IPTI Xtracts
Property Tax and Assessment News from Around the World

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Property tax reforms key for India's post-Covid urban transformation

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The poor recovery of property tax, the biggest revenue source for urban local bodies in India, in the first five months of year, has put city managers in a spot. The unprecedented nature of expenses incurred on health service delivery to tackle the COVID pandemic has pinned the need to put property tax reforms on the fast track. Property tax remains the only major revenue source in the municipal portfolio and it contributed about 60 percent to municipal tax revenue in India in 2017-18.

Property tax revenue accounted for 0.15 percent share of the Gross Domestic Product (GDP). This is below the estimated revenue in OECD countries which is almost over 1 percent for taxes on immovable properties as a percentage of the GDP. With almost half the financial year gone, the recovery of property taxes has become grimmer. Cities across India are in the quandary over poor tax collections till now, and the possibility of the pandemic condition deteriorating it further. On 14 September 2020, the Bangalore civic body declared that it had collected property tax of Rs 19,160 million as opposed to over Rs 20,000 million in 2019.

A similar trend was seen with the Ahmedabad Municipal Corporation which collected Rs 6,020 million till August in 2019, has managed to collect Rs 5,050 million between 1 April and 28 August this year. This has come after the corporation extended a 10 percent rebate scheme by 31 August, 2020 for early tax payers. The Mumbai civic body, on the other hand, hasn't been able to get any revenue from property tax in its kitty because of a pending decision of waiving off taxes for all properties under 500 square feet in the city. Property tax accounts for 24 percent of the Mumbai city revenue and this decision is likely to set it back by over Rs 3,000 million. The decision is still pending and taxes have still not been collected.

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Taking note of the situation, the Ministry of Housing and Urban Affairs (MOHUA) in August 2020 called for a meeting of state governments to discuss reforms and provisions. Citing the recommendations of the 15th Finance Commission, the MOHUA meeting conceded to look at few measures including increasing of property tax coverage, integrating information, frequent reevaluating property, cutting down on exemptions and concessions, sorting billing processes, simplifying payment gateways and making enforcement stringent.

While these steps are essential, the very nature of this tax needs to be assessed to understand either why it is not paid or why recovery is poor. Property taxes are levied on the potential income of a property and is not the present income, and different formulae are used in different urban local bodies. It is also a huge tranche paid once or twice annually and is seen as a burden for someone who hasn't let his house out.

On the other hand, the recovery problems are largely to do with poor administration — contested land records, unauthorised construction, and informal markets. The Indian constitution exempts government buildings from paying property tax and the rules for different categories of buildings and ownerships vary for different cities. Only Bangalore taxes the central government buildings at 25 percent of the actual rate.

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If we are serious about fixing property tax regimes for cities, it will mean adopting a multi-dimensional approach. The first section to be fixed will be the design itself. This will begin with re-identifying of properties in the tax registry and categories with differential tax rates. Sovereign buildings must not be exempted from taxes unless the state and central governments are compensating the municipal governments for the losses. The coverage of properties can only be increased if there is a systematic method to check ownership and tenancy and illegal housing. Modern technology of AI and blockchain could be used for setting up these systems.

The second sector to be dealt will be the assessments — valuation and revaluation of properties which is most tricky. The 15th Finance commission has recommended that the unit area value (UAV) method or the capital value method should be adopted as the standard across India. This is already in place in both Bangalore and Mumbai. Similarly, a constant revaluation system which will comprise assessments of rising property values, and self-valuation will have to be put in place. This will also bring down the administration costs significantly.

Collection of property tax directly reflects on the quality of municipal administration in that city. The poor collections in many states show that municipal governments do not have the required trained professionals to value, assess and prepare the tax rolls, challenge appeals and upgrade systems. If we are looking at efficiency in collections, there needs to be a large-scale integration of several databases. There has to be a GIS-based tracking system that keeps a check on the collection and identifies gaps.

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To implement the reforms, it is imperative that all state governments set up the proposed 'Property Tax Board' on a war-footing and sets stringent rules to reprimand both erring ULB's and tax payers. The board, a concept that has been pushed right from the 13th Finance commission has come into force in a diluted form in states like Tamil Nadu, Andhra Pradesh and Maharashtra. The board which is advisory in nature would look at reviewing property tax assessment systems, reworking valuation methods, and ensure that collection systems are more technologically upgraded and dynamic.

Despite all the reforms, it is important that we consider that property tax cannot be an end in itself for solving the issue of insufficient funds in cities. Property tax has remained stagnant for years and the government needs to help cities, which are highly-dependent on state and central transfers, to become independent. Several taxes like octroi, advertisement tax, local body tax which gave liquidity to ULB's got subsumed within the GST leaving them even more dry. While the government is giving property tax reforms a push it could be enabling to levying betterment and impact fees on land could be considered.

Cities need to become financially independent and the property tax reform will be a starting point towards their economic autonomy.

Strengthening cities: Property tax is the key to unlocking potential

State and local governments across India should digitise property tax systems to unlock their revenue-raising potential

Successful reforms of the property tax system could thus help both individual cities as well as states with better access to resources.

Under the Atmanirbhar Bharat Abhiyaan, states will be permitted to borrow more money than before. Of this, additional borrowing of nearly Rs 50,000 crore has been linked to an increase in urban local body (ULB) revenues. As property tax is the biggest source (approximately 60%) of self-generated revenue for ULBs, this automatically means a greater focus on property tax reforms. ICRIER reports that property tax collections as a share of India's GDP stood at only 0.15% in 2017-18. This is less than one-sixth the OECD average of 1%—and suggests that there is an opportunity to ramp up property tax revenues in our cities significantly. For instance, if we could raise this figure to 0.5% of GDP, it would represent approximately Rs 60,000 crore in additional revenue. Successful reforms of the property tax system could thus help both individual cities as well as states with better access to resources.

Indian cities lag on property tax revenues for several reasons. There are systemic gaps in the enumeration of properties and maintenance of records; this excludes a significant number of properties from the tax base. Further, informal urban growth makes it difficult to estimate what percentage of properties are excluded. The valuation formula, which determines how much tax is charged on a property, is often indexed to outdated rental values—a poor reflection of the market value of the property today. Finally, low collection rates compound the challenge: on average, only 37% of billed tax is collected.

One explanation for this state of affairs is that municipalities across India are often reliant on pen-and-paper records and manual processes to administer property tax. Dues are calculated manually, based on entries in physical registers; bills are printed and then delivered by post or hand, and citizens pay their taxes in person at ULB offices or service counters, often carrying stacks of paper receipts from previous years—just in case a dispute arises. Even where some data is digitised, records tend to be split across different departments and offices. For instance, registration data is with the property department, but the revenue department records changes of ownership.

The good news is that we know how to improve this situation: We need a concerted effort to digitise both property records and property tax collection mechanisms. The first and most important step is the creation of a digital property register. This will create a baseline record of properties in the tax net, which can then be updated through means like self-assessment, door-to-door surveys, and drone/satellite mapping. It will also enable automated valuation and digitised billing at scale. This can be combined with online payment options to make the process of paying dues and getting receipts faster and more convenient for citizens and governments alike.

A digital property register can integrate records from multiple departments or silos, serving as a "single source of truth" to which various users can refer. For instance, one source of revenue loss is that industrial or commercial properties—which would be charged higher taxes—are misclassified as residential properties. This is often a result of deliberate misrepresentation by owners/residents, rather than administrative error. With an integrated registry, such anomalies become apparent: a residential property registered for a trade license, or with an industrial-grade electricity connection, can be inspected and reclassified as needed.

Automating the billing process and making bills accessible through a website or mobile app can also improve collections significantly. In Andhra Pradesh, an integrated e-bill, combining property taxes and utility charges, was found to particularly enhance the convenience for citizens. They could receive real-time updates on payments due, and make a single consolidated payment at one click. It also cut down the time taken to raise bills from four months to one week and saved considerable money and effort on the billing process.

We have seen firsthand the gains from digitising state-wide property registries and property tax collection systems in Andhra Pradesh. Between 2015-16 and 2018-19, eGovernments Foundation worked with the Government of Andhra Pradesh to put in place an urban e-governance system across all 110 ULBs in the state; a digitally-enabled increase in property tax collection was a core objective of this effort. The number of properties enumerated across the state rose from approximately 27 lakh to 33 lakh properties, an increase of over 20% in four years. The revenue collected more than doubled, from about Rs 548 crore in 2015-16 to Rs 1,157 crore in 2018-19.

For ULBs, there is no more reliable source of revenue than property tax: the volume and value of other payments can vary, whereas property tax is stable and predictable. This makes it central to any credit rating exercise, which can open up the possibility of fundraising through municipal bonds. Digitisation is, in itself, a key first step to enhance property tax collection; it will also enhance the quality of subsequent analyses and policy decisions, by providing high-quality data from cities' own administrative systems. State and local governments across India should see digitisation as a key to unlocking their revenue-raising potential.