

AN ANALYTICAL STUDY OF PROPERTY TAX REFORMS WITH REFERENCE TO BBMP

¹RAVIKIRAN N.R., ²DR. SRILAKSHMI. K.R.,

¹Assistant Professor, ²Associate Professor,

^{1,2}Department of Commerce and Management,

¹Government First Grade College, Frazer Town, Bengaluru – 560 005, Karnataka, India.

²Government First Grade College, Yedyur, Bengaluru -560 070, Karnataka, India.

Abstract

Property tax was revised in BBMP during 2016. Rs. 2000 crores tax collections during the year 2018-19 and with the proposed 25% hike in residential property and 30% upon commercial property the BBMP is expecting more Rs. 500 crore. Many municipalities or Urban Local Bodies (ULBs) are experiencing difficulties in handling the rapid growth of population. The mega cities, urban centers are not providing infrastructure facilities like roads and power due to the inability of local government organization. Roads are constructed now at Bengaluru on a large scale which can be seen visibility but the other facilities water, education and hospitals and the investment upon them is not matching properly. There is a greater demand to collect more revenues from local bodies. Recognizing these serious difficulties agencies such as Asian Development Bank has initiated systems for property tax reforms in a number of Asian cities, including Bengaluru. It is said that any reforms on property tax should bring property tax base very close to market value which results in significant impact on revenue generation and do not have any adverse effect. In order to make the structural issues like improved valuation, increasing buoyancy of the tax, and building tax payer confidence need to be addressed properly. Against this background an attempt is made in this research paper to study the property owners awareness of tax reforms, their grievances, awareness of factors influencing the reforms and strategies followed with reference to BBMP.

Keywords: Property tax, Urban Local Bodies, Market Value, Revenue growth, Tax reforms,

Introduction

Property tax is the major fiscal instrument available to Urban Local Bodies (ULBs). But relatively property tax has been underused and has limited buoyancy relative to overall growth in the economy. Further, the ability to finance various developmental works has been constrained by administrative, regulatory and technical short falls.

Property tax is the most important tax levied by the urban local governments across the globe. Generally it is considered as a good tax for local government since it is a visible tax financing services in the area of a

city. Oates (2010) is of the opinion that if proper authority is ensured to the local government, it promotes local autonomy.

Property tax is not properly administrated in many developing countries. It is said that slow growth of decentralization is a major reason for underuse of property tax base and lesser dependency on property taxes. The inability of the local governments further is emerging as a constraint in designing an appropriate tax policy.

Cities now are responsible for drafting suitable strategies to maintain and improve public services, and finding instruments to finance these activities in a suitable manner. In response to the progressive needs of revenue many of the local bodies initiated reforms to improve the performance of their local fiscal particularly property tax. The other reforms have similarly concentrated on improving the administration of tax and in some cases associated by bringing changes in the valuable of assets. The reforms like self assessment declaration of property on a standardized form and avoid frequent interactions with rent seeking tax collections etc., and all these reforms appear to have positive impacts on local revenues.

The most significant administrative challenge in developing countries is deciding the market values for land and structures. Tax payers' confidence cannot be build up with unsuccessful tax base and consequently compliance rates would below resulting lower revenue. Hence a base of property tax mostly suitable to all payers should be designed despite facing lot of short falls. Tax collections is very much depends upon the methodology for valuation of properties, coverage of properties under tax net, collection efficiency and regulatory in periodic revision of rates. The comprehensive reform process needs an instrumental role by the state and state is fully empowered to create a committee or expert group for assistance. Castells (1996) points that for the first time in human history the urban poor are more and out numbered the rural poor. Globalisation further impacts this trend and consequently urban population accelerates the growth trends.

The population of Bengaluru was 75 lakhs in 2009 and now population is 8 million plus. The wards increased from 100 to 147 and Bengaluru is the fastest growing economy in Asia and it is nicknamed as IT hub and global garment center after Bangladesh. Most cities introduced the Area-based system during the year 1999 and 2002. However the first revision of property tax none of the ULBs have been successful in revising the property tax except Bengaluru.

Tax reform

Like other cities Bengaluru in the year 2000 brought property tax reforms when it insisted on self assessment of property tax scheme. Under this reform scheme the location of the property was classified into zones based on published guidance value notified by the Department of Stamps and Registration. The main advantage of this scheme was free from harassment by the tax collectors and to lower the compliance cost of tax payment.

Under the present property tax legislation the payer cannot escape and Bruhat Bengaluru Mahanagar Palike (BBMP) through its strategies pursue evaders, and non payers of tax for the year 2008-2009. The corporation has prepared database of all properties within the city's municipal limits through GIS mapping.

During the year 2002, Karnataka municipal corporation (KMC) Act the method of self assessment of property was amended to bring capital value system (CVS). But this move was protested by tax payers, trade associations, and welfare associations and demanded to bring tax legislation based on area very similar to 2000.

Key Property Tax Reforms

On behalf of the IT department the National Securities Depository Limited (NSDL) established Tax Information Network (TIN). The basic objective of the TIN which is a source of the country wide tax related data. The basis intention of TIN was;

- (1) To modernise tax collection
- (2) To process the data
- (3) To monitor accounting of property tax.

Electronic Return Acceptance and Consolidation system (ERACS)

It consist of a system for interface with the tax payers and on internet supported system of upload of electronic returns of tax deduction at source (TDS) and tax collection at source (TCS) and Annual Information Return (AIR) to be the central system of TIN.

Online tax accounting system (OLTAS)

OLTAS is used for upload to the central system the details of tax deposited in numerous tax collecting branches across the country everyday.

Central PAN Ledger Generation system (CPLGS)

This refers to central system that merges the details of TDS / TCS and advance tax into PAN.

eSahay initiation : Paperless assignments

IT has made the life of tax payers easy as they do not need physically go to banks to deposit bank challans and present the case and documents to the assessing officers.

Sevottam : Efficient grievance redressal

The intention here is to address grievances in real time.

Further the key reforms include quick refunds. The latest introduction of Kaveri scheme is going to well address the problems and the scheme is unique.

OBJECTIVES

- 1) To study the key property tax reforms.
- 2) To analyze respondents awareness about reforming property tax.
- 3) To evaluate respondents grievances of tax payment.
- 4) To describe the factors influencing tax reforms and strategies.

REVIEW OF LITERATURE

Mohanty et al. (2007) here expressed that various reform agendas prescribe changing over to valuation based on unit area characteristics.

Bandyopadhyay and Rao (2009) expressed that collection ratio of property is low in Indian cities which is one of reasons for low collections of property taxes.

Mathur et al. (2009) finds that the average collection rate was only 37% with relatively higher collection rates in Karnataka, Tamil Nadu, Kerala and Andhra Pradesh. Bihar and Madhya Pradesh have very low collection efficiencies as was the case with Delhi.

National Institute of Urban affairs (2010) stated that valuation of properties is an important issue. Valuation can be done based on the capital area, rentals or area of the properties. The institute further said that while capital values are subject to market fluctuations, rent controlled properties create distractions in the real value based methods. The institute suggested that valuation based on unit area characteristics are safe options with lesser fluctuation. Different countries across the globe have opted for unit area based valuations.

Gnaneswara (2009) highlighted that legal framework plays a prominent role in realising the benefits from a transformation in the valuation methods. The researcher in his study based in municipal corporations from Andhra Pradesh, Tamil Nadu and Karnataka established that the gains in Karnataka from making to a self assessment property tax system has been the maximum because of the fact that in Karnataka, the reform has been executed with a revision in the legal framework where as in the two states the existing legal provisions were used.

Ahluwalia (2011) elaborates on the initiatives taken in different stages of reforms systematically in Bengaluru that made property tax a success story in the city yielding higher revenues, greater coverage and better collection ratio.

Kelly et al. (2013) owe of the opinion that the real challenge is to define what will not be included in the tax base rather than what will be included in the tax base. Further, the authors have stated that rationalising

exemptions is very important as they are implicit subsidies which should be targeted to properties for which these exemptions are justified on grounds of efficiency and equity.

RESEARCH METHODOLOGY

The present study as carried out with an intention of testing the above stated hypotheses and investigate hypothetical relations among dependent variable and independent variables.

The reformation process being independent variables and drivers of reformation are depended variables, tax reform influences are dependent and reforms being independent variable. In hypotheses testing study the hypothetical associations are examined in order to find solutions to the stated hypotheses. According to Sakaran and Bougie (2010) an extremely thorough and careful methodology increases when a researchers moves towards a hypothetical testing study from an explorative research. Hence the present study is perceived as a correlation between depended and independent variables and bi-polar opinions are recorded and presented in the required Likert different point of scale and tested regarding variability in the opinions.

Cavana et al. (2001) have stated the business research could be carried out within natural context i.e, in a non-contrived setting. The data gathered will be highly relevant when it is collected in a natural setting i.e., while individuals are functioning normally.

RESEARCH INSTRUMENT

The researcher is supposed to capture maximum data in terms of validity and reliability as suggested by positivists philosophy of research design. (Easterby-Smith et al. 1991). The questionnaire method of gathering the required data is the most cost effective when compare to others. The structural questionnaire which allows the respondents to provide or record their opinion is the most preferred way of collecting data.

QUESTIONNAIRE DESIGN

The present research depends upon structured questionnaire which was administered as schedule taking into literacy rates, avoiding non response and delay. The respondents were humbly appealed to provide information after explaining the purpose of data collection. They were requested to provide data about their awareness about reforming property tax, grievances they face, factors influencing tax reforms and strategies. The present research uses Likert different point of scale to record the opinions of respondents. The questionnaire was divided into two sections. The first section deals with demographic profile of the respondents (not presented here) and second section deals with structured questions framed for the purpose of gathering data for the present study.

UNIVERSE OF THE STUDY

The study was confined only to Bengaluru. There are sufficient number of property tax payers at Bengaluru and maximum when compare to other cities in Karnataka. The questionnaire was administered as schedule and all types of property tax payers were consulted and data gathered.

SAMPLING TECHNIQUE

Convenient sampling technique was adopted for the purpose of collection of required data. The property tax payers were divided into large, medium and small and 150 large, 100 medium and 50 small property tax payers were consulted.

SAMPLE TABLE

Category of tax payers	No. of Respondents
Large property tax payers	150
Medium property tax payers	100
Small property tax payers	50
Total	300

Source: Field Survey

SOURCES OF DATA:

The present data uses both primary and secondary data. A well drafted questionnaire was administered as schedule after pretesting and final questionnaire was prepared in the light of experiences gained at the time of pre-testing.

STATISTICAL TOOLS

The data collected from different sources were gathered, computed, classified, tabulated analysed and interpreted. Frequency and percentages worked out and ANOVA statistical tool was performed.

HYPOTHESIS

- 1) There are no key direct tax reforms.
- 2) Respondents are not aware of reforming properly tax.
- 3) The respondents have no grievances of tax payment.
- 4) There are no factors influencing tax reforms.

Table - 1 : Respondents awareness about reforming property tax

Driving of reformation	SA	A	N	DA	SDA	Total
Rethink on Indian Tax Policy on account of lapses	25	15	1	3	4	48
Reforms discourages regressive tax policy and encourages progressive policy	24	18	1	1	3	47
Reforms are necessary to meet country's social and developmental works	31	16	2	2	2	53
Reforms are essential to achieve growth potential	30	20	2	2	3	57
Fulfilment of basic needs of masses enquires substantial financial resources	29	21	1	1	1	53
Reforms are necessary to ours massive evasion of tax	22	13	2	3	2	42
Total	161	103	09	12	15	300

Source: Field Survey

Note: SA - Strongly Agree, A - Agree, N - Neutral, DA - Disagree, SDA - Strongly Disagree

Hypotheses

H0	There exist no significant variation in the data	Reject
H1	There exist significant variation in the data	Accept

ANOVA Table

Source of variation	SS	df	MS	F-ratio	5% F limit
Between the sample	12,712	(5-1)=4	12712/4 =3178	3178/17.76 =178.94	
Within the sample	444	(30-5)=25	444/25 =17.76		(4,25) =2.76
Total	13,156	(30-1)=29			

Source: Field Survey

Analysis:

The calculated value being 178.94 higher than the TV = 2.76 @ 5% level of significance with $df = v_1 = 4$ and $v_2 = 25$ fails to accept H₀ and accepts H₁. Therefore it is concluded here that there exist significant variation in the data and respondents are aware of challenges to be faced by HR department.

Discussion:

Table - 1 reveals data on respondents awareness about reforming property tax. 161 respondents out of 300 strongly agree, 103 agree, 09 stood neutral, 12 disagree, 15 somewhat agree. Out of 161 who said strongly agree 31 said about reforms are necessary to meet countries social and development needs followed by 30 said about growth, 29 responding fulfillment of basic needs of masses, 25 about network on tax policy on account of lapses, 24 about follow progressive policy, 22 about reforms are necessary to curb massive tax evasion. Out of 103 who said agree 20 said about reforms are essential to achieve growth potential, 21 about fulfillment of basic needs of masses, 18 about follow progressive tax policy, 15 about rethink on Indian tax policy on account of lapses and 13 said about reforms curbs massive tax evasion. Out of 9 who stand neutral, a majority of 1 each said to avoid massive tax evasion, essential to achieve growth potential and lapses of tax policy and 2 each said about meeting controls social and developmental work. Out of 12 who said disagree, 3 each said about country's tax policy lapses and curbing massive tax evasion. Out of 15 who said strongly disagree a majority of them 4 said about reforms are essential on account tax policy lapses, 3 each about achieving growth potential and progressive policy and 2 each about meeting countries social and developmental works and avoid the masive tax evasion. ANOVA statistical tool fails to accept H₀ and accepts H₁ and it is concluded here that there exist significant variation in the data are respondents are aware of those variations and aware of reforming tax policy.

Table - 2 : Respondents grievances of tax payment

Drivers of grievances	HA	A	TSA	DA	Total
Harassment to property owners	25	15	3	2	45
Making over or under assessment of properties	24	12	2	2	40
Delay in service notices	27	18	2	1	48
Setting conflicts between land lords & tenants	28	14	3	1	46
Making khata in favour of fraudulent persons	23	11	1	3	38
Applying different standards in respect of different tax payments	22	11	2	2	37
Tampering of records & violation of norms	24	15	4	3	46
Total	173	96	17	14	300

Source: Field Survey

Note : HA - Highly Agree, A - Agree, SEA - To some extent, DA - Disagree

Hypotheses

H0	There exist no significant variation in the data	Reject
H1	There exist significant variation in the data	Accept

ANOVA Table

Source of variation	SS	df	MS	F-ratio	5% F limit
				(From F-Table)	
Between the sample	9613.0531	(4-1) = 3	9613.0531/3 =3204.351	3204.351/11.16 =287.13	
Within the sample	267.8487	(28-4) =24	267.8487/24 =11.160		(3,24) =3.01
Total	9880.9018	(28-1) = 27			

Source: Field Survey

Analysis:

The calculated value being 287.13 higher than the TV = 3.01 @ 5% level of significance with $df = v_1 = 3$ and $v_2 = 24$ fails to accept H_0 and accepts H_1 . Therefore it is concluded here that there exist significant variation in the data and respondents are aware of drivers of grievances.

Discussion:

Table-2 highlights data about respondents grievances of tax payment 173 respondents out of 300 high agreements over the type of harassment they faced, 96 agree, 17 to some extent agree, 14 disagree. Out of 173 who said highly agree, 28 said about setting conflicts between land lords and tenants, 27 about delay in service notices, 25 about harassment to property owners, 24 about over-or under assessment, 24 about tampering of records and violation of norms, 23 about making khata in favour of fraudulent persons, 22 about application of different standards. Out of 96 who said agree, 18 said about delay in service notices, 15 said about tampering and violation of norms, 15 about harassment to property owners, 14 about conflict setting between landlords and tenants, 12 about making over or under assessment. 11 about 6 khata fraudulently transferring, 11 about applying different standards in respect of different tax payers. Out of 17 who said to some extent, 4 said about tampering of records and violation of norms, 3 each about harassment, and setting conflict between land owners and tenants, 2 each about delay in services notices, making over or under assessment of properties and applying different standards in respect of different tax payments. Out of 14 who said disagree a majority of 3 said about tampering of record and violation of norms, 2 each about

harassment, our fraudulently transfer of khata and making over or under assessment of properties. ANOVA statistical tool fails to accept H0 are accepts H1. Therefore it is concluded that there exist significant variations in the data and respondents are aware of grievances.

Table - 3: Factors influencing tax reforms and strategies

Influencing factors	SA	A	SWA	Total
Close involvement of tax payer	37	23	5	65
Tax service linkage	35	18	2	55
Incentives for filing tax returns	39	21	4	64
Disincentives for non filing	31	15	2	48
Tax education	40	24	4	168
Total	182	101	17	300

Source: Field Survey

Note : NA - Strongly Agree, A - Agree, SWA - Some What Agree

Hypotheses

H0	There exist no significant variation in the data	Reject
H1	There exist significant variation in the data	Accept

ANOVA Table

Source of variation	SS	df	MS	F-ratio	5% F limit
				(From F-Table)	
Between the sample	11743.3335	(3-1) = 2	11743.3335/2 =5871.667	5871.667/142 =41.349	
Within the sample	1704.0000	(15-3) = 12	1704/12 =142		(2,12) = 3.88
Total	13447.3335	(15-1) = 14			

Source: Field Survey

Analysis:

The calculated value being 13447.3335 higher than the TV = 3.88 @ 5% level of significance with df = v1 = 2 and v2 = 12 fails to accept H0 and accepts H1. Therefore it is concluded here that there exist significant variation in the data and respondents are aware of factors influencing tax reforms and strategies.

Discussion:

Table-3 reveals data on factors influencing tax reforms and strategies. 182 respondents out of 300 strongly agree over the stated factors influencing tax reforms and strategies followed by 101 agree and 17 somewhat agree. Out of 182 respondents who said strongly agree, 40 said about the influencing factor tax education, 39 about incentives for filing tax returns, 37 about close involvement of tax payer, 35 about tax service linkage, 31 about disincentives for filing tax returns. Out of 101 who said agree 24 said about tax education, 23 about close involvement of tax payer, 21 about incentives for tax returns filing, 18 about tax service linkage and 15 about disincentives for non filing. Out of 18 who said somewhat aware 5 said about close involvement of tax payer, 4 about incentives for filing tax returns and tax education, 2 each about tax service linkage and disincentives for non filing. ANOVA statistical tool fails to accept H₀ and accepts H₁ and hence it is concluded that there exist significant variation in the data and respondents are aware of factors influencing tax reform strategies.

LIMITATIONS OF THE STUDY

- 1) The study is only confined to BBMP and any generalizations needs further in depth study.
- 2) The study only considers cross sectional data and a lengthy detailed study may provide greater insights.
- 3) Bengaluru the IT hub, silicon valley and global garment center and collection of data offer meeting the respondents who are spread over would be difficult, but with all difficulties and by virtue of knowing local language and link language it was able to collect the data.
- 4) Like any other research the present research also faced financial time and transportation problems. Peak hour traffic is only peculiar in Bengaluru and causes lot of inconveniences and vehicles may move with 2 to 5 km speed in certain junctions.

CONCLUSION

The respondents have shown clearly supporting property tax reforms mainly on account of (1) meeting country's social and developmental needs, (2) reforms are essential to achieve growth potential, (3) reforms are essential to curb tax evasion. Further, the respondents are against any kind of harassment and many of the respondents clearly said the tax payment should be judiciously used towards achievement of social and development needs of BBMP. It is fairly well said zonal based i.e., area based system of tax reforms will yield better results than any other which are outdated. The future reforms will be based on the acceptance of tax reforms by tax payers, and the ULB should show increased trend in tax collection and it would be win win situation for both tax payers and local bodies. Any hasty jump into conclusion to hike property tax unscientifically may not be acceptable and any hike is justified against its judicious spending.

REFERENCES

- Ahluwalia (2011). Bangalore gets at right on property taxes, **Financial Express**, June 29, 2012.
- Bandyopadhyay, S., and Rao, M.C. (2009). Fiscal health of selected Indian cities, policy research working paper No. 4863, **The world bank institute, poverty reduction and economic management division**, Washington DC, March 2009.
- Castells, M. (1996). **The rise of the network societies**, Oxford: Blackwell.
- Cavana, Robert, Y., Delahaye, Brian, L., and Sekaran, U. (2001). **Applied business research: Quantitative and quantitative methods**, John Wiley and Sons, Inc., Milton, Queensland, ISSN-10-0471341266.
- Easterby-Smith, M., Thorpe R., and Lowe. (1991). **Management research: An introduction**, Sage Beverly Hills, CA.
- Gnaneswar, V. (2009). Property Tax reforms in India, Urban India, Vol. XXIX (Part 2), **Journal of National Institute of Urban Affairs**, July - Dec 2029.
- Mathur, O.P., Debdulal, T., and Nilesh, R. (2009). **Urban poverty Tax potential in India**, National Institute of Public Finance and Policy, New Delhi, July 2009.
- Mohanty, P. K. Misra, B. N., Goyal, R., and Jeromi, P. D. (2007). Municipal Finance in India. An assessment. **Reserve Bank of India**, Mumbai, December 2007.
- National Institute of Urban affairs. (2010). **Best Practices on property Tax reforms in India**, submitted to the Ministry of Urban Development GOI, New Delhi, March 2010.
- Oates, W.E. (2012). **Local government: An economic perspective in M.E. Bell. D., Bruneri and F.M. Youngman (eds)**. The property tax and local autonomy, 9-26 Cambridge, Mall : Lincoln Institute of Land Policy.
- Sekaran, U., and Bougie, R. (2010). **Research Methods for business: A skill building approach**, Wiley: London.