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## A lot of hot air

*Nothing much is likely to come out of the recent talk of shifting the basis of property taxation in Mumbai to a capital value system, says Raju Kane*

Here is a simple way to make some quick money. Just bet on whether the Brihanmumbai Municipal Corporation (BMC) will switch the basis of the property tax it levies to the capital value system from the present ratable value system this year.

You can safely bet against the proposition and win a great deal. The only catch is to find someone silly enough to give the odds. Because no bookie will ever bet on a bunch of politicians doing what is right, that might prove unpopular with a section of voters, especially in the election year.

Study after study has shown that the present property tax system in Mumbai defies all logic. Yet to change it requires political will which neither the state government nor the BMC has.

There are only two options before the authorities - either scrap a retrograde legislation or change the basis of taxation to a more equitable and just system. Doing either is going to hurt a large vote bank, which is benefiting by the current system.

To go back to basics, as they say, municipal taxes must not only cover the cost of providing the service, they must also distribute its burden among citizens in relation to the benefit that they may derive from it. The incidence of such a tax must correspond to the distribution of benefits it finances. Universally it has been found that the best way of tackling this is through property taxes. While the correspondence between burden of the property tax and the benefits received from municipal services is not perfect, there would be a superior correspondence in the case of this tax than, say, an alternative such as octroi.

There are broadly two systems used for assessing property taxes. The British system, which is followed in India as well, is based on ratable value that is based on the annual rent that property is expected to fetch. The other system followed in the US, Germany, Austria and Denmark is to base the property taxes on the capital value of the property.

Both systems assume that the property market is free of interference and rents or the capital values can be computed easily. Unfortunately they do not contend with legislations like the Rent Control Act, which has frozen rents in old buildings in Mumbai to 1940 levels. With the rents frozen the level of taxes for these buildings have been frozen as well, leading to a massive skew.

A 1997 study had shown that by setting the "standard rent" as defined in the Rent Control Act as the basis for ratable value not only limited the tax revenue but also violated the other principle of taxation - equity. This was because while some properties were covered by the Rent Control Act, for others where the standard rent was not frozen - as in the suburbs - the market rents and hence the taxes were much higher.

To reduce this inequity, and since it could not repeal the Rent Control Act - that is the purview of the state government -- BMC has over the years made several attempts at reforming its property tax system. At one point it considered an area-based ratable value model for taxation. However working out the fiscal zone to capture characteristics such as location in the city, proximity to a main road/railway station/market/other infrastructure in a large city like Mumbai proved to be a formidable task. Such a zoning system would have been afflicted by arbitrariness and would not represent a significant improvement over the existing system.

In 2001, it then appointed the University of Mumbai (UoM) and Tata Institute of Social Sciences (TISS) to find a way of rationalising the property tax system in Mumbai. The UoM - TISS study recommended a shift to the capital value system. It suggested that the capital values be based on the Stamp Duty Ready Reckoner with due weights being assigned for the

type of construction, user category and age of the structures.

While BMC has in principle accepted the suggestions, it has since dragged its feet on implementation. The reason is not too difficult to see. The present, skewed system allows for several thousand people residing in old buildings in South Mumbai to pay a pittance as tax.

Any shift to a capital value based system would have meant that their taxes would have increased manifold. Not surprisingly the proposal raised a hue and cry and was given a hasty burial. That this would have also resulted in the property taxes in the suburbs falling to the sixth of its present levels was quietly ignored.

But the fact is that BMC needs the resources that a more rational property tax structure can generate. Therefore every time around the budget there is always some talk about shifting to the capital value system.

Last year, around April it was decided that while the basis of assessment would shift to Capital Values in the "near future" the increase in taxes because of such a shift would not be more than 100 per cent of the existing level. Similarly it was also decided that with the shift the taxes will not be allowed to fall by more than 10 per cent in the suburbs.

But even after the decision was taken the onus of actual implementation rested with the BMC. For the Congress-NCP controlled state government this was the ideal situation since it meant that the Sena-BJP controlled BMC would have to take the unpopular decision. Naturally the BMC was not keen to implement it.

Now that it is Budget time, the proposal is being discussed once again. But most BMC officials are betting that nothing will actually come out of it. "BMC elections are likely to be held next year. Already the BJP-Sena alliance is on thin political ice in the city. If they implement this proposal, they are almost certain to lose the election. We frankly don't see the system being implemented until after the elections, if at all," a senior civic official says.

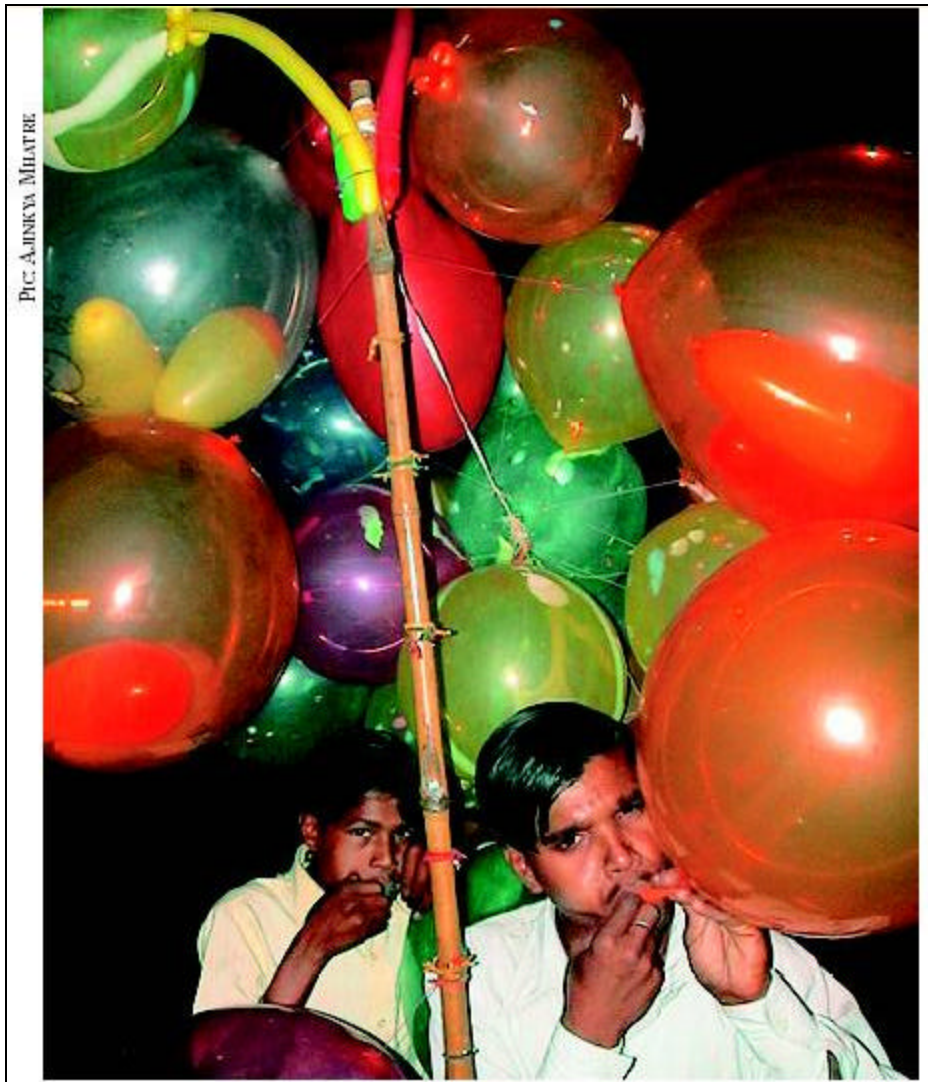
So if you are living in an old building in South Mumbai, relax. Your municipal services will continue to be subsidised by people living in the suburbs. It doesn't matter that the property that you occupy may be several times more valuable than your fellow citizen in the suburb.

As they say, oh darling, Yeh Hai India!

## **Quick BYTES**

BMC has over the years made several attempts at reforming the inequitable property tax system in Mumbai

However, switching to a system based on capital values calls for political will



PIC: ANSHEVA MISHRA