# Indian Taxation System and Land Value Tax

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In the modern era of development; black money and corruption are the main serious problems for developing Indian economy. In a courageous move to combat black money and counterfeit currency, NarendraModi's government scrapped currency notes of INR 500 and INR 1000 denominations, which is seen as an unprecedented measure, though a giant leap towards curbing corruption and forged currency.

*The government has been pushing for a shift to a less-cash economy, especially after the cancellation of legal tender of high-value notes on 9 November. These measures will create a paper trail for all transactions, thus providing an effective check against tax evasion.

The budget proposed to ban all cash transactions above Rs3 lakh, in line with the recommendations of the special investigative team (SIT) on black money.

The government will make the necessary amendments to the Income Tax Act to facilitate this, the finance minister said. The Supreme Court-constituted SIT, in its report last year, had proposed banning cash transactions above Rs3 lakh and capping cash holdings of individuals and companies at Rs15 lakh.

High-value cash transactions are a common feature in the real estate sector where buyers try to get away with paying lower stamp duty.

Curbing black money is one of the electoral promises of the National Democratic Alliance and the government has announced a number of steps over the last couple of years to check black money, including the recent move to demonetize high-value banknotes.

In the Union budget, the government has sought to incentivize greater use of non-cash transactions for small businesses by lowering the tax rate on presumptive income to 6% from 8% for all non-cash transactions.*1

After demonetization a question arises again and again in our mind that "Is it a permanent solution of our problems? Will the problem of black money never be generated? Is it the end of corruption? " The answer is suspicious .No one is sure about it. In such a condition land value tax could be a best option for developing Indian economy.

*Recently, many developing and transitional countries have become more interested in land and property taxes. Colombia, for example, is considering a major reform of rural property taxes as part of its attempt to 'reincorporate' parts of the countryside long dominated by various guerrilla and anti-guerrilla forces into the 'normal' governance system* 2.*China too is considering the role of land and property taxation in its burgeoning urban areas*.3 For various reasons and with varying degrees of urgency, property taxation keeps popping up on the policy agenda in countries around the world.

* From a purely fiscal perspective, the extent to which real estate taxes can produce revenue to finance local services is especially important in countries that are decentralizing as many emerging economies have been in recent years. When public funds are as hard to find as they are in most such countries, additional revenues from property taxes are obviously desirable. Moreover, at least in some countries attention is again beginning to be paid to the potentially beneficial allocative effects that properly structured and implemented land taxes might have in both rural and urban contexts.*4 *Finally, and in some ways perhaps most importantly, some recent literature suggests that local property taxes may play a critical role in helping develop

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the institutional social capital necessary for good governance and sustainable economic development.* 5

In India, in the modern time when government has accepted this fact that a major part of black money is invested in land and property and it seems us that land is the main source of black money, land value tax could be a best option. It may be a panacea for our taxation system and it may give new direction to Indian economy.

*Although the economic efficiency of a land value tax has been established knowledge since Adam Smith*;6 *it was perhaps most famously promoted by Sir Henry George, In his best selling work 'Progress and Poverty' George agreed that when the site or location value of land was improvement by public work, its economic rent was the most logical source of public revenue.* 7. The land value of the site is also directly related to its demandable ground rent which is potential for use in either production or capacities.

* A land value tax is a levy on unimproved value of land only. It is an ad valorem tax on land that disregards the value of building personal property and other improvements. A land value tax is different from property tax which is taxes on the whole value of real estate, combination of land building and improvements to the site.8.*A land value tax is also a progressive tax in that it would be paid by the wealthy and reduce economic ineqality.*9

* Our economic decisions are effected by most taxes. If any factor of production is taxed (such as-labour ;mahine ;building );it divert people from productive and constructive act. But it is not same with land value tax which is payable regardless how well the land is actually used.Because the supply of land is inelastic; market land rent depends on what tenants are prepared to pay; rather than on the expenses of landlord and so LVT cannot be directly passed on tenants*.10.The direct beneficiaries of incremental improvement to the surroundings neighborhood by others would be the land occupants and absents landlord would benefit only by virtue of price, competition among present and prospective tenants for those incremental benefits, the only direct effect of LVT on price in this case is to lower the unearned increments.11

LVT encourage land owners to develop vacant and under used land property or to make way for others who will want to actually used it. LVT defers speculative land holding dilapidate inner city area are returned to productive use reducing the pressure to build on undeveloped site and so reducing urban sprawl. LVT is assessed using market evidence such evidence may comprise both selling price and rentals. Where development already exists on site the value of site can be discovered by various means of which the most easily understood is the resident value, the value of the site is the total value of the property minus the depreciate value of building and other structure.

Secondly when compared to modernly property tax valuation of land involves fewer variables and has smoother gradients then valuation that include improvement. This is due to variation of building style quality and size between lots.

Modern LVT system is alongside other taxes and thus only reduces their impact without removing then completely. In a case or event where a jurisdiction attempted to levy tax that was higher than the entire land owner surplus. It would result in landowner abandonment and a sharp decline in tax.

*A land value tax takes into account the effect on land value of location or of improvement made to neighboring land such as proximity to roads, public works or shopping complex. LVT is said to act as a value capture tax. A new public works project may make adjacent land goes up considerably in value and thus with a tax on land values; the tax on adjacent land goes up. Thus the new public improvement would be paid for by those most benefited by the new public improvements-those whose land value went up most.*12 Thus; a

land value tax would tax socially created wealth ;allowing a reduction in tax and privately created wealth. 13

Experience in Hongkong, China, Taiwan, Australia, Newzealand, South Africa, Norway, Pencylvania and Alaska states & many cities of USA are highly supportive to this approach. Hong Kong is perhaps the best example of the successful implementation of a high land value tax with more than 35% of its revenue from land taxes, and keeps its other tax rates low. (Hong Kong Democratic Foundation, 2008) The Chinese Government has adopted the same policy of facilitating with excellent results.

**OBJECTIVES OF STUDY**

The study is grounded in a belief that our taxation system is ineffective for the general people. It is felt that through the present taxation system our public finance system cannot be improved and concept of inclusive growth will remain a dream. The proposed work has done with the following objectives:

- to make a critical study of the present trends of taxation in developing and developed economies.
- to make an estimation of the literary thinking on taxation.
- to study the tax reform efforts in India.
- to make an assessment of the requirements of inclusive development from the perspective of taxation and public economics.
- an evaluation of the working of the present taxation system in India.
- to provide further directions for improvement in the present Indian taxation system in alignment with inclusive economics.

**HYPOTHESES**

The following hypotheses are tested during the study:

- Income tax on productive efforts or earned incomes is unnecessary, counterproductive and the main source of black money.
- Indirect taxes are more productive and supportive for the economy.
- Land value taxation checks hoarding & speculation in land and property and forces landholders to use land efficiently.
- A tax on land is the easiest and cheapest to collect and cannot be avoided as land cannot be hidden or carried off.

**LIMITATIONS OF THE STUDY**

This study is in the Indian perspective. As an individual researcher my study has limitations of time and cost. Within these limitations every possible effort will be made to make a comprehensive and balanced study of taxation in the Indian setting. The study is also expected to provide support to further studies on taxation, public economics and inclusive development and economy.

**METHODOLOGY OF THE STUDY**

The study is based on mainly on secondary data. For secondary data mainly the publications of public institutions, economic literature and relevant information available on websites of different organizations is used.

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