

Property Tax ULB Level Reform

The Reform

One of the main objectives of the Constitution 74th Amendment is to make the Urban Local Bodies efficient units of self governance. For this the ULBs have to become autonomous and to depend more on their own revenues. Property tax is the single most important tax revenue source available to a ULB. Hence revenues from property tax have to show significant increase.

Reform of the property tax systems is one of the mandatory reforms under JNNURM. The guidelines emphasize the need for a) proper mapping of properties using a GIS system so that the ULB is able to have a full record of properties in the city and bring them under the tax net b); making the system capable of self-assessment (that is a system which is formula driven and where the property owner can calculate the tax due); and c) improving collections to achieve at least 85% of demand.

The objective of the reform should be to:

- Tap the full potential of property tax as a source of own revenue of the ULB.
- Bring all properties into the tax net.
- Introduce system improvements to increase efficiency in tax administration focusing on the entire value chain – coverage, billing, collection and enforcement.
- Make the system of assessment transparent and simple so as to be easily understood and interpreted by all property owners.
- Eliminate/reduce subjectivity and discretion in assessment particularly at the field level.
- Remove existing inequities in tax burden on similarly placed or similarly used properties.
- Enable property owners/occupiers to calculate tax liability on their own, file self assessment forms and pay tax on that basis, putting the onus upon the assesses to pay tax on time.
- Build in buoyancy and elasticity in the tax base to achieve revenue growth.
- Reward honest tax payers and penalize defaulters.
- Have a proper information system for monitoring to ensure full coverage in assessment and full collection of tax dues.
- Make the systems of assessment, collection and information citizen friendly.
- Introduce efficient mechanisms for speedy grievance redressal and dispute settlement.

1. Rationale for the reform

In most states the weaknesses and deficiencies in the current system of property taxation does not allow for full exploitation of the revenue potential of this tax. Property tax is one of the most under exploited tax instruments. To strengthen the financial autonomy of the local body a holistic reform of the property tax system is essential. The present deficiencies occur on account of the present assessment systems as also poor administrative and information systems currently in place.

Rental Value Basis: The system of property taxation followed in most Municipal Acts is a rent-based rateable valuation system where the annual value or the annual rental value (ARV) of the property shall be deemed to be “the gross annual rent at which the land or buildings might, at the time of assessment, be reasonably expected to be let from year to year ...”

Capital Value Basis: In many Municipal Acts there is an alternative provision for assessment of properties (particularly those self occupied) on a capital value basis. The annual value is arrived at on the basis of estimated market value of land and cost of construction at the time of construction or acquisition.

ARV restricted by Judicial Pronouncements: Over the last few decades a series of judgments of the Supreme Court have given a severe setback to the revenue aspirations of municipal bodies, since they are required to assess annual value for the levy of property tax on the basis of “fair rent” as determined under the relevant Rent Control Act, irrespective of the actual rent received, or whether a fair rent has been determined by a Rent Control Court or not. Even in the cases where the municipal law provided for a non-obstante clause, the Court ruled that the municipal authorities should not consider the actual rent as the only yardstick. It has been held that reasonable determination of rent by the municipal authorities *needs application of mind*, keeping in mind all relevant factors and circumstances. This immediately leads to a scope for subjective assessment and discretion at the level of the assessing officer, as well as subjective interpretation by the appellate authority.

Other problems with the Rental based system: Besides the major issue above there are other problems with the ARV system:

- Rent deeds often suppress actual rent paid – with rent being collected in other forms like interest free deposits, partnership fees, charges for amenities and services.
- Difficulty in arriving at hypothetical “rent” in the case of self-occupied properties, particularly residential properties which have never been rented out.
- Problems of assessing properties like educational and medical institutions, clubs and entertainment places, hotels and guest houses.

Problems with a Capital Value based system: The system of assessment based on Capital Value has its own share of problems:

- In the absence of a free open market in land and property transactions, the purchase value of the property, particularly in metros, does not reflect the true “use” value of the property, but is more a speculative price.
- Hence there is a tendency to under report transaction prices, to escape stamp duty and registration.
- There is limited availability of a computerized data base of property transactions against which an objective assessment can be made.
- Assessing staff are not professionally trained valuers to make scientific assessments.
- Since the capital value is determined with reference to the date of acquisition or construction, the tax base gets frozen, and there is no buoyancy in the tax.
- This also leads to wide disparities and inequity in similarly placed properties assessed at different points of time.
- There is uncertainty in what category of assets in the property should be assessed (eg central air-conditioning systems, captive power generation systems).

Administrative deficiencies: Partly on account of the inbuilt deficiencies in the assessment systems noted above, and partly due to poor administrative systems in place, the present property tax systems have the following problems/drawbacks:

- Scope for subjective assessments in a corruption-prone environment.
- Scope for excessive use of discretionary powers leading to possible collusion between the assessor and assessee.
- Non-transparency in the assessment process.
- Self-assessment is not possible, and the onus of annual assessment is on the local body which is required to issue notice of demand every year.
- Higher social costs due to litigation, and consequent delayed recovery of taxes.
- Lack of a systematic computerized database – resulting in a large proportion of the properties being outside the tax net.
- Lack of efficient mechanisms for detecting and follow up on defaulters.

Benefits from reforms: If the reforms are carried out in a comprehensive manner the benefits expected are:

- Increased revenue for the urban local body, and buoyancy in revenues to keep pace with inflation and increased costs.
- Simple to understand, transparent citizen-friendly systems and processes.
- System capable of self assessment and ease of payment by the property owners.
- Lower (possibly almost nil) litigation and associated costs, decrease in revenues locked up for years in litigation.
- Cleaner administration, increasing the faith and trust of citizens in the ULB and councilors.
- Good database and information systems to enable better tax planning and policy making by the ULB.

2. Reform components

Some Policy, Technical and Operational Considerations

Need for Comprehensive Reforms: It must be emphasized that reforms in a property tax system will be successful only if improvements are carried out covering all aspects of property tax administration. The amount of revenue raised depends on the cumulative performance of all processes – identification, valuation, assessment, collection, discovery and enforcement.

The reforms in the property tax systems should therefore cover:

- a. Rate and Base Structure
- b. Valuation and Assessment Systems
- c. Tax Administration
- d. Citizen Interface Mechanisms.

It would be useful to take a comprehensive view at the state level in regard to the deficiencies in the present system of property tax and the reforms needed in each of the above areas. In doing this, learning from best practices from other cities would be useful. The state may consider setting up a suitable Committee/Expert Group to carry out this exercise and give its recommendations. This would also help in highlighting any amendments to existing legislation of the state. The state could decide on which of the reforms would be most cost effective and prioritize the implementation of reforms accordingly.

While a comprehensive reform process is desirable in the long run, there are a number of administrative and system improvements that can be introduced at the local body level, even without setting up a Committee, without waiting for legislative changes and not requiring policy decisions at the State level. Even these reforms can yield considerable increase in revenues. (see Annexure for details) In the context of JNNURM the following should receive priority:

- Putting in place a comprehensive property database (including a GIS system where needed) to ensure complete property mapping and bringing all properties under the tax net.
- Reducing exemptions and increasing coverage, including for slum settlements connected with municipal services.
- Reducing ad-hocism in assessment.
- Putting in place payment systems, including online systems, which will make payment of taxes hassle free.

- Proper system of tracking defaulters, and suitable system of incentives/disincentives to encourage compliance and penalize defaulters.
- Suitable grievance redressal and appeal system to ensure speedy disposal of cases and ensuring that appeal is not used as a forum for tax evasion (appeal to Courts should be allowed only after payment of assessed taxes).

Rate and Base Structure:

- **Basic Tax Rate:** In many municipalities to compensate for the unrealistically low and static assessed annual value, the rate of tax has been increased from year to year, reaching very high levels – even an absurd 120%. Any high rate of tax results in resistance on the part of the citizen, and increased tendency for evasion. Generally one month's rent as property tax would be reasonable. The Act should provide for lower and higher limits for the rate of tax – say 5% to 20%. Within the prescribed limits, the ULB should have the freedom to adjust the rate (without Government intervention/approval) such that the yield is at least sufficient to cover the cost of providing the basic urban services. It should be ensured that there is no intervention by the Government in this matter.
- **Flat rate vs. progressive sliding scale:** The rate could be a flat rate. Alternatively, one could provide for a progressive sliding scale – with properties having a higher annual value bearing a higher rate of tax. [In some states the Act provides for a regressive slab system with higher value properties being charged lower rates. This is not equitable.]
- **Residential/Institutional/Commercial:** One could also distinguish between the use category of the property and properties that are put to non-residential use, or those rented out can be subjected to higher rate of tax. Alternatively the Act could provide for levy of a surcharge on such properties.
- **Exemptions:** In many states the Act provides for several categories of exemptions, which often gives a loophole in the tax structure for avoiding tax. The list of exemptions should be reviewed, and kept to the minimum. And sufficient safeguards should be built in to ensure that the provisions are not misused. Some of these are mentioned below:
 - **Places of Worship:** Only that portion used for religious worship should be excluded. Portions put to residential, office and commercial use should be taxed.
 - **Agricultural Land:** Farm houses should not be exempt. Lawns and gardens in the guise of agriculture should not be exempted. Only lands where actually an agricultural crop is cultivated should be exempt.
 - **Charitable Institutions:** Only those institutions should be exempted which are tax exempt and are providing free service or at a nominal charge. (In many cases schools, colleges, other educational institutions, nursing homes and hospitals, etc. claim exemption on the ground of their being a registered society.)
 - Even when these properties are exempt from tax, a **service user charge** could be levied to cover the cost of certain basic services being provided – e.g, street cleaning, solid waste management, parking, etc.

- **Slum settlements:** A simpler form of tax or service charge could be levied per household per month, and the money so collected could be used to provide basic services in the locality in collaboration with community based organizations in the area.

Valuation and Assessment:

As has been spelt out in Section II, the present system of assessment is not transparent and not capable of self-assessment. It rewards the unscrupulous and penalizes the honest tax payer. It is in this context that the Government of India had recommended adoption of a system which is formula based and capable of self-assessment. Different cities have tried out alternative approaches to introduce a self-assessment system. These may be a capital value based system, a rental value based system or a unit area system based on multiple factors. Each state/ULB should decide which system is most suitable for it, given its local circumstances. (It must be mentioned that JNNURM does not mandate that there should be a change in the system of assessment since this may take a couple of years to finalise and implement. The first priority should be for achieving full coverage of assessments within the existing system and full recovery of taxes.)

Whatever be the basis decided upon the system of assessment should a) be objective based on clearly enunciated parameters; b) be formula based so that it is capable of self- assessment; c) eliminate or at least minimize discretion at the field level; and d) be citizen-friendly. The unit area system is enunciated in more detail below.

- **The unit area system:** The unit area system is a simple arithmetical system of calculation of property tax based on covered area of the building and the unit area value or unit area tax for the category (of locality or amenity, etc.) in which the premises is located through which it is possible for any citizen to self-assess his property tax and file his return form. (This could also be applied to vacant land).
- **Grouping of localities:** In the unit area value system the entire city has to be grouped into somewhat homogenous categories for specifying a unit area value. Such groupings could be done taking into consideration factors like average rental value, average capital value of land, quality of physical infrastructure, availability of social and market infrastructure, type of development, economic classes of occupants, etc. The factor(s) that should be considered should be decided by the ULB taking into consideration local requirements and availability of information.
 - In **Patna**, the city is classified into **three grades** based on **street size**.
 - In **Ahmedabad**, the wards have been grouped into **4 broad categories** mainly on **land value basis**.
 - In **Delhi** 2000 and odd colonies/localities have been classified into **7 categories** taking into account **ten different factors**.
 - In **Hyderabad**, the **average rental value** for each locality, for each type of use has been prescribed.
 - **Karnataka** has been working on a **capital value** based system.
- **Municipal Valuation Committee:** Whatever be the factors that are chosen for the classification, these must be clearly specified in the statute. Further, the process adopted should be objective, transparent and provide for a reasonable opportunity for the tax payers to file objections and be heard. To ensure this it is desirable that a Municipal Valuation Committee be appointed consisting

of experts and persons experienced in urban administration, taxation, and representatives from the local body. The manner of constitution of this Committee, its functions, and the processes that will be adopted to ensure fair consultation with the citizens should be clearly laid down in the statute. (Since this process would take time the State may consider, at the first stage, to incorporate some guidelines in the Rules to ensure greater objectivity in assessment and minimize discretion at the field level.

- **Other factors for grouping of properties:** Different multiplicative factors can be prescribed to adjust the location group-wise unit area value to individual premises level. These factors should also be clearly defined in the statutory frame work eliminating any scope for subjectivity. The factors that could be considered are:

Structure: Pucca, semi-pucca, katcha

Use: Residential, educational, medical, public purpose, industrial, office, commercial, recreational, hotels

Age: On the basis of the year of construction

Occupancy: Rented or self-occupied

Street: On the basis of the category or width of the street on which the property is located

- **Unit Tax or Unit Annual Value:** In a unit area system, one could either fix the tax per unit area for each group, as in the case of Ahmedabad and Patna. In this case: $\text{Tax} = \text{Unit Rate of Tax} \times \text{Area}$.

Alternatively, one can prescribe the annual value per unit area as in case of the Municipal Corporation of Delhi. In this case: $\text{Tax} = \text{URV} \times \text{Rate of Tax} \times \text{Area}$.

The former has the advantage of being simple to understand and easy to apply.

In the latter there is greater flexibility for raising and lowering the tax burden by simply adjusting the tax rate without altering the annual value. Another advantage is the scope for bringing in equity considerations into the tax structure by having a graduated rate of tax or different rates of tax for different types of properties. Owners with more built-up area or higher annual value can be taxed at a higher rate, or some lower cut-off covered area or annual value can be prescribed for levy of tax to give relief to poorer people. The annual value could also become the base for levying other taxes or user charges.

- **Self-Assessment:** In this system individual owners or any other person liable to pay property tax can easily determine their tax liability by calculating the tax as follows:

Step 1 Note the base unit area value (per sqft or sq mtr) for the respective category of locality in which the property is.

Step 2 Annual Value (AV) = Base unit area value (UAV) x Multiplicative factors (f1, f2, f3 etc.) x Covered Area (A)

Step 3 In case the multiplicative factors for the different portions of the property are different then:

Total AV = (AV of portion 1) + (AV of portion 2) + (AV of portion 3) +

Step 4 Tax = (AV x Rate of Tax) minus (rebate/concession applicable)

- **Advantages of Unit Area System:** The above system is objective, transparent, comprehensive and yet simple and equitable. It is capable of self-assessment. The parameters entering the

assessment being clear and measurable there is minimum scope for discretion, and hence chances of litigation are reduced.

Tax Administration:

Substantial improvements in the revenue from tax can be achieved by improving existing administrative and tax information systems in the municipality, many of which may not require legislative change or even large investments.

- **Discovery and Determination of Property Ownership:** One of the greatest deficiencies in most municipalities is the lack of an adequate database giving details of properties. The Indian experience shows that where efforts have been taken to improve the property tax base there has been marked growth in tax revenues—in some cases tax revenues have doubled. This should be given top priority by the ULB. Two basic approaches can be used for this (a) self declaration - where the tax payer is required to provide information; and (b) survey and inventory-where the taxing authority obtains information by field surveys. The information should include name and address of the owner, plot area, built-up area floor-wise, use to which property is put, the year of construction, the type of structure and details of assessment (if already assessed.) It may be necessary to outsource this activity and engage a professional agency. This field survey should be on a 100% basis and in subsequent years updated regularly through periodical surveys and inspections. To some extent, the system of self- declaration can be improved by penalties to induce compliance. To make the system more efficient it is necessary to supplement the self-declaration system by a complete property survey and mapping and a system of periodical field audits.
- **Property Identification Code:** While building up the database mentioned above, it would be useful to introduce a unique number which would identify the property. This may be called the Property Identification Code (PIC). This code could locate the property uniquely in terms of ward, the colony and the block and perhaps floor or flat. The code so developed should be used by all the departments and other government agencies and form part of the statutory regulatory or revenue records. This would help in exchange of information by various authorities, both Central and state, and would help in preventing leakage of revenue. Necessary provisions should made in the Act for this purpose.
- **GIS, Tax Mapping and Computerisation:** In the larger municipalities the database so created should be linked to a GIS system and digitized urban maps. The initial mapping exercise should be outsourced and carried out by a professional firm having adequate experience in this field. But in the long term it is recommended that the municipality set up a fully equipped urban mapping division utilizing modern GIS technologies and be manned by the trained staff. This would serve not only the Revenue Department but also other departments of municipality. This entire database should be computerized so that linkages can be established with other data in the corporation such as building sanctions, trade licenses, as well as *with* the self-assessment and revenue collection data.
- **Onus for Assessment:** Under a self-assessment system the onus for filing property returns on a regular basis and paying the tax within a prescribed time schedule on the basis of the self-assessment should be on the owner. Failure to file the self-assessment should attract a penalty. Every owner shall be required to give information in regard to the change of status of his property by way of completion of structure/addition to the building, change of occupancy or use status or any other such event which shall have an effect of changing the property tax liability.

- **Suppression of Information or Filing of Wrong Information:** A system of self assessment does not absolve the ULB of its responsibility to ensure that all owners come under the tax net. Hence the need for the ULB to have an independent full property database, against which self assessments can be monitored. Where an owner does not give information in regard to his properties as required under the law or where he has furnished wrong information in his self-assessment, he should be liable for a penalty, a penalty, say 30%, on the amount of tax suppressed. The commissioner should have powers of suo moto assessment or revision in cases where a return has not been filed or the return filed by the owner is found to be defective. In all such cases the assessment would be finalized after giving an opportunity to the owner for being heard.
- **Payment of Tax:** It should be the responsibility of the owner to compute the tax due and pay the same according to the schedule of payment notified. A system of payment in quarterly installments could be considered. As an incentive for early payment an owner paying the annual tax within the first quarter could be given a rebate, say up to 15% on the tax paid. To facilitate payment, arrangements should be made for accepting tax through designated banks, collection by the resident associations/group housing societies, and online through municipality websites. Any amount due as tax and not paid within the time frame prescribed should attract an interest of 1 % per month for the period of non-payment of tax.
- **Indexation:** With a view to provide buoyancy, and to take into account the rapid developments and increase in real estate values taking place, revaluation (re-assessment) and change of classification should be done every three to five years. However, often such periodic assessments, even when legislated, are postponed. And when assessments are revised after a large gap of time there is great resistance from the property owners on account of the steep increase in the tax payable. To get over this a provision should be made in the statute for indexation of the assessment on an annual basis tied to changes in the Consumer Price Index of urban non-manual workers or such any other suitable index Which captures changes in real estate (rental) values. This will provide the requisite buoyancy in revenue on a regular basis.
- **Agency for Administration of Tax:** It is considered that to improve the efficiency of tax the municipality could utilize the services of citizens welfare associations, banks or other agencies, including any private sector agency to:
 - maintain and administer the property, assessment and collection data base.
 - collect the tax and deposit the same with the corporation.
 - carry out any other tasks for better administration of property tax as may be passed by a resolution of the standing committee.
- **Monitoring and Enforcement:** While most of the Acts have adequate provision for enforcement and collection of tax, the system in actual practice of monitoring tax returns and payment is woefully inadequate. Suitable strengthening of the enforcement processes and revenue intelligence mechanisms would yield higher realization of tax dues. A suitable system of incentives/disincentives to reward honest and prompt tax payers and penalize defaulters should be put in place. Any appeal to a higher Court of Law should be permitted only after the tax as assessed has been paid by the assessee, so that appeal is not used as mechanism for tax evasion or delay.

Citizen Interface Mechanisms:

Greater acceptance of reforms and better compliance can be accomplished by paying attention to the interface between the local administration and the citizen. Some areas are suggested below:

- **Stakeholder Consultations:** At every stage of consideration of the reforms and in the development and design of the new system, wide ranging consultations with all stakeholder groups is necessary to ensure that the reformed system meets the requirements of all groups, and is acceptable to them. The groups should include resident associations, market associations, groups of special users (eg, schools, hospitals), political leaders, media and officials implementing the system.
- **Consensus Building:** Once a system is designed getting necessary approvals at the municipal and government level, it would require a well thought out strategy for consensus building. Often resistance to change comes from officials, councillors and commercial property owners who have vested interests in the status quo. Formal presentations and informal consultations with opinion leaders and ways to address their concerns are vital for successful implementation. In this, media can play an important role if they are coopted into the awareness building process from the beginning.
- **Citizen Education and Awareness:** During the period of design of the system citizens should be made aware of the reasons for the reforms, what is being planned and the advantages of the new system. Our experience shows that citizens are not averse to paying higher taxes provided they feel that the new system is equitable and fair, is easy to understand and to comply with. And they have the confidence that the increased revenues will be invested to provide better services. Once the new system is brought into force a series of brochures, pamphlets, newspaper articles simply worded should be brought and widely distributed to educate the citizens on their responsibilities and explain clearly the modalities of operation of the new system.
- **Transparency and Easy Access to Information:** The details of the returns as furnished by the owners and suo moto or revised assessments should be made accessible to any citizen, who wishes to see such information. It would be useful if this information is also accessible through the website of the municipality or copies made available at cost on request. Such details could also be made available to each resident association with reference to its residential locality. Any person who has reason to believe that the return filed by the owner does not portray the actual facts could then bring this to the notice of the commissioner. [This would be one useful channel of intelligence information on evasion] The property owner should also be in a position to get information on the status of demand and payment in respect of his property, preferably on line. Return forms, challans for payment, ready reckoner regarding rates, explanatory brochures should be available on the website and also at the ward offices.
- **Grievance Redressal and Appeal:** At present in many municipalities considerable numbers of appeals are pending in Court and it takes a long time for settlement. With a formula based self-assessment system as proposed it is expected that such grievances will be substantially reduced. To get over teething problems in the first year of implementation of reforms it may be advisable to appoint an Anomalies and Hardship Committee to hear grievances, objections and make recommendations for improvements/modifications in the system.

Further the Act could provide for the designation by government of an officer to be the Grievance Redressal officer who could be approached by any citizen aggrieved by an assessment order of the

commissioner. With a view to ease and expedite the appeal process it is recommended that a Municipal Taxation Tribunal be constituted to hear appeals against levy or assessment of any tax under the amended system.

- **Citizen Friendly Systems:** The property tax system as well as any associated forms, educational materials, manuals, and the payment and information systems should be designed so that these are easily understood even by a lay person, is citizen friendly and can be easily used by the common citizen. This definitely helps in greater acceptability and better compliance.

3. Steps in implementing the reform

We briefly give below the steps that need to be taken in designing and implementing the reforms:

- **Data Collection and Mapping:** Lack of property data and digitized maps makes the work of any Reform Committee very difficult. So one of the first tasks to be undertaken by the ULB should be to engage a professional firm to gather data on the properties in the city. Some data would be available in the local body and in associated departments. But detailed property data will have to be collected by a house-to-house field survey. Some sample surveys would be needed to support the analysis by the Expert Group. In bigger municipalities a professional firm should also be appointed to prepare a digitized city map using GIS, and link the same to the property data. On a parallel basis a computerized property tax system should be put in place and the survey data and GIS maps would provide the base data.
- **Setting up Expert Group/Committee:** Appoint an Expert Group or Committee which can study the existing system, analyse problems, look at other best practices and design a system suitable to the state/municipality. The chairperson of the Committee should preferably be a senior person who has had considerable years of experience in urban policy, finance or taxation. The other members should possess sufficient experience in any of the areas of finance, taxation, urban planning/administration or municipal management. One of the members should have sufficient legal background and be familiar with taxation law and connected case law.
- **Consultative Process and Consensus Building:** The process of consultation should start right from the early months. This should involve the standing committee, corporators, MLAs and other political VIPs, Taxation department officials, RWAs, market associations, special interest groups, media, and the general public (through a public notice) and public hearings.
- **Grouping and Classification:** We have dealt with this earlier. This will require setting up of a MVC, consultations, experts, taxation assessment staff, engineering and planning staff, and finally issuing a public notice and hearing public objections and disposing of the same. This process is important to ensure that the system passes judicial scrutiny.
- **Designing of the System:** While designing the system keep in mind the need for making it objective (to minimize the scope for corruption and harassment) and to make it simple to understand and citizen-friendly.
- **Computer Simulation and Fixing Base Rates:** Once the property database is ready one can use this to conduct simulations for analyzing revenue outcomes and tax incidence on different groups, and for input into the decision making of fixing the base rates and multiplying factors.

- **Public Notice, Hearings and Amendments:** The final scheme, including the grouping of localities, base rates and other parameters, should be made public and objections called for and considered and the scheme finalized.
- **Municipality and Cabinet Approval:** The scheme as finalized would then need to be cleared by the Municipality and the State Cabinet for adoption.
- **Amendment Legislation and Rules:** In the event of amendments being required in the relevant sections of the Municipal Act, the amendment process will have to be gone through. This will require the following steps:
 - i **Government constitutes a Legislation Drafting Committee.** This should be chaired by the person chairing the Expert Group Committee. It should have some of the members from the Expert Committee and a suitable senior officer from the legislative drafting division of the Department of Law of the state government, the legal officers of some of the big municipal corporations and municipalities, and one or two legal counselors/advocates having knowledge of taxation laws.
 - ii **Hold a Preparatory Workshop.** This workshop should include representatives at the highest policy making level from the political and the bureaucratic side of the concerned departments of the state and mayors, and select councillors from the major urban local bodies. This workshop will deliberate on:
 - . policy objectives for introduction of the reforms.
 - . reform initiatives in other states – the pros and cons in the context of the state.
 - . case law related to taxation of lands and buildings.
 - . shortcomings and deficiencies in the existing property tax legislation and system.
 - . preliminary recommendations of the Expert Committee on the design parameters of the new system.
 - iii **Finalize Policy Agenda:** The Drafting Committee will meet to discuss and finalize the policy agenda which will cover the following:
 - . the design parameters of the proposed area based system.
 - . rational basis for and factors for classification of premises to be assessed.
 - . the procedure to determine unit area values of lands and buildings.
 - . institutional mechanism for transparency, objectivity and regularity in the above valuation process.
 - . procedures and organizational set up for citizen interface, grievance redressal and appeal.
 - . limits and reasonableness of the tax levied.
 - . government-urban local body interface and protection against excessive delegation.
 - . systems for Tax mapping including Unique Premises Numbering System.
 - iv **Finalize Paper on Legislative Intentions:** The Drafting Committee will meet to discuss and finalize a detailed paper which will set out the policy objectives and legislative intentions of the amendment. This will clearly set out the purpose of each amendment and seek decisions
 - v **Approval of Policy Agenda and Legislative Intentions:** The Municipal Affairs Department will seek the formal approval of the Policy Agenda and broad changes in the law proposed at the political levels of the government and the major urban local bodies concerned.

- vi **Preparation of First Draft:** In close association with the drafting division of the government the Committee will deliberate on and prepare the first draft of the amending legislation for amendment of the Chapters relating to taxation and rates; payment and recovery of taxes; appeal. This will be sent to the Law Department for vetting.
- vii **Preparation and Submission of Final Draft:** Having regard to the comments of the Law and other concerned Departments of the state government the final draft of the legislation will be prepared with notes on clauses, and a draft covering the policy note. This will be sent to the Department of Municipal Affairs for formal approval by the Legislative Assembly. The Committee could play a supportive role in ensuring smooth passage of the bill.
- viii **Draft and notify Rules and Regulations:** The Drafting Committee may appoint a small group to finalize the rules and regulations. These could be approved by government and notified once the Act has obtained assent of the Governor and been notified.
- ix **Undertake Pilot Project for Demonstration:** After notification of the Amendment Act, and framing of necessary Rules and Regulations, the Municipality may choose to undertake a pilot project for demonstration of the operation of the system in any ward or group of wards. This may help in ironing out any teething problems or field level problems in implementation and help in easier public acceptability for citywide implementation.

4. Measuring Achievement/Outcomes

To judge the efficacy of reforms and monitor progress the following parameters could be considered:

- **Coverage:** Number of properties in the assessment register, number of new assessments during the year, and number of properties assessed as % to the number of properties in the city. The target should be reach 100% coverage over a five-year period.
- **Tax Mapping:** Properties covered by the GIS mapping and field survey, targeted, achieved - during the year and cumulative in the reform period. Number of properties and covered area, ward-wise and use category wise.
- **Demand:** Current demand, arrears demand, % increase in current demand year-wise.
- **Collection:** Current and arrears collection separately, and % to demand year-wise. The target should be to reach a minimum of 85 % collection efficiency.
- **Tax Revenue:** Revenue from tax as a percentage of total revenues of the municipality, and trend over the years.
- **Enforcement:** Number of cases of evasion/suppression detected, amount of suppressed revenue/penalty recovered, number of cases pending in court, additions in the year, disposed off, revenue locked up in pending cases, revenue collected from case disposed off.
- **Grievances:** Number of grievances received from the public, number disposed off/pending, average response time for settlement of the grievance.

**SUGGESTED ACTIONS BY ULB's and STATE GOVERNMENTS
For Improving Revenues from Property Tax**

Actions that can be taken without legislative changes

❖ By the Municipality/Corporation

- Property Survey, Tax Mapping and GIS to ensure full coverage. This exercise could also cover reassessment of under-assessed properties.
- Improvement in the Property Data Base, and MIS. While creating the data base the system of assigning a Property Identification Code (PIC) could also be implemented,
- Computerization of the Property Tax system (this should be an important component of the E-Governance reform) The first phase could be to computerize the process of issuing demand notices, billing, collection and issuing receipts, and preparing DCB statements.
- Improving the Monitoring, Compliance and Enforcement systems.
- Issuing guidelines within the existing framework for ensuring greater objectivity and uniformity in assessment by field officers (reducing scope for harassment of assesses.) On this basis property owners maybe called upon to file self assessments, within existing legislative framework.
- Improving the Collection systems and making them user friendly -- providing for longer and flexible timings for collection, different options for payment, including payments through banks and online.
- Calling for Property Information, required for area based assessment systems, from property owners, through a public notice.
- Changing tax rates within existing structure, and imposing higher rates of tax on commercial and other non-residential use.
- Reforming the grievance redressal mechanism for becoming more responsive and ensure speedier disposal of complaints/representations.
- Holding periodic Tax Adalats to settle longstanding disputed cases and grievances, and special collection drives wardwise or zonewise.
- Having greater transparency in rules and procedures, basis of assessment, collection status and other information needed by property owners.
- Outsourcing of various services to improve efficiency and cost effectiveness in the assessment, collection, monitoring and information systems.
- Initiating the ward (locality) grouping exercise and revenue simulation exercises needed for introducing a formula based self assessment system.
- Initiating stakeholder consultations, citizen education awareness and building consensus for reforms.
- Communicating to the State Government, deficiencies in the existing system and areas in which Government would need to give policy directions or bring about legislative changes.

❖ By the State Government

<ul style="list-style-type: none"> • Model terms of reference and standard bid documents for RFP's for property survey, tax mapping, GIS, computerization. And shortlist of firms that qualify for bidding for such consultancies and outsourcing.
<ul style="list-style-type: none"> • Framework under E-Governance initiative for the property tax component and proper guidelines to enable ULB to call for bids for computerization.
Actions that would require legislative change
❖ By the Municipality/Corporation
<ul style="list-style-type: none"> • Appointing the Municipal Valuation Committee and getting their report.
<ul style="list-style-type: none"> • Adopting any new formula based assessment system, as per the amended Act.
<ul style="list-style-type: none"> • Notifying the grouping of localities and unit area values based on recommendations of the MVC.
<ul style="list-style-type: none"> • Approving the final scheme, locality classification and unit area rates for adoption.
<ul style="list-style-type: none"> • Making self assessment compulsory, and calling for self assessments through public notice.
<ul style="list-style-type: none"> • Notifying other changes in the property tax systems introduced by the amended legislation.
<ul style="list-style-type: none"> • Appointing a Committee or Group to examine and dispose off representations of hardship and anomalies arising from the new systems.
<ul style="list-style-type: none"> • Undertaking a public awareness and education programme for familiarizing assesses with the new systems.
❖ By the State Government
<ul style="list-style-type: none"> • Changes in Rate Structure. Eliminating/reducing exemptions.
<ul style="list-style-type: none"> • Guidelines on structure and responsibilities of MVC.
<ul style="list-style-type: none"> • Change in assessment system – introduction of some form of formula-based self assessment.
<ul style="list-style-type: none"> • Penalties for non compliance, non filing or wrong filing of returns, non (or delayed) payment.
<ul style="list-style-type: none"> • Indexation of assessment and tax payable
<ul style="list-style-type: none"> • Appeal mechanism for speedier disposal of appeals.