

Resource Mobilization through Property Tax Reforms

with a focus on assessment of current practices and scope
for reforms for increase in revenue generation in
ULBs of Maharashtra



RCUES
Mumbai

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Established in the year 1968, is fully supported by Ministry of Housing and Urban Affairs, Government of India

Preface

Property tax is perhaps one of the most discussed and researched areas in urban finance. This is because of its primarily important share or position in the entire gamut of own funds or resources available to Urban Local Bodies. Hence, it is always a challenge to find a new area of contribution.

There has been seminal work in Property Tax Administration by eminent researchers as well as Indian and global organizations. Some of the outstanding research work of eminent authors namely, Dr. P. K. Mohanty, Prof. Om Prakash Mathur, Dr. Chetan Vaidya, and Prof V.K. Dhar among others provided important ideas. Their own research work or some of the reports of the Institutions, such as National Institute of Urban Affairs, New Delhi, National Institute of Public Finance and Policy, New Delhi in which they have worked as either Principal Researcher or Advisor have provided an important back-up for this report. Their research has also provided valuable guidance in taking a new approach to Property Tax.

The Report looks at data for the period 2014-15 to 2018-19. This time period corresponds with the land mark reform for Urban Local bodies which was the introduction of Goods and Service Tax and abolishment of Local Body Tax. Till then one of the important own revenue sources for Urban Local Bodies was the Local Body tax, which today has been replaced by a share in Goods and Service Tax proceeds which is devolutionary in nature. This is not the same as a robust independent own resource.

It is in this challenging and crucial phase that the Regional Centre for Urban and Environmental Studies of All India Institute of Local Self Government, Mumbai undertook the study. The aim is to create a research dialogue about improving urban local bodies' finances within the current framework. Macro data presented in this report, particularly for Urban Local Bodies is the latest available publicly.

Acknowledgement

First and foremost, I wish to put on record our deep appreciation for the Ministry of Housing and Urban Affairs for providing us an opportunity for working on the report and also for all logistic support. I take this opportunity to express my gratitude towards Shri Ranjit Chavan, President, All India Institute of Local Self Government, Mumbai for showing confidence in us and valuable support to complete the Report. My sincere thanks are to Shri Rajiv Agarwal, IAS (retd.), Director-General, All India Institute of Local Self Government, Mumbai, who was instrumental in initiating the report and providing encouragement and valuable direction to the report. I am indebted to Dr. Jayraj Phatak IAS (retd.), Visiting Professor, All India Institute of Local Self Government, Mumbai, whose keen interest took forward the study. The academic insight provided by him was very useful for the study. I would also like to acknowledge the research support provided by Dr. Manjushree Ghodke particularly towards data interpretation, and finalization of the report. She overviewed and edited the study report.

I am grateful to the Bhiwandi Nizampur Municipal Corporation and Kolhapur Municipal Corporation, specially their officers and Staff who have extended excellent cooperation and made available all the necessary data despite their busy schedule. My sincere thanks are to the officials of the office of the Joint Director, Town Planning Valuation), Government of Maharashtra, Pune and Assistant Director, Town Planning Valuation), Government of Maharashtra, Pune.

The report would not have been completed without sincere and dedicated efforts of Dr. Sudha Kashelkar, Sr. Project officer, AILSG, Mumbai and the valuable support of the staff of the Regional Centre for Urban and Environmental Studies (RCUES) of AILSG, Mumbai in developing this report.

I hope the report will be encouraging and helpful for the other cities to bring about a change in the system of property tax assessment and administration. This will enable them to improve and stabilize their financial resources through greater buoyancy. The city governments would then be in a position to supply world class city infrastructure services supporting rapid economic development.

**The Director,
RCUES of AILSG, Mumbai**

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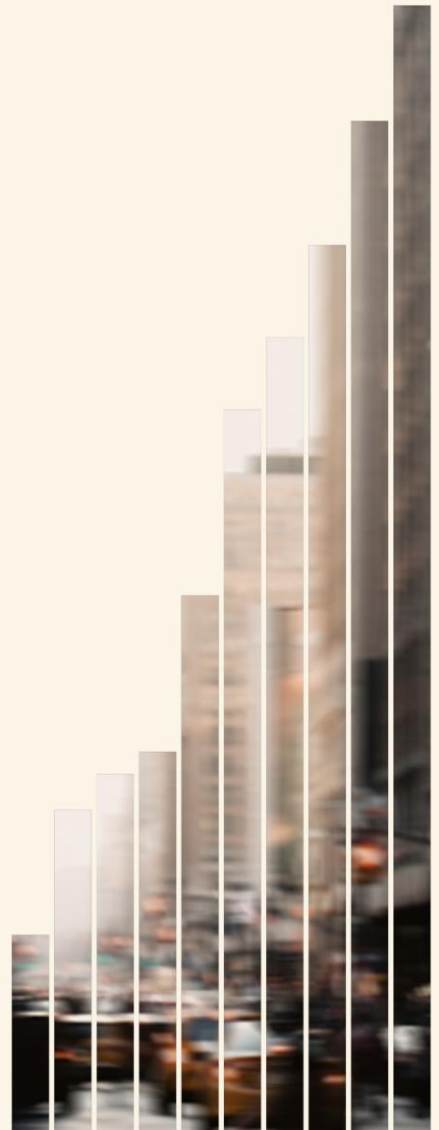
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Abbreviations:

AIIISG	All India Institute of Local Self Government	NDA	National Democratic Alliance
ARV	Annual Rental Value System	NIUA	National Institute of Urban Affairs
AMRUT	Atal Mission for Rejuvenation of Urban Transformation	NDP	Net Domestic Product
BATF	Bangalore Agenda Task Force	NVA	Net Value Added
BMP	Bangalore Mahanagar Palika	NEP	New economic policy
BNMC	Bhiwandi Nizampur Municipal Corporation	OECD	Organization for Economic Co-operation and Development
BBMP	Bruhat Bangalore Mahanagar Palika	PMC	Patna Municipal Corporation
CSO	Central Statistical Office	PID	Property Identification Numbers
CFC	City Facilitation Centers	PT	Property Tax
CA	Constitutional Amendment	PWD	Public Works Department
GIS	Geographical Information Systems	RCA	Rent Control Act
GP	Gram Panchayat	SR	Standard Rent
GDP	Gross Domestic Product	SC	Supreme Court
HRIDAY	Heritage City Development and Augmentation Yojana	UAM	Unit Area Method
HPEC	High Powered Expert Committee	ULBs	Urban Local Bodies
HFA,	Housing for All	VLT	Vacant Land Tax
IAAO	International Association of Assessing Officers		
JNNURM	Jawaharlal Nehru National Urban Rural Renewal Mission		
KMC	Kolkata Municipal Corporation		
LVIT	Land Value Increment Tax		
LVT	Land value Tax		
LPG	Liberalization; Privatization; Globalization		
LBT	Local Body Tax		
LPT	Local Property Tax		
LSG	Local Self Government		
LET	Low Equilibrium Trap		
MMC Act	Maharashtra Municipal Corporations Act 1949		
MRTP	Maharashtra Regional and Town Planning Act 1966		
MGI	McKinsey Global Institute		
MoH&UA	Ministry of Housing and Urban Affairs		
MoHUPA	Ministry of Housing and Urban Poverty Alleviation		
MoUD	Ministry of Urban Development		
MRV	Monthly Rental Value		

BACKGROUND

01



1: Background

1.1 Introduction

The Indian economy has seen rapid urbanization in the last few decades. As the economy globalizes there have also been many significant reforms. The economic liberalization in 1991 and the Constitutional Amendment Act (CAA) 73rd and 74th amendments drastically changed the status and responsibilities of Urban Local Bodies (ULBs). The shifts in urban development strategies widened their responsibilities of service deliveries while introducing challenges of resource mobilization for the purpose. While the responsibilities of ULBs to provide urban services has been increasing, the required resources for the same are either limited or inadequate. This has led to financial stress in most ULBs. The statutory requirement of a balanced budget also clouds their real financial health. Anecdotal evidence shows that some are not able to even pay their salaries.

Of the revenue sources devolved to the ULBs, Property Tax (PT) is the most crucial and important own source of revenue. PT is a broad based tax that subsumes other property related taxes such as, water tax, sewerage tax, conservancy tax, fire tax, road tax and tree cess. However, a few Supreme Court (SC) Rulings during the period 1962 to 1985 paralyzed the PT system in India severely affecting the income of the ULBs. To address the issue of resource constraint, most of the ULBs introduced reforms in their vital revenue source i.e. Property Tax. This was attempted by changes in the base and valuation procedure with the aim of boosting revenue generation potential. Many of the cities through reforms have switched over to alternative value basis so as to use the underutilized potential of the property tax and escape the legal complexities of the annual rental value (ARV) base.

Given this backdrop, Regional Centre for Urban and Environmental Studies (RCUES), All India Institute of Local Self Government,(AIILSG) Mumbai took on a comparative study of property tax systems in two cities from Maharashtra viz. Kolhapur Municipal Corporation,(KMC) where Capital Value (CV) is the basis of valuation and the Bhiwandi Nizampur Municipal Corporation (BNMC), which has Annual Rental Value ARV as a basis for it, to analyze their performances and understand the related benefits and issues of the two different systems of valuation. It is presumed that being free from the clutches of Rent Control Act, the performance of the CV basis would be much better than ARV, and hence the ULBs could rely upon it for increase in revenue.

1.2 Objectives

This study has been developed keeping in view the trainees of ULB from different States attending the programmes organized by the RCUES of AIILSG as prospective readers. The primary objective of the study is to identify the suitable and beneficial revenue raising systems for ULBs. More specific objectives are:

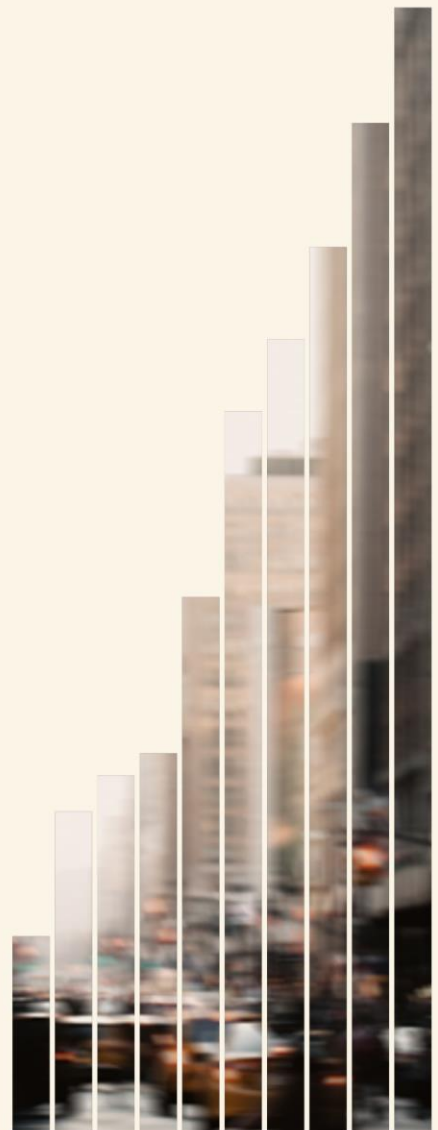
1. To know the contribution of revenue from PT in total Revenue-as well as own Income under the existing system of both the Corporations.
2. To analyze and compare the performance of the two different methods of valuation prevailing in these corporations, in terms of increase in revenue.
3. To study the sustainability i.e. revenue consistency.
4. To observe Acceptability by the citizens.
5. To analyze the adequacy of the revenue generated through PT to recover the cost / expenditure on the property related core services like water supply, sewerage/drainage, Conservancy, roads and firefighting.
6. To suggest the appropriate method of valuation for the levy of property tax for the municipal corporations in Maharashtra, with necessary procedures and administrative reforms for them if necessary.

1.3 Structure of the Study Report

The report is organized in six Chapters. Chapter one explains the background and purpose of the study. Chapter two discusses the increasing significance of the infrastructure and services provided by the ULBs towards urban development and the criticality of increasing revenue for the purpose. This chapter explains the revenue structure of the ULBs and the relevance of the property tax in increasing revenue to comply with their growing responsibilities. Chapter three focuses on the theory and practice related to property tax and its management. After the landmark Supreme Court Judgment many Urban Local Bodies have initiated reforms to improve the property tax system. The focus of these reforms was primarily on improving the tax base and the administrative mechanism of the tax. Chapter four presents an overview of the few Property tax reforms introduced by some cities with special focus on reforms related to increasing the base. The Chapter also includes the reforms considered as Best Practices. Chapter five analyses property tax management and its contribution in resource raising in the two cities from Maharashtra, namely, Kolhapur and Bhiwandi. There is an attempt to critically analyze the performance of the two different basis of valuation of PT in the selected two ULBs from Maharashtra. The bases selected for comparison are rental value and capital value. Earlier, the commonly used base was Annual Rental Value. The study makes an effort to compare the differences in the performance of these two valuation basis. The main questions answered are in terms of revenue increase, administrative ease and acceptability of the tax payers, and any other related issues. Chapter Six - concluding chapter presents the observations and suggestions on property tax that have evolved from the study.

Urban Local Bodies, Urban Economic Growth and Challenges

02



2: Urban Local Bodies, Urban Economic Growth and Challenges

2.1 Introduction

This chapter underscores the significant role ULBs play in the economic growth and social development of urban areas and hence the nation. It recounts the factors responsible for the upward transformation of the ULBs in terms of their roles and responsibilities and resultant increase in their spending needs. It also highlights the feeble financial status of the ULBs to take on the increasing challenges of economic growth, increasing urbanization, social responsibilities and more importantly price escalation. It shows that amongst the available resources of the ULBs property tax is the only own vital source of revenue in the entire revenue scheme of the ULBs. The chapter discusses the issues related to property tax governance with special focus on assessment. It also attempts to influence that PT being the only significant source of revenue, ULBs will have to make efforts to revamp it to eliminate the deficiencies and make it more revenue buoyant and productive.

Although the focus of the study is base of the PT and assessment procedures, the improvement in the assessment procedures may not work effectively in isolation, and thus suggests some attendant administrative reforms.

Box 2.1: Cities - Drivers of Growth

Cities are not merely places; they are about people living and working together, accumulating physical, human and social, capital, and enhancing productivity. Cities are homes to knowledge externalities, which along with agglomeration externalities, act as powerful drivers of growth. Apart from offering markets, cities also create gains from diversity due to the co-location of many different firms, industries, and activities, facilitating innovation. Backward and forward linkages enhance opportunities for larger production and consumption, attracting more firms and households to cities. This leads to larger markets, greater linkages, and further impetus to innovation. Progressive investments in infrastructure and housing also create a “lock-in” effect, contributing to “self-reinforcing” and “cumulative” process of agglomeration.

Cities are reservoirs of Capital, skill, and talent. They offer varied employment opportunities in formal and informal sectors. They are centres of trade and commerce. They are the seats of governance. They generate public resources and urban and rural development. As hubs of diverse economic activities and incubators of innovation, cities are places from where new products, processes, and strategies originate.

Source: Prasanna K. Mohanty, *Cities and Public Policy an Urban Agenda for India*, Sage Publications Pvt. Ltd, New Delhi, 2014.

Box 2. 1: Cities - Drivers of Growth

2.2 Significant Role of ULBs in the Economic Growth of Urban Areas and the Nation

The significance of cities, especially large cities and their regions is evident as they pave the way for agglomeration externalities. Cities offer different advantages of economies of scale, and agglomeration and returns to sharing of infrastructure and public services. Cities build capital, enhance social development and generate opportunities and livelihood because of which national economies develop and sustain. All these become feasible because of the efficiency of the ULBs in providing infrastructure and related services.

When cities form part of a City Region their functional territory doesn't get restricted to the city boundary alone. The city and its peripheral area around constitute its effective territorial jurisdiction. It is the duty of the city government to provide basic necessities to the population regularly floating from the peripheral area for livelihood trade and other economic activities along with the permanent citizens.

The rising economic importance of cities is apparent from their contribution to the nation's Gross Domestic Product GDP, which is reportedly nearing about 65 per cent and has constantly been rising. Table 2.1 below illustrates the substantial share of urban Income in the National Income.

Table 2. 1: Urban Sector in National Economic Activity, Estimates and Sources

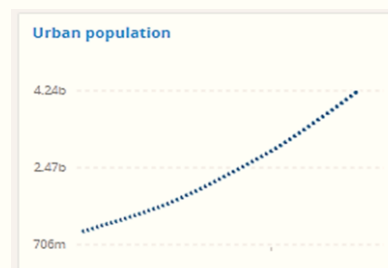
	Measure of Urban Economic Activity	Share of Urban Income in National Income	Source
1970-71	Share of Net Domestic Product NDP	37.60%	Central Statistical Office CSO,2007,2012,2016 Chand et al.2017
1980-81		41.10%	
1993-94		45.70%	
1999-00		51.70%	
2004-05		51.90%	
2011-12	Share of Net Value Added NVA	52.60%	
2009-10	Urban Share of GDP	62-63%	PwC 2009
2008	-	Mumbai USD 209 billion, Delhi USD 167 billion Kolkata USD 104 billion, Bangalore USD 69 billion, Chennai USD 66 billion [All PPP dollars]	
2008	Share of GDP	58%	McKinsey Global Institute 2010
2011	Share of GDP Projected	65%	Overview document to Jawaharlal Nehru National Urban Rural Renewal Mission JNNURM
2000-01	Method 1: Share of GDP estimated using urban employment share and average urban wage relative to average all-areas wage	70%	Mitra and Mehta 2011
	Method 2: Share of GDP estimated using urban employment share and average urban Monthly Per Capita Expenditure MPCE relative to all-areas MPCE	59%	
		Average of method 1 and 2 is 64.89%	
Source: Consultation Paper on 'City GDP Measurement Framework', Ministry of Housing and Urban Affairs, New Delhi 26-Feb-2019.			

The rising share of urban income in national income since 1970-71 is apparent from Table 2.1 above. The share of urban income has increased from 37.60% in 1970-71 to 65% in 2011.

2.3 Urban Positive Externalities

Considering the strategic importance of cities, provision of civic infrastructure services by them has assumed critical importance socially, economically and politically. Infrastructure is considered to be a key driver for the urban economy. The infrastructure sector is critical for boosting India's overall development. Good Infrastructure is central to the prosperity of all economic activities as well as wellbeing of the residents. It facilitates efficiency in key economic services, improves the economy's competitiveness, generates high productivity and supports strong economic growth and also enhances the quality of life of the people. Inefficiency in the infrastructure however can significantly hamper economic growth and can be a substantial drain on the economy's resources. The infrastructure sector generates large positive externalities.

Globally, 55% of the population lives in urban areas today. By 2045, the number of people living in cities will increase by 1.5 times to 6 billion, adding 2 billion more urban residents. With more than 80% of global GDP generated in cities, urbanization can contribute to sustainable growth if managed well by increasing productivity, allowing innovation and new ideas to emerge. World Bank See Graph 2.1.



Source:
<https://data.worldbank.org/topic/urban-development>

Graph 2.1: Urban Population

2.4 Status of Urban Infrastructure and Services in India:

Notwithstanding the importance of urban infrastructure and its financing, infrastructure gaps are phenomenally large. According to 2011 data from Handbook of Urban Statistics, bathing facility within the house was 87 percent, households having drainage facility was 82 percent, while 18.60 percent of the households had no latrine facility available within the house. In case of Water Supply, 68.98 percent of the households had tap/piped water supply. Of this, only 33.43 percent households were having water supply within their premises and 31 percent of the households had to rely on water sources like well, river, tanker etc. According to the Central Pollution Control Board CPCB, only about 18 per cent of the total waste is processed, and the installed treatment capacity of sewage generation is 38 per cent of the total sewage generation. In the background of Service Level Benchmarks SLBs these statistics indicate the scope for improvement in all basic urban services. Particularly those cities aspiring for improved ranking in ease of doing business and ease of living index have to raise the efficiency, adequacy, of infrastructure and services they provide. The concomitant efforts will need to be in the direction of stringent efforts for additional resource mobilization.

2.5 Factors Accounting for Increasing Functional and Financial Responsibilities of ULBs.

As the economic activities in the city mature from primary sector to secondary and to the tertiary sector, there is a rise in related demand for more sophisticated, advance technology based and efficient infrastructure and services. ULBs which were tardy in performance are now becoming vibrant as their functional and financial responsibilities have drastically transformed on account of various factors which are discussed next.

2.5.1 Economic Reforms that Spurred Transformation of ULBs

The transformation of ULBs in India can be traced to 1991 when the Government of India introduced diverse economic reforms to pull the country out of economic crisis¹ and to accelerate the rate of growth. These reforms are often described as the 'New economic policy' (NEP) or policy of Liberalization; Privatization; Globalization (LPG). The new policies allowed, and indeed encouraged, private investment in critical areas. The reforms under NEP did away with the License Raj and introduced market reforms. Some significant steps were: a reduction in tariffs and interest rates, ending monopoly of public sector, encouraging private sector participation and allowing automatic approval of foreign direct investment in many sectors. As the World Bank Report on 'proposed structural adjustment loan to India' states, the specified deregulation increased foreign direct investment, liberalized the trade regime, reformed domestic interest rates, strengthened capital markets stock exchanges, and initiated public enterprise reform selling off public enterprises.²

NEP 1971 and subsequent reforms widened the scope for economic activities, removed market barriers for the inhabitants, and thus provided the opportunities for up scaling the economic activities and growth in urban areas. As a result it has led to rapid industrialization and upsurge in investments including foreign inflows and trade in urban areas. Globalization has resulted in further concentration of economic activities in cities, in a manner that leads to cost reduction and increasing competitiveness

Erik T. Verhoef and Peter Nijkamp while describing the network role of the cities say that '*in an emerging network society cities become more and more the virtual centers of global network forces. The city brings together a triple – C potential: Communication, competence and creativeness*'³

Opening up of the economy and the concomitant radical change in the approach, strategies and policies of the Government towards economic growth, have made the cities centres of economic activities, which contribute to the generation of income and employment. As described by many researchers urban areas have become engines of economic growth, centres of service sector employment, and hopes of millions of rural migrants. Although all the urban areas are not developed to the extent like bigger metropolises, nevertheless, they are on the ladder of development process, waiting for the openings and access to funding for development. In due course even these centres may aspire to be destinations of FDI, centres of Information & Communication Technologies, IT-enabled Services & Business Process Outsourcing, and off-shore Services. These expanding economic activities and productivity to flourish will be incumbent on ULBs effective provision of civic services and support.

2.5.2 Constitutional Amendment and Democratic Decentralization

The 74th Constitutional Amendment Act CA and the ensuing delegation of functional and financial powers have added some muscle to the authority of the Local Self Government LSG, particularly of the Urban Local Bodies ULBs and underscored their prominence in development. The implementation of the 74th Constitutional Amendment Act 1992, ideally assigned the liberty to the ULBs to decide their priorities for the development of their areas and accordingly decide upon their fiscal and financial matters.

¹Economic crisis then were increase in Fiscal deficit, mounting adverse balance of payment, Gulf crisis, fall in foreign exchange reserve, rise in prices, sharp devaluation of the rupee, poor performance of public sector undertaking.

²World Bank Report P-5678-IN-report of the IBRD and IDA on a proposed structural adjustment loan to India (PDF) [www.documents.worldbank.org](http://documents.worldbank.org/curated/en/999451468260069468/India-Structural-Adjustment-Credit-Project). World Bank official website. Retrieved 30 October 2018.

³Erik T. Verhoef and Peter Nijkamp, 'Externalities in the Urban Economy' Amsterdam, 2003

In compliance with Article 243W of the Constitution of India read with the Twelfth Schedule, most of the States incorporated the functions listed in the Twelfth Schedule in their Municipal Laws. The functions like planning for economic development and social justice, urban forestry, protection of environment and promotion of ecological aspects etc., were newly added to the functional responsibilities of the ULBs thus adding to their financial burden.

The functional powers and duties of ULBs have always preceded financial powers. More often there is a mismatch between the two. Municipal revenue in India has not grown commensurate to the expenditure requirements.

2.5.3 Challenges of Urbanization

The most important factor that put pressure on ULBs to be more attentive towards their responsibilities is rapid urbanization and newer government initiatives such as JNURM, and Doing business ranking surveys.

India is in the midst of a major urbanization boom. As per Census 2011, the urban population increased from 286.1 million in 2001 to 377.1 million in 2011 indicating 31.81% growth, which is 2.65 percent per annum during 2001-2011. According to United Nations Human Settlements Programme UN-Habitat urban population is estimated to have risen to 420 million in 2015⁴. Total urban Agglomerations in 1991 were 374 which increased to 474 in 2011. India's urban population in the country at present is almost twice the combined urban population of France, Germany and United Kingdom. No other country in the world, except China, has an urban system larger than in India⁵. Maharashtra had the largest urban population of 50.8 million.

Going ahead, by 2030, India's urban population is projected to increase to 600 million. However, this positive trend is also accompanied by its own unique set of issues. Indian cities face challenges in terms of deficits in infrastructure, governance and sustainability⁶.

A strong positive relationship exists between urbanization and per capita income across countries. However, with the rising urban population in cities, there is increased pressure on the basic infrastructure and services like water, sanitation, waste management, housing and transportation. The cities need to cater to the increasing economic activities of the expanding urban areas. The existing infrastructure in Indian cities is overstretched and creaking and cities are not able to deliver basic amenities like clean water, sanitation, housing and public transport to all the citizens particularly the urban poor⁷.

Further, pollution of land, air and water is leading to serious public health and sustainability issues. Increasing air pollution due to traffic congestion and vehicular exhaust, discharge of untreated effluence and sewage in water bodies and insanitary landfills due to non-scientific disposal of solid waste are serious issues primarily caused by the growing urbanization and population increase. Mitigating such negative urban externalities add to the responsibilities of the city governments and to their already overstretched resources.

⁴First published 2016 by United Nations Human Settlements Programme (UN-Habitat) Updated 12 Feb 2018, Cities Report 2016" Urbanization and Development: Emerging Futures.

⁵RinkhuBargayary 'Urbanization and Urban Local Bodies.

⁶**Sunita Sanghi, Devashish Dhar 'A pressing need for a national urban policy'**
file:///C:/Users/Lab2_24/Desktop/Ref%20for%20PT%20Report/A%20pressing%20need%20for%20a%20national%20urban%20policy.html

⁷Cities As Engines Of Growth Bloomberg Quint Opinion Amitabh Kant, Viraj Mehta October 06 2016 <https://www.bloombergquint.com/opinion/cities-as-engines-of-growth>

2.5.4 Urban Poverty

There is a social dimension also that is associated with increasing urbanization which manifests in the form of increasing slums and a large population of urban poor getting excluded from the formal city space. The economic, social and environmental dimensions associated with urbanization would need to be balanced and managed well to reap its full benefits⁸

In 2001, according to the National Report India Habitat III by the Ministry of Housing and Urban Poverty Alleviation about 23.5% of urban households were slum dwellers. This percentage had decreased to 17% by 2011 which is notable. However this decline in percentage should not be looked upon by ULBs as a matter that does not require special focus. There are still substantial households living in slums. The total number of households living in slums had gone up from 10.5 million in 2001 to 13.75 million in 2011⁹.

Urbanization and economic growth go hand in hand. A global experience reveals that growth in economic activities always takes place in cities due to agglomeration economies, increase in productivity, innovations and entrepreneurship. Urbanization in general and cities in particular are considered as an engine of economic growth.

Although cities are spaces of growth, opportunity and hope, they are equally locii of social, spatial and economic inequality, of environmental and public health challenges, and of inadequate infrastructure and governance system¹⁰. Effectively addressing the concerns raised by urbanization at the same time taking advantage of the opportunities brought by urbanization is a tough challenge for ULBs. They have to enhance their capacity to address the challenges posed by urbanization and at the same time harness its full potential.

Knowing the fact that India is increasingly urbanizing, and given the projected increase of 600 million urban populations by 2030, one cannot afford to ignore the fiscal situation of ULBs as they are responsible to address the challenges as stated above. Issues arising from urbanization severely affect the budget of the ULBs.

With the increasing recognition of the contribution of urbanization to economic growth, the strengthening of the fiscal position of municipalities through financial reforms has become a key component in the Government of India's development agenda¹¹.

The performance of ULBs in terms of managing the vast challenges became a concern even for the Thirteenth Finance Commission. This Commission has, for the first time in the history of Finance Commissions, brought in an element of performance based grant in addition to basic grant to ULBs, in which the onus is placed on the State Governments to empower and build capacity in the local bodies through carrying out nine identified reforms¹².

⁸ Ibid

⁹ Causes of Urban Poverty in India How to improve life in the slums, Habitat for Humanity, <https://www.habitatforhumanity.org.uk/blog/2018/08/causes-urban-poverty-india/>

¹⁰ Editorial, Urbanisation, Volume 3, Issue 2, November 2018 Journal, Indian Institute of Human Settlements, New Delhi, SAGE.

¹¹ Municipal Finance Matters, India Municipal Finance Report (IMFR) ADB TA 7334 IND, Om Prakash Principal Team Leader, National Institute of Public Finance and Policy, August 2011

¹² Urban Scenario -Level of Urbanization, Ministry of Housing and Urban Affairs, Government of India Last Updated on : 14-August-2019

2.5.5 Service Level Benchmarks

The then Ministry of Urban Development MoUD and presently Ministry of Housing and Urban Affairs MoHUA has laid down Service Level Benchmarks for urban services like urban water supply, sanitation, SWM, urban transport. Working towards achieving these Benchmarks would bring about a paradigm shift in working of the urban local bodies to provide world class urban services¹³.

Achieving and maintaining the service standards has now become essential for the ULBs, as reporting of the performance in terms of Service Level Benchmark to the higher level governments is mandatory and which can impact their resources.

Exposure to and influence of global community have altered the views and approaches of the government. Economic, social and environmental dimensions have been integrated with the earlier approach. Thus, sustainable and inclusive growth and equal distribution of wealth generated through economic growth has assumed priority in the chain of development policies and programs of the Government. This in turn has had cascading impacts on ULBs. In the new scheme of things, ULBs have to raise funds for Gender Budget (G Budget), Budget for eradication of poverty (P Budget), separate Budget for water supply and sewerage, and a separate budget for physically challenged. Maintaining these separate budgets is a challenging task for ULBs. Not only do they need to exploit the existing matching resources but need to look for new resources.

Box 2.2: Service Level Benchmark

Benchmarking is now well recognized as an important mechanism for introducing accountability in service delivery. It involves measuring and monitoring of service provider performance on a systematic and continuous basis. Sustained benchmarking can help utilities to identify performance gaps and introduce improvements through the sharing of information and best practices, ultimately resulting in better services to people.

Ministry of Housing and Urban Affairs,
Government of India, New Delhi

Source: <http://mohua.gov.in/cms/Service-Level-Benchmarks.php> (Not secure)

Box 2. 2: Service Level Benchmark

2.5.6 Challenge for the ULBs to Share the Cost in Implementation of Government Sponsored Schemes:

Inadequate infrastructure was recognized in the Eleventh Plan as a major constraint on rapid growth¹⁴. In recent years, the GOI has launched a number of schemes and missions to support the ULBs in bridging the gap in infrastructure and basic services, alleviate urban poverty and homelessness, and rejuvenate urban areas. Some of the key initiatives are: the Smart Cities Mission, Atal Mission for Rejuvenation of Urban Transformation (AMRUT), Swachh Bharat (Clean India) Mission, Pradhan Mantri Awas Yojana- Housing for All (PMAY-HFA), Heritage City Development and Augmentation Yojana (HRIDAY). The main objective of these schemes was building social and economic infrastructure and provision of basic civic amenities such as water supply, solid waste management, sanitation, better transportation connectivity, redeveloping old cities, amongst others. Although SBM, JNNURM, AMRUT and SCM are all centrally supported Schemes, contribution from ULBs is essential to receive the Central grant. Despite the major contribution from Government, the ULBs are struggling to even contribute their share in the project cost.

¹³ibid

¹⁴ Planning Commission, India, 2011. "Faster, Sustainable and More Inclusive Growth: An Approach to the 12th Five Year Plan," Working Papers id:4452, e Social Sciences.

2.5.7 Partnering with and Taking Forward the Initiatives of the National Democratic Alliance NDA

Major initiatives taken by the National Democratic Alliance NDA government have wide implications for the economy and particularly the real estate sector. The Make in India movement, launched by the Government of India to encourage companies to manufacture their products in India with dedicated investments into manufacturing covers 25 sectors of the economy, which currently accounts for less than 30% of the economy.

An encouraging upshot of all the above influences is that the identity of Urban Local Bodies ULBs is no longer confined to being a mere service provider. Their role initially shifted from provider to facilitator and now their role has further changed to the booster of economic growth. Expansion of economic activities is going to rely on the efficiency of the ULBs in provision of infrastructure and services. The new city hubs are now confronted with unprecedented challenges such as providing housing and infrastructure water, sewerage, transportation, etc., and addressing the issue of slums.

On one hand ULBs expenditure responsibilities are ever increasing while raising matching resources under the existing municipal finance system is proving inadequate for India's transforming socio-economic realities. The ULBs need to respond to the challenges of public service delivery and provision of infrastructure services in a financially and environmentally sustainable manner.

The discussion so far, suggests that the role of ULBs has become crucial as they are responsible for promoting economic growth and enhancing livability of their jurisdiction. They have to increasingly compete to attract domestic and external private investment flow to their area for economic growth. Their major contribution is assumed to be in terms of creating conducive environment for economic growth, attract investments and contribute to the economic development initiatives. They are expected to tow the government agenda through efficient, effective and responsive provision of urban infrastructure services and facilities with smart technologies.

2.6 Investment Requirements of ULBS

According to a McKinsey 2010¹⁵ report, India needs to spend Rs 9.74 million crore on its cities by 2030, including capital expenditure of Rs 5.31 million crore. The HPEC 2011¹⁶ projects the investment needed by India's core urban infrastructure sectors over the period 2012-31 at Rs 30.92million crore

India annually invests approximately Rs. 1,75,000 - 2,00,000 crore for the development of urban water supply, wastewater disposal services, solid waste management, roads and other ancillary infrastructure. This accounts for just about 1.5-1.7 % of the country's GDP compared with the Asian average of 5.7 per cent. It falls short of requirements by a huge margin and explains the persistence of huge infrastructure shortages across cities and towns despite infrastructure development being central to Missions such as Smart Cities and AMRUT¹⁷.

According to Niti Aayog, India requires an investment of about INR 40-trillion till 2030 to overhaul its infrastructure whereas the revenue of all the municipal corporations put together is not more than INR 1.2 trillion which is approximately one percent of the country's Gross Domestic Product

¹⁵ McKinsey Global Institute, India's Urban Awakening : Building Inclusive Cities, Sustaining Economic Growth, April 2010

¹⁶ The High Powered Expert Committee (HPEC) for Estimating the Investment Requirements for Urban Infrastructure Services, Report on Indian Urban Infrastructure and Services, March 2011

¹⁷Source: Prof. Om Prakash Mathur the Financing of Urban Infrastructure Issues and Challenges-Background note for the Urban Development: Technological solutions and Governance Challenges19-20 April 2018, Ahmedabad, (2018).

GDP. Substantially underfunded mandates include crumbling municipal corporations, which lie at the core of this urban transformation challenge¹⁸.

2.7 Budget for Urban Infrastructure and Services

A review of data on budgetary provisions of the Central state and municipal governments for the Urban Development and Urban Infrastructure as compiled by Prof. Om Prakash Mathur 2018¹⁹ indicates a large part of infrastructure development takes place at sub-state, municipal levels, with these entities being directly responsible for the provision of service. Table 2.2

Table 2. 2: Budgetary Provisions for Urban Development

Tier of Government	Amount Rs. crore	% of GDP
Central government 2016-17	36,946	0.26
State governments 2014-15	43,129	0.28
Municipal governments 2012-13	91,253	1.07

Source: Prof. Om Prakash Mathur: The Financing of Urban Infrastructure Issues and Challenges-Background note for the Urban Development: Technological solutions and Governance Challenges 19-20 April 2018, pg 10, Ahmedabad, 2018

Estimates by McKinsey Global Institute MGI show that infrastructure typically has a socioeconomic rate of return of around 20 percent. In other words, one dollar of infrastructure investment can raise GDP by 20 cents in the long run. The Reports like McKinsey Global Institute’s study on India’s urban awakening: Building inclusive cities, sustaining economic growth April 2010, the High-Powered Expert Committee on Indian Urban Infrastructure and Services March 2011 have identified the infrastructure and services gaps and have estimated the investment requirements. Within Urban India, it is the large cities that generate the bulk of this contribution.²⁰

Cities are the generators of economic wealth and centers of employment and income opportunities. There are varied stakeholders, particularly property holders who are recipient of the unearned benefits from the value created through urban externalities.

2.8 Financing of Core Municipal Infrastructure and Services

Water Supply, Sewerage, Storm water drainage, Solid Waste, Roads and firefighting are the core tasks of the ULBs and represent a tangible and direct link with its citizens. The access to municipal services and the quality of their provision strongly influence the economic, social and environmental performance of any city. The present SLBs in the context of these services is indicative of the need to improve them so as to adequately provide for the current requirements and be prepared for the future.

2.9 Narrow Revenue Base of ULBs in India

For attaining the desired level of Service Level Benchmarks, ULBs require substantial funds. The current status however is that they have a narrow revenue base coupled with inadequate revenue certainty, and buoyancy. The recent economic survey 2017-18 of Gol reaffirms a low equilibrium

¹⁸Restructuring Municipal Revenues for The Future of Sustainable Cities Sayli Udas-Mankikar

¹⁹Prof. Om Prakash Mathur The Financing of Urban Infrastructure Issues and Challenges-Background note for the Urban Development: Technological solutions and Governance Challenges 19-20 April 2018, Ahmedabad, (2018)

²⁰Mc Kinsey Global Institute in collaboration with Mc Kinsey’s Capital Projects and Infrastructure Practice, ‘Bridging Global infrastructure Gaps’ June 2016.

trap LET at ULG level showing inadequate delivery of services – Low Direct Tax Mobilization –Weak Accountability – Inadequate Delivery of Service²¹.

Table 2. 3: Levels of Government - Share of Tax Revenues %

Year	Centre	State	Municipalities	Panchayats
2002-03	44.1	53.2	2.5	0.2
2007-08	50.0	48.1	1.7	0.2

Sources: Indian Public Finance Statistics. Government of India and Thirteenth Finance Commission

As shown in Table 2.2, although the lower levels of government make a higher budgetary provision for urban development Indian ULBs are amongst the poorest in terms of revenue-raising ability and fiscal autonomy Table 2.3 and therefore are unable to recapture the share of wealth generated in the form of revenue from taxes for further reinvestment. They suffer from gross mismatch between their functions and finances. As shown in Table 2.2 the budgetary allocation of Central Government, State Government and ULBs at different times was .26 percent, .28 per cent and 1.07 per cent respectively, against which their share in tax revenue Table 2.3 was 50.0 percent 48.1percent and 1.7percent respectively, exactly in reverse order.

The neglect of urban public finance in India for long is perhaps rooted in the inadequate understanding of the role of the cities and their agglomeration externalities in economic growth²²

Experience sharing during the seminars and training programmes organized by the RCUES of AILSG have often revealed the pathetic financial health of the ULBs. The status as evolved is that, in the normal situation most of the ULBs are not in a position to generate the adequate revenues to respond to the rapidly increasing spending needs, resources needed to renew or even maintain the existing infrastructure, nor do they have the creditworthiness to access capital markets for funds for their future expansion. Any expenditure beyond committed expenditure is almost impossible for them. ULBs are required to maintain certain crucial funds for various purposes either statutorily or by Government orders, however, ULBs are not able to maintain them, and as a result maintenance of infrastructure and services becomes unmanageable for them. Many a times to balance the budget ULBs have to avoid or postpone necessary expenses for example expenditure on O & M. Such delaying or avoidance of necessary expenses adversely affect the maintenance and provision of infrastructure and services. They are not in a position to repay the loans if any taken for the development purpose. It creates hurdles for any further loan. Their revenue resources are not buoyant.

2.10 Financial Downfall of the ULBs.

ULBs in India cannot depend on substantial intergovernmental transfers or even broad base their own taxes. Taxes reserved for the ULBs in 1919 GOI Act included Octroi, Terminal tax and tax on trade, professions and callings, land and property taxes, and tax on value of open land. Tax on consumption or sale of Electricity, Tax on advertisements other than those published in newspapers, tax on vehicles, Capitation tax and tax on entertainment were some of the local taxes recommended for ULBs by Local Finance Enquiry Committee 1951. The Taxation Enquiry Commission 1953-54 had additionally recommended Duty on transfer of property.

However, State Governments appropriated some of the important taxes related to the activities which are local in nature, such as Motor Vehicle, Stamp Duty, NA Assessment, Minor Mineral,

²¹Economic Survey, Ministry of Finance, Govt. of India, 2017-18; p.65

²² Dr. Prasanna K. Mohanty, Financing Cities in India Municipal Reforms, Fiscal Accountability and Urban Infrastructure, 2016, SAGE Publications India Pvt Ltd New Delhi Pg 249

Entertainment Tax, and Profession Tax and established a system of compensating the ULBs for the same. Effectively, all revenue yielding and progressive tax sources have gone to the higher levels of government and the local governments have been left to incur enormous and constantly increasing expenditure, with inadequate own revenue sources and dependence on uncertain external revenue sources. External revenue sources are always less responsive to local control than are locally raised revenues. This has adversely affected the revenue raising capacity of the ULBs leaving them at the mercy of higher Governments. This has also constrained the undertaking of the development projects, and recruiting efficient skilled staff, further diluting the capacity of the ULBS.

2.11 Increasing Dependency of ULBs on Higher Governments

Dr. Mohanty 2016²³ presented state wise data on Municipal Revenues by their source which can be seen in Table 2.4. This Table clearly indicates that the dependency of ULBs on transfers from higher governments is very high.

Almost 44 percent of the revenue of the ULBs is accounted for by transfers from higher Governments, which is not in their control. The amount of installment, time of release etc. will not be available as per the requirements of ULBs in question. Hence a more desirable option would be that ULBs rely on and increase their own sources for optimum delivery of services. , This autonomous status will also increase their accountability. The category of 'others' in the table requires some explanation as it appears to be quite significant in case of some states.

Table 2. 4: Distribution of Municipal Revenues by Source in India %:2012-13

Sr. No.	State	Taxes	Non-taxes	Central Transfers*	State Transfers*	Others
1	Andhra Pradesh	33.5	24.3	7.5	34.7	-
2	Assam	14.9	14.7	11.9	23.3	35.2
3	Bihar	13.2	5.2	28.4	52.5	0.8
4	Gujarat	18.8	12.1	5.4	57.1	6.5
5	Haryana	18.5	24.3	14.9	37.6	4.9
6	Himachal Pradesh	-	-	55.8	44.2	-
7	Jammu & Kashmir	6.1	5.5	31.5	56.9	-
8	Karnataka	20.2	8.8	17.8	53.2	-
9	Kerala	9.8	5.9	39.1	45.1	-
10	Madhya Pradesh	10.0	8.6	8.8	69.2	3.4
11	Maharashtra	53.2	29.9	3.8	9.8	3.4
12	Odisha	10.2	9.2	41.4	33.7	5.5
13	Punjab	69.2	16.8	8.9	2.8	2.3
14	Rajasthan	7.0	32.1	12.0	47.7	1.3
15	Tamil Nadu	21.6	12.0	6.6	56.6	3.2
16	Uttar Pradesh	10.8	5.6	10.4	54.7	18.6
17	Uttarakhand	5.9	3.4	7.6	69.3	13.8
18	West Bengal	20.1	19.1	13.7	46.2	0.8
19	All India	32.0	19.7	9.5	34.5	4.4

Source: ASCI 2014. Based on data furnished by state governments to the 14th Finance Commission of India, Indian Public Finance Statics 2013-14.

The data in Table 2.4 shows the State of Maharashtra as less dependent on Central and State transfers, which is on account of the prevalence of Octroi in Mumbai then. In case of other ULBs with lower dependence is because of Local Body Tax LBT. This needs a clarification in the current context

²³ Dr. Prasanna K. Mohanty, Financing Cities in India Municipal Reforms, Fiscal Accountability and Urban Infrastructure, 2016, SAGE Publications India Pvt Ltd New Delhi

of 101st CA. The data used in the Table for comparison was for the year 2012-13. According to section 246 A of Constitution 101st Amendment Act 2016 'Both Union and States in India now have "concurrent powers" to make law with respect to goods & services'. Accordingly Maharashtra Goods and Services Tax Act, 2017 was introduced. Under the State list, entry 52 entry tax for sale in state has been deleted, which includes Entry Tax, Octroi, LBT, Cess or any other tax levied under it. In Accordance with the Resolution of Government Maharashtra क्रमांक-जीएसटी-2017/प्र.क्र.92/न.नव-32 Maharashtra Goods and Service Tax Act 2017 has come into force and the Urban Local Bodies are being compensated by GST Grant. Thus the dependence of ULBs in the state of Maharashtra on the Government has increased much more than ever before. The implication is that, no ULBs in any State can escape dependency unless determined and sincere efforts are made towards this direction. Dependency all together cannot be eliminated but could be minimized with better efforts.

2.12 Property Tax as a Crucial Own Revenue Source of ULBs.

Since ULBs are to play a more significant role independently as engines of economic growth, they have to find methods of increasing their own revenue. An overview of the Revenue Sources of ULBs shows that the revenue consists of tax and non-tax sources. The main tax sources are generally Property tax and a number of other miscellaneous taxes such as advertisement Tax, tax on non-motorized vehicles as used in Colombia, India and Indonesia, entertainment tax, License Taxes like pet ownership tax etc. Despite its potential, Advertisement Tax, which is imposed on specific types of advertisements, has not been properly utilized as a revenue source. Today it is seen more as an instrument to limit public nuisance than as a major source of raising revenue.

Similarly, there are many other non-tax sources of revenue such as fees, user charges, rents etc. These too have not been used judiciously even in case of rent, the upper limit fixed by the Rent Control Act, never supported resource mobilization. Application of User Charges can also generate significant revenue and have many advantages but are not popular with the ULBs.

Given this background, Property tax alone contributes the lion's share of revenue compared to the other minor taxes and non-tax sources in the revenue basket of ULBs. It is the single most important local government tax in developing countries particularly India. This is illustrated in Table 2.5 below.

The following Table presented by Dr. P. K. Mohanty is the brief analysis of revenues of the ULBs in India by their sources which supports our discussion. It also provides comparative statistics on composition of municipal finances and its growth.

Table 2. 5: Trends in Municipal Revenues in India by Source: 2007-08 to 2012-13

Sr No	Source of Revenue	2007-08		2012-13	
		Total ₹ Crore	% of Total Municipal Revenue	Total ₹ Crore	% of Total Municipal Revenue
A. Own Sources					
1.	Total Taxes	18,366	37.20	30,912	32.00
	Property Tax	8,159	16.53	15,110	15.64
	Other Taxes	10,207	20.68	15,801	16.35
2.	Non-taxes	9,134	18.50	19,002	19.70
	Total Own Source Revenues	27,501	55.70	49,913	51.60
B Other Sources					
1.	Gol Transfers	3,515	7.10	5,387	5.60
2.	Central Finance Commission Transfers	986	2.00	3,760	3.90
3.	State Assignment /Devolution	9,342	18.90	18,537	19.20
4.	State Grant-in-aid	6,653	13.50	14,809	15.30
5.	Others	1,355	2.70	4,234	4.40

Sr No	Source of Revenue	2007-08		2012-13	
		Total ₹ Crore	% of Total Municipal Revenue	Total ₹ Crore	% of Total Municipal Revenue
	Total Other Source Revenues	21,851	44.30	46,727	48.80
C.	Total Revenues	49,351	100.00	96,640	100.00
	Gross Domestic Product at Factor Cost in Current PricesGDP		45,82,086		93,88,876
	Property Tax as %of GDP		0.18		0.16
	Own Taxes as %of GDP		0.40		0.33
	Own Revenues as %of GDP		0.60		0.53
	Gol/ Central Finance Commission Transfers as %of GDP		0.10		0.10
	State Government / State Finance Commission Transfers as %of GDP		0.35		0.36
	Municipal Revenue as a as %of GDP		1.08		1.03

Source: ASCI 2014. Based on data furnished by state governments to the 14th Finance Commission of India, Indian Public Finance Statics 2013-14.

As can be seen from Table 2.5, property tax accounts for the single largest share in the total revenue scheme of the ULBs and particularly in the tax revenue. Share of property tax in the total tax revenue is almost 49 percent and in total own revenue it is 30 percent. Despite its importance and potential to generate revenue the revenue yield from property tax is not buoyant as has been reported in literature.

As the analysis indicates, decline in the taxes from 37% of total revenue in 2007 to 32% in 2013, is largely attributed to the stagnating/declining share of Property Tax 17% and 16% for 2007 and 2013, respectively and substantial decline in the share of other taxes from 21% to 16% of total municipal revenue during the same period. Because of a larger share of devolution from higher levels of government the importance of property tax as a source of financing has been overlooked.

The above analysis leads us to the conclusion that the ULBs in order to cope with their ever increasing responsibilities in a situation of decline in their own revenue resources need to make vigorous efforts to exploit the potential of the Property tax. Time has come to recognize the role of cities as independent and empowered governing units which are accountable to the citizens.

Realizing the fact that the revenue yielding capacity of the property tax is largely contingent upon its base many ULBs in India have introduced reforms either to amend the process of arriving at ratable value or have adopted an altogether new base. Under the Jawaharlal Nehru National Urban Renewal Mission JNNURM, a Property Tax reform being mandatory has resulted in many cities introducing them. It was interesting to understand the reform efforts made by various cities of Maharashtra.

In the State of Maharashtra the Municipal Corporation of Greater Mumbai, Kolhapur Municipal Corporation and Municipal Councils of two towns viz Sawada from Jalgaon District and Kulgaon Badlapur from Thane District have introduced the Capital value base as a part of reforms. It raises the curiosity that despite the options of both the bases statutorily available only a few ULBS have so far adopted the Capital value base.

Annexure 2. 1

Urban-Rural Percentage Shares of Net Domestic Product NDP

Current prices

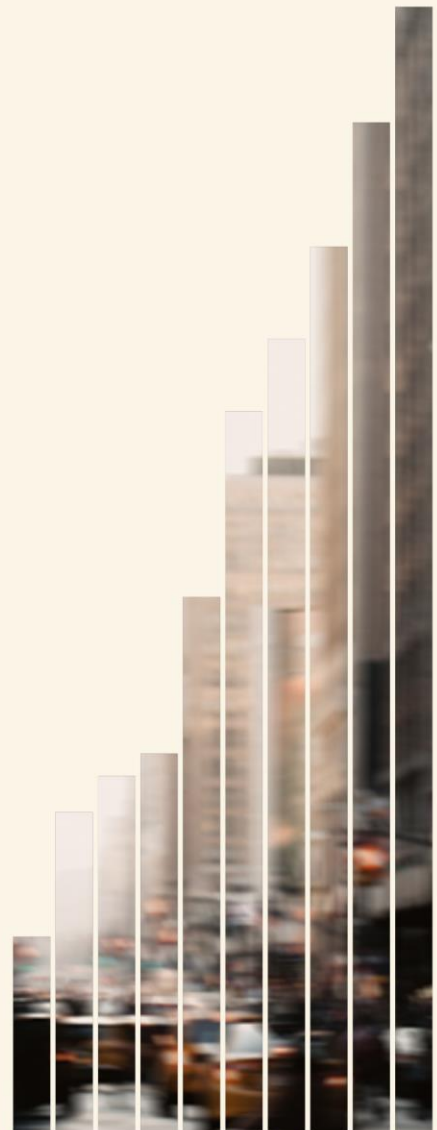
Alternative Estimates of Urban Infrastructure

Source	Sectors	Period	Estimates Rs. Crore
Committee of Ministers constituted by the Central Council of Local Self Government 1963	Water Supply Sewerage Storm Water Drains Urban Roads Street Lighting	-	211.3 at 1960-61 prices annual
India Infrastructure Report 1996	Water Supply Sewerage Solid Waste Management Urban Roads	1996-2006	56000 at 1995-96 prices
Mohanty et al. 2007	Water Supply Sewerage Solid Waste Management Storm Water Drains Urban Roads Urban Transport	2004-2014	630000 at 2004-05 prices
Current Estimates 2011	Water Supply Sewerage Solid Waste Management Storm Water Drains Urban Roads Urban Transport Traffic Support Infrastructure Street Lighting Renewal and Redevelopment including Slums Other sectors	2012-2031	3918670 at 2009-10 prices

Source: Report on Indian Urban Infrastructure and Services 2009-2010 March 2011 The High Powered Expert Committee HPEC for Estimating the Investment Requirements for Urban Infrastructure Services

Property Tax-Principles and practice

03



3: Property Tax-Principles and Practice

The earlier chapters discussed the objectives of the study and the crucial role of ULBs in providing infrastructure services for the structural transformation of India. The analysis highlighted the significance of increasing their finances, particularly through their own revenue sources. It was clear from the discussion that ULBs will have to make determined efforts to enhance the revenue from property tax as their own source of revenue so as to enable them to discharge their fundamental role in development requirements as well as elevate their rank in the 'Ease of Doing Business' statistics. This chapter presents the theory and the overall practice of property tax administration and the broad issues related to it.

3.1 Property Tax

Property tax is the amount periodically paid by a land owner to the Municipal government or the municipal corporation of the area in which the property is located. The property includes all tangible real properties. Entry 49 of List II of Schedule VII to the Constitution of India empowers the state governments to levy "Taxes on lands and buildings" which has been devolved to the local governments. However, in the statutes governing the municipal governments, the State governments lay down the procedures for valuation, exemptions and concessions, the floor and ceiling rates of tax and administrative and enforcement mechanisms on matters such as delays, arrears, and evasion.

Property taxes are generally levied on all types of properties – residential, commercial, and industrial as well as on Land whether open/vacant, being built upon i.e. under construction and depending upon the provision in the municipal act, even land being used for agricultural purpose. Most of the time different categories of property are treated differently.

3.2 Land Value Tax – An International perspective

Land Value Tax LVT is a kind of property tax, when the tax is levied only on land value or tax on land is imposed with higher rate compared to building. In India there is no separate levy on land unless it is open land. When a PT is levied on a Building, value of the land gets merged with the value of the improvement upon it.

In some countries, however, only the land portion of the property is taxed e.g. Kenya and some parts of Australia and South Africa. Land tax is levied on land only and includes Vacant Land Tax VLT, Land Value Tax LVT, and Land Value Increment Tax LVIT. The taxation of land only also known as "site value taxation" potentially may improve the efficiency of land use. In principle, a tax on site value in effect taxes location rents the returns from a particular location regardless of the improvements to the site. Since improvements to land such as structures are not taxed, the owner has an incentive to develop the land to its most profitable use. Compared to a property tax on land and buildings that discourages investment in property, a site value tax thus encourages building and improvements²⁴.

In Europe, Imperial Germany levied taxes on land value increments in 1911, first at the local level and then at the central level. Denmark introduced a tax on land value alone in 1922 and another on value of improvements with lower rate. In 1957, Land Value Increment Tax was also initiated in Denmark which operated till 1965. From 1965 to 1970, local authorities in Denmark were legally permitted to levy as much LVT as they considered appropriate. The highest rate of LVT imposed by local administration was 9 per cent of the market value of land. In November 2005, a unified property tax was put in place in Denmark comprising three elements: land tax at 1.6-2.4 percent of land value, property tax on market value of land and building, and service tax.

²⁴ Richard M. Bird and Enid Slack, 'Land and Property Taxation: A Review' March 2002

3.3 Property Tax: A Crucial Source of Revenue

Any city is a large congregation of people, who work within a clearly defined area. They live, work, produce, consume, recreate within this area. As their activity increases, the city attracts more people and its needs grow. More housing is one of the more obvious needs as the city grows; along with this the need for other community services also increases.²⁵ To provide for these ULBs constantly need more and more funds. To support the needs emerging out of the use of properties in the cities, amongst the resource endowment available to the ULBs, taxing properties through Property Tax, this is local in nature turns out to be the most apt source.

Taxing land and properties allows city authorities to capture the enormous wealth generated by urbanization, and use it for the public good²⁶. It has the potential to not only provide a secured persistent steady revenue stream of income but also enable capital Market access. It can be a good source for creating an escrow account. Property tax PT is the major recurrent tax, based on land and improvements levied by the ULB of the jurisdiction, in which the property is located and is to be paid by landowners or occupants. PT is a generic term which includes service taxes as well. The inclusion of service taxes as a major part of it indicates its purpose as a support provision of property related public infrastructure and services.

Box 3.1: Ad Valorem Tax

An ad valorem (Latin word for "according to value") tax is a tax whose amount is based on the value of a transaction or of property. It is typically imposed at the time of a transaction or imposed annually, property tax.

Box 3. 1: Ad Valorem Tax

In many places it is an annual tax. There are numerous instances where the tax is levied once a year, but can be paid either biannually, quarterly or monthly. It is an ad valorem tax i.e. tax on the value of a property, usually levied on real estate.

Taxes on land and property when managed efficiently provide fiscal and non-fiscal benefits for both the stakeholders, namely, the payee and receiver. Land related taxes are also fairer and more efficient than other forms of tax. It allows governments to share the increases in land and property prices that result from forces outside of the owner's control and are in part a direct result of public investment such as road upgrading. Those individuals who gain more from public services and population growth can be taxed for the benefit of the wider community²⁷. The revenue such taxes produce is often the important source of finance for local governments. The extent to which ULBs have control over property taxes is thus an important determinant of the extent to which they are able to make autonomous expenditure decisions. Hence, the level, design, and control of property taxation in many countries, are critical elements in effective decentralization policy²⁸. Richard M. Bird and Enid Slack March 2002

Property tax has been designed and implemented in different ways around the world, and has existed in some places for centuries and has thus been long tested. According to the International Association of Assessing Officers [IAAO], property taxes exist in about 130 countries with varying importance IAAO 1990.

²⁵ K. Venugopal, 'Towards an Expanding Property Tax Base', Property Taxation in India, Edited by Abhijit Dutta, The Center for Urban Studies, The Indian Institute of Public Administration, New Delhi. February 1983.

²⁶(Paul Collier, Edward Glaeser, Tony Venables, Michael Blake Priya Manwaring, 'Land and property taxes for municipal finance'. Pg 2 July 2018)

²⁷ Ibid

²⁸Richard M. Bird and Enid Slack, Land and Property Taxation Around the World: A Review, March 2002

Table 3. 1: Share of Property Taxes and Total Taxes in GDP

Country	Taxes on Property Percent of GDP	Total Taxes Percent of GDP	Taxes on Property as Percent of Total Taxes
Average of Advanced Economies	1.93	28.28	7.29
Average of Emerging and Developing Economies	1.02	27.66	4.53
Average of Developing Asia	0.33	18.97	1.53
Average of Central and Eastern Europe	0.63	22.68	2.75
Average of CIS and Mongolia	0.63	23.34	2.52
Average of Middle East	0.19	7.75	16.65
Average of Western Hemisphere	1.25	21.14	5.51
Average for emerging and developing economies	0.78	21.57	4.54
Overall average	1.26	24.37	5.68

Source: Lawrence Walters, United Nations Human Settlements Programme UN-HABITAT 'Land and Property Tax: A Policy Guide' Nairobi 00100, Kenya, 2004.

Property taxes has been adopted by 17 out of the 22 countries that are members of the Organization for Economic Co-operation and Development [OECD] and they are the most important source of local revenue in 9 of these countries. The average property tax collection rate among the developing and emerging economies is listed in Table 3.1. The Table provides Local Property Tax LPT revenue and other tax revenue in relation to GDP by country. In India the history of property tax, although in crude form, dates back even before the advent of British Rule.

As stated in 'Land and Property Tax - a Policy Guide' 2011²⁹ property rights are most productively seen as a combination of various elements, such as occupy, enjoy and use, cultivate and use productively, transfer, sell, purchase, grant or loan, develop or improve, rent or sublet, benefit from increased property value or rental income, and access to basic services or to bank credit. Enjoyment of rights must follow the responsibility to pay for it.

3.4 Rationale for Property Taxation

The rationale for property taxation rests on two fundamental principles: the principle of benefits received and the principle of ability to pay.

Under the principle of benefits received, a tax levied on the owners of real property is justified because of the benefits that are received by the owner of the property including the benefit of value addition to the property due to the services of ULB. ULBs provide such services as water supply, sanitation, roads, and fire protection. Because these services directly benefit local property owners, it is the property owners who should share the cost of provision of these services.

In case of rental properties it is tenants who get the benefit of services should pay the taxes. Most of the owners are able to pass on the tax burden to their tenants, either directly as a part of the lease agreement, normally for commercial properties, or as a part of the rent for most residential properties. Regardless, in every taxation system there should be a relationship between the taxes that people pay and the benefits they receive.

²⁹Land and Property Tax A Policy Guide, United Nations Human Settlements Programme (UN-HABITAT), 2011

The second principle states that taxpayers should pay taxes according to their ability to pay. Possession of property are a prima facie indication of ability. Under an ad valorem property taxation system, the value of one's real property is used as a proxy for one's ability to pay. The property tax is therefore a tax on wealth, where wealth is estimated by the value of one's real property. Those who own higher valued properties pay higher property taxes. This principle is also a cause for criticism of the ad valorem tax system because owning a high valued property does not automatically translate into the ability to pay higher property taxes.

3.5 Features of the Tax Making its Levy Appropriate for ULBs

The importance of PT for resource mobilization is long tested and has proved sustainable, secure and reliable and thus a vital source. As urban areas expand, properties in their jurisdiction also increase. Thus this source has the potential to tap such newly upcoming properties for further development programmes.

The property tax has, historically, been associated with local government. One reason that taxes on land and property have been considered to be especially appropriate as a local revenue source is that property is immovable. Because property is immovable and highly visible, it is in principle fairly easy to discover changes in land use, new buildings, building alteration or expansions. Identification and capturing of the value enhancement is obvious. Evasion of the tax is not possible. Moreover being in the local territory, these properties provide administrative ease for taxing them. The property tax takes the character of a benefit tax as owners of property benefit from public services provided by the local governments. Thus Property tax base can be made to serve or utilise for financing certain services rendered to the premises or even general. Much of the literature focuses on whether the tax is regressive old view or progressive new view. However, both approaches neglect the fact that governments might use the revenues for the benefit of taxpayers. Under such circumstances the burden of the tax can be offset by the benefits generated.

3.6 Property Tax: Test for Local Tax

A local tax designed to satisfy these requirements should in principle have the following characteristics Bird 2006:

- The base should be relatively immobile to allow the local authorities to vary the rates without losing the base.
- The tax should yield adequate revenues to meet local needs and should be sufficiently buoyant over time.
- The tax should be stable and predictable over time.
- It should not be possible to export the tax burden to non-residents except to the extent that such burdens capture benefits non-residents obtain from local services.
- The tax base should be visible to ensure accountability.
- The taxpayers should perceive the tax to be reasonably fair.
- The tax should be relatively easy to administer.

Mohanty and others 2007³⁰ have given a few more additional criteria for local taxes such as vertical and horizontal equity, efficiency, transparency, local autonomy and economy. Property Tax if managed efficiently has all the required qualities to satisfy the test of local Taxes.

The tax base is normally defined as assessed value of land together with improvements, or, as only the assessed value of land in the absence of any improvement upon it.

³⁰ P.K. Mohanty, B.M. Mishra, R. Goyal, P.D. Jeromi, 'Municipal Finance in India – an Assessment', Department of Economic Analysis and Policy, Reserve Bank of India, Mumbai, December 27, 2007

There are three Types of values of properties commonly used to arrive at the base value to which the property tax rate is applied to decide the tax liability: Rental Value, Capital Value and Site Value.

Box 3.2: Property Tax Base and Methods of Valuation: Theoretical Approach

Rental value method: Adopted in Hong Kong, Malaysia, Singapore, India, Ghana, Uganda, Niger and Trinidad, this method is based on the concept of rent being reasonably expected to a property in a fair market. Administrators using this method resort to rent surveys validated by expert judgement, or impute rent based on estimated capital value of property or net profit from property.

The merit of rental value method is that it links property tax to rental income of property owner. The difficulties with it are: (a) data on current rents may not be available, (b) some properties such as 'self-occupied' and 'industrial' rarely come to the market, (c) large tracts of vacant lands in cities have no rental value, (d) for properties subject to 'fair rent' under rent control law, tax rates become exorbitantly high, for example, exceeding 200 per cent of annual rental value in Mumbai and (e) rents represent the current use value and not value in the 'highest and best use' of property.

Capital value method: Used in most OECD countries, Latin America and South Africa, this method relies on the value of property in open market transactions. Sydney, Brisbane, Christchurch, Kingston and Nairobi implement site value or unimproved land value tax. South Africa resorts to valuation of land and buildings together. Brazil and Philippines adopt separate valuation of land and buildings. Assessment of land in metro Manila is based on market transactions whereas that of buildings is based on depreciated replacement cost. This approach is followed by most Latin American countries. In Jakarta, land is classified into approximately 100 value zones according to use and location; buildings are categorized into 40 classes, with each class having a determined price per square metre.

The merits of capital value method are: (a) linkage to market value results in revenue buoyancy and productivity of property tax, (b) valuation of vacant land is possible unlike rental value method and (c) tax assessment is equitable as property values reflect benefits, those receiving more benefits paying more taxes. The difficulties with the method are: (a) adequate data on market sales may not be available, (b) in dense central areas of cities, the determination of value of properties with no comparable sales data is difficult, (c) registered property values may be underestimates as buyers underreport value to avoid stamp duty, while sellers underreport value to avoid capital gains tax, (d) property markets in cities of developing countries like India are not well-developed and a large number of transactions in property occur in informal property markets and (e) this method requires professional valuers who may be in short supply.

Area-based method: This method, under implementation in Eastern and Central Europe, India, Vietnam, Nigeria, Tanzania and so on, determines the 'unit area' value for property groups. It adopts simple area or 'calibrated' area that takes into account the characteristics of property such as location, type of construction and nature of use. Bengaluru has adopted a hybrid between an area-based and a value-based method. The merits of area-based method are: (a) it is simple, transparent, fair and easy to implement, (b) rigorous valuation techniques or expert valuer services are not necessary and (c) it can be implemented when property markets are at a nascent stage or are informal. The demerits of this method are: (a) lack of linkage to market value deprives the tax of buoyancy and (b) arbitrariness and subjectivity creep in the classification of properties and fixation of unit values, leading to varying successes. The experiment with area-based tax has been successful in Bengaluru, but not in Delhi.

Sources: Author, Norregaard (2013) and McCluskey and Franzsen (2013).

Box 3. 2: Property Tax Base and Methods of Valuation: Theoretical Approach

3.7 Capital Value vs Rental Value

Regarding Annual Value the attempt is to tax the yearly potential income from properties i.e. Annual Rent.

Various methods have previously been used for assessing the rental value such as; 1 unit basis method for determining the premises like Stables, Hospitals, 2 full house capacity income method for entertainment houses like cinema houses, theatres 3 percentage of gross taking method, contractor's test method. In all these methods discretion of the assessor is involved in assessment of tax. Moreover, assessment of owner occupied properties, open lands would be complex.

Regarding the existing Annual Rental Value System ARV the following defects have been identified in the report on Augmentation of Financial Resources of Urban Local Bodies³¹

- It is not comprehensive.
- It does not bring the 'soaring land prices' within its purview.
- In the cases of premises covered by the Rent Control Act the rents are virtually frozen and therefore there is no tax yield from these properties.
- It has given rise to speculation.
- It acts as disincentive to intensive use of land in big cities. Insofar as the rental value system does not take into account the appreciated value of land, it offers no incentive to the land owner to build as much as permissible under the building bye-laws.

Capital Value CV method is an alternative to Annual Rental Value ARV method in which the tax is related to the prevalent market value of the property and not to the income derived from it as at present.

Capital Value of a property could be sale value or cost value. For the purpose of Sale Value, data of recently sold properties are used for the comparison amongst similar properties and accordingly the sale value is derived. However reliable data is difficult to obtain for this purpose. The cost approach takes into consideration the cost of land and the cost of construction together, if it is a building. In case of open land the cost of open land is considered.

In Capital value assessment system multiple sources of information are used to arrive at an appraised value of a property. Basic land value information is obtained from comparative sales records, realtor and bankers opinions, real estate boards and self-assessment valuation of the base etc. These data are combined in varying ways to estimate land value. Whether the PT is based on the market value of real estate, physical attributes and location of the property or some other model of value, municipal staff must determine the taxable value of each parcel, unless self-assessment system like the income tax or a value added tax is in use where taxable value is by self-declaration.

A Common feature of the Capital value is the scope for the separate assessment of land and improvements. A separate assessment of land and improvements makes it possible for the application of different rates of taxation. Not only is the valuation separate but the basis of valuation also can be different. Land can be valued on comparative cost basis, reflecting the advantages of location and availability of amenities, while improvements are usually valued according to construction cost. For better efficiency, such valuation needs to be based on time to time updated Costs of constructions.

Following are the advantages claimed for this method of assessment.³²

³¹ Government of India, Report of the Committee of Ministers on Augmentation of Financial Resources of Urban Local Bodies, New Delhi, 1963.

Since the current market value is the basis of assessment it can be applied to all types of properties.

- Appreciation in land value would be reflected in the market values of properties and since the tax is based on market values of the properties the tax base would continually expand.
- Since Vacant land would also be assessed at its prevailing market value, it lead towards intensifying the land use in cities.
- One advantage of capital value basis of property tax assessment is that, given regular frequent reassessment, property taxes would be more buoyant with rising capital value. Formation of an elaborate reckoner to guide the assessment and its frequent revision would reflect the values of properties nearer to the market values. Taxing of vacant land would be easier and would lead capturing of appropriate value as a base.

In principle, the CV should reflect the market value of the property, or the price the property would fetch in the market. Accurate factual data of sales or property titles is not available. Due to thin markets, incomplete information of property sales, and limited application capacity, most Indian cities that have adopted CV, use the registered or 'stamp value' of the property as the base for capital value assessment. In fact the values in the stamp duty registers are minimum values maintained for different purpose, thus will not reflect true values. Valuation of properties is one of the biggest challenges for the ULBs of India.

The main constraints in use of CV as base are inappropriate methods, lack of transparency and incomplete records of properties.

3. 8 System of Valuation: Present Status

Even today many cities in India have ARV as a base for the assessment of the properties for property taxation. Municipal Acts in India defined Rental Value as gross annual rent at which property might 'reasonably' be expected to be sub - let from Year to year and 10 percent deducted there from in lieu of maintenance and repair.

Annual Rental Value ARV has been the base prevailing in most of the states in the country. If the property is let out, the rent normally payable becomes the basis of the ratable value. If such rent is either not proper or the premises is vacant or is owner occupied the 'Hypothetical Rent' is used as the basis. The assessment practices then used were influenced heavily by the British system. While ascertaining the hypothetical rent the owner and tenant of the property both were hypothetical and the British assessment system based principles of assessment such as *Communibus Annis, Rebus Sic Stantibus*, in addition to the British Judiciary decisions shepherd the assessment practices, as the assessment practices under annual value system were influenced heavily by the colonial legacy.

While ascertaining the 'Reasonable Rent' various factors such as deduction on account of plant and machinery, short term and long term rents, concessional rents, nominal rents, rents from relatives, sub tenancy, Leave and license made the rent estimation a complicated and discretionary process. Assessment of owner occupied properties was also a challenging task. The fact that the property occupied by the owner himself, hence there being no evidence of rent does not prevent the property from having ARV, neither even prevent owner from receiving the benefits of property related services. Accurate assessment of such properties was difficult.

In an anomalous house letting scenario and estimation of hypothetical rent considerable discretion was in the hands of the assessors, which led to arbitrariness and unreasonable assessment. This also created a caveat for corruption. Owing to the use of discretionary and corrupt practices, prevailing

³²Government of India, Report of the Committee of Ministers on Augmentation of Financial Resources of Urban Local Bodies, New Delhi, 1963.

tax rates of PT, hardly correspond to their actual market value and yields very little tax revenue irrespective of inflation.

Thus the determination of ARV led to many revisions and created a lot of dissatisfaction and discontent. There were litigations that went right up to the Supreme Court SC. The SC through its various verdicts³³ pronounced that the expectations of a landlord for the reasonable Rent/Fair Rent have been circumscribed by the Rent Control Act RCA and thus the civic authorities have to assess the tax within the limit of Standard Rent SR determined under the relevant RCA, irrespective of whether Reasonable Rent/Fair Rent has been determined by the rent control court or not. If it has not been fixed thus, the municipal authorities have to estimate their own figure of fair rent in accordance with the principles laid down in the Rent Control Act. If the owner is taking rent higher than SR and if tenant also is willing to pay it in such case rack rent rating cannot operate as a mode of sharing the benefit of illegal rack – renting. On account of these SC rulings the ARV has lost its relevance.

Box 3.3: Property Tax Waiver in Mumbai for the properties below 500 sq. feet area.

MUMBAI: The state legislative council on Monday cleared the bill which gives residential properties with carpet area up to 500square feet a property tax waiver.

While tabling the bill, chief minister Devendra Fadnavis said the state decided to give a waiver in property tax only in Mumbai as the BMC is financially stable and can take the revenue hit. He said the move will benefit over 75% flat owners in the city. He also said the state government will give its nod to any other municipal corporation that wants to extend the relief in their jurisdiction.

“A few municipal corporations are financially stable and, if they want to give any such relief to residents, they can bring a proposal and the government will support it,” said Fadnavis.

Source:<https://timesofindia.indiatimes.com/city/mumbai/property-tax-waiver-cleared-for-flats-up-to-500-sqft/articleshow/70031974.cms>

Box 3. 3: Property Tax Waiver in Mumbai for the properties below 500 sq. feet area.

3.9 Property Tax: Theoretical Issues and Inefficiencies

Theoretically, PT, being part of the own source of revenue of ULBs, should be buoyant, as values of properties on the basis of which this tax is levied, have continuously been rising over time. Even new high cost luxurious real estates are being developed on a regular basis. This should create buoyancy in the tax assessment of ULBs. However owing to the complexities in assessment procedures this source has become inelastic, adversely affecting their revenue from own sources and resulting into either under spending or increasing their dependence on higher government support threatening their self-government status.

³³The Corporation of Calcutta V/s Padma Devi AIR 1962 SC 151)

The Corporation of Calcutta V/s Life Insurance Corporation of India,(AIR 1970 SC 1417)

Guntur Municipal Council V/s Guntur Ratepayers Association, AIR 1971 SC 353)

New Delhi Municipal Committee V/s. M. N. Soi and Others, (AIR 1977 SC 302)

Dewan Daulatrai Kapoor V/s New Delhi Municipal Committee – 1980

BalbirSingh V/s Municipal Corporation of Delhi, (AIR 1985 SC 339)

A Study on 'Urban Property Tax Potential in India– Cities and Towns' supported by the Thirteenth Finance Commission was carried out by National Institute of Public Finance and Policy New Delhi in July, 2009. The findings of the, study reveal that the enumeration of properties in the municipal tax register; collection rate; assessment and valuation system; extent of exemptions and level of tax rate on all these counts, there are serious shortcomings in municipalities today which hinder efficient collection. Absence of a formal count of properties in municipalities is one of the major handicaps in exploiting the true potential of property tax in India. The percentage of assessed properties actually paying taxes in this 'large city sample' was found to be 63 per cent, and it is estimated that this would amount to 56 per cent of the universe of properties. Even for the house properties actually assessed, poor collection efficiency at 37 per cent of demand for the sample, along with non-indexation of property values exacerbated the problem

The all-India collection of property tax yield from the 36-city sample is estimated to be between a low of Rs. 6274 crore and a high of Rs. 9424 crore, or between 0.16 and 0.24 per cent of the country's GDP. Regarding potential for Property Tax as Report observes i It is clear from the low ratio, that even within the 36 large city sample of assessed properties to the universe of all properties, and ii the low collection to demand ratio, that there is tremendous scope for improvement in revenue from property tax, even without increasing rates, and indeed, even without any structural alteration of the basis of levy. A glaring example of unreasonable exemptions affecting the revenue from property tax is the Municipal Corporation of Greater Mumbai's MCGM decision of waiving of property tax for up to 500 sq. ft Properties. According to DNA³⁴

The BMC gets revenue of nearly Rs.350 crore annually by levying property tax on the capital value of these houses, will now be lost.

The lack of any clear relation between the tax paid and benefits from the ULBs services received makes the tax controversial. The benefits from both revenue productivity as well as equity can be realized only when the value of the property tax base is captured accurately. There are many issues associated with the assessment of properties. Property tax has a virtue of progressive distribution of the burden. Assuming that there is a high relation between property ownership and income levels, if properly designed, the distribution of the tax burden could be progressive. However in practice quite often the assumed relationship is not seen. In many cases the ownership of large property is ancestral, bequeath by mere inheritance and even its maintenance is often beyond the capacity of

Box 3.4: poor revenue productivity of the tax in developing and transitional countries

There are a number of reasons for the poor revenue productivity of the tax in developing and transitional countries and these include (i) ambiguity in ownership and poor information and records about the properties; (ii) predominance of the informal sector in the market for immovable properties and poor information system; (iii) low capacity, lack of interest in reforms and high cost of tax administration in developing and transitional countries to design and enforce the tax; (iv) Visibility of the tax and its unpopularity with the voters as the benefits received are generally not commensurate with the tax paid, and other forms of properties do not attract a similar tax; (v) predominance of vested interests and large scale exemptions and concessions; (vi) arbitrary, uncertain and mysterious ways of determining the tax base; (vii) static nature of the tax base and political difficulties in undertaking periodic valuations; (viii) Wide discretion to the tax officers and high compliance cost associated with the tax; (ix) to add the values of additions and improvements to properties to make the tax base responsive to changes in the values of property in the tax base. Not surprisingly, the actual revenue realization has not been commensurate with the potential.

Source: 'Property Tax System in India: Problems and Prospects of Reform' Working Paper No. 2013-14 January 2013M. Govinda Rao

Box 3. 4 : poor revenue productivity of the tax in developing and transitional countries

³³ DNA Updated: Jul 2, 2019, 06:15 AM IST 'No property tax for up to 500 sq.ft Mumbai homes'

the owner. When such properties are for own use there is no income from the property and if they are rented out, the Rent Control Act shrinks the base. In large cities many properties are given on lease. Determining value of such properties is a challenge. Capturing the value of the high paying non-residential property is complex and hence is considered in multiples of value of residential properties. In case of properties where the evidence is not available such as ancestral property occupied by the owner or the vacant property, Standardization or mass appraisal is applied, wherein standard guidelines in the form of reckoner are used. Ready Reckoner a matrix of values evolving out of observations and varying according to the attributes of the property such as its usage, type of construction, age of property location of property etc. provides the base for comparison and determines the value of any property for the property tax.

3.10 Reforms in the Property Tax Base and Assessment Procedure

Followed by Supreme Court Judgments related to ratable value, many cities have introduced reforms in the procedure for the assessment of properties. Some of the cities also introduced administrative reforms. Reforms in property tax system were also a part of the mandatory reforms under Jawaharlal Nehru Urban Renewal Mission JNNURM. The mandate Under JNNURM as well as the Standardized Service Level Benchmarks for e-Governance in Urban Local Bodies by the then Ministry of Urban Development MoUD emphasizes the need for implementation of an on-line system for property tax, through a proper mapping of properties using Geographic Information System. This would ensure coverage of all properties in their jurisdiction for proper assessment.

Annexure 3. 1**Local Property Tax LPT Revenue in Relation to GDP and Other Tax Revenue by Country**

Country	Year	Taxes on Property Percent of GDP	Total Taxes Percent of GDP	Taxes on Property as Percent of Total Taxes
Australia	2007	2.69	29.48	9.12
Austria	2007	0.58	27.63	2.10
Belgium	2006	3.17	30.24	10.48
Canada	2007	3.38	29.58	11.43
China, PR: Hong Kong	2006	2.80	12.72	22.01
Cyprus	2007	2.64	57.63	4.58
Denmark	2007	1.87	48.02	3.89
Finland	2007	1.12	30.81	3.64
France	2007	4.55	26.76	17.00
Germany	2007	0.85	23.96	3.55
Greece	2007	0.98	20.15	4.86
Iceland	2007	2.41	38.25	6.30
Ireland	2007	0.83	26.00	3.19
Israel	2007	2.89	30.72	9.41
Italy	2007	0.81	29.95	2.70
Japan	2006	0.30	18.16	1.65
Luxembourg	2007	1.60	26.20	6.11
Malta	2007	1.66	28.47	5.83
Netherlands	2007	1.71	24.88	6.87
New Zealand	2007	1.67	33.44	4.99
Norway	2007	1.19	34.33	3.47
Portugal	2007	1.21	24.85	4.87
San Marino	2002	1.18	23.52	5.02
Singapore	2007	1.06	14.38	7.37
Slovenia	2006	0.61	23.76	2.57
Spain	2007	3.01	25.07	12.01
Sweden	2007	1.16	35.88	3.23
Switzerland	2006	2.37	22.68	10.45
United Kingdom	2007	4.53	29.35	15.43
United States	2007	3.11	21.58	14.41
Group Average		1.93	28.28	7.29
Emerging and Developing Economies				
Africa				
Congo, Rep. of	2005	0.30	6.74	4.45
Lesotho	2006	0.66	58.34	1.13
Mauritius	2007	1.31	16.63	7.88
Morocco	2007	1.61	26.16	6.15
South Africa	2006	1.70	30.36	5.60
Swaziland	2003	0.54	27.72	1.95
Group Average		1.02	27.66	4.53
Developing Asia				
Bhutan	2000	0.04	10.73	0.37
China, P.R.: Macao	2007	0.82	24.82	3.30
Maldives	2007	0.14	21.17	0.66
Thailand	2007	0.22	17.40	1.26
Vietnam	2003	0.42	20.72	2.03
Group Average		0.33	18.97	1.53

Country	Year	Taxes on Property Percent of GDP	Total Taxes Percent of GDP	Taxes on Property as Percent of Total Taxes
Central and Eastern Europe				
Bosnia and Herzegovina	2007	0.51	26.43	1.93
Bulgaria	2007	1.50	26.14	5.74
Croatia	2007	0.42	26.68	1.57
Czech Republic	2007	0.44	20.29	2.17
Estonia	2007	0.23	21.66	1.06
Hungary	2007	0.81	25.89	3.13
Latvia	2007	0.53	22.20	2.39
Lithuania	2007	0.29	20.91	1.39
Poland	2007	1.11	23.08	4.81
Romania	2006	0.74	18.93	3.91
Slovak Republic	2007	0.37	17.26	2.14
Group Average		0.63	22.68	2.75
CIS and Mongolia				
Armenia	2007	0.24	16.37	1.47
Belarus	2007	1.58	35.63	4.43
Georgia	2007	0.63	21.58	2.92
Kazakhstan	2007	0.65	18.13	3.59
Moldova	2007	0.43	25.66	1.68
Ukraine	2007	0.24	22.67	1.06
Group Average		0.63	23.34	2.52
Middle East				
Egypt	2007	0.24	15.64	1.53
Iran	I.R. of 2004	0.30	7.53	3.98
Kuwait	2007	0.04	0.09	44.44
Group Average		0.19	7.75	16.65
Western Hemisphere				
St. Kitts and Nevis	2006	3.00	22.22	13.50
St. Vincent and the Grenadines	2004	0.21	23.82	0.88
Argentina	2004	2.64	22.90	11.53
Barbados	2004	2.37	31.57	7.51
Bolivia	2007	2.89	24.52	11.79
Chile	2007	0.57	22.71	2.51
Costa Rica	2007	0.79	15.76	5.01
Honduras	2007	0.46	16.69	2.76
Jamaica	2005	0.20	24.19	0.83
Paraguay	2007	0.37	12.27	3.02
Peru	2007	0.20	15.89	1.26
Group Average		1.25	21.14	5.51
Average for emerging and developing economies		0.78	21.57	4.54
Overall average		1.26	24.37	5.68
Source: IMF Government Finance Yearbook, 2008, Table W4				

Property Tax Reforms in India

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4: Property Tax Reforms in India

4.1 Introduction

The municipal governments in a number of Indian cities have adopted the capital value base method for property tax since 2004. Under this method, a city is divided in zones on the basis of development. The zone wise values per unit of land are estimated on the basis of Stamp Duty rates, and the tax base is the product of this unit value and land area, plus the value of the property determined by some multiplicative factors, such as type of construction, use of the property, Age of the property etc. The potential gains of the new method might not have been fully realized partly because of the distorted real estate market, inaccurate information on property values and high transaction costs that adversely affect land prices.

In Maharashtra all the cities except Mumbai and Kolhapur Municipal Corporations and municipal councils of Sawada and Kulgaoon Badlapur many cities from other states also use Annual Rental Value ARV base for the assessment of the properties. However, in these cities there are number of properties the ARV of which cannot be decided. Therefore, for the assessment of properties Mass Assessment system i.e. use of guidance values in the form Ready Reckoner are developed and being used for uniform application. The city is divided into Zones with values attached to each zone. ARV is a product of zonal values with multiple weight age varying according to the categories of use, type of construction, road frontage, age of the building etc.

In terms of tax administration, use of such area or zone-based system as a standardized way of assessing the tax base, which has been used with both rental values as well as capital values as the base for valuation has provided administrative ease, transparency. To certain extent vertical as well as horizontal equity also can be achieved. This system has also been approved in the case of Area Based model developed for the assessment of properties of Patna Municipal Corporation. These systems facilitate the application of Self-Assessment System SAS wherein the taxpayers themselves can assess the values of their own properties and make the payment of taxes online without waiting to receive the bill from the ULB. This also enhances the recovery of the taxes.

A report by NIUA 2010³⁵ has discussed the methods of assessment introduced by some cities. According to the report, Patna, Indore, Chennai, Hyderabad, Bangalore and Ahmadabad have introduced unit area assessment system using certain criteria like area, use, location, age etc. For example, in Ahmadabad, the tax is calculated directly based on certain criteria enumerated in a ready reckoner Unit Area. Whereas in other cities, the tax base in the form of annual value which is estimated first and then the tax rate is applied to estimate the tax Area Base. Bangalore had introduced area- based system on voluntary basis and has recently taken a decision to introduce capital valuation system. Kolkata and Bhubaneswar have amended their municipal laws to introduce area- based system. Pune and Ludhiana continue to have the Annual Ratable Value ARV system of assessment. In Ahmadabad, one of the benefits after implementing the area based assessment system is that the number of litigations in the last two years has become nil due to increased level of transparency. The Kolkata Municipal Corporation KMC and Newtown Kolkata Development Authority NKDA have recently adopted the Unit Area Method of Property Tax.

This system is simple and transparent, and property owners can self-assess their tax and submit the returns. Multiplicative factors account for the wide heterogeneity among properties within a conceptual block. This system is expected to reduce disparity in assessment of similar properties within the same locality and thereby ensures equity to the taxpayers, efficiency in tax collection, neutrality in resource allocation, and accountability of tax officials. Equity in property taxation is both horizontal and vertical. Vertical equity refers that a tax should be progressive in income or

³⁵Best practices on Property Tax Reforms in India' National Institute of Urban Affairs (NIUA) March 2010.

wealth. Horizontal equity, on the other hand, refers that taxpayers with equal ability to pay ought to have similar tax burdens.

The advantages of revenue productivity as well as equity can be realized only when the size of the tax base is captured accurately. There are severe problems associated with determining the values of immovable properties, particularly in developing countries.

The main determinants of increase in revenue from property tax are a combination of; Prompt Process of valuation of properties, proper coverage of properties under tax net, collection efficiency and regular periodic revision of rates.. The Jawaharlal Nehru National Urban Renewal Mission emphasized on improved methods of property tax assessment, accompanied by appropriate administrative reforms. It also suggested Property surveys and usage of GIS technology within an integrated framework to ensure better coverage of the properties. Also, computerization of property taxes, regular revision of rates, more user friendly tax system and making tax enforcement a priority were emphasized by Jawaharlal Nehru National Urban Renewal Mission JNNURM.

Bangalore has experienced a sharp rise in the property tax revenues after moving to the unit area based approach, while Ahmedabad has benefitted through technical advancements like usage of the GIS system which led to the highest number of assessed properties per 1,000 populations. A sound legal framework plays a prominent role in realizing the gains from a transformation in the valuation methods. Gnaneshwar 2009 in his study based on municipal corporations from Andhra Pradesh, Tamil Nadu and Karnataka established that the gains in Karnataka from moving to a Self-Assessment System SAS of property tax has been the maximum because of the fact that in Karnataka, the reform has been executed with a revision in the legal framework whereas in the other two states the existing legal provisions were used.

4.2 Property Tax Reforms in Bangalore

The property tax reforms in Bangalore among other ULBs show promising results in yield from the property tax. The reform efforts have been overviewed in the following paragraphs.

4.2.1 Situation prior to the introduction of PT reform

In the absence of proper guidelines the method of assessment prior to the reforms was arbitrary and discretionary. The discretion in the assessment was leading to the dissatisfaction of the citizens and also led to leakage in the corporation revenue. The Karnataka Municipal Corporation KMC Act, had stipulated that taxation norms are to be revised once every five years. However this had not taken place since 1972

Earlier in 1988 an attempt was made by BMC to introduce the Self-Assessment System when the State Government issued guidelines to implement a reform package for the Property Tax System PTS. However the effort was not successful as the Municipal Council at first sanctioned funds for carrying out the reforms, but the fear of weakening their control over their vote bank made them withdraw the sanction. The Council forced them to withdraw the SAS on the grounds of technical flaws.

4.2.2 Background for the Reforms

Bangalore which historically had been primarily a quiet pensioners paradise turned into a rapidly growing commercial hub popularly called the “Silicon Valley” of Asia. This resulted in increased demand for both quantity and quality of public infrastructure and services. The city increasingly started becoming a focus of global and national attention. With Bangalore becoming a centre of global software development, the concomitant rapid growth in demand for civic services, has put tremendous pressure on the municipal bodies to find the resources and capabilities to provide the required services. There was additionally political pressure, with the Chief Minister promising to make Bangalore like Singapore in a short time

span. The increased attention led to more pressure on the BCC to reform. The Asian Development Bank had initiated systems for property tax reforms in a number of Asian cities, including Bangalore.

Earlier the Bangalore city had a very buoyant source of revenue like Octroi. Hence, there was no apparent need to look for additional revenue. However, on abolition of Octroi, the revenue resources fell way below the expenditure needs. Expenses increased due to heavy debt servicing and pay scale revision which put additional burden on already crunched resources. It became imperative to make efforts to increase the revenue. All these factors resulted in the introduction of Property Tax Reforms.

In Bangalore, the reforms were undertaken in two phases. The first phase started in 2000 with Bangalore City Corporation initiating the optional Self-Assessment System. After BBMP was formed, the process was revamped and the second phase was initiated.

4.2.3 Introduction of the Self-Assessment System

In April 2000 Bangalore introduced optional Self-Assessment System SAS. The optional SAS is a system for computing property tax based on the annual ratable value which is the probable gross rent of a property. The Computation based on a formula that included factors such as location, built-up area, type of construction, usage, occupancy. Consideration for occupancy was intended as the rebate was for own use, and age for depreciation. It was a self-declaration scheme The Self-Assessment System of Bangalore City Corporation Introduced in April 2000, represented a radical change.

For the purpose of assessment, the city jurisdiction was divided into 6 land value zones A, B, C, D, E and F based on the published guidance values of the Department of Stamps and Registration. Being a time consuming process the Karnataka Municipal Act 1976 was not amended and instead the scheme was made optional to avoid legal challenges. A cap on property tax increase was set at 2.5 times the existing liability. Moreover, the assessment was to remain in force for next five years, which assured the certainty to the tax payers for stability of rates and protection against the increase in tax liability within a short time frame. At the same time for filing wrong information there was a penalty of paying double the taxable amount evaded along with 2% interest per month. Eight public sector banks were identified to file the tax return and 50 payment clinics were opened to assist taxpayers for filing tax returns. The Government set up Bangalore Agenda Task Force BATF as a private sector group of technocrats and eminent citizens to understand citizen concerns by reaching out and suggesting solutions.

SAS was envisaged as a measure to rationalize and streamline the existing PT process. SAS entailed a change in the mode of taxation in that the onus of assessment and remittance of tax dues was shifted from revenue officials to property owners. The ARV, which formed the basis for computing the property tax, was de-linked from the Rent Control Act. A comparative statement of change in Property Tax Revenue under Annual Rental Value system Before Reforms and under Area- Based Assessment after Reforms is presented in Table 4.1.

Table 4. 1: Bangalore City Corporation - Property Tax Revenue

Rs. in Millions					
Under Annual Rental Value Before Reforms			Under Area- Based Assessment After Reforms		
Year	Revenue	Growth Rate	Year	Revenue	Growth Rate
1995-96	490.00		2000-01	1570.00	33.05
1996-97	600.00	22.45	2001-02	1630.00	3.82
1997-98	850.00	41.67	2002-03	1670.00	2.45
1998-99	980.00	15.29	2003-04	1950.00	16.77
1999-00	1180.00	20.41	2004-05	2000.00	2.56
			2005-06	2300.00	15.00

Source: National Institute of Urban Affairs, December 2009' Documentation of Best Practices, Volume 2: Urban Reforms Under Peer Experience and Reflective Learning PEARL, JNNURM', New Delhi

Table 4.2: Bangalore City Corporation - Number of Properties, and Property Tax Assessment.

Year	Revenue Collected		Assessed Properties		Property Tax Collected per Property
	Amt in Cr.	% Increase	Number	% Increase	
2002-03	167.00		450743		3705
2003-04	195.00	16	504872	12	3862
2004-05	2000.00	2.6	547354	8	3654
2005-06	230.00	15	588791	7.6	3906
2006-07	347.00	51	668535	13.5	5190
2007-08	449.00	29.3	900000	34.6	4988

Source: National Institute of Urban Affairs, December 2009'Documentation of Best Practices, Volume 2: Urban Reforms under Peer Experience and Reflective Learning PEARL, JNNURM', New Delhi.

The results were dramatic. As can be seen in Table 4.1, Property tax collection increased by 33% in 2000-01 revealing that taxpayers were keen to get the middlemen out. There was an increase in the collection rate, an increase in the number of properties on the tax roll, and an increase in tax per property. This one time sharp increase was to be expected. But growth in collections dropped sharply to 3.8% and 2.5% in the subsequent two years. Since SAS was voluntary, most owners of new properties did not join in. Table 4.2 indicates continuous increase in per property tax collection except for the years 2004-05 and 2007-08. The system needed to be supplemented by strong enforcement, random checks and stringent recovery provisions. Such efforts in 2003-04 and 2005-06 yielded results as revenue growth picked up to 15-16% per annum.

4.2.4 Shift to the Mandatory SAS Based on Unit Area Value system

In January 2007 Bangalore Mahanagar Palike BMP was expanded from 240 sq km to 800 sq km to form Bruhat Bangalore Mahanagar Palika BBMP. While erstwhile areas under City Municipal Councils CMC and Town Municipal Councils TMC were collecting property tax under the CVS Scheme, the erstwhile areas under BMP were following ARV system. With the merger of the erstwhile CMCs and TMCs with BMP, there were two methods of property tax assessment system in one city. While erstwhile CMCs and TMCs were collecting PT under CVS the erstwhile BMP area was following ARV system. Hence it became urgent to bring in uniformity in the assessment procedure. Due to the resistance of the taxpayers from moving to CVS, Area Based System was uniformly adopted for the entire BBMP jurisdiction.

Thus, in 2008, from the experience of optional SAS-2000, Bruhat Bangalore Mahanagar Palika BBMP shifted to a mandatory System of Self-Assessment based on Unit Area Value system. State Government amended the Karnataka Municipal Corporations KMC Act 1976 to introduce property tax assessment under Unit Area Value UAV system. As mentioned in the BBMP Property Tax Handbook the assessment and design of the property tax system under UAV was exactly similar to the old optional SAS under the Annual Rental Value ARV system. Under the earlier SAS ARV system, property was assessed on the basis of its location, quality of construction, usage, occupancy and the age of the building. All these physical and usage features of the property were taken together and the annual rental value per square foot per month was determined. The Ministry of Urban Development, Government of India, has termed such method of property tax assessment as Unit Area Value.

In the KMC Act a new Section 108A has been inserted with corresponding Rules for property tax assessment on the basis of Unit Area Value. The Unit Area Value under this section is defined as: " an average rate of expected returns from the property per sq.ft., per month determined by the Commissioner, BBMP on the basis of the average market rate determined through mass appraisal method or real estate market information or any other reliable source or combination of these sources that Commissioner may consider it as sufficient and reasonable having regard to the location, type of construction of the building, parking area of vehicles in non-residential building

where it is charged and such other criteria as may be prescribed. Different rates may be determined for different area or street by classifying into zones, different nature of use to which the vacant land or building is put and for different class of buildings and vacant lands". Section 108A and the Rules Under new system provided a legal basis for determining property tax under an area based system. With this new Section and the Rules both the taxpayer and the officials of Palike are guided by clear set of Rules that govern the UAV system.

With respect to the implementation of SAS, besides the endorsing authorities and revenue officials, other stakeholders such as property owners, media, private enterprises, the BATF consortia, and nongovernmental organizations also joined together.

Reforms of Property tax have also been accompanied by attempts to introduce Geographical Information Systems GIS for mapping the properties.

While Bangalore had become a centre of global software development, and was experiencing rapid growth in demand for civic services, the Corporation was hard pressed to find the resources and capabilities to provide the services required to cater for the growth in population and associated demands on infrastructure. This compelled BBMP to shift to the new systems of assessment.

4.2.5 Implementation of the Self-Assessment Scheme

The SAS is based on the Capital Value System CVS wherein the property tax is based on the market value of the property—it is calculated as a percentage of both the value of land and building taking into account depreciation. The Bangalore City Corporation BCC will fix the actual percentage of tax on each category. As per the new SAS, each category will have uniform percentage.

SAS was no longer based on the fair rent, and instead unit rental values were fixed to be used for computing rental values of properties. These values were based on land registration estimates provided by the Department of Land Records and are subject to revision once every five years. This change was expected to reduce subjectivity in assessment and enhance transparency and accountability in the PTS. A second change that SAS was expected to bring about was the replacement of the practice of door-to-door collection of taxes by self-assessment and remittance by property owners themselves at designated collection counters such as banks. With property owners responsible for assessment of individual taxes, it was also expected to reduce the number of appeals, thus reducing the pressure on the appeals system and reducing the dependency of the citizen on the BCC for resolution of the cases. In the words of a senior BCC official: "Rationalization was expected to bring in uniformity and transparency into an extremely complex and opaque system where there were few standard norms for assessment and extremely limited powers for the BCC to incriminate defaulters".

Table 4. 3 : Bangalore City Corporation Property Tax Revenue

	Non Residential	Residential	Vacant Land	Residential cum Non Residential	Total
2008-09	2844.6	3845.6	243.7	547.0	7480.9
% of Total	38.02	51.41	3.26	7.31	100.0
2009-10	3259.5	3592.7	375.2	742.6	7970.0
% of Total	40.9	45.08	4.71	9.32	100.0
2010-11	4028.7	5341.0	815.6	894.7	11080.0
% of Total	36.36	48.2	7.36	8.07	100.0
2011-12	4400.6	5721.6	979.0	998.8	12100.0
% of Total	36.37	47.29	8.09	8.25	100.0

Source: M. Govinda Rao, 'Property Tax System in India: Problems and Prospects of Reform' Working Paper No. 2013-114 January 2013, pg 10, National Institute of Public Finance and Policy New Delhi

Note: Figures in parenthesis denote percent of total. Source: Brihat Bangalore Mahanagara Palike.

The new legislation stipulates a mandatory random check of 15% of the returns filed each year and provides for penalty for false declaration. The tax paid by all taxpayers is uploaded on the BBMP Website. Taxpayers can see how they have paid compared with their neighbors and this has a positive reinforcing effect on payments. Collection registers, which are currently maintained at each zone, are being computerized.

The results have been phenomenal. The number of properties covered have increased from 7 lakh in 2007-08 prior to reform to 8 lakh in 2008-09, 9 lakh in 2009-10 and 12 lakh in 2010-11 the total number of properties as per GIS is 15 lakh. The amount of tax collected has increased from Rs 430 Cr in 2007-08 to Rs 780 Cr in 2008-09, Rs 880 Cr in 2009-10, and Rs. 1,120 Cr in 2010-11³⁶.

4.2.6 Administrative Reforms

As part of JNNURM PT reforms, GIS based PT System was introduced in BBMP in collaboration with the NIC since March 2012. The inventories of all the properties within BBMP were developed with the help of satellite images from IKONOS and Google. Field Surveys were carried out to get the approximate land dimensions, number of floors, land use, plot numbers etc. All the properties of BBMP have been registered as identified through GIS system and a unique Property Identification Numbers PID were assigned to each property. PID is a numeric combination of ward number, street number and plot number. The validation of the properties with vital statistics such as owner name, address of the property etc. is being carried out by revenue officials of BBMP. The updated information of new PIDs is then uploaded on the web based search engine. Total of 16.19 lakh properties have been issued with unique PID through GIS survey which includes an addition of 1.01 lakh newly identified properties in 2013-14. This had helped in bringing all the 'missing properties' under the tax net. The GIS maps with PIDs are available to the staff of all the city centres functioning in BBMP, where online payments are processed. The MIS data of properties are again validated and updated as and when citizens pay the property tax. The personnel of the revenue department from BBMP collect the updated information of the properties and prepare a report of the defaulter cases.

Implementation of the online SAS in which property owners can calculate the PT to be paid using the 'User Friendly Web Based Tax Calculator' had proved to be a success in BBMP. This IT enabled calculator assesses PT based on parameters like category, type of house, year of construction, zone, built up area etc. One can assess one's property and calculate how much PT one had to pay in minutes. Due to this system not only has the tax revenue gone up, but the consequent transparency has raised the credibility of BBMP.

4.2.7 Citizen Interface Mechanism

An important element of reform in PT was the convenience and availability of various payment mechanisms. As a result of the JnNURM, PT reform, BBMP tax payers can make hassle free payments anytime using credit/debit card online. Other alternative payment options like help centers Citizen Service Centre, Bangalore One, collection counters in the corporation and banks etc. have made tax payment convenient for the citizen.

The Citizen Service Centres provide various services such as payment of property tax, obtaining mutation certificates of properties Khatha Certificate / Khata Extracts, applications for registration of khathad, application for sanctioning of building plans, birth and death certificates, complaints/requests and suggestions etc. It is a single window service delivery point for the citizens of BBMP.

BBMP had introduced Spandana <http://sasbbmp.com/> spandana, an online complaint registration system that enables citizens to register grievances online or by SMS. The complaint registration

³⁶ Isher Judge Ahluwalia, Financial Express, Bangalore gets it right on property taxes, Updated : June 29,2011.

system of BBMP had an exclusive 24 x 7 Citizen Call Centre that facilitates registering of complaints related to administration, electrical, engineering, forest, health, and horticulture and revenue departments. Cumulative complaints received from these sources are tracked and a definite resolution is being provided for in the least possible time. The success of Spandana is apparent from the fact that more than 2.25 crore complaints had been registered since the introduction of this system on March 2014.

4.2.8 Situation after Implementation of New PT

Bangalore has seen an increase in revenues through PT after the implementation of PT reform as summarized below: Progress Report on Urban Reform Agenda, March 2014

- As per the latest Appraisal report of March 2014, the coverage ratio in the core area of BBMP had increased from 89.1% in 2012-13 to 95.8% in 2013-14. In the expanded BBMP area the coverage ratio had increased from 84.4% to 87.55% in the same period.
- In 2013-14, total number of properties assessed in the core area was 7,12,206 of which 6,82,429 have paid property tax 91.8%. In BBMP area the total number of properties are 16,17,400 out of which tax was collected from 14,16,089 87.5%.
- The collection ratio from PT in the core area had increased from 90.8% to 91% whereas the collection ratio of BBMP as a whole had decreased from 75.5% to 73.5% during 2012-13 to 2013-14.

In 2013-14, in the 3 core areas, against the tax demand of Rs. 852 crore, the tax collection was Rs.755.5 crore 91% collection against demand. In the same year in the entire BBMP area, the tax demand was Rs. 1800 Crore and the collection was Rs. 1323.2 crore 73.5%. It is to be mentioned here that some PT collection in BBMP suffers from arrears locked in dispute cases.

4.2.9 Sustainability

Most cities introduced the Area – Based System during the year 1999 and 2002. However, after this first revision of property tax none of the Urban Local Bodies ULBs have been successful in revising the property tax assessment except Bangalore. BCC has shown a way how the area-based system can be as effective and revenue productive as in a system under capital Valuation.³⁷

4.2.10 Lessons Learnt

The Property Tax Reforms in Bangalore show that a rational, transparent and equitable system is always acceptable to the tax payers. Pre requisite for reforms is good MIS. Application of GIS is equally important.

4.3 Property Tax Reforms in Patna

The city of Patna has been at the forefront of property tax Award Winning and pioneering reforms. This information is based on literature survey.

4.3.1 Situation prior to the Introduction of PT Reform

Before PT reforms were introduced in 1992-93, Annual Rental Value method was prevailing in the city for property tax assessment. As per Patna Municipal Corporation Act in 1951, the basis for assessment was Annual Value, defined as gross annual value rent at which the holding may reasonably be expected to be 'let.' This had scope for discretion and the tax inspectors were making

³⁷ National Institute of Urban Affairs, December 2009' Documentation of Best Practices, Volume 2: Urban Reforms under Peer Experience and Reflective Learning (PEARL), JNNURM', New Delhi.

assessments inconsistently and irrationally. The prevailing tax rate of 43.75% in Patna Municipal Corporation was also fairly high. The Property Tax included five taxes/cess viz holding Tax, Latrine Tax, Water Tax, Education Cess and Health Cess. The high rate of taxation gave rise to more arbitrary and unreasonable assessment by the tax inspectors leading to corruption and unscrupulousness.

For the Implementation of the new reform in PT, the following steps were taken in consultation with other stakeholders.

After the discussions with the officials in the Revenue Wing of Corporation, adoption of Unit area method was decided. Owing to the complexity of the issue the new system was decided to be introduced in a phased manner. The following three main indicators were decided to be used for fixing the value. I location, ii type of construction and iii use. A survey of properties was conducted by the staff to compute average rent to develop the Table of rates as per different attributes. Using these parameters a Table of rates to arrive at ratable value was developed. To ensure adaptability of the new system among the people the property tax rates were reduce from 43.75% to 9% of Annual Value. Municipal staff was exposed to modalities of the new system. Simultaneously, popular support for the change was generated. An awareness campaign and media exposure was part of the reform. The commissioner launched a consultation and awareness process. It included structured and informal meetings with the Political functionaries, Government officials, legal experts and local leaders and public awareness through print and electronic media.

A notification issued by the state Government for the adoption of the new method was prepared in consultation with legal experts and other concerned officials. The most important clause of the notification was that the annual rental value means the rent that a holding is capable of fetching over a period of one year. The notification also included the reduction of tax rates.

The new rules were framed to lay down definite criterion for assessment of tax which included I location of holding, ii use of a holding iii type of construction and IV measurement of the carpet area. For defining location of a holding, the different areas of the town were classified on the basis of principal Main Road, Main Road and all other roads not falling in the first two categories. Twenty-four Principal main Roads, Eighty-eight Main Roads, and the rest as other roads were notified.

For ascertaining the use of holdings, the properties were classified under three categories of use namely

- Fully commercial/industrial ;
- Fully residential; and
- Others.
- To distinguish on the basis of type of construction, the buildings were classified into three categories namely;
- Pucca with RCC;
- Pucca building with asbestos or corrugated sheets and
- Others.

Thus it became a matrix of three multiplied by three multiplied by three. The Corporation notified the rate per square feet which were fixed on the basis of guide survey and informal discussion with the residents of selected area. Assessment procedure on the basis of new rules was initiated with the help of 19 probationers from State Administrative Service.

The rules were challenged in the Patna High Court in early 1994. The Division Bench in its judgment appreciated the idea of determining the ARV. But the High Court invalidated the rule on the ground that they violated Article 14 of the Indian Constitution and suggested a larger classification. The State of Bihar and the Patna Municipal Corporation PMC challenged the correctness of the High Court decision in the Supreme Court. The Supreme Court struck down the High Court judgment in 1995 saying that the new system was being designed with good intention and it must be allowed to continue. It was indicated that a larger classification if evolved would be too complex and elaborate,

it would leave too much discretion to assessing authorities elimination of which is one of the main objectives of the rules. Court also noted that the assessment rule does not entail undue burden on urban taxpayers. The Supreme Court further said that a new system with good intention is designed in the interest of the body of house-owner taxpayers as well as the Corporation. This judgment not only allowed PMC to go ahead but also paved the way for replication of Patna Model.

4.3.2 Situation after Implementation of New PT

Patna Case provided a model method for adoption of area-based method for assessment. It is a simplified, legally tested method which is, administratively tried and practically feasible. It has brought transparency and reasonableness in assessment, minimized discretion, eliminated a time consuming process whereby assesses had to furnish details on-cost, rent, furniture, fixture etc. The robustness of the reform can be gauged from the fact that despite a reduction in the rate it increased the municipal revenue. Most importantly the new definition of ARV provided scope for revision which was limited earlier. The new rates led to better tax compliance.

4.3.3 Sustainability³⁸

- The Patna model has improved the municipal revenue substantially. The current demand of Property Tax within the area under new method has gone up from 4 crores to 17crores.
- The Property Tax collections in Patna have also gone up from 10.4 million in 1992-93 to 37.8million in 1997-98. The model initiated in 1993, Patna Municipal Corporation has facilitated reduction in tax rate from 44% to 9% of Annual Value. Despite the reduction the current demand of PT had gone up from Rs.40 million to 170 million.
- It has also enabled the city government to have more revenue and to transfer the purchasing power in favour of poor with regard to access to services through improved provision of basic amenities. Including the safe environment.
- Gradual adoption of new method has enabled the city government to have a team of skilled assessors to replicate the method to other areas.
- New method has brought equity in the assessment.

4.3.4 Lessons Learned³⁹

- The Patna Model has demonstrated that Property Tax has the potential to provide more revenue to the city governments. It has the capability to fetch an important value-added role of municipal services which is reflected in the increasing capital value of properties as a result of municipal service provision.
- The model also demonstrates effective urban governance, which means participation by all the stakeholders. In this case, cooperation was achieved from citizens, professionals, officials, state government and media.
- It has also been noted from the Patna Model that given an administrative will, structural changes are possible within a town and positive cooperation can be achieved from the state government and other stakeholders.
- The model has also provided technology and tools to enable the city governments to apply area-based management for property tax assessment.

³⁸ UN-HABITAT: Better Urban Future. 2002. http://mirror.unhabitat.org/bp/bp.list.details.aspx?bp_id=2446 (Not Secure)

³⁹Ibid

- The Model also provides a tried and tested particularly on legal grounds method of assessment.
- The model presents a simplified method with minimum complexities. It was an outcome of a critical analysis of other methods applied among some of the Indian cities e.g. Andhra Pradesh has seven attributes for location and seven for construction, which complicates the assessment and brings 'discretion' into it.
- The model has increased awareness among media, citizens, professional and functionaries. The Indian think tank, comprising of senior professionals and officials from research institutions, government organizations and international agencies, has critically examined, evaluated and assessed the model as part of various seminars, workshops, research reports and other documents.

4.3.5 Transferability of the Patna Model

- It has paved the way for wider replicability and adaptability of the area-based assessment. It has ensured legal sanctity of area-based method and brought practically feasible and simple techniques to assess the annual value of a property.
- The Patna model has prompted Govt. of India to issue guidelines to state governments in the country to encourage municipal bodies to apply area-based method in line with new method.
- The model is being replicated by neighbouring cities within the states of Bihar to apply an area-based method.
- Uttar Pradesh, the largest state of the Indian Union has already issued notification to enable city governments to apply area-based assessment.
- The states of Tamil Nadu and Madhya Pradesh are on their way to incorporate Patna Model.

Box 4.1: Patna Reforms experience

Making a presentation on 'Property Tax Reforms – A Case Study of Patna', Director in the Ministry of Urban Development and Poverty Alleviation, Government of India, Shri S.K. Singh said that by changing the method of assessment of property tax at Municipal Corporation of Patna, the property tax collection experienced a four-time increase as a result of application of new method.

Shri Singh pointed out that the constant harassment of house owners and the levy of arbitrary tax rates led the City Government to apply Unit Area Method (UAM) in place of rental value method in 1993. "The cardinal principal of the new tax rules were lower rate of taxes and minimum discretion on the part of assessor, making the assessment process simple and transparent and acceptability of the system to the public at large".

Stating that the Unit Area Method of tax assessment takes into account the plinth area and carpet area of the property, Shri Singh said that under this method, a building could be classified within few variables such as location, type of construction and use of holding.

"With the application of UAM, the Municipal Corporation of Patna was able to reduce the tax rate from 44 per cent to 9 per cent of Annual Ratable Value. Instead of losing revenue, the Patna Municipality was able to raise its demands and collection manifold," Shri Singh added.

"This brought transparency in assessment and also increased tax compliance. This shift towards unit area assessment was also appreciated by the Supreme Court of India through a historic judgment whereby the new system of assessment was found justifiable on account of removal of discretion in the assessment and also promoting transparency in the levy of the tax," he observed.

The Patna experience also encouraged Government of India and State Governments to switch over to UAM. The Government of India has already issued guidelines to the states to follow a road map to apply UAM, Shri Singh said.

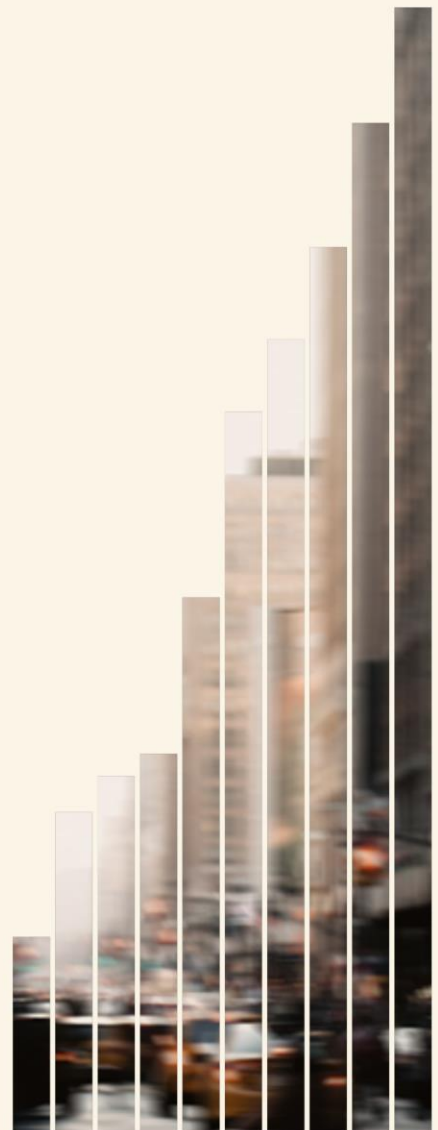
Box 4. 1: Patna Reforms experience

- United Nations Centre for Human Settlement in its publication '**The State of the World's Cities**' has acclaimed the area-based assessment of Property Tax of Patna Model as one of the best practices.
- The Parliament of India in its proceedings dated 4.12.2001 has lauded the Patna Model of area-based assessment.

Case Study of Bhiwandi and Kolhapur Municipal Corporation Property Tax Governance and Performance

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5: Case Study of Bhiwandi and Kolhapur Municipal Corporation - Property Tax Governance and Performance

In earlier chapters' overview of overall finances of ULBs has been presented. It is clear from the analysis that although the revenue generation from the property tax has declined, many ULBs have made efforts to restore it through reforming PT, introducing changes in the assessment practices as well as overall administration. Reform efforts made by various ULBs to improve have also been overviewed in the earlier chapter. In the State of Maharashtra, besides Mumbai only one city, viz Kolhapur has introduced the CVS.

A World Bank report 'Municipal Finances – A hand book for Local governments' has emphatically stressed on reforms at the local level. 'Lessons from the ground show that, although reforms at the macro-level are difficult to achieve, a lot can be done at the local government level when there is political will for greater accountability in the use of public funds and when reforms on revenue generation are clearly connected to visible expenditures/investments in infrastructure and service delivery. This is grounded in the understanding that (a) the strategic management of municipal finances is critical in ensuring long term sustainability of local services and infrastructure and (b) increased fiscal constraints and pressure from the global financial and economic downturn require increasingly sophisticated responses from local governments in mobilizing and using financial resources'.

In the State of Maharashtra, Kolhapur city has introduced the Capital Value System. With a view to understanding the performance of the new system, the challenges the city faced and today's status is presented in this chapter. An important input for urban policy makers would be to understand the challenges that have prevented other cities in Maharashtra from shifting to the option of an alternate base, despite their distressed financial situation.

A need was felt to undertake a comparative case study method to understand the challenges as well as positives of introducing a new PT system. In this chapter we compare the two cities of Maharashtra, namely, Bhiwandi Nizampur Municipal Corporation BNMC and Kolhapur Municipal Corporation KMC.

Before going into the details of the case study it was considered pertinent to have a cursory glance at the economy of the state, and the contribution of the two selected cities.

5.1 Profile of Maharashtra State

Maharashtra occupies the western and central part of the India and has got a 720 km long coastline along the Arabian Sea. With a population of 11.24 crore, as per Population Census 2011 and with geographical area of about 3.08 lakh sq. km, the State ranks 2nd by population and 3rd in terms of geographical area. The State is highly urbanized with 45.2 per cent population living in towns. As per the advance estimates, the State economy is expected to grow by 7.5 per cent during 2018-19, while the Indian economy is expected to grow by 6.8 per cent. 'Industry' and 'Services' sectors are expected to grow by 6.9 per cent and 9.2 per cent respectively. As per the advance estimates, nominal at current prices Gross State Domestic Product GSDP for 2018-19 is expected to be ₹. 26,60,318 crore and real at constant 2011-12 prices GSDP is expected to be ₹ 20,88,835 crore (See Table 5.1). State's contribution to all India nominal GDP is highest at 14.4 per cent.

Table 5. 1: Per capita State Income and Nominal GSDP

Particulars	2011-12	2012-13	2013-14	2014-15	2015-16+++	2016-17++	2017-18+	2018-19\$
Per capita State Income₹	99,564	1,11,980	1,25,035	1,32,476	1,46,258	1,62,005	1,76,102	1,91,827
Nominal GSDP ₹ Crore	12,80,369	14,59,629	16,49,647	17,79,138	19,66,147	21,88,532	24,11,600	26,60,318
+++ Third revised estimates ++ Second revised estimates + First revised estimates \$ Advance estimates								
Source: Economic Survey of Maharashtra 2018-19								

Maharashtra is the most industrialized state in India and has maintained its leading position in the industrial sector in the country. The state is a pioneer in small scale industries and boasts of the largest number of special export promotion zones. The Government of Maharashtra has several policies in place to boost the business climate and to motivate investors to invest into various sectors in the state. 'Magnetic Maharashtra investors' summit' was organized by Government of Maharashtra in February 18–20, 2018. The grand response it garnered proved the fact that the State remains the top destination for investment due to well-developed infrastructure, technological advancement, availability of skilled manpower, connectivity to major areas and abundant natural resources. As regards Ease of Doing Business, according to a newspaper report in Loksatta August 1, 2019 the State has implemented all 372 reforms prescribed by Gol.

Since 2014 Government of Maharashtra has taken various steps for the promotion of industrial and services sector growth in the state. A facilitation cell named Maharashtra Industry, Trade and investment facilitation cell MAITRI has been set up to provide single-window clearance for setting up of industries. Other measures include, a, volatility of Smart IT spaces through Integrated IT township, identification of industrial priority sectors such as; auto and auto components, Electronic system design and manufacture ESDM, Textile Industry, Establishment of It parks, textile parks, data centers, Research and development centers, and e-market facility etc.

While Government of Maharashtra has a special policy to boost economic activities in the state, maintaining supportive environment for such economic activities at micro level becomes the responsibilities of the Municipal Corporations of the area.

Financial Constraints of the Municipal Corporations and issues related to PT have already been discussed in general in the foregoing pages. In this chapter the detailed analysis of the finances of BNMC and KMC has been done and presented. In the State of Maharashtra except Greater Mumbai Municipal Corporation and KMC all the municipal Corporations have been doing their PT assessment on the basis of Annual Rental Value ARV. The assessment in KMC is being done on the capital Value CV Base. Subsequent paragraphs provide comparative analysis of these two different bases.

5.2. Bhiwandi-Nizampur and Kolhapur Socio- economic Framework

5.2.1 Kolhapur

Bhiwandi-Nizampur and Kolhapur are important economic hubs in the state of Maharashtra. Role of both the Municipal Corporations in creating supportive environment for the development of such economic activities is important.

5.2.2 Bhiwandi

Bhiwandi is a city in the Thane district of Konkan division in the state Maharashtra. It is located 20 km to the north-east of Mumbai and 15 km to the north-east of Thane city. The city is part of

the Mumbai metropolitan Region. According to the 2011 census, the total population of the Bhiwandi-Nizampur area was 709,665.

The city of Bhiwandi, known for its textile industry, has the largest number of power looms and handlooms in the country and is dubbed as 'The Manchester of India'. A major portion of the population is employed by the power loom sector.⁴⁰ Most famous e-commerce companies are established here, viz, Amazon, Flipkart, and Reliance amongst others. It has become one of the big transport & Logistic Hubs and Warehouses City. The Availability of transporters with a country wide presence in proximity makes it an ideal location for warehousing. It has also attracted many bead manufacturing factories.

5.2.3 Kolhapur

Kolhapur is a pilgrim place with about three million visitors to the city per year. The city particularly known for the Kolhapuri chappal, a hand-crafted buffalo leather slipper that is locally tanned using vegetable dyes. Other handicrafts include hand block printing of textiles; silver, bead and paste jewelry crafting; pottery; wood carving and lacquer ware; brass sheet work and oxidized silver artwork; and lace and embroidery making. Kolhapur is also an industrial city with approximately 300 foundries with exports of 15 billion rupees per year.

There are four Industrial areas viz. Kagal MIDC, Gokul and Shirgaon MIDC, Shirol MIDC and Udyamnagar located around Kolhapur city. Kolhapur is also known for strong agriculture products such as sugar and gur.

The crude estimates of contribution to Nominal GSDP are worked out by multiplying the estimated population by Per capita State Income. On this basis the GSDP of BNMC is Rs.18224 Crore, and Kolhapur is Rs. 11810 Crore. The higher GSDP of BNMC shows the impact of larger population.

5.3 Status of Infrastructure and Services in Both the Cities

Basic services like water supply, sewerage, roads etc. are most vital for any city, for their economic activities to flourish. Expansion and development of economic activities in the city and attracting diverse activities towards any city requires efficient and adequate assured services.

The Ministry of Urban Development MoUD, Government of India has introduced the performance monitoring Service Level Benchmarks SLB for city level. SLBs for BNMC and KMC for the year 2018-19 are presented in the Table 5.2.

Table 5. 2 : Service Level Benchmarks for BNMC and KMC 2018-19

Water Supply	Benchmarks	Status in BNMC	Status in KMC
Coverage of Water Supply Connection	100%	52%	71%
Per Capita supply of water	135 LPCD	101 LPCD	129 LPCD
Extent of non-revenue water	155	18%	36%
Extent of metering	100%	NA	97%
Continuity of water supply	24 Hours	1 Hour	4.3 Hours
Quality of water supply	100%	91%	98%
Cost Recovery in Water Supply Services	100%	91%	105%
Efficiency in collection of water charges	100%	21%	68%
Sewerage and Sanitation	Benchmarks	Status in BNMC	Status in Kolhapur
Coverage of Toilets	100%	100%	100%

⁴⁰ Source: Wikipedia. <https://en.wikipedia.org/wiki/Bhiwandi>

Coverage of Sewage network services	100%	10%	25%
collection efficiency of Sewage network	100%	16%	66%
Adequacy of waste water treatment capacity	100%	21%	133%
Quality of waste water treatment	100%	ND	100%
Extent of cost recovery in waste water management	100%	26%	140%
Efficiency in collection of sewerage charges	90%	7%	45
Solid Waste Management SWM	Benchmarks	Status in BNMC	Status in Kolhapur
Household level coverage	100%	86%	82%
Efficiency in collection of Solid waste	100%	100%	99%
Extent of scientific disposal of MSW	100%	NA	NA
Extent of Cost Recovery	100%	1%	14
efficiency in collection of SWM Charges	90%	43%	90%
Source: www.pas.org			

According to the SLBS as given in Table 5.2, the coverage of water supply is around 50 percent in BNMC and 70 per cent in Kolhapur, which is below the standard benchmark i.e. 100 percent. Continuity of water supply is also very low in BNMC. The status of coverage of toilets is better in both cities because of the implementation of Swachh Bharat Mission SBM. In case of coverage of Sewerage services, the situation is very poor in BNMC, as the network coverage is just 10 percent. Even in KMC it is poor at 25 percent. Scientific disposal of waste in both the cities is totally absent.

In Bhiwandi the poor service coverage situation is due to gross inefficiencies see Table 5.2. The efficiency Benchmarks of collection of charges whether water supply 21 percent, sewerage 7 percent and 43 percent are very low. As regards cost recovery in BNMC, barring water Supply the situation related to Sewerage and sanitation and SWM is not very satisfactory.

The broad overview of benchmark status in these two cities indicate that the overall situation in BNMC is a matter of serious concern and calls for immediate attention. Comparatively the situation in KMC is much better, yet there is a scope for improvement. The analysis here pertains to the current context of service delivery and does not consider future expansions which are equally important.

In accordance with the principles of Public Finance, property tax being the only appropriate source to finance such property related services, analysis of its performance is necessary. However before analyzing the performance of PT in these cities, the legal provisions are overviewed.

The focus is on increasing revenues of cities to finance appropriate infrastructure and services in view of expanding economic activities. As has been discussed earlier, property tax being the most significant own source of revenue, it was necessary to analyse this tax in the two cities under consideration.

5.4 Legal Provisions Related to Property Tax in the Maharashtra Municipal Corporation Act 1949

The Constitution of India by an entry at Item N0 49 in the List II of the Seventh Schedule has empowered State Governments to levy the Taxes on lands and buildings. With specific reference to the corporations in Maharashtra, under section 127 1a of The Maharashtra Municipal Corporations Act 1949 Act No. LIX of 1949 the levy of property taxes on the buildings and lands in the city is mandatory. It is either on the rate able value or on the capital value. According to Section 129 1 Property Taxes cover following taxes. Of these taxes only Education Cess and Street Tax are optional, all rest of the taxes are compulsory.

General Tax of not less than twelve per cent of their ratable value or of not less than 0.1 and not more than 1 per centum of their Capital Value, which may be levied if the Corporation so determines.

Together with General Tax not less than one eighth and not more than two per centum of their capital value added to general tax in order to provide for fire services

Water Tax 129 a at such percentage of their ratable value or their Capital Value as the Corporation shall deem reasonable, for providing water supply for the city.

Additional Water Tax as called Water Benefit Tax at such percentage of their ratable value or their Capital Value as the Corporation may consider necessary for meeting the whole or part of the expenditure incurred or to be incurred on capital works for making and improving the facilities of water supply.

Conservancy tax or sewerage tax Section 129 b at such percentage of their ratable value or their Capital Value as the Corporation may consider necessary for the collection, removal and disposal of human waste and other wastes

An additional Conservancy tax or sewerage tax as called "the sewerage Benefit Tax" Section 129 bb Value as the Corporation may consider necessary for meeting the whole or part of the expenditure incurred or to be incurred on capital works for making and improving the facilities for the collection, removal and disposal of human waste and other wastes

Under section 148A 1 Corporation may levy an additional tax on buildings and lands called as Education Cess at so many per centum, not exceeding five, of the ratable value or so many per centum of their capital value. For the purpose of maintaining, aiding and suitably accommodating schools for primary education.

However, all buildings and lands of ratable value or capital value below such sum as the Corporation may determine shall be exempted from the levy of Education Cess.

Under section 148C 1 Corporation may levy an additional tax called Street Tax of so many per centum not exceeding ten of their ratable value or of so many per centum of their capital value as the Corporation may determine from time to time.

Rule 7.1 in the Taxation Rules under Schedule 'B' specifies how to determine Ratable Value RV. As the Rule states, 'in order to fix the Ratable Value of any building or land assessable to a property-tax there shall be deducted from the amount of the annual rent for which such land or building might reasonably be expected to let from year to year a sum equal to ten per cent of the said annual rent and the said deduction shall be in lieu of all allowance for repairs or on any other account.

Rule 7A.1 prescribes how to determine Capital Value. According to the Rule 'In order to fix the CV of any building or land assessable to a property-tax, the Commissioner shall have regard to the value of any building or land as Indicated in the Stamp Duty Ready Reckoner for the time being in force as prepared under the Bombay Stamp determination of True Market Value of property Rules, 1965, framed under the provisions of the Bombay Stamp Act, 1958 as a base value.

5.5 Trends of Revenue Income, Revenue Expenditure of BNMC and KMC

It is clear from the earlier analysis that BNMC and KMC are crucial to the state Economy. Both the cities being important hubs of trading and other economic activities, particularly Kolhapur having the additional benefit of a pilgrim city in Maharashtra attracting large number of tourists, hence the budget of both the cities is bound to have critical implications for their own as well as for higher governments. It is therefore considered pertinent to analyze the growth pattern of revenue Income and revenue expenditure of both these cities.

Financial management for any organization whether corporate or public is crucial. In a public organization particularly municipal government financial management may not be as sophisticated as corporate sector, yet, expeditious system of revenue generation, efficient system of disbursements and maintaining balance is equally important.

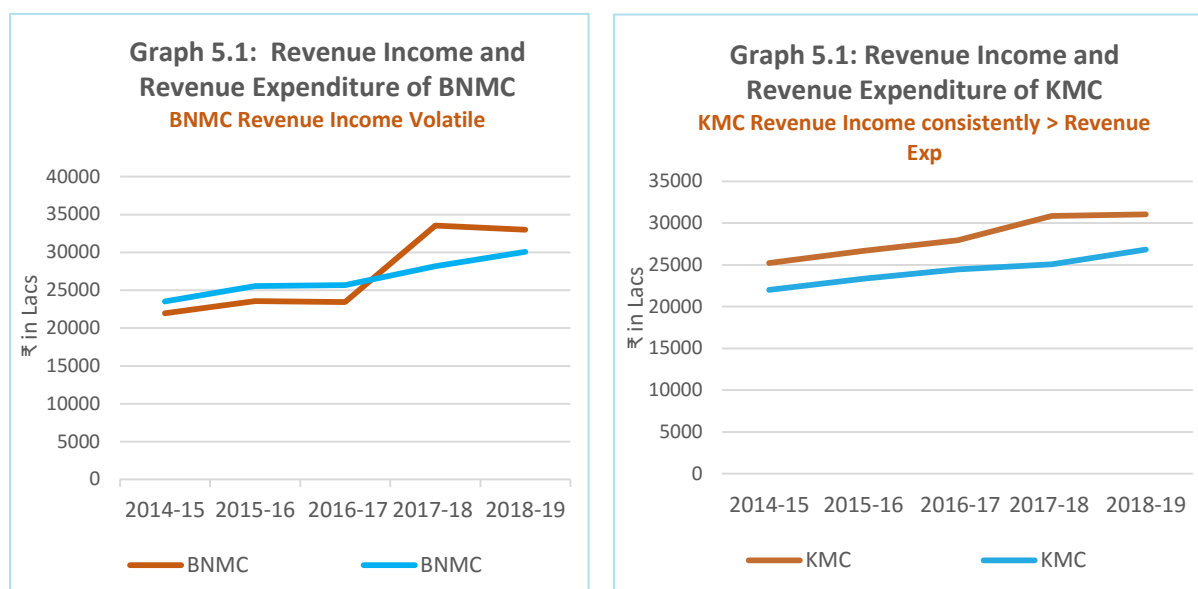
Table 5. 3: Trend in Revenue Income and Revenue Expenditure

BNMC and KMC

		₹ in Thousand				
		2014-15	2015-16	2016-17	2017-18	2018-19
Bhiwandi Nizampur MC	Revenue Income	2195724	2357785	2342188	3356171	3300145
	% Increase		7.38	-0.66	43.29	-1.67
	Revenue Expenditure	2351459	2555339	2570055	2817017	3007708
	% Increase		8.67	0.58	9.61	6.77
	Balance	-155735	-197554	-227867	539154	292437
	@ Population	785650	845058	887310	901000	950000
	Per capita Revenue Income ₹ Actuals	2795	2790	2640	3725	3474
	Per capita Revenue Expenditure ₹ Actuals	2993	3024	2896	3127	3166
Kolhapur MC	Revenue Income	2522581	2669018	2795357	3083895	3105762
	% Increase		5.81	4.73	10.32	0.71
	Revenue Expenditure	2200518	2332340	2444174	2505993	2683001
	% Increase		5.99	4.79	2.53	7.06
	Balance	322064	336678	351183	577902	422761
	@ Population	566118	576747	603422	603422	615646
	Per capita Revenue Income ₹ Actuals	4456	4628	4633	5111	5045
	Per capita Revenue Expenditure ₹ Actuals	3887	4044	4051	4153	4358
<i>Source : Budgets and records of BNMC and KMC</i>						
<i>Source: www.pas.org</i>						

In the succeeding paragraphs analysis of the growth trends of income, its components with focus on property tax of the two corporations is presented. Efforts are made to comprehend the system of assessment adopted by these corporations and compare their implications on their revenue.

Revenue income figures of both the corporations as given Table 5.3 below is taken from the budget although, they are less accurate as they include figures of arrears. Revenue from arrears is neither regular nor permanent source by nature, it is nor even devolved source of income. Arrears of abolished taxes such as theatre tax, entertainment tax, entry on animals and to large extent Local Body Tax LBT etc. constituted part of the income in the earlier period under analysis. Particularly in case of BNMC sewerage tax, sewerage benefit tax, water benefit tax, etc. were introduced earlier and subsequently abolished are also included. Sewerage Tax Drainage Tax was abolished around 2012-13, and Water Benefit Tax and Sewerage Benefit Tax both were abolished around 2014. Thus for further analysis in Table 5.4 the figures excluding arrears have been considered which shows income from legitimate and perpetual income, instead of figures of income inclusive of arrears.



Revenue balance, usually measured in terms of difference between revenue receipts and revenue or current expenditure, indicates the capacity of the corporation to manage their expenditure. If it is positive indicates that the corporation is in position to meet its expenditure from its resources and vice-versa. However, as mentioned earlier, it does not hold true in case of ULBs in Maharashtra since

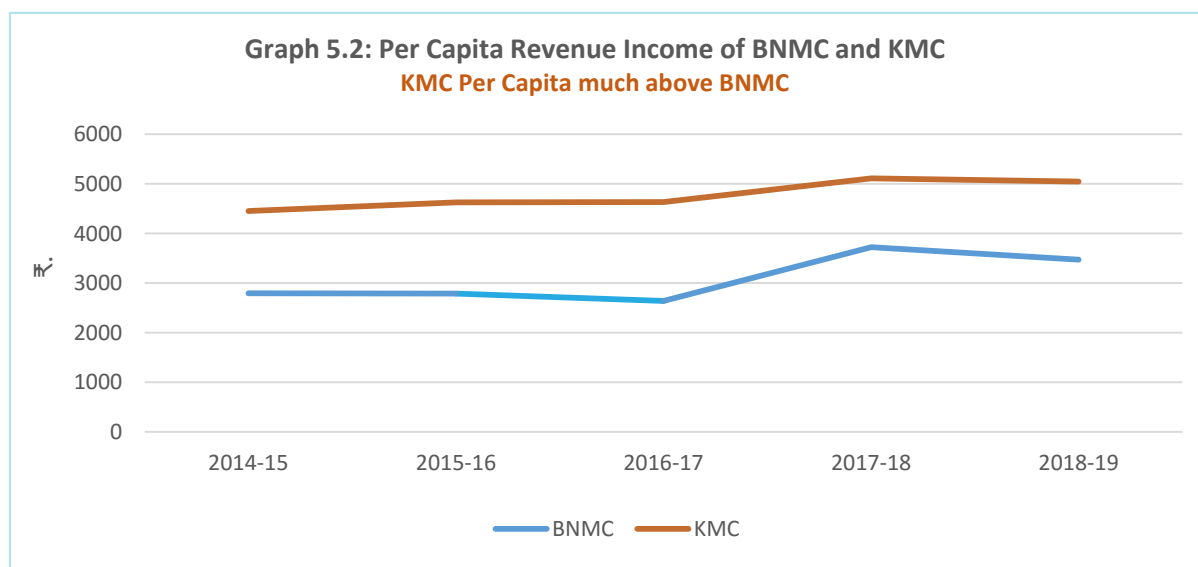
Section 96.2e of Maharashtra Municipal Corporations Act states that in Budget Estimates 'A', the Standing Committee of the Corporation shall allow for a cash balance not less than one lakh of rupees or such smaller amount as the State Government may from time to time approve and in Budget Estimates 'C' Corporation shall create and maintain special funds like consolidated Water Supply and sewage Fund Section 91 B, Water Supply and sewage disposal Loan Fund, Section 91 A, Sinking Fund Section 112etc. However, balance budget is maintained by these Corporations by avoiding many mandatory expenditures such as contribution to such funds, which are necessary for the purpose of the Act or such other funds required to be created under the Rules.

Balance in case of BNMC for 2014-15 to 2016-17 reflects increasingly negative trend. Abolition of Local Body Tax in 2015 was a major setback for BNMC affecting its income. The expenditure also did not appear to be incurred within the limit of revenue received which led to the negative balance. Usually the tendency is that, as soon as the budget is passed, expenditures are incurred irrespective of the corresponding revenue receipts being received. It so happens that much expenditure which have already occurred have no anticipated supporting revenue realized.

For BNMC negative revenue balance up to the year 2016-17 was on account of decreasing property tax and abolition of LBT. Further, during 2017-18 revenue income increased on account of change in the policy related to the levy of General Water Tax that helped create a positive balance. However, growth in income again declined in the subsequent year resulting in reduction in balance. The growth trend in income and expenditure shows fluctuations. Therefore, in case of BNMC there is a need for stability in income which can be achieved by increasing efforts for a rise in the revenue, particularly through a steady rise in Property Tax.

Comparatively revenue balance of KMC has been constantly increasing. This was possible because of an increase in revenue income in all the years under review. As against BNMC, the revenue balance of KMC has been increasing except for the year 2018-19. When the growth in expenditure was much higher than revenue. The revenue has increased almost 1.5 times over the period of five years under study. It is apparent that increasing income provided for increased expenditure which was not possible in case of BNMC.

Per capita income PCI of KMC in 2018-19 ₹5045 is almost one and half times that of BNMC ₹3474. According to Dr. Mohanty 'Per Capita municipal revenues' in India in 2012-13 are estimated at ₹3123⁴¹. It is to be noted that while per Capita Income of KMC was almost two times that of the national per capita municipal Revenue that of BNMC was almost of the same level though the national average was seven years old.



5.6 Income from Own Sources and External Sources of BNMC and KMC

Table 5.4 gives the analysis of the sources of revenue income of both the corporations. The first step in analyzing sources of revenue income is to distinguish between own and external or exogenous sources of Revenue. Own or internal sources are those which are levied and collected by corporations themselves. Policy decision related to these sources, such as their rates, base, coverage, period of levy etc. are of their own and there is no interference. As against these, external sources are those over which municipal corporations have no control. Usually external sources are transfers from higher Governments. These resources are often subject to regulations and their free application is restricted. More importantly, the time of their release is not as per your need, but the release is determined by the availability and convenience and policy of the benefactor. Many a times the payment is adjusted against dues to be paid. Therefore, it is always desirable to increase own revenue as a reliable source. Their proportion in the total revenue stream is indicative of their dependency on higher governments.

The two categories of sources of income constituting own revenue source are tax sources and non-tax sources. The external source is transfers from higher Governments. Transfers are sometimes for correcting horizontal and vertical imbalances, compensating ULBs for inter-jurisdictional spillovers of the benefits and costs of public services, financing implementation of national priorities. For BNMC and KMC the Transfers from Government are in the form of Assigned taxes such as Motor Vehicle Tax, Entertainment Tax, LBT grants, Stamp Duty, NA assessment, Minor Mineral grants, etc., and other need based minor grants. Assigned taxes are collected by the government and their part is apportioned, where as other minor grants are need based. These transfers also include agency

⁴¹ Dr. Prasanna K. Mohanty, Financing Cities in India Municipal Reforms, Fiscal Accountability and Urban Infrastructure, 2016, PPP Pg 24 SAGE Publications India Pvt Ltd New Delhi

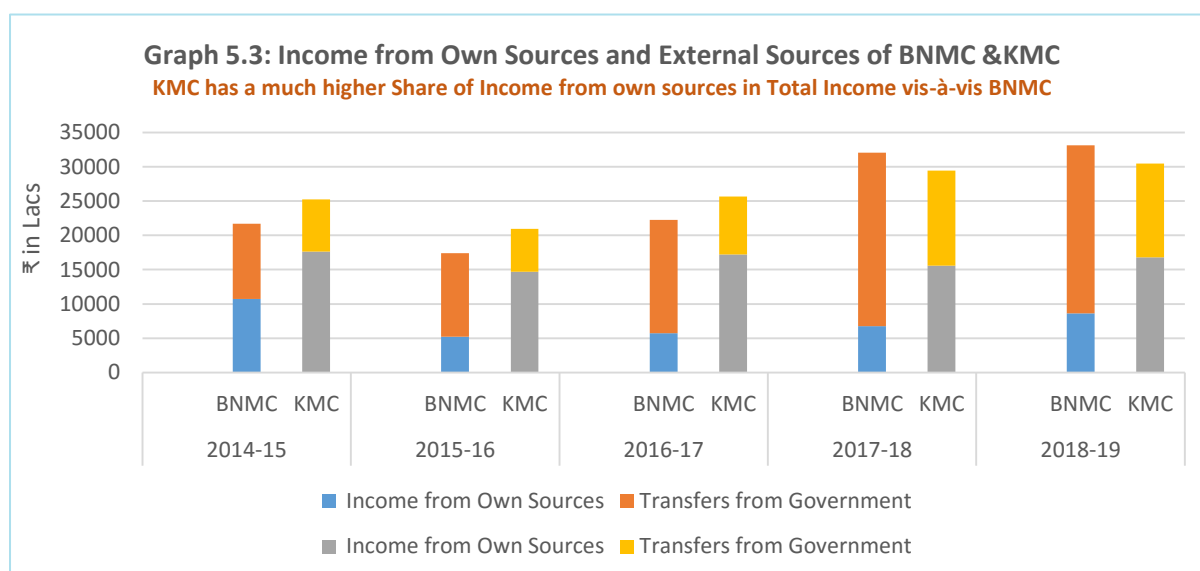
charges for the collection of Government taxes like Employment Guarantee Cess, Education Cess, etc.

Table 5. 4: Income from Own Sources and External Sources

BNMC and KMC

		₹ in Thousand				
		2014-15	2015-16	2016-17	2017-18	2018-19
Bhiwandi-Nizampur MC	Income from Own Sources	1073305 49.51	522610 30.05	574098 25.82	674080 21.04	860781 25.97
	% Increase		-51.31	9.85	17.42	27.70
	@Population	785650	845058	887310	901000	950000
	Per Capita Income from Own Sources ₹ Actuals	1366	618	647	748	906
	Transfers from Government	1094469 50.49	1216694 69.95	1649436 74.18	2529908 78.96	2453117 74.03
	% Increase		11.17	35.57	53.38	-3.04
	Total Revenue Income excluding arrears	2167774 100.00	1739304 100.00	2223534 100.00	3203988 100.00	3313898 100.00
	% Increase		-19.77	27.84	44.09	3.43
Kolhapur MC	Income from Own Sources	1762427 69.87	1468254 70.06	1720565 67.00	1559243 52.97	1681096 55.14
	% Increase		-16.69	17.18	-9.38	7.81
	@Population	566118	576747	603422	603422	615646
	Per Capita Income from Own Sources ₹ Actuals	3113	2546	2851	2584	2731
	Transfers from Government	760081 30.13	627593 29.94	847477 33.00	1384384 47.03	1367701 44.86
	% Increase		-17.43	35.04	63.35	-1.21
	Total Revenue excluding Arrears	2522508 100.00	2095847 100.00	2568042 100.00	2943627 100.00	3048797 100.00
	% Increase		-16.91	22.53	14.63	3.57
Figures in parenthesis are % share in Total Revenue Income excluding arrears Source: Budgets and records of Bhiwandi Nizampur and Kolhapur Municipal Corporations @ Source: www.pas.org						

Figures in the parenthesis indicate the percentage share of Income from Own Sources as well as Transfers from Government to the Total Revenue excluding Arrears



As can be seen from Table 5.4 In case of both BNMC and KMC during the year 2014-15 contribution of revenue from own sources was high around 49.51 percent and 69.87 percent respectively while from external sources it was 50.49% and 30.13%. However, this proportion changed over the years and at the end of the period under analysis i.e. during 2018-19 share of own income dropped down to 25.97 percent in case of BNMC and 55.14 percent in case of KMC. In case of BNMC the drop in share of own source of revenue during the period 2014-15 to 2018-19 was sharp, from about 50% to about 26%. In case of KMC, the decline in share of own revenue was not as steep, from about 70% to 55%. The decrease in revenue from own sources was caused due to the abolishment of LBT which was a major own source. The compensation from the government for the revenue loss from LBT and GST in the form of grants in turn resulted in an increase in external sources. A comparison of dependency ratio DR of BNMC and KMC as given below shows that BNMC has DR more than 1 indicating more dependency and for KMC it is less than 1 which reveals less dependence

For the period under review, BNMC's income from own sources, declined in 2015-16 by a massive-51.31%, due to the abolishment of LBT in August 2015. In the subsequent years the growth rate turned positive. See table no 5.4, and touched about 28% in 2018-19. This increase was on account of a higher contribution of General water tax, subsequent to a change in its system of levy. Also, own income was high for the year 2014-15 because of the contribution of LBT which got abolished in

Box 5.1: Comparison of Dependency Ratio of BNMC and KMC during the year 2018-19

Dependency Ratio = (Transfer from Government/ Own Sources)

BNMC (Transfer from Government (₹ in Thousand) 2453117/ Own Sources (₹ in Thousand) 860781) > 1

KMC (Transfer from Government (₹ in Thousand) 1367701 / Own Sources (₹ in Thousand) 1681096) < 1

BNMC 1 < 2.85 ≠ KMC 1 > 0.81

Box 5. 1: Comparison of Dependency Ratio of BNMC and KMC during the year 2018-19

August 2015. 2014-15 was the only year that revenue from LBT was received, that too only up to the month of July. Later revenue of LBT was suspended, hence the growth of own income became regressive.

In case of Kolhapur Municipal Corporation, the percentage contribution of own sources to total Revenue Income excluding arrears during 2014-15 to 2017-18 indicates a decline which was due to a decline in non-tax revenue. The percentage share of transfers has been consistently increasing

except for the year 2015-16. LBT grant which was major part of transfer from government has been increasing resulting in an increased growth rate which was later reduced in the year 2018-19 indicating negative trend in case of both the corporations. Although the LBT Grant has been increasing, as understood from the discussions during various training programmes organized by the RCUES that the Octroi was yielding much more revenue than the revenue received from Local Body Tax. Revenue from LBT itself was inadequate to manage even the committed liabilities. The LBT grant based on such inadequate source, irrespective of its increasing trend proves to be relatively much lesser than their own revenue source i.e. Octroi.

For Kolhapur the growth trend of income from own sources during 2014-15 to 2018-19 shows volatility. From a decline of 16.7 percent in 2015-16 on account of abolition of LBT to a growth of 17.2 percent in the next year. In 2017-18 the decline of 9.4 percent was led by a drop in non-tax revenue. This trend reversed again to a 7.8 percent increase in 2018-19. In case of transfers from Government, in the year 2015-16 there was a sharp decline of 17 percent. The next two years saw a sharp increase in transfers before showing a marginal decline of 1.2 percent in 2018-19 due to a reduction in grants of Stamp Duty.

Analysis reveals that BNMC is largely dependent on higher Government transfers where as KMC has comparatively better own resources. As discussed earlier, a higher and increasing reliance on external support and uncertainty in own revenue is not desirable for both the corporations. This is because external support is often conditional and may not arrive in time. As against this higher levels of own resources will permit the city government to plan and execute better.

5.7 Sources of Tax Income - BNMC and KMC

Tax income of ULBs arise out of tax and non-tax sources Income from own Sources

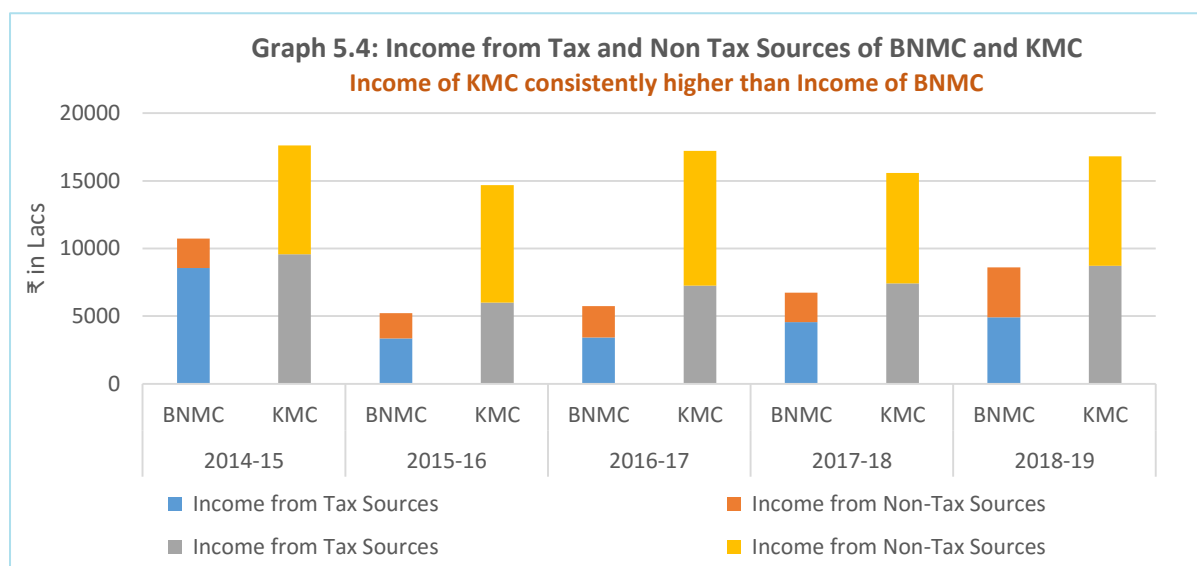
Own Revenue sources include Tax Sources that comprise of Property Tax, and tax on advertisement and non-tax sources such as Revenue from Fees, Rent Charges, Fines and penalties, Sale of municipal properties and Interest on investments. Since BNMC levies General Water Tax separately it constitutes a distinct tax source.

As the focus of the study is property tax, the analysis of non-tax source has not been done in detail. However the growth trend of revenue from non-tax sources has been presented to understand to what extent this source compliments the tax sources in both the corporations and also to understand its revenue consistency.

Table 5. 5: Income from Tax and Non Tax Sources

BNMC and KMC

		₹ in Thousand				
		2014-15	2015-16	2016-17	2017-18	2018-19
Bhiwandi Nizampur MC	Income from Tax Sources	856730 79.82	334986 64.10	342856 59.72	456557 67.73	491662 57.12
	% Increase		-60.90	2.35	33.16	7.69
	Income from Non-Tax Sources	216575 20.18	187624 35.90	231242 40.28	217523 32.27	369119 42.88
	% Increase		-13.37	23.25	-5.93	69.69
	Income from Own Sources of Revenue	1073305 100.00	522610 100.00	574098 100.00	674080 100.00	860781 100.00
	% Increase		-51.31	9.85	17.42	27.70
Kolhapur MC	Income from Tax Sources	956615 54.28	600570 40.90	726139 42.20	741987 47.59	871005 51.81
	% Increase		-37.22	20.91	2.18	17.39
	Income from Non-Tax Sources	805812 45.72	867684 59.10	994426 57.80	817256 52.41	810091 48.19
	% Increase		7.68	14.61	-17.82	-0.88
	Income from Own Sources of Revenue	1762427 100.00	1468254 100.00	1720565 100.00	1559243 100.00	1681096 100.00
	% Increase		-16.69	17.18	-9.38	7.81
Figures In parenthesis are % share in Income from Own Sources of Revenue						
Source: Budgets and records of Bhiwandi Nizampur and Kolhapur Municipal Corporations						



Both the corporation's tax sources are the primary source of own revenue followed by non-tax source. BNMC has had a higher share of tax revenue in own income, which has declined from a high of about 80% in 2014-15 to 57 percent in 2018-19. Consequently, its share of Non-tax revenue in own income has risen from 20% to 43% during the same period. KMC on the other hand had a comparatively lower share of tax revenue in own income at 54% in 2014-15, falling further to about 52% in 2018-19. Share of income from non-tax sources has been volatile, ranging between 45.7% to 59.1% in the period 2014-15 to 2018-19. Table 5.5

The high revenue from Tax sources for BNMC in 2014-15 totaling to Rs. 856 million was led by LBT, linked to the economy of city area. With the discontinuation of LBT in August 2015, Tax revenue halved to Rs 335 million in 2015-16. The sharp increase in Income from tax sources in the year 2017-18 was on account of General Water Tax. Tax revenues for BNMC have been volatile, impacting total revenue.

Growth trend of Revenue from non-tax sources is also unsteady again impacting the stability of revenue income.

There is an opportunity for BNMC to reform their Property Tax System which will give stability and robustness to their Total Revenue Income.

In comparison, KMC has seen fairly stable growth in both tax and non-tax revenue. The decline seen in tax revenue in 2015-16 was on account of LBT abolition and decline during 2017-18 was because of introduction of online payment of property tax. Revenue from non-tax sources has been increasing up to the year 2017-18. The big decline of 17.8% in 2017-18 was due to decline in revenue from fees and decline in the year 2018-19 was on account of reduction in the stamp duty grant. Property Tax being the sole major source of tax revenue, hence any changes in tax policy regarding the same has a big impact on total revenue from tax sources. Hence even if a policy decision in PT affects collections in that particular year has to be considered temporary.

5.8 Share of Property Tax Revenue in Tax Revenue and Total Revenue

Property Tax has always been considered primary source of income. For any municipal corporation its exact contribution in the total revenue stream is going to decide the availability of the fund for management of property related services. Analysis of its contribution and growth trend can guide the policy decisions of the corporation. Table 5.6 gives these details of BNMC and KMC.

In case of BNMC contribution of PT in total tax revenue is 67 percent and that of other taxes is 33 percent for the year 2018-19. In the earlier three years the contribution from PT was around 77

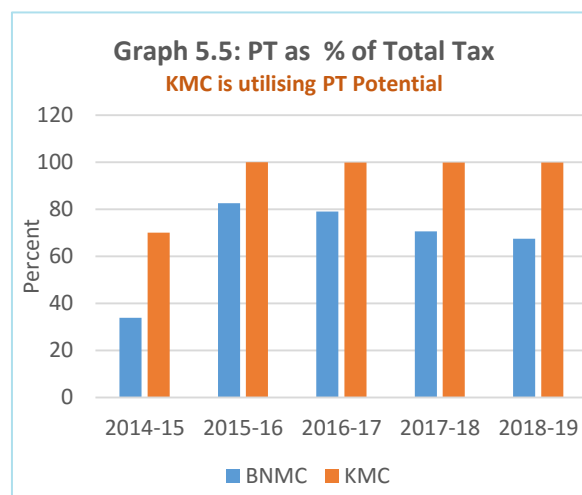
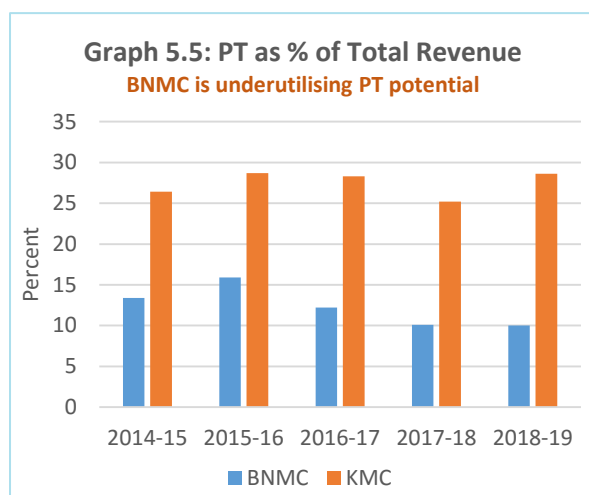
percent. As a share of total revenue the contribution of PT has dropped from a high of 16% in 2015-16 to 10% in 2018-19. In the context of growth trends of revenue from PT, except for the year 2017-18 it is very disappointing. During the years 2014-15 till 2016-17 it had been negative and even during 2018-19 the deceleration was sharp. This volatile situation needs urgent attention. The entire system needs a drastic revamp.

In case of KMC, the contribution of PT in total tax revenue is higher and almost equal to total tax revenue since 2015-16. As a share of total revenue, PT has been higher at around 26%. However, the growth trends of PT revenue in case of KMC, has been volatile. These fluctuations are temporary as they are a result of supportive corresponding policy decisions. This has been explained later in the analysis of current demand and arrears.

Table 5. 6: Share of Property Tax Revenue in Tax Revenue and Total Revenue

BNMC and KMC

		₹ in Thousand				
		2014-15	2015-16	2016-17	2017-18	2018-19
Bhiwandi Nizampur MC	Income from Property Taxes	289770 33.82* 13.37**	276413 82.51* 15.89**	270977 79.04* 12.19**	322127 70.56* 10.05**	331444 67.41* 10.00**
	% Increase		-4.61	-1.97	18.88	2.89
	Income from Other Taxes	566959 66.18*	58573 17.49*	71879 20.96*	134430 29.44*	160217 32.59*
	% Increase		-89.67	22.72	87.02	19.18
	Income from Tax Sources of Revenue	856730 100.00	334986 100.00	342856 100.00	456557 100.00	491662 100.00
	% Increase		-60.90	2.35	33.16	7.69
	Total Revenue Income	2167774	1739304	2223534	3203988	3313898
Kolhapur MC	Income from Property Taxes	665649 69.58* 26.39**	600568 100.00* 28.66**	725457 99.91* 28.25**	740802 99.84* 25.17**	870374 99.93* 28.55**
	% Increase		-9.78	20.80	2.12	17.49
	Income from Other taxes	290966	2	682	1185	631
	% Increase	-	-	-	-	-
	Income from Tax Sources of Revenue	956615 100.00	600570 100.00	726139 100.00	741987 100.00	871005 100.00
	% Increase		-37.22	20.91	2.18	17.39
	Total Revenue Income excluding Arrears	2522508	2095847	2568042	2943627	3048797
<p><i>Figures In parenthesis are % share in Total Revenue Income</i> <i>*% of Revenue from Property taxes To Tax Sources</i> <i>**% of Revenue from Property Taxes to Total Revenue Income</i> <i>Source: Budgets and records of Bhiwandi Nizampur and Kolhapur Municipal Corporations</i></p>						



The income from other tax sources in BNMC includes income from General Water Tax and Advertisement Tax. Of the two, General Water Tax is an important contributor whereas the revenue from Advertisement Tax is just marginal. However as stated earlier for the year 2014-15 LBT contribution was substantial and on its discontinuation there was a sharp decline in total revenue. Bhiwandi being city of Handloom weaving, abolition of Octroi itself was a biggest setback for the BNMC. The raw material for the handloom would get exposed during the import, and thus evasion was not possible unless Octroi staff and traders connived. When LBT was introduced, LBT being accounts base traders got ample scope to hide the true quantity of material imported with dual account system and thus evasion became easier which largely affected the income of BNMC. Subsequently on abolition of LBT the low amount of LBT compared to Octroi became base for the release of GST.

However, by Resolution of General Body of BNMC dated March 2016 Resolution No 199 General Water Tax was made mandatory for all the properties irrespective of the provision of water connection. Prior to that, the tax was levied only on the properties having water connections. Incidentally BNMC was blessed to have general water tax delinked from the base of Annual Rental Value. In fact, there is a good opportunity for the BNMC to convert the General Water Tax into user charges by linking the rates of General Water Tax to the water consumption as well as to the O& M Operation and Maintenance cost of the water supply service and also the sewerage charges as certain proportion of the water charges and ultimately recover the expenditure on water supply and sewerage, may be partly, through of water charges and sewerage charges. Levy of Water charges on the basis of ferule size may facilitate their linking with consumption and cost

In case of KMC income from other taxes is negligible and hence variations in the revenue from it would have least impact on the Total Revenue from the tax sources of the Corporation.

The analysis of revenue from PT indicates that there is an urgent need for radical steps to improve the overall property tax administration in BNMC. Some of the steps that could be suggested to improve the current situation are; shift to the alternate base, survey of properties, Information and Technology IT application in the process, change in tax structure, change in tax rates, and development of actor network perspective particularly interface with tax payer and overall monitoring of the system.

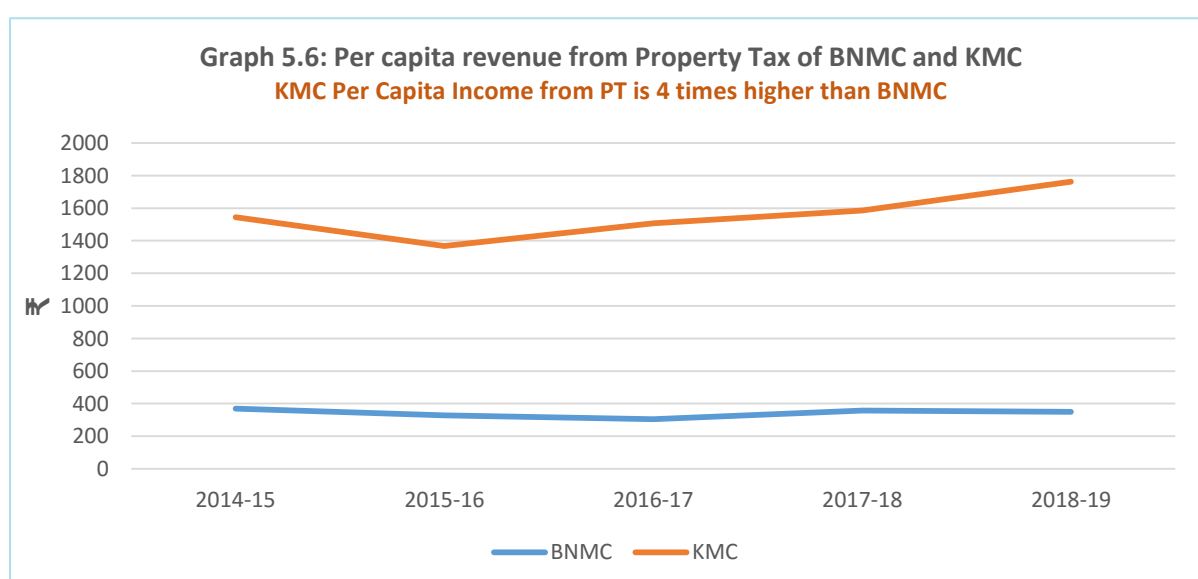
Even for KMC, from the point view of the stability in revenue from PT, survey of properties, digitization of records and constant monitoring is essential.

Application of Geographic Information System GIS and development of digitized property records is essential for both the Corporations. This will bring all unassessed properties into tax net, Accuracy of property boundaries and accurate property measures will be possible.

Table 5. 7: Per Capita Revenue from Property Taxes of BNMC and KMC

		2014-15	2015-16	2016-17	2017-18	2018-19
BNMC	Income from Property Taxes in ₹	289770000	276413000	270977000	322127000	331444000
	Population	785650	845058	887310	901000	950000
	Per Capita Revenue from Property Taxes in Bhiwandi Nizampur Municipal Corporation	369	327	305	358	349
KMC	Income from Property Taxes in ₹	665649000	600568000	725457000	740802000	870374000
	Population	566118	576747	603422	603422	615646
	Per Capita Revenue from Property Taxes in Kolhapur Municipal Corporation	1176	1041	1202	1228	1414

Source: Budgets and records of Bhiwandi Nizampur and Kolhapur Municipal Corporations



As can be seen from Table 5.7, Per Capita Revenue from Property Taxes of KMC is four times greater than BNMC and except for the year 2015-16 it has been increasing. Whereas for BNMC it is seen to decrease from 369 in 2014-15 to 349 in 2018-19, showing a declining trend except in the year 2017-18. This analysis further supports the need for an overhaul of property tax.

5.9 Components of Property Taxes and their share in PT revenue

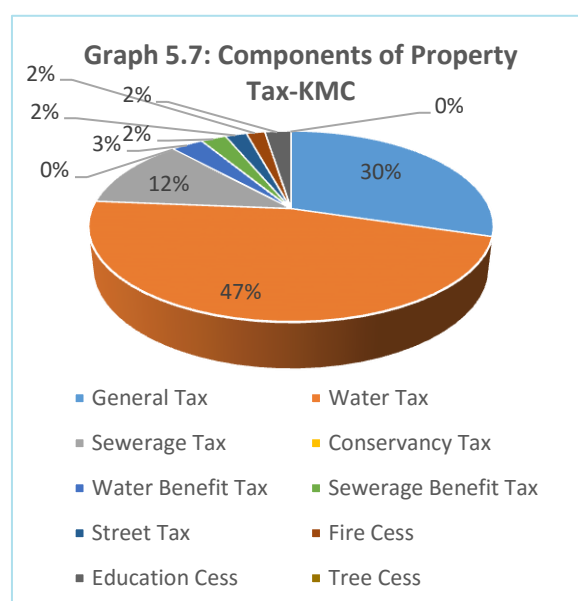
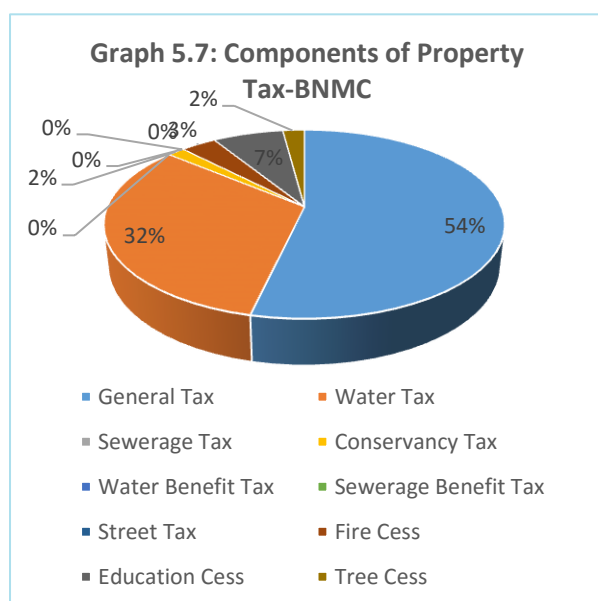
Property Taxes Comprise of General tax and service taxes. According to Maharashtra Municipal Corporations Act 1949, General Tax is for the purpose of administrative cost of management of Property tax administration. Service taxes are of two types- those meant to recover partly capital works and those aimed at recovering O&M costs and user charges if any. Both the Benefit Taxes viz Water Benefit and Sewerage Benefit Tax are to partly contribute towards the Capital works of both these services respectively. Whereas other Service Taxes such as Water Tax, Sewerage Tax, Conservancy Tax, Fire Tax, and Street Tax are levied with the objective of recovering the O & M cost of these properties related services together with user charges if any.

Table 5. 8: Components of Property Taxes and its share in PT Revenue

₹ in Thousand				
Components	Bhiwandi Nizampur Municipal Corporation		Kolhapur Municipal Corporation	
	Revenue from each component 2018-19	% to Total Revenue from PT	Revenue from each component 2018-19	% to Total Revenue from PT
General Tax	263142	53.61	258040	29.65
*Water Tax	159400	32.47	405911	46.64
Sewerage Tax	0	0.00	103978	11.95
Conservancy Tax	8058	1.64	0	0
Water Benefit Tax	0	0.00	26510	3.04s
Sewerage Benefit Tax	0	0.00	21069	2.42
Street Tax	0	0.00	17723	2.03
Fire Cess	16802	3.42	**15401	1.77
Education Cess	33255	6.78	21742	2.50
Tree Cess	10188	2.08	0	0
Total Property Related Taxes	490845	100.00	870374	100.00

Source: Budgets and records of Bhiwandi Nizampur and Kolhapur Municipal Corporations
 *Water Taxes are levied on ad hock basis and not on the basis of ratable value
 ** Figures are inclusive of Tree Cess

Table 5.8 which provides details of the components of property tax is as per the provisions of the MMC 1949 Act. The Corporations hence have the authority to levy each of these taxes and levies for the provision of respective services. In this background it is a matter of serious concern as seen in the Table that this is not being necessarily followed. The implications on revenue and hence quality of services is obvious.



KMC levies all the service taxes in addition to General Tax except Conservancy Tax. Fire Tax is merged with Tree Tax. **BNMC is not levying Sewerage Tax, Street Tax and both the benefit Taxes, thereby giving up the large amount of own revenue.** Non utilization of all the legitimate taxes is

depriving BNMC of substantial own revenue and making the corporation dependent on government to a large extent.

In fact BNMC had been levying Sewerage tax and both the benefit taxes- Water Benefit Tax and Sewerage Benefit Tax for some time but discontinued later. This could be one of the reason why KMC is getting almost double the revenue from PT than BNMC.

On the background of wide gaps in the Status of Service level Benchmarks in BNMC in all the core property related services it is most critical that BNMC start levying all the discontinued taxes along with Street Tax. The Benchmarks of efficiency of collections of services is even worst. Even KMC also should initiate the levy of Street Tax.

As the Table 5.8 shows the General Tax component in PT predominates the other segments unless the collection of other service taxes increase the ability to expand such services will be limited.

5.10 Expenditure Recovery of property Related Services through Components of Property Tax

The foremost principle of municipal budget is that every expenditure must have corresponding revenue source of Revenue. Particularly components of property tax are service specific and explicit link need to be established amongst the expenditure on particular service, revenue to be raised through the corresponding tax component and benefit out of that service to the taxpayer. Earmarking of the expenditure this way is desirable to make the budget balanced. While considering this balancing mechanism, part of the revenue to be raised should be for future expansion.

Table 5. 9: BNMC- Coverage of Revenue Expenditure on Core Property Related Services

		₹ in Thousand				
		2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
Water Supply	Revenue Expenditure on WS	238700	275900	325100	298700	414800
	*Revenue from Water Tax	64293	53939	72260	131425	159400
	% of Expenditure Covered	26.93	19.55	22.23	44.00	38.43
Sewerage	Revenue Expenditure Sewerage	50000	175000	90000	311000	176
	Revenue from Sewerage Tax	0	0	0	0	0
	% of Expenditure Covered	0	0	0	0	0
Conservancy	Revenue Expenditure Conservancy	93869	144110	113786	177211	191728
	Revenue from Conservancy Tax	9454	7895	6113	8391	8058
	% of Expenditure Covered	10	.05	.05	.05	.04
Roads	Revenue Expenditure on Roads	23941	79400	91525	76028	47474
	Revenue from Street Tax	0	0	0	0	0
	% of Expenditure Covered	0	0	0	0	0
Fire Fighting	Revenue Expenditure Fire Fighting	4102	1995	3194	195	379
	Revenue from Fire Tax	14555	13715	11093	14575	16802
	% of Expenditure Covered	354.83	687.47	347.31	7474.36	2.26
Source: Budgets and records of BNMC						
*Water Taxes are levied on ad hock basis and not on the basis of ratable value						

As can be seen from Table 5.9, all the critical property related services have a complete mismatch in the expenditure incurred on their delivery and the charges recovered from the users. There is no

revenue collected for services like sewerage and roads. While the need to revise the PT base is important, the current system of zero or negligible payment for services delivered by BNMC will hamper all future development efforts.

In case of BNMC in the current context there is a resistance to not only raising of taxes but even some of the taxes levied earlier have been abolished.

Table 5. 10: KMC- Coverage of Revenue Expenditure on Core Property Related Services

₹ in Thousands						
		14-15	15-16	16-17	17-18	18-19
Water Supply	Revenue Expenditure	345401	412498	385099	394686	503633
	Revenue from Water Tax	346347	336802	321231	362359	405911
	% of Expenditure Covered	100	82	83	92	81
Sewerage	Revenue Expenditure	85958	147951	102013	96703	174502
	Revenue from Sewerage Tax	64058	59916	91257	85213	103978
	% of Expenditure Covered	75	40	89	88	60
Conservancy	Revenue Expenditure	328822	341484	372766	379965	394363
	Revenue from Conservancy Tax	328822	341484	372766	379965	394363
	% of Expenditure Covered	100	100	100	100	100
Roads	Revenue Expenditure	23983	26682	17145	27739	28958
	Revenue from Street Tax	11590	10545	15917	14074	17723
	% of Expenditure Covered	48	40	93	51	61
Fire Fighting	Revenue Expenditure	33573	35822	37554	36923	33243
	*Revenue from Fire Tax	9865	9184	13770	12323	15401
	% of Expenditure Covered	29	26	37	33	46

Source: Budgets and records of Kolhapur Municipal Corporations
** Figures are inclusive of Tree Cess*

As can be seen from Table 5.10 the coverage of expenditure on core services such as water supply and sewerage, has been 60 percent and above in 2018-19. However, this goes against the specified Benchmark coverage of 100 percent in case of roads it was just around 40 percent

In case of KMC, see Table 5.10, the revenue coverage of property related services is better than BNMC. However, even in this case while there is some coverage of services expenditure, the fact that there is no revenue surplus, does not create any balance for capital spending.

5.11 Administration of Property Taxes in BNMC

Property tax as specified in Section 129 of The Maharashtra Municipal Corporations Act, 1949, Act No. 59 of 1949 is the group of taxes on buildings and lands in the City on ratable value or capital value. Main purpose of this tax is to finance the O & M and repairs of the property related services. In case of Municipal Corporations, it consists of General Tax and other individual service taxes. Currently revenue from property tax in most of the ULBs is far below the expectation. The revenue is adversely affected by host of reasons. Primary reasons are legal and administrative.

Property tax revenue depends upon: a enumeration of properties in the municipal tax register; b the collection rate; c the assessment, valuation rates and procedure for the same; d the extent of exemptions and e the level of tax rate. All these aspects of property tax administration in BNMC and KMC have been discussed in the rest of the chapter.

5.11.1 Identification and Growth of Properties in BNMC

City area of BNMC has been divided into 5 wards for the purpose of administration of the property tax. Every ward is further subdivided into approximately 12 to 13 areas. Each area has one clerk who is entirely responsible of his area. His responsibility covers identification of new properties abutting in the town, identification of escaped proprieties if any, bring them into tax net, identification of properties that have made structural changes, to bring them in the register, billing and recovery of those properties. There is no proper mechanism to finalize the property list. There is no mechanism to ensure that all these activities are thoroughly carried out. GIS survey and digitization of property records will benefit corporation substantially.

Table 5. 11: Year wise Number of Properties in BNMC

Year	Residential Properties	Commercial Properties	Industrial Properties	Total No. of Properties	% increase in Total No. of Properties
I	II	III	IV	V	VI
2014-15	NA	NA	NA	146363	
2015-16	122943	19767	13092	155802	6.45
2016-17	134898	17600	12979	165477	6.21
2017-18	137280	22264	10740	170284	2.90
2018-19	140026	18296	14471	172793	1.47

Source: Records of Bhiwandi Nizampur Municipal Corporation

In the year 2018-19 There are a total of 172793 properties (Table 5.11) in the property tax records of the BNMC, out of which 81 percent i.e. 140026 properties are residential and around 10 percent each commercial and industrial. The increase in number of properties during last 5 years does not appear much 1.18 times only. On the contrary number of Commercial and industrial properties during the year 2016-17 and commercial properties in 2018-19 have decreased. As understood it could partly be because of the change in use. However, this needs some more investigation. Probably, identification process needs to be regulated and intensified.

Table 5. 12: Year wise Demand and Collection of Property Tax in BNMC

₹ in Thousands							
Years	Arrears	Current	%Change*	Total	%Change*	Collection	%Change*
2014-15	481079	247113		728192		292418	
% Share	66.06	33.94		100.00		40.16	
2015-16	558615	287990	16.54	846605	16.26	280648	-4.03
% Share	65.98	34.02		100.00		33.15	
2016-17	787302	339180	17.77	1126482	33.06	284747	1.46
% Share	69.89	30.11		100.00		25.28	
2017-18	884689	348112	2.63	1232802	9.44	313380	10.06
% Share	71.76	28.24		100.00		25.42	
2018-19	953908	358709	3.04	1312617	6.47	385093	22.88
% Share	72.67	27.33		100.00		29.34	

As can be seen from Table 5.12, BNMC is unable to utilize even its current potential of revenue from the existing RV system. During the period under consideration, growth in total demand has been volatile increasing from 16.3% in 2015-16 to 33.1% in 2016-17. In the subsequent two years, there been a deceleration to 9.4% and a further lower 6.5% in 2018-19. This deceleration does not augur well for any revamping of basic property related infrastructure services. More worrying is the efficiency of collection as the arrears in all the five years have been more than 66% of the total yearly demand but this share has increased to 73% in 2018-19. The share of collections too has been volatile though they have picked up in the last two years.

5.11.2 Citizens Interface for improved Tax Collection - Citizens' Interface Mechanism for Collection of Property Tax

Maharashtra state is the pioneer in citizen centric e-governance initiatives to bring e-services to the citizens at their door step. As a part of JNNURM Reforms during 2009-10 Government of Maharashtra implemented e-Government project. All the Municipal Corporations and Municipal Councils were provided servers, and software. Training and back up support also was provided for 6 months.

Taking benefit of the infrastructure created then, the system of online payment must be developed and vigorously implemented. Maintenance of the system, taxpayers' awareness, particularly towards use of system for the payment of taxes is necessary. Going a step ahead payment through mobile apps also must be encouraged and door to door collection must be suspended immediately. Alike Bangalore the onus of assessment and remittance of tax dues should be shifted from revenue officials to property owners. To streamline the system strict actions must continuously be taken so as to inculcate the habit of timely payment of property taxes. At ward level city facilitation centres must be developed for the convenience of tax payers.

Special drive needs to be undertaken for the recovery of arrears. Probably dialog with tax payers through meetings, hearings may help in this direction.

5.12 Method of Assessment in BNMC

Section 129 of The Maharashtra Municipal Corporations MMC Act, 1949, Act No. 59 of 1949 provides for the levy of Property taxes on buildings and lands in the City on ratable value or on capital value. Accordingly, the BNMC has been levying PT on the ratable value of the properties. Ratable value as defined in Rule 7 in Scheduled Taxation Rules of Maharashtra Municipal Corporations Act 1949, Act No. 59 of 1949 Schedule –D is 'In order to fix the ratable value of any building or land there shall be deducted from the amount of annual rent for which such land or building might reasonably be expected to let from year to year a sum equal to ten percent of the said annual rent and the said deduction shall be in lieu of all allowances for repairs or any other account whatever'. Thus the levy of the property tax is on the basis of Annual Rental Value ARV. Mass appraisal method is being used for the assessment of the properties in BNMC. Ready Reckoner RR has been developed as a tool for the assessment. Initially it was prepared by the Assistant Director, Town Planning, ADTP, who was appointed as an Authorized Valuation Officer AVO in accordance with section 113 of Maharashtra Municipal Councils Nagar Panchayats and Industrial Townships Act 1965 during 2000-01 when BNMC was Municipal Council., subsequently it was revised Annexure -5.1 and the rates prevailed till the next revision was done in 2015 Annexure -5.2.

For the purpose of assessment of the properties the city has adopted area or zone-based system as a standardized way of assessing the tax base. The city is divided into three zones and weightage to arrive at the value is decided for each zone varying according to usage and type of construction.

The formula being used for the assessment is

Property Tax payable is = ARV x Rate of Taxes

ARV = Area in Sq.ft weightage for Zone varying according to use and type of construction Annexure 5.2 -10%

Although Ready Reckoner has been developed and is being used to arrive at Ratable Value, the challenge of use of ARV still remains. The rates in the reckoner are bound to be low owing to the upper limit of Standard Rent as superimposed by the SC in its various rulings as discussed earlier. According to these rulings in case of properties where the fair rent is not fixed, the municipal authorities have to arrive at their own figure of fair rent which is within the limit of SR as defined in RCA. In case of Patna, State of Bihar⁴² the SC approved the new system as the rates were low. Thus the limit of Standard Rent cannot be ignored as long as the assessment is based on ARV and the definition of RV in municipal Act is reasonably expected rent. As per the definition given in The Maharashtra Rent Control Act, 1999 MAH. ACT NO. 18 OF 2000 (Box No 4.1), which is applicable to BNMC, the SR is frozen at the year 1987. Thus the rates based on more than 30 years old values will not yield adequate revenue. Moreover, the revision of old properties, particularly the properties may be around 40 percent from merged areas of GP is not possible unless structural alteration takes place. Base values of those properties are stagnated making the source inelastic. The rates of RR beyond the upper limit of SR will not stand the scrutiny of the law and thus must be low within the limit of SR.

MoHUA, Gol has released draft model tenancy act 2019. The provisions related to "Rent Payable" be adopted.

Government of Punjab by Notification number No.18 –Leg/2012, Punjab Act No.13 of 2012 issued on 10th October 2012 changed the definition of standard so as to escape the restrictions of RCA. Annexure 5.3

On the one hand rates in the RR are low owing to the compulsions of RCA and at the same time rates of taxes have not been changed. At present PT rate is already high at 34% as given below in Table 5.14. As a result, the revenue being raised is very low. Despite of the application of RR the tax base remains stagnant, and an upward adjustment of tax rates is the only way to increase revenues from the property tax.

Box 5.2: Definition of Standard Rent as per MRC, Act

The Maharashtra Rent Control Act, 1999 (MAH. ACT NO. 18 OF 2000)

(14) "standard rent", in relation to any premises means,-

(a) where the standard rent is fixed by the Court or, as the case may be, the Controller under the Bombay Rent Restriction Act, 1939, or the Bombay Rents, Hotel Rates and Lodging House Rates (Control) Act, 1944 or the Bombay Rents, Hotel and Lodging House Rates Control Act, 1947, or the Central Provinces and Berar Letting of Houses and Rent Control Order, 1949 issued under the Central Provinces and Berar Regulation of Letting of Accommodation Act, 1946, or the Hyderabad Houses (Rent, Eviction and Lease) Control Act, 1954, such rent plus an increase of 5 per cent, in the rent so fixed; or

(b) where the standard rent or fair rent is not so fixed, then subject to the provisions of sections 6 and 8, — (i) the rent at which the premises were let on the 1st day of October 1987; or (ii) where the premises were not let on the 1st day of October 1987 or the rent at which they were last let before that day, plus increase of 5 per cent. in the rent of the premises let before the 1st day of October 1987, or (c) in any of the cases specified in section 8, the rent fixed by the Court;

According to Section 6 of the Act Provisions with regard to standard rent and permitted increases are not to apply

- to certain premises like premises in a building, whether newly constructed or otherwise where such premises were not let or give on license for a continuous period of one year, the premises which are constructed or reconstructed in any housing scheme, undertaken by Government or the Maharashtra Housing and Area Development Authority or by any of its Boards established under section 18 of the Maharashtra Housing and Area etc.

- According to Section 8 premises the standard rent of which

Box 5. 2: Definition of Standard Rent as per MRC, Act

⁴²AIR 1995, Supreme Court 885 : Patna State of Bihar and others V. Sachchidanand and Kishore Prasad Sinha and others.

Considering all the issues related to ARV base, it is now high time for the BNMC to shift to the alternate CV base with either Unit Area or Area Base Method. The Maharashtra Municipal Corporations Act 1949 has provided for the option and experience of KMC shows better results.

5.13 Difficulty in adoption of PT by BNMC

Despite the opportunity being available the BNMC is reluctant to shift to the alternate base assuming that the new system will increase the burden of tax on the tax payers without provision of appropriate level of services. Although the property tax being inelastic, its potential not being optimally exploited, yet there is reluctance in replacing this system as the system is age old and hassle-free .

Proper records of City Survey Numbers CSNs of many properties are not **available. Unless proper records of properties are developed through property survey** the problem is going to be perpetual.

The rates of RR in BNMC of 2015 are now due for revision. This needs to be based on proper survey of properties. This will substantially enhance the coverage of properties in tax net and consequently improve the revenue in large cities and particularly in reference to BNMC which in turn will help boosting the economy of the State.

Table 5.13 presents the rate of taxes in BNMC. Rate of taxes is a crucial determinant of the revenue from property taxes. As observed from the table apart from low rates all the available legitimate sources is also not being exploited by BNMC. There is no Sewerage Tax, Water Benefit Tax, Sewerage Benefit Tax, and Roads Tax. This is despite the mandate by the Maharashtra Corporation Act. To improve the quality of life in Bhiwandi Nizampur, BNMC must utilize all these taxes and sources.

As discussed earlier BNMC is following the ARV method wherein the rates in RR are low. In the event, the Corporation has only one option of increasing the tax rate, since the SC defined Standard Rent as upper limit. Hence it needs to be recognized that there is a limit to only keep on increasing the tax rate, because this will create situations of property owner's resistance and non-compliance. However, if the tax base is shifted to CV then the entire structure will automatically change.

Table 5. 13: Rate of Taxes BNMC

Tax	Rate % of RV
General Tax	26
Water Tax	Rates Annexed Annexure 4.4 Lump Sum
Sewerage Tax	Not Levied
Conservancy Tax Only for Non- Residential Properties	2
Water Benefit Tax	Not levied
Sewerage Benefit Tax	Not levied
Roads	Not levied
Fire Cess	2
Education Cess	3
Tree Cess	1
Total Property Taxes	34
Source: Records of the Kolhapur Municipal Corporation	

5.14 Administration of Property Taxes in KMC

Shift to the Capital value base by KMC was unique decision and bold step towards the revamp of property tax system. Now almost seven years have passed that the system is changed and set also. It would be interesting to know the impact of this change. The overview of the process and assessment

of the impact may be useful for KMC itself for further changes required if any and even may give direction for other corporations aspiring for the change. The aspects of changes in demand, stability in revenue growth, acceptability of the citizen's approach etc. are discussed in the following pages.

5.15 Introduction of Property Tax Assessment on the basis of Capital Value in Kolhapur

Kolhapur Municipal Corporation passed a Resolution No.72, Dated 18.3.2011, to switch over to the alternative basis of Capital Value for the levy of Property tax. As Rule 7A in Scheduled Taxation Rules of Maharashtra Municipal Corporations Act 1949, Act No. 59 of 1949 Schedule –D defines in order to fix the capital value of any building or land assessable to a property tax, the Commissioner shall have regard to the value of any building or land as indicated in the Stamp Duty Ready Reckoner for the time being in force as prepared under the Bombay Stamp Determination of True Market Value of Property Rules, 1995, framed under the provisions of the Bombay Stamp Act, 1958 as a base value, or where the Stamp Duty Ready Reckoner does not indicate value of any properties in any particular area wherein a building or land in respect of which capital value is required to be determined is situated, or in case such Stamp Duty Ready Reckoner exists, then the Commissioner may fix the capital value of any building or land, taking into consideration the market value of such building or land, as a base value. The Commissioner, while fixing the capital value as aforesaid, shall also have regard to the following factors, namely:-

- The nature and type of the land and structure of the building;
- Area of land or carpet area of building;
- User category, that is to say, i residential, ii commercial shops or the like, iii offices, iv hotels upto 4 stars, v hotels more than 4 stars vi banks, vii, industries and factories, viii school and college building or building used for educational purposes ix malls, and x any other building or land not covered by any of the above categories;
- Age of the building; or
- Such other factors as may be specified by Regulations made under sub-rule 2.

The Commissioner shall, with the approval of the Standing Committee, frame such Regulations as regards the details of categories of building or land and the weightage by multiplication to be [assigned to various such factors and categories] for the purpose of fixing the capital value under sub rule 1 The capital value of any building or land fixed under sub-rule 1 shall be revised every five years.

5.15.1 The System of Assessment prior to the introduction of Reforms

Prior to the introduction of CVS, the assessment was on the basis of ARV. For the owner occupied properties ARV was calculated on the basis of carpet area and in case of rental properties as specified in the Maharashtra Municipal Corporations Act 1949 15% would be deducted from the actual annual rent to arrive at ARV of the property. The Rate for Taxes was minimum 34.25 percent and maximum 64.25 percent of the ARV. For Non-residential properties minimum was 49.25 percent and maximum was 83.75 percent.

5.15.2 The reasons for this change as given in the resolution were as follows:

Firstly, Capital Value System was adopted in accordance with the orders issued by Government of Maharashtra following the Amendment to The Maharashtra Municipal Corporations Act 1949 by the act Maharashtra 10 of 2010, for adopting the Capital Value as an alternative basis for the levy of Property tax. Secondly, for receiving funds under Urban Infrastructure Development Scheme for Small and Medium Towns UIDSSMT adoption of Self-Assessment System SAS in Property Tax Reforms was mandatory and accordingly KMC had signed MoU with Government of India. In compliance with the MoU this shift had taken place. Adoption of this system would have facilitated

the SAS. Thirdly, the Project Sanctioning and Monitoring Committee for the approval of the projects related to infrastructure under “Maharashtra Suvarna Jayanti Nagarotthan Maha-Abhiyan” Golden Jubilee Urban Renewal Mega Mission had principally approved to provide substantial funds to Kolhapur Municipal Corporation for the project of Rs. 392 Cr direct water supply through pipeline from Kallamwadi Dam, for which Kolhapur Municipal Corporation had to submit the Governing Body GB Resolution approving the application of Capital Value system within the jurisdiction of KMC from April 1, 2011. 50 percent Grant and 50 percent loan was to be given to KMC. This was also the reason behind introduction of Capital Value system. Fourthly, it was Government policy to give 25 per cent additional funds under 13th Finance Commission to the corporations adopting Capital Value system as a basis for the assessment of PT. Fifthly, Under Maharashtra Nagarotthan scheme to develop link road in the city Grant of Rs 108 Cr. and Rs. 26 Cr to construct a sewerage treatment plant on Dudhali open drain were sanctioned for which introduction of CVS was precondition. In view of all above commitments there was no other way than to introduce CVS. Although the shift to CVS was under compulsion it turned out to be beneficial for the KMC.

Prior to introduction of CV the P.T. rates were same for residential, commercial properties, properties located in prime location in interiors or even for slums. To introduce the equity-horizontal as well as vertical-Ready Reckoner RR was developed at the time of introduction of CV. It is commendable that the planning and implementation of new CVS was done entirely internally. Assessor and collector of taxes, system manager and software engineer who was working for city facilitation centre developed the new system of CV. The new system was developed taking into consideration future expansion of KMC. It had taken into account the provisions of MMC Act 1949, Maharashtra Regional and Town Planning (MRTP) Act 1966, Limitation Act etc. The process of assessment got decentralized in the new system.

The CV development process included property survey. As mentioned earlier the property survey was carried out using the staff of PWD department of the corporation. The RR values are based on the survey data.

5.15.3 Assessment Procedure:

In accordance with the Rule 7 C of Appendix Chapter VIII – Taxation Rules of the ‘Bombay Provincial Municipal Corporations Act, 1949’ KMC made Regulations for the purpose of determining the capital value of the buildings and lands in the jurisdiction of KMC for property taxation. According to RR Capital Value of Land is

Base Value of the Land in accordance with RR X multiple weightage according to user category X Permissible Floor Space Index FSI X Area of Land

Formula for arriving at capital value is as below:

$CV = BV \times UC \times FSI \times AL$

BV = Base value

UC = Weightage According to User Category

FSI = Permissible Floor Space Index FSI

AL = Area of Land

According to RR Capital Value of Building is

Related Base Value of the Building in accordance with RR x multiple weightages according to user category x Weightages according to nature and types of Building x Weightages according to age of the building x Weightages according to the floor in a RCC building with Lift x Built up Area

$CV = BV \times UC \times NBT \times AF \times FF \times BL$

BV = Base value

UC = Weightage According to User Category

NBT = Nature of Building Type

AF = Age Factor

FF = Floor Factor

BA= Built up Area

Tables of weightages being used to arrive at Capital Value for Land, Residential Building, Commercial Building and Industrial Building are annexed as ANNEXURE Nos 5.4 to 5.9

5.15.4 Subsidy:

The properties below 500 sq.ft area are being assessed on ARV basis. In fact, although these properties are small in size, they used equal amount of services, and hence, must be taxed properly. If the multiplication of area gives small amount of tax, a minimum amount of tax which will not be less than the cost of collection / recovery must be decided for such properties, and should not be subsidized.

To develop the online system, the existing system has been updated by uploading the database like property number, type, location, ready reckoner rates etc. The system generates sms or email to provide the acknowledgement receipt or reference details of payment received. Automatic calculation of the tax amount has eliminated the need for the self-assessment scope for false declaration for reduced tax burden.

Publicity for the new system was given through local newspaper, local cable network and advertisement boards and hoardings.

5.16 Identification and Growth of properties in KMC

Revenue mobilized through PT is determined by Total number of properties identified, Demand raised and Collection.

Initially at the time of introductions of CVS the property survey was carried out with the staffs of Public Works Department PWD who were also having a good academic background. Subsequently the new properties are being incorporated on intimations from owners from building permission department. It is understood that the work of survey has been undertaken in the year 2018-2019. Such surveys should become regular periodic features.

Details of number of properties identified in KMC are indicated in Table 5.14 and analysis of growth trends of Demand and collection for KMC is presented in Table 5.15

Table 5. 14: Number of Properties KMC

Year	Residential	Commercial	Industrial	Total	% increase in Total Number of properties.
2011-12	97158	24031	532	121721	
2012-13	99456	24412	532	124400	2.20
2013-14	106739	25877	532	133148	7.03
2014-15	110742	26871	532	138145	3.75
2015-16	112331	27343	532	140206	1.49
2016-17	147276	27343	532	147276	5.04
2017-18	126471	27343	532	154346	4.80
2018-19					

Source: Records of the Kolhapur Municipal Corporation

Total number of properties have shown a consistent yearly increase in KMC although the growth rate has been volatile. There has been a clear growth in residential properties. In case of commercial properties there appears to be a data issue, since the number has been constant since 2015-16. The number of Industrial properties raise a bigger question since they have been constant throughout the period under consideration.

5.17 Demand and Collection of the Property Tax in Kolhapur Municipal Corporation:

Table 5.15 presents the total demand and collection of PT in KMC. Total demand is divided into current demand and demand for arrears.

Table 5. 15: Year wise Demand and Collection of the Property Tax KMC

₹ in Thousand						
	Current Demand	% Change in Demand	Demand for arrears	Total Demand	% Change in Demand	Total Collection
2007-2008				258541		182364 70.54
2008-2009	203129 72.73		76177 27.27	279306 100.00	8.03	194039 69.47
2009-2010	190602 69.09	-6.17	85267 30.91	275869 100.00	-1.23	210141 76.17
2010-2011	212426 76.37	11.45	65728 23.63	278154 100.00	0.83	262568 94.40
2011-2012	429463 96.50	102.17	15586 03.50	445048 100.00	60.00	205168 46.10
2012-2013	290639 54.78	-32.33	239880 45.22	530519 100.00	19.20	376303 70.93
2013-2014	310757 66.83	6.92	154216 33.17	464973 100.00	-12.36	333522 71.73
2014-2015	366421 73.60	17.91	131451 26.40	497872 100.00	7.08	385288 77.39
2015-2016	381273 77.20	4.05	112584 22.80	493857 100.00	-0.81	353587 71.60
2016-2017	457810 76.55	20.07	140270 23.45	598080 100.00	21.10	570610 95.41
2017-2018	576514 95.45	25.93	27470 04.55	603984 100.00	0.99	523780 86.72
2018-2019	561580	-2.59	80204	641784	6.26	623180

						₹ in Thousand
	Current Demand	% Change in Demand	Demand for arrears	Total Demand	% Change in Demand	Total Collection
	87.50		12.50	100.00		97.10
Figures in parenthesis are share of Total demand						
Source: Records of the Kolhapur Municipal Corporation						

Two major changes related to PT viz Computerization of records of Property Tax department and online payment of property taxes were introduced by KMC in the year 2011-12, which gave boost to the demand of property tax during 2011-12. During 2011-12 the current demand increased upto 102 percent over previous year. Until 2011-12 use of computers was not widespread in KMC. Computers were not many and the data related to property records would be entered manually, hence the process of data entry and generation and printing of bills was very slow. Functioning of the PT department could not work with full strength. Consequently, there was not much growth in the demand for PT. In fact, in 2009-10 total demand dropped down by -1.23% and in subsequent year it did not reach even 1 percent. The collection reached a high level of 94% of total demand in 2010-2011. In the year 2011-12 new software with online facility was introduced facilitating the acceptance of the property records online. Even Capital Value System CVS of assessment also was introduced in the same year which generated the momentum. Both the reforms together raised the current demand for the year 2011-12 by 102 percent. However, the collection mechanism could not cope up with the sudden jump in the demand. Thus recovery was poor 46% during that period. Being a transitory period with a shift to a new system there was not much response from the Tax payers to the CVS. Tax payers were reluctant to accept the new method. As a result, recovery during the year was only 46 per cent. Because of the poor recovery during the year 2011-12 the demand for arrears increased in the year 2012-13 which was more than 50 percent. Regarding increase in current demand, during the year 2012-13 although the growth trend appears substantially negative i.e. -32 percent, the negative figure is misleading due to the fact that the preceding year 2011-12 had massive rise in the current demand. Similarly, in the year 2013 -14 the growth trend is seen to be low which is again the result of considerable negative figure of growth in current demand for the earlier year i.e. 2012-13. Overall the current demand has been consistently increasing after the introduction of Capital Value System. Collection was consistently good since 2012-13 except for the year 2015-16. Until 2014-15 collection was from House to House H to H. Near about 120 collection clerks would do H to H collection and manual receipt was given. However, during 2014-15 online collection started and practice of H to H was suspended and number of collection clerk also reduced to 20 in number. Citizens were not familiar with the system. This affected the recovery for the year 2015-16. With the awareness drive in the following years the recovery was very good. Because of good recovery demand for arrears also reduced. In 2012-13 the demand seen increased by 19 percent. Until the year 2015-16 even collection was very poor.

The overall results of the introduction of the CV system seems better in terms of sustained increased revenue. It could be said to be a pioneering model for the other Municipal Corporations to follow. Government of Maharashtra has already issued directions to follow Kolhapur Model Perhaps simultaneous application of GIS System, digitization of records would have demonstrated much better results.

Table 5. 16: Rates of Property Taxes: KMC

Ratable Value	General Tax		Conservancy		Tree/ Fire	Water Benefit Tax	Sewerage	Street Tax	Municipal Education Tax
	Residential	Non-residential	Residential	Non-residential					
1 to 150	15	19.50	6.5	14	1.75	3	1.50	2	2.50
151 to 270	15	19.50	6.5	14	1.75	3	1.50	2	2.50
271 to 300	16	20.50	6.5	14	1.75	3	1.50	2	2.50
301 to 540	16	20.50	6.5	14	1.75	3	1.50	2	2.50
541 to 1350	17	22	6.75	14	1.75	3	1.50	2	2.50
1351 to 2160	20	25.75	7	14	1.75	3	2.50	2	2.50
2161 to 3000	22	30.75	7	14	1.75	3	2.50	2	2.50
3001 to 4320	22	30.75	10	14	1.75	3	2.50	2	2.50
4321 to 6000	22	30.75	10	15	1.75	3	2.50	2	2.50
6001 to 6480	22	30.75	10	15	1.75	3	2.50	2	2.50
6481 to 2960	25	33.25	10	15	1.75	3	2.50	2	2.50
12961 to 43200	27	39.50	10.35	15	1.75	3	2.50	2	2.50
43201 to 81000	35	42		15	1.75	3	2.50	2	2.50
81001+	36	42	10.35	15	1.75	3	2.50	2	2.50

Table 5. 17: Human Resources handling the Property Tax Administration Kolhapur MC

	Requirement		Sanctioned Posts	Filled Posts	Vacant Posts
Dy. Commissioner Tax Assessor and Collector	1		1	1 Additional Charge	Partially Available
Assistant Assessor and Collector	1		1	1	0
Tax Superintendent	2		1	0	1
Asst. Tax Superintendent	4		2	1	0
Clerks	Assessment	10	21	23	0
	Collection	72			
Clerks	82		21	23	0

Source : Power Point Presentation of A & C

Annexure 5. 1**Ready Reckoner for the Bhiwandi Nizampur Municipal Corporation - prior to 28/1/2015**

Zone	Rates prior to 28/1/2015				
	Type of Construction	Residential	Industrial	Commercial	Commercial Road Frontage
1	R.C.C Slab/Load Bearing Pucca Structure	1.70	2.13	2.55	3.40
	Pucca Brick Structure with Tiled Roof/ Cement Shits	1.40	1.75	2.10	2.80
	Kuchha Structure with Mud, bricks, Tiled roof/ Cement Shits	0.80	1.00	1.20	1.60
	Wooden structure New/Old Zopadpatti	0.30	0.38	0.45	0.60
2	R.C.C Slab/Load Bearing Pucca Structure	1.60	2.00	2.40	3.20
	Pucca Brick Structure with Tiled Roof/ Cement Shits	1.30	1.63	1.95	2.60
	Kuchha Structure with Mud, bricks Tiled roof/ Cement Shits	0.70	0.88	1.05	1.40
	Wooden structure New/Old Zopadpatti	0.25	0.31	0.38	0.50
3	R.C.C Slab/Load Bearing Pucca Structure	1.50	1.88	2.25	3.00
	Pucca Brick Structure with Tiled Roof/ Cement Shits	1.20	1.50	1.80	2.40
	Kuchha Structure with Mud, bricks Tiled roof/ Cement Shits	0.60	0.75	0.90	1.20
	Wooden structure New/Old Zopadpatti	0.20	0.20	0.30	0.40

Annexure 5. 2**Ready Reckoner for the Bhiwandi Nizampur Municipal Corporation - After 28/1/2015**

Zone	Rates after to 28/1/2015				
	Type of Construction	Residential	Industrial	Commercial	Commercial Road Frontage
1	R.C.C Slab/Load Bearing Pucca Structure	1.85	2.31	2.78	3.70
	Pucca Brick Structure with Tiled Roof/ Cement Shits	1.55	1.94	2.33	3.10
	Kuchha Structure with Mud, bricks Tiled roof/ Cement Shits	0.95	1.19	1.43	1.90
	Wooden structure New/Old Zopadpatti	0.45	0.56	0.68	0.90
2	R.C.C Slab/Load Bearing Pucca Structure	1.75	2.19	2.63	3.50
	Pucca Brick Structure with Tiled Roof/ Cement Shits	1.45	1.81	2.18	2.90
	Kuchha Structure with Mud, bricks Tiled roof/ Cement Shits	0.85	1.06	1.28	1.70
	Wooden structure New/Old Zopadpatti	0.40	0.50	0.60	0.80
3	R.C.C Slab/Load Bearing Pucca Structure	1.65	2.06	2.48	3,30
	Pucca Brick Structure with Tiled Roof/ Cement Shits	1.35	1.69	2.03	2.70
	Kuchha Structure with Mud, bricks tiled roof/ Cement Shits	0.75	0.94	43843.00	1.50
	Wooden structure New/Old Zopadpatti	0.35	0.44	0.53	0.70

Annexure 5. 3

Notification number (No.18 –Leg/2012, Punjab Act No.13 of 2012) issued on 10th October 2012.

7. (J) For the existing tenancies, fair rent previously fixed by the Rent Controller under the East Punjab Urban Rent Restriction Act, 1949 and other cases of disputed rate of rent shall be reassessed in accordance with the provisions of this section. a (2) "Standard rent" in relation to any premises, means the rent calculated on the basis of ten per cent, per annum of the aggregate amount of the cost of construction and market price of the land comprised in the premises on the date of commencement of the construction

Provided that the standard rent calculated as aforesaid shall be enhanced in the manner provided in Schedule 1 to this Act.

(3) For the purposes of this section,- (a) cost of construction shall also include cost of electrical fittings, water pumps, overhead water tanks, storage tank and other water, sewerage and other fixtures and fittings affixed in the premises;

Annexure 5. 4

KMC - Part –1 Open Land

User category and weightages for Open Land

Sr. No	User category of Open Land	Multiple Weightages related to its base value
1	Open Land - Residential	1.00
2	Open Land – Non- Residential	
	C Commercial	1.25
	d Industrial	1.10
3	Reserved Open Land	
	C Partly Permissible	0.10
	d Total Permissible	0.01
4	Parking on the Open Land other than the Land adjacent to Land	0.25
5	Land around weighing bridge	1.25
6	Stadium Land Owned by Educational Institution where the tickets for entry cannot be sold	1.00
7	Stadium Land where the tickets for entry can be sold	0.01
8	Land of Open Theatre	1.25
9	Amusement Park	1.25
10	Land of Petrol Pump/Service Station/LPG, CNG Station/Kerosene Station	1.25
11	Reservoir	0.01
Source: Regulations for the fixation of Capital Value of the Building and Land, Kolhapur Municipal Corporation		

Annexure 5. 5

KMC - Part – 2

Residential Buildings

Multiple Weightages for Users Category of Residential Buildings

Sr. No.	category of Residential Building or its user	Multiple Weightages related to its base value
1	Room or Apartments and similar	1.00
2	Bungalow	1.50
3	Penthouse	1.50
4	Two Storied Apartments	1.25
5	Row House	1.50
6	Car Parking in Stilt or basement or podium	0.25
7	Attached Garage	0.50
8	Society Office	0.30
9	Swimming Tank	1.00
10	Club House or any other Facilities being used by the Members of the co-operative -Housing Society	1.50

Source: Regulations for the fixation of Capital Value of the Building and Land, Kolhapur Municipal Corporation

Annexure 5. 6

KMC - Part 3

Shops/ Commercial Buildings

Weightages for User Category of Shops/ Commercial Buildings

Sr. No.	User category of Shops / Commercial Building or its part	Multiple Weightages related to its base value
1	Shop	1.00
2	Restaurant and Bar	1.25
3	Shop for multiple goods and Shopping Centre	1.25
4	Dispensary, Clinic and pathology Laboratory	1.25
5	Private Health Club, Gymnasium	1.30
6	Office	1.10
7	Marriage Hall/Hall/Convention Hall/Community Hall/Party Hall etc. AC	1.50
8	Marriage Hall/Hall/Convention Hall/Community Hall/Party Hall etc. Non-AC	1.20
9	Go down/Storage/Warehouse	1.00
10	Non-starred Hotel	1.30
11	Hotel up to 4 star and Service Apartment	1.40
12	Hotel 5 star and above	1.50
13	Bank	1.25
14	Financial Institutions other than Banks	1.25
15	Life and other than Life Insurance Corporations or Company	1.25

Sr. No.	User category of Shops / Commercial Building or its part	Multiple Weightages related to its base value
16	Estate Management Company and Trust Companies of Mutual Funds	1.25
17	Stock Exchange	1.25
18	goods Exchange	1.25
19	Security Exchange Board of India	1.20
20	Automatic Trailer	1.20
21	Cooperative Credit Societies	1.00
22	Mall	1.25
23	Educational Institutions	0.75
24	Nursery, Kids corner, Play Group	0.25
25	Car Parking in Stilt or basement or podium	0.30
26	Attached Garage	0.30
27	Society Office	0.80
28	Power Substation	1.00
29	Hospital	1.20
30	Super specialty Hospital	1.00
31	Nursing Home	1.00
32	Advertisement Board	1.00
33	Tower	1.00
34	Cinema Hall/Cinema House/Drama Theater	1.00
35	Club House etc. except being used by the members of the Co-Op Hsg. Society	1.00
36	Tuition Classes	1.00
37	Special Car Parking Construction with or without Mechanical Lift	1.00
38	Multiplex	1.25
39	Swimming Tank Where Entrance Fee or Membership is not levied	1.00
40	Structure of Petrol Pump/ Service Station/LPG, CNG Station/ Kerosene Station	1.00
41	Stable	0.80
42	Weighing Bridge	1.00

Source: Regulations for the fixation of Capital Value of the Building and Land, Kolhapur Municipal Corporation

Annexure 5. 7

KMC - Schedule B

Multiple Weightages According to Nature and Types of Building and its parts

Sr.No.	Nature and Types of Building and its parts	Multiple Weightages
1	Superior RCC Building	1.50
2	Other RCC Building	1.00
3	Pucca Construction other than RCC	0.70
4	Semi-Permanent Building	0.40
5	Kuchha Building	0.30

Source: Regulations for the fixation of Capital Value of the Building and Land, Kolhapur Municipal Corporation

Annexure 5. 8

KMC - Schedule C

Multiple Weightages According to Completed Age of the Building

Sr.No.	Age of the Building in Completed Years	Multiple Weightages
1	Residential Buildings after 01.04.2008	1.00
2	Non-Residential Buildings after 01.04.2008	1.50
3	Residential Buildings After 1992 and Before 1.04.2008	0.75
4	Non-Residential Buildings After 1992 and Before 1.04.2008	1.25
5	Residential Buildings Before 1992	0.50
6	Non-Residential Buildings Before 1992	1.10

Source: Regulations for the fixation of Capital Value of the Building and Land, Kolhapur Municipal Corporation

Annexure 5. 9

KMC - Schedule D

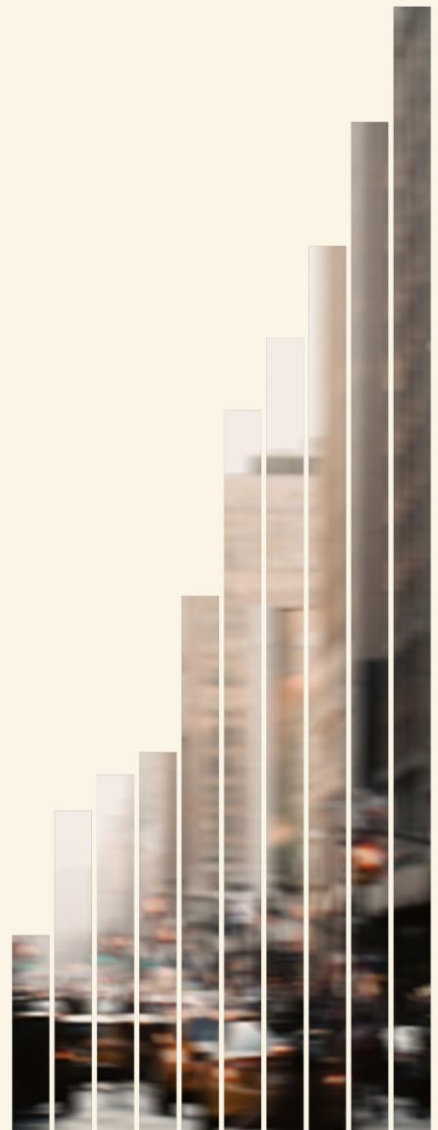
Multiple Weightages related Floor of the RCC Building

Sr.No.	Floor	Multiple Weightages
1	Basement excluding Car Parking	1.00
2	Lower First Flower	1.00
3	Upper First Floor	1.00
4	Ground Floor	1.00
5	1 to 4 Floor	1.00
6	5 to 10 Floor	1.05
7	11 to 20 Floor	1.10

Source: Regulations for the fixation of Capital Value of the Building and Land, Kolhapur Municipal Corporation

Summary, Observations and Suggestions

06



6: Summary, Observations and Suggestions

6.1 Introduction

The opening up of the Indian economy has provided a good opportunity for the urban areas to accelerate their own development. City economic growth and its equal distribution are two sides of the coin of any city development policy. From either of the view point proper functioning and enhancing capabilities of the cities are crucial. The two cities in our sample study, namely, Bhiwandi Nizampur and Kolhapur are important economic hubs and even policies of Government of Maharashtra have been supportive for the growth of economic activities. Being engines of economic growth these cities have to create a favorable background for the economic activities by providing smart infrastructure and services. Both the Corporations have to raise their financial capabilities to spend on infrastructure and services and also make their position stronger for capital market funding. We have attempted to highlight and analyze the performance of a major own source - Property Tax to ensure improved funding of crucial city infrastructure services.

The observations discussed in the earlier chapters are based on an analysis of financial budgets and data from property tax department of BNMC and KMC. Personal interviews were also sought from key functionaries of the city governments wherever there was less clarity or inconsistency. Suggestions have been made on the basis of observations and with specific focus and reference to the property tax assessment in the context of reform efforts.

Our analysis in chapter Two reveals that owing to the changing government policies and emerging urban development scenario the responsibilities of ULBs have been increasing in terms of large investments in provision of infrastructure and services.

Table 2.2 presents Comparison of Budgetary provisions for infrastructure by the three levels of governments reveals that the major investment for development of infrastructure takes place at Municipal government level. At the same time Table 2.3 reveals how weak ULBs are in recapturing the generated wealth through taxes and levies. Table 2.5 demonstrates the resulting weakness and dependency of ULBs on higher Governments for funding. Chapter 2 concludes saying that to reduce the dependency on higher Governments ULBs have to strengthen their own revenue sources through the increasing revenue from property taxes which is their primary source of own revenue.

Chapter three covers the theoretical aspects of the Property Tax administration with specific focus on the assessment methods. There is a brief discussion on the common systems of assessment currently in practice in India, namely, the Annual Rental Value ARV and Capital Value methods with the Unit Area or Area Based method. As discussed in the Chapter, due to British legacy many cities in India would do assessment on the basis of ARV that too on the basis of hypothetical/notional rent. However, owing to a few SC rulings, Standard Rent overshadowed the hypothetical rent. Its impact made the property tax most inelastic. To shift to the CV method there is a requirement of reliable data on sale value or cost of property, which is often not available. On account of lack of authentic data determining individual property value, many Indian cities introduced reforms in their assessment method by adopting a unit base or area base approach. Patna city was the pioneer in area base assessment, and SC also assented the area based mass appraisal system adopted by the Patna Municipal Corporation, which paved the way for other cities to adopt the change with modifications to suit their city. To introduce such changes, the cities had to make suitable changes to their municipal act or Rules.

The reform efforts of the cities of Bangalore and Patna have been overviewed and presented in Chapter Four. The Municipal Corporation of Bengaluru provides a good example. The unit area value method adopted with self-assessment scheme has shown that the property tax buoyancy can be gained and the revaluation with specified time interval enhances the base of tax yielding increased tax revenue.

The Patna Model has demonstrated that Property Tax has the potential to provide more revenue to the city governments, the discussion indicates the need for replicability in other Indian cities.

In the State of Maharashtra, the Maharashtra Municipal Corporations Act 1949 has already been amended, making available the option of Capital Value base valuation. Also the rules defining the procedure for arriving at the CV base have facilitated the adoption of mass appraisal method through the Ready Reckoner.

Amongst city governments in Maharashtra except for Municipal Corporation of Greater Mumbai and Kolhapur no other city has shifted to the option of Capital Value System of valuation. Chapter 5 attempts to understand what holds back other cities from the shift to CVS. A comparative analysis of the performances of the CV system in Kolhapur and Annual Rental Value system in Bhiwandi Nizampur has been done and presented in Tables in chapter five. The observations from the comparative analysis in these Tables and the suggestions based upon them as presented in Chapter Five have summarily been presented in the following paragraphs.

As discerned from the service level benchmarks of property related core services Table No 5.2 which covers primarily water supply, sewerage, conservancy and roads, shows that quality of water supply, collection of solid waste, and adequacy of waste water treatment capacity the situation is absolutely alarming in BNMC. The overall situation as regards infrastructure and services in BNMC is a matter of serious concern and calls for immediate attention. Although the situation is comparatively better in KMC, there is ample scope for improvement. Particularly management of sewerage and scientific handling and disposal of solid waste needs considerable attention in both the cities. Both these towns being hubs of economic activities, neglect of status of infrastructure and services cannot be ignored or postponed. . Equally important is quality of life of the resident population as well as needs of the floating population which require better quality infrastructure and services.

An analysis of the Revenue Income of both the Corporations presented in Table 5.3 in chapter 5 indicates that in case of BNMC the growth in revenue income has been volatile leading to pressures on the revenue expenditure. For KMC comparatively it is less volatile in case of Kolhapur revenue income has been consistently increasing and has never been negative. . For BNMC, due to inadequate revenue income the difference between revenue income and revenue expenditure was negative up to 2016-17, which is against the statutory requirement of a balanced budget.

The Per Capita Income PCI Table 5.3 of KMC in 2018-19 ₹5045 is almost one and half times that of BNMC ₹3474. According to Dr. Mohanty 'Per Capita municipal revenues' in India in 2012-13 are estimated at ₹3123⁴³. It is to be noted that while per Capita Income of KMC was almost two times that of the national per capita municipal Revenue that of BNMC was almost of the same level though the national average was seven years old.

With reference to Table 5.4, of the two major segments of the revenue income, in case of BNMC income from own sources is seen continuously increasing because of the continuous increasing trend in tax sources primarily due to the introduction of general water tax. Delinking of water tax from the ARV base has shown better results. Yet abolishment of the LBT has caused major changes in the revenue structure of both the Corporations, more prominently in case of BNMC. In case of BNMC there is a need for stability in income which can be achieved by increasing efforts for a rise in the revenue, particularly through steady rise in Property Tax.

In case of KMC although income from own sources shows fluctuations with a negative growth trend in the years 2016-17 and 2018-19, they were caused by non – tax sources. (Table 5.4).The fluctuations seen in tax

⁴³ Dr. Prasanna K. Mohanty, Financing Cities in India Municipal Reforms, Fiscal Accountability and Urban Infrastructure, 2016, PPP Pg 24 SAGE Publications India Pvt Ltd New Delhi

sources are due to the change in policy decision related to property tax like discontinuation of door to door collection and introduction of online payment. Income from Transfers from higher Government is showing ups and downs throughout the study period, and hence cannot be a source to rely upon. Therefore both the Corporations need to focus upon increasing their own sources. More so in case of BNMC,

Dependency ratio DR i.e. the measurement of the proportion of own revenue sources and the transfers from higher Government indicates the extent of dependency on higher government. DR greater than one connotes higher dependency viz-a-viz. Comparison of DR as presented in Table 5.4 and Box No.5.1 shows the higher dependency of BNMC, as DR for BNMC is >1 and less dependency of KMC, the DR for KMC being <1 . It would be prudent to take drastic steps to reduce the dependency on volatile source and strengthen own sources.

In the context of BNMC levy of general water tax needs to be linked to the consumption and cost of water supply so as to make the water supply self-supporting. Also levy of legitimate sewerage taxes which will yield substantial revenue to the BNMC for the improvement of the sewerage system. Both these changes will prove radical to help bring BNMC out of the vicious low development circle. So far the potentials of PT have not been fully utilized by BNMC. BNMC must take drastic steps to utilize the untapped potential of PT and increase revenue from it. This will give revenue stability to BNMC and will provide assured source of income to spend on the improvement and development of property related infrastructure and services.

Regarding KMC except for the year 2015-16, income from tax sources have shown continuous increase, which is due to reforms in property taxes, since property taxes contribute 99 percent of tax sources. Few policy decisions of KMC prior to the period under study and during study period such as introduction of property tax assessment on capital value system, introduction of the system of online acceptance of property records, discontinuation of door to door property tax collection have shown fair results. The undulations in the growth trend of property tax revenue were temporary effect of these decisions.

Observations from Table 5.7 show that the Per Capita Revenue from Property Taxes of KMC is four times higher than that of BNMC and except for the year 2015-16 it has been increasing. Whereas for BNMC it is seen decreasing for majority of the period. The observation leads to the suggestion that BNMC must make a timely shift to the Capital Value System before revenue losses increase.

The analysis of contribution of each of the component of the property taxes given in Table 5.8 and the analysis of cost recovery of the property related services through each of these component given in 5.9 from chapter 5 indicates that basically four of the major compulsory integral taxes viz sewerage Tax, sewerage benefit tax and water benefit tax and Street Tax which BNMC would levy previously has been discontinued, the reason being the low level of services. Because of the discontinuation of these taxes BNMC has got trapped in to a Low revenue cycle and hence is unable to spend adequately on the maintenance of the infrastructure. They do not have the resources to provide quality infrastructure. This in turn causes discontent amongst the tax payers. BNMC needs to reintroduce the discontinued taxes. Three taxes amongst them viz Sewerage Tax, Sewerage Benefit Tax, and Water Benefit Tax being mandatory their very discontinuation is a breach and can be a serious issue.

With reference to Table numbers 5.9 and 5.10, in case of BNMC barring water Supply, the status of cost recovery of all other property related services, fares very poorly. As far as KMC is concerned cost recovery is much better except for the road segment. The average cost recovery for water supply, sewerage and conservancy together comes to 86 percent. Although the status in KMC as regards all these services is comparatively better, yet KMC has to reach the expected quality of infrastructure and services.

Identification of properties is a crucial step in property tax administration as it determines the accrual of revenue from them. In Bhiwandi the increase in number of properties during last 5 years

does not appear much 1.18 times only. On the contrary number of commercial and industrial properties during the year 2016-17 and commercial properties during 2018-19 are seen to decrease. As understood, partly it could be because of the change in use. However, it needs further investigation. Probably, identification process needs to be regulated and intensified. The responsibility of identification of properties rests entirely with the field staff. The process of property identification needs streamlining. Regular periodical surveys must be undertaken. In case of KMC also there appears to have been no revision. In Kolhapur So far there was no system for the identification of new properties. However, it is understood that the work of survey has been undertaken in the year 2018-19. Such surveys should be a regular feature with cycle of five years. Surveys should then be followed up by digitization of the records and map, and then developed into MIS. Also as per the municipal Act the Five yearly Revision needs to be carried out.

The assessment of properties in BNMC is on the basis of ARV, whereas in KMC it is on the basis of CV. In BNMC the notional annual rental value in the form of Ready Reckoner are used as the base for assessing property taxes. Using rental values however presents a major challenge as Rent Control Act RCA has limited the scope for the notional rent to increase beyond Standard Rent, and according to Section 14 of the Maharashtra Rent Control Act, 1999 MAH. ACT NO. 18 OF 2000 Standard Rent having been frozen at October 1987 Refer to Box No 5.1, property tax as a source of revenue has become stagnant.

As against this in KMC with the adoption of the CVS the results have been much better. Revenue from each of the components except revenue from street tax, have capability of taking care of property related services. Current Demand for property taxes indicates continuous sustained increase Table 5.16 from the year 2012-13 onwards. Even from the year of introduction onwards the proportion of recovery also is seen improved. Total Tax Demand and absence of Court Cases are indication of acceptance of the CVS by the tax payers. Despite the discontinuation of door to door tax recovery and introduction of online tax payment system the recovery in the year 2018-19 is 97 percent of the total demand. Before introduction of CVS a proper survey of properties was carried out. Even in the year 2018-19 Fresh survey is being taken up, which will be beneficial from the point view of addition of new properties, and properties with structural changes. Seeing the achievements of the KMC it is suggested that BNMC should also adopt the CVS. Other city governments can follow too.

6.2 Suggested steps for the introduction of Capital Value System

Change in Property Tax Assessment System is desirous in case of Bhiwandi Nizampur Municipal Corporation. The Capital Value System is the alternate option available according to the MMC Act. Change to alternate base need to be accompanied by Self-assessment system and other suitable administrative reforms. The Self-Assessment System must be notified and mandatory, which need to be supported by bye-laws. Experience of KMC is readily available for such a shift. However, from the experience of the Corporations who have successfully introduced the reforms as well as from the experience of the KMC certain steps are considered necessary and suggested below for BNMC as well as for other Municipal Corporations desirous to shift to alternate mode.

6.3 Consultation and interface with the Elected Representatives and their assent

To levy property tax on the basis of CV the Corporation has to pass the resolution. Therefore, entire process of shifting the base has to be initiated from the consultation with the Elected Representatives and their approval for it. A proposal for the shift will have to be prepared and submitted to the Corporators and members of the Standing Committee. The proposal will cover justification for the shift, merits of the new system over the old one, procedures for the same, involvement of the expert consulting Agency or person, cost involved and impact or additional

burden of the new system on tax payers and the impact for the corporation in terms of revenue increase, administrative ease, legal implications etc.

6.4 Survey of properties

A survey of properties based on Geographic Information System GIS covering property measurements, ownership details and other property details such as location, use type of construction etc. needs to be carried out. Digitization of the maps and property details should be done to create a base for Management Information System MIS. Unique property Identification number UIN needs to be assigned to each of the property. 100 percent coverage of properties needs to be ensured. Need based IT system would require to be developed. On the basis of this data/ MIS Assessment Register for property tax could be developed. Tax returns and payments could be compared with this data identifying the defaulters or those giving wrong declaration of their liability. Tax monitoring would be easier with the help of this data. This data would also be useful for taking many policy decisions. The data also would facilitate the development of Ready Reckoner RR. The data must be updated from time to time. The MIS so developed also would facilitate the Self-Assessment System.

A suggested way FW for BNMC to get all stake holders approval would be to do a hypothetical comparable exercise in a few wards, which meet most of the pre requisites required for a CV roll out. The same properties can be valued as per RV and CV method. The difference should then become apparent.

6.5 Detecting unidentified, defaulting properties

A drive needs to be initiated to detect properties which have not been identified, properties in which structural alterations have taken place and also unidentified new properties and bring them in tax net. The MIS mentioned above may be useful for this purpose. Simultaneous action also can be taken against these properties.

6.6 Development of model for calculating the tax liabilities

Development of model for calculating the tax liability will have three steps. They are; 1. Development of Ready Reckoner 2. Development of guidance note and 3. Fixation of Tax Rates. The data collected through surveys would be helpful for this purpose.

6.6.1 Development of Ready Reckoner RR

For the purpose of development of RR of Municipal Corporation, the area needs to be divided into zones and should be followed by the categorization of attributes of properties such as type of construction, age of the building, location, use etc. After classification of buildings based on their type of construction, nature of usage, Age, Location, occupancy etc. development of a Ready Reckoner by assigning multiplicative weights to these attributes is necessary.

6.6.2 Fixation of Tax Rates

Tax rates for all the components need to be determined. As discussed earlier fixation of the tax rates of various components has to be based on the exercise in which various models of relationship between cost of services and benefits to the tax payers will have to be studied.

6.6.3 Developing guidance note for the application of the Ready Reckoner and calculating the base value and tax liability

Along with the release of RR the accompanying guidance note also will have to be released. The Guidance note must explain the methodology for the use of RR to arrive at the figure of tax liability. It must be very clear and should not raise any doubt in the mind of tax payer.

6.7 Development of Property Tax Byelaws

Byelaws have quasi-judicial status. Byelaws will bring Transparency in the tax administration. Provision for the action against defaulters in the byelaws will minimize the number of defaulters.

6.8 Publication of MIS, RR, Guidance note and Byelaws on the portal of the Corporation

All the records of the properties in the city should be accessible on the portal of the Corporation. Any citizen should be able to find out details of not only his property but also those of properties in his vicinity. Application of RR will bring transparency in the tax administration. Along with Property tax MIS RR, Guidance note and Byelaws must be put on a portal which will facilitate the self-assessment.

6.9 Preparation and release of notification

Before Publication of MIS, RR, Guidance note and Byelaws on the portal of the Corporation a notification for the declaration of the intention of the corporation to adopt the CV system and inviting objections and suggestions on the MIS, RR must be released and on hearing the objections and suggestions same and also considering the views if any received from State Property Tax Board should be put on the portal.

6.10 Citizens Interface for improved Tax Collection

In case of BNMC Tax recovery is very poor. Drastic changes need to be introduced in the system of tax collection. System of door to door tax collection need to be discontinued and payment gateways through the system of on line payment need to be developed and strictly followed. Strict actions even up to property attachment need to be taken for defaulters. This needs to be all the more drastic for the long pending arrears. Once the discipline is set. Even mobile apps like Surat Municipal Corporation needs to be developed for payment through mobile. Awareness needs to be created amongst the tax payers. Sensitization of Elected Representatives is most crucial. Various facilities such as City Facilitation Centers CFC at ward level needs to be created for the convenience of tax payment. Special drive needs to be undertaken for the recovery of arrears. Probably dialog with tax payers through meetings, hearings may help in this direction.

Although the said suggestion is specific to BNMC, it may be relevant to the other corporations in Maharashtra where the arrears are mounting.

Government of Maharashtra is one of the pioneers in promotion of ICT and e-Governance. During the years 2009 -2011, Under JnNURM Government of Maharashtra had provided servers and software to all the Municipal Corporations and Municipal Councils in Maharashtra with training support. The infrastructure then created must be used for this purpose.

6. 11 Stakeholders' awareness

On adoption of the CVS the awareness of the stakeholders is very crucial so as to facilitate its smooth operation. The most crucial is the sensitization of Elected Representatives.

6. 12 Public Grievance and Redressal System

Mechanism to address the public Grievances would help to a great extent to reduce the protest of the taxpayers towards the new system and will minimize the complications.

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