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Property Tax and Assessment News from Around the World

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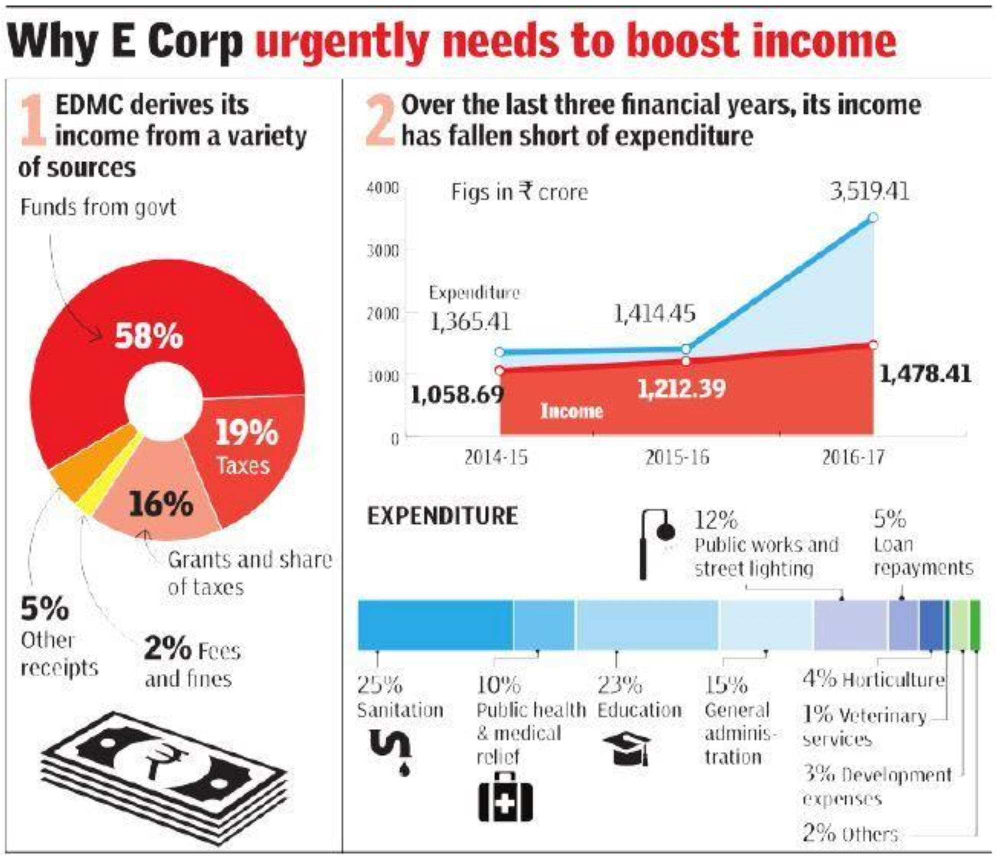
Delhi: East corporation may propose property tax hike in budget

NEW DELHI: The east corporation is likely to follow its northern counterpart by proposing to hike property tax in its 2018-19 budget to be presented on Thursday.

Among the three corporations, the financial condition of East Delhi Municipal Corporation (EDMC) seems to be the worst. With the mismatch between its income and expenditure growing steadily over the years (see graphic), the corporation now depends on huge loans for its survival.

The geographical area of Delhi has been divided into eight categories (A to H) to determine property tax. While A includes the most upscale areas, H represents the poorest ones. Not many upscale areas, where the property tax rate is high, comes under the 105sq km jurisdiction of EDMC. It mostly includes localities coming under E, F, G and H categories.



While the cost of delivery of services in different sectors and the salary bills have grown manifold over the past few years, the corporation's income hasn't gone up much. "The recommendations of the pay commissions have increased the corporation's wage bill massively," said an official. In past two-three years, it has often failed to pay the sanitation staff for months, prompting them to go on strike.

EDMC has been financially weak since the trifurcation of Municipal Corporation of Delhi in 2012, but the corporation itself is also responsible for its current deficit. It collects property tax from 2.5 lakh owners while, according to an estimate, it can cover around 8 lakh properties. Last year, the Delhi government had lifted the moratorium on collecting property tax from unregularised colonies across the city, said an official. But the east corporation has kept both regularised and unregularised colonies outside the tax ambit.

While the south and north corporations have started survey of properties to issue unique property identification cards, EDMC has made no progress in this direction.

Corruption also eats into its kitty. Several residential properties along mixed land use roads are being used for commercial purposes, but many of them haven't paid any conversion charge to the corporation.
Although commercial activities take place at massive scale under the jurisdiction of EDMC, which has a population of over 40 lakh, many of them remain unlicensed. An efficient and honest crackdown on such unlicensed establishments can yield crores for the corporation. Recently, the corporation collected lakhs of rupees during such a drive against unlicensed slaughter houses.

While claiming that revenue generation has improved over the years, EDMC officials also agreed that the corporation could earn much more by tapping into new resources and making its tax collection more efficient.

Rethinking India's tax system

Indian states should rely more on property tax, which is economically efficient, incentive compatible, and progressive

There is a fundamental problem with India's current tax system. India simultaneously has a tax base for direct taxes that is too small; and a tax base for indirect taxes that is too large. Consequently, too little tax revenue is raised; and too much of the tax burden is paid by the poor. This limits the state's ability to provide the infrastructure and manpower required for good governance.

According to the December 2017 report of the income-tax department, only 1.6% of Indians pay income tax. This is unsurprising since agricultural income is not taxed in India and the wealthy have mastered the art of tax avoidance and evasion.

Despite the small base for income tax, most Indians contribute to tax revenue because India relies heavily on indirect taxes. However, the Indian version of taxing consumption is not very efficient. Even the relatively incentive-compatible goods and services tax (GST) is fraught with high compliance costs, too many rates and classifications.

Further, taxes on consumption tend to be regressive, because poor people spend a greater proportion of their income on consumption—and consumption is taxed at high rates in India. The regressive nature of a consumption tax is exacerbated by the current GST system, where biscuits are taxed at 18% but gold is taxed at only 3%. For instance, the smallest packets of Parle-G biscuits, a snack for the middle class, and often a meal substitute for the poor, are priced at Rs2 and Rs5, with an 18% tax. While the price is unlikely to increase, the quantity available to the buyer will likely reduce at that price—with tax burden partly passed on to the consumer.

So, what can be done to resolve this problem? I propose that Indian states should rely more on property tax, which is economically efficient, incentive compatible, and progressive. Property tax has four key benefits.

First, it is difficult to evade. Property cannot be moved, or hidden easily, and lasts long. There is an additional incentive to correctly declare the full extent of one's property. Property owners will not understate the amount of property owned, because it might adversely affect their wealth, future sales, disputes, inheritance, etc. Since property often forms a large proportion of total assets/wealth, there is a built-in incentive to declare property honestly, unlike incentives to understate income or sales.

Second, property tax is efficient because it creates fewer distortions. Typically, a tax on something results in less of it. High levels of income tax may create a disincentive to work. High sales taxes may lead to lower consumption, and, in certain situations, an informal economy, with goods sold off-the-books, etc. In this regard, property taxes are quite efficient. Typically, existing buildings, land, etc. don't reduce or disappear because of a tax. The main response available to the property owner is to sell the property, and as long as there is a buyer willing to take on the tax burden, revenue tends to be stable.

Third, property taxes tend to be more progressive than consumption taxes (but less progressive than income tax) because the wealthy, relatively, own more property. India has a very high percentage of home ownership, especially in rural areas. It will be important to design a progressive property tax system by classifying plot sizes, accurate land values and zoning data.

Finally, and most importantly, property taxes tend to be levied by local governments. This creates a very direct feedback mechanism between voters/taxpayers and their elected representatives, unlike income and sales taxes, which are levied centrally and spent far from where they are collected. In India today, the urban rich and middle class are able to exit the consequences of state dysfunction by buying into gated communities and private developments. Within these communities, individuals pay maintenance fees, which provide the same services that would be provided by a functional municipal system.

A property tax system makes such exit costlier— which might lead the rich and middle class, who have political and social capital, to participate in governance decisions and demand better public goods and services. Unlike income taxes (often withheld at source by the employer) or sales tax, where the tax is hidden in the retail price, taxpayers typically have to write a cheque to the government while paying property tax. This has the advantage of revealing the extent of the tax explicitly, which may lead taxpayers to demand low tax rates as well as exert pressure on local governments for better services.

Property taxes may also have other consequences specific to India, with its 24.7 million vacant homes. Much of the black money in India is channelled towards owning multiple homes, and poorly designed tenancy laws coupled with a slow dispute resolution system incentivise owners to leave additional homes vacant. Property taxes make it costlier for owners to have additional vacant properties that are purely speculative. In rural India, property tax may also be an avenue to tax wealthy farmers without unduly burdening poor farmers, since agricultural income is not taxed at all.

Currently, India barely relies on property taxes, with a property tax to gross domestic product (GDP) ratio of 0.2%. For other developing countries, though data varies greatly, the rough estimate is 0.7%. By comparison, the average property tax to GDP ratio for OECD countries is almost 2%. India should actively consider exploring property taxes as an important source of revenue to develop increased citizen participation for public goods infrastructure.

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PMC to seal premises of property tax defaulters

The civic administration has directed the owners of commercial establishments having property tax dues to pay the arrears at the earliest, or they would be sealed.

Officials in the property tax department of the Pune Municipal Corporation (PMC) claimed that they were targeting establishments having over Rs1 lakh property tax dues. In the past two weeks, the department sealed properties and collected Rs4.5 crore tax dues from establishments. The action would continue in the coming days.

An official said, "Despite repeated appeals and notices, some establishments have not paid the property tax dues. Now, we have decided to take strict action against the erring establishments. Initial target will be properties with huge tax dues. Then we will target the individual establishments," the official said.

The department has prepared an area-wise list of establishments with tax dues. The local officers have been asked to visit the properties to collect the dues. Recently, properties in Shivajinagar, Dhanakawdi, Kondhwa and Bibvewadi were sealed for the non-payment of taxes.

The property tax department of PMC had been facing an uphill task in the current fiscal to meet the tax collection target. According to the data, the department was not able to reach even 50% mark of the total target of Rs1,816 crore in the first eight months of the 2017-18 financial year.

Till December 13, the department was able to collect Rs829.91 crore tax. The administration now faces an uphill task to collect over Rs1,014 crore property tax in the next four months.

Property tax forms a crucial revenue source for the civic administration. The tax collected is utilized for civic services like construction of roads and drainage lines, among others. Civic chief Kunal Kumar had earlier told the department to make an all-out effort to meet the target.

Hyderabad: Rs 50 crore property tax missing, officials clueless

The tax was paid by citizens via cheques which were deposited into the civic corporation’s account.

The state auditor-general has discovered that around Rs 50 crore collected in property tax has gone missing from the account of the Greater Hyderabad Municipal Corporation. An audit was done of all circle offices recently, which brought the matter to light.

The tax was paid by citizens via cheques which were deposited into the civic corporation’s account. It is here that the property owner-bill collector nexus was revealed.

According to highly- placed sources, the bill collectors swindled about Rs 50 crore during 2011. Around Rs 25 crore was recovered from the bill collectors by following up on the bounced cheques which were issued by the property owners even though they do not have bank balance. The “invalid” cheques were accepted for a bribe. The involvement of higher authorities cannot be ruled out, sources said. Bill collectors are provided with hand-held machines where the details of defaulters will be integrated with the data in the circle offices.

After collecting the payments, the bill collectors are supposed to enter the details online at the citizen service centre. However, they did not. About Rs 1.5 crore is unaccounted for from each circle office.

Many cheques for property tax bounced

A senior GHMC official in the finance wing told Deccan Chronicle, that property tax payments made by defaulter property owners are automatically updated from hand-held machines provided to the bill collectors. He said in some cases, at the end of the financial year, bill collectors directly deposit the cheques into the GHMC's bank account.

He said that on several occasions the cheques have bounced and so money would not accrue to the account. Overenthusiastic staff is eager to achieve the targets given and show enhancement in property tax collection, and the corporation will only learn of the cheque-bouncing cases a month after the start of the new financial year. The source denied knowing any details about the missing amount and refused to provide more information.

North Delhi Corp tables budget, proposes uniform property tax of 15% in residential areas

The North Delhi Municipal Corporation has proposed to do away with variable rates of property tax. The councillors will have to ratify plan before implementation.

The North Delhi Municipal Corporation on Tuesday proposed to levy a uniform rate of property tax, instead of different levels for various categories. In its budget proposals for 2018-19, the civic body proposed a flat 15% rate of tax for residential properties and 20% for commercial, including industrial, ones.

The proposal will have to be ratified by the house of elected councillors and the standing committee before implementation.

Officials clarified that a uniform rate does not mean everyone will have to pay the same tax. The tax will be calculated on the basis of six components — age, area, use, occupancy, structure and base unit area value (BUAV) of the property — which vary for different properties, said Renu Jagdev, additional commissioner, north corporation.

For example, the basic unit area value for a colony in category A such as Rajendra Place is Rs 630, for category B which covers Rouse Avenue (institutional area) and Maurice Nagar, the value is Rs 500.

The suggestions, if implemented, will affect at least eight lakh properties registered with north corporation. Earlier, the category of the property decided the rate of property tax with varied between 7%-11%.

"The decision has been taken to simplify the process of calculating property tax. Moreover, property tax is our major source of revenue so the decision will help us mop up more money," said north corporation commissioner Madhup Vyas, while presenting the budget.

Cap on tax rebates

The commissioner has also recommended reducing the percentage of rebates given to the property owners in various categories.

For example, the 15% rebate given on timely payment of the tax has been proposed to be reduced to 10%.

Other rebates given in various categories such as old age, women and handicap (30%), DDA flats & Group Housing Society (10%), Co-operative Group Housing Society (20%) are also likely to be reduced. "We will ensure that the overall rebate should be capped at 42%, including the 2% for online payment," said Vyas.

Currently, people may get nearly 70% rebate in tax.

Political parties react

While the BJP, which rules in the north corporation, welcomed the proposals, the opposition led by the Aam Aadmi Party (AAP) called it an anti-people budget.

The leader of the Opposition in the north corporation house Rakesh Kumar said instead of additional tax, alternative sources for finances should have been looked into.

Standing committee chairman Tilak Raj Kataria said amendments will be made later to suit the requirement of people. “It will be ensured that people living in F, G and H colony won’t be affected much by increase in property tax,” he said.