

# GOVERNMENT OF TAMIL NADU

## FINANCE DEPARTMENT

### EXPLANATORY MEMORANDUM ON THE ACTION TAKEN ON THE RECOMMENDATIONS MADE BY THE STATE FINANCE COMMISSION IN ITS REPORT SUBMITTED TO THE GOVERNOR ON NOVEMBER 29, 1996.

The report of the State Finance Commission constituted vide Government gazette notification No.219, dated: 25th April 1994 together with the Explanatory Memorandum on the action taken on the recommendations of the State Finance Commission is being laid on the table of the House in pursuance of Article 243 I(4) and Article 243 Y(2) of the Constitution of India. The decisions of the Government on the recommendations of the State Finance Commission are indicated in the following paragraphs.

#### Fiscal Devolution from the State Government to the local bodies (5.5.20):

Government has accepted the recommendations and has decided that revenue from all State taxes excluding entertainment tax would be pooled and 8% of it would be shared with the local bodies from 1997-98.

#### Creation of Equalisation and Incentive Fund: (5.5.21)

Government has accepted the recommendation.

#### Distribution of Funds between rural and urban local bodies: (5.6.12)

State Finance Commission had recommended the distribution of funds between rural and urban local bodies in the ratio of 60 : 40. Government has decided to allocate the funds to the rural and urban local bodies in the ratio of 55 : 45.

#### Release of funds from the State Government to the local bodies: (5.6.21)

The amount to be devolved to the local bodies will be released in 4 equal quarterly instalments.

**Entertainment Tax (2.2.100, 2.3.29(i), 2.4.22, 2.5.26, 2.5.27 and 2.6.29)**

The State Government has accepted the recommendations of State Finance Commission to transfer 90% of the Entertainment Tax collection to the local bodies. State Government has also decided that Entertainment Tax will continue to be passed on to the local bodies as an item of revenue expenditure though the State Finance Commission had recommended that it should be transferred as deduct refund entry. Government has accepted sharing principle as recommended in 2.5.27.1 and 2.5.27.2.

**Distribution of funds between different tiers of rural and urban local bodies: (5.6.18)**

Government has accepted the recommendations of State Finance Commission.

**Interse distribution of funds within Panchayat Union and Village Panchayats: 5.6.14, 5.6.15, 5.6.16:**

The Government has accepted the recommendation of State Finance Commission regarding weightage given to various criteria for distribution of funds. For the first year due to administrative reasons it has been decided to implement these recommendations with slight modification. In the case of Panchayat Unions, the weightage for financial viability of Panchayat Unions based on average per capita land revenue will be transferred to weightage on total population and weightage on SC/ST population. Similarly in the case of Village Panchayats the criteria of per capita house tax collection and weightage of core civic services infrastructure maintenance deficiency will be transferred to weightage on total population and weightage on SC/ST population.

**Interse distribution amongst various tiers of urban local bodies: (5.6.19)**

The recommendations of State Finance Commission have been accepted by the Government. For the first year, due to administrative reasons, the weightage to financial indicators and services indicators would be transferred to the total population and the total SC/ST population of the Urban Local bodies.

**Chapter 7 - Principle for distribution of allocation made by the Tenth Finance Commission:**

Government has decided that the formula for distribution of capital grants to the local bodies based on Tenth Central Finance Commission's recommendations would be decided by the State Government every year.

Various grants on revenue account: 2.2.207, 2.3.36, 2.6.56, 2.6.57, 2.4.34, 2.4.32, 2.4.34, 2.5.46, 2.5.50, 2.5.53 and 2.5.54

Government has accepted the recommendations of State Finance Commission and the maintenance grants for maternity centres, dispensaries and irrigation would be continued. Accepting the recommendations of State Finance Commission, the grants for maintenance of street lights, water supply, dustless surfacing and local road grants would be subsumed in the overall devolution. In view of the substantial additional devolution of funds to the local bodies, no D.A. reimbursement grant would be released to the local bodies.

**Pension Contribution: (2.8.31)**

The Government has decided that the present system of maintenance of pension funds for local body employees will be continued and if local bodies default in making the pension contribution on behalf of their employees or there is a gap in this fund, then the shortfall will be adjusted against funds to be released to the local bodies by the Government.

**Provident Fund: (2.8.32)**

The present system of maintenance of Provident Fund accounts of local body employees will be continued and in case the local bodies fail to credit the subscription amount into the Provident Fund Account, the amount will be adjusted with interest out of the releases to be made by the Government.

**Mines and Minerals (2.5.33)**

Accepting the recommendations of State Finance Commission, the State Government has decided that the revenue from minor minerals will be credited directly into the local body account and the revenue received from the black granite will also be shared with the local bodies. Royalty from major minerals will not be shared with the local bodies.

The recommendations on the following have also been accepted in principle by the Government:

- Property Tax (2.2.40, 2.3.19, 2.4.13)
- Profession Tax (2.2.53, 2.3.21, 2.4.16)
- Toll Compensation (2.2.109)
- Advertisement Tax (2.2.114)
- User Charges (2.2.147 & 2.2.153)
- Specific Service Charges from Private Markets,  
Additional Charges for Water Supply (2.2.196)
- Licence fees & Other Charges (2.2.161)
- Improvement & Income from Properties (2.2.169)
- Development Charges under Town Planning (2.2.179)
- Land Use with respect to Urban Local Bodies (2.2.184)
- Parking Fees (2.2.198)
- Penalties & Fines (2.2.208, 2.3.40)
- Local Cess Surcharge (2.5.16.1, 2.5.16.5)
- Local Cess (2.5.25.1, 2.5.25.2, 2.5.25.3)
- House Tax (2.6.16.1, 2.6.16.9)
- Remunerative Schemes (2.6.61.1)
- Development Grant (2.6.59.1)
- Distribution and Credit of Surcharge on Stamp Duty  
(2.6.35.2, 2.6.35.4)

Recommendations on the following were not accepted by the Government:

- Vehicle Tax (2.2.56)
- Tax on Timber (2.2.61)
- Cable T.V. (2.2.117)
- Surcharge on Bus Tickets on Floating Population (2.2.134)
- Calculation of LCS based on average Land Revenue  
(2.5.16.2)
- Reduction in LC and LCS based on remission and  
waiver in Land Revenue (2.5.16.3, 2.5.16.4)
- House Tax (2.6.16.2, 2.6.16.3, 2.6.16.4, 2.6.16.5,  
2.6.16.6, 2.6.16.7, 2.6.16.8)
- Tax on Agricultural Land for specific purposes (2.6.23)
- Water Tax (2.6.27.2, 2.6.27.3)
- Fairs and Festivals (2.6.48.1, 2.6.48.2)

Decisions about Municipal Corporations would also be applicable to Town Panchayats and Municipalities in respect of relevant recommendations.

Other recommendations of the State Finance Commission are being examined separately by the Government

April 28, 1997  
Chennai-600 009

M. Karunanidhi,  
Chief Minister.

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placed before the Assembly on 28.4.97

- /ERRATA/

Page No.	Line	Error	Please read as
2	28 to 31	For the first year, due to administrative reasons, the weightage to financial indicators and services indicators would be transferred to the total population and the total SC/ST population of the urban Local Bodies.	For the first year, due to administrative reasons, the weightage to services indicators would be transferred to the total population and the total SC/ST population of the urban Local Bodies.

Chennai-3

M. Karunanidhi,  
Chief Minister.

