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Property Tax and Assessment News from Around the World

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BMC won't give property tax bill to 1.36L residents

Amid confusion over the state's policy to waive property tax for homes admeasuring less than 500 square feet, the Brihanmumbai Municipal Corporation (BMC) will not issue property tax bills to 1.36 lakh homes in Mumbai this year, giving these residents temporary relief.

Ahead of the 2017 civic polls, the Shiv Sena had promised that homes measuring less than 500 sqft will be exempted from property tax. This was one of the conditions put forth by the Shiv Sena for its pre-poll alliance with the Bharatiya Janata Party (BJP) during the Lok Sabha elections. Following this, the former BJP-Sena led state government took a decision to the effect in March 2019, but the policy is yet to be announced.

The move will cost the BMC's exchequer ₹335 crore, according to information presented by the civic administration before the standing committee on Friday. It comes at a time when the BMC has managed to recover only ₹1,800 crore from property tax, against its target of ₹5,000 crore for the financial year 2019-20. After octroi was cancelled following Goods and Services tax (GST), property tax has become the biggest source of revenue for the civic body.

The BMC has a total of 4.20 lakh property tax payers in the city, including 1.36 lakh homes admeasuring less than 500 square feet. The standing committee also passed a proposal to give early-bird discounts to 91,000 property tax-payers, whose homes are more than 500 sqft, on Friday. It is aimed at recovering dues worth ₹1358.79 crore. It will give 4% rebate for taxpayers clearing dues before January, and 2% for those clearing dues before February. The administration then explained that 1.36 lakh homes will not be served bills this financial year, which measure less than 500 sqft. Owners of the remaining 1.83 lakh homes (more than 500sqft) were served bills in May 2019, amounting to ₹4,137 crore.

However, BJP's Prabhakar Shinde said, "How is BMC going to recover losses caused due to 1.36 lakh bills that will not be generated?"

Playing around with property tax

Urban scholars have consistently pointed out that urban local bodies (ULBs) in India have one of the weakest tax bases in the world. Despite this, there are very few instances where states have taken steps to shore up their ULBs' finances. On the other hand, there are galore examples of state governments playing around with municipal taxes to suit their political calculations. These get compounded by the ULBs' own political masters that attempt to endear themselves to the local voters by building huge subsidies in the services that cities render. An extreme step reported is that a Maharashtra ULB took upon itself to pass a resolution that property tax in its city would continue to be pegged at the current level for the next twenty years. None of these steps have assisted ULBs to deliver services with any quality. The results are evident in widespread municipal infrastructural atrophy and the terribly weak management witnessed in most Indian cities.

The same malady seems to have hit the Municipal Corporation of Greater Mumbai (MCGM), the city reputed to have the largest municipal budget in the country and for long believed to be running a comparatively efficient urban system. A decision by the state government to waive property taxes in Mumbai for all residential properties that measure less than 500 square feet has dealt a huge blow to this ULB. This was a pre-poll manifesto assurance, now being delivered. Given the exorbitant property rates in Mumbai, large units are beyond the reach of Mumbaikars. This is reflected in the size of dwelling flats in the city where a majority of residences are below 500 square feet, standing somewhere around 64 percent of the total residences. This would mean that almost two-thirds of properties of Mumbai would escape the property tax net.

Newspaper reports suggest that there has been a 34 percent drop in property tax collection by MCGM this year. This is largely on account of the confusion created by the cited waiver, leading to the non-issue of residential bills. The confusion, it is reported, is because municipal authorities are not clear whether the state's intent is complete waiver or merely the base amount waiver. The latter would make other dues linked to the property tax payable. ULB officials insist upon the latter. In discussions with state representatives, they have made it abundantly clear that a complete waiver would very adversely impact city revenues and will evidently, over time, reflect in a further fall in service delivery standards.

Since the generation of property tax demand and collection is computerised in MCGM, clarity in the kind of waiver is mandatory to begin recalibrating the municipal software and allied systems. As a consequence, property tax bills of ₹ 2000 million have not been sent out to residential properties. The city assesses around 400,000 properties and collects around ₹ 50 billion annually as property tax. It also has an accumulated outstanding tax arrears of ₹ 100 billion. With a view to mop up part of this uncollected amount, the MCGM set a target of ₹ 83 billion for the current year. This high target reflects the anxiety of the corporation to collect enough money to fund its massive infrastructure projects such as the coastal road and the Goregaon-Mulund link road. In the narrated scenario of waivers, that figure is a distant mirage and quite certainly, the civic administration would have to revisit its target and downsize the collection figures.

The city is also using its property tax to incentivise garbage segregation in the city and proposals are pending for similar incentives to heritage buildings and several other desirable goals. Each incentive translates into a rebate and drills a hole in the property tax demand. This is on top of the huge burden MCGM is shouldering by running the loss-making BEST undertaking that must periodically be supported through bail-outs for survival.

Virtually throughout the world including India, the most important fiscal instrument for ULBs is the property tax. The dependence of Indian cities on property tax has risen sharply since the implementation of the goods and services tax (GST). The onset of GST has weakened the fiscal position of ULBs since many of its taxes and levies have been subsumed in GST. At one stroke, MCGM lost its largest revenue earner with octroi being subsumed by GST. Post its abolition, MCGM earns about 22 percent of its municipal revenue from property tax, 21 percent from premiums, 8 percent from interest on deposits, 6 percent from water and sewerage charges and 10 percent from all other levies. State transfers and grants-in-aid total 1 percent. Given the pivotal significance of Mumbai, the state government has provided, in lieu of octroi, a compensation package equaling 32 percent of the municipal revenue. However, this assistance can be expected to be dependent on the health of state finances that does not appear rosy.

When property tax is such a vital source of nourishment for the MCGM, playing around with it so that its application and buoyancy get severely restricted shows severe lack of pragmatism. What the ULB and the state should concentrate on is how to reform property tax so that it yields the optimum revenue possible. These steps would include property mapping through the use of geographic information system (GIS) that would help identify properties that have escaped the property tax net, a robust tax collection mechanism that keeps arrears to the minimum and minimising litigation that shuts the revenue tap for years.

Fortunately, the MCGM has adopted the capital value system for assessment that is more revenue-friendly than other methods of assessment such as the Unit Area Method. With the ARR (Annual Reckoner Rate) preparation an established practice in the state, it is clear that the capital value system, in which the capital value of the property is considered, is the more buoyant system to adopt. However, MCGM has implemented the system with a whole series of riders and compromises. These need to be dispensed with.

In the light of the situation recounted above, it appears that the municipal financial system would have to walk the same path that the power sector and several other infrastructure sectors walked. To set the municipal revenue mobilisation right, political calculations that go into it would have to be eschewed. That calls for the appointment of a municipal regulatory authority with powers to fix tax rates after due consultations, much in the same manner as electricity regulatory authorities. Pegging local taxation, user charges and fees at the right level should get resolved once the municipal regulatory authority is established and begins functioning.

A sizeable percentage of properties located within the physical boundaries of MCGM are exempted from municipal tax. At the top of this list are central government properties. These are sheltered by Article 285 of the Indian Constitution. This is a remnant provision from the imperial days that need to delete. Cities cannot and should not be expected to subsidise higher echelons of government. Till such time that a constitutional amendment is made, the states should represent to the Government of India that an amount equivalent to the property tax should be passed on to ULBs as service charge.

If India is destined to live in its cities, as is becoming progressively evident, the need is to strengthen municipal bodies through functional, financial and governance reforms that enable them to play a nation-building role. Emaciating them would undoubtedly emaciate the nation.