax so as to bring it into line with the increased limit under the Constitution. There is bound to be an increase of income on this account.

**Tax on timber.** The existing rate is Rs. 5/- per ton. During the war years and recently the price of timber has shot up four to five times the pre-war level. The Corporation, therefore, suggested that the rate of tax should be increased from Rs. 5/- per ton to Rs. 10/- per ton. But the Madras Government observed that the proposed increase was inadequate and called for revised proposals. Accordingly, the Corporation revised the proposals, recommending levy at Rs. 20/- per ton. But the Government did not see their way to adopting them and directed that the proposals should be deferred. The Government of Madras was of the opinion that the proposal of the Corporation would require legislation from the Centre and that the Corporation might renew the request for the enhancement of the rate after the Constitution was finalised. We recommend that the rate be raised to Rs. 20/-. This alone would give an additional income of about Rs. 5½ lakhs per annum to the Corporation.

**Entertainments Tax.** The Corporation is of the opinion that the share of the State Government in the entertainments tax should be reduced from 10% to 2½% as representing the collection charges proper. This would increase the income of the Corporation by Rs. 1,13,000/-. We have already suggested in another chapter that the whole proceeds of entertainments tax minus the actual cost of collection should be made available for local bodies. We have, therefore, no fresh recommendation to make.

**740. Compensation under the Motor Vehicles Taxation Act.** The Corporation has demanded that an increase be made in the annual compensation from Rs. 7,79,000 to Rs. 20 lakhs. We have already suggested in another chapter a formula for the revision of this compensation and have no special recommendation to make in this behalf.

**CHAPTER XXIII**

741. **Other recommendations.** The Corporation should also benefit by the recommendations we have made with regard to visitors tax on railway and bus passengers as also the tax on hotel visitors in the chapter on taxation of floating population.

In addition the Corporation should benefit by the recommendations made regarding the distribution of expenditure on elementary education and medical and public health in the relevant chapters.

The recommendations made above are, in our opinion, sufficient to put the financial position of the Corporation on a sound footing.

**BOMBAY MUNICIPAL CORPORATION**

742. **Revenue and Expenditure.** The figures of revenue and expenditure of the Bombay Municipal Corporation for the ten years from 1939-40 to 1948-49 are given in the statement below :—

Year	Revenue	Expenditure	Surplus on (+) Deficit (-)
1939-40	3,46,56,101	3,47,44,038	— 87,937
1940-41	3,56,31,765	3,59,18,406	— 2,86,641
1941-42	3,67,66,203	3,59,21,521	+ 8,44,682
1942-43,	3,89,01,941	3,64,65,448	+ 24,36,493
1943-44	4,03,98,533	3,90,96,449	+ 13,02,084
1944-45	4,29,77,616	4,12,95,287	+ 16,82,329
1945-46	4,87,37,452	4,93,13,002	+ 5,75,550
1946-47	5,36,81,414	5,11,92,330	+ 24,89,084
1947-48	6,70,05,880*	5,66,12,674@	+ 1,03,93,206
1948-49	7,13,86,357**	6,88,79,228@@	+ 25,07,129

\* Inclusive of Rs. 8,36,638 being the expenditure incurred out of the amount transferred from Post War Reconstruction Fund.

**	Rs. 28,88,151	do
@	Rs. 3,69,003 being the expenditure incurred out of the amount transferred from Post War Reconstruction Fund.	
@@	Rs. 4,33,715	do

From the above it will be seen that there were surpluses in seven years and deficits in three years. During the year 1947-48 and 1948-49 the Corporation received special grants from Government for balancing the budget of Rs. 30 lakhs and Rs. 50 lakhs respectively. But for the grant given in 1948-49 there would have been a deficit instead of a surplus. The growth in the expenditure is largely under primary education, conservancy, medical relief and public health as will be clear from the figures given below :—

Expenditure (in lakhs of rupees)	1939-40	1948-49
Primary education	37	86
Conservancy	26	63
Medical relief	21	58
Public health	10	21

There has also been considerable increase in the expenditure under general establishment due to revision of pay scales and cost of dearness allowance, *vide* figures given below :

Establishment	1933-40	1948-49
	104	324

FINANCES OF CITY CORPORATIONS

**Main heads of revenue :—The main sources of income of the Corporation, the receipts under each source and the percentage of each item to total income are as under :—**

Source of Income	1939-40		1947-48		1948-49	
	Amount Rs.	Percentage	Amount Rs.	Percentage	Amount Rs.	Percentage
General Tax	1,34,47,825	38.80	2,29,65,301	34.71	2,37,30,441	34.64
Town Duty	13,78,340	3.98	87,75,728	13.26	62,21,527	9.22
Water Tax	80,70,695	23.28	1,34,81,288	20.37	1,32,53,149	19.34
Halalkhore Tax	36,93,912	10.66	48,54,811	7.34	50,63,233	7.39
Wheel Tax	12,49,008	3.60	22,64,246	3.42	25,30,685	3.60
Fire Tax	6,12,659	1.77	8,45,384	1.28	12,31,631	1.79
Licence fees etc.						
(a) Dangerous and offensive trade.	2,15,732		6,02,240		8,60,506	2.21
(b) Squatters and Hawkers licences.	1,62,975	1.45	3,14,956	1.70	4,19,443	2.21
(c) Advertisement Tax.	1,22,687		2,06,809		2,35,092	2.21
Markets revenue	11,20,778	3.23	25,88,299	3.91	27,72,449	4.04
(a) Grant-in-aid in respect of fine for offences against the Law.	1,02,418		3,31,158		3,76,616	9.5
(b) Contribution towards expenditure on primary education.	8,97,500	2.96	9,75,017	6.68	9,83,913	9.5
(c) Contribution in lieu of Tolls.	25,000		75,000			9.5
(d) Shops & Estt. Act.			37,937		1,79,776	9.6
(e) Grant-in-aid			30,00,000		50,00,000	9.5
Miscellaneous.	35,56,572	10.27	48,51,068	7.33	56,39,745	8.13
<b>Total</b>	<b>3,46,56,101</b>	<b>100%</b>	<b>6,61,69,242</b>	<b>100%</b>	<b>6,84,89,206</b>	<b>100%</b>

1. In the year 1947 town duty refund claims amounting over Rs. 15 lakhs are pending. Hence there appears considerable increase in the receipts of town duty.
2. A grant-in-aid of Rs. 30 lakhs was received from the Government to meet the anticipated deficit of the year 1947-48.
3. Miscellaneous income includes among others the revenue from the following sources :—
  - (a) Interest.
  - (b) Rent of buildings and lands.
  - (c) Sale proceeds of lands.
  - (d) Receipt from G.S.M.C., T.H.D.C.
  - (e) Tax on dogs.
  - (f) Rebate for collection of Urban Immovable Property.
  - (g) Sale of various rights etc.

A brief description of the main sources of income is given below :—

(1) The taxes which the Bombay Municipal Corporation can levy are specified in sections 139 and 140 of the City of Bombay Municipal Act. They are :—

(i) Property Taxes.

- |  |   |                        |
|--|---|------------------------|
| <ol style="list-style-type: none"> <li>(a) General Tax—leviable at a rate not less than 8% and not more than 21%</li> <li>(b) Halalkhore Tax—leviable at not more than 3%</li> <li>(c) Fire Tax—leviable at a rate not less than 1/8% and not more than 3/4%</li> <li>(d) Water Tax—leviable at such a rate of the rateable value as the Corporation may consider reasonable for providing water supply for the City.</li> </ol> | } | of the rateable value. |
|--|---|------------------------|

(ii) Tax on vehicles and animals.

(iii) Town duties.

(2) Apart from these sources, the municipality also derives income from charges for water supplied by meter measurement, licence fees, stallage charges, etc., from municipal markets and slaughter houses.

(3) The General Tax is now levied at 14 per cent. of the rateable value. From 1936-37 to 1944-45 it was levied at 11 per cent. In 1944-55 it was raised to 12 per cent. and the following year to 14 per cent. at which level it continues. The limit of General Tax till recently was only 17 per cent. of the rateable value of buildings, etc. but in 1948 the Municipal Act was amended raising the upper limit to 21 per cent, in view of the large borrowing programme of the municipality for Capital Works and the consequent need for providing a margin of additional taxation which can be drawn upon when necessary,

(4) Halalkhore Tax has all along been levied at 3 per cent.

(5) Likewise, Water Tax is levied at  $3\frac{3}{4}$  per cent.

(6) Fire Tax is now levied at  $\frac{3}{4}$  per cent. but, prior to October 1947, it was levied at  $\frac{1}{2}$  per cent.

(7) Section 169 of the Municipal Act authorises the municipality to charge for water supplied to any premises by meter measurement instead of levying the Water Tax in respect of those premises. Accordingly, for water supplied to Mills, Railways, Port Trust, Government properties, Turf Club, Bungalows, etc.,

**FINANCES OF CITY CORPORATIONS**

and generally where the supply is required for non-domestic use, charges are recovered by meter measurement at different rates prescribed by the Municipality from time to time.

743. **Government grants.** It will be seen from the statement given below that, with the exception of non-recurring grants of Rs. 30 lakhs and 50 lakhs given in the years 1947-48 and 1948-49 respectively and the annual grant of Rs. 10 lakhs for primary education, there are no other substantial grants to the Bombay Corporation from government revenues.

	<i>Actuals.</i> 1948-49.
Government grants-in-aid	
Grant-in-aid for :—	
(1) Land Conveyance, Music and Licenses.	6,842
(2) Fines for offences against the Law (Municipal)	3,76,616
(3) Primary Education.	9,83,913
(4) Duty-free supply of spirituous medicines to Municipal Hospitals and Dispensaries.	13,170
(5) In lieu of tolls.	25,000*
(6) Administration of the Shops and Establishment Act including Registration fees etc.	1,79,776
Rebate on account of collection charges for the U.I.P. Tax	1,94,187
Portion of Tobacco Duty for Budget B. (Maximum Restricted to Rs. 10 lakhs)	1,95,790
Special Grant-in-aid for the 2 years only for balancing the Budget. (Rs. 30 & 50 lakhs received respectively in 1947-48 1948-49)	50,00,00

744. **Incidence of taxation per capita.** A statement showing the per capita incidence of total income tax for the Bombay Corporation for the years 1884-85 to 1948-49 is given below :—

Year	<u>Incidence of Total Income per capita.</u>	<u>Incidence of Income from Taxation per capita.</u>
	Rs. As. P.	Rs. As. P.
1884-85	5 -7- 2	4 -7- 9
1894-95	7-15- 3	6-13- 4
1901-02	10- 0- 1	8-10- 3
1907-08	10- 1- 9	8-10- 5
1911-12	12-14- 8	10-13- 2
1918-19	17-11- 9	15-14- 2
1921-22	19-10-11	16-15- 3
1931-32	27- 7- 7	23- 2- 0
1938-39	29-14-11	25- 0- 6
1942-43	26- 1- 9	21- 7- 8
1946-47	36- 0- 6 A)	30- 0- 6 A)
	20- 4- 0 B)	17- 3- 3 B)
1947-48	44- 1- 6 A)	36- 2- 6 A)
	26- 3- 9 B)	21- 1- 6 B)
1948-49	47-14- 7 A)	35- 8- 1 A)
	26- 0- 8 B)	19- 4- 9 B)

Note: A—As per census

B—As per food rationing figure of population.)

It will be seen that the incidence has increased from Rs. 4-1/2 in 1884-85 to Rs. 35½ in 1948-49, or nearly eight times. The incidence is the highest for any local body in India and the increase during the period cannot also be said to be small.

Received after the close of the year.

745. **Budget for future years.** The Municipal Commissioner was asked to give tentative budgets for the next five years, but in his reply he says that according to his anticipation, the deficit in the Bombay Corporation budgets during the next five years will be between rupees one to one and a half crores, every year. Part of this, according to him, is expected to be met by raising the limit of the General Tax from its present rate of 14%, as the law has been amended and the General Tax can be levied upto 21%. He says that a margin of 3% will have to be left for borrowing money for loan works, and therefore, the maximum limits to which the property tax can be raised is 18%. This will bring an additional income of about Rs. 70 lakhs. It is, therefore, necessary to provide additional resources to the extent of about Rs. 30 to 80 lakhs per annum in order to balance the budget.

746. **Possibilities of developing existing sources of revenue. Property Tax:—** The Municipal Commissioner has suggested the possibility of raising the property tax (general tax) so as to bring an addition income of Rs.70 lakhs. We have separately suggested that the yield of the urban immovable property tax should be reserved specially for local bodies. In the event of the Bombay Government withdrawing its own tax it is for the Corporation to consider whether the State tax cannot be replaced by an equivalent municipal tax in which case the entire financial gap will be closed at once.

747. The corporation also points out that it suffers a loss of Rs.1,60,000 per annum from the concessional treatment given to Central Government and railway properties in the matter of municipal taxation. We have made recommendations in the relevant chapters regarding these subjects and have no fresh recommendation to make on this account.

Only 82 to 85 per cent. of the demand under taxes is at present collected, which cannot be considered satisfactory. In the Madras Corporation 95 per cent. of the demand is collected.

It is suggested that the administrative machinery may be tightened up and necessary steps taken to improve collections.

**Town duties.** We have suggested in the chapter on octroi that State trading enterprises should pay town duties. The Corporation represents that by the exemption which such enterprises enjoy under section 194 of Bombay Municipal Act, they lose about Rs. 15 lakhs a year. If our recommendation is accepted the Corporation should gain to this extent.

748. **Distribution of expenditure on Education, Medical and Public Health.** The Corporation has had a long-standing dispute with Government of Bombay about the distribution of expenditure on primary education. We recommend the same formula for the Corporation that we have suggested for other local bodies.

Similarly, the Corporation should benefit by the recommendations we have made regarding the distribution of expenditure on medical relief and public health. If the Bombay Corporation is relieved of expenditure on medical colleges, hospitals and dispensaries as proposed by us, it will make a substantial saving.

749. **Recommendations for fresh sources of revenue.** The Corporation has suggested the following additional sources of revenue :—

- (1) Hotel tax.
- (2) Betting tax.
- (3) Stamp duty on transfer of immovable property.
- (4) Motor vehicles tax.

**FINANCES OF CITY CORPORATIONS**

(5) Tax on electricity.

(6) Tobacco tax.

As regards (1) we have already recommended the levy of a hotel tax. We have also suggested that the entire net proceeds of electricity tax and entertainments tax should be assigned to local bodies. We are opposed to sharing or assignment of the tax transfer of property and of tobacco duty. In view of the fact that we have suggested that the whole of the entertainments tax should be given to local bodies, we do not consider that there is any case for giving the net proceeds of any other source of State revenue.

In addition to the above recommendations we have already suggested the imposition of a tax on railway and road passengers. If the recommendations made above are accepted we think that the deficit in the budget of the Bombay Corporation will be more than made up and the finances of the Corporation will be put on a sound footing.

**CALCUTTA MUNICIPAL CORPORATION**

**750. Revenue and expenditure.** A general idea of the finances of the Calcutta Corporation for the ten years from 1938-39 to 1947-48 will be gathered from the figures for receipts and expenditure given below :—

Year	Revenue	Expenditure	Surplus (+) Deficit (-)
1938-39	2,39,18,851	2,52,74,979	(-) 13,56,128
1939-40	2,57,77,014	2,45,32,513	(+) 12,44,501
1940-41	2,56,10,254	2,59,55,711	(-) 3,45,457
1941-42	2,38,18,264	2,45,29,836	(+) 7,11,572
1942-43	2,58,46,333	2,31,55,275	(+) 26,91,058
1943-44	2,85,64,427	2,59,81,787	(+) 26,82,640
1944-45	2,73,03,428	2,63,03,098	(+) 10,00,330
1945-46	3,03,66,923	2,85,35,810	(+) 18,31,113
1946-47	3,74,56,779	3,79,52,599	(-) 4,95,820
1947-48	4,17,74,149	3,93,84,936	(+) 23,89,213

It will be seen that the Corporation has been generally in a surplus position and was in deficit in only three years during this decade.

**751. Main sources of income.** The main sources of income, the actual receipts from each source during the years 1945-46 to 1947-48 (rounded to the nearest hundred) and the respective percentages on the total receipts are given below :—

	1945-46		1946-47		1947-48	
	Amount	Per- cent- age.	Amount	Per- cent- age.	Amount	Per- cent- age.
1						
2						
3						
4						
5						
6						
7						
8						
(i) Consolidate Rate	2,09,39,000	69.0	1,95,33,000	52.2	2,19,50,600	52.6
(ii) Licences	19,86,300	6.5	19,79,900	5.3	22,08,500	5.3
(iii) Contribution from Govern- ment as compen- sation for taking over the Licens- ing of Motor Vehicles.	4,50,000	1.5	4,50,000	1.2	4,50,000	1.0

CHAPTER XXIII

1	2	3	4	5	6	7	8
(iv)	Rents of lands houses etc.	4,61,300	1.5	4,97,000	1.3	2,14,700	0.5
(v)	Sales of Water	7,12,700	2.3	7,81,800	2.1	10,73,800	2.5
(vi)	Receipts from Market.	16,03,500	5.3	15,11,800	4.0	16,25,000	3.9
(vii)	Receipt from Slaugh- ter Houses Dhobikhana.	1,49,900	0.5	1,08,900	0.3	1,60,400	0.4
(viii)	Interest on Surp- lus Cash Balance.	3,40,000	1.1	2,96,800	0.8	2,03,200	0.5
(ix)	Grants & Contri- butions.	1,69,900	0.6	71,56,900	19.1	55,95,600	13.4
(x)	Loans & Advances from Government	...	...	33,00,600	8.8	50,03,600	12.0
(xi)	Miscellaneous.	35,61,300	11.7	18,50,000	4.9	32,88,700	7.9
Total :—		3,03,66,900		3,74,66,700		4,17,74,100	

752. The heads of taxes and principal items of fees are as follows: —

(A) TAXES

Schedule of Rate & Taxes

- (a) Consolidated Rate. 21-½% on the annual rateable lands and buildings in the city. This is payable in four quarterly instalments. Half of the tax is payable by the owner and the other half by the occupier. The maximum limit of rate leviable under the Calcutta Municipal Act is @ 23%.
- (b) Tax on animals & Carriages Per Half Year.

1	2	3	4
1.	On every four wheeled carriage (not being a hackney carriage) drawn by two horses.	Rs. 24/-	Levied according to the rates specified under Schedule VIII of the Calcutta Municipal Act, 1923.
2.	On every four-wheeled hackney carriage drawn by two horses.	Rs. 16/-	
3.	Where any person owns more than one carriage included in class I, then on every such carriage after the first.	Rs. 16/-	
4.	Where any person owns more than one carriage included in Class 2, then on every such carriage after the first.	Rs. 12/-	
5.	On every four-wheeled carriage (not being a hackney carriage) drawn by horse, pony or mule or a pair of ponies or mules under 13 hands.	Rs. 12/-	
6.	On every four-wheeled hackney carriage of the description mentioned in class 5.	Rs. 8/-	
7.	On every two-wheeled carriage drawn by one or more animals.	Rs. 12/-	
8.	On every horse (not being a race or hackney carriage horse)	Rs. 12/-	
9.	On every jin rickshaw.	Rs. 4/-	



**FINANCES OF CITY CORPORATIONS**

1	2	3	4
10.	On every race horse.	Rs. 48/-	
11.	On every hackney carriage horse.	Rs. 8/-	
12.	On every pony or mule of or over 13 hands.		
	(a) not used in hackney-carriage.....	Rs. 12/-	
	(b) used in a hackney carriage.....	Rs. 8/-	
13.	On every pony or mule under 13 hands	Rs. 4/-	

**(B) Scavenging Tax.**

Per half year.

1.	For every horse :—		
	(i) Not used in a hackney	Rs. 12/-	}
	(ii) Used in a hackney carriage	Rs. 8/-	
2.	For every pony or mule of or over 13 hands :—		
	(i) Not used in a hackney carriage.	Rs. 12/-	}
	(ii) Used in a hackney carriage	Rs. 8/-	
	For every pony or mule under 13 hands :—		
	(i) Not used in hackney carriage carriage.	Rs. 6/-	}
	(ii) Used in a hackney carriage.	Rs. 4/-	
4.	For every bull or buffalo used for drawing cart.	Rs. 3/-	
5.	For every cow or buffalo kept by a milk seller.	Rs. 1-8-0	
6.	For every donkey or swine.	Rs. 1-8-0	
7.	For every ten sheep or goats.	Rs. 6-0-0	
8.	For every twelve cubic feet of offensive matter and rubbish or part thereof, removed on an average daily from a market.	Rs. 60-0-0	

Levied according to the rates specified under schedule IX of the Cal. Municipal Act, 1923. The rates specified here are revised rates (double of the original schedule) as sanctioned by Government as per order quoted above come into force from 1st. Oct. '46 (2nd half year of 1946-47).

(c) Tax and Licences on Professions, Trades and Callings.

Levied yearly on various classes of professions, trades and callings according to rates specified under schedule VI of the Cal. Municipal Act, 1923.

(d) Dog Tax .. .. .

Levied at Rs. 5/- per Dog per annum.

**(C) Fees.**

(a) Building Deptt. Fees :—

(i) Fees for encroachment on public Roadways (verandas, projected structures, footings, projected sign boards, sky signs sanctioned plan fees) etc.

- (ii) Licence to licensed Building Surveyors.
- (b) Licences fees from theatres and other places of resort, recreation or amusement under section 891 of the Calcutta Municipal Act, 1923.
- (c) Licence fees from private markets and slaughter houses under sec. 396 (a) & (b) of the Calcutta Municipal Act, 1923.
- (d) Encroachment & scaffolding fees . .
- (e) Drainage & plumbing licence fees . .
- (f) Fees for removal of carcasses . .
- (g) Fees relating to water supply . .
- (i) Filtered water supply in town for buiding, business and other non-domestic purposes.
- (ii) Unfiltered water supply in town for buildings, business and other non-domestic purposes.
- (iii) Filtered & unfiltered water supplied to persons outside Calcutta.
- (iv) Sale of filtered water to outside Municipalities :—
- |                                |   |
|--------------------------------|---|
| 1. South Suburban Municipality | At -/8/- per 1,000 gallons and at -/12/- per 1,000 gallons over the stipulated quantity of 27,600 gallons per day.  |
| 2. Tollygunge -do-             | At -/8/- —do— —do— and at -/12/- —do— over the stipulated quantity of 70,000 gallons per day.   |
| 3. Barrackpore Cantonment      | At -/5/6 —do— and at -/8/- do. over the stipulated quantity of 2,50,000 gallons per day.  |
| 4. Dum Dum Municipality.       | At -/9/- —do— —do— and at -/14/- —do— above the stipulated quantity of 60,000 gallons per day.  |
| 5. South Dum Dum Municipality. | —do—  |
| 6. Garden Reach Municipality.  | Sanctioned rate for the Garden Reach Municipality is -/7/6 per 1,000 gallons for the stipulated quantity and -/12/- per 1,000 gallons over the stipulated quantity per day. The stipulated quantity has not yet been fixed. |

753. **Government Grants.** The financial assistance received by the Corporation from the Government of West Bengal is as follows :—

- (a) Statutory grants for specific objects Nil.

**FINANCES OF CITY CORPORATION**

<b>(b) Non-statutory grants for specific objects :-</b>		
(i) For improvement of conservancy of commercial area.	Rs. 2,500/-	
(ii) For maintenance of Diamond Harbour Rd.	2,200/-	
(iii) For loan charges for the Fringe Area Drainage.	36,500/-	
(iv) For improved sanitation and conservancy of Ratings.	4,800/-	
(v) For motor Ambulance	11,800/-	
(vi) For additional lights in commercial area.	2,500/-	
(vii) For Chowringhee Electric lighting.	35,000/-	
(viii) For removal of sewage from For William.	3,600/-	
(ix) For Russa Distillery	500/-	
(x) Dearness Allowance and Food concessions (80% of the total cost)	76,00,000/- (approx.)	
(c) General Grants	Nil.	
(d) Assignment of Revenues	Nil.	
(e) Contribution as Compensation for taking over the licensing of Motor Vehicles.	4,50,000/-	
(f) Ways and Means Advance	Granted by Government on urgent occasions.	

It will be seen that, with the exception of grants for dearness allowance and contribution for compensation for licensing of motor vehicles, there is no other Government grant of a substantial character. 80% of the total cost on account of dearness allowance is at present contributed by the Government, which is not the case either in Bombay or in Madras Corporations.

**754. Incidence of taxation.** A statement showing the incidence of total income and income from taxation per capita for the Corporation is given below :-

Year	Incidence of total income per capita.	Incidence of income from taxation per capita.
	Rs. As. Ps.	Rs. As. Ps.
1884-85	4 11 5	3 9 6
1894-95	6 15 1	6 1 7
1901-02	7 11 8	6 2 6
1907-08	9 3 9	7 13 4
1911-12	10 9 6	8 12 8
1918-19	15 11 10	11 15 1
1921-22	17 14 9	13 11 2
1931-32	20 12 10	17 3 5
1938-39	21 4 8	17 9 2
1942-43	12 7 5	9 11 5
1946-47	18 1 1	10 8 9
1947-48	20 2 4	11 13 4
1948-49	21 7 8	13 14 1

From this it will be seen that the incidence of total income has increased five times and that of taxation four times during a period of sixty years.

755. **Budgets for future years.** The Chief Executive Officer of the Calcutta Corporation was asked to give us a statement of anticipated receipts and expenditure during the next five years. A copy of the statement supplied by him is attached as an annexure to this chapter. The total estimated revenue and expenditure for the next five years are briefly summarised below :—

Years	Revenue	Expenditure	(In lakhs of rupees) deficit (—)
1951-52	482	652	—170
1952-53	516	683	—167
1953-54	555	721	—166
1954-55	524	763	—239
1955-56	527	799	—272

It will be seen from the above statement that the Chief Executive Officer anticipates big deficits for the entire quinquennium ranging from Rs. 1-2/3 to 2½ crores. It will, therefore, be necessary to see how far improvement can be made by each of the following methods :—

- (1) Economy in expenditure.
- (2) Improvement in existing sources of revenue.
- (3) Making fresh sources of revenue available.

756. **Economy in expenditure.** In his reply to our questionnaire, the Administrative Officer, Calcutta Corporation states that there is hardly any scope for retrenchment under any of the expenditure heads, except in one, namely, contribution to the Calcutta Improvement Trust. He says that the Corporation has to pay annually to the Improvement Trust a sum equivalent to 2% of the annual rateable valuation of the City, irrespective of the actual collection and suggests that the contribution should be fixed at 2% of the actual receipts from the consolidated rate during the previous year. We are unable to support this suggestion. The better remedy is for the Calcutta Corporation to improve its collection rather than suggest that the contribution to the Improvement Trust should be based on the present state of collections which is unduly low.

We have not gone into the working of the administrative departments of the Corporation and are, therefore, unable to express any opinion regarding possibilities of retrenchment. But the Calcutta Corporation Investigation Commission, which has gone into the matter in great detail, has suggested various items under which economy can be effected. This will probably be examined in due course and may result in some improvement in the financial position.

757. The consolidated rate is 22% of the annual valuation. Out of this 2½% is for the Improvement Trust and the Howrah Bridge. 19½% is for the Corporation. This is expected to yield Rs. 2,88,26,000 to the Corporation in 1950-51. Against this the total expenditure on water-supply, conservancy, drainage, roads and lighting (including block on commercial basis), comes to Rs. 4,54,63,800 according to figures supplied by the Chief Executive Officer to us. Thus the consolidated rate is 38% short of this expenditure. It is, therefore, very necessary that the yield of the consolidated rate should be improved by every possible means.

758. **Proposals for improvement in existing sources of revenue.** There is great scope for improvement under this head both in respect of valuation and

## FINANCES OF CITY CORPORATIONS

collection. The Calcutta Corporation Investigation Commission is of the opinion that the Corporation's income from the consolidated rate alone stands depleted by about 50%\* owing to under-valuation and other causes. If this defect is remedied the income of the Corporation should increase very considerably.

Below are given figures of the rateable valuation of Calcutta from 1924-25 to 1949-50.

Year.	Annual rateable value.
1924-25	- 7,86,74,036
1925-26	8,40,28,421
1926-27	- 8,69,19,383
1927-28	8,92,20,533
1928-29	9,22,58,854
1929-30	9,50,16,973
1930-31	9,84,14,683
1931-32	9,99,14,331
1932-33	10,01,49,178
1933-34	10,07,59,151
1934-35	10,09,76,297
1935-36	9,89,38,833
1936-37	9,83,51,784
1937-38	9,84,11,760
1938-39	9,95,39,975
1939-40	10,03,02,172
1940-41	10,20,61,072
1941-42	10,31,36,718
1942-43	10,41,25,322
1943-44	10,53,95,544
1944-45	10,69,89,353
1945-46	10,94,85,918
1946-47	11,38,23,074
1947-48	11,61,03,720
1948-49	11,97,83,361
1949-50	12,91,92,603

It will be seen that the growth of rateable valuation was from Rs. 7,86,74,036 in 1924-25 to Rs. 12,91,92,603 in 1949-50. This is very low as compared with the growth of land values in Calcutta. The Calcutta Corporation Investigation Commission point out that in the eight years from 1938-39 to 1945-46 the demand on account of the consolidated rate increased by 11% only, while during the same period it increased by 35% in Madras City and 31% in Bombay City. We are of opinion that with proper valuation, the yield from the consolidated rate should increase appreciably.

In the chapter on taxation of Port Trust properties, we have referred to the recent agreement between the Calcutta Corporation and the Calcutta Port Commissioners by which the Corporation should get an increased income of about Rs. 11 lakhs annually. Similarly, it should gain by the recommendations we have made for taxation of railways and Union Government properties.

**Improvement in collections** The percentage of collections to demand was 79.29% in 1946-47 and 76.74% in 1947-48 as against 96.9% in 1916-17 and 99.1% in 1917-18. Thus there has been, during the last thirty years, deterioration in the machinery for collection which should be put right.

---

\* Vide paragraph 85 page 186 Chapter XXIV of the report of the Commission, Volume II, Part I.

759. **Additional sources of revenue suggested by the Corporation.** The Corporation has made the following demands:—

- (1) Share of the entertainment tax.  
We have already recommended this.
- (2) A share of Electricity duty. We have recommended that the whole of the net proceeds should be given to local bodies.
- (3) A share of the sales tax. We are opposed to any share of this tax being assigned to local bodies.
- (4) Increased share of Motor Vehicles Tax.  
We have already suggested that the question of revision of compensation paid on account of loss of income to local bodies should be re-opened.

In addition to the above the Corporation asks that the following taxes be assigned to it in full:—

**Tax on petroleum.** Under section 181 of the Calcutta Municipal Act, the Calcutta Corporation is empowered to levy a cess not exceeding four annas for every ten gallons of petroleum consumed in the City, with the sanction of the State Government, after prohibiting, with the previous sanction of the Central Government, the introduction into Calcutta of petroleum intended for consumption elsewhere.

We are not in favour of this proposal. The prohibition of introduction of petroleum into Calcutta for consumption elsewhere will cause great hardship as the Port of Calcutta caters for many States other than West Bengal. The only way in which the hardship can be avoided would be levying of a cess on consumers along with the sales tax. This alternative too does not commend itself to us as we are not in favour of any surcharge on sales tax for local bodies.

**Passenger tax.** We have already recommended this in the chapter on taxation of floating population.

**Tax on Fire Insurance Companies.** It was argued before us that the Fire Insurance Companies derive considerable benefit from the Calcutta Fire Brigade but make no contribution towards its maintenance and a point was made that a portion of the cost of the Fire Brigade should be borne by these Companies. We understand that by the West Bengal Fire Services Act 1950, the entire Fire Service in West Bengal (including the Calcutta Fire Brigade) has been provincialised with effect from April 1950 and neither the Calcutta Corporation nor the two other contributing municipalities, *viz.*, Howrah and Garden Reach, have any further liability to pay any portion of the cost of maintaining the Fire Brigade within their respective jurisdictions. The Corporation has therefore, no right to levy such a tax any longer.

**Benefits arising from other recommendations made by us.** In addition to the benefits which may accrue to the Corporation from the proposals made above, the Corporation may be expected to derive some benefit from our recommendations in regard to distribution of expenditure on elementary education, medical relief and public health.

FINANCES OF CITY CORPORATIONS

MADRAS CITY CORPORATION

Budget Estimate for 5 years

1950-51 — 1954-55.

Head of Account.	RECEIPTS—NORMAL			REVENUE ACCOUNT	
	1950-51	1951-52	1952-53	1953-54	1954-55
	Rs.	Rs.	Rs.	Rs.	Rs.
Opening Balance.	(-) 14,84,590	(-) 4,42,740	(-) 1,92,760	(-) 2,67,780	(-) 7,02,800
I. Management (General Taxation & Misc).	1,13,16,940	1,13,16,940	1,13,16,940	1,13,16,940	1,13,16,940
II. Education	1,03,950	1,03,950	1,03,950	1,03,950	1,03,950
III. Communications (including Govt. grant and compensation for loss of Toll Revenue)	7,82,640	7,82,640	7,82,640	7,82,640	7,82,640
IV. Public Health					
1. Medical Relief	25,700	25,700	25,700	25,700	25,700
2. Preventive Medicine.	3,50,110	3,50,110	3,50,110	3,50,110	3,50,110
3. Public Amenities.	1,50,500	1,50,500	1,50,500	1,50,500	1,50,500
V. Remunerative Enterprises					
1. Workshop.	1,04,000	1,04,000	1,04,000	1,04,000	1,04,000
2. Markets	3,77,000	3,77,000	3,77,000	3,77,000	3,77,000
3. Cart stands.	15,000	15,000	15,000	15,000	15,000
4. Slaughter Houses.	1,80,000	1,80,000	1,80,000	1,80,000	1,80,000
5. Rents of lands and bldgs.	2,30,000	2,30,000	2,30,000	2,30,000	2,30,000
6. License fees.	10,00,000	10,00,000	10,00,000	10,00,000	10,00,000
7. Buildings License fees.	3,00,000	3,00,000	3,00,000	3,00,000	3,00,000
8. Miscellaneous.	6,45,100	6,45,100	6,45,100	6,45,100	6,45,100
9. Electricity License scheme Sembiam.	1,01,500	1,01,500	1,01,500	1,01,500	1,01,500
10. Sports Arena.	50,000	50,000	50,000	50,000	50,000

CHAPTER XXIII

Head of Account.	1950-51	1951-52	1952-53	1953-54	1944-55
	Rs.	Rs.	Rs.	Rs.	Rs.
B. Lighting Account.	11,21,520	11,21,520	11,21,520	11,21,520	11,21,520
C. Water Supply Account.	20,51,040	20,51,040	20,51,040	20,51,040	20,51,040
Drainage Account.	11,04,880	11,04,880	11,04,880	11,04,880	11,04,880
Non-Recurring Receipts.	5,100	5,100	5,100	5,100	5,100
<b>Total including Opening Balance.</b>	<b>1,88,71,390</b>	<b>1,99,33,240</b>	<b>2,01,63,220</b>	<b>2,00,88,200</b>	<b>1,96,53,180</b>
<b>Total Revenue excluding opening balance.</b>	<b>2,03,55,930</b>	<b>2,03,55,930</b>	<b>2,03,55,930</b>	<b>2,03,55,930</b>	<b>2,03,55,930</b>

EXPENDITURE

REVENUE ACCOUNT

Head Account.	1950-51	1951-52	1952-53	1953-54	1954-55
	Rs.	Rs.	Rs.	Rs.	Rs.
I. Management.	14,20,950	15,20,000	16,20,000	17,20,000	18,20,000
II. Education (Secondary Edn. Midday Meals contn. to E. Fund.)	9,53,530	10,00,000	10,20,000	10,50,000	10,70,000
III. Communications.					
1. Engineering Estt.	2,26,900	2,50,000	2,70,000	2,85,000	3,00,000
2. Road (Maintenance.)	22,56,960	24,00,000	24,00,000	24,00,000	24,00,000
3. Miscellaneous.	6,09,890	7,00,000	7,00,000	7,00,000	7,00,000
IV. Public Health					
1. Medical Relief.	7,78,780	8,00,000	8,20,000	8,40,000	8,60,000
2. Preventive Medicine (Sanitation, Conservancy, C.W.S. etc)	45,44,540	46,20,000	47,00,000	47,50,000	48,00,000
3. Public Amenities (Parks, Zoo, Industrial Home, Special Home etc.)	7,02,550	7,30,000	7,50,000	7,70,000	7,90,000



**FINANCES OF CITY CORPORATIONS**

Head Accountant.	1950-51	1951-52	1952-53	1953-54	1954-55
	Rs.	Rs.	Rs.	Rs.	Rs.
<b>V. Remunerative Enterprises.</b>					
1. Workshop.	1,01,020	1,10,000	1,15,000	1,20,000	1,20,000
2. Markets.	1,38,000	1,50,000	1,50,000	1,55,000	1,55,000
3. Slaughter Houses.	43,470	50,000	50,000	50,000	50,000
4. Cart Stands.	2,500	2,500	2,500	2,500	2,500
5. Land Development (Civic Survey Model Houses Contribution to Improvement Trust).	7,21,060	7,50,000	7,50,000	7,50,000	7,50,000
6. Dhobikhanas.	9,250	9,250	9,250	9,250	9,250
7. Cattle yards.	5,910	6,000	6,000	6,000	6,000
8. Central Lorry Station.	6,30,500	6,30,500	6,30,500	6,30,500	6,30,500
9. Electricity Licence Scheme Sembiam.	94,900	95,000	95,000	95,000	95,000
10. Sports Arena.	13,350	15,000	15,000	15,000	15,000
11. Fishing Scheme.	7,750	7,750	7,750	7,750	7,750
B. Lighting Account.	9,77,700	10,00,000	10,20,000	10,40,000	10,60,000
C. Water Supply.	19,79,240	21,00,000	21,50,000	22,00,000	22,50,000
Drainage.	22,89,550	23,50,000	23,50,000	23,75,000	24,00,000
Expenditure Non-Recurring.	7,85,000	8,00,000	8,00,000	8,00,000	8,00,000
<b>Total Expenditure</b>	<b>1,92,94,130</b>	<b>2,01,26,000</b>	<b>2,04,11,000</b>	<b>2,07,91,000</b>	<b>2,10,81,000</b>
<b>Closing Balance</b>	<b>-4,22,746</b>	<b>-1,92,760</b>	<b>-2,67,780</b>	<b>-7,02,800</b>	<b>-14,27,820</b>
<b>Grand Total (including closing balance.)</b>	<b>1,88,71,390</b>	<b>1,99,33,240</b>	<b>2,01,63,220</b>	<b>2,00,88,200</b>	<b>1,96,53,180</b>

**ANNEXURE B.**

**Foreseeable Revenue Receipts of the Corporation of Calcutta during the next 5 years.**

(in thousands of rupees)

	1951-52	1952-53	1953-54	1954-55	1955-56	Remarks.
Consolidated Rate.	27200	29100	31000	32900	32900	These additional rates are expected as the result of general revaluation.
	+1900	+1900	+1900			
Tax on animals & carriages.	+600	+1800	+3500			Arrear realisations.
Tax on animals & carriages.	90	90	90	90	90	
Contribution from Government for Motor Vehicles.	450	450	450	450	450	

CHAPTER XXIII

(in thousands of rupees)

	1951-52	1952-53	1953-54	1954-55	1955-56	Remarks.
Tax on Trades & Professions.	2550	2550	2550	2550	2550	
Receipts from Markets, Slaughter Houses and Dhobikhana.	2330	2330	2330	2330	2330	
Receipts from Tramways & Electric companies.	80	80	80	80	80	
Rents of Lands & Buildings, etc.	486	486	486	486	486	
Grants and Contribution from Government.	68.2	68.2	68.2	68.2	68.2	
Contribution from Government for Dearness Allowance.	7840	8160	8480	8800	9120	Represents 80% of the total expenditure in these Contributions. Increase will be on account of increase in staff.
Contribution from Government for Food Concessions.	680	712	744	776	808	
Receipts from Burial Grounds & Crematoriums.	41.5	41.5	41.5	41.5	41.5	
Receipts from combined Cart Registration Fund.	107	107	107	107	107	
Receipts from the Calcutta Hackney carriage Fund.	2	2	2	2	2	
Sale of Water.	1250	1250	1250	1250	1250	
Scavenging Tax.	70	70	70	70	70	
Fines under Municipal Act and other Acts.	150	150	150	150	150	
Interest on Investments.	200	200	200	200	200	
Recovery of equated annual instalment from Garden Reach Municipality towards cost of Moore's Scheme.	42.7	42.7	42.7	42.7	42.7	
Recovery of Law Charges.	17	17	17	17	17	
Sale proceeds of unserviceable stores.	50	50	50	50	50	
Receipts for the supply of current from the Turbo-alternators.	125	125	125	125	125	The supply made to different departments of the Corporation and the credit is taken by adjustment.
Rebate on account of charges for electricity.	50	50	50	50	50	
Miscellaneous Receipts including profit from Corporation Workshop.	1750	1750	1750	1750	1750	
Receipt from service charges for the Council House.	50	50	50	50	50	
<b>TOTAL</b>	<b>48179.4</b>	<b>51631.4</b>	<b>55583.4</b>	<b>52435.4</b>	<b>52787.4</b>	

**FINANCES OF CITY CORPORATIONS**

**Foreseeable Normal Budget Estimate of Expenditure of the Corporation of Calcutta for the next 5 years.**

(in thousands of rupees)

	1951-52	1952-53	1953-54	1954-55	1955-56	Remarks.
Establishment (a).	16000	17500	19000	20500	22000	(a) Water Works, Conservancy & road repairs establishments will increase.
Interest on Loan.	3738	3874	3786	4104	3835	
Contribution for re-payment of Loans.	1950	2025	2200	2300	2350	
Contribution for Primary & Technical Educational Institutions.	200	200	200	200	200	
Contribution for Free Libraries.	50	50	50	50	50	
Improvement of Primary Education.	2000	2000	2000	2000	2000	
Materials (b).	8000	8500	9000	9500	10000	(b) More materials will be required gradually for the intended projects & condemned machineries will be replaced.
Contribution to Hospitals, Dispensaries etc.	1000	1000	1000	1009	1000	
Dispensaries, Maternity Homes, Milk Kitchens etc.	400	400	400	400	400	
Pensions, General & Special contributions to Provident Fund for other than Labour Staff. (c)	2000	2100	2600	2560	2740	(c) The increase will be on account of increased staff & because more labour staff will avail of the Provident Fund.
Contribution to Provident Fund etc. for Labour Staff.	450	500	550	600	650	
Law Charges (d).	500	500	500	500	500	(d) This will be high in next 5 years on account of the general re-valuation now effected.

CHAPTER XXIII

(in thousands of rupees)

	1951-52	1952-53	1953-54	1954-55	1955-56	Remarks.
Commission to Bank.	40	40	40	40	40	
Contribution to C.I.T.	2900	3100	3300	3400	3500	
Contingencies.	325	325	325	325	325	
Uniforms.	250	250	250	250	250	
Telephone Charges.	70	70	70	70	70	
Gas for Street Lighting (e).	700	700	700	700	700	(e) 25% increase in price of Gas is expected.
Electricity for Street Lighting (f).	200	225	250	275	300	(f) Lighting will be progressively improved.
Cost of Motor Vehicles (g).	875	900	925	950	975	(g) We are badly in need of lorries.
Contribution to the Garden Reach Municipality.	250	250	250	250	250	
Expenditure for improving the condition of service of Harijans.	40	40	40	40	40	
Payment regarding Government Loans & Advances (h).	1000	...	...	...	...	(h) This represents arrear interest upto 1950-51 and will not recur as the Government Loans & Advances are expected to be repaid by the end of 1950-51 out of loans to be raised for the purpose.
Dearness Allowance.	9800	10200	10600	11000	11400	(i) This will be due to increased establishments.
Food Concessions.	640	680	720	760	800	
Additional Establishment.	680	580	400	300	300	
House Rent for Labour Staff.	228	228	228	228	228	

FINANCES OF CITY CORPORATIONS

	1951-52	1952-53	1953-54	1954-55	1955-56	Remarks.
Other Miscellaneous items such as repair works, filter working, precaution against epidemic etc. (j)	9000	10000	11000	12000	13000	(j) Buildings & roads are in bad state of repairs. Many new revenue works, like changing road surface, mechanisation of processes, extension of workshop etc. will be undertaken.
New Works.	2000	2000	2000	20000	2000	
Total	65286	68327	72164	76302	79903	

## CHAPTER XXIV PUBLIC UTILITY UNDERTAKINGS

760. Poverty of resources of local authorities in India is well known and needs hardly any emphasis. Similarly taxation in any form is unpopular. In dealing with the non-tax sources reference has been made to public utility undertakings. In the United Kingdom the term is held generally to include the following.

1. Water Supply
2. Ferries.
3. Markets
4. Electricity Supply
5. Transport
6. Gas works
7. Cemeteries
8. Harbours, docks, piers and canals
9. Miscellaneous like cinema houses, Concert halls, etc.

761. In this country also the first five items are generally recognised as a legitimate field of local body enterprise, though participation in transport and electricity supply and distribution is not as universal as in the countries of the West. Water supply accounts are not always separately maintained and it is not therefore possible to claim that the latter service is a source of profit. Ferries vest more in rural rather than urban bodies and the yield from that source is not very large. Markets and slaughter houses have been dealt with in the chapter entitled "Fees". While it cannot be said that they are an important source of revenue except in certain municipalities, they undoubtedly yield some income. The remaining public utility undertakings consist mostly of tramways, motor bus services and electricity supply.

762 From among the State Governments, only the Governments of Madras, Bombay and West Bengal have expressed an opinion as regards the desirability of local bodies engaging in commercial undertakings. Their opinions are reproduced below:—

**Madras.** The Government of Madras are in favour of local bodies undertaking business enterprises as remunerative activities calculated to improve the sources of revenue and for providing cheaper and better services to the community, except in cases which are taken over by the Provincial Government themselves. However, past experience has shown that local bodies have not been successful in running motor bus services (e. g. Coimbatore District Board) and dairy farms e.g. Visakhapatnam municipal council.

**Bombay.** In the case of municipalities there is an additional possible source of revenue in the municipalisation of public utilities like bus services and electric supply, but it is doubtful whether any but the largest municipalities will be in a position to undertake these services and run them efficiently. Government has already declared its policy in favour of participation by municipalities in public utility services, but for the general run of municipalities it seems premature to count on this source for providing substantial additional revenue.

**West Bengal.** Whether trading services should be undertaken to supplement revenue deficit is a point on which opinion is not unanimous. It has

been argued by one school of thought that surplus revenues which might accrue from this service should not be utilised as a supplementary income for reduction of rates, but should be kept in a separate account so that the cost of the service itself may be reduced. Another school frankly regards trading profits as a legitimate accretion to general revenues. On principle it is not clear why profits from public utility services cannot be utilised for supplementing municipal income from rates and taxes. Among the already existing services two are of the nature of trading services, *viz.* water supply and receipts from markets and slaughter houses. The latter yields a surplus while the former is run at a loss. It is a common practice to levy the cost of water supply from users in proportion to water consumed. Only in the case of industrial use is a metered supply usual. It is, however, possible to work out a scheme which would make these services self-supporting, if, after charging a flat percentage on valuation for consumption upto a certain limit, a progressive rate is imposed for excess consumption about that limit to be determined meter. There is a provision for metered supply in the Act. But such excess charges are the exception rather than the rule. Markets and slaughter houses are, however, a profitable source and rapid extension of municipalisation of markets is desirable. The more important question is whether there are any public utility services which municipalities can undertake with efficiency and run at a profit. The services usually mentioned in this connection are (1) Electric Supply, (2) Gas Works, (3) Passengers Transport Services, (4) Housing, (5) Dairies, and (6) Banks. Of these gas works and banks may be ruled out without further consideration as demand for gas is limited to one or two large municipalities and banks do not lend themselves to amateurish administration by municipal commissioners. Electricity supply includes three stages—generation, main line, transmission and local distribution. In England the second has been nationalised through the Grid System and the first may soon be so under a Central Electricity Board. Local distribution is, however, still in the hands of the municipalities or supply companies. In this province all the different stages are still in the hands of private concerns, some big and some small. Transport raises a more difficult question because, except in Calcutta and in one or two bigger municipalities the area would be too small for a self-contained bus service. The Provincial Government has, moreover, undertaken a State Transport service in Calcutta and outskirts whose progress should be watched, for it would be an unedifying spectacle to see the Provincial Government and local bodies competing with one another in passenger transport over the same route.

763. Tramways are of importance only in the three cities of Bombay, Calcutta and Madras. It is only in Bombay that they are run by the local body. With the invention of the internal combustion engine, however, the tramways are being superseded by motor omnibuses. The latter do not involve the maintenance of a permanent trackway and other expensive ancillary equipment which the former require and consequently the modern trend is in favour of motor bus services. Motor bus transport is being provincialised in almost all States. The process of provincialisation is described as the nationalisation of road transport. The scheme generally contemplates the setting up of statutory Transport Corporations for the operation of services in which the railways and the State Governments would be the main participants. Nationalisation of road transport under the control of statutory corporations in which the railways have a financial interest is thus the agreed policy of the Indian States. In carrying it out some have gone farther than the others. The Government of West Bengal may be said to supplement rather than compete with private enterprise in providing transport for the public of Calcutta.

764. The Committee are of the view that motor transport can be undertaken by bigger city municipalities within their local area with profit. The Committee, however, are not in favour of motor transport being undertaken by rural local bodies.

765. A suggestion was made that the State Government should have the monopoly of road transport and it should auction the right to run buses on each route and also timings to the highest bidder with necessary safeguards and distribute the yield from this source among the local bodies over whose jurisdiction these routes lie. The Committee did not agree to this view on account of the fact that it would be practically impossible to enforce the safeguards that might be necessary in the public interest.

766. As regards District Boards and smaller Municipalities, the Committee do not agree that they should be entrusted with managing passenger transport within their areas. The jurisdictional area of smaller municipalities would not be an economic unit for such service and the region over which a transport service could be run with profit and efficiency would perhaps overlap the territories of several local bodies. To get over this difficulty a suggestion was made that the management of such a regional service may be entrusted to the biggest local body within the region which may be capable of managing it. We do not accept this suggestion because the choice of this particular local body would require the Government to make an invidious distinction between several local authorities who may like to take over the management. Nor is it possible, in view of the difficulty of securing harmonious cooperation, to entrust the management of a regional transport service to a body consisting of representatives from different local authorities within that region. The Committee, therefore, came to the conclusion that only bigger municipalities, which have an economic area of operation as well as the finances to engage the necessary technical staff and equipment, should be permitted to run passenger transport. In rural areas passenger transport should be managed by the State and the net proceeds should be shared by the State Government with local bodies over whose roads these services are run.

767. Another suggestion was made with regard to taking the monopoly right of owning cinema theatres and the exhibition of films and auctioning that right to the highest bidder. But the Committee could not agree to this suggestion. There is, however, no objection to local bodies owning their own theatres wherever they find it feasible and remunerative.

768. Several local bodies are engaged in the business of generation and distribution of electric energy. Their number, according to the Central Electricity Commission, aggregated 54 with a total investment of Rs. 887 lakhs as under :-

	Number	Total investment (in lakhs of rupees)
1. Madras	35	94
2. Bombay	5	516
3. West Bengal	1	15
4. Uttar Pradesh	8	103
5. Punjab	2	68
6. Madhya Pradesh	1	1
7. Centrally administered Areas	1	57
8. State Unions	1	3
	54	887

Though actual figures of receipts from electricity undertakings are not available, it is generally understood that all electricity undertakings are a sub-



## PUBLIC UTILITY UNDERTAKINGS

stantial source of profit, to local bodies engaged in the generation and/ or distribution of electricity.

769. In the course of evidence tendered before the Committee it was pointed out that as a result of the Electricity (Supply) Act, 1948, the present policy is to provincialise the generation and distribution of electricity. In order to ascertain whether under the Act any option is given to municipalities already generating and/ or distributing electricity within their limits to continue to do so even after the Act comes into force and what, if any, restrictions are imposed or control exercised over them in respect of the administration and finance of such undertakings, the Central Technical Power Board were approached for information. According to that Board, the Act provides for the rationalisation of the production and supply of electricity and generally for taking measures conducive to the electrical development of the States of India. This objective is proposed to be achieved by the constitution of statutory bodies called the State Electricity Boards which will be charged with the duty of promoting the co-ordinated development of generation, supply and distribution of electricity within the State in the most efficient and economical manner with particular reference to such development in areas not for the time being served or adequately served by any licences. The Board will control the activities of all electric supply licences including local authority licences and supply electricity to owners of the controlled stations and those whose stations are closed down under the Act.

770. There is nothing in the Act to debar local bodies or companies from engaging in or continuing to engage in the business of electricity supply. Under section 34 of the Act the Boards are empowered to designate any generating station situated in an area for which a scheme of the Board is in force as a 'controlled station' and the licencees of such stations will be required to generate energy under the directions of the Board. Section 36 of the Act empowers the Boards to close down any generating station in the interest of rationalisation in areas where boards' schemes are in force and the licencees of such stations will be given the option of receiving bulk supply from the Boards' system and continuing the work of distribution of electrical energy in their own areas of supply. According to the Board the objective of the enactment is to rationalise rather than provincialise the generation and distribution of electricity and the Act does not contemplate taking away the business of electric supply from the licencees. The Board's experience has shown that many of the electric supply undertakings operated by local authorities have confined their activities in their own boundaries to the detriment of the electrical development in the surrounding rural areas. The rates of supply are invariably higher than those of the privately owned undertakings with the result that the electrical development in their areas has been restricted. The rates have generally been maintained high with a view to augment revenues to finance other activities of the municipalities.

771. Section 58 of the Act empowers the State Electricity Boards or, where no Board is constituted, the State Government to direct the amortization and tariff policies of local authority licencees in such manner as are considered expedient for the purposes of the Act. The Act therefore, contemplates that local authority licencees should utilise any surplus revenues after providing for all appropriations under the Sixth Schedule to the Act for the purposes of the Act viz. the development of supply and distribution of energy and not for financing other activities of those authorities.

772. Under the provisions of the Indian Electricity Act, 1910 the first option of purchase of a licencee's undertaking either on revocation of a licence or at the expiry of its period rests with the local authority. This right has now been transferred to the State Electricity Boards vide section 71 of the Electri-

city (Supply) Act, 1948. Hereafter, therefore, unless the Boards forego their right to exercise the option of purchase of licensee's (company) undertaking the municipalities will not have the opportunity of taking them over.

773. It will thus be seen that the enforcement of the Electricity (Supply) Act, 1949 would deprive the local authorities of the exercise of the first option of purchasing an electricity undertaking which the Indian Electricity Act, 1910 conferred upon them. Hereafter they would be called upon to exercise such an option only if the Provincial Electricity Board concerned is not interested in acquiring an undertaking and not otherwise. This might mean that local bodies will be allowed to exercise an option in the case of less remunerative schemes after the cream has been taken away by the Board.

774. Section 58 of the Act also limits the field of utility of profits from the undertaking by requiring that they shall not be appropriated for financing activities of the local authority other than those connected with the development of supply and distribution of energy.

775. The over-all effect of these restrictions is that hereafter the electricity undertakings will no longer automatically come into the possession of local authorities nor will they be a remunerative source of local revenues as hitherto, since the profits from the undertakings cannot be diverted to purposes other than the improvement of supply and thus a profitable source of revenue will gradually be taken away from the local authorities. Commenting on the resultant situation, the municipal Corporation of Madras observes as under :—

"By the scheme of nationalisation which the Government have undertaken, income from private electricity licences by way of licence fees and \*companies tax is lost to the local bodies. The corporation provides all the amenities and facilities for the promotion of industries and commerce in the city and the sale of electricity would entirely depend on the importance of the areas, towards which the contribution made by the Corporation of Madras as the local authority is very considerable. When the Corporation is responsible for the lighting of public highways, roads and lanes, parks and other public places (the consumption of electricity for which is very considerably large) it is but fair that the distribution of electricity even to the private consumers should have been completely handed over to the Corporation. In any case Government should pay in respect of all such concerns taxes and licence fees which are payable had they been under private management. Further if the Corporation gets some profit out of electricity distribution, the rate-payers who are its consumers will benefit".

776. The Committee consider that even where Provincial Boards are set up the financial interests of local bodies should not be disregarded. This can be ensured by providing that the local bodies engaged in the business of generation and distribution of electricity continue to do so and have a free hand in the matter of utilisation of the net profits of the undertaking. In regard to new schemes, however, local bodies competent to run electricity undertakings should be given first preference, particularly in regard to retail distribution, subject of course to such restrictions as the Provincial Board may wish to impose. It will be unreasonable to expect municipalities to undertake this activity unless a reasonable margin of profit is assured to them and they are free to utilise it for general purposes.

\* This tax is levied only by the Municipal Corporation of Madras.

## CHAPTER XXV BORROWINGS

777. Expenditure incurred by local bodies is of a two fold character :—

- (i) Expenditure met from the revenues of the year, and
- (ii) Expenditure met from borrowed funds.

The latter class of expenditure is generally treated as capital expenditure which is not taken into account in arriving at the budget surplus. Interest on the debt outstanding has to be provided for out of revenue, and instalment for repaying the principal also in some cases. Expenditure incurred from borrowed funds may be either productive or unproductive. By the term 'productive expenditure' is meant expenditure which after the completion of the project on which it is incurred, will begin to earn income sufficient to meet the working expences as well as interest on capital outlay plus an allowance for depreciation on the fixed assets. In western countries, local bodies use the power to borrow for unproductive schemes also, with the result that local indebtedness has grown to amazing dimensions. In this country, the policy hitherto followed has been very conservative and loan funds have not been employed, except in rare cases, for outlay of an unproductive character. There is, therefore, no such problem of local indebtedness as is found elsewhere.

778. **Local Authorities Loans Act.** The borrowing powers of the Corporations of Bombay, Calcutta and Madras are defined in their respective Acts. They may borrow for certain purposes and within definite limits with the previous sanction of the State Government in each case. The loan requirements of other local bodies in most of the States are met by the State Governments from their own funds and resort to the open market is discouraged. The procedure for loans to local authorities is governed by an all-India Act, known as the Local Authorities Loans Act, 1914, and rules made thereunder. This is an Act of the Central Government, passed before the transfer of local self-government to provincial governments. After the Montagu-Chelmsford reforms, this Act and the rules framed thereunder were adopted by the provincial governments. Though technically, each State Government has its own Act and rules, they are more or less on the lines of the Central Act and rules formed by the Central Government for Chief Commissioners' Provinces. They will, therefore, be considered collectively in this chapter.

779. Loans are generally permitted for water supply and drainage schemes or for any other purposes approved by the State Government. In the case of productive schemes, the rate of interest charged is generally 4½% and the term of repayment generally varies from twenty to thirty years. The State Government has power under the Act to see that the local body makes proper provision in the budget for the repayment of principal and the interest of the loan and if it finds that adequate provision is not made, it has power to order the Chief Executive Authority of the local body to make the payment in question out of local funds. The purposes for which borrowed funds can be utilized are enumerated in section 3 of the Local Authorities Loans Act. These are :—

- (i) the carrying out of any works which a local body is legally authorised to carry out,
- (ii) the giving of relief and the establishment and maintenance of relief works in times of famine or scarcity.

- (iii) the prevention of the outbreak or spread of any dangerous epidemic disease,
- (iv) any measures which may be connected with or ancillary to any purposes specified in (ii) and (iii),
- (v) the repayment of money previously borrowed in accordance with law.

The local authority may not borrow money for any of the purposes specified above unless the work to be carried out is either within the local limits of the area subject to the control of the local authority or for the benefit of inhabitants within those limits.

780. The rate of interest to be charged to local bodies is not mentioned in the Act, but the rules framed thereunder by each State Government provides as follows.

The Central Government and Madras rules provide for levy of interest "at a rate agreed upon", while the Bombay and Madhya Pradesh rules lay down that the "rate of interest will be such as the State Government shall determine." The same is the case in the Punjab. In Uttar Pradesh the rate of interest is "not less than 4½%" and in Orissa "not less than 4%". Regarding overdue instalments, the rules in all cases provide for the levy of a penal rate of compound interest varying from six to ten per cent. as under:—

Madras	7½%
Uttar Pradesh and Central Government	8%
Madhya Pradesh	9%
Bombay and Punjab	10%

781. The above provisions relate only to loans taken from State Governments. The power to decide whether a loan will be raised in the open market or not vests in the State Government. If the Government decides that a local body may raise a loan in the open market, it is generally seen (a) that the term of the loan does not exceed 30 years (b) that the amount of the loan does not exceed Rs. 25 lakhs (c) that the rate of interest offered is not unduly attractive and does not prejudice the interest of Government security holders and (d) that there is adequate provision for the repayment of interest and principal of the loan. Where the amount of the loan exceeds Rs. 25 lakhs, the sanction of the Central Government is required by the rules.

782. Power is taken under the rules to ensure that loan funds are applied for the purpose for which they have been borrowed, that repayments are promptly made and that where provision for a sinking fund exists the fund is periodically fed and improved. There is also provision for attachment and administration of loan funds in case of default.

783. During the course of evidence, it was pointed out to us that the procedure prescribed for the sanction of loan was very cumbersome and took a long time. It was also represented to us that the rate of interest charged was unduly high. Some local authorities were of the view that the period of repayment should be extended from thirty to forty years. In some cases they went so far as to say that cheaper loans could be obtained on the credit of the local bodies from the local market. It was also stated by some municipalities that even though they were willing to repay Government loans before the due date they were not allowed to do so. The Poona Municipality also raised the point that securities of local bodies should be treated as trustee securities under section 20 of the Indian Trusts Act, 1832, a privilege which at present is enjoyed by the Corporations of Bombay, Calcutta and Madras and by no other municipality or district board.

784. The Calcutta and the Bombay Corporations have suggested that they should be allowed facilities for short term loans for ways and means purposes in the same way as State Governments are authorised to issue Treasury bills or to take way and means advances from the Reserve Bank of India. In the memoranda sent to us, the Governments of Madras and Uttar Pradesh have expressed the following views.

**Madras :—**The Government think that the facilities already provided are adequate. The Government make sufficient provision in their budgets for loans or the approximate amounts of loans which local authorities are likely to require every year. There is, therefore, no necessity of providing any further facilities. The policy of the Government is not to permit local authorities to raise loans in the open market ordinarily. Nor is the Government in favour of starting a joint loan bank of local bodies.

**Uttar Pradesh.** Government give loans to meet capital expenditure which in the case of unproductive schemes is sanctioned only after they are satisfied about the repaying capacity of the local body concerned. The rate of interest is 4½% and the period of repayment is usually thirty years. For productive schemes loans are ordinarily granted if Government are satisfied that the income from the scheme would be sufficient to cover the repayment charges. Short-term interest-free loans are given for special schemes as such the purchase of trucks in connection with the Grow More Food Campaign. Generally loans are not granted to meet the day-to-day expenditure on administration though the Government made a provision of Rs. 1 crore in 1948-49 to enable local bodies to implement the recommendations of the Uttar Pradesh Local Bodies Pay Committee.

785. The complaint regarding the cumbrousness of the existing procedure is fairly universal. The representatives of the Finance Department of the State Governments concerned, who were examined by us did not agree that the procedure was cumbrous or that it took unnecessarily long time to sanction loan applications. They said that the delay that took place was generally due to the fact that the application forms were not properly filled in and details required for the consideration of the applications were wanting in several respects. We suggest that the desirability of simplification of procedure might be examined so that it may be possible to issue final orders on a loan application within four months of its receipt by Government.

786. In the present state of the capital market, the Central and the State Governments themselves are finding great difficulty in carrying out their loan programmes. Even the Bombay Corporation could not get its loan fully subscribed last year. In the circumstances, it is doubtful whether district municipalities and district boards with limited credit and far away from the money market will be more successful with their loans in the open market. In the United Kingdom the borrowing for most of the smaller county boards is done by the Treasury which borrows in its own name and lends out the funds subsequently. In our country also, the State Government would be in a position to borrow more cheaply on behalf of local bodies. It is, however, possible that the State Governments, when arranging their loan programme, may not give due consideration to the loan requirements of local bodies. It is accordingly desirable on general grounds to have a co-ordinated loan policy in which the requirements of the Central Government, the State Government and the local bodies should be considered together. The Reserve Bank of India at present performs this function to a limited degree in the absence of a Central Loan Council which exists in some federations, but we cannot say that the interest of local bodies are adequately secured thereby. The demands of local bodies for capital projects of a productive character are great and it may not be possible for sometime to come to make very large funds available

for these purposes. Funds should, however, be definitely earmarked for local bodies by each State Government and there should be no curtailment of local borrowing programmes so long as they are intended for productive schemes. Unless this is done we see no possibility of local bodies giving piped water supply and underground drainage which are so badly needed.

787. We support the request made by the Calcutta and Bombay Corporations for the amendment of their respective Acts to allow them to receive ways and means advances repayable within the year from their respective Banks with which they keep their account on much the same lines and subject to the same conditions on which the State Governments receive such advances from the Reserve Bank. With regard to other local bodies they should also be in a position to receive such advances either from the Bank in which Government has permitted them to keep their account, or if they keep their funds in the Government Treasury, from the Government itself, on the same lines and subject to the same conditions as for City Corporations.

788. We are satisfied that the rate of interest paid by local bodies on Government loans is lower than that they would have to pay in the open market, but even so it seems to us that that the rate of interest to be charged to local bodies on Government loans should not be more than  $1\frac{1}{4}\%$  over the rate of interest paid by the State Government on its own loan, for the year in question  $4\frac{1}{2}\%$  seems to us much too high when Government generally borrows at 3 or  $3\frac{1}{4}\%$  per cent. The period of repayment in the case of productive schemes may well be extended from thirty to forty years.

789. If a local body is able or willing to repay a Government loan earlier than the due date it should be encouraged to do so, particularly in the present conditions when the money market is not able to give all the funds which Government wishes to raise from it.

790. **Position of securities of local bodies as trustee securities.** With regard to trustee securities the position at present is as follows. Under section 20 of the Indian Trusts Act, 1882 (vide Appendix VIII) securities issued by the Central and State Governments, securities the principal and interest on which have been fully and unconditionally guaranteed by these Governments, and securities issued by the municipal corporations and port trusts in the presidency towns of Bombay, Calcutta and Madras, are classed as trustee securities in which trustees may invest their funds. In addition, first mortgages of immovable property situated in what was previously known as 'British India' and shares of the Industrial Financial Corporation are also deemed as trustee securities.

The loans of local bodies other than those in the presidency towns do not fall under to category enumerated above and as such are not trustee securities. Owing to this fact, the market for the sale of securities of local bodies is limited and the rate of interest which local bodies have to pay on their loans is higher than it would be if their securities were classed as trustee securities.

In support of their demand local bodies pointed out to us that no loan can be raised by any local body without the previous sanction of the State Government concerned. In giving such sanction, the Government satisfies itself regarding the object of the loan and the capacity of the local body to repay it in the time and manner fixed in the loan satisfaction. In case of default, Government also have power to attach the funds of the local bodies concerned.

791. We referred this point to the Reserve Bank of India and enquired whether it had any objection to securities of local bodies being classed as trustee securities and if so which local bodies might be included in this category. In its reply the Reserve Bank says that it is not in favour of an amendment of the Trusts Act or

the Local authorities Loans Act or the promotion of any other enactment to include debentures, bonds or other loans of local bodies in the category of trustee securities. It is of the view that if the Government of any particular State decides to bring the debentures or bonds of individual local bodies under the category of trustee securities it should do so by guaranteeing the principal and interest of such loans. In the Bank's opinion such precautions as Government's previous sanction, creation of sinking funds, etc., are not sufficient or adequate to justify guarantee by the Government or to make the loans trustee securities. Once the principle of guaranteeing loans of local bodies is accepted, it will become difficult to resist demands by various units, while at the same time State Governments may not be in a position to undertake heavy commitments. Further, the prevalence of securities of a large number of local bodies as trustee securities may adversely affect the character of gilt-edged securities, which should be avoided.

792. In view of the above opinion by the Reserve Bank of India, we find it difficult to suggest that securities of local bodies generally should be classed as trustee securities. Local bodies are stars of varying magnitude, some big and some very small indeed. At the time the Indian Trusts Act was passed, there were very few cities in the country, and the presidency towns of Bombay, Calcutta and Madras had no rivals worth speaking of. Since then urbanisation has been rapid and many local bodies in the cities have attained a position which in point of financial transactions and financial credit would compare favourably with the financial credit and the financial transactions of the Corporations of Bombay, Calcutta and Madras in 1882. We do not support the view that the State Governments should guarantee the principal and the interest of loans of even the bigger municipalities or district boards. Even at present, the loans of the presidency corporations of Bombay, Calcutta and Madras are not guaranteed by their State Governments. In our view an amendment of section 20 of the Indian Trusts Act so as to include local bodies in the bigger cities like Poona, Ahmedabad, Delhi, Lucknow etc., would be more feasible.

793. **Municipal Banks.** Some witnesses suggested the running of municipal banks by the bigger municipalities. They said, inter alia, that if municipal banks were formed, local bodies would be able to get loans on cheaper terms than at present.

The arguments in favour of a municipal bank are :—

- (i) It may increase thrift.
- (ii) It may assist municipal finances. It would make possible a ready supply of capital to the local authority and avoid anxieties and incidental expenses of raising a loan. This may also help the local authorities to leave the money market free to industries to take advantage of cheap money.
- (iii) It would encourage citizens to build houses of their own. The preamble to the Birmingham Bank Act styles it as a "Savings and Housing Bank".

The arguments generally advanced against such a bank are enumerated below :—

- (i) Generally there exist adequate facilities for the encouragement and fullest exercise of thrift and hence there is no need for a separate municipal bank.
- (ii) Funds of a municipal bank would be locked up in long term development projects while its liability to its constituent

depositors would be to pay on demand. In the event of an emergency if the Bank were to rely on other joint-stock banks, this may not only strain their resources but may even jeopardise their operations by adverse rumours. As regards its advances to the municipality, their repayment would depend on the collection of rates; the emergency, however, cannot wait till they are collected. To avoid this, if the Bank were to hold larger cash reserve and investments in treasury bills and other readily marketable securities, the loanable balance left over will be meagre. The Treasury Committee\* thought in this connection that all the same the difficulties could be mitigated by severe restrictions on the investment of funds and concluded that "while the risk of any particular Municipal Savings Bank becoming seriously embarrassed may not be a high one the risk that one or other of them might be serious and that quite apart from the actual difficulties of particular banks mere possibility of such difficulties arising would tend to weaken the general credit structure and to increase the strain upon it in times of stress."

- (iii) A savings bank is essentially a bank liable for its deposits at call, for the small depositors' needs may be urgent.
- (iv) The encouragement of thrift, though desirable, is not one of the duties of a municipality.
- (v) The municipal executive are already overburdened with duties. Banking is a specialised business and it will be very difficult for them to undertake it under the trammels of the Municipal Act.

794. Establishment of municipal banks by individual municipalities, except perhaps by big city corporations, does not appear to us practicable. We, however, feel that a single municipal bank for each State would have a better chance of success than the bank run by individual municipalities. Such a bank in which the local bodies may invest their surplus funds and provident funds and which would advance them short-term or long-term loans is likely to prove of benefit to local bodies. The State Government should, however, continue to exercise its powers under the Local Authorities Loans Act in regard to the sanctioning of such loans to be advanced by the bank to the local authorities. This control of State Government is necessary in order to safeguard the interests of the ratepayers and employees of local bodies and other investors.

---

\* (A Committee was appointed by the British Treasury in 1927 to inquire into the whole question of municipal banking. It reported that with the exception of the Birmingham Municipal Bank, all other attempts in Great Britain to start Municipal Banking proved a failure.)



## CHAPTER XXVI

### AUDIT

795. Audit performs in the financial field the same functions as the police in the maintenance of law and order. So far as receipts are concerned, its main duty is to see that all amounts receivable are duly received, credited to the proper head of account and lodged in the nearest Government Treasury. As regards expenditure, its main duty is to see that no amounts are paid without proper authority and provision of funds in the budget. It is primarily concerned with regularity and only very indirectly with economy. For economy in administration, the executive is primarily responsible.

796. Prior to the introduction of the Montagu Chelmsford Reforms, the audit of local funds accounts was the responsibility of the Provincial Accountant-General. With the introduction of diarchy in the Provinces, local fund audit was made a Provincial subject and Provincial Governments were free to make such arrangements for this audit as they pleased. In consequence of this, certain Provincial Governments like Madras, U. P. and Punjab, chose to take local fund audit under their own control and the Accountant-General of the Province ceased to be responsible for this audit. Other Provincial Governments preferred to let local fund audit remain with the Provincial Accountant-General. Where the latter arrangement prevails, the expenditure on local fund audit is borne by the Provincial Government and not by the Central Government as in the case of audit of Provincial accounts. This dual arrangement continues to this day.

797. In spite of this duality in the control of local fund audit, the functions performed by audit, with which alone we are concerned, are more or less the same. The Bombay Corporation is perhaps the only local body which makes its own arrangements for the audit of its accounts and has its own auditor. In all other cases the appointment of the auditors is made by the State Government. This responsibility is usually entrusted to the Examiner of Local Fund Accounts, who as has been stated above, is in some States directly under the control of the State Government and in others under the control of the Accountant-General. The organization of the Local Fund Audit Department is not the same throughout the country but that is not a matter with which we are concerned. In a few City Municipalities there is concurrent audit, i. e. no payment is made until it is passed by the auditor. In regard to other local bodies, which constitute the vast majority, post audit is applied. All the transactions of the year are not audited; there is only a test audit of two months' transactions. This post audit is applied after the annual accounts are completed and declared to be ready for audit, which takes generally six to eight months from the expiry of the year to which they relate. It may thus happen that many transactions may escape audit scrutiny altogether and even those to which such a scrutiny may be applied may be more or less ancient history in the sense that the transactions may have taken place about sixteen to eighteen months before and the persons responsible for those transactions may have ceased to be in office at the time of audit. The audit applied to receipts is not as thorough and detailed as that applied to expenditure.

798. There is no arrangement except in the bigger municipalities for internal audit. There is an accounts branch, which is mostly concerned with the receiving of cash and making of payments. There is no check of the receipts and

payments by some authority, which is not concerned with the actual handling of cash. In essence, the entire responsibility for such audit, as is applied, is left to the external agency of the Examiner of Local Fund Accounts.

799. We have suggested in another chapter that there should be a properly qualified Accountant in each local body. In addition to that there must, in the major municipalities, be an internal audit staff, paid for by the local body, which should be responsible for the initial audit of all transactions of receipts and payments. No payments should be made until the internal auditor has passed it and all amounts receivable should be checked against the demand and submitted to the internal audit staff before a receipt is given therefor. After accounts for the month have been compiled, they should be submitted by the Accountant to the internal auditor and his signature obtained thereon.

800. It is possible that in some of the smaller local bodies, there may not be enough work for a whole time internal auditor. In such cases the arrangement might be made for an entire district. The only difference will be that whereas in the case of internal auditors employed for a single local body, all transactions will be pre-audited, in the case of others, where such arrangements are pooled for the entire district, only payments and receipts at headquarters will be pre-audited and the transactions of all other local bodies within the unit (not at headquarters) will have to be post-audited in very much the same manner as payments made by District Treasuries at places other than Provincial headquarters are audited in the office of the Accountant-General. That is to say, a monthly list of payments and receipts will have to be submitted by the non-headquarter local bodies to the District Internal Auditor and he will be required to audit them within a period of thirty days from the date of their receipt. All objections which the internal auditor may raise on the accounts will be referred to the accounting staff of the local body and unless they are settled within a prescribed period they will have to be put before the Municipal Council or the District Board for final disposal. Copies of all orders passed on points of dispute between the internal auditor and the accounting staff of the local body should invariably be sent to the Examiner of Local Fund Accounts. Each local body within the pool may be required to pay for the cost of the internal audit staff in proportion to the size of its financial transactions. Administrative control over the district internal audit staff should vest with the Examiner of Local Fund Accounts of the State. The position of local bodies in this matter would be analogous to that of the State Government in regard to Divisional Accountants serving in the offices of Executive Engineers in the State P. W. D. Divisional Accountants conduct internal audit and are paid out of State revenues, but they are under the Administrative control of the Accountant-General, who is a Central Government officer and is under the control not of the State Government but of the Auditor General.

801. The arrangement suggested above for internal audit will in no way diminish the responsibility of the Examiner of Local Fund Accounts for the audit which he is required to conduct under present arrangements. He will not be bound by any orders which the local bodies may have passed on the objections raised by the internal audit staff. He will be free to raise any point which may strike him in the course of audit, irrespective of the fact that the same ground has been covered by the internal audit staff already. The only difference will be that whereas under the existing arrangements ten months' receipts and payments are generally not checked at all and the audit is applied several months after the transactions have occurred, under the proposed arrangement, no financial transaction will escape scrutiny by the internal audit agency and irregularities will be prevented in most cases and there will be fewer disputes regarding the settlement of audit objections. Under the existing system months, and sometimes years, elapse before the audit notes are finally disposed of.

802. With the setting up of an internal audit machinery suggested above, we consider that local bodies should be relieved of the liability to contribute to the cost of the audit staff of the Examiner of Local Fund Accounts, where such liability exists. We understand that the position in regard to this matter is not uniform in all the States. In some States local bodies do not pay anything towards the cost of audit by the Examiner but in others the entire cost is recovered in accordance with a prescribed formula and the Examiner of Local Fund Accounts, though paid for nominally from provincial funds, is really paid for by the local bodies as a whole and is not a charge on Provincial funds at all. Local bodies would then be placed as regards audit in the same position as the State Government. As has been pointed out above the State Government does not pay anything towards the cost of audit of the provincial accounts and has no control over the Staff employed by the audit Department.

803. During the course of evidence, we were informed that the audit applied by the Examiner of Local Fund Accounts is mostly of a technical nature and does not deal with points of substance affecting the finances of local bodies. We consider that it is essential that the Examiner of Local Fund Accounts should regard himself not only as an auditor but also as a financial advisor of the local bodies whose accounts he audits. At present the staff at his disposal is not adequate for the performance of this task, but with the addition of an internal audit staff, he should be in a better position to act in a dual capacity—as an auditor and as a financial advisor. For instance, he should be responsible for the checking of all assessment lists and collections against assessment and should prominently bring to notice cases where the collections fall below a prescribed minimum.

804. **Surcharge.** With the arrangements proposed above, there will, perhaps be no necessity for the exercise of the power of surcharge, which in some States vests in the auditor at present. The power to surcharge plays an important part in the maintenance of financial order. In England all District Auditors have such power and appeals against their orders lie to the Minister of Health. In this country the power to surcharge does not exist uniformly in relation to all local bodies. For instance, in the City of Bombay Municipal Act and also in the Bombay Provincial Municipal Corporations Act there is no power of surcharge and the Municipal Auditor, who is appointed by the Corporation, is not expected to question any order passed on his report by the Corporation, which is the final disposing authority. In relation to municipalities in West Bengal, there is no power of surcharge at all. In certain states like Madras, Bihar, Orissa and Assam, the Examiner of Local Fund Accounts has the power of surcharging every payment which is contrary to law or the amount of any deficiency or loss which appears to have been caused by the negligence or misconduct of any person and the amount of any sum which ought to have been brought into account by any person but is not so brought. Appeals against his orders lie to the State Government. In other States, like Uttar Pradesh, Madhya Pradesh and Bombay, the Examiner only gives a certificate of surcharge, which is transmitted to the Commissioner of the Division or the State Government, who alone have the power of the ordering a surcharge.

805. There is provision in Calcutta Municipal Act, 1923 for surcharge, but, we were informed that that provision has been rendered more or less nugatory by a ruling given by the Advocate-General of Bengal, under which the auditor is precluded from surcharging any sub-ordinate of the Corporation. Section 123-B of the Act runs as follows :—

“123-B (1) The auditors, after giving the person concerned an opportunity to submit an explanation, and after considering any such explanation, shall disallow every item of account contrary to law, and

surchARGE the same on the person making or authorising the making of the illegal payment, and shall charge against any person accounting the amount of any deficiency or loss incurred by the negligence or misconduct of that person, or of any sum which ought to have been but is not brought into account by that person, and shall in every such case certify the amount due from such person.

(2) Any Councillor, Alderman, or member of a Committee present at a meeting at which a motion or a resolution is passed authorising expenditure which is subsequently disallowed under this section or authorising any action which leads to expenditure afterwards so disallowed, shall be deemed to be a person authorising the illegal payment if he votes for such motion or resolution, and all persons so voting shall be held jointly and severally responsible for the expenditure.

(3). The auditors shall state in writing their reasons for every disallowance, surcharge or charge made by them and shall serve in the manner prescribed by the Provincial Government.

(4) The Provincial Government may, of their own motion, within one year after receiving the copy of the certificate, set aside or modify any disallowance, surcharge or charge, and any certificate in respect thereof, made by the auditors."

806. Sub-section (1) of this section has, we understand, been interpreted by the Advocate General of Bengal to the effect that so far as an item contrary to law is concerned, the auditor can surcharge the same on the person making or authorising the making of the illegal payment. So far as charging against any "person accounting" the amount of any loss or deficiency incurred by the negligence or misconduct of that person or of any sum which ought to have been but is not brought into account by that person is concerned, no subordinate employee of the Corporation, who is merely acting in an executive or judicial capacity and who is not concerned with the accounts at all can be surcharged. The "person accounting" is the Corporation itself and not any such subordinate officer.

807. Illegal expenditure can be surcharged against any employees. Loss due to wasteful expenditure is not liable to be surcharged so long as the expenditure is authorised by a person competent to sanction it. The person ordering the payment would, practically, in no case be the "person accounting" as interpreted by the Advocate-General and the "person accounting" has to include the sum in his accounts so long as there is a valid authority for the item. No surcharge proceedings are initiated by auditors in such cases.

808. In relation to the audit of revenue, loss or deficiency entailed by understating the demand, for instance, illegal omissions in assessing rates, taxes, fees, rents, etc., or illegal reductions in the same are not surchargeable. Similarly, loss or deficiency due to short recovery of demand including illegal remissions is also not surchargeable. The only surcharge that is permissible in relation to revenue is that arising from short crediting of money actually realised or defalcations. This position is very anomalous and exists in relation to no other local body in the country.

809. We are of the opinion that the provision for surcharge is a healthy one and should exist in relation to all local bodies. Even the City of London Corporation is not exempt from surcharge. The District Auditor appointed by the Ministry of Health to audit the poor rate has the power to disallow every item which is contrary to law and to surcharge the amount of any expenditure disallowed upon the person responsible for incurring or authorising the expenditure. There is a

right of appeal against his decision to the High Court where the decision relates to an item exceeding £500 and in any other case either to the High Court or to the Minister of Health. We see no reason why any local body should be exempt from surcharge merely because of the size of its financial transactions. Wrongful action is wrongful action wherever it occurs irrespective of the status of the local body and should be subject to the same deterrent action. Where statutory power to incur expenditure or recover dues vests in an executive authority or a subordinate officer acting under delegated authority the executive authority or the subordinate officer alone should be liable to surcharge.

810' In regard to the authority in whom the power to surcharge should vest, we understand that the Auditor General of India, in so far as he is responsible for the audit of local fund accounts, has been consistently refusing to take over the function of issuing certificates of surcharge. The audit Department seems to be of the view that the power of surcharge should be more properly exercised by the Commissioners of Divisions. Against the order of the Commissioner or any other executive authority vested with this power the law should provide for an appeal to the State Government or to the Courts.

811. The surcharge should be against any person through whose negligence or wrongful action such liability has occurred, whether he is an employee of the local body or a member voting for that particular item in a meeting of the local body itself. Surcharge should be in respect of the following :—

- (a) Where expenditure has been incurred in contravention of the provisions of the Act or of the rules or regulations made thereunder;
- (b) Where any sum due to the board has been remitted in contravention of the Act or the rules or regulations made thereunder ;
- (c) Where the loss has been caused to the board by neglect to realise its dues;
- (d) Where loss has been caused to the funds or other property of the board on account of want of reasonable care for the custody of such money or property.

## CHAPTER XXVII BUDGETS

### I

812. Every local body is required under the Act, governing its constitution, to prepare a budget estimate of its receipts and expenditure and to see that it is sanctioned in good time before the commencement of the financial year to which it relates. Unless this is done, there will be no authority for meeting the expenditure which will necessarily be incurred for carrying on the work. Except for the City Corporations, the form in which the budget estimate is prepared is determined by the State Government, but the power to sanction the budget is vested in some cases, in the local bodies concerned, and in others in an officer of the State Government or the State Government itself. The authority which sanctions the budget is also the authority which sanctions the revised or supplementary estimates. It is irregular to incur expenditure for which no funds have been allotted. It is equally irregular to incur expenditure on any item in excess of the funds provided therefor. At the same time, mere provision of funds is no authority for incurring an expenditure, if the expenditure in question requires the sanction of higher authority. All allotments made in the budget lapse at the end of the year and no part of any allotment remaining unexpended at the end of the year can be reserved or appropriated by transfer to deposits or any other head or drawn in order to avoid lapse for disbursement after the end of the year. In almost every Act there is a statement of purposes to which local funds may be applied. These purposes are closely related to the functions entrusted to the local body. Any application of funds outside the purposes specified in the statute is irregular and may render the members voting for it liable to surcharge. In regard to works expenditure, plans and estimates have to be prepared by the local body and submitted to the State Government for 'technical sanction', when they are in excess of a prescribed amount. The prescribed amount and the authority which sanctions such plans and estimates vary according to the rules issued by each State Government. Similarly, the terms and conditions of service of certain classes of officers, such as chief executive officer, secretary, engineer, health officer etc., are either laid down in the constituent Acts or prescribed by the State Government under statutory authority and no change can be made therein by the local body. In recent years grants for dearness allowance to employees of local bodies have been made by the State Government and no change in their terms and conditions can be made by any local body. In respect of estimates under education, public health, medical relief and communications, local bodies (other than City Corporations) are sometimes required to consult the respective heads of departments of the State Government before finally passing the budget. In some States, there is the system of requiring local bodies to devote fixed portions of their revenue to particular objects, apart from Government grants given for specific purposes. Subject to these reservations, local bodies have a free hand in preparing their budgets and allotting funds.

**Power to sanction budgets.** The position in each State as regards the preparation and sanction of budgets is described below :—

### MADRAS

813. (1) **City of Madras Municipal Corporation.** The Municipal Commissioner has to submit by the 15th January each year to the Standing Committee on Taxation and Finance a detailed estimate of income and expenditure for the ensuing year. This Committee is not specifically mentioned in the Act, but is constituted under the general power to appoint Standing

Committees under section 19 of the Act. With this estimate the Municipal Commissioner submits his proposals for fresh taxation or raising of loans, if considered necessary. In scrutinising the budget, the Standing Committee is required to see that provision is made for the payments as they fall due of all instalments of principal and interest for which the Corporation may be liable on account of loans. It has also to allow for a cash balance at the end of the year of not less than Rs, 1,50,000 under the General Account-Revenue. The budget as approved by the Standing Committee is submitted to the Corporation by the first week of March. The Corporation may adopt the budget as submitted or revise it in such manner as it deems fit. A copy of the sanctioned budget has to be submitted to the State Government.

(2) **District Municipalities.** The Municipal Commissioner prepares the budget before December each year and submits it to the Standing Finance Committee, which is constituted in most of the municipalities. After security by the Standing Committee, the budget is submitted to the municipal council. The Council is required to submit a copy of the sanctioned budget to the State Government before a fixed date. The budget has to contain provision adequate in the opinion of the State Government for (a) the due discharge of liabilities in respect of loans contracted by the municipality; and (b) the maintenance of working balance of not less than 5% of the estimated receipts of the year excluding those from endowments, government grants and debt heads. The State Government has the power to modify any part of the budget so as to ensure that due provision is made for the purposes mentioned above.

Subject to the above reservations, the municipal council has power to sanction the budget. The same remarks apply to sanction in respect of revised or supplementary estimates. They may accord sanction to such estimates provided no alteration is made without the consent of the State Government in the amount allotted for the service of debt or in the working balance.

(3) **District Boards.** The President of a district board is required to frame and place before the board by a fixed date a budget showing the probable receipts and expenditure during the following year. The district board has power to sanction the budget with such modifications, if any, as it thinks fit. Budgets of panchayats (within the district) after being sanctioned have to be submitted to the district board. If such budget fails to provide for the maintenance of the prescribed working balance the district board may direct that any part of such budget shall be so modified as to ensure that such provision is made.

The district board is required to submit by a fixed date a consolidated budget for itself and all the panchayats within the district. If such consolidated budget fails to provide for the due discharge of all the liabilities in respect of loans contracted by the district board or for the maintenance of the prescribed working balance, the State Government may direct that any part of the budget shall be so modified as to ensure that such provision is made. Sanction to supplementary or revised estimates is subject to the same conditions as in respect of the original budget estimate.

## BOMBAY

814. (1) **City of Bombay Municipal Corporation.** The Municipal Commissioner has to submit the budget by the 10th November to the standing Committee together with a statement of proposals regarding fresh taxation or raising of loans, if considered necessary. This Committee is referred to in section 4 of the Act as one of the 'authorities' charged with carrying out the provisions of the Act and has important functions and powers in the field of taxation and finance. Under section 126 it is formally responsible for the preparation of budget.

estimates, even though the spade work is done by the Municipal Commissioner. In preparing the budget it is required :—

- (a) to provide for the payment, as they fall due, of all sums and of all instalments of principal and interest for which the Corporation may be liable ;
- (b) to allow for a cash balance at the end of the year of not less than Rs. 1 lakh.

The budget, as prepared by the Standing Committee, is submitted to the Corporation which may adopt it or revise it in such manner as it may think fit. While dealing with the budget, the Corporation is required to fully provide for each of the matters specified in (a) and (b) above.

(2) **Other Municipalities.** Municipalities in Bombay have the power to sanction their budgets without the intervention of any external authority.

(2) **District Boards.** The form of the budget for district boards is fixed by the State Government which also fixes the date by which the budget has to be prepared. The district board has power to approve the budget subject to the following conditions :—

(a) There must be provision of a closing balance of not less than Rs. 5,000/- at the end of the year, and (b) plans and estimates for works exceeding a certain amount should be approved either by a Government Engineer or by the District Local Board Engineer appointed with the approval of the State Government.

A copy of the budget as finally approved has to be forwarded to the Collector of the District or such other officer as may be nominated by Government in this behalf. Except in case of pressing emergency no expenditure may be incurred unless provision therefor is included in the budget. If any sum is expended in a pressing emergency, the circumstances have to be communicated forthwith to the Collector of the District with an explanation of the manner in which it is proposed to cover such extra expenditure.

### WEST BENGAL

815. (1) **Calcutta Municipal Corporation.** The Chief Executive Officer has to prepare the budget by the 10th February and lay it before the Corporation. The Corporation is required to see that adequate provision is made for the service of debt and for a minimum closing balance of not less than Rs. 6 lakhs. Subject to these two considerations the Corporation has full power to deal with the budget as it deems fit.

(2) **Other Municipalities.** Every municipality is required to prepare a budget at least two months before the close of the financial year. In framing the budget, it is obligatory on the part of the municipality to make due provision for the maintenance of such minimum closing balance as the State Government may by order prescribe and for the service of loans. The power to sanction the budget vests in the municipality but a copy has to be submitted to the State Government or to such officer or officers as the State Government may direct. Where in the opinion of the State Government the condition of indebtedness of any municipality so requires, the Government may by order declare that such is the case and direct that the budget of such municipality shall be subject to the sanction of the State Government or of an officer nominated by it.

(3) **District Boards.** Every district board is required to submit the budget by a prescribed date to the District Magistrate for transmission to the Commissioner of the Division. The District Magistrate, when he is not the chairman of the board, is empowered to signify in writing to the board, his approval or disapproval of the budget. When he disapproves of the budget on the ground that the expenditure on salaries, works or other objects proposed therein appears



to be insufficient or excessive or that any particulars contained therein appear to be erroneous, defective or improper, he has to state the nature of his objection. The board shall then consider his objection and may modify the budget or signify its reasons for adhering to its original budget. In the latter case the budget has to be transmitted to the Commissioner who may deal with it as he thinks fit. The only restriction is that the Commissioner shall not make without the consent of the district board any alteration which may have the effect of raising the total of the budget above the total sum estimated to be at the disposal of the district board for expenditure during the financial year. It is also provided that every resolution passed by a district board without the assent of the Chairman in regard to matters concerning expenditure not covered by the current budget shall be submitted to the Commissioner for approval.

### UTTAR PRADESH

816. (1) **Municipalities.** A municipal board has power to sanction the budget but has to submit a copy to the State Government or to such officer as the State Government may by order direct in this behalf. The board has also the power to vary or alter the sanctioned budget from time to time, as circumstances may render desirable. In framing the budget the board has to provide for the maintenance of such minimum closing balance as the State Government may prescribe. Where in the opinion of Government, the condition of indebtedness of any board is such as to make the control of Government over its budget desirable, the State Government may by order declare that such is the case and direct that the budget of such board shall be subject to the sanction of the State Government or of the Commissioner and that the power to vary or alter the budget shall be subject to conditions to be prescribed by rule. The Board is prohibited from spending money in excess of the sanctioned budget without making provision for such cases by variation or alteration of the budget. Finance Committees have been constituted in certain municipalities in Uttar Pradesh and are entrusted with the preparation of annual and revised budgets and to allot funds within the sanctioned budget estimates for expenditure under the various heads.

(2) **District Boards.** The duty of preparing the budget is placed on the Executive Committee which is a statutory committee of the district board and is entrusted with financial as well as administrative powers under the District Boards Act. In framing the budget the Committee is required to provide for the prescribed minimum closing balance. The budget as prepared by the Committee is placed before the district board which has the power to pass the budget as a whole or modify it by omitting or reducing any items of expenditure or reject the budget as a whole. The board does not seem to have any power to increase a provision made by the Executive Committee. When the budget has been modified or rejected it is sent back to the Committee for consideration. If the Committee accepts the decision of the district board, the budget as so modified is deemed to have been passed. But if the Committee does not accept the board's decision, it places either the original or an amended budget before the board for fresh consideration. The board has the power either to pass it as a whole or reject it but not to modify any particular item. In case the board rejects the budget as a whole, the President is required to submit the matter for the orders of the State Government. The Government may accept such budget as a whole or with any alterations as it may deem fit to make or may prepare a budget for the board and the budget as accepted or prepared by the State Government shall be deemed to have been passed by the board. It will be seen that the above description that the Executive Committee has much larger powers than the Finance Committees in other States.

Every budget passed by a district board has to be sent to the State Government, which has the power either to approve it or return it to the board for amendment on the ground that it fails to make adequate provision for

- (1) the maintenance of such minimum balance as may be prescribed or
- (2) the appropriation of any sum allotted to the board by the State Government for the purposes for which it was allotted or
- (3) the repayment of loans or any other expenditure for which the board is legally liable.

Any board whose budget is returned for amendment shall forthwith amend it to the satisfaction of the State Government and resubmit it as amended to the State Government, which may then approve it.

### BIHAR

817. (1) **Municipalities.** Municipalities, as in the case of other States, are required in framing the budget to provide for the service of debt and for a prescribed minimum closing balance. Subject to these two conditions they can pass the budget, but a copy has to be submitted to the State Government or to such officer as the State Government may direct. The State Government has power in the case of indebted municipalities to sanction the budget and any revision thereof. As in other States, finance committees exist in Bihar and perform very much the same functions in relation to the budget.

(2) **District Boards.** The budget of every district board after it has been approved by the board has to be submitted to the State Government which scrutinizes it with a view to see that :—

- (a) the estimate of income is reasonable and proper,
- (b) provision has been made for the prescribed minimum closing balance, and
- (c) for the service of loans taken by the board.

After examining it as above, the State Government may return it to the district board for such alterations and modifications as they may deem necessary. The district board is required to resubmit a modified budget for Government's final sanction.

### ORISSA

818. (1) **Municipalities.** So far as municipalities are concerned, the provisions regarding sanction to budgets are the same as in Bihar for ex-Bihar areas and as in Madras for ex-Madras areas.

The position may be different when unified legislation for the whole of the State is enacted, as is under contemplation.

(2) **District Boards.** The Orissa Local Government Bill, 1949, which applies to district boards throughout the State and has been passed by the State Assembly and is awaiting the assent of the Governor, contains certain provisions with regard to sanction to budget estimates. After a budget estimate has been sanctioned by the district board, the State Government or such other authority as may be empowered by Government has to examine the budget with a view to ensuring that

- (1) the estimate of income is reasonable and proper,
- (2) provision has been made for the minimum closing and minimum expenditure prescribed for public works, medical and public health under section 108.

(3) provision has been made for the payment of assesment, collection and recovery of the cess by the District Magistrate or Collector,

(4) provision has been made for the repayment of loans and the payment of interest on capital expended on any work which may improve the means of communication within the district or between the districts and

(5) provision has been made for the expenditure of any grants given by Government for a specific purpose. Under section 114, the Provincial Government may return the budget estimates to the district boards for such alterations and modifications as are considered necessary by them. The district board is bound to comply with such directions and resubmit the budget within two months and if the district board fails to comply with such directions the Government have power to make such alterations in the budget as they consider necessary and the budget thus altered would be treated as the budget of the district board.

It is also understood that an Orissa Municipal Bill, seeking to unify and consolidate the laws relating to the constitution of municipalities throughout the State which are at present governed by three sets of laws, the Madras Act, the Bihar Act and the Sambalpur Act, is before the Legislature. Powers similar to those taken in respect of district boards so far as sanction to budget estimates is concerned are sought to be taken by the State Government under clauses 106 and 107 of the Bill.

### PUNJAB

819. (1) **Municipalities.** The duty of preparing the budget is placed upon the Executive Officer of the municipality. The form in which the budget is prepared is prescribed by the State Government. The budget as prepared by the Executive Officer is submitted to the Finance Sub-Committee, which after considering the Executive Officer's suggestions sends them on to the municipal board. The municipality then submits the budget through the Deputy Commissioner to the Commissioner for final sanction. Where there is no finance sub-committee, the functions of such committee are exercised by the President of municipal board. Municipalities are also required to send extracts from the budget to the heads of the medical, public health and educational departments of the State Government, so that they may make to the Commissioner any representation that they may deem fit with respect to the provision made for their respective services in the municipal budget. The provisions regarding the minimum closing balance and service of loans are the same as in other States. The Commissioner of the division has power to sanction the budget or to modify it in such manner as he deems fit.

(2) **District Boards.** Under the Punjab District Boards Act, every district board is required to appoint a Finance Committee consisting of not less than three of its members. The form in which the budget is prepared is prescribed by the State Government and the Finance Committee is charged with the duty of preparing the budget. The board may provisionally approve of the budget with or without modification and is required to send it to the Deputy Commissioner. The Deputy Commissioner may signify in writing to the board his approval or disapproval. In case of disapproval he has to state the nature of the objection. The objection is then considered by the board and the budget is resubmitted to the Deputy Commissioner. If the board adheres to its original budget, the matter is submitted to the Commissioner for final decision. The power to sanction the budget finally rests with the Commissioner.

### MADHYA PRADESH

820. (1) **Municipalities.** In this State every municipality is required to appoint a Finance sub-Committee consisting of not less than three of its members.

The duty of preparing the budget is placed on the Finance sub-Committee which is required to see that adequate provision is made for the prescribed minimum closing balance and for the service of debt. Ordinarily, every municipality has power to sanction its own budget but in the case of a Committee which is indebted to Government the approval of the budget is subject to confirmation by the State Government.

(2) **Janapada Sabhas.** The Chief Executive Officer is charged with the duty of preparing the budget which has to be laid before the Standing Finance Committee of the Sabha. The Finance Committee has power to make such modifications and additions to the budget as it shall think fit and submit the same to the Sabha not later than 10th February. The Sabha then considers the budget and has power to assent or refuse to assent to any item of expenditure in the said budget or to assent to any item subject to a reduction in the amount specified. It has no power to increase the amount proposed under any item. It is also required to see that there is adequate provision for the prescribed minimum closing balance.

In the case of a Sabha which is indebted to the State Government, the approval of the budget is subject to confirmation by the State Government. If for any reason the Sabha is not able finally to adopt the budget before the commencement of the financial year, the budget as prepared by the Chief Executive Officer or as approved by the Standing Finance Committee, is deemed to be the budget estimate for that year until action is taken by the Janapada Sabha.

Where a Sabha refuses to assent to any item of expenditure in the budget or assents subject to a reduction of the amount provided therefor and the Chief Executive Officer is of the opinion that the refusal or reduction would affect the due discharge of his responsibilities, he may request the State Government to authorise the expenditure considered necessary and the State Government may authorise him to incur expenditure upto the said limit.

### ASSAM

821. (1) **Municipalities.** The form of the budget estimate and the procedure for its preparation is prescribed by the State Government. The Government is also empowered to prescribe the authority and the conditions subject to which the budget estimates may be sanctioned. This shows that municipalities in the State have not the power to sanction the budget.

Every municipality has to frame the budget with due regard to adequate provision for the service of debt and the maintenance of a minimum closing balance. Finance Committees have been constituted in certain municipalities. Where such committees exist they are responsible for the preparation of the budget and for all variations made therein.

(2) **Local Boards.** There are no district boards in Assam. Instead there are local boards for each sub-division in a district. Every budget prepared by a local board has to be submitted to the Deputy Commissioner. Where the Deputy Commissioner is not Chairman of the board, he may signify in writing to the board his approval or disapproval of the budget. In case of disapproval, he has to state the nature of the objection. All such objections are considered by the board and the budget retransmitted to the Deputy Commissioner. The Deputy Commissioner then submits the budget to the State Government. The power to accord final sanction vests with the State Government in the case of all local boards.

### II

822. **Allotment of fixed percentages of revenue to particular objects.** Connected with the power to sanction budgets is the power to allot funds as may be considered most suitable. So far as City Corporations of Bombay and Madras are concerned, there is no restriction on their power to allot funds in their budgets,

but the powers of other local bodies are not free from restrictions. The practice prevailing in the matter in each State is given below.

(a) **Madras.** Section 127 of the Madras Public Health Act, 1939, provides that every municipality should earmark not less than 30% of its income and that every district board or panchayat should earmark 12½% of its income on the advancement of public health in its area. Excepting this provision, local bodies are not required to allocate any portion of their revenues for any particular objects.

(b) **Bombay.** District Boards are required to pay 15 pies out of the 36 pies in the rupee of land revenue which they receive as local fund cess to the district school boards for purposes of primary education. Similarly, every 'non-authorized'\* municipality is required to pay annually to the district school boards or the 'authorized'† municipality—as the case may be, for the purposes of primary education, a proportion of the rateable value of the properties in its area, as may from time to time be fixed by the State Government.

These payments are made under section 41 of the Bombay Primary Education Act, 1947.

There are also executive orders of the Bombay Government requiring local bodies to utilise income from tolls only for the maintenance or construction of roads.

(c) **West Bengal.** Under section 91 of the Calcutta Municipal Act, 1923, the Corporation is required to spend annually a sum of not less than a lakh of rupees for primary education. This is a small amount in comparison to what the Corporation actually spends on this object.

For a considerable time, local bodies in West Bengal were free to allot funds in their budgets as they pleased. A departure was, however, made shortly before the partition of the province and district boards were directed to spend at least 50% of their cess income on communications.

(d) **Uttar Pradesh.** Local bodies are at liberty to make whatever provision they think proper under various heads of expenditure, except that for primary schools municipal boards are required under section 7 (2) of the U. P. Municipalities Act, 1916, to provide at least 5% of their normal value annual income after deducting the income from special services e.g. scavenging and water supply.

(e) **Punjab.** Though there is no statutory restriction, district boards are required by executive orders to earmark a specified percentage (25 per cent) of their net income for education. Clause 321 of the Public Health Bill, 1950 provides for the earmarking of such percentage of revenue by the local authorities, as may be prescribed, on public health and medical relief. This Bill has been circulated for public opinion and it is not known if these provisions will be enacted.

(f) **Bihar.** Section 53 proviso (4) of the Bihar and Orissa Local Self-Government Act empowers the State Government to prescribe the minimum expenditure on any object to be incurred from time to time by the district board, if in the opinion of Government the expenditure of the district board on that object in this section is insufficient. The State Government have from time to time prescribed the percentage of expenditure on certain objects and recently they have prescribed the minimum of expenditure to be incurred on particular objects.

\*The term 'non-authorized' municipality means a municipality other than an authorised municipality.

†Under the Bombay Primary Education Act, the term 'non-authorized' municipality means a municipality which is authorised by the Provincial Government to control all approved schools within its area.

The Bihar and Orissa Municipal Act, 1922 does not require that municipalities should devote any fixed portions of their revenue to particular objects. Section 69 of the Act, however, provides that the proceeds from the water tax, the lighting tax the latrine tax and the drainage tax should be applied in defraying the expenses relating to water supply, lighting, latrines service and drainage respectively.

(g) **Orissa.** Neither under the Madras District Municipalities Act, 1920, nor under the Madras Local Boards Act, 1920, which were till now applicable to South Orissa districts, is there any provisions requiring local bodies to devote fixed portions of their revenues to particular objects. Under the Bihar and Orissa Local Self-Government Act, 1885, district boards in North Orissa are required to spend on medical relief during the quinquennium 1939-40 to 1943-44 and not less than 10% of the cess demand, whichever at any time be greater. Under the Orissa Local Government Bill, 1949 proviso 4 to section 120 (which at the time of writing was awaiting the assent of H. E. the Governor) the State Government has power to determine the minimum expenditure to be incurred from time to time by a district board on any object. This provision is the same as in section 53 proviso 4 of the Bengal Local Self-Government Act, 1885. No such restriction applies to municipalities in North Orissa.

(h) **Madhya Pradesh.** It is understood that in this State municipalities and Janapada Sabhas are free to allot funds at their discretion and there is no restriction on their powers in this respect.

(i) **Assam.** Under section 52 of the Assam Municipal Act, municipalities are required to apply the net proceeds of the water, scavenging and lighting rates to maintaining, extending and improving the lighting, conservancy and water services and drainage system. Also money received on account of any hospital or dispensary cannot be expended on any other object.

### III

823. **Power of sanction to works expenditure.** The position varies from state to state as per details given below:—

(a) **Madras.** Under section 79 of the Madras City Municipal Act, every project estimated to cost more than Rs. 2½ lakhs has to be submitted to the State Government for sanction and no work on it can be commenced, until the project has been sanctioned and no material change in the project sanctioned as aforesaid can be carried into effect without the sanction of the State Government. Mofussil municipalities and district boards are not required to obtain administrative approval from any outside authority for their road works and work the than those relating to medical relief, public health and education. The town planning scheme of all local bodies including the improvement schemes of the Madras City Improvement Trust, however, require the administrative sanction of Government.

(b) **Bombay.** No outside sanction is required for any of the works schemes out of the City Corporations in this State. So far as other municipalities are concerned, the principle followed appears to be not to require them to get outside sanction for works for which the Government do not give substantial grants-in-aid. For instance, works relating to roads and bridges do not require outside sanction while Government sanction is required for water supply, drainage and public health scheme. In the case of District Local Boards, however, Government sanction is required even in respect of the construction of roads, bridges, etc. unless a District Local Board employs an engineer whose appointment is approved by Government under sections 45A and 89(1) (b) of the Local Boards Act, 1923.

(c) **West Bengal—Calcutta Municipal Corporation.** Under section 14 of the Calcutta Municipal Act, 1223, previous sanction of the State Government is required in the case of all works, the estimated cost of which amounts to two and a half lakhs of rupees and over. Similar sanction is required for any material changes in the work.

**Other Municipalities.** Under section 118 of the Bengal Municipal Act, 1932, if any work is estimated to cost Rs.10,000/- the State Government may require that plans and estimates should be submitted for its approval or for the approval of any servant of the Government before such work is commenced. Rules framed by Government under this section prescribe that the sanction of the Commissioner of the Division is required for works costing between Rs. 10,000 and Rs. 25,000 and of Government for works exceeding Rs. 25,000.

**District Boards.** District boards are not empowered to sanction plans and estimates for any work the total cost of which exceeds Rs. 10,000.

(d) **Uttar Pradesh—Municipalities.** The State Government has power under the Act to frame rules governing the preparation of plans and estimates and the authority by whom and the conditions subject to which such plans and estimates may be prepared and sanctioned. The present practice, which is regulated by the rules issued by Government in the U. P. Municipal Manual, is :—

- (i) in the case of 'health' schemes, i.e. works relating to town planning schemes, sewerage and drainage work, water works, slaughter houses, markets, model lodging houses, houses, hotels, dispensaries, sarais, bathing ghats, latrines, etc. costing Rs. 10,000 or more, the sanction of the Provincial Health Board should be obtained unless the project has been drawn up in accordance with a standard plan approved by the Board of Public Health ;
- (ii) in the case of any work not coming under (i) above, but estimated to cost Rs. 10,000 or more and financed by a State grant or loan, the sanction of the State Government has to be obtained ;
- (iii) as regards electricity supply schemes of municipalities, technical as well as administrative sanction of Government has to be obtained for all schemes irrespective of the cost.

So far as district boards are concerned, in respect of all works which are financed by a State grant or loan, the sanction of the Divisional Commissioner or Government in accordance with the rules in the U.P. District Boards Manual has to be obtained. In respect of other works estimated to cost Rs. 5,000 or more and which relate to the construction of a bridge, a school or a hospital or dispensary, the sanction of the appropriate officer of Government has to be obtained.

(e) **Punjab.** Under Rule 6 of the Municipal Works Rules, no original work involving an expenditure of rupees five thousand or more in the case of a first class municipal committee, or two thousand five hundred rupees in the case of a second class municipal committee, can be commenced until the technical sanction of the appropriate officer of Government is obtained.

Under Rule 73 of the Punjab District Works Rules, no original work involving an expenditure of Rs. 15,000 in the case of a second class district board, or Rs. 30,000 in the case of a first class district board, can be undertaken without the approval of the Divisional Commissioner or the State Government.

(f) **Bihar.** So far as sanitary projects of municipalities are concerned, the plans and estimates as well as the agency for their execution have to be approved by an officer of the State Government if the cost exceeds Rs. 1,000.

In case of district boards, all projects the cost of which amounts to Rs. 50,000 or more or which are liable to effect seriously the course of any navigable river or the drainage or irrigation of any considerable tract of the country, require the sanction of Government. Similarly, in the case of plans and estimates for new works including tools and plant, live-stock and furniture, if the cost exceeds Rs. 2,500, the sanction of the appropriate officer of Government has to be obtained.

(g) **Orissa.** The position is the same as in Bihar.

(h) **Madhya Pradesh.** No outside sanction is necessary in respect of works of municipalities, the cost of which is borne entirely out of municipal funds. Where, however, the project involves expenditure from Government grants, the sanction of an officer of Government such as the Deputy Commissioner, commissioner or the Government itself has to be obtained.

The position is the same in the case of Janapada Sabhas.

(i) **Assam.** Administrative approval of an officer of Government itself is required for all projects of municipal and local boards if the cost exceeds Rs. 10,000.

#### IV

824. **Investment of Funds.** The City Municipal Corporations of Madras, Bombay and Calcutta are required to keep their monies with the Imperial Banks of India or the Reserve Bank of India under their constituent Acts.

In Bombay, municipal boroughs are empowered to deposit their funds with the Imperial Bank of India or the Reserve Bank of India. Permission of the State Government is required for depositing money in any other bank and also for investment.

District municipalities and district boards are required to keep their funds with the nearest Government treasury, and no interest is allowed on such balances, even though they may be above the prescribed minimum. For keeping funds in a bank, the sanction of the State Government is necessary. Similarly, the sanction of the State Government is necessary for investing funds not required for immediate use. Permission is generally given for investing such monies in Government savings banks or any Government security. Provident Fund monies or balances of sinking fund are generally so invested.

825. **Control over Establishment.** Establishment expenditure forms an important part of the total budgetted expenditure. The power to allot funds freely necessarily implies the power to control expenditure on establishment also. This control is, however, of a varied character. So far as City Corporations are concerned, they are comparatively free, except in regard to emoluments and conditions of service of their heads of departments. Municipalities other than City Corporations are subject to greater outside control and district boards have, generally speaking, much less control over their establishments than municipalities. The position in each State in regard to various categories of local bodies is briefly summarised below:—

826. **Madras.** The power of appointment, control and punishment of officer and servants of municipal councils and local boards, except the municipal commissioners, district panchayat officers, municipal engineers, municipal electrical engineers, health officers and executive officers of panchayats are vested in the local bodies themselves, subject to rules framed



by Government vide secs. 70 to 77-A of the Madras District Municipalities Act, 1920 and secs. 97—74A of the Madras Local Boards Act, 1920. The rules provide for such matters as (1) qualifications (2) authority who should be consulted in regard to appointments and punishments of certain classes of establishments (3) procedure to be followed before imposing punishment (4) appellate authorities, etc. Scale of pay and strength of staff are fixed by Government or by heads of departments of Government, in whom the powers in this regard have been vested. Conditions of service including provident funds are regulated by rules framed by Government applicable uniformly to all local bodies. The powers of appointment, punishment, transfer and control of municipal commissioners, municipal engineers, municipal electrical engineers, district panchayat officers and health officers are exercised by the State Government and the heads of departments in whom certain powers have been vested.

In the case of the Corporation of Madras, the Commissioner is appointed by the Government. Heads of Departments like the health officer, engineer, electrical engineer, water works engineer, revenue officer, educational officer etc. are appointed by the Corporation subject to confirmation by Government. The sanction of Government is required to the condition creation of new posts on the establishment of the Corporation of Madras, if the maximum monthly salary of the post exceeds Rs. 250/- p.m. In respect of all other matters, the Council of the Corporation exercises absolute control.

**827. Bombay—Bombay Municipal Corporation.** Appointment of the Municipal Commissioner is made by the Government itself. The appointment of the Deputy Municipal Commissioner, the municipal engineer, the municipal executive health officer and municipal hydraulic engineer is made by the Corporation subject to confirmation by the State Government. In respect of all other appointments power vests in the Corporation itself.

**Other local bodies.** The Government or the Commissioner sanctions only the creation of posts and prescribes pay scales and qualifications. Subject to these conditions, local bodies have full power to appoint their officers. In the case of District Local Boards the Government, under the statute, contributes two-thirds towards the salary of either the Chief Officer or the Engineer as the Board may choose. In the case of municipalities the Government voluntarily contributes one-half towards the cost of the salary of the health officer and one-third towards the salary of the sanitary inspectors. Appointments to these posts are therefore required to be made with the previous approval of the Government.

**828. West Bengal—Calcutta Corporation.** The appointment, salary, allowances and conditions of service of the Chief Executive Officer, chief engineer, health officer and deputy executive officers are subject to the approval of the State Government. The Corporation has power to appoint such other officers and servants as they think fit and also to fix their salaries and allowances.

**Mofussil Municipalities.** As regards mofussil municipalities, the State Government have power to appoint the Secretary, engineer, health officers, sanitary inspector and executive officer. The sanction of the State Government is also necessary in cases of appointments carrying a monthly salary of more than Rs. 200/- or salaries rising by periodical increment to more than Rs. 200/-. In all other cases, municipalities have power to determine the salaries and allowances to be paid to their officers and servants.

**District Boards.** District boards have power to make appointments subject to the following conditions :—

- (1) that no appointment, the monthly salary of which amounts to Rs. 200/- or more shall be created or abolished without the approval of the Commissioner and that every nomination to and dismissal from such appointment shall be subject to confirmation by the Commissioner.
- (2) that in every case of dismissal of an officer drawing Rs. 50 per mensem or more but less than Rs. 100/- the officer concerned shall have a right of appeal to the Commissioner and in the case of officers with higher salaries to the Provincial Government.
- (3) that the aggregate salaries and allowances in any one financial year of the establishment shall not without the sanction of the Provincial Government exceed 20% of the total amount available for expenditure on public works during the year.
- (4) that every board shall conform to the rules made by the Provincial Government regarding the qualifications of candidates for employment.

In addition to the above general provisions, local bodies in West Bengal have also to pay for certain establishments not controlled by them.

- (1) Proportionate cost of establishments of the Land Acquisition officers is realised from local bodies on whose behalf land is acquired by Government.
- (2) The Calcutta Corporation is required to bear the entire cost on account of pay and allowances of the municipal magistrates and their establishments, appointed or controlled directly by Government.
- (3) In rural areas, the village chaukidars are paid by the Union Boards, but they are controlled almost entirely by the District Magistrates and the local police officers of Government.

**829. Madhya Pradesh.** A municipality has power to employ such officers and servants as it may consider necessary, but in the case of secretaries, health officers or any other special executive officer, no appointment may be created or abolished and no alteration in the emoluments made without the approval of the State Government, and every nomination to and dismissal from such appointment is subject to Government confirmation.

**Janapada Sabhas.** The Chief Executive Officer is appointed by the State Government. The Sabha has power to appoint the Secretary, health Officer and engineer, subject to confirmation by the State Government. The State Government has power to make rules as to the qualifications of candidates for employment as officers and servants of the Sabha and to lay down general principles regarding the grant of leave, acting and travelling allowances, maximum salaries, the establishing and maintaining of a provident fund or annuities, etc.

**830. Punjab.** The appointment of the Secretary, medical officer is made by the municipality subject to the approval of the State Government.

District Boards have power to make appointments subject to the following condition :

The appointment of Secretary to the Board is subject to the approval of the State Government. The Deputy Commissioner has power to reduce the number of persons employed or their remuneration, if he considers them excessive.

831. **Uttar Pradesh.** The appointment, salaries and conditions of service of executive officers and medical officers of health are subject to the approval of the State Government. The appointment of secretaries where there is no executive officer and the salary attached to the post to subject to the approval of the Commissioner. The appointment, salaries and other conditions of service attached to the post of engineers, assistant engineers, water works engineer, water works superintendent, electrical superintendent, a secretary, a superintendent or lady superintendent of education or a qualified overseer or sub-overseer is also subject to the approval of the State Government.

Recently, as a result of the report of the U. P. Pay Committee, compulsory scales of pay have been prescribed by the State Government for all classes of servants, including inferior servants, under local bodies generally. This is done by way of advice and is not based on any statutory authority, except in regard to the higher officers. Local bodies not observing these scales of pay are not entitled to the dearness allowance or grants-in-aid to which they would otherwise be entitled.

832. **Bihar.** Section 33 of the Bihar and Orissa L.S.-G. Act, 1885, authorises district boards to determine and appoint the establishment to be employed by them and to fix the pay of such establishment subject to the conditions that sanction of Government is taken for appointment of district engineers and to posts carrying a salary of Rs. 300/- or more per month. Under section 35-B of the Act the State Government have been authorised to fix the designation, grade and pay of the officers and servants of any district board or any class of such officers and servants.

The State Government have framed model rules for travelling allowances, leave, provident fund and pension etc., and the district boards have adopted them.

Under section 37 of the Bihar and Orissa Municipal Act, municipalities are under an obligation to obtain Government sanction to the creation of any appointment the maximum pay of which is Rs. 100 or more per mensem and the increase of the maximum pay of a sanctioned post to an amount exceeding Rs. 100 per mensem.

833. **Orissa.** Under the new Local Self-Government Act a district board may, with the previous sanction of Government, determine the number of its officers and servants and fix or alter the designation, grade, salaries and allowances payable to such officers and servants. Every district board is required to have an executive officer, one or more district engineers and district health officers who should be Government servants paid from provincial revenues.

The provision so far as municipalities are concerned is the same as in Bihar for ex-Bihar areas. But in the draft of the unified municipal Bill it is proposed to adopt the same provision as for district boards.

834. **Assam.** The State Government has power to require a municipal board to appoint such health officers and sanitary inspectors as it may think necessary on such salaries to their establishments as they deem fit.

**Local Boards.** No appointment of an engineer or a health officer may be created or abolished without the sanction of the State Government.

835. **General Observations.** The review of the existing position given above will serve to show that the progress made in regard to freeing local bodies from budgetary restrictions is of a very varied character. Greater control is exercised in some States than in others. We have no desire to criticise the arrangements that are in force at present but we are definitely of the opinion that considering the fact that municipalities and district boards are now generally composed of elected members, the time has arrived when they should be given greater powers in regard to their financial arrangements and the control exercised over them should be of a very limited character and confined to essential matters.

836. Though the form of the budget may, for the sake of uniformity and for comparing progress in one local body with another, be prescribed by the State Government, the power to sanction budgets should vest entirely in local bodies. They should be required to maintain a prescribed closing balance which should not be drawn on, except temporarily and in an emergency, without the sanction of the State Government or of such officers as may be nominated by Government in this behalf. It will of course, be open to the government to revise the prescribed minimum balances, if they were fixed long ago, and if in the meantime there has been a large increase in financial transactions of the local bodies concerned. Local bodies should also have full power of reappropriation and making supplementary allotments during the currency of a financial year, so long as the prescribed minimum balance is not trenched upon.

837. Budgets of local bodies are necessarily connected with budgets under certain heads of Government departments, such as education, medical relief, public health and sanitation etc. There is no objection to extracts from the former being forwarded to the Government department concerned, but the latter should not have the power to require any local body to revise its estimates in accordance with their views. Whatever remarks Government departments make should be simply for the consideration of the local body and should not affect its liberty of action.

838. Even where local bodies are indebted either to Government or to the public, that by itself is no reason for requiring Government sanction to their budgets. So long as adequate provision is made for the service of the debt, there is no need for outside sanction.

839. There is no objection to local body sending its sanctioned budget through the district officer for the information of the State Government. But so long as the local body maintains the prescribed minimum balance and makes adequate provision for the service of debt, there should be no intervention by Government or by any officer on behalf of Government. The auditor can exercise sufficient external check on Government's behalf to see that the conditions prescribed are duly fulfilled, he could make a report to Government and then appropriate action can be taken.

840. The power to sanction a budget necessarily carries with it the power to allot funds at discretion. The practice prevailing in certain States to require local bodies to allot a percentage of their revenues to a particular object militates against this essential requirement. We are, therefore, of opinion that such restriction, wherever it exists, should be removed. This, of course, does not mean that where Government gives a grant for a specific purpose that grant may be diverted to some other purpose. Subject to this fundamental condition, which the auditor could at any time check and bring to the notice of the Government, there should be complete freedom in the allotment of funds.

841. Connected with this matter is the question of contribution which some local bodies are required to make for services and objects which are provincial

or controlled by the State Government. We think, that where Government considers it essential to control a service, it should pay for it and not ask for any contribution from the local body. Administrative control and responsibility for payment should go hand in hand.

842. The present restrictions on the powers of sanction to works expenditure are very minute and should be abrogated. In regard to projects which are financed from loan funds, or Government grants, Government may impose only such restrictions as may be considered necessary for securing the proper application of the funds. Where a local body can meet the expenditure on any project from its own revenues, and where it has got qualified technical experts for the preparation of plans and estimates and their execution, there seems to us no reason why it should be compelled to obtain Government sanction which necessarily takes time. Government may keep an approved list of technical experts from which local bodies may, if they so desire, make their choice according to their needs and financial resources. The appointment of engineers generally requires the sanction of the State Government and where such engineers are already in the employ of a local body and are technically competent, there should be not need for any further sanction. Should, however, the project be so big in Government's opinion as to be beyond the professional competence of the engineer employed by a local body, and the services of a Government engineer have to be taken, they should be made available free of charge, and in any case at a concessional rate.

843. In the case of projects financed from local funds, it is desirable that the sanction to plans and estimates should be subject to Government approval. All that is necessary afterwards is to see that in their execution the original plan is not materially departed from. There is generally a feeling that Government P.W.D. agency is more costly than the agency employed by local bodies. We would suggest that an experiment in the direction of giving non-P.W.D. agencies a freer scope be tried and results watched.

844. An important part of budgetary control is the control of funds required for establishment employed by local bodies. Under the present Acts, Government have full power in some States in regard to the scales of pay of officers such as engineers secretaries, executive officers, health officers etc. But in addition detailed control over the non-gazetted and inferior establishment is maintained in some States which seems to us to go much too far. There may be good reasons for the detailed control which is maintained. For instance, disparity in scales of pay between local body teachers and Government school teachers causes acute dissatisfaction and to a certain extent uniformity is desirable. Similarly, where a grant for dearness allowance is given on the basis of approved scales of pay, it is manifestly in the interests of Government finance that those scales should not be increased without Government approval. But it seems to us unnecessary that a local body should have to obtain sanction for any increase in its clerical or inferior establishment or that such proposals should be judged by what is prescribed by Government elsewhere. All that seems to us necessary is that Government should prescribe rules in regard to various categories of local bodies in respect of matters such as pay, acting allowance, leave, travelling allowance, pensions, provident funds, etc. If a local body considers that its circumstances warrant any modification of such rules the variation desired should receive the sanction of the State Government. In other respects, however, we would give the local bodies a free hand in regard to their establishments.

845. The restrictions placed on the investment of spare funds by local bodies seem to us to require revision. Considerations of safety must undoubtedly remain paramount and indiscriminate investment should not be allowed. But investment of spare funds in Government Treasury bills or short term Government loans,

as in the case of State funds, seem to us to be free from any objection. Funds of local bodies are at present used by Government for their own ways and means without conferring any benefit on the local bodies themselves. This is, of course, what a banker does with his clients' funds, with the difference that he pays interest thereon. A list of banks with which funds may be invested, may be drawn up with the approval of the Reserve Bank of India. Subject to the maintenance of the prescribed minimum balance, investment of all spare funds with approved institutions should require no outside sanction.

846. The recommendations that we have made above may occasionally lead to mistakes and mismanagement but we consider that local bodies can attain adequate financial responsibility only by the exercise of such powers and by having to bear the consequences of their errors. They cannot make real progress if constantly kept in financial leading strings nor can local self-government become a reality if local bodies are habitually protected against themselves. More than forty years ago the Decentralisation Commission made most of these recommendations. It cannot, therefore, be said that even today local bodies are not fit to discharge the responsibilities which the powers we have proposed will carry with them. It is our firm hope and belief that with the grant of larger powers will come an increased realisation of responsibility and the growth of informed public opinion will constitute a check which will prove more effective than official intervention.

We should like to express our appreciation of the valuable services of our Secretary, Shri Dayaldas Sobhraj Parwani. His ability, keenness and industry have been invaluable to us. Our staff, headed by the Office Superintendent, Shri K. R. Ramaswamy, has had to work under great pressure. They have worked long hours and their help has been ungrudging. Our gratitude is due to them for their efficiency and the spirit in which they have worked.

P. K. Wattal	(Chairman)
* R. D. Kapila	(Member)
B. D. Mirchandni	"
* S. N. Sapru	"
* M. B. L. Dar	"
S. K. Gupta	"
* P. B. Gole	"
* R. K. Sidhva	"
** K. A. Nachiappa Gounder	"
* Chunilal D. Burfivala	"
†	

December 23, 1950

\*Subject to minute of dissent.

\*\* The member did not attend the complete enquiry and subsequent meetings when discussions on points were made, and decisions taken, owing to his serious illness and consequent stay in a sanatorium.

† Shri Rameshwar Narain Agrawala, one of the member of the Committee, did not attend any meeting at which the draft of Report was considered nor did he sign the final report.

---

**MINUTES OF DISSENT**

---

## MINUTE OF DISSENT BY SHRI S. N. SAPRU

The Committee's recommendations as regards the finances of Improvement Trusts/Development Boards are contained in Chapter 21. There is general recognition of the fact that while Improvement Trusts have been charged with the important duty of city development, including slum clearance and rehousing, they have not been endowed with sufficient funds for carrying out those duties. The Committee's recommendations for increasing the resources of Improvement Trusts, though welcome, could easily have been a little more liberal. The opening up of congested areas and development of lands by Improvement Trusts directly results in stimulating land values and Trusts have on that account been allowed a share of such increase by means of a small addition to the Stamp Duty on transfer of property. The Improvement Trusts of Calcutta, Nagpur, Lucknow and the Development Board of Kanpur have power under their respective Acts to levy this additional duty. The Committee by a bare majority have not agreed to this source of revenue for Improvement Trusts generally—and yet they have allowed it to Village Panchayats.

Again in the case of Entertainment Tax, it is unfortunate that while agreeing to Improvement Trusts being given a share of this tax, the Committee have thought it fit to recommend that in Madras the entire revenue from the tax should remain with the Municipality which appropriates it at present. The Trusts in some quarters are regarded as a rival body to the Municipalities. Nothing can be farther from the truth. The fact is that an Improvement Trust is an aspect of municipal activity—and it is an aspect which vitally affects the health, well being and prosperity of the people living in the city. While it functions—for eventually it must merge with the Municipality—the Improvement Trust creates valuable assets for the latter which bring additional revenue from taxes into the coffers of the Municipality. Evidently the Municipality and the Trust must be regarded as partners in a joint enterprise for providing amenities and raising the civic standards of the people. There is, however, one essential difference. While a Municipality can finance itself by levying taxes, the Improvement Trust has no such power and it can only function by means of assignments of revenues or grants by the Municipality or Government.

I am therefore of the view that :—

- (1) an additional Stamp Duty @ 2% on transfer of immoveable property should be allowed to all Improvement Trusts/Development Boards; and
- (2) the Madras Improvement Trust should also have a share of the Entertainment Tax as recommended by the Committee in the case of other Trusts, even if it has to be given by the Municipal Corporation having to reduce its own share.

S. N. Sapru.



## MINUTE OF DISSENT BY SHRI M. B. L. Dar

There is much wastage of funds in the Local Bodies on account of

- (a) favouritism in making appointments which very often leads to inefficiency ;
- (b) lack of restrictions on the powers of Local Authorities to transfer amounts from one budget head to another or to increase provision under a budget head when the budgets are first presented to them, and
- (c) lack of supervisory guidance by way of an efficient inspectorate in all States except Madras.

Each State should, in my opinion, have an independent centralised machinery on the lines of the State Public Service Commission for the recruitment of personnel of Local Bodies on the basis of prescribed minimum qualifications and standard rates of pay. Members of such a body should be appointed by the State Government and if necessary paid out of a fund to be raised by contributions from Local Bodies in the States on the basis of their income.

When State budgets are presented, the State Legislative Assembly, while it has the authority to decrease provision under any budget head, is precluded from voting a transfer of amount from one budget head to another or to increase provision under a budget head. This enables Governments to prepare their budgets with a greater sense of responsibility. Preparation of budgets is a skilled operation requiring much care, thought and due consideration of all essential needs and any amateurish interference with it is likely to upset the whole structure. In Local Bodies, budgets, after preparation by the executive are usually scrutinized by a Finance Committee of the Local Body concerned ; any attempt therefore at too drastic an interference by a larger body which by the very nature of its composition is unable to give the necessary labour, thought or time to the well knit fabric of the budget should be discouraged.

Except in one or two States, there is no centralised machinery to give guidance to or exercise supervision over Local Bodies. Even in a country like England which has enjoyed parliamentary democracy for a long time it has been found necessary to have an efficient inspectorate to give necessary expert guidance and advice to Local Bodies in their problems and to see that the fullest use is made of the money proposed to be spent on their schemes.

M. B. L. Dar

## MINUTE OF DISSENT BY SHRI CHUNILAL D. BARFIVALA

### CONTENTS

	PAGE
1. Introductory	357—361
2. Is local taxation very low in India ?	361—362
3. Progressive Rate of local taxation—inadvisable	362—365
4. Financial adjustments	365—380
(i) Assignment and sharing of sources of revenues	
(ii) Taxation of machinery	
(iii) So-called service taxes	
(iv) State property tax	
(v) Property tax exemptions	
(vi) Valuation by outside expert agency	
(vii) Taxation of Port Trust properties	
(viii) Terminal tax, Octroi and Sales Tax	
(ix) Government Grants	
(x) Provincialisation of local functions	
5. Greater Bombay Corporation	380—381
6. Improvement Trusts and other Ad Hoc bodies	382—387
7. Functions and Finance of Village Panchayats	387—447
8. Audit	448—453
9. Concluding remarks (Including Shri P. B. Gole's Note)	453—454

# MINUTE OF DISSENT

BY

Shri Chuni Lal D. Barfivala

When our Committee began to formulate conclusions, it became evident that there were fundamental differences amongst us on many important issues. There was unanimity on some points, on others, we found ourselves almost divided into two sections. In order that the report may be properly appraised, it is germane to refer to the respective viewpoints of these sections.

One section was very keen on efficiency and made almost a fetish of it. It evinced little faith in the working of representative institutions. Perhaps, it shared the belief, held by certain sections of the people, that local self-government was a failure. This section would promote and develop the sources of ad hoc bodies even at the expense of representative institutions. Members of this section seemed to be convinced that reform was needed in the direction of bureaucratising the local administration, glorifying the audit, and provincialising several local functions. They were, further of the opinion, that the level of local taxation in India was very low and that it should be raised to as high a pitch as possible.

The other section was an ardent supporter of representative institutions. Members belonging to this section felt that the warm human touch, which democracy alone can bring to bear on local administration, was far more preferable to the cold efficiency of the steel-framed bureaucratic machinery. They were of the opinion that there was very little scope for increased local taxation. They were grieved to witness the irony that when Independence had come when Democracy was writ large on the Constitution of our Country people at the lowest level of administration—to which the upper levels were proud to call the foundation of democracy—were distrusted and looked down upon at every step. Each section appreciated the force of arguments of the other, and attempted to incorporate them in the recommendations.

Our recommendations therefore represent compromises on such fundamental differences of opinion. Like all compromises, therefore, some of the recommendations will be found illegal and inconsistent, when viewed in relation to others. Some of them are marked by hesitancy and punctuated by "perhaps", "possibly", "as far as possible", "if found feasible", "subject to further investigation" and such other qualifying phrases as undecided minds could invent.

By temperament and conviction, born of life-long experience and study, I am a confirmed believer in Local Self-Government. I have thrown my humble weight in the formation of those recommendations, which, if implemented, would put new life into local bodies, enable them to breathe free air, make them vigorous and worthy of becoming the real solid foundation [and not a more convenient slogan] of our Democratic National Government.

It is a canon of cardinal faith with me, that in a vast and abjectly poor country like ours, functional and financial decentralisation was the only workable, suitable and economical policy. I am not unaware of the short-coming of local bodies. On the contrary, my intimate contact with them and active participation in their administration, rural as well as urban, for over thirty years, have revealed to me their defects and their failings more thoroughly than to many of their carping critics. Despite this knowledge, I remain a strong advocate of decentralised decentralisation. "A nation, so large in geographic extent and so varied in industrial and social development (and shall I add so very poor?) demands

a large reliance upon local responsibility and local government".\* It has got to be realised, and sooner it is realised the better—that the consequences of erroneous judgement, mistaken policies or wrong directions of the Central Government would be disastrous and would affect the whole country. There is no other power which can mitigate these consequences. Similarly, the harm caused by faulty actions of State Governments will have repercussions throughout the State. The counteracting Central Authority can have only a nominal check. But all the evil effects of most faulty administration and wrong execution of policies, and even of frauds and misdeeds of local bodies, would be confined to the narrow limits of the jurisdiction of the local bodies concerned. The intensity of harm, apart from its extent, will be lesser in the case of States than in that of the Centre and will be comparatively negligible in the case of a local body. Moreover, there would always be available counteracting, all-powerful authority of the Provincial Government. Furthermore the voice of the local electors will ultimately be felt in the direction of correcting the follies which affect them directly. The fear, therefore, of local mal-administration is unnecessarily exaggerated. The country cannot afford the luxury of centralisation or provincialisation. The Provincial Governments must divest themselves of many of their responsibilities by devolving them on local bodies or association of local bodies. The risk, if any, of inefficiency must be taken. In the long run, it will be discovered that it was worth taking.

✓ Even the control and supervision can be decentralised by utilising competent non-official representative agencies for the purpose. An instructive illustration, of how such a decentralisation can be effected, is furnished by the recommendations of the Administrative Enquiry Committee, recently appointed by the Government of Bombay and constituted mostly of administrators of the highest rank, to the effect that a considerable portion of work at present transacted by the District Collectors in connection with the supervision and control of local bodies could be transferred with advantage to the Local Self-Government Institute of Bombay, after slightly amending its constitution. Unfortunately, this recommendation of this expert Committee has not been implemented and an opportunity has been lost of adopting an epoch-making democratic step which was considered as an effective substitute for the present bureaucratic set up, and of effecting a most economical device. The experiment of establishing Janapadas in the Madhya Pradesh and the welcome feature of its constitution which does away with the dual executive machinery one of the State and the other of local bodies, deserves to be watched with interest. If any defects are noticed, they may be corrected. The experiment, I suppose, is based upon sound ideas.

Our main report fails to lay due emphasis on the patent fact that the Central and State Governments have, between them exhausted all substantial sources of elastic and expanding income. As Dr. Gyanchand puts it, the margin of taxable capacity which the Central and Provincial Governments have left untapped is extremely narrow. Utmost effort on the part of local bodies to develop their present sources of revenue will not retrieve their deplorable financial position. Our Provincial Administrators must have realised by now that continuous persuasion and coercion of local bodies to increase from time to time the rates of their taxes or to levy fresh taxes have not mended matters. Periodical augmentation of government grants, merely postpones, declarations of bankruptcy. It is now high time that mere tinkering with the problem should give place to anxious thought and immediate radical action. Fresh methods of financial adjustments between the Centre and the States on the one hand and local bodies on the other must be boldly tried on a major scale.

\*Hansen — State and Local Finance.

Local Bodies will have to be encouraged to increase their non-tax revenues. Many public utility concerns will have to be entrusted to their management in order that their income may be supplemented. In order to enable them to start and run such undertakings, substantial loan facilities will have to be accorded to them. Government should not find any difficulty in guaranteeing repayment of local loans—as ample powers are vested in them of safeguarding the interests of the creditors or of the state itself. Government may go further and themselves advance loans at cheaper rate of interest or even purchase local securities.

In suitable cases, local bodies may be asked to conduct some industries. "Earnings from local industry are also potential sources of net income and have been so used in Germany" "(Central & Local Finance in Germany—by New-comer.)" Rendering public utility services and conducting industries would add to the resources of these local self-governing units and so improve their financial position and make them offer a corresponding relief to the Provincial Finance.\*

Municipalisation will have to be resorted to on a large scale. Where nationalisation or provincialisation is undertaken, local bodies concerned will have to be made sharers in the profits accruing therefrom. Where individual local bodies cannot undertake some concerns for want of jurisdiction, a combination of local units or an Institute of Local Self-Government should be called upon to do so.

All public lands should be transferred to local bodies for exploitation by them. The Madras Financial Relations Committee opined "that the solvency of local bodies would have been assured if exploitation of land by local bodies had been steadily encouraged, since the local Self-Government was first introduced in that State." At page 36 of its Report, this Committee mentions the following methods by which land could be exploited by local bodies.

- (1) Town-planning and town improvement schemes ;
- (2) Survey and the judicious exploitation of encroachments on public roads and of plots made available for building or other purposes by regular line-operations ;
- (3) Utilization of road margins, tank beds, tank and channel bunds, and waste land for profitable purposes, e.g., for the construction of shops, godowns, plinths for petty traders, carstands, or for tree-planting ;
- (4) Reclamation of swamps, sand-dunes and other useless land ;
- (5) Acquisition of such vacant house-sites and ruined buildings, as are ownerless, or the owners of which are unable or unwilling to maintain them in a sanitary state ;
- (6) Control and exploitation of quarrying, gravel, pits, etc.

In short, I suggest that our guiding policy should be on the lines of the principal canon laid down in the Prussian Law of 1893 that taxation should not be resorted to till all other methods of procuring finance have been tried and found insufficient. (Grice—National and Local Finance.)

Our recommendations, or for the matter of that, any really sound suggestions to improve the finances of local bodies are bound to have prejudicial effect on the finances of the Federal and the State Governments. Unfortunately, our Committee was entrusted with only a sectional task of suggesting improvement in the finances of local bodies. It is submitted, that local finance cannot be dealt with in this isolated manner. The Federal, the Provincial and the Local Finance form an integral whole. The Centre cannot feel unconcerned with local finance, the Provinces to whose care, local bodies are entrusted will have to see that they (local

\*K. J. Shah—Public Finance.

bodies) are made to yield the largest dividend in the task of building the nation and therefore to be adequately financed.

The Federal Government should avoid resort to policies which deprive local bodies of taxes or contributions in lieu of taxes and federal grants due to them from the Centre *e.g.* in the matter of taxation of Railways and other Central Government properties. I venture to point out that the time is not distant when principal Municipal Corporations in India will have to be made sharers in income-tax proceeds or at least be permitted to levy a local surcharge on the Central income-tax as is done in some foreign countries.

I know that the provincial finance will be seriously affected if our recommendations are implemented to an appreciable extent. Some sources which, at present form the exclusive reserve of the Provincial Exchequer, will have to be wholly assigned to local bodies, others will have to be shared with them and local surcharges on some provincial levies may be found more suitable in respect of some others. These legitimate inroads on the provincial finance are inevitable. I do realise that Provincial Governments will find it difficult to submit to this radical operation. The resultant cut in the provincial finance can be healed to some extent if a policy of thorough decentralisation of functions as suggested above is resorted to, by the States. In the ultimate analysis, the demand of the Centre that its financial position must be strong will have to be conceded, willy-nilly. As between the provinces and local bodies the financial weakness of the States, is not such a great calamity as the perennial bankruptcy of local bodies. We may not agree with what some politicians say that the provincial Governments are a luxury in a poor country and that a unitary State is preferable to a federal State. But there is this much truth in this extreme suggestion, with which we may agree, that a thorough decentralisation from the State to local bodies will result in considerable economy.

There is one more general recommendation which I consider to be of great importance. The Constitution of India lays down a directive Principle of State Policy (vide Article 45) making it incumbent on States (which phrase includes local authorities of all kinds) to provide for universal compulsory and free primary education within ten years. So far as I am aware, such a duty of providing universal and free compulsory primary education has not been put on the shoulders of local authorities in any other country. It is plain enough, that local authorities are not in a position to find the finance necessary to carry out this directive. It is submitted that the Federal as well as the Provincial Governments should relieve local authorities altogether of all financial responsibility in this behalf. I understand, that the State of Assam has taken over this responsibility and done the only thing that was sensible to do. The actual administration of Primary Education should, however, be left in the hands of the local authorities because that is the only agency which is interested in and suitable for making the scheme of compulsion a success at the minimum of cost. I hope the States will appreciate the importance of this suggestion.

Unfortunately, our Committee could not go into the problem of provincial *vis a vis* the local finance, or else our recommendations would have had a greater value. Under the circumstances, I suggest that each Provincial Government should, without the least delay, appoint a competent Committee consisting of experts in the administration and finance both of the Provincial Government and of local bodies to examine the problem in their respective jurisdiction in all its bearings. Pending the findings of such a composite Committee, the State Governments should try to implement such of our suggestions as they consider feasible, and which can be given effect to in the immediate future.

I shall now proceed to give my views on some of the important recommendations made in our main report and try to formulate my own suggestions. I shall begin with an attempt to demolish the general belief that the rate of local taxation in India is very low. This belief is the basis of many of the recommendations and therefore an examination of the correct position appears to be imperative.

I shall then take up a few important issues only and submit my remarks on the recommendations made in the main Report.

A special chapter dealing at some length on the functions and finance of Village Panchayats is included in this note. I find that this subject deserves the greatest attention of all of us

### IS LOCAL TAXATION VERY LOW IN INDIA ?

**Incidence of Local Taxation.** In the main report, it is stated that the incidence per head of local taxation in India was half per cent of the per capita income. The unveiled inuendo is that the incidence of local taxation is very low in India as compared with the same in other countries. I cannot share this view, although it is unfortunately common. I shall, therefore, state briefly my grounds for dissent.

Let us first see how this figure of one-half p.c. is arrived at. The Economic Adviser to the Government of India has recently published his report on the National income of the Indian Provinces for the year 1946-47. He has estimated the total net national income at Rs. 5580 crores. Dividing this income figure by the estimated population figure of 244.4 millions we get a quotient of Rs. 228 which is taken to be the per capita income per annum *i.e.* 19 per mensem per head.

Let us now see how the incidence of local taxation is arrived at. It has been assumed that in 1946-47 population in municipal or urban areas was 2,67,02,434 and in the District Board areas 20,45,22,250, making a total population of 23,12,24,684. In the case of income from local taxation, it has been estimated that the total income of the municipal areas was Rs. 19,33,37,132 and of the District Board areas was Rs. 5,22,28,921 making a grand total of Rs. 24,55,66,053. This grand total is divided by the above mentioned total population figure of 23,12,24,684 which gives roughly Rs. 1-0-11 per capita incidence of local taxation.

Dividing the estimated per capita income of Rs. 228 given above by Rs. 1-0-11, the incidence of local taxation per head as mentioned above, we find that roughly half per cent of the per capita national income is paid in local taxes in India.

By a somewhat similar process, but on a more scientific basis and from more reliable data available for England, it has been estimated that about 2.7 per cent. of the per capita national income for 1949-50 (*viz.* £224) is paid in local taxes in England.

This gives rise, superficially, to the conclusion that the proportional incidence of local taxation to national dividend is higher in England than in India. But a closer examination will show that the conclusion involved is based on erroneous premises and wrong data, and to say the least, is misleading.

In the first place, it would be wrong to compare the mere percentage of local taxation to national income without comparing the absolute value of the national incomes. A tax of even half per cent. on an income of Rs. 19 p.m. (which, at present prices, cannot secure even one meal a day) falls more heavily than a tax of 2.7 p.c. on an income of Rs. 250/- p.m. From the point of view of the tax-payer, the tax in India is really higher than that in England, because the total national dividend in India is so low that it would deserve to be exempt from taxation al-

together (1). Moreover, to compare England, 80. p.c. of whose population is urban with India where the urban population is only 13 p. c., is to ignore basic economic differences. In all rural areas, the taxation is always lower than in the urban and this is true all the world over. In India, the local taxation in rural areas is Rs. 0-4-1 per head against Rs. 18-12-3 in corporations and Rs. 4-11-10 in municipal areas. England can be more equitably compared with urban India rather than with India as a whole, which is essentially rural. If this were to be done—I regret that the relevant data is not available to me—the supposed lower incidence in India would, I am sure, disappear (2).

Thirdly, the above comparison is made between Indian taxation in 1946-47 with that of England in 1949-50. During the last three years, the incidence of local taxation has risen tremendously. In the State of Bombay, it has gone up by about 30%. If due allowances were to be made for such increases, the apparent difference would be greatly reduced.

Fourthly, the recent rise in price-levels is about 3—4 hundred p. c. in India as against 75 to 100 p. c. in England. This is another factor to be considered in comparing relative incidence and to be duly allowed for.

Lastly, land-revenue is not included in Indian figures of local taxation, whereas the land-tax is included in the English calculation of local taxes. If it were to be added to India or deducted from England, the resulting picture would be quite different.

Each of these five factors mentioned by me tend to liquidate the apparent difference between the proportional local taxation in India and England. If all of them were to be taken in conjunction, as they ought to be, I feel sure that the reasonable conclusion would be, not that local taxation is higher in England but that it is actually higher in India (3) !

#### LOCAL TAXES AT PROGRESSIVE RATES—INADVISIBLE

**I. Property Taxes.** I must sound a note of warning against the adoption of the recommendation which some of my colleagues have made in favour of the levy by local bodies of property taxes at progressive rates. This recommendation has been made by them without assigning any reason why proportional rates are unsuitable in respect of local taxation of properties and why they recommend the adoption of progressive rates.

If my colleagues who recommend this course, are in favour of the abolition of the institution of private property by a progressive levy of local property-taxes their recommendations would be, at least, logical and it would not be necessary to

(1) "Not only is the per capita income low, but its distribution also is highly uneven. The condition of the majority is therefore much worse than is indicated by the figures of per capita income. Among the urban classes—nearly 50 per cent. of the total income is concentrated in the hands of only 10 per cent. of their number. Inequality between rural and urban income is still more glaring (Dr. V. K. R. V. Rao—'The National Income of British India—quoted in Indian Rural Problems by Nanavati and Anjaria.) It is doubtless that relatively to other countries as well as life, our national income is much too low".

(2) It should also be noted that local taxation in India is handicapped by the poverty of India particularly rural India. 50 per cent. of the houses in the rural area have practically no letting value and the average annual letting value of the remaining 50 per cent. is Rs. 10/ per annum (vide Report of the Economic Adviser to the Government of India Table 7 (b)). "Of the Land-less Labourer in rural areas is earning 2/3rd of the wages necessary to maintain him on minimum subsistence level on a very low standard of living."

(3) "I can only repeat (Hon. Hyndaman's Bankruptcy of India) that the people of India are growing poorer; that taxation is not merely actually but relatively far heavier".

(J.C. Kumarappa—Public Finance and Poverty P. 68)



join issues with them. I, however, suppose that they would not like to class themselves with any of the "ists" who would go to the length of manipulating local property taxes to achieve this extreme end ; but two other recommendations of these colleagues, are rather consistent with this radical position. They recommend the repeal of the provision of the Bengal Municipal Act, which provides that rates for property taxes should be regressive after the valuation reaches the level of rupees one lakh. They also recommend the repeal of similar provisions from the Bihar and Orissa Municipal Acts. Secondly they recommend the repeal of the provisions of law, existing almost in every State, providing for the exemption from local tax, of properties on the ground of extreme poverty of the assesses or on the ground that the valuation is below a particular low minimum. In other words, these colleagues, who advocate progression would not agree to exempt minimum level of subsistence from property taxation.\*

These recommendations together with their other recommendations to substantially increase the rates of property taxes almost everywhere, if accepted, would result effectively in obliterating the institution of private property to a great extent.

Besides the extreme wing of the politicians holding the above view, there is another class of persons who take up a less stringent attitude towards the institution of private property. They argue for the adoption of progressive rates of taxes with a view to check the evils arising from unequal distribution of wealth. To them progressive rates are a Summum Bonum for the purpose. This method of correcting the inequalities is generally adopted only in the cases of taxes on incomes and on transfers of properties by gift or on death. Application of these rates to local property taxes are not advocated. They realise that progression fits in with personal taxes and not impersonal taxes. Progressive rates have been applied to property taxes in Switzerland by Cantons but the principle has not been extended to the sphere of local taxation (Foot Note Seligman Essays on Taxation) In the case of income tax the progressive rate is generally applied by central authorities only. When an attempt was made in Sweden to apply the progressive rates to income tax at the local level, it had to be given up, because a commission on local Taxation there, reported in 1942 that the progressive rate should be discontinued mainly because such a rate intensified local disparities in resources.

My colleagues who advocate the levy of progressive rates for property-taxes by local bodies overlook the fact that such a levy may have justification in the case of income tax on the ground of ability to pay but it works unfairly in the case of taxation of property by local bodies. There is a fundamental difference between local property tax and central income-tax *viz.* that local property tax correlate very badly with 'income' from property 'much less with local valuation of property'. It is evident that in the case of valuation of properties on the capital basis, one cannot with any show of reason, co-relate valuation with the actual income. In the case of valuation of properties on rental basis it cannot be argued, specially in the case of owner-occupied properties, that the valuation has any relation to the actual income of the assessee. Even in the case of rented property the gross return from rent is not the proper criterion of owner's ability to pay. For ought we know, he may have mortgaged his property. In that case no deduction for the interest he pays to the mortgagee will be permitted from the gross receipts as is done in the case of income tax, where "ability to pay" is the proper criterion. It will thus be clear, that the unadulterated ability to pay argument in the case of local property taxes is based on the false premises that local valuations of properties or even gross receipts are a good measure of ability. Two

\* (I am dealing with the question of exemption in the note elsewhere).

persons with the same valuation of their properties or gross receipts will be paying at the same rate even though one is indebted and the other is not. In the case of progressive rates, the principle of justice in taxation will receive a ruder shock.

"Local Assessor, moreover pays heed only to the property which is situated in his district. No attempt is made or could be made to assemble scattered estates for the purpose of settling rates based on the total net ability" (See Groves Financing Government).

The property taxes actually levied even on proportional basis perpetuate serious direct distributional injustice. Let us not pile errors upon errors and carry this injustice yet further. (In the foot notes (1) see Seligman Essays on taxation also—American Public Finance and Buhler—Public Finance).

Furthermore, the whole procedure for the levy of local progressive property taxes, including the fixation of the grades, slabs and brackets is bound to be more arbitrary and unscientific at the local level. It would never reflect true ability. A glance at the progression of rates in different municipalities would convince the most ardent advocate of progressive taxes of the truth of this criticism.

Where we have a plethora of parties, based on political, linguistic, religious and communal difference, progressive rates would result in greater disharmony. "The political popularity of 'soaking the rich' is likely to be a temptation to primitive measures regardless of the effects on revenue (Public Finance—Buehler).

I would not therefore support the recommendation of my colleagues to adopt the progressive rate of property taxes by local bodies. I concede that progressive rates are a high powerful weapon either for the extreme purpose of destruction of private property or for the political purpose of correcting inequalities of wealth. (see Financing Government by Groves). But it is submitted that we should keep this powerful weapon in the hands of upper levels of Government only and not in the hands of local administration. A recent authority on Public Finance says that "It is most desirable to have a local tax which does not exaggerate local disparities in wealth. This it will be noted cuts out for local use progressive income-taxes. A tax which is proportional or even moderately regressive is more appropriate for a local purpose than a progressive tax etc." (Hicks Public Finance).

"The least hampering type of tax is the rather regressive tax to which every one contributes, the sort of tax which we have considered to be desirable as a local tax on other grounds. The most hampering variety is the progressive tax (J. R. Hicks, Hicks Lesser—The problem of Valuation for rating.)

It is needless to add, as some writers have done, that in times of house shortage—the property tax would be a burden upon shelter. The Indian income-tax authorities have recognised the truth of these remarks and have exempted from income-tax new properties for at least 3 years. Progressive local rates would be much more objectionable and act as a serious deterrent of building activities.

I know that in some states progressive rates have been adopted for the levy of property taxes by local bodies. It is submitted, however, that if we are to extend the adoption of these progressive rates in the sphere of local taxation—the better course is to permit the levy of a surcharge on income-tax for local purposes. This would be just and equitable. At any rate this would be better than the crude attempts we are at present resorting to, for levying these taxes on the basis of 'ability to pay'. In spite of several drawbacks of a system of local surcharge on income-tax this method is not quite unworkable—as the experience of other countries teaches us.

**II. Professional tax at progressive rates.** In the case of the levy of **profession tax** by local bodies which is permitted by the constitution to a very limited extent, there would be some justification for the existence of progressive rates as they would be based on net income. It is in fact a local income-tax and I suggest that the administration of such a levy by the income-tax authorities particularly where bigger bodies are concerned, would be a welcome improvement over the present methods. Our Committee received ample evidence to show that local valuation of Professional tax on income basis, was most unsatisfactory. Even the appellate authorities found it difficult to do justice to the parties concerned.

**Local fund cess.** For some of the reasons stated above, I am also opposed to the levy of Local Fund Cess at progressive rates. If agricultural income tax were imposed instead of land revenue, there would be some justification for the levy of progressive rates.

**Financial adjustments.** With a view to better equip the local bodies for service as instruments of national policy and prepare them for the steady enlargement of their functions in the new set up, we have, in paragraph 131 of the main report, suggested the desirability of establishing a convention by which the net proceeds of certain Union and State sources of revenue shall be exclusively available to the local authorities. In order to render their financial position more secure, I would go a step further and recommend that the proposed demarcation of resources should preferably rest on a statutory basis by promoting the necessary legislation. Secondly, in addition to the thirteen items proposed for such treatment, I would also recommend the "localisation" of a progressively increasing share of the following:-

14. Land Revenue (Entry 45—List II)
15. Taxes on Agricultural income (Entry 46—List II)
16. Succession and estate duty on agricultural land; (Entry 47 (8)—List II)
17. Succession and Estate duty on other than agricultural land (Entry 87—List I)
18. On sale of goods other than newspapers (Entry 54—List II)
19. Non judicial stamps other than those levied by the Union (Entry 44—List III)

I can visualise the difficulties in the way of the immediate implementation of the above proposals and foresee the disturbing effect upon state finances they are likely to produce. I am, therefore, prepared to concede that these proposals should represent the over-all targets which the State Governments must set before themselves as the ultimate goal for attainment by stages. They should proceed to evolve programmes suited to their individual requirements for the fulfilment of that ideal within a reasonable distance of time. But a beginning could and should be made immediately.

For instance the succession and estate duty has yet to be formally developed. My proposal only seeks to ensure that if and when introduced, the proceeds of this tax shall be earmarked for the local bodies. The acceptance of such a proposal is therefore not likely to produce any repercussions on the State finances.

Similarly the immediate transfer of a share of receipts from (1) taxes on agricultural income wherever levied and (2) from stamp duty on transfers of property and on letters of administrations and probate is, it is submitted, a practical proposition. Its consummation should not present much difficulty and need not therefore be put off to a future date.

With respect to the sales tax, my colleagues consider that it should remain a wholly State source of revenue and not shared with the local bodies (paragraph 637). I am sorry I do not share their opinion. I consider that the objection to the sales tax on the score of being a regressive tax can almost be fully met if its receipts are spent for the benefit of the masses or in other words are practically earmarked for the development of local beneficial services for which local authorities are responsible. In the section relating to octroi, I have developed this theme and shown how octroi can be replaced by the State Governments sharing the proceeds of sales tax with local bodies or in the alternative agreeing to a surcharge on sales tax under certain circumstances. I adhere to that opinion and would repeat that in view of the obvious identity of incidence between octroi and the sales tax, the proceeds of the latter belong by right to the local bodies and should therefore be shared with them.

Lastly comes the land revenue. It is gratifying to recall that my colleagues were able to concede at least the principle that local bodies were entitled to a share in the proceeds of this tax; though their actual recommendation in this behalf falls far short of what the situation requires. What they have proposed is the immediate allotment of only 15% of the land revenue to village panchayats and where not so assigned, to the district boards (paragraphs 637 and 730). The suggestion is hardly likely to inspire enthusiasm when it is remembered that it represents the re-statement of a reform already carried out in Bombay. It appears that my colleagues had a great mental struggle on going even so far and but for the Bombay reform they would have left untouched the land revenue. This hesitancy is wide-spread, particularly among administrators in many States. I would therefore like to deal with this topic at some length.

As late as the year 1907, the Decentralisation Commission proposed that "in order to make the Boards more independent financially the 25% Government grant on their land receipts should be distributed rateably to each district Board. Any other Government grants which may still be necessary in poor districts should be in lump sums or in the share of percentages of expenditure on such services as education. But such grants should in all cases be given under a quasi-permanent settlement and should not be subject to periodical revision. Nor should Government grants of this description be treated as justifying increased Government control." The Government of India appear to have accepted this principle when they allotted Rs. 7 lakhs as a contribution calculated on a basis of 3 pies in the rupee of land revenue in that year. It was therefore that the Lawrence Committee 1915 (Bombay) recommended that a share of the land revenue should be added to the local fund account. They considered it "of the greatest importance that the e grants should be converted into permanent assignments of revenue and guaranteed against curtailments when Provincial Government falls into financial difficulties." Commenting upon the above recommendations, Mr. Martin, the Officer on Special Duty reported (1917). "This is undoubtedly the most appropriate source of aid to local boards. It is realized within their limits and paid by persons who benefit by their operations. No other bodies could base any claim on the fact that portion of a fund to which they did not contribute was returned to those from whom it was drawn. There are other arguments in favour of Land Revenue as a source of assistance to local boards. In rural areas, as has been pointed out by various authorities land must be the main object of taxation. A house tax, a tax on the rayat's cattle or a poll tax on himself are alternative or additional direct taxes, which have been or are in force in various countries. None of these can be advocated as a general tax for *rural India*. Indirect taxation by octroi or similar means (in rural areas) is impossible from the nature of the case and the Central Government has appropriated excise. There remains the land. It is at present the chief source of local board revenue in India. In England in

the form of "rates" it contributes largely to local taxation, the State land tax being of little importance. In France and Italy, as has been shown before, it contributes to both State and local funds, the latter getting the larger share, while in Germany the tax has been wholly made over to local bodies. The difficulty of deriving further local revenue from it in India arises mainly from the fact that the State has already utilised this source of revenue. Whether land revenue is rent taxation or a rent charge need not be discussed in the present connection. What is felt is that land already contributes a large share to the public revenues and whether the difficulty in raising further funds from it for public purposes be economic or political, the result in the limitation of resources is, from the point of view of local boards, the same. If land made no other contribution to the general needs than the present one-anna cess, local taxation on it at a much higher rate would be little felt and paid without grievance. Again on the theory that land revenue is not a tax but a rent, the argument may well be put forward that Government in its capacity as the chief land owner of the country is directly interested in the meeting of its local wants and that in such matters as the improvement of communications and the creating of a healthy and intelligent agricultural population, the State in India has a peculiarly direct economic interest. There are therefore valid reasons for considering that rural areas and their local boards have special claims on the land revenue and if a share of any definite revenue is to be assigned to local boards, the land revenue is a very obvious and natural one. The Indian Taxation Enquiry Committee (1924) also recommended that a portion of the land revenue should go to the local boards.

Thus land revenue is an ideal tax for local purposes as it pre-eminently satisfies all canons of local taxation. If, therefore, local expenditure incurred by local bodies has to be met by local taxation, it is the land that must shoulder the burden. This is specially true in India where there are very few other sources in the rural areas that would yield any appreciable income. It would further appear that practically in all European countries land revenue is the main source of the income of local bodies. Seligman, an eminent authority on taxation says that throughout the world, reliance for local revenue upon real estate is not only indisputable but is in complete harmony with the newer theories. Bastable endorses this by declaring that all abstract reasoning and experience are in favour of this proposal. I, therefore, feel fully justified in holding that the entire proceeds of the land revenue including the non-agricultural assessment belong by right to the local bodies and should therefore be assigned to them along with a portion (not less than 5%) of the Forest Revenue. In view, however, of the prevailing financial stringency, I would regard it as fair if only 25% of the land revenue collected was immediately made over to the local bodies, the ultimate alienation of the entire proceeds being spread over a number of years. Unless this is done, I doubt whether it will at all be possible at any stage to claim with any degree of satisfaction that the local finance has been placed on a fairly sound footing.

Among the other taxation proposals there are a few to which I cannot subscribe. For instance I find it difficult to support a proposal for the taxation of floating population in the shape of a tax on railway passengers in important centres of trade and industry (paragraph 582) and a tax on road transport in the shape of a surcharge on fares ranging from 3 to 12 pies according to distance (paragraph 696). In my opinion such taxes are of doubtful utility. To quote Dr. Gyan Chand "But the levy of tax on passengers by Calcutta for making permanent improvements cannot be justified. The incoming and outgoing of passengers from these places is due to their geographical position and is a normal feature of every port. In taking the passengers they are taking advantage of their being gateways of commerce to levy a toll on the country as a whole. The fact that these taxes are not

heavy and their payment is not resented makes them tolerable but does not change the fact that they are wrong in principle".\*

**Taxation of Machinery.** My colleagues "see no reason why such machinery as is rateable in England should be excluded in India and recommend that Acts of the various States may be amended on the lines of the English practice in this matter. The reason for this difference is obvious, *viz.* that the stages of industrial development of the two countries differ materially. Our industries are still in a nascent state and need steady fostering at the hands of the State and the local authorities. Our protective tariff policies are based on such considerations. I do not think therefore that under the present condition of our industries we should subject machinery to local taxation. In fact, we should, at the present stage, avoid any steps likely to hamper the growth of the industrialisation of our country. Moreover its introduction would add an element of complexity in the local assessment of our property taxes. I would therefore prefer to adhere to as simple a process of assessment as would avoid the engagement of a costly expert agency for valuation in the sphere of local taxes that such complexity would involve. If, however, Government are inclined to cover machinery for local assessment, difficulties of defining machinery, as printed out by the Calcutta Corporation Investigation Commission, should first be solved. I am, however, definitely of the opinion that the introduction of any such foreign innovation in our system of local taxation at the present stage will only result in warping the growth of our infant industries and introduce complexity in local taxation and must therefore be ruled out.

**So-called Service Taxes.** I am glad that the main report rejects the theory propounded by auditors in this country that certain imposts which they are pleased to designate "Service-taxes" should be self-supporting.\* We have also shown that there is absolutely no legal basis for this insistence on the part of the audit. In fact, if any inference could be justified from the provisions in the different Acts, it would go against the interpretation put forward by the auditors! Stranger, as it may seem, misled by the audit objections, State Governments have insisted upon the observance of the so called "Expenditure-equal-income" theory in respect of many local services and even adopted the misnomer invented by audit by referring to them as "service-taxes." The combination of the two terms 'services' and 'taxes' provides an instance of contradiction in terms inasmuch as a tax is a compulsory payment irrespective of services. Thus there can be no assorting of services with taxes. The phrase "so-called" exposes the erroneous juxtaposition of services with taxes. My colleagues have felt shy to use the adjective "so-called" probably out of deference to the prevalent usage. Apart from this hesitancy, a sort of halting agreement with the proposition that service taxes cannot and need not be self-supporting appears to pervade their recommendations on this subject. They even prescribe self-sufficiency as the "*ideal*". In their desire for as much revenue as possible from these sources, they have qualified their recommendations by the use of the terms "probably" "possibly" "as far as possible" ect. They are unable to throw off the old cloak which has covered this pet error of the audit for the past half a century. They need not have been so apologetic in the expression of their convictions. The logical corollary to the principle of self-sufficiency, would be that if the expenditure shows a tendency to outrun receipts from particular maximum rate, the service itself should be cut down. This in fact is the length to which an auditor went when he suggested cutting down a service when the cost exceeded receipts! If such an interpretation were supported the conservancy services in several municipalities, which in a majority of cases are in a poor way and where costs have gone up on account of the rise in wages, will have to be drastically

\*Local Finance in India.

†In paragraph 295 of the main report.

reduced! I trust the State Government at least, if not the audit, will see the futility of insistence on the pursuit of the theory of equating cost and expenditure in respect of these essential services which must be rendered equally to the poor as well as the rich irrespective of the tax-paying capacities.

**State property-tax.** There is one more aspect of the proposals which needs mention. It is with regard to the property taxation. In the opening paragraph I have referred to the proposal regarding a convention to treat certain Union and State Lists subjects as exclusively available to local bodies. These also include "taxes on houses and lands." At a subsequent stage, however, (paragraph 166) while dealing with urban immovable property taxes imposed by States in Bombay and Punjab, my colleagues advise that "State Governments should withdraw from this field on condition that an equivalent local tax is imposed by the municipality." The addition of such a condition was not only uncalled for but definitely illogical. For, if a convention must be established that the taxes on lands and buildings shall be exclusively available for local bodies, as proposed, then the withdrawal by the State Governments from that tax must be absolute and untrammelled by any condition. It was represented in evidence that the levy of such a tax by the States constituted a flagrant encroachment on the already limited sphere of local taxation. They levy is not illegal because the demarcation between the local and provincial sphere brought into being by the Scheduled Taxes Rules of 1919 was done away with under the Government of India Act 1935 and that position has been maintained under the new constitution as well. That, however, does not take away the moral obligation of the States not to encroach upon resources recognised as local. While therefore recognising the inequity of this levy by the State Governments, my colleagues have supported the condition imposed by the Government of Bombay for withdrawal from this levy viz. That the local bodies should impose an equivalent rate of additional property tax on the rate-payers of the municipal areas concerned. This indeed would be a very incorrect approach to the problem. If they insist that the municipal rate should be increased, by an addition of 10% of the annual letting value in Punjab, for example, they should straight-away amend the municipal Act and give effect to their decision. In Bombay the condition has not been found acceptable even by the municipal Corporations of Bombay and Poona because they considered such additional increase too burdensome. In any case the retention of the proceeds of this tax by the State treasury is far from justifiable and consequently the attachment of any condition was unnecessary and so the withdrawal must not be subject to any condition.

**Property tax exemptions.** In paragraph 189 of the main report, my colleagues have suggested that "there should be no exemption from property tax merely on the ground of the annual value falling below a particular limit" and have accordingly proposed that "such exemptions, wherever they exist should be done away with."

From my long experience of the working of local self-government in this country, I find it difficult to subscribe to such a view. I hold that a proposition of this nature is hardly likely to prove workable in actual practice. In my opinion, the suggestion implies in effect, though not in so many words, that no man owning property can be considered poor or that no one has a right to hold property and call himself poor. A stand such as that would hardly be sustainable. It further lays itself open to the charge of being oblivious to the fact that in India there are immovable properties which are owned and inhabited by persons whose means are so meagre that they are unable to make the two ends meet. They are living below a minimum subsistence level of existence.

Any system of taxation must take cognisance of the national characteristics and habits of the people. People in the mofussil are generally owner-occupiers. Many of their properties are not buildings but huts of the most primitive type—they afford some slight shelter against the elements. There are, in India, lakhs and lakhs of people living in such huts. Then, there are widows and old disabled persons who own small 'houses' in the mofussil and patiently await their death in dire poverty. People incur debts to own small tiny huts. Their poverty is patent. The social customs, habits and traditions of the people in this country, moreover, incline to the view that the first thing a person considers essential is to own a house—rather a hut, howsoever small, and built with the flimsiest of materials. The U.P. Municipal Taxation Committee Report (1938-39) described this national trait thus: "The poor man may become rich but he will continue to live in his ancestral hovel. Conversely the descendant of a rich man may become miserably poor and find it difficult to supply himself with the necessaries of life but he will not desert the ancestral home" and were accordingly led to recognise that "the owning of a house in this country did not indicate the occupants' ability to pay."

Most of the Municipal Acts recognise this trait of our people as also their wide-spread poverty and accordingly include provision for exemption from property taxes. As an illustration, I would refer to sub-section (3) of sec. 124 of the Bengal Municipal Act, 1932, which provides that where the aggregate annual value of all the holdings held by any one owner within a municipality does not exceed six rupees (or in other words annas eight per month) the rates shall not be imposed on any of the holdings. The presence of such a clause in our statute books clearly suggests that as late as the year 1932 there existed in the urban areas of Bengal properties bearing on annual value of rupees six. The position apparently has not much improved since then because in the foot note below Table 7 (b) of the brochure on "National Income of the Indian Union Provinces" issued in 1950 by the Economic Adviser to the Government of India it is explained that "only 50% of the rural houses have been taken to have a rental value and a net annual rent of Rs. 10/- and Rs. 120/- has been assumed for a rural and an urban house respectively." Despite these facts, my colleagues object to such exemptions and would wish to repeal all such provisions and recover house tax from all and sundry vigorously and ruthlessly by insisting upon the full pound of flesh by prompt and complete recovery. There is no human element to deter, because they insist that the State should provide the machinery which will grind airy-thin and ultimately evaporate property owning class. Perhaps they would syllogize like this. House tax is a tax in rem, consideration of the financial position of the owner is irrelevant! The poor man has no right to own a house!!! I am sorry I am unable to agree with them. I am for exempting all those who are very poor by framing rules for exemption which would become operative after due sanction from the authorities concerned. (See Buhler—Chapter XVIII in Public Finance).

**Valuation by outside expert agency.** It is generally accepted by highly rich countries that valuation of property taxes should be made by outside agencies—which are independent of local influences and which should consist of a personnel competent to make proper valuation. Theoretically the proposition appears to be unexceptionable. When we try to come to the actual working of the scheme, we come across some practical difficulties.

In the first instance let us consider the basis of valuation. In the main report, we have recommended that the most simple and suitable basis that should be adopted is the rental basis and not the capital value basis. It has been explained that this basis is capable of being worked out easily as it is a mere mathematical calculation where the property is actually rented. It is also not very



difficult to assess on this basis properties which are inhabited by owners on the basis of the valuation of properties in the neighbourhood which are rented. The difficulties would arise in the cases of special properties which are not usually let such as cinemas, factories, etc. Here some expert knowledge is necessary to arrive at correct valuations. Such properties are very few in the normal municipal areas. Help of Government valuation departments, if there are any, or of some professional persons can be taken for the purpose of the valuation of such properties. For the sake of these few properties, the incurring of the cost of outside valuation agency, apart from other considerations, is not at all justifiable.

There is, however, a stronger reason advanced for appointment of an independent agency *i. e.* one which has not to depend for its position on the votes or goodwill of persons whose or whose friends' properties are to be valued. Members of local bodies cannot exercise their independent judgment because they have got to depend upon the votes of the assesses. Officers employed by local bodies are equally unable to exercise independent judgment because of the fear of displeasing members who would like to interfere either on their own behalf or on behalf of those in whom they are interested. It must be conceded that such influences are known to be exerted and have an adverse effect on municipal finances. What then are the remedies? The usual remedies suggested are more or less on the following lines. That Government should have a valuation department whose officers or the senior officer of the revenue department may be sent round periodically to all municipalities, and they should do the valuation work. The cost of such a valuation be recovered from the municipalities concerned.

I have some knowledge of the practice recently introduced in Bombay more or less on the above lines at the instance of the Government of Bombay, who have practically coerced local bodies into accepting Government officers for valuation purposes by threats of withholding payment of certain grants which they cannot forego because of their great financial stringency. I am not concerned here with the legality of this procedure which appears to be open to grave doubt. I am however feeling that the experiment is not an unmixed success. Competent witnesses have also expressed similar scepticism regarding such a procedure adopted by the Punjab Government in the case of State taxation of urban properties in some cities.

I would suggest a slight modification of the scheme. Wholly outside agency will fail very often to appreciate local conditions, as is found in the case in some municipalities where valuations were made by independent outside Government agency. Let local authority be associated with such an outside agency to give the benefit of local contact.

Secondly let Government treat the cost incurred by them for the salary and allowance of their officers as grant-in-aid to local bodies. This would be a welcome relief to local finance and make Government interference less irksome. If these steps are taken, they will allay the fears entertained by local bodies about the heavy cost which Government machinery will land them into.

"Probably the best cure for this difficulty is to transfer the duty of valuation (but not, of course, of assessment or collection) to a central body, placing the cost on the national exchequer. This would not only promote uniformity of valuation practice, and so enormously increase the equity of the tax, but would in itself tend towards equalizing interlocal financial opportunities (by removing from local financial shoulders an expense which is especially heavy in small districts), without in any way diminishing local financial autonomy."

Before such Government agency for valuation is asked to undertake the work it is suggested that some superior officer of Government should visit municipal areas and scrutinise valuation and assessments of one or two per cent of properties selected by him and general revision by Government authorities be undertaken only if such an officer reports that such a revision is necessary. This will retain local freedom and make for efficiency and impartiality to a great extent.

**Taxation of Port Trust Properties.** Lastly comes the question of taxation of Port Trust Properties. In view of the working agreements reached by the Madras and Calcutta Port Trusts, with their respective Municipal Corporations, my colleagues have proposed that the existing arrangements be continued in Madras and that steps be taken to give legislative effect to the terms of the Calcutta agreement and ended by suggesting the constitution of a tribunal to deal with disputes relating to the...determination of rateable value of Port Trust properties. In the case of Bombay, they have contented themselves by merely referring to the dispute between the Municipal and Port Trust authorities regarding the exact nature of the items that should be included in the gross receipts for determining the profits. They have avoided going into the merits of the dispute because the Central Government was stated to be dealing with the question.

The Madras system based on a percentage of gross earnings was admitted to be working well. I think that it should be extended to Calcutta and Bombay as well in the interests of the amicable working of these bodies. Under the Madras system, 4% of the gross earnings is adopted as the rateable value of Port Trust properties. Since the figure was determined so far back as 1919, I feel, it stands in need of some enhancement on the ground of the rise in the levels of property taxation in Madras during the last 32 years. In the case of Calcutta I should like to add a rider to the recommendation regarding the legislation of the agreement arrived at viz., that the proposed agreement should be ratified by the new Corporation that will come into office after fresh election, because the present Committee carrying on the municipal administration in the interval is not representative of the local electors, but is only an ad hoc body nominated by Government to carry on the municipal administration during the supercession of the Corporation. The promotion of legislative action in this behalf should, therefore, await its ratification by the elected representatives. In the case of Bombay, while the future relations may be conveniently on the Madras pattern, the Union Government must prevail upon the Port Trust Authorities to pay off on the old basis the arrears of taxes to the Corporation of which we were told payment has been withheld since the year 1944-45. It is submitted that there are no adequate grounds for withholding such payments. I should like to add that the case made out by the representative of the Bombay Corporation for immediate payment of its dues on the old basis is backed up by sound common sense.

The recommendation to adopt the Madras system for Bombay and Calcutta may not be scientifically correct but a system which has worked well for over thirty years carries a justification in itself, and is preferable to methods which give rise to constant friction between two local bodies working in the same area. It is further suggested that the assessment may be made subject to revision periodically, instead of being made static for a long period.

**Terminal Tax, Octroi and Sales Tax.** Terminal taxes being no longer available to local bodies as an expending source of revenue (vide Article. 269 (1) (e) of the Constitution of India) we were obliged to make a virtue of necessity by arriving at the conclusion that "there is no alternative to octroi as it is financially the most productive single item of indirect taxation." My colleagues could not "think of any substitute" in place of octroi apart from terminal

## MINUTES OF DISSENT

tax. Having "reluctantly recommended octroi on practical grounds", they suggest as a matter of reform that (1) "there should be, in each state, a model schedule for octroi" which "should prescribe the list of articles and the maximum rates permissible thereon in order that wide variations in the rates may be avoided", and that (2) "if octroi is levied it should be levied generally on an ad valorem basis."

It is generally taken for granted that indirect taxation is not a suitable source of revenue for local bodies. But despite this almost universal condemnation of indirect taxation, the octroi and terminal taxes—the two most common forms of indirect taxation in services in this country cannot be abandoned. This is because their imposition meets with least resistance from the public, who are accustomed to levies of this nature since time immemorial. The levy of new terminal taxes by local bodies being effectively barred by statute, there is, at least in those States, where this form of taxation is in vogue, a rush for octroi and instances have been known where the State Governments themselves have found it necessary to encourage levy of octroi and even suggest the conversion of terminal taxes into octroi. Thus, octroi which is considered, in the main report, as less suitable than the terminal tax, has actually come to acquire great importance as an item of local revenue. There is, besides a strong undercurrent of conflict between the octroi and the sales tax—another tax on consumption that the States are empowered to levy on their own authority and which most of them have already introduced in one form or the other, resulting in multiple taxation and increase the tax burdens of the already over-taxed poorer taxpayers. Despite this obvious conflict between sales tax which is a state levy and octroi which is a local levy there is no abatement in the speed with which octroi is spreading in some places. In the circumstances, I find it hard to believe that it will at any stage be possible to dispense with octroi and consequently, I am afraid, its levy shall have to be tolerated ad infinitum unless the State Governments make up their minds to share the proceeds of the sales tax with the local bodies on the basis of realisations within those areas. If this be not feasible then I would even be prepared to recommend the introduction of a surcharge on sales tax for the benefit of local bodies. In the meantime octroi being inevitable, I will proceed to record my views on the workability of the suggestion regarding the maintenance of State-wide model schedules of octroi, recommended in the main report. Among the States in which octroi and terminal taxes are in vogue, the local bodies in the Punjab, appear to place the largest reliance on this form of indirect taxation. Their income from this source during the year 1947-48 was nearly 40% of their total income from rates and taxes. The levy of octroi in that State is both by weight as well as on ad valorem basis. An attempt is being made in that State for the preparation of a model schedule of octroi rates, and my colleagues have probably taken a clue from this move on the part of the Punjab Government and made their suggestion for a model schedule. I am afraid that a State-wide attempt on these lines is not likely to succeed, and if any such scheme is enforced, numerous exceptions to the rules will have to be provided. These exceptions would actually embrace a far larger range of articles than the general rule itself. This would be the result because the circumstances regarding consumption, use and sale (for which an octroi is levied) vary with each local body and even in the case of neighbouring areas. For instance, an article produced or manufactured in one local area may command the largest demand in a neighbouring area and vice-versa. Consequently the rates in the two areas cannot be at the same level but must be regulated by the differences in economic factors of demand and supply. It was, therefore, that the U.P. Government Taxation Committee considered "uni-

## MINUTES OF DISSENT

form rates in every municipality were undesirable." I, therefore, consider the imposition of a model schedule of octroi neither workable nor advisable.

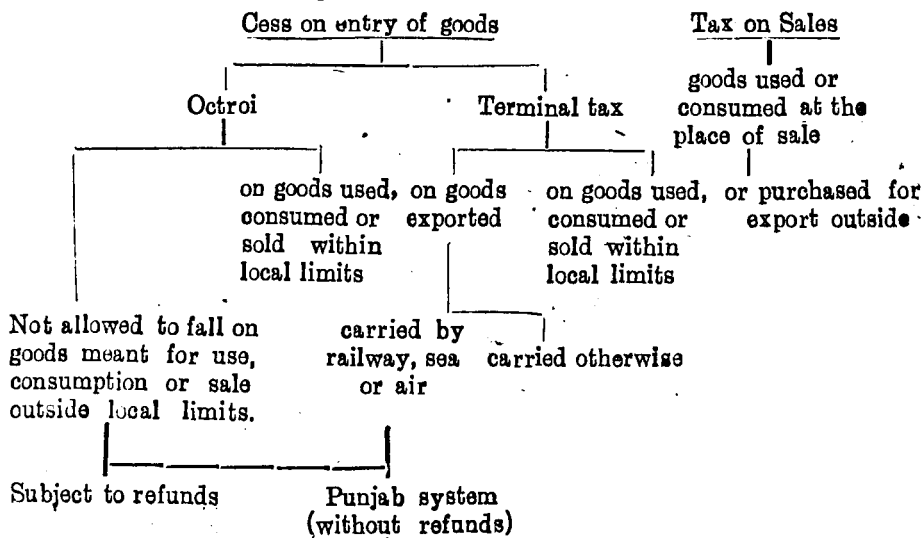
The second suggestion requiring consideration is that regarding the levy of octroi on an ad valorem basis. The utter inadequacy of local revenues is writ large on every detail of local administration. Search for more and more money appears to have led some of the State Governments to encourage and even to invite actively the levy of octroi on ad valorem basis. My colleagues, too, were led to the identical conclusion. To an extent, it is true that the ad valorem base was likely to bring in larger receipts by rendering the yield flexible, in as much as, it would increase with the rise in prices and decrease when the prices fall and thus secure automatic adjustment. I wish, however, to point out that the swing of opinion on this subject is now definitely to the other extreme and the disadvantages of the system will soon begin to show up. The U. P. Municipal Taxation Committee, were definitely of the opinion that "there should be no ad valorem assessment" and that "the tax should be on the mairdage passed and the rates applied equally to all goods". Professor Findley Shirras also condemns ad valorem assessment as "one of the worst features of the octroi" (Public Finance). According to Buhler, another eminent authority "ad valorem taxes upon necessary goods, produced by agriculture at increasing unit costs, are especially burdensome, because the tax grows with the costs and becomes regressive in its effect upon low income groups as costs mount." Again the determination of ruling prices is often a very difficult task requiring long experience and specialised knowledge of the working of markets, which a poorly-paid "Muhirir" or "Naka-Munshi" can hardly be expected to command. It was probably the realisation of this aspect of the matter that led the Government of Punjab to suggest exclusion from the purview of ad valorem assessment of all "articles the price of which varied greatly at different times of the year." Indeed the prices of goods are subject to such considerable fluctuations that no employee of a local authority may be credited to know them with any degree of accuracy. The result will be, that whereas some popular brands of goods, whose prices are well known, may be charged with proper duty, the bulk of items is sure to escape fair assessment. This uncertainty will lead to greater corruption, which will become a feature almost of daily occurrence. As Buhler puts it "complicated assessment problems arise in determining value and evasion may be harder to detect because of the ease of declaring fictitious values." Moreover the prices are trade secrets and their revelation, which is inherent in a system of this nature, is likely to lead to serious abuses. Octroi is generally condemned for its administrative defects. The introduction of the ad valorem basis is likely to multiply these rather than abate them. It is, therefore, clear that most of the evils inherent in octroi and declared by authorities as 'incurable' (see Gyanchand) exist in the ad valorem system of assessment in the most aggravated form. The essence of octroi is not in the ad valorem assessment but in securing that its incidence is confined to goods consumed, used or sold within the local limits. A specific assessment on the weight or quantity of goods would on the other hand not only much simplify the assessment procedure but secure the above-mentioned desideratum. Specific rates are commonly easier to apply because the tax is simply so much for each unit of weight and evasion is discouraged because it is easier to count units than to assess values.

In paragraph 471 of the main report we have drawn pointed attention to the defects inherent in a system of refunds. In doing so, my colleagues, however, did not consider it necessary to notice the system of octroi 'without refunds' developed in the Punjab. Several variations to suit local conditions appear to have been tried elsewhere also but with indifferent success, e.g. the Raipur system of Advance pay-

MINUTES OF DISSENT

ments (Madhya Pradesh). Under the Punjab system, goods not intended for consumption, use or sale within the local limits are allowed to be imported free of octroi on import and therefore the question of refunds on export does not arise. The legality of the levy of such a tax appears to have been called into question in the case "Chief Officer City of Lahore Corporation versus the Punjab Flour & General Mills Co. Ltd., Lahore" but was upheld by a Full Bench decision of the Punjab High Court. While that single decision may not be regarded as sufficient evidence of its legal validity and may need further examination at the hands of Government's Law Officers before it can be adopted universally as a better variant for octroi, it does indicate broadly, to my mind, the direction in which the levy of octroi could be rendered less objectionable. For, it must be conceded, that most of the evils at present associated with octroi arise from the working of the system of refunds connected with it. If these could be eliminated even partially, if not effectively as they are likely to be under a system of octroi "without refunds" the innovation has, in my opinion, much to commend itself. The anomaly inherent in the present system of octroi with refunds is that a refund becomes admissible as soon as it can be shown that an imported article has been re-exported, even though it may in the process have undergone more than one sale! No such concession would, however, be claimable under a system of octroi "without refunds". Once goods are brought with the intention of consumption, use or sale, the octroi due would be levied and the transaction closed. It is, therefore, obvious that after the system is scrutinised and pronounced free from objection by the Government of India, local bodies levying octroi may have to consider seriously the desirability of switching on to the Punjab system, which conforms more to the conception of octroi as a cess on entry of goods for consumption, use or sale than the existing system.

In the opening paragraph, I have referred to the possibility of State Governments sharing receipts from the provincial sales tax with the local bodies or in the alternative agreeing to a surcharge on Sales tax for the benefit of the latter. I have been led to this view by the consideration that in its ultimate incidence octroi tends to be converted into a tax on sales. On the other hand being levied on retail sales, the Sales Tax constitutes a tax on consumption and consequently partakes of the main characteristic of the octroi and the terminal tax both of which essentially are imposed on the entry of goods for consumption, use or sale. The subjoined chart illustrates my point.



Coupled with this identity of incidence, the Sales tax offers certain advantages over octroi. Firstly, it does not work as a tax on industry or transport and unlike octroi is difficult of being shifted to the rural dweller who brings his produce for marketing to the town. Being leviable on an ad valorem basis, the sales tax is likely to prove more productive than the octroi. The Taxation Enquiry Committee recognised these advantages and were led to record the following opinion on this subject.

"As a substitute for octroi it has certain advantages. The substitution of this tax would solve automatically the difficulties about entrepot trade, since no article which was not sold in the town would be liable to the tax. Its incidence would be fairer inasmuch as being on an ad valorem basis its weight would be greater in the case of the more expensive articles consumed by the richer classes; manufacturers would be freed from taxation on the raw materials of their industry. Collection would be less likely to be attended by fraud and harassment of the tax-payer; and lastly no administrative control would be necessary to prevent it from developing into a transit duty."

Dr. Gyan Chand endorses similar conclusions thus "receipts from sale taxation can be used to replace the revenue derived by local authorities from octroi and terminal tax and the abolition of the latter will become a practical proposition when and if the Provincial Governments levy and develop the sales tax to supplement and increase the resources of local bodies." (Finance of Local Bodies in India).

Identical views regarding the inevitableness of sales tax as a substitute for octroi were voiced by several eminent witnesses.

An extract from the oral evidence of Hon'ble Shri. D. K. Mehta, Finance Minister, Government of Madhya Pradesh, in reply to my questions on this subject, will show that ultimately the State Governments will have to consider this suggestion very carefully.

**My Questions**—Have you considered the implication of the terminal and the octroi taxes? We feel that these are abnoxious taxes but we cannot do without them. Could we devise some method by which these could be done away with? My suggestion is that a surcharge should be levied on sales tax and the proceeds of it should be given to the local body within whose area the sales take place and thus abolish the octroi?

**Shri Mehta.** But there are different stages of sales.

My question continued:—I am not talking of wholesale but the retail sales when ultimately things go into consumption. If that position could be examined it will be very beneficial and avoid all the evils of octroi which are existing at present. Many of the local bodies are superseded because of the evils of octroi. The collecting agency should be the State and the surcharge when realised should be paid to the local body concerned. If this could be done, we will be able to effect some improvement in the local administration as well.

**Shri Mehta.** You would advocate abolition of the octroi and even the terminal tax and would suggest that the sales tax should be further augmented so that the provincial revenue may not suffer. I think it is a suggestion worth considering but it will take a little time.

**My question**:—Why I suggest is this: because the provincial finance is such that some of the Provincial Governments may not like to part with this revenue but if an additional levy is found suitable then it will be a better solution than any other.

**Shri Mehta.** I would put it like this. Particularly at this stage of our political development, people know that octroi is an impost levied by the repre-

representatives whom they have elected, sales tax is an imposition by somebody, who is foreign to the local opinion. So, as I said, it will take it will require much greater awakening on the part of the people to realise these things. In my opinion a stage should be reached when this would become possible.

To recapitulate, my views on this matter, are as under :—

1. That financial position of local bodies and conditions in India are such that the levy of indirect taxes by local bodies cannot be dispensed with.
2. Fresh levy of terminal taxes being barred by the Constitution of India, the levy of octroi becomes inevitable unless the alternative proposed below are pressed into service.
3. The system of refunds in octroi gives rise to many evils. The Punjab method of octroi without refunds appears to eliminate these and should therefore be investigated further and adopted, if found suitable.
4. Octroi on ad valorem basis—may bring in larger income but is highly objectionable as it gives rise to greater corruption and has definite adverse effect on trade.
5. Abolition of terminal taxes and octroi and the introduction of a system of sharing proceeds of sales tax between States and local bodies offer the best remedy.
6. As an alternative to sharing of the sales tax, a surcharge on sales tax may be tried—
  - (i) Where terminal taxes or octroi are not levied
  - (ii) Where terminal taxes and/or octroi are levied but the composite burden of incidence is not too heavy.

**Government grants.** There is a wide-spread, almost universal, discontent against the present system of Government grants-in-aid and the way in which they are worked. The grievances generally made are that they are utterly inadequate, that no fixed principles are followed in their distribution, that the exercise of the discretion left with the authorities in this respect leaves much to be desired, that the distribution gives scope for dissatisfaction and heartburning, that the distributional justice if existing cannot be brought home to the payees, that they are used as weapons for reducing local bodies to a state of practical impotence and that this "instrument of control" in its ultimate working results in encroaching upon the declared will of the legislature by nullifying the statutory powers conceded to the local bodies by the municipal Acts themselves and that the present financially weak position of the local bodies leaves them no option but to submit meekly to all sorts of humiliating and impossible conditions attached to the grants.

We received ample evidence in support of the above complaints. The current method or rather the lack of methodical financial adjustment between the States and local bodies is responsible for giving rise to many of these complaints. It will not therefore prove of any avail to deal with this problem in a superficial manner and attempt its solution piece-meal. We must face the situation boldly, forsake the traditional methods which have failed and begin a new era in the Union-State-Local financial relationship. To begin with, the Union and State Governments must realise that for the welfare of the nation the existence of strong local self-government is as essential as that of the upper layers of government. This presupposes that the financial adjustments between the local bodies and the States must be placed on a sound basis. For this purpose the grants-in-aid alone

should not be the only method of such adjustment. The Union Government will have to appreciate that it too owes a duty to the local bodies and that it will not do to wash its hands off them by taking shelter under cover of provincial autonomy, whereby local bodies are legally placed under the sole protective wings of State Governments! So long as local bodies have not some separate sources of revenue, which they can legitimately look upon as their own, free from liability to encroachment by the State and so long as some expanding sources of revenue are not shared between all levels of Government, the States will have to support local bodies by ever-increasing though never-satisfying grants.

It is submitted that separation of some definite sources of income, and sharing of others should be adopted to the extent of fulfilling the normal requirements of local finance. The grants should come in only as supplementary to these methods of financial adjustment. Grants should be reduced to some definite and easily comprehensible formulae, in order to mitigate the present discontent. By merely stating that the grants are distributed according to "merits" or "needs" or any such equally elusive phrase will not satisfy any one. Grants must be placed on the basis of some recognised principles of assessment and distribution. If exact mathematical formulae based on some objective factors like the figures of population, rateable value, density of population, number of school-going children (in the case of education) cannot be formulated with any precision—an attempt should at least be made for evolving some sort of workable formulae so that the margin for variation is reduced to the barest minimum. This alone will induce the local bodies to feel that they are being treated equitably. Asking for grants should be reduced to an impersonal transaction; it should be no longer the present humiliating, favour-seeking and alms-receiving business. Instead of designating the process as "grant" from the State to local bodies, it should be converted into a demand or "claim", based on some palpable data. The present conditions do no honour to the giver and demoralise the receiver.

It is also necessary to lay down by statute the extent to which the Executive Governments could use this system as a weapon of control over local bodies individually or collectively. Evidence was led before us to show that the system was used to acquire powers which the legislature never intended to vest in the executive. This must cease. To illustrate the legitimate scope for using grants as instruments of control, I should mention the following *viz.* (1) that department should be entitled to see that grants made for specific purposes are not used for a different purpose (2) that in the case of percentage grants extravagance is not encouraged and (3) that in the case of block grants the case for "need" is not exaggerated.

If the recommendations made by us in the main report for making certain assignments of revenue and separate exclusive sources of income for local bodies or of sharing certain sources of income are accepted, the need for grants will be minimised and there will be fewer complaints regarding their inequitable distribution. Under the new set-up of our country it needs to be restated in clearer terms than has been done in the main report, that the greatest need of the hour is the assignment of definite sources of revenue and not mere augmentation of grants. The U. P. Government have done well in appointing a committee to go into the question of grants-in-aid and the information so far collected by that Committee constitutes a most valuable and comprehensive document so far prepared on the subject, in this country. I have no doubt that report of the Committee, will afford a very valuable guide to the other States.

**Provincialisation of local functions.** In paragraph 97 of the main report we have expressed the view that "whatever the criterion for the demarcation



of functions between the State and the local bodies, the desperate financial plight of the latter should not be made a ground for reducing them to practical impotence". I am afraid the above does adequately make out a case against provincialisation, if local bodies have to serve "as instruments of national reconstruction on the widest possible scale". It is a pity that the tendency to relieve local bodies of one function after another and provincialisation of the same is growing. If local bodies are unable to raise from taxation funds adequate for the performance of a particular function or functions assigned to them, the universal remedy suggested is that the functions themselves should be provincialised. On the other hand the ever-persisting financial stringency has rendered the local bodies desperate. The result is that even they have been found to join in the cry for provincialisation in order to secure relief from financial burdens involved in the performance of those functions. This is welcomed by the State Government departments on which the functions are likely to devolve on transfer for the very obvious reason that such a process results in the expansion of their offices and consequently in the improvement of the pay and prospects of the departmental personnel. The public at large, also welcome such provincialisation because it ensures improved service, better roads, asphalted or cemented and wider roads, better medical relief, better equipped hospitals. In fact, everything on a far superior scale than what they could hope to obtain at the hands of local bodies. In the bargain, the occasion is made a handle to charge local bodies with inefficiency and incompetence and their works—Muccadam and dust roads, poorly equipped dispensaries, lowly paid staff etc. are compared with provincialised services. Little is it realised that colossal amounts have gone into the rendering of those provincialised services and that what was paid by them reluctantly and grudgingly in the shape of rates to local bodies, is paid by them, many times multiplied in the shape of provincial and central taxes. Expenditure incurred by the Public Works and other departments, for the same kind of work as is done by the local bodies—work for work—is comparatively extremely heavy. It was freely and generally admitted by so many witnesses that the wages for labour are paid at higher rate, piece-work even for the identical unskilled work for earth-digging or spreading is also at rates which were much higher than those paid by the local bodies. Rates at which tenders are accepted by the departmental authorities are appreciably higher than the rates accepted by local bodies. Thus the nation is the poorer for all these transfers from the local to the State level. If only the finance placed in the hands of State Government departments were placed in the hands of local bodies there is little doubt that despite all the real or supposed inefficiency of their administration it would go a long way—much longer—than what the departments can offer.

There is yet another aspect of provincialisation, which is commonly lost sight of. It arises out of the restriction of opportunities for training which the provincialisation entails. The deprivation of a department resulting from provincialisation naturally restricts the field of usefulness of a local body and thereby shuts out the local body executives from the opportunities for training offered by that particular branch of administration. The over-all effect of such withdrawals therefore is to stunt the growth of local executives as useful public servants, and ultimately detracts from their all-round efficiency. That is a national loss which must be avoided at all cost.

If local bodies are to collaborate effectively in the task of national reconstruction and if every rupee of the tax-payer is to yield an equivalent value or a better value than it yields today, let us transfer as many functions as possible to local bodies and endow them with all possible funds, which the

State can spare, for carrying out their functions. This is not to say that the work entrusted to local bodies should not be supervised and checked. Let there be all possible checks and control but let there be no talk of provincialisation.

Such talk is doing no good to the rate-payers—distinct harm to local bodies—financially ruinous to State Governments and weakens the nation as a whole. To quote Sommers "the non-economic advantages of municipal independence, should not, however, be ignored. State and federal aid merely weaken local self-government. Centralisation of Services destroys it." (Public Finance and National Income.)

**The Greater Bombay Corporation.** I am sorry the Shroff Committee which was appointed by the Government of Bombay for examining the financial position of the Corporation of Bombay did not feel called upon to go into the wider questions of assignments or separation of sources of revenue but contented itself by devoting its attention to mere temporary adjustment of the financial situation. The committee, therefore, came to the conclusion that the position could be temporarily eased by raising the annual Government grant of 9½ lakhs for education to Rs. 25 lakhs.

Thus the financial position of the Corporation despite its recent increase in taxes and town duties continues to be precarious and careful attention will have to be paid to it without further loss of time. The position has become worse by absorption within its limits of suburban areas both rural and urban. Further areas will have to be taken in the near future to enable it to disperse its enormous population and break up its slums and deconcentrate its industries. It is therefore necessary that a very substantial increase in its income should be effected. I believe that the Corporation did not give sufficient thought to the heavy financial liability it under-took when it annexed a good slice of the suburban area. The Calcutta Corporation investigation Commission in its report just published, has sounded a note of wise circumspection. Speaking about the Greater Calcutta proposals, it states as under:—

"The lines on which such development should take place and the nature and structure of the authority by which it should be carried out are no doubt matters requiring very careful consideration. But the problem of finance is the first to be solved. The new areas cannot be expected to pay higher rates and taxes before they get better amenities, and even if they did, the task is of such magnitude and dimensions that, however, high the level of rates and taxes might be raised, they would never suffice to finance the undertaking. In the opinion of the Commissioners, the development of these areas outside the boundaries of Calcutta cannot be the sole responsibility either of the Corporation or of the local municipalities, nor can it be the joint responsibility solely of these bodies. The Corporation and the local authorities should no doubt each contribute towards the cost, but Government as the ultimate authority must be prepared to bear a substantial portion of the burden from the provincial exchequer. Till such responsibility is accepted by Government, it is of little use to consider the problem of Greater Calcutta."

Similar has been the experience of the city of Madras Municipal Corporations who were led to voice similar sentiments on their subject as is evidenced by their resolution dated 22nd March 1949.

"Whereas there has been a heavy pressure on the finances of the Corporation due to the assimilation of new rural areas into greater Madras and the satisfaction of needs of which entails additional expenditure without the necessary further augmentation of resources from these added areas, this council hereby

## MINUTES OF DISSENT

---

requests the Government to give a block grant as has been done elsewhere of Rs. 15 lakhs per annum for a period of five years commencing from 1949-50."

The Government of Bombay were as anxious as the Corporation to annex the suburban area to Bombay and may therefore be expected to appreciate the great financial responsibility which devolved on the Corporation and its own responsibility to make adequate contribution. I would therefore recommend that the Government should for a number of years continue to make liberal grants for the development of Greater Bombay.

Apart from that liability, the Greater Bombay Corporation needs substantial finance for its normal working and development. What we have said in the main report regarding improvement of local finance will apply to the Bombay Municipal Corporation also, but immediate and urgent need is to assign in the first instance the entire proceeds of the entertainments tax, and an appreciable share in the betting tax, petrol duty and tobacco duty. I would also urge that Government contribution towards expenditure on Primary Education should be very substantially increased. The question of permitting certain local surcharges on provincial taxes should be investigated and the Corporation be empowered to levy them wherever feasible. It appears to me necessary that steps should be taken, before the position deteriorates further, to appoint a competent committee to go into the question of the Corporation finance comprehensively and on a long-term basis.

## IMPROVEMENT TRUSTS & OTHER AD HOC BODIES

The Chapter on the finances of Improvement Trusts of the main report ends with the following cryptic remarks :—

"We received evidence at some places that it would conduce to economy, if Improvement Trust were merged with the municipalities in the area concerned. We have also received evidence that Improvement Trusts should be retained as separate bodies. As we are required to frame our recommendations on the basis of the existing structure of local bodies, we wish to express no opinion on the merits of this question."

At first Improvement Trusts were not included within our purview because the term 'local bodies' was interpreted by us, as explained in the foot note appended to the questionnaire, on the lines of its correct English connotation, as including "all units of local Self-Government such as City Corporation, municipalities, rural boards, village panchayats, town committees, notified area committees etc." Subsequently, we received instructions from the Government of India that our enquiry should include Improvement Trusts and Development Boards as well. This necessitated the issue of a supplementary questionnaire. When these were being drafted, certain objections were taken as to the relevancy of some questions raised by me, and I was asked by the committee to write a note to the Ministry of Health for directions. I, therefore, submitted the following note for the consideration of the Government of India.

"The terms of reference of our Committee were framed so as to comprise the finances of "local bodies" meaning "Local Self-Governing bodies." This is the meaning we have given in the questionnaire issued by us and this is the sense in which the term is understood in England (*vide* "Comparative Local Government" by Montagu Harris). The Ministry of Health has now asked us to expand our enquiry so as to include therein the finances of 'Ad Hoc' bodies like Improvement Trusts and Development Boards. It has therefore become incumbent upon us to issue a supplementary questionnaire relating to these non-local Self-Governing units. To my mind, the following fundamental questions are most relevant and should be included in the list of such questions. (i) Whether, financially speaking, it would be profitable to carry out the objects with which such ad hoc bodies, like the Improvement Trusts or Development Boards are created, by applying to local authorities, Town Planning Acts with such amendments as may be necessary or by creating statutory committees of local authorities, specially charged with the duty of carrying out such objects? (ii) If however, such ad hoc, non-representatives bodies are to be created or retained, what in your opinion should be the relation between these bodies and the statutory local self-governing authorities functioning in the area, particularly from the point of view of financial safeguards which such authorities can apply in the interests of the population they represent. The experience of such Improvements Trusts and Development Boards that we in Bombay have gained, points emphatically to the necessity of not neglecting the above aspects of the matter because the financial transactions of such ad hoc bodies are so huge and often imprudent and land local authorities into unmerited responsibilities. Law

ultimately compels that local bodies should inherit the legacy of all such imprudent transactions of these ad hoc bodies. It is therefore imperative that these compulsory heirs should be able to share the responsibility for such transactions at a preventive stage. I have no doubt that the Ministry of Health would rather insist that this most important financial aspect should be thoroughly gone into, because no enquiry which does not throw light on this aspect of the matter is worth undertaking."

The Government of India did not raise any objections to our going into the question but the chairman wrote the following letter to the Ministry of Health, when in Calcutta the inevitable question regarding the function of Improvement Trusts vis-a-vis the municipalities was raised by some of the witnesses :—

"In connection with the enquiry which the committee have been asked to make, we have, during the course of evidence, received various suggestions for amending the structure of local bodies. By way of illustration, I might point out that it has been suggested by some of the witnesses that the Calcutta Improvement Trust does not fulfil any useful function and might be wound up and amalgamated with the Calcutta Corporation. Similarly there have been suggestions that District Boards do not perform any useful functions and might be replaced by ad hoc regional boards, more or less departmental or official in character. These questions do not come directly within the terms of reference of the Committee, but they afford a wide field for investigation, on which the opinion and practice of Provincial Governments is not necessarily uniform, what I feel is that even though in certain cases an improvement in local finance may result from an alteration of the structure of local self-government, the usefulness of the report which the Committee may submit will be greatly compromised if it goes into questions which are really extra financial in scope and character. I would therefore suggest that the Committee should build its recommendations on the basis of the existing structure of local self-government whatever it may be in any particular Province and that recommendations for increasing the sources of income of local bodies should be based on the existing system and not on any alteration in that system, however desirable it may appear to be, even on grounds of finance. If however, it is declared that alteration of structure comes within the scope of investigation entrusted to this Committee I fear it will not be possible either to come to any anonymity on the conclusion or to submit the report by the end of May 1950, as decided by the Government of India.

"A ruling on this point may kindly be sent to me at an early date so that it may be communicated to the members of the Committee."

The only answer which the Ministry of Health could give, was the one it did give as under :—

I am directed to refer to your letter No. 6-36/49 LFEC, dated the 21st December 1949, on the subject mentioned above and to say that as you are already aware it was after great difficulty that the term of the Committee was extended upto the end of May 1950 and that the Government of India will not entertain any proposal for its further extension. The Committee is required to complete its report by the end of May 1950 and it is therefore advisable that it would confine itself strictly to the existing terms of reference and frame its recommendations with reference to the existing structure of local bodies."

This is how we came to build this stone-wall of "existing structure" and non-expression of opinion on such an important matter as "the financial results of running two rival bodies in an area on parallel lines". Notwithstanding all this background, the bulk of evidence tendered by local self-governing bodies and even

## MINUTES OF DISSENT

by some experts, which was admitted, pointed clearly to the necessity of closing down all such ad hoc bodies and merging them in the municipalities not merely on democratic grounds but mainly for financial reasons. As, however, the examination of witnesses was generally restricted as above to 'increasing the financial resources of such ad hoc bodies', the main report records that "our investigation has shown that Improvement Trusts have not been able to do any appreciable work in the clearing of slums. Their difficulty has been mainly financial. "All slum clearance schemes are deficit schemes; unless sufficient funds are made available from public revenues by Government, it is not possible, in our view, for any Improvement Trust or any other authority to carry out schemes of slum clearance with any success". "Of all the Improvement Trusts in the various States, the Calcutta Trust is the only one which is well provided with funds. The revenue account of this Trust shows a recurring annual income of over 50 lakhs from taxes and municipal and Government contributions". Even so, we were told by the Chairman of the Trust that it found itself unable to undertake housing schemes for lower income groups without state subsidy. These premises led to the unavoidable conclusion that the existing resources of Improvement Trusts were not adequate for carrying out their objectives and accordingly the following specific sources of revenue were recommended in the main report by a majority vote of those members who were present at the time.

- (i) Compulsory municipal contribution equal to two per cent. of the annual rateable value of properties.
- (ii) & (iii) Share of the proceeds of
  - (a) the entertainment tax
  - (b) the terminal tax on passengers coming by rail, road or inland waterways.
- (iv) Betterment tax
- (v) Government grants
- (vi) Surcharge on stamp duty on transfers of immovable properties in the case of Calcutta, Nagpur and other Trusts already levying it.

Unfortunately the main report shuts its eyes completely to the most pertinent and patent fact that all these palliatives recommended for stepping up the revenues of these ad hoc bodies will be at the cost of the local self-governing bodies. The main report asks Government to rob Peter and pay Paul. Peter in this case is the legitimate proprietor, the representative "local self-governing body whose existing and potential sources are asked to be robbed and handed over to Paul—the superimposed pretender—the unrepresentative ad hoc body. Government is asked to deprive Peter of his legitimate duties and functions and to set up Paul to perform those functions and place both Paul and Peter in the same house—Peter crying and Paul laughing. Let us see how the avaricious Paul grows fatter and fatter and what additional powers he covets and succeeds in acquiring and thus permanently maiming and disabling poor Peter. The following extract from the statement of objects and reasons appended to the Bill creating the Kanpur Development Board, affords an effective illustration.

"Owing to the large increase in the population of the Cawnpore urban area during the recent years and the steady deterioration in the sanitary, housing and other conditions in the city, the question of effecting an immediate and large scale improvement has become most necessary and it is of utmost importance that early action should be taken to cope with the problems involved. In particular the problems relating to water supply, drainage, sewerage, sewage disposal, town planning including slum clearance and town expansion have all become intensified.

## MINUTES OF DISSENT

A new authority should be created which should not only take over and discharge all the duties and functions of the existing Improvement Trust for the proper development and expansion of the city but should also assume full control over and responsibility for a number of important functions such as water supply, drainage, and sewage disposal, which are at present vested in the Municipal Board. Such an authority should also be in a position not only to formulate policy but also to execute it with the maximum energy and the minimum waste of time.

The portion sidelined in the above extract are highly illustrative as they hold up to light the fact that the creation of such ad hoc bodies only results in the deprivation of local self-governing bodies of some of their fundamental statutory functions by transferring them to nominated bodies. To that extent, therefore, these ad hoc bodies constitute a fraud on the electorate inasmuch as they prevent them from exercising the right of controlling social services through their duly elected representatives. The services for which these ad hoc bodies are made responsible properly fall within the scope of the work assigned to local bodies. They are generally set up in the belief that independent bodies would produce more satisfactory results than municipal bodies. These Government created bodies are not responsible to any popular bodies but responsible only superficially to government departments and as they say in England "A dog does not eat dog". From this view-point also it is desirable not to continue their existence. This is one of the reasons that appears to have prompted a considerable body of witnesses to advocate an arrangement under which the authorities should either be under the control of municipal bodies or the work now done by them should be done departmentally by the municipal authorities themselves.

In this connection, it is pertinent to refer to the observations of the Delhi Municipal Organisation Enquiry Committee as under :—

"From the point of view of the development of healthy local Self-Government also, these ad hoc authorities, predominantly composed as they are of persons who are not elected either directly or indirectly tend to weaken local interest in the services administered by them except remotely, for the electorate cannot call to account its representatives if anything goes wrong or if its wishes remain unfulfilled. Indeed the ad hoc form of administration of essential local services tends to confuse the chain of responsibility and democratic control becomes impossible. Further there is the possibility of the weakening of the general municipal government structure in respect of the services left to the direct control of the municipal authority through lack of public interest."

The minute of dissent attached to the above Report by Sir Arthur Dean, Mr. V. S. Mathur and Mrs. Hanna Sen also emphasise this aspect as they recognise :—"Obviously however, their (ad hoc bodies) existence would militate against popular control, for the functions are primarily and patently municipal".

The Local Self-Government Expert Committee appointed by the Government of U. P. recorded its opinion against the perpetuation of Improvement Trusts in the following terms :—

"In our opinion, time has come when the work of improvement of cities should not be entrusted to a separate body of persons and we therefore suggest that all improvement trusts in the province should be abolished and the provisions of the Improvement Trust Act should be incorporated in the Municipalities Act, subject to such amendments as may be necessary. The majority of us therefore also recommend that the provisions of the Housing and Town Planning Act of 1935 as prevalent in England and Wales should be assimilated in the

## MINUTES OF DISSENT

Municipalities Act for this purpose. It will further be necessary, in our opinion, that all the assets and liabilities of the improvement trusts should be transferred to the Municipal Boards and we recommend that this should be done."

The Corporation of Calcutta investigation Commission which submitted its report in January last year, also recognised the fact that the Improvement Trusts were more "adjuncts to the Corporation" and were performing the duties which are legitimately the domain of the Municipal Authority and expressed concern at the ever-increasing demand made by the Trust for contributions from municipal funds despite the fact that the "work to be done by the Trusts becomes less and less. We think therefore that a ceiling should be fixed to the contribution". The objects commonly urged for setting up Improvement Trusts are slum clearance and provision of housing for lower income groups. These two functions are also among the statutory duties of municipal bodies. Fulfilment by the municipalities of these objects is not ordinarily possible because of their poor and unaided finance. But given the aid which Government generally extends to the Trusts such services could be handled more efficiently by the municipalities themselves as had been ably pointed out by eminent authorities on Local Self-Government. Notable among these is Professor K. T. Shah, who in his "Constitution, Functions and Finance of Indian Municipalities" considers Municipality to be by far the most preferable agency "for carrying through housing reforms on a scale commensurate with the dimensions of the problem." On this view of the proper agency, we think it is to be as uneconomical as it is impolitic that a specially created City Improvement Trust or a Government Department should be given a hand in the matter. By so doing, not only would we needlessly split up the entire work between the social authorities, involving a waste of time, money and energy but an adequate degree of coordination would be lost sight of". Oral evidence of Shri-Manu Subedar was emphatically to the same effect.

It is often pretended that these ad hoc bodies are constituted for a limited period and for a specific notified work and that on the efflux of the period or on the completion of the specific work entrusted to them they would cease to function. The history of these Trusts or Boards exposes the hollowness of this pretence. These institutions are hydra-headed. Their life never terminates—and their work is never completed. Their functions and their schemes are not only unending but actually ever expanding. The extract given above regarding the objects and reasons for establishing the Cawnpore Development Board and the "Virata Swarup" (all embracing character of its activities) would convince any one that all the duties intended to be undertaken by the Development Board will result in wiping out the functions of the municipality altogether and render its further existence unnecessary, not for a decade or two, but for ever. To my mind there can be no justification whatsoever for such a usurpation.

These ad hoc bodies are spending lakhs and crores of rupees on their establishment charges which are extremely heavy and in several cases the financial liability they ultimately bequeath to the municipalities is extremely heavy. As long as they continue—they use up funds which should legitimately belong to the municipalities and which are a constant drain on the finances of the latter and when they are wound up—they often leave a very onerous legacy.

On similar grounds, I object to the creation and continuation of other types of ad hoc bodies for the performance of functions, which the legislature has vested in representative institutions or which such institutions can undertake after due amendment of their constituent Acts. Under this category I have in mind Rural District Boards and Taluk Development Boards. The existence of these ad hoc bodies is clearly an encroachment on the sphere of duties which rightly belongs



to district boards. In the circumstances, their creation by Government constitutes, in a sense, an attempt to circumscribe the will of the legislature, which vested those functions in the district boards. If necessary their Constituent Acts may be amended so as to empower them to undertake such items of work as are entrusted to the Rural ad hoc bodies. Moneys expended at the instance of these ad hoc bodies should legitimately be spent at the discretion of the peoples' representative i.e. by the district boards. The Kala Committee which was appointed by the Government of Bombay to enquire into the affairs of Local Bodies and the Administrative Enquiry Committee recently appointed by the Government have both recommended in the strongest terms that these ad hoc bodies should go and that the finances placed at their disposal should be transferred to the statutory bodies concerned. Recommendation of the Venkatappa Committee on the integration and coordination of local bodies in Mysore is more or less to the same effect. Further authoritative opinions could be cited, but it seems unnecessary to labour this point. Experience of Bombay in this direction affords a good illustration. It is to the credit of the Government of Bombay that there are no Improvement Trusts anywhere in the State and the one originally set up for the city of Bombay was eventually merged in the Municipal Corporation.

My recommendation in this behalf therefore would be that Government should avoid creation of such ad hoc nominated bodies and should wind up such existing ad hoc bodies. Funds and resources placed at their disposal should be transferred to the local bodies concerned. If it is considered absolutely necessary in any very exceptional case to constitute special bodies for carrying out some specific scheme through a special agency—the only body that should be entrusted with this duty should be a special committee of the municipal body or bodies within whose jurisdiction such a scheme is to be carried out and all the financial help which State Governments can give, should be given to such Committee. As a final resort and if necessary, a Town Planning Scheme may be prepared incorporating all the necessary provisions—including slum clearance or housing and may be enforced to be carried out by the local body concerned always bearing in mind that Government will have to materially finance the schemes which they enforce.

**Functions and Finance of Village Panchayats.** Many of my colleagues were not interested in investigating the finance of Village Panchayats, possibly because of the magnitude of the task. I was, however, very lucky, thanks to the Chairman of our Committee, in securing facilities for studying the actual working of the Panchayats by personal visits in some States. Moreover, I have been busy, for some time past in writing a book on comparative study of Village Panchayats in India and some of the material was ready at hand. I was, therefore, asked by my colleagues to write a draft note on the functions and finances of Village Panchayats for the consideration of the Committee and I am glad that a good portion of my note has found place in the main report. In my opinion, however, the finances of Village Panchayats require a more detailed and serious consideration. I have therefore attempted in this note, to treat the subject at some length, in the hope that such a treatment would be welcomed. This note, moreover, has given me an opportunity of embodying therein my views which were not acceptable to my colleagues who signed the main report and of including therein the numerous charts prepared by me—charts which the office of the Committee could not find time to circulate to the members of the Committee and therefore could not receive their attention.

The Constituent Assembly, in the name of the people of India, adopted and enacted the Constitution, the Charter of India's freedom—on November 26, 1949. It embodies in part IV\* what are called 'Directive Principles'. They are a novel

\*Articles 36 to 51.

or an unique feature which has no parallel except in the Constitution of the Irish Free State. These Directive Principles, though they are not justiceable or enforceable in a Court of Law, are "nevertheless fundamental in the governance of the country and it shall be the duty of the State to apply these principles in making laws."\* Dr. Ambedkar, who piloted the Constitution, made it clear in his speech delivered on the 4th November 1948, that "they were not mere pious resolutions." He added : "He would not admit that they have no sort of a binding force at all".

What are called Directive Principles is merely another name for "Instrument of Instructions to the Executive and the Legislature as to how they should exercise their powers. The future Government cannot ignore them. They may not have to answer for their breach in a court of law but will certainly have to answer for the breaches before the electorate".

...."These directive principles are meant to be codes of constitutional propriety, which determine the relation of the Government with the people. These principles are meant to be an imperative basis of State policy"\*\*, The word 'State', here, it should be noted, comprises both the Union as well as the different States.

One of these directive principles is that each State shall take steps to organise Village Panchayats and endow them with such authority as may be necessary to enable them to function as units of self-government.\*\*\* It would appear that the constitution lays emphasis on the objective *viz.* "of enabling the Village Panchayats to function as units of local self-government" and the method of enabling the Panchayats to function as such self-governing units is prescribed to be "to endow them with powers and authority."

This directive principle, furthermore, "gives the Constitution of India a national character inasmuch as the Panchayats, the most valuable of the surviving democratic institution of ancient India, have found a place in the Country's Constitution.\*\*\*\*

The upshot of these preliminary remarks is that the Constitution of India solemnly enjoins upon the Union Government and all the legislative and executive authorities throughout the country to (1) organise Panchayats and (2) to endow them with powers and authority with a view to enable these ancient national institutions to function as local self-governing units. This is a positive constitutional directive to revitalise these ancient institutions as important organs or as solid foundations of the democratic Republic that has been set up. This constitutional position of the Panchayats is the background of the unprecedented legislative activity noticed in almost all the States leading to the enactment of fresh Acts, enlarging the powers of these Panchayats and the anxiety evinced on the part of the State Governments to foster these institutions on democratic basis. This actually is as much a loyal fulfilment of the obligations imposed on the States as also the result of the conviction that national self-government must be based on the foundation of Village self-government. As an example, illustrating the basis of this activity, we may quote the following words from the Statement of Objects and Reasons of the Punjab Gaon Panchayat Bill, 1950 :

"In view of the emphasis, placed on the development and encouragement of Panchayats in our new Constitution, where a specific directive is given for this purpose in Article 40 thereof, the Punjab Gaon Panchayats Bill is presented to the

\* Article 37.

\*\* Brochure on the Constitution of India, published by the Ministry of Information, Govt. of India.

\*\*\* Article 40 of the Constitution.

\*\*\*\* Brochure on the Constitution referred to above.

Assembly. Under this Bill, it would be the responsibility of the Government to establish a Gaon Sabha and a Panchayat in each Village, etc."

The history of Village Panchayats reveals a baffling variety of these ancient institutions, their functions and their finances, in different parts of the country, not only during successive but also during contemporary periods, we can, therefore, give here only an overall picture, omitting all variations due to historical or geographical differences. Our picture will not therefore represent correctly in all respects nor will our remarks apply accurately to all ancient Panchayats in all parts of the country at any given time.

The most characteristic feature of the Government of the Village Communities in ancient India was the Panchayat—literally meaning the "administration by 5 people". This numerical connotation, whatever it originally meant, is not applicable to the Panchayats we meet with either in the ancient or in the modern times. The word Panchayat means an association of village people for doing administrative, judicial or other public work.<sup>1</sup> It should be noted however that sometimes the term Panchayat denotes the general meeting of the inhabitants but generally it means a select committee chosen from among the inhabitants. It would appear the word 'Sabha' is commonly used for the general Assembly of the village people whereas the word Panchayat is used in the sense of a Committee, elected by the Sabha. In the literature of the south, we generally meet with the term Sabhas and not with "Village Panchayats."

In this note we shall use the term 'Village Panchayats' for both the Sabha, the general assembly, as well as for the Committee—the Panchayat proper. As Prof. Altekar<sup>2</sup> states the Panchayats were cosmopolitan bodies consisting of all the numerous castes ( भिन्न जातीनाम् ) and professions ( भिन्न वृत्तीनाम् ) residing in the village ( एक स्थान निवासिनाम् ). The record of a judgment in one of the cases, Babaji V. Babaji decided in 1693, has been signed by the members of a Panchayat. These members include Patils, Chougals, goldsmiths, carpenters, potters, shoemakers and the mangs.<sup>3</sup> It should be noted that all these members met as equals in the general task of regulating their common life—a feature which distinguished these national institutions from others dominated on the one hand by tribal organisations—which form the basis of semetic or sara-cenic culture and on the other hand by city states which formed the basis of geographical and cultural segregation of the European states.<sup>4</sup>

As regards the functions and powers of the Village Panchayats, it may be stated that there was practically no legal limit prescribed for their exercise. They enjoyed those powers by tradition or by right of prescription as it were. The functions of these ancient Panchayats may be classified as under:—

(1) **Revenue jurisdiction.** They collected state revenues and paid the same in the state treasury and even granted remissions under certain conditions and inflicted penalties for non-payment etc.

(2) **Administrative** or what we may call municipal functions.

(3) **Judicial functions**—They tried both civil suits and criminal cases. Their jurisdiction in respect of the former was almost unlimited and exclusive

1. John Mathai—Village Government in British India.  
2. Village Communities in Western India.  
3. Rajwada's Aitibasik Lekhsangrah.  
4. See Mukerjee on Local Government in ancient India.

and in respect of the latter, only the more serious offences were reserved for trial by state court.

(4) **Police functions.** They were responsible for watch and ward.

(5) **Trust duties.** They undertook duties as trustees for individuals and states in respect of donations of various sums given to the Panchayats on trust to perform some specific public duties.

(6) **Banking Business.** Several Panchayats acted as bankers and received deposits etc.

(7) **Public work like irrigation and water supply.** The Tank Committee of the Panchayats attended to these duties. This committee was a sort of a public works department of the Panchayats.

(8) **Religious duties** attached to temples were often undertaken by Panchayats.

(9) **The Defence work :** Panchayats defended the villages against wild beasts and robbers and marauders.

"From a review of these functions, it is clear that a vast sphere of administrative work was covered by these self-government bodies, leaving to the central government but very few points of contact with the ordinary concerns or the daily life of the people. It is just like the case of a monarchy limited by a vast democratic organisation which made itself responsible for the welfare of the masses. And this limiting condition of Indian absolutism had been in operation from times much anterior to the evidence considered here. For, we find that the popular assemblies of the South held in check the power of Kings, while old Tamil literature brings out the same fact."

"It will be thus seen that the central government exercised only a general supervision and control over the village assemblies and their councils. It left the initiative to the village councils which enjoyed large powers. They made effective arrangements for the defence of the community, collected the taxes of the central government and levied their own, settled village disputes, organised works of public utility and recreation, functioned as trustees and bankers, raised public loans to mitigate the miseries of famines, organised schools, colleges and poor houses and arranged for their funds, and supervised the manifold religious and cultural activities of the temples. There can be no doubt that they exercised greater powers than those that are at present enjoyed by the local bodies in most countries, both of the east and of the west. They played an important and creditable part in defending the interests of the villagers and in promoting their material, moral and religious progress."<sup>1</sup>

It will be seen from the all pervading functions of the ancient Village Panchayats mentioned above that they could not in the very nature of things be performed by them unless they were placed in a satisfactory financial position.

"The manifold kinds of administrative activity shown by these ancient Indian local bodies, embracing not merely the sphere belonging to the ordinary and normal civil functions but also that covered by much socialistic, philanthropic, and charitable work, undoubtedly imply the existence of an adequate public fund at the disposal of these institutions. We have some evidence on the subject in some of our Smriti works."<sup>2</sup>

1. Dr. Altekar : State and Government in ancient India.

2. Mookerji : Local Government in ancient India, pp. 250-51.

We shall therefore give hereunder the different sources of income of the ancient Village Panchayats in different parts of the country.

We shall now examine the tax and non-tax revenues of Village Panchayats of our ancient India.

(1) **Assignments.** There is ample evidence to show that the ownership of all land did not vest in the King but in the peasant cultivators. Therefore, the income from land which the tax derived, was land-tax and not land revenue. It has been clearly established that the Village Panchayats were mainly responsible for collection of land-tax or land-revenue whichever we call it, and what is more important for the purpose of our enquiry is that a percentage of the land-tax collected was assigned to Village Panchayats for financing its own activities. During the Maratha period, the records show, that about 10 to 15% of the land-tax collected by the Village Panchayat was permitted to be utilised for its work of public utility and village defence.<sup>1</sup>

The villagers had, besides the land-tax, to pay a number of taxes to the State. "The Smritikaras mention several other taxes that were imposed upon the villagers. Thus Manu refers to a 16 per cent. duty on ghee, drug, honey, flesh, flowers and vegetables, etc., a 2 per cent. property tax on cattle, gold, etc., a special tax on merchants and so on; and other Smritikaras concur with him. That these recommendations of the Smritikaras were actually followed in practice becomes clear from the Arthasastra and western India inscriptions. From the former treatise it appears that the villagers had to pay octroi duties, bazar dues, property taxes on cattle goats and horses, etc. There was also a ferry tax and a 16 per cent. duty on flowers, fruits, vegetables, seeds, fish, flesh, etc."

From all the sources which formed the state revenue Government found it necessary to sanction about 22% of the village revenue for village expenses during the Maratha period.<sup>2</sup>

Prof. Altekar states that "under the Marathas, Saudir Warrid Pattee formed a regular item in the village taxation. It was a duty in addition to and apart from the land revenue and amounted to about 15 per cent. thereof. Its constituents, as mentioned by Elphinstone, were as follows:—

- (1) Dukul Pattee (this was a 10 per cent. duty on the Inamdars)
- (2) Miras Pattee (This was a similar charge on the Mirasdars.)
- (3) Mohterfa (This was a tax on shop-keepers.) (4) House tax
- (5) Marriage tax (6) Buffalo tax, etc."

Prof. Altekar says that "from an analysis of the available evidence, it clearly appears that in the pre-British days, ever since the earliest times, there was a regular *village fund* made up by a contribution of part of the total taxes collected in the village".<sup>3</sup>

It would further appear the sometimes, a lump sum was assigned and sometimes particular taxes were 'localised' Both the practices were in vogue. During the Maurya period some taxes were clearly reserved for local purposes. From Sukraniti, Prof. Altekar concludes that the custom of allowing a certain percentage on the gross village revenue was also in vogue in other places and times".<sup>4</sup>

The British Government discontinued these taxes for some time but they reintroduced the same in a new and consolidated form viz. "the Local Fund."

1. Altekar—Village Communities in western India quoted in his State and Government in ancient India, p. 185.
2. Elphinstone.
3. Altekar—Village Communities in Western India.
4. Village Communities in Western India, p. 69.

(2) **Labour.** It appears that the smiths, carpenters and others were required to work for one or 2 days<sup>1</sup> a month for the State. The central government usually assigned the right to receive this labour tax to the local bodies which could utilise it in carrying out their schemes of public utility. "This States' right to free labour on certain occasions eventually benefitted the village communities themselves as it enabled them to get the help and co-operation of a number of labourers, carpenters and smiths in building and repairing roads, rest-houses and tanks."

(3) **Surcharges.** Like the French "Centimes additionels the Panchayats had the right to impose additional percentages or cesses, on state taxes for village purpose.

(4) **Financial assistance from Central Government.** The Central Government helped the village councils by direct grants or by giving materials free or at concession rates<sup>2</sup>. Big works were sometimes entirely financed by Government e.g. the famous Dam at Girnar in Kathiawar.

(5) **Endowments.** Numerous gifts were received from individuals for certain public works i.e. for digging wells, removing silt from tanks, etc.

It should be noted that what is described above as 'Village Fund' is something altogether different from what we know as 'Local Fund'. The village fund to which all the assignments were made was collected and spent in the village itself by its own inhabitants unlike local fund which is collected by the State and reverts to district boards—and only recently, partly to Village Panchayats in some States. The village fund was fairly large and enable Village Panchayats to undertake numerous works of public utility. The discontinuance of this fund has, says Elphinstone, considerably affected village communal life and "the villagers feel the want of old charities and amusement objects on which part of this fund was extended."

(6) **Land—A great source of income to the Village Panchayats.** All village lands, not in private hands, nor reserved as crown lands or consecrated to the temple were held in absolute ownership by the village assembly which exercised all the rights involved in such ownership. So also did the Panchayats acquire lands by reclaiming waste land. They also purchased lands for public purpose in much the same way as we now do under the Land Acquisition Acts. Land forfeited for non-payments of dues were also added to the property of those institutions. They even exercised rights of pre-emption as against outside purchaser of land held by villagers. The management of these lands enabled the panchayats to raise considerable revenue to meet the local needs.

(7) **Utility undertaking.** Village councils organised several works of public utility—like clearing of forests and wastelands and bringing them under cultivation, irrigation tanks and canals and "thus increased the wealth of the village"<sup>3</sup>.

(8) **Judicial Fees and Fines.** Fines imposed upon offenders by village councils also formed an appreciable source of revenue.

(9) **Tolls or octroi duties** and a tax for village Police are mentioned as among the independent sources of village revenue.

**Bombay.** The Bombay Village Panchayat Act 1933 (Bombay Act No. VI of 1933) substantially amended from time to time, governs the Village Panchayats in the State of Bombay.

The functions of the Village Panchayats are mentioned in the functional chart A (compulsory) and B (optional) annexed herewith.

The sources of income are mentioned in the financial chart given hereunder:—

1. Shukranity.
2. Kau'ilya's Arthshastra.
3. South India inscriptions.

**B O M B A Y**  
**V I L L A G E P A N C H A Y A T F U N D**

Taxes and fees leviable  
by V. P. (sec. 89)

**(A) Compulsory**

- (1) shall levy a tax upon owners and occupiers of houses and lands in the village which are not liable to pay agricultural assessment. 89(1)
- (2) Any one of the taxes mentioned under 8 sub. heading under the main head "Optional" in the next column (vide 89 (2A))

**(B) Optional**

- (1) A Pilgrim tax 89(2)(ii)
- (2) A tax on fairs, festivals and entertainments 89(iii)
- (3) A tax on sale of goods 89(iv)
- (4) Octroi 89(v)
- (5) A tax on marriages, adoptions and feasts 89(vi)
- (6) A tax on shops & hotels 89(vi-a)
- (7) A tax on premises where machinery is run by steam oil or electric power for any purpose other than domestic or agricultural 89(vi-b)
- (8) Any other tax leviable by Provincial Government in the Province under Govt. of India Act 1935 (Except not a toll on motor vehicles or trailers such as provided by sec. 14 of Bom-

**(C) Other sources of income**

- (1) Amount allotted by Provincial Government under sec. 191 of the Bombay District Municipal Act, 1901 (Funds of a defunct Notified Area Committee) 31(a)
- (2) Sums contributed by Provincial Government or by Dist. Local Board (F)
- (3) Grant by Provincial Government of 1/4 Local Fund Cess realised (in the previous year) in the area (92A) or Grant by Provincial Government *equivalent to 15% of the Land Revenue realised in the previous year* 92(A) whichever is greater.
- (4) Sums realised by Village Bench as Penalties (sec. 45-46)
- (5) Sums ordered to be placed by a Court, to the credit of a Village Fund 89(d)
- (6) Fees levied for institution of suits and cases (sec. 59)
- (7) Sale proceeds of dust, dung or refuse collected by Village

**(D) Other receipts.**  
Loan from Provincial  
Government 31(g)

**VILLAGE PANCHAYAT FUND—contd.**

bay Vehicles Tax Act 1935)  
Approved by District Local  
Board and sanctioned by Pro-  
vincial Governments.  
89(vii)

- servants, including dead bodies  
of animals 89(e)
- (8) Income of proceeds of property  
vested in the Village Panchayat  
31(i)
- (9) Sums received by way of gifts  
31(g)
- (10) An amount equal to 3/4th the  
Salary and allowances of the  
Secretary of the Panchayat is  
payable to the Panchayat as a  
statutory contribution by the  
Government (sec. 33(2))
- (11) Non-statutory grants by Govern-  
ment include
- (i) Grants towards dearness  
allowance to the staff.
  - (ii) 60% grant for Public  
Health works like works  
drainage and water  
supply etc.



**MINUTES OF DISSENT**

It will be noticed that the compulsory taxes are two in number mentioned under (A) in the chart. One is the tax on houses and lands which are not liable to agricultural assessment and the other tax to be levied compulsorily is one of the 8 taxes mentioned under the heading of optional taxes (B) in the chart.

The taxes both compulsory and optional are to be levied at or above the prescribed minimum and at or below the prescribed maximum. These taxes and the limits prescribed are mentioned hereunder.

Maximum and/or minimum rates of taxes and fees.

Names of taxes.	Minimum and/or maximum rate authorised by the Provincial Government.																																											
		Maximum rate.																																										
1. Tax on houses and lands.	For tax based on— (i) capital valuation of the buildings and lands. (ii) letting value of the buildings and lands.	8 annas per Rs. 100 of the capital valuation 15% of the annual letting value.																																										
2. Pilgrim tax.	6 annas for every pilgrim (maximum).																																											
3. Tax on fairs and festivals.	(1) For shop, booth or staff :—(Maximum) 4 annas upto 9 sq. ft. plus 6 pies for every additional 9 sq. ft. or less per day. (2) For cinema, circus or other amusements :— Rs. 50 per acre per day (maximum)																																											
4. Tax on sales.	(1) For tax based on the size of the plot occupied 4 annas for 9 sq. ft. plus 6 pies for every additional 9 sq. ft. or less per day. (2) For tax based on quantity of goods exposed for sale.	<table border="0"> <thead> <tr> <th></th> <th align="center" colspan="2">Vegetable</th> <th align="center" colspan="2">Grain</th> <th align="center" colspan="2">Other articles.</th> </tr> <tr> <th></th> <th align="center">Rs.</th> <th align="center">a. p.</th> <th align="center">Rs.</th> <th align="center">a. p.</th> <th align="center">Rs.</th> <th align="center">a. p.</th> </tr> </thead> <tbody> <tr> <td>Basket</td> <td align="center">0</td> <td align="center">0</td> <td align="center">6</td> <td align="center">...</td> <td align="center">...</td> <td align="center">...</td> </tr> <tr> <td>Head Load</td> <td align="center">...</td> <td align="center">0</td> <td align="center">0</td> <td align="center">6</td> <td align="center">0</td> <td align="center">0</td> </tr> <tr> <td>Gunny Bag</td> <td align="center">0</td> <td align="center">1</td> <td align="center">0</td> <td align="center">0</td> <td align="center">2</td> <td align="center">0</td> </tr> <tr> <td>Cart</td> <td align="center">0</td> <td align="center">4</td> <td align="center">0</td> <td align="center">0</td> <td align="center">4</td> <td align="center">0</td> </tr> </tbody> </table>		Vegetable		Grain		Other articles.			Rs.	a. p.	Rs.	a. p.	Rs.	a. p.	Basket	0	0	6	...	...	...	Head Load	...	0	0	6	0	0	Gunny Bag	0	1	0	0	2	0	Cart	0	4	0	0	4	0
	Vegetable		Grain		Other articles.																																							
	Rs.	a. p.	Rs.	a. p.	Rs.	a. p.																																						
Basket	0	0	6	...	...	...																																						
Head Load	...	0	0	6	0	0																																						
Gunny Bag	0	1	0	0	2	0																																						
Cart	0	4	0	0	4	0																																						
5. Octroi.	(a) Building materials																																											
	Bricks	Rs. 2 0 0 per 1,000																																										
	Corrugated iron sheets	„ 0 12 0 per Bombay Md.																																										
	Mangalore tiles, stones, &c.	„ 3 2 0 per value of 100																																										
	Cements or anything made of cement	„ 3 2 0 do																																										
	Lime	„ 3 2 0 do																																										
	Sand for building	„ 3 2 0 do																																										
	Iron & steel material for building	„ 3 2 0 do																																										
	Colours and oils	„ 8 2 0 do																																										
	Timber (for building)	„ 3 2 0 do																																										

MINUTES OF DISSENT

Name of taxes.	Minimum and/or maximum rates authorised by the Provincial Government.			
(b) Cloth :—				
Cotton.	Rs.	2	5	0 per value of Rs. 100
Silk.	..	4	0	0 do
Woollen.	..	5	0	0 do
Yarn (cotton, silk, artificial).	..	1	9	0 do
(c) Coal :—				
Soft or hard.	..	0	6	0 per ton
Steam coal.	..	0	12	0 do
(d) Sweets and sweet things.				
	..	3	2	0 per value of Rs. 100
(e) Cocoanut or cocoanut fruit.				
	..	1	2	9 do
(f) Knife, scissors & other goods.				
	..	4	0	0 do
(g) Oil seeds and other grain.				
	..	0	3	0 per one Bombay Md.
(h) Hosiery goods (cotton, silk, caps, or ready made cloths).				
	..	4	0	0 per value of Rs. 100
(i) Kerosene.				
	..	0	4	6 per tin
(j) Betal nut and dates.				
	..	2	5	6 on value of Rs. 100
(k) Oils :—				
Cocoanut	..	0	6	0 do
Groundnut	..	0	6	0 do
Caster Oil	..	0	6	0 do
(l) Cigar, cigarettes, & bidis.				
	..	3	2	0 do
(l) Spices, drychillies, onions.				
	..	0	3	0 per Bombay Maund
(m) Other commodities.				
	..	1	2	0 on value of Rs. 100
(n) Every kind of sugar, things prepared from sweets, and jaggery.				
	..	1	2	0 per value of Rs. 100
(o) Tea, coffee and cocoa				
	..	2	5	6 do
6. Tax on marriages, adoptions & feasts.				
	Marriages or adoptions.	(Maximum)	Feasts.	
	1st class.	Rs. 5 0 0	Rs. 3 0 0	
	2nd "	" 2 0 0	" 2 0 0	
	3rd "	" 1 0 0	" 1 0 0	
	4th "	" 0 8 0	" 0 8 0	

MINUTES OF DISSENT

Name of taxes.	Minimum and/or maximum rates authorised by the Provincial Government.																						
7. General sanitary cess.	<p style="text-align: right;">(Maximum)</p> <p>4 annas per Rs. 100/- of the capital valuation of the house where valuation does not exceed Rs. 1,500.</p> <p>Rs. 4/- per annum where the capital valuation of the house exceeds Rs. 1,500/-.</p> <p>4 annas per annum per Rs. 4/- of the annual letting value of the house where the value does not exceed Rs. 45/-.</p> <p>Rs. 2/- per annum where the annual letting value exceeds Rs. 45/-.</p> <p>Provided that in the case of Bombay suburban district the Cess may be levied at the rate of not more than 2½% if the capital value of the property exceeds Rs. 160/-.</p>																						
8. Special sanitary cess.	<p>Rs. 24/- per annum per privy, latrine, or family using a privy or latrine, and</p> <p>Rs. 6/- for each additional privy or latrine used by the same family.</p>																						
9. Market and weekly bazar fees.	<p style="text-align: right;">(Maximum)</p> <table style="border: none; width: 100%;"> <tr> <td style="width: 50%;">2 annas per day</td> <td rowspan="2" style="font-size: 3em; vertical-align: middle;">}</td> <td rowspan="2" style="vertical-align: middle;">for every plot measuring not more than 9 sq. ft.</td> </tr> <tr> <td style="text-align: center;">or</td> </tr> <tr> <td>Rs. 3 per month and 1 anna per day</td> <td rowspan="3" style="font-size: 3em; vertical-align: middle;">}</td> <td rowspan="3" style="vertical-align: middle;">for every additional plot of 9 sq. ft. or part thereof.</td> </tr> <tr> <td style="text-align: center;">or</td> </tr> <tr> <td>Rs. 1 8 0</td> </tr> </table>	2 annas per day	}	for every plot measuring not more than 9 sq. ft.	or	Rs. 3 per month and 1 anna per day	}	for every additional plot of 9 sq. ft. or part thereof.	or	Rs. 1 8 0													
2 annas per day	}	for every plot measuring not more than 9 sq. ft.																					
or																							
Rs. 3 per month and 1 anna per day	}	for every additional plot of 9 sq. ft. or part thereof.																					
or																							
Rs. 1 8 0																							
10. Toll on vehicles and animals.	<p style="text-align: right;">(Maximum)</p> <p>Vehicles—</p> <table style="border: none; width: 100%;"> <tr> <td style="width: 70%;">(a) on every vehicle drawn by two or more animals (e.g. carriage, tonga, &amp;c.</td> <td rowspan="2" style="font-size: 3em; vertical-align: middle;">}</td> <td style="text-align: right;">Rs. a. p.</td> </tr> <tr> <td></td> <td style="text-align: right;">0 2 0</td> </tr> <tr> <td>(b) on every such vehicle drawn by one animal.</td> <td></td> <td style="text-align: right;">0 1 0</td> </tr> <tr> <td>(c) on every bicycle.</td> <td></td> <td style="text-align: right;">0 1 0</td> </tr> </table> <p>Animals—</p> <table style="border: none; width: 100%;"> <tr> <td style="width: 70%;">(d) on every elephant.</td> <td></td> <td style="text-align: right;">0 4 0</td> </tr> <tr> <td>(e) on every camel.</td> <td></td> <td style="text-align: right;">0 2 0</td> </tr> <tr> <td>(f) on every buffalo, horse, mare, gelding, pony, mule bullock, cow, or heifer.</td> <td rowspan="2" style="font-size: 3em; vertical-align: middle;">}</td> <td style="text-align: right;">0 1 0</td> </tr> <tr> <td>(g) on every colt, filly, calf, ass, sheep, goat, dog and pig.</td> <td style="text-align: right;">0 0 6</td> </tr> </table>	(a) on every vehicle drawn by two or more animals (e.g. carriage, tonga, &c.	}	Rs. a. p.		0 2 0	(b) on every such vehicle drawn by one animal.		0 1 0	(c) on every bicycle.		0 1 0	(d) on every elephant.		0 4 0	(e) on every camel.		0 2 0	(f) on every buffalo, horse, mare, gelding, pony, mule bullock, cow, or heifer.	}	0 1 0	(g) on every colt, filly, calf, ass, sheep, goat, dog and pig.	0 0 6
(a) on every vehicle drawn by two or more animals (e.g. carriage, tonga, &c.	}	Rs. a. p.																					
		0 2 0																					
(b) on every such vehicle drawn by one animal.		0 1 0																					
(c) on every bicycle.		0 1 0																					
(d) on every elephant.		0 4 0																					
(e) on every camel.		0 2 0																					
(f) on every buffalo, horse, mare, gelding, pony, mule bullock, cow, or heifer.	}	0 1 0																					
(g) on every colt, filly, calf, ass, sheep, goat, dog and pig.		0 0 6																					

Besides the taxes leviable as aforesaid the other sources of income of the Village Panchayats are mentioned, in C on the chart the most important is marked (3) under heading C on the Chart. This is referred to in section 92-A of the Act— which was inserted by section 21 of the Bombay Village Panchayat Amending Act (Bombay LX of 1947). The section is quoted hereunder.

12-A. "The Provincial Government shall make every year a grant to every Panchayat levying taxes under sub-sections (1) (House & land tax) and (2-A) (one of the eight optional taxes mentioned above) of Section 89 equivalent in amount to 15% of the ordinary land revenue or 25% of the the local fund cess, realised in the previous year within the limits of the Village whichever is greater."

Besides the pure assignment of a percentage of land revenue provided by statute as mentioned above, there is another peculiar statutory grant payable by Government to Village Panchayat under sec. 33 of the Village Panchayat Act which runs as under :

Sec. 33(1). Every Panchayat shall appoint a Secretary who shall be a servant of the panchayat. His qualifications, powers, duties, remuneration and conditions of service (including disciplinary matters) shall be such as may be prescribed.

(2) The Provincial Government shall pay three-fourths of the salary and allowances of the Secretary.

There are other non-statutory grants provided by the Government *viz.* 50% towards dearness allowance of the staff, and towards public health schemes like drainage and water supply (60% grant) etc.

The other sources of revenue include all items mentioned in the chart under heading C, such as proceeds of all dust, dirt, dung or refuse including the dead bodies of animals whether by the village servants, etc., judicial fees and fines, compensation amount etc., contributions by District Local Boards, gifts, etc.

**Madras.** The Village Panchayat Act of 1950 (Madras Act No. X of 1950) removed Village Panchayats from the operation of the Madras Local Boards Act of 1950. The new Act will now exclusively govern the Panchayats. Similarly the Madras Village Courts Act 1888 has been amended and provisions regarding the judicial powers of these bodies have been incorporated in the new Village Panchayat Act of 1950. This change brings the Madras Panchayats in line with the distinctive legal position they occupy in other provinces.

The new Act overhauls the entire organisation. It divides Panchayats into 2 classes:—Class I. Those with an estimated population of 5000 and over, and having an estimated annual income of not less than Rs. 10,000/-. Class II. Panchayats other than those in Class I.

It appears that Government grant out of a fund constituted by a 12½% contribution from land revenue will be payable only to the Panchayats of the Class II (sec. 71).

It would also appear that generally though not necessarily Panchayats from Class I may only, be 'notified' by Government for the appointment by them of whole time executive officers with statutory executive powers enumerated in the Act. In other Panchayats not so notified, the President who is elected under the new Act—not by the members but by the voters (section. 21)—enjoys these executive powers.

The functions of the Panchayats are enumerated in the Comparative Functional charts (A—Compulsory duties and B—Voluntary functions) appended herewith. The sources of income provided for discharging the duties imposed upon the Panchayats are enumerated in the Chart given below.

## MADRAS VILLAGE PANCHAYAT FUND

Taxes leviable under sec. 63	Fees (C)	Other sources of income in the nature of Assignments.	Miscellaneous income	
(A)	(B)	(D)	(E)	
<p>Compulsory</p> <p>(1) House Tax (s. 64)</p> <p>(2) Profession Tax (sec. 65) on</p> <p style="margin-left: 20px;">Individuals Companies</p> <p>(3) Vehicles Tax sec. 66. (on Vehicles other than a motor).</p> <p>(4) Duty on Transfer of Property (sec. 67) in form of surcharge on the duty imposed by the Indian Stamp Act 1899.</p>	<p>Voluntary 63 (3)</p> <p>(1) Land Cess at the rate of 3 pies in a rupee on the annual Rental Value of all occupied lands which are not occupied by or adjacent and appurtenant to Buildings 63 (3) (a)</p> <p>(2) Tax on Agricultural land for a specified purpose 63 (3) (b) e.g. for bridges</p> <p>(3) Fees on commercial crops bought and sold in the village (not</p>	<p>(1) Temporary occupation of (a) village sites (b) roads (c) other similar places or part thereof 70 (2) (viii)</p> <p>(2) Levied under the Act or rules and order made thereunder including- 70 (2) (ix)</p> <p>(a) Market fees (under (i) for sale of goods. (ii) for use of stalls (iii) on vehicles and animals bringing goods for sale (iv) on animals brought for sale or sold</p> <p>(b) Licence fees (i) for private markets 82 (1) (ii) for Private cart stands 88 (5) (iii) for dangerous or offensive trades</p> <p style="text-align: center;">91</p>	<p>(1) 1/4 of land cess levied in a village under sec. 78 of the Madras Dist. Boards Act 1920-70 (2) (iii)</p> <p>(2) A Pilgrim Tax levied in respect of the Village under sec. 110 of the Madras Dist. Board Act (Except where the occasion for the Pilgrimage is a festival classified as a district festival) 70 (2) (iv)</p> <p>(3) Payment made to the Panchayat by Market Committee under sec. 11 (3) of the Madras Commercial Crops Market Act 1933-70 (2) (v)</p> <p>(4) Taxes and tolls under sec. 117 &amp; 118 of the Market Public Health Act 1939-70 (2) (vi)</p> <p>(5) Net assessment on service inams 70 (1) (xvi) which are resumed by Government.</p> <p>(6) Grants from Government 70 (1) (xxi) including a sum equivalent to the seignorage fees</p>	<p>(1) Endowments &amp; trusts under management of Panchayat 70 (1) (xii)</p> <p>(2) Fisheries</p> <p>(3) Ferries under management of Panchayat 72 (2) (xiv)</p> <p>(4) Parambokes the use of which is vested in the Panchayat 70 (4) (xvii)</p> <p>(5) Trees standing on Parambokes in a village in Ryotwari Tract even though user of Parambokes not vested in Panchayat 70 (1) (xviii)</p> <p>(6) Lease of Govt. property obtained by Panchayat 70 (1) xix)</p> <p>(7) All sums arising out or received in aid of or for expenditure on any institutions or services maintained or financed from the Panchayat Fund or</p>

669

MINUTES OF DISSENT

VILLAGE PANCHAYAT FUND—*contd.*

- being a crop on which fees are levied in a village by Market Committee under *sec. II of the Madras Commercial Crops Market Act 1933—63* (3) (c)
- (iv) for Brokers and Commission Agents 80
- (c) Fees for landing and halting places 87
- (d) Fees for slaughter house, (e) Fees for permission granted to do certain works or acts under the V. P. Act.
- (7) 9/10th of the gross income derived by Government from fines imposed for offences under V.P. Act 70 (1) (xx)
- (8) Grant by Government of not less than 12½% of the total land revenue including water cess collected in the State and distributed as grants to Class II Panchayat (sec. 71).
- D (b) (scale fixed by Govt.)
- (1) in respect of markets in the village classified as district markets.
- (2) in respect of ferries under the management of the District Board 70 (2) (vii)
- (3) in respect of opening and maintaining elementary school 70 (2) (x)
- collected from person permitted to quarry for road materials in the Village 70 (2) (xvi)
- (8) Contributions from persons having control over places of Pilgrimage etc. for sanitary arrangement sec. 78
- (9) Income from rubbish, sewage, filth, and other matter collected by the Panchayat (S.57)
- (10) Fees for executing irrigation repair work etc. (s. 59)
- (11) Income—which by custom belongs to or administered for the benefit of the villagers in common or holders in common of village land genererally shall vest in the village Panchayat to be used for the benefit of Villagers or holders. (S. 58)
- (12) Unclaimed deposits and other forfeitures (S. 70) (2)
- managed by Panchayat 70 (1) (xxii)

It will be seen that there are at least 4 taxes which are made compulsory for every Panchayat *viz.* the house tax, the vehicles tax, the profession tax and a duty on transfer of property.

**I. The House tax.** Every Panchayat has to levy this tax payable half-yearly. The minimum and maximum rates of this tax are prescribed. The basis of the tax is the annual value or (sec. 64) the capital value or "such other basis" as may be prescribed. It is important to note that 'huts' as distinguished from other 'houses' are exempted from the operation of this compulsory levy. The definition of a 'hut' is "any building which is constructed mainly of wood, mud, leaves, grass or hatch and includes any temporary structure of whatever size or *any small building* of whatever material made which the Panchayat may declare to be a hut for the purpose of this Act." (sec. 2(10)).

Rules prescribed by Government may provide for exemptions of different classes of properties from payment of the house tax one of such exemptions being on the ground of poverty (sec. 64(4) (iv)).

**II. The Profession Tax.** The levy of this tax is compulsory on (1) individuals exercising any profession or holding appointments and (2) Companies transacting business in the village. Even those transacting business outside the village but residing in the village for 60 days in 6 months have got to pay this tax. Method of adjustment between conflicting claims of different authorities for recovery of this tax from persons or companies carrying on business etc. in one local area and residing in another has been provided for by leaving the apportionment to be effected by Government. The minimum and the maximum rates for the levy are provided by rules.

**III. Vehicles Tax.** The third compulsory levy is the Vehicles Tax. This is leviable on all vehicles kept or used in the village except a motor vehicle as defined in the Motor Vehicles Act. It thus includes all bullock carts and jutkas. Maximum and minimum rates are prescribed by Government.

**IV. Duty on transfer of immovable property.** This is the fourth compulsory tax which has got to be levied at a rate not exceeding 5% in the amount involved in the transfer of property within a village. All kinds of transfers of immovable property have been included in the taxable list given under section 67, *e.g.*, sale, exchange, gift, mortgage, lease, etc.

This is in the nature of *surcharge* on a state tax *viz.* the stamp duty. The tax is collected by the Registration Department and later paid by the collector to the Panchayats after deducting collection charges incurred by Government.

**Taxes levied at the option of the Panchayats.** In addition to the taxes compulsorily leviable by the Panchayat as mentioned above, there are three imposts which Panchayat may levy (see (B) in the chart) with Government sanction. These three imposts are described hereunder :—

1. **Land Cess.** Leviable at the rate of 3 pies in a rupee of the annual rental value of "occupied lands in the village" (except those occupied by buildings).

2. **Tax on agricultural land.** This levy is permissible for a specific purpose, *e.g.* for construction of big works such as bridge, etc.

3. **Fees on commercial crops bought and sold in the Village.** (Except in crops covered by fees levied by market committees under the Madras Commercial Crops Market Act 1933)

**Fees.** Under head C in the chart are given a large variety of fees which may be levied by the Panchayats. They are briefly enumerated here :—

## MINUTES OF DISSENT

Fees for (1) Temporary occupation of village sites, roads and other public places (2) market fees (3) cartstand fees (4) dangerous and offensive trades (5) licensing of brokers and Commission agents (6) landing and halting places (7) slaughter houses (8) permits for different works or acts etc.

For details see the chart.

Over and above the taxes and fees mentioned above, there are numerous other items mentioned in the chart under D. We shall make a few remarks on these.

The first group under D(a) consists of items which, for the sake of convenience, we shall call sources in the nature of assignments of specified revenue or grants and transfer of proceeds under certain heads.

(1) **Land Cess.** Like the French 'Centimes additionels', the district boards are receiving land cess on land revenue. The Village Panchayats are entitled to receive 1/4th of the land cess received by the district boards under section 78 of the Madras District Boards Act, 1920.

(2) **Pilgrim Tax.** Proceeds of pilgrim tax levied under Madras District Boards Act, 1920 for village festivals which are not classified as district festivals are received by the Panchayats.

(3) **Commercial crops** levied in the village by a Market Committee under section 11 of the Madras Commercial Crops Act.

(4) Proceeds of the *taxes and tolls* levied in the village under sections 117 and 118 of the Madras Public Health Act.

(5) Net assessment on service inams which are resumed by the Government.

(6) A sum equivalent to the seignorage fee collected by Government from persons permitted to quarry for road materials in the village.

(7) **Judicial Fines.** Fines imposed in village for offences under the V. P. Act are first credited to the Government Treasury and 9/10th of the proceeds thereof is assigned to Village Panchayats.

(8) **12½% of land revenue.** Government will set apart *not less than* 12½% of the total land revenue (including water cess) collected by the State and distribute the sum to the Village Panchayats of Class II as grants in the prescribed manner on the basis of their population.

**Contributions from District Boards.** There are 3 heads under which these contributions are recoverable from the District Boards (see D(b)).

(1) In respect of markets in the village which are classified as District markets.

(2) In respect of ferries managed by district boards.

(3) Contributions, if any, in respect of opening and running of elementary schools.

In each case, Government will fix the scale or amount of contribution payable by District Boards.

**Miscellaneous Income.** They are mentioned under (E) of the chart.

(1) Endowments and trusts under management of Panchayat (sec. 70 (2) (xi), (2) Fisheries (sec. 70 (1) (xii), (3) Ferries under management of Panchayat 72 (2) (xiv), (4) Parambokes the use of which is vested in the Panchayat (xvii) 70 (1), (5) Trees standing on Porambokes (in a village in Ryotwari tract) even though use of Porambokes not vested in the Panchayat (sec. 70 (1) (xviii), (6) Leases of Government property obtained by Panchayat (sec. 70



## MINUTES OF DISSENT

(1) (xix), (7) All sums arising out of or received in aid of or for expenditure on any institutions or services maintained or financed from the Panchayat fund or managed by Panchayat 70 (1) (xxii), (8) Contributions from persons having control over places of pilgrimage etc. for sanitary arrangement (sec. 78), (9) Income from rubbish, sewage filth, and other matter collected by the Panchayat (S. 57), (10) Fees for executing irrigation—repair work etc. (S. 59), (11) Income which by custom belongs to or administered for the benefit of the villagers in common or holders in common of village land generally shall vest in the Village Panchayat to be used for the benefit of villagers or holders (S. 58) etc. etc. (12) Unclaimed deposits and other forfeitures (S. 70 (2))

### Madras Expenditure from Panchayat Funds :— (sec. 72)

Voluntary —(1) The fund may be applied for all purposes declared as obligatory and descretionary under the Act—but the application of the fund is obligatory for

- (1) Payment of loans.
- (2) Election expenses.
- (3) Maintenance of staff.
- (4) Sums decreed against V.P. by any court.
- (5) Other expenses rendered obligatory under V.P. Act.

Under the voluntary expenditure are included expenses specially incurred with the Government sanction for

(1) contributions to any fund for the defence of India, (2) Expenses for public exhibition, ceremony or entertainment (3) Contributions to any charitable fund—for relief of the poor, treatment of diseases or infirmity or investigation of the causes of diseases and (4) other extraordinary charges.

**Madhya Pradesh.** The Gram Panchayats of Madhya Pradesh are governed by the Central Provinces and Berar Panchayats Act 1946 (The Central Provinces and Berar Act I of 1947). The functions of Village Panchayats in this State are mentioned in the Comparative Functional charts A (compulsory) and B (optional) annexed herewith.

The imposts leviable by the Panchayats are mentioned in the chart given below:—

**MADHYA PRADESH**  
**VILLAGE PANCHAYAT FUND**

**Taxes, Fees, Cess leviable under V. P.**

**Other sources of income**

**Compulsory**

- (1) Tax on building and non-agricultural land 41 (1)
- (2) Licence Fee for
  - (a) Buyers,
  - (b) Brokers,
  - (c) Commission agents,
  - (d) Weighers and measures 41 (2)
- (3) Professional tax 41 (3)

**Optional**

- (A)
  - (1) Tolls on
    - (a) Vehicles
    - (b) Pack animals
    - (c) Porters bringing goods for sale 42 (1) (a)
  - (2) Water rate 42 (i) (e)
  - (3) Lighting Rate for lighting
    - (a) Buildings
    - (b) Places
    - (c) Streets
  - (4) Fees for cleansing private latrines 42 (1) (f)
  - (5) Fees for drainage 41 (i) (j)
  - (6) Fees for vehicles kept.
  - (7) Tax from owners of (1) Animals used for
    - (a) Riding
    - (b) Driving
    - (c) Draught
    - (d) Burden
      - (2) Pigs 41 (i) (g)
      - (3) Dugs 41 (i) (g)
  - (8) Fees for
    - (a) for exhibiting goods for sale in market or place of Village

- (1) Cess at the rate of 6 pies per rupee (or part thereof) on Land Revenue on rent on agricultural land (sec. 40)
- (2) Such portion of profits of Village granary as specified by G.P. 36 (i) (ii).
- (3) Income from matters, central of which vests in owners to G. P. 36 (i) (iii)
- (4) Income from sources to be determined by Provincial Government 36 (i) (iv)
- (5) Contribution by Provincial Government 36 (i) (v)
- (6) Income from penalties.

Panchayat 42 (i) (b) (Bazar cases)

(b) for use of any building or structure in the market 42 (i) (b)

(c) for registration of animals sold in any market or place of V. P. 42 (i) (c)

(d) use of (i) sarais (ii) dharamshala (iii) slaughterhouse (iv) encampment ground 42 (i) (d)

(e) for processes.

(9) Any other tax, toll, fee or rate approved by Provincial Government 42 (i) (k)

(B) Impressment of labour (sec. 44)

**MINUTES OF DISSENT**

It will be noticed that the following 3 taxes or fees are compulsorily leviable by the Panchayats.

(1) **Tax on buildings and non-agricultural land.** This tax is levied on all buildings and non-agricultural lands is payable by the occupier where there is no occupier by the owner at such rate and by the method of assessment as may be prescribed, and also subject to a prescribed minimum value below which an assessment shall not be levied.

The rates prescribed by Government under the rules are given below :—  
Value of the buildings or lands. Amount of annual tax

Rs. 100 or below	Nil
„ 101 to 300	Rs. 1/-
„ 301 to 500	„ 2/-
„ 501 to 1,000	„ 4/-
„ 1,001 to 2,000	„ 7/-
„ 2,001 to Rs. 5,000	„ 15/-
„ 5,001 to Rs. 10,000	„ 30/-
Above Rs. 10,000	„ 60/-

(2) **Licence fee.** Every person practising the calling of buyer, broker, commission agent, weigher or measurer—shall be required to take out a licence so as to practice on payment of such fee as may be prescribed.

The licence fees prescribed are as under :—

(a) General buyer, broker or commission agent	Rs. 4/- p. a.
(b) Cattle broker ... ..	„ 4/- p. a.
(c) Cotton broker ... ..	„ 4/- p. a.
(d) Grain and oilseed broker ... ..	„ 2/- p. a.
(e) Miscellaneous commodities broker ... ..	„ 1/- p. a.
(f) Measurer or weigher ... ..	„ 1/- p. a.

(3) **Profession tax.** This is the third compulsory tax which a Panchayat has to impose at such rate as may be prescribed on persons practising any profession, trade or calling within the Panchayat area.

The following are the rates prescribed.

Profession, trade or calling.	Tax per annum.
(i) Merchant or trader ... ..	Rs. 5/-
(ii) Contractor ... ..	„ 5/-
(iii) Lawyer ... ..	„ 3/-
(iv) Money lender ... ..	„ 3/-
(v) Motor driver, tongawala, or cartman	„ 2/-
(vi) Carpenter, ironsmith or goldsmith	„ 1/-
(vii) Barber, washerman or shoe-maker	„ -/8/-

Besides the compulsory imposts mentioned above, the following optional taxes, tolls, fees or rates are leviable (sec. 42) by the Panchayat.

A. (1) Tolls on vehicles, pack animals and porters bringing goods for sale into the Panchayat area.

MINUTES OF DISSENT

- (2) & (3) Fees for exposing of goods for sale or for registration of animals sold in a market or place owned by or under control of Panchayat or for use of any structure therein.
- (4) Fees for use of sarais, dharamshalas-resthouses, slaughter houses and encamping grounds.
- (5), (6), (7) & (8)

1. Water rate	3. Lighting	{	where these services are provided by Panchayats
2. Latrine cleansing fees.	4. Drainage fees.		
- (9) Tax payable by owners of animals used for riding, driving, draught, or burden or of dogs or pigs kept in the area.
- (10) Any other tax, toll, fee or rate approved for by the State Government.

**B. Impressment of Labour.** Besides the taxes and other imposts leviable, compulsorily or voluntarily by the Panchayats as mentioned above, a Gram Panchayat may call upon persons resident in the area to perform such labour as it may specify on works of public utility which in the opinion of the Panchayat are likely to benefit such persons and which the Gram Panchayat has undertaken to construct, maintain or repair as part of its compulsory duties (sec. 30) or optional duties (sec. 31).

It may be noted that a person required to perform labour may have it performed by another on his behalf or pay for its performance at such rates as may be determined by the Gram Panchayat (sec. 44 (2)).

No Panchayat shall call upon any person who on account of age, sex, ill health or custom cannot be expected to perform nor any one for more than 15 days in a year or more than 4 consecutive days.

Regarding the optional levies mentioned above (sec. 42) it should be noted that if in the opinion of the District council the income of a Gram Panchayat is or is likely to be inadequate for the proper discharge of the compulsory duties (sec. 30) or optional duties which it has undertaken (sec. 31), the district council may require the Panchayat to levy or increase any tax, toll, fee or rate specified in section 42 (optional imposts), subject to the maximum prescribed.

The maximum prescribed as above varies in case of tolls from Rs. 0-0-6 for a porter to annas 2 for a vehicle; market fees are levied either according to load or space. Rate of fees for registration of animals sold is 6 pies of every rupee of the price of the animal; for sarais, dharamshalas, etc. rates are fixed on the basis of the size and number of rooms and furniture etc.; water rate is prescribed either on the quantity of water supplied, e.g. one anna per tin or a lump sum of rupees three per annum per owner of a house. For latrine cleansing, for lighting, drainage, etc. graded fees depending on the value of buildings are prescribed. For animals for riding etc. and for dogs and pigs etc. Rs. 0-8-0 (pig or dog) to Rs. 2 per annum for other animals etc and for fee payable by owner of vehicle kept in the village Rs. 2/-per vehicle per annum.

As regards the other sources of income—besides those mentioned above—the following may be mentioned:

- (1) A cess at the rate of 6 pies per rupee on land revenue on agricultural land (sec. 40),

## MINUTES OF DISSENT

---

(2) Such portion of the profits made by the village granary, if any, as may be specified by the Gram Panchayat from time to time.

(3) Income from matters, the control of which vests in or has been taken over by Gram Panchayat by agreement as provided in the Act.

(4) Income from all sums payable to Gram Panchayat under the Act or contributed by Government or local body or private person or from other sources as the State Government may from time to time determine.

**Bihar.** The Bihar Village Panchayats are governed by the Bihar Panchayat Raj Act, 1947 (Bihar Act, VII of 1948).

The Panchayat denotes under this Act the body corporate consisting of all adult residents of the area for which a Gram Panchayat is established. There appears to be a rather strict separation of the deliberative and the executive functions—the Village Panchayat is the policy laying and budget making body, whereas the executive functions of a Gram Panchayat are performed by an executive committee of which the head is known the Mukhiya. The Mukhiya appoints the members of the executive committee from amongst the members of the Gram Panchayat.

The functions of the Panchayats are mentioned in the chart A (compulsory) and B (optional) annexed herewith.

The financial resources of the Gram Panchayats are mentioned in the chart given hereunder.

**BIHAR**  
**GRAM PANCHAYAT FUND**

**Taxes leviable under Gr. P. Act**

**Other sources of income**

**Compulsory**  
**(1) Tax on**

- (a) Immoveable property 46 (b)
- (b) Manual labour or  
Wages in lieu thereof 46 (a)

**Optional**  
**(1) Fees for**

- (a) Licence for
  - (i) Professional buyers
  - (ii) Brokers,
  - (iii) Commission agents
  - (iv) Weighers and measure 47 (1) (a)
- (b) Exhibiting goods for sale at market or place belonging G.P. 47 (1) (d)
- (c) Registration of animals sold 47 (1) (e)
- (d) Use of sarais, dharamshalas, rest houses, encampment grounds 47 (1) (f)
- (e) for fairs sec. 43
- (2) Taxes (a) on Profession, calling other than agricultural trade 47 (1) (b)
  - (b) on (i) Vehicles (ii) Pack animals (iii) Porters bringing goods for sale into the village 47 (i) (c)
  - (c) on water rate 47 (1) (g)
  - (d) Latrine Tax 47 (1) (h)
  - (e) Lighting Rate for lighting public places, streets & building 47 (1) (ii)
  - (f) Drainage Fee 47 (1) (j)
  - (g) Pilgrim Tax at places of worship and pilgrimage 47 (1) (k)
- (3) Any other tax, toll, fee or rate approved by Provincial Government.

- (1) Income from markets 43.
- (2) Collection charges for collecting taxes and dues for Government 80 (2)
- (3) Court fees 80 (2)
- (4) Income from fines sec. 25.

**NOTE :** No tax, toll, fee or rate shall be imposed if such tax, toll, fee or rate has already been imposed by the District Boards in G.P. or already imposed by another Gram Panchayat in respect of the same person or thing as specified in Clause (a) (b) (c) & (d) of 47 (1) 47 (1) Prov. 83.

**Bihar.** It will be seen that there are two compulsory taxes :—

(1) **The labour tax.** All able-bodied males between the prescribed age-limits have got to render manual labour for a prescribed number of units of labour (one unit of labour means 4 hours of labour). Section 2 (1). No person shall be made to render manual labour for less than 12 units of labour during any one year. There is an option provided for paying cash in place of labour on the basis of the rates for wages of labour prevailing in the village as determined by the Mukhiya.

(2) **Tax on owners of immovable property.** This tax is payable in cash at the prescribed rates.

**Optional tax.** There are several optional imposts in the form of taxes, rates, licence and other fees, tolls, etc. as under :—

(1) A licence fee on persons practising as professional buyers, brokers, commission agents, weighers or measurers.

(2) Professional tax on persons exercising any calling (other than agriculture) profession or trade.

(3) Tax on vehicles, pack animals and porters bringing goods for sale into the village.

(4) Market fees—on goods exposed for sale in markets or places belonging to or controlled by Panchayats.

(5) Registration fees on animals sold in the village area.

(6) Fees for use of sarais, dharmashalas, rest-houses and encamping grounds vested in the Panchayats.

(7) (a) Water rate (b) Latrine tax (c) Lighting rate (d) Drainage fee	}	if Village Panchayat renders these services.
--	---	--

(8) Pilgrim tax—at places of worship within the village.

(9) Any other tax, toll, fee or rate approved by Government.

In addition to the above imposts which a Village Panchayat may levy, the *executive committee* is authorised to levy an emergency tax on the occurrence of any emergency.

(10) A further source of revenue is income from public properties in the Village Panchayat area which vest in the Panchayat, proceeds of markets and fairs managed by the Executive Committee etc.

(11) Collection charges for collecting Provincial taxes and dues on behalf of Government.

(12) Judicial fines, fees, etc.

**Orissa.** The village Panchayats of Orissa are governed by the Orissa Gram Panchayat Act 1948 (the Orissa Act XV of 1948). The general body consisting of all adult residents of a local area is incorporated and called the Sabha, and the Gram Panchayat is the Executive Committee of the Sabha. The Village Panchayats are placed under the control of the Registrar of Cooperative Societies. The functions of the Gram Panchayats are mentioned in the chart A (Compulsory) and B (optional) annexed herewith. The sources of income of the Panchayats are mentioned in the chart given hereunder:—



## ORISSA GRAM FUND

Taxes, fees, cess leviable under Gram Panchayat Act

Other sources of income

Compulsory

Voluntary

- (1) Tax on property sec. 44
- (2) Compulsory labour or in lieu thereof such rate as fixed by G. P.
- (1) Fees
  - (a) for licence for (i) brokers
  - (ii) Commission agents
  - (iii) Weighers and measurers 44 (2) (a)
  - (b) For registration of animals 44 (2) (d)
  - (c) For right (i) to exhibit goods for sale in any market 44 (2) (e)
  - (ii) for use of any building and structure 44 (2) (e)
  - (d) for use of slaughter houses maintained by the Gram Panchayat 44 (2) (f)
  - (e) for use of sarai, dharamshala, rest sheds and houses 44 (2) (h)
- (2) Taxes
  - (a) Latrine Tax 44 (2) (g)
  - (b) Lighting Rate 44 (2) (k)
  - (c) Water Rate 44 (2) (i)
  - (d) Drainage Tax 44 (2) (e)
  - (e) Vehicles Tax on vehicles kept in the area 44 (2) (g)
- (3) Tolls on vehicles, pack animals and porters bringing goods for sale 44 (2) (a)
- (4) Rent from dealers occupying open grounds or any structure or building belonging to and maintained by the Panchayat 44 (2) (c)
- (5) Any other tax, toll, rate or fees approved by Provincial Government.

- (1) Fines realised for breach of any provisions of the Act or rules and orders made thereunder 40 (i) (b)
- (2) Sums ordered by the Court to be credited to G.P. 40 (1) (d)
- (3) Sale proceeds of all dirt, dust, dung or refuse, dead bodies of animals 40 (1) (e)
- (4) Rent or proceeds of Government Property as fixed to be credited to G. P. 40 (1) (f)
- (5) Contributions from District Board and other local authority 40 (1) (g)
- (6) Sums received by way of loans and gifts 40 (1) (h)
- (7) Sums assigned by Government by special or general order 40 (1) (i)
- (8) 1/3 of local cess, land cess and additional cess levied under the Bihar and Orissa Local Self-Government Act 1855, Madras Local Boards Act 1920, Sambalpur Local Self-Govt. Act 1939 40 (1) (j)
- (9) Fines under sec. 56.
- (10) Penalties provided in the Act.

Note:—No tax, toll, fee or rate under sub sec. (1) & (2) of sec. 44 shall be invoked by G. P. if they have already been imposed by any District Board.

## MINUTES OF DISSENT

It will be observed that there is one tax which is compulsorily leviable by the Panchayat *viz.*, a tax upon the (1) owners of the immovable property and (2) occupiers of any building within its local area, *according to the circumstances and property of such owner and occupier.* The Panchayats are authorised to exempt partially or wholly an owner or occupier if in the opinion of the Gram Panchayat he is too poor to pay.

There are following imposts which a Panchayat may levy—the maximum and minimum rates being prescribed by Government.

(1) Licence fee on brokers, commission agents, weighmen and measurers, practising their callings within the local area of the Panchayats.

(2) Tolls on vehicles, pack-animals and porters bringing goods for sale into the local area.

(3) Rents from dealers occupying grounds or structure belonging to Panchayats.

(4) Fees on registration of animals sold within the local area.

(5) Fees for right to expose goods for sale in any market or for use of any structure therein.

(6) Fees from slaughter house maintained by Panchayats.

(7) Latrine and conservancy tax, water rate, lighting and drainage tax if services are rendered by Panchayats.

(8) Fees for use of sarais, dharamsalas, restshades and slaughter-houses (see 6 above).

(9) Fees on vehicles kept in the village.

(10) Any other tax, toll, fee or rate approved by Government.

Registrar of Cooperative Societies is empowered to require the Panchayat to increase its income by requiring it to levy or increase any tax, toll, fee or rate.

**Compulsory labour.** A Gram Panchayat may direct that all able-bodied persons between the ages of 18 and 50 residing in the area shall render either by himself or by a proxy free manual labour to it, for a fixed number of days not exceeding 4 days in a year or 2 days at a stretch.

Besides the proceeds of the above imposts the following items also form the 'Gram Fund'.

(1) Judicial fines, fees, penalties, etc.

(2) Sale proceeds of dust, dirt, dung, or refuse including the dead bodies of animals collected by the Panchayat servants.

(3) Rent or other proceed of Government property as Government may direct to be placed to the credit of Gram Fund.

(4) Contributions from district board or any other local authority.

(5) Sums assigned by Government.

(6) 1/3rd of the local cess, and additional cess levied under the Bihar and Orissa Local Self-Government Act 1885. The Madras Local Boards Act 1920 and the Sambalpur Local Self-Government Act 1939 as shall be assigned in the prescribed manner.

It may be added that all public property in the village vests in the Panchayat. Whatever income, therefore, received from this including that from markets and fairs upon public land are placed to the credit of Gram Fund.

**Assam.** The Panchayats of Assam are governed by the Assam Rural Panchayat Act, 1948 (Assam Act XXVII of 1948), which repeals the Assam Local Self-Govt. Act 1915. The effect of the repeal is that the local boards cease to function and the property belonging to the local boards including local board fund forms part of the Rural Development Funds. There are two such funds, the Assam Rural Development Fund to which are credited all contributions from the provincial exchequer and from other sources. In each sub-division, there will be sub-divisional rural development fund. In this Fund are credited all receipts from public ferries, schools, hats, bazars, pounds, tolls on bridges, sums received under the Cattle Tresspass Act which hitherto formed part of the income of local boards under the Assam Local Self-Government Act 1915 and also sums collected under the Bengal Village Chaukidari Act 1870. To this fund are also contributed all local rates and other sums and contributions that may be assigned to it from the Assam Rural Development Fund mentioned above and from any local authority or individuals.

It may be mentioned here that the word 'Panchayat' in Assam has a special connotation. The provincial government, in the first instance declares an area to be a 'Rural Panchayat area' (sec. 3). In each of the area so declared, a number of 'Primary Panchayats' are established (sec. 4). Each primary panchayat is composed of all adults—residents of the area within its jurisdiction, and it forms an electorate for the rural panchayat (sec. 5). Each primary panchayat elects from amongst its members an executive committee called the "Primary Panchayat Executive Committee" and a president and a vice president (sec. 7). The president of the Primary Panchayat is responsible to the rural Panchayat for the due maintenance of the office of the Primary Panchayat. The rural panchayat, in consultation with the president of the Primary Panchayat appoints a secretary whose salary is paid from the funds of the Panchayat.

It will be seen that the word 'Panchayat' is used in the sense of rural Panchayats which are groups of 'Primary Panchayats' and the affairs of these latter are managed by what are termed "Primary Panchayat Executive Committee."

The functions of the rural Panchayats are mentioned in the comparative functional chart A (compulsory) and B (optional) annexed herewith.

The sub-divisional rural development fund is distributed among different rural Panchayats, in consultation (1) with the district or sub-divisional co-ordination board and (2) with the annual conference of presidents and secretaries of panchayats and (3) with the district or sub-divisional officer on the following basis :

- (1) 10% of the fund to be reserved for unforeseen circumstances.
- (2) Necessary expenditure for maintaining sub-divisional office is deducted and
- (3) "An equitable allotment" of sums to each Panchayat for the purpose of carrying out the provisions of the Act.

The Panchayat fund consists of the items mentioned in the chart given hereunder :

ASSAM

V. P. FUND-SOURCES OF REVENUE

<p>Tax and cess &amp;c.</p> <p>Optional (A)</p> <p>(1) Local Fund cess at 1 anna per Ru of Land Revenue (65)</p> <p>(2) Tax on occupiers of land in permanently settled area (65)</p> <p>(3) Tax on uncultivated but cultivable land (65)</p> <p>Land Tax—</p> <p>(4) Building 65 (1) (d)</p> <p>(5) marriage, health, water, fire-wood, education, cattle, boats, cycles &amp; carts. 65 (1) (e)</p> <p>(6) Labour tax 71.</p>	<p>Other sources</p> <p>(1) Fees for (a) Instituting civil suits and criminal cases 64 &amp; 62 (2) (i) (ii)</p> <p>(2) Fines (a) imposed in criminal cases (b) imposed for breach of any provision of the Act or rules or order made thereunder 62 (1) (i)</p> <p>3) All sums ordered by any authority or the court to be credited to V. P. Fund 62 (vi)</p> <p>(4) Contributions from (1) Government (2) Local authority (3) Private individuals 62 (vii)</p> <p>(5) Sums assigned 62 (viii)</p> <p>(6) Allotment by Dy. Commissioner from Sub Div. Rural Development fund* 62 (ix)</p> <p>(7) Sale proceeds of all dust, dirt, dung or refuse 62 (x)</p> <p>(8) Taxes, licences and cess, fees approved by Government 65 (2)</p>
---	---

\* Sub-Div. Rural Development Fund  
to consist of :—

- (1) Receipt from
  - (a) Public Ferries, (b) Schools, (c) Hospitals, (d) Hats, (e) Bazars, (f) Ponds, (g) Tolls on Bridge, (h) Sums under Cattle Trespass Act, 1871, (i) Sums collected under the Bengal Village Chaukidar Act, 1870.
- (2) Contribution from (1) Assam Rural Development Fund\*\* (2) Local Authority (3) Private Individuals.
- (3) Local Rates.
- (4) Sums assigned. Sec. 59.

\*\*Rural Development Fund  
consist of :—

(1) Collection charges for collecting for Government taxes, revenue fees payable to the State . . . . .	sec. 46
(2) Contribution from Government . . . . .	.. 57
(3) Contribution from other sources . . . . .	.. 57

## MINUTES OF DISSENT

It will be seen that the provisions of Chapter IV (sections 57 to 73) which deal with finance and property of rural Panchayats do not prescribe a single tax compulsorily leviable by the Panchayats. There are, however, some taxes and fees voluntarily leviable.

Among the taxes leviable are :—

(1) A tax on (provincial) land revenue not exceeding one anna in a rupee payable by the recorded 'palledars' in possession of land as cultivators. This appears to be a variety of the local cess levied in other states.

(2) Tax at a rate not exceeding one anna per bigha payable by occupiers of land. This is leviable in permanently settled areas.

(3) A tax on uncultivated but cultivable land.

(4) A tax on buildings at prescribed rates.

(5) Taxes on marriage, health, water, education, cattle, boats, cycles and carts at prescribed rates.

(6) Any other rate, tax, cess or licence or other with Government approval.

(7) Another tax deserving special mention is the *labour tax*. A Panchayat is entitled to levy a labour tax involving the rendering of manual labour by able bodied male persons between the ages of 18 and 40 for a prescribed number of units of labour—(one unit of labour is equal to a normal manual labour done in a day) not more than 36 days in a year or more than three days at a stretch. There is a proviso that a person assessed to labour tax, may, instead of rendering manual labour pay to the Panchayat fund an amount equal to the wages of *double* the units of labour at the rate prescribed when he is asked to do the manual labour (sec. 71).

Other sources of revenue included are :—

(1) Judicial fees and fines.

(2) Allotments from sub-divisional development fund (mentioned above).

(3) Other sums and contributions assigned or received from Government, other authorities or individuals.

(4) Fee for the use of permits which Panchayats are empowered to impose under the Act or rules or by laws framed thereunder.

(5) Sale proceeds of dust, dirt, dung or refuse collected by the employees of Panchayats.

(6) Amounts received as gifts (sec. 62)

A provision regarding waste lands runs as under :—

A Panchayat may control all lands kept waste within its jurisdiction and may utilise them in any manner it deems necessary, if the owner does not utilise them himself within a specified period. The owner of the land shall be entitled only to Government revenue and to the return of the land on terms as prescribed (sec. 73).

It appears that during 1946-47 there were 153 village authorities, whose total income was only about Rs. 11,000/- and expenditure of about the same amount.

**West Bengal.** The Bengal Village Self-Government Act 1919 (Bengal Act No. V of 1919) as amended from time to time) aims at the development of self-government in rural area. Union Boards are established under this Act for "Unions"

## MINUTES OF DISSENT

constituted by Government for such local areas or parts thereof as may be found expedient.

The functions of the Union Boards are mentioned in the Comparative Functional chart A (compulsory) & B (voluntary) annexed herewith.

The imposts leviable by the Union are mentioned in the chart given hereunder :—

### WEST BENGAL

#### BENGAL VILLAGE SELF- GOVERNMENT ACT, 1919

##### UNION'S FUND

Compulsory Union Rate (sec. 37) Tax on any property (not exceeding Rs. 84).	Other sources of income
	(1) Grant-in-aid from District Fund 45. Voluntary and compulsory (when Union Rate is levied).
	(2) Fines, fees and cost of processes 46.
	(3) Contribution by individual or donations. 46.
	(4) Licence fees for licence of dangerous or offensive trades 34.
	(5) Receipts from Municipal Board Bench and Court. 46.
	(6) Rents or other income from works constructed by and vested in the Union Board (sec. 19)
	(7) Penalty at the rate of half the amount of arrears recovered by coercive process (sec. 41).

It will be seen that the only tax compulsorily leviable is the union rate. This rate is an assessment imposed yearly on persons who are owners or occupiers or owners and occupiers of buildings according to their circumstances within the Union and property within the Union.

The Union rate is intended by section 37 to be levied on the following basis  
(i) The total amount required for the salaries and equipment of the dafadars (head chaukidars) (sec. 4) and chaukidars and the salaries of the establishment of the Union is first ascertained. From this amount is deducted the contribution, if any, made by the State Government in this behalf.

(ii) An estimate is made of the sum required to meet the expenses of the Union Board in carrying out any of the other purposes of the Act, if such estimate

## MINUTES OF DISSENT

has been approved by more than half the total number of members of the board at a meeting specially convened for the purpose.

(iii) The sums arrived at under (i) and (ii) are added up and 10% of the total of the two sums is further added to meet the expenses of collection and the losses due to the non-realisation of the rate from defaulters.

The total sum (i + ii + iii) has got to be raised by the Union rate to be levied on the persons mentioned above. But a proviso to section 38 adds that the amount assessed upon any person in any one year shall not be more than 84 rupees. Any person who, in the opinion of the Board, is too poor to pay half an anna a month shall be altogether exempted from payment of any rate.

The Board has to consider the debts and liabilities, if any, of a person, in determining the total assessable income of the person concerned, i.e., the income which he derives from business conducted or from buildings or other property held within the Union (rule 3).

The Union rate is payable in equal quarterly instalments (rule 14).

It should be added that the total amount of the rate annually payable even by Government or local authority or "State railway or a steamer company, mill or other industrial concern" owning or occupying buildings is not to exceed Rs. 84, mentioned above. This maximum in the case of Government includes the rate payable in respect of Khas Mahal or offices for the collection of rents from Government estates (rule 4).

Section 54 of the Bengal Village self-government Act 1919, makes a special provision for the imposition and collection of supplementary assessment. This assessment is imposed when the amount collected for Union rate is found by the district magistrate as insufficient to meet the liabilities of the Union regarding salaries and equipment of defadars and chaukidars and of the salaries of establishment of the Union.

When the arrears of the Union rate are recovered by coercive process, an additional sum equal to half the amount so recovered is levied by way of penalty (sec. 41).

Besides the proceeds of the Union rate and the penalty mentioned above, the following further items constitute the union fund.

(1) All sums realised as fines, fees or costs recovered under Act (except fines levied from dafadars or chaukidars for default in the performance of their duties) process fees and other receipts of the Union board, Union bench (criminal jurisdiction) or Union courts (civil jurisdiction), and donations or contributions from private persons.

(2) Rents or other income from works constructed by and vested in the Union boards (sec. 19).

(3) Licence fees at prescribed rates for carrying on any trade or business declared by the State government to be offensive or dangerous (sec. 34).

(4) Grants-in-aid from district fund.

(i) The district board may make such grant-in-aid as it thinks fit, to enable the Union board to carry out any of the purposes of the Act on such conditions as the District boards may consider desirable.

## MINUTES OF DISSENT

---

(ii) In the case of Union boards which have imposed a Union rate on the owners/or/and occupiers under section 37, the district board shall make a suitable grant-in-aid.

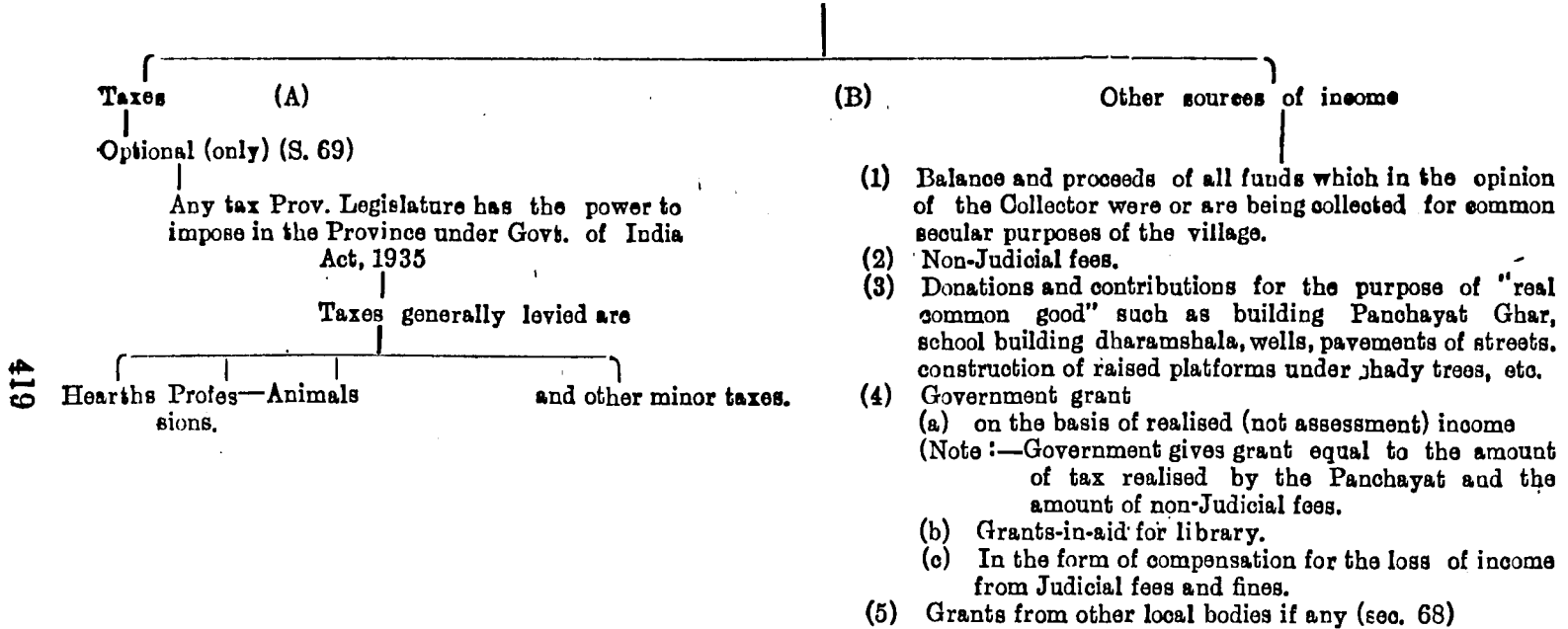
The income of Union boards for the year 1946-47 when there were about 1500 Panchayats was in the neighbourhood of Rs. 50,00,000/- as against an expenditure approximately Rs. 40,00,000/-.

**The Punjab.** The Act governing the village Panchayats is The Punjab Panchayat Act, 1939, being the Punjab Act No XI of 1939. The functions of Village Panchayats are mentioned in the Comparative Functional chart A (compulsory) and B (optional) annexed herewith. The provisions relating to finance and taxation of Village Panchayats are compressed in only 3 brief sections 67, 68 and 69 which make up Chapter VIII of the Act. The chart given hereunder summarises these provisions .



## PUNJAB (1939)

### VILLAGE PANCHAYAT FUND



MINUTES OF DISSENT

(1) **Taxes.** It will be seen that under this Chapter there is no compulsory tax at all. All taxes are optional. The power of taxation is described generally as the power to levy, with Government sanction, any tax which the Provincial Government has power to impose.

It appears that under these provisions, Village Panchayats have generally levied the following taxes :—

(1) **Tax on hearths.** This seems to be very popular and levied on different classes of people—the maximum rate per annum being prescribed for each class as under :—

- (1) On unskilled people at Rs. 1/- per hearth.
- (2) On artisans                      Rs. 2/-    -do-
- (3) On tenants                        ,, 3/-    -do-
- (4) On proprietors of land or shopkeeper Rs. 5/- per hearth.

(2) **Tax on Professions.** This is leviable at Rs. 5/- per shop.

It is further provided that the maximum payable by a taxpayer on whom both the hearth tax and profession tax are levied shall not exceed Rs. 8/- per annum.

(3) **Tax on animals.** Some Panchayats have levied tax on animals required for transport, commonly the mules. The rate for different animals varies from annas 2 to Rs. 2/- per annum.

**Sources other than taxation and fees.** There are some insignificant non-judicial fees levied *e.g.* for copying or inspecting non-judicial records of the Panchayats.

**Grants.** (1) Government give a grant of an amount equal to the sum collected by each Village Panchayat during the previous year from taxes and non-judicial fees.

2. If a Panchayat collects, say Rs. 200/- from taxes and Rs. 50/- from non-judicial fees, it receives a further sum of Rs. 250/- from Government in the form of grant.

3. Grants-in-aid in the form of compensation for the loss of income from judicial fees and fines imposed by the Panchayats. The income from these sources forms part of the State revenue and is creditable into the Government treasury and the Panchayat acts, so to speak, as a collecting agency for the State.

4. Grants for Panchayat libraries. Government set apart Rs. 4,000/- annually as library grant at the rate of Rs. 50/- per each Panchayat which contributes an equal amount from its own funds for this purpose.

5. Grant from local and other bodies are also received some times. Contributions and donations from individuals are sometimes received for specific objects of village benefit *e.g.* a school building, a Panchayat Ghar etc.

The following statement of the amounts received by Village Panchayats during 1948-49 will show the relative importance of each of the sources of income.

Taxes                      ...	Rs. 2,98,872/-
Government grants	,, 2,42,250/-
Grants from local and other bodies	,, 16,682/-
Voluntary contribution	,, 1,47,853/-
Miscellaneous ...	,, 36,580/-
<b>Total</b>	<b>Rs. 7,42,237/-</b>

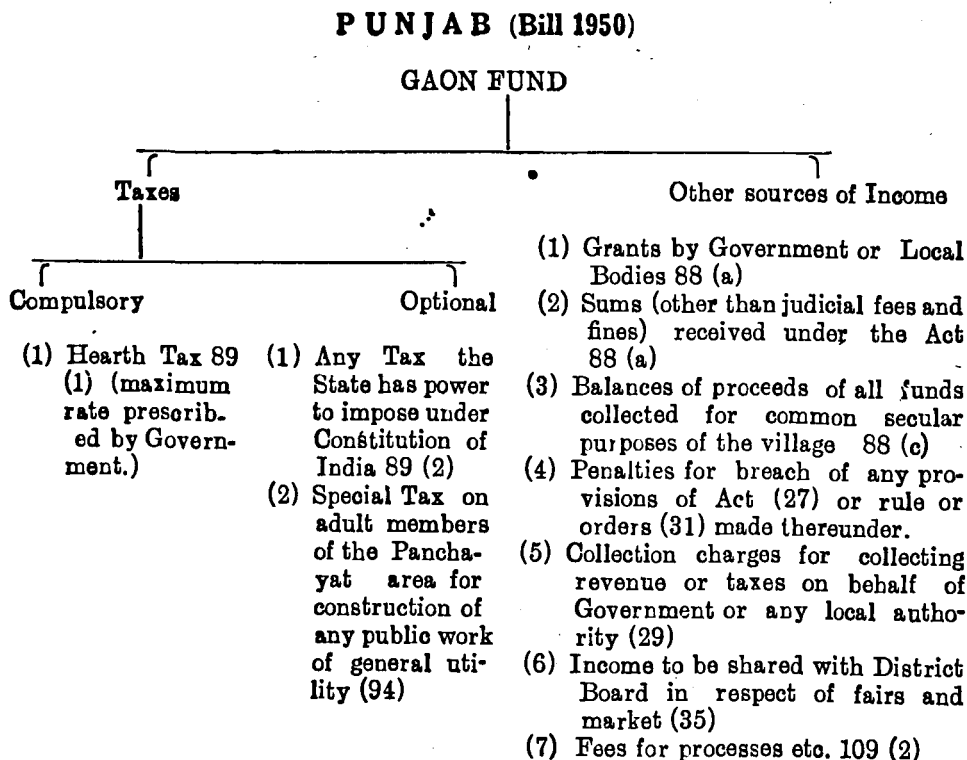
## MINUTES OF DISSENT

It is also interesting to note that this income was received by as many as 4110 Panchayats that were functioning during the year ; which means that about Rs. 180/- was the average income of a Panchayat per annum. It is stated that this average covers the highest ever received by the Panchayats since the inception of the Panchayats in the State.

Looking to the expenditure side, we find that all the 4000 and odd Panchayats spent between them Rs. 31,133 only for salaries of employees i.e. on an average of Rs. 8/- per annum per Panchayat.

The latest estimated income shows that about 50% of the Panchayats have been induced to levy Hearth-tax and their average income is likely to rise from Rs. 180/- to Rs. 250/-. The estimated incidence of taxation of Village Panchayats in the Panchayat areas is calculated at about Rs. 0-2-5 per head per annum.

It should be added that a new Panchayat Bill (No. II of 1950) is being introduced in the Punjab Legislature in which it is proposed to repeal the present Village Panchayat Act of 1939. The sources of income proposed in the new Bill are given in the chart below:



It will be seen that the Hearth tax which has been optional so far, will, if the Bill is passed, be converted into a compulsory tax, and an optional source of revenue in the nature of a special tax on adult members of the Panchayat area for construction of any public work of general utility has been added. This tax will be payable in cash or voluntary labour from the persons taxed or from any other person voluntarily offering such labour on his behalf.

## MINUTES OF DISSENT

---

The other sources of revenue provided for in the new Bill are mentioned in the chart hereunder, the notable feature being that the Panchayats will receive collection charges for collecting land revenue or taxes which the State may impose in the area. The second notable feature is that the Panchayat will share with the District boards the income from fares and markets.

**Uttar Pradesh.** Village Panchayats of Uttar Pradesh are governed by the United Provinces Panchayat Raj Act 1947 (U. P. Act No. XXVI of 1947). Under this Act all adult residents of a village are incorporated under the name of a Gaon Sabha and Gaon Panchayat is the executive committee of the Sabha.

The functions of the Gaon Panchayats are mentioned in the chart A (compulsory) and B (optional) annexed herewith.

The chart which is given hereunder enumerates the sources of revenue of Village Panchayats in the U.P.

**UTTAR PRADESH**  
**GAON PANCHAYAT FUND**

**Taxes (all optional) sec. 37**

- (1) Tax on rent payable under U. P. Tenancy Act 1939 not exceeding one anna in a Rupee 37 (a)
- (2) Tax on rent received under U. P. Tenancy Act 1939 not exceeding half anna in a Rupee. 37 (b)
- (3) Tax on the assumed rental value of Sir and Khudkasht and calculated under sec. 63-D of U. P. Land Revenue Act 1901 not exceeding one anna in a rupee 37 (c)
- (4) Tax on trade, calling profession 37 (d)
- (5) Tax on building by persons who do not pay any of the taxes 1,2,3, & 4 abovementioned 37.(e)

**Other sources of income.**

- (1) Sums received from Government 32 (2) (b)
- (2) Balance of former Goan Panchayat 32 (9) (c)
- (3) Sum credited to G. P. by order of the Court 32 (2) (d)
- (4) Sum received as consideration for compounding offences 32 (2) (e)
- (5) Sale proceeds of dust, dirt, dung, refuse and dead bodies. 32 (2) (f)
- (6) Rent or other proceeds of Nazal Property as the Provincial Government may direct to be placed to the credit of G. P. Fund 32 (2) (g)
- (7) Contribution from District Board or other local authority 32 (2) (h)
- (8) All sums by way of loans and gift 32 (2) (i)
- (9) Sums assigned by Provincial Government by special or general order 32 (2) (j)
- (10) Collection charges (1) from Government for collecting taxes on its behalf 24 (a)  
(2) from private Parties for collecting rent 24 (b)
- (11) Fees for process and suits and penalties.

It will be seen that there are no taxes compulsorily leviable by Panchayats. But the other imposts are as under :—

(a) A tax, not exceeding one anna in a rupee of the rent payable under the U.P. Tenancy Act 1939—payable by persons severally or jointly in cultivatory possession or in respect of Sayer income therefrom ; in the case the land is cultivated by the sub-tenant then the amount is payable between the sub-tenant and superior holder in proportion of 3 to 1.

(b) A tax not exceeding six pies in a rupee on rent received by any proprietor or under proprietor on account of land as defined in the U.P. Tenancy Act 1939 payable by persons in proprietary or under proprietary possession as provided in section 32 of the U.P. Land Revenue Act 1901.

(c) A tax not exceeding one anna in a rupee upon the assumed rental value of 'Sir' and 'Khudkasht' in accordance with the land revenue act, 1901—payable by persons in proprietary or sub-proprietary possession of Sir land as provided in the U.P Land Revenue Act 1901.

The taxes mentioned, a, b, and c above are to be imposed if at all, all together and not singly and in the same ratio as the maximum rates prescribed therein bear to one another.

(d) A tax on trades, callings and professions—not exceeding such rates as may be prescribed.

Rule No. 221 prescribes that a Panchayat may, by resolution, require that no person shall carry on the trade of a weighman, or palledar, a sugar refiner and merchant, a grain merchant, a cloth merchant and of keeping a vehicle for hire, without obtaining a licence for the same on payment of annual fee, not exceeding that given below :—

- |  |                      |
|--|----------------------|
| (1) Weighman,<br>merchants,<br>palledars               | } Rs. 3 per annum    |
| (2) Grain and cloth<br>merchants and<br>sugar refiners | } Rs. 8 per annum    |
| (3) Owners of vehi-<br>cles for hire                   | } Rs. 3 per vehicle. |

In addition to the above licence fees, grain and cloth merchants and sugar merchants and refiners and persons carrying on any other trades to be determined by the prescribed authority, may, if the Panchayat so resolves, be required to pay a tax on the annual income of their trade. No income below Rs. 500/- per annum shall be taxed. The rate of taxation shall not exceed, (a) 3 pies per rupee on an annual value below Rs. 600/- and every Rs. 100 or part thereof above Rs. 600/- but below Rs. 1200/- not exceeding 6 pies per rupee ; and for every Rs. 100 or part thereof above Rs. 1200 not exceeding one anna in a rupee

Of course the maximum amount recoverable from a person under the Constitution of India shall not exceed Rs. 250/- per annum.

(e) A tax on buildings owned by persons who do not pay any of the taxes aforesaid under (a) to (d)—not exceeding such rate as may be prescribed.

Rules framed under the Act provide that the rate of tax on houses and buildings shall not exceed 5% of the annual rental value. Persons who from poverty are unable to pay a tax are exempted from the assessment (Rule 224).

No assessment is to be imposed on any house or land belonging to the Government or the district board which is not used for residential purposes, but the Government or the district board, shall, *if the District Magistrate so directs* in any case, be liable to pay to the Panchayat in lieu of the assessment, such sum as he may from time to time determine to be fair and reasonable.

Where, however, an assessment is imposed on a house, building or land belonging to Government or District Board, which is used for residential purposes, it shall be payable by the owner or occupier as the Government or district board may decide.

Besides the above mentioned imposts, proceeds from the following items are credited to the Gaon Fund.

- (1) Court fees and fines.
- (2) Sums paid by way of composition—when a Gaon Panchayat compounds an offence on payment of a cash payment.
- (3) All sums received from District or other authority.
- (4) All sums handed over or assigned by the Provincial Government.
- (5) Such portion of the rent or other proceeds of the Nazul property as the Provincial Government may direct to be placed to the credit of the Gaon Fund.
- (6) Sums received by Panchayat from any individual, corporation or provincial government as collection charges of rents due to these parties from persons liable to pay the rent to them when the Panchayat contracts to collect such rent (sec. 24).
- (7) The sale proceeds of all dust, dirt, dung, or refuse including the dead bodies of animals collected by the servants of the Gaon Panchayats.

**General Observations.** The matter contained in the previous pages, dealing with the functions and finances of Village Panchayats has been collected from different sources. Facts relating to the Panchayats in ancient India have been abstracted from standard works on ancient Indian polity. No attempt has been made to give a chronological account nor has it been considered necessary to do so, because of the restricted scope of this enquiry. What is attempted is to give a brief account of the salient features of these Panchayats in so far as they relate to their functions and finances during the different periods of ancient history and to present a picture of these Panchayats as a whole, overlooking those differences which existed in different parts of the country and in different periods. References to the history of Panchayats between the ancient period and the present times have been omitted. Our study of the finances of the Panchayats of today extends only to the states to which our inquiry was restricted under the instructions to that effect from the Ministry of Health. Non-availability of the upto-date materials for study of the present day Panchayats has rendered it impossible to give an accurate account of the financial working of the Panchayats in different states, much as I would have liked to do. No comparative examination on sound lines is possible because data for identical periods are wanting. I have however tried to do justice to the subject, as best as I could with these handicaps.

Regarding the functions of Village Panchayats, we have found the study of Village Panchayats in ancient India useful and instructive—because they reveal the national characteristics of the village people in ancient India. They afford reliable guides for moulding our present policies in respect of Village Panchayats. It will be seen that modern legislatures all over India have been trying to revive these national institutions by a close study of the functions of our old Village Panchayat. This study of their functions, however, is merely incidental and ancillary to the main

purpose viz. the study of the finances of Village Panchayats. A word about this relation between the functions and the finance of Panchayats would not be out of place. It is stated that the problem of functions cannot be divorced from their finance—their marriage is indissoluble. It has been stated that those functions alone should be allocated to Village Panchayats as could be satisfactorily attended to by them with the finances placed at their disposal, and vice versa, Panchayats should be endowed with financial resources adequate enough to enable them to discharge the functions allotted to them satisfactorily. Those propositions are taken to be axiomatic and unexceptionable. Every administrator connected with Village Panchayats in India, however, knows, from day to day experience that such a presumption about the relation between functions and finance is short of reality in case of all local bodies and specially so in case of Village Panchayats all over India.

A comparative functional chart mentioning all the compulsory duties (portion marked A) and the numerous optional duties (portion marked B) and including details about each State in separate columns has been compiled and annexed to this note. Instead of mentioning all these duties when dealing with them in connection with the finance of each State, it is found convenient to bring them all in one place, so that a sort of comparison could be made. Moreover, as stated above, there is no relation in practice between functions and finance of Village Panchayats. Even what are described as "compulsory functions" are supposed to be performed only 'if funds permit' and the fact is patent that funds never permit the performance of these obligatory functions, much less of the optional functions. The wisdom of cataloguing multifarious items and calling them duties has been doubted by some writers, particularly the financial experts. There is, however, a practical reason lurking behind this apparently unintelligible arrangement. There are divergent conditions obtaining in different villages of different States and the uniform inadequacy of finances of each permits only of different priorities for the performance of different functions. It would not therefore be a convenient arrangement if identical uniform 'obligatory' duties, were listed. It may also be noted that the words "to the effect," 'if funds permit', which are used in connection with obligatory duties take out all the wind from the word 'obligatory'. Moreover the tax payers do not seem to have any legal right to enforce the performance of these obligatory duties i.e. for 'non-feasance'. They have a remedy only if functions are performed in a negligent manner so as to cause a special damage to the party complaining i.e. for 'misfeasance' only. Under the circumstances it would appear that the distinction between 'obligatory' and 'discretionary' functions does not cause any inconvenience as far the Courts are concerned. This distinction, moreover, serves a practical purpose also. In the hands of the controlling authorities, it furnishes a lever to bring pressure upon a local body to perform its obligatory functions and thereafter to withhold grants or to take coercive measures for failures in the performance of the obligatory duties. Sometimes this default figures amongst the causes assigned by controlling authorities for superseding local bodies.

- A comprehensive list of "discretionary" duties serves as 'pesters' pointing out the different channels in which, according to the choice of the Panchayats, their activities may be directed. This freedom is, in practice, found very valuable because on a careful examination of the works carried out by different panchayats, it would be found that enormous advantage has been taken of this liberty of action. Furthermore the unsophisticated and simple villagers are saved by this device, from the fetters of the doctrine of 'ultra vires' because the list of optional duties saves them from this everpresent danger,



## MINUTES OF DISSENT

Coming to the financial problem of Village Panchayats it may be noted that the sources of income of the Panchayats in each State have been mentioned in the respective notes dealing with the State and special financial charts embodied therein. It is interesting as well as highly instructive to make a comparative study of their financial resources in the different States. With a view to make such a study, comparative financial charts dealing with all the financial resources have been prepared including compulsory and optional levies and other sources of income. It is hoped that all these individual charts with the concluding comparative charts will give a fairly clear picture of the position of the functions and finances of Panchayats in the different States.

It is needless to repeat comments on particular items of income in individual States, in these concluding observations, as they have been pointed out in separate notes regarding them.

A few general remarks are, however, offered here. The two main constituents of 'Village wealth' from which the sources of income for the proper functioning of Village Panchayats could be drawn are the land and labour. We shall give a brief account of the various methods adopted by the different States for tackling these two components.

**Land-law** forms the subject of numerous imposts—benefits of which accrue or should accrue to the Village Panchayats to a great extent. 'Land Revenue' in India is a source reserved by the States for their own use. In other countries, this source of income generally goes to the local bodies. Shri. Gokhale and other Indian leaders have been pointing out since long that unless this source is made available for the use of local bodies there was no hope of their raising sufficient revenue to perform their elementary duties. Whatever justification there may be for the reservation of this source of revenue for the exclusive use of State governments in pre-independence days—it is being slowly realised by the States that the time has come to re-examine this position. The problem of vitalising the finances of local bodies has assumed a critical position and it appears that local bodies will have to be made major partners of this revenue. If the State could manage to transfer this source for the exclusive use of local bodies—they would be taking a step which is overdue and which will go a great way towards solving the problem of local finance particularly the Panchayat finance. From the notes on the finances of Village Panchayats in different States and the several charts in this note, it will appear that the State of Bombay is the first one to realise the necessity of assigning part of this source to District Boards and to the Village Panchayats. Fifteen per cent. of the land revenue realised from each Village Panchayat area has been assigned to the Panchayat concerned.

This salutary change in State policy has been hailed by all local bodies throughout in India and the portends are that other States will find it necessary to follow suit. The Madras State has in the new Village Panchayat Act of 1950, imitated the Bombay Act which assigns 15% of the land revenue to the Village Panchayats in that State. There is however a marked difference in the policy adopted by these two States. The State of Bombay has adopted a straightforward policy of assignment of a definite portion of land revenue to the very Panchayat from whose area the same has been raised. The State of Madras however sets aside 12½% of the land revenue derived from the whole State and from the fund so created gives a grant to Village Panchayats on the basis of the population in each. In the case of Bombay it is an assignment of a portion of the revenue raised from the very Panchayat area which raises the revenue. There is a psychological

aspect of this policy. Every Village knows that what it pays as land revenue is returned, though in part, to the village itself to be used for the village benefit. In the case of Madras—the village does not obtain part of what it pays—but may get more or less depending upon its population and not on its own contribution. There is a sort of 'ownness' attached to receipts in Bombay whereas a sort of inferiority complex attaches to every 'grant' in Madras. To the economists, the Madras method may be scientifically more acceptable—in so far as the principle of distribution according to the needs of the area, as ascertained, on the basis of the population has a better application. We have as yet no record of the experience of the operation of the Madras Act as the measure is entirely new. But the Bombay method has met with, as stated before, a great welcome. I am emphatically of the opinion that the Bombay method is the more acceptable on the ground of the psychological effect it produces on the tax payer—a factor on which greater emphasis is needed when dealing with rural population. Moreover the association of 'Supplicancy and control' which are concomitants of 'Grants' creates a sort of inferiority complex. The Bombay method has in addition the sanction of ancient usage and practice—as will be seen from the account given previously of the assignment of land revenue to the Panchayats in ancient India.

Land Cess is an additional impost in the nature of a surcharge on land revenue. It will be seen from the different charts that several of the States have assigned a fraction of the land cess or permitted the Village Panchayat to levy a small surcharge on land revenue. The Bombay State has taken care to provide that Panchayat shall receive either  $\frac{1}{4}$  of the cess out of 3 annas in a Rupee of land revenue levied by the District Boards or 15% of the land revenue whichever is greater.

Besides the land revenue and the land cess, land has been a source of revenue to Village Panchayats in different ways. House tax—land and building tax—circumstances and property tax: in all these taxes land forms an important element of income. Then there are imposts on lands occupied for non-agricultural purposes, other than buildings, vacant lands which are cultivable but not cultivated; lands held by persons in cultivatory possession, and those held in proprietary or sub-proprietary possession.

Moreover lands owned by or vested in Panchayats are exploited by some of the Panchayats in the same way as 'communal lands' in the hands of Village Panchayats.

Waste lands have been vested in Village Panchayats in some States. They could be converted into cultivated lands so as to produce income.

There is a provision under the Assam Act whereby waste lands belonging even to private persons which are not made productive by the owners could be taken charge of by Panchayats and made to yield revenue to the Panchayats under certain conditions.

It will be observed that many varieties of taxes have been put on land by Panchayats in India. When this fact is considered in relation to the extreme poverty of the productivity of land and the uncertainty of rains on which crops depend and the recurrence of famines, it appears that there is little room for further exploitation of this source of revenue.

**Labour.** This is another form of wealth which may suitably form an object of taxation for rural bodies generally and Village Panchayats particularly. There is an abundance of labour going waste in many villages. A large number of villages have nothing to offer in cash or kind in lieu of taxes. Legislatures of every State seem to be aware of this state of things and have enacted legislative provisions for

## MINUTES OF DISSENT

tackling the source. Some States have made provision for accepting labour in lieu of taxes and some other have provided for the levy of labour tax at the option of Village Panchayats. Bihar seems to have gone furthest in providing for a compulsory levy of labour tax.

There is a great scope for utilising this—the most fruitful source of income, for the benefit of Village Panchayats. There is an off-season idle labour which could be recruited for road making and other public utility works. It is calculated that the village labourers—particularly landless labourers derive during working period only 2/3rds of the income necessary for subsistence even on a low standard of living. A proper propaganda for due appreciation of the dignity of manual labour could be carried on to the utmost advantage of the Village Panchayats.

We have not come across any record showing how far this labour tax is popular and whether use of this tax is made to any considerable extent. The Mysore State Panchayat Act has it on the statute elaborate rules for a long time and it is stated that it works satisfactorily.

We have also seen that in ancient India contribution in the shape of labour was a very good source of income. Assignment by the State of such contributions recoverable by the State to Village Panchayats helped the villages considerably in carrying out public works. The extent to which the modern India is able to resuscitate this mode of taxation will to a great extent be a measure of its success in reviving these national institutions.

**Payment in kind.** I would like that each state should investigate the feasibility of providing for payment by the tax-payers in Panchayat area in kind in place of payment in cash. Such a method of recovery of taxes during the season when crops are collected in the fields would be very convenient and economical and would not be felt to be a burden by the villagers. This suggestion may be found particularly suitable in backward areas. Graneries may be maintained by Village Panchayats and payment to labour engaged by the Panchayats in kind would also be a more suitable practice in many villages. This practice moreover would provide for accumulation cereals sufficient to last for a year's consumption of the whole village and in times of famine or scarcity would become a blessing to the whole village. This practice of maintaining village graneries is met within several parts of India and I would earnestly recommend state governments to seriously probe into this matter.

Comparative Financial chart gives in detail

- (1) all the taxes which are compulsorily leviable in the states mentioned against each of them.
- (2) All the optional levies and
- (3) All other sources of revenue.

It is hoped that this comparative chart will give a comprehensive picture of the financial sources at the disposal of panchayats in each state. These items have been dealt within the previous notes. My recommendations in this matter are

(1) A substantial share of the land revenue, not less than 25% should be assigned to the Village Panchayats forthwith. This percentage must be progressively increased say by 5% every year to 50%. I do not mind that some of the grants are reduced in order to enable states to implement this recommendation.

(2) A 'labour tax' should be levied in each Panchayat in the shape, for example, of payment of Village Panchayat tax at the rate of so many hours per year with all such safeguards against the abuses which such a system may be liable to, which several states have provided in the rules. For example it may be

provided that payment in cash or kind may be made in lieu of labour at prescribed rates.

At present some Acts are providing for payment of tax in cash and option is given to pay in labour. I would like to reverse the procedure and would primarily levy the tax in labour and option to pay in cash or kind. To my mind, this change has a great psychological value and is more suitable to village conditions.

(3) Tax on agricultural products either as an independent levy or as a substitute for any of the present levies should be considered.

(4) Surcharge on a number of taxes should be permitted to be levied at the option of the Panchayats such as surcharge on the duty on transfer of property which is compulsory in Madras.

(5) Village Panchayats should be relieved absolutely of all financial responsibilities regarding education.

(6) Salary and allowances of the chief executive should be borne by the state, at least to the extent of  $\frac{3}{4}$ ths as in Bombay. As far as possible—the executive work should be done in an honorary capacity by members as in the Punjab. A considerable part of the income of the Panchayats would otherwise be consumed by this one item only.

(7) State Government should transfer as much land to the Panchayats as possible with a view to their exploiting them.

(8) Panchayats should be encouraged to undertake as many remunerative enterprises as possible e.g. markets, slaughter houses, cart and bus stands and ferries which are at present undertaken by some of them. They may undertake the management of co-operative farming, dairies and such other activities under the guidance of different state departments.

(9) They must be made agents for all State or District work to be done in the village and be allowed remuneration for the same. For example, wherever feasible, they should collect land revenue and cess and recover collection charges. They may similarly carry out public works on behalf of District Boards or P.W.D.

(10) There should be established a sort of relationship between the Panchayats and the Registrar of Co-operative Societies who should guide them to undertake works on the basis of multi-purpose Co-operative Societies. In Orissa, the superintendence, guidance and control over the Panchayats has been placed in the hands of the Registrar of Co-operative Societies.

(11) The functions of law and order should be decentralised as in West Bengal and the State should make itself responsible for the salaries and allowances of the Chaukidars employed by the Panchayats.

A last suggestion though not of a financial character may be made *viz.* that the connotation of the phrase 'Village Panchayat' may be made uniform in the legislative measures of all the States as the phrase 'Village Panchayats' has found a place in the Constitution of India and such a uniformity will be very helpful.

## COMPARATIVE FUNCTIONAL CHART—A

### Obligatory Functions of Village Panchayats in different States

Names of functions	Bombay	Madras	Madhya Pradesh	Bihar	Orissa	Assam	West Bengal	Punjab	U. P.
1. Supply of water for domestic use.	Yes	No	Yes Disinfection and storage.	Yes Also disinfection and storage.	Yes	No	No	Yes	Yes
2. Cleansing of Public Roads, Drains, Bunds, Tanks, Wells (other than tanks and wells used for irrigation) and other public places or works.	"	Yes	(See column 4 below)	No	"	"	"	No	"
3. Construction, maintenance and repair of public roads, drains, bunds and bridges.	"	"	Yes	Yes and Protection of village roads & paths	"	Yes	Yes	Yes	No
4. Sanitation, conservancy, prevention and abatement of nuisance.	"	"	Yes also cleansing of public street	Yes	"	No	Yes also in fairs	"	"
5. Preservation and improvement of the Public Health.	"	"	No	No	No	"	Yes	No	"
6. Maintenance & regulation of the use of public building grazing lands and forest lands and tanks and wells under control of Panchayats.	"	No	Yes or any property vested in V.P.	Yes also repair and protection thereof	Yes	"	No	Plantation Preservation of Trees	Yes
7. Village Lighting.	"	Yes	No	No	"	"	Yes	No	"
8. Control of fair, bazars, slaughter house and cart stands.	"	No	"	"	Yes also stands for Motor car and market.	"	No	No Organisation and celebration of festivals	"

Names of functions	Bombay	Madras	Madhya Pradesh	Bihar	Orissa	Assam	West Bengal	Punjab	U. P.
9. Provision, maintenance any regulation of burning any burial grounds.	Yes	Yes	No	No	Yes	Yes under orders of District Board only	No	Yes	Yes
10. Supervision and maintenance of Village School.	if Yes (funds provided By D.L.B.)	No	"	"	Yes for boy & girls and spread of education.	Primary School.	"	No	"
11. Supervising of labour employed for local work.	"	"	"	"	No	No	"	"	No
12. Supervision repairing of dhamashala.	"	"	"	"	Yes Rest houses	"	"	Yes for travellers	"
13. Management and maintenance of cattle pounds,	"	"	"	"	No	"	"	Yes	"
14. Execution of work entrusted by Dist. Local Board.	"	"	"	Yes	"	"	"	No	"
15. Distribution of irrigation water.	"	"	"	"	"	Yes	Yes	"	"
16. Management of institutions and execution of works entrusted by D.L.B. with the consent of Panchayat.	"	"	"	No	"	No	No	"	"
17. Sinking and repairing of wells, excavation repairs and maintenance of ponds and tanks, construction of water works for (i) bathing (ii) washing and drinking purposes.	No	"	"	"	"	No	"	Yes	Yes scc. 6
18. Medical relief and first aid.	"	"	Yes	Yes	Yes	Yes	"	No	Yes and maternity Yes also marriages.
19. Registration of births and deaths.	"	"	Yes Marriages	No	Yes also marriages	No	"	"	Yes also marriages.
20. Making of crop experiment	"	"	Yes	"	No	No	No	No	No

Name of functions	Bombay	Madras	Madhya Pradesh	Bihar	Orissa	Assam	West Bengal	Punjab	U. P.
21. Making complaints under Child Marriage Restraint Act, 1929.	No	No	Yes	No	Yes	No	No	No	No
22. To take measures to prevent outbreak of diseases and recurrence any of infectious disease.	No	Yes (Epidemics)	"	Yes	Yes	"	"	"	Yes
23. Reporting of encroachments on roads and public places	"	No	"	"	Yes Supervision & maintenance of Village boundaries.	"	"	"	" removing
24. Filling in damaged wells, isanitary ponds, pools, ditches or pits.	"	No	"	No	No	"	"	"	No
25. Maintenance of an accurate account of crop, animal and vital statistics.	"	"	No	Yes	Yes	"	"	"	Yes and also population
26. Extinguishing fire and fighting famine, burglary and dacoits.	"	"	"	"	No	"	"	No	Yes
27. Execution of measures of Rural Development as Government may direct.	"	"	"	"	"	"	"	Yes starting & maintaining Grain Fund seeds for cultivators.	No
28. Segregation of infective lepers by starting Village Isolation Centres.	"	"	"	No	Yes	"	"	No	"
29. Maintenance of public latrines.	"	"	"	"	"	"	"	Yes	"
30. Allotment for storing manures	"	"	"	"	"	"	"	No	Yes
31. Regulation of constructing of new buildings and extension of existing buildings.	"	"	"	"	"	"	"	"	Yes also protection & supervision

Names of functions	Bombay	Madras	Madhya Pradesh	Bihar	Orissa	Assam	West Bengal	Punjab	U P.
32. Maintenance of Village Vol. Force.	No	No	No	No	Yes	No	No	No	No
33. Veterinary & other hospital.	"	"	"	"	No	Yes	"	"	"
34. Supply of information to Dist. Magistrate.	"	"	"	"	"	"	Yes	"	"
35. Services of Processes.	"	"	"	"	"	"	"	"	"
36. Establishment of Panchayat Adalats.	"	"	"	"	"	"	No	"	Yes
37. Relief for the poor and the sick.	"	"	"	"	"	No	No	Yes	No
38. Improvement of breeding houses and cattle for agricultural and domestic use.	"	"	"	"	"	"	"	"	"
39. Public garden and paly grounds.	"	"	"	"	"	"	"	"	"
40. Voluntary registration of cattle, camels and horses.	"	"	"	"	"	"	"	"	"
41. Development of Agriculture and Village industries and destruction of harmful weeds.	"	"	"	"	"	"	"	"	Yes
42. Disposal of bodies of dead animals and of offensive matter.	"	"	"	"	"	"	"	No	Yes



COMPARATIVE FUNCTIONAL CHART—B

Discretionary Functions  
of  
Village Panchayats  
in different States.

Names of functions	Bombay	Madras	aMdhya Pradesh	Bihar	Orissa	Assam	W. Bengal	Punjab	U. P.
1. Crop Experiences	Yes	No	No	No	No	No	No	No	No
2. Construction & maintenance of slaughter houses	"	Yes	Yes	"	Yes	Yes	"	"	"
3. Relief of the destitute and the sick.	"	No	"	"	"	"	"	"	"
4. Improvement of agriculture	"	Yes	"	"	"	"	"	"	"
		Also organising Agricultural stores		also commerce & industries	Industrial stores.	Holding Exhib.			
5. Cooperative Farming	"	No	"	No	Yes	Yes	"	"	Yes
6. (1) Improvement of cattle & (2) Breeding and General care of live stocks	"	"	"	Yes & Medical treatment.	"	"	Yes	"	Medicine treatment
7. Establishment of granaries	"	"	"	No	"	No	No	"	No
8. Village Libraries and reading rooms	"	Yes	"	Yes	No	Yes	"	"	Yes
9. Planting trees in market place and other public places and their maintenance and preservation.	"	"	"	"	Yes	"	Yes	"	"
10. Layout and maintenance of play ground for village children and of public gardens.	"	"	"	Yes	"	Yes	"	"	"
		Also wireless receiving sets, sports clubs and centre of physical culture		Also Akharas Radio sets. Gramophones		Radio set for Rural population			Games Akharas
11. Promotion, improvement and encouragement of cottage industries.	"	Yes	"	Yes	"	Yes	"	"	No

435

MINUTES OF DISSENT

Names of functions	Bombay	Madras	Madhya Pradesh	Bihar	Orissa	Assam	W. Bengal	Punjab	U <sup>1</sup> P.
12. Destruction of stray and ownerless dogs.	Yes	No	Yes	Yes	No	Yes also disposal of unclaimed cattle.	No	No	No
13. Construction and maintenance of Dharamshala	"	Yes	Yes also sarais and Rest Houses	"	Yes	Yes	Yes	"	"
14. Management and control of Ghat not managed by others	"	No	Yes	No	"	No	No	"	"
15. Assistance to residents in times of natural calamity	Yes	"	"	"	"	"	"	Yes	Yes
16. Disposal of unclaimed corpses, carcasses and unclaimed cattle	Yes	"	See column 43	Yes	"	Yes	"	No	No
17. Construction and maintenance of public latrines	"	"	Yes	"	No	"	Yes	"	"
18. Establishment and maintenance of markets	"	Yes	"	"	"	No	Yes	"	"
19. Watch and ward of village and crops	"	No	No	No	"	Encroachment measures against decoity & burglary.	No	"	"
20. Construction & maintenance of houses for the conservancy staff	"	"	"	"	"	No	"	"	"
21. Making of provisions for carrying out work likely to promote social and economic welfare of the inhabitants	"	Including prohibition, removal of untouchability, eradication of corruption, to discourage litigation, to encourage arbitration	Yes	Yes	Yes	Yes	Yes	"	Yes
22. Control of fairs & festivals	No	Yes	Yes also agricultural and industrial shows.	No	No	"	"	"	No.

Names of functions	Bombay	Madras	Madhya Pradesh	Bihar	Orissa	Assam	W. Bengal	Punjab	U. P.
23. Opening and maintaining of public landing places, cart stands, public cattle shed	No	Yes	Yes	No	No	No	No	No	No
24. Extentions and village sites	"	"	"	Yes	"	Yes also new Bldgs. also institutions.	Yes	"	"
25. Registration of births and deaths.	"	"	No	"	"	Yes	No	"	"
26. Opening and maintenance of elementary schools	"	"	Yes sec. 37	" Primary School	Yes also Pri. School Adult Edcn.	"	Yes	"	"
27. Establishment and maintenance of dispensaries, giving subsidy to medical practitioners.	"	"	No	No	Maintaining any Ayurvedic Unani Homeopathic hospital or dispensary	Yes same as Orissa	"	"	"
28. Maternity and child welfare.	"	"	Yes	Yes	Yes	Yes	"	"	"
29. Veterinary	"	"	No	No	No	No	No	"	"
30. Administration of forests	"	"	"	"	Yes Maintenance	"	"	"	"
31. Management & superintendence of Endowments and Inams	"	"	"	"	No	"	"	"	"
32. Provision and maintenance of encamping grounds	"	No	Yes	"	"	"	"	"	"
33. Promotion of agricultural credit and relief of rural indebtedness	"	"	"	Yes	Yes	Yes	"	"	Yes also development of Co-op. & estmnt. of seed & implement Stores.
34. Establishment & maintenance of works & provision of employment in times of scarcity	"	"	" see column 4	No	"	"	"	"	No
35. Regulating or abating of offensive and dangerous trades and practices.	"	"	Yes	Yes	"	No	"	"	"

Name of functions	Bombay	Madras	Madhya Pradesh	Bihar	Orissa	Assam	W, Bengal	Punjab	U. P.
36. Reclaiming of unhealthy localities	No	No	Yes	Yes	Yes also planning Village	No	No	No	Yes
37. Rendering assistance Vidya Mandir	"	"	"	No	No	"	"	"	No
38. Control public Ferries	"	"	"	Yes	Yes	"	"	"	"
39. Management of communal land	"	"	"	No	No	Yes	"	"	"
40. Reporting to the authorities village complaints not removable by G. P.	"	"	"	"	"	No	"	"	"
41. Statistics of unemployment	"	"	see col. 34	"	Yes	Yes	"	"	"
42. Construction and maintenance of roads outside village of P. Drains inside village & disposal of	"	"	Yes	"	No	"	"	"	"
43. Opening, maintaining, regulating of burning Ghat and burial grounds and getting apart places for skimming and cutting up caracasses	"	"	Yes See col. 16	"	Yes only skimming of carcasses	"	Yes	"	Yes
44. Eunconragement of human and animal vaccination	"	"	Yes	Yes	Yes	Yes preventive curative & measures	No	"	No
45. Regulating the keeping of pigs withiu the limits of the village site	"	"	"	No	No	No	No	"	"
46. Lighting of Village streets	"	"	"	Yes	No	Yes	"	"	"
47. Making complaints under child marriage Res. Act, 1929	"	"	No	"	Yes	"	"	"	"
48. Construction of wells and Ponds and tanks.	"	"	"	"	No	Legal & per- suaasive mea- sures to res- train child marriage Yes to supply water to public for bathing drin- king & washing Yes cow dung oil cakes	Yes also for water supply	"	"
49. Allotment of place for storage of manure	"	"	"	"	"	"	No	"	Yes regulating & collecting manure

Name of functions	Bombay	Madras	Madhya Pradesh	Bihar	Orissa	Assam	W. Bengal	Punjab	U. P.
50. Performances of such functions as transferred to it under cattle Trespass Act 1871	No	No	No	No	Yes control of cattle	Yes	No	No	No
51. Establishment of goshalas & dairy farms on co-operative lines	"	"	"	Yes	No	"	"	"	"
52. Marketing of agriculture produce	"	"	"	Yes	"	"	"	"	"
53. To act as agents of District Board for performance of such functions as are beyond the powers of Gram Sabha	"	"	"	"	Yes such functions of the D.B. as are for the benefit of the persons of V. P.	No	"	"	Yes to make repre- sentation to D. B. for such functions
54. To organise a Body of Grama Sevakas for social service in (1) Extinguishing fire, protecting property at the time of disposal of dead bodies	"	"	"	"	No	"	"	"	No
55. Sanitation & conservancy	"	"	"	No	"	Yes	Yes	"	"
56. General census	"	"	"	"	No population, spinning wheels weaving machinery unemployed persons	cattle	No	"	"
57. Gleansing of Streets	"	"	"	"	No	"	"	"	"
58. Control of grazing grounds, village commons and property	"	"	"	"	"	"	"	"	"
59. Regulating the production & disposal of foods stuffs & other commodities	"	"	"	"	"	"	"	"	"
60. Opening & regulating co-operative stores, sale & purchases Dept. Trading organisation.	"	"	"	"	"	"	"	"	"
61. Maintaining a village volunteer force	"	"	"	"	"	"	"	"	Yes for assisting G.P. & Panch adalat.
62. Supply of information to Government	"	"	"	"	"	"	"	"	No
63. Prohibition and controlling of fragmentation	"	"	"	"	Yes	No	"	"	"

**FINANCIAL CHART—A.**  
**Compulsory Taxes and Fees**

X=Levied.

levied by Village Panchayats of different States.

Names of Taxes.	Bombay.	Madras.	M. Pradesh.	Bihar.	Orissa.	Assam.	W. Bengal.	Punjab.	U. P.
1. Land & Building Tax. see column 8 below	X	X	X (Non-agricultural.)	X	On Property and circumstances.	...	X Not exceeding Rs. 84/ (on Property & circumstances).	..	...
2. Vehicle Tax.	...	X	...	...	...	...	...	...	...
3. Professional Tax	...	X on Individuals and Companies.	X	...	...	...	...	..	...
4. Licence Fees.	...	...	X For Buyers, Brokers, Commission Agents, Weighers & Measurers.	...	...	...	...	..	...
5. Manual Labour Tax or Wage in lieu thereof.	...	...	...	X	...	...	...	...	...
6. Health.	...	...	...	...	...	...	...	X New Bill.	...
7. Non-Description.	Any one of the 8 optional Taxes leviable (see Optional Taxes Chart of Bombay.)	...	...	...	...	...	...	...	...
8. Duty on Transfer of immovable property.	...	X	...	...	...	...	...	...	...

**FINANCIAL CHART—B**  
**Optional Taxes and Fees**

levied by Village Panchayats of different States.

Name of Taxes.	Bombay.	Madras.	Madhya Pradesh.	Bihar.	Orissa.	Assam.	W. Bengal	Punjab	U. P.
1. Pilgrim Tax	X	...	...	X	...	...	...	...	...
2. Tax on Fairs and Festivals.	X	...	...	X on Fairs only.	...	...	...	X on Fairs only Maximum Rs. 8/-	...
3. Entertainment.	X	...	...	...	...	...	...	...	...
4. Tax on marriage, adoption & feasts.	X	...	...	...	...	X	...	...	...
5. Tax on sale of goods	X (a) on area occupied (b) on quantity of goods exposed for sale.	...	...	...	...	...	...	...	...
6. Octroi.	X	...	...	...	...	...	...	...	...
7. Tax on shops & hotels.	X	...	...	...	...	...	...	...	...
8. Tax on profession.	...	...	...	X other than agricultural.	...	...	...	...	X
9. Tax on premises where machinery is run by steam oil, electric power, except domestic & agricultural purposes.	X	...	...	...	...	...	...	...	...

Names of Tax s.	Bombay.	Madras.	M. Pradesh.	Bihar.	Orissa.	Assam.	W. Bengal	Punjab	U.P.
10. Tolls.	X Provided under Rules.	...	X On (1) Vehicles. (2) Pack animals (3) Porters bringing for sale	X	X	...	...	...	...
11. Licence Fees.	...	(1) X for private markets & stands. (2) Dangerous & offensive trades. (3) Commission agents & brokers. (4) Doing certain works and acts.	...	X For licence for (1) Buyers (2) Brokers (3) Commission agents (4) Weighers & measurers.	X For licence for (1) Buyers (2) Brokers (3) Commission agents (4) Weighers & measurers.	...	For licence for dangerous & offensive trade.	...	...
12. Halalkhore Fees.	...	...	X	X	X	...	...	...	...
13. Drainage Fees.	...	...	X	X	X	...	...	...	...
14. Vehicle Fees.	...	...	X	X	X	X	...	...	...
15. Water Rate.	...	...	X	X	X	For boats cycles and carts.	...	...	...
16. Light Rate.	...	...	X For (1) Buildings (2) Places (3) Streets.	X	X	...	...	...	...
17. Animal Tax.	...	X For animals for (a) Sale or (b) sold.	X for (a) animals used for (1) Riding (2) Draught (3) Burden & (4) Pigs & dogs	X	...	X For cattle only	...	...	...



Name of Taxes.	Bombay.	Madras.	M. Pradesh.	Bihar.	Orissa.	Assam.	W. Bengal	Punjab	U.P.
18. Education.	...	...	...	...	...	X	...	...	...
19. Health.	...	...	...	...	...	X	...	...	...
20. Dharmashala Fees	...	...	X	X	X	...	...	...	...
21. Slaughter Houses.	...	X	...	...	X	...	...	...	...
22. Registration of Animals Fees.	...	...	X	X	X	...	...	...	...
23. Hawkers & vendors Fees.	...	...	...	...	X	X	...	...	...
24. Land Cess.	...	3 pies in a rupee on rental value of all occupied places not near any building.	...	...	...	...	...	...	...
25. Land & Bldg. Tax.	...	...	...	...	...	...	...	...	X
26. Tax on agricultural land for specific purpose.	...	X	...	...	...	...	...	...	...

Tax on Rent Payable under U P. Tenancy Act 1939. Tax on Land received under U. P. Tenancy Act 1939 Tax on U P. Land Revenue Act, 1901, not more than one anna per Re. Tax on building is to be paid by persons who do not pay the above tax and Tax on Profession (See Col. 19).

Name of Taxes.	Bombay.	Madras.	M. Pradesh.	Bihar.	Orissa.	Assam.	W. Bengal	Punjab	U. P.
27. Fee on Commercial Crops bought and sold.	...	X Sec. 11 of Madras Commercial Crops Market Act, 1939.)	...	...	...	...	...	...	...
28. Firewood.	...	...	...	...	...	X	...	...	...
29. Miscellaneous Fees	...	X (Fee for landing and halting places.) (b) Temporary occupation of Village sites, roads or similar places.	...	...	...	...	...	X Non-Judicial fees.	...
30. Any tax leviable by Provincial Government in the Province under the Constitution of India approved by District Board and sanctioned by Provincial Government.	X	X	X	X	X	X	...	X Hearths, Animals & Profession Tax.	...
31. Special tax on adults for works & public utility.	...	...	...	...	...	...	...	(New Bill)	...
32. Labour Tax.	...	...	X	...	X	X	...	...	...

FINANCIAL CHART—C

Sources of income other than Taxes and fees

Village Panchayats of different States

X=Receivable

Names of sources.	Bombay	Madras	M. Pradesh	Bihar	Orissa	Assam	W. Bengal	Punjab	U.P.
1. Sale proceeds of Dust, Dung, Rubbish, Sewage etc.	X	X	..	..	...	Dust, Dirt, Dung and Refuse	...	...	Dust or Dirt Refuse & Dead bodies of animals.
2. Income from Property	From property in V.P.	(1) From Endowments & Trusts under management of V.P. (2) Fisheries (3) Ferries (4) Parambokes (5) Trees standing on parambokes (6) Lease of Govt. Property (7) Market fees (8) From institutions and services maintained & financed by V.P.	Position of Village Granary specified by G.P.	Income from Market fees.	...	...	...	..	...
3. Sums ordered to be credited by Court	X	..	..	..	X	X	...	...	X
4. Local Fund Cess	1/4 of Local cess realised (in previous year.)	1/4 of land cess levied in a Village under section 78 of Madras District Boards Act, 1920	Cess at the rate of six pies per Re.	..	...	X	..	...	...
5. Assignments of Provincial Revenue.	...	(1) Pilgrim tax under Madras D. Bs. Act 1920 (Except when it is a district festival) (2) Payment by Market Committee under sec. 10 of Madras Commercial Crops Market Act (93) (3) Taxes & Tolls under sec. 117 & 118 of Madras Public Health Act. (4) Seino-orage fees for quarrying for Road materials. (5) 9/10 of Gross income from Fines imposed by Govt.	Part of the Cess on Land revenue or Rents of agricultural land.	...	(1) Such sums as may be assigned by special order of the Govt. (2) 1/3 of additional cess levied under (a) Bihar & Orissa Local Self-Govt Act 1885 (b) Madras Local Board Act 1900. (c) Sambalpur Local Self-Govt. 1939.	(1) Such sum as may be assigned by lotment of Dy. Commissioner from Cess, Sub Div. Rural Development Fund	..	..	(1) Rent proceeds of Nazul Property assigned by order of Government. (2) Sums assigned by special or general order of Government.

445

MINUTES OF DISSENT

Names of sources	Bombay	Madras	Madhya Pradesh	Bihar	Orissa	Assam	W. Bengal	Punjab	U. P.
6. Other Contributions and grants by Govt.	X	..	X	..	Rent Proceeds of Govt. Property as fixed.	X	..	..	X
7. Contribution by Local Bodies.	X	(1) In respect of Markets classified as District Markets. (2) Ferries under management of Board. (3) For opening and maintaining elementary schools.	..	..	X	X	X	X	X
8. Gifts and contributions other than mentioned in columns 4, 5 & 6	X	X Contribution from persons having control over places of pilgrimage if Government so decides.	X	..	X	X	X	..	X
9. Collection charges.	..	..	..	Charges received from Govt. or other authority for collecting Revenues, Taxes etc.	..	..	..	..	For collecting Taxes for Govt. and rent for private parties.
10. Judicial Fees	X	X	..	X	..	X	X	..	X
11. Penalties, Fines etc.	X	X	X	X	X	X	X	..	Including those received for compounding offences.

Names of sources.	Bombay	Madras	M. Pradesh	Bihar	Orissa	Assam	W. Bengal	Punjab	U.P.
12. Proceeds from irrigation works in charge of Village Panchayats.	X	X	..	..	..	..	..	..	..
13. Communal properties in Village Panchayats.	..	X	..	..	..	..	..	..	..
14. Assignment of land Revenue & Grants of proceeds from Land Revenue.	15% Land Revenue.	12½% of Land Revenue distributed as grants on population basis	..	..	..	..	..	..	..
15. Non-Description.	..	(1) Net Assessment of services.	(1) Income from Markets control of which (a) vests in or (b) comes to V.P.	..	..	..	..	..	..
		(2) Unclaimed deposits and forfeitures.	(2) Sources to be determined by Government						

## MINUTES OF DISSENT.

Broadly described, the burden of effort in this chapter of the main report has been to modify somewhere, intensify elsewhere and in the end to glorify "auditocracy" with a view to instal it side by side with vitalised bureaucracy. This is typical of all the conclusions set forward in this chapter and particularly glaring in the case of the recommendation that "the Examiner, Local Fund Accounts, should regard himself not only as an auditor but also a financial adviser of local bodies." The main report, in effect, makes the auditor an all-pervading authority. According to me the achievement of such an ideal is not only chimerical but impracticable because an auditor is not an administrator but an accountant. By his very training and equipment an accountant is the least qualified to advise in administrative matters. The officers of the Accounts and Audit Department can only judge figures but not facts. Whether in the particular given circumstances, a local body official or member could have acted othewise than he did can only be judged by an administrator. The attitude taken up by Audit is somewhat like this: "A local body or a Committee or a non-Government Officer has acted in a particular manner. If the party had acted in a different manner, the local body would have benefited by Rs. . . . and therefore the party has not acted with due care and caution and should be made to make good the amount by which the body would have benefitted." The different manner which the auditors takes as his model is either the one which was adopted by some other local body somewhere or which the auditor himself has conceived to be the ideal manner. Not being familiar with the actual problems of administration, the auditors are unable to view matters in the proper perspective. In my scepticism of the ability of auditors to function as advisors to local self-governing bodies I find that I am not alone. For instance Dr. W. A. Robson in his book "The Development of Local Government" doubts the competence of audit to guide in administrative matters with the following scathing remarks:

"The district auditor has been placed in a position of great power in regard to the expenditure of local authorities. His function far exceeds the task of ensuring honest administration and of preventing corruption or the improper application of public funds by elected councillors or officials. He has to disallow and surcharge any expenditure on objects which are ultra vires or of an unauthorised character. But more important than this is his duty to declare illegal such expenditure as he regards as unlawful on the ground that it is exorbitant or unreasonable in amount. In determining what is lawful or unlawful under this last head the district auditor has to decide what is reasonable and in deciding what is reasonable he must rely in the last resort on what he considers necessary or desirable."

"The power which the law now places in the hands of the auditors is so extensive that it may well be asked whether they are fitted by training or position to exercise it in a satisfactory manner; and in particular why their 'reason' should be entitled to take precedence over the "reason" possessed by the councillor and the electorate".

"Another ground on which I believe the present arrangement to be unsatisfactory is that the district auditors are officials who have not had any experience of local government from the point of view of practical experience. Their outlook appears to be excessively narrow and lacking in vision. The type of man who regards it as improper for a great local education authority like the London County Council to provide necessitous school children with fruit, cod-liver oil and malt extract under the Education (Provision of Meals) Act, does not possess the mental equipment likely to produce the most satisfactory method of audit."

This eminent writer accordingly sums up his conclusions as under :—

"A state of affairs has now been reached when it may be said without exaggeration that the district audit system constitutes not only a serious menace to the freedom of the local electorate and to the authority of the democratically elected local council but also a danger to the fundamental conception of ministerial responsibility on which our method of Parliamentary Government is supposed to depend."

"The auditor's duty is to examine, correct and pass such accounts as are brought before him and that is all. He has no jurisdiction to pass judgment on the diligence or wisdom of an employee of the council any more than he has to pass judgment on his sobriety." The employee is responsible for such things to his employers alone" (The law relating to Local Govt. Audit).

With such disparaging evidence before us I feel justified in voicing my apprehensions regarding the ability of audit to undertake the proposed new role of financial advisors to local bodies and I record them here what they are worth.

Yet another matter on which I feel constrained to record a clarification is the erroneous impression likely to be created by the following observation :

"The Bombay Corporation is perhaps the only local body which makes its own arrangement for the audit of its accounts and has its own auditor. In all other cases the appointment of the auditors is made by the State Government". (vide para 787 of the Report).

While it is true that the City of Bombay Municipal Act, 1888, does not include any provision for the audit of its accounts by the Examiner Local Fund Accounts it does not necessarily follow that the system of audit by the Corporation's auditor is by any standards defective or less effective than that resulting from audit through the Examiner's agency. At any rate no such evidence was brought before us at any stage. The person appointed to the office of the Corporation's chief auditor is required to possess the necessary recognised qualifications and his integrity and independence having never been called into question ever since the Act came into force in 1888, the quality of his audit may be presumed to be at least as good as that of the Examiner's department. To my mind the tenor of the observation overlooks the provisions of sec. 54 of the Act which provides that the Municipal Commissioner, who is the principal executive of the Corporation and "whose powers" as late Shri Vithalbai Patel once put it "are greater than those of the Standing Committee and the Corporation put together", is appointed by the Provincial Government. With such basic safeguard provided, I doubt whether the interposition of further audit through the Examiner is likely to produce any good except perhaps to work as "the fifth wheel to the chariot of Juggernath".

On the subject of "surcharge" the main report embodies the following observations :

"In this country, the power to surcharge does not exist uniformly in relation to all local bodies. For instance in the City of Bombay Municipal Act and also in the Bombay Provincial Corporations Act there is no power of surcharge and the Municipal auditor who is appointed by the Corporation is not expected to question any order passed on his report by the Corporation, which is the final disposing authority.....we are of the opinion that the provision for surcharge is a healthy one and should exist in relation to all local bodies."

I must demur from the above view as, in my opinion, the power of the so-called 'surcharge' is a dangerous weapon in the hands of individuals which in

its actual working only tends to damp the enthusiasm of laymen to serve the community. The doctrine of "ultra-vires" on which the system of surcharge is worked "confronts the local authority at every turn" and acts as a great handicap on the initiative of local self-government. It would be different if our local bodies, like the local authorities in the Continental countries where "they are authorised by the general laws to raise revenues by taxation, yet these laws do not enumerate all the taxes at their command. Certain traditional taxes are named and these may be levied or not at will in the future as in the past, yet if they prove insufficient the right is given to introduce or invent others for it is one of the fundamental principles of German local government that communes shall be able within limits to choose such taxes as they like. So, too, the authority has to administer the towns' property, but no limit whatever is set to the kind or amount of property which it may acquire and hold". "In a word, where in this country the powers and duties of local authorities are set forth in statutes of the realm, and local Acts having the same force, which may be neither enlarged nor diminished, every German commune is its own law draughtsman and, within certain limits its own legislature".

Auditors are neither lawyers nor economists so their orders regarding so-called surcharges are more of a mechanical type and uniformly of mathematical value. This is eloquently illustrated by the subjoined extract from the same source. It affords an eloquent illustration of the tendency of audit to interpret too rigidly and without imagination.

"Occasionally a town resists Government attempts to thwart its will and wins. No long ago an interesting dispute between the Municipality of Nuremberg and the Bavarian Government had this result. An extension of cemetery accommodation being necessary, the town council proposed to make provision in the new burial ground for a crematorium. Prejudice against cremation at that time was nowhere so violent as in Bavaria and the Government on hearing of the proposal warned the executive beforehand that the expenditure of public money on such an object would not be allowed. The project seemed doomed until it occurred to the municipal executive to ask the Government to produce any law forbidding a project of the kind or expenditure upon it in the next budget or conversely requiring the Government's consent in the matter. The Government was unable and the town set aside the necessary sum for building. This item the District Committee in the exercise of its supervisory functions disallowed. Whereupon the executive appealed to the courts against its action as an infraction of the right of self-government and won its case. The same disallowance by the District Committee was repeated when the town council, in its budget provided the sum needed for working the crematorium. Appeal again followed with the same success. The Government thereupon acknowledged itself beaten and when the crematorium was completed duly issued regulations for its use".

(Municipal life and Government in Germany—W.H. Dawson)

Nearer home, we had an exhibition of this unimaginative interference in Ahmedabad, some years ago. I cannot do better than describe in the words of the then President of Ahmedabad Municipality, Shri Balwantray Pramodrai Thakor.

"One of the teachers in the Ahmedabad Municipal Kalupur School No. 4, suddenly died of heart failure on his chair. The Headmaster of the School informed the Administrative office about this tragic accident by means of a phone. The Administrative Officer



## MINUTES OF DISSENT

immediately ran up to the School. He called a doctor and ascertained that the teacher was really dead. He then reported the matter to the Police authorities, who after necessary investigation permitted the dead body to be removed from the school to the house of the deceased at about 6.30 p.m. The dead body of the deceased teacher was removed from the school building to his house in a motor bus. This removal cost Rs. 3/14/- which the auditor asked the School Board to recover from the relatives of the deceased teacher; failing that the Administrative Officer is asked to pay the amount from his own pocket. It is not my intention to blame the Government auditor for this audit. He must be strictly obeying the instructions given in the School Board Account Code or the rules and regulations governing the audit of accounts, which must never have contemplated such a tragic accident. But I do venture to remark here whether our rules and regulations should be so rigidly machine-like and entirely devoid of human elements. Is it not the duty of the employer to decently send to his house the dead body of an employee who died under such tragic circumstances while actually discharging his duties?"

As President of the same Municipality, Shri. G.V. Mavlankar, the present Speaker of our Parliament, referred to the attitude then taken up by audit in the above matter, thus:—

"It is also unfortunate that the outlook of the auditing authorities is limited and narrow. The higher civics of the country in which the civics of a local body ought to be merged have no place in their cold calculations of rupees, annas and pies under the accountancy rules and regulations. The instance of an audit objection to the payment of rupees three and odd to carry the dead body of the unfortunate school teacher who died of heart failure while teaching in the class is probably fresh in the public mind. By its very nature and constitution, the audit department are unable to visualise that a local body is merely a unit in the entire scheme of a self-governing nation and they are more prone to stick to the letter of the rules and not its spirit or object. This leads naturally to a conflict of viewpoints and detracts substantially from their opinions when expressed on matters effecting wider national interests which local bodies ought to foster as self-governing units in the civic affairs of the country".

In the case R. vs. Roberts (1908) Lord Justice Fletcher Moulton has pointed out the dire results of a system seeking to centralise all powers in the audit in the following terms:

"The true mode of securing good management of municipal affairs is to induce the best men to take part in them and to give their services to the community in this way. The task is at best unremunerative and often thankless; but if those who accept it are to be liable to have their conduct pronounced upon and their character and property injured by decisions not of any court of law of the country, to which of course they are amenable, but of a special tribunal consisting of an official chosen by a Government department without any powers or qualifications for holding a judicial enquiry and discharging those functions without any of those securities which protect an individual before our courts and if the jurisdiction of that individual is not limited to requiring an account of municipal money for which the accused has made himself responsible but extends to calling him to account for the reasons and motives of all his actions, no self-respecting man will take part in municipal affairs".

## MINUTES OF DISSENT

Another novel recommendation made in this chapter of the main report of our committee is that regarding the introduction of 'internal audit' as envisaged in the sub-joined extracts.

"In a few city municipalities there is concurrent audit *i.e.* no payment is made until it is passed by the auditor.

There is no arrangement except in the bigger municipalities for internal audit.

There must in the major municipalities be an internal audit staff paid for by the local body.

"It is impossible that in some of the smaller local bodies there may not be enough work for a whole-time internal auditor. In such cases the arrangement might be made for an entire district. The only difference will be that whereas in the case of internal auditors employed for a single local body, all transactions will be preaudited, in the case of others, when such arrangements are pooled for the entire district, only payments and receipts at headquarters will be preaudited and the transactions of all other local bodies within the unit (not at headquarters) will have to be postaudited in very much the same manner as payments made by the district treasurers at places other than Provincial headquarters are audited in the office of the Accountant General".

"Copies of all orders passed on points of dispute between the internal auditor and the accounting staff of the local body should invariably be sent to the Examiner Local Fund Accounts.

"Each local body within the pool may be required to pay for the cost of the internal audit staff in proportion to the size of its financial transactions.

"Administrative control over the district internal audit staff should vest with the Examiner Local Fund Accounts.

"The position of local bodies in this matter would be analogous to that of the State Governments in regard to Divisional Accountants serving in the offices of the Executive Engineers in the State P. W. D. Divisional Accountants conduct internal audit but they are under the administrative control of the Accountant General who is a Central Government Officer".

I have been at pains to reproduce in extenso the relevant features of the scheme because the recommendation embodied in them seeks to super-impose on local bodies replica of costly State machinery without conferring any tangible benefit. In the chapter on "Budgets" we have recommended "that where Government considers it essential to control a service, it should pay for it and not ask for any contribution from the local body. Administrative control and responsibility for payment should go hand in hand" (paragraph 841). "In other respects however we would give the local bodies a free hand in regard to their establishments". (Paragraph 844). In contradistinction to the stand taken up in the above recommendation my colleagues had no hesitation in proposing that "each local body within the pool may be required to pay for the cost of internal audit staff in proportion to the size of its financial transactions," and that the administrative control over the district internal audit staff should vest with the Examiner Local Fund Accounts. Not only that but in our anxiety to test the workability of our discovery of internal audit, we have entirely lost sight of the "chronic want of funds at the disposal local bodies" to which we have feelingly referred to in paragraph 99 of the main report. The crux of the problem however is whether in their present state of finances the local bodies can afford this extra luxury recommended in the main report? or can they afford to do so at any foreseeable future? If not this innovation cannot merit any serious consideration.

## MINUTES OF DISSENT

---

The proposed new system would moreover be cumbrous and costly. It is further harmful inasmuch as it is likely to facilitate evasion, red-tapism and result in enormous delay in the making up of the final accounts, the compilation of which even under the existing arrangement is so delayed as to render them useless. To my mind the very suggestion regarding the transmission of vouchers to the district headquarters is replete with the risk of loss of vouchers themselves and the consequent confusion. It is imperative that vouchers should never leave the office of the local body. In my opinion the recommendation savours of unnecessary suspicion of local bodies and their office-bearers. I am in this connection forcibly reminded of Lord Justice Lopes' observation in the Kingstony Colton Mill & Co. case "An auditor is not bound to be a detective or to approach his work with suspicion or with the foregone conclusion that there is something wrong. He is a watchdog but not a bloodhound". (Audit of Local Authorities including Financial Control—Bedford)

**Concluding Remarks** Besides the points dwelt on in this note, there are quite a number of others on which I differ from the main report. I am sorry that the copies of main report and statistical information were made available at such a late date that I am unable to deal with all of them during the time kindly allotted to me for submitting this note. For allowing me some extension of time I am deeply grateful to the Ministry of Health. Without the Ministry's intervention at two stages—once in ordering out supply to members of copies of evidence and then in granting time for submitting this dissenting note, I do not know what would have been the fate of our report. The main report could not have been what it is and no note of dissent could have been written.

Chunilal D. Barfiwala,

## MINUTE by P. B. GOLE

---

During the discussion stage of our Committee, myself and Mr. C. D. Barfivala were in complete agreement on most of the issues involved. Thereafter, we held prolonged discussions between us and arrived at definite conclusions. Mr. Barfivala's note of dissent which I have carefully read correctly represents my views. I have therefore contented myself with expressing my full concurrence with what is stated in Mr. Barfivala's note.

Without wishing to cast the slightest reflection on other esteemed members of the Committee, I feel that it is my duty to add, that the main report owes much to Mr. Barfivala's great ability, extensive study and long and varied experience, and above all to his reasoned advocacy of the cause of Local Self-Government. The Ministry of Health did extremely well in appointing him on the Committee and local bodies will always feel grateful to the Ministry for his appointment.

P. B. Gole

## MINUTE OF DISSENT BY SHRI R. K. SIDHVA

### LOCAL SELF-GOVERNMENT AND ITS FUNCTIONS

It is no denying the fact that it is the Local Self-Government which provides the true substratum for the effective functioning of any true democracy in the world. Even the USA and the UK have built themselves upon the massive pillars of their Local Self-Governments.

The history of local self-government in India can be attributed to three main periods. The first period can be taken to have ended in 1882—the year in which Lord Ripon issued his well-known-Resolution. The beginning of the period is not known because it was not marked by any distinctive features. There were only a handful of local bodies in existence then and they too were not self-governing even in the restricted sense of it. Lord Ripon's Resolution of 1882 is the beginning of the second period and a real landmark in the annals of the local self-government in India, because it laid the foundation of the system as it exists today. It was nearly after forty years that the next step was taken and that was due to the advent of the new ideal of responsible self-government as the goal of British Rule in India. It was during this period that the people became familiar with the essentials of the self-government in local affairs. But the progress was halting because of the difficulties inherent in the conditions which the bureaucratic system had created.

The Reforms of 1919 mark the commencement of the third period of local self-government. They empowered the Provinces to accelerate the pace of progress and created the necessity for making local self-government not the starting point but the basic fact of national freedom.

The entire outlook of local bodies has to be changed or rather revolutionized, under the new set-up. Finances are a headach to all Governments today, yet I feel we cannot afford to wait until our finances take a favourable turn, a sort of planning for distribution of funds between State and Union Governments, *vis-à-vis* Local Bodies is an immediate problem.

### COMMENTS ON RECOMMENDATIONS

#### CHAPTER II

1. Whether the transfer of functions from local bodies to State Governments is a retrograde step and should be avoided ?

The transfer of functions from local bodies to State Governments is not only a retrograde step but anachronistic too. The above could have any justification in the pre-independence era—according to the 1935 Act, when the Central Government wanted to spread its tentacles in every sector of life and amass wealth to carry it across the seas in order to replenish their Imperial Treasuries. But not now, when India has attained her full political freedom and has no alien pressure whatsoever to put a spoke in the wheel of her progress. Even the Father of our Nation, Mahatma Gandhi, was entirely in favour of the decentralization of power. Moreover, it is the Local Self-Government alone which is directly responsible for the welfare services of the people whereas the Central and the State Governments are only indirectly responsible to them.

It is often trotted out that the local bodies are the chronic sufferers of financial bankruptcy. True ! but why should they be disarmed of their inherent powers of taxation, rather the Centre as well as the States must augment the former's taxa-

tion capacity 'de facto' and 'de jure'. For, it is the taxation power which provides 'Open Sesame' for the local bodies to make up their financial leeway. Only, they must know how to exploit their sources of income.

To dwell upon mal-administration and the mal-practices, as often reported in the Press, rampant in the Local Self-Governments, at this stage would amount to drawing a red-herring across the track. Suffice it to say, that not only the local bodies should be armed with adequate taxation powers but that should be treated as instruments of national welfare policy any must give latitude to develop themselves as self-governing units with maximum autonomy.

CHAPTER IV—paragraph 161

I agree with the majority views stated therein. With regard to opinion expressed by two of my colleagues that the State Government should not have such power and in the event of local body disregarding the advice of State Government, the local body should be dissolved and newly elected body should be formed. I am sorry, I do not agree with my two colleagues. The imposition of taxation is an essential factor and if the local bodies fail to do so, the Government would be justified in levying it. The question of supersession does not arise. While two of my colleagues have pointed out the question of supersession, I want to express my opinion on different grounds, on this supersession matter. It has been all along the practice with many State Governments to supersede local body on flimsy grounds. Sometimes, of course, the supersession may have been justified, but I consider supersession a most obnoxious feature in the various acts of local bodies. The very insertion of clause of supersession in the various acts creates all kinds of bickerings, discontent, ill-feeling and party-politics. It is true that some of the members of the local bodies do not govern satisfactorily and bring disgrace to the administration. For this purpose, I am entirely in favour of an all-round control by the State Government.

The question of supersession of the local bodies in the new set-up does not arise so acutely as it used to in the pre-independence era. Because, with the dawn of political independence, the electorate has become much more enlightened and civic conscious and know whom to plump for. But, notwithstanding, if the local body is found corruption-ridden and does not mend its ways, the State must bring the offenders to book and get them prosecuted in a law court to meet the ends of justice without any fear or favouritism.

I would suggest that a Local Bodies Board may be established at the Centre and under the control of Central Government; the function of that power will be to look after the work of all the local bodies in India. At the present moment, the collectors are so very busy with other matters that it is not possible for them to give adequate attention to local bodies' affairs. Under the new set-up, therefore, a new department has to be opened if the local bodies are to function, satisfactorily. After giving warning to the local body in the event of default to correct themselves if they persistently disregard the orders of the State Government, then the said local body should be dissolved. Steps should immediately be taken to hold fresh elections say—not later than 3 months. In the meantime, if the President is a non-Party man or the Chief Executive Officer be entrusted to carry on the work of the local body. If after the holding of the elections, the local bodies affairs are not carried out satisfactorily, the body be superseded and the newly formed Local Bodies Board may nominate certain number of persons from that area whose record shows that they have rendered some sort of public, social or civic service. The number may be fixed according to the size of the local body. It will not be difficult for that Board which will be under the Government of India to find out suitable public spirited persons to be nominated for a temporary period,

CHAPTER V—paragraph 164

I quite agree with the conclusion of the Committee in this respect but I do not agree with the view that hardship is caused to owner occupiers. I would suggest that while levying taxes on property, there should be an exemption of certain category of owners. For instance, a widow whose maintenance is absolutely on the realisation of the rent should be exempted from the levy of the property-tax of the building, provided the number of buildings is only one. Second category should be that where the rent is realised under Rs. 50/- per annum there that property be exempted from tax, provided that the owner owns only one such building. As far as I remember, in one of the Corporation Act such provisions exists. If this system is adopted, then there will be no hardship on the owners or any difficulty would arise as my colleagues apprehend. It is only fair that the persons whose maintenance is on the realization of the rent, I mean, widows and small land owners whose rental value is only Rs 50/- per year, should be exempted.

I agree with the majority view that the maximum and minimum rate for the property tax should be prescribed by Statute.

Property Taxes comprise the House Tax and service rates like the Conservancy, Water and Lighting Rates. The service rates are classed under taxation in all official reports and receipts from them are taken into account in calculating the average incidence of taxation in the different provinces.

The direct taxes are by far the most important source of the municipal tax-revenue even in the provinces in which the Municipalities rely upon the Octroi and Terminal Taxation for raising a large part of their tax-revenue. Of these provinces the Punjab is the only Province in which only 10 p.c. of the tax-revenue is derived from the Property Taxes. In the United Provinces 26 p.c. in the Central Provinces 30 p.c., in the Bombay Presidency 46 p. c. and in Bombay City 80 p. c. of the municipal tax revenue comes from the Property Taxes. In the Bombay Presidency as a whole (including Bombay City) we find that about 70 p. c. of the municipal tax-revenue of the province, is contributed by these taxes. In the remaining States they are responsible for about 80 p. c. of the tax-revenue of the Municipalities. Owing to the special conditions prevailing in the Presidency Towns, it would perhaps be somewhat misleading to base any general conclusion on the proportion of the revenue derived from the Property Taxes to the total revenue of all Municipalities; but even if we leave them out of account, the fund of the total tax-revenue of the Mufassil Municipalities in India is about 45 p. c. in 1929-30 and 54 p. c. in 1939-40 realised by the levy of the Property Taxes. The obvious conclusion to which these figures point to, is of course, that the direct taxes have an assured place in our system of local taxation.

The Indian Property Taxes are however, different from the English local rates, inasmuch as in India the owner is generally primarily liable for the payment of the general rate or the house tax. In England it is the occupier, who has to pay the rate. Further, in England, a rate is a charge made in respect of occupation or ownership of property, but is not a charge upon property. But, in India the general rate being a liability of the owner, it becomes a tax on him respect of the ownership of his property. In India also, it is true the criterion of his ability is not the value of his property but the income which he derives from it and that is the reason, why the owner is, in most provinces, entitled to remission or refund of the tax, in case the property remains vacant consecutively for atleast a specified number of days in the year. Hence unless the tax is imposed on the value of the

property, the house-owner in case of the vacancy of his house will continue to earn the benefit of remission as stated above.

**Paragraph 211.** I agree with the majority view. I, however, feel that besides *nazul* land, in limits of the various local bodies, there are waste lands belonging to Government and not made use of. This has brought about a great deal of insanitation in that area. Neither the Government looks after it nor the local body, as it is considered to be no body's property. I suggest that all such lands within the municipal area should be handed over to the local body for developmental purposes, on the condition that when the Government require such lands for public purposes, it should have the first charge. I would also suggest that for development of that area such lands be sold by public auction, and the final sanction should be obtained from the State Government. This suggestion, if adopted, would minimise considerably the insanitary state of affairs prevailing in that area and will also bring substantial revenue to the local body.

**Paragraph 423 to 427.** Although the Committee could not suggest any unanimous method of self-supporting of various services rendered, I am of the opinion, that there cannot be a self-supporting scheme, each individually and separately. Some services will be bringing surplus others will be deficit and it is, therefore, not feasible nor advisable to go on the basis of self-supporting of services rendered to the public.

**Paragraph 232.** I entirely agree with the majority view in this respect. It will have a very salutary effect if the suggestion made therein for the purpose of valuation for assessment organization, is introduced. I do not, however, agree with the point of law that the right of appeal be allowed to a District or High Court. There should be no appeal of any matter against the decision of the Valuation Court. If such an appeal is allowed on flimsy grounds, the assessee will seek the assistance of the court and thus frustrate the object which is suggested.

**Clause 279, Chapter V.** I agree with the minority view that sub-clause 11 should be removed. I am against the entire exemption clause. There should be no exemption to any private individual. Much misuse has been made in the past and even with certain restrictions that have been contemplated, it is not going to serve any purpose. There should be one general clause that the State Government may by order exempt from the payment of tax or any portion of tax imposed under this Act, any person provided there are strong reasons which reasons should be put on record. The amount of exemption should not exceed in any individual's case more than Rs. 25/- and Rs. 50/- for reasons mentioned in paragraph 164 of the report.

508. I am not in favour of the limit of Profession Tax to be increased from Rs. 250/- to any figure.

530. I am strongly of the opinion that under no circumstances the control of markets should be vested in any one excepting that the Municipalities should run themselves.

606 (Clause 1) As regards the disqualification of members falling into arrears, I suggest that a member should be disqualified for a minimum period of three years and maximum period of five years according to the amount that is falling into arrears.

635. I am strongly of the opinion that in the local bodies, particularly in municipalities, where the roads are maintained by the municipalities, it is



absolutely necessary that a portion of the petrol tax should be granted to the local bodies provided that the local body has no power to levy motor tax. Even where any local body has power to levy motor tax then each State must see whether that amount is proportionate to the expenditure incurred by the local body in maintaining the roads. If that falls short then a portion of the petrol tax must be granted to local bodies from the quota given to the State Government by the Union Government. This is a legitimate due for the reasons mentioned above.

**Grants-in-aid.** In the sphere of local finances, the grants-in-aid have already acquired an assured place. Sydney Webb has called grant-in-aid, a characteristically English device, which, in his opinion, is the pivot on which, the administrative machine really works. In the U. S. A. also which has been cited by Sydney Webb as the most glaring instance of anarchy of local autonomy, Federal and State conditioned aid, which, of course, is another name for grant-in-aid, has in the last four decades become a very important factor, which is being used there, laboriously, and not always successfully, as the only available method of evolving some sort of order out of the existing chaos. There is no doubt that the grants are the most effective method of finding and maintaining the working mean between the extremes of centralization and decentralization which is the urgent need of the times.

There is need and room for a great deal of experimentation in the practical application of the theory that the grants have to be a function of 'necessity' and 'ability'. "From each according to its capacity and to each according to its needs" sounds very well and may even be accepted as a maxim, when the facts of modern life make the only sound principle of public finance if not of the social system as a whole. But it is not easy to ensure that each will give according to its capacity and will get according to its needs. In other words, it is not at all easy to work out a formula which gives us dependable criteria of means and needs and provide safeguards against the local bodies being pauperised by a system of 'doles'. Hence in the administration of grants, therefore, we will have to provide for a great deal of flexibility and continuous adjustment to a rapidly changing, and, it may be hoped, developing situation. A stereotyped system of grants-in-aid simply will not be appropriate and ought not to be introduced.

632. As regards the Grant-in-Aid, when it is definitely decided that a certain percentage of grant-in-aid is to be made to a local body, the Government must see that is precisely followed. At present, there is a sad experience that even the G. R. notifying certain percentage of grant-in-aid for education and other matters, Government have not felt their duty to pay that sum. There are instances where full grant-in-aid are not made with the result that neither the efficiency is achieved nor the object for which the grant is made is at all served. Whatever, therefore, the percentage decided by the Government, they must strictly follow for granting the full amount before the termination of the financial year.

644. The remarks made in one of the fore-going paragraphs that the rate of percentage of grant be levied, wholly relates to this paragraph 644, namely Education. I strongly feel that if primary education is to remain in charge of the local bodies then grant-in-aid substantially to cover the expenditure must be made to the local bodies.

714. Improvement Trusts for expansion and improvement of cities are necessary in the initial stage but they should not be permanent bodies. Once the Improvement Trust has improved the property of the area in estate, their functions should be terminated and handed over to the municipality. The case of Bombay Improvement Trust is a glaring instance. It was started separately

with wide powers and they made several improvements in the widening of the roads, opening out new areas, thereby they brought about certain revenue to the Trust. When all the planning was over, the entire Trust was amalgamated with the Bombay Municipal Corporation which has a separate wing of its own i.e. "Improvement Trust Committee" which works directly under the control of the Municipal Corporation. Similarly, wherever the Improvement Trusts exist or are to be opened in future, I am of the opinion that once they have done the preliminary work, as stated above, then the Department should be closed down so as to save good deal of money in the machinery that is set up. Subsequent to that, the State Government which is responsible for starting the Improvement Trust should amalgamate with the local body in that area. If this is done then the income that would be derived by the sale of land and the various taxes in their expanded area will be an additional income to the municipalities. This would relieve the Government to certain extent in the way of aiding the municipalities by way of finance. Where such Improvement Trusts are handed over to the municipalities the Government can proportionately reduce the grant which they may be otherwise giving to them for the general administrative purposes.

**Terminal Tax.** Coming to the Terminal Tax, I am of the opinion that octroi tax be replaced by Terminal Tax wherever former exists. It is too late in the day to give the history of the abnoxious system which led to corruption and fraud as eminent persons have already expressed their opinions of which Govt. are fully aware. Unfortunately, under the Constitution of India, Terminal Tax is a central subject which upto 1935 was the Provincial subject. Withdrawal of this levy from the local bodies has created great drawback on the finances of local bodies which are already in doldrums. I am emphatically of the view that if the local bodies administration has to be made pure then octroi should be abolished forthwith. What would happen to the finances of local bodies if this is done? I realise the point, and, I therefore, suggest that unless at some future date Constitution of India is changed as far as the aspect of Terminal Tax is concerned, Governments of India must permit by virtue of their power to local bodies through State Governments authorising levy of Terminal Tax, and also permit them to increase the taxes on certain items against the present ones subject to the condition that all new items relating to Terminal Tax should be subject to the sanction of the Central Government.

111. The Sales Taxes should be levied and developed in all states subject to Central regulation and their receipts distributed among Local Authorities. This highly advisable for their resources. In the first place, the Sales Tax has already found favour with the Provincial Governments and their further development does not involve any fresh departure. The fact that this tax is being levied by a large number of countries in Europe and America and has an established position in the tax system of a number of important countries as a productive source of public revenue further reinforces the points and gives us a fund of experience to draw upon and be guided by. The second reason in favour of this course is that if receipts of this tax are distributed among Local Authorities—that will not only increase their revenue but facilitate the reform of this tax system in the Provinces in which local indirect taxation occupies a position of disconcerting importance and is difficult to replace on that account. This tax should be the more readily acceptable to the tax-payers in the States if its receipts are earmarked for local bodies and utilised by them for providing fully developed services like health and education.

CHAPTER XXII  
(Village Panchayats.)

Village Panchayat has been all along neglected and while sharing the general view of the Committee expressed in this report, I do feel that greater attention should be paid for the development of our village and village life. There is hardly any sanitation or drinking water on hygienic principles or roads available in villages having a population of 1,000 to 5,000 of people. It is, therefore, necessary that the taxes, whether under the District or Municipal Act, be levied by the local bodies and the powers vested in them should vest in the village panchayats. Having vested this, the question will arise of the financial allotment. Villages by themselves will not be in a position to collect the amount or taxes to that extent that they will be able to fulfil and discharge the duties as they are required to do. Therefore, the solution for the improvement of the villages and village life would be considering all these factors separate type of grants and levy have to be permitted to the villages if the village life is to be made happy and prosperous. Under article 40 of the Constitution the uplift of village life as local self-Government has been entrusted to the State. It is incumbent upon State Governments to formulate a policy different than the other local bodies for their welfare and to meet special conditions prevailing in village.

CHAPTER XIII

In England the assessment of Railways has been centralized by the Railways (Valuation of Rating) Act, 1930, and a central authority constituted for the purpose. The Central authority assesses the station upon the contractors' estimates, *viz.* their capital value and their annual value is assumed to be a certain percentage of the estimated capital value. The annual value of the rest of railway property is estimated with reference to the average net receipts, and apportioned by the central authority among the different local bodies according to the mileage of running lines in each rating area—a basis which is arbitrary but has to be accepted because the allocation of receipts, which accrue from the working of a railway system as a whole, cannot be made on any more rational basis.

In India the present situation is different. No attempt is made to assess the value of a railway as a whole. The Municipalities only tax the lands and buildings of the railways. Hence an Act of Parliament should prescribe the principles of valuation, taxation and apportionment. But as a Railway Assembly Authority is set up for administering these provisions, it should have representation of local bodies on it.

(73) The State Government properties should be subject to local taxation as they are in most of the States.

(74) The Union Govt. properties may continue to enjoy immunity from local taxation but it should make contribution to local bodies in lieu of such taxes. The valuation of these properties should be done by a special machinery constituted by the Central Government.

**MINUTE OF DISSENT BY SHRI R. D. KAPILA**

**Introductory Remarks.** I disagree with most of the recommendations made in the main report of the Committee, for the simple reason that I do not approve the policy and procedure adopted by the Committee in making enquiries and drafting proposals for the improvement of local finance. It is obvious that when the line of approach to a problem is defective, the conclusions arrived at, are bound to be unsatisfactory. I shall, therefore, first deal with matters of general policy and then discuss specific recommendations of the Committee.

**OBJECTIVES AND BASIC POLICIES**

The report of the Committee is in no way better than what it would have been if a few British Officers of the last century, who were the authors of the existing system of local self-government in India, had constituted the Committee. The main consideration which formed the basis of conducting the enquiries and framing the proposals was the continuance of the existing arrangements and policies of the State Governments regarding the administration of local self-government, which in all essential respects, are the same as were evolved by the British administrators of India to suit the ideals and requirements of the foreign government. The Committee could not, even for the purposes of improving the financial position of local bodies, consider the advisability of suggesting changes in the structure of local bodies or redistribution of functions between local bodies and Government, or economies in local administration. Nor could the Committee discuss the question of adjustment of the claims of different local services and local works for allotment of funds out of the total income of local bodies. A critical examination of the underlying policies of the Government relating to the levy and collection of taxes and the division of financial resources, and powers and responsibilities of administration between local bodies and Government, could not be undertaken by the members of the Committee. The Government was taken to be always in the right and the non-official local bodies to be always in the wrong. The dominating idea of the chairman and other official members of the Committee, was to vest the Government with all powers relating to the raising of revenues for the purposes of local bodies, and to suggest safeguards against misuse of whatever nominal powers may have been left over to the local bodies, on the assumption that local bodies are highly corrupt and unfit for the exercise of real powers of administration and the officials of the Government invariably act in the best interest of the public. The objective of developing local bodies into genuinely self governing units of administration by vesting them with adequate powers and authority, was altogether ignored by the committee. The social and economic circumstances of the people and the requirements of planned development of India under modern conditions, were by no means the basic considerations to be borne in mind in suggesting improvements in the financial resources of local bodies. In fact the committee had to move in narrow grooves devised by the British authorities and the only scope left to it was to suggest increment in the income of local bodies in such manner as may not seriously conflict with the policies and wishes of the State Governments, whose officials practically dominated the proceedings of the Committee and carried their propositions mostly in the teeth of opposition from the non-official members who constituted a minority on account of inability of some of them to attend the meetings for private reasons. Acceptability of the recommendations of the Committee by the Government, was definitely an important consideration kept in view by the official members of the Committee as a deciding factor in dealing with conflicting proposals brought before the Committee. The question of acceptability of the proposals by the local bodies or by the general public, did not carry any weight in the deliberations of the Committee. The result is that the Committee has mostly endorsed the recommendations of the Indian Taxation Enquiry

Committee relating to local finance, although there has been a fundamental change in the outlook of the Government and people of India since 1926 when the Report of the Taxation Committee was submitted. A few instances of the different points of view with which the Report of the Local Finance Enquiry Committee will be looked at by those who are not officials of the State Governments, are given below.

POINTS OF VIEW IGNORED BY THE COMMITTEE

**I. Requirements of planned development.** The report of the Committee indicates only that the total income of local bodies will be increased as a result of the adoption of the proposals made by it. But that is only one side of the picture. The other side is not touched at all, namely, an estimate of the funds required for raising the standard of the services of local bodies to a particular level, and an indication of how much will be provided by the proposed income of local bodies and how much will still remain to be provided, and what steps should be taken for covering the balance of the financial requirements of such planned development of local services, whether by redistribution of functions between local bodies and Government or by changes in the structure of local bodies or by economy in administration, or by any other means. Unless this is done, we remain in the dark as to where the country stands and whither it is moving in the field of development of the public services of local bodies. We do not become fully conscious of our needs and are not urged to discover fresh ways and means under the stress of a great necessity. Rather, we feel a false satisfaction that we are making some improvement over the existing state of affairs. Let me give a few concrete examples.

Provision of free and compulsory primary education within a period of ten years is the ideal set forth in the Constitution. This development comes within the sphere of responsibility of local bodies. The Committee should have asked the State Governments and local bodies to prepare estimates of financial requirements for this purpose as well as estimates of the money which can be made available from the existing as well as additional resources which may be proposed. This was not done. The Committee has simply suggested that education cess should be levied everywhere at the rates to be determined by Government and if more money is required for primary education, Government should contribute. No effort has been made to assess the income from the proposed education cess and Government contributions, and to equate the same with the total requirements of achieving the target of primary education within the prescribed time limit. Had the Committee proceeded on these lines, it would have been found that the task set forth in the Constitution involves a huge financial commitment which cannot be met from the proposed education cesses and Government contributions. In 1937, when I was preparing schemes of development of local self-government for the U. P. Government, I was told that free and compulsory primary education in the whole province would require the entire revenue of the Provincial Government from all sources put together. Some of the devices which, in my opinion, could have been considered by the Committee for meeting such excessive financial demands of primary education, are (a) to make local bodies fully responsible for providing education upto the first three classes only and the State Governments for the rest, (b) to relax rules requiring buildings of approved designs for such schools, and to allow villagers to accommodate schools wherever they can, even under a tree, and (c) to allow villagers to pay the school teacher in kind if it may suit their circumstances.

Similarly the supply of pure drinking water in villages requires sinking of wells, the cost of which should have been calculated by the States Governments at the instance of the Committee by reference to village authorities. This is also a costly affair difficult to be managed out of the income of fresh taxes which may be

proposed, and yet it is urgent since people in so many villages drink impure water which is unfit for human consumption. A suggestion which, in my opinion, could have been considered by the Committee, in this connection, is to make it obligatory for the village people through Village Panchayat, to dig wells by compulsory manual labour.

The minimum that the Committee was expected to do, was to proceed on the basis that the services of local bodies must be performed at least at the same standard as before and an estimate of the financial requirement for that purpose should have been obtained from local bodies, and an effort should have been made to increase the income of local bodies to such estimated requirements, because as a matter of fact, the standard of local services has considerably gone down during the last decade due to enormous increase in the cost of administration without corresponding increase in their revenues and the local services are still deteriorating day by day.

The worth of the proposals of the Committee for increasing the income of local bodies can only be judged by estimating the amount of such increase and comparing it with the estimated requirement of local bodies. An idea of the extent of the problem of local finance cannot be formed without taking into consideration the requirements of local bodies. Hence the Committee in any opinion, has been beating about the bush without facing the object in view.

**II. Inelasticity of local revenues.** The local bodies throughout India will be expecting the committee to have tackled the problem of inelasticity of their sources of income, for which the responsibility is entirely of the State Governments, for, under the law, the resources of local bodies are to be allotted to them by State Legislatures with such conditions and restrictions as they may deem advisable. This question was never considered by the Committee, probably because it would have meant an adverse criticism and condemnation of the policies of the State Governments. The following table of figures of income in crores of rupees, shows that while the income of the Central and State Governments has increased to three times of what it was before, the income of local bodies has remained stationary.

year	Central Revenues	Provincial Revenues	Local Revenues
1931	121.6	83.3	40.46
1946	360.7	229.0	43.09

These figures were not placed before the Committee, and the causes of inelasticity of local revenues and their remedies were not investigated by them. The fact is that the underlying policy of the late Foreign Government towards local bodies, is still followed by the States Governments, namely, to keep the local bodies financially crippled and dependent upon Government assistance, and to render them unfit to function efficiently, so that the Government can always condemn them and supersede any local body at any time and take over its administration. There are different devices for making local finance inelastic, and they need not be enumerated in detail at this moment. A few instances will be sufficient to give an idea of how it is done. Rates of Octroi and Terminal Taxes are not allowed to be increased, the number of articles subject to the levy of these taxes is limited, and additions in the list of articles exempted from these taxes are frequently made by arbitrary orders of the Government. Increase in house tax which is levied on rental value basis is indirectly prevented by Rent Control Act and by the levy of urban Immovable Property Tax on the rental value basis thereby encroaching upon the sphere of house tax. Increase in local Rate which is levied on the basis of land revenue, is indirectly prevented by not increasing the land revenue. While the Government will be able to make up its loss caused by not increasing the

land revenue, by levying another tax upon the same source in the form of agricultural income tax, the local bodies will not be able to do so. Sales Tax levied by Government is also indirectly an encroachment upon octroi levied by local bodies, inasmuch as both these taxes are levied on the prices of articles brought and sold in the town, and will be explained in detail later in this note.

**III. Constitutional drawback.** The local bodies all over the country would like the Committee to suggest some way out of the root cause of their financial difficulties, namely the provisions in the Constitution which divide the public revenues of the country into two parts only, one for the Union and the other for the States, and permit the state authorities to allot any resources at their discretion, to local bodies out of the States' share of public revenues. There is no provision in the Constitution making it obligatory for the States to hand over particular sources of income to local bodies. Several high officials of the Government have confessed that though they have sympathy with local bodies, yet by virtue of the office they occupy, they have to look to the interests of the State Government first and to the interest of local bodies afterwards, since they are responsible for the administration of the State and not of the local bodies. In actual practice, it has been found that far from giving more sources of income to local bodies, the State Governments are indirectly taking away a part of the sources already given to local bodies by previous Governments, by levying State taxes under different names upon the existing resources of local bodies as has already been pointed out in this note. The details of these encroachments by Government upon the resources of local bodies are dealt with elsewhere in the note. A suggestion which in my opinion should have been considered by the Committee in this connection is that an independent commission should be appointed for dividing the financial resources between the Government and the local bodies in accordance with well defined principles and for preventing the State Governments from encroaching upon the resources of local bodies so allotted to them. The Committee, however, did not examine the implications of the provisions of the Constitution relating to local finance and completely ignored the root cause of the financial difficulties of the local bodies.

**IV. The ideal of democracy.** All persons interested in the development of self-government in local administration expect that the Committee's recommendations will be based on the ideal of developing local bodies into really self-governing units of administration, as laid down in the Constitution in order to develop a spirit of democracy in the people as the best safeguard against the onslaught of undemocratic ideologies in the field of politics. It is necessary for this purpose to relax official control over local bodies and grant independent financial powers to them. But the Committee did not bear in mind this aspect of the problem and suggested further control to be vested in Government. For example the Committee has recommended that Government should have the power to determine the taxes to be levied by local bodies, the rates at which they should be levied and to enforce the same against the wishes of the local bodies. Such proposals are bound to cause disappointment to general public and to retard the progress of local self-government in the country.

**V. Economy in expenditure.** Improvement in the financial position of local bodies can also be brought about by economy in expenditure. The general public expected the Committee to look into this aspect of the problem also, as there is a general feeling that the tax payers do not get fair return for the money paid by them. Proposals for additional taxation which may be made by the Committee will stand greater chances of success if the taxes already collected are well spent to the satisfaction of the general public. But the question of

economy in administration was not considered by the Committee although it was included in the questionnaire issued by the Committee, because it was subsequently ruled out as falling outside the scope of the Committee.

**VI. Burden on the poor.** The deteriorating economic condition of the poor and lower middle classes of the community is already causing great anxiety to the National Government, as there is a danger that in case the situation becomes out of control, the peace of the country will be disturbed. Under such circumstances it was expected that the Committee would endeavour to lessen the burden of local taxation upon these classes of people. The committee however did not consider this question and made suggestions for throwing more burden upon those who cannot bear it. For instance, the Committee has recommended that exemption from house tax should not be made on the ground that the rent is too low, so that even the poorest man should have to pay the tax. There are a number of other proposals of this nature, which are dealt with separately in this note.

**VII. Suitability to Indian conditions of life.** The people of this country have their own customs, traditions and habits of life which are different from those of the British people. It was therefore expected that the system of raising revenue to be proposed by the Committee will, as far as possible, conform to these peculiarities of Indian life, and the wrong done by British authorities in imposing unsuitable British customs in India will be undone by the Committee. For instance house tax on the rental value basis was unknown in India, but was introduced by British authorities, while octroi duty to which people were accustomed since ancient times, was abolished by British authorities in some parts of India and restricted in other parts. The suitability of these taxes to Indian conditions of life, therefore deserved the consideration of the Committee. The special features of the present day life of the people in India, particularly the refugee problem and acute house famine, should also have been taken into consideration by the Committee. It is regrettable that while the Committee devoted six chapters to consideration of the different aspects of house tax and collected material even from foreign countries, it did not deem it advisable to consider the details of octroi duty although sufficient material was available in this country, and even some British administrators had recorded their appreciation of the system of octroi and its suitability to Indian conditions of life. The tendency of discarding everything Indian and adopting everything British without examining their implications is a legacy of the British regime, and had dominated the deliberations of the Committee.

The above list of different points of view which should have been borne in mind by the Committee, is by no means exhaustive. My only object at this moment is to illustrate that the Committee has conducted its enquiries and framed its proposals with an extremely narrow point of view, without taking into consideration a number of important questions which are intimately connected with the problem of the local finance. I shall now discuss specific recommendations of the Committee.

#### RECOMMENDATIONS FOR GIVING MORE POWERS TO GOVERNMENT

I do not agree with the following recommendations made by the Committee :—

(a) .....where a local body is unwilling to impose a tax at an adequate rate, the State Government should have the right, in the first instance to give friendly advice and if the local body fails to carry it out, the State Government should have the power to impose or raise the tax themselves..... (Chapter IV.)

(b) ...should any municipality fail to levy house tax, the State Government should have the power to levy it at such rates as they deem fit in any



## MINUTES OF DISSENT

municipal area for the benefit of the municipality.....this power should be exercised by the State Government only when a municipality has refused the advice tendered to it by the State Government in the first instance... (Chapter V).

(c) ...the list of charitable institutions which at present get exemption from Property Tax should be subjected to periodical review in order to see whether the exemption given in each case is justified or not. This review should be undertaken by the State Government..... (Chapter V.)

(d) .....the detailed work connected with the preparation of the valuation list of all the properties within the jurisdiction of a local body should be entrusted to . . a valuation department which should be brought into being for all the local bodies within the State. Its duty will be to see that the valuation list is correct and upto date for each local body. The valuation list as prepared by this department of the State Government, should be forwarded to the local body concerned.....it will not be open to the local body to alter any entry as made by the valuation department..... (Chapter V.)

(e) .....there should be in each State a model schedule for octroi approved by the State Government, and departures from it should not be permitted except with the previous approval of the Government..... (Chapter VIII.)

(f) we recommend the compulsory levy of profession tax under the orders of the State Government..... (Chapter IX.)

(g) ...we think that the agency for assessment and collection of Profession Tax levied by District Boards should be the Revenue Department of the Government..... (Chapter IX.)

(h) the question of the rate at which the tax on bullock carts in rural areas might be levied .....we would leave to the discretion of the State Government .....(Chapter XX.)

(i) It is necessary that each State Government should prescribe for their local bodies a standard of collection and should see that it is adhered to..... (Chapter XVI.)

(j) the Provincial Cadre for Accountants of local bodies, should be controlled by a Board with Statutory powers to be set up by the State Government..... (Chapter XVI.)

(k) the Examiner of Local Fund Accounts...also be a financial adviser of the local bodies whose accounts he audits.....(Chapter XXVI.)

(l) Government should prescribe rules in regard to various categories of local bodies in respect of matters such as pay, allowances, leave, travelling allowance, pensions, provident funds, etc. If a local body considers that its circumstances warrant any modification of such rules, the variation desired should receive the sanction of the State Government.....(Chapter XXVII )

**Explanation.** The powers proposed to be given to Government are comprehensive leaving practically no substantial powers to local bodies. It is proposed that the Government should be authorised to impose a tax even if the local body does not deem it advisable, to fix the rates at which the tax should be levied, to control the assessment and collection of taxes, to direct the financial administration of local bodies through Provincial officers and to prescribe the pay and allowances to be given to the staff of local bodies, etc. etc.

**Reasons for disagreement.** My arguments against the grant of such sweeping powers to Government in respect of the levy and collection of taxes and other financial transactions of local bodies, are enumerated below :—

(i) **Local initiative.** Without substantial powers there will be no attraction to local talent to work in local bodies and no scope for local patriotism to be availed in the interest of public administration. Nor will there be necessary enthusiasm and urge in local people to develop initiative in establishing new ways and means for financing local works. It is human nature that people would pay willingly of their own initiative much more than what they may be forced to pay by official orders.

(ii) **Federal basis.** Without genuine powers of taxation local bodies cannot be said to be vested with adequate powers and authority to enable them to function as self-governing units of administration as intended in the relevant provisions of the Constitution, because power of taxation is a necessary symbol of a self-governing body. The above recommendations divest the local bodies of genuine powers of taxation and are therefore not in accordance with the intentions of the Constitution which is based on the federal system of Government comprising of three parts of the State, the Union, the State and the Local Bodies. It is expected that the local bodies being an integral part of the State as referred to in the Constitution, shall be vested with substantial powers of Government within its own sphere of responsibility.

(iii) **Want of delegation powers.** The Constitution vests the power of defining the sphere of local self-government in the States Legislatures, while the above recommendations vest such powers in the executive officers of the Government acting in their discretion. Important powers like the powers of taxation cannot be vested in the officials even by the Legislatures as they have no powers of delegating their functions specially entrusted to them by the Constitution. The power of sanctioning the levy and collection of taxes is exclusively vested in the Legislatures under the Constitution. None of the taxes mentioned in the States List, can be imposed by the State Government even for the purposes of the State, without the previous sanction of the State Legislature. It is therefore all the more reasonable that the taxes which are not meant for the State but are meant for local bodies, should not be imposed at the discretion of the State Government without the sanction of the State Legislature. Some of the taxes of local bodies are even more income-yielding than some of the taxes of the State Government, and are levied on the entire population of the State, though by dividing the population in groups according to the areas of different local bodies. It therefore follows that the Legislature and not the State Government is the competent authority to decide which taxes of the State List, should be levied and at what rates they should be levied, whether for purposes of the State or for purposes of the local bodies.

(iv) **Principle of responsible government.** The Constitution is based on democratic principles which imply that the executive should be responsible to the elected representatives of the people, but to make the elected local bodies subordinate to the will of the officials of the Government as proposed by the Committee is contrary to the principles of democratic responsible Government. It is also necessary that powers and responsibility should go together. It will be wrong to vest the Government with powers of taxation and financial transaction of local bodies, while the responsibility for local administration and for local finance is of the local bodies and not of the Government.

(v) **Ministers and officials not infallible.** The Minister of a State Government, in whom the proposed powers will be vested, may be prejudiced for or against a local body on account of political considerations in case the President and members of a local body belong to the same or the opposite political party or group to which the Minister belongs. It is also probable that a Minister may at any time be influenced by personal, communal or any other extraneous considerations and not by considerations of public interest only. After all the Ministers and other officials of

the Government are not expected to know more about the local conditions of a town or district, and to have more sympathy with local administration, than the representatives of the local people constituting the local body. In actual practice sometimes the orders are initiated by the junior staff of the Government and the Ministers happen to be too busy to scrutinise them before signifying their approval. It is therefore risky and inadvisable to vest Government officials with over-riding powers over elected representatives in matters of taxing the entire population of the local areas of the State.

(vi) **Government is interested party.** The State Governments are usually keen about safeguarding their financial interests and powers of administration, and for that reason they behave more or less in a spirit of selfishness and jealousy towards other parts of the State machinery, namely the Central Government on the one hand and the local bodies on the other hand. The State Government is interested in not developing the finances of local bodies because the income of local bodies is derived out of some of the resources included in the State List, and if any item of income is not utilised by local bodies it can be availed by Government, or if the local bodies are abolished, their revenues can be entirely taken over by local bodies. It has already been pointed out in this note that the State Governments are encroaching upon the resources of local bodies. If more powers are given to Government, as suggested by the Committee, they will be exercised more in the interest of the Government than in the interest of the local bodies. In fact the State Governments have enough to bother about their own affairs, and if the worries of local bodies are also transferred to them, they will not be able to do justice to them, but will make the matters worse.

(vii) **Proper procedure.** In view of the above mentioned administrative and other difficulties, the proper procedure in my opinion, is to vest the local bodies with powers of taxation and financial transactions relating to their sphere of responsibility allotted to them by the Legislature, and if the Government finds that the local bodies are not using their powers properly, a complaint may be made by the Government to the Legislature which is the appropriate authority in this matter under the Constitution, and the decision of the Legislature should be final. The local body concerned should be given opportunity to explain its case and the Government should have the right of obtaining relevant information about the affairs of local bodies.

RECOMMENDATION FOR THROWING GREATER BURDEN UPON THE POOR

I do not agree with the following recommendations made by the Committee :—

(i)...there should be no exemption from the property tax merely on the ground of the annual letting value falling below a particular monetary limit. Such exemptions wherever they exist, should be done away with. (Chapter V.)

(ii)...A proposal to raise the rate of property tax in respect of properties with annual valuation of Rs. 500 and below from 16½% to 17½% was not accepted by the Corporation of Madras. In view of the corresponding taxation of similar properties in Calcutta and Bombay we consider that the proposal needs to be revived. (Chapter XXIII.)

(iii)...the hardship caused to owner-occupiers may be alleviated by introducing some flexibility in the method of the valuation of properties of different categories. (Chapter V.)

(iv)...there seems no justification for giving a greater remission than one half of the tax due in all such cases. Remission should not be granted for a vacancy of less than 90 consecutive days in a year...No ratepayers who are in arrears should be entitled to vacancy remission. (Chapter V.)

## MINUTES OF DISSENT

(v)...we recommend for adoption of the provision in the Rent Control Act, which permits an increase in rent on account of increase in rates of house tax levied by municipalities. (Chapter V.)

(vi)...we recommend that wherever there is no provision in the municipal or local board acts for the levy of profession tax, necessary provision should be incorporated. (Chapter IX.)

(vii) we recommend that the levy of a tax on railway passengers in important centres of trade and industry may be permitted. (Chapter XIV)

(viii)...we suggest the levy of a tax on such visitors to important centres of trade and industry, as reside in hotels, in the form of a surcharge in the hotel bills subject to a minimum exemption limit of Rs. 5/- per visitor for each visit. (Chapter XIV)

(ix)...there is no objection to local bodies owning their own theatres wherever they find it feasible and remunerative. (Chapter XXIV)

(x)...we are in favour of levying a road transport passengers tax at the rates ranging between 3 pies to 12 pies according to distance. (Chapter XX)

(xi)...we agree to the levy of a tax on bullock carts in rural areas. (Chapter XX)

(xii) we suggest that the power to impose taxation on rickshaws should be conferred on local bodies wherever it does not already exist by amending the acts if necessary. (Chapter XX)

**Explanation.** The above mentioned recommendations relate to taxes on poor people. It is proposed to levy taxes on bullock carts, rikshaws, hotel visitors, railway passengers, road transport passengers, and on persons whose income is so low that income tax cannot be levied on them. It is also proposed that house tax should be levied even on houses of low rental value which are at present exempted from this tax because they are occupied by poor people. Vacant premises are also proposed to be taxed, etc.

**Arguments for disagreement.** The steep rise in the prices of commodities, housing scarcity and evils of blackmarketing, have reduced to a desperate plight, the poor and lower middle classes of population engaged in subordinate services and petty professions although they are the backbone of the society and of the administration in India, and they had made the greatest sacrifices in the political movement for the freedom of the country. While the prices have risen in geometrical proportions, during the last decade, the income of these people has increased merely by a percentage and the number of unemployed among them is swelling every day. They are living at sub-human standards of life; their morals have gone down; and they are likely to become victims of any subversive movement in the country and be a source of danger to the society. As if all this was not enough, the Committee has suggested to rope in these very classes of people for purposes of local taxation by various devices enumerated above. Houses occupied by poor people are proposed not to be exempted, and in Madras taxes on houses of low rental value are proposed to be increased. Taxes on vacant houses and amendment of the Rent Control Act, as proposed above are bound to increase the already high rents of houses. Profession Tax is intended to be levied even on those who have been exempted from payment of income tax because of low income. A tax on all classes of rail and road passengers will include all persons indiscriminately irrespective of their paying capacity. Bullock carts and rickshaws are proposed to be taxed because they are owned and used mostly by poor people. Strangers who put up in hotels and are obliged to pay excessive hotel charges, are proposed to be

taxed further, in addition to the passenger tax which they will have to pay for visiting the city. Influential persons who can put up as guests to some one are not to be taxed for their visit to the city, and those who can afford to be owners of houses are deemed to be hardpressed, and it is suggested that the assessment of the houses occupied by them should be made on a different basis in order to enable them to pay less house tax than what would be paid if the same houses were occupied by rentpayers. The climax in the apathy of the Committee towards the acute distress caused to poor people by house famine was reached when it decided to recommend the construction of costly theatres by local bodies for purposes of profit, inspite of my earnest appeal for adopting a counter-suggestion that houses should be constructed instead of theatres so long as house famine in an acute form lasts in India and respectable people are forced to live on payments without privacy to women and without provision of necessary conveniences of life. In vain did I argue that construction of houses will not only yield reasonable income, but will also have a salutary effect on the evil of blackmarketing in houses. An ex-minister of a Province, had, in the course of his evidence, brought to the notice of the Committee that immorality among poor people was encouraged by serious shortage of housing accomodation which compels males and females of different families to sleep together on the same floor in a crowded manner. I therefore suggest that whatever building provision can be made by local bodies, it should be used for residential accomodation or business premises, instead of theatres and cinemas which may be left to private enterprise.

**Recommendations regarding appropriateness of levying House Tax, Octroi, Terminal Taxes, and Sales Tax**

I disagree with the following recommendations made by the Committee regarding the advisability of levying the above mentioned taxes by or for local bodies.

(i)...Property Tax seems to us a tax particularly suitable for a exploitation by local bodies ... in place of the present optional provision for the levy of property tax in the various municipal acts, there should be an obligatory provision as it is in the Acts constituting the City Corporations of Bombay and Calcutta....  
(Chapter V.)

(ii)...every Panchayat should levy compulsorily, house tax or chulha tax or circumstances or property tax.  
(Chapter V)

(iii)...it is suggested that a convention may be established by which net proceeds from the following sources of revenue shall be exclusively available for the local authorities :—Item No. 89 of the Union List. Terminal Taxes on goods and passengers carried by railway, sea or air ..... Item No. 56 of the State List. Taxes on goods and passengers carried by road or inland waterways.  
(Chapter IV.)

(iv)...we would urge the Government of India to reconsider the position and arrange to transfer the entry relating to terminal taxes to the State List...Should the Government of India consider it inadvisable to bring in a constitutional amendment so soon after the enactment of the Constitution, we would recommend that they might consider favourably any proposal which may be made to them by State Governments for the levy and collection of terminal taxes.....we fear that even if this suggestion cannot be adopted, there is no alternative to octroi, as it is the most productive single item of indirect taxation available to municipalities...  
(Chapter VIII)

(v)...we are of the view that the Sales Tax should remain wholly a State source of revenue...  
(Chapter XVII)

**Explanation.** The Committee has suggested that house tax should be levied compulsorily in all towns and villages, and it has agreed to the continuance of octroi simply because it is a highly paying tax and it is not possible to replace it by any other tax, otherwise its abolition would have been recommended. Terminal tax which is similar to octroi and is levied at lower rates on a limited number of articles with certain other restrictions, is suggested to be imposed in place for octroi as a lesser evil, provided that the Central and State Governments permit the local bodies to avail of this source of revenue because Terminal Tax leviable on goods and passengers carried by rail, air or sea is in the Union List and Terminal Tax leviable on goods and passengers carried by road or inland waterways is in the State List. Sales Tax is proposed to be the sphere of the State Governments exclusively without any claim over it by local bodies.

**Reasons for Disagreement.** These four taxes are of a highly controversial nature and there is a long history of the struggle over these taxes which started between the Government and the people during the early period of the East India Company and continued upto the present day, and public agitation is even now going on in certain parts of India against the levy of these taxes. The Committee has not deemed it worthwhile to study this controversy in detail and examine the underlying policies of the Government on the one hand and the root causes of the opposition of the people on the other hand. The prejudices based on the British system of local taxation and on the theories of the orthodox economists of the West, prevailed at the proceedings of the Committee and the idiosyncrasies of the inhabitants of India were entirely ignored while considering the relevant merits of these different forms of local taxes. No effort was made to discover if there was anything in the Indian system of local finance which may be worth retaining in the interest of local administration or for the convenience of the taxpayers. It is in my opinion wrong to follow western economists blindly without enquiring how far their theories are applicable to Indian conditions of life and I strongly deprecate this policy and procedure in dealing with important public affairs of India even after the British authorities have left the country and a National Government has come to power.

**History of these taxes.** An important fact to be considered in this connection is that the ancient system of octroi was popular throughout India and was replaced by the English system of house tax levied on the rental value basis forcibly against the wishes of the people in the Presidencies of Madras, Bombay, Bengal and Bihar and everywhere the local inhabitants had seriously protested against this change in the system of local taxation, and had resorted to the device of hartals and other forms of public demonstrations, but were helpless in the face of the armed strength of the East India Company. In Northern India, however, which was the last to be conquered by the British authorities the opposition offered by the people was rather stiff and active. In one case passive resistance was observed on a large scale and about two lacs citizens stayed day and night in open fields for about a fortnight in the cold weather praying to God, for the withdrawal of the orders of the Government regarding the levy of house tax upon them. In another case there was a pitched battle between the trained British soldiers and the unruly mob of local inhabitants resulting in loss of life on both sides. So the Government was obliged to amend its policy and slow down the process of changing octroi into house tax by gradually bringing indirect pressure upon local inhabitants, by various devices one of which was to introduce terminal tax which is similar to octroi aiming at reducing the income of local bodies from this source and thereby indirectly forcing them to introduce house tax to make up for the loss of income from octroi. The process of change in the system of local taxation is still going on slowly and steadily because the policies of the present day State Governments

are essentially the same as those of their predecessors of the British regime, in respect of important matters affecting the administration of local bodies.

In the course of this chequered history of local taxation in India, the Government of India and the Provincial Governments had carried on voluminous correspondence and adopted numerous measures, executive as well as legislative, and interesting arguments were advanced from time to time by interested parties for or against these different forms of local taxation. Even some of the experienced British administrators had expressed their strong disapproval of the policy of the Government in this matter, and some of the Provincial Governments had also protested against the proposals of abolishing octroi and enforcing house tax. The following is an extract from a letter written by the Punjab Government to the Government of India, commenting upon the report of the Indian Taxation Enquiry Committee which had recommended the levy of house tax in place of octroi and terminal taxes.

**Extracts from a letter of Punjab Government.**

"The subject..... has been dealt with by the Indian Taxation Enquiry Committee in paras 397 to 410 of their report..... In para 391, these forms of taxation (*i.e.* octroi and terminal taxes) are condemned unreservedly as offending against all the canons of taxation, but the grounds on which this condemnation is based are *a priori* grounds based on theory and in the very brief survey of the history of these taxes contained in para 399, no attempt has been made to ascertain why 'the history of octroi and terminal tax is one of many expressions of pious opinion accompanied by little in the way of practical action.' Had a careful examination of that history been made, it is doubtful whether the Committee would have discribed it in these terms or would so unreservedly have condemned these taxes and such is the importance of the matter that..... Nowhere in the whole correspondence extending over 60 years has any proof been given that these forms of taxation in fact constitute a burden on trade. It is always assumed that this must be so, but no examination of trade statistics has ever been attempted in order to prove this thesis, while there is ample proof that inspite of these forms of taxation, trade has so enormously increased. The fixed idea on the subject of the harm done by transit duties, dates of course from the days before there were railways; the main trade routes were roads and rivers, and if merchants had to pay dues in every town situated on these routes through which they passed, trade inevitably suffered. Nowadays, however, there is practically no such trade; towns may be the collecting places of country produce for export or distributing centres for imported articles but through trade in the true sense of the term goes by railway, and is absolutely unaffected by octroi or other such taxation at places between its starting point and its destination with the exception of the ports. The proposition that octroi and terminal taxes injure through trade would therefore, even if true, be irrelevant. The argument against these forms of taxation involves moreover the further assumption made throughout Taxation Enquiry Committee that these taxes constitute a heavier burden on trade than direct taxes. Again however no proof of this assumption is forthcoming and the Punjab Government cannot conceive that any reasonable person could contend that the light octroi and terminal taxes levied in this Province are anything like the burden on trade that the rates in Great Britain constitute. This burden of the rates on industry and commerce in Great

Britain is a constantly voiced complaint, and in the opinion of this Government, it would be no kindness to attempt to habituate local bodies in this country to a system which has in it the potentiality of such disastrous strangling of industry and commerce..... The prohibition of the levy of octroi in small towns has on various occasions meant the death of self-governing institutions in such towns, while raising of the prohibition has meant their resurrection.....there are no funds available for many sanitary improvements which are a crying need.....and the local self-government institutions which have been set up are to a great extent a mere mockery.....'

**Different forms of octroi and their implications.** Octroi in its original form as prevalent in India, was a tax levied on all articles entering a town at a low rate with reference to the prices of the articles, but it was not levied on goods which were simply passing through the town enroute to some other place, nor it was refunded if the goods were re-exported from the town; weight or tale basis of assessing the tax was adopted in special cases for reasons of administrative convenience, and if the amount of the tax was too low in individual cases, it was not collected. It was popular, sanctioned by ancient custom, understood by every one, easily manageable and it fell lightly on the tax payers without causing hardship to anyone. The British authorities introduced numerous innovations in it one after the other, in such a way, that most people even in the service of municipalities including senior officers, do not fully understand the different forms of octroi and terminal taxes and their implications. In 1864, the Government of India restricted the levy of octroi to a few articles of local consumption such as ghee, firewood, fruit, vegetables, fowls, eggs and animals for slaughter in the town. In 1871, a few more articles such as piecegoods, textile fabrics and articles of metal were added to the list of articles on which octroi might be imposed. Later on the levy of octroi was restricted to those dutiable articles which were brought for consumption or use in the town, i.e., those brought for sale in the town were exempted from the levy of octroi. In order to provide a safeguard against the levy of octroi on goods sold in the town, a system of refund of octroi in respect of goods exported from the town was introduced and the municipalities were required to provide bonded warehouses for stocking the goods of traders. After some time the system of refund and warehouses was also condemned and articles were subjected to octroi on the basis of what was called the compromise system or the reduced rates system under which very low rates were fixed according to a formula. Some time later terminal tax was introduced, which was leviable on imports as well as exports and was generally collected by railway authorities on the weight basis, on behalf of municipalities. The rates of terminal tax were very low, the number of articles on which it was imposed was restricted, the classification of goods was the same as adopted by railway authorities for their booking purposes, and other conditions were laid down by Government from time to time. Later on terminal taxes leviable by railway authorities were included in the sphere of Government of India and their extension for municipal purposes was prohibited. Octroi was permitted to be levied again on goods brought to the town for sale in addition to those brought for consumption or use in the town. Terminal tax leviable on goods carried by road is however in the State List.

The present position is that different forms of octroi and terminal taxes are levied in different municipalities. It was desirable that before arriving at final decision, the Committee should have examined all the complications and implications of the different varieties of these taxes in the same manner as the different aspects of the problem of levying house tax on different classes of properties were scrutinised under a number of separate chapters of the Report. At any rate, the proposal of continuing the levy of octroi and extending the levy of terminal tax,



having been agreed upon, it was necessary to deal with their details in order to discover and suggest scope for improvement in their assessment and collection and increase in the income derived from them. Some of the important features of these taxes deserving close scrutiny are (i) different systems of octroi with or without refund, and of terminal taxes on imports or exports leviable on goods carried by rail or by road transport, (ii) classification of articles for levying the tax (iii) exemption of certain articles from payment of the tax (iv) different basis for assessment of the tax such as ad valorem, weight or tale etc. (v) determining the rates of tax for different articles, (vi) difficulties experienced by tax payers in making payment of the tax or in receiving refunds, (vii) effect on municipal finances (viii) administrative arrangements for the management of the tax (ix) changes introduced by the Government from time to time and their underlying policies (x) the point of view of the general public, etc.

Having dealt with the historical background of these taxes, I give below my arguments for disagreeing with the views of the Committee :—

(i) **Burden on taxpayers.** Octroi is paid by traders who have the capacity to pay ; its rates are so low that it is taken lightly as if forming part of the cooly and carriage charges of bringing the goods from outside places ; and it is levied at a time when it is convenient for a trader to pay it *i.e.* when he is actually engaged in trade and has spared the money required for purchasing the goods and bringing them into the town, and not at a time when a trader may be sitting idle. House tax on the other hand is paid by all classes of people irrespective of their paying capacity *i.e.* even by widows, by unemployed persons and by those who live on charity since they must also occupy houses as a matter of absolute necessity of life. The rates of house tax are very heavy as compared with octroi and it is levied even on vacant houses *i.e.* even at a time when it is not convenient for the owners to pay the tax. Therefore house tax causes considerable inconvenience and hardship to taxpayers while octroi is not felt as a heavy burden by those who pay it.

Houses are poor indications of the paying capacity of their owners or occupants. A poor man with a large family may have to occupy a larger house than a rich man with a small family. A petty businessman like a potter may require larger premises than a money lender for carrying on his trade. Persons whose income is meagre may be owners of houses because their forefathers who were rich had built them. Widows may inherit the property of their husbands but not their earning capacity. Poor people suffer more from house tax than from octroi, because the burden of house tax can be easily passed on by owners to tenants, but octroi duties are so small that they do not affect the prices of articles materially. Moreover prices depend upon supply and demand and a number of other factors over which the traders may have no control. These are the reasons why the local trading classes in different parts of India had, on different occasions in the past, represented to the British authorities that whatever money is required by the Government should be realised from them in the form of octroi in order to save poor inhabitants who are not able to pay anything by way of house tax.

(ii) **Basis of assessment.** The basis of assessment of octroi is simple, real and easily ascertainable, and it leaves no scope for showing undue favour to one and injustice to another, since the prices of articles are known and it is not possible to charge more or less in any case without showing different prices for the same article in the octroi registers. On the other hand, the assessment of house tax is difficult, hypothetical and unreal and it is liable to be calculated more or less according to the opinion of the assessing authority, thus leaving ample scope for favour or injustice in any case.

## MINUTES OF DISSENT

The actual rent paid and realised is not the basis of levying house tax. The legal basis is the reasonable rent which in a number of cases is determined by guess work or by rough comparison with other similar buildings in the same locality. Sometimes the basis of assessment is the capital value of the land and cost of construction of the building which is impossible to estimate correctly especially in the case of big buildings or old buildings. Sometimes the profits or the total output of business of the trade or industry carried on the premises form the basis of assessment and in such cases it is a misnomer to call it a house tax; a tax on trades and industries would be the proper designation for it. Complicated administrative machinery has to be devised for assessment of property tax and there is a lot of litigation and corruption going on in the sphere of this tax as compared with octroi. While there can be no two opinions on the prices of articles which are actually being purchased and sold in the market, even the best experts may differ very greatly on the valuation of lands and buildings. Even the word "house" is an undefinable thing. Some people have defined it as immoveable furniture. And opinions differ as to whether machinery, electric fittings and moveable furniture forming part of a house and taken into account for calculating the rent payable by the tenant to the owner, should be considered as part of the house or not. The practice in this matter differs in different places. In view of such different and doubtful methods of assessment of house tax there is no wonder that influential taxpayers take undue advantage and poor people suffer undue hardship. The Calcutta Corporation Investigation Committee has estimated the loss of the Corporation from house tax amounting to 50 per cent. and Mr. Manu Subedar is reported to have arrived at the same figure in the case of Kanpur Municipal Board. Octroi is decidedly free from such staggering complications and leakages of revenue. The question of disputes and arrears does not arise in the case of octroi which is levied and collected then and there and in case of any trouble over payment the goods can be detained at the barrier or sold in the market without any difficulty, and the whole process is over in a few minutes.

(iii) **Burden on trade and industry.** The charge of octroi acting as a heavy burden on trade and industry is always assumed to be self-evident without reference to relevant facts and statistics. As a matter of fact neither the rates of octroi are high, nor is it levied on through traffic. Rather the amount collected by this light duty is spent for providing marketing and travelling facilities due to which trade prospers. The frequent interferences of the Government in the system of octroi as originally levied in India, had however brought into existence certain undesirable features which were not favourable to the interests of trade. For instance (i) the orders of the Government for exempting a number of articles from the levy of octroi, and for reducing the rates of the tax on certain articles to a nominal amount, resulted in appreciable increase in the rates of the tax on the remaining dutiable articles in order that the loss of income caused by the enforcement of such orders should be recouped. (ii) The introduction of weight basis instead of ad valorem basis, thereby charging the same amount of tax on different articles of equal weight irrespective of the difference in their prices, led to considerable increase in the tax payable on comparatively cheaper articles which could not bear the burden of it. (iii) The system of warehouses and refunds brought in its wake a number of evil practices which caused tremendous amount of worry and inconvenience to traders. (iv) The innovation of levying taxes on articles of through traffic in the form of terminal taxes and under the compromise system of octroi, placed unnecessary and unjustifiable burden upon through trade. (v) The system of levying terminal taxes on exports in manufacturing towns amounted to levying a tax on industries. Octroi duty is not leviable on exports, or on the production of industrial concerns situated within the towns. Rather the income from octroi is spent for providing a number of

municipal amenities which are necessary for the growth and prosperity of industries. It is therefore wrong and unfair to attribute to octroi the harmful effects of mishandling of octroi duties by the Government of India and by Provincial Governments from time to time.

On the other hand the burden of house tax on trade and industry is so heavy that it is deemed to be unbearable in England where the Government has been obliged to afford relief to industry and commerce, by ordering reduction of rates levied on industrial premises, and compensating the municipalities by payment out of the revenue of the Government. The reason is that the assessment of such premises is made on the basis of profits, or output of business or such other considerations which work out to big amounts.

(iv) **Yielding capacity and elasticity.** Octroi alone is capable of yielding such heavy income to local bodies that there will be no great need of Government assistance by way of grants in aid and assigned revenues, nor will there be so great a necessity for levying numerous taxes on poor and lower middle classes of people such as profession tax, taxes on carts, rickshaws and cycles and taxes on travellers and strangers who put up in hotels. Octroi is also a highly elastic form of tax, since the income from it rises or falls with the rise or fall in population or in the prices of commodities, and automatically adjusts itself with the rise or fall in the cost of administration. Supposing there is rise in the population of a town, due to which the municipality has to spend more money on sanitation, education, medical aid and other amenities of life, the income from octroi will also rise simultaneously because more goods will be brought into the town for the requirements of the additional population. If the prices of articles rise and the cost of administration also rises on that account, the income from octroi will also rise automatically because it is levied with reference to the prices of articles.

On the other hand the house tax is neither elastic nor yielding a heavy income. The construction of houses does not keep pace with the increase in population as it requires time and facilities such as land, building material, capital and labour. The additional, population accommodates itself mostly by over crowding the houses already existing in the town thereby adding to the burden of municipal administration without increasing the municipal income from house tax. The rise in the prices of commodities which increases the cost of administration immediately, does not increase the income from house tax which is not levied with reference to such prices. House tax must be levied at too high rates—may be at cent per cent. of rental value and even more in many cases—in order to yield the same amount of income as octroi, for the simple reason that houses in Indian towns are mostly of low rental value, constructed as they are of katchha and cheap material. It is only in a limited number of towns where costly buildings are situated, that house tax yields good income. On purely financial considerations, therefore, house tax is not a good tax as compared with octroi.

The advantage of automatic adjustment of the octroi revenue without altering the rates at which it is levied, deserves special consideration in view of the abnormal increase in the population of Indian towns and in the prices and wages, during the last decade due to war, partition of the country and other causes, and corresponding increase in the cost of municipal administration. The local bodies have not been able to cope with this additional burden upon their administration for want of elastic sources of revenue and frantic efforts are being made in vain to discover fresh sources of taxation instead of quietly availing the most elastic and high yielding source of revenue placed exclusively at the disposal of local bodies, well tried, and sanctioned by ancient usage. There are a few municipalities in the non-octroi states of India which still enjoy the benefit of octroi

since ancient times and serve as eye-openers to the neighbouring municipalities whose representatives were tempted to suggest in the course of their evidence tendented before the Committee in Orissa and Madras that they may also be permitted to levy octroi in their respective towns. Even the Honourable Mr. H.K. Mehtab, Minister for Industries in the Government of India, who was then Premier of Orissa, while referring to the difficulty of raising enough funds by way of house tax due to low rental value of houses situated in Cuttock, the capital town of Orissa, pointed out in the course of his informal talk with the members of the Committee, that he had come across ample evidence in the old scriptures that octroi duties were formerly levied on goods entering Cuttock and the octroi post was situated at the crossing of the river which flows by the side of the town, and he suggested that octroi duties should be revived by the municipalities, as they were levied in ancient India but were abolished by the British authorities. The success or failure of local self-government in India very largely depends upon the selection of octroi of house tax, for municipal purposes. The past history shows that hundreds of municipalities in smaller towns had to be abolished in Punjab and other places simply because octroi was abolished and it was not possible to raise enough funds by levying house tax or any other taxes for municipal purposes.

(v) **Climatic and economic conditions.** India is largely an agricultural country inhabited by poor people and the climate is hot for the greater part of the year. Most of the inhabitants can afford to construct only cheap katchha houses which also remain cool in hot weather. The European countries on the other hand have cold climate and are highly industrialised, so that big pucca buildings are suited to their conditions of life. Therefore houses of low rental value are found in most of the towns of India and house tax levied on them is not likely to yield sufficient income. It is wrong for the Committee to suggest extension of house tax in all towns of India on the ground that it is levied in the Corporation towns which bear no resemblance with other towns in the matter of housing property.

(vi) **Ancient customs and traditions.** It is recorded that once the local inhabitants of a town in India submitted a petition to the Governor-General setting forth a long list of arguments against home tax, and one of the arguments stated in that petition was that ".....in accordance with the Shaster and the Shera i. e. the laws of the Hindu and Mohammadans, the houses are reckoned as one of the principle necessities of life and are not accounted disposable property. Even creditors cannot claim them from us in satisfaction of their dues and in this country in the times of Hindu and Mohammadan princes houses were not rendered liable to contributions for the service of the State. In the beginning, the English Government had also made it a rule that in the sale of Estates, to realise the public revenues, the houses of landholders were to be exempted..."...Nowadays also in cases of attachment of property of debtors by their creditors, certain articles such as cooking utensils etc. are exempted. Hence the principle of exempting certain things on the plea of their absolute necessity for physical existence or for maintenance of earning capacity is still observed in the laws of this country. Housing accommodation being a primary necessity for existence next only to air and water, it was the custom in India that every body rich or poor should have his own house, and even the beggars were owners of their houses. Hotel business was not prevalent in India as it is in Western countries, and construction of houses for the purpose of letting them on hire as a regular lucrative profession is only a recent development in big towns.

(vii) **Serious house famine.** The people of India are at present suffering from a serious house famine regarding which special measures are being taken by the Government. But the tendency of levying more and more taxes on buildings

will undoubtedly increase rather than decrease the scarcity of accommodation. At present three different taxes are levied on owners of buildings namely, house tax by municipalities, urban immovable property tax by the States and income tax by the Union. Accommodation for any purpose is difficult to be had even on payment of exorbitant rent, because a heavy amount has to be paid as premium in the form of *pagree* or *salamee*, in advance in addition to rent. The process of accumulation of housing property into the hands of rich persons is going on rapidly. Even Government find it difficult to get sufficient accommodation for their offices and for the residence of their officers and servants. The social and economic life of the country has been awfully upset for want of accommodation. Most people live in constant worry about accommodation and are unable to devote their full time and attention to their work amounting is a huge national waste of human effort and energy which India can ill afford at the present moment. Lakhs of respectable families are forced to live on footpath, in motor garrages, and in other places which are unfit for human residence leading to insanitation, disease, immorality, misery and serious discontent. The plans and programmes for the development of the country cannot make satisfactory progress without solving the problem of accommodation which is a preliminary requirement for all purposes. There are numerous cases of refugees who obtain loan from the Rehabilitation Ministry for starting a business, and invest the whole or major portion of the loan in payment of *pagree* to secure premises required for residence and for business with the result that they cannot repay the Government loan. A refugees' leader who was examined by the Committee, was vehement in complaining about housing scarcity and pressed that no house tax should be levied so long as this problem is not solved.

**Terminal Taxes.** These taxes do not really belong to the local bodies. The suggestion of including them in local taxation is based on ignorance of what they are. Although they resemble octroi they are different taxes altogether. A terminal tax as the word "terminal" signifies is a tax levied on goods when they start from or arrive at a terminal station in their journey from one place to another. It is levied by carriers *i.e.* by railways and other transport authorities on the goods carried by them to cover the cost of loading and unloading and use of goods station. This tax belongs to the category of fare and freight charges. It is also leviable on passengers and animals travelling from one place to another. Octroi on the other hand is leviable by local bodies on goods entering the town for consumption, use or sale therein and not on goods which only pass through the town enroute to some other place. Both the taxes can be levied simultaneously on the same goods. The Government of India had started levying of terminal taxes by railway authorities for the purposes of local bodies. It was unfair to do so, but it was intended to serve a special purposes which need not be discussed here. It is desirable to introduce correct systems and correct nomenclature for our taxes. Octroi without refund would serve the purpose of levying terminal tax on imports by local bodies. In case it is intended to levy a tax on export from a town or a tax on passengers entering a town, a separate provision should be made for that purpose instead of misusing terminal taxes for municipal purposes. At present terminal taxes are divided into two parts, those leviable by the Union and those leviable by the States, according to the means of transport falling within their respective spheres under the Constitution, *i.e.* terminal taxes leviable in respect of goods and passengers carried by railway, sea or air are placed in the Union List and terminal taxes goods and passengers carried by road or inland waterways are placed in the State List. The Committee has suggested that both kinds of terminal taxes should be exclusively available for the local bodies. It is evident that this suggestion of the Committee is wrong and unnecessary.

**Sales Tax.** Goods brought and sold in a town are subjected to the levy of two taxes at a certain percentage of their prices. These taxes are octroi and sales tax, the first of which is levied by municipalities at the time when the goods are brought in the town, and the second is levied by Government when the goods are sold in the town. If one of these taxes is abolished, the rates of the other can be increased proportionately without increasing the burden on the tax payers. Therefore sales tax levied by State Government is an encroachment upon octroi which is the sphere of revenue allotted to municipalities, and the scope for increasing municipal income by raising the rates of octroi is reduced by the levy of sales tax. The Committee should have suggested the removal of this encroachment by Government on the resources of municipalities, as it has done in respect of a similar encroachment by Government in the form of urban improvement property tax which is levied on the same basis as house tax namely, at a certain percentage of the rental value of lands and buildings situated in the towns.

The difference in the two cases of encroachment is that whereas the whole of the urban immoveable property tax is an encroachment upon the house tax, the whole of the sales tax does not constitute an encroachment upon octroi. The reason is that sales tax is levied on goods sold in the town which may include goods manufactured and produced in the town, in addition to goods which are brought from outside and sold as they are. Octroi is not leviable on goods manufactured or produced in the town. Sales tax may also be levied on any goods which may have been brought from outside but may have been exempted from the levy of octroi under the rules and orders for time being in force in the town concerned. Octroi too has a sphere which is not covered by the sales tax, since certain goods subjected to the levy of octroi may not be sold in the town but may be directly considered or used therein, and it is also possible that any goods subject to the levy of octroi may be exempted from the levy of sales tax under the rules and orders which may be in force for the time being for the levy of these taxes in the town concerned. Therefore it should be clearly understood that the encroachment by sales tax over octroi takes place only in so far as both these taxes are levied on goods brought and sold in the town, and my objection to the levy of sales tax on the plea of encroachment over octroi is limited to that extent.

As regards the steps to be taken for preventing sales tax from being levied on articles which may be subject to payment of octroi, it would appear that it would be difficult for sellers and purchasers in the town to distinguish between octroi goods and sales tax goods. I would therefore suggest the abolition of sales tax altogether because the other sphere of sales tax which is not covered by octroi relates to goods manufactured or produced in the town, and is already the sphere of excise duties. If it is desirable to derive greater revenue from a tax on goods manufactured and produced in towns, the rates of excise duties already levied may be increased and the levy of excise duties may be extended to other articles manufactured and produced, which may not be already subjected to the payment of such duties. Even if it is decided that the source of octroi duties must also be availed for the purposes of the State Government, the proper course for the Government is to raise the rates of octroi duties levied by municipalities and to order the additional income from octroi to be given over to Government by the municipalities concerned. It is obviously objectionable to encroach upon municipal revenues indirectly under the guise of levying a separate tax under a different name. Underhand methods should be discarded and what is proposed to be done by the Government in the sphere of local finance, should be done openly in a straightforward manner, so that there may be no misunderstanding about the exact sphere allotted to local bodies and about the restrictions placed on it by the Government. Another objectionable feature of this encroachment

## MINUTES OF DISSENT

is that a separate staff is engaged for this purpose, which involves waste of public money in the shape of salaries, allowances and other expenditure of additional staff, besides leakages of revenue and unnecessary inconvenience and hardship to the taxpayers who have to deal with two separate taxing authorities instead of dealing with one. A similar procedure was adopted by the Punjab Government for encroaching upon the sphere of house tax, by levying urban immoveable property tax and setting up a separate establishment in addition to the establishment maintained by municipalities thereby causing waste of public funds besides leakages of revenue and hardship to taxpayers. It was quite easy to collect the urban immoveable property tax through municipalities as is done by the Government of Bombay. I therefore suggest that sales tax should be split up into octroi and excise duties and separate establishment for sales tax should not be maintained.

The sales tax causes far greater hardship to the taxpayers and general public than urban immoveable property tax, and the scope for corruption is greater still. The rates of sales tax are exorbitant as compared with those of octroi and it is collected in small dribbles from petty purchasers including poor persons whose tax paying capacity is zero. Petty shopkeepers are expected to be trained accountants and honorary bill collectors of the Government on the condition that if any purchasers do not pay the tax, the shopkeepers must pay from their pockets. It is in fact a misnomer to call it a sales tax; it should be called a purchase tax. Since a large amount of the tax is made up of petty items of half anna and one anna each, its efficient checking is an impossible task and leaves huge scope for mismanagement and corruption. To levy the tax in bulk as octroi, excise and custom duties is convenient and economical and avoids harassment to poor people and petty traders.

I do not object to the levy of taxes by Government for the purposes of public administration. I am opposed only to the manner of levying them and to the encroachment upon the resources of local bodies. Whereas in the ultimate analysis all taxes fall upon poor people, it is desirable not to levy a tax directly upon them as they will not be able to pay it without feeling its pinch. It is better to levy a tax upon those who can pay it easily. Secondly a tax should as far as possible be levied in bulk and not in small amounts for the sake of convenience in collection and economy in administration. It is for instance advisable to levy the sales tax at the source *i. e.* at the time when goods are manufactured or produced or imported from foreign countries. Even if it is desirable to levy the tax on goods after they have left the source, let it be levied at the time of big wholesale transactions but not at the last stage when they reach the public for consumption in small amounts.

### RECOMMENDATIONS REGARDING THE FINANCES OF DISTRICT BOARDS, VILLAGE PANCHAYATS AND IMPROVEMENT TRUSTS OR DEVELOPMENT BOARDS.

The Committee has recommended that the rates of local fund cesses levied by District Boards on agricultural lands should be raised to 3 annas per ruspee in all States; transport service in rural areas and smaller municipalities should be taken over not by local bodies but by Government and a tax on road transport passengers in rural areas should be levied by Government and shared with local bodies; and taxes on bullock carts should be levied in villages by District Boards and Village Panchayats. Two compulsory taxes are proposed to be levied by Village Panchayats one of which should be house tax or chulha tax or tax on circumstances and property, and the other should be a sanitary cess, and 15% of land revenue is also proposed to be given over to Village Panchayats. A share of entertainment tax and of terminal tax on passengers coming by railway, road or

inland waterways, is proposed to be given to Improvement Trusts in addition to a contribution of 2% of the annual rateable value by municipalities.

My opinion about the above mentioned recommendations is that they should be considered after a decision is made on the future structure of the local bodies to which they relate namely District Boards, Village Panchayats, Improvement Trusts and Development Boards. The reasons for urgent re-consideration of the constitution, status and responsibilities of these local bodies and consequent postponement of allotment of their financial resources are given below.

(i) The District Boards were not in existence during the pre-British period of Indian history. They were newly created by the British Government for special functions which need not be discussed at this moment. They are not local bodies in the true sense of the word, because their area of jurisdiction is so large that they are in fact intermediary authorities between the Government and Village Panchayats. The latter are real local bodies which were in existence in India since ancient times, but the British authorities had taken special measures for indirectly bringing about their decay in order to destroy corporate life of the people of India and to tighten their hold over the country. These Village Panchayats have to be revived as stated in the Constitution of India and their future structure has to be worked out immediately. As regards District Boards, different suggestions have been made so far. One suggestion is that they should be abolished altogether and their functions and financial resources should be given over partly to Government and partly to Village Panchayats. Another suggestion is that they should be replaced by District Councils to be elected by local bodies within the district rural as well as urban, for functioning as coordinating and supervisory authority over the local bodies without independent administrative functions. A third suggestion is that the proposed District Councils should also act as advisory bodies in respect of all activities of the Government carried on by officers of different departments within the district. A fourth suggestion is that they should be only joint organisations of the Panchayats of each district, to be constituted for their joint activities as a matter of administrative convenience, on the basis of mutual arrangement between the Panchayats concerned in each case, etc. etc. In Madhya Pradesh, the District Boards have already been abolished and Janapada Sabhas have been established in smaller areas on a new basis which deserves detailed consideration. The Orissa Government has a scheme of Unchal Sabhas. The Assam Government has a scheme of establishing Panchayats each of which will serve a large number of villages. Uttar Pradesh had made a huge experiment by spending more than a crore of rupees for establishing more than 35 thousand Panchayats simultaneously all over the State and the development in the activities of these Panchayats will have its repercussions on the activities of the District Boards. Practically in all States, the functions of the District Boards are more or less being taken over partly by Village Panchayats and partly by Government and their future is in the melting pot. The question of determining the proper place of District Boards under the new set up, is, more or less, engaging the attention of different State Governments and it is advisable to work out their financial resources after a final decision has been made by the authorities concerned. For instance if the District Boards are to be abolished, the entire land cess will come to Panchayats, the question of levying cart tax by District Boards will not arise, the transport service will undoubtedly be long to the sphere of Government and not of petty Panchayats, and there will be no need of levying a tax on road transport passengers in rural areas. etc. etc.



(ii) The position of Improvement Trusts and Development Boards also requires to be considered in the light of the experience so far gained in their working in different places. The Bombay Improvement Trust has been amalgamated with the Bombay Municipal Corporation. In Madras, Nagpur and Punjab, the Improvement Trusts have not proved successful so far. Two of the Improvement Trusts in Punjab are recently reported to have been abolished by the Government. There is considerable friction between Improvement Trusts and local municipal authorities. The general public is also dissatisfied with the working of the Improvement Trusts. Different suggestions have so far been made regarding the future of Improvement Trusts and Development Boards. It is therefore advisable to determine their sources of income after the future position has been cleared by competent authorities.

RECOMMENDATIONS REGARDING GOVERNMENT ASSISTANCE AND ASSIGNED REVENUES

The Committee has recommended that all grants should be given on some definite understandable principles, but no indication has been given as to what those principles should be. While the desirability of laying down such principles was easily decided upon, it was difficult to work out the details of such principles. The fact is that the evils of the system of grants in aid are widely complained of and are generally admitted to be true. A search was made for suitable remedies throughout the investigations of the Committee in the various States of India and the different formulas of giving grants in England from time to time, were also examined. But the problem however remained unsolved to the last. Hence I make the following suggestions in this connections:—

(i) There should be a clear cut division of functions and financial resources between the Government and local bodies, so that local bodies may develop a sense of responsibility in administration and Government may not exercise powers of control and interference in local affairs and at the same time hold the local bodies responsible for efficiency in local administration. This division should be made by an independent commission to be set up by the Central Government.

(ii) Grants should not be given except in rare cases due to some extraordinary circumstances, and should on no account be a normal source of income of any local body recurring every year.

(iii) For the purpose of performing certain functions of the Government by local bodies for reasons of administrative efficiency and convenience, the local bodies should function as mere agents of the Government; and the Government should pay for the expenditure incurred by local bodies for the performance of such functions and also exercise such powers of supervision and control relating to them as may be decided upon in each case.

The greatest advantage of the above arrangements will be that the local bodies will give up the habit of depending for everything upon Government, and will develop initiative in administration and get genuine training in the art of self-government. They will no longer be able to throw the blame for mal-administration of local affairs upon the Government nor will have a cause for complaint against the Government for interfering in local administration. There is no doubt that grants are invariably misused by Government for exercising undue control over local bodies under the threat of reducing grants in case a local body fails to comply with undue demands of the Government. This is an objectionable practice and militates against the spirit of local self-government. If Government control over local bodies is desirable in the interest of sound administration, let the Government justify it in the Legislature and

## MINUTES OF DISSENT

secure such control and exercise it openly in a straightforward manner and not under the shelter of Government grants. Underhand methods in dealing with affairs of local self-government must be discarded altogether if it is desirable that local self-government should develop in this country. Grants are sanctioned arbitrarily and decision regarding them is often influenced by political, communal, personal and various other extraneous considerations not connected with the administration of local bodies. The evil effects of grants and other forms of Government assistance are of such a nature that this cannot be mended but they can be ended as has been suggested above.

### MISLEADING STATEMENTS OF MEMBERS' VIEWS IN THE REPORT.

While recording the recommendations of the Committee in the final draft of the Report, indications were given, in many cases, of different views expressed by one or two members. In my opinion, this should not have been done, because it would create a wrong impression upon the readers that all other members agreed to the particular recommendations, and also that wherever no such indication of different views of any members is given, the recommendations of the Committee were unanimous. The fact is that differences of opinion were not recorded in respect of all the recommendations of the Committee, and even in cases where differences were recorded, they were done in respect of one or two members only and not in respect of other members who were present and had expressed different views, nor in respect of members who were not present at the meetings. The proper course was to record only the majority decisions and to leave all differences to be expressed in minutes of dissent. I had brought this matter to the notice of the Committee and suggested that all references to the different views of one or two members should be deleted. The reasonableness of my proposal was admitted by the Committee yet I regret to note that the corrections suggested by me were not made in the Report which was signed and submitted to the Government.

### SUMMARY OF IMPORTANT POINTS.

The above discussion of the findings of the Committee has made it abundantly clear that there is a fundamental difference between the point of view of the Committee and that of mine. Important items of this difference dealt with in this note, are summarised below:—

(i) I hold that the real problem of local finance has not been touched at all by the Committee and its report does not show the financial position of local bodies as it is and as it will be after the implementation of its recommendations, because I consider that financial position means not merely the income but the income in comparison with the amount of necessary expenditure required to be incurred by local bodies, and the term financial problem means the shortage of income and the existence of certain difficulties in the way of raising adequate funds for local bodies. The Committee did not look at the matter from this angle of vision. It only collected the latest available figures of income of local bodies and considered suggestions for increasing the income by such measures as were likely to be accepted by State Governments, and it also compiled suggestions for vesting the State Governments with all substantial powers in respect of local finance. It did not even indicate the amount of increase in the income of local bodies proposed to be brought about by implementation of the suggestions made by it, nor did it consider the expenditure which is actually incurred and which ought to be incurred by local bodies. It did not deem it advisable to enquire why the income of local bodies has remained stationary while the income of Government has increased to three times of what it was before, what are the obstacles in the way of development of local revenues and how they can be remedied. Assuming that the income of local bodies should also have risen in the same proportion as that of the Government, in order to keep pace with the rise in the cost of

public administration due to abnormal rise in prices and wages, it would have been Rupees 129 crores instead of 43 crores, and the Committee should have kept this target in view in compiling suggestions for increasing the income of local bodies and should have measured the value of its recommendation with reference to it.

(ii) In my opinion, the devices for improving the financial position of local bodies should not have been restricted to the raising of more income only. The Committee should have considered suggestions for improving the financial position by economies in administration, by changes in the structure of local bodies, by re-distribution of functions between local bodies and Government, and by determining preferences in the development of different local services and local works some of which are profitable some are self-supporting and some are a burden on the general revenues of local bodies.

(iii) A clear cut separation of the responsibilities and resources of local bodies from those of the Government should also have been suggested by the Committee as a preliminary requirement of dealing with the problem of local finance, since the present arrangement is most confusing and misleading. The services of local bodies are financed jointly by Government and local bodies and it is not possible to apportion the exact responsibility of each for the performance of particular services. Frequent changes in the arrangements are also made by arbitrary orders of the Government for giving to or taking from the local bodies certain items of income or of public activities. This creates uncertainty and upsets the calculations and plans of local bodies.

(iv) The root cause of the financial difficulties of local bodies, in my opinion, is that the Government places restrictions directly or indirectly on the levy of taxes by local bodies and also encroaches upon the resources of local bodies by levying new taxes under different names. On the other hand, the Committee worked on the assumption that the main difficulty lies with the local bodies which are corrupt and inefficient and the remedy lies in vesting all powers in Government.

(v) Instead of engaging in a vain search for new taxes to rope in poor and lower middle classes for purposes of local taxation and for extracting more money from the Government, the Committee, in my opinion should have concentrated itself upon a thorough examination of the sphere already allotted to local bodies and should have endeavoured to discover scope for exploiting the same sphere. For instance, it should have collected full information about the available funds of local bodies, how they are invested and at what rates of interest, the loans taken by local bodies and the rates of interest and other terms on which they are taken, and the immovable property of local bodies and scope for its development. The different aspects of octroi duty should have been thoroughly examined in order to improve its working and to consider the advisability of extending its operation in places where it is not levied at present, in view of the fact that it is the only tax of local bodies which is highly elastic and capable of yielding heavy income.

**Concluding Remarks.** The recommendations of the Committee in my opinion will not solve the financial worries of local bodies. The suggestions for additional resources at the cost of Central and State Governments are likely to be rejected, and the proposals for giving more powers to State Governments are expected to be accepted and exercised to the detriment of local bodies as has been done in the past. Octroi which alone could place the local bodies on a sound financial basis, has been condemned by the Committee, and suggested to be replaced by terminal taxes as a lesser evil. The proposal of extending the house tax has been well tried in the past and proved a failure except in a limited number of big towns where it is already levied. New suggestions for levying a number of petty taxes on poor people who cannot afford to pay them, cannot be expected to be implemented with a good measure of success and my apprehension is that they will be tried in some places and given up after some time on account of public agitation against them.

R. D. Kapila,

---

**SUMMARY OF RECOMMENDATIONS**

---

(10) Item No. 59.

Tolls.

(11) Item No. 60.

Taxes on professions, trades, callings, and employments.

(12) Item No. 61.

Capitation taxes.

(13) Item No. 62.

Taxes on entertainments including amusements. (Paragraph—131)

(4) We consider that no usefull purpose will be served by going into details of cases where rates of taxation have remained unchanged over long periods of time. We would only bring the point to the notice of the State Governments so that they might take appropriate action with the local bodies in question. Local bodies which do not utilize their existing powers of taxation can have no claim on the financial resources of the State. (Paragraph—159)

5. We think that where local bodies have not got independent powers of taxation, they should be given such powers, subject to maximum limits in each case to be prescribed by the Acts or the rules framed thereunder.

Within these limits, local bodies should have a free hand in determining the rates of taxes. Where a local body is unwilling to impose a tax at an adequate rate, the State Government should have the right, in the first instance, to give friendly advice and if the local body fails to carry it out, the State Government should in the last resort have the power to impose or raise the tax themselves, particularly in emergencies. (Paragraph—161)

## CHAPTER V

### PROPERTY TAX (GENERAL)

6. There is difference of opinion as to whether rates on property are the most appropriate form of taxation for local purposes. We are of the opinion that the existing system should continue, though hardship to owner-occupiers may be alleviated by introducing some flexibility in the method of valuation of properties of different categories. (Paragraph—164)

7. Property tax seems to us a tax particularly suitable for exploitation by local bodies and we think it desirable that State Governments should withdraw from this field on the condition that an equivalent local tax is imposed by the Municipality. (Paragraph 166)

8. We are of the opinion that in the place of the present optional provision for the levy of the property tax in the various Municipal Acts, there should be an obligatory provision as it is in the Acts constituting the City Corporations of Bombay and Calcutta. Should, however, any municipality fail to levy the tax in spite of such statutory provision, the State Government should have power to levy the tax at such rates as they deem fit in any municipal area for the benefit of the municipality. We would suggest that this power should be exercised by the State Government only when a municipality has refused the advice tendered to it by the State Government in the first instance. (Paragraph—178)

9. We recommend that a maximum rate for the property tax should be prescribed by statute where it is not done at present. A minimum should likewise be prescribed in the Acts. (Paragraphs—179 & 180)

10. We are generally in favour of a progressive scale, adoptable at the discretion of the municipality concerned. (Paragraph—181)

## SUMMARY OF RECOMMENDATIONS

11. We are of the opinion that in all cases where exemption is granted at the instance of a Government, an equivalent contribution should be paid by that Government to municipal funds. (Paragraph—186)

12. We are of the view that it is necessary to ensure that an institution claiming exemption on the ground of being a charitable institution, is actually being used for purposes of charity. We also think that the list of charitable institutions which at present get exemption from property tax should be subjected to periodical review in order to see whether the exemption given in each case is justified or not. This review should be undertaken either by the State Government or the municipality according as the exemption is under the Act or the rules made thereunder. (Paragraph—187)

13. Where an actual service like supply of water is rendered there should be no exemption.

14. It does not appear that a complete list of exemptions granted (together with annual value in each case) is kept by every local body. Such a list should be prepared and should be scrutinised from year to year with a view to see that the exemption is fully deserved in every case. (Paragraph—188)

15. We are of the opinion that there should be no exemption from the property tax merely on the ground of the annual value falling below a particular monetary limit. Such exemptions, wherever they exist, should be done away with. (Paragraph—189)

16. In view of the fact that the major portion of the services rendered by local bodies such as street repairs, maintenance of main roads, fire brigades, public lighting, drainage, street cleansing, etc., has to be performed whether the building remains occupied or not, there seems no justification for giving a greater remission than one-half of the tax due in all such cases. Remission should not be granted for a vacancy of less than 90 consecutive days in a year. No rate payers who are in arrears should be entitled to vacancy remission. (Paragraph—194)

✓ 17. We are of opinion that where the actual rent is lower than the 'reasonable' rent, the latter should be adopted as the basis of assessment. (Paragraph—200)

18. We see no reason why such machinery as is rateable in England, should be excluded in India, and recommend that the Acts of the various States may be amended on the lines of English practice in this matter. (Paragraph—205)

19. We are not in favour of the inclusion of furniture for valuation. (Paragraph—206)

✓ 20. We are of the opinion that there should be no change from the well-tryed basis of rent to the more or less uncertain basis of capital value. Where, however, municipalities are actually adopting capital value as the basis and there is no complaint that basis may continue. (Paragraph—207)

21. If alternative basis are to be retained, we think that the choice of basis should not, either directly or indirectly, be left with the owner of the property. There should be only one basis of assessment, namely, the rental basis. Where alternative basis are in existance, the position may be reviewed and remedied. (Paragraph 208)

22. We recommend that the entire proceeds of the local fund cess within municipal areas be handed over to municipalities instead of to district boards. (Paragraph—210)

23. Nazul lands should be handed over to municipalities for management, as in U.P. and the income from leases may be distributed between Government and the local bodies. (Paragraph—211)

## CHAPTER V—VII

24. We see no reason for the continuance of the concession in regard to levy of property tax in the municipal Acts of Bengal, Bihar and Orissa in respect of buildings, the cost of construction of which exceeds one lakh of rupees. (Paragraph—212)

25. We are of the opinion that the Calcutta City Municipal Act should be amended so as to provide for a simultaneous revision of valuation in all wards. (Paragraph—228)

26. We consider the provision in the Madras City Municipal Act and the District Municipalities Act, whereby the annual value of any building or land, the tax for which is payable by the Commissioner (Chief Executive Officer) is to be determined by the Mayor or the Revenue Divisional Officer as the case may be, a very salutary provision and recommend its adoption. (Paragraph—229)

27. We think that the municipal Acts should be amended so as to make it obligatory to record the grounds for each reduction of valuation or assessment. (Paragraph—230)

28. A local body should have a right of appeal when it feels aggrieved by any decision of a revising authority. (Paragraph—231)

29. While the power to tax should continue to be vested in the local bodies, the detailed work connected with the preparation of the valuation list of all the properties within the jurisdiction of a local body should be entrusted to a Central Organisation (to be created for this purpose) which will consist of trained valuers, as in western countries. A valuation department should be brought into being for all the local bodies in each State. (Paragraph—232)

### CHAPTER V PROPERTY TAXES (PART II)

30. We are of the view that where an exemption is granted at the instance of the State Government, which has not been proposed by the Municipality, the Municipality should be given compensation to that extent by the Government. (Paragraph—279)

### CHAPTER VI PROPERTY TAX—SERVICE TAXES

31. As regards the question whether or not the services of water supply drainage, lighting and conservancy should be self-supporting, we are of opinion that the cost-of-service principal, however equitable it may seem in the abstract is not capable of practical application. (Paragraph—423)

32. The present classification of municipal services into two categories, one to be financed from general revenues and the other from special rates does not appear to rest on any logical basis. (Paragraph—425)

33. A special service rate is justified when the areas within municipal limits are differently developed. When the development is uniform and all the services are evenly spread throughout the area, the case for special service rates disappears. (Paragraph 426)

### CHAPTER VII LOCAL FUND CESS

34. As the land revenue staff which collects the land cess would in any case have to be maintained for the collection of land revenue, and the cost of special staff for the adjustment of accounts between the Land Revenue Department and the district boards must be insignificant, we think that Government might well remit this charge. (Paragraph—428)

## SUMMARY OF RECOMMENDATIONS

35. We consider that the rates of the public works cess and road cess in Bengal should be doubled. (Paragraph—435)
36. In District Boards in the Punjab where the cess is being levied at 24 pies in the rupee of land revenue, we recommend that the cess should be raised to at least to 36 pies. (Paragraph—440)
37. We are of the opinion that the rate of two annas in the rupee in Bihar district boards should be earmarked for general purposes and a separate education cess of one anna levied. (Paragraph—441)
38. We think that the rate of cess in Orissa should be raised to three annas. (Paragraph—442)
39. The rate at present levied by Janapadas in Madhya Pradesh is low and should be raised to 3 annas in the rupee. (Paragraph—443)
40. We think that the local rate in Assam should be raised to 3 annas in the rupee. (Paragraph—444)
41. The present rate of cess in Ajmer-Marwara is low and should be raised to 1½ annas and by gradual stages to 3 annas. (Paragraph—445)
42. The rate of cess in Coorg should be the same as in Madras. (Paragraph—446)
43. With the abolition of Zamindaris, the responsibility for the payment of cess will have to be definitely fixed either on the Government or on the tenant who holds directly from the Government. The interests of district boards should not be prejudicially affected by the abolition of Zamindaries (Paragraph—449)

### CHAPTER VIII OCTROI AND TERMINAL TAXES

44. We recommend the transfer of the entry relating to terminal taxes from the Union list to the State list. (Paragraph—471)
- If that is not possible we recommend that the Government of India should consider favourably any proposal which may be made to them by State Governments for the levy and collection of terminal taxes.
- If the above suggestion cannot be adopted there is no alternative to octroi, as it is the most productive single item of indirect taxation available. (Paragraph—472).
45. There should be in each State a model schedule for octroi approved by the State Government and departures from this schedule should not be permitted except with the previous approval of Government. In framing the model schedule the rates on necessities of life should be kept as low as possible. (Paragraph—473)
46. Octroi should be levied generally on an ad valorem basis. There should be no objection to a maundage or other basis in the case of articles where the ad valorem basis is not suitable. (Paragraph—478)
47. All public utility and commercial undertakings of Government should be treated, so far as local taxation is concerned, in the same manner as if they were conducted by private enterprise. If they are to be exempted from local taxation the Government concerned should make a contribution in lieu of such taxation. The provision in Article 285 of the Constitution is unfair to local bodies. We recommend that necessary legislation may be undertaken to provide for local taxation of State property used in connection with State trading or running of public utility concerns. (Paragraph—479)



## CHAPTER VIII—X

48. To prevent the evasion of octroi duties on postal parcels the post-office should render every assistance to municipalities.

### CHAPTER IX PROFESSION TAX

49. Government should advise local bodies to revise their schedules of profession tax so as to correspond to the limit permitted by the Constitution.  
(Paragraph—498)

50. We consider that the present limit of Rs. 250 in the Constitution is very low and should be raised to Rs. 1000.  
(Paragraph—512).

51. Where the municipal or local board Acts do not contain any provision for the levy of profession tax, such provision should be made. We are, however, not in favour of the tax being made compulsory in the case of all local bodies. It may be possible in the case of many local bodies to raise sufficient funds by the levy of octroi and house tax. In such cases it may not be necessary to compel the local bodies to levy a profession tax. We recommend the compulsory levy of profession tax under the orders of the State Government only in cases where only one of the other tax, namely, house tax or octroi or terminal tax, is being levied.  
(Paragraph—513)

52. The basis of actual income would be the ideal one, but in view of the very great practical difficulties in the way of its adoption, we recommend that local bodies should have the choice to adopt all or any of several basis according to their convenience.  
(Paragraph—514).

53. The assessment and collection of profession tax should be done by the municipalities themselves, but they should not have the power to call for accounts.

54. So far as rural areas other than those covered by village panchayats are concerned, we think that in view of the large areas to be covered, the agency for assessment and collection should be the Revenue Department.  
(Paragraph—515).

55. In areas where village panchayats are constituted, we think that profession tax should be levied by the panchayats and should be assessed and collected by them.

### CHAPTER X LICENCE FEES

56. We are of the opinion that markets and slaughter houses should generally be self-supporting. While endeavour should be to make the markets and slaughter-houses a remunerative enterprise bringing an appreciable net income to the local bodies, in no case should the investment of capital and the recurring expenditure on markets and slaughter-houses be a burden on the local revenues. The State Government should issue instructions to the local bodies to this effect and from time to time see that this is done whenever the account or budget of a local body comes up for review.  
(Paragraph—519)

57. The Government of Madras are considering the giving of monopoly of opening markets to municipalities and prohibiting by legislation the opening of private markets. We recommend that other State Governments should consider whether such a step would be feasible.  
(Paragraph—520)

58. The scale of the various licence fees levied by municipalities should come in for a regular periodical review, at least once in three or five years.  
(Paragraph—521).

## SUMMARY OF RECOMMENDATIONS

59. We recommend that the rates of licence fees should be adequate to cover the cost of regulation and supervision of the trade or activity licensed. An attempt should be made to keep proforma accounts in relation to receipts and expenditure of the licensing branch and to ensure that these balance each other. When, however, there is a separate Licence Department the expenditure on that department should not be a net charge on the general funds of the local body. (Paragraph—522).

60. A proper scrutiny of various licence fees levied indifferent State would show that some of the trades, professions, callings or occupations which are subject to licence fees can be more suitably made the objects of profession tax. We recommend such a scrutiny and change in the method of this imposition, whatever suitable. (Paragraph—523)

### CHAPTER XI TAXATION OF RAILWAYS

61. We are of the opinion that until the system of local taxation of railways is rationalised and railway undertakings considered as a whole it will not be possible to secure any worthwhile improvement in the existing position. The present lack of uniformity and piecemeal valuation should go. An Act of Parliament should prescribe the principles of valuation, taxation and apportionment. If Railway Assessment Authority is set up it should be so constituted as to secure adequate representation of local bodies. The right of appeal against the awards of Arbitrators appointed by the Government of India under the Railways Act should be conferred on local bodies and a special tribunal constituted under Parliamentary authority for hearing such appeals. The liability of railways for both general and service taxes should be recognised as in the notification of 1907. (Paragraph—546)

62. The stress now laid on payment for services rendered as a criterion for local taxation of railway properties is, in our opinion, not justified. (Paragraph—547)

### CHAPTER XII TAXATION OF GOVERNMENT PROPERTY

63. We recommend that State Government properties are not liable to local taxation under the Acts constituting local bodies, the Acts should be amended to provide for such taxation. If the liability is accepted, there should be no objection to an independent machinery for valuation of Government property. (Paragraph—560).

64. While Union Government properties may continue to enjoy statutory immunity from local taxation, the Union Government should adopt the practice of Governments in other countries and make a contribution to local bodies in lieu of such taxes. That contribution should not be limited by any artificial date line. In regard to the valuation of these properties, we recommend that the procedure prevailing in England may be adopted, *i.e.*, the valuation may be done by a special machinery constituted by the Central Government. (Paragraph—561).

65. In regard to official residences, the privileged treatment at present accorded, namely, the annual value being based on the concessional rent paid by Government servants, should be withdrawn and the normal assessment levied. (Paragraph—568).

66. There is no reason to treat the property of the Central Government differently from other property in respect of levy of betterment charges. Should, however, there be any legal or other objection to the payment of betterment charges in the form of taxes or fees, an equivalent contribution should be made by Government in lieu thereof. (Paragraph—565).

CHAPTER XIII  
TAXATION OF PORT TRUST PROPERTIES

67. As the Madras City Corporation and the Port Trust are in favour of the continuance of the existing system of assessment, namely, a percentage of gross earnings, and also in view of its decided advantages we recommend that the existing arrangement be continued. (Paragraph—567).

68. As the Corporation of Calcutta and the Calcutta Port Commissioners have expressed satisfaction with the recent agreement that they have entered into we suggest that steps may be taken to give legislative effect to its terms. (Paragraph—569).

69. If in the case of assessment of any port trust properties the profit basis is adopted it is necessary that the form of keeping accounts should be determined by an independent authority. (Paragraph—574).

70. We suggest the constitution of a tribunal to deal with disputes relating to the determination of rateable value of port trust properties. Such a tribunal may consist of a qualified Accountant and an experienced Engineer and be presided over by a High Court Judge. (Paragraph—575).

CHAPTER XIV  
TAXATION OF FLOATING POPULATION

71. We recommend that the levy of a tax on railway passengers in important centres of trade and industry may be permitted as is done in Calcutta. (Paragraph—582).

72. We suggested that State Governments should authorities municipalities to levy a tax on such visitors to important centres of trade and industry as reside in hotels. Such a tax might be levied in the form of a surcharge on the hotel bill, subject to a minimum exemption limit of Rs. 5/- per visitor. (Paragraph—583).

CHAPTER XV  
TAXATION OF MINES

73. Local taxation of mines on the basis of output appears to us to be appropriate. That basis may be adopted by States which are not doing so at present. (Paragraph—592).

74. Exemption from the payment of general cess to district boards at present enjoyed by railway collieries should cease. (Paragraph—593).

75. We have suggested that the land cess on agricultural lands in West Bengal should be doubled. If this suggestion is accepted the general cess payable by mines in West Bengal should also be doubled. (Paragraph 593).

76. The Local taxation of quarries should be on the same basis as for mines (Paragraph—594).

CHAPTER XVI  
COLLECTION OF TAXES

77. Each State Government should prescribe for their local bodies a standard percentage of collection to demand and see that it is attained. (Paragraph—597).

78. The Examiner of Local Fund Accounts should be instructed to give figures in his audit reports of the percentages of collection of taxes to demand for every local body. The figures should be compiled on a uniform basis in all the States, to facilitate comparison. (Paragraph—598).

79. We are not in favour of any rebates being granted for punctual payment. But we suggest that penal interest at 6½ per cent. per annum should be charged on arrears of taxes. (Paragraph—599).

## SUMMARY OF RECOMMENDATIONS

80. Where the Acts do not provide for coercive powers for local bodies necessary amendments should be made to incorporate such powers. It should be impressed upon local bodies that freer use should be made of these powers for collection of taxes. (Paragraph—600)

81. We are not in favour of issue of distress warrants for recovery of contractual dues, but only for recovery of taxes and fees. In regard to rents of lands vested in or managed by municipalities, we recommend the adoption of the procedure prescribed in section 291 of the U.P. Municipalities Act, 1916 *i. e.* the municipality may apply to the Collector for the recovery of such rents as arrears of land revenue.

82. Local bodies should have the power to proceed not only against moveable but also against immovable property for the recovery of their taxes and fees. (Paragraph—601).

83. The head of the financial administration in bigger municipalities should be a qualified and specially selected person. He should also be in charge of accounts and should examine the position with regard to collection of taxes and submit monthly reports to the chief executive authority, and bring to his notice any failures in collection and suggest suitable remedies. No liabilities of a financial nature should be incurred before he has examined and reported thereon. (Paragraphs—602-603)

84. With regard to recruitment of the higher financial personnel, we are of the opinion that there should be a provincial cadre for such services. Such a cadre should be controlled by a board with statutory powers on which there should be representatives of local bodies. (Paragraph—604)

85. We recommend that (i) no person should be eligible to stand for election to any office in a local body, if on the date of filling nominations he is in arrears of local taxes; and (ii) if within three months of the notice of demand of any dues to the local body, a member of such body fails to pay up the arrears, a warning notice that, if he does not pay the arrears before the date of expiry of the original notice of demand, he becomes disqualified under the relevant section of the Act, should be given. (Paragraph—606)

## CHAPTER XVII

### GRANT-IN-AID AND ASSIGNMENT OF REVENUES

86. It is felt that if the functions imposed on local bodies under the Constitution (Articles 45,47 etc.) are to continue to be the responsibility of local bodies as a means of encouraging local initiative, enterprise and co-operation, the State should come to the assistance of local bodies by way of adequate grants-in-aid where they are unable, out of their own resources, to achieve the minimum national standard of efficiency. (Paragraph—609).

87. The State Governments while investing local bodies with wider responsibilities must place at their disposal adequate funds to discharge those responsibilities. (Paragraph—628).

88. Grants-in-aid should be so given that, while achieving clearly defined objects of policy and administration, they do not encourage unwillingness on the part of local bodies to develop their own resources. (Paragraph—629)

89. We prefer assignment of sources of revenue, wherever possible, to grants-in-aid. Where it is not possible to meet the full requirements of a local body from assigned revenues, grants should be given as a last resort. We suggest that the system of grants-in-aid should be utilised to remedy inequalities which are inherent in a system of assigned revenues. Otherwise generally we

## CHAPTER XVII—XVIII

would prefer that independent sources of revenue should be placed at the disposal of local bodies. (Paragraph—632)

90. We recommend that 15% of the net proceeds of land revenue accruing within the area of a district board (which is not already assigned to a village panchayat) should be assigned to district boards. (Paragraph—634).

91. We are not in favour of the imposition of a separate vehicle tax on motor cars by local bodies in addition to the State tax. We recommend the sharing of the net proceeds of the motor vehicles tax with the local bodies. (Paragraph—637)

92. The sales tax should remain wholly a State source of revenue and not shared with the local bodies. (Paragraph—637).

93. It is desirable that all grants, whether statutory or non-statutory, should be given on some definite and understandable principles, and each State Government should formulate such principles for its guidance. (Paragraph—639)

94. We suggest that each State Government may, at the time of preparing the budget, include in the finance department's explanatory memorandum, details of financial assistance rendered to local bodies. Such a statement should also include items which do not appear in the budget, *e.g.* transfer of land, or any other form the financial assistance for which no vote of the legislature is required. (Paragraph—639)

## CHAPTER XVIII EDUCATION

95. In respect of secondary, technical and collegiate education, we consider that there should be no financial responsibility on local bodies and that they should be entirely relieved of this liability. (Paragraph—640)

96. In regard to Madras we recommend that after the levy of education tax at a proper level, of which the state Government must be the judge, contribution from general funds of local bodies for educational purposes shall not exceed the proportion that such contribution now bears to the income (excluding Government grants) of such local bodies and the whole of the remaining expenditure should be borne by the state Government. (Paragraph—644)

97. In regard to Bombay we suggest that the state Government should consider whether an education cess may be levied as in Madras. (Paragraph—646)

98. We suggest that in every municipality in West Bengal an education rate as prescribed in the Bengal Primary Education Act, 1919 should be levied. Any increase in expenditure considered necessary to introduce compulsory primary education should not exceed the proportion which the present expenditure of municipalities on this object bears to their total income. (Paragraph—648)

99. As regards U. P. we suggest that Government should consider the desirability of levying an education cess at a suitable rate. (Paragraph—649)

100. As regards Puniab, we suggest that an education cess should be levied in urban and rural areas at rates approved by Government. The balance of the expenditure should be met from state funds in accordance with the same formula as we have suggested for other states. (Paragraph—651)

101. If the education cess now levied in Bihar is not adequate for any area we suggest that it should be raised to an adequate level. The balance of the expenditure not covered by the education cess should be met from provincial funds in the same manner as recommended by us in the case of other States. (Paragraph—653)

## SUMMARY OF RECOMMENDATIONS

102. The financial assistance which local bodies receive from Government in Orissa is not inadequate and we have therefore no recommendation to make in this regard. (Paragraph—655)

103. We understand that in Madhya Pradesh the State Government has decided to take over compulsory primary education. We have, therefore, no recommendation to make in this regard. (Paragraph—651)

104. Under the Assam Primary Education Act, 1947 (which came into force with effect from the 1st November, 1948) local bodies have been relieved of the responsibility for primary education ; therefore, the question of apportionment of local expenditure under this head does not arise. (Paragraph—658)

### CHAPTER XIX MEDICAL AND PUBLIC HEALTH

105. The distribution of expenditure in regard to public health should be as follows :—

#### Local bodies.

- (a) The construction, maintenance and cleansing of drains and drainage works and of public latrines, urinals and similar conveniences ;
- (b) scavenging and the removal and disposal of excrementitious and other filthy matter and of all ashes, refuse and rubbish ;
- (c) the reclamation of unhealthy localities, the removal of noxious vegetation and generally the abatement of all nuisances ;
- (d) the regulation of places for disposal of the dead and the provision of new places for the said purpose ; and
- (e) the registration of births and deaths.

#### State Governments.

- (f) public vaccination ;
- (g) prevention and suppression of infectious and dangerous diseases ;
- (h) establishing and maintaining public hospitals and dispensaries and carrying out other measures necessary for public medical relief.

We recommend that the division of functions may remain as it is at present. (Paragraph—675)

### CHAPTER XX COMMUNICATIONS

105 (A) Grants for the maintenance of roads should be based on the road mileage which has to be maintained. State Governments should prescribe certain standards of maintenance for metalled and un-metalled roads and make grants on such basis, especially in rural areas, where the need for financial assistance in this matter is very great. We realise that, as a result of such prescription of standards, the financial burden on State Governments will become heavy and they may not be able to give adequate grants-in-aid within the next few years, but it is better to prescribe standards and reach them by slow stages than to allow the present unregulated state of affairs to continue. (Paragraph—693)

106. We recommend that a tax on bullock carts should be levied in rural areas. It would be very difficult in practice to discriminate between carts used for hire and carts not so used. We, therefore, are not in favour of the exemption of the latter.

The question of the rate at which the tax might be levied we would leave to the discretion of each State Government. Where a tax on bullock carts is already being levied in any village panchayat and is at the same level as the tax now proposed for levy by the district board, there should be no further levy on the individual paying the panchayat tax. But should the level of taxation of the panchayat be lower than that of the district board, the latter may levy the tax at the difference between the two rates. The net proceeds of such taxation should be exclusively earmarked for purposes of road development in rural areas.

(Paragraph—695)

107. We are in favour of road transport paying a tax which should be levied as a State tax in the first instance. The tax should be in the nature of a surcharge on the fare and range between 3 pies to 12 pies according to distance. Not less than two-thirds of the net proceeds of the tax should go to local bodies and the balance may be retained by the State Government. The basis of allocation of the portion which is intended for local bodies should be either population or road mileage within the jurisdiction of each local body. (Paragraph—696).

108. We suggest that the power to impose taxation on rickshaws should be conferred on local bodies where it does not already exist. (Paragraph—697).

109. The basis of the compensation for loss of income due to the abolition of tolls on motor vehicles should be re-opened and fresh amounts fixed in the light of altered facts. (Paragraph—690).

110. The damage done to the roads of local bodies by extraordinarily heavy traffic can be made good either by the State sharing the proceeds of the motor vehicles tax with them or by the levy of a surcharge on trucks above one ton in weight for the benefit of local bodies concerned. (Paragraph—700).

111. As regards the damage done by motor trucks during the War, there is a good case for compensation, but the matter is one which should be pursued by the State Governments concerned with the Defence Department. (Paragraph—701).

112. There is a similar case for compensation to certain local bodies in the Punjab, particularly the Amritser Municipality, for damage done to roads in consequence of the partition of the province. (Paragraph—702)

## CHAPTER XXI

### FINANCES OF IMPROVEMENT TRUSTS AND DEVELOPMENT BOARDS

113. The existing resources of the Improvement Trusts are not adequate. State Government should make these bodies financially self-sufficient so that they may be able to discharge their obligations. We recommend that Improvement Trusts and Development Boards should have the following sources of revenue:—

- (1) annual contribution of 2% of the annual rateable value from municipal funds;
- (2) share of the proceeds of the entertainments tax;
- (3) share of the proceeds of the terminal tax on persons coming by rail road or inland waterways;
- (4) betterment tax; and
- (5) Government grants.

In regard to item (2) above, the Madras Corporation at present gets practically the whole of the entertainments tax. Similarly, in regard to item (3), the Calcutta Improvement Trust gets the entire income of the terminal tax on passengers coming by rail. We do not suggest that either of these arrangements should be disturbed by the recommendations made above. (Paragraph—710),

## SUMMARY OF RECOMMENDATIONS

114. Calcutta, Nagpur and some other Trusts are permitted to levy a sury charge on stamp duty on transfer of immoveable property. Where this is actually being done, we do not recommend any change. But we are not in favour of its extension to other Trusts. (Paragraph—711).

115. Improvement Trusts and Development Boards should ordinarily borrow from Government, and the rate of interest charged by Government should in no case be more than 1/4 per cent. above the rate at which Government have borrowed themselves. (Paragraph—712).

116. As regards slums, we recommend the adoption of the provisions of the English Housing Act which require slums to be cleared at the cost of the owners. We suggest that the law should be so amended that compensation for acquisition of properties for purposes of slum clearance should be limited to the market value of land without any payment being made for the structure and without the addition of 15 per cent solatium on account of compulsory acquisition. (Paragraph—713).

### CHAPTER XXII

#### FINANCES OF VILLAGES PANCHAYATS

Every panchayat should levy the following two taxes compulsorily;

- (i) house tax or chulla tax or circumstances and property tax; and
- (ii) general sanitary cess.

Other taxes may be levied by panchayats according to their needs and local conditions.

As regards labour tax, there should be no compulsion.

If a person renders such labour willingly, he should be allowed to do so. Alternatively he may be permitted to make a payment in kind in lieu thereof. Should he be unable to work or make any payment in kind on account of poverty, he should not be subjected to any penalty. (Paragraph—729)

117. We recommend an unconditional allotment to the village panchayats of 15% of the land revenue raised in the panchayat areas. (Paragraph—730)

There should be a surcharge on the transfer of immovable property within the panchayat jurisdiction for the benefit of village panchayats. (Paragraph—730)

118. We recommend that in regard to elementary education village panchayats should be dealt with on the same lines as other local bodies. (Paragraph—731)

119. Village panchayats should also be assisted in the following ways :—

- (1) Salaries and allowances of panchayat officers should be borne by the State Government at least to the extent of three-fourths ;
- (2) Wherever panchayats are compulsorily required to maintain chowkidars and daffadars for watch and ward duties, the State Government should bear the cost on account of their salaries and allowances ;
- (3) Panchayats should be allowed the use of State lands within their jurisdiction. When alienation of these lands takes place, it should be subject to the sanction of the State Government.
- (4) Village panchayats, wherever possible, should be encouraged to collect land revenue and land cess on behalf of the State Government on a commission basis.

120. Panchayats should also be encouraged to undertake as many remunerative enterprises as possible, namely, markets, slaughter houses, cart and bus stands and ferries. They may also be encouraged to take up cooperative farming, dairies and like activities under the guidance of the State Government. (Paragraph—732)



CHAPTER XXIII  
FINANCES OF CITY CORPORATION

121. **Madras Corporation.** We recommend that question of raising the rate of property tax in respect of properties with annual valuation of Rs. 500 and below from 16½% to 17½% should be revived. (Paragraph—739)

122. We recommend that the rate of tax on timber be raised to Rs. 20/-. (Paragraph—739)

123. **Bombay Corporation.** In the event for the Bombay Government withdrawing the urban immovable property tax the Bombay Corporation should consider its replacement by an equivalent addition to the municipal tax.

124. The administrative machinery should be tightened and necessary steps taken to improve collection of taxes. (Paragraph—747)

125. As regards the distribution of expenditure on primary education we recommend the same formula for the Corporation as we have suggested for other local bodies. (Paragraph—748)

126. The machinery of valuation and collection should be tightened. This alone will lead to an increase of revenue under the consolidated rate by about 50 per cent.

CHAPTER XXIV  
PUBLIC UTILITY UNDERTAKINGS

127. Motor transport can be successfully undertaken only by bigger city municipalities within their local area but we are not in favour of its being undertaken by smaller municipalities and rural local bodies. (Paragraph—764)

128. In rural areas and smaller municipalities, passenger transport should be managed by the State and the net proceeds shared with local bodies over whose roads the services are run. (Paragraph—766)

129. Where State Electricity Boards are set up, the financial interests of local bodies should not be disregarded. Local bodies engaged in the business of generation and distribution of electricity should continue to do so and have a free hand in the matter of utilisation of the net profits of the undertaking. In regard to new schemes, however, local bodies competent to run electricity undertakings should be given first preference, particularly in regard to retail distribution subject of course to such restrictions as the Provincial Board may wish to impose. (Paragraph—776)

CHAPTER XXV  
BORROWINGS

130. We suggest that the procedure in regard to loan applicants be simplified so that final orders on a loan application can be issued within four months of its receipt by Government. (Paragraph—785)

131. The State Governments are in a position to borrow more cheaply on behalf of local bodies. It is desirable to have a co-ordinated loan policy in which the interests of the Union Government, the State Governments and the local bodies should be considered together.

132. We support the request made by the Calcutta and Bombay Corporations for the amendment of their respective Acts to allow them to receive ways and means advances repayable within the year from their respective banks with which they keep their accounts on much the same lines and subject to the same conditions on which the State Governments receive such advance from the Reserve Bank.

## SUMMARY OF RECOMMENDATIONS

133. With regard to other local bodies we recommend that they should also be in a position to receive such advances from the bank in which Government has permitted them to keep their account, if they keep their funds in the Government Treasury, from the Government itself, on the same lines and subject to the same conditions as for City Corporations. (Paragraph—787)

134. The rate of interest to be charged to local bodies on loans taken from Government should not be more than one-fourth over the rate of interest paid by the State Government on its own loan, for the year in question. The period of repayment in the case of productive schemes may well be extended from thirty to forty years. (Paragraph—788)

135. If a local body is able or willing to repay a Government loan earlier than the due date it should be encouraged to do so. (Paragraph—789)

136. We do not favour the State Government guaranteeing the principal and interest of loans raised by local bodies, but the question whether section 20 of the Indian Trusts Act may be amended so as to include local bodies in the bigger cities may be considered. (Paragraph—792)

137. Establishment of municipal banks by individual municipalities except perhaps by big city corporations, does not appear to us practicable. A municipal bank for each State would have a better chance of success than banks run by individual municipalities. The State Government should, however, continue to exercise its powers under the Local Authorities Loans Act in regard to the sanctioning of loans advanced by the bank to local bodies. (Paragraph—794)

### CHAPTER XXVI AUDIT

138. In addition to a qualified Accountant, there must in the major municipalities be an internal audit staff, paid for by the local body, which should be responsible for the initial audit of all transactions of receipts and payments. (Paragraph—800)

139. With the setting up of an internal audit staff local bodies should be relieved of the liability to contribute to the cost of the audit staff of the Examiner of Local Fund Accounts, where such liability exists. (Paragraph—802)

140. It is essential that the Examiner of Local Fund Accounts should regard himself not only as an auditor but also as a financial adviser of the local bodies whose accounts he audits. He should be responsible for the checking of all assessment lists and collections against assessment and should bring to notice cases where the collections fall below a prescribed minimum. (Paragraph—803)

141. The provision for surcharge is a healthy one and should exist in relation to all local bodies. (Paragraph—809)

142. The surcharge should be both against any person through whose negligence or wrongful action such liability has occurred, whether he is an employee of the local body or a member voting for it. (Paragraph—811).

### CHAPTER XXVII BUDGET

143. The power to sanction budgets should vest entirely in local bodies. They should be required to maintain a prescribed closing balance which should not be drawn upon, except temporarily and in an emergency without the sanction of the State Government or of such officers as may be nominated by Government in this behalf.

144. Local bodies should also have full power of reappropriation and making supplementary allotments during the currency of a financial year, as long as the prescribed minimum balance is not trenched upon. (Paragraph—837).

145. The practice prevailing in certain States to require local bodies to allot a percentage of their revenues to particular objects should be discontinued. Where, however, Government gives a grant for a specific purpose that grant may not be diverted to some other purpose. (Paragraph—841).

146. Where Government considers it essential to control a service, it should pay for it and not ask for any contribution from the local body. (Paragraph—842).

147. The present restrictions on the powers of sanction to works expenditure are very minute and should be relaxed. (Paragraph—844).

148. The control in respect of non-gazetted and inferior establishments of local bodies by some State Governments is very minute and needs to be relaxed. Government should prescribe rules in regard to various categories of local bodies in respect of matters such as pay, allowances, leave, travelling allowances, pensions, provident funds, etc. If a local body considers that its circumstances warrant any modification of such rules the variation desired should be with the sanction of the State Government. In other respects, however, local bodies should have a free hand in regard to their establishments. (Paragraph—845).

149. The restrictions placed on the investment of spare funds by local bodies require revision. A list of banks with which funds may be invested may be drawn up with the approval of the Reserve Bank of India. Subject to the maintenance of the prescribed minimum balance investment of all spare funds with approved institutions should require no outside sanction. (Paragraph—846).

---

## APPENDICES

---

CONTENTS

Appendices	Page
<b>APPENDICES (GENERAL)</b>	
I. Questionnaire	I-IV
I-A. Supplementary questionnaire	V-VI
II. Letter No. 6-36/49—LFEC dated 21-12-1949 from the Chairman, Local Finance Enquiry Committee	VII
II-A. Government of India, Ministry of Health, letter No. 5007-LSG/49 dated the 7th January 1950	VIII
III. Tour programme of the Committee	IX-X
IV. List of witnesses examined	XI-XXIII
V. Railway Board's note to the L. S. G. Minister's Conference regarding the local taxation of Railway properties	XXIV-XXVII
VI. Memorandum by Mr. Endicott on the local taxation of Railway properties	XXVIII-XXXI
VII. Survey of taxation of Railways in the Western Countries prepared by International Union of Local Authorities, The Hague	XXXII-XXXIV XXXV-XXXVI
VIII. Section 20 of the Indian Trusts Act	XXXV-XXXVI
<b>STATISTICAL APPENDICES</b>	
I. Statement showing the number, type and aggregate population in each class of local bodies in each State	XXXIX
II. Statement showing particulars regarding the population and income of City Municipal Corporations	XL-XLIV
III. Statement showing particulars regarding the number, population and total income from taxation of municipalities (excluding City Municipal Corporations) in the various States (1946-47)	XLV
IV. Statement showing particulars regarding the number, population and total income from taxation of District Boards in the various States (1946-47).	XLVI
V. Statement showing the aggregate population, total income, income from taxation and per capita incidence each of the City Municipal Corporations, Municipalities and District Boards.	XLVII
VI. Comparative statement showing the periodical growth of the Central Provincial and Local revenues from 1921 to 1946.	XLVIII
VII. Statements (nine) showing the income of local bodies in each State during the year 1946-47.	XLIX-LX
VIII. Statements (eleven) showing the distribution of expenditure of local bodies in each State during the year 1946-47.	LXI-LXVIII
IX. Statements (nine) showing the per capita income of local bodies in each State during the year 1946-47.	LXIX-LXXIV
X. Statements (nine) showing the per capita effect of local services in each State during the year 1946-47.	LXXIV-LXXVIII
XI. Statement showing the per capita incidence of property tax and octroi in municipal areas in each State.	LXXVIII
XII. Statement showing the number, income and expenditure of village authorities in 1926 and 1946.	LXXIX-LXXX
XIII. Statement showing the percentage of income from principal taxes to the total income from taxes of municipalities since 1884-85.	LXXXI-LXXXIII
XIV. Statement showing the percentage of income from principal taxes to the total income from taxes of District Boards since 1884-85.	LXXXIV-LX
XV. Statement showing the percentage of income from principal taxes to the total income from taxes of City Municipal Corporations since 1884-85	LXCI

## CONTENTS

---

	Page
XVI. Statements (three) showing the growth of municipal income from 1889-90.	XCII-XCIX
XVII. Statements (three) showing the growth of District Board income from 1889-90.	C-CVI
XVIII. Statements (two) showing the growth of City Municipal Corporations income from 1889-90.	CVII-CVIII
XIX. Statement showing the growth of Government grants-in-aid to District Boards since the year 1889-90	CIX-CXI
XX. Statement showing the growth of Government gants-in-aid to Municipalities since the year 1889-90.	CXII-CXIV
XXI. Statement showing the growth of Government grants-in-aid to City Municipal Corporations since the year 1889-90	CXV

APPENDIX I  
QUESTIONNAIRE  
REVENUE

1. What are the main sources of income of your local body and what percentage of total income does each source represent? Mention heads of taxes or fees and the rates at which they are levied.

2. As the present sources of income of local bodies are admittedly inadequate, make suggestions for additional resources, dividing them into (1) tax and (2) non-tax resources.

3. Are there any classes of population, either in urban or rural area, which escape payment of local taxes? If so, mention such classes and also state how, in your opinion, they can be made to contribute.

4. Do you feel that any of the taxes now designated as "Provincial" should be assigned to local bodies? If so, which?

5. Do you feel that a local body should receive a share of any one or more of the following or any other sources of revenue :—

1. Stamp duty on transfer of property ;
2. Entertainment tax ;
3. Motor vehicle tax ;
4. Cattle trespass income ;
5. Excise revenue (so long as it exists) ;
6. Land revenue ;
7. Forest revenue ;
8. Tax on electricity ;
9. Petrol tax ;
10. Sales tax ;
11. Unearned income tax or betterment tax ;
12. Betting tax ;
13. Succession duty ;
14. Provincial share of income tax ;
15. Non-agricultural assessment ;
16. Agricultural income tax ;

6. Is a profession tax levied by your local body? Are there any restrictions on the imposition of such a tax? Considering the great activity in the exercise of various professions in urban as well as rural areas, is it not desirable that very much higher rates than those now in vogue should be introduced? Make suggestions.

7. Is any pilgrim tax levied in your province? How is it collected?

Does pilgrim traffic by road in motor buses escape this tax? If so, make suggestions for collecting pilgrim tax from buses. Are you in favour of increasing the present rates of pilgrim tax?

8. Are you in favour of compulsory levy of house tax both in rural as well as in urban areas? If not, what other sources of revenue do you suggest for such a body where it is not levied? Give reasons for your answers.

## APPENDIX I

9. Should assessment of all taxes imposed by local bodies be done by local bodies themselves or by an independent agency? If latter, please state the constitution, powers, etc., of such an agency.

10. (a) Do you think that the rate of local fund cess should be uniform for all districts? If so, what should the rate be in your province. Give reasons.

(b) Should the local fund cess be assessed on a progressive or grades scale? Give reasons in support of your view.

11. When zamindaris are abolished, what is your suggestion regarding replacement of the cess or any other income which is now paid by zamindars?

12. Are you in favour of the imposition of a terminal tax or octroi by the local bodies? If so, what are your suggestions?

13. What is your opinion on the advisability of allowing taxes for local improvements to be paid in kind or in the form of manual labour in lieu of cash in villages?

14. What is your opinion on the advisability of levying a betterment tax for purposes of improvements or a surcharge upon the owners of immovable property, the value of which is automatically increased by the improvements? In case you are in favour of levying such a tax or surcharge, what, in your opinion, should be the basis for such levy; whether it should be with reference to the cost of improvements or with reference to the rental value of the immovable property or with reference to the actual increase in the value of the property?

15. Do you think that collections of taxes by local bodies are made in full? If not, what improvements do you suggest?

16. (i) Do you suggest any special levy of road tax on industrial concerns making extraordinary use of roads in the jurisdiction of local bodies;

*Or*

(ii) Do you suggest any amendment to the Motor Vehicles Act as regards special amounts payable to local bodies?

17. Do you suggest that recovery of rents by municipalities of properties owned by them should be made in the same manner as the recovery of taxes?

18. Do you think it is possible or workable to simplify the existing system of local taxation and to reduce the multiplicity of taxes? If so, in what manner?

19. What factors are, in your opinion, to be taken into consideration for determining whether the incidence of taxation is high or low in a particular local body?

### GRANTS-IN-AID

20. What financial assistance do local bodies in your province receive from the Provincial Government in the form of:—

- (a) statutory grants for specific objects;
- (b) non-statutory grants for specific objects;
- (c) general grants;
- (d) assignment of revenues, or
- (e) any other form.

21. Are you satisfied with the present system of grants-in-aid? If not, suggest on what basis they should be determined and in what proportion with special reference to (1) education, (2) public works, (3) health, (4) medical relief and (5) in aid of general funds.

22. How far should grants-in-aid be replaced by assigned revenue?



**EXPENDITURE**

23. Has the growth of revenue of local bodies kept pace with the expenditure? If not, how have the budgets of local bodies been balanced? Give figures.

24. (a) Do you think it desirable that certain functions and the expenditure associated with them should be handed over to local bodies along with definite sources of revenues? If so, name them and state reasons.

(b) Are there any functions of local bodies, which, in your opinion, should be transferred to the provincial governments?

25. In what proportion is the expenditure on primary education shared between the provincial government and the local bodies in your province?

26. Do you think it (1) economical and (2) administratively convenient for two or more small local bodies to perform certain common functions by an administration jointly run by them? If so, which are those functions and how should such joint administration be controlled?

27. (a) Under what heads is retrenchment in expenditure possible? Mention details?

(b) How far, in your opinion, readjustment of local areas will conduce to efficiency and economy? Can this be done by abolition of district boards and grouping of villages into Panchayat Boards?

28. What is your opinion on the proposal to form an association of local bodies for the purchase of essential materials and commodities required by them?

29. Are you in favour of a provincial body of experts being attached to the Provincial Government in the Local Self-Government department and will this lead to economy in the finances of local bodies?

30. Are you in favour of the power of surcharge being given to the Provincial Accountant-General or Examiner of Local Fund Accounts? Should there be any appeal, and if so, to whom?

**LOCAL LOANS**

31. Are there adequate facilities provided by law or by Government to encourage local bodies to take loans either from Government or to raise the directly from the open market? If not, what further facilities should be provided?

**MUNICIPAL BANK**

32. What is your opinion on the advisability of starting a joint bank of local bodies with the capital to be made up of Provident Funds and other accumulated funds of local bodies for the special purpose of enabling local bodies to take loans from their own bank on easy terms?

**COMMERCIAL UNDERTAKINGS**

33. (a) Are you in favour of local bodies undertaking business enterprises, such as, tramways, bus services, electricity supply, dairy farms, vegetable gardens, fish farms, poultry farms, printing presses, theatres, workshops, etc. (1) as remunerative activities calculated to improve sources of revenue and/or (2) for providing cheaper and better service to the community?

(b) Mention any utility concerns, which can be profitably run in the local area of which you have special knowledge.

---

## TAXATION OF RAILWAY PROPERTIES

34. What is the position relating to the levy of taxes on railway properties by your local body ?

35. What difficulties, if any, have been experienced in getting a notification of liability to pay particular taxes issued in respect of railway properties ?

36. What is the system followed in assessing railway properties by your local body and what difficulties, if any, are experienced in this respect ?

37. To what extent do the railway authorities claim special treatment in the assessment of their properties and what loss, if any, is caused by such treatment ?

38. What is the approximate loss of revenue, if any, suffered by your local body by the refusal of permission by the Central Government to levy any particular tax on railway properties ?

39. To what extent do the railways provide the usual municipal amenities in railway colonies in your area including primary schools, lighting, road maintenance, water supply, sanitation, medical relief and anti-epidemic measures ?

## TAXATION OF CENTRAL GOVERNMENT PROPERTIES

40. Has any difficulty been experienced by your local body in levying municipal taxes on properties of the Central Government, which have come into existence since 1st April 1937 ?

41. What loss, if any, does your local body suffer on account of the inability to levy municipal taxes on such properties ?

42. Give particulars of any Central Government properties in your area, which are used for purposes of profit and which cannot be taxed because they came into existence after 1st April 1937 and state the approximate revenue, which is lost every year on this account.

---

The term "local body" includes all units of local self-government, such as, City Corporations, Municipalities, Rural Boards, Village Panchayats, Town Committees, Notified Area Committees, etc.

The above list of question is by no means exhaustive and does not prevent the inclusion of additional points, which may be considered as falling within the terms of reference of the Committee.

It is earnestly requested that the replies to this questionnaire may kindly be forwarded to the Secretary, Local Finance Enquiry Committee, Kennedy Cottage, Simla, within two months from the date of its receipt.

## APPENDIX I-A

### SUPPLEMENTARY QUESTIONNAIRE ON THE PROBLEMS OF IMPROVEMENT TRUSTS AND DEVELOPMENT BOARDS

1. What are the existing sources of revenue of Improvement Trusts/Development Boards? Are these adequate for carrying out the functions assigned to them?
2. Considering that Improvement Trusts/Development Boards have been specifically created by Government for the purpose of clearing up congested areas and promoting orderly development of the City, is it the duty of the Municipality or Notified Area Committee or other local body concerned to contribute towards the finances of the Trust operating within its area?
3. If the reply is in the affirmative, do you consider it advisable to vest the Improvement Trusts/Development Boards with statutory power to levy taxes within a local area; or, do you think that the operation of two independent bodies in the same field of taxation may lead to friction and possible harassment of the taxpayer?
4. In the latter case, are you in favour of the local body concerned levying the tax and allotting to the Improvement Trust/Development Board a fair proportion of the proceeds thereof?
5. If so, state the particular taxes within the sphere of a Municipality, Notified Area Committee or other local body out of which a share should be allotted to the Improvement Trust/Development Board.
6. Is it the duty of the Central or Provincial Governments, in your opinion, to help the activities of Improvement Trusts/Development Boards, by providing fund for carrying out schemes of city development—specially schemes relating to slum clearance and rehousing?
7. If so, mention the heads of Central or Provincial Government revenues which should be earmarked in full, or part, for allotment to Improvements Trusts/Development Boards?
8. Have you any suggestion to make for amending the law—practice about levy of betterment/abandonment charges with a view to increase the resources of the Trusts/Development Boards?
9. What is the extent of outstanding loans taken by the Improvement Trusts/Development Boards from (a) Government, and (b) open market, and, what is the rate of interest in each case? Would it be financially in the interest of Improvement Trusts/Development Boards if provision is made enabling them to borrow money in the open market.
10. In particular, should it be made the duty of an Improvement Trust/Development Board or the local body concerned to maintain out of its own fund conservancy services, for example, cleaning of streets and drains, removal of filth and rubbish, etc. in respect of streets and open areas included in a Trust/Board scheme? Who maintains these services at present and how is the cost thereof met?
11. If the Improvement Trust/Development Board is to be made responsible for carrying out the above duty, should the expenses on maintaining conservancy arrangements be met by the local body concerned?
12. In the interest of Trust/Board finances; what would be the best method for disposal of land by the Trust/Board, i.e. whether (a) as freehold or leasehold; and (b) by public auction, tender or private treaty?

## APPENDIX I-A

---

- Should the Trust's/Board's policy be to levy market rate on all disposals? Should any concession be made in the case of land required by Government or a local or private society or individual for specific public purposes. If so, what are these purposes?
13. Do you agree that the existing law relating to compensation for land and buildings at market value in the case of a slum area is acting as a serious drag on the Trust's/Development Board's finances? If so, are you in favour of the law on the subject being brought in line with the English law, under which the compensation payable in the case of slum clearance areas is restricted to the value of site without the buildings?
  14. What other suggestions can you make for increasing the resources of or reducing cost of schemes undertaken by, Trusts/Development Boards?

APPENDIX II

No. 6-36/49-LFEC.

Office of the

Local Finance Enquiry Committee

(Camp) Assembly House, Calcutta, 21st Dec. 1949.

From

Shri P. K. Wattal,  
Chairman, Local Finance Enquiry Committee.

To

The Joint Secretary to the Government of India,  
Ministry of Health,  
New Delhi.

Sir,

In connection with the enquiry which the Committee have been asked to make, we have, during the course of evidence, received various suggestions for altering the structure of local bodies. By way of illustration, I might point out that it has been suggested by some witnesses that the Calcutta Improvement Trust does not fulfil any useful function and might be wound up and amalgamated with the Calcutta Corporation. Similarly, there have been suggestions that the District Boards do not perform any useful functions and might be replaced by ad hoc Regional Boards more or less departmental or official in character. These questions do not come directly within the terms of reference of the Committee, but they afford a wide field for investigation, on which the opinion and practice of Provincial Governments is not necessarily uniform. What I feel is that even though in certain cases an improvement in local finance may result from an alteration of the structure of local self-government, the usefulness of the report which the Committee may submit will be greatly compromised if it goes into questions which are really extra-financial in scope and character. I would, therefore, suggest that the Committee should build its recommendations the basis of the existing structure of local self-government whatever it may be in any particular Province and that recommendations for increasing the source of income of local bodies should be based on the existing system and not on any alteration in that system, however desirable it may appear to be even on grounds of finance. If, however, it is declared that alteration of structure comes within the scope of the investigation entrusted to this Committee, I fear it will not be possible either to come to any unanimity on the conclusions or to submit the report by the end of May, 1950, as decided by the Government of India.

A ruling on this point may kindly be sent to met at an early date so that it may be communicated to the members of the Committee.

Yours faithfully,  
P.K. Wattal  
Chairman.

APPENDIX II-A

No. 5007-LSG/49.

Government of India,

Ministry of Health.

New Delhi, the 7th January, 1950.

From

S. Devanath, Esquire, B.A. (Hons.),  
Under Secretary to the Government of India.

To

The Chairman,  
Local Finance Enquiry Committee,  
Kennedy Cottage,  
Simla.

Terms of reference of the Local  
Finance Enquiry Committee.

Sir,

I am directed to refer to your letter No.6-36/49-LFEC dated the 21st December, 1949, on the subject mentioned above and to say that as you are already aware it was after great difficulty that the term of the Committee was extended up to the end of May, 1950 and that the Government of India will not entertain any proposal for its further extension. The Committee is required to complete its report by the end of May 1950 and it is therefore advisable that it should confine itself strictly to the existing terms of reference and frame its recommendations with reference to the existing structure of local bodies.

Yours faithfully,

S. Devanath  
Under Secretary.

## APPENDIX III

### Tour programme of the local Finance Enquiry Committee

#### Part I

9th Dec. 1949	Friday	Departure	Simla	1315 hrs. entrain Calcutta Mail at Kalka.
11th Dec.	Sunday	Arrival	Calcutta	1110 hrs.
		Departure	do	2025 hrs. Puri Exp.
12th Dec.	Monday	Arrival	Cuttack	0542 hrs.

#### Halt, from 12th to 14th December, 1949

14th Dec.	Wed'day	Departure	Cuttack	2102 hrs. Puri Exp.
15th Dec.	Thurs.	Arrival	Calcutta	0705 hrs.

#### Halt, from 15th to 23rd December, 1949

24th Dec.	Satur.	Departure	Calcutta	1215 hrs. Asaam Mail
25th Dec.	Sunday	Arrival	Pandu	0945 hrs.
25th Dec.	do.	Departure	Pandu	1145 hrs. motor car
26th Dec.	Monday	Arrival	Shillong	1650 hrs.

#### Halt, from 26th to 28th December, 1949

29th Dec.	Thursday	Departure	Shillong	1240 hrs.
30th Dec.	Friday	Arrival	Calcutta	1535 hrs.
do		Departure	Calcutta	1845 hrs.
1st Jan. 1950	Tuesday	Arrival	Simla	1420 hrs.

#### Part II

13th Jan.	Friday	Departure	Simla	1315 hrs.
14th Jan.	Satur.	Arrival	Delhi	0630 hrs.
do		Departure	Delhi	0845 hrs. G.I.P.
15th Jan.	Sunday	Arrival	Bombay V.T.	1630 hrs. Mail.

#### Halt, from 16th January to 23rd January, 1950

23rd Jan.	Monday	Departure	Bombay V. T.	1630 hrs. Calcutta Mail via Nagpur.
24th Jan.	Tuesday	Arrival	Nagpur	0955 hrs.

#### Halt, from 24th to 29th January, 1950

29th Jan.	Sunday	Departure	Nagpur	1648 hrs. Grand Trunk Express.
30th Jan.	Monday	Arrival	Madras	1745 hrs.

#### Halt, from 31st January to 7th February, 1950

8th Feb.	Wed'day	Departure	Madras	0848 hrs. Grand Trunk Express.
10th Feb.	Friday	Arrival	Delhi	0810 hrs.
10th Feb.	Friday	Departure	Delhi	2230 hrs.
11th Feb.	Satur.	Arrival	Simla	1420 hrs.

#### Part III

20th Feb.	Monday	Departure	Simla	1315 hrs.
21st Feb.	Tuesday	Arrival	Lucknow	2000 hrs.

**APPENDIX III**

---

**Halt, from 22nd to 3rd March, 1950**

4th March	Saturday	Departure	Lucknow	2000 hrs. (18 Sealdah Express).
5th March	Sunday	Arrival	Patna	1655 hrs.

**Halt, from 6th to 10th March, 1950**

11th March	Saturday	Departure	Patna	0736 hrs.
12th March	Sunday	Arrival	Delhi	0530 hrs.

**Part IV**

22nd, 23rd and 24th March—Sittings in Simla.

24th March	Friday	Departure	Simla	1530 hrs.
25th March	Saturday	Arrival	Jullundur	0730 hrs.
Meetings at Jullundur on 25th and 26th March, 1950.				
26th March	Sunday	Departure	Jullundur	1430 hrs.
		Arrival	Amritsar	1830 hrs.

**Halt at Amritsar from 27th to 29th March, 1950**

30th March	Wed'day	Departure	Amritsar	2030 hrs.
31st March	Thursday	Arrival	Simla	1431 hrs.



## APPENDIX IV

### List of witnesses examined

#### Cuttack.

12-12-1949

(FORENOON)

1. Dr. Sadashiva Mishra, Professor of Economics, Ravenshaw College, Cuttack.
2. Shri Gopinath Behera, Collector of Ganjam.
3. Shri Makardhwaja Patnaik, Vice-Chairman, Koraput District Board.
4. Shri Jananaranjan Patnaik, Chairman, Balasore Municipality.

(AFTERNOON)

5. Moulvi Md. Hanif, Chairman, District Board, Balasore.
6. Shri Nilamani Pradhan, Chairman, District Board, Cuttack.
7. Shri Dinabandhu Behera, M. L. A., Chairman, District Board, Ganjam.
8. Shri A. T. Sarma, M. L. A., Vice-Chairman, District Board, Ganjam.
9. Shri Rajendra Panda, Chairman, District Board, Sambalpur.
10. Shri Jaganath Mishra, Chairman, District Board, Puri.
11. Shri Bibhuti Bhusan Tripathy, Executive Officer, Cuttack Municipality.

13-12-1949.

(FORENOON)

12. Shri B. M. Siuha, Chairman, Jaipore Municipality.
13. Shri R. C. Ratho, Additional Revenue Commissioner, Orissa.
14. Shri Chalapati Rao, Manager, Berhampur Municipality.
15. Shri B. Patanaik, Panchayat Officer, Ganjam.
16. Shri Mukknda Charan Mahanti, Chairman, Kendrapara Municipality.

(AFTERNOON)

17. Shri B. Mukherji, I. C. S., Chief Secretary and Secretary Finance department.
18. Shri S. D. Bahuguna, Deputy Director of Public Instructions.

14-12-1949

(FORENOON)

19. Shri Kapileswar Prasad Nanda, M.L.A.
  20. Shri G. Sahani, Municipal Commissioner, Sambalpur.
  21. Shri B. Sivaraman, I. C. S., Commissioner, Northern Division.
  22. Shri Radhenath Rath, M. L. A.
  23. Shri Balamukunda Nayak, Deputy Director, Public Health.
- (AFTERNOON)
24. Shri Binayak Acharya, President, Orissa Local Bodies Employees Federation.
  25. Shri G. Krishnamurty, Secretary, Orissa Local Bodies Employees Federation.
  26. Hon'ble Pandit, Lingaraj Misra, Minister for Local Self-Government, Orissa.
  27. Hon'ble Shri Harekrishna Mahatab, Chief Minister, Orissa.

#### Calcutta.

15-12-1949.

(FORENOON)

1. Shri Jitendra Nath Mitra
  2. Shri Prafula Nath Banerjee
- } West Bengal District Board Association.
3. Shri Sanat Kumar Roy Chowdhry, Ex-Mayor, Calcutta Corporation.
  4. J. C. Mukherjee, Ex-Chief Executive Officer, Calcutta Corporation.

(AFTERNOON)

5. Shri Giris Chandra Sen, Ex-Deputy Secretary, Local Self-Government Department, Bengal.

APPENDIX IV

6. Shri J. C. Das Gupta, Retired Secretary, Howrah Municipality.
7. Shri Probohd Kumar Chatterjee, Secretary, Burdwan Municipality.

16-12-1949.

(FORENOON)

8. Shri Mehendra Kumar Ghosh, Ex-Chairman, Khulna Municipality, Officer-in-Charge of City Assessment, Calcutta Corporation.
9. Mr. Fazlur Rahman, Vice-Chairman, Nadia District Board.
10. Shri Annada Prosad Chowdhry, Ex-Minister, Local Self-Government Department, Bengal.

(AFTERNOON)

11. Shri Biren Roy, President, West Bengal Municipal Association.
12. Shri N. K. Bannerjee, Secretary, West Bengal Municipal Association.
13. Shri Saila Kumar Mukerjee, Chairman, Howrah Municipality.
14. Shri D. N. Basu, Secretary, Howrah Municipality.
15. Shri C. C. Mitra, Chairman, Midnapore Municipality.
- 16-19. Chairman, Konnagar, South Dum Dum, Rishra and Asansol Municipalities.

17-12-1949.

(FORENOON)

20. Dr. S. R. Chatterjee, Chairman, District Board, West Dinajpur.
21. Shri B. P. Singh Roy, Indian Chamber of Commerce, Calcutta.
22. Shri Charu Chandra Sanyal, Member, District Board, Jalpaiguri.

(AFTERNOON)

23. Shri Jitendra Nath Mitra, Chairman, District Board, Burdwan.
24. Shri Jyotir Mohan Misra, Chairman, District Board, Malda.
25. Chairman, District Board, Murshidabad.
26. Chairman, District Board, Midnapore.
27. Chairman, District Board, Hooghly.

18-12-1949

(FORENOON)

28. Shri Narisingh Prosad Sarkar, Chairman, Krishnagar Municipality.
29. Shri Monoranjan Sen, Chairman, Berhampur Municipality.
30. Shri Ras Bihari Shastri, Chairman, Kancharpara Municipality.

(AFTERNOON)

31. Shri Pandit Ramchandra Awasthi, Chairman, Budge-Budge Municipality.
32. Secretary, Budge-Budge Municipality.
33. Shri Sisir Kumar Mitra, Chairman, Panihat Municipality.
34. Dr. A. K. Bhattacharya, Vice-Chairman, North Barrackpore Municipality.
35. Shri B. N. Chatterjee, Municipal Commissioner, Uttarpara.

19-12-1949.

(FORENOON)

36. The Sub-Divisional Officer, Lalbagh.
37. Shri P. C. Halder, Examiner, Local Fund Accounts, Bengal.
38. Shri J. C. Chatterjee, Additional District Magistrate, 24 Parganas.
39. Shri B. L. Ghosh, District Magistrate, Distt. Dinajpur.
40. Shri S. N. Ray, I. C. S., Administrative Officer, Calcutta Municipal Corporation and Chairman, Calcutta Improvement Trust.

(AFTERNOON)

40. Shri S. N. Ray, I. C. S., Administrative Officer, Calcutta Municipal Corporation and Chairman, Calcutta Improvement Trust.
41. Shri D. N. Ganguli, Chief Engineer, Calcutta Municipal Corporation,

APPENDIX IV

20-12-1949.  
(FORENOON)

42. Shri C. C. Biswas, Chairman, }  
43. Shri H. P. Bhowmik, Member, } Calcutta Corporation Investigation Commis-  
44. Shri P. C. Chowdhry, Member, } sion.

(AFTERNOON)

45. Shri P. P. I. Vaidyanathan, I. C. S., District Magistrate, Birbhum.  
46. Shri B. K. Bannerjee, I. A. S., District Magistrate, Burdwan.  
47. Shri D. M. Sen, Secretary, Education Department, Bengal.  
48. Shri A. C. Roy, Deputy Secretary, Finance Department, Bengal.

21-12-1949.  
(FORENOON)

49. Shri Pran Krishna Chowdhury, President, Kaligram Union Board (Malda).  
50. Shri S. C. Sen, President, Tehri Union Board (Bankura).  
51. Shri Jatindra Mohan Datta, M.Sc. B. L., F.S.S. (Lond.). F.R. Econ. S. (Lond.).  
52. Hon'ble Dr. B. C. Roy, Chief Minister, Bengal.  
53. Hon'ble Shri Jadabendra Nath Panja, Minister Local Self-Government, Bengal.

**Shillong.**

26-12-1949.  
(FORENOON)

1. Shri Sidhi Nath Sarma, B. L., M. L. A., Chairman, Gauhati Local Board.  
2. Shri R. M. Das, M. A., Chairman, Karimganj Municipality and Local Board.  
3. Maulvi A. B. Chowdhury, B. A., Member, Shillong Municipality.

(AFTERNOON)

4. Shri A. C. Bezbaruah, B.L., Chairman, Sibsagar Municipality.  
5. Shri A. C. Sen, General Secretary, Assam Chamber of Commerce.

27-12-1949.  
(FORENOON)

6. Shri N. N. Phukan, B. L., I. A. S., Director of Land Records and Inspector General of Registration, Assam.  
7. Mr. B. M. Roy, B. A., Additional District Magistrate, Khasi and Jaintia Hills.  
8. Shri M. C. Mohanta, B. L., Panchayat Officer, Rural Development Department, Assam.  
9. Shri A. Bhattacharji B. A., I. A. S., Deputy Commissioner, Kamrup.

(AFTERNOON)

10. Shri J. L. Kakati, B. A., Superintendent, Office of the Examiner, Local Fund Accounts, Assam.  
11. Shri D. C. Das, I.C.S., Development Commissioner, Assam.  
12. Shri G. C. Phukan, M. A., B. L., Under Secretary, Finance Department, Assam.  
13. Shri U. K. Goswami, M. A., B. L., Director of Public Instruction, Assam.  
14. Maulvi M. Sultan, M. A., I. A. S., Secretary to the Government of Assam in the Local Self-Government, Medical & Education Departments,

APPENDIX IV

28-12-1949.  
(FORENOON)

15. Hon'ble Maulvi Abdul Matlib Mazumdar, M.A., B. L., Minister, Local Self-Government, Assam.
16. Mr. E. H. Pakyntein, B. A., I. A. S., Chairman, Haflong Town Committee.
17. Maulvi M. Sultan, M. A., I. A. S., Secretary to the Government of Assam in the Local Self-Government, Medical & Education Departments.

**Bombay.**

16-1-1950.  
(FORENOON)

1. Shri Manu Subedar, Bar-at-Law.
2. Prof. C. N. Vakil, Dean of the Faculty of Economics, Bombay University.  
(AFTERNOON)
3. Shri M. Y. Nurie, Vice-President, Bombay State Congress Committee.
4. Shri P. V. R. Rao, I. C. S., Secretary, Education Department, Bombay.
5. Shri Jamnadas M. Mehfa, Ex-Mayor of Bombay.

17-1-1950.  
(FORENOON)

6. Shri B. K. Patel, I. C. S., Municipal Commissioner, Bombay.
7. Shri S. K. Patil, Mayor of Bombay.
8. Shri Chinubhai Chimanbhai Sheth, President, Ahmedabad Municipality.  
(AFTERNOON)
9. Shri S. G. Barve, I. C. S., Municipal Commissioner, Poona.
10. Shri I. R. Bhagat, Ex-Chief Officer, Ahmedabad Municipality.
11. Shri S. G. Modak, Chief Officer, Nasik Municipality.
12. Shri B. B. Potdar, B.A., LL. B., Ex-President, Belgaum Municipality.

18-1-1950.  
(FORENOON)

13. Shri M. G. Kasbekar, President, Karwar Municipality.
14. Shri M. D. Brahme, President, Amalner Municipality.
15. Shri Sarosh K. Irani, President, Ahmednagar Municipality.
16. Shri Raziuddin H. Godwala, M.L.A. and President, Hubli Municipality.
17. Shri R. B. Pardeshi, President, Yeola Municipality.  
(AFTERNOON)

18. Shri C. C. Bhat, President, Viramgam Municipality.
19. Dr. V. N. Modi, President, Baroda Municipality.
20. Shri B. A. Dattardar, ex-President, Sangli Municipality.

19-1-1950  
(FORENOON)

21. Shri V. P. Desai, President, Nadiad Municipality.
22. The President, District Local Board, Kolhapur.
23. Shri D. S. Desai, President, District Local Board Satara North, Satara.
24. The President, District Local Board, Ratnagiri.
25. Shri B. R. Tambakad, President, District Local Board, Dharwar.  
(AFTERNOON)

26. Shri Gordhandas G. Morarji. ) Representatives of the Indian Merchants
27. Shri R. G. Saraiya. } Chamber.
28. Shri Dahyabhai Patel. }

APPENDIX IV

29. Shri Purshottam Mulji Kapadia, Representative of Bombay Piece-goods Merchants' Association.
30. Shri N. S. V. Aiyer, Secretary, Millowners' Association, Bombay.

20-1-1950  
(FORENOON)

31. Shri Asoka Mehta, Member, Bombay Municipal Corporation.
32. Shri Dinker Desai, Member, Bombay Municipal Corporation.
33. Shri Rohit Dave, Member, Bombay Municipal Corporation.
34. Shri Velinkar, Member, Bombay Municipal Corporation.
35. Principal L. N. Welinkar, Member, Bombay Municipal Corporation.
36. Shri Shantilal Mangaldas, Ahmedabad Millowners' Association.

(AFTERNOON)

37. Shri C. L. Shah, Surat Chamber of Commerce.

21-1-1950  
(FORENOON)

38. Shri V. S. Bhide, I. C. S., Commissioner, Southern Division.
39. Shri U. M. Mirchandani, I. C. S., Commissioner, Northern Division.
40. Shri D. V. Vyas, I. C. S., Commissioner, Central Division.
41. Shri T. N. S. Ratnam, Examiner Local Fund Accounts, Bombay.
42. Hon'ble Shri G. D. Vartak, Minister for Local Self-Government, Bombay.
43. Hon'ble Shri V. L. Mehta, Finance Minister, Bombay.
44. Shri B. Venkatappiah, I. C. S., Secretary, Finance Department.

**Nagpur.**

25-1-1950.  
(FORENOON)

1. Shri R. G. Upagade, Chairman, Janapada Sabha, Seoni.
2. Shri R. A. Kanilkar, Advocate, Buldana.
3. Shri P. A. Choubey, Officer-in-Charge, Nagpur Municipality.
4. Shri S. N. Mishra, Chief Accountant, Nagpur Municipality.
5. Shri D. V. Shidore, Member, Amraoti Municipality.

27-1-1950

6. Shri P. B. Das, Chairman, Nagpur Improvement Trust.
7. Shri S. P. Trivedi Executive Officer, Nagpur Improvement Trust.

28-1-1950  
(FORENOON)

8. Shri G. D. Modi, Chairman, Kamptee Municipality.
9. Shri M. P. Kolhe, Advocate, Yeotmal.
10. Shri R. C. Rai, President, Bilaspur Municipality.
11. Shri B. L. Pandey, Secretary, Finance Department, Madhya Pradesh.
12. Shri M. R. Majundar, M. L. A., President, Burhanpur Municipality.

(AFTERNOON)

13. Shri J. G. Kadam, Chairman, Janapada Sabha, Arvi.
14. Shri M. B. Somani, B.A., L.L.B., Chairman, Janapada Sabha, Murtizapur.
15. Shri B. V. Shende, Chairman, Janapada Sabha, Wardha.
16. Shri K. Lakshminarayan, Examiner, Local Funds Accounts, Madhya Pradesh.
17. Shri R. R. Bahl, I. C. S., Deputy Commissioner, Jubbulpur.
18. Shri B.N. Verma, I. C. S., Deputy Commissioner, Raipur.
19. Shri N. P. Mishra, Secretary, Gondia Municipality.

PPENDIX IV

29-1-1950  
(FORENOON)

20. Hon'ble Shri D. K. Mehta, Minister of Finance, Madhya Pradesh.
21. Lt. Col. A. S. Garewal, Inspector General of Civil Hospitals, Madhya Pradesh.
22. Shri Duvindar Lal Tripathi, Chairman, Janapada Sabha, Jagdalpore Bastar.
23. Shri E. W. Franklin, Director of Public Instruction, Madhya Pradesh.
24. Shri N. C. Gupta, Deputy Commissioner, Chanda.
25. Shri D. Y. Ashedkar, Deputy Commissioner, Bhandara.
26. Shri G. K. Tiwari, Deputy Commissioner, Nagpur.
27. Hon'ble Shri D. P. Mishra, Minister for Local Self-Government, Madhya Pradesh.

**Madras.**

31-1-1950  
(FORENOON)

1. President, District Board, Anantapur.
2. Psesident, District Board, Salem.
3. President, District Board, Nilgris.
4. President, District Board, Malabar.
5. Special Officer, District Board, Vizagapatam North.
6. Special Officer, District Board, Vizagapatam South.
7. President, District Board, Chittoor.

(AFTERNOON)

8. Shri P. B. K. Raja Chidambara Reddiar, President District Board, Tiruchnappalli.
9. Shri V. K. Ramaswamy Mudaliar, President, District Board, Chinglepet.
10. Shri C. P. Subramaniam, District Panchayat Officer, Tiruchinappali.

1-2-1950.  
(FORENOON)

11. Dr. P. S. Srinivasan, Chairman, Kancheepuram Municipality.
12. Chairman, Karikudi Municipality.
13. Chairman, Masulipatnam Municipality.

(AFTERNOON)

14. Dr. C. Nanjappa, Chairman, Coimbatore Municipality.
15. Shri K. P. Kariappa, President, District Board, Coorg.
16. Shri A Raghva Reddi, Chairman, Madras City Improvement Trust.

2-2-1950.  
(FORENOON)

17. Shri K. Chengappa, B. A., Retired Chief Commissioner of Coorg, Kandamuri Estate, Kakkabe, Coorg.
18. Shri V. N. Subbarayan, Personal Assistant to the Inspector of Municipal Councils & Local Boards.
19. Shri C. R. Karunakara Menon, Deputy Inspector of Municipal Councils and Local Boards, Western Range, Coimbatore.
20. Shri K. Ramakrishnia Chowdari, Deputy Inspector of Municipal Councils and Local Boards, Central Range, Vellore.
21. Shri K. Rama Varma Raja, Collector of Mathurai.

(AFTERNOON)

22. Shri S. S. Ramaswami, Chairman, Cuddalore Municipality.
23. Shri L. C. Richards, Municipal Commissioner, Cuddalore.

APPENDIX IV

24. Shri K. P. Kutty Krishna Nair, Chairman, Kozhikode Municipality.  
 25. Shri A. Ramunni Menon, Chairman, Palghat Municipality.  
 26. Chairman, Coonoor Municipality.  
 27. Shri T. N. S. Raghavan, I.C.S., Secretary, Finance Department, Madras.

3-2-1950.  
 (FORENOON)

28. Chairman, Tanjore Municipality.  
 29. Shri T. Prabhakara Rao Nayudu, Inspector of Municipal Councils and Local Boards, Madras.  
 30. Shri K. Mallappa, B A.,B.L., President, Mercara Municipality.

(AFTERNOON)

31. Shri T. K. Rama, Chairman, Mathurai Municipality.  
 32. Special Officer, Guntakal, Municipality.  
 33. Shri G. Vivekanandamurthi, Collector of Anantpur and Special Officer, Anantpur District Board.  
 34. Dr. E.P. Mathuran, Chairman, Tiruchinappalli Municipality, assisted by Municipal Commissioner, Tiruchinappalli.

4-2-1950  
 (FORENOON)

35. Shri C. Narasimham, Commissioner, Municipal Corporation, Madras.  
 36. Dr. P.V. Cherian, Mayor of Madras.  
 37. Chairman Taxation & Appeals Committee, Municipal Corporation, Madras.  
 38. Revenue Officer, Municipal Corporation, Madras.  
 39. Shri M.S.P. Nadar, Chairman, Virudunagar Municipality.  
 40. Municipal Commissioner, Virudunagar.  
 41. Shri N. Lingam, Chairman, Ootacamund Municipality.  
 42. Chairman, Anantpur Municipality.

(AFTERNOON)

- |   |   |
|---|---|
| 43. Shri C. S. Ratnasabapathi Mudaliar, Chairman, | } Provincial Committee on<br>reforming Municipal<br>Administration. |
| 44. Shri V. V. Ramaswami, Member.                 |   |
| 45. Shri T. K. Rama, Member.                      |   |
| 46. Shri T. V. S. Challapathi Rao, Member.        |   |
| 47. Shri L.C. Pais, Member.                       |   |
| 48. Shri R. S. Malayappan, Collector of Nellore.  |   |

6-2-1950  
 (FORENOON)

49. Shri K. Venkatadri Chowdhari, Deputy Inspector of Municipal Councils and Local Boards, Northern Range.  
 50. Dr. J. C. David, Deputy Surgeon General, Madras.  
 51. Shri G. Balakrishnan, Municipal Commissioner, Bodinayakanur.  
 52. Shri M. M. Krishnaswami Pillai, Secretary, District Board, Salem.  
 53. Shri B. B. Shanker Rao, Examiner of Local Fund Accounts, Madras.  
 54. Dr. R. Subramaniam, Director Public Health, Madras.  
 55. Shri T. K. T. Veraragavacharyar, Chittoor.

(AFTERNOON)

- |                              |  |
|------------------------------|--|
| 56. Captain G. T. B. Harvey. | } European Chamber of Commerce,<br>Madras. |
| 57. Mr. B. W. Batchelor.     |  |
- 58-60. Three representatives of the Hindusthan Chamber of Commerce, Madras.

APPENDIX IV

61. Mr. C.W. Stephenson, Madras Trades Association.
62. Hon'ble Shri B. Gopala Reddi Minister of Finance, Madras.
63. Hon'ble Shri K. Chandra Mowli, Minister for Local Administration, Madras.

**Lucknow.**

23-2-1950  
(FORENOON)

1. Kanwar Jumshed Ali Khan, Chairman, Saharanpur Municipality.
2. Shri B. D. Sanwal, I.C.S., Administrator, Municipal Board, Lucknow.
3. Shri Hari Shankar Vidyarthi, President, Kanpur Development Board.
4. Shri D. V. Ray, Executive Officer, Kanpur Development Board.

(AFTERNOON)

5. Shrimathi B. D. Puri, Chairman, Roorkee Municipality.
6. Shri D. K. Pandey, Chairman, Haldwani Municipality.

24-2-1950  
(FORENOON)

7. Shri Aizaz Rasul, Chairman, Saudila Municipality.
8. Shri D. D. Sharma, President, District Board, Sultanpur.
9. Shri Fatehchandra, President, District Board, Bijnor.
10. Shri G. V. Pant, Secretary, District Board, Almora.
11. Shri Gopi Mohan Sinha, Secretary, District Board, Moradabad.

25-2-1950  
(FORENOON)

12. Shri B.G. Rau, I.C.S., Secretary, Finance Department, U.P.
13. Shri Radha Mohan, Secretary, Local Self-Government Department, U.P.
14. Shri A.D. Pandit, Secretary, Public Works Department, U.P.
15. Shri S. D. Agarwala, I. C. S., Deputy Commissioner, Pratapgarh.

(AFTERNOON)

16. Shri N. P. Chatterji, Deputy Secretary, Local Self-Government Department, U.P.

26-2-1950  
(FORENOON)

17. Hon'ble Shri Pandit Govind Ballabh Pant, Chief Minister, U. P.

27-2-1950.  
(FORENOON)

18. Shri Hargovind Singh, M. L. C., Chairman
19. Shri V. N. Tiwari, M.L.A., Member.
20. Shri Sultan Ahmed Khan, M. L. A., Member.
21. Shri S. H. Zaheer, I. C. S., Commissioner Allahabad, Member.
22. Shri A. P. Bajpai, Director, Medical & Health Services, Member.
23. Shri H. G. Trivedi, Chief Engineer, Public Health Engineering, U. P., Member.
24. Shri R. M. Roy, Examiner of Local Fund Accounts U. P., Member.
25. Shri N. P. Chatterji, Deputy Secretary, Local Self-Government Department, U.P.

U. P. Grants-in-aid Committee.



APPENDIX III

28-2-1950.  
(FORENOON)

26. Hon'ble Shri Sampurananand, Finance Minister, U. P.

1-3-1950.  
(FORENOON)

27. Shri H. G. Trivedi, Chief Engineer, Public Health Engineering Department, U. P.  
28. Shri R.D. Verma, Water Works & Mechanical Engineer, U.P.  
29. Shri A.P. Bajpai, Director, Medical & Health Services, U. P.  
30. Shri Bishamber Nath Pande, Chairman, Allahabad Municipality.  
31. Shri Kripa Narain, Executive Officer, Allahabad Municipality.  
32. Shri Mohan Lal Nehru, Chairman, Allahabad Improvement Trust.  
33. Shri Pulin Behari Banerji, Chairman, Lucknow Improvement Trust.

(AFTERNOON)

34. Dr. A. M. Das } Personal Assistants to the Director  
35. Shri Banerji } of Medical & Health Services, U.P.  
36. Shri S.K. Gosh, Director of Education, U. P.  
37. Shri R. N. Roy, Examiner, Local Fund Accounts, U.P.

2-3-1950.  
(FORENOON)

38. Hon'ble Shri A.G. Kher, Minister Local Self-Government, U.P.  
39. Shri B.N. Bhargava, Director of Panchayats, U. P.  
40. Shri I.R. Khan, Deputy Secretary, Education Department, U. P.  
41. Shri S. P. Pande, Secretary, Medical Department, U. P.

Patna.

7-3-1950  
(FORENOON)

1. Shri Paul, Dayal, Vice-Chairman, District Board, Ranchi.  
2. Shri Bhabatosh Sen, Chairman, Distt. Board, Manbhum.  
3. Shri Ratneshwari Nandan Sinha, Chairman, District Board, Muzaffarpur.  
4. Shri Janki Nandan Singh, Chairman, District Board, Darbhanga.

(AFTERNOON)

5. Shri Abul Mukarim Chairman, Jharia Mines Board  
Saiyid Abdul Muid, of Health, Dhanbad.  
6. Shri Kant Kumar Lal, Chairman, Ranchi Municipality.

8-3-1950  
(FORENOON)

7. Shri Khaderan Singh, Chairman, District Board, Patna.  
8. Shri Satrugan Saran Singh, Chairman, District, Board Gaya.  
9. Shri Benarsi Pd. Singh do Monghyr.  
10. Shri Kamla Raj, do Saran.  
11. Shri Pashupti Nath Singh do Bhagalpur.

(AFTERNOON)

11. Lt.-Col. Amar Nath Duggal, Chairman, Patna Administration Committee.  
13. Shri Jagannath Sahay, Special Officer, incharge, Gaya Municipality.  
14. Shri Chaitanya Nath Jajwara, Chairman, Deoghar Municipality.  
15. Shri Fauji Lal, Chairman, Sahobganj Municipality.

APPENDIX IV

9-3-1950  
(FORENOON)

16. Shri Baidyanath Misra, Chairman, District Board, Champaran.
17. Shri Rajeshwar Pd. Sinha, Deputy Commissioner, Singhbhum.
18. Shri Md. Kasim Hussain, Chairman, Bhagalpur Municipality.
19. Shri Munishwar Pd. Sinha, Deputy Commissioner, Ranchi.
20. Shri Anup Lal Mehta, Chairman, District Board, Purnea.
21. Shri Parashar Bhattacharya, Chairman, Katihar Municipality.

(AFTERNOON)

22. Shri Ram Rudra Pd. Sinha, I. A.S., Deputy Commissioner, Manbhum.
23. Shri Vindeshwari Dutta Misra, Deputy Commissioner, Hazaribagh.

10-3-1950.  
(FORENOON)

24. The Hon'ble Dr. Anugrah Narain Sinha, Finance Minister, Bihar.
25. Shri Beni Madhav Pd., Ex-Inspector of Local Bodies.
26. Shri Shiva Prasad, Ex-Special Officer, Local Self-Government Department.
27. Shri Kedar Nath Sinha, Inspector of Local Bodies.
28. Lt.-Col. Amar Nath Duggal, Director of Public Health, Bihar.
29. Mr. Ranchor Prasad, Superintendent, Census, Bihar.
30. Dr. B. R. Misra, Professor of Economics, Patna University.

(AFTERNOON)

31. Shri Harnandan Prasad, Deputy Secretary, Finance Department, Government of Bihar.
32. The Hon'ble Pd. Binodanand Jha, Hon'ble Minister, Local Self-Government, Bihar.
33. Shri Gorakh Nath Singh, Director of Public Instruction, Bihar.

**Punjab (I)—Simla.**

22-3-1950  
(AFTERNOON)

1. Shri Behari Lal Ex-senior Vice-President, Simla Municipality.
2. Shri Sardari Lal Kakar, P.C.S., Secretary, Simla Municipality.
3. Hon'ble Dr. Gopichand Bhargava, Chief Minister, Government of Punjab (I).

23-3-1950.  
(FORENOON)

4. Hon'ble Shri Prithvi Singh Azad, Minister, Labour and Local Government Punjab. (I)  
Shri Behari Lal S. No. 1 } continued  
Shri Sardari Lal S. No. 2 }
5. Shri I. N. Chib, P.C.S., Deputy Secretary, Health and Local Government Department, Punjab. (I)
6. Sardar Gurdas Singh, P.C.S., Deputy Director of Panchayats (Punjab)

24-3-1950  
(FORENOON)

7. Shri P. L. Verma, I.S.E., Chief Engineer, P.W.D., Development (Punjab)
8. Dr. M. Mehta, Deputy Director Health Services, Punjab.

APPENDIX IV

9. Shri Badri Nath Chopra, P.C.S., Examiner, Local Fund Accountants & Under Secretary, Finance Department, Government of Punjab.
10. Chowdhury Lahiri Singh, M.L.A., Ex-Minister (Punjab).
11. Pandit Shri Ram Sharma, M.L.A. (Punjab).

**Jullundur.**

25-3-1950.

12. Shri P. P. R. Sawhney, Chairman, Jullundur Improvement Trust.
13. Shrimati Lekhwati Jain, Senior vice-President, Ambala Municipality.
14. Shri J. M. Srinagash, I.C.S., Commissioner, Jullundur Division.
15. Shri N. Kashyap, I.C.S., Deputy Commissioner, Jullundur.
16. Master Kishan Singh, President, Ludhiana Municipality.
17. Shri Om Prakash, President, Hoshiarpur Municipality.
18. Shri C.S. Joshi, Secretary, Hoshiarpur Municipality.
19. Head Clerk, District Board, Ludhiana.
20. Accountant, District Board, Ludhiana.

26-3-1950.

21. Shri Harbans Lal, Executive Officer, Hissar Municipality.
22. Shri Durga Datt, Office Superintendent, Jullundur Municipality

**Amritsar.**

27-3-1950

23. Shri Narain Das Vig, Secretary, Amritsar Municipality.
24. Shri Kesho Ram Sikri, Ex-President, Amritsar Municipality.
25. Shri P. C. Bhandari, Executive Officer, Amritsar Municipality.
26. Dr. D.N. Ahluwalia, Chairman, Amritsar Improvement Trust.

29-3-1950

27. Shri S. N. Khanna, Chairman, Finance Sub-Committee, Amritsar Municipality.
28. Sardar Kartar Singh Gill, B.A., Secretary, District Board, Amritsar.
29. Sardar Suraj Singh, Vice-President, District Board, Gurdaspur.
30. Sardar Rajinder Singh, Senior vice-President, Amritsar Municipality.
31. Sardar Sukhjunder Singh, Secretary, District Board, Gurdaspur
32. Mahans Paramhansnath, B. A., President, Gurdaspur Municipal Committee.
33. Shri Madan Gopal Puri, Secretary, Gurdaspur Municipal-Committee.

30-3-1950

34. Dr. D. N. Bakhshi, Chairman, Ludhiana and Ambala Improvement Trusts.
35. Shri Amolak Ram, Secretary, District Board, Karnal.
36. Chowdhury Lal Chand (Rohtak) Ex-Minister, L.S.G. (Punjab).
37. Shri K. B. Dutta, Secretary, Central Refugee Welfare and Vigilance Board.

**Delhi.**

19-4-1950

(FORENOON)

1. Dr. Yudhvir Singh, President, Delhi Municipal Committee.
2. Pt. Rameshwar Dayal, I.A.S., President, New Delhi Municipal Committee.
3. Shri S. C. Jain, Secretary, New Delhi Municipal Committee.

APPENDIX IV

(AFTERNOON)

4. Dr. Gyan Chand, Ph. D., Officer of Special Duty, Economic Statistics, Cabinet Secretariat, New Delhi.
5. Ch. Kishen Chand B.A., L.L.B., Chairman, District Board Delhi.
6. Chawdhury Ghasi Ram, P. C. S., Executive Officer, Delhi Improvement Trust.
7. Shri A. R. Malhotra, P.C.S., Lands Officer, Delhi Improvement Trust.
8. Shri C. S. Gupta, A.R.I., Architect, Delhi Improvement Trust.

20-4-1950.  
(FORENOON)

9. Shri Jawaher Lal Rawat, Secretary, District Board, Ajmer.

21-4-1950.  
(FORENOON)

10. Shri R. S. Mehta, Engineer Secretary, Delhi Joint Water & Sewage Board.
11. Pt. Rameshwar Dayal, I.A.S., Deputy Commissioner, Delhi.
12. Lala Shree Ram, Proprietor, Delhi Cloth Mills Industries, Delhi.
13. Shri K. K. Sharma I.A.S., Secretary, L.S.G., to Chief Commissioner, Delhi.

27-9-1950  
(FORENOON)

1. Shri G. Venkataraya Pai, Chief Accountant, Madras Port Trust.
2. Shri G. Muniswami Naidu, Revenue Officer, Corporation of Madras.

The undermentioned officers of the Government of India were also present by special invitation:

1. Shri T. S. Parasuraman, Deputy Secretary, Ministry of Transport.
2. Shri S. K. Ghosh, Under Secretary, Ministry of Transport.
3. Shri. A. C. Bose, Deputy Secretary, Ministry of Finance (Communication Division).

29-9-1950  
(FORENOON)

1. Shri N. R. Iyer, Deputy Chief Accountant, Calcutta Port Commissioners.
2. Shri Chatterji, Assistant Land Manager, Calcutta Port Commissioners.
3. Shri D. N. Ganguli, Chief Engineer, Calcutta Corporation.

(AFTERNOON)

4. Shri L. T. Gholap, I.C.S., Chairman, Bombay Port Trust.
5. Shri E. H. Simoes, Deputy Secretary, Bombay Port Trust.

The representatives of the Madras Corporation and the Port Trust and the Ministry of Transport were also present.

30-9-1950.  
(FORENOON)

1. Shri L. S. Kagal, Deputy Municipal Commissioner, Bombay.
2. Shri E. H. Simoes, Deputy Secretary, Bombay Port Trust.

Shri D. N. Ganguli, Chief Engineer of the Calcutta Corporation and the representatives of the Ministry of Transport were also present.

APPENDIX IV

---

1.	Cuttack	27	Witnesses.
2.	Calcutta	53	"
3.	Shillong	17	"
4.	Bombay	44	"
5.	Nagpur	27	"
6.	Madras	63	"
7.	Lucknow	41	"
8.	Patna	33	"
9.	Punjab	37	"
10.	Delhi	25	"
	<b>Total ...</b>	<b>367</b>	

---

APPENDIX V  
MINISTRY OF RAILWAYS

**Previous History.** Up to 1890 there was no legislative provision governing the taxation of Railway property by local bodies, but Guaranteed and State Railways in Bengal were exempted from local cesses and some similar exemptions were granted in other provinces also. The Indian Railways Act, 1890, covered this subject in Section 135. The object of this provision was described as "not to relieve Railway Administrations from any liability to local taxation, but to obtain control over the demands on railway administrations by Municipalities and other local authorities and to that railway administrations are not unfairly exploited for the benefit of local authorities". An extract of this section is placed below (vide Appendix I). Under this section a local authority cannot tax railway property unless the same is authorised by the issue of a Notifaction by the Government India. The accepted policy of the Government of India at that time was summarised as follows, by Major Temple, who was placed on special duty in 1890 to go into the whole question of taxation of railway property by local authority :

"To permit Municipalities and local authorities to tax railway administrations only so far as to recoup themselves reasonably for the cost of services rendered to the administrations ; to prohibit the levy of any taxes which are not raised for services to be directly rendered ; not to assess railway property on its rateable value only".

2. The Todhunter Committee which reviewed taxation as a whole in 1924 went into the question of local taxation of Railway property also (vide pages 324 to 333) of the Report of the Committee. The problem as seen by the Committee is very much the same as it now. They have clearly stated that in many cases, where the Railway Administrations have provided self-contained railway colonies, the local authority are levying taxes which cannot be considered reasonable. They have also pointed out that there are cases in which municipalities attempted to include within their limits Railway colonies which have been provided with all the civic amenities long before the constitution of the local authorities themselves. Therefore they have stressed that "services rendered" should be the criterion for the payment of local taxes. They recommended that railway buildings and lands should be assessed at fixed percentages on their cost according to particular classes of buildings and properties and that permanent way and bridges should be altogether exempted.

3. **Passing of the Government of India Act, 1935.** The Government of India Act, 1935 contained a provision *viz.* Sec. 154 (vide extract at appendix II) which exempted property vested in the Crown from new taxation by local authorities until Federal Legislation otherwise provides. Under this, railways were precluded from paying

- (i) taxes imposed for the first time after 1-4-1937 the date the 1935 Act came into force ;
- (ii) taxes in respect of railway property acquired or buildings constructed or added after that date ; and
- (iii) any increase in the rates of taxes levied before that date.

To bring back the position to that existing prior to 1-4-1937 the Railway (L. A. T.) Act, 1941 was passed. The only changes made from Section 135 of the Railways Act of 1890 were that the principle of services rendered in fixing a fair and reasonable sum in lieu of taxes was given statutory recognition and that officers to determine such amounts should be District or High Court Judges, active or retired. In the instructions which were issued to Railways they have been asked to consider every case wherein a municipality wants to levy taxes on the "services rendered" test.

4. In the course of the last few years, the provincial Governments have come up to the Government of India a number of times with requests for change in their policy in the matter of taxation of railway property. Their main contention has always been that no special treatment should be meted out to the Railways and that their property should be treated like any other private property. Of course it has not been accepted here.

5. **The present position.** The question may be reviewed from two different angles *viz.* from the constitutional point of view and on the intrinsic merit of the case.

6. There is statutory provision for the exemption of Central Government property as stated in para. 3 above. Similarly Section 155 of the Government of India Act, 1935 exempts provincial government property from central taxation. Thus the two sections are complementary to each other and it is a fundamental constitutional principle which cannot be departed from merely because the provincial governments think that it does not fit in with the principles of local taxation. The Todhunter Committee have stated in their report that in certain European countries railways are completely exempted from local taxation. In England the general district rate for local purposes is levied on railway property only at one-fourth of the normal rate. In the Canadian Constitution also there is the provision (Sec. 125) which states, "no lands or property belonging to Canada or any province shall be liable to taxation." In the draft Indian Constitution similar provisions exist and some of the provincial governments' protests against the same have been referred to the concerned sub-committee of the Indian Constituent Assembly.

7. On merits also the Railways have a strong case. The provincial governments always begin their arguments on the premises that railways are commercial undertakings. This is far from the truth since the primary concern of the railways is the development of the country at large, and any profits in their working go into the Central exchequer.

8. Railway colonies are also large that even the largest private estates within municipalities cannot appropriately be compared with them and due to the size of the railway colonies, it has often been possible for railways to provide facilities and amenities far superior in range, scope and quality to any which a private owner of property would find it economical to provide at his own cost. There are cases in which self-contained railway colonies have been included in the municipal limits long after the railway had incurred the initial capital expenditure, with the result that the railways pay taxes while no corresponding services are rendered in return.

9. In regard to the argument that railway staff are making use of the amenities provided by the municipalities, it may be noted that railway staff who are residents within municipal limits are paying municipal taxes like any other citizen direct or through the house rent collected by the landlord. Those living in the Railway colonies are normally provided with those amenities by the Railway Administrations even where they enjoy municipal amenities.

10. Finally it should not be forgotten that in many instances it was the railways which developed the trade and commerce of the interior. The prosperity of these places in turn attracted more people and consequently municipalities were formed. So, both the railways and municipalities are complementary to each other and one should not try to exploit the other.

11. In the fact wherever a railway administration is provided with certain specific services like water supply, the municipality concerned has always got a return for it in taxation or a lump sum payment in lieu.

12. The attitude of the railways has always been that they are prepared to pay for services actually rendered but they object to being brought under contri-

bution for taxes which have no relation to services rendered because railway property under rails, sidings, etc. (yards and connected offices) containing structures of high capital value but no corresponding revenue return can ever benefit from lights, water sewage, etc. to anything like the same extent as office or house accommodation in municipalities can benefit.

13. Moreover, recently, particularly during and after the war, railways have already taken on so many items of heavy expenditure which is normally chargeable to provincial revenues, such as the cost of protection of railway lines by one means or another and the cost of special squads of police and magistrates to check ticketless travelling, which is as much an offence against the general laws of land as theft or any other crime and which in the ordinary course it is the responsibility of the provincial government to provide.

14. The period during which railways could afford to take on large commitments has come to an end, and in the days ahead railways can no longer afford to bear charges which are not legitimately their responsibility under the financial provisions of the Constitution. The provinces have got to realise that there are definite limits to the arguments that the railways are commercial concerns which should be treated like any other commercial concerns. They have a service aspect and the gains on railways are shared with the general revenues of the centre and losses will finally have to be met also from central revenues in one form or another. In the operation of railways the only consideration is not what the traffic will bear, and concessions have been made in the past and are still being made, which cannot be justified on purely commercial grounds. Any further reduction in the shrinking profits of railways has its repercussions on central revenues and the salutary constitutional principle that the provincial and central governments should refrain from taxing each other's property should not be prejudiced by parochial considerations such as these governing the incidence of taxation by local bodies, and the distribution of the burden of taxation as between residents of local areas. Provincial Governments have been recently launching out into the sphere of road transport on their own and, in principle, there is no significant difference between the centre claiming income tax on the profits of such enterprises and the provincial governments' contention that the Central Govt. should lay its property open to taxation by provinces in the same manner as private property.



Extract from Indian Railways Act, 1890.

\*\*\*

\*\*\*

135. Notwithstanding anything to the contrary in any enactment, or in any agreement or award based on any enactment the following rules shall regulate the levy of taxes in respect of railways and from railway administrations in aid of the funds of local authorities, namely :—

(1) A railway administration shall not be liable to pay any tax in aid of the funds of any local authority unless the Governor-General in Council has, by notification in the official Gazette, declared the railway administration to be liable to pay the tax.

(2) While a notification of the Governor-General in Council under clauses (1) of this section is in force the railway administration shall be liable to pay to the local authority either the tax mentioned in the notification or, in lieu thereof, such sum, if any, as an officer appointed in this behalf by the Governor-General in Council may, having regard to all the circumstances of the case, from time to time determine to be fair and reasonable.

(3) The Governor-General in Council may, at any time revoke or vary a notification under clause (1) of this section.

(4) Nothing in this section is to be construed as debarring any railway administration from entering into a contract with any local authority for the supply of water or light, or for the scavenging of railway premises, or, for any other service which the local authority may be rendering or be prepared to render within any part of the local area under its control.

(5) "Local authority" in this section means a local authority as defined in the General Clauses Act, 1887, and includes any authority legally entitled to or entrusted with the control or management of any fund for the maintenance of watchmen or for the conservancy of a river.

Extract from Government of India Act 1935.

\*\*\*

\*\*\*

154. Property vested in His Majesty for purposes of the Government of the Federation shall, save in so far as any Federal Law may otherwise provide, be exempt from all taxes imposed by, or by any authority within, a Province or Federated State.

Provided that, until any Federal Law otherwise provides, any property so vested which was immediately before the commencement of Part III of this Act, liable, or treated as liable, to any such tax, shall, so long as that tax continues, continue to be liable, or to be treated as liable thereto,

## APPENDIX VI

Memorandum

15th August, 1950

## Rating of Railways

In accordance with the request of the Local Finance Enquiry Committee of the Government of India for information regarding the taxation of railway property in Great Britain, the following memorandum is transmitted for their information.

In order that the present position may be appreciated it is considered desirable to give a very brief and broad outline of the history of the rating of railways. It is also necessary to distinguish between England and Wales on the one hand and Scotland on the other, inasmuch as rating law and practice is different in the two countries.

The foundation of the English rating system was the Poor Relief Act of 1601, which imposed a liability on occupiers of property in a parish to pay contributions for the relief of the poor in that parish, and eventually Parliament laid it down that the payment (or "rate") was to be based upon "an estimate of the net annual value of the several hereditaments rated"—in other words "the rent at which the same may reasonably be expected to let from year to year", the tenant paying the rates and the landlord keeping the property in repair. Various Rating Acts were passed subsequently, but the general principle that the value of a rateable hereditament for the purpose of rate payments must be its "rental" value was not disturbed.

Prior to 1930 the rating of railways had to be brought within the definition of "net annual value", and further, it had to be done in each separate parish. There arose, therefore, the theory of a "hypothetical landlord" who owned the track, stations, etc., forming the hereditaments in the parish, and a "hypothetical tenant" who was willing to pay a rent for tenancy of that hereditament. In consequence a complicated procedure grew up over the years, the starting point of which put quite simply, was the estimated gross receipts in the parish. From these were deducted the expenses incurred in earning the receipts, leaving a figure for "net receipts". The hypothetical tenant was presumed to supply the rolling stock and other moveable equipment, and on the value of these he would first require interest and profit for himself, leaving a residue out of which to pay his "rent" and rates. By this means a rental value, i.e., "net annual value" was arrived at.

The practice of estimating a net annual value for each parish, with no regard to the value of the railway undertaking as a whole, was unsatisfactory, and did not apply in Scotland where, since 1854, railways were valued "in cumulo", i.e., "as a whole"—a total valuation first being determined for each railway and afterwards apportioned over the parishes.

Following the 1914/18 war, during which railways were under Government control, the old method of valuation was virtually unworkable, largely because the accounts for individual companies ceased to be published. The rating assessments for railway property were therefore adjusted on a sliding scale method based upon a comparison of receipts earned in the year in question with similar earnings in the year 1913. This method continued to operate until the coming into force of the Railways (Valuation for Rating) Act, 1930.

The 1930 Act, for the first time in history, provided that the railways of England and Wales were to be valued "in cumulo" and a statutory body known as the "Railway Assessment Authority" was set up by the Act to ascertain the net annual value of each railway undertaking as a whole, and apportion that net annual value over the individual parishes in accordance with an approved "Apportionment Scheme." The Railway Assessment Authority were to make new valuations at five-yearly intervals and to incorporate their values and the apportionments in what was known as the "Railway Valuation Roll",

APPENDIX VI

Three such Railway Valuation Rolls were issued and came into operation between 1st April, 1930 and 31st March, 1946, and the Fourth Roll (1946-51) was prepared in draft but was rendered void by the Local Government Act, 1948, referred to later on. It should be noted that the valuations made by the Railway Assessment Authority covered only England and Wales the "cumulo" system was already operating in Scotland under Scottish Rating Law.

In the Committee's letter it is observed that they wish to know the "actual capital invested in Railway undertakings". The capital—as such—of a railway undertaking has never been relevant when estimating the net annual value for rating purposes. It has already been explained that the basis of net annual value is "net receipts."

Mention is also made in the Committee's letter that "the assessable value of railway is only one-fourth of the rateable value fixed for private properties". In order to avoid confusion it might be as well to use the English designations, and "assessable" value in the Committee's letter is equivalent to the English "rateable" value; whilst the "rateable" value in the Committee's letter is equivalent to the English "net annual" value.

It is true that under what is known as the "Rate Relief" legislation in the Local Government Act, 1929, the Railways paid rates to Local Authorities on one-fourth only of their net annual value, i.e. on the "rateable" value. This rate relief legislation was passed at a time of acute trading depression, and was mainly designed to assist agriculture, heavy industries and mining. Agricultural lands and buildings were freed from paying any rates at all, whilst factories and other properties which fell within the definition of an "industrial hereditament" were relieved of three-fourths of their rate burden, paying one-fourth only to Local Authorities and retaining the other three-fourths.

At the same time what were known as "Freight Transport Hereditaments" comprising railways, docks and canals were also relieved of three-fourths of their rate liability, but with the fundamental difference that this three-fourths relief was not retained by the Companies but was required to be paid into funds out of which rebates in carriage charges, dock charges, etc., were given to specified classes of goods and traders. It is unnecessary to go into detail as to how these reliefs were administered—the information is given to explain why railways did not secure the same relief financially and directly as did the rate payers occupying industrial hereditaments.

The following figures are for the year 1947-48 (ending 31st March 1948) and the railways paid local rates on the total rateable values of £1,300,000 (England) £136,500 (Scotland).

	Net Receipts	Net Annual Value	Total Rateable Value
	£	£	£
<b>England and Wales</b>			
(Third Railway Valuation Roll).	31,712,000	5,776,000	1,300,000
<b>Scotland</b>			
Two Main Trunk Railways.	2,623,000	520,000	136,500

It may be observed that the Rateable Value is not an exact quarter of the Net Annual Value. This is because certain property, although a "railway" hereditament, was not necessarily a Freight Transport Hereditament, and also because earlier Rating Acts gave other reliefs which affected Rateable Value and have been continued.

## APPENDIX VI

Coming now to the Local Government Act, 1948, the Third Railway Valuation Roll (covering rates payable during the quinquennium 1941-46) continued in operation to 31st March 1948 in the absence of completed Fourth Roll, but by that time the railway Assessment Authority had, in fact, prepared a draft of the Fourth Roll, and, in total, the net annual value of that draft Roll was approximately 14% higher than the corresponding figure in the Third Roll—it was, however, never operative.

During the second World War the railways were again under Government control, the Government paying to the Railway Companies a fixed annual sum of £43,000,000 notwithstanding that the receipts far exceeded that amount. The starting point of the net annual value to be found by the Railway Assessment Authority under the 1930 Act was the average net receipts for the first five of the six accounting years preceding the year of the valuation, and it was soon abundantly clear that much dispute, and in all probability litigation, was likely to arise in the determination of the figure for "net receipts" for future Railway Valuation Rolls. Further, the effect of the Transport Act of 1947 transferred the whole of the railway system of Great Britain from individual Companies to the British Transport Commission and they therefore for all purposes, including rating, became one unit. These factors, among others, involved special provisions being incorporated in the Local Government Act 1949 to cover the rating position as regards railways.

Under section 85 of that Act any railway or canal hereditament as defined by the Act ceased to be liable to be rated or to appear in any Valuation List, and in lieu of the rates which would normally be payable to Rating Authorities the British Transport Commission are to make Annual payments for the benefit of Local Authorities. (Dock hereditaments are not exempt and rates are still paid on them).

In consequence the Fourth Railway Valuation Roll was never put into force, but in determining the amount of the annual payments the higher net annual value in the draft Fourth Railway Valuation Roll was taken into consideration.

Section 93 of the Local Government Act, 1948, lays down that the payments for the benefit of Local Authorities in England and Wales, and also in Scotland, in respect of Railways and Canals administered by the British Transport Commission, shall be what is known as the "Standard Amount", and for England and Wales this was determined at £1,810,000 and for Scotland (although not inserted in the Act) the figure has been determined at £113,000.

There is provision in section 93 for adjusting the "Standard Amounts" in later years for two main reasons as under—

### England and Wales.

- (a) (Up to 1950-51). Changes in the average rate poundage levied by Local Authorities over the whole of England and Wales ;
- (b) (After 1951). Changes in the average rates levied in England and Wales (as before), plus changes in the circumstances of the British Transport Commission.

### Scotland.

- (a) (Up to 1952-53). Changes in the average rates (as above) levied in Scotland ;

- (b) (After 1953). Changes in the average rates levied in Scotland (as before), plus changes in the circumstances of the British Transport Commission.

In England and Wales, therefore, the "Standard Amount" for 1949-50 was adjusted to £1,750,794 and in Scotland to £105,295. For 1950-51 the English figure is £1,776,168 and Scotland has not yet been settled. It should, however, be explained that these are provisional adjustments made by the Minister of Health or the Secretary of State for Scotland as the case may be on such information as they had at the time, and may be altered at a later date if and when they have more detailed information which, in their view, renders a further adjustment necessary.

*(Signed A. Endicott)*  
Chief Estate & Rating Surveyor  
British Railways.

APPENDIX VII  
**Internation Union of Local Authorities**

Survey Concerning  
*Taxation or exemption from taxation of  
Railway and Central Government property  
by local authorities in Western countries,  
the United States of America and Canada.*

Answer to a query from the  
Local Finance Enquiry Committee of  
India.

**Belgium**—The State is exempted from local taxation.

The properties of the Nation Railway Companies are also free of this taxation. The same applies also to objects and personnel directly used for the construction of railways.

**Canada**—The practice with respect to the taxation of Railway property by municipal governments in Canada is as follows :

There are two major railway-systems, the Canadian Pacific Railway Company, which is privately owned, and the Canadian National Railways, which are owned by the Federal Government.

The privately owned Canadian Pacific Railway system is subject to normal municipal taxation on its buildings, including stations within the municipal limits.

The Federal Government owned railway, the Canadian National Railway, being a Crown-owned property and therefore not subject to municipal taxation, pays an amount in lieu of taxes which, generally speaking, although not in all cases, is roughly equivalent to what they would be paying if they were assessed at the normal tax rate.

With regard to Federal Government property, other than the Federal owned National railway system, such property does not pay local taxes. The reason for the non-taxation of Federal owned property is predicated on the constitutional proposition that the Crown cannot be taxed and that all Crown-owned buildings and property are therefore not liable for local taxation.

However, this situation has recently been under review and an Act has been passed in which the pay-in-lieu-of taxes system has been adopted. Under this system a payment is due by the Government for federal property in those municipalities where the assessed value of federal property is more than 4% of the total municipal assessment roll. Government-owned railroads are excluded from this assessment.

The formula contemplated by the Federal Government upon which it will base its payment to municipalities, in lieu of taxes will be predicated on the following three points :

- (a) the assessed value of the building ;
- (b) the estimated costs of municipal services to it, and
- (c) the value which the building renders to the local community,

A copy of the Federal Legislation dealing with this matter will be forwarded as soon as it becomes available.

**France**—In France the land tax on built or non-built properties serves as a basis to determine whether a property is subject to local taxation. On principle all properties (those of the State included) are liable to land tax. However, an exemption is provided for localities or grounds with a public service character and non-yielding revenue. The "Direction des contributions" (the Excise Office) has, in this matter, full power of assessment.

According to this rule Railway property is subject to general and local taxes as well as to land tax because of the revenues their exploitation may procure.

However, it should be noticed that the State Railways profit by a uniform tariff throughout the whole country. Whereas for a private building of the same importance the taxes may be slightly different according to the region in which it is situated, a special tariff of the direct taxes (somewhat under the average) has been fixed for buildings of the railways which are, quite often, identical notwithstanding they are situated in different regions. The reduction provided for the benefit of railway is based on the estimation of the value or of the importance of the building and not on the amount of the tax.

These particulars show that as to assessment, the French rule, notwithstanding the nationalization of the railways, is totally different from the rules in some other European countries, where railway companies are evidently completely exonerated of land tax.

We point out that the French legislator, in order to encourage the construction of dwellings, has exonerated these structures from the land tax for a period of 25 years. Public and private buildings profit by this exemption.

**Great Britain**—We regret not to be able to give you a general view on the English system. The material on this subject, received from England, gives only a partly picture of local taxation in Government-owned properties. As the means of transportation have been nationalised, there is no fundamental difference between Government owned property and railway property. Page 85 of the Journal of the Incorporated Association of Rating and Valuation Officers (forwarded to you under separate cover) mentions the rating of railway, canal and electricity hereditaments. Instead of the former taxes on railway property, the British Transport Committee pays in a central pool, which is distributed to local authorities in proportion to the rateable value of their area (see also pages 80-81). This system is rather similar to the system of the proposed Federal legislation in Canada—as mentioned above.

On page 88 you will find a short item on local taxation on hospitals, which may also be of use to give an impression of the British system.

Annexes: Journal of the Incorporated Association of Rating and Valuation Officers, September 1948. Railways (Valuation for Rating) Act 1930 by A. E. Joll.

**The Netherland**—There is no general act exempting government and railway property from local taxation. It depends on the local authorities whether these properties are exempted from their taxes. In this respect the municipalities are entirely autonomous. In many cases, however, the municipalities have decreed that the government and railway properties are free of tax.

**U. S. A.**—1. Taxation of railway and of central government properties by local authorities must be considered separately in the United State of America, because American rail roads are owned by private enterprise and in respect to taxation have entirely different legal status from properties of the federal

## APPENDIX VII

---

government. The federal government cannot be taxed by local authorities unless it has given them permission to do so, but in the laws creating many federal departments and governments agencies and corporations, there is specific provision for the payment of real property taxes in full to the local authority. Thus in the case of federal land banks which have taken over agricultural land through foreclosure, they are permitted to pay the full local property tax. The same is true in the the case of the Reconstruction Finance Corporation in connection with industrial and commercial buildings.

2. In the case of strictly governmental buildings such as post offices and custom-houses, there is no local taxation whatever but there is considerable agitation to permit the government to make a payment to the locality in lieu of taxes for municipal services. Payment in lieu of taxes arrived at by various formulas, not always equivalent to privately paid taxes, are permitted in the case of federally owned housing projects.

3. In the case of the railways, they are subject to full local taxation and have been, except in the early days of railroad construction where certain states gave them temporary tax exemption or reduction to stimulate railroad development. Most of these priveleges have long since expired during the nineteenth century.

As to railroad property in the United States, many of the states have equalisation boards to equalise the method of taxation as between the various localities.

A pamphlet called "State and Local Taxation of Federal Property" by Professor Roy G. Blakey of the University of Minnesota, is forwarded separately.



## APPENDIX VIII

### Section 20 of the Indian Trust Act, 1882

(as modified upto 1st January, 1948)

**Investment of Trust money.** Where the trust-property consists of money and cannot be applied immediately or at an early date to the purposes of the trust, the trustee is bound (subject to any direction contained in the instrument of trust) to invest the money on the following securities, and on no others:—

(a) in promissory notes, debentures, stock or other securities [of any Provincial Government] or of the Central Government, or of the United Kingdom of Great Britain and Ireland;

(Provided that securities, both the principal whereof and the interest whereon shall have been fully and unconditionally guaranteed by any such Government, shall be deemed, for the purposes of this clause, to be securities of such Government.)

(b) in bounds, debentures and annuities charged or secured by the Imperial Parliament on the revenues of India or of the Federation or any Province.

(Provided that, after the fifteenth day of February, 1916 no money shall be invested in any such annuity being a terminable annuity unless a sinking fund has been established in connection with such annuity; but nothing in this proviso shall apply to investments made before the date aforesaid);

(bb) in India three and half per cent stock, India three per cent stock, India two and a half per cent stock or any other capital stock which may at any time hereafter be issued by the Secretary of State for India in Council under the authority of an Act of Parliament and charged on the revenues of India or which may be issued by the Secretary of State on behalf of the Governor General in Council under the provisions of Part XIII of the Government of India Act, 1935;

(c) in stock of debentures of, or shares in, Railway or other Companies the interest whereon shall have been guaranteed by the Secretary of State for India in Council or by Central Government or in debentures of the Bombay Provincial Co-operative Bank Limited, the interest whereon shall have been guaranteed, by the Secretary of State for India in Council or the Provincial Government;

(d) in debentures or other securities for money issued, under the authority of any Act of a Legislature established in British India by or on behalf of any municipal body, port trust or city improvement trust in any Presidency-town, or in Rangoon Town, or by or on behalf of the trustees of the port of Karachi;

(e) on a first mortgage of immovable property situate in British India; Provided that the property is not a leasehold for a terms of years and that the value of the property exceeds by one-third, or, if consisting of buildings, exceeds by one-half, the mortgage-money; or

(f) on any other security expressly authorized by the instrument of trust, or by any rule which the High Court may from time to time prescribe in this behalf:

Provided that, where [there is a person competent to contract and entitled in possession to receive the income of the trust property for his life, or for any greater estate, no investment or any security mentioned or referred to in clauses (d), (e) and (f) shall be made without his consent in writing.

---

**20A. Power to purchase redeemable stock at a premium.**

(1) A trustee may invest in any of the securities mentioned or referred to in section 20, notwithstanding that the same may be redeemable and that the price exceeds the redemption value:

Provided that a trustee may not purchase at a price exceeding its redemption value any security mentioned or referred to in clauses (c) and (d) of section 20 which is liable to be redeemed within fifteen years of the date of purchase at par or at some other fixed rate, or purchase any such security as is mentioned or referred to in the said clauses which is liable to be redeemed at par or at some other fixed rate at a price exceeding fifteen per cent above par or such other fixed rate.

(2) A trustee may retain until redemption any redeemable stock, fund or security which may have been purchased in accordance with this section.

## STATISTICAL APPENDICES

### List of Contents

1. Statement showing the number, type and aggregate population in each class of local bodies in each State.
2. Statement showing particulars regarding the population and income of City Municipal Corporations.
3. Statement showing particulars regarding the number, population and total income from taxation of municipalities (excluding City Municipal Corporation) in the various States (1946-47).
4. Statement showing particulars regarding the number, population and total income from taxation of District Boards in the various States (1946-47).
5. Statement showing the aggregate population, total income, income from taxation and per capita incidence each of the City Municipal Corporations, Municipalities and District Boards.
6. Comparative statement showing the periodical growth of the Central, Provincial and Local revenues for 1921 to 1946.
7. Statements (nine) showing the income of local bodies in each State during the year 1946-47.
8. Statements (eleven) showing the distribution of expenditure of local bodies in each State during the year 1946-47.
9. Statements (nine) showing the per capita income of local bodies in each State.
10. Statements (nine) showing the per capita effect of local services in each State during the year 1946-47.
11. Statement showing the per capita incidence of property tax and octroi in municipal areas in each State.
12. Statement showing the number, income and expenditure of village authorities in 1926 and 1946.
13. Statement showing the percentage of income from principal taxes to the total income from taxes of municipalities since 1884-85.
14. Statement showing the percentage of income from principal taxes to the total income from taxes of District Boards since 1884-85.
15. Statement showing the percentage of income from principal taxes to the total income from taxes of City Municipal Corporations since 1884-85.
16. Statements (three) showing the growth of municipal income from 1889-90.
17. Statements (three) showing the growth of District Board income from 1889-90.

LIST OF CONTENTS—*Contd.*

---

18. Statements (two) showing the growth of City Municipal Corporations income from 1889-90.
19. Statement showing the growth of Government Grants-in-aid to District Boards since the year 1889-90.
20. Statement showing the growth of Government Grants-in-aid to Municipalities since the year 1889-90.
21. Statement showing the growth of Government Grants-in-aid to City Municipal Corporations since the year 1889-90.

## I

Statement showing the number, type and aggregate population in each class of local bodies in each State  
(Population based on 1941 Census figures).

State.	City Corporations.		Municipalities.		District Boards.		ANALYSIS.
	Number.	Population.	Number.	Population.	Number.	Population.	
1. Madras.	1	7,77,481	81	36,62,846	24	4,49,01,483	<i>City Corporations :</i> Number = 3. Population = 47,55,547.
2. Bombay.	1	14,89,883	130	41,03,670	20	1,59,69,786	
3. Bengal.	1	24,88,183	75	22,51,390	13	1,70,76,038	
4. Uttar Pradesh.	...	...	86	45,93,354	49	4,97,41,609	<i>Municipalities :</i> Number = 592. Population = 1,93,54,855.
5. Madhya Pradesh.	...	...	82	18,25,872	25	1,50,11,783	
6. Punjab.	...	...	60	14,62,966	13	1,03,39,824	<i>District Boards :</i> Number = 186. Population = 20,61,75,939.
7. Assam.	...	...	13	2,24,776	19	90,54,693	
8. Bihar.	...	...	57	16,23,115	17	3,58,15,255	
9. Orissa.	...	...	8	2,62,266	6	82,65,468	
Total	3	47,55,547	592	1,93,54,855	186	20,61,75,939	

XIXIX

STATISTICAL APPENDIX I

**II**

Statement showing particulars regarding the population and income of the City Municipal Corporations for the year 1947-48.

Name of the Corporation.	Population (1941-Census).	Total income from all sources.	Income from taxation.		Incidence per head of population.		REMARKS
			Amount.	Proportion to total income.	Total income from all sources.	Income from Taxation.	
Madras Municipal Corporation.	777,481	1,55,78,468	1,07,72,642	69.15	20 0 7	13 13 8	
Bombay Municipal Corporation.	1,489,883	6,61,69,242	5,43,10,763	82.02	44 6 7	36 7 3	
Calcutta Municipal Corporation.	2,488,183	4,17,74,100	2,41,59,100	57.90	16 12 7	9 11 4	
<b>Total</b>	<b>4,755,547</b>	<b>12,35,21,810</b>	<b>8,92,42,505</b>				

IX

STATISTICAL APPENDIX II (a)

II (a)

MADRAS MUNICIPAL CORPORATION.

Statement showing particulars of income during 1947-48.

Population . . . . .	777,481		
Total income from all sources . . . . .		Rs.	1,55,78,468
Total income from taxation . . . . .		"	1,07,72,642
Per capita incidence of total income . . . . .		"	20-0-7
Per capita incidence of income from taxation . . . . .		"	13-13-8
<b>Rates and Taxes.</b>			
(i) Tax for general purposes . . . . .		Rs.	48,58,855
(ii) Drainage tax . . . . .		"	13,07,787
(iii) Duty on transfer of property . . . . .		"	11,03,881
(iv) Entertainment tax . . . . .		"	9,77,263
(v) Lighting tax . . . . .		"	6,33,104
(vi) Water tax . . . . .		"	6,26,877
(vii) Profession tax . . . . .		"	5,10,378
(viii) Tax on Companies . . . . .		"	2,95,369
(ix) Tax on carriages and animals . . . . .		"	1,51,947
(x) Tax on timber . . . . .		"	1,34,844
(xi) Advertisement tax . . . . .		"	92,020
(xii) Tax on carts . . . . .		"	80,317
	<b>Total</b>	"	<b>1,07,72,642</b>
<b>Assistance from Government.</b>			
(i) Compensation for tax on places used for sale of sprituous liquors . . . . .		Rs.	13,607
(ii) Compensation for loss of toll revenue . . . . .		"	7,54,474
(iii) Government grants . . . . .		"	33,803
	<b>Total</b>	"	<b>8,01,884</b>
<b>Remunerative Enterprise.</b>			
(i) Land development . . . . .		Rs.	11,32,027
(ii) Central Lorry station . . . . .		"	3,24,092
(iii) Markets Lorry . . . . .		"	1,95,579
(iv) Slaughter houses . . . . .		"	1,59,411
(v) Workshops . . . . .		"	86,766
(vi) Sale of electric energy . . . . .		"	59,758
(vii) Sports arena . . . . .		"	26,151
(viii) Dobikhanas . . . . .		"	5,889
(ix) Cart stands . . . . .		"	3,474
(x) Model cattle yard . . . . .		"	2,708
(xi) Fishing scheme . . . . .		"	89
	<b>Total</b>	"	<b>19,95,944</b>

STATISTICAL APPENDIX II (a)

**Other sources of Revenue:**

Collection for excess water . . . . .	Rs.	10,84,934
Conservancy receipts other than rates . . . . .	"	1,65,256
Water works receipts . . . . .	"	50,821
Fees from educational institutions . . . . .	"	40,220
Receipts from public parks, Poor House and Zoo . . . . .	"	33,355
Ferries . . . . .	"	30,169
Other fees . . . . .	"	3,671
Miscellaneous . . . . .	"	25,99,572
Total . . . . .	"	20,07,998
Grand Total . . . . .	Rs.	1,45,78,468



STATISTICAL APPENDIX II (B)

II (b)

BOMBAY MUNICIPAL CORPORATION.

Statement showing the income during the year 1947-48.

Population . . . . .	14,89,883 (1941 census)	
Total income from all sources . . . . .		Rs. 6,61,69,242
Total income from taxation . . . . .		" 5,43,10,763
Per capita incidence of income from all sources . . . . .		" 44-6-7
Per capita incidence of income from taxation . . . . .		" 36-7-3

DETAILS.

I. Rates and Taxes.

General tax . . . . .		Rs. 2,29,65,301
Town duty . . . . .		" 87,75,728
Water tax . . . . .		" 1,34,81,288
Halalkhore tax . . . . .		" 48,54,811
Wheel tax. . . . .		" 22,64,266
Fire tax . . . . .		" 8,45,384
	Total :—	Rs. 5,31,86,758

II. Licence Fees etc.

(a) Dangerous and offensive trades . . . . .		Rs. 6,02,240
(b) Squatters and hawkers licences . . . . .		" 3,14,956
(c) Advertisement tax . . . . .		" 2,06,809
	Total taxation.	" 5,43,10,763

III. Market Revenue.

IV. Miscellaneous . . . . .		Rs. 25,28,29,299
V. Assistance from Government.		" 48,51,068

(i) Government aid in respect of fines for offences against the Law . . . . .		Rs. 3,31,158
(ii) Contribution towards expenditure in primary education . . . . .		" 9,75,017
(iii) Contribution in lieu of tolls, . . . . .		" 75,000
(iv) Shops and Establishments Act . . . . .		" 37,937
(v) Grant-in-aid . . . . .		" 30,00,000

Total Govt. assistance. Rs. 44,19,112

Grand Total :— Rs. 6,61,69,242

II (c)

CALCUTTA MUNICIPAL CORPORATION.

Statement showing the income for the year 1947-48.

Population	24,88,183 (1941 census)		
Total income from all sources		Rs.	4,17,74,100
Total income from taxation		"	2,41,59,100
Per capita incidence of income from all sources.		"	16-12-7
Per capita incidence of income from taxation		"	9-11-4

**Rates and Taxes.**

(1) Consolidated Rate		Rs.	2,19,50,600
(2) Licenses :—			
(i) Tax on animals and carriages.	Rs.		90,000
(ii) Tax on trades and professions.	"		19,77,600
(iii) Scavenging tax	"		72,600
(iv) Receipts from cart registration fund	"		68,300
(v) Share from the combined hackney carriage fund	"		
		Total	Rs. 22,08,500
3. Contribution from Government for motor vehicle licensing		"	4,50,000
4. Grants and contributions :—			
(i) Grants from Government.		Rs.	55,85,400
(ii) Contributions from other sources		"	10,200
		Total	" 55,95,600

**Revenue derived from Municipal Property etc.**

5. Receipts from markets		"	16,25,000
6. Receipts from salughter houses		"	1,30,700
7. Sale of water		"	10,73,800
8. Excess consumption of filtered water		"	600
9. Rent of lands and houses		"	2,14,700
10. Sale proceeds of land and produce of land		"	70,600
11. Dhobikhana receipts		"	29,700
12. Calcutta Municipal Gazette		"	20,300
13. Commercial Museum and Publicity Department		"	3,000
14. Miscellaneous conservancy and lighting receipts		"	21,200
15. Fees and revenues from Tramways Electric Supply		"	1,55,300
16. Fees and receipts from medical institutions.		"	5,900
17. Other fees		"	2,67,800
18. Fines under the Municipal and other Acts.		"	33,100
19. Interest on surplus cash balance		"	2,03,200
20. Loans and advances from Government		"	50,03,600
21. Miscellaneous		"	27,10,900
		Total	Rs. 4,17,74,100

### III

Statement showing particulars regarding number, population, total income and income from taxation of municipalities (excluding City Corporations) in the various States for the year 1946-47

State	Number	Population	Total income from all sources.	Income from taxation		Incidence per head of population.				Remarks.	
				Amount	Proportion to the total income	Total income from all sources		Income from taxation.			
			Rs.	Rs.		Rs.	As.	P.	Rs.	As.	P.
1. Madras	81	36,62,846	3,87,45,677	2,56,20,441	66.16	10	9	0	6	15	0
2. Bombay	130	41,03,670	4,39,86,524	3,61,81,124	74.61	10	11	6	8	13	0
3. Bengal	75	22,51,390	1,15,03,056	78,35,453	68.08	5	1	9	3	7	8
4. U. P.	86	45,93,354	4,68,22,829	2,74,45,566	70.35	10	3	1	5	15	7
5. Punjab	60	14,62,966	76,71,577 (1947-48)	3,50,878 (1947-48)	69.74	5	3	11	2	15	7
6. Bihar	57	16,23,115	78,09,231	44,63,948	57.16	4	15	4	2	12	0
7. Orissa	8	2,62,266	22,02,603	6,31,113	28.6	8	6	2	2	6	6
8. M. P.	82	18,25,872	1,52,37,824	1,10,96,594	72.82	8	5	6	6	1	3
9. Assam	13	2,24,776	19,73,714	10,42,102	52.79	6	13	5	3	9	9
<b>Total</b>	<b>592</b>	<b>1,93,54,855</b>	<b>17,59,58,035</b>	<b>11,46,67,219</b>	<b>68.56</b>	<b>6</b>	<b>14</b>	<b>7</b>	<b>4</b>	<b>11</b>	<b>10</b>

ATX

STATISTICAL APPENDIX III

## IV

Statement showing particulars regarding the number, population and total income from taxation of District Boards for the year 1946-47.

STATE.	Number of District Boards.	Population.	Total income from all sources.	Income from taxation.		Incidence per head of population.		Remarks.
				Amount.	Proportion to the total income.	Total income from all sources.	Income from Taxation.	
Madras.	24	4,49,01,483	5,72,78,682	2,61,92,380	45.72	1 4 4	0 7 0	1947-48 Figures 1947-48 Figures
Bombay.	20	1,59,69,786	4,63,30,468	61,74,191	13.32	2 14 5	0 6 2	
Bengal.	13	1,70,76,038	74,31,976	37,13,818	49.97	0 6 11	0 3 5	
U. P.	45	4,81,65,349	3,13,79,890	89,68,147	28.57	0 10 1	0 2 11	
Punjab.	13	1,03,39,824	1,16,03,637	25,78,351	22.22	1 7 11	0 4 0	
Bihar.	16	3,58,15,255	2,58,56,960	1,06,42,979	41.12	0 11 6	0 4 9	
Orissa.	4	84,07,743	52,68,919	11,92,307	22.62	0 10 3	0 2 3	
M. P.	25	1,47,19,817	1,55,14,895	37,96,872	24.47	1 0 1	0 4 0	
Assam.	16	91,26,955	61,65,666	19,19,084	31.23	0 11 6	0 3 9	
Total	176	20,45,22,250	15,55,31,309	5,22,28,921				

IATX

STATISTICAL APPENDIX IV

V

Statement showing the aggregate population, total income, income from taxation and per capita incidence each of the City Municipal Corporations, Municipalities and District Boards for the year 1946-47.

Description of local body.	Number.	Population.	Total income from all sources.	Income from taxation.		Incidence per head of population.		REMARKS.
				Amount.	Percentage to the total income.	Total income from all sources.	Income from taxation.	
			Rs.	Rs.		Rs. a. p.	Rs. a. p.	
1. City Municipal Corporations (1947-48).	3	4,755,547	123,521,810	89,242,505	72.24	25 15 7	18 12 3	
2. Municipalities.	618	21,946,887	151,819,055	104,094,627	68.56	6 14 7	4 11 10	
3. District Boards.	176	204,522,250	155,531,309	52,228,921	33.58	0 12 2	0 4 1	
Total	797	231,224,684	430,872,174	245,566,053	56.99	1 13 1	1 0 11	

IIATX

STATISTICAL APPENDIX V

## VI

Comparative statement showing the periodical growth of the Central,  
Provincial and Local revenues from 1921 to 1946

YEAR	Central Revenues (In Crores of Rupees)		Provincial Revenues (In crores of rupees)		Local Revenues (In crores of rupees)				REMARKS.
	AMOUNT	Percentage of growth over the Preceding figure.	AMOUNT	Percentage of growth over the preceding figure	Municipa- lities.	District Boards.	Total local revenue.	Percentage of growth over the preceding figure.	
1921	115.2	...	70.4	...	11.35	8.96	20.31	...	
1931	121.6	5.55	83.2	18.18	23.8	16.57	40.46	99.2	
1941	145.1	19.32	98.4	18.2	26.42	16.61	43.03	6.3	
1946	360.7	148.58	229.0	132.72	27.53	15.55	43.09	0.14	

STATISTICAL APPENDIX VII (a)

V II (a)  
MADRAS

Statement showing the income of local bodies  
(1946-47)

MUNICIPALITIES

Number		81
Population		36,62,846
Total income from all sources	Rs.	3,87,45,677
Total income from rates and taxes	"	2,56,20,441
Per capita incidence of total income		10-9-0
Per capita incidence of income from taxes		6-15-0

DETAILS:

Rates and taxes.

(i) Tax on houses and lands	Rs.	69,41,582
(ii) Lighting rate	"	54,34,726
(iii) Other taxes.		
(1) Tax on private menials and domestic servants	"	2,715
(2) Entertainment tax	"	23,64,313
(3) Pilgrim tax	"	1,30,423
(4) Education tax	"	12,49,696
(iv) Tolls on roads and ferries	"	34,52,198
(v) Water rate	"	30,53,109
(vi) Tax on trades and professions	"	10,80,539
(vii) Conservancy	"	9,63,816
(viii) Tax on animals and vehicles	"	9,47,324
Total	Rs.	2,56,20,441

Realisations under special Acts.

From pounds, hackney carriages, licences, etc:—	Rs.	1,91,593
Total	Rs.	1,91,593

Other sources of revenue.

Grants from Government	Rs.	31,76,316
Miscellaneous	"	23,61,749
Receipts from markets and slaughter houses	"	22,66,186
Fees from educational institutions:	"	14,12,392
Fines	"	5,35,543
Rents of houses and lands	"	4,81,499
Sale proceeds of lands and produce of land	"	4,41,866
Other fees	"	17,17,387
Conservancy receipts (other than rates)	"	2,75,811
Grants from local funds	"	2,39,221
Interest	"	25,673
Total	"	129,33,643
Grand Total	"	3,87,45,677

STATISTICAL APPENDICES VII (a) & (b)

**DISTRICT BOARDS**

Number		24
Population		4,49,01,483
Total income from all sources	Rs.	5,72,78,682
Total income from rates and taxes	..	2,61,92,380
Per capita incidence of total income		1-4-4
Per capita incidence of income from taxes	Rs.	0-7-0

**DETAILS**

(1) Provincial rates and taxes	Rs.	2,61,92,380
(2) Other sources	..	98,22,158
(3) Civil works	..	39,44,144
(4) Government grants	..	1,73,20,000
Total		Rs. 5,72,78,682

**VII (b)**

**BOMBAY**

Statement showing the income of local bodies.  
(1946-47)

**MUNICIPALITIES**

Number		130
Population		41,03,670
Total income from all sources	Rs.	4,10,13,007
Total income taxes	..	3,09,01,114
Per capita incidence of total income	..	10-11-6
Per capita incidence of income from taxes	..	8-13-0

**DETAILS**

(1) Octroi (a) Octroi	Rs.	1,01,95,088
(b) Terminal tax	..	5,57,329
(2) Water rate	..	83,36,048
(3) Taxes on houses and lands	..	42,31,003
(4) Conservancy	..	20,10,800
(5) Other taxes	..	29,23,439
(6) Tax on animals and vehicles	..	8,04,143
(7) Tolls on Roads and Ferries	..	15,60,716
(8) Lighting Rate	..	1,23,033
(9) Tax on Trade and professions	..	1,59,510

Total :— 3,09,01,114



STATISTICAL APPENDICES VII (b) & (c)

**Realisation under special Acts.**

(1) From Pounds, hackney carriages and licences	Rs.	14,165
---	-----	--------

**Other sources of revenue**

(1) Grants from Government	"	51,50,246
(2) Receipts from markets and slaughter houses	"	11,76,074
(3) Rents of lands and houses	"	7,47,288
(4) Other fees	"	2,84,992
(5) Fees from educational institution.	"	6,24,528
(6) Sale proceeds from lands and produce of land	"	4,05,165
(7) Grants from local funds	"	1,33,817
(8) Conservancy (other than rates)	"	4,14,835
(9) Other grants and contributions	"	2,00,981
(10) Fines	"	1,67,929
(11) Miscellaneous	"	7,91,873

1,00,97,728

Grand Total 4,10,13,007

**DISTRICT LOCAL BOARDS**

Number		20
Population	"	1,59,69,786
Total income from all sources	"	4,63,30,468
Total income from taxes	"	61,74,191
Per capita incidence of total income	"	2-14-5
Per capita incidence of income from taxes	"	0-6-2

**DETAILS**

From Government grants	Rs.	3,26,39,210
Provincial rates and taxes	"	61,74,191
Civil works	"	6,78,787
Other sources	"	68,38,280

**VII (c)**

**WEST BENGAL**

Statement showing the income of local bodies  
(1946-47)

**MUNICIPALITIES**

Number	75 (exclusive of the Calcutta Corporation)
Population (1941 census)	22,51,390
Total income from all sources	Rs. 1,15,08,056
Total income from rates and taxes	" 78,35,453
Per capita incidence of income	" 5-1-9
" " " of taxes	" 3-7-8

STATISTICAL APPENDIX VII (c)

DETAILS			
(1) Taxes on houses and lands	. . .	Rs.	42,77,935
(2) Conservancy	. . .	„	16,06,902
(3) Tax on trades and professions.	. . .	„	3,98,856
(4) Water rate	. . .	„	8,95,868
(5) Lighting rate	. . .	„	3,06,919
(6) Tolls (on roads & ferries)	. . .	„	1,87,286
(7) Tax on animals & vehicles	. . .	„	1,36,763
(8) Other taxes	. . .	„	24,924
(9) Octroi.	. . .	„	—
Total		Rs.	78,35,453

**Realisation under special Acts.**

From pounds, hackney carriages and licences. . . . . „ 75,449

**Other sources of revenue.**

(1) Grants from Government.	. . .	Rs.	18,20,656
(2) Miscellaneous	. . .	„	5,54,414
(3) Other fees	. . .	„	4,79,361
(4) Rents of lands & houses	. . .	„	2,67,170
(5) Receipts from markets and slaughter houses	. . .	„	1,68,057
(6) Fines	. . .	„	68,583
(7) Conservancy receipts (other than rates).	. . .	„	64,834
(8) Other grants & contributions	. . .	„	55,756
(9) Grants from local funds	. . .	„	54,909
(10) Sale proceeds of lands & produce of land	. . .	„	41,966
(11) Fees from educational institutions.	. . .	„	21,448
Total		Rs.	35,97,154

**DISTRICT BOARDS**

Number	. . .		13
Population	. . .	Rs.	17,076,038
Total income from all sources	. . .		74,31,976
Total income from taxes	. . .	„	37,13,818
Per capita incidence of total income	. . .	„	0-6-11
„ „ „ of income from taxes	. . .	„	0-3-5

**DETAILS**

(1) Provincial rates	. . .	„	37,13,818
(2) Civil works	. . .	„	4,92,721
(3) Other sources	. . .	„	6,10,686
(4) Government grants	. . .	„	26,14,751
Total		Rs.	74,31,976

VII (d)

UTTAR PRADESH

Statement showing the income of local bodies

(1946-47)

MUNICIPALITIES

Number	86
Population	45,93,354
Total income from all sources	Rs. 4,68,22,829
Total income from rates and taxes	„ 2,74,45,566
Per capita incidence of total income	„ 10-3-1
Per capita incidence of income from taxes	„ 5-15-7

DETAILS

Rates and taxes.

(i) Octroi including terminal tax	Rs. 1,76,30,483
(ii) Water rate	„ 29,92,732
(iii) Tax on houses and lands	„ 27,29,653
(iv) Tolls on roads and ferries	„ 25,41,681
(v) Tax on animals and vehicles	„ 4,04,402
(vi) Conservancy	„ 2,24,604
(vii) Tax on trades and callings	„ 2,58,045
(viii) Other taxes on circumstances & property	„ 6,63,966
<b>Total</b>	<b>Rs. 2,74,45,566</b>

Realisations under special Acts.

From pounds, hackney carriages and licences	Rs. 3,93,426
---	--------------

Other sources of revenue

(i) Grants from Government	Rs. 73,96,954
(ii) Miscellaneous	„ 13,42,536
(iii) Receipts from markets and slaughter houses	„ 8,67,833
(iv) Rents of lands and houses	„ 18,77,384
(v) Sale proceeds of lands and produce of land	„ 5,33,372
(vi) Fees from educational institutions	„ 4,25,053
(vii) Conservancy receipts (other than rates)	„ 8,33,606
(viii) Other fees	„ 51,18,836
(ix) Fines	„ 4,96,737
(x) Grants from local funds	„ 36,647
(xi) Other grants and contributions	„ 54,879
<b>Total</b>	<b>Rs. 1,69,83,837</b>

Grand Total Rs. 4,61,22,829

DISTRICT BOARDS

Number	49
Population	„ 4,97,41,609
Total income from all sources	„ 3,13,79,890
Total income from rates and taxes	„ 89,63,147
Per capita incidence of total income	„ 0-10-1
Per capita incidence of income from taxes	„ 0-2-11

**STATISTICAL APPENDIX VII (e)**

**DETAILS.**

(1) Grants from Government	Rs.	1,52,57,266
(2) Provincial rate and taxes	..	89,68,147
(3) Other sources	..	71,54,477
	<b>Total</b>	<b>Rs. 3,13,79,890</b>

**VII (e)**

**PUNJAB**

Statement showing the income of local bodies  
(1947-48)

(from 15-8-47 to 31-3-48)

**MUNICIPALITIES**

Number	60
Population	14,62,966
Total income from all sources	Rs. 76,71,577
Total income from rates & taxes	.. 53,50,878
Per capita incidence of total income	.. 5-3-11
Per capita incidence of income from taxes	.. 2-15-7

**Rates & Taxes.**

(a) Octroi and terminal tax	.. 29,25,123
(b) Tax on houses and lands	.. 5,00,027
(c) Water rate	.. 4,18,191
(d) Tax on animals & vehicles	.. 97,567
(e) Tolls on roads and ferries	.. 50,418
(f) Conservancy	.. 18,806
(g) Tax on trades and professions	.. 3,697
(h) Other taxes	.. 13,37,049
(i) Lighting rate	.. ..

**Total**      **Rs. 53,50,878**

**Realisations under special Acts.**

From pounds, hacking carriages and licences for sale of spirits and drugs	Rs. 70,690
--	------------

**Total**      **Rs. 70,690**

**Other sources of revenue.**

(a) Municipal properties	Rs. 6,08,089
(b) Grants from Government	.. 5,01,702
(c) Other grants and contributions	.. 24,834
(d) Fees from educational institutions	.. 41,418
(e) Other fees	.. 18,133
(f) Markets and slaughter houses	.. 26,447
(g) Conservancy receipts (other than rates)	.. 14,179
(h) Fines	.. 1,984
(i) Miscellaneous	.. 10,13,223

**Total**      **Rs. 22,50,009**

**Grand Total**      **Rs. 76,71,577**

DISTRICT BOARDS

Number		13
Population		1,03,39,824
Total income from all sources	Rs.	1,16,03,637
Total income from rates & taxes	"	25,78,351
Per capita incidence of total income	"	1-7-11
Per capita incidence income of from rates & taxes	"	0-4-0

DETAILS

(a) Grants from Government	Rs.	64,39,329
(b) Rates & taxes	"	25,78,351
(c) Civil works	"	16,732
(d) Other sources	"	25,69,225
Total	Rs.	1,16,03,637

VII (f)

BIHAR

Statement showing the income of local bodies.

(1946-47)

MUNICIPALITIES

Number		57
Population		16,23,115
Total income from all sources	Rs.	78,09,231
Total income from rates and taxes	"	44,63,948
Per capita incidence of total income	"	4-15-4
Per capita incidence of income taxes	"	2-12-0

DETAILS

Rates and taxes

(1) Tax on houses and lands	Rs.	19,28,366
(2) Conservancy	"	12,73,996
(3) Water rate	"	5,26,278
(4) Tax on trades or professions	"	92,336
(5) Tax on animals and vehicles	"	44,274
(6) Lighting rate	"	21,823
(7) Other taxes	"	5,76,875
(8) Octroi	"	...
(9) Tolls on roads and ferries	"	...
Total	Rs.	44,63,948

Realisation under special Acts.

From pounds, hackney carriages and licences.	Rs.	2,46,734
Total	Rs.	2,46,734

STATISTICAL APPENDICES VII (f) & (g)

**Other sources of revenue.**

(1) Grants from Government	Rs.	19,47,842
(2) Miscellaneous	"	4,18,605
(3) Receipts from markets and slaughter houses.	"	3,08,959
(4) Sale of lands and produce of land	"	34,351
(5) Other fees	"	1,49,131
(6) Rents of lands and houses	"	1,16,915
(7) Grants from local funds	"	17,791
(8) Fees from educational institutions	"	45,789
(9) Other grants and contributions	"	13,343
(10) Conservancy receipts (other than rates)	"	20,014
(11) Fines	"	25,809
<b>Total</b>	<b>Rs.</b>	<b>30,98,549</b>

**DISTRICT BOARDS**  
(1947-48)

Number		17
Population		3,58,15,255
Total income from all sources	Rs.	2,58,56,960
Total income from rates and taxes	"	1,06,42,979
Per capita incidence of total income	"	0-11-6
Per capita incidence of income from taxes	"	0- 4-9

**DETAILS**

1. Provincial rates and taxes	Rs.	1,06,42,979
2. Government grants	"	1,20,08,626
3. Other sources	"	32,05,355
<b>Total</b>	<b>Rs.</b>	<b>2,58,56,960</b>

**VII (g)**  
**ORISSA.**

Statement showing the income of local bodies  
(1946-47)

**MUNICIPALITIES**

Number :—		8
Population		2,62,266
Total income from all sources	Rs.	22,02,603
Total income from rates and taxes	"	6,31,113
Per capita incidence of total income	"	8-6-2
Per capita incidence of total income from taxes.	"	2-6-6

STATISTICAL APPENDIX VII (g)

DETAILS

Rates and Taxes.

(1) Tax on houses and lands	Rs.	2,15,909
(2) Conservancy.	"	1,77,647
(3) Water rate	"	52,205
(4) Tax on animals & vehicles	"	9,953
(5) Other taxes	"	1,43,654
(6) Tax on trades and professions	"	9,316
(7) Lighting rate	"	...
(8) Tolls on roads & ferries	"	16
(9) Octroi	"	...
(10) Tax on persons	"	22,413
	Rs.	6,31,113
	Rs.	Rs.

Realisations under special Acts.

(1) Licences	} Hackney carriages } Petroleum } Vaccine fees } Miscellaneous	2,317	} 45,750
		578	
		164	
		42,691	
		45,750	

Other sources of revenues :—

(1) Grants from Government : General purposes	11,93,296	} 13,76,969
Educational	91,639	
Medical	92,034	
	13,76,969	
(2) Receipts from markets and slaughter houses	38,233	
(3) Other fees.	41,084	
(4) Grants from local funds.	9,784	
(5) Other grants and contributions.	2,448	
(6) Rents of lands & houses.	17,808	
(7) Sale proceeds of land & produce of land.	11,492	
(8) Fees from education institutions.	7,624	
(9) Conservancy receipts (other than tax).	4,411	
(10) Fines.	1,383	
(11) Miscellaneous.	14,504	
	15,25,740	15,25,740

DISTRICT BOARDS

Number.		6
Population.		82,65,468
Total income from all sources.	Rs.	52,68,919
Total income from rates & taxes.	"	11,92,307
Per capita incidence of total income.	"	0-10-2
Per capita incidence of income from taxes.	"	0-2-3

STATISTICAL APPENDICES VII (g) & (h)

DETAILS	Rs.
1. Provincial rates.	11,92,307
2. Civil works.	1,14,672
3. Other sources.	3,75,496
4. Government grants.	35,86,444
	<u>52,68,919</u>

VII (h)  
MADHYA PRADESH

Statement showing the income of local bodies.  
(1946-47)

MUNICIPALITIES

Number.	82
Population	-18,25,872
Total income from all sources.	Rs. 1,52,37,824
" " " rates and taxes.	" 1,10,96,594
Per capita incidence of total income.	" 8-5-6
" " " of income from taxes.	" 6-1-3

DETAILS

Rates and taxes (1) Octroi.	" 36,21,924
(2) Other taxes.	" 29,50,681
(3) Conservancy.	" 15,78,674
(4) Water rate.	" 15,31,049
(5) Tax on houses and lands.	" 8,66,784
(6) Tolls on roads and ferries.	" 2,52,689
(7) Tax on animal and vehicles.	" 1,38,818
(8) Tax on trades and professions.	" 1,27,602
(9) Lighting rate.	" 28,373
Total	Rs. <u>1,10,96,594</u>

Realisations under special Acts.

From pounds, hackney carriages and licences.	Total	Rs. <u>1,69,136</u>
--	-------	---------------------

Other sources of revenue.

(1) Grants from Government.	Rs. 10,15,307
(2) Receipts from markets and slaughter houses.	" 6,60,355
(3) Miscellaneous.	" 6,67,646
(4) Fees from educational institutions.	" 4,73,798
(5) Rents of land and houses.	" 4,30,751
(6) Sale proceeds of land and produce of land.	" 2,10,977
(7) Other fees.	" 2,66,269
(8) Conservancy receipts (other than rates).	" 1,23,661
(9) Grants from local funds.	" 61,571
(10) Other grants and contributions.	" 61,759
(11) Fines.	...
Total	Rs. <u>39,72,094</u>

Grand Total Rs. 1,52,37,824



STATISTICAL APPENDICES VII (h) & (i)

DISTRICT COUNCILS

(Since abolished).

Number.		25
Population.		1,50,11,783
Total income from all sources.	Rs.	155,14,895
"    "    " rates and taxes.	"	37,96,872
Per capita incidence of total incomes.	"	1-0-1
"    "    " of income from taxes.	"	0-4-0

DETAILS

(1) Other sources.	Rs.	72,75,217
(2) Provincial rates and taxes.	"	37,96,872
(3) Civil works.	"	2,01,735
(4) Government grants.	"	42,41,071
	Total	Rs. 1,55,14,889

VII (i)

ASSAM

Statement showing the income of local bodies.

(1945-46)

MUNICIPALITIES

Number . . . . .		13
Population . . . . .		2,24,776
Total income from all sources . . . . .	Rs.	19,73,714
Total income from taxes . . . . .	"	10,42,102
Per capita incidence of total income . . . . .	"	6-13-5.
Per capita incidence of income from taxes . . . . .	"	3-9-9

DETAILS

Rates and taxes.

(i) Tax on houses and lands . . . . .	Rs.	4,12,734
(ii) Conservancy . . . . .	"	3,18,469
(iii) Water rate . . . . .	"	2,09,303
(iv) Lighting rate . . . . .	"	44,682
(v) Tax on animals and vehicles . . . . .	"	37,861
(vi) Tax on trades and professions . . . . .	"	15,495
(vii) Tolls on roads and ferries . . . . .	"	2,912
(viii) Other taxes . . . . .	"	646
	Total	Rs. 10,42,102

Realisations under special Acts.

From pounds, hackney carriages and licences	Rs.	1,42,488
---	-----	----------

STATISTICAL APPENDIX VII (i)

**Other sources.**

(i)	Grants from Government	Rs.	2,35,185
(ii)	Grants from local funds	"	7,534
(iii)	Other grants and contributions	"	87,807
(iv)	Receipts from markets & slaughter houses	"	2,96,790
(v)	Rents of lands and houses	"	45,687
(vi)	Fees from educational institutions	"	7,399
(vii)	Sale proceeds of land and other produce of land	"	3,636
(viii)	Conservancy receipts (other than tax)	"	2,151
(ix)	Other fees	"	92,965
<b>Total</b>			Rs. 7,89,127
<b>Grand Total</b>			Rs. 19,73,714

**DISTRICT LOCAL BOARDS**  
(1946-47)

Number			19
Population			90,54,693
Total income from all sources		Rs.	61,65,666
Total income from taxes		"	19,19,084
Per capita incidence of total income		"	0-11-6
Per capita incidence of income from taxes		"	0-3-9

**DETAILS**

1.	Government grants	Rs.	32,19,530
2.	Rates & taxes	"	19,19,084
3.	Civil works	"	2,97,534
4.	Other sources	"	7,29,528
<b>Total</b>			Rs. 61,65,666

## VIII (i)

Statement showing the distribution of expenditure on municipal services (excluding City Corporations) during the year 1946-47

Head of Service.	1	2	3	4	5	6	7	8	9
	Madras (1946-47)	Bombay (1946-47)	Bengal (1946-47)	U.P. (1946-47)	Punjab (1947-48)	Bihar (1946-47)	Orissa (1946-47)	Madhya Pradesh (1946-47)	Assam (1945-46)
	Amount Rs.	Amount Rs.	Amount Rs.	Amount Rs.	Amount Rs.	Amount Rs.	Amount Rs.	Amount Rs.	Amount Rs.
Education	63,87,615 (13.6)	88,87,458 (26.7)	7,06,384 (6.03)	49,89,444 (12.3)	9,05,262 (11.93)	9,31,115 (13.7)	1,22,737 (9.62)	33,72,044 (17.46)	2,94,764 (14.4)
Public Health	6,20,002 (1.3)	8,68,169 (2.6)	3,90,045 (3.3)	14,83,395 (3.6)	2,63,961 (3.54)	1,79,259 (2.6)	61,181 (4.79)	63,96,755 (32.12)	59,668 (2.9)
Medical	7,56,121 (1.6)	24,90,470 (7.4)	4,33,139 (3.7)	12,90,325 (3.1)	5,08,125 (6.70)	1,88,905 (2.7)	37,862 (2.96)	4,45,939 (2.31)	52,900 (2.5)
Drainage	14,42,567 (3.1)	7,11,466 (2.1)	6,26,196 (5.3)	11,73,585 (2.8)	2,39,407 (3.15)	3,97,322 (5.8)	21,353 (1.67)	5,22,762 (2.71)	52,859 (2.5)
Water supply	22,91,114 (4.9)	16,06,778 (4.8)	10,40,938 (8.8)	51,19,151 (12.6)	6,03,774 (7.96)	5,83,028 (8.5)	51,670 (4.05)	14,50,430 (7.51)	2,63,962 (12.7)
Conservancy	75,58,874 (16.1)	70,30,445 (21.1)	38,65,282 (33.04)	75,29,995 (18.5)	11,72,914 (15.46)	23,97,783 (35.4)	3,89,813 (30.55)	31,28,654 (16.21)	5,65,125 (27.6)
Roads	35,52,574 (7.6)	17,15,065 (5.1)	10,71,320 (8.1)	37,80,183 (9.3)	4,82,053 (6.35)	4,68,864 (6.9)	1,75,804 (13.78)	12,88,008 (6.66)	2,23,451 (10.9)
Public safety	59,59,387 (12.7)	18,49,448 (5.5)	5,26,220 (4.6)	30,56,875 (7.5)	16,53,313 (21.8)	2,37,625 (3.5)	58,008 (4.54)	6,69,629 (3.46)	96,339 (4.2)
General administration	27,59,745 (5.9)	45,85,433 (13.8)	13,05,092 (11.1)	37,96,787 (9.3)	14,67,277 (19.34)	5,66,454 (8.3)	99,682 (7.81)	20,36,987 (10.54)	1,79,602 (8.7)
Other conveniences	1,53,65,980 (32.2)	34,76,381 (10.4)	17,34,083 (14.8)	83,00,141 (20.4)	2,82,152 (3.72)	8,18,144 (12.0)	2,57,557 (20.19)		2,61,173 (12.7)
<b>Total</b>	<b>4,66,93,985</b>	<b>3,32,21,113</b>	<b>1,16,98,699</b>	<b>4,05,19,881</b>	<b>75,93,238</b>	<b>67,68,499</b>	<b>12,75,667</b>	<b>1,93,11,208</b>	<b>20,46,843</b>

NOTE :—The figures in brackets below each figure of expenditure indicate the percentage which the expenditure under that head formed of the total income.

## VIII (ii)

Statement showing the distribution of expenditure of District Boards for the year 1946-47.

Head of Service.	Madras.	Rombay.	Bengal.	U.P.	Punjab 1947-48.	Bihar.	Orissa.	M. P.	Assam.
	Amount.	Amount.	Amount.	Amount.	Amount.	Amount.	Amount.	Amount.	Amount.
Education.	3,12,95,417 (58.7)	2,55,54,496 (82.8)	9,96,438 (14.1)	1,70,50,763 (58.7)	64,02,012 (65.09)	72,78,728 (37.2)	25,23,643 (57.51)	48,45,350 (53.12)	30,94,151 (49.65)
Public Health	16,92,806 (3.23)	9,29,963 (3.0)	13,74,822 (19.5)	8,79,761 (5.2)	6,30,925 (6.41)	13,98,785 (7.1)	1,79,042 (4.08)	3,57,522 (3.91)	89,527 (1.43)
Medical Relief.	31,47,487 (6.01)	6,84,132 (2.2)	10,36,743 (14.7)	24,39,967 (8.4)	8,33,463 (8.47)	21,02,556 (10.7)	3,96,700 (9.04)	3,27,429 (3.58)	7,00,033 (11.23)
Communications.	1,04,62,000 (20.01)	30,02,279 (9.7)	18,24,023 (25.9)	34,85,096 (11.8)	8,03,637 (8.17)	47,13,400 (24.1)	6,75,573 (15.39)	3,95,338 (4.33)	11,65,031 (18.69)
General Administration.	25,62,850 (4.9)	6,17,113 (2.0)	3,98,397 (5.6)	18,00,00 (6.1)	7,46,998 (7.59)	9,89,501 (5.06)	3,63,341 (8.28)	8,31,584 (9.11)	4,42,584 (7.10)
Other purposes.	31,40,372 (6.004)	57,136 (10.1)	14,03,417 (19.9)	33,87,909 (11.6)	4,17,156 (4.24)	30,61,036 (15.6)	2,49,344 (5.68)	23,64,018 (25.91)	7,40,12 (11.87)
Total	5,23,00,932	3,08,45,119	70,33,840	2,90,40,000	98,34,191	1,95,44,000	43,87,643	91,21,241	62,31,453

Note :—The figures in brackets below each figure of expenditure indicate the percentage which the expenditure under that head formed of the total income.

STATISTICAL APPENDICES VIII (a) & (b)

VIII (a)

Statement showing the distribution of expenditure of local bodies.

**MADRAS.**  
1946-47  
**Municipalities.**

	Amount. Rs.	Percentage.
1. Other conveniences and miscellaneous . . . . .	1,53,65,980	32.2%
2. Conservancy . . . . .	75,58,874	16.1%
3. Education . . . . .	63,87,615	13.6%
4. Public safety . . . . .	59,59,387	12.7%
5. Roads . . . . .	35,52,574	7.6%
6. General administration and collection . . . . .	27,59,745	5.9%
7. Water supply . . . . .	22,91,114	4.9%
8. Drainage . . . . .	14,42,567	3.1%
9. Hospitals . . . . .	7,56,121	1.6%
10. Public health . . . . .	6,20,002	1.3%
<b>Total</b> . . . . .	<b>4,66,93,985</b>	

**District Local Boards.**

	Amount. Rs.	Percentage.
1. Others . . . . .	2,57,20,976	49.3%
2. Communications . . . . .	1,04,62,000	20.01%
3. Education . . . . .	55,67,326	10.6%
4. Public health . . . . .	48,40,293	9.2%
5. Medical . . . . .	31,47,487	6.01%
6. General Administration and collection . . . . .	25,62,850	4.9%
<b>Total</b> . . . . .	<b>5,23,00,932</b>	

VIII (b)

Statement showing the distribution of expenditure of local bodies.

**BOMBAY.**  
(1946-47).  
**Municipalities.**

	Amount. Rs.	Percentage.
1. Education . . . . .	88,87,458	26.7%
2. Conservancy . . . . .	70,30,445	21.1%
3. Other conveniences and miscellaneous . . . . .	34,76,381	10.4%
4. General Administration and collection . . . . .	45,85,433	13.8%
5. Water supply . . . . .	16,06,778	4.8%
6. Hospitals . . . . .	24,90,470	7.4%
7. Roads . . . . .	17,15,065	5.1%
8. Public safety . . . . .	18,49,448	5.5%
9. Public health . . . . .	8,68,169	2.6%
10. Drainage . . . . .	7,11,466	2.1%
<b>Total</b> Rs. . . . .	<b>3,32,21,113</b>	

STATISTICAL APPENDICES VIII (b) & (c)

**District Local Boards.**

	Amount Rs.	Percentage
1. Education . . . . .	2,55,54,496	82.8%
2. Communications . . . . .	30,02,273	9.7%
3. Others . . . . .	57,136	0.1%
4. Public Health . . . . .	9,29,963	3.0%
5. Medical . . . . .	6,84,132	2.2%
6. General Administration and collection . . . . .	6,17,113	2.0%
<b>Total</b>	<b>Rs. 3,08,45,119</b>	

**VIII (c)**

Statement showing the distribution of expenditure of local bodies.

**WEST BENGAL.**

(1946-47)

**Municipalities**

	Amount Rs.	Percentage
1. Conservancy	38,65,282	33.4%
2. Other conveniences and miscellaneous	17,34,083	14.8%
3. General Administration and collection	13,05,092	11.1%
4. Roads	10,71,320	9.1%
5. Water supply	10,40,938	8.8%
6. Education	7,06,384	6.03%
7. Drainage	6,26,196	5.3%
8. Public safety	5,26,220	4.5%
9. Public health	3,90,045	3.33%
10. Hospitals	4,33,139	3.7%
<b>Total</b>	<b>Rs. 1,16,98,699</b>	

**District Boards.**

	Amount Rs.	Percentage
1. Others	14,03,417	19.9%
2. Communications	18,24,023	25.9%
3. Medical	10,36,743	14.7%
4. Education	3,96,433	14.1%
5. General administration and collection	3,98,397	5.0%
6. Public health.	13,74,822	19.5%
<b>Total</b>	<b>Rs. 70,33,840</b>	

VIII (d)

Statement showing the distribution of expenditure of local bodies.

UTTAR PRADESH

1946-47

Municipalities

	Amount	Percentage
1. Other convenience and miscellaneous	Rs. 83,00,141	20.4%
2. Conservancy	" 75,29,995	18.5%
3. Water supply	" 51,19,151	12.6%
4. Education	" 49,89,444	12.3%
5. General administration & collection	" 37,96,787	9.3%
6. Roads	" 37,80,183	9.3%
7. Public safety	" 30,56,875	7.5%
8. Hospitals	" 12,90,325	3.1%
9. Drainage	" 11,73,585	2.8%
10. Public health	" 14,83,395	3.6%
<b>Total</b>	<b>Rs. 4,05,19,881</b>	

District Boards.

	Amount	Percentage
1. Education	Rs. 1,70,50,763	58.7%
2. Communications	" 34,85,096	11.8%
3. Others	" 33,87,909	11.6%
4. Medical	" 24,39,967	8.4%
5. General administration & collection	" 18,00,000	6.1%
6. Public health	" 8,79,761	5.2%
<b>Total</b>	<b>Rs. 2,90,43,496</b>	

VIII (e)

Statement showing the distribution of expenditure of local bodies.

PUNJAB

(1947-48)

Municipalities

	Amount	Percentage
1. General administration and collection	Rs. 14,67,277	10.34%
2. Conservancy	" 11,72,914	15.46%
3. Education	" 9,05,262	11.93%
4. Water supply	" 6,03,774	7.96%
5. Hospitals	" 5,08,125	6.70%
6. Roads	" 4,82,053	6.35%
7. Public health	" 2,68,961	3.54%
8. Drainage	" 2,39,407	3.15%
9. Public safety	" 16,53,313	21.8%
10. Other conveniences	" 2,82,152	3.72%
<b>Total</b>	<b>Rs. 75,83,238</b>	

STATISTICAL APPENDICES VIII (e) & (f)

**District Boards.**

		Amount	Percentage
1. Education	Rs.	64,02,012	65.09%
2. Medical	"	8,33,463	8.47%
3. Communications	"	8,03,637	8.17%
4. General administration and collection	"	7,46,998	7.59%
5. Public health	"	6,30,925	6.41%
6. Others	"	4,17,156	4.4%
<b>Total</b>	<b>Rs.</b>	<b>98,34,191</b>	

**VIII (f)**

Statement showing the distribution  
of expenditure of local bodies.

**BIHAR**

(1946-47)

**Municipalities**

		Amount	Percentage
1. Conservancy	Rs.	23,97,783	35.4%
2. Education	"	9,31,115	13.7%
3. Other conveniences & miscellaneous	"	8,18,144	12.0%
4. Water supply	"	5,83,028	8.5%
5. General administration and collection	"	5,66,454	8.3%
6. Drainage	"	3,97,322	5.8%
7. Roads	"	4,68,864	6.9%
8. Hospitals	"	1,88,905	2.7%
9. Public safety	"	2,37,625	3.5%
10. Public health	"	1,79,259	2.6%
<b>Total</b>	<b>Rs.</b>	<b>67,68,499</b>	

**District Boards**

		Amount	Percentage
1. Education	Rs.	72,78,728	37.2%
2. Communications	"	47,13,400	24.1%
3. Other purposes	"	30,61,036	15.6%
4. Medical	"	21,02,556	10.7%
5. General administration & collection	"	9,89,501	5.06%
6. Public health	"	13,98,785	7.1%
<b>Total</b>	<b>Rs.</b>	<b>1,95,44,006</b>	



VIII (g)

Statement showing the distribution of  
expenditure of local bodies.

ORISSA

(1946-47)

Municipalities

		Amount	Percentage
1. Education	Rs.	1,22,737	9.62%
2. Water supply	"	51,670	4.05%
3. Hospitals	"	37,862	2.96%
4. Drainage	"	21,353	1.67%
5. General administration and collection.	"	99,682	7.81%
6. Public safety	"	58,008	4.54%
7. Conservancy	"	3,89,813	30.55%
8. Roads	"	1,75,804	13.78%
9. Public health	"	61,181	4.79%
10. Other conveniences and miscellaneous.	"	2,57,557	20.19%
Total	Rs.	12,75,667	

District Boards

		Amount	Percentage
1. Education	Rs.	25,23,643	57.51%
2. Communications	"	6,75,573	15.39%
3. Medical	"	3,96,700	9.04%
4. Public health	"	1,79,042	4.08%
5. General administration and collection	"	3,63,341	8.28%
6. Others	"	2,49,344	5.68%
Total	Rs.	43,87,643	

VIII (h)

Statement showing the distribution  
of expenditure of localbodies.

MADHYA PRADESH

(1946-47)

Municipalities

		Amount	Percentage
1. Education	Rs.	33,72,044	17.4%
2. Conservancy	"	31,28,654	16.2%
3. General administration	"	20,36,987	10.5%
4. Water supply	"	14,50,430	7.5%
5. Rcads	"	12,88,008	6.6%
6. Public health	"	63,96,755	32.12%
7. Public safety	"	6,69,629	3.4%
8. Drainage	"	5,22,762	2.7%
9. Hospitals	"	4,45,939	2.3%
Total	Rs.	1,93,11,203	

STATISTICAL APPENDICES VIII (h) & (i)

**District Councils.**

		Amount	Percentage
1. Education	Rs.	48,45,350	53.12%
2. Others	"	23,64,018	25.91%
3. General administration & collection	"	8,31,584	9.11%
4. Communications	"	3,95,338	4.33%
5. Public health	"	3,57,522	3.91%
6. Medical	"	3,27,429	3.58%
<b>Total</b>	<b>Rs.</b>	<b>91,21,241</b>	

**VIII (i)**

Statement showing the distribution of expenditure  
of local bodies.

**ASSAM**  
**Municipalities**  
(1945-46)

		Amount	Percentage
1. Conservancy	Rs.	5,65,125	27.6%
2. Education	"	2,94,764	14.4%
3. Other conveniences and miscellaneous	"	2,61,173	12.7%
4. Water supply	"	2,60,962	12.7%
5. Roads	"	2,23,451	10.9%
6. General administration and collection	"	1,79,602	8.7%
7. Public safety	"	96,339	4.2%
8. Public health	"	59,668	2.9%
9. Hospitals	"	52,900	2.5%
10. Drainage	"	52,859	2.5%
<b>Total</b>	<b>Rs.</b>	<b>20,46,843</b>	

**District Boards.**  
(1946-47)

		Amount	Percentage
1. Education	Rs.	30,94,161	49.65%
2. Communications	"	11,65,031	18.69%
3. Others	"	7,40,127	11.87%
4. Medical	"	7,00,033	11.23%
5. General administration and collection	"	4,42,584	7.10%
6. Public health	"	89,527	1.43%
<b>Total</b>	<b>Rs.</b>	<b>62,31,453</b>	

STATISTICAL APPENDICES IX (a) & (b)

IX (a)

Statement showing per capita incidence of income.

**MADRAS**

**Municipalities (36,62,846\*)**

		<i>Per capita incidence</i>		
		Rs.	As.	Ps.
Taxation	2,56,20,441	6	15	0
Govt. Grants	31,76,316	0	13	10
Other sources	99,48,920	2	11	5
<b>Total</b>	<b>3,87,45,677</b>	<b>10</b>	<b>9</b>	<b>0</b>

**District Boards. (4,49,01,483\*)**

Taxation	2,61,92,380	0	7	0
Govt. Grants	1,73,20,000	0	6	2
Other sources	1,37,66,302	0	4	10
<b>Total</b>	<b>5,72,78,682</b>	<b>1</b>	<b>4</b>	<b>4</b>

\*

**Provincial Figures. (4,85,64,329)**

Taxation	5,18,12,821	1	1	0
Govt. Grants	2,04,96,316	0	6	7
Other sources	2,37,15,222	0	7	9
<b>Total</b>	<b>9,60,24,359</b>	<b>1</b>	<b>15</b>	<b>7</b>

IX (b)

Statement showing per capita incidence of income

**BOMBAY**

**Municipalities (41,03,670)**

		<i>Per capita incidence.</i>
Taxation.	3,09,01,114	7-8-5
Govt. Grants.	51,50,246	1-4-0
Other sources	26,55,154	0-10-4
<b>Total :—</b>	<b>4,10,13,007</b>	<b>9-15-10</b>

(\*)

**District Local Boards. (1,59,69,786)**

Taxation.	61,74,191	0-6-2
Govt. Grants.	3,26,39,210	2-0-8
Other sources.	75,17,067	0-7-6
<b>Total :—</b>	<b>4,63,30,468</b>	<b>2-14-5</b>

\* The figures represent population in municipal and district board areas respectively.

(\*) Represents aggregate of the population figures.

STATISTICAL APPENDICES IX (b) & (c)

	(*) Provincial Figures. (2,00,73,456)	
Taxation.	4,23,55,315	2-1-9
Govt. Grants.	3,77,89,456	1-14-1
Other sources	1,01,72,221	0-8-1
<b>Total</b>	<b>9,03,16,992</b>	<b>4-7-11</b>

IX (c)

Statement showing per capita incidence of income.

WEST BENGAL

	† Municipalities. (22,51,390)	
		<i>Per capita incidence.</i>
Taxation	78,35,453	3-7-8
Govt. Grants	18,20,656	0-12-11
Other sources	18,51,947	0-13-1
<b>Total</b>	<b>1,15,08,056</b>	<b>5-1-9</b>

	† District Boards. (1,70,76,038)	
Taxation	37,13,818	0-3-5
Govt. Grant:	26,14,751	0-2-5
Other sources	11,03,407	0-1-0
<b>Total</b>	<b>74,31,976</b>	<b>0-6-11</b>

	Provincial figures.	
Taxation	1,15,49,271	0-9-6
Govt. Grants	44,35,407	0-3-8
Other sources	29,55,354	0-2-5
<b>Total</b>	<b>1,89,40,032</b>	<b>0-15-7</b>

IX (d)

Statement showing per capita incidence of income

UTTAR PRADESH

Municipalities (45,93,354†)

		<i>Per capita incidence</i>
Taxation	2,74,45,566	5 15 7
Govt. Grants	73,96,954	1 9 9
Other sources	1,19,80,309	2 7 6
<b>Total</b>	<b>4,68,22,829</b>	<b>10 3 1</b>

(\*) Represents aggregate of the population figures.

†The figures represent population in municipal and district board areas respectively.

STATISTICAL APPENDICES IX (d) & (e).

**District Boards (4,97,41,609†)**

		<i>Per capita incidence</i>
Taxation	89,68,147	0 2 11
Govt. Grants	1,52,57,266	0 4 10
Other sources	71,54,477	0 2 3
<b>Total</b>	<b>3,13,79,890</b>	<b>0 10 1</b>

**Provincial figures (5,43,34,965\*)**

Taxation	3,64,13,713	0 10 8
Govt. Grants	2,26,54,220	0 6 8
Other sources	1,91,34,786	0 5 7
<b>Total</b>	<b>7,82,02,719</b>	<b>1 - 6 1</b>

**IX (e)**

**PUNJAB**

Statement showing per capita incidence of income

**Municipalities (14,62,966\*)**

		<i>Per capita incidence</i>		
		Rs.	As.	Ps.
Taxation	Rs. 53,50,878	2	15	7
Govt. Grants	,, 5,01,702	0	5	5
Other sources	,, 18,18,997	1	3	10
<b>Total</b>	<b>Rs. 76,71,577</b>	<b>5</b>	<b>3</b>	<b>11</b>

**District Boards (1,03,39,824\*)**

Taxation	Rs. 25,78,351	0	4	0
Govt. Grants	,, 64,39,329	0	9	11
Other sources	,, 25,85,957	0	4	0
<b>Total</b>	<b>Rs. 1,16,03,637</b>	<b>1</b>	<b>7</b>	<b>11</b>

**Provincial figures (1,18,02,790\*)**

Taxation	Rs. 79,29,229	0	10	9
Govt. Grants	,, 69,41,031	0	8	10
Other sources	,, 44,04,954	0	5	10
<b>Total</b>	<b>Rs. 1,92,75,214</b>	<b>1</b>	<b>10</b>	<b>1</b>

† The figures represent population in municipal and district board areas respectively.

(\*) Represents aggregate of the population figures.

IX (f)

BIHAR

Statement showing per capita incidence of income.

Municipalities (16,23,115)\*

(1946-47)

		<i>Per capita incidence</i>
Taxation	44,63,948	2 12 0
Govt. Grants	19,47,842	1 3 1
Other sources	13,97,441	0 13 9
<b>Total</b>	<b>78,09,231</b>	<b>4 15 4</b>

District Boards (3,58,15,255\*)

(1947-48)

Taxation	1,06,42,979	0 14 9
Govt. Grants	1,20,08,626	0 5 4
Other sources	32,05,355	0 1 5
<b>Total</b>	<b>2,58,56,960</b>	<b>0 11 6</b>

IX (g)

ORISSA

Statement showing per capita incidence of income.

Municipalities (2,62,266\*)

		<i>Per capita incidence.</i>
Taxation	6,31,113	2 6 6
Govt. Grants	13,76,969	5 4 0
Other sources	1,94,521	8 11 0
<b>Total</b>	<b>22,02,603</b>	<b>8 6 2</b>

District Boards (82,65,468\*)

Taxation	11,92,307	0 2 3
Govt. Grants	35,86,444	0 10 5
Other sources	4,90,168	0 0 8
<b>Total</b>	<b>52,68,919</b>	

(\*)

Provincial figures (85,27,734)

Taxation	18,23,420	0 3 5
Govt. Grants	49,63,413	0 8 6
Other sources	6,84,689	0 1 3
<b>Total</b>	<b>74,71,522</b>	<b>0 14 0</b>

\* The figures represent population in municipal and district board areas respectively.

(\*) Represents aggregate of the population figures.

IX (h)

MADHYA PRADESH.

Statement showing per capita incidence of income

Municipalities (18,25,872\*)

		Per capita incidence.		
		Rs.	As.	Ps.
Taxation	1,10,96,594	6	1	3
Govt. Grants	10,15,307	0	8	9
Other sources	31,25,923	1	10	10
<b>Total</b>	<b>1,52,37,824</b>	<b>8</b>	<b>5</b>	<b>6</b>

District Councils. (1,50,11,783\*)

Taxation	37,96,872	0	4	0
Govt. Grants	42,41,071	0	4	5
Other sources.	74,76,952	0	7	11
<b>Total</b>	<b>1,55,14,895</b>	<b>1</b>	<b>10</b>	<b>3</b>

(\*)

Provincial figures. (168,37,655)

Taxation	1,48,93,466	0	14	0
Govt. Grants.	52,56,378	0	3	9
Other sources	1,07,02,875			
<b>Total</b>	<b>3,97,52,719</b>	<b>1</b>	<b>10</b>	<b>3</b>

IX (i)

ASSAM

Statement showing per capita incidence of income.

Municipalities (2,24,776\*)

(1945-46)

		Per capita incidence.		
Taxation	10,42,102	3	9	9
Govt. Grants.	2,35,185	0	13	0
Other sources.	6,96,427	2	6	7
<b>Total</b>	<b>19,73,714</b>	<b>6</b>	<b>13</b>	<b>5</b>

\* The figures represent population in municipal and district board areas respectively.

(\*) Represents aggregate of the population figures.

STATISTICAL APPENDICES IX (i), X (a) & (b)

**District Boards. (90,54,693\*)**  
(1946-47)

		Per capita incidence		
Taxation.	19,19,084	0	3	9
Govt. Grants	32,19,520	0	5	8
Other sources.	10,27,062	0	1	9
<b>Total</b>	<b>61,65,666</b>	<b>0</b>	<b>11</b>	<b>6</b>

**X (a)**

**MADRAS.**

Statement showing the per capita effect of local services.

**Municipalities (36,62,246).**

Service.	Actual expenditure.	Per capita Incidence.		
		Rs.	As.	Ps.
1. Conservancy.	75,52,874	2	1	0
2. Water supply.	22,91,114	0	10	1
3. Drainage.	14,12,567	0	6	3
4. Public safety.	59,59,387	1	10	0
5. Roads.	35,52,574	0	15	7
6. Public health	6,20,002	0	2	5
7. Medical relief.	7,56,121	0	3	3
8. Education.	63,87,615	1	11	10

**District Boards (4,49,01,483).**

1. Communications	1,04,62,000	0	3	8
2. Public health.	48,40,293	0	1	8
3. Medical relief.	31,47,487	0	0	5
4. Education	55,87,326	0	1	11

**X (b)**

**BOMBAY**

Statement showing the per capita effect of local services.

**Municipalities (41,03,670).**

Service	Actual expenditure.	Per capita Incidence.		
		Rs.	As.	Ps.
1. Conservancy.	70,30,445	1	11	5
2. Water supply.	16,06,778	0	6	3
3. Drainage.	7,11,466	0	2	8
4. Public safety.	18,49,443	0	7	2
5. Roads.	17,15,065	0	6	8
6. Public health.	8,68,169	0	3	4
7. Medical relief	24,90,470	0	9	8
8. Education.	88,87,458	2	3	7

**District Boards. (159,69,786).**

1. Communications.	30,02,279	0	3	0
2. Public health.	9,29,963	0	0	11
3. Medical relief.	6,84,132	0	0	8
4. Education.	2,55,54,496	1	9	7

\* The figures represent population in municipal and district board areas respectively.



STATISTICAL APPENDICES X (c) & (d)

X (c)

WEST BENGAL

Statement showing the per capita effect of local services

Municipalities (22,51,390)

Service	Actual expenditure.	Per capita incidence		
		Rs.	As.	Ps.
1. Conservancy.	38,65,282	1	11	5
2. Water supply.	10,40,938	0	7	4
3. Drainage.	6,26,196	0	4	5
4. Public safety.	5,26,220	0	3	8
5. Roads.	10,71,320	0	7	7
6. Public health.	3,90,045	0	2	9
7. Medical relief.	4,33,139	0	3	0
8. Education.	7,06,384	0	5	0

District Boards. (17,076,038).

1. Communications.	18,24,023	0	1	8
2. Public health.	13,74,822	0	1	3
3. Medical relief	10,36,743	0	0	11
4. Education.	9,96,438	0	0	11

X (d)

UTTAR PRADESH

Statement showing the per capita effect of local services.

Municipalities (45,93,354)

Service.	(Actual expenditure.	Per capita incidence.		
		Rs.	As.	Ps.
1. Conservancy.	75,30,000	1	10	2
2. Water supply.	51,19,151	1	1	9
3. Education.	49,89,444	0	13	10
4. Roads.	37,80,183			
5. Public safety.	30,60,000	0	10	8
6. Medical relief.	11,81,120	0	4	3
7. Drainage.	11,73,585	0	4	1
8. Public health.	15,50,000	0	5	4

District Boards. (4,97,41,609).

1. Education.	1,70,50,763	0	5	5
2. Communications	34,85,096	0	1	1
3. Medical relief.	24,39,967	0	0	9
4. Public health.	8,79,761	0	0	3

STATISTICAL APPENDICES X (e) & (f)

X (e)

PUNJAB

Statement showing the per capita effect of local services.  
Municipalities (14,62,966)

Service	Actual expenditure.	Per capita incidence.		
		Rs.	As.	Ps.
1. Conservancy	11,72,914	0	12	9
2. Education.	9,05,262	0	9	10
3. Water supply	6,03,774	0	6	7
4. Hospitals	5,08,125	0	5	6
5. Roads	4,82,053	0	5	3
6. Public health	2,63,961	0	2	11
7. Drainage	2,39,407	0	2	7
8. Public safety	16,53,313	1	2	0
<b>District Boards (1,03,59,824)</b>				
1. Education	64,02,012	0	9	10
2. Medical relief	8,33,463	0	1	3
3. Communications	8,03,637	0	1	2
4. Public health	6,30,925	0	0	11

X (f)

BIHAR

Statement showing the per capita effect of local services  
Municipalities (16,23,115).

Service.	Actual expenditure.	per capita incidence.		
		Rs.	As.	Ps.
1. Conservancy.	23,97,783	1	7	7
2. Education.	9,31,115	0	9	2
3. Water supply	5,83,028	0	5	8
4. Drainage.	3,97,322	0	3	10
5. Roads.	4,68,864	0	4	7
6. Medical relief.	1,88,905	0	1	10
7. Public safety.	2,37,625	0	2	4
8. Public health.	1,79,259	0	1	8
<b>District Boards. (3,54,28,668)</b>				
1. Education.	72,78,728	0	3	3
2. Communications.	47,13,400	0	2	1
3. Medical relief.	21,02,556	0	0	11
4. Public health.	13,98,785	0	0	8

STATISTICAL APPENDICES X (g) & (h)

X (g).

ORISSA

Statement showing the per capita effect of local services.

Municipalities (2,62,266).

Service.	Actual expenditure.	Per capita incidence.		
		Rs.	As.	Ps.
1. Education.	1,45,000	0	8	10
2. Water supply.	40,000	0	2	4
3. Medical relief.	30,000	0	1	9
4. Drainage.	11,000	0	0	8
5. Conservancy.	8,90,000	1	7	9
6. Public safety.	58,000	0	3	6
7. Roads.	1,76,000	0	10	8
8. Public health.	52,000	0	3	3

District Borads (82,65,468).

1. Education.	14,91,000	0	2	10
2. Communications.	4,09,000	0	0	8
3. Medical relief.	2,76,000	0	0	6
4. Public health.	1,16,000	0	0	2

X (h).

MADHYA PRADESH

Statement showing the per capita effect of local services.

Municipalities. (18,25,872).

Service.	Actual expenditure.	Per capita incidence.		
		Rs.	As.	Ps.
1. Conservancy.	31,28,654	1	11	4
2. Water supply.	14,50,430	0	12	8
3. Drainage.	15,22,762	0	4	6
4. Public safety.	6,69,629	0	5	8
5. Roads.	12,88,008	0	11	5
6. Public health.	12,68,764	0	10	11
7. Medical relief	4,45,939	0	4	7
8. Education.	28,84,155	1	8	5

District Borads (1,50,11,783).

1. Communications.	3,95,338	0	0	5
2. Public health.	3,57,522	0	0	4
3. Medical relief.	3,27,429	0	0	3
4. Education.	48,38,927	0	5	1

STATISTICAL APPENDICES x (e) & (f)

X (e)

PUNJAB

Statement showing the per capita effect of local services.  
Municipalities (14,62,966)

Service	Actual expenditure.	Per capita incidence.		
		Rs.	As.	Ps.
1. Conservancy	11,72,914	0	12	9
2. Education.	9,05,262	0	9	10
3. Water supply	6,03,774	0	6	7
4. Hospitals	5,08,125	0	5	6
5. Roads	4,82,053	0	5	3
6. Public health	2,68,961	0	2	11
7. Drainage	2,39,407	0	2	7
8. Public safety	16,53,313	1	2	0
<b>District Boards (1,03,39,824)</b>				
1. Education	64,02,012	0	9	10
2. Medical relief	8,33,463	0	1	3
3. Communications	8,03,637	0	1	2
4. Public health	6,30,925	0	0	11

X (f)

BIHAR

Statement showing the per capita effect of local services  
Municipalities (16,23,115).

Service.	Actual expenditure.	per capita incidence.		
		Rs.	As.	Ps.
1. Conservancy.	23,97,783	1	7	7
2. Education.	9,31,115	0	9	2
3. Water supply	5,83,028	0	5	8
4. Drainage.	3,97,322	0	3	10
5. Roads.	4,68,864	0	4	7
6. Medical relief.	1,88,905	0	1	10
7. Public safety.	2,37,625	0	2	4
8. Public health.	1,79,259	0	1	8
<b>Distric Boards. (3,54,28,668)</b>				
1. Education.	72,78,728	0	3	3
2. Communications.	47,13,400	0	2	1
3. Medical relief.	21,02,556	0	0	11
4. Public health.	13,98,785	0	0	8

**STATISTICAL APPENDICES X (g) & (h)**

**X (g).**

**ORISSA**

Statement showing the per capita effect of local services.

**Municipalities (2,62,266).**

Service.	Actual expenditure.	Per capita incidence.		
		Rs.	As.	Ps.
1. Education.	1,45,000	0	8	10
2. Water supply.	40,000	0	2	4
3. Medical relief.	30,000	0	1	9
4. Drainage.	11,000	0	0	8
5. Conservancy.	8,90,000	1	7	9
6. Public safety.	58,000	0	3	6
7. Roads.	1,76,000	0	10	8
8. Public health.	52,000	0	3	3

**District Borads (82,65,468).**

1. Education.	14,91,000	0	2	10
2. Communications.	4,09,000	0	0	8
3. Medical relief.	2,76,000	0	0	6
4. Public health.	1,16,000	0	0	2

**X (h).**

**MADHYA PRADESH**

Statement showing the per capita effect of local services.

**Municipalities. (18,25,872).**

Service.	Actual expenditure.	Per capita incidence.		
		Rs.	As.	Ps.
1. Conservancy.	31,28,654	1	11	4
2. Water supply.	14,50,430	0	12	8
3. Drainage.	15,22,762	0	4	6
4. Public safety.	6,69,629	0	5	8
5. Roads.	12,88,008	0	11	5
6. Public health.	12,68,764	0	10	11
7. Medical relief	4,45,939	0	4	7
8. Education.	28,84,155	1	8	5

**District Borads (1,50,11,783).**

1. Communications.	3,95,338	0	0	5
2. Public health.	3,57,522	0	0	4
3. Medical relief.	3,27,429	0	0	3
4. Education.	48,38,927	0	5	1

STATISTICAL APPENDICES X (i) & XI

X (i).

ASSAM

Statement showing the per capita effect of local services.

Municipalities (2,24,776).

Service.	Actual expenditure.	Per capita incidence.		
		Rs.	As.	Ps.
1. Conservancy.	5,65,125	2	8	2
2. Education.	2,94,764	1	4	11
3. Water supply.	2,60,962	1	2	6
4. Roads.	2,23,451	0	15	5
5. Public safety.	96,339	0	6	10
6. Public health.	59,668	0	4	7
7. Medical relief.	52,900	0	3	8
8. Drainage.	52,859	0	3	8
<b>District Boards (90,54,693).</b>				
1. Education.	30,94,151	0	5	5
2. Communications.	11,65,031	0	2	6
3. Medical relief.	5,53,704	0	0	11
4. Public health.	2,35,856	0	0	5

XI.

Statement showing the per capita incidence of property tax and octroi in municipal areas.

	Rs.	Incidence.		
		Rs.	As.	Ps.
<b>Madras (36,62,846).</b>				
1. Property tax.	69,41,582	1	14	3
2. Octroi.	Not levied.			
<b>Bombay (41,03,670).</b>				
1. Property tax.	42,31,003	1	0	6
2. Octroi & T. T.	63,09,726	1	8	7
<b>West Bengal (22,51,390).</b>				
1. Property tax.	42,77,935	1	14	4
2. Octroi.	Not levied.			
<b>United Provinces (45,93,354).</b>				
1. Property tax.	27,29,653	0	9	6
2. Octroi.	1,76,30,483	3	1	4
<b>Punjab (14,62,966).</b>				
1. Property tax.	5,00,027	0	5	7
2. Octroi.	29,25,123	1	15	11
<b>C. P. Berar. (18,25,872).</b>				
1. Property tax.	8,66,784	0	7	7
2. Octroi.	36,21,924	1	15	8
<b>Assam (2,24,776).</b>				
1. Property tax.	4,12,784	1	13	5
2. Octroi.	Not levied.			
<b>Bihar (16,23,115).</b>				
1. Property tax.	19,28,366	1	3	0
2. Octroi.	Not levied.			
<b>Orissa (2,62,266).</b>				
1. Property tax.	2,15,909	0	13	2
2. Octroi.	Not levied.			

XII

Statement showing the number, income and expenditure of village authorities.

State	Village authority	Number		Income		Expenditure		Remarks
		1926	1947-46	1926	1946-47	1926	1946-47	
1	2	3	4	5	6	7	8	9
				Rs.	Rs.	Rs.	Rs.	
LXXXI Madras	Union Boards	484	...	28,01,275	...	21,54,235	...	
	Panchayats (Major) ...	...	381	...	83,74,000	...	80,62,000	
	Panchayats (Minor) ...	...	6,822	...	44,99,917	...	42,29,876	
Bombay	Panchayats	227	1,363	4,23,328	27,24,724	3,18,865	22,88,628	
West Bengal	Union Boards	871*	1,696@	*21,92,444	50,13,522@	17,72,519*	41,60,178@	*Include figures of the un-divided Nadia district.
	Union Committees	53	2	53,149	11,658	40,692	10,898	@Include figures of 31 Union Boards of the un-divided district of Malda but does not include figures of 21 Union Boards of the post-partition district of Jalpaiguri.
Uttar Pradesh.	Village Panchayatst	4,772	36,000	1,97,000	Not available			†Since replaced by Gaon Sabhas under the U. P. Panchayat Raj Act, 1947.
Punjab	Panchayats	323	4,108§	13,648	7,42,239§	7,246	4,72,408§	§Represent statistics for the year 1948-49

1	2	3	4	5	6	7	8	9
				Rs.	Rs.	Rs.	Rs.	
Bihar	{ Union Boards	150	161*	55,625	7,72,303*	43,210	4,76,829*	*For Bihar only.
&	{ Panchayats (Major)	120	3	1,673		408		
	{ Panchayats (Minor)							
Orissa	{ Union Boards	...	18	...	2,28,925†	...	†12,00,383	†For Orissa only.
	{ Panchayats (Major)	...	6	...	49,102	...	46,607	
	{ Panchayats (Minor)	...	29	...	8,215	...	9,926	
Madhya Pradesh	Village Panchayats.§	80	1,071	16,868	3,02,496	16,499	18,88,680	§Replaced by Gram Panchayats will effect from the year 1950-51.
Assam.	Village authorities‡	239	133	74,106	11,211	75,131	11,070	‡Constituted under the Assam Rural Self-Government Act, 1926.



1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24
C. P.	1884-85	19,52,350	0 10 1	16,35,772	83.9	...	...	23,964	1.2	12,630	0.6	1,29,449	6.6	...	...	14,223	0.7	49,014	2.5	87,229	4.4	...	...
	1894-95	33,97,726	1 0 7	27,73,166	81.6	...	...	8,09,523	3.2	45,756	1.3	1,46,44	4.3	1,82,026	5.3	19,318	0.5	...	...	1,91,393	3.5	...	...
	1907-08	50,10,603	1 9 9	36,01,563	71.6	5,63,555	7.2	2,53,133	5.0	52,873	1.0	1,63,142	3.2	3,02,423	6.0	44,207	0.8	31,531	0.6	2,01,157	4.0	...	...
	1918-19	66,71,875	2 3 0	37,43,355	56.0	5,76,895	8.9	5,19,633	7.9	1,13,472	1.7	1,55,923	2.3	7,33,987	10.9	91,336	1.4	3,72,981	5.6	3,36,300	5.0	...	...
	1925-26	1,01,80,680	3 7 7	39,45,002	38.7	21,73,081	24.3	9,05,139	8.8	1,79,650	1.7	1,29,928	1.2	1,39,818	13.0	1,32,886	1.3	9,99,439	2.7	7,43,757	7.3	...	...
	1946-47	2,74,45,566	5 15 7	1,76,31,483	64.2	...	...	27,39,653	9.6	4,04,403	1.4	2,58,045	0.8	46,90,000	10.8	2,31,601	0.8	6,63,966	2.4	25,41,181	9.3	...	...
Punjab	1884-85	23,72,034	1 1 8	22,61,160	95.3	...	...	93,400	3.9	2,350	0.08	...	...	898	0.02	21,031	0.59	...	...	1,225	0.05	...	...
	1894-95	31,27,594	1 13 5	29,32,656	93.4	...	...	1,41,724	4.6	33,437	1.07	978	0.03	3,197	0.10	5,595	0.17	...	...	17,007	0.51	...	...
	1907-08	40,93,618	2 14 9	35,83,668	89.4	...	...	2,84,470	7.1	49,437	1.23	...	...	46,714	1.16	6,903	0.17	...	...	35,320	0.89	...	...
	1918-19	49,11,581	3 5 6	42,97,596	87.5	1,07,822	2.2	3,72,372	7.5	14,032	0.23	18,526	0.37	6,943	0.7	4,171	0.18	...	...	3,153	0.01	...	...
	1925-26	72,68,133	4 2 7	31,95,719	46.1	30,46,563	40.2	5,08,863	8.0	1,02,418	1.35	7,721	0.1	1,91,029	2.57	11,213	0.14	59,943	0.66	51,572	0.69	...	...
	1947-48	53,50,878	2 15 7	28,25,123	54.6	...	...	5,00,037	9.3	97,567	1.83	3,697	0.06	4,18,191	1.8	18,806	0.3	...	...	13,37,047	26.1	...	...
Bihar and Orissa	1884-85	Figures included in those for		Bongal																			
	1894-95																						
	1907-08																						
	1918-19																						
1925-26	24,82,309	2 2 0	41,831	1.6	...	...	9,37,028	40.1	2,09,594	8.4	47,943	1.8	2,68,087	10.8	6,35,155	25.6	...	...	2,83,538	11.4	...	...	
Bihar	1946-47	44,63,918	2 13 0	...	...	...	...	19,28,366	43.13	4,4,274	0.99	1,05,776	2.34	5,96,278	11.74	12,73,996	28.54	...	...	5,66,435	12.69	21,823	0.43
	Orissa	1946-47	6,31,313	2 6 0	...	...	16	0.02	2,15,909	31.2	9,933	1.5	9,316	1.4	52,205	8.2	1,77,647	0.28	24,413	3.5	1,41,654	22.7	...
C.P. including Berar	1884-85	7,84,970	(a) 1 1 0 (b) 0 5 6	6,69,720	85.3	...	...	19,788	2.4	11,188	1.4	16,118	2.0	...	...	...	...	...	...	63,215	8.7	...	...
	(a) for C. P. proper (b) for Berar	1894-95	10,28,957	(a) 1 5 5 (b) 0 9 9	7,13,042	69.3	...	...	32,947	3.2	1,918	0.1	61,912	6.0	69,380	6.7	98,799	9.6	...	...	51,053	4.9	...
	1907-08	14,31,190	1 9 6	8,10,853	56.6	...	...	76,451	5.3	47,173	3.3	51,028	3.7	1,61,909	11.5	1,76,913	12.3	...	...	1,02,817	7.1	...	...
	1918-19	23,47,437	2 8 7	10,02,641	42.7	2,09,315	8.6	1,49,060	6.3	61,174	2.7	57,522	2.4	3,78,033	16.1	3,05,619	13.0	...	...	1,88,041	8.0	...	...
	1925-26	38,89,569	2 15 9	13,49,019	34.6	8,40,534	21.6	12,2,041	3.1	93,431	2.4	89,679	2.2	5,53,026	14.1	4,63,016	12.0	...	...	3,77,815	9.7	...	...
	1945-46	1,01,71,951	4 13 8	32,13,567	31.6	2,23,951	2.2	7,95,155	7.7	1,46,503	1.4	1,22,079	1.3	14,09,565	13.8	14,73,539	14.4	...	...	2,785,861	27.3	90,531	0.39
	1946-47	1,10,96,594	6 1 3	36,21,924	32.6	...	...	8,66,784	7.8	1,08,818	1.25	1,27,603	1.1	15,31,041	13.7	15,79,671	14.2	...	...	29,50,681	20.5	28,373	0.95

STATISTICAL APPENDIX XIII

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24
Assam	1884-95	47,640	0 11 3	—	—	—	—	29,601	62.0	1,596	3.3	—	—	1,673	3.7	—	—	—	—	14,770	31.0	...	...
	1894-95	93,885	1 3 10	—	—	—	—	44,519	47.4	5,544	5.9	—	—	10,942	11.6	14,137	15.0	—	—	18,743	19.9	...	...
	1907-08	9,18,603	1 7 5	—	—	—	—	2,79,792	30.4	61,638	6.7	16,980	1.8	32,035	3.1	2,53,273	27.5	2,04,041	22.2	70,844	7.7	...	...
	1918-19	3,67,777	2 12 11	—	—	—	—	1,22,233	33.2	19,114	5.2	921	0.2	70,565	19.1	1,00,322	27.2	28,421	7.7	26,201	7.1	...	—
	1925-26	5,56,930	3 5 5	—	—	—	—	1,68,244	30.2	46,053	8.2	1,304	0.2	1,06,713	19.1	1,42,529	25.6	39,887	7.1	52,200	9.3	...	...
	1945-46	10,42,102	3 9 9	—	—	2,912	0.47	4,12,734	39.6	37,861	3.6	15,495	1.4	2,09,303	2.08	3,18,469	3.5	—	—	646	.06	44,682	4.2

Statement showing the percentage of income from principal taxes to the total income from taxes of municipalities since the year 1884-85.

Province	Year	Total income from all Taxes	Incidence of Taxation per head of population	Octroi		Terminal Tax & Toll		Tax on Houses and Lands		Tax on Animals and Vehicles		Tax on Professions and Trades		Water Rate		Conservancy Rate		Tax on Circumstances and Property		Other Taxes e.g., Servants Tax, Pilgrim Tax, Dog Tax		Lighting Rate	
				Amount	Proportion to total income from Taxation	Amount	Proportion to total income from Taxation	Amount	Proportion to total income from Taxation	Amount	Proportion to total income from Taxation	Amount	Proportion to total income from Taxation	Amount	Proportion to total income from Taxation	Amount	Proportion to total income from Taxation	Amount	Proportion to total income from Taxation	Amount	Proportion to total income from Taxation	Amount	Proportion to total income from Taxation
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24
Madras excluding Madras Municipal Corporation	1884-85	10,05,187	Rs. 0 13 0 as. 13 0 ps. 0	...	...	...	...	4,27,903	42.5	68,663	6.8	1,45,894	14.5	...	...	...	...	...	...	3,63,827	36.1	...	...
	1894-95	14,45,983	0 13 9	...	...	...	...	6,79,473	46.9	1,62,084	11.2	2,41,742	16.7	16,944	1.1	...	...	...	...	3,55,740	23.9	...	...
	1907-08	23,62,438	1 3 9	...	...	...	...	10,71,231	45.3	26,8,233	11.3	2,22,702	9.4	3,29,828	13.9	...	...	...	...	4,70,393	19.9	...	...
	1918-19	44,17,716	1 15 0	...	...	...	...	18,66,293	42.2	3,73,404	8.4	3,32,763	7.5	8,93,701	20.2	...	...	...	...	9,31,526	21.5	...	...
	1925-26	70,10,632	2 3 3	...	...	...	...	27,68,430	39.4	5,75,660	8.2	7,28,367	10.3	12,33,936	17.6	...	...	...	...	16,99,159	24.2	...	...
	1946-47	2,56,20,441	6 15 10	...	...	24,52,198	13.4	69,41,583	27.09	9,47,324	3.6	10,90,539	4.2	30,53,109	11.9	9,63,916	3.7	...	...	37,47,147	14.6	61,34,726	21.2
Bombay excluding the Bombay Municipal Corporation	1884-85	23,13,048	1 3 5	14,66,079	63.4	...	...	26,9,195	11.6	82,815	3.5	5,815	0.2	...	...	1,71,967	7.4	...	...	32,717	14.1	...	...
	1894-85	37,84,906	1 10 8	23,34,868	61.6	...	...	5,38,286	14.2	1,00,796	2.6	9,268	0.2	2,11,925	5.6	2,97,199	6.2	...	...	35,2,571	9.3	...	...
	1907-08	45,14,969	1 14 9	21,20,651	46.9	...	...	7,44,751	16.5	1,45,853	3.2	15,942	0.3	6,97,775	15.1	3,47,766	7.7	...	...	4,42,201	9.7	...	...
	1918-19	77,36,710	3 4 1	19,80,355	25.6	14,28,124	18.4	12,54,742	16.2	2,69,893	3.4	17,400	0.2	1,63,385	20.7	5,81,048	7.5	...	...	6,01,296	7.7	...	...
	1925-26	1,53,09,561	5 11 6	28,21,582	18.4	34,85,854	22.7	26,81,469	17.5	5,03,476	3.2	54,847	0.3	33,10,954	21.6	13,33,112	8.7	...	...	11,13,267	7.2	...	...
	1946-47	3,09,01,114	8 13 0	1,01,95,068	32.9	T.T. 5,57,339 Tolls 15,60,716 21,18,045	6.8	42,31,003	13.6	8,04,148	2.6	1,59,510	0.5	83,36,048	26.9	20,10,503	6.5	...	...	29,23,439	9.4	...	...
Bengal excluding the Calcutta Municipal Corporation	1884-85	19,47,414	0 12 0	...	...	...	...	11,35,590	58.3	17,2,926	8.8	131	0.006	...	...	2,75,111	14.1	2,23,377	11.4	1,10,319	7.2	...	...
	1894-95	13,13,485	0 13 7	...	...	...	...	8,16,912	35.2	1,88,265	8.1	36,317	1.5	44,920	1.9	4,50,747	19.5	...	...	7,76,324	33.5	...	...
	1907-08	34,67,065	1 7 5	22,344	0.6	...	...	13,37,442	38.5	2,33,510	6.7	59,323	1.7	3,65,156	10.5	8,03,937	23.1	...	...	6,15,393	18.0	...	...
	1918-19	51,33,100	2 9 1	...	...	...	...	18,87,170	36.7	2,36,352	4.6	1,19,119	2.3	8,44,102	16.4	12,81,774	24.9	...	...	7,61,483	14.8	...	...
	1925-26	62,11,862	3 1 5	...	...	...	...	22,58,288	36.3	2,54,916	4.1	1,37,059	2.2	10,79,639	17.3	16,21,863	26.1	...	...	8,60,101	13.8	...	...
	1946-47	78,35,453	3 7 8	...	...	Tolls 18,7,286	2.3	42,77,935	54.5	1,36,763	1.7	2,93,856	5.1	8,95,808	11.4	16,06,903	20.5	...	...	24,924	.03	3,06,919	3.9

## XIV

Statement showing income of rural boards in India from  
1907-08, 1918-19,

Provinces.	Year.	Total income from principal taxes.	Incidence of taxation per head of population.	Land
				Amount.
1	2	3	4	5
Madras.	1889-90	46,78,354	0 2 7	...
	1894-95	54,04,063	0 2 7	1,17,176
	1907-08	85,16,335	0 3 3	1,43,763
	1918-19	1,13,01,796	0 4 2	12,42,857
	1925-26	1,49,02,163	0 4 9	15,17,053
	1946-47	2,61,92,380	0 7 0	1,42,49,020
Bombay.	1889-90	26,65,965	0 2 9	...
	1894-95	25,45,560	0 2 5	12,735
	1907-08	35,36,365	0 2 10	1,03,872
	1918-19	33,61,851	0 2 7	3,90,800
	1925-26	58,47,857	0 5 1	4,38,760
	1946-47	61,74,191	0 6 2	...

APPENDIX XIV

XIV

principal taxes during the years 1889-90, 1894-95,  
1925-26 and 1946-47.

Revenue.	Local Rates.		Tolls on Ferries and Roads.	
	Amount.	Proportion to total income from principal taxes	Amount.	Proportion to total income from principal taxes.
6	7	8	9	10
...	46,78,354.	100.0	...	...
2.17	52,86,887	97.8	...	...
1.6	70,80,954	83.1	12,91,618	15.1
11.0	72,89,466	64.5	27,69,473	24.5
10.1	1,00,10,418	67.1	33,74,692	22.6
54.4	1,12,41,069	42.5	7,02,291	2.6
...	26,65,965	100.0	...	...
0.5	25,32,825	99.9	...	...
2.9	30,46,242	86.1	3,86,251	10.9
.6	26,02,008	77.4	3,69,048	10.9
7.5	48,84,221	88.5	5,24,876	8.9
...	61,74,191	100.0	...	...

1	2	3	4	5
Bengal.	1889-90	34,32,574	0 0 11	...
These statistics pertain to undivided Bengal as it was constituted before partition.	1894-95	35,60,402	0 1 0	...
	1907-08	37,47,312	0 1 2	...
	1918-19	70,75,358	0 2 6	7,334
	1925-26	81,24,921	0 2 9	23,539
	1946-47	37,13,818	0 3 5	12,921
U. P.	1889-90	20,66,879	0 0 9	...
	1894-95	19,45,239	0 0 8	54,711
	1907-08	40,09,834	0 1 2	15,661
	1918-19	72,89,927	0 2 4	36,757
	1925-26	79,46,467	0 2 9	38,480
	1946-47	89,68,147	0 2 11	8,73,552
Punjab.	1889-90	21,03,778	0 2 0	...
These statistics pertain to undivided Punjab as it existed before partition.	1894-95	23,09,575	0 1 11	...
	1907-08	26,71,451	0 2 3	...
	1918-19	41,40,227	0 4 7	2,423
	1925-26	57,61,117	0 4 11	28,234
	1947-48	25,78,351	0 4 0	3,07,472
Bihar & Orissa.	1889-90			
	1894-95	} Formed part of Bengal.		
	1907-08			
	1918-19	60,45,400	0 3 0	22,615
	1925-26	80,74,594	0 3 10	267

APPENDIX XIV

6	7	8	9	10
...	34,32,574	100.0	...	...
...	35,60,402	100.0	...	...
...	34,06,194	90.9	3,41,118	9.1
0.1	66,11,556	93.4	4,56,468	6.4
0.2	76,01,074	93.	5,00,308	6.1
0.34	37,00,897	99.6	1,66,688	4.4
...	20,66,879	100.0	...	...
2.8	18,90,528	97.1	...	...
0.3	35,14,841	87.6	4,79,332	11.9
0.5	67,92,366	93.1	4,60,804	6.3
0.4	73,22,576	92.1	5,85,411	7.3
9.7	80,94,595	90.2	...	...
...	21,03,778	100.0	...	...
...	23,09,575	100.0	...	...
...	25,04,269	93.7	1,67,182	6.2
0.06	41,37,804	99.9	...	...
0.49	57,31,412	99.4	1,471	0.03
11.5	22,54,611	87.4	13,268	0.51
0.38	57,60,214	95.28	2,62,571	4.34
0.003	76,77,956	95.088	3,96,371	4.909

1		3	4	5
Bihar.	1947-48	1,06,42,979	0 4 9	...
Orissa.	1946-47	11,92,307	0 2 3	...
Madhya Pradesh.	1889-90	2,78,995	0 0 6	...
	1894-95	6,25,281	0 2 3	5,571
	1907-08	6,39,197	0 1 4	...
	1918-19	12,54,414	0 1 5	...
	1925-26	22,69,768	0 2 8	25,667
	1946-47	37,96,872	0 4 0	...
Assam.	1889-90	5,32,098	0 1 8	...
	1894-95	6,40,381	0 2 1	...
	1907-08	26,59,590	0 1 3	25,422
	1918-19	10,83,406	0 2 4	58,468
	1925-26	12,36,739	0 2 3	85,641
	1946-47	19,19,084	0 3 9	...



APPENDIX XIV

6	7	8	9	10
...	1,06,42,979	100.0	...	...
...	11,92,307	100.0	...	...
...	2,78,995	100.0	...	...
0.9	6,19,710	99.1	...	...
...	8,92,535	95.03	46,662	3.97
...	11,67,601	93.08	86,813	6.92
1.13	21,39,302	94.25	1,04,799	4.62
...	37,96,872	100.0	...	...
...	5,32,098	100.0	...	...
...	6,40,381	100.0	...	...
0.96	22,71,031	85.39	3,63,137	33.65
5.4	8,95,645	82.67	1,29,293	11.93
6.93	9,80,306	79.27	1,70,792	13.8
...	19,19,084	100.0	...	...

Statement showing receipts under the various income heads of District Boards and their percentage to the total income  
for the year 1946-47.

Percentage of total income (excluding loans and advances) derived from:—

STATE	Total income	RATES		Cattle pound receipts		Educational receipts		Medical receipts		Miscellaneous receipts		Civil works		Contributions from			Other Receipts		
		Amount	Percentage of total income	Amount	Percentage of total income	Amount	Percentage of total income	Amount	Percentage of total income	Amount	Percentage of total income	Amount	Percentage of total income	Govt.		Others		Amount	Percentage of total income
														Amount	Percentage of total income	Amount	Percentage of total income		
Madras	Rs. 5,72,78,682	Rs. 2,61,92,380	45.72	Rs. ...	...	Rs. 33,75,884	5.36	Rs. 1,03,637	0.18	Rs. 29,48,363	5.14	Rs. 39,44,144	6.88	Rs. 1,73,20,000	...	...	...	Rs. 36,91,274	6.35
Bombay (1944-45)	4,63,30,468	61,74,191	13.32	...	...	1,01,981	0.44	1,18,800	0.52	3,30,775	1.49	1,97,429	0.86	1,11,56,254	63.25	1,56,737	0.68	2,51,08,304	10.71
Bangal	74,31,976	37,13,818	49.97	4,380	0.05	21,224	0.58	2,90,911	2.70	65,697	0.88	4,92,721	6.62	26,14,751	35.18	5,12,502	4.2	5,972	0.08
U. P.	3,13,79,590	89,68,147	28.57	...	...	18,10,600	6.12	2,60,600	0.88	3,30,000	1.11	1,20,000	0.40	1,52,57,065	...	...	...	46,34,477	0.94
Punjab (1947-48)	1,16,03,637	25,78,351	22.22	475	0.07	6,06,075	5.69	26,281	0.24	43,910	0.46	16,732	0.15	61,35,309	...	29,877	0.28	18,49,607	16.44
Bihar (1947-48)	2,58,56,900	1,06,42,979	41.12	...	...	...	...	...	...	...	...	...	...	1,20,09,606	46.44	...	...	32,05,255	12.39
Orissa	52,68,919	11,92,307	22.62	...	...	...	...	...	...	...	...	1,14,572	2.17	35,86,114	68.006	...	...	3,75,496	7.12
M. P.	1,55,14,895	37,96,872	24.47	6,29,548	4.05	30,152	0.19	14,803	0.09	742	0.004	2,01,735	...	42,41,071	27.33	2,37,631	1.53	63,62,241	41.57
Assam	61,65,696	19,19,084	31.28	1,42,146	2.30	16,663	0.27	10,320	0.16	9,690	0.15	2,97,534	4.82	32,19,520	52.21	68,783	1.11	4,81,896	7.81

XV  
Statement showing the percentage of income from principal taxes to the total income from taxes of the city Municipal Corporations since the year 1884-85

Corporation	Year	Total income from taxes	Incidence of taxation per head of population	Octroi		Terminal tax and Toll		Tax on houses and lands		Tax on animals and vehicles		Tax on trades and professions		Water Rate		Conservancy Rate		Tax on circumstances and property		Other taxes e.g., servants tax, pilgrim tax and dog tax		Lighting Rate			
				Amount	Proportion to total income from taxation	Amount	Proportion to total income from taxation	Amount	Proportion to total income from taxation	Amount	Proportion to total income from taxation	Amount	Proportion to total income from taxation	Amount	Proportion to total income from taxation	Amount	Proportion to total income from taxation	Amount	Proportion to total income from taxation	Amount	Proportion to total income from taxation	Amount	Proportion to total income from taxation	Amount	Proportion to total income from taxation
<b>Madras</b>	1884-85	8,08,021	1 5 10	—	—	—	—	3,84,993	47.66	52,349	6.49	70,053	8.66	1,46,985	18.17	—	—	—	—	1,53,741	19.02	—	—		
	1894-95	9,67,693	2 2 2	29,794	—	—	—	5,35,328	55.32	74,398	7.68	67,318	6.95	2,10,305	21.73	—	—	—	—	1,10,178	11.38	—	—		
	1907-08	13,91,670	1 0 5	—	—	—	—	6,26,964	45.05	93,739	6.73	1,13,693	8.16	78,326	5.65	—	—	—	—	4,78,948	34.41	—	—		
	1918-19	24,95,635	4 13 0	—	—	—	—	11,17,456	44.83	1,24,092	4.95	2,14,723	8.58	7,26,347	29.12	—	—	—	—	3,13,017	12.52	—	—		
	1925-26	40,33,826	7 10 6	—	—	—	—	16,19,733	40.10	2,16,522	5.36	1,62,363	4.03	10,83,927	26.62	—	—	—	—	9,51,280	23.58	—	—		
	1947-48	1,07,72,642	13 13 8	—	—	—	—	48,58,855	45.10	2,32,264	2.15	5,10,378	4.27	6,26,877	5.81	—	—	—	—	51,81,372	48.97	—	—		
<b>Bombay</b>	1884-85	42,10,846	3 14 4½	10,32,887	24.52	—	—	—	—	—	—	—	—	—	—	—	—	—	—	31,77,959	75.46	—	—		
	1894-95	55,78,310	6 12 7	12,29,087	22.03	—	—	18,58,711	33.32	3,40,710	6.10	67,241	1.20	13,85,632	24.83	6,81,557	12.21	—	—	15,372	0.27	—	—		
	1907-08	84,60,424	8 11 10	18,34,455	21.68	—	—	31,13,846	36.80	4,06,925	4.80	89,132	1.05	19,46,235	23.03	10,46,874	12.36	—	—	22,967	0.27	—	—		
	1918-19	1,53,91,971	15 11 0	23,40,592	15.20	—	—	75,04,012	48.76	5,80,140	3.76	1,36,198	0.89	22,72,461	19.32	18,34,068	11.92	—	—	24,500	0.10	—	—		
	1925-26	2,72,51,808	23 2 10	29,46,788	10.81	—	—	1,28,75,545	47.25	12,21,660	4.49	1,37,569	0.51	64,93,447	23.83	31,79,773	11.67	—	—	3,97,026	1.44	—	—		
	1947-48	5,43,10,763	36 7 3	2,29,65,301	42.28	—	—	87,75,728	16.15	22,64,246	4.16	—	—	1,34,81,288	24.82	48,54,811	8.93	—	—	19,69,389	3.62	—	—		
<b>Calcutta</b>	1884-85	25,65,027	6 6 6	—	—	—	—	9,99,552	38.96	1,49,681	5.84	2,64,289	10.31	4,15,440	16.19	1,96,910	7.68	—	—	5,39,155	21.02	—	—		
	1894-95	45,97,366	6 4 11	—	—	—	—	16,93,235	41.33	2,16,638	5.29	3,43,613	8.33	10,69,443	26.10	4,17,954	10.20	—	—	3,56,483	8.70	—	—		
	1907-08	64,01,137	7 14 4	—	—	—	—	26,78,023	41.84	2,72,923	4.26	5,78,244	9.04	16,88,564	26.38	6,19,589	9.68	—	—	5,63,794	8.80	—	—		
	1918-19	1,02,86,904	1 10 2	—	—	—	—	51,62,960	50.19	1,99,962	1.94	8,82,653	8.58	23,43,372	22.79	8,76,577	8.52	—	—	8,21,380	7.98	—	—		
	1925-26	1,57,78,474	14 10 4	—	—	—	—	1,40,92,259	89.33	3,43,373	2.17	12,66,175	8.02	—	—	76,667	0.48	—	—	—	—	—	—		
	1947-48	2,41,59,100	9 11 4	—	—	—	—	2,19,50,600	90.85	90,000 + 68,300	0.65	19,77,600	0.81	—	—	72,600	3.00	—	—	—	—	—	—		

**XVI**

**Municipalities.**

Statement showing the growth of municipal income from the year 1889-90 to 1946-47

	All sources	Taxation	Govt. Grants	Other sources
1889-90 ...	1,43,68,861	1,04,49,549	3,71,017	35,74,955
1894-95	2,49,87,804	1,51,92,530	8,51,775	89,43,499
1907-08	3,28,47,348	2,17,08,446	15,04,254	96,31,648
1918-19	5,59,20,960	3,34,24,346	62,48,911	1,62,47,703
1925-26	8,22,04,871	5,33,09,726	86,92,447	2,02,02,698
1946-47	17,59,58,035	11,96,67,219	2,26,21,177	3,36,69,639

Total income : Increase 16 times.  
 Taxation income : Increase 11 times.  
 Grants : Increase 60 times.

XVI (a)

Statement showing the income of Municipalities during the years 1889-90, 1894-95,  
1907-08, 1918-19, 1925-26 & 1946-47.

STATE	1889-90 INCOME FROM				1894-95 INCOME FROM			
	All sources	Taxation	Govt. Grants	Other sources	All sources	Taxation	Govt. Grants	Other sources
1	2	3	4	5	6	7	8	9
Madras.	17,74,890	10,05,187	1,30,916	6,38,787	29,13,228	14,45,983	3,41,534	11,25,711
Bombay.	32,24,814	23,13,048	36,901	8,74,865	61,00,505	37,84,906	2,36,796	20,78,803
Bengal	26,65,997	19,47,411	28,849	9,89,737	40,45,345	23,13,485	28,220	17,03,640
U. P.	27,03,926	19,52,250	105,975	6,45,701	55,06,002	33,97,726	35,867	20,72,409
Punjab	27,92,902	23,72,034	29,148	3,91,720	43,82,069	31,27,594	1,50,724	11,03,751
Bihar & Orissa	—	—	—	—	—	—	—	—
Madhya Pradesh	10,94,320	7,84,979	17,546	2,91,755	18,48,301	10,28,951	36,608	7,82,742
Assam	1,12,012	74,640	42,682	42,690	1,92,354	93,885	22,026	76,443
Total	1,43,68,861	1,04,49,549	3,71,017	35,74,955	2,49,87,804	1,51,92,530	8,51,775	89,43,499

xciii

STATISTICAL APPENDIX XVI (a)

	1907-08 INCOME FROM				1918-19 INCOME FROM			
	1	2	3	4	5	6	7	8
Madras	37,24,678	23,62,438	2,11,251	11,47,989	82,98,543	44,17,716	13,48,486	25,32,341
Bombay	79,92,509	45,14,969	3,88,410	30,89,123	1,23,81,637	77,36,710	9,89,840	36,55,087
Bengal	46,22,166	34,67,065	3,55,970	7,99,131	64,52,693	51,33,100	2,51,121	10,68,472
U.P.	66,07,058	50,10,603	1,11,825	14,84,630	1,19,00,583	66,71,875	11,96,694	40,32,014
Punjab	60,76,030	40,03,618	89,877	19,82,535	84,55,333	49,11,581	8,43,087	27,00,665
Bihar	...	...	...	...	33,59,521	18,38,150	8,59,099	6,62,272
Orissa	...	...	...	...	...	...	...	...
Madhya Pradesh.	20,81,241	14,31,150	70,861	5,79,230	44,54,566	23,47,437	6,51,631	14,55,498
Assam	17,43,673	9,18,603	2,76,060	5,49,010	6,18,084	3,67,777	1,08,953	1,41,354
Total	3,28,47,348	2,17,08,446	15,04,254	96,31,648	5,59,20,960	3,34,24,346	62,48,911	1,62,47,703

	1925-26 INCOME FROM				1946-47 INCOME FROM			
	1	2	3	4	5	6	7	8
Madras	1,30,47,972	71,10,632	23,58,898	35,78,442	3,87,45,677	2,56,20,441	31,76,316	99,48,920
Bombay	2,22,88,506	1,53,09,561	23,14,407	46,64,538	4,39,86,524	3,61,81,124	51,50,246	26,55,154
Bengal	75,81,262	62,11,862	2,19,931	11,49,469	1,15,08,056	78,35,453	18,20,656	18,51,947
U. P.	1,55,42,575	1,01,80,680	13,07,933	40,53,962	4,68,22,829	2,74,45,566	73,96,954	1,19,80,309
Punjab	1,33,00,584	75,68,183	14,64,961	42,67,440	76,71,577 (1947-48)	53,50,878 (1947-48)	5,01,702 (1947-48)	18,18,997
Bihar	35,26,153	24,82,309	2,39,942	8,03,902	78,09,231	44,63,948	19,47,842	13,97,441
Orissa	...	...	...	...	22,02,603	6,31,113	13,76,969	1,94,521
Madhya Pradesh	59,67,528	38,89,569	5,85,327	14,92,632	1,52,37,824	1,10,96,594	10,15,307	31,25,923
Assam	9,50,291	5,56,930	2,01,048	1,92,313	19,73,714 (1945-46)	10,42,102 (1945-46)	2,35,185 (1945-46)	6,96,427
<b>Total</b>	<b>8,22,04,871</b>	<b>5,33,09,726</b>	<b>86,92,447</b>	<b>2,02,02,698</b>	<b>17,59,58,035</b>	<b>11,96,67,219</b>	<b>2,26,21,177</b>	<b>3,36,69,639</b>

XVI (b)

Statement showing the ordinary income of the municipalities during the year 1884-85, 1894-95, 1907-08, 1918-19, 1925, 26, and 1946-47.

XCVI

STATE	Year	Total Income	Principal sources and proportion						Remarks
			Taxation		Govt. grants		Other heads		
			Amount	Proportion to total income	Amount	Proportion to total income	Amount	Proportion to total income	
1	2	3	4	5	6	7	8	9	10
Madras (excluding Madras Municipal Corporation)	1884-85	17,74,890	10,05,187	56.64	1,30,916	7.32	6,38,787	36.04	
	1894-95	29,13,228	14,45,983	49.64	3,41,534	11.72	11,25,711	38.64	
	1907-08	37,24,678	23,62,438	63.43	2,11,251	5.75	11,47,989	30.82	
	1918-19	82,98,543	44,17,716	53.34	13,48,486	16.25	25,32,341	30.41	
	1925-26	1,30,47,972	71,10,632	54.50	23,58,898	18.08	35,78,442	27.42	
	1946-47	3,87,45,677	2,56,20,441	66.12	31,76,316	8.19	99,48,920	25.66	
Bombay (Excluding	1889-90	32,24,814	23,13,048	71.73	36,901	1.13	8,74,865	27.14	

STATISTICAL APPENDIX XVI (b)



	1	2	3	4	5	6	7	8	9	10
KCVII	Bombay Municipal Corporation)	1894-95	61,00,505	37,84,906	62.04	2,36,796	3.88	20,78,803	34.08	
		1907-08	79,92,502	45,14,969	56.49	3,88,410	4.86	30,89,123	38.65	
		1918-19	1,23,81,637	77,36,710	62.49	9,89,840	7.99	36,55,087	29.52	
		1925-26	2,22,88,506	1,53,09,561	68.69	23,14,407	10.38	46,64,538	20.93	
		1946-47	4,39,86,524	3,61,81,124	82.5	51,50,246	11.70	26,55,154	6.03	
	Bengal (excluding Calcutta Municipal Corporation)	1889-90	26,65,997	19,47,411	73.11	28,849	1.04	6,89,737	25.85	
		1894-95	40,45,345	23,13,485	57.16	28,220	0.69	17,03,640	42.15	
		1907-08	46,22,166	34,67,065	75.00	3,55,970	7.57	7,99,131	17.28	
		1918-19	64,52,693	51,33,100	79.55	2,51,121	3.89	10,68,472	16.56	
		1925-26	75,81,262	62,11,862	81.94	2,19,931	2.90	11,49,669	15.16	
	1946-47	1,15,08,056	78,35,453	68.08	18,26,656	15.92	18,51,947	16.09		
U. P.	1889-90	27,03,926	19,52,250	72.20	1,05,975	3.92	6,45,701	23.88		
	1894-95	55,06,002	33,97,726	61.72	35,867	0.65	20,72,409	37.64		
	1907-08	66,07,058	50,10,603	75.85	1,11,825	1.69	14,84,630	22.46		
	1918-19	1,19,00,583	66,71,875	56.07	11,96,694	10.05	40,32,014	33.88		
	1925-26	1,55,42,575	1,01,80,680	65.51	13,07,933	8.41	40,53,962	26.08		
	1946-47	4,68,22,829	2,74,45,566	58.61	73,96,954	15.79	1,19,80,309	25.58		

	1	2	3	4	5	6	7	8	9	10
Punjab	1889-90	27,92,902	23,72,034	84.96	29,148	1.02	3,91,720	14.02		
	1894-95	43,82,069	31,27,594	71.38	1,50,724	3.43	11,03,751	25.19		
	1907-08	60,76,030	40,03,618	65.90	89,877	1.48	19,82,535	32.62		
	1918-19	84,55,333	49,11,581	58.09	8,43,087	9.97	27,00,665	31.94		
	1925-26	1,33,00,584	75,68,183	56.90	14,64,961	11.01	42,67,440	32.09		
	1947-48	76,72,177	53,50,878	69.71	5,01,702	6.53	18,18,997	23.71		
Bihar	1889-90	} No separate figures as formed				part of Bengal.				
Orissa	1894-95									
	1907-08									
	1918-19	33,59,521	18,38,150	54.71	8,59,099	25.58	6,62,272	19.71		
	1925-26	35,26,153	24,82,309	70.41	2,39,942	6.80	8,03,902	22.79		
Bihar	1946-47	78,09,231	44,63,948	57.16	19,47,842		13,97,441	17.89		
Orissa	1946-47	22,02,603	6,31,113	28.65	13,76,969	62.51	1,94,521	8.83		
Madhya Pradesh.	1889-90	10,94,320	7,84,979	71.73	17,546	1.60	2,91,755	26.67		
	1894-95	18,48,301	10,28,951	55.67	36,608	1.98	7,82,742	42.35		
	1907-08	20,81,241	14,31,150	68.76	70,861	3.44	5,79,230	28.31		
	1918-19	44,54,566	23,47,437	52.70	6,51,631	14.63	14,55,498	32.67		
	1925-26	59,67,528	38,89,569	65.18	5,85,327	9.81	14,92,632	25.01		
	1946-47	1,52,37,824	1,10,96,594	72.82	10,15,307	6.66	31,25,923	20.51		

1	2	3	4	5	6	7	8	9	10
Assam	1889-90	1,12,012	74,640	42.54	21,682	19.35	42,690	38.11	
	1894-95	1,92,354	93,885	48.79	22,026	11.45	76,443	39.76	
	1907-08	17,43,673	9,18,603	52.69	2,76,060	15.83	5,49,010	31.48	
	1918-19	6,18,084	3,67,777	59.50	1,08,953	17.63	1,41,354	22.87	
	1925-26	9,50,291	5,56,930	58.61	2,01,048	21.15	1,92,313	20.24	
	1945-46	19,73,714	10,42,102	52.79	2,35,185	11.91	6,96,427	35.28	

**XVII**

**District Boards.**

Statement showing the growth of District Boards income from  
1889-90 to 1946-47.

Year	Total income	Income from taxes.	Government grants.	Other sources.
	Rs.	Rs.	Rs.	Rs.
1889-90	2,67,83,682	1,57,58,643	38,32,897	71,92,142
1894-95	2,98,09,539	1,70,24,930	34,66,764	93,17,851
1907-08	4,75,40,991	2,31,06,784	1,14,71,376	1,33,63,131
1918-19	8,53,83,671	3,70,17,914	2,81,60,463	2,01,69,250
1925-26	12,06,04,058	4,85,05,906	4,68,48,269	2,52,50,884
1946-47	20,68,31,093	6,51,78,129	9,73,26,217	4,43,26,747

**Result.**

Total income appreciated	7.7 times
Taxation income   ,,	4.1 times
Government Grants   ,,	13.5 times.

1907-08  
INCOME FROM

1918-19  
INCOME FROM

STATE	1907-08				1918-19			
	All sources	Taxation	Govt. Grants	other sources	All sources	Taxation	Govt. Grants	Other sources
Madraz	1,56,70,506	72,24,717	28,42,440	56,03,349	2,52,90,286	85,32,323	81,14,804	86,43,159
Bombay	3,69,148	31,50,114	22,85,657	9,33,377	1,06,12,595	29,92,808	63,27,030	12,92,757
Bengal	63,40,046	35,00,194	6,86,113	22,47,739	1,06,87,564	66,18,890	13,54,968	27,13,706
U. P.	75,54,563	35,30,502	23,85,099	19,39,162	1,34,94,616	68,29,123	42,59,499	24,05,994
Punjab	45,59,322	25,04,269	10,15,724	10,39,329	94,90,888	41,40,227	31,97,891	21,52,770
Bihar	—	—	—	—	—	—	—	—
Orissa	—	—	—	—	85,25,471	57,82,829	18,33,288	9,09,310
M. P.	23,44,248	8,92,535	7,32,465	7,28,348	51,13,128	11,67,601	21,71,928	17,37,599
Assam	47,03,158	22,98,453	15,23,878	8,71,827	21,69,123	9,54,113	9,01,055	3,13,955
Total	4,75,40,991	2,31,06,784	1,14,71,376	1,33,63,131	8,53,83,671	3,70,17,914	2,81,60,463	2,01,69,250

XVII (a)

Statement showing the income of District Boards  
during the years 1889-90, 1894-95, 1907-08, 1918-19, 1925-26 and 1946-47.

STATE	1989-90 INCOME FROM				1907-08 INCOME FROM			
	All sources	Taxation	Govt. Grant	Other sources	All sources	Taxation	Govt. Grants	Other sources
Madras	76,53,951	46,78,354	8,93,033	28,82,564	89,63,800	54,04,063	3,17,435	32,42,302
Bombay	41,90,458	26,65,965	4,26,483	10,98,010	45,94,085	25,45,560	9,68,911	10,69,614
Bengal	62,73,403	34,32,574	10,98,148	17,42,681	66,74,980	35,60,402	5,02,349	26,12,235
U. P.	41,46,437	20,66,879	13,25,027	7,54,531	38,62,172	19,45,239	12,55,304	9,61,629
Punjab	25,99,926	21,03,778	16,056	4,80,092	30,50,121	23,09,575	5,155	7,35,391
Bihar	—	—	—	—	—	—	—	—
Orissa	—	—	—	—	—	—	—	—
M. P.	7,13,571	2,78,995	72,063	3,55,513	14,64,204	6,19,710	2,07,118	6,37,376
Assam	12,05,936	5,32,098	4,95,087	1,78,751	12,10,177	6,40,381	2,10,492	3,59,304
Total	2,67,83,632	1,57,58,643	38,32,897	71,92,142	2,98,07,539	1,70,24,930	34,66,764	93,17,851

1925-26.  
INCOME FROM

1946-47  
INCOME FROM

States	All sources	Taxation	Govt. Grants	Other sources	All sources	Taxation	Govt. Grants	Other sources
Madras	3,29,98,271	1,15,27,471	1,01,09,901	1,13,60,899	5,72,78,682	2,61,92,380	1,73,20,000	1,37,66,302
Bombay	1,93,69,404	53,22,981	1,13,53,056	26,93,367	4,63,30,468	61,74,191	3,26,39,210	75,17,067
Bengal	1,25,64,267	76,25,613	30,71,530	18,68,124	74,31,976	37,13,818	26,14,751	11,03,407
U. P.	1,78,68,105	73,61,056	74,93,241	30,13,809	3,13,79,890	89,68,147	1,52,57,266	71,54,477
Punjab	1,47,19,832	57,59,646	57,56,433	32,03,803	1,16,03,637	25,78,351	64,39,329	25,85,957
Bihar	—	—	—	—	2,58,56,960	1,06,42,979	1,20,08,626	32,05,355
Orissa	1,30,88,176	76,78,223	41,75,734	2,34,219	52,68,919	11,92,307	35,86,444	4,90,163
M. P.	65,12,263	21,64,969	28,71,247	14,76,047	1,55,14,895	37,96,872	42,41,071	74,76,952
Assam	34,83,690	10,65,947	20,17,127	4,00,616	61,65,666	19,19,084	32,19,520	10,27,062
Total	12,06,04,058	4,85,05,906	4,68,48,269	2,52,50,884	20,68,31,093	6,51,78,129	9,73,26,217	4,43,26,747

CIII

STATISTICAL APPENDIX XVII (B)

XVII (b)

Statement showing the ordinary income of the District Boards during the years 1889-90, 1894-95, 1907-08, 1918-19, 1925-26 and 1946-47

STATE	Year	Total income	Principal sources & proportion						Remarks
			Taxation		Govt. Grants		Other heads		
			Amount	Proportion to total income	Amount	Proportion to total income	Amount	Proportion to total income	
CIV Madras	1889-90	76,53,951	46,78,354	61.15	3,93,033	5.13	25,82,564	33.74	These statistics pertain to un-divided Bengal as it existed before partition.
	1894-95	89,63,800	54,04,063	60.29	3,17,435	3.54	32,42,302	36.17	
	1907-08	1,56,70,506	72,24,717	46.11	2,28,42,440	18.14	56,03,349	35.75	
	1918-19	2,52,90,286	85,32,323	33.65	81,14,804	32.18	86,43,159	34.17	
	1925-26	9,29,98,271	1,15,27,471	34.93	1,01,09,901	30.64	1,13,60,899	34.43	
	1946-47	5,72,78,682	2,61,92,380	45.72	1,73,20,000	30.23	1,37,66,302	24.03	
Bombay	1889-90	41,90,458	26,65,965	63.62	4,26,483	10.18	10,98,010	26.20	
	1894-95	45,84,085	25,45,560	55.52	9,68,911	21.14	10,69,614	23.34	
	1907-08	68,69,148	31,50,114	49.50	2,28,65,657	35.83	9,33,377	14.67	
	1918-19	1,96,12,595	29,92,808	28.20	63,27,030	19.63	12,92,757	12.17	
	1925-26	1,93,69,404	53,22,981	27.54	1,13,53,056	58.72	26,93,367	13.74	
	1946-47	4,63,30,468	61,74,191	13.32	3,26,39,210	70.44	75,17,067	16.22	
Bengal	1889-90	62,73,403	34,32,574	54.73	10,98,148	17.51	17,42,681	27.79	
	1894-95	66,74,980	35,60,402	53.24	5,02,349	7.61	26,12,235	39.15	
	1907-08	63,40,046	35,06,194	53.72	68,6,113	10.83	22,47,739	35.45	
	1918-19	1,06,87,564	66,18,890	61.97	13,54,968	12.65	27,13,706	25.39	
	1925-26	1,25,64,267	76,25,613	60.70	30,71,530	24.45	18,68,124	14.85	
	1946-47	74,31,976	37,13,818	49.97	26,14,751	35.18	11,03,477	14.84	



CV

STATE	Year	Total income	Principal sources & proportion						Remarks
			Taxation		Government Grants		Other heads		
			Amount	Proportion to total income	Amount	Proportion to total income	Amount	Proportion to total income	
U. P.	1889-90	41,46,437	20,66,879	49.62	13,25,027	32.13	7,54,531	18.25	These statistics pertain to undivided Punjab as it existed prior to partition
	1894-95	38,62,172	19,45,239	50.36	12,55,394	32.51	6,61,629	17.13	
	1907-08	78,54,563	35,30,502	44.95	23,85,099	30.35	19,39,162	24.70	
	1918-19	1,34,94,616	68,29,123	50.60	42,59,499	31.54	24,05,994	17.86	
	1925-26	1,78,68,105	73,61,056	41.19	72,93,241	41.95	30,13,809	16.86	
	1946-48	3,13,79,890	89,68,147	28.57	1,52,57,266	48.62	71,54,477	22.79	
Punjab	1889-90	25,99,926	21,03,778	87.18	16,056	0.50	41,80,092	18.32	
	1894-95	30,50,121	23,09,575	75.73	5,155	0.17	7,35,391	25.10	
	1907-08	45,59,322	25,04,269	55.05	10,15,724	22.23	10,39,329	22.72	
	1918-19	94,90,888	41,40,227	43.63	31,97,891	33.69	21,52,770	22.68	
	1925-26	1,47,19,882	57,59,646	39.13	57,56,433	39.11	32,03,803	31.76	
	1947-48	1,16,03,637	25,78,351	22.22	64,39,329	55.49	25,85,957	22.02	
Bihar and Orissa	1889-90	No separate figures as formed part of Bengal							
	1894-95								
	1907-08								
Bihar	1918-19	85,25,471	57,82,829	67.83	18,33,288	21.51	9,09,310	10.66	
	1925-26	1,30,88,176	76,78,223	58.80	41,75,734	31.80	12,34,219	9.40	
	1947-48	2,58,56,960	1,06,42,979	41.16	1,20,03,626	46.44	32,05,355	12.39	
Orissa	1946-47	52,68,919	11,92,307	22.62	35,86,444	68.07	94,90,168	9.30	

STATISTICAL APPENDIX XVII (b)

STATE	Year	Total income	Principal sources & proportion						Remarks.
			Taxation		Government Grants		Other heads		
			Amount	Proportion to total income	Amount	Proportion to total income	Amount	Proportion to total income	
M.P.	1889-90	19,13,571	2,78,995	39.00	79,063	11.00	3,55,513	50.00	
	1894-95	14,64,204	16,50,700	42.33	2,07,118	14.14	6,37,376	43.53	
	1907-08	23,44,248	8,92,535	38.14	7,23,465	30.84	7,28,348	31.02	
	1918-19	51,13,128	11,67,601	22.80	21,71,928	42.50	17,37,599	30.70	
	1925-26	62,12,263	21,64,969	33.25	28,71,247	44.20	14,76,047	22.65	
	1946-47	56,14,895	37,96,872	24.47	42,41,071	27.33	74,76,952	48.18	
Assam.	1889-90	12,05,936	5,32,098	44.33	4,95,087	41.25	1,78,751	14.89	
	1894-95	12,10,177	6,40,381	53.92	2,10,492	17.39	3,59,304	29.69	
	1907-08	47,03,158	22,98,453	48.49	15,32,878	32.53	8,71,827	18.58	
	1918-19	21,69,123	9,54,114	43.96	9,01,055	41.53	3,13,955	14.48	
	1925-26	34,83,690	10,65,947	30.61	20,17,127	57.89	4,00,616	11.50	
	1946-47	61,65,666	19,19,084	31.28	32,19,520	52.21	10,27,062	16.65	

STATISTICAL APPENDIX XVIII

XVIII

Statement showing the growth of the income of City Municipal Corporations from 1889-90 to 1947-48.

	Total income	Income from taxation.	Government grants.	Other Sources
1889-90	1,11,34,306	44,05,935	2,09,215	45,37,742
1894-95	1,57,69,875	1,06,43,369	65,767	56,60,739
1907-08	2,00,55,224	1,62,53,231	6,19,540	31,82,453
1918-19	6,54,90,801	4,82,74,510	3,43,493	69,72,798
1925-26	5,74,47,566	4,70,64,108	8,05,502	95,77,956
1947-48	12,35,21,810	8,92,42,505	1,33,20,396	2,09,58,909

Result

Total income appreciated 11.1 times  
 Income from taxation appreciated 20.25 times  
 Government grants increased 63.6 times.

XVIII (a)

Statement showing the income of City Municipal Corporations during the years  
1889-90, 1894-95, 1907-08, 1918-19, 1925-26 and 1947-48.

STATE	Year	Total Income	Principal sources and proportion					
			Taxation		Govt. Grants		Other heads	
			Amount	Proportion to total income	Amount	Proportion to total income	Amount	Proportion to total income
VIIII Madras Municipal Corporation  Bombay Municipal Corporation  Calcutta Municipal Corporation	1889-90	12,60,674	8,08,021	64.10	1,03,911	8.24	3,48,742	27.66
	1894-95	10,01,691	9,67,693	60.45	35,192	2.13	5,98,806	37.42
	1907-08	25,63,882	13,91,670	54.28	5,53,670	21.60	6,18,542	24.12
	1918-19	38,08,283	25,95,635	65.53	1,60,376	4.21	11,52,272	30.26
	1925-26	68,84,296	40,33,826	58.63	38,186	0.55	28,12,284	40.85
	1947-48	1,55,78,468	1,07,72,642	69.15	8,01,884	5.14	40,03,942	25.70
	1889-90	42,10,846	10,32,887	71.60	90,000	2.14	...	26.26
	1894-95	97,98,240	55,78,310	56.92	...	...	42,19,930	43.08
	1907-08	95,73,706	84,60,424	88.37	...	...	11,13,282	11.63
	1918-19	1,74,77,683	1,53,91,971	88.07	56,750	0.32	20,28,962	11.61
	1925-26	3,06,55,400	2,72,51,808	88.90	6,69,635	2.18	27,33,957	8.92
	1947-48	6,61,69,242	5,43,10,763	82.08	44,19,112	6.95	74,39,367	11.24
	1889-90	56,62,786	25,65,027	45.30	15,304	0.26	30,82,455	54.44
	1894-95	49,69,944	40,97,366	82.46	30,575	0.61	8,42,003	16.93
	1907-08	79,17,636	64,01,137	80.85	65,870	0.83	14,50,629	18.32
	1918-19	1,42,04,835	1,02,86,904	72.42	126,367	0.89	37,91,564	26.69
	1925-26	1,99,07,870	1,57,78,474	79.26	97,681	0.49	40,31,715	20.25
	1947-48	4,17,74,100	2,41,59,100	57.90	55,85,400	13.37	1,20,29,600	28.79

STATISTICAL APPENDIX XIX

XIX

Statement showing the government grant-in-aid during the years 1889-90, 1894-95, 1907-08, 1918-19, 1925-26 and 1946-47 and its percentage effect as compared with total income of District Boards.

STATE	Year	Total income	Government grant-in-aid		Remarks.
			Amount.	Percentage of total income.	
1	2	3	4	5	6
Madras	1889-90	Rs. 76,53,951	Rs. 3,93,033	5.13	
	1894-95	89,63,800	3,17,435	3.54	
	1907-08	1,56,70,506	28,42,440	18.14	
	1918-19	2,52,90,285	81,14,804	32.18	
	1925-26	3,29,98,271	1,09,901	30.64	
	1946-47	5,72,78,682	1,73,20,00	30.23	
Bombay	1889-90	41,90,458	4,26,483	10.18	
	1894-95	45,84,085	9,68,911	21.14	
	1907-08	63,69,148	22,85,657	35.83	
	1918-19	1,06,12,595	63,27,030	59.63	
	1925-26	1,93,69,404	1,13,53,056	58.72	
	1946-47	4,63,30,468	3,26,39,210	70.44	
W. Bengal	1889-90	62,73,403	10,98,148	17.51	
	1894-95	66,74,980	5,02,349	7.61	
	1907-08	63,40,046	6,86,113	10.83	
	1918-19	1,06,87,564	13,54,968	12.65	
	1925-26	1,25,64,267	30,71,530	24.45	
	1946-47	74,31,976	26,14,751	35.18	

STATISTICAL APPENDIX XIX

1	2	3	4	5	6
U. P.	1889-90	41,46,437	13,25,027	32.13	No separate figures available as formed part of old Bengal.
	1894-95	38,62,172	12,55,304	32.51	
	1907-08	78,54,563	23,85,099	30.35	
	1918-19	1,34,94,616	42,59,499	31.54	
	1925-26	1,78,68,105	74,93,241	41.95	
	1946-47	3,13,79,890	1,52,57,266	48.62	
Punjab	1889-90	25,99,926	16,056	0.50	
	1894-95	30,50,121	5,155	0.17	
	1907-08	45,59,322	10,15,724	22.23	
	1918-19	94,90,888	31,97,891	33.69	
	1925-26	1,47,19,882	57,56,433	39.11	
	1947-48	1,16,03,637	64,39,329	55.46	
Bihar & Orissa	1889-90	...	...	...	
	1894-95	...	...	...	
	1907-08	...	...	...	
	1918-19	85,26,471	18,33,288	21.51	
	1925-26	1,30,88,176	41,75,734	31.80	
Bihar	1947-48	2,58,56,960	1,20,08,626	46.44	
Orissa.	1946-47	52,68,919	35,86,444	68.006	
M. P.	1889-90	7,13,571	79,063	11.00	
	1894-95	14,64,204	2,07,118	14.14	
	1907-08	23,44,248	7,23,465	33.84	
	1918-19	51,13,128	21,71,928	42.50	
	1925-26	65,12,263	28,71,247	44.20	
	1946-47	1,55,14,895	42,41,071	27.33	

STATISTICAL APPENDIX XIX

1	2	3	4	5	6
Assam.		Rs.	Rs.		
	1889-90	12,05,936	4,95,087	41.25	
	1894-95	12,10,177	2,10,492	17.39	
	1907-08	47,03,158	15,32,878	32.53	
	1918-19	21,69,123	9,01,055	41.53	
	1925-26	34,83,690	20,17,127	57.89	
1946-47	61,65,666	32,19,520	52.21		

STATISTICAL APPENDIX XX

XX

Statement showing the growth of government grants-in-aid to municipalities since the year 1889-90.

STATE	Year.	Total income.	Govt. grant-in-aid.		Remarks.
			Amount.	Percentage of total income.	
1	2	3	4	5	6
		Rs.	Rs.		
Madras.	1889-90	17,74,890	1,30,916	7.32	
[excluding the Madras Municipal Corporation.]	1894-95	29,13,228	3,41,534	11.72	
	1907-08	37,24,678	2,11,251	5.75	
	1918-19	82,98,543	13,48,486	16.25	
	1925-26	1,30,47,972	28,53,898	18.08	
	1946-47	3,87,45,677	31,76,316	8.19	
Bombay.	1889-90	32,24,814	36,901	1.13	
[excluding the Bombay Municipal Corporation.]	1894-95	61,00,505	2,36,796	3.88	
	1907-08	79,92,502	3,88,410	4.86	
	1918-19	1,23,81,637	9,89,840	7.99	
	1925-26	2,22,88,506	23,14,407	10.38	
	1946-47	4,39,86,524	51,50,246	11.70	
West Bengal.	1889-90	26,65,997	28,849	1.04	
[excluding the Calcutta Municipal Corporation.]	1894-95	40,45,345	28,220	0.69	
	1907-08	46,22,166	3,55,970	7.57	
	1918-19	64,52,693	2,51,121	3.89	
	1925-26	75,81,262	2,19,931	2.90	
	1946-47	1,15,08,056	18,26,656	15.82	



STATISTICAL APPENDIX XX

1	2	3	4	5	6
Uttar Pradesh.	1889-90	27,03,926	1,05,975	3.92	
	1894-95	55,06,002	35,867	0.65	
	1907-08	66,07,058	1,11,825	1.69	
	1918-19	1,19,00,583	11,96,694	10.05	
	1925-26	1,55,42,575	13,07,933	8.41	
	1946-47	4,68,22,829	73,96,954	15.79	
Punjab.	1889-90	27,92,902	29,148	1.02	
	1894-95	43,82,069	1,50,724	3.43	
	1907-08	60,76,030	89,877	1.48	
	1918-19	84,55,333	8,43,087	9.97	
	1925-26	1,33,00,584	14,64,961	11.01	
	1947-48	76,71,577	5,01,702	6.53	
Bihar and Orissa.	1889-90	} No separate old	} figures available as for Bengal.	} med part of	}
	1894-95				
	1907-08				
	1918-19	33,59,521	8,59,099	25.58	
	1925-26	35,26,153	2,39,942	6.80	
	1946-47	78,09,231	19,47,842	24.94	
Bihar.	1946-47	22,02,603	13,76,969	62.51	
Madhya Pradesh.	1889-90	10,94,320	17,546	1.60	
	1894-95	18,48,301	36,608	1.98	
	1907-08	20,81,241	70,861	3.44	
	1918-19	44,54,566	6,51,631	14.63	
	1925-26	59,67,528	5,85,327	9.81	
	1946-47	1,52,37,824	10,15,307	6.66	

STATISTICAL APPENDIX XX

1	2	3	4	5	6
Assam.	1889-90	1,12,013	21,682	19.35	
	1894-95	1,92,354	22,026	11.45	
	1907-08	17,43,673	2,76,060	15.83	
	1918-19	6,18,084	1,08,953	17.63	
	1925-26	9,50,291	2,01,048	21.15	
	1946-47	19,73,714	2,35,185	11.91	

STATISTICAL APPENDIX XXI

XXI

Statement showing the growth of govt. grants-in-aid to the City Municipal Corporations since the year 1889-90

Corporations	Year	Total income	Govt. grant-in-aid		Remark
			Amount	Percentage of total income	
Madras	1889-90	Rs. 12,60,674	Rs. 1,03,911	8.24	
	1894-95	10,01,691	35,192	2.13	
	1907-08	25,63,882	5,53,670	21.60	
	1918-19	38,08,283	1,60,476	4.21	
	1925-26	68,84,296	38,186	0.55	
	1947-48	1,55,78,468	8,01,884	5.14	
Bombay	1889-90	42,10,846	90,000	2.14	
	1894-95	97,98,240	—	—	
	1907-08	95,73,706	—	—	
	1918-19	1,74,77,680	56,750	0.32	
	1925-26	3,06,58,400	6,69,635	2.18	
	1947-48	6,61,69,242	44,19,112	6.95	
Calcutta	1889-90	56,62,786	15,304	0.26	
	1894-95	49,69,944	30,575	0.61	
	1907-08	79,17,636	65,870	0.83	
	1918-19	1,42,04,835	1,26,367	0.89	
	1925-26	1,99,07,870	97,681	0.49	
	1947-48	4,17,74,100	55,85,400	13.37	