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How Much Do You Love Pakistan: A Property Tax Revenue Simulation for a Municipal Revolution in Punjab

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GINI

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THE PAKISTAN STRATEGY SUPPORT PROGRAM (PSSP) WOKRING PAPERS

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ABBREVIATIONS AND ACRONYMS

AC	Assistant Commissioner
ADB	Assistant Excise and Taxation Officer
AIT	Agricultural Income Tax
ARV	Annual Rental Value
AV	Annual Value
BOR	Board of Revenue
CVT	Capital Value Tax
CDC	Central Daily Collection
DDOR	Deputy District Officer Revenue
EDO	Executive District Officer
E & T	Excise and Taxation
ETO	Excise and Taxation Officer
FBR	Federal Board of Revenue
FDI	Foreign Direct Investment
FY	Fiscal Year
GARV	Gross Annual Rental Value
GDP	Gross Domestic Product
GINI	Governance Institutes Network International
GST	General Sales Tax
IFPRI	International Food Policy Research Institute
KIIs	Key Informant Interviews
KPK	Khyber Pukhtunkhwa Province
LG	Local Government
LGO, 2001	Local Government Ordinance 2001
LLL	Lal Lakeer Locality
LRT	Land Revenue Tax
NFC	National Finance Commission
RGST	Reformed General Sales Tax
RIT	Rental Income Tax
TMA	Tehsil Municipal Administration
SME	Small and medium enterprise
UIPT	Urban Immoveable Property Tax
VAT	Value Added Tax
WB	World Bank

EXECUTIVE SUMMARY

Governance Institutes Network International (GINI) entered into agreement as a collaborating institution with the International Food Policy Research Institute (IFPRI) to conduct property tax policy research to support the 2011 "Framework for Economic Growth" developed by the Planning Commission of Pakistan at that time. Over the course of this 12-month project, spanning between 1st July 2012 and 30th June 2013, GINI conducted empirical tax policy research on property taxation primarily focused on Tehsil Shakargarh, District Narowal of Punjab Province.

The methodology for this research employed, firstly, a comprehensive review of literature regarding property taxes in Pakistan. The literature review draws upon numerous sources concerning both taxes in Pakistan and international best practice. It includes the relevant work of academia, international development organizations, regional development organizations, and federal and provincial government departments.

The literature review was followed by an extant overview of the Urban Immovable Property Tax (UIPT) and the Local Rate System (LR) in Punjab. This review is comprised of a legal and procedural overview of the UIPT and Local Rate, followed by trends analysis of actual collections using data from our targeted Tehsil, Shakargarh. GINI sourced the UIPT data from FY 2008-2012. Local Rate data from FY 2000-2012 was analyzed.

A number of important issues and subsequent research questions arose during this phase of the study: weaknesses in local property tax systems arising from areas such as inter-governmental fiscal relations; weaknesses in valuation and assessment of rating areas; issues of public non-compliance; the negative impact of exemptions and preferential treatments; and anomalies in informal land markets arising from such issues as interest group influences, formal land registration systems, recognition of informal transactions, and the ways in which informal transactions are carried out, among others.

These issues were then substantiated by a series of Key Informant Interviews (KIIs) in Tehsil Shakargarh and District Rawalpindi. Even though Rawalpindi was not included in the data analysis, GINI wanted to get a better idea of the metropolitan issues and compare tax procedures. Participants in the KIIs included current and retired taxation officials, land owners, and local elected representatives. This report contains the complete analysis of the KIIs.

The report also presents various simulations aimed at assessing the potential revenue effects of changing UIPT tax slabs in valuation tables, extending the UIPT to newly developed areas of Lal Lakeer Localities[1] (LLLs), increasing statutory Local Rate tax, as well as removing certain exemptions. Finally, it highlights some important recommendations to be considered by policy makers and legislators in legal and procedural matters. The policy recommendations are aimed to address the serious structural and administrative short comings of the UIPT and Local Rate system of Punjab.

Stress analyses simulations were conducted of potential UIPT revenue from various policy options. The main focus of these simulations is to inform the policymakers and economic managers of the potential revenue by reforming the UIPT legislation and regulatory mechanisms, keeping in view the political and technical feasibility of each option. The policy options involved in this stress analyses include: removing exemptions in the areas currently subject to the UIPT in Shakargarh and updating revenues for inflation; implementing the UIPT in the LLLs of Shakargarh with possible reduced owner vs. rented differentials for households and commercial shops (by increasing the valuation rates of owner occupied properties) and accounting for housing growth through 2011; adjusting the UIPT demand in LLLs for inflation to reflect indexed valuation rates while reducing the differentials and accounting for housing growth as above; and adjusting the valuation rates as per actual market Annual Rental Value (ARV) of residential and commercial properties while accounting for growth in the tax base.

In FY 2011-12, the total UIPT revenue (both residential and commercial) from Shakargarh rating areas was Rs. 5,167,230 out of which 79.8% was generated from commercial property. This revenue is the result of outdated UIPT valuation tables. If we index this current UIPT revenue using inflation from 1998 to 2011 to reflect more up-to-date rates, the total potential UIPT revenue results in Rs. 20,043,468, which more accurately reflects prevailing market rents of residential and commercial properties.

[1] Lal Lakeer Locality is a built up area in a village on an agricultural land where communities are living permanently.

The UIPT revenue generation potential for LLLs in Tehsil Shakargarh from simulating the different policy options ranges from a minimum of Rs 87.21 million to Rs. 4,033.12 million, primarily from taxes on houses. At the same time, it is important to note here that the 2013-14 annual development budget allocation for the Tehsil Municipal Administration of Shakargarh is Rs. 130.8 million, and the total health budget for district Narowal is Rs. 658.77 million. This potentially huge surge in revenues can enable a local government to provide its citizens with quality education and health facilities as well as a range of municipal services, from improving civil infrastructure to introducing poverty alleviation programs.

This study also calculates and presents the residential UIPT revenue effects if the above simulated policy options are implemented in the whole Province. These calculations only show the revenue effects of implementing residential UIPT in Punjab as the data for total commercial properties in Punjab province was not available. The potential positive revenue shocks as a result of choosing various UIPT policy options range from Rs. 7.21 billion to Rs. 289.66 billion. This alone can fund the entire National Plan of Action 2013-2016 for achieving Universal Primary Education in line with the MDGs Acceleration Framework which will cost Rs. 188.68 billion over the period of three fiscal years.

The Local Rate is a local land tax separate from the Land Revenue Tax. It is levied on cultivated agricultural land and is fixed at Rs. 2 per acre for irrigated land and Rs. 1 per acre for non-irrigated land, assessed twice a year during Rabi and Kharif crop seasons. Simulations for the Local Rate of Tehsil Shakargarh reveal that the 53,110 acres of tax exempt land resulted in a total revenue loss (Rabbi and Kharif crop) of Rs. 131,200 for the year 2011-2012. The Local Rate of Rs. 2 (irrigated) and Rs. 1 (non-irrigated) per acre/crop season have not been adjusted since 1983. Prior to that, they were not revalued from both equal to Rs. 1 since the early 1900's. The second Local Rate simulation inflates this tax from 1949 values to 2011 inflation adjusted values of Rs. 232 per acre/crop season for irrigated land and Rs.114 per acre/crop season for non-irrigated. This naturally leads to an enormous swell of Rs. 37,280,392 in revenue generation. Remove exemptions, the total potential revenue from Local Rate revaluation becomes Rs. 52,271,612. These simulations for Tehsil Shakargarh illustrate the revenue generation potential for the province of Punjab from the Local Rate.

The current case study exploratory research on UIPT and Local Rate in Tehsil Shakargarh provides quite exciting results. This is especially true when the Government of Punjab is in the process of revamping its UIPT and Local Rate system. However, the limited budget of the project compelled us to sideline the evaluation of the related Transfer Taxes and Mutation Fees as they have entirely separate administrative structure, and it was impossible to cover both. The research can be extended with enhanced scope and geographical coverage. GINI recommends implementing this research in all 36 districts of Punjab province. This will help in comparing similarities and differences of laws, administration, and actual practices among UIPT, Local Rate, and Transfer Taxes which will be helpful in understanding the property tax systems in Punjab province holistically and in greater detail. This research could also explore possibilities of a single reform package to be proposed to the provincial government so that an efficient and up-to-date property tax system can be established in Punjab, boosting revenues of the province.

INTRODUCTION
Problem Statement and Significance of Study

This project has conducted empirical tax policy research on property taxation with regard to growth potential of cities, as they are engines of growth and create possibilities for agricultural and other property taxation in rural areas. Specifically, international experience suggests that weak local property taxation directly impacts the vision for 'creative cities'. First, underdeveloped land and rental markets discourage investment. FDI, as prioritized by the Planning Commission's 2011 "Framework for Economic Growth", is attracted to large cities by "tax incentives", as borne out by the experience of Shanghai, China. In Pakistan the property tax regime serves as a disincentive to private investment. Rental markets are thin owing to "*the multiple taxes paid by owners of occupied properties*". The fact that these are treated as "*an expense against taxable income and not as tax credits*" raises the effective tax rate on rental income, which in turn reduces the supply of rental units and inflates their prices. High stamp duties and registration fees on rent lease documents further add to the transaction cost.

Second, weak property taxation allows growing land informality. The Framework (2011) highlights sub-optimal land use and the under-developed land market in cities as key constraints. Land informality is the leading cause of these problems. Enterprises operating on informal land cannot access mortgage-backed finance because 'land mafias' grab prime locations at sub-market prices, distorting competition in key industries such as retail and housing construction. It also limits the land available for housing for the "*poor and middle class*" driving the growth of "*katchi abadis (Slum Areas)"*, as noted by the Framework.

Informal land development can be reversed through effective property taxation in a number of ways. Levied on land value, property taxes can potentially pull the existing stock of serviced land to the market. Enterprises and workers excluded from social services and state attention would thus be brought into the formal sphere. It may also bring down land prices through the capitalization effect, placing it within the affordability limits of entrepreneurs and SMEs.

Additionally, without effective property taxation to establish formal property rights, key opportunities to enhance employment intensive growth, which leads to more productive jobs, become difficult to avail. For instance, the World Bank advocates the provision of access to housing finance to households in informal settlements as a key solution, which can trigger housing industry growth that may bring 3.2 million new jobs over the next decade (World Bank, 1996). In India, such proposals are already in the pipeline, with the potential to build houses for up to 28 million households. However, without effective property taxation to establish formal property rights, housing finance will remain difficult to access.

Third, under-taxing property limits revenue. For example, the Urban Immovable Property Tax (UIPT) rates in Pakistani cities are "*kept low because ownership is concentrated among the elites*," as pointed out by the Framework. If reformed, this tax is an exceptional revenue earner. For instance, Peshawar was able to increase collection under this head by 261% from FY 1997-2001, through fresh assessment of taxable property and adjustment in the assessment and classification schedules. Unsurprisingly, the latest tax gap i.e. the gap between the actual tax collection and the actual potential revenue as reported by the FBR is 79% (Raza, 2012).

Despite the strong prevalence of these problems in Pakistan's urban areas, research on the issue is limited to a handful of studies on informal land and housing markets. An exception is the World Bank Tax Policy Report, 2009. Even this report examines property taxes more from the perspective of fiscal relations between the provincial and local governments in the backdrop of the Local Government Ordinance 2001, rather than through a public finance or fiscal policy lens, which is required. Other studies mention property taxes as a tangential footnote in mainstream research falling under rule of law and land administration disciplines.

In addition, international experience suggests that policy processes in their political dimensions are as important as policy outcomes. Yet, analysis of revenue systems from political economy perspective remains sparse in Pakistan. Without it, narrow interest groups with political influence may continue to capture policy agendas.

Scope of the Study

This study focuses on the property tax system through a literature review, a legal and procedural review of the property tax system in Punjab and data collection primarily from one rural Tehsil of Punjab for the Urban Immovable Property Tax (UIPT) and the Local Rate.[2] Serial data for the two taxes and a historical analysis of UIPT and Local Rate from Tehsil Shakargarh are presented. GINI sourced the UIPT data from FY 2008-2012, similarly, Local Rate data from FY 2000-2012 was analyzed.

During the latter six months of the project (January-June, 2013) GINI conducted Key Informant Interviews (KIIs) to highlight the weaknesses in the local property tax systems arising from areas such as inter-governmental fiscal relations; classification, valuation and assessment mechanisms; political factors; compliance culture; tax administration functions, especially record-keeping; and exemptions and preferential treatments.

Finally, simulations were conducted to show the potential revenue increase from a variety of urban and rural property tax policy options.

Scheme of Study

This report is divided into eight constituent sections which are as follows:

- The first section is the introduction which provides background and significance of this research. Study scope and its methodology are described.
- The literature review is presented in the second section.
- Section three covers the UIPT and Local Rate governance in Punjab province. Within this section, an overview of the UIPT and Local Rate is presented, including their legal and procedural review. Also, the collection and exemption trends of the UIPT and Local Rate are analyzed in this section.
- The fourth section covers the results and findings of the KIIs conducted with the respondents.
- Fifth, we present various simulations which model revenue effects of using various policy options such as changes in UIPT Slabs as well as Tax Base.
- In light of the key results and findings, some policy recommendations and recommendations for further research are provided in the sixth and final section.

The Annexes are: Annex 1 - Assessment procedure provided in The Punjab Land Revenue Act,1967 (W.P. Act xvii of 1967); Annex II - The Punjab Local Rate (Assessment & Collection) Rules, 1980; Annex III - Legal Definitions of Rating Areas; Annex IV - Assessing authority of Sialkot rating area by July 31, 2012 for service upon all tax payers of the Sialkot Rating Area of the District Sialkot; Annex V- Valuation Tables for Punjab and Tehsil Shakargarh**;** Annex VI – Estimation of Commercial Properties (Shops) in Lal Lakeer Localities of Shakargarh; Annex VII – Information Related to UIPT and Local Rate.

Methodology

For the purpose of the present research, GINI employed the following methods.

First, the review of literature on property tax governance included the relevant work of academia, international and regional development organisations, and federal and provincial government departments.

Second, actual collections as well as assessments of UIPT data from one urban area and the Local Rate from the rural area of Shakargarh Tehsil have been collected. The analysis of the property tax data involved:

[2] For readers not familiar with Pakistan's tax system, the Local Rate is a tax on agricultural cultivated land which is levied in both Rabi and Kharif crop seasons.

- A historical analysis of the trends of collection and efficiencies with respect to policy changes
- A comparison of the divergences between the rural Local Rate and the UIPT
- An assessment of the collection efficiency of the two taxes and policy recommendations.

The literature review was substantiated by a series of KIIs at Tehsil Shakargarh and District Rawalpindi. Boundary analysis (a problem structuring technique) was applied so that the number of ideas, opinions, and facts are exhausted. Snowballing technique was applied where each Key Informant has yielded new contacts; this method helped as most respondents at political offices try to avoid commenting on tax topics.

Data gathered through the KIIs with relevant stakeholders has been analyzed to identify:

- Weaknesses in local property tax systems arising from areas such as inter-governmental fiscal relations; classification, valuation and assessment mechanisms; political factors; compliance culture; tax administration functions, especially record-keeping; exemptions and preferential treatments; among others.
- Anomalies in informal land markets arising from issues such as interest group influences, formal land registration systems, recognition of informal transactions, and the ways in which informal transactions are carried out (e.g. subdivision; renting and sub-renting; simple occupation, etc.).
- Policy recommendations that address weaknesses in property tax systems which cause or worsen informal land development and the associated anomalies in informal land markets in Pakistani cities.

Finally, policy simulations were conducted to demonstrate the massive shock to tax revenue which could be gained from different policy options. These options were based in the information gained from the literature review, historical analysis of collection data, and KIIs. To focus on those issues which were seen as most pressing, the simulations included removing current exemptions, extending the UIPT to built up Lal Lakeer Localities that currently are not subject to this tax, closing key differentials, and an overall updating of value tables to reflect current values.

LITERATURE REVIEW

In most parts of the developed world, the largest source of income for urban local bodies is property tax. The concept behind this tax is that the local body provides infrastructure for use by property owners and duly recovers the cost of maintaining the infrastructure from them.

Property is a good indicator of the ability to pay tax. The advantage of this tax, when it is properly computed, is that each property owner pays a small, affordable amount used to maintain common services like sewerage, street lighting etc., making each property more usable and valuable (Government of Punjab, Provincial Finance Commission Report, 2002-03).

In every country, property tax is a mainstay of local government finances, and reform in this area should help in raising revenue. At the local level in Pakistan, there are two taxes of some significance; taxes on property and Octroi[3] levied by urban local bodies. The major problems with urban property taxes in many countries are undervaluation of the properties and many other weaknesses including the high rates of stamp duties and registration fees, rent control acts, and urban land ceiling acts. Undervaluation of immovable property is exacerbated by the lack of organized property and good governance of local governments. Govinda M. Rao (2005) argued that the goal of ultimate reform in India depends on the development of organized property i.e. formalizing the residential and commercial properties.

The final report of the panel of economists entitled "Medium-Term Development Imperatives and Strategy for Pakistan" (2010) proposed rationalization of stamp duties, reforms in zoning/building regulations, property taxation of rented properties, revisions in rent control legislation (especially its pro-tenant bias), better contract enforcement, and secure land titling systems to improve housing and commerce. Property related taxes such as the UIPT and the tax on the transfer of property constitute the second largest source of revenue for urban councils in

[3] Octroi is a tax imposed by local governments in Pakistan on commodities imported into the municipal limits for local use, sale, or consumption. It is levied generally by urban local councils on goods coming in by all modes—sea, land, and air transport (Pasha, Khan, & Ghaus 1995).

Pakistan. Bahl (2009) found that property related taxes yield higher revenues in the larger cities such as metropolitan and municipal corporations. The only tax levied by both urban and rural councils is the tax on transfer of property, which is levied at the time of sale on immovable property. The assessment is based on the total value of the property at the time of the transfer. However, on further inspection, it was found that this research is based on legislations prior to the introduction of the model Punjab Local Government Ordinance of 2001 (LGO, 2001). Under the LGO, 2001 the administration of UIPT and Local Rate were also allocated to Tehsil, though there were problems with its implementation.

Aisha Pasha et al (1998) demonstrated the major revenue contributors like stamp duties, motor vehicle tax, land revenue, and property tax have a slow growth; indicating inelastic character of provincial taxation structure. The authors mentioned that the UIPT lacks proper administration, which results in the exploitation of less than one-fourth of the potential tax base. Information asymmetry at the supply side of UIPT is also a major factor for a narrow tax base. Thus both the provision and collection of up to date information are very important to increase the yields from existing property tax payers. At the same time, the database of this up to date and correct information could also help for widening the tax base of both Income and Sales Taxes, i.e. tax avoidance and evasion behavior could be better detected by cross-referencing sales and income tax records with such a data base. This also requires that the tax administrations at the federal and provincial levels should be vertically integrated.

By sharing the "Lessons from the Asian Experience", Hafiz A. Pasha (1997) argued that in Pakistan provincial governments only share the property tax with local governments, while in India these arrangements extend to include the motor vehicle tax and the entertainment tax. Excises are prevalent both at the national and sub national level, except for Indonesia where these are the exclusive responsibility of the national government. The property tax generally lies within the ambit of fiscal powers of state/local governments in Pakistan, India, and the Philippines but not for Indonesia. The lack of fiscal powers with local governments, due to pre-emption of conventional local taxes like the property tax and the motor vehicle tax by state/provincial governments and absence of proper transfer arrangements, have led India and Pakistan to resort to distortionary local taxes, such as Octroi; a check post based levy which impedes internal trade and violates the principle of common market and also is a source of corruption and rent seeking.

The share of the property tax in Pakistan has reduced over time due to administrative weaknesses. In the annual report of the state bank of Pakistan (2007-2008), it is reported that the share of the property tax in provincial taxes was 9.1 billion rupees in 2006, but it declined to 3.5 billion rupees in 2007 and again in 2008 it was 4.1 billion rupees.

Umar Wahid and Sally Wallace (2008) are of the view that the capital owners bear no burden of property tax on capital rather the tax is borne by renters, consumers, and labor. The benefits of the property tax is equal to benefits received for the public services funded by the property tax. In this context, individuals search for jurisdictions that meet their demand for public goods.

Agricultural Taxes

According to Chaudhary (1999), the agricultural income tax is an extremely divisive issue among government officials' circles as well as researchers and economists. Only two commissions (Pakistan 1960, 1993a) have recommended it. A general consensus among Yaqub (1971), Chowdhury (1971), Khan (1991), and World Bank (1999) has emphasized the revoking of land revenue system in favor of land tax. A number of economists such as Bird (1974), Ahmad and Stern (1989), Bird and Oldman (1990), and Chaudhry and Maan (1993), have shown dissatisfaction with agricultural income tax as an effective tool of taxation. They are of the view that there must be less pressure on the need of agricultural surplus taxation as it will reduce the productivity of agricultural sector. They argue that traditional methods of cultivation yield low production, and high costs of production discourage the efficiency of agriculture sector in the developing countries.

In "Political Economy of Land Tax in Pakistan", Qureshi (1986) studied 37 districts.[4] The ratio of land taxes to district income was regressed on gross and net district agricultural incomes per agricultural laborer. The values of the elasticity of tax-income ratio calculated at the mean value of district per capita income were greater than 2.

[4] These districts are under the Punjab and Sindh land systems.

This implies that the land tax is highly progressive between districts, and these findings show some evidence that support the conventional wisdom (i.e. the need for taxation of agricultural lands). This progressive land tax also has a favorable impact on agricultural productivity and negates the general belief that land taxes in Pakistan are regressive and inequitable. The author, taking the tax system as a whole, has shown that the agriculture sector accounted for the payment of 35-46 percent of total tax revenue in Pakistan.

A common consideration about the land is that landlords do not use their land resources efficiently, thus resulting in adverse effects on the real output of the economy. The Prime Minister's Task Force on Agriculture (1993), reports that the large and prosperous farmers are classified by underutilization and inefficient use of land resources. The cultivation intensity of land varies inversely with farm size. Hence, it is argued that a high tax rates under agricultural income tax will compel the landlords to use their land more intensively and proficiently.

Punjab UIPT

In Punjab the provincial government has set an initial property tax rate of 20% which is levied on the basis of annual rental value (ARV). There is a 5% surcharge on properties over Rs. 20,000 ARV in the 1958 UIPT Law (Nabi & Shaik, 2011, and Bhal, Cyan and Wallace, 2008). With the recent amendment to the Punjab LGO, 2001, municipalities (Tehsil Municipal Administrations, TMAs) have been granted the authority to set their own rates (subject to the regular strictures on setting tax rates). While TMAs now have a broader mandate, few have been willing to exercise it. So, essentially, provincial rates remain in effect until local governments take the initiative to set different rates (World Bank, 2007).

Nabi and Shaikh (2011) explored some of the factors which are responsible for the inefficient property tax system in Punjab. A plethora of problems were identified such as tax structure, administrative flaws, tax culture, attitude of tax payers, and a lack of political will that are attributed to evaluation, collection and incentives, exemptions, and coverage. The World Bank (2006) study about property taxation in the large cities of Punjab states that, "*The present Punjab legislative and institutional framework reflects both good and bad practices, and combines conflicting fiscal and social policy objectives. However, the net effect is to constrain the performance of the property tax as a buoyant source. This calls for an urgent need for a political consensus on a key policy issue if the property tax is expected to generate substantial local revenue."* The study concluded that no major legal changes are required for enhancing effectiveness of the property tax system, but rather implementing current rules would suffice. However, The World Bank Sustainable Development Department South Asia Region, in a study titled "Property Taxes in Large Cities of Punjab Province, Pakistan" (World Bank, 2007), concluded that the property tax plays a negligible role in Punjab local revenues. UIPT is not a real local tax and yields very low local revenues by international comparison. Hence it recommended that the reform agenda should be comprehensive and coherently link to needed measures.

Tax Compliance Issues

The property tax system is very weak in developing economies like Pakistan. The former US Secretary of State Hillary Rodham Clinton mentioned in a 2010 Congressional hearing (Walsh, 2012):

"They don't tax income. They don't tax land. And a lot of the wealth is held in these huge feudal estates."

A recent report published by the Center for Peace and Development Initiatives and the Center for Investigative Reporting in Pakistan found that just 126 of the country's 446 federal lawmakers filed income tax returns in 2011 (Cheema, 2012). The December 2012 report claims that most of the Parliament members are "tax dodgers". A tax expert, Ikram ul Haq, refuted this claim in a recent New York Times article stating that most members of parliament automatically pay taxes on their salaries, however, he identified the declaration of income from land and other assets as a serious problem. "*Some politicians do not declare their extra income, or grossly underestimate it*", he said (Walsh, 2012).

Hafiz Pasha and Aisha Pasha (1988) investigated the buoyancy of provincial tax revenues in Pakistan and found that tax rates have been stagnant during the last 15 years. The study concluded that poor fiscal efforts are attributed with the low revenue generation within the provinces. In major cities, people involved in commercial activities do not formally register due to fear of paying property tax. This creates the problem of an undocumented economy. Property prices and tax bases for residential areas are smaller than industrial areas in developing countries. The tax base of large-scale industry is limited and taxation of commercial property is restricted by the high degree of fragmentation and informal nature of trading activities. Property taxes cannot fetch adequate revenue for local government finance as land prices of publicly developed plots are low. However, the main source of resource mobilization in small cities are the non-tax revenues like upgrading of public transport terminal facilities, recreational facilities (for rural households), farm services-cum-community centers, weigh bridges (at product markets), construction of guest houses, development of markets for livestock products, for general trading purposes, etc. In the same study they proposed the stamp duty, capital gains tax and property tax (either not included in the local bodies or blocked by provincial governments) as a buoyant tax base.

Similarly results have been depicted in their study "Local Government Resource Mobilization" (March, 1995) in which it has been identified that the larger contribution in Octroi revenues is from food items in the case of smaller cities. This makes the Octroi revenue tax regressive in smaller cities and towns. The study proposed that the local tax structure could be more balanced in terms of incidence if the share of property tax in revenues could be increased significantly. The authors have identified a comparison of Octroi tax and property tax revenues for lower, lower middle, upper middle, and upper class in different provinces of Pakistan.

In a study by Hussain and Rana (undated) titled "A Comparison of Fiscal Effort by Provincial Government of Pakistan", the authors have analyzed the incidence of different taxes in different provinces of Pakistan. It was found that fiscal effort[5] for property tax in Punjab is highest as compared to other provinces. The provinces of Sindh and Baluchistan have potential for improvement in property tax as well as agricultural income tax base. There is much need for increasing the fiscal efforts in property tax, land revenue, and electricity duty.

After the fiscal decentralization, the maximum potential for increasing the revenues, property tax can play a vital role for financial resource generation. It is an important potential field as the records of lands in urban areas, as well in rural areas, are very inefficient. Hence the property tax Act Ordinance, such as UIPT, cannot produce the required tax revenues. Such discussion has been conducted by Bahl et al (2008) which found that the UIPT could not achieve the targets due to administrative drawbacks. So, four reforms have been proposed for improving the tax structure of UIPT. These are: appropriate targets for provincial tax revenues, structural reforms for further decentralization goals, special incentives for the provinces to enhance tax revenues, and feasible implementation.

Recent developments in the 7th NFC Award and passage of the 18th amendment to the Constitution have changed the landscape of fiscal arrangements in Pakistan. Determining the vertical (i.e. from federal level to provinces) and horizontal (i.e. inter-provincial) distribution have implications for the under-explored revenue base of the provinces. In this context, Nabi and Shaikh (2011) suggest that the federation's decision to increase fiscal transfers to the provinces should allocate more funds for providing quality public services such as health, education, drinking water, and sanitation. The provinces, fully accountable for service delivery, will have an incentive to reform the provincial tax base, of which the property tax is an important component.

The State Bank of Pakistan report for the annual plan (2012-2013) has proposed that provincial governments maintain a focus on their own resources in the light of 18th Amendments scenario. Similarly the International Monetary Fund Staff Country report (IMF, 2011) proposed enhancing tax assignments and shares in the local government revenue that the UIPT and other entertainment and professional taxes could be given to Districts.

International Evidence

O.M. Mathur (2009) in his study "Urban Property Tax Potential in India" described two principal purposes: to estimate the property tax potential in India and to suggest measures for tapping the tax potential. The assessment and valuation of properties is done by four different methods. One is the annual rental value (ARV) of lands and buildings; second is a variant of the ARV where the determination of ARV is with reference to location, type of construction, age of building, and the nature of use to which a property is put; third is capital valuation, recently brought in use in Karnataka; and the fourth is direct computation of property tax by using a tax rate per unit of carpet area.

[5] Fiscal effort means the amount of revenue collected by a government, often shown as a percent of the fiscal capacity. This value creates an estimate of the total amount the government could collect in revenue.

Also the study considers that exempted properties in India constitute approximately 10 percent of the total urban properties and about 11 percent of the assessed properties. Rate structure of property taxes varies significantly between states and among cities within states. The result is that neither a country-wide or state-wide data base on the finances of municipalities, nor any robust estimates of the scale and composition of municipal revenues or of municipal expenditures, are available in the country. The study points out that the existing database in respect of property tax, which is the most important source of revenue for municipalities (except in cities where Octroi is levied), is fragile. Most municipalities are unable to provide information even on the number of total properties in their jurisdictions, the number of un-assessed and under-assessed properties, and property tax yields separately for domestic and non-domestic properties. Few municipalities maintain any record or estimate of revenue lost on account of properties exempted from payment of taxes, or on account of rent control, or provide any understanding of the factors that contribute to the determination of the tax structure, suggesting that tax structures may be ad-hoc adjustments to the historical rates with no relationship to the cost of providing joint municipal services.

Bahl (2009), in a USAID report "Property Tax Reforms in Developing and Transition Countries", examines why property tax revenues are so low in the developing and transition countries. The study found that developing and transition countries are generally less decentralized and therefore use the property tax less. This finding is also compatible with the findings of Bahl and Martinez-Vazquez (2008). One of the most common explanations for the consistently poor performance of the property tax in lower income countries is that the administration of the tax is inefficient. Barriers to efficient administration include the absence of a full and up-to-date survey of all land (urban and rural), records of title that would enable the determination of tax liability, and reliable data on the sales price of properties. Putting the human resource infrastructure and the information base in place to efficiently administer the property tax is an expensive proposition. The study suggests that to increase the tax revenues there is a need to reduce the tax exempted properties and to increase the tax base, tax rates and coverage.

In "Challenging the Conventional Wisdom on the Property Tax" (2010) Bhal and Wallace describe the advantages of property taxation as a feasible source to finance local services. It describes two schools of thought: academics, who like the property tax as a local revenue source, and voters and politicians, who do not. But, as most of the volumes by these authors point out, bad practice has overtaken many of the potential advantages of taxing property. Regarding developing countries, the authors have analyzed that the property tax is not well entrenched or well understood by the public and its burdens are very low. The chapters by Roy Bahl and Sally Wallace (chapter 6) and by Jorge Martinez-Vazquez, Luc Noiset, and Mark Rider (chapter 10) point out the weak revenue performance of the property tax in low-income countries. Both chapters argue that an important underlying reason for this contrast to OECD countries is the low fiscal importance of local governments.

There have been attempts to modernize the assessment process in some developing countries by introducing computerized mass appraisal techniques, but these efforts have failed due to absence of reliable data on properties. Bahl and Wallace proposed a new approach to property taxation that would replace the annual property tax with a single, comprehensive tax on land and structures. Their proposal would unify the annual property tax on urban and rural property, replace the property transfer tax with a tax on capital gains, make use of betterment levies or special assessments, and use agricultural land values to establish a presumptive tax on agricultural income.

Claudia De Cesare (2010) presents the main results of a survey which was conducted on property tax in Latin America in September, 2008. This data covers 66 jurisdictions located in 13 different countries. Only El Salvador was excluded from this survey because it has no property tax. Approximately 120 different observations were analyzed in this study: thus, there are approximately two records (1.8) for each jurisdiction on average. The analysis shows that there is no common pattern in the policy decisions regarding property taxes in the region. The tax as a source of revenue in Latin America is very limited. The revenue generating ability of the property tax is influenced by certain economic variables, but the major problem is poor management in tax collection. The collected data of the questionnaires is summarized in the form of tables, graphs, basic statistical measurements, and histograms. Data was also supplemented with other primary and secondary sources of information. This study evaluates the main characteristics of the tax: principal provisions of taxes, problems of administrative management, and which taxes are the sources of revenue.

De Cesare concludes that different levels of the government (country, state/province/department, and municipality) are responsible for establishing the taxes, and the respondents had limited knowledge and access to all of the information. In the great majority of cases, the questionnaires were filled out by professionals with full knowledge of the topic, such as public administrators, tax agents, revenue agents, legislators, academics and, tax policy makers and/or tax administrators. Even then, there are no guarantees on the reliability of the responses. It was not possible to break down the data into classes with similar characteristics due to the relatively small size of the sample of jurisdictions, nor possible to establish uniformity in fiscal policy decisions relative to the property tax in Latin America. But the local nature of this tax shows a diversity of fiscal preferences. De Cesare suggests that some aspects that should be considered from the current systems of tax collection are as follows: reduction in the tax base generated by an abusive number of exemptions, the granting of amnesty and/or abatements, and ensuring transparency in the tax systems.

Most of the survey data shows repeated evidence of a need to improve the functions related to the cadastre[6], the assessment of real estate, and the collection of the tax. It is also suggested that there is a need to improve the mechanisms for standardization and control of fiscal results. In some of the region the behavior of the jurisdictions show quite satisfactory performance, and one can observe continued activity toward improvement of administrative practices and services provided to the taxpayer. The small municipalities that have limited technical capacity and resources in Latin America should also encompass in their reforms the tax rate and the improvements of equity, efficiency, and effectiveness of the property tax. Most important is to note that the legitimacy of initiatives regarding fiscal reforms and revisions must be ensured through the association of the tax with public expenditures that benefit the community.

Bahl, Johannes and Wetzel (2013) in "Financing Metropolitan Governments in Developing Countries" address the weak performance of property tax revenues and highlight the main hindering factors involved in a low tax to GDP ratio. One explanation for the weak revenue performance of the property tax is its unpopularity with voters and local political leaders. Large intergovernmental transfers have allowed the metropolitan local governments to avoid raising property tax rates or issuing new valuation rolls. Successful non-property tax revenues have crowded out and caused the slow growth of property tax revenues. Administration is a major constraint to property tax revenue mobilization. McCluskey and Franzsen, in a chapter in this volume, note a trend suggesting that governments are moving toward capital value systems where the tax is levied on both land and improvements and away from rental systems and site value systems. In recent years, there has been increased interest in area-based systems where the tax is levied on the physical characteristics of properties rather than on its assessed value. In addition to this, property transfer taxes, capital gains taxes on land, various kinds of special assessments, and the sale of government land reforms are being introduced to increase the low tax revenues in developing countries.

UIPT AND LOCAL RATE GOVERNANCE IN PUNJAB

This section presents the extant overview of the UIPT and the Local Rate taxes in Punjab. First, the section presents a brief, general overview of the various components of the property tax system of Punjab. The next two portions focus on the UIPT in Punjab, presenting a detailed legal and procedural overview of the UIPT administration. This is followed by an introduction and geographic description of the targeted district, Teshil Shakargarh. Next, this section presents a trend analysis of actual UIPT tax collections for Shakargarh City (an urban area in Teshil Shakargarh), using data for the period FY 2008-2012. Following, the next two sub-sections provide an in-depth analysis of the Local Rate tax in Punjab, and, the final sub-section provides the Local Rate data trend analysis for Tehsil Shakargarh, also for FY 2008-2012.

Overview of Property Taxation in Pakistan

For collection of property related taxes, various legislations have been developed in Pakistan over time for each Province. Currently valid laws for property taxation are:

- Urban Immoveable Property Tax Act, 1958[7]
- Local Government Ordinance (LGO) 2001. Under LGO 2001 the UIPT became a local government tax with the City District Governments (CDGs) and Tehsil Municipal Administration TMAs.
- The Stamp Act, 1899
- Land Revenue Act, 1967 (See Annex-I)

[6] Cadastre is a register of property showing the extent, value, and ownership of land for taxation.
[7] Please follow this link http://punjablaws.gov.pk/laws/79.html to study the UIPT Act 1958.

- Punjab Local Rate (Assessment & Collection) Rules, 1980 (See Annex-II)
- Agricultural Income Tax Act, 1997.

SYSTEM OF URBAN IMMOVABLE PROPERTY TAXES

Property tax is a provincial tax levied on the value of property, generally levied at a flat rate of 10% (Global Property Guide). But specifically the tax rate varies, depending on the province as well as urban versus rural areas as follows:

- In the province Punjab according to the Urban Immovable Property Tax Act, 1958, property tax is levied in large cities at progressive rates. It is levied at 20% with a 5% surcharge on properties over Rs. 20,000 annual rental value, comparable to international practices.

- In the province of Sindh, it is levied at a flat rate of 20% on the annual rental value of the land and building (Excise and Taxation Department, Government of Sindh).

The other types of property taxes in Pakistan are as follows.

RENTAL INCOME TAX

The Rental Income Tax (RIT) in Pakistan is separately governed through Income Tax Ordinance 2001. RIT is just a 5% final withholding tax levied on the gross rent in Pakistan, whereas it is 25% in Bangladesh, and higher in many other countries in the region (Global Property Guide).

CAPITAL GAINS

The Capital Gains in Pakistan is also separately governed through Income Tax Ordinance 2001. Capital gains are realized by individuals by selling real property. But it is not subject to taxes in Pakistan unless sales of real property are part of the individual's business. Capital gains in connection with a taxpayer's business activities are considered as business income and taxed accordingly (Global Property Guide).

STAMP DUTY AND TRANSFER TAXES

Stamp duty is one of the main sources of revenue and is based on a wide range of financial and legal transactions such as leases, mortgage deeds, conveyance, transfer of financial assets, sale of urban immoveable properties, and court fees. According to Bahl, Cyan, and Wallace (2008), the stamp duty rates vary by type of document, but most revenue is collected from stamps on property transfers. Stamp Duty varies by province such that it is 2% in Punjab and 3% in KPK on the value of transfer. A local transfer tax of 1% is levied by TMA in Punjab and 0.5 % in KPK. There is also a registration fee in Punjab of 1% and in KPK of 2% Capital Value Tax (CVT). In this way total transfer rate paid in Punjab is 4% and for KPK 5.5%. Approximately 75-80% of stamp duty revenue is from property transfers in Punjab. Stamp duty reform has also been under discussion in Punjab. The proposed reform rate includes a reduction in the tax rate on property transfers, per an ADB recommendation (Government of Punjab, 2007).

However, the federal government (through Finance Act 2013) has announced recently a minimum tax on builders and developers levied at Rs. 25 per square foot of constructed area sold and Rs. 50 per square yard for developed land sold. It is still not clear whether this tax regime will be classified under transfer taxes or another category of taxation.

SYSTEM OF LOCAL RATE IN PUNJAB

All agricultural lands situated within the local area of a district council, other than those shown as "Gher Mumkin"[8] or "Banjar Kadim"[9] in the revenue record, are subject to payment of a local land tax known as the Local Rate. Local Rate is a separate land tax other than Land Revenue Tax. Currently, the Local Rate is governed by the Punjab Local Rate (Assessment & Collection) Rules, 1980 (See Annex-II) and Land Revenue Tax is governed by Land Revenue Act 1967, (Local Rate Assessment Rules 1980 are subordinate regulation). Cultivated lands owned by individuals or legal persons form the base for this tax. The tax is levied on a per acre basis twice a year on each crop season of Rabbi and Kharif. The tax is levied at a flat rate of 2 rupees per acre/crop season of irrigated land from Jama

[8] An entry of "gair mumkin" on Jama Bandi of agricultural land means that the said part of land is not possible to be cultivated.
[9] Banjir Kadim Land (Old Waste Land) is that piece of land which will continue to be uncultivated for next four harvests.

Bandi[10], whereas the Local Rate is half of the said amount for non-irrigated land. Surprisingly, the rate has not been revised in the last many years. Agricultural plots below the size of 12.5 acres are exempted from paying Local Rate. Further detail with regard to legal and administrative milieu is discussed below in.

SYSTEM OF LAND TAXES IN PAKISTAN

Property tax is a broad concept whereas land tax is a sub part of it. Every jurisdiction that has a real estate property tax has an element of land value tax, because land value contributes to overall property value. As explained in Qureshi (1986), the land tax system in Pakistan follows the British tax system, introduced to the subcontinent in the 18th and 19th centuries. The British Tax System followed the classical economics principle, which describes that the net output of land (difference between gross output and costs of inputs) is an unearned source of income for landlords and can be taxed without any adverse effects on production. However, the assessment criteria and process of these land taxes is not uniform across Pakistan. Two main systems of land tax assessment have been developed in Pakistan:

The Punjab System of Assessing Land Taxes

The provinces of Punjab, KPK, and most of Baluchistan are under this assessment mechanism for Land Revenue Tax (LRT). For the purposes of assessment of LRT, each district is treated separately. The district is further subdivided in clusters of much smaller areas for the purpose of assessment. It is supposed that the agricultural conditions are homogeneous and the assessment rate is fixed in each assessment area (also called Patwar Circle). The fields are classified by soil type and LRT rate on each field is determined by the quality of soil within the Patwar Circle. Assessment is based upon the net production value (deduction of the tenant share, if any, and cultivation costs of the landowner from gross value) of the field to the landowner. The gross value of production on each field is attained by multiplying together the yield per acre, average acreage of each crop, and the average price for each crop. A fixed tax rate is applied to the rental value (net production value) of the cultivated land calculated in the manner above. The uncultivated land does not earn any tax charge.

The Sindh System

Areas which are not under the Punjab System are treated by this system for fixing the assessed land values. The Ricardian principle[11] of land taxation is used for settlement process, which is more focused on the prices of yields rather than on soil type. The tax settlements are more frequent than in the Punjab System. For crops like cotton, paddy rice, and wheat, the rate of assessment per acre differs with crop prices in both the rising and falling phases of price alteration. For other crops, the assessments remain fixed for the period between the two tax settlements i.e. Rabi and Kharif. The theoretical foundation implies that the Sindh System is comparatively more income-elastic than the Punjab System.

The share of land taxes in total tax revenue is low and has demonstrated a declining trend over time in Pakistan. The share of land taxes in total taxes has fallen from 16 percent in 1960 to 6 percent in 1970, 2 percent in 1975, and just 0.5 percent in 1982 (Qureshi 1986). Furthermore, the land tax has been seriously diluted by exemptions and concessions.

Legal and Procedural Review of UIPT in Punjab

The UIPT is a property tax that is levied on a property unit situated in an Urban Area declared as a Rating Area in accordance with Section 3 of the UIPT Act 1958 (consult references for online access to the copy of UIPT Act 1958 and see Annex III for a legal definition of the rating areas). It is designated as a local government tax, and the TMA's and City Districts have the authority to set the tax rate. In practice, however, the UIPT is a provincial level tax subject to revenue sharing with the TMA's and City Districts. The governance of UIPT and its business process is uniform all across Punjab, including Tehsil Shakargarh, which is the target Tehsil in this research. Detail on the process of UIPT is explained below.

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[10] Jama Bandi also known as (Record of Rights) maintained for determination/record of various types of rights in the immovable property.

[11] David Ricardo analyzed different forms of taxes for lands and concluded that tax on land value is equivalent to a tax on the land rent; it is paid by the landlord, who is not able to pass it on to a tenant. He stated that the poorest grade land in use has no (land) rent and so pays no land value tax; hence prices will not be increased by a land value tax. His analysis distinguishes between rent of (unimproved) land and rent associated with capital improvements such as buildings.

LIABILITY FOR UIPT

The tax is based on the annual rental value (ARV) of individual properties and levied at a tax rate of 20% except where the annual rental value is greater than Rs. 20,000, then the tax rate is 25%. The owner is the person liable for UIPT.

PREPARATION OF THE DATABASE OF TAXABLE UNITS/VALUATION

The primary base for the levy and collection of the UIPT is the identification of property units detailing the nature, kind, construction, and location. This information is recorded in a survey register from which a valuation list is prepared and is made available to the public.

The law requires that a comprehensive survey of all the properties located in the 117 Rating Areas (an example of assessment process of Rating Areas in District Sialkot is presented in Annex IV) of the 144 Tehsil /TMAs of the Province is undertaken every 5 years to update the database for levy and collection of tax to ensure the accuracy of the basic records. However, the current valuation list was prepared for most of the rating areas in 2002 (not all areas were declared as rating areas). During KIIs, we found that the valuation tables for Rawalpindi were revised in 2007 but could not get approval due to various political and technical reasons. The current valuation list is, therefore, significantly out of date and not in line with current market values. During the course of this project, however, sanction has been given for a new valuation lists and tables to be prepared in 2013 for all of Punjab, but the work on estimation of all the taxable properties has not started yet.

Registers are supposed to be amended every six months on the basis of a half-yearly survey that is undertaken to identify necessary changes about which the department has 'definite information' regarding changes in use, changes of ownership, additions, alterations, new construction etc.

A team comprising an Excise & Taxation Officer (ETO), a Clerk, and a constable undertakes the surveys. The whole process is manual; the survey forms are produced manually, and the register is maintained manually. The major information contained in the register is:

- Name or Number of the sub-division or muhallah (block) and street in which the property is situated (Main road/Off road);
- Designation of the property by Name, Number, Type of building etc;
- Particulars of the owner;
- Particulars of the occupier, if different from the owner;
- Total area of the site;
- Details of the covered area;
- Rent, if any, paid by occupier to the owner of the building.

If the status of a property changes, the ETO has no power to amend the P.T.1 form (P.T.1 Form is a certificate that provides the assessed value of the property and the resultant property tax to be charged). Only the Assessing Authority has the authority to approve changes in the P.T.1 based on the findings from the survey. Since the UIPT is determined on the basis of rental value of the property, the data collected provides the details to enable the Assessing Authority to determine the rates in the Valuation Table to be applied to particular properties.

The gross annual rental value (GARV) is calculated by the following formula and is mentioned in the survey register:

GARV = (Land and covered area) x (valuation rates category-wise)

The Valuation Table is sub-divided into two main types of properties: Residential and Commercial. Moreover there are certain categories of properties, which do not fall within these two broad categories (e.g. Industrial Units, Plazas and Hotels). Such properties are taxed by devising a special formula using the rates prescribed for residential and commercial properties.

Valuation Tables of residential and commercial properties are further divided into two types with respect to nature of use of the property units: owner-occupied or rented. Each type consists of land area and covered area and is defined as follows:

- ***Residential Property***
  Land Area: 1st 500 Sq. yards; exceeding 500 sq. yards
  Covered area: 3,000 sq. feet; exceeding 3,000 sq. feet

- ***Commercial property***
  Land area: 1st 500 sq. yards; exceeding 500 sq. yards
  Covered area: 1st 1,500 sq. feet; 1,501 to 3,000 sq. feet; exceeding 3,000 sq. feet

The whole Province is divided into 7 categories (A to G) according to the extent of facilities and infrastructure available in the rating area. The valuation table contains different rates for all categories.

Moreover, the rate also varies with the location of the property unit, i.e. "Main road" or "Off road" (where a road having a width of 30 feet and above is considered as a main road). This means that the variables affecting the taxes are:

- Type of property, i.e. residential or commercial
- Nature of use of property, i.e. self-occupied or rented
- Situation of the property, i.e. main road or off road
- Category of locality, i.e. 7 categories from "A" to "G"

To try to ensure accuracy, it is intended that the Assistant ETO (AETO) checks the accuracy of the information collected by the survey team and calculation of GARV. The AETO signs the register against the entry for each individual property. In addition, the ETO / Assessing Authority surveys 25% of the area under his/her jurisdiction and signs the survey register in respect to the properties surveyed by him. The Director can also check the survey of the area falling in his jurisdiction.

THE DEMAND REGISTER

The demand register (P.T.8 - Tax Demand and Receipt Register/Tax Account Detail Register/ Tax Payment History) is prepared on the basis of the information contained in the valuation list. The amount due from the taxpayer is calculated in accordance with:

- Gross Annual Rental Value (GARV) (Rupees)
- Deduction on account of repairs @ 10% of GARV
- Annual Rental Value (ARV) (Rupees)
- A rebate of 10% of the ARV is allowed for property units that are 20-30 years old
- A rebate of 15% is allowed if the property unit is older than 30 years
- If the ARV is up to Rs. 20,000 the tax demand is calculated by applying the rate of 20% on ARV and if the ARV exceeds Rs. 20,000 then the tax demand is calculated by applying the rate of 25%

The P.T.8 Demand Register contains columns for the demand and recovery figures for five years (i.e. the planned period of validity of that survey). It is updated at the start of every fiscal year; the arrears are brought forward and on half yearly basis of the tax demand is amended. If there is any change in the particulars of a property unit, the Assessing Authority can update the record in accordance with Section 9 of the UIPT Act with effect from next July or January, as the case may be, after due verification. The revision in assessment is informed to the taxpayer through P.T.13. In the event of a change in the property particulars as a result of a change of ownership, the nature of use of the property (Residential, Commercial or Industrial) and type of use (Self-occupied or Rented), the taxpayer is informed giving him/her a right of objection to the proposed amendment.

DEMAND, COLLECTION AND RECOVERY PROCESS

The Demand

The tax due for the year appears in the P.T.8 register and the demand challans (form P.T.10) are prepared on the basis of P.T.8 and are delivered by the inspectors/constables in their respective circles. Payment of the tax is due by August 31st and a rebate of 5% is allowed for payment by this date. For challans that are served during the fiscal year, due to any legal problems or any administrative hurdle, their payment is due within one month of the date of challan being served to the payer.

Payment and Recording Process

The tax demand challan (P.T.10) is payable at the State Bank of Pakistan and approved branches of the National Bank of Pakistan. The P.T.10 has three counterfoils and after payment to the bank the first foil is returned to the taxpayer whilst the other two counterfoils are sent to the Treasury Office; the bank does not retain a counterfoil but it does maintain a record (scroll) of the payment.

The Treasury Office records the payment and retains one counterfoil of the P.T.10. The third counterfoil is collected by the E&T staff, after which the payment is recorded in the Central Daily Collection (CDC) register of the District/Region. The counterfoils received by the CDC are then sorted by zones and circles and then sent to the relevant circles.

The collection figures of all zones are summarized, finalized by the ETO, and reported to the Director of the relevant Division/Region. The consolidated figure of the total collection of the District for the month is confirmed by the Treasury Officer under his signature along with the reconciliation of the gross collection of the Department. The verified statement is sent to Director General, E&T.

At Circle level the receipts are entered and the daily collection Demand Register P.T.8 (Specifically, in Recovery Column) is updated. The entries and counterfoils are subject to audit by the AETO.

It is noteworthy that the process from the payment being made to receipt of the counterfoil at District level can take up to 21 days because the system is wholly manually based. It is represented in Figure 1.

Enforcement

From the information contained in the Tax Demand Registers a list of defaulters is prepared and the unpaid dues are then declared arrears of Land Revenue. Notices under Section 81 of UIPT Act 1958 are served to the defaulters. Payment is due within one month of the notice otherwise recovery procedures identified in the UIPT Act 1958 can be enforced which inter-alia include arrest of the tax payer and attachment of movable and immovable property.

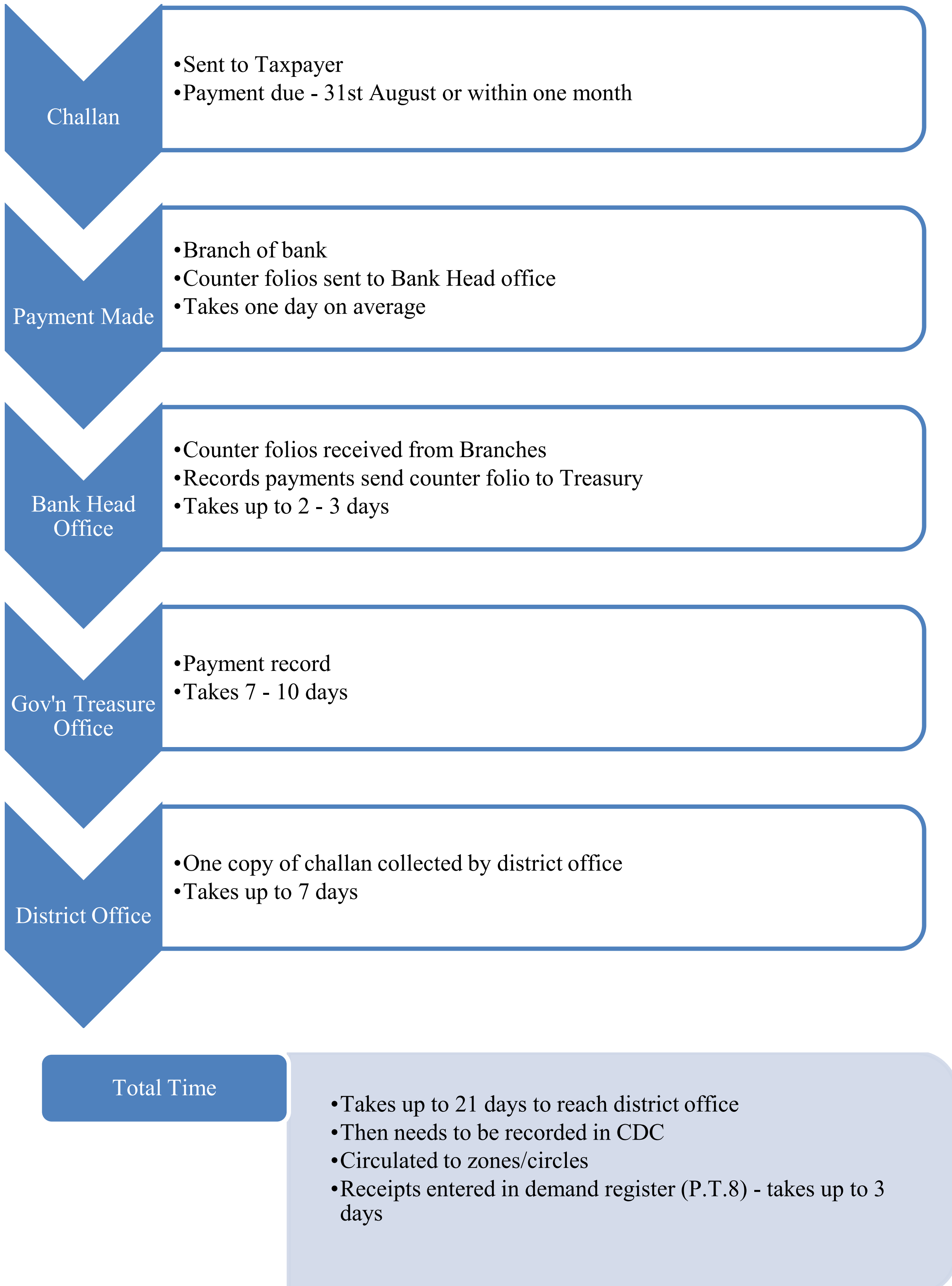
Alternatively, in the case of arrears against rented property, the department can recover the UIPT from the tenant by requiring payment of the rent to be made in lieu of the UIPT payment. This action is carried out in accordance with Section 14 of the Urban Immoveable Property Tax Act, 1958. However, in practice little action to enforce the debt is taken after the issue of the first reminder notice.

Penalties

A further enforcement measure is the ability to issue a penalty against the defaulting taxpayer. The process is commenced by issuing a RT.1 1 notice (to show cause against imposition of penalty) to defaulting taxpayers. This notice is followed by a P.T.1 2 (Notice on demand of penalty) to those taxpayers who do not show cause against RT.1 1 .The penalty so imposed is posted in the P.T.8 register and can be up to 100% of the amount due.

If the dues are still unpaid, then action can be initiated under Section 81 of the Land Revenue Act, 1967 and the local police department can be asked to help with the execution of subsequent warrant of arrest/attachment. In practice, as with the other enforcement powers, this is rarely used.

Figure 1: UIPT Collection Process



Source: *Fiscal and Financial Management Reform, Excise and Taxation, Punjab*

Appeal Revision Process
If aggrieved, any person can file an appeal within 30 days of the date of an order of the Assessing Authority or within 60 days of the date of the revision of the valuation list. The appeal can be addressed to the ETO, Director E&T, or the Executive District Officer (Revenue). In smaller districts, where AETO has been declared as the Assessing Authority, further appeals can be lodged with the District Excise and Taxation Officer. In larger districts where the Excise and Taxation Officer serves as the Assessing Authority, the appeals can be filed with the Director E&T. If a taxpayer is still aggrieved following the decision against his/her initial appeal, a revision can be lodged with the Executive District Officer (Revenue).

Refunds
The taxpayer files an application for a refund along with the payment challan (Form P.T.10-Notice of Demand for Tax Recovery/Treasury Challan) before the concerned ETO, who, after verification of the genuineness of the payment from the central daily collection register and RT.8 register, recommends the refund application to the appropriate Director who is the Competent Category Officer under the Financial Rules.

Emerging Challenges and Constraints - UIPT

Before proceeding to a discussion of Tehsil Shakargarh and the tax data analysis, it is important to shed some light on why property taxation has remained ineffective as evident through the literature review and our field research. The nature of problems is manifold, including issues with tax structure and administration, legal impediments, culture of tax payments and taxpayers' attitude, and low political appetite. These manifest themselves as problems in valuation, collection and incentives, excessive exemptions, and institutional misgovernance. Potentially extending the UIPT to LLLs is another important issue identified in our research.

VALUATION

Proper valuation of property to determine the property tax is difficult if the real estate market is shallow. The introduction of a banded system that takes into account location, quality, and size has allowed Punjab, along with a growing number of developing countries that have adopted this approach, to avoid having to determine a market value for each unit in the absence of a well-established real estate market. Such a system implies that properties within the same band pay the same property tax and there is essentially no need to have detailed, discrete, valuations of each property (McCluskey, Plimmer and Connellan, 2002).

The benefits of the banded tax system in the Punjab are compromised by the numerous distortions to the tax base introduced through rent control, reductions, and exemptions (World Bank, 2006). In addition, the use of ARV to determine the tax base might not work in a country where most residential properties are owner-occupied rather than rented. Almost 9/10ths of the tax comes from built area; encouraging inefficient use of land. The capital value of the location may be more acceptable to tax payers and would allow taxation of both owner-occupied and vacant properties. Although a previous attempt to convert the ARV system to a capital value based system failed, now since the 18th amendment has provided provinces with autonomy to legislate, this change may be possible.

With 1,066,544 taxable properties in the Punjab, the E&T department may not have the capacity to value property at an individual basis as is done in some states of India. On the other hand, formula driven valuation has its own limitations; it does not distinguish between different income brackets, quality, and location of properties even within zones. The ARV system often results in over-taxing the poor and under-taxing the rich; taking away the equity characteristic of this form of taxation. The capacity to undertake valuation is limited even in the private sector.

For Punjab, the Urban Immovable Property Tax Act, 1958 provides for an assessment of all types of properties, rented or owner-occupied, on the basis of actual rent. Between 2002 and 2007, the rental market in Punjab has registered an unusual increase (seen in Table 1) yet the tax base has remained static for both residential and commercial properties.

Table 1: Comparison of Valuation Table Rates and Average Market Rent

Category with Average Table Rate (Rs)		Average Market Rent (2001-02) (Rs)	Average Market Rent (2008-09) (Rs)	Increase Against (%) Existing Table Rate	Increase in (%) Market Rent
Commercial					
A	10	20	60	500	200
B	7.5	15	38	407	153
C	6	10	30	400	200
D	4.5	8	24	433	200
E	3.25	6	13	300	117
F	2.6	4	9	246	125
G	2	2	4	100	100
Residential					
A	3.5	4.5	8.5	143	89
B	2.75	3	6	118	100
C	2.25	2.5	5	122	100
D	1.75	2	4	129	100
E	1.25	1.5	3	140	100
F	1	1.5	2.4	140	60
G	0.8	0.9	1.5	88	67

Source: Ijaz Nabi,Hina Shaikh (2011) Reforming the Urban Property Tax in Pakistan's Punjab

Since the valuation tables are not updated frequently enough to reflect actual market value, average property in the Punjab might be undervalued by almost 45% (Nabi and Shaikh, 2011). This calls for more frequent valuations and building local government capacity to do so. Table 1 also highlights the higher table rates for commercial versus residential property.

There is also a significant gap between the rates charged to owner occupied and rented properties. Currently rented properties are taxed around ten times more heavily than are owner occupied. This has led to significant distortions in the property markets and rent-seeking behavior on the part of property owners.

COLLECTION

Bahl, Wallace, and Cyan (2008) show how structural and administrative reforms can enhance revenue potential at the provincial level. International experience suggests that by strengthening tax administration, and the billing and collection system, the Punjab local governments can double, if not quadruple, the property tax revenue (World Bank, 2006).

EXEMPTIONS

Punjab's property tax structure is riddled with exemptions that have eroded the tax base. The most egregious 'exemption' is the preferential treatment of owner occupied property. Bahl, Wallace, and Cyan (2008) estimate that the removal of the owner occupancy exemption in Punjab (which we consider the combination of the exemption of 5-marla residential houses and the exemption of owner occupied houses with ARV not exceeding Rs. 1620) would lead to a tripling of revenues.

The long list of properties that are exempt from property taxation includes:

- Properties owned by federal, provincial and district government;
- 5-marla residential houses, both rented as well as owner occupied, irrespective of location (1 Marla = 272 sq. ft);
- Buildings and lands with annual value not exceeding Rs. 48,600 owned by widow, a disabled person and minor orphan;
- Buildings and lands used exclusively for educational purposes including schools, boarding houses, and hostels owned by the government or a body owned or controlled by the government;
- Buildings and lands, or portions thereof, used exclusively for public worship and public charity;
- A residential house measuring an area up to one Kanal (1 Kanal = 20 Marla) owned and occupied for residence by a retired government servant of the Federation or a Province;
- Buildings occupied by an owner, for residence, the annual rental value of which does not exceed Rs. 1620.

INSTITUTIONAL MISGOVERNANCE

In spite of the apparent comprehensive checks on the property tax collection system as described above, the review of legal and administrative procedures of UIPT reflects that there are concerns among the public about the accuracy and quality of the data that is held about properties in the register for the following reasons:

- Properties excluded from the register;
- Properties incorrectly designated as residential when they are being used for commercial purposes;
- Properties classified as self-occupied when they are rented;
- Properties designated as "Off road" when they are on the "Main road';
- Incorrect measurements;
- Incorrect calculations;
- Properties being used for more than one purpose.

EXTENDING THE UIPT TO LLLS

During the field visits and KIIs, GINI's research team found out that there are significant LLLs in Tehsil Shakargarh which have developed residential and commercial properties, and the characteristics of these properties are similar as that of urban area but they are not in the tax net. This finding came as a confirmation of earlier results showing the inability of government to improve property scrolls by announcing new rating areas. Extension of the UIPT to the LLLs is thus a policy issue we seek to highlight.

Description of Tehsil Shakargarh

The targeted Tehsil in this research was Tehsil Shakargarh, District Narowal. The urban and rural areas of Tehsil Shakargarh have been selected for the research related to property tax (UIPT) and the Local Rate.

The historical background of this Tehsil is as follows:

Tehsil Shakargarh, District Narowal was established in year 1991. Before partition it was a Tehsil of Gurdaspur and after creation of Pakistan it was made Tehsil District Sialkot. It is bounded on north and north-east by occupied Jammu and Kashmir State, on the east and south east by Gurdaspur and Amritsar District of India, on the west and south west by Narowal Tehsil, and Tehsil Pusroor of Sialkot District is situated on the west. This Tehsil in 1991 spread over an area of 312,915 square acres with an area of 6,777 acres under forest. About 2/3 of total area of the region is under cultivation, and there are two main seasons for crops; *kharif* and *Rabi*. The lands are non-irrigated as Shakargarh is an arid area. In 2008, an area involving 156 villages and covering 67,145 acres was transferred to Tehsil Zafarwal reducing the size and population of Tehsil Shakargarh. Table 2 highlights the important features of the Tehsil.

Table 2: Salient Features of Tehsil Shakargarh

Total Area of Tehsil (1991)	312,915 acres
Area Transferred to Tehsil Zafarwal (156 villages)	67,145 acres
Present Area of Tehsil Shakargarh	245,770 acres
Cultivated Area (as per 2012 records)	185,631 acres
Un-cultivated Area	60,139 acres
Total Villages	
Previous	734
Present	578
Total Land Owners	241,716
Total Population (2006)	1,256,097

Trend Analysis of UIPT in Tehsil Shakargarh

DEMAND/COLLECTION TRENDS OF UIPT IN SHAKARGARH

The UIPT collection and recovery in Shakargarh City [12] shows steady and increasing trends over the study period. Table 3 shows that the commercial collection has almost doubled during the years FY 2007-08 to FY 2011-12, and the recovery percentage has also increased from 77% to 95%. This may be accounted for by the emergence of new commercial plazas or by the increase in property valuation due to construction of new roads in Shakargarh City. Similarly, the collection in the residential category has increased almost 39% from FY 2007-08 to FY 2011-12. The valuation lists for both commercial and residential properties have not been revised since FY 2001 despite the legal requirement of revision to be done every 5 years. Thus, the increased collection and recovery rates reflect positively on the improved efficiency of the E&T Recovery Officials.

[12] Shakargarh City is the urban area falling within the jurisdiction of the Tehsil Municipal Administration. There are other urban areas but they are not declared as such. This is exactly one of the problems this study is highlighting.

Table 3: Demand/Collection of Urban Immoveable Property Tax (UIPT)

	Type of Property Tax	Assessment of Tax	Rate of Tax	Actual Recovery in Rupees	Percentage of Targeted Collection
FY 2007-2008					
A.	Commercial	Category D,E,F,G	20-25 %	2,812,682	77%
B.	Residential	E,F,G	20-25 %	747,676	77%
FY 2008-2009					
A.	Commercial	Category D,E,F,G	20-25 %	3,087,296	83%
B.	Residential	E,F,G	20-25 %	780,620	80%
FY 2009-2010					
A.	Commercial	Category D,E,F,G	20-25 %	3,389,457	86%
B.	Residential	E,F,G	20-25 %	850,460	81%
FY 2010-2011					
A.	Commercial	Category D,E,F,G	20-25 %	3,505,363	90%
B.	Residential	E,F,G	20-25 %	930,180	91%
FY 2011-2012					
A.	Commercial	Category D,E,F,G	20-25 %	4,127,060	95%
B.	Residential	E,F,G	20-25 %	1,040,170	94%

Source: E & T Department District Narow al

Please refer to Annex-V for tables which provide details on the valuation rates used in valuation tables for commercial and residential properties in Punjab. These table present the details of rating areas as well as the valuation rates used in those rating areas of Tehsil Shakargarh. The Annex tables highlight the higher valuation rates of rented versus owner occupied properties for both commercial and residential categories and the higher rates for properties on main roads.

EXEMPTION TRENDS OF UIPT IN SHAKARGARH

Table 4 shows the UIPT exemption types and trends of property rating areas in Shakargarh from FY 2007-08 to FY 2011-12.

Table 4: Exemption on Property Rating Area of Urban Shakargarh

No. of Units	Type of Exemption	FY 2007-2008	FY 2008-2009	FY 2009-2010	FY 2010-2011	FY 2011-2012
28	Government Property Punjab/Pakistan	167,290	167,290	167290	167,290	167,290
9	District Government	196,203	196,203	196,203	196,203	196,203
17	Masjid Property	58,979	58,979	58,979	58,979	58,979
7	Auqaf Property	42,654	42,654	42,654	42,654	42,654
33	Widow Property	130,680	130,680	125,929	125,929	53,520
176	5 Marla Houses	274,248	274,248	274,248	274,248	274,248
570	Pension Employees	66,840	66,840	66,840	66,594	40,280
10	Disable Persons	32,451	32,451	32,451	32,451	0
	Discount 5%	40,680	42,560	44,660	52,830	52,379
	Appeal Cases	22,400	28,450	0	0	0
	Total	1,032,425	1,040,355	1,032,611	1,016,728	885,552

The table shows that 8 types of exemptions are being provided at the urban level apart from discounts and exemptions achieved through successful appeal of cases. The overall exemption trend slightly increased in FY 2008-09 and sharply declined in FY 2011-12. The exemption trends of provincial, district government, Masjid properties, Auqaf properties, and 5 Marla Houses remained unchanged. However, the exemptions on Widow Property and Pension Employees sharply and suddenly decreased in FY 2011-12. The exemption for Disabled Persons dropped sharply to zero in FY 2011-12. Through Key Informant Interviews (KIIs), we want to better understand how these three exemptions have declined by more than half in the last year of the study period. The sudden disappearance of exemptions under appeal cases that occurs in FY 2009-10 has also been investigated through KIIs. The exemption for houses having ARV of less than Rs. 1,620 is not recorded by E & T assessment officers during the assessment of UIPT for rating areas. Therefore, they are not reflected in Table 4.

Legal and Procedural Review of Local Rate Tax in Punjab

Under the British administration, Local Cess (tax) was very low and gradually increased overtime though, this increase was insignificant. Also, there were different types of local Cess. In early settlements there was only 1% road local tax which was actually a check post based levy on the value of goods and transport. Later during the time of Lord Mayo, the 1% education and 1.5% postal local taxes were introduced within this road local tax respectively. Further, under the Act 20 of 1871, a new local tax was introduced on the value of land which was called the Local Rate, and it was 2 Paisa (penny/one cent) per 1 rupee value of land. This decision was taken to strengthen the Local Government in financial matters and to meet their expenses. During the drought of Bengal in the year 1871 and 1878, the Indian Government decided that Local Rate should be increased to 8 paisa. In the time of Mr. Barkley, 25 paisa per one rupee Local Rate was fixed however, in the year 1922 this annual land revenue rate was fixed as maximum 12 paisa and minimum 10 paisa per one rupee value of land. Generally the amount collected was very low.

In Punjab, initially the Local Rate was governed under Land Revenue Act 1967 and was a part of the "Malia" which was a tax on agricultural produce of cultivated land and was assessed twice a year in Rabi and Kharif Crops by a settlement officer. Malia was 1/4th of the net profits made by a farmer on agricultural produce and 60% of that Malia was Local Rate. Then in 1980, the Punjab Local Rate Assessment & Collection Rules, 1980 (See Annex-II) were introduced to govern the Local Rate, making it essentially a fixed type of local land tax parallel to the Land Revenue Tax governed under Land Revenue Act 1967. Cultivated lands owned by individuals or legal persons form the base for this local tax. The tax is levied on a per acre and per crop season (the collection sequence was not changed in 1980 rules) basis on cultivated land and the tax is levied at a flat rate of 2 rupees per acre twice a year on irrigated land and 1 rupees per acre on non-irrigated land.

Land records for rural land are maintained by the patwari using an archaic system of measurement and record keeping. For every village, records are prepared through a process called ‘settlement’. During settlement each parcel of land is measured, its soil quality assessed, and it is given a unique number. At the same time ownership, occupancy, and usufruct[13] rights are recorded. Under the law, settlement should be carried out every 25 years, but in practice it happens at much longer intervals. The communal land in the villages is given separate numbers. It is jointly owned by the land owners in the village. Parcels of land are identified in the patwari registers, especially the four- yearly jamabandi[14] and khasra[15] girdawari[16] .

Between settlements, the records are updated every four years in the form of new editions of records of rights or jamabandi, incorporating changes in ownership and occupancy taking place on account of inheritance or sale. Each four-yearly edition of the records is formally maintained, with copies placed at more than one location, including special purpose record rooms to protect its authenticity. The records keep up to date information of ownership and occupancy. Patwari maintain the records. A brief detail is provided below on actual setting of the Local Rate as well as the process involved in its administration.

SETTING THE BASE RATE

Currently, the Local Rate is governed by the Punjab Local Rate (Assessment & Collection) Rules, 1980 (See Annex-II). Farms owned by individuals or legal persons form the base for this tax. The tax is levied on a per acre basis on agricultural land and the tax is levied at a flat rate of 2 rupees per acre on irrigated land and 1 rupee per acre on non-irrigated land. As mentioned earlier, the tax is levied on each crop season i.e. twice a year.

Currently the rate is set at the provincial level, however, the local governments legally have the rate setting power as per 2nd Schedule, Part-I of the LGO, 2001. According to this legislation, the provincial governments have to devolve the administration of Local Rate to the local governments. At the same time the existing collection agencies, such as revenue departments, will keep collecting the taxes and, after charging their services fees, the rest of revenue will be transferred to local government. Unfortunately, this was never implemented, and provincial governments still seem to be reluctant to abide by the LGO, 2001 ordinance, which has left this levy effectively just as an intergovernmental transfer from the provincial government.

TAX LIABILITY, DEMAND, COLLECTION AND RECOVERY PROCESS

Although Local Rate is a fixed tax, the demand and recovery process is the same as that of the Land Revenue Tax because the same authorities manage both forms of land taxes. Tax liability is determined according to the ownership in the record of rights by the Patwari. The Local Rate is payable by the land owners having more than 12.5 acres of land. The Patwari calculates the liability when preparing the *dhal bhach (demand statement)* or the tax demand for Local Rate. Collection is carried out by Lumberdar[17] of the area where the Patwari provides the list of all land owners with the assessment of Local Rate. According to the circular No. 248/90-42, dated May 26, 1990, it was observed that the assessment of the Local Rate is not levied as per law and demand statement is not prepared accordingly. The assessment is not based on equal basis for the same type of land. The Patwari used his discretion

[13] The right to use and derive profit from a piece of property belonging to another, provided the property itself remains undiminished and uninjured in any way.

[14] A jamabandi is a term used in Subcontinent meaning "rights of records" and refers to land records. These records are documents which are maintained for each village within its Tehsil. It contains the name of the owners, area of cultivation/land shares of owners and other Rights.

[15] All the fields and their areas, measurement, who owns and what cultivators he employs, what crops, what sort of soil, what trees are on the land.

[16] Girdawari is the record of land cultivation. It records the crop and ownership of the crop. Local landlords must ensure that Girdawari stays in their name, otherwise; if someone else is shown as cultivating the land for an extended period of time, they can claim possession of the land, resulting in a dispute of land ownership.

[17] The designated non-government person who collects Local Rate and other land taxes from landholders on behalf of revenue department for a certain commission i.e. 5 % of each collection in Punjab.

instead of fixing Local Rate as approved in the law. Checking of demand statement of Local Rate is not being done with required procedure.

The field officers of the land revenue department, Patwari, carry out the collection. Collection is made twice a year, at the end of each cropping season. A demand notice is handed over to the owners, mostly through personal service. It lists the amounts due on account of different land taxes. The collection is made by the Patwari by receiving cash payments from the land owners and depositing it in the government accounts. The Patwari calculates the amount which he has collected on account of the Local Rate and deposits the Local Rate in designated accounts. Currently the revenue is deposited in the provincial account from where it is transferred to the district.

Emerging Challenges and Constraints in Local Rate Governance

Several challenges have been highlighted during the literature review as well as legal and procedural review:

1. Local Rate is levied on Banjar Qadim (old waste land) which is not correct as per the law

2. After the end of Demand Statement the Local Rate ownership table is prepared which should be reversed to minimize the risk of overvaluation

3. If any Khewet[18] number consists of mixed area of irrigated and non-irrigated, for assessment purposes, it should not be more than 25 acres of irrigated and 50 acres of non-irrigated at a single place. If the land mix acreage is high, then the Patwari consolidates the lands. One acre of irrigated land will be equal to two acres of non-irrigated land. It is the responsibility of Kanongo and Revenue Officer to Check Demand Statement of Local Rate as applicable per land record, which sometimes does not happen

4. Local Rate legislation and administration is very ambiguous and confusing. Though Local Rate Assessment Rules (1980) legally govern the Local Rate, the differentiation of this from Land Revenue Act 1967 is very opaque. Even most of the Patwari as well as Tehsildars do not know how Local Rate was separated from being governed under Land Revenue Act 1967 to now being governed under Local Rate Assessment Rules 1980

Trend Analysis of Local Rate in Tehsil Shakargarh

Table 5 presents the Local Rate tax data from FY 2000-2012, and the collection of Local Rate is given with Qanungoi/Circle wise contribution. The data shows that collections from village Darrap are the highest and constant throughout the period under consideration. However, collections from Circle Beet Ravi slightly increased in FY 2007-08 but declined in FY2008-09 back to its earlier level until it increased significantly in 2012. Further, it is important to note that in FY 2008-09 the Collection declined abruptly in Chak Birari Cirle.

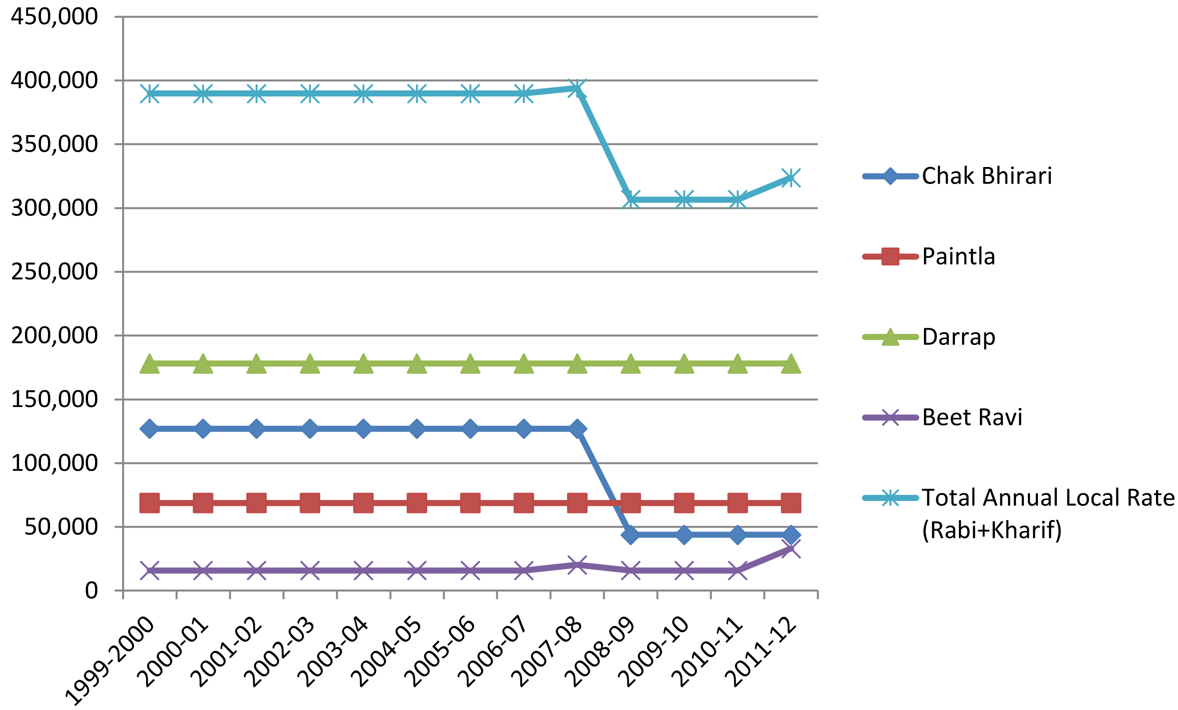
[18] A list of owners or co-sharers only, and their shares and areas; sometimes accompanied by a khatduni, which shows the tenants. The Khewet number normally referred as 'KHATA/Account NUMBER' by revenue officials is the account number given to owner(s) which form a set of co-sharers who own the land in same or different proportions. It therefore, can be understood as the account number given to various owners in the Khewet. The Khewet number in the Jamabandi runs sequentially starting from 1 to N.

Table 5: Annual Local Rate (Rabi+Kharif) – Village Wise

FY	Local Rates -Village Wise Investigated				
	Chak Bhirari	Paintla	Darrap	Beet Ravi	Total Annual Local Rate (Rabi+Kharif)
1999-2000	126,977	68,784	178,114	15,906	389,781
2000-01	126,977	68,784	178,114	15,906	389,781
2001-02	126,977	68,784	178,114	15,906	389,781
2002-03	126,977	68,784	178,114	15,906	389,781
2003-04	126,977	68,784	178,114	15,906	389,781
2004-05	126,977	68,784	178,114	15,906	389,781
2005-06	126,977	68,784	178,114	15,906	389,781
2006-07	126,977	68,784	178,114	15,906	389,781
2007-08	126,977	68,784	178,114	20,206	394,081
2008-09	43,796	68,784	178,114	15,906	306,600
2009-10	43,796	68,784	178,114	15,906	306,600
2010-11	43,796	68,784	178,114	15,906	306,600
2011-12	43,796	68,784	178,114	33,106	323,800

The annual Local Rate tax collections remained unchanged until FY 2006-07, slightly increased in FY 2007-08, but then declined through up till FY 2011-12. The same is reflected in the diagram below. The sudden dip in trends in year 2007-08 is followed by constant levels then a slight increase in FY 2011-12. The sudden dip of trends in FY 2008-09 is due to the formation of Zafarwal as a Tehsil. This is the major cause behind the lower collection of Local Rates in Tehsil Shakargarh. Thus, there is not much change in Local Rate tax collection due to tax policy or administrative changes other than the redefined Tehsil. This is in contrast to the decrease in exemptions noted for the UIPT collections in Tehsil Shakargarh.

Figure 2: Trend of Annual Local Rate (Rabi+Kharif) – Village Wise



DEMAND STATEMENT FOR LOCAL RATES-TEHSIL SHAKARGARH

The following tables are examples of demand statements prepared by the Patwari in Tehsil Shakargarh for Rabi Crop FY 1999-2000. In Table 6 only the demand for some villages/settlements is given, and Table 7 presents the complete assessment of Local Rate demand for Shakargarh. An amount of Rs. 195,087 under head Local Rate, Development Cess Fund, and special Local Rate was declared as the receivables by land revenue department for Rabi 2000 (These receivables would be nearly half of Rs. 389,781, the figure mentioned in the last column of Table 4, above, as at that time only Rabbi would have been assessed). There is no difference among Local Rate and Special Local Rate. They are just the heads used by the local revenue department to highlight Local Rate collected from Shia tax payers (under head Local Rate) and all others (under head Special Local Rate). If we compare the Local Rate collections (Rs. 194,017) for Rabi 2000 presented in Table 7 with Table 5 collections in FY 1999-2000, it shows that Kharif's collection are higher than Rabi 2000. This occurs because rice is a major revenue generating Kharif crop in Shakargarh and more lands are cultivated in Kharif Season than Rabi Season. This is also an important reason to assess the demand for Local Rate twice a year.

Table 6: Example of Demand Statement of Some Villages (under Consolidation) in Tehsil Shakargarh for Rabi Crop FY 1999-2000

Settlement/Chak/Village Number	Name of village/Mouza	Special Local Rate Rupees
58	Karhal	166
133	Bhear	561
136	Batli	290
225	Karaj	363
	Total:	1,380

As shown below, Rs. 195,087 is the total receivables for the FY 1999-2000 for Rabbi crop.

Table 7: Total Chak-wise Assessment of Rabi Crop FY 1999-2000, Tehsil Shakargarh

Name of Assessed Chak	Local Rate	Development Cess Fund	Special Local Rate	Total
Bhararee	787	457	60,712	61,956
Panetala	132	78	34,716	34,926
Derup	883	514	87,855	89,252
Bate Ravi	41	21	7,511	7,573
Under Consolidation	0	0	1,380	1,380
Total	1,843	1,070	192,174	195,087

ANALYSIS OF KEY INFORMANT INTERVIEWS

During the study, KIIs were conducted with 24 respondents. There were some cases when serving government officials preferred to avoid hard questions. To cover those missed questions, GINI identified and conducted KIIs with some recently retired government servants. The key findings from the KIIs are presented in this section. In the first portion of this section, the respondents are identified and following this the questions posed to them are presented. The next sub-section presents a summary of the views expressed in the KIIs about UIPT issues, and the final sub-section covers the Local Rate.

List of Respondents

The following is a list of responds who participated in the interviews:

- Mr. Ch. Muhammad Iqbal, EDO, Finance & Planning, Tehsil Shakargarh
- Mr. Muhammad Shahbaz, Assistant ETO , Tehsil Shakargarh
- Mr. Muhammad Khalid, Excise Inspector, Tehsil Shakargarh
- Muhammad Sarfaraz, Naib Tehsildar, Tehsil Shakargarh
- Mr. Naseer Ahmed Aulakh, Naib Tehsildar, Senior Trainer at Patwar School
- Mr. Mohammed Yousuf, Senior Excise and Taxation Officer- ETO (Property)
- Mr. Liaqat Khan, Qanungo, Tehsil Shakargarh
- Mr. Muhammad Afzal, Wasilbaqi Navees, Tehsil Shakargarh
- Mr. Muhammad Farooq, Patwari, Tehsil Shakargarh
- Mr. Safdar Saleemullah, DDO Revenue (Retired)
- Mr. Mohammed Nasir, Senior Clerk (Valuation and Assessment), E&T Department, Rawalpindi
- Mr. Rashid Mahmood, Constable, Excise Department, Tehsil Shakargarh
- Mr. Mohammad Khan, Retired Tehsildar and Senior Teacher at Patwar School, Lahore
- Mr. Malik Mohammad Ali Ghalloo, Retired Tehsildar
- Mr. Syed Asghar Ali, Assistant Commissioner-Revenue (Retired)
- Mr. Qazi Muhammad Abid, Ex-Lumberdar and Union Council Nazim
- Mr. Raja Abdul Qadeer Qanoongo
- Mr. Lateef Ahmed, Patwari
- Mr. Shahid Hanif, Patwari
- Ms. Jannat Bibi (widow), Urban Property Owner
- Mr. Khalid Mahmood, Urban Property Owner
- Mr. Mohammad Amin Rural Land Owner
- Mr. Aqeel un Nabi, Advocate (Civil)
- Mr. Muhammad Hanif, Retired Federal Government Employee and Property Owner

Interview Outline

The following outline of questions was prepared, pre-tested and implemented to guide the discussion in the KIIs:

URBAN IMMOVEABLE PROPERTY TAX (UIPT)

- Why do the taxation practices differ from the law?
- Did the recent (proposed) legislation for the urban property tax have any impact on improving the system?
- What is your perception of preferential treatments, such as the reduction in the tax base from discretionary relief?
- Do you think such preferential treatments have a significant impact on revenue generation?
- In your opinion what are the major causes for the decrease of exemptions in appeal cases?
- Do you think that UIPT exemptions should be decreased?
- In your opinion, what is the reason for the difference between the assessed value of property and the market value?
- What do you think are the implications of this differential?
- What do you think can be done to reduce the differential between the assessed value and market value?
- What are the reasons behind non-revision of the UIPT valuation lists?
- What is the process by which new areas are included in the tax net?
- What is your tax collection efficiency? Do you think it has improved over time?
- Do you think any legal changes are required to improve the UIPT system?
- Do you think any administrative changes are required to improve the UIPT system?
- Please provide us with some of your recommendations to improve the current UIPT system.

LOCAL RATE

- What is the mode of transaction for collecting Local Rate?
- Who collects the Local Rate?
- What is your collection efficiency?
- Why has the Local Rate not been updated?
- Do you think the Local Rate should be reassessed? If yes, under what criteria?
- Do you think the Local Rate should be ad valorem?
- What do you think could be the difficulties in calculating ad valorem tax?
- Do you think that Local Rate exemptions should be decreased?
- Do you think that the Usher Declaration has helped towards better collection of Local Rate?
- Do you think any legal changes are required to improve the Local Rate collection in the current property tax system?
- Do you think any administrative changes are required to improve the Local Rate collection in the current property tax system?
- Please provide us with some of your recommendations to improve Local Rate collection in the current property tax system.

UIPT Evaluation and Key Research Results

LAWS VS. ACTUAL PRACTICES

The KIIs showed that UIPT is being affected by a number of problems. For example, the UIPT is still being largely managed by the provincial government, regardless that these powers have been devolved to the local governments as per LGO, 2001 (Second Schedule, Part II, Sub-section 3 and Part III, Sub-section 5 as specified in Section 117). According to this legislation, the UIPT is assigned to be collected by the provincial E&T department on behalf of local governments. The revenues are then directly given back to these local governments after a deduction of 15% service charges. But due to significant political economy, this has never been implemented thereby keeping the UIPT captive with provincial government.

The Punjab government had earlier planned to transfer the administration of UIPT to local governments in 2012 but since then one can sense the reluctance in executing this. Interestingly, the tax rate setting powers have rested with local governments (City government and TMAs) since LGO, 2001, but they too have not shown any willingness to raise the tax rate or even recommend changes in tax rate to provincial government. This reluctance on the part of provincial and local government has resulted in low revenue yield and revenue growth through UIPT over a long period of time. Also, this has contributed towards the use of outdated valuation tables by Excise and

Taxation staff. The low yield and growth of revenues are also strongly related to a narrow tax base, tax preferences, and lack of proper assessment/under valuation.

Left-to-Right: Mr. Safdar Saleemullah, Mr. Qazi Abid, Nasim Khan Raja (GINI), Syed Asghar Ali, and Mr Danyal Kamal (GINI)

COMPLIANCE CULTURE AND ENFORCEMENT

Similarly, on the topic of tax compliance, most tax payers do not see any value/benefits from local governments in paying existing tax rate let alone a higher tax rate. The interviews revealed that the public does not provide the authorities with updated information and mostly try to find legal lacunas to somehow fall in exempted categories. There were some respondents who maintain that assessing officers sometime coerce the taxpayers for bribes. On the other hand, officials maintain that if tax payers verify their records with the property tax authorities it would dramatically improve the quality of information in the system. However, this response may be due to training issues because rules provide that it is the duty of these officials to verify submitted information and maintain an up to date record. The E&T department prepares the valuation lists that are made available to the public at offices and on the internet so that they may calculate their taxes themselves and avoid being coerced by these field officials. It was also observed that property tax officials view the current system of UIPT as a citizen friendly system with a safeguard against corruption and discretionary relief as compared to the previous system. Previously, the assessing authorities had to rely on their field officials for the assessment and preparing demand of each property. Though that valuation system generated more revenue, there were frequent and huge incidences of corruption and fraud by revenue officials.

During the KII's in Shakargarh, the research team came across an important finding about the general understanding of laws and rules among taxpayers. It was observed that most of the shopkeepers and property owners are either illiterate or do not have the ability to read and understand UIPT laws which are in English Language. This has contributed towards non-compliance to a great extent over a long period of time. Keeping this in mind, the government has introduced Urdu stamps and brochures to encourage a better understanding by the general public.

The respondents also complained about the non-cooperative behavior of commercial banks. Tax payers have to stand in long queues when they go to submit their tax returns. To avoid this, the taxpayers have to use informal collection techniques, usually from vendors/agents sitting outside the financial facility. Those agents charge an extra fee for swift processing of tax returns, and this system has agents effectively living on commissions, which is an additional cost to the public.

Unfortunately, the enforcement of UIPT has always been weak and ineffective such that defaulters were offered various packages, such as to submit their arrears, and the surcharge would be waived off. Even there were cases when the ETOs have used their discretionary powers to allow arrears settlement with payment of one or two years of arrears for the recovery of 5 years of arrears. When asked about the serving of a single legal notice/reminder to defaulters asking for clearance of dues, the administration was of the view that usually they serve at least two notices/reminders, but most of the time defaulters do not pay any attention. Also, these defaulters are legally pursued but due to lengthy judicial process the compliance of these defaulters remains low. However, it was found that sealing of the defaulter's property is the most effective way of increasing compliance rather than using the extreme measures of arrest and legal prosecution. Because the legal prosecution takes a lot of time due to weak judicial system in Pakistan, and the defaulter keeps on running his/her business activities. But the sealing of property effectively renders the defaulter in double jeopardy if he does not clear his arrears. In such a case, he has to pay the progressive fine as well as bear the cost of closure of business.

Moreover, it was revealed that historically the large tax payers based in Lahore have always resisted the increase in UIPT rate slabs by government. Whenever the Punjab Government has introduced a hike in tax rate, these large taxpayers have taken stay orders from court and these stay orders take 3 to 4 years till their decisions are made. This coercive attitude of large taxpayers certainly has some part to play in non-revaluation of tax rates.

However, the Punjab Government has enacted a new provision in the Finance Bill of Punjab (2012), through which the defaulters are subject to a 1% compounded surcharge each month on their arrears. This surcharge has to be paid and is not classified as 'qabil-e-maaf'[19] so it cannot be waived, and no authority has the legal power to waive this. Therefore, collections from arrears will not be able to be waived or reduced.

ASSESSMENT, UNDERVALUATION AND OUTDATED INFORMATION

The most important process deficiency in UIPT is that the property survey is not taking place and is delayed in some cases by 10 years or more. However, the KIIs revealed that when the process of valuation and assessment is conducted, it abides by, and is in accordance to, the Urban Immovable Property Tax Act of 1958. The Act requires that a committee surveys the properties of a particular area detailing nature, kind, construction, and location. This information is compiled and used by the committee to decide rating areas, at their discretion. However, the research also confirmed concerns that the discretion of the committee in assessing rating areas often makes the assessment questionable and surveys are unsatisfactory. Furthermore, the rating areas allow for certain properties to be overvalued or undervalued, either due to fewer rating areas, or because an older property in a rating area effectively has the same value as a newer property in the same area. This is an inherent limitation of the ARV system which could be reduced by performing more thorough and frequent evaluations of properties and rating areas using the actual market rates rental documentation as evidence, resulting in a more equitable taxation regime.

Properties that are in the tax base are significantly undervalued. It is difficult to make an objective estimate of the revenue cost of undervaluation because there are no independent estimates of property or rental values, and the government does not carry out a sales-assessment ratio study[20]. Some available data suggest a large degree of undervaluation. During the KII with the E&T Officer of Rawalpindi district, it was revealed that the valuation tables for Rawalpindi were revised in 2007 (though not for the rest of Punjab), but they were not approved due to various political and technical reasons[21]. He was also of the view that those revised 2007 valuation tables would have resulted in a fivefold increase in values of properties compared to the present 2002 valuation table. Instead, currently the only revenue growth comes from new properties that are being brought on to the tax rolls and from collections of arrears. None of the increase in values for properties already on the roll has been captured since 2000, the year of the last recalculation of location values, and even that was not in Punjab Province. In other words, the measurements of built-up areas, land use, and the condition of the surrounding infrastructure are all based on undervalued information.

[19] Qabil-e-maaf means "cannot be waived".

[20] "A sales ratio is the ratio of assessed value to market value, found from a property that has been sold. The sales ratio study provides information on the percentage relationship of assessed value to market value for real property in certain categories and geographic areas. Information is also provided on the variation in assessment levels among and within these categories and geographic areas. The year of the sales ratio study refers to the year in which the sales occurred. So, the 2013 sales ratio study refers to sales from 2013 and the assessed values applied to those same sales from the prior year, 2012."

[21] According to one of the key informants, large residential and commercial land owners in the district Rawalpindi exercise their influence to keep the 2007 tables in use. The key informant was not open to follow up questions and deeper probing of the reasons behind this policy.

Three points in particular require special note. First, because there are no sales-ratio studies, it is not possible to grade the effectiveness of the valuation process in estimating market value. Only anecdotal evidence is available regarding underassessment and about whether the process is fair in assigning the same values to similarly situated properties. Second, the government does not systematically evaluate the impacts of the various exemptions that have been given. For example, estimates of the revenue cost of the important 5 Marla exemption have not been made by the Government. Third, there are no surveys of all properties in urban areas. Therefore, there are doubts that the tax roll is comprehensive and up-to-date.

From above discussion, it can be concluded that, without taking concrete policy measures to plug the legal and administrative flaws to improve tax morale and compliance culture, the shifting of UIPT administration from ARV based system to the capital value based system will not be fruitful.

Left-to-Right: Mr. Naseer Ahmed Aulakh with GINI's Interview Team

LACK OF STAFF CAPACITY AND POOR SHAPE OF INFRASTRUCTURE

This research also revealed that The Excise and Taxation (E&T) department is lacking the capacity to perform adequate and thorough assessment surveys and valuation. Even with a more refined and upgraded structure of the UIPT, revenue growth will be held back because of the poor state of property tax administration. One problem is the major need to upgrade the skills and size of the staff that assess and collects the UIPT. A number of cases were observed where individuals had complaints about incorrect assessments of their property. The demand register records are also outdated, resulting in an overall undervaluation of property. According to the law, reassessment should be performed every 5 years, but reevaluation inevitably gets delayed for various reasons. At the E&T office in Rawalpindi employees complained about having inadequate record filing spaces. Files were stacked wherever there was enough space and were covered in dust. Broken tables, chairs, and the frequent power outages also constrained the staff from properly functioning. Also, the lack of technology such as the use of computers in record keeping and properly trained staff is another reason behind low efficiency of E&T staff.

Left-to-Right: Mr. Naseem Khan Raja (GINI) with Mr. Muhammad Yousuf (Senior ETO)

HIGH COLLECTION TRENDS IN SMALL URBAN UNIT

The records presented in the section on UIPT and Local Rate governance show that the UIPT collection and recovery in Shakargarh have steady and increasing trends over time. However, the KIIs revealed that the increasing collection trend and high collection rate in Shakargarh, being a much smaller, more manageable urban area, is not indicative of the larger urban areas in Punjab. For a comparison, a much larger urban area, Rawalpindi, was described in the KIIs as having a much lower rate of collections compared to their targeted demand and more noncompliance.

Left-to-Right: Mr. Mohammad Khalid (Excise Inspector Tehsil Shakargarh), Mr. Mohammad Sarfarz (Naib Tehsildar) and Mr. Daniyal Aziz (Lead Investigator)

EXEMPTIONS AND PREFERENTIAL TREATMENTS

The tax base has been significantly narrowed by exemptions and other preferential treatments (these are listed in Table 4). These preferential treatments create great inequities in the distribution of property tax burdens, contribute to noncompliance, and reinforce resistance to increasing the statutory rate and to improving valuation mechanism. The Punjab government does not keep record of the revenue cost of exemptions, however as per World Bank Report (2009), the estimated revenue cost of exemptions in 2006/07 turns out to be Rs. 3.7 billion or 130 percent of the level of demand for collections. If these exemptions and preferential treatments are abandoned, the UIPT collection can increase many folds. By way of comparison, as shown in Tables 3 and 4, for Shakargarh City in FY 2011-2012 UIPT collections were Rs. 5,167,230 while exemptions were Rs. 885,552. So exemptions were only 17.13 percent of the level of collections. Although this seems very little as compared to the World Bank study for Punjab, it should be kept in mind that Shakargarh is an underdeveloped Tehsil with low housing growth as well as less rating areas as compared to other cities in Punjab like Lahore, Faisalabad, Multan etc.

During KIIs many incidences of non-compliance were reported such as properties maintaining their owner-occupied status, even if they are rented. This is a concern for the tax administration because it allows tax payers to take advantage of the owner-occupied property exemption. This practice is speculated to result in a considerable reduction in revenue.

There were some favorable views towards the listed exemptions, government employees were especially proponents of most exemptions and concessions except the 5 Marla clauses. In their opinion, these exemptions are generally deemed to be necessary and do not contribute significantly to a reduction in revenue generation.

However, when the GINI research teams visited the targeted Tehsil, there were many 5-10 Marla residential areas whose type of construction and location were such that normally Rs. 10,000-15,000 rent per month was being charged. Further, it was reported that tax payers try to maintain the widow status for owner of property for at least 1 year to avoid being taxed. But when asked about decreasing exemption trends of widow property since 2009, the respondents said that effective assessment helped in controlling the misinformation by the tax payers as well as the mutation of widow properties to legal heirs after the death of owners.

The respondents were also questioned about the sudden disappearance of exemptions under the disabled person's category in FY 2011-12. The researchers were informed that no policy change has occurred with regard to abolishing this exemption rather, none of the tax payers have filed their returns by availing exemptions under this category, and no further investigation was done by the E&T department on this development. Similarly, the exemptions under appeal cases were non-existent since 2009. When asked about this the E&T officials explained that these were temporary exemptions given to tax payers during the process of their appeals against their arrears or any technical mistake in assessment by E&T officials. So, after 2008, there were no pending appeal cases which reflect on the efficient performance by E&T administration.

EXTENDING THE UIPT TO LLLS

Interesting evidence from this research is the existence of developed areas found in designated rural localities (LLLs) of Tehsil Shakargarh. During field visits, it was found that the average size of a house in rural localities is almost 1 Kanal, and the owners have invested heavily in its construction. But there is no implementation of UIPT on these houses as these are not under the administration of TMA which is the prerequisite for taxing these areas as per UIPT Ordinance 1958.

Left-to-Right: Mr. Daniyal Aziz (Lead Investigator) with Mr. Mohammad Afzal (Wasilbaqi Navees) and Mr. Liaqat Khan (Qanungo) at Shakargarh during KIIs

During KIIs, most of the respondents from E&T department were of the view that if the UIPT were extended to the LLLs initially it should not be implemented on residential properties but rather its implementation on commercial property should be considered. In their opinion, the cost of collecting the UIPT from residential properties would be significantly higher as compared to the collection cost of commercial property. GINI found that there are total 13 organized markets in these localities which contain a total of 2,685 shops. There are a further 1,815 shops located across the LLLs of Shakargarh not in organized market areas (see Annex-VI for village-wise number of shops). The average size of the shop was 1 Marla.

Local Rate Evaluation and Key Research Results

LAW, PRACTICES AND HISTORICAL BACKGROUND

The most import research finding about the Local Rate was the fact that it is administered as a separate local land tax, and the Local Rate assessment and collection rules 1980 have no relevance and synergy with the Land Revenue Act of 1967. Historically, various politically motivated decisions have hampered the full implementation of the laws. In Punjab, initially the Local Rate was part of the Malia which was on produce and was assessed twice a year in Rabi and Kharif Crops by a settlement officer. One fourth of the net profits made by a farmer on produce was considered as Malia, and 60% of that Malia was Local Rate. In 1980 its rate was fixed as explained earlier, but the collection was kept at the same sequence of twice per annum during Rabi and Kharif, which is also very confusing.

During Bhutto's period, for the first time the exemptions were introduced in the Land Revenue Act 1967 to get political sympathy of small land owners. Owners having irrigated land area less than 12.5 acres were exempted. Currently, there are also numerous cases of owners dividing up their land by registering it in the names of their family members. This allows for the tax to be levied not on the entire land holding, rather on the share of the individual owner. The smaller land holding allows owners to take advantage of exemption to avoid paying taxes.

After the introduction of Usher Declaration during Zia's Regime, the Malia was abolished and 1/10th of total revenue was considered as the Land Tax (Usher), but the Shia Community were exempted from this Usher; they were allowed to be taxed under previous law. The general Local Rate was fixed at Rs.2/Acre of irrigated land. To this date, most of the respondents are of the view that Usher Declaration was not a better system as compared to the Land Revenue Act of 1967. In reply to the question about an increase in the tax rate, respondents were of the view that the Board of Revenue (BOR) was supposed to assess the criteria and increase the tax rate, which they have not done.

Further, the mutation fee in 1990-95 was 8%, but this was reduced to 4% of the value of land due to the increased cost of land. The BOR decided to award 1% from all registries to the public school, but a case was lodged in high court in Lahore and it determined this hike illegal.

TAX RATE, BASE AND REVENUE GROWTH

Overall, the current Local Rate system was viewed unfavorably by respondents. It was explained that the current system of fixed Local Rate per acre/crop season was developed without proper assessment and valuation of land. In their view, it was adjusted to a fixed rate in 1983 to fulfill a predetermined revenue target suggested by the World Bank and IMF. The assessment through value of produce in the Land Revenue Act 1967 was not followed while making the Local Rate Rules 1980; many important variables were ignored during assessment and valuation followed the application of an arbitrary rate system developed to attain the targeted revenue. The parallel Land Revenue System of 1967 was regarded more favorably because it accounted for many more variables, including the tax payer's capacity to pay by implementing the tax on net profits made by farmers.

Furthermore, some respondents were of the opinion that the Local Rate should not be inflated to current prices in order to increase revenue. There is already too great a burden on most farmers, except those with large land holdings. With ever increasing cost of inputs, the farmer has no capacity to pay an inflated Local Rate, however, other respondents disagree. They were of the view that to achieve the higher revenue growth, the government should increase the rate, abolish the exemptions, and broaden the tax base, as well as make General Local Rate an ad-valorem tax.

Left to Right: Mr.Mohammad Afzal (Wasilbqi Navees) with Mr. Liaqat Khan (Qanungo) during discussion on Local Rate

ADMINISTRATION AND CAPACITY BUILDING

Though Local Rate (fixed rate) and Land Revenue Tax (revenue based rate) are separate systems of land taxes, they are currently administered by the same revenue authorities. Although Local Rate is a fixed rate tax, there is a need to assess the usage of land. If the land has been wasted due to soil salination or any other factor, the Local Rate cannot be levied. Other administrative weaknesses emerged during the KIIs which can affect the collection. One important outcome of the KIIs was that, according to the Land Revenue

Act 1967 as well as Local Rate Assessment and Collection Rules 1980, the Patwari cannot handle the money for the collection of either type of land taxes. This is the job of the Lumberdar. However, the Patwari often ends up collecting the money. In some localities, where tax revenue is low and people are unwilling to pay, sometimes the Patwari has to pay almost 60% of the Local Rate out of his own pocket to fulfill his official duty and to report his efficiency to higher authorities. Historically, even the Lumberdar collected the Local Rate from tax payers through "Chokidara" System (Chokidars were the subordinates of lumberdar). But since the abolishment of Chokidara System, the collection of Local Rate has become difficult for a Lumberdar, and currently only 20%-30% Lumberdars in Tehsil Shakargarh come to Wasilbaqi Navees[22] to submit the collected Local Rate and get a voucher. Such low performance is due to the fact that the Lumberdar has to pay Rs. 200-300 as a transport cost from a village for a submission of Rs. 400 Local Rate to the Wasilbaqi Navees. Thus, the low collection efficiency by the Lumberdar is because of two main reasons; the abolishment of Chokidara System and a low tax rate.

Furthermore, the respondents were in favor of computerization of land records for reducing the corruption and coercion in land revenue departments, but stress the need for an online land record information system. It was their opinion that current computerization activity is a mere data entry exercise, with no intentions of making this system online in the near future. The KIIs suggest that the land records should be accessible online by owners as well as by district and provincial revenue officials.

Most importantly, data entry should be centralized at the Patwari level, rather than parallel data entry at higher levels (i.e. at the Tehsil and provincial levels). This is because the Patwari is the most accessible point of contact for the taxpayer/landowner, and inaccuracies (deliberate or otherwise) can be assessed by the latter at the data entry stage. The additional risk of corruption by placing this function under the Patwari will need to be mitigated by an alternate grievance redress mechanism to source complaints at a level above the Patwari i.e. at the Tehsildar or Qanungo levels.

It was also explained that currently the only person reporting from the field is the Patwari. At present, the Patwari is the only individual with the requisite field knowledge and information, as he goes to every land holding in his area twice per annum. It was suggested that the government should start medium term projects to train and educate the Patwari and improve their skills. The anti-corruption rehabilitation programs are necessary as the Patwari System is not bad, but there are legal and administrative loopholes that allow corruption to run through this system.

Left-to-Right: Mr. Daniyal Aziz (Lead Investigator), Mr. Rashid Mahmood (Constable, E &T) and Mr. Mohammad Farooq (Patwari) at Shakargarh during KIIs

[22] Record Keeper for recovery of Government dues and arrears.

SIMULATION MODELLING ON REVENUE EFFECTS

In this section, we estimate the UIPT revenue lost due to various exemptions and undervaluation of property through simulation modeling for urban areas of Tehsil Shakargarh. We call our simulations "stress analyses". During the field visits and surveys, GINI's research team found out that there are substantial Lal Lakeer Localities which have developed residential and commercial properties and the characteristics of their properties are similar to that of urban area but they are not in the tax net. This finding, as noted above, came as a confirmation of earlier results showing the inability of government to improve property scrolls by announcing new rating areas. Taking the LLLs into account we have conducted simulations for implementing various UIPT policy options to assess the revenue effects of taxing such developed rural localities of Tehsil Shakargarh. We also present the revenue effects of implementing such policy options in the whole Punjab province.

As far as the Local Rate is concerned, this research indicates that the estimated target for collection is itself based on actual collections. This indicates an unwillingness of local authorities, so far, to find ways to increase the Local Rate collection by setting estimated targets based on some kind of innovative simulations. We have simulated certain policy options to increase the Local Rate revenue by removing the exemptions as well as adjusting the nominal Local Rate for inflation.

Simulations for UIPT Revenue

The following three policy options for revising UIPT include updating valuation in urban Shakargarh, extending the UIPT to LLLs in Tehsil Shakargarh along with other valuation changes, and widespread valuation changes across the whole Punjab province.

REVENUE EFFECTS OF UPDATING UIPT VALUATION IN URBAN SHAKAGARH

In FY 2011-12, the total UIPT revenue (both residential and commercial) from Shakargarh rating areas was Rs. 5,167,230 (see Table 3) out of which 79.8% was generated from commercial property. This revenue is the result of outdated UIPT valuation tables and with unexpectedly high table rate differentials of owner occupied vs. rented properties. Ignoring the rate differentials, if we index this current UIPT revenue using inflation from 1998 to 2011 to reflect more up-to-date rates, the total potential UIPT revenue results in Rs. 20,043,468, which more accurately reflects prevailing market rents of residential and commercial properties.

As evident from above sections, the property structure of Pakistan, particularly focusing on Punjab, is riddled with exemptions, preferential treatments, and discretionary relief. This has eroded the tax base and it can be rightly said that without removing these loopholes, not a single reform option can be effective in achieving its outcomes and goals. The estimated UIPT revenue loss in FY 2011-12 associated with various exemptions in Tehsil Shakargarh is currently Rs. 885,552 (see Table 4) which is 17.13% of the actual UIPT collection of Rs. 5,167,230. If we were to add this amount lost to exemptions back into the revenue pool, and then update for inflation as done previously, we find potential UIPT revenue to be Rs. 23,478,487. This is a significant amount if analyzed overtime and keeping in mind that Tehsil Shakargarh is comparatively less developed than most of the Tehsils in upper Punjab.

EXTENDING UIPT TO LLLS IN SHAKAGARH WITH CURRENT OR REDUCED DIFFERENTIALS AND ACCOUNTING FOR HOUSING GROWTH AND INFLATION

The revenue presented above can be enhanced manifold if we implement UIPT in LLLs, as the KIIs and field visits suggest that the owners of properties in LLLs have developed them to such an extent that there is minimum difference between a property in the urban area of Shakargarh and a property in LLLs.

In these simulations, the residential and commercial UIPT projection is presented when the tax base is updated to 2011 levels by extrapolating housing growth and reducing differentials between rented and owner occupied houses and shops. We include both residential properties and commercial shops in order to compare the potential tax revenue from each property type. We tried to utilize the best data sets from the available sources. We consulted the Population and Housing Census data as well as data from agricultural census. We were unable to find reliable indicators from all these sources. So, in the end, we had to use the data sets from the 1998 district census report because there were enough indicators that we could work with by using minimum assumptions and get the most valid estimates for 2011. Table 8 below reflects general data about number of residential units after housing growth and associated working assumptions for the simulations. The data for commercial properties in LLLs is latest as of 2011 (see Annex-VI). Thus, no additional adjustment for commercial property growth has to be taken into accounted.

Table 8: General Data and Assumptions for Simulating UIPT in LLLs of Tehsil Shakargarh

Estimated No. of Total Houses* with Housing Growth	101,576	2011 Estimates
Estimated No. of Pacca Houses in 2011	72,734	Assumed Located on Main Road and Owner Occupied
Estimated No. of Semi Pacca Houses in 2011	7,225	Assumed Located on Off Road and Owner Occupied
Estimated No. of Katcha Houses in 2011	21,617	Assumed Located on Off Road and Owner Occupied (and 1:10 differential applied throughout Stress Analysis in light of equity concerns of poor households)
Estimated No. of Shops** in 2011	4,500	Assumed Located on Main Road and Owner Occupied (no property growth is undertaken throughout stress analysis as data is latest up till 2011)
Percentage of Houses under Poverty Line	19%	Poverty Survey by SDPI, 30th September, 2012
Total No. of Houses under Poverty Line based on simulation assumption	19,299	The no. of Households under poverty line are all assumed Katcha houses
Annual UIPT of a Katcha House in Rs.	707	Assumed constant at 1:10 differential and with Current Table Rates in light of equity concerns of poor households
Projected Revenue Loss due to Exemptions (Million Rs.) due to simulation	13.6	Households living under poverty line are exempted in simulation analysis

*Average Area of a Residential House is assumed 1Kanal and equally divided into Land and Covered Area.

** Average Area of a Shop is assumed 1 Marla (272 Sq. Ft)

As discussed in the previous policy option, exemptions have a dramatic negative effect on UIPT revenues. Because of this, we have implicitly removed all existing exemptions in the following simulations by multiplying UIPT demand per household by the total number of households in the Tehsil. However, Table 8 also shows that an estimated 19% of the population lives below the poverty line. As a result, in the interest of equity concerns for the poor, the subsequent simulations have awarded exemptions to 19% of the houses which are assumed to be inhabited by those under the poverty line. It is assumed such house are all Katcha houses. In further consideration of relatively poor households, for those remaining Katcha houses that are assumed to be taxed the 1:10 differential (status quo) between owner occupied and rented is maintained in the stress analysis.

Table 9 shows the potential revenue generated at various differential levels for updated residential and commercial properties in LLLs. The current differential of table rates for owner occupied and rented properties are 1:10 for residential and 1:5 for commercial. The potential UIPT revenue at a certain differential level for residential properties is calculated by multiplying annual UIPT of a house on main road (assumed Pacca houses), annual UIPT of a house on off road (assumed Semi Pacca Houses and Katcha houses) with the total number of Pacca houses, Semi Pacca, and Katcha houses (excluding those assumed not to pay the tax) presented in Table 8, respectively. A similar method is used for calculating potential commercial UIPT demand at each differential level with associated assumptions discussed in above the mentioned table. The base tax rates (status quo for owner occupied houses) that these differentials are applied to are Rs. 1,066 for residential Pacca homes and Rs. 707 for residential Semi Pacca and Katcha houses. The base tax rate is Rs. 652 for owner occupied commercial shops. Table 9 depicts total estimated annual UIPT revenue for the simulations of both residential and commercial properties as owner occupied rates are raised toward rental property rates, along with the average per household/per shop burden. For houses, as the differential is closed between owner occupied and rental properties, the increase in tax rate from 20% to 25% for annual rental values exceeding Rs. 20,000 (discussed in the third section) also affects tax revenue.

What we find within the simulations is that overall, the maximum combined potential UIPT from the LLLs is Rs. 1,039.76 million. This is made up of a potential increase from residential UIPT of Rs. 1,025.65 million and an increase in commercial UIPT revenue of Rs. 14.11 million. At the minimum, if status quo residential and commercial differentials are simply extended to LLLs, the combined potential revenue would be Rs. 87.21 million, with residential accounting for Rs.84.28 million and commercial accounting for Rs. 2.93 million. All of these are impressive amounts when compared to the fact that current UIPT revenue for the entire tehsil is slightly over Rs. 5 million. Overall annual average tax burden per household shown in Table 9 is calculated as the total simulated tax revenue divided by the total number of Pacca, Semi Pacca and Katcha houses on which taxes are paid. This average tax burden goes from Rs. 1,024 to Rs. 12,466 as the differential between owner occupied and rented rates is equalized by raising rates on owner occupied houses. For commercial shops, the average annual tax burden increases from Rs. 652 to Rs. 3,132.

Table 9: Potential Residential UIPT Demand and Commercial UIPT Demand at various Differential Levels with Housing Growth for Tehsil Shakargarh*

Differential Levels of Owner Vs Rented Residential Property	Residential UIPT Revenue in PKR (millions)	Differential Levels of Owner Vs Rented Commercial Property	Commercial UIPT Revenue in PKR (millions)	Total Potential Annual UIPT in LLLs of Shakargarh in PKR (millions)	Annual Average Tax Burden Per Household in PKR	Annual AverageTax Burden Per Shop in PKR
1:10 (Status Quo)	84.28	1:5 (Status Quo)	2.93	87.21	1,024	652
1:5 (Mid Point)	166.85	1:2.5 (Mid Point)	5.64	172.49	2,028	1,253
1:2.5 (Half of Mid Point)	409.66	1:1.25 (Half of Mid Point)	11.23	420.89	4,979	2,506
1:1 (Equalized)	1,025.65	1:1 (Equalized)	14.11	1,039.76	12,466	3,132

*The estimates of commercial property i. e Shops are up to date so no tax base grow th w as accounted for.

Inflation adjusted potential revenue for residential and commercial properties is presented collectively in Table 9. We have used a GDP deflator from 1998-2011 to adjust the revenues so that it could reflect the impact of inflation adjusted rate changes if they had been indexed and updated during these years. The data used for these calculations is otherwise the same as presented in Table 8 and results are presented with the same structure as in Table 9.

Table 10: Inflation Adjusted Total Annual Revenue Impact of Residential and Commercial Properties at Various Differential Levels and Accounting for Housing Growth for Tehsil Shakargarh

Differential Levels of Owner Vs Rented Residential Property	Residential UIPT Revenue in PKR	Differential Levels of Owner Vs Rented Commercial Property	Commercial UIPT Revenue in PKR	Total Potential Annual UIPT in LLLs of Shakargarh	Annual Average Tax Burden Per Household in PKR	Annual Average Tax Burden Per Shop in PKR
1:10 (Status Quo)	326.92	1:5 (Status Quo)	11.39	338.31	3,973	2,530
1:5 (Mid Point)	647.21	1:2.5 (Mid Point)	21.87	669.08	7,866	5,060
1:2.5 (Half of Mid Point)	1,589.07	1:1.25 (Half of Mid Point)	43.74	1,632.81	19,314	10,121
1:1 (Equalized)	3,978.45	1:1 (Equalized)	54.67	4,033.12	48,355	12,651

By adjusting the rates for inflation, we ended up with an easily anticipated outcome; massive increases across the board in potential UIPT revenue. These potential increases culminate with a maximum combined residential and commercial revenue of Rs. 4,033.12 million.

During field visits and KIIs, we found that prevailing market ARV of a 1 Kanal house and 1 Marla shop are Rs. 143,035 and Rs. 62,640 respectively. As a final simulation, in Table 11 we have revised the UIPT valuation rates (instead of indexing for inflation) to reflect the actual market rent. As calculations are based on Actual Market ARV, the differential level is assumed fixed at 1:1 between owner occupied and rented properties. By implementing this policy potion, the government can generate approximately Rs. 2,825 million rupees from Tehsil Shakargarh.

Table 11: Potential Annual Revenue Impact of Residential and Commercial Properties at 1:1 Differential Level and with Updated Valuation Table Rates Reflecting Actual Market ARV for Tehsil Shakargarh

Differential Levels of Owner Vs Rented Residential Property	Residential UIPT Revenue in PKR (millions)	Differential Levels of Owner Vs Rented Commercial Property	Commercial UIPT Revenue in PKR (millions)	Total Potential Annual UIPT from LLLs of Shakargarh PKR (millions)	Annual Average Tax Burden Per Household in PKR	Annual Average Tax Burden Per Shop in PKR
1:1 (Equalized)	2,825.96	1:1 (Equalized)	56.38	2,882.34	34,347	12,528

CALCULATING OVERALL REVENUE EFFECT OF SIMULATED RESIDENTIAL UIPT POLICY OPTIONS FOR PUNJAB

In the following tables, we have calculated Punjab's overall revenue increase when the above mentioned residential UIPT policy options for Shakargarh are implemented at the provincial level. The tables below only show the revenue effects of implementing residential UIPT in Punjab as the data for total commercial properties in Punjab province was not available. Table 12 depicts the estimated total houses in Punjab as of 2011 and various assumptions associated to the types of houses. In this table, we have awarded the same 19% poverty exemption to Katcha houses (as done in the previous simulations) and maintained the same 1:10 status quo differentiation for taxed katcha houses) throughout the simulations. The estimated annual total loss of revenue through awarding the proposed below poverty line exemptions is Rs.1,274 million in Punjab. This is well below the previously discussed World Bank (2009) estimate for existing exemptions of Rs. 3.9 billion for 2006-07. Assumptions have been made in our simulations that lead to this difference. We are comfortable making these assumptions to provide a picture of the possible revenue increases. If anything, our assumptions have understated the amount of revenue which could be gained.

Table 12: General Housing Data and Associated Assumptions for Simulating UIPT for Punjab Province

Estimated No. of Total Houses* with Housing Growth	9,488,071	Estimated from 1998 Census Data with the help of Population Growth and average household size
Estimated No. of Pacca Houses in 2011	4,959,030	Assumed Located on Main Road and Owner Occupied
Estimated No. of Semi Pacca Houses in 2011	829,847	Assumed Located on Off Road and Owner Occupied
Estimated No. of Katcha Houses in 2011	3,699,194	Assumed Located on Off Road and Owner Occupied
Percentage of Houses under Poverty Line	19%	Poverty Survey by SDPI, 30th September, 2012
Total No. of Houses under Poverty Line based on simulation assumption	1,802,733	The no. of Households under poverty line are all assumed Katcha houses
Annual UIPT of a Katcha House in Rs.	707	Assumed constant at 1:10 differential and with Current Table Rates in light of equity concerns of poor households
Projected Revenue Loss due to Exemptions (Million Rs.) due to simulation	1,274.53	Households living under poverty line are exempted in simulation analysis

*Average Area of a Residential House is assumed 1Kanal and equally divided into Land and Covered Area.

Table 13 reflects the projected revenue yield for each differential level of valuation rate when the tax base accounts for housing growth. Maintaining the status quo differential levels, Punjab can generate approximately Rs. 7.2 billion. If this differential is equalized, the revenue from residential UIPT can be enhanced up to Rs. 73 billion. This is a handsome expansion in national exchequer when keeping in mind that commercial UIPT revenue is not calculated. As the KIIs noted, the commercial UIPT revenue forms the backbone of current UIPT collections in Punjab. The average annual tax burden on a household ranges between min Rs. 937 to Rs. 95,93 depending on which differential level is selected by the policy makers.

Table 13: Net Residential UIPT Demand with Reducing Differentials and Accounting for Housing Growth for Punjab Province

Differential Levels of Owner Vs Rented Residential Property	Revenue in PKR (millions)	Annual Average Tax Burden Per Household in PKR
1:10 (Status Quo)	7,213.83	937
1:5 (Mid Point)	13,081.89	1,702
1:2.5 (Half of Mid Point)	30,113.45	3,918
1:1 (Equalized)	73,727.60	9,593

Table 14 shows results when we adjusted the residential UIPT demand for inflation to reflect the indexed valuation rates. The projected residential UIPT yield at 1:1 differential swells up to approximately Rs. 289 billion from Rs. 60 billion calculated for the equality of levels in the first policy option. The annual tax burden per household is between Rs. 4,118 to Rs. 3,689.

Table 14: Net Inflation Adjusted Residential UIPT Demand with Reducing Differentials and Housing Growth for Punjab Province

Differential Levels of Owner Vs Rented Residential Property	Revenue in PKR (millions)	Annual Average Tax Burden Per Household in PKR
1:10 (Status Quo)	31,651.45	4,118
1:5 (Mid Point)	54,413.44	7,080
1:2.5 (Half of Mid Point)	120,478.12	15,676
1:1 (Equalized)	289,655.58	37,689

If we use the updated valuation rates based on actual ARV of a 1 kanal house (as in Shakargarh) to calculate the residential UIPT revenue increase in Punjab, the province can generate Rs. 205 billion in total with annual tax burden of Rs. 26,753 on each household, shown in Table 15 below. The valuation rate differential of 1:1 is used again because the ARV is market based, so there will be no difference in the ARV of rented and owner occupied residential properties.

Table 15: Net Residential UIPT Demand at 1:1 Differentials with Housing Growth and Updated Valuation Rates Reflecting Actual Market ARV of 1 Kanal House

Differential Levels of Owner Vs Rented Residential Property	Revenue in PKR (millions)	Annual Average Tax Burden Per Household in PKR
1:10 (Status Quo)	205,602.35	26,753

The residential UPIT revenue generated in Table 15 (approx. Rs. 200 billion) by implementing the last UIPT policy option in Punjab can alone fund the entire National Plan of Action 2013-2016 for Achieving Universal Primary Education in line with the MDGs Acceleration Framework which will cost Rs. 188.68 billion over the period of three fiscal years[23]. Under this plan, 5.06 million new students will be enrolled in the existing as well as newly built schools, and a further 10 million existing and newly enrolled children belonging to disadvantaged groups will be given incentives for access and retention. Around 7 million children from Punjab will benefit from this NPA 2013-2016.

As another comparison, the energy sector circular debt has again accumulated in early 2014 to Rs. 136 billion in just three months after clearing over Rs. 562 billion energy sector circular debts through cash payments, bonds, and book adjustments. There are talks to transfer the electricity distribution companies at book value to provinces. In case this happens, the Punjab province could deal with circular debt with considerable ease with the financial cushion provided by the simulated residential UIPT revenue.

In the end, the above mentioned policy options and revenue effects are mainly focused on the legislatures, policy makers, and provincial economic managers to choose the best politically and technically feasible UIPT policy option.

Simulations for Local Rate

According to 2012 records, the total cultivated land area of Tehsil Shakargarh is 185,631 acres. Of the total cultivated land area, only 132,521 acres are currently considered taxable land. The remaining 53,110 acres of lands are tax exempt. According to the Local Rate Assessment Rules 1980, the Local Rate is set at Rs. 2/acre for irrigated land and Rs. 1/acre for non-irrigated lands each crop season. Table 16 below shows the statistics for Local Rate collection in Tehsil Shakargarh for the FY 2012 (2011-2012).[24] Their revenue collection targets for both the Rabi and Kharif crop seasons were successfully met. It is important to note here that though Tehsil Shakargarh is arid, there are both irrigated and non-irrigated lands in Tehsil Shakargarh. The tube wells and rain water canals are the main source for irrigation.

[23] National Plan of Action –Achieving Universal Primary Education 2013-2016, by Ministry of Education, Training and Standards in Higher Education GoP, PP 28, Table NPA 3 or visit http://planipolis.iiep.unesco.org/upload/Pakistan/Pakistan_National_plan_of_action_2013-2016.pdf

[24] See annex VII for official document breaking down the local tax acreage for tehsil.

Table 16: Statistics for Local Rate of Tehsil Shakargarh, FY 2011- 12

Sr. No.	Local Rate	
1	Total cultivated Land (Acres)	185,631 Acres
2	Total cultivated Taxable Land	132, 521 Acres
3	Taxable Irrigated Land (Rabi Crop)	29,939 Acres
4	Taxable Non-Irrigated Land (Rabi Crop)	102,582 Acres
5	Tax Exempted Land (Rabi Crop)	53,110 Acres
6	Target for Collection of Local Rate (Rabi Crop)	Rs.162,460
7	Target for Collection of Local Rate (Kharif Crop)	Rs.161,900
8	Actual Collection of Local Rate (Rabi Crop)	Rs.162,460
9	Actual Collection of Local Rate (Kharif Crop)	Rs.161,900

Source: Revenue Department, Narow al

The following simulation analyses demonstrate three different scenarios highlighting land revenue growth potential in the Tehsil.

LOCAL RATE: INCREASE IN TAX REVENUE BY REMOVING EXEMPTIONS

According to the Punjab Land Revenue Amendment Ordinance 1983, owners of small land holdings, 2.5 acres of irrigated and 5 acres of non-irrigated land, are exempted from paying the Local Rate tax. The next few passages show, through removing these exemptions, what the total tax revenue from all cultivated taxable land holdings would be. However, removing the exemption would impose the tax on operators of the smallest farms, many of whom would be poor households.

Due to the existence of both irrigated and non-irrigated land in the target Tehsil, we are assuming that the tax exempt land of 53,110 acres have the same percentage of irrigated and non-irrigated lands as does total cultivated taxable land. This assumption results in 12,215 acres being the irrigated land and 40,895 acres being the non-irrigated land out of tax exempted land. At the same time we have also assumed that the Kharif acreage for cultivated taxable land is same as for Rabi, however, actually there is a small amount fluctuation (which we have considered negligible) in cultivated lands for Kharif as some land was not cultivated depending on farmers' decision.

To begin we calculate the potential tax revenue from irrigated lands for both crop seasons.

Rabi Crop = 42,154 Acres x Rs. 2/Acre = Rs 84,308
Kharif Crop = 42,154 x Rs. 2/Acre = Rs 84,308
Tax Revenue from total taxable irrigated land holdings (without any exemptions) = Rs. 168,616

This is an increase, but we can show even more potential revenue from removing the exemptions on non-irrigated lands.

Rabi Crop = 143,477 Acres x Rs. 1/Acre = Rs 143,477
Kharif Crop = 143,477 Acres x Rs. 1/Acre = Rs 143,477
Total Annual Tax Revenue from Taxable non-irrigated Land Holdings (without any exemptions) = Rs. 286,954

Finally, if we were to implement both of these possibilities, we end up with the total potential revenue from removing exemptions.

Total Annual Local Rate Revenue (without exemptions) = Rs. 455,570

By subtracting actual collection totals (see Table 16) from our estimates of the possible collection totals if exemptions were removed, we are able to estimate the revenue loss for both Rabi and Kharif Crop, as a result of the tax exemptions:

Rs. 455,570 – Rs. 324,360 = Rs. 131,210

This scenario estimates the total annual revenue loss for the Rabi and Kharif crops to be Rs. 131,210. Considering that Teshil Shakargarh is a much smaller as well as an arid area compared to other Tehsils in Punjab, this simulation demonstrates that rethinking the law regarding exemptions has a strong potential to significantly increase land revenue generation in the province through Local Rate.

LOCAL RATE: REVENUE GROWTH BY INCREASING THE STATUTORY TAX RATE WITH AND WITHOUT EXEMPTIONS

The Local Rate was Rs. 1/acre since 1929 and after partition; it was increased only once in 1983, to Rs. 2/acre for irrigated lands, by doubling its nominal value regardless of inflation. Since 1983 the rupee has undergone years of rapid inflation, yet the Local Rate remains unchanged. At present, in FY 2012-13, the Local Rate is still Rs. 2/acre for irrigated and Rs. 1/acre for non-irrigated lands per crop season. Taking a real value approach, by adjusting for inflation since 1949, to the 1983 rate change (from Rs. 1/acre to Rs. 2/ acre), at that time the government should have adjusted the Local Rate to Rs. 20/acre instead of Rs. 2/acre for irrigated lands and Rs. 10/acre instead of Rs. 1 for non-irrigated lands. Our simulation analysis provides a chart of inflation adjusted Local Rate. If we extend our inflation adjustment from 1949 to 2011 the adjusted estimates are Rs. 232/acre for irrigated and Rs.114/acre for non-irrigated lands.[25] Total revenue from current taxable land (132,521 acres) in Tehsil Shakargarh comes out to be Rs. 37,280,392. This increase is higher if the exemptions are removed. This simulation is elaborated below.

Inflation Adjusted Annual Local Rate Revenue with Exemptions

To begin we will show the possible revenue from updating the Local Rate for inflation with the current exemptions intact. Below are the calculations for irrigated and non-irrigated lands.

Rabi Crop = 29,939 Acres x Rs. 232/Acre = Rs 6,945,848
Kharif Crop = 29,939 x Rs. 232/Acre = Rs 6,945,848
Tax Revenue from total taxable irrigated land holdings (with exemptions) = Rs. 13,891,696

Rabi Crop = 102,582 Acres x Rs. 114/Acre = Rs 11,694,348
Kharif Crop = 102,582 Acres x Rs. 114/Acre = Rs 11,694,348
Total Annual Tax Revenue from Taxable non-irrigated Land Holdings (with exemptions) = Rs. 23,388,696

Total Annual Local Rate Revenue (with exemptions) = Rs 37,280,392.

Inflation Adjusted Annual Local Rate Revenue without Exemptions

By removing exemptions and applying the inflated Local Rate to total cultivated land, total revenue generated goes up significantly. Below are the calculations, presented in the same format as the previous simulations.

Rabi Crop = 42,154 Acres x Rs. 232/Acre = Rs 9,779,728
Kharif Crop = 42,154 x Rs. 232/Acre = Rs 9,779,728
Tax Revenue from total taxable irrigated land holdings (without any exemptions) = Rs. 19,559,456

Rabi Crop = 143,477 Acres x Rs. 114/Acre = Rs 16,356,378
Kharif Crop = 143,477 Acres x Rs. 114/Acre = Rs 16,356,378
Total Annual Tax Revenue from Taxable non-irrigated Land Holdings (without any exemptions) = Rs. 32,712,156

Total Annual Local Rate Revenue (without exemptions) = Rs. 52,271,612

[25] For comparison, if the inflation adjustment had been calculated only from 1983, it would have resulted in new tax rates of Rs. 23 /acre for irrigated land and Rs. 12/acre for non-irrigated. If the rates were adjusted only for inflation from 1998-2011 (similar to the UIPT simulations), the results would be Rs. 6/acre for irrigated and Rs. 3/acre for non-irrigated.

The enormous increase in revenue generation as a result of introducing inflation adjusted Local Rate is self-evident as compared to the actual collection of Rs. 324,360 (with exemptions) as the Local Rate (in both Rabi and Kharif) during FY2011-12. Again, considering that Tehsil Shakargarh is a smaller and arid Tehsil, this scenario presents potential for huge revenue expansion for the government of Punjab. However, it remains questionable as to whether or not land owners will have the capacity to pay such a high statutory tax rate, as they too suffer the burden of inflation and currency depreciation and the fate of implementing a single uniform agricultural income tax is in jeopardy.

KEY POLICY RECOMMENDATIONS

The present research indicates that there are serious structural and administrative issues in the UIPT and Local Rate systems of Punjab. In light of the above research results and findings, particularly from the KIIs and simulations, the following policy changes are recommended. Some recommendations for further research are also made.

Policy Recommendation for UIPT

- The Punjab Government should devolve the UIPT administration to local governments as envisaged in their Medium Term Policy Framework 2007. They should also work on plugging any loopholes in UIPT legislation and synchronize it with LGO, 2001. This is very important as local governments already have the rate setting powers (for example, during the assessment, they can merge properties, which are being assessed under two different rating areas, into one rating area if and when they find that the former rating area has grown to acquire similar tax base characteristics as the latter) but are unwilling to exercise their role. This will enable the tax payers to effectively evaluate the taxes paid to and services received from local government, reducing the chances of non-compliance. It will also make the local elected officials more accountable to the tax payers. Moreover, if the local governments are tasked with the administration and management of the UIPT through proper integration of Urban Immovable Property Tax Act of 1958 and LGO, 2001, they can provide these new tax payers with all the basic development needs. This requires effectively removing the role of politicians and elected representatives from using the subject of taxation as a tool for their lobbying.

- The UIPT should be extended to the LLLs, as described in the simulation analysis of this research. This extension should include both residential houses (with a large number and generating most of the simulated revenue) and commercial shops (with the efficiency of fewer units to collect taxes on but generating less revenue than the tax on houses).

- A new and improved Valuation Roll should be made and implemented as soon as possible to achieve higher revenue collection. The Valuation Roll should be devised so that there remains at most a minimum gap between market value and assessed value. The new Valuation Roll will also help bridge the gap between current level of property taxes and target level.

- As per our findings, an important variable is the differential in the Valuation Rate for rented and owner occupied property. In Punjab, this differential almost stands at 1:10 for residential and 1:5 for commercial properties. This study has rigorously analyzed the potential revenue increase at various reduced differential levels. Now, it is up to the policy makers to select any option as per associated political and technical feasibility.

- Exemptions and preferential treatments should be removed except for properties which are for the collective benefit of the community, such as places of worship and the properties of very low income families. Further, the covered area should be charged at a higher level as compared to the land area as the people tend to invest hefty amount on improving covered areas. This will significantly increase the revenue growth. The general exemption on 5 Marla plots is hurting the most. Government should abolish this exemption and tax these properties on GARV basis. However, the 10% rebate on calculated GARV (to account for property depreciation) should remain intact or may be increased to 12% to boost bulk recovery and tax compliance.

- Further, an exemption should be considered for the 19% households which are below the poverty lines as per various poverty surveys. The information about such households can be gathered by using the poverty score cards currently maintained by Benazir Income Support Program (BISP) and should be synchronized with the excise and taxation records.

- The Punjab government should redefine some intergovernmental practices involving transfer of entitlements. During the transition period, the provincial government should inform the local governments about the collection trends as well as their entitlements such that it helps the local governments in their budget making process. Further, the provincial government should devise a milestone based development plan for local governments to achieve in a certain period rather than spending their UIPT entitlements in paying utility bills and other non-productive heads.

- The government should reduce the time between revaluations from every 5 years to each year. However, the same valuation tables can be used over a period of 5 years but only if there is no significant need to update the Valuation Role, and if it is found out that the government has charged more than actual receivables; there should be a system of returning the extra amount to the tax payers. This will help capture the tax base more effectively and will provide a greater revenue flow in the long run.

- The responsibility for valuation should be separated from the political decisions regarding rate levels and exemptions.

- To report a total potential base, valuation and sales assessment ratio studies of all the properties (exempted and non-exempted) should be conducted from time to time. This should be reported to the decision makers to offset and curb their intent to maintain exemptions.

- The provincial government should work closely with local governments in improving infrastructure and investing in human capital of property tax authorities by starting various professional skills enhancing courses and training.

- The study also suggests that the selected UIPT policy option should be implemented simultaneously on both commercial and residential properties.

- To solve the information asymmetry about UIPT, and its filing of returns among tax payers, the authorities should introduce awareness campaigns such as brochures that are printed guides in Urdu or preferably in local language. Further, these campaigns should be conducted through FM/AM radio as well as television channels, at least when the filing of returns are due.

- Further, the commercial banks should be compelled to provide a special counter for collection of UIPT returns during the submission period. This can be done by bringing the State Bank of Pakistan on board which is the sole governing body of banking operations in Pakistan.

- Proper legislations should be made so that large taxpayers cannot coerce the tax authorities on rate setting through obtaining stay orders from courts.

- To increase enforcement, the government should avoid using extreme measures such as arresting the defaulters or penalizing them with one time heavy fines. Rather their residential or commercial properties should be sealed, effectively stopping any business activities (in case of commercial property or rented residential property) being able to take place.

Policy Recommendation for Local Rate System

- The Local Rate of Rs.2/Acre for irrigated land and Rs. 1/acre for non-irrigated land per crop season is outdated, and this flat statutory tax rate should be increased up to a level that it reconciles with the inflation trends over a period of time. Increasing the Local Rate will help in boosting the collection efficiency.

- Do not allow exemptions in the Local Rate system, and charge a revalued reasonable rate for everyone.

- Online computerization of land records should be done, not only of records, but of the entire system at all administrative tiers. This would enable accurate, real time information transfer throughout the province as well as help in increasing accountability and transparency of revenue departments.

- Patwaris and other officials should be trained and educated in the use of information technology.

- The Local Rate Assessment Rules 1980 needs to be revised to raise the Local Rate, if not to the long-term inflation adjusted rate of Rs. 232/acre for irrigated land (Rs. 114/acre for non-irrigated), than to more politically feasible levels. However, Rs. 232/acre should nevertheless, serve as a benchmark for such revision, given that it is the most fiscally advantageous course of action, given our simulation results.

- Idle (un-farmed) land should also be included in the tax net of Local Rate along with farmed land. For this purpose, land revenue law needs to be amended.

- Chokidara System should be re-introduced in support to the Lumberdars through proper legislations and code of conduct.

- To increase enforcement, government should avoid using extreme measures such as arresting the defaulters. Rather a progressive system of fines should be implemented such that the fine on arrears becomes compounded. Proper legislation should be made in this regard and no administrative or legal body should have the authority to reduce that fine unless there is any discrepancy in calculation or assessment.

Future Research

To follow up on the urban and rural property tax research in this report, the current study could be expanded with enhanced scope and geographical coverage. The current case study of exploratory research on the UIPT and the Local Rate in Tehsil Shakargarh provides quite interesting results. As we have noted, transfer taxes and mutation fees are related to property taxes but have entirely separate administrative structure. It was impossible to cover both with the given resources and time of this research. However, as one reviewer noted "there really cannot be a comprehensive review that points to a reform that generates significant revenue unless the research covers all the property taxes".

A larger study could be implemented in all 36 districts of Punjab Province. In such a study, the analysis could be expanded to the main metropolitan areas of each district where the UIPT is implemented. This would help in comparing similarities and differences of the performance indicators of all types of property taxes. This research would also explore the possibility of a reform package to be proposed to the provincial government so that an efficient property tax system can be established in Punjab, boosting revenues of the province. Results from the reform of local taxes could also be compared to the analysis of effects of such changes in tax policy as an introduction of a VAT, currently being studied by the research wing of the Federal Board of Revenue. The political economy of property taxes versus other forms of taxation could also be evaluated.

The methodology for such a study could include the following:

- Expansion of the literature review by updating and amending to effectively cover the past experiences of other countries with their adopted reforms as well as best suited reform options with regard to transfer taxes and mutation fees in Pakistan.

- A legal and procedural review of the existing system of transfer taxes in Punjab province. The commonalities and differences between the administrations of each type of property tax would also be explored.

- Analysis of actual collections as well as assessments data for the UIPT, Local Rate, and Transfer Tax (Stamp Duty) data from each district. The analysis of the property tax data will involve:
    - A historical analysis of the trends of collection and efficiencies with respect to policy changes;
    - A simulation of the revenue effect of increases in the UIPT slabs, the uniform rural Local Rate and transfer tax;
    - An assessment of the collection efficiency of the three taxes and policy recommendations.

- Interviews conducted in each district with all the demand and supply side stakeholders to get an assessment of current opinions. The current research makes it evident that many issues and problems in UIPT and Local Rate administrative structure are related to the political economy, therefore, the study would also solicit the individual responses of political representatives as well as collective response of political parties. This strategy will help in getting tangible commitments out of this state pillar. The KIIs could target:

  - Serving and former civil servants
  - Elected officials (especially relevant parliamentary committees)
  - Non-state actors including representatives of farmers/traders/professional associations, Chambers of Commerce and Industry, Association of Tax Accountants and Lawyers, NGOs active in this area, and scholars who have written on these issues
  - Government Officials (such as E&T officers, BOR members and officials) involved in land administration, governing aspects such as land registration and record-keeping, tenure, use, rights, markets, etc. at the local (and/or higher) levels
  - Non-state stakeholders of land markets, including real-estate agencies, banks and lending institutions, NGOs advocating for land rights, etc.

Focus Group Discussions (FGDs) could also be conducted to complement the individual KIIs. The FGDs could invite the participation of elected representatives of political parties (MNAs and MPAs) as well as officials from E&T department and Board of Revenue (BOR) to better understand the policy challenges involved with the various provincial tax administrations.

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ANNEX I: PUNJAB ASSESSMENT PROCEDURE

Assessment procedure provided in The Punjab Land Revenue Act, 1967
(W.P. Act xvii of 1967)
ASSESSMENT

56. Assessment of land revenue.– (1) All land, to whatever purpose applied and wherever situate, is liable to the payment of land-revenue to Government, except–

(*a*) Such land as has been wholly exempted from that liability by special contract with Government or by the provisions of any law for the time being in force;
(*b*) Such land as is included in village site;
(*c*) Such land as is included in Cantonment limits;
(*d*) Land on which property tax under the [26][53][Punjab] Urban Immovable Property Tax Act, 1958 (W.P. Act V of 1958), is payable;
(*e*) waste and barren land not under cultivation for a continuous period of not less than six years immediately before the date of notification of general assessment or re-assessment under section 59; provided that where any waste and barren land is brought under cultivation at any time after the date of such notification such land shall not be liable to the payment of land-revenue for a period of six years from the date it is so brought under cultivation.

(2) Land-revenue shall be assessed in cash.

(3) Land-revenue may be assessed–

(*a*) as a fixed annual charge, payable in lump sum or by installments; or
(*b*) in the form of prescribed rates, per acre or other unit of area applicable to the area recorded as sown, matured or cultivated during any harvest or during any year:

Provided that land-revenue shall not be assessed in the form of sliding scales varying annually according to the market price of any agricultural produce prevailing during a specified period of the year.

[27][54]**[56-A. Exemption of land revenue.–** Notwithstanding anything to the contrary contained in this Act no land-owner, from Rabi 1982-83, shall be liable to pay land revenue at any rate or cess chargeable under the provisions of this Act, if he owns–

(*a*) Irrigated land not exceeding 2½ acres;
(*b*) Unirrigated land not exceeding 5 acres;
(*c*) Irrigated and unirrigated land the aggregate area of which does not exceed 2½ acres of irrigated land as determined under section 70-B.]

57. Basis of assessment. – (1) The assessment of land-revenue shall be based on an estimate of the average money value of the gross produce of an estate or a group of estates, in which the land concerned is situated.

(2) Such estimate shall be made in the prescribed manner.

58. Limit of assessments. – If the land-revenue is assessed as a fixed annual charge, the amount thereof, and if it is assessed in the form of prescribed rate, the average amount which, according to an estimate in writing approved by Government or the Board of Revenue, as the case may be, will be leviable annually, shall not, in the case of an assessment circle, exceed one-fourth of the estimated money-value of the net assets of such assessment circle.

GENERAL ASSESSMENT

59. Notification of intended re-assessment and instructions as to principles of assessment.– (1) Assessments of land-revenue may be general or special.

(2) A general assessment or re-assessment of the land-revenue of any area shall not be undertaken without the previous sanction of Government and notification of that sanction.

(3) In granting such sanction Government may give such instructions consistent with the provisions of this Act and the rules made there under as it may deem fit.

60. Mode of determining assessment. – (1) A general assessment shall be made by a Revenue Officer.

(2) Before making such assessment the Revenue Officer shall report through the [28]Executive District Officer (Revenue)] for the sanction of the Board of Revenue his proposals with regard thereto.

61. Announcement of assessment. – (1) After consideration of the proposals submitted by the Revenue Officer under the provisions of section 60, the Board of Revenue shall pass such orders as it may deem fit, subject to the provisions of sub-sections (3) and (4), and on the receipt of such orders the Revenue Officer shall make an order determining the assessment proper for each estate concerned and shall announce it in such manner as Government may by rules prescribe.

(2) At the time of announcing the assessment the Revenue Officer shall also declare the date from which it is to take effect, and, subject to the other provisions of this Act, it shall take effect accordingly.

(3) Subject to the provisions of sub-section (4), the average rate of assessment imposed under the provisions of sub-section (1) on any assessment circle forming part of any area in respect of which a notification has been issued under sub-section (2) of section 59 shall not exceed the rate of assessment imposed at the last previous assessment by more than one-fourth; provided that the rate of assessment imposed on any estate shall not exceed the rate of assessment of the last previous assessment on the estate by more than one-half.

(4) The provisions of sub-section (3) shall not be applicable in the case of land which has not been previously assessed to land-revenue or in which canal irrigation has been introduced after the date of the orders passed under the provisions of sub-section (1) at the last previous assessment, or in the case of an area which has been notified by Government to be an urban assessment circle, and for the purpose of calculating the increase in the incidence of the land-revenue for the purpose of sub-section (3), all such land shall be excluded from calculation:

Provided that in the case of lands in which canal irrigation has been introduced after the date specified in this sub-section, the average rate of assessment shall not, so far as may be, exceed the average rate of assessment of land of similar kind imposed under sub-section (3).

62. Application for reconsideration of assessment.– (1) Any land owner may, within thirty days from the date of the announcement of the assessment, present a petition to the Revenue Officer for a reconsideration of the amount, form or conditions of the assessment.

(2) The order passed by the Revenue Officer on the petition shall set forth his reasons for granting or refusing it.

63. Confirmation and duration of assessment. – (1) An assessment, the undertaking of which has been sanctioned under the provisions of section 59, shall not be considered final until it has been confirmed by the Board of Revenue.

(2) At any time before an assessment is so confirmed, the [29][56] [Executive District Officer (Revenue)] or Board of Revenue may, subject to the provisions of sub-section (3), modify the assessment of any estate.

(3) Before an enhancement is ordered under the provisions of sub-section (2), the [30][57][Executive District Officer (Revenue)] or the Board of Revenue, as the case may be, shall cause reasonable notice to be given to the land-owners by proclamation published in the manner described in section 26 , to show cause in a petition addressed to the Revenue Officer why the proposed enhancement should not be ordered, and the Revenue Officer shall enquire into any objections raised by any land-owner and submit such petition received by him with his report thereon to the [31][58][Executive District Officer (Revenue)] or the Board of Revenue, who shall consider the petition and the report and shall also hear the petitioner if the petitioner so desires.

64. Duration of assessment.– (1) The Board of Revenue shall, when confirming an assessment under sub-section (1) of section 63, fix a period of time for which the assessment shall remain in force.

(2) The period fixed under sub-section (1) shall be twenty-five years:

Provided that a period not exceeding twenty-five years and not shorter than ten years may be fixed for any area, specified by the Board of Revenue, in which canal irrigation has been introduced after the date of the orders passed under the provisions of sub-section (1) of section 61 at the last previous assessment or in which it has been proposed to introduce such irrigation during the period fixed.

65. Assessment to remain in force till new assessment takes effect.– Notwithstanding the expiration of the period fixed for the continuance of an assessment under the last foregoing section, the assessment shall remain in force till a new assessment takes effect.

66. Refusal to be liable for assessment and consequences thereof. – (1) At any time within ninety days from the date of the announcement of an assessment, the land-owner or, where there are more land-owners than one, any of them who would be individually or collectively liable for more than half the sum assessed, may give notice to the Revenue Officer of refusal to be liable for the assessment.

(2) When the Revenue Officer receives a notice under sub-section (1), the Collector may take possession of the estate and deal with it, as nearly as may be, as if the annulment of the assessment thereof had been ordered as a process for the recovery of an arrear of land-revenue due thereon.

(3) While the estate is in the possession of the Collector, the land-owner or land-owners shall be entitled to receive from Government an allowance, to be fixed by the Board of Revenue, which shall not be less than fifty or more than seventy-five per cent of the net income realised by Government from the estate.

67. Distribution of the assessment of an estate over the holdings comprised therein. – (1) If the assessment announced under section 61 is in whole or in part a fixed assessment of an estate for a term of years, the Revenue Officer shall, before the date on which the first installment thereof becomes payable, make an order distributing it over the several holdings comprised the estate and make and publish a record of the distribution.

(2) The Collector may for sufficient reasons make an order revising that record at any time while the assessment continues to be in force, and publish the record so revised.

(3) If the assessment announced under section 61 is in the form of rates chargeable according to the results of each year or harvest, a Revenue Officer shall from year to year or from harvest to harvest, as the conditions of the assessment may require, make and publish, not later than one month before the first installment of the land-revenue falls due, a record of the amount payable in respect of each holding.

(4) Notwithstanding anything contained in this section, arid land (whether cultivated or not) in which well or tube-well irrigation facilities are provided by or on behalf of the land-owner or the tenant shall, for a period not less than four years from the date such irrigation facilities are first provided in such land, not be liable to pay land-revenue at a higher rate than was payable thereon before such irrigation facilities were provided.

Explanation– For the purposes of this sub-section only such land shall be deemed to be arid land in which canal irrigation has not been introduced.

68. Application for amendment of the distribution of an assessment.– (1) Any person affected by a record under sub-section (1) or sub-section (3) of the last foregoing section or by the revision of a record under sub-section (2) of that section, may, within thirty days from the date of the publication of the record, present a petition to the Revenue Officer for a re-consideration of the record so far as it affects him.

(2) The order passed by the Revenue Officer on the petition shall set forth his reasons for granting or refusing it.

69. Appeals from orders under sections 62 and 68.– An appeal from an order under the last foregoing section or section 62 shall lie to the [32][59][Executive District Officer (Revenue)] and from the appellate order of the [33][60][Executive District Officer (Revenue)], to the Board of Revenue.

SPECIAL ASSESSMENT

70. Special assessments. – (1) Notwithstanding the provisions of sections 64 and 65, special assessment may be made by Revenue Officers in the following cases, namely:-

(*a*) When it is proposed to change the form of assessment;
(*b*) When lands are sold, leased or granted by Government;
(*c*) When the assessment of any land has been annulled or the land-owner has refused to be liable therefore, and the term for which the land was to be managed by the Collector or his agent or let in farm has expired;
(*d*) When assessments of land-revenue require revision in consequence of the action of water or sand or of calamity of season or from any other cause;
(*e*) when revenue due to the Government on account of pasture or other natural products of land, or on account of mills, fisheries or natural products of water, or on account of other rights described in section 49 or section 50, has not been included in an assessment made under the foregoing provisions of this Chapter;
(*f*) When waste and barren land becomes liable to the payment of land-revenue.

(2) The Board of Revenue may confirm any assessment made under this section.

(3) The foregoing provisions of this Chapter with respect to general assessment shall, subject to such modifications thereof as the Board of Revenue may prescribe by executive instructions issued under the provisions of section 73, regulate the procedure of Revenue Officers making special assessments.

[70-A. Notwithstanding anything to the contrary contained in this Act, from Rabi 1982-83, every land-owner of the categories, mentioned below shall, in addition to the land revenue assessed under the provisions of sections 57 and 70, be liable to pay land revenue at the enhanced rate mentioned against each category–

(*a*) a land owner owning:- (*i*) irrigated land exceeding 2½ acres but not exceeding 12½ acres; or (*ii*) un-irrigated land exceeding 5 acres but not exceeding 25 acres; or (*iii*) irrigated land and un-irrigated land the aggregate area of which exceeds 2½ acres, but does not exceed 12½ acres of irrigated land as determined under section 70-B.	50 per cent increase on land revenue determined under the provisions of section 57 and section 70.

(*b*) a land owner owning:- (*i*) irrigated land exceeding 12½ acres but not exceeding 25 acres; or (*ii*) un-irrigated land exceeding 25 acres but not exceeding 50 acres; or (*iii*) irrigated and un-irrigated land the aggregate area of which exceeds 2½ acres, but does not exceed 25 acres of irrigated land, as determined under section 70-B.	100 per cent increase on land revenue determined under the provisions of section 57 and section 70.
(c) a land owner owning:- (*i*) irrigated land exceeding 25 acres but not exceeding 50 acres; or (*ii*) un-irrigated land exceeding 50 acres but not exceeding one hundred acres; or (*iii*) irrigated land and un-irrigated land the aggregate area of which exceeds 25 acres but does not exceed 50 acres of irrigated land, as determined under section 70-B.	200 per cent increase on land revenue determined under the provisions of section 57 and section 70.
(*d*) a land owner owning:- (*i*) irrigated land exceeding 50 acres; or (*ii*) un-irrigated land exceeding one hundred acres; or (*iii*) irrigated and unirrigated land aggregate area of which exceeds 50 acres of irrigated land, as determined under section 70-B.	300 per cent increase on land revenue determined under the provisions of section 57 and section 70.]

[34][62][70-B. Determination of land ownership. – For the purposes of sections 56-A and 70-A–

(*a*) One acre of irrigated land shall be reckoned as equivalent to two acres of un-irrigated land, provided that in calculating the aggregate area of a land-owner the conversion is made from un-irrigated to irrigated land;

(*b*) Land owned by a land-owner shall include all land owned by him, whether such land is situated wholly within the Province or partly within and partly outside the Province, except the following:-

(*i*) Land described in clauses (*b*), (*c*) and (*d*) of section 56; and

(*ii*) Share in *shamlat* of a village where the total area of such *shamlat* does not exceed 25 acres;

(*c*) "Land owner" shall include a person–

(*i*) Who is an allottee or a grantee of any land under any scheme of the Government, under which such allotment or grant is to mature into ownership;

(*ii*) Who has mortgaged his land, or any portion thereof?

(*iii*) Who has permanent rights and interest in land?]

[70-C. Information about increase in the extent of ownership.– (1) A person who after the tenth day of November, 1975, acquires land or increases the extent of his ownership of land and by such acquisition owns land in more than one *Patwar* Circle whether such land is situated within the Province or partly within and partly outside the Province, shall inform such authority within such time, in such manner and form as the Board of Revenue may by notification specify in this behalf.

(2) A land-owner who fails without reasonable cause to comply with the provision of sub-section (1) or the rules or orders made there under or willfully furnishes incomplete or false information shall be deemed to have committed an offence under the provision of sub-section (2) of section 54-A.]

[70-D. Change in the basis of exemption or assessment.– (1) Any land-owner entitled to exemption under section 56 or section 56-A from the payment of land-revenue or reduction in land-revenue chargeable under section 70-A, who has not been granted such exemption or reduction, or any land-owner aggrieved by the categorization of his land under section 70-A, may, at any time, make an application, in such form and manner as may be specified by the Board of Revenue, to the Assistant Collector of the area in which his land or any part thereof is situated.

(2) On receipt of such application, this Assistant Collector shall cause a notice of the application to be served on the person on whom the liability to pay the land-revenue may devolve as a result of the transfer of land and after holding such inquiry as he considers necessary, shall pass orders, setting forth his reasons therefore.

(3) Without prejudice to the provisions of sub-sections (1) and (2), the Assistant Collector shall have the power to hold an inquiry and pass appropriate orders if on receipt of any information or otherwise he is of opinion that any land-owner who is liable to pay land-revenue, is not paying such land-revenue or paying less than the amount of the land-revenue which he is liable to pay:

Provided that before passing final order he shall give fifteen days notice to the person likely to be affected by such order for affording him an opportunity of being heard.

(4) In exercising his powers under sub-section (2) or sub-section (3), the Assistant Collector shall–

(*a*) Not question the correctness or validity of a registered deed or any mutation sanctioned in accordance with law, relating to transfer of land;

(*b*) Follow, subject to other provisions of this section, the procedure as may be laid down by the Board of Revenue by notified instructions in this behalf.

[l]**[70-E. Exemption or assessment of land-revenue.–** Notwithstanding anything contained in this Act, Government may, at any time, by notification, prescribe the principle or the method or the procedure by which and the manner in which exemption under section 56-A or assessment under section 70-A shall be determined or announced.]

ANNEX-II: PUNJAB LOCAL RATE RULES

The Punjab Local Rate (Assessment & Collection) Rules, 1980

i)**Assessment of Local Rate**
In each revenue estate a list of assesses liable to pay Local Rate shall be prepared at the time of Rabi and Kharif every year and maintained by the Halqa Patwari in same manner and form as that of DhalBach for land revenue.

ii) **Checking of Prepared List**
The list prepared under above rule shall be checked by the Qanun go and revenue officer in the same manner as the Dhal Bachh.

iii) **Preparation of Final List**
Copy of final list shall be supplied forthwith by the revenue officer to District Council concerned.

iv)**Collection of Local Rate**
Collection of Local Rate shall be made in the same manner so that of land revenue.

v) **Procedure of credit of Local Rate Proceeds**
The proceeds of the Local Rate shall be credited by the revenue officer to the local fund of District Council concerned, and a statement showing particulars of the collection made and credited to the local fund shall be supplied by him to the District council concerned immediately along with the receipt of treasury acknowledging the deposits.

vi) **Collection Charges**:
An amount equivalent to 3 percent of Local Rate collected and credited to local fund under these rules shall be paid by the District Council concerned as remuneration for the collected Local Rate.

2. Levying and charging of Local Rate
According to Notification No. SOL-2-8679 dated 20th Feb.1980. Following will be Local Rate excluding “Ghar Mumkin” “Banjar Kadim” of land.

Land Holding	**Local Rate**
1. Irrigated land holding up to twenty five acres.	At the rate of Rs.2/-per acre or a part thereof.
2. Un-irrigated land holding up to fifty acres	At the rate of 50 paisa per acre or a part thereof
3. Land-holding exceeding twenty five acres of irrigated land and fifty acres of charged for the land	At the rate of 60 per cent of the land revenue un-irrigated land

This was also added vide Notification No. SOV-2-8/79 dated: 15.2. 1984 “ provided that if the payment of land revenue and Abiana is exempted by the government in any particular area due to any natural calamity the payment of Local Rate, shall also be exempted

The Relevant Rules, notifications & instructions regarding Immovable Property Tax

1. The Punjab Local Councils (Taxation) Rules,1980.
2. Punjab local Councils (Taxation Transfer of Immovable Property) Rules, 1981
3. Recovery of Tax on Immovable Property Tax
4. Taxation Officer under immovable Property Tax

ANNEX-III: LEGAL DEFINITIONS OF RATING AREAS

Sr. #	Vocabulary	Rates decided in the Meeting
1	Auditorium – Private	Commercial
2	Bank	Commercial
3	Boarding House - Private	Commercial
4	Bus Stand - Private	Commercial
5	Bus Stand / Wagon Stand - Private	Commercial
6	Cabin Shops	Commercial
7	Cattle Farms	Commercial
8	Cattle Shed	If in a house, will be part of residence, otherwise commercial
9	Chair Lifts (Base Building & Parking)	Commercial
10	Chamber of Commerce	Office but bank branches or other commercial activities at these chambers shall be separately taxed as commercial.
11	Clinic	Commercial
12	Clubs - Private	Commercial
13	CNG Stations	Commercial
14	Cold Storage	Commercial
15	Community Centers – Private	Commercial
16	Container Stands	Commercial
17	Controlled Shed (Poultry)	Agriculture
18	Electricity or Telephone Exchange	i. Exchange Area – Industrial ii. Office – Office iii. Show room - Commercial
19	Factories	Industrial
20	Fish Farms	Industrial
21	Garage / Workshop	Commercial
22	Private Guest Houses	Commercial
23	Grid Stations	Industrial
24	Gymnasiums (Private)	Commercial
25	Hall	Commercial
26	Health Clubs - Private	Commercial
27	Hostel Private	Rented Residential
28	Ice Cream Parlour	Commercial
29	Iron / Steel Works	i. Show Rooms & Sale Points- Commercial ii. Manufacturing Area-Industrial
30	Law Chambers	Office
31	Leather Work / L. Works	iii. Show Rooms & Sale Points- Commercial Manufacturing Area-Industrial
32	Motor Vehicle Service Station	Commercial
33	Message Centers	Commercial
34	Physiotherapy Centers - Private	Commercial
35	Plant Nursery	i. Sale points – Commercial ii. Remaining- Agricultural
36	Poultry Farms	Agricultural
37	Power Generation Plants	Industrial
38	ARRA Machine/ Saw Machine	Industrial

39	Race Course	Commercial
40	Recreation Park – Private	Commercial
41	Rehabilitation Center - Private	Commercial
42	Godowns/Workshops with Tin Shed (reduction of 50% in commercial rate self or rented as the case may be specified in the Valuation Table)	Deleted.
43	Show Rooms	Commercial
44	Software Hose	Commercial
45	Store/Warehouse	Commercial
46	Swimming Pool (in commercial use)	Commercial

ANNEX-IV: SIALKOT RATING RULES

Assessing Authority of Sialkot Rating Area by July 31, 2012
For Service upon all Tax Payers of the Sialkot Rating Area
Of the District Sialkot

1. three million printed data entry forms will be delivered by June 20, 2012 to the director Excise and Taxation (Region-A), Lahore/focal person for distribution among all assessing authorities for conducting survey in Punjab expect Sialkot rating area.

2. For removal of any doubt in the application of rates of valuation tables for determining the gross annual rental value of any property following in any rating area in Punjab, following decisions/clarifications are made against each area pointed out by IT Consultant of Urban Unit:

S#	GRAY AREA POINTED OUT BY URBAN UNIT	DECISION/CLARIFICATION
1.	<u>"Assessment of land area"</u> The land area is supposed to be assessed once, according to the use of ground floor i.e. • If the building is the residential house, the ground floor is to be assessed @ residential rates, self rented as case may be, and the F/F and the subsequent floors are to be assessed on the basis of cove red area only and its use. • If the building is a shopping complex, the ground floor is to be assessed @commercial rate, self oriented as the case may be and the F/F or the subsequent floors are to be assessed on the basis of covered area only and it use. In case of multi storey structure of such buildings the land area is supposed to be assessed once according to use of the ground floor and in the other floors above and below the ground floor, only the covered area is supposed to be assessed. During the discussion carried out in the seminar held from April 11-13, 2012, it has to come to notice that in case of multi storey building the "land area" is assessed in variable manner. Such surveyors assess it once according to the use of ground floor, other assess it with each floor of a multi storey building, creating bias and confusions, and render it a Gray area, in the absence of specific instructions.	(i) In case of single of or joint ownership of a property unit, land area shall be assessed once according to its use. (ii) In case of different ownership at any or each floor or intra floor or below ground floor, land area of a property unit shall be assessed on actual in each case according to its use. (iii) In case of different activities/usage with a single property unit, highest rate applicable to any of the activities shall be charged. For example, if part of a property unit is being used as office premises while rest is being used for commercial purposes, rate for commercial use shall be charged on entire premises. (iv) Further, reduction of 10% for each floor above and below ground floor/Inter-floor subject to a maximum of 50% for the rate specified in the Valuation Tables shall be deleted.

2.	"Assessment of Open Space" There is no problem in assessing the "Open Space" when there is a single use of a residential or commercial property, self or rented as the case may be but in case of multiple use of a property (residence partly self, partly rented; +Shops, one self and one rented; +School+ godown) then the assessment of "Open Space" (difference of total Land Area & Covered Area) is a problem in the sense that which f the rates is to be applies for calculation of GARV. In field there is varied practice, Rendering it a "Grey Area" for misuse of discretions.	Higher rate shall be applied/charged.
3.	"Assessment of Open Space & Corridors in a Plaza or a Shopping Centre" Open Space & Corridors in a Plaza or a Shopping Center is used as a public place and is another Grey-Area, which can be used either way. Since it is difficult to assign the tax liability of this open space to anybody and this "Open Space" of a plaza or a shopping center has nominal financial implications in terms that it is to be assessed @ Per Square Yard i.e. $1/10^{th}$ of the assessed value of Covered Area, but has a lot of practical difficulties in computerization, may be prescribed to be excluded from the Total Land Area of a Plaza or a shopping centre.	Open Space & Corridors in a plaza or a shopping center shall be excluded from the Land Area of that building, for the purpose of assessment of GARV.
4.	"Industrial Units" & application of Valuation Tables In Sr. No. VII of Valuation Table "Industrial Units", it is not clear whether, the deduction of 20% & 40% are applicable to Covered Area only or to the Land Area as well.	In case of Industrial Units, at the time of application of Valuation Tables, the slabs of "One Acre", "Next Four Acres" and "Exceeding Five Acres" Shall be applicable to the Land Area only.
5.	"Dual Location of a Property" Sometimes, a property is located at a place, which is either the junction of two different Categories or Localities, e.g., One gate of the building falls on main-road and the other falls at off-road, or a portion falls in another-category. These are grey areas, and practiced in different ways by members of the staff. There is need to specify the application of main or off road/ one-category or another-category.	In any case, rater of higher category shall be applied/charged for determining of GARV.
6.	Different Use of Properties not specified in the valuation table.	Rates of valuation table for the assessment of different use of following 55 properties pointed out by IT consultants of Urban unit are hereby decided/clarified against each.

ANNEX-V: VALUATION TABLES

Valuation Tables for Punjab and Tehsil Shakargarh

This table provides the valuation of commercial property on the main roads and off roads for the province of Punjab. The property has been categorized A – G with respect to land area and covered area. The table is also divided between self-owned property and rented property.

Commercial Valuation Table - Punjab

Category		Self					Rented				
Class	Property Situated Main/Off Roads	Land Area		Covered Area			and Area		vered Area		
		@ Sq. Yds		@ Sq. Ft.			@ Sq. Yds		@ Sq. Ft.		
		1st 500	Exd. 500	1st 1500	1501 to 3000	Exd. 3000	1st 500	Exd. 500	1st 1500	1501 to 3000	Exd. 3000
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
A	Main Roads	2.4	1.4	2.4	2	1.4	12	7	12	10	7
	Off Roads	2	1.2	2	1.6	1.2	8	6	10	8	6
B	Main Roads	1.6	1.2	1.6	1.4	1.2	9	6	8	7	6
	Off Roads	1.4	1	1.4	1.2	1	7	5	7	6	5
C	Main Roads	1.4	1	1.4	1.2	1	7	5	7	6	5
	Off Roads	1	0.6	1	0.8	0.6	5	3	5	4	3
D	Main Roads	1	0.6	1	0.8	0.6	5	3	5	4	3
	Off Roads	0.8	0.5	0.8	0.6	0.5	4	2.5	4	3	2.5
E	Main Roads	0.8	0.5	0.8	0.6	0.5	4	2.5	4	3	2.5
	Off Roads	0.5	0.3	0.5	0.4	0.3	2.5	1.5	2.5	2	1.5
F	Main Roads	0.64	0.4	0.64	0.4	0.3	3.2	2	3.2	2	1.5
	Off Roads	0.4	0.25	0.4	0.25	0.2	2	1.25	2	1.25	1
G	Main Roads	0.5	0.32	0.5	0.32	0.25	0.5	1.6	2.5	1.6	1.25
	Off Roads	0.32	0.2	0.32	0.2	0.16	1.6	1	1.6	1	0.8

Note: Road having w idth 30ft and above w ill be considered as Main Road

This table provides the valuation of residential property on the main roads and off roads for the province of Punjab. Similar to table 4 the property has been categorized A – G with respect to land area and covered area. The table is also divided between self-owned property and rented property.

Residential Value Table - Punjab									
Category		Self				Rented			
Class	Property Situated Main/Off Roads	Land Area @ Sq. Yds		Covered Area @ Sq. Ft.		Land Area @ Sq. Yds		Covered Area @ Sq. Ft.	
		1st 500	Exd. 500	1st 3000	Exd. 3000	1st 500	Exd. 500	1st 3000	Exd. 3000
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
A	Main Roads	0.4	0.3	0.4	0.3	4	3	4	3
	Off Roads	0.3	0.25	0.3	0.25	3	2.5	3	2.5
B	Main Roads	0.3	0.25	0.3	0.25	3	2.5	3	2.5
	Off Roads	0.25	0.2	0.25	0.2	2.5	2	2.5	2
C	Main Roads	0.25	0.2	0.25	0.2	2.5	2	2.5	2
	Off Roads	0.2	0.15	0.2	0.15	2	1.5	2	1.5
D	Main Roads	0.2	0.15	0.2	0.15	2	1.5	2	1.5
	Off Roads	0.15	0.1	0.15	0.1	1.5	1	1.5	1
E	Main Roads	0.15	0.1	0.15	0.1	1.5	1	1.5	1
	Off Roads	0.1	0.05	0.1	0.05	1	0.5	1	0.5
F	Main Roads	0.12	0.06	0.12	0.06	1.2	0.6	1.2	0.6
	Off Roads	0.08	0.04	0.08	0.04	0.8	0.4	0.8	0.4
G	Main Roads	0.09	0.05	0.09	0.05	0.9	0.45	0.9	0.45
	Off Roads	0.07	0.04	0.07	0.04	0.7	0.35	0.7	0.35

Note: Road having width 30ft and above will be considered as Main Road

This table provides the valuation of commercial property on the main roads and off roads in Tehsil Shakargarh rating area. The property has been categorized D – G with respect to land area and covered area. The table is also divided between self-owned property and rented property.

Commercial Valuation Table - Tehsil Shakargarh, Rating Area

Category	Locality	Property Situated Main/Off Roads	Self					Rented				
			Land Area		Covered Area			Land Area		Covered Area		
			@ Sq. Yds		@ Sq. Ft.			@ Sq. Yds		@ Sq. Ft.		
			500	500	1500	3000	3000	500	500	1500	3000	3000
			Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
D	Block I, II– Main Bazar upto Chowk Hakiman, Gali Post Office, Markets in Block II, Bano Bazar	Main Roads	1	0.6	1	0.8	0.6	3	3	5	4	3
		Off Roads	0.8	0.5	0.8	0.6	0.5	4	2.5	4	3	2.5
E	Block I, II, III, IV, VI, VIII, X -- Ikhlaspur Road upto Govt High School, Chamal Road upto Graveyard Road, Railway Road upto Hospital, Noorkot Road upto Bungalow Anwaar-ul-Haq	Main Roads	0.8	0.5	0.8	0.6	0.5	4	2.5	4	3	2.5
		Off Roads	0.5	0.3	0.5	0.4	0.3	2.5	1.5	2.5	2	1.5
F	Block I, II, III, IV, V, VI, VII, VIII, X -- Ikhlaspur Road from Govt High School to Mosque Bus Stand, Chamal Road from Graveyard Road to Railway Crossing, Railway Road from Hospital to Railway Crossing, Noorkot Road from Bungalow Anwaar-ul-Haq to Petrol Pump, Nainan Kot Road upto Fruit	Main Roads	0.64	0.4	0.64	0.4	0.3	3.2	2	3.2	2	1.5
		Off Roads	0.4	0.25	0.4	0.25	0.2	2	1.25	2	1.25	1
G	Block I, II, III, VII, VIII, IX, X, XI --Ikhlaspur Road from Mosque Bus Stand to M.C. Limit, Chamal Road from Graveyard Road to M.C. Limit, Chak Amru Road upto M.C. Limit, Zafarwal Road upto M.C. Limit, Noorkot Road from Petrol Pump to M.C. Limit, Gumtala Road upto M.C. Limit	Main Roads	0.5	0.32	0.5	0.32	0.25	2.5	1.6	2.5	1.6	1.25
		Off Roads	0.32	0.2	0.32	0.2	0.15	1.6	1	1.6	1	0.8

This table provides the valuation of residential property on the main roads and off roads in Tehsil Shakargarh rating area. The property has been categorized D – G with respect to land area and covered area. The table is also divided between self-owned property and rented property.

Resendential Valuation Table - Tehsil Shakargarh, Rating Area										
Category			Self				Rented			
Class	Locality	Property Situated Main/Off Roads	Land Area @ Sq. Yds		Covered Area @ Sq. Ft.		Land Area @ Sq. Yds		Covered Area @ Sq. Ft.	
			1st 500	Exd. 500	1st 3000	Exd. 3000	1st 500	Exd. 500	1st 3000	Exd. 3000
			Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
E	Block I, II, III, IV, V, VI, VII, VIII, IX, X– Main Bazar upto Chowk Hakiman, Mohallah Club Ghar, Mohallah Ansarian, Mohallah Qureshian, Mohallah Islamabad, Mohallah Sharif Pura East & West, Rehmat Pura, Mohallah Rashid Pura, Afzal Pura, Riaz Abad, Nawaz Abad, Mughal Pura	Main Roads	0.15	0.1	0.15	0.1	1.5	1	1.5	1
		Off Roads	0.1	0.05	0.1	0.05	1	0.5	1	0.5
G	Block III, VIII, XI– Village Dinpur Khud & Kalan, Village Bhoj Pur, Abadi alongwith Chak Amru Road	Main Roads	0.09	0.05	0.09	0.05	0.9	0.45	0.9	0.45
		Off Roads	0.07	0.04	0.07	0.04	0.7	0.35	0.7	0.35

ANNEX-VI: COMMERCIAL PROPERTY ESTIMATIONS

Estimation of Commercial Property (shops) in Lal Lakeer Localities of Shakargarh

Serial Number	Village	Number of Shops
01	Noorkot Pind	400
02	Essa	150
03	Kanjroor	120
04	Dudhu Chak	200
05	Pindi	400
06	Raiba Kalan	100
07	Chak Amrro	200
08	Subho Chak	100
09	Shumal	150
10	Ahklas Pur	225
11	Masroor	90
12	Kot Naina	400
13	Bara Mauza	150
14	*Shops outside market area**	1815
	Total	4500

**Shops distributed throughout the Lal Lakeer Localities, located outside of a commercial Markets.*

ANNEX-VII: LOCAL RATE COLLECTION

Information on Targeted Vs Actual Collection Related To Local Rate and UIPT

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REQUIRED INFORMATION RELATED TO LOCAL RATE OF TEHSIL SHAKARGARH (2011-2012)

S. No.	Local Rate	Information
1	Total tax levied on Land (Acres)	185631 Acres
2	Target for Collection of Local Rate (Rabi Crop)	Rs= 162460
3	Target for Collection of Local Rate (Kharif Crop)	Rs= 161900
4	Actual Collection of Local Rate (Rabi Crop)	Rs= 162460
5	Actual Collection of Local Rate (Kharif Crop)	Rs= 161900

REQUIRED INFORMATION RELATED TO URBAN IMMOVEABLE PROPERTY TAX (UIPT) OF TEHSIL SHAKARGARH (2011-2012)

S. No.	Urban Immoveable Property Tax (UIPT)	Information
1	Total taxable Property Scroll for UIPT	2985
2	Total number of Taxable Properties	3418
3	Average Covered and Land Area of Taxable Properties	200SF each shop
4	Total number of Exempted Properties	222
5	Average covered and land area of an Exempted Property [illegible]	Shop 200 Sft House 10 marla
6	Estimated Revenue Loss due to Exemptions	611304
7	Annual Target for UIPT Collection	5401886
8	Actual Annual Collection of UIPT	4527764

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