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Urban Property Tax Potential in India

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URBAN PROPERTY TAX POTENTIAL IN INDIA

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with
assistance from

ROY BAHL

JULY, 2009



NATIONAL INSTITUTE OF PUBLIC FINANCE AND POLICY
NEW DELHI

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Analysis, interpretation and conclusions contained in this study are the responsibility of the study team, and do not bind the NIPFP or its Governing Council in any way.

Preface

The purpose of this study entitled URBAN PROPERTY TAX POTENTIAL IN INDIA is to estimate the potential of property taxes and suggest how that potential might be realised. The study rests on the postulate and the commonly-held perception that the productivity and performance of property taxes in India as a source of revenue have been poor and that these taxes as an instrument of financing municipal services have not been used optimally. This study focuses on estimating the money value of the potential and on the steps that may be necessary to enhance the role of property taxes in financing municipal services.

The study has important implications for the mandate of the Thirteenth Finance Commission (TFC). If the findings of this study indicate a large untapped potential, with inadequate effort on the part of the states, state finance commissions, and municipalities to tap this potential, then, *prima facie*, there exists no case for the TFC to provide supplementary resources for municipalities. Indeed, a soft approach under such a situation may be inimical to the long term financial viability of municipalities and injurious to what the Constitution (seventy-fourth) Amendment seeks. Alternatively, given that the municipalities are still to acquire a *de facto* legitimacy in the country's federal structure, the TFC could develop and put in place an incentive structure for the states and municipalities to improve the productivity and performance of property taxes. This study has taken the latter option as its guiding principle.

The study has been conducted with the data base of 36 large municipal corporations. Considering that India has 5161 cities and towns of different sizes (2001 Census), this sample is small. Also, the data base of the sampled municipalities is fragile. Several adjustments have, therefore, been made, first to secure the representation of small and intermediate sized cities and towns into the data sets and, second to deal with the fragility of the data base, in order to arrive at a reasonable estimate of the current as well as the potential yields from property taxes. Emphasis is not so much on precision of the estimates as on identifying the areas of under-performance, where even with relatively small efforts, gains in terms of increasing the yields could be substantial.

The National Institute of Public Finance and Policy (NIPFP) and the research team that worked on the study are grateful to the Thirteenth Finance Commission (TFC) for the opportunity afforded to them for studying property taxation from the point of view of estimating its "potential", something that has so far not been attempted in India and possibly in other countries. In this sense, the entire effort has been a fresh one. The research team deeply appreciates that the Thirteenth Finance Commission (TFC) led by its Chairperson, Dr. Vijay Kelkar and other members were able to review the earlier drafts of this study on two occasions (3 December, 2008 and 15 May, 2009), leading the team to recognize the relevance of other land and property based levies for property taxes and to also examine the merits of a centralized valuation system.

The NIPFP and the research team are thankful to the World Bank for providing the services of Professor Roy Bahl (Andrew Young School of Policy Studies, Atlanta and a known authority on property taxation), for this study. Dr. Bahl's continued interaction with the team, particularly on the alternative ways in which property tax potential could be worked out, was very useful. The team duly acknowledges his assistance.

The NIPFP also places its gratitude to the Commissioners of the 36 Municipal Corporations for providing to us the needed data and to the participants of a Consultative Workshop of Property Tax Assessors to explain the nitty-gritty of implementing a property tax system.

Dr. M. Govinda Rao, Director, NIPFP gave to the research team the flexibility to structure and design the study and to carry it out in ways that it served the purposes of the TFC. The research team would like to thank him for providing this flexibility.

The study must underline the fact that the importance of property taxation in India is low and barely recognized. It is viewed as an inferior tax and, therefore, subject to a discretionary treatment by the states. Seldom has it been realised that this tax is a proxy for prices that city residents pay for municipal services. The changes that have been made to the property tax system in a few states over the past two decades are sporadic, often lop-sided, and not a part of any comprehensive strategy to bring it in line with the contemporary developments such as decentralization and globalization. Immovable property offers one of the few tax bases that can not be readily shifted to another jurisdiction and therefore, needs to be properly nurtured. Municipalities need a stable local revenue source to be effective as decentralized tiers. Fiscal decentralization requires better and fuller use of property taxes by the urban local bodies (ULBs). This study reminds the team of Ursula Hicks's seminal work of 1961 where she noted that: "If local bodies are to play any significant part in economic and social development, they must clearly have access to adequate finance. If they are both to act responsibly and to show initiative, some, not negligible, part of this control over resources must be independent, in the sense that the local councils are free to choose the rates –"¹. It is hoped the TFC and the Ministry of Urban Development which is seeking reform of property taxation under the Jawaharlal Nehru National Urban Renewal Mission (JNNURM) would see the study in this light.

July 2009

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¹ Ursula Hicks 1961. Development from Below: Local Government and Finance in Developing Countries of the Commonwealth.

Executive Summary

Property Tax System: An Introduction

The study, *Urban Property Tax Potential in India*, has two principal purposes: (i) to estimate the property tax potential in India, and (ii) to suggest measures for tapping the tax potential. The study accordingly examines the productivity and performance of property tax and attempts to estimate the potential under alternative scenarios relating to the performance of this tax.

2. Property tax is an important urban local tax in India, owing itself Entry 49 in the State List of the Seventh Schedule of the Constitution. The responsibility of designing the property tax system in India rests with the state governments. The state governments lay down, in the statutes governing the constitution and functioning of municipalities, the tax bases for property tax procedures for valuation, exemption and rebate policies, rate structures, and measures for dealing with delays, tax evasion and the like. The autonomy of municipal governments in formulating property tax policy or designing the system is severely restricted, and allowed at best in fixing the tax rates within certain ranges and often in designing collection strategies. In view of the property tax policies being determined at the level of the state governments, there is a large scale diversity in almost every sphere of property taxationⁱⁱ. For instance: assessment and valuation of properties is done by four different methods. One is the annual rateable value (ARV) of lands and building, second is a variant of the ARV where the determination of ARV is with reference to location, type of construction, age of building, and the nature of use to which a property is put; third is capital valuation, recently brought in use in Karnataka, and the fourth is direct computation of property tax by using a tax rate per unit of carpet area.

3. Exemptions from local property taxation constitutes an important ingredient of a property tax system, and is a common feature worldwide. The underlying objectives in granting exemptions are social justice, high administrative and collection cost particularly from low tax yielding properties, and properties that provide, directly or indirectly, services having characteristics of a merit or public good. Article 285 of the Constitution exempts properties of the Union government from payment of property taxes. Exempted properties in India constitute approximately 10 percent of the total urban properties and about 11 percent of the assessed properties.

4. Provisions in respect of the rate structure of property taxes vary significantly between states and among cities within states. There are six different ways in which rate structures are prescribed: a consolidated rate which include imposts on the same tax rate; statutory specification of the maximum and minimum rate; progressivity in rate structure; and discrimination in rate structure according to use, location etc. In addition, there are area-specific values in cities where unit area systems are in place for estimating the ARVs, and rates of taxing the capital values where capital valuation is in use.

ⁱⁱ This is in sharp contrast with the position in South Africa where there is a national law that governs the tax system. See Michael E. Bell and John Bowman. 2002. *Property Taxes in South Africa*. Lincoln Institute of Land Policy. Cambridge. Mass.

These systems direct impact on property tax yields, and need to be kept in view in understanding the role of property taxes in India's cities and towns.

The Productivity and Performance of Property Tax Survey Results

5. Property tax revenues in the 36 largest cities in India are estimated at Rs. 4,522.3 croreⁱⁱⁱ, yielding a per capita of Rs. 486. Over a three-year period, property tax revenues recorded a growth of 12.4 percent, or an average annual growth 7.9 percent which is roughly half of the growth in per capita municipal revenues. Property tax revenues constitute 22 percent of the total municipal revenues and 28 percent of own-source revenues. Property tax revenue are able to cover 28 percent of the revenue account expenditure. In sum, these ratios represent the fiscal role of property tax in India. These ratios represent the fiscal role and revenue importance of property taxes in India.

6. Property tax yield comprises (i) current tax collection, and (ii) arrears. In 2006-07, current collections accounted for 76 percent of the total collections, with the balance being the 'arrears'. Effective annual yield of property taxes (excluding arrears) is thus Rs. 370, or just about Rs. 1/day. Arrears represent payments withheld by property owners; high arrears are explained by frequent amnesties that are extended by municipal bodies from time to time. The existing systems for identification of delinquents are both weak and weakly enforced, leading to huge revenue loss for municipalities.

7. These are large inter-city variations in property tax revenues, with the Mumbai Municipal Corporation registering a per capita annual revenue of Rs. 1334 as against Rs. 25 by Patna Municipal Corporation and Rs. 40 by Dhanbad. While the population size of a city has an effect on property tax revenue – a simple correlation shows a significant relationship between property tax collection and population size (correlation coefficient 0.82) – **size alone** is unable to explain such large inter-city differentials. Other factors such as coverage, collection, and valuation influence property tax collections.

8. Revenue productivity of property taxes as measured in terms of the yields is low and has shown, at best, a marginal rise over the three-year period of the study. There is no evidence of this tax being a buoyant one. Moreover, its growth rate is lower than that of municipal expenditure, indicating increasing financial strain on the municipal corporations for maintaining the services. Property taxes are contributing less towards the maintenance of services.

9. The total tax demanded over the study period has shown signs of stagnancy, clearly suggesting that the rate of incorporation of new properties into the municipal tax register is low; property tax values are not being revised as per the provisions of municipal acts; and provisions relating to depreciation in property tax yields on account of age of building combined with other rebates have seriously eroded the productivity of property taxes.

10. There is a large gap between tax demanded and tax collected, indicating the level of inefficiency that exists in the implementation and enforcement of this tax.

ⁱⁱⁱ The 36 largest cities used as a sample for this study account for 35 percent of the country's total urban population.

11. Property tax revenues are determined by a combination of policy parameters and administrative practices, the following being the principal determinants -

- Coverage and enumeration of properties on the municipal tax register
- Collection rate
- Assessment and Valuation System
- Extent of Exemptions
- Level of the tax rate

12. An analysis of these determinants is important as the causes of India's weak property tax revenue performance must be identified if a programme for enhanced revenue mobilisation is to be initiated. The first determinant of revenue performance is the coverage of properties, i.e., the percent of taxable properties that are on the municipal tax register; the percent of total registered properties that are assessed for tax purposes; and the percentage of tax paying properties. Note should be made of the fact that municipalities have no system in place that enables them to have a formal count of all properties within their jurisdiction. Delhi offers an example where the total number of properties is stated to be 25.3 lakh, but only 9.6 lakh properties are on the municipal tax register. *Absence of a formal count of properties is one of the major handicaps in reaching a more accurate estimate of the property tax potential in India.*

13. 88 percent of properties are on the tax roll of municipalities and 63 percent of the assessed properties pay taxes. Of the total properties, the tax paying properties constitute 56 percent. *Exclusion of 44 percent of properties from the tax net and the fact that they do not contribute to the provision and maintenance of municipal services is a major problem that severely limits the role of property taxation in the economy of cities.*

14. Non tax-paying properties comprise (i) exempted properties, (ii) vacant properties, and (iii) properties that are not on the tax roll of municipal governments. The exempted properties comprise, approximately 10 percent of the total and 11 percent of the assessed properties. Apart from the exemption of charitable and religious properties and low-valued properties that are exempted for equity reasons, Article 285 of the Constitution of India exempts the property of the Union from payment of property tax on the principle that a sovereign can not tax itself. Pursuant to this provision, central government properties are excluded from the purview of municipal taxation. However, such properties are subject to the payment of "service charges" for services which include not only direct services such as water and electric supplies, scavenging etc. but also general services such as street lighting, drainage, approach roads connecting the central government properties, etc. (Ministry of Finance letter No. 14(1) – P/52-1, dated 10 May 1954; No 4 (7) – p/65, dated 29 March, 1967.)^{iv}.

^{iv} It is not altogether clear if the central government properties uniformly pay service charges. The final report gives instances from court cases where levy of service charges and the basis of calculating the service charges has been contested.

15. A policy question that arises in respect of non tax-paying properties is whether the cost of these is too high. Measurement is a problem as exempted properties are not subject to valuation, and therefore, the amount of property tax foregone is difficult to estimate. This study, therefore, attempts to impute the average tax liability for taxed properties to exempted properties, according to which 11.74 percent of revenue is lost due to exemptions (money value of exemption/total property tax collection x 100).

16. Reference may be made here of property valuation and its impact on the overall performance of the property tax system. Significantly, the property tax system does not make any provision for assessed value to approximate market value of properties, although the prevailing rents and the sale value of properties represent the market conditions. Market value of properties which forms the base for taxation in many countries is not explicitly incorporated in India's property tax system. The study finds four types of property tax systems in the country which reflect **property values** but none of which approximates market values. Spotty data suggest assessed values to be markedly lower than the market values, often as low as 8-10 percent but on average, about 30 percent of the market values. *Absence of the concept of market value in the determination of property values constitutes a major lacuna in the property tax system which is a major factor in depressing the property values and consequently the property tax yields^v.*

17. The revenue performance of property tax is significantly effected by the collection rate, i.e., the percent of "demand" that is actually collected. Low rate of tax collection, i.e., tax collected as a proportion of tax demanded, is common feature in the 36 largest cities. On average, collection rate is 37 per cent of the tax demanded; of the 36 cities, 9 of them report a collection rate of less than 40 percent and 4 of them between 40-50 percent. The highest collection rates are reported from the municipal governments of Karnataka, Tamil Nadu, Kerala, and Andhra Pradesh. Low collection are a characteristic of city governments in Bihar and Madhya Pradesh. Low collection rates are also a dominant feature of Delhi, and the municipal corporations of Gujarat and Maharashtra, the latter two otherwise reporting higher per capita collections. The opportunity cost of a lower coverage and collection rate is extremely high; bringing all cities to a 85% rate could increase property tax revenues to Rs. 22000-32000 crore without effecting any change in other variables.

18. To what extent are property values influenced and impacted by larger, state-level economic factors such as economic growth, the efficiency with which the states use their tax instrument, literacy levels, and the like. It is an important line of enquiry, primarily to see if property taxes are an integral part of the larger economy or used as an isolated instrument for revenue raising. It is significant that property tax displays a weak link with the regional, state-level economy; the correlations run between property tax revenues and state's gross domestic product (GDP) and state's tax to GDP ratios are 0.41 and 0.42 respectively. The importance of this tax in the hierarchy of taxes is low.

^v There is no data on the market value of properties except what is occasionally published by the Real Estate Companies. Many states, however, use guidance values or circle rates as benchmarks for registration of property transactions. Random check shows these to be significantly lower than the prevailing market values.

Estimates of All-India Property Tax Revenues: Current and Potential

19. India has a total of 5161 cities and towns of different population sizes (Census of India: 2001). The survey of property tax potential study covers the 36 largest cities in the country. In order to estimate the current levels of property tax collections for the 5161 cities and towns (i.e., an All India, urban estimate). Three methods are used to develop these estimates. The first assumes that the remaining 5125 municipalities raise, on average, an amount equivalent to that raised by the four municipalities with the smallest populations in the large city sample. The second method is based on per capita collection of those among the 36 largest cities which show the poorest collection performance. A variation of the second method has been used where state-wide estimates are made and aggregated, using the per capita collection showing the poorest collection performance in each state^{vi}.

20. The All-India estimate of property tax yields varies between a low of Rs. 6,274.4 crore and a high of Rs. 9,424.4 crore, or between 0.16 and 0.24 percent of the country's gross domestic product (GDP). These are far below the average for the developing countries (0.6 percent) and 0.68 percent for the transitional economies. Raising these ratios to the developing countries norms requires firstly, a proper recognition of the role that property tax plays in the finances of municipalities, and secondly a design and structure of property tax which is consistent with the objectives envisaged under the Constitution (seventy-fourth) Amendment Act, 1992.

Estimates of Property Tax Yields: All India (Urban)		
Cites and Towns	Amount (Rs crore)	% of GDP
36 largest cities	4522.3	0.109
5125 small and intermediate cities		
Estimate 1: average of the 4 smallest municipalities within the sample	3893.5	
All India -Total	8415.8	0.202
Estimate 2: lowest yield from among the sampled cities	1752.1	
All India-Total	6274.4	0.151
Estimate 3: lowest yield from among the sampled cities in each state	4902.1	
All India- Total	9424.4	0.227

21. The primary objective of this research study is to estimate the revenue potential of urban property tax in India. A restatement of this objective is "what is a reasonable expectation for revenue mobilization from the property tax". Revenue potential is a relative term, representing a gap between the current level of revenues and the revenues that would be generated under "optimal" or "normative" considerations. The Jawaharlal Nehru National Urban Renewal Mission (JNNURM) for instance, fixes two targets in respect of property tax: (i) raising coverage of properties by putting in place a Geographical Information System (GIS), and (ii) raising collection to tax demanded ratio upto 85 percent within a seven-year period ending in 2012 A.D. Unquestionably, low coverage and low collection hold vast sums of money untapped. This study also points to large scale undervaluation of properties for taxation purposes, and observes arbitrariness in fixing tax rates. The former impacts the

^{vi} Detailed methodology is contained in the final report.

property tax yields, while the latter delinks the property tax from the concept of benefit taxation.

22. There are several models for estimating the tax potential. What has been attempted here is based on two basic objectives that underline the current efforts aimed at improving the performance of property taxation in the country, namely improve tax coverage and collection. Thus, two estimates: (i) what would be the resulting tax yield by raising the coverage of properties to 85 percent of the total; (ii) what would be the resulting tax yield by raising the collection rate of property taxes relative to total tax demand to 85 percent, are presented here.

Estimates of Property Tax Potential (Rs. Crore)			
Estimates	Estimates of the current property tax yields (Rs)	Estimates of property tax potential (Rs.)	% of GDP
Estimate 1	8,416	29,346	0.708
Estimate 3	6,274	21,877	0.527
Estimate 3	9,425	32,864	0.793
Potential =	} (a) raising coverage from 56 percent to 85 percent } (b) raising collection from 37 percent to 85 percent		

23. These are substantial improvements over the existing yields. What is important to note is that these are possible to be achieved by strengthening administrative procedures. While increasing the tax coverage and collection are immediate, compelling objectives, the study also notes that reforms of property tax system requires improved valuation and rationalisation of the structure of tax rates. The real **potential** of property taxes lies in correctly assessing the property values and in choosing a rate structure that corresponds to the concept of benefit taxation. Assessed to market values of properties, as the study shows, are in the range of 30 percent, although supplementary data shows it to be 8-10 percent. Similarly the structure of **tax rates** is obsolete country-wide. This study does not attempt to estimate the potential that remains trapped in these two areas, but suggests the need to carry out reform both in the area of assessment as well as the structure of tax rates.

24. A third method is to estimate the effort that would be needed to raise the potential tax yield to 1 per cent of the country's gross domestic product, i.e., comparable to what the developing countries have. Property tax to GDP ratio in India has not undergone any change over the past several years. Income-elasticity of property tax is very low. Raising it to 1 percent will require broad-based efforts involving coverage, collection, assessments and restructuring of the tax rates.

Tapping the Untapped Property Tax Potential

25. Tapping the potential of property tax requires appropriate policies and effective tax administration. To achieve a sustained increase in yields, both need to be addressed. The agenda comprises –

- i. Broadening the tax base by instituting a GIS system for mapping properties in all cities with a population of 100,000;

- ii. Establishment of Central Valuation Board in each state, on the lines of the West Bengal Central Valuation Board in order to standardize property valuation;
- iii. Indexation of property tax values so as to help maintain the real level of property tax revenues as tax valuation do not increase automatically with inflation
- iv. Improving collection efficiency by establishing a system of collection efficiency that is able to identify tax evasion and delinquency and enforcement of penal clauses.
- v. Use of guidance values in assessing property value
- vi. Reinforcing the JNNURM with a mandate to issue guidelines for the reducing the gap between assessed and market value of properties.

26. The property tax generates a level of political opposition that is disproportionate to its yields. The property tax accounts for 0.8 percent of the overall tax burden in India. A tripling of property tax yields would therefore represent a minor increase in the average tax burden. The inherent political liabilities of the property tax suggest that efforts to reform should begin with a clarification of objectives as it is a major means of increasing municipal revenues.

1 *Introduction* *Context, Purpose, and Methodology*

Property tax is an important, possibly the most important, revenue source for local governments in much of the developing and developed world. At the same time, it is also a grossly underused source among the family of taxes. This is the case in India. Despite the property tax being the principal own-source revenue for municipal governments, its performance has been poor, in fact, poorer than most large developing and transitional economies. In 2006-07, revenues from property taxes were estimated anywhere between Rs. 6,275 crore and Rs, 9,425 crore¹, or 0.15 percent – 0.23 percent of the country’s gross domestic product (GDP), compared with 0.6 percent for the developing countries, 0.68 percent for the transitional economies, and 1.04 percent for all countries (Bahl and Martinez – Vazquez: 2008). In several Indian states, annual property tax revenues are significantly lower than the All-India average for large cities (Rs. 486 per capita) with Bihar and Jharkhand collecting less than Rs. 40 per capita. The property tax base in India is narrow and constricted, with only about 50-55 percent of the 715 million urban properties paying property taxes. Assessed value of properties for purposes of taxation uniformly lags behind the market values; in some places, assessed values are reported to be about 8-10 percent of market values. The income-elasticity of property tax is said to be low. The system is also characterised by other forms of inefficiencies that are connected to the structure of tax rates and collection strategies. As Roy Bahl puts it: “property taxation in developing countries is a fiscal paradox. On the one hand, it seems to be everyone’s candidate for the primary source of local government revenue. On the other hand, the property tax is little used in developing countries”².

Past studies on India’s property tax system (A. Bagchi, A. Datta, Gangadhar Jha, R.M. Kapoor, Om Prakash Mathur, Rakesh Mohan, P.K. Mohanty, Sham Nath, Pulin Nayak, Vasantha Rao, and Chetan Vaidya), research institutes (NCAER, NIPFP, and NIUA), and the government appointed expert groups, committees, and commissions point to the property tax

¹ Rs. 1 crore is equal to Rs. 10 million.

² Roy Bahl et.al. 2008. *Making Property Tax Work: Experiences in Developing and Transitional Countries*. Lincoln Institute of Land Policy. Cambridge. Mass.

as having the potential to be a major own-source revenue for municipal governments³. Studies also indicate that the actual property tax revenues fall short of its potential, on account of low coverage, low valuation, low collection and an obsolete tax structure. Significantly, none of the past studies have placed a money value on its potential nor attempted to estimate the additional tax revenues that might be generated by plugging the systemic and operational loopholes. Significantly, studies aimed at estimating the tax potential have also not been conducted in other countries. This study attempts to fill in this vital gap.

Undertaken at the behest of the Thirteenth Finance Commission (TFC), this study is designed to serve five purposes: first to assess the revenue importance of property tax in India (i.e., current levels of property tax revenues for all municipal governments), second to measure the performance of property tax, third to estimate the potential of property tax, fourth to outline how the potential might be realised, and fifth to suggest a research-cum-data base programme for improved property tax policy. The basic research question addressed here is whether property tax can be an important source of financing municipal services in India.

Property tax in India is commonly understood as a tax on property that permits a municipal government to cover a part of the cost of services that it provides. It is thus in the nature of a benefit tax. Its role is limited to revenue generation, and not extended to serving other purposes such as optimizing the use of land. Nor is it considered as a mechanism to solve economic, political, and social problems. Nor are property tax remissions or rebates used for influencing economic growth and development, e.g., attracting business and industry to specific areas within cities and towns.

For purposes of this study, property tax potential is assumed to depend on two sets of factors: the first set of factors, endogenous in nature, are those that are linked to the base of property taxation, valuation system, including revaluation, determination of the rate structure, and the design of collection strategies, while the second set consists of those that are assumed to impact property values via the larger economy-wide economic and fiscal factors. The latter are exogenous and assumes that a relatively growing regional and city economy would have a positive effect on property values and consequently on property tax revenues. The former

³ See bibliography.

has a direct impact on property tax revenues, while the impact of the latter accrues via the property values.

The study mainly uses the property tax data of a sample of 36 cities (29 cities with a population of over 1 million and seven cities with a population ranging between 500,000 and 1 million). The list of sampled cities is in Table 1. Recognizing that the property tax values of these cities may not represent the value of properties in the relatively small and intermediate-sized cities, appropriate adjustments have been made to the property tax data of the sampled cities (See chapter 4). Measuring the performance of property tax is an integral part of the study. Typically, it requires an examination of the structure of the property tax market, property tax base, revenue structure, and collection efficiency. Given the data constraints, the study uses a set of indicators that relate firstly to the property tax system, i.e., the extent to which the prescribed system or framework allows it to be used as a source of revenue, and secondly, the efficiency with which it is applied. Box - 1 provides a list of performance indicator.

Table 1: List of Sampled ULBs

State	Municipal Corporations
Andhra Pradesh	Hyderabad, Vishakhapatnam, Vijaywada
Bihar	Patna
Delhi	Delhi
Gujarat	Ahmedabad, Surat, Rajkot, Vadodara
Haryana	Faridabad
Jharkhand	Dhanbad
Karnataka	Bangalore
Kerala	Kochi
Madhya Pradesh	Bhopal, Indore, Jabalpur
Maharashtra	Greater Mumbai, Pune, Nashik, Nagpur
Orissa	Bhubaneswar
Punjab	Amritsar, Ludhiana
Rajasthan	Jaipur
Tamilnadu	Chennai, Coimbatore, Madurai
Uttar Pradesh	Lucknow, Allahabad, Agra, Meerut, Kanpur, Varanasi
West Bengal	Kolkata, Asansol, Durgapur

The study simultaneously assesses the impact of regional (state) growth and fiscal performance on property tax revenues, and addresses the question: to what extent is property tax revenue linked with the regional economic and fiscal performance?

Box 1

Indicators for Assessing the Performance of Property Tax System

Coverage

- Assessed properties (AP) as a % of total properties (TP)
- Tax-paying properties (TPP) as a % total properties (TP)
- Tax-paying properties (TPP) as a % of assessed properties (AP)
- Annual growth rate of tax-paying properties (AAGR-TPP) vis-à-vis the annual growth rate of assessed properties (AAGR-AP)

Collection

- Tax collection (PTC) as a % of tax demanded/assessed (PTA)
- Tax collection (PTC) as a % of total municipal revenue account expenditure (MRE)
- Tax collection (PTC) as a % of expenditure on providing joint services (MR-JS)
- Tax arrears (PT-AR) as a % property tax demanded/assessed (PTA)

Assessment

- Assessed property values (APV) as a % market property value (MV)

Property tax potential is a relative term; it connotes a gap between the current tax yield and what the tax may yield under certain conditions. A text book views it as “the amount of revenue that could be raised in a given jurisdiction if a normal tax rate is applied to a base that is narrowed by normal exemptions, and is subjected to a normal level of administrative effort”. This definition makes it clear that the measurement of revenue potential will be no easy matter (Roy Bahl: 2009). The potential is envisaged here under two scenarios: one under which assumptions are made with respect to the improvements that are essential to be made in broadening the tax base, narrowing the distance between assessed and market values, improving collection, and aligning the tax rate structure to meet the cost of joint services. Assumptions are drawn from the protocol of the Jawaharlal Nehru National Urban Renewal Mission (JNNURM) which is seeking country-wide reform of property taxation. A second method used here is to use the performance level of property tax in developing and transitional economies as the targeted norm for property tax reform in India, and to estimate the extent of changes that would be needed in collection, coverage and other aspects in order to reach the developing countries norms. Needless to add, tapping the potential, whichever way it may be estimated, is a major fiscal challenge for India.

Central to the study is the nature of reform that should be in place for improving the performance of property tax system, tapping the potential, and making it an important source

of revenue for financing and maintaining municipal services and infrastructure. This study makes specific suggestions in this regard, which are divided into short-term, immediate measures and those that are of a long term nature. Reform of property taxation is vitally dependent on the perception of state governments about the role of municipal governments in urban development and development, poverty improvement and (seventy-fourth) broadly, in economic and social alleviation, and slum upgrading. The Constitution Amendment, 1992 seeks empowerment of municipal governments including their fiscal empowerment. Property tax is a key ingredient of fiscal empowerment for municipal governments. Reviews of the reports of the State Finance Commission (SFCs) which are mandated under the Constitution to assess the financial position of municipal governments and make appropriate recommendations on their fiscal domain show that in estimating their financial needs, while some kinds of expenditure norms have been applied, issues relating to norms for revenue enhancement have been ignored. None of the SFCs have laid down or considered any norm for property tax collection. This is an important gap and needs to be corrected⁴.

Property tax is a key ingredient of fiscal empowerment for municipal governments.

The Jawaharlal Nehru National Urban Renewal Mission (JNNURM) - a seven year reform-linked grant programme of the Government of India, also requires the JNNURM cities to achieve within a span of seven years (2005-2012), improved coverage of properties with a Geographical Information System (GIS) and 85 percent collection of property tax demanded. As the JNNURM enters its fourth year, it shows that there is no reliable count of the number of properties in cities and towns, and therefore, fixation of any target relating to the universe of properties is, at best, conjectural until a GIS is established. Moreover, notwithstanding the JNNURM, two states namely Haryana and Rajasthan have abolished property taxation, while nearly two-thirds of properties are outside of the purview of property taxation in Punjab. Such steps are inimical to what the 74th Constitutional Amendment envisions for municipal bodies. This study suggests reinforcement of the JNNURM mandate in respect of property taxation as also a broadening of its scope to include (i) valuation system with the aim of reducing the gap between assessed and market values, and (ii) rationalisation in tax rate setting methodologies. It also underlines the need to establish a GIS

⁴ This aspect has been examined in some detail in another study report titled as “The State Finance Commissions: An Agenda for Reform”. 2009. National Institute of Public Finance and Policy. New Delhi.

in all cities and towns as a priority and as a basic step in tapping the potential of property taxes.

The study recognizes that there are two other land-property linked taxes, namely capital gains tax levied by the central government, and stamp duties on conveyance by the state governments ; however, no exploration is made in this study if capital gains tax and stamp duties – both having a high buoyancy, have a dampening effect on property taxes in any way. The study takes the view that while all the three taxes are meant to appropriate a part of the value of land and property or the value of the transactions, the purpose for levying property taxes differs from the purposes that govern capital gains and stamp duties. **It is the premise of the study that property taxes have a *raison detre* of their own.**

Interest of the Thirteenth Finance Commission in commissioning this study is, therefore, timely. Property tax is a legitimate local tax. Its importance in financing municipal services forms a part of the goals envisaged under the Constitutional Amendment and National Urban Renewal Mission (JNNURM). **By improving coverage and collection, urban property tax can yield a sum anywhere between Rs. 21,877 crore to Rs. 32,864 crore annually; much more is possible by effecting improvements in valuation and rate structures.** On a conservative estimate, for example, simply by improving coverage and collection, urban property tax can yield a sum anywhere between Rs. 21,877 crore to Rs. 32,864 crore annually; much more is possible by effecting improvements in valuation and rate structures. This study lays out a road map for realising the potential of this vastly under-used tax.

The report is laid out in five sections including the section on the Context, Purpose and Methodology. Section - 2 provides a brief introduction to the property tax system in India. Apart from indicating the general statutory framework within which the system functions in India, it also points to the declining relevance of the framework and its inability to capture the shift in the real estate market. Section - 3 gives the results of a survey of property taxation in 36 largest cities; these results with appropriate adjustments form the basis of working out the all India estimates of property tax yield and subsequently of property tax potential. The results indicate huge lags in performance and attempt to bring out where

the lags lie. Section - 4 provides all-India estimates of current level of yields from property taxes and potential yields, respectively, using various assumptions. The last section offers suggestions on the steps for tapping the tax potential. Given that the study is based on an extremely limited and poor quality data base, the study underlines the need to strengthen it and what might be done to lay a foundation for sustained improvement in the system⁵.

⁵ Market value of properties in India is subjected to various forms of distortions. Many label them as speculative prices. Adjusting such prices to reflect the true market value require field studies which have not been carried out as a part of this study.

2 *Property Tax System* *An Introduction*

A tax on land and property is the single most important local government tax in most countries. It is the same in India, where it owes itself to Entry 49 in the State List of the Constitution. For the reason of this tax being a part of the State List, the state governments lay down the framework for its levy which refers to the tax bases (defining the universe of properties for tax purposes i.e., which properties should be within the tax net and which properties should be excluded), procedure for valuation, rebate and exemption policies, rate setting, tax liability, and measures for dealing with delays and tax evasion. There are important inter-state differences in the various constituents of the framework. For instance, assessment and valuation of properties is done by four different methods. One is the annual rateable value (ARV) of lands and buildings, second is a variant of the ARV where the determination of ARV is with reference to location, type of construction, age of building, and the nature of use which a property is put to, third is capital valuation, recently brought in use in Karnataka, and the fourth is direct computation of property tax by using a tax rate per unit of carpet area⁶.

The statutory frameworks contain provisions for revaluation of property values, requiring it to be done once in three to five years; in the interim, assessment can be altered only if additions or alterations are made to the property. No adjustments are possible in the assessed values even if such changes are known and have actually occurred.

⁶ None of the state Statutes describe the object of property taxation. However, it is inferred that it is meant to cover a part of the cost of services which are not chargeable on the basis of consumption or use, and in this sense, it is a benefit tax. Also, property values are said to capitalise the cost of municipal services.

Box 2

Methods of Assessments

“The annual value of land and buildings shall be deemed to be the gross annual rent at which they (properties) may reasonably be expected to let from month to month or from year to year less a deduction –

Provided that in the case of any Central or State government or railway building or any building of a class not ordinarily let the gross annual value of which cannot, in the opinion of the Commissioner be estimated, the annual value of the premises shall be deemed to be six per centum of the total of the estimated market value of the land and the estimated present cost of erecting the building after deducting for depreciation a reasonable amount which shall in no case be less than ten per centum of such cost”.

The Madurai City Municipal Corporation Act.

“116E: The annual value of any covered space of building in any ward shall be the amounts arrived at by multiplying the total area of such covered space of building by the final base unit area value of such covered space and the relevant factors as referred to clause (b) of sub-section (2) of Section 116A”.

The Delhi Municipal Corporation Act.

“127(7): i - The rate of rental value per sq. ft. shall be fixed by the Municipality with the prior approval of the State government having regard to the situation, use and the type of construction of the holdings; ii - the Annual Rental Value shall be computed as a multiple of the carpet area and the annual value fixed under sub-rule (i); iii - the rental value per sq.ft. of carpet area for different classes of holdings shall be published from time to time by the Municipality with the prior approval of the State government”.

The Bihar Municipality Act.

“102. Method of Assessment of Property Tax. – (1) The taxable capital value of the building shall be assessed (together with the land occupied by it) shall be assessed having regard to the (market value guidance or properties published) of the land notified by the Government under section 45B of the Karnataka Stamp Act, 1957 subject to such rules as may be prescribed, the taxable capital value of the building shall be (equivalent of fifty percent of) the market value guidelines of properties published under section 45B of the Karnataka Stamp Act, 1957 minus depreciation at the time of assessment as may be notified by the Government from time to time.

The Karnataka Municipalities Act.

Likewise, there are six different ways in which rate structures are prescribed: a consolidated rate which include imposts of various kinds on the same tax rate; statutory specification of the maximum and minimum rate known as a ‘ceiling’ – interestingly there exists both an upper ceiling in some states and a lower limit in others; progressivity in rate structure; and discrimination in rate structure according to use, location etc. In addition, there are area-specific values for estimating the ARVs, and rates of taxing the capital values where

capital valuation is in use. There are large inter-state differentials in the rate at which tax is to be levied. The annual rateable values (ARVs) or property values assessed by other methods are subjected to various forms of deductions and rebates. Thus, there are provisions for rebates to owner-occupied houses, rebate for senior citizens, women and physically challenged persons, rebate on early payment, vacancy remissions, depreciation as per the age of the building, and rebates for repairs and maintenance.

Box 3

Rate of Property Tax

114D - The base of property tax on buildings in Delhi shall be between a minimum of six percent and a maximum of twenty percent of the annual values of such buildings as may be specified by the Corporation from time to time:

- provided that the Corporation may, at any time, prescribe fixed rates between the minimum and the maximum rates of tax as aforesaid for different colonies or for different groups of buildings in such colonies;
- provided further that the Corporation may also introduce graduated rates of tax within the minimum and the maximum rates of tax as aforesaid on the basis of **straight line system** or any other system as may be specified by the Corporation.

Explanation – “Straight line system” shall mean the system in which the rate of tax is equivalent to the annual value of a property (x) divided by the minimum annual value X and Y being added to the quotient so arrived, Y being the difference between the maximum rate of tax and the quotient of maximum (X2) and minimum (X1) annual values.

*The Delhi Municipal Corporation Act,
1957 (as amended 2007)*

Exemptions from local property taxation constitutes an important ingredient of a property tax system, and is a common feature worldwide. The underlying objectives in granting exemptions are social justice, high administrative and collection cost particularly from low tax yielding properties, and properties that provide directly or indirectly, services having characteristics of a merit or public good. Article 285 of the Constitution of India exempts properties of the Union government from payment of property taxes. Exempted properties in India constitute approximately 10 percent of the total urban properties and about 11 percent of the assessed properties and to this extent, tax bases are narrowed and coverage is inequitable.

More generally, the following categories of properties stand exempted from payment of property taxes –

- Residential properties whose rateable values are below a minimum threshold
- Central and state government properties and selectively, properties of the other levels of government
- Charitable organisations
- Places of worship
- Ancient and heritage monuments
- Burial and cremation grounds
- Properties used for sheltering the destitute, orphanages, and similar organisations run on philanthropic lines
- Recognized educational institutions including hostels, libraries and play grounds
- Vacant properties of certain categories
- Slum dwellings not having any title over the land

Efficient tax collection is one of the important constituents of property taxation. The municipal legislations lay down procedures for issuance of assessment notice, period within which tax is required to be paid, mode of payment, and actions under the law for defaulting on tax payment. The Bihar Municipal Act, 2007 while providing for self-assessment of the liability, lays down a penalty ranging between 50-100 percent in case of discrepancy in the assessed values or tax amount or under - assessment as also of a charge on the bank account of property owners.

Over the past two decades, several state governments have made changes to the statutory framework for the levy of property taxes, as a result of which the historically - used system of annual rateable value (ARV) has been replaced by other methods referred to earlier in this section (i.e. capital valuation, unit area values for determining the ARV, and rate per unit of carpet area). Several states have made changes in the methods of billing and payment procedures, bringing in self-assessment of tax liability, providing for hardship and anomaly committees to consider the petitions regarding any hardship or anomaly arising out of

property tax imposed, levy of service charges in slums and resettlement colonies, and the like. The Jawaharlal Nehru National Urban Renewal Mission (JNNURM) – a flagship programme launched in December 2005, also underlines, as a part of a larger urban agenda, the need to improve both coverage of properties and collection of tax – the former referring to building up a proper inventory of properties for tax purposes, and the latter referring to doing away with the inefficiencies in the system of tax collection, leakages, tax delinquency etc. *However, none of these measures can be said to be a part of any comprehensive strategy to re-examine the role of property taxes in financing municipal services and how that role might be best carried out. The frameworks including the changes introduced therein, are lopsided, representing one-time adjustments.* This is evident from the fact that the replacement of using rents (hypothetical) by unit area values for estimating the ARVs has not been able to sustain the initial step-up in the property tax yields. In Delhi, the property tax revenues have declined as a result of putting in place a system of self-assessing the tax liability without having an inventory of properties. None of the assessment methods proximate to capturing the market value of properties, depriving municipalities of the buoyancy of the real estate market. Also, none of the changes have imparted any autonomy to municipalities in matters relating to determining the tax base or fixing the tax rate; e.g., the Kerala Municipality Act states that any resolution (of the municipality) abolishing an existing tax or reducing the rate at which a tax is levied shall immediately be reported to the Government and in the case of a municipality which has an outstanding loan, such abolition or reduction shall not have effect without the sanction of the Government. Other statutes are in the same league. The entire emphasis of most statutes continues to be on rebates and exemptions – a race to the bottom in a few instances⁷ - which in combination with the high rate of tax delinquency, has eroded an important part of the revenue base. Even in places such as California (USA), measures such as proposition 13 have made adverse impacts on the finances of the state. In a recent article Paul Krugman points out that **the seeds of California’s current crisis were planted more than 30 years ago, when voters overwhelmingly passed Proposition 13, a ballot measure that placed the state’s budget in a straitjacket. Property tax rates were capped, and homeowners were shielded from increases in their tax assessment even as the value of their homes rose** (New York Times: 26 May 2009). In contrast, fearing that intangible sources of revenues may overtake tangible sources such as property taxes, attention is once again directed on refixing and redefining the role of property taxes. Joan Youngman, for

⁷ There are instances where the list of exemptions has been expanded.

instance, has argued for an expanded role for the real property tax in an era of globalisation. First, at a time when markets and economic activity cross borders with ease, immovable property offers one of the few tax bases that cannot be readily shifted to another jurisdiction. Second, in an era of tax harmonization, only a purely local revenue source permits local fiscal autonomy. Third, the era of globalisation is also an era of devolution and subsidiarity, which require stable local revenue sources to be effective⁸. It is in this context that property tax system needs to be reviewed and rewritten. It is also necessary to consider the need to bring about some degree of uniformity in the basic framework for the levy of this tax, instead of having each state develop its own system and rules⁹.

Box 4

What is a Property Tax?

The property tax is a unique mechanism for local revenue generation. The primary store of accumulated wealth in both developed and developing countries is in real estate. Such property is visible, immobile and a clear indication of one form of wealth. The property tax is thus difficult to avoid and if well administered can represent a non-distortionary and highly efficient fiscal tool.

William McCluskey: Property Tax – An International Comparative Review

⁸ Joan Youngman. 1999. Property Tax in an Age of Globalization. Mimeo.

⁹ The Republic of South Africa has one Act that governs the levy of property tax in the country.

3 *The Productivity and Performance of Property Tax Survey Results*

Introduction

Unlike the data on taxes levied by the central government and state governments which are regularly collected and published and which form the base for assessing their fiscal health and determining the central and state-level fiscal policies, data on taxes levied by municipalities and panchayats are not collected or brought together by any level of government or governmental agency. The result is that neither there are country-wide or state-wide data bases on the finances of municipalities nor any robust estimates of the scale and composition of municipal revenues or of municipal expenditures are available in the country. All assessments about their finances and financial health that have been undertaken so far are based on an extremely limited data base, generated by studies of a sample of municipalities that have been conducted from time to time, mainly for the central finances commissions¹⁰. These studies have been made use of for pointing out that the revenue role of municipalities in India as measured in terms of gross domestic product (0.7% of GDP) and in terms of the revenue share of municipalities in publicly-raised resources (2.5%) is low, and therefore needs attention. These have also been used to underscore the point that such low levels of incomes and expenditures are grossly insufficient for meeting the infrastructural needs of cities and towns. Many developing countries spend 4-6 percent of their GDP on municipal services. Also, there exists no standardization in the accounting classification of municipal revenues and expenditures, which makes inter-state and inter-municipal comparison of their performance less than robust.

This study makes use of the property tax data of a sample of 36 largest cities in the country: 29 of the sample cities having a population in excess of one million each, and the balance falling in the population range of 5,00,000 and 1 million. Together these account for

¹⁰ See Om Prakash Mathur et. al. 2000. Options for Closing the Revenue Gap of Municipalities 2001/01 to 2004/05. National Institute of Public Finance and Policy, New Delhi; Om Prakash Mathur and Sandeep Thakur. 2004. India's Municipal Sector. National Institute of Public Finance and Policy. New Delhi (These studies were conducted for the XIth and XIIth Finance Commission respectively). Also, National Institute of Urban Affairs. 2004. Reform of Property Taxation. Research Study Series No 97. New Delhi. The XIth and XIIth Finance Commission reports also contain data on the revenues and expenditure of municipal bodies, aggregated at the level of states. However, there are inconsistencies in the data sets provided in those reports.

38 percent of the country's total urban population. A questionnaire (attached with the report) was used for collecting information on (i) classification of properties; (ii) property tax receipts and expenditure; (iii) property tax assessment system; (iv) finances of the municipal bodies, and (v) views and suggestions on reforming the property tax system¹¹. As this study will point out later, the existing data base in respect of property tax which is the most important source of revenue for municipalities (except in cities where octroi is levied) is fragile, with most municipalities unable to provide information even on the number of total properties in their jurisdictions; the number of un-assessed and under-assessed properties, and property tax yields separately for domestic and non-domestic properties. Few municipalities maintain any record or estimate of revenue lost on account of properties exempted from payment of taxes, or on account of rent control, or provide any understanding of the factors that contribute to the determination of the tax structure, suggesting that tax structures may be ad-hoc adjustments to the historical rates with no relationship to the cost of providing joint municipal services.

Box 5

Basic Features of the Questionnaire

The key sub-blocks of each of the five categories in which information was sought are as under: (i) *classification of properties*: (a) number of total properties, (b) number of properties assessed for taxation, (c) number of unassessed properties, (d) number of under-assessed properties; (ii) *property tax receipts and expenditure*: (a) property tax receipts, (b) service charge receipts from central government and state government properties, (c) estimated expenditure on property tax assessment, billing, and collection; (iii) *property tax assessment system*: (a) annual rateable value with rent as the basis, (b) unit area values for estimating the ARV, (c) unit area values per sq. meter as a basis for taxation, and (d) capital valuation; (iv) *finances of the municipal corporations*: (a) opening balance, (b) revenue receipts, (c) capital receipts, (d) revenue expenditures, (e) capital expenditure; and (v) *views and suggestions*.

The weakest components in the survey results relate to (i) size and composition of the property market, and (ii) the estimation of tax demand or tax liability. As stated earlier, there is no system that enables a municipality to “count” properties, excepting in those cities where a Geographic Information System (GIS) has been established. The number of such cities is small. The size of the property market is significantly larger than what the municipal records are able to capture. Delhi offers a case in point where roughly 15 lakh properties out of a

¹¹ On a selective basis, checks on data were made from the budgets of municipal corporations.

total of 25.5 lakh or 60 percent of the total are outside of the municipal tax register. In several cities including many in this sample, the size of the property market is not known and has proved to be a limiting factor in estimating the potential of this tax. A second component where data are weak relates to the estimation of tax demand or tax billing. Tax demands are uniformly understated for reasons that are attributed to a collusion between tax assessor and property owners. The results of the study should be seen in this context.

Productivity of Property Tax

Studies on property taxation refer to property tax as a low-productive tax. Bahl and Linn (1992) in their seminal work point out that “the property tax does not generate enough revenue to satisfy public expenditure demands at any given point in time, nor does it grow as rapidly as do expenditure requirements”¹². Other studies have presented evidence of its low buoyancy compared to other tax instruments. In this study, the term revenue productivity is used somewhat narrowly, referring to (i) property tax demand, and (ii) property tax yield, as measures of productivity: the former represents the estimated liability or demand on account of property taxes usually referred as billed tax amount, and the latter represents the actual collections on this account.

The survey data place the total property tax liability or demand of 36 municipal corporations at Rs. 11,432 crore or a per capita of Rs. 1,229, and collections at Rs.4,522 crore or a per capita of Rs. 486. The difference between the liability and collection is the unrealised tax amount. The size of the tax demand is an important indicator of what the property tax can yield, within the existing framework of property taxation. It is the result of the application of tax rates to the assessed value of properties that are on the municipal tax register excepting those that are statutorily exempted from the levy of property taxation. It is surprising that the total aggregate demand of property tax in the 36 corporations has changed little over the three year period of 2004-05 and 2006-07, a period marked by a real estate boom and high economic growth in the country. Increase in the tax demanded as shown in table below is negligible. Several explanations are advanced for this stagnation: (i) a marginal change in the number of properties in the municipal tax register, (ii) allowable depreciation in the assessed value of properties on account of age of property, and (iii) the

¹² Roy Bahl and Johannes F. Linn. 1992. *Urban Public Finance in Developing Countries*. A World Bank Publication. The Oxford University Press, New York.

increasing number of dead properties – a term used for those properties which are locked out of business failures¹³. What is to be noted that while the statutes have provisions for depreciation in the assessed value of properties on account of age and owner-occupation, there are no provisions to protect the real value of property tax yields excepting via revaluations which are expected to take place every 3-5 years. The study takes note of this and suggests a form of indexation so as to prevent any decline in the assessed value of properties.

The total yield from property taxes in the 36 sampled city, as stated above, is Rs. 4,522.3 crore and a per capita of Rs 486. Over a three year period, property tax revenues recorded a growth of 12.4 percent, or an average annual growth of 7.9 percent which is roughly half of the growth in municipal revenues. Property tax revenues constitute 23 percent of the total municipal revenues and 28 percent of own-source revenues. Property tax revenues are able to cover 28 percent of the revenue account expenditure. In sum, these ratios represent the fiscal role and revenue importance of property taxes in India.

Table 2: Revenue Status of Property Tax: Sample of 36 Largest Cities

Revenue status	Year		
	2004-05	2005-06	2006-07
Property tax demanded	11,213.7	10,965.5	11431.5
Property tax revenues (Rs. crore)	3,884.1	4023.3	4522.3
Property tax collection to tax demanded %	34.6	36.7	39.6
Per capita tax revenue (Rs.)	442.1	445.1	486
Property tax as a % of own source municipal revenue	32	30	28
Property tax as a % of total municipal revenue	26	28	23
Property tax as a % of municipal expenditure	29	28	27

Property tax yield comprises (i) current tax collection, and (ii) arrears. In 2006-07, current collections accounted for 76 percent of the total collections, with the balance being the `arrears`. Effective annual yield of property taxes (excluding arrears) is thus Rs. 370, or just about Rs. 1/day. Arrears represent payments withheld by property owners; high arrears are explained by frequent amnesties that are extended by municipal bodies from time to time. Few state acts provide for penalty for delayed or deferred payments which are one of the reasons for tax

Effective annual yield of property taxes (excluding arrears) is thus Rs. 370, or just about Rs. 1/day.

¹³ Many attributed the rise in the number of dead properties to structural adjustments, e.g., closed mills and factories.

delinquency in the country. Also, the existing systems for identification of delinquents are both weak and weakly enforced, leading to huge revenue loss for municipalities.

Table 3: Composition of Property Tax Revenues, 2006-07

Composition	Rs. crore	Per capita (Rs.)
Current	3,442.07	369.9
Arrears	1,080.24	116.1
Total	4,522.31	486.0

Revenue productivity of property taxes, varies sharply with Mumbai Municipal Corporation yielding a per capita annual revenue of Rs. 1334 and Bangalore and Pune in excess of Rs. 700 per capita, and Patna and Dhanbad Municipal Corporations recording a per capita of Rs. 25 and Rs. 40 respectively. Low productivity of property taxation is not limited to Patna and Dhanbad; it is as much a characteristic of Jaipur (36), Bhopal (97), Agra (51), Varanasi (86), Allahabad (86), Meerut (50), Asansol (87) and Amritsar (61). Also noted are large size-class differences in the “revenue productivity of property taxes; the average per capita property tax yield in cities with over 4 million population is 1.55 times higher than the average for the 36 cities; 1.94 times higher than the next size category of cities with population ranging between 2-4 million, and several times higher than the lower size categories of cities (Table below).

Table 4: Size-Class Differences in Per Capita Property Tax Collection

Population size class	Per capita property tax collection		
	2004-05	2005-06	2006-07
> 4 million	693	677	750
2-4 million	328	362	386
1-2 million	152	154	159
< 1 million	211	227	263
Average for samples cities	441	444	485

The survey shows that property tax is not the principal source of revenue for a number of municipal corporations, which include not only those corporations that have access to octroi but also

Property tax revenues constitute less than 20 percent of municipal revenue in as many as 19 out of 36 municipal corporations - their role in financing municipal services is limited and the municipalities have no choice but to rely on state government transfers even for meeting the recurrent expenditures.

the non-octroi municipalities. Property tax revenues constitute less than 20 percent of municipal revenue receipts for as many as 19 out of 36 municipal corporations (octroi-levying municipal corporations number is 8). Their role in financing municipal services is limited, municipalities have no choice but to rely on state government transfers even for meeting the recurrent expenditures.

Table 5: Per Capita Property Tax Yield

Annual per capita (Rs)	Sampled cities
>700 -	Bangalore, Mumbai, Pune
>500 - 700	Chennai, Kolkata, Ahmedabad, Surat, Coimbatore
400-500	Hyderabad
300-400	Delhi, Nagpur, Visakhapatnam, Vijayawada, Vadodra, Kochi, Nashik
200-300	Indore, Ludhiana, Madurai
100-200	Lucknow, Kanpur, Rajkot, Faridabad, Jabalpur, Bhubaneshwar, Durgapur
<100	Jaipur, Patna, Dhanbad, Bhopal, Asansol, Amritsar, Agra, Varanasi, Allahabad, Merrut

Source: Calculated on the basis of survey of 36 ULBs.

Chart 1: Per Capita Collection of Property Tax for 2006-07 (in Rs)

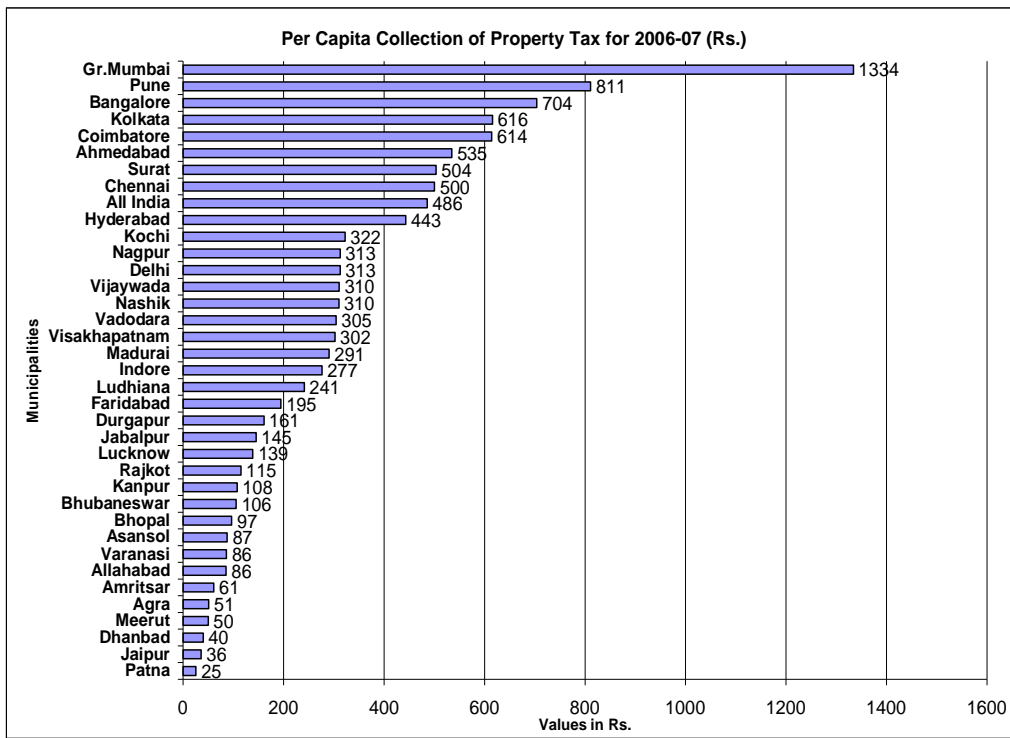


Table 6: Revenue Importance of Property Tax for the Sample Cities for 2006-07*

Sample Cities	Per capita property tax demand (Rs)	Per capita property tax collection (Rs.)	Property tax collection as a percentage of		
			Own source revenue	Municipal revenue receipts**	Municipal revenue expenditure
Delhi	1607	313	30.1	18.1	16.3
Bangalore	811	704	69.0	53.0	30.4
Gr. Mumbai	3438	1334	23.9	23.1	24.4
Chennai	585	500	63.7	36.7	37.2
Kolkata	1035	616	46.0	27.4	29.2
Hyderabad	665	443	35.3	35.0	47.7
Ahmedabad	2568	535	21.7	19.1	28.5
Surat	775	504	25.3	22.7	35.4
Pune	1954	811	23.9	22.7	39.9
Nagpur	603	313	20.7	18.7	22.9
Jaipur	77*	36	13.0	5.6	7.1
Lucknow	249	139	75.8	26.1	30.2
Kanpur	147	108	63.3	18.9	23.5
Visakhapatnam	352	302	23.8	17.7	26.0
Patna	101	25	27.0	11.2	9.0
Vadodara	650	305	16.2	14.6	20.3
Rajkot	1998	115	54.0	8.4	10.3
Faridabad	190	195	NA	16.7	28.0
Bhopal	168	97	26.5	12.8	10.5
Indore	1100	277	79.5	27.2	16.5
Jabalpur	159	145	35.8	18.8	18.4
Nashik	428	310	10.9	10.7	18.1
Amritsar	151	61	6.7	6.7	6.4
Ludhiana	428	241	25.4	13.1	21.1
Varanasi	131	86	67.8	19.6	17.0
Agra	47	51	46.6	11.9	12.8
Allahabad	139	86	68.0	22.1	13.0
Meerut	154	50	67.6	13.3	23.5
Vijaywada	592	310	44.0	31.8	35.3
Bhubaneswar	155	106	53.5	43.0	11.9
Dhanbad	109	40	73.6	8.1	55.6
Kochi	410	322	42.9	36.8	35.8
Madurai	563	291	45.0	28.7	18.4
Coimbatore	816	614	71.1	46.3	23.5
Asansol	102	87	49.2	28.6	36.6
Durgapur	492	161	60.9	38.7	46.3
All India	1229	486	28.5	23.4	26.6

Note: * Property tax collections comprise of current collection and arrear collection for the respective year for the concerned ULBs. ** Municipal income (revenue) comprises of own source revenue income and state Government transfers to revenue account for the respective ULBs. NA = Data not available. Further, note that Jaipur has abolished property tax and put in place an urban development tax. The figures relate to urban development tax.

Source: Survey of 36 ULBs

Few cities have attempted to capture the real estate boom and a relatively high economic growth of the three-year period from 2004-05 to 2006-07 for strengthening their revenue base who continue to be heavily dependent on state government transfers and grants for meeting their revenue expenditure.

Table 7: Insignificant Role of Property Taxes in Meeting Municipal Expenditure

Cities	Per capita property tax (Rs.)	% of municipal expenditure covered by property taxes	Dependence of municipal corporation on transfer ratio%
Jaipur	36.0	7.0	56.6
Patna	25.5	9.0	58.5
Bhopal	96.7	10.5	51.7
Ludhiana	39.1	-	48.7
Agra	51.1	12.8	74.5
Varanasi	86.3	17.0	71.0
Allahabad	85.6	13.0	67.4
Meerut	50.2	23.5	80.3
Delhi	-	16.3	39.9

* The total per capita municipal expenditure in Dhanbad Municipal Body is Rs. 72.39

In sum:

- Revenue productivity of property taxes as measured in terms of the yields is low and has shown, at best, a marginal rise over the three-year period of the study. There is no evidence of this tax being a buoyant one. Moreover, its growth rate is lower than that of municipal expenditure, indicating increasing financial strain on the municipal corporations for maintaining the services. Property taxes are contributing less towards the maintenance of services.
- Effective annual yield of property taxes is Rs. 370, or just about Rs. 1/day.
- The total tax demanded over the study period has shown signs of stagnancy, clearly suggesting that the rate of incorporation of new properties into the municipal tax register is low; property tax values are not being revised as per the provisions of municipal acts; and provisions relating to depreciation in property tax yields on account of age of building combined with other rebates have seriously eroded the productivity of property taxes.
- There is a large gap between tax demanded and tax collected, indicating the level of inefficiency that exists in the implementation and enforcement of this tax. This aspect is dealt within the next section.

Performance of Property Tax

The performance of property tax as measured by the size of the revenues that it yields is determined by a combination of policy parameters and administrative practices, the following being the principal determinants -

- Coverage and enumeration of properties on the municipal tax register
- Collection rate
- Assessment and valuation system
- Extent of exemptions
- Level of the tax rate

An analysis of these determinants is important as the causes of India's weak property tax revenue performance must be identified if a programme for enhanced revenue mobilisation is to be initiated. The first determinant of revenue performance is the coverage of properties, i.e., the percent of properties that are on the municipal tax register; the percent of properties that are assessed for tax purposes; and the percentage of tax paying properties.

In this context, note should be made of the fact that the term "property" for purposes of property taxation is defined in different

ways. The Corporation storeyed even the entire society as a single corporations and

Absence of a formal count of properties and of a common understanding of the term "property" for purposes of property taxation are major handicaps in arriving at an accurate estimate of the property

Mumbai Municipal considers multi-apartments and often housing cooperative property. Other municipalities apply

the criterion of ownership for defining a property. Another fact that has a major impact on the performance of property tax is that municipalities have no system in place that enables them to have a formal count of all properties within their jurisdiction. The property tax registers are thus uniformly incomplete with virtually no reliable estimate of the number of properties in the jurisdiction of the municipalities. Delhi offers an example where the total number of properties is stated to be 25.3 lakh, but only 9.6 lakh properties are on the municipal tax register. In Bangalore, 40 percent of taxable properties are outside of the tax net and these are said to be conservative estimates¹⁴. Absence of a formal count of properties

¹⁴ The Times of India: 1 February 2009, quoting from a seminar deliberations held at the Centre for Public Policy (IIM), Bangalore.

and of a common understanding of the term “property” for purposes of property taxation are major handicaps in arriving at an accurate estimate of the property tax potential in India¹⁵. (See Box 6).

Box 6

Estimates of Total Properties in the 36 Largest Cities

Total properties in a city are assumed to be the sum of properties assessed for taxation, those legally exempted from taxation and those which exist but are not on the tax roll. Total properties and exempted properties can be extracted from municipal registers, an estimate for the unregistered properties is more conjectural in that it is based on local knowledge of new colonies or building sites, the extent of unauthorized colonization in the city and so on.

Three methods were used to arrive at estimates of the number of properties remaining outside the tax net (for which records were not available).

- In the first case, the cities themselves estimated the number of unrecorded and unassessed properties.
- In the second case, cities suggested an approximate percentage of properties that remain outside the tax bracket. In these cases the percentage was used to arrive at the number.
- Where the city administration did not give any data, other proxy sources were used for the purpose. For instance, the MoA signed between the cities and the GoI for the JNNURM mission required the cities to fill in certain data regarding property taxation. This study used average coverage ratios found in these documents to estimate the number of properties not enumerated for such cities.

Another level of problem with the data arose from the fact that while some cities reported assessed properties as being separate from those legally exempt from taxation, others did not. Thus the figure of total assessed properties in some cases is inclusive of exempt properties. Therefore, the final coverage ratios only considered those cities for which the corrected figures excluding exempted properties were available.

¹⁵ The Jawaharlal Nehru National Urban Renewal Mission (JNNURM) requires all JNNURM cities to institute a geographic information system (GIS) for creating a data base on properties, their count, size and locations. The institution of GIS has begun in a few cities.

i. Coverage ratios

According to the data from the 36 largest cities, 88 percent of properties are on the tax roll of the sampled municipal corporations and are assessed for taxation, and 63 percent of assessed properties pay taxes. Of the total properties, the tax paying properties constitute 56 percent. This represents the effective coverage ratio. The performance of cities in terms of effective coverage is particularly low in such cities as Jaipur (which has abolished property

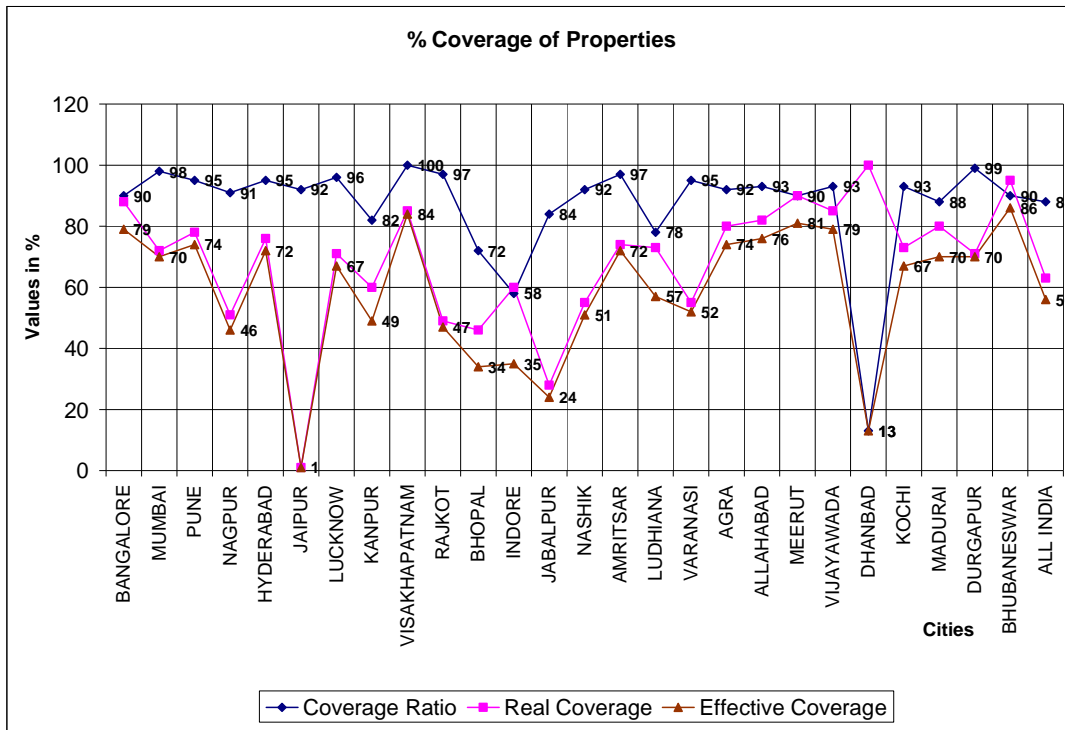
Exclusion of 44 percent of properties from the tax net, and the fact that they do not contribute to the provision and maintenance of services is a major free rider problem that constricts the tax base and severely limits the role of property taxation in the economy of

tax and replaced it with an urban development tax that mandates taxation of a limited number of large properties), Bhopal, Jabalpur, Dhanbad and Indore. The effective

coverage ratio in these places is less than 40 percent. Many cities show a high coverage ratio¹⁶, but when analysed in relation to property tax yields, suggest that high coverage is not necessarily an indicator of high level of performance. Factors such as low assessment and low tax rates keep the yields at abysmal low levels. Exclusion of 44 percent of properties from the tax net and the fact that they do not contribute to the provision and maintenance of services is a major free rider problem that constricts the tax base and severely limits the role of property taxation in the economy of cities.

¹⁶ The data on the number of total properties is an under-estimate and should be read with this qualification.

Chart 2: Coverage Ratios

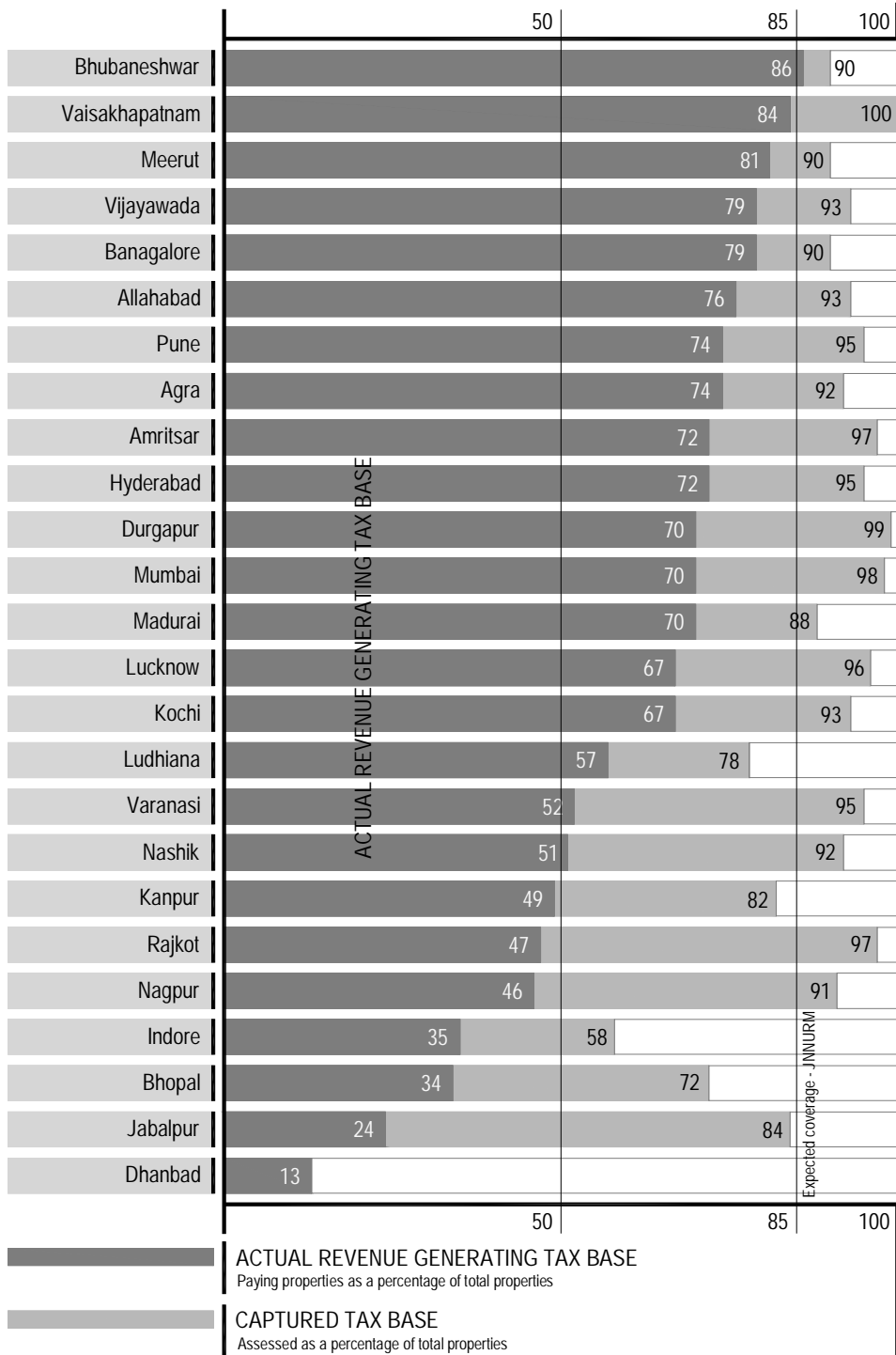


Source: Survey of the ULBs

Coverage ratio = Assessed properties/Total properties x 100
 Real coverage = Tax paying properties/Assessed properties x 100
 Effective coverage = Tax paying properties/Total properties x 100

Chart 3: How Effective is the Realization of the Assessed Tax Base?

How well do municipalities capture the potential tax base?



NOTE: 100% represents the total estimated number of properties in the city OR the total potential tax base

ii. Collection Ratios

The tax collection ratio, i.e., percentage of tax demanded that is actually realised or collected is major determinant of the revenue performance of property tax. In the aggregate, survey reports that on an average 37 per cent of the tax demanded is collected; 63 percent of the aggregated tax liability remains unrealized. It should be noted that this proportion is disproportionately weighted by low collection in several large cities, such as Delhi where only 19 percent of tax demanded is collected; in Mumbai, where the collection ratio is 39 percent and in Ahmedabad, where the ratio is 21 percent. Low collections are a characteristic of city governments in Bihar, Madhya Pradesh, Punjab and Jharkhand. Low collection rates

On an average 37 per cent of the tax demanded is collected - 63 percent of the aggregated tax liability remains unrealized.

are also a dominant feature of Delhi, and the municipal corporations of Gujarat and Maharashtra, the latter two otherwise reporting higher per capita collections. It is significant that this high rate of tax delinquency running across the corporations persists despite the penal provisions for delayed payments (See Box 8). The opportunity cost of a lower coverage and collection rate is extremely high; bringing all cities to a 85% as laid down in the Jawaharlal Nehru National Urban Renewal Mission (JNNURM) rate could increase property tax revenues significantly without effecting any change in other variables.

Box 7

Penal Provisions for Non-Payment or Delayed Payment

- Distraint, distress and seizure and sale of movable property
- Attachment and sale of immovable property
- Attachment of rent payable by the occupier to the owner
- Filing a suit against the defaulter in a Civil Court
- In case where sufficient distraint is not effected, then prosecution of the defaulter before a Magistrate
- Attachment and realization from the bank accounts and other financial instruments held by the defaulter
- Auction the property in case of unknown owner or disputed ownership, if dues not paid after the requisite notice period.

Table 8: Performance of Property Tax System (Percent)

Indicators	2004-05	2005-06	2006-07
Coverage			
Assessed to total properties	84.4	84.9	88.1
Tax paying properties to total properties	54.2	56.3	56.7
Tax-paying properties to assessed properties	64.1	66.2	63.7
Exempted properties to total properties	10.3	10.5	10.0
Collection			
Property tax collection to property tax demanded	34.6	36.7	39.7
Current tax collection as a % of current demand	75.4	71.2	73.8
Arrears as a % of tax demanded	66.9	62.9	59.2
Collection of arrears as a % of total properties tax collection	26.9	25.2	23.8

iii. Assessment and Valuation System

Reference may be made here of property valuation and its impact on the overall performance of the property tax system. Valuation of properties, it must be the amount of property recognised, is crucial to determining how much this can tax yield. The system of valuation therefore, holds the key to its productivity and performance¹⁷. Assessment and valuation of properties in India is done under four methods. One is the annual rateable value (ARV) of lands and buildings; the second is a variant of the ARV where the determination of ARV is with reference to location, type of construction, age of building, and the nature of use to which a property is put; third is capital valuation, recently introduced in Karnataka; and the fourth is the direct computation of property tax by using a tax rate per unit of carpet area. The following table shows the systems in use. As will be seen from the table, several cities use mixed systems, e.g., ARV for domestic properties and capital valuation for non-domestic properties. The system of valuation in the sampled cities is attached with this section.

¹⁷ Canada reimburse the local bodies for the loss of tax revenue on government buildings; In Switzerland, tax exempt organisations usually pay a minimum amount; in the United Kingdom, the treasuries negotiates with local bodies some kind of a quasi payment in lieu of loss of tax revenue.

Valuation Systems

System

- Annual rateable value (ARV) with rent as the basis (hypothetical rent)
 - Annual rateable value (ARV) with unit area characteristics representing the base
 - Capital valuation
 - Tax rate applied directly to carpet
-

The valuation systems are to be so designed as to capture the market value of properties. Market value is determined on the one hand, by demand and supply factors, and on the other hand, specific locational factors, which include the quality of municipal services. It is hypothesized, that market value is best reflected in the sale value of a property which, in combination with other factors, is determined by the capitalised value of services provided by municipal bodies, a part of which the municipalities recover via taxation of properties. Thus, “rents” and the extent to which they determine the ARV and the capital values wherever the sale value of properties is used, represent the market conditions and are considered to be an indicator of market valuation. In one way or the other, “market conditions” are implicit in other methods of valuation as well.

In India, none of the methods outlined above approximate the market value of properties. For example, instead of the actual rents, **hypothetical** rents are used for determining the ARVs. **Guidance values** form the base for determining the market value of properties instead of the actual sale and purchase values. Guidance values represent anywhere between 20-40 percent of the market value of properties. Unit area values are also adjusted, ostensibly on the ground that the market value of properties as the tax base would place a disproportionately large burden on property tax payers.

There exist no data on the market value of properties for cities. A survey of five cities with respect to the market values – see the following table – shows the assessed to market values to be ranging between 9.4 percent in the case of Ludhiana and 31.1 percent for Nagpur. On average, assessed values are 30 percent of the market values, although other spotty data suggest these to be markedly lower, often 8-10 percent of the market values. Such assessed values narrows the tax base and leaves the tax burdens unfairly distributed. Market value of properties which forms the basis of taxation in many countries is not explicitly provided in India’s property tax system. Absence of the concept of market value in the determination of property values constitutes a major lacuna in the property tax system which is a major factor in depressing the property tax values and consequently the property tax yields¹⁸. Upgrading the valuation system is a necessary condition for improving the property tax system. As Roy Bahl states: *Government must decide what they are taxing, they must devise a way to accurately measure this base and they must have the courage to impellent a tax role that reflects proper values* (Roy Bahl. April 2009).

Absence of the concept of market value in the determination of property values constitutes a major lacuna in the property tax system which is a major factor in depressing the property tax values and consequently the property tax yields.

Table 9: Assessed Values as a % of Market Values

Cities	Assessed values as a % of market values
Faridabad	29.2
Ludhiana	9.4
Kolkata	20.3
Nagpur	31.1
Lucknow	30.3

Note should however, be made of the fact that the concept of market values carries with it some degree of “tentativeness”. And, there are many definitions of market value, mostly revolving around the idea of making some sort of predictions about a property’s sale price. The Appraisal of Real Estate (1978) defined market value as:

¹⁸ There is no data on the market value of properties except what is published by the Real Estate Companies. Many states use guidance values or circle rates as benchmarks for registration of property transactions. Random checks show these to be significantly lower than the prevailing market values.

“The higher price in terms of money that a property would bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably and assuming the price is not affected by undue stimulus”¹⁹.

In this connection, the concept of market value and how it is applied elsewhere has been briefly reviewed for purposes of this study. The United States offers an interesting example where some states are moving closer to market-based assessment and others moving away from this way of assessing values. California’s Proposition 13 is the best known case where a statewide ballot eliminated the market value tax and adopted an “acquisition-based system”, with taxes generally based on purchase price and annual inflation adjustment capped at 2 percent. Several other states in the United States also limit the use of market value as the value for taxation. Limitations on local property taxes have produced greater dependence on state aid and a consequent centralization of power and authority.

Scholars studying this aspect of property taxation point out that accuracy in assessment is a necessary but not a sufficient condition for stability of a property tax system. The assessment system in California’s Proposition 13 was highly accurate, but lacked any mechanism to limit tax rates as property values soared, leaving homeowners to face rapidly rising tax bills based on accurate assessments. Ideally, in such a situation local governments would reduce rates and maintain stability in actual tax bills. However, “the appeal of increased collections without any change in tax rates is often too much for hard pressed officials to resist”²⁰.

The study has taken note of these practices and made suggestions on the alternative ways for assessing property values, without the burden of the “market values” which, in India, carry huge distortions including policy-induced distortions.

¹⁹ William McCluskey (Ed). 1999. Property Tax: An International Comparative Review. Ashgate. England.

²⁰ Joan Youngman “The Property Tax in Development and in Transition”, in Roy Bahl et. al (Eds). 2008. Making the Property Tax Work. Lincoln Institute of Land Policy. Cambridge Mass.

Table 10: Methods of Valuation in Use in Sampled Cities

City	Valuation method
Delhi	Unit Area Values for estimating the ARV
Bangalore	Capital Value based ARV system
Gr.Mumbai	Annual Reatable Value (rent as the basis for estimating the ARV)
Chennai	Unit Area Values for estimating the ARV
Kolkata	Annual Reatable Value / Capital value method for estimating ARV. Expected to switchover to the Unit Area method in FY 2009-2010.
Hyderabad	Unit Area Values for estimating the ARV
Ahmedabad	Unit Area Values per sq.m as a basis for taxation
Surat	Unit Area Values per sq.m as a basis for taxation
Pune	Annual Reatable Value (rent as the basis for estimating the ARV) & Unit Area for new properties.
Nagpur	Annual Letting Value (rent as the basis for estimating the ARV)
Jaipur	Unit Area Values per sq.m as a basis for taxation
Lucknow	Unit Area Values for estimating the ARV
Kanpur	Unit Area Values for estimating the ARV for residential. Capital Valuation for commercial properties.
Visakhapatnam	Unit Area Values for estimating the ARV
Patna	Unit Area Values for estimating the ARV
Vadodara	Unit Area Values per sq.m as a basis for taxation
Rajkot	Unit Area Values for estimating the ARV
Faridabad	Annual Reatable Value (rent as the basis for estimating the ARV)
Bhopal	Unit Area Values for estimating the ARV
Indore	Unit Area Values for estimating the ARV
Jabalpur	Unit Area Values for estimating the ARV
Nashik	Annual Reatable Value (rent as the basis for estimating the ARV)
Amritsar	Annual Reatable Value (rent as the basis for estimating the ARV)
Ludhiana	Annual Reatable Value (rent as the basis for estimating the ARV)
Varanasi	Unit Area Values for estimating the ARV
Agra	Unit Area Values for estimating the ARV
Allahabad	Unit Area Values for estimating the ARV
Meerut	Unit Area Values for estimating the ARV
Vijaywada	Unit Area Values for estimating the ARV
Jamshedpur	Annual Reatable Value (rent as the basis for estimating the ARV)
Dhanbad	Unit Area Values for estimating the ARV
Kochi	Unit Area Values per sq.m as a basis for taxation
Madurai	Unit Area Values for estimating the ARV for residential. Capital Valuation for commercial properties.
Coimbatore	Unit Area Values for estimating the ARV
Asansol	Annual Reatable Value/Capital value method for estimating ARV.Expected to switchover to the Unit Area method in FY 2010-2011.
Durgapur	Annual Reatable Value (rent as the basis for estimating the ARV)

iv. Exemption

Like in most countries, exemptions are a common feature of all statutes governing the levy of property taxation in India. Broadly, such exemptions fall into three categories.

- Government-owned property on the ground that sovereign can not tax itself. In India, Article 285 of the Constitution exempts the property of the Union government;
- Exemption of charitable, educational and religious properties on grounds that their services are in the category of public goods or merit goods; and
- Low valued properties for reasons of (a) equity and (b) high administrative cost in enforcing the property tax regime on them.

In addition, most statutes grant various forms of rebates and reliefs many of which are comparable with international practices. These include rebates for owner-occupied properties as well. This survey provides an inventory of the nature of properties that stand exempted in the 36 cities (attached with this section). The survey shows that approximately 10 percent of the total properties are exempted from the payment of property taxes²¹. The exempted properties are not subjected to valuation and therefore, it is not possible to estimate the property tax foregone. However, what has been done here is to estimate the revenue cost of exemptions by applying the average tax liability per tax paying property to exempted properties. The money value of exemptions for 36 cities is Rs. 531.2 crore or 11.7 percent of the property tax collection of the 36 sampled cities. Given, however, that most exempt properties including the central government properties are located on larger, and valuable lands, the revenue cost of exemptions as given here is a gross underestimate of what municipalities forgo. In some cities, the revenue cost is significant; in others, it is low.

Rebate and relief policy, a form of tax credit, is coded in State legislations, is often justified on grounds of equity. Yet its application is a source of inequity as such rebates

²¹ A simple model for estimating the revenue cost of exemptions is as under:

$$RCE_x = (NE_x) \left[\frac{T_D}{AP} \right] \text{ where}$$

RCE_x = estimated revenue cost of exemption
NE_x = number of exempt property
T_D = Property tax demand for taxable properties
AP = Number of taxable properties assessed

(Roy Bahl: Notes on Property Tax Potential: April 2009)

create unequal tax treatment for different property uses. Tax rebates mean less revenue and higher tax rates in certain circumstances that exacerbates problem of inefficiency and non-neutrality. The revenue loss on this account is high. The revenue cost on the account could be large.

Table 11: Revenue Cost of Exemptions

Revenue Cost of Exemptions as a Percent of Total Collections (Money Value of Exemption / Total Property Tax Collected)x100				Average for 3 years	Value of exemptions Rs. Crore
	2004-05	2005-06	2006-07		2006-07
Bangalore	2.09	2.23	2.19	2.17	7.59
Gr.Mumbai	15.41	16.15	14.80	15.43	259.85
Hyderabad	8.41	8.04	7.41	7.92	13.14
Pune	0.42	0.38	0.30	0.36	0.80
Nagpur	0.49	0.41	0.43	0.44	0.31
Jaipur	87.01	59.03	4.91	49.80	0.52
Lucknow	7.08	6.87	6.69	6.86	2.36
Kanpur	1.61	1.85	1.64	1.70	0.53
Visakhapatnam	1.54	0.72	1.66	1.33	0.58
Rajkot	13.24	19.32	48.90	23.95	6.99
Bhopal	9.70	8.36	13.59	10.82	2.25
Indore	79.78	76.27	89.01	82.00	43.22
Jabalpur	12.62	10.78	20.41	14.93	3.17
Nashik	0.01	0.01	0.01	0.01	0.00
Amritsar	518.93	552.65	555.53	543.08	40.50
Ludhiana	115.30	106.77	106.64	109.26	41.69
Varanasi	3.83	3.49	4.71	4.16	0.49
Agra	4.72	5.92	3.17	4.36	0.25
Allahabad	1.68	2.17	2.39	2.09	0.23
Meerut	0.31	0.35	0.39	0.35	0.03
Vijaywada	2.80	2.76	2.48	2.67	0.78
Bhubaneswar	6.90	9.46	10.63	9.44	0.93
Dhanbad	0.49	0.55	0.60	0.54	0.01
Kochi	15.22	16.02	17.18	16.15	3.94
Madurai	4.88	3.48	2.22	3.46	0.60
Durgapur	1.73	1.81	3.18	2.49	0.27
Total	13.94	14.36	13.12	13.77	531.21

Source: Survey of 36 ULBs

Article 285 of the Constitution of India exempts properties of the Union from state taxation (which includes taxation by any authority within a state.

Article 285 states:

- The property of the Union shall, save in so far as Parliament may by law otherwise provide, be exempt from all taxes imposed by a state or by any authority within a state.
- Nothing in clause (1) shall, until Parliament by law otherwise provides, prevent any authority within a state from levying any tax on any property of the Union to which such property was immediately before the commencement of this Constitution liable or treated as liable, as long as that tax continues to be levied in that state.

Taxation of government properties has been a contentious issue in India. A Working Group set up by the Ministry of Urban Affairs and Employment (Government of India) in 1996 examined this issue in detail, alongwith the representations made both by the central government and state governments (*See Box 8*) for the issues that the Working Group examined). The Working Group also examined the relevant provisions in some of the state municipal acts as well as the orders of the Ministry of Finance in respect of the levy and payment of a service charges in lieu of a tax on properties of the Union²². The orders point out that the Union government properties are subject to the payment of service charges for services which include not only direct services such as water and electric supplies, scavenging etc., but also general services such as street lighting, drainage, and approach roads connecting the central government properties (Ministry of Finance: 29 March 1967). The Working Group could not reach a consensus on this issue with the state governments putting up arguments for a levy of a tax on central government properties, and the central government opposing any change in the existing arrangements. The Working Group indicated that the Constitution (seventy-fourth) Amendment Act, 1992 endows the local bodies with a larger set of responsibilities, the discharge of which requires mobilisation of additional resources. The central government did not find this argument strong enough to alter its known position.

²² Ministry of Finance Letter No. 14(1) – P/52-1 dated 10 May 1954.
Ministry of Finance Letter No. 4(7) – P/65 dated 29 March 1967.
Ministry of Finance Letter No. 4(z) – PFI/74 dated 28 May 1976.
Ministry of Finance Letter No. 42(1) – PFI/79 dated 26 August 1986.

Box 8

Issues concerning taxation of central government properties examined by the Working Group

- Whether the sovereign can be taxed?
- Whether self-contained properties where infrastructural properties are provided by the concerned government agencies should enjoy preferential treatment?
- Whether lessees of government properties should enjoy the preferential treatment accorded to government properties?
- Whether a central legislation should be brought about which could clearly define the categories of Union properties to be taxed, the valuation procedures of such properties, the rate structure, the exemptions and other matters conventionally covered by the tax laws including the levy of service charges.

Extracts from the Taxation of Government Properties in India.

Report of the Working Group, July 1996.

v. Tax Rates

Setting of tax rates is an extremely important exercise in implementing a property tax system. These rates are laid down in law or alternatively determined by the level of expenditure proposed to be met by property taxation. In India, many states set a ceiling or a band, even when it is argued that property tax is a local government revenue, and its determination should, therefore, be a local government responsibility. As Michael Bill notes: “If one wants accountability of local officials to local voters, then rate setting should be a local power, i.e., voters would impose the limits”. In spite of this, most governments do not give local governments unlimited rate-setting powers.

The system of tax-rate setting in India is outlined in an earlier section. This section gives the rates of property taxation in the surveyed cities, that shows several key characteristics:

- i. Progressive tax rates, indicating that the principle of the “ability to pay” is an important factor in the determination of the tax structure;
- ii. Differential rate structure, which places a larger load for financing joint municipal services on the non-domestic sector; the differentials are often as large as 100 percent.

Table 12: Property Tax Rates

City	Property Tax Rates
Delhi	For residential it is 6% to 10% and for non residential properties the rate is 10%
Bangalore	For residential it is 0.5% & for commercial properties the rate is 2%
Greater Mumbai	General tax 30% for residential properties
Chennai	For residential properties it is 13.24% to 24.8%
Kolkata	For residential properties 13% (11% Gen tax +2% Howrah Bridge Tax)
Hyderabad	For residential properties property tax rate ranges from 17% to 30% of the ARV
Ahmedabad	Rs 10/sq.m.for residential properties & Rs 22/sq.m for non-residential properties
Surat	Rs 10 to Rs 40 per sq.m. for residential properties and Rs 20 to Rs 80 /sq.m for non-residential properties
Pune	Gen tax 14% to 38% for residential properties
Nagpur	Gen tax 12% to 31% for residential properties
Jaipur	District Level Committee (DLC) Rate
Lucknow	ARV derived from circle rates for commercial properties. Rate of tax is same for residential & commercial properties i.e 15% of ARV
Kanpur	Rate of tax: 10% of ARV upto Rs. 1200 and 15% of ARV for more than Rs.1200
Visakhapatnam	25.88 % for residential properties and 30% for non residential properties
Patna	7% to 9% for residential properties
Vadodara	Rs 10 per sq.m. for residential properties and Rs 20 per sq.m. for non-residential properties
Rajkot	
Faridabad	2.5% for residential properties 5% for non- residential properties
Bhopal	Rate of tax is 6%-8%-10% of ARV for residential properties
Indore	Rate of tax is 6%-8%-10% of ARV for residential properties
Jabalpur	Rate of tax is 6%-8%-10% of ARV for residential properties
Nashik	45% to 55% for residential properties and 48% to 64% for non-residential properties.
Amritsar	10% for residential properties and 15% for non- residential properties
Ludhiana	10% for residential properties and 15% for non- residential properties
Varanasi	Rate of tax is same for residential and commercial i.e. 15% of ARV
Agra	Rate of tax is same for residential and commercial i.e. 13% of ARV
Allahabad	Rate of tax is same for residential and commercial i.e. 11% of ARV

Meerut	ARV derived from circle rates for commercial Rate of tax is same for residential and commercial properties i.e. 12.5% of ARV
Vijaywada Jamshedpur	22% for residential properties 29% for non-residential properties 6% to 8% of the ARV
Dhanbad	36% to 39% for residential properties
Kochi	For residential properties it is Rs. 12/sq.m, and for commercial properties - flat rate of Rs. 54/sq.m
Madurai	Rate of tax for residential properties is 27% of ARV
Coimbatore Durgapur	Tax varies from 7.50% to 18% of ARV for residential properties Tax Rate:10% to 30% for residential properties

The tax structures in several cities do not provide for any difference in the tax rates for domestic and non-domestic properties e.g., Varanasi, Agra, Allahabad, Lucknow, and Meerut. In Jaipur which has abolished property tax and replaced it with an urban development tax, the District Level Committee (DLC) plays a role in its fixation.

The table above show wide variance in the tax rates, with a large number of cities reporting a tax rates for domestic properties ranging between 2.5 and 55 percent, and for non-domestic properties between 5 and 64 percent. While the principles of tax setting are generally known and understood, they have in almost all cities surveyed, not been adjusted to the increasing cost in delivery of services on the plea that the statutes provide for a periodic revaluation of properties. The role of tax rates in fuller utilization of property tax as a source of revenue thus remains **subordinate** to other variables, mainly the revision in the assessed value of properties.

It is evident from the above that despite the difference in the productivity and performance of property taxes between cities, the system seem to suffer from a set of common problems such as the inability to reach out the expanding property tax market, inadequacy of assessment practices, and inefficient collection.

Exemption policies depress the revenues from this tax. Then, there is the unwillingness to effectively use instruments such as tax rate setting for augmenting the property tax base. This study also explores that performance and productivity of this tax are influenced by other factors that are exogenous to the city system. There are, for example, hypotheses that property values and consequently, property tax yields are impacted by larger,

state-level performance indicators, i.e., economic growth, the efficiency level with which the states use their tax instruments etc. It is an important line of enquiry, primarily to see if property taxes are an integral part of the larger economy or used as an isolated instrument for revenue-raising. Two variables are chosen to test out this hypothesis, i.e., state-level gross domestic product (GSDP) and tax to GSDP ratio. Are per capita property tax yields higher in states that have a higher per capita GSDP and higher tax to GSDP ratio? Are low property tax yields a characteristic of relating low-income states? The correlations in respect of these are low, these being 0.41 and 0.42 respectively shows that the importance of this tax in the hierarchy of taxes is low and that it remains unaffected by the movements in the larger economy.

Table 13: Impact of State-level Growth Factors on Property Tax Productivity

States	Per Capita GSDP (Rs)	Tax GSDP (%) 2006-07	Average Property Tax Collection for 3 years (Rs)
Andhra Pradesh	33005.5	8.89	366
Bihar	10731.9	4.08	29
Jharkhand	21071.1	5.09	434
Gujarat	45608.7	7.25	197
Haryana	53268.3	8.64	10
Karnataka	33083.3	12.38	581
Kerala	42484.0	8.38	317
Madhya Pradesh	18973.5	8.17	161
Maharashtra	47878.1	7.87	970
Orissa	23207.8	6.65	86
Punjab	46757.2	7.31	155
Rajasthan	23410.9	7.82	42
Tamil Nadu	40026.8	10.57	456
Uttar Pradesh	16712.1	7.37	87
West Bengal	31651.3	4.29	461
All India	36738.4	17.74	458

Source: Economic Survey 2007-08, Ministry of Finance, Government of India
 Directorate of Economics and Statistics
 Indian Public Finance Statistics, 20078, Ministry of Finance

Annex 1 to Section 3

Exempted Properties: Public Purpose Category

States	Cities	Charitable Institutions	Educational Institutions	Common Use	Cultural Institutions			
		Choultries / Dharmshalas (a)	Charitable hospitals and dispensaries (b)	Schools, Student hostels with no profit/ Libraries (d)	Places of worship (c)	Burial and cremation ground	Government land for free recreational purposes or no income derived	Ancient monuments protected under an Act. (b)
Andhra Pradesh	Hyderabad	Exempt		Exempt if school is till 10th Class	Exempt	Exempt		
	Vijayawada	Exempt		same as above	Exempt	Exempt		
	Visakhapatnam	Exempt		same as above	Exempt	Exempt		
Delhi	Delhi				Exempt	Exempt		Heritage lands and buildings specified by Archaeological Survey of India
Gujarat	Ahmedabad	Exempt			Exempt	Exempt		
	Surat	Exempt			Exempt	Exempt		
	Vadodara	Exempt			Exempt	Exempt		
	Rajkot	Exempt			Exempt	Exempt		
Karnataka	Bangalore	Exempt	Exempt (f)	Exempt	Exempt		Exempt	Exempt
Kerala	Kochi	Exempt		Exempt (e)	Exempt	Exempt		Exempts - if not used as residential quarters or public offices
Madhya Pradesh	Bhopal		Exempt	Exempt	Exempt	Exempt	Exempt, if rent derived is used excl for administration of it	
	Indore	Exempt	Exempt	Exempt	Exempt	Exempt	same as above	
	Jabalpur	Exempt	Exempt	Exempt	Exempt	Exempt	same as above	

Maharashtra	Nashik	Exempt			Exempt	Exempt		
	Pune	Exempt			Exempt	Exempt		
	Nagpur	Exempt			Exempt	Exempt		
	Gr. Mumbai	Exempt			Exempt			
Punjab (Exemptions By Order)	Amritsar	Exempt	Exempt (i)	Exempt	Exempt (i)	Exempt	Exempt	
	Ludhiana	Exempt	Exempt (i)	Exempt	Exempt (i)	Exempt	Exempt	
Rajasthan	Jaipur	Exempt			Exempt			
Tamil Nadu	Chennai	Exempt	Exempt (f)		Exempt (c)	Exempt	Exempt (g)	Exempt
	Madurai	Exempt	Exempt (f)		Exempt	Exempt	Exempt (g)	Exempt
	Coimbatore	Exempt	Exempt (f)	Exempt	Exempt (c)	Exempt	Exempt (g)	Exempt
Uttar Pradesh	Agra	Exempt		Exempt	Exempt	Exempt		Exempt
	Meerut	Exempt		Exempt	Exempt	Exempt		Exempt
	Lucknow	Exempt		Exempt	Exempt	Exempt		Exempt
	Allahabad	Exempt		Exempt	Exempt	Exempt		Exempt
	Kanpur	Exempt		Exempt	Exempt	Exempt		Exempt
	Varanasi	Exempt		Exempt	Exempt	Exempt		Exempt
West Bengal	Asansol				Exempt	Exempt	Exempt	
	Kolkata	Exempt (h)	Exempt (h)	Exempt (h)	Exempt	Exempt	Exempt	
Haryana	Faridabad							
Bihar	Patna							
Jharkhand	Jamshedpur							
	Dhanbad							

Note: A blank signifies that no information is available.

- (a) Without rent or rent derived is used for charitable purposes
- (f) Maintained by Railways
- (b) But not the residential quarters attached to it
- (g) Riverbeds belonging to government with no income
- (c) Exclusively used
- (h) With approval of authority
- (d) Building is donated by charitable institutions or dependent on grant-in-aid from government or not run purely on commercial lines
- (i) Registered charitable properties attached to it.
- (e) Registered with government, or owned or occupied by municipality for teaching & libraries open to public.

Annex 2 to Section 3

Exempted Properties: Properties Below Certain Threshold

States	Cities	Below Threshold
		Threshold Level
Andhra Pradesh	Hyderabad	may exempt residential properties occupied by owner if annual rental value is below Rs.600
	Vijayawada	same as above
	Vaisakhapatnam	same as above
Delhi	Delhi	
Gujrat	Ahmedabad	Annual rateable value less than Rs.600
	Surat	same as above
	Vadodara	same as above
	Rajkot	same as above
Karnataka	Bangalore	
Kerala	Kochi	(1) Building with mud walls, or roof thached with leaves or light weight sheet and have plinth area below 20 sqm. (2) residential building by a person from EWS, using govt. subsidy (plinth area below 20 sqm)
Madhya Pradesh	Bhopal	Yes, annual value below Rs.6000 (population-1 lakh or above) or below Rs.4800 (pop less than 1 lakh) (aggregate annual value if more than one building)
	Indore	same as above
	Jabalpur	same as above
Maharashtra	Nashik	
	Pune	
	Nagpur	Annual rental value less than Rs. 24.
	Gr. Mumbai	
PUNJAB (Exemptions By Order)	Amritsar	Owner of a building and land occupied and un-occupied having annual income below Rs. 2000/4000.
Rajsthan	Ludhiana	same as above
	Jaipur	
Tamil Nadu	Chennai	Yes, if annual value is less than Rs. 36, (aggregate in case of more than one building)
	Madurai	Yes, if Annual Value below Rs.119
	Coimbatore	
Uttar Pradesh	Agra	Yes, if Annual value below Rs.360
	Meerut	same as above
	Lucknow	same as above
	Allahabad	same as above
	Kanpur	same as above
	Varanasi	same as above
West Bengal	Asansol	Yes, may exempt if annual value is below Rs.300 if more than one building then aggregate annual value
	Kolkata	Yes, Mayor-in-Council may exempt if annual value is below Rs.300 if more than one building then aggregate annual value
Haryana	Faridabad	
Bihar	Patna	
Jharkhand	Jamshedpur	
	Dhanbad	

Note: A blank signifies that no information is available.

Annex 3 to Section 3

Exempted Properties: Category ‘Others’

		SOVEREIGN USE	PERSONAL USE	AGRICULTURAL USE	DIPLOMATIC or CONSULAR MISSION	MISC.	
States	Cities	Central (Union of India) /State government/ corporation or municipal properties used for Government /public purpose and not for residential or commercial purposes	Properties of urban development authority/ State development authority /State housing board/ local authority	Rebate on self occupied residential properties	Exemption on self occupied residential properties	Land used for agricultural purposes	Land or buildings belonging to Diplomatic or Consular Mission of a foreign State as Govt may specify
Andhra Pradesh	Hyderabad Vijayawada Visakhapatnam	Exempt Exempt Exempt					
Delhi	Delhi	Exempt (a)	Exempt if not leased or rented		Yes, if occupied by owner or heir, covered space is 100 sqm or less	Yes, Buildings excluded for agricultural use	
Gujrat	Ahmedabad Surat Vadodara Rajkot	Exempt Exempt Exempt Exempt					
Kar Kerala	Bangalore Kochi	Exempt Exempt	Exempt	Rebate	Exempt	Exempt	

Madhya Pradesh	Bhopal	Exempt	50% Rebate				(1) Electric pole erected by State (2) Property owned by recognized political party in the State; (3) Drinking water fountains; same as above
	Indore	Exempt	Same as above				same as above
	Jabalpur	Exempt	Same as above				same as above
Maharashtra	Nashik	Exempt (a)					Rebate on Special Development Projects same as above
	Pune	Exempt (a)					
	Nagpur	Exempt (a)					
Punjab (Exemptions By Order)	Gr. Mumbai	Exempt (a)		Exempt	Yes, which pay land revenue	Exempt	(1) Government Nazul ²³ land (2) Newly Constructed buildings except commercial buildings and cinema houses for 3 yrs from the date of completion; (3) Imambaras; (4) Drinking water fountains same as above
	Amritsar						
	Ludhiana			same as above	same as above		same as above

²³ "Nazul Land" is the land which is given on lease by the municipal authorities to private persons for non-agricultural purposes;

Rajasthan	Jaipur	Exempt (UOI)			
Tamil Nadu	Chennai Madurai Coimbatore				
Uttar Pradesh	Agra	Exempt (UOI)		Exempt if owns only one plot of 30sqm with carpet area 15 sqm	Any new area included in limits of corporation - exempted for 5 yrs or till the time basic amenities not available
	Meerut	Exempt (UOI)		same as above	
	Lucknow	Exempt (UOI)		same as above	
	Allahabad	Exempt (UOI)		same as above	
	Kanpur	Exempt (UOI)		same as above	
	Varanasi	Exempt (UOI)		same as above	
West Bengal	Asansol		May give 20% rebate		Yes, State govt may exempt
	Kolkata				Yes, State govt may exempt
Haryana	Faridabad			within lal dora	
Bihar	Patna				
Jharkhand	Jamshedpur Dhanbad				

Note: A blank signifies that no information is available.

(a) Places used for Public charity as mentioned under bye-laws and for medical relief or education of the poor, free of charge (for Public purpose)

(b) UOI – Union of India

4 *Estimates of ALL-INDIA Property Tax Revenues: Current and Potential*

Introduction

Property tax is the main revenue source for municipal governments in India. Most local, municipal governments depend on this tax for meeting their revenue expenditures. However, data on the yield from property taxes in India are sparse as these are in many developing countries: the World Bank estimates that property taxes account for 40-50 percent of local government finance in the developing countries. An earlier study of the National Institute of Public Finance and Policy (NIPFP) showed that in 1990-91, property taxes generated an estimated amount of Rs. 1425 crore, accounting for about one-fourth of the municipal revenues, and forming 2.6 percent of the combined tax revenues of the centre and the states and about 0.25 percent of the country's gross domestic product. This estimate was based on a sample study of 293 municipalities of different population sizes²⁴. The object of this section is first to make an estimate of the yield from property taxes for **all** the 5161 cities and towns in India (Census 2001), and second to estimate the potential of this tax which is one of the primary tasks of this study. The latter assumes that property taxes in India are undertapped; the task is to make an estimate the under-tapped component. The property tax data for the 36 largest cities in the country provide the main dataframe both for estimating the current yields as well as the potential of this tax.

Estimated All-India Yield: Assumptions and Results

The 2001 Census of India recorded 5161 cities and towns of different population sizes. The table on the following page shows the numbers of cities and towns in the different size categories together with their share of urban population. The methods applied here for estimating the current property tax yields (elaborated below) **assume that the per capita property tax yields for the 5125 remaining cities and towns are lower than the averages**

²⁴ Referred to in Om Prakash Mathur. 1996. "Property Tax Policy and Local Governance" in Parthasarathy Shome (Ed.). Fiscal Policy, Public Policy, and Governance, National Institute of Public Finance and Policy, New Delhi.

posted by the 36 sampled cities. It is a core assumption, drawing support from two sources viz.

- (i) the property tax yields are positively correlated with the population size of cities in that the tax yields decline with the decline in the size of cities (see Table 4), and
- (ii) the land and housing prices and consequently the assessed values of properties are lower in the smaller sizes of cities and towns compared to that in larger cities.

Table 14: Distribution of Cites and Towns and their Population Share, 2001

Population Size Class	Number of Cities and Towns	% Population
> 1,00,000	441	68.7
50,000 – 1,00,000	496	9.6
20,000 – 50,000	1388	12.2
< 20,000	2836	9.5
Total	5161	100.0

Three method are employed here for making an estimate of the property tax yields of the smaller and intermediate-sized cites and towns. These are:

- (i) applying the average per capita property tax yield of the four municipalities with the smallest population in the sample to the rest of the cities and towns;
- (ii) applying the per capita property tax yield of those municipalities that have the poorest collection performance in the sample. For working out the average, all municipalities having a per capita property tax yield of less than Rs. 100 per capita were chosen.

A third method uses the lowest tax yield in each state to represent the average for cities and towns in **that state**, excluding for those that are covered in the sample. The lowest tax yield in each state multiplied to the urban population of that state (excluding the population of sampled cities) provides the required yield estimates.

Results of the application of the three methods are given below:

Method 1 assumes that the non-sampled municipalities raise, an average, an amount equivalent to that raised by the four municipalities with the smallest population in the sample. The four smallest municipalities in the sample are Kochi, Dhanbad, Asansol and Durgapur, which yielded a per capita average collection of Rs. 166. Applying this average to the

population of the 5125 cities and towns give a total yield of Rs. 3,893 crore (2006-07). On this assumption, the total property tax in India is Rs. 8,416 crore, equivalent of 0.20 percent of India's gross domestic product.

Table 15: Estimated All-India Property Tax Yield under Method 1

Cities and Towns	Amount	% of GDP
36 largest cities	4,522.3	0.109
Estimate under method 1: average of the 4 smallest municipalities	3,893.5	0.093
All-India total	8,415.8	0.202

Method 2 applies the per capita collection of those municipalities that have the lowest performance in the terms of property tax yield to the population of 5125 cities and towns. Per capita collection is worked out for all municipalities with less than Rs. 100 per capita collection. Twelve municipalities in the sample reported a per capita collection of less than Rs. 100. The average per capita property tax collection for these 12 cities is Rs. 75. The results of imputation are shown in table below:

Table 16: Estimated All-India Property Tax Yield under Method 2

Cities and Towns	Amount	% of GDP
36 largest cities	4,522.3	0.109
Estimate under method 2: average of the 12 lowest yield municipalities	1,752.1	0.042
All-India total	6,274.4	0.151

A third method is to apply the lowest tax yield in each state to the urban population of that state (excluding the sampled municipalities). These yields applied to the urban population of the different states give an estimated tax revenue of Rs. 4902.1 crore, as shown in table below.

Table 17: Estimated All-India Property Tax Yield under Method 3

Cities and Towns	Amount	% of GDP
36 largest cities	4,522.3	0.109
Estimate under method 3: lowest yield in each state as the norm for smaller municipalities	4,902.1	0.118
All-India total	9,424.4	0.227

Property tax yields in the country, according to these methods are placed between a low of Rs. 6,274 crore and a high of Rs. 9,424 crore, or between 0.151 percent and 0.227

percent of the country’s GDP, far below the yields in other developing countries. Estimates are also made of the total tax demand under the two assumptions, the results of which are contained in the following table.

Table 18: Estimated All-India Tax Demand

Cities and Towns	Amount		% of GDP
Tax demand for 36 cities	11,432.5		0.275
Tax demand, average tax demand for the smallest four municipalities	6,909.0	18,341.5	0.442
Tax demand, average per capita lowest tax demand	6,471.9	17,904.4	0.431

Estimated Potential of Property Taxes: All-India

“Revenue potential” is a subjective term and is commonly taken as the amount of revenue that could be raised in a given jurisdiction if a normal tax rate is applied to a base that is adjusted to normal exemptions and is subjected to a normal level of administrative effort. This definition makes it evident that estimation of the potential is no easy task; also suggests that the revenue potential is dependent on the goal that is to be pursued in reforming the property tax system and the assumptions that necessarily accompany the reform measures. It could be higher or lower depending on the objectives fixed for reforming the property tax and the constraints imposed. For instance, as Roy Bahl notes (April 2009), a property tax could be viewed as a benefit levy designed to cover a specified share of the cost of urban services, subject to administrative constraints. Or, the goal could be to increase the rate of revenue mobilization, subject to some limits on how high the effective rate of property rate could be. Or, the goal might be to allow cities to compensate for the loss of x percent of transfers from the state government. Property tax potential will depend on the goals that are to be pursued. The revenue potential of the property tax is as much a matter of political economy as it is a matter of tax structure and administration. Different objectives will imply different revenue potential targets.

There are several models for estimating the tax potential²⁵ one of which is footnoted. What has been attempted here is based on two basic objectives that underline the current efforts aimed at improving the performance of property taxation in the country, namely improve tax coverage and collection. Thus, two estimates: (i) what would be the resulting tax yield by raising the coverage of properties to 85 percent of the total; (ii) what would be the resulting tax yield by raising the collection rate of property taxes relative to total tax demand to 85 percent, are presented here.

²⁵ **The Capacity Effort Approach:** Economists have long been intrigued by the possibility of estimating the level of tax effort in various countries. The tax effort model is:

$$T = f(TC, e)$$

Where T = tax collections

TC = taxable capacity

e = tax effort, usually taken to be willingness to pay (or impose) taxes

Taxable capacity in this approach is the same as tax potential as defined above. Tax effort (e) is defined as the

$$e = \frac{T}{TC}$$

extent to which actual tax collections reach their potential.

Estimation: Two approaches have been taken to estimate tax effort. Both are based on direct estimation of taxable capacity (tax potential).

In the regression model,

$$TC = f(X_i, u)$$

Where TC is usually measured as the ratio of tax collections to GDP, and the X_i are a set of exogenous variables usually chosen to reflect the degree of economic development of the country (state).

The representative tax approach defines tax capacity (potential) as the product of the tax rate (r_i) and tax base (B_i) for all taxes in the system, i.e.,

$$T = \sum r_i B_i$$

Both approaches are subject to the same criticism, first, they measure the tax potential of each country (state) relative to the average. Second, neither approach takes account of differences across countries in the efficiency of the tax administration. This is a major short coming because the extent to which a developing country realizes its tax potential may be primarily dependent on the efficacy of its tax administration.

Results for the Property Tax: These approaches have focused less on the property tax than on total tax potential and on the potential of the major taxes in the system. There are some revenue potential estimates for the property tax.

(Roy Bahl: An Informal Note on Revenue Potential of Property Taxes, April 2009.)

Table 19: Estimates of Property Tax Potential (Rs. Crore)

Estimates	Estimates of the current property tax yields (Rs)	Estimates of property tax potential (Rs.)	% of GDP
Estimate 1	8,416	29,346	0.708
Estimate 3	6,274	21,877	0.527
Estimate 3	9,425	32,864	0.793
Potential =	(a) raising coverage from 56 percent to 85 percent (b) raising collection from 37 percent to 85 percent		

These are substantial improvements over the existing yields. What is important to note is that these are possible to be achieved by strengthening administrative procedures, without touching upon policy-level interventions.

While increasing the tax coverage and collection are immediate, compelling objectives, the study also notes that reforms of property tax system requires improved valuation and rationalisation of the structure of tax rates. The real **potential** of property taxes lies in correctly assessing the property values and in choosing a rate structure that corresponds to the concept of benefit taxation. Assessed to market values of properties, as the study shows, are in the range of 20-30 percent, although supplementary data shows it to be 8-10 percent. Similarly the structure of **tax rates** is obsolete country-wide This study does not attempt to estimate the potential that remains trapped in these two areas, but suggests the need to carry out reform both in the area of assessment as well as the structure of tax rates.

A third method is to estimate the effort that would be needed to raise the potential tax yield to 1 per cent of the country's gross domestic product, i.e., comparable to what the developing countries have. Property tax to GDP ratio in India has not undergone any change over the past several years. Income-elasticity of property tax is very low. **Raising it to 1 percent will require broad-based efforts involving coverage, collection, assessments and restructuring of the tax rates.**

5 *Tapping the Untapped Property Tax Potential A Strategy for Reform*

Introduction

There are two main expected outputs of the study: (i) an estimate of the potential of property tax in the country, and (ii) a strategy for tapping the untapped tax potential. Estimates of the potential as noted in the previous section suggest that improvement in the performance of this tax via better coverage and collection could raise the yield from this tax to about 0.53 percent – 0.79 percent of the country’s gross domestic product from the current level of about 0.151 percent to 0.227 percent. It is a substantial step-up, the realisation of which would make a decisive impact on the finances of municipalities as also the service levels that municipalities are responsible for. The study calls for suggestions on a strategy that the Thirteenth Finance Commission (TFC) can put in place for realising the potential within the bounds of Article 280(3)(c) of the Constitution. This study attempts to do it without, however, the constraints imposed by Article 280(3)(c). The past two decades, especially subsequent to the judgement of Justice Jeevan Reddy on the system of valuing properties in the Patna Municipal Corporation, have witnessed in the country a number of steps that aim at reforming the property tax system. These steps have brought about a change in the method of assessing property values from the age-old annual rateable value based on hypothetical rents to unit area values or capital values²⁶. This change has been effected partly to eliminate the arbitrariness in the application of the ARV method as also to offset the effects of rent control on assessed values. A second change that has come about relates to the channels of payment of property taxes which have been opened up to include payment via banks, internet and the like.

Note may also be made of the fact that the State Finance Commissions (SFCs) set up in pursuance of Article 243 I and 243 Y of the Constitution too have made suggestions in respect of reforming property taxation. The following box shows the nature of suggestions made by a sample of State Finance Commissions.

²⁶ Unit values involve determination of ARV with reference to location, type of construction, plinth area, age of buildings and use of properties. In practice, it is seen as an alternative to *ad valorem* based system.

Box 9

State Finance Commissions on Property Taxation

- Effect an annual increase in property values using land appreciation values or an inflation rate, so as not to impose heavy burden at the time of the 5-yearly general revision;
- Tax mapping by using Geographical Information System (GIS)
- Computer fitted mobile van for tax collection
- Enhance rebate according to the age of property

Third Tamil Nadu State Finance Commission

- Assess property values on a rational basis consistent with the use and type of building
- Cap these values so as not to put undue burden on account of the change in the valuation system.

Third Haryana State Finance Commission

- Use modern methods like the GIS for mapping the properties and increasing the coverage
- Introduce a self assessment system based on a unit area method for assessing values

Second Uttaranchal Finance Commission

The Jawaharlal Nehru National Urban Renewal Mission (JNNURM) is a key central government intervention in urban development. A feature that distinguishes the JNNURM from other central government initiatives is that it combines a grant-in-aid component with a slew of urban sector reforms. The JNNURM visualizes that the urban sector reforms will help eliminate the distortions in the land and housing market, improve the fiscal and financial base of municipal bodies, bring about transparency and good governance, and reach out to the urban poor. Property tax reform is an important ingredient of the JNNURM reform agenda which aims on (i) broadening the property tax base by improving coverage of properties via a Geographical Information System (GIS), and (ii) improving tax collection - - the underlying postulates being that the current tax base is narrow and the rate of tax delinquency is high, and both needs to be corrected. The JNNURM has laid down a collection target of 85 percent: the JNNURM cities have undertaken to achieve these targets within a period of the Mission's tenure of seven years. Other reform measures within the JNNURM like reform of rent control laws and reduction in stamp duties are also like to positively impact on property tax revenues. Thus, the concern with regard to improving the performance of property tax has grown in the country, with the JNNURM being the latest expression of the need to undertake reform of this tax instrument. It is also implicit in the Constitution (seventy-fourth) Amendment Act, 1992 which aims at empowerment of urban local bodies. It has created a demand for a framework for major reform in local government finance.

This study reinforces the need to continue with the reform of property taxation already underway and argues that –

- i. the scope of the property tax reform as contained in the JNNURM is narrow and needs to be expanded;
- ii. there is need to complement the JNNURM property tax reform agenda;
- iii. while property tax has not been a buoyant tax, its productivity stands impeded on account of a “soft budget” response to the fiscal and financial needs of the municipalities; a hard budget constraint would be necessary to make property tax work effectively.
- iv. the State Finance Commissions need to play a direct role in adequately assessing the potential of this tax, and formulate state-specific responses to tapping the property tax potential.

A Strategy for Reform

This study has shown widespread infirmities and inefficiencies in the way the property tax system currently operates in the country. It has shown property tax revenues to be depressed for reasons that are rooted in (i) a narrow and constricted tax base which is the outcome of both the large scale statutorily exempted properties, and the low proportion of properties forming a part of the municipal tax register, (ii) high rate of tax delinquency on account of weak enforcement of provisions relating to non-payment or delayed payment of taxes, (iii) inability of the assessment systems to capture the market value of properties and (iv) obsolete tax rate structures. Consequential revenue loss is estimated on some of these counts. Likewise, tax potential is also estimated on assumptions of better collection and coverage.

What follows is a proposed strategy for reform. It must be stated that although the property tax is ubiquitous, it generates little revenue compared to other tax instruments. It may still be so, even after the quality of property tax administration and other policy-related reforms are put in place. Yet, it is necessary to aim at achieving a sustained increase in yields, by addressing inappropriate policies and poor tax administration. The following are the key ingredients of a strategy for reform.

1. Update Municipal Tax Register

An inventory of properties and their incorporation in the municipal tax register is a basic requirement to tap the property tax potential. Referred to in literature to as **Discovery and Identification** is to bring all properties in a city on the municipal tax register by means of either a system of self-declaration wherein a taxpayer or property owner is induced to provide information to the municipal authority or a municipal-led inventory of properties either by using its staff to monitor the property market or *via* a Geographical Information System. Global experience indicates that self-declaration has a limited success and wherever experimented with, had to be supplemented by field audits. By far, the most common approach to building up an inventory has been for the fielding staff to obtain the required data for administering the tax. The virtue of this approach is that it permits a field verification, the drawback is its cost. An inventory system based on a GIS ensures that all properties are listed and assigned an ineradicable identification code. The JNNURM requires it to be done in the JNNURM cities, as a means to enlist all properties for improving coverage of properties.

This study proposes that a Geographical Information System be extended to all cities – 441 in number which have a population of 1,00,000 persons (2001 Census), and a proper system to update the GIS inventory on an annual basis be established to do away with the need to repeat the GIS in the foreseeable future. The study proposes the cost of the GIS to be met out of a dedicated grant-in-aid by the 13th Finance Commission as also the cost of the mechanisms that may be needed to regularly update the inventory of properties. The study considers this step as basic to broadening the tax base and improving the aggregate tax yield.

2. Establish State-Level Valuation Boards

A major reform that is crucial to improving the productivity of property taxation is **uniformity** in valuation and assessment of properties. Assessed values as noted in Section 3 are underassessed, and often the result of a collusion between property owners and municipal authorities. A decentralized system of assessing values is found to be sub-optimal and subject to various forms of abuses. The study proposes that a Central Valuation Board be set up in each state on the lines of the West Bengal Central Valuation Board. Key features of the procedures followed by the West Bengal Central Valuation Board include.

- Resolution of a municipal council or board, requesting the Central Valuation Board to initiate the process of revaluation of lands and buildings, as per the provisions of the West Bengal Municipal Act, 1993.
- Notification by the state government that the Valuation Board will take up revaluation of lands and buildings.
- Central Valuation Board requests the municipality to forward copies of the ward map, wardwise list with total number of holdings, and also a street list.
- Public notice asking the tax payers to file a statement of their properties
- Training of the field staff by the Central Valuation Board in assessing property values
- Actual valuation and assessment and its publication for public review and objections
- Resolution of objections etc.

The study finds huge merit in having a standardized system of valuation which is possible to be applied across municipalities. The fact that valuation lists, prepared by a set of staff properly trained, are published add to the transparency of the system, and help in better compliance. The study recommends establishment of Central Valuation Board and further proposes the cost of establishment of such Boards to be met by the Thirteenth Finance Commission for a period not exceeding five years, after which the cost of such Boards shall be met by the **municipalities**.

3. Index Valuations

Although property prices have been and are buoyant revaluations are needed if these are to be reflected in tax assessments. The traditional approach to revaluation is to rely on periodic field surveys, on a schedule determined by the state governments. This practice is the relic of a pre-inflationary age, when property prices were relatively stable, and field inspections served as a means of updating information on new constructions, as well as adjusting prices. Under inflationary conditions, it results in a rapid real decline in assessed values: a 10% annual inflation rate reduces the real value of an assessment by half in five years. Failure to revalue during periods of inflation is often self-perpetuating: as valuations fall in real terms, taxpayers become accustomed to low effective levels of taxation; as the gap

between tax valuations and market values widens, the political costs of revaluing to market values rises, prompting further deferment of revaluations.

Annual indexation of such values is one way to address the issues of declining values of property tax yields. While indexing, over time, tends to yield less accurate valuations than field inspection, the amounts involved are small enough that the loss in fairness is well justified by the gain in buoyancy.

4. Widen the scope of the Property Tax Reform under the JNNURM

Improving the coverage of properties and tax collection is one of the key reform agendas under the Jawaharlal Nehru National Urban Renewal Mission (JNNURM). These are unquestionably crucial to any reform of property taxation. However, the untapped potential of this tax lies in (i) under-assessment of property values, and (ii) the *ad-hoc* determination of tax rates for raising revenues. These are key determinants of the level of revenues from property taxes.

The study proposes that the property tax reform as envisaged under the Jawaharlal Nehru National Urban Renewal Mission (JNNURM) be expanded so as to include guidelines to states for (i) narrowing down the gap between the assessed value of properties and market values, and (ii) rationalization of structure of property tax rates. Sufficient evidence exists on the disconnect between the assessed and market values as well as the obsolete rate structures which bear little relevance to the cost incurred in providing various municipal services. The study proposes that the JNNURM guidelines may suggest (i) use of **guidance values** or **circle rates** for assessing property values; in several states, guidance values are revised on an annual basis and are a better indicator of the market value than the unit area values determined on the basis of the physical characteristics of the area, (ii) establishment of a set of principles or a formulae for setting the tax rates.

In addition, there are other important areas such as reducing the list of exempted properties, implementation of the Ministry of Finance instructions with respect to Central government properties, and enforcement of penal clauses in order to reduce tax default and delinquency. Exemptions and favorable treatment for particular types of properties have adversely affected the property tax base. The ostensible objective of these policies is to

promote a variety of distributional or allocative objectives – to shift the tax burden onto higher income groups. Irrespective of the objectives that underlie such exemptions, the principle of benefit taxation should apply uniformly all properties. The reform of property taxation must aim at pruning of the exempted list, by drawing up guidelines on what should be exempted.

Data Base, Research and Property Tax Policy

The legal framework which governs property taxation in India empowers the state governments to lay down – whom to tax; what to tax; at what rate to tax; how often to revise assessments and tax rates and by how much, and what actions to take in case these steps do not run the prescribed course. The powers of the state government in respect of this tax are absolute; the municipal bodies levy the tax, and the only flexibility that they have is to choose the rate within the limits and parameters imposed by the state governments. The changes that have been made in the property tax system are partial and do not account for the concomitant changes that become necessary when the assessment system changes. At no stage has the property tax system been reviewed in its totality. It has also not kept pace with the shifts that have come about in the role of municipal bodies, following the Constitution (seventy-fourth) Amendment Act, 1992.

An important finding of the study is the extremely poor data base on property taxes and a poor understanding of the role of property taxation in local area development. No analysis exists of the incidence of property taxation and how it can be altered so as to maximize land and housing market. In comparison, several countries have examined the issue of property taxation far more thoroughly so as to use it effectively for financing municipal services. In Ontario (Canada), property tax system has been reviewed and examined by as many as eight Committees and Commissions.

- The McLennan Commission, 1902
- The Smith Committee, 1976
- The Blair Commission, 1976
- The Provisional – Local Government Committee, 1978
- The Ontario Fair Tax Commission, 1993

- The Greater Toronto Area Task Force, 1996
- Who does What Panel, 1996
- Establishment of Ontario Municipal Property Assessments Corporation 2001 (renowned the assessment function from the Provinces)

No nation-wide study of property tax system exists in India. The study proposes a one-time allocation of Rs. 5 crore for an Expert Group to review and examine the existing system, compare it with the systems operating in other countries, and suggest what might be done to make property tax a viable and buoyant source of revenue for financing municipal services.

In closing, it is crucial to point out that reform of property taxation will deliver under conditions where there is a hard budget constraint. Given the wherein political liabilities attached with this tax, sustained improvement is unlikely as long as other means of increasing resources are available for financing municipal services. The availability of open-ended or discretionary grants has generally undercut efforts to improve property tax administration. Large-scale recurrent account transfers combined by discretionary grants and vaguely defined functional responsibilities have eliminated any support for property taxation. It is opportunate that the 13th Finance Commission take cognizance of these trends and propose such measures as would enable this tax to play its legitimate role in the economy of cities and towns

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Questionnaire

PART 1
Classification of Properties
URBAN PROPERTY TAX POTENTIAL IN INDIA

Nature and classification of properties	Number of properties			
	2004/05	2005/06	2006/07	2007/08
A. NUMBER OF TOTAL PROPERTIES				
B. NUMBER OF PROPERTIES ASSESSED FOR TAXATION				
(a) Number of assessed properties that paid taxes				
(b) Number of assessed properties that defaulted on payment				
(c) Number of assessed properties that disputed the assessment				
C. NUMBER OF UN-ASSESSED PROPERTIES				
<i>Statutory and other form of exemptions</i>				
(a) Number of properties whose values are below a certain threshold				
(b) Number of properties which serve a public purpose				
(c) Number of properties whose occupants belong to a disadvantaged category				
<i>Estimated number of properties not counted or enumerated for purposes of taxation</i>				
<i>Number of slum properties connected to municipal services, i.e., street lighting, solid waste collection, and paved roads</i>				
(a) Number of slum properties paying property taxes				

(b) Number of slum properties not paying property taxes				
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(c) Number of properties paying charges for water or other services				
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D. NUMBER OF UNDER-ASSESSED PROPERTIES				
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(a) Approximate number of properties under rent control				
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(b) Approximate number of rent controlled properties paying taxes				
---	--	--	--	--

(c) Appropriate number of properties whose values have remained unchanged for 5 years or more				
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PART 2
Estimates of Population

(in Rs. lakh)

	2004/05	2005/06	2006/07	2007/08
ESTIMATED POPULATION OF THE CORPORATION				

PART 3
Property Taxes Receipts and Expenditure

(in Rs. lakh)

	2004/05	2005/06	2006/07	2007/08
A. PROPERTY TAX RECEIPTS				
(a) Amount of property tax demanded (excluding arrears)				
(i) From domestic properties				
(ii) From non- domestic properties				
(b) Amount of property tax arrears				

demanded

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(i) From domestic properties

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(ii) From non-domestic properties

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(c) Amount of property tax collected

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(i) From domestic properties (current)

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(ii) From domestic properties (arrears)

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(iii) From non-domestic properties (current)

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(iv) From non-domestic properties (arrears)

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(d) Amount of property tax under dispute

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(e) Amount of unpaid/defaulted property tax

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B. SERVICE CHARGES RECEIPTS FROM CENTRAL GOVERNMENT AND STATE GOVERNMENT PROPERTIES:

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(a) Amount of service charges demanded from Central /State government properties

--	--	--	--

(b) Amount of service charges collected from Central /State government properties

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C. ESTIMATED EXPENDITURE ON PROPERTY TAX ASSESSMENT, BILLING, AND COLLECTION

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PART 4
Property Taxes Assessment System

PROPERTY TAX ASSESSMENT SYSTEM

<i>Annual rateable value (rent as the basis for estimating the ARV)</i>		<i>Tick</i>	<input type="checkbox"/>
Year in which property values were last revised	<input style="width: 100px; height: 20px;" type="text"/>		
Rate of tax %	<input style="width: 100px; height: 20px;" type="text"/>		
<i>Unit area values for estimating the ARV</i>		<i>Tick</i>	<input type="checkbox"/>
Year in which unit area system was introduced	<input style="width: 100px; height: 20px;" type="text"/>		
Rate of tax %	<input style="width: 100px; height: 20px;" type="text"/>		
<i>Unit area values per sq.m as a basis for taxation</i>		<i>Tick</i>	<input type="checkbox"/>
Year in which unit area values were last fixed	<input style="width: 100px; height: 20px;" type="text"/>		
Rates (attach copy)			
Capital valuation		<i>Tick</i>	<input type="checkbox"/>
Year in which capital valuation was introduced	<input style="width: 100px; height: 20px;" type="text"/>		
Rate of tax %	<input style="width: 100px; height: 20px;" type="text"/>		
<i>Has your city introduced system of self-assessment for property taxation</i> (Attach a copy of the self assessment scheme)			<input style="width: 150px; height: 20px;" type="text" value="Yes/No"/>

PART 5
Finances of the Municipal Corporation

	2004/05	2005/06	2006/07	(Rs. lakh) 2007/08
A. OPENING BALANCE	<input style="width: 100%; height: 20px;" type="text"/>	<input style="width: 100%; height: 20px;" type="text"/>	<input style="width: 100%; height: 20px;" type="text"/>	<input style="width: 100%; height: 20px;" type="text"/>
B. Revenue Receipts	<input style="width: 100%; height: 20px;" type="text"/>	<input style="width: 100%; height: 20px;" type="text"/>	<input style="width: 100%; height: 20px;" type="text"/>	<input style="width: 100%; height: 20px;" type="text"/>

(a) Tax receipts			
(b) Non-tax receipts			
<i>State government transfers on revenue account</i>			
<i>Central Finance Commission transfers</i>			
<i>Others, if any</i>			
<i>Total revenue receipts</i>			
C. CAPITAL RECEIPTS			
<i>Transfers from revenue account</i>			
<i>State government transfers on capital account</i>			
<i>JNNURM/UIDSSMT grants</i>			
<i>Institutional loans</i>			
<i>Others</i>			
<i>Total capital receipts</i>			
D. REVENUE EXPENDITURES			
Establishment, wages and salaries-			
<i>Public Health</i>			

(a) Solid waste				
(b) Drainage, sewerage and conservancy				
(c) Water supply (where supplied by the corporation)				

Public works

(a) municipal roads and flyovers				
(b) others				

Public safety

(a) Street lighting				
(b) Others				

Total revenue expenditure

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E. CAPITAL EXPENDITURE

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PART 6
Views and Suggestions

A. UN-ASSESSED PROPERTIES

- Does the Corporation have an estimate of property tax revenues lost on account of exemptions? Rs. _____
- Is there a case for reducing or eliminating exemptions? Yes/No; if yes, which ones would you recommend for elimination?
- Should slum settlements that are connected to municipal services be taxed? Yes/No.

If yes, what rate of taxation would you recommend?

If not, what is roughly the amount that the Corporation spends on connecting such settlements with services? Rs. _____

- Do slum properties become liable to pay taxes under an “Unit Area System” of assessment? Yes/No
- What should be the basis of valuing slum properties?
- Does the Corporation have an estimate of properties that remain outside the municipal count? How many -- _____? What would be the estimated value of a property tax of such properties? Property tax Rs. _____.
- What is the procedure for incorporating new properties into the list of properties assessed for taxation?

B. UNDER-ASSESSED PROPERTIES

- Does the Corporation have an estimate of property tax revenues lost on account of “rent control” properties? Rs. _____
- What would be a feasible way of estimating the current values of rent control properties?
- Does the concept of “standard rent” or “fair rent” become irrelevant in an “Unit Area System”?
- What is the rate of appreciation (or depreciation) of property values in the Corporation area since 2006/07? _____%

C. RATE OF PROPERTY TAX

- What considerations currently enter the fixation of property tax rate?
- Should the rate of tax be fixed in a way that it covers the cost of providing joint services, namely, solid wastes, municipal roads, and street lighting

D. ACTS IMPENDING FULL REALISATION OF PROPERTY TAX POTENTIAL

- If in your view, there are other Acts that impede full realisation of property tax potential, please mention them below:

E. PROPERTY TAX POTENTIAL

- If property tax system in your city was designed and applied in an efficient and equitable manner (e.g., JNNURM norms), what would be the estimate of revenues from this tax? Rs. _____

For any clarification, write to or call

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Please assist the NIPFP staff member in completing this questionnaire.

Annex Tables

Annex Table 1: Property Tax Collection as a Percentage of Property Tax Demand (%)

City	2004-05	2005-06	2006-07	Average for 3 Years
Delhi	15	15	19	16
Bangalore	77	81	87	82
Greater Mumbai	42	40	39	40
Chennai	84	84	86	85
Kolkata	70	70	60	66
Hyderabad	64	61	67	64
Ahmedabad	14	18	21	18
Surat	81	82	65	75
Pune	37	40	41	40
Nagpur	74	54	52	58
Jaipur	10	18	46	18
Lucknow	60	63	56	59
Kanpur	61	64	73	66
Visakhapatnam	72	70	86	75
Patna	28	38	25	30
Vadodara	63	60	47	56
Rajkot	14	11	6	10
Faridabad	80	74	102	84
Bhopal	42	53	58	51
Indore	24	25	25	25
Jabalpur	130	144	92	116
Nashik	72	67	73	70
Amritsar	43	42	41	42
Ludhiana	46	50	56	50
Varanasi	72	76	66	70
Agra	89	73	108	91
Allahabad	94	75	62	74
Meerut	43	38	33	37
Vijaywada	61	47	52	53
Bhubaneswar	56	65	68	64
Dhanbad	47	42	37	42
Kochi	71	76	79	75
Madurai	36	50	52	45
Coimbatore	73	66	75	71
Asansol	53	66	86	67
Durgapur	19	26	33	27
All India	34	36	39	37

Note: Annual Averages comprises of 2004-05, 2005-06 & 2006-07. NA = Not Available. Also, to note that for some cities the proportion of property tax collection to demand shows an amount more than 100 is due to the fact that their demand estimation for these cities were quite lower than their collection figures. The demand figures thus stated are 'understated' figures to some extent. Naturally, the denominator being less than the numerator ultimately overestimated the proportion.

Annex Table 2: Current Property Tax Demand as a Percentage of Total Demand

City	2004-05	2005-06	2006-07	Average for 3 Years
Bangalore	87	87	87	87
Greater Mumbai	53	51	50	51
Chennai	76	85	85	82
Kolkata	65	68	50	60
Hyderabad	62	61	64	62
Ahmedabad	13	14	17	15
Surat	71	67	69	69
Pune	49	52	46	49
Nagpur	67	42	43	48
Jaipur	58	56	247	79
Lucknow	63	67	62	64
Kanpur	48	57	60	55
Visakhapatnam	64	74	83	73
Patna	55	55	55	55
Vadodara	67	65	50	60
Rajkot	15	18	24	20
Faridabad	42	42	71	50
Bhopal	37	40	59	45
Indore	36	33	32	34
Jabalpur	41	39	47	43
Nashik	58	56	57	57
Amritsar	45	47	44	46
Ludhiana	45	45	48	46
Varanasi	80	80	90	85
Agra	80	85	80	82
Allahabad	54	58	54	55
Meerut	46	47	44	46
Vijaywada	62	50	52	54
Bhubaneswar	57	71	69	67
Dhanbad	47	48	46	47
Kochi	61	69	76	69
Madurai	37	47	47	43
Coimbatore	100	100	100	100
Asansol	38	45	61	47
Durgapur	23	37	44	36
All India	33	37	41	37

Annex Table 3: Coverage Ratios for Different categories

Cities	A			B			C		
	Coverage Ratio			Real Effective Coverage			Effective Coverage		
	(Assessed Properties / Total Properties) x 100			(Properties Paying Taxes / Assessed Properties) x 100			(Properties Paying Taxes / Total Properties) x 100		
	2004-05	2005-06	2006-07	2004-05	2005-06	2006-07	2004-05	2005-06	2006-07
Bangalore	92	92	90	69	67	88	63	61	79
Mumbai	98	98	98	72	71	72	70	69	70
Pune	96	96	95	85	84	78	81	80	74
Nagpur	90	90	91	49	55	51	44	49	46
Jaipur	47	47	92	16	19	1	7	9	1
Lucknow	97	97	96	72	70	71	70	68	67
Kanpur	83	83	82	60	60	60	50	50	49
Visakhapatnam	99	98	100	78	75	85	77	74	84
Rajkot	93	95	97	51	55	49	48	53	47
Bhopal	69	70	72	44	45	46	31	31	34
Jabalpur	81	82	84	35	26	28	29	22	24
Nashik	92	92	92	NA	48	55	0	44	51
Amritsar	97	93	97	72	73	74	70	68	72
Ludhiana	75	77	78	70	72	73	53	55	57
Varanasi	95	95	95	72	61	55	69	58	52
Agra	91	91	92	80	80	80	72	73	74
Allahabad	93	93	93	89	92	82	83	85	76
Meerut	89	89	90	88	89	90	78	80	81
Vijayawada	90	92	93	88	85	85	79	78	79
Dhanbad	13	13	13	100	100	100	13	13	13
Kochi	95	95	93	70	72	73	67	68	67
Madurai	90	89	88	70	80	80	63	71	70
Durgapur	97	100	99	70	70	71	68	70	70
Bhubaneswar	96	94	90	86	90	95	83	85	86
Hyd	95	95	95	73	74	76	69	70	72
Indore	60	60	58	55	58	60	32	34	35
Total	84	85	88	64	66	63	54	56	56

Annex Table 4: Per Capita Property Tax Demand (Rs.)

City	2004-05	2005-06	2006-07	Average for 3 Years
Delhi	3118	2191	1607	2285
Bangalore	642	667	811	708
Greater Mumbai	2641	2997	3438	3030
Chennai	555	570	585	570
Kolkata	737	731	1035	835
Hyderabad	600	643	665	636
Ahmedabad	2834	2600	2568	2665
Surat	741	621	775	713
Pune	1487	1856	1954	1773
Nagpur	372	603	603	528
Jaipur	313	315	77	231
Lucknow	195	205	249	217
Kanpur	158	151	147	152
Visakhapatnam	438	388	352	392
Patna	90	96	101	96
Vadodara	521	517	650	564
Rajkot	1473	1674	1998	1723
Faridabad	264	254	190	235
Bhopal	165	153	168	162
Indore	982	1036	1100	1040
Jabalpur	66	103	159	110
Nashik	419	427	428	425
Amritsar	134	134	151	140
Ludhiana	456	464	428	449
Varanasi	61	66	131	87
Agra	44	44	47	45
Allahabad	87	120	139	116
Meerut	123	140	154	139
Vijaywada	441	572	592	536
Bhubaneswar	99	144	155	134
Dhanbad	113	108	109	110
Kochi	445	411	410	422
Madurai	698	560	563	607
Coimbatore	588	736	816	715
Asansol	152	122	102	124
Durgapur	306	384	492	395
All India	1277	1213	1229	1239

Annex Table 5: Per Capita Property Tax Collection

City	2004-05	2005-06	2006-07	Average for 3 Years
Delhi	476	326	313	369
Bangalore	496	538	704	581
Greater Mumbai	1116	1197	1334	1217
Chennai	468	478	500	482
Kolkata	520	515	616	550
Hyderabad	384	393	443	407
Ahmedabad	408	475	535	474
Surat	597	510	504	535
Pune	553	743	811	707
Nagpur	275	328	313	306
Jaipur	33	58	36	42
Lucknow	117	129	139	128
Kanpur	96	96	108	100
Visakhapatnam	314	271	302	296
Patna	25	36	25	29
Vadodara	327	311	305	314
Rajkot	209	184	115	168
Faridabad	210	187	195	197
Bhopal	69	81	97	83
Indore	239	259	277	259
Jabalpur	86	149	145	127
Nashik	300	286	310	299
Amritsar	57	57	61	58
Ludhiana	208	230	241	227
Varanasi	44	51	86	61
Agra	39	32	51	41
Allahabad	82	90	86	86
Meerut	53	53	50	52
Vijaywada	267	271	310	283
Bhubaneswar	56	94	106	86
Dhanbad	53	45	40	46
Kochi	318	312	322	317
Madurai	249	278	291	272
Coimbatore	427	485	614	509
Asansol	80	81	87	83
Durgapur	59	99	161	107
All India	442	445	486	458

Annex Table 6: Municipal Finances of the Sample Municipal Corporations, 2006-07

City	Total Property Tax collection (Rs. crore)	Other Taxes 06-07 (Rs. crore)	Revenue Receipts (Non Tax) (Rs. crore)	State transfers on Revenue account (Rs. crore)	Total Municipal Revenue Income (Rs. crore)	Total Municipal Revenue Expenditure (Rs. crore)	Property Tax as a Percent of Municipal Income	Other Taxes as a Percent of Municipal Income	Non- Tax as a Percent of Municipal Income	State Transfer to revenue Account Tax as a Percent of Municipal Income	Property Tax as a Percent of Municipal Revenue Expenditure
Delhi	406	596	347	895	2245	2490	18	27	15	40	16
Bangalore	347	64	92	152	655	1141	53	10	14	23	30
Greater Mumbai	1756	3492	2106	250	7604	7199	23	46	28	3	24
Chennai	231	64	67	33	630	622	37	10	11	5	37
Kolkata	288	17	321	426	1051	987	27	2	31	41	29
Hyderabad	177	171	154	4	507	372	35	34	30	1	48
Ahmedabad	222	719	84	138	1163	779	19	62	7	12	29
Surat	182	460	78	83	802	515	23	57	10	10	35
Pune	262	479	354	58	1154	656	23	42	31	5	40
Nagpur	72	247	29	37	385	315	19	64	8	10	23
Jaipur	11	NA	70	106	187	149	6	NA	38	57	7
Lucknow	35	2	9	89	135	117	26	2	7	66	30
Kanpur	32	10	9	120	170	137	19	6	5	70	23
Visakhapatnam	35	12	99	50	197	134	18	6	51	25	26
Patna	4	11	1	23	40	50	11	27	3	58	9
Vadodara	50	235	21	35	340	244	15	69	6	10	20
Bhopal	17	20	26	67	129	157	13	15	20	52	11
Indore	49	1	11	117	178	294	27	1	6	66	17
Jabalpur	16	19	8	39	83	85	19	23	10	47	18
Nashik	43	300	50	9	402	237	11	75	12	2	18
Amritsar	7	38	63	NA	108	113	7	35	58	NA	6
Ludhiana	39	62	53	146	299	185	13	21	18	49	21
Varanasi	10	1	4	37	53	61	20	2	8	71	17
Agra	8	1	8	49	66	61	12	2	12	74	13
Allahabad	10	1	3	30	44	75	22	3	7	67	13
Meerut	6	1	2	38	48	27	13	2	5	80	24
Vijaywada	32	7	33	28	99	89	32	7	34	28	35
Bhubaneswar	9	2	6	4	20	74	43	10	28	20	12
Dhanbad	1	NA	NA	10	11	2	8	3	NA	89	56

Kochi	23	24	7	9	62	64	37	38	11	14	36
Madurai	27	3	30	34	93	146	29	3	32	36	18
Coimbatore	61	3	22	46	132	260	46	2	16	35	23
Asansol	6	0	6	8	20	15	29	0	29	42	37
Durgapur	9	0	5	8	22	19	39	2	23	37	46
Total for Sample ULBs	4481	7063	4178	3179	19136	16863	23	37	22	17	27

Note: * Property Tax collections comprises of Current Collection and Arrear Collection for the respective year for the concerned ULBs. ** Municipal Income (Revenue) comprises of Own Source Revenue Income and State Government Transfers to Revenue Account for the respective ULBs. NA= Data not available.

Source: Data as provided by the respective Municipal Corporations during the visit to the same for the NIPFP project- Assessing the Untapped Property Tax Potential.

Letter from Ministry of Finance Regarding Central Government Properties

No.4(7)-P/65
Government of India
Ministry of Finance
(Department of Coordination)

New Delhi, the 29th March, 1967

From
Shri J. Murli
Under Secretary to the Government of India

To
The Chief Secretaries of all the State Governments

Sub: Payment of service charges to local bodies in respect of Central Government properties

Sir,

I am directed to refer to this Ministry's letter No. 14(1)-P/52-1 dated the 10th May, 1954 and the Ministry of Works, Housing and Supply letter No. Cont.23(13)/59 dated the 4th August, 1961 on the subject cited above.

2. The procedure for arriving at the quantum of service charges payable to the local bodies has been further examined by the Government of India and it has now been decided that the service charges should be calculated in the following manner :-

- (i) In respect of isolated Central Government properties where all services are availed of by the Central Government in the same manner as in respect of private properties, the Central Government will pay service charges equivalent to 75% of the property tax realised from private individuals.
- (ii) In the case of large and compact colonies which are self-sufficient with regard to services or where some of the services are being provided by the Central Government Departments themselves, the service charges will be calculated in the following manner :-
 - (a) In the case of colonies which do not directly avail of civic services within the area and are self-sufficient in all respects, the payment of service charges will be restricted to 33¹/₃% of the normal rate of property tax applicable to private properties.
 - (b) In respect of colonies where only a partial use of the services is made, service charges will be paid as 50% of the normal property tax rate.
 - (c) In respect of colonies where all the services normally provided by the municipal body to the residents of other areas within its limits are being availed of, service charges will be paid as 75% of the property tax rate realised from private individuals.
- (iii) The net rateable value/annual value for the purposes of these instructions shall be 9% of the 'Capital Value' of the property concerned, both in respect of residential and non-residential properties. The 'Capital Value' shall include the cost of acquiring or constructing the building including the cost of site, its preparation and any other capital expenditure incurred after acquisition or construction or when this is not known, the present value of the building including the value of site, as borne on C.P.W.D. records or those of the Department concerned.

- (iv) The existing arrangements arrived at between the Railway authorities or any Central Government Departments and local bodies in respect of property tax/service charges including the arrangements envisaged regarding Central Government properties in Calcutta and as regards the properties in Delhi will not be disturbed by this decision.

3. I am to request that the decision of the Government of India conveyed in this letter may kindly be intimated to the local authorities with your State.

Yours faithfully,

Sd/-
J. Murli
Under Secretary to the Government of India

No.4(7)-P/65

Copy forwarded for information to :-

1. All Ministries/Departments of the Central Government.
2. Comptroller and Auditor General of India, New Delhi.

Sd/-
J. Murli
Under Secretary to the Government of India