



ISSUES IN FINANCES OF LOCAL GOVERNMENTS - GS II MAINS

Q. Local bodies have gained significant recognition within the federal system, but are suffering with the lack of financial recognition. Discuss (10 marks, 150 words)

News: *What is on the agenda for the 16th Finance Commission?*

What's in the news?

- The 16th Finance Commission (FC) has begun its work, established under Article 280 of the Indian Constitution, primarily focusing on the devolution of the consolidated fund.
- Since the 73rd and 74th constitutional amendments, local bodies have gained significant recognition within the federal system.

Current Financial status of Local Governments:

- Panchayats in India generate only 1% of their revenue through local taxes.
- The majority of their income, approximately 95%, comes from grants by the central and state governments.
- 80% of panchayat revenue is from the Centre and 15% from States.
- Tax collection by panchayats decreased from ₹3,12,075 lakh in 2018-19 to ₹2,71,386 lakh in 2021-2022.
- Non-tax revenue also saw a decline in the same period, from ₹2,33,863 lakh to ₹2,09,864 lakh.
- The allocation for rural local bodies increased from the 10th to the 15th Central Finance Commission (CFC), with amounts of ₹4,380 crore and ₹2,80,733 crore, respectively.

Challenges faced by Panchayats in India:

1. Lack of Tax Collection Authority:

- In several states, gram panchayats lack the authority to collect taxes, while intermediate and district panchayats often don't have this responsibility either.

2. 'Freebie Culture' and Public Resistance:

- The reluctance to pay taxes due to a prevalent 'freebie culture' in society poses a significant challenge.

3. Elected Representatives' Hesitance:

- Imposing taxes might affect the popularity of elected representatives negatively, leading to hesitation in enforcing tax laws.

4. Increased Central Finance Commission Grants:

- With substantial increases in allocations from the Central Finance Commission, panchayats show less interest in collecting local revenue.



Measures Needs to be Taken I:

1. Educate on Revenue Importance:

- Raise awareness among elected representatives and the public about the significance of local revenue generation for panchayat development.

2. Effective Tax Implementation:

- Panchayats should enforce appropriate financial regulations for taxation, including determining tax rates and enforcing collection.

3. Encourage OSR Activities:

- Promote activities that generate Own Source Revenue (OSR) like rural business hubs, renewable energy projects, and commercial ventures.

4. Incentivize Local Revenue Collection:

- Implement policies to provide matching grants or incentives to panchayats that successfully raise their own funds.

5. Transparent Financial Management:

- Ensure accountability and transparency in financial matters to build community trust and support for local revenue initiatives.