

**GOVERNMENT OF ASSAM
FINANCE (ECONOMIC AFFAIRS) DEPARTMENT**

**EXPLANATORY MEMORANDUM AS TO THE ACTION TAKEN
ON THE RECOMMENDATIONS MADE BY THE SECOND STATE
FINANCE COMMISSION IN ITS REPORT SUBMITTED TO THE
GOVERNOR ON 18 TH AUGUST 2003**

The Report of the Second Assam State Finance Commission covering the period of five years from 1 st April 2001 to 31 st March 2006 together with Explanatory memorandum on the action taken on the recommendations of the commission is being laid on the Table of the house in pursuance of Article 243-1(4) and Article 243 Y (2) of the constitution of India. The summary of the recommendation of the commission relating to devolution of State Taxes, grants in aid and debt relief to the local bodies and other matters is contained in chapter VII of the report of the commission

A. DEVOLUTION OF TAX REVENUE TO LOCAL BODIES:

The commission recommends the discontinuation of the system of derivation based tax sharing and its replacement by global sharing. The divisible pool would be 3.5% of the aggregate collection of State taxes and duties and this should be devolved annually to local bodies, both rural and urban on the basis of the given formula .

The State Govt. has not accepted the recommendation of the commission in this regard in view of the fact that accepting and implementing the recommendation of devolution of 3.5% of the aggregate collection of State taxes to the urban local bodies and the rural local bodies, which have not been budgeted for 2005-06 is not practicable and possible at this stage. For the current financial year and 2006-07, we may continue with the existing arrangement of sharing motor vehicle tax, entertainment tax and land revenue and the local rates with the rural local bodies and urban local bodies, under various statutory provision and executive decisions. Meanwhile, we may ask Panchayat & Rural Development Department, Urban Development Department and Guwahati Development Department to quickly work out the current revenue deficit of the local bodies jurisdiction for the current financial year and intimate the same to Finance Department. Depending on our resource position, which may be considered to meet their revenue deficit to the extent possible by deficit grants through Supplementary Demand in due course. This will give good results in the future federal Finance Commission. The State Finance Department may sanction and release the funds due to the local bodies and

consider the feasibility of opening local body-wise personal ledger accounts for this purpose.

B. GRANT-IN -AID:

The Commission recommends that the grants-in-aid from the State Government to the panchayat bodies to meet their salary expenditure should cover the salary liability of the panchayat bodies for the first three years. Thereafter, with the panchayat bodies becoming fully functional, the grants-in-aid should be reduced by 5% every year for next two successive years, i.e. 2004-05 and 2005-06 .A grant-in-aid of Rs.10 crores annually to urban local bodies out of which Guwahati Municipal Corporation will receive Rs.5.00 crores and the remaining Rs.5.00 crores should be allocated to the other ULBs annually on the basis of 1991 population.

The Government has not accepted the recommendation of the Commission..

C. AUGMENTATION OF RESOURCES:

The Commission has recommended the following points as shown below in case of Rural Local Bodies:

- (a) Abolition of the maximum limit of taxation and providing a floor rate of taxation for each tier of PRI with provision to revise the rates suitably at the expiry of every three years.
- (b) Amendment of Assam Panchayat Act to enable RLBs to impose surcharge on stamp duty on the sale, gift etc., of immovable property.
- (c) The District Planning Committees be constituted as per provisions of the Constitution and the Assam Panchayat Act, 1994 and that the DPCs should accordingly replace the existing SDPCs.

The Commission has recommended the following points as shown below in case of Urban Local Bodies:

- (a) ULBs may consider engaging tax collectors on commission basis.
- (b) Periodic review in assessment of property tax every five years.
- (c) The enhanced rate of property tax which is applicable to new holdings under GMC should also be extended to existing holdings.
- (d) GMC and other ULBs are to be allowed to collect property tax or service charges but only on a provisional basis from constructions on annual patta land, khas land and ceiling surplus land.
- (e) The valuation of urban land in different urban area should be done realistically on the basis of the prevailing market prices. Assessors may

be engaged expeditiously to ensure timely completion of property tax assessment.

- (f) Regarding powers of exemption, the Assam Municipal Act, 1956, should be amended on the lines of provisions of the Guwahati Municipal Corporation Act, 1971.
- (g) The ULBs to adopt special rates for scavenging charges to be realized among others, from hotels, private hospitals, private markets, and residential private education institutions as these establishments are putting considerable pressure on civic facilities provided by urban bodies.
- (h) The urban bodies should be given the freedom to revise trade license fees every three years and to determine the rates and bases of such fees.
- (i) New trades including marriage halls, cyber cafes, real estate developers should come under the trade license fee net of GMC and other ULBs.
- (j) To streamline the procedure for collection of surcharge of stamp duty by the ULBs.
- (k) User charges instead of property taxes may be imposed on Central and State Government properties.
- (l) So as to make the tax administration machinery more tax payer friendly the procedure of the tax collection needs to be simplified. SSFC has listed a number of measures like payment of tax through post office or bank and computerized tax billing and collection, which may be adopted without much difficulty.
- (m) To rationalize the staffing of ULBs as the presence of excess manpower and the burden of arrear dues of the employees of the revised scale are having a highly unfavorable impact on the revenue expenditure of ULBs.
- (n) A separate pay structure for ULBs is to be framed which will be based on the capacity of these bodies to mobilize their own resources.

The State Govt. has accepted the above recommendations of the Commission.

D. LOCAL FINANCE DATA BASE :

- (a) All urban and rural local bodies should adopt the accounts format prescribed by C & AG. The Second State Finance Commission underlines the importance of imparting training to the audit and account personnel of the local bodies.
- (b) A Register of assets is to be maintained by both RLBs and ULBs.
- (c) To set up a permanent cell of the SFC for continuous updating, processing and monitoring of relevant data.

The State Government has accepted the recommendations of the Commission.

E. DEBT RELIEF

The Commission recommended the write off of the the outstanding loans against the panchayats amounting to Rs.46.40 lakh.

The State Government has accepted the recommendation of the commission.

IMPLEMENTATION OF THE COMMISSIONS RECOMMENDATIONS REQUIRES:

- (a) Legislative measures
- (b) Executive /Administrative orders
- (c) Further examination

Necessary action for the amendment / introduction of relevant laws for assessment of property tax in every three years, levying of taxes on agricultural, user charges and others will be taken up by the concerning Departments of the State Government for necessary legislation for implementing these recommendations.

Other recommendations of the commission will be considered in due course

Sd/-
(Tarun Gogoi)
Chief Minister as Finance Minister