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## METHODS AND DEFECTS OF VALUATION OF MUNICIPAL PROPERTY TAXES IN INDIAN CITIES: THE NEED FOR NEW TAX ASSESSMENT REFORMS

<sup>1</sup>Mrs.Preethi Keekan and <sup>2</sup>Prof. Arabi. U

<sup>1</sup>Research Scholar and <sup>2</sup>Professor

<sup>1&2</sup>Department of Studies and Research in Economics, Mangalore University  
Mangalore, Karnataka, India

### Abstract

Property tax is a very important source of income for local government spending in many parts of the world. It makes a reliable source of Local government funding. In developing countries, the property tax is an issue of concern that could affect the local government revenue required for public finances. Property tax brings diversity and helps to balance the state and local financial system.

**Keywords:** Metro Cities, Assessment Reforms, Property Taxes.

### Introduction

Property tax is a tax on the property that the owner must pay. Taxes are collected by a governing body, which may belong to the central government, the State government, or a municipality. In India, property is considered a source of income which is actually a major source of income tax revenue which is why taxes are levied on it. The amount of tax is calculated on the basis of the value of the property being charged. Indian cities have been growing at a rapid pace but the finances of municipal corporations have remained stagnant. The governments of the country have delegated a number of functions listed under the Twelfth Schedule to urban local governments but the funds required to carry out these functions have not been covered. Property tax is the largest potential source of own revenue for municipal corporations and municipalities in India today, but its contribution to their revenues is small and inelastic.

### Objectives

- To study the existing methods and defects of computing property taxes and to analyse its impacts on municipal tax revenue mobilization.
- To evaluate the reasons for the low property tax revenue collections and its slow growth.
- To find out the fiscal and distributional implications of the existing urban property tax reforms and the possible future assessment reforms in property tax.

### Review of Literature

- **Mosha(2010):** In a traditional point of view, property tax has been identified with local government for reasons of its visibility and the inability of the tax object to shift location as a result of the imposed tax.
- **Roy(2009):** It is internally, the increasing demand of public services and the local government need to finance some of its project by revenue from property tax making it an issue of concern globally that decussated many countries to impose tax on real property.
- **Bird(2001):** The local government is interested on revenue from property taxes to finance local social services provision to the people. Property tax has an opportunity to enhance public fiscal policy decision on local government expenditure therefore is required by the local Government.

### Study area

The study area is limited to 6 major cities in India which are Mumbai, which has the largest Municipal Corporation in terms of population governed, collects almost as much property tax as Bengaluru, Hyderabad, Ahmedabad, Chennai and Kolkata combined.

### Data Analysis and Interpretation

Property tax is one of the major financial instruments of local government in urban areas for raising their own revenues. Two of the most widely used property tax bases in India are the annual rental value and capital value of the land. Most local government governments use notional property rental values as the base for assessing property taxes. In the notional property rental method, the tax base becomes stagnant, and an upward adjustment of tax rates is the only way to increase revenues from the property tax (Bagchi 1997, Rao and Ravindra 2002).



Different Methods of Calculating Property Tax

In general, the municipal authorities use one of the following 3 methods for the purpose of calculation of property tax. Three systems of property valuation are practised among the Municipal Corporations in India – Annual Rental Value System (Chennai, Hyderabad), Unit Area Value System (Bengaluru, Ahmedabad, Kolkata), and Capital Value System (Mumbai).

- 1. Capital Value System (CVS): Under the Capital Value System (CVS), property taxes are calculated as a percentage of the market value of the asset. The market value of a property is determined by the government on the basis of locality of the property. This measurement system is being followed in the city of Mumbai.
2. Unit Area Value System (UAS): The tax valuation as per the Unit Area Value System or UAS is calculated on the basis of the per unit price of the built-up area of the property. This price is decided on the basis of the expected returns of the property as per its location, usage, and land price. This value is further multiplied with the built-up area of the property to derive the tax valuation. A number of municipal authorities such as Patna, Bengaluru, Delhi, Hyderabad, and Kolkata follow this method.
3. Annual Rental Value System (ARV) or Ratable Value System (RVS): Under this,taxes are calculated on the rental value based on the area per year. However, the rental rate is determined by the municipal authority and is determined on the basis of location, size, and condition of the property. The proximity of property to land markings and other appropriate resources is also considered in the measurement period. Chennai and parts of Hyderabad follow this tax calculation method.

Defects of Valuation of Municipal property tax and Need for Tax assessment reforms in Indian cities

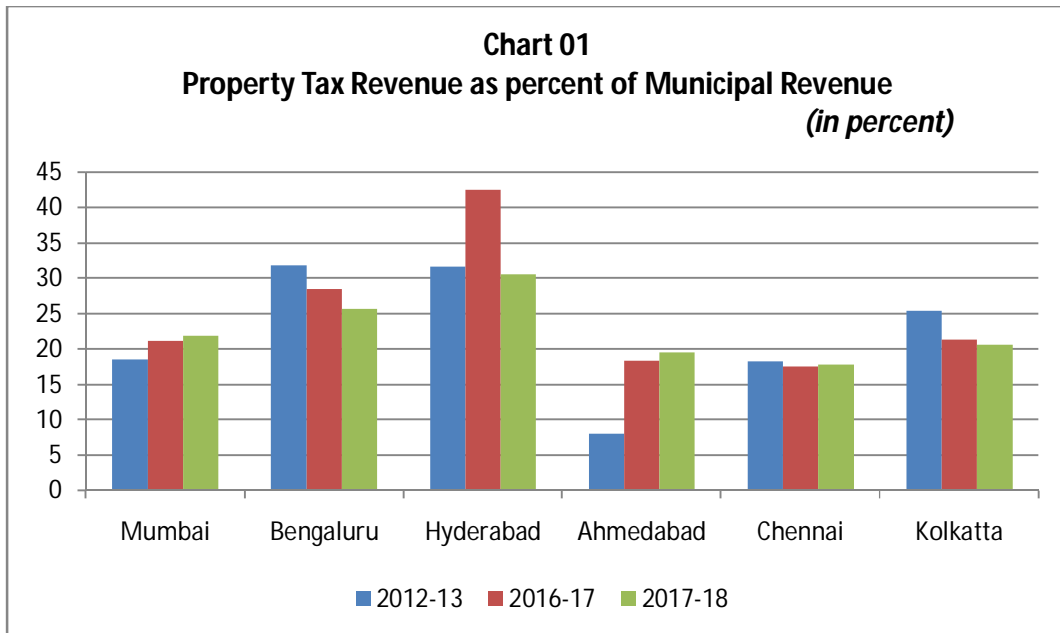
Collection of property taxes is an enormous administrative exercise. Properties and their owners are identified, data inventory is updated, and the cadastral maps are prepared based on the new information. Property tax is the most critical source of own revenue for the six largest Municipal Corporations. The six Corporations account for 40 per cent of all property tax collections in the country. Bengaluru introduced a series of effective property tax reforms in 2000 and 2008 and now has the second highest collections in property tax after Mumbai. It is followed by Hyderabad, Ahmedabad, Kolkata and Chennai.

Table 01
Property Tax
(Rs. in crores)
Municipal corporation 2012-13 2016-17 2017-18
Mumbai 3272.4 4823.1 5200.8
Bengaluru 1085.0 1724.5 1777.4
Hyderabad 776.2 1311.1 1392.7
Ahmedabad 247.6 881.1 1022.1
Chennai 411.1 673.4 750.0
Kolkatta 828.7 792.3 822.7

Source: Various municipal finance reports of the selected cities 2012-13 to 2017-18

From the above table it is observed that the property tax collection have increased considerably over the years in all the 6 municipal corporations but the largest urban agglomerations in terms of population in 2011 are Mumbai (18.4 million), Delhi (16.3 million), Kolkata (14.1 million), Chennai (8.7 million) and Bengaluru (8.5 million), Hyderabad (7.7 million), and Ahmedabad (6.4 million). Hence it is evident that the percentage of Property tax on Total municipal revenue has decreased in most of the selected cities.

Table 02
Property Tax Revenue as percent of Municipal Revenue
(in percent)
Municipal corporation 2012-13 2016-17 2017-18
Mumbai 18.58 21.21 21.96
Bengaluru 31.85 28.57 25.71
Hyderabad 31.66 42.55 30.52
Ahmedabad 8.13 18.41 19.55
Chennai 18.30 17.55 17.81
Kolkatta 25.42 21.41 20.59



Source: Various municipal finance reports of the selected cities 2012-13 to 2017-18

As the property tax percent of municipal revenue has decreased during the study period, to improve collections, Municipal Corporations must develop an integrated system to automatically record changes in ownership, property classification and consolidation and additions and alterations to existing property. It is also necessary to reform the existing system of taxation in the selected cities.

The rate of growth of property tax collections has been slow in the recent past. In Mumbai, Bengaluru, Chennai, and Hyderabad, the property tax collections grew at a tepid rate of 10-12 per cent between 2012-13 and 2017-18. In Kolkata, the rate was much worse at 5 per cent<sup>11</sup>. Ahmedabad, the smallest of these large Municipal Corporations, was the only exception with a robust growth rate of 33 per cent.

The scope, volume and complexity of urban services to be provided by the local government are increasing and as the urbanization is increasing every year, property tax reforms are a necessity. Fiscal needs of local governments are also increasing over the years. Because property tax is the main source of local funding and remain as the major local and productive tax source, the property tax reforms are inevitable. The major goals of tax reforms are not only to increase the tax collection but also to make sure improvements in terms of equity, transparency, simplicity and minimization of the collection costs. As the population increases rapidly over the years and tax collection is showing a considerable reduction, it is necessary to implement the effective tax reforms. The property tax reforms should include;

- Property enumeration and mapping
- Records management
- Public information
- Revenue collection
- Incentives and penalties
- Self-assessment
- Periodic updating of valuation

**Municipal Tax Reforms in selected Indian cities**

All the selected municipal corporations have reformed their taxation policy and the major reforms are as follows;

- All the six largest Municipal Corporations have introduced self-assessment of property tax.
- Online and mobile based payments, payment facilities at specific bank branches and citizen facility centers, e-mailing tax bills, online tax calculators and electronic display of tax bills are simple measures that improve compliance and encourage transparency.



- ‘Early Bird Schemes’ in which discounts are available on timely payment of property tax bills have been utilized by some of these Municipal Corporations to improve collection rates.
- Effective public information campaigns help widen tax base and are also especially necessary during revision in rates or switch to a new valuation system.
- Kolkata’s move to the unit area value system was marred by complicated assessment methodology and ambiguous assessment forms. Strict enforcement measures are necessary to improve collections.
- Bengaluru has initiated a Total Station Survey i.e., a survey using total station machines, to identify the top hundred commercial and residential enclaves in every zone and impose stringent measures on those declaring lower tax.
- It has also set up a Revenue Vigilance Cell and a High Value Properties Tax Recovery Cell to improve tax revenues. Ahmedabad sealed over 5473 properties including some public sector units in 2019 for defaulting on their property tax payments. This led to an uptick in property tax revenues for the fiscal year 2018-19.

### Conclusion

The rapidly growing metropolitan cities of India are the engines of economic growth for the country. In the coming years, these cities will expand geographically and attract more migrants in search of employment opportunities. Municipal Corporations are responsible for the infrastructure and public service delivery in these cities; they need better governance as well as stronger finances to handle the demands of the rising population. The six largest Municipal Corporations have initiated several steps in the right direction to realise the potential that property tax provides as a major source of municipal revenue.

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