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# **Property Tax Reforms in Uttaranchal**

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**Property Tax Reforms  
in  
Uttaranchal**

**National Institute of Urban Affairs  
New Delhi, India**



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## Preface

In the context of the mounting pressure on the urban infrastructure and services, the slow growth in municipal revenues is a cause for serious concern to urban managers and policy makers. Property Tax has been recognized as the principal source of revenue in urban local bodies. In recent years, some states including Andhra Pradesh, Madhya Pradesh, Tamil Nadu, Gujarat, Madhya Pradesh, Uttar Pradesh, Rajasthan, Bihar have taken innovative measures in property tax assessment and administration. Following the initiatives of these reform-oriented states, several other states in the country have also started taking steps in this direction. Uttaranchal is one such state.

This study for Property Tax Reforms in Uttaranchal was commissioned to provide technical support to the First Uttaranchal State Finance Commission for the assessment of the existing property tax system in order to evolve a model for reforms in property tax and suggest measures for realising its potential. The study is based on the assessment of ground realities in nine municipalities through consultations with the stakeholders and analysis of the municipalities with respect to the financial and process attributes of the property tax.

The study presents an analysis of the legal provisions related to the property tax system under Uttar Pradesh Municipal Corporation Act, 1959 (Amended in 1999) and Uttar Pradesh Municipalities Act, 1916, administrative processes and practices, and the capacity of municipal institutions in Uttaranchal to implement the reform in the state. The study also provides an insight into the ground realities with respect to the implementation of existing property tax system in Uttaranchal and draws lessons for evolving a model property tax scheme.

An attempt has been made to address the elements of transparency and fairness in the assessment process through an innovative tax base system, accountability of the tax payers, improving the record management and monitoring systems and minimizing the exemptions and discretions, in evolving the model property tax scheme. The model

property tax scheme evolved here is based on the concept of minimum general tax imposed on every property, which acts as a base for the assessment of tax. The scheme has been designed specially to suit the limited capacity of the municipal institutions in Uttaranchal.

The study was undertaken under the Indo-US Financial Institutions Reform and Expansion Project Supported by United State Agency for International Development (USAID). The Knowledge Links Private Limited conducted the study. I would like to place on record my appreciation to them for preparing this comprehensive and analytical study of the Property Tax Reforms in Uttaranchal. Dr. Mukesh Mathur, Associate Professor at the Institute, coordinated the study. He was supported by Mr. Satpal Singh, Research Analyst and Mr. Anirban Kundu, Project Associate of the Institute.



**Vinod Tewari**  
**Director**

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## **EXECUTIVE SUMMARY**

The reforms in the property tax system are the backbone of any reform process in municipal administration, as it is a major source of tax revenue for the municipalities. Though, there is no 'quid pro quo' for taxes, bringing objectivity, simplicity and transparency in tax administration is known to be helpful in better tax realisation.

The property tax reform initiatives in some of the states (Andhra Pradesh, Bihar, Gujarat, Karnataka etc) in the country have been centred around large municipal corporations with the thrust on de-linking property tax from the traditional ARV system through introduction of area-based system and use of self-assessment method to transfer accountability from assessing authority to the taxpayer. Other reform initiatives include computerisation, facility for on-line payment of taxes and collection through bank counters, outsourcing of billing and collection etc.

In the specific context of Uttaranchal, the U.P. Municipal Corporation Act, 1959, governs Dehradun Municipal Corporation (upgraded to its present status in 1998) whereas the U.P. Municipalities Act, 1916, governs the municipal councils and nagar panchayats. The imposition of tax on annual value of land or building or both, referred to as house tax, is not obligatory under U.P. Municipalities Act, 1916, and as a result 7 out of 63 municipalities are yet to impose the tax. The tax rates vary between 3 % to 15 % across different municipalities.

The Corporation Act was amended in 1999 to introduce area-based system but the same is yet to be implemented in Dehradun. The assessment of house tax for the other municipalities is based on the traditional ARV system linked to rental values for which there is no assessment procedure. The other major legal constraints in the two Acts are discretionary powers with the committee/ municipality for providing exemptions without any guidelines; absence of provisions for fines and penalties for default or late payment in case of municipalities act; liability of owner for the payment of tax in case of properties with extremely low rent, and absence of any accountability mechanisms for the municipality/ staff.

The ground realities have been assessed on the basis of assessment process, management of records, performance appraisal, monitoring system, billing and collection, and personnel management. The financial situation of the selected municipalities has been analysed on the basis of assessment and collection indicators, fiscal efficiency and contribution of property tax in municipal revenue. An assessment has also been made for the potential of revenue generation from property tax in the selected municipalities.

The consultations with the key stakeholders clearly brought out the excessive dependence of the municipal institutions on the state government for initiating reforms. The key areas of intervention by the state government as indicated by the stakeholders include: policy for tax on unauthorised colonies, disputed land, slums, Dharamshalas/ Ashrams and villages in urban limits; uniform simplified property tax system and framing guidelines for the exemptions provided by the tax committee.

## **Key Findings**

### **A. Taxation Process**

- House tax is the major source of revenue accounting for 70 % in case of Dehradun and nearly one third of the own revenue on an average for other municipalities.
- Unassessed properties accounting for nearly 43% on an average are due to exemptions provided in the Acts, apprehension at the level of municipalities to impose tax on slums/ unauthorized constructions, certain case specific orders of the state government/district administration and absence of any performance appraisal mechanisms.
- The under assessment in the house tax is of the order of 60% on an average due to subjective nature of tax base, lack of clarity at the level of the staff and very liberal use of discretionary powers by the assessing authorities and the tax committees.
- The collection efficiency across the municipalities has generally been quite low (40 to 60 per cent). In addition, the data related to arrear is not being managed and compiled timely.
- There are no standard norms/practices for initiating a particular level of action for recovery of due taxes either in terms of the time frame or amounts. There is no provision for any penalty for the late deposit of tax as per the Municipalities Act or the Bylaws.
- The property tax in the municipalities has a very high potential compared to their existing levels and even without any intervention by the state, the potential in case of the municipalities vary between 2 to 3 times the existing levels.

### **B. Information Management & Monitoring**

- The information management system in the municipalities is so weak that many of the municipalities do not have even the basic information on total number of properties. There is no information sharing mechanism with other agencies.
- The property tax record management system is not very conducive for monitoring and performance appraisal as it is highly labour intensive and involves compilation of large number of inter-linked records. No municipality in the state has gone for computerization of property tax records.
- There are no formal monitoring systems in place at district/ division or state level to evaluate the performance of the municipalities. The monitoring system at the municipal level is limited to allocation of targets by the executive officer and review of the same on monthly / quarterly basis without properly recording the minutes of decisions made.

### **C. Personnel Management**

- There is no clearly thought out policy on personnel management and there are no norms for the selection and deployment of tax staff. In absence of any formal training, most of the learning is on the job from the old staff and in many cases the under qualified and untrained staff including daily wage staff has been entrusted the responsibility of taxation work.



## **Recommendations**

A sound tax system has to be based on objectivity and transparency. This would include minimising incidence of discretion, promoting accountability, minimising exemptions, improving maintenance of records, ease in monitoring and simplicity for users. The recommendations have been divided into two broad categories, administrative interventions, and legal and policy reforms.

### **Administrative Interventions**

#### **a. Increase in Coverage**

- For increasing coverage of properties, the municipalities should bring all slums/ unauthorised constructions under the tax net, identify the wards/ localities where un-assessed properties are concentrated using ward-wise census data, carry out assessments based on the municipal wards, access information on new properties from other agencies, organise special drives, develop incentive and other systems that encourage sharing of accountability.
- The state government would need to withdraw the orders issued for exempting properties, issue order for bringing all the slums and unauthorised colonies under the tax net and direct other development agencies to recognize and accept the NoC of the municipality with proper reference number and the property tax registration card.

#### **b. Rationalization of the Exemptions**

- Develop mechanisms that encourage transparency and minimize exemptions. The decisions of the committee shall be presented in meetings of the Council.
- The state government should frame broad guidelines for exemptions to be provided to ensure uniformity across the state.

#### **c. Improvement in Property Record Management System**

- Carry out assessment as per the municipal wards and computerise the property tax records system. The property details should be more comprehensive.
- The State should get the software developed for the management of Property Tax Records to ensure uniformity and facilitate training of the staff. This could be funded from the resources provided by the SFC and EFC for computerization of the municipalities.

#### **d. Improvement in Collection & Recovery**

- Make the incentive system attractive by introducing the slab system and frame rules for imposing penalties for late deposit or default. Encourage people to deposit tax at the collection counters or bank by introducing system of additional incentive of 1-2% . Update the status of arrears and follow-up the defaulters to recover the arrears. Frame rules for initiating a particular level of action based on the amount of arrear and the time period.
- The State Government issues necessary directions for timely issuance of Recovery Certificate.

**e. Monitoring System and Performance Appraisal Mechanisms**

- Introduce a three tier monitoring system (at the level of executive officer, tax advisory committee and the council) for monitoring of the taxation processes as well as performance of the staff.
- At the state level, a State Level Monitoring Committee is proposed which would develop standard formats for monitoring, incorporating process as well as output indicators.

**f. Accountability Mechanisms**

- Fix the accountability for assessment vertically based on size of property.
- Introduce property tax registration card to promote sharing of accountability among the tax payers and the tax assessing authority.

**Legal Reforms**

**a. Tax Assessment System**

A simple alternative system using the concept of Minimum General Tax (MGT) by de-linking property tax from rental value is proposed. The key features of the proposed system are:

- The property tax shall comprise of general tax, water tax and scavenging tax, where the general tax would be based on tax on land and tax on structure.
- The tax on land would be based on the Circle Rate.
- The tax on structure for the residential properties with plot area up to 25 m<sup>2</sup> would be on a flat rate basis per floor, referred to as MGT, which would tax per room for properties above 25 m<sup>2</sup>. Tax Advisory Committee (TAC) would declare the value of MGT, subject to minimum limits of Rs. 60 and Rs. 90 for municipalities below 20,000 and above 20,000 population respectively, with an inbuilt buoyancy of at least 10% every 5 years in the minimum limit.
- The tax on structure for the non-residential properties would be calculated as 2.5 times the MGT for every 10 m<sup>2</sup> floor area or part thereof.
- For the properties with mixed land-use, provisions of residential and non-residential properties would be applied in proportion to the share of the area.
- The state government owned buildings would be taxed as per the norms for the residential properties.
- For the properties on encroached land, the tax on land would not be applicable, but these would be liable for payment of an additional 100% surcharge on the tax on structure.
- An additional surcharge tax is recommended for large sized plots, above 400 m<sup>2</sup> in case of residential properties and above 200 m<sup>2</sup> in case of non-residential properties.
- The water and scavenging tax to be directly calculated as percentage of the general tax. The revenue generated from the water tax or scavenging tax would be used only for the development, upgradation and the operation and maintenance of the services.

**b. Provisions related to Exemptions**

- The amendments are proposed under Sections 177, 178 and 221 of the Corporation Act and Sections 140(2), 151 and 157 of the Municipalities Act .
- The state government shall introduce the system of two committees, Tax Advisory Committee (TAC) and Tax Assessment Hearing Committee (TAHC) to segregate the assessment and hearing aspects.

**c. Liability and Penalties/ Fines**

- The liability for the payment of general tax shall be of the owner of the property whereas the liability for the payment of water and scavenging tax shall be of the occupier.
- For the properties falling under the rent control act or the properties with old tenants and very low rents, the tenant shall be liable for the payment of the tax if the tax fixed by the municipality exceeds 10% of the rent paid by the occupier.
- The state government would need to introduce necessary amendments in the Acts especially with respect to the provisions for fines and penalties to help municipalities in defining and fixing the accountability of tax payers and the tax staff.

**Policy Reforms**

- Policy for taxation of slums and unauthorised constructions.
- Strengthening the role of municipalities in the approval of building plans.
- Redesigning property tax record management system in context of the overall record management system especially addressing accounting and auditing requirements.
- Policy guidelines for out sourcing of activities.
- Policy framework for addressing the issue of taxation in the outgrowths.

**Action Plan**

Pilot testing of a reform initiative is always desirable for its successful implementation. Hence, the following is suggested: share the draft scheme with the key stakeholders through divisional/ state level workshops; identify willing municipalities for pilot testing, preferably ones who are due for reassessment; build the capacity of the staff of the identified municipalities; adopt the recommended processes; select and execute survey in 10% sample municipal wards using the property tax registration card for the tax assessment; and finally assess the results of the sample assessment for refining the scheme.

## CHAPTER 1

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### INTRODUCTION

#### 1.1 Context

The 74<sup>th</sup> Constitutional Amendment Act has been a cornerstone of India's commitment towards decentralization and strengthening of institutions of local self-government. Consequent to this Amendment, the State Governments have taken various initiatives to restructure and revitalize the institutions of local self-government. The Amendment has also paved the path for decentralized urban governance and management with active role of elected representatives in managing urban local bodies (ULBs). The strengthening of urban local bodies, both with respect to governance and financial aspects, is one of the key concerns for most state governments in the country.

The role of local governments is getting increasingly more complex due to growing urbanization beyond the carrying capacity of available infrastructure and their inability to extend even basic urban services for the increasing population and the spread of city limits. The financial health of urban local bodies has a direct bearing on the quality of infrastructure they are able to provide, which in turn directly affects the potential for attracting investments and inducing economic growth of the state. The quality of infrastructure also has a direct impact on the living conditions of its residents and the city's potential to mobilize revenue from within.

The initiative to provide a constitutional status to the local government has raised the expectations of the people from the municipal institutions. It is expected that the institutions will not only appear democratic in character but will also function in a democratic manner. The increasing awareness and expectations of people have further contributed to an increased pressure on urban local bodies to deliver the goods against the revenues they mobilize from the cities at micro level.

The increasing fiscal deficit both at the centre and state levels of government has resulted in putting tremendous pressure on urban local bodies to become self-sustainable and self-dependent. The search for new avenues of resource mobilization as well as rationalization and effective administration of the existing revenue sources has become inevitable for the local bodies. In view of already pressurized limited state resources, raising and managing resources efficiently and effectively at the local level seems to be the only viable option to meet the challenge of responsive urban governance.

As people and institutions play a crucial role in determining how things are managed, people and institutions associated with municipal administration need to undergo radical changes in their orientation and functioning. In order to meet the aspirations of people on a sustained basis, the issue of effective financial management and resource mobilization is of critical importance. There has been a growing consensus that municipal reforms are essential for enhancing the efficiency and effectiveness of municipal bodies. These reforms might cover finance, management, administration, service delivery and overall strengthening of municipal governance.

In context of Uttarakhand, the infrastructure services provided by urban local bodies not only affect the residents directly, as applicable for any other state, but also have a strong implication for the tourism industry, which is one of the major potential areas for the economy of the State. The urban local bodies in the state need to understand the critical value of the cost of introducing or not introducing reforms in municipal administration in general and property tax in particular, which is a major source of tax revenue for the local bodies. Though, there is no 'quid pro quo' for taxes, but bringing objectivity, simplicity and transparency in tax administration would help in better tax realisation. The urban local bodies would need to play a pro-active role in creating an environment of confidence and trust amongst its residents on one side and improve the delivery of services that creates better acceptability and sense of participation in civic sphere on the other.

## **1.2 Urban Profile of Uttarakhand**

As per Census 2001, the total population of Uttarakhand is 8.48 million out of which 2.17 million (25.59%) is urban population. The percentage of urban population (considering the data related to the districts now falling in Uttarakhand after the division of Uttar Pradesh) has increased from 16.27% in 1971 to 25.59% in 2001.

The urban population in state can be broadly classified under the 3 categories, i.e., population in the municipal areas, population in cantonment boards and population in census towns/ outgrowths/ industrial townships. Out of the total urban population, municipal population accounts for nearly 85% (1.84 million) of the urban population. The growth trend of urban population under three categories of urban areas is given in Table 1.1. The analysis of growth trends of municipal population and non-municipal population reveals that the growth rate of urban population in non municipal urban areas including census towns, outgrowths etc is higher than the growth rate in municipal areas.

**Table 1.1: Growth Trends of Population under different Categories of Urban Areas**

Sl. No.	Category of Urban Area	Population 1991	Population 2001	Decadal Growth Rate
1.	Municipal Areas	1436840	1842271	29.41
2.	Cantonment Boards	104816	104206	-2.49
3.	Census Towns/ Outgrowth/ ITS	92428	223768	115.86
	<b>TOTAL</b>	<b>1634084</b>	<b>2170245</b>	<b>32.81</b>

Source: Census of India, 1991 and 2001

The population in the municipal areas can be further classified into three categories i.e., population in municipal corporation, in municipal council and in nagar panchayats. The distribution of urban population in different categories of municipal bodies considering their location in hills or plains as per Census 2001 is given in Table 1.2.

**Table 1.2: Population under different Categories of Municipal Areas**

Sl. No.	Category of Municipal Area	Population Municipalities in Hills	Population Municipalities in Plains	Total Municipal Population	% Population in different categories
1.	Municipal Corporation	0 (0.00%)	447808 (100%)	447808	24.31%
2.	Municipal Councils	273604 (22.73%)	930155 (77.27%)	1203759	65.34%
3.	Nagar Panchayats	65149 (34.16%)	125555 (65.84%)	190704	10.35%
	<b>TOTAL (Percentage)</b>	<b>338753 (18.39%)</b>	<b>1503518 (81.61%)</b>	<b>1842271</b>	<b>100%</b>

Source: Census of India, 2001

Though, with respect to its area, Uttarakhand is predominantly a hill state, nearly 82% of the urban population is concentrated in plains. Out of the total municipal population, 24.31% is located in one municipal corporation, 65.34% in 31 municipal councils and the balance 10.35% in 31 nagar panchayats. The number of urban local bodies under different population class size and under different municipal categories is given in Table 1.3.

**Table 1.3: Distribution of Municipal Agencies in different Population Class Size**

Category	Population Class Size					
	< 5000`	5001-	10001-	20001-	50001-	>100000
		10000	20000	50000	100000	
Municipal Corporation						1
Municipal Council	2	2	8	13	4	2
Nagar Panchayats	11	18	2	0	0	0
	13	20	10	13	4	3

Source: Census of India, 2001

Table 1.3 clearly reveals that the notification of municipalities as municipal councils is not linked to the population factor alone in the state of Uttarakhand. 12 out of 31 municipal councils have less than 20,000 population and have a similar character as that of Nagar Panchayats.

Presently, there are 13 districts in the state and the percentage of urban population in the districts varies from 1.2% in Rudrapur to 52.94% in Dehradun, with 9 districts having percentage of urban population below 15% and the other 4 with percentage above 30%.

There are 63 municipal bodies in the state including 1 municipal corporation, 31 municipal councils and 31 nagar panchayats. Besides these municipalities, there are 9 Cantonment Boards and 18 other urban entities including census towns, industrial townships and outgrowths. The municipal areas in the state of Uttarakhand are almost equally located in the hills and the plains. Out of the 31 municipal councils, 18 are located in plains and similarly, out of 31 nagar panchayats, 14 are located in plains. The only municipal corporation in the state i.e. Dehradun is also located in the plains.

### 1.3 Objectives of the Study

The National Institute of Urban Affairs has commissioned this study as a part of technical support to the Uttarakhand State Finance Commission. The study was commissioned to provide inputs for the development of methodology for the forecast of revenues from the property tax, to identify areas of improvement for the property tax system and to provide a model to the state government for the reforms in the property tax.

The key consideration for the study is to develop a simple and easy to implement property tax scheme, which can help the municipalities improve their tax revenues.



In context of the above, the objectives of the study are:

- to review the existing system of property tax in the different classes of ULBs in the state of Uttaranchal.
- to assess the ground realities in the context of tax base, assessment procedures, tax administration, role of municipal tax committees and tax collection processes.
- to examine the administrative and legal constraints in enhancing revenue productivity of property tax.
- to examine the fiscal role, efficiency and potential of property tax for various classes of urban local bodies.
- to suggest measures for realising the potentials and reforms in property tax systems including base for assessment.

#### **1.4 Methodology**

The various steps used for carrying out the present study include:

- review of literature on property tax reforms taken up in other states and the recommendations of First U.P. State Finance Commission
- collection and review of municipal acts, regulations and rules related to property tax structure in Uttaranchal
- collection and review of data from secondary sources
- discussion with the Uttaranchal State Finance Commission, Secretary, Department of Urban Development and Director Urban Local Bodies, Government of Uttaranchal
- collection of data and information available at state level related to property tax in urban local bodies
- collection and review of government orders of the state government

#### **Field Study**

- selection of urban local bodies in three categories to have a representative sample for the field study
- designing and developing tools for the field study including questionnaires, formats for data collection, questions for structured/ unstructured interviews and discussions with officials and elected representatives of urban local bodies as well as the tax payers.



- primary data collection from selected urban local bodies based on study design and study design formats.

### 1.5 Selection of Urban Local Bodies for the Field Study

In view of the large variations in the character of urban local bodies in the state, the following indicators have been used for the selection of urban local bodies for the in-depth study:

- type of urban local body (municipal corporation, municipal council and nagar panchayat)
- local socio-economic conditions in hills and plains
- nature of town such as tourist centre, administrative centre, pilgrimage town, market town which would provide the true scenario of differential potential for revenue generation from property tax
- density of population
- representation of various districts and regions
- performance with respect to property tax

Category of Urban Local Body	Performance with respect to Property Tax			
	Hills		Plains	
	High	Low	High	Low
Municipal Corporation 1	-----	-----	I	-----
Municipal Council	I	I	I	I
Nagar Panchayat	I	I	I	I

Considering the above indicators, the 9 urban local bodies were selected for the purpose of this study but these are not necessarily the lowest or the highest performance local bodies in the list, as other indicators were also considered while selecting the municipalities.

Urban Local Bodies Selected for the Study	
<b>Municipal Corporation</b>	
Dehradun- Dehradun District	
<b>Municipal Councils</b>	
Nainital- Nainital District	Pauri- Pauri District
Rudrapur- Udham Singh Nagar District	Rishikesh- Dehradun District
<b>Nagar Panchayats</b>	
Rudraprayag- Rudraprayag District	Didihaat- Pithoragarh District
Sultanpur- Udham Singh Nagar District	Jhabreda- Hardwar District

## **1.6 Field Study Design**

The field study design comprised of the following components:

- **Data Collection from Municipalities**

Study Form 1: Checklist for Data Collection from the Records of Municipalities was designed to collect basic data on property tax including number of properties assessed, maps, demand and collection status, assessment system, budget etc.
- **Study of Forms and Formats for Property Tax**

Study Form 2: Forms and Formats for Property Tax, was designed to examine the adequacy and effectiveness of the existing record management system related to the property tax in the municipalities.
- **Discussions with Elected Representatives of ULBs**

Study Form 3A and 3B: Points for Discussion with the Chairperson and the Councillors, were designed to elicit the views of the Chairpersons as well as the councillors of the municipalities as inputs for designing a system which is acceptable to the local government.
- **Discussions with the Chief Executives**

Study Form 4: Points for Discussion with the Mukhya Nagar Adhikari of Municipal Corporation and the Executive Officer of other ULBs was designed to elicit the views of the officials in order to identify the practical problems related to the property tax system and incorporate their views in designing the system.
- **Survey of Tax Staff**

Study Form 5: Questionnaire for Tax Staff of Urban Local Bodies was designed to assess their understanding of the systems and processes related to property tax and assessment of the capacity building requirements of the tax staff involved in the assessment, record management and tax collection.
- **Enumeration of Properties**

Study Form 6: Format for Enumeration of Properties under different Property Tax Slabs was designed for the purpose of sampling of the properties for field survey and to understand the range of tax structure in the selected municipalities.
- **Household Survey**

Study Form 7: Assessment of Ground Realities was designed to understand the implementation of the existing assessment system based on the data collected on the sample properties from the records and the field survey. In addition, the purpose of this exercise was also to make a rapid assessment of the perceptions of the taxpayers about the system and get their feedback for improvements in the system.

## 1.7 Sample Size

The Study Forms 1 and 2 were designed to collect data from the municipal records and the same were used in all the municipalities. Form 3A and 4 were designed to elicit the views of Chairpersons and the Chief Executives of the municipalities and were used in all the municipalities except for Form 3A for the Dehradun Municipal Corporation as the elections for the Corporation were not held during the survey period and the Corporation was under the Administrator. Study Form 3B to get the views of councillors was used to cover at least 5 councillors including 2 women councillors in each of the municipality but in certain cases depending on the availability of the councillors, even higher number of councillors were also covered. In case of Dehradun, there was no elected Corporation, hence the discussions were not organised.

Study Form 5 for the survey of tax staff was used for 100% of the tax staff in the municipalities except Dehradun where 20% sample was taken for the purpose of survey. Study Form 6 designed for the purpose of enumeration of properties was used in all the selected municipalities and 100% recording of the properties was done as per the tax slabs.

The sample size taken for the household survey (Study Form 7) is given in Table 1.4 . In addition to the surveys in the selected municipalities, discussions were also held with the Secretary Urban Development, Government of Uttaranchal to get the views of the state government regarding the property tax.

**TABLE 1.4: SAMPLE SIZE FOR HOUSEHOLD SURVEY**

Name of the ULB	Number of Reg. Prop.	% Properties taken as Sample	Sample Size	Sample Distribution
Dehradun Municipal Corporation	48087	1%	481	The sample selected in proportion of the number of properties in tax slabs
<b>Municipal Councils</b>				
Nainital	3431	2%	69	-do-
Pauri	3626	2%	73	-do-
Rishikesh	6823	2%	136	-do-
Rudrapur	4561	0.5%	23	For slums
	5374	2%	108	For other properties
<b>Nagar Panchayats</b>				
Didihaat	646	5%	33	The sample selected in proportion of the number of properties in tax slabs
Gauchar	338	10%	34	-do-
Jhabreda	2537	2%	50	-do-
Sultanpur	835	5%	42	-do-

## CHAPTER 2

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### PROPERTY TAX IN INDIA: REFORM INITIATIVES

#### 2.1 Overview

Property tax has always been one of the most critical sources of revenue for urban local bodies across the country and contributes to the largest share (70%, O.P. Mathur) of their revenue from their own sources, in most cases, especially after the withdrawal of octroi from most of the states. Beside the fact that property tax is one of the key resources, resource generation at local levels from this source has remained far from satisfactory.

There are different types of local taxation linked to land/ property including tax on building and land (charged by the municipal agency), betterment tax on unearned increment due to town improvement schemes (generally charged by the agency which undertakes such schemes), tax on transfer of property in the shape of a stamp duty (normally charged by the state government) and cess on land (generally applicable for rural land as cess on the land revenue and is charged by the village panchayats).

However, the property tax primarily targets the income derived by the owner from the possession and/ or use of the property in the municipal area.

Property tax is a generic term, which generally comprises of the general tax and a variety of service taxes and cesses levied by the local/ municipal government. The various types of service taxes and cess, being imposed by the municipalities in different states in the country, includes water tax, sewerage tax, scavenging tax, drainage tax, conservancy tax, education tax, fire tax, education cess and tree cess.

However, the comparative analysis of the property tax structure in various states across the country reveals that all the municipal authorities do not levy all the service taxes and cesses mentioned above. For instance, the Municipal Corporation of Greater Bombay imposes water benefit tax, sewerage benefit tax and tree cess besides levying water and sewerage tax, which are very specific to the Corporation. The Municipal Corporation of Calcutta is an exception, which imposes a consolidated rate consisting of simple tax on land and buildings.

#### 2.2 Property Tax System

The three key stages of property tax administration are: identification/ survey of the property, assessment of tax, and collection of tax.

A large number of buildings remain un-assessed for long durations in the municipalities. The problem is much more complex especially in the municipalities where unauthorized constructions and encroachments are very high, as there are no clear policy guidelines for the taxation of such properties. The municipalities at their level are generally apprehensive about taking decisions on issues related to taxation of unauthorized constructions and encroachments, even in the states like UP where the state government has issued an Order to tax such properties.

In addition, it would be worth mentioning that a large number of buildings are exempted from payment of municipal taxes due to a range of exemptions provided under the municipal acts, like in several states, lands and buildings used exclusively for religious and charitable purposes are exempted from property tax.

Property tax system in India has traditionally been based on annual rental value (ARV) and under this system the ratable value (RV) of land and building constitutes the base of this tax. Under this system, traditionally rental value and capital values were taken into consideration for the assessment of property tax. The rental value of land and building constitutes the base of property tax.

However, in the enabling legislation in most of the municipal acts, the same has been defined very vaguely as “gross annual rent of land and building at which they may reasonably be expected to let from year to year”, which has led to considerable erosion of the base.

Property tax base apparently consists of rent, which a property could be “reasonably expected” to fetch in the market, however, its implementation in practice has been one of the major problems related to the property tax system in India. This system of valuing municipal properties involving the concept of standard rent appears to be obsolete in the context of the fast changing real estate market in the country.

There are primarily four types of tax rate structures provided under various municipal acts, and these are (1) flat rate system, (2) slab system (3) graduated slab system and (4) straight line system.

Though the system is a British legacy, unlike in Great Britain, the liability to pay property tax vests on the owner of the property, not on the occupier. Another factor adversely affecting revenue performance of property tax in India is poor collection efficiency of the property tax administration.

These administrative and procedural deficiencies as well as the legal constraints in valuation, assessment and collection have led to erosion of the base, which in turn has adversely affected buoyancy and elasticity of property tax. The administrative and procedural inadequacies experienced across the municipalities could be summed up as below:

- lack of periodical updating of properties
- discretion used in the assessment by the assessment staff and the tax committees either due to lack of knowledge and skills or due to vested interests
- lack of transparency
- lack of motivation amongst the staff
- improper management of property tax records including status of arrears
- inefficiencies in the collection
- limited incidences of actions taken against the defaulters, and
- lack of the accountability of the municipal staff.

The legal barriers mainly include rent control acts, inadequate resources with the local bodies to think of using the legal options, element of subjectivity in the base for the assessment such as ARV and very minimal penal costs of non-compliance.

Besides, the above issues related to the property tax system, the taxation of government properties is another critical issue. The issue has a special relevance especially in context of the municipalities in the state of Uttaranchal due to a very high share of administrative towns in the overall municipal set-up in the state.

The provisions related to taxation of properties of Central and State Governments are quite different. The Central Government properties are governed by the provisions laid down in Section 154 of the repealed Government of India Act, 1935 which exempted the Central Government properties from the payment of all taxes imposed by a state or any of its authority, which was adopted in the Constitution of India under Article 285.

As per the judgment of the Supreme Court, statutory corporation controlled by the Central Government can not be exempt from municipal taxation by invoking the immunity granted by Article 285 of the Constitution and hence the local bodies are free to tax the properties belonging to the statutory corporations.

There are different provisions across the states regarding the taxation of State Government Properties with a provision of concessional rate in some states. Chennai and Trivendrum assess the rental value of such properties at 6 percent of the cost of construction and land price prevailing at the time of construction. Calcutta Corporation taxes the state properties



like any private property. As per the provisions of two municipal acts in Uttar Pradesh, there is no exemption for the properties belonging to the state government.

### 2.3 Property Tax Reforms in India

In recent years many state governments have given a lot of attention to the issues related to property tax, especially after the 74<sup>th</sup> Constitutional Amendment Act. Bihar and Andhra Pradesh were amongst the first states to introduce the reforms in early 90's, and other states like Madhya Pradesh, Karnataka, Tamilnadu, Uttar Pradesh, Rajasthan, Gujarat, Delhi etc have all been in the process of reforming the property tax system. However, as per the available documented experiences, most states have targeted the reforms in the property tax in the large sized municipal corporations through amendments in the Corporation Acts.

In most of these states, the major area of reforms has been to address the issue of tax base, which invariably across all these states was linked to the traditional annual rental value system. The whole story of the shift from the traditional ARV system to area based system becomes self-explanatory through an excerpt of the letter of the Bangalore Corporation available on the website (Box-1).

#### **Box-1: Excerpts from the Letter of Bangalore Mahanagara Palike for the Citizens**

Dear citizen,

The Bangalore Mahanagara Palike (BMP) is happy to offer to its citizens a new millennium gift, namely, **Self-Assessment System** of Property Tax. It is however optional. The property is assessed to tax based on its Annual Rateable Value (ARV). As per section 109(2) ARV of a property is the gross annual rent at which the building or land may reasonably be expected to let from month to month or from year to year. Section 109(2)(a)(ii) provides the method for assessing property tax when in the opinion of the Commissioner, the gross annual rent cannot be estimated. The Corporation has so far not issued any guidelines to its Assessing officers for the purpose of determining the annual rent. This has resulted in official discretion, which have not always been fair, different rates for similar buildings, citizen dissatisfaction and leakage of revenue to the Corporation. Obviously, this system has benefited neither the citizen nor the Corporation.

In the absence of any fair and objective guidelines for assessment of property tax, general revision is likely to cause avoidable harassment. Hence, the need for a revised system of assessment and one that is based on fair and rational parameters and is simultaneously citizen friendly. The new scheme has been evolved on the mass appraisal system of properties. The guidelines for self-assessment included in this book are simple, and therefore, easy to understand by the citizens. As a further step towards people friendliness a citizens has been given a range of choice of file his statement of property tax at any of the branches of Vijaya Bank and Syndicate Bank besides at the offices of the concerned Asst. Revenue Officer.

While our primary concern has been to introduce **objectivity, transparency and simplicity** in property tax assessment as a response to a large number of **complaints of discrimination, questionable intention and harassment**, we simultaneously trust that the citizens will keep in mind the financial needs of the Corporation and become honest tax payers.

Let us both together start off the new millennium with a new vision and mission of making Bangalore one of the loveliest places to live in.

This is a story of all the municipal institutions across the country. The review of different area based property tax systems adopted across different states reveals that an effort has been made to rationalise the method for the assessment of annual rateable value (ARV) using the carpet area or floor area or built-up area and the monthly rents fixed based on the following parameters

- location of property, in the form of zones or classification of roads or road widths
- usage of property, residential or non residential
- type of construction

In addition considerations have been given to occupancy status of the property (owner occupied or rented) and age of the building. These are the basic elements around which the reforms in the property tax have been centred.

The need for an alternative system was felt primarily because of the element of large subjectivity in the way tax base was defined and discretion available with the assessing authority under the previous system. Objectivity, transparency and simplicity are the three key words around which the whole reform process has been centred while effort has been made to shift the accountability from the municipal staff to the taxpayer/ citizen through an introduction of Self Assessment System.

The major contribution of the area-based system is in terms of de-linking the property tax from the rent control act. The state governments as well as the municipal institutions have also used different kinds of strategies for marketing of these models, including large number of exemptions offered for weaker sections (Andhra Pradesh and Uttar Pradesh), fixation of lower rates of rent compared to the actual market rates (Bangalore and likely in all other cities), facilities of deposit through bank collection centers, on-line payment facilities etc.

The analysis of these Area based Property Tax Models adopted by different states have revealed that the models are still in the evolving process as some states are still to address the issue of properties with mixed land-use, complexity involved in the area calculation due to various kinds of exemptions for different parts of the house, multi-stage calculations involved in the assessment process.

The structure of property tax across different states has been another area where states have used alternative mechanisms especially with respect to the components of property tax and defining minimum and maximum limits for the tax rates. States like West Bengal and



Karnataka have adopted the concept of consolidated tax whereas states like U.P., Maharashtra, Madhya Pradesh and Andhra Pradesh have structured property tax in the form of various small components like General Tax, Scavenging Tax, Water Tax, Drainage Tax, Sewerage Tax, Lighting Tax etc. However, in these states all the components of property tax, as defined in the respective Acts, have not been imposed.

Tamil Nadu Urban Local Bodies Act provides for property tax, water tax and sewerage tax but the property tax comprises of three components including basic property tax for the building and land, additional basic property tax for every building with reference to its location and additional property tax for every building with reference to its type of construction. Though, the concept adopted by Tamil Nadu is similar to the area-based model adopted in other states but it has been structured differently.

With respect to the tax rates, Hyderabad Municipal Corporation Act has laid down minimum and maximum limit of 15% and 30% for the aggregate of 5 types of taxes forming part of the property tax. In case of Uttar Pradesh, the Act has laid down minimum and maximum limit for each of the four components of the property tax.

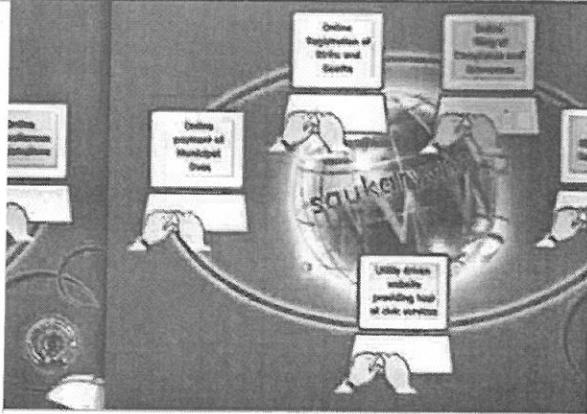
The other initiatives taken by various municipalities across the country for improving the revenues from the property tax include updating of the property records and survey of unassessed properties using the private agencies (Kanpur, Agra), computerization of property tax records (majority of the large size corporations have moved towards the computerization), on-line payment facilities (like in Vishakhapatnam) where the tax payer can pay from anywhere using the credit card, GIS based property tax record management system (Mirzapur), partial reduction in the billing process by revising billing cycle from quarterly/half-yearly to annual basis, shifting from door-to-door collection system to cash counters in the municipality/ deposits through bank collection centers (Indore, Bangalore). Similarly, other initiatives like out sourcing of billing and collection system, survey of properties, computerization of records etc have been taken by various large size corporations.

A lot has been documented about the area-based system and other innovations made by the municipalities, especially with respect to the system but the impact assessment of the area-based system or the other initiatives on the municipal revenues could not be accessed from any document as in most of the states, the systems are still under implementation process or where implemented, impact assessments are not available in terms of how and what extent, the introduction of area based system and other initiatives have helped in improving the revenues of the municipality. The literature reviewed clearly reveals that these reforms have been centred around large size municipal institutions in the country and the learning from these experiences is yet to be transferred to medium and small towns.

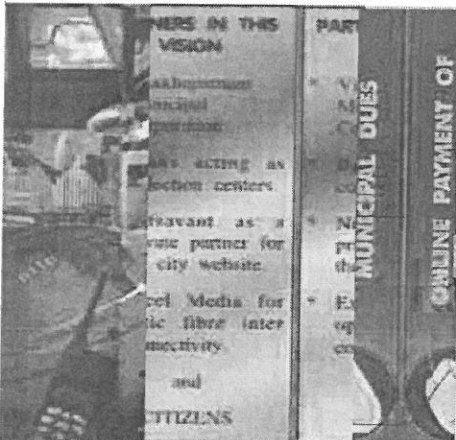


Information Technology can play a major role in improving the delivery of services. Information Technology is all about connectivity. Connectivity brings proximity which makes the delivery of services better. In the context of the Visakhapatnam Municipal Corporation, there is a tremendous possibility for utilizing the information technology tools for providing better services like Death and Birth Certificates or the issue of trade licenses or building permissions or the payment of various municipal dues. Information technology can play a part in all of them making them citizen friendly and improving their delivery. The Municipal Corporation of Visakhapatnam envisages the delivery of a host of civic services by using the information technology platform.

Project Saukaryam is a comprehensive project for providing various Civic services through the Information Technology. Under its first sub-project, the online payment of Municipal dues is being taken up. The same platform would be used for the payment of all other municipal dues like trade license fees, advertisement charges, building license fee and other registration charges in due course. All this would be done through a Public-Private partnership arrangement so that there would be no additional financial burden on the Corporation.



The Municipal Corporation of Visakhapatnam proposes to use the information technology, to improve the system, thereby giving better benefits to the citizens. The proposed model consists of computerization of all the assessments. The computersied record will be maintained in a server available in the Municipal Corporation office. The server will be connected through the Internet with computer nodes which will be provided in the collection centres. The nodes will have access to the main server through a fibre optic broadband network laid in the city by the private partner. The circle office will also have this connectivity. The demand notices can then be prepared in the circle offices which can in turn be served to the individual assessee. The assessee can carry the demand notice to any of the earmarked branches, they in turn would be required to enter the assessment number pertaining to the assessee and would immediately get full information with updated calculation of the demand and the arrears along with the interest, if any. Once the assessee pays the amount, the bank can just click a button and the main server gets updated. The Bank would be able to acknowledge the payment through a printout issued to the assessee on the spot.



**OUR LIFE MADE EASY FOR HONEST TAX PAYERS**

**Complaints and Grievances**

- \* The Municipal Corporation of Visakhapatnam provides a host of civic services. The satisfaction of the citizens is a prime determinant of the Corporation's activities.
- \* The website provides them with the facility to lodge their complaints / grievances online.
- \* The grievances will get forwarded to the concerned officer for necessary action and would also go into the database for monitoring grievances settlement.

**Know your building plan status**

- \* The Municipal Corporation engages in the task of approving the building plans, sub-division of plots and regularisation of the structures within the city limits.
- \* The citizens have no clue as to the status of their respective cases. The website intends to open the floodgates of information to the public through internet.
- \* Now at the click of the mouse, the status of the application would be known without running from the pillar to post.



The Visakhapatnam Municipal Corporation enters into the daily lives of the citizens in many ways. On the one hand it has a job to keep the city clean & sanitized, while on the other it has to cater to the water requirements of the city. The Corporation also arranges street lighting, roads and basic infrastructure.

The citizens have the right to know how all this is being done and by whom.

- At the click of a button, you can see-
- \* The sanitation plan of your street.
  - \* The water supply plan for your ward.
  - \* Infrastructural works being executed in the city.
  - \* Street light plan.

**Know / Pay your Municipal Dues**

- \* The project "Saukaryam" entails the provision of the online collection of municipal dues through earmarked banks. However, for those wishing not to travel to the bank, the Municipal Corporation's IT initiative, through its website would now provide the facility for paying their dues online.
- \* This would be a real help to Visakhapatnam's non-resident populations who can pay their dues from any part of the world through the Internet.
- \* The site also makes it possible to know the details of ones Municipal dues by just keying in the assessment number. One can get at their fingertips, the details, calculations and the method employed in assessments without any harassment, misgivings and mistakes.

Source: Website of VMC

## **2.4 Key Issues**

State Governments as well as the Municipal Governments have taken initiatives in addressing the inadequacies in the property tax system including rationalization of tax base through introduction of area-based model for objective valuation, amendments in rent laws, introduction of appropriate rate structures, on-line payment facilities, incentive system for timely payments, etc. However, the key issues that have emerged from the past experience in introducing reforms in property tax in some of the states are:

- who should initiate the reform process and what shall be the role of state government vis-à-vis the local government.
- how the local elected representatives be convinced about the need for property tax reforms.
- how the officials of urban local bodies be motivated to implement reforms
- are there any accountability mechanisms for officials and elected officials for improving the tax
- whether the reforms initiated in large size municipal institutions can be replicated in medium and smaller size local bodies.
- whether the medium and smaller sized municipalities have adequate capacity to implement the reforms in the property tax system, with respect to the institutional capacity and the capacity of the human resource working in these institutions.
- what are the incentives available for urban local bodies to improve their property tax system
- how to make property tax system objective and transparent for people to accept and respond to

Any reform to be suggested in the property tax needs to take into account the above issues. In context of this study, the structure and administration of property tax levied by the ULBs also needs to be reviewed in the light of the fact that the urban local bodies in Uttaranchal are located in hills as well as plains.

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## CHAPTER 3

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### PROPERTY TAX SYSTEM IN UTTARANCHAL

#### 3.1 Property Tax in Uttarakhand: The state level scenario

This chapter presents the state level scenario of status of property tax in Uttarakhand and a review of the legal framework applicable for the property tax in the state. As already mentioned, there are 63 municipalities, including one municipal corporation, 31 municipal councils and 31 nagar panchayats, the Dehradun Municipal Corporation is governed by the provisions of U.P. Municipal Corporation Act, 1959, whereas the U.P. Municipalities Act, 1916, governs all other municipalities in the state.

The state level scenario of the property/ house tax with respect to the tax rates, revenue from house tax for the year 2000-2001 and the corresponding per capita house tax for all the municipalities is given as Annexure-1.

The analysis of Annexure-1 reveals that one municipal council (Tehri) and seven nagar panchayats namely Gangotri, Nandprayag, Karnaprayag, Kedarnath, Chamba, Shaktigarh and Laksar have not imposed the house tax as it is not obligatory as per the provisions of U.P. Municipalities Act, 1916. The tax rates vary from as low as 3% to as high as 15% across municipalities as the Act does not specify any minimum or maximum limits for the tax rate. Three municipal councils and two nagar panchayats are using graduated slab system based on the slabs of ARV. Two municipal councils and two nagar panchayats are using differential tax rate for owner occupied and rented properties. Whereas, in case of other municipalities, there is a uniform rate for all types of properties.

There are large variations in the tax rates on the one hand and even the municipalities with similar kind of tax rates have large variations in the per capita revenue from house tax. For instance, Pauri and Srinagar with tax rates of 5% have per capita revenue of Rs. 29.00 which is same in case of Haridwara and Roorkee where the tax rates are 7.5 and 7-10 % respectively.

#### 3.2 Structure of Property/House Tax

The imposition of property tax is obligatory under the U.P. Municipal Corporation Act, 1959. The property tax comprises of:

- A general tax on graduated scale

- Water tax leviable in areas where water is supplied by the corporation
- Drainage tax leviable in areas provided with sewer system
- Conservancy tax in areas where the collection, removal and disposal of excrementitious and polluted matter from privies, urinals and cess pools is undertaken by the corporation

The Municipal Corporation Act has specified the minimum and the maximum rates for the imposition of property tax (22% and 32%) comprising of general tax between 10-15%, water tax between 7.5-12.5%, drainage tax between 2.5-5% and conservancy tax at the maximum rate of 2% of the annual value.

Whereas the U.P. Municipalities Act, 1916 does not make it mandatory for the municipalities to impose taxes linked to the annual value of property. In case of municipalities, all the four taxes that form part of the property tax in the Municipal Corporation are listed in the list of taxes which the municipality may impose but the general tax has been designated as tax on annual value of buildings or lands or of both, and the same is referred to as house tax by municipalities.

The other taxes linked to the annual value under the Municipalities Act are water tax and drainage tax, but regarding the scavenging and conservancy tax, the Act does not specify any system for imposition or their linkage with the Annual Rental Value (ARV). However, the scavenging tax imposed by some of the municipalities in the state has been linked to the ARV. The water tax comes under the purview of Jal Sansthans except in case of municipalities of Haridwara district.

### **3.3 Property Tax System for Municipal Corporation**

The provisions related to the property tax in the Corporation Act were amended through U.P. Municipal Corporation (Amendment) Act, 1999 (U.P. Act No.17 of 1999, Gazette Notification No. 782 (2)/XVII-V-1-1 (KA) 15-199 dated 26 March 1999) based on the recommendations of the First State Finance Commission of Uttar Pradesh. A comparative picture of the provisions related to the property tax prior to the amendment and post amendment is given at Annexure - 2.

The notification of the Amendment Act was made in March 1999 and the rules for the same, called Uttar Pradesh Municipal Corporations (Property Tax) Rules, 2000 were issued through notification No. 1435/IX-9-2000-63-JA/95 TC, dated April 22, 2000 in exercise of the powers under Section 174, 207-A and 221-B of the Uttar Pradesh Municipal Corporation Act,

1959 (U.P. Act No. 11 of 1959), after their previous publication, with notification no. 1763/IX-9-1999-63-Ja/95 TC, dated June 16, 1999, as required under sub-section (2) of section 540 of the said Act.

The salient features of new property tax system are:

- The minimum and maximum rates for each of the tax components of the property tax like general tax, water tax, conservancy tax and drainage tax have been segregated, whereas under the earlier provision, the minimum and maximum limits were given for the consolidated tax.
- For non-residential/ commercial properties, the method of calculation of ARV has been kept the same as earlier, which is linked to the capital value.
- The calculation of ARV has been linked to the carpet area and minimum monthly rent. The minimum monthly rent is to be declared by the MNA based on location, nature of construction, the circle rate fixed by the Collector for the purpose of the Indian Stamp Act, 1899 and the current minimum rate of rent in the area for such building or land and such other factors.
- The minimum monthly rate of rent has to be declared every two years by the MNA.
- The provision related to preparation of assessment list has been revised to two years instead of 5 years.
- The indicators considered in the area based self-tax assessment method include carpet area, road width and type of construction with exemptions linked to age of building and ownership.
- The provision has been made for the owners to opt for the self-tax assessment for residential buildings and the owner or occupier can deposit the property tax as per the prescribed formula for tax assessment together with self-tax assessment form.
- The fines and penalties have been increased for misrepresentation/ concealment of information and interest penalty has been introduced for the delay in the tax payment.

### **3.4 Implementation Status in Dehradun**

The amended scheme for property tax is yet to be introduced in Dehradun Municipal Corporation as the city had a status of Municipal Council till December 1998 and the reassessment was made during the year 1998-99 for the five year period of 1999-2004 based on the provisions of U.P. Municipalities Act, 1916. Secondly, the amendment in the Corporation Act was made in March 1999 and the implementation process in all the municipal corporations was put to halt as a result of the resistance from several municipal corporations in UP.



A press notification was issued by the Municipal Corporation on 12.5.2000 inviting objections on the proposed rates and the process for the implementation of self-tax assessment model. There was a lot of resistance from the citizen groups. The two major reasons for the resistance were the rates declared and the complexity involved in the self-tax assessment process. The implementation was postponed and a revised model has been worked out in view of the suggestions by the citizens.

Though the new system of property tax is yet to be introduced in Dehradun, a SWOT analysis of the system carried out during the study provides a basis for reviewing the design of the proposed system in context of the state. The SWOT analysis is based on the responses received from various stakeholders during the surveys for the study. The outcomes of the SWOT analysis are given below.

<b>Strengths</b>	<b>Weakness</b>
<ul style="list-style-type: none"> <li>• The new system brings in the element of transparency in the assessment and the element of discretion is reduced.</li> <li>• The system has brought the rented properties with very low rents out of the purview of rent control for taxation.</li> <li>• The self-tax assessment system has made the owner/ occupier accountable for the reporting of the facts for tax assessment.</li> <li>• There is a provision of penalty and interest, both for misrepresentation/ concealment of facts as well as default in payment of tax.</li> <li>• It provides an inbuilt mechanism for verification by the Corporation, thereby, providing necessary checks and balance system.</li> <li>• It allows for a revision in the tax after two years as the rates for monthly rent are to be declared every 2 years.</li> </ul>	<ul style="list-style-type: none"> <li>• The system for calculation of carpet area is complex and it is not easy for a common man to understand the area calculation system.</li> <li>• The area-based system proposed is applicable for residential properties only whereas other properties are governed by the annual value calculated on the basis of the valuation of the buildings, where again discretion continues.</li> <li>• The system of property tax records would need to be revised as it is designed as per the earlier system and no efforts have been made till now in this direction.</li> <li>• Manual verification and checking of calculations of all the records would be a time-consuming task and it would need to be supported by the computerisation of property tax records.</li> <li>• The accountability of tax staff is not addressed in the proposed system.</li> </ul>

Opportunities	Threats
<ul style="list-style-type: none"> <li>• It has a legal basis.</li> <li>• Rules for the implementation of system have been laid down.</li> <li>• It would help in improving the image of the Corporation due to transparent way of assessment of tax.</li> <li>• The system can help in enhancing the revenues of the hard pressed municipal corporation</li> </ul>	<ul style="list-style-type: none"> <li>• There is a likely resistance from the citizen groups due to the perception that the system would lead to enormous increase in tax</li> <li>• There is also a likely resistance from the tax staff due to lack of clarity about their role after the implementation of the new system.</li> <li>• The system of property tax records would need to be revised as it is designed as per the earlier system, which would mean not only developing the systems but also expecting the staff to get acquainted to the new system, which might experience a resistance.</li> <li>• If capacity building and training support were not provided to the tax staff, introduction of new system would be extremely difficult.</li> </ul>

In an effort to simplify the scheme based on the suggestions received from the citizen groups, the scheme for property tax under consideration at the Dehradun Municipal Corporation differs from the amendments made in the U.P. Municipal Corporation Act and the property tax rules framed by the U.P. Government with respect to the following components:

- Both, the residential as well as commercial buildings, are covered under the area-based system, with higher rates for commercial buildings.
- The scheme under consideration considers the covered area instead of carpet area but exempts the area under staircase, verandah, and porch.
- The vacant land has not been considered for taxation in case of Dehradun as against the provisions in the U.P. Rules.
- The buildings have been classified into four categories based on the material of construction as against three categories proposed under the U.P. Rules.



- The commercial buildings have also been classified into four categories but based on the usage of the property.
- Road width has not been taken as a criterion in the proposed scheme for Dehradun.
- The deduction in the annual value as per U.P. Rules is based on occupancy status and age of the building as given below, whereas in case of scheme for Dehradun the rates for owner occupied houses are defined but it does not spell out anything about the rates for rented buildings, though it mentions that for rented buildings, rates fixed for tenancy would be used. Similarly, the deductions based on the age of the building have also been defined for different age slabs and are not linked to the ownership status.

Age in years	Occupancy Status	
	Owner Occupied	Rented
<10 years	ARV-25% of ARV	ARV+25% of ARV
>10 but <20	ARV-32.5% of ARV	ARV+12.5% of ARV
>20	ARV-40% of ARV	ARV

- The U.P. Rules provide for atleast 10% checking and verification of properties on random basis, whereas the scheme for Dehradun recommends a minimum survey of 25% properties per annum.
- The scheme exempts houses belonging to municipal staff with a covered area of less than 2000 sq.ft.
- The hutments made of thatch or plastic or tarpaulins are exempted from the house tax under the scheme whereas the Act exempts all the properties with plot area up to 30sqm or having carpet area up to 15sq.m.

### 3.5 Legal Constraints

#### (a) Assessment list

Provisions have been made in both the Acts for bringing all the properties under the assessment list, both, by fixing the responsibility of the owners to inform about any new construction or any kind of rebuilding/addition in the structure, and, by conferring power to the local body to seek information from any inhabitant. However, the laid down penalties for not informing the municipality are very small with the result that they prove to be ineffective.

**(b) Assessment**

The house tax under the Municipalities Act is linked with the annual value of building, which is based on the rental value. As a result of this, the house tax for a large number of properties continues to remain very low even after the reassessment due to the low rents for the buildings covered under Rent Control Act and old tenancy where the rents have not been revised. In addition, under-reporting of the rent in case of rented buildings and under-assessment of ARV in case of owner-occupied buildings due to lack of objective guidelines for the fixation of ARV are some of the other factors contributing to low revenue generation.

**(c) Exemptions**

Both the acts provide a large amount of discretionary powers to the municipalities for granting exemption from property tax on grounds of poverty, inability to pay etc., but the Corporation Act provides a list of 8 types of exemptions under Section 177 including:

- Clause (g) of Section 177 provides exemption to any owner occupied residential building constructed on a plot of land measuring thirty square meters, or having a carpet area up to fifteen square meters. As one can interpret, the purpose of this clause is to provide relief to the poor section of the society, but it would mean that on an average for a large city, 20-30% of the population mainly living in slums are all exempted.
- Clause (h) provides exemption to all owner occupied residential buildings in any area, which has been included in the city within the last ten years. As one can interpret, the purpose for addition of this clause is to reduce resistance from the people in the outgrowths to be included in the municipal limits as well as provide time for the municipal corporation to extend the services to the new areas. The implication of this clause (h) is that even a large number of planned and well-developed areas, especially those developed by the Development Authorities/ Housing Board or the private developers/ cooperative societies with a much superior quality of infrastructure facilities, are also exempted from the property tax for ten years.

Absence of any guidelines/rules for the tax committee leads to very liberal use of the powers of the committee in granting exemptions from taxes.

**(d) Representations and Appeals**

The taxpayers are provided opportunity to represent at two stages under both the Acts, first, at the time of introduction of any tax, and second, specifically in context of the property tax,

at the time of assessments and valuation. All the representations are required to be presented to the corporation/ municipality in writing and the objections are registered in a book for the objections maintained by the corporation/ municipality.

Provisions for appeal have been provided to ensure administration of justice and to give reasonable opportunity to the aggrieved parties under both the Acts. Under both the acts, depositing the claimed tax with the concerned office has been laid down as a precondition for filing an appeal and a time limitation has also been fixed.

**(e) Liability for Payment**

The primary responsibility for the payment of tax on annual value of the building, except drainage and conservancy tax in case of municipal corporation and scavenging tax or tax for the cleansing of latrines and privies in case of municipalities, is of the owner or the person having lease of the building or the lessor in case the property is let or the superior lessor, if the property is sublet and from the person having rights to let the property in case of un-let property.

As per the amendment in the U.P. Municipal Corporation Act, the tenant has been made primarily responsible for the payment of tax, if the property is let in pursuance of an order under the U.P. Urban Buildings (Regulations of Letting, Rent and Eviction) Act, 1972, however, a similar amendment has not been made in case of the Municipalities Act. Besides the properties falling under the purview of Rent Control Act, the issue of liability of property tax for the properties with nominal/very low rent for the old tenants have not yet been addressed where the owner is not willing to pay any tax due to very low rent. The scavenging, conservancy or drainage tax is chargeable from the actual occupier of the property under both the Acts but the same are not imposed in majority of the cases.

**(f) Tax Recovery**

The recovery of municipal taxes including the house/ property tax can be done in the followings ways as provided in the two Acts:

- By presenting the bill.
- By issuing the notice of demand if the payment is not made within 15 days from the date of presentation of bill.
- By issuing the warrant if the payment is not made within 15 days period of presentation of notice of demand. The warrant contains the details of the amount with all costs of the recovery, which may be recovered by distress sale of the movable property of the defaulter.

The taxpayer is provided an opportunity to either pay the tax or show cause to the satisfaction of the municipality as to why he should not pay before the execution of warrant.

In case of the municipalities, there is a provision for recovery of taxes as arrears of land revenue for which the municipality applies to the Collector to recover such sum with costs of proceedings, as if it were an arrear of land revenue.

The difference is that in case of the Municipal Corporations, the magisterial powers are available with the MNA whereas in case of municipalities, the municipality cannot use the powers directly for attaching the property and the same can be used through the office of Collector.

In both the Acts, the municipality can sue the person liable to pay the same in any court of competent jurisdiction instead of proceeding by distress and sale, or in case of failure to realize thereby the whole or any part of the demand.

Though a number of options are available with the municipalities to recover the tax dues, in practice the option of distress sale of movable property has not been reported by any of the municipalities and after the notice, generally the request is sent to the Collector for the recovery of taxes as arrears of land revenue, where the Collector has the power to decide whether to issue or not to issue RC.

**(g) Fines and Penalties**

Some of the provisions related to the fines and penalties in the U.P. Municipal Corporation Act have been amended in 1999, especially with respect to the default in the payment of tax and concealment of fact/information provided as a part of self-assessment. These include:

- Under Section 221-A (1), if the tax is not paid or partly paid by the date fixed by the Corporation, simple interest of 12% per annum is payable by the taxpayer from the date fixed by the Corporation up to the date of payment on the unpaid amount.
- Under Section 221-A (2), for the persons paying tax through self tax assessment, if the tax paid is found less than the tax payable by him, then the person will have to pay simple interest at 12% per annum on the difference from the date fixed by the Corporation for the payment upto the date the amount of such difference is paid.
- Under Section 221-B (1) and (2), every owner/ occupier primarily liable for the payment of tax in respect of any premise has been made responsible for submitting a statement in respect of the carpet area of the building or the area of land in the prescribed form and in

case the owner has provided false information or concealed the facts as found by the Corporation on enquiry during the checking process, the Corporation can impose a penalty not exceeding Rs. 1000.

Prior to the Amendment in 1999, the following fines/penalties were in force:

- Under Section 222 of the Corporation Act, if the person has been asked to disclose liability and the person do not respond or give false information, the municipal corporation can fine up to Rs. 500.
- Under Section 214, the owner has been made responsible for furnishing the information related to the new construction, reconstruction or enlargement within 15 days of completion or occupation, whichever is earlier, but there is no provision for any penalty or fine.
- Under Section 215, the owner is responsible for informing the Corporation for re-occupation of the building within 15 days, if the exemption is being availed on account of non-occupancy but there is no provision for any penalty or fine directly under this section.
- In addition, the corporation can charge fees and cost for every notice issued under section 506, every distress made under section 509, and cost of maintaining any livestock seized under section 509 as per the rules made by the state government for the various recovery mechanisms explained earlier in this para.

The provisions in the U.P. Municipalities Act related to various fines, penalties etc are:

- Under Section 148, the owner has the obligation of informing the municipality about the new construction, reconstruction, enlargement etc within 15 days of completion or occupation, whichever is earlier, and there is a provision of fine of Rs. 50 or ten times the amount of tax payable for a period of three months, whichever is higher. Similar fine is applicable for not informing the municipality about the re-occupation.
- There is no provision for any penalty under the Section related to obligation to disclose liability, and in case of incorrect or incomplete information, the municipality can make the assessment to the best of its judgement.
- In addition, the municipality can charge fees and cost under section 174 for every notice issued, every distress sale made and cost of maintaining any livestock seized.
- There is no provision for charging the interest on the delayed payments as has been included in the Corporation Act in 1999.

In case of municipalities, the provisions related to fines and penalties have not been amended for a very long period. On the other hand the existing provisions are also not being invoked and implemented.



## CHAPTER 4

## ASSESSMENT OF GROUND REALITIES

## 4.1 Brief Profile of Municipalities Studied

Nine municipalities including one Municipal Corporation (Dehradun), 4 Municipal Councils (Nainital, Pauri, Rishikesh and Rudrapur) and 4 Nagar Panchayats (Didihaat, Gauchar, Jhabreda and Sultanpur) were selected for the purpose of study. Table 4.1 below presents the brief profile of the municipalities with respect to the area, number of occupied residential houses, population and year of creation/ upgradation of the municipality to its existing status.

Table 4.1: Brief Profile of Municipalities Studied

Name of Municipality	Area (Km <sup>2</sup> )	No. of Occupied Resi. Houses	Population				Year of Creation	
			1971	1981	1991	2001	Notification	Upgradation
Dehradun MCorp	37.17	52726	166073	211416	270159	447808	Pre 1901	1998
				<b>27.30</b>	<b>27.79</b>	<b>65.76</b>		
Nainital MC	11.73	4331	23986	24835	29837	38559	1845	
				<b>3.54</b>	<b>20.14</b>	<b>29.23</b>		
Pauri MC	41.44	4607	8878	13607	20397	24742	1911-21	1951-61
				<b>53.27</b>	<b>49.90</b>	<b>21.30</b>		
Rishikesh MC	2.59	9226	17646	29145	44487	59671	1921-31	1941-51
				<b>65.16</b>	<b>52.64</b>	<b>34.13</b>		
Rudrapur MC	12.43	11947	25173	34658	61280	88720	1951-61	1961-71
				<b>37.68</b>	<b>76.81</b>	<b>44.78</b>		
Didihaat NP	1.12	754		2044	3514	4805	1971-81	
					<b>71.92</b>	<b>36.74</b>		
Gauchar NP	15.00	1048		3284	4422	7278	1971-81	
					<b>34.65</b>	<b>64.59</b>		
Jhabreda NP	0.09	1035		5453	7633	9378	1971-81	
					<b>39.98</b>	<b>22.86</b>		
Sultanpur NP	2.00	856		4769	5866	7713	1971-81	
					<b>23.00</b>	<b>31.49</b>		

Source: Census of India, 1991 and 2001

Majority of the Nagar Panchayats in the state of Uttarakhand were notified during the census decade of 1971-81, whereas the municipal councils in the state have been notified/ upgraded to their present status at different time intervals. There has not been any change in the municipal area in any of the municipal councils and Nagar Panchayats since 1971.

The population of Dehradun as per Census 2001 is 447808 and the city has a growth rate of 65.78% for the decade 1991-2001. The growth rate for the previous two decades (1971-81 and 1981-91) was more or less constant at about 27.5% and the high growth rate for 1991-2001 is as a result of addition of new areas due to extension of municipal limits. Considering the similar growth trend for the city for 1991-2001 as previous two decades, the population for the old municipal area and the new areas added is estimated to be 344858 and 102950 respectively.

#### **4.2 Ground Realities related to Property Tax: An Overview**

Dehradun was upgraded to its present status of Municipal Corporation from Municipal Council in December 1998, when the tax reassessment and revision exercise was already under process. The existing assessment of property tax in Dehradun Municipal Corporation is based on the provisions of the U.P. Municipalities Act, 1916. This Chapter presents the analysis of the ground realities related to the property tax system for the 9 municipalities studied under the following heads:

- Taxes imposed and tax rates
- Assessment process
  - ⇒ Preparation of Assessment List/ Survey of Properties
  - ⇒ Assessment of House Tax
  - ⇒ Appeals and Hearing of Appeals
  - ⇒ Tax Committee
  - ⇒ Reassessment
  - ⇒ Exemptions
- Property information system and its linkages
- Management of property tax records
- Performance appraisal and monitoring systems
- Billing and collection systems
- Organisational structure, staffing pattern and their capacity building

#### **4.3 Taxes Imposed and Tax Rates**

Table 4.2 presents the comparative picture of the taxes that can be imposed under the Municipal Acts and the existing status of imposition of these taxes in the 9 municipalities studied.

Table 4.2: Status of Taxes Imposed in the Municipalities Studied

Name of the Municipality	Taxes as per the Act and Status of Imposition				
	General Tax/ House Tax**	Water Tax	Drainage Tax	Conservancy Tax	Scavenging Tax
Dehradun M Corp	Imposed	Imposed *	Not Imposed	Not Imposed	NA
Nainital MC	Imposed	Imposed *	Not Imposed	Not Imposed	Imposed
Pauri MC	Imposed	Imposed *	Not Imposed	Not Imposed	Not Imposed
Rishikesh MC	Imposed	Imposed *	Not Imposed	Not Imposed	Not Imposed
Rudrapur MC	Imposed	Imposed *	Not Imposed	Not Imposed	Not Imposed
Didihaat NP	Imposed	Imposed *	Not Imposed	Not Imposed	Not Imposed
Gauchar NP	Imposed	Imposed *	Not Imposed	Not Imposed	Not Imposed
Jhabreda NP	Imposed	Not Imposed	Not Imposed	Not Imposed	Not Imposed
Sultanpur NP	Imposed	Imposed *	Not Imposed	Not Imposed	Not Imposed

\* Imposed by the Jal Sansthan

\*\* Tax on annual value of buildings or lands or both as per the Act and referred as House Tax by the municipalities and the same is designated as general tax under the Corporation Act

Source: Survey of Municipalities for the Study

Only Nainital Municipal Council has imposed scavenging tax in addition to the house tax, whereas no other municipality has imposed any tax other than the house tax. Table 4.3 gives the tax rates for the taxes imposed in the 9 municipalities.

Table 4.3: Tax Rates in the Municipalities Studied

Name of the Municipality	Tax Rates			
	General Tax	Drainage Tax	Conservancy Tax	
<b>U.P. Municipal Corporation Act</b>				
Dehradun Municipal Corporation	12.5%	-	-	
<b>U.P. Municipalities Act</b>	<b>House Tax</b>	<b>Drainage Tax</b>	<b>Conservancy Tax</b>	<b>Scavenging Tax</b>
Nainital Municipal Council	12.5%	-	-	12%
Pauri Municipal Council	5%	-	-	-
Rishikesh Municipal Council	10%	-	-	-
Rudrapur Municipal Council	10%	-	-	-
Didihaat Nagar Panchayat	5%	-	-	-
Gauchar Nagar Panchayat	5%	-	-	-
Jhabreda Nagar Panchayat	10%	-	-	-
Sultanpur Nagar Panchayat	5%	-	-	-

Source: Survey of Municipalities for the Study



The house tax rates in the municipalities studied vary between 5% to 12.5% but there is no uniformity in the rates even across the municipalities from the same group as Pauri Municipal Council has a tax rate of 5% against 10-12.5% in other Councils whereas the Jhabreda Nagar Panchayat has a tax rate of 10% as against 5% in other Nagar Panchayats.

The scavenging tax, being imposed by the Nainital Municipal Council, is also linked to the ARV thereby making the effective tax rate linked to the ARV as 24.5%. The municipalities with higher tax rates have reported that these variations in the tax rates in other municipalities in the region result in lot of resistance from the citizens.

#### **4.4 Assessment Process**

The assessment process has been discussed here with respect to the following elements:

- Preparation of Assessment List/ Survey of Properties
- Assessment of House Tax
- Appeals and Hearing of Appeals
- Tax Committee
- Reassessment
- Exemptions

##### **4.4.1 Preparation of Assessment List/ Survey of Properties**

The first stage in the tax assessment process is preparation of assessment list, which involves survey of all the properties in the municipal area at the time of assessment. The field staff collects the information for each property at the time of assessment survey. The level of information related to the property available with the municipality is limited to the ownership/ tenancy status, description of the property being used by the owner or tenant in terms of number of rooms/ shops and the rent received from the tenant, if any. In case of Municipal Corporation and Municipal Councils, a rough sketch of the property plan is also available in files of individual properties.

For the new properties/ alterations during the 5-year period of the assessment, identification of such properties is done by the field level tax staff in their respective circles/ zones/ wards and reported to the municipality except for Didihaat where the Nagar Panchayat has reported that only during the five yearly assessment process, new buildings are included in the assessment list.

However, the number of properties under the tax net in past 5 years, as reported by the municipalities (Table 4.4) presents a different picture altogether especially in case of Rishikesh and Pauri. A similar situation exists in Nagar Panchayats also.

Table 4.4: Growth in Number of Properties under the Tax Net

Municipality	Number of Properties under Tax Net				
	1996-97	1997-98	1998-99	1999-00	2000-01
Dehradun Municipal Corporation	NR	NR	NR	43451*	43651
Nainital Municipal Council	NR	NR	NR	NR	3455
Pauri Municipal Council	1949	1949	1949	2260*	2260
Rishikesh Municipal Council	6422	6823*	6823	6823	6823
Rudrapur Municipal Council	3607	3607	3607	9088*	10308
Didihaat Nagar Panchayat	NR	620*	620	646	646
Gauchar Nagar Panchayat**	323*	308	282	317	336
Jhabreda Nagar Panchayat	2439	2439*	2439	2446	2464
Sultanpur Nagar Panchayat	823	823	823	1200*	1200

NR- Not Reported due to non availability of compiled data/ reassessment process.

\* - The year of reassessment.

\*\* - Decline in the number of properties is reported due to collapse of some buildings due to the natural disaster

Source: Survey of Municipalities for the Study

In addition to the number of properties under the tax net, the information related to the trends in the demand from the property tax has also been collected and presented here in Table 4.5 to get a better picture of the assessment process in place in the municipalities.

Table 4.5: Trends in Demand (excluding arrears) from the Property Tax

Name of the Municipality	Demand from the Property Tax				
	1996-97	1997-98	1998-99	1999-00	2000-01
Dehradun Municipal Corporation	NR	180.00	177.17	189.00*	215.80
Nainital Municipal Council	25.95	33.42*	35.09	34.73	40.80
Pauri Municipal Council	5.12	5.12	5.12	7.52*	7.52
Rishikesh Municipal Council	25.37	32.01*	32.01	32.01	32.01
Rudrapur Municipal Council	8.40	8.40	8.40	26.79*	27.00
Didihaat Nagar Panchayat	2.01	2.01*	2.01	2.01	2.01
Gauchar Nagar Panchayat**	0.39*	0.38	0.42	0.50	0.50
Jhabreda Nagar Panchayat	3.73	3.74*	3.74	3.76	3.86
Sultanpur Nagar Panchayat**	0.44	0.44	0.44	0.44*	0.44

NR- Not Reported due to non availability of compiled data/ reassessment process.

\* - The year of reassessment.

\*\* - Reassessment survey was carried out but assessment is yet to be finalized

Source: Survey of Municipalities for the Study

Both the Tables above clearly indicate that the updating of the assessment list is not being done on a regular basis. Table 4.6 presents the number of assessed properties and the total number of properties based on census house listing operations for 5 municipalities and for the remaining 4 municipalities where the municipalities could not provide the records of house listing exercise, an estimation has been made based on the number of census houses as per 1991 census and the population figures of 1991 and 2001 census.

**Table 4.6: Number of Properties and Properties Assessed**

Name of the Municipality	No. of Properties as per 2001 House listing Operations/ Election List	Estimated Number of Properties Based on 1991 census houses & Population of 1991 & 2001	Number of Properties as reported by municipality	Number of Properties assessed as per enumeration for the study from records	Estimated number of un-assessed Properties	% of un-assessed properties
Dehradun M Corp	NA	87400	43693	48087	39313	44.98
Nainital MC	NA	5597	3455	3431	2166	38.70
Pauri MC	8109	-	5449	3626	4483	55.28
Rishikesh MC	NA	12375	6823	6805	5570	45.01
Rudrapur MC	14994	-	14994	10308	4686	31.25
Didihaat NP	NA	1031	646	646	385	37.34
Gauchar NP*	1412	-	1412	338	1074	76.06
Jhabreda NP	2628	-	2628	2537	91	3.46
Sultanpur NP	1200	-	1200	835	365	30.42

\*- As per the ward wise list of houses in the election list  
Source: Census, 1991 & 2001 and Municipal Records

Table 4.6 clearly shows that the number of un-assessed properties in the studied municipalities vary between 30-76% with an exception of Jhabreda Nagar Panchayat, where the unassessed properties are about 3%.

Nainital and Pauri Municipal Councils, which have very strong administrative character of the town, highlighted the issue related to the taxation of Government Properties. The two issues raised by these municipalities are that the departments do not submit the records related to their assets after several reminders creating difficulties in the assessment and second, the taxes are not paid by the government agencies timely. Though, there is a provision of budget head for allocation of funds for the payment of such taxes under Head 17, some of the respondents from the government departments mentioned that they do not have budget allocation for the payment of taxes. It appears that the concerned officials of many government agencies are not very clear about budgeting, allocation, re-appropriation and

related processes with the result that either demands are not being made in time or re-appropriation is not being sought at the right time to ensure the availability of adequate funds for payment of taxes.

The major reasons identified from the field surveys for a large number of properties remaining un-assessed are:

- There is no clear-cut policy for the property tax on unauthorised constructions, encroachments especially on Municipal/ Nazul lands and slums. Though a Government Order was issued regarding taxation of unauthorised constructions/ encroachments, but the municipalities are apprehensive about taxing such properties, as taxation of property is being seen and understood as regularisation of the encroachments by the municipalities.
- The Hon'ble U.P. High Court in Writ Number 23178/98 had issued orders in 1998 that unless a scheme was formulated and put into effect in such localities "no new construction may be permitted to come up in the hills of Garhwal region where more than 100 buildings exist at the moment". Though the houses are being constructed without approvals, but the municipalities are unable to levy any tax on such buildings, as it would place them in a position of contravention of the ban on constructions.
- Lack of accountability of the field staff, absence of any incentive/ disincentive system and absence of performance appraisal mechanism at the state level are some of the other reasons for large number of unassessed properties in the municipalities.
- Some of the case specific reasons identified are:
  - ⇒ In case of Dehradun Municipal Corporation, the municipal limits were extended to include 37 revenue villages on June 2 1999 but till May 2002, the new areas were not brought under the property tax net. During the survey and interaction with the officials of the Corporation, they informed that the tax could not be imposed in the new areas due to the provisions of Clause (h) of Section 177 of the Corporation Act whereas the people are willing to pay the tax. Though the Corporation has written a letter to the state government for considering the amendment but there appears to be lack of clarity regarding the Clause as it has been indicated in the letter that all the residential buildings included in the city limits as a result of extension of city limits are exempted from the property tax but the Act exempts only owner occupied residential buildings. However, even the exemption of owner occupied residential houses for the ten years is an issue of policy debate as the newly included areas has a large number of planned and developed colonies.

- ⇒ In case of Pauri, a state government order of 1977 exempts 9 villages within the municipal limits from the property tax, and for last 25 years a large number of properties are exempted from the house tax as a result of this order which has not been reviewed since then.
- ⇒ In case of Rishikesh, an order from the district administration was issued in 1997 regarding the stay on transfer of properties under certain Khasras in the city limits. Though, as per the order, the stay is on the transfer of properties and it does not put any restriction on the imposition of tax but as per the interpretation by the municipality, the tax cannot be imposed due to this order. As reported by the municipality nearly 50% of the city land comes under such Khasras and cause huge loss of revenue to the municipality. Though, the imposition of tax does not grant ownership of any land/ property to any individual but the municipality is apprehensive of imposing tax due to the order mentioned here. The Ashrams/ Dharamshalas are exempted from the tax as per the bye-laws of the municipality.
- ⇒ In case of Gauchar, the municipality has not imposed property tax in 6 out of the 10 municipal wards.

In case of Rudrapur, the number of properties under tax assessment till 1998-99 was 3607 only and it is only during the past 3 years that a large number of buildings have been brought under the tax net as a result of revision in the assessment list at the time of reassessment and inclusion of slums in the tax net. The Council has decided to impose the tax on flat rate basis for all the slums (Rs. 40 for slums with tin shed and Rs. 80 for pucca houses in slums), which has helped the municipality in improving its coverage substantially. The municipality also reported at the time of surveys that the surveys for the remaining slums are also being carried out to bring all the properties under the tax net. Rudrapur Municipal Council has reported that the people living in the slums/ unauthorised colonies are very keen for getting their properties included in the tax net as house tax is being perceived as regularisation of the house by the citizens residing in such colonies. The municipality is putting a stamp (*House tax would not affect the Ownership*) on each receipt issued for the collection of house tax from the slums as a preventive measure to avoid any legal complications.

#### **4.4.2 Assessment of House Tax**

The assessment of house tax is linked to the annual value of the buildings or lands or both, which is defined under Section 140 of the U.P. Municipalities Act as,

(1) Annual value means:

- a) In the case of railway stations, hotels, colleges, schools, hospitals, factories and other such buildings, a proportion not exceeding five per centum to be fixed by rule made in this behalf of the sum obtained by adding the estimated present cost of erecting the building to the estimated value of the land appurtenant thereto; and
- b) In the case of a building or land not falling within the provisions of clause (a), the gross annual rent for which such building, exclusive of furniture or machinery therein, or such land is actually let, or where the building or land is not let, or in the opinion of the municipality is let for a sum less than its fair letting value, might reasonably be expected to let from year to year.

(2) Provided that where the annual value of any building would, by reason or exceptional circumstances, in the opinion of the municipality, be excessive if calculated in the aforesaid manner, the municipality may fix the annual value at any less amount, which appears to it equitable.

The assessment of house tax is carried out as a two-stage activity. The first stage involves fixation of annual value and, the second stage involves assessment of house tax, which is based on the tax rate and the annual value.

In case of Dehradun Municipal Corporation, Nainital and Rishikesh Municipal Councils and Didihaat Nagar Panchayat, annual value for the properties falling under the Clause 1(a) of the Section 140 of the Municipalities Act, is calculated at 5% of the cost of building (land + construction). However, the analysis of responses from the municipalities with respect to the method of assessment for properties falling under this particular group, there has been a variation with respect to the scope of buildings/ properties covered under the clause for instance, Rishikesh Municipal Council has reported that only the Hotels are being covered and Nainital has included hotels, schools and hospitals under this clause. The word other such buildings in the clause 1(a) make it very indicative and subjective and provide a large degree of discretion.

The percentage of buildings falling under the purview of Clause 1(a) accounts for less than 1% in most of the municipalities, which is reflected by the percentage of properties falling in the property tax slabs of above 5000 or 10000 with an exception of Nainital (which is primarily due to the tourism character of the town and presence of large number of hotels), as given in Table 4.7.



Table 4.7: Percentage of Properties under different Property Tax Slabs

Name of the Municipality	Percentage of Properties under different Property Tax Slabs							
	0	1-100	101-250	251-500	501-1000	1001-5000	5001-10000	Above 10000
Dehradun M Corp	8.65	15.47	28.61	23.07	16.66	6.94	0.30	0.31
Nainital MC	1.02	14.69	25.74	20.90	18.50	16.09	1.37	1.69
Pauri MC	37.81	12.19	24.35	14.67	7.39	3.48	0.11	0.00
Rishikesh MC	2.36	8.85	33.18	28.11	17.81	8.85	0.43	0.41
Rudrapur MC	0.00	45.91	28.24	13.57	9.15	2.74	0.25	0.14
Didihaat NP	0.93	40.56	29.10	19.35	6.50	3.09	0.46	0.00
Gauchar NP*	0.00	49.12	37.87	12.72	0.30	0.00	0.00	0.00
Jhabreda NP	55.60	30.88	12.54	0.71	0.28	0.00	0.00	
Sultanpur NP	0.24	89.46	7.78	2.04	0.48	0.00	0.00	0.00

Source: Enumeration of 100% properties from the Tax Records

The properties with tax ranging between 5001-10000 would mean an annual value in the range of 1,00,000-2,00,000 and above 10,000 would mean an annual value of over Rs. 2,00,000 for the municipalities with tax rate of 5% (Pauri, Sultanpur, Didihaat and Gauchar). Similarly, for the municipalities with tax rate of 10% (Rudrapur, Rishikesh and Jhabreda), tax ranging between 5001-10000 would mean an annual value in the range of 50,000-1,00,000 and for taxes above 10000, an annual value of over Rs. 1,00,000. Similarly for the municipalities with 12.5% tax rate (Dehradun and Nainital), the similar range of annual values for the two higher slabs of property tax would be 40,000-80,000 and above 80,000 respectively.

Even the all the properties falling under these higher tax slabs are also not necessarily covered under the purview of Clause 1(a) as the enumeration for all the properties above 5000 tax was carried out for Nainital Municipal Council and the analysis of the data reveals that besides hotels, hospitals and schools, colleges etc, the number of large private properties and group of properties of the government department in one colony are also included in this higher tax slabs, so effectively the number of properties falling under the purview of Clause 1(a) forms a very small share. As a limitation of the study, the detailed analysis of the properties falling under this clause has not been carried out with respect to the valuation of the property for each of the property.

Majority of the properties in all the municipalities fall under the purview of Clause 1(b) of Section 140, which is linked to the rental value. The field staffs on the basis of survey of the property about the actual rent or the assessment of rent for the owner occupied properties recommends the annual value except in case of Rudrapur and Didihaat, who have evolved their own formula. The analysis of the responses received from the tax staff clearly reveals

that the assessment of annual value is purely based on the discretion, which is evident from the spectrum of responses received, including considerations of paying capacity of the taxpayer, higher tax for rented than owners, rent on the basis of location and quality of construction, two to three times higher rent for commercial units than the residential units.

The variations in the understanding of the tax staff regarding the provisions of annual value exist even within the same municipalities. The major factors contributing to this variation are lack of clarity at the level of the field staff regarding the provisions related to fixation of annual value due to subjective nature of the base.

In case of Rudrapur, the municipality has evolved different formula for fixation of annual value based on the rent/ per room for different room sizes fixed by the municipality, number of rooms, location and the usage of structure. The municipality has divided the city into three zones for owner occupied properties and four zones for rented properties. Based on the indicators defined by the municipality, the range of rent per room for residential and commercial properties across three zones for owner occupied and rented properties are summarised below.

**For Owner Occupied Properties**

Use of Building	Upto 144 Sq. ft.		Above 144 Sq. ft	
	Minimum Rent	Maximum Rent	Minimum Rent	Maximum Rent
Zone 1 and 2 (Residential Zones)				
Residential	35	110	40	120
Commercial	40	120	60	150
Zone 3 (Commercial Zone)				
Residential	60	110	80	120
Commercial	Up to 250 sq. ft.		60	200
	251-500 sq. ft.		80	250
	Above 500 sq. ft.		250	350

**For Rented properties**

Use of Building	Minimum Rent	Maximum Rent
Zone 1, 2 and 3 (Residential Zones)		
Residential	150	400
Commercial	175	425
Zone 4 (Commercial Zone)		
Residential	300	
Commercial	325	500 (for large size halls)



Rudrapur has also imposed tax on the slums on the rate basis of Rs. 40 per house for tin shed and Rs. 80 per pucca house in slums. Similarly, Didihaat Nagar Panchayat is using two methods for calculating the annual value, for owner occupied residential buildings, the annual value is calculated on the basis of monthly fixed rent of Rs. 24 per room and for rented buildings, the annual value is based on the actual rent.

In both the cases, introduction of the formula based system has helped in improving the revenues of the municipalities due to the transparency in the assessment process. However, the rents fixed by the municipalities are much lower than the actual market rents but at least both the municipalities have taken initiative to improve the revenues by innovating the property tax system using the existing legal framework and have set a model using which the fixation of realistic rents can help these municipalities in achieving better revenue potential from the house tax. The formula has been evolved using the provisions of Clause (2) of the Section 140, which allows the municipality to fix the annual value at any less amount, which appears to it equitable.

After the fixation of annual value, the municipality on the basis of tax rate carries out the assessment of tax and issues a notice to the owner to register the appeal, if any, within 30 days. If the owner does not submit any objection/ appeal, the assessment is finalized and entered into the assessment register.

In case, the owner submits the appeal, he is provided the opportunity of being heard and after the decision of the Committee, the final assessment is entered in the assessment register, subject to agreement of the owner.

#### **4.4.3 Appeals and Hearing of Appeals**

The appeals given by the owners are to be recorded in the register of objections, which are being maintained by the municipal corporation and the municipal councils but in case of nagar panchayats, the records are not being maintained in the form of register but the application is being filed in the file of individual properties.

Table 4.8 presents the impact of hearing process on the tax revenues in the municipalities. It clearly reveals that there has been a very large reduction in the assessments as a result of hearing process in Dehradun, Rishikesh and Rudrapur.

Table 4.8: Impact of Hearing Process on Tax Revenues in Municipalities

Name of the Municipality	Demand before Re-assessment	Demand assessment as per the survey report of tax staff	Number of properties assessed	Number representations received	Number cases where assessment has been reduced	Demand after hearing	% Increase	Rs. Lacs% Reduction after hearing
Dehradun M Corp	177.17	343.00	43451	23954	20154	183.81	3.75	46.4%
Nainital MC	25.95	37.01	3455	1582	503	34.00	31.02	8.82%
Pauri MC	4.37	8.40	3677	749	554	7.52	72.08	10.48%
Rishikesh MC	25.38	48.12	6823	2941	2770	32.01	26.12	33.47%
Rudrapur MC	8.40	66.51*	10308	3516	0*	27.00	221.43	59.40%
Didihaat NP	1.64	2.01	646	0	0	2.01	22.56	0%
Gauchar NP	NA	The tax was imposed in 1997-98 and no records are available w.r.t. the representations.						
Jhabreda NP	1.95	3.86	2439	210	201	3.74	91.79	3.11%
Sultanpur NP	0.44	The reassessment process was in progress at the time of study.						

Source: Survey of Municipalities for the Study

In order to understand the reductions provided by the Committee, it is important to look at the base figure and the corresponding increase. For instance, in case of Rudrapur, there is a maximum reduction after the hearings (nearly 60%) but it also needs to be appreciated in this context that the municipality has made an initiative to improve the revenues from house tax, which were on a very low tax base, by improving the revenues by over 200%. The increase could be possible because of three factors including rationalisation of tax rates (increased from 5 to 10%) in context of the other municipalities in the region, introduction of transparent method of assessment and improving the coverage of properties by bringing the slums in the tax net.

#### 4.4.4 Tax Committee

For the hearing of appeals, the Act provides options for the municipality in terms of delegation of powers to the Committee or an officer of the government or municipality who is delegated power by the municipality with the permission of the Prescribed Authority through a resolution of the municipality. In cases of Nainital, Pauri and Rishikesh, the tax committees comprise of the elected representatives only and there was no role of the Executive Officer but in case of Rudrapur, the Executive Officer was involved in the hearing process. In case of Nagar Panchayats, the tax committees have been constituted but the Chairperson primarily take the decisions. The assessment of the role of tax committee cannot be generalised, as there has been different kinds of experiences reported in each of the municipality. The following issues have emerged regarding tax committees:

- There is no criterion defined for the constitution of the Tax Committee, which is one of the most critical committees in context of municipal governance.

- There is no provision for any capacity building of the tax committee members before they are entrusted such an important responsibility.
- The role of tax committee is being seen in a very limited perspective, limited to hearing of the appeals and is seen as Committee for reducing the tax.
- There are no defined guidelines formulated on any objective basis for the hearing of the appeals.
- There is no accountability of the tax committee and large discretionary powers are available and thus, the powers are used very liberally.
- The decisions with respect to the exemptions/ reductions in tax are not recorded clearly, even in case of larger municipalities. In case of the smaller and new municipalities, there is lack of clarity regarding the process, as most of the decision making is done in an informal way and the register of objections are also not being maintained.

#### **4.4.5 Reassessment**

In all the municipal councils and the municipal corporation, the reassessment exercise has been carried out every five years at least for the past 3 assessment periods of five years each. In case of Gauchar, the tax was introduced in 1997 so the first reassessment was due in 2002 whereas in case of Jhabreda atleast last two assessments have been carried out timely. In case of Sultanpur, the survey was in progress at the time of study and the last assessment was made in 1997.

As per the five yearly cycle for the revision in the house tax, the existing assessment period and the period for the next revision for the 9 studied municipalities is given in Table 4.9.

**Table 4.9: Assessment Period and the Year of Revision in the Assessment**

<b>Name of the Municipality</b>	<b>Existing Assessment Period</b>	<b>Next Assessment Period</b>
Dehradun M Corp	1999-2004	2004-2006 (as per the Corporation Act)
Nainital MC	1997-2002	2003-2008
Pauri MC	1999-2004	2004-2006
Rishikesh MC	1997-2002	2003-2008
Rudrapur MC	1999-2004	2004-2009
Didihaat NP	1997-2002	2003-2008
Gauchar NP	1997-2002	2003-2008
Jhabreda NP	1997-2002	2003-2008
Sultanpur NP	1997-2002	2003-2008

#### 4.4.6 Exemptions

Table 4.7 giving the properties under different property tax slabs shows that Pauri has the highest percentage of properties (37%), which are included in the assessment list but no tax is imposed, which is primarily an outcome of inclusion of certain properties falling within the jurisdiction of 9 villages exempted by a state government order mentioned earlier. Dehradun has the second highest share of properties (8%) falling under the category of zero tax and in this case the majority of the properties falling under this category are either the vacant land or the damaged buildings or the properties where the annual value is less than Rs. 360. The provisions related to the exemptions as per the two Acts have been discussed in previous Chapter but the exemptions being provided by different municipalities are summarized in Table 4.10.

**Table 4.10: Exemptions provided by the Municipality**

Name of the Municipality	Exemptions
Dehradun M Corp	Properties with annual value less than Rs. 360.00
Nainital MC	Properties with annual value less than Rs. 360.00
Pauri MC	<ul style="list-style-type: none"> <li>• 9 villages within municipal limits</li> <li>• Slums and unauthorized constructions</li> </ul>
Rishikesh MC	<ul style="list-style-type: none"> <li>• Poor people who are not in position to pay are exempted by special resolution</li> <li>• Religious buildings</li> </ul>
Rudrapur MC	Widow and Handicap
Didihaat NP	Properties with annual value less than Rs. 120.00
Gauchar NP	6 municipal wards exempted
Jhabreda NP	Slums
Sultanpur NP	Properties with annual value less than Rs. 120.00

Source: Survey of Municipalities

#### **4.5 Property Information System and its Linkages**

The information base of properties in the municipalities is very weak, as 4 out of 9 municipalities could not even provide the basic information such as total number of properties in the city. There is no sound mechanism in place for updating of information on properties in any of the municipalities due to the following reasons:

- Updating of property records is dependent on the information supplied by the field staff for the purpose of taxation only without any alternative information updating mechanism from other agencies or any linkages with the information available with the other agencies like electricity department, development/ special area development authority, stamp and registration department, public distribution system (ration card) etc. In other words, there is no coordination mechanism between different agencies responsible for various urban management functions.
- The function related to approval of building plans is not with the municipalities. The building plan approval comes under the purview of Development Authority in case of Development Areas and Prescribed Authority in case of regulated areas. Though, the maps are sent to the municipality for No Objection Certificate but there is no mechanism in place in the municipalities for keeping the records of the same. The similar situation is applicable for the water and electricity connection, where a NoC is to be issued by the municipality but in practice there is no relation between the NoC with the property tax records. Similarly, there is no mechanism for maintaining the records of the NoCs given by the municipalities for the electricity and water connection.
- The data available with the municipality about the properties is limited to name of the owner, tenancy, rent and number of rooms/ shops and that too limited to only the properties on which the tax is imposed. No municipality could provide any data related to the number of buildings under different use in the city in a compiled form including those who could provide the total number of buildings in the city.

Out of 9 municipalities studied, only 5 (Pauri, Rudrapur, Jhabreda, Gauchar and Sultanpur) could provide information related to total number of houses/ properties in the municipal area. It is worth mentioning here that the municipalities as part of the Census operations just a year back took up the house listing exercise. In addition, at the time of every election, the municipality updates the voter list and the formats used for the same give ward-wise information regarding the residential and non-residential buildings, which gives a clear-cut indication of the lack of coordination even between different sections of the municipality.

The municipal ward is a basic administrative unit of the municipality and even the census data is compiled as per the municipal wards but 5 out of the 9 municipalities studied have different number of municipal wards and property tax wards/ circles/ zones as given in Table 4.11.

**Table 4.11: Municipal Wards and Property Tax Wards/ Circles in Municipalities Studied**

Name of the Municipality	Number of Municipal Wards	Number of Property Tax Wards/Circles
Dehradun M Corp	60	17
Nainital MC	25	13
Pauri MC	25	25
Rishikesh MC	25	35
Rudrapur MC	25	23
Didihaat NP	10	10
Gauchar NP*	10	4
Jhabreda NP	10	10
Sultanpur NP	10	9

\* Tax is imposed in only 4 municipal wards out of 10 wards

The different boundaries of the municipal wards and property tax wards have the following implications:

- This limits the municipality to identify the wards/ pockets of the city where there is a gap between the actual number of properties and the assessed properties based on the data available with the municipalities from census housing list/ election lists, both of which are prepared on the basis of wards.
- In absence of any comparable picture with respect to the assessed properties and the actual number of properties, monitoring the performance of the staff with respect to their actual fieldwork other than the collection of dues is restricted.

#### **4.6 Management of Property Tax Records**

There is a long list of formats prescribed in the municipal manual to address the management of property tax records at each stage of the property tax system, starting from survey of properties to issue of notices for the recovery. The assessment register and the demand collection registers are the two most basic documents that contain all the basic information related to the property tax in a municipality.

**Assessment Register** contain details related to address of the property, details of house number, name of the owner, name of the tenant/ tenants and the rent, if any, annual value, tax assessed, revision in tax based on the hearing of objections and description of mutation.

**Demand and collection register** contain details related to serial number in the assessment list, name and address of the tax payer, designation of premise by name or number, demand column containing current demand detailed in installments when necessary, arrears and total for house tax and other tax, if any, like scavenging tax, last date of payment, date of payment, number of receipt with book number, period installment, collection column contain tax and rebate actually allowed in tax for house tax and other tax, if any, tax remitted by the council, balance and remarks including reference to orders sanctioning remissions, if any.

All the property tax formats are being used in the municipal councils and municipal corporation as per the requirements of the manual. In case of nagar panchayats, only the basic essential formats like assessment register, demand collection register for keeping the records of the property tax are being used. In addition to these two registers, the survey report, documents related to appeals and hearings of appeals are maintained in the form of files of individual properties in case of nagar panchayats.

An attempt has been made in the study to understand the existing system of management of property tax records with respect to the following key issues:

- Whether the formats in use provide adequate information for the purpose of taxation?
- Does the record management system facilitate easy translatability into data outputs for better decision-making?
- Are these records being used as instruments for financial planning in the municipalities?
- Do these records facilitate easy monitoring of the revenue collections?

The formats for the assessment register as well as demand and collection register are very well designed to address the requirements of the existing system of property tax with a limitation that these registers does not provide any details of the property with respect to the area of the plot, area of the house, usage, number of rooms, etc for which files of individual properties need to be consulted. However, variations were observed across different municipalities in the level and details of information in these records as well as compilation of the records while reviewing the records in these municipalities. The major reasons identified for these variations across different municipalities include the variation in the staffing pattern in municipalities, type of municipality (municipal council or nagar panchayat), age of the municipality, experience of the tax staff and lack of formal training to the taxation staff.



The compilation of records is generally being done by the municipalities for the demand and collection register of each property tax circle/ ward in all the municipal councils. The register for a particular ward or group of wards are being handled by different office level staff but the compilation of the records at the level of the municipality is not being done as a regular exercise which is also reflected by the level and quality of information provided by the municipalities and in some of the municipalities, even the records for previous years were compiled during the survey work.

For larger municipalities with large number of registers and number of properties, the compilation of records is a very time consuming exercise as no computerisation has been done in any of the municipalities. Thus, the database related to the property tax serves a very limited purpose and is not being used for the purpose of either the financial planning or decision-making.

The limitations of the existing property tax record management system are:

- For tracking the status of property tax for individual property is a very time consuming exercise due to the large number of records that are linked to each other, which makes verification, a difficult and time consuming exercise.
- A very limited information is available about the property as per the existing system and even for tracking the age of the property and since when a particular property is under the tax net, all the previous old records need to be extracted.
- The system is not very conducive from the perspective of monitoring and performance appraisal as well as decision-making.
- The management of property tax records is being done manually without any computerization in all the municipalities and with the type of formats to be updated and the administrative processes involved in the taxation process, the whole system is highly labour intensive.

#### **4.7 Performance Appraisal and Monitoring Systems**

The performance appraisal and monitoring systems has been studied at two levels, first, at the level of municipality and second, at the level of district/division/ state.

- In most of the municipalities, the mechanisms adopted for monitoring the progress and performance appraisal of the tax staff include allocation of weekly/ monthly targets to different tax collectors and other tax staff by the Executive Officer and its review on the weekly/ monthly basis. However, there is no mechanism in place for preparing minutes of



such meetings and the recording of progress/ target achievement is available with the EO in his diary in some cases. Nainital and Rudrapur municipal councils have reported that administrative actions are taken against the staff whose collections are low but there are no fixed norms/ standards for the same.

- Regarding the monitoring system at the level of Chairperson, three types of situations were reported. First, where Chairpersons monitor the monthly progress of tax realization in the meeting with the tax staff/ executive officer (Rudrapur and Pauri), second, where Chairperson leaves the monitoring at the level of the Executive Officer (Rishikesh, Nainital, Sultanpur) and third, where the need has been expressed for having a monitoring system as no such mechanism exists (Gauchar, Jhabreda).
- Some municipalities have reported that the monthly progress is reviewed in the meeting at Divisional Commissioner Office but there are no defined monitoring systems and the review meetings serve a limited purpose.
- The U.P. Government (prior to the creation of the new state) had fixed the targets of tax revenues for different class of municipalities in terms of minimum per capita revenue that a particular class of municipality must realize from its own sources based on the recommendations of the First State Finance Commission but there was no monitoring and evaluation mechanism in place for reviewing the performance of municipalities at the state level. There was no mechanism in place for performance appraisal and monitoring at the state level especially in light of the very lean structure of Directorate of Local Bodies without any intermediate level of institution of the department for the big state of Uttar Pradesh with 681 municipalities. After the creation of a new state of Uttarakhand, the Directorate of Local Bodies has been constituted but at the time of survey for the studies, only one officer at the level of Joint Director (from the E.O. Cadre) was posted and the systems for the management of the Directorate were still being put in place and the major emphasis was on the issues related to cadre management.
- The First SFC of Uttarakhand has also emphasized the need for setting up a State Level Monitoring Mechanism, which shall develop the audit and performance rating system as well as necessary formats for evaluation of financial and good governance performance (June 2002).

#### **4.8 Billing and Collection**

- In all the municipalities, including Municipal Corporation, the bills are presented once in a year for the payment of property/ house tax with an exception of Dehradun where the bill with high amount of tax are divided into two bills of equal installments.

- In case of all the municipalities, the bills are presented during April-June and in case of Nagar Panchayats, the bills are presented within the month of April, as the numbers of properties in these municipalities are very few. In some municipalities like Dehradun, Rudrapur, Nainital, the bills for higher tax paying buildings are presented on priority basis, as an administrative arrangement. The responses from the field survey also reveal that the bills are being presented within time.
- The house tax/ property tax is collected using the following methods in all the studied municipalities:
  - ⇒ Door-to-door collection by the tax collectors in their respective wards.
  - ⇒ Deposit of tax at the collection counter in the municipality.
  - ⇒ Besides the above two methods, the property tax rules framed by the Dehradun Municipal Corporation propose for the deposit of tax in any branch of the bank authorized by the MNA after filling the prescribed format but these are yet to be implemented.
  - ⇒ The proposed guidelines also makes it mandatory for the owner/ resident to submit a copy of the receipt along with the filled form to the Corporation Office, which dilutes the very purpose of deposit through bank.
- 7 out of the 9 municipalities have made provision of rebate for the timely payment as given in Table 4.12.

**Table 4.12: Time Frame and Rebate for Timely Payments**

Name of the Municipality	Period up to which Incentive is valid	Rebate
Dehradun M Corp	Within 30 days of the presentation of bill	20%
Nainital MC	Up to 2 <sup>nd</sup> January	20% (subject to no arrears)
Pauri MC	Up to 30 <sup>th</sup> April	5%
	Up to 31 <sup>st</sup> October	2.5%
Rishikesh MC	Within 15 days of the presentation of bill	10%
Rudrapur MC	Up to 31 <sup>st</sup> October	20%
Didihaat NP	Up to 31 <sup>st</sup> October	5%
Gauchar NP		0%
Jhabreda NP	Up to 15 <sup>th</sup> May	20%
	Up to 15 <sup>th</sup> November	10%
Sultanpur NP		0%

Source: Survey of Municipalities

- There is no provision for any penalty for the late deposit of tax in any municipality including Dehradun Municipal Corporation. Though, the amendments in the Corporation Act in 1999 do provide for 12% interest but the provision has not been implemented.

#### 4.9 Personnel Management and Capacity Building

The following Tables 4.13.1 - 4.13.5 give the educational status and the number of persons deployed at various levels in the tax department of the studied municipalities.

**Table 4.13.1: Tax Staff and their Educational Profile- Dehradun Municipal Corporation**

Designation of Tax Staff	Educational Status								Total
	Illiterate	Primary	8 <sup>th</sup> Pass	10 <sup>th</sup> Pass	12 <sup>th</sup> Pass	Graduate	Post Graduate	Not Reported	
Tax Superintendent						1			1
Tax Inspector				1	1	4	4	7	17
House Tax Clerk				8	3	2	1	6	20
Other Clerical and Support Staff*			1	4	1	2	2	3	13
<b>Total</b>			1	13	5	8	8	16	51

**Table 4.13.2: Tax Staff and their Educational Profile-Nainital Municipal Council**

Designation of Tax Staff	Educational Status								Total
	Illiterate	Primary	8 <sup>th</sup> Pass	10 <sup>th</sup> Pass	12 <sup>th</sup> Pass	Graduate	Post Graduate		
Tax Superintendent									1
Tax Inspector									2
Tax Clerk									3
Tax Collector									5
Moharir									1
Peon									3
<b>Total staff</b>									15

\* educational status not reported

**Table 4.13.3: Tax Staff and their Educational Profile- Pauri Municipal Council**

Designation of Tax Staff	Educational Status								Total
	Illiterate	Primary	8 <sup>th</sup> Pass	10 <sup>th</sup> Pass	12 <sup>th</sup> Pass	Graduate	Post Graduate		
Tax Clerk							1		1
Tax Collector						2	1		3
Peons*						2			2
Pond Keeper*									1
<b>Total staff</b>						4	2		7

\* Peons and Pond keeper have been entrusted the responsibility of tax collection

Table 4.13.4: Tax Staff and their Educational Profile- Rishikesh Municipal Council

Designation of Tax Staff	Educational Status							
	Illiterate	Primary	8 <sup>th</sup> Pass	10 <sup>th</sup> Pass	12 <sup>th</sup> Pass	Graduate	Post Graduate	Total
Tax Inspector					1		1	2
Tax Clerk						2	2	2
Toll Moharir*			2			2		4
<b>Total staff</b>			2		1	4	3	10

\* Toll Moharirs have been entrusted the responsibility of tax collection

Table 4.13.5: Tax Staff and their Educational Profile- Rudrapur Municipal Council

Designation of Tax Staff	Educational Status							
	Illiterate	Primary	8 <sup>th</sup> Pass	10 <sup>th</sup> Pass	12 <sup>th</sup> Pass	Graduate	Post Graduate	Total
Tax Inspector			1	2	1	2		2
Tax Clerk			4	5				4
Tax and Revenue Collector							1	10
Peons*	1		5					6
<b>Total staff</b>	1		10	7	1	2	1	22

\* Peons have been entrusted the responsibility of bill distribution

Table 4.13.6 gives the staffing pattern along with their educational profile for the tax staff for the 4 nagar panchayats.

Table 4.13.6: Tax Staff and their Educational Profile-Nagar Panchayats

Designation of Tax Staff	Educational Status							
	Illiterate	Primary	8 <sup>th</sup> Pass	10 <sup>th</sup> Pass	12 <sup>th</sup> Pass	Graduate	Post Graduate	Total
<b>Didihat</b>								1
Tax Inspector					1			1
Tax Moharir			1*					2
<b>Total Tax staff</b>			1		1			
<b>Gauchar</b>								1
Tax Staff							1*	1
<b>Total Tax Staff</b>							1	
<b>Jhabreda</b>								2
Tax Collector				2				2
<b>Total Tax Staff</b>				2				1
<b>Sultanpur</b>								
Clerk							1	1
Peon								
<b>Total Tax Staff</b>							1	1

The responsibilities of the tax staff can be broadly classified into two categories, first for the field staff and second for the office staff. The field staff is primarily responsible for identification of new properties in their respective tax wards, tax assessment survey, recommendation of ARV, help in collection, and the responsibilities of office staff include maintaining assessment register, demand and collection register, preparation and dispatch of bills, issue of notice, transfer of name, issue of receipt and its entry in the demand collection register etc.

As majority of the tax staff is from the non-centralized service and is appointed at the level of the municipality, there is no clear-cut policy for their promotion etc leading to lower level of motivation. In addition, the involvement of local level staff in the taxation process also has its own disadvantages in terms of social and other kinds of pressures especially where a large degree of discretion is available with the tax assessment staff due to the design of the tax system.

Table 4.14 presents the workload of the field and office level staff of the municipalities based on the number of assessed properties and the staff deployed for the tax functions related to the field and office respectively.

**Table 4.14: Work Load of the Tax Staff**

Name of the Municipality	Number of assessed properties	Total Staff of municipality	Tax staff	Workload			
				Field level tax staff	Number of properties per field staff	Office level tax staff	Number of properties per office staff
Dehradun M Corp	48087	1396	51 (3.7%)	17	2829	34	1414
Nainital MC	3431	460	15 (3.3%)	8	429	7	490
Pauri MC	3626	57	7 (12.3%)	6	604	1	3626
Rishikesh MC	6805	260	8 (3.1%)	6	1134	2	3403
Rudrapur MC	10308	146	22 (15.1%)	12	859	10	1031
Didihaat NP	646	15	2 (13.3%)				
Gauchar NP	338	13	1 (7.7%)				
Jhabreda NP	2537	20	2 (10%)				
Sultanpur NP	835	21	2 (10%)				

The analysis of data presented through Table 4.13 and 4.14 reveals the following:

- There is no clearly thought out policy or perspective on personnel management including the deployment of staff in the urban local bodies.
- There are no norms for the deployment of tax staff in municipalities and there are large variations in the availability of tax staff across different municipalities.
- Majority of the staff in the municipalities is from the non-centralized cadre (local municipal staff) appointed without any defined norms for selection with respect to their educational levels.
- In municipal corporation and municipalities except Pauri, the toll staff or staff from other departments/ sections have been entrusted the responsibility of property tax in order to utilize the available staff but no training has been provided to them for the new task assigned.
- The posts of toll staff have already been abolished and the cadre has been declared as a dying cadre, so as the staff in these posts retires, these posts would automatically get reduced.
- There are no promotion avenues for the municipal staff in absence of any kind of HR Policy, leading to lower level of motivation amongst the staff.
- A very limited effort has been made to build the capacities of the municipal staff in general and tax staff in particular. There are no opportunities available for the non-centralized staff, which primarily contributes to the tax staff.
- In absence of any formal training, most of the learning is on the job learning from the old staff and in many cases the under qualified and untrained staff including daily wage staff has been entrusted the responsibility of taxation work.
- The work load in terms of number of properties covered on an average by each tax staff at the filed/ office level includes only the existing assessment, thus with improved coverage, the work load would increase further.
- In case of some smaller municipalities like Sultanpur, Gauchar, though the number of properties under the tax net are very low but the tax staff is performing the role of multi purpose worker entrusted with the responsibilities of accounts and other record keeping functions in addition to the tax.

- The concept of multi purpose worker in context of the smaller municipalities is very useful as it can help municipalities reduce the number of staff and still be able to carry out all the duties leading to reduction in financial burden.

The assessment of the ground reality clearly identifies four major areas of concern. These areas are:

- legal constraints with respect to the tax base, exemptions, discretionary powers and mechanisms for fines and penalties.
- large number of unassessed properties
- poor information and record management systems
- limited capacity of municipal institutions including capacity of the municipal staff.

The property tax system to be designed needs to consider the above areas of concern. It needs to be designed in a manner which is simple to understand, promotes objective assessment and reduces the workload of the municipality through better management of the processes involved in the assessment and administration of the house tax.

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## CHAPTER 5

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### EFFICIENCY AND POTENTIAL OF PROPERTY TAX

This chapter presents a review of the financial performance of the studied municipalities with respect to the contribution of property tax in municipal revenues, assessment indicators, collection indicators and fiscal efficiency. It also presents an assessment of the potential of revenue that can be generated from the property tax within the existing framework by simply addressing the issues of unassessed property and under-assessment.

#### 5.1 Contribution of Property Tax (House Tax) in Municipal Revenues

The trends in the share of revenue from property tax (house tax) in the overall revenues generated by the studied municipalities from their own sources are given in Table 5.1, which clearly reveal:

- Assessment list trends of revenue from house tax show different character across different municipalities. In case of Dehradun, there has been a decline in 1997-98 and after that there has been a consistent increase.
- Similar trends are observed in case of Pauri and Rishikesh Municipal Councils and Jhabreda Nagar Panchayats. Nainital and Rudrapur have shown almost a similar trend with an increase as a result of reassessment and then more or less stabilised revenue from the house tax. The trends in revenue from house tax in other Nagar Panchayats are quite fluctuating across different years.
- The revenue from house tax accounts for nearly 50% on an average for the 9 municipalities studied. However, there are large variations across different municipalities with house tax in case of Dehradun Municipal Corporation accounting for nearly 70%.
- In case of Municipal Councils, it varies between 21 and 44 (without considering the scavenging tax) with large linear variations in different financial years in some cases which are either due to sudden fall in the revenue from House Tax or sudden increase in the revenues from the house tax due to collection of arrears or alternatively, as an outcome of sudden increase in the revenue from a particular non-tax source of revenue in a particular year. The trends in case of the nagar panchayats are similar to those of the municipal councils.



**Table 5.1: Contribution of Property Tax in Municipal Revenues**

Municipality		1996-97	1997-98	1998-99	1999-00	2000-01	Total for 5 Yrs
Dehradun M Corp	House tax	159.10	137.66	158.80	209.30	235.38	900.24
	Own Revenue	216.86	231.32	208.18	285.13	355.23	1296.72
	%	<b>73.37</b>	<b>59.51</b>	<b>76.28</b>	<b>73.41</b>	<b>66.26</b>	<b>69.42</b>
Nainital MC*	House tax	18.29	26.34	26.40	26.51	27.97	125.51
		(39.39)	(53.81)	(56.47)	(54.95)	(55.83)	(260.45)
	Own Revenue	94.23	107.78	123.55	136.37	126.31	588.24
	%	<b>19.41</b>	<b>24.44</b>	<b>21.37</b>	<b>19.44</b>	<b>22.14</b>	<b>21.34</b>
	<b>(41.80)</b>	<b>(49.93)</b>	<b>(45.71)</b>	<b>(40.29)</b>	<b>(44.20)</b>	<b>(44.28)</b>	
Pauri MC	House tax	3.04	7.10	5.83	6.08	7.09	29.14
	Own Revenue	11.27	14.47	12.61	11.35	16.00	65.70
	%	<b>26.97</b>	<b>49.07</b>	<b>46.23</b>	<b>53.57</b>	<b>44.31</b>	<b>44.35</b>
Rishikesh MC	House tax	17.84	14.93	20.49	29.05	41.04	123.35
	Own Revenue	44.64	58.29	90.12	76.02	67.66	336.73
	%	<b>39.96</b>	<b>25.61</b>	<b>22.74</b>	<b>38.21</b>	<b>60.66</b>	<b>36.63</b>
Rudrapur MC	House tax	8.75	9.90	12.91	22.23	21.02	74.81
	Own Revenue	49.50	45.79	42.37	58.35	55.57	251.58
	%	<b>17.68</b>	<b>21.62</b>	<b>30.47</b>	<b>38.10</b>	<b>37.83</b>	<b>29.74</b>
Didihaat NP	House tax	1.28	2.14	1.30	0.90	2.43	8.05
	Own Revenue	2.57	3.17	2.43	2.38	4.91	15.46
	%	<b>49.81</b>	<b>67.51</b>	<b>53.50</b>	<b>37.82</b>	<b>49.49</b>	<b>52.07</b>
Gauchar NP	House tax	0.67	0.36	0.54	0.94	0.57	3.08
	Own Revenue	1.53	0.98	1.56	2.25	2.44	8.76
	%	<b>43.79</b>	<b>36.73</b>	<b>34.62</b>	<b>41.78</b>	<b>23.36</b>	<b>35.16</b>
Jhabreda NP	House tax	1.84	3.30	3.05	2.95	3.43	14.57
	Own Revenue	3.94	5.90	6.57	7.42	7.71	31.54
	%	<b>46.70</b>	<b>55.93</b>	<b>46.42</b>	<b>39.76</b>	<b>44.49</b>	<b>46.20</b>
Sultanpur NP	House tax	0.45	0.31	0.05	0.38	0.13	1.32
	Own Revenue	5.96	4.21	6.58	6.94	11.00	34.69
	%	<b>7.55</b>	<b>7.36</b>	<b>0.76</b>	<b>5.48</b>	<b>1.18</b>	<b>3.81</b>
Total	House tax	211.26	202.04	229.37	298.34	339.06	1280.07
	Own Revenue	430.50	471.91	493.97	586.21	646.83	2629.42
	%	<b>49.07</b>	<b>42.81</b>	<b>46.43</b>	<b>50.89</b>	<b>52.42</b>	<b>48.68</b>

\* In case of Nainital Municipal Council, the scavenging tax is linked to the annual value and figures in ( ) gives the composite figure inclusive of scavenging tax.

Source: Municipal Budgets for the 5 years

## 5.2 Assessment Indicators

The performance of municipalities with respect to the assessment indicators can be assessed on the basis of five indicators of tax rate, % of properties that are assessed, average demand per property, per capita demand and % of properties in the assessment list with zero tax.

Table 5.2 presents the comparative picture of the assessment indicators for the 9 municipalities studied.

**Table 5.2: Assessment Indicators**

Name of Municipality	Assessment Indicators				
	Tax Rate	Assessed Properties%	Average Demand per Property	Per capita Demand	% of properties with zero tax
Dehradun M Corp	12.5%	55.02	247	48	8.65
Nainital MC					
Without scavenging tax	12.5%	61.30	729	106	1.02
With scavenging tax	12%		1429	208	
Pauri MC	5%	44.72	93	30	37.81
Rishikesh MC	10%	54.99	259	54	2.36
Rudrapur MC	10%	68.75	180	30	0.00
Didihaat NP	5%	62.66	195	42	0.93
Gauchar NP	5%	23.94	35	7	0.00
Jhabreda NP	10%	96.54	147	41	NA
Sultanpur NP	5%	69.58	37	6	0.24

Source: Survey of Municipalities for the Study, Census 2001

The indicators related to the tax rate and % of assessed properties does give an indication of the comparative performance of the municipalities. Though, a comparative picture for the 9 municipalities is available but comparing the per capita demand, average demand per property and % of properties with zero tax in terms of absolute figures does not reflect a true comparative picture of the performance of these municipalities as the town character and the case specificities have a very important role in guiding these indicators.

For instance, Nainital, which has the highest per capita and average demand per property, is an outcome of the tourist and administrative character of the town, because of which there are number of hotels and government establishments (approx. 3% of the total properties) and the revenue from these account for 40% of the house tax revenue. In case of Dehradun Municipal Corporation, the per capita demand of Rs. 48 is attributed to the fact that a large number of

properties and the population are contributed by the new areas included in the municipal limits in 1999, which are exempted as per the provisions of the Corporation Act.

The second set of assessment indicator based on the field survey, which assess the level of under assessment with respect to the ground level assessment has been analyzed from two perspectives, first based on the results of the sample rented properties and second, based on the average market rents for different size of properties using number of rooms as the basis based on the results of the surveys.

The under assessment of house tax (Table 5.3) has been worked out on the basis of the assessment of house tax as per the tax rate applicable in a particular municipality and the annual value derived from the rents reported by the tenants in the survey and the actual property tax imposed by the municipality.

**Table 5.3: Under Assessment of House Tax in case of Rented Properties**

Name of the Municipality	% of sample properties with tenants	Under Assessment for the properties (%) as per rents recorded during the field survey
Dehradun M Corp	4.60	53.00
Nainital MC	22.55	50.26
Pauri MC	23.80	79.32
Rishikesh MC	12.21	39.72
Rudrapur MC	10.52	42.25
Didihaat NP	9.00	27.00
Gauchar NP	42.86	87.00
Jhabreda NP	20.40	22.45
Sultanpur NP	11.11	61.34

Source: Field Survey of Sample Properties for the Study

The analysis of data related to the underassessment of the house tax is based on the sample properties, which were rented out. The limitation of this assessment is that the tax assessment of the owner occupied residences cannot be made on the basis of the rent which has been adopted by the assessment staff for the purpose of calculation of annual value.

However, the analysis certainly gives an indication of the level of under assessment and even the assumption that the similar trends would be applicable for owner occupied residential houses would give a fairly good idea about the level of under assessment on a realistic basis.

In addition, the properties where a part of the building is rented out, the assessment again presents a partial scenario of the level of underassessment. As, the properties falling under the purview of rent control act and the properties with very old tenants also form the part of the analysis, the under assessment calculated through this method has limitations.

The analysis of underassessment of house tax based on the estimation of property tax using average market rents and the analysis of the data related to number of rooms is given in Table 5.4.

**Table 5.4: Estimation of Under Assessment based on Average Market Rents and Size of the Property**

Name of Municipality	Estimation of Under Assessment			
	Existing Demand Rs. in Lakh	Estimated Demand Rs. in Lakh	Under Assessment	Ratio of Estimated and Existing demand
Dehradun M Corp	215.80	929.47	76.78	4.31
Nainital MC	40.80	117.61	65.31	2.88
Pauri MC	7.52	12.90	41.71	1.72
Rishikesh MC	32.01	93.23	65.67	2.91
Rudrapur MC	27.00	64.59	58.20	2.39
Didihaat NP	2.01	3.43	41.40	1.71
Gauchar NP	0.50	1.91	73.82	3.82
Jhabreda NP	3.86	11.13	65.32	2.88
Sultanpur NP	0.44	2.24	80.36	5.09

Source: Estimation based on Field Survey

The underassessment estimated through both the methods has a very similar kind of pattern, however, the estimation of under assessment using the existing tax rates and the average rental values for different size of houses based on the number of rooms is higher in most of these 9 cases as compare to the estimation based on the rented properties alone.

The main reason for this variation in the results using the two methods is due to the much higher level of under assessment in case of owner occupied properties for which the under assessment is not possible to assess using the first method.

In other words, as per the existing tax rates, the tax assessment shall be 1.72-4.31 times in case of the municipal corporation and municipal councils whereas in case of nagar panchayats, Didihaat and Jhabreda has potential to double the tax and Gauchar and Sultanpur has potential to raise their revenues by almost 1.71-5.09 times the existing revenues.

However, these estimates do not take into account the un-assessed properties and the tax rate rationalization across different municipalities.

The third set of assessment indicators includes the relationship between the realisable revenue vis-à-vis the budget estimates that a particular municipality considers as a part of its financial planning exercise.

Table 5.5 clearly shows that the projections of revenues from the house tax in the budget statements have no correlation with the arrears and the demand of the house tax for a particular year.

**Table 5.5: Demand Status and Budget Estimates of Revenue from House Tax**

Rs. in Lacs

Name of the Municipality	Demand status (including arrears) vis-à-vis Budget Estimates				
		1997-98	1998-99	1999-00	2000-01
Dehradun MCorp	Demand	319.00	333.31	343.00	315.98
	Budget Estimates	230.00	230.00	230.00	230.00
Nainital MC	Demand	49.58	54.14	57.32	67.16
	Budget Estimates	35.00	40.00	40.00	40.00
Pauri MC	Demand	13.02	10.20	11.87	13.03
	Budget Estimates	6.00	8.00	8.00	7.00
Rishikesh MC	Demand	NA	29.27	39.10	47.98
	Budget Estimates	35.00	50.00	62.50	62.50
Rudrapur MC	Demand	18.82	17.32	31.2	35.97
	Budget Estimates	14.65	18.00	20.00	25.00
Didihaat NP	Demand	3.69	3.56	4.27	5.38
	Budget Estimates	NA	NA	0.75	3.50
Gauchar NP	Demand	1.40	1.42	1.46	1.03
	Budget Estimates	0.90	1.39	1.40	1.03
Jhabreda NP	Demand	4.66	4.91	4.97	4.21
	Budget Estimates	4.65	4.95	NA	5.02
Sultanpur NP	Demand	0.54	0.67	1.06	1.12
	Budget Estimates	1.50	NA	NA	NA

Source: Budget Statements of Municipalities and the Survey Performa filled by the Municipalities

Above table shows two unique patterns in the demand and budget estimates across different municipalities. In case of Dehradun, Nainital, Pauri and Rudrapur, the budget estimates are lower than the actual revenue that can be realized whereas in case of Rishikesh, the budget estimates are much higher than the actual realizable revenues from the tax.

### 5.3 Collection Indicators

The Collection Indicators have been classified into three following broad categories:

- Growth trends in actual realization of revenues from the house tax and the per capita revenues from house tax
- Collection efficiency
- Status of arrears and efforts made towards realization of arrears

The first set of indicator comprising of the growth trends in revenue realization from house tax and the per capita revenues from the house tax for the past 5 years is given in Table 5.6.

**Table 5.6: Trends in Revenues from House Tax and Per Capita Revenues**

Name of Municipality		1996-97	1997-98	1998-99	1999-00	2000-01	Growth in 5 Years
Dehradun M Corp	House tax	159.1	137.66	158.8	209.3	235.38	
	% Change		-13.48	15.36	31.80	12.46	47.94
	Per Capita	42	35	39	49	53	
Nainital MC	House tax	18.29	26.34	26.4	26.51	27.97	
	% Change		44.01	0.23	0.42	5.51	52.93
	Per Capita	52	73	72	70	73	
Pauri MC	House tax	3.04	7.1	5.83	6.08	7.09	
	% Change		133.55	-17.89	4.29	16.61	133.22
	Per Capita	13	30	24	25	29	
Rishikesh MC	House tax	17.84	14.93	20.49	29.05	41.04	
	% Change		-16.31	37.24	41.78	41.27	130.04
	Per Capita	33	27	36	50	69	
Rudrapur MC	House tax	8.75	9.9	12.91	22.23	21.02	
	% Change		13.14	30.40	72.19	-5.44	140.23
	Per Capita	11	12	16	26	24	
Didihaat NP	House tax	1.28	2.14	1.3	0.9	2.43	
	% Change		67.19	-39.25	-30.77	170.00	89.84
	Per Capita	30	48	29	19	51	
Gauchar NP	House tax	0.67	0.36	0.54	0.94	0.57	
	% Change		-46.27	50.00	74.07	-39.36	-14.93
	Per Capita	11	6	8	13	8	
Jhabreda NP	House tax	1.84	3.3	3.05	2.95	3.43	
	% Change		79.35	-7.58	-3.28	16.27	86.41
	Per Capita	21	37	34	32	37	
Sultanpur NP	House tax	0.45	0.31	0.05	0.38	0.13	
	% Change		-31.11	-83.87	660.00	-65.79	-71.11
	Per Capita	6	4	1	5	2	

Source: Municipal Budgets for the 5 years

The Table clearly indicates that there has not been a uniform growth in terms of revenue realization over a period with most of the municipalities even showing a decline in revenues realized in particular years with an exception of Nainital. A sudden increase in the growth rate is a reflection of the revision/ reassessment in that particular year or an improved collection due to recovery of arrears.

The second set of indicators related to collection efficiency have been analyzed with respect to the actual realizable demand for a particular year including arrears and against the projections made in the budget estimates (Table 5.7). Table 5.7 clearly shows that the municipalities with under projections in the budget estimates have collection efficiencies of over 100% as the actual realizable demand was higher in actual and vice versa.

The collection efficiency against the actual realizable demand is a true reflection of the performance of the municipalities with respect to the collection efficiency. Dehradun and Rishikesh have shown improvements in collection efficiency over past four years whereas in case of other municipalities, there is no uniform pattern with up and down graph of collection efficiency over the years.

**Table 5.7: Collection Efficiency against Demand and Budget Estimates**

Name of the Municipality	Collection Efficiency against actual demand and budget estimates				
	Collection %	1997-98	1998-99	1999-2000	2000-2001
Dehradun M Corp	Against Demand	43.15	47.64	61.02	74.49
	Against Budget	59.85	69.04	91.00	102.34
Nainital MC	Against Demand	53.13	48.76	46.25	41.65
	Against Budget	75.26	66.00	66.28	69.93
Pauri MC	Against Demand	54.53	57.16	51.22	54.41
	Against Budget	118.33	72.88	76.00	101.29
Rishikesh MC	Against Demand	NA	70.00	74.30	85.54
	Against Budget	42.66	40.98	46.48	65.66
Rudrapur MC	Against Demand	52.60	74.54	71.25	58.44
	Against Budget	67.58	71.72	111.15	84.08
Didihaat NP	Against Demand	57.99	36.52	21.08	45.17
	Against Budget	NA	NA	120.00	69.43
Gauchar NP	Against Demand	25.71	38.03	64.38	55.34
	Against Budget	40.00	38.85	67.14	55.34
Jhabreda NP	Against Demand	70.82	62.12	59.36	81.47
	Against Budget	70.97	61.62	NA	68.33
Sultanpur NP	Against Demand	57.41	7.46	35.85	11.61
	Against Budget	20.67	NA	NA	NA

Source: Based on budgets of the municipalities and data collected from municipal records



Table 5.8 presents the status of arrears as reported by the municipalities for the past 4 years, however, there are certain discrepancies in the figures of arrears reported by most of the municipalities, once the same are compared with the actual revenues realized from the house tax under the budget statement and the way arrears have been carried forward, which clearly reflects the level and quality of data compilation and management in the municipalities.

The approach adopted in the municipalities with respect to handling arrears is also a reflection of the state of financial management and the way. Considering the figures for the base arrears provided by the municipalities as correct and subsequently considering the actual revenues realized from the house tax as per the budget statements and the demand for a particular financial years, the corrected status of arrears is given in Table 5.8.

**Table 5.8: Status of Arrears in Property Tax/ House Tax**

Rs. in Lacs

Name of the Municipality	Status of Arrears in Property Tax/ House Tax			
	1997-98	1998-99	1999-00	2000-01
Dehradun M Corp	139.00	156.14 (181.34)	154.00 (199.71)	100.18 (179.41)
Nainital MC	16.16	19.05 (23.25)	22.29 (31.94)	26.36 (40.16)
Pauri MC	7.89	5.08 (6.01)	4.37 (5.30)	5.51 (6.74)
Rishikesh MC	NA	13.95	8.78 (25.47)	7.66 (28.43)
Rudrapur MC	0.78 (10.42)	0.50 (8.92)	2.75 (4.41)	5.53 (8.97)
Didihaat NP	1.68	1.55	3.56 (2.27)	4.27 (3.38)
Gauchar NP	1.02	1.00	0.96	0.53
Jhabreda NP	0.92	1.17 (1.36)	1.23 (2.05)	0.47 (2.84)
Sultanpur NP	0.10 (0.54)	0.23 (0.67)	0.67 (1.06)	0.74 (1.12)

The data related to the collection of arrears and the collection against the current demand is not being compiled as except Dehradun, no other municipality could provide the segregated data for the collection of arrears and collection against the current demand. Variations in the demand status of arrears up to 10-20% could be due to the rebate provided by the municipalities on the demand for the current year but the variations beyond this range certainly reflects the poor management and lack of compilation of records related to arrears. Thus the actual arrears would be between the two figures presented in the above Table.

Table 5.9 presents the status of arrears as percentage of demand from the house tax based on the arrears reported by the municipalities.

**Table 5.9: Arrears as a % of Property Tax/ House Tax Demand**

Name of the Municipality	Status of Arrears in Property Tax/ House Tax			
	1997-98	1998-99	1999-2000	2000-2001
Dehradun M Corp	43.57	46.85	44.90	31.70
Nainital MC	32.59	35.19	39.41	39.25
Pauri MC	60.60	49.80	36.82	42.29
Rishikesh MC	NA	47.66	22.46	15.96
Rudrapur MC	23.84	8.40	1.83	9.32
Didihaat NP	45.53	43.54	83.37	79.37
Gauchar NP	72.86	70.42	65.75	51.46
Jhabreda NP	19.74	23.83	24.75	11.16
Sultanpur NP	18.52	34.33	63.21	66.07

Even as per the reported status of arrears by the municipalities, the amount of arrears, in case of the municipal corporation and the municipal councils, stands at nearly one third of their existing demand levels whereas in case of nagar panchayats, the amount of arrears are nearly two third of the demand for one year with an exception of Jhabreda.

#### **Major Contributors to Arrears: Detailed Study of Nainital Municipal Council**

In order to understand the pattern of arrears and the major contributors to the arrears, a detailed analysis was taken up in case of Nainital Municipal Council by recording the status of arrears for the properties with tax above Rs. 5000. Out of 42 properties, 21 properties belong to the government/ semi government departments. The break-up of the number of properties with arrears and the number of years for which the tax has not been paid are given below.

Type of property	Number of Years					
	1	2	3	4	5	>5
Private	6	1	5	4	4	1
Government	7	5	5	1	2	1

The contribution of arrears of only 42 properties out of 106 properties with tax above Rs. 5000, is Rs. 17.55 lacs, which is nearly two third of the total arrears of the municipality in the year 2001. The amount of arrears of the government/ semi-government department accounts for Rs. 5.15 lacs whereas the arrears of private properties are Rs. 12.40 lacs.

The other important collection indicator is the action initiated/ taken by the municipality for the recovery of arrears. Table 5.10 gives the status of action taken by the municipalities against defaulters.

**Table 5.10: Actions taken by the Municipality against Defaulters**

Name of the Municipality	Number of Defaykters	Action taken by Municipality			
		Notices Issued	Letter for RC to DM	RC Issued	Court Case
Dehradun M Corp	6864	5500	1122	1122	242
Nainital MC	NR	NR	NR	NR	NR
Pauri MC	621	200	72	72	2
Rishikesh MC	NR	NR	NR	NR	NR
Rudrapur MC	30	30	30	Pending	-
Didihaat NP	15	15	15	15	-
Gauchar NP	141	16	16	16	-
Jhabreda NP	180	70	29	27	-
Sultanpur NP	800	800	-	-	-

Except for Dehradun, Rudrapur and Didihaat, other municipalities have not initiated action against all the defaulters. The reasons reported by various smaller municipalities are that there are large numbers of properties with very small amount of arrears due to very low tax, the cost of initiating action is higher than the tax and shortage of manpower. For instance, Gauchar has reported that the properties with less than Rs. 500 arrear are not issued notices even.

#### **5.4 Fiscal Efficiency**

The fiscal efficiency of property/ house tax has been assessed with respect to its cost of collection. As already mentioned, house tax/ property is the largest contributor to the revenues of municipalities from their own sources. Table 5.11 presents the status of revenues generated by the municipality vis-à-vis total expenditure on the salary of the staff of the municipality and the demand from house tax vis-à-vis expenditure towards collection of the house tax for the year 2000-2001.

Table 5.11: Fiscal Efficiency of Property/ House Tax

Name of the Municipality	Fiscal Efficiency					
	Own Revenue	Expenditure on salary	Ratio R1	House Tax Demand	Expenditure on collection	Ratio R2
Dehradun M Corp	355.23	886.16	40.09	215.80	188.19	87.21
Nainital MC	126.31	284.07	44.46	40.80	5.25	12.87
Pauri MC	16.00	37.58	42.58	7.52	4.96	65.96
Rishikesh MC	67.66	139.22	48.60	32.01	33.33	104.12
Rudrapur MC	55.57	114.87	48.38	27.00	5.31	19.67
Didihaat NP	4.91	7.20	68.19	2.01	0.29	14.43
Gauchar NP	2.44	2.47	98.79	0.50	0.48	96.00
Jhabreda NP	7.71	6.11	126.19	3.86	1.41	36.53
Sultanpur NP	11.00	11.05	99.55	0.44	0.60	136.36

\*- including scavenging tax

Source: Based on budgets of the municipalities and data collected from municipal records

The Table above is based on the figures for the year 2000-2001 and clearly indicates that the municipal corporation and the municipal councils are hardly able to generate 40-50% of the salary expenditure from their own revenues. In case of Nagar Panchayats, 3 out of the 4 nagar panchayats studied are almost able to manage their existing wage bill but these are primarily due to the high revenues from the rental and other non-tax revenues.

The collection charges for the house tax also account for over 65% of the house tax demand in case of municipal corporation and the municipal councils with an exception of Nainital and Rudrapur, where these are about 13 and 20% respectively. The lower percentage of expenditure on collection of taxes in case of Nainital is primarily due to the fact that the municipality is charging 24.5% tax including scavenging tax and the per capita revenue from tax is high due to large number of hotels etc. In case of Rudrapur, the improvements in the demand from the tax and improved tax management within the existing institutional framework has helped the municipality in improving the ratio substantially, compare to the figures of 1998-99, where the ratio was of the similar pattern as other municipalities. In case of Nagar Panchayats, Sultanpur and Gauchar are hardly able to meet out the expenses related to the collection whereas in case of Didihaat and Jhabreda, the ratios are low primarily due to the high per capita demand in case of these municipalities.

## 5.5 Potential of Property Tax

The potential of property tax has been assessed for the selected municipalities using two alternative approaches.

Under the first method, the under assessment of house tax in case of rented properties derived from the analysis of sample properties has been used with the assumption that the under assessment for the owner occupied properties would be of similar pattern as rented properties.

The estimates have been made for the two scenarios, first when no changes are made in the existing acts and the government orders and second, when the necessary legal and policy reforms are introduced. The major impact of the change in the Act and the government orders would be applicable in case of Dehradun and Pauri, whereas defining clear cut guidelines for taxation of slums/ unauthorised colonies would have bearing on all the municipalities. The Table 5.12 gives the potential of property tax in the 9 municipalities.

**Table 5.12: Potential of Property Tax using the Under Assessment arrived at using Rented Properties**

Name of Municipality	Existing Demand	Under Assessment	% of unassessed property	Estimated Demand Without any state intervention	Estimated Demand with state intervention	Ratio R1 (Col5/ Col2)	Ratio R2 (Col6/ col2)
1	2	3	4	5	6	7	8
Dehradun M Corp	215.80	53.00	44.98	477.92	710.65	2.21	3.29
Nainital MC	40.80	50.26	38.70	107.92	116.72	2.65	2.86
Pauri MC	7.52	79.32	55.28	51.20	66.49	6.81	8.84
Rishikesh MC	32.01	39.72	45.01	74.83	82.22	2.34	2.57
Rudrapur MC	27.00	42.25	31.25	57.38	60.99	2.13	2.26
Didihaat NP	2.01	27.00	37.34	3.57	3.85	1.78	1.92
Gauchar NP	0.50	87.00	76.06	9.96	12.03	19.92	24.06
Jhabreda NP	3.86	22.45	3.46	5.07	5.10	1.31	1.32
Sultanpur NP	0.44	61.34	30.42	1.39	1.47	3.16	3.34

The above estimates have been made using the following steps:

- Application of the correction factor for the under assessment of properties
- Estimation of the number of unassessed properties that can be brought under the tax net without any intervention of the state government, considering the legal and other case specific constraints in case of Dehradun (5% as all the owner occupied residential houses

in the newly included area are exempted for 10 years) and Pauri (33% as 9 wards are exempted due to an old government order) and for other municipalities assuming that at least 50% of the unassessed properties can be brought under the tax net.

- If the state government makes intervention in terms of changes in the act and other policy measures, the number of unassessed properties that all the municipalities would be able to bring under the tax net has been assumed at 67%.

Under the second method of assessment, the assessment of potential of property tax has been made using the estimated demand derived on the basis of calculation of property tax on the basis of % of existing properties with different number of rooms and the prevailing market rents for different size of properties. The correction factors on the estimated demand have been applied only for the unassessed properties using the same principles as applied under Method 1. Table 5.13 presents the potential of property tax using the market rents.

**Table 5.13: Potential of Property Tax using the Market Rents and Size of the Property**

Name of Municipality	Potential of Revenue from House Tax					
	Estimated demand for the existing assessed properties (Rs. in lacs)	% of unassessed properties	Estimated demand without any state intervention	Estimated demand with state intervention	Ratio R1(Col 4/2)	Ratio R2(Col 5/2)
1	2	3	4	5	6	7
Dehradun M Corp	929.47	44.98	967.46	1438.59	4.48	6.67
Nainital MC	117.61	38.70	154.73	167.36	3.79	4.10
Pauri MC	12.90	55.28	18.16	23.59	2.42	3.14
Rishikesh MC	93.23	45.01	131.39	144.36	4.10	4.51
Rudrapur MC	64.59	31.25	79.27	84.26	2.94	3.12
Didihaat NP	3.43	37.34	4.45	4.80	2.21	2.39
Gauchar NP	1.91	76.06	4.94	5.98	9.89	11.95
Jhabreda NP	11.13	3.46	11.33	11.40	2.94	2.95
Sultanpur NP	2.24	30.42	2.73	2.90	6.20	6.58

Even considering the lower values of the ratios R1 and R2 derived from the two methods, the property tax in the municipalities has a very high potential compared to their existing levels and even without any intervention by the state, the potential in case of the municipal corporation and the municipal councils is between 2-3 times the existing levels and almost similar pattern can be observed across nagar panchayats with an exception of Gauchar. If the municipalities with tax rate of 5% rationalise their tax rates in context of the other municipalities, the potential in these cases would be double the existing potential.



## CHAPTER 6

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### STAKEHOLDER VIEWS, PERCEPTIONS AND SUGGESTIONS

The study has tried to map out the views and perceptions of various stakeholders, particularly the taxpayers and members of the municipal staff. The way the stakeholders look at the tax to be assessed and collected has a bearing on how it gets done in actual practice. The survey also brought forth specific suggestions made by the stakeholders for the improvement of the property tax system in general and in the context of their respective municipal organizations in particular.

#### 6.1 Elected Officials

There is a view, particularly among the chairpersons of the municipal bodies, though also shared by other municipal councilors, that the state government must take a lead in formulating the guidelines for the implementation of reforms in house tax. Some even expressed their inability to impose/ improve the house tax at the level of the municipality till the state government issues the necessary guidelines/ rules, as there would be comparatively lesser resistance from the public, if the rules are issued by the state.

In view of most of the Chairpersons, the taxation staff needs training for the assessment processes and the collection mechanisms besides training on values, communication skills and behavioral aspects.

The responses regarding the involvement of external agency in the process of tax assessment was generally resisted by the Chairpersons except in one case where there is a shortage of staff and the reasons indicated include lack of understanding of external agency about the local situation and aspirations of people, the taxation staff would not be left with any work and the democratically elected body would not have any significance.

The suggestions given by the Chairpersons for the improvement in the property tax system are:

- There is a need for a clear-cut and uniform policy across the state for the imposition of house tax on the unauthorised colonies, disputed land, slums, Dharamshalas/ Ashrams and villages in urban limits etc.
- Computerisation of property tax records. Differential (higher) tax structure for commercial buildings. The tax on commercial units can be based on the area.



- Imposition of house tax on public schools.
- Simplified formula for house tax rather than a complex system, which a common man can understand.
- The state government must frame rules in this regard to ensure uniformity across different local bodies with certain flexibility at the local level so that the local representatives can decide based on the local situation and within the overall framework.
- Every citizen/ building must pay the tax including the poor, which may be fixed at certain minimum flat rate.

Regarding the role of councilors in the taxation process, there are generally two types of views - first, where councilors did not see any role of councilors in the taxation process, and second, where councilors felt that they can play an important role in enhancing the revenues of the municipality by encouraging people to pay their taxes timely, ensuring that every property in their ward is assessed, if they are involved in the assessment and the collection processes. Though, the % of respondents in the second category was about 10% only.

There have been a larger percentage of councilors who favored reduction in tax or granting of exemptions and also expressed their concern about the taxation policy for the poor, though some also felt that the tax should be imposed on all the buildings including slums, dharamshalas (as these are being used for commercial purposes) etc.

Regarding transparency in the taxation process and sharing of information with the councilors, there were two extremely distinct types of responses even within the same municipality. Some councilors responded very positively about access to the information related to municipality in general and taxation in particular, while the response from some others was extremely negative. This primarily appears to be an outcome of the local political dynamics and lack of assertiveness on part of the councilors due to limited knowledge and skills in municipal affairs.

There have been some efforts towards the training of the women councilors in Uttaranchal by the Academy of Administration during the year 2000-2001, where municipal finance was one of the focus areas. The training was organized after nearly three years of the elections of the municipalities and the councilors felt that if the training was organized immediately after the elections, they could have been better equipped to help in the revenue enhancement. There was no training organized for the men councilors in the municipalities.

The responses of the councilors related to the assessment process and their role in the taxation reveals that the councilors, especially in case of nagar panchayats and small municipalities, have very limited knowledge about the municipal taxation systems.

Some of the ideas, as available in the responses given by the Councilors for the improvement in the property tax system, include:

- Taxation of buildings, which are unregistered due to their unauthorised nature and assessment of other un-assessed properties. There should be a tax on vacant land and the houses falling in villages within municipal limits.
- Certain minimum taxes on every building in the municipality, whether it is a slum or dharamshala or any other building, shall be imposed.
- Sharing of decisions of tax committee in the council meetings and fixing the guidelines for the tax committee.
- The accountability of tax staff should be fixed for false assessment and there should be a provision for punishment, especially where there are large variations in the tax value of two similar types of properties.
- There should be a transparent process for the assessment of tax so that leakages in the taxation process can be checked.
- The water tax should be de-linked from the house tax.
- Involvement of elected representatives in the assessment process as they are better aware about the buildings in their respective wards and also sharing of assessment information and status of property tax collection on the basis of wards to the respective municipal councillors.
- Higher tax on commercial establishments and richer people and taxing the poor at the lower rates.
- There should be awareness campaigns from time to time to inform the citizens about the taxation process and sharing of the information related to the utilisation of tax revenues for the provision of services by the municipality.
- Tax collection should be a continuing process and there should be a provision of strict measures against defaulters.
- Every citizen must have right to present his view in the taxation process.

- The taxation should be linked to the provision and level of services provided to the citizens in their wards.
- The tax should be based on the area of the land and building. The number of rooms should be considered while assessing the tax.
- There should be instructions from the government to all its departments to pay the house tax in time.
- There should be uniformity in the tax assessment and tax rates in all the municipalities.
- The house tax system should be simplified.
- The taxation should be based on the principles of equity.

## **6.2 Executive Officers**

As per the perceptions/ views of the executive officers:

- The self-tax assessment system should be introduced as it would help in minimizing the discretionary assessments and make the owner/ taxpayer accountable for the assessment of tax.
- The formula should be common for all the municipalities and developed at the state level.
- The perception about the implications of introduction of self-tax assessment on the revenue of the municipality was positive. They also felt that the taxation staff and the other officials would need to be trained for the implementation of the new system, who in turn would need to make the people aware and train them for filing their tax assessment returns.
- The indicators suggested for the introduction of self-tax assessment include covered area, quality of construction, use of the building, ownership status, cost of construction, condition of the locality, and age of the building.
- The shift in role of taxation staff as envisaged by the Executive Officers in case of implementation of the self tax assessment system include training of people to file their tax returns, help them in filling the tax assessment forms, checking the correctness of the forms submitted by the owners/ tax payers and dedicate more time in the tax collection.

Regarding the role of state government in the taxation process most of the Officers felt that the State Government has an important role with respect to the following aspects:

- Development of uniform system of house tax for all the municipalities of the state and framing the rules/ guidelines for the same.
- Deciding the targets for the revenues from the house tax, monitoring of the performance of the municipalities and extending technical/ administrative support to the municipalities not performing as per the desired standards.
- Amend the municipal acts to implement the proposed system of property tax.
- Developing the incentive system at the state level for good performing municipalities and staff.
- Nomination of one officer from the revenue department at the time of assessment process.

The Executive Officers in most municipalities were of the view that the tax staff is not fully skilled and equipped for the taxation system due to lack of training arrangements for the local level staff of the municipalities. The training needs/ skills suggested by them include preparation of simple building plans, calculation of area, collection mechanisms, and the behavioral skills of communication, motivation etc.

Regarding the involvement of independent agency for the assessment of tax, there were different views of the Executive Officers including (1) no need for an independent agency, (2) committee comprising of the surveyor, EO, ward member, Chairperson and Officer from the Revenue Department, (3) Committee comprising of the Tax Inspector of the municipality and tax inspector nominated by State Government from the Centralized Services, and (4) Involvement of independent private agency for the house-listing and survey work to ensure better coverage and fair assessment.

As regards the computerization of house tax records, Officers of some smaller size municipalities (some nagar panchayats) were of the view that the financial burden involved in computerization would be much higher than the returns. Moreover, they also felt that the current workload was well within manageable limits of existing staff. However, they did agree that computerization would help in better management of records and monitoring of the performance.

The suggestions made by the Executive Officers of the municipalities include:

- Involvement of Executive Officer in the hearing process as a part of the tax committee.
- Introduction of self-tax assessment system.
- Development of uniform formula for imposition of house tax for all the municipalities of the state and framing the rules/ guidelines for the same.
- Provisions of penalty/ punishment against the tax committee in case of fault.
- The Executive Officer shall be made responsible for fairness in the tax assessment and there shall be a provision for punishment for the Executive Officers also.
- Tax assessment by independent agency.
- The qualification for tax inspectors must be at least degree in law and he should be part of the tax committee.
- There should be a provision of penalty for the owners of the house giving false information as well as for those who are not depositing the tax in time.
- The reassessment process should be taken up every 3 years instead of five years.
- There should be no interference of the council and the elected representatives in the tax assessment process (though it is against the spirit of 74<sup>th</sup> Constitutional Amendment Act).
- The tax assessment process should be carried out under the supervision of revenue officer.

### **6.3 Tax Staff**

The survey of the tax staff was targeted to assess their existing capacities and the need for training and capacity building for the introduction of reforms in the property tax system. The assessment reveals:

- By and large, most of the tax staff in the municipal corporation and municipal councils know that the house tax is assessed based on the rent or value of the building but situation is not the same in case of nagar panchayats.
- But even at the level of corporation and the councils, there are large variations in the understanding of the taxation system and assessment process amongst the staff, which was

quite evident from the kind of indicators mentioned by them for assessing the tax. Some of the indicators mentioned include paying capacity of the owner, level of services, lower ARV for owner occupied houses than the rented houses, condition of the house, muscle power of the owner and safety of the tax staff, potential for collection, judgment about the rent, etc.

- Use of very high degree of discretion in the taxation process due to lack of clearly laid down simple rules/ guidelines for the imposition of house tax in many municipalities.
- The major reasons for this large variation in the understanding of the taxation system include (1) lack of formal training of tax staff, (2) staff hired on contract or redeployed from other sections for tax related functions without any training, and (3) the understaffing in certain cases leading to allocation of tax related responsibilities in addition to other tasks.
- Due to lack of formal training and the clear understanding of the tax assessment processes, the tax assessment staff in certain cases have developed their own mechanisms and some even responded that the assessment has been made by assessing how much a particular person can pay as tax, which is certainly beyond the purview of tax staff, either as per the provisions of the act or administratively. If tax staff has to decide about the tax paying capacity then the need of the rules or any system of property tax has no use.
- Some tax staff informally shared that there is no accountability of the tax staff for faulty assessments and hence the tax revenues are low.
- The tax staff in most municipalities was particularly apprehensive about the introduction of the computerized property tax record management due to a fear of the loss of job.
- Though most of the tax staff responded that the existing system is fine, some also suggested that the simple system, which is transparent in nature, should be developed and implemented.

#### **6.4 Citizens/ Tax Payers**

The survey of citizens/ taxpayers was primarily targeted to assess the level of understanding of the common citizen about the taxation process, their level of satisfaction from the services delivered by the municipalities and elicit views on their role in the municipal governance.

- A very small percentage of citizens really understand the complexity of municipal taxation system and very few municipalities have really made efforts to take people into confidence and inform, educate and communicate to them about the taxation system. In case of smaller sized municipalities, the level of awareness about the taxation system is extremely low.
- The citizens find the services provided by the municipalities to be generally quite low in quality and unsatisfactory. The citizens feel that the taxation should be linked to the provision and level of services. If the municipality cannot provide even the basic cleaning services, then they should not increase the tax.
- Besides a general expected response from the citizens of reducing their tax, some useful suggestions that came up during the household survey include, creating awareness amongst citizens about the taxation system, improvement in the system for billing and collection, simplify the taxation system, de-link house tax and water tax, transparency in the assessment system, equity based taxation with rich paying higher tax and poor paying less.
- Besides the sample household surveys, efforts were made to elicit the views of selected citizens from different sections mainly the well educated group through personal contacts but the responses with respect to level of awareness about the taxation system were not very encouraging as most of the people were not aware about the system and the main suggestion was to create mechanism at the municipal level by which the citizen may feel part of the city or the local government system.

*'No taxation without representation' has been an accepted principle worldwide but in the present context of broader economic reforms, we need to accept the reality of the principle of 'No representation without taxation', which is fast emerging as an unwritten practice rather than merely a principle.*



## **CHAPTER 7**

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### **KEY STUDY FINDINGS**

The findings of the study are grouped in three broad categories of taxation process; information management and monitoring; and, personnel management and capacity building. The key findings in these three categories are as follows:

#### **7.1 Taxation Process**

##### **7.1.1 Imposition of Property Tax**

- Despite the statutory constraint of house tax not being mandatory as per the Municipalities Act, house tax remains the major source of revenue for municipal councils in Uttaranchal. The revenue from house tax accounts for nearly 50% of the total revenue on an average for the 9 municipalities studied. However, there are large variations across different municipalities with house tax in case of Dehradun Municipal Corporation accounting for nearly 70%. In case of Municipal Councils, it varies between 21% and 44% across different municipal councils with large linear variations in different financial years. In case of Nagar Panchayats, the trends are similar to the municipal councils.
- There are large variations in the tax rates for the house tax across different municipalities in the state, varying from 3-15% even within the same group of municipalities, as the Municipalities Act does not specify any minimum tax rates. Seven municipalities have not even imposed the tax, as it is not mandatory as per the Municipalities Act.
- Majority of the municipalities have imposed only the house tax. Scavenging tax is imposed in very few municipalities (only one out of the 9 municipalities studied i.e. Nainital). At the state level, only 4 municipal councils and 1 nagar panchayat have imposed scavenging tax, which again is based on the ARV. Thus, the effective variation in the tax rates based on ARV is much larger, 3% to 24.5% (highest in case of Nainital).
- The Corporation Act, yet to be introduced in Dehradun Municipal Corporation (which was upgraded to its present status of Corporation in December 1998 when the revision in the assessment list was under process as per the Municipalities Act.), defines the minimum and maximum limits of the percentage of annual value that can be imposed as tax for the four components of the property tax i.e. general tax, water tax, conservancy tax and drainage tax.

### **7.1.2 Tax Assessment**

- The Corporation Act provides for the assessment of property tax based on the carpet area and minimum monthly rent with considerations for road width and type of construction and deductions linked to the age of the building and occupancy status (own occupied/ rented). It is reported that there has been resistance from the people and the demonstrations and representations were made at the corporation office on the grounds of complexity in the formula provided for the Self Tax Assessment and the system is yet to be introduced in Dehradun.
- The present system of assessment of tax under the Municipalities Act is very archaic and is based on the traditional ARV system linked to the rental value. In case of rented buildings, the under reporting of rents, buildings falling under rent control act and the properties with low rents due to old tenancy are the key factors contributing to low property tax. Whereas in case of owner occupied properties, subjective nature of the tax base (ARV linked to the rent which a property might reasonably be expected to let for the properties that are not let) for the assessment of house tax under the Municipalities Act and absence of any objective guidelines/ method for assessment of rent provides very high degree of discretion for the tax staff. The owner occupied properties account for the largest share of properties in all the municipalities.
- The number of un-assessed properties in the studied municipalities varies from 30% to 76% with an exception of Jhabreda (3%) in different municipalities with an average of nearly 43% un-assessed properties for all the municipalities together. The major reasons for this large percentage of un-assessed properties are:
  - ⇒ ten year exemption from the tax for the owner occupied residential houses in the newly included areas in municipal limits as per Corporation Act (Dehradun).
  - ⇒ the Corporation Act provides a long list of exemptions including exemption to any owner occupied residential building constructed on a plot of land up to 30 sq. meters or having a carpet area up to 15 sq. meters. In case of municipalities, as per their bylaws, several types of exemptions including exemption to all properties with ARV up to Rs. 360/- have been provided.

- ⇒ apprehension at the level of municipalities to impose tax on slums/ unauthorized constructions due to absence of any policy for taxation of slums/ unauthorized constructions and an order of the Hon'ble U.P. High Court for banning new constructions in Garhwal Hill region without fulfillment of certain guidelines. However, Rudrapur has initiated the process of bringing all the slums in the city under the tax net by imposing tax at flat rates of Rs. 40/and Rs. 80/-.
- ⇒ certain case specific old orders from the state government (in Pauri), district administration (in Rishikesh) and decisions of the municipality (in Gauchar) exempting large pockets of the city from taxation.
- ⇒ lack of accountability of the field staff, absence of any incentive/ disincentive system and absence of any performance appraisal mechanism at the state level.
- ⇒ poor property information system and absence of any mechanisms for accessing and sharing information with revenue and other development agencies at the city level
- The under assessment in the house tax has been found across all the municipalities, which on an average is of the order of 60%, with under assessment varying between 40 to 80% across different municipalities. Besides, the common known factors like under reporting of the rents across all the municipalities in the country, the specific reasons for the under assessment of tax are:
  - ⇒ field surveys for the assessment are carried out by the non-centralized staff of the municipalities who are local residents of the city with lot of social/ peer group pressures
  - ⇒ subjective nature of the tax base
  - ⇒ lack of clarity at the level of the field staff regarding the provisions related to fixation of ARV due to lower education levels, lack of capacity building and deployment of octroi staff for house tax related functions without any training for the new task assigned.
  - ⇒ absence of any objective based criteria/ guidelines for reduction in the tax, the Tax Committees have used the powers very liberally in providing exemptions.
- In case of Municipalities Act, the provisions related to fines and penalties for various defaults, misrepresentation and concealment of facts etc. have not been amended for a very long period. However, the Corporation Act has been amended.

### **7.1.3 Billing and Collection**

- As per the Corporation Act, the tenant has been made primarily responsible for the payment of tax, if the property is let in pursuance of an order under the U.P. Urban Buildings (Regulations of Letting, Rent and Eviction) Act, 1972, however, a similar provision has not been made in case of the Municipalities Act. Besides, the issue of liability of property tax for the properties with nominal/very low rent for the old tenants have not yet been addressed.
- Both the Acts provide adequate powers to the municipalities to recover the tax starting from issue of notice to RC and distress sale of the property concerned but there are no standard norms/practice for initiating a particular level of action for recovery of due taxes either in terms of the time frame or amounts.
- There is no provision for any penalty for the late deposit of tax as per the Municipalities Act or the Bylaws. The Corporation Act provides for an interest of 12% for late payment.
- The collection efficiency across the municipalities has generally been quite low (40 to 60 per cent). In addition, the data related to arrear is not being managed and compiled timely.

### **7.1.4 Potential of Property Tax**

The property tax in the municipalities has a very high potential compared to their existing levels and even without any intervention by the state, the potential in case of the municipal corporation and the municipal councils is between 2-3 times the existing levels and almost similar pattern can be observed across nagar panchayats with an exception of Gauchar. If the municipalities with tax rate of 5% rationalise their tax rates in context of the other municipalities, the potential in these cases would be double the existing potential.

## **7.2 Information Management and Monitoring**

### **7.2.1 Information management**

- The information management system in the municipalities is very weak, to the extent that in some of the municipalities studied, even the basic information such as total number of properties in the city, number of properties under different use and number of properties in each municipal ward were not available. Even the municipalities, which could provide ward-wise information on number of properties as per census house listing operations, have not utilized the same for updating of the property tax assessment. The mechanism in

place for updating of information on properties is not sound in any of the municipalities studied due to the following reasons:

- ⇒ updating of the property tax records is dependent on the information supplied by the field staff only without any alternative information updating mechanism from other agencies
- ⇒ powers related to the approval of building plans are not with the municipalities with an exception of Nagar Panchayats, which does not fall in the jurisdiction of any Development Authority/ Regulated Area. Though, the NoC is sought from the municipalities but they do not maintain the records.
- ⇒ there is no mechanism for maintaining the records of the NoCs given by the municipalities for the electricity and water connection.
- ⇒ the municipalities carried out the house listing as a part of the census operations but out of the 9 municipalities studied, only 5 municipalities maintained the records.

### **7.2.2 Property Tax Records**

- There are large numbers of formats/ registers recommended in the municipal manual for the management of property tax records but there are large variations with respect to the usage. The limitations of the existing property tax record management system are:
  - ⇒ the property tax record system is not designed to address the requirements of status tracking of property tax.
  - ⇒ a very limited information is available about the property as per the records of the municipalities as the existing tax assessment system primarily requires information about the rental value of the properties concerned.
  - ⇒ the system is not very conducive from the perspective of monitoring and performance appraisal as well as decision-making.
  - ⇒ the wards/ zones/ circles for the purpose of property tax are not the same as the municipal wards in some of the municipalities leading to difficulties in comparing the actual and assessed properties, identification of pockets/ areas where the properties are un-assessed, and fixing the accountability of the staff.
- There is no co-relation between the actual realizable demand from house tax and the budget estimates prepared by the municipality due to lack of clarity on the status of arrears.

### **7.2.3 Computerization**

- The management of property tax records and the processes are highly labour intensive as these are being handled manually.
- No municipality in the state has gone for computerization for the purpose of property tax records or for any other purpose.

### **7.2.4 Monitoring and Performance Appraisal Systems**

- There are no formal monitoring systems in place at the level of district/ division or the state to evaluate the performance of the municipalities to help the state to take appropriate measures for the improvement in revenues of the municipalities.
- The monitoring system at the municipal level is limited to allocation of targets by the executive officer and review of the same on monthly / quarterly basis without properly recording and minuting the decision making.
- Non-availability of any formal monitoring system at the level of municipalities restricts the management for taking appropriate steps to improve revenue.

## **7.3. Personnel Management and Capacity Building**

### **7.3.1 Personnel management**

There is no clearly thought out policy on personnel management. There are no norms for the deployment of tax staff in municipalities and there are large variations in the availability of tax staff across different municipalities. Majority of the staff in the municipalities is from the non-centralized cadre (local municipal staff) appointed without any defined norms for selection.

- In some of the municipalities, the toll tax staff has been entrusted the responsibility of property tax in order to utilize the available staff.
- There are no promotion avenues for the municipal staff in absence of any kind of HR Policy, leading to lower level of motivation amongst the staff.

### **7.3.2 Capacity building**

A very limited effort has been made to build the capacities of the municipal staff in general and tax staff in particular. There are no opportunities available for the non-centralized staff, which primarily contributes to the tax staff. In absence of any formal training, most of the learning is on the job learning from the old staff and in many cases the under qualified and untrained staff including daily wage staff has been entrusted the responsibility of taxation work.

## **CHAPTER 8**

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### **RECOMMENDATIONS**

#### **8.1 Framework for Recommendations**

In view of the 74<sup>th</sup> Constitutional Amendment Act and its objective of strengthening the institutions of local self-government, both with respect to the governance as well as the financial base, the state government has a critical role to play as a catalyst for introducing the desired change. Ideally, the municipalities should take all the decisions related to municipal taxation. But as the governance system at the municipal level is in a transition phase, the role of state government becomes equally crucial in helping the municipal bodies with appropriate legislative back-up as well as technical support in the form of rules and regulations for strengthening their financial base and governance systems.

The study findings also clearly reflect that there is a strong dependence of the municipal agencies on the state government for the necessary directions and municipal agencies have shown very high expectation from the state government for developing the property tax scheme, which can be uniformly implemented across the state. Both the Municipal Acts provide for the role of state government in the context of imposition of municipal taxes under Section 206 and Section 130A of the Corporation and Municipalities Act respectively. The introduction of property tax scheme at the state level would help in minimising the time required in the process involved in the imposition of tax by each municipality separately and uniformity in taxation across different municipalities would also be achieved. The property tax scheme needs to be designed in the context of the overall spirit and objectives of 74<sup>th</sup> CAA and the factors mentioned above.

The property tax system in Uttaranchal, in order to be efficient and effective, also must have the following characteristics, which are almost universally agreed to be the attributes of a sound tax scheme:



### Characteristics of Property Tax System

- ◆ **Simple to understand for users, both the taxpayers as well as the staff of the ULBs**
- ◆ **Encourage fairness and transparency in tax assessment**
- ◆ **Minimise the scope and incidence of discretion**
- ◆ **Accountability is shared, both by the municipality as well as the tax payers**
- ◆ **Exemptions are minimal (i.e. every citizen pays keeping in view the equity principles) and are based on well-defined principles and processes**
- ◆ **Favour timely payment of taxes and discourage delays in tax payments**
- ◆ **Facilitate better tax administration including minimal maintenance of records**
- ◆ **User friendly (tax payer and tax collectors) collection mechanisms**
- ◆ **Improve the monitoring of the tax revenues**
- ◆ **Incentive for the citizens to get their properties registered (listed) in the municipal records**
- ◆ **Generates sense of ownership for the citizens through access to information**

The efficiency of the scheme would lie in the speed and timeliness with which the tax is assessed resulting in minimum time and cost investment in tax collection. This would also help optimise the benefits of the tax system for the municipality and the taxpayers with respect to the minimisation of hassles in tax payments and contribute to its effectiveness. The scheme has to be effective in terms of realisation of the intended objectives of the overall reforms in the property tax system with respect to the improved revenues.

Based on the findings of the study, the recommendations have been divided into two broad categories, first, the administrative interventions, and second, the legal and policy reforms. As far as legal and policy reforms are concerned, the State Government would need to facilitate the municipal institutions by bringing in necessary reforms in the Acts whereas for administrative measures, certain measures could be initiated at the municipal level without any state intervention but for effective implementation of certain administrative measures, state level interventions would be required. It is worth mentioning here that the administrative measures suggested here are primarily short-term and medium-term measures

to improve the revenues from property tax within the existing legal framework. The legal and policy reforms (long term measures) are equally important to move towards optimal efficiency achievement on a sustained basis in the long run.

## **8.2 Administrative Interventions**

### **8.2.1 Improvement in Coverage**

#### **(a) Municipal Level**

The municipalities should take the following measures for improving the coverage of properties by bringing un-assessed properties under tax assessment:

- The municipalities who have passed resolutions to exempt properties falling under particular localities/ wards like in Gauchar must amend such resolutions to cover all the properties.
- Bring all slums/ unauthorised constructions under the tax net, as there is no legal constraint in imposing tax. As a precautionary measure, the municipalities may issue the bills and receipts with a note that the tax does not affect the ownership or regularise the construction.
- For the municipalities where the municipal wards and property tax wards are same, use ward-wise information available from census house listing operation or election list on number of properties in a ward to identify the wards/ localities where un-assessed properties are concentrated. In case, the municipality has not maintained the records of census house listing operations, access the same from district census office.
- For the municipalities where the municipal wards and property tax wards are not same, at the time of reassessment, carry out all the assessments based on the municipal wards. As an immediate measure, the municipalities can identify the wards/ pockets with large number of un-assessed properties by superimposing the boundaries of the property tax circles and municipal wards and comparing the number of properties. This would at least help in identifying the broad zones/ pockets with majority of un-assessed properties.
- Access information on new properties from other development agencies in the city like electricity department, Jal Sansthan, Development Authority, PDS etc and introduce the system of maintaining record of the NoC issued to property for the approval of plans, electricity and water connections.
- Organise special drive to carry out assessment of all the un-assessed properties using field and office level staff.

- Fix accountability of the field level tax staff to survey the un-assessed properties within the ward/ wards allocated to them within a defined time frame and on failure there shall be a provision for administrative action and punishment which may be in the form of stopping of increment, etc. In addition, they shall be accountable for informing the owner about the provisions related to the reporting about the construction.
- Develop incentive system for the tax staff based on the objectively defined performance indicators duly approved by the council and shared with the tax staff.
- Develop systems that encourage sharing of accountability of the municipality as well as the taxpayers. This could be effectively done with the introduction of the system of property tax registration card, which is used for the purpose of assessment and signed by both the taxpayer and the tax assessor.

Amongst the nine municipalities studied with an exception of Dehradun, the highest numbers of properties are about 15,000 and average number of properties varies between 300-1200 per field level tax staff as per the existing assessed properties and almost a similar number of properties falling under the un-assessed category. Thus, even with as low as 10 properties covered in a day, the total time required would vary between 1-3 months using the existing field staff only. However, as a special drive, if office level staff is used, all the un-assessed properties could easily be surveyed in less than 2 months period in all these municipalities.

**(b) State Level**

The state government would need to take the following administrative measures to help municipalities improve the coverage of properties:

- Make the municipality and the tax staff accountable for informing the citizens about the fines and penalties associated with the non-reporting about the new construction/ alteration, late deposit, false information etc through the field level tax staff, newspaper and other IEC methods like posters, announcements etc.
- Withdraw the orders issued over a period of time to exempt localities (as in case of Pauri) from house tax after reviewing the specific cases.
- Issue an order to bring all the slums and unauthorised colonies under the tax net clearly specifying that the taxation would not grant ownership or regularise any unauthorised construction as a confidence building measure to minimise the apprehension at the level of the municipalities.
- Making introduction of property tax registration card mandatory.
- Issue order for the other development agencies like Electricity Department, Development Authority, Jal Sansthan, PDS to extend support to the municipal agencies in providing the information and also to accept the NoC of the municipality with proper reference number and the property tax registration card.

## **8.2.2 Rationalization of the Exemptions**

### **(a) Municipal Level**

- Frame rules that help minimization of exemptions and work on the basic principle of every citizen contributing towards the city development.
- Develop mechanisms that encourage transparency in the exemptions to ensure that the poorest of the poor gets the benefit.
- Implement the provisions related to recording of the decisions of the hearings effectively, which shall contain the grounds of exemption and the supportive documents, if any. Make it mandatory for the Committee to present the decisions in the monthly meetings of the Council.
- Involve the Executive Officers in the hearing process to provide technical assistance to the Committee with respect to the legalities of taxation.

### **(b) State Level**

- A system of two special committees could be introduced to address the property tax related issues at the municipal level. A Tax Advisory Committee (TAC) could be constituted for providing technical and advisory support to the municipality for various issues related to property tax administration and management. And a Tax Assessment Hearing Committee (TAHC) could be set up to ensure that the representations made by the taxpayers are heard and appropriate decisions are taken for the effective assessment of tax. The purpose, constitution and the role of the two committees are enclosed as Annexure-3.
- The state government should frame the broad guidelines for the exemptions to be provided by the municipality to ensure uniformity across the state.
- Some indicative guidelines are proposed here for the consideration of the State Government.
  - ⇒ Fixing the percentage of properties and the percentage of exemption, which may be as given below.
    - A maximum of 2% of the total properties in the city could be exempted 100% from tax on grounds of poverty etc.
    - A maximum of 4% of the total properties in the city could be exempted up to 50% of the tax on grounds of poverty etc.
    - A maximum of 6% of the total properties in the city could be exempted up to 25% of the tax on grounds of poverty etc.
  - ⇒ No exemption for the non-residential properties.
  - ⇒ The assessment committee would not be allowed to exempt any property belonging to relatives of the committee members. In case, there is a genuine case, then either the member who is related would resign from his membership of the committee or, such a case would be referred for the approval of the council.

- ⇒ The clearance of previous tax arrears/ dues shall be the pre-requisite for the representation at the time of 5 yearly revision/ reassessment and no exemption or reduction shall be applicable till the previous dues with the penalties, if any, have been deposited.

### **8.2.3 Improvement in Property Record Management System**

#### **(a) Municipal Level**

- Convert all the property tax records as per the municipal wards in the city from the next revision/ reassessment.
- Assess all the properties in the city including the vacant plots and slums.
- All the municipalities should immediately computerise the property tax records system.
- The information about the property shall not be limited to the name of the owner and tenant and the rental values. The property details shall also include the area of the plot, floor area, number of floors, number of rooms, use of the property etc.
- Introduce the system of property tax registration card for each and every property in the city even if the property is exempted fully. The purpose of property tax registration card is not limited just to register all the properties in the city but the same has been envisaged as a composite card, which can be used for the multiple purposes. The concept and application of property tax registration card is enclosed as Annexure-4.

#### **(b) State Level**

- The State Government should get the software developed centrally for the management of Property Tax Records to ensure uniformity in the system across all the municipalities in the state.
- Arrange training program for the staff of the municipalities for the implementation of the computerization of property tax records.
- The software development as well as the training of the staff could be funded by pooling the resources provided by the State Finance Commission (Rs. 2 lacs per annum for the municipal councils and Rs. 1 lacs per annum for the nagar panchayats) and the EFC share available for the computerization of the municipalities.
- Develop standard formats for the property tax registration card (s), which shall be designed to fit into the computerization scheme for the management of records. A draft sample format for the same is enclosed as a part of Annexure-4.

## **8.2.4 Improvement in Collection & Recovery**

### **(a) Municipal Level**

- Make the incentive system attractive by introducing the slab system to encourage the taxpayers to deposit the tax timely. For example, the municipality may decide that the rebate of 20% would be applicable if the person deposits the tax up to 30th June, 10% rebate if the tax is deposited up to 30th September and no rebate after 30th September in each financial year. However, the rebate shall not exceed 20%.
- Frame rules at the municipality level for imposing penalties for the late deposit or default, which shall increase on the graduated scale.
- Encourage people to deposit tax at the collection counters rather than door-to-door collection by introducing the system of additional incentive of 1-2% and withdraw the system of door-to-door collection in phased manner. It would help the municipality in following up the defaulters and focus on the coverage and assessment.
- Large size municipalities may even tie-up with the commercial banks to provide collection counter facility.
- Update the status of arrears and follow-up the defaulters to recover the arrears. Publish the names of the major defaulters in newspaper to create a social pressure.
- Frame the rules for initiating a particular level of action based on the amount of arrear and the time period. Use available instruments as per the Act including issue of RC by the Collectors, distress sale etc to discourage the taxpayers to default.

### **(b) State Level**

- The State Government should fix certain norms for defining the cases where the RC shall be issued for the collection of property tax. These norms could be based on the period of tax due (2 years) or the amount of tax due (Rs. 500) or both, for objective decision making for the issue of RC.
- The State Government may issue an Order for all the District Magistrates to issue the Recovery Certificate within a specified timeframe, preferably 30-60 days, from the date of receipt of request from the municipality.



## **8.2.5 Monitoring System and Performance Appraisal Mechanisms**

### **(a) Municipal Level**

- Introduce the formats (proposed to be developed at the state level) for monitoring the progress achieved with respect to taxation processes as well as performance of the staff.
- At the municipal level, a three tier monitoring system shall be introduced.
  - ⇒ The first level monitoring should be done at the level of the Executive Officer in case of the municipalities and MNA in case of the Municipal Corporation. It should be done through monthly review meetings. The aspect to be monitored would primarily include performance of the field staff with respect to the collection. The other agenda points for these monthly review meetings could be sharing of efforts made or the problems faced by the field staff and working out the strategy and actions to address the problems. The minutes of the meetings should be prepared and displayed on the notice board of the municipality. The minutes/ report of the meeting should also be shared in the monthly meeting of the Council/ Corporation.
  - ⇒ The second level of monitoring is proposed at the level of TAC, which would monitor the progress every six months. The aspects to be monitored would include the status of assessment of properties and additions in the number of properties, progress of revenue realization from the property tax, performance of the staff. The TAC would prepare a report based on the review, which would provide strategies and measures for improving property tax revenues.
  - ⇒ The third level of monitoring is proposed at the level of the Council/ Corporation on annual basis. This monitoring exercise is proposed at the beginning of the financial year to review the performance of the previous year and work out necessary action plan for the current financial year and take necessary policy decisions.

### **(b) State Level**

- Set-up a State Level Monitoring Committee for Municipalities under the Chairmanship of the Secretary/ Director Local Bodies for the performance appraisal for the municipalities. The state government may consider forming this committee for the municipalities as a Sub-Committee of the State Level Monitoring Committee for Institutions of Self Governance (SLMC) recommended by the State Finance Commission. It would help the SLMC to receive necessary information/ feedback for decision-making through single source.



- Develop standard formats for the monitoring of the taxation, which shall include both the process as well as output indicators. The process indicators could include setting up of the Committees, framing and introduction of rules for exemptions, incentives etc whereas the output indicators could include the coverage of properties under the tax net, per capita tax assessment, per capita tax collection, status of arrears and arrear collection, efforts made for recovery of arrears, collection efficiency etc.

### **8.2.6 Accountability Mechanisms**

#### **(a) Municipal Level**

In context of the property tax system, the accountability needs to be viewed at two levels, first, at the level of the taxpayer, and second, at the level of the municipality including the accountability of the municipal staff associated with property tax. The measures recommended for ensuring the accountability of individuals and the institution are as given below.

- Develop rules to fix the accountability of the owner/ occupier of the property for informing the municipality about the new construction/ alteration in the building, providing the correct information related to the property as required for the purpose of assessment and depositing the tax dues timely. Make provision for appropriate fines and penalties.
- Inform the citizens about the fines and penalties associated with the non-reporting about the new construction/ alteration, late deposit, false information etc through the field level tax staff, newspaper and other IEC methods like posters, announcements etc.
- Fix the accountability of the field level tax staff for informing the office about the new constructions/ alterations taking place in his ward as well as informing the owner about the provisions related to the reporting about the construction.
- For the purpose of the assessment, make the assessment staff as well as the owner of the property equally accountable. For this purpose, the assessing staff and the owner should jointly sign the details provided about the property during the assessment process on the proposed property tax registration card.
- Fix the accountability for the assessment vertically in the municipal organisational framework. The following provisions could be adopted for the purpose of vertical distribution of accountability for the assessment:

- ⇒ For the assessment of residential properties with plot area above 1000 m<sup>2</sup> and commercial properties above 500 m<sup>2</sup> in case of municipalities above 20,000 population, the Executive Officer of the municipality/ Officer not below the rank of Up Nagar Adhikari in case of the Corporation should be responsible for 100% verification and assessment. In case of municipalities below 20,000 population, the Executive Officer shall be accountable for the assessment of all residential properties above 500 m<sup>2</sup> and commercial properties above 250 m<sup>2</sup>.
- ⇒ For the assessment of residential properties with plot area between 500-1000 m<sup>2</sup> and commercial properties above 250-500 m<sup>2</sup> in case of municipalities above 20,000 population, the Tax Superintendent/ Senior Most Tax Inspector of the municipality/ Officer not below the rank of Tax Superintendent in case of the Corporation should be responsible for 100% verification and assessment. In case of municipalities below 20,000 population, the Senior Most Tax Inspector and in absence of the tax inspector, the Executive Officer shall be accountable for the assessment of all residential properties above 250-500 m<sup>2</sup> and commercial properties above 125-250 m<sup>2</sup>.
- ⇒ For all other properties not falling under the above categories, the field level tax staff including tax inspectors would be accountable but the verification of 10% properties on random basis is proposed to be carried out by the Executive Officer in case of the municipalities and Tax Superintendent in case of the Corporation. The verifying officer would prepare the verification report and submit the same to the Chairman/ Executive Head.

**(b) State Level**

- The state government will have to play a role of facilitator for extending the technical support in developing model rules for the municipalities to adopt at the local level with appropriate modifications in context of the specific situations.
- The state government would need to introduce necessary amendments in the Acts especially with respect to the provisions for fines and penalties to help municipalities in defining and fixing the accountability of tax payers and the tax staff.

### **8.3 Legal Reforms**

There are primarily three key areas where the legal reforms are necessary for improving the effectiveness and efficiency of the property tax. These areas are:

- Tax Assessment System
- Provisions related to Exemptions
- Liability and Default

#### **8.3.1 Tax Assessment System**

- The tax on annual value of buildings or lands or both under Section 128(1)(i) of the Municipalities Act shall also be designated as property tax and shall be made obligatory as in case of the Municipal Corporation Act.
- The property tax shall comprise of three components, namely general tax, water tax and scavenging tax for all the municipalities.

It would require amendment in Section 173 of the Corporation Act and Section 128 of the Municipalities Act, if the existing system of two Acts continues.

The water tax is charged by the Jal Sansthan except for the municipalities of Hardwar district. It would require development of an alternative mechanism for the assessment of water tax by the Jal Sansthan as well as amendments in the corresponding act and rules governing the water supply function as the Jal Sansthan are assessing the water tax based on the ARV.

Scavenging tax shall be linked to the solid waste and drainage management (including cleaning and maintenance of drains) functions performed by the municipalities. The resources generated from water tax (for municipalities of Hardwar District) shall be applied for the construction, extension, maintenance and improvement of water works and resources from scavenging tax shall be applied for the construction of garbage bins, construction of drains, purchase of vehicles for managing the solid waste like trucks, dumpers etc, development of landfill sites, and meeting other operating expenses excluding salary bills related to solid waste and drainage management function.

- De-link property tax from the rental values by discarding the existing ARV system.
- A simple alternative system using the concept of Minimum General Tax (MGT), which every citizen pay, may be adopted. The key features of the proposed scheme are:

### **Key principles/ assumptions**

- Poor pay less and richer pay higher, but everybody must pay. As richer people have higher degree of access to services compare to poorer sections of the society, they should pay more than the poor.
- Citizens are willing to pay and share the accountability for tax assessment with the municipality.
- Every citizen wants to contribute towards the provision, operation, maintenance and management of civic services, if the municipality is also made accountable for providing the services against the taxes imposed.

### **Assessment System**

- The property tax shall comprise of three components, namely general tax, water tax and scavenging tax for all the municipalities. The general tax shall comprise of two components, first, the tax on land and second, the tax on building/ structure.
- The tax on land would be based on the Circle Rate. The vacant and purely residential plots with area up to 25 m<sup>2</sup> would be exempted from the tax on land. The municipality may even decide to adopt differential tax rates for the tax on land based on the slabs of the area or adopt a uniform rate for all plot sizes.

(The tax on land is proposed at the minimum rate of 0.1% and the maximum rate of 0.25% of the cost of land for residential properties. For non-residential properties, the minimum and the maximum limits proposed are 0.25% and 0.50% respectively)

- The tax on land would be applicable on the vacant land but the land being used purely for the agricultural purpose would be exempted from the tax.

(However, the land as a part of the residential building being used for the gardening/ kitchen gardening would not be exempted from the tax. For vacant land even if the non-residential land use were permitted, the tax on such vacant land would be applicable as per the rate for residential properties, till the non-residential property is built on the plot.)

- For the residential properties in the form of group housing schemes/ flats, the area of the land for the purpose of taxation shall be calculated by dividing the total plot area by the number of floors/ units. Similarly for the plotted housing, if there is more than one owner,

the area of land would be divided in proportion of their share and the tax on land for that individual taxpayer would be worked out based on the corresponding area.

- For the non-residential properties (like commercial complexes) having large number of shops/ commercial units, the area of the land for the purpose of taxation for each unit shall be calculated in proportion of the share of their floor area to the total floor area of commercial complex.

(Area of land for a unit = Total Area of plot x (Floor area of commercial unit/ Total floor area of the commercial complex)

- The Tax Advisory Committee (TAC) shall be responsible for fixing the value of MGT, subject to minimum limit prescribed in the Act. These minimum limits shall have an inbuilt provision for the buoyancy in the tax by providing for an increase in the minimum limit by 10% every 5 years.
- The tax on structure for the residential properties with plot area up to 25 m<sup>2</sup> would be on a flat rate basis per floor, referred to as Minimum General Tax. The MGT fixed per floor for residential properties up to 25 m<sup>2</sup> would act as the MGT per room for the properties with plot area above 25 m<sup>2</sup>. The municipality may decide to fix higher MGT on graduated scale for larger size of room.

(For the purpose of taxation, the room has been defined as a part of the building enclosed by walls or partitions, floor and ceiling. The definition of room would include store, kitchen, garage and a covered verandah, having area above 12m<sup>2</sup>. But it would exclude bathroom, latrine, staircase, open balcony/ area left open to sky for front, side & back setbacks, corridor and portico.)

- The municipality would fix the minimum general tax (MGT) based on the prevailing market rents for a one-room accommodation in the city, subject to a minimum amount of Rs. 60 per floor for the municipalities up to 20,000 population and a minimum amount of Rs. 90 per floor for the municipalities above 20,000 population.

(The minimum tax figures recommended here have been arrived at using the rate of 2.5% of the prevailing annual rents across different municipalities for a small house of less than 25 m<sup>2</sup> or one room accommodation, which on an average was ranging between Rs. 2400 and Rs. 3600 per annum (Rs. 200 to Rs. 300 per month) for the two groups of municipalities based on the field surveys.)

- The tax on structure for the non-residential properties would be calculated as 2.5 times the MGT fixed for the residential properties for every 10 m<sup>2</sup> floor area or part thereof. The

municipality may apply the graduated scale based on the slabs of the floor area for the tax on structure for non-residential properties.

- The municipalities may use potential of the location (based on the access to tap water supply or road width or the variation in the circle rates across different zones) and type of construction as the indicators for adopting differential rates for tax on structure, where the maximum value could be up to 2 times the value of MGT. However, the municipality shall be free to adopt the common rate for the whole city.
- For the properties with mixed land-use like residential and commercial, residential and industry etc, mix of provisions made for the residential properties and non-residential properties using share of area under each use as the basis shall be used.

(For the purpose of calculating the tax on land component, the share of plot area under residential and non-residential use would be calculated in the ratio of floor areas for the respective use of the total plot area. Similarly for the tax on structure, the related provisions would be applied on the corresponding areas for different use of the building.)

- The state government owned schools, colleges, hospitals and offices, would be taxed as per the norms for the tax on land and tax on structure for residential properties, however the provision would not be applicable for the properties belonging to Corporations/ Autonomous Bodies.
- For the properties built on government or private land through encroachment, the tax on land would not be applicable, but these would be liable for the payment of an additional 100% surcharge on the tax calculated on structure.
- No exemptions linked to the occupancy status (owner/ tenant) for the purpose of tax assessment as firstly, it is difficult to ensure the effective implementation in a transparent manner, and secondly, in case of the rented property, the owner is loosing the opportunity of utilizing the property for ones use as well as bearing the maintenance cost for the property which is not being used by him out of the rent received from the property.
- Provision of additional surcharge tax for large size properties/ plots.

(An additional surcharge tax is recommended at the rate of 25% of the total general tax (tax on land + tax on structure) for the plots above 400 m<sup>2</sup> in case of residential properties and in case of non-residential properties, at the rate of 25% for the plots above 200 m<sup>2</sup> and at the rate of 50% for the plots above 400 m<sup>2</sup>.)

- The water tax and scavenging tax to be directly calculated as percentage of the total general tax (tax on land + tax on structure), which are recommended as 25 to 50% for residential properties and 50 to 100% for non-residential properties.

(The revenue generated from the water tax or scavenging tax would be used only for the development, upgradation and the operation and maintenance of the services related to the water supply, drainage system and solid waste management system. It is proposed that the municipality shall maintain a separate bank account, which may be, referred to as 'Development Fund Account of the Municipality'. As all the collection of tax revenue from the people is done jointly for the general tax as well as the water and scavenging tax, it would be mandatory for the municipality to transfer the amount of water or scavenging tax collected in a particular month from the general account of the municipality to the Development Fund Account within first 7 days of the following month.)

Some indicative examples of the application of differential tax structure for tax on land and tax on structure are enclosed as Annexure-5.

### **8.3.2 Provisions related to Exemptions**

- The state government should consider the following amendments under Section 177 of the Corporation Act:
  - ⇒ In Clause c, only the schools, colleges and nursing homes/ hospitals run by the government shall be exempted and all other schools, colleges and nursing homes/ hospitals run and managed by the private sector/ trusts shall be taxed.
  - ⇒ Clause (e), (g) and (h) should to be deleted.
- Section 178 of the Corporation Act and Section 151 of the Municipalities Act should also be deleted.
- Sections 140(2) and Section 157 of the Municipalities Act and Section 221 of the Municipal Corporation Act need to be amended and it shall be mandatory for the municipality to frame the rules for exempting the property in light of the guidelines formulated at the state level. The rules shall be approved by the Prescribed Authority in case of the municipal councils and nagar panchayats and by the state government in case of Municipal Corporation.
- For every exemption, it shall be mandatory for the assessment committee to give the details of the reasons and the justification in context of the approved rules so that there is



an accountability of the committee. In addition, the duration of exemption shall be one year, which could be extended if the committee decides to continue the same.

- Section 143(3) of the municipalities act also needs to be amended and there shall be a provision of two different committees as already explained in para 8.2.2 (b).

### **8.3.3 Liability and Penalties/ Fines**

- The liability for the payment of general tax shall be of the owner of the property whereas the liability for the payment of water and scavenging tax shall be of the occupier.
- In context of the rented properties, the conditions of the rent agreement shall govern the liability for payment.
- For the properties falling under the rent control act or the properties with old tenants and very low rents or the properties for which no rent agreement is available, the tenant shall be liable for the payment of the tax if the tax fixed by the municipality exceeds 10% of the rent paid by the occupier.
- The fines and penalties provided under Sections 221 and 222 of the Corporation Act shall also be included in the Municipalities Act. In addition, the penalty for default shall be on graduated scale so that it discourages the taxpayers from default.

The legal reforms recommended here are based on the identification of major legal constraints related to the property tax system. However, the Sections referred for amendment are the ones, which are directly linked to a particular reform, but other sections related to property tax would need to be reviewed in context of the reforms introduced by the State.

### **8.4 Policy Reforms**

The policy reforms recommended here are related to the overall municipal management, which have bearing on the improvements in the tax revenues of the municipalities.

- There is a need for the clearly defined policy for slums and unauthorised constructions addressing the issues related to municipal taxation at the state level.
- The role of municipalities in the approval of building plans needs to be strengthened in order to help these municipalities improve their information base related to the properties in the city.
- The property tax record management system needs to be designed in context of the overall record management system for the municipalities especially addressing the requirements

of accounting and auditing systems in place as well as in line with other administrative processes.

- The out sourcing option for the activities like survey of properties, assessment, collection and computerization could also be explored for larger municipalities which would require certain policy guidelines/ directions from the state level.
- The state government may also consider evolving appropriate policy framework for addressing the issue of taxation in the outgrowths, which put pressure on the urban services, but because of the administrative jurisdictions, these cannot be brought under the tax net. The issue is very critical especially for the colonies developed by the Development Authority/ Housing Board/ Private Developers/ Cooperative Societies and even for the unauthorized colonies developed through private sector interventions with sub standard infrastructure in the outskirts of the municipal limits.

### **8.5 Action Plan for Reform Implementation**

For introducing any reforms in the system, testing of the reform system on pilot basis in the real life field situation is the best way of refining and fine-tuning the model. For effective implementation of the proposed model, the following action points are suggested:

- Preferably deputing an officer at the state level or alternatively assigning the responsibility to a state level officer for pilot testing of the scheme.
- Sharing the model scheme with the key stakeholders including Mayors/ Chairpersons, Executive Officers, Tax Staff, Experts in Municipal Administration, Finance and Legal Experts from the State Government, Secretary and Director of Urban Development Department etc., through divisional/ state level workshops.
- Identifying the municipalities, who are willing to pilot test the scheme in their municipality. It is suggested that a municipal corporation, two municipal councils (one located in hills and other in plains) and two nagar panchayats (one located in hills and other in plains) are identified. Preferably, the municipalities who are due for the reassessment process shall be selected.
- Build the capacity of the staff of the identified municipalities for the pilot testing of the reforms in the property tax.
- Make a market assessment for fixing the value of MGT, and decide on the city specific indicators for differential rates. Design a sample property tax registration card based on the assessment system proposed.

- Select about 10% of the municipal wards through stratified sampling to get a representative sample and collect the existing property tax records of all the properties in these wards.
- Execute the field survey in the selected wards using the property tax registration card and work out the property tax. The survey execution process would be similar to the actual assessment process.
- Assess the results of the sample assessment process and refine the scheme.

## ANNEXURE 1

## STATUS OF PROPERTY TAX IN UTTARACHAL

Name of Municipality	Population 2001	Tax Rate	House Tax 00-001(Rs. in Lakhs)	Per Capital House Tax (00-01) in Rs.
<b>Municipal Corporation</b>				
Dehradun	447808	12.5%	235.38	52
<b>Municipal Council</b>				
Uttarkashi	16220	5%, 6%, 8%	3.96	24
Joshimath	13202	361-1000 - 3% 1001-4000 -4% 4001+ - 5%	2.67	20
Gopeshwar	19855	5%	4.14	21
Pauri	24742	5%	7.09	29
Srinagar	19861	5%	5.67	29
Kotdwara	25400	7%	9.11	36
Duggadda	2690	10%	0.574	21
Tehri	25425	0	0	0
Narendranagar	4796	5%	1.72	36
Mussoorie	26069	15%	109.41	419
(Scavenging Tax)		3.75%	22.90	88
Rishikesh	59671	10%	41.04	69
Vikasnagar	12485	10%	7.50	60
Nainital	38559	12.5%	27.97	73
(Scavenging Tax)		12%	27.86	72
Haldwani	129140	10%	32.76	25
(Scavenging Tax)		10%	35.5	27
Ramnagar	47099	Self-7.5%, Rented-12.5%	13.89	29
Bhowali	5302	10%	3.23	61
(Scavenging Tax)		12%, 6%	2.5	47
Kashipur	92978	10%	34.93	38
Rudrapur	88720	10%	21.02	24
Kichha	30517	5%	5.50	18
Gadarpur	13638	5%, 6%, 8%	5.63	41
Bazpur	21782	5%	3.75	17
Jaspur	39048	10%	9.93	25
Sitarganj	21943	5%	3.69	18
Khatima	14378	10%	1.28	9
Almora	30613	10%	18.28	60
Bageshwar	7803	5%	3.00	38
Pithoragarh	41157	6%	7.81	19

Tanakpur	15810	10%	1.98	13
Hardwar	175010	7.5%	50.07	29
Roorkee	97064	7%, 10%	27.33	28
Manglaur	42782	10%	5.49	13
<b>Nagar Panchayats</b>				
Badkote	6098	5%	1.31	21
Gangotri	606	0	0	0
Badrinath	841	5%, 10%	0.33	39
Gauchar	7278	5%	0.574	8
Nandprayag	1433	0	0	0
Karnaprayag	6976	0	0	0
Rudraprayag	2242	5%	0.63	28
Kedarnath	479	0	0	0
Muni ki Reti	7879	10%	1.54	20
Kirtinagar	1040	5%	0.14	13
Devprayag	2144	Self-3.12%, Rented-6.25%	0.76	35
Chamba	6579	0	0	0
Doiwaalaa	8047	10%	1.99	25
Herbertpur	9242	10%	2.29	25
Kaladhungi	6126	5%	1.56	25
Bheemtaal	5875	5%	0.9	15
(Scavenging Tax)		5%	0.51	9
Lalkuan	6524	7%	4.54	70
Dineshpur	8856	5-8%	0.56	6
Sultanpur	7713	5%	0.13	2
Kelakhera	7783	5%	0.33	4
Shaktigarh	4776	0	0	0
Mahuadabra	6110	10%	0.92	15
Mahuakheraganj	8859	10%	0.15	2
Dwarahaat	2543	5%	0.70	28
Didihaat	4805	5%	2.43	51
Dhaarchula	6424	NA	1.89	29
Champawat	3958	5%	1.63	41
Lohaghaat	5828	4%, 5%, 6%	0.295	5
Jhabreda	9378	10%	3.43	37
Landhaura	16022	10%	2.13	13
Laksar	18240	0%	0	0

Source: Study of Municipal Finances in Uttaraanchal for the SFC, 2002

## ANNEXURE 2

**PROPERTY TAX SYSTEM IN MUNICIPAL CORPORATIONS:  
PRE AND POST U.P. MUNICIPAL CORPORATION (AMENDMENT) ACT, 1999**

Indicator/ Section of the Act	Pre-amendment	Post-amendment
<b>(1) Tax Rate</b>  Minimum Maximum  <b>Section 173</b>	Aggregate of property taxes levied on annual value of building or land or both assessed to such taxes  15% 25%	Aggregate of property taxes levied on the annula value of the building or land or both assessed to such taxes  22% 32%
<b>(2) Tax Structure</b>  General Tax Water Tax Drainage Tax Conservancy Tax  <b>Section 173</b>	Not defined	Minimum -10 % Maximum- 15% Minimum -7.5 % Maximum- 12.5% Minimum -2.5 % Maximum- 5% Maximum-2%
<b>(3) Basis of Annual Value for Property Tax</b>	Cost based for non-residential (a) For railway stations, colleges hostels, factories, commercial buildings and othe non- residential buildings a proportion not below 5% to be fixed by rules made in this behalf of the sum obtained by adding the estimated present cost of erecting the present building, less depreciation at a rate to be fixed by rules, to the estimated value of the land appurtenant thereto  Rent based  (b) In the case of a building or land not falling within the provisions of clause (a), the gross annual rent for which such building or land is actually let, or where the building is not let or in the opinion of the assessing authority is let for a sum less than its fair letting value, might reasonably be expected to let from year to year.	Cost based based for non-residential (a) for railway stations, colleges, hostels, factories, commercial buildings and other non-residential buildings a proportion not below 5 % to be fixed by rules made in this behalf of the sum obtained by adding the estimated present cost of erecting the building, less depreciation at a rate to be fixed by rules, to the estimated value of the land appurtenant thereto.  Carpet area and applicable minimum monthly rate of rent  (b) In the case of a building or land not falling within the provisions of clause (a), twelve times the value arrived at on multiplying the carpet area of the building, or the area of the land, by the applicable minimum monthly rate of rent per square foot of the carpet area in the case of building or the minimum monthly rate of rent per square foot of the area in the case

		of land, as the case may be fixed once in every two years by the MNA on the basis of the location, nature of construction, the circle rate fixed by the Collector for the purpose of Indian Stamp Act, 1899 and the current minimum rate of rent in the area for such buildings or land and such other factors, and in such manner, as may be prescribed
<p><b>(4) Basis for Carpet area and Rent</b></p> <p>Section 174</p>	<p>Carpet area</p> <p>Not applicable</p> <p>Rent</p> <p>Actual rent or fair letting value</p>	<p>Carpet area</p> <p>Carpet area shall be calculated as under</p> <p>(i) Rooms-full measurement of internal dimension;</p> <p>(ii) Covered Verandah - full measurement of internal dimension;</p> <p>(iii) Balcony, Corridor, Kitchen and Store – 50 percent measurement of internal dimension;</p> <p>(iv) Garage – one-fourth measurement of internal dimension;</p> <p>(v) Area covered by bathroom, latrines, portico and staircase shall not form part of the carpet area.</p> <p>Rent</p> <p>To be fixed by the MNA every 2 years as explained in Point No. 3 above and the standard rent, the agreed rent, or the reasonable rent of a building for the purposes of the U.P. Urban Buildings (Regulations of Letting, Rent and Eviction) Act 1972 shall not be taken into account while calculating the annual value of that building.</p>
<p><b>(5) Flexibility with Corporation regarding Annual Value</b></p> <p>Section 174</p>	<p>Provided that where the annual value of any building would, by reason of exceptional circumstances, in the opinion of the Corporation, be excessive if calculated in the aforesaid manner, the Corporation may fix the annual value at any less amount which appears to it equitable.</p>	<p>Provided that where the annual value of any building would, by reason of exceptional circumstances, in the opinion of the Corporation, be excessive if calculated in the aforesaid manner, the Corporation may fix the annual value at any fewer amounts, which appears to it equitable.</p>



<p><b>(6) Additional consideration(s) for calculation of Annual Value</b></p> <p>Section 174</p>	<p><b>Ownership</b></p> <p>In the case of owner occupied building, for the purpose of assessment of property taxes, be deemed to be 25% less than the annual value otherwise determined under the Section</p>	<p><b>Ownership and Age</b></p> <p>(a) in the case of land and owner-occupied residential building which is not more than ten years old, be deemed to be 25 percent less and if it is more than ten years but not more than twenty years old, be deemed to be 32.5 percent less, and if it is more than twenty years old, be deemed to be 40 percent less than the annual values determined under clause (b) of sub-section (1); and</p> <p>(b) in the case of residential building let on rent, which is not more than ten years old, be deemed to be 25 percent more, and if it is more than ten years but not more than twenty years old, be deemed to be 12.5 percent more than the annual value determined under clause (b) of sub-section (1), and if it is more than twenty years old, be deemed to be equal to the annual value determined under clause (b) of sub-section (1).”</p>
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<p><b>(7) Property Tax Exemptions as per the Act</b> Section 177 Section 175</p>	<p>Provisions related to exemption of General Tax</p> <p>a. Buildings and lands solely used for purposes connected with the disposal of dead b. Buildings and lands or portion thereof solely occupied and used for public worship or for a charitable purposes c. Buildings solely used as jails, court houses, treasuries, schools and colleges d. Ancient monuments as defined in the Ancient Monuments Preservation Act, 1904, subject to any direction of the State Government in respect of any such monuments e. Any building and land the annual value of which is less than Rs. 360 or less provided the owner does not own any other building or land in the city f. Buildings and lands vesting in the Government of India except where provisions of Clause 2 of Article 285 of the Constitution of India apply.</p> <p>Provisions related to Water Tax</p> <p>Water tax cannot be levied</p> <p>a. on land exclusively used for agricultural purposes b. where the unit of assessment is a plot of land or a building whose annual value does not exceed Rs. 360 c. any such plot or building, no part of which is within a radius (to be fixed by rules) from the nearest standpipe</p>	<p>Provisions related to exemption of General Tax</p> <p>a. No change b. No change c. Buildings solely used as jails, courthouses, treasuries, schools and colleges other than such professional, vocational, technical and medical institutions as are not run and managed by the Government d. No change e. No change f. No change g. Any owner occupied residential building constructed on a plot of land measuring thirty square meters, or having a carpet area up to fifteen square meters provided that the owner thereof does not own any other building in the city; and, h. Owner occupied residential buildings in any area, which has been included in the city within the last ten years.</p> <p>No change</p>
<p><b>(8) Option to deposit Self Tax Assessment</b></p> <p>Section 207 and Section 207A (included in 1999)</p>	<p>Self-tax assessment was not applicable and MNA was responsible for the preparation of assessment list.</p>	<p>A clause has been added to Section 207 whereby in addition to the existing clause where MNA is responsible for preparation of the assessment list, the owner or occupier in case of residential building can make self-assessment of his tax liability as per Section 174 (b) and deposit the property tax.</p>

<b>(9) Revision of Assessment List and duration Section 211</b>	Every five years	Every two years
<b>(10) Interest payable by owner or occupier Section 221A</b>	Did not exist.	<p>(1) Where the owner or occupier primarily liable for payment of tax in respect of any premises has not paid by the date fixed by the Corporation. In this behalf the tax or a part of the tax payable by him under the Act, simple interest at the rate of 12% per annum from the date fixed for the payment of tax up to the date of payment shall be payable by him upon the amount that has remained unpaid.</p> <p>(2) Without prejudice to the provisions of sub section (1), where the owner or occupier of any premises has paid tax under Section 207A on the basis of his own assessment and the tax so paid is found by the Corporation to be less than the amount of tax payable by him, simple interest at the rate of 12% per annum upon the amount by which the tax so paid falls short of the tax which is found to be payable, shall be payable by him from the date fixed by the Corporation for payment of tax up to the date the amount of such difference is paid.</p>



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### ANNEXURE 3

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#### CONSTITUTION & ROLE OF PROPERT TAX COMMITTEES

A system of two property tax committees is proposed in order to segregate the policy making and hearing functions related to the property tax. The proposed committees are Tax Advisory Committee (TAC) and Tax Assessment Hearing Committee (TAHC). The purpose of TAC is to provide technical and advisory support to the municipality for various issues related to property tax, whereas TAHC would be primarily responsible to ensure that the representations made by the taxpayers are heard and appropriate decisions are taken for the effective assessment of tax within the defined policy framework.

##### **A. Tax Advisory Committee (TAC)**

- The Committee would comprise of the Mayor/Chairman, Chairman of the TAHC, two elected councilors including at least one woman elected member to be nominated by the Chairman, two representatives of the citizen groups or two senior citizens, the Executive Officer/ officer not below the rank of UP Nagar Adhikari in case of Corporation, Tax Superintendent/ Senior most Tax Staff, one district level officers nominated by the District Magistrate from the development/ revenue set-up for municipalities above 20,000 population/ one sub-division level officer for municipalities below 20,000 population and one urban management expert/ officer from the Directorate of Local Bodies to be nominated by the State Government. The Mayor/ Chairman would chair the TAC and the Executive Officer/ UNA would be the Member Secretary.
- The Mayor/ Chairman of the municipality would constitute the Committee and information of the same would be sent to the District Magistrate for nominating one district/ sub-division level official and the state government for nominating the urban management expert/ state level officer.
- All the officers involved in the Committee would be ex-officio members. Similarly, the Mayor/Chairman and Chairperson of the TAHC would also be ex-officio members. The representatives of citizens nominated once would normally continue on the post for five years but if required, the Council can replace these members, if the TAC recommends for the replacement. The elected councilors would also continue till they hold the post of councilor and in case of fresh elections, these can be replaced and the new members would be nominated by the Chairperson.
- The tenure of the TAC would be 5 years starting one year before the starting date of the tax assessment period and ending a year before the completion of the assessment period, after which the new TAC would be constituted.
- It shall be mandatory for the municipality to complete the process of constitution of the committee 12 months before the date of expiry of the assessment cycle.

- The TAC would be responsible for finalizing the minimum general tax and deciding on the indicators for applying the differential system (if the Committee adopt a differential rate system), setting up guidelines for exemptions for the TAHC, defining the incentive system for tax staff and any other task required for effective implementation of property tax reforms.
- The other responsibilities of the TAC would include monitoring of the progress of revenue realization from the property tax, developing appropriate strategies and suggesting measures for improving property tax revenues and advising the council on issues related to tax.
- It would be mandatory for the Committee to submit its report on the assessment related issues like fixing the value of MGT and the differential rate system, if adopted, within 60 days of its constitution to the Council for approval.
- In case the Committee is unable to submit the report within the specified period for fixing the value of MGT, the Council may decide to adopt any amount of minimum general tax, which shall be higher or at least equal to the minimum limits provided in the assessment system.
- After the assessment system has been finalized, the TAC would meet atleast once in every six months to review the progress and resolve any policy issues related to the property tax.

#### **B. Tax Assessment Hearing Committee**

- The Committee would be constituted as per the existing provisions in the two Acts and would primarily be the Committee of the elected representatives.
- It is proposed that the Executive Officer/ Up Nagar Adhikari shall be made a member of the TAHC and will be responsible for convening all the hearings as well as informing the members of the Committee about the assessment system.
- The TAHC would be responsible for all the hearings related to tax assessment and would work within the guidelines set by the TAC for the assessment as well as exemptions.
- The TAHC would also be responsible for the internal monitoring of the progress of revenue realization from the taxes on monthly/ quarterly basis as decided by the Committee.

## ANNEXURE 4

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### PROPERTY TAX REGISTRATION CARD

**Property Tax Registration Card is envisaged as a multi-purpose instrument to ensure:**

- Availability of all the information related to each and every individual property and its taxation at single source to facilitate easy verification of the assessment made and monitoring and strengthening the information base of the properties in the municipal area.
- Joint accountability of the owner of the property and the assessing authority/ staff for the assessment.
- Minimization of the workload of the tax staff by reducing the tasks of repetitive nature like preparation of annual bills.
- Improved monitoring of the revenues realized, status of arrears, timely issue of notices and other actions to be taken against the defaulters.

The municipality would need to prepare and issue the property tax registration card for each and every property, even if the property falls under the category of 100% exemption. A separate card would be issued for each unit on the same plot in case of more than one owner like in case of group housing. The property tax registration card would have the following characteristics:

- The Property Tax Registration Card shall have the exclusive nine-digit code comprising of first two digits as municipality code, next two digits as ward number and the last five digits would be the number of the property in that particular ward.
- A composite property tax card has been designed and enclosed which would address the requirement of all types of properties including residential, non-residential or the properties with mixed land use. However, the municipalities may design and use two types of property tax registration cards in two different colours for residential and non-residential properties separately. In this case, two cards will have to be filled for properties with mixed land use.
- The property tax card would be prepared every five years. The municipal staff would prepare and sign the property tax registration card based on the field survey in consultation with the owner/ occupier and the owner would also sign the card to ensure joint accountability of both, the tax staff as well as the owner in the assessment process.



- Property Tax Registration Card is envisaged as a complete document containing (1) the details of the property (in terms of name, address, property number/ code, area of plot, floor area, number of rooms, use of the building and the area under each use, road width in front of the house, number of floors, level of services, etc), (2) the tax assessment system and the tax rates applicable for a particular type of property, (3) space for the representation, hearing and the decision of the committee to facilitate transparency in the hearing process, (4) the status of demand, collection and dues.
- It will also contain the details of the dates due for payment of taxes to avail the exemptions for timely deposit, if any, as well as the provisions related to the penalty. The municipality would not be required to issue the bills/ demand notice every year and the collection would be entered in all the three copies of the card itself so that the separate receipts need not be issued. The entries from the card would be transferred to the accounts books of the municipality.
- The card is proposed as a document with three leafs or in other words, there would be six pages in the card. The first four pages would be as per the sample format attached and the remaining two pages (one leaf) would provide the property tax rules for residential and non-residential properties (sample rules have been provided for reference as a part of the enclosed format for the property tax registration card).
- The Card would be prepared in three copies, one for the taxpayer, one for the field level collection staff and the third for the safe custody in the municipality. For the municipalities providing the facility for deposit of tax in authorized banks, the bank would put a stamp on the card for receiving the tax and send the details of the collection of tax to the municipality along with the number of the property tax registration card so that the taxpayer is not required to unnecessarily waste time for getting the entry made in the municipal record.
- The introduction of this card system would also help in reducing the use of large number of records and formats, which are being maintained in the existing system. A draft sample format for the property tax registration card as per the proposed assessment system is enclosed here.

Property Tax Registration Card

Card Number <sup>1</sup>:

Assessment Period:

aa	bbb	ccc	dddd
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2004-2009

A. Details of Property

1. Name of the owner(s)<sup>2</sup> :
2. Father's name of the owner :
3. Name of the occupier(s) : 1. 2. 3.
4. Father's name of the occupier(s) : 1. 2. 3.
5. Complete address of the Building : House Number: Ward Number:  
Street/ Mohalla (Locality):
6. Permanent address of the Owner : House Number: Ward Number:  
Street/ Mohalla City:  
(Locality):
7. Use of Building :    
Purely Residential-01 Non residential-02 Mixed Use-03
8. Type of Construction :    
Pucca-01 Semi-pucca-02 Kutchra-03
9. Total Area of Plot/ Land in Sq. m. (A1) :
10. Area of Plot under share of assessee (A2) (refer R4/C3) :
11. Plot area under residential use (A3) (refer C9) :
12. Plot area under non-residential use (A4) (Refer C9) :
13. Total Floor Area of the Building in Sq. m. (A5) :
14. Floor area under the share of assessee in Sq. m. (A6) :
15. Floor area under residential use in Sq. m. (A7) :
16. Floor area under non-residential use in Sq. m. (A8) :
17. Number of Floors in the Building :
18. Number of Rooms in the Building :

Room Size	upto 12 m <sup>2</sup>	Above 12 and up to 24 m <sup>2</sup>	Above 24 m <sup>2</sup>	Store, kitchen, garage and a covered verandaha, having area above 12m <sup>2</sup>
Number of Rooms (Refer R 6)	N1	N2	N3	N4

19. Location of plot :    
Residential area - 01 Commercial area - 02
20. Tap Water supply from Jal Sansthan/ Municipality :    
Yes-01 No-02

Verification by the Owner/ Occupier

I do hereby declare that the particulars furnished in this form related to property are correct and complete to the best of my knowledge and belief.

Signature & Name

Permanent Address

Verification by the Survey Staff

I verify that I have checked the details of the property and found them correct and the tax has been assessed as per the rules.

Signature & Name

<sup>1</sup>Where

aa is a two digit number for the state code which may be same as used by the census  
 bbb is a three digit code for the municipality, which may be given by the state government based on the date of creation of the municipality and in case of two municipalities created on the same date, the alphabets in the name of municipality can be used for deciding the number code  
 ccc is a three digit code for the ward number in which the property is situated  
 dddd is a five digit code for the number of the property in a particular ward and will start from 00001 for each ward

<sup>2</sup>

If there are more than one owners in the building, then the property tax registration card would be issued separately in case of each owner.

**B. Tax Assessment**

**B1. General Tax (To be filled/ printed by the Municipality in the Cards)**

**B1.1. Tax on land**

Use	Area of Plot in m <sup>2</sup>	Tax Rate per m <sup>2</sup>	Tax on land
total plot area	A1	as per R2/C2	
plot area under the share of assessee	A2	as per R2/C2	
under residential use	A3	as per R2	TL1
under non-residential use	A4	as per C2	TL2
<b>Total tax on land</b>			<b>TL</b>

**B1.2. Tax on Structure**

**a. For residential properties/residential part of properties with mixed land use**

Number of Rooms (N)	Tax Rate (R) (as per R7)	Amount in Rs.
N1	R1	N1 x R1
N2	R2	N2 x R2
N3	R3	N3 x R3
N4	R1	N4 x R1
<b>Total</b>		<b>TS1</b>

**b. For non-residential properties/non-residential part of properties with mixed land use**

- i Floor area under non-residential use A
- ii Base tax rate for first 10 sq. m. floor area as per C4
- iii Tax on structure for the total floor area TS2 (as per C5)

**General Tax (GT)** : TL1+TL2 + TS1 + TS2 = Rs. ....

**B2. Additional Surcharge Tax**

Use	Area in sq.m.	Rate of Surcharge	Additional Surcharge Tax
Residential use	A3	as per R10	AST 1
Non-residential use	A4	as per C7	AST 2
<b>Total Surcharge Tax</b>			<b>AST</b>

**B3. Scavenging Tax**

Use	General Tax	Rate of Scavenging Tax	Scavenging Tax
Residential use	TL1 + TS1	25% of (TL1 + TS1)	ST 1
Non-residential use	(TL2 + TS2)	50% of (TL2 + TS2)	ST 2
<b>Total Scavenging Tax</b>			<b>ST</b>

**B4. Tax on properties on encroached land**

- i Tax on land Rs. 0.00
- ii Tax on structure As per B1.2
- iii Additional Surcharge Tax 100% of Tax on structure

**B5. Summary of Property Tax (Preliminary)**

Name of the Tax	Amount
Total General Tax	GT
Additional Surcharge Tax	AST
Scavenging Tax	ST
<b>Total Property Tax</b>	<b>PT</b>

**C. Representation and Hearing**

1. Date of Representation
2. Reason/ Ground on which exemption is requested
3. List of Documents submitted, if any
4. Date of issue of Letter for hearing
5. Date for hearing
6. Comments/ remarks of the tax assessment staff

**D. Decision of the TAHC along with the Reasons**

Names and Signatures of the members of the TAHC

**E. Final Tax Assessment Details**

<b>Name of the Tax</b>	<b>Tax as per Preliminary Assessment</b>	<b>Revised Tax as per the decision of the TAHC</b>
Total General Tax		
Additonal Surcharge Tax		
Scavenging Tax		
Total Property Tax		

**F. Demand and Collection Details**

	Current Tax Demand divided into instalments, if applicable				Cut-off date for availing rebate	Tax Demand after Rebate if deposited before the cut off date				Penalty for late payment if any	Interest for the deposit payme
	GT	AST	ST	PT		GT	AST	ST	PT		
2004-2005											
2005-2006											
2006-2007											
2007-2008											
2008-2009											

Financial Year	Arrear from the previous year, if any				Actual Tax payable				Date of deposit	Amount Deposited	Stamp and Signature of receiving person
	GT	AST	ST	PT	GT	AST	ST	PT			
2004-2005											
2005-2006											
2006-2007											
2007-2008											
2008-2009											

The rebate would be eligible at the rate of r% (as decided by the municipality), if the tax is deposited before (Date).

The penalty would be charged at the rate of ( ) for the late payment, if the tax is not deposited within the same financial year. In addition, the interest on the unpaid amount would be charged at the rate of 12% if the tax is not deposited within the same financial year.

**Verification report by the staff authorized for the purpose**

I verify that I have checked the details of the property and found them correct and the tax has been assessed as per the rules.

Signature & Name

**Property Tax Rules- Residential Properties**

- R1. The property tax shall comprise of two components, namely general tax and scavenging tax. Further, the general tax shall comprise of two components, first, the tax on land and second, the tax on building/ structure. The Jal Sansthan shall charge the water tax as per their rules.
- R2. The tax on land would be based on the Circle Rate. The vacant and purely residential plots with area up to 25 m<sup>2</sup> would be exempted from the tax on land. The tax on land per m<sup>2</sup> would be multiplied by the area of the plot as per the matrix given below.

Area of Plot	up to 25 m <sup>2</sup>	26 to 200 m <sup>2</sup>	201 to 400 m <sup>2</sup>	Above 400 m <sup>2</sup>
<b>Tax Rate</b>	0.00	0.1% of C (C/1000)	0.2% of C (C/500)	0.25% of C (C/400)
<b>Circle Rate/ m<sup>2</sup></b>		<b>Tax/ m<sup>2</sup> (in Rs.)</b>		
Rs. 300	0.00	0.30	0.60	0.75
Rs. 500	0.00	0.50	1.00	1.25
Rs. 1000	0.00	1.00	2.00	2.50
Rs. 3000	0.00	3.00	6.00	7.50
Rs. 5000	0.00	5.00	10.00	12.50

- R3. The tax on land would be applicable on the vacant land but the land used purely for the agricultural purpose would be exempted. However, the land used for the gardening/ kitchen gardening in a house would not be exempted from the tax.
- R4. For the residential properties in the form of group housing schemes/ flats, the area of the land for the purpose of taxation shall be calculated by dividing the total plot area by the number of floors/ units. Similarly for the plotted housing, if there is more than one owner, the area of land would be divided in proportion of their share and the tax on land for that individual taxpayer would be worked out based on the corresponding area.
- R5. The TAC has declared the Minimum General Tax for the residential properties with plot area up to 25 m<sup>2</sup> as Rs. 60.00 per floor. For plots above 25 m<sup>2</sup>, the MGT would be the tax per room for rooms upto 12 m<sup>2</sup>.
- R6. The room has been defined as a part of the building enclosed by walls or partitions, floor and ceiling. The definition of room would include store, kitchen, garage and a covered verandah, having area above 12m<sup>2</sup>. But it would exclude bathroom, latrine, staircase, open balcony/ area left open to sky for front, side & back setbacks, corridor and portico.
- R7. The tax on structure would be calculated as per the tax rates given in the matrix below by multiplying the tax value with number of rooms falling under different sizes.

Room size and Tap Water Supply	Tax Rate		
	Pucca	Semipucca	Katcha
<b>Room with area upto 12 m<sup>2</sup></b>			
With	120	100	80
Without	100	80	60
<b>Rooms with area above 12&amp; up to 24 m<sup>2</sup></b>			
With	240	200	160
Without	200	160	120
<b>For Rooms with area above 24 m<sup>2</sup></b>			
With	480	400	320
Without	400	320	240

- R8. The state government owned schools, colleges, hospitals and offices excluding properties belonging to Corporations/ Autonomous Bodies, would be taxed as per the norms for residential properties.
- R9. For the properties built on government or private land through encroachment, the tax on land would not be applicable, but these would be liable for the payment of an additional 100% surcharge on the tax calculated on structure.
- R10. An additional surcharge tax would be applicable at the rate of 25% of the total general tax for the plots above 400 m<sup>2</sup>.
- R11. The scavenging tax would be calculated at the rate of 25% of the total general tax (tax on land + tax on structure).

**Property Tax Rules- Non-residential Properties**

- C1. The property tax shall comprise of two components, namely general tax and scavenging tax. Further, the general tax shall comprise of two components, first, the tax on land and second, the tax on building/ structure. The Jal Sansthan shall charge the water tax as per their rules.
- C2. The tax on land would be based on the Circle Rate. For vacant land even if the non-residential land use were permitted, the tax on such vacant land would be applicable as per the rate for residential properties, till the non-residential property is built on the plot. The tax on land per m<sup>2</sup> would be multiplied by the area of the plot as per the matrix given below.

Area of Plot	up to 25 m <sup>2</sup>	26 to 200 m <sup>2</sup>	201 to 400 m <sup>2</sup>	Above 400 m <sup>2</sup>
<b>Tax Rate</b>	0.25% of C (C/400)	0.33% of C (C/300)	0.40% of C (C/250)	0.50% of C (C/200)
<b>Circle Rate/ m<sup>2</sup></b>		<b>Tax/ m<sup>2</sup> (in Rs.)</b>		
Rs. 300	0.75	1.00	1.20	1.50
Rs. 500	1.25	1.67	2.00	2.50
Rs. 1000	2.50	3.33	4.00	5.00
Rs. 3000	7.50	10.00	12.50	15.00
Rs. 5000	12.50	16.67	20.00	25.00

- C3. For the non-residential properties (like commercial complexes) having large number of shops/ commercial units, the area of the land for the purpose of taxation for each unit shall be calculated in proportion of the share of their floor area to the total floor area of commercial complex. (Area of land for a unit = Total Area of plot x (Floor area of commercial unit/ Total floor area of the commercial complex))
- C4. The tax on structure for a non-residential unit for the first 10 m<sup>2</sup> floor area (2.5 times the MGT for 10 sq.m. as the lowest and 5 times MGT as the highest) would be as per the matrix below.

Location of Non-residential Unit	Road Width		
	> 12 m	6-12 m	< 6 m
Commercial Area	300	262.50	225
Residential Area	225	187.50	150

- C5. The tax on structure would be calculated on the basis of the tax for 10m<sup>2</sup> floor area for different combinations in the matrix above. The tax for subsequent floor area in the slab of 10m<sup>2</sup> or part thereof would be applied on the graduated scale as given in the matrix below.

Sl. No.	Floor Area	Tax per Commercial Unit
(1)	Area up to 10 m <sup>2</sup>	Y (Tax for first 10 m <sup>2</sup> as per table above)
(2)	From 11 to 100 m <sup>2</sup>	Y + Y for every additional 10 m <sup>2</sup> or part thereof
(3)	From 101 to 200 m <sup>2</sup>	10 x Y + 2 x Y for every additional 10 m <sup>2</sup> or part thereof
(4)	From 201 to 400 m <sup>2</sup>	30 x Y + 3 x Y for every additional 10 m <sup>2</sup> or part thereof
(5)	Above 400 m <sup>2</sup>	90 x Y + 4 x Y for every additional 10 m <sup>2</sup> or part thereof

- C6. For the properties built on government or private land through encroachment, the tax on land would not be applicable, but these would be liable for the payment of an additional 100% surcharge on the tax calculated on structure.
- C7. An additional surcharge tax would be applicable at the rate of 25% of the total general tax for the plots above 200 m<sup>2</sup> and at the rate of 50% for the plots above 400 m<sup>2</sup>.
- C8. The scavenging tax would be calculated at the rate of 50% of the total general tax (tax on land + tax on structure).
- C9. For the purpose of calculating the tax on land component, the share of plot area under residential and non-residential use would be calculated in the ratio of floor areas for the respective use of the total plot area. Similarly for the tax on structure, the related provisions would be applied on the corresponding areas for different use of the building.



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**ANNEXURE 5**


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**EXAMPLES OF DIFFERENTIAL RATE SYSTEM**

The differential rate systems proposed as a part of the assessment system are explained here with the help of some examples here. These examples are simply indicative and the municipalities may use their own indicators based on the city specific requirements or even adopt uniform rates without putting any differential system.

**A. Application of Differential Rate System for the Tax on Land**

⇒ The differential tax rates could be applied using slab system based on the plot area, as per the example given below.

Area of Plot	Tax on Land for Residential Properties	Tax on Land for Non-residential Properties
Up to 25 m <sup>2</sup>	0	0.25 % of C (C/400)
Above 25 and upto 200 m <sup>2</sup>	0.1% of C (C/1000)	0.33% of C (C/300)
Above 200 and upto 400 m <sup>2</sup>	0.2% of C (C/500)	0.40% of C (C/250)
Above 400 m <sup>2</sup>	0.25% of C (C/400)	0.50% of C (C/200)

Where C is the cost of land as per the Circle Rate

**B. Application of Differential Rate System for the Tax on Structure for Residential Properties**
**1. Based on Room Size**

⇒ The differential tax on structure could be calculated on the basis of the room size and the same is explained with the example given below.

Sl. No.	Room Size	Tax per Room
1.	Rooms with area upto 12 m <sup>2</sup>	MGT
2.	Rooms with area above 12 & up to 24 m <sup>2</sup>	2 x MGT
3.	Rooms with area above 24 m <sup>2</sup>	4 x MGT

## 2. Based on Location and Type of Structure

- ⇒ For applying the differential rate system, the municipality may use the two indicators, type of construction (pucca, semi-pucca and kutchha) and location (based on the access to tap water supply from Municipality/ Jal Sansthan or road width or the variation in the circle rates across different zones).
- ⇒ The differential rate system for a municipality, which has decided to use MGT as the minimum general tax per room and 2 times the MGT as the maximum limit for the lowest slab of area and slab system for different room size as given above, the same is explained with an example given here.

Room size and Tap Water Supply	Tax Rate		
	Pucca	Semipucca	Katcha
<b>Room with area upto 12 m<sup>2</sup></b>			
With	2 MGT	1.66 MGT	1.33 MGT
Without	1.66 MGT	1.33 MGT	MGT
<b>Rooms with area above 12&amp; up to 24 m<sup>2</sup></b>			
With	4 MGT	3.34 MGT	2.67 MGT
Without	3.34 MGT	2.67 MGT	2 MGT
<b>For Rooms with area above 24 m<sup>2</sup></b>			
With	8 MGT	6.67 MGT	5.33 MGT
Without	6.67 MGT	5.33 MGT	4MGT

- ⇒ The municipality may suitably modify the indicators in context of the city specific situations or the municipality may even decide to adopt only the area slabs of rooms as the basis for introducing differential rate system or alternatively keep a constant rate for the different size of room and apply location and type of construction indicators only or a mix of the two systems as explained above.

**C. Application of Differential Rate System for the Tax on Structure for Non-residential Properties**

**1. Based on Location Parameters**

⇒ Within the same city, the municipality may define differential rates for the general tax on non-residential units based on two simple parameters of road width and location of commercial unit. The same has been explained with an example.

Location of Non-residential Unit	Road Width		
	> 12 m	6-12 m	< 6 m
Commercial Area	2X	1.75X	1.5X
Residential Area	1.5X	1.25X	X

Where X is the tax on structure for the first 10 m<sup>2</sup> floor area calculated as 2.5 times the MGT for residential property

**2. Application of graduated scale based on area slabs**

Sl. No.	Floor Area of Commercial Unit	Tax per Commercial Unit
(1)	Commercial Unit with area upto 10 m <sup>2</sup>	Y (Tax for first 10 m <sup>2</sup> as per table above)
(2)	From 11 to 100 m <sup>2</sup>	Y + Y for every additional 10 m <sup>2</sup> or part thereof
(3)	From 101 to 200 m <sup>2</sup>	10 x Y + 2 x Y for every additional 10 m <sup>2</sup> or part thereof
(4)	From 201 to 400 m <sup>2</sup>	30 x Y + 3 x Y for every additional 10 m <sup>2</sup> or part thereof
(5)	Above 400 m <sup>2</sup>	90 x Y + 4 x Y for every additional 10 m <sup>2</sup> or part thereof

As for non-residential unit, the tax on structure is 2.5 times the MGT for residential property