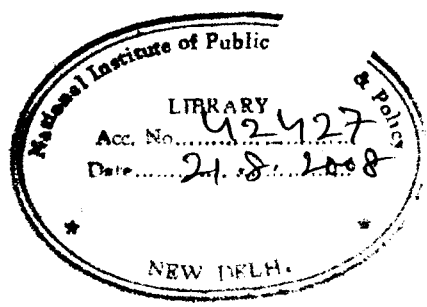
PROPERTY TAX SYSTEM IN DELHI

Final Report

November, 1984



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PREFACE

The National Institute of Public Finance and Policy is an autonomous non-profit organisation whose major function are to carry out research, undertake consultancy work and impart training in the area of public finance and policy.

This study was sponsored by the Delhi Administration along with the studies of the sales tax and the entry tax whose reports are being submitted separately. The study was begun in May 1983 and was completed in March 1984.

The report is a product of team work. The work on this study was largely carried out by Dr Shyam Nath under the guidance of Dr R J Chelliah. He was assisted by Mr Diwan Chand and Mr A C Dubey. While the field work was entirely carried out by Dr Shyam Nath with the help of research assistants, the analysis has been the joint responsibility of Drs Shyam Nath and Chelliah. The original draft of the report was prepared by Dr Shyam Nath. The final draft has been prepared by Dr R J Chelliah with the help of Dr Shyam Nath.

It is hoped that the comprehensive analysis of the system of property tax in Delhi and of the trends in its yield, the evaluation of methods of assessment and administration and the discussion on rationalisation of the structure of property tax and improvement in the administration contained in the report will be of help to the Delhi Administration and the local bodies concerned.

The Governing Body of the Institute does not take responsibility for any of the views expressed in this report. This responsibility belongs to the staff of the Institute and more particularly to the authors of the report.

K. Srinivasan
Senior Consultant
for Director

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Shyam Nath

TABLE OF CONTENTS

LIST OF TABLES IN THE TEXT

I. INTRODUCTION

1.0.1 In September 1982, Delhi Administration entrusted to the Institute an indepth study of sales tax, property tax and octroi being levied in the Union Territory of Delhi. The study of the three taxes was conducted simultaneously. However, for the sake of convenience of presentation as well as of consideration by the authorities, it has been decided to submit separate reports on the three taxes. The present report deals exclusively with the property tax levied by the municipal bodies in the Union Territory of Delhi.

1. Terms of Reference

1.1.1 The present study entitled "An Indepth Study of Structure and Assessment of Property Tax in the Union Territory of Delhi" has been undertaken with the following terms of reference:

(i) To review the existing structure of property taxation in Delhi and to examine its role and significance;

(ii) To analyse the trends in the revenue from the property tax with a view to identifying the main factors affecting its growth;

(iii) To examine critically the base of the property tax and to indicate possible lines of reform, keeping in view the broad objectives of policy, particularly, the need for resources, equity and ensuring adequate flow of investment in housing;

(iv) To examine the present structure of the property tax rates and to suggest measures for rationalisation, in conformity with the policy objectives mentioned under item (iii) above;

(v) To suggest ways of improving the administration of the property tax with a view to expediting assessment and disposal of appeals in order to ensure a steady growth of revenue and to minimise inconvenience to the taxpayers; and

(vi) To examine the need for creation of an appellate authority within the local bodies to hear appeals against the orders passed by the assessing authorities. Such appellate authority may be appointed by the local bodies, be independent in the exercise of judicial functions and the orders of such appellate authority be applicable in the Delhi High Court. At the same time, filing up of suits in civil courts may be expressly barred under Sections 169 and 170 of the Delhi Municipal Act, 1957.

1.1.2 The study was expected to begin in the month of November, 1982 and to be completed in about 10 months time. However, the actual work on the study could start only in the month of May, 1983.

1.1.3 For an indepth examination of any tax system, generally a longer period should be covered. Discussions with the officials of the local bodies revealed that data base was poor prior to 1960. Therefore the period chosen for analysis was 1960-82. It was decided to collect the requisite information for this period in the following ways. A list of data requirement pertaining to municipal finances including various components of property tax revenue, assessment of property and objections and appeals was submitted to the budget department and the assessment department of the Municipal Corporation of Delhi (MCD), New Delhi Municipal Committee (NDMC) and Delhi Cantonment Board (DCB). After receiving the data from the two departments, the data gap was worked out and it was decided to fill up the gap by collecting the remaining data, directly from the records of

the local bodies. In this connection, budget documents and other relevant documents were consulted, such as inspection books, assessment registers, assessment files and demand and collection registers. It was also decided to study the assessment of selected properties more intensively. Two samples, one each from the MCD and the NDMC, of 1500 and 200 holdings, respectively, were selected. The sample design is presented in the appendix. The objective behind the sample survey was to collect information on the existing, proposed and decided rateable values, reasons for revisions (upward or downward), carpet area and pattern of occupancy and use.

1.1.4 In addition to these data, information on sale values of properties was obtained from the valuation cell of the income-tax department. In the case of rent-controlled properties, information on rents, before and after the fixation of standard rent, along with the area of the property, was obtained from the office of the Rent Controller, Delhi Administration. Information on population, income (city domestic product), prices and cost of construction was collected from (i) Bureau of Economics and Statistics, Delhi Administration, and (ii) National Buildings Organisation, Ministry of Works and Housing, Government of India. The data collected by the NIPFP for an earlier study on Property Taxation in West Bengal, at the request of the West Bengal Municipal Finance Commission, Government of West Bengal, have been used for inter-city comparisons.

1.1.5 The study is presented in six chapters. Chapter II deals with the growth of Delhi Metropolitan area and municipal responsibilities. It has been argued that when one considers the revenue sources on which the growth of revenue must depend, the property tax would have to bear a

large share of the load. Chapter III examines the property tax system of the three municipal bodies in the Union Territory of Delhi and its growth performance has been critically evaluated in Chapter IV. Chapter V analyses the base and rate structure of the property tax. Chapter VI discusses the merits and demerits of the available alternatives to reform the system and presents specific proposals for reform. Finally, Chapter VII presents a summary and conclusions.

II. GROWTH OF DELHI METROPOLITAN AREA AND MUNICIPAL RESPONSIBILITY

1. Introduction

2.1.1 Most of the Less Developed Countries have experienced a rapid rate of urbanisation in recent decades. Although the growth of urban population is distributed over the entire range of urban centres, the newly urbanised population is usually highly concentrated in and around large cities. Small and medium-size cities have also grown rapidly, but it is in the bigger cities that the difficulties of adjusting to rapid growth tend to become more visible. Because of their sheer size in terms of population, the large cities in LDCs deserve the attention of city planners, administrators and economists.

2. Population Growth in and Around Delhi

2.2.1 For a more or less fixed municipal area, population growth results from natural growth of population and net in-migration. The combined effect of the two determinants of population growth has been that, among the major Indian cities, Delhi has experienced the fastest pace of population growth during the last two decades. Delhi (Urban Agglomeration: DUA) which consists of MCD, NDMC, DCB and a few urbanised villages in and around Delhi, registered population increase of 45.9 per cent during 1971-81 compared to the corresponding increases of 32.6, 30.4 and 34.2 per cent respectively for Greater Bombay, Calcutta and Madras (Table II.1). Delhi is now the third largest city of India with a population of 57 lakhs (1981 census).

2.2.2 People have congregated in and around Delhi in order to take advantage of improved employment and income-earning avenues. The location of the establishments of Central and local governments and a strong trade and commerce base produced the initial impetus to the city's growth and attracted people from distant areas. In recent years rapid expansion of industries, mainly of the small-scale type, has further accelerated the population growth. According to the 1971 census, migrants constituted 46 per cent of urban Delhi's population. They moved mainly from the three adjoining States, namely, Uttar Pradesh, Haryana and Punjab.

2.2.3 In addition to the growth of the resident population which consists of the existing population and additions due to natural growth and net in-migration, Delhi, like other cities in India, but probably to a greater extent now, has continued to receive during day time people from the suburbs, adjoining towns and rural areas who come to work, trade, shop and for various other purposes. In the absence of any precise information that can throw light on the magnitude of the floating population, a rough idea, however, can be formed on the basis of the population trends in the towns and urbanised villages surrounding metropolitan Delhi. Table II.2 shows the population growth in the MCD area during 1971-81. This indicates that a rapid growth in population has occurred in the urbanised villages adjoining the city of Delhi.

2.2.4 Similarly, the population growth registered by the adjoining towns, particularly Ghaziabad and Faridabad, has been far higher than that recorded in the DUA. Even areas under the Meerut and Gurgaon Municipal Boards have witnessed a population growth not less than that observed in Delhi.

TABLE II.1

The Growth of Large Cities* and Hinterlands**

City	Population 1981 (in lakh)		Population Growth (Cities) (per cent per annum)		Population Growth (Hinterland) (per cent per annum)
	City	Hinter-land	1961-71	1971-81	1971-81
Calcutta	91.65	13.17	2.05	2.69	3.04
Bombay	82.17	12.13	3.70	3.26	5.09
Delhi	57.13	20.73	4.45	4.59	5.83
Madras	42.76	9.72	5.01	3.04	2.93
Bangalore	29.13	11.27	3.27	5.82	3.40
Hyderabad	25.28	6.42	3.71	3.42	5.08

Notes: * City refers to urban agglomeration.

** Hinterland refers to all those towns with 1971 population of 20,000 and more and within roughly 100 kms. radius of the city measured as straightline distance.

Source: Planning Commission (1983), p.36

Table II.2 amply demonstrates that except in Madras and Bangalore, the hinterlands, i.e., towns with population of 20,000 and more and within a roughly 100 km radius of the city, have experienced higher population growth than that in the main cities. More importantly, DUA's hinterlands have registered the highest rate of population growth and concentration during 1971-81. The growth of the population of the hinterlands at an unprecedented rate must have contributed to the rapid growth of the day time population in Delhi.

3. Growing Expenditure Responsibility

2.3.1 The concentration of population in the metropolitan areas along with the growth of the floating population has increased the demand for different urban public services at a rapid rate. Consequently the municipal governments have had to assume growing expenditure responsibility on services such as maintenance of roads, water supply, drainage and conservancy, fire protection, public health, and education. If the level of per capita revenue expenditure is any indicator of the level and quality of civic services provided by the urban local bodies, one would find that six major Indian cities had per capita revenue expenditure larger than those in the small local jurisdictions[1/]. Also, per capita revenue expenditure in the cities in 1978-79 was three to four times higher than the levels achieved in 1960-61 (Table II.3).

1/ Smith (1974, p.333) found the per capita city expenditure frequently four/five times that of local government in general in most of the developing countries.

TABLE II.2

Area, Population and Growth Rate

Local Bodies	Area in sq. km.			Population (in lakh)			Growth Rate (Per cent)	
	1961	1971	1981	1961	1971	1981	1961-71	1971-81
Gurgaon:								
U.A.	-	-	-	-	-	1.01	-	-
M.C.	15.18	15.33	-	0.38	0.57	0.89	+50.92	+56.27
C.T.	-	-	-	-	-	0.12	-	-
Faridabad:								
Complex	12.80	12.80	-	0.40	0.86	3.27	+175.20	+281.25
Meerut:								
U.A.	55.89	55.90	-	2.84	3.68	5.38	+29.49	+46.42
M.B.	13.80	13.81	-	2.00	2.71	4.17	+35.18	+47.80
C.T.	35.69	35.69	-	0.75	0.85	0.94	+13.38	+10.25
Ghaziabad:								
U.A.	11.68	35.76	-	0.70	1.28	2.92	+81.29	+128.63
M.B.	11.14	35.22	-	0.63	1.19	2.76	+88.06	+115.73
C.T.	0.54	0.54	-	0.07	0.09	0.11	+22.30	+ 27.15
Delhi:								
U.A.	326.55	446.26	-	23.59	36.47	57.14	+54.57	+ 56.66
M.C.D.	240.84	360.55	360.55	20.61	32.88	48.65	+59.65	+ 47.97
N.D.M.C.	42.74	42.74	42.74	2.62	3.02	2.72	+15.39	- 9.88
D.C.B.	42.97	42.97	42.97	0.36	0.57	0.91	+58.81	+.58.12

Note: U.A. = Urban Agglomeration
M.C. = Municipal Corporation
C.T. = Cantonment

Source: Census of India (1971 and 1981); Series 1 - India Part II-A(i)

2.3.2 The level of local expenditure, however, cannot be taken to represent the level of service availability as the cost per unit of civic services provided differs between different urban local bodies for reasons of input price differences, scale economies and production and provision efficiency. Even assuming these differences away, a comparison of the growth of per capita revenue expenditure in nominal and real terms would reveal that the nominal per capita revenue expenditure has increased mainly due to price rise; thus, the demand-induced increases in the supply of civic services has been found to be insignificant. In fact, in some of the municipal jurisdictions, the local expenditures in real terms have gone down. These results would establish that growing demand for civic services consequent upon population, income and employment growth in the cities has exerted very little influence, if any, on the supply. These facts may also be interpreted to mean that the quality of civic services has gone down over time.

2.3.3 Gross inadequacies in the urban public services may be pointed out by comparing the desired levels with the existing levels of local expenditure. In the year 1960-61, the per capita revenue expenditure of the major municipal corporations ranged between Rs 18 and Rs 40, which fell much below the norm of Rs 43.50 postulated by the Zakaria Committee (1963) for the special class of cities such as Bombay and Calcutta. Although the level of per capita revenue expenditure has increased, ranging between Rs 75 and Rs 188 in 1977-78, the norm for the per capita revenue expenditure for the seventies and eighties would be much higher than that for the year 1960-61. If the norm prescribed for the year 1960-61 is scaled up by an inflation factor, here the growth of CPIN

TABLE II.3

Per Capita Revenue Expenditure of Major Municipal Corporations

(Rupees)

Corporation	1965-66		1970-71		1975-76		1977-78	
	Current prices	Constant prices*	Current prices	Constant prices*	Current prices	Constant prices*	Current prices	Constant prices*
Delhi	38.01	29.46	71.65	41.42	87.55	32.07	97.72	34.17
Calcutta	-	-	46.95	27.78	62.19	25.49	75.59**	28.85
Bombay	63.00	48.46	89.64	53.68	165.26	67.18	193.43	72.72
Madras	42.09	32.13	49.63	28.86	58.05	18.73	58.32	19.00
Ahmedabad	56.70	43.95	66.76	39.04	116.71	42.13	146.60	51.62
Bangalore	25.68	19.76	48.37	28.45	68.75	24.12	181.28	59.63
Six Corporations	45.98	-	62.17	-	93.09	-	125.49	-
Small Corporations	22.60	-	36.42	-	55.28	-	66.87	-

* Per capita revenue expenditure deflated by CPIN urban non-manual employees

** 1978-79

Source: CSO, Statistical Abstract (Various Issues)

which has increased approximately threefold during 1960-79, a figure of Rs 141.37 is obtained. It can be taken to represent, albeit crudely, the current norm for the municipal governments of the large cities in India.

2.3.4 The achieved levels of per capita revenue expenditure in 1977-78 lagged behind this norm in all the major municipal corporations excepting Bombay. However, this gap would be larger if inter-temporal changes in society's preferences are also taken into account. Society's evaluation of the extent and availability of public services may undergo change over time, perhaps necessitating a higher level of local expenditure than what was desired 20 years ago. This would require an upward revision of the norm. In view of the dynamic aspect of society's aspirations and requirements, the relatively higher level of per capita revenue expenditure achieved in Bombay too may be shown to be inadequate to parallel the desired level and the gap between the actual and the norm would probably widen considerably for all the municipal bodies, including those in Delhi. If it is assumed that the expenditure requirement of a locality will grow at least in proportion to city domestic product,[1/] the inelasticity of revenue expenditure with respect to income, i.e., an expenditure elasticity less than unity (0.78 per cent in Delhi) shows that the local expenditure has not grown at a rate warranted by the income growth.

2.3.5 The inadequacy of civic services calls for a considerable increase in urban spending because the

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1/ A number of studies have attempted to quantify Wagner's Law of the increase of State activity and have obtained more than unit elasticity of government expenditure with respect to income. [See Gupta (1967); Reddy (1970); Bird (1971); Pluta (1979) and Subramanyam and Kolluri (1979).].

provision of such civic services is the first requirement for the normal functioning of an urban centre. Thus the local urban spending is bound to grow rapidly with the process of urbanisation.

4. Budgetary Deficits and Financial Avenues

2.4.1 To maintain the requisite pace of local government expenditure, its revenue base must also expand. It has been noted that the per capita revenue expenditure is relatively high in the municipal corporations where the level of per capita total revenue is also high (Table IV.1 of Chapter IV). Thus, whereas a number of socio-economic and administrative factors contribute to the level and management of civic services in the metropolitan regions, the availability of funds plays a crucial role in their provision. The significance of additional finances is further enhanced in the context of Delhi where the MCD, the major municipal body in the capital city, has produced deficit budgets on the current account (Table II.4). The growing expenditure responsibility coupled with a sluggish growth of current revenues has converted surplus budgets of the Corporation into deficit budgets during 1978-81[1/]. Although the budget for the year 1981-82 has shown a surplus of Rs 305 lakh, the magnitude of surplus has been almost wiped out in the subsequent year. Moreover, the surplus on current account in the context of the MCD is less meaningful because it has depended considerably on the grants-in-aid compared to other major municipal corporations (Table IV.1). Although the relative significance of the grants-in-aid in the total revenue has declined over time, it is one of the important sources of funds to the MCD.

1/ NDMC and DCB, however, have consistently shown surpluses on the revenue account.

2.4.2 The significance of additional funds to finance civic services can be seen more clearly when the financing of individual civic services is considered. In the case of the four important civic services, namely, water supply, fire protection, scavenging and sewerage and drainage, the available information for the three local bodies in Delhi shows that the expenditures on these services have exceeded the receipts from them, exceptions being only a few years in the case of the NDMC (Table II.5). It is pertinent to note that the gap between the receipts and expenditures in each of the local public services is considerable and calls for the immediate attention of policy makers.

2.4.3 When one considers the revenue source upon which the growth of urban spending must depend, the property tax must bear a large share of the load for at least three reasons. Firstly, it has been the mainstay of the local finances not only in the LDCs but also in the developed countries. Secondly, the benefits due to the existence and operation of the local bodies get reflected in the values of properties located in the municipal jurisdiction, and thirdly, most of the civic services are property-based. So whether the property tax follows the benefit principle or the ability-to-pay principle, economic reasoning and administrative expediency would suggest that a large part of the urban government finances should come from this tax. Given that the instrument of property taxation would have to play a crucial role in financing the urban public services, it follows that the development of this tax device on sound lines is a necessary condition for urban growth and renewal. The productivity of this tax is of major concern because the costs of providing the municipal services have gone up considerably. The sluggish growth of this source would result in either an increasing

TABLE II.4

Budgetary Position on Revenue Account for Three Local Governments of Delhi

(Rs lakh)

Local Bodies	Year	Total receipts*	Total expenditure	Surplus (+)/ Deficit (-)
MCD	1970-71	2692.56	2656.19	(+) 36.67
	1975-76	4472.21	4081.57	(+) 390.65
	1978-79	5781.50	6377.49	(-) 595.99
	1979-80	5760.54	6129.14	(-) 368.60
	1980-81	7093.68	7197.25	(-) 103.57
	1981-82	8442.12	8136.47	(+) 305.65
	1982-83**	11731.12	11703.97	(+) 27.15
NDMC	1970-71	2470.57	1028.16	(+) 1442.41
	1975-76	3840.06	1886.16	(+) 2074.84
	1978-79	5797.62	3117.14	(+) 2620.80
	1979-80	6473.61	3527.78	(+) 3235.94
	1980-81	7609.95	4217.75	(+) 3423.25
	1981-82	8940.63	5651.37	(+) 3530.79
	1982-83**	9331.51	6845.73	(+) 3173.38
DCB	1973-74	50.02	39.30	(+) 10.72
	1978-79	94.49	65.23	(+) 29.26
	1982-83**	121.72	99.93	(+) 21.79

Note: * Includes opening balance

** Revised Estimate

Source: Office of the Municipal Corporation of Delhi, New Delhi Municipal Committee and Delhi Cantonment Board

TABLE II.5

Receipt and Expenditure for Selected Civic Services in Local Bodies of Union Territory of Delhi

(Rs lakh)

Local Bodies	Water Supply		Fire Protection		Scavenging		Sewerage and Drainage	
	Receipt	Expenditure	Receipt	Expenditure	Receipt	Expenditure	Receipt	Expenditure
Municipal Corporation Delhi								
1970-71	298.65	338.87	0.24	33.76	3.15	236.70	0.01	52.13
1975-76	656.52	731.29	0.21	84.14	10.78	585.12	-	80.34
1979-80	998.53	1442.10	1.91	144.86	10.81	812.41	-	86.57
1981-82	1654.73	1888.31	2.27	218.57	2.00	1291.58	-	168.16
New Delhi Municipal Committee:								
1970-71	72.81	35.14	-	-	-	41.80	-	55.93
1975-76	78.73	142.75	-	-	-	82.61	-	59.69
1979-80	258.25	227.97	-	-	10.91	106.34	-	63.93
1981-82	252.25	306.67	-	-	-8.31	148.02	-	174.04
Delhi Contonment:								
1970-71	-	-	-	-	-	-	-	-
1975-76	0.53	1.47	-	1.46	10.71	17.95	-	0.97
1979-80	0.81	1.16	-	1.32	22.01	22.01	-	0.38
1981-82	0.90	1.89	-	1.66	25.50	28.71	-	17.98

Source: Same as for Table II.4

III. PROPERTY TAX SYSTEM IN THE UNION TERRITORY OF DELHI

1. Introduction

3.1.1 As discussed in Chapter I, there are three municipal authorities in Delhi, namely, Municipal Corporation of Delhi (MCD), New Delhi Municipal Committee (NDMC), and Delhi Cantonment Board (DCB). The MCD is the largest municipal body, with an area of 1399 sq. kms. and a population of 48 lakhs in 1981. The NDMC with 42 sq. kms. and 2.7 lakh population and the DCB with 46 sq. kms. and about 90,000 residents, are much smaller local bodies. The NDMC has jurisdiction over the area of New Delhi where about 85 per cent of the properties are government-owned. The DCB covers the military area, which is almost totally government-owned. The rest of the area of the city of Delhi falls under the jurisdiction of the MCD.

3.1.2 In the Union Territory of Delhi, the property tax is levied annually on all lands and buildings situated within the municipal limits of the three local bodies, in accordance with the provisions under the respective acts[1/]. It has two principal components - the general tax and service charges. The service charges are levied in the form of water tax, scavenging tax, drainage tax, fire tax and education cess for specific services rendered to the residents and establishments such as institutions and commercial and industrial units. The general property tax, on the other hand,

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1/ The relevant municipal acts are the Delhi Municipal Corporation Act, 1957 for the MCD, Punjab Municipal Act, 1911 for the NDMC and Cantonment Act, 1924 for the DCB.

is aimed to divert to the municipal exchequer, a part of the gains that accrue to the property-owner from appreciation in property values, due to provision of civic services and general economic development.

2. Tax Base

3.2.1 The base of the property tax is the rateable value of a property[1/]. The rateable value is arrived at by deducting from the annual value of a property 10 per cent of the annual value towards maintenance, insurance, etc. The annual value of a property can be approximated either by using rental value (reasonable letting value) or capital value of land and building. Like the majority of local bodies in India, all the three local bodies in Delhi levy this tax on the basis of annual letting value of a property. Information on rents is obtained from declarations made by the owners of properties. When the rents declared by the owners are suspected to be concessional or collusive,

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1/ The use of rateable value as the base also for the service charges needs some explanation. The service charges are supposed to be collected on the basis of the benefits one is deriving from the civic services. Except in a few cases like water supply where the extent of benefit can be determined through the system of metered supply of water, the measurement of benefit is extremely difficult. To overcome the measurement problem, the service charges are collected on the basis of rateable value. Thus the rateable value is used as a proxy for the amount of civic services consumed. It will be seen that in Delhi more than 95 per cent of the houses now have water meter connections. In all these cases, water charges are collected on the basis of actual consumption of water by the holdings. Therefore, the water tax as such is collectible only in those cases where the supply of water is unmetered.

reference is made to the rental data which is developed by the department on basis of per sq. ft. of carpet area. In other cases, rents are determined on comparison with other similar properties in the locality. However, in the cases where properties are not ordinarily let out or the annual letting values cannot be easily determined, annual rental values of properties are determined as a fixed percentage of land value, plus construction cost, at the time of assessment. In respect of those properties for which the standard rents have been fixed in accordance with the provisions of the Delhi Rent Control Act, 1958, the standard rents are taken to be the annual values of the properties. Recently, it has been laid down by the Supreme Court that in taking the rental values at which properties might reasonably be expected to be let out, the standard rents determinable under the provisions of the Delhi Rent Control Act must be taken as the basis, irrespective of whether the rents have actually been fixed by the Rent Controller or, what the landlords are actually receiving.

3. Tax Rates

3.3.1 It is important to note that the rate structures of the property tax in the three municipal jurisdictions in Delhi are different. The MCD has progressive general property tax rates along with flat-rate service charges (Table III.1). The general rates vary between 10 per cent and 30 per cent for residential properties and between 15 per cent and 30 per cent for non-residential properties. As regards the service charges, non-residential properties are taxed at relatively higher rates. In the NDMC, however, all the properties have to pay at a fixed rate of 12.5 per cent of the rateable value. Thus, one finds that the NDMC does not discriminate between residential and non-residential

properties on the one hand and also between low-value and high-value properties on the other, as is the case in the MCD. The DCB rate structure is on the pattern of that of the MCD but the statutory rates are consolidated progressive rates which include both the general property tax and the service charges. The range between which the consolidated rate varies is 10 per cent and 25 per cent for residential properties and between 15 per cent and 30 per cent for non-residential properties(Table III.2).

4. Administration and Legal Aspects of The Tax

3.4.1 For the purpose of administration of the tax, the assessment department of the MCD is divided into ten zones, eight for urban Delhi and two for rural Delhi[1/]. The NDMC does not have zonal classification like the MCD. However, a classification is made on the basis of colonies. All the colonies form part of the urban Delhi. Besides the ten zones mentioned above which undertake the work of assessment and collection of the tax from the properties located in their jurisdictions, there are special cells for multi-storeyed buildings and properties with rateable value of more than Rs 1 lakh. These special cells constitute a part of the headquarters.

3.4.2 While the various components of the property tax are collected by the various zonal offices and the headquarters, receipts realised through water tax, scavenging tax and drainage tax are passed on to the Delhi Water Supply and Sewage Disposal Undertaking (DWSSDU), which is responsible for

1/ Urban zones are City, Civil Lines, Karol Bagh, South Delhi, New Delhi, Sadar Paharganj, Shahdara and West Delhi and rural zones are Najafgarh and Narela.

TABLE III.1

Rates of Property Tax: M C D

(Per cent of Rateable value)

Rateable value of Property (Rs thousand)	General tax (marginal rate)			Water rate	Scavanging tax			Fire tax	Total		
	(a)	(b)	(c)		(a)	(b)	(c)		(a)	(b)	(c)
Up to 1	10	15	15	5	1	5	2.5	0.5	16.5	25.5	23
Over 1 to 2	11.5	15	15	5	1	5	2.5	0.5	18.0	25.5	23
Over 2 to 5	12.5	18	18	5	1	5	2.5	0.5	19.0	28.5	26
Over 5 to 10	15	22	18	5	1	5	2.5	0.5	21.5	32.5	26
Over 10 to 15	18	26	20	5	1	5	2.5	0.5	24.5	36.5	28
Over 15 to 20	20	28	23	5	1	5	2.5	0.5	26.5	38.5	31
Over 20 to 25	25	30	27	5	1	5	2.5	0.5	31.5	40.5	35
Over 25	30	30	30	5	1	5	2.5	0.5	36.5	40.5	38

Note: a Rate for residential buildings.

b Rate for cinema houses, residential hotels, industrial holdings etc.

c Rate for restaurants, eating houses, nursing homes, institutions, shops etc.

Source: Municipal Corporation of Delhi

TABLE III.2

Rates of Property Tax: D C B

Rateable value (Rs thousand)	Consolidated rate (a)	(b)
Upto 1	10.0	15
Over 1 to 2	11.5	15
Over 2 to 5	12.5	18
Over 5 to 10	15.0	18
Over 10 to 15	18.0	20
Over 15 to 20	20.0	23
Over 20 to 30	25.0	27
Over 30	25.0	30

Note: a - Residential
b - Non-residential

Source: Office of the Executive Officer, Delhi Cantonment Board

the supply and maintenance of water, drainage and scavenging services in all the localities of the Union Territory of Delhi. Similarly, there is a fire department which looks after the provision of fire protection services in the whole of the Union Territory of Delhi. While the DWSSDU is an autonomous body, the fire department is one of the departments of the Municipal Corporation of Delhi.

3.4.3 As per the provisions of the Municipal legislation, every year a list of all land and buildings falling in the municipal jurisdiction is prepared by the respective local bodies. Before raising the tax demand, the assessment list is prepared and displayed for public inspection. The law requires that in the case of first assessment or enhancement of existing rateable value of premises, it is obligatory on the part of the local bodies to issue a notice to this effect to its owners, lessees or occupiers. The purpose of preparing the assessment list and informing the assessees about assessments or enhancement of earlier assessments is to enable the assessees to file general or specific objections, if they so desire. The assessment list is authenticated by the Commissioner/Administrator after receiving the acceptances of the assessees or hearing objections from them.

3.4.4 Any person dissatisfied with the finalised assessments by the assessment department may file an appeal against the assessment to the District Judge, Delhi within 30 days. Before filing an appeal it is obligatory on the part of the assessees to deposit the tax amount in dispute. This applies even to review applications which are made to the assessor and collector in certain cases. The dissatisfied parties may go even to the higher courts. Very recently, it has been noticed that the assessees have resorted to filing

suits and writ petitions against the assessment order as such, wherein they are required to deposit only that amount which is considered by the court to be reasonable, looking into the facts of the case. When the proposed valuations are objected, the old rateable values continue to be the tax base for all practical purposes.

3.4.5 Once the rateable value is determined, as in the case of other tax revenue categories, the property tax demand results from the application of tax rates to the rateable values. The property tax so demanded, is recoverable from owners of the property, whether it is owned by them or let out to tenants. In the cases where the owners are not identifiable, it is recoverable from occupiers by attachment of rent payable by them. If the occupier or the person liable for the payment of tax does not pay within the stipulated period, the amount, together with all costs and penalties, is recoverable under a warrant by distress and sale of moveable properties or attachment or sale of immovable properties of the defaulters.

3.4.6 In recent years, it has been observed that the proposed assessments have generally been challenged on one ground or another, causing considerable delay in recovery of property tax demand; once the rate payers have filed an appeal or writ in the court, the recovery measures postulated in the municipal acts also remain inoperative. This calls for an indepth analysis of property tax system, covering various aspects of definition of base and its determination, the rate structure and the administration and collection of the tax.

IV. GROWTH PERFORMANCE OF PROPERTY TAX

1. Significance

4.1.1 The revenue sources of the urban local governments in India originate in the delegation of authority by the State governments in respect of selected tax and non-tax items of revenue. The property tax, alternatively known as the tax on land and buildings, or the house tax, is one of the taxes delegated to them under this arrangement. Among the taxes available for use by the local authorities, the property tax is the principal source of revenue in most cases, and next to the octroi (or the terminal tax) in a few cases. During 1975-79, the revenue significance of this tax varied between 28 and 87 per cent of the total tax revenue in the major municipal corporations (Table II.1). One of the notable features of the property tax has been that in spite of very high dependence of the local bodies on this source, at least in some of them it has suffered a decline over time.

4.1.2 As far as its current status in Delhi is concerned, its relative significance in total revenue in the MCD reached a high point in 1977-78, but has declined thereafter (Table IV.1). It constituted 38.03 per cent, 41.70 per cent and 35.53 per cent of the total tax revenue in 1960-61, 1977-78 and 1981-82, respectively. Its proportion to total revenue is higher in the NDMC, i.e., 52 per cent in 1981-82, but it is much lower, i.e., only 8 per cent in DCB. It is, however, important to note that while the property tax has given way to the octroi (or the terminal tax) in Ahmedabad, Bombay and Bangalore (Calcutta does not have this tax), it has maintained its relative share *vis-a-vis* the terminal tax in Delhi and has contributed the largest amount of revenue to the city exchequer. The decline in the share of the property tax in

TABLE IV.1

Property Tax - Relative Significance

Municipal corporation/ bodies		Property tax as per cent of total tax revenue	Octroi as per cent of total tax revenue	Grants as per cent of total revenue	Property tax per capita (Rs)	Property tax per holding (Rs)	Total revenue per capita (Rs)	Total revenue expenditure per capita (Rs)
MCD	1960-61	38.03	35.17					
	1970-71	29.32	-	18.60	16.10	201.00	73.14	71.65
	1977-78	41.70	29.89	15.76	28.77	335.07	96.32	97.72
	1981-82	35.53	-	13.19	37.09	454.27	139.25	132.58
NDMC	1970-71	36.26	-	5.33	39.75	291.20	388.80	340.45
	1977-78	56.35	-	14.51	99.05	588.47	1206.65	1124.27
	1981-82	52.48	-	20.14	87.68	606.01	1602.26	-
DCB	1977-78	6.44	-	-	1.85	96.80	28.76	72.49
	1981-82	8.01	-	-	3.41	79.18*	42.60	102.52
Calcutta	1960-61	90.78	-					
	1970-71	90.72	-	6.80	21.74	514.82	49.01	46.95
	1977-78	83.54*	-	32.55*	32.31	744.20	74.32	59.80***
Bombay	1960-61	43.72	8.08					
	1977-78	62.35	37.76	2.21	115.33	4163.58	228.35	193.43
Madras	1970-71	54.51	-	3.10	18.01	367.79	48.10	49.63
	1977-78	71.26	-	-	37.76	839.86***	77.53	58.32
Ahmedabad	1960-61	39.28	36.92	-				
	1970-71	48.26	-	6.14	26.69	-	69.68	66.76
	1977-78	39.46	65.46	9.14	50.95	-	160.33	146.60
Bangalore	1960-61	31.55	31.79	-				
	1970-71	34.56	-	12.96	11.06	142.49	47.41	48.37
	1977-78	29.62	54.59	1.43	18.52	238.68	70.30	72.50**

Note: * 1980-81,
** 1978-79
*** 1976-77

Sources: 1. Offices of the Municipal Corporation of Delhi, New Delhi Municipal Committee and Delhi Cantonment Board
2. NIPFP(1981), pp. 7 & 93. CSO, Annual Statistical Abstracts (Various Issues)

the total tax revenue may not be a matter of concern but what is important here is whether the property tax has grown at a rate sufficient to meet the local expenditure requirements or at least grown commensurately with the base and income.

4.1.3 If the extent of self-financing of the local government expenditures is to rise, it is vitally important that the yield of the property tax should grow adequately. This is necessary to reduce the magnitude of financial dependence on the central and State governments so as to preserve the fiscal autonomy of the local governments. In this context the growth of the property tax and its responsiveness to increases in the local incomes, populations and prices become of particular interest. An attempt is made in the following sections to evaluate the growth performance of the property tax collections and its base in the Union Territory of Delhi vis-a-vis that in certain other major municipal jurisdictions. The performance of the tax in the MCD would be taken to be representative of that in the Union Territory of Delhi.

2. Revenue Performance

a. Growth rate.

4.2.1 The property tax in Delhi has grown from Rs 2.54 crore in 1961-62 to Rs 24.81 crore in 1981-82, registering an annual compound growth rate of roughly 13 per cent (Tables IV.2 and IV.3). In real terms it has grown at 5.9 per cent. As regards the level of the yield of the property tax both at current and at constant (1960) prices, Delhi comes second among the four corporations compared, Bombay

showing the highest yield. In spite of its ranking, however, the yield of property tax in Delhi is far below that in Bombay. As of 1977-78, the per capita property tax in Delhi was only Rs 28.8 as against Rs 115.3 in Bombay. But in 1981-82 per capita tax revenue in Delhi rose to Rs 37.1, almost equal to that in Madras and higher than in Calcutta (1977-78).

4.2.2 In evaluating the relative growth performance of the property tax in different municipal jurisdictions, it is necessary to consider the basic factors that affect the growth of property tax yield. Of these, the major factors can be said to be: price changes, population and income growth and the expansion of the housing stock through new construction as well as additions and alterations to the existing buildings. As these factors are likely to vary accross metropolitan jurisdictions, one must take into account their differential growth rates in assessing the relative performance of the different municipal bodies.

4.2.3 By and large, the relative positions of the municipal bodies in terms of the rate of growth of property tax at current prices are not different from those in terms of the growth rate at constant prices (Table II.3). This is because the differences in the rates of growth of prices as between the different localities, as measured here, have not been very significant[1/]. But the growth rates of population and the number of properties assessed have varied significantly as between the different municipal corporations (Table IV.4). Delhi is shown to have experienced the highest rate of growth of population and of total assessed value, and the second highest growth rate of number of

1/ Strictly speaking, the most relevant price index that should have been taken is that relating to a value of properties. Since such indices are not readily available, the consumer price indices for the different towns have been used.

TABLE IV.2

Property Tax at Current and Constant Prices in Major Municipal Corporations

(Rs lakh)

Year	Calcutta		Bombay		Delhi		Madras	
	PT at current prices	PT at constant prices*	PT at current prices	PT at constant prices	PT at current prices	PT at constant prices*	PT at current prices	PT at constant prices*
1960-61	446.76	446.76	1250.67	1250.67	132.46	132.46	183.10	183.10
1961-62	495.57	490.66	1297.37	1271.93	240.27	231.03	198.45	189.00
1962-63	500.16	471.85	1459.00	1376.42	167.68	153.83	218.39	198.54
1963-64	512.06	461.32	1711.42	1528.05	207.92	182.39	238.48	209.19
1964-65	546.45	471.08	1779.16	1458.33	313.36	254.76	269.42	219.04
1965-66	565.08	459.41	1924.23	1480.18	379.82	294.43	315.28	240.67
1966-67	544.47	403.31	2091.42	1504.62	374.41	269.36	324.58	226.98
1967-68	689.46	462.72	2100.82	1400.55	433.92	287.36	365.62	237.42
1968-69	673.58	423.64	2389.14	1541.38	511.38	317.63	388.21	252.08
1969-70	695.28	434.55	2450.54	1531.59	537.89	324.03	427.97	270.87
1970-71	684.71	405.15	2769.94	1658.65	596.98	345.08	463.41	269.42
1971-72	711.56	411.31	3024.72	1768.84	631.82	354.96	539.47	293.19
1972-73	773.14	434.35	3129.00	1738.33	785.42	417.78	644.29	322.15
1973-74	857.72	439.86	3587.92	1802.97	887.41	428.70	650.69	293.10
1974-75	739.27	318.65	4172.64	1790.83	989.22	392.55	832.03	302.55
1975-76	981.41	402.22	5388.87	2190.60	1373.22	503.01	1054.10	340.03
1976-77	1015.47	411.12	7704.53	3069.53	972.90	357.68	1201.00	411.30
1977-78	1049.32	400.50	8618.62	3240.08	1469.97	513.98	1148.00	373.94
1978-79	1137.52	413.64	8888.66	3174.52	1597.23	535.98	-	-
1979-80	1567.00(R.E)	538.49	-	-	1847.57	584.67	-	-
1980-81	-	-	-	-	2026.33	590.77	-	-
1981-82	-	-	-	-	2275.91	589.61	-	-
1982-83	-	-	-	-	2480.82	-	-	-

Note:* PT (Property Tax) deflated by Consumer Price Index Number (CPIN) for Urban Non-Manual Workers (1960-100)

Sources: 1. NIPFP (1981), p. 11
2. Municipal Corporation of Delhi

TABLE IV.3

Growth Rate of Property Tax and Related Magnitudes in Selected Municipal Corporations and Municipal Bodies

(Per cent per annum)

Municipal Corporation/ bodies	Property tax (PT)	Property tax at constant prices (PT*)	Per capita property tax (PT_p)	Per capita property tax at constant prices (PTP*)	Per holding property tax (PTH)	Per holding property tax at constant prices (PTH*)
Delhi						
MCD	13.06 (14.42)	5.93 (7.02)	8.03 (9.31)	1.22 (2.24)	7.33 (7.45)	-0.12 (0.44)
NDMC	8.51 (7.74)	0.66 (0.14)	12.56 (11.28)	4.82 (3.64)	8.15 (4.59)	0.65 (-2.69)
DCB	18.11	10.15	13.19	6.60	7.18	2.53
Calcutta	5.56	-0.76	4.74	-1.43	3.28	-2.80
Bombay	10.73	4.37	6.47	0.37	14.12	6.80
Madras	10.13	4.35	8.57	1.27	10.30	1.57
Ahmedabad	8.88	2.06	5.43	-1.17	-	-
Bangalore	13.46	6.15	10.05	2.96	7.14	0.24

Note: Figures in brackets relate to private properties

Sources: 1) Delhi computed.
2) For other corporations, NIPFP(1981), p. 14

Period: MCD: (1) PT, PT*, PTP, PTP*: 1961-62 to 1981-82
For private properties; 1967-68 to 1981-82
(2) PTH, PTH*: 1970-71 to 1981-82
For private properties, 1967-68 to 1981-82

NDMC: (1) PT, PT*: 1970-71 to 1982-83; for private properties; 1971-72 to 1982-83
(2) PTP, PTP*: 1970-71 to 1980-81; for private properties, 1971-72 to 1980-81
(3) PTH, PTH*: 1970-71 to 1981-82

DCB: (1) PT, PTP: 1973-74 to 1982-83, (2) PTP*: 1973-74 to 1981-82
(3) PTH, PTH*: 1975-76 to 1980-81

properties assessed. But the growth rate of per capita property tax in Delhi (8.03 per cent) has been lower than in Bangalore and in Madras; the growth rate of property tax per holding in Delhi has been lower than that in Bombay and Madras. Property tax per holding in Delhi was only Rs 454.3 in 1981-82, as against Rs 744.2 in Calcutta and Rs 4163.6 in Bombay (in 1977-78) and Rs 839.9 in Madras (in 1976-77). It can be inferred that Bombay and Madras have been able to increase property tax per holding largely on the basis of old properties and not with any significant additions to the stock of housing whereas Delhi, in spite of considerable additional construction with increasing rateable values, has not been able to match Bombay and Madras in this regard. It is also seen that Delhi was unable to narrow the gap between itself and Bombay or Madras in the matter of level of property tax per holding. In 1981-82, this was Rs 454.3 in Delhi as against 744.2 in Calcutta (1977-78), Rs 4163.6 in Bombay and Rs 839.9 in Madras (1976-77).

b. Elasticity.

4.2.4 The analysis of growth rates in tax yield and of the factors affecting it, while being informative, does not enable one to classify the relationship between the yield of the tax and the factors determining it, such as population, income and the number of holdings. Such a relationship over time is usually measured in terms of the buoyancy or elasticity coefficient[1/]. If the tax revenue has been affected by discretionary tax measures such as increases in rates during the period under reference, then the ratio of the percentage in tax to that in income is said to yield the buoyancy coefficient.

1/ The elasticity coefficient is defined as the ratio of the percentage automatic or responsive change in the dependent variable, e.g., tax revenue, to percentage change in an explanatory variable, e.g., income.

TABLE IV.4

Growth of Population, Prices and Number of Properties

Corporation	Population (1961 to 1981)	Prices (1960-61 to 1979-80)*	Number of Properties assessed**	Total assessed value Rs 1 lakh	Assessed value per holding Rs 1 lakh
Delhi	4.65	5.93	4.87	13.48 (5.61)	7.77 (0.30)
Bombay	3.68	5.75	1.32	7.72 (1.54)	6.97 (0.09)
Calcutta	0.58	5.48	0.68	4.63 (-1.63)	3.80 (-2.25)
Madras	2.81	6.11	2.47	9.34 (0.67)	6.62 (-1.83)
Bangalore	3.71	5.85	5.90	13.34 (6.04)	7.03 (0.12)

Note: * CPIN (Urban Non-Manual Works (1960 = 100).

Figures in parentheses denote assessed value at constant prices.

Period: ** MCD: 1970-71 to 1981-82
Calcutta: 1965-66 to 1977-78
Bombay : 1968-69 to 1977-78
Madras : 1966-67 to 1976-77
Bangalore: 1960-61 to 1977-78

Sources: 1. Delhi compute
2. NIPFP(1981), p.16

4.2.5 The elasticity of the property tax or any other local tax with respect to the income of a locality can be considered to be a suitable indicator of performance in so far as it reflects the base of the tax as well as the level of the demand for public services. If it is assumed that the expenditure requirements of the local government will grow roughly in proportion to the income of the locality, an income elasticity or buoyancy of unity would be a reasonable goal for a local tax system. (Bahl and Schroeder, 1983, p.77). Table IV.5 gives the estimates of the buoyancy of property tax with respect to three variables, viz., population, cost of construction and urban income in selected cities. The choice of population and urban income is easily understandable, while the cost of construction is taken as a proxy for values of urban property.

4.2.6 The buoyancy of property tax in Delhi is higher than in the other cities taken for comparison (Table IV.5). For NDMC the coefficient is very high (1.6). The performance of Delhi in relation to the growth of income can be said to be decidedly better than that of the other cities, although taken by itself a buoyancy coefficient of 1.02 means that property tax revenue is just keeping pace with the growth in income. The buoyancy of property tax with respect to cost of construction in Delhi is seen to be lower than in Bombay and Madras; it is better than in Calcutta, but the performance of Calcutta in the matter of property tax has been shown to be rather poor (NIPFP, 1981). The buoyancy of property tax with respect to population has been quite high in Delhi at 2.7, indicating that for every 1 per cent increase in population, property tax revenue at current prices has increased by 2.7 per cent, but this relative rate of growth is lower than in three of the cities compared and not significantly higher than in Bombay and Ahmedabad.

TABLE IV.5

Estimates of Buoyancy of Property Tax with Respect to Population Cost of Construction and Urban Income

Variable	Delhi		Calcutta	Bombay	Madras	Ahmedabad	Bangalore
	MCD	NDMC					
PT : P	2.70 (2.95)	-10.80 (-9.69)	7.90	2.59	3.35	2.64	3.99
PT : CI	1.16 (1.09)	1.01 (0.90)	0.57	1.79	1.49	-	-
PT : YNC	1.02 (1.14)	1.60 (1.42)	0.65	0.83	0.97	0.81	0.93

Note: Figures in parentheses indicate private properties

PERIOD: PT:P - MCD - 1961-62 to 1981-82; for private properties 1965-66 to 1981-82; NDMC - 1970-71 to 1980-81; for private properties 1971-72 to 1980-81;

PT:CI - MCD - 1970-71 to 1980-81; NDMC - 1970-71 to 1980-81; for private properties 1971-72 to 1980-81;

PT:YNC-MCD - 1961-62 to 1980-81; for private properties 1965-66 to 1980-81; NDMC-1970-71 to 1980-81; for private properties 1971-72 to 1980-81.

Notation: PT = Property tax collection; P = Population; CI = Cost of construction Index YNC = Urban income.

Source: 1. Delhi: Estimated

2. For other Corporations, NIPFP (1981), p. 19

4.2.7 The broad conclusion that emerges from the foregoing analysis of growth rates and the study of buoyancy of property tax is that while the yield of the property tax in Delhi has kept pace with the growth of income, it has not grown commensurately with the increase in the number of holdings. Also, the performance of Delhi in relation to the increase in the cost of construction reflecting increases in property values does not compare favourably with that for Bomabay or Madras.

3. Decomposition of The Tax Ratio and Buoyancy

4.3.1 Total property tax collection in a locality can be hypothesised to be a function of tax demand, given the efficiency of administration, tax demand to be a function of rateable value, given the statutory rate structure and rateable value to be a function of annual rental value, given the provisions of the Property Tax Act. It follows then that,

$$\frac{TC}{CDP} = \frac{TC}{RV} \cdot \frac{RV}{CDP} \qquad (1)$$

$$= \frac{TC}{TD} \cdot \frac{TD}{RV} \cdot \frac{RV}{AV} \cdot \frac{AV}{CDP} \qquad (2)$$

where,

TC = Property tax collection;
CDP = City domestic product;
TD = Tax demand
RV = Rateable values;
AV = Annual rental value.

4.3.2 Expression (2) can be said to decompose the tax ratio, i.e., TC/CDP. The first term in expression (2) (TC/TD) may be said to measure collection efficiency; the second measures the effective tax rate generated by the application of the statutory rates, exemptions, etc., to

rateable value - changes in the ratio over time would reflect the impact of progression as well as of discretionary tax measures; the third term can be taken to indicate efficiency of assessment; and the fourth one the relationship between annual rental value of properties and the income of the locality - changes in this ratio would show the extent to which annual value as determined by the property tax department reflects changes in the level of economic activity.

4.3.3 Just as the tax ratio, the elasticity coefficient also can be decomposed into its constituent parts. The elasticity of property tax with respect to income (E_{pty}) can be shown to be equal to the elasticity of tax collected with respect to tax demand (E_{ptd}) x the elasticity of tax demand with respect to rateable value (E_{tdrv}) x the elasticity of rateable value with respect to annual value (E_{rvav}) x the elasticity of annual value with reference to income (E_{avy}). That is,

$$E_{pty} = E_{ptd} \times E_{tdrv} \times E_{rvav} \times E_{avy} \qquad (3)$$

4.3.4 With the help of available information for the local bodies in the Union Territory of Delhi, the component elasticities have been estimated in order to evaluate their individual impact. It may be noted that in the absence of any reliable data on the total rental values of properties, the cost of construction which is one of the principal determinants of property value is taken to represent annual rental value (AV). Secondly, no attempt is made to estimate the elasticity of annual value to city income. In the national accounts, the share of aggregate of income from property in GDP has remained more or less constant. However, this share might have been rising in cities. It is assumed that the elasticity of AV with reference to city income is near unity.

4.3.5 The coefficient of elasticities of the other terms in expression (3) are presented in Table IV.6. Comparable elasticity for some selected municipal corporations are reproduced from an earlier study by NIPFP.

TABLE IV.6

Components of Property Tax Elasticity (Buoyancy)

Variable	Delhi	Calcutta	Bombay	Madras
PT, TD	1.02 (0.62)*	0.38	0.67	1.26
TD, RV	0.81 (1.31)*	1.64	-	0.58
RV, CI**	1.19 (1.04)*	0.42	0.34	1.48

Notes: * NDMC

** CI = Cost of Construction as a proxy for annual value.

Source: Computed

4.3.6 It is seen that the elasticity of property tax collection with respect to tax demand (E_{ptd}) is near unity in Delhi and that the elasticity of rateable value to cost of construction (which is taken as a proxy for annual value) is nearly 1.2. However, tax demand seems to be inelastic with respect to rateable value. This is surprising because the tax structure being progressive, the coefficient of elasticity is expected to be higher than one. Anyway, given the data, it can be stated that inelasticity of the property tax collection with respect to cost of construction and with respect to income is to be largely explained by the less than proportionate growth of tax demand with respect to rateable value.[1/]

1/ Multiplying with the three component elasticities we obtain the elasticity of property tax with respect to cost of construction, which is 0.98. Even if it is assumed that the elasticity of annual value with reference to city income is unity, then the elasticity of property tax with respect to city income becomes the same.

4.3.7 We get more or less similar results if we take the elasticity of property tax per holding with respect to the index of cost of construction (E_{pthci}). This elasticity can be decomposed into the elasticity of property tax per holding with respect to rateable value per holding (E_{pthrvh}) and the elasticity of rateable value per holding with respect to cost of construction (E_{rvhci}). The computed elasticities for Delhi and three other Corporations are given in Table IV.7. It is seen that the (E_{pthrvh}) is about 1 in Delhi whereas it is considerably greater than unity in Bombay, Madras and Calcutta, the coefficient for Bombay being as high as 2.82. A higher than unit elasticity is expected because the tax structure is progressive. E_{ptchi} for MCD is only 0.68 as against 1.92 for Bombay and 1.21 for Madras. The only consolation may be that it is higher than in Calcutta. This much lower than unit elasticity of pth with respect to ci must be attributed to the low elasticity of rvh with reference to ci, i.e., rateable values are not keeping pace with the proxy for annual values. It is also noteworthy that, among the cities compared, Delhi is the only one in which all the component elasticities are lower than unity. It is of course true that in none of the cities have rateable values kept pace with annual values and that the elasticity of rvh with reference to ci is higher in Delhi than in the other cities. It is important to note that in Delhi elasticity of rateable value with respect to cost of construction is 1.19 but it is less than unity (0.71) when computation is made using rateable value per holding. This shows that Delhi has experienced a higher growth rate in number of properties assessed. But the relatively high elasticity of tax collections to rateable values has more than compensated for the low elasticity of rvh in all the cities other than Delhi. Although rateable values have grown faster in Delhi than elsewhere (Table IV.8), property tax collections could not rise proportionately in the former.

TABLE IV.7

Elasticity of Per Holding Property Tax

Variable		Delhi MCD	Delhi NDMC	Calcutta	Bombay	Madras
PTH :	CI	0.66 (0.57)	0.82 (0.43)	0.49	1.92	1.21
PTH :	RVH	0.96 (0.92)	1.11 (-)	1.43	2.82	1.74
RVH :	CI	0.71 (0.76)	0.82 (0.59)	0.33	0.66	0.66

Note: Figures in parentheses are related to private properties.

Period: MCD - 1970-71 to 1981-82; For private properties 1967-68 to 1981-82;

NDMC - 1970-71 to 1980-81; for private properties 1971-72 to 1980-81;

Notation:

PT_H = Property tax per holding

CI = Index of Cost of Construction

RV_H = Rateable value per holding.

Sources: 1. Delhi Estimated

2. For other Corporations, NIPFP (1981), p.26.

TABLE IV.8

Growth Rate of Rateable Value

(per cent per annum)

Municipal Corporation/ Bodies	RV	RV*	RVH	RVH*
Delhi				
MCD	13.48 (13.66)	5.61 (6.23)	7.77 (8.08)	0.30 (1.01)
NDMC	9.59 (10.91)	1.98 (3.21)	7.63 (5.75)	0.16 (-1.57)
DCB	18.35	13.12	16.21	11.05
Calcutta	4.63	-1.63	3.80	-2.25
Bombay	7.72	1.54	6.97	0.09
Madras	9.34	0.67	6.62	-1.83
Ahmedabad	5.91	1.00	-	-
Bangalore	13.34	6.04	7.03	0.12

Note: Figures in parentheses for private properties

RV = Rateable value
RV* = RV (Constant Prices)
RVH = Per holding RV
RVH*= Per holding RV (Constant Prices)

Period:

Delhi (MCD) - 1970-71 to 1981-82; for private properties, 1967-68 to 1981-82

NDMC - 1970-71 to 1981-82;

DCB - 1975-76 to 1980-81

Sources: (1) For Delhi: Computed.

(2) For other corporations: NIPFP (1981), p. 26

4.3.8 It is also necessary to measure the degree of collection efficiency. Two aspects of efficiency may be considered - (a) level of efficiency and (b) trends in efficiency or changes in the degree of efficiency. The latter may be measured in terms of elasticities. As total tax demand consists of current and arrear demands, collection efficiency is required to be determined separately for each of them. Estimates of elasticities of the relevant collections with reference to current demand, arrear demand and total demand are presented in Table IV.9. It is found that the elasticity of total

TABLE IV.9

Tax Collection Performance

Elasticity	Delhi*		Calcutta	Madras	Bangalore
	MCD (1965-66 to 1981-82)	NDMC (1971-72 to 1981-82	(1960-61 to 1979-80)	(1970-71 to 1976-77)	(1960-61 to 1979-80)
CC : CD	1.10	0.65	0.40	1.03	0.76
AC : AD	0.87	1.31	0.29	1.16	0.50
TC : TD	1.02	0.64	0.38	1.26	0.67

Note: * Private properties
CC = Collection out of current demand
AC = Collection out of arrear demand
TD = Total demand.

Sources: (1) For Delhi: Estimated
(2) For other Corporations: NIPFP (1981), p. 24.

collections with respect to total demand is slightly higher than 1 for Delhi (MCD). It is only the arrear collections that are falling behind arrear demand. It may be inferred that the trend is for a greater proportion of current demand to be collected,

TABLE IV.10

Demand and Collection of Property Tax (Private Properties) in Local Bodies of Union Territory of Delhi

(Rs lakh)

Local Bodies		Current			Arrear			Total		
		Demand	Collection	Col.(2) as per cent of Col.(1)	Demand	Collection	Col.(5) as per cent of Col.(4)	Demand	Collection	Col. (8) as per cent of Col. (7)
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
MCD	1965-66									
	71-72	630.06	381.32	60.52	491.85	180.48	36.69	1121.91	561.80	50.08
	75-76	1098.25	890.35	81.07	1181.11	388.44	32.04	2279.36	1278.79	56.10
	80-81	1700.00	1282.73	75.45	1444.44	498.28	34.49	3144.41	1781.01	56.64
NDMC	1971-72	120.22	79.71	66.30	166.58	6.47	3.88	286.80	86.18	30.05
	75-76	247.75	125.44	50.63	454.97	66.73	14.67	702.72	192.17	27.35
	80-81	308.16	111.02	36.03	814.86	47.37	5.81	1123.02	158.39	14.10
	81-82	295.00	150.25	50.93	964.63	50.30	5.21	1259.63	200.55	15.92
DCB	79-80	2.10	1.66	79.04	1.16	0.44	37.93	3.26	2.10	64.41
	80-81	2.53	0.81	32.09	1.17	0.43	36.75	3.70	1.24	33.51
	81-82	2.46	1.60	65.04	2.46	1.40	56.91	4.91	3.00	61.09

Source: Offices of Municipal Corporation of Delhi, New Delhi Municipal Committee and Delhi Cantonment Board.

TABLE IV.11

Demand and Collection of Property Tax (Government Properties) in Union Territory of Delhi

(Rs lakh)

Local Bodies		Current			Arrear			Total		
		Demand	Collection	Col. 2 as per cent of col. 1	Demand	Collection	Col. 5 as per cent of col. 4	Demand	Collection	Col. 8 as per cent of col. 7
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
MCD	1979-80	246.39	164.09	67.60	438.70	151.29	34.49	685.09	315.58	46.06
	1980-81	275.18	187.22	68.04	378.51	163.47	43.19	653.69	350.69	53.65
	1981-82	336.67	289.42	85.97	275.80	201.51	75.06	612.47	490.93	80.16
NDMC	1970-71	60.98	30.95	50.75	40.43	0.53	1.31	101.41	31.48	31.04
	1975-76	78.06	53.62	68.69	168.60	76.74	45.52	246.66	130.36	52.85
	1980-81	121.65	45.42	37.34	168.31	11.16	6.63	289.96	56.58	19.51
	1981-82	121.91	63.94	52.44	233.38	28.62	12.26	355.29	92.56	26.05
DCB	1979-80	1201.00	1113.78	92.73	13215.00	1010.01	7.64	14416.00	2123.79	14.73
	1980-81	1201.42	509.63	42.42	12296.72	40.50	0.33	13498.13	550.13	4.08
	1981-82	22667.42	19500.50	86.24	12948.01	2138.27	16.51	35615.43	21638.77	60.76

Source: As for Table IV.10

while the proportion of total demand collected has tended to remain constant. This of course does not mean that the entire current demand is being collected. As indicated above, the level of collection efficiency is also important. It is seen that as of 1980-81 only 75 per cent of the current demand, 35 per cent of arrear demand and 57 per cent of total demand in respect of private properties was being collected in MCD (Table IV.10). For NDMC the corresponding ratios are 36 per cent, 6 per cent and 14 per cent respectively. In respect of Government properties, the percentages of demand collected were 68 per cent for current demand, 43 per cent for arrear demand and 54 per cent for total demand in 1980-81 in MCD (Table IV.11). However, the percentages increased considerably in 1981-82. The general picture that emerges is that between 55 and 65 per cent of the total demand is being collected in MCD and DCB in respect of private properties, whereas NDMC has been able to collect only between 15 and 30 per cent. It is surprising that even tax demand raised against government properties has not been collected fully.

V. ANALYSIS OF PROPERTY TAX BASE AND RATE

1. Introduction

5.1.1 In the preceding chapter, the analysis of growth factors revealed that the income elasticity of the property tax has suffered mainly due to the inelasiticity of the rateable values with reference to income. If the tax base fails to respond to price and income increases, the local authority would have to resort to the politically unpopular and perhaps economically harmful exercise of increasing the tax rate. Since the level of property tax yield would largely depend on the level of assessed values of properties, an examination of the factors governing the level of rateable values would be of considerable value for any reform in the property tax system. It should be emphasised that an average growth performance of the property tax with an adequate tax base is likely to yield better results in terms of revenue productivity than 'a more than average' performance using an inadequate tax base. Also, for all direct taxes, it has been found by experience that a combination of a broad and elastic base with moderate rates yields much better results than high rates combined with an eroded base in terms of administrative ease, checking evasion and revenue productivity. It is proposed to discuss in this chapter assessment practices, trends in the rateable value and factors underlying its low elasticity. In the concluding section, an analysis of the existing rate structure will be presented.

2. Statutory Base of Property Tax

5.2.1 Taxable property under the Delhi Municipal Corporation Act (DMC Act), 1957 includes all land and buildings (including machinery and other furniture and fixtures as are considered necessary for the use and enjoyment of building) except those that are expressly exempt from the tax.[1/] Tax-exempt properties include land and buildings belonging to religious places of public worship and charitable and educational institutions.[2/] Self-occupant assessess with rateable value below Rs 100 who own not more than one such property are exempt from the tax.

5.2.2 The taxable base of the property tax according to the Act is the annual rent at which such land or building might reasonably be expected to let from year to year with an allowance of 10 per cent towards repair costs, insurance, etc. This is termed rateable value. The determination of rental values, however, would vary

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1/ The assessment of properties located in the NDMC and DCB areas is governed by the provisions of Punjab Municipal Act of 1911. These provisions are subject to Delhi Rent Control Act, 1958 as in the case of the MCD.

2/ In the case of the NDMC, the exemption list also includes buildings owned by foreign missions. These properties are however required to pay service charges. Central Government properties are also treated in the same way, but they are subject to a higher service charge.

depending upon whether the property is on rent or it is self-occupied or vacant. In the case of rented properties, the rent actually paid by the tenant is deemed to be the gross annual rental. Information on rents is obtained from declarations by the owners of property. When the rents declared by the house owners are suspected to be concessional or collusive, resort is made to the data on rental per sq. ft. of carpet area developed by the department, using the information collected by inspecting certain properties at random in each locality. In other cases, rents are determined on comparison with other similar properties in the locality. In cases in which the rent of property has been fixed in accordance with the Delhi Rent Control Act, 1958, standard rent so fixed is taken to be the gross rent. In cases of sub-tenancies, if the rents paid by the sub-tenants exceed what is being paid by the tenants, the higher amount is taken as gross rental value.

5.2.3 For self-occupied properties being assessed for the first time, the annual rental value is taken to be a fraction of the sum of the cost of construction and land value at the start of construction. This fraction, which represents rate of return on the total investment value, i.e., the sum of construction cost and land value of the property at the time of construction, is taken to be 7.5 per cent of the investment value if the rental value so determined is less than Rs 1200 and 8.625 per cent if the rental value exceeds Rs 1200. In cases where the property was earlier let, the last rent received is adopted. Formerly, an owner-occupancy relief ranging between 15 and 25 per cent was being granted. This relief has, however, been withdrawn. The rental value of vacant land which is capable of being built upon or on which a building is in the process of completion is fixed at 5 per cent of the stipulated capital value of such land.

5.2.4 According to a departmental publication entitled Property Tax: 1978, all the properties are supposed to be reassessed every three years. But the practice is altogether different. Generally, old assessments are adopted every year; a follow up exercise to update the rateable values is undertaken in respect of a few properties only. Thus, generally speaking, the rateable values are found to be revised only in the following events: (i) rise in rent in the case of tenanted properties due to change in tenancy or upward revision in the rents of existing tenancy; (ii) revaluation necessitated by a change in occupancy, e.g., from tenanted to self-occupied or vice versa, which required the formula for determining the rateable value to be changed, and (iii) revaluation necessitated because of change in use. New constructions in the form of new buildings and additions to the existing structures are assessed as first assessment.

3. Assessment Process

5.3.1 A complete set of data on rental per unit of carpet area for the different localities in each zone applicable to residential and non-residential (commercial, institutional and industrial) properties is developed before the process of valuation commences each year. These rental data expressed in terms of amount per unit of carpet area are used only after they are approved by the Municipal Commissioner. Thus, the task of the assessment inspector is generally reduced to finding out the occupancy structure, carpet area and the nature of use of a property falling under his jurisdiction. Once the relevant data are collected after inspecting the premises, the assessment is supposed to be made by applying the relevant rental data. Thereafter, a

list containing all the new assessments is prepared and displayed for public inspection. The assessee can challenge the rateable value so determined under Section 124 of the DMC Act; he can then contact the assessment officer and find out his response to his objection. After hearing the objection, the assessment officer finalises the rateable value which then is used for raising the tax demand. Although the assessment in this way is deemed to have been finalised, the assessee can challenge the assessment under Section 126 of the DMC Act which empowers the Commissioner to amend the earlier assessments for adequate reasons. It is important to note that the process of assessment does not always come to an end here. If the assessee is not satisfied with the decision of the assessment department or the Commissioner, the assessment order is appealable in the Court of the district judge of Delhi. The dissatisfied parties may even go to the higher courts.

5.3.2 According to Sections 169 and 170 of the DMC Act, appeals can be filed with the courts only after the tax amount in dispute has been deposited by the appellant. However, recently it has been noticed that the assessees, particularly the ones having large properties, resort to filing civil suits and writ petitions against the assessment order as such. The popularity of resorting to these instruments arises from the fact that the assessees are not required to deposit the full amount of the tax demand raised by the Corporation before filing such a suit. They are required to deposit only an amount which is considered by the court to be reasonable, looking into the facts of the case.

4. Causes of Inelasticity of Rateable Value

5.4.1 Even with the detailed instructions contained in the Act and the guidelines issued from time to time, the existing assessment mechanism and process are such as to cause considerable erosion of the tax base. While it is not possible to identify all factors that affect the determination of the base and estimate empirically their effects on the growth of rateable values, factors which seem to have been mainly responsible for the slow growth of the rateable values can be said to be the following:(i) lack of proper assessment code; (ii) imperfections in the real estate market,and (iii) legal impediments. The next section is devoted to an analysis of these factors and to an examination of their likely effects on the growth of rateable values.

a. Lack of proper assessment code

5.4.2 First of all, there is no written assessment code for the assessment officers. The possible sources of guidance for them are (i) DMC Act; (ii) by-laws,and (iii) departmental hand-outs and written and unwritten conventions. These cannot be considered to form an exhaustive set of instructions which can guide the assessment inspectors in their work of assessment. Although attempts have been made to develop rental data for the different localities in Delhi, they are not yet available for many localities. Further, separate data on rental for commercial properties such as hotels, restaurants and business premises are not being collected. In respect of commercial properties, the departmental policy is to derive the rent by applying a percentage increase to the rental determined for comparable residential properties in the concerned locality. Normally, the rent

for the former is taken to be one and a half times the rent for residential properties. However, this practice has no sanction in law and officers could vary, and are known to have varied, the factor of increase applied in different cases. Thus, much is left to the discretion of the assessing inspectors in relation to the assessment of commercial properties.

5.4.3 In regard to the self-occupied part of the buildings partly let-out and partly self-occupied, the assessment inspectors are expected to apply the rent determined for the tenanted portion to the owner-occupied portion and then grant on it a self-occupancy rebate ranging between 15 per cent and 25 per cent. This procedure gives scope for discriminatory assessments and seems to have led to lenient assessments of several owner-occupied properties. The assessment inspectors have not only used this proviso to leniently assess properties but they have also discriminated between different owner-occupied properties in assessment and granting rebate. A survey of 568 self-occupied and 131 tenanted properties conducted by the NIPFP team has revealed that owner-occupied properties particularly in the residential sector have been assessed much more leniently than what the statutory provisions would have allowed (Table V.1).

TABLE V.1

Rateable Value by Type of Ownership and Use of Holdings

(Rs per sq. ft.)

	Owner occupied	Tenanted
Residential	4.20 (533)	8.32 (101)
Commercial	12.26 (35)	14.73 (30)

Note: Figures within parentheses indicate sample size.

Source: Survey of selected Holdings by NIPFP Team (1983).

5.4.4 It is stated in one of the departmental hand-outs that while using the carpet area method, all rooms including covered and glazed verandahs of whatever size are taken at their actual measurement. Mianis, passages and open verandahs of whatever size and pantry and kitchen, whenever these are less than 100 sq. ft., are taken at 50 per cent of the actual measurement. Other spaces constituting part of the built-up area are excluded. Besides this, a few deductions are allowed by the assessment department, such as a rebate of Rs 5 per fan and Rs 10 per geyser and booster pump per month in the event of these facilities having been provided by the landlord. It can be seen that these provisions can lead to collusion between inspectors and assessees with a view to lowering assessed rateable values.

b. Imperfections in the real estate market

5.4.5 The determination of property values can be undertaken following either the rental method or the building cost method. Thus, a correct valuation of properties would require reliable data on rent, land value and the cost of construction. It is well known that these indicators of property values have gone up tremendously due, on the one hand, to demand and supply imbalance in the housing sector consequent upon the concentration of population and economic activities in the metropolitan jurisdiction of Delhi, and to general price rise, on the other. During 1960-80, the rents and the cost of construction have gone up by four to five times (NBO, 1981), and land prices have gone up by almost ten times (Shafi and Dutta, 1981).

5.4.6 However, collusion between landlords and tenants, concealment of actual rent and other similar practices have resulted in the reported rents to be much lower than the actual rents. Besides this, the involvement of black money in property transactions has increased the tendency to conceal facts about property transactions both in the rental and real estate markets. Statistics collected from the Valuation Cell of the Income Tax Department have shown the extent of discrepancy between what is declared by the involved parties and what has been determined by the Cell.

5.4.7 Rent control is evaded by charging 'salami' or advance payments in lumpsum. Informal enquiries have shown that the practice of salami has been actively prevalent in the case of commercial properties. More recently, a variant of this which is extensively used in the residential as well as the commercial sector is the practice of accepting advance payments equivalent to 3 to 12 months, rent refundable at the time of vacating the premises. These practices are used to keep the recorded rentals lower in both the sectors.

5.4.8 Besides this, in the wake of increasing rents and a spurt in the general price level, the official tenants of both private and government houses have found it profitable to sublet their dwellings. A survey of houses in some of the colonies for the year 1973 revealed that about 80 per cent of the occupants in type IV quarters in Moti Bagh area and I, II and III types of quarters in Laxmi Bai Nagar had resorted to the practice of subletting (NBO and Regional Housing Centre ESCAP, 1976, p.47).

5.4.9 The imperfections in the real estate market discussed above and the fact that the reported rents and the disclosed value of sales are generally lower than what the conditions in the real estate market would warrant, significantly reduce the utility of the exercise of developing rental data for different localities. The imperfections in the market also naturally lead to a good deal of indeterminacy in the market value of properties and hence when assessments or reassessments are made, the Corporation is often dragged to the courts by those who challenge those assessments.

c. Impact of rent control

5.4.10 In successive judgements beginning with the case of Corporation of Calcutta vs. Padmadevi and culminating with the case of Diwan Daulat Rai Kapur vs. New Delhi Municipal Committee, it has been laid down by the Supreme Court that, in taking the rent at which the property might reasonably be expected to be let, the standard rent determinable under the provisions of the relevant rent act must be taken as the basis. This will hold irrespective of whether the rent has been actually fixed by the rent controller or what the landlord is actually receiving. These court decisions thus have a very important bearing on the level of rent at which a property is taken to be let for the purpose of property taxation and have led the rent control laws to exert a dampening effect on the growth of the property tax base.

5.4.11 It has been defined in Section 6 of the Delhi Rent Control Act, 1958 that the standard rent in relation to any residential premises means where such premises have

been let out at any time before 2nd June, 1944, the basic rent, if it does not exceed Rs 600 per annum and the basic rent together with 10 per cent of such basic rent, if it exceeds Rs 600. Where the premises have been let out any time after 2nd June, 1944, any rent not exceeding Rs 1200 per annum will be taken to be the standard rent and if it exceeds Rs 1200 then the standard rent would be Rs 1200 plus 10 per cent of such rent. In the case of non-residential properties where the premises have been let out before june 2, 1944, the rate of increase adopted is 10 per cent of the basic rent if the annual rent is upto Rs 1200 and 15 per cent for rent exceeding Rs 1200. Where the premises have been let out on or after June 2, 1944, the standard rent would be the basic rent if basic rent per annum does not exceed Rs 1200. If, however, the rent exceeds Rs 1200, 15 per cent increase over the basic rent is adopted.

5.4.12 However, after the commencement of the Delhi Rent Control Act, for all the properties constructed on or after 9th June, 1955, including premises constructed after the commencement of that Act, the annual rent agreed upon between the landlord and the tenant when such premises were first let out shall be deemed to be the standard rent for a period of five years from the date of first letting out for both residential and non-residential properties. In all cases which are not covered under the above propositions, the standard rent would be calculated at 7.5 per cent of the aggregate amount of the reasonable cost of construction and the market price of land comprised in the premises on the date of commencement of construction. If the rent so calculated exceeds Rs 1200 per annum, then the standard rent shall be calculated at the rate of 8.25 per cent in the case of residential properties and 8-5/8 per cent in the case of other properties.

5.4.13 Sections 7 and 8 of the Delhi Rent Control Act provide for lawful increase in the standard rent in certain cases and recovery of certain charges for any improvement, addition or structural changes. Section 9(3) of the Delhi Rent Control Act empowers the Rent Controller to fix the standard rent for the sub-let portion also. Further, Section 9(4) states that if for any reason it is not possible to determine the standard rent of any premises on the principles stated above, the controller may fix such rent as seems reasonable in regard to the situation, locality and condition of the premises and the facilities provided in similar or nearly similar premises in the locality keeping in view the standard rent payable in respect of such premises.

5.4.14 Against this background, it is possible to identify the provisions of the rent control law which have constrained the growth of the property tax base. The effect of rent control laws should, however, be examined separately for the periods preceding and succeeding the Supreme Court Judgment of 1980. During the period of rent control upto 1980 the dampening effect of the law on the determination of the annual values could have arisen in two ways. First, the assessing officers might have under-assessed properties keeping conscionably or otherwise, in view the level of controlled rents. Secondly, landlords for whose properties standard rents had not been actually fixed by the Rent Controller and who were charging rents agreed to between themselves and the tenants, would have been restrained from increasing the rents for fear of provoking the tenants to go to the Rent Controller. The total impact, however, need not have been very large, although there is no way of arriving at the magnitude of the impact.

6.4.15 For the period following the Supreme Court judgment, the impact of this legislation has been much greater. As the Supreme Court has clarified, even if the standard rent of a building, which is situated in an area to which the rent control applies, has not been fixed by the Rent Controller and the prescribed period of limitation for making an application for the fixation of the standard rent may have expired, the "annual value" of the building will be the standard rent determinable under the rent control law (Sheila Kaushish vs. CIT). The 1980 decision says that if the standard rent of the building has not been fixed by the Rent Controller, the assessing authorities would have to arrive at their own figures of the standard rent by applying the principles laid down in the DRC Act for the determination of rent.

i. Effect of rent control prior to 1980

5.4.16 As regards the effect of rent control prior to 1980, interviews with the assessment officers have revealed that while assessing the properties they often used the rental data developed for this purpose which were based on the current rents in that locality. While developing the rental data it is quite likely that the assessment inspectors would have taken into account the standard rent from the rent-controlled properties in that area or they might have used the rent control principles for their own calculations in order to avoid possible objections to the proposed valuations. To support this contention one finds that a good number of proposed valuations have been challenged within the Corporation and outside in the courts of law. The whole of the discrepancy between the rental data and the market rents, however, cannot be attributed to rent control because other imperfections would have also contributed to the depression in the determined rents.

5.4.17 Information made available to us by the assessment department for the year 1979-80 indicates that there were 1000 cases of general objections under Section 124 of the DMC Act and about 61,811 cases under Section 126 (Table V.2). Court cases totalled 1100 in 1979-80 in the MCD and 1945 in NDMC (Table V.3). Thus, it is found that the proposed valuations have been challenged from time to time under different Sections of the Act. More importantly, the assessees have been able to obtain reduction on the basis of their objections in all the three municipal jurisdictions in the Union Territory of Delhi (Tables V.4 and V.5).

5.4.18 Although the existence of the rent control law is likely to have influenced the assessment inspectors, its efficacy as a deterrent against any rise in the level of rent would have depended on its coverage and the extent of reduction ordered by the Rent Controller. On the basis of the information collected from the Office of the Rent Controller,Delhi, it may be pointed out that the total number of fair rent cases constituted hardly 3 per cent of the number of cases filed with the Rent Office. Quite in contrast to our expectation, the number of such cases has gone down over time (Table V.6). Further, the figures reported in column 4 would indicate that only a few dozen cases have been actually heard because a sizeable number of fair rent cases have been withdrawn. Thus, the rent fixation has taken place in only a small number of cases.

5.4.19 The extent of reduction ordered by the Rent Controller has varied between 15 per cent and 94 per cent in the case of residential properties and between 19 per cent and 77 per cent in the case of commercial properties during 1978-82 (Table V.7). Although there is no trend of increase or decline in the extent of reduction,

TABLE V.2

Particulars Regarding Objections Filed Against Revaluation u/s 126 of MOD Act 1957

(Municipal Corporation of Delhi)

Year	Percentage of cases of which became final without any objection*	Cases pending at the beginning of the year	Objection cases filed during the year	Number of objection cases pending for final disposal	Objections disposed of during the year	Cases out of col. 5 which were		Cases pending at the end of the year
						Confirmed	Modified	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1979-80	10.00	61811	71241	133052	54327	2716	51611	78725
1980-81	10.00	78725	47231	125956	45862	2293	43569	80094
1981-82	10.00	80094	20101	100195	17849	892	16957	82346
1982-83	10.00	82346	20614	102960	17683	884	16799	85277
1983-84	10.00	85277	15636	100913	2655	133	2522	98258

* approximate

Source: Office of the Municipal Corporation of Delhi

TABLE V.3

Statement Showing Details of Court Cases

(New Delhi Municipal Committee)

Year	Percentage of cases which became final without objection	Cases pending at the beginning of the year	Cases filed during the year	Cases disposed of during the year	Balance
	(1)	(2)	(3)	(4)	(5)
1970-71	-	-	-	-	-
1971-72	91	-	-	-	-
1972-73	82	1500	125	209	1416
1973-74	83	1416	447	337	1526
1974-75	88	1526	287	156	1657
1975-76	83	1657	455	296	1816
1976-77	94	1816	639	585	1870
1977-78	95	1870	432	134	2168
1978-79	96	2168	396	615	1949
1979-80	93	1949	313	656	1606
1980-81	96	1606	854	650	1810
1981-82	95	1810	610	352	2068
1982-83	83	774	311	2531	2531

Source: Office of the Director, Commercial and Taxation, NDMC.

TABLE V.4

Extent of Reduction obtained on Hearing Objections

(Municipal Corporation of Delhi)

(Rs thousand)

Zone	Residential			Commercial		
	Proposed rateable value	Decided rateable value	Percent reduction	Proposed rateable value	Decided rateable value	Percent reduction
	(1)	(2)	(3)	(4)	(5)	(6)
West	3.87	3.56	8.24	444710	307540	30.84
Karol Bagh	3.29	2.85	13.41	853913	401080	53.03
Najaf Garh	15920	14270	10.36	1260	1260	-
Paharganj	62280	55150	11.45	11710	10230	12.64
Civil Lines	201528	185970	7.72	371840	358180	3.67
New Delhi	738785	620749	15.98	227454	173480	23.73
South	664039	576098	13.24	1351454	1349720	0.13
City	32527	28210	13.27	19040	18610	2.26
Shahdara	201790	190870	5.41	26530	25770	3.05
Narela	38010	34370	9.58	14380	14380	-
Total	2671249	2346012	12.18	3322341	2660250	19.93

Source: Survey of selected properties by NIPFP Team (1983)

TABLE V.5

Extent of Reduction Obtained on Hearing Objections

(Rs lakh)

Year	Number of objection case decided	Rateable value		
		Previous	Proposed	Finalised
	(1)	(2)	(3)	(4)
		New Delhi Municipal Committee		
1972-73	1572	73.60	262.00	241.17
1982-83	1264	59.84	140.51	121.48
		Delhi Cantonment Board		
1971-74	48	6.43	9.15	8.96
1974-77	54	8.96	10.12	9.83
1977-80	86	9.83	17.23	15.11
1980-83	114	15.11	20.83	19.73

Source: Offices of NDMC and DCB

TABLE V.6

Total Number of Cases Filed with the Rent Controller in Delhi and Proportion of Cases Relating to Fair Rent (1970 to 1982)

Year	Total number of cases filed with the Rent Controller	Cases out of Col. 1 involving rent fixation		Cases actually heard	
		Number	Proportion (Col. 2 as per cent of Col. 1)	Number	Proportion (Col. 4 as per cent of Col. 2)
	(1)	(2)	(3)	(4)	(5)
1970	11636	994	8.54	152	15.29
1971	13680	1131	8.27	94	8.31
1972	14794	1110	7.50	108	9.73
1973	15665	992	6.33	116	11.69
1974	15842	853	5.38	90	10.55
1975	16999	836	4.92	94	11.24
1976	19784	798	4.03	76	9.52
1977	20758	714	3.44	85	11.90
1978	20117	674	3.35	45	6.68
1979	20209	671	3.32	59	8.79
1980	19427	681	3.51	35	5.14
1981	21535	674	3.13	26	3.86
1982	22792	697	3.06	18	2.58

Source: Information collected from the office of the Rent Controller, Delhi.

the magnitude of reduction is found to be significant. Nevertheless, the operation of the rent control on a very small scale in Delhi could not have generated any sizeable impact on the level of rents except for old localities.

ii. Effect of rent control : 1980 and after

5.4.20 After the Supreme Court judgment, the effect of the rent control law seems to have been more pervasive. Now the properties can be classified under three categories: (i) old properties on which there is a freeze on rents, (ii) those which are covered by rent control holiday, i.e., free from rent control for five years from the date of first letting, and (iii) new properties on which the standard rent is charged after the rent control holiday. Thus, except for new constructions where the rent holiday is applicable, the rents are virtually frozen for property tax purposes, although the DRC Act provides for some enhancement of the rents in order to take care of the cost of repair and maintenance.

5.4.21 As the rent control law defines the house value to be equivalent to the value of investment comprising construction cost and land value at the time of commencement of construction, similar structures coming up at different points of time would be valued differently, following the building cost method. The extent of variation in the house values of similar structures would depend on escalation in land values and in the prices of building materials. Since the rent control laws do not allow the revaluation of properties, the cost and land price differentials would grow over time as between old and newly

TABLE V.7

Average Level of Rent Before and After Fixation of Standard Rent (Residential and Commercial)

(1978 to 1982)

(Rs per sq. ft.)

Year	Residential			Commercial		
	Average level of rent per month in cases filed with Rent Controller	Average level of rent per month after fixation of standard rent	Per cent reduction	Average level of rent per month in cases filed with Rent Controller	Average level of rent per month after fixation of standard rent	Per cent reduction
	(1)	(2)	(3)	(4)	(5)	(6)
1978	0.51	0.28	54.90	0.93	0.72	77.42
1979	0.47	0.44	93.62	0.04	0.03	75.00
1981	0.91	0.14	15.38	0.62	0.33	53.23
1982	0.40	0.31	77.50	3.42	0.64	18.71

Source: Information collected from the Office of the Rent Controller, Delhi

constructed properties and the different assessment values for similar structures would be perpetuated. Thus, the building cost method as postulated by the Rent Act would systematically lead to under-assessment of old properties, the degree of under-valuation increasing with the age of the building. The presence of such under-valuation is further substantiated by the fact that if similar structures are thrown in the rental market to earn rent, the annual rentals would not vary significantly. The variations in the annual rentals, if any, could arise in such cases mainly due to the differences in the quality of housing and locational attributes.

5.4.22 The above analysis demonstrates that rent control legislation acts to depress the valuation of old properties for the purposes of property taxation. Now that not less than 50 per cent of the total housing stock in Delhi is more than 20 years old (NBO, 1981), the depressing impact of the Rent Act cannot be considered meagre. In respect of new properties, after the period of rent control holiday, reassessments may be necessitated. This would lead to reduction in their rateable values because of adoption of the cost method. It is revealing that wherever the assessment department has not lowered the assessment in response to the Supreme Court decision, the assessees have moved the courts to obtain reduction in rateable values. Although the department has been raising the tax demand, it has been stayed by the courts from time to time. The amount of demand stayed by the courts has increased rapidly from Rs 1.60crore in 1979-80 to Rs 16.63 crore in 1983-84.

5. Trends in Rateable Value

a. Growth

5.5.1 The growth rates of rateable values are given in Table V.8. For the period 1970-82, although total rateable value increased at an annual compound rate of 13.48 per cent, the average rateable value experienced a growth rate of only about 8 per cent. This means that in real terms it has not increased. The situation is more discouraging in NDMC areas where the average rateable value of private properties increased by only 5.75 per cent. When government properties, which constitute about 85 per cent of the total properties in NDMC, are included for computing the growth rate, a rate of increase of 7.63 per cent is obtained. Thus the average value of private properties in NDMC area has not grown proportionately with the growth of the value of government-owned properties.

5.5.2 While the growth of the rateable values in the NDMC and MCD indicates that some reassessment of old properties may be occurring and that newly constructed higher value properties have been added to the assessment list, the growth trend is considerably less than what is warranted or expected with the sharp increases in prices. For example, during 1970-82, the cost of construction rose at an annual compound rate of 12.35 per cent (Table V.9). There has also been a phenomenal rise in land prices. A recent study of land prices in Delhi has shown that during 1970-81, the price of land has gone up by about 10 times (Shafi, S. Syed and Dutta, S.S., 1981). Within only a short period of two years, viz., 1980-82, land prices have shot up by about three times in practically all the colonies. The consumer price index for industrial workers increased during 1970-82 at the rate of

TABLE V.8

Growth Rate of Rateable Value

(Per cent per annum)

Municipal Corporation/ Bodies	RV	RV*	RVH	RVH*
	(1)	(2)	(3)	(4)
Delhi				
MCD	13.48 (13.66)	5.61 (6.23)	7.77 (8.08)	0.30 (1.01)
NDMC	9.59 (10.91)	1.98 (3.21)	7.63 (5.75)	0.16 (-1.57)
DCB	18.35	13.12	16.21	11.05
Calcutta	4.63	-1.63	3.80	-2.25
Bombay	7.72	1.54	6.97	0.09
Madras	9.34	0.67	6.62	-1.83
Ahmedabad	5.91	1.00	-	-
Bangalore	13.34	6.04	7.03	0.12

Note: Figures in parentheses for private properties

RV = Rateable Value

RV* = RV(Constant Prices)

RVH = Per holding RV

RVH*= Per holding RV (Constant Prices)

Period: Delhi (MCD) 1970-71 to 1981-82 for private properties, 1967-68 to 1981-82.

NDMC - 1970-71 to 1981-82

DCB - 1975-76 to 1980-81

Source: (1) For Delhi, Computed.

(2) For other Corporations, NIPFP (1981), p.26.

8.32 per cent per annum. One finds that the increase in land prices has borne no relationship whatsoever with the trends in all these relevant prices.

5.5.3 According to a study by NCAER (1967), land values formed about 25 per cent of the total property values in Delhi. Since there has been a sudden spurt in land prices after 1970, and construction costs have not risen to the same extent, the share of land values in the total property values would have increased considerably. As the rateable value comparises a fraction of the value of land and the cost of construction, and as the former grew faster than the latter, its growth should have been greater than the rate of growth of construction costs. But rateable values have lagged behind the escalation in construction costs.

b. Distribution of rateable value

5.5.4 Besides the unsatisfactory growth of rateable values, their distribution according to valuation ranges has revealed a disturbing trend. The highest valued residential properties, i.e., those with rateable value greater than Rs 25,000, contributed propertionately less to the total rateable value in 1981-82 than in 1975-76 (Table V.10). This is in spite of the fact that the number of such properties has increased by about 2.38 times during that period whereas the number of properties of lesser values increased only by about 1.38 times. In the case of non-residential properties, the relative contribution of the highest valued properties roughly doubled from 25 per cent of the total to 50 per cent over the period 1975-82 (Table V.11). But their relative share in total rateable value remained unchanged between 1977-78 and 1981-82.

TABLE V.9

Indicators of Property Value

Year	Per holding rateable value (Rs) MCD	NDMC	Index of land prices (residential) (1960=100)	Index of cost of construction (1970=100)	Price Index Building materials (1950=100)	Building labour (1950=100)	CPIN Industrial workers (1960-61=100)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1970-71	1336	3412	300	100	-	-	195
1971-72	1421	3433	500	120	-	-	209
1972-73	1585	3944	-	134	-	-	218
1973-74	1678	3516	-	152	-	-	250
1974-75	1786	5758	-	172	321.24	333.95	324
1975-76	1868	6269	-	179	357.01	352.25	336
1976-77	1907	6154	-	180	391.66	376.48	326
1977-78	2225	6532	-	189	408.81	399.56	354
1978-79	2400	6418	-	209	441.05	421.53	365
1979-80	2603	7021	2500	234	536.81	439.42	382
1980-81	2840	6872	-	317	614.81	539.68	416
1981-82	-	6670	5500	360	-	-	462
Growth rate	8.08	7.63	30.27	12.35	11.43	8.32	8.32

Sources: (1) Columns (1) and (2) Computed
(2) Column (3) Shafi and Dutta(1981)
(3) Columns (4), (5), (6) and (7): NBO (1981)

5.5.5 Another feature of the distribution of rateable values is that in both the cases the overall distribution has not shown any appreciable change between the years 1977-78 and 1981-82. This feature can be interpreted to mean that despite the general escalation in the rents, the rateable values have remained in their earlier slabs. In other words, crossing over of the properties from lower slabs to higher slabs, which is one of the consequences of general inflationary conditions, has not been observed in the assessments. Thus, whatever increases have taken place in the total rateable values, they can be ascribed mainly to new assessments. A survey of 719 properties in 1982-83 in the MCD area has revealed that of the total increase in the rateable values, roughly 64 per cent was due to the assessment of new constructions (Table V.12). This was followed by additions (25 per cent). The rise in rents which is normally supposed to be one of the major determinants of assessment values has contributed only 10 per cent.

5.5.6 The last but not the least important feature of the rateable value distribution is that in MCD about 95 per cent of residential properties have rateable values of less than Rs 10,000, constituting about 70 per cent of the total rateable value of residential properties. In the non-residential category, roughly 83 per cent of the properties were valued at less than Rs 10,000, and they contributed to the rateable value of commercial properties only to the extent of 28 per cent. This shows that the major contribution in the non-residential category has come from the higher valued properties. In the NDMC area, whereas the major proportion has comprised low valued private properties, the relative contribution of high valued properties constituted the major part of rateable value (Table V.13).

TABLE V.10

Number of Residential Properties and Rateable Value in the Municipal Corporation of Delhi

(Private Properties)

Slabs of Rateable Value (Rupees)	Number			Rateable value (Rs lakh)		
	1975-76	1977-78	1981-82	1975-76	1977-78	1981-82
Upto 1000	172681 (63.76)	193430 (60.35)	177098 (47.36)	731 (15.89)	810 (13.29)	787 (8.82)
1001-2000	43636 (16.11)	52836 (16.49)	59841 (16.00)	566 (12.30)	720 (11.81)	842 (9.44)
2001-5000	32513 (12.00)	45198 (14.10)	79706 (21.31)	963 (20.93)	1370 (22.48)	2253 (25.26)
5001-10000	15667 (5.78)	19009 (5.93)	35201 (9.41)	916 (19.91)	1498 (24.58)	2270 (25.45)
10001-15000	3318 (1.23)	5619 (1.75)	11145 (2.98)	474 (10.30)	674 (11.06)	1061 (11.89)
15001-20000	1399 (0.52)	2113 (0.66)	5404 (1.45)	247 (5.37)	335 (5.50)	559 (6.27)
20001-25000	559 (0.21)	652 (0.20)	3060 (0.82)	134 (2.91)	202 (3.31)	384 (4.30)
25001 and above	1056 (0.39)	1649 (0.51)	2515 (0.67)	569 (12.37)	486 (7.97)	765 (8.58)
Total	270829 (100.00)	320506 (100.00)	373970 (100.00)	4600 (100.00)	6095 (100.00)	8921 (100.00)

Note: Figures in parentheses are percentages of total

Source: Municipal Corporation of Delhi

TABLE V.11

Number of Commercial Properties and Rateable Value in the Municipal Corporation of Delhi

(Private Properties)

Slabs of Rateable Value (Rupees)	Number			Rateable Value (Rs lakh)		
	1975-76	1977-78	1981-82	1975-76	1977-78	1981-82
Upto 2000	50852 (79.00)	29737 (61.56)	42666 (55.81)	282 (18.43)	236 (9.89)	426 (7.62)
2001-5000	6159 (9.57)	11102 (22.98)	14095 (18.44)	211 (13.79)	326 (13.66)	520 (9.31)
5001-10000	3268 (5.08)	3656 (7.57)	8374 (10.95)	275 (17.97)	259 (10.85)	651 (11.65)
10001-15000	2189 (3.40)	1600 (3.31)	4218 (5.52)	192 (12.55)	187 (7.84)	463 (8.29)
15001-20000	755 (1.17)	664 (1.37)	2586 (3.38)	124 (8.10)	112 (4.69)	396 (7.09)
20001-25000	293 (0.46)	332 (0.69)	1957 (2.56)	66 (4.31)	77 (3.23)	360 (6.44)
25001 and above	856 (1.33)	1217 (2.52)	2553 (3.34)	380 (24.84)	1189 (49.83)	2773 (49.62)
Total	64372 (100.00)	48308 (100.00)	76449 (100.00)	1530 (100.00)	2386 (100.00)	5588 (100.00)

Note: Figures in parentheses are percentage of total

Source: Municipal Corporation of Delhi

TABLE V.12

Components of Rateable Value Growth

Source	Number of holdings	Increase in rateable value (Rs)	Per cent of total
	(1)	(2)	(3)
New Construction	128	13,69,503	64.10
Additions	385	5,35,432	25.06
Rise in rent	178	2,23,905	10.48
Miscellaneous	27	7,714	0.36

Source: A Survey of Selected Holdings by NIPFP team (1983).

c. Undervaluation of properties

5.5.7 The analysis in the preceding sections has amply demonstrated that the growth and distribution of assessments have not followed the market trends. It has been emphasised earlier that an average performance of the tax system (with moderate rates) together with an adequate (uneroded) tax base would be able to generate better results in terms of revenue yield than with high rates and an eroded base. The question of adequacy of the tax base thus assumes special significance. It has been noted that the rateable value per holding is extremely low in Delhi (MCD), actually the lowest among the major municipal corporations (Table V.14). Thus at least on a priori grounds, it can be said that the rateable value base in Delhi is highly eroded and far from adequate. Adequacy of the rateable values, however, should be judged with reference to some potential base. The latter can be approximated in the context of property taxation either by the aggregate rental values of properties assessed at the market rents or by the aggregate capital values obtained as a sum of current land values and construction costs or by their sales values. In the absence of relevant data on the indicators of property values, the task of determining the level of potential tax base is an extremely difficult one.

5.5.8 One of the approximations to the potential tax base may be the ratio of value added by the housing sector comprising the real estate and ownership of dwellings to the City Domestic Product. However, the use of the net value added by the housing sector as a proxy for the potential property tax base is constrained by the fact that the former's determination

itself is based on the information regarding the assessed value of properties supplied by the municipal authorities. Thus, net value added by the housing sector would reflect only the actual base and not the potential base and, as is well known, the actual base reflects a good deal of under-estimation of property values.

5.5.9 The next approximation which can be attempted is to obtain the sales values of properties. Information on sales transactions can be collected from the office of the Registrar, Registration. This information also, however, lacks reliability since the sale prices are often depressed in order to evade taxes and to conceal the extent of black money involved in the transactions. Nevertheless, this piece of information can profitably be utilised to derive some measure of the potential base for the property tax in conjunction with the estimates of property value provided by the Valuation Cell of the Income Tax Department.

5.5.10 All private properties subject to the property tax are also liable to the non-corporate income tax and in several cases to other direct taxes. It is obligatory on the part of the Registrar, Registration to send to the Income Tax Department the details of all the registrations with declared values of Rs 25,000 or more. Before adopting the information on the consideration paid for sale/transfer, these are scrutinised with the help of the available information. If these are suspected to be grossly understated, a reference is made to the Valuation Cell in such cases. The Valuation Cell estimates their market values generally by following the land and building method, i.e., the value is obtained as a sum of land value and construction cost. In those cases, however, where reliable estimates of the cost of construction cannot be obtained, the rental method

TABLE V.13

Distribution of Number of Properties and Rateable Value

(Private Properties) NDMC

(Value in Rs lakh)

Slabs (Rs)	Units			Rateable Value		
	1974-75	1977-78	1981-82	1974-75	1977-78	1981-82
	(1)	(2)	(3)	(4)	(5)	(6)
Upto - 1000	5166	4661	4829	18.61	13.46	17.73
1001 - 2000	1307	1630	1567	25.45	27.78	15.58
2001 - 5000	1078	1905	1416	45.84	45.63	40.07
5001 -10000	594	574	647	36.08	37.40	39.61
10001 -15000	542	634	589	62.12	67.15	63.76
15001 -20000	372	617	588	63.42	81.08	91.24
20001 -25000	537	679	720	84.39	98.46	111.25
25001 -50000	716	1800	1872	286.45	453.71	374.50
50001 -100000	230	438	490	144.57	261.61	302.80
Above -100000	248	349	327	1068.26	1132.90	1563.72
TOTAL	10790	13287	13045	1834.20	2219.13	2620.26

Source: As for Table V.3

TABLE V.14

Rateable Value (Per Holding) in Selected Municipal Bodies

(Rs)

	1970-71	1975-76	1979-80	1981-82
Delhi				
MCD	1336.28	1867.86	2602.58	3094.09
NDMC	3411.79	6268.65	7020.74	6669.52
Bombay	3823.29	4711.27	7131.31	-
Calcutta	2760.80	3282.00	4057.40	-
Madras	1903.40	2792.96	5234.27**	-
Ahmedabad	466.65*	718.24**	-	-
Bangalore	1048.93	1365.20	1828.66	-

Note: * 1971-72
** 1976-77

Sources: 1. Delhi Computed
2. For other Corporations, NIPFP (1981), p.29

is employed. The market value of a property is determined by applying a rate of capitalisation to the annual rental value. Since the methods employed by the Valuation Cell and the municipal corporation seem to be more or less same, an estimate of annual rental value can be derived from the capital value as arrived at by the Valuation Cell.

5.5.11 In order to derive an estimate of the annual rental values, 250 properties were selected at random from different parts of Delhi. For these properties, the valuation figures as determined by the Valuation Cell were collected and the corresponding annual rental values were obtained by applying a rate of return, here 10 per cent, to the values determined by the Valuation Cell. The results obtained from comparing the rateable values of these 250 properties with their annual rental values have indicated that the rateable values have constituted between 28 and 38 per cent of their annual values (Table V.15). The above exercise thus shows that the municipal authority in Delhi has been able to utilise the potential property tax base only to the extent of about one-third.

5.5.12 It should be pointed out at this juncture that since the estimates prepared by the Valuation Cell may also suffer from limitations, the results shown in Table V.15 should be treated as being tentative. Nevertheless, this exercise has very clearly demonstrated that the administratively determined tax base is a gross underestimate and that the potential base has not been utilised adequately.

5.5.13 It is also seen that there is considerable difference between the rateable value adopted by the department

TABLE V.15

Ratios Between Rateable Values and Values Determined by the Valuation Cell

Zone	Sample size	Consideration paid for transfer (Rs lakh)	Value determined by valuation officer (Rs lakh)	Annual rateable value (Rs lakh)*	Col.(2) as per cent of col.(3)	Col.(4) as per cent of col.(2)	Col.(4) as per cent of col. (3)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
West	61	167.24	233.70	88.03	71.56	52.63	37.67
New Delhi	63	285.21	343.82	71.36	82.95	25.02	20.75
South	48	219.00	278.00	82.15	78.78	37.51	29.55
Karol Bagh	38	112.95	146.90	40.16	76.89	35.56	27.34
Civil Lines	40	117.91	160.29	43.68	73.56	37.04	27.25
TOTAL	250	902.31	1162.71	325.38	77.60	36.06	27.98

Note: * Actual rateable value multiplied by 10. This is to make it comparable with the figures in columns (2) and (3).

Sources: (i) Column 2 and 3, from the office of the Chief Engineer, Income Tax Department (Valuation Cell)

(ii) Column 4, from Delhi Municipal Corporation Records.

and the one that can be derived from the rental data collected by the department (Table V.16). The former is much lower in some areas. The rateable values adopted as per cent of the ones developed on the basis of the rental data vary from 11.64 per cent to 97.87 per cent in the different localities. The underassessment could of course be partly explained by the impact of the rent control legislation.[1] But the rather wide variation in the degree of underassessment indicates that in the assessments, deductions and allowances are not granted on a uniform basis. It may also be noted that since assessed rateable values are lower than what could be warranted by the rental data, which are themselves lower than market rents, rateable values are most likely to be much lower than 'true' rents. These two conclusions are to be kept in mind in considering the basis of reform of the system of property taxation in Delhi.

d. Assessment disparities

5.5.14 From column 4 of Table V.16, the extent of disparities in the rateable value per unit of carpet area between the different localities can be seen. The rateable value per sq. ft. has varied widely not only from one locality to another but also between holdings within the same localities. It will be noted, for example, that the rateable values of four properties located in WZ Block of Rajouri Garden have varied from Rs 4.19 to Rs 8.12 per sq. ft. All the four properties are owner-occupied. To take another example, it will be noticed that within the South Zone the rateable value

1/ It may be noted that a part of the disparities between the tenanted and owner-occupied properties can be attributed to the disparate rebate granted to owner-occupied properties.

TABLE V.16

Rateable Value of Sample Holdings in Selected Areas of MCD

(Rateable value in Rs)

Area	House Number	Nature of tenancy	Rateable value with effective date	Rateable value per sq.ft.	Rateable value per sq.ft. as per rental data	Assessment ratio (4) as per cent of (5)
	(1)	(2)	(3)	(4)	(5)	(6)
New Delhi Zone						
Defence Colony	A/66	T	5300(1.4.75)	7.74	11.64	11.64
"	D/41	T	24300(1.4.80)	12.32	13.66	90.19
E.P.D.P.	943	O	3350(1.4.75)	6.12	8.10	75.56
"	948	O	4970(1.4.76)	9.17	10.10	90.79
"	978	O	5560(1.4.79)	10.53	11.88	88.64
"	910	O	7340(1.4.79)	10.75	11.88	90.49
G.K. II	S/18	O	24190(1.4.75)	8.68	11.88	73.06
"	S/172	O	81000(1.4.81)	19.45	21.38	90.97
Kalkaji	P/22	M	4860(1.4.75)	9.00	10.10	89.11
"	E/178	M	9180(1.4.77)	10.55	10.10	99.50
South Zone						
Anand Niketan	C/83	O	6750(1.4.74)	6.48	11.88	54.55
"	E/44	M	6750(1.4.75)	7.51	11.88	63.22
"	C/409	M	16200(1.4.77)	11.86	12.47	95.11
"	D/138	O	20030(1.4.79)	16.04	32.93	69.95
Panchsheel Park	E/1-6	O	15370(1.4.73)	7.61	11.38	64.08
"	D-1/39	O	63380(1.4.81)	18.17	21.38	84.99
"	48	O	63940(1.4.82)	20.52	21.38	95.98
Gulmohar Park	D-3/D	O	5080(1.4.74)	9.41	11.88	79.21
"	17	M	33700(1.4.78)	12.11	16.04	75.50
Green Park Main	D-15	T	10800(1.4.76)	6.75	11.88	56.82
"	H-5	M	12370(1.4.78)	7.09	11.88	59.68
Vasant Vihar	E-14/13	O	13150(1.4.73)	8.75	11.88	73.65
"	A-36	M	91800(1.4.74)	11.48	11.88	96.63
"	3/10	O	20950(1.4.79)	16.23	19.20	84.54
"	D-6/26	O	17830(1.4.80)	19.77	20.20	97.87

Contd..

TABLE V.16 (Cont'd.)

	(1)	(2)	(3)	(4)	(5)	(6)
West Zone						
Janakpuri	C-2/2	T	16840(1.4.76)	9.36	10.22	91.59
"	C-2/4	M	15280(1.4.81)	9.46	14.85	63.79
"	C-2/12	T	12660(1.4.81)	10.55	14.85	73.52
Moti Nagar	F-64	O	4140(1.4.75)	4.50	5.72	78.67
"	F-7/B	O	1290(1.4.76)	5.12	5.72	89.51
"	F-26/B	O	7180(1.4.81)	12.49	13.60	91.84
Punjabi Bagh	43/18	M	6590(1.4.74)	3.24	6.59	49.17
"	43/34	O	16960(1.4.75)	4.87	6.59	73.90
"	43/36	O	18740(1.4.76)	6.48	6.59	98.33
"	43/47	O	8100(1.4.78)	8.25	11.29	73.08
"	43/57	M	6910(1.4.78)	9.87	11.29	87.42
Rajouri Garden	WZ/271	O	4180(1.4.75)	4.19	6.91	67.69
"	WZ/282	O	35340(1.4.76)	7.13	8.64	82.53
"	WZ/349	O	15350(1.4.77)	7.86	8.64	90.97
"	WZ/352	O	28940(1.4.78)	9.12	13.07	69.78
Tilak Nagar	22/11-B	O	780(1.4.74)	2.86	4.84	59.09
"	23/30-B	O	3720(1.4.76)	5.54	6.91	80.17
"	11/9-D	O	6230(1.4.79)	5.96	6.91	86.25
Civil Lines Zone						
Model Town	F-14/5	T	9180(1.4.75)	5.84	8.64	67.59
"	F-12/3	O	23020(1.4.78)	8.79	12.12	71.81
Kamla Nagar	68/18	T	14550(1.4.73)	4.85	8.10	59.88
"	6900	M	29160(1.4.76)	8.44	14.26	59.19
"	6362	M	47970(1.4.79)	12.90	14.26	90.46
Ashok Vihar Ph.II	C1/88	M	4810(1.4.76)	8.32	10.69	77.83
"	B1/36	O	15710(1.4.80)	16.20	17.82	90.91
"	A/127	O	12530(1.4.80)	13.08	17.82	73.40
S.P. Ganj Zone						
Pahari Dhiraj	4287113	O	2380(1.4.75)	5.64	6.48	87.04
"	4426/31	M	5520(1.4.77)	4.11	7.02	58.55
"	3218/20	M	15410(1.4.80)	10.23	11.28	91.10
Basti Harphool Sing	5800	M	6260(1.4.77)	5.09	6.60	84.83
"	5596/98	O	5990(1.4.79)	6.78	10.69	63.42

Note: T = Tenanted
O = Owner occupied
M = Mixed

Source: Complied from the records of MCD (Zonal offices and Head-quarters).

TABLE V.17

Rateable Value Per sq.ft. in MCD Area

Commercial Properties: Special Cell

(Rateable value in Rs)

Area	House Number	Occu-pancy	Rateable value	Carpet area sq.ft.	Rateable value per sq.ft.
	(1)	(2)	(3)	(4)	(5)
Hotel plot Basant Lok	-	C	1210300(9.6.81)	14550	83.18
Defence Colony	A-424	C	124200(1.12.78)	16667	7.45
Jhandewalan	2-E	M	118800(1.4.76)	1080	110.00
Reservoir Hindu Rao	206	C	285000(1.4.69)	1.39 Acres	-
Friends Colony	41-A	T	73440(1.4.79)	3676	19.98
W.E.A. Karol Bagh	10166-67	M	318020(1.4.83)	13087	24.30
"	642/I-A	T	479010(1.4.78)	29840	16.05
Najafgarh	22-A	M	224640(1.12.80)	70017	22.43
Tagore Garden	Holi Child School	M	336930(1.4.76)	20473	16.46
Kirti Nagar	7/15	C	111530(1.4.76)	13214	8.44
Mayapuri	B-6	C	211600(1.4.78)	18370	11.52
Beadonpura	2682	M	151800(1.4.80)	5371	28.26
Karol Bagh	10/87	T	286360(1.4.76)	21011	13.63
Old Rajinder Nagar	17/10	T	125440(1.4.81)	4950	25.34
East of Kailash	19-CC	M	132410(1.4.75)	6895	19.20
"	55-CC	T	233280(1.4.82)	8000	29.16
Okhla	DTC Depot II	C	172810(1.4.77)	9632	17.94
Lajpat Nagar II	BP-21	T	219400(1.4.77)	61594	3.56
Friends Colony	18	T	29480(1.4.79)	5800	5.08
Zafar Marg Nehru	House	T	1889560(1.4.77)	123380	15.31
"	Pkt. 7 Times of India	T	1310290(1.4.77)	74140	17.67
"	Daily Milap	M	2485370(1.4.75)	182190	13.64
Darya Ganj	4595	M	157790(1.4.76)	9263	17.03

Source: Compiled from the Records of MCD (Headquarters)

TABLE V.18

Rateable Value of Selected Holdings in NDMC Area

(Rateable value in Rs)

Sagar Apartments (Residential) Code Number	Status (O/T/M)	Carpet area (sq. ft.)	Rateable value	Rateable value per (sq.ft.)
(1)	(2)	(3)	(4)	(5)
1.	O	72	175	2.43
2.	O	709	21900	30.88
3.	O	844	8204	9.72
4.	O	1700	16524	9.72
5.	O	1700	16524	9.72
6.	O	1400	17496	12.50
7.	O	1700	16524	9.72
8.	O	1700	16525	9.72
9.	O	2100	34020	16.20
10.	O	1400	13608	9.72
11.	O	1700	16524	9.72
12.	O	1700	16524	9.72
13.	O	2100	20412	9.72
14.	O	1400	24300	17.35
15.	O	1700	16524	9.72
16.	O	1700	16524	9.72
17.	O	2100	20412	9.72
18.	O	1400	8613	6.15
19.	O	1700	16524	9.72
20.	O	1700	16524	9.72
21.	O	2100	20412	9.72
22.	O	1400	13608	9.72
23.	O	1700	18468	10.86
24.	O	1700	16524	9.72
25.	O	1400	13608	9.72

Cont'd..

TABLE V.18 (Cont'd.)

(1)	(2)	(3)	(4)	(5)
26.	O	1700	24300	14.30
27.	T	2100	23328	11.10
28.	O	1400	13608	9.72
29.	O	1700	10800	6.35
30.	O	1700	19940	11.72
31.	M	1700	19134	11.25
32.	O	1700	16524	9.72
33.	T	2100	64800	30.85
34.	O	905	13589	15.00
35.	O	893	13400	15.00
36.	O	1095	15695	14.33
37.	O	893	13400	15.00
38.	O	905	13589	15.00
39.	O	709	21900	30.8[illegible]

TABLE V.18 (Cont'd.)

(Rateable value in Rs)

ECE House (Commercial) Code Number	Status (O/T/M)	Carpet area (sq.ft.)	Rateable value	Rateable value per (sq. ft.)
(1)	(2)	(3)	(4)	(5)
1.	T	994	38674	38.90
2.	T	405	16052	39.63
3.	T	640	31104	48.60
4.	T	1560	67604	43.33
5.	T	560	33068	59.05
6.	T	700	19760	28.23
7.	T	2322	25103	10.81
8.	T	450	48600	108.00
9.	T	1098	88776	80.85
10.	T	200	32400	162.00
11.	T	250	11800	47.20
12.	T	640	21600	33.75
13.	T	184	5962	32.40
14.	T	262	11318	43.20
15.	T	300	17831	59.43
16.	T	1179	50933	43.20
17.	T*	2100	31221	14.86
18.	T*	1700	18000	10.58
19.	T*	1700	16524	9.72
20.	T*	2100	20412	9.72
21.	T	1400	22581	16.13
22.	T	1700	27000	15.88
23.	O	817	12072	14.77
24.	O	790	12990	16.44
25.	O	1095	15965	14.58

Cont'd....

TABLE V.18 (Cont'd)

(1)	(2)	(3)	(4)	(5)
26.	O	790	12990	16.44
27.	O	817	12072	14.77
28.	T	700	14094	20.13
29.	T	134	4860	36.26
30.	T	437	8072	18.47
31.	T	403	8640	21.44
32.	O	700	756	10.80
33.	O	70	756	10.80
34.	O	70	756	10.80
35.	O	70	756	10.80
36.	O	400	4320	10.80
37.	O	800	4640	5.80

Note: * Commercial-cum-residential. Source: Complied from the records of MCD.

per sq. ft. has varied considerably from Rs 6.48 in Anand Niketan to Rs 21.77 in Vasant Vihar. Again, when Moti Nagar and Tilak Nagar are compared, the rateable value per sq. ft. is higher in the former. These comparisons reveal that disparities in assessments are glaring both in residential and commercial properties (Table V.16 and V.17). Wide variations can also be seen in NDMC area (Table V.18).

6. Analysis of Rate Structure

a. The statutory rate structure

5.6.1 The rate structures of the property tax are different in the three local bodies. NDMC applies a flat rate of 12.5 per cent of the rateable value, while MCD and DCB apply progressive rates. MCD levies the property tax proper and the service charge - a flat rate- separately, but DCB has combined the two into a consolidated rate which ranges between 10 and 20 per cent of the rateable value for residential properties, and between 15 and 30 per cent for non-residential properties. In the case of MCD, the DMC Act specifies that the rate of the general tax could range between 10 and 30 per cent and that the service charge would be a flat levy.

5.6.2 The actual rates in the MCD are fixed within the range specified. Before 1968, there was no progression and no differentiation between residential and commercial properties, a flat rate of 15.5 per cent of the rateable value was applied. In 1968-69, two different progressive rate structures were prescribed for residential and non-residential properties. Until 1972-73, the step system of progression was in vogue, i.e., rates were prescribed for total values of properties and an entire property was taxed

at the rate fixed for the slab in which its total value fell. This was changed to the slab system of progression (with progressive marginal rates) in 1972-73. The rate structure currently in force has been reproduced in Table III.1 of Chapter III.

b. High tax rates

5.6.3 Although the DMC Act does not explicitly stipulate that residential and non-residential properties should be taxed differentially, the MCD has fixed higher rates of both general tax and service charge for non-residential properties. It is noticed for a non-residential property such as industrial holding or cinema house, the highest rate applicable to the slab of rateable value above Rs 25,000 per annum is 30 per cent + 10.5 per cent, i.e., a total of 40.5 per cent and for the corresponding slab value of a residential property, the rates are 30 + 6.5, i.e., a total of 36.5 per cent. These rates can be said to be unusually high if they were to be applied to true rental values. That a houseowner whose house has a rental value of around Rs 2,500 per month should pay a marginal rate of tax of 36.5 per cent (total) and an effective or average rate of tax of 26.47 per cent, i.e., Rs 661 per month out of the monthly rent of Rs 2,500 at current prices, is certainly too high a demand, given the much reduced purchasing power of money, and the other direct taxes to be paid against which no direct credit is given for the property tax paid. In the case of property used for commercial purposes, the marginal rate goes up to 40.5 per cent at rateable value above Rs 25,000 and the average rate works out to as high as 35.97 per cent for a rateable value of Rs 30,000.

5.6.4 These rates should certainly be considered too high if the rateable values are assessed properly. What we have is a situation of high rates applied to eroded values. The erosion of the base takes place through the choice of the controlled rent as rateable value even when much higher rents are being obtained and also through suppression and collusion. The incentive to the latter is partly provided by the high rates.

5.6.5 The position needs to be reversed. Ways must be found to approximate assessed rateable values to true annual values. At the same time, the rates must be made moderate. Through such a change, revenue will gain in the long run.

7. Summing Up

5.7.1 What clearly emerges from the preceding analysis and discussion is that rateable values have lagged behind market trends. Among the factors adversely affecting the growth of rateable values, the major ones have been identified as (i) the constraining impact of rent control legislation; (ii) imperfections in the real estate and rental markets in the form of suppression of true rents, receipt of salami, payment of advances, etc.; (iii) the lack of a clearly laid down assessment code or assessment norms which often leads to discretionary assessment and gives scope for undue leniency, and (iv) the lack of provision for periodic re-assessments. Of these, at present, the depressing effect of the rent control law, subsequent to the Supreme Court decision, is probably the most important. But it is not to be assumed the once rent control is relaxed, rateable values would move closely with market trends. The other factors mentioned above

would then acquire greater significance. Even as it is, it has been seen that disparities in the assessment of similar properties have been found to exist not only across localities but also within the same locality - for which rent control legislation cannot be held responsible.

5.7.2 High and progressive rates have been in existence in the MCD for ten years now. These have not compensated, and cannot be expected to compensate, for tardy growth in rateable values. With these progressive rates, property tax revenue should have been quite buoyant, which has not been the case. A combination of a broad and growing base with more moderate rates would yield better results in terms of both equity and revenue productivity.

VI. REFORM OF PROPERTY TAX SYSTEM

1. Basic Issues

6.1.1 The existing property tax system in the Union Territory of Delhi suffers from:

i. Low elasticity of tax yield with respect to municipal expenditure;

ii. Low elasticity with respect to nominal income, i.e., real income and price.

6.1.2 Since the rate structure is progressive, the tax yield shall grow faster than the base[1/] and the base, namely, rateable value should grow at least as fast as income, if not faster, because rentals and property values have grown faster than nominal income. If the property tax has not kept pace with increasing rentals and values, it is primarily due to the tardy growth of the assessed base of the tax. This can be identified as the major defect of the system, stemming from the unduly low level of the rateable values as compared to the rentals or annual values. The defect can be traced to the following factors:

i. Rent control legislation and Supreme Court ruling. In all cases covered by this ruling, even though there is no legal underassessment, there will be actual underestimation and, what is more, the assessment will be frozen indefinitely.

1/ In fact, the elasticity of the general tax yield with respect to the base (rateable value) has been found to be greater than one.

ii. The formula used to calculate the fair rent in the case of owner-occupied properties. Since the historic cost is taken into account and a stipulated rate of return is applied to it, here again assessed values get frozen.

iii. Rental data are also used, but even these data significantly fall short of true rents.

iv. No proper assessment code - leniency in assessment of non-residential property has been noticed.

6.1.3 Thus, both the base adopted and administrative practices are found to be defective.

6.1.4 The second major shortcoming lies in the disparities in assessment of similar properties, pointing to the non-equitable nature of the system. The disparities arise from:

i. Discretionary assessments;

ii. The use of historic cost to calculate the standard rent and that there is no revision.

6.1.5 The third defect is the unduly higher rate of general tax which would certainly be too onerous if valuation or assessment is done properly. Such high rates could induce evasion and/or inhibit investment in housing.

6.1.6 Fourthly, the tax treatment of non-profit institutions including educational and research institutions is arbitrary and not based on sound theoretical basis.

6.1.7 Finally, no clear conceptual distinction is made between the property tax proper and the service charges. The latter is also linked to rateable value and its rate is made to vary according to presumed differences in abilities to pay.

6.1.8 In the light of the above, the major objectives of reform can be identified:

i. The elasticity of the tax must be increased substantially;

ii. Assessed rateable values should keep pace with actual rental values;

iii. Horizontal equity should be ensured;

iv. Service charges should be put on a proper basis, and

v. Once the system of determining the base is reformed, the tax rates should be made more moderate.

2. Reform Proposals

a. Revitalisation of the tax base

6.2.1 There could be two alternatives: a switchover to an alternative base such as capital value or site value, or improved ways of assessing the existing base, namely, rental or annual value. There has been considerable discussion of the advantages and disadvantages of adopting these alternative bases for levying the property tax.[1/] In the literature, it has been argued that capital value is superior to annual rental value as property tax base

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1/ For a detailed discussion, see NIPFP (1981) pp. 194-245. Also reproduced in the Report of the West Bengal Municipal Finance Commission, Vol. II, Government of West Bengal (1982), pp. 99-116.

for the following reasons. One is that with capital value base, it would be easier to tax vacant land which has not been put to any use and hence does not have current annual value. The other advantage claimed is that it is easier to determine current market value of a property than its current annual rental value because market trends are reflected more in sales prices of properties than in their rental values. Market trends are less reflected in current rental values because of contractual rent fixed for a period of time and administration of rent. But as has been discussed earlier, in the absence of free and open real estate market, it is extremely difficult to obtain reliable information on sales prices of transacted properties. Further, it may be noticed that if properties being sold are not free-hold, i.e., if they are tenanted, transacted values may not reflect the free market trends. It has also been argued that only land value, i.e., site value may be taxed. The argument is that if improvements are exempt, it would provide incentive to additional construction activity and investment in maintenance of housing stock. But it would always be difficult to determine land value and value of improvements separately because of their interdependence. Further, it would not be advisable to exempt sizeable value added in the form of improvements because it would discriminate against one form of investment vis-a-vis others. The broad conclusion that emerges is that on the whole the rental value base is not inferior to the possible alternatives. Administratively, there would be the same or similar problems in determining the capital value. It would, therefore, be preferable to continue with the existing base of the tax, viz., rental value.

6.2.2 The Municipal levy on property can be looked upon

as a tax or as a service or user charge. Applying the benefit principle, one could say that the whole of the property tax should be considered as service charge. In that it will have to be solely related to the benefit received or to the cost of providing municipal service. This, however, could be too narrow a view of the levy on property. The municipal levy can also be based on ability to pay, just as a national or state levy. The municipal government also provides services whose benefits cannot be apportioned. Therefore, it is best to regard the levy on property as consisting of two components: a tax component and a service charge component. The former should be related to ability to pay and can be made progressive. It follows that it must be collected only from those with ability to pay. The latter must be related to the cost of providing certain services like water supply, sewerage, fire protection, etc., and should be imposed at a flat rate.

6.2.3 For the general property tax, ability to pay is to be measured in terms of rental value with suitable adjustments. This measurement has been defective, sometimes arbitrary and often discretionary. The reform measures relating to the measurement of tax base can be grouped under two broad categories: measures to mitigate legal constraints and steps to improve assessment procedures and practices.

i. <u>Relaxation of rent control</u>

6.2.4 Rent control can be modified in two ways:

i. By defining standard rent for rent control purposes or in terms of assessment made by the municipal authorities;

ii. If the controlled rent is to be the base of the assessment as decided by the courts, by changing the rent control legislation so that rents would gradually rise over time. Also the method of determining the standard rent should be such that disparities should not arise between properties with similar earning capacities.

6.2.5 When the standard rent is defined in terms of assessments made by municipal authorities, the determination of reasonable letting value would fall within the jurisdiction of municipal authorities and the rent controller would be required to take the help of municipal legislation in fixing standard rent. If the other alternative is to be adopted, the direction would be reversed. The standard rent would have to be determined according to the provisions of the rent control and it would be obligatory on the part of the municipal authorities to follow the rent control provisions.

6.2.6 Keeping in view the imbalance between demand and supply of housing accommodation in the urban areas, it may not be possible to scrap the rent legislation altogether because the demand for residential housing falls in the category of necessity. Rent control, being a state legislation and covering various other aspects of tenant and landlord relationship, is supposed to be more comprehensive a document than the municipal legislation. It may therefore be preferable to allow fixation of rent according to the provisions of the rent control laws with the necessary proviso that the municipal assessment should be guided by the rent control provisions.

6.2.7 We propose that the Delhi Rent Control Act should be amended in the following ways:

i. In the case of all new buildings, the rent may be allowed to be determined by the market for the first 5 years. The fifth year's rent may be taken to be the controlled rent for the sixth year.

ii. In the case of old properties, the standard rent fixed many years ago should be increased by 50 per cent of the increase in the consumer price index (CPI) between the year of fixation of rent and the present time. Subsequently, the rent will be increased every 3/4 years as in the case of new buildings coming up after the law is changed.

iii. In the case of all buildings (except the tax holiday buildings) after steps (i) and (ii) have been implemented, the standard rent should be increased every 3/4 years by a given fraction of the percentage increase in CPI - ranging from 5 per cent to 50 per cent depending on whether CPI has risen fast or slowly.

iv. Commercial properties should be freed of rent control.

6.2.8 The above suggestions are more or less in line with recommendations made by the Economic Administration Reforms Commission on the subject of Rent Control. However, a clarification requires to be made regarding the phrase "Rent reported for the fifth year". According to Section 6 of the Delhi Rent Control Act, the standard rent is the rent agreed upon between the landlord and tenant when a property is let out. This standard rent is taken to be valid for a period of 5 years from the date of such letting out whereas recommendations made here make a provision for the market rent to be taken into account even during the first 5 years. This, in a way, is an attempt to free the new constructions also of rent control. It may be argued here why new constructions are not freed altogether of rent control without any provision for rent holiday. We are of the opinion that the holiday provision

should remain. When the rent reported for the fifth year will be taken to be the controlled rent for the sixth year, which will be subsequently revised every 3/4 years by some price index, it will have the advantage of not requiring the actual assessment every year. Once a new property completes five years, revision of rents will be more or less automatic.

6.2.9 If the rent control legislation is amended as suggested above, the Supreme Court decision would imply that where the standard rent has not been fixed, it should be computed as under the rent control law, This would mean that escalations adopted for other properties would be allowed to be incorporated.

6.2.10 As regards the treatment of owner-occupied properties, if such properties are occupied by owners from the beginning, the comparison method or cost method, whichever the assessee prefers, may be used. However, if a rented building is converted to owner-occupied, the comparison method should be used. In both cases, the rateable values so determined should subsequently be put to inflation adjustment, as in the case of rented buildings, but a rebate of 25 to 30 per cent should be given in the case of owner-occupied properties.

6.2.11 What should be the cost? According to the present Rent Control Act, cost comprises reasonable cost of construction plus value of land at the time of commencement of construction. This leads to disparities in assessment. To reduce these disparities, when a rented property is converted to owner-occupied, the historical cost should be adjusted upwards or downwards by the movements in CPI as in the case of other properties. The Rent Control Act has to

be changed accordingly. In the case of new constructions, however, the actual cost should be taken.

6.2.12 In calculating cost wherever land has been given by Government or a governmental agency, the actual price should be taken into account. In other cases, market price of land should be included in the cost. Our suggestions will reduce but not eliminate disparities; disparities cannot be eliminated unless the Rent Control Act is abolished.

6.2.13 Once the standard rent is defined on the above lines, some amendments in the Delhi Municipal Act would be required. A clear mention would have to be made in the Municipal Act that the determination of reasonable value would be done following the provisions as contained in the amended Delhi Rent Control Act. This would be applied to all properties whether or not the standard rent has been fixed in these cases by the rent controller.

6.2.14 If the rent control is amended on the lines suggested above, the base of the property tax would automatically become responsive to price changes and property tax would become more elastic. We understand that these changes in the rent control would also lead to minimisation of arbitrations in property tax assessment and hence elimination of disputes as well as inequities.

ii. Creation of a valuation board

6.2.15 In the case of properties freed of rent control, normally the comparison method should be adopted. Cost of construction should not be considered. For this purpose, there must be a systematic attempt at collecting

rental data and developing norms for valuation of buildings. Therefore, there is a strong case for setting up a valuation agency for the Union Territory of Delhi. The agency should be entrusted with the task of collecting data on rents, land values and the cost of construction on a regular basis and processing them in order to develop standardised rents, land values and construction costs per unit of carpet area for different types of properties. The proposed valuation agency would have a statutory basis with the authority to call for return from each property owner, comprising full details regarding the holdings. It may also be empowered to visit the premises to collect the necessary data in the case of non-compliance and where the data seem to be wrongly reported.

6.2.16 In order to make the most effective use of the information available with the different agencies, the proposed board should be required to have close links with the building departments of the local bodies, valuation cell of the income tax department and the Delhi Development Authority. Since valuation of property is required to be made for other purposes also, such as levy of wealth tax, estate duty and stamp duty, such coordination is essential. It may be necessary to amend the Central laws relating to income tax and wealth tax to this effect.

6.2.17 Once the standardised rents, land values and construction costs are developed by the proposed valuation agency, this information should be published as a booklet or manual. All the three municipal authorities in the Union Territory of Delhi should be required to make use of these standardised rates compulsorily while assessing properties. It should be emphasised here that while developing the data on rental, land value and construction

cost, the valuation agency would have to follow strictly provisions of the rent legislation after the proposed amendments have been incorporated. It should be made obligatory on the part of the rent controller also to use this data while fixing the standard rent.

iii. Assessing authority

6.2.18 As regards actual assessment, it should be undertaken by the municipal personnel only. The authority of the municipal government should not be undermined. But in view of our observation that the assessing personnel are inadequately trained, we suggest that a suitable programme of training in matters of valuation of properties and administration of the tax be drawn up for such personnel. It has been found that there is no on-the-job training programmes within the Corporation, and most of the assessing inspectors have not been exposed to the intricacies of property valuation. The inspectors or officers who are supposed to assess properties should undergo comprehensive training at the start of their assignment. In this case, institutions which offer specialised training courses in various aspects of property valuation and tax administration may be requested to assist.

b. Change in the Municipal Act relating to property tax

6.2.19 We are convinced that the property tax cannot be made a flexible and elastic instrument and its productivity cannot be increased unless the minimal changes in the rent control act that we have suggested are carried out. But even if such a minor relaxation cannot be brought about, then an inferior or less effective alternative would be to

change the property tax act to the effect that while in the case of all properties to which rent control applies, the general tax will originally be based on the standard rent, every 3/4 years the tax will be revised upward by a fraction of the increase in CPI and that the enhanced part of the tax will be borne by the tenant. The same principle of escalation would apply to owner-occupied properties. Where rent control does not apply (if commercial properties are freed of rent control), market rent as determined by the comparison method would be the base.

c. Circuit breakers

6.2.20 When the base of the property tax is revitalised on the pattern suggested above, its responsiveness to market rents would increase. With the increase in prices, the tax base would automatically adjust upwards. As a result the tax burden on each class of property would also increase. The proposals can be acceptable only in respect of those properties which are able to earn adequate income during the period of inflation so that tax burden does not constitute unduly high proportion of the earning capacity of the property. This calls for relief to some needy taxpayers such as low-income tax payers, pensioners and other retired persons, widows and also owner-occupants. The relief may be in the form of exemption or "Circuit Breaker"[1/] relief against property tax liabilities. Relief measures to help these groups of property do exist in most of the municipalities in one form or another. For example, in Delhi, properties with very low rateable values are exempted from the tax. Similarly, prior to 1980, there used to be a system of granting relief to owner-occupancy.

1/ "Circuit breakers" are expected to provide payments to taxpayers usually in the form of relief.

6.2.21 As owner-occupants have not thrown open their structures for earning rents or profits in the market, there is a case for lower tax burden on them. Besides this, another argument in favour of granting relief to owner-occupancy is that, shelter being an essential commodity, house ownership should be encouraged. The arguments against granting such a relief can be based on both theoretical and administrative grounds. If tenants and owner-occupants are treated as consumers of housing services, a given proportion of their income should be spent on it. If one is staying in his own house, he is utilising the house service to the tune of potential rental of that structure. If rebate is granted to owner-occupants by which they are made to spend a lower proportion of their income on rents, it would generate inter-personal inequity. For many of the owner-occupants who are in the higher income groups, this relief may amount to be substantial. At the same time it would also cause inefficient allocation of resources as between the investments in housing for consumption and in housing for earning rental income. On administrative grounds, this scheme may not seem sound because it might become a constant source of revenue leakage through misreporting of facts about occupancy.

6.2.22 The basic argument in favour of granting relief to some needy taxpayers is that since they have not used their structures for earning income in an inflationary market, it may not be reasonable to impute rising rents to them. It should be made abundantly clear that such allowances should be limited only to residential properties occupied by owners. Relief should be given in the form of rebate on rateable value, say to the extent of 25 to 30 per cent, so that changes in the rate structure do not disturb the extent of relative relief given. The system of granting rebate on rateable value is likely to be more effective as relief in effect will be at the marginal rate.

d. Service charges

6.2.23 It should be recognised that although service charges are calculated as a given percentage of the rateable value, the latter is viewed only as a proxy for the amount of services consumed. It may be advisable to operate service charges independent of rateable value. For example, with the rapid increase in the metered supply of water, it is now possible to charge for water on the basis of actual consumption of water. Although such consumption tags may be absent in the case of other municipal services such as drainage, scavenging, fire protection etc., one can fix some standard rate per unit of carpet area applicable to all the localities in the different zones.

6.2.24 The standard rate fixed per unit of carpet area can be determined by examining the service charges liability of some of the recently constructed and well defined properties. For example, the total carpet area of an MIG (Self Financing Type) flat comes to approximately 500 sq. ft. The rateable value of such a property is about Rs 11,000 and the total demand is calculated to be about Rs 2,000 per annum of which about Rs 150 is on account of service charges (scavenging, sewerage and fire taxes). On the basis of this calculation, service charge can be imposed at a rate of about fifty paise per sq.ft. irrespective of zones and old and new properties. The assessment department should be required to work out the service charges for some selected well defined buildings and establish whether fifty paise per sq.ft. would be an appropriate standard rate for the services rendered by the Corporation. The standard rate for the service charges may be fixed at a rate of Rs 2/- per sq.ft. in the case of commercial properties. Charitable and non-profitable institutions should be treated as commercial

properties for the purpose of levy of service charges. Once the rate per sq.ft. is fixed, it may be revised upwards every three to four years by some fraction of the percentage increase in the consumer price index.

6.2.25 The advantage of this system would lie in the fact that the rent control provisions would not be constraining the growth of collections due to the service charges. Secondly, structures constructed at different times and assessed differently due to differences in the methods of assessment would not be required to pay significantly different amounts of service charges for roughly the same amount of services consumed. In the proposed scheme, the demand for municipal services is taken to increase proportionately with the usable space. If it is found that the rateable value also rises proportionately with the usable space, then there would be no difference in the two systems except that the proposed scheme would be free of the rent control provisions. Thirdly, we are assuming that the requirement of municipal resources per sq. ft. of carpet area is the same for all properties in the different localities of a municipal jurisdiction.

6.2.26 One of the important limitations of having a standard rate per unit of carpet area is that it would entail higher burden on the properties falling in the lowest slab and on old properties. One can have two views here.

6.2.27 Firstly, it can be argued that until now old properties have been enjoying subsidy which has now been abruptly withdrawn, and secondly, if it is agreed that a sudden spurt in the service charge would cause hardships to the inhabitants of low valued dwellings, a lower standard rate per sq. ft. can be fixed using the data from properties constructed, say, five years ago. As the burden on

high-valued properties is likely to diminish, it is wide open to the criticism that it would violate the criterion of vertical equity. The point to be noted here is that test of vertical equity should apply where the principle of ability to pay is adopted to calculate the tax liability. In the case of service charges, tax payable should be related to the magnitude of consumption of civic services.

e. Assessment of vacant land

6.2.28 Taxation of vacant land calls for reform on two scores:

i. Proper valuation of land at current market prices, and

ii. Selection of reasonable rate of return.

6.2.29 With the creation of a valuation agency, it may be supposed that it would be possible to determine the land value more accurately. As regards the second point, a rate of return of 5 per cent as postulated in the DMC Act seems to be inadequate because current yields on safe investments are not less than 10 per cent. For example, commercial banks currently offer about 11 per cent interest on fixed deposits, UTI offers a dividend of 12 per cent or more, and debentures of reputed public limited companies yield about 14/15 per cent. Thus, it may be proper to adopt a higher rate of return (9-10 per cent) on land. However, a rate of return of 5 per cent should be used for the first five years from the date of purchase of land to allow a reasonable period of time for constructing a structure on it. Adoption of a higher rate of return after five years, which will enhance the tax burden on the vacant land, would encourage more efficient land use and also discourage speculation in land.

Assessment of properties of charitable and non-profit-making institutions

6.2.30 According to Section 115 of the DMC Act, to qualify for exemption from the payment of general property tax, land and building or portion of land and building should be exclusively occupied and used for public worship or by a society or body for charitable purposes, with a provision that such a society or body is supported fully or in part by voluntary contributions, applies its profits, if any, or any other income in promoting its objects and does not pay any dividend or bonus to its members. Charitable purpose does not include a purpose which relates exclusively to religious teaching.

6.2.31 In practice, the assessment department has been granting exemption to only those properties which are exclusively used for public worship or where the society controlling the property is supported by voluntary contributions. Voluntary contributions should constitute not less than 10 per cent of thetotal annual income. Grants from Central and State Governments and semi-government organisations are not treated as voluntary contribution. In the process, academic institutions which are engaged in educational and research activities and which are also partly supported by government grants do not qualify for exemption. What is surprising is that such institutions being non-profit entities are recognised as charitable and are not taxed under the Income Tax Act. Further, these institutions are taxed at the tax rates applicable to commercial properties.

6.2.32 Charitable institutions and other non-profit educational and research institutions cannot be said to have the ability to pay taxes because their properties are owned

by individuals or corporations owned by individuals. Hence such institutions should be exempt from the payment of general property tax. However, the definition of charitable and non-profit institutions should be made clear and it should be incorporated in the DMC Act. Research institutions recognised or supported by the Government of India, educational institutions recognised by Delhi Administration and social and welfare organisations recognised by Delhi Social Welfare Board and by similar bodies should be treated as having charitable objective.

6.2.33 As regards the service charges, such units should, however, be asked to pay at the standard rate applicable to non-residential properties.

g. Market price of lease-hold and free-hold lands

6.2.34 It may be necessary to recognise the difference between free-hold and lease-hold interests in land. Lease-hold interest involves an initial payment of some lump-sum amount, about 15 to 20 per cent of the market value of land, followed by a trail of ground rent payable in perpetuity. In the case of free-hold, however, the total cost of land has to be paid as an initial payment. Further, the owner of a lease-hold right does not enjoy the right to sell the property, whereas the owner of free-holf land is authorised to do so.

6.2.35 Section 6(i) of the DRC Act requires for calculating the standard rent the determination of (i) reasonable cost of construction, and (ii) the market price of land. The concept of market price of land refers to the price which a willing buyer will pay to a seller, if land was to be put to sale in the open market. Thus, the market price of land

does not mean the price or value of any right such as lease-hold right.

6.2.36 The rationale behind charging the ground rent on lease-hold land can be found in the fact that acquiring such land does not require full payment. Since in such a case only a part of the market price is payable initially, the owners might earn or save some interest on the amount not paid to the government. In actual practice, ground rent has been found to be roughly equal to the expected interest amount on the unpaid sums. Since the free-hold lessee is charged the tax on the basis of the market value of land, the lease-hold lessee should also be required to pay the tax not on the basis of the amount spent on acquiring that land but on the market price of that land. In this way, the two kinds of interest in land would be treated uniformly.

h. Measures to improve administration of the tax

6.2.37 Under the proposed system, data on rents, land value and cost of construction per unit of carpet area would be developed by the proposed Delhi Valuation Agency for different localities. The task of the assessment department would be to obtain detailed information about carpet area, number of floors, nature of occupancy, use, age of the building etc. To start with, these information may be collected through a system of filing by property owners a property return to the assessment department every year. A copy of the property return may also be sent to the Delhi Valuation Agency. Those who are found to be distorting or concealing facts about their properties should be adequately penalised. Non-compliance should be dealt with appropriately.

6.2.38 The entries in the property return would require verification before the actual work of assessment begins. Verification of the details given in the property return can be done by sample checks. A sample of about 5 per cent of total properties may be taken up for thorough scrutiny every year. If sample checks reveal that the rate-payers are generally engaged in distorting facts, more rigorous checks can be carried out under the supervision of senior assessment officers. Once the task of development of rental data is entrusted to the Delhi Valuation Agency, the assessment staff would probably have more time and resources to verify more efficiently the information furnished by the taxpayers. It may be emphasised here that facts on which valuations have to be based are carpet area,use, age and locality, all of which are subject to physical verification. This would reduce the element of subjectivity on the part of the assessment officers and would also reduce the extent of disparities in assessment. As the assessment of property would be based on data supplied by the Delhi Valuation Agency, the problem of underassessment of properties is expected to be reduced considerably.

6.2.39 In order to streamline the various aspects of property tax administration, the significance of computerising data need not be emphasised. In the proposed system, the rateable value is subject to revision by some fixed percentage of the price index every 3/4 years. When the data are preserved in the computer, not only the work of assessment but also reassessment of properties can possibly be done more efficiently. Improvement in the record keeping practices in the assessment department can also be effected with computerisation.

i. Reform of appellate procedure

6.2.40 Under the existing system, objections can be raised against proposed assessments and new assessments within the Corporation under Sections 124 and 126 of the DMC Act. Objections are heard by an appointed principal investigator who is one of the middle-level/senior officers of the assessment department. Hence, the existing system of hearing objections within the department cannot be considered as an appellate procedure for the principal reason that objections are not heard by experts in property valuation and legal matters.

6.2.41 Thus, there is a strong case for creation of a systematic appellate procedure within the department. So far as objections under Section 124 of the Act are concerned, no changes in the present practice may be required as it is a preliminary exercise which the department has to do before finalising an assessment for the following financial year. However, objections filed under Section 126 of the Act may have to be dealt with more effectively. This may require some amendment in the Municipal Act also.

6.2.42 It may be worthwhile to have a two-tier appellate procedure. At the first tier, there should be a committee headed by an assistant commissioner (appeals). Other members of the committee could be property valuation and legal experts, and a chartered accountant. The second tier could comprise an appellate tribunal headed by a deputy commissioner (appeals). Other members may have the same or similar qualifications as those at the first tier. A suggestion worth considering is that the expert in property valuation may be drawn from the Delhi Valuation Agency.

6.2.43 These appellate authorities may be appointed by the local bodies and they should be independent in the exercise of their judicial functions. The decision of the tribunal will be final on points of fact. On points of law, however, order of the appellate tribunal may be challenged in the Delhi High Court. It may be made explicit that no suits or writ petitions can be filed in the civil courts, and the necessary amendments to Sections 169 and 170 of the DMC Act to this effect should be carried out.

6.2.44 It is also important to note that only high-value property owners have taken resort to filing civil suits or writ petitions. One of the probable reasons could be to forestall any move of the assessment department to collect the tax, enabling the owners to save the amount of interest on the tax demand for the period until court cases are finalised. As in the case of income tax, it may be necessary in the case of property tax also to have a system of charging interest, say, at the rate of 12 per cent per annum for the period starting from the original date of tax payment as mentioned in the tax demand bill to the date when the payment is actually made. If, however, a part of the tax demand has been deposited in accordance with instructions by the courts, interest would be chargeable only on the balance.

j. Reform of the rate structure

6.2.45 In the proposed system, it will be seen that rent control is proposed to be relaxed to take into account the trends in the market rent. When rent control is relaxed, the controlled rents are revised periodically, assessments are done properly and revisions of assessments are also carried out, the rate of the tax should be much lower to keep

the burden moderate. The two vital questions which arise are: (i) what the level of rates should be and (ii) whether property tax (here, general property tax) should at all be progressive.

6.2.46 It will be appropriate to deal with the second question first. There can be two bases for an equitable distribution of tax burden - the benefit basis and the ability to pay basis. In the context of property tax, it is widely recognised that it cannot be closely related to either the ability to pay or to the benefits received from the services it supports. It seems more plausible to combine the two approaches as the concept of the ability to pay is vague and the measurement of benefit is a difficult proposition. The property tax is a levy on the rateable value of a property. The latter is taken to represent the ability to pay of individuals or group of individuals who own a property. But at the same time, it is supposed to act as a proxy for the consumption of civic services. Where such a proxy is available, such as in the supply of water, the rateable value is not used to represent the quantity of water consumed. In the absence of such a surrogate in the case of most of the municipal services, the rateable value continues to represent the service consumption levels.

6.2.47 In our opinion, the service charges should be levied on carpet area basis because the consumption or use of municipal services can be taken to rise with the carpet area. As regards the general property tax, progressive rates may be instituted. The rate of tax may rise with property values. This is based on two assumptions: (i) the higher the property value, the higher would be income from property, and (ii) marginal utility of income

declines as income increases. The objective behind progressive rates is based on the ability to pay of the landlords, although the entire property tax is not always borne by the landlords. Who bears the incidence of the property tax is a highly controversial issue (for a discussion of the theoretical and empirical issues, see NIPFP, 1981). While the incidence is borne by landlords in the case of owner-occupied properties, in the case of tenanted properties and properties under commercial use, there is a strong possibility of shifting of the tax to the tenants of residential properties, in the former case, and to the consumers of the products of the firm using the taxed premises, in the latter case. It may be quite likely that a good part of the tax is passed on to the tenants even if rent control exists.

6.2.46 When the tax is likely to be shifted in full or in part, it may not be possible to distribute the tax burden according to the ability to pay of the landlords. Because of the possibility of tax shifting the objective of progressive distribution of the tax burden may not be achieved. If the tenants of residential houses are not found to be richer than the landlords, the possibility of tax shifting may increase the tax regressivity. Another reason for an increase in the regressivity of the tax is that owners of bigger holdings, who also belong to higher income class, would have greater ability to withhold their houses till they get higher rents, whereas owners of small houses may not have the capacity to wait as income from rent may constitute one of the important sources of funds to them. Further, tenants of small holdings may not be as well-off as to pay higher rents which include a portion of the property tax. This shows that bigger landlords are presumably in a better position to shift the property

tax than those landlords who own small houses. As regards the overall incidence of the shiftable property tax on commercial properties, it may be taken to be regressive. In the absence of relevant information, it is, however, extremely difficult to judge whether the possibility of tax shifting would increase or decrease the tax progressivity. However, it is quite clear that if the tax is likely to be shifted, the rate of return on investments in tenanted and commercial properties may not be affected considerably because of the property tax.

6.2.49 Whether the tax is shifted to the consumers of housing services or it stays with property owners, the tax rates should be moderate. A moderate rate is justified on grounds of both equity and efficiency. Moreover, the incidence of property tax should not be discussed in isolation as there are other taxes such as income tax, wealth tax etc., which also fall on the same property and thereby affect the return on housing investment. Returns on investment in housing may vary from one type of housing to another. A few estimates which throw light on the return on housing investment in Delhi are available (NBO, 1957-58 and 1968; NCAER, 1967, Datta, 1968). The estimates vary between 10.48 per cent and 13.85 per cent. Depreciation and the existence of other taxes, however, would reduce this substantially. For instance, if a self-financing flat in West Delhi, which costs about Rs 1.25 lakh, is let out for residential purposes, it would fetch a rent of about Rs 900-1000 per month. The net rate of return in this case cannot exceed 7-8 per cent. If we accept the fact that there is considerable amount of black money involved in the housing sector, the rate of return on housing would probably be reduced considerably.

6.2.50 If these rates are compared with the rates on alternative avenues for investment as discussed earlier, for instance, fixed deposits with banks, Units of UTI, debentures of public limited companies etc., the return on housing investment is not high. Although the rate of capital appreciation has been probably the most rapid in the housing sector, the benefits of capital gains can be reaped only when properties are sold. In the case of owner-occupied properties, the significance of capital gains is of little consideration.

6.2.51 Keeping in view the level of yield on housing investment, it may not be advisable to keep the tax rates at their present level. Rates should not be more than 20 per cent of the rateable values, particularly when the rateable values are to be assessed properly. We feel that the general property tax should be fixed at 10 per cent for rateable values upto Rs 25,000; 12 per cent for rateable values exceeding Rs 50,000 and upto Rs 75,000, 17 per cent for rateable values exceeding Rs 75,000 and upto Rs 1 lakh and 20 per cent for rateable values exceeding Rs 1 lakh. It is not necessary to fix higher rates for non-residential properties as the higher values of such properties would already be captured in their rateable values. Finally, there is no rationale for having three independent rate structures for the three local bodies of the Union Territory of Delhi. We recommend that the system of valuation and rate structure should be identical in all the three local bodies.

VII. SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

7.1 The standard of civic services judged by the level of per capita revenue expenditure has been found to have deteriorated over time in the Union Territory of Delhi. Whereas a number of socio-economic and administrative factors contribute to the standard of civic services in the metropolitan regions, the availability of funds plays a crucial role in their provision. When one considers the revenue sources upon which the growth of urban spending must depend, the property tax being the mainstay of local finances must bear a large share of the load.

(Chapter II)

7.2 The property tax in Delhi has grown from Rs 2.54 crore in 1961-62 to Rs 24.81 crore in 1981-82, registering an annual compound growth rate of roughly 13 per cent. As regards the level of the yield of the property tax both at current and at constant (1960) prices, Delhi comes second among the four corporations compared, namely, Delhi, Bombay, Calcutta, Madras. In spite of its ranking, however, the yield of property tax in Delhi is far below than that in Bombay. As of 1977-78, the per capita property tax in Delhi was only Rs 28.8 as against Rs 115.3 in Bombay. But in 1981-82, it was almost equal to that in Madras and higher than in Calcutta (1977-78).

(Para 4.2.1)

7.3 Delhi is shown to have experienced the highest rate of growth of population and of total assessed value, and the second highest growth rate of number of properties assessed. But the growth rate of per canita property tax of Delhi (8.03 per cent) has been lower than in Bangalore and in Madras; the growth rate of property tax per holding in Delhi has been lower than that in Bombay and Madras. Property tax per holding in Delhi was only Rs 454.3 in 1981-82, as against Rs 744.2 in Calcutta and Rs 4163.6 in Bombay (in 1977-78) and Rs 839.9 in Madras (in 1976-77). It can be inferred that Bombay and Madras have been able to increase property tax per holding largely on the basis of old properties and not with any significant additions to the stock of housing, whereas Delhi, in spite of considerable additional construction with increasing rateable values, has not been able to match Bombay and Madras in this regard.

(Para 4.2.3)

7.4 The buoyancy of property tax in Delhi is higher than in the other cities taken for comparison. For NDMC the coefficient is very high (1.6). The performance of Delhi in relation to the growth of income can be said to be decidedly better than that of the other cities, although taken by itself a buoyancy coefficient of 1.02 shows that property tax revenue is just keeping pace with the growth in income. The buoyancy of property tax with respect to cost of construction in Delhi is seen to be lower than in Bombay and Madras.

(Para 4.2.6)

7.5 It is seen that the elasticity of property tax collection with respect to tax demand is near unity in Delhi and that the elasticity of rateable value to cost of construction (which is taken as a proxy for annual value) is nearly 1.2. However, tax demand seems to be inelastic with respect to rateable value. This is surprising because the tax structure being progressive, the coefficient of elasticity is expected to be higher than one. Anyway, given the data, it can be stated that inelasticity of the property tax collections with respect to cost of construction and with respect to income is to be largely explained by the less than propertionate growth of tax demand with respect to rateable value.

(Para 4.3.6)

7.6 It is important to note that in Delhi, elasticity of rateable value with respect to cost of construction is 1.19 but it is less than unity (0.71) when computation is made using rateable value per holding. This shows that Delhi has experienced a higher growth rate in number of properties assessed. But the relatively high elasticity of tax collections to rateable values has more than compensated for the low elasticity of rateable value per holding in all the cities other than Delhi. Although rateable values have grown faster in Delhi then elsewhere, property tax collections could not rise proportionately in the former.

(Para 4.3.7)

7.7 It is found that the elasticity of total collections with respect to total demand is slightly higher than 1 for Delhi (MCD). It is only the arrear collections that

are falling behind arrear demand. It may be inferred that the trend is for a greater proportion of current demand to be collected, while the proportion of total demand collected has tended to remain constant. The general picture that emerges is that between 55 and 65 per cent of the total demand is being collected in MCD and DCB in respect of private properties, whereas NDMC has been able to collect only between 15 and 30 per cent. It is surprising that even tax demand raised against government properties has not been collected fully.

(Para 4.3.8)

7.8 Among the factors adversely affecting the growth of rateable values, the major ones have been identified as (i) the constraining impact of rent control legislation, (ii) imperfections in the real estate and rental markets in the form of suppression of true rents, receipt of salami, payment of advances, etc., (iii) the lack of a clearly laid down assessment code of assessment norms which often leads to discretionary assessment and gives scope for undue leniency, and (iv) the lack of provision for periodic reassessments. Of these, at present, the depressing effect of the rent control law, subsequent to the Supreme Court decision, is probably the most important. But it is not to be assumed that once rent control is relaxed, rateable values would move closely with market trends. The other factors mentioned above would then acquire greater significance. Even as it is, it has been seen that disparities in the assessment of similar properties have been found to exist not only across localities but also within the same locality for which rent control legislation cannot be held responsible.

(Para 5.7.1)

7.9 High and progressive rates have been in existence in the MCD for ten years now. These have not compensated, and cannot be expected to compensate, for tardy growth in rateable values. With these progressive rates, property tax revenue should have been quite buoyant, which has not been the case. A combination of a broad and growing base with more moderate rates would yield better results in terms of both equity and revenue productivity.

(Para 5.7.2)

7.10 There has been considerable discussion of the advantages and disadvantages of adopting alternative bases for levying the property tax. Administratively there would be the same or similar problems in determining the capital value. It would, therefore, be preferable to continue with the existing base of the tax, viz., rental value.

(Para 6.2.1)

7.11 The municipal levy on property can be looked upon as a tax or as a service or user charge. It is best to regard the levy on property as consisting of two components: a tax component and a service charge component. The former should be related to the cost of providing certain services like water supply, sewerage, fire protection, etc., and should be imposed at a flat rate.

(Para 6.2.2)

7.12 The reform measures relating to the measurement of tax base can be grouped under two broad categories: measures to mitigate legal constraints and steps to improve assessment procedures and practices.

(Para 6.2.3)

7.13 Keeping in view the imbalance between demand and supply of housing accommodation in the urban areas, it may not be possible to scrap the rent legislation altogether because the demand for residential housing falls in the category of necessity. It may be preferable to allow the rent being fixed according to the provisions of the rent control laws with a provision that the municipal assessment should be guided by the rent control provisions.

(Para 6.2.6)

7.14 We propose that the Delhi Rent Control Act should be amended in the following ways:

i. In the case of all new buildings, the rent may be allowed to be determined by the market for the first 5 years. The fifth year's rent may be taken to be the controlled rent for the sixth year.

ii. In the case of old properties, the standard rent fixed many years ago should be increased by 50 per cent of the increase in the consumer price index (CPI) between the year of fixation of rent and the present time. Subsequently, the rent will be increased every 3/4 years as in the case of new buildings coming up after the law is changed.

iii. In the case of all buildings (except the tax holiday buildings) after steps (i) and (ii) have been implemented, the standard rent should be increased every 3/4 years by a given fraction of the percentage increase in CPI - ranging from 5 per cent to 50 per cent depending on whether CPI has risen fast or slowly.

iv. Commercial properties should be freed of rent control.

(Para 6.2.7)

7.15 As regards the treatment of owner-occupied properties, if such properties are occupied by owners from the beginning, the comparison method or cost method, whichever the assessee prefers, may be used. However, if a rented building is converted to owner-occupied, the comparison method should be used.

(Para 6.2.10)

7.16 To reduce disparities, when a rented property is converted to owner-occupied, the historical cost should be adjusted upwards or downwards by the movements in CPI as in the case of other properties. The Rent Control Act has to be changed accordingly. In the case of new constructions, however, the actual cost should be taken.

(Para 6.2.11)

7.17 In calculating cost wherever land has been given by Government or a Governmental agency, the actual price should be taken into account. In other cases, market price of land should be included in the cost.

(Para 6.2.12)

7.18 In the case of properties freed of rent control, normally the comparison method should be adopted. For this purpose, there must be a systematic attempt at collecting rental data and developing norms for valuation of buildings. Therefore, there is a strong case for setting up a valuation agency for the Union Territory of Delhi. The agency should be entrusted with the task of collecting data on rents, land values and the cost of construction on a regular basis and processing them in

order to develop standardised rents, land values and construction costs per unit of carpet area for different types of properties.

(Para 6.2.15)

7.19 In order to make the most effective use of the information available with the different agencies, the proposed board should be required to have close links with the building departments of the local bodies, valuation cell of the income tax department and the Delhi Development Authority.

(Para 6.2.16)

7.20 All the three municipal authorities in the Union Territory of Delhi should be required to make use of these standardised rates compulsorily while assessing properties.

(Para 6.2.17)

7.21 As regards actual assessment, it should be undertaken by the municipal personnel only. The inspectors or officers who are supposed to assess properties should undergo a comprehensive training at the start of their assignment.

(Para 6.2.18)

7.22 If the suggested relaxation in the rent control cannot be brought about, then an inferior or less effective alternative would be to change the property tax act to the effect that while in the case of all

properties to which rent control applies, the general tax will originally be based on the standard rent, every 3/4 years the tax will be revised upward by a fraction of the increase in CPI and that the enhanced part of the tax will be borne by the tenant. The same principle of escalation would apply to owner-occupied properties also.

(Para 6.2.19)

7.23 The basic argument in favour of granting relief to some needy taxpayers is that since they have not used their structures for earning income in an inflationary market, it may not be reasonable to impute rising rents to them. It should be made abundantly clear that such allowances should be limited only to residental properties occupied by owners. Relief should be given in the form of rebate on rateable value, say to the extent of 25 to 30 per cent, so that changes in the rate structure do not disturb the extent of relative relief given.

(Para 6.2.22)

7.24 It may be advisable to operate service charges independent of rateable value. One can fix some standard rate per unit of carpet area applicable to all the localities in the different zones.

(Para 6.2.23)

7.25 The standard rate fixed per unit of carpet area can be determined by examining the service charges liability of some of the recently constructed and well defined properties. The assessment department should be required

to work out the service charges for some selected well defined buildings and establish whether fifty paise per sq. ft. would be an appropriate standard rate for the services rendered by the Corporation. The standard rate for the service charges may be fixed at a rate of Rs 2/- per sq. ft. in the case of commercial properties. Once the rate per sq. ft. is fixed, it may be raised upwards every three to four years by some fraction of the percentage increase in the consumer price index.

(Para 6.2.24)

7.26 It may be proper to adopt a higher rate of return (9-10 per cent) on vacant land, However, a rate of return of 5 per cent should be used for the first five years from the date of purchase of land to allow a reasonable period of time for constructing a structure on it.

(Para 6.2.29)

7.27 Charitable institutions and other non-profit-making educational and research institutions cannot be said to have the ability to pay taxes because their properties are owned by individuals or corporations owned by individuals. Hence such institutions should be exempt from the payment of general property tax. Research institutions recognised or supported by the Government of India, educational institutions recognised by Delhi Administration and social and welfare organisations recognised by Delhi Social Welfare Board and by similar bodies should be treated as having charitable objective.

(Para 6.2.32)

7.28 Since the free-hold lessee is charged the tax on the basis of the market value of land, the lease-hold lessee should also be required to pay the tax, not on the basis of the amount spent on acquiring that land but on the market price of that land.

(Para 6.2.35)

7.29 The task of the assessment department would be to obtain detailed information about carpet area, number of floors, nature of occupancy, use, age of the building etc. To start with, these information may be collected through a system of filing by property owners a property return to the assessment department every year.

(Para 6.2.36)

7.30 The entries in the property return would require verification before the actual work of assessment begins. Verification of the details given in the property return can be done by sample checks. Once the task of development of rental data is entrusted to the Delhi Valuation Agency, the assessment staff would probably have more time and resources to verify more efficiently the information furnished by the taxpayers.

(Para 6.2.37)

7.31 There is a strong case for creation of systematic appellate procedure within the department. So far as objections under Section 124 of the Act are concerned, no changes in the present practice may be required. However, objections filed under Section 126 of the Act may have to be dealt with more effectively. This may require some amendment in the Municipal Act also.

(Para 6.2.41)

7.32 It may be worthwhile to have a two-tier appellate procedure. At the first tier, there should be a committee headed by an assistant commissioner (appeals). Other members of the committee could be property valuation and legal experts, and a chartered accountant. The second tier could comprise an appellate tribunal headed by a deputy commissioner (appeals). Other members may have the same or similar qualifications as those at the first tier.

(Para 6.2.42)

7.33 The decision of the tribunal will be final on points of fact. On points of law, however, order of the appellate tribunal may be appealable in the Delhi High Court. It may be made explicit that no suits or writ petitions can be filed in the civil courts, and the necessary amendments to Sections 169 and 170 of the DMC Act to this effect should be carried out.

(Para 6.2.43)

7.34 It may be necessary in the case of property tax to have a system of charging interest, say, at the rate of 12 per cent per annum for the period starting from the original date of tax payment as mentioned in the tax demand bill to the date when the payment is actually made.

(Para 6.2.44)

7.35 When rent control is relaxed, the controlled rents are revised periodically, assessments are done properly and revisions of assessments are also carried out, the rate of the tax should be much lower to keep the burden moderate.

(Para 6.2.45)

7.36 Rates should not be more than 20 per cent of the rateable values, particularly when the rateable values are to be assessed properly. We feel that the general property tax should be fixed at 10 per cent for rateable values upto Rs 25,000; 12 per cent for rateable values exceeding Rs 50,000 and upto Rs 75,000, 17 per cent for rateable values exceeding Rs 75,000 and upto Rs 1 lakh and 20 per cent for rateable values exceeding Rs 1 lakh. It is not necessary to fix higher tax rates for non-residential properties as the higher values of such properties would already be captured in their rateable values. Finally, there is no rationale for having three independent rate structures for the three local bodies of the Union Territory of Delhi. We recommend that the system of valuation and rate structure should be identical in all the three local bodies.

(Para 6.2.51)

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