



## *Raising Revenues*

- Municipal Taxes
- State Taxes
- Registration of Documents



## Municipal Taxes

Empowerment of local authorities and citizens is the primary objective of decentralisation. One of the ways to achieve that is fiscal decentralisation, as there is a close link between fiscal determinants and empowerment of both citizens and local governments. Therefore, an evaluation of the revenue system prevailing in Delhi would be a crucial component in assessing the extent of local governance and performance over the years. In this chapter, we cover the revenues generated by two nodal local authorities in Delhi, namely, Municipal Corporation of Delhi and New Delhi Municipal Council.

### Municipal Corporation of Delhi

Municipal Corporation of Delhi (MCD) administers more than 95 percent of the city, catering to approximately 13.78 million people. It constitutes of rural and urban villages, resettlement colonies, regularised, unauthorised colonies, JJ squatter settlement, slums and private katras. The Constitution of MCD is governed and regulated by the provisions mentioned in the Delhi Municipal Corporation Act (DMC) 1957. The Corporation levies taxes in its own jurisdiction. The Corporation can levy the following taxes:<sup>1</sup>

- Property taxes
- Tax on vehicles and animals
- Theatre tax
- Tax on advertisements other than the advertisements published in newspapers
- Duty on the transfer of property
- A tax on buildings payable along with the application for the sanction of the building plan

The organisational structure of the Department is quite complex. The Commissioner heads the MCD, assisted by Additional Commissioners

and Deputy Commissioners. The Deputy Assessor and Collector who are responsible for tax collection directly reports to the Joint Commissioner. They are assisted by Deputy Assistant Assessor and Collector.

**Taxes levied by MCD**

***Property Tax***

Property tax is a source of MCD revenue earnings. The Corporation levies property tax on all land and buildings under its jurisdiction in order to meet its civic obligations.<sup>2</sup> Section 114 of the DMC Act enumerates that property tax in Delhi would constitute a general tax between 10-30 percent of the rateable value of lands and buildings within the urban areas and on all land and buildings within the rural areas at rates determined by the Corporation. Higher levels of tax rates are applicable on buildings that run any kind of trade or business.

Earlier, properties were taxed on the basis of annual rent at which land and buildings could reasonably be expected to be let out on a yearly basis. This system was questionable on various grounds, primarily on inequity. It created wide disparity in property tax of properties in the same locality, subjectivity in assessments and excessive litigation. In order to overcome these problems, the system of Unit Area Method<sup>3</sup> of property tax was implemented from April 2004.

The MCD area is classified into seven categories<sup>4</sup> of colonies/ areas/ localities from 'A' to 'H.' This categorisation is based on parameters like settlement pattern, access to infrastructure, land prices and purpose for which the land/ building is being used. The concept of self-assessment is inherent in the new system. Unit areas of different categories are given in Annexure 1. In cases where different portions are put to different uses, annual value will be calculated for each portion separately. In the tax calculated, rebates or concessions are deducted from the total value.

Annual value = Covered area of property\* Unit area given by MCD\*  
 Multiplicative factors (age factor, occupancy factor and use factor)  
 Tax = (Annual value \* rate of tax) - Rebates/ Concessions applicable

Rates of tax for residential properties are 10% for categories A to E and 6% for categories F to H, whereas non-residential properties are

charged at ten percent. The tax can be paid either in lump sum amount during April-June of any financial year or in four quarters over the year in any of the Citizen Service Bureaus (CSB) established in each zonal office of MCD. In the new system, a form has to be filled and submitted, along with the cheque of the amount calculated, in the collection department. A receipt is given. The process of receiving the forms and payment is contracted out to a private company. The company deposes its own staff for the purpose, but MCD also deploys two employees for supervising smooth functioning and helping people in the documentation process. However, innumerable problems that people face during the process are indicative of the fact that the assistance provided is not satisfactory.

The Act provides for punitive measures for people who wilfully default on payment or try to evade tax. However, the extent to which tax evasion is evaded in the case of Unit Area Method is still to be studied. One of the main features of the new method is that it shifts the onus of property tax from the Corporation to citizens. The revision of rates will be done every three years on the recommendation of the Valuation Committee. The system is simple and transparent, removes the need for architect certification, increases the exemption limit of covered area and introduces better payment facilities.

### ***Theatre Tax***

MCD imposes an entertainment tax on theatre, drama, concerts, circuses, variety entertainment, fetes and other types of entertainment.<sup>5</sup> The rates of tax range from Rs 7-10 per show. However, MCD feels that the tax is outdated, and new revised tax rates should be imposed. But the increase in tax rates is correlated to policies of the ruling government. Annexure 2 gives the amount that is levied by MCD under theatre tax. Tax is collected indirectly in the form of ticket prices. The price that people pay for the ticket has an implicit tax component, which is later calculated and submitted to the theatre tax department at Kashmere Gate.

### ***Tax on Advertisements other than Published in the Newspapers***

MCD levies a tax on advertisements other than those published in newspapers. These advertisements are on hoardings, land, buildings,

frame posts, and structures. Some others on the list are non-illuminated advertisements carried by animals, human beings and vehicles, those that are exhibited on cinema screens or those that are suspended across streets. Exemption from this tax is given only to those businesses or persons who put advertisements on buildings where the business is being done. Rates of tax on these advertisements are fixed by the MCD as shown in Annexure 3.

The procedure of putting advertisements on hoardings and paying a tax on it is quite simple. According to the Commercial Officer, all the advertisers register themselves with the Department. The Department maintains a list of all the registered advertisers. This registration gives advertisers the right to participate in the tender and bidding system of the Department. Whenever a place has to be given for advertising, registered advertisers are called for tenders and bids are made. The successful tender gets the contract. All those who advertise are supposed to pay a tax on this advertisement. The process for payment is to go to the Department office at Kashmere Gate, submit the tax and take the receipt. Income generated by the Department is next only to that collected by the property tax department. Total income generated in the year 2003-04 was Rs 12 crore, and Rs 509 lac was earned till July 2005.<sup>6</sup> The comparative statement of income from various other departments is given in Table 1.

**Table 1: Comparative Incomes from Departments & Companies (Rs in lac)**

<i>Year</i>	<i>DTC</i>	<i>DND Flyway</i>	<i>Northern Railways</i>	<i>Luminelle solar Technologies Limited</i>
2000-01	784	–	–	–
2001-02	596	–	–	–
2002-03	527	–	–	–
2003-04	634	–	–	0.55
2004-05	650	19	30	2
2005-06	300	5 (till April)	–	3

*Source: Commercial Officer. Municipal Corporation of Delhi. Advertisement Department.*

### ***Duty on Transfer of Property***

This tax is applicable with respect to all property situated within or outside Delhi.<sup>7</sup> The said duty is levied in the form of surcharge on duty imposed by the Indian Stamp Act 1899 on every instrument of the

description specified, and the rate as determined by the Corporation, not exceeding 5%. The property tax department collects this tax.

***Tax on Buildings Payable along with the Application for Sanction of the Building Plans***

The Corporation can levy a tax on buildings, payable along with the application for the sanction of building plans.<sup>8</sup> Annexure 4 details the rates of tax as determined by the Corporation. Tax rates remain the same for any further additions and alterations. In the case of areas more than 100 square yards but not exceeding 250 square yards, no tax is levied if the estimated cost of a proposed structure is below Rs 500. This is also estimated and submitted at the property tax department.

***Tax on vehicles and Animals***

MCD levies a tax on vehicles and animals. The Motor Vehicles Tax is collected at the time of purchase. According to the CAG Report 2004, the percentage expenditure to gross collection is much higher in Delhi than the all-India percentage of cost of collection. In Delhi, it averages 6 percent, whereas the all-India figure is around 3 percent. Tax on animals, also known as pet tax, is collected by MCD. Annexure 5 describes the tax imposed by the Corporation. It is meant for any animal drawing a vehicle; this implies that the person who owns the vehicle will pay the tax rather than the person who owns the animal.

***Supplementary Taxes***

The Corporation has been given constitutional freedom to levy some other supplementary taxes.<sup>9</sup> These are education cess, a local rate on land revenue, professional tax, tax on consumption of electricity, betterment tax, toll on boats and toll tax. Some of the taxes that are actually levied by the Corporation are discussed below.

***Tax on Consumption of Electricity***

The Corporation levies tax on consumption of electricity. Annexure 6 gives the rates of taxes levied by the Corporation. Five percent tax is charged on the total electricity consumed by a household or commercial establishment. Distribution companies include this tax component in the electricity bill, thus collecting the tax on behalf of the Corporation,

and retain three percent as collection charges. The amount collected is submitted to the electrical branch of the Engineering Department of MCD.

***Toll Tax***

In January 2000, MCD started levying toll tax on all commercial vehicles entering Delhi. Vehicles are charged per entry, as per rates prescribed by the Corporation as listed in Annexure 7. Vehicles like ambulances, fire-fighting vehicles, police vehicles and government vehicles having red and amber lights, defence vehicles and hearses are exempted from toll tax. Toll tax was started with an initial estimation of Rs 100 crore per year, but collections decreased over time, and the system was fraught with inherent defects. Income decreased from Rs 57 crore in 2000-01 to Rs 54 crore in 2002-03.<sup>10</sup>

Toll plazas at various junctures like Badarpur and GT Road Shahdara, and the borders of KGT, Tikri, Mandoli, Kalindi Kunj and Kapashera have been constructed by MCD to smoothen the flow of traffic and restrain the entry of non-Delhi destined goods and commercial vehicles. MCD has awarded the work to M/s Banas Sands, which is implementing the modernisation of existing toll collection stations.

***Budgets and Finances***

The actual income and expenditure of MCD in Table 2 gives the finances of the municipal body.

***Table 2: Actual Income and Expenditure of MCD (Rs in lac)***

<i>Year</i>	<i>Income</i>	<i>Expenditure</i>
2001-02	1,57,065.54	1,57,064.58
2002-03	1,65,949.75	1,62,407.12
2003-04	1,68,284.26	1,67,772.59

*Source: Municipal Corporation of Delhi. 2003, 2004. Non-Plan Income & Expenditure Budget, Revised Budget Estimates 2003-04 and Budget Estimates 2004-05*

The Corporation has been spending less than its income generated; this is due to the fact that till 2004 the Corporation was using single entry system, which does not show the liabilities and loans taken by MCD and spent. From 2005, MCD has started the double entry system for its accounting. The income generated by MCD in the form of taxes for

the past financial years are enumerated in Table 3.

**Table 3: Municipal Taxes and Internal Revenues (Rs in lac)**

<i>Taxes</i>	<i>Actual Income 2002-03</i>	<i>Budget Estimate 2003-04</i>	<i>Actual Income 2003-04</i>	<i>Budget Estimate 2004-05</i>	<i>Budget Estimate 2005-06</i>
General tax from rural and urban areas	70,415	1,29,050	76,894	1,24,560	1,37,076
Tax on vehicles and animals	57	92	77	112	100
Milch and dog tax	6	12	11	12	13
Theatre tax	9	70	13	20	15
Tax on advertisements	1,038	1,670	1159	1,670	3,000
Duty on transfer of property	11,298	11,150	14,337	12,000	20,000
Tax on building application	39	90	288	90	300
Tax on consumption of electricity	7,592	10,000	8,444	10,000	12,000
Profession tax				12,000	5,000
Betterment tax				7,000	
Toll tax	5,398	7,500	6,803	10,000	7,900
Total	95,852	1,59,634	1,08,026	1,77,464	1,85,404

*Source: Municipal Corporation of Delhi. 2003, 2004, 2005. Data abstracted from Revised Budget Estimates and Budget Estimates for the years of 2003-04, 2004-05, 2005-06.*

The amount of tax collected shows a fluctuating trend over the years. According to MCD officials, the Corporation spends a minuscule amount of the total revenue generated on its collection. Expenditure on collection of tax is detailed in Table 4.

**Table 4: Cost of Collection of Taxes (Rs in lac)**

<i>Taxes</i>	<i>Expenditure 2002-03</i>	<i>Expenditure 2003-04</i>
Property tax	1,497	1,847
Tax on vehicles and animals	14	14
Theatre tax	1	1
Advertisement tax	7	35
Tax on consumption of electricity	228	247
Miscellaneous	20	0
Total	1,767	2,144

*Source: Municipal Corporation of Delhi. 2003, 2004, 2005. Data abstracted from Revised Budget Estimates and Budget Estimates for the years of 2003-04, 2004-05, 2005-06.*

### **Taxing People: Problems and Predicaments**

Collecting taxes is a mammoth responsibility by any standard. Even though the organisation is spending significant amounts of resources to make the system effective, efficient and transparent, there are still a few problems that need to be reformed.

- Under the new system of Unit Area Method, the main problem is that it is unable to cover all the properties in Delhi. There are around 25 lac properties<sup>11</sup> in Delhi, out of which only four lac are under property tax. The system was inspired by the good results shown by the same system in Gujarat. However, the success of the system is still to be analysed.
- There is a lack of centralised information. There is no central office that disburses information regarding taxes collected, details of the departments that collect them and the officials concerned. Even Town Hall, that holds the headquarters of MCD, does not provide relevant information. There are various offices that stretch around the city, causing significant problems in the absence of a central information system.
- The new property tax form that is introduced by the Corporation is very complex, and involves lengthy calculations. Most people find it very difficult to complete. There is also under valuation of property by taxpayers for paying less tax. As the process is just a year old, there are reports of losses made by the Corporation on account of property tax. Concerned officials blame it on either the new-fangled system or on taxpayers who undervalue their properties. However, the problem is the absence of a system that has a provision for scrutinising a sample size to govern the system better. The Act does provide for a tribunal that would scrutinise a few cases to eliminate under valuation; however, the Corporation has not set up the tribunal yet. Officials say that once such cases are caught, the department could collect arrears, but that will only increase the cost of compliance and lead to loss of revenue.
- There is a lack of coordination between MCD employees and the private company contracted for collecting property taxes. This creates confusion and causes innumerable problems in payment of taxes. The demand for rounding off the cheque amount during payment exacerbates the problem. The form does not mention that the cheque should be in round figures, due to which people come with cheques that have amounts including paise. Private employees at the payment counter refuse to accept the cheques and MCD officials do not take any initiatives to help the customers, as it is not

their jurisdiction. In such a case the taxpayer has no option but to return with a new cheque.

- The other problem lies with the revenue generated by the advertisement tax department. The problem in this department is more to do with the Act than with the process, The Act only recognises those advertisers who are registered with the department, and as the registration is optional, most of the hoardings in the city are unauthorised and illegal. The only authorised hoardings are those that are seen on bus shelters, DND flyways and advertisements beside railway lines whose tender is given by the railway authorities.

One can only imagine the loss of revenue in such a case. Officials do claim that there are inspections, but one can see innumerable unauthorised hoardings all around the city. There are other operational difficulties like lack of supervision and inter-departmental problems.

- Porous borders, fake passes, forcible entry by muscle power, absence of proper penalty for defaulters, non-cooperation of the police force are some of the main reasons for decline in the tax collection or income generated by the MCD through toll tax.

### **Recommendations**

A centralised information system should be introduced to cover information about various kinds of taxes, their procedures and the concerned departments. A Municipal Taxation Tribunal should be established to scrutinise cases of tax evasion in property tax. There is a need for better coordination between MCD officials and the private company employees in providing better and more efficient service to people while paying their property tax. The property tax form should be simplified and should facilitate the process of self-assessment. An incentive-based approach can be introduced, and functions provided by the private company can be performed by MCD employees themselves.

There is a need to rationalise taxes. The motive should not be to tax everything but to tax enough to raise revenues. Theatre tax should be clubbed with entertainment tax. There is a need to remove duplication of taxes and collect one comprehensive tax rather than various kinds of taxes. With regard to advertisement tax user fees and service

charges should be introduced. In most countries of the world, tax revenues are generated merely through income tax and property tax and various other kinds of user charges, rather than various kinds of taxes.

### New Delhi Municipal Council

The New Delhi Municipal Council (NDMC) was constituted under the New Delhi Municipal Council Act, 1994. It covers around 2.88% of the total area in Delhi. NDMC is a mini-government that provides basic civic amenities to residents in its jurisdiction. It is responsible for water, electricity and social facilities, promoting sports and culture as well as ensuring social, cultural, educational and medical facilities. The Council constitutes of a Chairman, Secretary, Financial Advisor as well as a Chief Auditor. There are Chief Engineers for project & building maintenance, road maintenance and electricity. There are Directors who head departments like finance, estates, enforcement, vigilance and taxes. Other officers include medical officers and superintendents. At present 18,525 employees are working in NDMC, out of which 18,039 are regular employees.

#### Functions and Responsibilities

Revenue generation is the responsibility of the NDMC's Finance Department. Major sources of revenue and expenditure of the council during 2004-05 are shown in Table 5.

**Table 5: Sources of Revenue and Expenditure**

<i>Sources of Revenue</i>	<i>Percentage of Total Revenue</i>
Sale of Electricity	54%
License fee from Properties	8%
Property Taxes	13%
Government Assistance	3%
Interest on Investments	18%
Other Revenue	4%
<i>Areas of Expenditure</i>	<i>Percentage of Total Revenue</i>
Purchase of Electricity & Water	54%
Education & Social Services	12%
Roads, Public Works & Projects	11%
Administration	06%
Sanitation & Health	12%
Deposit Works	01%
Debt Service	04%

Source: Website of New Delhi Municipal Corporation.

## Taxes Levied By NDMC

NDMC also levies the same taxes in its geographical jurisdiction as levied by MCD. They are discussed below.

### *Property Tax and other Related Taxes*

Revenue is realised in the shape of property tax and service charges from about 35,000 private and government properties situated within the NDMC area. Revenue is also realised from a few hotels falling in the jurisdiction of NDMC. Property tax is a percentage of the rateable value of land and buildings.

$$\text{Property Tax} = \text{Rate of Tax} * \text{Rateable value of land and building}$$

Property is divided into residential, non-residential and special categories. Tax rates have changed over the years depending on the categories into which they fall. Rates of various taxes are given in Annexure 8. Property tax should be paid within 15 days of receipt of the property tax bill. If tax is not paid, notice of demand is issued under Section 100 of the Act. If tax is not paid within 30 days of the issue of notice, the tax is recoverable with a penalty up to 20% by attachment of rent, bank accounts and attachment and sale of movable and immovable properties.

The procedure of assessment and collection of property tax in the NDMC area is different from MCD. Here inspectors assess the property on the basis of the market value or rent plus the cost of construction. In case of rented houses, assessment of the house is done on the basis of annual rent paid by the tenant. The assessment and tax collection is quite labour-intensive. Bills are sent to taxpayers after the assessment, and they have to pay at the property tax office at Palika Kendra.

The Council has not adopted the Unit Area Method of property tax as done by the MCD, citing various reasons. One of the reasons is the lack of buoyancy in generating taxes. According to officials, there will not be much increase in buildings in the area, due to which the tax will not increase. Covered area is the basis of unit area method and not the actual rent or comparable rent as revised in course of time by the NDMC. This is also one of the reasons that make the authorities apprehensive about the method.

The tax on buildings payable along with the application payable for the sanction of building plans is also levied on the same rates as

MCD. The duty on transfer of property also comes under the jurisdiction of property tax. Duty is collected primarily during the registration of sale or purchase of property. 8% tax is supposed to be paid as stamp duty on the total value of the property, where five percent is on the sale or purchase of the property and three percent is the municipal tax on transfer of property. In such a case, either the owner of the property notifies the authorities regarding sale and purchase during the process of mutation and the NDMC requests the Collector of Stamp Duty to pay the municipal share, or the purchaser directly pays the three percent municipal tax at the NDMC and pays five percent while registration.

***Theatre Tax and Advertisement Tax***

The tax rates on theatre, advertisement and duty on transfer of property remain the same in NDMC as MCD. However, not much emphasis is given to this instrument.

***Service Charge on Government Buildings***

The service charge on government buildings is a unique fee levied by the Council in its jurisdiction. The geographical area of the Council constitutes various government offices and residential colonies that form around 80% of the area. As one government agency cannot levy a tax on another government agency, the Council administers a service charge on these Central Public Works Department (CPWD) buildings and generates revenues. Revenue generated from these taxes in various years is enumerated in Table 6.

***Table 6: Actual Receipts and Budget Estimates for NDMC  
(Rs in lac)***

<i>Taxes</i>	<i>Actual Receipts 1999-00</i>	<i>Actual Receipts 2000-01</i>	<i>Actual Receipts 2001-02</i>	<i>Actual Receipts 2002-03</i>	<i>Actual Receipts 2003-04</i>	<i>Budget Estimate 2005-06</i>
Tax, Duties & Other						
principal revenue	7,991	10,283	12,395	15,217	14,592	15,051
House Tax	7,072	8,946	11,026	13,281	12,789	12,700
Assigned Share of Taxes	202	336	428	628	639	1252
Advertisement Tax	9	3	5	4	8	7
Theatre & Show Tax	1	1	1	0.36	1	0.5
Duty on Transfer of property	434	710	610	558	795	900
Other Taxes	0.51	0.47	2	2	2	5

*Source: New Delhi Municipal Council. Data abstracted from Budget Reports for the years of 1999-00, 2000-01, 2001-02, 2002-03, 2003-04, 2004-05, 2005-06.*

## Suggestions

There is a need to rationalised tax system and the rates in NDMC. Tax rationalisation would help the authorities in raising revenue. People would not be burdened by too many taxes, and the authorities would not have to incur huge compliance cost and cost of collection. It is important to impose tax in a way that more revenue is generated by fewer instruments. It can be done by either enlarging the base or levying user charges. These options are much better alternatives than levying too many taxes.

—Prepared by Susmita Pratibast

## Notes

- <sup>1</sup> Delhi Municipal Corporation Act, 1957. New Delhi: Verma Publications.
- <sup>2</sup> Delhi Municipal Corporation Act, 1957. New Delhi: Verma Publications.
- <sup>3</sup> Delhi Municipal Corporation (Amendment) Act, 2003. New Delhi: Verma Publications.
- <sup>4</sup> Government of NCT Delhi. 2004. *Municipal Valuation Committee Report*<sup>5</sup> Delhi Municipal Corporation Act, 1957. New Delhi: Verma Publications.
- <sup>6</sup> Commercial Officer. Municipal Corporation of Delhi. Advertisement Department.
- <sup>7</sup> Indian Stamp Act, 1899.
- <sup>8</sup> Delhi Municipal Corporation Act, 1957. New Delhi: Verma Publications
- <sup>9</sup> Delhi Municipal Corporation Act, 1957. New Delhi: Verma Publications
- <sup>10</sup> Municipal Corporation of Delhi. 2005. *Civic guide 2005*.
- <sup>11</sup> Municipal Corporation of Delhi. 2004. *Revised Budget Estimates 2003-04 & Revised Budget Estimates 2004-05*.

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- New Delhi Municipal Council's Website: [http://www.ndmc.gov.in/main\\_about.htm](http://www.ndmc.gov.in/main_about.htm)

**Paying MCD property dues is a taxing job**

Better services will ensure higher tax mop up, says report

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