



India - December 2018

THE BASICS OF PROPERTY TAX IN INDIA 1

The Basics of Property Tax in India

One of the most important life goals for a large number of Indians is to own a home of their own. This is not surprising. Property offers a sense of security and is a great long-term asset. But, with real estate costs being what they are, the dream is an elusive one for many.

But if you do own property, then you must pay taxes on that property, be it residential or commercial. Property tax is collected by the states and the collected funds are used to develop infrastructure and amenities in the region.

WHAT IS PROPERTY TAX IN INDIA?

Property tax is not a new concept in India. Throughout history, rulers have collected tax, in one form or another, from citizens who owned property. The famous Bollywood blockbuster, Lagaan, revolved around the concept of land tax during British rule.

We have come a long way from the British Raj, but citizens still must pay property tax, albeit a far more evolved and just tax.

Today property tax or house tax is applicable to all kind of real estate. The government has categorized property into different types for tax purposes:

- Residential house, which may be self-occupied or rented
- Flats
- Shops
- Office building
- Godowns
- Factory building

However, vacant land with no construction on it is exempted from property tax.

This tax is charged by local governing bodies like the panchayat, municipality or corporation of the area. The monetary value of the property in a given locality is assessed by respective authorities and house tax is levied on it accordingly. Therefore, the rate of house tax varies across states, cities, towns and even from zone-to-zone of the same city. The rate of house tax not only differs from location to location, but also on the use of the property – residential, commercial or industrial.

Unlike one-time payments like stamp duty and registration fees which you make when you purchase property, house tax is a recurring charge that must be paid regularly by an owner.

This tax can be paid either on a yearly or half-yearly basis.

The revenue generated through property tax is supposed to be used by the local governing body to develop and maintain infrastructure and local amenities in its jurisdiction.

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PROPERTY TAX CALCULATION

Property tax calculation is based on one or more of the following factors:

- The locality of the property
- Occupancy status (self-occupied, rented or vacant)
- Type of use of the property (residential, commercial, industrial or land)
- Amenities available (car park, rainwater harvesting, store, etc.)
- Type of construction (multi-storied, single floor, etc.)
- Age of the construction
- Floor space index
- Carpeted area of the property

It is interesting to note that different municipal corporations across the country use different methods to derive the rate of property tax. They basically employ any one of the three methods:

Annual Rental Value System: Under this system, the main factor is the rent at which the property can potentially be let out. Therefore, if the property is self-occupied or vacant, then the system considers the likely annual amount the property can get if rented out, and calculates tax based on it. To arrive at this value, authorities consider the location and size of the property, amenities available, etc.

Capital Value-based System: In this case, the main factor is the market value of the property. The government considers the location and type of property and determines the market rate for similar properties there. This rate is revised annually. House tax is then calculated on this market rate.

Unit Area Value System: In this system, the price per unit value of the built-up area or carpet area of the property is fixed. Taking this fixed price as the basis, calculations of expected returns from the property are done. The property tax is calculated on these expected returns.

It should also be noted that some governing bodies give exemptions from property tax payments. These may depend on –

- Age of owner: If the owner of the property is a super senior citizen
- Location: If the location of the property is struck by a natural disaster
- Type of Property: If the construction is not permanent or kaccha
- A property owner with a history of public service
- Net income of the property owner

If you own property, get in touch with the local governing body to figure out payable property tax for the year.

Delayed payments of property tax may attract a penalty, which is usually a percentage of the due amount. This also differs from one municipal corporation to another.

TAX DEDUCTIONS AGAINST INCOME FROM PROPERTY

Income from property can come through the rent earned or the sale of the property at a profit.

While calculating income from rented property, one should know of the deductions under Section 24 of the Income Tax Act to derive the exact net taxable income from the property. The deductions include:

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- Interest paid on home loan
- Interest on loan taken to build/repair a rented property
- Municipal taxes
- Standard deduction (30% of net asset value)

HOW TO PAY PROPERTY TAX ONLINE?

Today many municipal corporations provide the option of paying property tax online. Follow the steps below:

- Visit the official website of the respective local authority
- Click on the 'Property Tax' tab
- Follow instructions to go to the payment option
- Select the correct form (4 or 5), depending on the category under which the property is listed
- Choose the assessment year for which the property tax is to be paid
- Fill in the required details of the property and its documents
- Choose the mode of payment – internet banking / debit/credit card
- Take a printout of the challan after the payment as a record

PROPERTY TAX CALCULATOR

Municipal corporations like those in Mumbai and Bangalore have introduced a Property Tax Calculator on their website, which is an easy way to know the amount to be paid every year.

Also, property owners can cross check the details from the tax bill, which includes information regarding the property's carpet area, type and age using the property tax calculator.

The calculator can also prove to be of great help in being able to compute the tax payable on outstanding bills. The calculator system explains tax assessment based on ward, zone, occupancy status, property category, year of construction, etc.

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