



## INDIA – July 2017

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**PLEASE DON'T ABOLISH PROPERTY TAX..... 1**

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### **Please don't abolish property tax**

The BMC has approved a proposal to exempt all flats below 500 sq ft from paying property tax, and a 60 per cent discount for those between 500 and 700 sq ft

The city already lost revenue autonomy by abolition of octroi and cannot afford more waiving away of revenue sources.

Maharashtra is one of twenty-nine states of India. But unlike other states, it had a special status in the GST council. That's because it is the only state which lost out a big chunk of revenue on account of abolishing of octroi.

This abolition was a pre-condition to the rollout of GST nationwide. There were several exceptions to GST such as taxes on petrol, diesel, electricity, liquor and real estate.

But Maharashtra couldn't possibly say "octroi ko rehne do" and let's go ahead with GST.

As it is, with so many exceptions (almost 40 per cent of GDP is currently excluded), and so many tax slabs, GST has had a rough start. To handicap it further by excluding octroi would have rendered it a non-starter. And besides Maharashtra would have been isolated, since it is the only major state with a substantial dependence on octroi revenue.

So it struck a deal in the GST council, that loss of revenue from octroi would be reimbursed. This in turn made the GST rates go up (since the rates had to be revenue neutral – pre and post GST). We will know shortly how much revenue will actually get reimbursed from the centre.

In the meantime the state government has very kindly already released a big check for Rs 647 crore on July 4 itself.

Such was the significance of this occasion that the check handover to the city was done in a grand ceremony at the BMC headquarters with the Finance Minister of the state personally handing over the check. It's not clear whether every instalment will involve such a ceremony.

But the ceremony should not let one lose sight of the fact that the city has lost significant revenue autonomy. It is not a happy situation for the city to go begging to the state for a legitimate share in revenue. Of course, the fund flow has been secured by setting up an escrow account, to which no one else will have access.

The government in its wisdom had scrapped the Local Body Tax immediately after the state elections in 2014, as fulfilment of an electoral promise. The LBT would have provided adequate financial autonomy in lieu of octroi and that revenue would also have been buoyant. In fact, in 24 of 26 municipal corporations it was already running without a hitch. But all that is behind us now.

So as if not satisfied with the loss of revenue autonomy by losing octroi (nearly Rs 8,000 crore annually), the city is now contemplating further loss by giving property tax exemption.

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The general body of the BMC has already approved the proposal to exempt all flats below 500 square feet from paying property tax, and a 60 per cent discount for those between 500 and 700 square feet.

You can imagine the creativity of people who will now plan to buy bigger flats, but show it as amalgamation of two “small” flats, and get exemption.

If you assume that a median flat of 500 square feet in Mumbai costs Rs 30 lakh, then even with 1 per cent property tax, this exemption amounts to Rs 30,000 freebie forever. Multiply this by the number of potential beneficiaries, and you get a mind-boggling number.

Of course, the property tax is not calculated on the market value (as in most big cities of the world), nor is it the same for residential and office premises. The total collection is more than Rs 5,000 crore.

The exemption will lead to partial loss only. But it could be a slippery slope. Why not extend the exemption to 1,000 square feet?

Mumbai is a city where every inch of real estate is like gold yet the city coffers are empty, unable to get even small crumbs from that gold.

So, next time you bemoan the lack of infrastructure, quality of roads and crumbling public amenities, you would at least know, from where the funds are (not) coming. Unfortunately, this move is going to be populist (is that the mood of the nation?), and unlikely to face any opposition. Let’s hope some (economic) sanity prevails.

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