Research Study Series
Number 34

Revamping the Structure of Property Taxes
A Study

(Prepared for the Ministry of Urban Development)

National Institute of Urban Affairs
New Delhi
January 1989

Research Study Series
Number 34

Revamping the Structure of Property Taxes
A Study

(Prepared for the Ministry of Urban Development)

National Institute of Urban Affairs
New Delhi
January 1989

PREFACE

Property taxes constitute the single most important source of municipal revenues in India. Its dominant and over-riding position in municipal revenue structure remains so far unquestionable, but the signals are that the share of property taxes in the total municipal revenues may be on the decline. How to stem the decline of this important source of revenue and use it to bolster the resource position of municipal bodies is the theme of this research report. Undertaken with the financial support of the Ministry of Urban Development, this report has examined the problems that are associated with the property taxes, and proposed steps to overcome those problems. The data for this study have been drawn from two sources; namely, a postal survey covering the status of property taxes in 45 towns and cities and a detailed survey of the structure of property taxes in three large cities of the country, namely, Ahmedabad, Agra and Vishakhapatnam.

The data from the municipal bodies of these three major cities re-affirm what has generally been known about property taxes: the yields from this source are low; the ratio of collection to assessment is on the decline; the municipalities are unable to make use of the statutory provisions which define the rate of property taxation; and a very large proportion of properties remain outside the net of taxation.

The study has pointed out that while a number of problems associated with the property taxes are attributable to exogeneous factors, such as the Rent Control Acts, the endogeneous factors are no

less important in keeping the yields low. Agra is a very typical example of a municipal body where property tax rates have continued to be far below the rates provided for in the U.P. Nagar Mahapalika Adhiniyam (Act) of 1959; where collection rates are unbelievably low; and where no attempts have been made by the Agra Municipal Corporation to take advantage of this source of revenue to revamp its resources. On the other hand, there are municipal bodies, Vishakhapatnam being one of them, which have begun to utilise newer methods of tax collection and take steps to reduce the incidence of avoidance of taxes, corruption etc. The very fact that the collection ratios are high in some municipal corporations and municipal bodies show that improvements are possible and that the responsibility of effecting those improvements rests with the municipalities themselves.

This study has proposed a carrat and stick approach to taking fuller advantage of this source of tax revenue. The carrat part of the approach is the incentives that municipal bodies must give for timely and advance payment of property taxes. Such incentives have been successfully experimented with by many municipal bodies and are subject to adaptation. The study has suggested universalisation of innovations like the introduction of pass books for payment of property taxes to authorised banks. The stick part is concerned with the grants-in-aid which, this study proposes, may be linked with the performance of municipal bodies in regard to their tax-raising efforts. The study has further pointed out that the number of properties which are outside the net of taxation is very large and unjustifiable. The oft-repeated argument that the costs of collection

of taxes from these properties are higher than the actual yields is not sustainable. There is need in the country to widen the tax base which is possible to be done by bringing all properties within the taxation net.

At this Institute, my colleagues Dr. Kiran Wadhva and Shri K.K. Pandey have jointly conducted this study. K.K. Pandey assumed almost the entire responsibility for data collection, data analysis, and preparation of a draft report. Dr. Kiran Wadhva provided valuable assistance during the initial phase of this study as well as in the drafting of the final report. I would like to place on record my appreciation to both of them. The Institute would also like to place on record its gratitude to the Ministry of Urban Development for the financial assistance that it provided for undertaking this study.

January 1989

Om Prakash Mathur
Director

PROJECT TEAM

Project Co-ordinators	:	Dr. Kiran Wadhva K.K. Pandey
Research Staff	:	Naveen Mathur Rajan Pal Prashant Kumar Biswal
Computer Unit	:	R.K. Dahiya Indu Senan Sangeeta Vijh T.C. Sharma Ravinder Grover Aradhana Singhal Mahender Singh Nirwal
Typing and Secretarial Assistance	:	Ganga Singh T.P. Tiwari

CONTENTS

I INTRODUCTION

Background

Successive studies[1] on Municipal Finances in India have emphasised the fiscal crisis that pervades our local bodies owing to the increasing gap between the municipal incomes and expenditure requirements. Inflation and rapid population growth in our cities and towns call for relatively much higher levels of expenditure than the prevailing levels of municipal incomes. This gap has wide-ranging implications on the delivery of municipal services, the symptoms of which are clearly visible in the prevailing inadequacy of core municipal services such as water supply, water-collection and disposal, preventive health, road paving and lighting.

In view of the mis-match thus created between the municipal incomes and the required expenditure levels, several suggestions have been made from time to time to find ways and means by which municipal incomes can be augmented further so as to enable better provision of civic services. However, the follow up of these suggestions has been very poor. Rather than adding to the new resources of municipal incomes, some of its sources have been taken away by the state such as the Entertainment tax while others have been abolished like octroi in many states. Sharing of the taxes collected by the state and compensation in lieu of abolition of respective taxes are not determined on the basis of the estimated notional incomes that the municipal bodies are constantly losing. Under these circumstances the

---

1. From Local Finance Enquiry Committee, Government of India, 1951, Nature and Dimension of the Urban Fiscal Crisis NIUA, 1987. See Annexure 1 for details.

question pertaining to the ways and means for mobilising and augmenting municipal incomes continues to remain relevant.

Municipal incomes can be classified as Ordinary (recurring) or Capital (non-recurring) income. Income from non-recurring sources such as loans, subsidies and grants for specific investment purposes is basically used for realising the major capital projects such as the provision of trunk infrastructure and so on. In contrast recurring income is allocated for financing the operational and maintenance costs of various civic services rendered by the municipal governments. When we refer to the fiscal crisis or revenue mobilisation at the municipal level the reference is to the income originating from recurring sources. Ordinary/Recurring income is generated from internal and external sources. Taxes, rates, rents and prices and fees and fines form the internal sources while grants and transfers from the state form the external sources.

An analysis of municipal finances according to different size category of cities has indicated the declining importance of external sources in the total income of the municipalities. The share of external resources in total ordinary income has declined from 16 per cent in 1979-80 to 15 per cent in 1983-84 (NIUA). The relative dependence on internal sources has increased. In absolute terms, however, the real income from internal sources declined from Rs 10 per capita in 1979-80 to Rs 3 per capita in 1983-84. Given the uncertainty relating to availability of external resources the municipalities will have to do their utmost to augment the internal resources of income.

Internal Sources of Income

Taxes form the major part of internal resources. These comprised 80 to 90 per cent of the total income in 1983-84 of the municipalities [NIUA : 1987]. Taxes have assumed this prominence in the internal resources basically due to two reasons. Firstly many of the services delivered by municipal governments are not directly priced such as street lighting, preventive health, and recreation. Secondly services such as water supply that are priced are charged at a relatively low rate. Taxes are expected to cross-subsidise the deficits incurred in the delivery of various municipal services. Owing to the political sensitivity the pricing of municipal services will perhaps remain skewed towards low-rate charging. This situation calls for an increasing dependence on tax incomes.

Octroi forms the biggest part of municipal tax incomes wherever it is levied. Next to octroi are the property taxes. An analysis of municipal finances of 210 municipalities revealed the share of octroi as ranging between 23 per cent and 46 per cent in 1983-84 [NIUA : 1987]. The share of property taxes ranged from 5 per cent to 34 per cent of total tax income for the same year. The share of all other taxes such as professional, advertisement etc. comes out to be as small as 9 per cent of total tax income. Besides the low contribution made by these taxes, these are not very elastic sources of revenue [NIUA : 1987]. If one were to remove octroi, the property tax becomes the single most important source of revenue and the municipalities will have to rely more and more on this source to finance their increasing expenditures. The future of octroi however does not seem bright. Following directions from the central government nine states

have already abolished octroi and others are being persuaded by the centre to follow suit.

Property Taxes : Scope of the Study

A recent study by NIUA on the Nature and Dimension of the Urban Fiscal Crisis (1987) places on record that the municipal dependence on property taxes for revenue has registered an upward trend from 18 per cent of total taxes in 1979-80 to 28 per cent in 1983-84. On the other hand, the per capita income on this account has declined from Rs. 23 to Rs. 19 at constant prices. The study further reveals that the same period has witnessed a declining trend almost across all the size class of towns in terms of property tax yields if adjusted to increase in population and prices. Considering the fact that both the number and prices of properties all over urban India have registered huge increases, one would have expected the yield from property tax to increase rather than decline.

Low yield from property taxes can be attributed to the following four factors : (i) exclusion, (ii) underassessment, (iii) low rates of taxation, and (iv) non-recovery or default.

Of these (i) and (ii) imply erosion of the property tax base and (iii) and (iv) while not leading to erosion of base in effect produce a similar result. Exclusion refers to exemptions granted by local authorities to various types of properties. Normally, these exemptions relate to central, state and local government properties. Some local authorities may exempt totally, or offer concessional rates to, commercial or industrial properties (more often it is the state governments which offer various kinds of concessions to industry in

order to attract it). Another group which is normally offered concessional rates is ownership housing. This concession is probably offered by almost all the local authorities.

The second factor which leads to erosion of the tax base is under assessment. Three factors could lead to this :

i. lack of expertise on the part of valuers - this could as well lead to overassessment. Normally, however, they err on the lower side.

ii. The Rent Control Act, which makes it mandatory for the local authorities to value properties on the basis of "fair" rent. The recent Supreme Court verdict about the value of land (prevalent at the time of building the house) to be included in calculating the value of the property will have a similar impact on the property tax base.

iii. Corruption : The procedure of valuation involves the valuers coming into direct contact with the tax-payer who is interested in getting his liability reduced. In lieu of some payment, the valuers normally agree to do so.

The third cause of non-growth of the property tax is the lowering of tax rates. The state governments while defining the rights and obligations of local authorities, prescribe the minimum and maximum taxation rates for properties. Whereas the local authorities can adopt the highest rate they may choose to concentrate nearer the low values. Some of the local authorities may not impose any property tax whatsoever.

The non-recovery and/or default on the part of property owners can lead to further erosion in property tax revenue. Even after the property has been properly assessed, the tax payer may not agree with the assessment and may take the local authority to court. The tax is not paid till the matter is settled in court. One reason for non-

recovery could be the non-compliance of the assessed party with the decision of the valuer.

In view of the fact that local authorities (i) suffer from serious scarcity of revenue, and (ii) are heavily constrained in their revenue raising efforts, the below capacity utilisation of their major source of revenue should cause serious concern. Our study is directed mainly towards exploration of this aspect. The objective is to quantify the impact of some of the factors listed above on the revenue from property tax and identify ways and means in which the tax base can be utilised more effectively in order to bolster municipal revenues.

The main focus of this study is on four major issues :

i. The role and importance of property taxes in the finances of local bodies;

ii. the growth in real terms in property taxes over a period of time;

iii. the factors underlying the decline or stagnation in tax growth; and

iv. the mechanism by which revenue yield from property taxes can be increased.

These issues have been examined at length in order to identify the problem areas and constraints that have hampered the optimum exploitation of the property tax base. Finally the future course of action has been suggested which includes precautionary measures and innovative approaches for more effective utilisation of property tax resources.

Methodology

The empirical analysis in this study includes a postal survey and case studies of property taxes in three cities of the country.

A postal survey was carried out in order to reassess the property tax structure in India. A total number of 450 local bodies with the status of a municipality and above were selected for this purpose. These comprise 26.4 per cent of local bodies (about 1780) with the civic status of municipalities and above. Despite repeated reminders the number of respondent local bodies hereafter referred to as muncipal bodies did not exceed 45. The size distribution of these municipalities is given in Table 1.1 (List of the responding local bodies is appended in Annexure - 2).

Table - 1.1

Distribution of Respondent Local Bodies by Census Size Group

Census size groups (population)	Respondent local bodies	Per cent of total
1,000,000 and more	6	14.0
100,000 - 999,999	5	11.0
50,000 - 99,999	5	11.0
20,000 - 49,999	15	33.0
20,000 and less	14	31.0
All	45	100.00

The information obtained from the postal survey has been critically examined in order to analyse the changes in the structure of property taxes over a period of time for two reference years that

is, 1980-81 and 1985-86. The emphasis has been on changes that have occurred in the composition of demand and collections with a specific look at the arrears and current year's figures. Growth patterns of property taxes are also examined as compared to the overall revenues.

A case study approach has been adopted in order to have a micro view of the property tax system in sampled cities. Weightage has been given to the regional variations while selecting the case study cities. The cities taken as samples are Agra, Ahmedabad and Vishakhapatnam. Each of these cities has the civic status of a municipal corporation. Ahmedabad and Vishakhapatnam inherited the tax structure as initially levied under the Bombay and Madras presidencies respectively. The third city Agra is representative of the 'average' type of city that is set out in respective municipal acts in northern, eastern and central India.

The objective of conducting these case studies was to analyse the system of property taxation in greater depth and to examine the factors leading to stagnation of property tax yield in these cities. A few factors were identified at the outset and then tested in the three cities.

We have not taken account of all the factors listed above (in the earlier section) in calculating the loss of property tax. Some of these factors and their impact on property revenues have already been analysed for a few municipalities in India. Thus, the impact of the Rent Control Act has been analysed for the municipalities of Bombay, Ahmedabad and Calcutta. Similarly the loss in revenue due to recovery problems has also been analysed. A study (M.K. Bhattacharya)

on Property Taxation in Calcutta also discusses the loss in revenue due to various other leakages. These factors have not been dealt with extensively. The factors on which greater attention was focussed relate to exemption, low tax rates and defaults by taxpayers.

The National Institute of Urban Affairs team visited each case study city at least twice during the survey so as to collect the requisite information at microlevels and it also had wide ranging discussions with the concerned functionaries and other operators in the land and housing markets.

In pursuance of the above mentioned objectives two types of information were collected from the case study cities. One was the information on the structure of property taxes, the yield from these taxes and the break-up of this yield in terms of collection and demand. This information was collected from the property tax and related departments of the respective city corporations. Another was the information pertaining to the market rent and value of properties. This information was obtained through a survey conducted by local resource persons with the help of property brokers. The objective of this survey was to estimate the extent of underassessment on the basis of rateable value computed by the municipal body as compared to the prevailing market rent.

II PROPERTY TAXES IN INDIA : AN OVERVIEW

The present chapter deals with the property taxes in India based on a size-class analysis of the municipal bodies. The analysis is based on the response to our postal survey. The analysis of property tax is confined to three major aspects :

i. composition of tax, rate structure and tax base;
ii. growth in receipts from property taxes; and
iii. collection efficiency.

Since urban development is a state subject in India's federal structure, each state government has enacted separate municipal acts. Such acts guide and regulate the imposition of the municipal tax-structure including that of the property tax. The composition of tax, its rate structure and base therefore vary from state to state.

Composition of Property Tax in India

The property tax family includes a variety of taxes which are dependent upon the same base, namely the Annual Rateable Value of the lands or buildings concerned. The size of the property tax family however varies from one state to another. Apart from general (house) tax on land and buildings, the property tax also includes water, sewer and conservancy tax, lighting tax, fire tax, education cess and library cess among others. Table 2.1 (a) indicates that except for Karnataka and Uttar Pradesh the other states do not seem to have made provisions for levying the property taxes to the maximum extent possible. Even in Uttar Pradesh most municipal bodies do not levy any tax on properties other than general, water and sewer taxes. The situation in other states is not very different either.

There is a need to rationalise the composition of property taxes and its follow up at municipal levels so as to ensure the maximum utilisation of taxes on land and buildings.

Rate Structure

It is not only the composition of property taxes but also the rate structure as applied in the states referred to in Table 2.1 (b) that varies substantially from one state to another. Table 2.1 (b) indicates the rate structure in the various states to which the responding municipal bodies belong. The rates of the property taxes (all taxes together) range from 6 per cent of ARV in Madhya Pradesh to 79 per cent in Gujarat. The variation is even higher when we take the individual components such as general tax and water tax.

In most cases the rate structure has not been revised by the respective states for many years. Thus, for example, in Uttar Pradesh the last revision of rates was in the year 1959. There is thus a case to suitably modify the rate structure in order to bring it in line with the current situation in the housing markets and the financial needs of the concerned municipal bodies.

Table - 2.1 (a)

Composition of Property Tax in Selected States

State/Union Territory	General/ Holding	Water Tax	Sewer and conservancy/ scavenging tax	Lighting Tax	Fire Tax	Education cess/tax	Library cess/tax	Others (specify)
1	2	3	4	5	6	7	8	9
Andhra Pradesh	Yes	Yes	Yes	Yes	-	-	Yes	Drainage tax
Gujarat	Yes	Yes	Yes	-	-	Yes	-	General Sanitary
Karnataka	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Beggary cess Health cess General sanitary cess
Kerala	Yes	Yes	Yes	Yes	-	-	Yes	-
Madhya Pradesh	Yes	Yes	Yes	Yes	-	-	Yes	-
Maharashtra	Yes	Yes	Yes	-	-	Yes	-	Tree cess Water benefit Sewerage Benefits cess
Punjab	Yes	Yes	-	-	-	-	-	-

Contd.....

1	2	3	4	5	6	7	8	9
Tripura	Yes	Yes	Yes	Yes	-	-	-	-
Uttar Pradesh	Yes	Yes	Yes	Yes	Yes	Yes	Yes	-
West Bengal	C O N S O L I D A T E D							
Delhi	Yes	Yes	Yes	-	Yes No. of F.T. or R.V. up to Rs 5000/- for residential properties	Yes	-	-

Source : Postal Survey, NIUA, 1987.

Table - 2.1(b)

Rate Structure of Property Taxation in Selected States

State/Union Territory	All taxes put together/consolidated (%)	General/ Holding Tax (%)	Water Tax (%)	Exemption limit (Annual Rental/ Rateable Value) (Rs.)
Andhra Pradesh	23 - 33	10 - 24	2 - 8	60 - 360
Gujarat	35 - 79	12 - 30	7 - 15	Up to 300
Karnataka	22 - 33	8	2 and 2 - 7 of general tax	Up to 360
Kerala	12.5 - 21.5	5 - 9	1 - 3	60 -
Madhya Pradesh	6 - 20	-	Rs 12 - Rs 240 p.a.	Up to 1800
Maharashtra	44.5 - 49	Up to 25.5 (including Fire tax)	7 - 122	Up to 74
Punjab	10 - 15 consolidated	-	-	600 - 2400 (2400 in case of widows, minors not having other sources of income)
Tripura	10 - 13.25	3	3	Up to 300
Uttar Pradesh	Up to 31	Up to 18	Up to 14	Up to 360
West Bengal	10 - 40 consolidated	-	Only in special cases Rs 40 - Rs 65 per month	50
Delhi	14 - 53	10 - 30	10 (if not metered)	100 to 1000

Note: Ranges mentioned in this table represent a consolidated picture. However, these rates in the respective states vary among various local bodies according to size class, civic status, slabs (wherever applicable) and different uses to which properties are put.

Property Tax Base

The property tax base is composed of Annual Rateable Value (ARV) that is computed on the basis of either rental or capital value of land and buildings concerned. This base varies according to the use of the property. Normally for residential and commercial uses the rental value is taken as the base, while for industrial use a fixed percentage of capital value of the building and land forms the base.

The property tax base does not include all the properties in the concerned area. Each municipality exempts properties below a certain value from the purview of the property tax. The exemption limits in different states have been shown in Table 2.1 (b). The exemption limits vary substantially. It is interesting to note in this regard that barring Kerala, Madhya Pradesh and Delhi, the other states have not revised such limits for a long time. The exemption limits in these cases indicate an ARV up to Rs 360 within which it is not possible to hire even a hut (jhuggi) at the existing market prices. In practical terms, however, the exemptions are given to properties that represent a much higher level of ARV than that provided in respective municipal acts.

The low valued properties are exempted from the purview of the property tax owing to low net returns from taxation. The cost of the collection of taxes from such properties may turn out to be much higher than the revenue collected therefrom. Apart from these considerations properties are also exempted due to philanthropic considerations (charitable trusts and educational institutions). Similarly, foreign embassies and high commission offices are also exempted from the purview of the tax.

There has been a widespread misunderstanding that central government properties are exempted from property taxes. However, this is not true. The central government vide its circular no. 14(1)p/52-1 (Department of Economic Affairs) dated 10 May 1954 allowed the imposition of property taxes at a concessional rate by way of payment of service charges. But the manner in which this tax is to be fixed was not defined properly. This circular has provided for a suitable percentage of the consolidated tax to be charged in each respective case. Hence, the position was somewhat unclear. Later on in 1967, the central government (Department of Coordination : Ministry of Finance) issued a circular (copy enclosed in Annexure-III) whereby the basis of the fixation of property tax at a concessional rate has been clearly defined.

Following the central government's decision, the respective state governments fixed a fairly low rate of taxation for the properties owned by them. This is generally lower than the revised central government norms. Thus, in U.P. the property tax base of state government properties is taken as 7 per cent of capital value of the property as against the permitted rate of 9 per cent. The misunderstanding that government properties are not subject to levy of property taxes created further confusion. This is why the overall exploitation of the property tax base that is owing to the government properties has been very poor. As an illustration one can mention that only recently the New Delhi Municipal Committee raised a demand for property taxes (known as service charges) on state government owned Bhawans in Chanakyapuri area — one of the most strategic and posh colonies of Delhi.

Property Tax and the Rent Control Act

One widely discussed and most important impediment that has frozen the tax base to a large extent is the Rent Control Act.* This Act provides for a standard rent in order to protect the interests of the tenants. Standard rents are determined according to the norms laid down by the respective Rent Control Acts and are much lower than the existing market rents. This is due to the fact that standard rent is normally based upon the (capital) value of the house/property prevailing at the time of construction.

In a series of court decisions the judiciary has held that the rental value of property must be based on standard rents as defined by rent control legislation. The judgements, however, have allowed the assessment of such properties on the basis of market rent during a limited initial period. This period could be up to the first five years according to the court decision in the particular case. Some of the important Supreme Court judgements in this regard are :

i. Corporation of Calcutta Vs Padma Debi ; 1962.
ii. Corporation of Calcutta Vs LIC - 1970.
iii. Guntur Municipal Corporation Vs the GTRP Association 1971.
iv. Devan Daulatram Vs Municipal Corporation of Delhi : 1980.
v. Balbir Singh Vs MCD - 1984.

Almost all the studies (Annex - 1) so far conducted on property taxes have laid emphasis on delinking the property tax base from various rent control legislations or amending the respective rent

---

* Shyam Nath: Property Tax Revenue Growth in Two Indian Cities, NIPFP, New Delhi; 1982.

control acts suitably, so that the property tax base can be utilised more effectively. Yet nothing has been done in this regard and the tax base has been largely eroded in most of the cases by the constraints of standard rent as defined by respective acts. There is thus a need to have a second look at the rent control legislations in order to relieve the property tax base from the constraints of standard rent.

Growth Trends

The pattern of growth in the property tax revenues and their elasticity to total municipal revenues according to the size-class distribution of the municipal bodies that responded to our postal survey are given in Table 2.2.

Table 2.2

Growth in Property Taxes and Total Municipal Revenues According to Size Class of Municipalities 1980-81 to 1985-86

Size Class	Percentage Variations (+)				Elasticity
	PT	TMR	PT	TMR*	(PT revenue to TMR)
	(current prices)		(constant prices)		
Metropolitan Cities	66	58	11	6	1.13
Class I	79	26	20	-15	3.02
Class II	102	109	35	40	0.92
Class III	102	96	96	32	1.06
Class IV & Others	105	71	37	15	1.46
All	66	56	11	5	1.17

PT = Property Taxes ; TMR = Total Municipal Revenue

* Figures of constant prices are deflated to 1980-81 prices level on the basis of Urban Non-manual Consumer Price Index (UNCPI).

The foregoing analysis reveals that the pattern of increase in property tax revenues has been by and large higher than the growth in Total Municipal Revenues (TMR). Only class II size group has shown a better growth in TMR (109 per cent) as compared to property taxes (102 per cent).

Yet another feature that emerges from Table 2.2 is the positive growth of property tax revenues even if adjusted to inflationary pressures.

Per Capita Yield

It is further important to see the implications of population increase on the property tax yield. The per capita yield at current as well as constant prices is given in Table 2.3.

Table 2.3

Changes in Per Capita Yield from Property Taxes According to Different Size Class of Cities : 1980-81 to 1985-86

(in Rs.)

Size Class	Per-Capita Yield		
	1980-81	1985-86	
		Current	Constant*
Metropolitan cities	53	75	50
Class I	13	19	13
Class II	12	20	13
Class III	11	20	14
Class IV and Others	6	11	7
All	49	72	49

* Figures at constant prices are deflated at the 1980-81 levels on the basis of CPI - Urban Non-manual.

The per capita yield from property taxes in metropolitan cities is much higher as compared to the other size groups. In this regard

the point to be noted is that the rate structure, property values, rents and overall paying capacities in metropolitan cities are substantially higher than the other size class of towns. These elements make the property tax base more buoyant.

It is worth noting from an examination of Table 2.3 that the per capita yield from property taxes at constant prices has declined for metropolitan cities and remained constant for class I size group of municipalities over the period 1980-81 to 1985-86. This could be attributed to the fact that a large chunk of population in these cities residing in slums, squatter and unauthorised colonies, is not covered under the property tax net and takes advantage of respective exemption limits.

The per capita yield from property tax in class II to class IV size groups of municipal bodies has shown an increase over time at current prices. However, this increase is not very significant in constant terms.

The shift in the per capita income from property taxes at constant prices was recorded for the respondent municipal bodies according to the direction of the shift. This is shown in Table 2.4.

It is important to note from Table 2.4 that in a majority (65 per cent) of cases the municipal bodies have not been able to substantially improve their per capita yield from property taxes.

Table 2.4

Shift in Per Capita Yield at Constant Prices between 1980-81 and 1985-86

Collection for	Declined	Remained Stagnant	Increased	Total
Current Year	4 (9)	24 (53)	17 (38)	45 (100)
Arrears	5 (11)	36 (80)	4 (9)	45 (100)
All	7 (16)	22 (49)	16 (35)	45 (100)

(Figures within brackets indicate the proportionate share)

Property Taxes : Collection and Demand

The receipts from property tax in any particular year are composed of collections from current year demand and collections on account of arrears. The improvements noticed in per capita yield from property taxes in various municipalities are largely due to a higher shift in collections for the current year. The position with regard to the collection of arrears seems to have deteriorated further or remained static in most (91 per cent of the respondents) of the cases.

The conclusion is reinforced by analysis of composition of collection for various size classes of municipalities.

Composition of Collections and Demand

Table 2.5 indicates the percentage distribution of collections for the current year and arrears for different size classes of municipalities.

Table 2.5

Composition of Collections According to Different Size Class of Cities

Size Class	Current*		Arrears*	
	1980-81	1985-86	1980-81	1985-86
Metropolitan cities	75	76	25	24
Class I	82	73	18	24
Class II	76	87	24	13
Class III	76	79	24	21
Class IV & Others	71	78	29	22
All	76	77	24	23

* relates to the percentage of total.

As can be seen from Table 2.5 the proportionate collections for current year have improved in all except the class I size group. In contrast the collections from arrears have shown a downward shift. The improvements in collections could be due either to a better collection level in relation to total demand (or greater collection efficiency) or to a higher level of demand as a result of increase in the housing stock and revision of property tax demand. It seems relevant here to look into the composition of demand (Table 2.6).

Table 2.6

Composition of Demand According to Different Size Classes of Cities

Size Class	Current		Arrears	
	1980-81	1985-86	1980-81	1985-86
Metropolitan Cities	63	63	37	37
Class I	55	77	45	23
Class II	60	66	40	34
Class III	61	63	39	37
Class IV & Others	58	68	42	32
All	62	64	38	36

The overall conclusion that emerges from an examination of Tables 2.5 and 2.6 is that the improvements in the collections seem to have occurred largely due to the increase in the current demand as it constitutes 64 per cent of total demand in 1985-86 as compared to 62 per cent in 1980-81. Further, the proportionate share of current demand has increased substantially except in the case of the metropolitan cities. The arrears have shown a downward shift in their proportionate share to total demand in all the size classes of towns.

Collection Efficiency

Does the declining proportion of arrears on both the fronts -- the collection and the demand -- really indicate a better collection efficiency? Table 2.7 gives the growth pattern of property tax demand and collection according to size class.

Table 2.7

Growth* of Collection and Demand during 1980-81 and 1985-86

(% variation)

Size Class	Demand		Collection	
	Current Year	Arrears	Current Year	Arrears
Metropolitan Cities	64	59	68	59
Class I	106	24	160	71
Class II	109	59	129	13
Class III	79	76	109	93
Class IV & Others	98	40	125	54
All	66	56	68	61

* The percentage variation given here indicates the increase on the current prices.

It is obvious from Table 2.7 that the growth of collections for the current year has been more than the percentage increase in current demand implying an improved collection efficiency. Also in the case of arrears, it appears that the recovery situation has improved over a period of time for all except class II municipalities. This conclusion is confirmed by improved index of collection efficiency (Table 2.8 and 2.9) for nearly all size classes of cities.

Almost all the studies conducted so far on property taxes and municipal finances have expressed serious concern over the poor recovery ratios. An index of collection efficiency has been worked out on the basis of data collected from the postal survey :

$$\text{Index of Collection Efficiency} = \frac{\text{Tax collection (Current year and/or Arrears)}}{\text{Demand (Current and/or Arrears)}}$$

Table 2.8

Collection Efficiency for Different Size Cities

Size Class	Collection Efficiency	
	1980-81	1985-86
Metropolitan Cities	.62	.63
Class I	.27	.32
Class II	.52	.52
Class III	.58	.63
Class IV & Others	.57	.64
All	.61	.62

Table 2.8 shows the recovery rates to be quite high in all the cases except the class I size group. Further, these have improved over time in all the cases except in class II cities where the ratio

has remained constant over time. In this context, it is further important to have a look at the collection efficiency for the current year's demand and arrears separately. Table 2.9 indicates the collection efficiency for 1980-81 and 1985-86.

Table 2.9

Collection Efficiency by Current and Arrears for Different Size Cities

Size Class	Current Year		Arrears	
	1980-81	1985-86	1980-81	1985-86
Metropolitan Cities	.75	.76	.41	.41
Class I	.42	.31	.10	.36
Class II	.64	.71	.33	.25
Class III	.75	.80	.38	.36
Class IV & Others	.83	.82	.40	.50
All	.74	.74	.40	.40

As can be seen from the Table the collection efficiency on current demand seems to be much higher than in case of arrears.

Here it is important to note that very often the municipal bodies do not show the actual current demand for accounting purposes. By and large they exclude the demand from properties under court litigation and disputed ownership. Also, the current budgetary practices are found defective in the sense that the demand shown under property taxes indicates a figure much lower than the real demand. The figure thus shown is basically the amount that is likely to be collected during the period under reference. In the case study cities it is observed that owing to this reason very often the amount shown under property tax estimates is less than the total collections under the same head.

The figures of collection efficiency thus may suffer from an upward bias.

Table 2.10

Changes in Per Capita Demand and Collections at Current and Constant Prices

Size Class	Demand			Collections		
	1980-81	1985-86		1980-81	1985-86	
		A	B		A	B
Metropolitan Cities	86	119	80	53	75	50
Class I	47	59	40	13	19	13
Class II	23	36	24	12	20	13
Class III	20	32	22	11	20	14
Class IV & Others	11	17	11	6	11	8
All	18	117	78	49	72	49

A = Current Prices; B = Constant Prices.

An analysis of collection and demand of property taxes in real per capita terms gives a more depressing picture. As can be seen from Table 2.9 the per capita demand at constant prices has declined in metropolitan and class I size groups. In other cases, it has either marginally increased or remained stagnant. Declining trends of demand in class I and metropolitan groups seem to be a result of a high rate of growth of slums and unauthorised colonies which are normally not covered by the property tax net. Another factor that has contributed to this decay derives from the constraints from respective rent control acts.

On the collection side, the recovery has either remained stagnant or has increased marginally across all the size groups except the metropolitan one. Here again, the same reasons as mentioned in the preceding point seem to have contributed to this outcome.

Collections as compared to demand in terms of per capita changes seem to have remained by and large the same. In other words the constraints that contribute to the level of collection have not shown any significant change.

Conclusion

The following conclusions emerge from the foregoing analysis :

i. The municipal dependence on property tax revenues has increased during the reference period. Their growth has been recorded as relatively higher than that of the total municipal revenues.

ii. For the period 1980-81 to 1985-86 per capita collection of property tax (in real terms) showed a decline or remained constant in the case of towns with populations ranging from one lakh and above.

iii. The level of exploitation of the property tax base is much higher in metropolitan cities as compared to any other size group.

iv. Although the per capita yield has shown improvement in size groups, class II to class IV, it still remains a matter of concern as the per capita yield in these groups is found to be much lower in these cities -- ranging from 7-14 as compared with Rs. 50 in the metropolitan size group.

v. Individual analyses of shift in per capita yield from property tax indicate that in a majority of cases the responding municipal bodies have not registered an upward shift at constant prices.

vi. More than 90 per cent respondent municipal bodies have shown a decline in per capita revenue yield on account of collection of arrears. On the other hand, the demand and collections on account of arrears have registered growth across the size groups ranging from 24 - 59 per cent and 13 - 93 per cent respectively. In other words, the collection position seems to have deteriorated further over a period of time from 1980-81 to 1985-86.

vii. Collection efficiency is reasonably high in all the cases except in class I cities. Further, it has shown an improvement over time (1980-81 to 1985-86) in all cities except in class II cities where it is stationary.

viii. Respective rent control acts have largely frozen the tax base. Because of this the property tax yields have not recorded increases commensurate with the growth of prices and population.

ix. Concessions and exemptions have further frozen the base. Even the existing provisions have not been utilised properly. Thus, for instance, the government properties are not adequately taxed in most of the cases.

III PROPERTY TAX SYSTEM IN CASE-STUDY CITIES : AN ANALYSIS

Apart from a postal survey which covered a large number of municipal bodies in several states, our study has also taken up three cities as case studies. These cities were chosen because they represented differing regions and showed variations in their property tax by virtue of the legacies they inherited as municipal bodies. Ahmedabad and Vishakhapatnam belonged originally to the erstwhile Presidencies of Bombay and Madras respectively. Agra can be said to typify an Indian city belonging to the north, middle or east of India.

As in the earlier postal survey, the analysis of the case studies covers two basic issues :

i. the role and importance of property taxes in the municipal fiscal structure ; and

ii. the property tax structure incorporating rating, assessment and collection of the tax.

In examining these it is also relevant to take a look at the information system relating to property taxation and its management.

Role of Taxes in Municipal Revenues

Property tax forms part of the ordinary income of the municipalities. Table 3.1 indicates the structure of ordinary income in the case study cities.

It also shows that the tax incomes comprise the most important part of municipal income except in the case of Vishakhapatnam. The share of tax revenue has declined in both Agra and Ahmedabad over the study period by two percentage points whereas in the case of

Table 3.1

Change in the Structure of Ordinary Income

(Rs in '000)

Component	Agra		Ahmedabad		Vishakhapatnam	
	1980-81	1985-86	1980-81	1985-85	1980-81	1985-86
Taxes	28475	40814	321297	526432	12546	25904
	(62)	(60)	(67)	(65)	(21)	(27)
Non-Tax	2084	2964	37038	83605	12839	25385
	(5)	(4)	(8)	(10)	(22)	(26)
Grants & Other Transfers from State	10977	15873	40087	78625	24053	33787
	(24)	(23)	(8)	(10)	(41)	(35)
Others	4140	8868	84085	125583	9283	10756
	(9)	(13)	(17)	(15)	(16)	(12)
All	45676	68519	482507	814236	58721	95832
	(100)	(100)	(100)	(100)	(100)	(100)

(Figures in brackets represent the percentage share.)

Vishakhapatnam,* it has recorded an increase of six percentage points. The share of grants and transfers has shown a decline in Agra and

---

* The reasons for the lower tax share in Vishakhapatnam seem to be due to two factors :

i. A relatively large share of non-tax revenue. The most important component in this regard is the sale of water to giant industrial establishments particularly in the field of shipping and marine industries. This component has fetched a handsome amount to the tune of Rs 118.39 lakhs and Rs 240 lakhs in 1980-81 and 1985-86 respectively.

ii. Share transfers from the state on account of entertainment tax.

Vishakhapatnam. In Ahmedabad, the share shows an increase. However, despite the increase, the proportionate share of grants in Ahmedabad continues to be much lower than in Agra and Vishakhapatnam. This position confirms the conclusion drawn by the earlier studies that the external sources of municipal finances have tended to decline over time.

It is obvious from Table 3.2 that in aggregate the tax incomes have shown substantial increase. However, at constant prices, the increases are not significant.

It can also be seen that property taxes constitute the second largest component in Agra and Ahmedabad -- octroi being the largest. In Vishakhapatnam, where octroi is not levied, property taxes constitute around 90 per cent of the total tax incomes. This position would be the same in other cities too if the revenues from octroi were taken away from the ordinary incomes.

A further examination of data contained in this table shows that property taxes have shown a substantial increase in Agra (53 per cent) and Vishakhapatnam (109 per cent) over the period 1979-80 to 1984-85. The rate of increase in Ahmedabad is much lower at 5 per cent. In real terms the variation in income from property taxes in Ahmedabad has shown a negative rate of growth over the study period.

The pattern of tax income if adjusted to population increase and inflation is shown in Table 3.3.

The per capita revenues from property taxes in Agra and Ahmedabad during the reference years have recorded a downward shift at constant

Table 3.2

Compostition of Tax Income

(in '000)

Tax Income	Agra				Ahmedabad				Vishakhapatnam			
	Amount (Rs)		Variation (%)		Amount (Rs)		Variation (%)		Amount (Rs)		Variation (%)	
	a	b	c	d	a	b	c	d	a	b	c	d
Property Taxes	4508 (16) (83)*	6909 (17) (79)*	53	7	98477 (31) (91)*	140160 (27) (80)*	42	-5	11040 (88)	23118 (89)	109	45
Octroi	23035	32064	39	-3	213433	350779	64	10	-	-	-	-
Other Taxes	932 (3)	1842 (4)	98	38	9387 (3)	35484 (6)	278	153	1506 (12)	2786 (11)	85	28
All	28475 (100)	40185 (100)	43	34	321297 (100)	526423 (100)	64	8	12546 (100)	25904 (100)	106	42

( ) Figures in brackets indicate the percentage share.
( )* Figures in brackets with star indicate the percentage share excluding the octroi.
a = 1980-81 (1979-80 for Ahmedabad)
b = 1985-86 (1984-85 for Ahmedabad)
c = Current Prices
d = Constant Prices adjusted on the basis of CPI-Urban Non Manual.

prices (Table 3.3). In contrast, the per capita revenues from property taxes have recorded an increase in the case of Vishakhapatnam -- from Rs 19 in 1980-81 to Rs 22 in 1985-86. This increase in the case of Vishakhapatnam could be explained in terms of increased economic activity leading to increased housing activities particularly in the commercial, industrial and tax payer residential groups.

Table 3.3

Per Capita Tax Income at Current & Constant Prices

Component	Agra			Ahmedabad			Vishakhapatnam		
	1980-81	1985-86		1979-80	1984-85		1980-81	1985-86	
		a	b		a	b		a	b
Property Tax	7	9	6	48	60	40	19	32	22
Octroi	33	43	30	104	149	100	-	-	-
Other Taxes	1	2	2	5	15	10	3	4	3
Total	41	54	38	157	224	150	22	36	25

a = Current Prices; b = Constant Prices.

In Agra, however, the per capita revenue from property taxes is relatively lower. This is attributed to the creation of a separate body for water supply management, which also collects the water and sewer taxes.

As in the postal survey analysis, the metropolitan city of Ahmedabad has recorded a substantially higher level of revenue yield from property taxes.

Elasticity of Property Taxes

Of equal importance is the elasticity of property taxes with reference to tax income, ordinary income and expenditure (Table 3.4).

Property tax revenues seem to be elastic with respect to all the three variables in all the cases except in Ahmedabad. Since the level of revenue yield from property taxes is quite high in Ahmedabad, it is obvious that it remains less elastic as compared with the other components or city government finances. In contrast, in Agra and

Table 3.4

Elasticity of Property Taxes 1980-81 to 1985-86

City	Elasticity to		
	Tax Income	Ordinary Income	Ordinary Expenditure
Agra	1.23	1.06	1.96
Ahmedabad	0.66	0.61	0.37
Vishakhapatnam	1.03	1.03	2.21

Vishakhapatnam where the base level of revenue yield is substantially low in relative terms, the property tax revenues are more elastic.

Finally, the foregoing analysis on the relevance of property taxes in municipal finances shows that :

i. Property taxes continue to be one of the most important components of tax incomes (Tables 3.2 and 3.4).

ii. The per capita yield on account of property taxes if adjusted to price and population increase has not shown substantial improvement and has in fact declined in the case of Ahmedabad. Thus, whereas the dependence and reliance on property taxes for financing the municipal expenditure remains unchanged the revenue yield on this account has declined.

iii. Property taxes seem to have a vast potential as compared with other components of ordinary income for generating more revenues to meet the additional fiscal requirements in the sense that the income derived from them is more elastic than total tax income and ordinary income.

Property Tax Structure in the Case Study Cities

As part of a study of property taxes, it is worthwhile to analyse the legal framework, rate structure, base, assessment procedure, management information system and collection mechanism that together form the property tax system in the case study cities.

Legal Framework

Each city has introduced property taxes as per the acts, guidelines and subsequent modifications that have been laid down from time to time by the respective state governments. The city corporations at Agra, Ahmedabad and Vishakhapatnam follow the UP Nagar Mahapalika Adhiniyam (1959 : Section 148/172), the Bombay Provincial Municipal Corporation Act (1949), and Andhra Pradesh Municipality Act (1965 : Section - 7) respectively for the purpose of levying the tax on lands and buildings in their jurisdiction.

Logically speaking since the inception of the municipal corporation in Vishakhapatnam in 1979 the city corporation should have followed the Hyderabad Municipal Corporation Act (HMC - Act : 1956). However, the Vishakhapatnam Corporation is still following the Andhra Pradesh Municipality Act. The reasons for not following the HMC Act are listed below :

i. The HMC Act provides for a graduated rate ranging from 15 per cent to 25 per cent of annual rateable value (ARV) depending upon the variations under different slabs. In contrast, the Andhra Pradesh Municipality Act provides for a fixed rate of 25 per cent of ARV for residential properties.

ii. In the case of non-residential properties, the HMC Act provides for a 30 per cent tax on ARV whereas the APM Act provides for a 33 per cent tax on ARV.

iii. Section 227 of the HMC Act does not provide for any water tax on the properties with metered connections or on those that are not connected with the city system. The APM Act however, provides for a water tax on all types of properties whether connected or not with the city system.

It is quite obvious, therefore, that the Municipal Corporation at Vishakhapatnam will stand to lose quite a substantial amount on property taxes if the HMC Act is applied.

Rate Structure

The rate structure as may be seen from Table 3.5 indicates a complex picture. Some important features that emerge from an analysis of the rate structure are :

i. General tax, water tax and sewer/drainage tax are being levied in all the three cities.* However, the Vishakhapatnam and Ahmedabad Corporation levy some additional taxes and cess belonging to the property tax family. The Education cess is levied at Ahmedabad, whereas at Vishakhapatnam, the lighting tax and library cess are being levied in addition to the education cess.

ii. Property tax rates in case study cities vary significantly. Ahmedabad and Vishakhapatnam apply a differential rate structure on the basis of residential and non-residential use, whereas Agra does not have a differentiation on these aspects.

iii. The overall rate of property tax in Agra is 31 per cent of the annual rateable value for both residential and non-residential properties. At Vishakhapatnam the rate for residential properties is 25 per cent of the ARV and for non-residential properties the rate is 33 per cent.

In Ahmedabad, a graduated rate of tax is applied with higher rates of tax on high-value properties. These rates vary from 31 per cent to 56 per cent for residential and 35-66 per cent for non-residential properties.

---

* As mentioned earlier the water and sewer taxes are levied by a separate agency as Jal Sansthan at Agra. This agency is also responsible for water and sewerage maintenance and provision. The agency uses the same base (annual rateable value) as may be determined by the Agra Municipal Corporation.

iv. Exemption limits for levying the property taxes are Rs 300 ARV at Ahmedabad and Rs 360 ARV at Agra and Vishakhapatnam respectively. However, Ahmedabad and Vishakhapatnam have introduced an innovative approach through a flat rate taxation that covers the properties falling within exemption limits. The properties belonging to the rateable value within exemption limits are subject to a (water) tax at the rate of Rs 36 and Rs 60 per annum respectively for residential and non-residential uses in Ahmedabad. Conservancy tax is further levied at a flat rate of Rs 24 per annum.

The Vishakhapatnam Corporation is charging a lumpsum amount at the rate of Rs 25 per annum for properties belonging to the formal sector housing meant for the weaker sections.

v. Educational institutions, religious places and charitable trusts are exempted in all the three cities subject to the condition that they are not put to commercial or residential use.

Property Tax Base

The property tax base in the three case study cities for different types of land use attributes is given in Table 3.6. The base varies not only from city to city but also for different land uses in the same city. In all the cities, industrial properties are assessed on the basis of their capital value whereas residential and commercial properties have their tax base as the Annual Rental Value of the property. In Ahmedabad, another differentiating factor has been introduced in the case of owner occupied (residential) properties. The tax base for this is letting value (LV) which varies on account of location, structure, area and so on (the letting rates comprising the LV are given in Annexure - IV).

Table 3.5

Rate Structure of Property Taxes : 1987-88

Property Tax	Agra		Ahmedabad		Vishakhapatnam	
	Residential	Non-residential	Residential	Non-residential	Residential	Non-residential
General/House/ Holding Tax	13	As in residential	12 - 30 (slab-wise)	12 - 30 (slab-wise)	10	12
Water	14**	-do-	7	7	8*	12*
Sewer/Drainage/ Conservancy Tax	4**	-do-	9	9 - 22 for (hotels in special category)	2	3
Fire Tax	-	-	-	-	-	-
Lighting Tax	-	-	-	-	2	2
Education cess	-	-	3 - 10 (slab-wise)	7 - 20 (slab-wise)	2.12	2.84
Library cess	-	-	-	-	0.88	1.16
Exemption limit (ARV)	Rs 360	Rs 360	Rs 300	Rs 300	Rs 360	Rs 360
All	31	31	31 - 56 (Graduated)	35 - 66 (Graduated)	25	33

* This also includes drainage tax at 2 : 1 ratio.

** In Agra the water and sewer taxes are being collected by a specialised agency known as Jal Sansthan. This agency has been responsible for water supply and sewage network since its creation in 1979.

As a result of various court judgements, it is observed in all the three cities that the respective tax bases are by and large frozen and the rental value is computed on the basis of fair/standard rent rather than on the basis of market rent.

Table 3.6

Property Tax Base in Case Study Cities

Use of Properties	Agra		Ahmedabad		Vishakhapatnam	
	Rented	Owner occupied	Rented	Owner occupied	Rented	Owner occupied
Residential	RV	RV	RV	LV	RV	LV
Commercial	RV	RV	RV	RV	RV	RV
Industrial	CV	CV	CV	CV	CV	CV

RV = Rental value (that a property can fetch on year to year basis)

CV = Value (market value of land + structure)

LV = Letting value is computed on the basis of carpet area value with specific use attributes such as location, structure, space and so on.

Taxing Government Properties

Since the year 1954 central government properties have been subject to property taxes better known as service charges. However, general awareness in this regard seems to be lacking in terms of actual realisation of the said provision. As mentioned earlier, the Government of India issued another circular in 1967 in order to clearly define the rate structure. The position with regard to imposition of service charges in the case study cities is given in Table 3.7.

Table 3.7

Rateable Value Base for Service Charges

System	Agra	Ahmedabad	Vishakhapatnam
Base	CV	CV	CV
Rateable Value (as % of base)	7	9	9

It is important to note from Table 3.7 that service charges are being computed in Agra at a lower rate than prescribed by the central government. The other two cities however, compute the rateable value as per the circular issued by the central government in 1967 (also refer to Annexure - III). In this regard, some important features observed during the various visits to these cities were :

-- In Agra (as per the UP Municipality Act) the same rate has been adopted for properties belonging to the state government, the Development Authority, Housing Board and other public undertakings. Perhaps the lower rate has been adopted in order to rationalise the rate structure. However, the municipal corporation loses a substantial amount due to this practice.

-- In Ahmedabad and Vishakhapatnam, the properties belonging to the state government, other government institutions and undertakings are subjected to tax normally as in the case of general properties.

-- The Vishakhapatnam Municipal Corporation has introduced an innovative approach in the case of giant public sector industrial establishments such as Hindustan Shipyard (Ltd.) and Shipping Corporation of India and so on. In this method, the ARV that is computed for property tax purposes is two per cent of their respective gross earnings. In the other two cities the ARV is computed on the basis of capital value.

Assessment Procedure

Property taxes are assessed in the case study cities on the basis of the rate structure and base as discussed earlier. The Annual Rateable Value is normally much less than the tax base. In the case

of the three case study cities, the rateable value ranges from 75 to 90 per cent of the tax base for different types of properties. (Table 3.8).

In all the cities, Annual Rateable Value is generally computed by deducting ten per cent from the Annual Rental Value. In Agra, a 25 per cent deduction is made in the case of owner-occupied properties. It is worth mentioning here that in practice owner-occupied properties are normally assessed at a lower rateable value than non-residential ones — even though the law does not warrant any such distinction. This is true in the case of all the three cities.

In Vishakhapatnam, the Annual Rental Value is divided into two parts, the value of land and structure in the ratio 1 : 2. A ten per cent deduction is given only to the value of the structure while the land value is taken as it is for computing the rateable value. The value of land taken for computation of ARV is the market value at the time of computation.

A quinquennial valuation system exists at Agra and Vishakhapatnam. However, at Ahmedabad the valuation is over a four - year period and is being done on rotation with a division of the city into four parts. At Agra the UP High Court has passed a stay order on the assessment made in 1986. The grounds for the stay order pertain to the application of the Rent Control Act. Thus, the effective basis for tax demand in Agra is the valuation done in 1981. As already mentioned, the Vishakhapatnam Corporation has not revised the assessments made in 1976.

Table 3.8

Assessment Procedure

Use of Properties	Agra			Ahmedabad			Vishakhapatnam		
	Residential		Non-resdl.	Residential		Non-resdl.	Residential		Non-resdl.
	O	R		O	R		O	R	
Annual* Rateable Value	75	90	90	90	90	90	** RLV+ 90% of SV	RLV+ 90% of SV	RLV+ 90% of SV
Provision assessment period (Yrs)	5	5	5	4	4	4	5	5	5
Recent assessment years	*** 1986/ 1981	*** 1986/ 1981	1986	ROTATION			1976	1976	1976
Low income properties (Rs) (within exemption limit)	Exempted	Exempted	Exempted	60	60	84	25	25	Exempted

R : Rented
O : Owner occupied
* : Figures indicated represent the percentage of Rental Value.
** : RLV = Rental Value of Land; SV : Rental Value of structure/building.
*** : Valuation done in 1986 has been stayed by UP High Court in 1986-87.

Structural additions or alterations in a building as per the rules, should result in a revision of tax demand with immediate effect in all the three cases. However, it has been observed that apart from the corruption at valuation level there is actually a communication gap between the building and property tax departments at municipal levels. Thus, in practice the alterations and additions are not

properly covered or taken into account when the Rateable Value of the property is being revised.

Collection Mechanisms

Collection is the third important component of the property tax system after rating and assessment. The main features of the collection mechanism as applied in case study cities are given in Table 3.9.

In both Agra and Vishakhapatnam, delay in payment results in withdrawal of the "statutory" concessions (of 10 - 25 per cent). The assessee has to pay tax on 100 per cent of the Rental Value of property. However, no penal rate is charged. In Ahmedabad a penal rate of interest on arrears at the rate of 18 per cent is charged.

Table 3.9

Existing Collection Mechanism

System	Agra	Ahmedabad	Vishakhapatnam
Assessment through	Public notification	Public notification	Public notification
Period for filing the objection (days)	30	30	30
Demand/Collection Period	Half yearly	Half yearly	Half yearly
Penalties for defaulters	Withdrawal of concessions	18% interest on arrears	Withdrawal of concessions
Collection by	Corporation staff	Corporation staff	Bank

In Vishakhapatnam, the property tax department has adopted an innovative approach since mid 1987 which has yielded substantial revenues. The VMC has identified 24 banks where the assessees can deposit the tax. Each assessee is given a pass book in order to

clearly record the total demand and recovery made. Through this step, the VMC, for the financial year 1987-88 has collected a sum of Rs 448 lakhs by the end of January 1988 as against an amount of Rs 118 lakhs for the previous financial year 1986-87. The provisions made to recover arrears include the attachment of rent, sale of defaulters' moveable or immovable properties as also filing a suit against them. However, in practice these measures are hardly ever implemented.

Management Information System (MIS)

Agra and Vishakhapatnam represent the traditional information base comprising a huge number of Demand and Collection registers. Agra alone uses more than 800 registers for "raising" the demand. Similarly, Vishakhapatnam also utilises the traditional system for documentation.

These traditional systems as a rule, inherit a very weak information base. There is no proper information regarding the number of defaulters belonging to different categories such as court cases, disputed ownership cases, exemptions, concessions and rateable value slabs. This breakup is otherwise essential to identify the areas lagging behind, the reasons thereof and to tone up the system.

In contrast, the information base at Ahmedabad is much more organised. Most of the information is computerised and is available in the form of different variables that constitute the base, rate-structure, collection for current demand and arrears. Improving the information base will improve the efficiency of the system. This can be easily seen at Ahmedabad as the scale of yield from property taxes is substantially higher.

IV REVENUE MOBILISATION IN AGRA, AHMEDABAD AND VISHAKHAPATNAM

In this chapter, the mobilisation of resources from property tax is analysed at a disaggregative level. The revenue from property tax is taken as composed of collection from current demand and arrears. The growth in revenue is analysed in terms of growth in the two components. Specifically the emphasis is on the following issues :

i. The pattern of growth of property taxes in terms of its two components — collection from current demand and arrears.

ii. The manner in which the collections have responded to the demand. The demand-collection differentials have been analysed together with the level of collection efficiency.

The Pattern of Growth of Property Taxes

As indicated earlier property taxes have recorded an increase at current prices in all the three cities. At constant prices, however, the increases are much less impressive. At this stage, it seems to be more relevant to see the growth pattern on the basis of collections against current demand and arrears separately as can be seen in Table 4.1.

Table 4.1

Growth in Property Tax Collection between 1980-81 and 1985-86

(per cent variation)

Case-Study City	Collection on					
	Current Demand		Arrears		All	
	a	b	a	b	a	b
Agra	40	-6	113	42	53	3
Ahmedabad	57	5	22	-19	42	-5
Vishakhapatnam	110	41	107	38	109	40

a = Current Prices; b = Constant Prices

What emerges from Table 4.1 is that at current prices the collections have gone up in all the cases. However, at constant prices the collections on current demand have increased marginally in Ahmedabad (5 per cent) and declined (-6 per cent) in Agra, whereas in Vishakhapatnam they have shown a substantial increase to the extent of 41 per cent. Overall collections and collection on account of arrears in constant terms have declined in Ahmedabad while showing an increase in the other two cities.

Growth in Per Capita Yield

Growth analysis in terms of increase in aggregate at current and constant prices does not include the implications of population increase. It is thus imperative to see the shift in per capita yield from property taxes on account of arrears as well as current demand. The per capita yield from property taxes between 1980-81 and 1985-86 is given in Table 4.2.

Table 4.2

Per Capita Yield from Property Taxes
at Current & Constant Prices

Case-Study City	Per Capita								
	Current Demand			Arrears			All		
	1980-81	1985-86		1980-81	1985-86		1980-81	1985-86	
		a	b		a	b		a	b
Agra	5	7	5	2	2	1	7	9	6
Ahmedabad	28	38	26	20	22	14	48	60	40
Vishakhapatnam	17	28	19	3	4	3	20	32	22

a = Current Prices; b = Constant Prices.

As is evident from Table 4.2 the per capita yield on property taxes has declined in Agra and Ahmedabad at constant prices, whereas in Vishakhapatnam it has increased slightly. The per capita yield, however, has gone up substantially at current prices in Ahmedabad and Vishakhapatnam with a relatively smaller increase in Agra.

Thus, it appears that the population increase has by and large made a negative impact on per capita yield. The reason for this decline could be explained in terms of a relatively larger section of the increase in population belonging to the low income groups. These groups normally reside on properties which are not covered under the property tax net.

A break-up of per capita yield in terms of current year collection and collection against arrears gives a similar picture. Even though the per capita yield on both these counts is higher in Ahmedabad than in the case of other two cities, in real terms the yield has declined over time. It is only in the case of Vishakhapatnam that the yield on account of current year collection shows an increase. In all other cases, it either shows a decline or is stagnant.

Growth Pattern of Property Tax Demand

Having analysed the growth pattern of property tax revenues, it is more relevant to know how the property tax demand has grown over the same period of time. The percentage variation in property tax demand at current and constant prices is given in Table 4.3.

Table 4.3

Variation in Demand : 1980-81 to 1985-86

(in per cent terms)

Case-Study City	Demand					
	Current demand		Arrears		All	
	a	b	a	b	a	b
Agra	40	-6	356	206	187	92
Ahmedabad	89	27	125	51	106	38
Vishakhapatnam	52	-6	-66	-77	.49	-33

a = Current Prices; b = Constant Prices.

Maximum increase in the property tax demand at current prices is noticed in Agra (187 per cent) followed by Ahmedabad (106 per cent) and Vishakhapatnam (49 per cent). This increase however, does not reflect the real performance as the increase in Agra is largely attributed to the alarming growth of accumulated arrears to the extent of 356 per cent as compared to a mere 40 per cent increase on account of current year's demand. This increase also indicates that the position with regard to the collection of arrears deteriorated constantly in Agra (Table 4.3).

It is also seen from Table 4.3 that the increase in demand in Ahmedabad has been more balanced between the current year's demand and arrears. The variation in arrears (125 per cent) further indicates that the recovery ratio in Ahmedabad has not been so poor as is noticed in Agra.

The low rate of growth in demand is mainly due to negative growth (-66 per cent) of arrears. The low rate of growth of arrears is explained by better collection performance.

A closer look at Table 4.3 shows that the property tax demand for the current year has registered maximum increase in Ahmedabad (89 per cent) followed by Vishakhapatnam (52 per cent) and Agra (40 per cent) at current prices. However, at constant prices only Ahmedabad has registered a positive growth (27 per cent) as compared to a negative growth in Agra and Vishakhapatnam at the rate of 6 per cent each. The differing experiences of the three cities in respect of tax demand collection and per capita yield collection can be explained by the following factors :

i. Agra and Vishakhapatnam have not been able to revise the tax demand since 1981 and 1977 respectively, whereas Ahmedabad has been revising it on the basis of rotation taking into account a fourth part of the city each year. This has resulted in a higher growth for current year's demand at Ahmedabad as compared to Agra (40 per cent) and Vishakhapatnam (52 per cent) at current prices between 1980-81 and 1985-86. This also explains the higher rate of growth of collection in Ahmedabad.

ii. The high per capita yield in Ahmedabad in relation to per capita yield in Agra and Vishakhapatnam due to the rate structure in Ahmedabad which is substantially higher than in the other two cities.

iii. Ahmedabad has also revised the rate structure during the period under reference (1980-86) with a higher rate for conservancy tax from 5 per cent (ARV) to 11 per cent (ARV) for all sorts of properties in general and from 11 per cent (ARV) to 22 per cent (ARV) for special properties such as hotels, residences, clubs, stables and so on.

iv. Ahmedabad has been able to charge property taxes at a concessional/flat rate even for properties which have a rateable value within the exemption limits, that is, Rs 300 ARV (refer to Table 3.5).

v. In both Ahmedabad and Vishakhapatnam, the higher rate of growth of industrial and economic activity has led to high rate of

growth of property values - a part of which has inflated the tax base.

vi. Vishakhapatnam registers a substantially higher rate of growth at current prices as compared to Agra. This difference is largely attributed to the low rate of taxation imposed by the Agra Municipal Ccorporation (13 per cent ARV) as compared to Vishakhapatnam (31 per cent ARV).

vii. At Vishakhapatnam the revision of assessment done in 1975 has so far not been made due to various reasons (refer to legal framework in chapter III). It has substantially frozen the property tax base in Vishakhapatnam.

viii. As has happened at Vishakhapatnam, Agra also applies the assessment made in 1981, although the Agra Municipal Corporation has revised it in 1986 according to the quinquennial provision whose application has been stayed by the Uttar Pradesh High Court on various grounds including the implications of the Rent Control Act.

ix. As indicated earlier the effective rate for property taxes at the disposal of Agra Municipal Corporation is merely 13 per cent of ARV on account of general tax only (refer to Table 3.5). Other taxes on land and buildings (water and sewer) are being collected by a separate agency. This erosion into the domain of the Agra Municipal Corporation leads to a much lower level of per capita revenues from property taxes.

Changes in Per Capita Demand

How the increase in demand has kept pace with the population increase is a relevant issue in the analysis of growth in demand from property taxes. The shift in per capita demand at current and constant prices is given in Table 4.4.

It is worth noting from Table 4.4 that the per capita demand has registered an increase in Agra and Ahmedabad both at current and constant prices from 1980-81 to 1985-86. However, in Vishakhapatnam it has declined from Rs 98 to Rs 78 at current prices and to Rs 52 at constant prices.

Table 4.4

Per Capita Demand : 1980-81 to 1985-86

Case-Study City	Per Capita								
	Current Demand			Arrears			All		
	1980-81	1985-86		1980-81	1985-86		1980-81	1985-86	
		a	b		a	b		a	b
Agra	13	17	1	11	48	32	25	65	44
Ahmedabad	56	93	62	52	102	68	108	195	131
Vishakhapatnam	55	67	45	43	12	8	98	78	52

a = Current Prices; b = Constant Prices.

An analysis of demand in terms of current year demand and arrears leads to the following conclusions :

i. The per capita increase in total demand in Agra does not reflect the growth in a real sense as the per capita demand for the current year has declined at constant prices from Rs 13 in 1980-81 to Rs 11 in 1985-86. The arrears however have shown a multifold increase (from Rs 11 to Rs 32 per capita) leading to the conclusion that the recovery rates in Agra have constantly been poor between the years 1980-81 and 1985-86. The per capita arrears in Ahmedabad have not increased as rapidly as in the case of Agra. However, the demand for the current year has slightly increased.

ii. In the cases of Agra and Ahmedabad the rate of growth of demand of property tax (on account of current year and arrears together) has exceeded that of collection. This indicates that recovery of property tax demand is deteriorating. Vishakhapatnam has shown

significant improvement in the levels of recovery during the years between 1980-81 and 1985-86 as the per capita arrears have declined from Rs 43 to Rs 8. However, the demand for the current year has shown a decrease from Rs 55 to Rs 45 at constant prices.

Demand and Collection Differentials

As is evident from the foregoing analysis the per capita yield (for 1980-81 and 1985-86) from property taxes at constant prices has either declined or has remained almost static. The collections from property taxes in Agra and Vishakhapatnam have increased, mainly because of collection on account of arrears. This by itself does not imply efficiency on the collection front. The demand for arrears had increased at a much faster rate than collections therefrom. In the case of Agra, whereas collections on account of arrears had increased by 42 per cent over the study period, the demand had increased by 206 per cent over the same period. Similarly, in the case of Vishakhapatnam the respective rates of growth for collection and demand (on account of arrears) was 38 per cent and 77 per cent and for Ahmedabad 22 per cent and 51 per cent.

A clearer picture regarding demand and collections can emerge if we analyse the change in the demand as also in the collections in a time series rather than looking at only two reference years as attempted earlier. Table 4.5 indicates the pattern of demand and collections over a period of time from 1980-81 onwards.

Table 4.5

Pattern of Demand and Collection : 1980-81 to 1986-87

Year	Agra						Ahmedabad						Vishakhapatnam					
	Demand			Collection			Demand			Collection			Demand			Collection		
	a	b	c	a	b	c	a	b	c	a	b	c	a	b	c	a	b	c
1980-81	17092	-	100	4508	-	100	222344	-	100	98477	-	100	55840	-	100	11040	-	100
1981-82	21101	23	123	4398	-2	98	303815	37	137	127172	29	129	52000	-7	93	36000	-26	326
1982-83	27407	29	160	5691	29	126	329566	08	148	128495	1	130	N.A.	-	-	N.A.	N.A.	-
1983-84	33401	20	195	5733	1	127	404212	23	182	143440	12	146	48300	-	86	32600	N.A.	-
1984-85	38467	16	225	5654	-1	125	458241	13	206	140160	-2	142	52070	07	93	26090	-20	236
1985-86	49133	28	287	6909	22	153	590985	29	265	160567	15	163	56111	08	101	23118	-11	209
1986-87	51708	05	303	4425	-36	98	N.A.	-	-	180399	10	183	49862	-11	89	11867	-49	107

a = Actual figures in '000; b = % increase over previous year; c = Index (The base is 1980-81).

A few points emerge from Table 4.5 that need mention here :

i. Agra and Ahmedabad have recorded a substantial increase in total demand. However, on the collection front these cities have not been able to maintain the same pace of increase. In other words, this indicates that the increase in demand is largely attributed to the induction of cumulative arrears.

ii. Vishakhapatnam presents a different picture in the sense that there have been two major collection drives during the years 1981-82 and 1983-84. This has been automatically reflected on the demand side as the percentage increase over the previous year has shown smaller figures which are by and large a result of increase in current year's demand.

iii. Similar to the analysis of increase over the previous year the demand and collection indices in the respective case study cities have shown wide variations.

iv. The demand indices in Agra and Vishakhapatnam have shown an increasing trend. In contrast the collection indices have recorded the increase in positive as well as in negative terms. This confirms that the two cities have not been able to maintain a consistency in their collection efforts.

v. Vishakhapatnam presents a somewhat different case with a relatively higher index on the collection front which has automatically influenced the demand index in the sense that in the absence of huge cumulative arrears, it has not grown as fast as in the case of Agra and Ahmedabad.

Collection Efficiency

As indicated earlier, collection efficency is worked out on the basis of dividing the total collections by the total demand. Collection efficiency in the case study cities is given in Table 4.6.

A number of important features can be noted from Table 4.6. Firstly, it seems that the collection efficiency at Ahmedabad has maintained a consistency in the sense that it has always ensured at least one third recovery with a marginal decline in 1984-85 (31 per cent to total demand) and 1985-86 (28 per cent). At the same time there has been a continual decline in the recovery ratios at Ahmedabad since 1980-81. Similarly, at Agra the collection efficiency has been

Table 4.6

Collection Efficiency 1980-81 to 1985-86

Year	Agra	Ahmedabad	Vishakhapatnam
1980-81	.26	.44	.20
1981-82	.21	.42	.69
1982-83	.21	.39	N.A.
1983-84	.17	.35	.67
1984-85	.15	.31	.50
1985-86	.14	.28	.41
1986-87	.08	N.A.	.23

deteriorating further from 1980-81 onwards with an already low level of recovery, that is 26 per cent to the total demand. In contrast, Vishakhapatnam has shown wide variations ranging from a 20 per cent recovery ratio in 1980-81 to 69 per cent in 1981-82. Since 1983-84 however, the collection efficiency has declined steadily from 67 per cent to 23 per cent in 1986-87.

Secondly, it is interesting to note from an examination of collection efficiency at Vishakhapatnam that it is also possible to keep the collections as high as 69 per cent to the total demand (1981-82) with a mere 20 per cent recovery ratio during the previous year. Although the 1981-82 ratio has declined in subsequent years, its level was as high as 67 per cent in 1983-84, 50 per cent in 1984-85 and 41 per cent in 1985-86. Surprisingly, the recovery ratio came down to only 23 per cent in 1986-87. But this did not happen all of a sudden as the main reason for this decrease was the advent of the municipal elections held in 1986 during which most of the municipal staff were

deputed on election duty. Otherwise also the political and social implications of municipal elections are stated to have influenced the efficiency of the municipal staff during the year 1986-87.

Agra whose elected municipal body has been superseded since the mid-seventies has recorded a much lower recovery ratio than the two cities which have kept the elected city government alive. In other words it seems that the presence of public representatives in the city government does have a positive impact on the collections.

It is also noted from the wide variations on the collection efficiency at Ahmedabad and Vishakhapatnam that together with administrative will and some innovative measures it is quite possible to substantially increase the recovery ratio. In this regard the most important point to be mentioned is the recovery ratio at Vishakhapatnam during the year 1987-88. In contrast with the previous year's ratio (23 per cent) the recovery ratio in the first ten months for the year 1987-88 has been recorded as high as 85. (The collection during the 10 months under reference was Rs 44,156,446 as against the demand of Rs 51,797,206).

The better collection efficiency at Vishakhapatnam in particular in 1987-88 is attributed to the collection of property taxes through identified banks, strong administrative will and socio-political cooperation from the elected municipal body. Collection through banks was begun only in July 1987. Under this system a pass book has been issued to each assessee which has made it relatively simpler to know the outstanding demand and has thus resulted in a better recovery ratio.

V EROSION OF PROPERTY TAX REVENUES : REASONS FOR LOW COLLECTIONS

From the preceding analysis one can infer that the property tax revenues, when adjusted to population and price have declined or remained static between the years 1980-81 and 1985-86 especially for larger municipal corporations. In the case of smaller municipal bodies (belonging to size classes ranging from class II to class VI) the per capita revenues from property taxes have gone up slightly. However, irrespective of an increase in per capita collections in smaller municipalities, the level of revenue yield as registered by them is significantly lower than that in larger municipal corporations.

It becomes imperative to examine the causes of low revenue from property tax. These issues are examined here in the light of empirical evidence collected in the case study cities. In this chapter, we examine this issue of three variables -- assessment, rating and collection.

Assessment Constraints

The most widely discussed aspect as regards the constraints in assessment procedure is the implications of the Rent Control Act. The case study cities also suffer from a virtual freeze imposed by the courts on the method of valuation.

The Rent Control Act, however, is only one factor in the context of assessment constraints. There are other factors too. The major ones that emerge from the preceding analysis, observations, discussions and the survey of properties held at the case study cities are :

i. Court litigations

ii. Underassessment

iii. Information gap.

Court Litigations

Court litigations form the biggest part of arrears in all the three cases. As mentioned earlier the information system with regard to the property tax administration is utterly inadequate in the sense of providing a detailed break-up of demand as well as collections at Agra and Vishakhapatnam. However, the exact position with regard to the civil litigation at Ahmedabad in 1984-85 was available from the municipal records and is placed below in Table 5.1.

Table 5.1

Civic Litigation at Ahmedabad (1983-84)

Component	Amount (Rs in '000)	% to Total Demand
Gross Arrears as on 1.4.1983	239,908	52
Current Demand 1984-85	218,333	48
Total Demand	457,241	100
Court Litigations	177,247	39

As indicated in Table 5.1 in Ahmedabad, 39.1 per cent of total revenue demand in respect of property taxes is not collected owning to court cases at Ahmedabad in 1983-84. In the case of the other two cities too, it was observed that court cases constitute almost one third of total demand. The court cases are found to be of two kinds :

i. the suits filed for a revision of the tax demand raised by the municipal body, and

ii. cases where the ownership of properties is in dispute.

A vast majority of the court cases asking for a revision of the tax demand raised by the municipal body fall within the purview of the respective rent control acts. The demand from disputed properties also comprises a substantial proportion of total demand. Thus, for example, a single property in Agra namely John's Mill at Jeevanee Mandi involves a sum of Rs 2.5 lakhs as property tax demand for a single year. Due to disputed ownership, the property tax has not been paid for this property for the last seven years.

Underassessment

Underassessment as observed in the case study cities is threefold. Firstly there is the very process of valuation leading to an underassessment due to corrupt practices being connived at by the assessees and assessors. The second is the revision of demand at the municipal level as a result of appeals against the initial assessment while the third is the implication of distortions in the housing market created by Rent Control Act etc. such as the practice of pugree (key money) and advances.

The underassessment at the time of initial valuation is given in Table 5.2 as per the survey of properties conducted in all the three case study cities. Eight properties each have been selected from residential as well as non-residential uses for three different rental value slabs comprising annual rents (i) up to Rs 6,000, (ii) Rs 6,000 to Rs 12,000, and (iii) above Rs 12,000. Underassessment (U) is worked out on the basis of U=1-ARV where ARV=Annual Rental Value is assessed by the municipal valuer; and AMV= Annual Market Value (rental) as existing at the time of assessment. The higher the value of U, the greater the extent of underassessment, and vice-versa. A value of zero

would imply that the properties are being evaluated at market value and there is no underassessment.

Table 5.2

Underassessment at the Time of Initial Valuation in the Three Cities

Annual Rental Value Slabs (Rs)	Agra		Ahmedabad		Vishakhapatnam	
	R	N.R	R	N.R	R	N.R
Up to 6000	0.30	0.36	0.37	0.52	0.31	0.27
6000-12000	0.38	0.37	0.68	0.86	0.35	0.41
12000+	0.32	0.23	0.44	0.54	0.32	0.25

R = Residential; N.R = Non-residential.

As can be seen from Table 5.2, the value of 'U' is significantly different from zero in all the cases. The value ranges from 0.23 to 0.86. The degree of underassessment varies from city to city, for different valued properties and for residential and non-residential properties. The extent of underassessment seems to be the highest for Ahmedabad for all kinds of properties. The index 'U' for Ahmedabad is as high as 0.68 and 0.86 for residential and non-residential (middle valued) properties respectively. In Agra, the underassessment is the smallest. Further, in the case of both residential and non-residential properties, the underassessment is highest for properties falling in the middle value range of Rs.6,000-12,000 for all the three cities. In the case of residential properties, the underassessment is the least for the lowest valued properties. In case of non-residential properties, the lowest valued properties show a greater degree of underassessment than the highest valued properties. Discussion with

the officials of municipal corporations in the three cities revealed that in the case of low and middle valued properties the underassessment is attributed to collusion between the assessor and the assessee whereas in the case of high income properties litigation is a more important variable. This usually happens because the assessees belonging to low and middle income categories find it more convenient and certainly cheaper to have an understanding with the assessors rather than taking matters to court. In the case of the other slab (Rs 12,000+) it seems more convenient to approach the court as most of such assessees already have some sort of access to and familiarity with the legal system.

Indirect evidence to substantiate this hypothesis is available for Ahmedabad; 94 per cent of the court litigations are in relation to non-residential (special) properties which are high income properties. The other type of underassessment is noticed at the time of the first revision which takes place at the municipal level only. Owing to the constraints of the current system of documentation it has not been possible to exactly quantify the modifications made in the initial demand because at the municipal level only modified demand is being calculated for various records. However, it is observed that the objections raised normally get a reduction ranging from 10 per cent to 30 per cent of initial demand.

The third type of underassessment is in the housing market transactions — in particular in the practice of pugree and advance. Under this practice a lumpsum amount known as pugree (key money) or an advance towards the rent is paid by the prospective tenant to the landlord. In lieu of this the rent charged is substantially

reduced. At this stage the rent shown by the landlord even with the signed receipt does not reflect the real rental value. This amount is much less than the market rent. Thus, the property tax demand raised in these cases does not reflect the real potential and the valuation done on this basis amounts to drastic underassessment.

Another category of underassessment is where properties meant for residential use are being converted into commercial use. This phenomenon is very widespread in the core city areas of all cities. This conversion leads to a relatively very high yield on account of new rent, pugree and advances rather than the prevailing or notional rent. However, this increase does not get reflected in the respective assessments because the receipts show a nominal rent.

Information Gap

As mentioned in chapter III, the documentation of property tax information in most cases is very poor at Agra and Vishakhapatnam. The information in these cities is not properly documented in terms of the use of property, type of structure, location, distribution of demand as per different rateable value slabs, initial and modified demand and court litigations on account of arrears as well as current year's demand.

The system of documentation as it exists is as follows. The number of total properties is entered together with the total demand raised and modified. Finally the modified demand is calculated. As per the current budgetary practices, only estimated demand to be recovered is shown. A DCB (demand, collection and balance) statement

pertaining to the years 1970-71 onwards, is now being prepared in both Agra and Vishakhapatnam.

However, at Ahmedabad the information system is relatively better organised in the sense that the break-up of demand is available on many of the possible attributes.

Another important constraint that is noticed in all the three city municipal bodies is the communication gap between the sections/departments responsible for giving building permissions and the property tax assessment wing. As a result of this gap, it is normally seen that the additions and alterations in the existing properties are not adequately recorded and assessed for the purpose of raising property tax demand.

Rate Structure Constraints

The rate structure plays an important role in determining the levels of property tax demand and revenue yield. As indicated earlier (refer to Table 4.4), Ahmedabad has recorded a much higher per capita demand (Rs 93) from the property tax for the current year during 1985-86 as compared to Vishakhapatnam (Rs 67) and Agra (Rs 17) at current prices. Similarly, the per capita yield from property taxes in these cities varies substantially with Rs 38 per capita for Ahmedabad followed by Vishakhapatnam (Rs 28) and Agra (Rs 7).

The rate structure in the case study cities has affected the per capita demand and yield from the property taxes to a large extent. The high level of yield and demand in Ahmedabad owes it to a progressive rate structure. (Distribution of property tax rates in Ahmedabad is given in Annexure V as per respective rateable value

slabs and uses). Further, in this city, even the properties falling within the exemption limit are covered and water and conservancy taxes are levied on them -- albeit at concessional rates.

Vishakhapatnam too has introduced a differential rate structure with a higher rate for commercial/non-residential use. However, there is no gradual/slab rate system. Also low income properties are not being taxed adequately at least for water and conservancy purposes except in the case of flatted development for economically weaker sections (EWS) where a flat rate tax of Rs 25 per annum has been fixed.

The effective rate for levying property taxes is relatively very low* in Agra Municipal Corporation (only 13 per cent of ARV). Owing to this low rate the per capita demand and the collections on account of property tax revenues are substantially lower at Agra than in the other two cities.

Vacant land/plots are not properly covered by property taxes in Agra and Ahmedabad. Vacant plots and land are being taxed in these cities only if they are put to use and are yielding some rental income. This method overlooks the appreciation in the capital value of land. However, in Vishakhapatnam vacant lands and plots are covered for property taxation at the rate of Rs 17.25 per thousand per annum of their capital value.

---

* The two major taxes from the property tax family namely water and conservancy are being levied by a separate agency in Agra known as Jal Sansthan which is also responsible for water supply and sewerage provision and maintenance.

Collection Constraints

As is observed from the revenue mobilisation performance (chapter IV) the recovery ratios in case study cities have been by and large poor during the years 1980-81 and 1986-87. In the case of Vishakhapatnam alone a recovery ratio of more than 50 per cent of demand for the years 1981-82, 1984-85 and 1985-86 has been achieved. However, the recovery made in these years is not a routine case and is attributed to the special efforts put forth by the municipal functionaries.

The major constraints that are noticed in the collection procedure are :

i. Information with regard to the collection of property taxes is not properly documented. Similar to the assessment front, here also it becomes almost impossible to know how much of the collections can be attributed to current year's demand and to arrears separately. The question pertaining to the further distribution of collections comprising the rateable value slabs, uses and so on, does not arise at all

ii. A DCB (demand collection and balance) statement was not available for the recent years at Agra and Vishakhapatnam, although these statements for the previous year should be prepared in the early months of a financial year say up to the end of June. In the absence of these statements the real position with regard to collection efficiency does not get reflected.

iii. Arrears are found to have formed the largest part of property tax demand. These are the results of a cumulative effect from low recovery ratio which are noticed to be as low as 8 per cent in Agra in 1986-87.

iv. Arrears are not properly documented according to the different attributes comprising the rateable value slabs, use of properties, court wards/zones and so on. The break-up of arrears according to these attributes is otherwise very essential to identify the targets and launch an effective drive for better recovery.

v. Proper incentives are not being given to the collection staff in general and the functionaries at middle-and lower levels in particular. In the absence of attractive incentives, many of these funcionaries very often indulge in petty corruption.

vi. Efforts are not being made to resolve the court cases on a mutually satisfactory basis. This is preferable to waiting and fighting for a judgement which is a very time consuming process.

vii. Penalties on defaulters/delayed payments as prescribed by respective acts are not being effectively enforced. Neither the administration nor the public seem to recognise the implications of legal provisions. As a result of this the arrears multiply several times leading to poor recovery.

viii. Recovery is found to be very poor in the case of government properties, where the property taxes better known as service charges are being levied. In this case, it is worth mentioning that in Vishakhapatnam the recovery on service charges from government properties is recorded to be as low as 4.5 per cent of the total demand in 1986-87. The break-up of collections over these properties is as follows in Table 5.3.

Table 5.3

Recovery from Government Properties (1986-87) : Vishakhapatnam

('000 Rs.)

Item	Arrears	Current Year	Total
Demand	10820	3781	14601
Collection	559	106	665
Percentage recovery	5.16	20.80	4.55

ix. Although the figures pertaining to the recovery of service charges at Agra and Ahmedabad are not readily available, it is observed during the discussions with the municipal functionaries that their position in this regard is not very different from the case of Vishakhapatnam.

x. Recovery of property taxes from vacant land is further reported to be very poor in all the cases. However, in Vishakhapatnam, tax on vacant land is recovered at the time of seeking the municipal permission for construction on respective plots/land. This has been made possible in Vishakhapatnam due to a better coordination between property tax and the licensing sections of the municipal corporation.

VI SUGGESTED ACTION AREAS

The most important conclusion which emerges from the preceding analysis is the deteriorating or stagnating and low levels of revenue yield from property taxes if adjusted to population increase and inflation during the years 1980-81 to 1985-86. This has happened all across the size classes of towns and regions. On the other hand the municipal dependence on property tax revenues has increased during the same period. This dependence is largely attributed to a decreasing trend in external fiscal assistance by way of transfer of revenues from the state (Table 3.1) and a relatively low elasticity (Table 3.4) of the ordinary income components other than property tax and octroi (where levied).

It is in this context that the improvement in the property tax revenues assumes importance. However, any significant improvement in the tax yield depends on the effectiveness of the measures adopted to counteract the existing constraints which inhibit optimum exploitation of the property tax base. This section deals with the questions of what really needs to be done in order to enhance the recovery so that the local bodies are able to meet their expenditure requirements at a reasonable level.

Suggested areas are identified taking into account the existing constraints as they emerge from the preceding analysis and the innovative measures applied in the case study cities and elsewhere in order to enhance the recovery from property taxes.

1. The study reiterates that the most important reason for the declining trends and poor recovery ratio on account of property taxes is the erosion of the tax base. This erosion results from a variety of factors.

2. One widely discussed factor is the erosion by rent control acts. Much has been written about the impact of rent control legislation on the property tax base. This study also confirms that as long as property tax is levied on the basis of fair rent that a property can reasonably be expected to fetch, municipal authorities are obliged to take standard rent as laid down in the respective rent control acts as the base. As a result, even properties yielding very high rents are grossly undervalued. It has been once again suggested therefore in agreement with successive studies on municipal finances that the property tax system should be delinked from rent control legislation.

   Amending rent control legislation is a highly politically charged issue and no government can ignore the powerful pressure groups that tenants form in the context of popular support. The question pertaining to amendment of the rent control acts needs to be examined carefully taking into account the interests of the low income urban population as also the political feasibility. It was found in the case of Ahmedabad that where it related to non-residential (special) properties the collection was as low as 6 per cent of total demand and arrears constituted 75 per cent of this demand. Further, 94 per cent of the default in payment could be put down to court litigation. These properties by and

large fall in the higher tax brackets. Most of these court cases refer to the provisions made by the respective rent control acts.

The rent control acts passed by various states should be suitably amended in order to delink the non-residential properties from their purview. Residential properties with potentially high rental value can also be delinked. This appears essential since court cases relating to residential use of properties in general belong to the high rental value group. The Government of Tamil Nadu has taken a lead in this regard with a provision to delink the buildings that have a rental value of more than Rs 400 per month from the purview of the Tamil Nadu Rent Control Act. This selective approach has enabled the Government of Tamil Nadu to effectively administer the municipal acts in order to ensure the optimum utilisation of the property tax base.

3. Delinking rent control acts from valuation of properties will go a long way in defreezing the tax base. It will not however completely thaw it. There are other factors too which must be given adequate consideration for enhancing the present low levels of collection of property taxes.

Determining the market rent for a given property is not an easy task especially with the practice of pugree or an advance and such other practices that understate the rents actually charged by the landlord. As has happened in the case study cities municipal records do not normally contain the information regarding the distribution of properties on account of use, size, location, access to infrastructure and so on. It is essential to

build up a strong information system and data base at the municipal and ward levels so that the rateable values are computed properly. These measures may help in determining the rateable values taking into account the basis of the unit areas comprising the varying rates for different attributes as is being applied at Ahmedabad (Refer to Annexure-IV). Apart from getting over the rent control constraints, it will also help minimise the scope for severe underassessment and corruption at the time of valuation to a large extent.

4. Computing the rateable value on the basis of unit area and certain other attributes will also require proper orientation/training being given to the municipal staff employed on property tax administration. This orientation should also cover the methods of building a strong information base comprising the systematic documentation of assessment, rating and collection details.

   The provision of appropriate training to the municipal staff is also essential for building a systematic and technical information base in order to properly administer the property tax system.

5. The market value of property increases also with change in use or more intensive use of the property. This kind of change is taking place in almost all the cities where core city areas are being converted to commercial and selective residential use of high rental value. This conversion yields a substantial rental and capital income for the landlords. However, this hike in the

property owners' incomes is not being properly tapped by the existing property tax system. There is thus a case to suitably modify the municipal acts in order to bring under the property tax net the increase in rents and prices of urban properties due to renewal and reconstruction. Calcutta Municipal Corporation has provided a lead in this regard. Each flat in the properties converted from bungalows to flats in the core city area is considered as an independent property unit and assessed as such for property tax purposes.

6. The objective of maximisation of revenue from property taxes should not lose sight of other objectives of housing policy. Thus, we had earlier referred to the lower rate of taxation of owner occupied properties. In the context of a housing policy directed at encouraging owner occupation the system of differential taxation must continue. Further, taking into account the feasibility of collections and the interests of the low income tenants in the overall context of the housing policies of the country, the low income properties should also continue to be exempted.

7. Two of the case study cities have adopted an innovative approach in regard to low income properties. Vishakhapatnam has covered the formal sector low income housing under the property tax system at a flat rate of Rs 25 per annum. The second case is that of Ahmedabad which has introduced water and conservancy taxes at a flat rate on properties falling within the exemption limit, that is, up to a rental value of Rs 300 per annum (Also refer to Table 3.5 and Annexure V).

It is thus suggested that the exemption limits be suitably modified taking into account the practical angle of cost recovery of the existing municipal services that are also extended to properties falling within the exemption limit. This will also ensure a more efficient delivery of existing municipal services and better responsiveness from the users towards it.

8. It is widely believed, though mistakenly, that central government properties are exempted from property taxes. However, the central government has allowed the payment of property taxes to local bodies as early as in 1954. Later on in 1967 the central government further clarified through a circular the permission given to the local bodies to charge property taxes at a concessional rate better known as service charges (Annexure III). This circular has clearly defined the method of determining services charges. Despite this, the position is somewhat unclear. Thus, for instance, the New Delhi Municipal Committee has raised a demand of property taxes on state-owned Bhawans situated in one of the posh areas of Delhi not so long ago, that is in December 1987/January 1988.

The case study cities levy the services charges though they adopt different methods for doing so. Ahmedabad and Vishakhapatnam compute the rateable value as 9 per cent of capital value whereas Agra computes it on the basis of 7 per cent of the capital value of the respective properties. The 1967 Government of India circular provides for a 9 per cent capital value as rateable value. Agra is thus losing a substantial amount on this account.

It seems essential in this regard to once again make the position clear with the state government and the local bodies regarding the imposition of service charges/property taxes so as to properly administer the property tax on government properties.

9. The fact that vacant/agricultural land is also another type of property that is not adequately tapped by the respective property tax systems must be underscored. From among the case study cities Agra does not levy the property taxes on vacant land if such land does not yield any rental value. Ahmedabad and Vishakhapatnam do levy the tax on vacant land, but the recovery on this account is extremely poor. Rateable value should not be computed on the basis of commercial use of vacant land — as is done in Agra. In Agra tax is levied if vacant land is used for commercial purposes. It is the increase in its capital value that should be tapped properly. Against this background it seems imperative to properly levy the property taxes on vacant land. This will also ensure the optimum utilisation of available space for housing purposes.

10. Re-assessment of properties for revising the property tax demand is also not being done on time as is permitted by the respective municipal acts. Another obstacle here is the communication gap between the building licence and property tax departments of the respective municipal bodies. Also a lot of additions and alterations are never reported to the building licence department. There is thus a need to improve the reporting on building additions and alterations by the building licence section as also the property tax wing of municipal bodies.

Improvement in this regard will ensure the optimum coverage of alterations and additions for levying property taxes which are normally left out in most of the cases.

11. Variation in the rate structure (Tables 2.1 and 3.5) is one of the important variables explaining different levels of yield in the three cities. Agra, which has no differentiation and graduation in the rate structure registers a very low level of revenue yield from property taxes (Rs 8 per capita in 1985-86). Vishakhapatnam which differentiates between residential and non-residential uses has recorded a higher level (Rs 28 per capita). Ahmedabad having both a differential and a graduated rate structure (Annexure V) has recorded the highest per capita yield (Rs 38). However, it is noticed in Ahmedabad that properties falling in the higher tax bracket have paid tax at a very low rate say, at 6 per cent to total demand. Thus, it seems that a differential and graduated rate structure may yield a higher amount of revenue from property taxes provided the practicability in terms of recovery from the properties falling in the higher tax brackets is ensured.

There is thus a need to rationalise the rate structure with a view to introduce differential and graduated rates. At the same time the feasibility of proper recovery should not be ignored.

12. Another point to be noted in this regard is the rate structure for taxing large industrial units. A typical rate structure based on the capital value method appears to be feasible only for small and medium sized industrial units. However, it seems

somewhat improper in the case of large industrial units as it does not reflect their tax paying potential in the sense that the capital value gets depreciated. Vishakhapatnam is a good example in this regard with a provision of property taxes on the basis of the rateable value computed at 2 per cent of gross earnings from giant industrial units. With this in view it is suggested that the property tax on major industrial units should be levied on the basis of their gross earnings rather than by the existing methods of capital value.

13. One more striking feature to be underlined in this study is the implication of the creation of specialised service agencies. An agency known as the Jal Sansthan has been created in Agra in 1979-80 with the entire responsibility for the water supply and sewerage network. It has taken away a major chunk of the rate structure (18 per cent of rateable value) from the purview of the municipal corporation thus leaving only 13 percent of rateable value at its disposal for levying the general tax. The reduction should be communsurate with the share of burden taken over. In the case of Agra the rate of property tax is only 13 per cent, whereas Jal Sansthan charges 18 per cent for provision of only two facilities. In Ahmedabad and Vishakhapatnam where water and sewrage tax make part of the property tax, the rates on account of these are 16 per cent and 10 per cent respectively. The diversion of part of the tax base in Agra has brought down the revenues from property taxes to a very poor level, although the corporation at Agra continues to be responsible for services such as street lighting, solid waste disposal, public health

education and recreation. Most of these services are not directly priced and are supposed to be financed from property taxes among others.

In this context it is suggested that while creating a specialised agency for providing and maintaining any municipal services, the rate structure at the disposal of respective municipal bodies should not be disturbed in a way which substantially reduces the revenue yield from property taxes and in turn affects the efficient delivery of the remaining services.

14. It is also observed from this study that the recovery ratios are by and large very poor all across the size classes of towns as also in the case study cities (Tables 2.10 and 4.6). However it is interesting to note from the time series analysis of demand and collection in the case study cities (Table 4.5) that in practice the recovery ratios vary from 8 per cent to 69 per cent of total demand from one year to another. In other words it means that if sincere efforts are made the recovery of property taxes can be improved at all levels. For example, in Vishakhapatnam the recovery ratio up to the first ten months of 1987-88 has been as high as 85 per cent.

Against this background it is suggested that special drives should be launched for attaining a higher recovery ratio. However it is essential to incorporate a set of specific measures in this drive in order to ensure an optimum level of collection efficiency.

15. As a beginning the information system pertaining to the collection details needs to be improved. Vishakhapatnam has introduced an innovative approach by having the collections done through identified banks. In this method the assessees get a pass book comprising detailed entries showing the current demand and arrears separately. This has resulted in a very high level (around 90 per cent) of collections even during the first year of introduction, namely, 1987-88.

16. The next question pertains to methods of defreezing the arrears. Delhi Municipal Corporation (MCD) has given a lead in this regard. MCD has successfully settled 22,000 disputed cases through mutual understanding rather than taking matters to court. This has facilitated the MCD to double its yield from property the in 1985-86 as compared to the yield in the earlier years. It is therefore, suggested that efforts should be made to settle the disputed cases through mutual understanding rather than getting involved in litigation. This will definitely help in recovery of arrears.

17. Yet another measure in this regard that will contribute to a higher recovery is the offer of attractive concessions for timely payment. Further, the staff deployed on collection work should be given handsome incentives. This will help discourage the corrupt practices that contribute to poor recovery ratios.

18. How to initate and motivate the special drive is another question that requires proper attention. The Government of Sri Lanka has done some commendable work in this regard. It has linked the

disbursement of grants from the state with the levels of recovery from property taxes. This has resulted in a sea change in the levels of recovery ratio in the respective local bodies during the year 1986-87.

Linking the disbursement of grants-in-aid from the state to the levels of recovery ratios on account of property taxes is a measure that is suggested so that the municipal bodies can be motivated to initate special drives for optimum recovery.

19. It has been confirmed from the case study cities that the recovery from government properties, vacant land and the properties falling within high tax brackets is extremely poor (refer to Tables 5.3 and 6.1).

Better recovery must be ensured from government properties, vacant land and properties falling within high tax brackets such as mills, cinema halls, factories, luxury buildings and so on.

20. Over and above this the question arises as to how to introduce and apply the measures suggested in this chapter. Although urban development and municipal finances form state subjects, the Government of India can always take a lead in the matter and help coordinate property tax reforms.

Annexure I

Select Bibliography

Agra Mmunicipality, Rules, Regulations & Bye-laws, 1955.

Ahmedabad Municipal Corporation, Rent Control: Its Implications on Urban Areas, 1984.

Badhe, G.S. "The Role of Property Tax in Municipal Finance", Nagarlok V(2), April-June 1973.

Datta, Abhijit, (ed), Property Taxation in India, IIPA, 1983.

Financial Management Pattern of Local Bodies in India, NIUA, 1981.

"Financing the Urban Development" Task Force on Housing and Urban Development (II), Planning Commission, Government of India, 1983.

Glimpses of Municipal Corporations of India, (Centre for Urban & Environmental Studies) AIILSG, Bombay, 1982.

Maheshwari, Shriram, "Municipal Reforms in India since Independence", Nagarlok II(1) Oct-Dec.1970.

Marathe, L.H., "Correcting Erosion of Tax Base" Nagarlok VIII(4) Oct-Dec. 1976.

Mohan, Rakesh, Indian Thinking and Practice Concerning Urban Property Taxation and Land Policies - A Critical View, Princeton University, New Jersey, 1974.

Nature and Dimension of Urban Fiscal Crisis, Research Study Series No.18, NIUA, 1987.

Nigam, Dharampal, U.P. Nagar Mahapalika Adhiniyam, 1959.

Nath, Shyam and Schroeder, Larry, Local Revenue Administration Report, Property Tax Revenue Growth in Two Indian Cities, NIPFP, New Delhi, 1982.

"Property Tax: How to Rationalize It" Common Cause 6(4) Oct. 1987.

Property Tax in Lucknow - A Study of Assessment, (Regional Centre for Research and Training in Municipal Administration), University of Lucknow; 1975.

Property Tax Reform in West Bengal, NIPFP, New Delhi 1981.

Rama Rao, S, "Some Problems of Property Tax", Nagarlok VIII(4) Oct-Dec. 1976.

Sinha, S.K., "Capital Value Basis for Property Taxation" Nagarlok VIII(4) Oct-Dec, 1976.

Statistics of Municipal Towns & Cities, (Bureau of Economics and Statistics) Govt. of Gujarat, Gandhinagar, 1978-79.

Study of Financial Resources of Urban Local Bodies in India and the Level of Services Provided (Vol. I & II), NIUA, New Delhi, 1983.

World Bank, "Issues and Innovations: Urban Poverty Tax Option for Reform" (special edition) Urban Edge 2(4), 1987.

Annexure II

List of Responding Towns

Metropolitan Cities

Bangalore
Nagpur
Pune
Bombay
Calcutta
Ahmadabad

Class I towns

Warangal
Navsari
Agartala
Vishakhapatnam
Agra

Class II towns

Khammam
Shrirampur
Chakdaha
Tellicherry
Abohar

Class III towns

Daman
Puttur
Saundatti
Ramanagaram
Irinjalkudda
Tirur
Shoranur
Chitturtaltamangalam
Anjangaon
Dondaicha
Warora
Rahuri
Udipi
Sadasivpet
Patan

Classes IV-VI towns

Urmar Tanda
Talcher
Saswad
Haliyal
Mulky
Hungind
Hoskote
Madabidire
Alnavar
Katangi
Garhakote
Ponnampet
Kalmeshwar
Jawher

Annexure III

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

New Delhi, the 29th March, 1967

From

Shri J. Murli,
Under Secretary to the Govt. of India.

To

The Chief Secretaries of all the State Governments.

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

Sir,

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

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

(i) In respect of isolated Central Government properties where all services are availed of by the Central Government in the same manner as in respect of private properties, the Central Government will pay service charges equivalent to 75 % of the property tax realised from private individuals.

(ii) In the case of large and compact colonies which are self-sufficient with regard to services or where some of the services are being provided by the Central Government Department themselves, the service charges will be calculated in the following manner:-

(a) In the case of colonies which do not directly avail of civic services within the area and are self-sufficient in all respects, the payment of service-charges will be restricted to 33 1/3% of the normal rate of property tax applicable to private properties.

(b) In respect of colonies where only a partial use of services is made, service charges will paid as 50% of the normal property tax rate.

(c) In respect of colonies where all the services normally provided by the municipal body to the residents of other areas within its limits are being availed of, service charges will be paid as 75% of the property tax rate realised from private individuals.

(iii) The net rateable value/annual value for the purposes of these instructions shall be 9% of the 'capital value' of the property concerned both in respect of residential and non-residential properties. The 'capital value' shall include the cost of acquiring or constructing the building including the cost of site, its preparation and any other capital expenditure incurred after acquisition or construction or when this is not known, the present value of the building including the value of site, as borne on C.P.W.D. records or those of the Department concerned.

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

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

Yours faithfully,

Sd/-
(J. MURLI)
Under Secretary to the Govt. of India

No.4(7)-P/65
Copy forwarded for information to:-

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

Sd/-
(J. MURLI)
Under Secretary to the Govt. of India

Annexure IV

LETTING RATES (As Applied by Ahmedabad Municipal Corporation)

Rates by house types in Rupees per Sq.m.

	House type		
Area in Sq.m.	Flats	Tenements	Individual Bungalows
1. Less than 15	10 to 12	-	-
2. 15 - 25	12 to 14	-	-
3. 25 - 35	14 to 16	-	-
4. 35 - 50	16 to 18	17 to 20	18 to 20
5. 50 - 75	18 to 20	19 to 21	20 to 22
6. 75 - 100	20 to 22	21 to 23	22 to 25
7. 100 - 125	22 to 25	23 to 28	24 to 30
8. Kutchha	Housing units Rs.0.75 to Rs.1.50 per sq.ft.		
9. Gamtal	Housing units Rs.1.50 to Rs.2.00 per sq.ft		

Annexure V

Rate-Structure at Ahmedabad in 1986-87

A:	Central Tax Rateable Value Group	Rate of Tax
	1 to 300	Exempt*
	301 to 500	12%
	501 to 1000	15%
	1001 to 2000	20%
	2001 to 3000	23%
	3001 and above	30%
B:	I: Water Tax	7%
	II: Water charge	10% & 15%

Water by meter Rs.1.25 (for domestic) and Rs.2.50 (for non-domestic) such as construction, commercial etc. per 1000 litres subject to a minimum of 7% per annum of the rateable value (Garden tax is in addition to this).

C:		
	I: Conservancy Tax	9%
	II: Conservancy tax (Special rate) (for hotels with a residence, clubs and stables etc.)	22%

* Properties having rateable value upto Rs.3000/- have been exempted from the levy of general tax with effect from 20.9.77 vide Gujarat Govt. Ordinance No.5/77 dated 20.9.77.

EDUCATION CESS

RATEABLE VALUE GROUP	RES.	NON.RES.
1 to 300	Exempt	Exempt
301 to 1000	3%	7%
1001 to 2500	5%	11%
2501 to 4500	6%	14%
4501 to 6000	7%	16%
6000 and above	10%	20%

*(a) Properties having Rateable value upto Rs.300/- minimum water tax will be charged at Rs.3/- per month. But for non-residential premises minimum water tax will be charged at Rs.5/- per month.

(b) Properties having rateable value upto Rs. 300/- minimum conservancy tax will be charged at Rs. 2/- per month.

(c) After expiry of prescribed time given to the tax payer simple interest at the rate of 18% per annum will be charged. This effect will come in force from 1.4.86 vide Govt. Gujarat Act 5/86 dated 13.2.86.