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Property Tax: No municipality should scrap this vital tax

Municipal elections do not have the cachet of state or Parliament elections. But they are no less relevant for the health of the economy than elections to higher levels of government. For municipal politics determines the health of our cities, where the bulk of modern, organised economic activity takes place. If you kill cities or make them anaemic, there would be a disproportionately large impact on profits, jobs, new business formation and the quality of life.

For these reasons, the Aam Aadmi Party’s decision in the municipal polls in Delhi to promise scrapping property tax is a major concern. AAP would be well advised to rethink the move and not start a disease in the national capital that could infect other municipalities in the neighbourhood, spread further afield and become a nationwide epidemic that drains vitality out of India’s cities and hobbles economic growth. Property taxes are a vital source of revenue: Canada collects some 4% of GDP from the tax. But even more significant is to whom the tax accrues.

Property taxes accrue, for the most part, to local governments, constituting upwards of one-third of their total tax revenue wherever the tax is reasonably well-administered. Property taxes are a vital part of the revenue base, against which municipalities issue bonds to raise resources for investing in enhancing the size and productivity of the towns they govern. Thus, property taxes are not just important earners of tax revenue but also an important enabler of decentralisation of administrative and financial power.

Further, property taxes are an instrument available to municipalities to guide land use and city density. Higher tax rates on land would automatically induce higher density, which is desirable from the point of view of overall energy efficiency, avoiding commutes and improving air quality, when accompanied by sensible town planning. The short-term gain in popularity derived from a promise to scrap property taxes comes with a huge cost in terms of future well-being and prosperity of the town. This is a form of populism best avoided.

Octroi, property tax collection soars this year

Mumbai: Even as the BMC is gearing up for its financial budget, revenue from two of the biggest money spinners namely octroi and property tax has soared significantly this year. In fact the revenue received by the civic body from octroi till Friday surpassed its annual target.

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The octroi collection by the BMC for the current financial year 2016-17 on Friday touched Rs 7,000 crores against a target of Rs 6,950 crores. In the last financial year, the BMC's revenue from octroi was Rs 6,300 crores which fell short of the target of Rs 6,800 crores.

Civic officials said that there were many reasons for this increase, importantly the rise in crude oil price. A civic official said, "Last year the crude oil price was 30 dollars per barrel but in December 2016 it touched 50 dollar per barrel. The BMC also increased the octroi on crude oil from 3% last year to 4.5%." The BMC however soon would not be able to collect octroi considering the same is being replaced by Goods and Services Tax (GST). Deputy municipal commissioner B G Pawar said that vigilance at octroi nakas has increased and action up to suspension has been initiated against errant officials.

The property tax collection in the current financial year has been Rs 4,000 crores while the target set up by the BMC is Rs 5,200 crores. Last year revenue from property tax was Rs 4,900 crores. "Several people are known to come ahead and pay property tax during the last few days and therefore we are hoping to meet our target set," added Pawar.

Maharashtra: To recover property tax dues, KDMC dumps garbage on premises of defaulting company

IN ORDER to recover property tax dues from defaulters, the Kalyan Dombivli Municipal Corporation (KDMC) recently decided to dump garbage on the premises of such properties. Officials from the KDMC said the action was undertaken following orders from Municipal Commissioner E Ravendiran.

KDMC officials said following the civic chief's order, garbage was dumped on the premises of NRC Limited (formerly National Rayon Corporation Ltd) in Kalyan Tuesday. The company has a prime property, around 350 acres of land, in Kalyan.

"The company has Rs 55 crore as outstanding property tax dues, unpaid for many years," said Sunil Patil, ward officer of A Ward who led a team to dump garbage on the company's premises.

Senior officials from the civic body said the company had not paid dues for more than a decade. "The NRC is the biggest property tax defaulter of the KDMC. Despite repeated notices, it has failed to pay up dues. In February 2016, we also attached the company's property and put up a board stating the restrictions on transferring the property. The move to dump garbage on the premises is aimed at recovering property tax dues from big defaulters," said the official.

Despite repeated attempts, Ravendiran was unavailable for comment.

However, the civic body's conservancy staff and drivers were beaten up by local residents when they went to dump garbage at the site Tuesday. "There was some misunderstanding. The locals thought we are making a dumpyard in their colony. Police protection was sought at the site. Then, the civic officials convinced the locals after which they were allowed to dump the garbage there," explained the official.

On Wednesday, the drivers of the garbage vehicles were on strike as mark of protest for the assault on the drivers. However, officials said the drivers called off their strike in the afternoon and resumed duty.

Officials maintained the action would be continued further in coming days. "As per the civic chief's order, we will continue to dump garbage in the premises of certain defaulters, wherever there are non-residential areas," said Patil.

However, representatives of NRC termed the action as "wrong" and said this was not the proper way to recover the dues. "It is absolutely wrong on the part of the civic body to dump garbage. The civic body should have auctioned the property or approached the court for recovery. It is very strange that the civic body, which is supposed to collect the garbage under the Swachh Bharat Mission, is doing this," said a representative from NRC Ltd.

The representative further said the property tax dues of Rs 55 crore was a disputed sum. "The dispute has been going on for some time. In any case, the amount would not be more than Rs 30 crore. We have challenged it. Recently, in Lok Adalat, the civic body had agreed to settle it but then refused to sign the order," the representative added.

When contacted, M S Shekhawant, joint president (works) of NRC Limited, said, "The civic body's action is wrong and the legal team is looking into it.

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The OECD's Strange Idea That India Needs An Inheritance Tax

The Organisation for Economic Co-operation and Development has released its latest country report for India and it contains the rather strange idea that India should bring in an inheritance tax. This owes a lot more to contemporary fads in public policy in western countries than it does to good economics. It's thus something that India should entirely ignore rather than implement. Other recommendations, like lowering the corporate income tax, are fine, as is the praise for demonetisation and the GST, but an inheritance tax really just isn't a good idea:

Demonetisation of high-value currencies by the Indian government will have long-term benefits and complements the many initiatives taken by the government to fight against black money and reduce tax evasion, the Organisation for Economic Co-operation and Development (OECD) said on Tuesday.

In its Economic Survey for India released on Tuesday, OECD said implementing demonetisation will have a transitory impact with short-term costs.

That is all much as everyone has been saying all along.

The Organisation for Economic Co-operation and Development (OECD) has projected India's economy to grow 7 per cent in the current financial year and rise gradually to 7.3 per cent in the next year and 7.7 per cent in 2018-19.

That's hugely cheering news. Who does not like the idea of 1.2 billion people rapidly getting richer?

Noting that wealth in India is extremely concentrated, the OECD made a case for introduction of inheritance tax with a high exemption threshold and raising the scope for property tax.

"There is also scope to raise more revenue by less distortive property taxes. Raising more revenue from recurrent property taxes would require granting municipalities more power to implement them and set tax rates, and establishing up-to-date property values," the OECD said.

Property tax is a good idea too due to our old friend deadweight costs. We must have taxation of some sort because we must have government. But each and every tax, merely by its existence, means that some economic activity will not take place. That's what a deadweight cost is, that activity not taking place. And taxes lie along a spectrum with repeated taxes upon real property (really, land) having the lowest deadweight costs of all taxes. We don't have to go all the way to Henry George, who said that it should be the only tax, but certainly we'd like it to be a mainstay of our economy. More so than India does presently.

However, it's exactly the same point which means that we don't want to have an inheritance tax. Taxes upon capital are at the other end of our deadweight spectrum, having very high costs per amount of revenue raised. And an inheritance tax is indeed a tax upon capital--all too often people have to liquidate investments in order to pay it. This is not something we want to have happening in any economy. More than that, it's not something we want to have happening in a capital poor economy like India. We would all be much better off taxing land and consumption and leaving corporate and capital taxation well alone.

The OECD is wrong here, an inheritance tax is not something that India desires or needs at all, the country will be richer in the future without it.

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