

Property Taxation Needs Structural Reform

Mains: GSIII - Economy

Why in News?

India's municipal property tax collection remains significantly below its potential. India's cumulative property tax revenue is only around 0.15-0.2% of GDP, which is far less than middle-income and low-income countries.

Why is Property Tax Important for Urban India?

- **Major source of own revenue** - Property tax is among the most important sources of municipal revenue.
- **Urban infrastructure** - It finances roads, drainage, sanitation, waste management and other civic services.
- **Municipal creditworthiness** - Strong own-source revenue improves the ability of municipalities to borrow for infrastructure.
- **Fiscal autonomy** - It reduces excessive dependence on State and Central government transfers.
- **Better urban governance** - An efficient property tax system encourages accurate property records and improved municipal administration.

India's property tax collection is very low. It is only 0.15-0.2% of GDP. It is 0.6% in middle-income countries and 0.3% in low-income countries.

What are the Main Stages of Property Tax?

- **Property Enumeration** - Municipalities must identify all properties and maintain updated property records.
 - GIS, satellite imagery and drones can help in mapping properties.
- **Property Valuation and Assessment** - Municipalities must determine property values and calculate the applicable tax.
 - Valuation and base rates should be revised regularly to reflect changing property values.
- **Billing and Collection** - Municipalities must issue timely tax bills and provide convenient online payment facilities.
 - Effective recovery of tax arrears is essential for improving revenue collection.

Why is Property Tax Collection Poor?

- **Shortage of Municipal Staff** - Municipal bodies face staff shortages and lack adequately trained personnel.
 - This weakens property verification, assessment and tax collection.
- **Limits of Outsourcing** - Outsourced assessors may lack local knowledge and institutional memory.
 - Studies in Chennai indicate better tax outcomes with permanent municipal assessors.
- **Irregular Property Valuation** - Municipal base rates are often not revised regularly, reducing tax revenue.
 - Studies in Bengaluru, Pune and Ghaziabad show weaker revisions when elected councils were absent.
- **Delayed Municipal Elections** - Delayed elections can weaken local accountability and decision-making.
 - This can also affect tax revisions and municipal revenue performance.
- **Poor Financial Reporting** - Weak financial records make it difficult to accurately measure tax collection efficiency.
 - Lack of publicly available financial data also reduces transparency.

Why are Technology Reforms Not Enough?

- **Role of Technology** - GIS, satellite imagery and drones can improve property identification and mapping.
 - Online platforms can make tax payment easier and improve collection.
- **Need for Institutional Capacity** - Technology still requires physical verification and regular updating of records.
 - Skilled municipal staff and strong institutions are necessary to make technology effective.

What Reforms are Needed?

- **Strengthen Municipal Human Resources** - Municipalities should fill vacancies and recruit trained tax and finance officials.
 - Regular training should improve their technical and administrative capacity.
- **Modernise Property Records** - GIS mapping should be combined with regular physical surveys.
 - Property databases should be updated to capture new construction and ownership changes.
- **Improve Property Valuation** - Municipalities should revise base rates regularly and use realistic property values.
 - This can improve tax buoyancy and municipal revenue.
- **Ensure Timely Municipal Elections** - Municipal elections should be conducted regularly to strengthen local accountability.
 - Elected councils should have greater responsibility for municipal revenue decisions.
- **Improve Financial Management** - Municipalities should maintain proper accounts and digitise financial records.
 - Tax collection and financial data should be made publicly available.

- **Use Technology as an Enabler** - Digital tools should support municipal officials rather than replace them.
 - Technology should be integrated with stronger administrative capacity.

What is the Way Forward?

- **Shift Towards Structural Reform** - India should move beyond technology-focused reforms and strengthen the overall municipal system.
 - The entire tax chain should be improved from enumeration to valuation, billing and collection.
- **Strengthen Municipal Finances** - Better staffing, regular elections and transparent financial management can improve municipal revenue.
 - Stronger property taxation can provide municipalities with greater financial autonomy.
- **Support Sustainable Urbanisation** - Higher municipal revenue can support better urban infrastructure and public services.
 - Financially stronger municipalities can contribute to sustainable and well-managed urbanisation.

What lies ahead?

- India has significant potential to increase property tax revenue.
- Technology alone cannot address the structural weaknesses in municipal taxation.
- Better staffing, regular elections, realistic valuation and transparent finances are essential for stronger municipal finances.

Reference

[The Hindu| Property taxation needs structural reform](#)