

# Property Taxation in Indian Cities: A Comparison of Delhi and Bangalore

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## Introduction

Property tax to GDP ratio in a country generally does not exceed 3 per cent. For developing countries, the average property tax to GDP ratio is around 0.7 per cent. Reliable information on the collection of revenues from property tax in India is not available, but property tax collection is estimated at about 0.2 per cent of GDP.

Property tax is the most important tax levied by urban local governments worldwide. It is generally considered to be a good tax for local governments because it is a visible tax financing visible services in the jurisdiction of a city. It is difficult to evade and can promote accountability. The most important disadvantages include high cost of accurate valuation and political difficulty in enforcement. Property tax has not worked well in most developing countries. There are many reasons for this failure. Local governments' inability to fix the difficult administrative challenges of valuation and implementation is mainly responsible for the low yield from property tax.

The most important administrative challenge in developing countries is determining the market values for land and structures. If the tax base is not estimated properly, coverage would be low which results in lower revenue collections. High rates of tax can also lead to poor compliance. Absence of accurate sales data because of under-reporting on property transactions makes valuation difficult. Higher transfer duties, inefficient monitoring of the transfer tax department to check the authenticity of the sales value declarations and illegal practices in the property markets are the most important factors resulting in under-reporting of property values.

Enforcement problems play a major role in under-collection of property taxes. There is a need for public information campaigns, combined with establishing credibility that the tax revenues will be used judiciously, to encourage voluntary compliance.

Augmentation of property tax revenues depends on the methodology for valuation of properties, coverage of properties under tax net, collection efficiency and regularity in periodic revision of values and rates. Jawaharlal Nehru National Urban Renewal Mission (JnNURM), a flagship program of the Government of India to support urban development, placed a lot of emphasis on reforming the property tax regimes of

state governments. The JnNURM guidelines provide for measuring the effectiveness of the property tax reforms on the basis of parameters like coverage, tax mapping, demand, collection and enforcement. The main focus is on improved methods of property tax assessment, accompanied by appropriate administrative reforms. Property surveys and usage of GIS technology was encouraged within an integrated framework to ensure better coverage of the properties. Computerization of property taxes, regular revision of rates, more user friendly tax system and making tax enforcement a priority were emphasized with a target of raising collection ratio to 90 per cent and coverage ratio to 85 per cent.

A comprehensive process of property tax reform requires an active role and guidance of the state government. Urban local bodies are required to be engaged in maintaining databases of properties and reducing the subjectivities in the assessment method. A transparent property tax system where tax payers have all the information and also a grievance redressal system, is necessary for an effective tax regime. It would lead to fewer cases of litigation.

Property tax is an unpopular tax in all countries. High visibility and volatility with market prices are two of the important reasons for being unpopular. Property tax tends to be inelastic unless revision of rates and revaluation of bases are done at regular intervals, as the base does not automatically increase over time due to slower response of property values with economic activity. Moreover, the property tax base gets eroded due to exemptions granted through policy decisions. In every country, some properties are excluded from taxation. Poor administration is often responsible for underutilization of property tax base resulting in lower collections. The assessment method and the frequency of reassessment of properties also play an important role.

Property tax is generally considered to be an appropriate source of raising local revenues as there is a direct connection between the services financed by the tax and the benefit to property values. If property taxes are used to fund local services, it establishes a link between the benefits and costs of local services to the residents. This enables citizens to make efficient fiscal decisions. It is sometimes seen as a tax on capital that distorts the housing market and local fiscal decisions. Property tax based on

market value of the land and improvements on it can discourage constructions and can result in underutilization of land.

In India in the absence of an organized property market and very low property tax collections, and inadequacy of data related to variables in property market, local finances and local service delivery, it is difficult to assess the validity of the theories that have been advanced in the literature relating to developing countries.

Policy and administrative factors interact to influence the efficiency and equity of property tax mobilization. The policy factors primarily deal with the structure of the tax base and the tax rates determining the legal tax capacity. The administrative factors enable the realization of the tax capacity through improved tax base coverage, valuation and collection ratios. The administrative factors can be categorized as those related to tax base administration (coverage and valuation) and those related to the treasury functions (billing, collection and enforcement).

As far as the definition of property tax base is concerned, the real challenge is to define what will not be included in the tax base (ie exemptions) rather than what will be included. Rationalizing exemptions is very important as they are implicit subsidies which should be targeted to properties for which these exemptions are justified on efficiency and equity grounds. As far as the rates are concerned, they vary from being uniform to regimes with varying degrees of progressivity.

'Tax Administration is Tax Policy' is an accepted argument pointing out the importance of tax administration in achieving tax policy goals. Tax policy is an important aspect but implementing these policies is more challenging particularly in developing countries with weak administrative capacity. Effective implementation of property tax requires identification of the tax base proactively, valuation of the tax base, tax liability assessment, tax billing and collection, tax enforcement, taxpayer services, and dispute resolution. All the administrative functions contribute in defining the tax potential but the collection function is crucial in realizing this potential.

The initial step in property tax administration is to collate and update information on properties once the taxable properties are identified. In developing countries the

coverage ratio for property tax ranges between 40 and 80 per cent (Bird and Slack 2004, UNHABITAT 2011). The local governments can follow a partnership approach where the tasks of collection, updation and maintenance of information on properties and taxpayers can be outsourced to an agency.

Valuation of properties is an important issue. Valuation can be done based on the capital value, rentals or area of the properties. While capital values are subject to market fluctuations, rent controlled properties create distortions in the rental value based methods. Valuation based on unit area characteristics are safer options with less fluctuations. Many developing countries have opted for unit area based valuations (Mathur 2009, NIUA 2010).

Mobilising revenues through property tax in an equitable and efficient manner is the ultimate goal of a local government. Once the legal tax base is identified and values of the properties are estimated, tax rolls can be created by applying the tax rates which gives the potential tax revenues. Once they are collected, the potential can be actually realized.

Collection ratios vary across countries. In most OECD countries they are close to 100 per cent while in non OECD countries they can vary between 30 and 60 per cent (Bird and Slack 2004, NIUA 2010). To enhance collection ratios, voluntary compliance has to be ensured. Incentivising tax payments is important. Providing discounts for timely payments is one option. Establishing a strong link between property tax payments and public service delivery is another.

A combination of policy and administrative reforms are needed to deal with tax base coverage, property valuations, collections, enforcement and taxpayer services (Kelly 2013). Tax policy reforms focus around modifications in methods for assessing tax bases and tax rate structures. Tax administration reforms focus on improvement of coverage, valuation, collection and taxpayer services.

## **Review of Literature on India**

Valuation of properties is one of the biggest challenges for the urban local bodies (ULBs) of India. The main constraints are lack of an appropriate methodology, lack of transparency, and incomplete records of properties.

The ULBs in India are in different stages of implementation of reforms in valuation of properties ranging between purely Annual Rental Value and Area Based Methods. Mohanty et al (2007) prescribes changing over to area based valuations. A review of property tax reforms (NIUA, 2010) on the basis of 10 selected cities viz. Ahmedabad, Bangalore, Bhubaneswar, Chennai, Hyderabad, Indore, Kolkata, Ludhiana, Patna and Pune shows that Patna, Indore, Chennai, Hyderabad, Bangalore and Ahmedabad have moved to the “unit area assessment system”, while Kolkata and Bhubaneswar are yet to implement the unit area system (although the municipal laws have been amended). Patna and Ludhiana have continued with the system of Annual Ratable Value (ARV). Bangalore has experienced a sharp rise in the property tax revenues after moving to the area based method.

Legal framework plays an important role in realizing the gains from a transformation in the valuation methods. Gnaneshwar (2009) in his study based on municipal corporations from Andhra Pradesh, Tamil Nadu and Karnataka establishes that the gain in Karnataka from moving to an area based tax system has been the most because of the fact that in Karnataka, the reform has been executed with a revision in the legal framework whereas in the other two states the existing legal provisions were used. However, there are many other factors which are responsible for implementing reforms successfully.

The administrative aspects to implement reforms in property tax are very important to get the desired results. On the basis of a study on Andhra Pradesh, Mohanty (2003) finds that tax reforms and strategy depend on factors like close involvement of the tax payer, tax-service linkage, incentives for filing of tax returns, disincentives for non-filing and tax education. “Correction of inequities” in the tax system could be very useful through progressive tax rates. A greater focus on “compliance”

resulted in higher revenues in Hyderabad. Ahluwalia (2011) elaborates on the initiatives taken in different stages of reforms systematically in Bangalore that made property tax a success story in the city yielding higher revenues, greater coverage and better collection ratios.

In a comparative study of Pune and Bangalore, Lall and Deichmann (2006) find that the reforms that quantify the property tax bases closer to the market value have significant and positive implications for revenue generation. Although these reforms are good as a first step intended towards greater efficiency of the property taxes, improved valuations and increasing the buoyancy of the taxes still need to be looked at without which improvements in tax administration can only yield limited results. The paper finds that in Pune and Bangalore where the tax assessments gets linked to the “market rental or capital values”, there is better prospect of augmenting the revenues from property taxes.

In a study of 36 large corporations, Mathur et al (2009) find that there are large inter-city variations in per capita revenue from property tax. However, the study claims that population size has a strong impact on property tax collection (with a correlation of 0.82). The total tax demand over the study period has shown some signs of stagnation reflecting limited inclusion of new properties and revision of rates. However, variables like growth of GSDP or the ratio of a state’s tax revenue to GSDP have little impact on property tax revenues. Another study (Mathur et al 2011) based on a survey of 31 municipalities in six states-Andhra Pradesh, Kerala, Madhya Pradesh, Maharashtra, Rajasthan and Uttar Pradesh finds that property tax constitutes 25 per cent of total revenues in cities in Maharashtra, 30 to 40 per cent for cities in Kerala and Andhra Pradesh, less than 20 per cent of those in Madhya Pradesh and 20 to 40 per cent for those in Uttar Pradesh.

Mathur et al (2009) also provides some estimates of property tax potential in India on the basis of data for 36 large municipal corporations for the year 2006. Estimates of property tax potential for the country were given by making three alternative scenarios. The first one is based on the assumption that the average per capita collections in the remaining 5,125 small municipalities apart from the 36

corporations for which data were collected would be equal to the average per capita collections of four municipalities with the smallest populations in the city sample used for the study. The second scenario is based on the assumption that average per capita collection in these 5,125 municipalities would be equal to those showing the lowest collection among the 36 largest cities. The third scenario is based on the assumption that the lowest per capita collection in each state among the 36 large cities in the sample can be taken as a proxy for per capita property tax collections in all the municipalities in the respective state. The most optimistic estimate made on the basis of the above assumptions shows that in 2006-07, on an average, per capita property tax collection was Rs. 486 (about USD.10.6) and total collections ranged from 0.16 per cent of GDP to 0.24 per cent of GDP. These methodologies have problems as they consider the lowest levels of property tax collections in the sample cities to act as proxies for other municipalities outside the sample. This leads to an underestimation of the property tax potential in India (Rao 2013).

Mathur et al (2009) finds that the average collection rate was only 37 per cent with relatively higher collection rates in Karnataka, Tamil Nadu, Kerala, and Andhra Pradesh. Bihar and Madhya Pradesh have very low collection efficiencies as was the case with Delhi. Corporations of Gujarat and Maharashtra had higher per capita collections but lower collection ratios.

### ***Research Questions***

The present paper is an attempt at a comparative evaluation of two cities, Delhi and Bangalore, in the performance of implementing property tax reforms through unit area method of valuation and self assessment schemes. Delhi is a city where the results of implementation of these reforms were not up to the mark whereas Bangalore could achieve considerable success in raising revenues through property tax after the implementation of reforms. The main objective of the study is to explain the differences in the extent of the success in achieving the desired outcomes in the two cities. We bring together evidence and data from different secondary sources to substantiate our arguments.



## Property Tax Reforms in Delhi

Properties in MCD prior to 2003 were taxed on the basis of annual rent at which properties were expected to be let out<sup>2</sup>. The unit based system was notified in August 2003 and was implemented from April 2004. A unit area value is fixed for eight zones (A to H) of the city per square metre covered space for calculation of the property tax. The zones are classified according to the guidelines given in the Delhi Municipal Corporation Act, and are based on parameters like settlement pattern, access to infrastructure, land prices and purpose for which the land or building is being used. The tax for a particular property is calculated based on the annual value of the property by multiplying the unit area value assigned to the particular colony or locality in which the property is located by the covered area and some multiplicative factors for occupancy, age, structure and use. The norms for the determinants of the assessed value of properties were set by the Municipal Valuation Committee in 2003.

Property tax is levied on the annual value of the building, which is determined by the formula:

Annual Value = Covered Area x Base Unit Area Value x Multiplicative Factors

The multiplicative factors include factors relating to Occupancy, Age, Structure and Use.

The “covered area” was the floor area covered including the thickness of the walls and the varandahs, *chajjas*, *lobbies* etc. The “base unit area value” was set using the norms for different categories of properties A to H at Rs 630, 500, 400, 320, 270, 230, 200, 100 per sq metres area, respectively.

The Occupancy Factor (OF) is “1” if it is a residential “self occupied unit” and “2” if it is a residential “rented” unit. The factors for age (AF) were set according to the year of completion of the property. The Structure Factor (SF) is set as 1 for pucca and semi pucca properties and 0.5 for kuchcha categories. The basis for Age and Use factors ie AF and UF, are presented in Boxes 1 and 2.

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<sup>2</sup> Delhi Municipal Corporation (Amendment) Act 2003

**Box 1 Age Factor**

Year of Completion	Age Factor
Before 1960	0.5
1960-1969	0.6
1970-1979	0.7
1980-1989	0.8
1990-1999	0.9

**Box 2 Use Factor**

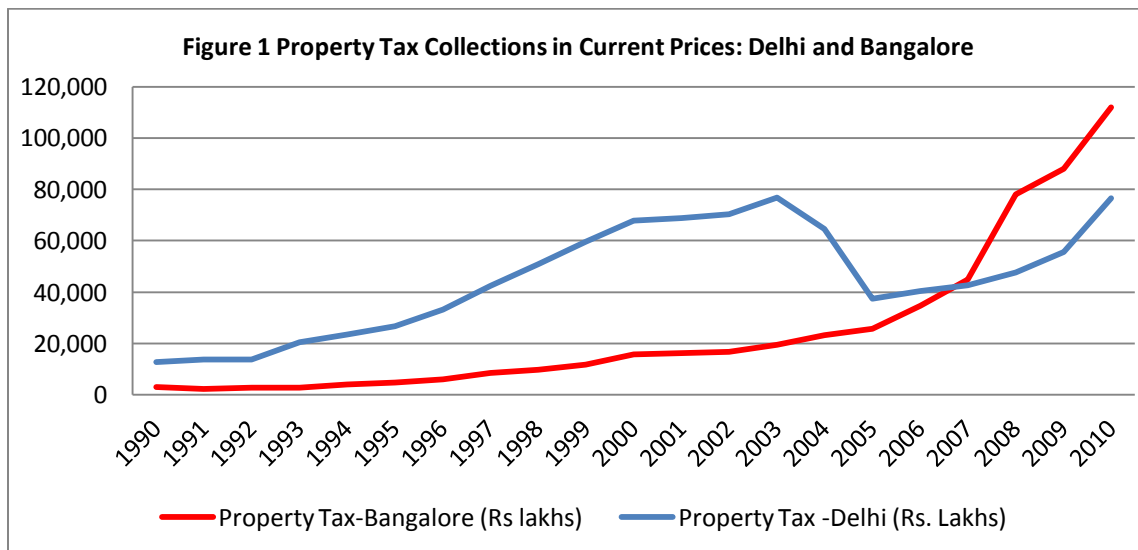
Classification of non-residential Properties	Use Factor
Public Purpose	1
Public Utility	2
Industry, Recreation Clubs	3
Business Restaurants/Hotels (upto two star )	4
Towers/Hoardings/Hotels with three star and above	10

The annual value has to be multiplied by the tax rates for the respective localities while rebates or concessions have to be deducted in order to calculate the payable amount of property taxes. The rates specified were 10 per cent for residential properties for categories A to E and 6 per cent for categories F to H. For non residential properties, the rate was 15 per cent upto two star rated properties and 20 per cent for three star and above rated properties.

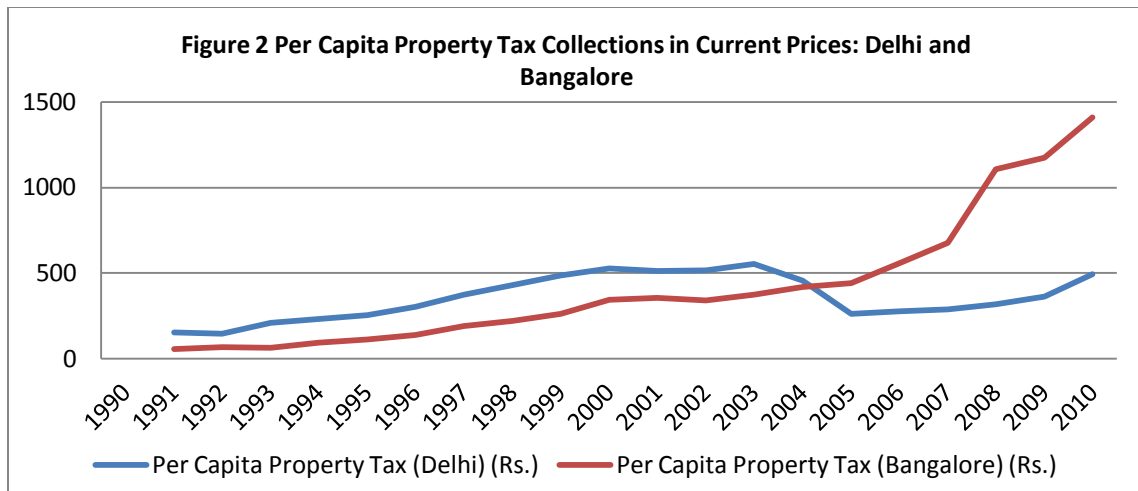
Property tax collections in the MCD area dropped by 16 per cent in 2004-05 compared with that in 2003-04 (Figures 1). There are many factors responsible for this decline. Downward revisions in the definitions for covered area, and some of the initially prescribed norms for multiplicative factors for assessment of properties resulted in lower collection of property taxes than expected in spite of the change in the assessment method and the technique of valuation of properties. The Hardship and Anomaly Committee (HAC) changed the categories of colonies, the base unit area values of each category, and the multiplicative factors, specially the Age Factor (AF) and the Structure Factor (SF) in such a manner as to make a significant adverse impact on revenue realisation.

A comparison between the Expert Committee's recommendation (proposed) and the Municipal Valuation Committee and the HAC recommendations (Existing) can be summarized as follows:

- i. Structure Factors of 1, 0.8 & 0.6 changed to 1, 0.7 & 0.5
- ii. Age Factors of 0.7(prior to 1960) 0.8, 0.9 & 1(2000 & after) changed to 0.5,(prior to 1960) 0.6, 0.7, 0.8,0.9 & 1 (2000 & after).
- iii. Categories of colonies changed such that the number of A colonies reduced from 45 to 28.
- iv. Definition of semi pucca structure diluted from “building having a non load bearing temporary roof” to “building having normal load bearing like tukri”. This is a deviation from Bye Laws.
- v. Exemption/rebate criteria diluted – 100 sq. mts. of covered area enhanced to 200 sq. mts.
- vi. Covered Space of a building diluted to exclude verandah, balcony & other things in a building – a deviation from Bye Laws.

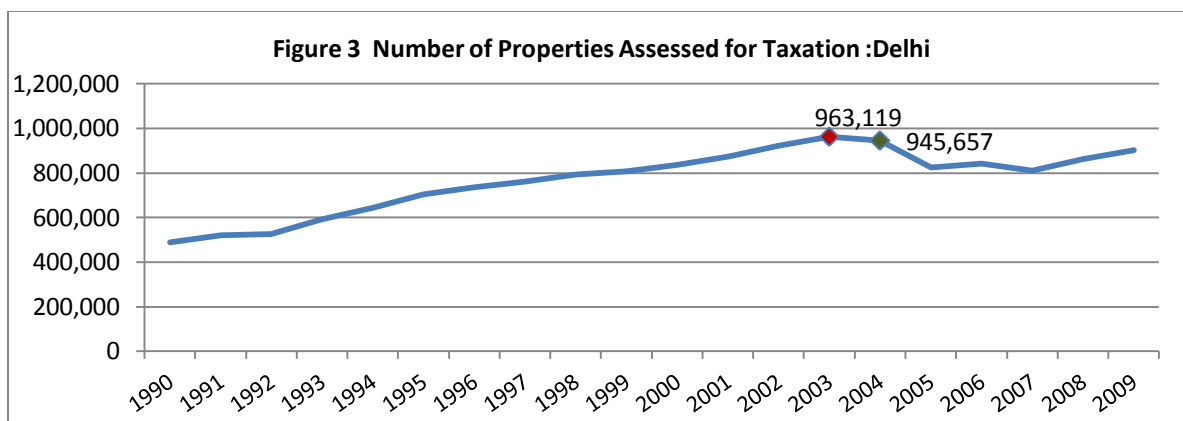


According to Mathur et al (2009), in Delhi, the property tax revenues have declined as a result of putting in place a system of self-assessment of tax liability without having an inventory of properties. Delhi offers an example where the total number of properties is stated to be 25.3 lakh, but only 9.6 lakh properties are on the municipal tax register. Low collection rates are also a dominant feature of Delhi, reflecting administrative inefficiency.



According to the Report of Third Delhi State Finance Commission, based on data collected by the Municipal Valuation Committee for a sample of 33,717 properties out of a total of 9 lakh properties (approximately) under the tax net in 2002, 58 per cent were expected to pay less tax, while 42 per cent properties were expected to pay more, after the unit area method was applied. Majority of the properties that were expected to pay more tax came from ‘A’, ‘B’ and ‘C’ categories with higher unit area values, while most of the properties that were expected to pay less tax came from ‘D’ to ‘H’ categories with lower unit area values. Hence, an increase in property tax collection was envisaged after the introduction of the new method of valuation. However, this analysis of the valuation of properties did not take into account the multiplicative factors mentioned above, which determine the assessed values of properties.

There is a number of reasons why property tax collection after the introduction of the new assessment method declined in MCD. First and foremost, there was a decline in the number of assessed properties after the implementation of the unit area based system in 2004. Using the data since 1990, we found that there is an increase over the years in the number of assessed properties in MCD, excepting after the implementation of the unit area based method of valuation of properties (Figure 3). Discussions with MCD officials reveal that this decline in the number of assessed properties was partly caused by faulty GIS mapping of properties. A decline in the number of assessed properties resulted in a decline in the property tax collections, both in absolute and per capita terms (Figures 1 and 2).



Other reasons behind the failure of the unit area method in MCD were the lack of awareness regarding the unit area method among the public, lack of proper database to check for non-payers, inadequate training of the staff regarding the new method of assessment. The Hardship and Anomaly Committee was set up to address the grievances of the people and find solutions. MCD has plans to conduct door-to-door surveys for better coverage of properties, also using data from the GIS project of the Delhi state government.

As far as the rates are concerned, there was a downward revision for non-residential properties to a flat rate of 10 per cent which resulted in lower collections than expected in the initial year. However, there have been upward revisions in 2007-08 and 2012-13. Table A1 in the Appendix gives the details of the rate structures in 2007-08 and 2012-13.

### **Property Tax Reforms in Bangalore**

The transition to unit area based self assessment was successful in Bangalore. The jurisdiction of Bruhat Bangalore Mahanagar Palike (BBMP) has been classified into 6 value zones (A, B, C, D, E and F) based on the published guidance values from the Department of Stamps and Registration<sup>3</sup>.

The unit area values were fixed for the properties located in each zone keeping in view ownership of the building (i.e whether the building is self-occupied or tenanted)

<sup>3</sup> www.bmponline.org

and also certain characteristics of the building .e.g the roof and the floor. For example, if a unit is located in “A” zone and has RCC or Madras terrace, then it will have a unit area value of 5 if it is tenanted and 2.5 if it is owned. If that same unit in “A” zone has RCC or Madras terrace and the flooring of the entire house is either cement or red oxide, the unit area value would be 4 if the unit is tenanted and 2 if the unit is owned. Again, if that same unit in “A” zone has roof made up of tiles or sheets, then it will have a unit area value of 3 if tenanted, and 1.5 if owned. Similarly, there are unit area values for units in other zones based on similar assessment criteria<sup>4</sup>.

The unit area value is multiplied with the “total-built-up area” of the building which is the total area covered by the building (including balcony, basement etc.). This gives the “Monthly Unit Area Value” (MUAV) of the property. The MUAV is then multiplied by 10 months to arrive at the Taxable Annual Value (TAV). On the TAV, depreciation<sup>5</sup> is allowed on the basis of the age of the building. After depreciation is deducted, 20 per cent on the remaining TAV is taken as the property tax for residential properties. On this remaining amount, a further 24 per cent is added on account of cess of which 15 per cent is on account of health cess, 6 per cent on account of library cess and 3 per cent on account of beggary cess .

#### Steps for calculating Property tax for residential property

1. Built up area x Unit Area Value x 10 months = T1
2. T1 - Applicable Depreciation = T2 (Taxable Annual Value)
3. T2 x 20 per cent = T3 (Property tax)
4. T3 x 24 per cent = T4 (Cess)
5. T3 + T4 = T5 (Gross Property Tax payable)
6. T5 x 5 per cent = T6 (Rebate for early payment)
7. T5-T6= Net property tax payable

For the non residential properties, the procedure for property tax calculation remains the same. The unit area value classification changes and instead of the criteria

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<sup>4</sup> The detailed matrix for the unit area values for residential properties in BBMP is given in Tables A2 in the Appendix.

<sup>5</sup> Details of depreciations applicable in BBMP are given in Table A3 in the Appendix.

regarding the building characteristics, for non residential properties the units get classified on the basis of whether they have central air conditioning, escalators, different star categories of properties etc. Also, instead of 20 per cent, the property tax for non residential units is 25 per cent of the Taxable Annual Value (after depreciation).

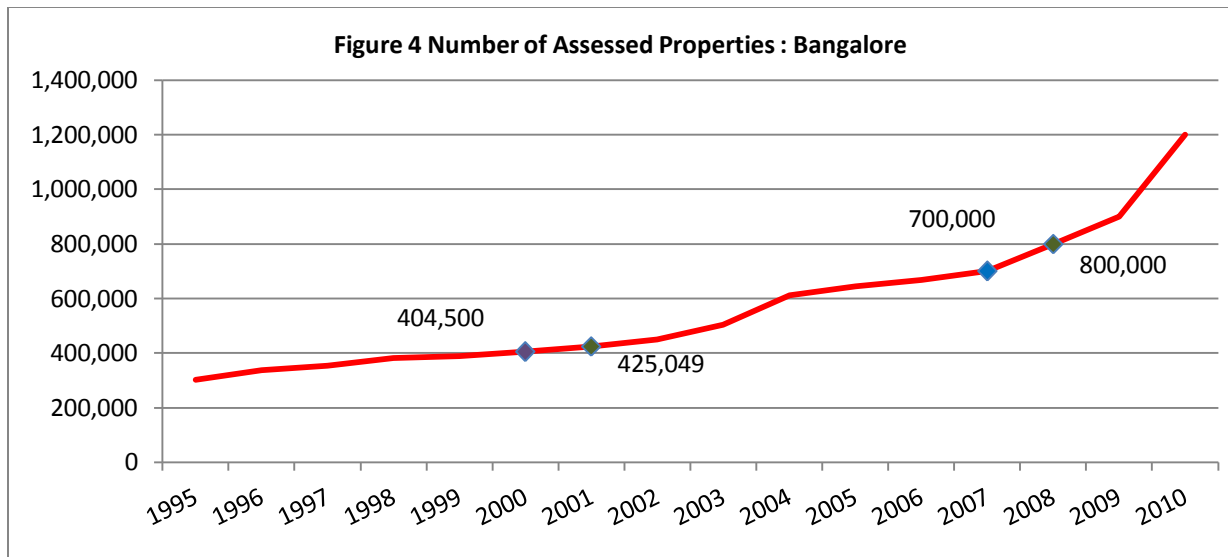
Steps for calculating Property tax for non-residential use of property

1. Built up area x MUAV x 10 months = T1
2. T1 – applicable depreciation = T2 (TAV)
3. T2 x 25 per cent(Tax) =T3
4. T3x 24 per cent (cess)= T4
5. T3+T4=tax payable

In Bangalore, the reforms were undertaken in two phases. In 2000 the Bangalore City Corporation<sup>6</sup> initiated the reforms. The results were phenomenal as there was an increase in property tax collections by 33 per cent compared to the previous financial year. After Bruhat Bangalore Mahanagar Palike was formed, the process was revamped and the second phase was initiated. If we compare the property tax collection of BBMP in 2008 with 2007, we find a phenomenal increase of 74 per cent. The details of the property tax collections across years are given in Figure 1 and Figure 2.

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<sup>6</sup> Bangalore City Corporation (BCC) was established in the year 1949 by merging two municipalities, 'The City Area' and 'The Cantonment Area'. From 87 wards prior to 1991 the number of wards increased to 100 with the addition of new areas and it came to be called Bangalore Mahanagara Palike (BMP). The jurisdiction of Bangalore was further increased in the year 2007, with the merger of neighboring 7 City Municipal Councils (CMC), one Town Municipal Council and 110 villages around Bangalore. The Bangalore Mahanagara Palike came to be called Bruhat Bangalore Mahanagara Palike (BBMP) from 16-01-2007.

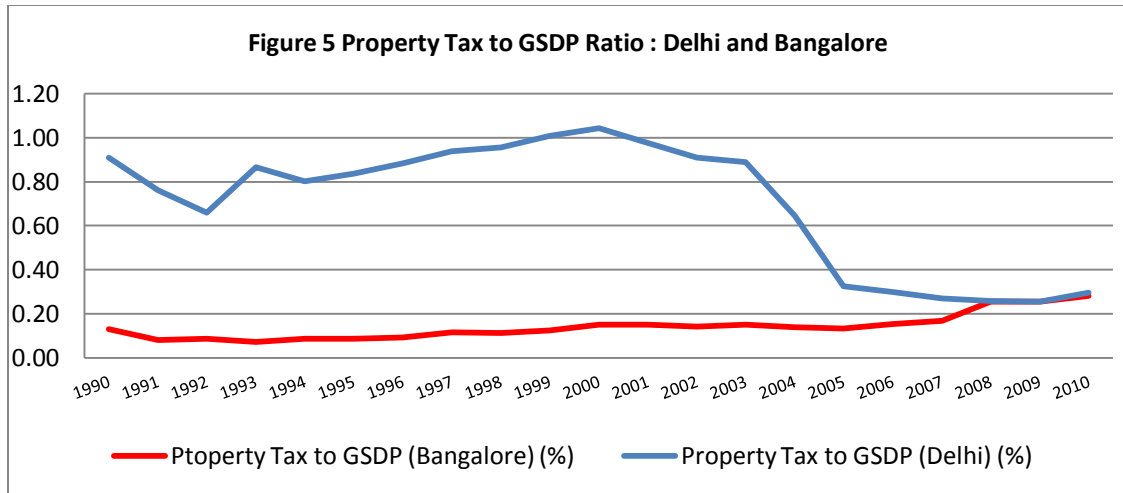


In both phases of the reforms, there has been an increase in the number of assessed properties in Bangalore as a result of the implementation of the unit area method of valuation. In 2000 there was an increase of 4 per cent in the number of assessed properties compared to 1999. In 2008, there was an increase of 5 per cent in the number of properties assessed compared to 2007. Year wise details of the number of properties assessed in BBMP are given in Figure 4. Also, in the second phase, revenues in BBMP could increase because of revised zoning as several properties shifted from a lower zone to a higher zone. Properties in more than 10,000 localities moved from a lower zone to a zone higher resulting in at least 10 to 15 per cent increase in property tax collections.

### **Impact of Property Tax Reforms in Delhi and Bangalore: Some Explanations**

The sharp contrast in the performance of Delhi and Bangalore is reflected in the property tax to GSDP ratios and their behavior with time in the two cities. We find that the property tax to GSDP ratio has shown a decline from 0.89 per cent in 2003 to 0.64 per cent 2004. Whereas in Bangalore property tax to GSDP ratio has been more or less steadily increasing over the years and records an increase immediately after the implementation of the unit area method, both between 1999 and 2000; and 2006 and 2007. Year wise details of the property tax to GSDP ratios for Delhi and Bangalore are given in Figure 5.





If we closely follow the process along with available data and information, we find that the principle and method by which the valuations of properties were done in unit area based characteristics were similar in the two cities. The rates were differential with higher value zones recording higher rates in case of Delhi whereas in Bangalore, the rates were uniform. In Delhi tax rates differ not only between the residential and non residential properties, but also across the various classifications of residential and non residential properties. This is not the case in Bangalore. However, it must be noted that the rates are higher in Bangalore (20 per cent for residential properties and 25 per cent for non residential properties) than in Delhi (where the rates range between 6 per cent and 20 per cent, and is usually much less than 20 per cent). Despite rates being higher in Bangalore, property tax collection has been better than in Delhi which could be due to the fact that the structure of property taxation in Delhi is more progressive than required.

The tax rules for non residential properties are more structured in Bangalore than in Delhi. The schedule for property taxes for Bangalore spells out clearly how each category of non residential property, under the tax net, has to be taxed. Another difference is in designing depreciation which is much more elaborate in Bangalore than in Delhi. The age factor in Bangalore is more elaborate as there is a proper list of depreciation rates that are to be considered while calculation of property taxes. For Delhi, the rules are such that a property built in 2001 and 2012 gets the same factor of “1”. For Bangalore, 3 per cent depreciation would be deducted from a property built in 2012, while 15 per cent would be deducted for a property built in 2001.

Rezoning of properties, due to change in guidance values of regions, happened in Delhi as well as in Bangalore. Tax administrators undertook the rezoning process very carefully in Bangalore. They made sure that if a property, after rezoning, went to a higher category rising above the immediate next higher category zone, it would be valued at the immediate next higher category zone. This was also applicable to non residential properties. This could induce fairness in the system which might have minimised evasion in Bangalore after reclassification of zones.

The difference in achieving the desired outcomes can be explained in terms of the extent of success in implementation of the reforms. In Bangalore, the entire process was undertaken with great care by the municipal government with sustained efforts in sensitizing the people about the gains from the transition. The city administrators were successful in building a framework in which there were visible incentives for compliance and visible dis-incentives of non-compliance to the tax payers. The tax payers were convinced about the reduction in compliance costs through the new system. It also involved a better use of GIS in property mapping by updating registers with GIS and proper facilitation measures (like involving a number of banks through which payments can be made, training through web based interface about the process) for citizens so that they can actively participate in the process. A well structured education program through several help centres for the citizens facilitated the process.

A second phase of revamping started with the amendment of the Act to make the process more acceptable. The follow up done in 2007 was very important and an exemplary move as we find that most Indian cities which initiated the reforms around 2000 could not sustain the results. Bangalore is the only Indian city which could resolve this problem and came up with a revamped system with necessary modifications and revaluation to sustain the process of reforms and buoyancy of the tax. The marketing strategies of the local government also contributed to the success of the entire exercise. The media was involved to cover people's reactions and people's participation in the new system to capture the mass opinion and their responses to a transition in policy. Transparency was ensured by putting tax profiles in the internet so that the information on how much tax one is paying is not the only information the taxpayer has access to

but also how much his neighbors are paying is available to everyone. Better administration and systematic planning contributed to the success in a big way in implementing property tax reforms in Bangalore.

Exemptions were rationalized under the new law which prescribed that all properties exempted from property tax under the Act so far, were obliged to pay service charges at 25 per cent of the rates fixed for such properties. Also, revenue collections from non-residential properties during 2008-11, were much higher than that from residential properties (38 to 40 per cent of property tax collections) in Bangalore (Rao 2013). However, the new law made it mandatory for all illegal properties to file their returns and pay property tax. This was also a source of increase in property tax revenues.

**Table 1 Collection ratios (Per Cent) of property Tax: Delhi and Bangalore**

Year	Collection Efficiency-BBMP	Collection Efficiency MCD
1990	NA	9.1
1991	NA	8.4
1992	NA	7.4
1993	NA	9.8
1994	NA	10.1
1995	46.2	10.6
1996	53.1	12.3
1997	52.8	14.8
1998	55.7	16.9
1999	63.8	18.8
2000	95.2	20.9
2001	90.6	NA
2002	83.5	NA
2003	84.8	NA
2004	77.3	NA
2005	80.6	NA
2006	86.8	NA
2007	76.1	NA
2010	78.0	NA

Coverage ratios and collection ratios are the two yardsticks which measure the efficacy of tax administration and whether it gets translated to actual collections. Due to non-availability of data, we cannot analyse the differences in performance in the two cities in detail according to the values recorded for collection and coverage ratios. We can touch upon this issue with limited and scattered data between 1990 and 2010 by

saying that collection ratios have always been much higher in Bangalore than in Delhi (Table 1). As far as the coverage ratio is concerned for 2010 Bangalore recorded a coverage ratio of 91 per cent whereas for Delhi it was only 60 per cent.

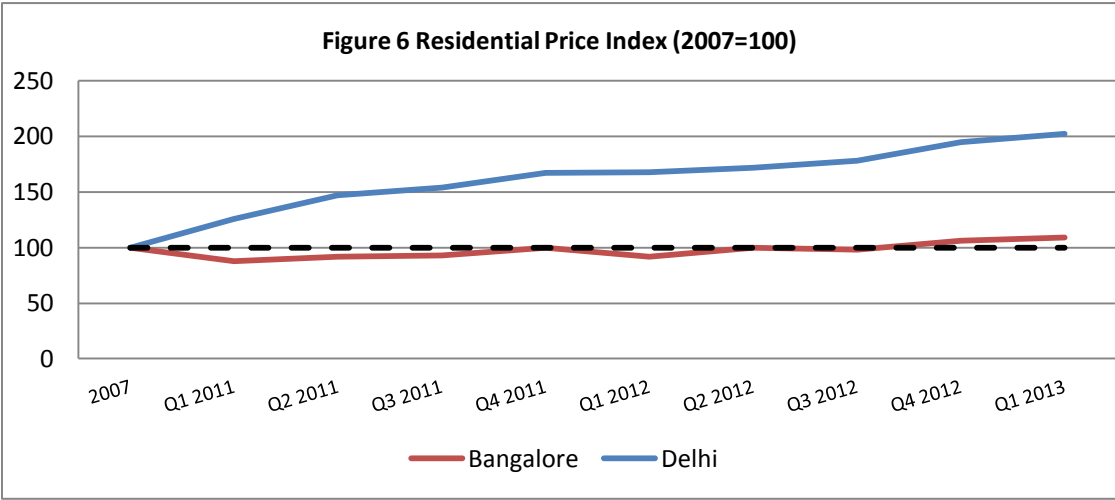
Apart from the factors related to tax policy and tax administration resulting in the efficacy of implementation of reforms, the quality of basic services provided could well be a deciding factor behind the success of any tax reform at the local level. A good range of services could incentivise a tax payer to pay his dues on time. Although it is difficult to establish a direct relation between the qualitative and quantitative aspects of service delivery and better performance in property tax collections in the absence of adequate data and information, we look at the quality of services provided in Delhi and Bangalore and try to assess their possible impact on the property tax reforms.

If we analyse the scenario of water supply, in Delhi, the problem is more acute with the quality of water. Industrial pollutants have deteriorated the quality of water. On the other hand, in Bangalore, periodic examinations have confirmed that the piped water quality meets the standards set by WHO and the Central Public Health and Environmental Engineering Organisation (CPHEEO). Also, survey results quoted in the CDP of Bangalore show that majority of the people are satisfied with the adequacy and timings of the water supply. However, in Delhi, water released is inadequate although per capita availability of water is higher.

Also, considering the overall living conditions, Bangalore ranks higher than Delhi. This is confirmed from the survey conducted by Mercer. The survey, which is aimed at assessing the quality of life in cities all over the world, takes into account infrastructural factors (like water availability, telephone and mail services, public and private transportation, pollution etc.) and other factors pertaining to safety like crime rates etc. In 2012, Bangalore was ranked at 139 which was higher than Delhi (143) and also the other metropolitan cities in India.

Another very important determinant for better performance of the city in property tax collections is the relative stability of property markets in the two cities. Despite the weak macro economic conditions prevailing in the country, property market in

Bangalore has registered a healthy rate of growth. On the other hand, property market has remained weak in Delhi (and Mumbai).



The property market in Bangalore has been more stable than Delhi (Figure 6). While property sales in Delhi fell by 57 per cent in the April-June quarter in 2012 (compared to the figures for the same quarter in 2011), they rose by 8 per cent for Bangalore. This rise persisted in the following quarter and property sales in Delhi fell by about 40 per cent in 2012. The strength of the property market in Bangalore is also observed when we consider Bangalore’s high share in home loans. (In 2011-12 the southern states which include Bangalore contributed to about 40 per cent of the total home loans disbursed in India). While some improvement in the job market scenario in Bangalore (due to recent recovery of the IT sector) has resulted in the property market remaining strong, certain other factors have also been responsible. Firstly, a lot of the home owners in Bangalore are end users, which is not the case in Delhi. Secondly, the property prices in Delhi have increased rapidly which has not been the case in Bangalore (making home buying affordable).

**Summing Up**

We have evaluated the impact of property tax reforms with a transition to area based system for two Indian cities. We take Bangalore as a benchmark in performance and attempt a comparative assessment of performance with Delhi.

The main advantages of the unit area based property taxation are objectivity, transparency, fairness and lower compliance cost which benefit both the taxpayers and the government. An immediate consequence expected would be higher tax collections. However, a transition to an area based system cannot ensure these qualifications automatically. Sustained efforts on the part of the local government to build an efficient tax administration are required for effective implementation of property tax reforms which can ensure that these advantages would add to the net benefit in the system. Theories of taxation also have emphasized the role of tax administration to augment revenues.

If we judge by the above criteria for a successful tax regime we can say that Bangalore was successful in ensuring these criteria better which resulted in higher number of assessed properties and higher property tax collections after a transition to unit area based system. As far as Delhi is concerned, the method of valuation of properties and assessment were based on similar principles as those in Bangalore. But the implementation suffered as the above criteria could not be ensured in the process.

This is reflected sharply in the property tax collection figures before and after the introduction of new mode of assessment and valuation of properties in the two cities. Both in absolute and per capita terms, property tax collected declined in Delhi after the introduction of new assessment and valuation mode, whereas there were phenomenal increases in both the phases of implementation of reforms in Bangalore. This is caused by a decrease in number of assessed properties in Delhi and an increase in number of assessed properties in Bangalore. The property tax to GSDP ratio declined in case of Delhi and increased in case of Bangalore if we compare the immediate consequence of introduction of reforms in the two cities. It would seem therefore that an efficient management and administrative capabilities are very important in ensuring the success in implementing reforms. We also find that other factors like better coverage and collection ratios, better service delivery, better living conditions and a more stable property market can be responsible for better performance in property tax collection in Bangalore.

## Appendix

### Table A1 Property Tax Rates in Delhi

Type of Property	2007-08	2012-13	
Residential Properties	10per cent of the annual value of the vacant land or part thereof or covered space of the building for A, B, C, D, E categories	12 per cent of the annual value of the vacant land or part thereof or covered space of the building for A and B categories	
		11 per cent of the annual value of the vacant land or part thereof or covered space of the building C, D, E categories	
	6per cent of the annual value of the vacant land or part thereof or covered space of the building for F, G, H categories	7per cent of the annual value of the vacant land or part thereof or covered space of the building for F , G , H categories	
Non-residential properties including hoarding and towers	10per cent of annual value of vacant land or part thereof or covered space of the building.	a) Non-residential properties including hoarding and towers but not including hotels of 3 star category and above, malls, air condition gyms, clubs with swimming pools, guest houses, lodges, banquet halls and coaching centers with more than 50 students	15per cent of the annual value of the vacant land or part thereof or covered space of the building those under A and B categories, 12per cent on C,D,E categories and 10per cent on F,G and H categories.
		b) Non residential properties not included in (a) and including hotels of 3 start category, malls, air conditioned gyms clubs with swimming pools, guest houses, lodges, banquet halls, coaching centers with more than 50 students, multiplexes, PVRs, shops having covered area of 150 sq. meters, petrol pumps, CNG stations, hotels and restaurants having bar facilities (including warehouses where goods are sold)	20per cent of the annual value of the vacant land or part thereof or covered space of the building those under A, B, C, D E, F, G and H categories
Govt. Company and Statutory Corporation Properties	1) For residential properties tax should be 10per cent of annual value of vacant land or part thereof or covered space of the building (self occupied) under A,B, C, D and E categories	1) For residential properties tax should be 15per cent of annual value of vacant land or part thereof or covered space of the building (self occupied) under A,B, C, D and E categories	
	2) For residential properties tax should be 6per cent of annual value of vacant land or part thereof or covered space of the building (self occupied) under F,G and H categories	2) For residential properties tax should be 11per cent of annual value of vacant land or part thereof or covered space of the building (self occupied) under F,G and H categories	
	3) For non-residential properties tax should be 10per cent of annual value of vacant land or part thereof or covered space of the building (self occupied) under A to H category.	3) For non-residential properties tax should be 15per cent of annual value of vacant land or part thereof or covered space of the building (self occupied) under A to H category.	
		4) Property of Airport Authority of India should be charged at 20per cent of annual value of vacant land or part thereof or covered space of the building.	
Farm Houses	All farm houses whether in village abadi area or outside village abadi area is being used for residential and commercial purposes shall be taxable at 10per cent for covered portion and 6per cent for vacant land for residential use 10per cent for commercial use.	1) All farm houses whether in village abadi area or outside village abadi area, being used for residential purpose shall be taxable at 15per cent of annual value.	
		2) All farm houses whether in village abadi area or outside village abadi area, being used for non-residential purpose shall be taxable at 25per cent of annual value.	

**Table A2 Unit Area Value for Assessment of Residential Properties: Bangalore**

Description of the Property	Ownership Status	Zonal unit area factor (Rs. Per square feet)					
		A	B	C	D	E	F
RCC or Madras Terrace Buildings	Tenanted	5	4	3.6	3.2	2.4	2
	Owner-occupied	2.5	2	1.8	1.6	1.2	1
RCC or Madras Terrace and where the flooring of the entire house is cement or red stone	Tenanted	4	3.5	3	2.5	1.6	1.4
	Owner-occupied	2	1.75	1.5	1.25	0.8	0.7
Tiled/Sheet of all kinds	Tenanted	3	2.5	2	1.6	1	0.8
	Owner-occupied	1.5	1.25	1	0.8	0.5	0.4
All hutments, house built/ allotted for the poor by the govt. under any scheme or houses declared as slum by KSCB* or by the commissioner of BBMP having a build up area of less than 300 sq. Ft.	Tenanted	Annual Composite tax of Rs.160					
	Owner-occupied	Annual Composite tax of Rs.80					
Special Category	Annual composite tax for 110 villages at the following rates (for owner occupied units)**						
	For area less than 300 sq. Ft	Lump sum tax of Rs. 100+ cess					
	For area more than 301 sq. Ft but less than 500 sq ft.	Lump Sum tax of Rs.250+ cess					
	For area more than 501 sq. Ft but less than 1000 sq. Ft	Lump sum tax of Rs.500+cess					
	For area more than 1001 sq ft. But less than 1500 sq.ft.	Lump sum tax of Rs.750+cess					
	For area more than 1501 sq. Ft.	Lump sum tax of Rs.1000+cess					

\*KSCB stands for Karnataka Slum Clearance Board

\*\*For tenanted properties the rates are twice as these with the addition of cess



**Table A3 Schedule for Depreciation Rates on Residential Properties: BBMP**

<b>Age of the building</b>	<b>Depreciation rate (per cent) on taxable annual value</b>
Does not exceed 3 years	3
Exceeds 3 years but does not exceed 6 years	6
Exceeds 6 years but does not exceed 9 years	9
Exceeds 9 years but does not exceed 12 years	12
Exceeds 12 years but does not exceed 15 years	15
Exceeds 15 years but does not exceed 18 years	18
Exceeds 18 years but does not exceed 21 years	21
Exceeds 21 years but does not exceed 24 years	24
Exceeds 24 years but does not exceed 27 years	27
Exceeds 27 years but does not exceed 30 years	30
Exceeds 30 years but does not exceed 33 years	33
Exceeds 33 years but does not exceed 36 years	36
Exceeds 36 years but does not exceed 39 years	39
Exceeds 39 years but does not exceed 42 years	42
Exceeds 42 years but does not exceed 45 years	45
Exceeds 45 years but does not exceed 48 years	48
Exceeds 48 years but does not exceed 51 years	51
Exceeds 51 years but does not exceed 54 years	54
Exceeds 54 years but does not exceed 57 years	57
Exceeds 57 years but does not exceed 60 years	60
Exceeds 60 years	70

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