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PROPERTY TAX REFORMS IN MUNICIPAL CORPORATION OF DELHI (MCD) – FISCAL AND DISTRIBUTIONAL IMPLICATIONS

LOVE GOGIA
ASST. PROFESSOR
NON-COLLEGE WOMEN EDUCATION BOARD (NCWEB)
BHARTI COLLEGE
DELHI UNIVERSITY
DELHI

ABSTRACT

Property Tax serves as a major source of revenue generation of urban local bodies and municipalities in order to provide the basic civic services in the city. Out of 3 ways (Annual Rental Value, Capital Value System, Unit Area System), MCD had adopted Unit Area method of property taxation which was recommended by Govt. of India in the year 2003 and was implemented in April 2004. Objective of this study is to assess the fiscal performance of MCD after the implementation of property tax reforms through Unit Area Method (UAM) of valuation and self-assessment scheme. Budget documents of MCD and reports of Delhi Finance Commission & Municipal Valuation Committee along with data from Economic Survey of Delhi & Statistical Abstract of Delhi is taken for analysis of MCD property tax reforms for the period of 2004-05 to 2013-14. Coverage Ratio and Collection Ratio is used to measure implication of property tax reforms undertaken by the MCD while implementing unit area method along with correlation coefficient to assess the trend of property tax collection vis-à-vis MCD's own revenues and with macro-economic data of Delhi state. The past experiences of property tax reforms shows that transition from the annual rental value to area based taxation holds a lot of promises and if properly implemented, can bring in significant additional revenues. The MCD property tax reform was undertaken to improve the property tax collections but comprehensive correction of the property tax system has been lacking. Property tax collection declined in Delhi after the introduction of new assessment method along with the decrease in number of assessed properties. Unless the structural issues are resolved, improved administration will do little to make the property tax a viable revenue source for local government. It also requires trained staff, capable of valuing real property.

KEYWORDS

Municipal Corporation of Delhi (MCD), property tax, reforms, revenue, unit area method (UAM).

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INTRODUCTION

It is well known fact that property tax is the principal source of revenue of local municipal authorities to upkeep the basic civic services in the city. According to 2011 census, In India, there are 37.7 crore people living in 7935 towns which constitutes 31.2% of the total population. As per the report of Twelfth Five Year Plan, it is projected that by 2031 around 60 crore people will find their residence in urban part of the country. Currently, 53 cities and towns have a population of 10 lakh and above. Three of the 10 largest metropolises in the world (Mumbai, Delhi and Kolkata) are in India.

Urban areas generate about 65% of the GDP in India, which is expected to contribute 75% by 2021 (GoI, 2008). Property tax to GDP ratio in any country generally does not goes beyond 3%. For developing countries, the average property tax to GDP ratio is around 0.7%. Though, in India, adequate information on revenue collection from property tax is not available, but it is estimated to about 0.2% of the GDP.

The total revenue can be broadly divided into 'own source' revenues and transfers from upper tiers of the government. The 'own source' component has tax revenues and non-tax revenues. Property tax and octroi are the main components of the tax sources. Transfers are composed of assigned revenues and grants. Assigned /shared revenues generally come from entertainment tax, motor vehicles tax, stamp duty/surcharge and various shared taxes, which may vary across states. Grants mainly are composed of the grants-in-aid component, which is generally on account of education, road maintenance or for any other (specific) purpose.

Property tax is the annual amount paid by a land owner to the local government or the municipal corporation of their area. Although the power of taxing is vested in the hands of state, yet it is delegated to the local bodies like municipalities. The property includes all tangible real estate properties, houses, office buildings and the property rented to others. Central government properties and vacant properties are generally exempted.

In India, the municipal corporation of a particular area assesses and imposes the property tax annually or semi-annually. The value of property forms the basis of this tax. Many local governments calculate the property or house tax not only on the basis of the size of the property but its location, occupancy status, covered area and quality of construction. Property Tax serves to be the major source of revenue generation of urban local bodies (ULBs) and municipalities in order to keep intact the basic civic services in the city. The collected amount is mainly used for financing public services like repairing roads, construction schools, buildings, sanitation etc.

As the Central government had initiated the mission to improve the infrastructure conditions of urban sector of India, it has launched a program in the name of our first Prime Minister of India Shri Jawahar Lal Nehru in 2005. The program named Jawaharlal Nehru National Urban Renewal Mission (JnNURM) provides the funds to the ULBs for improvement of infrastructure facilities in their respective jurisdiction and assigns the target to receive funds from central government under the program. As such, the target set for property tax collection by ULBs is set to improve the collection ratio to 90% and coverage ratio to 85%.

Property tax is one of the relatively less researched areas especially in terms of its design and its implementation issues. Studies shows that the information available to the tax authorities is very limited thus making it more difficult even to design the basic framework of property tax system in India. Most of the municipalities are always remains with a lack of funds to provide the basic services to the citizens. With inadequate service quality, tax compliance always remains low which further leads to low level of local public services. This vicious circle needs to be broken so as to improve the standard of service quality, thus reforms in property tax system becomes imperative. MCD in 2004 by introducing Unit Area Method (UAM) method was considered to increase the overall collection of the corporation by the way of property tax collection. Thus, the objectives of the study are as follows:

1. To assess the fiscal performance of MCD after the implementation of property tax reforms through Unit Area Method of valuation and self-assessment scheme.
2. To examines the reasons for low revenue productivity of MCD property tax after implementation of Unit Area Method.
3. To reviews, the recent reform initiatives.

The paper has been organized in six sections. Section 1 being the introduction, Section 2 presented the current scenario of MCD with regard to revenue, expenditure and Section 3 brings brief review or existing literature. Section 4 depicts the methodology along with data sources & description. Section 5 presents the results. Section 6 ends with few concluding remarks with some policy implications.

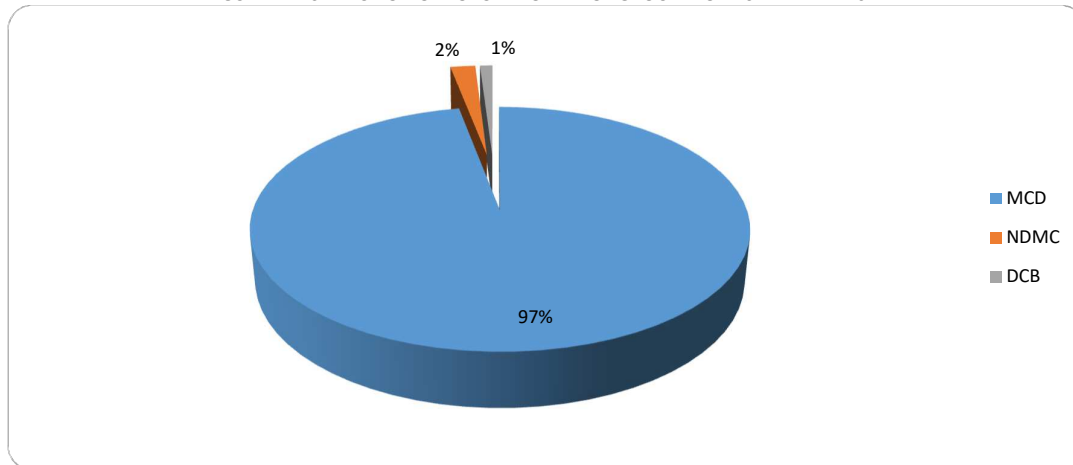
MUNICIPAL CORPORATION OF DELHI (MCD) – CURRENT SCENARIO

Delhi is governed through three different local bodies having their own geographical demarcation and areas of operation. The three local bodies in Delhi are as:

- a) Municipal Corporation of Delhi (MCD)
- b) New Delhi Municipal Corporation (NDMC)
- c) Delhi Cantonment Board (DCB)

In the capital city of India, Municipal Corporation of Delhi (MCD) is the largest urban local government out of the total three urban governments. This government takes care of around 1398 sq. km (94%) out of a total of 1483 sq. km of the city and about 97% of total population of Delhi which constitutes about 1.64 crore (Population Census, 2011). While the other two local bodies (NDMC and DCB) covers only a small part of about 43 sq. km each (approx 3% of total land area of Delhi). The population in NDMC was 2.58 lakh in 2011 and in DCB it was 1.10 lakh.

FIGURE 1: DISTRIBUTION OF POPULATION AMONG LOCAL BODIES IN DELHI - 2011



Source: Delhi Statistical Abstract 2014

Municipal Corporation of Delhi was established in 1958, under the provision of an Act of Parliament, known as "The Delhi Municipal Corporation Act 1957". It is one of the largest local bodies in the world & is second only to Tokyo in terms of area. Its territorial jurisdiction is almost equivalent with that of the state government. It caters to both the urban and rural sector in Delhi and services a large number of resettlement colonies, JJ squatter settlements, slums etc.

Revenue Sources of MCD

MCD derives its revenue from many sources. These sources are broadly divided into two categories namely the domestic and the external sources of revenue. The taxes and rates levied by the MCD divided under three categories (obligatory taxes, optional taxes and external sources of revenue of Delhi). Refer box No. 1

BOX 1: OBLIGATORY TAXES, DISCRETIONARY TAXES AND EXTERNAL SOURCES

Obligatory Taxes	Discretionary Taxes	External Source
Property Tax	Education Cess	Global Sharing of Taxes
Tax on Vehicles and Animals	Land Revenue	Terminal tax goods carried by (railways, roads, airport)
Theater tax	Profession Tax	Entertainment and betting tax
Tax on Advertisements	Electricity Tax	
Duty on transfer of property	Betterment Tax	
Tax on building plans	Tax on boats	
	Toll tax	

Source: Section 113, Delhi Municipal Corporation Act, 1957

The most important taxes that MCD imposes are house tax, tax on sale and supply of electricity and toll tax. The important components of non-tax revenues are fines against law, fines from cattle pounds, fees from hospitals, fees from vehicles licenses, process fees, cost of law receipts, rent on lands and buildings, fines for offences undertakings, reimbursement of debt charges, development and transfers from other account, rents on market and slaughter houses, receipts from licensing and removal of encroachment, license for hawking carts and improvement schemes.

MCD Property Tax Reforms

Properties in MCD prior to 2003 were taxed on the basis of annual rent at which properties were expected to be let out. While tenanted properties were assessed for tax based on the rent being paid by them, ratable values of self-occupied properties were assessed on the basis of cost of land and the cost of construction - both of which itself were highly subjective parameters. Rent control laws, which prevent the hike in rent on properties, were also served as a major roadblock to increase revenue base for property tax collection in Delhi. With the rise in demand for public services, corporation left with no other option except to revise tax rates upwards to increase revenues from the property tax.

MCD after a series of deliberations passed a resolution in June 2002 proposing the introduction of the Unit Area Method (UAM) that would reform the rental value-based system of property tax. The entire process of introduction of UAM of property tax by MCD i.e. from setting up of committee to the final implementation of new system is summarized as follows:

TABLE 1: PROCESS OF IMPLEMENTING UAM OF PROPERTY TAX IN DELHI

S. No	Date	Status
1	9th July 2002	Expert Committee on Property Tax Reforms set up.
2	1st February 2003	Submission of Report of Expert Committee along with proposed legislative changes submitted to the Government of National Capital Territory of Delhi
3	7th April 2003	Amendments to the Delhi Municipal Corporation Act paving the way for introduction of the Unit area Method of property tax assessment approved by Delhi Legislative Assembly
4	June 2003	Amendments get assent of President of India
5	September 2003	Amended Act notified to come in force by the Lt. Governor of Delhi
6	October 2003	First 'Municipal Valuation Committee (MVC)' notified and set up under the amended Act.
7	February 2004	Report of the Municipal Valuation Committee submitted to the Municipal Corporation of Delhi.
8	1st April 2004	The new Unit Area System of Property Tax Assessment Comes into force

Source: MCD

The outgoing rental value system in the MCD was highly subjective and discretionary, whereas, the new Unit Area Method (UAM) ensures complete transparency in the procedure for assessment of property tax. UAM is based on measurable parameters, such as unit area values, multipliers factor for age, structure and use of the property, etc. These parameters are periodically revised by the Municipal Valuation Committee once in every three years.¹

LITERATURE REVIEW

Property tax collections in the MCD area dropped by 16% in 2004-05 compared with that in 2003-04. While analyzing the performance of Delhi and Bangalore in terms of Property Tax to GSDP ratio study finds that the ratio in Bangalore 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 & 2000; and 2006 & 2007 whereas it declines from 0.89% in 2003 to 0.64% in 2004 in Delhi (Bandyopadhyay S, 2013).

In the old system, i.e. up to 31.03.2004, 9,63,119 bills were being issued to the tax payers. Against this only 6,50,381 tax payers used to make payment of property tax. The total collection during the year 2003-04 was Rs. 920.10 crores (in current prices). After implementation of UAM, in the year 2004-05, up to 31.03.2005, almost 745,850 tax payers filed their returns and the tax collection was Rs. 817.93 crores (again in current prices). Though the overall collection in this year was reduced but roughly 100,000 more tax payers paid the tax on self-assessment basis than the preceding year. So the success of the UAM seems to be one of widening the tax net rather than increasing the revenue per se. During 2005-06 MCD, a sum of Rs 486.43 was collected vide property taxes while 8,24,873 tax payers paid property tax through self assessment returns. In the year 2006-07, MCD collected Rs 358.19 crores of property tax (NIPFP, October 2007).

Most important reason for the low collections is the poor coverage of the tax and its low collection efficiency. Tax base has not been revised from time-to-time to take into account the changes in the status of the properties and improvements to the properties. Also low level of efficiency in revenue collection arises from the actual values of properties assessed are significantly lower than the market values. Assessed values are as low as 8-10% of the market values. Big metropolitan cities also have large unauthorized buildings and properties not included in the municipal register, which, while availing the municipal services do not pay the tax. Apart Article 285 of the Constitution provides exemption to all properties belong to the Union government. The adverse revenue impact of this is particularly severe in capital city like Delhi. (Rao M G - 2013)

Assessment of properties is one of the biggest challenges for the ULBs, which are plagued with issues like unscientific methods, lack of transparency and issues with incomplete records of properties. There are no formal and standard practices for having the property counts. Apart, from these there are also political interests that prevent the collection of the property taxes leading to low collection efficiency (Gnaneswar V 2009).

In a study of 36 large corporations, Mathur et.al. (2009) finds that there are large inter-city variations with the Mumbai municipal corporation having per capita revenue of Rs 1,334 while the municipal corporations of Patna and Dhanbad had only Rs 25 and Rs 40.

The starting point for property tax reform in India was the introduction of area-based assessment to determine the tax base by the Patna Municipal Corporation in 1992-93. Previously, the tax was collected on the basis of the annual rental value, defined as gross annual value rent at which the property may 'reasonably' be expected to be rented out. This system gave enormous discretion to the tax collectors and yielded little in tax revenue. The prescription of unit values (per square foot) based on the area of location and type of construction of the property instead of the annual rental value removed most of the discretion from the tax collectors and resulted in such a large increase in base that the tax rate was reduced from 44 per cent to 9 per cent. Also, the Administrative Reforms Commission has noted that only about 60-70 per cent of the properties in urban areas are actually assessed. A large number of property owners seem to be simply not paying the tax although they benefit from the local public services. (Rao M.G and Bird R. 2010).

METHODOLOGY

For the analysis of property tax reform undertaken by MCD in 2004, we used the data of MCD revenues for ten years preceding the reforms i.e. from 1994-95 till 2003-04 (when the rental value system of property tax was in practice) and ten years after the introduction of new methodology of tax collection i.e. from 2004-05 till 2013-14. Following indicators were taken to assess the performance of property tax:

Coverage Ratio

1. Assessed Properties (AP) as a % of Total Properties (TP)

$$\text{Coverage Ratio} = (\text{Assessed Properties} / \text{Total Properties}) * 100$$

2. Tax-Paying Properties (TPP) as a % Total Properties (TP)

$$\text{Effective Coverage} = (\text{Tax-Paying Properties} / \text{Total Properties}) * 100$$

3. Tax-Paying Properties (TPP) as a % of Assessed Properties (AP)

$$\text{Real Effective Coverage} = (\text{Tax-Paying Properties} / \text{Assessed Properties}) * 100$$

Collection Ratio

1. Property Tax collection (PTC) as a % of Property Tax Demanded (PTD)

2. Property Tax collection (PTC) as a % of Total Municipal Revenue (TMR)

3. Property Tax collection (PTC) as a % of Own Revenues (OR)

4. Property Tax arrears (PT-AR) as a % Property Tax Demanded (PTA)

Correlation Coefficient

Increasing revenues were the central tenant of the reform undertaken by MCD in 2004 thus it become imperative to assess the trend of the property tax collections of MCD with regards to its own revenues. Hence **correlation coefficient** between below mentioned indicators is also assessed.

1. Property Tax Collection and Own Revenues of MCD

2. Property Tax Collection and Total Receipts of MCD

The study also tried to evaluate the fiscal performance of property tax revenues of MCD with regards to the growth indicators of the state (Delhi). Thus, **correlation coefficient** between the following indicators will also be evaluated.

1. Property Tax Collections of MCD and GSDP of Delhi

¹ Formula for calculating Property Tax as per MVC 2003 is provided in Annexure

2. Per Capita Revenues of MCD and Per Capita Income of Delhi
3. Property Tax Collections of MCD and Population of Delhi

DATA SOURCES & DESCRIPTION

As data of MCD is not available in the public domain thus the author has visited MCD headquarter located at Civic Center, New Delhi. Copy of budget document for the year 2011-12 was collected (as there was a trifurcation of MCD in the year 2012) and the copies of budget document of SDMC was collected for the years 2012-13 to 2014-15 (since budget documents of other two municipal corporations – EDMC & NDMC was not available). Data from Third Delhi Finance commission (2004) and from Interim report of Delhi Municipal Valuation Committee-III (2014) is clubbed with the data of budget documents of MCD & SDMC so as to get the resultant data for the analysis of the study.

Data on Gross State Domestic Products (GSDP), Population & Per Capita Income of Delhi and GDP of India is compiled from Economic Survey of Delhi 2005-06, Statistical Abstract of Delhi 2014 and Estimates of State Domestic Product of Delhi 2013-14. Data on property tax arrears is not available for post-reform era thus the average collections of property tax as a percentage of total property tax demand for the three years (2004-05 to 2006-07) is taken from the study done O P Mathur, 2009 as the proxy to conclude our study.

DATA ANALYSIS AND RESULTS

Growth rate of MCD revenues in the pre-reform era shows that Y-o-Y property tax collection has increased from 1995-96 to 1997-98 but then continuously falls till the year 2001-02 with a signs of recovery in the later years. Y-o-Y growth rate in own revenues of MCD has remained in the range of 16 - 17 per cent from 1995-96 to 1998-99 and marks its peak growth of above 31% in the year 1999-2000 in its tenure of pre-reform period of study. Y-o-Y growth rate in total revenue of MCD in pre-reform period remained fluctuating with highest growth registered in the year 1998-99 with more than 28% growth whereas the lowest growth of around 3.2% was registered in the year 2003-04. (Refer Table No 2)

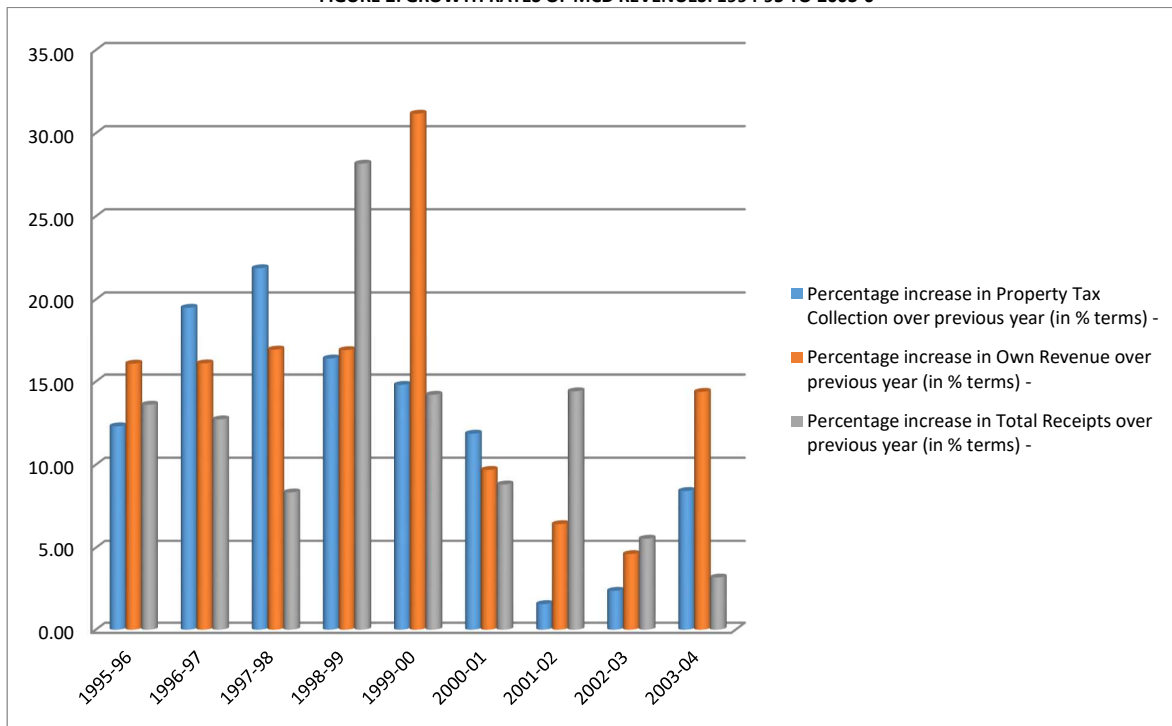
TABLE 2: GROWTH RATE OF MCD REVENUES: 1994-95 TO 2003-04 (Values in Rs Crores)

Year	Property Tax Col-lection	Y-o-Y growth% in Property Tax Collection	Own Revenues of MCD	Y-o-Y growth% in Own Revenues	Total Re-ceipts	Y-o-Y growth% in Total Receipts
1994-95	234.25	-	366.50	-	502.05	-
1995-96	267.14	12.31	425.44	16.08	581.16	13.61
1996-97	331.86	19.50	493.92	16.10	665.92	12.73
1997-98	424.80	21.88	577.53	16.93	726.48	8.34
1998-99	508.09	16.39	675.09	16.89	1011.37	28.17
1999-00	596.38	14.80	885.54	31.17	1178.87	14.21
2000-01	676.70	11.87	971.35	9.69	1292.84	8.82
2001-02	687.45	1.56	1033.80	6.43	1383.25	14.42
2002-03	704.18	2.38	1081.53	4.62	1495.50	5.55
2003-04	768.94	8.42	1237.09	14.38	1652.11	3.19

Source: 1. Third Delhi Finance Commission (2004); 2. MCD Budget Document (2011-12); 3. Author’s Computation

Correlation coefficient between property tax collection and own revenues of MCD as well as between property tax collection and total receipts of MCD was 0.99 in the pre-reform period.

FIGURE 2: GROWTH RATES OF MCD REVENUES: 1994-95 TO 2003-0



Just after the implementation of UAM of property tax system there was a sudden fall in the property tax collections. Data shows that the property tax collection has fallen by around 33% in the year 2004-05 and remained negative in 2005-06. In the year 2006-07, it shows a marginal growth of around 2%. Growth rate in property tax collection was highest in 2008-09 with 18%. Growth rate in own revenue was shown marginal rise of 0.5% in the year following the UAM of property taxation wherein it peaked in the year 2010-11 with a huge 70% growth. Total receipts of MCD were also increased by more than 68% in the year 2010-11. After trifurcation of MCD in the year 2012, data is available for South Delhi Municipal Corporation (SDMC) only. (Refer Table No 3)

TABLE 3: GROWTH RATE OF MCD REVENUES: 2004-05 TO 2013-14 (Values in Rs Crores)

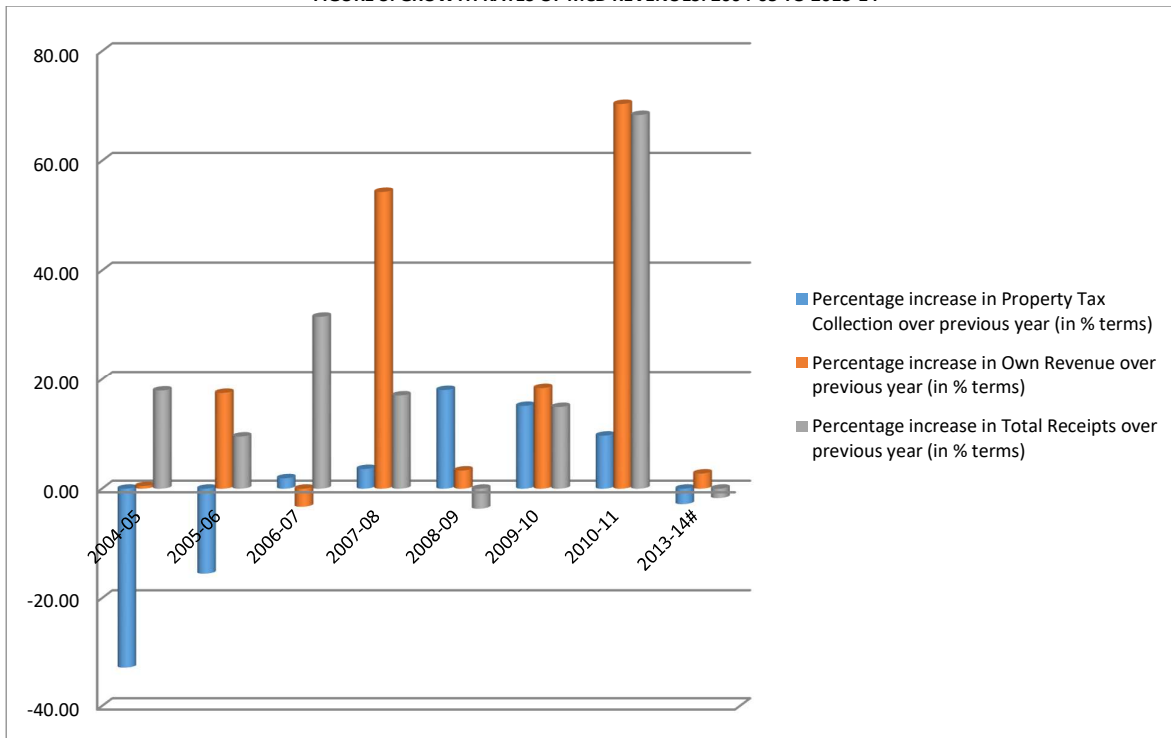
Year	Property Tax Collection	Y-o-Y growth% in Property Tax Collection	Own Revenues of MCD	Y-o-Y growth% in Own Revenues	Total Receipts	Y-o-Y growth% in Total Receipts
2004-05	575.76	-32.86	1243.05	0.48	1948.48	17.94
2005-06	486.44	-15.51	1460.57	17.50	2134.12	9.53
2006-07	495.69	1.90	1412.40	-3.30	2807.75	31.56
2007-08	513.53	3.60	2179.92	54.34	3285.92	17.03
2008-09	606.10	18.03	2252.31	3.32	3165.97	-3.65
2009-10	697.75	15.12	2666.17	18.37	3638.54	14.93
2010-11	765.34	9.69	4542.68	70.38	6126.48	68.38
2011-12	NA	NA	NA	NA	NA	NA
2012-13 [#]	539.92	---	1896.73	---	2718.46	---
2013-14 [#]	524.72	-2.82	1949.26	2.77	2672.00	-1.71

Note: 1. NA - Data not available for 2011-12; 2. # Data pertains to SDMC only

Source: 1. Interim Report of MVC - III (2010); 2. MCD Budget Document 2011-12; 3. Budget Documents of SDMC: 2012-13, 2013-14, and 2014-15; 4. Author's Computation

After the implementation of UAM, correlation coefficient between property tax collection & own revenues of MCD and between property tax collection & total receipts of MCD which was 0.99 in pre-reform era has fallen to 0.86 and 0.82 respectively after the reform period.

FIGURE 3: GROWTH RATES OF MCD REVENUES: 2004-05 TO 2013-14



Coverage Ratio

No concrete survey has been undertaken by MCD to calculate total number of properties under its jurisdiction neither does it has figures for number of tax-paying properties. With the help of limited information, we draw the following conclusion.

TABLE 4: COVERAGE RATIO OF MCD PROPERTIES: 1995-96 TO 2003-04

Year	Total Number of Properties	Number of Properties Assessed for Property Tax Purpose	Number of Tax Paying Properties	Percentage of Properties Assessed out of Total Properties	Tax-Paying Properties as a percentage of Assessed Properties	Tax-Paying Properties as a percentage of Total Properties
1995-96	2568000	776400	214000	30.23	27.56	8.33
2003-04	3100000	963119	650381	31.07	67.53	20.98

Source: Author's Compilation from various sources/literature

With the passage of time, only tax-paying properties have increased, as there is hardly any rise in assessed properties out of total properties in percentage terms. It has increased from around 30% in 1995-96 to 31% in 2003-04. This was due to the fact that no efforts were made by MCD to increase the number of assessed properties under property tax net. Tax-paying properties out of assessed properties has shown a massive jump from around 27.5% in 1995-96 to above 67.5% in 2003-04 which shows an improvement in compliance ratio. Tax-paying properties out of total properties in Delhi have also increased in the same time period from above 8.3% to around 21% which also reflects better compliance.

Even in the post-reform era, the data was not available for total number of properties. Number of assessed properties in 2004-05 was 9.46 lakh whereas the tax-paying properties was 7.46 lakh contributing to around 79% out of assessed properties. In the year 2009-10, number of assessed properties was increased to 9.80 lakhs whereas the tax-paying properties were reduced to 6.43 lakh. This means that only 65% of people paid their property tax in 2009-10. As per population census of 2011, the number of properties in Delhi was estimated to about 41 lakh. Taking an approximate figures of 40 lakh properties in 2009-10, number of assessed properties out of total properties of Delhi stood at around 25% whereas the tax-paying properties out of total properties of Delhi was mere 16%.

Collection Efficiency

Collection Efficiency of property tax is low in Indian cities, which is one of the reasons for low collections of property tax (Mohanty et al 2007, Bandyopadhyay and Rao 2009, Rao and Bird 2011).

The average collection of property tax revenues was declined from 67% to approximately 30% in the own revenues of MCD after the implementation of UAM method whereas out of total receipts of MCD, the average share of property tax revenues has decreased to 20% which was 50% in the pre-reform era.

During the rental value system of property taxation, MCD was able to collect around 73% of property tax out of the current targets set as per budget estimates but due to huge amount of arrears, the tax collection out of total demand by MCD is just above 16%. The property tax collection out of current demand has increased to 77% with the introduction of new method of property tax collection. Due to non-availability of data regarding arrears, calculations regarding the contribution of property tax in total demand cannot be computed. However, the study done by OP Mathur, 2009 states that the average collections of property tax as a percentage of total property tax demand for the three years (2004-05 to 2006-07) was 16%.

Population size has a strong impact on property tax collection (with a correlation of 0.82 – 'national average')². The figures for Delhi states that prior to implementation of UAM method the correlation coefficient between *MCD property tax collection* and *population of Delhi* was 0.99 whereas after its implementation it has fallen to 0.81 (due to non-availability of data, correlation is calculated from figures of 2004-05 till 2010-11). This shows that the estimate has fallen just below the national average.

Comparison of MCD Property Tax data with State and Central Government data

Being the capital city of India, Delhi accommodates a large population and, with growing economy, the income levels of people of Delhi are continuously rising. The data reveals that the per capita income of Delhi has increased from Rs 25,400 in 1994-95 to Rs 2,20,000 in 2013-14 (i.e. more than 850% in 20 years) and per capita revenue collection of MCD has increased from Rs 478 in 1994-95 to 2400 (i.e. 500% in 20 years). The basic rule of progressive tax system suggest that higher the level of income of an individual higher is the tax paying capacity thus there must be a positive relation between the per capita income and per capita tax payment.

Correlation Coefficient between *Per Capita Revenue of MCD* and *Per Capita Income of Delhi* shows that before the UAM method the correlation was 0.97 whereas it has declined to 0.92 in the period from 2004-05 till 2010-11 (as the figures for per capita revenue of MCD is not available for last three years of analysis period). On the similar grounds, the relationship between *total property tax collected* and *GSDP of Delhi* has the same story. Correlation coefficient is calculated till 2010-11 in the post-reform period due to non availability of concrete data and is turn out to be 0.86 against the pre-reform figure of 0.98.

Interesting facts been revealed while making a comparative study of Local Government (MCD) with State Government (Delhi Government) and of State Government (Delhi Government) with Central Government (Government of India).

TABLE 5: REVENUE COMPARISON OF LOCAL, STATE & CENTRAL GOVERNMENT

Year	Total MCD Revenues as a percentage of GSDP of Delhi	GSDP of Delhi as a percentage of GDP of India	Year	Total MCD Revenues as a percentage of GSDP of Delhi	GSDP of Delhi as a percentage of GDP of India
1994-95	1.98	3.05	2004-05	1.94	3.38
1995-96	2.19	2.85	2005-06	1.85	3.40
1996-97	2.20	2.89	2006-07	2.07	3.43
1997-98	2.06	3.13	2007-08	2.08	3.45
1998-99	2.52	3.19	2008-09	1.67	3.57
1999-00	2.74	3.21	2009-10	1.67	3.56
2000-01	2.86	3.25	2010-11	2.42	3.49
2001-02	2.89	3.25	2011-12	NA	3.54
2002-03	2.90	3.31	2012-13	NA	3.71
2003-04	2.92	3.29	2013-14	NA	3.84
Average	2.53	3.14	Average	1.96	3.54
Standard Deviation	0.38	0.16	Standard Deviation	0.26	0.14

Note: NA- Data not available

Source: 1. MCD Budget Document (2011-12); 2. Statistical Abstract of Delhi (2014); 3. Author's Computation

The average collection of MCD revenues vis-à-vis with Delhi government revenues has decreased from 2.53% to 1.96% (data taken from 2004-05 till 2010-11) after the implementation for UAM method whereas in the same period the average GSDP of Delhi government has increased from 3.14% to 3.54% with respect to the GDP of India. The standard deviation of MCD revenues with respect to revenues of Delhi government has reduced from 0.38% to 0.26%. The figure for GSDP of Delhi vis-à-vis with GDP of India remains constant throughout the 20 years of analysis period. (Refer Table No 5)

REASONS FOR LOW COLLECTION OF PROPERTY TAX BY MCD

There are 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. 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. From 9.4 lakh returns in 2004-05, the figure fell to 8.2 lakh returns in 2005-06 and till 2009-10, the number of properties filing returns has only gone up only to 9.8 lakh. The introduction of the UAM System led to a large fall in filing of returns and increase in non-compliance. Various reasons have been put forward for this fall including the discontinuing of the system of issuing notices to property owners after the introduction of the UAM System as well as in sending bills on the ground that the new system was a self-compliance based system.

The major reason considered for the unassessed properties in Delhi is large scale unauthorized properties which accounts for 1639 colonies out of 2300 colonies (approx) and large pool of slum area (3.68 slum properties in Delhi as per 2011 census) which largely remains out of the purview of property tax net. It is believed that the people living in the unauthorized colonies are from the poor strata of the society and area of house would not be too large i.e. it would be of one room or two rooms. But as per the report submitted by the Mathur committee (2006), unauthorized colonies were also inhabited by affluent people, which have so far been identified in one of the posh colonies of Delhi - Anant Ram Dairy, Mahendru Enclave and Sainik Farms.

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 in 2004 to address the grievances of the people and find solutions. 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 realization.

Trifurcation of MCD in 2012

After trifurcation colonies in Delhi is distributed among three civic bodies. Category wise distribution of such colonies is provided in table below

² Bandyopadhyay S. (July 2014) – Critical Issues in Municipal Finance: A Summary for India

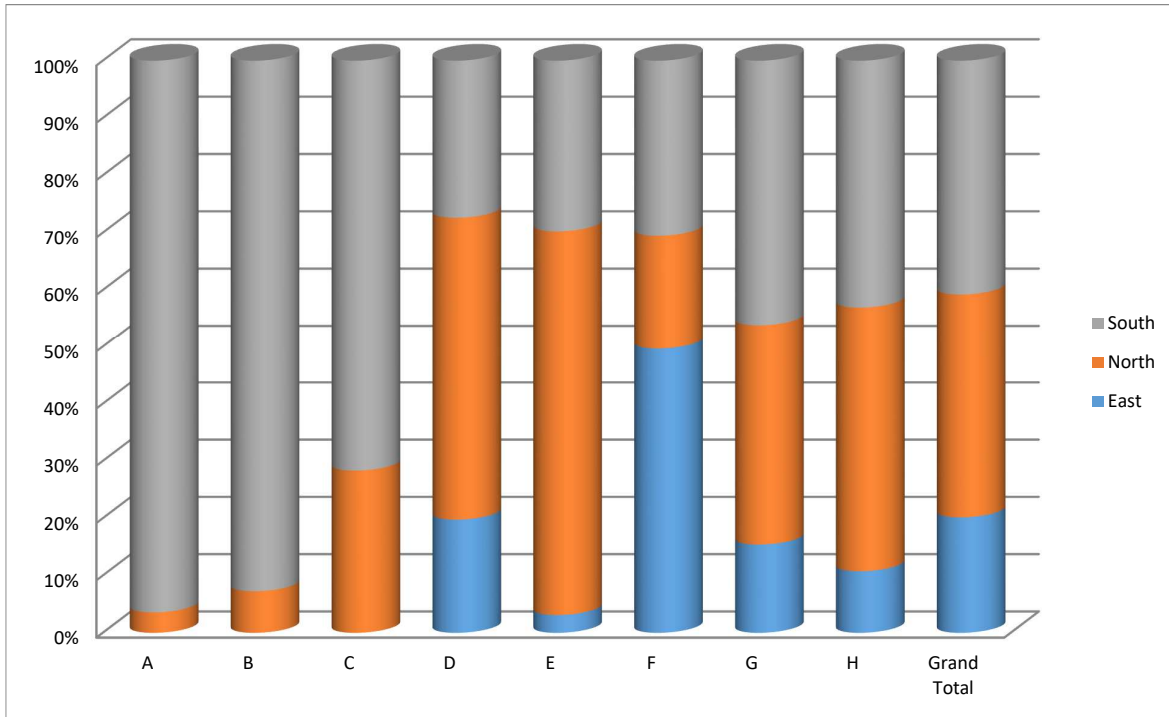
BOX 2: DISTRIBUTION OF COLONIES AMONG THREE CIVIC BODIES AFTER TRIFURCATION OF MCD

Corporation/Category	A	B	C	D	E	F	G	H	Grand Total
East				52	9	241	140	24	466
North	1	4	17	139	194	96	349	103	903
South	27	51	43	72	86	148	419	96	942
Grand Total	28	55	60	263	289	485	908	223	2311

Source: Colonies in different categories (MVC-III Data), 2012

As is visible from the above data, EDMC has majority (87%) of its colonies in the E-H category. It has no colonies in the A, B and C categories while the other two corporations have sizeable number of colonies in these categories. SDMC enjoys the creamy layer of categories of A – C while North Corporation has its maximum share in D & E category. This anomaly was deliberately maintained since the MVC in its draft report had argued that East Delhi post the 2010 Commonwealth Games and other massive infrastructure upgradation projects, has not been able to uplift in its infrastructure which need reflection in the categorization of the EDMC.

FIGURE 4: CATEGORY WISE PERCENTAGE OF COLONIES UNDER THREE CIVIC BODIES AFTER TRIFURCATION



REMEDIAL MEASURES TO IMPROVE EFFICIENCY

It is important that the tax officials should not only understand the reform well, but also be prepared to promote it. Apart departments should work with high degree of coordination and exchange of information amongst them as this would ultimately result in improved efficiency. MCD needs to update its property tax register, which clearly states the ownership and tenancy rights so as increase the number of properties under property tax net and to levy the tax as per the use value of the properties. Compulsory formal registration of all new properties would form the first step in beginning the required effort to build- up a proper database of all properties in Delhi. The Expert Committee of MVC III had recommended a complete inventory of properties in Delhi through a field survey on a 100% basis updated in subsequent years through regular periodical surveys and inspection. The database so created was to be linked to a GIS System and a digitized urban map. An Urban Mapping division manned by trained staff needs to be set up.

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 (i.e. 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.

Improvement needs to made in GIS technique so that non-paying properties be adequately and accurately mapped with the tax-paying properties. GIS technique should not be limited to non-paying property but the technique should also be utilized to incorporate the value of additions and improvements to the original buildings.

As there are large number of unauthorized colonies and slum clusters are situated in Delhi and the people living in such areas are under the impression that they are exempted from property tax payment even though they are not. Regularizing such colonies along with the provision of public services will definitely result in improvement in property tax collection. But regularizing such colonies is not an easy task as there are various legal and technical aspects associated with it which serves as a major roadblock in this task since couple of decades.

Poor provision of public services is also one of the low collections of property tax as funds collected by the corporation are majorly spent on provision of public services. As stated earlier, there is a vicious circle of low level of tax, which results in low level of public services, and ultimately, with such low level of service, people will restrict themselves in making payment of taxes. Thus, with the help of State and Central government, MCD needs to improve the basic services, so that people will also realize the importance of making tax payments.

CONCLUSION

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.

The experience of reform with the property tax shows that transition from the annual rental value to area based taxation holds a lot of promise and if properly done, can bring in significant additional revenues. 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.

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. Both in absolute and per capita terms, property tax collection declined in Delhi after the

introduction of new assessment and valuation method. This is caused by a decrease in number of assessed properties in Delhi and in turn results in the decline in property tax to GSDP ratio in Delhi.

MCD property tax reform was undertaken to improve the property tax collection but comprehensive correction of the property tax system has been lacking. Thus, growth in property tax revenues has been slow, and unless structural issues are resolved, improved administration will do little to make the property tax a viable revenue source for local government. It will also require trained staff, capable of valuing real property, and perhaps a central valuation unit in the state should be considered. Study concludes that MCD do not have a cadre of trained assessors to evaluate property values and update them on a regular basis.

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ANNEXURE

FORMULA FOR CALCULATING PROPERTY TAX AS PER MVC 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 verandahs, 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 meters 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 Factor (AF) and Use factors (UF) are presented in Boxes 1 and 2.

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

Use Factor (UF)	
Classification of Non-Residential Properties	Use Factor (UF)
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 following property categories are entitled for Property Tax Rebate

S No	Category Rebate (in percentage)
1	Senior Citizen – 30%
2	Women Owned – 30%
3	Physically Challenged – 30%
4	Ex-Servicemen – 30%
5	DDA/CGHS Residential – 10% Upto 100 sq meters of Covered/ Built up area
6	Group Housing Flats – 20% Upto 30 th June of financial year

* The Rebate is automatically calculated for Village Abadi, DDA Residential and Group Housing Properties.

Conditions for Rebate entitlements are:

- i. Rebate is applied for a maximum of 200 Sq meters of total covered/built-up area 'except in DDA/CGHS Residential Flats'
- ii. Occupancy factor/Use should be residential
- iii. Use factor should be self-used (non-rented)
- iv. In case of joint owners, the rebate will be applied to the property share of owners who are under rebate category

Under section 115 (1) of DMC Amendment Act (2003), the following property categories are entitled for Property Tax Exemption

- i. Agricultural - Sec 115 (1) (i)
- ii. Exclusively used for public worship - Sec 115 (1) (iii)
- iii. Used for Public Charity - Sec. 115 (1) (iv)
- iv. Land and Building exclusively used for burial / cremation ground 115 (1) (v)
- v. Heritage lands and buildings - Sec. 115 (1) (vi)
- vi. Owned by war widow / Gallantry Award winner being permanently used for self - residence and no portion is let out for any purpose whatsoever
- vii. Land and building of Corporation as per section - Sec.115 (1) (viii)

The new system introduced w.e.f. 01.04.2004 has benefited more than 8 lakh property taxpayers, is equitable, corruption free and transparent and has enabled public-private partnership. It is also probably the first urban taxation system to safeguard gender concerns by providing objective a tax rebate of 30% to women owned properties with a view to economically empower women by encouraging transfer of property titles to women.

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