

Municipal Property Tax in West Bengal

Dr. Mahananda Kanjilal

Associate Professor

Department: Economics,

Institution: Jogesh Chandra Chaudhuri College Kolkata, India

Abstract: In a federal set up, local government is found to exist along with Central and State governments. Urban local bodies (ULBs) are supposed to deal with the matters which are characteristically local. The objective of this paper is to focus the trends and pattern of property tax of West Bengal for the years 2001-02, 2007-08 and 2013-14. The methodology is empirical in nature and secondary data are used for analysis. The property tax is the major source of revenue in tax receipts of ULBs of West Bengal but the share of this tax in total receipts is not very high. The method of collection of this tax is traditional. Mainly Annual Rental value method is used which is inelastic in nature.

Firstly the analysis has been done on state level. Then the trend of this tax is analysed at the disaggregative level taking into account the districts of West Bengal.

Keywords: Federal, Urban local bodies, Annual rental value, Property tax, West Bengal

Introduction

In India, ULBs were first constituted in the pre-independence period. Since independence, their importance has been newly recognized. Historically the governments of developing countries are characteristically centralized. This is possibly due to the early emphasis of Development Economics on central planning and reluctance to share power with state and local governments. Recent global, political and economic changes have raised the issue of decentralization in developing countries.

ULBs of India are facing several problems with their growing responsibilities. The most important problem is the fiscal imbalance. Resources of ULBs are inadequate in comparison to their requirements. The major source of internal revenue of ULBs is the tax revenue. In the municipal tax revenue, property tax appears to be the dominant source of revenue for all ULBs.

Property tax appears to be the most important source of municipal revenue of ULBs. Property tax mainly depends on the valuation of local property. There are basically two methods of measuring the value of property. The first being the capital value method and the second is the annual rental value (ARV) method (According to Municipal Corporation Development Act 1957). Sometimes as a third method, the mix of these two are applied. In the first method present market value of the land and building is taken into consideration. In other words, capital value is the expected value of the property, when the property is sold in the market.

The argument against annual rental value method is that the rent is difficult to decide, in the absence of an adequate volume of open market rents, for all types of properties. But capital value can be determined when the property will be sold. In India, property market is far from open. Therefore it is difficult to decide the exact capital value of property. Also the values of properties go on increasing but revenue collection from property tax does not increase at the same rate. This is firstly due to the difficulty in calculating the increase in value of property without selling the property. Secondly due to absence of qualified and competent municipal staffs for valuation of properties.

In the annual rental value method the total yearly rental income of property is considered if the property is let out by the owner. But the benefit of this method will not be realized if the rents are administered or are subject to regulatory legislations.

In India the base of the property tax is the annual letting value of the property. In India property tax has a low elasticity mainly due to two reasons. Firstly due to lack of elasticity in the base of taxation and secondly due to lack of efficiency in tax collection system.

Objective

The objective of this paper is to focus the trends and pattern of property tax of West Bengal for the years 2001-02, 2007-08 and 2013-14.

Method

The study is empirical in nature and secondary source of data are used. The data has been analysed for the years 2001-02, 2007-08 and 2013-14.

Analysis

State Level:

In West Bengal, property tax in money terms has increased by 108% during 2001-02 to 2007-08. The rate of increase is remarkably low at 27% during 2007-08 to 2013-14 (table-1). In real terms the rate of increase is 44.98% during 2001-02 to 2007-08 and 76.94% during 2007-08 to 2013-14.

Table 1: Total tax receipts and property tax of ULBs, in money and real terms

Year	Property Tax in Money Terms (Rs. In Lakhs)	Growth rate	Property Tax in Real Terms	Growth rate
2001-02	7457.61		4.23	
2007-08	15505.31	108	144.98	44.98
2013-14	19657.76	27	176.94	76.94

Source: Author's calculation.

Table 2: Per capita property tax, in money and real terms

Year	Per capita money property tax	Growth rate	Per capita real property tax	Growth rate
2001-02	0.29		0.0005	
2007-08	1.14	293	0.0009	80
2013-14	1.66	46	0.0011	22

Source: Author calculation

Taking into account the per capita figures it comes out that the rate of increase of property tax in money terms is much higher than in real terms (table-2). The rate of increase of per capita property tax in real terms is 80% during 2001-02 to 2007-08. It is 22% during 2007-08 to 2013-14. In money terms the figures are 293% and 46% respectively.

Property tax which is the major component of internal revenue of ULBs constitute 59-88 % of tax receipts of ULBs (table-3). But in total receipts of ULBs the share of property tax is quite low; it ranges from 5-10 % and decreasing over the years.

Table 3: Percentage of property tax in total receipts and tax receipts

Year	Property tax in total receipts (%)	Property tax in tax receipts (%)
2001-02	9.68	88.1
2007-08	9.22	83.8
2013-14	4.69	58.7

Source: Author calculation

In West Bengal, property is valued using the annual rental value method (According to Municipal Corporation Development Act 1957). It has been found that this system is responsible for under valuation and low elasticity of property tax. There also exists the problem of insufficient information on rental values of property in the absence of a competitive property market.

The potentiality of property tax has also been undermined by indiscriminate exemption of various kinds of property. Article 285 of the Constitution of India exempts Union government properties from payment of property taxes. Inefficiency was also present in both assessment and tax collection machinery.

The rate structures in West Bengal have no correlation with levels of civic services, levels of economic activities and the demographic characteristics of the various municipal towns. Again all holdings irrespective of their valuation are placed under identical tax burden. This goes against all cannons of taxation.

The greatest harm to property tax is that it is controlled by the Rent Control Laws (RCLs). Linking the definition of reasonable rent with standard/ fair rent of the rent control laws has restricted resource mobilizing capacity of property tax.

District Level

Taking into account the districts of West Bengal, we find that in collection of property tax the first position is occupied by North 24 Paraganas, followed by Burdwan, Hooghly and Purba Medinipur (table-4). These districts are found to be relatively economically developed with high property values. This may be the possible reason for higher collection of property tax from these districts. Total receipts of these are also found to be relatively higher in comparison to other districts (table-5). On the other hand relatively lower collection from property tax has been found in the districts like Uttar Dinajpur, Dakshin Dinajpur and Puruliya. These are found to be economically backward districts of West Bengal.

Table 4: Property tax in districts of West Bengal

Districts	2001-02	2007-08	2013-14
Burdwan	1031.14	2260.75	2845.23
Birbhum	174.9	217.52	275.76
Bankura	74.77	140.38	135.38
Purba Medinipur	662.04	2924.29	2580.86
Paschim Medinipur	149.79	98.91	458.69
Hooghly	736.65	842.62	1628.05
Puruliya	65.96	107.37	23.65
N24P	2214.67	3757.07	4949.33
S24P	549.72	873.38	203.941
Howrah	241.38	2073.23	1711
Nadia	502.33	704.73	787.83
Murshidabaad	211.16	349.67	414.74

Malda	89.69	135.46	188.26
D Dinajpur	61.55	71.4	169.59
U Dinajpur	53.07	91.74	66.31
Jalpaiguri	128.97	158.8	239.71
Darjeeling	370.49	526.03	643.08
Coochbehar	139.33	128.28	500.88
West Bengal	7457.61	15505.31	19657.76

Table 5: Total receipts of districts of West Bengal

Districts	2001-02	2007-08	2013-14
Burdwan	11754.03	25607.15	48061.89
Birbhum	1581.55	2956.79	11895.36
Bankura	1272.40	2392.09	6274.16
Purba Medinipur	3034.56	6947.86	13347.62
Paschim Medinipur	1740.62	4960.61	14963.77
Hooghly	8582.53	16654.16	46940.81
Puruliya	615.86	645.26	5479.78
N24P	21230.87	46919.69	129963.40
S24P	3424.05	8885.98	26670.55
Howrah	2616.50	13163.65	24803.47
Nadia	5819.66	11172.93	30253.03
Murshidabaad	2514.64	5380.05	15455.45
Malda	1538.07	1994.92	5832.11
D Dinajpur	2298.80	3460.00	8014.70
U Dinajpur	1056.13	2832.59	3357.32
Jalpaiguri	1723.23	2759.89	5511.23
Darjeeling	4358.57	8951.05	12642.29
Coochbehar	1820.27	2128.35	9484.70
WB	76982.34	168113.50	418951.60

Statistical Analysis

Table 6: Correlation coefficients between property tax and total receipts of districts of West Bengal

Year	Correlation coefficient
2001-02	0.99
2007-08	0.98
2013-14	0.93

The correlation coefficient values between total receipts and tax receipts from property taxes are found to be high reflecting a strong relation between the two for the districts of West Bengal (table-6). This implies that changes in property tax will influence change in total receipts of ULBs of West Bengal.

Conclusion and Policy Implications

From the present paper it comes out that in West Bengal property tax has increased in money terms from 2001-02 to 2007-08, but the rate of increase is quite low from 2007-08 to 2013-14. The growth rate has improved in real terms during the same period.

The growth rates of per capita property tax have found to decrease both in money and real terms.

The property tax constitutes 59-88

% of municipal tax revenue of West Bengal but it was only 5-10% of total municipal tax receipts.

In district wise analysis it has been found that relatively economically developed districts collect more property tax in comparison to underdeveloped districts.

The correlation coefficients between property tax and total receipts are quite high reflecting the fact that change in property tax can influence total receipts of ULBs of West Bengal.

To improve the information about property tax, computerized information system may be introduced. This may help to improve revenue generation significantly. In West Bengal, Kolkata Municipal Corporation and some other municipalities have developed a website providing all the information about property tax.

The greatest harm to property tax is that it is controlled by the RCLs. The standard rent of RCLs restricts proper valuation of property tax base. Amendment of municipal laws to de-link standard rent from valuation of property tax is needed to augment internal resources.

According to the municipal laws, minimum and maximum limits of tax rates are given within which ULBs have autonomy to decide the rate. For exceeding the ceiling an approval of the state government is mandatory. Things can be improved if ULBs are given the autonomy to decide the rate.

Instead of implementing single rate for all ULBs, different rates for different ULBs may be implemented after classifying ULBs. For that amendment of municipal laws is needed.

Moreover property tax has to be made free from a long list of exemptions. Article 285 of the Constitution exempts Union government properties from payment of property taxes. Tax bases are narrowed partly because of these exemptions.

To improve collection from property tax innovative schemes of incentives and penalties can be implemented. Friendly payment systems such as collection through banks and web-based tax collection will help to improve tax collection.

In West Bengal some measures have been adopted only by Kolkata Municipal Corporation and some other municipalities. These are needed to be adopted by other ULBs of West Bengal.

In the existing system property tax includes holding rate, conservancy rate, water rate and lighting rate. Instead of including in property tax, separate charges for conservancy, water supply, etc. may help to improve the revenue of ULBs. Progressivity is desirable in the case of conservancy, water and lighting rates which are subject to statutory ceiling at present.

To increase the base of property taxation, Geographical Information System (GIS) may be adopted. This is used to map properties of all cities. This is suggested by Jawaharlal Nehru National Urban Renewal Mission.

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