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**A STUDY ON PROPERTY TAX SYSTEM IN INDIA: AN
ANALYTICAL STUDY ON KALABURAGI CITY OF
KARNATAKA STATE**

Dr. Nagesh Shanmukhappa^{1*} & Mrs. Shwetha Siddanna²

¹Department of Economics, Government First Grade College Sulepeth, TQ Chincholi
Kalaburagi, Karnataka, India.

²Department of Economics, Government Women's First Grade College, Kalaburagi, Karnataka,
India

*Corresponding Author: nageshkolkundi1985@gmail.com

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Keywords

*Property Tax,
Analytical Study,
Kalaburagi City,
Karnataka State,
Property Tax
Structure.*

Abstract

This paper attempts at a Study on property tax system in India, An analytical study on Kalaburagi city of Karnataka State, in the performance of implementing property tax reforms through unit area method of valuation and self-assessment schemes. Kalaburagi is a city where the results of implementation of these reforms were not up to the mark whereas other cities could achieve considerable success. The main objective of the paper is to explain the differences in the extent of the success in achieving the desired outcomes in the city. There has been a decrease in number of assessed properties in Kalaburagi city. The main findings suggest that it is a combination of policy and administrative factors which are responsible to create differences in performances of the city. Optimal progressivity in tax rates, better coverage and



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	collection ratios, better service delivery, better living conditions and a more stable property market are the major factors contributing to a better performance in property tax collection in Kalaburagi.
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1. INTRODUCTION

Taxation is one of the vital tools of fiscal policy which can be used for mobilising resources for capital formation in the public sector. The level of taxation is a critical point to make a state effective and put it on a stream to growth. The single largest source of revenue for most of the governments in the world is the taxes. It is not the exclusive determinant of speedy economic development but it is a great support for an effective state, and may also afford the base for responsible and responsive independent systems. One of the key components of state building is reinforcing the tax system which helps to develop liability relationships between a government and its citizens. The process of development, the revenue generation, resource mobilisation, and taxation underwent a radical change and attained a fresh structural contour all over the world after the emergence of decentralised governance as a development alternative. Thus, the approach to development changed, including people's participation in planning, development and decision making. The swiftness of development was accelerated by the revision of world economies by the process of decentralisation. Unlike before, the development happened from the root level of the society, which strengthened the process too. Decentralisation is the most accepted notion in the modern-day period and is correlated to development and social equality. In the development process, decentralisation is considered as the most extensive one. Through the process of decentralisation, the people will well comprehend the extent of performance that is being carried out by the local governments. The reassignment of responsibilities from central to local institutions may improve the excellence and effectiveness of service provision through better governance and resource allocation. The proximity of local authorities may encourage citizens to take part in collective activities and development programmes and apply more influence on local officials and this will help to lessen corruption and improve accountability.

2. MUNICIPAL PROPERTY TAX STRUCTURE IN INDIA

Since 1993 some states and cities in India have resorted to experiments in property tax reforms. Patna was the first city to undertake property tax reforms in 1993 by shifting toward an area-based valuation system. Around the same time, Andhra Pradesh also adopted a similar system, becoming the first State in the country to embrace the UAM. In 1999, Ahmedabad also undertook property tax reforms by adopting the essential elements of the Patna model. Bengaluru is considered to have the best property tax model in the country while Mumbai's model is ideal for replication in future. The initiatives undertaken by Hyderabad, Bengaluru and Mumbai are presented below.

In Indian federation, the Seventh Schedule of the Constitution assigns the legislative powers of the Union and State governments. Entry in the state list empowers the state governments in all matters relating to local governments, including the constitution of powers of municipal corporations, improvement trusts, district boards, mining settlement authorities, and other local authorities for the



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purpose of local self-government or village administration. Under Article 243-W, the legislature of a State, at its discretion, is authorized to devolve powers to the municipal governments on functions listed in Schedule 12 of the Constitution. Similarly, Article 243-X authorizes the State governments to devolve the power to levy taxes, duties, fees, tolls according to the limits set and procedure laid down by the legislature of the State government. The above assignment system has entailed three important features. First, while there is a separate schedule indicated for the devolution of functions of municipal governments, though the specific function to be devolved and the extent of devolution lies with the state government, there is no separate list of taxes indicated in the Constitution for assignment to the municipal governments. As there is no separate list for local governments, the State governments are required to assign the tax powers to local governments from the State List in the Seventh Schedule. Second, the assignment of functions and sources of finance to municipal bodies is to be done at the complete discretion of State governments. Finally, the local governments are given the power to levy taxes, duties, fees and tolls in accordance with the procedures and limits specified the State governments. Entry 49 empowers the State governments to levy taxes on land and buildings ‘which has been devolved to the local governments. However, in the statues governing the municipal governments, the State governments lay down the procedures for valuation, exemptions and concessions, the floor and ceiling rates of tax and administrative and enforcement mechanisms on matters such as delays, arrears, and evasion. Thus, although taxes on immovable properties are considered to be a local levy, local governments have very limited autonomy in determining the base, fixing the rates and enforcing the tax. Municipal Property Tax is an important source of local revenue in many countries. But urban Property Tax levied by municipalities is an underused source of revenue in India. It has also been argued that the weakness of Municipal Property Tax is perhaps best exemplified by India. It has been argued that Municipal Tax is based on benefit principle as against Wealth and Inheritance Taxes, which are based on the ability to pay principle. Therefore, Municipal Tax is not for distributive justice but for municipal services and self -financing of urban development. Apart from rates that are low relative to the cost of municipal services, setting the tax base is challenging because of the absence of a reliable count of properties. Collection efficiency is low, with only 63 percent of assessed properties actually paying taxes in the large city sample, and it is estimated that this amount to 56 percent of the universe of properties. Even for the house properties actually assessed, poor collection efficiency, at 37 percent of demand for the sample, along with the non-indexation of property values have exacerbated the problem. Urban areas generate about 65 per cent of the GDP in the country. The Indian government (Centre and States combined), which spends only around 6.7 percent of GDP on its social sectors (such as education, health, water and sanitation) compared to 14 percent of GDP for OECD countries on average, can gain considerably from a progressive Property Tax. Unfortunately, reliable data on revenue collections from property tax by various municipal bodies is not available in India. Very few municipal governments in the world update the property values for taxation purposes every year. The simple fact is that whoever is the base



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taken –the annual letting value, capital value or an area-based value, the value finally taken as the base is presumptive. Given that a representative value has to be taken for each locality, the value chosen will be the minimum rather than average. In other words, any presumptive value of the tax base will be accepted only when this is substantially lower than the actual value of the properties. Furthermore, increases in the market values for the property owners is only an accrual and will not be realized unless they sell their properties and therefore, it will be difficult to include higher value of the property that has accrued and not realized in the tax base. Not surprisingly, even as the immovable property values in urban areas have been increasing at a rate much faster than general inflation rate and even as there has been significant increase in the number of houses in urban areas, the revenue productivity of property tax has continued to be low.

3. REVIEW OF LITERATURE

Song, Yan; Zenou, Yves (Oct 2005):

This article attempts a formal analysis of the connection between property tax and urban sprawl in U.S. cities. We develop a theoretical model that includes households (who are also landlords) and land developers in a regional land market. We then test the model empirically based on a national sample of urbanized areas. The results we obtained from both theoretical and empirical analyses indicate that increasing property tax rates reduces the size of urbanized areas. Saulius Raslanas, **Edmundas Kazimieras Zavadskas & Arturas Kaklauskas (Oct 2010):**

Saulius Raslanas, Edmundas Kazimieras Zavadskas & Arturas Kaklauskas (Oct 2010):

This article on issues related to real property taxes has two parts. Part One deliberates the concept of sustainable development as well as Lithuania’s real property taxation system and possible ways to improve it. Part Two analyses various methods of land assessment. The objectives of this paper are to analyse the importance of a tax on real property within the taxation system of Lithuania and to plan the implementation of such a reform in the future. A tax on land is presented as one alternative for a reform of the taxation system on real property in Lithuania.

Roy W. Bahl (2009):

This paper was prepared by Roy Bahl, Regents Professor of Economics, Andrew Young School of Policy Studies at Georgia State University. It was produced for the Fiscal Reform and Economic Governance project, a Task Order under the SEGIR Macro II IQC funded by the Office of Economic Growth in USAID’s Bureau of Economic Growth, Agriculture and Trade. The author would like to acknowledge research contributions to this paper from Musharraf Cyan. Mark Gallagher and Steve Rozner reviewed drafts of the paper, made final edits and formatted the paper for publication.

Ramakrishna Nallathiga (March 2021):

Property tax is an important statutory tax and only lien with statutory powers to attach property. Yet, most of the Indian cities do not perform well on property tax revenue mobilization. The ARV basis of taxation is considered to be one of the reasons for the under-performance on revenue mobilization. Mumbai is the first Indian city to reform property taxation by adopting ‘Capital Value’ based system of property tax. It successfully implemented the property tax reform, got the results of revenue



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improvement due to the simplicity associated with the computation of property tax and easier understanding of the capital value of property by citizens. Given the success of this taxation reform other Indian cities can also move towards its successful adoption.

4. OBJECTIVES OF THE STUDY

The present research study attempts to fulfill the following objectives:

1. To know the property tax system in India.
2. To understand the analytical study on Kalaburagi city of Karnataka State.

5. METHODOLOGY

The study was conducted primary data as well as secondary data. This study focuses on a study on Pproperty tax system in India, an analytical study on Kalaburagi city of Karnataka State. From Kalaburagi city simple random samples has collected for the purpose of the study. 40 respondents from Kalaburagi city were surveyed with the help of well-structured interview schedule and questionnaire. Only officials and elected members considered as respondents for this study.

6. DATA ANALYSIS AND INTERPRETATION

Table No.1 Issues faces by KMC for the timely collection of Property taxes

Issues	Respondents	Percentage
Lack of staffs	14	35.0
Practical difficulties	21	52.5
Over duty	3	7.5
Do not have exact guideline	1	2.5
Not insists by the government	1	2.5
Total	40	100.0

Sources: field survey

Above table indicate that the issues faced by KMC for the timely collection of Property taxes. Out of 40 respondents, 14 (35%) employees said lack of staffs in KMC faced for the timely collection of Property taxes, major 21 (52.5%) respondents were told Practical difficulties are main issues to collect tax, 3 (7.5%) workers told over duty should be in KMC then tax collect without any issues, only 1 (2.5%) respondent said do not have exact guideline from KMC and only 1 (2.5%) person told not insists by the government of Karnataka to Kalaburagi Municipal Corporation.



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Table No.2 In your opinion what is the relevance of E- governance in the smooth functioning of tax

Opinion about E- governance	Respondents	Percentage
Very high	6	15.0
High	26	65.0
Low	2	5.0
Very Low	2	5.0
No relevance	4	10.0
Total	40	100.0

Sources: field survey

The above table explained that the relevance of E- governance in the smooth functioning of tax in KMC. Out of 40 elected members and officials, 6 (15%) respondents told very high in tax, major 26 (65%) respondents were told high relevance of E- governance in the smooth functioning of tax in KMC, only 2 (5%) employees said low relevance of E- governance in the smooth functioning of tax, 2 (5%) workers told very low relevance of E- governance in the smooth functioning of tax I KMC and 4 (10%) respondents told no relevance.

Table No.3 How much is the practicability in implementing the system that, property tax also should be the same year like any other tax?

Implementing the system	Respondents	Percentage
Could be implemented completely	2	5.0
Could be run smoothly	19	47.5
Implementation would Face difficulty	8	20.0
Could not be implemented	9	22.5
Others reason	2	5.0
Total	40	100.0

Sources: field survey

The above table portrays the implementing the system that, property tax also should be the same year like any other tax. Out of 40 respondents, only 2 (5%) people told it could be implemented completely, maximum 19 (47.5%) elected members and official told it could be run smoothly, 8 (20%) respondents told it implementation would Face difficulty, 9 (22.5%) workers told that it could not be implemented and only 2 (5%) respondents said other reasons for the implementing the system that, property tax also should be the same year like any other tax.



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Table No.4 Property Tax Collection From 2014-15 to 2021-22

The above table illustrate the Property Tax Collection of Kalaburagi municipality under revenue fund, water supply and drainage fund and elementary education fund throughout the study period. Further the property tax coverage ratios were arrived at for assessing the proportion of property tax. The total collection of the municipality has been increased from Rs. 1375.3 lakh to Rs. 2027.56 lakh within a period of 8 years at a compounded annual growth rate of 5.70%, whereas the proportion of property tax.

Collected Secondary Data Analysed Related to Kalaburagi Municipal Corporation

Table No.4 Property Tax Collection From 2014-15 to 2021-22								
Rs-In Lakhs								
Sl.no	Name of the ULB	Year	Opening Balance	Current year demand	Total demand	Total collection	Balance	Percentage (%)
1	2	3	4	5	6	7	8	9
1	Kalaburagi Municipal Corporation	2014-15	865.19	1162.00	2027.19	1375.3	651.89	67.84
2		2015-16	651.89	1192.00	1843.89	1442.32	401.57	78.22
3		2016-17	401.57	1192.00	1593.57	2020.07	-426.50	126.76
4		2017-18	195.00	2100.00	2295.00	2039.320	255.68	88.86
5		2018-19	255.80	2600.00	2855.80	1664.86	1190.94	58.30
6		2019-20	1190.94	2600.00	3790.94	2184.86	1606.08	57.63
7		2020-21	1606.48	3109.00	4715.48	2322.99	2392.49	49.26
8		2021-22	2392.49	3264.45	5656.94	2027.56	3629.38	35.84
		CAGR	15.6%	15.9%	15.80%	5.70%	27.80%	-8.70%
		Mean	944.92	2152.43	3097.35	1884.66	1212.69	70.33
		SD	757.66	876.74	1479.9	348.12	1307.27	28.12
		CV	80.18%	40.73%	40.73%	18.47%	107.79%	39.98%

Sources: Annual Accounts of respective Kalaburagi Municipal Corporation

It implies that the share of property tax on total collection has gone up compared to other sources of income such as non-tax incomes, grants etc. It can be inferred that either increase in collection on every year is being compensated by the increase in the property tax demand or the income is curtailed /unpaid



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due to want of funds/no increase in other source of income also. There is no steady increase in the yearly expenditure throughout the 8 years as against the routine /usual.

7. CONCLUSION

In India the importance of property tax for municipalities manifests itself in the form of huge revenue potential. It represents the autonomy and strength of local “self-government” and participatory democracy. It has tremendous potential to raise revenues for city services and development. However, the tax has been grossly neglected by cities in India for decades. Property tax has been subjected to under-exploitation due to systemic problems as well as inefficiencies in municipal tax administration. Property tax collection in India has not kept pace with the demands of urbanization and economic growth.

At present, property tax is the only major municipal tax and its reform is mandatory to pull Indian cities out of the “rich city-poor city government” phenomenon. Property tax reforms will bring with it revenues to undertake planned urban infrastructure development projects, apart from meeting the costs of collective civic services. Cities have agglomeration economies and this leads to a substantial increase in land and property values, rents, number of commercial properties etc. If property tax is designed properly and collected efficiently then it can prove to be a revenue-productive and buoyant tax to finance India's urban transformation.

It implies that the share of property tax on total collection has gone up compared to other sources of income such as non-tax incomes, grants etc. It can be inferred that either increase in collection on every year is being compensated by the increase in the property tax demand or the income is curtailed /unpaid due to want of funds/no increase in other source of income also. There is no steady increase in the yearly expenditure throughout the 8 years as against the routine.

8. AUTHOR(S) CONTRIBUTION

The writers affirm that they have no connections to, or engagement with, any group or body that provides financial or non-financial assistance for the topics or resources covered in this manuscript.

9. CONFLICTS OF INTEREST

The authors declared no potential conflicts of interest with respect to the research, authorship, and/or publication of this article.

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