

## **CHAPTER- I**

### **INTRODUCTION, REVIEW OF LITERATURE AND RESEARCH METHODOLOGY**

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# CHAPTER 1

## INTRODUCTION, REVIEW OF LIERATURE AND RESEARCH METHODOLOGY

### 1.1 INTRODUCTION:

The local government is distinguished on the basis of the area within which it works. When it performs its assigned duties and reponsibilities in the rural areas then it is called local rural local government and when the area of operation is urban, then it is known as urban local body government. The nature of problems of the rural local government's differs from the urban local government. The problems of the urban local bodies are more crucial and assume more, importance due to rapid urbanization, migration of rural population in search for means of live hood and rapid development of education, industry, and tertiary sector in the cities. This made provision of civic amenities difficult in urban cities and peripheral areas. This has put a strain on the finances of urban local bodies as their receipts do not match the expenditure made and has resulted in deficits in their budgets.

Local governments are the closest form of governance to people at grass root level and hence, it becomes their prime reponsibilities to provide basic social-economic infrastructure and civic amenities to citizens. The Constitution at (73<sup>rd</sup> or 74<sup>th</sup>) Amendment Acts 1992 (for rural and urban local bodies), respectively has accorded a Constitutional status to these institutions as the third –tier of government.

Urban local bodies play an important role in the civic affairs and the social and economic life of the urban population. In a decentralized form of governance, the basic problem of the local people, the services and amenities they require and how those can be provides given the resource, constraints are the issues that are considered and resolved at the local level. For example- Public health sanitation, drinking water supply, schools roads drainage, public safety planned use of land, town planning beautification of the city, cremation grounds, conservancy and disposal of water urban

development work etc, are the main urban public goods and services that are provided by urban local bodies.

Available financial resources and the severity of the problem determine priorities in decision making at the local level. People living in urban slums are generally from the economically weaker section of society and the urban local bodies have to bear the responsibility of providing basic services and amenities to these people at subsidized rates. Growth in urban population overburdens the existing civic amenities and this adds to the financial burdens of urban local bodies. Urban local bodies in India perform obligatory as well as discretionary functions as per the State Government Acts. These functions entail growing public expenditure, both revenue as well as capital. The revenue mobilization of urban local bodies consist of an own revenue base (own tax and non-tax revenue), grants from state governments and debt finance. With rising expenditure commitments necessitated by quantitative as well as qualitative growth in public goods and services provided by urban local bodies, the problem of 'Fiscal Adequacy' has emerged in the finance of urban local in India and this problem has assumed serious proportions in 1990s and early 2000.<sup>1</sup>

It is against this overall background, that in the present study attempts to examine the finances of Kolhapur Municipal Corporation, an important city in south Maharashtra.

## **1.2 MUNICIPAL CORPORATION :**

In a few big cities, municipal corporations are statutory establishment. The organization of a municipal corporation is more or less uniform throughout the country. The municipal council is popularly elected. There is an elected Mayor to preside over the meetings of Municipal Corporation. To carry out day-to-day administrative function an administrative officer known as the municipal commissioner is appointed generally from the I.A.S cadre of the state governments. However, the policy is decided by the council or elected by the people on the basis of adult franchise.

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<sup>1</sup> Maheshawari.S.P (1976)- 'Local Government in India' Orient Longman Ltd, New Delhi,Page No.133.

Taxation powers of municipal corporations are wide and their budgets run into crores.

The main types of municipal corporation taxes are as under-

- 1) Taxes on properties transfer of properties and buildings.
- 2) Taxes on goods entering the city limits, such as octroi taxes and terminal taxes.
- 3) Taxes on vehicles and animals.
- 4) Taxes on trade, callings, companies, circumstances and property, employment, exhibitions etc.
- 5) Water tax.
- 6) Advertisement taxes, theatre tax, taxes on shown etc.

Since the municipal corporations have jurisdiction over big cities, they cover large affluent and rich sections. These areas are also heavily industrialized. Hence the municipal corporations enjoy substantial revenue from tax collection. In some states, the minimum and maximum rates of taxes are laid down in the statutes, in some, only the minimum or only maximum rates of are allowed. Municipal corporations also enjoy a fair degree of choice in taxation matters. Of course, they have to perform simultaneously responsible jobs of providing water, primary and secondary education, maintaining underground drainage systems, prevention of epidemics, floods etc. in their areas.

Municipal Corporation also receives grants from the state and is given a share in the proceeds of taxes levied and collected by the state.<sup>2</sup>

### **1.3 TITLE OF THE THESIS :**

The present study is completed under the title "Alternatives to Octroi- A Critical Study with special reference to Kolhapur Municipal Corporation 1995-2007.

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<sup>2</sup>

Bhogle S.K (1977)-'Local Government and Administration in Indian', Primal Prakash, Aurangabad, Page No.51.

## **1.4 THE SCOPE OF STUDY :**

The present study is the case study of the Kolhapur Municipal Corporation. The study concentrates on examining the Alternatives to octroi of Kolhapur Municipal Corporation in extensive as well as intensive terms for the period from 1995-2007.

## **1.5 PERIOD OF STUDY:**

Our study covers the period twelve years from 1995-2007.

## **1.6 OBJECTIVES OF THIS STUDY :**

The present study makes an attempt to bring out the revenue significance of octroi and argues that if it is abolished then the alternative suggested has to be as revenue yielding as octroi. Urban local bodies in India depend heavily upon octroi and property tax for tax revenue mobilization.

The important objectives of the present study are as follow-:

- 1) Study of overall budgetary operation of urban local bodies with special reference of Kolhapur Municipal Corporation.
- 2) Study the Revenue Structure of Kolhapur municipal corporation and bring out the revenue significance of octroi.
- 3) Study the overall feedback of civic society, trading, community and local administration of Kolhapur Municipal Corporation regarding abolition of octroi.
- 4) Examine critically the alternatives to octroi.

## **1.7 REVIEW OF LITERATURE :**

- 1) The M.Phil dissertation title of Prof.P.S.Kamble is ' A study of the Growth of effect of Municipal Corporation with reference of Kolhapur municipal since 1980'. In his dissertation he has covered the topic viz, Introduction, Research Methodology, local finance, public expenditure, History of Kolhapur municipal corporation, Analysis of composition of Revenue expenditure of Kolhapur municipal corporation, effect of the expenditure of Kolhapur municipal corporation, Summary and Conclusion & Suggestion.

According to his opinion, The Kolhapur Municipal Corporation being the urban local government has been playing an important role directed towards improving conditions and standard of living of its citizens by providing various public goods or service to them. It under takes various obligatory and discretionary functions to provide public good & service.<sup>3</sup>

2) The Ph.D dissertation title of Prof.P.S.Kamble is 'Finance of Kolhapur Municipal Corporation'. In his dissertation he has covered the topic viz, Introduction, Research Methodology, overall budgetary situation of Kolhapur municipal corporation. Growth and Composition of total revenue of Kolhapur municipal corporation, Growth of total expenditure of Kolhapur municipal corporation, Tax rate analysis of Kolhapur municipal corporation, Finance of Kolhapur municipal corporation, Conclusion and Suggestion.

According to his opinion, the urban local bodies have been engaged in the activities intensively as well as extensively so to make provision of public utility services of civics amenities for the citizens. As a result, they show distinct signs of fiscal imbalance. A higher level of expenditure necessitates additional buoyancy and elasticity in revenue. Yields for which urban local governments have to devise new ways and means to generate additional recourses in tax, non-tax as well as debt receipts.<sup>4</sup>

### **3) The Conference of India Association of Social Science Institutions (IASSI):-**

i) Prof. A.A.Dange in his paper 'Fiscal Crisis of Urban Local Bodies in India' is of the opinion that as far as tax revenue is concerned Urban Local Bodies in India depend heavily on two taxes only namely octroi and property tax, octroi is the only tax that has the potentiality to grow over time with the growth of economic activity in the urban area. In states where

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<sup>3</sup> Kamble P.S (1992) -'A Study of the Growth and Effect of Municipal Expenditure with Reference to Kolhapur Municipal Corporation.

<sup>4</sup> Prof.Kamble P.S (2001)-'Finance of Kolhapur Municipal Corporation'

urban local bodies collect octroi it is found that share of own tax revenue in the total tax revenue was higher.<sup>5</sup>

ii) In the above Conference Prof. R. B. Patil presented a paper "Constitutional Amendment and Changing Panchayat Raj Institutions: A study of empowerment of women and scheduled castes of Kolhapur district" According to his opinion, the women have been empowered under the constitutional amendment. In Maharashtra we find a mixed picture of success and failure. In some places women could perform their role adequately while in some other place they could not do so. The women Sarpanch in Sang wade having had educating only upto 3<sup>rd</sup> standard in kanned could not read Marathi and could not perform her role up to the extent expected. She has been blamed for corruption along with the gram sevak. What happens now onwards is an issue for further investigation by the researcher.<sup>6</sup>

#### **5) In the following Acts of the Government made mention of octroi -:**

##### **1) Government of India Act-1953**

Octroi was named but not described gives a description entry 52 of the state list that mentions. Taxes on the entry of goods into local area for consumption sale of use in production.

- i) A person is not liable to pay octroi in respect.
- ii) Good received from a outside the local limits conveyed through it us loaded by rail to destination outside the municipal limits.

##### **2) Indirect Taxation Enquiry Committee-1977**

Though this was a very ancient made of collecting tax in India and was supposed to have been in existence even during the period of Mughal the octroi in its present form is traceable to 1805 regulation of the east India Company.

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<sup>5</sup> Dr.Dange A.A (2003)-'Fiscal Crisis of Urban Local Bodies in India, Issues and Policy Implication (IASS Quarterly) Vol.2,No.3&4.

<sup>6</sup> Prof. Patil .R.B (2003)-'Constitutional Amendment and Changing Panchayat Raj Institutions:A Study of Empowerment of Women and Scheduled Castes of Kolhapur District'

**3) National institute of Public finance-New Delhi report** on fiscal policy has give the adverse impact of octroi stated that in addition to time and energy consumed in its collection octroi also has following drawback.

- i) Distorted inter state trade.
- ii) Led to multiplicity of tax rates state wise a city, wise thus hampering movement of good with in and among states.

As far as the literature available is concerned the research topic in concerned there are three aspects or constitution.

- i) The literature available on theoretical concepts background related of local finance in general and urban local finance in particular is in form of book, journals etc.
- ii) It includes report of the various commissions and committees of other intended to study the problem of urban finance in general perspective.
- iii) It consist of actual research under taken or brought out in the form of research articles in edited book, journals periodicals, dissertation and these

7) The M.Phil dissertation title of Prof.D.R.Khatake is, "A Study of Gadhingalaj Municipality-1990".

According to his opinion, the local bodies should be increasingly used as entrustments of national policy with a steady enlargement of their function that necessitates strengthening of their financial position to take up their additional reasonability in an effective manner.<sup>7</sup>

8) The M.Phil dissertation title of Prof. N.A Kate is, "Finances and Working of Municipal Transport with Reference to Kolhapur Municipal Corporation 1987."

According to his opinion, Most of the urban local bodies levied major taxes, these are property tax, service tax, Octroi tax an the entry of goods in local area for consumption or sale there in, taxes on the animals, vehicles taxes on the trade and calling. Although revenue from taxation constitution the main source of the urban local finance municipal administration regarding the tax collection is not satisfactory.

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<sup>7</sup> .Prof.Khatake.D.R – A Study of Gadhingalaj Municipality -1990'



Recently, state governments are considering abolishment of the Octroi, but it will definitely hamper the financial position of the urban government. Replacement of Octroi will be possible only when it is replaced by other elastic taxes.<sup>8</sup>

9) The M.Phil dissertation title of Prof. V.V.Mahamuni is, "A Study of Municipal Taxation with Reference to Octroi in Kolhapur City 1987."

According to his opinion, Octroi in its present form should be gradually replaced by a turnover tax or by a surcharge on sales tax or by some other methods which may cover the share of taxation and which are going to be exploited for the purpose of levying Octroi but would be free from the evils of Octroi systems.<sup>9</sup>

## **1.8 RESEARCH METHODOLOGY :**

The present dissertation is library work based on secondary data. For our study Kolhapur Municipal Corporation is chosen for study and the period of study is 1995-2007.

The secondary data is collected from the official records of Kolhapur Municipal Corporation and annual budgetary report of Kolhapur Municipal Corporation. Administrative reports and necessary information from the office records of the corporations. Data is collected from Kolhapur Municipal Corporation.

The collected data is tabulated in the light of objectives and chapter scheme of the present study and interpreted with necessary statistical tools like Compound Growth Rate (CGR), and ratio analysis. Wherever needed secondary data at state level as well as of other urban local bodies is used for comparative analysis.

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<sup>8</sup> .Prof.Kate .N.A ' Finances and Working of Municipal Transport With Reference to Kolhapur Municipal Corporation-1987'

<sup>9</sup> Prof. Mahamuni .V.V (1987)-'A Study of Municipal Taxation With Reference to Octroi In Kolhapur City '

## **1.9 CHAPTER SCHEME:**

Following is the chapter scheme of the present study:-

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| 1) Chapter 1 | Introduction, Review of literature, Research Methodology   |
| 2) Chapter 2 | Overall budgetary operations of Kolhapur Municipal corporation-1995-2007.                                |
| 3) Chapter 3 | Revenue Structure, Trends in Tax Revenue And Relative Significance of Octroi in Revenue Structure of KMC |
| 4) Chapter 4 | Alternatives to Octroi   |
| 5) Chapter 5 | Public Opinion Analysis regarding Octroi   |
| 6) Chapter 6 | Summary and Conclusion   |

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- 5) Dr.Dange A.A (2003)-'Fiscal Crisis of Urban Local Bodies in India, Issues and Policy Implication (IASS Quarterly) Vol.2, No.3&4.
- 6) Prof. Patil .R.B (2003)-'Constitutional Amendment and Changing Panchayat Raj Institutions:A Study of Empowerment of Women and Scheduled Castes of Kolhapur District'
- 7) Khatake D.R- 'Municipal Finance-'A Study of Gadhingalaj Municipality'
- 8) Kate N.A (1987)- 'Finances and Working of Municipal Transport with Reference to Kolhapur Municipal Corporation'
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