

**GOVERNMENT OF INDIA
URBAN DEVELOPMENT
LOK SABHA**

UNSTARRED QUESTION NO:1601
ANSWERED ON:09.03.2007
TAX FREE MUNICIPAL BONDS
Yadav Shri Baleshwar

Will the Minister of URBAN DEVELOPMENT be pleased to state:

(a) whether the Union Government has advised the State Governments to raise money from the market by issuing Tax Free Municipal Bonds to meet the shortage of funds for implementing the schemes for providing basic amenities for their city dwellers;

(b) if so, the details thereof; and

(c) the reaction of the State Governments thereto?

Answer

THE MINISTER OF STATE IN THE MINISTRY OF URBAN DEVELOPMENT (SHRI AJAY MAKEN)

(a)&(b): Yes, Sir. In 2000-01, the Government inserted a new clause (vii) in Section 10(15) of the Income Tax Act, 1961, exempting interest income from bonds issued by local authorities. Funds raised from Tax Free Municipal Bonds are to be used only for capital investments in urban infrastructure for providing one or more of the following:-

- i) Potable Water Supply
- ii) Sewerage or Sanitation
- iii) Drainage
- iv) Solid Waste Management
- v) Roads, Bridges and Flyovers; and
- vi) Urban Transport (if this is a municipal function under respective State legislation)

Recently guidelines for issue of municipal tax free bonds have been revised in consultation with the Ministry of Finance and circulated to all the State Governments and UT Governments on 7th March, 2006.

(c): A statement showing the ULBs/Corporations that have been granted permission to raise funds through issued of Tax Free Municipal Bonds is enclosed at Annexure-I.

ANNEXURE-I

ANNEXURE REFERRED TO IN REPLY TO LOK SABHA USQ.NO. 1601 FOR 09.3.2007.

TAX FREE MUNICIPAL BONDS

URBAN LOCAL BODIES/PARASTATALS WHICH HAVE BEEN GRANTED PERMISSION

(Rs.in crore)		
S.No.	NAME	Amount Date of Gazette
	Notification	
1.	Ahmedabad Municipal Corporation	100.00 21.08.2001
2.	Hyderabad Municipal Corporation	82.50 4.03.02
3.	Nashik Municipal Corporation	50.00 7.03.03
4.	Visakhapatnam Municipal Corpn.	50.00 29.12.03
5.	Hyderabad Metropolitan Water Supply & Sewerage Board	50.00 29.12.03
6.	Ahmedabad Municipal Corporation	58.00 16.03.04
7.	Chennai Metropolitan Water Sypply and Sewerage Board	42.00 24.03.04
8.	Karnataka Water & Sanitation Pooled Fund Trust	#100.00 20.08.04
9.	Chennai Metropolitan Water Supply and Sewerage Board	50.00 23.03.05
10.	Chennai corporation	44.80 24.03.05

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|-----|---------------------------------|--------|-----------|
| 11. | Ahmedabad Municipal Corporation | 100.00 | 24.03.05 |
| 12. | Nagpur Municipal Corporation | 128.00 | 4.01.2007 |

Permission granted in 2004-05 and subsequently revalidated in 2005-06 at the instance of the applicant.

In addition, proposal for issue of Tax Free Municipal Bonds worth Rs.150 crore by Ahmedabad Municipal Corporation for execution of infrastructure works in the city of Ahmedabad at an estimated cost of Rs.310.60 crore recently recommended to the Ministry of Finance has been approved by the Finance Minister for notifying the specified Bonds in the Gazette of India.