

Chapter-III

Stamp Duty and Registration Fee

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3.1 Tax administration

Receipts from Stamp Duty and Registration Fee are regulated by the Indian Stamp Act (IS Act), 1899, the Karnataka Stamp Act (KS Act), 1957, the Registration Act, 1908 and the Rules made thereunder. In Karnataka, the levy and collection of Stamp Duty and Registration Fee is administered at the Government level by the Principal Secretary, Revenue Department. The Department of Stamps and Registration (DSR) under the administrative control of the Revenue Department regulates the levy and collection of Stamp Duty and Registration Fee.

3.2 Internal Audit

The Department stated that though an Internal Audit Cell was constituted in December 2012, it was still not functional (December 2018) due to lack of manpower. But, the Department has in place a mechanism where the District Registrars are in charge of circle-wise periodic audits. The results of such audit are reported to the Inspector General of Registration and Commissioner of Stamps (IGR&CS). The position of observations are given in **Table 3.1**.

Table 3.1
Year-wise details of observations

Year	Observations raised		Observations settled		Observations pending	
	Number of cases	Amount	Number of cases	Amount	Number of cases	Amount
Upto 2013-14	781	16.39	247	10.71	534	5.68
2014-15	230	4.12	103	0.21	127	3.91
2015-16	207	2.55	83	0.44	124	2.11
2016-17	791	4.62	106	0.41	685	4.21
2017-18	644	6.43	52	0.08	592	6.35
Total	2,653	34.11	591	11.85	2,062	22.26

(₹ in crore)

As seen from the above, 2,062 observations involving ₹ 22.26 crore were pending settlement as on 31 March 2018. Early action may be taken to settle the pending observations.

3.3 Results of Audit

There are 282 auditable units in the Department of Stamps and Registration. Out of these, audit selected 63 units for test check wherein 11.73 lakh documents were registered. Out of these, Audit test checked 2.12 lakh documents (18.07 *per cent*) during the year 2017-18 and noticed 535 cases (0.25 *per cent* of audited sample) of short-levy of Stamp Duty and Registration Fee due to undervaluation and suppression of facts and non-observance of provisions of Acts/Rules, etc. involving an amount of ₹ 25.54 crore. These cases are illustrative only as these are based on test check of records. The observations broadly fell under the following categories as given in **Table 3.2**.

Table 3.2
Results of Audit

Sl. No.	Category	(₹ in crore)	
		No. of Paragraphs	Amount
1.	Short-levy of Stamp Duty and Registration Fee due to undervaluation	79	17.97
2.	Short-levy of Stamp Duty and Registration Fees due to suppression of facts	36	5.45
3.	Other irregularities	21	2.12
	Total	136	25.54

Of the above, the Department accepted the observation of ₹ 1.23 lakh in one case. During the year an amount of ₹ 3.99 crore was also recovered in 166 paragraphs pointed out in earlier years.

In addition to the audit of the selected units above, Audit undertook a Performance Audit on “Assessment and Implementation of Guidance Market Value” in Karnataka. The audit findings involving ₹ 158.36 crore pertaining to the Performance Audit and also a few illustrative cases of non/short-realisation of Stamp Duty and Registration Fee mentioned in Table 3.2, involving ₹ 8.74 crore are discussed in the following paragraphs.

3.4 Performance Audit on “Assessment and Implementation of Guidance Market Value” in Karnataka

Highlights

The time schedule in estimating and notifying the Guidance Market Values (GMVs) was not adhered to, by the Central Valuation Committee (CVC) and the Valuation Sub-Committees (VSCs). Consequent to the delay, outdated values were notified in 2016-17 which continued till 2018-19. Notification of values which did not match the prevailing market trends adversely impacted revenue.

(Paragraph 3.4.9.2)

Market trends observed by the VSCs were not captured by the CVC in the majority of the cases. Instead, the final values were being notified by the CVC following a pattern of uniform increase (mostly 10 *per cent*) which were below market trends observed by the VSCs.

(Paragraph 3.4.9.3)

Indicators of Market Value like Sale-Agreements, Deposit of Title Deeds, base price quoted by the Developers, loans sanctioned by Banks and Income Tax deducted at source were not considered appropriately in estimating GMV. Cross-verification of 3,335 Sale-Deeds revealed suppression of ₹ 2,232.40 crore and consequent loss of Stamp Duty and Registration Fee at ₹ 149.01 crore.

(Paragraph 3.4.10)

Errors in estimation of GMV led to developed lands getting valued lower than the undeveloped lands in the same village/area. Consequent undervaluation of sites/apartments in 13,533 cases worked out to ₹ 3,167.52 crore. The Revenue forgone by way of Stamp Duty and Registration Fee amounted to ₹ 189.82 crore.

(Paragraph 3.4.11 and 3.4.12)

Deletion of specific entries with higher GMV in 17 villages during 2017-18 led to undervaluation of properties to the extent of ₹ 33.51 crore in 227 Sale-Deeds with short-levy of Stamp Duty and Registration Fee at ₹ 2.21 crore.

(Paragraph 3.4.14.3)

3,237 apartments in 57 projects, were registered at general rates lesser than the base price quoted by the Developers. This resulted in undervaluation of the apartments by ₹ 735.78 crore and consequent loss of revenue of ₹ 48.56 crore. The SROs failed to refer these projects to CVC for notifying GMV, inspite of specific instructions.

(Paragraph 3.4.16)

Non-stipulation of specific names for different projects led to undervaluation and consequent short-levy of Stamp Duty and Registration Fee of ₹ 20.37 crore.

(Paragraph 3.4.17)

3.4.1 Introduction

Stamp Duty is a tax levied on instruments recording transactions such as Sale, Exchange, Mortgage with possession, etc. *ad valorem* on the market value of the property.

Market Value is defined in the Karnataka Stamp Act, 1957, as the price a property would have fetched, in the opinion of the Deputy Commissioner of Stamps or the Appellate Authority or the Chief Controlling Revenue Authority, if sold in the open market on the date of execution of such instrument or the consideration stated in the instrument, whichever is higher.

The instruments stated above are registered in a Sub-Registrar's Office (SRO), which is the unit Office of the Department of Stamps and Registration. It is under the charge of a Sub-Registrar (SR), who is responsible for registration of documents and for collection of Stamp Duty on the instruments so registered. In order to assist the SR in determining the market value of the property and collection of proper Stamp Duty, market value guidelines are prescribed for the immovable properties under the jurisdiction of the SR concerned.

The Department of Stamps and Registration is the third highest in terms of revenue collection for the State. The annual revenue collection from Stamps and Registration during the period from 2013-14 to 2017-18 ranged from ₹ 6,188.76 crore to ₹ 9,023.68 crore and 70 *per cent* of the Stamp Duty collected is dependent on the instruments registered based on the market value. Hence, the revenue of the Department is directly related to the determination of appropriate market value.

3.4.2 Organisational Set-up

The Department of Stamps and Registration (DSR) is under the administrative control of the Principal Secretary to the Government of Karnataka, Revenue Department. DSR is headed by the Inspector General of Registration and Commissioner of Stamps (IGR&CS), who is also the Chief Controlling Revenue Authority in the State. The IGR&CS is assisted by five Deputy Inspectors General of Registration (DIGR). At the field level, there are 34 District Registrars (DR), who are also the Deputy Commissioners of Stamps.

At the Sub-District level, there are 250 Sub-Registrar Offices, each headed by a Sub-Registrar (SR), where the instruments are presented for registration.

Central Valuation Committee

As per Section 45-B of the KS Act, a Central Valuation Committee (CVC) is constituted under the Chairmanship of the Inspector General of Registration and Commissioner of Stamps for estimation, publication and revision of Guidance Market Value (GMV) of properties in any area in the State at such intervals and in such manner as prescribed by the State Government. The CVC is the final authority for formulation of policy, methodology and administration of the market value guidelines in the State. For Districts other than Bengaluru (Urban and Rural), there are Valuation Sub-Committees

(VSCs) which estimate the values and submit them to the CVC for consideration.

3.4.3 Audit Objectives

Guidance Market Value is an important control which determines the revenue of the Government. Therefore, keeping it updated and close to the market value is essential. The Performance Audit set out to examine whether the assessment and implementation of GMV in the State are optimal, through an assessment of whether:

- (1) The GMV were revised timely, as per the procedures prescribed, to ensure optimum revenue realisation;
- (2) The assessment criteria, valuation methods and addressing of public opinion adopted by the CVC were adequate to capture values reasonably close to the actual transaction values that prevailed in the market; and
- (3) The system devised in the Department to ensure proper implementation of Guidance Value, vis-a-vis the prescribed Rules and Regulations, was effective in optimising revenue collection.

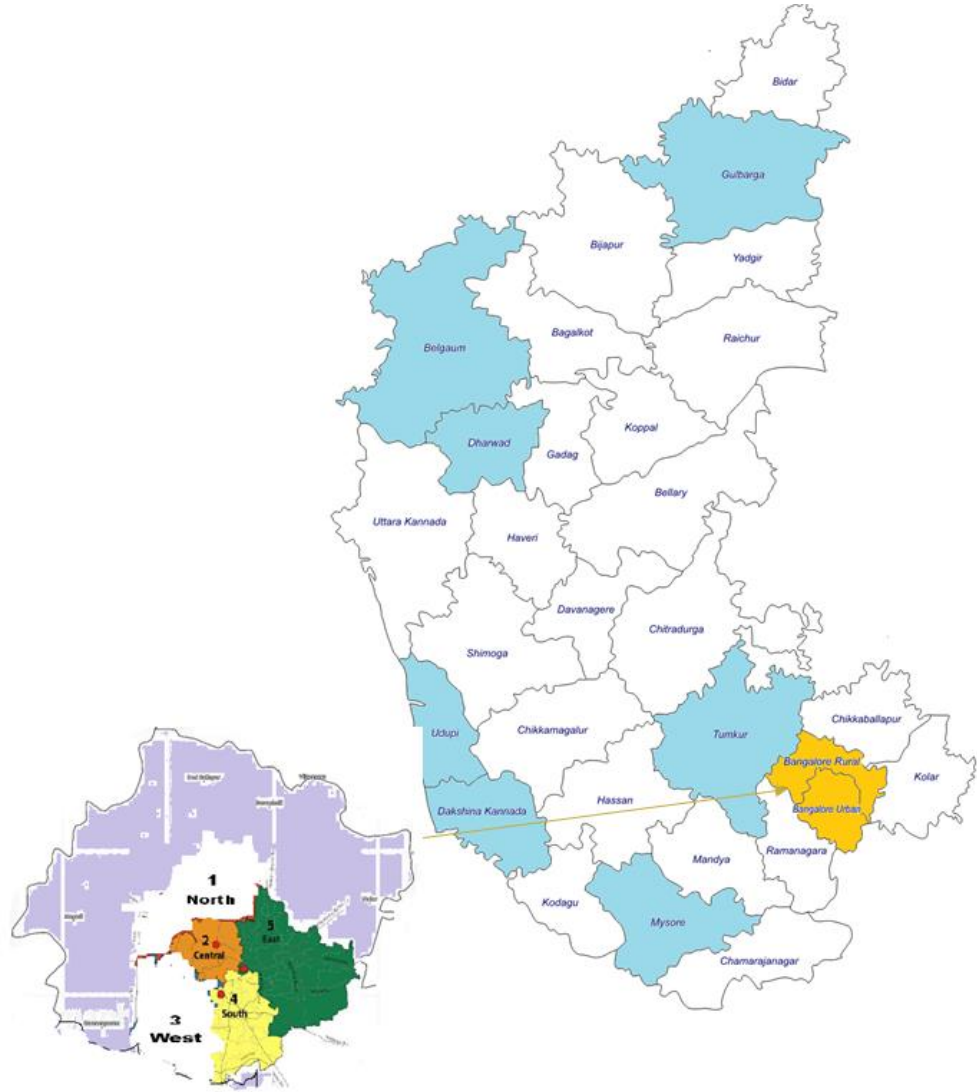
3.4.4 Audit Criteria

The Audit Objective was examined with reference to the criteria from the following sources:

- i. The Karnataka Stamp Act, 1957;
- ii. The Karnataka Stamp Rules, 1958;
- iii. The Karnataka Stamp (Prevention of undervaluation of instruments) Rules, 1977;
- iv. The Karnataka Stamp (Constitution of Central Valuation Committee) Rules 2003;
- v. Notifications and Circulars issued by IGR&CS; and
- vi. Valuation by Other Government Departments/Undertakings.

3.4.5 Scope of Audit and Methodology

The Performance Audit covered the period 2013-18. In order to assess the controls with respect to ensuring timely estimation/revision of properties and the appropriateness of the valuation methods adopted, 11 out of 34 DRs in the State were selected. Out of the 11 DRs, four were selected within Bengaluru, including Bengaluru (Rural), since these account for around 75 *per cent* of the revenue collected and the CVC is directly in-charge of estimation in Bengaluru. Two SROs each of the sampled 11 DRs in the State were selected.



The records maintained by the CVC and the VSCs for arriving at the estimated values were test-checked. Besides, information gathered from other sources, such as Land Revenue Department, Local Bodies, Banks and other Financial Institutions were collated and cross-verified. Also, the Sale-Agreements, Deposit of Title Deeds (DTD), Mortgage Deeds and Joint Development Agreements (JDA), which provide indication of the prevailing market values in any area/village were analysed with reference to the revision of GMV from time to time. In addition, the recommendations of the VSCs vis-a-vis the final GMV approved by the CVC were also analysed.

3.4.6 Acknowledgement

Audit acknowledges the co-operation extended by the Department of Stamps and Registration in providing the necessary records and information for the conduct of this Performance Audit.

Audit Findings

The system of prescribing GMVs by the CVC is an important control to ensure that the documents are not registered below a minimum value. For this control to be effective and to remain relevant throughout the financial year, the

CVC has to function methodically in a timely manner as prescribed, in order to determine GMV as close to the market value as possible. To verify the effectiveness in achieving the goal of the CVC, Audit verified the process of constitution and working of the CVC, as well as the procedures for estimation, publication and revision of GMVs. Findings in this respect are detailed below.

3.4.7 Constitution and Working of CVC

The Karnataka Stamp (Constitution of Central Valuation Committee for Estimation, Publication and Revision of Market Value Guidelines of Properties) Rules, 2003, (KS(CCVC) Rules) stipulate the structure, procedures and time-frame for the constitution of the CVC and VSCs, methods to be adopted for estimation of market value by VSCs, processing of information at the CVC, revision and rectification of anomalies and the final notification of approved market values.

Composition of CVC

The KS(CCVC) Rules, stipulate that in addition to the Chairman, the CVC shall comprise one representative each from (i) Directorate of Town Planning, (ii) Directorate of Survey and Settlement, (iii) Bangalore City Corporation, (iv) Bangalore Development Authority, (v) Income-tax Department, (vi) Karnataka Public Works Department, (vii) Karnataka Irrigation Department, (viii) Department of Stamps and Registration, (ix) Institute of Chartered Valuers, (x) Federation of Karnataka Chamber of Commerce and Industries, and (xi) any other person having expertise in the subject, with the number of total members not exceeding 20.

Formation of Valuation Sub-Committees

The KS (CCVC) Rules stipulate that the CVC may constitute Market Valuation Sub-Committees in each District and Sub-District with members drawn from the Departments of Revenue, Survey and Settlement, Public Works and the Municipal Council or Town Panchayats. The Tahsildar and the Sub-Registrar of the Taluk concerned shall be the Head and the Member Secretary of the VSCs respectively. The VSCs function under the administrative control of DRs, who shall be under the supervisory control of the CVC.

In Bengaluru (Urban) and (Rural), there are no Sub-Committees and the CVC itself has the responsibility of estimation, preparation and final approval of GMVs.

3.4.8 Rationalisation measures adopted by the Central Valuation Committee

A comparative study of Guidance Market Value Notifications of different periods for the different regions showed that there were huge discrepancies in valuation of similar kinds of properties in different regions during April 2013 (the GMV notification of 2011-12 was applicable at that point of time). However, rationalisation measures introduced over the last four revisions reduced the discrimination in valuation of the same kinds of properties in different regions. A few examples are given in the **Table 3.3**.

Table 3.3
Details of rationalisation measures adopted by the CVC

Sl. No.	Nature of property	Discrepancies in valuation among different regions	Rationalisation measure adopted
1.	Land/Site for commercial purposes	At different rates of GMVs notified for residential sites in different SROs' jurisdictions.	Uniformly 140 <i>per cent</i> of residential property value in the respective area made applicable throughout the State.
2.	Rate for land abutting NH and SH	By enhancing the GMV at different rates in different jurisdiction.	All the VSCs were directed to identify the survey numbers in each village which are abutting the National Highway (NH) or State Highways (SH) and notify the value of different kinds of properties in those survey numbers. Besides, a common Special Instruction was issued to enhance the value of respective kinds of properties by 25 <i>per cent</i> for SH and 50 <i>per cent</i> for NH or Ring Roads where separate classification is not provided.
3.	Agricultural land measuring less than 10 guntas	At different rates of GMVs notified for residential sites in different SROs jurisdiction.	GMVs for only two types of residential land were notified with effect from 1.4.2016 with a stipulation that the value calculated by applying GMV of sites to be compared with GMV of agricultural land and whichever is higher to be adopted.

The rationalisation measures were adopted for the State as a whole. Details of such measures taken by the CVC for different kinds of properties are shown in detail with respect to GMVs for the year 2013-14 to 2017-18 for Mysuru District as an instance, in **Appendix-I**.

Also, the CVC/VSCs made efforts to classify the properties in any area/village taking into consideration the developmental activities, types of road on which they are situated (such as Main Road or Cross Road or based on the width of the road), whether properties were situated in residential, commercial or industrial zones, new layouts, apartments, etc. These measures aided the CVC/VSC to consider properties for estimation of their GMVs at micro level.

Despite these rationalisation measures, there were several deficiencies which led to underestimation of the market values of properties, which are mentioned in detail in the following paragraphs.

3.4.9 Deficiencies in the working of the Committee and Sub-Committees

The KS (CCVC) Rules stipulate the general composition of the Valuation Committees, procedure and timelines to be followed. It also prescribes that the Committees shall meet as often as required to discuss and decide on the estimation of market value rates for the guidelines. It requires the VSCs to prepare a statement showing the average rates of different classifications of land within their jurisdiction. Though the CVC is the final authority either to

accept or to reject the rates suggested by the VSCs, all such decisions are to be recorded in the proceedings of the meetings of the Committee.

It was noticed that during the period 2013-14 to 2017-18, the total members in CVC varied from 19 to 20, including expert members, while the VSCs consisted of five members.

3.4.9.1 Insufficient meetings

There were 38 meetings held by the CVC between February 2013 and December 2017. These meetings included meetings held to discuss the proposals for revision of GMVs in the Districts that are under the exclusive jurisdiction of CVC, i.e. Bengaluru (Urban) and (Rural), as also to examine the proposals sent by different VSCs in the State.

Review of the minutes of the meetings of the CVC/VSCs by Audit did not show any analysis made, methodologies followed, criteria adopted, opinions gathered, etc. in arriving at the final values. They showed only the outcomes of the meetings in a summarised form. No details regarding opinion expressed by individual members were available and the role of experts in the Committees remained unascertainable. Hence, Audit could not examine the justifications, if any, for the rates proposed as well as the guidance values finalised, from the documents maintained.

The year-wise number of meetings held by the CVC and VSCs in the selected nine Districts and 67 Sub-Districts for the years 2013-14 to 2017-18 are given in **Table 3.4**.

Table 3.4

Details of Number of meetings held by VSC and CVC for the years 2013-14 to 2017-18

Sl. No.	Taluk and District	No. of meetings held for the years									
		2013-14		2014-15		2015-16		2016-17		2017-18	
		CVC	VSC	CVC	VSC	CVC	VSC	CVC	VSC	CVC	VSC
1.	Bengaluru (Rural) and (Urban)	1	NA	2	NA	4	NA	4	NA	9	NA
2.	Belagavi Taluk, Belagavi	1	2	2	2	2	2	1	0	4	2
3.	Dharwad Taluk, Dharwad	1	2	2	3	2	2	1	0	2	1
4.	Hubballi Taluk, Dharwad	1	2	2	4	2	3	1	0	2	1
5.	Mangaluru Taluk, Dakshina Kannada	1	3	2	1	1	3	2	4	4	2
6.	Mulki Taluk, Dakshina Kannada	1	1	2	2	1	5	2	4	4	1
7.	Nanjanagudu Taluk, Mysuru	1	2	2	1	1	2	2	2	4	1
8.	Shira Taluk, Tumakuru	1	1	2	3	2	3	1	0	4	2
9.	Tumakuru Taluk, Tumakuru	1	1	2	3	2	2	1	0	4	2
10.	Brahmavara Taluk, Udupi	1	3	2	3	1	1	2	5	4	2
11.	Udupi Taluk, Udupi	1	0	2	3	1	1	2	5	4	2

NA: Not Applicable.

Audit examination of the conduct of meetings by the CVC and 10 VSCs as above for the five years of 2013-2018 with regard to the volume of work handled by them revealed the following:

a) Meetings conducted by VSCs

In the above 10 VSCs selected for Audit, the number of individual areas within each VSC ranged from 401 to 1,887. Within each of these areas, values of five to eight segments of properties were to be proposed. Considering the above volume of work assigned to the VSCs, the performance of the VSCs is summarised as below.

Out of the total 50 proposals to be made by the VSCs for the period 2013-14 to 2017-18, it was seen that:

- six draft proposals were finalised without conducting any meetings;
- 28 draft proposals were finalised by VSCs in just one or two meetings; and
- 16 draft proposals were finalised by VSCs in three to five meetings.

Besides, the CVC considered draft GMVs received from VSCs across the State for properties in about 18,000 villages/areas for the period 2013-14 to 2017-18 by conducting just 38 meetings.

b) Meetings conducted by CVC

In case of Bengaluru (Urban and Rural) whose exclusive jurisdiction was with CVC, there were 16,915 individual areas with five segments of properties within each area. Hence, the minimum estimations to be proposed worked out to 85,000 entries each year. It was seen that CVC had finalised values during 2013-14 to 2016-17 by conducting 1 to 4 meetings, whereas it conducted 9 meetings to finalise values for 2017-18.

The process of estimation involves analysis of past trends from data available within the Department, coupled with gathering and utilisation of information on present trends based on development in each area. Audit opines that when proposals for several jurisdictions are discussed together in a short time the possibilities of not covering all relevant factors is high, and due values arrived at may not reflect the correct picture.

3.4.9.2 Non-adherence to the time schedule in respect of revision of GMVs and consequent notification of outdated GMVs

Time-frame for assessment and publication

The KS (CCVC) Rules stipulate that the revision of GMVs shall be done on a yearly basis, thereby ensuring reflection of actual market value of the time. The process shall commence during the first week of October each year and shall conclude by the second week of March of the next year as per the prescribed time schedule. As per this time schedule, the CVC circulates general policy guidelines, for the estimation of GMVs, to the Sub-Committees in the first week of October. Thereafter, the VSCs shall commence the process of estimation and preparation of GMVs and finally submit the estimated values to the District Registrar, who in turn forwards them to the CVC after verification. The CVC shall then discuss and take a final decision on the

estimation. The publication of the final estimated values is due on 1st of April every year. The activity-wise time-frame is given in **Appendix-II**.

Audit verified the process of estimation of value and the timing of publication of the estimated values during the five-year period from 2013 to 2018 and found delay with respect to the time-schedule in two years. In one year no estimation was done due to the delay in the previous year. Details are given in **Table 3.5**.

Table 3.5
Delay in notifying annual GMVs

Year	Due date for revision	Remarks/Audit Observations
2013-14	01.04.2013	Delayed by 133 days in Bengaluru (Rural) and Bengaluru (Urban) (issued on 12 August 2013) and between 61 to 122 days in DRs outside Bengaluru (between June and August 2013).
2014-15	01.04.2014	Delayed by 226 days in Bengaluru (Rural) and Bengaluru (Urban) (issued on 13 November 2014) and 244 days in DRs outside Bengaluru (issued on 1 December 2014).
2015-16	01.04.2015	No revision. CVC attributed the non-estimation of GMV during the year 2015-16 to the delay in revising GMV during 2014-15.
2016-17	01.04.2016	There was no delay; however, it was noticed by Audit in test-checked cases that GMVs were decided based on the proposals made for the previous year, for which there was no revision.
2017-18	01.04.2017	Though the GMVs were published without delay, it was noticed by Audit that the revision was only limited to an additional entry in Special Instruction No.1, besides notifying GMVs for certain properties newly identified.

In this connection, Audit analysis further revealed the following:

- The GMVs for 2011-12 had come into force from September 2011 with a delay of 178 days; CVC therefore had not estimated GMVs for the year 2012-13 and the values of 2011-12 were kept in force during 2012-13 also;
- Though there was no estimation during 2012-13, the CVC did not ensure timely revision during 2013-14 and the same was delayed by 133 days, till August 2013. Hence, the values estimated for 2011-12 continued till August 2013;
- Similar to the above, as already pointed out in table 3.5, the values estimated belatedly for 2014-15 continued till 2015-16 and values estimated for 2015-16 got implemented only in 2016-17 and continued unchanged, till 2017-18 and with very minor modifications till date (September 2018).
- In Belagavi, Dharwad and Tumakuru, the rates proposed for 2015-16 by the VSCs were implemented in 2016-17 by the CVC. Similarly, in Bengaluru (Urban), it was noticed that the GMVs proposed by the jurisdictional SROs for the year 2015-16 were implemented in 2016-17. The same rates continued for 2017-18 and for 2018-19 as well.

Thus, outdated values were notified during 2016-17 and the same rates continued without revision.

After these cases were pointed out (May 2018), the CVC stated that the delays were due to postponement of GMV revisions at the Government level (December 2018).

Audit opines that the inordinate delay in finalisation and implementation of GMVs not only leads to notification of values which do not match the prevailing market trends but also adversely impacts the revenue due to the Government.

3.4.9.3 Lack of transparency in evaluation and finalisation of Sub-Committees' proposals by the CVC

The CVC in its Circulars directed⁴¹ the VSCs that revisions in GMVs should not be relegated to mere increases in percentages over the previous GMV, but should be a result of a thorough process and should reflect the actual values of the properties prevailing in the market at that point of time.

Audit noticed that contrary to its own suggestion to the VSCs, and irrespective of the quantum of increase suggested by the VSCs, the CVC, as a matter of routine, was resorting to just 8 to 10 *per cent* increase over the previous GMVs. Records at the CVC or the VSCs did not reveal any reason or justification for the modifications made by the CVC. It appears that unilateral decision was being taken by the CVC without ascertaining and deliberating on the genuineness of the values estimated by the VSCs. Besides, as mentioned in paragraph 3.4.9.1, the number of meetings conducted by the CVC seemed insufficient to discuss all the important aspects with respect to each and every area under consideration. Thus, final values notified by the CVC did not appear to be very well thought out based on the required intense deliberations and were far below the market trends observed by the VSCs in majority of the cases. Over all, the procedures lacked transparency and documentation.

An illustration-VSC of Tumakuru Taluk:

The VSC of Tumakuru Taluk estimated GMV and sent (December 2014) the proposal to the CVC for the purpose of revision for the year 2015-16 for the properties under its jurisdiction. Proposed increase in GMV of the properties under its jurisdiction ranged between 0 and 50 *per cent* of the then existing GMV. These proposals were, however, not accepted by the CVC, who raised GMV only by 10 to 12 *per cent* for 12 cases out of 16 cases test-checked and implemented for the year 2016-17. In three cases where VSCs did not recommend a hike, the CVC raised GMV by 12 to 30 *per cent*. But in one case the increase was 111 *per cent*, due to merger of two entries of a village by the CVC though the VSC had recommended to keep both the entries and recommended no hike in that case. The details are given in **Table 3.6**.

⁴¹ Circulars being issued at the beginning of each cycle, to all the VSCs concerned.

Table 3.6
Comparison of GMV approved by the CVC with the proposals of VSC

(Value in ₹)				
Sl. No.	Place/Area	Pre-revised GMV per sq. mtr/Acre	Values proposed by the VSC per sq. mtr/Acre (Percentage increase)	Values approved by the CVC per sq. mtr/Acre (Percentage difference with pre-revised GMV)
For properties in square meters				
1.	Ashoka Road	25834	32300 (25%)	28500 (10%)
2.	Arale Pete	11840	11900 (1%)	13100 (10%)
3.	BH Road (Vidya Nagara)	16146	21600 (34%)	17800 (10%)
4.	BH Road (Ashoka Nagara)	18837	27000 (43%)	20800 (10%)
5.	BH Road (K.R. Badavane)	21528	32300 (50%)	23700 (10%)
6.	Baddi Halli (both right and left sides of 60 ft. Road)	9688	9700 (0%)	10700 (10%)
7.	Dibbur Badavane	5382	5400 (0%)	6200 (15%)
8.	J.C.R. Colony	5382	5400 (0%)	6000 (10%)
9.	Siddaganga Badavane	13455	16200 (20%)	14800 (10%)
10.	Siddaganga Badavane (Backside of Railway Station (South side))	6997	7000 (0%)	14800 (111%) Due to deletion of this entry and merging with the village at Sl.No.9.
11.	Sathyamangala Badavane	5382	5400 (0%)	6700 (24%)
Agricultural properties. In the Order of type of agricultural lands - Khushki, Tari and Bhagaytu (Value in ₹ per acre)				
12.	Amani Hosakere	200000	300000 (50%)	220000 (10%)
		350000	350000 (0%)	385000 (10%)
		500000	500000 (0%)	550000 (10%)
13.	Arali Halli	200000	300000 (50%)	220000 (10%)
		250000	350000 (40%)	275000 (10%)
		500000	500000 (0%)	550000 (10%)
14.	Harona halli	200000	200000 (0%)	206000 (30%)
		300000	300000 (0%)	390000 (30%)
		400000	400000 (0%)	520000 (30%)
15.	Ahobala Agrahara	200000	300000 (50%)	224000 (12%)
		250000	350000 (40%)	280000 (12%)
		300000	400000 (33%)	336000 (12%)
16.	Badan Chikkana Halli	200000	300000 (50%)	220000 (10%)
		200000	300000 (50%)	385000 (10%)
		300000	350000 (17%)	550000 (10%)

In these cases, there were no records of any clarification sought by the CVC from the VSCs concerned before modifying the proposals. The uniform increase of 10 *per cent* or the increase in a few cases by a bigger margin without specific and verified inputs did not seem well thought out and was not the result of any intense deliberations or exchange of correspondence.

Conclusion: The CVC/VSCs have neither been able to adhere to the time schedule prescribed under the Rules nor to hold sufficient number of meetings for estimation of the values. The VSCs meetings were just sufficient to readout instructions by the CVC, adopt an already prepared draft proposal statement by SROs and convey approval to notify the same for public opinion and finally to give approval for gazette notification for the GMVs approved by the CVC. The CVC meetings on the other hand considered several Districts in one meeting and the deliberations were generally in broader terms discussing

and approving hikes in percentages over pre-existing GMVs than on capturing actual trends/values prevailing in the market.

Recommendation 1: The Department needs to re-look at the feasibility of the existing practice of revising the GMVs annually. In this regard, Audit suggests that the Government/Department may consider increasing the periodicity of revision to, say, three or five years, as may be feasible, for the CVC to gather information from all the sources, discuss, deliberate and finalise, the values after considering all the aspects related to valuation. The Government/Department may consider establishing a system of indexation of property values in the State and update GMVs based on the index factor for quarterly or half yearly period.

The CVC stated (November 2018) that adoption of index factor in other States would be examined and appropriate action would be taken after consultations amongst its members and other stakeholders. In the Exit Conference held in October 2018, the Principal Secretary to Government of Karnataka, Revenue Department welcomed the Audit Recommendation.

3.4.10 Estimation of GMVs

Estimation of GMV is a vital exercise as the revenue due to the Government as Stamp Duty is dependent on the GMV published. The CVC should determine GMV as close to the actual market value as possible, so as to ensure dynamic revenue collection proportional to the movement of the market prices. To achieve accurate information and match the on-going value of the properties, details of transactions regarding properties have to be gathered from all possible sources to make the methodology adopted in arriving at the values effective.

3.4.10.1 Trend in valuation of documents registered

Audit made an analysis of the Sale-Deeds registered between April 2013 and March 2018 in the 11 selected DRs (out of the 34 DRs) to ascertain the trends in the valuation of properties set forth in the documents getting registered in the State. The observation is shown in **Table 3.7**.

Table 3.7
Trend in the declaration of property values in the registered documents

Year	Total No. of documents registered	Out of column (2)		
		Where consideration was less than GMV ⁴² / (percentage)	Where consideration was same as GMV/ (percentage)	Where consideration was more than GMV/ (percentage)
(1)	(2)	(3)	(4)	(5)
2013-14	3,89,986	37,737 (9.68)	3,07,168 (78.76)	45,081 (11.56)
2014-15	3,72,219	42,783 (11.49)	2,85,267 (76.64)	44,169 (11.87)
2015-16	3,65,954	47,240 (12.91)	2,64,736 (72.34)	53,978 (14.75)
2016-17	3,03,737	48,552 (15.98)	2,11,679 (69.69)	43,506 (14.32)
2017-18	3,26,346	59,553 (18.25)	2,15,310 (65.98)	51,483 (15.77)
Total	17,58,242	2,35,865 (13.41)	12,84,160 (73.03)	2,38,217 (13.55)

Source: Details of documents registered during 2013-14 to 2017-18 furnished by the Department of Stamps and Registration.

⁴² If the transaction value is less than GMV, such cases are referred to DR under Sec.45A before registration.

This shows that in general (in 66 to 79 *per cent* of the cases), the public tends to register the properties at the existing GMV.

In respect of cases where consideration stated in the documents is less than the GMV (in about 14 *per cent* of the cases), the parties concerned have the option to pay SD and RF on the GMV or to appeal to the DR concerned. The DR concerned, after due procedure prescribed under Section 45-A of the KS Act, may grant relief to the parties. When CVC estimates property values for any area or village based on the amenities available and market conditions, there is a possibility that some properties in that village may not fetch that value due to absence of access to the amenities or due to other disadvantages. For such cases, a recourse under Section 45-A has been provided under the Act.

Therefore, among the Sale-Deeds, only about 12 to 16 *per cent* of the cases, where the consideration shown was more than the GMVs, serve as indicators for revision by the CVC.

Hence, a realistic estimation of GMV through a detailed analysis of the documents available from all possible sources becomes necessary to capture transaction values close to the market value. In this context, Audit explored the possibilities of certain such sources and analysed the effectiveness of their utilisation by the CVC in arriving at GMV.

Some likely Indicators of market value

To evaluate GMV realistically, the Department needs to consider sources of information, both internal and external, which can reveal the actual transaction value. Internal information already available with the Department are Sale-Agreements and Deposit of Title Deeds, which tend to disclose market values existing at that time. External information primarily relates to information from other Departments and agencies, like Land Revenue Department (Valuation made for lease/grant of Government Lands), Banks and other Financial institutions (loan documents, Sale/Construction Agreements, Bank Valuation, etc.) and Developers and Builders themselves (Advertisements and Brochures).

The findings are in the succeeding paragraphs.

3.4.10.2 Sale-Agreements

A Sale-Agreement is entered into between an owner and a prospective buyer and it generally tends to disclose the actual value of the transaction, since it acts as a guarantee for the consideration passed on, until the transaction is finalised.

During the period from April 2013 to March 2018, 17.58 lakh Sale-Deeds and 2.11 lakh Sale-Agreements were registered in the 11 DRs (out of the 34 DRs) selected for Audit.

Audit analysed 484 Sale-Deeds which were registered subsequent to Sale-Agreements between the same parties, during the period from April 2013 to March 2018 under the jurisdiction of four⁴³ District Registrars. Out of the 484,

⁴³ Bengaluru (Rural), Dharwad, Kalaburgi and Shivajinagar.

in 405 Sale-Deeds, the GMVs were found to be less than the consideration stated in the Sale-Agreements (84 *per cent*). Details are given in **Table 3.8**.

Table 3.8
Difference between GMV and Sale Agreement in percentage

1.	No. of cases in which GMVs were lesser by 76 <i>per cent</i> to 92 <i>per cent</i>	51
2.	No. of cases in which GMVs were lesser by 51 <i>per cent</i> to 75 <i>per cent</i>	164
3.	No. of cases in which GMVs were lesser by 26 <i>per cent</i> to 50 <i>per cent</i>	138
4.	No. of cases in which GMVs were lesser by 1 <i>per cent</i> to 25 <i>per cent</i>	52
	Total	405

Out of the 405 above, 62 Sale-Deeds were registered for the same consideration shown in the Sale-Agreements, whereas the remaining 343 Sale-Deeds were registered at rates as per the prevailing GMVs. The difference between the consideration stated in the Sale-Agreements and that of the Sale-Deeds in respect of these 343 Sale-Deeds was ₹ 61.10 crore, on which Stamp Duty and Registration Fee of ₹ 4.06 crore could have been realised.

This shows that parties tend to register the Sale-Deeds as per the GMV instead of the actual consideration depicted in the Sale-Agreements. Since the Sale-Agreements were instruments enforceable in the Court of Law and had high possibility of capturing the real market value, the Sale-Agreements may be considered for utilisation as the indicators of GMVs on par with Sale-Deeds.

3.4.10.3 Deposit of Title Deeds with Banks and other financial institutions

The banks and other financial institutions disburse loans to purchasers of properties based on the amount required for the purchase. This loan is sanctioned on the security of the property and the purchaser enters into an Agreement for Deposit of Title Deeds (DTD) with the bank. Such DTDs also have a corresponding Sale-Deed registered with SROs. There were 5.69 lakh DTDs registered between April 2013 and March 2018 under the 11 selected DRs (out of the 34 DRs).

The value of the property declared in DTDs tends to be more realistic. However, the value declared in the corresponding Sale-Deeds usually tends to be the value prescribed as per GMV. Audit verified the value of the property declared in 339 DTDs with the value declared in its corresponding Sale-Deeds and noticed a drop of 12.61 *per cent* to 57.51 *per cent* in the values stated in the Sale-Deed, vis-a-vis the values as per DTD. The undervaluation in Sale-Deeds in these cases amounted to ₹ 57.46 crore with a consequent revenue impact by way of loss of Stamp Duty and Registration Fee of ₹ 3.79 crore (Registration Fee at 1 *per cent* + Stamp Duty including cess at 5.60 *per cent*). Two illustrative cases are shown **Table 3.9**.

Table 3.9
Deposit of Title Deeds revealing the transaction values

Sl. No.	Document Number/Date	DTD Document. Number/ Date	Loan amount sanctioned vide DTD (in ₹)	GMV/ Sq. ft. (in ₹)	Consideration shown in the Sale -Deed (in ₹)	Drop of value in Sale- Deed compared to DTD (%)
1.	JNR-1-6117/15-16/20.10.2015 SUAVITYOTIUM ⁴⁴	JNR-1-6138/15-16/20.10.2015	90,00,000	2,150	49,23,000	45.30
2.	MGC-1-05684/15-16/16.11.2015 PROXIMUS ⁴⁵	MGC-1-5685/15-16/16.11.2015	44,80,000	2,000	27,52,000	38.57

Financial institutions/banks sanction loan up to 80 *per cent* of the value of the property. Hence, the differences shown above could be higher and depicts that GMVs estimated in these cases were not realistic.

Though DTDs were good indicators of market value, the CVC did not seem to have considered them as a criterion while estimating GMV.

3.4.10.4 Cross-verification with Banks and other Financial Institutions

Banks and other financial institutions, which lend loans to buyers for immoveable properties have a system of estimating the value of the properties against which the loans are sanctioned. Loan amount sanctioned by banks would generally be at 80 *per cent* of the value of the property estimated by them. Hence, the banking sector constitutes an important source of information on the prevailing market value of properties in any area.

Loans availed by purchasers from Banks for the purchase of flats/apartments are generally split into two components. The first component is sanctioned for purchase of semi-finished flat/apartment and/or un-divided share in the land on which the apartment is constructed, termed as 'Sale-Agreement'. The second component is sanctioned for construction or completion of the apartment, termed as 'Construction-Agreement'. Thus, very conservatively, the aggregate of these two components constitutes the consideration paid by the buyers in these cases and this represents the actual market value, which the properties could fetch when sold in the open market. However, the parties concerned tend to suppress the actual transaction value and register the properties either for GMV or slightly higher than the GMV depending on their need to secure loans from banks. This is illustrated below:

In respect of one residential apartment in Bengaluru (Urban), the CVC notified GMV of ₹ 38,800 per sq.mtr. for the year 2016-17. Information collected from a Bank revealed that the aggregate consideration passed on from buyer to the developer in this case was much higher and hence the GMV notified was atleast 35 to 40 *per cent* less than the market value. The details of this residential apartment is given in **Table 3.10**.

⁴⁴ Apartment situated in Yelenahalli village, Begur Hobli, Bengaluru (South). SBA measuring 2,150 sq.ft.

⁴⁵ Apartment situated in Bolor village, Derebail ward, Mangaluru city. SBA measuring 1,280 sq.ft.

Table 3.10
Details pertaining to one illustrative case in Bengaluru Urban

Name of the Apartment/locality	Green age
Year of Registration	2016-17
GMV notified for the Apartment per sq.mtr.	₹ 38,800
Area (SBA) in sq.mtr.	170.57 (1,836 sq.ft.)
Value of the flat at GMV	66.18 lakh
Value for which Sale-Deed was registered	69.91 lakh
Consideration paid on Sale-Agreement	57.83 lakh
Consideration paid on Construction Agreement	49.57 lakh
Total Consideration paid for the flat	107.40 lakh
Market Value per sq.mtr. of SBA (Total Consideration ÷ Area in sq.mtr.)	₹ 63,000
GMV as a percentage of Consideration paid	61.59
Underestimated GMV (Percentage)	38.41

Considering the fact that the financial institutions/banks sanction loan up to 80 *per cent* of the value of property/documents, the consideration received from the buyer could be even higher.

Such institutions are not within the purview of audit of the Indian Audit and Accounts Department. However, four Banks on the request made by Audit, furnished information in respect of 58 projects relating to residential/commercial apartments.

In order to assess the impact of the above on revenue, Audit collected and test-checked details of loans⁴⁶ sanctioned for these 58 projects and compared the value of the loans with the GMVs prescribed for the respective projects. It was noticed that the GMV stipulated for the projects were undervalued by ₹ 853.30 crore with a consequent revenue impact by way of loss of Stamp Duty and Registration Fee of ₹ 56.58 crore (*Appendix-III*).

There were no records/statements in the CVC or the VSCs to show that the above agreements were considered as possible inputs for estimation. The final values notified by the CVC also did not reflect the projections derived from the above documents.

After these cases were pointed out between May and October 2018, the CVC stated (October 2018) that as per the modifications made with effect from 2017-18, SROs were allowed to apply ready reckoner values in respect of apartments constructed in sites up to 500 sq.mtr. only. In respect of all other apartments, the valuation shall be referred to CVC for estimating and notifying the GMVs. During estimation of such GMVs, CVC takes into account all the relevant factors, like the road, site rate, ready reckoner rate for the site rate, agreements between the owners and the prospective buyers, price quoted by the owners in the websites, value of similar apartments in the vicinity, rate ascertained from marketing managers appointed by the developers, rate proposed by DRs after site visit and luxuries in the apartment.

However, the steps taken by the CVC appear to be inadequate as they failed to estimate GMV close to the consideration passed on from buyer to the developers/owners in these cases. This was mainly due to the following:

⁴⁶ As per RBI norms, loans constitute only 80 *per cent* of the value of the property.

- (i) Underestimation of value of sites as the ready reckoner rate is dependent on the GMV of sites;
- (ii) Splitting-up of the consideration and availing two different loans i.e. one on Sale-Agreement and another on Construction-Agreement for the same property were not reckoned by the CVC; and
- (iii) The CVC, in general, was very conservative in estimating the values.

3.4.10.5 Higher values furnished by Land Revenue Department

During estimation of values by the CVC/VSCs for the respective jurisdictions, the values furnished by the Land Revenue Department⁴⁷ also form one of the inputs for valuation.

Audit verified the information furnished by the Revenue Department and compared the same with the GMVs notified for those periods. It was noticed that the GMVs notified by the CVC were far less than the values furnished by the Revenue Department. The details of valuation furnished by the Revenue Department and the corresponding GMVs for five villages (where it was made available to Audit) in two Districts are shown in **Table 3.11**.

Table 3.11

Comparison between valuation by Revenue Authorities and CVC

Sl. No.	Name of the village	Nature of property	Value reported by Revenue Authorities/ Year of estimation (in ₹)	GMV notified (in ₹)	Difference (Percentage variation)	GMV notified for the year 2017-18 (in ₹)
1.	Gunjur (Bengaluru)	Converted	2 Crore per acre/2012-13	1 crore per acre during 2013-14	50	1.85 crore/acre
2.	Chitrapady (Udupi)	Residential Abutting NH	2 lakh per unit (Cent) 2013-14	40,000 per unit (Cent)	80	1,13,300
		Abutting PWD Road	60,000 per unit (Cent) 2013-14	35,000 per unit (Cent)	42	76,900
		Interior	60,000 per unit (Cent) 2013-14	30,000 per unit (Cent)	50	60,700
3.	Gundmi (Udupi)	Residential Abutting NH	2.5 lakh per unit (Cent) 2013-14	40,000 per unit (Cent)	84	1,01,200
		Abutting PWD Road	1.5 lakh per unit (Cent) 2013-14	35,000 per unit (Cent)	77	60,700
		Interior	60,000 per unit (Cent) 2013-14	30,000 per unit (Cent)	50	48,600
4.	Moodahadu (Udupi)	Residential Abutting NH	2 lakh per unit (Cent) 2013-14	25,000 per unit (Cent)	88	72,850
		Interior	40,000 per unit (Cent) 2013-14	15,000 per unit (Cent)	62.5	40,500
5.	Giliyaru (Udupi)	Residential Abutting NH	3 lakh per unit (Cent) 2013-14	25,000 per unit (Cent)	92	72,850
		Abutting PWD Road	60,000 per unit (Cent) 2013-14	20,000 per unit (Cent)	66.7	48,600
		Interior	40,000 per unit (Cent) 2013-14	15,000 per unit (Cent)	62.5	24,300

⁴⁷ Values are tabulated for each village by the Village Accountant concerned and forwarded to the VSCs concerned.

Illustration of revenue impact due to undervaluation by the CVC when compared to valuation by Revenue Authorities in respect of Gunjur village is shown below:

There were 51 Sale-Deeds of properties in Gunjur village during 2013-14 to 2015-16. Of these, in 36 cases, the properties were registered for consideration ranging from ₹ 2.03 crore to ₹ 3.44 crore per acre. However, in the remaining 15 cases, the considerations shown in the Sale-Deeds registered (during 2013-14 and 2014-15) ranged between ₹ 1 crore and ₹ 1.75 crore per acre as against the value of ₹ 2 crore per acre estimated by the Tahsildar in 2012-13 itself. This resulted in undervaluation of properties by ₹ 9.70 crore and the consequent impact on Stamp Duty and Registration Fee was ₹ 64.02 lakh.

Similarly, 204 documents relating to properties situated at Chitrapady, Giliyaru, Gundmi and Moodahadu villages under the jurisdiction of SRO, Brahmavar, registered during 2015-16 were test-checked. During the same period, 159 documents (77.94 *per cent* of the audited sample) were registered at the prescribed GMV which were lesser than the values furnished by the Village Accountants. On comparison of the values as furnished by the Village Accountants, the impact on Stamp Duty and Registration Fee was ₹ 1.40 crore.

3.4.10.6 Higher values declared under TDS

As per Section 194 IA of the Income Tax Act, any person buying immovable property for consideration exceeding ₹ 50 lakh has to deduct tax at source (TDS) at 1 *per cent* of the sale consideration if the PAN of the seller is provided, otherwise at 20 *per cent* of the sale consideration at the time of payment. There were 1.22 lakh Sale-Deeds registered between April 2013 and March 2018 in which the consideration shown in the document was ₹ 50 lakh or more.

Audit noticed that the TDS and PAN details of the parties concerned were not being captured by the Department in their application software KAVERI used for registration of documents at SROs. Only hard copies of TDS certificate and PAN cards were kept in the files maintained at SROs.

On verification of the TDS certificates in all the 30 cases (where evidence for TDS deduction was found), Audit noticed five cases (16.66 *per cent* of the audited sample) wherein the sale consideration showed in the documents was lesser than the consideration on which one *per cent* was deducted and paid to the Income Tax Department by the purchaser. This had resulted in undervaluation of properties by ₹ 285.33 crore and consequent short-levy of Stamp Duty and Registration Fee of ₹ 18.82 crore as shown **Table 3.12**.

Table 3.12

Comparison between TDS and registered value of the documents

Sl. No.	Doc. No. Details of properties	TDS @ 1% of consideration (₹ in lakh)	Value based on TDS (₹ in crore)	Value as per GMV (₹ in crore)	Short-levy of SD and RF (₹ in crore)
1.	4857/16-17 40,059 sq.mtr of land alongwith 23,887.80 sq.mtr of building at EPIP phase II, Whitefield Industrial Area, Hoodi	3.3101	331.01	293.75	2.46
2.	6453/15-16 57.79 cents of residentially converted land, Attavara village, Mangaluru Taluk	0.7327	73.27	44.45	1.90
3.	2424/17-18 24 cents of non-agricultural land with 4000 sq.ft. of building situated in Attavara village of Mangaluru Taluk	0.5010	50.10	6.00	2.91
4.	8451/16-17 26 cents of non-agricultural land with residential building situated in Boloor A village of Mangaluru Taluk	0.9308	93.08	7.54	5.64
5.	3866/15-16 46 cents of non-agricultural land situated in Kodialbail village of Mangaluru Taluk	1.0293	102.93	13.32	5.91
	Total	6.5039	650.39	365.06	18.82

Though this information was available on records, the SROs, who check the documents before registration, failed to take this into cognizance and demand Stamp Duty and Registration Fee accordingly.

This kind of omission from SROs at the time of registration could be addressed if the KAVERI software is modified to capture this information so as to cross-check the TDS amount with the consideration declared.

3.4.10.7 Advertisements and Brochures published by Builders/Developers

The prices quoted by Builders/Developers are arrived at after factoring all components of pricing and depict the values based on prevalent market conditions. Also, the CVC, in its instructions, had directed the SROs/VSCs to consider the prices quoted by the Builders/Developers in their advertisements as one of the factors during estimation. Though an element of bargain may have to be allowed in respect of such instruments, prices quoted by the

Builders/Developers serve as near realistic sources for capturing the current market trends.

Audit verified the GMVs estimated by the Department and compared them with the brochure price (base price) quoted by the builders in respect of 35 projects. Of these, it was noticed in 27 projects (77.14 *per cent* of the audit sample) in three⁴⁸ Districts that the GMVs notified were far less and were only between 30 and 62 *per cent* of the base price quoted by the developers as detailed in the **Appendix-IV**. There were 2,169 residential/commercial flats measuring 3.30 lakh sq.mtr. registered for a consideration of ₹ 1,634.68 crore between 2015-16 and 2017-18, in these 27 projects. The value of these properties as per the base price quoted by the developers was ₹ 2,600.14 crore. The consequent undervaluation in these cases amounted to ₹ 965.46 crore and loss of Stamp Duty and Registration Fee was ₹ 63.72 crore.

Thus, it could be seen that the CVC neither utilised such information available in the DSR to the optimum level nor explored the identified external sources as the indicators of actual market value of the properties. Consequently, the GMVs determined were far less than the actual market value.

Recommendation No.2

The CVC may consider:

- **Getting the KAVERI software modified to capture the details of PAN and TDS information and cross-check that information with the consideration declared by the parties for the purpose of payment of Stamp Duty and Registration Fee;**
- **Notifying GMVs on each revision as close as possible to the market values revealed by the indicators; and**
- **Establishing regular channels for receiving inputs from external sources like Banks and other Government Departments.**

After these cases were pointed out between May and October 2018, the CVC stated (November 2018) that action has been initiated to capture TDS details in the software. Further, it was stated that letters would be addressed to Banks to share the information on cases relating to loans.

3.4.11 Underestimation of value of sites

Transactions involving land development happen at various stages. Initially the status of land would be agricultural, then the first stage would be to change the status to non-agricultural purposes known as ‘converted land’ and finally the change to residential or non-residential sites. Hence, ideally the values assigned should be consistently incremental with the phases of development from agricultural to residential or other uses.

Formation of residential or non-residential sites involves construction of roads, drainages, water supply networks, electricity supply networks, marking of sites, plots, etc. and public parks as per the approved plan. The rights over the civic amenity areas like roads, public parks, etc. are relinquished to the local municipal body concerned. As per Karnataka Town and Country Planning Act,

⁴⁸ Bengaluru, Dakshina Kannada and Udupi.

1961 (KTCP Act) and the Rules made thereunder, the extent of area to be relinquished for civic amenities is to be at least 50 *per cent*⁴⁹ (2,023 sq.mtr.) per acre of the land on which the layout is formed. Hence, only 2,023 sq.mtr. per acre would be available to the developers for formation of residential sites.

For the purpose of conservative estimation of market value land available for sites was considered at 2,225 sq.mtr.⁴⁹ per acre.

3.4.11.1 It was noticed in many cases that the values of residential sites determined during estimation by the CVC were less than the GMVs fixed for converted lands which were not developed. An illustration of this with respect to one village (Kattigenahalli) in Bengaluru Urban, for the year 2016-17, is given in **Table 3.13**.

Table 3.13

Details of GMV notified for Kattigenahalli village for the year 2016-17

Type of land	Extent of land available for transactions per acre (in Sq. Mtr)	Value per Sq. mtr. (₹)	Value per Acre (₹ in crore)
Agricultural	4,046.8	5,436	2.20
Converted for residential purpose (but not developed- valued at 1.65 times ⁵⁰ of agricultural land)	4,046.8	8,971	3.63
Residential sites	2,225	14,300	3.18

It may be seen from the above that the GMV notified for the fully developed sites did not capture even the value of converted land which was yet to be developed, but was less by about 12 *per cent*.

Further, the CVC in its meeting held on 30 January 2017 decided to value undeveloped converted land at 55 *per cent* of the value estimated for the residential sites. This meant that the remaining 45 *per cent* of the value represented the value-addition for transformation of undeveloped converted land into sites. Thus the value of converted land in this village which was ₹ 3.63 crore represented only 55 *per cent* of the value of the sites. Hence, the actual value of sites formed in one acre of land, in this village, should be ₹ 6.60 crore⁵¹ i.e. ₹ 29,662 per sq.mtr.⁵²

⁴⁹ One Acre = 4,046.8 sq. mtr. 15 *per cent* of the total land shall be relinquished first for the purpose of playground and public park which would be 607 sq. mtr. per acre. In the remaining land sites, roads and drainage are to be formed. The road width shall be a minimum of 20 mtr. and it shall be equal to the width of the site facing the road. For example, the width of the road in which 40 X 60 ft. sites are formed the minimum width of the road shall be 40 ft. In general, the roads are expected to consume about 40 to 45 *per cent* of the total land which would be 1,619 sq.mtr. per acre (at 40 *per cent*). This leaves only 1,820.8 sq.mtr. of land for the purpose of site. The KTCP Act provides some relief to the developers only when the land consumption for roads exceeds 45 *per cent*. Thus, when more land is relinquished or consumed for civic amenities, the value of the site increases. Therefore, to ensure that estimation of market value by Audit is on the conservative side, as against 1,821 sq.mtr. per acre to 2,023 sq.mtr. per acre available for sites, 2,225 sq.mtr. per acre was considered by Audit.

⁵⁰ Value of converted land (which is not a developed land) was prescribed as 65 *per cent* above the value of agricultural land till 2016-17.

⁵¹ ₹ 363 lakh X 100 ÷ 55 = ₹ 660 lakh.

Thus, the GMV was only 48 *per cent* (₹ 14,300/29,662 x 100 *per cent*) leading to underestimation to the extent of 52 *per cent*.

In this village, there were 109 Sale-Deeds of residential sites registered between April 2013 and March 2018. Of these, in 23 cases, the consideration shown per sq.mtr. ranged between ₹ 26,000 and ₹ 41,000 which was very close to the value estimated by Audit. Of the remaining 86 cases, in 64 cases, the registered value of the properties was close to the GMV stipulated, which ranged from ₹ 14,500 to ₹ 18,000 and in the remaining 22 cases, the registered value of properties was between ₹ 19,000 per sq.mtr. and ₹ 24,000 per sq.mtr.

Thus, GMVs prescribed from time to time for residential sites were highly underestimated and had led to loss of revenue to the State.

After this was pointed out in July 2018, the CVC stated (October 2018) that in accordance with the Urban Development Departments' Zonal Regulations, when land for roads, drainage canals and other civic amenities are reserved, the balance land available for formation of sites would be only 45 to 50 *per cent* of the total land; it was also stated that action is being taken to find 'land to site' and 'site to land' values and determine GMVs close to the market value for the year 2018-19 and that discrepancies are getting rectified progressively.

3.4.11.2 An analysis in the same manner as explained in paragraph 3.4.11.1 above was carried out for 121 villages in Bengaluru (Urban and Rural) for the years 2016-17 and 2017-18.

This analysis showed that the values of residential sites in these villages were underestimated by 12 to 78 *per cent*. The details are shown in **Appendix-V**.

It was also noticed that in 106 out of the 121 villages (87.60 *per cent* of the audited sample) analysed, there were 4,577 Sale-Deeds registered involving 5.23 lakh sq.mtr. of residential site and the consideration stated in these documents aggregated ₹ 1,494.55 crore. As against this, the equivalent value of these sites, worked out based on the GMVs of land converted (undeveloped) for residential purposes, amounted to ₹ 2,698.13 crore. The revenue impact on the underestimated value of ₹ 1,203.58 crore worked out to ₹ 79.40 crore.

3.4.12 Underestimation of value of Apartments

The CVC was using a Ready Reckoner which specified the area-wise value of apartments per sq.mtr. of Super Built-up Area (SBA). Such values were listed in the GMV against the respective areas. In the Guidance Values notified with effect from 1 April 2017, the Ready Reckoner used by the CVC was incorporated as a part of the GMV notification. As per the SBA Ready Reckoner, values of apartments were based on the value of sites in that area. Each site value had a corresponding apartment value⁵³.

⁵² ₹ 660 lakh ÷ 2,225 sq.mtr. (total area of sites per acre of land).

⁵³ Factors considered by the CVC for arriving at the value of the apartment - Value of site, floor area ratio (FAR) at 1.75 and taking the common area spaces in the apartment/project at 25 *per cent* of the constructed area.

Since the value of apartments was dependent on the value of sites, the underestimation of value of sites as mentioned in paragraph 3.4.11 resulted in corresponding short-computation of SBA rates for apartments, both residential and commercial.

Based on the value of sites estimated by Audit in respect of 101 villages in Bengaluru, the underestimation of value of SBA ranged between 11 *per cent* and 61 *per cent* for the year 2016-17 and between four and 60 *per cent* for the year 2017-18. The details are given in **Appendix-VI**.

Audit also cross-checked the fairness of its estimations of SBA made for 2016-17 and 2017-18 by analysing the trends of registration of apartments in these villages. An analysis of trend in the registration of apartments up to 31 March 2018 showed that in 3,824 cases, the considerations declared were on par or higher than the SBA values estimated by Audit for the year 2017-18.

To indicate the impact on revenue due to the underestimation of SBA, Audit collected the details of registration of apartments during 2016-17 and 2017-18. As per the index reports generated from KAVERI software, there were 8,956 registrations of apartments during 2016-17 and 2017-18 in 83 out of those 101 villages where consideration/market value declared was less than the value of SBA estimated by Audit during 2016-17 and 2017-18. This resulted in undervaluation of apartments by ₹ 1,672.97 crore with a revenue impact of ₹ 110.42 crore of Stamp Duty and Registration Fee at 6.60 *per cent*. The year -wise details are given in **Table 3.14**.

Table 3.14

Year-wise break-up of number of residential flats registered for lesser value

(₹ in crore)					
Year	No. of documents	Registered Value	Estimated Value of SBA	Differential Value	Loss of SD and RF at 6.6 <i>per cent</i> on Differential Value
2016-17	4,280	1,762.73	2,676.48	913.75	60.31
2017-18	4,676	2,168.21	2,927.44	759.22	50.11
Total	8,956	3,930.94	5,603.92	1,672.97	110.42

Hence, the undervaluation of sites impacted the valuation of apartments which significantly impacted the revenue realised.

3.4.13 Deficiency in valuation leading to urban lands getting priced lesser than corresponding rural lands

The KS (CCVC) Rules prescribe general guidelines that value for such converted lands⁵⁴ near or in the vicinity of town/city may be estimated on sital basis (i.e. per sq.ft.), and those in villages at multiples of rates for agricultural land.

Until 31 March 2017 as per the Special Instructions of the CVC, in respect of the converted lands, the GMVs were to be arrived at, by enhancing the GMV

⁵⁴ Development of agricultural land involves conversion of land from agricultural to non-agricultural usage. The converted land has to undergo a series of developmental stages like clearances and approvals by various agencies and actual formation of layout with roads and other civic amenities, before it can be transacted as sites.

stipulated in the respective village/locality by 55 *per cent* for industrial use, 65 *per cent* for residential use and 80 *per cent* for commercial use.

From 1 April 2017, the CVC revised the Special Instruction and fixed the rates for converted land within municipal limits by assigning values as percentage of sital rates, as below:

Upto 5 Guntas	Sital rates or agricultural rates pertaining to the locality, whichever is higher.
5 to 7.5 Guntas	70% of sital rates or 100% agricultural rates, whichever is higher.
7.5 to 10 Guntas	60% of sital rates or 100% agricultural rates, whichever is higher.
10 to 20 Guntas	40% of sital rates or 100% agricultural rates, whichever is higher.
20 to 40 Guntas	35% of sital rates or 100% agricultural rates, whichever is higher.
Above 1 Acre	30% of sital rates or 100% agricultural rates, whichever is higher.

The modified Special Instruction was *prima facie* defective as it expected that the value of the converted land arrived from the revised formula could fall below the GMV of agricultural land. Further, the Special Instruction was applicable only to town/city properties but the converted properties in Rural areas were still valued at 1.65 times of GMV of agricultural lands. In effect, the introduction of this Special Instruction reduced the value of converted lands in towns/cities when compared to such properties in the rural areas.

During the year 2017-18 there were 937 Sale-Deeds relating to lands converted for residential purposes registered in Bengaluru (Urban). It was noticed in nine cases (0.96 *per cent* of the audited sample), the converted lands in Bengaluru (Urban) were registered during 2017-18 for a total consideration of ₹ 66.29 crore. The GMVs of the same properties prior to March 2017 were at ₹ 95.49 crore. Thus the modification in the method of valuation resulted in undervaluation of properties in these cases by ₹ 29.20 crore. Consequent loss of revenue was ₹ 1.93 crore in 2017-18. Details are given in **Appendix-VII**.

After these cases were pointed out (May 2018), the CVC stated (November 2018) that all the DRs and SROs have been directed to rectify the discrepancies in the revision of GMVs for the year 2018-19.

3.4.14 Deficiencies in the estimated values

After considering all likely and possible records which indicate the current market trend, the CVC begins the task of fixing the values of GMV. With a view to checking the appropriateness of the values fixed, Audit verified GMVs prescribed for DRs in the sample Districts selected. Observations in this respect are detailed below.

3.4.14.1 Discrepancy in the method of valuation of lands transacted in small pieces

Due to rapid development and ever-growing need for residential properties, several instances were noticed where land which retained its classification as agricultural was being transacted in very small parcels (land up to five guntas). Since the Sale-Deeds concerned depicted these properties as agricultural itself, Stamp Duty was to be levied at agricultural rates, which was minimum, even though subsequently the lands were used for residential purposes.

To mitigate the above situation and to bring the rates of such small parcels of land in proportion to the residential sites in the area, Special Instruction No.1 of GMV stipulated (September 2011) that agricultural/converted lands were to be valued at different percentages of sital⁵⁵ rates, as shown below:

Agricultural or converted un-developed land	
Upto 5 Guntas ⁵⁶	Sital rates pertaining to the locality.
5 to 10 Guntas	50% of sital rates pertaining to the locality.

From April 2016, this was modified as follows:

Agricultural or converted un-developed land	
Upto 5 Guntas	Sital rates or agricultural rates pertaining to the locality, whichever is higher.
5 to 7.5 Guntas	70% of sital rates or 100% agricultural rates pertaining to the locality, whichever is higher.
7.5 to 10 Guntas	50% of sital rates or 100% agricultural rates pertaining to the locality, whichever is higher.

In order to evaluate the effectiveness of this control, Audit checked 30 cases in four villages of Bengaluru (Rural). GMV of Bengaluru (Rural) contained two separate bifurcations for residential sites as (i) those within panchayat limits (*Gramathana*), and (ii) those approved by local planning authorities concerned. The GMVs notified for *Gramathana* sites were less than the GMVs stipulated for local planning authority approved sites in each village. However, the Special Instruction No. 1 was silent as to which type of sital rate was to be applied.

Out of the test-checked 30 cases (out of 305 cases) of conveyance of converted un-developed land measuring less than five guntas, it was seen that in 14 cases (46.67 *per cent* of the audited sample), the SROs had applied the sital rates pertaining to *Gramathana*. Audit, however, noticed that the GMVs of *Gramathana* sites were lesser than that of agricultural lands by 25 and 52 *per cent* in two villages. Therefore, application of GMV of local planning authority approved sites was essential to achieve the intended goals.

The comparison of rates and impact on revenue is shown in the **Table 3.15**.

Table 3.15
Undervaluation due to GMV of *Gramathana* sites being less than the GMV of agricultural lands

₹ in lakh							
Sl. No.	Village (No. of Documents)	Total extent of land in guntas	GMV as per <i>Gramathana</i> Site applied by SROs	GMV for agricultural land	Difference between <i>Gramathana</i> and agricultural rates	GMV for sites in approved layouts	Difference between rates for approved layout and <i>Gramathana</i> rates
1.	Avathi (7)	21	68.62	144.37	75.75	182.95	114.33
2.	Akkupete (2)	6	26.15	35.10	8.95	78.40	52.25
3.	Kempa-thimmanahalli (2)	4.25	28.10	13.61	0	42.57	14.47
4.	Kodagurki (3)	11.25	30.63	28.12	0	98.01	67.38
	Total (14)	42.50	153.50	221.20	84.70	401.93	248.43

⁵⁵ Sital rate – rate per square feet.

⁵⁶ Gunta – a measurement unit of land (1 Acre = 40 Guntas and 1 Gunta = 1,089 sq.ft.).

The loss of revenue on total undervaluation of 14 cases mentioned above worked out to ₹ 16.52 lakh.

Thus, introduction of the Special Instruction to bring the rates of small parcels of agricultural land on par with the valuation for sites was defeated due to the lower GMVs notified for *Gramathana* sites and by CVC not ensuring that higher of the two sites GMVs were applied for such transactions.

3.4.14.2 Assignment of lower GMVs for residential areas with the same survey numbers

The GMV generally contains separate rates for specific areas within the jurisdiction of SROs. These areas are depicted either by their survey numbers or the name of the locality or by their roads.

In respect of Saneguruvanahalli, GMVs of different kinds of properties in survey numbers⁵⁷ near Magadi Road were notified by the CVC. The GMV of agricultural lands was kept at ₹ 5 crore per acre from 2013-14 to 2017-18. The value of residential sites per sq.mtr. under these survey numbers was ₹ 54,000 during 2013-14, ₹ 64,600 during 2014-16 and ₹ 71,000 with effect from April 2016.

However, five residential layouts⁵⁸ formed in these survey numbers were notified GMVs ranging from ₹ 11,000 to ₹ 41,500 per sq.mtr. While estimating the GMVs for these areas, the CVC failed to take into cognisance the GMV stipulated for that place under a different entry in the same Notification. The under-estimation of value of sites in these cases ranged between 42 and 82 per cent as shown in **Table 3.16**.

Table 3.16
Assignment of lower GMVs for residential sites

Period	GMV in general for the whole area	Specific GMVs				
		Kaveripura	Maruthi Nagara	Meenakshi nagara	Ranganatha pura	Sannaki bayalu
2013-14	53,800	16,140	16,140	32,280	21,520	10,760
		(70)	(70)	(40)	(60)	(80)
2014-16	64,560	23,680	19,375	37,675	23,680	11,840
		(63)	(70)	(42)	(63)	(82)
2016-18	71,000	26,000	21,500	41,500	26,000	13,500
		(63)	(70)	(42)	(63)	(81)

Note: the difference of specific GMVs and general GMVs is depicted in percentage.

During the period from 2013-14 to 2017-18, 337 Sale-Deeds of residential sites were registered in these five residential layouts. As per the GMV stipulated in general for the area, the sites were to be registered at ₹ 188.56 crore. Against this, the properties were registered as per the lower GMVs assigned to the same location for consideration aggregating ₹ 84.97 crore.

⁵⁷ Saneguruvanahalli Near Magadi Road, Sy. No. 50, 51, 52, 53, 57, 58, 59, 61, 62, 63, 64, 65, 66, 67, 68, 69, 132, 133, 134, 135, 136 and 137.

⁵⁸ Kaveripura, Maruthinagara, Meenakshinagara, Ranganathapura and Sannakkibayalu.

This resulted in short-levy of Stamp Duty and Registration Fee of ₹ 6.84 crore at 6.60 *per cent* on differential market value of ₹ 103.59 crore.

After these cases were pointed out (September 2018), the CVC stated (November 2018) that most of the areas in this village were slums, resided by backward/middle class population. The properties situated in the main roads have been identified by property index numbers and stipulated separate GMV. Besides, it was stated that all discrepancies were getting rectified for the year 2018-19.

The reply is not acceptable as the CVC had bifurcated the village into two parts. One having lower GMV and another part with higher GMV which was clearly identified by specified survey numbers which are abutting the Magadi main road. Therefore, all the layouts formed in the second part of the village should have GMVs reasonably close to the general GMV notified for that part. Also, the properties were situated either in BDA approved layouts or in roads formed by BDA. Hence, slums in this part of the village, if any, were required to be identified clearly with specific survey numbers, to assign lower GMVs.

Recommendation No.3

The value addition for each stage of development may be factored-in while determining the GMV of sites, so that residential sites are not valued lower than the converted land.

3.4.14.3 Deletion of specific rates during subsequent revisions

GMV has a separate instruction for valuation of properties abutting National Highway (NH), State Highway (SH), Ring Road and other Main Roads. In line with this, agricultural land and other sites are identified and assigned separate values higher than the values of other properties in the vicinity. In cases where such higher values are not assigned, there is an instruction to enhance the base rates by 50 *per cent* or 25 *per cent*, as the case may be.

As per the above instructions, agricultural land and other sites abutting NH, SH or Ring Roads in the jurisdiction of Bengaluru (Urban) and Bengaluru (Rural) were assigned higher rates till 2016-17. With effect from April 2017, though the specific higher values continued for the agricultural properties, the entries pertaining to residential properties were deleted. Thus, the specific higher GMV prescribed during the previous year in the survey numbers attached to NH, SH or Ring Road got reduced to the general village rate specified under GMV during 2017-18.

A comparative study of GMV Notification under three DRs in Bengaluru (Urban) and Bengaluru (Rural) revealed that this decision of the CVC affected 315 villages. The resultant undervaluation of properties during 2017-18 when compared to their value during 2016-17 ranged from 10 to 140 *per cent*.

Impact of this deletion in one⁵⁹ village is shown below:

During 2016-17, in eight Sale-Deeds, the parties concerned had declared considerations between ₹ 52,144 per sq.mtr. and ₹ 78,488 per sq.mtr. against the existing GMV of ₹ 52,140 per sq.mtr.

During 2017-18, however, nine Sale-Deeds were registered for considerations ranging from ₹ 22,000 to ₹ 44,000 per sq.mtr in the same area. The aggregate of undervaluation of these properties compared to their GMV during 2016-17 worked out to ₹ 3.64 crore and the consequent loss of SD and RF at 6.60 per cent worked out to ₹ 24 lakh.

Similarly, in 16 other villages, 218 Sale-Deeds involving 31,070 sq.mtr. of sites and lands on which sital GMVs were applicable were registered during 2017-18. The total registered value of those properties was ₹ 18.03 crore. The GMV applicable to those properties during 2016-17 was ₹ 47.90 crore. Thus deletion of entries during 2017-18 had resulted in undervaluation of properties by ₹ 29.87 crore and the consequent loss of revenue was ₹ 1.97 crore.

After these cases were pointed out between May and October 2018, the CVC stated (November 2018) that higher GMV stipulated for properties in certain survey numbers of certain villages were dropped from the year 2017-18 onwards so that unauthorised registrations could be checked and GMV close to the market value could be notified by the CVC.

However, Audit found that the CVC's intentions did not actually work out fully as in the absence of specific GMVs for the properties in the specified survey numbers, the SROs concerned registered the properties for the general GMV applicable to the respective village resulting in significant loss of revenue. Consequently, intended checks/valuation could also not be done by the CVC.

3.4.15 Omissions to mark specific areas requiring enhancement of rates

The values assessed by the CVC have to be close to the prevailing market value. In order to achieve this, among others, it is important to identify special areas of enhancements within a jurisdiction, like NH, Ring Road, new Residential Projects, etc. and assign values to properties in the vicinity of the same.

During test-check of the GMVs notified for Bengaluru (Urban) and Bengaluru (Rural), Audit found certain omissions by the CVC in specifying certain areas which merited enhanced rates. Though there was a Special Instruction No.12 in the notified GMVs for the year 2016-17 in this regard to refer such cases to the CVC, Audit noticed that this instruction was not being followed scrupulously. A few cases illustrating such omissions in the GMV are brought out below:

⁵⁹ Horamavu Village, Bengaluru (Urban) District.

3.4.15.1 Non-inclusion of survey numbers to properties abutting Ring Roads

Identification and indication of all the survey numbers abutting the main or important roads in the GMV is important to capture higher transaction value commanded by these sites due to their proximity to the important roads. The CVC issued guidelines to all VSCs for estimation of GMV duly identifying the surveys attached to Ring Roads/National Highways/State Highways. The information was ascertainable from the authorities concerned who constructed these roads or from the jurisdictional SROs of the Department who have registered the relinquishment deeds executed in favour of those authorities.

In Bengaluru (Urban), the CVC identified survey numbers attached to Ring Roads in 70 villages. In these cases, the CVC notified GMVs higher than those applicable to properties in other survey numbers in the respective villages for the period 2013-14 to 2017-18.

However, cross-verification of the survey numbers in each of these 70 villages with the 917 relinquishment deeds executed in favour of BBMP for Ring Roads revealed that around 500 survey numbers for which relinquishment deeds had been executed in these villages were not indicated as attached to the Ring Roads in the subsequent GMVs. As seen from the deeds of relinquishment, a portion of the properties in the survey numbers were relinquished for the road and hence the remaining portion clearly abutted the road. However, these were omitted to be indicated as attached to the Ring Roads and hence would not get mandatorily registered at the premium value intended for such properties. The village-wise details of different survey numbers attached to the Ring Roads as per the relinquishment deeds and the survey numbers missing in the entries relating to the Ring Roads in respect of these 70 villages are given in *Appendix-VIII*.

Test-check of all the 1,084 Sale-Deeds (where such survey numbers were identified by Audit) in these villages revealed that in 230 cases (21.22 *per cent* of the audited sample), the properties were situated in the survey numbers which were omitted to be indicated as attached to the Ring Road in 56 villages and Stamp Duty and Registration Fee were levied at a lower rate. Details are given in *Appendix-IX*.

The registered value of the properties in these cases amounted to ₹ 451.09 crore as against ₹ 874.59 crore applicable for properties abutting the Ring Roads. This had resulted in undervaluation of properties by ₹ 423.50 crore and consequent short-levy of Stamp Duty and Registration Fee of ₹ 10.48 crore.

After these cases were pointed out between May and October 2018, the CVC stated (November 2018) that relevant information relating to survey numbers of properties abutting Ring Roads have been obtained and updated for the purpose of notifying GMV for the year 2018-19.

Compliance deficiencies

Effective implementation of the values estimated by the CVC is crucial in revenue realisation and the accountability lies with the SRO, who is responsible for registration of documents and collection of Stamp Duty on the

instruments so registered. The SRO estimates market value based on GMV or the consideration stated in the document, whichever is higher. Audit verified the registered documents in the Sub Registrar Offices and observations in this regard are shown in paragraphs 3.4.16 and 3.4.17 below.

3.4.16 Absence of specific GMV for new projects

New projects coming up in the jurisdictions of the SROs/VSCs need to be brought to the notice of the CVC so that specific GMVs are notified for the same. In the absence of specific GMV, Special Instruction No. 12 appended to the notified GMV during November 2014 stipulates that when any new project is brought for registration, the same has to be referred to the CVC for determination of GMV except for those properties covered under Annexure-III⁶⁰ of the GMV notification.

It was noticed in three⁶¹ Districts (out of 30 Districts) that 4,002 flats in 76 residential/commercial apartments were registered between 2015-16 and 2017-18. In these cases, the SROs concerned did not refer the cases to the CVC to notify the project specific GMVs but registered for the general GMVs of the respective villages. The CVC also failed to identify these projects in time, but in 2017-18 identified 19 apartments and notified GMVs for them. By that time 81⁶² *per cent* of the flats in those apartments were sold. Hence, the GMVs notified for the specified projects by the CVC could be applied only on the remaining 19⁶³ *per cent* flats.

The non-notifying of project specific GMVs in these cases, even for the subsequent years proves that there was no mechanism to ensure that all new projects were considered by the CVC while estimating rates for each year.

Of these, in 57 apartments, the registered value of 3,237 flats was ₹ 1,176.09 crore. This was lesser than the base price quoted by the Developers by a significant margin (between 20 *per cent* and 61 *per cent*). With respect to the base price quoted by the Developers, the market value of the apartments worked out to ₹ 1,911.88 crore. Thus, omissions on the part of SROs to refer these projects to CVC for notifying GMV had resulted in loss of revenue of ₹ 48.56 crore on the differential value of ₹ 735.78 crore. Details are in **Appendix-X**.

After these cases were pointed out between May and October 2018, the CVC stated (November 2018) that in respect of projects approved by the Real Estate Regulatory Authority (RERA), certain criteria have been adopted to notify GMV close to the market value.

The action taken by the CVC is not adequate as it covers RERA approved projects only. Identifying and prescribing GMVs for new projects can be done by the CVC utilising the information available within the Department like Joint Development Agreements apart from information on plan sanction, commencement certificate, etc. which was ascertainable from BBMP. Diligent

⁶⁰ Annexure III covers all un-identified multi-storied buildings/flats/villaments in the jurisdiction of all the SROs in the State.

⁶¹ Bengaluru (Urban), Dakshina Kannada and Udupi.

⁶² 3,242 flats got registered during 2015-16 and 2016-17.

⁶³ 760 flats sold during 2017-18.

use of such information can easily avert non-estimation or delay in estimation of GMVs and work more comprehensively than the CVC's current attempt.

3.4.17 Incorrect application of GMV for specific projects

As per the GMVs in SRO, Banaswadi jurisdiction, a project with a general name as 'Sobha Developers' under Nagareshwara Nagenahalli village was assigned a rate of ₹ 40,600 per sq.mtr. and ₹ 42,000 per sq.mtr. for the years 2016-17 and 2017-18 respectively. Another project under the general name 'Sobha Apartments' in Tanisandra village, was assigned rates of ₹ 63,000 per sq.mtr. and ₹ 65,520 per sq.mtr. for the years 2016-17 and 2017-18 respectively.

On a check of registered documents in this jurisdiction, Audit noticed that 669 Apartments specifically named as 'Sobha City' having 1.23 lakh sq.mtr. Super Built-up Area and 719 car-parking spaces were registered during the period 2016-17 and 2017-18. Boundaries of this project as per the schedule of the documents were shown as Tanisandra Main Road, Nagareshwara Nagenahalli village and the two other boundaries as Tanisandra village. These documents were valued at ₹ 500.96 crore based on the rates pertaining to Nagareshwara Nagenahalli, whereas the value worked out to ₹ 810.11 crore when valued at rates pertaining to Tanisandra.

On verification of the projects in the said areas, Audit noticed that there were three projects by Sobha Developers in the aforesaid areas, with brochure rates quoted by the Developers between ₹ 75.52 lakh to ₹ 1.38 crore which works out to ₹ 68,179 per sq.mtr. to ₹ 76,682 per sq.mtr.

In the interest of revenue, the SRO concerned should have levied the higher rate assigned in the GMV. However, due to existence of two entries in the GMV without specific names of the projects and in the absence of clarity as to the exact location of the apartments, the SRO concerned had levied Stamp Duty on valuation at lesser GMV. Thus, assigning GMVs based on general names instead of specific names of the projects led to short-levy of Stamp Duty and Registration Fee of ₹ 20.37 crore.

The Department failed to ensure compliance to the Special Instruction No.12 requiring SROs to refer the properties in new projects to the CVC for valuation before registration. The SROs preferred to apply the village GMVs readily available than referring them to CVC.

Also, the ambiguities such as notifying multiple GMVs for projects having a single name but without being clearly identified or classified led to properties getting registered at lesser GMV.

Recommendation No.4

The CVC may consider setting up a system to:

- **Periodically analyse the KAVERI database to identify the potential new projects and to ascertain the information on different stages of those projects; (through its members representing Municipal Bodies) so that GMVs could be updated and notified before commencement of registration at SROs; and**
- **Estimate and notify the values for new projects, so that they may be pursued even if an indexation system is introduced, since such properties require initial valuation.**

The CVC stated (November 2018) that information on new projects have been sought from the municipal bodies and GMVs for the year 2018-19 are getting notified after identifying the PID numbers. Also, RERA has been requested to provide access to their database so that upcoming projects in different DR jurisdictions could be identified in advance and GMV notified on time.

3.4.18 Conclusion

The system of prescribing GMVs by the CVC is an important control devised by the Department to ensure collection of revenue at least as per the values prescribed. In order to make this control effective and relevant throughout the financial year, the CVC has to determine the GMV as close to the market value as possible. To ascertain the effectiveness in achieving the goal of the CVC, Audit verified the process of constitution and working of the CVC, as well as the procedures for estimation, publication and revision of GMVs.

The CVC over the past five years had taken some important initiatives to rationalise the methods of estimation of the market value of properties. However, the CVC/VSCs have not been able to adhere to the time-schedule prescribed under the Rules in revising the GMV. The final values notified by the CVC appeared to be lacking deliberations on the important aspects of the areas under consideration, which was evident from the few meetings being held by the CVC in this regard, when compared to the volume of data/material that were to be deliberated upon in those meetings. Thus, the final values notified by the CVC were far below the market trends observed by the VSCs in the majority of the cases. Besides, there were no reasons documented for deviating from the trends reported by the VSCs or for the values approved finally. Overall, the procedures lacked transparency and reflected the non-co-ordination between the CVC and VSCs.

Audit verified various indicators of actual transaction value, such as previous Sale-Deeds, Sale-Agreements, Deposit of Title Deeds, price quoted by developers, Tax Deduction at Source, etc. to ascertain the closeness of the GMV to the existing market value. The GMVs were found to be underestimated by 12 to 91 *per cent* than even the conservative values ascertained by Audit from both internal and external sources. Further, estimation of lower value for developed properties over the undeveloped land in the same village/locality not only bucked the trends in the market but also revealed lack of internal checks in the CVC prior to notifying the GMVs. Besides, deletion/reduction of specific GMVs for certain places, omission to

identify the properties which commanded higher value, etc. resulted in valuing properties at lesser rates than their existing market values.

Implementation of the GMV through the SROs revealed glitches in notifying specific values for new projects and ambiguities in notifying GMVs for specific projects which led to properties getting registered at lesser GMV.

In short, the working of the CVC was found wanting in respect of meeting the prescribed timelines and systematically arriving at the values approved. Documentation was found to be lacking and the whole process needs a more transparent outlook. Indicators of market value have to be utilised effectively by the CVC to estimate values closer to the actual market value. Discrepancies and inconsistencies in the values estimated need to be looked into before publishing of the values. The CVC has assured that several issues pointed out by Audit have already been taken cognizance of and will be addressed in the GMVs of 2018-19 which, however, are yet to be issued (December 2018).

The Audit observations involving ₹ 158.36 crore revenue forgone/short-levied pointed out in this Performance Audit Report are based on the test-checked unit Offices; however, similar errors/omissions may exist in other unit Offices as well, which are not covered in this Audit. The Department may, therefore, internally examine similar issues in other Offices so as to ensure that they are functioning as per set procedures and requirements.

3.5 Short-levy of Stamp Duty and Registration Fee due to Undervaluation

According to Section 3 of the KS Act 1957, Stamp Duty is levied on instruments chargeable with duty as prescribed under various Articles in the Schedule of the Act, *ibid.* Under Article 20, for instruments of conveyance, Stamp Duty is charged as a percentage of the consideration or of the market value of the property, whichever is higher. GMV are prescribed for properties situated in the State by the Central Valuation Committee under Section 45-B of the Act. This forms the basis for estimation of market value by the Registering Officer while registering documents chargeable with Stamp Duty. A set of Special Instructions is also appended as Annexure-I to the statement of estimated values to deal with specific enhancements in the nature of the property. These values are to be correctly applied during valuation to arrive at the proper market value of the property.

During audit of seven⁶⁴ Sub-Registrar (SR) Offices (out of 48 SROs) between May 2017 and January 2018, Audit test checked 5,072 documents out of 6,517 documents (77.83 *per cent*) and noticed 80 Sale-Deeds (1.58 *per cent* of the audited sample), where Stamp Duty and Registration Fee amounting to ₹ 4.35 crore were levied short due to adoption of incorrect guidance values, incorrect classification of the nature of the document, non-adherence to Special Instructions, etc. as mentioned below:

a. Non-application of enhanced rates

The GMV mentioned above contains specific higher rates for properties abutting National Highways (NH), State Highways (SH), Ring Roads (RR) and other important roads. The market value guidelines also provide for enhancement of value by 50 *per cent* and 25 *per cent* for properties abutting NH/RR and SH respectively, when specific rates are not assigned already.

During test check of records in four⁶⁵ SROs, Audit noticed 16 cases wherein properties abutting NH/RR, SH and other important roads were conveyed. In 11 cases, market value guidelines prescribed specific higher values to the survey numbers conveyed. In the remaining five cases, 50 *per cent* enhancement in value was warranted as specific higher values were not assigned in the GMV.

However, it was noticed that the SROs concerned neither applied the specific higher rates where already assigned, nor enhanced the value in the remaining cases. This resulted in short-levy of Stamp Duty and Registration Fee of ₹ 2.45 crore.

⁶⁴ SROs— Dasanapura, Doddaballapura, Nagarabhavi, Rajajinagar, Sindhanur, Vijayanagar and Yeshwanthpur.

⁶⁵ Doddaballapura, Dasanapura, Vijayanagar and Yeshwanthpura.

b. Application of residential rates for non-residential and commercial properties

As per Special Instructions, properties which are non-residential or commercial in nature have to be valued at enhanced rate of 40 *per cent* (when valued as land with building) and 30 *per cent* (when valued as properties in the nature of apartments).

During test-check of records of SROs, Dasanapura, Rajajinagar and Vijayanagar, Audit noticed four cases where the properties were valued at residential rates even though it was evident from the recitals of the document and the copy of the *khata* extract that the properties were of commercial nature. In another case in SRO, Doddaballapura, an industrial property was valued without enhancing the rates, though the GMV prescribed for such enhancement. These resulted in short-levy of Stamp Duty and Registration Fee of ₹ 38.73 lakh.

c. Incorrect method of valuation

The GMV prescribe separate methods of valuation for sites with buildings thereon and for properties classified as apartment/flats. While the former is valued at rate per square feet of land and building separately, the latter is valued at rates prescribed for super-built-up area, which is generally higher than the former.

During test-check of records of SROs, Vijayanagar and Yeshwanthpur, Audit noticed three cases where properties in the nature of apartments were valued as land and building separately instead of adopting rates for super-built up area. This resulted in short-levy of Stamp Duty and Registration Fee of ₹ 43.55 lakh.

d. Adoption of incorrect guidance values

The GMV prescribed higher rates for properties situated within town municipal limits of Sindhanur. During Audit of SRO, Sindhanur, Audit noticed 39 Sale-Deeds where properties conveyed were situated within the town municipal limits. However, in all these cases the SR did not apply the higher rates, which resulted in short-levy of Stamp Duty and Registration Fee of ₹ 29.41 lakh.

e. Non-application of sital rates

When agricultural land or converted un-developed land upto 5 guntas are conveyed, it has to be valued at full sital rates⁶⁶ and when lands conveyed are from 5 guntas to 10 guntas, they have to be valued at 50 *per cent* of the sital rates. Further, lands converted for non-agricultural use, but remaining un-developed, have to be valued at multiples of agricultural rates depending on the nature of conversion⁶⁷.

During test-check of records of SROs, Nagarabhavi, and Dasanapura, Audit noticed 15 cases of conveyance of lands measuring less than 10 guntas, wherein agricultural rates were adopted for valuation instead of sital rates.

⁶⁶ Special instruction No.1 under GMV.

⁶⁷ Special instruction No.2 under GMV.

Audit also noticed one case each in SROs, Yeshwanthpur and Doddaballapur, wherein lands converted for industrial purposes were treated as un-developed and valued at multiples of agricultural rates. In these cases, check of the documents alongwith the conversion orders, revealed that in one case⁶⁸, the land was converted 50 years back, out of which a portion of the land with a separate *khata* number was conveyed. In the other case⁶⁹, an industry was already established in the land conveyed. Hence, these were to be treated as developed lands and sital rates were to have been applied.

In the above cases, non-adherence to Special Instructions led to short-levy of Stamp Duty and Registration Fee of ₹ 78.41 lakh.

These cases were brought to the notice of the Department and the Government between February 2018 and May 2018. The Department stated that recovery of ₹ 0.16 crore has been done in one case and that in the remaining cases, the District Registrars concerned have taken up the cases under Section 45(A)(3) and 46(A) of the KS Act, 1957, and issued notices. The Government reply was awaited (December 2018).

3.6 Short-levy of Stamp Duty and Registration Fee due to suppression of facts

Section 28(1) of the (KS) Act, 1957, stipulates that the consideration and all other facts and circumstances affecting the chargeability of any instrument with duty, or the amount of the duty with which an instrument is chargeable, shall be fully and truly set forth therein.

Further, according to Section 3(3) of the Karnataka (Prevention of Undervaluation) Rules, 1977, the Registering Officer, when presented with a document for registration, may make such enquiries as he may deem fit and elicit from the parties concerned any information bearing on the subject and also call for and examine any records kept with any Public Officer or authority, for the purpose of determining the proper market value of the properties set forth in the instrument.

During Audit of four (SROs) (out of 48 SROs), Audit test-checked 124 documents out of 608 documents (20.39 *per cent*) and noticed seven cases (5.65 *per cent* of the audited sample), where facts determining the amount of Stamp Duty chargeable on instruments presented for registration were not clearly brought out in the instruments. In these cases, the Sub-Registrars concerned, also did not consider the information available at their disposal to determine the proper Stamp Duty. Details of the cases are as below:

a) Non-disclosure of facts

During test-check of records in (SROs), Vijayanagar and Peenya in September and October 2017 respectively, Audit noticed two Sale-Deeds wherein facts such as existence of building, actual usage of property, classification of the property as layout, etc. were not brought out in the instruments. The Registering Officers concerned also did not examine the information available

⁶⁸ SRO, Yeshwanthpur.

⁶⁹ SRO, Doddaballapura.

at their disposal like the *e-khata*⁷⁰ in the *e-swathu*⁷¹ module accessible in the registration office to identify such suppression and to determine the proper market value. This resulted in short-levy of Stamp Duty and Registration Fees amounting to ₹ 1.11 crore as detailed in the **Table 3.17**.

Table 3.17
Short levy of Stamp Duty and Registration Fees due to non-disclosure of facts

Sl. No.	Document No. and Date	Consideration set forth in the document (₹)	Market Value (₹)	Stamp Duty and Registration Fee		
				Leviable (₹)	Levied (₹)	Short-levy (₹)
1.	4299/2016-17 dtd. 16.09.2016	6,79,00,000	19,26,09,583	1,28,08,537	45,17,000	82,91,537
	Sy.No.53/2A, Madanayakanahalli, Dasanapura. The land being conveyed was considered as un-developed and valued at multiples of agricultural rates, whereas the <i>e-khata</i> of the property revealed that the land was already approved as a layout and also that there existed a building. Hence it was to be valued at sital rates.					
2.	3542/2016-17 dtd. 22.09.2016	7,61,71,000	12,01,28,000	79,28,448	50,65,400	28,63,048
	Sy.No.14/2 (40,000 sq.ft.) and 47/2 (24,000 sq.ft.), Gidadakonenahalli. The Sale-Deed contained two parcels of land. The first parcel of land in Sy.No.47/2 had a BBMP <i>khata</i> and area was depicted in sq.ft. and valued at sital rate. The second parcel of land (Sy.No.14/2), adjacent to the first parcel was stated to be undeveloped and valued at multiples of agricultural rates, which was lesser than sital rates. But as could be ascertained from the confirmation deed (3423/2016-17) registered in the same Office, which preceded this Sale-Deed, the second parcel also had a BBMP <i>Khata</i> and hence had to be valued at sital rates.					
Total Short-levy				2,07,36,985	95,82,400	1,11,54,585

b) Suppression of the fact of deemed possession

As per Explanation-I under Article 5(e), the possession of the property is deemed to have been delivered when a reference of a Power of Attorney granted separately by the seller to the purchaser in respect of the same property as in the agreement, is made in the agreement. Hence Stamp Duty would be levied at the rate of conveyance.

During test-check of records in SROs, Davanagere and Yelahanka in August and October 2017 respectively, Audit noticed five Sale-Agreements registered along with five corresponding Powers of Attorney, on the same day, between the same parties and in respect of the same properties. Hence as per Explanation-I below Article 5(e) these instruments attracted Stamp Duty at the rate of conveyance.

In all these cases, the reference of the Powers of Attorney was neither made in the Sale-Agreements by the parties nor did the Sub-Registrar correlate the agreement with the Powers of Attorney. Hence, these properties though deemed to have been granted possession, were registered individually and Stamp Duty levied at rates prescribed in the Article concerned, lower than the applicable conveyance rates. This led to short-levy of Stamp Duty of ₹ 1.18 crore as detailed in the **Table 3.18**.

⁷⁰ Document of ownership of a property.

⁷¹ Application used in the panchayat offices for registration of properties.

Table 3.18
Short levy of Stamp Duty and Registration Fee due to suppression of facts

Sl. No.	Document No. and Date	Consideration set forth in the Sale-Agreement (₹)	Stamp Duty (Sale-Agreement and Power of Attorney)		
			Leviable (₹)	Levied (₹)	Short-levy (₹)
1.	SA-5984/2014-15 and GPA-156/2014-15 Dt: 5.11.2014	70,00,000	3,50,000	1,82,000	1,68,000
	Sy.No.41, 20 guntas situated at Amanimarasandra Village, Hessarghatta Hobli, Bengaluru North. (Registered in SRO, Yelahanka)				
2.	SA-625/2016-17 and GPA-28/2016-17 Dt: 2.5.2016	19,55,45,000	97,77,250	20,200	97,57,050
	Sy.No.3, 2 Acres 2 guntas situated at Sampigehalli, Yelahanka Hobli, Bengaluru North.				
3.	SA-7620/2015-16 and GPA-272/2015-16 Dt: 17.8.2015	2,64,00,000	13,20,000	26,600	12,93,400
	Sy.Nos.312/1,2,3 measuring 8 acres and 33 guntas situated at Avaragere Village, Kasaba Hobli, Davanagere				
4.	SA-7671/2015-16 and GPA-273/2015-16 Dt: 18.8.2015	71,25,000	3,56,250	7,130	3,49,120
	Sy.No.211/4 measuring 10 guntas and Sy.No.212/2P1 measuring 2 acres and 8 guntas at Avaragere Village, Kasaba Hobli, Davanagere				
5.	SA-7107/2015-16 and GPA-254/2015-16 Dt: 6.8.2015	56,00,000	2,80,000	5,800	2,74,200
	Sy.No.257/1 measuring 1 acre and 36 guntas at Avaragere Village, Kasaba Hobli, Davanagere				
Total			1,20,83,500	2,41,730	1,18,41,770

These cases were reported to the Department and the Government between January 2018 and March 2018. The Department stated that the District Registrars concerned have taken up the cases under Section 45(A)(3) and 46(A) of the KS Act, 1957 and issued notices. The Government reply was awaited (December 2018).

3.7 Short-levy of Stamp Duty and Registration Fee on Joint Development Agreements

Joint Development is an arrangement between a Developer and a Land Owner, where the Developer forms a layout or builds apartments on the land belonging to the Owner. As per the arrangement, a portion of the developed layout or the apartments is transferred to the Owner, after development.

As per Article 5(f) and 41(ea) of the KS Act, 1957, Joint Development Agreements (JDA) for a property are to be levied Stamp Duty at two *per cent* on the market value of the share of the developer in the land transferred for development or the market value of the developed property transferred to the

owner, whichever is higher, including money advanced, if any. Registration Fee⁷² is also leviable at one *per cent* ad-valorem.

During audit of seven⁷³ (SROs) (out of 48 SROs), between June 2016 and March 2018, Audit test-checked 136 JDAs out of 176 JDAs (77.27 *per cent*) and noticed 36 JDAs (26.47 *per cent* of the audited sample) wherein either the share of the property on which duty was to be levied was not identified correctly or the market value was not assessed correctly. It was noticed that 13 JDAs pertained to development of layouts and 23 JDAs pertained to construction of apartments. In all these cases the market value of the developed property transferred to the owner was higher and hence Stamp Duty and Registration Fee were to be levied on the share of the owner. However, out of the aforesaid 36 documents, in 10 cases, Stamp Duty and Registration Fee were levied on the Developer's share which was lower in market value than the owner's share. In the remaining cases, though the owner's share were adopted for valuation, either the rates applied to compute the market value was not correct or the percentage of share transferred to the owner was adopted incorrectly resulting in short-computation of market value. Consequent short-levy of Stamp Duty and Registration Fee worked out to ₹ 2.10 crore.

These cases were brought to the notice of the Department and the Government between February 2018 and May 2018. The Department stated that recovery of ₹ 0.02 crore has been done in one case and that the District Registrars concerned have taken up the cases under Section 45(A)(3) and 46(A) of the KS Act, 1957, in 24 cases. In one case the parties concerned have filed a petition in the Hon'ble High Court. Replies for the remaining 10 cases were awaited. The Government reply was also awaited (December 2018).

⁷² Registration Fee limited to ₹ 1.50 lakh.

⁷³ Doddaballapura, Gandhinagar, Halasur, Hunsuru, Kalaburgi, K.R.Nagar and Rajajinagar.