

**International Studies Program  
Working Paper 06-44  
December 2006**

**Is Area-Based assessment: an  
alternative, an intermediate step,  
or an impediment to value-based  
taxation in India?**

UA Vasanth Rao





**International Studies Program  
Working Paper 06-44**

**Is Area-Based assessment: an alternative, an  
intermediate step, or an impediment to value-  
based taxation in India?**

**UA Vasanth Rao**

**December 2006**

International Studies Program  
Andrew Young School of Policy Studies  
Georgia State University  
Atlanta, Georgia 30303  
United States of America

Phone: (404) 651-1144  
Fax: (404) 651-4449  
Email: [ispaysps@gsu.edu](mailto:ispaysps@gsu.edu)  
Internet: <http://isp-aysps.gsu.edu>

Copyright 2006, the Andrew Young School of Policy Studies, Georgia State University. No part of the material protected by this copyright notice may be reproduced or utilized in any form or by any means without prior written permission from the copyright owner.

## **International Studies Program Andrew Young School of Policy Studies**

The Andrew Young School of Policy Studies was established at Georgia State University with the objective of promoting excellence in the design, implementation, and evaluation of public policy. In addition to two academic departments (economics and public administration), the Andrew Young School houses seven leading research centers and policy programs, including the International Studies Program.

The mission of the International Studies Program is to provide academic and professional training, applied research, and technical assistance in support of sound public policy and sustainable economic growth in developing and transitional economies.

The International Studies Program at the Andrew Young School of Policy Studies is recognized worldwide for its efforts in support of economic and public policy reforms through technical assistance and training around the world. This reputation has been built serving a diverse client base, including the World Bank, the U.S. Agency for International Development (USAID), the United Nations Development Programme (UNDP), finance ministries, government organizations, legislative bodies and private sector institutions.

The success of the International Studies Program reflects the breadth and depth of the in-house technical expertise that the International Studies Program can draw upon. The Andrew Young School's faculty are leading experts in economics and public policy and have authored books, published in major academic and technical journals, and have extensive experience in designing and implementing technical assistance and training programs. Andrew Young School faculty have been active in policy reform in over 40 countries around the world. Our technical assistance strategy is not to merely provide technical prescriptions for policy reform, but to engage in a collaborative effort with the host government and donor agency to identify and analyze the issues at hand, arrive at policy solutions and implement reforms.

The International Studies Program specializes in four broad policy areas:

- Fiscal policy, including tax reforms, public expenditure reviews, tax administration reform
- Fiscal decentralization, including fiscal decentralization reforms, design of intergovernmental transfer systems, urban government finance
- Budgeting and fiscal management, including local government budgeting, performance-based budgeting, capital budgeting, multi-year budgeting
- Economic analysis and revenue forecasting, including micro-simulation, time series forecasting,

For more information about our technical assistance activities and training programs, please visit our website at <http://isp-aysps.gsu.edu> or contact us by email at [ispaysps@gsu.edu](mailto:ispaysps@gsu.edu).

# *Is Area-Based assessment: an alternative, an intermediate step, or an impediment to value-based taxation in India?*<sup>1</sup>

**UA Vasanth Rao**<sup>2</sup>

*Commercial Taxes Department, Bangalore*

## **Abstract**

The paper highlights the dilemma faced by the policy makers in reforming the property tax system in Indian cities. The prevailing property tax system suffers from three major shortcomings. First, taking the tax base in terms of the gross annual rental value linked to the term 'reasonable rent'. The term 'reasonableness' is ambiguous and does not bear any relationship to the prevailing market rents. This has led to myriad interpretations benefiting neither the taxpayer nor the local governments. Second, in the absence of an organised property and real estate market in rental and sale transactions valuation becomes arbitrary and judgmental and this also creates scope for significant undervaluation. Finally, discretion and judgement in the assessment of the tax gives rise to administrative problems of laxity and collusion in tax administration.

The early 1990s saw the beginning of property tax reforms when several local governments made serious attempts to switch over to an area-based system of assessment. The new experiments succeeded to a considerable extent in imparting a measure of realism to valuations and substantially increased the revenue productivity of the tax. Notwithstanding the relative success of area-based property tax system, there is still considerable undervaluation of properties as compared to market rates. Therefore, to evolve a system to have the base closely reflecting the market rates is still germane.

---

<sup>1</sup> Paper presented at the Conference on "Making the Property Tax Work in Developing and Transitional Countries" Stone Mountain, Georgia, Atlanta

<sup>2</sup> Deputy Commissioner and Special Officer, Fiscal Policy Analysis Cell, Finance Department, Government of Karnataka

## **1. Introduction**

The India, the 74th amendment to the Constitution has accorded recognition to the urban local bodies as independent local self government units. It is the third tier in the Indian democratic federal structure. As independent democratic self government institutions, for reasons of accountability and incentives, linking of revenue and expenditure decisions at the subnational levels is extremely important and therefore, local governments should have definite revenue assignment. In keeping with the above principle, urban local governments in India can raise revenues mainly from taxes on land and immovable property, user charges and fees. Of these, property tax is the principal source of revenue, though in some states, the tax on the entry of goods into a local jurisdiction for consumption, use or sale called Octroi is important. Property tax with relatively immobile base and in many ways taking the nature of a benefit tax is ideal tax base to be assigned to local self-governments. Despite being an ideal local revenue base, the revenue from the tax for urban local bodies in India, like in other developing countries, would be inadequate (Bahl 2000). What is even greater concern, the tax has ceased to be a productive revenue source due to many administrative, legal and procedural inadequacies and the growth of revenue from the tax is not commensurate with increasing prices of urban immovable properties. (Bagchi 1998). It is thus a paradox that even as Indian urban economy contributes over 55% to the country's GDP, the municipal revenues account for a paltry 0.6%. (Rao and Ravindra, 2002)

In India, as in most developing and transitional countries around the world, urban local governments (ULBs) find themselves fiscally constrained. An important reason for this is inability to raise adequate revenues by urban local bodies from their principal own revenue source, finance their urban local services by raising revenue from property tax, which is principal source of own revenue, is remote as the property tax administration is besieged with a host of administrative problems. Many properties that should legitimately form a part of the tax base are excluded, those that are included are significantly under assessed, and even the assessed tax revenues are not collected properly. Adding to the administrative problems are the legal constraints that link the tax base to the rent control laws and prescribe that the rental values once fixed cannot be revised. The problems arising from the rent control are briefly discussed in the next section of the paper. What is true of property tax administration is, by and large, true of

other local taxes<sup>3</sup> and user charges<sup>4</sup> as well. These problems of local governments seem to be true of most developing countries making the local governments to depend heavily on subventions from higher-level governments with adverse consequences on fiscal autonomy as well as incentives and accountability.

This problem is not the creation of local bodies alone. Higher-level governments, due to political compulsions, have failed to support the local governments in undertaking effective reforms. Given the sociology of fiscal politics and the politically powerful special interest group of property owners, the higher level governments find it useful to give subventions rather than motivate the local governments to undertake reforms to raise revenue productivity. In fact, the states requiring the local governments to get the approval for undertaking revision of rates and reforms, and in some cases prescribing the ceiling tax rates on local taxes is a case in point.

With the onset of tax reforms in India from 1991, a number of State governments made legislative amendments and undertook policy initiatives to reform municipal finances including the property tax system as well. The 74<sup>th</sup> Constitutional amendment in 1992 gave a constitutional status to the urban local governments and provided them with a framework for institutional and regulatory reforms. The amendment further devolved additional administrative and fiscal functions to the ULBs making them responsible to devise their own strategies to improve public service delivery and find ways and means to finance these services.

Though the spirit behind the 74<sup>th</sup> Constitutional amendment is yet to be realized by the ULBs in adequate measure, due to lack of clarity in the assignment of financial resources and functional devolution between the States and the municipal governments, many ULBs have initiated reforms to improve their fiscal position especially the property tax handle assigned to them under Entry 49 List II of the Constitution of India. The major initiatives taken in this regard by urban local bodies include consolidation of tax administration by introduced area based assessment, to minimise under valuation of property, better enforcement, and computerization of the billing

---

<sup>3</sup> Some local government in the country are assigned Profession Tax and Entertainment Tax.

<sup>4</sup> Local governments are entitled to collect user charges for solid waste management cess, infrastructure cess, water cess, education cess, library cess, etc. Though several State governments have legislated several innovative user charges, many local government have simply not implemented due to weak administration and political interests.

process to ensure prompt realization of the tax.

To increase the valuation of the properties many ULBs have made simple changes in the law to derive the valuation by using a pre-determined rental value on a combination of factors relating to physical characteristics of the property such as the built up area, type of construction, location and use. These factors formed the basis for the area-based assessment of property. Unlike the earlier assessment to arrive at the rateable value, the area-based method had no relevance either to the actual or presumptive rent. This method to arrive at the valuation of the property for property tax was perhaps chosen by the ULBs as the term 'rental' was easier to make the taxpayer understand the area-based valuation in 'rental terms' rather than to shift to a totally different base—the capital valuation. This is what some ULBs like Patna, Ahmedabad, Bangalore, Pune, Delhi, Mirzapur and Hyderabad have tried to do, which showed immediate and substantial increase in property tax assessment and collection. The revenues in all these cases increased between 40-60 percent. It is also reported by all these cities that the assessment coverage under this taxation scheme was between 60-70 percent and if the coverage were to be complete the net tax increase would go up by over 100 percent, besides additional revenue, each year from new properties added to the assessment rolls. (Rao & Ravindra 2002)

Notwithstanding, the relative success of the area-based assessment system, it has come in for some serious criticisms. Notable among them is from Bagchi, Jha, Datta and Bahl<sup>5</sup>. The main objection to the hybrid system is the concern regarding the subjective manner of assigning weights to factors such as location, type of usage, quality of construction and so on. It is argued that under the system devised, it is difficult to have a workable and fixed revaluation schedule embedded to have a measure of certainty and ensure elasticity of revenue from the property tax. In the area-based system, it is further argued that except for the tax rate, all other factors remain constant and this will depress the buoyancy of the tax over a period of time. The advocates<sup>6</sup> of the hybrid system, however, maintain that area-based assessment, being verifiable will not be amenable to any manipulation or abuse since it uses pre-determined standards of rental value

---

<sup>5</sup> Amaresh Bagchi "Reforming the Property Tax Base:Need for a new Direction" EPW November 22, 1997, Jha Gangadhar : Case Laws on Property Tax and Implications for Reforming the Tax Base (2002) Datta Abhijit Datta Rent Control Law and its effect on Property Tax in India (2002) Roy Bahl Comments on the Property Tax Reforms of Bangalore (2002)

<sup>6</sup> RM Kapoor, Area Linked System for Property Tax Reform in India, Dr. A. Ravindra, Reforming the Property Tax "Self Assessment of Property Tax" – Bangalore, PU Asnani Reforming the Property Tax- Ahmedabad

which in turn is linked to physical characteristics of the property, its location and use. It is further argued that the location factors for determining standards of rental rates has reasonable relationship to guided value of property adopted by the Land Registration department. Furthermore, the cost of construction is based on the valuation principles of the Public Works Department. Since the parameters are linked closely to the guidance value for land that is issued periodically by the Land Registration department, the weights assigned for each of these factors are amenable to change during revision to ensure higher buoyancy of property tax.

In contrast, the advocates of the capital value system in the country, notable, Rakesh Mohan<sup>7</sup>, Bagchi, Gangadhar Jha<sup>8</sup> and Abhijit Datta<sup>9</sup> have argued that the area based system does not link the tax to a base that is generally understood and secondly the tax base has limited scope for expansion since it is linked to rent and other factors rather than the market value of the property. A properly devised capital value base, it is argued, would serve to capture the essentials of a property tax.

The area-based assessment experimented by the cities appear to be an immediate and acceptable solution to the chronic problem of undervaluation and low and stagnant tax base. However, tax reforms can not be static and although the reform at introducing area based system has helped to increase revenues, it is important that this should be taken as a transitional measure and next steps in reform should be to move towards having the tax base more amenable to standardization and responsive to changes in the market values of properties.

This paper starts with a discussion on the existing system and its linkage with rent control. In Section 3 a brief account of the reform initiatives attempted in several States is discussed. Section 4 discusses the direction to move to the next level of reform. Section 5 concludes.

---

<sup>7</sup> Indian Thinking on Property Tax Reform (1983) See in Abhijit Datta's Property taxation in India, IIPA, New Delhi

<sup>8</sup> Enhancing Municipal Fiscal Capability: Issues in local Resource Mobilization, NIUA (1988)

<sup>9</sup> Rent Control and Municipal Property Tax Base: Reform Attempts in India (1998)

## **2. The effect of Rent Control on Property Tax**

Extensive studies have been made on the problem arising out of the legal nexus between rent control and rental valuations of property tax. ( NIPFP, 1981; Datta 1983; Kapoor 1990; 2002; Bagchi, 1997, Jha (2002), Rao and Ravindra (2002) and Karnik and Pethe (2003). It would however be of interest to discuss briefly how judicial pronouncements came to link the term 'Annual Rateable Value' to the term 'rent' contained in the Rent Control Act and how a series of judicial pronouncement led to the emergence of the area-based valuation system that is in vogue in India.

During the British rule, many municipal bodies<sup>10</sup> in India levied tax on land and buildings and had termed this levy as 'rate'. This term 'rate' can be traced to the Valuation (Metropolis) Act (1869) enacted in England. This Act appears to be the source code for arriving at the assessable value of a property, not just in England but also in its colonies. In this Act for the first time, the terms like 'Ratepayers', 'Gross Value' and 'Rateable Value' were used and defined. In fact, these terms still continue to be used in more or less the same form in many of the municipal legislations in India. An analysis of the legislative history and the commentary<sup>11</sup> on this Valuation (Metropolis) Act reveals that the term 'Rate' always had the meaning of a tax on annual value or rateable value of land or building and that the annual value or rateable value was arrived at by three norms, namely, either by actual rent received for land or building or presumed or hypothetical rent if the land or building was not let out, or if these two situations were not applicable, then a residual clause, by valuation based on capital value of land and building, from which annual value was derived. On the value so derived by any of the three methods, the tax rate was applied to arrive at the tax payable.<sup>12</sup> These three norms formed the basis on how to arrive at the annual rateable value in Rating and Valuation Act (1925), which replaced the Valuation (Metropolis) Act of 1869.

---

<sup>10</sup> The concept of levying property tax was introduced in 1884 with Bengal Municipal Act 1884, Madras Municipalities Act 1884, Bombay Municipalities Act 1888, Calcutta Municipalities Act 1889, North Western Provinces Oudh Municipalities Act 1900, Bombay District Municipalities Act 1901, Central Provinces Municipalities Act 1903, Punjab Municipalities Act 1912.

<sup>11</sup> Faraday, Philip Michael "Rating: Principles-Practice - Procedure" 5<sup>th</sup> Edition page 165 Ryde, Walter Cranley: The law and practice of rating: both within and without the metropolis.

<sup>12</sup> This issue is discussed at length in the case of Gordhandas vs. Municipal Commissioner (AIR 1963 SC 1742) wherein the court has referred to the Principles of Rating of Faraday and Ryde.

In keeping with the Valuation (Metropolis) Act of 1869, most Municipalities Act in India refer annual rental value to mean the rent actually received or the rent which a hypothetical tenant may reasonable be expected to pay, if the property is let out. In the initial years there was no difficulty in the interpretation since by convention 'reasonable rent' meant the potential earning capacity and for self-occupied properties, it connoted comparable prevailing rent for similar properties (Jha 2002). Such convention was accepted in the very first case decided by the Madras High Court in 1887 followed by the decision of the Calcutta High court (1923). The courts thus interpreted the concept of reasonable rent to mean the prevailing market rent. Therefore, on the face of it and with judicial interpretation supporting the convention, the rental valuation system should have helped to ensure equity in property tax as all classes of property would come under uniformly applied principles (Bagchi 1997). But the ground realities were different from the concept. It was not too long before there emerged widespread practice of concealing the true consideration for letting out a property through all kinds of devices to severely distort the rental market and further the Rent Control Act enacted in 1918 exacerbated this distortion. In a distorted rental market thus created, the earlier belief that annual rental value meant the rent actually received or the rent which a hypothetical tenant may reasonable be expected to pay, was again put to legal test whether, in the distorted market, this old convention would still hold good.

What perhaps set in motion serious legal discussions for the first time on property tax laws was the ruling of the Supreme Court in the year 1962, when the court interpreted the concept of Annual Rateable Value while delivering judgment in the case of Corporation of Calcutta vs. Smt. Padma Debi<sup>13</sup>. The Supreme Court held that where municipalities are governed by the Rent Control legislation it is *not the actual rent or rent receivable from hypothetical tenant which has to form the base for determining Annual Rental Value (ARV)* but the *standard or fair rent which has to form the basis for determining the Annual Rental Value*. This interpretation of the highest court, overnight diluted the property tax base with disastrous impact on the property tax revenue. The earlier concept of 'reasonable rent' to mean 'market rent' had to be completely disbanded since the Rent Control Act made it illegal for any person to demand or receive rent in excess of the standard rent or permitted revision of rent once fixed under the said Act. The ruling in this case was carried forward in successive judgments to a situation where even when the rent was not

---

<sup>13</sup> Reported in 1962 (3) SCR 49

fixed by the rent controller, it was unlawful for the landlord to let out his property at rents higher than the 'Standard' prescribed in the rent control legislation. Angadi (1990)<sup>14</sup> has aptly summarized this legal quagmire " There has been a marriage, as it were, between the principles of rating and restrictions imposed by the Rent Acts. To effect a separation between the two sets of principles would create an imbalance, which would be manifestly harmful. It would indeed seem more appropriate to say that the marriage has become indissoluble'

Some relief from Padmadevi's case came from two other cases<sup>15</sup> where the Supreme Court interpreted specific conditions contained in the taxing statute in the Municipality Act. In some Indian States, the property tax statute contains a *non-obstante* clause like "notwithstanding anything contained in any other law for the time being in force, be deemed to be the annual rent for which such land or building or premises might reasonably be expected to let from year to year" with reference to its use. The Supreme Court after examining this *non-obstante* clause held that fair or standard rent as the ceiling for fixing Annual Rental Value is not applicable where the Municipal Acts contained the *non-obstante* clause. Thus, this case distinguished the judicial principle evolved in Padmadevi's decision.

This judgment no doubt gave a shot in the arm for the municipal tax authorities to steer clear of rent control laws, with the help of *non-obstante* clause in their laws. But the Supreme Court in another case<sup>16</sup> expressed doubt in the applicability of the *non-obstante* clause. The court observed " it is rather difficult to see how the *non-obstante* clause in that section can possibly affect the interpretation of the words annual value of any building shall.... be deemed to be the gross annual rent at which such building might....reasonable be expected to be let from year to year.' In yet another later decision<sup>17</sup> of the Supreme court re-affirmed the applicability of the *non-obstante* clause by stating "..... we feel compelled to express our doubts as to the soundness and continuing relevance of the view taken by this court in several earlier decisions that the property tax must be determined on the basis of fair rent alone regardless of the actual rent received." With the Supreme Court itself giving divergent interpretations on the subject, it is therefore clear that to continue to retain the rental value as the base for property tax would always keep it open

<sup>14</sup> Angadi DB : Civic Property Tax (1990)

<sup>15</sup> These cases are Municipal Corporation vs. Ratna Prabha (1976) 4 SCC 622, Indian Oil Corporation vs. Municipal Corporation (1995) 4 SCC 96

<sup>16</sup> Dewan Daulat Rai Kapoor Vs. New Delhi Municipal corporation 1980 (2) SCR 607

<sup>17</sup> SK Jituri Vs. Coproration of Belgaum (1994) 5 SCC 572

for fresh legal challenges and hence there was a need to move to a different base away from the annual rental valuation method. In fact in Ratnaprabha 's case, the Supreme Court, after going through the various decisions rendered on the subject, observed that a time had come to move out from the rental valuation principle to a simple and transparent system.

Moving out from the rent control clutches experiments were undertaken by a few States, which changed the method of valuation of property to an area-based, which the Supreme Court upheld on a totally different footing. The area-based valuation for the levy of property tax could not sustain the judicial scrutiny in the initial stages. The Supreme Court in the case of Lokmanya Mills vs. Barsi Borough Municipality<sup>18</sup> and N.M.C.S. & W.Mills vs. Ahmedabad Municipality<sup>19</sup> deliberated the issues in detail. In the first case, Rules were found to be invalid since the parent Act did not permit adoption of such a valuation. In the second case, it was found to be discriminatory in nature and against Article 14 of the Constitution.

The above two infirmities were found to be appropriately cured in the case of State of Bihar Vs. S.K.Sinha<sup>20</sup>. In this case, the State Government framed Rules by classifying properties on area-cum-use-cum-construction type and applied certain percentage of rates per square foot of the carpet area for determining the Annual Rental Value. This case was challenged before the Bihar High Court, which held the legislation to be arbitrary and unconstitutional. On appeal, the Supreme Court upheld this method of determining Annual Rental Value observing that “while putting the method of determination of Annual Rental Value on a more uniform basis eliminating room for arbitrariness and corruption, the corporation has substantially reduced the rate of tax. We are unable to see any room for legitimate grievance on this account”. This decision has provided the much-needed elbow room for the municipalities to adapt the Patna’s model and help increase their revenue.

---

<sup>18</sup> AIR 1961 SC 1358

<sup>19</sup> AIR 1967 Sc 1801

<sup>20</sup> AIR 1995 SC 885

### 3. The reform initiative: The area-based valuation

Though some of the judgment of the Supreme Court discussed in the previous section did favour revenue by interpretation the *non-obstante* clause, the revenue, due to poor tax administration could not take the advantage to improve the tax yield by de-linking the tax assessment from the Rent Control laws. The practice of concealing the true consideration for letting out properties being widespread and further the official discretion and their arbitrary nature of assessment frustrated any possible reform in the existing rental valuation system. The search for an alternative method for valuation of property led municipal administrators to consider area-based valuation for taxation of property.

In India the idea of area-based property tax valuation was for the first time advanced by Kapoor<sup>21</sup> (Bagchi, (1997)). Kapoor in his article advanced the possibility of valuation of property by zoning the properties into different categories and to levy tax on the extent of the built-up area. This area-based approach was further refined by Ramakrishna<sup>22</sup>. While agreeing with Kapoor's proposal of area-based taxation, Ramakrishna doubted whether it would be prudent to restrict the levy of tax with reference to the plinth area only<sup>23</sup>. In order to provide some semblance of equity, he suggested adding a combination of factors like location of the property, type of construction, usage and the age of the building. In order to make the added criteria for valuations transparent, it was suggested that the municipality should publish the zonal classification of properties and also how to calculate the tax applicable to the property depending on their location, type of construction, built-up area, use of the property and the age of the building. With published rates it was argued that the official discretion would be eliminated. To ensure elasticity, they had suggested periodic revision of the rates for each of the factors. Subsequently, in 1990, Kapoor, prepared a draft bill for the implementing the area-based system<sup>24</sup>.

While the appropriateness of the draft proposal of Kapoor was still being debated, Patna Municipal Corporation went ahead and implemented the areas-based valuation linking valuation to the norms of location, usage, built-up area and type of construction. The total area of the town

---

<sup>21</sup> Kapoor RM Finances of Calcutta Corporation: Problems and Prospects. Nagarlok January-March IX (3)

<sup>22</sup> Ramakrishna GV (1980) Municipal Property Tax: A New Approach. Nagalok-July-September XII (3).

<sup>23</sup> ORG(1979) Property Tax System in Madras Urban Agglomeration. New Delhi

<sup>24</sup> Kapoor RM (1990) Composite Area Linked System for Property Tax

was divided into 3 zones (1) Principal Main Roads (2) Main Roads, and (3) others. The buildings were classified by type of construction (1) Pucca, with RCC roof, (2) Pucca with asbestos or corrugated sheet, and (3) others. The use category was classified into (1) Commercial/industrial (2) residential, and (3) others. The combinations of categories and sub-categories make it 27 categories. The annual rental value per square foot for each of the category was notified. The Corporation also reduced the existing tax rate from 43.75 to just 9 percent of the annual rental value.

Patna's innovative method of arriving at the annual rental value was not without judicial challenge. The Supreme Court<sup>25</sup>, as discussed in the earlier section, upheld this area-based valuation model by holding that the new method of assessment eliminating room for arbitrariness and corruption. This judgment did disappointed the proponents of the capital valuation of property, yet from perspective of the municipal administrators, across the country, the hypothesis of this judgment brought them good news encouraging them to evolve their own innovative norms for area-based valuation for property. This judgment now gave municipalities hope to get even with the nightmare scenario caused by rent control.

Many cities in the country adapted the Patna model with variations to suit their local requirements. Some of these cities were Ahmedabad, Hyderabad, Bangalore, Delhi, and Pune, and Indore. They improvised over the Patna model and did some effort to classify the locations factor on the base data drawn from the Land Registry department. These data were disaggregated into several 'zones' for rental value per square foot. The zone, here, refers to a land value category rather than to a contiguous area and hence, a street could fall in any zone in the municipal jurisdiction depending on the rental value assigned. Most cities had grouped the zones and had published the list of area falling in respective zones. The division of the city into zones was in effect to revalue properties on an annual rental base, but used an approach that features of an assessment under a capital value system. It is approach that could pave way to the next level of reform that is discussed in the next section.

---

<sup>25</sup> State of Bihar and others Vs SK Sinha & Others AIR 1995 885

Another notable feature brought out by most of the cities is self-assessment of filing of tax returns, by which the taxpayer could file a return of property tax based on the norms specified in the application form. Since the taxpayers could file the return themselves, it distanced the taxpayer and the tax collector and thus eliminated scope of any official harassment. Though several cities this process of filing tax return was called as 'self-assessment' in actual practice, it is not self-assessment as the property owner does not declare any unit value for the land or the building. In the return filed they merely report the pre-determined rates applicable to the location of their property, classification of their structure, age of the building and the usage. Based on the information they calculate their tax liability by multiplying the schedule rate for each factors. To make the calculation of tax easy most cities devised simple formula to arrive at the tax payable. It would have been more appropriate to call the system as self-reporting or self-declaring system.

Though the area-based valuation is linked to various physical features of the property and its usage, there are certain differences in the application of the factors. Despite these variations, in all the cities, the objectives are simple and straightforward - to get property owners to voluntarily declare their property tax liability and to make timely payment. The 'inducements' are to free property tax payers from harassment by tax collectors and to lower the compliance costs of tax payments.

The new initiative did work. All these cities had a problem of valuations that were reportedly 30 to 40 years out of date. The immediate effect in the change of assessment was to increase revenues significantly. In fact, the very first year of its introduction, showed encouraging results. In Hyderabad, the increase was by 40 percent (1999-2000). In Patna, the increase was by 27 percent (1993-94 and in Bangalore, the increased was by 33 percent.<sup>26</sup> It is not just the increase in revenue that mattered. The taxpayers finally understood how to assess property tax in the published norms and thus heightened their satisfaction and the acceptance of the new system. Three charts appended to this paper, shows the revenue trend in the ARV regime and the revenue trend after implementing the area-based assessment.

---

<sup>26</sup> Rao Vasanth and Ravindra (2002)

Another success of the reform is a reduction in compliance costs. Taxpayers were relieved from harassment from the officials, who under the cover of the earlier opaque system of assessment, forced taxpayers into 'negotiated' property tax liability. The self-declaration system, that most cities adopted, reduced compliance cost. The Bangalore City Corporation offered its taxpayers a lower cost of compliance in return for a higher payment.<sup>27</sup> Most taxpayers were prepared to pay two-and-half times of the tax paid previously, since they did not feel the need to 'negotiate' with officials any longer.

Thus, from the viewpoint of enhancing revenue productivity, the reform introducing the area-based taxation system has been successful. However, despite its success story, the system has some inherent shortcomings and critics of this system have cautioned that these inherent defects could revert to the same problems under the earlier ARV regime. The reasons for these include the question of clarity of the tax base, lack of transparency and the elasticity of revenue in the long run.

**(a) Lack of clarity**

In order to escape from the rigors of the Rent Control Act, the city has been divided into zones and factors have been assigned to connote the earning potential of properties. In assigning the weights/rental rates there is no explanation as to how the weights or the rental rates have been arrived. In Ahmedabad the base is nowhere indicated. The formula for arriving at the property tax under the Ahmedabad area-based taxation is multiplication of factors and the area with basic tax as under:

$$(PT=Rate \times Area) \times (F1, F2, F3, F4)$$

Where, F1 is the factor multiplier for the type of usage, F2 for location, F3 for the age of the building and F4 for the resident type. Each of these factors has a minimum of 4 sub-categories. Taking all the factors and sub-categories there can be as many as 240 different combinations of multipliers.

---

<sup>27</sup> Bahl (2002) Unpublished paper on Bangalore Property Tax.

**(b) Lack of transparency**

Area-based taxation brought with it some amount of transparency in the sense it allowed the taxpayer to himself calculate the tax based on the criteria provided to him. It is an accepted theory that if the taxpayers understand how they are taxed, they are more likely to comply with the system. On this count, however, the system failed to explain the taxpayer how the rental value indexes were derived at the initial determination of value per square foot or square meter. How during next revision, these rates will be calibrated is a serious question left unanswered. It is feared that this inherent lack of transparency could revert the system back to the same old arbitrary and unfair practices of the annual rental system.

**(c) Revenue elasticity**

Tax base is generally a monetary value and the buoyancy to tax system is imparted by widening the base. In the Ahmedabad, the formula mentioned above, except the rate, all other elements are physical elements, which may be difficult to change with changes valuations. The first requisite to ensure the elasticity of the property tax is to undertake periodic revaluation. The area-based taxation is in vogue for the last 6 years, but as on date, not one city where the system is implemented, has revised the rates. The increase in revenues is brought about by increase in the coverage only or alternatively property tax revenue can increase only by increasing the rate of tax per square feet/meter. Thus, even as there have been unprecedented increases in both capital values and rental values, the tax base of municipal bodies has stagnated. Therefore, question of revenue elasticity, the reason for the shift to the system, may in the years to come be another issue to grapple.

**The next steps**

Area-based valuation, despite these criticisms has served the immediate purpose in enhancing the yield of property tax, although it would require periodic revisions. It is clear that the rationale for linking property tax with factors such as location, type and quality of construction, vintage of the buildings, is a pragmatic and administrable approach to linking the tax to values of properties. The area-based taxation has achieved in increased revenue, updated the obsolete valuation rolls, and is justifiable from both ability to pay and benefit

principles of taxation. This has also helped the taxpayers to understand and accept reform measures. In addition., computerization of property records in cities like Bangalore, Hyderabad and Ahmedabad has helped to introduce computerization of the billing process. Thus, the area-based valuation has proved to be an immediate step to increase revenue to the local self-governments. It has given a sense of confidence like never before to municipalities to raise their revenue effectively. The division of the city into different zones based on the some principles evolved from the land registration department was done within the municipal own internal administration. This division of the city into zones was in effect to revalue properties on an annual rental base, but it used all the features of an assessment under a capital value system. Therefore, it would not be incorrect to say that in the India the area-based valuation could be the harbinger to a value-based assessment and thus pave way to the next level of reform - the capital value base.

#### **4. Towards value-based property taxation**

In the absence of an organised and well-developed property market, the pragmatic approach to reform for the urban local bodies was to adopt the area-based property tax system. In a situation where organised market does not provide unambiguous valuation, this seems to be the only practical measure to increase the revenue productivity from the tax. Secondly, to opt for a capital value base would require considerable administrative capacity, legislative support and political acceptance. The simplicity of the area based assessment is appealing and administrable by the local bodies.

The success of the measure, to a considerable extent, depends on the attitude of the tax officials for the reform. In cities like Bangalore, the revenue increase was partly due to the systemic changes brought about in the attitude of the tax officials. To help the process, concerted efforts were put in to coordinate the reform with various government departments such as the land registry department, public works department and the land survey and settlement department for determining the weights for various factors. Secondly, the planning and implementing the reform process, community's involvement is essential. This is again demonstrated in the case of Bangalore's reform in which, various stakeholders participated in the decision major making process. Finally, it is important to closely monitor the changes in

the tax burden to ensure acceptability of the reforms by the taxpayers. Thus, despite its shortcomings, area based measure is an important reform in transition to capital value assessment.

Implementation of area based system of property taxation too required considerable preparation by the tax administration. In Bangalore, for example, the jurisdiction was mapped and grouped into 6 value zones. These groupings were published in a tax handbook listing these zones. In the handbook the suggested weights/rental rates were mentioned. The taxpayer was encouraged to calculate the tax payable by simple steps and working examples spelt out in the book. The object of the handbook was designed to disseminate information educate the taxpayers and to solicit their response. Thus, when the area-based system was actually implemented, taxpayers were quite clear with the norms on how property is taxed under the area-based assessment. Though, initially, the valuation process adopted for land and buildings were not accurate, the process was important to the tax administration in many ways – the process of zoning the areas and assignment of weight/rental rates for structures inculcated, in the municipal tax assessors, the concept of land and building valuation and thus laid the foundation for the capital value assessment. It is, thus, doubtful if capital value taxation in India could have been thought of as a possible option without the lessons learnt from the area-based valuation reforms.

Considering the benefits of the area-based system as a transitional measure, Rao and Ravendra, 2002 suggest the following steps to sustain the reform process:

- a) **Initial Phase:** *Take steps to de-link property tax from the rental value system. In the meantime introduce the area-based system, retaining the principle of ARV but the value determined not on the basis of actual or hypothetical rent but on a combination of factors such as location, usage and quality of building.*
- b) **Transitional Phase:** *Develop a good database of market value of land. Observe the operation of the property market, obtain information from different sources – sale statistics from Registration Department, Real Estate Agents, Developers etc., and formulate index value. After the Area-based system has worked for some time and the necessary database is in place, prepare for shifting towards capital value system. Also, the*

*site value system can be tried in some smaller cities. During this phase, officials should be well trained in valuation methods, information must be computerized and people educated about the changes in tax system.*

- c) **Final Phase:** *Introduce capital value system or site value system depending on the experience gained and the suitability of the system for the particular City/State.*

The reform process in India appears to be following this path. With the advent of computerization and other technological developments like the Geographic Information System (GIS), most of the cities have developed a good tax map and have computerized the property tax information system. For instance, in the city of Mirzapur, a complete inventory of properties was made possible with the availability of high-resolution satellite image coupled with local surveys and intergration of existing land records.<sup>28</sup> This computerization has enabled the tax department to keep a tab of defaulters and taking timely actions. This transformation in tax administration was possible largely due to the introduction of the self-assessment of tax , which eliminated the tax official's door-to-door visits and the service of tax bills. Instead, the tax officials spent time to update the property register to create the property tax information system.

These changes in the tax administration coincided with the various developments that were taking place in other government departments as well. The Central Valuation Board in the state had prepared and notified guidance value for land and buildings to determine the minimum floor value in a given area. The land registry department, while registering the sale transaction applied these guidance values for determining the stamp duty payable. For all practical purposes, the municipal authorities have considered the published guidance value for land as the source code for indexing all parcels of land within their jurisdiction. Though the guidance value is understated and far below the actual market rate, it provides the municipal authorities an objective source to prepare their zone classification. With notified guidance value for land now available and periodically updated, the municipal authorities are better equipped to either continue with the area-based assessment or to switch over to a capital value assessment. It is interesting to observe that the Guidelines for Property Tax Reforms, issued by the Government

---

<sup>28</sup> Somik V Lall and Uwe Deichmann (2005) Fiscal and Distributional Implications of Property Tax Reforms in Indian Cities

of India, Ministry of Urban Affairs and Employment, (1998) while drawing a road map for the ULBs to operationalize area-based valuation, recommended “ It is desirable that the large Municipal Corporations in the country, which experience substantial increases in the land and property values, eventually shift to capital value base.”

To address the problem of undervaluation of land, several state governments have reduced stamp duty from a whopping 13-14 percent to 8-9 percent and there is a move to reduce it further to reasonable levels of say, 3-4 percent. The measure recommended to improve the compliance of the tax mainly by reducing the incentive to evade the tax through undervaluation of sales value. But in practice, when the central government imposes the capital gains tax at a high rate, it is doubtful whether a low rate of stamp duty would reduce the incentive for undervaluation. While, it is not the purpose of this paper to discuss the optimal stamp duty structure, the important issue to note is that property tax base is inextricably intertwined with the taxes on transactions in immovable property. For determining the property tax base, the determination of relative value of properties at a common point in time would be sufficient, as the tax levied is only a small percentage of the value of the property and hence the accuracy in valuation could be sacrificed in favor of simplicity in tax administration (Dillinger, 1991).

For valuation of buildings, the public works department publishes norms for cost of construction for broad categories of building periodically. Since the public works department have been constantly contracting public works like building, roads, water tanks and so on, they periodically publish a schedule of cost of materials and labor and these rates represent almost the current prices of materials and services. While the database of the public works department could assist municipal authorities in arriving at the valuation of building, for the ease of administration it would be better to value buildings according to specific characteristics reflecting construction of costs. This would require classifying buildings into a band of 3-4 categories and assigning rate per square foot as the cost of construction for each type of building. This approach avoids many complications inherent in determining the meaning of "market value" for properties, Further, this approach would eliminate discretion on the part of the assessor. Computer-assisted appraisal can assist in determining sale value of properties

with similar characteristics, such as apartment houses and commercial properties.<sup>29</sup> As in the case of valuation of land, excessive refinement in the valuation of building can be sacrificed for simplicity and ease of understanding.

Admittedly, the non-existence of an organised market for immovable properties is the principal source of difficulty to switch over to property taxation based on the capital value. This difficulty can be addressed with the availability of reliable information from the land registry office and the public work department and hence can herald the beginning of value-based assessment. Most tax reforms take time and property tax is no exception. But with a little preparation, cities, especially those that have experimented with area-based taxation, can introduce capital-value taxation without much difficulty. As mentioned earlier, municipal staffs have been actively applying the principles of capital valuation of land and building under the area-based system. A training program could further refine their skill and prepare them to switch over to the value-based taxation when it happens.

When ULBs decide to switch over to a capital value assessment, they have two clear options to choose. The first option is the 'site value assessment' and the second option is the 'market value assessment'.

### **Site Value Taxation**

With the municipalities adopting a band of 6 -7 zones for land value classification it is possible for them to implement value-based assessments on just the site<sup>30</sup> (land) value by arriving at the gross value of the site by its measurement with reference to the zone where it is located. On the gross value a tax rate is applied. This one line tax assessment, called the site value assessment is the simplest form of a value-based taxation and has the virtue of uniformity in assessments for all properties falling in a particular zone. The arguments in support of this method of valuation are that when improvements are not considered for valuation purpose, there will be no disincentive to develop the land to its most efficient use. In Indian context, however, an argument against the site value assessment is that it imposes a tax burden for unimproved land

---

<sup>29</sup> Joan M. Youngman :Tax on Land and Buildings (Tax Law Design and Drafting (volume I; International Monetary Fund: 1996)

<sup>30</sup> The term 'site' refers to land / plot size.

to the same extent on site where improvements are made. When improvements are made, there is a demand for public utilities whereas when properties are not improved, they do not use public utilities and therefore a tax on such unimproved lands would amount to subsidizing those utilizing the utilities. Further, it can be argued that such taxation would be regressive on poor people who are allotted site by allotment from government and other housing societies but can build only when they have the money. But a counter argument to these propositions is that allotment or purchases of sites must be utilized for the purpose for which they were allotted or purchased. Irrespective of improvements, the local-governments have a duty to provide public utilities and these expenditure are funded mainly from the property tax. However, one of the serious shortcomings of confining the tax to land value is that improvements on the land get totally excluded. Besides reducing the tax base, this brings in an element of horizontal inequity between similar sized lands with different extent of improvements. In India, like in many developing countries, it is not uncommon to see huge buildings constructed on small sites, often totally disregarding building regulations. The cost of improvements in such cases may exceed value of land itself. Hence, in similar placed situation, two properties will be paying the same extent of tax, though one has build far in excess of the permitted limits, yet getting away by paying tax only to the extent of the land value. Secondly, in smaller cities the cost of improvements is more than the value of land, and land prices generally remain static for long periods. In such cases it may require frequent adjustment in the tax rate to keep the revenue buoyant. Therefore, the site value assessment may not be appropriate in Indian context.

### **Market value assessment**

Both for reasons of having broad base of the tax and to avoid horizontal inequity, market value assessment should be preferred over site value assessment. The argument in support of market value assessment is that the tax base that takes account both site value and improvements in it would require a smaller tax rate to generate the given yield. However, there are difficulties in valuing the improvements and buildings on land and it could be arbitrary and judgmental in the hands of the assessor. Sometimes, arriving at the value of improvements on the basis of mass appraisal could itself raise problems of equity. Yet, in Indian context, the market value assessment appears to suit because it provides for assessing the extent of

construction. The problems relating to the valuations of building can gradually be overcome by standardization of construction cost.

Whether the municipality adopts site value or market value assessment, levying the tax in the context of fast changing urban property values presents problems. Even when the tax base is the notified capital value, not the actual market value, the land values especially in the core of the cities and towns will be quite high resulting in high tax incidence that the taxpayer will find it difficult to pay. This problem could be addressed by setting a base valuation at a common point in time, and subsequent revision could be made as a percentage of this value. Alternatively, a cap on the annual increases in assessment may have to be made. This problem exists in other countries as well.

Another area of concern is when the tax has to be levied on elderly citizens and retired persons who own property in potentially developed areas, but do not have adequate income to pay the tax. Several countries have provided assistance in some form or the other. In Bangalore, India<sup>31</sup> (Rao 2006) has recommended that if property owners were found genuinely incapable of paying property tax, then, through a process known to law, they could be offered a low interest tax deferral scheme subject to creating a lien on the property in favor of the city corporation when they die. When the property is subsequently sold or inherited the intended beneficiaries pay the deferred tax along with the accrued interest. In all such cases the property would be encumbered in the land registry books, which would prevent any sale transaction unless permitted by the city corporation.

A third concern in switching to a capital value assessment is the concern from old tenancies and rent control constraints. This problem could be overcome by levying tax on the occupier with concurrent liability of owners.

As the preceding discussions would show the situation in India it is now conducive, more so than before, to introduce capital value-based assessment. Karnataka State became the first state to pass legislation in the year 2000 to introduce capital value tax on property in municipal

---

<sup>31</sup> Rao, Vasanth (2006) Bangalore City Corporation – Changes suggested to the Karnataka's amendments (2001) legislating the assessment of property tax on a capital value base. Some of the suggestions made (2006) are discussed here.

corporations and town municipalities. Despite the legislation, the city corporations have not proceeded with capital value assessment due to inherent problems in determining the capital value of the property. These problems are not insurmountable, as there is enough international experiences to guide to overcome the problems.

Mumbai Municipal Corporation is currently administering property tax under the annual rental value system. In order to shift to a capital base, the Corporation had entrusted to TISS<sup>32</sup> to suggest a formula based capital value model for the assessment of property tax in Greater Mumbai. After detailed analysis TISS developed a formula to work out the capital value as also the amount of tax as under:

$$\text{Capital value} = \text{MV (Market value)} * \text{Carpet area of the property} * \text{weight for type of construction} * \text{Weight for Age.}$$

$$\text{Tax} = \text{Capital value} * \text{tax rate} * \text{weight for user category.}$$

For market value of land, TISS has considered the published Stamp Duty Ready Reckoner & Market Value of Flats in Mumbai. Carpet area of the property represented the net taxable area of the property. For determining the weights for type of construction, user category and the age of the building, TISS has used dummy variable regression analysis to assign weights for each of the factors. The suggested tax rate was 0.3 percent of the capital value. The report has also suggested exemption for certain category of properties and special concession for properties belonging to the economically weaker sections.

Applying the formula to sample case studies, TISS found that in the case of many old properties there could be massive increase of tax payable (over 400 percent) or in some cases, steep decline in the tax payable (over 50 percent) if the new system was implemented. In order to reduce these imbalances, the study group recommended a ceiling in the case of increase in tax and a fixation of floor rate in the case of decreases. The legal implications of this suggestion is yet to be tested.

---

<sup>32</sup> The Tata Institute of Social Sciences, Mumbai and Department of Economics, University of Mumbai submitted their report : Rationalization of Property Tax in Brihanmumbai (2001)

Although the Mumbai Municipal Council passed a resolution in 2002, acknowledging the potential benefits of change over to capital value-based assessment, State government is yet to consider tabling the motion in the State Assembly. In hindsight, it is felt that if Mumbai too, instead of jumping straight to a capital value base, had initially adopted the area-based assessment, the transition could have been smoother.

In Bangalore, when the capital value assessment was field-tested, there were huge protests because of the steep increase in taxes in respect of residential properties. However, in case of commercial properties and apartments the tax came down drastically. The amended Act provided for the capital value assessment of land and building. However, in the case of apartments, the capital value of building alone was considered, as the value for the undivided interest of land for each of the owner was not factored for the purposes of determining the gross value of land and building. Hence, the enactment discriminated independent property owners and those who owned apartments. In the case of commercial properties the tax yield under the area-based valuation was much more than the yield under the capital value assessment. This was because under the area-based assessment, the rental rates fixed for commercial properties were close to market rates. However, for the same properties when assessed under the capital value, the tax reduced the capital value of land to the notified guidance value.

Some of the defects in the design are being addressed in the new proposal. The proposal has retained the original enactment of assessing the capital value of both land and building with depreciation allowance for the age of the building. On the net value of land and building the tax payable is directly calculated. However, in the proposal a factor termed Floor Area Ratio (FAR), has been included in the computation. The building regulation prescribes the maximum area of land to be utilised for construction of building within a site. The prescribed maximum improvement is called the Floor Area Ratio of the building (FAR), which is arrived by dividing the total built up area (improvements) by the total area of the site. The FAR provides the mechanism to calculating the excess of built up area over land. The following example explains how this mechanism works in respect of properties in similar sizes and location but varying in the extent of construction and how this variable is captured by the FAR:

Examples	Extent of Site (In square feet)	Guidance value for Land & building (In USD)		Value of land (In USD)	Built up area	Capital cost of building * (In USD)	FAR	Capital value of land and building (In USD)
		B	C					
	A	Site	Building	(A x B)	E	(C x E)	E/A	D+F
1	2400	33	12	79200	1000	12000	0.41	91200
2	2400	33	12	79200	2400	28800	1.00	108000
3	2400	33	12	79200	3000	36000	1.25	115200

- assuming that the net capital value has been derived after providing for depreciation

Property Tax = Capital cost of land & Building x FAR x Tax percentage

Example 1 = 91200 x 0.41 x 0.2/100 = \$ 75

Example 2. = 108000 x 1.00 x 0.2/100 = \$ 216

Example 3. = 115200 x 1.25 x 0.2/100 = \$ 288

This formula, with some modification, is applied for calculating property tax in respect of other categories of properties. In the case of apartments, to arrive at the value of land, it has been suggested to provide a deeming clause to deem that the carpet area<sup>33</sup> of the apartment is deemed to be the area of land. The property tax is calculated by applying a similar formula.

It is not the intent of this paper to examine the various aspects of Mumbai's report or the Karnataka's legislation. But the fact that these two cities have made a study and have suggested improvements to the enactments shows that there are serious attempts to rationalise the property tax system and move over to capital value base.

<sup>33</sup> Carpet area in the Indian context means the total inner floor area of the apartment including the thickness of wall and the area of the balconies but excluding the common areas.

## **5. Conclusion**

Property tax may bristle with problems. Yet, this has not deterred ULBs to make a beginning to correct the fundamental issues of updating property roles, computerizing tax bills, improving tax collection and strengthening enforcement. Though the shift to area-based valuation method followed in Ahmedabad, Bangalore Hyderabad, Mizapur, Indore, Delhi, Pune and Patna may not be perfect models, it proved to be good learning experience. Above all, the experience showed that changes can take place in a field where very often one thinks that little can be accomplished.

However, the success of these reforms should not mask the apprehension looming large that there could be problems when revisions are taken up. The fact that though the area-based assessments have been in place in several ULBs, for over 5 years, not one of them have been able to revise the assessment valuation proves the point that area-based assessment can only be a temporary measure and ULB should consider replacing the ARV base with a capital value base with standards of land and construction cost forming the base of valuation.

At the same time some important policy issues need to be addressed by action from the Central and the State governments. The state governments must amend the rent control act and de-link any reference to the property tax assessment. The urban land problems act as a serious constraint in capturing the full value of a property. A distorted land market and non-availability of reliable land prices is a major hurdle in the decision making process. Hence, there is an urgent need to develop a reliable real estate market and State government must set up land valuation committees and also involve private sector in this process. The high rate of stamp duty has resulted in undervaluation and loss of revenue and hence there is a case for the state governments to reduce the stamp duty rates. This reduction in rates would be effective only if the income tax laws do not impose a heavy tax burden by way of capital gains tax. One of the measures that the federal government can consider to encourage reporting of actual sale value is to evolve schemes to invest income earned from property transaction in tax-free bonds like the infrastructure bonds and municipal bond rather than taxing them.

Finally, property tax being a highly visible tax for the reforms to succeed, it is essential to gain political acceptance and also that of the community at large. Property tax has gained the attributes of 'a benefit tax' and therefore, unless taxpayers are ensured adequate and good civic services, no reform measures can convince them to pay any increase in property tax. As actions of the local bodies affect local people there is an emerging trend of citizen groups, across all ULBs in the country, seeking their participation in the decisions making process. Local governments can convert such participatory demands in favor of revenue by include their local preferences in their program of work provided the local residents agree to pay for such developments through property tax. Such *quid pro quo* would help in the introduction of property tax reforms.

**References:**

Almy, Richard (March 2001) A Survey of Property Tax System in Europe.

Angadi DB : Civic Property Tax (1990)

Bagchi (1998) Reforming the Property Tax Base Need for a New Direction" EPW, 22 November 1997.

Bahl,Roy and JF Linn (1992) Urban Public Finance in Developing Countries, 1992. Oxford University Press.

Bahl, Roy Property Tax in developing countries: Where are we in 2000?

Dillinger, William Urban Property Tax Reform. Guidelines and Recommendations (Washington: World Bank) (June: 1991).

Dillinger, William Urban Property Taxation in Development Countries Working Paper, World Bank (1988).

Datta, Abhijit (1998) Rent Control and Municipal Property Tax Base: Reforms Attempts in India in Konrad Adenauer Foundation Delhi.

Government of India, Ministry of Urban Affairs and Employment (1998) Guidelines for Property Tax Reforms.

Harry Kitchen (December 2003) Property Taxation: Issues in Implementation

Jha, Gangadhar Reforming Property Tax Legal Issues, Nagarlok, Vol XXV. No. 4 (1993).

Jha, Gangadhar Area Basis of Valuation of Property Tax: In Evaluation” in Abhijeet Datta (Edited “Property Taxation in India, IIPA, New Delhi).

Malme, Jane H.and Joan Youngman The Development of Property Taxation in Economies in Transition. World Bank, (Eds.), (2000).

Kapoor RM (1983) Finances of Kolkata Municipal Corporation: Problems and Prospects.(Edited “ Property Taxation in India, IIPA, New Delhi).

Kapoor, RM Area Linked System for Property Tax Reform in India-An overview- Paper prepared for National Seminar on Reforming the Property Tax: Bangalore (February 2002)

Mohan Rakesh Indian Thinking on Property Tax Reform in A. Datta (ed.) Property Taxation in India, IIPA, New Delhi.. (1983)

Rao, Vasant and Ravindra (2002), Reforming the property Tax System in India, UNDP. New Delhi.

Rao, Vasanth (2006) Karnataka Municipal Corporation Act – An approach for Implementation of Capital Value Assessment .

Somik V Lall and Deichmann Fiscal and Distributional Implications of Property Tax Reforms in Indian Cities (NIPFP, India 2006).

The Tata Institute of Social Sciences, Mumbai and Department of Economics, University of Mumbai Report (2001) Rationalization of Property Tax in Brihanmumbai.

Youngman, Joan Introduction to Legal Issues in Property Valuation and Taxation *Assessment Journal*, March/April 1994.

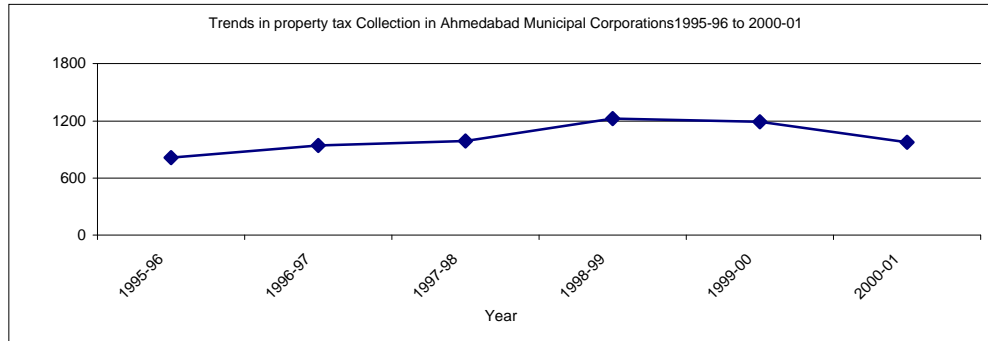
Joan M.Youngman Tax Law Design and Drafting (volume 1; International Monetary Fund: 1996; Chapter 9, Tax on Land and Buildings.

Joan Youngman and Jane Malme (1997) The Property Tax in a New Environment: Lessons from International Tax Reform Efforts Lincoln Institute of Land Policy, Cambridge, Massachusetts.

Chart 1

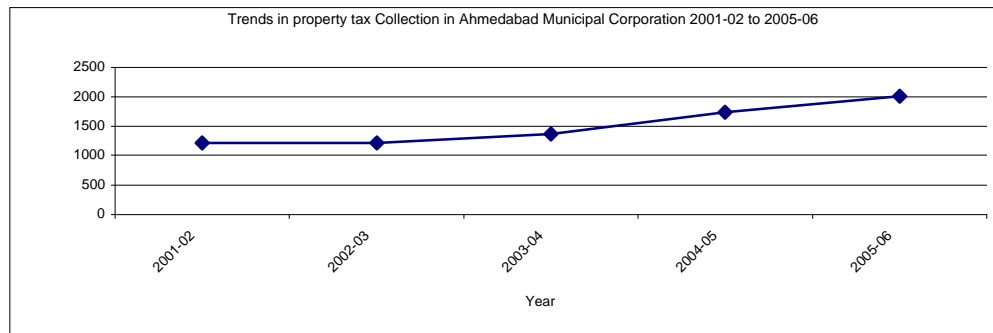
**Property Tax (Rs.in Millions)  
Ahmedabad Municipal Corporation  
Revenues under ARV**

Year	Demand	Collection	Percentage
1995-96	4461.2	819.1	18.36
1996-97	4761.2	944.8	19.84
1997-98	5968.8	990.9	16.60
1998-99	6555.2	1224.8	18.68
1999-00	7653.3	1194.5	15.61
2000-01	7853.8	978.2	12.46



**Property Tax (Rs.in Millions)  
Ahmedabad Municipal Corporation  
Revenues under area-based assessment**

Year	Demand	Collection	Percentage
2001-02	1500.6	1215.8	81.02
2002-03	1430.0	1212.1	84.76
2003-04	1447.0	1368.0	94.54
2004-05	1471.2	1737.6	118.11
2005-06	1866.5	2007.6	107.56

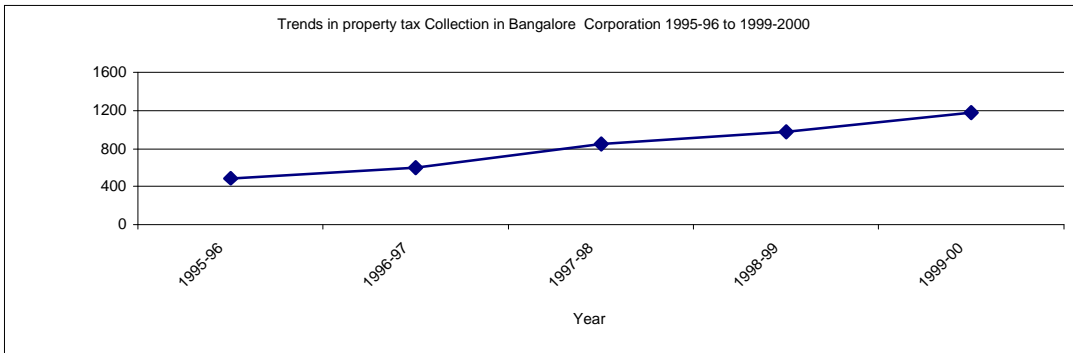


Source: Ahmedabad Municipal Corporation

**Chart 2**

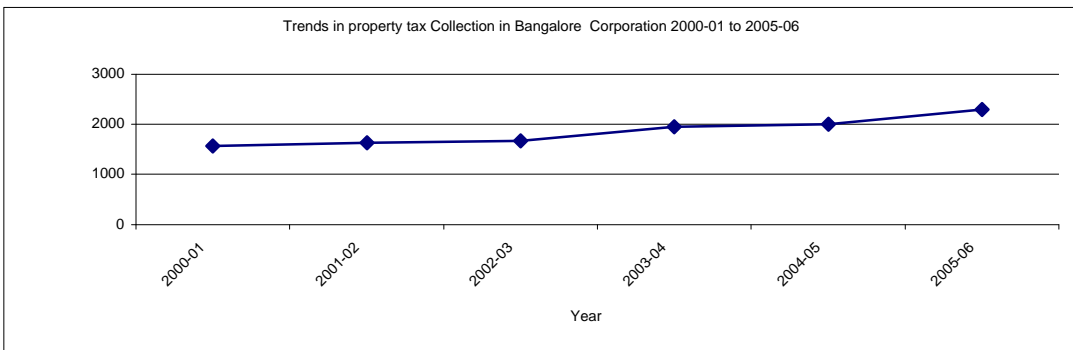
**Property Tax (Rs.in Millions)  
Bangalore Corporations  
Revenue under ARV**

Year	Demand	Collection	Percentage
1995-96	1060	490	46.23
1996-97	1130	600	53.10
1997-98	1610	850	52.80
1998-99	1760	980	55.68
1999-00	1850	1180	63.78



**Property Tax (Rs.in Millions)  
Bangalore Corporations  
Revenue under area-based assessment**

Year	Demand	Collection	Percentage
2000-01	1650	1570	95.15
2001-02	1800	1630	90.56
2002-03	2000	1670	83.50
2003-04	2300	1950	84.78
2004-05	3000	2000	66.67
2005-06	3200	2300	71.88

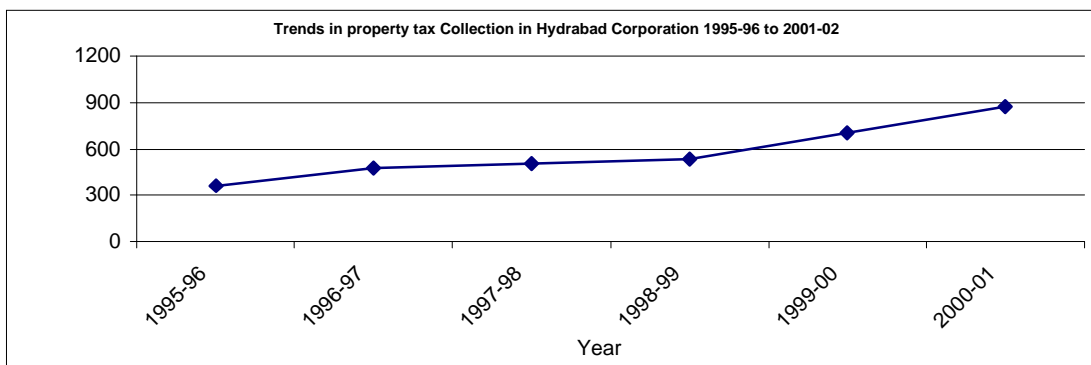


Source: Bangalore City Corporation

Chart 3

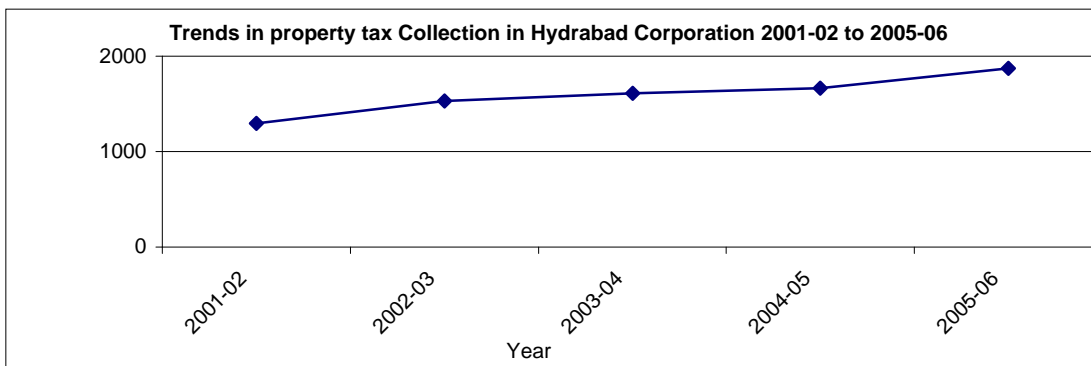
**Property Tax (Rs.in Millions)  
Hyderabad Municipal Corporation  
Revenues under ARV**

Year	Demand	Collection	Percentage
1995-96	666.1	364.2	54.68
1996-97	751.6	479.5	63.80
1997-98	773.7	506.8	65.50
1998-99	803.8	535.1	66.57
1999-00	945.7	707.1	74.77
2000-01	1118.5	872.7	78.02



**Property Tax (Rs.in Millions)  
Hyderabad Municipal Corporation  
Revenues under area based assessmnet**

Year	Demand	Collection	Percentage
2001-02	1321.2	1290.1	97.65
2002-03	1490.0	1530.0	102.68
2003-04	1753.6	1610.0	91.81
2004-05	2070.0	1660.0	80.19
2005-06	2100.0	1870.0	89.05



Source: Municipal Corporation of Hyderabad