

**GOVERNMENT OF INDIA  
FINANCE  
LOK SABHA**

UNSTARRED QUESTION NO:44  
ANSWERED ON:08.08.2012  
RATIONALISATION OF PROPERTY TAX  
Annayagari Shri Sai Prathap

**Will the Minister of FINANCE be pleased to state:**

- (a) whether the High Powered Expert Committee has submitted its report to the Government in regard to rationalization of property tax;
- (b) if so, the details, of the recommendations made by the Committee; and
- (c) the action taken by the Government on the recommendations made by the Committee?

**Answer**

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI S.S. PALANIMANICKAM)

(a) Yes, it is informed by the Ministry of Urban Development that the Committee has submitted its report to the Government in March, 2011.

(b) The recommendations made by the Committee are as follows:

- i. Property tax should be decomposed into a general tax and a service component. Property tax should be retained as a general benefit tax, and its components such as water tax and sewerage tax should be replaced by appropriate 'user charges';
- ii. Property tax should be levied on all immovable properties, i.e. constructed buildings and vacant land. Alternatively, the property tax on vacant land could be a separate tax termed 'vacant land tax'. This will ensure that there is no perverse incentive to hoard land. Any reference to 'property tax' hereafter shall include 'vacant land tax';
- iii. Property tax on constructed property should be levied under an ABS whereby there is a slab rate per square foot, based on location, type of construction, and type of use. However, vacant land tax should be levied on the basis of the ready-reckoner capital value;
- iv. All government properties whether belonging to the Government of India, state governments, or any local body should form part of the tax base. In case of sovereign properties on which tax levy is not possible due to Constitutional embargo, appropriate service charges may be levied;
- v. The base for levying property tax should be revalued every five years. In the interim, some minimal annual indexation for inflation adjustment should be made to allow for a smooth transition to the new value of the property;
- vi. ULBs should have the flexibility to fix the tax rate with respect to property tax on constructed buildings, subject to a floor specified under the law. This rate should not be changeable by state governments, though they can specify the rate band. The vacant land tax should be levied at a fixed rate of 0.5 per cent, i.e. one-half per cent of the ready-reckoner capital value;
- vii. An active and accurate register of taxpayers should be maintained to minimise leakages;
- viii. Close coordination should be developed between the Revenue and Town Planning Departments so that buildings can be brought into the tax net soon after plan approval and completion;
- ix. Tax assessment should be based on self-assessment and tax collection should be through online payment/computerised centres;
- x. Service charges should be collected for the use of city services on unauthorised buildings on which property tax is not levied;
- xi. Ward Committees and Area Sabhas should play a significant role in increasing compliance in property tax collections, as required by the Community Participation Law under the JNNURM. Community organisations and Resident Welfare Associations should be incentivised by additional services or concessions for prompt payment of taxes.

(c) The strategy for implementation of the recommendations has not been formalized so far.