

Implementable Suggestions to Nagpur Municipal Corporation's Long Standing Concern of Property Tax Collection (with Reference To Housing Sector in India)

Mr. Maanish Chava

Department of Business Management, G.H. Raison Institute of Information Technology, Nagpur, INDIA

Abstract: *India is on the verge of becoming one of the fast-growing economies, driven by many factors including multinational entrepreneurialism, buoyant local stock markets, robust economy-changing demographics and the overall emergence of India on the global stage. Almost 5 per cent of GDP is contributed by the housing sector, and in the next few years it is expected to rise to 6 per cent. Moreover, the construction sector has also been responsible for the development of over 250 ancillary industries such as cement, steel, paints, brick, timber, building materials, etc. An estimated investment of USD 2 Trillion is required to meet housing needs up to 2022. However, there is still a large number of poorer, urban, lower-income groups who would not be able to afford such housing. The housing sector in India for several decades faced a number of set-backs, such as an unorganized market, development disparities, a compartmentalized development approach and a deterrent rent control system. According to CRISIL, HFCs, despite having a higher cost of funds as compared to banks, have been able to maintain comparable gross spreads and with improved efficiencies, lower operating costs and better risk management practices, have a net profit margin slightly higher than the banks. Today's consumers are seeking more than just a loan. Due to the housing sector reforms the dream of owning a house has become quite an easy task today with the boom in the housing finance industry. Despite the state government's efforts towards setting the norms and regulations to push the housing development activities in the city of Nagpur, the local civic bodies have failed in increasing the percentage of income through collection of taxes.*

Keywords: *construction sector, failed, fast-growing economies, housing sector reforms, set-backs, state government's efforts.*

I. Introduction

India is on the verge of becoming one of the fast-growing economies, driven by many factors including multinational entrepreneurialism, buoyant local stock markets, robust economy-changing demographics and the overall emergence of India on the global stage. Almost 5 per cent of GDP is contributed by the housing sector, and in the next few years it is expected to rise to 6 per cent. Moreover, the construction sector has also been responsible for the development of over 250 ancillary industries such as cement, steel, paints, brick, timber, building materials, etc. The government's stimulus package (6th December 2008 and 2nd January 2009) coupled with the Reserve Bank of India's move allowing banks to provide special treatment to the real estate sector, is likely to have a positive effect. The real estate business in the country has been transformed into one of the most lucrative businesses due to great demand for housing for India's huge population. To meet the objective large-scale real estate projects have been launched over a period of time across the nation which has attracted venture capital, and diversified sources of funding including overseas, and private domestic funds and private equity funds. Needless to say, the real estate sector plays a significant role in the Indian economy: it is second only to agriculture in terms of employment generation and substantially contributes to the gross domestic product of the country. Moreover, recent excise duty cuts on cement and steel are expected to bring down construction costs and the most recent exemption for real estate developers from service tax in relation to construction of a residential complex will reduce prices further for homebuyers.

An estimated investment of USD 2 Trillion is required to meet housing needs up to 2022. However, there is still a large number of poorer, urban, lower-income groups who would not be able to afford such housing. If housing is to be promoted in this segment (formal and informal with a monthly family income of below INR 10,000/-), market-based solutions and policy interventions will have to be designed and redesigned in such a manner which would make housing more affordable, leaving a smaller gap to be filled by the public sector. To overcome the situation NHB's supervisory and developmental roles could be strengthened by modernizing its regulations and activities. India's housing finance industry mainly comprises banks and HFCs, and to a certain limited extent, smaller institutions such as community-based organizations, self-help groups, etc. While banks (public and private sector) depended on their own equity and reserves and large deposit base for funding their housing loan portfolios, HFCs primarily rely on funding sources such as loans from banks and

financial institutions, financing from NHB, borrowing through bonds and debentures, commercial paper, subordinate debt and fixed deposits from public, besides their own equity and reserves. Stable macroeconomic management, outward orientation, high savings and investment rates, decreasing inflation, and—since 1991—rapid increases in productivity that accompanied economic liberalization account for the good economic performance and more efficient use of its endowments. However issues like lender oriented guidelines, inadequate and inconclusive efforts to understand housing problems etc are required to be addressed on a larger scale. Though the financial sector reforms have overturned the situation to some extent, the policies framed by the apex bank (Reserve Bank of India) fall short to address the overall needs of the housing segment of the real estate sector and despite the efforts of the planning commission the dream of housing for all still remain elusive. The housing sector in India for several decades faced a number of set-backs, such as an unorganized market, development disparities, a compartmentalized development approach and a deterrent rent control system. In a country with a vast population, the problem of providing shelter to all has been an issue of great concern to the civil society and the Government. It has, therefore, generally been subsumed that state intervention is always necessary to meet the housing requirements of the vulnerable sections.

According to CRISIL, HFCs, despite having a higher cost of funds as compared to banks, have been able to maintain comparable gross spreads and with improved efficiencies, lower operating costs and better risk management practices, have a net profit margin slightly higher than the banks. In the post-reform period, banks have experienced strong balance sheet growth in an environment of operational flexibility. Historically banks and HFCs have largely focused on the salaried class, as can be seen by the fact that salaried borrowers account for 80-85% of the total outstanding loans. The key reason behind this skew towards the salaried segment is the ease in validating the income levels and the repayment capabilities of salaried borrowers' vis-à-vis self-employed persons. Today's consumers are seeking more than just a loan; they seek convenience in the entire process of acquiring a home as well as the finance for it. Leading players are looking at acquiring customers not only through fresh applications, but also through refinance. Till the late-1990s the market leader, HDFC, had not undertaken any major marketing initiatives. The entry of commercial banks and other private sector companies, however, changed the dynamics of the industry, and for the first time, all the players emphasized on marketing. Though the number of residential properties has increased in the city, the amount collected by way of house tax has not seen comparative growth. The paper aims at trying to solve certain issues which have plagued the civic bodies over the years with unproductivity continuing to be the biggest threat for financial revamp of the concerned development bodies at the local level.

About the city:

Table 1: Housing Sector Reforms

Role of Government as the Facilitator
Liberal Housing Finance Availability
Supply Side Innovations
Land Assembly and Development
Technological Innovations and Technology Transfer
Establishment of Rating Agencies
Rating of Real Estate Projects and Developers
Establishment of NAREDCO
Establishment of Special Economic Zones (SEZs)
Real Estate Bill 2016

Due to the housing sector reforms the dream of owning a house has become quite an easy task today with the boom in the housing finance industry. What remained as a low profile sector over the decades prior to the 1990's has suddenly started to witness a lot of activity. Buoyed by the presence of big players both from the public and the private sector, the industry has achieved new heights in terms of loan disbursement in the past few years. Realistic property prices, low interest rate, tax incentives and innovative products offered by housing finance companies augur very well for the growth of the housing sector thereby resulting in the growth of the banking and finance sector overall as envisaged. The housing finance sector is therefore expected to witness robust growth rate in the future.

Nagpur, a city located in the heart of India and also referred to as the Zero Mile city, stands poised to be redefined with a future of International class. Having catapulted to Tier II status from a Tier III city, Nagpur is in the centre of major developments envisaged to transform this second capital of Maharashtra into a lifestyle destination. With the city witnessing a burst in the population in the last few years the civic authorities aimed at widespread housing development. Though suggested by the planning commission over a long period of time housing finance is not reaching lower-income segments (monthly household incomes in the range of Rs 5,000–11,000) in urban areas, amounting to more than 80 percent of the urban population. Currently, local and national

governments do not have the resources to provide housing for all these households thus revealing several kinds of inadequacies in relation to this particular class of people. As the city has now got the status of preferred location both in terms of commercial real estate and residential real estate, and the economy recovering from the universal financial gloom post 2008-09 the city has started to witness unimaginable growth in housing sector activities due to revitalized real estate business, expedited residential construction projects and activities, favorably changed rules and regulations of the municipal corporation and the improvement trust, extended city limits and upcoming central and state government projects like MIHAN,AIMS,IIM,METRO RAIL ETC. Nagpur is also growing as an education hub and health city with the city boasting of state of the art medical facilities. Thus the city isn't just catching up with other tier-II towns, but will soon be setting new benchmarks for them. The 'Nagpur Residential Real Estate Overview' provides a comprehensive insight into the key macro and micro trends emerging in the residential real estate market of Nagpur.

2.1: City Overview

Table 2: Census 2011: Highlights

Description	2011	2001
Actual Population	4653171	4067637
Male	2388558	2105314
Female	2264613	1962323
Population Growth	14.39%	23.74%
Area Sq km	9892	9892
Gender Ratio	948	932
Average literacy Rate	89.52%	84.03%
Male literacy rate	93.76%	90.18%
Female literacy rate	85.07%	77.42%

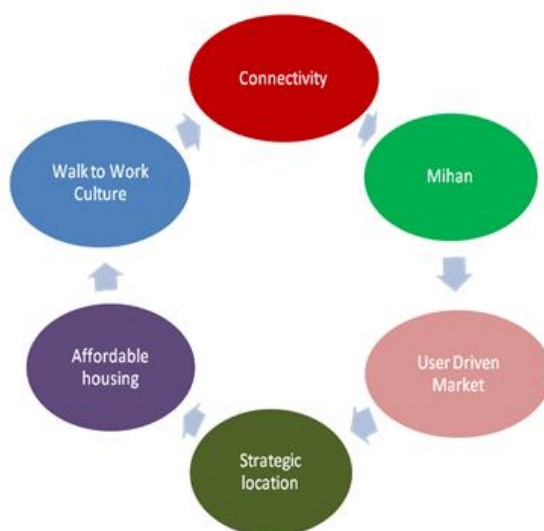


Figure 1: Key Parameters

Table 3: City's construction activity

Year	Total Houses	Total Units
2000-01	325207	390248
2001-02	338757	406508
2002-03	352872	423446
2003-04	366682	440018
2004-05	392853	471424
2005-06	393836	482089
2006-07	401965	485596
2007-08	417250	498343
2008-09	432035	511277
2009-10	447468	526341
2010-11	457107	533884
2011-12	457344	533631
2012-13	482438	570393
2013-14	495315	593208

- ❖ Housing has become far more affordable as compared to some years ago; today a house costs just about 3 to 3.5 times an individual's annual salary as against 15 to 20 times more than a decade ago.
 - ❖ Prices of property have declined over time and have become fairly stable in recent times.
 - ❖ Interest rates on housing loans have declined. Today interest rates are much lower between 8 to 10 per cent as compared to around 15 to 16 per cent five years ago.
 - ❖ The government has been offering attractive tax incentives to buy houses. Interest payable on a housing loan is currently tax deductible to the extent of Rs. 1.50 lakh as compared to Rs. 15,000 in 1977-78.
- To sum up, significant improvement in the performance of financial institutions engaged in lending business has been witnessed over the past decade or so, facilitated by the phased introduction of wide-ranging financial sector reforms since the early 1990s.

Despite the state government's efforts towards setting the norms and regulations to push the housing development activities in the city of Nagpur, the local civic bodies have failed in increasing the percentage of income through collection of taxes. Issues are aplenty but merely passing the buck is not going to serve the purpose and the cash strapped local authorities controlled by the state government would always find it difficult to bring the derailed financial condition back on track. This could straightaway be related with the MBO theory that hovers around the principle of KNOW THY OBJECTIVE- which mostly goes unnoticed especially when we talk about any sector other than the private sector.

II. Issues to be tackled

The probable reasons and some implementable solutions (with respect to collection of property tax) are discussed below.

- The civic body planned six-monthly property tax payment but **failed to implement**. It was to distribute property tax bills to all taxpayers before May 31, 2014. But due to **shortage of competent personnel** the property tax department failed to even print bills by May 31, 2014. The last date for paying the amount was fixed at June 30, 2014. A delay would have resulted in penalty of 2% per month. This would have brought some more daily revenue and would also be beneficial for taxpayers by letting them pay tax in two installments.
- Property tax is the second highest revenue source for civic body after octroi. However the sheer neglect towards acknowledging the potential it has to bridge the gap between income and expenses makes one think about the **seriousness of business**.
- Nagpur Municipal Corporation's (NMC) special property assessment drive, conducted between April and December 2012, has revealed that 25,646 properties in city limits were never imposed tax prior to 2012. The civic body lost huge revenue all these years for its **failure to include** these properties under the tax ambit. Surprisingly, as per NMC records the city has just 4,95,315 properties when the **actual figure is much more** than recorded.
- With the Orange city expanding, new colonies are coming up in all directions. However, the number of taxpayers has not increased in that proportion. This is obviously due to NMC's failure to effectively implement the tax assessment process. As per liberal estimates, around one hundred thousand properties are **yet to be assessed**.
- The cash-strapped Nagpur Municipal Corporation (NMC) is incurring revenue loss of whopping Rs 150 crore every year on property tax account. Major reason is its **failure to re-assess** the existing properties since the last two decades.
- The output value of the staffers is very low as compared to other cities and offices.

1.1 Suggestions:

Though the issues seem to be very mediocre the solution at large is to involve the general public and their representatives.

- **Provide contractual employment:** The government must seriously mull this thought and try to bring more people on the board with certain degree of executionary powers. Services of unemployed youth, self help groups, co-operative societies, professionally competent housewives, experienced retired personnel etc can be utilized to overcome this crunch situation. Commensurate remuneration can be mutually agreed to get the work done in an effective manner.
- **Appointment of surveyors:** Architecture students can be provided with internships for completing the pending property assessment tasks.
- **Incentives and bonuses:** The staffers can be motivated to perform additional duties to gain monetary or non monetary incentives, earn promotions, and get acknowledged for rewards and recognitions across the strata.

- **Establishing kiosks:** Small kiosks can be set up in huge numbers in various localities spread across the city to reach the public at provide convenience regarding payments.
- **Aadhar card linkage:**
To keep a track of the property tax payment an individual ID should be issued to each and every residential property. The same number then should be linked with the Aadhar card which in turn must be linked with savings bank account of the tax payer.
- **Standing instructions to the banks**
Just as the equated monthly installment of the loan is paid by way of standing instructions to the banker, it can well be made mandatory for all the house or unit owners to give standing instructions for paying the property tax thereby facilitating smooth process.
- **HFC to do collection in advance e.g. 3 years/ HFC's to pay the penalty**
The housing finance companies should be allowed to collect property tax of the unit for which loan is being sanctioned. Such clause should be included in the declaration column below which the client puts his signature in the application form and the loan agreement. If the client fails to do so penalty with interest for the term should be paid by the HFC. Such clause may enhance or decrease the credibility of the consumer as well as the HFC.
- **Linkage to cibil**
Credit information bureau of India limited is the only entity that has the record of all the loans availed by a person and the repayment track record of the same. The record of the property tax payment can also be recorded in cibil and the report of the same should be generated as and when required. To keeps ones track record clean the tax payers then may become serious about paying the property tax on time.
- **Heavy penalty (with interest) for regular defaults**
The system of CIBIL can easily track regular default cases. Such people may be levied heavy monetary penalty with interest.
- **Regularization of unauthorized layouts and structures**
Though the single window system is in place, this kind of an activity should straightforwardly be handed over to the finance department of the municipal corporation in order to gain the exact information about new regularized units which may inform about the increased numbers of units and houses. This shall help in forecasting the likely tax amount to be received.
- **Collection agents to provide doorstep service**
The demand note for property tax payment is delivered at the doorstep. In the same manner authorized collection agents can be appointed for collecting taxes thereby providing door step services for convenience.
- **Rebate in income tax**
It can be proposed that advance payments towards property tax be benefitted with income tax rebate under a new section.

III. Conclusion

With the backdrop of Start-up India Campaign and an atmosphere conducive to begin smaller ventures, opportunities are extensive in the city for the youth to help overcome this precarious situation being faced by the local municipal council. All that is required by the civic bodies and the authorities is to leave behind the bureaucratic tendencies and put up a brave front to tackle the menace and make it happen.

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