

**TITLE OF PROJECT:**

“Urban Land Taxation in India: Constitutional Obligations vis-à-vis Modern Socioeconomic Challenges - Evaluating Objectivity, Efficiency, Effectiveness & Equity”

**Abstract:**

*This Research attempts evaluation of urban land taxation in Gujarat, India. From the British Colonial past, India has inherited a sort of semi-feudal system of land distribution, which follows social norms and traditions along with some flavor of Common Law as the base for distribution, ownership & taxation varies accordingly. Constitution of India includes Directive Principles, which aims at reducing the concentration of wealth, and means of production from the hands of a few is on ‘acid test’ after economic liberalization in year 1991. The tax authority has to harmonize new socio-economic challenges with constitutional obligations. The study is based on secondary data in form of relevant legislations, policy & budget documents and court judgments. Primary data will be generated from response of land taxpayers, tax practitioners & legislators. Taxpayers will be selected by using sampling techniques from representative urban centers. In the light of above, this report will analyze and evaluate to what an extent urban land tax system in Gujarat is objective, efficient, effective and equitable.*

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**Statement of objectives:** The objective of this project is to create awareness among Indian urban land taxpayers about their duty & right, and to provide platform for debate so that more efficient, objective, equitable & effective system of urban land tax is created. Therefore under the study a critical review will be taken, how far Indian government has fulfilled constitutional obligation in urban land taxation system amidst new socio-economic challenges. The project is in four parts. The first part discusses land ownership in the state of Gujarat, India; present urban land tax system, its historical roots and evolution. The second part is specially emphasizing Constitutional provisions on land and land tax, obligations & power of State and rights & duties of landowners. The third part discusses issues in modern global era, more particularly after liberalization, how socio-economic challenges are addressed by tax authorities while meeting constitutional obligations. And the fourth part analyzes on the basis of empirical evidences from urban Gujarat, to what an extent present urban land tax system is objective, efficient, effective and equitable, so as to suggest means & methods to make urban land tax system more efficient, effective, objective & equitable.

**Methods to be employed:** The first three part of the research report will be based on secondary data and review of literature related to urban land, urban land tax and tax systems prevailing in state of Gujarat. We will study sources of legislative power, present relevant legislations and court judgments delivered to address land tax disputes. The fourth part of the study will be on primary research data. We will study views of the land tax authorities (legislatives & executives) taxpayers and tax practitioners. The empirical result will be analyzed with reference to theoretical propositions. In analyzing the primary data, the statistical tests and techniques such as Chi-square analysis, t-test and Z-test would be employed for testing of the several hypothesis developed under the study.

**Significance of the project:** The land tax is not given due consideration by the government, there are few reforms in land reforms compared to overall economic reforms. The land tax system is subjective, vague and arbitrary, and hence there are plenty of problematic issues that require due attention. The research result will give an idea to the urban land tax authorities in Gujarat as well as in other part of the country; where they stand, where is the room to improve and where they should improve? This research will contribute to knowledge about new means to levy land tax, the impact of the land tax on urban development patterns by providing empirical evidences. The results of the analysis, both theoretical and empirical, will assist in the design of more equitable land tax policies. More generally, the results of this research project will raise a number of issues of interest to policy makers and will assist them in understanding the pros and cons of alternative instruments to optimize tax collection, widening tax payer base, tax compliance, recovery, transparency, confidence building measure amongst tax payers and better utilization of tax fund for socio-economic development. The report may be useful to the taxpayers to understand their contribution in urban development, peer pressure and policy advocacy, academicians and researchers for further research.

**Prologue:** As constitutional provision in India, the power pertaining to enact legislation and execute law related to land is vested in State Governments. Management of land has been constrained by mesh of legislations & certain provisions contained in a variety of laws such as the Land Revenue Act, the Land Reforms Act, the Urban Land (Ceiling and Regulation) Act (ULCRA), the Town Planning Act and the Urban Development Acts. The total population of the country has increased from 361 million in 1951 to 844 million by 1991, whereas, urban population increased from 62 million to 217 million, while in the same period, the number of urban agglomerations has increased from 2843 to 3768. This indicates that the increase in urban population was 250% whereas increase in urban agglomerations was only 32%.

As a regulator government enacted and implemented series of land, land tax and related regulations. Whereas on the other hand as a welfare state, government enacted another set of legislations for social justice. As a popular measure and political compulsion or in haste of faster industrial & hence urban development few more legislations were enacted in late 20<sup>th</sup> century. It includes legislations as old as enacted in 19<sup>th</sup> century legislation like Bombay Land Revenue Code 1879, Land Acquisition Act, 1894 while series of other legislations enacted thereafter like, Land Tenure Abolition Laws, Bombay Tenant & Agriculture Land Act 1948, Gujarat Land Revenue Rules 1972, Urban Land Ceiling Act 1976 (which was repealed in 1998), Agriculture Land Ceiling Act 1960, Town Planning and Urban Development Act, 1976, Gujarat Infrastructure Development Act, 1999 Gujarat. There is web of Union & State laws, local authority regulations, various agencies & institutions created to monitor, regulate and facilitate land management & reforms. The judicial system is working at a snail pace and millions of court cases about disputes among citizens and between citizen & government are pending.

The estimated total area owned by the households in the rural sector during the year 2003 was 107.23 million hectares. The corresponding area in the urban sector was 7.21 million hectares only. During the two centuries of British rule, India's traditional land ownership and land use patterns were changed. Out of 304 million hectares of land in India for which records are available, 7% is urban/non-agricultural land. 27.78% population is urban, while urban contribution to GDP is 50%. Urban centers are considered as top gear of growth, but due to poor land & tax management, the facilities offered by these urban centers are very poor and far inferior to global standards. It could be improved if there is sufficient fund to create such facilities. This is possible by widening taxpayers' base, appropriate tax rate, efficient collection, simple tax payment system, incentive based tax systems, efficient use of fund, involving tax payers in tax management policy design and such other measures.

Urban land tax system in India is very poor on count of various facets. Record of all land is not available; clear ownership titles are not traceable, there is vagueness in measurement of area and type of land, tax rates are subjective, poor tax compliance, large number of disputes pending in various courts, inefficient management of tax collection, fund allocation and fund utilization. It is therefore felt necessary to study urban land tax

system in India, to find out weaknesses in the system that can be sorted out by suggesting systematic and suitable measures.

**a) Research objective and specific research questions**

- i) To evaluate urban land tax system in Gujarat and assess its objectivity and efficiency
- ii) To evaluate effectiveness and equity of urban land tax system
- iii) Make suggestions to land tax authorities to be more objective, efficient, effective and equitable

Following lead questions will be considered to achieve the research objectives:

- Whether legislation related to land tax is clear, simple and precise?
- Is there any monitoring system, which takes care of smooth functioning of land tax system?
- What are the numbers of cases pending pertaining to land tax in court of law? And their aging.
- Whether urban land record is available for all private land?
- Whether the record contains relevant detail for ownership, size, use, investment or cost etc.?
- Whether land tax structure is objective and precise?
- Whether tax collection system is efficient in timely collection of tax?
- Whether system prevails to sort out grievances of taxpayers and actions are taken against erring taxpayers?
- What is the ratio of tax budgeted and actual tax collection?
- Whether tax collection and utilization is transparent?
- What is the ratio of tax collected and expenses incurred in tax collection? Whether this ratio is equal to or less than national standard?
- Is there any incentive for timely tax payment and penalty for late tax payment?
- Are there any concessions for tax if landowner is eco friendly or using land for national priority purpose?
- Are there any concessions for social or economic backward landowner?
- Is there any tax rate differentiation depending on size of land?
- Is there any control on keeping land unused or vacant plot?

## **b) Theoretical or conceptual framework and main hypothesis to be tested**

The canons of tax in general and land tax theory in specific suggests following propositions:

1. The cost of collection must be low relative to the yield
2. The timing and amount to be paid must be certain to the payer
3. The means and timing of payment must be convenient to the payer
4. A tax must not hinder efficiency or should involve the least loss of efficiency
5. Tax should automatically adjust to changes in the rate of inflation
6. The tax base should be uniform for a particular class of taxpayers
7. The tax collected from landowners should be substantially used for benefit of all landowners
8. The tax system should follow principle of equality
9. Taxes should be levied according to ability to pay

The empirical result in urban land tax system prevailing in Indian State of Gujarat will be compared with above mentioned each theoretical proposition. Efficiency & Effectiveness of urban land tax collection will be tested and compared against few of the following measures. As per one of the suggestive Standard issues by a National Body, tax collection charges should not be more than 35% of tax collected. According to principle of Advance Income Tax expectation under law, the estimated tax should not be less than 90% of actual tax paid. Applying same principle in budgeting of government, actual tax collected should not be less than 90% of what was budgeted, however to be lenient with government, research propose the ratio be at least 85%. The objectivity will be measured on test like: there must be same tax for same size of plot of a land, if there is no difference in any other influential character of land. Other theoretical proposition expressed in accepted tax canons will be tested and compared with empirical results using suitable & scientific research tools & techniques that are discussed in following paragraphs.

The following hypothesis would be tested:

- 1) The urban land tax system in Gujarat is not efficient.
- 2) The urban land tax system of Gujarat is not objective.
- 3) The urban land tax system in Gujarat is not equitable.
- 4) The ratio of tax collection expenses to the total collection  $< 0.35$ .
- 5) The ratio of the tax collected to the tax budgeted  $> 0.85$ .

### **c) Methodology, sources of empirical data, and data collection strategy**

The study comprises of 1) Secondary Data Analysis and 2) Primary research based on primary data analysis.

Secondary Data on legislative powers of tax authority, related rules, court judgments, budget & other policy documents, financial statements of concerned urban center and State Government, detail of urban land would be obtained, studied and analyzed using appropriate statistical measures and carrying out qualitative analysis. The urban tax and finance related data pertaining to year 2002 to 2006 would be studied. The data related to census & land record will be taken from the latest census, i.e. 2001.

Primary research would essentially be a sampling study wherein the sample of urban centers would be chosen in a manner that it includes:

1. District Headquarter of each district (there are 25 districts in the State)
2. Biggest city in each district, if it is other than Headquarter
3. All urban centers having population more than 100,000
4. 5% of all cities having population above 10,000

From each of the above category, a stratified random sample would be drawn. The sample size would be scientifically decided. Due care will be taken to include land owners of wide range of plot size. To the chosen respondents, a scientifically designed questionnaire would be administered. A pool of trained investigators (preferably the MBA students) would be entrusted the task of primary data collection. The personal interviews would be conducted with select legislators, executives and tax practitioners. The detail of all urban land in the selected urban centers will be studied. Appropriate sample size of respondents will be determined using sampling techniques for each urban center. Primary data includes questionnaire response of taxpayers (land owners), interviews conducted with that of legislators, executives and tax practitioners. We have not yet determined number of interviews that will be conducted.

We will also study state policy documents of different other state government and central government to give a wider look and to generate better alternatives.

In order that the relevant secondary & primary data is smoothly available, the following strategies would be adopted:

1. Applying under Right to Information Act, official documents will be obtained from concerned land record & tax authorities of each urban center, district and state government. (It may be mentioned that it is obligatory for

Information Officer to supply detail within 30 days of such application under RTI Act along with requisite fees)

2. Public Record and literature shall be made available from Court Library, Secretariat, libraries of reputed institute like Gujarat University, IIM, CIPET, AMA etc.

3. Primary data through questionnaire will be collected using services of the students undergoing required training in course curriculum and professional surveyors. Lead Researcher and the other team members will conduct the interview.

The result will be analyzed using statistical tools to measure impact of each variable with reference to the objectives set. By employing the scales such as Likert scale, Semantics Differentials, the objectivity will be measured on selected criterions like - precise measurement, nexus between tax/rate and use or measurement, uniformity among all owners of same class of land, size or use. The efficiency will be measured on selected criterions like – available record of total land, proposed tax vs. collected tax, tax collection charge vs. total tax collected and that will be compared with national standard proposed by one of the Urban Development Commission. The effectiveness will be measured on scale on selected criterions like – rate of compliance, pending cases in the court, lost cases by revenue authority, time taken in disposal of complains, appeal, grievance handling system etc. The equity will be measured on selected criterions like – land tax concession for socially and economically backward class land owners, rate differential or exemption for small land plot size, eco friendly or national priority use of land. In analyzing the primary data, the statistical tests and techniques such as Chi-square analysis, t-test and Z-test would be employed for testing of the several hypothesis developed under the study.

#### **d) Expected results, their application, and dissemination strategy**

The report will give an idea of urban land tax system in state of Gujarat. It will give an insight how urban land tax system still can be improved, by making it more objective, transparent, equitable and efficient. By creating confidence of taxpayers in the tax system, the compliance of tax payment and timely payment will improve primary and infrastructure facilities offered by urban authorities. The report is useful in urban and rural land tax regime in the state of Gujarat and all other state of India, as more or less land laws and tax system is similar in all other 29 states of the country. The Research Report will be published on print and electronic media. We will expect support from Lincoln Institute of Land Policy, World Bank & Asian Development Bank for publication. We will also upload report on Social Service Research Network, Global development Network, Development Gateway and other international agencies web sites. We will offer all possible opportunity to be taped to disseminate result of the report which may create even iota of influence on urban land tax system positively.

We will organize a workshop in B. K. School of Business Management under the “Institute Industries Promotion Cell”, a Government of India assisted project. We will pursue similar workshop/seminar participation at other local institute like CEPT, NID and AMA.

We will make arrangement to publish short articles based on research report in national level journals like NFHC, New Delhi, local level journals like NICM Bulletin. The research report will be published in University’s journal ‘vidya’.

We will deliver talks on research outputs at possible available academic opportunities that can be taped. We will participate at government organized workshops and will aggressively pursue to organize one such conference in State of Gujarat and will deliberate with urban tax authorities at local, sub-national & national level.

We honestly believe that urban land tax system in India is hot and debatable issue in politicians, practitioners, and scholars as well as among general taxpayers. As the government and researchers undermine the studying of urban land tax system, there is lot of room to improve in the system that may generate benefits to the landowners and society. The result of this study will give benefit to the revenue, taxpayers and society in general. Urban Tax system in India is in mesh of legal & political clouds. High illiteracy, poor land record, subjective valuation, un-identifiable land, unclear land title, tax evasion attitude, corruption, inefficient government system, vague delegation of power and other critical factors has made urban land tax system as farce. There is a need to build confidence among taxpayers that their money paid in form of tax will ultimately result into benefit to them personally and to the society. This confidence can only built if tax system is transparent, objective, efficient and convincing to a lay taxpayer.

It is expected that research will accelerate other research projects related to land issues and will provide a platform for debate to legislators, academicians, researchers, executives, judicial officers, tax practitioners and tax payers. This research will give direction to other researchers working on similar issues.

The research report may give insight to all stakeholders, whether they are on the side of revenue or taxpayers. The report will give impetus to current debate on urban land tax issues that may generate conducive environment in drafting tax legislation, efficient & transparent tax system, better tax compliance, improved, wide & equitable tax base and platform to further research. The research will give impetus to similar other research projects like agriculture land tax, rural land tax and so on.

Potential impact of the study may be helping in framing of more transparent, objective, efficient and smooth tax system that may attract more tax, widen tax base, less tax collection expenses, better tax compliance, administering grievance system, use of fund for urban development, creating social amenities, better infrastructure resulting into urban development. The result is replicable in other States in rural and urban land tax system subject to local need changes to be incorporated.



