

LOCAL TAXATION IN URBAN AREAS

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LOCAL TAXATION IN URBAN AREAS

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INTRODUCTION TO THE SERIES

This study is a part of a bigger work on the Finances of an Urban Local Authority under preparation. It was published earlier in the Karnatak University Journal (Social Sciences). I thank the Editorial Board of the Journal for permission to reprint it under the Economics Series in the hope that it may be available to a wider circle of readers interested in the theory and working of the finances of Local Self-Governments.

D. M. Nanjundappa

Department of Economics
June, 1967

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LOCAL TAXATION IN URBAN AREAS

D. M. NANJUNDAPPA and M. V. NADKARNI

I

In this paper, we are discussing the taxation of an Urban Local Authority with the following objectives:

- (a) To reveal the relative significance of (i) tax revenue in the total income and (ii) tax revenues as a source of financing expenditure vis-a-vis other sources,
- (b) To examine the structure and elasticities of different tax resources,
- (c) To assess the incidence and economic basis of the various taxes,
- (d) To study the cost of tax collection, and
- (e) To indicate the possible lines of improving local taxation.

We have based our observations on data relating to the recently formed Hubli-Dharwar Municipal Corporation and believe that they will throw up issues bearing on the use of local taxation as an instrument of tackling problems of rapid urbanisation at the local level.

The data for our study was collected at two levels—the Corporation and the tax-payers. At the former, annual budgets and other records of the Corporation as well as discussions with the Corporation officials were the main sources of information. At the latter, personal interviews of tax-payers were made to collect data on their income and taxes paid.

II

PRINCIPLES OF MUNICIPAL TAXATION

Pressure is growing on local bodies continuously to improve and expand amenities and services to the community in respect of health, education, lighting, water, roads, marketing, safety against fire and even recreation. It is all the more so in the case of urban local bodies on whom the burden of increasing urbanization has its primordial impact. Functions entrusted to them are somewhat limited in scope when compared with the rural local institutions like the Panchayats. Besides providing amenities mentioned above to a smaller extent, the Panchayats are

expected in principle to be an instrument for implementation of rural development programmes, carry out civil functions and in some cases perform judicial and police functions. Nevertheless, the magnitude of even the limited functions which the urban local bodies have to perform is such that the financial burden on them is quite great. Further in the case of urban bodies, there is no automatic linkage between increasing functions and resources. There is an ever increasing dependence on central authorities for assistance in the form of grants and loans.

Excessive dependence on central authorities and laxity in tapping the resources within their power is highly detrimental to the proper functioning of local bodies. There are certain sources of revenue which the municipalities can easily tap and failure to do so would put an avoidable strain on the resources of the central authorities to that extent. Moreover, increased reliance on local resources safeguards autonomy and ensures financial responsibility on the part of local bodies, which is very important for their healthy growth as well as to democracy.

Urban local bodies, particularly the municipal corporations with which we are concerned in this paper, have four sources of finance: Tax-revenues, Non-tax revenues, Borrowings and Grants. The first two are regular sources of revenue within the control of the corporations. Under tax-revenues we can group: (1) Taxes on Property, (2) Taxes on persons and (3) Taxes on Trade. Besides these, another item of tax revenue is a share in taxes levied and collected by the State Government like the contributions in respect of Entertainment Tax and Motor Vehicles. Under Non-tax revenues we may group: (1) Rent on land, houses and dak bungalows; (2) Sale proceeds of land and produce of land; (3) Fees, licenses and revenues from educational and medical institutions, market, slaughter houses and from commercial undertakings if any, such as, city bus services, supply of water and electricity and (4) Interest on investments.

Taxes on property and persons are direct taxes and those on trade are indirect ones. Taxes on property cover (a) tax on buildings and lands, (b) cess on lands used for agricultural purposes, (c) tax in the shape of a surcharge on stamp duty on transfers of property and (d) tax on unearned increments from betterment schemes. Some of the basic issues regarding these taxes are dealt with in a later section. A local body has very limited scope as far as taxes on persons are concerned. They take the form of mainly taxes on professions based on their income, on passengers and on pilgrims. The basis of tax on professions could be income and this has constitutional limitations as it may conflict with

or impinge on income tax. An alternative base is to impose it in the form of license fees, or as separate taxes on rents of property used to carry on the trades and professions. Its coverage need not be universal. The tax on pilgrims and passengers is a tax on floating population, and is particularly suitable in centres not only of pilgrimage, but also of business, and industry and can take the form of a head tax. Taxes on trade are octroi and toll. A local body can also impose taxes on vehicles (excluding motor vehicles) like cycles, tongas and carts and these are intended partly to cover the expenditure on maintenance of roads. Besides these, regulatory taxes like a tax on dogs are also imposed.

Majority of non-tax sources of revenues are payments in return for certain services rendered by municipalities directly to the persons concerned. Thus there is a *quid pro quo* relationship in respect of these rates or charges or fees. Though the principle of self-financing is adopted generally when the services rendered to persons are charged, it may not necessarily be so, especially in respect of educational and medical facilities provided by municipalities, and a significant part of the expenditure on these may have to be met from other revenues,

Apart from the services rendered to specific persons, municipalities are also expected to provide many amenities to the community as a whole. And these have to be met out of income from taxes, grants and borrowings. We have confined to taxes and their structure in our analysis.

What should be the guiding principle of local taxation? Local and national finances need not be put on the same footing, and a local body need not operate on the same principles of taxation as the national government although "a local tax should—like any other—be convenient and certain, fair between persons in like circumstances and be economical in collection." Ursula Hicks mentions an important respect among others, in which local finance differs from that of national finance. It is that a local body has to practise more or less the sound finance which is proper to private enterprise, whereas the national governments can indulge in deficit financing. Though municipal corporations are empowered to borrow, their borrowing power is severely limited as compared to national governments, and they have got to think of their creditworthiness.¹ This limits the scope of the local bodies in following the principle of ability to pay and levying progressive taxes. Otherwise, it would mean dependence (and hence quite a heavy taxation) on the few wealthy people while exempting the poor from any taxation whatsoever. Apart from the

1. Ursula K. Hicks, "Public Finance", 1955 (2nd edition), P. 236-7.

danger of migration or disincentive to the inflow of new business etc. which is a matter, *inter alia*, of relative tax rates as between areas, there are also other difficulties involved in such a policy. Tax-bases which are under the control of local bodies are not amenable to real progression. Property held by an individual no doubt connotes potential spending power, which is an index of ability, but turns out to be a deceptive indicator if the commitments of that individual are ignored. Imposition of a progressive levy on his property will result in its breaking up to avoid the payment of progressive rates.

The benefit principle is more applicable in local taxation. The main function of a local body is to provide civic amenities and the principle that the cost should be distributed among people—consumers of the amenities—according to the satisfaction they have derived, seems very convenient for municipal taxation. Erik Lindahl² has presented a model where the revenue-expenditure process for the satisfaction of social wants is determined by a competitive process similar to that in a private market. Assuming two tax-payers, the equilibrium output and the relative cost shares are determined at the intersection of their respective demand curves relating different units or amounts of social goods to the cost share they are willing to bear. The demand schedule of one tax-payer becomes the supply schedule for the other. With a large number of tax-payers, only the mechanical difficulty of determining expenditures and tax-shares is increased, but the argument is not affected. "Each tax-payer must register his demand for each service. The government must solve for the equilibrium output for each of the social goods and bill each citizen in accordance with his offer prices for these equilibrium outputs. This may be likened to a trial-and-error process of trading in the market, with continual recontracting until an equilibrium is reached. Actually, all this does not have to be done anew in each budget period. The process of choosing and providing for social goods is constant, and only marginal adjustments need to be made from time to time."³ The voting behaviour of representatives brings about this outcome. There are serious difficulties with this model, in both the partial and general equilibrium settings. If there are large numbers, preferences will not be revealed, and if there are small numbers, the solution need not be optimal and will be subject to the bargaining strength and skills of different parties

2. Erik Lindahl, 'Just Taxation—A Positive Solution' in R. A. Musgrave and A. T. Peacock (Ed.), *Classics in the Theory of Public Finance*, 1958, pp. 168–176
3. R. A. Musgrave, *The Theory of Public Finance*, 1956 (International Student Edition), p. 77.

involved. Even if all preferences are revealed, there is no single best solution analogous to Paretian optimum in the satisfaction of purely private wants. Instead, there will be large number of solutions all of which are optimal in the Pareto sense.⁴

However, the benefit principle is serviceable in so far as the benefits from services rendered by the local bodies can be approximately identified.⁵ For example, it is not far from reality to say that property value or its rental is a fair indication of the several civic amenities enjoyed. Such a presumption can be applied in levying general rates like house tax, a general sanitary or conservancy tax or a tax to meet the expenditure on the fire brigade. For operational purposes, it is necessary to distinguish between two types of taxes viz., general and special. The special levies are based on the *quid pro quo* principle and are payments based on direct services rendered. For example, a special water rate may be levied on the size of connection or water consumed; or a special sanitary cess may be levied on the number of latrines. The general levies, even if based on the benefit principle, are not directly related to the services rendered and an estimation of individual consumption is neither possible nor necessary. Thus to cover the costs of general sanitation, a general levy may be imposed on the rental value of buildings on the assumption that this value reflects fairly the sanitary facilities enjoyed.

Another generally accepted principle is that expenditure on the provision of services like collection, removal and disposal of excrement and polluted matter, repair and maintenance of municipal drains, and water supply should be covered by respective taxes. The former are to be covered by a conservancy tax and the latter by water tax. Sometimes, the principle is extended to cover expenditure on specific measures to improve public health, like eradication of malaria. The conservancy or sanitary taxes and water tax are imposed either as general levies or as special levies or as both.

Regarding the question which form of levy-general or special—is preferable, no single answer can be given to cover all cases. In the case of sanitation, a general levy is more appropriate. With the introduction of modern facilities like underground drainage, the need for direct services through scavengers is lessened. Even if a special tax is levied, the imposition of a general tax could still be necessary to cover indirect sanitary services. If, instead, a single general tax is imposed, it may be

4. *Ibid.*, pp. 80 and 84.

5. See: Heinz Haller, 'The Significance of the Principle of Benefit for Public', *The German Economic Review*, Vol. 1, No. 3, 1963, pp. 209-221.

simple to administer. Regarding water, however, a special tax is desirable and this tax should be based not on the size of connection, but in proportion to the water consumed which is measured through metres. There are disadvantages, associated with a general water tax based on rental value or a tax based on the size of connection. There will always be dissatisfaction among consumers that they pay more than what they should. Consequently, there will be a tendency to waste water (provided they can get enough water to waste also!) and there is no way open of the local body to recover the cost of entire water thus used.

In this rendering, another point to be answered is whether costs of administering these taxes are to be charged completely to the consumers of these services or they are to be charged to general revenues. It is justifiable to cover these costs (besides the costs of amenities) also from the consumers through the specific taxes if it is possible to isolate these from the costs of general administration. Of course, in a local body there need not always be different personnel for different spheres at all levels and this is particularly so in tax administration. However, we believe that an approximate idea of the number of man-hours worked in different spheres can be had, and on that basis, costs of administering the taxes may be apportioned and covered under specific taxes like conservancy tax or water tax, instead of charging them to the general revenues.

III

THE FISCAL PICTURE

The analysis of revenue and expenditure is to be preceded by a brief reference to the area, composition and activity of the population of the Corporation cities as these features determine the buoyancy of revenues and the magnitude of expenditure. The two cities, Hubli and Dharwar, which had municipal boroughs, were constituted into a corporation on 1-3-1962. The Corporation covers an area of 17.45 sq. miles and a national highway links the two cities. Its present population is about 2,48,500 as against 1,96,200 of the erstwhile municipal boroughs. Hubli accounts for 1,71,330 (68.9 percent) and Dharwar for 77,170 (31.1 percent). Of the two, Hubli is a big commercial centre and more industrialised whereas, Dharwar is an educational centre and the district headquarters possessing to some extent a less urban look when compared with the former. The discrepancy between the two wings of the Corporation will be vivid if we look at the share of industrial population in each. In Dharwar only 18.7 percent of the total working population is

employed in industry (household and manufacturing industries taken together), whereas in Hubli this is 34.2 percent. 80.8 percent of total industrial workers in the two towns are in Hubli. The overall density per sq. mile is 15,628; for Hubli and Dharwar, these figures are 18,226 and 11,871 respectively.

LEVELS OF REVENUE AND EXPENDITURE:
PRE AND POST-CORPORATION PERIODS

Though the Corporation came into existence in March 1962, it is useful to have a general idea of its finances in the pre-corporation days also. Table I gives such a picture showing the position of tax revenues vis-a-vis total income and total expenditure from the year 1957-58. Total income of both Hubli and Dharwar increased from Rs. 36.46 lakhs in 1957-58 to Rs. 62.10 lakhs in 1961-62 when the corporation was formed, and now stands at Rs. 92.73 lakhs. This meant a rise of 70 percent between 1957-58 and 1961-62 averaging 14 percent per annum, and 49.3 percent between 1961-62 and 1966-67 averaging a little less than 10 percent per annum, thus recording a slower growth in the post-corporation period than before. The same trend is true of total expenditure, strange as it may seem. In the two periods mentioned above, total expenditure rose by 142.6 percent (averaging 35.7 percent per annum) and 41 percent (averaging a little more than 8 percent per annum) respectively. Tax income also exhibits the same behaviour. In the pre-corporation period, it rose by 78.9 percent (averaging 19.7 percent per annum) and in the post-corporation period by 42.2 percent (averaging 8.4 percent per annum). This seemingly paradoxical behaviour, however, is due to the fact that budget levels of both income (including tax revenue) and expenditure were very low prior to 1959-60 and it is only from that year they have shown a rapidly rising tendency. The increase in expenditure was very rapid in the precorporation period, but most of this took place only in the two years preceding the formation of the Corporation. In fact, expenditure fell drastically from Rs. 75.62 lakhs in 1961-62 to Rs. 59.63 lakhs in 1962-63, the first year of the post-corporation period. But it has been rising consistently thereafter. Thus, compared to 1962-63, it rose by 78.8 percent in 1966-67, whereas total income rose only by 54.1 percent. The tendency is strongly towards budget deficits in the post-corporation period whereas the earlier period was dominated by surpluses, except in 1961-62.

Tax revenue formed a significant part of the total revenues in both the periods, though the actual percentage varied between 76.6 and 68.0

TABLE I
TAX INCOME IN RELATION TO TOTAL INCOME AND EXPENDITURE

Item	Pre-Corporation Period*				Year when the Corporation was formed	Post-Corporation Period				
	1957-58	1958-59	1959-60	1960-61	1961-62	1962-63	1963-64	1964-65	1965-66 (estimates)	1966-67 (estimates)
1. Tax income** Rs. in lakhs	26.53	29.03	42.34	45.11	46.52	46.14	49.95	51.70	61.43	66.15
2. Total income*** Revenue Account Rs. in lakhs	36.46	38.97	56.02	59.64	62.10	60.15	73.43	70.87	87.62	92.73
3. Total expenditure Revenue Account Rs. in lakhs	31.17	32.47	39.05	57.54	75.62	59.63	65.69	75.48	106.31	106.62
4. Deficit (-) or Surplus (+)	+5.29	+6.50	+16.97	+2.10	-13.52	+0.52	+7.74	-4.61	-18.69	-13.89
5. Tax Income (1) as per cent of total income (2)	72.7	70.4	75.6	75.6	74.9	76.6	68.0	73.0	70.1	71.3
6. Tax income (1) as per cent of total expenditure (3)	85.1	89.4	108.4	78.4	61.5	77.4	76.0	68.5	57.7	62.0

*Figures for Pre-Corporation Period are consolidated for Hubli and Dharwar boroughs.

**Tax income includes revenues obtained from octroi, toll, general tax, conservancy tax, water tax and charges (including revenue from supply of water through fire brigade fleet), hotel tax, tax on animals and special anti-malaria cess.

***Total income includes revenues from Municipal rates and taxes Realizations under special Acts (e.g. fees and fines), revenues from municipal property, from powers apart from taxation and, grants and Miscellaneous receipts, but excludes opening balance.

TABLE II

COMPOSITION OF REVENUE

Year	Total Revenue	Taxation		Realisations under Special Acts		Revenue derived from Municipal properties and powers apart from taxation		Grants and contributions		Miscellaneous	
	Rs. lakhs	Rs. lakhs	as per cent of total revenue	Rs. lakhs	as per cent of total revenue	Rs. lakhs	as per cent of total revenue	Rs. lakhs	as per cent of total revenue	Rs. lakhs	as per cent of total revenue
1960-61 (Pre-Corporation)*	59.64	45.11	75.6	0.17	0.3	5.03	8.4	6.66	11.2	2.67	4.5
1961-62	62.10	46.52	74.9	0.18	0.3	6.26	10.1	7.07	11.4	2.07	3.3
1962-63	60.15	46.14	76.6	0.11	0.2	7.13	11.9	3.42	5.7	3.35	5.6
1963-64	73.43	49.95	68.0	1.14	1.6	6.92	9.4	12.14	16.5	3.28	4.5
1964-65	70.87	51.70	73.0	0.14	0.2	9.23	13.0	6.39	9.0	3.41	4.8
1965-66 (estimates)	87.62	61.43	70.1	0.14	0.2	13.81	15.7	6.91	7.9	5.33	6.1
1966-67 (estimates)	92.73	66.15	71.3	0.16	0.2	13.44	14.5	7.48	8.0	5.50	6.0

* Figures for pre-corporation year are consolidated for Hubli and Dharwar boroughs.

and is now about 71. Except for the slight decline in 1962-63 tax revenue is steadily increasing, though at varying rates. Tax income increased faster than total income in the pre-corporation period, but slower in the post-corporation period. The declining role of tax revenue can be seen from the fact that on an average, it formed 73.8 percent of total income in the former years upto 1961-62 as against 71.8 percent during 1962-66. This declining role becomes all the more apparent when we consider the extent of total expenditure financed by tax revenue. It was, on an average, 84.6 percent during 1956-61 and 68.3 percent during 1961-66.

The relative importance of other items in the income of the corporation can be seen from Table II. Grants plus contributions and revenue derived from municipal properties and powers apart from taxation are the two important sources, next to taxation accounting for 20 to 22 percent of the total revenue and there is no pronounced difference in their share in the pre- and post-corporation periods. Between these two sources, revenue from municipal properties and other powers has emerged as more important than grants and contributions in the recent three years.

Table III

PER CAPITA TAX AND EXPENDITURE*

Year	Estimated population**	Per capita tax RS.	Per capita expenditure RS.
1957-58	2,22,613	11.92	13.97
1961-62	2,48,489	18.72	30.50
(Pre-corporation year)			
1962-63	2,54,958	18.10	23.38
1963-64	2,61,427	19.11	25.13
1964-65	2,67,896	19.30	28.18
1965-66	2,74,365	22.40	38.80
1966-67	2,80,834	23.56	37.96

*See Appendix for per capita tax and expenditure of other Municipal Corporations in India.

**Based on the assumption of rise in population by 2.6 per cent per year (uncompounded) in the two cities together, which is the rate registered in the decade 1951-61.

Despite the decline in the relative importance of taxation, its incidence per capita has not decreased. Table III shows per capita tax as well as per capita expenditure. Per capita expenditure is also important, as otherwise the burden of the tax gets misconstrued. If an increased expenditure has been undertaken for the benefit of the people, the necessary increase in taxation is to be welcomed rather than treated as a burden.

Per capita tax increased by nearly 28 percent from Rs. 18.7 in 1961-62 to Rs. 23.6 in 1966-67. The rise is considerable, being more pronounced during 1965-67 reflecting to some extent the acceptance of the need of higher taxation. The small decline in 1962-63, the first year of the Corporation's establishment, was due to certain adjustments made in the tax structure that led to a slight decline in tax revenue. When compared with a pre-corporation year like 1957-58, the present per capita tax shows about a hundred percent increase and the per capita expenditure a rise of 172 percent. Per capita expenditure, however, showed a fluctuating trend although it showed a rise by 33 percent from Rs. 30.5 to Rs. 37.9. There was a drastic decline in 1962-63 and the level of 1961-62 was exceeded only in 1965-66 although the latter year level itself decreased by Rs. 0.84 in 1966-67. It should be noted that more has been spent per head of population than what has been collected in taxation over all these years. The years 1965-67 stand out significantly with an excess of per capita expenditure over per capita taxation by as much as Rs. 14.50 to Rs. 16.40 per head.

IV

STRUCTURE OF TAXES

The two boroughs of Hubli and Dharwar were by no means similar in their tax-structure before their amalgamation into a single Corporation. The levels of different taxes differed and this posed a serious problem in working out a common structure of taxes in the post-corporation period. To make the corporation idea more acceptable to the people, attempts to bring about uniformity had to be such that the higher level of taxation in one wing was brought down to the lower level that prevailed in the other wing and it was only later that attempts to revise taxes slightly upwards were made.

The taxes levied now by the Corporation are: General Tax, Conservancy Tax, water charges, octroi and toll, hotel tax and tax on vehicles and animals. The revenues obtained from these different sources and

Table IV

COMPOSITION OF TAX REVENUE

(Rs. in thousand)

Sl. No.	Type of tax	1960-61 (Pre-Corporation year)	1961-62	1962-63	1963-64	1964-65	1965-66 (estimates)	1966-67 (estimates)
1.	General Tax*	1,461.9 (32.4)	1,504.0 (32.4)	1,448.6 (31.4)	1,193.3 (22.4)	1,080.3 (20.4)	1,280.0 (20.8)	1,360.0 (20.6)
2.	Conservancy Tax	80.3** (1.8)	81.4** (1.8)	82.2** (1.8)	508.4 (10.2)	514.7 (10.0)	634.0 (10.3)	667.0 (10.1)
	(1)+(2)	1,542.2 (34.2)	1,585.4 (34.2)	1,530.8 (33.2)	1,627.7 (32.6)	1,595.0 (30.9)	1,914.0 (31.1)	2,027.0 (30.7)
3.	Water charges	458.6 (10.2)	548.8 (11.8)	450.8 (9.8)	586.2 (11.7)	651.4 (12.6)	1,107.0 (18.0)	971.0 (14.7)
4.	Octroi and Toll	2,420.1 (53.7)	2,429.2 (52.3)	2,539.8 (55.0)	2,733.7 (54.8)	2,855.0 (55.2)	3,034.0 (49.4)	3,535.0 (53.4)
5.	Hotel Tax	50.5 (1.1)	49.5 (0.8)	50.0 (1.1)	26.6 (0.5)	49.3 (0.9)	63.8 (1.1)	56.0 (0.8)
6.	Wheel Tax	14.5 (0.3)	14.0 (0.3)	18.3 (0.3)	17.0 (0.3)	18.3 (0.4)	25.0 (0.4)	26.0 (0.4)
7.	Special Anti-Malaria Cess	24.8 (0.5)	26.6 (0.6)	24.8 (0.6)	4.2 (0.1)	1.4 (negligible)	—	—
8.	Total Tax Revenue	4,510.7 (100)	4,651.9 (100)	4,614.5 (100)	4,995.4 (100)	5,170.4 (100)	6,143.8 (100)	6,615.0 (100)

Figures in brackets denote percentages to total tax revenue in respective years.

*Includes General Sanitary Cess and General Water Rate.

**Proceeds of special sanitary cess only.

the relative importance of each source are presented in Table IV. A few points emerge from this table. Firstly, octroi and toll bring the bulk of tax revenue accounting for more than half of the total revenue from all taxes and their position has remained almost unaltered between 1961 and 1966 except for the slight variation around 50 to 55 percent. Secondly, General tax and conservancy tax together which come next in importance to octroi and toll, accounted for 34.2 percent in 1960-61, the pre-corporation year, but their relative share in total tax revenue declined by nearly 4 percent to 30.7 in 1966-67. In this change, General tax and conservancy tax show an inverse relationship. As the share of General tax declined from 32.4 percent to 20.6 percent, that of conservancy tax increased from 1.8 to 10.1 percent over 1960-67. When the proceeds from General tax were high (31.4 to 32.4 percent during 1960-63), the contribution of conservancy tax was very low, being surprisingly constant at 1.8 percent. Possibly the fact that this tax group included special sanitary cess only during those years may explain the low share. From 1963-64, the share of conservancy tax increased to 10 percent, again being almost constant over the years 1963-67 during which the General tax brought in 20.6 to 22.4 percent of total tax revenue. An explanation for the changed picture is to be found in the rationalisation of the tax structure brought about by the Corporation. The general sanitary cess which was included in the General Tax before was separated and levied as a conservancy tax. The general water rate which was included in the general tax is now leviable only on those who do not pay water charges. The conservancy tax which included only special sanitary cess before covers now properties including open lands, with no exemption, if they had no privies. Thirdly, water charges reveal a fluctuating trend, their contribution varying from 9.8 to 18.0 percent with somewhat unpredictable ups and downs. Fourthly, hotel tax and wheel tax have maintained almost a constant share, their continued contribution not exceeding 1.5 percent.

We now turn to the development of the tax structure from its pre-corporation days by examining each tax separately deferring their evaluation to the next section.

General Property Tax

Let us first take the taxes based on property. The Corporation levies at present a general tax at 14 percent and a conservancy tax at 7 percent of the retable value of buildings and lands subject to a minimum of Rs. 6 per year. A general water rate is also levied now at 4 percent

of the rateable value of properties where no water tap is provided. Properties with water taps are taxed at 21 percent of their rateable value and those without are taxed at 25 percent. The former, however, have to pay water charges (either on flat rate basis or by measurement) in addition, and the latter, naturally, will not pay them.

This is a fairly simple structure but this evolved only through several stages. Prior to 1-3-1962, Hubli Borough levied a General Property Tax at 25 percent of the annual letting value which was an amalgamation of three taxes viz., house tax, General sanitary cess and General water rate. Dharwar Borough levied house tax at 9 percent of the annual letting value, General sanitary cess on a sliding scale which turned out to be 3 percent approximately, and also a general water rate at 9 percent of the annual letting value. These taxes were levied separately. In addition, Dharwar Borough levied a special anti-malaria cess at 1 percent of the annual letting value. Thus, properties in Dharwar were taxed at 22 percent altogether compared to 25 percent in Hubli. In addition to these, both the units levied special sanitary cess and special water rates. Those who paid these were not exempted from either general sanitary cess or general water rate.

In 1962-63, the amalgamated property tax was brought down in Hubli from 25 to 21 percent, the level obtaining in Dharwar. The special anti-malaria cess, however, continued to be levied in Dharwar at 1 per cent in that year, thus resulting in a rate of 22 percent in Dharwar.

The year 1963-64 marked a significant step forward in the rationalisation of the tax structure. Having passed its first year, the Corporation felt more confident of effecting improvements in the tax structure. Anti-malaria cess which was levied previously in Dharwar only and the special sanitary cess levied both in Dharwar and Hubli were abolished.

The special sanitary cess was a cumbersome tax levied on the specific sanitary services rendered to particular properties. This was based on the number of latrines and seats each latrine had. The rates were different for Dharwar and Hubli. In Dharwar the charges were Rs. 18 per annum per seat of privy and per seat of urinal. In Hubli, however, a schedule obtained whereby for each additional seat the rate was reduced, upto 3 seats. (First seat Rs. 16/-, second Rs. 12/- and Rs. 8/- per additional seat). The rates were higher in Hubli for chawls and business places by 50 percent. Instead of having two taxes, viz., the special sanitary cess and the general sanitary cess, a consolidated sanitary cess was thought of and the abolition of the special cess, therefore, reduced the com-

plexity of the tax structure, simplified the task of administration and reduced the cost of collection.

Conservancy Tax

In lieu of this, the general sanitary cess was separated and was levied as conservancy tax at 7 per cent of the rateable value of lands and buildings, subject to a minimum of Rs. 6 per year. A citizen who formerly paid both special sanitary cess and the General sanitary cess, now pays the conservancy tax only. However, this new tax is leviable on all properties including open lands even when there are no specific sanitary facilities like privies. This may look unjust but in effect it amounts to a penalty on keeping land idle and seems to serve as an inducement for construction activity.

The anomaly in water charges was also removed. The general water rate of 4 per cent was separated from the General tax and was levied only on those who had no water tap connections i.e., those who did not pay special water charges.

The General Tax is now levied at 14 per cent. (The Commissioner's proposal of 15 per cent was not passed). The base for this as well as for conservancy tax and general water rate now is rateable value and not the annual letting value as before. Ten per cent is deducted from the letting value to arrive at the rateable value, the deduction being an allowance for depreciation. But even when annual letting value was the base, an allowance equivalent to ten per cent was made for depreciation, and so the change is only in terminology. Properties with rateable value of less than Rs. 6 per annum are exempted from the General Tax, but not from Conservancy Tax and General Water rate. Thus the total taxes on property amounted to 21 per cent for properties with water taps and 25 per cent for properties without them. This is in contrast to previous rates—21 per cent in Hubli and 22 per cent in Dharwar, inclusive of General Water Rate.

Comparison: A Numerical Illustration

It would be erroneous to say that the overall incidence of tax has increased as a result of this rationalization. Firstly, the citizens need not pay now any special sanitary cess in addition to property taxes. Secondly, General water rate need not be paid by those possessing water-taps, as before, in addition to water charges. On the other hand, conservancy tax is leviable even on properties which did not have to pay special sanitary cess before. We may compare the incidence under the two tax

structures (present and previous) by taking some concrete examples. Let us first take private properties with no water-taps and paying the General Water Rate. Let us say the rateable value (or annual letting value allowing for depreciation) of one property is Rs. 300 and of the other Rs. 900. The former has one privy and the latter, three. In Hubli, the tax-liability formerly would have been Rs. 79 (Rs. 63 at 21 per cent +Rs. 16 for privy) against the present tax liability of Rs. 75, which means a relief of Rs. 4. The latter property had to pay Rs. 225 (Rs. 189 at 21 per cent +Rs. 36 for 3 privies) before, and now also it has to pay only that much (Rs. 225 at 25 per cent); there is thus no change. In the case of Dharwar, whereas the present liability for the respective properties would be the same as in Hubli, formerly they had to pay Rs. 84 (Rs. 66 at 22 per cent +Rs. 18 for one privy) and Rs. 252 (Rs. 198 at 22 per cent +Rs. 54 for 3 privies) respectively. The relief obtained for tax payers of Dharwar would then be Rs. 9 and Rs. 27 respectively, which is greater than that (Rs. 4 and Rs. 0) accruing to tax payers at Hubli. If we assume that these properties had private house taps (whether metered or subject to flat rate basis on the size of connection), it will be seen that relief would be all the more. Thus assume that in Hubli, a property worth Rs. 300 as rateable value, was paying Rs. 5 as water charges before (whatever the base). Assume also, for the sake of eliminating the effect of variation in water charges, that Rs. 5 are continued to be paid now. So, including these Rs. 5, the property had to pay Rs. 84 (Rs. 63 at 21 per cent +Rs. 16 for privy +Rs. 5 water charges). But after the change, it is liable to pay only Rs. 68 (Rs. 63 at 21 per cent with exemption from General Water Rate +Rs. 5 water charges) giving a relief of Rs. 16 which, of course, is offset a little by an increase in water charges.

Properties with neither privies nor private water taps, have now to pay at 25 per cent whereas they used to pay 21 per cent (with no special sanitary cess, as there were no privies). Considering that such properties are generally occupied by the very poor section of people, this looks inequitable. Excepting these people, others might be considered to have obtained relief from property taxes.

Valuation of the properties for purposes of estimating the rateable value, is done by the Corporation itself once in four years. Theoretically at least, the Corporation takes into account reasonable rental value which is not necessarily the actual rental value of properties. In the case of open lands, 5 per cent of the reasonable sale value is taken as its annual rental, 90 per cent of which will be the rateable value. We feel that there

is no necessity of allowing for depreciation in the case of open lands and the levy can be on the full amount of the estimated annual rental.

Now a word about public properties belonging to the State and Central Governments (including the Railways). In the case of State Government buildings, only 8/10th of the rate for private buildings is charged. As for the Railway properties, which are quite significant in the Corporation area, buildings that existed before 1-4-1937 are assessable. Only house tax was levied then at the rate of 10 per cent and that practice has continued. Conservancy tax is not applicable since the Railways have their own system of sanitation. Valuation of the properties is done by the Railways once in five years and the Corporation has no say in this matter. It is very difficult to understand why the old rate of 10 percent is to be continued even today. The common rate of 14 per cent of General Tax should also be charged to the Railways, which will considerably improve the finances of the Corporation. Similarly, it is difficult to see why only 8/10th of normal rate should be charged to the State Government properties.

Water Charges

In the case of water charges, we find that the policy of the Corporation is to supply private metered connection to as many properties as possible. When the Corporation came into existence, Dharwar had very few meters, whereas metering was in progress in Hubli. Now, Dharwar also is increasingly supplied with meters, replacing flat rates. The only difficulty is about the supply of meters and progress in metering is checked to that extent. It is the metered connections which bring the largest part of revenue from water charges, the percentage being 81.2 in 1966-67.

Water rates on metered connections present a story of frequent change. Before 1963-64, people in Dharwar had to pay higher charges than those in Hubli. Hubli was supplied water mostly from Unaki Tank and this source is cheaper than Neerasagar Water which is the main source for Dharwar. What is more, Neerasagar water itself is costlier for Dharwar than Hubli, as water has to be moved against gravitation in Dharwar. Thus in 1962-63, the first year of the Corporation, water rate per 1,000 gallons in Hubli was Re. 0.75 and Rs. 1.50 for domestic and non-domestic uses respectively. The respective rates in Dharwar were Rs. 1.25 and Rs. 1.50. In order to bring uniformity, average cost of supplying water to Hubli and Dharwar was charged in 1963-64 and the new rates were Re. 0.82 and Rs. 1.64 for domestic and

not blocked as before. Thus, a great shortcoming inherent in octroi, viz., being vexatious to trade, is considerably reduced. While a municipal body should not sacrifice its revenues from octroi, it is also its duty to see that inconvenience to trade that is inevitable is kept at the minimum.

Toll is akin to octroi, except that it is leviable on vehicles (except motor vehicles) and animals used for draught, riding and freight transport that enter or pass through the Corporation area. On two-wheeled vehicles drawn by two animals, the rate is 25 paise and such vehicles drawn by one animal, it is 12 paise. On bicycles it is 6 paise. On bullocks, buffaloes, ponies or mules, the rate is 12 paise per animal if laden, and 6 paise if not laden. Revenues derived from tolls are little when compared with octroi. It fetched Rs. 35,000 in 1960-61, Rs. 23,000 in 1961-62 and Rs. 35,000 in 1966-67, as compared with octroi receipts of Rs. 23.85 lakhs, Rs. 23.96 and Rs. 35.00 lakhs for the same years.

Wheel Tax

A wheel tax is levied on all vehicles and animals used for riding or freight transport. Discrepancy prevailed in the rate structure of this tax also as between the two cities till 1962-63. There are three main sources of revenue: bicycles, bullock carts and tongas. For private use, the rates were higher in Dharwar for the first two and lower for tonga than in Hubli. For those on hire, the rates were higher again in Dharwar for bicycles, the same for tongas and lower for bullock carts. The rates were made uniform in 1963-64, and the emerging picture for some items is presented below:

Table VI
WHEEL TAX PER ANNUM ON EACH UNIT
(in rupees)

	1961-62 and 1962-63				1963-64 and after	
	Hubli		Dharwar		corporation area	
	For Private use	For Hire	For Private use	For Hire	For Private use	For Hire
Bicycles	1	2	2	5	2	5
Cart drawn by						
2 bullocks	1	6	2	3	4	6
Tonga	4	6	3	6	6	12*

*This has been reduced now to Rs. 8.

On bicycles, the rate was brought on par with level obtaining in Dharwar, Hubli unit having to face an increase. On bullock-carts for private use, the present rate is higher for both the units. On bullock-carts used for hire the rate was brought up to Hubli level, Dharwar unit being made to pay more. Rates for tongas were increased for both units. On the whole, the level of wheel tax was increased for both the units. This resulted in an increase in revenue (the increase may be partly due to an increase in the number of vehicles, especially bicycles) from Rs. 13.9 thousand in 1962-63 to Rs. 17 thousand in 1963-64 and Rs. 26 thousand in 1966-67.

Hotel Tax

A hotel tax is levied at separate rates, for Hubli and Dharwar on the basis of annual rental or letting value. The rates are shown on next page.

Table VII
RATES OF HOTEL TAX*

Annual Rental (Rs.)	Rate of annual tax in Rupees	
	Dharwar	Hubli
50 or less	8	12
50- 75	14	18
75- 100	22	
100- 150	37	24
150- 200	55	30
200- 250	78	36
250- 300	100	42
300- 400	140	(For every additional
400- 500	180	Rs. 50 or part of annual
500- 600	222	letting value, the tax is
600- 700	266	Rs. 6 per annum)
700- 800	312	
800- 900	360	
900-1000	410	
Above 1000	45% of annual letting value	

*Since writing this paper, it is proposed, consequent to the ruling of Mysore High Court that, 'Hotel Tax in respect of Dharwar unit shall be as per schedule of rates subject to the condition that the annual tax shall not exceed Rs. 250 on any one hotel-keeper. . . .'. cf. Resolution of the Corporation, dated 29-12-1966.

In case the manager pays no rent, the rate is 6 per cent in Dharwar of annual rental which the building can reasonably fetch and 18 per cent in Hubli.

In Dharwar, there is discrimination at all levels in favour of hotels paying no rent, which is clear from the fact that the rate is 6 per cent for such hotels as against the lowest rate of Rs. 8 applicable for hotels paying rent with an annual rental of Rs. 50 and less and going upto Rs. 410 on rental value of Rs. 900-1000. In the case of Hubli, such discrimination obtains in the case of hotels with an annual rental value of above Rs. 100.

On rented buildings, the hotel tax is quite regressive in Hubli whereas it is progressive in Dharwar. This can be seen from the following table which gives the incidence of the levy for a few illustrative rental slabs.

Table VIII

**HOTEL TAX PAID AS PER CENT OF ANNUAL RENTAL
IN THE CASE OF RENTED BUILDINGS**

Annual Rental (Rs.)	Hubli	Dharwar
50	24	16
100	18	22
200	15	27.5
500	12.8	36
1000	12.4	41
2000	11.2	45

An attempt was made in 1963-64 to bring uniformity by adopting Dharwar rates for both the wings. But Hotel Owners of Dharwar filed a suit contending that the tax is *ultavires*. The court, while permitting the levy of the tax, interpreted it in a narrow sense, so that it is applicable only to the area where eatables are served, thus excluding the kitchen and lodging rooms. Consistent with this ruling, a committee is considering the imposition of the tax at a uniform rate in both the units. There is, however, no justification for discrimination in favour of hotels which pay no rent.

Keeping the evaluation of this tax along with others for discussion in the next section, we conclude this section with a reference to how

different tax revenues have changed between the year when the corporation was formed (1961-62) and the present year (1966-67). The maximum percentage increase, was in the case of wheel tax (85.7), followed by water charges (76.2), Octroi and Toll (45.5), General Tax and Conservancy Tax (27.8) and Hotel Tax (13.2). In absolute figures, however, the maximum increase was in the case of Octroi and Toll (Rs. 1,15.8 thousand), followed by General Tax and Conservancy Tax (Rs. 441.6 thousand), water charges (Rs. 422.2 thousand), wheel Tax (Rs. 12 thousand) and Hotel Tax (Rs. 6.5 thousand).

V

AN EVALUATION

In this section we will evaluate the taxes of the urban local authority in terms of (1) the incidence of the municipal taxes in relation to the incomes of tax payers, (2) the economic base and the short-comings of various taxes and (3) the efficiency of tax collection and the scope for increasing the tax revenues.

Incidence

A quick and limited field survey was done for assessing incidence of Property Tax (General Tax plus Conservancy Tax), Hotel Tax and Wheel Tax. Sample households/units were interviewed both in Hubli and Dharwar. Their selection was made in such a way that there were at least 3 to 5 units in each of the different income groups.

Octroi had to be excluded from our field study for assessing the incidence, as the task of finding the amount of octroi paid by traders as well as their income proved to be very difficult and beyond the scope originally visualised for this paper. Moreover, as octroi is the most obvious indirect tax, being consciously shifted to consumers in direct relation to the commodity purchased, finding the ratio of this tax to traders' income would serve little purpose. Such a shift is not so obvious, direct and full in the case of other taxes. In our analysis, we have not made any difference between impact and incidence.

Property tax is expressed both as percent of total income including the income from the property and as per cent of income from property alone excluding other incomes. Income from property is arrived at by deducting 10 per cent from actual rental towards maintenance and depreciation. Where the landlord himself occupies his property or part thereof, we have conjectured a figure representing its reasonable rent on

Table IX

INCIDENCE OF PROPERTY TAX
(Average for 1964-65 and 1965-66)

Income Group Annual total income Rs.	No. of Households interviewed	Average Total income Rs.	Average property Tax paid Rs.	Average property tax paid (4) as per cent of average total income (3)	Average property income Rs.	Average property tax paid (4) as per cent of average property income (6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1. 1,200 and below	4	1,022	79.40	7.8	736	10.8
2. 1,201 to 2,400	5	1,700	171.61	10.1	1,038	16.5
3. 2,401 to 2,600	5	3,094	256.93	8.3	1,708	15.0
4. 3,601 to 6,000	4	4,432	302.90	6.8	1,876	16.1
5. 6,001 to 12,000	3	8,231	1,284.30	15.6	4,543	28.3
6. Above 12,000	3	14,527	700.53	4.8	6,249	11.2
7. Sub Total 1 + 2 + 3	14	1,899	171.81	9.1	1,117	15.4
8. Sub Total 4 + 5 + 6	10	8,600	716.62	8.1	3,988	18.0
9. Total	24	4,691	398.81	8.5	2,313	17.2

the basis of the rent for similar property in the neighbourhood or similar other properties rented out by him as well as his own estimate of rent of such property. Data presented in Table IX show how the incidence is unnecessarily arbitrary. Taking all the income groups, incidence varies from 7.8 per cent of income on the slab of Rs. 1,200 and below to 4.8 per cent on the slab of more than Rs. 12,000, after touching 10.1 on the slab of Rs. 1,201 to 2,400, 6.8 on the slab of Rs. 3,601 to 6,000 and 15.6 on the slab of Rs. 6,001 to 12,000. Thus, there is no smooth trend. Nor there is any strong basis to deny its regressiveness unequivocally. Averaging the results for the lower half and upper half would, however, suggest that the tax is mildly regressive. It should be noted that the tax as it is actually paid, need not depend upon actual rent, but on the rateable value as assessed. If it were based on actual rent, tax paid as percent of property income would be a uniform 21 per cent at current rates. Column 7 in Table IX shows how this proportion varies from 10.8 to 28.3 per cent of property income covering all the slabs. Averaging the results for the upper half and the lower half in this case, it would appear that the incidence is broadly progressive, though progression is not planned and smooth from one slab to the other under all the income groups. This can be taken to indicate a reduction in the regressiveness of the property tax. If the assessment was more accurate or if the tax amount paid was a uniform 21 per cent of actual property income, a simple calculation would show that the lower half of the income groups would pay 12.4 per cent of their total income in tax, whereas the upper half would pay only 9.7 per cent. This is mainly because, though income from property is found to be rising with total income, the former constitutes a more significant proportion of the latter at low income levels. Thus, for the lower half of the groups, property income is 58.8 per cent of their total income, whereas for the upper half it is 46.4 per cent. However, a wide generalisation is not possible from the limited data presented here. It may be that the higher income groups understated the actual property income even more than the lower income groups, though due caution was taken against this possibility by the Investigators to check the data in doubtful cases through enquiry with the tenants. However, it is interesting to note that underassessment has the dubious merit of reducing the regressiveness of the tax!

The incidence of Hotel Tax, measured as percent of total net income from hotels. i.e. from boarding, lodging and serving refreshments is shown in table X.

Table X

INCIDENCE OF HOTEL TAX (AVERAGE FOR 1964-65 AND 1965-66)

Income group (Annual net income from Hotel) RS.	No. of Hotels covered	Average Annual net income from Hotel RS.	Average Hotel Tax Paid RS.	Hotel Tax as per cent of net income
4,000 and below	3	2,217	49	2.21
Above 4,000	3	6,920	95	1.37
Total:	6	4,568	72	1.58

No other source of income was reported from them, except in the case of two by way of imputed rent from the owned premises, but it was excluded because of its insignificance in relation to the main source of income. The table shows that the Hotel Tax is regressive, though the tax paid does not form a significant portion of income. The combined incidence of property tax and Hotel Tax on hotels seems to be still more regressive. In the case of two hotels that paid both these taxes, it was found that they took away 2.8 per cent of the income at the slab of Rs. 7,000 and 4.8 per cent at the slab of Rs. 1,200.

If we apply the benefit rule, and assume that the benefits received by hotels are fairly in proportion to the annual rental of the buildings, this could readily suggest a proportional rate structure. If the Corporation has reason to believe that the ratio of benefits (as measured by, say, annual turnover) to the annual rental increases with the increase in the annual rental, a progressive rate should be imposed, the degree of progression depending on the degree with which the benefit ratio increases with the annual rental. Since this ratio is least likely to decrease with the annual rental, there is no case at all for regression. An idea of this relation between benefits as measured by annual turnover and the annual rental, can be had from the data presented below in table XI.

This illustration clearly shows that benefits increase more than proportionately with the annual rental. Taking the average figures for the two groups of hotels, the arc elasticity of annual turnover with respect to annual rental turns out to be 1.42 which means that if the annual rental is higher by 1 per cent, turnover is found to be higher by 1.42 per cent.

Table XI

TURNOVER OF HOTELS VIS-A-VIS RENTAL VALUE
(AVERAGE FOR 1964-65 AND 1965-66)

Group by Annual Rental	No. of hotels covered	Average Annual Rental	Average Annual Turnover	Ratio of Annual Turnover to Annual Rental
RS.		RS.	RS.	
(1)	(2)	(3)	(4)	(5)
500 and below	3	400	16,050	40.1 : 1
Above 500	3	960	61,000	63.5 : 1
Total:	6	680	38,527	56.7 : 1

The wheel tax on cycle (hire) shops is mildly regressive and the extent of regressiveness can be seen from the data given in table XII.

Table XII

INCIDENCE OF WHEEL TAX ON CYCLE (HIRE) SHOPS
(AVERAGE FOR 1964-65 AND 1965-66)

Annual net income from cycle (hire) shops	No. of cycle shops covered	Average Annual net income from cycle (hire) shops	Average wheel tax paid	Wheel tax as per cent of net income
RS.		RS.	RS.	
1,800 and below	5	1,528	30	1.96
Above 1,800	3	6,790	83	1.22
Total:	8	3,501	50	1.43

Wheel tax forms 1.4 per cent of the net income covering all income groups and thus forms a small proportion of income. Income is taken here as net of depreciation and maintenance of cycles on a uniform basis of Rs. 60 per cycle per year and other expenses and is exclusive of earnings from repairs and other services which do not form a significant portion of income.

Besides the cycle (hire) shops, wheel tax is levied on other vehicles drawn by horses and bullocks. In respect of tonga (two wheeled rubber tyred vehicle drawn by a single horse), the vehicle may be leased by its

owner, plied by the owner himself or may be partly plied by the owner and partly leased out to others. In our study of the incidence of the wheel tax, we have covered all these three categories of tongas and the category of yakkas (two wheeled iron tyred vehicle drawn by a single bullock) that are plied by the owners themselves. Income taken is net of depreciation and maintenance of tonga/yakka and maintenance of the animal. In the case of owner-leasers, only such expenses were allowed as were borne by them. Except for one owner-leaser, others covered in our study did not report any other source of income. The emerging picture of incidence is presented in Table XIII.

Table XIII

INCIDENCE OF WHEEL TAX ON TONGAS* AND YAKKAS**
(AVERAGE FOR 1964-65 AND 1965-66)

Category	No. inter-viewed	No. of vehicles covered	Average net income from vehicles	Wheel tax paid per person	Tax as per cent of net income
1. Tongas:					
(a) Owner-leaser	3	5	613	17	2.77
(b) Owner-plier	4	4	1,320	10	0.76
(c) Owner-plier-cum-owner-leaser	3	6	1,875	20	1.07
2. Yakka:					
Owner-plier	2	2	1,050	6	0.57

The data show that the incidence is high on owner-leaser (3 per cent as compared to others (0.6 to 1.1 per cent). The incidence of this levy is lower on yakka (owner-plier) than on owner-plier tonga. The higher incidence on tongas leased out may be justified on the assumption that owners of such vehicles are generally those with substantial incomes.

Taking all these taxes together, it is seen that incidence of tax expressed as per cent of income is quite high in the case of property tax, whereas it is small in the case of other taxes. Hotels in the higher income group can shoulder a higher burden and this is justifiable on the benefit principle also as discussed earlier.

* Two wheeled (rubber tyred) vehicle drawn by a single horse.

** Two wheeled (iron tyred) vehicle drawn by a single bullock.

Tax Base

To assess the base of different taxes, let us start with the property tax. Its base is rateable value and not capital value which is, of course, true with respect to Indian local bodies in general. The rateable value is based on the reasonable rent which anyone would pay for its use for a single year but not on actual rent and where the former is in excess of actual rent, the additional tax liability is allowed to be shifted to the tenant by the landlord. We would first comment on the nature of the assessment and later turn to the inadequacy of the base.

Underassessment is widely prevalent and varies very much from property to property. Firstly, the reasonable rental value itself can be underestimated. Generally, the valuers will go by the statement of rental value presented by the landlords themselves which may (or invariably) be less than the actual value. Secondly, even if reasonable rental value is correctly assessed during the assessment year, it quickly becomes underassessed especially in a fast developing city. Iniquity will be greater, longer the gap between assessments.

We have already pointed out the existence of such underassessment in the Corporation area (See Table IX). The property tax paid out of net property income falls short of 21 per cent—the rate of the levy—in most of the income groups. This point is brought into bolder relief in Table XIV. Which shows rateable value as assessed vis-a-vis actual rental income of the same income-groups of households.

On an average, the assessed rateable value is 82 per cent of actual rental income (allowing for 10 per cent depreciation) thus showing an

Table XIV

RATEABLE VALUE AS ASSESSED VIS-A-VIS ACTUAL PROPERTY INCOME*

Groups by Rateable value as percent of actual property income	No. of landlords	Rateable value as per cent of actual property income	
		Average	Range
I. 50 and below	7	22.5	15- 45
II. Above 50, upto 75	3	63.9	51- 71
III. Above 75, upto 100	7	90.8	76- 97
IV. Above 100	7	139.1	105-154
Total:	24	82.5	15-154

*Net of 10 per cent depreciation.

underassessment by 18 per cent. Of the 24 households covered, however, 7 showed a higher rateable value than the actual rental income, the remaining showing a lower value. Seven of the landlords are assessed even below 50 per cent. The table shows wide variation in the relation between the assessed rateable value and actual property income. Thus, the range is from 15 per cent to as much as 154 per cent for all the cases together. Even within each group, the variation is fairly wide. Taking the average for each group, the percentage varies from 22.5 to 139.5.

A State Agency for valuation

While making the assessment, the Corporation does not go by the actual rent but is led by the 'reasonable rent' in the determining of which, market rent and the extent of development of the area in which a property is situated are considered. In a developing city, the market rents tend to outstrip actual rent and we would expect the assessed rateable value to be more than the actual rent on this ground. However, we have to caution that it may happen so even though the area itself is not developed and this factor tends to bring down the 'reasonable rent'. But, we have no reason to believe that it will be equal to the level of the actual rent itself in a majority of cases.

The problem of underassessment can be greatly met if the assessment is not by the local body itself, but by an independent Central Valuation Agency, a practice followed in U.K. and U.S.A. with benefit. A local body can always be pressurised not to be strict by the ratepayers through their representatives. A separate State Agency has no such difficulty. Besides, being a specialised body, it could evolve expert techniques. Though several committees have recommended this step before, it has not yet been implemented. We would emphasise its urgent necessity and reiterate that transferring of the duty of valuation to a separate state agency would not only promote uniformity of valuation practice and so substantially increase the equity of the tax, but in itself tend towards equalising interlocal financial opportunities by removing from the Corporation's or other local body's shoulder an expense, which is especially heavy in small local bodies, without in any way diminishing their financial autonomy.

Capital value as an alternative

In a fast developing city, capital value of properties appreciates quickly over time. The landlords are also tempted to hold land idle for speculative purposes. This appreciation need not be manifested in the

actual rental values due to the influence of Rent Control Act. In such a situation, it is difficult to assess the market rental value. The effect is that property tax is robbed of its elasticity. While landlords get the benefit of the developmental works of the city, which is an unearned increment, the local body cannot have any share in it by way of enhanced recovery. Secondly, several properties have small and big open sites near or around and if annual rental is the basis, the assessor will have difficulty in applying a uniform standard of assessment both for buildings and the land nearby. The difficulty can be overcome if capital value is made the basis for property taxation. It is only then that a local body can convert the property tax into an elastic source of revenue. The assessment of course is to be left to an expert Central Valuation Agency, the costs of which can be more than compensated by the increase in revenues that would follow. This does not mean that the difficulties of taking full account of the rise in capital value can be overcome completely.

Unimproved Value Rating

Supposing we decide on a capital base, the question that arises is whether we should adopt the full market value or the "unimproved" value¹. The value of a completely virgin land without either public utilities (road, water, conveyance, access to power supply etc.) or buildings gets improved with the provision of public utilities as well as with the construction of buildings. The first source of improvement is the result of investment of public money whereas the second is the result of investment by private parties on housing and construction. If building activity is to be encouraged, that part of increase or improvement in the value of property over the value of "unimproved" or virgin land, which is due only or mainly to building, can be exempted from taxation. The appropriateness of the base among the two—full market value and the "unimproved" value, would depend mainly on the stage of the development of the city. U. K. Hicks suggests that the latter base would be appropriate in the early stages, when sales take place mostly of open sites and it is possible to judge the "unimproved" value by analogy. It is again during this period that the need for incentive to build is the greatest. But once the whole city is covered with buildings leaving very few open sites, it is difficult to determine the "unimproved" value by analogy. At this stage, full capital value or selling price would be the proper base.

1. See U. K. Hicks, *Development from Below*, 1961. Ch. 16. pp. 347-367.

See also: J. R. Hicks and U. K. Hicks, *Report on Finance and Taxation in Jamaica*, 1955, Ch. 10. pp. 133-143.

By restricting the unimproved value idea to open sites or new buildings, the technical problem of derating is rendered easy. New buildings get old and begin to have a history. Improvements effected subsequently again raise the problem of valuation. This apart, the proposal of unimproved value rating assumes that it is a more efficient or effective instrument of encouraging buildings construction than other means like cheap housing credit and finance. The latter are a more direct method and carry greater appeal. In fact, it is increasingly noticed that sites are kept vacant for want of funds—may be for speculative purposes also—and penalising such retention by enhanced rates of property tax has induced many owners to put up the buildings quickly. On this score, unimproved value rating may not possess any great virtue.

From the view point of the finances of the local bodies, this proposal seems to suffer from another serious limitation. With the derating of the buildings, the taxable value is reduced enormously and the revenue would be reduced. It is possible to obtain a given revenue by raising the rate of the tax in proportion to deduction allowed. Even then, the tendency for the incidence to be more on the poor and less on the rich cannot be obviated because, there is great evidence to show that very valuable improvements are made by the wealthy sections to valuable sites and hence can reap the advantages of full deduction through derating whereas the poorer sections who own sites or property to which they are unable to make any improvement will be made to pay the revised high rate of the tax.

It may be argued that these defects can be remedied by (1) allowing full deductions for improvements for a short period like 3 or 4 years and at diminishing rates over a further period of another 3 or 4 years after which the full value shall be charged, (2) discriminating among different types of improvements and (3) excluding wealthy people with income above a specified range from being eligible for the deduction.

The first two measures are advanced on the assumption of the superiority of the tax instrument as an incentive to building programme over other direct methods and we have already questioned the efficacy of the former. The last measure would take away what little could have been expected. It is the rich that might be expected to respond more readily to the tax incentive. Once they are kept out, the weaker sections to whom the concession is intended are unable to avail of it unless they have the capital for which they look to direct methods of assistance like low interest loans or housing subsidies. Under these circumstances, tax incentive can only have secondary and conditional value. Therefore,

in a poor country, even the modified proposal of unimproved value rating fails to provide a suitable basis for property taxation. To make the property tax more equitable and also to improve the revenue from this source to the Corporation, we strongly advocate the adoption of capital value assessed at full market value.

Above the conservancy tax which is levied as part of the property tax, the law stipulates that revenues from it should cover the expenditure on the collection, removal and disposal of excrementitious and polluted matter and on the maintenance and repairs of municipal drains. Expenditure on road sweeping and on the collection and removal of sweepings as also on measures like vaccination for the control of epidemics need not necessarily be covered through this tax. The budgets did not help us to neatly classify the expenditure into the above two classes. So, we shall compare the total expenditure on conservancy, excluding that of capital nature (though this was shown under revenue expenditure in the Corporation budgets), with total gross actual receipts from and the demands made of conservancy tax (without allowing for expenditure on tax collection). Figures were not available to include satisfactorily an estimate of annual depreciation of capital assets used in the current expenditure. With regard to receipts, some adjustments had to be made in view of the fact that revenues from General Sanitary cess levied till 1962-63 are shown against General Tax. Ignoring the arrears of the General Sanitary cess entered against General Tax after 1962-63, we have separated the estimated receipts of General Sanitary cess from the General Tax and added them to receipts from special sanitary cess for the years till 1962-63. For Dharwar, one-seventh of the receipts from General Tax were treated as receipts from General Sanitary Cess—the rate of this cess was 3 per cent out of a total rate of 21 per cent—and added to receipts from Special Sanitary Cess for the respective years. For Hubli, we treated 7/25th of the receipts from General Tax as from Conservancy Tax. As noted earlier, Hubli levied an amalgamated property tax at 25 per cent and there was no separate rate. So, we arbitrarily assumed the rate for House Tax and Water tax to be the same as in Dharwar (9 per cent each), leaving 7 per cent as General Cess, which incidentally is also the present rate of conservancy tax. Similar procedure was also followed in respect of demands made.

Table XV shows expenditure incurred on as well as receipts from conservancy tax and demands made in respect of this tax. The demands made have more than covered the expenditure except in 1964-65. Actual receipts, however, have fallen short of expenditure

except in two initial years viz., 1960-61 and 1961-62. The receipts covered only 50 per cent of expenditure during 1964-65, 1965-66 and 1966-67, because of the great rise in expenditure in those years mainly due to the increased pay and allowances. Receipts and even demands made have not obviously kept pace with the increasing cost of conservancy.

Data in Table XV show that upto 1963-64, expenditure could have been more than met by the receipts, had only the recovery been efficient. But this in itself does not seem to explain the widening gap between receipts from and expenditure on the conservancy. It is the inelastic nature of the base—the annual rental—that has set the limit. Making it elastic by adopting the capital value, as argued by us in our discussion of the property tax base, seems to offer a more equitable way rather than yielding to the temptation of raising the rates.

Expenditure on water supply is also required by law to be covered by water charges. The position, in this respect, is shown in table XVI. Taking receipts alone, it is seen that they do not even cover current expenditure, let alone expenditure which includes estimated annual depreciation for all years except 1960-61 and 1965-66. But even in these exceptional years, they have not covered expenditure inclusive of depreciation. For such a situation, heavy arrears resulting from laxity in collection seem to be the causative factor. This is clear from the fact that for the latest two years for which demand figures are available, demands made are quite in excess of both the current expenditure and expenditure inclusive of depreciation. If cent per cent recovery is made, water charges can even be reduced by 10 to 15 per cent and yet cover the expenditure on water supply. Thus, efforts to improve collection can enable a reduction in the cost of water for the public. In this direction, water meters should be checked periodically so that complaints about faulty meters and consequently faulty measurement are minimised. This can expedite recoveries considerably.

An interesting proposal has recently figured in respect of water changes and it needs to be referred here. The proposal came up backed by popular agitation when the Bangalore Municipal Corporation notified the discontinuance of a free allowance of water consequent to the handing over of the water supply in Bangalore to a separate Board (Water Supply and Sewerage Board). The agitators' contention was that the decision of the Corporation was arbitrary. The Corporation's stand was that the responsibility of water supply had been transferred to the Board and the latter felt that costs of water supply cannot be recovered

Table XV

CONSERVANCY: EXPENDITURE, RECEIPTS AND DEMANDS

	1960-61	1961-62	1962-63	1963-64	1964-65	1965-66 (estimates)	1966-67 (estimates)
	(Rs. in thousands)						
1. Expenditure*	356.7	427.2	457.1	576.4	1,055.7	1,310.0	1,312.0
2. Receipts**	438.1	462.8	427.1	508.7	514.7	634.0	667.0
3. Demands made**	N.A.	507.6	476.0	650.3	784.3	N.A.	N.A.
	(in per cents)						
4. Receipts as percent of expenditure	122.8	108.3	93.4	88.2	48.7	48.4	50.9
5. Demands as per cent of expenditure	N.A.	118.8	104.1	112.8	74.3	N.A.	N.A.

*Includes expenditure shown in the budgets as on General conservancy and special conservancy, excepting expenditure of capital nature (though shown in revenue budgets) as on construction of public latrines and urinals, and of garages, purchase of lorries, watering vehicles and tools for workshop. It excludes expenditure on drainage.

**Adjusted as explained in the text for 3 years till 1962-63.

if the free allowance is continued. If the old provision is to be continued, the cost of free allowance itself is to be met by enhancing the property tax and turning over the revenues from the enhanced rate to the Water Supply and Sewerage Board. The latest position seems to be that the free allowance of water has been restored. This result has a demonstration effect and it is likely that the Hubli-Dharwar Municipal Corporation may also face a similar demand from the users of water.

We cannot go into a detailed examination of the pricing of water by the said Board as we have no data. We, therefore, confine ourselves to the offering of some comments on this proposal in the context of the situation that obtains in Hubli-Dharwar Municipal Corporation area.

The first defect in the proposal is that it could be discriminatory in so far as all properties are not given private water connection. They will have to pay the enhanced property tax and yet go without the free allowance which others enjoy. Secondly, the water consumed under free allowance could be quite large, especially with the expanding number of residential properties and there will be very great resistance to any attempt at lowering the free limit, once it is fixed, as it happened in Bangalore. As such, it is feared that the cost of this can be much more than the revenue that may come in through enhanced property rates. Thirdly, the alternative to lowering the free limit would be to enhance the property tax rate still further in which case it will accentuate the discrimination that already obtains. Probably any enhancement beyond 25 per cent, the existing rate, may invoke popular resentment and stiffer resistance.

We are inclined to think that in the context of rising costs of an essential service like water supply and enlarged commitments of the Corporation which is facing deficits, the policy of rate fixing should be such as to cover the fixed and working costs. The system of charging the full cost seems to be more rational.

Method of Budgeting

One more observation that needs to be made, especially covering our evaluation of the water supply and conservancy, is in respect of the method of budgeting for these two items. The corporation is presently led by the requirement of covering the expenditures or part thereof through appropriate charges or rates and has ignored the utility of distinguishing between capital and recurring or maintenance expenditure as well as the need to set aside adequate depreciation. The particulars of the rate of contribution now made for depreciation reveal that it is

Table XVI

WATER SUPPLY: EXPENDITURE, RECEIPTS AND DEMANDS

(Rs. in thousands)

	1960-61	1961-62	1962-63	1963-64	1964-65	1965-66 (estimates)	1966-67 (estimates)
1. Current expenditure*	443.6	1,412.0**	783.1	899.5	1,232.0	1,019.4	1,233.0
2. Expenditure including estimated*** annual depreciation	630.9	1,600.3	945.4	1,061.8	1,394.3	1,181.7	1,395.3
3. Receipts	458.6	548.8	450.8	586.2	651.4	1,107.0	971.0
4. Demands made	N.A.	704.5	665.4	1,330.5	1,604.4	N.A.	N.A.
	(in percents)						
5. Receipts as per cent of current expenditure	103.4	38.9	57.6	65.2	52.8	108.6	78.8
6. Receipts as per cent of expenditure including depreciation	72.7	34.3	47.7	55.2	46.7	93.6	69.6
7. Demands as per cent of current expenditure	—	49.9	85.0	147.9	130.2	—	—
8. Demands as per cent of expenditure including depreciation	—	44.0	70.4	125.3	115.0	—	—

*Excludes expenditure of capital nature though included in revenue budgets, such as construction, purchase of machines and tools, pipes and metres.

**No explanation was available about sudden spurt in expenditure for this year and for the equally sudden decline in the next. An enquiry with the Public Health Engineer's Office showed that payment for Neerasagar Water this year was Rs. 7.83 lakhs, as against Rs. 13.05 lakhs shown in the Corporation budget.

***The Corporation set aside Rs. 44,000 in 1960-61, Rs. 45,000 in 1961-62 and Rs. 19,000 thereafter each year to a depreciation fund for Unkal Water works. Also, the Corporation (and the erstwhile boroughs) spent Rs. 43 lakhs between 1956-57 and 1965-66 for laying of pipes etc., the life of which is estimated to be 30 years, which means an annual depreciation of Rs. 1.933 lakhs. This, as well as depreciation in respect of Unkal water works has been added to current expenditure to arrive at this row.

quite inadequate. In its budget, the corporation should show capital expenditure or expenditure on assets of a durable nature separately from the current expenditure. We have tried to reclassify the budget data relating to water supply and conservancy on these lines in the tables XV and XVI. As we could not get satisfactory information about the rate of depreciation on capital expenditure, what has been done in these tables cannot be considered as perfect.

The Corporation should estimate the annual depreciation for each item on the basis of at least the easiest technique, the straight line method and ensure the setting aside of adequate funds for Depreciation Account so that replacement of worn out assets can be done without imposing severe strain on general revenues. The revenues should be such as to cover the current expenditure inclusive of the contribution to the depreciation fund. Such an approach to the budget would enable the corporation to frame its tax policy more rationally.

The Burden of Octroi

We have already commented on octroi and toll in the last section and here we will see if octroi can or should be replaced by some other tax, as suggested in some quarters. Octroi is often criticised as a regressive levy, falling mainly on the necessities of life; as cumbersome in administration and involving a complicated scheme of refunds; as one giving wide discretionary powers to low paid staff and thus inducing current practices; as expensive in collection; and lastly, as vexatious and restrictive to trade.¹ These evils have also been referred to by both the Taxation Enquiry Commission and the Local Finance Enquiry Committee. The alternatives available are: (1) a terminal tax, (2) a turnover tax, or (3) a surcharge on sales tax. The Zakaria Committee has suggested the levy of a terminal tax on goods carried by rail as well as road, and where octroi is levied, the number of items subjected to it are to be reduced, so that the same category of articles is not doubly taxed.

The burden of octroi on necessities like foodgrains is negligibly low as can be seen from Table XVII which gives a comparative picture of calculated *ad valorem* rates of octroi, and two other important indirect taxes, sales tax and excise, on a few commodities of mass consumption. The rates of octroi are quite low (0.1 to 0.7 per cent) compared to the price and compared also with the rates of other two indirect taxes. Re-

1. See Govt. of India, 'Augmentation of Financial Resources of Urban Local Bodies'—Report of the Committee of Ministers constituted by the Central Council of Local Self-Govt., Nov., 1963 (Chairman: Rafiq Zakaria), p. 48.

Table XVII

CALCULATED ADVALOREM RATES OF OCTROI, SALES TAX AND EXCISE ON SELECTED COMMODITIES OF MASS CONSUMPTION

Commodity	Retail price ¹ Rs.	Tax as per cent of price				Octroi as per cent of the total rate of the three taxes
		Octroi	Sales Tax	Excise	Total	
1. Rice (small)	150.00 per quintal	0.11	4.50 ^{2*}	—	4.61	2.4
2. Jowar	90.00 „	0.18	4.50 ^{2*}	—	4.68	3.8
3. Wheat (white)	160.00 „	0.10	4.50 ^{2*}	—	4.60	2.2
4. Wheat (red)	140.00 „	0.11	4.50 ^{3*}	—	4.61	2.4
5. Tor dal	137.00 „	0.12	4.50 ^{2*}	—	4.62	2.6
6. Matki	140.00 „	0.11	4.50 ^{2*}	—	4.61	2.4
7. Jaggery (Kolhapuri)	120.00 „	0.27	4.50 ^{2*}	—	4.77	5.7
8. Groundnut oil ³	475.00 „	0.14	5.00 ^{4*}	2.50	7.64	1.8
9. Sugar	133.00 „	0.63	6.00*	25.69	32.63	1.9
10. Tea (not packed)	8.00 per kg.	0.34	5.50*	9.56	15.40	2.2
11. Kerosene	0.55 per litre	0.76	4.00*	21.21	25.97	2.9
12. Cotton cloth	3.00 per metre	1.25*	—	15.63	16.88	7.4

1. Average prices prevailing during the second week of July 1966, inclusive of taxes.
 2. Sales Tax rate is 1½ per cent multipoint. The commodities are assumed to pass through at least 3 transactions, so that minimum total rate is 4½ per cent.
 3. This excludes products of village industry, which are exempt both from sales and excise taxes.
 4. Rate is 2.5 per cent multipoint. The commodity is assumed to pass through at least 2 transactions, so that minimum total rate is 5 per cent.
- * Only these are levied advalorem; the rest are based on quantity and the percentage rates are calculated on the basis of retail prices given.

gressive nature of octroi seems to be often exaggerated and singled out, but compared to the other indirect taxes, the evil that can be attributed to octroi appears quite less. Moreover, even if octroi is replaced by a terminal tax or a surcharge on sales tax, it cannot be said to reduce the regressiveness. A terminal tax, of course, obviates the problem of refunds and also is less vexatious to trade, as traders' capital is not blocked at every municipality as in the case of octroi payments. But it raises other problems like the lack of control over the determination of the rate, arbitrariness in the selection of items for the levy of tax and inequity for items that may either fall short of or exceed the number of transits assumed for working out the rate of the levy. In so far as the terminal tax does not reduce the regressiveness which is attributed to octroi, there seems to be no strong ground for replacing the latter by the former. Accepting that there is something to be said in favour of it on administrative grounds, we doubt very much whether equity and autonomy should be sacrificed for the sake of superficial gains expected from the switchover to a new tax. We would rather think that attempts must be made to reduce the vexatiousness of octroi instead of replacing it altogether. In this connection, we are impressed by the system of a token payment for transit goods recently introduced by the Hubli-Dharwar Corporation taking precautions to prevent the misuse of that provision. Perhaps, the Corporation may consider affixing of the seal on transit goods by the octroi officials and levying a small charge to cover additional expenses on transit trade.

Another shortcoming of octroi that it is more expensive to collect, is confirmed. The receipts from taxation per unit of costs of collection were less with octroi (Rs. 9 to 18) than with total taxation (Rs. 11 to 24) during 1960-66 (vide Table XVIII). It is somewhat curious that in 1966-67, the receipts per rupee of expenditure on collection were the same (Rs. 12 or 12.2) both from octroi as well as from all taxes. However, a more pertinent point seems to be the inelasticity of octroi revenue as a majority of octroi rates are not *ad valorem*. Although prices of goods have risen and the salaries of octroi personnel have undergone upward revisions, the revenue from octroi has not improved. Efforts should be made to convert as many rates as possible excepting those on foodgrains into *ad valorem* so that this source of revenue can become elastic and responsive to variations in prices.

Efficiency

The last aspect of our evaluation is the efficiency of tax structure as a whole. An important indicator of efficiency is the productivity of

expenditure on tax collection or negatively, the cost of collection. Data on this aspect are presented below:

Table XVIII
RECEIPTS FROM TAXATION PER UNIT OF COST OF
COLLECTIONS

Year	All taxes Rs.	Octroi and Toll Rs.
1960-61	24.4	17.8
1961-62	21.6	15.4
1962-63	17.5	15.1
1963-64	14.9	12.6
1964-65	12.5	12.1
1965-66 (estimates)	10.7	8.7
1966-67 (estimates)	12.2	12.0

The Table shows that productivity of expenditure on collection measured in terms of Receipts—Cost of collection ratio, has been conspicuously declining although, the continuously declining trend has been arrested in 1966-67. The cost per unit of total tax receipts increased by 100 per cent between 1960-61 (per-corporation year) and 1966-67. In 1960-61, the cost of collection in respect of octroi was considerably greater than in the case of all taxes, but in 1966-67, the cost is more or less the same for both of them. This is possibly a result of greater increase in the cost of collection of other taxes than with octroi.

The increase in the cost of collection has been mainly due to the fact that salaries and allowances granted to the employees have had to be increased sharply, following the rising cost of living while no attempts were made to link the base of the taxes with rising values. This can be remedied only through making the tax-base more elastic as suggested earlier in this section. The very fact that the cost increase has been more in respect of other taxes, of which the property tax is the most important, than in the case of octroi, suggests that the property tax is quite inelastic. As the defect lies with the tax-base, we cannot infer from Table XVIII that diminishing returns to increases in tax-effort have set in. This gets corroborated if we measure the increase in tax-effort in terms of increase in the number of persons employed for tax-collection and compare it with the revenues. In the Octroi Department, no increase in the staff took place between April 1962 and April 1966 (it remained unchanged

at 186). In the Tax Department, (including water meter section, but excluding octroi) the increase was from 85 to 108, that is, by 23. The tax revenue excluding octroi increased by 10.36 lakhs between 1962-63 and 1965-66. We may arrive at the elasticity of tax revenues (e_r) with respect to tax-effort through the arc-elasticity formula as follows:

$$e_r = \frac{\text{change in revenues}}{(\text{initial revenue} + \text{revenue at the end})/2} \div \frac{\text{change in the strength of the staff}}{(\text{initial staff} + \text{staff at the end})/2}$$

$$= 1.68$$

This would mean that a 10 per cent increase in the strength of staff has been followed by nearly 17 per cent increase in tax revenues excluding octroi. Hasty conclusions from the numerical value of the elasticity should be avoided, because the increase in revenue is not only due to the increase in the strength of staff but also due to the rationalization of the tax-structure.

The picture of tax-revenues would have been brighter if only recovery had been more efficient. Table XIX shows the arrears in relation to demands made in respect of different taxes. Arrears are obtained by deducting collections made and remissions given from the demand. The percentage of arrears to demand has increased for almost every tax over the years 1961-65. Total arrears as per cent of total demand in 1965-65 was 44 as against 13.4 in 1961-62. Arrears have more than quadrupled over a period of less than five years. Going by separate taxes, it is noticed that arrears of General Tax increased from 7.4 to 29.7 per cent; of conservancy tax from 7.9 to 34.0 per cent; of water charges from 28.5 to 61.9 per cent; of hotel tax from 7.4 to 46.3 per cent and the wheel tax from 56.6 to 65.1 per cent. All this suggests there is no use increasing the rates of taxes without improving the efficiency in tax collection.

SUMMARY

The role of local taxation in developing countries has been too often neglected in the rush towards a more grandiose national tax plan. Even when some proposals for improving property tax have been made in the recent discussions, the tendency has been to jettison them probably due to lack of deference to benefit rule which may mean a proportional or even mildly regressive taxation.

Table XIX

ARREARS IN RELATION TO DEMAND MADE

(Rs. in thousand)

	1961-62			1962-63			1963-64			1964-65		
	Demand Rs.	Arrears Rs.	(2) as per cent of (1)	Demand Rs.	Arrears Rs.	(5) as per cent of (4)	Demand Rs.	Arrears Rs.	(8) as per cent of (7)	Demand Rs.	Arrears Rs.	(11) as per cent of (10)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
1. General Tax	1,902.7	141.5	7.4	1,625.5	165.7	10.8	1,388.2	271.6	19.6	1,540.4	458.1	29.7
2. Conservancy Tax (including special sanitary cess)	87.8	6.8	7.9	91.0	8.9	9.8	650.3	139.6	21.5	784.3	266.6	34.0
3. Water charges	704.5	201.0	28.5	665.4	222.3	33.6	1,330.5	788.5	59.3	1,604.4	994.8	61.9
4. Hotel tax	60.9	4.5	7.4	55.5	3.2	5.8	90.9	62.4	68.6	102.0	47.3	46.3
5. Wheel tax	33.5	19.0	56.6	35.1	20.1	60.4	44.0	27.0	61.4	52.5	34.2	65.1
6. Total:	2,789.4	372.8	13.4	2,472.5	420.2	17.0	3,503.9	1,289.1	36.8	4,083.6	1,801.0	44.1

With concurrent economic development in the rapidly growing urban centres, municipal services have increased both in magnitude and variety. But the tax revenues of the Urban Local Authority have not kept pace with the mounting expenditure. In the case of Hubli-Dharwar Municipal Corporation, Octroi and Property Taxes, which are the main sources of tax revenue, suffer from an inelastic base. No attention has been given to improving the base of property taxes. Rateable Value, the present basis, does not take cognizance of appreciation in the value of property.

Incidence is mildly regressive in a majority of taxes, but is unnecessarily arbitrary. In the case of property taxation, households with an annual income of below Rs. 3,600 pay 9.1 per cent of their income as tax while those above that level pay at 8.1 per cent. The hotel tax has several anomalies. It discriminates in favour of hotels paying no rent and the rates in one wing (Hubli) are regressive whereas the rates in the other wing (Dharwar) are steeply progressive. The relation between rental value and annual turnover has been ignored. The incidence of wheel tax is 1.9 per cent of annual net income in the case of cycle (hire) shops with income of Rs. 1,800 and below, whereas that on net income above that level is 1.2 per cent. Its incidence on other vehicles, like the tongas, is less on owner-plier-cum-owner-leaser (1.07 per cent) while that on owner-leaser is 2.8 per cent.

Proceeds from water charges and conservancy tax do not cover the expenditure on water supply and conservancy, while the regulations governing them seem to stipulate that the total cost is to be covered. In 1964-65, only half of the expenditure on these services was covered by these two levies. This was due not so much to low rates as to inefficiency in collection resulting in mounting arrears.

In regard to Octroi, most of the attention is given to describing its vexatious nature rather than on designing measures to improve its workability. Incidence of Octroi is very less and its burden seems to be exaggerated especially when viewed in the context of the total burden inclusive of sales tax and excise.

The productivity of expenditure on collecting the revenue from different taxes is on a continuous decline. Receipts per units of cost of collection decreased from Rs. 24 to Rs. 12 in the case of all taxes and from Rs. 18 to Rs. 12 in the case of Octroi and Toll. Tax arrears have quadrupled over a period of less than five years,

What can be done to improve the tax resources? Inequity in assessment and the inelasticity inherent in the present base must be reduced.

This could be achieved if rateable value is replaced by capital value as the base, adopting full market value in its calculation. The unimproved value rating does not recommend itself because of its secondary and conditional value, whereas direct methods like liberal housing, credit and finance have greater appeal. An independent specialised state agency must be constituted for frequent periodical valuation and the cost of the agency must be borne by the State Government. This would promote uniformity of valuation, increase the equity of property tax, tend to equal interlocal financial opportunities by removing from the local body's shoulders a heavy burden without in any way diminishing its financial autonomy.

The system of rate fixing for water supply and conserving must be rationalised in such a way as to fully recover the costs. The system of budgeting for these levies must be reformed showing capital expenditure separately from the current expenditure and calculating depreciation on the straightline method. Adequate depreciation funds must be set aside so that worn out assets can be easily replaced without imposing severe strain on the general revenues.

Discrimination in favour of hotels that pay no rent should go. The relationship between annual rental and annual turnover that exists in the case of hotels must be recognised and progressive rates that emerge from this link even by applying the benefit rule, should be adopted.

Judging from the over-all incident of the present local taxes, there seems to be some scope for a tax on professions.

In the administration of the Octroi, efforts should be made to convert as many rates as possible excepting those on foodgrains into *ad-valorem* and an additional small charge can be levied to cover expenses on transit trade that result from better supervision by way of affixing of the Corporation seal on transit goods by the octroi officials. Replacing Octroi by a Terminal Tax is not favoured.

Emphasis should be on enforcement of existing rates and recovering arrears than on the raising of the rates.

ACKNOWLEDGEMENT

Authors are grateful to the Hubli-Dharwar Municipal Corporation for making available the relevant records. In particular, they wish to express their indebtedness to Shri C. J. Padmanabha, Ex-Commissioner, with whom they had discussions while initiating this study; to Shri

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APPENDIX I

Per Capita Tax Income and Revenue Expenditure, 1960-61 (Hubli-Dharwar and other Municipal Corporations in India)

(Rupees)

Name of the Corporation	Tax	Revenue Expenditure
1. Hubli-Dharwar*	18.10	23.38
2. Greater Bombay	33.74	36.39
3. Calcutta	16.39	24.33
4. Delhi	22.13	42.71
5. Madras	19.47	22.78
6. Ahmedabad	29.63	31.37
7. Hyderabad	8.76	9.43
8. Bangalore	15.38	17.50
9. Kanpur	13.74	20.82
10. Nagpur	19.09	38.72
11. Poona	21.48	29.43
12. Lucknow	10.67	17.10
13. Varanasi	11.67	16.28
14. Agra	10.30	12.55
15. Allahabad	11.63	20.79
16. Indore	15.67	18.03
17. Patna	8.85	17.41
18. Gwalior	7.06	9.25
19. Jabalpur	13.94	19.91
20. Trivandrum	5.09	7.87
21. Chandernagar	6.67	16.60
All Corporations other than Hubli-Dharwar:	20.24	26.83

*for 1962-63

Source: (For Corporations other than Hubli-Dharwar): 'Augmentation of Financial Resources of Urban Local Bodies' Report of the Committee of Ministers constituted by the Central Council of Local Self Government, November, 1963 (Chairman: Rafiq Zakaria), Annexures, Part II, Tables 5 and 6, p.166.

APPENDIX II

Tax and Non-Tax Income of the Corporation 1960-67 [Revenue Account]

(Rupees)

	1960-61 Actuals	1961-62 Actuals	1962-63 Actuals	1963-64 Actuals	1964-65 Actuals	1965-66 B. Estimate	1966-67 B. Estimate
A. Municipal Rates and Taxes							
1. Octroi	23,85,419	23,95,842	25,06,369	26,94,299	28,19,969	30,00,000	35,00,000
2. Toll	34,750	33,827	33,342	39,391	35,013	34,000	35,000
3. General Tax	14,61,872	15,04,003	14,48,566	11,19,309	10,80,326	12,80,000	13,60,000
4. Conservancy Tax	80,320	81,382	82,230	5,08,425	5,14,745	6,34,000	6,67,000
5. Water Tax	4,54,755	5,38,586	4,43,925	5,69,771	6,40,287	2,02,000	1,75,000
Water Rate by meter						9,00,000	7,88,000
6. Miscellaneous supply of water by fire fighter	3,845	10,146	6,891	16,403	11,092	5,000	8,000
7. Hotel Tax	50,469	49,541	50,024	26,654	49,336	63,800	56,000
8. Wheel Tax and Tax on Animals	14,492	13,959	18,344	16,984	18,343	25,000	26,000
9. Special Anti Malaria Cess	24,750	26,644	24,809	4,183	1,356	—	—
Total A	45,10,672	46,51,930	46,14,500	49,95,418	51,70,467	61,43,800	66,15,000

B. Realizations Under Special Acts		
1. Cattle ponds	798	857
2. Hackney carriages	—	1,400
3. Cess on lands within municipal limits	—	1,850
4. Fees under Prevention of Food Adulteration Act	15,197	11,662
5. Fees under shops and Establishments Act	1,396	1,768
6. Fines realised by Stipendiary Magistrates	—	—
Total B	17,391	17,537

C. Revenue derived from Municipal Properties & powers apart from Taxation

1. Rent on lands and buildings		
(a) Ground rent	28,724	39,893
(b) Building Rent	27,439	60,236
(c) Rent of rest house	300	960
(d) Rent of Town hall and Municipal Hall	556	1,186
(e) Rent on Electric poles etc.	150	557

751	1,168	778	2,000	3,000
—	947	537	1,000	1,000
—	—	1,850	11,000	—
8,052	14,168	10,074	—	12,000
1,698	1,804	734	—	—
—	96,506	—	—	—
10,501	1,14,593	13,973	14,000	16,000

46,478	25,919	28,017	57,500	37,000
63,513	77,441	1,10,765	87,000	1,26,000
3,520	—	—	—	—
695	2,441	1,447	2,500	3,000
243	—	264	500	500

	1960—61 Actuals	1961—62 Actuals
2. Sale proceeds of lands and plots	1,05,054	90,687
3. Sale proceeds of dead trees and fruits	1,088	2,420
4. Difference of Agricultural and non-agricultural assessment	—	—
5. 75 percent N.A. and 15 percent L.R.	14,785	16,687
6. Income from Educational Institutions	1,21,886	1,22,403
7. Income from Libraries	1,037	2,200
8. Income from Medical Institutions	18,258	26,497
9. Income from Markets and Slaughter houses		
(a) Stallage of M.G. & other Markets	80,594	1,52,105
(b) Stallage of F & M Markets	26,448	28,853
(c) Income from Slaughter houses	22,111	23,882
(d) Temporary occupation of Municipal Roads by Venders	32,662	27,662

1962—63 Actuals	1963—64 Actuals	1964—65 Actuals	1965—66 B. Estimate	1966—67 B. Estimate
79,788	1,12,468	2,00,200	6,00,000	5,00,000
2,209	1,013	340	—	—
—	—	—	35,000	35,000
11,109	15,190	—	11,000	11,000
1,22,642	98,434	1,85,071	1,31,500	1,29,350
1,423	2,038	4,063	4,400	5,000
32,891	40,809	39,527	45,600	64,000
2,20,746	2,20,051	2,59,878	3,00,000	3,25,000
61,676	—	10,678	30,000	30,000
24,167	25,197	22,088	25,000	25,000
32,118	31,889	29,782	25,000	25,000

	(e) Fees from cattle market	—	—
10.	Income from Swimming Pool	—	1,311
11.	Other fees		
	(a) Booth and permit fees	2,276	2,176
	(b) Notice and Warrants Fees	3,898	2,890
	(c) Motor stand fees	6,446	6,170
12.	Licence Fees (Dangerous and offensive Trades, Hawkers Market fees, LND and Building Licence Fees)	9,177	17,637
Totals C		5,02,849	6,26,412

D. Grants and Contributions

1.	From Government		
	(a) Under Entertainment Tax Act	3,02,495	3,56,816
	(b) Towards pay of M.O.H. & S. Is.	2,193	—
	(c) Towards D.A.	2,30,327	2,08,444
	(d) Towards shops & Ests.	7,801	—
	(e) Towards cattle ponds	—	—
	(f) Under Motor Vehicles Act	5,918	5,918
	(g) Towards wheel Tax	—	7,675
	(h) Towards G.S.M.P. Library	—	500

—	7,570	4,882	4,000	—
1,676	1,305	—	—	—
2,250	2,237	2,159	3,000	2,500
7,882	4,675	4,039	2,000	3,000
6,409	6,645	3,338	100	150
11,563	16,540	16,843	16,100	22,300
7,12,998	6,91,864	9,23,381	13,80,700	13,43,800
—	7,87,165	4,11,068	4,00,000	4,75,000
—	—	—	70,000	80,000
1,40,149	2,63,600	—	—	—
10,100	—	2,980	—	—
852	—	3,574	6,500	3,000
5,918	1,35,857	46,600	46,600	46,600
1,30,242	—	—	—	—
—	—	—	—	—

1960—61

Actuals

(i) Towards Harijan quarters	3,290
(j) Towards Town Development works	29,230
(k) Social Welfare grant	—
(l) Towards Modern sanitary convenience	900
(m) Towards census work	130
(n) General hostel fund	21,250
(o) L.H.S.S. maintainance grant	29,340
(p) Towards D.A.	10,695
(q) Other grants	3,000
(r) Towards Vety. dispensary	—
(s) Towards key village centre	—
2. From Local Funds	19,690

Total D**6,66,259**

1961—62 Actuals	1962—63 Actuals	1963—64 Actuals	1964—65 Actuals	1965—66 B. Estimate	1966—67 B. Estimate
4,500	—	—	13,500	5,000	50,000
68,000	—	25,000	30,000	25,000	—
—	520	—	58,500	—	—
	(pauper burial charges)				
6,859	—	—	—	—	—
2,449	2,586	—	261	—	—
30,785 } 15,180 }	34,410	1,808	70,674 } 1,826 }	82,500	88,000
—	10,854	200	—	500	400
—	—	—	—	5,000	5,000
—	5,239	—	—	50,000	—
7,07126,	3,41,770	12,13,630	6,38,983	6,91,100	7,48,000

E. Miscellaneous

1. Interest on investment and deposits	57,183	39,781	41,946	27,394	15,238	30,000	20,000
2. Conservancy receipts other than Taxes							
(a) Pit-privy cleansing charges	1,270	1,165	1,956	1,562	1,148	1,500	1,500
(b) Sale proceeds of manure	1,01,924	51,596	1,31,747	1,80,484	1,62,507	1,80,000	2,00,000
3. Rent on Meters	21,282	27,475	26,927	24,388	39,243	1,50,000	1,35,000
4. Others	85,554	86,474	1,32,918	93,763	1,22,522	1,70,900	1,93,700
Total E	2,67,213	2,06,491	3,35,494	3,27,591	3,40,658	5,32,400	5,50,200
TOTAL REVENUE (Total A to E)	59,64,384	62,09,496	60,15,263	73,43,096	70,87,462	87,62,000	92,73,000
Opening Balance	20,82,709	20,01,497	16,79,815	25,29,881	13,58,644	20,00,000	15,00,000
Total Revenue including Opening Balance	80,47,093	82,10,993	76,95,078	98,72,977	84,46,106	1,07,62,000	1,07,73,000

Source: Annual Budgets of the Hubli Dharwar Municipal Corporation.

APPENDIX III
TAX RATES 1961-67

Taxes	1961-62		1962-63		1963-64	1964-65	1965-66	1966-67
	Hubli	Dharwar	Hubli	Dharwar				
1. Taxes based on property	25 per cent Amalgated (combining House Tax, G.S.C. and G.W.R.)	22 per cent (House tax 9 per cent, G.S.C. on a sliding scale amounting to roughly 3 per cent, G.W.R. 9 per cent and anti-Malaria cess 1 per cent).	21 per cent	No change	General Tax 14% Conservancy Tax 7% General Water Rate* 4%	No change " "	No change " "	No change " "
2. Special Sanitary cess (per Annum)	First seat Rs. 16, second Rs. 12, and Rs. 8 per additional seat (Rates for Chawls and business places higher by 50%)	Rs. 18 per seat	No change	No change	Abolished	—	—	—

Special Water charges	Rs. 24 per annum and Rs. 60 per annum NDU	Based on House Tax paid as follows:	No change	No change	Rs. 6 DU, and Rs. 12 NDU	No change	No change	No change
a) Flat Rate ($\frac{1}{2}$ " connection)		Tax paid						
		Rs.						
		1-00						
		1 to 3						
		3 to 6						
		6 to 10						
		10 to 15						
		15 to 20						
		20 to 30						
		30 to 40						
		40 to 50						
		Above 50						
b) Metered (For 1000 gallons)	Rs. 0-75 DU; Rs. 1-50 NDU	Rs. 1-50 DU and NDU	No change	Rs. 1-25 DU; Rs. 1-50 NDU	Rs. 0-82 DU; Rs. 1-64 NDU	Rs. 0-82 DU; Rs. 1-25 NDU	Rs. 0-85 DU; Rs. 1-25 NDU	Rs. 0-90 DU; Rs. 1-25 NDU
Minimum charges per month	—	—	—	Rs. 2-50 DU; Rs. 9-00 NDU	Rs. 3-00 DU; Rs. 6-00 NDU	Rs. 1-50 DU; Rs. 5-00 NDU	Rs. 1-50 DU; Rs. 3-00 NDU	Rs. 1-00 DU; Rs. 3-00 NDU
Meter rent per month ($\frac{1}{2}$ " connection)	Rs. 0-37	Rent not fixed	No change	Rs. 0-50	No change	Rs. 0-50	Re. 1/-	Re. 1/-

G.S.C.—General Sanitary Cess; G.W.R.—General Water Rate.

DU—For Domestic Use; NDU—for nondomestic use.

*Applicable only where no private tap is provided.

Appendix III (Contd.)

Taxes	1961-62		1962-63		1963-64		1964-65		1965-66		1966-67	
	Hubli		Dharwar		Private	Hired	Private	Hired	Private	Hired	Private	Hired
	Private	Hired	Private	Hired								
4. Wheel Tax (Rs. per annum)												
<i>a. Bicycles</i>	1	2	2	5	No change		2	5	No change		No change	
<i>b. Iron tyred vehicles</i>												
<i>i) Two wheeled drawn</i>												
by two bullocks	1	6	2	3	"		4	6	"		"	
<i>ii) Two-wheeled Dumani</i>	8	10	—	—	"		8	10	"		"	
<i>iii) Two wheeled tonga</i>	6	8	—	—	"		6	8	"		"	
<i>iv) Two wheeled Ekka</i>	2	3	1.00	1.50	"		3	5	"		"	
<i>v) Hand carts</i>	2	2	2	2	"		3	5	"		"	
<i>c. Rubber Tyred Vehicles</i>												
<i>i) Four wheeled drawn</i>												
by more than one animal	12	12	12	12	"		12	12	"		"	
<i>ii) Four wheeled drawn</i>												
by one animal	8	8	8	8	"		8	8	"		"	
<i>iii) Two wheeled drawn by</i>												
more than one animal	8	8	8	8	"		8	8	"		"	
<i>iv) Two wheeled drawn by</i>												
one animal (Tonga)	4	6	3	6	"		6	12	"		6	8
<i>d. Cycle-Rickshaw</i>	4	4	4	4	"		3	6	"		No change	
<i>e. Animals**</i>	1	—	—	—	"		1	—	"		"	

**Bullock, he-buffalo, horse, pony, mule, camel and elephant used for riding or burden.

Source: Budget Estimates of the Corporation, Commissioner's Taxation Proposals (not published along with Budget Estimates), Administration Reports of the Corporation and Tax Department, Hubli Dharwar Municipal Corporation.
For Octroi and Toll, and Hotel Tax rates, please see Appendix IV and V respectively.

Octroi and Toll Rates

In 1961-62, octroi and toll rates were revised both for Hubli and Dharwar and made uniform. The rates are as per the schedule sanctioned by the Government of Mysore in their order No. PLM 39 (1) CAD 61, dated 1-2-1961 and brought into force from 3-1-1962. The schedule remained unchanged except for S. No. 198 viz., printed matter such as catalogues, advertisements, calendars, pictures, diaries, excepting news paper. The octroi rate for these was reduced from 10 paise per 1/4 k.g. to 10 paise per 10 k.g. or fraction thereof with effect from 7-3-1963. Octroi rates for some important commodities are as follows:

Sl. No.	Article	Rate per 50	
		kg. or frac- tion there- of	Any other mode of rate
		Rs. P.	Rs. P.
Class 1: Grains, Groceries, Vegetables and Fruits			
1 and 2.	All kinds of cereals (grains) and pulses and products thereof	00=08	—
3.	Avalakki and Churmari	00=08	—
8.	Jaggery and molasses (Kakvi)	00=16	—
9.	All kinds of sugar and Sugar candy	00=42	—
16.	Tea (Powder & Leaves), Coffee (seeds and powder), Cocoa (powder), chicory (seeds and powder)	1=34	—
19.	Cocanuts	0=20	—
25.	Dry Chillies and its powder	—	0=12 per 25 kgs.
34.	Fruits (Fresh) of all kinds	—	0=08 per 25 kgs.
39.	Vegetables of all kinds and green chillies including seeds and seedlings	0=08	—
50.	Dalda and other vegetable Goe	—	0=03 per 1/2 kg.
54.	Fodder	—	0=13 per cart load

Sl. No.	Articles	Rate per 50 kgs. or fraction thereof	Any other mode of rate
Class II: Animals and Birds			
56.	Fowls and birds	—	0=03 per head
57.	Sheep and Goat	—	0=07 per head
58.	Cattle	—	0=13 per head
Class III: Fuel, Lighting and Washing Materials, oil and oil seeds			
65.	Charcoal, Coal Ash and Cinder	00=08	—
66.	Coal and Coke	00=10	—
69.	Fire Wood	—	0=25 per cart loa
71.	Kusabi oil, Coconut oil, Groundnut oil, Agasi oil, Til oil, Cotton seed oil	00=34	—
74.	Kerosene oil	00=26	—
75.	Petrol, Spirit, White oil, Mobile oil	—	0=02 per rupee worth
76.	Oil seeds	00=08	—
83.	All kinds of washing and toilet soaps	—	00=2 per rupee worth
Class IV: Building Materials, Paints and Colours			
89	Teak wood	—	02=00 per cart load
107.	Burnt Bricks	—	0=25 per cart load
109.	Cement, Cement articles (other than bricks and slabs)	00=34	—
116.	Paints and Colours	01=68	—
Class V: Medicines, drugs, Gums, Perfumes and Chemicals.			
119.	All kinds of drugs and medicines and medical and surgical and goods and apparatus	—	00=12 per rupee Worth

Sl. No.	Article	Rate per 50 kgs or fraction thereof	Any other mode of rate
120.	Phenyle, D. D. T., plaster of paris, Gamaxine powder	—	00=12 per rupee worth
127.	Bleaching powder, caustic soda and Bicarbonate of soda and other chlorides, Tinopal and other articles for bleaching.	01=34	—
133.	Hair oils, perfumed oil, swaters and essences.	—	0=03 per rupee worth
Class VI: Tobacco and its products			
138.	Tobacco and its leaves	02=68	—
139.	Churoots, Cigarettes and Cigars	—	00=01 per rupee worth
140.	Beedies and Chuttas	—	00=03 per 1/2 kg.
Class VII: Cotton Piece goods and articles of clothing			
145.	Cotton bales	—	00=08 per bale
146.	Cloth of cotton, woolen, silk, rayon and all kinds of cloth.	—	0=01 $\frac{1}{4}$ per rupee worth
Class VIII: Metals and Articles made therefrom			
153.	Hardware, Iron, Cast-iron and their articles	00=42	—
161.	Stainless steel and its articles	01=01	—
165.	Gold and articles made thereof	—	00=03 per 10 gram
169.	Aluminium and articles made thereof	—	0=01 per rupee worth
Class IX: Raw hides and skins			
170.	Raw hides and skins	—	0=01 per rupees worth
171.	Leather and leather goods	—	00=02 rupees worth

Sl. No.	Article	Rate per 50 kgs or fraction thereof	Any other mode of rate
Class X: Miscellaneous Articles			
173.	Motor Cars, buses, Motors cycles, chasis, tractors etc	—	00=01 per rupee worth
174.	Tools, spare parts and accessories to the articles mentioned in S. No. 173.	—	00=02 per rupee
176.	All kinds of machinery including oil engines, expellers, millgin-stores	—	00=01 per rupee
178.	Bicycles, Tricycles, parambulators and their tools and spare parts and accessories	—	00=02 per rupee worth
181.	Electrical goods and apparatus	—	-do
196.	News print	00=017	—
199.	Umbrellas		00=02 per rupee worth
211.	Earthen pots	00=10	—

Toll Rates

Sl. No.	Vehicle/Animals	Rate (per trip)
1.	Every four-wheeled vehicle laden or unladen subject to the restrictions laid down in section 19 of the Mysore Motor Vehicles Taxation Act. 1957.	0.37
2.	Every two-wheeled vehicle drawn by two or more animals laden or unladen	0.25
3.	Every two-wheeled vehicle drawn by the one animal laden or unladen.	0.12
4.	Every two or three wheeled vehicle drawn or propelled by human agency (except bicycle or tri-cycle) laden or unladen.	0.06
5.	Bicycle or tricycle.	0.06

Sl. No.	Vehicle/Animals	Rate (per trip)
6.	Every camel or elephant:	
	(a) if laden	0.25
	(b) if not laden	0.12
7.	Every bullock, buffalo, pony or mule not yoked to a vehicle:	
	(a) if laden	0.12
	(b) if not laden	0.06
8.	Every ass or donkey:	
	(a) if laden	0.06
	(b) if not laden	0.03

Source: Octroi Rules, Byelaws and Schedules (Municipal Borough, Hubli)

APPENDIX V

HOTEL TAX RATES

The Hotel Tax rates which were prescribed under the Hotel Tax rules of the erstwhile Hubli and Dharwar Municipalities and proposed for adoption by the Corporation are as follows:

HUBLI

Annual letting value	Rate of Annual Tax
Rs. 50 or less	Rs. 12
Rs. 51 to 100	Rs. 18

For every additional Rs. 50 or part of the annual letting value the rate is Rs. 6 p.a. In case the Manager pays no rent for the Hotel, the the assessment is at 18 per cent of the annual letting value.

DHARWAR

Annual rental	Rate of Annual Tax
Rs. 50 or less	Rs. 8
Above Rs. 50 to Rs. 75	Rs. 14
„ Rs. 75 to Rs. 100	Rs. 22
„ Rs. 100 to Rs. 150	Rs. 37
„ Rs. 150 to Rs. 300	Rs. 55
„ Rs. 200 to Rs. 250	Rs. 78
„ Rs. 250 to Rs. 300	Rs. 100
„ Rs. 300 to Rs. 400	Rs. 140
„ Rs. 400 to Rs. 500	Rs. 180
„ Rs. 500 to Rs. 600	Rs. 222
„ Rs. 600 to Rs. 700	Rs. 266
„ Rs. 700 to Rs. 800	Rs. 312
„ Rs. 800 to Rs. 900	Rs. 360
„ Rs. 900 to Rs. 1000	Rs. 410
„ Rs. 1000	45 per cent of annual letting value.

In case the manager pays no rent for the Hotel, the assessment is at 6 per cent of the annual rental which the building may reasonably fetch if let or leased for such purpose.

The Tax was challenged as *ultravires* and pending settlement, a ceiling on tax rate at Rs. 250 was fixed. Consequent to the ruling of the High Court of Mysore, it is now proposed to continue that ceiling. The relevant Corporation resolution dated 29-12-1966 runs as under: "Resolved that as per Commissioner's Note No. Tax. SR. dated 29-12-1966 and standing Committee Resolution No. 2018 dated 7-12-1966 of 20-2-1965 and 1222 of 15-2-1966, Hotel Tax in respect of Dharwar Unit shall be as per schedule of rates subject to the condition that the annual tax shall not exceed Rs. 250 on any one of the Hotel keeper, provided that the Hotel Tax be 6 per cent of annual letting value in case the manager pays no rent for the hotel building."

Sources Same as per Appendix III

ERRATA

<i>Page</i>	<i>Line</i>	<i>Incorrect Reading</i>	<i>Correct Reading</i>
4	28	contrinual	continual
6	8	open of	open to
10	16	revenue form	revenue from
10	Footnote to Table III	See Appendix	See Appendix I
17	30	Unakl	Unakal
19	12	the refunds.	the refunds are shown below
21	13-14	shown on next page.	shown below.
28	12 from below	Onwer-leaser	Owner-leaser
31	35	Atthis stage	At this stage
33	6	Above	About
34	33	changes	charges
42	15 from below	1965-65	1964-65
44	35	Receipts per units	Receipts per unit
45	23	over-all incident	over-all incidence