



# INDIA – June 2017

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## Bengaluru Gets It Right - Land Value Tax To Finance The Metro

This is an interesting little example of good public policy--Bengaluru is using a variation of land value taxation to fund the construction of a metro station. The basic insight being that the construction of a metro line adds value in the areas served by it. Thus a reasonable method of financing the construction is by trying to capture some of that rise in the land value. The value rise is largest at the actual stations of course, so that's the right place to try to be charging the owners for the uplift in land values.

There are a number of ways of doing this and this is one of them:

The Embassy Group will develop the Kadubeesanahalli Metro station, which figures in the new 17-km KR Puram-Silk Board Metro line, at a cost of `100 crore. An MoU was inked on Friday between the Embassy Group and the Bangalore Metro Rail Coporation Ltd, said a release.

“This is the first corporate to sign an agreement under the Public-Private Partnership,” the release said.

That station, once built, will be a valuable place to have stores, advertising and so on:

BMRCL for the first time, came up with innovative funding for this line—which means that funds can be mobilized by monetizing land around stations, giving exclusive advertising rights to third parties etc. BMRCL had identified and invited private entities and companies to sponsor up to 25% of the total project cost with an intention to congregate funds as well as get corporates to participate in faster funding and completion of transportation projects.

This is not a complete solution to the costs of building either the station or the line but it is a very useful, and economically correct, manner of gaining access to at least some of the funds required:

The period of concession and permission granted to Embassy Group will be for a period of 30 years starting from the date of commencement of commercial operations and could be extended further on mutual terms.

What you would really like to be able to do is capture some of the rise in land values in the hinterland of the station. That however is complex and cannot be done perfectly. So, this is at least a good start.

It's worth noting that the extension of London's Tube to Battersea is being largely financed in this manner. The people redeveloping the Battersea Power Station have chipped in a couple of hundred million to extend the line. On the grounds that the extension produces more than that value uplift to their development. The earlier extension of the Jubilee Line out to Canary Wharf was also paid for, largely, by the developers of Canary Wharf. On exactly the same grounds. And Hong Kong's metro

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system almost entirely finances its capital development budget by such capture of land value changes. That though is a little different as much of the freehold of the land is government owned anyway, so it's easier to charge that uplift to lessors.

Bengaluru has at least the beginnings of a good solid policy here. A metro station uplifts the value of the local land so why not capture some of that rise in value to pay for the station itself?

### Property tax system should be transparent, efficient

Property tax has two implications. First, it is the main source of income for municipalities, and second, it affects all citizens who own properties. It is therefore important that the property tax system should be efficient, transparent and easily understandable to the taxpayer.

In Bengaluru, an arbitrary system based on rental value was replaced by a transparent self-assessment system based on specific parameters, almost two decades back. This system has, by and large, been working well.

In 2016, BBMP revised the tax rates and also introduced some changes with reference to location and usage. This resulted in some errors in the calculation of tax in respect of several buildings. Although it was announced that the increase in tax would not exceed 20 per cent, there were a number of cases where the challans generated showed a manifold rise in tax. Those who had already paid the tax were assured that excess would be adjusted the following year. However, errors have continued this year leading to confusion and complaints.

The property tax system in BBMP is basically sound, but the internal administrative systems are weak. Three measures are needed to improve matters: 1) Fix the software glitches to prevent errors in calculation, strengthen the IT department in BBMP by employing the required experts, paying more, if need be; 2) Impart adequate training to the staff in the revenue department at all levels. Untrained personnel with inadequate knowledge of the manner in which the tax system works are contributing to much of the confusion; 3) BBMP must invest more in creating awareness among the citizens about the tax system, especially the changes whenever introduced.

A transparent and people-friendly approach will pay dividends through better tax collection and increase in revenues.

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In a city with a population of 1.2 crore and over 17 lakh properties, it should be possible to double the target of `2,900 crore which should help in building better city infrastructure.

(The writer is a former Chief Secretary and BBMP Commissioner)

### Cell tower operators seeks end to property tax

New Delhi: Mobile tower companies have written to telecom regulator TRAI alleging that coercive action by local bodies for taxes, retrograde orders and no benefit under GST are the key impediments facing them to run business.

The mobile tower firms, under the umbrella organisation of Tower and Infrastructure Providers Association (Taipa) have sought abolition of property and other taxes imposed in states that are not in sync with central government rules.

"Some of the municipalities and states consider telecom towers only as a source of revenue instead of critical infrastructure essential for the common public. They calculate property taxes based upon the rentals, not linked to the standard and well established guidance/rateable value for the area," Taipa said in its submission to Telecom Regulatory Authority of India (TRAI).

The industry body said that property tax on mobile towers should be dismissed as the state and local authorities including corporations have no competence to levy and collect such tax under Indian Telegraph Act.

"The issue related to levy of arbitrary and exorbitant property tax on telecom towers at different rates or amounts by different local authorities including municipal corporations, municipalities and state governments coupled with coercive actions such as sealing of towers, disconnection of power supply, nuisance at sites, use of force and damage to telecom sites etc. have again come to light in recent times," Taipa said.

It said that more than 250 tower sites have been sealed, removed or demolished by various municipal corporations in Maharashtra resulting in huge impact on telecom services on over 3 million consumers.

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The industry body said that its members which include firms like Indus Towers, Bharti Infratel and American Towers, own 90 per cent of the telecom infrastructure in the country but still the government has not included them under Right of Way (RoW) Rules notified by the Department of Telecom last year.

The RoW rules protect telecom companies from high rates charged from them by various government agencies and remove impediments of permits by different authorities.

The industry body raised concerns over a government order asking mobile tower companies to either take a telecom licence or transfer ownership of some items like mobile antenna, feeder cable etc to telecom operators.

"Government should enable faster provision of cost effective common telecom infrastructure for the benefit of public at large and not revenue generation from licenses...which has cascading effects and eventually leads to additional cost to public at large," Taipa said.

It said that the government under GST has not allowed tax credit on the tax paid by telecom operators on bills generated by them.

"With CENVAT credit not available (under the plant & machinery) to tower infrastructure business, the cost of services will rise considerably and billing by IP-1 to TSPs (telecom service providers) will need to include the component of additional tax implication in its overall cost structure," Taipa said.

#### **Uttar Pradesh Leads In Value Capture Financing For Urban Infra Projects**

Uttar Pradesh has emerged as a front runner in Value Capture Financing (VCF) model for urban infrastructure projects in the country, Urban Development Minister Venkaiah Naidu said on Tuesday.

"As many as 61 cities in Uttar Pradesh are using Value Capturing Financing Tools," said Naidu on the sidelines of an event to announce his ministry's achievements in the three years of Modi government.

The finance ministry had notified VCF guidelines in March 2017 to make them mandatory for all ministries from April. As per the guidelines, each project proposal should be presented before the Public Investment Board and the Delegated Investment Board will decide which VCF tool is most feasible for the project.

In the Value Capture Financing model, the government makes large investments in developing public infrastructure which leads to a spike in land prices to focus on land value creation via infrastructure development.

As many as 163 cities across 17 states and union territories had decided to opt for value capture financing. "Gujarat and Maharashtra are behind Uttar Pradesh in implementing VCF model," Naidu told BloombergQuint at the sidelines of the event.

18 states and Union territories have appointed consultants for to accommodate policies and guidelines for using VCF tools.

The different instruments of VCF include: land value tax, fee for changing land use, betterment levy, development charges, transfer of development rights, premium on relaxation of floor space index and floor area ratio, vacant land tax, tax increment financing, zoning relaxation for land acquisition and land pooling system.

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