



## INDIA – November 2017

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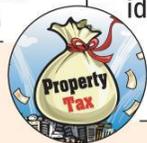
### Average 2.5 times increase in property tax in new system

NAGPUR: The demand notes distributed by the Nagpur Municipal Corporation (NMC) to 1.07 lakh property tax payers have revealed that the average hike in tax is 2.5 times, with individual increase ranging between 2-10 times.

After over a decade, the NMC is revaluating existing properties. At the same time, it has launched new property tax system — ready reckoner-rate chart. As on date, revaluation of three lakh properties has been done. Demand notes were prepared for around 1.50 lakh properties, of which 1.07 lakh were distributed.

## THE TAX HIKE EXPLAINED

<p><b>NEW SYSTEM</b> New property tax system — ready reckoner and rate chart — launched in 2015-16 but implemented in 2017-18</p>	<p>ready reckoner value in 2013-14. Tax levied on expanded area and as per changes in user. Rental properties identified and rental tax revised. Larger residential property tax and special conservancy tax levied</p>
<p><b>REVALUATION</b> Out of 5.50 lakh properties, around 4 lakh surveyed. Revaluation process, including finalization of assessment register of 3 lakh properties, done. All demand notes to be issued by Feb</p>	<p><b>TAX INCREASE</b> Tax for individual properties increased 2-10 times as per analysis of 98,348 properties. Average hike could be more in North, Central, South and East Nagpur where properties have undergone changes</p>
<p><b>REASONS FOR HIKE</b> Properties assessed as per</p>	



### Average 2.5 times increase in property tax in new system

The property tax department conducted analysis of 98,348 properties in 24 wards. Last year, the demand raised for these 98,348 properties was Rs13.79 crore. In the new system, the demand has increased to Rs34.47 crore, which is 2.5 times.

### International Property Tax Institute

IPTI Xtracts- The items included in IPTI Xtracts have been extracted from published information. IPTI accepts no responsibility for the accuracy of the information or any opinions expressed in the articles.

The analysis has exposed the claim by NMC office bearers that the tax increase will not be more than 25%. During the launch of new system, they had neglected the administration's proposal for having a cap on the tax. The tax would not have increased by 1 time for residential and 2 times for commercial had the cap system been in place.

In the new system, the NMC has started levying larger residential properties tax. This tax has been applicable to properties having an area of 150 sq mt and above since 1976. The NMC ignored this tax all these years. In the new system, the property tax department has fed details of each property and the tax is being levied automatically.

Fine example is the property owned by VP Tiwari, resident of Sawarkar Nagar. Larger residential properties tax was levied on the property, which is over 30 years old, for the first time in the current fiscal. The tax is 10% of annual letting value.

The NMC has also started levying special conservancy tax on commercial properties from the current fiscal. It is a new tax and 10% of annual letting value.

The property tax would have increased further had the NMC levied 1% tree cess and difference in tax amount for the last two fiscal. Though approved by the general body, tree cess was delayed due to garden department's negligence. The NMC general body passed resolution not to recover difference amount of last two fiscal.

An NMC official told TOI that taxpayers and public representatives, including corporators, should understand reasons behind hike in property tax. "Major reasons are expansion in existing properties, user change from residential to semi-residential or commercial, change in area factor etc. Also, the tax had not been increased since over a decade. The tax will not increase for next five years," he said.

### Chennai: 30 per cent property tax hike likely

It is learnt that the civic body has proposed to increase the levy by 20 to 35 per cent.

Property owners in Chennai may have to pay 30 per cent more as property tax if the state government approves the 'rationalisation' proposal by the Greater Chennai corporation.

"The high court had taken up a suo moto hearing on the non-revision of property tax rates in Chennai. Following the intervention of Madras high court, the city corporation has taken steps to increase the tax rates for all properties in Chennai" a senior Chennai corporation official told Deccan Chronicle.

It is learnt that the civic body has proposed to increase the levy by 20 to 35 per cent. "The state government and the high court will have the final say about the extent to which the tax would be hiked. The tax will remain nominal even if the revenue authorities fix a higher slab going by the fact that the tax rates were not revised since 1998," the official explained.

The civic body is collecting a minimum of 50 paise and a maximum of `2.50 per sq.ft for residential buildings and in the case of commercial establishments; the range is fixed between Rs 3 and Rs 9 per sq.ft. Last fiscal, the corporation collected Rs 695 crore and if the rates were revised the corporation would generate an additional sum of Rs 100 crore.

Extended zones like Ambattur and Alandur are collecting a maximum of Rs 18 for commercial buildings. Core city is collecting a maximum of Rs 9. The Chennai corporation also sent a proposal to fix tax in between Rs 9 and Rs 18 for commercial edifices. "After the 'rationalisation' some parts of the city may see a hike in tax rates and other parts especially, the extended zones see a reduction," the official said.

The top brass attached to the city civic headquarters opined that the new tax rates would come into effect from next financial year and it would not reflect in arrears. "If we choose to collect arrears on the basis of new rates, the property owners will become reluctant to pay the tax," the official expressed.

The Chennai corporation revenue department has collected Rs 432 crore this financial year up to November 10. "We have a target to collect Rs 700 crore. The tax collection is increased owing to re-assessments done in old buildings. If the tax rates increase, the collection will also increase," the official added.

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## Your ultimate guide to property taxes

### What's property tax?

Property tax is levied on the ownership of any 'real property'. In India, property tax is levied on all real estate, which consists of improvements made to land, such as buildings or land attached to buildings.

Usually, vacant plots of land without an adjoining construction are not liable to be taxed.

### Who assesses the property tax?

The local municipal authorities assess the value of every property and accordingly levy a proportionate tax on the same, which would be payable on an annual or semi-annual basis. The revenue generated from property tax is used to maintain and provide various civic amenities such as road repairs, sewer system, lighting, maintenance of common areas such as parks, etc. The rate of property tax and manner of valuation differs from one municipal authority to the other.

### Payment of property tax

In India, municipal taxes can be paid online on the respective state government or municipal authority websites. This has streamlined the earlier cumbersome process of payment of property taxes and allows for fast, convenient, and mobile payment.

The 'property tax number' or 'Khatha number' is to be furnished to identify the said property. Property tax can also be paid offline at the offices of the municipal corporations or designated banks in partnership with the authorities. Late payment often attracts a fine and interest based on the amount due.

The liability of paying the tax rests on the owner of the property and not on the occupier. It is important to note that income payable to the income tax department under the head 'income from house property' is distinct and different from the payment of property tax to the municipal authorities. (See here for more on taxability of Income from House Property).

### Calculation of property tax

There are three systems for calculating property tax. Different municipal corporations adopt different systems and assess the tax due accordingly.

a) Annual Rental Value System – This system bases the amount of tax payable on the annual 'rentability' of a property as fixed by the municipal body. It does not refer to actual rent collected on the property, but rather uses the capacity of gross annual rent that it can be expected to bring from being let out. This system is being followed by the municipal corporations of Chennai and Hyderabad. Various factors such as size of the property, location, amenities available, etc. are looked into while determining the annual rental value.

b) Capital Value-based System – Here, the market value of the property is used as the basis on which property tax is levied. The market value of different properties is determined by the government and revised annually, based on the ward in which it is located. For example, the Brihanmumbai Municipal Corporation switched to this system and provides a 'Ready Reckoner' of the compilation of fair value prices of property across the city.

c) Unit Area Value System – This system fixes price per unit value of the built-up area or carpet area of the property. Based on this price, the expected returns from the property are calculated. This system is in practice in many municipalities such as New Delhi, Bangalore, Kolkata, Hyderabad, Patna, and Ahmedabad.

Some municipal corporations provide certain exemptions from payment of property tax based on factors such as age (super senior citizens), location (famine-affected areas), net income of the individual, type of property, etc. It is best to thoroughly check with the local administration for such details and assess the value of the property with caution.

## Does tax-paying season hassle you? check our guide to paying property taxes in Mumbai

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Tax paying season is always with tension. But with the right research and guidance, paying taxes need not be a hassle at all. We asked our legal expert for a guide to paying property taxes in Mumbai.

### **What's property tax?**

A property tax is levied on all owners of property by the local municipal bodies for funding services such as maintenance of local roads, cleanliness, drainage, and other civic facilities.

This annual or half-annual tax is payable to the Brihanmumbai Municipal Corporation (BMC) for owning all residential properties in Mumbai. An exemption has been granted to houses in the city, which have a carpet area of up to 500 sq. ft.

For other properties, the Capital Value System (CVS) is used to calculate the tax payable. The system that existed earlier was known as the Rateable Value System (RVS), which calculated the tax based on the capacity of maximum rent of the property. The CVS, on the other hand, calculates the tax based on the market value of the property.

### **Where can I get help?**

The BMC Citizen Portal website allows for tracking of all details and payments made on the property. It allows for payment of tax via net banking.

Every registered property has a 'CVS Login Account' on the Citizen Services Portal, on which taxes are to be duly paid. The Portal allows a login based on the Property Account Number, which can also be found by using the 'Property Account Number Search' feature.

The Portal also provides a tax calculator, which can be used to calculate payable taxes on any property as a hypothetical example. The account keeps a log of outstanding dues if any and also records any payments made offline.

### **How can I calculate the capital value of property?**

The capital value of the property is determined based on the market value of the property, total carpet area, the construction type (such as bungalows, under-construction or vacant land), and the age of building. Certain units of 'weight' are allotted to varying types of construction and the age of buildings.

To calculate the market value of the property with ease, the State Government has prepared a year-wise Ready Reckoner for all districts of Maharashtra, which is a compilation of fair value prices in various wards or zones. The capital value of the property is determined by the product of all these factors.

### **How can I determine the total tax payable?**

Similar to the calculation of units for different types of construction, units of 'weights' have been assigned to properties of different 'user categories', such as hotels, commercial properties or residential properties. '1 unit' of weight is attached to a residential institution.

The capital value of the property, when multiplied with the current property rate and weight for the user category, will show the total property tax payable on the specific property.

### **Payment of the tax**

The property tax may be paid online or offline.

**Online:** The BMC Citizen Services Portal provides an extremely efficient record as well online payment system of taxes via net banking.

**Offline:** If tax is to be paid offline, the due amount may be paid at the BMC Help Centers, the Office of the Assistant Revenue Officer or at the Citizen Facilitation Centers set up in wards. A receipt or online receipt is issued upon payment. This property tax receipt provides for a document of proof of ownership during any disputes over the property. The receipt is also a key document to avail loans against property or for its registration.

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In the month of May 2017, the BMC introduced the 'early bird scheme' which gives a concession of 2% or 4% for the payment of the first or second installment respectively, before the 30th of June. This rebate has been made available only to those who have no outstanding dues against the property. So, go ahead and pay your property taxes now!

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