

Nagarlok Vol. XLII No. 2 April - June 2010**Property Tax Reforms in Greater
Hyderabad Municipal Corporation:
Strategies for Coverage and
Collection Efficiency**

NAVYATHA JOGINPALLI

PROPERTY TAX is a major source of revenue at the disposal of urban local bodies in India. Income from the property tax, on an average, constitute over 20 per cent of the municipal revenues in India. There are variations across the ULBs. As per a recent study, property tax formed 22 per cent of the total municipal revenues and 28 per cent of own-source revenues and property tax revenue are able to cover 28 per cent of the revenue account expenditure.¹ It is the only own tax revenue source that has the potentiality to grow with cities' income. If administered effectively, it can represent a highly efficient fiscal tool for revenue mobilization. There has been worldwide movement to abolish local tax on entry of goods, which is known as octroi in India. Since local governments lost the right to levy tax on consumption, property tax, being land-specific is the only tax with a local base that can be revenue productive and buoyant for local governments. In many municipalities across the country, property tax remains an underutilized source of revenue as against its vast potential due to several deficiencies existing in the levy, assessment and collection mechanisms. There is, therefore, a need to reform the property tax system as a whole for the betterment of municipal finances. In view of vast potential and its importance to the municipal revenues, the JnNURM accords top priority to property tax and clearly stipulate for compliance with reform agenda in various aspects of property tax administration. Several state governments have initiated legislative/policy changes to reform the levy and assessment methods of property tax. Subsequently, municipal authorities have proceeded with other reform measures. An attempt is made in this article to analyze the current system of property tax in the Greater Hyderabad Municipal Corporation (GHMC) and the various reform initiatives adopted in general and in the context of JnNURM requirements in particular. The main objective is to assess the progress made by GHMC in meeting the various commitments in property tax reforms as laid out in Memorandum of Agreement and discuss various strategies adopted for improvement in property tax coverage and collection to meet up the norms laid down by JnNURM.

PROPERTY TAX SYSTEM: THEORETICAL BACKDROP

Jurists define property as a title or ownership conferred by law in respect of tangible goods or things to a person. It is a bundle of legal rights bestowed by the law of land, buildings and houses, and so forth. It is viewed that because the state gives rights to owners of property for its exclusive use, enjoyment, possession, and disposal, the government can legitimately tax such properties. Property tax is viewed, by some authors, as a benefit tax, a set of user charges for locally provided public goods and services. This means that local differentials in the tax rates simply reflect differentials in the level of services. Others have argued, however, that the property tax is a distortionary tax on capital, borne primarily by owners of capital.

As observed by McCluskey (1999), "The property tax is a unique mechanism for local revenue generation. The primary store of accumulated wealth in both developed and developing countries is in real estate. Such property is visible, immobile, and a clear indication of one form of wealth. The property tax is thus difficult to avoid or to shift and if well administered can represent a nondistortionary and highly efficient fiscal tool".² Property tax can be differentiated from other taxes by virtue of two main characteristics: its visibility and the diversity of the local context within which it is implemented.³ Visibility acts as a constraint on the ability to raise the tax; in contrast to income tax, for instance, the property tax is not withheld at source, so taxpayers tend to be more aware of how much they pay. Further, property tax also finances services that are very visible, such as roads, garbage collection, neighbourhood parks. This visibility makes local governments accountable for the taxes they levy; it also makes reform difficult and, moreover, municipalities face constant pressure not to increase the tax. The second unique characteristic of the property tax is the differing nature of how it is levied by local governments, differences that in turn create different tax structures. The property tax is not a single tax, but rather a composite tax with local variations. Other characteristics relate to the favourable treatment of residential property. This is done in three ways: the assessment system deliberately under-assess residential property relative to commercial and industrial property of comparable value; many jurisdictions have legislated lower tax rates on residential property; property tax relief measures are often provided to residential property owners in the form of tax deferrals, penalty waive off etc. At the same time, this differential treatment does not necessarily reflect the differential use of services by different property types.

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The following generic principles can be applied in evaluating the property tax and approaches to its reform in any jurisdiction:

- **Fairness based on benefits received:** taxes should not be related to the benefits received from government expenditures.
- **Fairness based on ability to pay:** Taxes should be similar for those in similar circumstances. For example, people should pay comparable taxes on comparable properties.
- **Neutrality:** The tax should not distort economic behaviour, including decisions about where to live and work and what improvements to make to one's property. Negative side effects should be minimised.
- **Stability:** Taxes should not fluctuate dramatically from year to year.
- **Accountability:** Taxes should be designed in ways that are clear to taxpayers so that policymakers can be made accountable to the taxpayers for the cost of government.
- **Ease of administration:** Taxes should be fairly easy to administer. The simpler the system, the easier its administration.

PROPERTY TAX REFORMS IN INDIA

Property tax reform is a global phenomenon because urbanisation is increasing, thus the scope, volume, and complexity of urban services that must be provided by local governments are increasing. Both developed and developing countries are pursuing decentralisation as a necessity. As a result, fiscal needs of local governments are increasing. India is no exception in this respect. The objective of property tax reforms should not only be to increase property tax revenues, but also to lead to improvement in equity, transparency, simplicity, reduction of arbitrariness, and minimisation of compliance and collection costs.

Challenges for Property Tax Reforms

- The biggest challenge to property tax reform is its unpopularity. Property owners dislike this tax because it is a very visible direct tax and unavoidable.
- The tax payer resistance is also due to subjectivity involved and the discriminatory attitude of the assessing officials.
- The appeal procedure against the assessment is tedious and long.

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- Property tax is based on accrued – not realised—wealth, and it does not take ability to pay into account.
- Property tax is primarily viewed as a benefit tax for services provided by local government, and there is a great level of dissatisfaction with the level of services among citizens. Citizens feel that they are not getting fair exchange for their money.
- Since Property tax is presumptive, tax valuation does not increase automatically with rising prices. Thus, it has become stagnant over the years. Any reform would essentially involve a revision and increase in the tax.
- Lack of free and transparent real estate and rental markets and a reliable database prevent reform effort to clarify existing property tax rates, revenue, and distortions.
- High rates of property tax discourage investment in real estate, thus any reforms involving rate revision are not accepted by decision makers.

Property tax reform should thus address all these resistances, apprehensions and issues comprehensively.

Reform Initiatives in India

Property tax reforms in India have been initiated with various perspectives, but with the sole objective of improving its capacity to generate revenue as the major local source. Ahmedabad, Bangalore, Delhi, Patna, and Hyderabad are among the major cities to come up with reform measures. Mirzapur with a population of less than 1,00,00, was a pioneer among small towns in initiating reforms in property tax in 1995. The municipality undertook computerisation of property tax records and proper enumeration and mapping of all properties and infrastructure which had direct impact on improving coverage and collection efficiency.

The reform has been significant in the Ahmedabad Municipal Corporation which introduced the carpet area basis of the property, multiplied to the rate of tax. However, provisions for discount or escalation as the case may be exist towards use, type of building, location and age of building. On the other hand, Bangalore and Hyderabad have undertaken the self-assessment mechanism (SAS) by which the rental values of properties are determined based on the property information provided by the owners themselves. Patna, has also adopted a system as that of the Ahmedabad Municipal Corporation. In Delhi, the unit area based system, which was

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notified and came into force from the 1st of August 2003 has been implemented from 1st of April 2004.

Reforms in the property tax system included both, the process of billing and collection and an improved assessment mechanism that attempted to reflect the dynamics of the property market in the city. The first set of reforms were largely initiated at the local level as per the provisions in the municipal legislation while the second set of reforms required due policy and legislative support from state governments. Some states have already initiated state level reforms.

The Government of Andhra Pradesh was the first state in India to introduce plinth area based property tax in all the ULBs as back as 1993. The system has gained tax payer acceptability and is working successfully since its introduction. The Government of Tamil Nadu has introduced a common Amendment Act, wherein all ULBs were supposed to implement the amendment for property tax reforms. As per the Act, ULBs can fix the rate of property tax for any building based on carpet area and usage. Additional factors considered to compute the property tax are access to main roads, type of construction and age of building. The Government of Tamil Nadu has also provided for direct computation of property tax based on these factors. Some of the reform measures have come into force. The Government of Karnataka introduced the Capital Value System (CVS) for assessing properties in the ULBs.

PROPERTY TAX REFORMS IN GHMC

Hyderabad Metropolis—MCH to GHMC

In the last decade, Hyderabad has seen tremendous economic growth and large scale migration that follows development and growth. It is in this context, the Greater Hyderabad Municipal Corporation (GHMC) was created incorporating 12 municipalities surrounding the city, thereby increasing the population of the city to 67 lakh. The underlying idea in the creation of GHMC is to ensure improved service delivery in the surrounding areas and better inter-departmental and inter-agency coordination in carrying out various developmental projects under JnNURM and other Central assistance.

This has led to greater challenges to the civic body to provide better services. If the increasing civic needs are to be met without a decline in the standards of the civic services provided, property tax must contribute increasingly to the civic finances. In turn, this means that the property tax base must expand progressively which may

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be either through expansion of the city's geographic limits or through an increased coverage and collection efficiency.

The GHMC has following organizational arrangement for property tax administration.

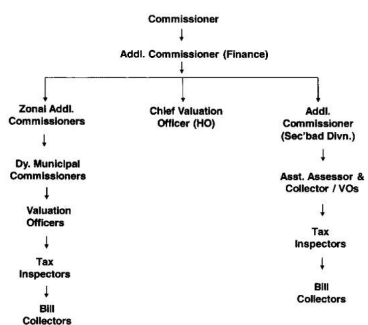


Fig 1: Organisation Chart of Tax Section of GHMC

Property tax is the main source of income of GHMC constituting about 27 per cent of the total revenue receipts. It is levied and collected on all the lands and buildings within the municipal limits as laid down under Section of 197 and 199 of HMC Act, 1955 (Hyderabad Act – II of 1956). The rates are progressive in case of residential properties and fixed in case of the non-residential properties (Table 1).

The above slab rates are in vogue from 01-04-1974 under Section 199(2) of HMC Act, 1955 (Hyderabad Act – II of 1955). The slab rates of taxation are being adopted only in respect of residential buildings w.e.f. 01-04-1982, while non-residential buildings are being levied at the flat rate of 30 per cent of the Annual Rental Value (ARV). The owner occupied properties with an Annual Rental Value

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TABLE 1: RATES OF PROPERTY TAX IN GHMC

Range of Annual Rental Value	General Tax	Consewancy Tax	Lighting Tax	Drainage Tax	Total
Upto Rs. 600/-	Exempted from payment of property tax				
Rs. 601/- to Rs. 1200/-	2%	9%	3%	3%	17%
Rs.1200/- to Rs. 2400/-	4%	9%	3%	3%	19%
Rs. 2400/- to Rs. 3600/-	7%	9%	3%	3%	22%
Above Rs. 3600/-	15%	9%	3%	3%	30%

of Rs. 600 and below are exempted from payment of property tax.

Innovative Measures Adopted in Property Tax Administration

1. Self Assessment

General revision of property tax as contemplated under Hyderabad Municipal Corporation Act, 1955 was not done in erstwhile Municipal Corporation of Hyderabad for the past few decades. In the absence of this, property owners continued to pay taxes as levied decades ago causing heavy financial loss to MCH. Attempts to revise and improve the property tax base made earlier were caught in legal problems.

Keeping the above points in view, the scheme of self-assessment of property tax was introduced during the year 1999-2000. This scheme was introduced by taking advantage of the provisions under Section 213 of HMC Act which empowers the Commissioner to call for information pertaining to the property from owners/occupiers. The information in self-assessment form is called as a "Written Return" based on the requisition made by the Commissioner, under section 213 of the HMC Act 1955. The Return is to be filed with the signature of the owner or occupier of property. The scheme of Self-Assessment (SAS) was introduced to achieve the following objectives:

- To ensure complete transparency and openness in levy and collection of property tax and to enable citizens / taxpayers to understand the basis of taxation and to calculate the tax by themselves.
- To build a computerised Property Tax Data Base with each property in the twin cities by assigning a unique Property Tax Identification Number, (PTIN) so as to enable the taxpayers to have information of their property tax online and to pay property

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tax at any e-Seva Centres / Citizen Service Centres / Circle Offices.

- Bench marking of rate per sft. both for residential and non-residential properties to eliminate discretion, in the levy and collection of tax and to avoid questionable intention and harassment.
- To minimize prolonged disputes between tax-payers and MCH, pending since 10 to 15 years.
- To establish a healthy relationship between MCH and Tax Payers/Residents Welfare Associations.
- To link services with tax payment so that tax payers get value for money (quality services) and also feel proud contributing their mite to the development of their own city.
- 2, 38,330 self-assessments were filed when the SAS system was introduced in 2000-01. SAS has been largely successful in averting litigations with regard to levy of property tax.

2. Creation of Data Base

A comprehensive data base is created with full details of assessments viz., name and address of tax-payers, arrears of tax, current tax, penal interest to be paid, tax paid, balance tax to be paid, etc. Information on assessments and collections has been kept in the GHMC Website (www.ourgmch.com) through which any taxpayer can know the procedure adopted for assessing properties to tax, way of collection of property tax, and penal provisions enunciated in HMC Act on belated payments.

3. Preparation of Computerised Tax Bills and Service through Courier/Postal Agencies

Earlier, bills were prepared manually by the Bill Collectors and served to taxpayers, the process which continued throughout the year. Now, printing of bills has been computerised and served through Postal Department resulting in printing and servicing of bills to taxpayers within 30 days.

4. Collections through e-Seva Centres

The Government of Andhra Pradesh has established more than 30 e-Seva Centres in twin cities of Hyderabad and Secunderabad. In addition to above e-Seva Centres, GHMC established Citizen Service centres in various Zonal Offices. The taxpayers can conveniently pay their tax at any e-Seva Centre / Citizen Service

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Centre / field staff. Special Camps are being conducted at residential apartment complexes, residential colonies etc. to facilitate tax payers to pay their taxes at their door step.

The collection trends show that the share of tax collected through e-seva centres averaged to 48 per cent in the erstwhile circles of the MCH. It was 52 per cent in case of the residential properties and 30.8 per cent in respect of non-residential properties (Table 2). Large scale publicity is required to increase awareness among people to enable them to pay at their nearest e-seva centres.

TABLE 2: PROPERTY TAX COLLECTION THROUGH E-SEVA CENTRES IN 2008-09

Total No. of Residential properties paid PT	309119	52% of Residential properties made payment through e-seva
Total No. of Residential properties paid through e-seva	162773	
Total No. of Non-residential properties paid PT	75479	30.8% of Non residential properties made payment through e-seva
Total No. of Non-residential properties paid through e-seva	23309	

PROPERTY TAX REFORMS IN GHMC UNDER JnNURM

JnNURM requires certain reforms to be undertaken by states/ cities in property tax system, with a broad objective of establishing a simple, transparent, non-discretionary and equitable property tax regime that encourages voluntary compliance. In line with the Mission guidelines, erstwhile Municipal Corporation of Hyderabad entered into a Memorandum of Agreement (MOA) in March 2006 to fulfill various commitments over seven year period of the Mission. The project period is seven year commencing from 2005-06 to 2011-12.

Table 3 illustrates in brief, the various commitments to be met in the property tax system under seven year period of JnNURM.

Below is the discussion on the status of the various milestones achieved in the property tax regime as per the MOA signed in the context of JnNURM.

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TABLE 3: STATUS OF REFORMS UNDER JnNURM

Sl. No.	Objectives to be achieved under JnNURM	Year by which to be accomplished	Status
1	Extension of PT regime to all properties	Two Years	94% covered by 2007-08
2	Elimination of exemptions	Three Years	Based on state policy action have to be taken.
3	Migration to self-assessment system of property taxation	-	MCH has adopted Self-Assessment Scheme since 1999.
4	Setting up a non-discretionary method for determination of property tax.	-	Area Based Unit Area system of PT implemented since 1-10-2007.
5	Use of GIS	-	Migration is expected to be achieved upto 50% by the end of fourth year.
6	Next revision of guidance values	Four Years	-
7	Fix periodicity for revision of guidance values	Two Years	Deadline for adoption is Three Years
8	Establish Taxpayer education programme	Two Years	Complied
	A) Local camps for clarification of doubts and assistance in filling out forms	-	Already exists
	B) Setting up a website for PT issues/FAQs etc.	-	
9	Establish Dispute resolution mechanism	Four Years	As per MCH Act stakeholder can submit a petition to the Commissioner regarding any dispute related to assessment. However, there is no autonomous body looking into dispute resolution
10	Rewarding and acknowledging honest and prompt taxpayers	One Year	Complied
11	Achievement of 85% Coverage Ratio	Year 1- 70% Year 2- 73% Year 3-76% Year 4-78% Year 5-80% Year 6-82% Year 7-85%	76% Coverage Ratio achieved in 2007-08
12	Achievement of 90% Collection Ratio	Year 1- 80% Year 2- 82% Year 3-84% Year 4-86% Year 5-87% Year 6-89% Year 7-90%	85% Collection Ratio achieved in 2007-08
13	A) Cash Prizes B) Mobile Property Tax Collection C) Collection through Debit interface/ Credit Card	One Year	Complied

(Source: Memorandum of Agreement signed by GHMC in compliance with JnNURM Obligations)

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- **Enhancing coverage of all properties**

Of the total estimated properties of 6.04 lakh properties in twin cities, about 5.74 lakh properties are assessed and 0.38 lakh properties are exempted from paying property tax. The assessed properties out of estimated total properties work out to be 94 per cent approximately.

- **Use of GIS-based Property Tax System**

GIS is being implemented and expected to be available according to the schedule. Migration shall be achieved up to 50 per cent in the 4th year of the reform.

- **Rewarding and Acknowledging Prompt Tax payers**

In order to motivate the tax payers thereby improve the tax collection efficiency, cash prizes are being given to the tax payers annually. Every year, Rs. five lakh cash prizes are given to the honest tax payers. Sponsors are arranged to meet the expenditure.

- **Achievement of 85 per cent Coverage Ratio**

Out of the collectable assessment, the coverage ratio was 71 per cent, 73 per cent and 76 per cent respectively for the years 2005-06, 2006-07, 2007-08, which is way behind the JnNURM specification of at least 85 per cent collection efficiency.

- **Achievements of 90 per cent Collection Ratio**

The collection ratio was 77 per cent, 82 per cent and 85 per cent respectively for the year 2005-06, 2006-07, 2007-08, still falling short of the benchmark.

Revision of Non-residential Property Tax Assessment as per Area Based Unit Rate System

As per the orders issued in G.O.Ms.No.635, MA & UD Department (TC) dated: 27-08-2007 Greater Hyderabad Municipal Corporation (GHMC) has initiated the process of revision of property tax on non-residential properties w.e.f. 01-10-2007. The method of assessing properties based on rational system of area based unit rate system was introduced in GHMC.

The objectives of the new method of assessment of property tax are:

- To evolve a scientific method in the assessment and levy of Property Tax.

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- To fix the assessments uniformly for similar buildings used for similar purposes and situated in the same locality.
- To reduce the element of discretion and to avoid arbitrariness in the assessment of tax.
- To simplify the procedure of assessment and to make it transparent and citizen-friendly.

Sections 197 to 238 and Sections 264 to 289 of the Hyderabad Municipal Corporations Act, 1955 and the Hyderabad Municipal Corporations (Assessment of Property Tax) Rules, 1990 as amended in G.O.Ms.No.596 MA&UD Department Dt. 20-11-2006 has provided an elaborate procedure for determination of Annual Rental Value and Assessment of Property Tax as detailed hereunder:

- Division of Municipal Corporation into territorial zones.
- Classification of buildings based on construction : six categories
- Further classification of buildings based on nature of usage: 22 categories.
- Gathering of prevailing Rental Values of 20 per cent of rented buildings - Arriving at Average Monthly Rental Value (MRV) for each category of building to be fixed per sq. ft of Plinth Area in each zone.
- Issue of draft notification indicating MRV per sq. ft of plinth area in respect of various categories of all buildings for all zones and calling for objections and suggestions from the public.
- Issue of final notification indicating MRV per sq. ft of plinth area in respect of various categories of buildings for all zones after considering objections and suggestions.
- Preparation of Assessment List of buildings gathering, among others, plinth area, nature of construction and nature of usage for all buildings.
- Calculation of property tax and preparation of special notices.
- Service of special notices.

Impact of Property Tax Reforms on Revenue Improvement

The decade over reforms of property tax in the GHMC have had some positive impact on rationalizing the system of assessment and the revenue yield. The plinth area based assessment

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methodology, is slowly but steadily gaining peoples' acceptance. As this system was already in vogue in the newly merged areas, there is little resistance but in the core areas the new system is yet to gain the tax payers' acceptability. The plinth area concept, though introduced informally via the self assessment scheme, it met with limited success. There has been gradual improvement in the revenue yield over the years even with limited success of the reforms. The property tax revenue which was mere Rs 92/- crore in 2000-01 increased to over Rs. 370/- crore by 2008-09, that is over three time increase in less than a decade. The increase has been considerable during the last few years mainly because of the inclusion of new municipal areas in the corporation limits. This is clearly visible from the following figure.

ACTION PLAN TO IMPROVE COVERAGE AND COLLECTION EFFICIENCY

The new system of assessment of property tax based on Area Based Unit Rate (ABUR) introduced in GHMC since 1st October, 2008 is by and large a non-discretionary method of assessment that almost minimises the discretionary power available with the assessing authority. It has made the system of assessment simple and transparent by clearly indicating the zone and sub-zone under which a particular property is to be assessed, also clearly specifying the usage under which a particular property is to be assessed.

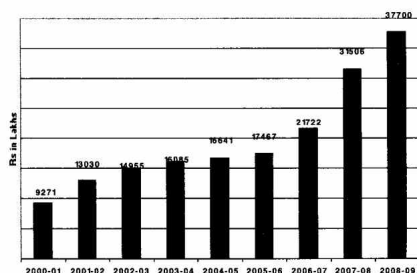


Fig. 2: Property Tax Collection Trend

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However, there are certain other aspects of the property tax, especially, the aspects of base and collection efficiency which need reform to plug-in the loopholes in the system. Suggestive reform agenda for improving coverage and collection efficiency is discussed below.

Reforms for Improving Coverage

The coverage of properties depends on the data-base and information availability with the assessing authorities. This area requires certain modifications in the laws—municipal as well as other related laws. This apart, enormous efforts must be made to generate and sharing of available information across the related organizations, viz. Stamps and Registration Department, Urban Development Authorities, Housing and Slum Improvement Boards, etc. The technologies like remote sensing, aerial surveys and digitalization of mapping have immense potential in developing GIS. Efforts also should be made to develop comprehensive information system on urban properties while integrating administrative and GIS based data. The following specific measures are required in this respect.

• Building Comprehensive Data Base on Properties

The urban property information is quite diversified and exists at different administrative jurisdictions – with the ULB and outside organizations. There is need for developing comprehensive data base with access to all including the tax department. In GHMC, town planning section sanctions plan for new building construction as well as addition/alteration in existing buildings. Moreover, town-planning wing also issues Building Use Permission/ Occupancy Certificate which is essential pre-requisite for procuring water and electricity connections. Likewise, a mechanism needs to be evolved whereby, at each circle office a copy of building plan approval as well as building use permission is sent to property tax section for the purpose of tax assessment. It is a simple reform that just requires a circular to be issued by the Commissioner for establishing this procedure. Similarly, trade license particulars which are issued by the health section should be shared with the tax section which would be useful in assessing properties used for commercial purposes. Thus, intra-departmental coordination will largely plug the leakages in coverage of property tax.

Inter-departmental coordination needs to be established with Department of Stamps and Registration to capture the details of new registrations which would help in assessing unassessed

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properties. Also, like in Gujarat, Government of Andhra Pradesh can adopt the method of revising land value records every year. Hence, frequency of revision of guidance value would be done on annual basis. However, for doing so an amendment in the provisions of the MCH Act will be required. Also, information regarding open / vacant land should be procured from the Department of Stamps and Registration to bring them into tax net.

- **Revising Residential Tax on par with the Non-residential properties**

The enhancement of property tax based on area based unit area system introduced since 1st October, 2007 is applicable only to non-residential/ commercial properties comprising not more than 15 per cent of the total number of property assessments, amounting to 57.5 per cent of the total demand. This shows that residential properties have huge potential for increase in property tax. Also, it is not a rational approach to enhance property tax for commercial establishments while keeping residential properties out of the enhancement. With the booming real estate market, the capital values of residential buildings have also appreciated tremendously which needs to be captured and reflected in the assessment.

- **Rationalizing and Monitoring Exemptions**

In Andhra Pradesh, three types of exemptions are granted viz:

- On account of property values being below a threshold;
- On account of properties serving public purposes; and
- Other reasons e.g. ex-servicemen.

Such exemptions reported to be about 40,847 cause a loss of revenue to the Corporation. There is large scope for misusing these exemptions. For instance, whether a property actually serves public or charitable purpose can always be interpreted differently. A data base must be prepared by the tax section specifying the reasons for exemption given. They must be granted exemption after a thorough enquiry by the officials.

- **Periodic Inspections to Capture Actual Usage**

With the rapid expansion of the city, there are dynamic changes occurring in the usage of the properties. For example, while a couple of decades ago circle 6 in the erstwhile MCH was the hub of commercial activity, now circle 10 and Serilingampelli circle of

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GHMC comprising of the hi-tech city area have become the hub of commercial activities. This changing profile of economic activity needs to be captured by the assessing authorities regularly as large number of properties recorded in the corporation as residential usage are now being used for commercial purposes. For this purpose, liaison should be made with commercial tax and electricity departments to determine the number of commercial establishments existing in the city. Also, massive drives are to be conducted as an on-going process to identify not only un-assessed properties but also under-assessed properties which would largely increase the property tax coverage. An integrated approach may be adopted wherein, teams consisting of persons belonging to tax, health and town-planning sections may go on inspection drives to capture un-assessed and under assessed properties with regard to property tax, trade licences and properties un-authorisedly constructed without sanction plan or not in accordance with the sanction plan. This would rationalise cost of such inspections and drives and also help reap the benefits of working in coordination.

- **Covering unauthorized buildings**

Section 204 and Sub-Section (3) of Section 220 of the MCH Act as amended recently, read together clearly state that, where a building is constructed, or reconstructed, or some structures are raised unauthorisedly, it shall be competent to assessing authority to levy property on such building or structure with a penalty of 25 per cent on the amount of the tax levied till such unauthorised construction is demolished or regularised without reference to the following:

- Whether the person liable for payment of property tax is having a registered or unregistered document.
- Whether building is constructed on the land owned by the person liable for payment of property tax or on land belonging to Government, Wakf property, surplus land under land ceiling laws etc, on plots with or without approved layout.

Large number of properties are constructed on such lands without any proper registered documents and the corporation provides civic amenities in all localities notwithstanding the fact whether property tax is levied on all categories of the buildings in a locality. Now, with the recent amendment to the MCH Act which clearly provides for assessment of such properties with notarised

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documents along with provision for issue of separate special notices and tax receipts not entitling the access to register or transfer, the land in question, assessment of such properties needs to be taken up which will largely improve coverage efficiency.

- **Computerisation of Property Tax Records**

With the formation of GHMC, surrounding municipalities have been integrated with the seven circles of the erstwhile municipalities. All the assessments and the records of the erstwhile seven circles have already been computerised and database consisting of full details of assessments, name and address of tax-payers, arrears of tax, current tax, penal interest to be paid, tax paid, balance tax to be paid, etc. are on the web site allowing citizens to access real time information. Computerised generation of demand notices for payment of property tax has also been taken up. But, the computerisation of property tax records of the erstwhile municipalities need to be taken up immediately. It needs to be upgraded online along with the records of the seven circles of the erstwhile MCH. Sound financial management of Corporation mainly hinges on a sound, transparent, efficient and foolproof tax collection system, which is possible only through creation of comprehensive database.

- **GIS**

Digital mapping of the seven circles of the erstwhile MCH is completed and full migration to GIS is expected in a year's time. But GIS needs to be extended to the erstwhile 12 municipalities which would help a great use in tapping the property tax potential of these areas. Thus, the tax section needs to focus on creating a comprehensive data-base and preparation of digital maps for these untapped areas of the GHMC.

Reforms for Improving Collection Efficiency

- **Inbuilt Mechanism for Automatic Enhancement of Property Tax**

General revision of property tax as contemplated under HMC Act, 1955 was not done in MCH for the past few decades due to legal hurdles and political indifference to tax enhancement. In the absence of this, property owners continued to pay taxes as levied decades ago causing heavy financial loss to MCH. The enhancement of property tax based on unit area system has been introduced since 1st October, 2007, first time in last two decades, which met with large scale opposition, as stakeholders had not been used to such

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enhancements of taxes. Irregular revision of property tax is the bane of all ULBs across the country. Whenever general revision takes place after a long gap, the property tax naturally increases manifold thereby inviting the wrath of the tax payers. It has been observed in states like Andhra Pradesh, Tamil Nadu and Karnataka, the state Governments are putting a cap on the tax increase due to general revisions. The new properties in the routine assessment later are assessed as per the increased tax. This not only goes against the reform objective of equity but also creates wide differences in the property tax of old and new properties located in the same locality. In order to overcome this complex issue, there is need for amending the HMC Act to incorporate mechanism for automatic enhancement of property tax at periodic intervals preferably annually, reflecting the market values of land / buildings. This would plug-in huge revenue loss to the Corporation. Such a provision for periodic revision is available in the Karnataka Municipalities Act as amended in 2005. It is provided in the Act that the property tax would be automatically enhanced by 15 per cent once in three years provided there is no addition or alteration to the building. Further, the municipal council / corporation can enhance the tax up to 30 per cent also if it decides so. The state government can, however, order an early revision.

- **Establishing of Dispute Resolution Mechanism**

Large number of instances exist where property owner who is not convinced with property tax assessment would approach the judicial system for reprieve. Almost 155 cases throughout the GHMC lie in the courts awaiting judgement amounting to more than 8.2 crore. This leads to severe loss to the Corporation. Hence, like in Pune and some other Municipal Corporations, retired Chief Justice of High court could be appointed as arbitrator for out-of-the court resolution of disputes of levy of tax at the earliest. As an alternative, a Settlement Advisory Board consisting of one retired High Court Judge and two Session / District Judges may be set up to resolve the disputed cases through out-of-court settlement.

- **Recovery Measures**

Section 268 of the MCH Act provides for execution of warrants of distress, seizing of movable articles and their auctioning for realisation of tax dues. Also, Section 278 of the Act provides for filing of suits for recovery of tax dues. However, such mechanism becomes cumbersome, time taking and expensive. Measures that would have immediate impact should be resorted to like—

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disconnection of water supply, sewerage, electricity connection etc. This would require liaison with para-statal bodies like Hyderabad Metropolitan Water Supply and Sewerage Board, and other departments like that of Electricity. However, such liaison and coordination would have long term impact by bringing in civic culture among the property occupiers to make prompt payment of property tax.

The Limitation Act which has been in force is severely restraining the collection of arrears of property tax as arrears which have not been retrieved for three consecutive years are waived off as per this Act. Several tax payers default the payment of property tax and then claim benefit of tax waive-off under the Act, which is causing a huge financial loss to the Corporation. Hence, a policy decision should be made by the State Government to repeal the Act.

- **Tax Payer Motivation**

The tax payer motivation is also important apart from educating them. Several measures like panalties, incentives and rewards could be considered in this respect. Various Corporations across India offer rebate/ discount for tax payers who make early payment, for example 10 per cent for those who pay by April, five per cent for those who pay by June etc. This helps in encouraging tax payers to pay property tax well in advance so that penalty and arrears can be avoided. This would relieve the corporation of the burden of property tax collection so that, after June thrust can be put on long term top defaulters. Introduction of this reform would require amendment to MCH Act.

There is however, a provision for imposing penalty at the rate of two per cent per month and 24 per cent per year in the HMC Act. But in recent years, the practice of penalty waive-off is adopted. Though it has short time benefit of increasing tax collection for that financial year, in the long run it has adverse impact on the fiscal discipline of the tax payer. Every year in anticipation of penalty waive off, tax payers tend to default payment of penalty and arrears thus causing severe financial loss to the Corporation. Hence, a policy decision should be made at government level stalling the penalty waive off scheme.

In GHMC, cash prizes are being awarded to prompt and honest property tax payers in sponsorship with State Bank of Hyderabad. Massive campaign of the awards should be taken up to create

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awareness and encourage public to make prompt payment of property tax to be eligible for being selected for awards. Along with cash awards, prizes can be in the form of betterment of roads, parks and other civic amenities in colonies where there is 100 per cent property tax collection. For this purpose, Resident Welfare Associations may be involved to encourage prompt payment of property tax by residents of a particular neighbourhood. Also like in Indore, vacations to foreign destinations can be awarded to honest and prompt tax payers through lucky draws. The funds required for the purpose may be garnered through public-private partnership. The private partner (sponsor) may be granted advertisement spaces in busy localities as compensation. Non-monetary benefits/awards go a long way in enhancing civic culture among citizenry. The scheme of Accident Insurance Benefit may be introduced for all tax payers who are not defaulters. This would encourage prompt payment of property tax by the public.

- **Introduction of Hand Held Computers**

Introduction of hand held computers will go a long way in streamlining property tax collection process. Computer generated receipts by the bill collectors will be tamper proof and totally limit discrepancies in tax collection. This practice is already in vogue in A.P. TRANSCO for electricity bills. However, tax collection staff is required to be provided with orientation training to bring attitudinal changes to enable them to accept the hand held computers not as counter-check on them but as a means to enhance their work effectiveness.

- **Tax Payer Education**

As the enhancement of property tax based on area based unit area system is introduced, massive campaign and citizen education programmes need to be carried out to inform and make the new system acceptable to the tax payers. Ignorance leads to all kinds of confusion and hence, resentment. If the citizenry is adequately informed about the rationale for the new system of property tax assessment and the need for enhancement of property tax in the wake of city development, there will be less resentment to the enhancement process. Following measures need to be adopted to expedite tax payer education.

- Guidance booklets clearly mentioning the new system of assessment method, zone, sub-zone categorisation, usage particulars etc should be distributed in various localities through

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Resident Welfare Associations. Such booklets may also be kept at various ward offices, e-seva centres and other kiosks with public interface.

- Tax education sessions should be held at various ward offices with prior intimation in nearby neighbourhoods so as to create awareness of the new system of enhancement and also the importance of prompt payment of property tax for the overall development/ betterment of the city.
- Visual media should be used to educate tax payers. Animated film showing the need to make prompt payment of property tax for the development of the city is already being shown in various cinema halls across the city. Attempts could also be made to show such films in various neighbourhood municipal parks, halls and libraries to create civic responsiveness among the citizenry.
- Placards, posters should be stuck at busy areas for ready/ easy information of tax payers.

- **Provision for on line Payment of Property Tax**

The citizens are able to pay their dues through *payment gateway*, e-seva centres, citizen service centres, AP Online services, Credit Cards, Debit Cards with ease and flexibility. Like in Ahmedabad Municipal Corporation, liaison can be made with different banks for the collection of property tax where the account holder can directly transfer his property tax dues by the click of the button on computer.

- **Increase in the Number of Collection Centres**

Increase in the number of collection centres close to the residential areas can improve property tax collection. For instance, temporary/ mobile collection counters may be opened in the peak months of July and March in various municipal libraries, parks, health centres for the convenience of the tax payers. The list of such centres should be widely publicized through visual and print media, innovative techniques like tom- toms in the neighbourhoods; distribution of pamphlets through sanitation workers who go door-to-door for the collection of garbage. Also, permanent collection centres may also be opened in various ward offices and the respective locality; bill collector should be made to sit in such centres during a stipulated time period in a day. Such time schedules should be communicated/ informed to the citizenry through wide publicity.

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The visual benefits of increasing the number of collection centres can be felt only through wide publicity.

- **Introduction of Property Tax Card System**

Section 264, Section 266 and Section 633 of the HMC Act provide for service of property tax Demand Bills once a year through certificate of posting due to be paid in two half yearly instalments by 31st of July and 15th of October respectively in every financial year to avoid penalty of two per cent on current demand on delay in payment of taxes. The service of demand bills through post is causing a financial burden of more than Rs 50,00,000/- to the Corporation. Also, there are complaints from the tax payers about non-receipt of the bills which is often cited as a reason for default in payment of property tax. Hence, like in Chennai, Property Tax Card may be introduced on assessment of property, in the name of the owner clearly mentioning tax details. Property tax may be collected on producing such card and an entry may be made in the card on payment of tax which would be useful for future reference. The introduction of card system would largely systematise property tax collection system. It would relieve the tax section from mammoth task of preparation of such demand bills every year thereby leaving them with time and resources to concentrate on collection.

Card system would be very suitable for property tax system unlike electricity and water bills, as the property tax levied is by and large stable for next couple of years unless any additions are made to a particular property. Also, provision can be made in the card for inclusion of additions to the property. Hence, once issued a single card can be used for next couple of years apart from serving as a proof of identity for the property owner.

- **Perusal of Property Tax on Central Government Properties**

While the state government compensates the corporation for the property tax on state governments properties, there have been longstanding arrears of property tax on Central Government properties amounting to around 10 crore. Various court judgements state that the ULBs cannot claim property tax but have been silent regarding collection of service charges which amount to around 30-75 per cent of property tax depending on the services provided by the ULBs. However, various Central Government properties in Hyderabad city have not been remitting even the service charges which have accumulated into huge arrears causing severe financial strain on the Corporation. Hence, a decision should be made at the level of Central Government to compensate for the service charges

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on Central Government properties.

- **Human Resource Management**

Following significant aspects of Human Resource Management are discussed below:

- **Capacity Building Programme**

Training has a long time impact on the performance of the staff. At the time of joining the service, taxation staff consisting of Tax Inspectors and Bill Collectors should be given proper induction training to acclimatise them to the organisation and its purpose. Due attention should be levied on training of taxation staff as they are on the field and in constant interface with the citizenry. In fact, field staff are the face of the Corporation. Such training, making them aware of their job chart, duties and responsibilities will instil professionalism, competitive service delivery orientation and citizen-friendly attitude in their working style, which will in turn influence the citizenry's image of the Corporation. This apart, orientation programmes should be organized periodically to up-date the knowledge and skills of the staff.

- **Incentivizing the Staff**

Taxation staff should be provided with regular incentives based on target achievement. A practice should be introduced wherein, targets for assessment of un-assessed and under-assessed properties should be monitored on a monthly basis from head office and incentives should be given to the staff based on achievement of targets. Incentives should be both, material and non-material. Experiments on organisational behaviour clearly prove that while material incentives have immediate impact, they are not long lasting. Thus, non-material incentives should be introduced like—picnics for the entire tax section at the end of every financial year; study tours to various other Corporations by the best performers as an award; performance based promotions; frequent get-togethers of the entire taxation section, from the lowest staff to the highest officer which would create scope for informal environment to encourage two way dissemination of ideas and opinions. All these measures would create a perfect work milieu for effective performance.

- **Rationalisation of work**

It is opined by taxation experts that a bill collector will be able to look after an average of 3000 properties effectively. As seen from the following Table 4, there is no rational division of work among

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the bill collectors in various circles. An analysis of the pattern shows that while in the erstwhile municipalities there is understaffing (eg. Circle 14-understaffed by 30 BCs), there is over staffing in erstwhile seven circles of MCH (eg. Circle 8 overstaffed by 10 BCs). The number of bill collectors working is total to 277, while required number is 326. The shortage could be met by effective rationalisation

TABLE 4: DISTRIBUTION OF WORKFORCE IN TAX DEPARTMENT IN GHMC

Circle No.	No. Of Properties presently working	No. Of Bill Collectors actually required	No. Of Bill Collectors
1 Erstwhile Kapra municipality	40175	10	13
2 Erstwhile Uppal municipality	28425	5	5
3 Erstwhile L.B. Nagar & Gaddianaram municipality	90807	18	30
4 Ex Cir 1 of erstwhile MCH	101456	29	34
5 Ex Cir 2 of erstwhile MCH	61139	16	21
6 Erstwhile Rajendra Nagar municipality	31131	19	10
7 Ex Cir 4 of erstwhile MCH	73586	17	25
8 (Ex Cir 6 of erstwhile MCH)	30836	20	10
9 Ex Cir 3 of erstwhile MCH	94346	30	31
10 Ex Cir 5 of erstwhile MCH	87758	35	29
11 Erstwhile Serilingampalli municipality	21188	4	7
12 Erstwhile Serilingampalli municipality	30477	4	10
13 Erstwhile Patancheru & Ramchandrapuram municipality	13490	4	4
14 Erstwhile Kukatpalli municipality	92859	8	30
15 Erstwhile Qutbullapur municipality	54083	13	18
16 Erstwhile Alwal.	27800	6	9
17 Erstwhile Malkajgiri municipality	65000	11	11
18 Ex Cir 7 of erstwhile MCH	87758	31	29

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and drawing staff from regular clerical posts after providing them with sufficient training in taxation work. Urgent rationalisation of taxation staff is the need of the hour to plug in coverage and collection efficiency, especially in erstwhile municipalities which show a huge potential for property tax growth. Likewise, the post of tax inspector also needs to be rationalised with each tax inspector supervising not more than 2-3 bill collectors. Also, each valuation officer should be kept in charge of around six tax inspectors, i.e. approximately 35,000 assessments.

- **Effective Transfer Policy**

It is observed in Table 4 that several employees of taxation section have been working in a single Circle for years together ranging from five to 10 years. This leads to routinization of work, monotony, and unwanted liaison with the default tax payers. Thus, transfers once in three years should be effected to rejuvenate the morale of taxation staff. Staff with better performance record should be posted to the place of their choice. This could work as a successful non-material incentive enabling the taxation staff work with intrinsic/ self-motivation. Also, staff should not be frequently transferred as it would de-motivate or kill the morale of the staff to perform their duties effectively.

CONCLUSION

Property tax reform is one of the core reforms promoted under the JnNURM scheme at ULB level. Though certain aspects of the reform need legal amendments, many of the reforms could be attempted at the ULB level through administrative processes. In GHMC, though the property tax reform has been initiated, the approach and strategy appear to be ad-hoc, piece-meal and partial. For instance, the scheme of Self-Assessment was introduced but it was not continued with commitment except during the initial periods. The initial success, therefore, receded over a period. Again, plinth area based tax was introduced recently but partially covering the non-residential properties only. There is vast scope for revenue improvement if under-assessment and non-assessment are tackled through a proper property mapping and information base. The GHMC has great potential in property tax collection due to fast expansion and development of the city especially in terms of economic activities and housing. The GHMC must attempt a comprehensive approach in the assessment and collection which are the crucial components of property tax system to realize the vast

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potential and achieve the desired results enunciated in the reform agenda.

Footnotes

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