IPTI Xtracts
Property Tax and Assessment News from Around the World

INDIA – July 2022

CONTENTS

EXPLAIN METHODOLOGY ADOPTED TO REVISE PROPERTY TAX, HC TELLS GCC

It stays demand for enhanced tax amount, increased from ₹3695 to ₹7170, from an individual tax payer

The Madras High Court has called upon the Greater Chennai Corporation (GCC) to explain the new methodology adopted by it to calculate the enhanced property tax, demanded from city residents.

Justice Anita Sumanth also restrained the Corporation from demanding the enhanced amount from an individual tax payer, who had claimed that the methodology was not in accordance with law. The interim order was passed till August 3, by when the Corporation was directed to file a detailed counter to a writ petition filed by K. Balasubramaniam of Teynampet, challenging the enhanced tax demand.

According to the petitioner, the civic body could revise the property tax only in accordance with Section 100 of the Chennai City Municipal Corporation Act of 1919, and not otherwise. In 1997-98, the Corporation revised the property tax on the basis of an arbitrary procedure, termed 'plinth area basis' and such a procedure was put to challenge before the High Court. Then civic body then informed the court, through the Advocate General, that it would give up the plinth area methodology and, instead, follow Section 100 scrupulously, the petitioner said.

He further claimed that the High Court had then observed that the annual value of a property must be assessed on the basis of fair rent formula devised under the Rent Control Act. Later, the property tax was attempted to be revised on the basis of floor rate but that methodology was also given up since it was not in compliance with Section 100, Mr. Balasubramaniam said.

Now, the civic body had revised the half-yearly property tax for the petitioner's property from ₹3,695 to ₹7,170 for the year 2022-23, he said, contending that the revision was wholly arbitrary. He argued that the Corporation was attempting to camouflage plinth area basis as floor rates, following a Government Order issued on March 30 and said that the revision was illegal.

VALUE CAPTURE TAXATION: A PUBLIC POLICY APPROACH

India can implement value capture taxation that can help address urban land use challenges such as rising economic and social inequalities.

Infrastructure investments are primarily public sector driven, with governments playing a predominant role. While there are public projects that involve multiple stakeholders, infrastructure projects such as highways and water supply are natural monopolies where governments like to maintain control to prevent abuse of monopoly power. At the same time, infrastructure investments have an inherently public good character as services generated by infrastructure facilities are accessible to large sections of society. Their indirect externalities benefit the economy as a whole.

Infrastructure investments have an inherently public good character as services generated by infrastructure facilities are accessible to large sections of society.

Beyond the implicit and explicit set of positive externalities, publicly facilitated infrastructural networks, particularly in urban areas, influence the spatial configuration of economic activity as private investment decisions of households and firms are determined by transport networks. Subsequently, publicly-funded infrastructure facilities influence land values or prices and land-use patterns in urban areas. In the context mentioned above, this article looks at the potential role of value capture taxation or land value capture as a public policy tool to address social, economic, and ecological challenges related to land use planning in urban areas.

What is value capture taxation?

Value capture is based on the rationale that the beneficiaries of transport investments are not limited to direct users (e.g., motorists, transit riders, etc.) but also include landowners and developers who benefit from enhanced location advantages. Value capture taxation policies thus aim to recover the value of benefits received by property owners or developers due to infrastructure improvements and use these revenues to fund such improvements. In other words, the land values reflect the value of public infrastructure investments that benefit particular locations. These values must be returned to the public treasury in the form of taxes as public expenditures primarily create them in the first place.

Value capture taxation policies thus aim to recover the value of benefits received by property owners or developers due to infrastructure improvements and use these revenues to fund such improvements.

American political economist Henry George first proposed the land tax in the 19th century to eliminate land speculation. The underlying idea of introducing such a tax was that imposing higher taxes on land and reducing taxes on structures brings down land prices and encourages compact development as land owners pass their vacant land to land developers to avoid taxes. Since then, land value tax as a policy instrument has been used in different parts of the world with various incentives for sprawl management, efficient land use planning, reducing land prices, generating revenues for infrastructure development, etc.

Effect of land values on urban land prices

Land value or land rent is a land price component influenced by locational differences. For instance, a piece of land within the city centre may hold a higher land value than a piece of land along the outer limits of urban areas. The variation in land value or land rent due to locational differences is influenced by levels of social, physical, and ecological development indicators. These include access to commercial spaces, educational, and healthcare facilities; proximity to transit corridors (such as roads and highways) and other giant infrastructure projects like airports and ports; and neighbourhood and environmental quality.

Land values, thus, reflect the values of public goods and services available to that particular site, including the accessibility provided by transportation networks.

Housing property prices across major Indian cities are expected to rise by approximately 6 percent in 2023 and 2024. While major hubs such as Mumbai and Delhi continue to register a steep rise in prices and rent on properties, metropolitan centres like Hyderabad, too, have experienced nothing less than at least a five-fold increase in land prices around upcoming highways. Gurugram, a financial and technology hub located in the Delhi National Capital Region, has seen close to an average of triple-digit growth in land prices in the last couple of decades, with localities near the Golf Course Road and MG Road being some of the most expensive areas in the district.

Funding essential urban infrastructure services

Transit enabling urban density also spurs the need for infrastructure financing for essential urban services. Transit corridors incentivise centres of economic investments, real estate growth and other commerce and business activities, which in turn create demand for services such as water supply, sanitation, sewage, electricity and gas distribution, etc. Concomitantly, urban densification again creates pressure on resources, particularly land; this scarcity is directly linked to the price of land or land value. Land values, thus, reflect the values of public goods and services available to that particular site, including the accessibility provided by transportation networks. Private landowners who benefit from an increase in land values due to public investments tend to hold out their landed properties in expectation of better prices in future, leading to speculation. As more landowners hold out their landed properties, an artificial scarcity of developable land increases land rents and prices. Such artificial scarcity drives people who cannot afford land around public infrastructure to move towards the peripheral areas or other inexpensive areas. The cycle is repeated with additional demand for urban infrastructure services, including the extension of highways and transportation corridors.

Land values: Social and ecological effects

The rise in land prices around growth centres and subsequent demand for land in peripheral areas leads to a phenomenon called ‘leap-frog development’ or ‘urban sprawl’. ‘Leap-frog development’ or ‘urban sprawl’ is discontinuous development often characterised by segregation of land use and low average density. Urban sprawl results in higher land consumption with segregated land parcels sealed for housing, industry, and other recreational purposes. It deters compact development and increases the costs of infrastructure and community services. It also leads to energy resource depletion and roadway congestion. More generally, urban sprawl and dissected land-use patterns have a negative ecological impact with consequences for loss of biodiversity, agriculture, forest, and natural land.

Urban sprawl results in higher land consumption with segregated land parcels sealed for housing, industry, and other recreational purposes.

Dispersed land use and rise in land prices also have social consequences as they create a bottleneck for a higher supply of affordable housing. Moreover, urban sprawl caused by rising land-use prices also leads to social segregation as lower-income groups move away from high land rent locations and seek housing or rental properties in city suburbs or other peripheral areas with low land prices. With longer travelling distances between economic centres located within core city areas and city suburbs, the lower-income groups tend to pay higher for transportation services. Thus, the lack of availability of land that can be developed and dispersed land use spurred by urban sprawl impedes socially and ecologically sustainable urban development.

Conclusion

Publicly funded infrastructure investments, be it roads, highways, or other transit services such as intra-city rail systems, considerably influence nearby land values. These tend to benefit a select few land owners over others and also, depending on buying capacity, affect the affordability of land across income groups. The accompanying economic development opportunities brought about by transit corridors tend to drive up land prices, often to excessive levels, much beyond the reach of middle- and low-income groups. Apart from economic consequences, segregated land use development patterns spurred by rising land prices in core city areas deepen the existing urban inequality in social and spatial aspects. In effect, taxing land values through various value capture instruments can be one way to address urban land use challenges. Across the world, cities have used these instruments with varying degrees of success, and there have been attempts in India also to strategise value capture financing. Given vast differences in city planning and urban land use patterns, there are no one-size-fits-all approaches to implementing such taxes. Yet, experiences account for the fact that land value taxes, when introduced with specific enabling institutional mechanisms, can prove to be helpful.

MCD IMPLEMENTS UNIFORM PROPERTY TAX RATES APPLICABLE FROM JULY 16

The Municipal Corporation of Delhi (MCD) has implemented new rates of property tax to bring uniformity in the rates after the amalgamation of civic bodies in the national capital.

The new rates of property tax will be applicable from July 16 and no additional surcharge will be levied on tax payers who have already paid their taxes, provided they have not underestimated the payable taxes.

Along with this, instructions have been issued to all the Regional Property Tax Officers to prepare an online database of all the properties which come under the purview of paying tax at the earliest so that the revenue of the corporation can be increased.

The MCD has also prescribed different utility multipliers for different types of properties. Four for entertainment and club, for banquet hall, 'Barat Ghar' (six), for school, college, medical college, engineering college run or aided by government or local body (one), for unaided and private educational institutions (three), for non-residential properties (two), for business and commercial use, and three for industrial use.

The civic body has decided to levy property tax at the rate of 12 per cent for A and B category residential colonies, 11 per cent for C, D, E category residential colonies, 7 per cent for E, F, G category residential colonies.

Whereas, for non-residential properties up to 1500 sq ft, the rate of property tax has been fixed at 20 per cent for A, B, C, D, E category, and 15 per cent for E, L, F, G.

Non-residential properties of more than 1500 sq ft have been prescribed a property tax at a uniform rate of 20 per cent.

The property tax on industrial properties has been prescribed at a uniform rate of 15 per cent.

Property tax will be payable at the rate of 20 per cent for covered land for airports and attached properties, and at the rate of 15 per cent on open spaces such as runways, taxiways, parking lots for aircraft, and 10 per cent on land beyond that.

Meanwhile, property tax on residential and non-residential farmhouses will be payable at the rate of 20 per cent. In addition to the above rates, education cess of 1 per cent will also be payable.