CHAPTER- II

RESEARCH DESIGN AND REVIEW OF LITERATURE

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- Significance of the Study
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In the foregoing chapter the theoretical framework was discussed. This chapter focuses on the Research Design and Review of Literature. The Research Design discusses the objectives, the methodology, research instrument, data sources and sample design used for the study. And also an attempt is made to review of various studies undertaken in the past. The Literature Review is organized into three sections. Section first discusses the review of local self-governance taxation. Section second reveals the literature relating to rural local self-governance taxation. Section third explores the literature relating to urban local self-governance taxation.

2.1. Introduction

Taxation is one of the important sources of income to the Local bodies. Its importance however, varies between one body to the other. Local taxes are necessary to enable a local government to vary the quantity and quality of its services in respect of local preferences. It must be remembered that a local self-government should be based on sound foundations of local taxation. Hence, the tax imposing powers of local bodies should be increased. Accountability is essential for any decentralized machinery for managing the financial responsibility. The agency or institution responsible for incurring expenditure must also be accountable for the revenue required. Those who pay tax have the right to enjoy the benefit of services provided with such amounts. For any sound system of local finance there has to be a clear distribution of functional responsibilities among various echelons of the government as also a well-defined division of their financial responsibilities. Thus the finance of local government must correspond to the functions assigned to them (Jacob Tomas 2002). Along with that there should be improvements of the finances of local bodies by allocating certain independent sources of revenue.

According to Taxation Enquiry Commission, “A sound system of local finance should, as a rule, rest on a sound foundation of local taxation”. 
2.2. Objectives of the Study

The present research study attempts to fulfill the following objectives:

1. To trace the evolution of Local Self-governance taxation in India.
2. To study the taxation rules adopted by urban and rural local self-governance.
3. To evaluate the recovery of tax by urban and rural local self-governance.
4. To find out the problems in tax collection faced by urban and rural local self-governance.
5. To explore the level of efficiency of authorities in mobilizing tax resources.
6. To suggest remedial measures to augment better collection of taxes.

2.3. Hypotheses of the Study

Keeping in view the objectives of the study the researcher proposes to have following hypotheses.

\( H_0: \) The taxation rules are not the same between urban and rural local self-governance.

\( H_1: \) The taxation rules are same between urban and rural local self-governance.

\( H_0: \) Recovery of tax collection is not good at both the local government bodies.

\( H_2: \) Recovery of tax collection is good at urban local government bodies than the rural local government bodies.

\( H_0: \) The tax authorities are ineffective in mobilizing the tax resources in both the urban and rural local bodies.

\( H_3: \) The tax authorities are effective in mobilizing tax resources in urban local bodies than the rural local bodies.
2.4. Statement of the Problem

The local bodies form the third layer of a federal government. These bodies deal with the functions related to local areas and these needs are particularly local in nature. The needs which possess the local character and which are generally satisfied by local government, are concerned with the construction and maintenance of local roads, the provision of water and electric supply, sanitation, provision of primary education etc. But for the effective performance of their functions, an efficient system of finances is necessary to meet out the responsibilities of local bodies. Grants-in-aid and Assigned taxes are the important resources to the local bodies.

Grants-in-aid are given by the state government to local bodies. It can play an important role in the finance of local bodies and their general functioning. However, it is surprising that no state has any definite rules or principles on the basis of which grants are given to local bodies. In fact, both the size of the grants-in-aid and its payment depend upon the revenues and mercy of the state government which is changing from year to year (S.N. Chand 2008). Further, there is a lot of political interference in providing grants-in-aid to local bodies. In case, a particular local body is controlled and dominated by a distinct political party from that of state government it is evident that either no grants-in-aid will be sanctioned, and if sanctioned, the amount so sanctioned will be meager and a number of bottlenecks or hurdles will be created in regard to release of the funds.

Apart from development grants, certain taxes and other sources of revenue have been assigned to the local bodies. However, in practice we find that the local bodies are at the mercy of the state government in regard to their financial matters. Viewing at the miserable financial positions due to the lack of independent and sufficient tax revenues, these bodies deserve a sympathetic treatment, as a matter of right in view of their increasing functions, on the part of the state governments. Because under the Indian Constitution, there is division of taxes between the central government and the state governments. There are no taxes which are constitutionally reserved for local bodies.
The States may assign any of the taxes on State list, either in whole or in part, to local bodies. This enables state governments to exercise a degree of supervision and control over the affairs of local bodies. As a result the local bodies are entirely at the mercy of the state government regarding imposition of taxes.

Further the state government keeps the elastic sources of revenue with itself and transfers inelastic sources of revenue to local bodies. The sources of income of local bodies are also inadequate; on the contrary, their financial resources are very meager because of less number of taxes and that too at a low rate. It also suffers from the problem of inequity because there are a number of restrictions on the powers of local bodies as to the imposition of taxes. Whenever any local body wants to impose any new tax or make any alterations in the existing tax rates, prior sanction of the state government is a must. The shape and size of the relevant tax is to be determined by the state government. The state government either makes unnecessary delay in approving the tax proposals of the local bodies or even rejects them with a single stroke of pen without assigning any reason for the same. Thus the local bodies are hardly in a position to impose any new taxes. The rates of taxation too are so meager that sometimes it is difficult to meet even the cost of collection of the particular tax. Further the tax resources are shared between the centre and the states, and it is for the states to hand over specified tax resources to the local bodies out of their own list. But the record of states in this regard cannot be termed credible. The tax resources of the local bodies vary from state to state and from one body to the other. There is no uniformity in their connection. And almost every tax which a local body can impose has a corresponding tax which the state government can also impose. The local bodies cannot protest if a state government encroaches upon the field in which local bodies are levying taxes or which is generally expected to be their privilege. Consequently, the local bodies inculcate an attitude of non-responsibility and are not keen to improve their administration.

Though many of the tax sources entrusted to the local bodies are inelastic in nature, they have failed to make serious efforts to mobilize revenues even from the elastic
sources. A large number of factors contributed to the inefficiency in revenue mobilization by the local bodies. The important among these are: lack of knowledge on the part of functionaries about their tax powers; the functionaries themselves being defaulters to their local government, non-involvement of elected representatives with the tax collecting personnel, non-revision of tax rates for a long time; ignorance about the importance of people's contribution, unscientific method of fixing tax rates by the state; lack of incentive schemes. The comparative study of urban and rural local bodies taxes will help the researcher to identify the taxation rules, to evaluate the recovery of tax, to find out the problems in tax collection faced by the urban and rural local self-governance, to explore the level of efficiency of authorities in mobilizing tax resources and to suggest remedial measures to augment better collection of tax by both the urban and rural local self-government. The present work “A comparative study of urban and rural local self-governance taxation-A case study of Shimoga district of the Karnataka state” is selected for the study.

2.5. Significance of the Study

Local bodies in India have been conceived as institutions of self-governance which would be prime instruments of decentralization. The success of these bodies to a great extent depends on their financial resources. The acceptance of decentralized administrative system giving more powers and responsibilities to the local bodies resulted in the expansion of the scope of local government expenditure. As the democratically elected institutions to be called self-governments should have, among others, fiscal autonomy. They should be able to generate their own resources to carry out the entrusted regulatory and development functions. The resources available from different sources should match the functions and responsibilities entrusted. There are some functions which can be best performed by local authorities only. Such functions need local attention and adaptation to circumstances. They cannot be standardized on a state or national level. Hence the consolidation and reorganization of local bodies have been felt at all times. Scientific consolidation and reorganization of local bodies call for not only the provision of more efficient structure for them but also providing them
with finance to discharge their duties efficiently. The 73rd and 74th Constitutional Amendment Act, 1992 is a big step forward in this direction. The Act made it mandatory for the states to enact new legislations for local self-governance by rural and urban local bodies. Accordingly, in Karnataka also a new Karnataka Panchayat Raj Act, 1993 was enacted for rural self-governance. Similarly, Karnataka Municipal Corporation Act, 1976 for City Corporations and Karnataka Municipalities Act, 1964 for other local bodies were suitably restructured for urban self-governance. The new legislations assigned more powers, functions, responsibilities and finances to these local bodies in the State with the ultimate objective of enabling them to functions as autonomous institutions. The State government has assigned different specific subjects to rural local bodies and urban local bodies for economic development and social justice, as listed in the eleventh and twelfth schedule of constitutions. These schedules do not contain subjects of revenue resources. Therefore state governments transfer a part of their own resources to the local bodies out of the state list. The powers, functions and resources devolved vary from tier to tier and rural local bodies to urban local bodies. In Karnataka, vide Section 199 of KPR Act 1993, among three tiers of Panchayat raj system, it is the GPs that are assigned powers to levy taxes, rates and fees. The other two tiers i.e., ZPs and TPs are not assigned any taxing powers. Whereas, all the ULBs in the State that are governed by the KMCA Act 1976 and KMA Act 1964 have been assigned powers to levy taxes, rates and fees. The assignment of adequate taxing powers, the collection of owns revenue, the tax resources of the local bodies vary from state to state and from one body to the other. There is no uniformity in their connection. These issues can be better understood through conducting comparative study of Rural and Urban Local Bodies. Therefore there is need to study the significance and problems associated with rural and urban local bodies taxes. Hence the present study reveals “A comparative study of urban and rural local self-governance taxation-A case study of Shimoga district of the Karnataka state”. 
2.6. Sample Design

Present study has followed a **multi-stage random sampling method**.

In the **first stage** urban government and rural government are selected.

In the **second stage** urban municipalities/town panchayats and rural villages are selected.

In the **third stage** adequate number of municipality/town panchayats and gram panchayats are selected.

At the **final stage**, the ultimate sample units viz., common people, officials and people’s representatives are randomly selected from each municipality/town panchayats and gram panchayats.
Chart 2.1

Sample Design

District: Shimoga

Panchayat Union/Block: Shimoga

Rural Area

Urban Area

Shimoga Municipality

Hosnagara TP

Soraba TP

Shimoga Taluk

Hosnagara Taluk

Soraba Taluk

Nearest

For away

Nearest

For away

Nearest

For away

Nidge GP

Hasudi GP

Shetti Halli GP

Bidhar e GP

Harthalu GP

Thrivre GP

Harudravathi GP

Purapamane GP

Mavuli GP

Kodkani GP

Hosbole GP

Nisran GP
2.6.1. Sample Size

A total number of 600 respondents were selected randomly for the field survey. Of these 240 respondents belong to the category of common people each from urban and rural local government. 30 respondents belong to the category of officials each from urban and rural local government. 30 respondents belong to the category of people’s representatives each from urban and rural local government.

The district, taluk-wise number of respondents selected for the study is indicated in the following table:

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<th>District, Taluk-wise number of Respondents</th>
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<td>District</td>
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Source: Field study
2.6.2. Selection of Respondents

The study is conducted in urban as well as rural areas of Shimoga district. The research is carried out covering 3 types of respondents' viz., 1. Common people of the local government covered by the study. 2. Local government officials involved in the local government operations. 3. People’s representatives involved in the local government services.

2.6.3. Selection of Municipality/Town Panchayat and Gram Panchayats

For the Urban study: Shimoga municipality, Hosnagara town panchayat and Soraba town panchayats are selected.

For Rural Study: Twelve gram panchayats are selected. Four gram panchayats from each taluk are selected.

Shimoga Taluk: Nidhige gram panchayat and Hasudi gram panchayat which are near to the taluk head quarters and Bidhare gram panchayat and Shetti halli gram panchayat which are away from the taluk head quarters are selected.

Hosnagar Taluk: Thrinive gram panchayat and Harthalu gram panchayat which are near to the taluk head quarters and Haridravathi gram panchayat and Purapamane gram panchayat which are away from the taluk head quarters are selected.

Soraba Taluk: Mavuli gram panchayat and Kodkani gram panchayat which are near to the taluk head quarters and Nisrani gram panchayat and Hosbale gram panchayat which are away from the taluk head quarters are selected for the study.

2.6.4. Sample Area

The State of Karnataka is selected as the research area for the study. The reason for selecting Karnataka State as the research area is in consideration for the Karnataka was one of the few states in India that had shown interest in, and initiated action towards establishing PRIs in the early 1980s. A three tier panchayat system was established in the year 1987. That means Karnataka is one of the pioneering states in the country.
which initiated three-tier structure much before passing of the 73rd amendment act, which attracted nationwide attention.

In order to make an assessment of urban and rural local self-government taxation in urban and rural local bodies, one among the 30 districts of Karnataka state, Shimoga district has been selected for research purpose. Based on Dr. D.M. Nanjundappa committee report, the researcher has found that the shimoga is forward district. The priority is given on the basis of (HDI) Human Development Index. The shimoga district has 7 taluks. Out of 7 taluks 3 taluks are selected for the field survey. Among the taluks more backward taluk is Soraba, forward taluk is Hosnagara, Relativey developed taluk is Shimoga.

2.7. Period of the Study

The study covers a period of ten years commencing from 2002-2003 to 2011-2012.

2.8. Collection of Data/ Methods of Data Collection

The present research work is an empirical study based on both the primary and secondary data. Personal interview method is used to collect data from the respondents. Three sets of structural interview schedule were canvassed.

The data required for the study were collected from both primary and secondary sources. The primary data was collected from the respondents based on structured interview schedule.

The secondary data were collected from various published books, articles from various national and international journals, research thesis, research reports, research articles, websites and past records from various government reports. Other sources of secondary data included the data collected from the local bodies.

2.9. Statistical Tools used for Data Analysis

The data obtained from the survey have been coded and fed into computer SPSS package. SPSS software of 19.0 versions has been used for analysis purpose.
The data collected from primary and secondary sources are suitably classified and analyzed keeping in view the objectives of the study. For the purpose of analysis the study used simple percentages, averages and ratios. Besides, the study also used statistical tools such as chi-square test, t-test, z-test, f-test and rank correlations to test the hypothesis. Charts and graphical representations have been provided to highlight the data in a systematic manner and the results obtained thereby have been interpreted.

2.10. Limitations of the Study

Adequate care is given at various stages of the research. However, the study is subjected to some limitations. The study considers the following as some of the limitations in process of sampling, collection of data and analysis.

The study covers only one district out of 30 districts in the Karnataka state and restricted to only 3 taluks out of 7 taluks in the Shimoga district. The co-operation of respondents is very much required for a survey based research but the co-operation of a few respondents did not come to the expectations they refused to co-operate. Since the local bodies do not maintain relevant records, tax collection details were not immediately available from some local bodies. In most of the GPs proper details of the tax collection are often not maintained. Tax demand registers were outdated; the study assumes that the data supplied by the few local bodies are not reliable and correct. The tax collection data from the local bodies are restricted to a period of 10 years only. Lack of confined sharing information is also a limiting factor. While respondents expressing their views on the issues covered in interview schedule, the opinions may even subject to probability or it may not be true.

2.11. Organization of the Study

The research study is presented in the following eight chapters

Chapter-1: Introduction

The first chapter provides an introduction to the topic of the research covers rationale for local bodies, financial federalism under constitution, levels of government.
resources, tax revenue, fiscal decentralization in Karnataka, and constitution of state finance commission.

Chapter-2: Research Design and Review of Literature

The second chapter describes the research design and review of literature. The research design covers Objectives, Hypothesis, Statement of the problem, Significance of the study, Sample design, Methodology, Statistical tools used for data analysis, Limitations of study. And also comprehensive review of some relevant literature is presented.

Chapter -3: Evolution of Local Taxation in India

This chapter discusses the evolution of local self-governance taxation in India. The chapter being descriptive in nature covers growth of property taxation, growth of octroi, growth of rural sector: land revenue.

Chapter-4: Profile of the Study Area and the Study Units

This chapter provides a brief account of origin, location, administrative set up, industrial scenario, infrastructure. Population, Literacy and B.P.L Ration card holders, Rural and Urban Scheduled Castes and Scheduled Tribes, Profile of the Rural Study Locations, Profile of the Urban Sample Area and Profile of the Sample Respondents.

Chapter-5: Rural Local Self-Governance Taxation

This chapter provides for the 73rd constitutional amendments, the finances of panchayat raj institutions in Karnataka, resources of gram panchayats, general rules and procedures for levying taxes, distraint and sale, rural property tax reforms in Karnataka and tax rates.

Chapter-6: Urban Local Self-Governance Taxation

This chapter covers 74th constitutional amendments, sources of finances, general rules and procedures for levying taxes, methods of assessment of property tax, special
provisions relating to tax, suspension of power to recover distress and sale, tax rates, property tax reforms in Karnataka.

Chapter-7: Performance of Urban and Rural Local Bodies-An Analysis

This chapter presents the analysis of, awareness of tax and satisfaction level of the tax payers, problems associated in recovery of tax collection, reasons for non-payment of tax in time. It also covers perception of the officials and people representatives of local government, problems in recovery of tax collection, reformation taken in tax collection. Further it also covers an evaluation of recovery of tax collection of urban and rural local government. The period of study chosen for the purpose is from 2002-03 to 2011-2012. Testing of hypothesis also covered in this chapter.

Chapter-8: Findings, Suggestions and Conclusions

The details of this chapter provide a summary of major findings, suggestions and conclusions based on the study.

2.12. Review of literature

A good number of research works have been undertaken by individual researchers and institutions invariably dealing with different aspects of rural and urban taxation. There are several studies which have analysed finances of urban and rural local government, local tax structure, property tax reforms, local tax awareness among the people, recovery of tax collection and problems in recovery of tax collection, people participation in gram sabha/ward sabha meetings etc. It would be interesting to review studies relating to local bodies taxes because some of them are region specific, state specific and a few of them are comparative studies across states. The Literature Review is organized into three sections. Section first discusses the review of local self-governance taxation. Section second discusses the literature relating to urban local self-governance taxation. Section third explores the literature relating to rural local self-governance taxation. An attempt is made here to review studies relating to local bodies taxes with a view to identifying the gaps in the research.
2.12.1. Literature relating to Local Self-governance Taxation

Bird R and C Wallich (1993) reveals that local bodies which are considered as sine quo non of stable democracy, must have adequate financial resources of their own to meet their expenditure on locally determined functions. Although local inequalities in the standard of services can be set right through the device of differential grants and assigned revenues, the main emphasis should be on stability of local resources and their augmentations. In the devolution of the taxation enquiry he suggested the characteristic of local taxation are: the tax base should be relatively immobile and allow local authorities some lee way in varying rates without losing most of their tax base. The tax yield should be adequate to meet local needs and sufficiently buoyant over time, that is it should expand at least as fast as expenditure. The devolution of powers of taxation to local bodies has laid down the following criteria: 1. Suitability of a tax 2. The capacity to levy and administer the tax equitably and efficiently 3. The devolution should be sufficiently prompt, flexible and diversified.

J. Richard Aronson and Vincent G. Munley (1996) a study on "(Non) equivalence in a federalism: Dual tax shares, fly paper effects and Leviathan" concluded that individual voters can be net winner and losers when the size of the overall grant program changes. Clearly it seems incredible to suppose that general increases in income or uniform reductions in central government taxes could possibly correspond to the singular pattern of individual income transfers needed to ensure equivalence based upon both local tax shares and net changes in income that result. He also concluded that but considering fully the dual effects of both federal and local tax share introduces yet another explanation for the stimulations impact of this type of grant on local public spending. The reason relates to the shape of most income distributions: skewed to the right. If the pivotal voters in most jurisdictions have (about) the median income, then on increase in a proportional income tax at the federal government level that is returned to localities through lump-sum grants is tantamount to a fiscal transfer to pivotal voters. A progressive income tax at the federal level will lead to an even greater fiscal transfer
to pivotal voters, further reinforcing this effect. And if the formulas through which federal grants are allocated are (inversely) based on local income levels, the redistribution fiscal transfers may be yet more significant.

**Mark Skidmore** (1999) a study on “Tax and Expenditure limitations and the fiscal relationships between state and local governments”. The study uses comprehensive data on state and local tax and spending limitations for forty-nine states between 1976 and 1990 to estimate the effects of these limits on the fiscal relationships between state and local governments. Result indicate that tax and spending limits on local governments are only partially effective in reducing revenues because political agents by pass limitations by transferring revenue reliance to unconstrained revenue sources, or because unconstrained levels of government take on additional revenue responsibilities. The study concluded that the nature of the limitation plays an important role in how revenues are affected. If the ultimate goal of the body politic is to limit government revenues, not just to shift revenue reliance to other revenue sources or governmental units, then limitations must be carefully constructed to ensure that all levels of government and all revenue sources fall under the umbrella of the limitations. Therefore, if there is going to be a limitation on revenues or expenditures, an effectively designed fiscal constraint is one that encompasses all sources of revenue and all levels of government but allows politicians to choose among tax instruments, within the bounds of the constraint, to respond to changing voter preferences as well as changing economic and demographic conditions within the state.

**Shadbegian,** (1999) a study on “the effect of tax and expenditure limitations on the revenue structure of local government, 1962-87 by Ret. Estimates the impact of local tax expenditures limitations on the level and structure of local government revenue. The study demonstrates that tax and expenditure limitations decrease the level of property and other taxes, but increase the level of miscellaneous revenue, partially offsetting the decrease in taxes. Thus, tax and expenditure limitations shift the revenue
structure of local government away from taxes and toward miscellaneous revenue. However, more stringent TEL laws eliminate local governments' ability to increase the level of miscellaneous revenue to offset the decrease in taxes. The main focus of the study is how tax and expenditure limitations affect the growth rate of property taxes and own-source revenue per capita, in addition, they address the issue of tax and expenditure limitations effect on the structure of local government revenue. The study examine specifically the effect of revenue/expenditure and property tax levy constraints on two own sources of local revenue, current charges and other revenues. It offer evidence that revenue/ expenditure constraints increase other revenue, but have not significant effect on current charges; they also provide evidence that property tax levy limits do not significantly affect either current charges or other revenues. The study provides some evidence that tax and expenditure limitations alter the revenue structure of local government by shifting revenue away from taxes (in particular, property taxes) and toward other forms of revenue.

Robert. P. Inman (2001) a study on "Transfers and Bailouts: Institutions for enforcing local fiscal discipline" states that the growing importance of local and provincial governments as providers of public services and the importance of those services for the overall performance of the national economy has led to a careful re-examination of how public resources are allocated by decentralized governments. The simple notion that many local governments automatically guarantee efficient local taxation and service spending is no longer credible. This is true only in a very special institutional environment- the Tiebout economy-with many local governments and where taxpayers are fully informed and costless mobile, spillovers are absent, and local governments are limited to the use of residential head taxes. While perhaps a valid characterization of local sub-urban governments in a large U.S. metropolitan area, it is not an accurate description of most local public sectors in most economies, ones dominated by a few large cities each surrounded by a few residential sub rubs overseen by still larger provincial governments. This is not the Tiebout economy. There is no guarantee that such a local public sector will efficiently allocate public services.
Peter M. Mitias and Geoffrey K. Turnbull (2001) on “Tax, Grant illusion, local government, and spending income” is concerned with the nature of fiscal illusion and its effects on local government spending behavior. It examines what have been suggested as two alternative sources of fiscal illusion: grant illusion and tax illusion. The theoretical model shows that grant and tax illusions are in extricable intertwined. Any attempts to estimate voter perception parameters based on the assumption that the two types of illusion are independent will yield biased and inconsistent estimates. The empirical results show that voters suffer from fiscal illusion in our sample. Furthermore, the fiscal illusion arises from their inability to perceive the full amount of intergovernmental aid being given to the country government. This misperception drives a wedge between the actual and perceived marginal tax price of county expenditures, with the lower perceived tax price stimulating greater county spending than voters would otherwise support under perfect information.

A study by David N. Figlio (2001) and Arthur o Sullivan on the local response to tax limitation measures: Do local governments manipulate voters to increase revenues? It provides evidence that some cities subject to a state wide tax limit manipulate their mix of productive and administrative services in an attempt to get voters to override a statewide limit. When a statewide limit reduces a city’s budget, one manipulative response is to cut service inputs by a relatively large amount, while cutting administrative inputs by a relatively small amount. This approach reveals a relatively large trade-off between public and private goods, and the severe consequences from a tax limit may encourage local voter to override a statewide limit. It concluded that it provides evidence that some cities manipulate input ratios in an attempt to persuade voters to override statewide tax limits. The evidence is based on a comprehensive set of panel data on the service provision of local governments in the United States in the years surrounding the tax revolt of the 1970s and 1980s. Its results suggest that tax limits decreased service ratios, with the largest reductions in cities with override
options, less mobile citizens, and the city-manager form of government, as well as in cities facing good economic times.

Normal Gemmell, Oliver Morrissey and Abuzer Pinar (2002), “Fiscal illusion and political accountability: Theory and evidence from two local tax regimes in Britain” states that the major contribution of this study is to provide a model that disentangles fiscal illusion, accountability and income inequality effects at the local government level. The study adopt a median voter model of the demand for local government-provided goods to incorporate both fiscal illusion and representations of accountability associated with two quite different local tax regimes in Britain- a poll tax (the community charge) and a property tax (the council tax). The former was levied at a fixed amount on almost all local adult residents, while the latter was levied on households with tax liabilities related to property values. The poll tax was specifically designed to improve fiscal perceptions and promote local accountability, where some of these features were sacrificed with the council tax. The study further states that the council tax is based on its first year of operation, these results should be regarded as preliminary. They may reflect politician’s ability to exploit voter/tax payer’s temporary unfamiliarity with the new tax in 1993-perhaps there were temporary fiscal illusion and accountability effects immediately following reform. Nevertheless, the results point to the possibility that some important fiscal illusion and accountability features of the poll tax may have been lost by the subsequent reform. More generally, the model offers a means for testing illusion and accountability effects under alternative local government tax regimes.

M.A. Oommen (2005) twelfth finance commission and local bodies concluded that the twelfth finance commission has contributed significantly towards healthy fiscal federalism. But local bodies are yet to be put prominently on the public finance map of India. This is needed to facilitate an inclusive and equitable economic growth and to secure better horizontal equity. The available local data are of poor quality and need drastic improvement. Further finance commissions and their counterparts at the state
level will have to play a more important role to make fiscal decentralization a working reality in Indian fiscal federalism.

**Albert Sole-olle** (2006) a study on “The effects of party competition on budget outcomes: Empirical evidence from local governments in Spain” analyses the link between the intensity of party competition and several budget outcomes (i.e., spending, own revenues and deficit) Two different models for explaining this link were tested: Leviathan model, which predicts that increased competition will reduce these items for left governments and increase them for right governments. The empirical results favoured the partisan as the model that explains better the phenomenon under study. The study found that when the electoral margin of the incumbent at the preceding election increased, left governments increased substantially the level of spending, own revenue and deficit, and right governments decreased these items. The study also found that coalitions react more to increased electoral margins than one-party governments and tend to have higher levels of spending, taxes and deficit than one-party majorities even when competition is extreme (i.e., when the electoral margin is zero). These results suggest that the effectiveness of fiscal control through the ballot box is far from complete and varies enormously across local governments. The incentives to keep spending, taxes and deficit at the level desired by the voter depend ultimately on the electoral margin facing the incumbent, which varies substantially across local governments. Therefore, one cannot be entirely optimistic about the workings of a representative democracy such as the one analyzed in this paper.

**Jon.H. Fiva Jorn Rattso** (2007) a study on “Local choice of property taxation: evidence from Norway” points out that local governments in Norway can choose to have residential property tax. In this positive analysis of taxation they have shown that the chosen tax structure is affected by yardstick competition. The main econometric challenge addressed concerns spatial models with discrete dependent variables. The yardstick competition generates a distinct geographic pattern in local taxation. It is a challenge for future research to discriminate between alternative econometric
representations of fiscal competition with discrete dependent variable. The analysis also addresses broader determinants of the choice of having property taxation. Grants have no effect on the propensity to have property taxation, consistent with the flypaper effect. Political factors are important. More socialistic in the local council increase the likelihood of having property taxation. As expected, socialist oriented politicians contribute to higher taxation. More party fragmentation of the local council is associated with higher propensity to have property taxation. The conventional interpretation is in terms of ‘political strength’ that only a ‘strong’ council is able to hold back the spending pressure and hard down the tax level.

Katheryna Pilkevych (2009) conducted a study on local taxation and informal economies in Ukraine with the objectives of to assess the local government fiscal losses of the political revenues because of informal sector and to find out what has been done already and what could be done in order to increase the potential of the most important local taxes and duties. It summarized that the introduction of the property tax in Ukraine would actually decrease the level of the informal sector, increase the level of social equality. and enhance the local revenue sources, making local governments fiscally more independent. Technically, it is possible even now, within a short period of time, to make this tax work. On the other hand, the uneven concentration of property objects would widen the gaps in terms of territory-specific fiscal endowment, which would than call for the improvement of fiscal equalization procedures now extending only over ceded revenues and delegated functions. Consequently, the relevant legislation could be adopted within a short time span.

Ank Michels and Laurens de graaf (2010) a study on “Examining citizen participation: local participatory policy making and democracy” examines the probability of these claims for local participatory policy making projects in two municipalities in the Netherlands. The study focuses on the relations between citizens and governments from a citizen’s perspective. The findings show that the role of citizens in these projects is limited, serving mainly to provide information on the basis
of which the government then makes decisions. Nevertheless, the study argues that citizen involvement has a number of positive effects on democracy; not only do people consequently feel more responsibility for public matters; it increases public engagement, encourages people to listen to a diversity of opinions, and contributes to a higher degree of legitimacy of decisions. One negative effect is that not all relevant groups and interests are represented. The study concludes that for a healthy democracy at the local level, aspects of democratic citizenship are more important than having a direct say in decision-making.

Mihai Pascaru and Calina and Butiu (2010) on “Psycho-sociological barriers to citizen participation in local governance”. Reveals that the case of some rural communities in Romania” focuses on the identification of three types of citizens’ participation in local governance: Primary participation (by paying taxes and other contributions), Secondary participation (at the level of being informed about actions of local government) and Tertiary participation (at the level of local interest decision-making) with respect to citizens comments, they found that the first reason for citizens, lack of information i.e., a lack of interest in what is being discussed during local council meetings. People do not care about the matters in the village; they only care about their personal problems, absence of concrete actions following debates in the local councils is also said to be a cause of lack of interest. The councilors mention them----but people do not care. They say that what is being discussed does not solve their problems----they cannot see any results.

Dominic Williams (2010) a study on “Local Government funding freedoms” reveals that this is over look three more permanent obstacles to reform of local government funding. The first is the political risk involved in any change to the tax system. This is exemplified by the introduction of the poll tax by the Thatcher government, a move that led to riots in Trafalgar square and hastened the end of Thatcher’s own political career. Few political careers. Few politicians would be prepared to run the same risk again. The second problem is the enormous disparity between tax base and funding
needed among English local authorities, one of the main reasons the uniform business rate was introduced in the first place.

**K.K. Andly and K.P.M Sundharam** (1966) a study on ‘local finance’ have reveal that local bodies have certain taxes assigned to them, but these vary from state to state. All the taxes local bodies are empowered to impose are, however, not used by them. The taxation enquiry commission clearly earmarked for local bodies and should be developed only by them. Where the state governments are exploiting these sources, they should gradually withdraw from the field. The taxes recommended by the commission for the exclusive use of local bodies are following: 1. Taxes on land and building 2. Octroi and terminal taxes 3. Taxes on vehicles other than those mechanically propelled 4. Taxes on animals and boats 5. Taxes on professions, trades, calling and employments 6. Taxes on advertisements other than those published in newspapers. They further states that there are not many taxes which are imposed and collected by state governments and the proceeds of which are shared by them with local bodies. Local bodies in all states receive a share of the proceeds of the motor vehicles tax imposed and collected by the states. In some state the government has started sharing the land revenue with panchayats and district local boards. In some states the entertainment tax is collected by states, but proceeds are handed over to local bodies. The taxation enquiry commission opposed in principle such sharing of revenues on the ground that local bodies should bear responsibility for the taxes they use for their purposes. But it made exceptions in the case of the motor vehicles tax and the land revenue.

**Sinha, Krishna Kishore** (1968) has focus on “theory of local taxation in a developing economy”. He points out that the elasticity in property taxes is obtained more by manipulating the rate than by any natural growth of the tax base. Naturally the taxes on ability can introduce the needed dynamism in the local fiscal system and would be equitable. They would also increase the overall tax ratio in local budgets and would thus promote local responsibility which is so much needed with decentralization of
functions. He also points out that in the interest of a healthy growth of local bodies: therefore, grants must progressively decline as the localities develop. The system of grants has in fact failed to keep the localities on an even keel. It is apt to lead a demoralizing effect on the local bodies and would promote irresponsible spending. There is thus no good or bad local tax as such and if one speaks of a good tax system, it should be simple and diffused between the local citizens according to benefit or ability, whichever is workable.

Micheal. A. Nelson (1986) a study on “An empirical analysis of the state and local tax structure in the context of the leviathan model of government” has investigated the ability of an extreme and relatively simple model of political behavior to explain the level of revenues generated by state and local governments. The evidence was consistent with the hypothesis that states utilizing comprehensive tax bases, especially a personal income tax, can be expected to generate higher levels of aggregate revenues. Strong support was also observed for the contention that intergovernmental competition by general-purpose sub state governments may serve as a substitute for constitutional constraints in limiting the revenue generating power of local governments. It states that conclusive evidence would require that the demand for locally financed publicly provided goods and services be estimated and compared with the level of revenues actually generated.

H.L.Bhatia (2008), on public finance reveals that the fundamental problem of the local bodies is their inadequate resources position. This is compounded by their limited and unremunerative tax resources, accompanied by niggardly grants from the states. The mounting problem of inflation is also there. Therefore, the institution of SFCs should help them out. One suggestion is that while the local bodies should continue to enjoy their existing sources of revenue, the constitution should be amended to assign them a given percentage of revenue from some or all state taxes. This would also take care, to a large extent, of the perpetual problem of their increasing expenses on account of inflation. This way, the local bodies will also be able to enjoy the revenue buoyancy of expanding economic activities. The task of the state finance commission of a state
should then be mainly confined to that of recommending grants and determining the shares of individual local bodies within their collective share. Such a course can be accompanied with an outright abolition of the obnoxious octroi/terminal taxes. The amount of resources relief, which the local bodies will enjoy in this manner, will be quite substantial.

2.12.2. Literature relating to Urban Local Self-governance Taxation

Asish Kumar Bhattacharya and Kanchan Kumar Purohit, (2001), A study on “Financing of urban local government- an analytical view on Calcutta a municipal corporation” reveals that the level of performance of this body is not satisfactory for which paucity of funds, mismanagement, lack of transparency in operation and the like are considered as the main ingredients out of these hurdles, paucity of funds is ranked at the top. It also reveals that the problem of under valuation of property can be controlled in an indirect manner by the state government by enacting a law that the latter will have the right to acquire compulsorily estates at the value declared by the tax payers. The problem of tax delinquency needs to be tackled through the grants system so that efficiency in tax collection is rewarded and efficiency penalized by adjusting the quantum of general purpose grants to the urban local bodies. It further reveals that the problem of tax evasion can be controlled to a substantial degree by varying coverage, tax base and tax rates, so that the incentive to evade, either unilaterally by the assessee or in collusion with tax officials and or local politicians, are substantially reduced. On the basis of the analysis of the financing of Calcutta Municipal Corporation, the study suggests that the corporation must be made fully responsible for tax collection as per the estimate. A monthly review of tax receipts of the corporation should be made by the council and directions issued to office and persons concerned. If the tax collection falls below a specified percentage of demand estimates, the concerned staff must be held responsible and administrative action be taken against them. Finally it suggests that the state government, the controlling authority, should also be rational in tax-sharing function to ensure the due share of the grants, and strict financial control by
ensuring timely financial reporting and auditing of accounts will be helpful in improving the financial condition of this civic body.

**Datta, Abhijit** (2002), the paper on “Rent control law and its effect on property tax in India” reveals that the present paper starts by examining the legal aspects of the linkage between rent control and property tax in India within the board context of property tax reform. He concluded that the foregoing state and municipal efforts to reform property assessments show a variety of attempts to work out a credible procedure to determine the property tax base in the absence of a free rental market, such attempts are made, as in transitional countries, under a belief that taxation decisions are official acts that must be ratified by the property authority, a approach at odds with a tax base drawn from market data. It is important to bear in mind that, unlike the transitional countries where property market is being created, it has always been in existence in India-albeit with distortions in its functioning. As such, the experiment with area-based property taxation in the transitional economies has little relevance for India.

Secondly, parallel efforts must be made to correct the market imperfections, which cause such distortions in market signals. In other words, even after the judicial clearance of the presumptive determination of ARV it would be necessary for the states to introduce appropriate sunset clauses on such assessment practices. These reforms are not to be construed as measures to defer or avoid the cleansing of the rental market by the states. Therefore, both measures should be pursued in tandem, as in the transitional economies.

Finally, it is being realized that effective administration of the property tax is more complex than is usually admitted. Even in the United States, there is growing frustration and disenchantment with the property tax for reasons not basically different than in India, despite the fact that the tax bases are different. The broader question, therefore, is: Has property tax outlined its utility?
Richard M. Bird and Enid Slack (2002) on “Land and Property Taxation: A Review”, states that Tax reform is as much or more a political as it is a technical exercise. Moreover, setting up and administering a decent property tax is a complex and expensive effort. Property tax reform has of course addressed different issues in different countries. In some cases, the reform was designed to collect more revenues by changing the tax base or improving collection and enforcement. In other cases, the goal was to simplify the tax system by combining several taxes or by improving tax administration.

It also states that to implement property tax reform successfully requires a number of preconditions. One of the most important preconditions is the existence of a strong tax administration, including a process for property identification, assessment, collection and enforcement. Further states that this is especially important since another critical element in the successful implementation of property tax reform is support from tax payers. Such support is more likely if tax payers both feel that they are receiving adequate services for the property taxes that they pay and if they perceive that the process of taxing property is fair and accountable. Unfortunately, local government in general and property tax systems in particular in many countries have a long way to go before these preconditions are likely to be satisfied. Finally concluded that increasing the fairness of the tax has not always been a stated objective of reform, and, even where it has been it has sometimes proved on elusive goal. Moving to a fairer system can be difficult because it invariably means shifts in taxes among tax payers. The longer reform is delayed, the bigger the shifts that are likely, and the more likely that reaction will be strong with the result that further changes will be made to reduce changes. Even if reform improves the equity, efficiency, and ease of administration of the tax, there are invariably winners and losers. Those who benefit from reform tend to remain silent but those who lose tend to be vocal. With a visible tax such as the property tax, increasing the property tax on some tax payers is very hard to do.
Soumen Bagchi (2003) a study on “Political and Economics of property taxation” states that annual rental value continue to exist as the base of property tax in most cities/states. However, the method of arriving at the annual rental value on the basis of “gross annual rent fetched” has been removed in most cases after the reform initiative. Some municipal corporations have also come up with a transparent billing and collection mechanism which has led to higher collection efficiencies. Some corporations have adopted initiatives towards a centrally maintained computerized property information system. Self-assessment of properties has proved to be a successful avenue for reducing discretion by municipal officials. However, this has to be made mandatory by building it within the municipal legislation. Moreover, random checking of the information provided by property owners is a pre-requisite for the success of such a mechanism. The improved assessment mechanism in most cases has been supported by an independent collection mechanism through banks, common utility payment centers etc. This has led to a reduction in the interface between the municipal officials and tax payers, bringing about improved collection efficiency.

Alok V.N. (2004) a study on “Assessment of state finance commissions in improving the fiscal health of urban local bodies” suggested that Distinct and separate tax domain for municipalities should be recognized. List of taxes that come under municipal jurisdiction should be prepared and it should form part of the common schedule of functions and responsibilities for local bodies. Categories of taxes and levies that form part of the divisible pool, the tax collection responsibility and the shares of the three tiers of governments should be categorically specified. In case of taxes and levied, the proceeds of which are to be shared with municipalities, prior consultation will be required before any modification is made in the scope of tax or its rates. Article 276 on taxes and professions, trade and employment should be amended as suggested by the 11th finance commission. The ceiling should be specified by parliament from time to time rather than requiring amendments to the constitution.
A Report of the Municipal Corporations of Patna, Bihar (India) (2004) introduced Area Based Assessment of Property tax points out that Area based assessment method as initiated in Patna Municipal Corporation has emerged as a legally tested, administratively tried and practically feasible method of property tax assessment in India. The model presents a simplified assessment procedure based on a three-type classification of location, construction and use. The model initiated in 1993 has facilitated reduction in tax rate from 44% to 9% of Annual value. Despite the reduction the current demand of Property tax had gone up from Rs.40 million to 170 million. It has demonstrated a potential of 10-time increase along with a drastic reduction in the rates. The model has also provided technology and tools to ensure the city government to apply area-based management for property tax assessment. The model increased awareness among media, citizens, professional and functionaries. The Indian think tank, comprising of senior professional and officials from research institutions, government organizations and international agencies, has critically examined, evaluated and assessed the model as part of various seminars, workshops, research reports and other documents.

Ajit Karnik, Anita Rath. J.C Sharma (2004) a study on “Reforming property tax system simulated results for Mumbai city” points out that it is possible to state that there are strong misgivings about the operation of the current (ARV) Annual Rental Value based system of property taxation. This system has been found to be neither cost effective nor transparent and it has also not been possible to free it from the debilitating effects of Rent Control Acts. Hence given all these disadvantages, there is a growing consensus that a change in the system itself is long overdue. Further they states that the study presented a case for capital value based property taxation and carried out simulation exercises using data for the city of Mumbai. It is the study position that the capital value based approach is superior to the area-based approach, especially from the point of view objectivity and buoyancy. The capital value approach can benefit from a rise in property values in a way the area-based models cannot. It is this feature that
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imparts property revenues the desirable quality of buoyancy and obviates the need to tinker with tax rates and the weights estimated for various characteristics of the property. This makes for a stable tax system and frees it from the ad hoc and arbitrary tinkering that has been the hallmark of the ARV system and which, study believe, is likely to bedevil the area-based approaches as well.

Somik V Lall, Uwe Deichmann (2006) a study on “Fiscal and Distributional Implications of property tax reforms in Indian cities” points out that reform efforts that bring assessment of the property tax base closer to market values have significant positive impacts on revenue generation and do not have adverse consequences in terms of the tax burden faced by the poor. While current assessment reforms are a good first step, structural issues such as improved valuation, increasing buoyancy of the tax, and building tax payer confidence need to be addressed to make these reforms sustainable. He also points out that the analysis of alternative assessment systems in Bangalore and pune highlights that structural reform that link tax assessment to market rental or capital values have the potential to significantly increase aggregate tax revenue. In pune, they find in fact that the use of market values also plays a redistributive role by reducing the tax burden in areas with poor services and amenities-supporting the theoretical arguments of the property tax being a benefit tax. Increasing property tax yields can be accomplished by regular valuation of property at market levels, either through maintaining a rental value system, or by moving to a capital value system.

Daniel Treisman (2006) a study on “Fiscal Decentralization, Governance and Economic Performance: A Reconsideration” states that in countries with tax-sharing systems, assigning local governments a large share of locally generated revenues is often thought to promote economic development. The more local officials benefit from local economic activity, the more supportive of business and less corrupt they should be, resulting in higher output. It also states that the government predation and corruption are obstacles to growth in developing countries are widely recognized.
Fiscal decentralization in tax sharing systems has seemed to some a way to reduce the appetite of local governments for bribes and embezzled funds and to motivate them to invest in public infrastructure. It further states that there is no clear theoretical foundation to expect that decentralizing revenues in this way will generally improve economic performance. Increasing the marginal revenue share retained by local governments may render them less predatory. But once the responses of the central government are taken into account, the net effects might be negative rather than positive. As incentives improve in the localities, they deteriorate at the centre. Even if local governments are assumed to be more accountable, honest, constrained by competition, or efficient at providing infrastructure, decentralization has no determinate net effect. There are certainly cases in which a higher local tax share leads to higher output, but these are special cases, which depend upon particular parameter values or functional forms.

Report of the Third State Finance Commission Rajasthan (2008) reveals that Rajasthan municipalities Act provides for levy of obligatory and discretionary taxes by the urban local bodies, but the fact remains that the municipalities were not recovering even house tax effectively from all eligible houses even when it was not abolished. The municipalities can also recover fees by issuing of certain licenses and various permissions granted for construction work etc. But ULBs are reluctant to enforce the provisions with the result they are unable to mobilize requisite funds for providing the minimum level of civic services. It also reveals that the commission has framed incentive scheme for both PRIs and ULBs to encourage to raise resources, because the state government is not in a position to provide the entire amount required by these institutions for maintenance of civic services, so the commission has framed on incentive scheme to encourage the PRIs and ULBs to raise resources and expect that these institutions will take full advantage of the incentive scheme. It suggests that the finance department should lay down at the earliest the procedure for recovery of surcharge on stamp duty and mandi tax and issue appropriate instructions for their
recovery and credit to panchayat development account of zilla parishad as provided under the panchayat raj act/rules so as to facilitate the additional resources mobilization at the PRIs level.

Ramachandra Nallathig (2009) conducted a study on “Analyzing the finances of urban local bodies in India”. This paper presents a cross-sectional analysis of the finances of 35 ULBs in India in terms of their financial base and its adequacy vis-à-vis norms and their revenue and expenditure performance. The implications to the finances of ULBs, in terms of raising resources, improving inter-governmental transfers and cheating new mechanisms are also discussed. He points out that in the absence of strong income from internal sources, the poorly performing ULBs have an augment their revenue by improving the levy and collection of taxes and utilize new taxes to strengthen the same. The analysis of municipal finances reveals that most of the ULBs are generating small revenue surplus with low resource gaps. More than that, they are spending lower than that required for providing a minimum level of civic amenities. This apparent contradiction is an account of some of the design issues of inter-governmental system under which the ULBs are not independent in functioning and decision making e.g., control over staff, raising of revenues and expenditure, and accessing debt.

Donald Vande Grift, Michael Lahr (2009) a study on “Open space, house prices, and the tax base” the paper examined the effect of public acquisitions of open space on changes in house prices and the municipal tax base using municipal-level data from New Jersey. It concluded that the effects of open space. But while open-space purchases may raise house prices for houses near the open space, they could conceivably do so at the expense of other houses in the jurisdiction that are further away, by means of higher property taxes. If higher property taxes reduce house prices, as some researchers have suggested, then open-space purchases could conceivably cause the municipality’s average house price to fall. In addition, open-space purchases
could conceivably reduce the tax base, forcing a rise in the tax rate as the municipality must finance its public services from a smaller tax base. They investigate concerns that open-space purchases harm average home owners by reducing the available tax base and forcing a rise in property tax rates.

Anita Rath (2009) a study on “Octroi- A tax in a time warp: what does its removal imply for greater Mumbai? States that an Indian cities grapple with the growing demand for infrastructure and decent living conditions, the shrinking of financial resources available at the disposal of city governments is certainly a matter of concern. The tax instruments of the local bodies suffer from non-buoyancy and are highly contentious in nature. The abolition of octroi poses a special challenge in this context and more so for greater Mumbai, where octroi is the most lucrative source of revenue. An analysis of possible alternatives has not been very encouraging. Among the suggested alternatives, business property tax and entry tax have drawn much attention. Business property is not a viable alternative for Municipal Corporation of greater Mumbai at present, as the property tax system itself is beset with serious problems and there is already a high tax burden on non-residential properties. Piggybacking of several other taxes on the general property tax has already exhausted its potential. Given the frozen tax base, and inordinate increase in property tax rate would be essential to recoup the necessary revenue. The entry tax is similar to octroi without a physical barrier to commerce. However, entry tax is not as productive as octroi but shares many of its loopholes.

Dr. Gangadhar Jha, Nimish Jha (2010), a study on “Urban local government in India, Imperative for good municipal governance” points out that expenditure assignment to the ULBs is hardly matched by adequate devolution of sources of revenue. Limited tax authorities delegated to the ULBs have as well been subject to encroachment by the state governments. This has resulted in acute fiscal stress experienced by the municipal governments across the country. Many municipal
governments in the secondary cities are not able to pay salaries to their staff for months together. Local finance is thus characterized by a mismatch between functions devolved to ULBs and the devolution of tax authority. This mismatch is exacerbated by lack of buoyancy and elasticity in local fiscal instruments. They conclude that, it needs to be noted that India no longer lives in villages; a vibrant, educated, political conscious urban India is silently emerging that is much more volatile as compared to the rural India. This urban India is economically so productive that it contributes largest to the national wealth.

Prof.V. Gnaneshwar (2011) a study on “Property tax Reforms in India” states that there has been criticism that the property tax is not being exploited to the full potential in the face of rapid urban expansion and consequential economic growth. The yield from property tax is not encouraging due to reasons like inelastic tax base, defective assessment and rent control legislation. Several reforms are underway in the property tax assessment in the country. This paper examines these reforms to identify the emerging patterns and their inadequacies. Property tax reforms focus on three crucial areas in India; assessment methodology, self-assessment, and amending the rent control laws to overcome assessment constraints. An attempt is made in this paper to examine the recent initiatives to reform the property tax in these major areas. The paper states that the Andra Pradesh property tax reform and its impact in the ULBs in 1993 could be considered a tremendous success. There was four to five fold increased in the property tax. Further, it developed tax payers’ confidence due to the rational and transparent method adopted and also provided guidelines for tax assessing officials. A respectable relationship emerged between the tax payers and the municipal tax authorities.

Francisco.J.Delgado (2011) a study on “On the determinants of local tax rates” focuses the determinants of local tax rates; test the existence of tax mimicking, yardstick competition and political trends in a sample of 2,713 municipalities. The
study concluded that municipalities mimic the neighboring tax rates. Several socio economic variables such as population, area and the share of elderly population were statistically significant. The results for the effects of grants tend to support the median voter theorem instead of the fly paper effect hypothesis. Regarding the political variables, leftist incumbents choose higher tax rates, while electoral distance and political fragmentation are negatively related with rates. Finally, the study explored the political trends hypothesis. A spatial long model was estimated where neighborhood was qualified by political party affinity between incumbents. The estimated spatial parameters confirm this hypothesis for the cases of both leftist and rightist incumbents.

**Rajesh Kumar** a study on “Municipal Resources and Expenditure: Structure and Trends” suggests that there is an urgent and consistent need to launch a special campaign to recover the arrears of various taxes and other dues. In order to collect the huge arrears and dues, it is suggested that rigorous administrative measures would be adopted by the municipal councils against the defaulters that is why these bodies should be armed with sufficient powers. Further he suggests that as octroi is a very reliable source of tax revenue as such the octroi abolished should be reintroduced. Besides, the municipal administration must see to it the revenue is collected very efficiently and economically. It is also suggested that the necessary sanction with regard to the release of funds must be in time.

**M.Govinda Rao** (2010) the paper on ‘Financing urban services: user charges and local taxation’ The paper discusses a variety of ways of augmenting the resources of the municipal bodies in the country including essential reforms in the property tax system and adequate exploitation of user charges and fees for various services delivered. The paper also suggests that consideration should be given to the possibility of empowering metropolitan governments to piggy back on the GST when it comes into existence; even a 1 percent surcharge on this base could generate one and a half to twice the amount of revenue that is being collected from the property tax at present. The paper also makes important recommendations for the reform of central and state transfers to
urban local governments. A critical element in the reform of urban finances is the need to develop a strong information system comprising of GIS, demographic, social, economic and fiscal variables.

R.M. Honavar, K.N. Reddy, G. Thimmaiah, M.B. Prakash and C. Gopal Reddy, the report of Karnataka taxation review committee 1981 on local finances, points out that the octroi was abolished in Karnataka from April 1, 1979. But it was the major source of revenue for urban local bodies and quite elastic, its abolition cause great financial hardship to local bodies. Government has therefore, decided to compensate the loss of octroi revenue to the municipalities/corporations by giving octroi compensation grants. They further states that though the local bodies empowered to levy entertainment and profession taxes, their power have been taken over by the state and the state government is now levying these taxes. And the motor vehicle tax is not a local tax. But local bodies were empowered to levy a toll on the motor vehicles entering the jurisdiction of their local areas. This power of the local bodies was deleted from the provisions of law with an assurance that the loss of revenue on this account will be made good. Further they also states that some local bodies levy a tax on shops and business premises. Profession tax is being levied by state government from 1976 covering owner of all shops and establishment except those whose total turnover is less than Rs. 25,000. The levy of a tax on shops in addition to the profession tax amounts to double taxation. The committee, therefore, recommends that the shop tax levied by the local bodies may be continued. The report also states that regarding property tax, the low rate of growth of property taxation seems to be due to two factors: a. absence of revision in the ARV and b. the difficulties associated with the administration of the property tax and slow growth of the tax base.

V. Gnaneshwar (2004), a study on "Municipal Finances in Andhra Pradesh states that in the age of globalization, liberalization and privatization, the urban economies bring newer opportunities and open-up unexplored areas that provide tremendous scope for exploitation by the urban local bodies. New revenue generating avenues will emerge
that could be tapped without resorting for over taxation which always brings public resentment. The pollution tax could be one other source or revenue to the municipal bodies. Pollution tax, though it appears to be a negative tax in nature, could be levied on the industries and other urban activities that cause more pollution and which normally escape the clutches of the pollution control laws. It also states that improving property tax administration by bringing to tax net all under assessed and un-assessed properties and improving tax collection efficiency. This requires the regular survey of the localities and updating the assessment records on a continuous basis in terms of plinth area, type of construction, use of the building and type of occupancy-owner occupied or rented. And assessment of the properties whenever the buildings are completed or extended. The municipalities are now permitted to assess even the unauthorized constructions with a penalty of 10 percent till the buildings are regularized, Timely serving of the bills. The bills could be served once in a year instead of twice as is the practice. Promotion of new methods of tax collection viz., collection through banks and e-seva centers.

P.Geetha Rani (1999) a study on "state finance commissions and rural local bodies-devolution of resources" reveals that devolving of power to tax to the local level is to induce the local bodies, a sense of fiscal responsibility and give them a stake in the cost-effectiveness of expenditure Punjab state finance commission attempts to adopt the following guidelines like taxes identifies for sharing should fall within the fiscal domain of the local government and to the proceeds of which the local bodies have a legitimate right and the share of the local bodies should be fixed preferably on percentage basis, taking in view their fiscal needs. This share of the local bodies should be enough to reduce their dependence on grants. Punjab state finance commission mentions the following principles for general purpose grants such as: system of grant should be transparent, predictable and based on objective measurable factors, should promote equity and justice, ensure sufficient autonomy and flexibility in planning the priorities.
2.12.3. Literature relating to Rural Local Self-governance Taxation

**Abdul Aziz** (2000) a study on “Democratic decentralization in Karnataka” suggest that as to what changes are effected to the local governance system in future so as to make it more responsive and effective. Thus, there is need to strengthen the grama panchayat by providing technical personnel adequate funds. The dominance of the MLAs and MPs in the panchayats should be put an end by not allowing them to be members of panchayats. There should be provision for training panchayat members on a continuous basis. Accountability of administrative staff and the elected members to people must be ensured by making their attendance in grama sabha mandatory. Panchayat planning process should be free from any kind of state intervention; people participation in this process should be ensured. An apex body for integrating local planning and governance system with higher levels of governance should be established.

**Samit Kar Malay Kr. Mukhopadhyay** (2001) a study on “Financing Rural Development: A case study” points out that PR finance across the states reveal that the taxes levied varied from state to state. The taxes like house tax, profession tax, vehicle tax and tax on sale of animals etc. are common to almost all the states. The revenue yield from these sources appears to be inelastic. PR institutions in the states like west Bengal, Kerala, Maharashtra, Gujarat and Andhra Pradesh appears to be making sincere efforts in levying taxes and collecting them. He also points out that in order to make the PRIs genuine, self-government unit irrespective of the states, all three tiers should actively engage in the promotion of remunerative and commercial enterprises which will not only help the local government institutions in strengthening the financial base, but, will also provide quality service to the rural citizens. Further, he points out that in respect of all the resources flowing out of the villagers like sand, wood, brick, kinder leaves, commercial crops like cotton, challis, ground-nut and minor forest produce and granite etc. where nobody pays for those items, it is the prerogative of the local governing institutions to charge the users.
The Report of the Task Force on Panchayati Raj Institutions (2001) relating to flow of funds to the PRIs reveals that the recommendations of the State Finance Commissions can be divided into three categories: 1. Assignment of taxes, duties, levies and tolls to local bodies. 2. Sharing of revenue proceeds; and 3. Transfers on account of grant-in-aids and other financial assistance. The highlights of major recommendations of first state finance commission to Karnataka state on own taxes that no taxes to be levied and collected by zilla panchayats. Taxes to be levied by the gram panchayats-house tax, vacant land tax, tax on animal drawn vehicle, tax on shandies and pilgrims etc. devolution of 36% of the total non-plan gross own revenue receipts of the state to local bodies of the 36%, 85% should go to the PRIs. This recommendation is valid for the financial years from 1996-97 till 2000-2001.

M. Devendra Babu (2004) A working paper on “Finances of Panchayats in Karnataka” points out that the overall the panchayats in the state have very little fiscal autonomy. The fiscal provisions incorporated in the State panchayat raj act have centralized tendencies. The locally raised revenue is negligible, and thus largely depends on government grants. Most of the tax items assigned to the gram panchayats are inelastic and their base is very narrow. A disquieting feature noticed is laxity in the resource mobilization efforts by the gram panchayats even in those sources that are important, like property tax. In certain gram panchayats, the revenue collected from own sources are insufficient even to meet the salaries of their staff. The main factors for this low rate of revenue mobilization are: deteriorating standards of governance, dependency syndrome and general ignorance of fiscal management.

Mr. Vivek Misra (2004) on “Gram Panchayat Finances in Andhra Pradesh” tried to understand the management of finances at the lowest level of local governance, namely, the Grama Panchayat (GPs), in the state of Andhra Pradesh. The study found that the Andhra Pradesh Panchayat Raj Act has provided for the compulsory imposition of certain taxes. However, in many panchayats these are either not imposed or not collected. Kolagaram i.e., tax on village produce sold in the village and tax on...
advertisements is not imposed in most panchayats. The yield from special taxes on houses on lighting, drainage and water are much lesser than the minimum rates prescribed as a proportion of house tax and the expenditure incurred on them. The study also suggested that in order to enhance better tax collection the increase in tax demand must be complemented by collection efficiency. This can be done by providing adequate financial incentives linked to collection efficiency. The collection machinery must also be strengthened.

Mahipal (2005) on “Mobilization and Management of Financial Resource by PRIs- A study by Haryana State” reveals that high negative balance from current revenue of states have several important consequences for local governments in the country. First. As most of the local taxes are inelastic and some are unproductive, the need for sharing and or providing for more revenues raising powers of the local bodies increases especially for the PRIs whose functional domain and responsibilities as per the 73rd Amendment are large and growing. Second. Some states have taken away from local bodies such relatively productive taxes like profession tax and entertainment tax. In several states, octroi has also been abolished. This has affected their tax base and tax domain adversely. He also reveals that low revenue mobilization by rural local bodies is a serious issue to be seen in the light of the constitution which envisages panchayats as autonomous institutions. Low revenue mobilization cannot be explained by the low revenue base alone. While the PRIs have been traditionally attached to the state departmental administration. It found that the provisions contained in the Haryana Panchayati Raj Act for the mobilization of resources have not been put into practice by the PRIs in State, except by the GPs that too partially in case of house tax only. It also found that most of the chair persons were pursuing agriculture as their means of livelihood. Although there is a provision for imposing taxes on their own or with the approval of the government, only house tax was imposed by the GPs in their jurisdiction.
Jayaramaiah (2005) conducted a study on “finances of grama panchayats: a study of Karnataka”, points out that the analysis of pattern of revenues of GPs in Karnataka brings out that most of the tax items assigned to GPs are inelastic and their base is very narrow. The GPs need to earn public confidence before initiating resource mobilization and delivery of services. Maintenance of transparency and accountability are pre-requisites for the success of local initiatives. Another point observed is that no GP has made efforts to mobilize public contributions. This is again due to ignorance and also lack of good governance.

Prasanna.T. (2007) conducted a study on “A comparative study of zilla panchayat, taluk panchayat and grama panchayat finances in Karnataka” with the objective of the financial relations between the state government and panchayat raj institutions and to analyze various sources of tax and non-tax revenues of grama panchayats and to see how best they can be augmented. The findings of the study include: the gram panchayats have three sources of revenue i.e., tax revenue, non-tax revenue and grants-in-aid. There are several reasons for low level of mobilization of tax revenue, some of the gram panchayats have not made necessary efforts to collect taxes, it was probably due to inefficiency of gram panchayat personnel and elected representatives and most of the elected representatives of gram panchayats do not actively participate in PRIs activities. The study suggests that in order to make grama panchayats self sustaining they should have reasonable percentage of funds and other resources, which should be totally untied. So that they can use these funds on the basis of their own priorities and choice. Meanwhile, the need of the hour is to impart proper training to all the elected representatives. Training will enable the members to learn about their duties and responsibilities.

Manbi Majumdar, Indrashis Banerjee and Sreemoyee Ghosh (2007) a study on “Face to Face taxation in west Bengal, compulsion, compliance or collusion? states that apart from some of the obvious explanations for tax payment such as relative prosperity of people and areas their analysis has shown that even poorer social groups such as
SC/STs may pay up when payments are small and when there is an eagerness on their part to secure their legitimate status as citizens through tax compliance. The domination of the left parties at the panchayat level has also appeared as a positive predictor of panchayat tax revenues. Partly this is a reflection of the organizational strength and political stability of the left parties in the state and also perhaps their active engagement and grassroots contact with the masses, including SC/STs. But the flip side of this party pre-dominance over panchayat affairs, including its taxation operations, is the clear possibility of arbitrariness, favoritism, and even coercion in both tax assessment and collection. People know and see this very well. Thus, how people see the local tax state as fair and responsive revenues raises or as a partisan and even predatory collector-depends upon which population group is doing the viewing and on which side of the ruling party it stands.

M.A. Oommen (2008) A study on “The finance commission and the third tier” states that the gram panchayats which alone enjoy substantial revenue raising powers. This cannot be done by more revenue assignments alone. It is as much a function of tax efforts, functional devolution as of making the size of panchayats viable in terms of convergence of services, technical and administrative capability and availability of revenue-raising potential. There is a great need to make the majority of panchayats viable units, at least in terms of population and revenue. While this is primarily the task of the SFCs and depends a great deal on the political will of the concerned state government, the UFC (Union finance commission) cannot stay away from the task of building local democracy in Indian fiscal federal system.

Report of the Third State Finance Commission Rajasthan Jaipur (2008) a relating to finances of PRIs. The Rajasthan panchayati raj act/rules empower all the three tiers of PRIs to levy taxes and collect fees for the services rendered by them. But it has been observed that majority of the PRIs are neither levying the taxes mentioned in the Act/Rules nor receiving fees for the services being rendered by them. With the result, the own income base of these institutions is deplorably low. There is ample scope for
the PRIs to levy taxes and collect fees to improve their own income. The Act
empowers a panchayat to impose a special tax on the adult male members of the
panchayat area for the construction of any public work of general utility for the
inhabitants of the said area. The act empowers zilla parishad to impose surcharge up to
five percent on stamp duty on sale of property in rural areas. It also reveals that the
panchayat in Rajasthan have been shying away from levying tax for fear of losing
votes. They need to be wriggled out from no tax syndrome for accelerating the pace of
rural development. Therefore the act suggesting an incentive scheme linked with
additional revenue mobilization.

James (2008) in his study on ‘Resource mobilization in grama panchayats of kerala’
focuses on problems in the mobilization of resources by panchayat. The study
indicates that a decentralized system facilitates the participation of ordinary people in
the planning and development processes. People’s participation in turn facilitates
additional local resource mobilization for planned development, prevents misuse and
leakage of resources and contributes towards efficient implementation and social
monitoring of the programme. The study also reveals that the role and participation of
beneficiaries are declining year after year for lack of reliable data at the panchayat
level, panchayats own resource is increasing year after year but it is eaten away by the
increased cost of establishments hence there is no much surplus, lack of experience and
expertise in formulating and implementing programmes, which cause delay, lack of
sufficient technically qualified experts in every ward or panchayat for preparation of
plan projects. The study suggests that attracting beneficiaries in the beneficiary
committee or grama sabha must be convened in the proper way as the people expect it.
Adequate staff should be provided to solve the problem of over burden of staff’s
responsibilities on account of peoples plan.

Odd-Helge Fjeldstad (2004) conducted a study on “To pay or not to pay? Citizens
views on taxation in local authorities in Tanzania”. The survey comprised 1260
respondents from 42 villages, all located in different wards, some of which were
located close to and others more distant from the council head quarters. He found that moreover, the mechanisms for enforcing compliance are not indifferent for the outcome. A trust enhancing approach to improving the payment of local taxes and fees might be based on the proposition that citizens are likely to perceive the local government as reciprocating their trust when they feel they are being treated with respect. Thus, the previous fierce and uncompromising approaches in some rural council to collecting the development levy may actually have contributed towards increasing present-day resistance by tax payers. It is therefore imperative to establish mechanisms for improving relations between the local revenue administration and citizens. Relevant measures include improvements to the billing and accounting systems, establishing more accessible and efficient payment facilities, and strengthening the capacity to follow up cases of non-payment through fair and reasonable enforcement.

Kanak Kanti Bagchi (2010) a study on “good governance and sustainable local development: A case study of gram panchayats in west Bengal” highlight the need for good politics and good governance to achieve economies of good governance In the case of resource mobilization (i.e. enhancing mobilization of tax and non-tax revenue) for sustainable local development. It also reveals that GPs are largely dependent on the state government for their financial requirements. It also transpires that there is no built-in compulsion to mobilize their own resources for their organizational survives in spite of the taxation power conferred upon them. This fact therefore implies that there is lack of good governance in tax administration and it results in non-attainment of economies of good governance by the GPs in west Bengal. It also reveals that the grama panchayats should generate adequate amount of resources from their own sources. This is because devolved resources are to some extent uncertain and takes a longer time to reach to the local authority. Moreover, some of the devolved funds are conditional also. Thus, there are strong grounds for augmenting the generation of own resources by the panchayats from the point of view of sustainable local development. It is the need to strengthen efforts in two fronts: first, to increase the yield from taxes on
land and building, and secondly, to develop new sources of revenue from regulated markets and irrigation and agricultural income taxes.

**R.K. Kundu and Suman Lata** a study on “mobilization of financial resources by panchayat raj institutions: A study” a modest attempt has been made to analyze the resource mobilization in five gram panchayts of Sonepat block in Sonepat district, Haryana points out that the recovery of the house tax has been very poor and fluctuating during the period under study. The common land is the major source of non-tax revenue for almost all panchayats. No regularity and continuity has been observed in the distribution of grant-in-aid to the panchayats. In order to make the devolution of funds to PRIs effective, the study suggests that PRIs should be encouraged to take steps for innovative resource mobilization such as generation of income from entrepreneurial activities, projective loans, public contribution, tax sharing and tax-assignments, matching grant incentives for tax collection instead of totally depending on the governmental grants. Taxes with local in character, property tax, entertainment tax and land revenue tax should be assigned to the panchayats. Income from non-tax revenue should be raised by creating permanent assets like shops markets, houses, fishing ponds etc. At least 50 percent of the revenue from reserve forests may be assigned to the PRIs and a specific position of the stamp duty should be assigned to PRIs.

**K. Jayaraman** Study on Panchayats in Madras points out that the real problem in local taxation is that the essential productiveness of local public expenditures must be brought home to the villagers who must be convinced than on the whole the advantages of such expenditures outweigh the disadvantages of local taxation. He further states that it is necessary that there should be brought about a change in the mentality of the people in favour of taxation in the form of money, grain or labour. However, as has been well said with the rapid growth in the means of communication, it is becoming increasingly difficult to localize the source of a man’s income, which after all, is the
measure of his ability to pay taxes. Further he also states that decentralization is possible only in the field of expenditure. In the scramble for funds between the provincial and central governments, there is very little left indeed for local authorities to draw upon. It is therefore better that any help rendered by the provincial government to local authorities to take the form of grants from general revenues or even of loans, rather than a share in the proceeds of any particular tax, as there is no guarantee that they will get a continuously increasing revenue to meet their growing expenditure under the latter method.

A study by G. Ram Reddy focuses on patterns of panchayat raj in India with special reference to Karnataka. The study reveals that Karnataka is one of the few states of the Indian union which has transferred the entire land revenue collection to the panchayat bodies. Some of the other general observations about the panchayat meetings may be noted here. The importance of punctuality was not realized by all the members. The members lacked the motivation to participate actively at the meetings; this was especially true of women members. Official participation was also very poor. It was noted that even the gram sevaks failed to attend the panchayat meetings. The functional committees were both particularly non-existent and where they did function, they failed to make any impact.

The Report of the ‘The Mysore Village Panchayats and Local Boards Act 1959 reveals that every panchayat shall in such manner and subject to such exemptions and at such rates as may be prescribed, not exceeding the maximum rates specified in schedule I, levy, a tax upon buildings, a tax on profession, trades, callings and employments, a tax on fairs, festivals and entertainments, a tax on vehicles other than motor vehicles, a fee on bus stands, a fee on markets, a fee on cart stands, a fee for supply of water from water works vesting in the panchayat. It also reveals that, the government shall make annually a grant to every panchayat of an amount equal to thirty percent of the land revenue collection of the village. The government shall also
assign to the panchayats in the state an amount equal to ten percent of the land revenues collection of the state.

Kher. S.P (1980) a study on ‘Economic development and betterment taxes in Karnataka points out that land revenue is not a betterment tax. It is not a levy on those persons whose property has increased in market value by an improvement with public money. It is the water or irrigation rate levied on lands benefitted by water supplied at the cost of government which has the attributes of a betterment tax. Land tax is low, rigid and continuous. In raiyatwari areas as in Karnataka they have helped maintain in the records of all land holdings. Thus, in effect land revenue has turned out to be a small registration fee for maintaining these records. The abolition of land revenue is not desirable for the following reason: Land tax payment represents a substantial proof of land ownership and the means through which the records of rights are maintained. It gives a psychological security to the land owner.

Jacob Thomas (2002) a Study on “Rural Local Finance in Kerala: A Case Study of Champakulam Block in Alleppey District” reveals that the role of local bodies is the socio-economic development of our nation has been constitutionally recognized. Panchayat are to be strengthened as institutions of self-government and not merely an agent of state plan implementation. Government grants both statutory and non-statutory will play an important role in the financial health of the local bodies. It is therefore essential that state government put in position suitable and necessary institutional safeguards to protect the financial resources of local bodies. It also states that the powers of taxation and other sources of own revenue are limited. With the development of the economy and the increasing awareness on the part of the public, the responsibilities of the local bodies are mounting up while their revenue resources are not increasing rapidly. The main factors responsible for the poor tax revenue are poor tax base, lack of adequate tax collection machinery, undervaluation of properties and indifference in imposing taxes. However, the role of rural local bodies in the
development process has been recognized and attempts have been made to evolve powers to them and to provide them with sufficient finance. Thus, gram panchayats largely depend on grants-in-aid. It is required to give more fiscal autonomy to the panchayat raj institutions by enabling to enhance their own revenue.

**Conclusion**

Having reviewed the couple of studies mentioned above it is felt that a study of local taxation with the use of latest data and information would bring out core issues in the taxation of local bodies. Moreover, the study with a focus of the an evaluation of recovery of tax collection and level of efficiency of authorities in mobilizing tax resources of three taluks, one which is considered as more backward taluk, another one is forward taluk and relatively developed taluk, it is hoped, will bring out interesting findings.
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