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Taxing Guwahatians - The Inside Story

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The Paradox

ONE CAN pat on the back of Guwahatians for their achieving some rare feats. They have the fourth highest growth in per capita vehicle ownership in the country (Swamy's Urban Consumption Survey, 2004); they have 22 personal vehicles per thousand population against only eight for the Kolkatans (Indian Road Research Institute, 2004); they have almost all the car manufacturers of the world at their doorstep; they have more than a dozen swanky malls-even multiplexes; they have hundreds of food joints; they have Barista, they have Mainland China, they have Levis, even Reebok. But they contribute only a paltry Rs. 124 (2009-10) per capita for the upkeep of the town they live in against a modest Rs. 490 in Coimbatore and a substantial Rs. 1785 in case of Surat for the same period.

But, were Guwahatians the same lot when Guwahati was born way back around 1836? The Town Improvement Committee, as the then local body of Guwahati was known as, received a sizeable Rs. 3000 from the Bengal Government as proceeds of town tax when Gowhattee (as Guwahati was spelt thence) had only 3000 residents. House tax was not a new-fangled botheration for the Guwahatians. They had been paying Gao Dhum even before the annexation of Assam by the British. And more surprisingly, Guwahatians were the only urbanites in the State of Assam who were paying house tax since 1848. Amazingly, Guwahatians did not protest against this discriminatory policy; rather a delegation of Guwahatians filed a petition before the then Deputy Commissioner of Kamrup Major H. Vetch for the introduction of the Act of 1850 to formalize the formation of urban government for Guwahati Town.

Guwahati down the Memory Lane: Seventeen decades have elapsed. Gowhattee had transformed into Guwahati via Gauhati. But what transpires from this transformation? The city has expanded in all directions, population has gone up exponentially, skyscrapers have engulfed the city's skyline, mobility is first overtaking the means of transport, water continues to be a headache both in terms of its non-availability for drinking purpose as well as in terms of its abundance

when an hour long rain inundates the living room of hundreds of thousands of Guwahatians, urban public transport still does not cover a vast stretch of city's road network making a commuter from Noonmati to change the bus twice to come to Khanapara, the city drains are the most preferred dustbins, there are a few lakhs septic tanks sufficient enough to cause a catastrophe if all of them are to be emptied at a time. One can add on. Is Guwahati, the once most beautiful city of the country dotted by exquisite hillocks and drenched by the mighty Brahmaputra then sinking? Guwahatians are still walking, but they are walking lamely. Despite the massive programmes and projects undertaken by Guwahati Municipal Corporation, Guwahati Metropolitan Development Authority and other development departments, Guwahatians can not expect a sustainable level of services until they themselves come forward to shoulder a part of the expenditure for the city's upkeep. No Government can (and should) offer free lunch forever to those who can well afford at least a part of the lunch packet themselves.

Ever since Guwahati Municipality (formally constituted in 1852 under the Act XXVI of 1850) started looking after the upkeep of Guwahati, Guwahatians have been contributing to the coffer of the municipality. Per capita municipal revenue around that period was a sizeable rupee one. It would be a nonsense exercise to express it in current prices, but nevertheless a reference to the price of milk at two paise per litre (ref. Tokora Bahar Kuta by Benudhar Sarma) around that period of time would convey the value of the then one rupee in today's Guwahati. Guwahatians had been contributing formally to the municipal fund by way of house tax (since 1864), water and electricity tax (since 1884), latrine tax (since 1923) and even income tax from 1850 to 1864. Not only this, 65 per cent of municipal revenue used to come from taxes and a mere 15 per cent from grants-in-aid. Municipal accounts were being monthly audited!

Things went on happily. The urban government of Guwahati assumed corporation status in 1974. Municipal services in terms of conservancy, water supply, drainage were largely satisfactory till late 70's. Guwahatians were paying a modest Rs. 94 per head during the 70s when sugar was sold at Rs. two a kg. There has been a secular rise in both municipal expenditure and revenue and more significantly, the corporation could spend 80 per cent of its revenue after water supply, drainage, conservancy and public works.

Things started deteriorating since mid 80's and worsened in the 90's when the demand for various municipal services shot up by leaps and bounds presumably because of a spectacular rise in Guwahati's population and physical expanse. The annual average growth rate of Guwahati population at 3.27 per cent during the intercensal period was way above Kolkata, Thiruvananthapuram, Cochin and a host of other Indian cities. The full-fledged functioning of the state capital at Guwahati, setting up of many regional headquarters of both Central Government departments and corporate/ financial institutions, mushrooming of service sectors (health care and education), burgeoning trade & commerce, real estate—in short the elevation of Guwahati as a regional capital changed the picture entirely.

Guwahati Municipal Corporation (GMC) started feeling the pain. The increasing resource gap put GMC in totters. Tax revenue started falling short of the mounting expenditure towards meeting the basic municipal services on the one hand and maintaining its modest establishment on the other. As a result, it was but natural that GMC could not deliver the services even at a modest level. Those who hold the establishment expenditure (salary of GMC staff) responsible for financial penury of GMC perhaps do not know that GMC's staff strength at 5164 is perhaps the lowest amongst the municipalities of similar sized cities where the staff strength is 10317 for Nagpur, 6517 for Nashik, 6748 for Ludhiana, 5713 for Vijaywada municipality. One must ponder a while before being so cynical in holding the establishment expenditure solely responsible for eating into GMC's revenue.

Divergent Opinion on Property Tax

There are *three* reactions to the entire issue revolving round property tax. On one extreme are those Guwahatians up against the very imposition of property tax. They argue that while land tax is justified since in the ultimate analysis land belongs to the state, there is no justification for property tax since the property exclusively belongs to the owner. The problem with this section of Guwahatians is their misinterpretation of the term *tax*. Tax is a compulsory payment imposed by the government without any reference to the service rendered to a tax payer. In other words, a tax is compulsory contribution by a taxpayer for which he/she does not receive any definite and direct return from the government or there is no *quid pro quo*.

On the other extreme are those Guwahatians who question the rationale behind the proposal for an upward revision of property tax even after a period of 25 years (although statutorily it was to be done quinquennially) consequent upon the huge appreciation in their property value but charitably obliges paying for different items of

consumption whose prices have gone up by ten/20 times. No *inquilab zindabad* rants the air in Guwahati when price of mustard oil stabilizes at Rs. 70 a litre, no *hartal* is observed when the tuition fee is hiked five times. Guwahatians have learnt like their counterparts elsewhere in the country to live with this normal phenomena of rising price level, but did not follow those counterparts in their voluntarily accepting the revised property tax structure.

Between these two extremes lies the moderate Guwahatians who do not object to the upward revision of property tax but insist on the reciprocity from GMC by way of providing the basic municipal services. In simple terms, their contention is: we shall pay you the tax after you provide us the services. Their argument merits consideration. But it lands one up in a catch 22 situation because GMC on its part argues that it can provide the services only when the tax payers agree to pay the taxes at the enhanced rate. O.P. Mathur of NIPFP, holds that such an issue can only be resolved by the state government coming to the rescue of GMC and enabling it to streamline its service delivery. C. Rangarajan, Chairman, 12th Central Finance Commission went a few steps further when he suggested "a radical departure under which a proportion of tax devolution from the central pool (be) set aside for local bodies." In case of Guwahati, the Central Government has come up with a huge plan under the JNNURM programme and one might expect a sea change in the delivery of municipal services in Guwahati in the years to come. But will that be sustainable? After shouldering the capital investment for various municipal projects, neither the Central government nor the state government is expected to be bailing out GMC perpetually in the operation and maintenance of the assets thus created. In such a situation it is only reasonable on the part of GMC to go for tax enhancement drive to generate fund for footing the O&M bills. Guwahatians should know how lucky they are simply by virtue of their being in Assam (a special category state) where the Central government shall bear 90 per cent of the project cost leaving the rest ten per cent for the state with no financial liability for GMC in executing the giant projects. There are 26 towns elsewhere in the country of almost Guwahati's size where 30 per cent of project cost has to be borne by the respective municipality. And it is but obvious that a significant portion of this liability shall ultimately fall upon the urban citizenry of those towns where tax reform has already taken place thereby paving the way towards a quantum jump in municipal tax revenue.

In this context, observations made by the Hon'ble Chief Minister of Assam while giving away the grants-in-aid to the urban local bodies of Assam at a ceremony at Assam Administrative Staff College, Guwahati sometime in December 2007 is highly pertinent. Mr. Tarun Gogoi called upon the urban fathers attending that ceremony to streamline their property tax profile given the quantum appreciation in urban property values. He wondered as to why did an average urbanite in Assam resent any revision of property tax when he/she coolly accepted/adjusted to the rising price level of almost all household goods and services. We must remember that such a fiscal exercise at the local level could only be undertaken by the urban fathers simply because of their affinity with and proximity to the local community and that such an exercise should be participatory taking the local community into confidence.

The Polemics of Property Tax

Like its counterparts across the country, property tax is a major fiscal instrument available to GMC for raising its own revenues. Although a key revenue source, property tax is relatively underused and has limited buoyancy relative to the overall growth in urban economic activity. The ability to finance growing local government expenditures *via* property taxes is severely constrained by administrative, regulatory, and technical shortfalls besides political reluctance. In particular, weak administration and strong political interests limit the extent to which local government can tap on an appreciating property value and enforce compliance with taxes. Problems with weak tax administration are worsened by regulatory and legal constraints that link tax bases to rental values of properties which are stagnant with rent control laws. The other constraints are the distortionary land use and zoning regulations that adversely influence land prices.

Although the 74th Constitutional Amendment Act (CAA 1992) provided for a wider fiscal power for the urban local bodies, GMC was not armed with more teeth to tap the incremental value addition to the burgeoning real estate within its confines. GMC did never impose octroi and of late it was barred from collecting the entry tax by the Hon'ble Gauhati High Court thereby leaving GMC with only one choice, that of taxing the real estate.

How does GMC tax a property? Of the two methods available for determining property taxation, viz. Annual Rental Value (ARV) method and Area Detail System (ADS) or the Unit Area Method (UAM), GMC follows the former. Under the ARV Method, rental value of the property is derived to fix the tax following the Assam Urban Areas Rent Control Act, 1972 (AUARC Act) and and Guwahati

Municipal Corporation Act, 1974. Under the present system, first the land value as per average of last three years land deed value of the locality or the rate fixed by the authority (whichever is higher) is taken along with the cost of building subject to depreciation @ one per cent and two per cent per year for RCC and Assam type building respectively. Thereafter the annual letting value following the AUARC Act is calculated which is 7.5 per cent of the aggregated value of land and building. A deduction of 25 per cent from the annual letting value is made if the house is occupied by the owner and then property tax is imposed @ 10 per cent on the balance amount alongwith other taxes at some percentage on this balance amount. Annual letting value will be six per cent and nine per cent for state and Central Government Building respectively. No tax on Central Government buildings except different fees calculated on ARV. There is a provision of revision and remission too.

At times it is argued that should property tax be imposed on land only or on both land and building? Property tax on only land will lead to unbiased development of properties and it will lead to sub optimal use of land. Such a land tax will only be regressive in nature. Therefore the counter argument is that property tax should be imposed both on land and property since it is by and large progressive in nature. It enables to share the cost of community service where neither individual beneficiaries nor individual benefits could be measured and it permits the application of the ability to pay principle of taxation. It also helps distribute progressively the burden of financing community services and improves accountability of both the stakeholders - tax payer and taxing authority. But the serious problems associated with such method are its susceptibility to various kinds of manipulation and subjectivities. Using rental values, however presents a major challenge as rent control laws have limited the scope for the notional rent to increase with changes in local demand and incomes, or keep up with the increases in costs of living. As a consequence, the tax base is stagnant, and an upward adjustment of tax rates is the only way out to increase revenues from property tax which in any case is likely to irritate the Guwahatians. At the same time, GMC can not move away from rental values towards a capital value based assessment, since existing statute does not allow it to do so. Even if the statute is amended enabling GMC to go in for capital value based assessment, it can not undertake the exercise due to the absence of a well functioning real estate market that provides accurate information on property values, as well as the existence of various land use and zoning regulations, and high transaction costs that adversely affect land prices. However, it is heartening to note that the transaction cost (in terms of Stamp duty) has recently been slashed in Guwahati appreciably.

Not only this, under the ARV method there is a potential problem in having individual with ancestral property in posh locations to sustain huge losses because of his property value being tied to AUARC Act and by that the municipality gets deprived of the increased tax revenue. Moreover by this method, property tax in high density inner city areas falls grossly short of the rising municipal expenditure in those areas. Also the net present value of net stream of rental does not approximate to current market value of properties because of inherent distortion in the property market. Under the ARV method, annual rental value is the rent at which the property may reasonably be expected to let out. But there are innumerable interpretations to this 'reasonableness' in view of there being no statutory agency to record ARV of properties at regular interval. With no competitive property market and large scale under-reporting, linking of annual rental value to standard / fair rent leads to low property tax realization. This is not the end of the story. The entire exercise is also encumbered with weak billing and collection machinery, no tax mapping, state government control on property tax revision, and indiscriminate exemptions.

The Way Out

What is then the way out? Entry 49 of the State List in the Seventh Schedule to the Indian Constitution does not indicate that the property tax is limited only to rateable value, i.e., the annual letting value. It may be imposed on a variety of bases, namely, the extent of the land, floor, number of storeys, etc. Any good tax system should ensure reasonableness. It must remove the existing inequities in tax burden on similarly placed and similarly used premises. The tax system must be cost effective and it must see that interface between taxation policy, land policy, economic policy and urban policy is well articulated. Excessive delegation to rent seeking tax officials has to be restricted and subjectivity in assessment must be removed. But then, how do we go about it? Here comes the Area Detail System (ADS) or the Unit Area Method (UAM) to our rescue.

Under ADS Method, market value of the property based on some parameters is derived to fix the tax. Under this method annual rental value is the rent a holding is *capable of* fetching over a period of time and the annual rental value is based on the location of the building, use of the building, and the type of its construction. Here by 'location', we mean location of the building with regard to principal main road

or main road or arterial road (to be notified by State Public Works department); by 'use' we mean use of the building with regard to residential / purely commercial or industrial / partly residential and partly commercial / any other use; by 'construction' we mean type of construction with regard to pucca building with RCC roof / pucca building with asbestos or corrugated sheet roof / any other type. For arriving at annual rental value, carpet area is calculated by taking full measurement of internal dimension of rooms and covered verandah, 50 per cent of internal dimension of balcony / corridor, kitchen, and store, 25 per cent internal dimension of garage. Bathroom, latrines, portico and staircase are exempted. Tax rate is highest in case of fully commercial / industrial holding with pucca structure RCC roof abutting principal main road and it is lowest in case of fully residential holding with other type building abutting arterial road. The rate of rental value per sq ft shall be fixed by the ULB with prior approval from the state government. ADS or the UAM has been applied in thousands of Indian towns and cities of varying sizes. Even Mirzapur town of Uttar Pradesh with a population of only two lakh has introduced ADS method while calculating property tax. Under the ADS method, rate of taxes gets reduced, and it ensures greater compliance and transparency. It leads to increased aggregate tax collection, removes subjectivity and discretion and ensures less time overrun.

The municipal fiscal reforms ushered through the introduction of ADS method in tens of hundreds of Indian towns and cities have typically improved the administration of the tax, and in some cases brought in changes in valuation of the tax base. Administrative reforms include strengthening enforcement of property tax collections, expanding the tax base by updating property tax rolls *via* 'discovery' of new properties, computerising billing and collection, and introducing self assessment schemes where residents could declare their property tax dues on a standardized form and avoid frequent interaction with rent seeking tax collectors. These reforms appear to have positive impacts on local revenues. For example, the city of Mirzapur implemented a Geographic Information System (GIS) to identify unassessed properties and computerised its municipal tax records. The Mirzapur municipality commissioned a complete inventory of properties in its jurisdiction, which was made possible with the availability of high-resolution satellite images coupled with local surveys and integration of existing land records. Following these innovations, there has been a ten-fold increase in property assessments and tax collection has almost tripled in four years. In Bangalore, there has been a 33 per cent increase in revenues between 1999 and 2001 due to increases in collection rates and the number of assessed properties, coupled with valuation improvements to increase average tax payments per property. Same is the success story elsewhere across hundreds of municipalities in the country.

How Big is the Burden?

We can conclude this article by two queries. *First*, should we accept the receipt – expenditure statement of GMC as is given? The answer is an emphatic 'no'. This is simply because it does not reflect the normative level of expenditure GMC ought to incur based on some standard norms. If we really want to know the fiscal health of GMC *vis-a-vis* its normative and mandated functions, then we must find out the difference between its normative level of expenditure and its current level of revenue. *Secondly*, are the Guwahatians heavily burdened with the amount of money they are to pay to GMC as property tax? In the absence of data on per capita income of Guwahatians, we take recourse to a method suggested by P.K. Chaubey of IIPA, New Delhi. We have the national statistics telling us that 30 per cent of our urban population contributes nearly 60 per cent of our GDP. It therefore implies that urban productivity and therefore the urban per capita income is about twice the national average, which means urban - rural differential is 7:2. At lower level per capita income the urban - national productivity ratio may be higher but at higher level, this ratio should decline and tend towards one at a very high level of urbanization. We use the following sequence prepared by Prof. Chaubey and find out urban total per capita factor and estimate per capita urban district net domestic product of Kamrup district using the urbanization level of Kamrup district as per 2001 census as the surrogate per capita income of Guwahatians since Guwahati accounts for more than 93 per cent of Kamrup's urban population. Given Kamrups's urbanization level at 35.80, Kamrup's UTPCF will be 1.8 after allowing for average marginal increase based on the UPR - UTD range.

Urban Population Ratio (UPR)	10	20	30	40	50
Urban Total Differential (UTD)	30	48	60	68	75
Urban Total Per Capita Factor (UTPCF)	3.0	2.4	2.0	1.7	1.5

We then find out the *expenditure* (normative expenditure on the part of GMC) - *income* (per capita income of Guwahatians) ratio which shows that on an average Guwahatians only need to part with a mere 0.912 per cent of their income to GMC for the upkeep of the city. If we directly take the net district domestic product of Kamrup (since urban

Kamrup mainly constitutes of Guwahati population) net of primary sector allowing another 10 per cent for secondary and service sector produce originating in rural Kamrup, the aforesaid ratio becomes even smaller thereby roughly indicating that Guwahatians are not at all loaded with a tax burden as it has been projected to be. Although such findings are very tentative and are subject to limitations, they do convey the verity substantially.

Need for Introspection

There are Guwahatians who register their high end cars in Meghalaya simply because the registration fee is a few thousand rupees less than Assam. By this, they deprive the District Transport Officer, Kamrup of a sizable amount of money a part of which would have gone to GMC as a share of shareable taxes. There are Guwahatians who are seen taking out the polythene bags dumped in nearby drains with the stick in their hand during their morning walk. By this, they help GMC keep the drains clean. Guwahati is in search of the latter category Guwahatians. All Guwahati needs is affection, a passionate care by its residents.

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