VALUATION AND ASSESSMENT PRACTICES

Valuation of Property

There are two requirements that lie at the heart of an efficient property tax system: (a) Accurate valuation of property, whether one is on the ARV or the CV System and (2) the existence of a legal framework that allows the corporation to levy and recover the appropriate rent.

Valuation practices in property taxation are major concern. Detail examination of the legal problems of valuation has been done. A detail analysis of the existing administrative procedure of valuation and assessment and a discussion on the organisational aspects of a central valuation agency. This chapter underlines the difficulties in determining the structure and functioning of a central valuation agency. This perhaps is indicative of the reasons for not attempting to create a central valuation agency by the states inspite of the supposed benefits flowing from such an agency. In this chapter we find that the basic problems of property tax assessments in USA and India are surprisingly similar, such as assessment lags, assessor discretion and the role of the state governments.

A number of interesting practices have been evolved over the years by various municipal authorities to give operational form to the base provided for in various enactments for determination of the annual rental
value. Ahmedabad municipal corporation (AMC) in Gujarat, arrives at RV for the rented residential properties on the basis of actual rent realised by the landlord. If however, the realised rent turns out to be a collusive rent, RV is determined on the basis of obtaining market rent for the similar properties, RV for the self-occupied residential properties is determined on the basis of an elaborate assessment table. It contains different rates of rentals on the sq. mt. basis which have to be used for arriving at the annual gross rental value (GRV). The rate varies according to the type of property assessed. For this purpose, properties are classified into three broad categories viz. (i) village sites, (ii) tenements, apartments, row houses, and (iii) independent bungalows. The table provides for discriminating rental values for the three distinct types of self-occupied residential properties which keep on increasing along with the type and the built up area of properties, Table - 4.2. Non-residential properties are also assessed on the basis of an Assessment table which contains pre-determined rates on the sq. mt. basis for six different types on non-residential properties into which these have been categorised. The rate varies from Rs. 2 per sq. mt. for the First category of properties to Rs. 20 per sq. mt. for the sixth type, Table 4.3. These seemingly innovative methods notwithstanding, the pre-determined rates are only one-tenth of the market rentals and are only marginally revised periodically (Mehta and Mehta 1991: 24). RV for
educational institutions, factories, institutional properties and so on is assessed on the basis of depreciated capital value of properties. Annual rent is taken as 6 percent of land value and depreciated cost of construction.

In Tamil Nadu, the Madrass Municipal Corporation (MMC) goes by the "prevailing rentals" in the various localities for determination or RV. This is applied universally for tenanted and self-occupied properties irrespective of land uses. There does not exist any guideline for capturing the prevailing market rent. Hotels constitute a separate category in themselves and are assessed on the basis of occupancy method. But it is curious that even the starred hotels are allowed a vacancy remission of 85 percent. Thus, in the case of hotels categorised as class "A", is 75 percent and for ordinary hotels it is 27.5 percent. The base of property tax, is still frozen at 1978-79 levels as the RV has not been updated ever since. The concept of "prevailing rent" in such a situation thus does not make any sense.

In Kerala, RV is determined by the Trivandrum Municipal Corporation (TMC) as well on the basis of Assessment Table. The city has been divided into three zones, viz. (i) inner city (ii) outer city and (iii) peripheries. The properties located in these three different zones are cross classified in terms of location and type of construction. Each property is assessed on the basis of a graded rent per sq. mt. which varies according
to the above mentioned features of properties and also its area. The rate varies from Rs. 0.50 to Rs. 3 per sq. mt., Table 4.4. R.V. for non-residential properties is assessed at 5 to 10 times the values depicted in the Assessment Table, Table 4.4. The municipal councils in the state also assess the properties on the basis of similar assessment table which has relatively lower predetermined rental values. However, in its operational, from, there is a lot of deviation from the Assessment Table which results in reduction in RV. Moreover, rates depicted in the table are hardly revised periodically.

The municipal corporation of Greater Bombay (BMC) also arrives at the gross annual rent by applying a table which contains. Pre-determined rental values for every 10 sq. mtrs. of covered area according to location and year of construction. It varies from a minimum of Rs. 137-145 in ward B for properties constructed in 1988-89 to a maximum of Rs. 224-232 in ward A (a) and D (b). RV of hotels is determined by applying the occupancy method but unlike MMC, vacancy remission is given only to the extent of 20 percent. The Municipal Corporation of Delhi (MCD), due to compulsions arising out of a judicial pronouncement of the Supreme Court of India (AIR: 1980), assesses RV of properties of all types on cost basis as provided for in the Delhi Rent Control Act, 1958. Accordingly, RV is computed at 8.25 percent of the cost of construction and the marked
value of land at the start of construction of residential properties which have already come out of the rent control holiday of initial 5 years. This in the case of non-residential properties is 8.625 percent. A recent amendment in the Act has enhanced these ratios to 10 percent for all types of properties. During the rent control holiday, the newly constructed properties are assessed on the basis of Rental Data evolved by the MCD on the basis of prevailing market rent. The data are collected by conducting a 5 percent sample survey of properties in each homogeneous locality. The rent realised and the carpet area of the sample properties are collected to work out the rent per sq. ft. which is used for determination of RV for property tax purposes. Before the Supreme Court Judgement, MCD was assessing RV on the basis of prevailing market rent for the rented properties and by applying the comparison method for the self-occupied properties. Hotels and other properties which are not let and for which there does not exist any rental evidence, were assessed on the basis of contractor's test method. As a substantial proportion of building were constructed long-long ago, method has frozen the RV of such properties at the historical value.

The Corporation of Calcutta (CC) determines RV of rented residential properties on the basis of actual rent. If, however, the realised rent is on the lower side, it goes by the comparable rent method. RV of self-
occupied properties is assessed on the basis of the last rent fetched by the old properties, allowing 10 percent increase over it and on the basis of predetermined rental values on sq. ft. basis for the newly constructed properties. Non-residential rented properties are likewise assessed on the basis of actual rent realised. Prevailing rent in the locality is taken as the guideline for assessing the RV of self-occupied non-residential properties. But like residential self-occupied properties, RV is scaled down to some extent though it is not provided for in the law. Hotels are assessed differently, however. They are divided into business area (rooms with beds) and service area. RV for business area is determined on the basis of comparable rent in the locality. RV for service area is assessed at one-fifth of the RV of business area.

Exemptions

By and large, land and buildings used exclusively for worship and charitable purposes are exempted from the levy of property tax. The Act in Kerala and Madras provide for exemption even to educational institutions. In the latter two states, exemption is extended even to the hostel attached to an educational institution. In Madrass, exemption is also extended to charitable hospitals and dispensaries, burial and burying grounds. However, the exempted properties are required to pay service taxes and cess.
Exemptions are also granted on the basis of rental value. In Ahmadabad and within the jurisdiction of CC, all the properties with an RV of less than Rs. 600 per annum, are exempted from the perview of property tax. In Kerala, the cut-off point is Rs. 60 per annum and in Madras, it is Rs. 36 per annum. MCD exempts the properties with an RV of upto Rs. 1000 per annum.

**Valuation of Vacant Land**

Taxation of vacant land is not provided for in the Law in Gujarat and Kerala. Hence, the municipal authorities do not tax such land. In Madras, RV for vacant land is assessed at a nominal rate. It is at the rate of Rs. 104 per ground¹. MCD, CC and BMC in Delhi, Calcutta and Bombay respectively, determine the RV by taking some fraction of the capital value (CV). This, in case of Delhi, is 5 percent. In Calcutta, it is assessed by CC at 7 percent of capital value. BMC however determines RV at 12 percent of the capital value. Obviously, in Ahmadabad, Kerala and Madras, the property tax system provides an incentive for not building upon the vacant land for speculative purposes. Bombay presents a much more deterrent taxation of vacant urban land.

**Taxation of Government Property**

The properties belonging to the Central Government and State
Governments are taxed differently. Taxation of Union properties is governed by the provisions laid down in section 154 of the repealed Government of India Act, 1935 which exempted the Central Government properties from the payment of all taxes imposed by a state or any authority within a state. The same provision was adopted in the constitution of India under Article 285. However, following the Act of 1935 which provided for continuance of taxes already imposed before the commencement of this Act in April, 1937, the constitution of India allows for the continuation of such taxes even after 1950 when the constitution was adopted. But the rate of taxes obtaining before April, 1937 is not liable to be enhanced.

In 1953, however, the Government of India (GOI) reviewed it and agreed to pay enhanced taxes on the properties which are subject to taxation since 1937. The enhanced tax was to be paid with retrospective effect from April 1948. But following a decision of the Supreme Court of India (SC) after an interpretation of Article 277 of the constitution in 1964, the enhanced rate was discontinued in 1966 (AIR : 1964). Thus the union properties subject to taxation before 1937, are still taxed at the old rate, however, periodical valuation of such properties is, permitted.

**Liberal Assessment of Self-occupied Properties**

It should be obvious from the spectrum of diverse type of valuation
practices that even in the case of land and buildings used exclusively for residential purpose, there exists varying practices for self-occupied properties and rented properties. By and large, self-occupied properties are assessed much more liberally on the plea that they do not earn any rent. As mentioned earlier, in Ahmadabad, such properties are assessed according to a Table which is only one-tenth of the market value. In Calcutta, there is statutory provision to give them allowance in the determination of RV on the basis of a formula. Discussions with the officials in Trivandrum and Madras also revealed that though there does not exist any such provision in the statute, RV for the owner-occupied properties are assessed liberally. In Amritsar, in Punjab, the self-occupied properties are assessed only at 50 percent of the prevailing market rent for similar properties. Since self-occupied properties constitute a sizeable proportion of the total holdings assessed in a city or town, the adverse impact of Liberal assessment is substantial. Besides, it becomes instrumental in promoting disparities and inequities in the tax system. Self-occupied properties in Delhi accounts for about 65 percent of the total number of holdings (Delhi Administration 1990 : 30). In Calcutta, such properties are to the extent of about 35 percent (West Bengal 1982 : 37). In small and medium towns, self-occupied properties constitute about 60 to 90 percent of the total housing stock.

Liberal valuation of self-occupied properties has an interesting
history. As early as in the early fifties, soon after the inception of the Indian Republic, in the erstwhile state of Madras, the state Government issued a caveat to MMC and other municipal authorities in the state that the RV with respect to self-occupied properties should not be increased over the valuation in force in 1939 beyond the ceiling prescribed in the Rent Act. Soon such orders were enforced in Andhra Pradesh as well. In Delhi, a dilution in valuation of self-occupied properties has been perpetuated as a sequel to the guidelines issued by a committee constituted in the early sixties, immediately, after the setting up of the MCD, to lay down principles for determination of rental value. Among other things, the committee suggested to freeze the RV for self-occupied properties at the 1960-61 levels unless there was circumstantial change and ample justification for an increase (Delhi Administration 1990: 29). Accordingly, RV, once determined at the time of first assessment, is generally not enhanced unless there are alterations or additions to properties. This is but only one amongst a host of factors which have weakened the base.

**Discretionary Valuation**

Yet another factor contributing to the erosion in the base is related to the nature of the base itself. As the reasonable expectation is not defined explicitly and as there does not exist any objective method of ascertaining
it, determination of RV becomes highly a subjective exercise which has built-in scope for corrupt practices. These in turn, further erode the base (Orissa 1975 : 60).

Thus, we see that the defective assessment of the property for tax purpose is one of the main bottlenecks that has impaired its elasticity and productivity. It may seem pertinent to discuss how the present assessment is undertaken in the light of the historical retrospect. The Act of 1850 authorised voluntary associations in towns to raise the required funds for the purpose of meeting the municipal service charges. No hard and fast rule was laid down and the commissioners were given considerable latitude in the matter. The greater difficulty in the levy of the property tax arose from the absence of statutory rating and assessment committees. There was a provision in the Act for revising the assessment of the rental value once in every five years, but in the absence of properly constituted assessing authorities the practice had been to accept the rent receipts granted by the landlord to the tenants as the basis of taxation. Instances were not wanting where, under clandestine arrangement with tenants, landlords granted receipts for accounts lower than the actual rents received, thereby defrauding the municipality of its legitimate revenue.

Moreover, the assessment of properties which were in the immediate possession and enjoyment of the owners themselves, created difficul-
ties\(^5\). In the district municipalities of the Madras Presidency a majority of the inhabitants lived in their own houses, and, consequently, there was an absence of reliable data on which their rental value could be assessed\(^6\). The taxes were levied on a rough estimate by the low-paid municipal assessors, and that provided opportunities for corruption\(^7\).

Thus the historical background of the property tax reveals that due to lack of property constituted assessing authorities, false statements furnished by the tenants prompted by landlords; difficulty with regard to taxing of owner-occupied properties and betrayal of trust by the low paid municipal assessors resulted in large-scale reduction in the yield of the tax. Almost all these difficulties continue to persist and now let us briefly analyse that how the present assessment is defective.

It is no better than the past because the officials deputed by the state government are those who have experience in revenue collection and not in assessment. Instance are not lacking whereby sanitary inspectors are asked to take up assessment programme. Under these circumstances, assessment can not be objective, accurate and scientific and at the same time assessment is a job which requires technical expertise. Besides, the assessor's failure to assess the property, either because of his ineffecieny and corruption or both; the tendency of under assessment on the part of the Land Lord is at its full swing.
Assessment is inefficient while under assessment and over assessment are rampant in most of the municipal areas—these have largely been responsible for inequality and unfairness. Similar observation is made by Professor Tripathy who says in the context of the Bihar municipalities that very often in case of persons with substantial holding of property and large local influence, the annual value is underassessed whereas holdings owned by people with small income and very small in size and in bad conditions are overassessed.\(^8\)

By now it is clear that property tax assessment is the general problem being faced by almost all countries imposing property tax. Mr. Larry Schroeder has done very good work on assessment aspect and a comparative study of India and America "Property Tax Assessment Problems in The United States And India: Some contrasts and comparisons". He has attempted to indicate the many similarities and few differences in the assessment of the property tax in India and the United States. While the tax base in the two countries differ, with a free market and proper assessment there would be little difference in the assessments under the two systems. In addition, it is striking that many of the problems faced by assessors and administrators of the tax in the two countries are quite similar. Thus, assessment lags, assessor discretion and the role of higher levels of government face both countries. Probably, the most crucial
difference in the problems faced in the two countries is not directly tied to the property tax but instead to the housing policies in the two countries. While the housing market in the United States is highly competitive, rent controls in India distort the market and in doing so create problems with respect to both the equity and revenue potential of the tax in India.

Determination of the tax base in each country relies upon the efforts of assessors who have the task of evaluating the tax base for each parcel on the tax roll. There are many similarities in the approaches taken by assessors in the two countries in determining these bases. The primary approaches are: (1) direct observation of sales or rent, (2) comparable property method; and (3) less direct methods that rely on the cost of the property and/or the return from the property and that must be applied when there is no turnover or letting of the property. We consider each in turn.

**Direct Observation**

The simplest approach to the valuation of the tax base is to observe it directly. The selling price of a property sold in the United States could then become the basis of the tax like wise, in India such an approach could rely on observation of the rent received by the owner of a rental ('Left') property. Given the prominence of such rented property in India especially, residential property, it is this direct approach which is most heavily
relied upon there. Since turnover of property in the United States is not especially great, the direct approach to assessment is less important there.

The key to the direct assessment method (indeed, to any method) is accurate information. In the United States there is reliance upon real property transfer records, which are reasonably accurate. In India it is necessary to obtain information on the rental transaction. Apparently, this is cause of one problem in the system since owner and tenant may conspire to mislead the assessor by understanding such rents. The assessor can, however, utilize his discretion and knowledge of the market to overrule the tenant and landlord.

Comparison of Properties

Since many properties are not sold during any one year in the United States and since some properties are not let in India, the comparative method of assessment is used in both countries. This means that in the United States, the assessor must use his judgement concerning those attributes of properties that are important in determining market values and then match properties on the basis of such attributes. The prices of properties that did turn over (were sold) can then be used as proxies for those not sold. Among the commonly used attributes in such a process are building material, floor space, lot size and location.
Similar property attributes are used in India when the comparable property method is used. For owner-occupied housing and certain commercial property it is not possible to observe directly the rental value. Thus, as in the United States, the assessors consider these attributes then compare the rental value of properties actually let with those owner occupied to determine an annual value for the latter.

Once again accurate information is at the heart of this method (as well as good judgement on the part of the assessor). If property characteristics are incorrect or if the directly - observed value data are wrong, inaccuracies in assessment are likely to occur.

**Cost or Net Return Methods**

In both the United States and India it is sometimes impossible to use either of the first two methods of assessment. That is, some properties are never sold or let nor do they have attributes in common with those that do turn over or are rented. Examples of such properties include utilities and many factories. In these cases, less direct methods must be applied. These methods utilise certain attributes of the market in determining values.

The functioning of a market can be described in terms of the rate of return on a property. Thus, the rate of return, r, is simply the ratio of net return, R, to the market value of property, V. That is:
This identity can be and is used as the basis of assessment in both the United States and India. If \( r \) is such as the normal rate of return investors could obtain in alternative opportunities and if a property is yielding approximately \( R_1 \) annual net returns, then the most an investor will bid on the property (with no purely speculative expectations) would be

\[
V_1 = \frac{R_1}{r_1} \quad (2)
\]

Thus, in the Unites States if the income statement of a property suggests that it yields an annual return of dollar one million and 'the' rate of return in the market is assumed to be 10 percent then that property would have a market value of dollar 10 million which can be used as the basis of assessment.

A second approach used in both the United States and India relies on the cost of replacing the property. Thus, in the United States estimates of the value of the land plus the cost of replacing the building and equipment in their current condition (that is current replacement costs less depreciation) yeilds an estimate of the current worth of the property. Indian municipalities use this method together with another variant on equation (1) for non-let and unique properties an estimate of the value of the property, \( V_2 \), can be obtained using the cost approach as in the United States. The tax base, \( R_2 \) is then
\[ R_2 = r_2 V_2 \quad \ldots \ldots \ldots \quad (3) \]

where \( r_2 \) is the policy determined reasonable rate of return.

These indirect methods require greater amounts of information than the first two described, yet accuracy is still of utmost importance. For the capitalised value method as applied in the United States, accurate accounting data must be available to determine \( R_1 \). Furthermore, considerable technical information concerning engineering and construction costs is necessary to ascertain replacement costs. Finally, if current values are to be estimated accurate depreciation data must also be available.

One short-cut to these data requirements that apparently is used in some Indian cities is to use original cost rather than replacement cost less depreciation in estimating \( r_2 \). While this greatly eases the estimation process, its accuracy depends on the relative rates of depreciation and inflation of construction costs if construction prices have increased at a rate greater (less) than the rate of depreciation in the property, the resultant assessed valuation would be lower (higher) than that obtained under the conceptually preferable replacement cost less depreciation method.

**Normative Criteria For Judging Property Tax Assessment**

Several different criteria should be considered when judging the
assessment of property - efficiency, equity, revenue, administrative costs and certainty.

All taxes, save a poll or head tax involve non-neutral effects. Thus, the tax on tangible property is likely to increase the attractiveness of holding wealth in the form of intangible property. Likewise where only land and building are taxed, there may be an effect on the relative amounts of these assets used vis-a-vis machinery and equipment.

While certain incentives may or may not be socially desirable, it is more apparent that outright inequalities in the assessment of similar properties are undesirable. Possibly nothing does more to undermine the role of the property tax in a municipal tax structure than obvious inequities in the assessment process. To find that one's neighbour, living in a similar structure, is paying considerably less in the form of property taxes not only causes dissatisfaction with the tax and those who administer it but may also erode overall confidence in municipal government.

There are at least two different ways to view equity in taxes according to benefits derived and ability to pay.

While revenue yields to the jurisdiction is an important aspect of an overall evaluation of a tax, there also must be cognizance that most revenue sources require costs to administer. Furthermore, these costs accrue to both the taxing jurisdiction itself and to the taxpayer; and both
should be recognised. Administrative efficiency must be pursued and may
be achieved through mechanisation of the process.  

It also must be recognised that compliance costs to the taxpayer are
a part of the overall costs of administering a tax. If administrative
arrangements make compliance difficult, not only is it likely that yields
will suffer through tax avoidance but in addition inequities may be
introduced, into the system.

Finally, there must be a degree of certainty associated with admin-
istration of the tax. The tax should not be applied in a highly capricious
manner such that the taxpayer does not know from period to period why
or how he has been taxed nor should different taxpayers be treated
dissimilarly at the whims of those administering the tax. While it may be
that local regulations concerning the tax differ depending upon the state
or locality, the taxpayer should be able to ascertain exactly how his tax
liability was determined.

Now we make a review of these issues in the light of the efficiency,
equity, revenue yield, cost and certainty criteria and find that many
similarities exists between these two systems. We consider in turn,
assessment inequities, assessment of land, inefficiencies in the housing
market assessment lags, collection problems, and the role of the state in
the municipal tax assessment process.
Assessment Inequities

The discretion of assessor plays a crucial role in all property tax assessment as it is currently carried out in both the United States and India. This discretion, if applied in a discriminatory or arbitrary way, can lead to the most blatant inequities, undesirable incentives and lack of growth in the base.

It has been suggested in the United States that self-assessment be used to avoid such discretion with the owner's self-declaration of market value being, in essence, an offer to sell. Interestingly, India is currently allowing such an approach with respect to the centre's wealth tax. The provision has however, not actually been put into practice since the legislation allows only the government to accept such offers and no funds have been allocated for this purpose. If the provision would, in fact, become operable, coordination between localities and the centre could vastly improve assessment practices by diminishing the discretion of the assessor.

In both India and the United States there is apparently a great deal of discretion used by assessors which results in both inequities and possibly inefficiencies in the tax. This discretion takes the form both of discretion with respect to assessments across and within types of properties.
Experience in the United States suggests that there are considerable differences in assessment practices across property types\(^\text{15}\).

Apparently, similar inter-property type discrimination on the part of assessors occurs, as well in India. While certain states specify a particular form of favourable treatment to owner occupiers vis-a-vis rental property (e.g., in Uttar Pradesh) in other areas such practice is accomplished without the role of law\(^\text{16}\).

Unfortunately similar data are not available on any wide scale in India. Nevertheless, there is suspicion, that considerable differences exist, there too. In part this may be due to underreporting of rental values by owner and tenants with the rate of such underreporting differing across renter-owner combinations. It may also be due to outright fraud on the part of assessors.\(^\text{17}\) This problem can, unfortunately, be exacerbate by the use of progressive rate as is done in many Indian municipalities. That is, if an assessor finds a rental value that exceeds a lower rate cut-off points, it may be very tempting to negotiate an annual value that lies somewhere below the rate bound. This then would create additional intra-class inequities in assessment.

**Land Assessment**

One extremelly important issue with respect to urban property
taxation concerns the assessment of land. Property taxation by altering relative prices incentives and incentives and disincentives within the market. Thus, property taxation can be used to create incentives which are socially desirable. This can be especially important with respect to the assessment of land. Once again this is an issue that has been faced in both the United State and India.

In India, with its expanding population and urbanisation, the vacant land problem may be even greater. Totally unused land yields no annual rental value and, apparently, in at least some Indian municipalities, is not taxed. Yet it is quite obvious that the holder of such land must be realising at least some net positive expected return on his land. If not, it would immediately be developed. Thus, on basis of economic efficiency such land should be taxed, possibly by applying a normal rate or return to the market price of such property (equation (3) above).

The Housing Market

A major concern in most societies is the provision of adequate housing, India is no exception. In India a principal housing policy has been in the form of rent controls. For those who obtain housing, this policy does not allow for lower-cost housing yet, the inefficiencies created have undesirable effects both on overall housing availability and on the equity
and revenue growth effects in the property tax. As with any effective price control mechanism in a profit-oriented economy shortages many result.¹⁸

The current approach to property taxation in India is to use actual rents as the basis of annual value. Furthermore, in many Indian municipalities, the controlled rent is to be used as the basis of the tax for rent-controlled properties.¹⁹ This has two effects - on the equity of the tax and on its revenue growth. With respect to either ability to pay or benefit principles of taxation, inequities may occur under controlled rents. With no rent controls the forces of the market are likely to result in persons with similar incomes (ability to pay) living in similarly valued residences. Likewise, the benefits of at least certain property financed services, eg., fire protection can be said to be positively related with the value (rental or capital) of the property. With rent controls, however, there is no reason to expect such correspondences since apparently rent controls are tied to incomes. If the property tax is linked to controlled rents, the resultant tax can be in conflict with the ability to pay principle. Furthermore, the benefit norm of taxation may also be violated when rent controls are in effect. Controlled rents are not necessarily closely related to the flow of housing services derived from the structure while benefits from at least certain municipal services are likely to be so related; thus, the benefit principle may break down.
Finally, rent controls with property tax levies tied to the controlled rents have obvious revenue implications. If rents are not allowed to rise with general increases in overall costs of producing public expenditures, then revenues from such taxes will tend either to hold back necessary spending increases or alternative revenue sources have to be found.  

Assessment Lags

Lack of growth in the assessed tax base can also be tied to the rapidity at which increases in the legal tax base are captured on the tax rolls. The Indian situation with respect to assessment lags is not much better. Certain states even require that reassessment occur only every five years. In the interim, the assessment list can be altered only if property is added or deleted. No adjustments in assessed values are possible even if such changes actually occur and are known by the assessor. Once again this introduces inequities into the tax base and retards the growth in tax yield (if rates remain unchanged).

In India, municipalities are the creation of the states. They thus derive all their taxing powers from the state. Admittedly the system in India provides considerably greater power to the state in the overall budgetary process, however, localities seem to be quite jealous of their power over the setting of assessed values. There is, nevertheless, an
important question as to what role the state should play in the assessment process.

The problem associated with the assessment process in India have led some to argue that the state should take over the entire process. This would have the possible advantage of increasing the professionalism of the assessment process and possibly decreasing fraudulent practices. It would, however, further weaken the already weak municipal government structure of localities. If the overall competency of municipal governments in India is to be improved, it would seem that centralisation of the assessment process would not aid in this process.

There are nevertheless, possible roles to be played by states in India. In the first place, a state could actively attempt to strengthen the assessment process. This could take the form of professional training for the assessors and active assistance to municipalities in improving their administrative practices. Secondly, since there currently is intergovernmental aid provided to municipalities, this aid could somehow be altered to provide incentives to municipalities to improve their assessment and collection practices. By tying some inter governmental revenues to the efforts made by assessors and collectors, the overall level of such effort may be improved.21
### TABLE - 5.1

**Periodicity of Valuation**

<table>
<thead>
<tr>
<th>Periodicity of General Revision of Assessment</th>
<th>States</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. No prescribed period within which general revision should take place</td>
<td>Himachal Pradesh and Punjab</td>
</tr>
<tr>
<td>2. To be revised once in every:</td>
<td></td>
</tr>
<tr>
<td>(a) Three years</td>
<td>Rajasthan</td>
</tr>
<tr>
<td>(b) Four years</td>
<td>Madhya Pradesh, Gujarat,</td>
</tr>
<tr>
<td></td>
<td>Maharashtra and Karnataka</td>
</tr>
<tr>
<td>(c) Five years</td>
<td>Assam, West Bengal, Bihar, Uttar Pradesh,</td>
</tr>
<tr>
<td></td>
<td>Haryana, Orissa, Andhra Pradesh,</td>
</tr>
<tr>
<td></td>
<td>Tamil Nadu, and Kerala</td>
</tr>
</tbody>
</table>

*Source: Municipal Statutes and the Municipal Authorities.*
Importance of Revision

In our municipalities, it can not be said confidently how far there is a rise in the number of taxable items (buildings) due mainly to lack of complete and comprehensive revisions. In municipal jurisdictions where the revision has been carried on, the facts of those revisions were not allowed to be enforced because of the injunctions of the courts. These have helped a large number of properties escape tax liability. For example vijaywada with its nine percent rise in assessments takes pride of place among the municipalities in Andhra Pradesh. In Guntur municipality it is reported that some hereditaments miss the tax liability for the reason that the municipality lost its records in the accident during 1966-67. No efforts seem to be made by this municipality to restore the lost data, by preparing new lits for revision purpose.

Periodical Revision of Rental Value

All the municipal enactments provide for periodical upadating of the base through fresh valuation except in Delhi. In the state of Gujarat, it is done every four years and so is the practice in Bombay. In Tamil Nadu and Kerala, it is taken recourse to every five years. C.C. does it once in six years (Table 5.1). A cycle of periodical revision is followed by dividing the cities into zones so that by the time the revision of valuation is
completed in the last zone, the first zone becomes due for fresh valuation. Barring M.M.C., all other municipal authorities have so far been following the prescribed cycle of revision. M.M.C. in Madras still relies on the valuation done last in 1978-79. Property tax in Madras is therefore still pegged at the base obtaining in the late seventies. Consequent upon the Supreme Court Judgement which requires to determine rental value on the basis of SR, the MCD has discontinued periodical updating of rental value in Delhi. In the state of Uttar Pradesh, the Act provides for updating of rental value once in five years but the revised rental value is not to exceed the rental value in force by more than 25 percent. Periodical updating of rental value does not make sense elsewhere as will unless the rental value is still below SR which now constitutes the upper limit of "reasonable rent".

In fact, general revision of valuation of properties is a precondition for property tax to be an elastic source of municipal revenue. If it is not done, the local bodies will be deprived of higher revenues. Though all municipal enactments provide for general revision, variation in its periodicity will be observed from the Table 5.1. In Himachal Pradesh and Punjab, the valuation may be done every year or the municipal council may adopt the valuation and assessment for any year with such alteration where necessary, as the valuation and assessment for the following year. While
# TABLE - 5.2

## Validation Process of Valuation / Assessment

<table>
<thead>
<tr>
<th>Activity / Authority Assigned to</th>
<th>State</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>I. Public Notice to be Given by:</strong></td>
<td></td>
</tr>
<tr>
<td>(a) Municipal council</td>
<td>Assam, Haryana, Himachal Pradesh</td>
</tr>
<tr>
<td>(b) Chairman of the Council</td>
<td>West Bengal</td>
</tr>
<tr>
<td>(c) Executive officer</td>
<td>Bihar, Madhya Pradesh, Punjab, Maharashtra, Gujarat, Tamil Nadu, Kerala and Uttar Pradesh</td>
</tr>
<tr>
<td>(d) Valuation officer/assessor and Karnataka</td>
<td>Andhra Pradesh, Rajasthan, Orissa</td>
</tr>
<tr>
<td><strong>II. Objections to be Made to:</strong></td>
<td></td>
</tr>
<tr>
<td>(a) Municipal council</td>
<td>Assam, Haryana, Himachal Pradesh and Punjab</td>
</tr>
<tr>
<td>(b) Executive committee of the council</td>
<td>Gujarat</td>
</tr>
<tr>
<td>(c) Chairman of the council</td>
<td>West Bengal</td>
</tr>
<tr>
<td>(d) Executive Officer</td>
<td>Bihar, Madhya Pradesh, Maharashtra, Tamil Nadu, Kerala, Orissa and Uttar Pradesh</td>
</tr>
<tr>
<td>(e) Valuation officer/assessor</td>
<td>Andhra Pradesh, Rajasthan and Karnataka</td>
</tr>
<tr>
<td><strong>III. Objections to be Heard by:</strong></td>
<td></td>
</tr>
<tr>
<td>(a) Municipal council (Generally delegated)</td>
<td>Assam, Haryana, Himachal Pradesh, Uttar Pradesh, Madhya Pradesh and Rajasthan</td>
</tr>
<tr>
<td>(b) Special committee</td>
<td>Punjab, Bihar, West Bengal and Gujarat</td>
</tr>
<tr>
<td>(c) Valuation officer/assessor and Orissa</td>
<td>Andhra Pradesh, Maharashtra</td>
</tr>
<tr>
<td>(d) Executive officer</td>
<td>Tamil Nadu and Kerala</td>
</tr>
<tr>
<td>(e) Revising authority</td>
<td>Karnataka</td>
</tr>
</tbody>
</table>

**Source**: Municipal Statutes and the Municipal Authorities.
the assessment list is required to be completely revised in Rajasthan not less than once in every three years, in Maharashtra, Karnataka and Madhya Pradesh, it is to be done at least once in four years. Once the assessment list is revised in Maharashtra, it is to remain in force for four years. In Gujarat too, the assessment is required to be revised every four years. In other states, quinquennial assessment of annual value is provided for.

**Validation of Valuation / Assessment List**

After the general revision of the valuation / assessment list, all the municipal enactments require an elaborate procedure for its validation, which involves issuing of public notice for inspection of the list, inviting objections against any entry there in, hearing of objections, and authentication of the list. Significant variations in regard to allocation of responsibility in these matters amongst different states will be noticed from Table 5.1. The public notice for inviting objections against assessment in Assam, haryana and Himachal Pradesh is to be given by the municipal council, implying that unless the council acts in this matter or delegates its power to one of its committees or to any one prescribed under law, further action can not be taken. In West Bengal, the responsibility is entrusted to the chairman of the council. Execution officers in Bihar, Madya Pradesh,
Punjab, Maharashtra, Gujarat, Tamil Nadu, Kerala and Uttar Pradesh, while valuation officer / assessor in Andhra Pradesh, Rajasthan, Orissa and Karnataka are to issue public notice. It will also be observed that in all the states, the authority required to issue the public notice is also the one to receive objections, with the exception of Punjab, Gujarat and Orissa.

Even though the responsibility of preparation of assessment list in Maharashtra is that of the Executive officer (known as chief officer), the list is verified by the valuation officer to be appointed by the State Government. After verification he forwards it to the chief officer who who hears the objections and after disposing them off, he authenticates the list and sends it to the chief officer for implementation. The authorised valuation officers are to be appointed by the state Government from amongst the officers of its Town Planning and Valuation Department. Till such time a valuation officer is appointed his powers and functions are entrusted to the standing committee of the council.

**Modification / Alteration in Assessment List**

Between one general revision and another, it becomes necessary to amend the assessment list by carrying out modifications and alterations necessitated by revision of rate of taxation, change of ownership or constructions of new buildings or when the buildings are altered or added
to or reconstructed in whole or in part where such constructions, alterations and additions have been contemplated after the preparation of the assessment list. The valuation of a property may be altered when it is demolished or destroyed or when the property is erroneously omitted or valued or assessed through fraud, misrepresentation, accident or mistake or while correcting any clerical or arithmetical error. All the municipal enactments stipulate such contingencies requiring amendments to the assessment list from time to time. In order to minimise the loss of municipal revenue by keeping the records correct and up to date, the municipalities are enabled to claim their share of the increase in rental value caused by additions / alterations to or reconstruction of buildings. In Bihar, the amendment to the list can be caused at any time by revaluation and reassessing, on the bases of general improvement in locality, of the properties located there in. In Madhya Pradesh, the owner of a property which is let out is required to give a notice to the council whenever there is an increase in rent and the assessment list can be modified to reflect the increase in rental value. In Andhra Pradesh, however, the assessment can be altered as a consequence of a revision petition claiming the decrease in annual value.

The authority to cause the amendment in the valuation / assessment list in Himachal Pradesh, Haryana, Uttar Pradesh, Rajasthan, Madhya
Pradesh, West Bengal and Assam vests in the municipal council which may delegate it. But in case of Punjab, it is the special committee of the council with the executive officer as its member and in Gujarat, the executive committee of the council which is entrusted with this task. In Bihar, Orissa, Andhra Pradesh, Karnataka, Tamil Nadu, Kerala and Maharashtra, it will be observed from Table 4.3 that the executive officer, be whatever designation he is known in these states, is empowered to amend the list. In Maharashtra, the chief officer is required to exercise his authority in this matter in consultation with the valuation officer or the standing committee of the council when there is no valuation officer.

The municipal councils in Tamil Nadu, Kerala, Andhra Pradesh are also empowered to direct the executive officer to amend the assessment book whenever it appears to them that any person or property has been inadequately assessed, inadvertently or improperly omitted or on account of other reasons mentioned above. However, when a special officer is appointed by any council by the state, the power of the council is required to be exercised by such officer.

When any modification / alteration in the assessment list involves increase in the valuation and assessment due to any of the reasons stated earlier, except when the tax rate is increased, or when the amendment is necessitated for correction of arithmetical or clerical error, it is required
### TABLE - 5.3

#### Appeal Against Revising Authority

<table>
<thead>
<tr>
<th>Revising Authority</th>
<th>Appellate Authority</th>
<th>States</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Council or its Committee whose decision is final</td>
<td>Assam, Bihar and West Bengal</td>
<td></td>
</tr>
<tr>
<td>(b) Council or its committee or special committee</td>
<td>(a) District magistrate/collected/deputy commissioner</td>
<td>Haryana, Himachal Pradesh, Uttar Pradesh, Rajasthan and Punjab</td>
</tr>
<tr>
<td>(c) Municipal commissioner or assistant commissioner appointed by the government for the government for this purpose, if there is no municipal commissioner</td>
<td>(a) Civil judge</td>
<td>Madhya Pradesh</td>
</tr>
<tr>
<td>(d) Executive officer</td>
<td>Magistrate designated for this purpose</td>
<td>Gujarat and Maharashtra</td>
</tr>
<tr>
<td>(e) Valuation officer</td>
<td>(a) Appellate commission (appointed by the state government) in consultation with chairman of the council</td>
<td>Tamil Nadu and Kerala</td>
</tr>
<tr>
<td>(b) District magistrate</td>
<td></td>
<td>Andhra Pradesh</td>
</tr>
</tbody>
</table>

Source: Municipal Statutes and the Municipal Authorities.
that a special notice to the affected party should be given to invite objections, if any, against the amendment. The machinery for hearing the objections and the procedure for their disposal are almost similar to these prescribed for hearing objections arising out of general revision discussed earlier. In Karnataka, however, it is prescribed that when any alteration is made by the Chief Officer, objections will be heard and decided by the assessor and when such alteration is made by the municipal commissioner, he will also be the revising authority.

**Appeal Against Revising Authority**

There are considerable variations in regard to the provisions for appeal against the order of the revising authority, that is the authority which hears the objections against general revision of assessment list before authenticating it or against any alterations or modifications in it subsequently. With the exception of Assam, Bihar and West Bengal where the decision of the revising authority is final, it would be observed from Table 5.3 that municipal enactments of Haryana, Himachal Pradesh, uttar Pradesh, Rajasthan, Punjab and Orrisa provide for appeal to lie before District Magistrate / Collector / Deputy Commissioner or to such other officer as may be empowered by the state government. In the case of Gujarat and Maharashtra, the judicial magistrate or the magistrate desig-
nated by sessions judge; in Karnataka a magistrate designated by the
District Magistrate and in Madhya Pradesh, the civil judge constitute the
appeallate authority. In Tamil Nadu and Kerala, the council or in case a
special officer is appointed by the state government in a municipal council
such officer, hears the appeal against the order of the revising authority.
In Andhra Pradesh, an appellate commissioner is required to be appointed
by the state government to dispose of the appeals in consultation with the
chairman of the council.

In Madhya Pradesh, Uttar Pradesh, Rajasthan, Gujarat, Maharashtra,
Orrisa, Andhra Pradesh, karnataka, Tamil Nadu and Kerala one of the
important conditions before the appellate authority can entertain an
appeal is that the amount claimed should be deposited by the applicant. In
Assam no application for review is to be entertained unless the applicant
has paid all dues to the municipal council other than the sum which has
been enhanced through revaluation or reassessment. In Haryana and
Himachal Pradesh, however, the requirement is that all other municipal
taxes due up-to-date should be paid before preferring an appeal; while in
West Bengal, the payment of the tax based on previous assessment is a
prerequisite condition for review of the valuation and assessment.

Foregoing analysis shows that the lack of periodical review of the
valuation and assessment have led to considerable erosion of the property
tax base. Firstly, a substantial proportion of additions and alterations brought about in the properties are not properly reported. Secondly, the distortion of the rental market because of underhand practices of pugree (key money) and advances does not allow an assessment of the real rental values of properties. The base of this tax thus gets depressed further. Thirdly, the valuation and assessment of the property tax is not revised as stipulated in the relevant acts and bye-laws. Table 5.3 gives an account of delays in revision of valuation and assessment. Study of the Table 5.3 prove that the valuation and assessments are not revised as frequently as prescribed in the various municipal laws and bye-laws; this depresses the base of this tax.

**Timely Revision of Property Tax Demand**

The crux of the problem in resource mobilisation from this tax lies in capturing, as far as possible, the market value of the land and building so that increases in property values are constantly mopped up. This calls for periodical valuation and assessment as provided for in the relevant laws and bye-laws. It is important to note that in a majority of municipal bodies the revision of the property tax demand has been made on time. However, as many as five municipal bodies have not been able to make such a timely revision. In some cases such as in Meerut and Hapur
### TABLE - 5.4

**Mobilisation of Property Taxes Through Quinquennial**

**Revision of Existing Demand in 1986 - 1987**

<table>
<thead>
<tr>
<th>Town</th>
<th>Property Tax yields in 1986 (Rs.)</th>
<th>Projected yields in 1991@25% increase</th>
<th>Projected yields in 1996@25% increase</th>
<th>Projected yields in 2001@25% increase</th>
<th>Net increase in yield by 1995</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>DMA Towns</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Faridabad</td>
<td>15600</td>
<td>19500</td>
<td>24375</td>
<td>30469</td>
<td>8775</td>
<td>14869</td>
</tr>
<tr>
<td>Ghaziabad (including Loni)</td>
<td>17773</td>
<td>22216</td>
<td>27770</td>
<td>34713</td>
<td>9997</td>
<td>16940</td>
</tr>
<tr>
<td>Gurgaon</td>
<td>2495</td>
<td>3119</td>
<td>3898</td>
<td>4873</td>
<td>1403</td>
<td>2378</td>
</tr>
<tr>
<td>Noida</td>
<td>-</td>
<td>-</td>
<td>12870</td>
<td>16087</td>
<td>-</td>
<td>3217</td>
</tr>
<tr>
<td>Bhadurgarh</td>
<td>612</td>
<td>765</td>
<td>956</td>
<td>1195</td>
<td>344</td>
<td>583</td>
</tr>
<tr>
<td>Kundli</td>
<td>-</td>
<td>-</td>
<td>2244</td>
<td>2805</td>
<td>-</td>
<td>561</td>
</tr>
<tr>
<td>Priority Towns</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Meerut</td>
<td>8177</td>
<td>10221</td>
<td>12777</td>
<td>15970</td>
<td>4600</td>
<td>7793</td>
</tr>
<tr>
<td>Rohtak</td>
<td>3338</td>
<td>4173</td>
<td>5216</td>
<td>6520</td>
<td>1878</td>
<td>3182</td>
</tr>
<tr>
<td>Alwar</td>
<td>876</td>
<td>1095</td>
<td>1369</td>
<td>1711</td>
<td>493</td>
<td>835</td>
</tr>
<tr>
<td>Panipat</td>
<td>4145</td>
<td>5181</td>
<td>6477</td>
<td>8096</td>
<td>2332</td>
<td>3951</td>
</tr>
<tr>
<td>Bulandshahr</td>
<td>1482</td>
<td>1853</td>
<td>2316</td>
<td>2895</td>
<td>834</td>
<td>1413</td>
</tr>
<tr>
<td>Hapur</td>
<td>1342</td>
<td>1678</td>
<td>2097</td>
<td>2621</td>
<td>755</td>
<td>1239</td>
</tr>
<tr>
<td>Khurja</td>
<td>560</td>
<td>700</td>
<td>875</td>
<td>1094</td>
<td>315</td>
<td>534</td>
</tr>
<tr>
<td>Rewari</td>
<td>874</td>
<td>1093</td>
<td>1366</td>
<td>1707</td>
<td>492</td>
<td>833</td>
</tr>
<tr>
<td>Palwal</td>
<td>881</td>
<td>1010</td>
<td>1377</td>
<td>1721</td>
<td>496</td>
<td>840</td>
</tr>
<tr>
<td>Bhiwadi</td>
<td>-</td>
<td>-728</td>
<td>910</td>
<td>-</td>
<td>182</td>
<td></td>
</tr>
<tr>
<td>Dharuhera</td>
<td>-</td>
<td>-</td>
<td>476</td>
<td>597</td>
<td>-</td>
<td>119</td>
</tr>
</tbody>
</table>

* Net increase in 1996 has been assumed for the year 1995 as well.

**Source:** NIUA Survey 1990
**TABLE - 5.5**

*Mobilisation of Property Taxes Through Quinquennial Revision of Property Tax Demand on Increased Population*

<table>
<thead>
<tr>
<th>Town</th>
<th>Per capita yields from property ('000)</th>
<th>Population in 1986 ('000)</th>
<th>Population in 1995: Induced ('000)</th>
<th>Increased population: 86 to 95 ('000)</th>
<th>Projected demand in 1995* ('000 Rs.)</th>
<th>Revision of Netincrease in the yields 2001 @ 25% increase ('000 Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>DMA Town</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Faridabad</td>
<td>29</td>
<td>543</td>
<td>759</td>
<td>216</td>
<td>6264</td>
<td>7830</td>
</tr>
<tr>
<td>Ghaziabad</td>
<td>44</td>
<td>407</td>
<td>868</td>
<td>461</td>
<td>20284</td>
<td>25355</td>
</tr>
<tr>
<td>(including Loni)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gurgaon</td>
<td>22</td>
<td>111</td>
<td>412</td>
<td>301</td>
<td>6622</td>
<td>8277</td>
</tr>
<tr>
<td>Bbahadurgarh</td>
<td>14</td>
<td>45</td>
<td>119</td>
<td>74</td>
<td>1036</td>
<td>1295</td>
</tr>
<tr>
<td>Priority Towns</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Meerut</td>
<td>16</td>
<td>507</td>
<td>1118</td>
<td>611</td>
<td>9776</td>
<td>12220</td>
</tr>
<tr>
<td>Rohtak</td>
<td>17</td>
<td>193</td>
<td>346</td>
<td>153</td>
<td>2601</td>
<td>3251</td>
</tr>
<tr>
<td>Alwar</td>
<td>5</td>
<td>176</td>
<td>341</td>
<td>165</td>
<td>825</td>
<td>1031</td>
</tr>
<tr>
<td>Panipat</td>
<td>24</td>
<td>173</td>
<td>340</td>
<td>167</td>
<td>4008</td>
<td>6010</td>
</tr>
<tr>
<td>Bulandshahr</td>
<td>11</td>
<td>136</td>
<td>319</td>
<td>183</td>
<td>2013</td>
<td>2516</td>
</tr>
<tr>
<td>Hapur</td>
<td>11</td>
<td>124</td>
<td>282</td>
<td>158</td>
<td>1738</td>
<td>2172</td>
</tr>
<tr>
<td>Khurja</td>
<td>7</td>
<td>-</td>
<td>184</td>
<td>184</td>
<td>1288</td>
<td>1610</td>
</tr>
<tr>
<td>Rewari</td>
<td>16</td>
<td>56</td>
<td>82</td>
<td>26</td>
<td>416</td>
<td>520</td>
</tr>
<tr>
<td>Palwal</td>
<td>16</td>
<td>54</td>
<td>169</td>
<td>115</td>
<td>1840</td>
<td>2300</td>
</tr>
</tbody>
</table>

**Note:** per capital yields in 1986.

*Source: NIUA Survey 1990*
### TABLE - 5.6

**Estimated Revenue Income from Timely Revision of Property Taxes in Selected Towns**

<table>
<thead>
<tr>
<th>Town</th>
<th>Maintenance Gap (000')</th>
<th>Mobilisation through timely revision</th>
<th>Revenue increase through revision as a % of gap</th>
</tr>
</thead>
<tbody>
<tr>
<td>Faridabad</td>
<td>304200 3994 8775</td>
<td>14869 1566 16435</td>
<td>2.88 3.66</td>
</tr>
<tr>
<td>Ghaziabad and Loni</td>
<td>233400 314300 9997</td>
<td>16740 5071 22011</td>
<td>4.73 7.98</td>
</tr>
<tr>
<td>Gurgaon</td>
<td>102900 157900 1403</td>
<td>2378 1655 4033</td>
<td>1.36 2.70</td>
</tr>
<tr>
<td>Noice</td>
<td>40400 56600 -</td>
<td>- 3217 3217</td>
<td>- 6.08</td>
</tr>
<tr>
<td>Bhadurgarh</td>
<td>93900 156700 344</td>
<td>583 259 242</td>
<td>0.37 0.54</td>
</tr>
<tr>
<td>Kundli</td>
<td>12700 36600 -</td>
<td>- 561 561</td>
<td>- 1.56</td>
</tr>
<tr>
<td>Meerut</td>
<td>281000 42550 4600</td>
<td>7793 2444 10237</td>
<td>1.64 2.45</td>
</tr>
<tr>
<td>Rohtak</td>
<td>88200 121100 1878</td>
<td>3182 650 3832</td>
<td>2.13 3.14</td>
</tr>
<tr>
<td>Alwar</td>
<td>57100 81900 493</td>
<td>835 206 1041</td>
<td>0.76 1.07</td>
</tr>
<tr>
<td>Panipat</td>
<td>89000 146900 2332</td>
<td>3951 1002 4953</td>
<td>2.62 3.45</td>
</tr>
<tr>
<td>Bulandshahr</td>
<td>85800 180200 834</td>
<td>1413 503 1916</td>
<td>0.96 1.07</td>
</tr>
<tr>
<td>Hapur</td>
<td>76700 129900 755</td>
<td>1239 434 1673</td>
<td>0.98 1.30</td>
</tr>
<tr>
<td>Khurja</td>
<td>51500 88200 315</td>
<td>534 322 856</td>
<td>0.61 0.98</td>
</tr>
<tr>
<td>Rewari</td>
<td>40600 66200 492</td>
<td>833 104 937</td>
<td>1.21 1.43</td>
</tr>
<tr>
<td>Palwal</td>
<td>35500 70800 496</td>
<td>840 460 1300</td>
<td>1.40 1.93</td>
</tr>
<tr>
<td>Bhiwadi</td>
<td>12100 30600 -</td>
<td>- 182 182</td>
<td>- 0.60</td>
</tr>
<tr>
<td>Dharuhera</td>
<td>8100 20400 -</td>
<td>- 199 199</td>
<td>- 0.59</td>
</tr>
<tr>
<td>All</td>
<td>1614100 2483200 32714</td>
<td>55390 18755 74145</td>
<td>2.04 3.07</td>
</tr>
</tbody>
</table>

**Source**: NIUA Survey 1990
revisions have not been made for the last 10 to 20 years.

In view of the fact that it is politically as well as administratively difficult to revise the property tax demand in retrospect; we suggest that hereafter the selected municipal bodies should exercise their powers of quinquennial assessment of property tax demand well in time. This has substantial potential for the mobilisation of municipal resources. We have worked out the projected yield in such quinquennial revisions will be made hereafter by selected municipal bodies: Table 5.4 and 5.5.

While projecting the yields from timely revisions we have assumed that the municipal bodies will be able to fully utilise their powers to revise the property tax demand as per the respective municipal acts. Accordingly, an increase of 25 percent has been worked out in respective property tax yields.

As may be seen from Table 5.6 the timely revisions will substantially increase the levels of municipal income. However, as proportion of the maintenance gap, they work out to be only 2.09 percent in 1995 and 2.99 percent in 2001.

Thus, so far revision or revaluation is concerned our foregoing analysis has proven that with a view to exploit fully the revenue raising potential of property taxes, an attempt should be made to capture the rising market values of urban properties by a regular and timely review of
property tax assessment. In other words, efforts should be made to have a timely revision of assessment of urban properties.

**Organisation of Property Tax Valuation and Assessment**

Till now, we have learnt that revenue productivity of property tax is heavily dependent upon the machinery for its administration. Now, we will explore and examine the organisational and administrative aspects of valuation and assessment of property tax in India.

**Organisational Setting**

The administration of property tax closely follows the executive structure of municipal organisation. The municipal corporation Acts clearly separate the deliberative and executive functions and the head of executive system, the commissioner, is recognised under law as a distinct municipal authority enjoying statutory powers. He belongs invariably to higher civil service and serves the corporation on deputation. Historically, in the case of the municipal councils (also known as boards or committees in different states), there has been fusing of the deliberative and the executive functions in the council which, at its inception, was a nominated body under the control of the district collector, but gradually became and elected body. However, the municipal councils in the southern states have
remained close to the 'corporation' model. In the municipal corporations and the southern municipalities, following the 'corporation' model, the administration of property tax is entirely the responsibility of the appointed executive.

The detrimental effects on municipal administration caused by the fusion of deliberative and executive functions in the council have frequently been pointed out. The Taxation Enquiry Commission in 1955 endorsed the following observations of the conference of local self-government Ministers.

For improving the standards of administration in local bodies there is a very good case for separating as far as possible, their purely executive functions from the deliberative or policy making functions. The latter category of functions should appropriately be the sphere of the elected wing of the local bodies. Once policies and decisions have been adopted, however, their implementation and execution should be left to the chief executive officer who must be made primarily and directly responsible for this part of the work.23

The commission further emphasised that executive powers and administrative responsibility should vest by statutory provisions in the chief executive officer "who should be selected and appointed by Govern-
ment or by an independent statutory board. In recent years many state
governments, following the councilial model, have introduced changes to
separate deliberative and executive functions of the municipal council and
entrust the latter to the executive wing headed by an executive officer
appointed by the State Government. However, in the administration of
property tax certain linkages between the two wings have been retained to
a varying degree under the legislations governing municipalities in differ­
ent states, with the exception of collection of tax which is uniformly
entrusted to the executive wing. The legislation covered provide that the
municipalities, with the exception of those in Haryana and Maharashtra,
may impose property tax, while in these two states it is mandatory to do
so. Nevertheless, the State Government are empowered to require the
municipalities to impose the tax and it is this provision which has taken
away the discretion of municipalities in the imposition of property tax.
Still the councils have the discretion to decide the rate at which the tax
shall be levied within the limits, if any, prescribed by Act. Once the tax has
been imposed and rate decided, the municipal legislations prescribe the
procedure for valuation and assessment of properties. The essential compo-
nents of this procedure are:

1. Preparation of valuation and / or assessment lists;
2. Periodic revision of valuation / assessment list;
3. Validation of valuation / assessment list
4. Grant of exemptions and remissions
5. Modifications / alterations in the assessment lists; and
6. Appeals.

Salient Features

An analysis of machinery for valuation and assessment of property tax in different states reveal the following salient features:

1. With the exception of two states, i.e. Himachal Pradesh and Punjab in all other states the period within which general revision of assessment should take place is prescribed.
2. The general revision of assessment is the responsibility of the local bodies, exception in Orissa, Karnataka and Andhra Pradesh, where an assessor / valuation officer is to be appointed by the State Government for this purpose.
3. Within municipal administration, the responsibility of the preparation of valuation/assessment list is entrusted to the executive officer except in the case of West Bengal, Assam and Orissa where assessors are required to be appointed by the council. the executive officers are either appointed by the state government from amongst its civil servants or from state municipal-cadre or they enjoy considerable protection of their service.
conditions from the state government. While the degree of general supervision and control of the council over an executive officer varies according to whether he enjoys powers delegated to him by the council or entrusted to him by the statute, most of the municipal enactments, however, do provide for securing their transfer on passing a resolution by the council with a prescribed majority of votes.

4. The assessing and the revising authority vests in the executive officer in Tamil Nadu and Kerala and in the valuation officer/assessment in Andhra Pradesh and Orissa. In Karnataka, the revising authority is the executive officer, while it is the valuation officer in Maharashtra. However, the standing committee of the council has assumed this role in Maharashtra because the valuation officers were withdrawn by the state government due to the opposition of the urban local bodies. In the remaining ten states, the deliberative wing of the municipal government constitutes the main component of the revising authority.

5. The appeal against the order of the revising authority lies to the council or special officers in Tamil Nadu and Kerala, to an appellate commission in Andhra Pradesh, while in all other states it lies before the District Magistrate or a Judicial Magistrate or a Civil Judge.

6. The assessing authority (except where an assessor or a valuation officer is appointed), the revising authority and the appellate authority
thus vests in persons who do not possess the technical expertise in the valuation and assessment of property.

Inadequancies of the Assessment Machinery

The machinery for assessment of property tax has been one of the focal points of almost every commission or committee set up by the central or state governments to examine the local finances or tax administration. Inefficient, inequitable, and defective assessment and the consequent loss of revenue is the main theme of their findings and invariably this is attributed to the failure of local bodies in tax administration.

Even though the periodicity of general revision of assessment is prescribed in Municipal Acts, "too many local authorities are loosing substantial revenue each year due to assessment list remaining more or less static over many years." In states where general revision is required be undertaken on the resolution of local body or on the direction of state government, such resolution or direction often does not emerge for years. The process of revision of assessment often requires additional staff and funds to be provided in the annual budget of the municipalities. Due to paucity of resources and well-equipped staff, the requirement of the law is often over looked many of the local bodies, particularly in small and medium sized towns, do not have a regular assessment department. If the
general revision is at all, undertaken, the entire operation is carried out by non-technical staff assembled from different departments to create an adhoc organisation and whatever experience is gained by such staff is lost with the dismantling of the organisation after the revision exercise is over. Even when an assessment department is set up on a regular basis it is often assessed that any municipal employee at the level of an inspector can carry out this task and it is not uncommon to discover intense struggle amongst the municipal staff to get posted to this department, whether regular or adhoc. This gives rise to a crude and unscientific system of assessment with its characteristic features of corruption, in-efficiency, and inequity. It is generally felt that the under-assessment varies from 25 percent to 85 percent of the annual value. There is another widespread feeling that the underassessment is largely in respect of properties with high rental value owned by the people belonging to the higher income groups and whose potential contribution to tax revenue is substantial, while on the other side, the small holdings owned by low income groups whose net share of contribution is marginal, tend to be over assessed.26

This essential and desirable characteristic which constitutes one of the fundamental justifications of having the local government, however, makes the elected representative more susceptible to local pressures and its administration at all levels more open and prone to political or
individual influences in its day-to-day functioning. The observation of the Taxation Enquiry Commission in 1955 that in some states the work to assessment was being done by the councillors, under the circumstances, assumes importance. As early as 1926, the Taxation Enquiry Committee had recommended that the work of assessment and collection should not be done by persons dependent on the votes of the electorate. Though the task of assessment is now entrusted to an appointed officer, there is still the formal involvement of the councillors in the process of validation of the assessment or at the appeal stage in all states, except in Orissa, Andhra Pradesh, and Karnataka. Observing that "quite often, any benefits derived from careful assessment are lost at appeal stage the Taxation Enquiry Commission recommended that no revisional or appellate function should be vested in municipal councillors. In many states, it has been observed that the task of assessment and valuation is now the statutory responsibility of the executive officer or of an officer appointed by either the council or by the state government. Though this is intended to insulate the task from political or other local influences, it does not ensure scientific and sound approach to scientific and sound approach to this vital function. The Local Finance Inquiry Committee in 1951 pointed out that:

Valuation of property is such a highly technical business that it cannot be entrusted to any person who has not received training, however
competent he may otherwise be. There is a great difference between ordinary administrative work and the valuation of immovable properties, particularly properties other than residential houses. In the determination of their annual value so many principles and standards of valuation have to be applied that the work can not be entrusted even to the members of civil services from whom usually Executive Officers of municipalities are recruited.  

Regarding the arrangement of lending by the state government of the services of its officers to undertake periodical revision of assessment, the Taxation Enquiry Commission noted that:

Quite often the officers whose services are so lent are deputed from the revenue or other departments of government and the deputed personnel have no particular training in or experience of assessment work. Hence assessment remains unsatisfactory notwithstanding that it is done by officers deputed by government.  

In states where valuation officers/assessors are drawn from the town planning and valuation department of the state government, they, by and large, possess technical experience in the background of valuation for purposes of land acquisition. In Assam and Orissa, the valuation organisation within Municipal Directorate is manned largely by the officers with revenue administrative experience. To the extent these
measures help in developing and retaining a pool of officers of these agencies with requisite expertise, they represent, no doubt, a considerable improvement over the other arrangements discussed earlier. In all these states however, either the revising authority or the appellate authority still vests in non-technical persons.

**Central Valuation Organisation**

Valuation and assessment is said to be both an art and a science. Various scientific valuation methods have to be applied skilfully in different situations. The municipal authorities in India especially the ones in small and medium sized towns, do not have resources to afford the services of a professional cadre of valuers. Even the municipal corporations in metropolitan cities do not have professional group of valuers. Valuation is therefore done by pooling the clerical staff from other departments whenever periodical valuation and assessment is in the offing. Not versed with the art of valuation, the involvement of untrained staff adversely affects the quality of valuation and hence the base. Secondly, even if valuation is done objectively and scientifically, political pulls and pressure are applied by the council to reduce the assessed value.

In view of the inadequacies of the assessment machinery, the Local Finance Inquiry Committee (1951), the Taxation Enquiry Commission
(1955), the Committee on Augmentation of Financial Resources of urban Local Bodies (1963), and the Rural Urban Relationship Committee (1966) appointed by the central government have all recommended the setting up of an independent Central Valuation Agency, while recommending it for all local bodies within a state, the Local Finance Inquiry Committee observed that: Even in England, where local bodies are tenacious of their rights, the task of valuation has been taken away from them under the Local Government Act of 1948 and vested in the Board of Inland Revenue. It is entrusted to the Rating and Valuation Department of the Board. The role of the proposed Valuation Department vis-a-vis the local bodies was elaborated by the committee when it recommended that:

Its duty will be to see valuation list is corrected and up-to-date for each local body. The valuation list as prepared by this department should be forwarded to the local body covered and should be published. Any person including the local body itself, will have the right to object to any valuation included in the list. But it will not be open to the local body to alter any entry as made by the Valuation Department. It will have to make a representation against such entry and if the Valuation Department is not satisfied with the objection and the local body or the person making the objection feels aggrieved by such action, it will have right to appeal to a local valuation court. The decision of the valuation court will be final on
points of facts.\textsuperscript{33}

While endorsing the above recommendation, the Taxation Enquiry Commission, however, felt that municipal corporation should be excluded because "they are in a position to employ staff which is adequately trained".\textsuperscript{34}

The committee on Augmentation of Financial Resources of Urban Local Bodies does not seem to have maintained any distinction between the municipal corporations and municipal councils in determining the jurisdiction of the valuation agency when it observed that "efficiency of assessment is incompatible with local control of the assessor". The other advantages it stressed were:

Centralised assessment offers an uncomplicated and effective means of obtaining uniformly high standard of assessment through the state, by the use of professional staff following standard methods and procedures under central direction. Once such a Valuation Department is set up, reassessment of urban properties can be taken up systematically at regular intervals and the cases of unequal and under-assessment which are very common now, can be removed to a great extent.\textsuperscript{35}

The argument of the committee that even local bodies whose limited resources do not permit employment of highly paid qualified valuers, will be able to get the services of the Valuation Department of the state
government, however, must be read with the provision in municipal enactments of most of the states requiring the municipal councils to bear the expenses of officers including valuation officers/assessors appointed by the state government and their establishment.

The Rural - Urban Relationship Committee, while reviewing the subsequent progress towards the setting up of the Central Valuation Agency noted the appointment of valuation officers/assessors in some states, observed that "such sporadic attempts do not help to build up experience and expertise in this specialised field". It recommended that:

(a) There should be a chief valuation officer in the Directorate of Local Bodies, who should lay down principles for determination of annual value and supervise and control of the valuation officers.

(b) There should be full time valuation officers for cities with a population of five lakhs or more. For groups of smaller cities and towns, valuation officers should be appointed according to the volume of work;

(c) The assessment lists should be prepared by the valuation officer with the assistance of the executive officer/deputy municipal commissioner and published for objections. After deciding the objection, the valuation officer may finalise the list;

(d) Appeals against assessment made by the valuation officer shall lie to the chief valuation officer;
(e) An appeal against decision of the chief valuation officer shall lie to the District Judge\(^{37}\).

While the setting up of the CVA as a department at the state level has been recommended by all; the RURC was specific in suggesting that this agency should be located in the Directorate of Local Bodies. The arguments in favour of CVA can be summed up as follows:

(1) It will insulate the process of assessment from local pressure. It is assumed that once that assessment machinery at local level is free from control of the local body, the local pressures will be reduced considerably;

(2) By having a state-wide cadre of officials responsible for valuation task, it will be possible to attract better qualified persons and to train and develop them systematically as professionally skilled manpower for this purpose.

(3) The agency would develop uniform norms and standards for determination of rental and capital value (whatever be the bases of assessment) of various types of properties, prepare an assessment code and revise them from time to time.

(4) Collection, analysis and determination of data regarding the behaviour of rental and capital values in urban areas will be an important function of the CVA. It has been ignored up till now. It will provide not only a sound basis for valuation decisions (reducing the level of subjec-
tivity) and training of valuers, but also it can help in securing a better cooperation between taxpayers and tax administration.

(5) Since the urban property is the basis of wide range of taxes such as income tax (income from property), wealth tax, gift tax, estate duty, capital gains tax etc., the availability of the authenticated data with CVA will facilitate coordination amongst various agencies carrying out almost similar exercise independently of each other and thus help in reducing the inconsistencies in valuation for different purposes.

However, it has not made much headway. Presently, it exists as a formal organisation only in West Bengal. It exists as an informal organisation in the states of Orissa and Assam. An attempt has been made in Andhra Pradesh to have central valuation done through the Directorate of Local Authorities and in Maharashtra, Valuation forms part of the State Level Town Planning and Valuation Department (TPV).

In West Bengal, the Central Valuation Board was created in 1979 under the West Bengal Central Valuation Board Act, 1978 as a sequel to a suggestion given by the World Bank under the Calcutta urban Development Project II. The Board, according to stipulations of the Act, can enter any municipal area for valuation only when it is invited to do so. It took quite some time for the Board to act and it was only in 1985 that it evolved a methodology for objective valuation. It has taken into account four
factors, which in the opinion of Board are instrumental in rise in property value and hence in the rentals. These variables include the cost of structure, location, occupational use, and age. These have again been blown into a number of gradations. The values to the gradation are assigned on the basis of basic data collected from the survey of properties and the "reasonable rental value" is worked out on the basis of results derived out of a complicated regression equation. Assessed value is then matched with the requirement of resources to provide reasonable level of services in the particular municipal area concerned. The total municipal valuation is thus determined so as to arrive at a total tax demand which will be sufficient to meet the expenditure requirement of the municipal authority (Guha Thakurta 1989: 43-44).

In Orissa, a valuation organisation (VO) was set up under the Orissa Municipal Act in 1970. It is under the administrative control of the Director of Municipal Administration. It also developed an Assessment Table by diving the areas into three grades depending on their proximity to infrastructure and amenities. These are cross classified according to quality of construction. A value is assigned to a particular property on a per sq. mt. basis depending on the quality of construction and locality. However, valuation is done by the municipal employees who do not possess any knowledge in this regard. The schedule of RV developed by
it is not revised and hence it has by now lost its relevance. Even in its initial days, VO could not do valuation properly (Orissa 1975 : 61) Central Valuation in Orissa has apparently failed (NCAER 1980 : 48-49).

In Assam as well, valuation organisation was set up on the basis of an executive order and hence it could not be a formal organisation. It has not yet got off the ground. In Andhra Pradesh, as in Orissa, Valuation was made part of the state level directorate of Municipal Administration. In the seventees it evolved its own scheme of valuation on CV basis which proved a disaster due to a spate of protest and agitation. Since then, it has been dormant. In Maharashtra, the TPVD tried to enter into municipal valuation but could not succeed with the result that its role is limited to valuation of land for town planning purposes. The overview of limited attempt towards central valuation does not present an encouraging picture. Even though CVB has not yet proved effective, there does not seem to be any thing wrong with the concept. It will take some more time before it takes roots. As mentioned earlier, CVO has several good things about it and it needs to be tried rather much more seriously for introducing the desired reforms in valuation.

The High Powered Committee in Delhi has also suggested to set up central valuation organisation to facilitate objective valuation. In the interim period, it suggested to adopt the practice of filing of return by the
assessees giving details of the property as also the rent fetched by it and payment of tax suo moto along with the return, failing which the tax payer will be charged suitable interest rate for the period during which the tax was not paid. This could form the basis for a panel of assessors to be constituted to lay down norms of prevailing market rent for each broadly homogeneous locality or area for broad classes of properties (Delhi Administration 1990: 13).
REFERENCES

1. 240 Square Feet.


5. Ibid.


11. This method is used by the Delhi Municipal Corporation.


14. This was put into effect in 1972 after being recommended by the Wanchoo Committee in Direct Taxes Enquiry Committee Report, New Delhi, 1971.


20. This is Observed in Ahmedabad and Lucknow which both use the Octroi Tax and where, over the past several years with increase in both prices and volume of business activity, this valorem levy has grown considerably more rapidly than property taxes.

21. Ibid.


24. Ibid.


26. R.N. Tripathy, Local Finance in Developing countries Govt. of India, Planning Commission, New Delhi, 1967, Chapter VIII, pp. 138-139.


Committee, Government of Indian Ministry of Health, New Delhi, 1951, p. 90.


33. Ibid, p. 91.


