Impact of Urbanisation on Government Finances & Tracking Property Tax Potential

A Study by

Madras School of Economics

Submitted to

Fifth State Finance Commission, Tamil Nadu

Study Team
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Research Associate
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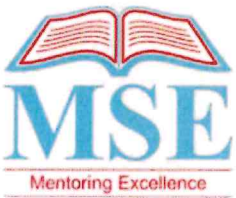

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Abbreviations

CAAs	Constitutional Amendment Acts
CAGR	Compound Annual Growth Rate
CFC	Central Finance Commissions
DCB	Demand, Collection and Balance
FC	Finance Commission
FC-XIV	Fourteenth Finance Commission, India
FDIs	Foreign Direct Investments
FGUC	Fast Growing Urban Centers
FSFC	Fifth State Finance Commission
GDP	Gross Domestic Product
GSDP	Gross State Domestic Product
HUDCO	Housing and Urban Development Corporation Limited
JNNURM	Jawaharlal Nehru National Urban Renewal Mission
MC	Municipal Corporations
MP	Municipalities
MSE	Madras School of Economics
NIPFP	National Institute of Public Finance and Policy
OTR	Other Tax Revenues
PRIs	Panchayat Raj Institution
PT	Property Tax
SC / ST	Scheduled Caste /Scheduled Tribe
SFC	State Finance Commission
TP / NP	Town/Nagar Panchayats
ULBs	Urban Local Bodies

CHAPTER 1

Introduction

Improvement of integrated municipal finance clubbed with management of excess demand due to fast urbanisation, improving service delivery for urban development through a proper policy agenda for Urban Local Bodies (ULBs) for Tamil Nadu is the subject matter of the study. This is to facilitate improved economic structure and thus inclusive economic growth of the State. We need to make recommendations for the *Fifth State Finance Commission (FSFC), Tamil Nadu* to execute the plans following the broader road map recommended by Fourteenth Finance Commission (FC-XIV), India.

1.1 A Prelude

The 73rd and 74th Constitutional Amendment Acts (CAAs) which have come into force in 1993 give a constitutional foundation to the local self-government units in rural and urban areas in India. The main features of the amendments are: three tier system of Local Self Government for all States having a population of over 20 lakhs; local body elections in every 5 years through State Election Commission; reservation of seats for Scheduled Caste /Scheduled Tribe (SC/ST) and women; appointment of State Finance Commission (SFC) to make recommendations as regards the financial powers to local bodies; constitution of District Planning Committees and Metropolitan Planning Committees. 74th Amendment was considered necessary to make the ULBs more viable units of local governance, so that these bodies could take on the responsibility of effectively performing the functions assigned for them in Schedules 11 and 12 of the Constitution. Subsequent to CAAs, Central Finance Commissions (CFC) is mandated to recommend grants to the States for supplementing resources of the rural and urban local bodies in the State on the basis of recommendations of the SFC. More often, this process gets disturbed and complicated due to diversity in the periods of the CFC and the SFC and non-availability of report of SFC on time to the CFC. The 11th, 12th and 13th CFCs have suggested for the necessity to synchronize the periodicity of the CFC and the SFCs so that the approach of the CFC for recommending grants for local bodies is guided by the approach and devolution criteria adopted by the SFC.

The last commission, i.e., Fourteenth Finance Commission (FC-XIV) was constituted by the President under Article 280 of the Constitution on 2 January 2013 to make recommendations for the period 2015- 20. The core mandate of the Commission remains as it is from that of the previous Commissions which is, basically for the distribution between the Centre and the States of the net proceeds of taxes, the doctrine which should govern the grants-in-aid of the revenues of the States out of the Consolidated Fund of India and the process

needed to augment the Consolidated Funds of the States to add-on the resources of the rural and ULBs in each State. Finance Commission fund transfers clubbed with tax devolution and grants to the States, have remained the major concern to the States and thus to the local bodies.

The 74th Amendment assigned enormous responsibilities to Municipalities, which include the preparation of plans for economic development and social justice as well as the implementation of schemes as may be entrusted to them. It is the fact that devolution of funds to ULBs is a natural corollary to the functioning and execution of transferred functions as State Government releases funds directly to the ULBs to implement the devolved functions. Moreover, grants are released to implement various centrally and state sponsored schemes. SFC' duty is to find out the principles of fund transfer to ULBs, the net proceeds of the taxes, duties, tolls and fees levied by the State; taxes, tolls and fees which may be assigned to ULBs and grants-in-aid to rural and ULBs from the consolidated funds of the State as per requirements. The finances of ULBs form an important element of the larger fiscal scenario of the country as ULBs are the Constitutional entities engaged in providing a variety of civic amenities and infrastructure.

A majority of SFCs have made recommendations to encourage local bodies to improve their own revenue collections. Towards that end, they have sought to incentivise improvement in revenue mobilisation by providing performance grants, matching grants and cash awards to local bodies. Some SFCs have included incentive for own revenue mobilisation in the devolution formula. They have also indicated the action that the States and local bodies need to take to facilitate own revenue mobilisation by local bodies. The SFCs have stressed the need for proper accounting and auditing of local bodies.

14th CFC report looked at few important issues on horizontal distribution of Centre State financial relation. Most indicators proposed by various States can be grouped into six broad categories, such as, (i) population, (ii) income and fiscal capacity distance, (iii) fiscal performance, (iv) area, (v) social and economic backwardness, and (vi) availability of infrastructure. Some States have suggested that since public goods and services have to be provided to the entire population, the 2011 Census data on population should be used for the purpose of devolution. However, nearly half the States have suggested that the 1971 population data should be the sole criteria for distribution of resources. They have argued that use of the latest population data would penalise those States that have taken effective population control measures. A few States have also suggested that growing urbanisation imposes challenges for States in terms of providing services to its population. Therefore, they have argued, some weight should be given to the States where population is growing rapidly and which are also urbanising at a fast pace.

1.2 *Fifth State Finance Commission*

In pursuance of the Constitutional provisions and the concomitant State legislations, SFC is being constituted in Tamil Nadu once in five years. The Tamil Nadu Finance Commission is set up under the Article 243 (I) of the Indian Constitution. As per the provisions of the 73rd Constitutional Amendment, Tamil Nadu was one of the first States to establish the SFC Finance Department dated 23rd April, 1994. So far, four SFCs have been constituted for devolution of funds to the Local Bodies. Thus, Tamil Nadu SFC is expected to review the financial position of ULBs and to make recommendations regarding the principles of devolution of resources from the State Government to ULBs and the measures needed to improve their finances and functioning on regular basis. These four SFCs have analysed the resource base of the ULBs and made recommendations. Following the trend, Tamil Nadu Government has constituted the Fifth SFC to review the financial position of rural and urban local bodies, which is headed by S. Krishnan, Principal Secretary (Planning and Development). The commission would make recommendations on the principles governing the devolution of funds by the government to the local bodies. It will also suggest measures to improve the finances of the local bodies, and new avenues of resources. The commission would review the financial position of the local bodies as on 31 March, 2015. As originally envisaged it would submit its report by May 2016, covering five years from 1 April, 2017.

Previous SFCs recommended regarding financial issues such as the principles governing the distribution of funds to local bodies from the net proceeds of the taxes, duties, tolls and fees leviable by the Government, the distribution of taxes, duties, tolls and fees which may be assigned to or appropriated by the local bodies and also the distribution of grants-in-aid from the Consolidated Fund of the State. However, these have also studied the measures needed to improve the financial position of local bodies and the possible new avenues for tapping resources in rural and urban local bodies keeping in mind the local body tax structure in other States.

According to the 14th FC reports migration becomes an important factor affecting the population of the State, apart from natural factors like fertility and mortality. A large number of in-migrants in a State brings forth several challenges resulting in additional administrative and other costs. Nonetheless, it is to be noted that it is not only the pull factors of urban areas which are bringing in-migrant but also equally there are strong push factors which are forcing individuals to move out of their native place in search of better opportunities. If net-migration in a State is taken as an indicator, it will place a double burden on States from where out-migration is taking place. As it is, these States do not have enough infrastructures to provide services to their citizens and that is why much

of the labour force is moving out. So denying resources on the basis of net-migration will mean penalising them for under-development-induced migration. Also, there is no denying the fact that migrants contribute to the income of the destination States and help the State of origin through remittances. However, the pressure of migration to bigger cities does impose fiscal challenges on the destination States and a grant mechanism may be more useful to deal with this specific problem[1]. It becomes serious concern for Tamil Nadu as it is the State which has been experiencing fast urbanisation and huge in-migration since last decade. Specifically, in the last 20 years, the rate of urbanization in Tamil Nadu has been rapid. According to the 1991 Census, only 34.15% of the total population in Tamil Nadu was classified as urban but in 2011, it has risen to 48.45%, an increase of 14.3%. Since the 2001 census, the percentage of urban population has risen by 4.41%. Large number of people has moved from rural to urban areas in the last 10 years compared to other States. Tamil Nadu tops the list of urbanised States with 48.45% of its population living in urban areas, followed by Kerala, Maharashtra and Gujarat.

Therefore, there are number of important issues that need to be immediately examined. First, current status of municipal finance specifically, demand gaps for own tax revenue for the State should be tracked. Second, ULB wise efficiency in financial management, revenue potential and other administrative issues should be looked after minutely in order to maintain the mandate of the CFC. Third, ULB wise urbanisation in terms of population growth and thus other urban development and thus increment in demand for services need to be judged in order to know the actual financial gap and burden for the ULBs. Fourth, evaluating tax structure (some aspects of tax base for property tax as it is the main source of own revenue) according to existing norms and recommending financial devolution formulae after intense assessment of the demand gap for the ULBs.

In focus, FSFC of Tamil Nadu, has to review, among others, the current financial position of urban local bodies, dependency ratio, efficiency in managing its expenditure focusing on urbanisation and to make recommendations regarding the principles governing the distribution of net proceeds of the taxes, duties, toll and fees levied by the State Government between the State and the local bodies, to determine the taxes, duties, tolls and fees to be assigned to local bodies and the grants-in-aid to be transferred to local bodies from the Consolidated Fund of the State. It needs to examine the status of functional and financial devolution to ULBs in Tamil Nadu and suggest new revisions with respect to the mandate of FC-XIV. Therefore, it is necessary to enhance the role of property taxes in financing municipal services. Indeed, it is an important aspect for

[1] http://finmin.nic.in/14fincomm/14thFinanceCommission.htm

the long term financial viability of the Municipalities. A robust municipal system is necessary for effective implementation and management of India's urban policy agenda.

1.3 Property Tax

Property tax is considered as the most important tax levied by urban local governments worldwide. The main income from own-tax revenue of ULBs comes from property tax. A property tax is defined as a levy on property which is levied by the governing authority of the jurisdiction in which the property is located. Properties are classified into four broad categories to make proper evaluation for taxation. These are land, improvements to land (immovable properties, such as buildings), personal property (movable properties), and intangible property. Real property (also called real estate or realty) means the combination of land and improvements. Section 81 of the District Municipalities Act 1920 empowers the Municipal councils to levy Property Tax on all Lands and Buildings within the Municipal limits except those which are statutorily exempted. Property tax is a good tax for local government because it is fair (based on the benefits received from local services), it is difficult to evade, and it promotes local autonomy and accountability (Bird R. M., 2001). It is considered theoretically as a good tax for local governments because it is a visible tax for financing visible services in the jurisdiction of a city. Moreover, it is not easy to evade and it can bring out accountability. However, it includes few major constraints such as high cost of valuation and political difficulty to enforce. In Indian structure, property tax didn't appear as good as it is considered because it is not easy to evaluate the property with the complex evaluation structure. As property is immovable it is unable to shift location in response to the tax and it cannot be hidden. Even the owner of a vacant property can be taxed under the property tax. However, it is seen that the property tax as a tax on capital that results in distortions in the housing market and local fiscal decisions (Zodrow, 2001). Further, property tax as a tax on the market value of land and further improvements discourage the building construction which eventually results in the underutilization of land. The amount of capital per unit of land is less than what is economically efficient. Both the benefit-based and capital tax approach have some validity. The property tax is not purely a benefits tax because homeowners who improve their houses will face higher taxes and will therefore be discouraged from doing so.

There are structural flaws and other constraints for implementation of better system. Inability of local bodies to put right step to get rid of the difficult administrative challenges of valuation and implementation is mainly responsible for the low yield from property tax. The most important administrative challenge in India is how to determine the market values for land and structures without errors. If the tax base is not estimated properly, coverage would be low which results in lower revenue

collections. High rates of tax can also lead to poor compliance. Absence of accurate sales data because of under-reporting on property transactions makes valuation difficult. Information asymmetry is another major problem for evaluation of the property values. Higher transfer duties, inefficient monitoring of the transfer tax department to check the authenticity of the sales value declarations and illegal practices in the property markets are the most important factors resulting in under-reporting of property values (Bandyopadhyay, 2013). The municipal revenue base consisting of property taxes persist to undergo substantial inefficiencies and under utilisation. There are endogenous and exogenous factors that control these constraints which need to be fixed. A detail assessment of property tax demand, structure of tax base and potential efficiency is utmost necessary to enhance own tax revenue capacity for the local government. The design and implementation issues relating to property tax is one of the relatively less researched areas. This is particularly so in developing countries where the property market is largely unorganized and therefore, valuations are extremely difficult (Rao, 2013). Empirical studies show that the volume of property tax collection depends on the level of development of the country and the extent of its fiscal decentralization (Bahl and Martinez-Vazquez, 2008). The ULBs in India are in different stages of implementation of reforms in valuation of properties ranging between purely Annual Rental Value (ARV) and Area Based Methods. Mohanty et al (2007) prescribes changing over to area based valuations. A review of property tax reforms (NIUA, 2010) on the basis of 10 selected cities viz. Ahmedabad, Bangalore, Bhubaneswar, Chennai, Hyderabad, Indore, Kolkata, Ludhiana, Patna and Pune shows that Patna, Indore, Chennai, Hyderabad, Bangalore and Ahmedabad have moved to the "unit area assessment system", while Kolkata and Bhubaneswar are yet to implement the unit area system (although the municipal laws have been amended). Patna and Ludhiana have continued with the system of Annual Rental Value (ARV). Bangalore has experienced a sharp rise in the property tax revenues after moving to the area based method. Valuation of properties is an important issue. Valuation can be done based on the capital value, rentals or area of the properties. While capital values are subject to market fluctuations, rent controlled properties create distortions in the rental value based methods. Valuation based on unit area characteristics are safer options with less fluctuations. Many developing countries have opted for unit area based valuations (Mathur 2009, NIUA 2010). Augmentation of property tax revenues depends on the methodology for valuation of properties, coverage of properties under tax net, collection efficiency and regularity in periodic revision of values and rates. Jawaharlal Nehru National Urban Renewal Mission (JNURM), a flagship program of the Government of India to support urban development, placed a lot of emphasis on reforming the property tax regimes of 3 State

governments. The JNNURM guidelines provide for measuring the effectiveness of the property tax reforms on the basis of parameters like coverage, tax mapping, demand, collection and enforcement. Computerization of property taxes, regular revision of rates, more user friendly tax system and making tax enforcement a priority were emphasized with a target of raising collection ratio to 90 per cent and coverage ratio to 85 per cent (Bandyopadhyay, 2013). Legal framework plays an important role in realizing the gains from a transformation in the valuation methods. Gnaneshwar (2009) in his study based on municipal Corporations from Andhra Pradesh, Tamil Nadu and Karnataka establishes that the gain in Karnataka from moving to an area based tax system has been the most because of the fact that in Karnataka, the reform has been executed with a revision in the legal framework whereas in the other two States the existing legal provisions were used. In a study of 36 large Corporations, Mathur et al (2009) find that there are large inter-city variations in per capita revenue from property tax. However, the study claims that population size has a strong impact on property tax collection (with a correlation of 0.82). The total tax demand over the study period has shown some signs of stagnation reflecting limited inclusion of new properties and revision of rates. However, variables like growth of Gross State Domestic Product(GSDP) or the ratio of a State's tax revenue to GSDP have little impact on property tax revenues. Another study (Mathur et al 2011) based on a survey of 31 Municipalities in six States-Andhra Pradesh, Kerala, Madhya Pradesh, Maharashtra, Rajasthan and Uttar Pradesh finds that property tax constitutes 25 per cent of total revenues in cities in Maharashtra, 30 to 40 per cent for cities in Kerala and Andhra Pradesh, less than 20 per cent of those in Madhya Pradesh and 20 to 40 per cent for those in Uttar Pradesh.

1.4 Urbanisation

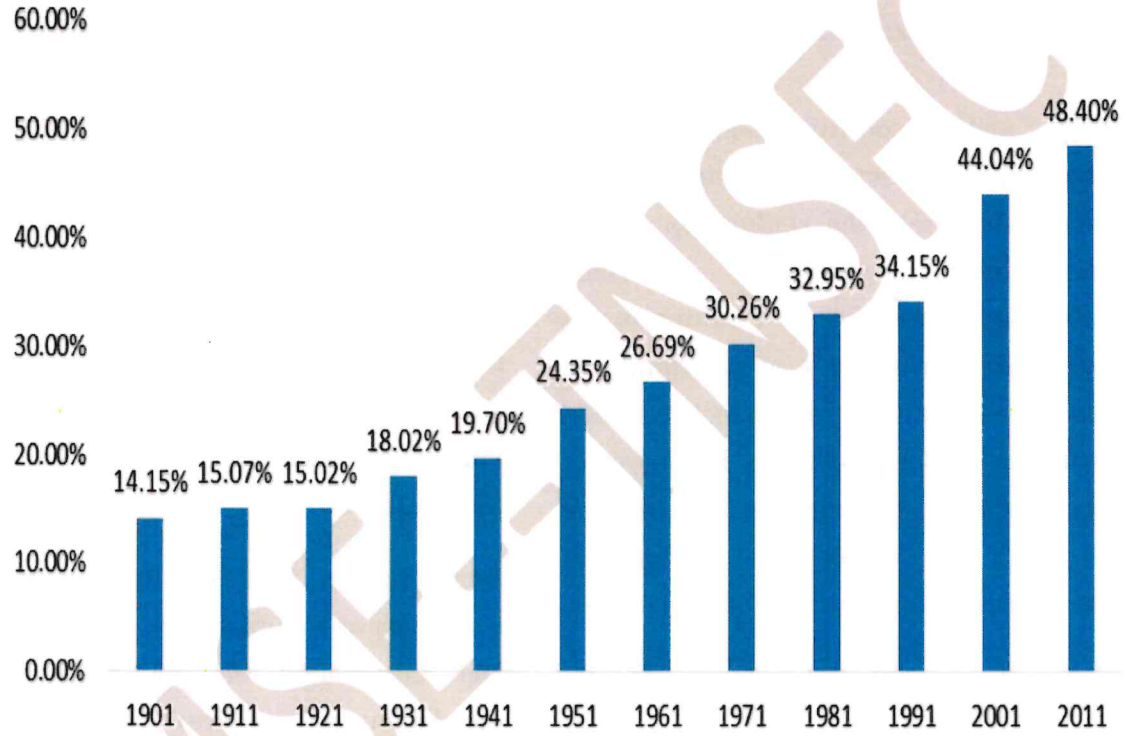
The exponentially growing urban infrastructure and service requirement would require augmenting resources from a variety of sources. However, various studies have established that the property tax has not been exploited to its full potential owing to improper valuation, absence of regular updating of assessments and apathy of the enforcement wing. While studying the tier wise financial position of urban local bodies, Forth Finance Commission, Tamil Nadu, observed that the resource base of local bodies is not elastic as revision of all taxes and non taxes is done once in five years. The buoyancy in property tax is through increase in property stock which is dependent on market conditions. Besides, the local bodies have been subjected to control over their tax domain through the powers vested with the Government. As a result, the local bodies are unable to bear the increase in expenditure without augmenting own income on par 3 with the growing expenditure. Further, the elected Councils are also reluctant to increase the tax base for various reasons. The

Government needs to play a proactive role to contain the recalcitrant attitude of the local bodies which fail to undertake the statutory functions and raise resources. It found several issues like arbitrariness in the fixation of taxes, reluctance to revise tax/non-tax rates, under/no assessments, lack of proper monitoring mechanism to set right all the said issues which ultimately brought down the revenue collections of local bodies. It analyzed the defects in the existing system of taxation and identified the untapped tax potential to augment revenue. Another interesting observation was which attracted the then Commission's attention is that the needs vis-à-vis the financial position of Fast Growing Urban Centres (FGUCs). An analysis of the population growth would show that the rate of growth in the FGUCs is higher than that in the core city. Urban decentralization, devolving powers and responsibilities to the municipal bodies (the city governments) was a result of the increasing pace of urbanisation, particularly in the larger cities. These cities became the hub of industrial and economic activities and attractive destinations for the Foreign Direct Investments (FDIs) (Bagchi (2010). The lack of revenues is one of the biggest problems facing most cities all over the world, which makes them one of the vulnerable layers of government, with increasing responsibilities and small share in the allocation of public resources. It is a widely acknowledged fact that the different aspects of ULB management such as revenue optimisation, cost-effectiveness, process reform & reengineering, transparency & accountability, people-centeredness, etc., are all interlinked and therefore need simultaneous and synchronous reforms. In a country of great diversity and multiplicity it is difficult to device standard formulae of ULB reforms. Hence, perhaps the best strategy of consolidating the wisdom on ULB reforms is to map the best practices in this sector and to attempt a generic analysis of these practices with a view to promote their replication and scale-up (Gurjar, Mehta, Yashada, 2009). Mathur (2006), suggested that devise of revenue sharing formulas, which can consume the effort of SFCs, needs to be re-examined. It would be far simpler, more transparent, and more stable if States were simply to decide what portion of revenues they will share with local bodies and the principles that should govern allocation. These would seem to be inherently political decisions. The belief that they can be decided "objectively" through technical resource gap analysis may be an illusion. At most, SFCs can quantify the allocations implied by a clear Statement of policy objectives. They have claimed that Central government intervention via the institution of the Central Finance Commission (CFC) is exceptionally significant in reforming 5 intergovernmental fiscal relations so that these are stable and predictable over at least the medium term. Decentralization in India cannot be expected to be strengthened if it is not consistently supported by CFC policy.

1.5 *Urbanization in Tamil Nadu*

Tamil Nadu is one of the most urbanized States in India. According to census 2011, the urban population of Tamil Nadu constitutes 48.4 % of total population. There is a 4.36 point increase in the urban population compared to 2001 census. Moreover the percentage of urban population in Tamil Nadu is much higher than the national level (31.16%) as per 2011 census. The Figure 1.1 below shows the gradual increase in the urban pollution in Tamil Nadu from 1901 to 2011. Given the trend the urban population in Tamil Nadu will reach 67% in 2030.

Figure 1.1: Percentage of Urban Population of Tamil Nadu, (1901-2011)



Source: Census Report, 2011

The increasing trend in the urbanisation is a challenge as well an opportunity to improve the governance in general. In this context the ULBs have an importance role to play in improving living standards of urban population. The ULBs are self-governing (in-part) bodies which provide vital welfare services to the urban population. Thus ULBs comprising Municipal Corporations, Municipalities and town Panchayats can be considered as main interface between people and government specifically after the 73rd and 74th amendments. ULBs provide services to the local public like water supply to domestic, industrial and commercial purpose, public health, sanitation conservancy and solid waste management etc. It is the responsibility of ULBs to provide urban municipal services as per the provision of 12th schedule of the Constitution of India. With the increased in

the urban population, there has been an increase in the responsibility of ULBs to provide services to the urban people. Apart from providing basic services mentioned above the ULBs have an important role in Urban planning including town planning, regulation of land-use and construction of buildings, planning for economic and social development and Urban poverty alleviation.

1.6 *Urban Local Bodies in Tamil Nadu*

The 73rd and 74th constitutional amendments instructed formation of the third level of government across the country to provide decentralized governance. These constitutional amendments resulting in the creation of a three-tier local government in rural areas known as Panchayat Raj Institution (PRIs) via District Panchayat or Zilla Panchayat, intermediate Panchayat at the Block or Taluka level and Gram Panchayat at village level; and it also created ULBs Municipalities. The amendments also mandated formation of State SFCs on the lines of CFCs to facilitate sharing of resources at the State level with PRIs and Municipalities. It is with the passing of the 74th Amendment to the Constitution, in the nineties, that the issues of fiscal federalism in India derived a specific framework. Article 243 of the Constitutional Amendment (Seventy-fourth) empowers SFCs to review the financial position of Municipalities and to make recommendations to the Governor as to the principles which should govern the revenue distribution between the State and the Municipalities of the net proceeds of the taxes, duties, tolls and fees levied by the States. It got power to looks after the determination of the taxes, duties, tolls and fees which may be assigned to, or appropriated by, the ULBs.

The Tamil Nadu Panchayats Act 1994 was enacted to make changes in the local self governance in line with 73rd and 74th constitutional amendments The Tamil Nadu Urban Local Bodies act, 1998 is a combined Act for all Corporations, Municipalities and Town Panchayats. It came into effect from 01-08-2000 with the approval of the president of India and it has repealed all individual Acts for Corporations and Municipalities.

According to this Act, any local area constitutes as a municipality, town Panchayat and Corporation on the basis of the population of the area, the density of population and the revenue generated for local administration. Currently, Tamil Nadu State has 12 municipal Corporations (viz, Chennai, Madurai, Coimbatore, Tiruchirappalli, Tirunelveli, Salem, Tiruppur, Erode, Vellore, Thoothukudi, Dindigul, and Thanjavur), 124 Municipalities, and 528 town Panchayats.

Table 1.1: List of Urban local bodies in Tamil Nadu as of 2015

	Nos	Area in km²	Share of area	Population (in lakhs)	% population to total population	% population to total urban population
Chennai Corporation	1	426	0.33	67.27	9.33	19.25
Other Corporations	11	1,278.31	0.98	80.66	11.18	23.08
Municipalities	124	2,502.09	1.92	86.39	11.98	24.72
Town Panchayats	528	6,388.2	4.91	80.9	11.21	23.15
Total	**664**	**10,594.6**	**8.15**	**315.22**	**43.70**	**90.19**
Tamil Nadu		**1,30,060**	**100**	**721.39**	**100**	

Source: Policy Note 2015-16 of Municipal Administration and Water Supply Department and census 2011

According to the Table 1.1 almost 90% of the total urban population (43.7% of the total population) falls under various urban local bodies which covers 8.15% total State area. The population of Chennai Corporation is 19.25% of total urban population. Similarly other Corporations, Municipalities and Town Panchayats has almost an equal share in the total urban population of State (23 to 25%). However the town Panchayats are bigger in size in terms of area compared other ULBs. For administrative purpose, the Municipalities and Town Panchayats are classified into different grades by the government of Tamil Nadu based on their annual income, as given below in the table 1.2 below.

Table 1.2: Income wise classification of ULBs

Category of ULB	Grade	Annual Income	No.
Municipalities	Special grade	Above Rs 10 crore	18
	Selection grade	Rs 6 crore to 10 crore	28
	First grade	Rs 4 crore to 6 crore	34
	Second grade	Below Rs 4 crore	44
Total			124
Town Panchayats	Special grade	Above Rs 200 lakh	64
	Selection grade	Rs 100 lakh to Rs 200 lakh	202
	First grade	Above Rs 50 lakh to 100 lakh	200
	Second grade	Below 50 lakh	62
Total			**528**

Source: Policy Note 2015-16 of Municipal Administration and Water Supply Department)

1.7 *Financing Urban Local Bodies*

Considering the current pace of urbanisation it is evident that within a short span of time more than half of the population in Tamil Nadu will be living in urban areas. In this context improving municipal finance becomes critical for a sustained economic development. Moreover the local governments are gaining importance not only as basic services providers but also contribute to asset creation and infrastructure provision at local level. Sound financing practices and greater emphasis on own resource mobilisation would enhance the autonomy of ULBs in exercising their responsibilities. ULBs can raise revenues from several sources. Broadly they can be categorized as own revenue (tax revenue and non-tax revenue) and other revenue (shared revenue, grants-in-aid, loans, other receipts). Tax revenue includes property tax, advertisement tax, vacant land tax, etc., and the non-tax revenue includes user charges, market fees, and betterment charges. Details of various revenue sources and expenditure are summarised in the table 1.32 as below. Property tax has been posited as the ideal source of income for municipal governments, given the association between taxes raised locally and the delivery of municipal services and infrastructure. Yet this type of revenue has been neglected in favour of consumption taxes, which as a percentage levy on transactions are less conspicuous than the annual payment of a property tax. According to National Institute of Public Finance and Policy (NIPFP) study (Mathur, et al, 2009), State governments have to reform many archaic laws and lessen number of conditions. With rationalization of rates and method of collection it has been found by them that the yield of property tax has risen tremendously. Entertainment tax, which is somewhat buoyant and totally local in nature, should be transferred to the local bodies by all States. Goa, Haryana, Kerala, Madhya Pradesh, Maharashtra and Utter Pradesh have done it already. If octroi has to be abolished, some other equally buoyant tax should be transferred to the urban local bodies. A local tax designed to satisfy these requirements should in principle have the following characteristics (Bird 2006): (i) The base

[2] Accounts of Tamil Nadu state ULBs categorises total income on four different heads namely A) Revenue Account, B) Capital Account, C) Deposits and D) Advances. Revenue accounts has two sub parts, (1) Own Revenue and (2) Grants & Assigned Revenue. Capital account has four sub parts, (1) Contribution from municipal funds, (2) Grants in aid from state government, (3) Grants from central government and (4) Loan account. This study classifies total income into two categories income generated from own sources and other sources) to highlight the contribution of own sources to total income.

should be relatively immobile to allow the local authorities to vary the rates without losing the base. (ii) The tax should yield adequate revenues to meet local needs and should be sufficiently buoyant over time. (iii) The tax should be stable and predictable over time.

Table 1.3: Revenue sources of ULBs

Category	Sources of Revenue
Tax revenue	Property tax, Vacant land tax, Profession tax, Pilgrim tax, Tax on animals and carriages, tax on agriculture land, Tax on carts, Advertisement tax.
Non-Tax revenue	User charges, Municipal fees, Sale & Hire charges, Lease amounts
Other Receipts	Sundry receipts, Law charges cost recovered, Lapsed deposits, Fees, Fines, & Forfeitures, Rent on tools &plants, Miscellaneous sales etc.
Assigned Revenue (shared)	Entertainment tax, Surcharge on stamp duty, Motor vehicles tax.99
Grants-in-aid	1. Plan grants made available planned transfers from the upper tier of government under various projects, programs, and schemes.
	2. Non-plan grants made available to compensate for the loss of income and some specific transfers
Loans	Loans borrowed by the local authorities for capital works etc. - HUDCO, LIC, State and Central Government, Banks and Municipal bonds.

Source: FC-XIV report

(iv) It should not be possible to export the tax burden to non-residents except to the extent that such burdens capture benefits non-residents obtain from local services. (v) The tax base should be visible to ensure accountability. (vi) The taxpayers should perceive the tax to be reasonably fair. (vii) The tax should be relatively easy to administer. If local authorities were to simplify the assessment of rates, make taxpayers aware of the benefits of compliance and address political resistance from wealthy property owners, a tax on land and buildings could underpin local political and economic development.

Table 1.4: Components of Expenditure

Expenditure- Revenue		
1	**Establishment**	Employee salaries, allowances, welfare, pension benefits, etc.,
2	**Administrative**	Rents, office maintenance, transport and communications, printing and stationary, legal charges, etc.
3	**Operation &Maintenance**	Power and fuel, procurement, hire charges, repairs, interest payment on loans, etc
4	**Others**	Welfare and other miscellaneous expenditure
Expenditure – Capital		Water supply, sewerage, health and sanitation, roads, street lighting, tools and equipment, payment of principal on loans, etc.

Source: FC-XIV report

One major issue in the respect is concerned with the inadequacy of revenue tools to meet expenditure requirements assigned to ULBs. There is acute over-reliance on the inter-governmental transfers through SFC mandated devolutions as well other State and Centre government grants. The study on Municipal Finances and Service Delivery by ASCI commissioned by 14th Finance Commission also highlighted this fact and observed that ULBs should address the inefficiencies in internal revenge mobilization. It is often argued is that a better institutional standard of its operation usually points towards better governance and better transparency which thus results in better collection ability and more collection efficiency. Similarly, property tax reforms have to be given high priory as it is considered to be one of the important revenue sources of ULBs. In this respect his broadly looks into trends of urbanisation with respect of ULBs in Tamil Nadu and examine trends and potential of property tax as a revenue source.

1.8 Objectives Following TOR

The proposed approach has been constructed keeping in mind the interactions with the officials at the State SFC and the datasets which have been gathered through the SFC as well as various other sources. The approach leading to the different stages of reporting will involve the following steps:

Reviewing the finances of each of the ULBs and assessing the performance of each of the same as of the data as of 31.03.2015. The review would involve property tax demand and revenue collection.

Inter-State analysis of property tax trends would be done on the basis of availability of

data from the SFC and FC-XIV/. The analysis would revolve around the issues of efficiency, sustainability and performance urban property taxes with respect to own tax revenues and other major macroeconomic indicators of the States.

The ULB estimation for gap and tracing the efficiency of ULB wise tax collections would mainly be done through demand-collection-balance Statements provided by the State finance commission

All projections to be done for the periods of 2016-17 to 2020-21 will be done on the basis of choices between mean or median growth trends which would be made on the basis of fit and minimizing forecast errors.

Trends in urbanization would be analyzed based on the population based measures – these are based on the Census-2011 database and the estimated figures which would be provided by the SFC. All policy reviews to be done on untapped property tax potential, devolution and urbanization would be done on the basis of surveys of relevant literature, studies and reports and the data provided by SFC which would be analysed by Madras School of Economics (MSE). These would be in line with the suggestions which have been recommended by the FC-XIV

Policy recommendations on increasing the tax potential of ULBs and expanding their tax base keeping in mind the tax potential of these bodies would be made post the analysis of the data at hand. In the following chapters we are going to discuss about the inter-State variation in collection of property tax.

CHAPTER 2

Inter State Variation in Collection of Property Tax

2.1 Introduction

The core objective of the chapter is to judge the place of Tamil Nadu in the performance of property tax collection compared to other major States in India. Moreover, it intends to look after the state wise variations in the extent of the success in achieving the goal of property tax collection. The main thrust is to examine the patterns of finances in Urban Local Bodies (ULBs) in Tamil Nadu and present a comparative picture with select states thereof across different tires. The revenue structure of the states can be categorized into two main types, viz., external sources and internal sources. External Sources include grants- in-aid, plan grants and shared taxes whereas, internal (own) sources include tax revenue, mainly property taxes, tax on vehicles, animals, boats, etc, tax on trade and callings and professions, tax on advertisements, octroi and non-tax revenue, user charges and fees, other charges. Basically, own municipal revenues come from two definite sources, viz., tax and non-tax sources.

The amount and nature of grants given to ULBs by the State vary across states, since it depends on the policy of the respective State Governments. In ULBs' own revenue structure, property tax takes the prime position in all urban local bodies. Apart from that state assignments and devolutions, central and state grants including those from FCs and SFCs scheme funds, etc are part of the total income. On the other hand, municipal expenditure areas include establishment and administrative charges, O&M, investments on infrastructure, welfare and others as discussed in chapter 1.

Despite recognizing many flaws in the levying, collection and assessment process in ULBs property tax continues to be the key contributor in the local tax revenues for the almost all the states in India.

This is evident from the fact that property tax brings about 25 to 30 percent of the total municipal revenues in different states[3]. Taxes on Property, by definition include recurrent taxes on immovable property, recurrent taxes on net wealth, estate duty and gift tax, taxes on financial and capital transactions, other non-recurrent taxes on property which is one time tax on revaluation of capital and property and other recurrent taxes on property.

2.2 Previous Studies

According to a recent study (ASCI and 14th FC, 2014) there are significant differences in performance of municipal finance among states. Specifically, a wide state wise disparity in revenue growth, efficiency in expenditure

[3] https://www.cgg.gov.in/Property%20Tax%20book.pdf

management of ULBs has been acknowledged in the analysis. Moreover, it has been shown that tier wise per capita collection vary even within a state for all the states. Revenues from tax sources declined over a four year period from 41% to 32% at state level. Interestingly, there was a sharp decline in property tax revenues in states while revenues from other taxes improved marginally. In an another well referred study (Government of India 2009, Mathur et al 2009), property tax revenues in the 36 largest cities in India have been estimated at Rs 4,522 crore, yielding a per capita revenue of Rs. 486 with large inter-city variations. The collection of property tax in India is estimated to lie between a low of Rs. 6274 crore and a high of Rs. 9424 crore. When fiscal indicators are looked at from a broad level, many states in India have reported a reversal of the poor performance of the past two years (2013-14 and 2014-15) in terms of maintaining deficits – this was done through a systematic reduction of revenue expenditure and cuts on capital outlays. These efforts come in the advent of correcting expenditures by keeping unaffected positive strides made in fiscal consolidation. But, we would also have to note that this consolidatory pattern is only seen at a broad level (Reserve Bank of India, 2016) and many of the specific, focused indicators have disturbing trends. The one specific item of interest of this study is that of property taxes confined to urban local bodies. Property taxes in India are subject to levy through the Entry 49 in List II of the Seventh Schedule of the Constitution of India – these are levied by the municipal governments through the acts laid down by the state governments. These acts entail the slabs of tax rates, the policy for exemption, the tax base and the means and powers to deal with delays and defaulters in the payment of taxes. The Indian property tax regimes are very weak and outdated since their performance even in the strongest of tax bases consisting of urban centres has been very dismal. Urban Local Bodies (ULBs) in India have been incapable in raising resources to finance their everyday expenditures. High Powered Expert Committee constituted by the Ministry of Urban Development and Poverty Alleviation has stated that Indian ULBs are among the weakest in the world in terms of organizational and financial capacities (HPEC, 2011) which are unable to raise their own revenues through local tax collections. Among urban centres of different regions in India we observe that there is a very low, undefined tax base – many states have reported local bodies having very poor resource bases. Since these resource bases are only revised every five years there is stark inelasticity in tax collection. The distortion arising out of urban base revisions happening every five years is huge since there is a gap which exists between the demand created through market based purchase of property and the revision of tax rates and bases. This also leads to the condition of poor buoyancy of these taxes. Moreover, as regards wealth inequality in India, the latest India Human Development Report (IHDR, 2011) released by

the Planning Commission indicates a highly skewed distribution of assets in India, with the top 5 percent of households possessing 38 percent of total assets, and the bottom 60 percent of households owning a mere 13 percent. The number of dollar billionaires in India as per the Forbes list has risen from 13 in 2003 to 55 in 2011. Property tax on real assets is thus difficult to avoid and, if administered, well can present a non-distortionary and highly efficient fiscal tool (McCluskey 1999). However, at the same time the scope of undervaluation is also greater for immovable property compared to movable property (Gulati and Krishnan 1973). Municipal Property Tax is an important source of local revenue in many countries (Lall and Deichmann 2006). But urban Property Tax levied by municipalities is an underused source of revenue in India (ibid.). It has also been argued that the weakness of Property Tax (Municipal Tax) is perhaps best exemplified by India (Davey and Devas 1996). It has been argued that Municipal Tax is based on 'benefit principle' as against Wealth and Inheritance Taxes, which are based on the 'ability to pay principle' (Mathur et al 2009). Therefore, Municipal Tax is not for distributive justice but for municipal services and self financing of urban development. But it can indirectly lead to distributive justice by increasing funds available for public provisioning for disadvantaged sections of the society. In the study year, revenue sourced to the states' treasuries through property taxes fell in the band of 0.1 to 0.2% of the respective states' GSDP. This is in stark contrast to other major developing countries as well – who collect around 0.6% of the domestic property through property taxes (Mathur 2009) this showed the low level of utilization of the tax base and an untapped potential source of revenue. This is the crux of the issues of developing norms and directives which lead us to realizing the urban property tax potential. However, it needs to be read by keeping in mind that developed countries like USA and Canada realize revenue shares of about 3-4 percent of property tax collections to GDP(OECD, 2014).

Now we need to make a comparative analysis for two benchmark years, viz., 2007-08 and 2012-13 for 13 major states in India. This analysis of the contribution of different components of the municipal revenues at the state level based on the data provided by the state governments to the 14th Finance Commission is made in this section.

2.3 *Tax Performance Indicators*

Own source of income at ULB level includes both tax and non-tax resources. This section focuses on tax revenue segment of municipal finance of the states. Here we have estimated own tax revenue (OTR) and the contribution of property tax in OTR for two benchmark years, viz., 2007-08 and 2012-13 for 13 major states. Due to unavailability of proper data set our analysis couldn't include other states. This is quite interesting that several states property tax is a mandatory tax but in states like Assam, Gujarat, Karnataka and Kerala it is a discretionary tax though most states levy this tax, though nomenclature varies.

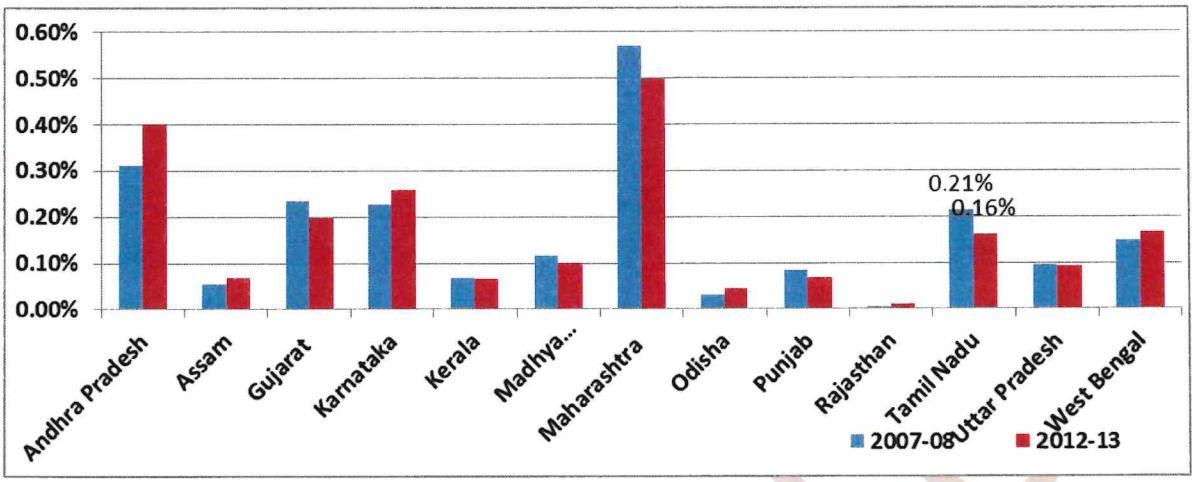
Although inequality has been decreasing over time there are still wide variations across states in absolute amount of tax revenues as shown in table 2.1. Estimated coefficient of variation in proportion of property tax in OTR has decreased from 62% in 2007-08 to 56% in 2012-13. Maharashtra has been getting highest amount of OTR and property tax in absolute value in India for last several years. However, deeper introspection would reveal that the figure for Maharashtra has been highly inflated due to the revenue generated by the Mumbai Municipal Corporation. The total amount of property revenues have increased by large proportion for Andhra Pradesh, Gujarat, Tamil Nadu and West Bengal. However, if we look at the distribution (figures of property tax) in terms of own tax revenue we can say that Gujarat stood at the top by acquiring 61% in 2007-08, but could not hold the position as it has decreased in recent times. Kerala, Madhya Pradesh, Karnataka and Assam were able to take a proper pace and got above 50% in 2012-13. Tamil Nadu was 5th in ranking of property tax as a percentage of OTR in 2007-08 but it has declined by around 4 percentage points in 2012-13.

Table 2.1: State Wise Own Tax Revenues and Property Tax

States	Property tax (Rs in Cr.)		Own Tax Revenue (Rs in Cr.)		Property Tax (% of OTR)	
	2007-08	2012-13	2007-08	2012-13	2007-	2012-13
Andhra Pradesh	662	1642	1836	3900	36.1%	42.1%
Assam	40	96	65	190	61.5%	50.5%
Gujarat	773	1302	2755	3310	28.1%	39.3%
Karnataka	616	1357	1057	2431	58.3%	55.8%
Kerala	118	226	213	363	55.4%	62.3%
Madhya Pradesh	188	366	350	682	53.7%	53.7%
Maharashtra	3911	6614	17521	32080	22.3%	20.6%
Odisha	40	115	1979	4839	2.0%	2.4%
Punjab	130	197	1106	1945	11.8%	10.1%
Rajasthan	11	47	500	1393	2.2%	3.4%
Tamil Nadu	749	1203	1423	2520	52.6%	47.7%
Uttar Pradesh	365	712	795	1198	45.9%	59.4%
West Bengal	442	1004	1987	2067	22.2%	48.6%
CV					62%	56%

Source: *Compiled and calculated from "Municipal Finances and Service Delivery in India", 14th FC funder Study, 2014*

Figure 2.1: Property Tax as % of GSDP



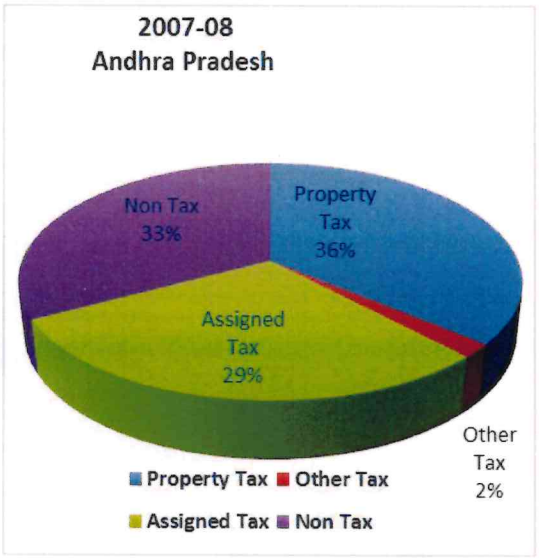
Source: *Compiled and calculated from "Municipal Finances and Service Delivery in India", 14th FC funder Study, 2014, GSDP from CSO reports.*

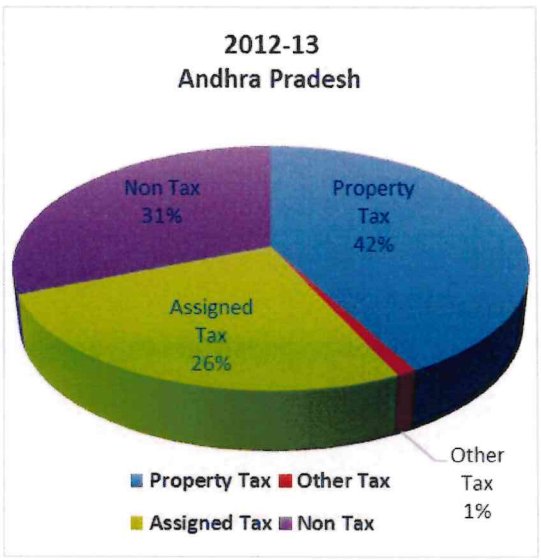
As states' incomes vary in a wide range we need to look after the amount of property tax as percentage of GSDP to make unbiased comparison across states. Tamil Nadu stands at 5th position after Maharashtra, Andhra Pradesh, Gujarat and Karnataka. However, it shows a falling trend in recent times.

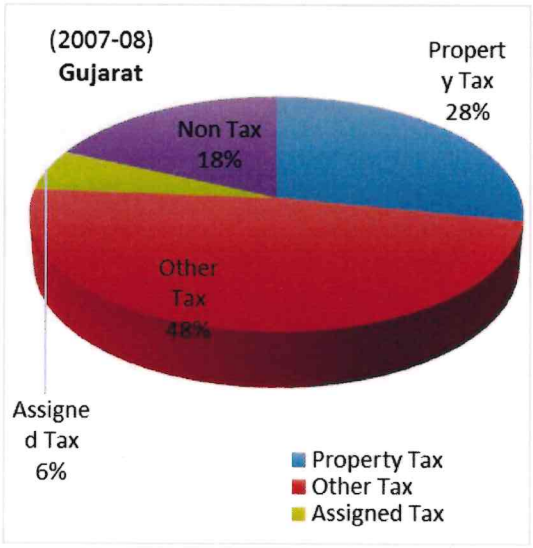
2.4 *Share of Different Components of Own Tax Revenue*

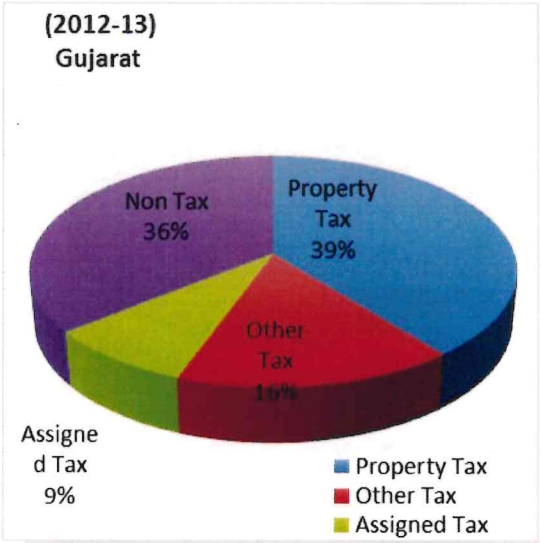
In this section we have made the share of different components of OTR for 13 states for two said years and presented with the following charts to understand the intra state and interstate variation and the dynamics of distribution of different form of sources in municipal revenue. Total ULB revenues in 2007-08 was Rs. 49,351 Cr. which increased to Rs.96,640 Cr. by 2012-13. Income from tax sources was Rs.18, 366 Cr. in 2007-08 constituting 37.2% of total revenues of ULBs in the country. But, its contribution declined to 32.0% by 2012-13, though the actual tax income increased to Rs.30,912 Cr. The share of non-tax revenues to total revenues more or less remained at the same level during the six year period at about 18.5% and 19.7% in 2007-08 and 2012-13 respectively, though the actual revenues more than doubled from Rs.9,134crore to Rs.19,002 Cr. during the period. The relative share of different components of revenue can be seen in different figures. There are huge differences in proportions of tax, non tax and assigned tax revenues across states. Karnataka gets 25 to 30% of total own revenue from assigned tax from states. West Bengal is only state in these select states where the degrees of dependence on the assigned tax have declined significantly. Andhra Pradesh, Tamil Nadu are the states who became more reliant on their property tax contribution in OTR.

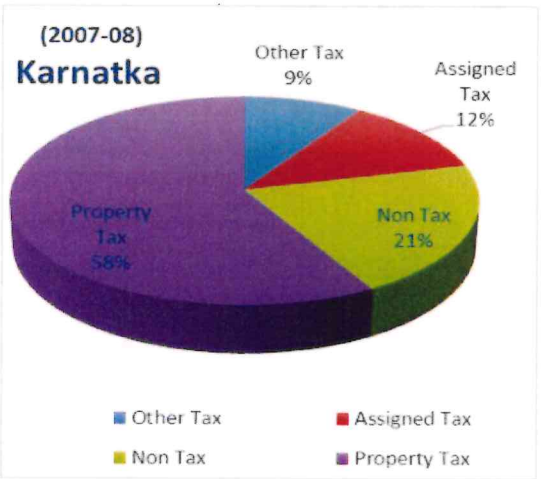
Figure 2.2: State Wise Share of Different Components of Tax Revenue











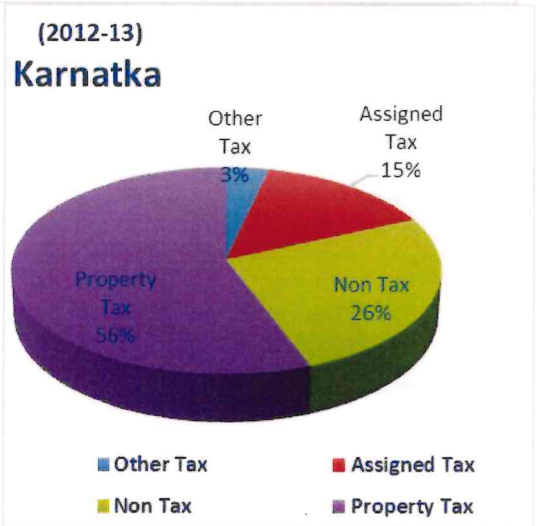
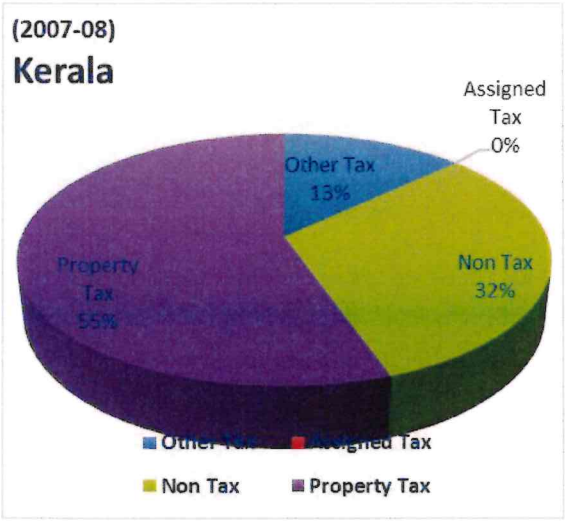
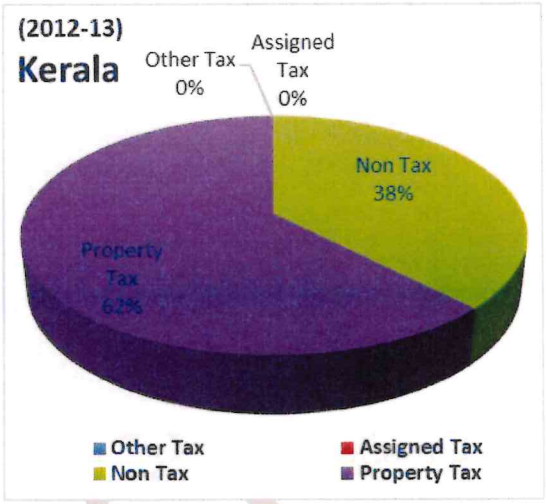
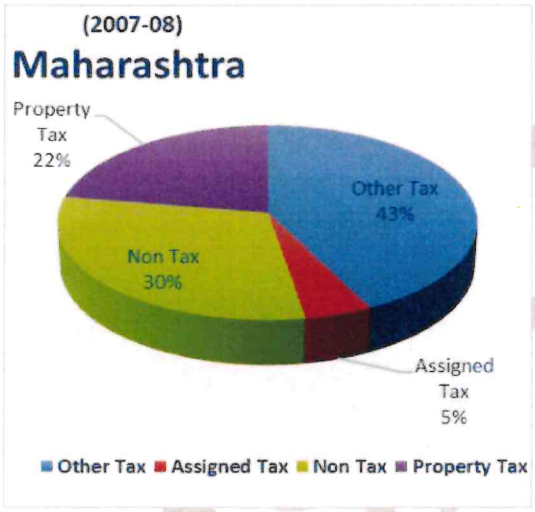
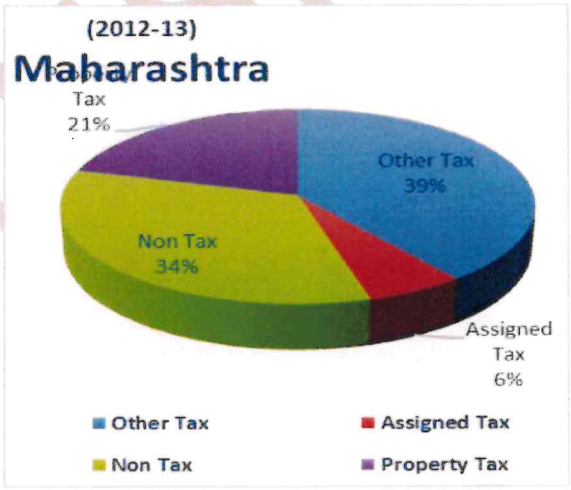


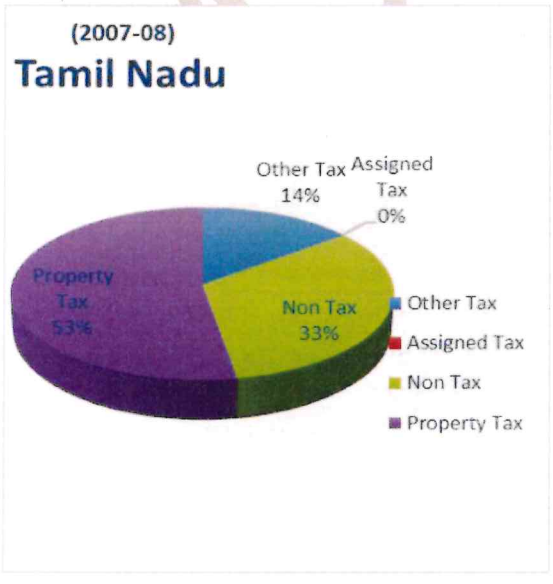
Figure 2.2: State Wise Share of Different Components of Tax Revenue (Cont.)

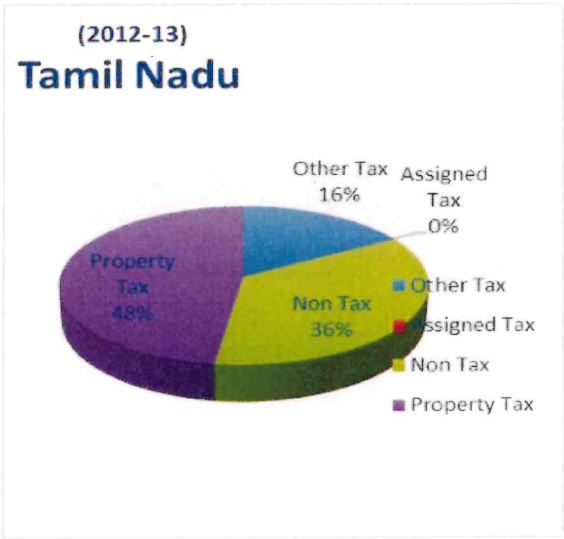












2.5 *State wise and Tier wise Disparity*

There is a wide range of variation in own tax revenue for the states. In case of Municipal Corporations (MC) the own tax income varies from Rs. 28 to Rs.16910 in 2007-08 and from Rs. 53 to Rs.31046 by 2012-13 as shown in table 2.2.

Table 2.2: State Wise Own Tax Revenue (OTR) for Different ULBs

Own Tax Revenue	Municipal Corporation		Municipality		Nagar Panchayat	
(Rs. in Crore)	2007-08	2012-13	2007-08	2012-13	2007-08	2012-13
Andhra Pradesh	1466	3226	346	583	26.3	91.4
Assam	28	53	27	95	10	42
Gujarat	2130	2189	625	1122	0	0
Karnataka	884	2173	149	232	22	28
Kerala	60	114	153	249	0	0
Madhya Pradesh	328	644	16	28	7	11
Maharashtra	16910	31046	610	1032	0	0
Odisha	661	1543	683	1666	633	1628
Punjab	653	1112	423	747	28	86
Rajasthan	219	331	141	576	141	487
Tamil Nadu	743	1510	364	680	317	332
Uttar Pradesh	575	917	179	218	41	63
West Bengal	1694	1444	292	623	0.12	0.51

Source: Compiled and calculated from "Municipal Finances and Service Delivery in India", 14th FC funder Study, 2014, GSDP from CSO reports.

State wise disparities in OTR for Municipalities (MP) and Town/Nagar Panchayats(NP) are lesser than the degree of inequality for corporations. Tamil Nadu, Odissa have performed far better at MP and NP level than MC. Zero reporting of data is there for Gujarat and Maharashtra at NP levels.

On the other hand, the ULBs mobilize revenues from different non-tax sources including water charges, fees and user charges, development charges, building permission fee, hiring charges, leasing amounts, etc. States provided data for all non-tax sources together than details of each non-tax source. The total own non-tax ULB

revenue in the country was Rs.9,134 Cr. in 2007-08 which more than doubled to Rs.19,002 Cr. by 2012-13 with a CAGR of 15.8%.

The per capita property tax in 2012-13 varies significantly from state to state and tier to tier within the state as mentioned before. The highest per-capita income in MCs was in Maharashtra with Rs.1,787 and lowest in Rajasthan with Rs. 45. Among the municipalities the highest was Rs.677 in Gujarat and lowest in Rajasthan with Rs.15. Among the NPs the highest was Rs.471 in Andhra Pradesh and lowest is Rs.5/ in Madhya Pradesh. The total property tax income of all three tiers during 2007-08 was Rs.8,159 Cr. which increased to Rs.15,110 Cr. by 2012-13 - a CAGR of 13.0%. The tier-wise analysis indicates that in 2007-08 MCs collected Rs.6,590 Cr. from property tax, municipalities Rs.1,407 Cr. and NPs a meagre Rs.161 Cr. across 19 states. By 2012-13, the MCs more than doubled the property tax income withRs.12,666 Cr., municipalities marginally increased to Rs.2,201 Cr. and NPs rose by 50% to Rs.243 Cr. The CAGR in MCs, municipalities and NPs was 14.0% - the income of MCs in Bihar also includes the municipalities and NPs as noted earlier - 9.4% and 8.6% respectively. This explains the buoyancy in MCs and lack of it in municipalities and NPs. The per capita property tax income of ULBs in 2012-13 was Rs.517 and those of MCs Rs.813, municipalities Rs.206 and NPs a meagre Rs.70. Table 2.3 provides state wise Property tax distribution across ULBs. Maharashtra, Andhra Pradesh, Gujarat, Karnataka are the better performing corporations who have been collecting a good amount of property tax over last few years.

Tamil Nadu, West Bengal and Uttar Pradesh Municipal Corporations are also going with pace in recent times.

Table 2.3: State Wise Property Tax across different ULBs (Rs. in Crore)

State	Municipal Corporation		Municipality		Nagar Panchayat	
	2007-08	2012-13	2007-08	2012-13	2007-08	2012-13
Andhra Pradesh	491	1348	164	268	8	26
Assam	26	45	10	34	4	17
Gujarat	419	706	355	596	0	0
Karnataka	521	1207	81	137	14	14
Kerala	24	42	94	184	0	0
Madhya Pradesh	182	355	5	9	2	2
Maharashtra	3656	6276	255	337	0	0
Odisha	19	39	18	34	2	42
Punjab	88	153	38	41	3	4
Rajasthan	7	29	2	10	2	9
Tamil Nadu	417	765	211	317	121	121
Uttar Pradesh	324	641	36	63	5	8
West Bengal	341	864	101	140	0.03	0.13

Source: Compiled and calculated from "Municipal Finances and Service Delivery in India", 14th FC funder Study, 2014, GSDP from CSO reports.

2.6 *Property Tax and Self Reliance of ULBs*

It is well known that a basic responsibility of ULBs to provide services to the local communities. The primary objective behind the levy and collection of municipal taxes like property is to meet the costs of these local services independently. Over the years the list of functions to be undertaken and the services to be provided by the local bodies expanded considerably and the municipal Acts lists them out very clearly and was reinforced by the 74 CAA. With increased rate of urbanization and input of urban areas to a country improving municipal finances in India has become very critical to achieve and maintain economic growth. Municipal finances are equally difficult to implement India's urban agendas like asset creation, infrastructure provision, efficient service delivery, poverty alleviation, etc. Without sound self finances ULBs will not be able to achieve the benchmarks even in core services which are deficient, as we have seen in an earlier chapter. Equally important is the autonomy of ULBs to realize the objectives of 74th CAA, enacted in 1992. But

it is expected that the ULBs would exercise their autonomy and raise resources to implement development programs and improve service delivery to improve the urban quality of life.

It is an important means of performance measurement and tool to measure accountability of financial management of ULBs. We can define self reliability at ULB level if a ULB is able to afford full service delivery on its own revenue. We have estimated tier wise property tax as a percentage of expenditure for all the study states to examine the efficiency of financial management of the ULB at state level as shown in Table 2.4.

Table 2.4: Property Tax to Revenue Expenditure (Self- Reliance Indicator)

	Municipal Corporation		Municipality		Nagar Panchayat		Total	
State	**2007-08**	**2012-13**	**2007-08**	**2012-13**	**2007-08**	**2012-13**	**2007-08**	**2012-13**
Andhra Pradesh	37%	50%	46%	66%	32%	46%	39%	52%
Assam	87%	30%	37%	24%	40%	24%	60%	26%
Gujarat	22%	19%	76%	82%	NA	NA	33%	29%
Karnataka	54%	44%	61%	57%	67%	47%	55%	45%
Kerala	15%	12%	76%	82%	NA	NA	42%	39%
Madhya Pradesh	24%	25%	1%	1%	1%	0%	14%	14%
Maharashtra	31%	26%	25%	16%	NA	NA	31%	25%
Odisha	23%	26%	17%	28%	3%	18%	15%	23%
Punjab	16%	15%	11%	7%	13%	8%	15%	12%
Rajasthan	2%	3%	1%	2%	0%	1%	1%	2%
Tamil Nadu	**36%**	**32%**	**31%**	**25%**	**25%**	**22%**	**32%**	**28%**
Uttar Pradesh	30%	22%	5%	5%	2%	2%	18%	15%
West Bengal	28%	37%	19%	11%	3%	3%	25%	28%

Source: Compiled and calculated from "Municipal Finances and Service Delivery in India", 14th FC funder Study, 2014, GSDP from CSO reports.

Among Municipal corporations only Andhra Pradesh and West Bengal showed significant increment in contribution of property tax in revenue expenditure from 2007-08 year. Half of total revenue expenditure got funded by property tax revenue in Andhra Pradesh. Rest of other states could only at best afford to bear less than 35% of their revenue

expenditure. Tamil Nadu Municipal Corporation is not an exception. In recent times self dependency actually has declined by 4 % points. For Municipalities, Gujarat, Karnataka, Kerala are far better than Tamil Nadu. While Tamil Nadu only can have the funds for 25-30% of revenue expenses. Gujarat, Kerala are able to sustain with near about 70% of their respective revenue expenditures through property tax. Tamil Nadu has shown improvement in terms of self dependency more for Nagar Panchayat and Municipalities which is interesting. Corporations are lagging behind lower tier ULBs in terms of financial sustainability even after getting huge burden of urbanisation in recent times (refer to chapter 10).

Table 2.5:Rank-list of the States in 2007-08 and 2012-13

States	Property Tax as a % of OTR		Property Tax as a % of GSDP		Property Tax as a % of Revenue Expenditure	
	2007-08	2012-13	2007-08	2012-13	2007-08	2012-13
Andhra Pradesh	7	8	2	2	4	1
Assam	1	5	11	9	1	7
Gujarat	8	9	3	4	5	4
Karnataka	2	3	4	3	2	2
Kerala	3	1	10	11	3	3
Madhya Pradesh	4	4	7	7	12	11
Maharashtra	9	10	1	1	7	8
Odisha	13	13	12	12	10	9
Punjab	11	11	9	10	11	12
Rajasthan	12	12	13	13	13	13
Tamil Nadu	**5**	**7**	**5**	**6**	**6**	**5**
Uttar Pradesh	6	2	8	8	9	10
West Bengal	10	6	6	5	8	6

Source: Authors' Calculation based on the data provided by the specific study

Now in order to see the overall performance of the states we can rank the states according to different indicators. Tamil Nadu in comparison with other major states gets good rank only for property tax as % of GSDP in 2012-13 as shown in Table 2.5. Tamil Nadu stands at 7th position in terms of property tax collection as a % of OTR which is not bad. It can be easily seen that Tamil Nadu could not perform according to expectation for any indicator.

2.7 *Assessment Process of Property Tax for the Select States*

❖ **Andhra Pradesh**

- Unit area system is used for assessment of property tax.
- The annual rental value (ARV) of lands and buildings are fixed with reference to the following factors.
    - Location of the building
    - Type of construction
    - Plinth area
    - Age of building
    - Nature of use
- Rebate from ARV based on the age of the building.
- Rebate from ARV to the owner-occupied residential building.
- Exemptions to recognized educational institutions which are a charitable institution and utilized for the charitable purpose.
- The rate of property tax: - The municipal councils have fixed the rate of property tax 25 % in respect of residential buildings and 33% in respect of non-residential buildings.

❖ **Gujrat**

- Unit area method is used.
- Tax is taken as a percentage of Annual Rentable Value (ARV).
- ARV is calculated on the "carpet area".
- The annual rental value (ARV) of properties are fixed with reference to the following factors.
    - Location of property
    - Age of property
    - Nature of property
    - Usage of property
- The process is self-assessment.

❖ **West Bengal**

- Unit area method is used for the assessment of property tax.
- Determination of annual value of properties on basis of usage of property,
    - If the property is used by the owner himself, then "Reasonable Rental Method "is applied.
    - If the property is on rent, then the actual monthly rent is used for annual value calculation.
    - In the case of theatre/cinema halls, 7.5% of the Gross Annual Receipts is fixed as Annual Value of hall.
- Two methods are followed for the determination of annual valuation of a property.
    - Rental method of valuation
    - Land and building method of valuation

❖ **Kerala**

- Kerala first SFC recommended plinth area wise property tax assessment method.
- FSFC also recommended revision of property tax in every five years.
- List of major defaulters of property tax should be published on the website of concerned ULBs is also recommended.
- "For Property Tax the recommendations of the First-SFC may be operationalised and the following scheme is suggested

for classifying buildings and fixing the tax.

- (i) Location Zone _ Four Zones.
- (ii) Type of building – (a) Ordinary Building. (b) Medium type Building. (c) Luxury building.
- (iii) Type of use :- (a) Commercial use (b) Non- commercial Use
- (iv) The relative weights for the Zone could be – 1 : 1.5 : 2 : 2.5
- (v) The relative weights for the type of building Could be - 1 : 1.5 : 2
- (vi)The relative weights between non-commercial and commercial use could be – 1: 3.
- (vii) Deduction for age and owner occupation may be as provided for in the Kerala Municipality Act"

❖ **Rajasthan**

- Section 104 and 105 of the Rajasthan Municipalities Act, 1959 provided for levy of obligatory and discretionary taxes.
- The obligatory taxes that are 66 to be levied by the urban local bodies.
- A tax on annual letting value of buildings or lands or both situated within the municipality.
- The proviso to this section mentions that the land and building tax shall not be levied on kham houses or on buildings and lands or both of which annual letting value is less than one hundred and eighty rupees.
- The state government framed Rajasthan Municipalities (land & building tax) Rules, 1961 to provide for imposition, assessment, and recovery of land & building or "house tax" as it is popularly known.
- The land and building tax (popularly known as house tax) has a chequered history in Rajasthan. Land and building tax was abolished by the state government vide its notification dated 24.2.2007.
- remained abolished from 24.2.2007 to 28.8.2007, this tax was reimposed under the nomenclature of urban development tax with effect from 29.8.2007 with reduced revenue potential

❖ **Tamil Nadu**

- The assessment of the property tax is based on the following factors with reference to any property.
  - Plinth area
  - Basic rate of particular street
  - Usage of building (residential or non-residential)
  - Nature of occupancy (owner or tenant)
  - Age of building
- Rebate on annual value if the property is occupied by the owner.
- The annual value of the property is calculated by using the concept of letting value.
- The monthly rental value is fixed with reference to the basic rate per square feet for residential and non-residential properties separately.

2.8 *Conclusion*

The overall picture the analysis presents us is the fact that urban property tax:

a) Property taxes across states have not fully taken advantage of their potential due to poor valuation of properties themselves and having sparse, irregular and sometimes non-existent updating of assessment registers.
b) There is low buoyancy in the taxes and many inter-state variations persist in the collection of these revenues.
c) High inter-state variations persistent is likely due to adoption of different taxation structures and rates, differences in methods and patterns of assessment
d) The low performance over the last few years points mainly to leniency, broadened but un-enforced tax bases with poor jurisdictional definitions have possibly led to the growth of unaccounted and unassessed properties.
e) The problems which persist in the poor performance could also be attributed to the poor assessment rates bad enforcement – leading to low efficiency of collection. Exemptions have also been shown to play a major role in contributing towards low property tax receipts4.
f) If documentation is read in fine print, there might be a gaping principal-agent problem in the sense that although property taxes are collected and used by ULBs, their actual rates and structures are set by the state governments. The gaps in understanding of ULB requirements and setting tax rates could be a significant factor affecting these trends5.
g) Local bodies should consider implementing the identified best practices;
h) States should institute a GIS system for mapping all properties in cities with more than one lakh population to increase coverage;
i) The ULBs should exploit the scope that exists in property tax
j) The ULBs should recover at least the operation and maintenance costs of the services they render;
k) The states should incentivize revenue collection efforts of ULBs through a system of lump sum grants;

While determining the inter-se share of the States, the basic aim of Finance Commissions has been to correct the differentials in revenue raising capacity and expenditure needs, taking into account the cost disability factors to the extent possible (14th FC). To achieve these goals, the Centre Finance Commissions have generally followed the principles of equity and efficiency. The criteria used by earlier Finance Commissions can be categorised as: (a) factors reflecting needs, such as population and income; (b) cost disability indicators, such as area and infrastructure distance; and (c) fiscal efficiency indicators

[4] Documented by (Mathur al, 2009)

[5] This has been documented by a study on Urbanization in India (Ahluwalia, 2016).

such as tax effort and fiscal discipline. we are of the view that the devolution formula should continue to be defined in such a way that it attempts to mitigate the impact of the differences in fiscal capacity and cost disability among States. While doing so, we have kept in view the approaches suggested by individual States for horizontal distribution.

CHAPTER 3

Trends in Municipal Income of ULBs in Tamil Nadu with Special Reference to Property Tax

3.1 Introduction

One of the most important objectives of 73rd and 74th constitutional amendments was to transform the local governments to efficient and autonomous governing units. Accordingly a large number of the functions as well the revenue sources were assigned to local bodies. In this respect, many studies observed that the ULBs are resource constrained to efficiently carry out the functions assigned to them (See for e.g. Mathur et al, 2009). In general, ULBs across states in India depend excessively on state and centre government's grants as well the devolutions by various state and centre finance commissions. Prioritising own resources is a necessary condition to transform local bodies into self reliant governing bodies.

Property tax has an important role as it the most important own revenue source of local bodies. However the property tax is not utilised to its full potential due to various reasons. For example Mohanty (2016) observes that the property tax can be used to significantly augment the municipal revenues by rationalising property tax base, tax rate, collection, valuation and administration and enforcement and dispute mechanisms[6]. The study commissioned by 14th Finance Commission also suggested prioritising the property tax reforms in order to improve finances of local bodies. (Government of India, 2014).

3.2 An overview Municipal Finance of ULBs in Tamil Nadu

As mentioned in the Chapter 1 municipal income come from several sources – own revenue (tax and non-tax sources), state assignments and devolutions and grants in aid from central and state governments, municipal funds, deposits etc. These components of municipal income can be broadly classified into income from own sources and others sources. The composition of per-capita municipal income of Corporations, Municipalities and Town Panchayats for 2010-11 and 2015-16 are given in Table 3.1[7]. The per-capita total income of municipal corporations has increased from Rs 3070 in 2010-11 to Rs 5703 in 2015-16 with 13.2% growth per annum. The income of Municipalities and

[6] Mathur et al (2009) also makes similar observations.

[7] See Appendix for actual figures. The Urban Local Bodies were reclassified in 2010. Computation of per-capita income components are done using adjusted population projection for 2015-16.

Town Panchayats also increased from 2010-11 to 2015-16 but the growth rate is lower compared to Municipalities and Town Panchayats. The CAGR of total income for Municipalities and Town panchayats are 4.6% and 4.2% respectively.

The composition of income of Municipalities and Town Panchayats has similar structure. For instance, the share of own revenue resources in total income of Municipalities and Town Panchayats are 28% and 28% for respectively for the year 2015-16. In contrast, the corporation has a higher share of own revenue (43%) in total income. The per-capita revenues from own sources are too low for municipalities (Rs 893) and Town panchayats (Rs. 664) compared to Corporations (Rs. 2445).

The ULBs particularity in municipalities and Town Panchayats mostly depend on other sources such as grants, assignments and devolutions. Among other sources, the Assignments and devolutions has the highest share for municipalities (32%) and Town Panchayats (38%) in 2015-16. It is only 20% for Corporations. However, the assignments and devolution has increased at 6.8% per annum from 2010-11 to 2015-16 for the Corporations. The growth rate of assignments and devolutions are 5.6% for Municipalities and 8.1% for Town Panchayats. The Corporations receive more in assignments and devolutions (Rs 1135) compared to Town Panchayats (Rs 1031) and Municipalities (Rs 1028). Corporations also received a larger amount of State Grants-in-Aid during this period. Its share in total income has increased from 9% in 2010-11 to 15 % in 2015-16 with a growth rate of 24% per annum. As per the data available the share of Grants from state government has decreased from 26% in 2010-11 to 18% in 2015-16 for the Town Panchayats. The share of state grants for Municipalities were stagnant at 24. The per capita state grants for the Corporation, Municipalities and Town panchayats in 2015-16 are Rs 867, Rs 772 and Rs 391 respectively. There is reduction in the per capita central grants to corporations . Deposits and loans have 18%, 10% and 11% share in total income for Corporations, Municipalities and Town Panchayats in 2015-16.

As our focus is on own revenues and property tax revenues, the trends in the shares of own revenue in total income and share of property tax revenue and tax revenue are separately plotted in Figure 3.1 and 3.2. Figure 3.1 shows the five year trends in the share of own revenue to total income. The share of own revenue to total income remained more or less same for the municipalities over the period 2010-11 to 2015-16. The share of own revenue of Town Panchayats has increased from 20% in 2010-11 to 25% in 2015-16. However the share of own revenues exhibits a decreasing trend for municipal corporations during 2011-12 to 2014-15. The share of total own revenue of corporations has remained almost same during 2010-11 (43%) and 2015-16 (43%). Hence declining trend in the share of own revenue has arrested in 2015-16.

Table 3.1: Composition of Municipal Income (Per Capita)

		Corporations					Municipalities					Town Panchayats				
		2010-11		2015-16*		CAGR	2010-11		2015-16 *		CAGR	2010-11		2015-16*		CAGR
	Particulars	**In Rs.**	***Share (%)***	**In Rs.**	***Share (%)***	**%**	**In Rs.**	***Share (%)***	**In Rs.**	***Share (%)***	**%**	**In Rs.**	***Share (%)***	**In Rs.**	***Share (%)***	**%**
1	Total Tax Revenue (a+b)	872	*28*	1065	*19*	4.1	351	*14*	438	*14*	4.5	161	*7*	232	*9*	7.6
	PROPERTY TAX	666	*22*	781	*14*	3.3	276	*11*	331	*10*	3.7	104	*5*	142	*5*	6.4
	Others taxes	207	*7*	283	*7*	6.5	75	*3*	107	*3*	7.3	57	*3*	90	*3*	9.8
2	Total Non Tax Revenue	444	*14*	1380	*24*	25.5	367	*14*	455	*14*	4.4	280	*13*	432	*16*	9.0
	(A) Total Own Revenue (1+2)	**1316**	***43***	**2445**	***43***	**13.2**	**718**	***28***	**893**	***28***	**4.4**	**441**	***20***	**664**	***25***	**8.5**
3	Assigned *plus* Devolution	817	*27*	1135	*20*	6.8	782	*32*	1028	*32*	5.6	697	*32*	1031	*38*	8.1
4	State grants-in-Aid	284	*9*	867	*15*	25.0	582	*24*	772	*24*	5.8	580	*26*	489	*18*	-3.3
5	Central Govt Grants	285	*9*	229	*4*	-4.2	147	*5*	170	*5*	3.0	202	*9*	210	*8*	0.8
6	Others**	369	*12*	1027	*8*	22.7	313	*10*	315	*10*	0.2	270	*12*	294	*11*	1.7
	(B) Other sources(3+4+5+6)	**1754**	***57***	**3258**	***57***	**13.2**	**1824**	***72***	**2286**	***72***	**4.6**	**1748**	***80***	**2025**	***75***	**3.0**
	Total Income (A+B)	**3070**	***100***	**5703**	***100***	**13.2**	**2543**	***100***	**3179**	***100***	**4.6**	**2190**	***100***	**2689**	***100***	**4.2**
	Total Population* **	**10271870**		**14667486**			**8273556**		**10125730**			**8108889**		**8640775**		

*Source: Own calculations based on SFC data as on Oct 2016 * figures for 2015-16 are estimates,** Others include income form loan account, deposits etc.***Projected population are based on 2001 and 2011 census, population projections for 2015-16 considers the reclassification of corporation and municipalities. The percentage share of each components to total income are given in the column 'share'*

The per capita own revenue is higher for corporations and it increased from Rs. 1316 in 2010-11 to Rs 2445 in 2015-16 with 13.2% growth per annum. Per capita own revenue for Town Panchayats has grown at 8.5% percent per annum during this period. Lowest growth per annum for per capita own revenue is reported for Municipalities. Per capita own revenue for Municipalities (Rs 893) and Town Panchayats (Rs 664) are very low compared to Corporations in 2015-16.

Tax and non tax revenues are the two major components of own revenue. The share of non tax revenue in total income of the Corporations, Municipalities and Town Panchayats are 24%, 14% and 16% respectively. The share of non tax revenue has increased for Corporation compared to 13% in 2010-11. There is a shift in the composition of own revenue in favour of non tax revenue from 2010-11 to 2015-16. The per capita non tax revenue is Rs 1380 in 2015-16 for corporations and is higher than the per capita tax revenue in 2015-16. Share of non tax revenue is almost stagnant for Municipalities (14%). The share of non tax revenue has increased for Town Panchayats from 13% in 2010-11 to 16% 2015-16

The share of total tax revenue has decreased from 28% in 2010-11 to 19% in 2015-16 for corporations. On the other hand, the share of own revenue and property tax revenues remained more or less same for the municipalities and town Panchayats. Further, the decrease in the share of total own revenue of municipal corporations is mainly due to the fall in the share of property tax from 22% in 2010-11 to 14 % in 2015-16.

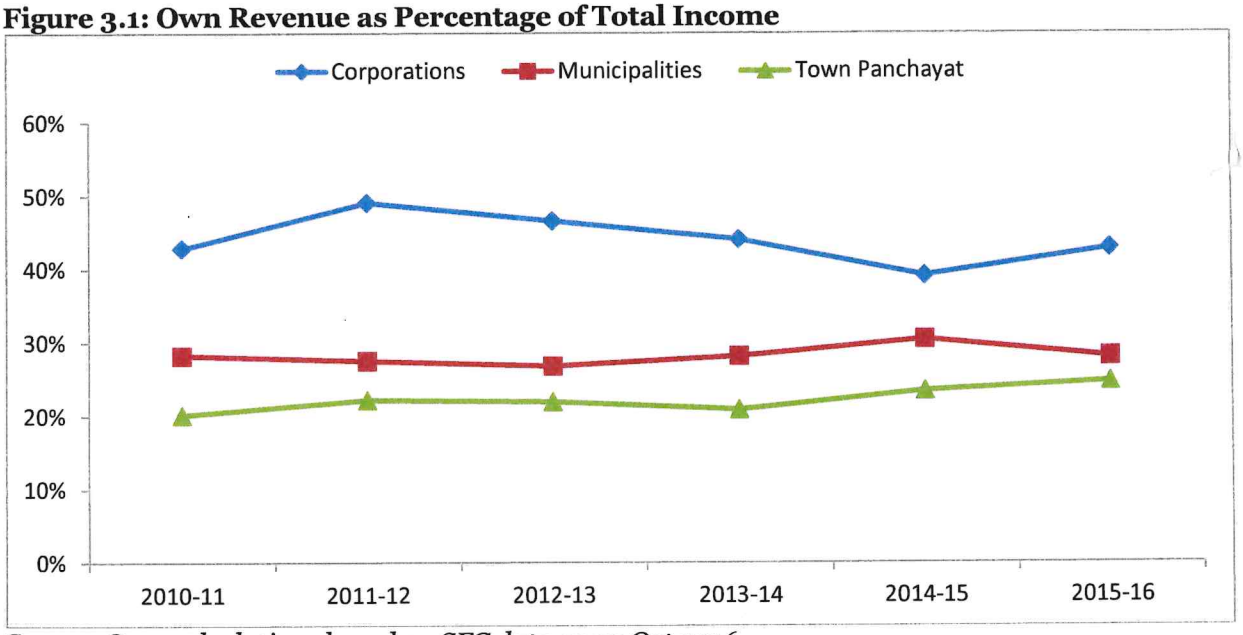
The growth rate of per capita income components of Corporations, Municipalities and Town Panchayats reveals that:

Own revenue sources has contributed much to the growth of total income in town panchayats as CAGR of own revenue sources- which includes property tax (6.4 %), other taxes (9.8%) and non-tax revenues (9.9%)- is much higher that the CAGR of total municipal income (4.2%)

Growth rate of per capita revenues from tax other than property tax, state grants assignments and devolutions are higher for municipalities.

Growth of per capita own revenue sources except non tax revenue are lower than the growth of per capita total income in corporation.

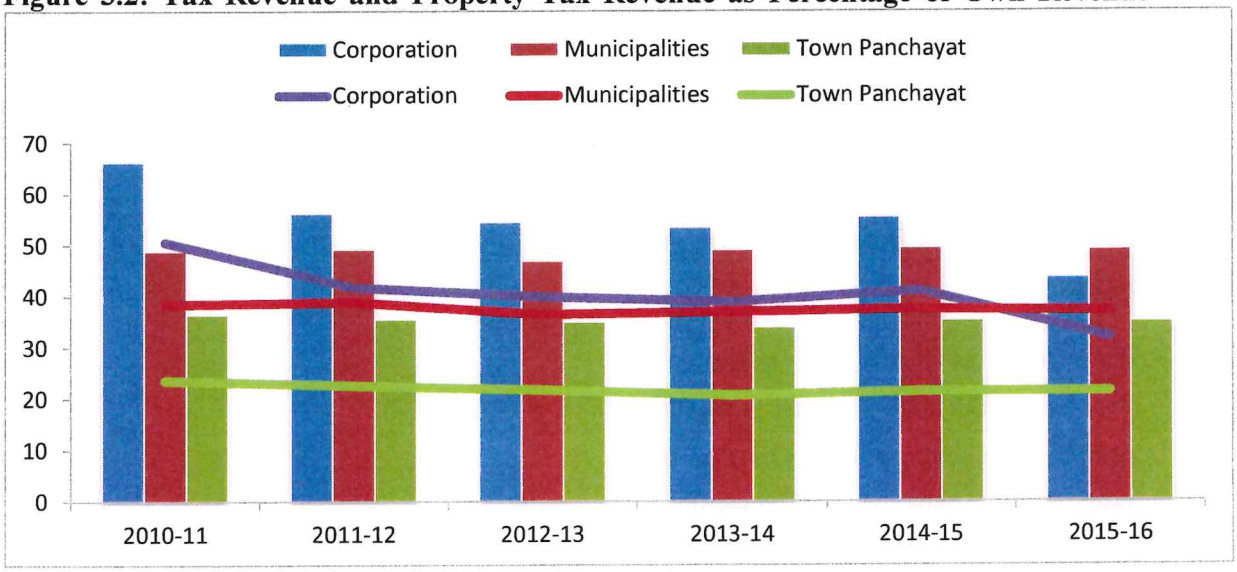
Figure 3.1: Own Revenue as Percentage of Total Income



Source: Own calculations based on SFC data as on Oct 2016

To highlight the importance of property tax and Tax revenue we have plotted the trends in tax revenue to own revenue (bar) and property tax revenue to own revenue (line) in Figure 3.2. As evident from the graph tax revenue contributes almost half of the total own revenue for both municipalities and corporations but for Town Panchayats it is only 35 to 36 %. As shown in the graph in 2015-16 the share of property tax in own tax revenue was 32% in corporations, 37% in municipalities, and 21 % in town panchayats. The share of property tax in own revenue was more or less stagnant for Town Panchayats and municipalities during the period 2010-11 to 2015-16, but it decreased for corporation.

Figure 3.2: Tax Revenue and Property Tax Revenue as Percentage of Own Revenue



Source: Own calculations based on SFC data as on Oct 2016

Revenue importance of Property tax

Ideally the revenue expenditure of government should be financed by revenue receipts from own sources. In this context the ratio of revenue from own revenue sources to total revenue expenditure can be used as indicator of self reliance. Since property tax is an important component of own revenue, the revenue importance of property tax can be judged by the ratio of property tax to revenue expenditure.

These ratios are summarized in the Table 3.2. The Index of Self-Reliance, as revealed by the percentage of Own Revenue Receipts of ULBs to the Total Revenue Expenditure shows that the degree of Self-Reliance is the highest for corporations and it varies over time. It was 62% in 2010-11 and it increased to 67% in 2015-16. The value of the index was lowest in 2014-15. The extent of Self-Reliance of Municipalities has decreased to 56 % in 2015-16, compared to 64 % in 2010-11. The performance in this regard, has been the lowest in the case of Town Panchayats, which could finance only 45% of their Revenue Expenditure in 2015-16. This indicates a need for greater emphasis on own resource mobilisation at Town Panchayats level.

The revenue importance of property tax is summarized as the ratio of property tax revenue to revenue expenditure. According to the estimates the municipal corporations could cover only 21 % of the revenue expenditure in 2015-16. There is a visible decline in the ratio compared to 2010-11 (31%). For the municipalities the ratio is 21% in 2015-16, it was 25% in 2010-11. In the Town Panchayats only 10% revenue account expenditure is covered by property tax. In continuation with the analysis of previous section it can be noted that there is need to improve the own revenue resources in all tier of ULBs. The decreasing trend of these indicators for corporations has to be carefully addressed in the short run. Measures should be initiated to improve the share of own resources in the town Panchayats and Municipalities.

Table 3.2: Revenue Importance of Property Tax

	Corporations					
	2010-11	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**
Own revenue/ revenue exp	62%	74%	68%	56%	50%	67%
Property tax/ revenue exp	31%	31%	27%	22%	21%	21%
	Municipalities					
	2010-11	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**
Own revenue/ revenue exp	64%	59%	59%	57%	56%	56%
Property tax/revenue exp	25%	23%	22%	21%	21%	21%

Table 3.2: Revenue Importance of Property Tax (Cont...)

	Town Panchayats					
	2010-11	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**
own revenue/revenue exp	51%	52%	48%	43%	42%	45%
property tax/revenue exp	12%	12%	10%	9%	9%	10%

Source: Own calculations based on SFC data as on Oct 2016

3.3 Summary and Conclusions

- The growth of per capita total municipal income is higher for Corporations (13.2%) compared to Municipalities (4.6%) and Town Panchayats (4.2%).
- The share of own revenue to total income is higher for Corporations (43%) compared to Municipalities and Town panchayats.
- The share of own revenue of Town Panchayats has increased, but it remained more or less same for the municipalities and corporations during 2010-16
- The share of non tax revenue to total income has increased for Corporations and Town Panchayats and it was stagnant for Municipalities.
- There is a decreasing trend in the share of property tax in total own revenue for corporations, it is more or less stagnant for town Panchayats and Municipalities.
- Degree of Self-Reliance is the highest with respect to corporations and it varies over time. There is a decreasing trend in the self-reliance for Municipalities and the performance of Town panchayats is the lowest among all these.
- Approximately ¼th of the revenues expenditure is covered by property taxes in Municipalities and Corporations. In Town panchayats it covers only 10% of revenue expenditure. The ratio of property tax to revenue expenditure shows a declining trend for all tiers of ULBs.

Appendices for Chapter 3

Table A3.1: Composition of Municipal Income

		Corporations			Municipalities			Town Panchayats		
		2010-11	2015-16*	CAGR	2010-11	2015-16 *	CAGR	2010-11	2015-16*	CAGR
	Particulars	Rs in lakhs (%)	Rs in lakhs (%)	%	Rs in lakhs (%)	Rs in lakhs (%)	%	Rs in lakhs (%)	Rs in lakhs (%)	%
1	**Total Tax Revenue**	89,603.54 28%	1,56156.2 19%	12%	29,075.73 14%	**44315** 14%	9%	13047.68 7%	**20077.17** 9%	9%
	PROPERTY TAX	68,371.95 22%	1,14,579.2 14%	11%	22863.58 11%	33504.67 10%	8%	8455.83 5%	12271.65 5%	8%
	Others taxes	21,231.59 7%	41,577.09 7%	14%	6,212.15 3%	10,810.13 3%	12%	4,591.85 3%	7805.52 3%	11%
2	**Total Non Tax Revenue**	45,574.82 14%	2,02,436.9 24%	35%	30,369.35 14%	46,074.10 14%	9%	22728.76 13%	37299.55 16%	10%
	(A) Total Own Revenue	**1,35,178.4 43%**	**3,58,593.1 43%**	**22%**	**59445.08** 28%	**90388.9** 28%	9%	**35776.44** 20%	**57376.72** 25%	10%
3	**Assigned *plus* Devolution**	83,912.58 27%	1,66,445.13 20%	15%	64,725.68 31%	1,04,141.52 32%	10%	56,532.15 32%	89117.69 38%	10%
4	**State grants-in-Aid**	29,174.05 9%	1,27,176.42 15%	34%	48,164.25 23%	78,176.57 24%	10%	46991.12 26%	42250.63 18%	-2%
5	**Central Govt Grants**	29,235.10 9%	33,618.52 4%	3%	12,157.11 6%	17238.34 5%	7%	16,371.00 9%	18180.75 8%	2%
6	**Others****	37,872.81 12%	1,50,641.01 18%	32%	25,889.67 12%	31,939.21 10%	8%	21,883.6 12%	25,415.6 11%	3%
	(B) Other sources	**1,80,194.5 57%**	**4,77,881.1 57%**	**22%**	**1,50,936.7** 72%	**2,31,495.6** 72%	9%	**1,41,778** 80%	**1,74,965** 75%	4%
	Total Income (A+B)	**3,15,372.9 100%**	**8,36,474.2 100%**	**22%**	**2,10,381.8 100%**	**3,21,884.5 100%**	**9%**	**1,77,554 100.00**	**2,32,341 100.00**	**6%**

Source: Own calculations based on SFC data as on Oct 2016 figures for 2015-16 are estimates,** Others include income form loan account, deposits etc.*

CHAPTER 4

Valuation, Practices and Trend in Assessments of Properties in Tamil Nadu

4.1 Introduction

Property tax revenue is determined by many factors such as population size, administrative systems, and policy decisions. The major policy and administrative factors that determine the property tax revenue are related to collection, coverage and valuation and assessment practices. More specifically as 13th Finance commission observed "Property tax revenues depend upon: (a) Enumeration of properties in the municipal tax register; (b) the collection rate;(c) the assessment and valuation system; (d) the extent of exemptions and (e) the level of tax rate." (Government of India, 2009)

Due to unavailability of data on total properties it is difficult to estimate indicators of coverage. A proper evaluation of valuation systems and level tax rate require information on actual market value of properties at local level, cost of collection and data related to coverage. We don't have data on these indicators as of now. In this context this chapter tries to review the assessment and valuation of properties with available data..

4.2 Valuation practices and trends in assessment of properties

Almost all the ULBs Tamil Nadu use Annual Rental Value (ARV) for the valuation of properties. The ARV is determined with reference to location, type of construction, age of building, and the nature of use to which a property is put. The current system of property tax applies varying base rates to different zone within a ULB based on relevant laws and recommendations of previous SFCs. Accordingly; the whole area of an ULB is divided into 6 different zones for the purpose of property tax. The basic plinth area rate of rental value has been fixed for each zone. The unit rate also differs based on the type of properties such as residential, commercial, industrial, state government properties and public sector undertakings etc. The Annual Rental Value (ARV) for the building is arrived by the multiplying basic rate of the unit area of the zone and the built-up area. Discount is provided over net ARV based on the type of building. The ARV arrived after accounting for the discount is the average ARV and the tax payable is arrived by multiplying the tax rate and the average ARV.

It is a fact that the valuation of property is an important factor for overall performance of

property tax system. Mathur et al (2009) observes that the current property tax system in India fails to approximate the market value of properties, irrespective of method used to value the property. They observe that the property values are very low (on average about 30% of market values). The values of property has been increasing greater than inflation in many cities which makes the revenue productivity very low (See Box 4.2). However, as mentioned earlier the absence of data on market values of properties constrains a detailed analysis of efficiencies in valuations system and rate structure.

In Tamil Nadu property tax includes general purpose tax, water supply and drainage tax, library cess, and education tax. The average property tax rate for corporations was estimated to be 24% (median is 20%). It is 16% (median is 14%) municipal corporations and 16 % (median is 10%) in town panchayats .The tax rates are supposed to revise once in five years. The delays in the revision of tax rates also affect the productivity. However the tax rates may depend on local factors and it is very difficult to judge the rate structure due to unavailability of data. The low correlation between population size and property tax revenue at Town Panchayats and Municipality level (Box 4.1) can be considered as an indication of low tax rates, and/or low coverage ratio. A detailed analysis is required in this regard to make informed decisions.

Another important issue is related to the proper assessment of properties. Many municipalities including some ULBs in Tamil Nadu adopted GIS based mapping of properties. The property tax reforms under Jawaharlal Nehru urban Renewal Mission also emphasised the use of GIS for mapping the properties. The ULBs which implemented GIS based mapping of properties reported significant growth in the tax revenue. (Rao and Bird, 2009)

As mentioned earlier there is lack of information on total properties to estimate indicators of coverage. We have information on type of properties and annual assessment details. The number of assessments and total demand by different type of properties are given in the Table 4.1. Highest number of properties assessed is of residential type, 90% in corporations, 87% in municipalities, 92 % in town panchayats. The commercial buildings was 7% of total assessed properties in corporations 12% in municipalities and 7% in town panchayats. However the proportion of total amount demanded from residential properties was high in Municipalities (65%) and Town Panchayats (65%) compared to corporations (48%).

Table 4.1: Number of assessments and total demand by different type of properties***

	Number of Assessments (As on March 2015)			Annual Tax Demand (Rs in lakh.)		
	Corporations	Municipalities	Town Panchayat	Corporations	Municipalities	Town Panchayat
Residential	2746479 (89%)	2116730 (86%)	2394201 (92%)	43935 (48%)	22158 (63%)	7901 (65%)
Commercial	231780 (7%)	292605 (12%)	182783 (7%)	35291 (45%)	8630 (23%)	1961 (17%)
Industrial	81882 (3%)	34400 (1%)	13257 (1%)	7711 (3%)	2112 (6%)	1234 (12%)
Others *	29799 (1%)	23828 (1%)	17484 (1%)	10567 (4%)	2502 (8%)	520 (7%)
Total	3076931 (100%)	2467563 (100%)	2607725 (100%)	97503.87 (100%)	35402 (100%)	11627 (100%)

*Source: Own calculations based on SFC data.;*others includes exempted properties also.*
*** Cumulative figures with reference to March 2010.*

The annual figure for the number of assessment for corporations, municipalities and town panchayats are summarised in the Table below. There is an increase in total number of assessments in general, from 1882613 in 2010-11 to 3061933 in 2014-15 for corporations, 2126152 in 2010-11 to 2443911 in 2014-15 for municipalities and 21511313 in 2010-11 to 2590525 in 2014-15 for town panchayats. The number of assessments in municipalities and town panchayats increased 3% per annum. The increase in assessments was higher for corporation mainly due to the addition in assessed properties in 2011-12 due to reclassification of ULBs in 2010. As mentioned earlier, reliable indicators of coverage cannot be estimated due to unavailability of data. However, number of assessments per person may give some idea in this direction. Assessments per person is lower in corporations (0.21) compared to Municipalities (.0.24) and Town Panchayats (0.26) in 2014-15. Thus in terms of coverage Town Panchayats performs better but more detailed examination is required before arriving at any conclusions.

Table 4.2: Number of Property Tax Assessments (2010-11 to 2015-16)

	Corporations			Municipalities			Town Panchayats		
Year	No of Assessments	Growth (%)	No of Assessments /Persons	No of Assessments	Growth (%)	No of Assessments /Persons	No of Assessments	Growth (%)	No of Assessments /Persons
2010-11	1882613	-	0.18	2126152		0.25	2151313		0.26
2011-12	2701048	**43.47**	0.19	2174624	**2.28**	0.22	2219455	**3.17**	0.27
2012-13	2921888	**8.15**	0.21	2260679	**3.96**	0.23	2284907	**2.95**	0.27
2013-14	3007451	**3.00**	0.21	2333430	**3.22**	0.23	2339228	**2.38**	0.28
2014-15	3061933	**1.81**	0.21	2443911	**4.73**	0.25	2590525	**10.74**	0.3
2015-16	3152259	**3.29**	0.21	2448443	**0.19**	0.24	2283942	**-11.83**	0.26

Source: Own calculations based on SFC data.

4.3 Summary and conclusion

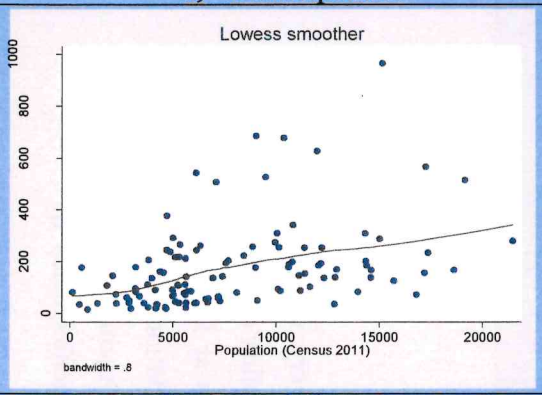
Proper assessment and valuation of properties are very important factors that determine property tax revenues. Unavailability of data on indicators of coverage and market value of properties at local level limits our analysis in this direction. However, low correlation between population size and property tax revenue at Town Panchayats and Municipality level can be treated as symptoms of inefficiencies in property tax system.

Box 4.1: Population size and property tax revenue

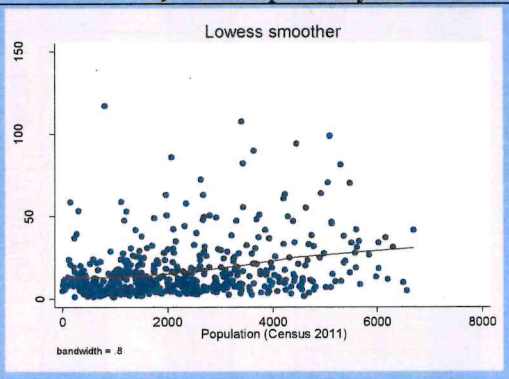
The urbanisation is considered to be an important determinant of property tax revenue. The ULBs with large population should obviously generate more property tax revenue. Simple correlation between property tax revenue and population size of all corporations in the state reveals this fact. The correlation between property tax revenues and population at corporation level is estimated to be 0.88. However the correlation between property tax revenue and population size for town panchayats (0.30) and municipalities (0.40) are considerably low. The scatter plot between population (in no of Lakhs) in 2011 and property tax revenues (Rs in Lakhs) in 2011-12 reveals this pattern more clearly. The lowness smoother is nearly flat. The low correlation between population size and property tax revenue indicate that there is a scope to increase tax revenues with either proper and timely revision of assessment (No of total assessments has increased only marginally) and valuation or better coverage as most of the Tamil Nadu ULBs perform better in collection efficiency.

Figure 4.1: Population vs Property Tax revenue

a) Municipalities



b) Town panchayats



Source: Source: Own calculations based on SFC data and Census 2011

Box 4.2: House Prices and Revenue from Property Tax

The real revenue from property tax once we adjust for inflation in housing prices can be very low. However we don't have information on housing prices except for Chennai. The Table below gives information on housing prices, nominal and real tax revenues for the period 2010-11 to 2015-16. The data on house prices of Chennai was sourced from Reserve Bank of India. As per the Table the housing prices increased 13% per annum but the growth in nominal per capita property tax was 3% per annum. The real growth in revenues from per capita property tax is -9% during this period.

Table 4.3 : Evolution of Housing prices and Property Tax Revenues(PTR) in Chennai

	House Price (base=2010-11)	Nominal PTR (in Rs Lakhs)	Per Capita Rs	Real PTR (in Rs Lakhs)	Per Capita Rs
2010-11	100	43273.4	936	43273.4	936
2011-12	108	41000.1	637	37963.1	590
2012-13	128	52451	810	40977.3	633
2013-14	160	58780.1	901	36737.6	563
2014-15	171	62966.5	958	36822.5	560
2015-16	184	71711.6	1085	38973.7	589
CAGR	13%	8%	3%	-2%	-9%

Source: Own calculations based on RBI and SFC data

CHAPTER 5

Tracking Efficiency in Collection of Property Tax for ULBs

5.1 Introduction

The per capita current and arrear demand and collection of property tax for the year 2010-11 and 2015-16 is summarised in Table 5.1. The per capita current demand for property taxes in municipal corporations has increased from Rs. 549 in 2010-11 to Rs 663 in 2015-16 with 4 % growth per annum. Per capita current property tax collection has increased from Rs 425 in 2010-11 to Rs. 478 in 2015-16 with 2% growth per annum. Lower growth per annum of property collection compared to demand indicates possible inefficiencies in collection. It is reflected in the per property current collection and demand. Per property demand of property tax has marginally increased from Rs 3000 in 2010-11 to Rs 3084 in 2015-16. Per property collection of property tax has decreased during the period (From Rs 2320 to Rs 2225). Similarly, the Corporations perform better in arrear collection and its growth per annum (5%) is higher than the growth of the per capita arrear demand.

The per capita current demand of property taxes has grown 3% per annum in municipalities and 5% per annum in town panchayats during 2010-11 to 2015-16. The per capita arrear demand has decreased in Municipalities and town panchayats. The arrear collection has grown and 7% town panchayats per annum. Town Panchayats and Municipalities have higher growth per property collection and demand compared to corporations. This indicates that the town panchayats and municipalities are more efficient in collection.

5.2 Indicators of collection efficiency

The study uses a set of performance indicators such as ratio of current collection to total collections, ratio of current collection to current demand, ratio of arrear demand to current demand, ratio of arrear collection to arrear demand and total collection to total demand to analyse the efficiencies in property tax collections. Higher collection rate, higher percentage of current collection to current demand, higher arrear collection to arrear demand, higher total collection to total demand and lower percentage of arrear demand to current demand indicate collection efficiency.

The collection rate defined as the percent of current collection to total collection is given in the figure 5.2 above. The collection rate is

much higher for town panchayats compared to municipalities and corporations; it is 84 % for town panchayats, 79% for municipalities and 67% for corporation in 2015-16. Collection rate is stagnant for town panchayats during the period. There is an increasing trend in the share of current collection to total collection for municipalities during the period except in 2015-16. Share of current collection in total collection started declining for corporations after 2013-14.

The tax collection ratio, i.e., percentage of tax demanded that is actually collected is major determinant of the revenue performance of property tax. In terms of the tax collection ratio the town panchayats have reached the target set by JNNURM (85%). The collection ratios for municipalities are also close to 80%. There is an increasing trend in the collection ratio for both town panchayats and municipalities except between 2014-15 to 2015-16. Low collection ratio for the corporation's (The current collection as a percentage of current demand has decreased from 77.34% in 2010-11 to 67.13% in 2015-16) indicates higher level of revenue loss to Corporations due to collection inefficiencies.

Table 5.1: Summary of demand and collection of property tax

	Corporations			Municipalities			Town Panchayat		
	2010-11	2015-16	CAGR	2010-11	2015-16	CAGR	2010-11	2015-16	CAGR
	Per Capita Property Tax Demand (Rs)								
Current	549	663	4%	289	333	3%	104	135	5%
Arrears	561	565	0%	258	202	-5%	54	50	-2%
Total	1111	1228	2%	547	535	0%	158	185	3%
	Per Capita Property Tax Collection (Rs)								
Current	425	478	2%	217	258	4%	87	113	5%
Arrears	184	234	5%	73	68	-1%	16	22	7%
Total	608	712	3%	289	326	2%	102	134	6%
Current demand/property	3000	3084	1%	1124	1377	4%	393	509	5%
Current collection/property	2320	2225	-1%	843	1067	5%	327	426	5%
Total Demand/property	6067	5713	-1%	2105	2370	2%	596	698	3%
Total collection/property	3324	3311	0%	1112	1447	5%	386	508	6%

Source: Own calculations based on SFC data

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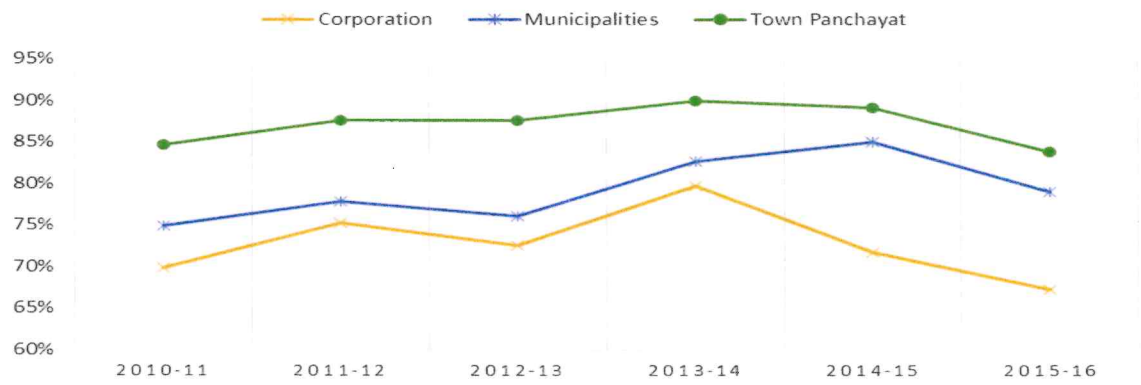
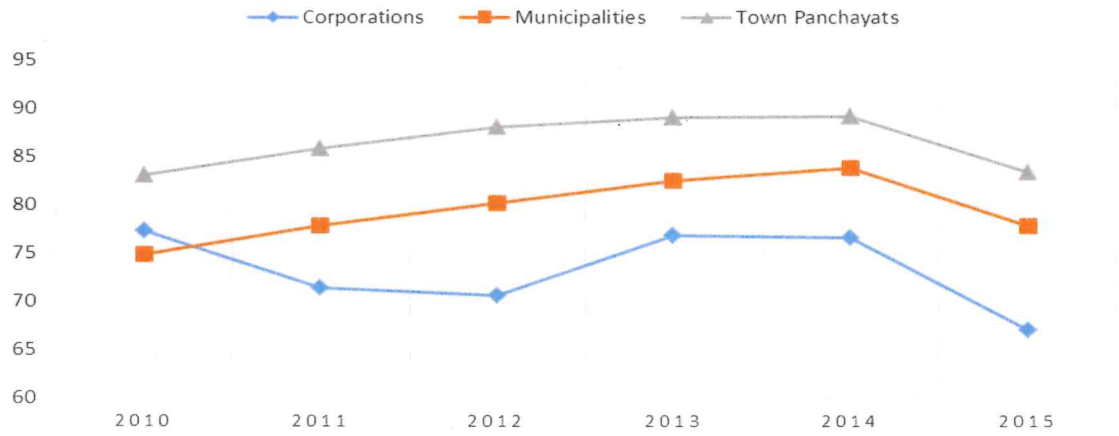
Figure 5.1: Current Collections as Percentage of Total Collection (Collection Rate)



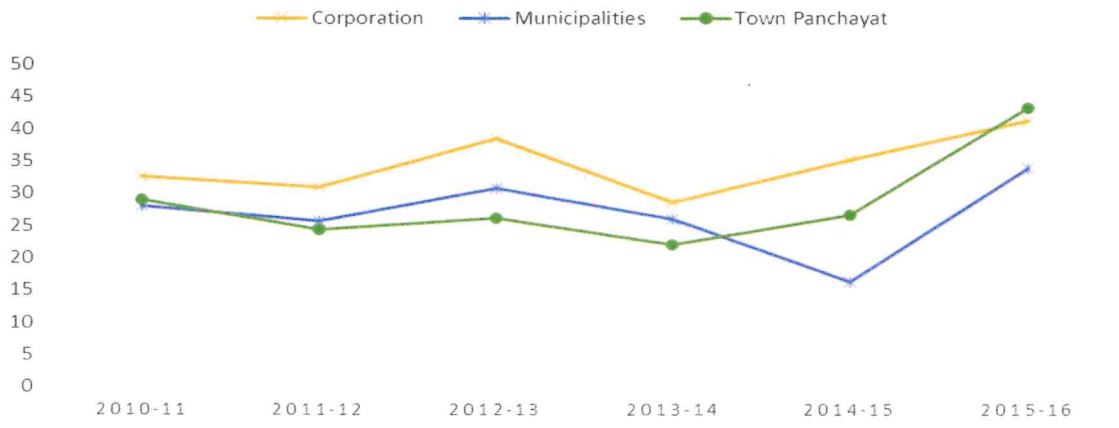
Source: Own calculations based on SFC data

Figure 5.2: Current Collections as Percentage of Current Demand



Source: Based on SFC data

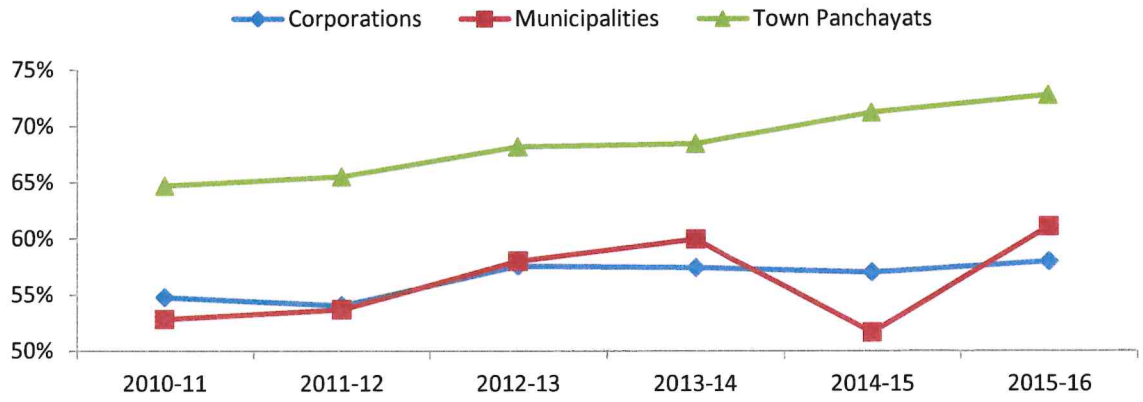
Figure 5.3 Arrear Collections as Percentage of Arrear Demand



Source: Own calculations based on SFC data

The arrear collection rate is comparably higher for corporations throughout the period. Town panchayats have shown improvement in arrear collection lately. Arrear collection is one the areas where the municipalities and town panchayats has to focus on to reduce the revenue loss

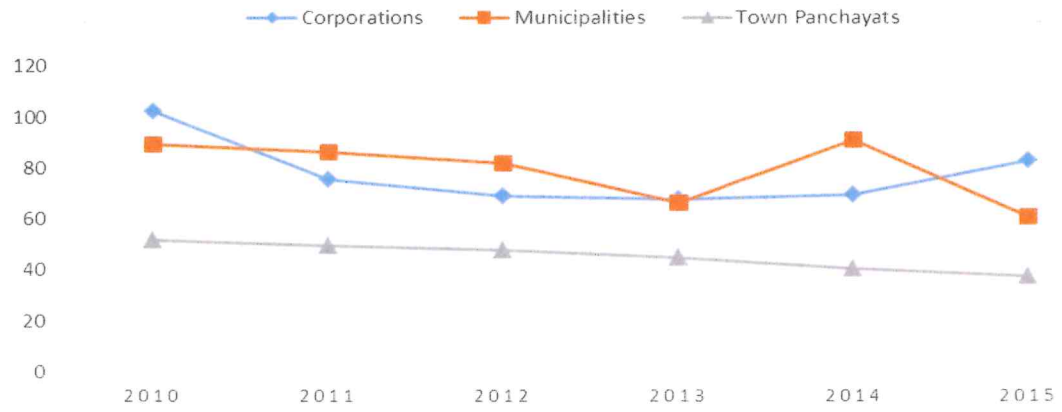
Figure 5.4 Total Collections as Percentage of Total Demand



Source: Own calculations based on SFC data

The performance of Town Panchayats in terms of total collections to total demand is also higher compared to municipalities and Corporations. There is an increasing trend in the total collection ratio of Town Panchayats. The collection ratio is stagnant for Corporations for the last three years. Municipalities do show an increasing trend except for a dip in the year 2014-15.

Figure 5. 5 Arrear Demand as Percentage of Current Demand



Source: Own calculations based on SFC data

Arrear demand as a percentage of current demand for corporations has come down from 102.23 % in 2010-11 to 82.79 % in 2015-16, but still, it is very high. Arrear demand as a percentage of current demand has gradually decreased and it has come down from 89.45% in 2010-11 to 60.89% in 2015-16, municipalities show better results in this matter as compared to corporations, but still it is very high. Arrear demand as a percentage of current demand in Town Panchayats has came down from 51.77% in 2010-11 to 37.48% in 2015-16. Town panchayats perform better than corporations and municipalities in the collection efficiency.

5.3 *Summary and Conclusions*

The indicators of collection efficiency in general highlight the higher collection efficiency in property tax collection for Town panchayats followed by Municipalities. The major findings are given below:

- Per capita arrear demand has decreased in Municipalities, and Town Panchayats, It has increased for Corporations.
- Per capita arrear collection has grown 5% in corporations and 7% (town panchayats) per annum.
- Town Panchayats and Municipalities have higher growth per property collection and demand compared to corporations.
- Collection rates are higher in Town panchayats followed by Municipalities and Corporations
- There is an increasing trend in the collection rate for municipalities, it is more or less stagnant for town panchayats, but it started declining for corporations after 2013-14.
- In terms of the tax collection ratio the town panchayats have reached the target set by JNNURM (85%). The collection ratios for municipalities are also close to 80%. And it is around 74% for Corporations.
- There is an increasing trend in the collection ratio for both town panchayats and municipalities except between 2014-15 to 2015-16.
- Arrear collection rates are higher for Corporations, but it also has high level of arrear demand to current demand

CHAPTER 6

Projections of Property Tax Collection for Tamil Nadu over the period 2016-17 to 2021-22

6.1 Introduction

The projections of property tax collection for the period 2016-17 to 2021-22 was done using the actual data of property tax collections for the period 2010-11 to 2015-16 given in Table 6.1. The property tax collections of Corporations, Municipalities and Town Panchayats have grown at the rate of 11%, 7% and 7% respectively. We have used these growth rates for the projections of property tax collection for the period 2013-17 to 2021-22. We also used linear trend to project the property tax collection in addition to growth rate projections, since the projection based on growth rate as done by the Fourth State Finance commission (see the Box 6.1) didn't yield best results.

Table 6.1: Property tax revenue collection for the period of 2010 to 2015 (Rs in lakhs)

	Municipal Corporation	Municipalities	Town Panchayat
2010-11	62503.06	23918.3	8296.87
2011-12	67554.51	25705.57	8830.35
2012-13	80757.96	29241.07	9618.95
2013-14	85307.19	30145.45	10346.85
2014-15	98235.53	31520.58	11228
2015-16	104381.33	33048.9	11604.04
CAGR	**11%**	**7%**	**7%**

Source: SFC data.

6.2 Methodology

The study uses two different methodology for the projection of property tax collection, with growth rates and linear trend. Growth rate based projections was done using the CAGR for the period 2010-11 to 2015-16. The projections based on linear trend was done by estimates of a trend regressions. Summary results of these estimates are given below:

Table 6.2: Summary of Estimates used for Projections

Method	Corporations	Municipalities	Town panchayats
Growth rate	11% per annum	7% per annum	7% per annum
Linear trend	52525+ (8742.4 X Time)	22530+ (1828.6X Time)	7541 + (8698.76X Time)

Source: Own calculations based on SFC data

Box 6.1 Comparison of projection methods for FSFC data

We have compared the projections of Fourth SFC (using growth rates) with the projections estimated using linear trend and nonlinear trend that we used in this study. The accuracy of projections are evaluated using Root mean square error and Mean absolute error as follows:

$$\text{Root Mean Square Error (RMSE)}=\sqrt{\sum_{t=1}^{N} e_t^2/N}$$

$$\text{Mean Absolute Error (MAE)}:\sum_{t=1}^{N}|e_t|/N,$$

Where e_t is the difference between actual and projections, and N is the number of observation. More accurate projections will have lower values for RMSE and MAE. The results are given in the Table below

Table 6.6 Evolution of forecasting performance of FSFC projections

	Corporations		*Municipalities*		*Town Panchayats*	
	MAE	**RMSE**	**MAE**	**RMSE**		
FSFC	15153.54	16771.37	24263.57	26129.80	12170.88	13683.15
Linear Trend	3515.20	4568.87	1149.96	1350.25	199.35	201.69
Polynomial Trend	2171.98	3025.18	1425.16	1617.39	352.58	398.79

Source: Own calculations

6.3 *Projections of property tax collection.*

The projection based on growth rates are provided in Table 6.3 .According to the Table the property tax collections is Rs 195236 lakhs for Municipal corporations, Rs 49597 for Municipalities and Rs 17415 for Town Panchayats in 2021-22. These projections are based on the CAGR for the period 2010-11 to 2015-16. If we assume 12% growth per annum for the property tax collection, the projected figures will be Rs 217420 laks, Rs 83201 lakhs and Rs. 28861.08 lakhs for corporations, municipalities and town panchayats respectively.

Table 6.3: Projections Of Property Tax Revenue Collection Using Growth Formula (Rs in lakhs)

	Municipal Corporation	Municipalities	Town Panchayat
2016-17	115863	35362	12416
2017-18	128608	37838	13285
2018-19	142755	40486	14215
2019-20	158458	43320	15211
2020-21	175889	46353	16275
2021-22	195236	49597	17415

Source: Own calculations based on SFC data

The projections based on linear trend give more conservative figure for the property tax collections. The projections are lower compared to the projections based on growth rates, if we assume a linear trend the projections for 2021-22 will be Rs 157434 lakhs for Corporations and Rs 44473 for Municipalities and Rs 15927 lakhs for Town panchayats.

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Table 6.4: projections of Property tax revenue collection using linear trend (Rs in lakhs)

	Municipal Corporation	Municipalities	Town Panchayat
2016-17	113722	35330	12433
2017-18	122464	37159	13132
2018-19	131206	38987	13831
2019-20	139949	40816	14529
2020-21	148691	42645	15228
2021-22	157434	44473	15927

Source: Own calculations based on SFC data

The projections based on actual collection for the period are not corrected for changes in the ULBs due to reclassification in 2010. In order to get comparable results we have reported the per capita projections of property tax collections in Table 6.5 and 6.6 Population projections are done after considering the changes due to reclassification. The Table 6.5 shows the projections of property tax collections using growth rate formula in per capita terms and Table 6.6 for projections using linear trend

Table 6.5: Projections of Property tax revenue collection (Per capita) using growth formula (in Rupees)

	Municipal Corporation	Municipalities	Town Panchayat
2016-17	782	344	141
2017-18	859	362	148
2018-19	944	381	156
2019-20	1037	401	164
2020-21	1139	422	172
2021-22	1251	444	180

Source: Own calculations based on SFC data

Table 6.6: Projections of Property tax revenue collection (per capita) using linear trend (in Rupees)

	Municipal Corporation	Municipalities	Town Panchayat
2016-17	767	344	141
2017-18	818	356	147
2018-19	867	367	152
2019-20	916	378	156
2020-21	963	388	161
2021-22	1009	398	165

Source: Own calculations based on SFC data

CHAPTER 7

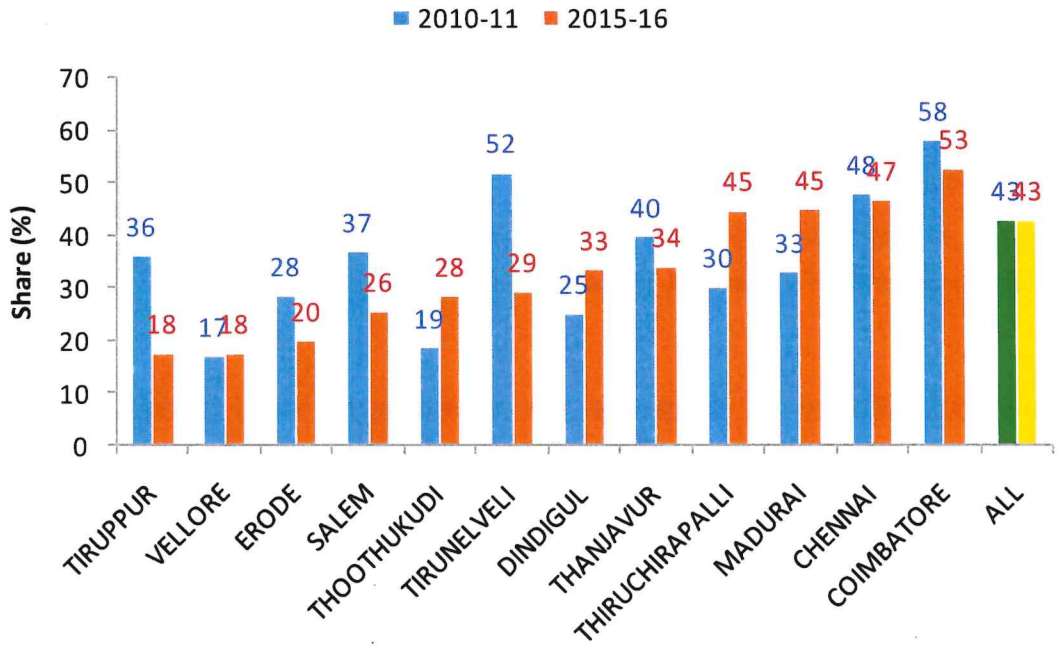
An analysis of Property Tax Revenue, Collection efficiency using ULB Level Disaggregated Data

The previous chapters provided the projections of property tax collection for the period 2016-17 to 2021-22. It was done using the actual data of property tax collections for the period 2010-11 to 2015-16. However there is a possibility of inter regional disparities in the trends. This section examines the trends and performance of property tax at a disaggregated level using the data of individual ULBs for each tier separately.

7.1 Municipal Corporations

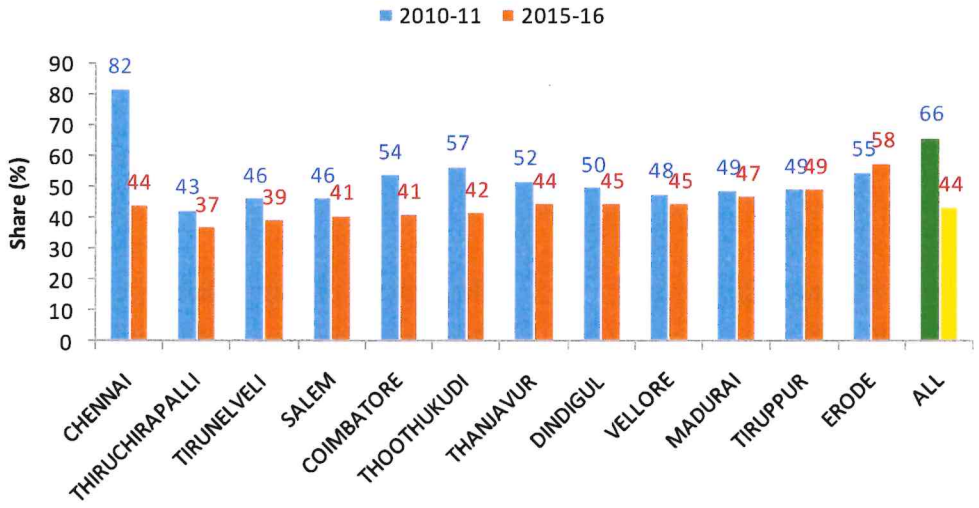
Tamil Nadu has 12 municipal corporations including greater Chennai Corporation. Share of own revenue as a percentage of total municipal income for all these 12 corporations for the year 2010-11 and 2015-16 is summarised in Figure 7.1. The share of own revenue of all municipal corporations is almost stagnant at 43%. However at disaggregated level the share of own revenues has decreased for more than half of the corporations.. The share of own revenue has declined in seven municipal corporations from 2010-11 to 2015-16, which includes Tiruppur (36% to 18%), Erode (28% to 20%), Salem (37% to 26%), Tirunelveli (52% to 29%), Thanjavur (40% to 34%) and Coimbatore(58% to53%). Whereas, Vellore (17% to 18%), Thoothukudi (19% to 28%), Dindigal (25% to 33%), Thiruchirapalli (30% to 45%) and Madurai (33% to 45%) have increased the share of own resources in 2015-16 compared to 2010-11. The estimates for intermediate years for these corporations more or less give similar trends. The declines in the share of own revenues in total income may be due to increase in the growth of income from other sources. Similarly majority of the corporations has a lower share of own revenue in total income as compared to 44% at aggregate level.

Figure 7.1: Share of Own revenue in total income of municipal corporations



Source: Own calculations based on SFC data as on Oct 2016

Figure 7.2: Share of tax revenue in total own revenue of municipal corporations



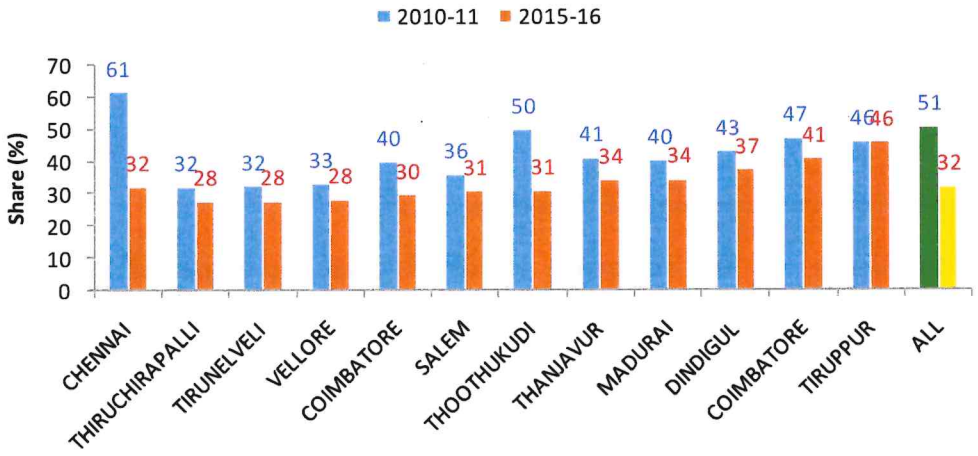
Source: Own calculations based on SFC data as on Oct 2016

Figure 7.2 gives the information of the share of total tax revenue in total own revenue of the municipal corporations in 2010-11 and 2015-16. Only Erode Municipal corporation's share of tax revenue in own revenue has increased from

55% to 58% between 2010-11 and 2015-16. The share of tax revenue in own revenue remained same for the Tiruppur Corporation (49%). All other corporations' share of tax revenue has declined during this period.

The share of property tax has declined compared to 2010-11. Almost in all the municipal corporation's share of property tax in own tax has declined during the period except Tiruppur (46% for both the periods). Most of the corporations indicate a slow growth in the revenues from property tax during the period. The per capita total income, property tax and own revenue is given in the Appendix Table A7.1. For most of the Corporations the per capita property tax below Rs 500 (9 Corporations).

Figure 7.3: Share of property tax revenue in total own revenue of municipal corporations

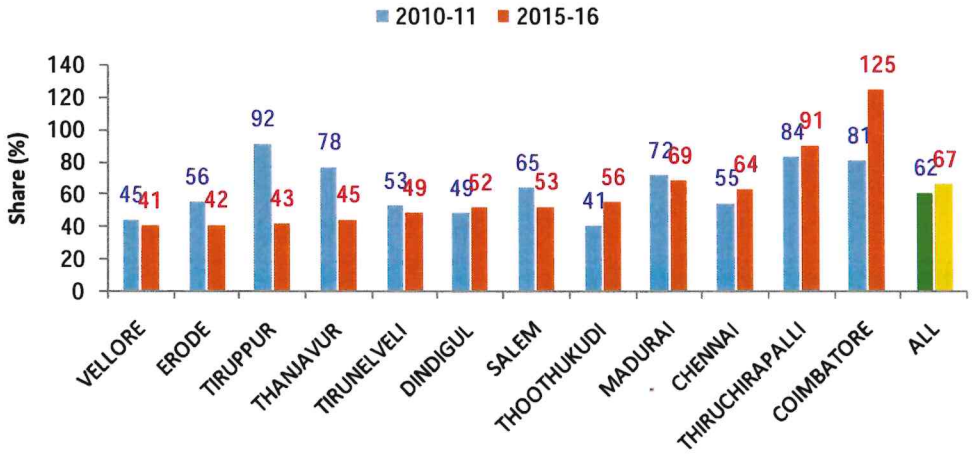


Source: Own calculations based on SFC data as on Oct 2016

7.2 *Revenue importance of property tax*

The extent of self reliance as measured by ratio of own revenue to revenue expenditure varies across corporations. The extent of self reliance is less than 60 % for Vellore, Erode, Tiruppur, Tanjavur, Tirunelveli, Dindigal, Salem and Tootukudi. The extent of self reliance is higher for Madurai, Chennai, Thiruchirapally and Coimbatore. The estimates at individual level surprisingly give different results. This may be due the influence of big corporations that has high self reliance index.

Figure 7.4: Own Revenue as a percent of total revenue expenditure of corporations



Source: Own calculations based on SFC data as on Oct 2016

7.3 Trends in Assessments

Total number of assessments have increased form 18,82,613 in 2010-11 to 31,52,259 in 2015-16. Increase in total assessments from 2010-11 to 2011-12 was very high with an annual growth rate of 44%. This was mainly due to reclassification. Table below give details of per property tax collection for all the corporations. There is high inter region disparities in the per property tax collection. In 2015-16 the maximum value for per property tax collection is Rs. 5016.8 and Minimum is Rs. 443 for Thoothukudi corporation. There is decrease in per property collection for Chennai, Vellore, Thanjavur, Erode, Coimbatore and Thoothukudi. The low per property collection may be due to various reasons such as collection inefficiency and low tax rates.

Table 7.1: Per Property Tax Collection (2010-2015)

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Chennai	5968.4	3823.2	4220.6	4255.0	5100.2	5016.8
Vellore	2138.0	941.9	1205.4	1239.9	1237.2	993.3
Salem	1161.3	1339.0	1244.8	1314.1	1413.9	1492.8
Thanjavur	1394.1	1585.7	1571.7	1700.7	1669.2	1055.7
	2010-11	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**
Erode	2962.5	1271.0	1364.2	1445.0	1474.3	1612.5
Coimbatore	3131.6	2765.8	2704.6	2833.1	2873.3	3092.6

Table 7.1: Per Property Tax Collection (2010-2015) (Cont...)

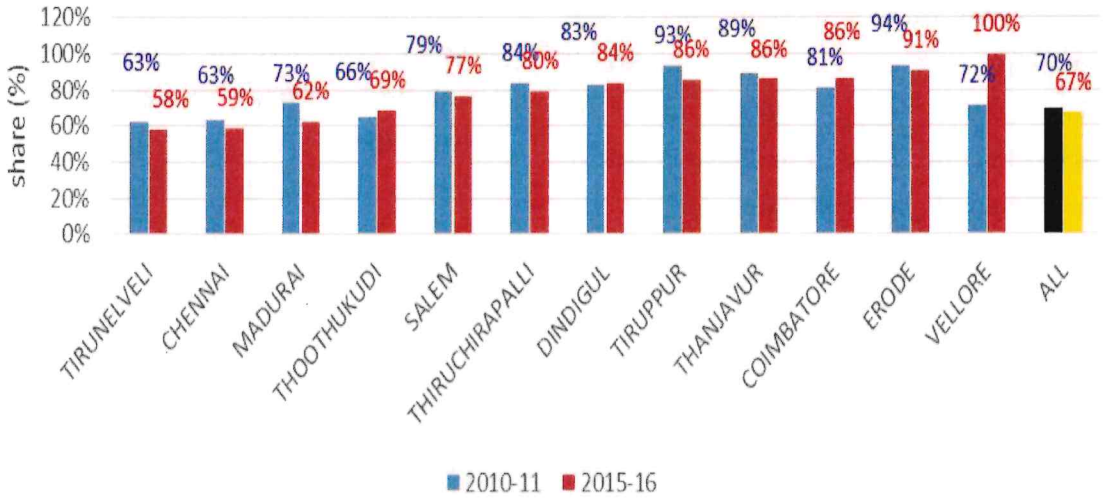
	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Thoothukudi	**1382.7**	**895.4**	**1056.9**	**937.4**	**961.3**	**443.9**
Thiruchirapalli	1772.2	1832.2	1912.8	2009.8	2045.6	2337.0
Madurai	3231.3	2130.3	2405.4	2635.1	2849.0	3920.7
Dindigul	1567.0	1587.3	1602.5	1716.5	1754.9	1854.1
Tirunelveli	1139.0	1192.4	1325.0	1369.7	1582.5	1582.5
Tiruppur	1311.8	1584.6	1824.1	1774.0	1906.7	2114.8

Source: Own calculations based on SFC data

7.4 *Indicators of Collection Efficiency*

Figure 7.5 provides the collection rate of various corporations. According to the Table almost all the corporation have 55% or above 55% collection rate. Almost half of the corporations have more the 80% collection rate in 2015-16. The collection rate of Coimbatore, Thoothukidi and Vellore has increased compared to 2010-11 level. Except Thoothukudi and Thanjore all other corporations' collection rate has increased more at 9% per annum.

Figure 7.5: Current Collections as Percentage of Total Collection

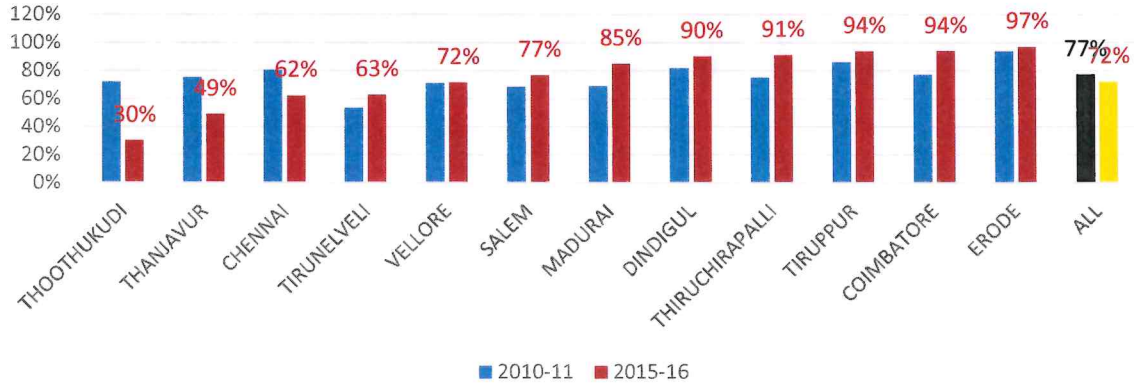


Source: Own calculations based on SFC data

Figure 7.6 shows the collection efficiency measured as a percent of current collection to current demand. For all Corporation 72 percent of current demand has been collected in 2015-16. There is a decrease in the collection ratio compared to 2010-11. The estimates show wide disparities among corporations, with lowest collection demand ratio of 30% for Toothukudi corporation and 97% for erode corporation.

There is a decrease in the collection demand ratio of Toothukudi, Chennai and Thanjavur corporations. The corporations that have low collection demand ratios such as Thoothukiudi, Thanjavur and Tirunelveli have very low per property collection. However 6 corporations out of 12 have a collection demand ratio above 85%.

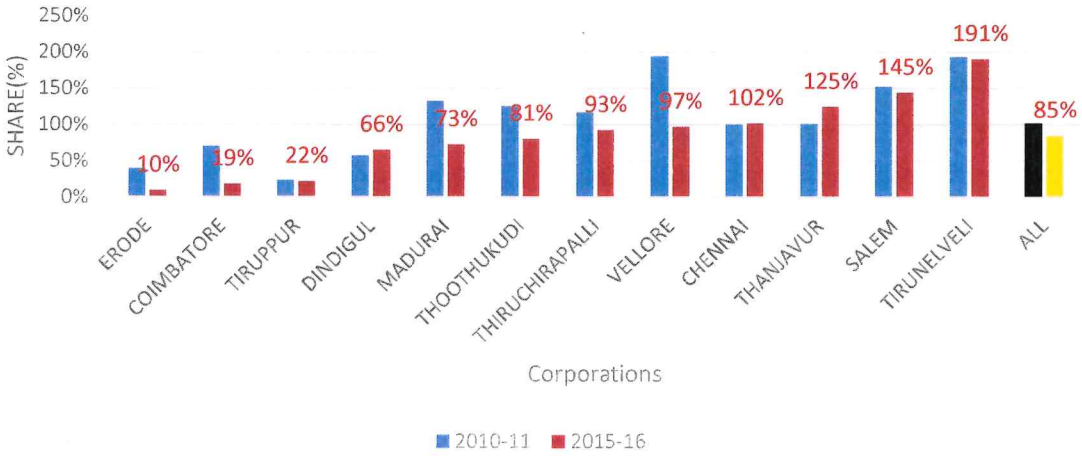
Figure 7.6: Current Collections as Percentage of Current Demand



Source: Own calculations based on SFC data

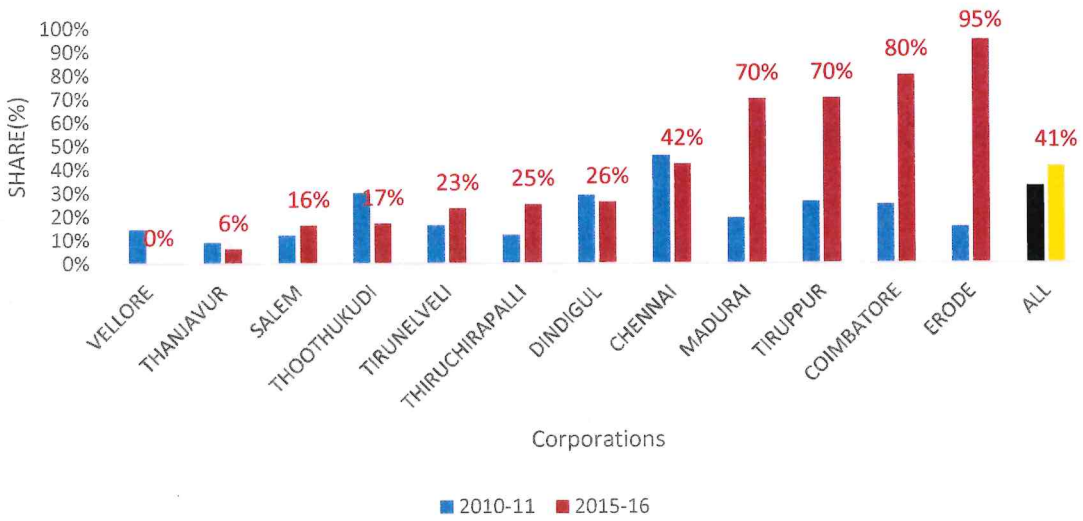
The ratio of arrear demand as percent of current demand is given in the Figure 7.7. The ratio is comparably higher (more than 100%) for Chennai, Thanjavur, Salem and Tirunelveli corporation for the year 2015-16. Coimbatore(19%), Erode(10%) and Tiruppur (22%) had the lowest ratio as per the estimates. High arrear demand to current demand indicates high levels of inefficiencies in these corporations. These inefficiencies are clearly reflected in the lower per property collection of corporation like Toothukudi and Thanjavur and the decreasing share of property taxes in Chennai Corporation

Figure 7.7 Arrear Demand as Percentage of Current Demand



Source: Own calculations based on SFC data

Figure 7.8 Arrear Collections as Percentage of Arrear Demand



Source: Own calculations based on SFC data

Similar trend is visible in the arrear collections also (Figure 7.8). There is clustering of corporations with 7 corporations lower than or equal to 26% and 4 corporations equal to or above 70% for the arrear collection demand ratio. Chennai Corporation has an arrear collection demand ratio equal to 42%. In summary it is clear from the analysis that the corporations that have lower share of property tax to income ratio, lower per property collections and decreasing trend in the share of own revenue and /or property tax show high collection inefficiencies measured by various indicators discussed in the chapter

7.5 Municipalities

The summary of 124 Municipalities based on the values of different indicators are presented in the Tables below. Table 7.2 provides the distribution of Municipalities according to the percentage of own revenue to total income. According to the Table, the share of own revenues in total income of most of Municipalities are below 60%. Almost 44% to 50% ULBs have only 15 % to 30% income from own revenue sources. 17% of 124 municipalities generate less than 15% to 17% income from own revenue sources. Thus, majority of Municipalities (almost 70%) generate less than 30% income from own revenue sources. However there is an increasing trend in the number of municipalities that contribute 30% to 60% income from own revenue sources (from 33% in 2010-11 to 40% in 2014-15).

Table 7.2: Distribution of Municipalities-Share of own revenue in total revenue

	2010-11		2011-12		2012-13		2013-14		2014-15		2015-16	
	Nos	%	Nos	%	Nos	%	Nos	%	Nos	%	Nos	%
Below 15%	21	17%	21	17%	25	20%	18	15%	18	15%	20	16%
15-30(%)	62	50%	60	48%	59	48%	56	45%	55	44%	58	47%
30-60(%)	41	33%	41	33%	39	31%	49	40%	49	40%	43	35%
Above 60%	0	0%	2	2%	1	1%	1	1%	2	2%	3	2%
Total	124	100%	124	100%	124	100%	124	100%	124	100%	124	100%

Source: Own calculations based on SFC data

Table 7.3 provide details of municipalities based on its share of tax revenue in own revenue. As reported in the Table more than 70 % of municipalities have a share of total tax revenue in own revenue in the range of 30 to 60% till the year 2014-15, which has decreased from 88% to 63% in 2015-16. Table 7.4 give the distribution of municipalities based on their share of property tax in own revenue. The Table shows that almost 60% municipalities contribute less than 40% to total own revenue. The results given in Table 7.3 and 7.4 in general indicate wide disparities among individual level. There is increase in the number of municipalities that contribute less than 30% from property tax revenue to own revenue from 25% in 2010-11 to 33% in 2015-16. However at aggregate level the share of property tax was more or less stagnant. Similarly there is an increase in the percentage of Municipalities that contribute less than 30% from tax revenue to own revenue (from 11% in 2010-11 to 16% in 2015-16).

Table 7.3: Distribution of Municipalities - Share of Total Tax Revenue in Own Revenue

	2010-11		2011-12		2012-13		2013-14		2014-15		2015-16	
	Nos	%	Nos	%	Nos	%	Nos	%	Nos	%	Nos	%
Below 30%	14	11	11	9	14	11	12	10	13	10	20	16
30-60(%)	88	71	96	77	95	77	91	73	90	73	78	63
60-85(%)	22	18	17	14	15	12	21	17	20	16	23	19
Above 85%	0	0	0	0	0	0	0	0	1	1	3	2
Total	124	100	124	100	124	100	124	100	124	100	124	100

Source: Own calculations based on SFC data

Table 7.4: Distribution of Municipalities - Share of property tax revenue in own revenue

	2010-11		2011-12		2012-13		2013-14		2014-15		2015-16	
	Nos	%	Nos	%	Nos	%	Nos	%	Nos	%	Nos	%
Below 20%	11	9	10	8	13	10	9	7	12	10	12	10
20 -30(%)	20	16	23	19	27	22	34	27	26	21	29	23
30-40(%)	45	36	45	36	43	35	38	31	40	32	36	29
40-50(%)	33	27	33	27	33	27	34	27	36	29	31	25
Above 50%	15	12	13	10	8	6	9	7	10	8	16	13
Total	**124**	**100**	**124**	**100**	**124**	**100**	**124**	**100**	**124**	**100**	**124**	**100**

Source: Own calculations based on SFC data

Table 7.5 provides number of municipalities according the self reliance index given by the percentage of own revenue to total revenue expenditure. According to the Table, 47 % of municipalities are able to cover the 25-50% of revenue expenditure by own revenues in 2015-16. There were only 34% of municipalities in 2010-11 under this category. This result indicates an improvement in the degree of self reliance, even if there is decrease in the percentage of municipalities from 50 to 75 percent range from 35 % in 2010-11 to 32% in 2015-16.

Table 7.5: Distribution of Municipalities - Own revenue as a percentage of total revenue expenditure

	2010-11		2011-12		2012-13		2013-14		2014-15		2015-16	
	Nos	%	Nos	%	Nos	%	Nos	%	Nos	%	Nos	%
Below 25%	3	2	6	5	3	2	8	6	6	5	4	3
25-50(%)	42	34	39	31	52	42	42	34	47	38	58	47
50-75(%)	43	35	54	44	41	33	50	40	53	43	40	32
75-100(%)	22	18	15	12	13	10	13	10	9	7	12	10
Above 100%	14	11	10	8	15	12	11	9	9	7	10	8
Total	**124**	**100**	**124**	**100**	**124**	**100**	**124**	**100**	**124**	**100**	**124**	**100**

Source: Own calculations based on SFC data

Table 7.6: Distribution of Municipalities - property tax revenue as a percentage of total revenue expenditure

	2010-11		2011-12		2012-13		2013-14		2014-15		2015-16	
	Nos	%	Nos	%	Nos	%	Nos	%	Nos	%	Nos	%
Below 25%	74	60	83	67	91	73	98	79	95	77	95	77
25-50(%)	47	38	38	31	30	24	23	19	27	22	26	21
Above 50%	3	2	3	2	3	2	3	2	2	2	3	2
Total	124	100	124	100	124	100	124	100	124	100	124	100

Source: Own calculations based on SFC data

Table 7.6 shows the number of Municipalities according to their share of property tax to total revenue expenditure. Interestingly 77% of the Municipalities are able to finance only 25% revenue expenditure in 2015-16. The percentage of municipalities has increased from 60% in 2010-11. Thus even though property tax is an important own revenue source its share in own revenue has decreased for a larger number of Municipalities.

Table 7.7: Distribution of Municipalities -Per Property Tax Collection

Category	2010-11		2011-12		2012-13		2013-14		2014-15		2015-16	
	Nos	%	Nos	%	Nos	%	Nos	%	Nos	%	Nos	%
0-500	22	18	21	17	19	15	16	13	14	11	23	19
500-1000	51	41	47	38	47	38	46	37	49	40	38	31
1000-2000	39	31	43	35	42	34	45	36	44	35	41	33
Above 2000	10	8	11	9	14	11	16	13	16	13	19	15
NA	2	2	2	2	2	2	1	1	1	1	3	2
Total	124	100	124	100	124	100	124	100	124	100	124	100

Source: Own calculations based on SFC data

Per property tax collection means how much property tax is collected from a property. In 2010, 41% municipalities by per property tax collection lie in the range of 500 to 1000 Rs, which has decreased to 31 % in 2015. There are 31% municipalities whose per property collection is between 1000 and 2000 in 2010 and it increased to 33% in 2015. In the category of "above 2000", there is an increase in the number of municipalities which collected per property tax above 2000 (from 8% to 15%). These results are in line with the estimates at aggregate level data.

Table 7.8: Distribution of Municipalities - Current collection as Percentage of total collection

	2010-11		2011-12		2012-13		2013-14		2014-15		2015-16	
	Nos	%	Nos	%	Nos	%	Nos	%	Nos	%	Nos	%
Below 60%	17	14	13	10	15	12	7	6	4	3	10	8
60-75(%)	35	28	34	27	21	17	17	14	12	10	19	15
75-85(%)	29	23	23	19	33	27	36	29	33	27	27	22
Above 85%	43	35	54	44	55	44	64	52	75	60	66	53
N/A	0	0	0	0	0	0	0	0	0	0	2	2
Total	**124**	**100**	**124**	**100**	**124**	**100**	**124**	**100**	**124**	**100**	**124**	**100**

Source: Own calculations based on SFC data

The total collection of property tax is a summation of current collection and arrear collection. The highest current collection as a percentage of total collection indicates the efficiency in collection of property tax. There is an increase in the percentage of Municipalities from 35% in 2010-11 to 53% in 2015-16 which has a collection rate above 85%. The collection efficiency of Municipalities has increased from 2010-11 to 2015-16 and it is also reflected at aggregate level as an increase in the per property collection during this period.

Table 7.9: Distribution of Municipalities - Current collection as Percentage of current demand

	2010-11		2011-12		2012-13		2013-14		2014-15		2015-16	
	Nos	%	Nos	%	Nos	%	Nos	%	Nos	%	Nos	%
Below 60%	16	13	17	14	8	6	4	3	6	5	19	15
60-85(%)	62	50	56	45	53	43	46	37	38	31	36	29
85-95(%)	25	20	29	23	38	31	40	32	43	35	29	23
Above 95%	21	17	22	17	25	20	34	27	37	29	38	31
N/A	0	0	0	0	0	0	0	0	0	0	2	2
Total	**124**	**100**	**124**	**100**	**124**	**100**	**124**	**100**	**124**	**100**	**124**	**100**

Source: Own calculations based on SFC data

The current collection as a percentage of current demand is also an indicator of efficiency in collection, with higher values indicating higher efficiency in the collection. More than 50% of municipalities have more than 85% of the current collection as a percentage of current demand in 2015-16, which were only 37% in 2010-11. Overall the patterns indicate increasing levels of collection efficiency among Municipalities between 2010-11 and 2015-16.

Table 7.10: Distribution of Municipalities - Arrear demand as Percentage of current demand

	2010-11		2011-12		2012-13		2013-14		2014-15		2015-16	
	Nos	%	Nos	%	Nos	%	Nos	%	Nos	%	Nos	%
Below 25%	30	24	32	26	31	25	37	30	41	33	36	29
25-50(%)	21	17	24	19	25	20	31	25	32	26	27	22
50-75(%)	19	15	17	14	17	14	24	19	17	14	18	15
75-100(%)	18	15	20	16	21	17	11	9	11	9	14	11
Above 100%	32	26	28	23	25	20	16	13	16	13	15	12
N/A	4	3	3	2	5	4	5	4	7	6	14	11
Total	124	100	124	100	124	100	124	100	124	100	124	100

Source: Own calculations based on SFC data

Lower level of arrear demand compared to current demand can also be considered as an indicator of efficiency of property tax system. Distribution of Municipalities according to the percent of arrear demand as current demand is given in Table 7.10.

According to the Table around 50% of municipalities in 2015-16 has less than 50% arrear demand as a percentage of currend demand and it was around 40% in 2010-11

Table 7.11: Distribution of Municipalities - Arrear collection as Percentage of Arrear demand

	2010-11		2011-12		2012-13		2013-14		2014-15		2015-16	
	Nos	%	Nos	%	Nos	%	Nos	%	Nos	%	Nos	%
Below 25%	32	26	43	35%	29	23	39	31	41	33	36	29
25-50(%)	53	43	49	40	55	44	42	34	42	34	28	23
50-75(%)	26	21	18	15	22	18	17	14	13	10	21	17
Above 75%	7	6	10	8	13	10	21	17	19	15	23	19
N/A	6	5	4	3	5	4	5	4	9	7	16	13
Total	124	100	124	100	124	100	124	100	124	100	124	100

Source: Own calculations based on SFC data

Similar trend is visible in the Table 7.11 which reports the number of municipalities according to arrear collection as a percentage arrear demand. For example in 2010-11 only 6% municipalities has an arrear collection to demand ratio more 75% it has increased to 19% in 2015-16.

In general the disaggregated level data on municipalities indicate an increasing trend in the collection efficiency. However the

extent of self reliance is comparably low among the municipalities. The share of property tax is also very low. Given high level of collection efficiency among Municipalities there is urgent need to review the assessment and valuation practices to realise the revenue potential of property tax.

7.6 Town Panchayats

The performances of 528 Town Panchayats based on various indicators are presented in the Tables below. Table 7.12 provide the distribution of town panchayats according to the share of own revenues in total income. Own revenues constitute less than 40% of total income for the majority of town Panchayats in 2015-16. However there in an increase in the number of Town Panchayats whose share of own revenues has increased over time during this period. For example town Panchayats with 20% or lower own revenue share in total income have decreased from 56% in 2010-11 to 41% in 2015-16. At the same time there is an increase in the percentage of town Panchayats whose own revenue share increased from 35% in 2010-11 to 59% in 2015-16.

Table 7.12: Distribution of Town Panchayats - Share of own revenue in total income

Category	2010-11		2011-12		2012-13		2013-14		2014-15		2015-16	
	Nos	%	Nos	%	Nos	%	Nos	%	Nos	%	Nos	%
Below 10%	103	20	61	12	66	13	89	17	49	9	48	9
10 -20(%)	241	46	211	40	218	41	235	45	201	38	167	32
20-30(%)	113	21	162	31	153	29	134	25	169	32	140	27
30-40(%)	40	8	59	11	63	12	49	9	66	13	75	14
Above 40%	31	6	35	7	28	5	21	4	42	8	93	18
N/A	0	0	0	0	0	0	0	0	1	0	5	1
Total	528	100	528	100	528	100	528	100	528	100	528	100

Source: Own calculations based on SFC data as on Sep 2016

Number of Town panchayats according to their share of total tax revenue in own revenue are given in Table 7.13. According to the Table there is an increase in the number of town Panchayats whose tax revenue share in own revenue has decreased in 2015-16 compared to 2010-11. For example number of town Panchayats with less than 30% tax revenue share has increased from 22% in 2010-11 to 29% in 2015-16. Similarly Town Panchayats with 50- 70% tax revenue share has decreased from 22% in 2010-11 to 13% in 2015-16. This indicates the increasing importance of non tax revenue in the own revenue.

Table 7.13: Distribution of Town panchayats - Share of total tax revenue in own revenue

Category	2010-11		2011-11		2012-13		2013-14		2014-15		2015-16	
	Nos	%	Nos	%	Nos	%	Nos	%	Nos	%	Nos	%
Below 30%	118	22	175	33	183	35	188	36	180	34	155	29
30-50(%)	289	55	270	51	268	51	263	50	258	49	253	48
50-80(%)	116	22	81	15	73	14	73	14	85	16	71	13
Above 80%	5	1	2	0	4	1	4	1	4	1	43	8
N/A	0	0	0	0	0	0	0	0	1	0	6	1
Total	**528**	**100**	**528**	**100**	**528**	**100**	**528**	**100**	**528**	**100**	**528**	**100**

Source: Own calculations based on SFC data as on Sep 2016

Table 7.14 reports the distribution of Town Panchayats according to the share of property tax revenue in own revenue. Interestingly, share of property tax revenue shows a decreasing trend among the TPs between 2010-11 and 2015-16. For example, There is an increase in the number of Town Panchayats whose property tax revenue share in own revenue is less than 20% from 31% (in 2010-11) - 41% (in 2015-16). On the other hand the percentage of town Panchayats which has a property tax revenue share more than 20% has decreased from 69% in 2010-11 to 58% in 2015-16.

Table 7.14: Distribution of Town panchayats: Share of property tax in own revenue

	2010-11		2011-12		2012-13		2013-14		2014-15		2015-16	
	Nos	%	Nos	%	Nos	%	Nos	%	Nos	%	Nos	%
Below 10%	21	4	18	3	33	6	37	7	39	7	35	7
10-20(%)	144	27	215	41	206	39	229	43	201	38	181	34
20-30(%)	204	39	182	34%	191	36	169	32	174	33	172	33
30-40(%)	110	21	76	14	75	14	75	14	83	16	62	12
Above 40%	48	9	36	7	22	4	17	3	29	5	71	13
N/A	1	0	1	0	1	0	1	0	2	0	7	1
Total	**528**	**100**	**528**	**100**	**528**	**100**	**528**	**100**	**528**	**100**	**528**	**100**

Source: Own calculations based on SFC data as on Sep 2016

Table 7.15: Distribution of Town Panchayats - own revenue as a percentage of revenue expenditure

	2010-11		2011-12		2012-13		2013-14		2014-15		2015-16	
	Nos	%	Nos	%	Nos	%	Nos	%	Nos	%	Nos	%
Below 25%	81	15	72	14	91	17	136	26	149	28	122	23
25-50(%)	271	51	240	45	256	48	243	46	233	44	233	44
50-75(%)	111	21	141	27	113	21	98	19	93	18	100	19
75-100(%)	27	5	46	9	36	7	29	5	31	6	45	9
Above 100%	38	7	29	5	32	6	22	4	22	4	28	5
Total	**528**	**100**	**528**	**100**	**528**	**100**	**528**	**100**	**528**	**100**	**528**	**100**

Source: Own calculations based on SFC data *as on Sep 2016*

There is an increase in the number of TPs that are able to cover 25% or below from 15% in 2010-11 to 23% in 2015-16. Around 44 % of town panchayats lie under the category of 25 to 50 percent coverage of revenue expenditure by own revenue in the year 2015-16 which were 51 %of town panchayats in 2010-11. These trends show that there is an increase in the dependency ratio as there is a decrease in the number of town panchayats which depend on the own source of revenue.

Table 7.16: Distribution of Town Panchayats - Property tax as a percentage of revenue expenditure.

	2010-11		2011-12		2012-13		2013-14		2014-15		2015-16	
	Nos	%	Nos	%	Nos	%	Nos	%	Nos	%	Nos	%
Below 10%	274	52	290	55	332	63	372	70	366	69	345	65
10-25(%)	218	41	202	38	162	31	137	26	141	27	154	29
25-50(%)	34	6	34	6	31	6	16	3	20	4	25	5
Above 50%	2	0	2	0	3	1	3	1	1	0	4	1
Total	528		528		528		528		528		528	

Source: Own calculations based on SFC data *as on Sep 2016*

Property tax covers less than 10% of revenue expenditure in almost 65% of town panchayats in 2015-16. The percentage of TPs with less than 10% was just 52% in 2010-11. These trends confirm aggregate level pattern. Thus at TP level there is an urgent need to improve the property tax revenue.

Table 7.17: Distribution of Town Panchayats - Per property collection

Category	2010-11		2011-12		2012-13		2013-14		2014-15		2015-16	
	Nos	%	Nos	%	Nos	%	Nos	%	Nos	%	Nos	%
Below 150	76	14	65	12	50	9	42	8	34	6	40	8
150-250	139	26	134	25	142	27	125	24	123	23	108	20
250-350	114	22	114	22	102	19	105	20	98	19	83	16
350-500	95	18	103	20	109	21	118	22	126	24	104	20
Above 500	74	14	81	15	94	18	106	20	116	22	117	22
N/A	30	6	31	6	31	6	31	6	31	6	76	14
Total	528	100	528	100	528	100	527	100	528	100	528	100

Source: Own calculations based on SFC data *as on Sep 2016*

In 2010-11, 22% town panchayats using per property tax collection criteria lie in the range of 250 to 350 Rs, which has decreased to 16 % in 2015. On the other hand in the range of 350 to 500, 18% town panchayats increased to 20% in 2015. In the category of "above 500", there is an increase in the number of town panchayats which collected per property tax above 2000 (from 14% to 22%).

Table 7.18: Distribution of Town Panchayats - Current collection as Percentage of total collection

	2010-11		2011-12		2012-13		2013-14		2014-15		2015-16	
	Nos	%	Nos	%	Nos	%	Nos	%	Nos	%	Nos	%
Below 75%	71	13	67	1%	60	11	55	10	47	9	55	10
75-85(%)	48	9	41	8	39	7	27	5	28	5	24	5
85-95(%)	57	11	64	12	65	12	61	12	47	9	43	8
Above 95%	352	67	356	67	364	69	385	73	405	77	366	69
N/A	0	0	0	0	0	0	0	0	1	0	40	8
Total	528	100	528	100	528	100	528	100	528	100	528	100

Source: Own calculations based on SFC data *as on Sep 2016*

Collection rate and collection ratios are very high for TPs in Tamil Nadu. As per Table 7.18 almost,69% of town panchayats have a collection rate higher than 95%. The collection ratio measured as current collection to collection demand, also indicates that almost 71% of TPs have a collection ratio greater than 95% (Table 7.19)

Table 7.19: Distribution of Town Panchayats - Current collection as Percentage of current demand

	2010-11		2011-12		2012-13		2013-14		2014-15		2015-16	
	Nos	%	Nos	%	Nos	%	Nos	%	Nos	%	Nos	%
Below 75%	100	19	76	14	67	13	58	11	53	10	72	14
75-85(%)	39	7	37	7	34	6	33	6	37	7	16	3
85-95(%)	61	12	74	14	61	12	68	13	49	9	26	5
Above 95%	328	62	341	65	366	69	369	70	388	73	374	71
N/A	0	0	0	0	0	0	0	0	1	0	40	8
Total	**528**	**100**	**528**	**100**	**528**	**100**	**528**	**100**	**528**	**100**	**528**	**100**

Source: Own calculations based on SFC data as on Sep 2016

Table 7.20: Distribution of Town Panchayats - Arrear demand as a percentage of current demand

	2010-11		2011-12		2012-13		2013-14		2014-15		2015-16	
	Nos	%	Nos	%	Nos	%	Nos	%	Nos	%	Nos	%
Below 25%	192	36	192	36	201	38	216	41	216	41	182	34
25-50(%)	62	12	64	12	57	11	49	9	40	8	36	7
50-75(%o	35	7	26	5	24	5	19	4	29	5	16	3
75-100(%)	23	4	30	6	25	5	25	5	23	4	20	4
Above 100	58	11	57	11	56	11	52	10	39	7	33	6
N/A	158	30	159	30	165	31	167	32	181	34	241	46
Total	**528**	**100**	**528**	**100**	**528**	**100**	**528**	**100**	**528**	**100**	**528**	**100**

Source: Own calculations based on SFC data as on Sep 2016

Lower arrear demand as a percentage of current demand is a sign of efficiency in collection. Around 34% of town panchayats has this ratio below the 25% category (in 2015-16), which means that one third of the town panchayats has lower than 25% arrear demand as a percentage of current demand. Around 36% of town panchayats comes under the same category in 2010. Thus all these measures indicate that there is an increase in efficiency in property tax collection at ULB level.

Table 7.21: Distribution of Town Panchayats - Arrear collection as a percentage of arrear demand

	2010-11		2011-12		2012-13		2013-14		2014-15		2015-16	
	Nos	%	Nos	%	Nos	%	Nos	%	Nos	%	Nos	%
Below 25%	110	21	117	22	116	22	116	22	94	18	46	9
25-50(%)	107	20	81	15	71	13	58	11	69	13	37	7
50-75(%)	45	9	48	9	45	9	38	7	43	8	20	4
75-100(%)	53	10	61	12	59	11	58	11	47	9	97	18
N/A	213	40	221	42	237	45	258	49	275	52	328	62
Total	528		528		528		528		528		528	

Source: Own calculations based on SFC data *as on Sep 2016*

Arrear collection as a % of arrear demand also indicates the efficiency in collection. Higher the ratio means more efficient in collection. In the category of "75-100%", there is a significant increase in the number of town panchayats (10% in 2010-11 to 18% in 2015-16). But on the other hand there is a decrease in the number of town panchayats which fall under the category of "below 25%". These results show improving trends in the Property tax collection efficiency.

7.7 *Summary and Conclusion*

The findings using disaggregated level data confirm the aggregate level findings

- Most of the corporations' share of tax revenue has declined during this period.
- Majority of the municipal corporation's share of property tax in own tax revenue has declined between 2010-11 to 2015-16.
- Larger number of corporations has very low levels of self reliance even though the self reliance index has a higher value at aggregate level
- Almost half of the corporations have more the 80% collection rate in 2015-16. There is a decrease in the collection ratio compared to 2010-11.
- High arrear demand to current demand indicates high levels of inefficiencies in these corporations.
- Thus, majority of Municipalities (almost 70%) generate less than 30% income from own revenue sources.
- There is a decrease in the number TPs that contribute more from tax revenue and property tax in own revenue
- 47 % of municipalities are able to cover the 25-50% of revenue expenditure by own revenues in 2015-16 compared to 34% of municipalities in 2010-11
- There is an increase in the percentage of Municipalities whose collection rates

exceeds 85% (from 35% in 2010-11 to 53% in 2015-16)

- More than 50 % of municipalities have more than 85% of the current collection as a percentage of current demand in 2015-16 which were only 37% in 2010-11.
- 50% of municipalities in 2015-16 has less than 50% arrear demand as a percentage of current demand and it was around 40% in 2010-11
- The disaggregated level data on municipalities indicate an increasing trend in the collection efficiency based on various indicators. However the extent of self reliance is comparably low among the municipalities. Particularly, the share of property tax is also very low.
- Own revenues constitute less than 40% of total income for the majority of town Panchayats in 2015-16. However there is an increase in the number of Town Panchayats whose share of own revenue has increased over time during this period.
- There is a trend among TPs to improve collection efficiency. Town panchayats perform better compared to Corporations and Municipalities on various measures of collection efficiency.
- However the extent of self reliance is comparably low among the Town Panchayats. The number of Town Panchayats with low self reliance index has increased from 2010-11 to 2015-16.

Appendices for Chapter 7

Table A7.1 Per Capita Property Tax Revenues and Own Revenues of Corporations

	Per Capita Property Tax		Per Capita Total Own Revenue	
	2010-11	2015-16	2010-11	2015-16
Chennai	936	1084	1524	3375
Vellore	324	301	980	1068
Salem	247	296	686	965
Erode	568	356	1203	874
Coimbatore	710	970	1782	3287
Thanjavur	325	320	790	937
Tiruchirappalli	326	449	1017	1624
Madurai	512	547	1273	1590
Dindigul	283	339	659	910
Tirunelveli	369	478	1144	1725
Thoothukkudi	424	332	852	1075
Tiruppur	488	474	1062	1038

Source: Own calculations based on SFC data *as on Oct 2016*

Table A7.2 Distribution of Municipalities Per Capita Property tax (in Rs.)

Bins	2010	%	2011	%	2012	%	2013	%	2014	%	2015	%
Below 250	76	61%	72	58%	71	57%	67	54%	56	45%	50	40%
250 to 500	39	31%	44	35%	43	35%	46	37%	54	44%	56	45%
500 to 1000	9	7%	6	5%	8	6%	10	8%	12	10%	15	12%
Above 1000	0	0%	2	2%	2	2%	1	1%	2	2%	3	2%
Total	**124**	**100%**	**124**	**100%**	**124**	**100%**	**124**	**100%**	**124**	**100%**	**124**	**100%**

Source: Own calculations based on SFC data *as on Sep 2016*

Table A7.3 Distribution of Municipalities Per Capita Total Own Revenue (in Rs.)

Bins	2010	%	2011	%	2012	%	2013	%	2014	%	2015	%
Below 500	40	32%	37	30%	32	26%	28	23%	27	22%	25	20%
500 to 1000	64	52%	62	50%	61	49%	59	48%	60	48%	54	44%
1000 to 1500	12	10%	17	14%	22	18%	28	23%	29	23%	28	23%
Above 1500	8	6%	8	6%	9	7%	9	7%	8	6%	17	14%
Total	**124**	**100%**	**124**	**100%**	**124**	**100%**	**124**	**100%**	**124**	**100%**	**124**	**100%**

Source: Own calculations based on SFC data *as on Sep 2016*

Table A7.4 Distribution of Municipalities - Per Capita Total Income (in Rs.)

Bins	2010	%	2011	%	2012	%	2013	%	2014	%	2015	%
Below 2000	26	21%	33	27%	17	14%	20	16%	17	14%	18	15%
2000 to 4000	79	64%	67	54%	76	61%	80	65%	79	64%	64	52%
4000 to 6000	17	14%	19	15%	23	19%	16	13%	20	16%	30	24%
Above 6000	2	2%	5	4%	8	6%	8	6%	8	6%	12	10%
Total	**124**	**100%**	**124**	**100%**	**124**	**100%**	**124**	**100%**	**124**	**100%**	**124**	**100%**

Source: Own calculations based on SFC data *as on Sep 2016*

Table A7. 5 Distribution of Town Panchayats - Per Capita Property Tax (in Rs)

Bins	2010	%	2011	%	2012	%	2013	%	2014	%	2015	%
Below 100	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%
100 to 500	341	65%	317	60%	295	56%	279	53%	253	48%	230	44%
500 to 1000	184	35%	208	39%	229	43%	246	47%	269	51%	290	55%
Above 1000	3	1%	3	1%	4	1%	3	1%	6	1%	8	2%
Total	**528**	**100%**	**528**	**100%**	**528**	**100%**	**528**	**100%**	**528**	**100%**	**528**	**100%**

Source: Own calculations based on SFC data *as on Sep 2016*

Table A7.6 Distribution of Town Panchayats - Per Capita Total Own Revenue (in Rs)

Bins	2010	%	2011	%	2012	%	2013	%	2014	%	2015	%
Below 250	146	28%	76	14%	53	10%	37	7%	32	6%	32	6%
250 to 500	257	49%	277	52%	259	49%	223	42%	217	41%	191	36%
1000 to 2000	101	19%	146	28%	179	34%	214	41%	227	43%	234	44%
Above 2000	24	5%	29	5%	37	7%	54	10%	52	10%	71	13%
Total	528	100%	528	100%	528	100%	528	100%	528	100%	528	100%

Source: Own calculations based on SFC data *as on Sep 2016*

Table A7.7 Distribution of Town Panchayats - Per Capita Total Income (in Rs)

Bins	2010	%	2011	%	2012	%	2013	%	2014	%	2015	%
Below 500	0	0%	0	0%	0	0%	0	0%	0	0%	2	0%
500 to 1500	69	13%	67	13%	29	5%	5	1%	24	5%	44	8%
1500 to 3000	367	70%	373	71%	344	65%	242	46%	311	59%	267	51%
Above 3000	92	17%	88	17%	155	29%	281	53%	193	37%	215	41%
Total	528	100%	528	100%	528	100%	528	100%	528	100%	528	100%

Source: Own calculations based on SFC data *as on Sep 2016*

CHAPTER 8

Examining Existing Norms and Projection with Normative Suggestion for Tapping Tax Potential

As a part of the urban sector reforms, the Jawaharlal Nehru National Urban Renewal Mission (JNNURM) has established benchmarks relating to coverage of properties and collection of property taxes. According to these benchmarks the property tax is efficient if 85 percent of total properties are subject to taxation (at rates which have correspondence with the benefit) and if 85 percent of the tax so assessed and demanded is collected. This aspect of collection is already discussed in an earlier chapter of this report which deals with efficiency of property tax collection and tax base.

Here we discuss a normative approach to Property tax which is to compare its potential with the realized revenues from this levy. This connotes a gap between the current tax yield and what the tax may yield under certain conditions. It could be stated that normative approach of tax yield is "the amount of revenue that could be raised in a given jurisdiction if a normal tax rate is applied to a base that is narrowed by normal exemptions, and is subjected to a normal level of administrative effort". Thus the measurement of revenue potential is no easy matter (Roy Bahl: 2009).

The potential could be envisaged here under two scenarios: one under which assumptions are made with respect to the improvements that are essential to be made in broadening the tax base, narrowing the distance between assessed and market values, improving collection, and aligning the tax rate structure to meet the cost of joint services. A second method could be to use the performance level of property tax in developing and transitional economies as the targeted norm for property tax reform in India, and to estimate the extent of changes that would be needed in collection, coverage and other aspects in order to reach the developing countries norms.

Broadening of tax base for property tax involves a consideration of existing exemptions which constitute an important ingredient of a property tax system in Tamil Nadu and these also comprise a common feature of local bodies taxation worldwide. The underlying objectives in granting exemptions are social justice, high administrative and collection cost particularly from low tax yielding properties, and properties that provide directly or indirectly, services having characteristics of a merit or public good. Article 285 of the Constitution of India exempts properties of the Union government from payment of property taxes. Exempted properties in India constitute approximately 10 percent of the

total urban properties and about 11 percent of the assessed properties and to this extent, tax bases are narrowed and coverage is inequitable.

More generally, the following categories of properties stand exempted from payment of property taxes –

-Residential properties whose rateable values are below a minimum threshold

-Central and state government properties and selectively, properties of the other levels of government

- Charitable organizations

- Places of worship

- Ancient and heritage monuments

- Burial and cremation grounds

- Properties used for sheltering the destitute, orphanages, and similar organizations run on philanthropic lines

- Recognized educational institutions including hostels, libraries and play grounds

- Vacant properties of certain categories

- Slum dwellings not having any title over the land

Besides exemptions, efficient tax collection is also one of the important planks of tapping property tax potential. The municipal legislations lay down procedures for issuance of assessment notice, period within which tax is required to be paid, mode of payment, and actions under the law for defaulting on tax payment. Over the past two decades, several state governments have made changes to the statutory framework for the levy of property taxes, as a result of which the historically – used system of Annual Rateable Value (ARV) has been replaced by other methods like capital valuation, unit area values for determining the ARV, and rate per unit of carpet area. Several states have made changes in the methods of billing and payment procedures, bringing in self-assessment of tax liability, providing for hardship and anomaly.

8.1 Our Approach

There are several models for estimating the tax potential.

We apply following three methods for estimating property tax potential. These include using:

a. Relative performance compared to other major Indian States.

b. Revenue cost of exemptions and Tax Capacity factors

c. Capacity Effort Approach.

In the first approach we compare with other major Indian States using Property tax raised as percent of SGDP and Per capita property tax as basis for reckoning relative performance and thus the potential of ULBs in Tamil Nadu.

In the second approach we estimate the revenue cost of exemptions and estimate

potential revenues which would have been possible in the absence of exemptions.

This approach emphasizes the loss of actual revenues which is due to various exemptions. Using this approach we project potential revenues for all categories of urban local bodies for the award period of 5th State Finance Commission of Tamil Nadu.

In this approach we measure the revenue cost of exemptions using the following model.

The revenue cost of exemptions is as under:

RCEx = (NEx).[(TD)/(AP)]

Where:

RCEx = Estimated revenue cost of exemption

NEx = Number of exempt property

TD = Property tax demand for taxable properties

AP = Number of taxable properties assessed

3. In the third approach namely, the Capacity Effort Approach we estimate the level of tax effort in various categories of urban local bodies in Tamil Nadu using a regression model.

In terms of notations this model is:

T = f(TC,e)

Where T = tax collections

TC = taxable capacity e = tax effort, usually taken to be willingness to pay (or impose) taxes

Taxable capacity in this approach is the same as tax potential as defined above. Tax effort (e) is defined as the

e = T/ TC

Thus it is the extent to which actual tax collections reach their potential.

In this model,

TC = f(Xi, u)

Where TC is measured as the per capita tax collections, and the Xi are a set of exogenous variables usually chosen to reflect the degree of economic development of the state. We use number of assessed properties (growth in number of assessed properties) and property tax rates among the set of exogenous variables.

8.2 *Reckoning relative performance and thus the potential of ULBs in Tamil Nadu.*

As presented below, a glance at Table 8.1 indicates that Maharashtra seems to be on the top in terms of raising property tax at .500 percent of GSDP in 2012-13. By contrast Tamil Nadu ranks 6th in 2012-13 at this criteria and it is raising property tax equivalent to .162 percent of its GSDP. Moreover its relative rank in terms of this comparison has fallen from 5 in 2007-08 to 6 in 2012-13. This is broadly indicative of the fact that Tamil Nadu has not exploited its property tax potential particularly in comparison to comparable high income State like Maharashtra.

Table 8.1: Property tax as percent of GSDP and Ranks of States

State	2007-08	2012-13	CAGR (%)	% OF PT TO GSDP 2007-08	% of PT to GSDP 2012	Rank in 2007-08	Rank in 2012-13
Andhra Pradesh	662	1642	19.9	0.312	0.400	2	2
Assam	40	96	19.3	0.056	0.069	11	9
Gujarat	773	1302	11	0.235	0.198	3	4
Haryana	80	198	19.9	0.053	0.058	12	12
Karnataka	616	1357	17.1	0.228	0.260	4	3
Kerala	118	226	13.9	0.067	0.065	10	11
Madhya Pradesh	188	366	14.2	0.116	0.101	7	7
Maharashtra	3911	6614	11.1	0.571	0.500	1	1
Odisha	40	115	23.7	0.031	0.046	13	13
Punjab	130	197	8.7	0.085	0.069	9	10
Rajasthan	11	47	32.6	0.006	0.010	15	15
Tamil Nadu	**749**	**1203**	**9.9**	0.214	0.162	5	6
Uttar Pradesh	365	712	14.3	0.095	0.091	8	8
Uttarakhand	10	13	4.1	0.022	0.012	14	14
West Bengal	442	1004	17.8	0.148	0.166	6	5

- Source : ASCI(2012) and our estimates

A further comparison of Indian States in terms of classifications of three types of ULBs is provided in Table 8.2. It can be discerned from the figures presented therein that Tamil Nadu is lagging behind by a large gap compared to other comparable States and its rank is 7th which is much lower than top ranking Maharashtra and other south Indian States like Andhra Pradesh(5th rank) and Karnataka (3rd rank). Thus the potential of Municipal corporation in Tamil Nadu seemed to have been least exploited.

By contrast the fairly better rank of Tamil Nadu in terms of per capita property tax pertaining to Municipalities (4th rank) which is relatively lower than comparable income State of Andhra Pradesh also suggests a scope to widen property tax coverage in municipalities. A similar observation holds true in a comparison of

town panchayats where again Andhra Pradesh tops the list with Tamil Nadu being at 4th rank (last column, Table 8.2)

Table 8.2: Per Capita Property Tax of ULBs and ranks of Major States

	Per Capita Property Tax in Major States(2012-13)					
	Per Capita Property Tax in major States (2012-13) (Rs.)			Ranks (using Per capita property tax)		
State	Municipal Corporation	Municipality	Nagar Panchayat	Municipal Corporation	Municipality	Nagar Panchayat
Andhra Pradesh	914	304	471	5	3	1
Assam	472	207	199	9	8	3
Goa	945	229	0	4	7	12
Gujarat	479	677	0	8	1	12
Haryana	778	47	0	6	12	12
Karnataka	947	271	30	3	6	7
Kerala	159	617	0	14	2	12
Madhya Pradesh	410	15	5	10	14	11
Maharashtra*	1787	289	0	1	4	12
Odisha	211	122	269	13	9	2
Punjab	349	86	63	12	11	6
Rajasthan	45	15	28	15	14	8
Tamil Nadu	**773**	**289**	**134**	7	**4**	**4**
Uttar Pradesh	376	39	11	11	13	10
West Bengal	1170	102	15	2	10	9
Total	813	206	70			
* For Maharashtra information on Nagar Panchayats not available.						

- Source: ASCI(2012) -

8.3 *Results for the Property Tax estimation using Revenue Cost of Exemptions*

Prior to discussing the results an overview is provided here of ULBs in Tamil Nadu. This overview particularly has a focus on exemptions and property tax revenues.

Based on cumulative figures for 2010-14, Table 8.3 and Figures 8.1 and 8.2 below depict number of exempted and taxable properties for Corporations, municipalities

and town panchayats. The aggregate of all ULBs is also depicted in the Table 8.3 and Figures 8.1-8.2. A glance at the Table 8.3 and Figures 8.1-8.2 indicates that number of taxable properties are the highest in Corporations which is followed by town panchayats. However, in terms of exempted properties, the highest total numbers of exemptions are for municipalities followed by town panchayats and corporations (Figure 8.3). A comparative view of all the variables across different categories of ULBs is also presented in figure 8.4.

Table 8.3: Exempted Properties and Costs of Exemptions for ULBs in Tamil Nadu (2010-14)

S No.		Number of exempted properties	Number of Taxable properties assessed	Average tax liability per tax paying property (Rs.)	Estimation Revenue cost of exemption (Rs. Lakhs)
1	**Corporations**	2009	3056586	2.014	439.461
2	**Municipalities**	9035	2492502	11.708	1046.995
3	**Town panchayats**	3038	2564201	14.299	62.016
4	**Total for urban local bodies in Tamil Nadu**	**14082**	**8113289**	**28.021**	**1548.472**

Source: Calculations based on SFC data

Figure 8.1: Number of Taxable Properties Assessed

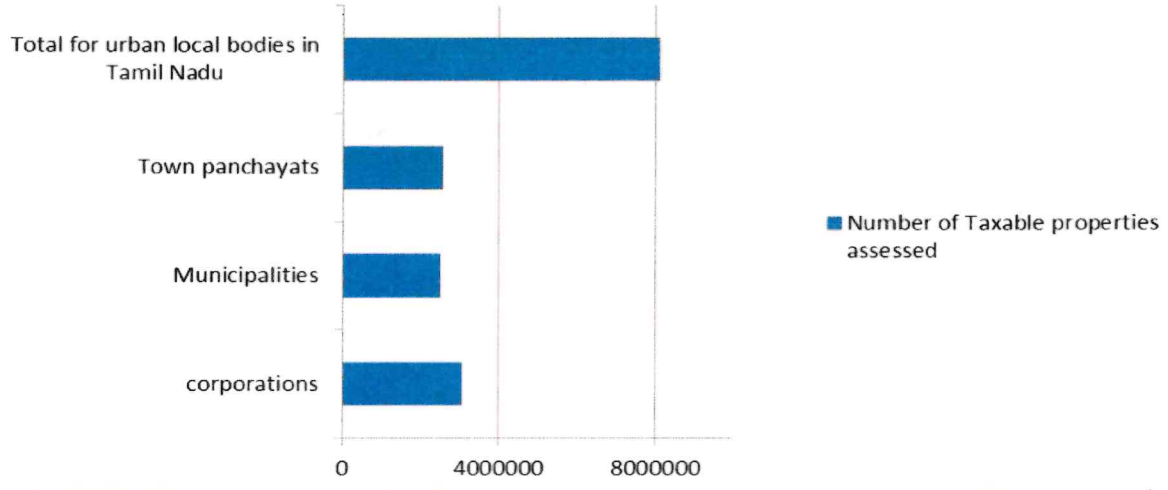


Figure 8.2: Number of Exempted Properties

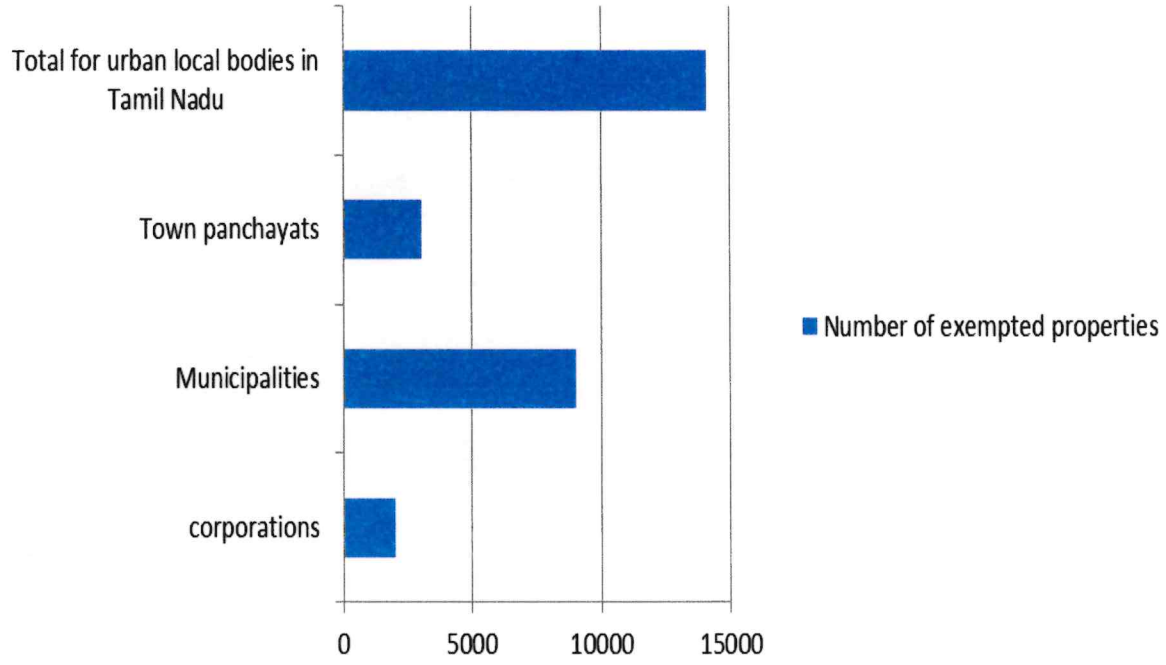


Figure 8. 3 Estimated Revenue Cost of Exemption

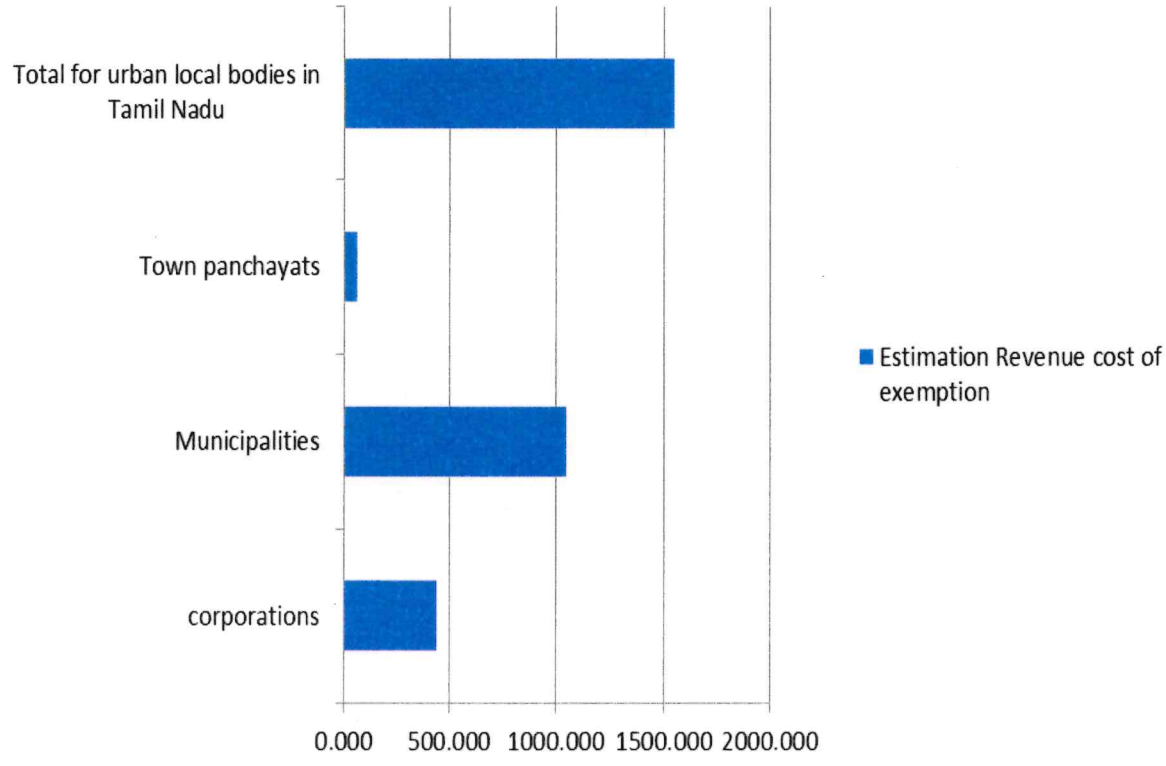
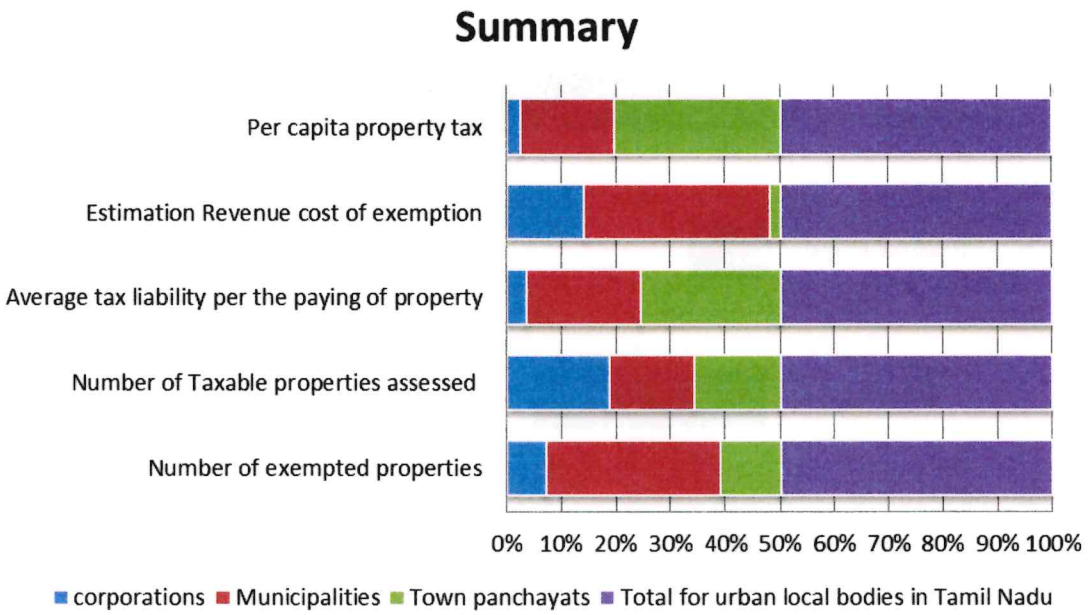


Figure 8.4: Summary Statistics



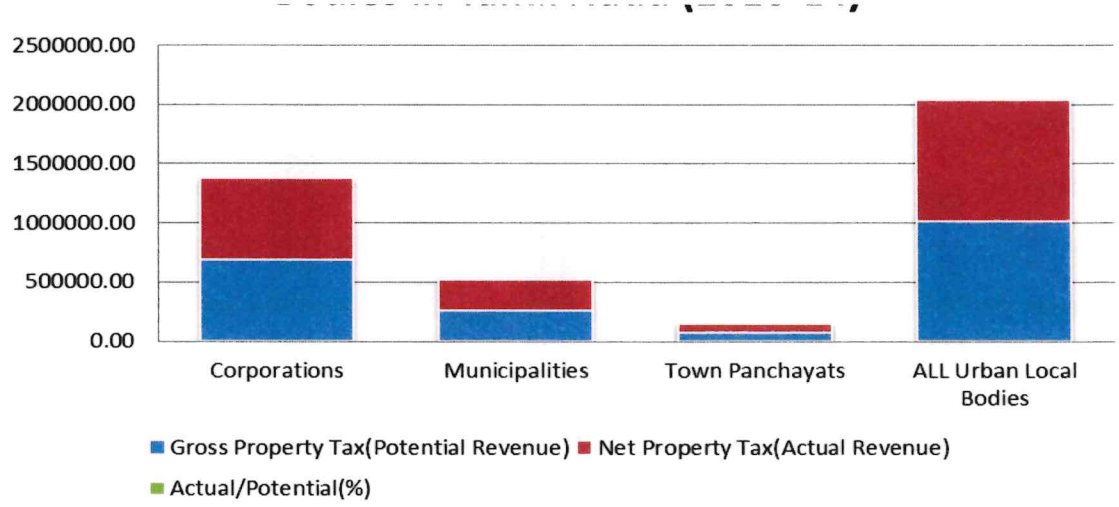
Given the fact that exemptions erode the tax base and reduce the property tax collections, we have calculated potential revenues which are gross of exemptions and compared it with the actual collections. This comparison is shown in Table 8.4 and Figure 8.5 below. As depicted in the last column of the Table 8.4, in the presence of exemptions the actual property tax revenues are around 98 percent of the potential revenues for the duration 2010-14. The highest erosion of the tax base is seen for town panchayats where nearly 4 percent of the potential revenues are lost due to exemptions. This is followed by municipalities with their respective realization of potential being only 96.6 percent.

Table 8.4: Estimated Revenue Potential of Urban Local Bodies in Tamil Nadu (2010-14) (Rs. Lakhs)

S No.		Gross Property Tax(Potential Revenue)	Net Property Tax(Actual Revenue)	Actual/ Potential (%)
1	**Corporations**	685702.08	683693.08	99.7
2	**Municipalities**	263928.72	254893.72	96.6
3	**Town Panchayats**	74352.44	71314.44	95.9
4	**All Urban Local Bodies**	1023983.2	1009901.24	98.6

Source: *Compiled and calculated from "Municipal Finances and Service Delivery in India", 14th FC funder Study, 2014, GSDP from CSO reports.*

Figure 8.5: Estimated Revenue Potential of Urban Local Bodies in Tamil Nadu (2010-14)



Thus it indicates that there is a scope to raise tax revenue by means of appropriate changes in tax rates or by compensating ULBs for theses exemptions. We have thus projected the potential revenues for the award period - and this is presented in Table 8.5 and Figure 8.6 to 8.9 below.

Table 8.5: Estimated Potential Property Tax Revenue for ULBs in Tamil Nadu (2016-22) (Rs. Lakhs)

	Estimated Potential Property Tax Revenue for ULBs in Tamil Nadu (2016-22)							
	2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
Corporations	104783.13	106529.5155	108305.0074	110110.1	111945.3	113811	115707.9	117636.3
Municipalities	34855.9	41827.08	52209.496	62249	74296.19	88752.63	106100.2	126917
Town panchayats	12211.64	14653.968	19601.7616	23119.71	27341.06	32406.47	38484.76	45778.51
All ULBs	153865.67	165026.5635	182133.265	197496.8	215601.5	236990.1	262313.8	292353.8

- *Source: Estimated*

Figure 8.6: Estimated Potential Property Tax Revenue for Corporations

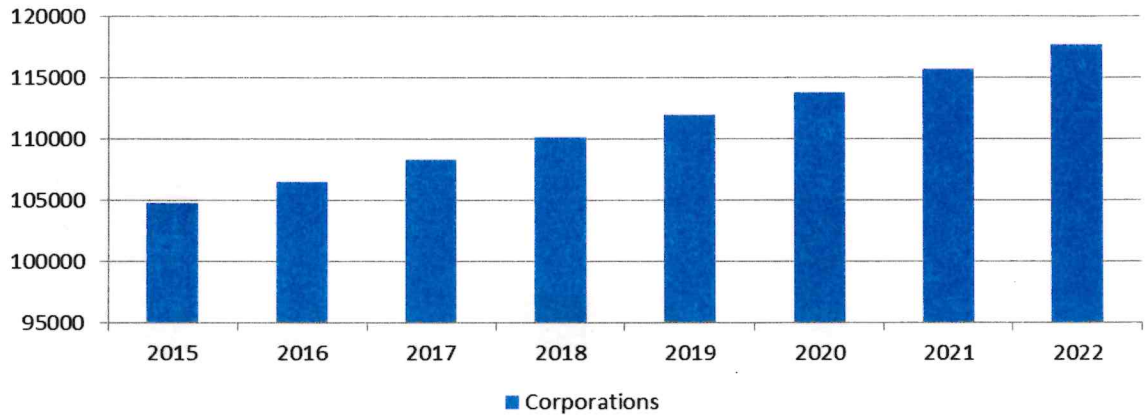


Figure 8.7: Estimated Potential Property Tax Revenue for Municipalities

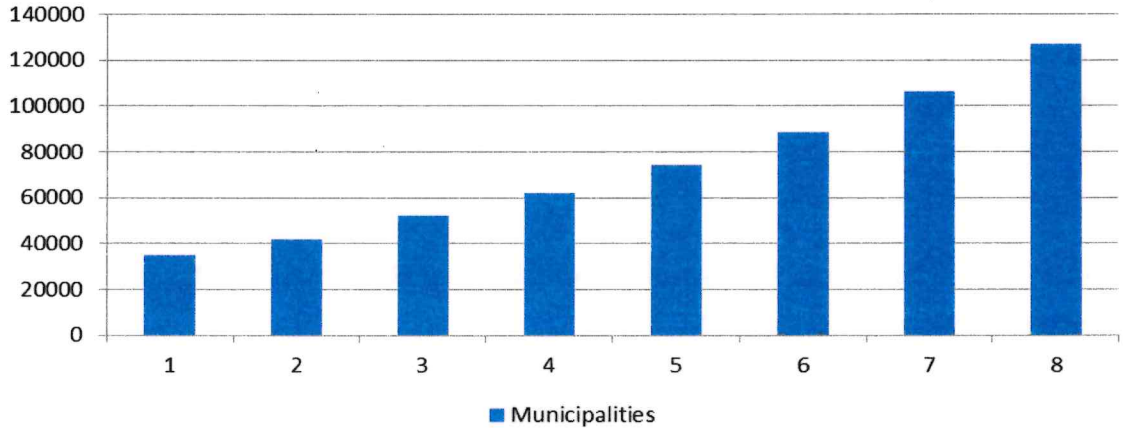


Figure 8.8: Estimated Potential Property Tax Revenue for Town Panchayats

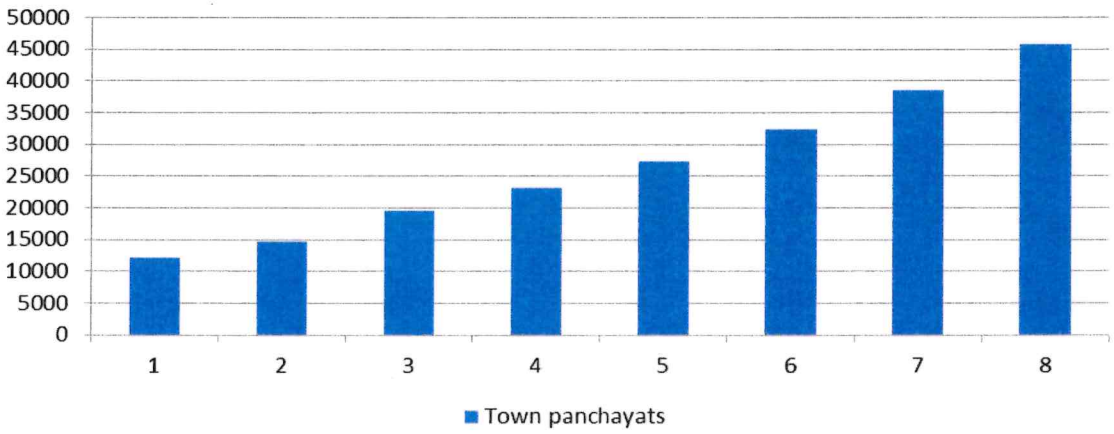
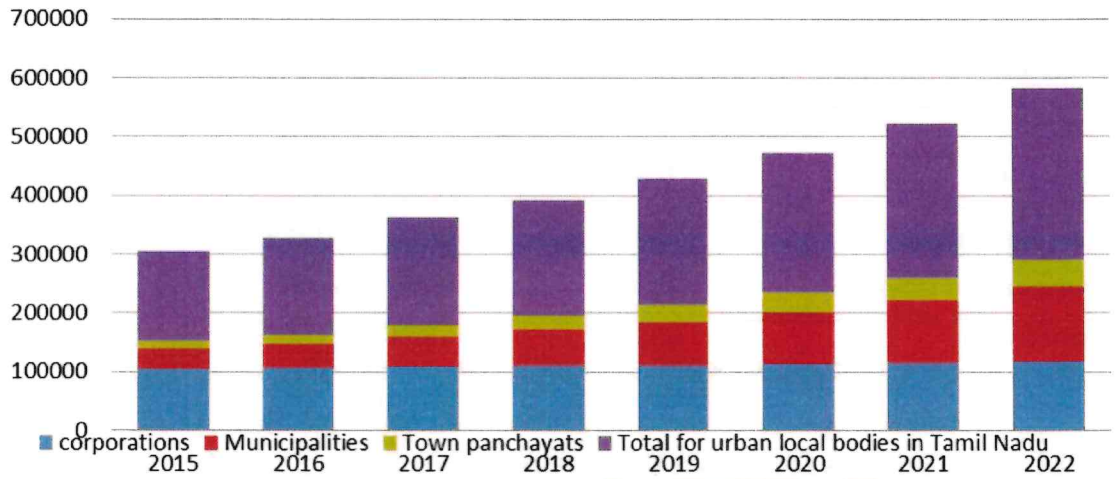


Figure 8.9: Estimated Potential Property Tax Revenue for Urban Local Bodies in Tamil Nadu



8.4 *Results for the Property Tax estimation using Tax Capacity factors*

Using the tax capacity factors we have tried an estimate applying regressions method. Accordingly we have chosen three explanatory variables which include assessed properties in 2015, property tax rate and population estimates for 2015. In all the regressions using data sets our estimation has better fits for variables in natural log. These results are presented in Tables 8.6 to 8.8for corporations, municipalities and town panchayats

Table 8.6: Results for Corporation (Dependent variable: Per capita property Tax (in natural log)

Number of obs = 12			
F(1, 10) = 11.45			
Prob > F = 0.0070			
R-squared = 0.5339			
Adj R-squared = 0.4873			
Pcpt	**Coef.**	**t**	**P>|t|**
Population 2015	0.452	3.38	0.007
Constant	-11.638	-6.42	0

Table 8.7: Results for Municipalities

(Dependent variable: Per capita property Tax (in natural log))

Number of obs = 121; F(3, 117) = 4.44 Prob > F = 0.0054 R-squared = 0.1021 Adj Rsquared=0.0791			
lnpcpt	**Coeff.**	**tvalues**	**P>|t|**
Assessed property 2015 (in LN)	0.355	2.81	0.006
Tax rate (in Ln)	-0.341	-1.38	0.172
Population 2015	-0.393	-3.06	0.003
constant	-4.345	-3.31	0.001

Table 8.8: Results for Town Panchayat

(Dependent variable: Per capita property Tax (in natural log))

Number of obs = 517 F(3, 513) = 49.12 Prob > F = 0.0000 R-squared = 0.2231 Adj R-squared 0.2186			
lnpcpt	**Coeff.**	**t values**	**P>|t|**
Assessed property 2015 (in LN)	-0.343	-11.17	0
Tax rate (in Ln)	-0.422	-1.7	0.089
Population 2015 (in Ln)	-0.243	-2.16	0.031
constant	-0.578	-0.49	0.624

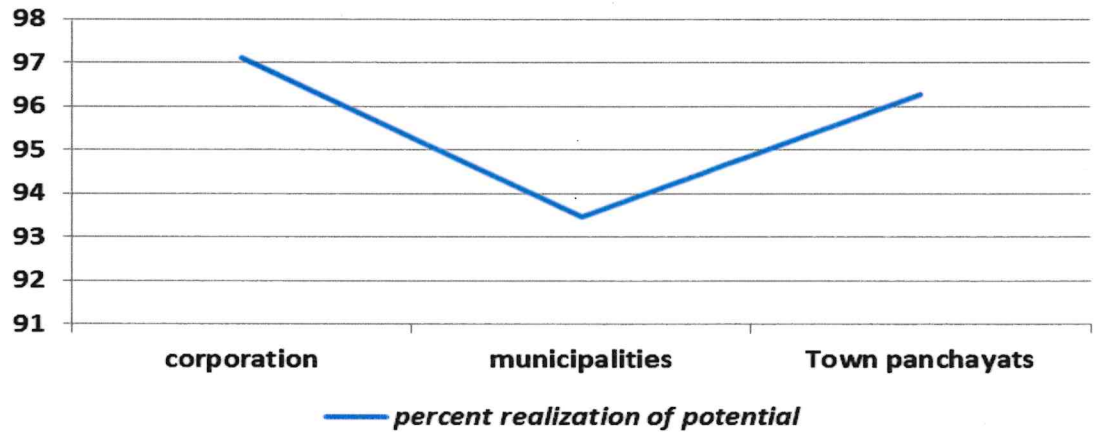
It is observed that in corporations only population has shown statistical significant whereas for other two sets other two variables (either one or both) have appeared statistically significant. Overall explanatory power of these fits is the highest for corporation data set. Using these results we have estimated potential property tax base and realized potential is depicted in Table 8.9 and Figure 8.10below.

Table 8.9: Realized property tax potential for ULBs (using Tax capacity approach)

Realized Property Tax potential of Urban Local bodies in Tamil Nadu	
Corporation	**97.1132**
Municipalities	**93.4683**
Town Panchayats	**96.2596**

Source: Estimated

Figure 8.10: Percent Realization of Property Tax Potential using Tax Capacity Approach



The results above in Table 8.7- 8.9 indicate that there is a need to increase property tax rates or administrative efficiency such that actual property tax can increase by an extent of 7 percent (for municipalities), 4 percent (for Town panchayats) and 3 percent (for corporations).

Appendices to Chapter 8

On Normative Approach

Table A81: Corporations (2010 – 14) (Rs. Lakhs)

	Number of exempted properties	Number of Taxable properties assessed	Average tax liability per tax paying of property	Estimated Revenue cost of exemption
Chennai	640	1142408	0.317	203.019
Coimbatore	168	453228	0.185	31.143
Dindigul	0	42121	0.131	0.000
Erode	0	122634	0.083	0.000
Madurai	0	299534	0.240	0.000
Salem	173	187876	0.164	28.424
Thanjavur	440	43332	0.186	81.718
Thiruchirapalli	264	187155	0.191	50.544
Thoothukudi	96	117020	0.100	9.586
Tirunelveli	121	152700	0.198	24.011
Tiruppur	107	205009	0.103	11.017
Vellore	0	103569	0.115	0.000
Total	**2009**	**3056586**	**2.014**	**439.461**

Table A82: Municipalities (2010 – 14) (Rs. Lakhs)

	Number of exempted properties	Number of Taxable properties assessed	Average tax liability per tax paying of property	Estimated Revenue cost of exemption
Ambasamudram	0	16138	0.095	0.000
Ambur	0	16493	0.035	0.000
Anakaputhur	0	10420	0.028	0.000
Arakonam	0	13392	0.154	0.000
Arani	25	15251	0.087	2.183
Aranthangi	0	16150	0.053	0.000
Arcot	24	13413	0.058	1.400
Ariyalur	10	11459	0.036	0.361
Aruppukottai	281	32884	0.041	11.481
Attur	0	22384	0.047	0.000
Avadi	0	72452	0.123	0.000
Bhavani	0	11998	0.060	0.000
Bodinayakanur	53	18750	0.053	2.799
Chengalpattu	0	11820	0.143	0.000
Chidambaram	70	13568	0.306	21.399
Chinnamanur	49	13309	0.028	1.377
Colachel	0	6843	0.058	0.000
Coonoor	0	10683	0.209	0.000
Cuddalore	35	23567	0.357	12.512
Cumbam	0	16887	0.039	0.000
Devakottai	0	17516	0.054	0.000
Dharapuram	0	15470	0.076	0.000
Dharmapuri	41	18260	0.114	4.688
Gobichettipalayam	7	18084	0.076	0.533
Gudalur	29	14653	0.040	1.167
Gudiyatham	61	19486	0.078	4.741
Hosur	56	70563	0.085	4.744
Idappadi	0	13084	0.071	0.000
Jayamkondam	25	11251	0.024	0.604
Jolarpet	0	8841	0.035	0.000
Kadayanallur	48	28973	0.040	1.912
Kallakurichi	42	15741	0.027	1.144
Kanchipuram	0	47771	0.130	0.000
Kangeyam	61	13691	0.046	2.782
Karaikudi	0	32148	0.108	0.000
Karur	299	66042	0.108	32.147

	Number of exempted properties	Number of Taxable properties assessed	Average tax liability per tax paying of property	Estimated Revenue cost of exemption
Kayalpattnam	124	14296	0.013	1.609
Keelakarai	0	13257	0.030	0.000
Kodaikanal	51	9831	0.278	14.158
Komarapalayam	67	28952	0.028	1.888
Koothanallur	0	7017	0.041	0.000
Kovilpatti	0	103300	0.023	0.000
Krishnagiri	54	20651	0.094	5.102
Kulithalai	0	6714	0.033	0.000
Kumbakonam	80	29761	0.702	56.130
Kuzhithurai	7	10465	0.074	0.517
Maduranthagam	0	5927	0.094	0.000
Manapparai	41	13123	0.086	3.529
Mannargudi	0	19573	0.071	0.000
Maraimalainagar	4	19524	0.478	1.914
Mayiladuthurai	106	24150	0.120	12.691
Melur	66	13980	0.053	3.519
Melvisharam	13	9208	0.033	0.429
Mettupalayam	0	20493	0.099	0.000
Mettur	45	15275	0.266	11.985
Nagapattinam	165	21153	0.147	24.320
Nagercoil	381	80930	0.168	63.967
Namakkal	0	43147	0.058	0.000
Narasingapuram	0	6996	0.022	0.000
Nellikuppam	0	6423	0.150	0.000
Nelliyalam	0	10758	0.016	0.000
Ottanchathiram	11	12254	0.029	0.324
Padmanabhapuram	0	7758	0.049	0.000
Palani	0	17406	0.216	0.000
Palladam	0	14239	0.049	0.000
Pallavapuram	135	48184	0.094	12.711
Pallipalayam	7	12657	0.019	0.132
Pammal	4	19589	0.152	0.607
Panruti	0	14485	0.105	0.000
Paramakudi	0	29122	0.027	0.000
Pattukottai	24	20537	0.079	1.908
Perambalur	32	22596	0.042	1.358
Periyakulam	65	10095	0.059	3.848
Pernambet	2	10288	0.050	0.100

	Number of exempted properties	Number of Taxable properties assessed	Average tax liability per tax paying of property	Estimated Revenue cost of exemption
Pollachi	80	22142	0.285	22.810
Poovai	1	15383	0.100	0.100
Pudukottai	91	31759	0.103	9.357
Puliyangudi	52	22577	0.026	1.347
Punjaipuliampatti	14	8126	0.030	0.427
Rajapalayam	4145	46662	0.122	506.598
Ramanathapuram	118	23544	0.079	9.306
Rameswaram	0	11080	0.055	0.000
Ranipet	114	12109	0.144	16.379
Rasipuram	17	16366	0.040	0.675
Sankarankoil	30	19852	0.060	1.806
Sathiyamangalam	0	11289	0.071	0.000
Sattur	0	12903	0.089	0.000
Sembakkam	0	30758	0.039	0.000
Shencottah	42	10101	0.052	2.202
Sirkali	34	8033	0.069	2.358
Sivagangai	26	15407	0.116	3.026
Sivakasi	38	28928	0.103	3.914
Srivilliputhuur	0	27770	0.029	0.000
Tambaram	0	36966	0.248	0.000
Tenkasi	192	26378	0.058	11.203
Theni-allinagaram	0	25702	0.064	0.000
Theni-gudalur	58	11231	0.012	0.716
Thiruchengode	68	34905	0.108	7.334
Thirumangalam	143	17282	0.041	5.854
Thirupathur	0	18651	0.084	0.000
Thiruthangal	0	21140	0.022	0.000
Thiruthani	0	12550	0.134	0.000
Thiruthuraipoondi	42	8023	0.049	2.042
Thiruvathipuram	0	8010	0.061	0.000
Thiruverkadu	0	17183	0.090	0.000
Thuraiyur	0	12958	0.042	0.000
Thuvakudi	0	8032	0.053	0.000
Tindivanam	92	17466	0.178	16.337
Tiruvallur	0	11258	0.180	0.000
Tiruvannamalai	29	29576	0.089	2.576
Tiruvarur	0	16862	0.087	0.000
Udhagamandalam	0	26093	0.283	0.000

	Number of exempted properties	Number of Taxable properties assessed	Average tax liability per tax paying of property	Estimated Revenue cost of exemption
Udumalpettai	38	15113	0.081	3.081
Usilampatti	27	12267	0.034	0.931
Valparai	0	8973	0.034	0.000
Vandavasi	12	7657	0.105	1.263
Vaniyambadi	88	16379	0.100	8.807
Vedaranyam	87	13347	0.016	1.416
Vellakoil	32	20302	0.020	0.651
Vikramasingapuram	0	32173	0.007	0.000
Villupuram	523	30593	0.130	67.819
Virudhunagar	32	18856	0.186	5.940
Vridhachalam	0	8238	0.228	0.000
Walajapet	70	-	-	-
Total	**9035**	**2492502**	**11.708**	**1046.995**

Table A8.3 Town Panchayats (2010–14) (Rs. Lakhs)

	Number of exempted properties	Number of Taxable properties assessed	Average tax liability per tax paying of property	Estimation Revenue cost of exemption
Atchirupakkam	0	2990	0.004	0.000
A.Vellalapatti	0	2470	0.115	0.000
Aalampalayam	7	7834	0.022	0.156
Abiramam	0	2674	0.007	0.000
Achanpudur	0	4789	0.012	0.000
Adigaratty	0	5960	0.047	0.000
Adirampattinam	0	7837	0.010	0.000
Aduthurai	0	3854	0.045	0.000
Agaram	1	3606	0.008	0.008
Agasteeswaram	46	3367	0.016	0.732
Alandurai	0	1892	0.031	0.000
Alanganallur	0	3740	0.049	0.000
Alangayam	13	4746	0.023	0.294
Alangudi	4	5511	0.026	0.102
Alangulam	12	10519	0.010	0.117
Alloor	0	4822	0.006	0.000
Alwarkurichi	13	4188	0.006	0.078
Alwarthirunagari	0	4023	0.008	0.000
Ammapettai	0	2684	0.033	0.000
Ammapettai	6	4993	0.018	0.107
Ammaya naickanur	0	5659	0.013	0.000
Ammoor	9	3009	0.046	0.410
Anamalai	0	5893	0.004	0.000
Ananthapuram	3	1843	0.052	0.157
Anjugramam	20	3788	0.054	1.088
Annamalai Nagar	0	3156	0.016	0.000
Annavasal	10	3045	0.102	1.021
Annur	9	8144	0.024	0.212
Anthiyur	7	9200	0.010	0.069
Appakudal	0	3797	0.011	0.000

	Number of exempted properties	Number of Taxable properties assessed	Average tax liability per tax paying of property	Estimation Revenue cost of exemption
Arachalur	0	3676	0.010	0.000
Arakandanallur	0	1430	0.096	0.000
Aralvaimozhi	0	8314	0.013	0.000
Arani	0	3112	0.006	0.000
Arasiramani	0	4079	0.018	0.000
Aravakurichi	0	5161	0.019	0.000
Arimalam	0	2904	0.037	0.000
Ariyappam palayam	9	4450	0.009	0.084
Arumanai	0	5148	0.006	0.000
Arumbavur	0	3790	0.033	0.000
Arumuganeri	0	10362	0.005	0.000
Athani	0	2525	0.011	0.000
Athanur	0	2737	0.026	0.000
Attayampatty	4	3618	0.011	0.045
Attoor	0	3821	0.009	0.000
Aundipatti	0	9955	0.031	0.000
Authoor	0	3368	0.012	0.000
Avalpoondurai	0	3989	0.016	0.000
Avanasi	0	10434	0.075	0.000
Ayakudi	0	6555	0.008	0.000
Ayikkudi	25	5852	0.006	0.154
Ayothiapattanam	0	3798	0.015	0.000
Ayyalur	1	4479	0.006	0.006
Ayyampalayam	0	3752	0.010	0.000
Ayyampettai	0	5451	0.022	0.000
Azhagappapuram	15	3119	0.016	0.235
Azhagiapandipuram	0	4438	0.008	0.000
B. Meenakshipuram	0	1831	0.005	0.000
B.Mallapuram	0	2604	0.023	0.000
Balakrishnampatti	5	2662	0.009	0.045
Balasamudram	0	3755	0.006	0.000

	Number of exempted properties	Number of Taxable properties assessed	Average tax liability per tax paying of property	Estimation Revenue cost of exemption
Bargur	0	5151	0.032	0.000
Belur	0	2386	0.010	0.000
Bhavanisagar	0	1520	0.151	0.000
Bhuvanagiri	0	5823	0.018	0.000
Bikkatty	0	2308	0.027	0.000
Boothapandy	0	5973	0.009	0.000
Boothipuram	0	2975	0.011	0.000
C. Pudupatti	0	3098	0.011	0.000
Chengam	14	6710	0.051	0.710
Chenna samudram	0	2659	0.008	0.000
Chennimalai	0	6438	0.021	0.000
Cheranmahadevi	0	7424	0.008	0.000
Chetpet	9	5943	0.053	0.481
Chettipalayam	0	3270	0.020	0.000
Chettiyarpatti	35	7927	0.016	0.557
Chinnakkam palayam	0	2592	0.011	0.000
Chinnalapatti	10	9912	0.024	0.240
Chinnasalem	37	7330	0.022	0.829
Chithode	0	2580	0.017	0.000
Chitlapakkam	0	10114	0.083	0.000
Courttalam	0	1748	0.733	0.000
Denkanikottai	15	6189	0.013	0.199
Desur	6	1613	0.017	0.103
Devathanapatti	7	4313	0.012	0.081
Devershola	0	4964	0.020	0.000
Dhaliyur	0	4358	0.023	0.000
Dharasuram	0	4151	0.019	0.000
Edaicode	0	9453	0.022	0.000
Edaikazhinadu	0	6857	0.016	0.000
Edanganasalai	0	11732	0.009	0.000
Elampillai	0	4318	0.018	0.000

	Number of exempted properties	Number of Taxable properties assessed	Average tax liability per tax paying of property	Estimation Revenue cost of exemption
Elathur	0	2772	0.021	0.000
Elumalai	0	5985	0.011	0.000
Eral	0	4076	0.016	0.000
Eraniel	0	3560	0.019	0.000
Eriodu	17	2886	0.009	0.150
Erumapatty	0	3528	0.012	0.000
Eruvadi	0	7260	0.008	0.000
Ettayapuram	0	5311	0.024	0.000
Ettimadai	0	2634	0.033	0.000
Ezhudesam	45	7915	0.017	0.744
Ganapathipuram	26	4249	0.008	0.204
Gangaikondan	5	3828	0.019	0.094
Gangavalli	2	3809	0.011	0.022
Genguvarpatti	0	2923	0.007	0.000
Gingee	0	9218	0.048	0.000
Gopalasamudram	0	3853	0.007	0.000
Gudalur	6	12786	0.040	0.238
Gummidipoondi	0	4478	0.085	0.000
Hanumanthanpatti	0	2811	0.013	0.000
Harur	0	7470	0.074	0.000
Highwavys	0	1910	0.070	0.000
Hulical	0	3393	0.015	0.000
Idigarai	0	3476	0.023	0.000
Ilangi	1	3430	0.014	0.014
Ilayangudi	0	8012	0.015	0.000
Illuppur	0	5848	0.014	0.000
Irugur	0	7895	0.048	0.000
Jalagandapuram	0	6493	0.017	0.000
Jambai	0	4653	0.006	0.000
Jegathala	0	5213	0.016	0.000
K.N.Paty	0	3879	0.008	0.000

	Number of exempted properties	Number of Taxable properties assessed	Average tax liability per tax paying of property	Estimation Revenue cost of exemption
Kadambur	0	1937	0.012	0.000
Kadathur	7	7813	0.015	0.107
Kadayal	13	6314	0.014	0.179
Kadayampatty	1	2841	0.010	0.010
Kalakkad	0	12146	0.011	0.000
Kalambur	0	3721	0.030	0.000
Kalavai	0	3125	0.027	0.000
Kaliyakkavilai	0	5523	0.032	0.000
Kallakkudi	16	5009	0.021	0.330
Kallidaikurichi	97	10831	0.009	0.842
Kallukuttam	0	6412	0.016	0.000
Kalugumalai	0	6336	0.010	0.000
Kamayagoundanpatti	0	4266	0.010	0.000
Kambainallur	0	3655	0.021	0.000
Kamuthi	20	5159	0.027	0.540
Kanadukathan	0	2166	0.022	0.000
Kanam	0	1509	0.006	0.000
Kandanoor	0	2700	0.008	0.000
Kaniyur	0	1750	0.009	0.000
Kanjikoil	0	3742	0.011	0.000
Kannamangalam	0	2494	0.039	0.000
Kannampalayam	0	6032	0.094	0.000
Kannankurichi	29	5495	0.024	0.690
Kannivadi	0	3110	0.010	0.000
Kannivadi	0	1465	0.019	0.000
Kanniyakumari	35	7603	0.073	2.544
Kappiyarai	52	4952	0.010	0.546
Karamadai	0	12879	0.076	0.000
Kariapatti	0	8335	0.010	0.000
Karimangalam	0	5426	0.016	0.000
Karmabakkudy	0	5010	0.029	0.000

	Number of exempted properties	Number of Taxable properties assessed	Average tax liability per tax paying of property	Estimation Revenue cost of exemption
Karumandi Chellipalayam	0	9990	0.024	0.000
Karumatham Patti	0	9627	0.046	0.000
Karungal	25	5894	0.016	0.390
Karunguzhi	0	3425	0.060	0.000
Karuppur	0	3592	0.011	0.000
Kasipalayam (Gobi)	0	2633	0.017	0.000
Kattumannarkoil	35	7399	0.020	0.693
Kattuputhur	0	3491	0.012	0.000
Kaveripakkam	13	3332	0.025	0.326
Kaveripattinam	0	10728	0.012	0.000
Kayathar	0	4809	0.010	0.000
Keelappavoor	0	8701	0.005	0.000
Keelvelur	14	2671	0.031	0.430
Keeramangalam	0	3483	0.041	0.000
Keeranur	0	4989	0.050	0.000
Keeranur	0	2089	0.009	0.000
Keeripatty	0	2465	0.005	0.000
Keezhkulam	0	5131	0.009	0.000
Kelamangalam	0	4176	0.012	0.000
Kembanaicken palayam	0	3032	0.006	0.000
Ketti	0	8605	0.051	0.000
Kil Kundah	0	4050	0.018	0.000
Kilambadi	7	2170	0.018	0.127
Killai	0	3037	0.006	0.000
Killiyoor	0	6408	0.020	0.000
Kilpennathur	16	3559	0.030	0.474
Kinathukadavu	0	2998	0.030	0.000
Kodavasal	1	4683	0.039	0.039
Kodumudi	0	4535	0.022	0.000
Kolappalur	0	3159	0.068	0.000

	Number of exempted properties	Number of Taxable properties assessed	Average tax liability per tax paying of property	Estimation Revenue cost of exemption
Kolathupalayam	0	5613	0.039	0.000
Kolathur	0	4704	0.016	0.000
Kollankoil	0	2567	0.007	0.000
Kollemcode	13	11250	0.018	0.234
Komaralingam	0	3854	0.012	0.000
Kombai	0	4658	0.012	0.000
Konganapuram	0	3061	0.015	0.000
Koothappar	23	2985	0.023	0.530
Koradachery	0	2133	0.016	0.000
Kotagiri	11	10407	0.030	0.328
Kothanalloor	62	5087	0.010	0.645
Kottaiyur	0	6855	0.012	0.000
Kottakuppam	3	6317	0.015	0.045
Kottaram	36	3435	0.015	0.537
Kottur	0	6962	0.027	0.000
Krishnarayapuram	10	3570	0.010	0.096
Kugalur	0	3524	0.016	0.000
Kulasekaram	27	6412	0.041	1.117
Kumarapuram	0	4677	0.010	0.000
Kunnathur	0	3744	0.023	0.000
Kunrathur	0	8387	0.030	0.000
Kurinjipadi	16	7208	0.024	0.383
Kurumbalur	0	3506	0.010	0.000
Kutchanur	7	1938	0.007	0.051
Kuthalam	17	5269	0.034	0.578
Labbaikudikadu	0	3038	0.025	0.000
Lakkampatti	11	4095	0.016	0.179
Lalgudi	0	7004	0.035	0.000
Lapettai	0	4150	0.016	0.000
Madambakkam	0	9811	0.054	0.000
Madathukulam	0	5614	0.067	0.000

	Number of exempted properties	Number of Taxable properties assessed	Average tax liability per tax paying of property	Estimation Revenue cost of exemption
Madukkarai	0	9884	0.032	0.000
Madukkur	0	6623	0.040	0.000
Mallanginar	0	4120	0.012	0.000
Mallasamudram	5	5350	0.010	0.048
Mallur	0	3512	0.012	0.000
Mamallapuram	0	5123	0.123	0.000
Mamsapuram	0	6753	0.012	0.000
Manalmedu	8	2796	0.013	0.101
Manalurpet	17	2512	0.016	0.265
Manamadurai	55	10927	0.017	0.911
Manavalakurichy	0	3470	0.023	0.000
Mandaikadu	0	4005	0.018	0.000
Mandapam	11	5484	0.017	0.187
Mangadu	0	8123	0.049	0.000
Mangalampettai	15	2989	0.023	0.348
Manimuthar	25	4557	0.057	1.423
Mannachanallur	0	8075	0.023	0.000
Marakkanam	28	4164	0.021	0.587
Marandahalli	0	4293	0.024	0.000
Markayankottai	0	1947	0.008	0.000
Marudur	0	2923	0.005	0.000
Marungoor	0	3566	0.010	0.000
Mecheri	0	8040	0.016	0.000
Mela-chokkanathapuram	0	4294	0.017	0.000
Melagaram	0	5867	0.019	0.000
Melaseval	0	3252	0.007	0.000
Melathiruppanthruthi	0	2195	0.010	0.000
Melattur	21	2226	0.007	0.148
Melpattambakkam	0	1628	0.012	0.000
Mettuppalayam	4	3388	0.011	0.043

	Number of exempted properties	Number of Taxable properties assessed	Average tax liability per tax paying of property	Estimation Revenue cost of exemption
Minjur	0	8726	0.062	0.000
Modakkurichi	0	2797	0.016	0.000
Mohanur	0	4984	0.017	0.000
Moolakkaraipatti	39	4202	0.014	0.534
Mopperipalayam	0	4260	0.037	0.000
Mudukulathur	37	5177	0.018	0.677
Mukkudal	28	6262	0.012	0.325
Mulagumoodu	5	6892	0.008	0.041
Mulanur	0	5409	0.015	0.000
Musiri	0	0	0.000	0.000
Muthupettai	0	6861	0.050	0.000
Muthur	0	4208	0.024	0.000
Myilaudy	23	3067	0.012	0.275
Naduvattam	0	0	0.000	0.000
Nagojanahalli	0	2550	0.007	0.000
Nallampatti	0	1372	0.008	0.000
Nalloor	0	6047	0.021	0.000
Namagiripettai	0	6451	0.010	0.000
Nambiyur	0	6058	0.031	0.000
Nandivaram Guduvancheri	0	12079	0.071	0.000
Nangavalli	0	3485	0.012	0.000
Nangavaram	0	4391	0.007	0.000
Nanguneri	14	2912	0.008	0.110
Nannilam	0	4631	0.023	0.000
Naranammal puram	0	0	0.000	0.000
Narasimhanaickenpalay	0	6409	0.046	0.000
Naravarikuppam	0	7703	0.074	0.000
Nasiyanur	0	3133	0.018	0.000
Natham	0	7274	0.021	0.000
Natrampalli	7	3209	0.057	0.396

	Number of exempted properties	Number of Taxable properties assessed	Average tax liability per tax paying of property	Estimation Revenue cost of exemption
Nattrasankottai	0	2135	0.009	0.000
Nazareth	0	0	0.000	0.000
Needamangalam	0	3728	0.019	0.000
Neikkarapatti	14	3660	0.021	0.297
Nemili	0	3113	0.022	0.000
Nerinjipettai	0	1927	0.015	0.000
Ner kuppai	0	2021	0.010	0.000
Neyyoor	0	4340	0.016	0.000
Nilakottai	0	7841	0.050	0.000
No.4 Veerapandi	0	6390	0.024	0.000
O' Valley	152	7020	0.018	2.699
Odaipatti	0	4934	0.008	0.000
Odayakulam	0	3774	0.012	0.000
Odugathur	8	2305	0.021	0.165
Olagadam	0	2658	0.007	0.000
Omalur	4	4828	0.034	0.137
Orathanadu	0	3825	0.021	0.000
Othakkal mandapam	0	4098	0.035	0.000
P.J.Cholapuram	11	2210	0.005	0.056
P.Mettupalayam	0	2981	0.012	0.000
P.N.Palayam	0	5300	0.010	0.000
P.N.Palayam	11	8661	0.044	0.484
P.N.Patty	0	9116	0.180	0.000
Pacode	19	8020	0.006	0.111
Padaveedu	0	3227	0.038	0.000
Palacode	16	7551	0.023	0.372
Palamedu	0	3648	0.008	0.000
Palanichettipatti	0	5832	0.032	0.000
Palapallam	0	5343	0.013	0.000
Palayam	0	4634	0.014	0.000

	Number of exempted properties	Number of Taxable properties assessed	Average tax liability per tax paying of property	Estimation Revenue cost of exemption
Pallapalayam	0	1956	0.022	0.000
Pallapalayam	0	3696	0.062	0.000
Pallapatti	0	7916	0.027	0.000
Pallathur	0	7574	0.005	0.000
Pallikonda	0	5350	0.030	0.000
Pallipat	0	3501	0.051	0.000
Palugal	0	6010	0.016	0.000
Panagudi	0	10256	0.014	0.000
Panamarathu patty	0	2861	0.012	0.000
Panapakkam	2	3412	0.021	0.043
Pandamangalam	0	2344	0.009	0.000
Pannaikkadu	0	2774	0.047	0.000
Pannaipuram	0	2432	0.015	0.000
Panpoli	14	3318	0.005	0.073
Papanasam	0	5741	0.047	0.000
Papparapatti	0	4581	0.011	0.000
Pappireddipatti	0	2854	0.021	0.000
Paramathy	1	4162	0.018	0.018
Parangipettai	0	6674	0.016	0.000
Paravai	0	6685	0.031	0.000
Pasur	0	1210	0.006	0.000
Pattamadai	18	5919	0.007	0.121
Pattanam	0	2475	0.007	0.000
Pattiveeranpatti	1	3123	0.025	0.025
Peerkankaranai	0	6804	0.044	0.000
Pennadam	0	5354	0.022	0.000
Pennagaram	0	5290	0.034	0.000
Pennathur	10	2597	0.021	0.207
Peraiyur	0	4566	0.019	0.000
Peralam	0	2035	0.025	0.000
Peravurani	7	8073	0.033	0.229

	Number of exempted properties	Number of Taxable properties assessed	Average tax liability per tax paying of property	Estimation Revenue cost of exemption
Perianegamam	6	2477	0.016	0.095
Periyakodivery	0	3445	0.013	0.000
Pernamallur	0	1559	0.043	0.000
Perumagalur	0	1655	0.006	0.000
Perundurai	12	11272	0.036	0.435
Perungalathur	0	9590	0.040	0.000
Perungulam	0	2383	0.006	0.000
Perur	0	2359	0.033	0.000
Pethampalayam	0	2267	0.010	0.000
Pillanallur	16	4031	0.013	0.210
Podhaturpet	0	5120	0.021	0.000
Polur	22	8739	0.077	1.702
Ponmanai	30	4380	0.013	0.380
Ponnamaravathy	0	5882	0.052	0.000
Ponnampatti	0	3380	0.017	0.000
Ponneri	0	8685	0.122	0.000
Poolambadi	0	2968	0.007	0.000
Poolampatti	0	3093	0.008	0.000
Pooluvapatti	0	2924	0.021	0.000
Poovalur	47	2196	0.014	0.653
Pothanur	1	5604	0.014	0.014
Pudupalayam	7	2967	0.031	0.219
Pudur (S)	14	4274	0.005	0.069
Pudur (V)	0	3653	0.009	0.000
Puduvayal	0	4281	0.012	0.000
Puliyur	7	3899	0.033	0.234
Pullambadi	0	3246	0.014	0.000
Punjaipugalur	0	8497	0.033	0.000
Punjaithottakurichi	0	2773	0.008	0.000
Puthalam	0	3948	0.008	0.000
Puthukadai	4	3423	0.018	0.070

	Number of exempted properties	Number of Taxable properties assessed	Average tax liability per tax paying of property	Estimation Revenue cost of exemption
R.Pudupatty	0	2281	0.008	0.000
R.S.Mangalam	0	6199	0.030	0.000
Rayagiri	29	4683	0.004	0.127
Reethapuram	0	6617	0.013	0.000
Rudrawathi	0	2459	0.013	0.000
S.Kannanur	0	4345	0.024	0.000
S.Kodikulam	0	4508	0.004	0.000
Salangapalayam	0	4929	0.012	0.000
Samalapuram	0	6433	0.038	0.000
Samathur	0	1661	0.028	0.000
Sambavar vadakarai	0	6275	0.007	0.000
Sangaramanallur	0	3040	0.064	0.000
Sankar Nagar	0	2825	0.057	0.000
Sankarapuram	0	4537	0.018	0.000
Sankari	0	13821	0.035	0.000
Sarcarsama kulam	0	5640	0.031	0.000
Sathankulam	0	6283	0.013	0.000
Sawyerpuram	29	4374	0.009	0.268
Sayalkudi	0	6108	0.020	0.000
Seerapalli	0	4282	0.010	0.000
Seithur	0	8289	0.012	0.000
Sendamangalam	49	6464	0.011	0.540
Sendarapatty	0	3579	0.009	0.000
Sethiyathope	0	2375	0.025	0.000
Sevugampatti	0	4368	0.015	0.000
Sholapuram	0	2174	0.022	0.000
Sholavandan	0	6893	0.026	0.000
Sholinghur	15	8725	0.040	0.597
Sholur	0	2446	0.040	0.000
Singampunari	0	6850	0.022	0.000
Sirugamani	0	3538	0.019	0.000

	Number of exempted properties	Number of Taxable properties assessed	Average tax liability per tax paying of property	Estimation Revenue cost of exemption
Sirumugai	0	6595	0.197	0.000
Sithayankottai	0	4210	0.015	0.000
Sivagiri	0	5530	0.022	0.000
Sivagiri	0	8540	0.007	0.000
Srimushnam	0	3789	0.013	0.000
Sriperumbudur	0	6784	0.100	0.000
Sriramapuram	0	2889	0.009	0.000
Srivaikundam	54	6181	0.017	0.901
Suchindrum	34	4534	0.024	0.808
Suleswaranpatti	0	4776	0.021	0.000
Sulur	0	9490	0.037	0.000
Sundarapandiam	0	3350	0.008	0.000
Sundarapandiapuram	7	3464	0.005	0.032
Surandai	11	15491	0.011	0.122
Swamimalai	5	2430	0.034	0.170
T.Kallupatti	0	4344	0.034	0.000
T.V.Nallur	0	2491	0.016	0.000
Tamaraikulam	0	3359	0.010	0.000
Thadicombu	0	4588	0.012	0.000
Thakkolam	9	3052	0.015	0.137
Thalanayar	0	4083	0.011	0.000
Thali	1	1839	0.014	0.014
Thammampatty	0	7026	0.016	0.000
Tharamangalam	0	0	0.000	0.000
Tharangampadi	0	5648	0.029	0.000
Thathiengarpet	6	4890	0.012	0.074
Thazhakudy	0	2667	0.010	0.000
Thedavur	0	2540	0.005	0.000
Then thamaraikulam	84	3874	0.009	0.731
Thengamputhoor	3	4308	0.009	0.026
Thenkarai	0	1938	0.011	0.000

	Number of exempted properties	Number of Taxable properties assessed	Average tax liability per tax paying of property	Estimation Revenue cost of exemption
Thenkarai	0	3893	0.023	0.000
Thenthirupperai	0	1911	0.007	0.000
Theroor	48	2693	0.010	0.490
Thevaram	0	4926	0.016	0.000
Thevur	0	2483	0.007	0.000
Thimiri	7	0	0.000	0.000
Thingalnager	0	4618	0.017	0.000
Thirubuvanam	0	3571	0.022	0.000
Thirukalukundram	0	7885	0.045	0.000
Thirukattupalli	0	4808	0.023	0.000
Thirukkurungudi	0	3142	0.007	0.000
Thirukoilur	29	8211	0.095	2.767
Thirumalayam Palayam	2	3671	0.018	0.037
Thirumazhisai	0	4929	0.059	0.000
Thirumurugan poondi	0	10814	0.033	0.000
Thirunageswaram	12	4630	0.020	0.245
Thiruneermalai	0	7201	0.060	0.000
Thirunindravur	0	11842	0.060	0.000
Thiruparappu	0	6662	0.015	0.000
Thiruppananthal	0	2906	0.019	0.000
Thiruppathur	14	12269	0.017	0.232
Thirupporur	0	3851	0.053	0.000
Thiruppuvanam	15	8450	0.026	0.386
Thiruvaiyaru	0	4771	0.025	0.000
Thiruvalam	4	2465	0.024	0.098
Thiruvattar	5	5961	0.010	0.048
Thiruvengadam	0	3493	0.012	0.000
Thiruvidaimaruthur	0	4091	0.015	0.000
Thiruvithancode	0	5346	0.025	0.000
Thisayanvilai	46	11376	0.016	0.749
Thittachery	13	2502	0.019	0.246

	Number of exempted properties	Number of Taxable properties assessed	Average tax liability per tax paying of property	Estimation Revenue cost of exemption
Thittagudi	4	5506	0.030	0.120
Thiyagadurgam	0	4628	0.027	0.000
Thonda Muthur	0	3966	0.020	0.000
Thondi	23	5814	0.015	0.353
Thorapadi	0	1880	0.016	0.000
Thottiam	0	4703	0.015	0.000
Tiruchendur	72	14098	0.028	2.019
TNPL Pugalur	0	1537	1.382	0.000
Udankudi	0	8381	0.014	0.000
Udayarpalayam	0	3908	0.009	0.000
Udayendiram	0	2772	0.014	0.000
Ulundurpet	0	6185	0.054	0.000
Unamalaikadai	6	7859	0.018	0.108
Unjalur	0	916	0.009	0.000
Uppidamangalam	0	3766	0.008	0.000
Uppiliapuram	4	2898	0.016	0.064
Uthamapalayam	0	7710	0.021	0.000
Uthangarai	0	0	0.000	0.000
Uthiramerur	0	5754	0.030	0.000
Uthukottai	0	3852	0.039	0.000
Uthukuli	0	3887	0.030	0.000
Vadakaraikilpidagai	0	6713	0.005	0.000
Vadakkanandal	27	5177	0.041	1.100
Vadakkuvalliyoor	123	13147	0.021	2.570
Vadalur	0	10697	0.046	0.000
Vadamadurai	14	6024	0.027	0.382
Vadipatti	39	8652	0.050	1.950
Vadugapatti	0	2630	0.008	0.000
Vadugapatti	0	3907	0.017	0.000
Vaithieswarankoil	4	2703	0.026	0.102
Valangaiman	0	3626	0.027	0.000

	Number of exempted properties	Number of Taxable properties assessed	Average tax liability per tax paying of property	Estimation Revenue cost of exemption
Valapadi	0	6547	0.017	0.000
Valavanur	0	3894	0.011	0.000
Vallam	0	4861	0.024	0.000
Valvachagostam	9	5670	0.012	0.105
Vanavasi	0	2281	0.012	0.000
Vaniputhur	0	4118	0.013	0.000
Varadharajanpet	0	2401	0.009	0.000
Vasudevanallur	0	7250	0.007	0.000
Vathalagundu	30	9039	0.023	0.677
Vedapatti	0	3738	0.027	0.000
Vedasandur	15	5538	0.024	0.359
Veeraganur	3	3934	0.012	0.035
Veerakkalpudur	0	6276	0.051	0.000
Veerapandi	0	4845	0.057	0.000
Veeravanallur	215	7741	0.012	2.516
Velankanni	0	0	0.000	0.000
Vellalore	0	9958	0.029	0.000
Vellimalai	0	4975	0.012	0.000
Vellottamparappu	9	2810	0.006	0.056
Velur	0	8519	0.020	0.000
Vengambur	0	2829	0.008	0.000
Vengarai	0	2983	0.008	0.000
Vennandur	0	4704	0.014	0.000
Veppathur	0	1928	0.012	0.000
Verkilambi	0	5920	0.013	0.000
Vettaikaranpudur	0	4369	0.021	0.000
Vettavalam	14	3774	0.021	0.291
Vikkiravandi	0	2952	0.030	0.000
Vilapakkam	6	2089	0.038	0.230
Vilathikulam	0	6638	0.016	0.000
Vilavoor	6	4687	0.012	0.070

	Number of exempted properties	Number of Taxable properties assessed	Average tax liability per tax paying of property	Estimation Revenue cost of exemption
Villukuri	0	5077	0.011	0.000
W.Pudupatti	0	3077	0.008	0.000
Walajabad	16	4627	0.047	0.745
Watrap	0	6578	0.013	0.000
Yethapur	1	3020	0.009	0.009
Zaminuthukuli	0	4881	0.038	0.000
Total	**3038**	**2564201**	**14.299**	**62.016**

Table A8.4 Summary (2010–14):

	Number of exempted properties	Number of Taxable properties assessed	Average tax liability per tax paying of property	Estimation Revenue cost of exemption
Corporations	2009	3056586	2.014	439.461
Municipalities	9035	2492502	11.708	1046.995
Town Panchayats	3038	2564201	14.299	62.016
Total for urban local bodies in Tamil Nadu	**14082**	**8113289**	**28.021**	**1548.472**

Table A8.5 Corporation (2010–14)

	Distribution of urban local bodies by per capita property tax yield (in Rs.)
1000 - 2000	1
2000 - 3000	4
3000 - 4000	3
4000 - 5000	2
5000 - 6000	2

	Distribution of urban local bodies by per capita property cost exemption
= 0	4
0-15	7
15 - 25	0
25 -35	0
35 -45	1

Table A8.6 Municipalities (2010–14)

	Distribution of urban local bodies by per capita property tax yeild(in Rs.)
> =500	7
<500 - 1000	18
1000 - 3000	72
3000-5000	18
5000-9000	6
9000-11000	1
11000 - 14000	2

	Distribution of urban local bodies by per capita property cost exemption
(= 0)	54
(0 - 10)	52
(10 - 20)	7
(20 - 30)	5
(30 - 40)	3
(40 - 400)	2

Table A8.7 Town panchayats (2010–14)

	Distribution of urban local bodies by per capita property tax yeild(in Rs.)
> = 500	261
500 - 1000	156
1000 - 5000	101
5000 - 10000	6
10000 - 15000	1
15000 - 60000	3

	Distribution of urban local bodies by per capita property cost exemption
= 0	377
0 - 5	131
5 - 10	14
10 - 15	5
15 - 20	0
20 -25	1

Figure A8.1 Number of Exempted Properties for Corporation (2010-14)

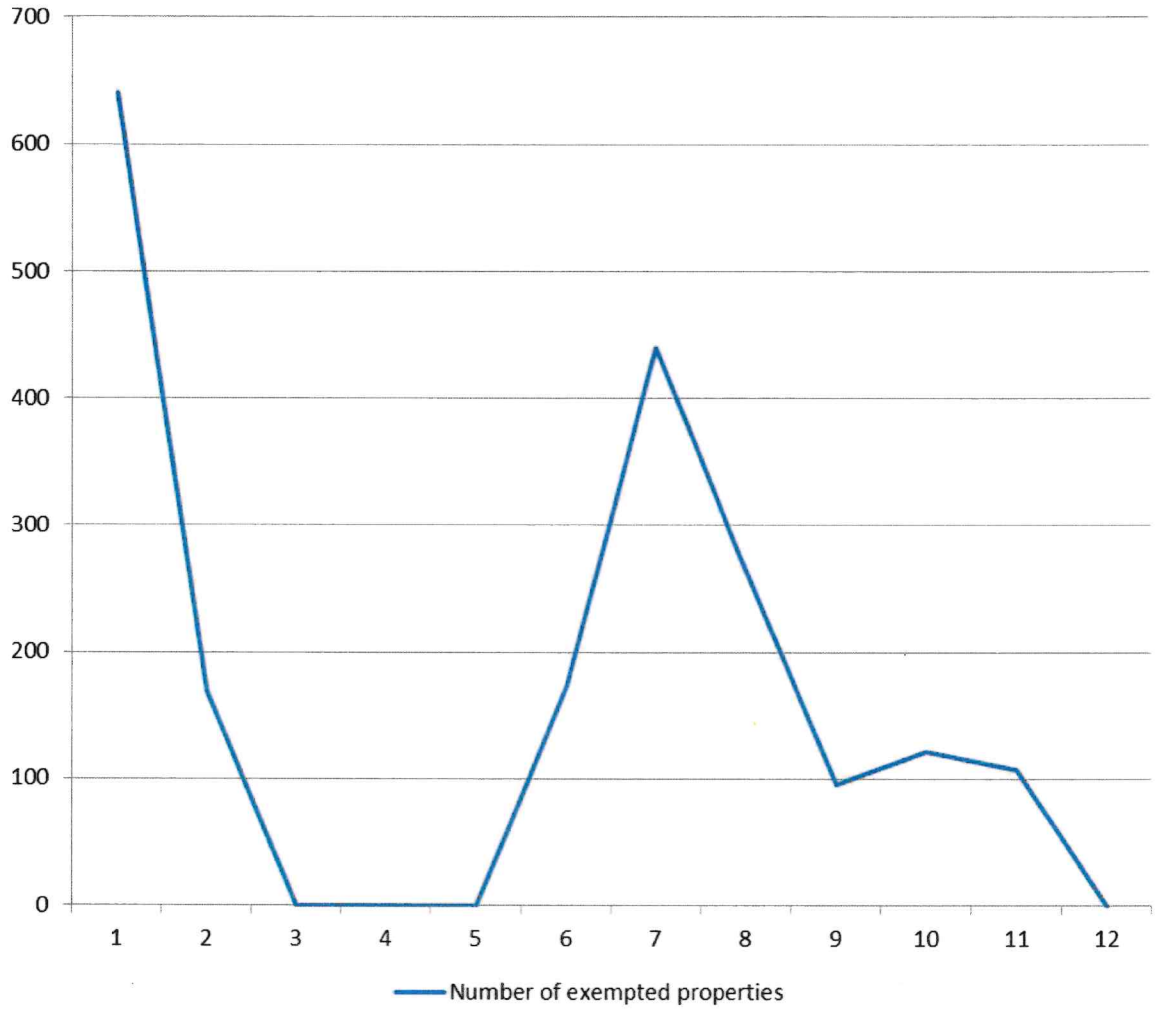


Figure A8.2 Number of Taxable Properties assessed for Corporation (2010-14)

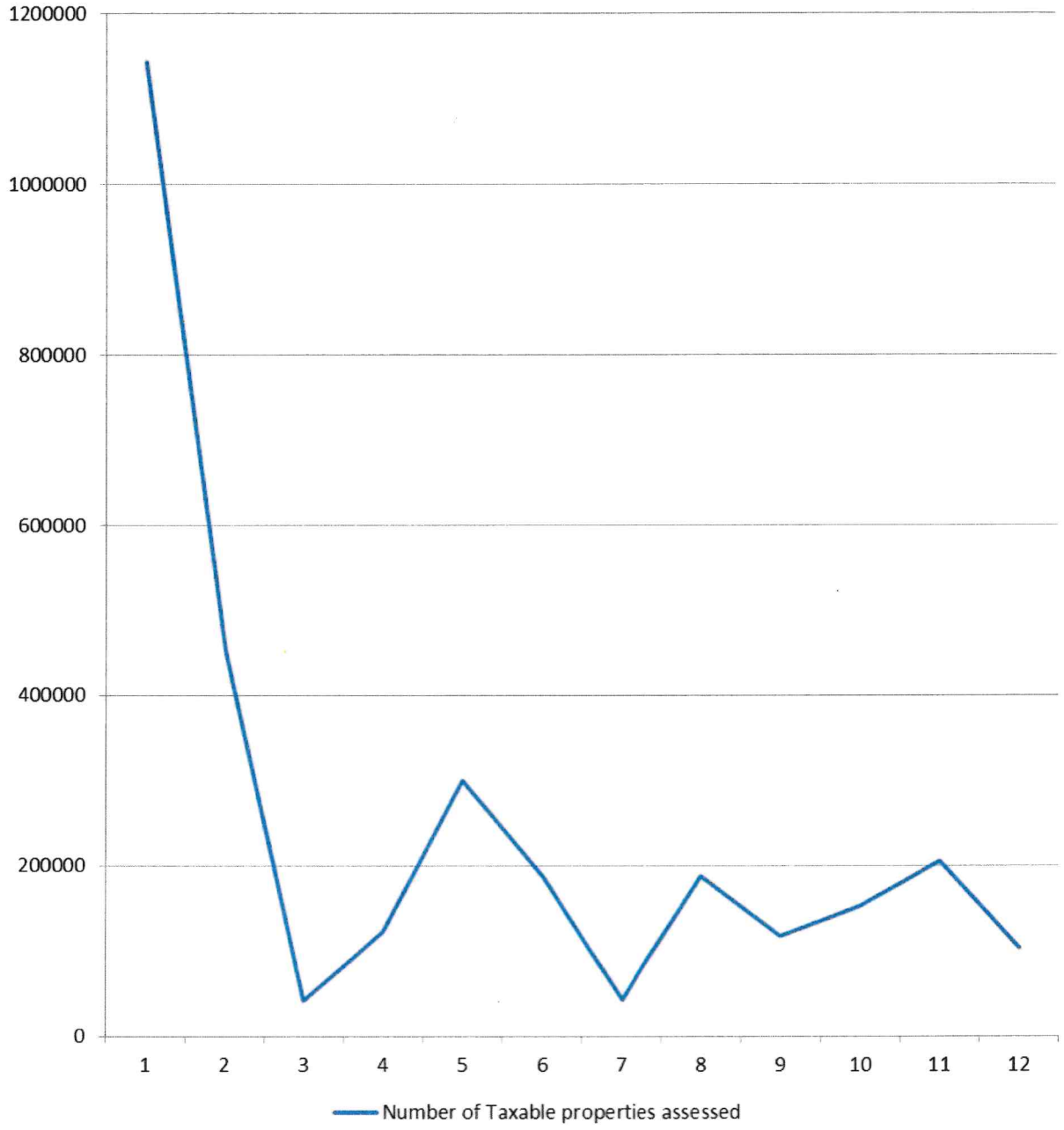


Figure A8.3 Average tax liability per tax paying of property for Corporation (2010-14)

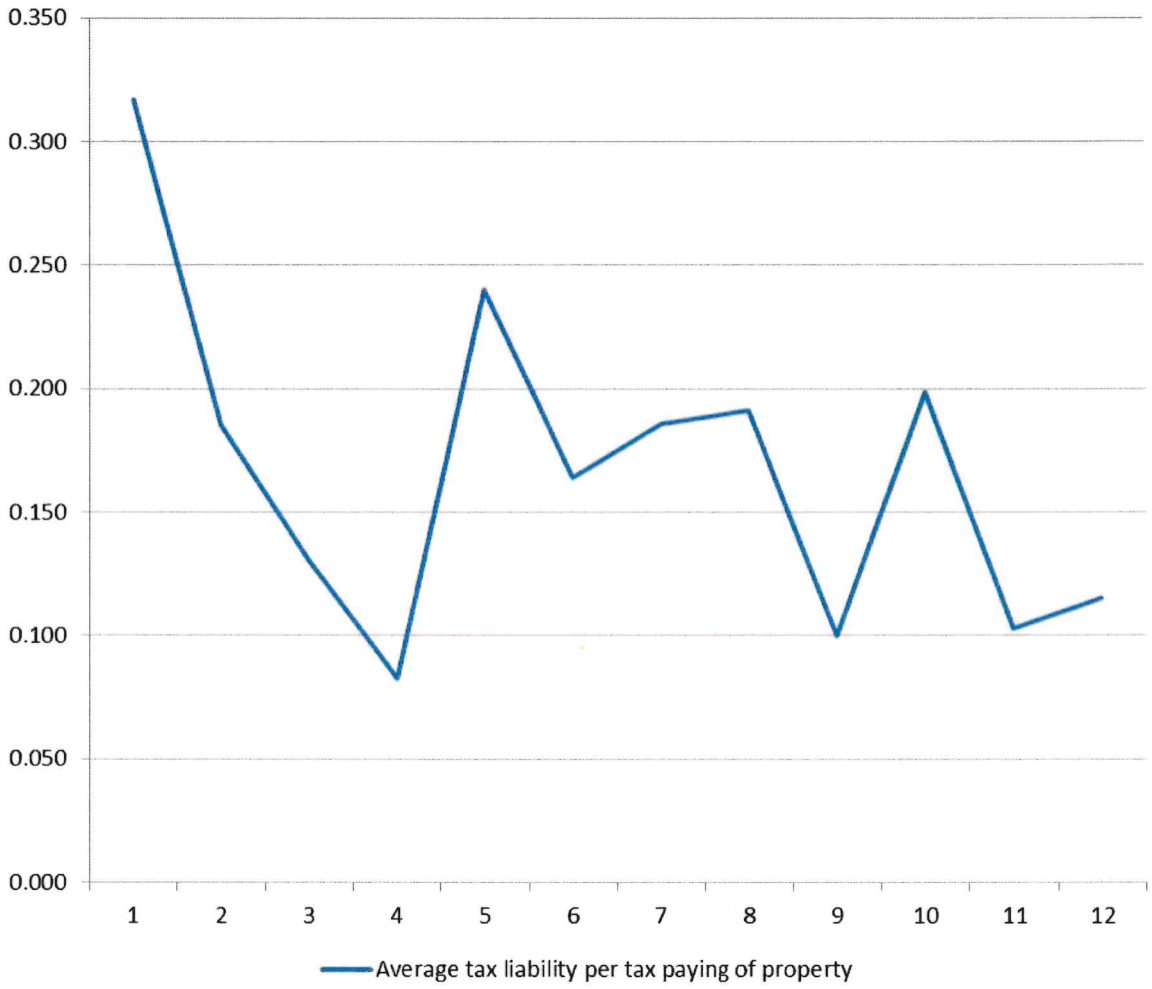


Figure A8.4 Estimated Revenue Cost of Exemption for Corporation (2010-14)

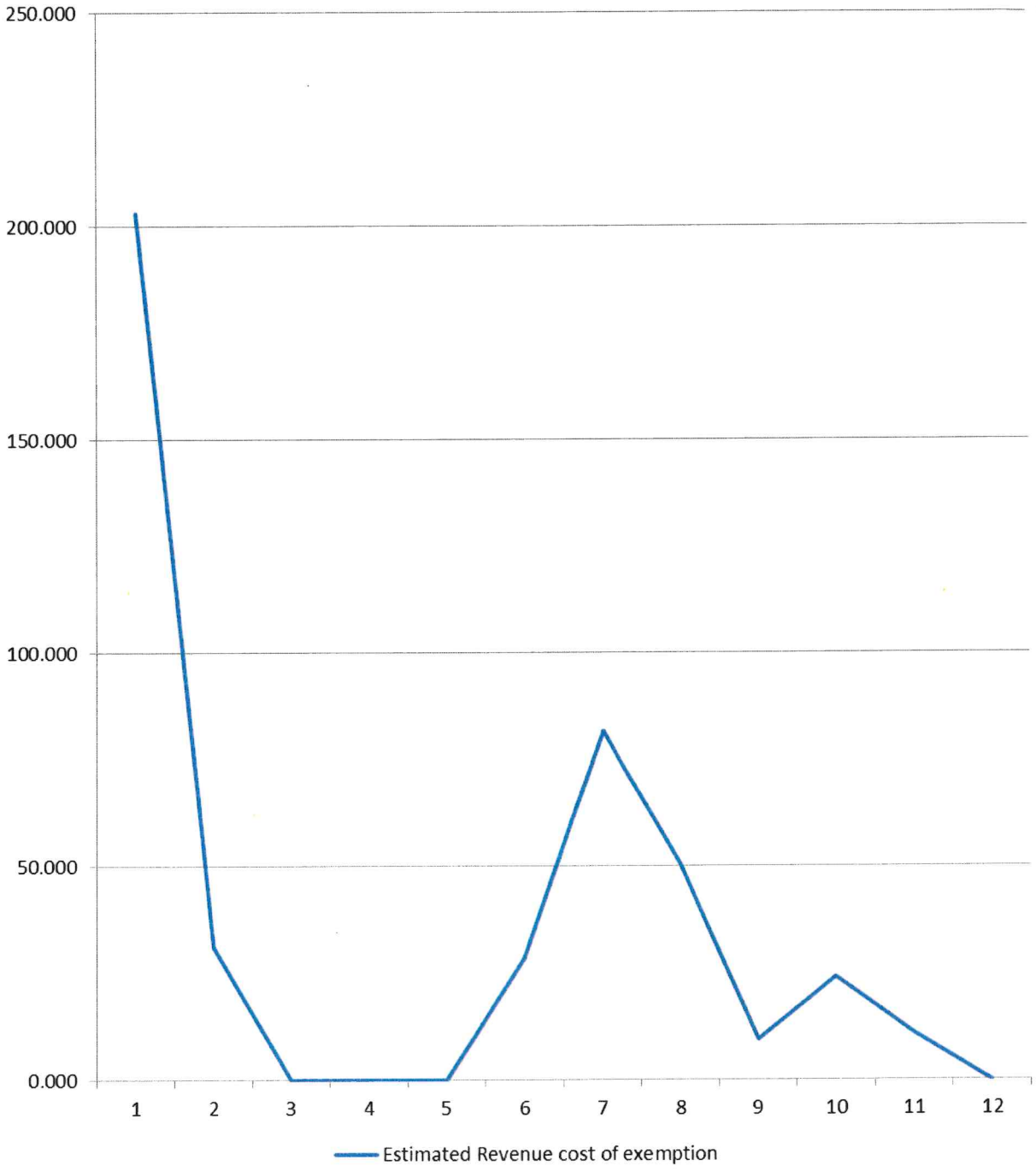


Figure A8.5 Number of Exempted Properties for Municipalities (2010-14)

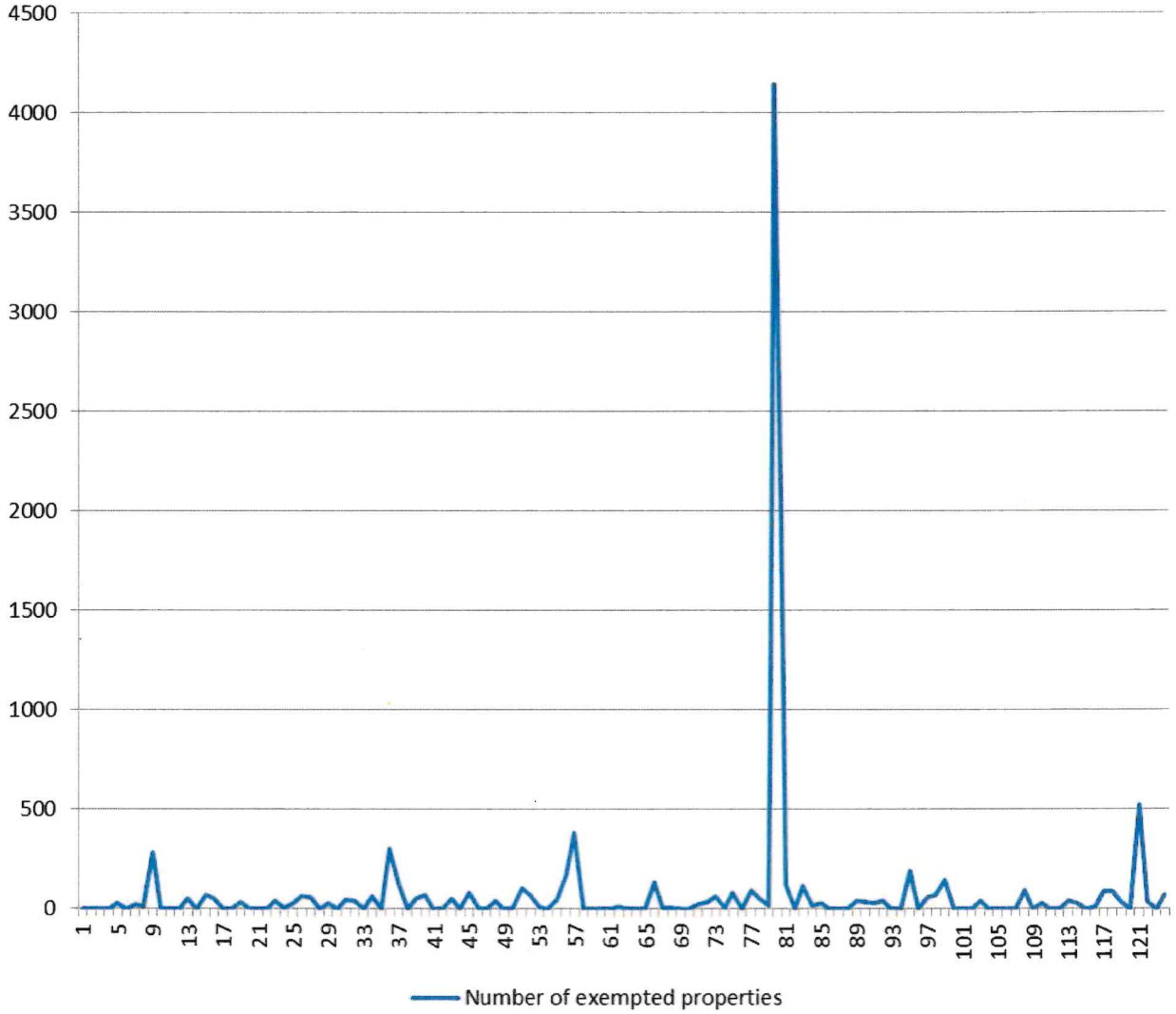


Figure A8.6 Number of Taxable Assessed Properties for Municipalities (2010-14)

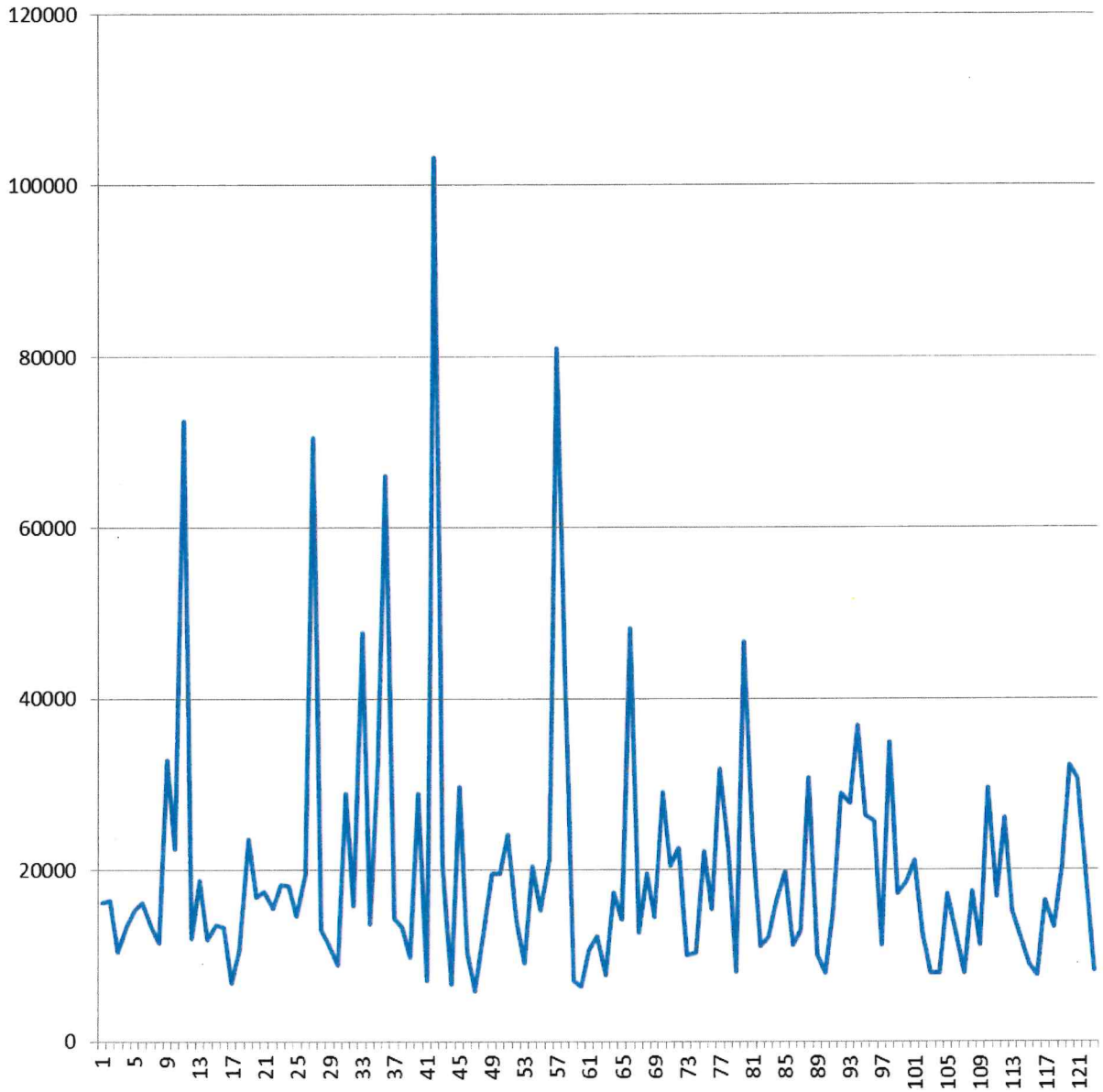


Figure A8.7 Average Tax Liability Per Tax Paying of Property for Municipalities (2010-14)

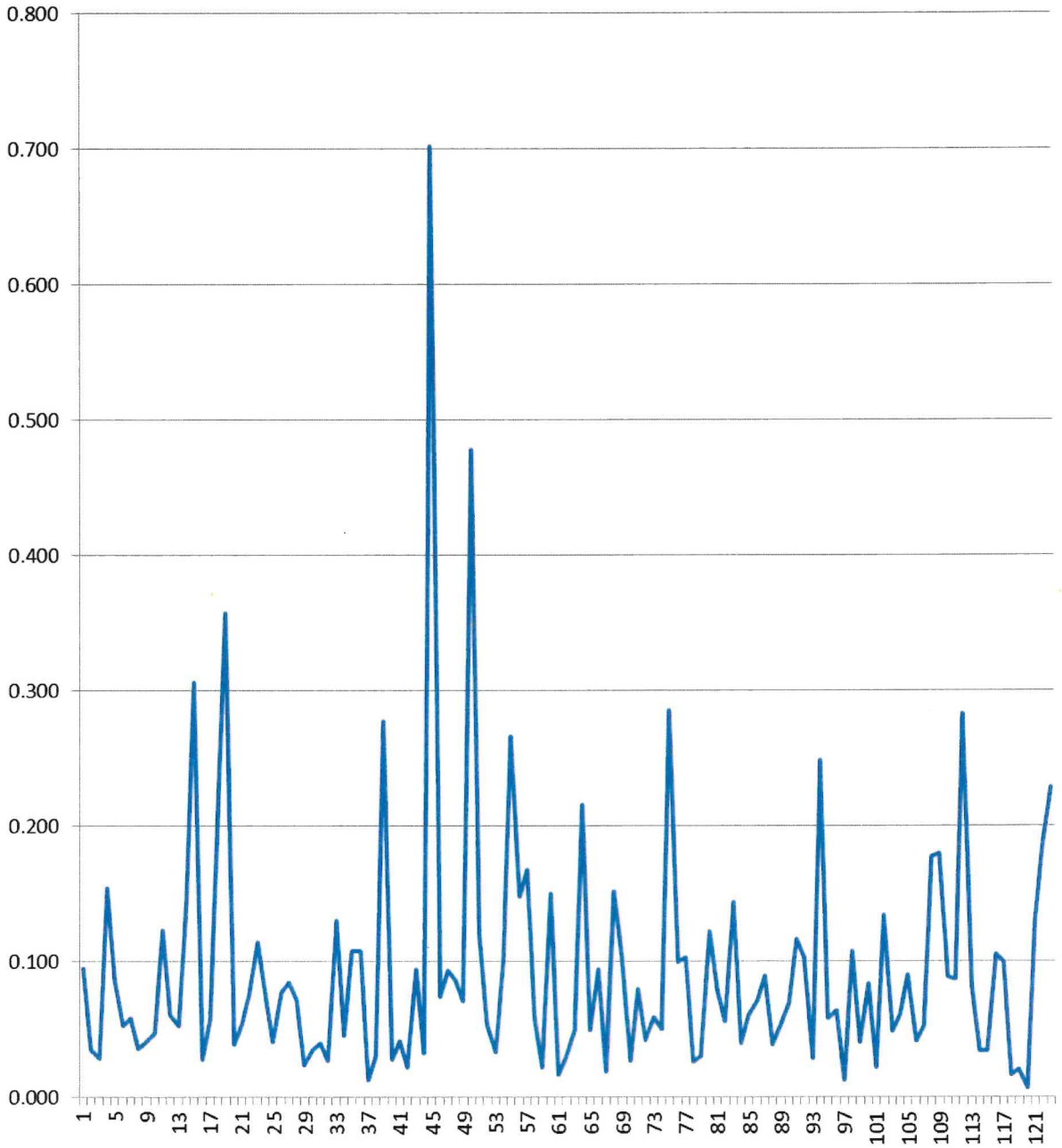


Figure A8.8 Estimation Revenue Cost of Exemption for Municipalities (2010-14)

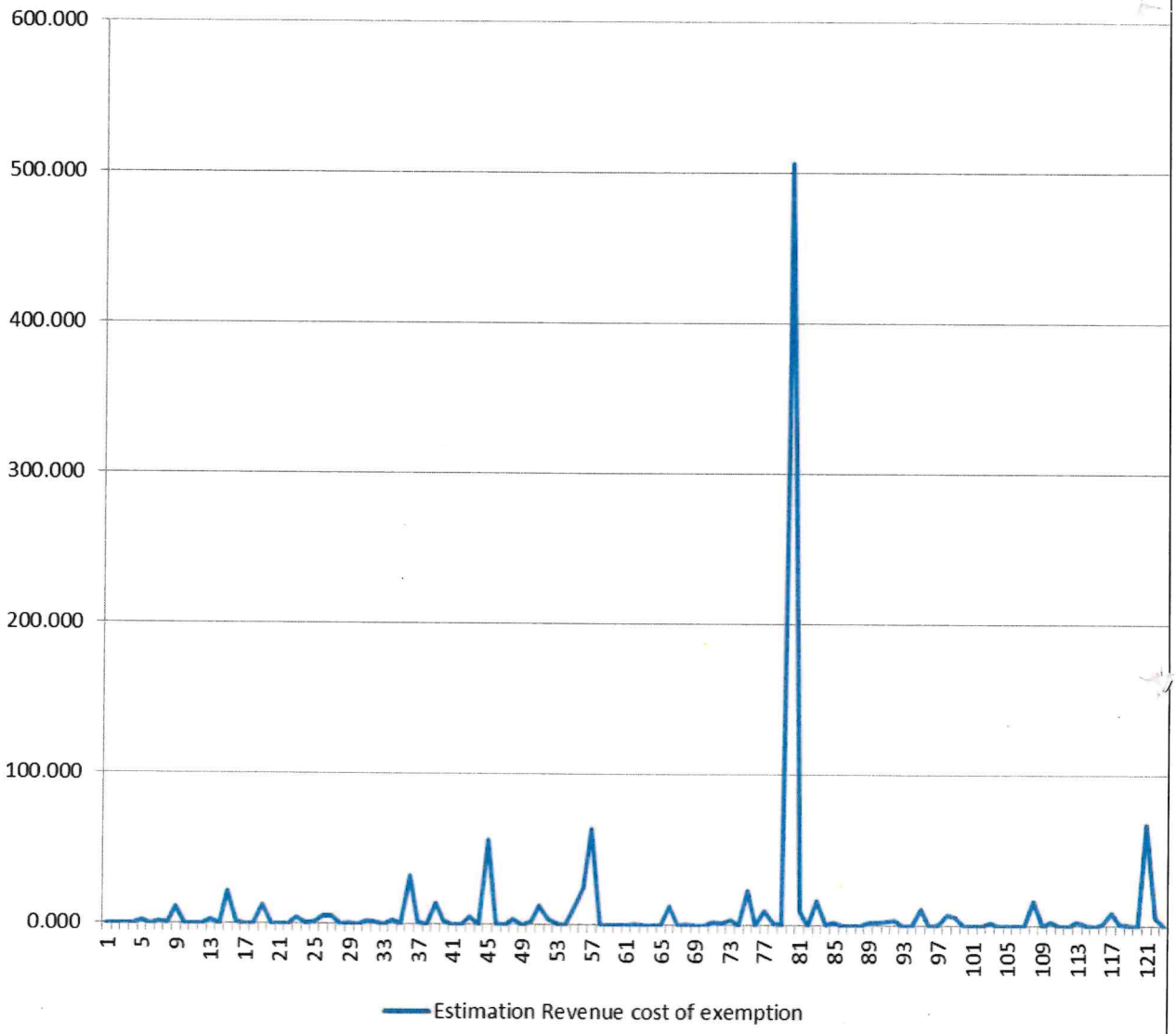


Figure A8.9 Number of Exempted Properties for Town Panchayats (2010-14)

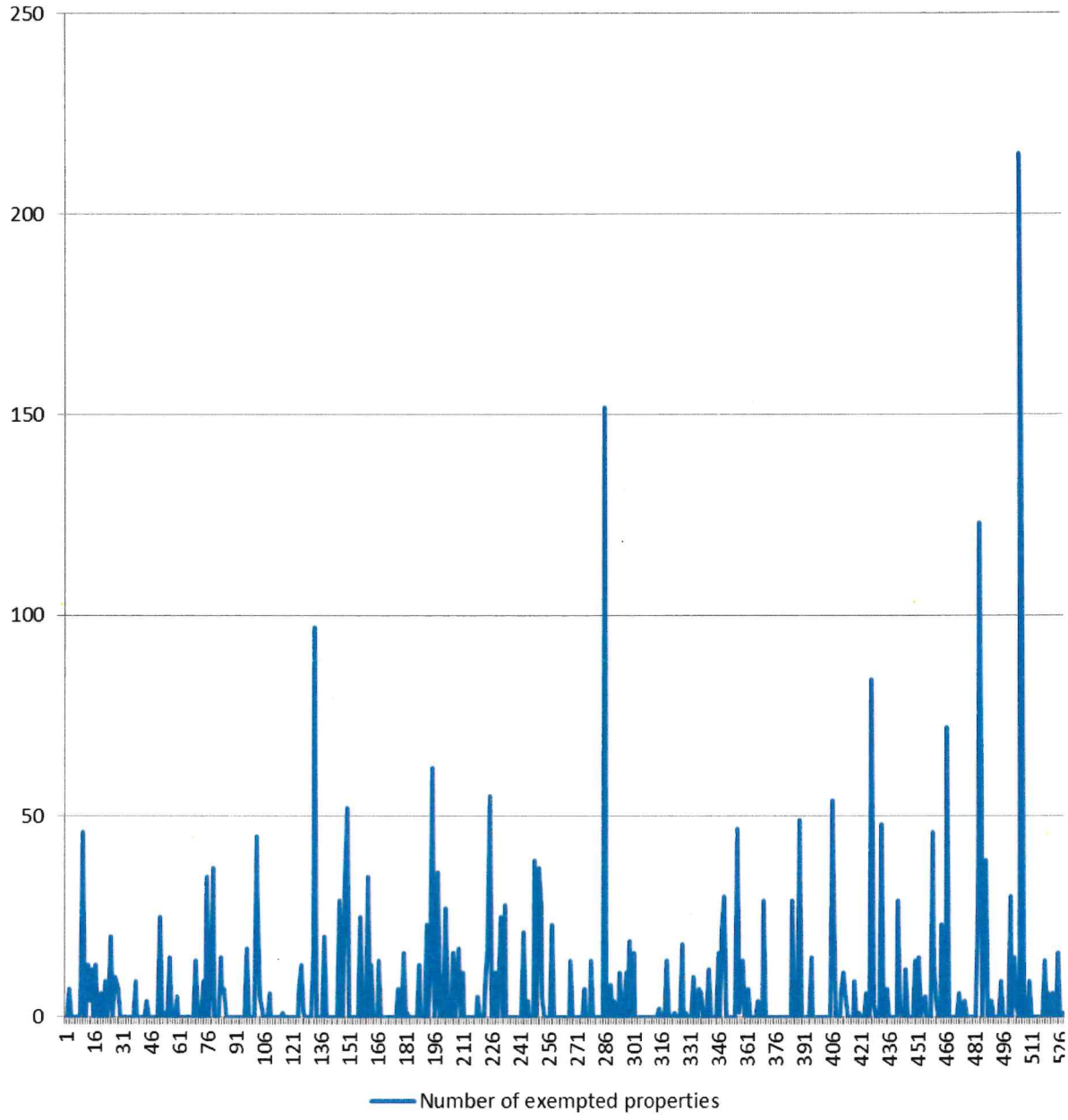


Figure A8.10 Number of Taxable Properties Assessed for Town Panchayats (2010-14)

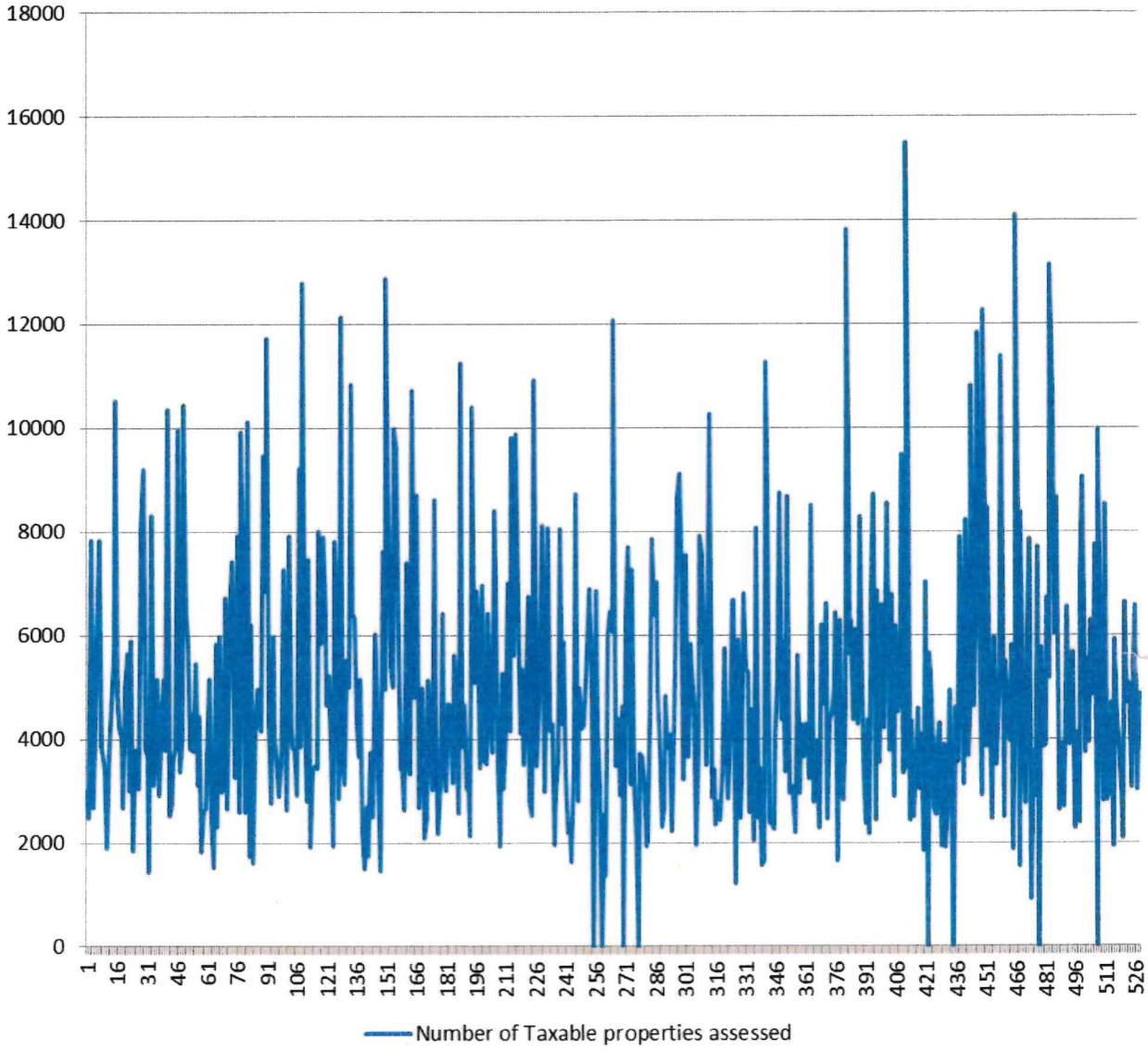


Figure A8.11 Average Tax Liability Per Tax Paying of Property for Town Panchayats (2010-14)

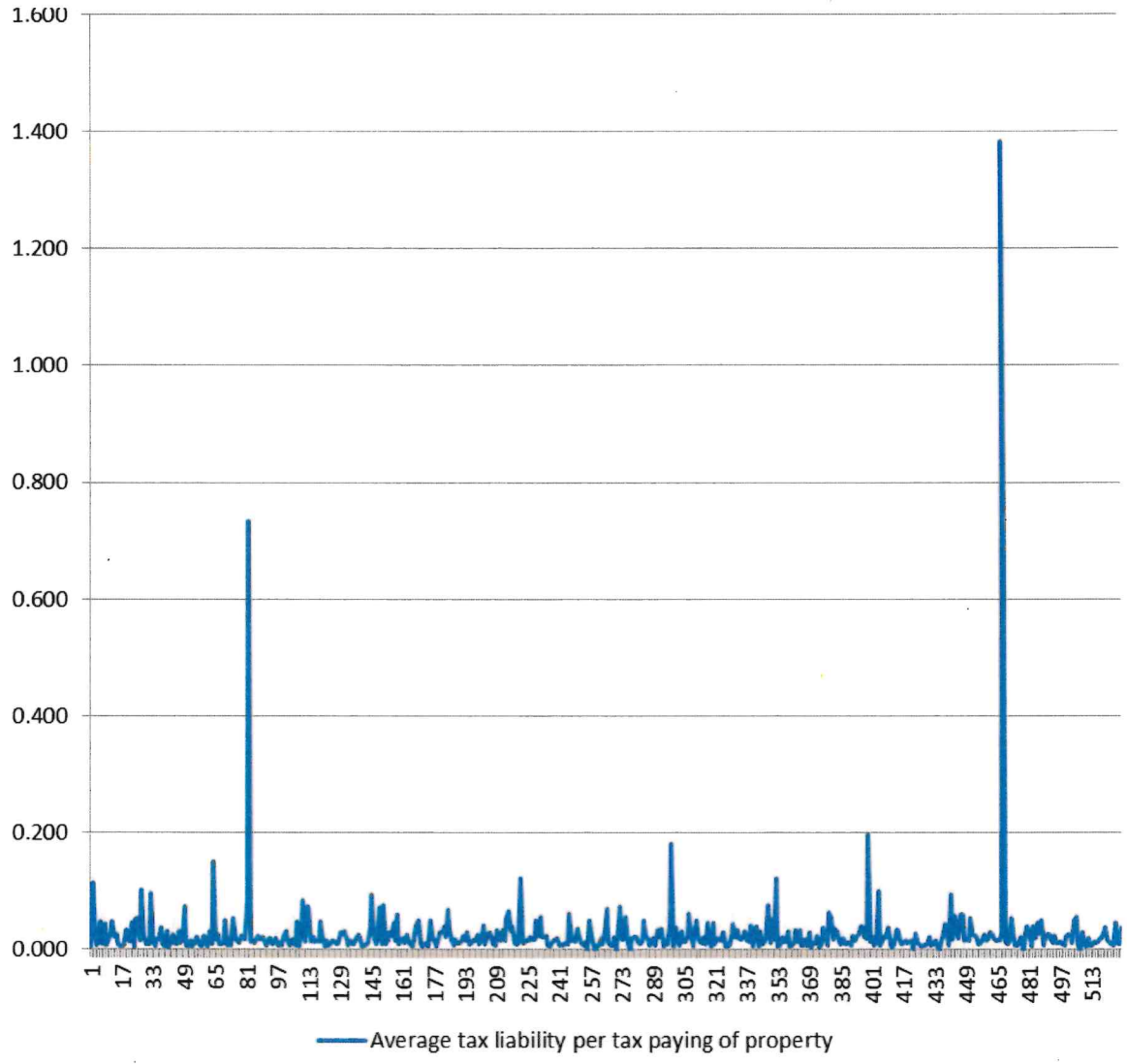


Figure A8.12 Estimation Revenue Cost of Exemption for Town Panchayats (2010-14)

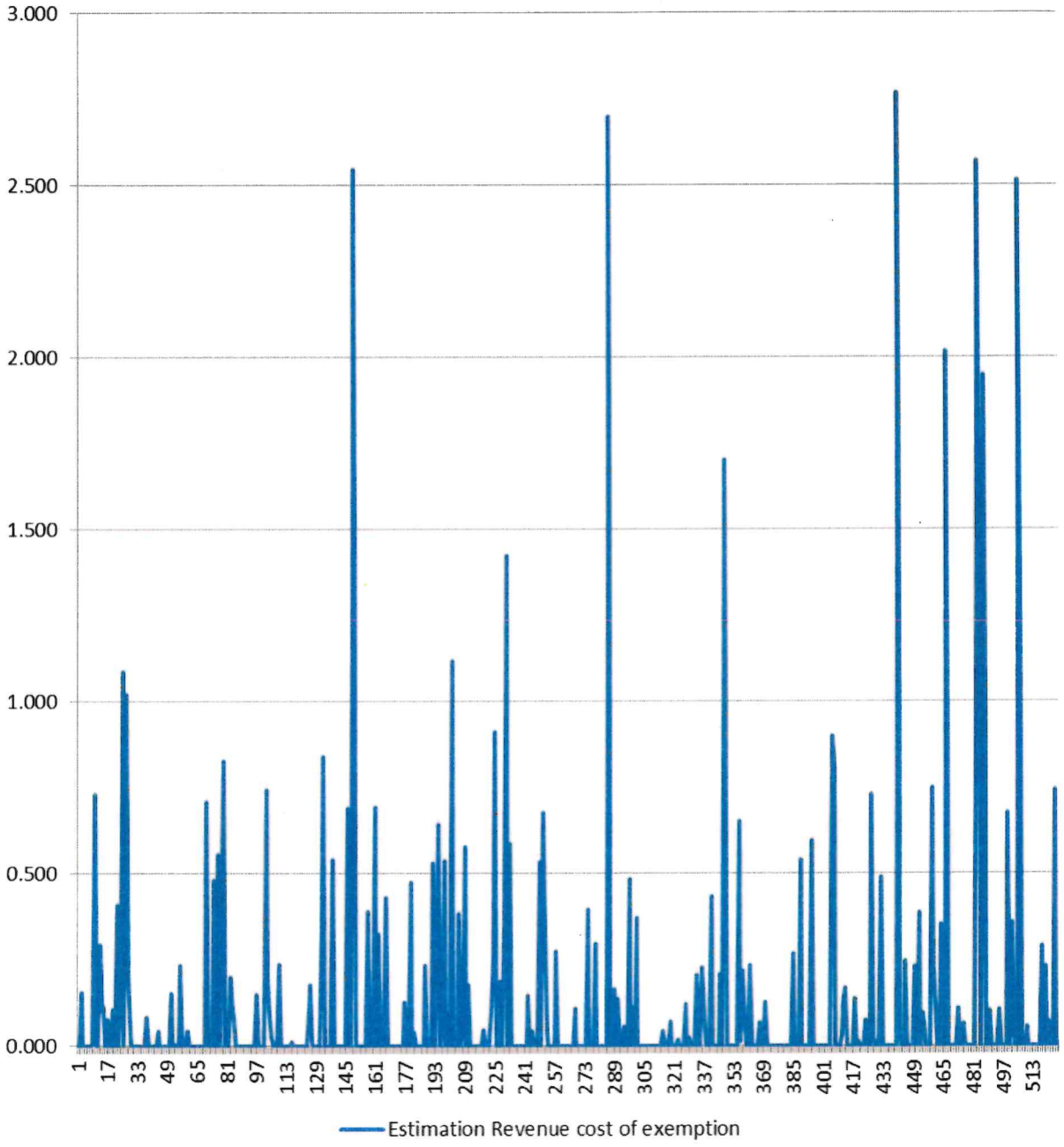


Figure A8.13 Distribution of Urban Local Bodies by Per Capita Property Tax Yield (in Rs) for Corporation (2010-14)

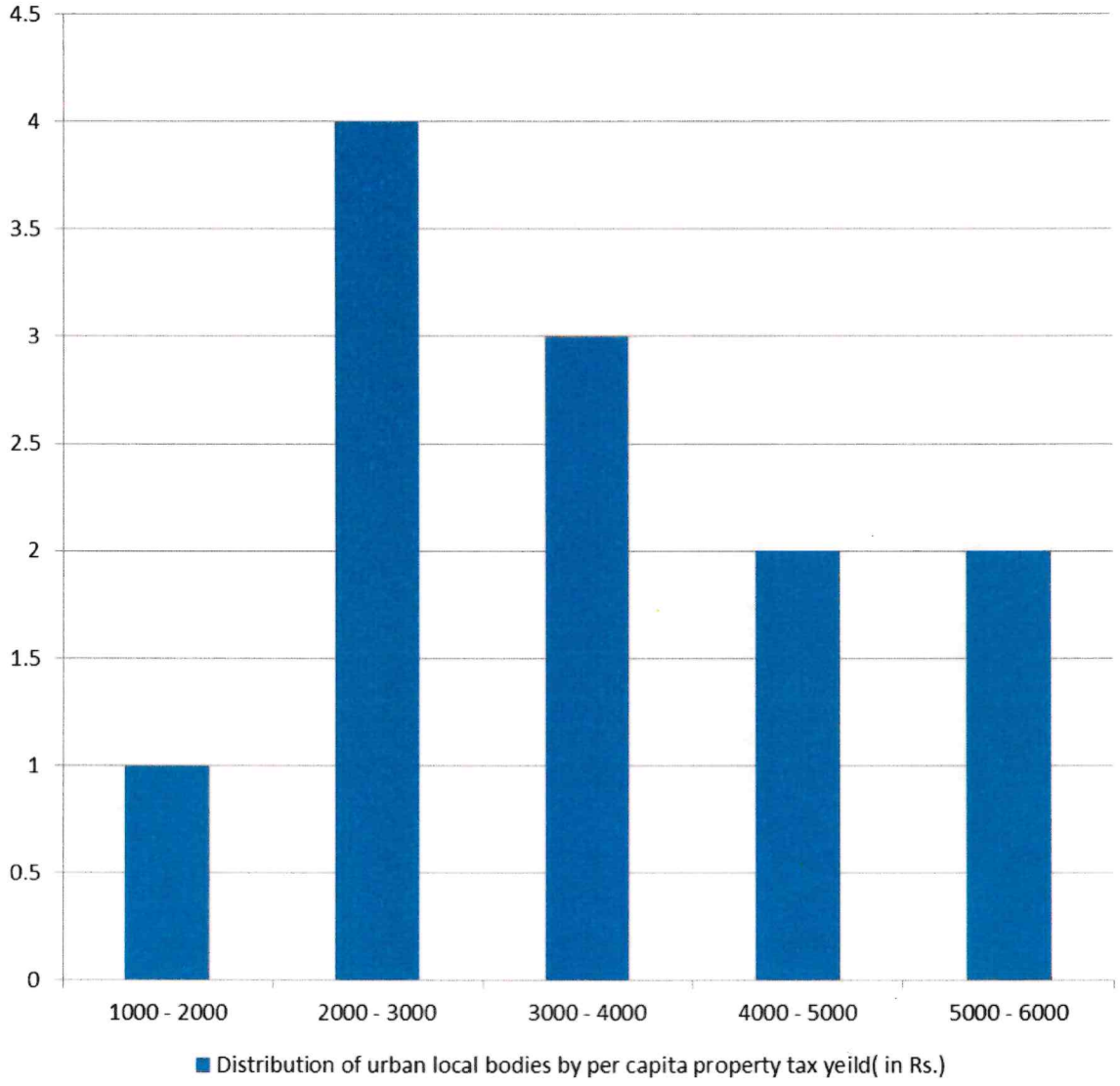


Figure A8.14 Distribution of Urban Local Bodies by Per Capita Property Exemption for Corporation (2010-14)

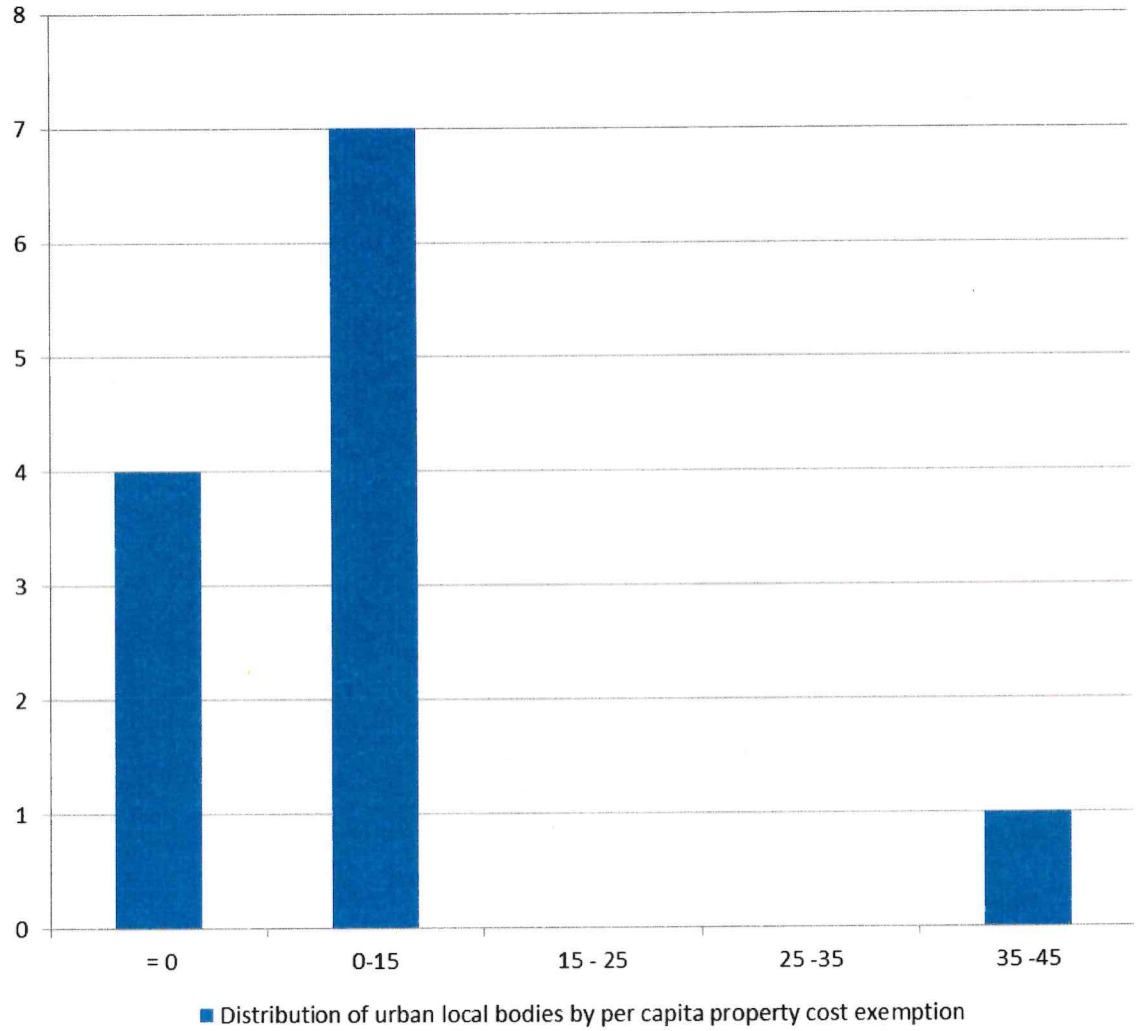


Figure A8.15 Distribution of Urban Local Bodies by Per Capita Property Tax Yield (in Rs) for Municipalities (2010-14)

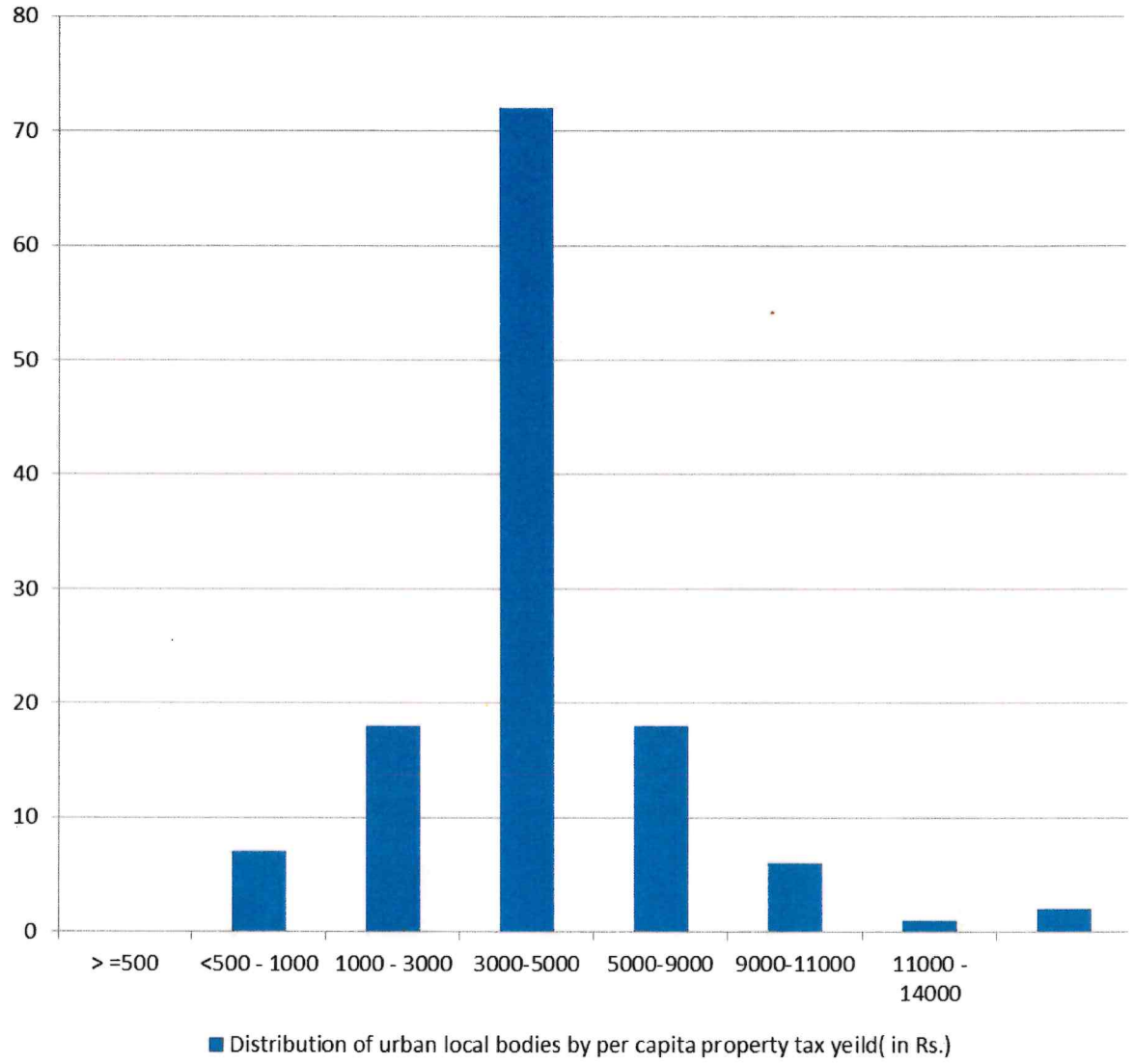


Figure A8.16 Distribution of Urban Local Bodies by Per Capita Property Exemption for Municipalities (2010-14)

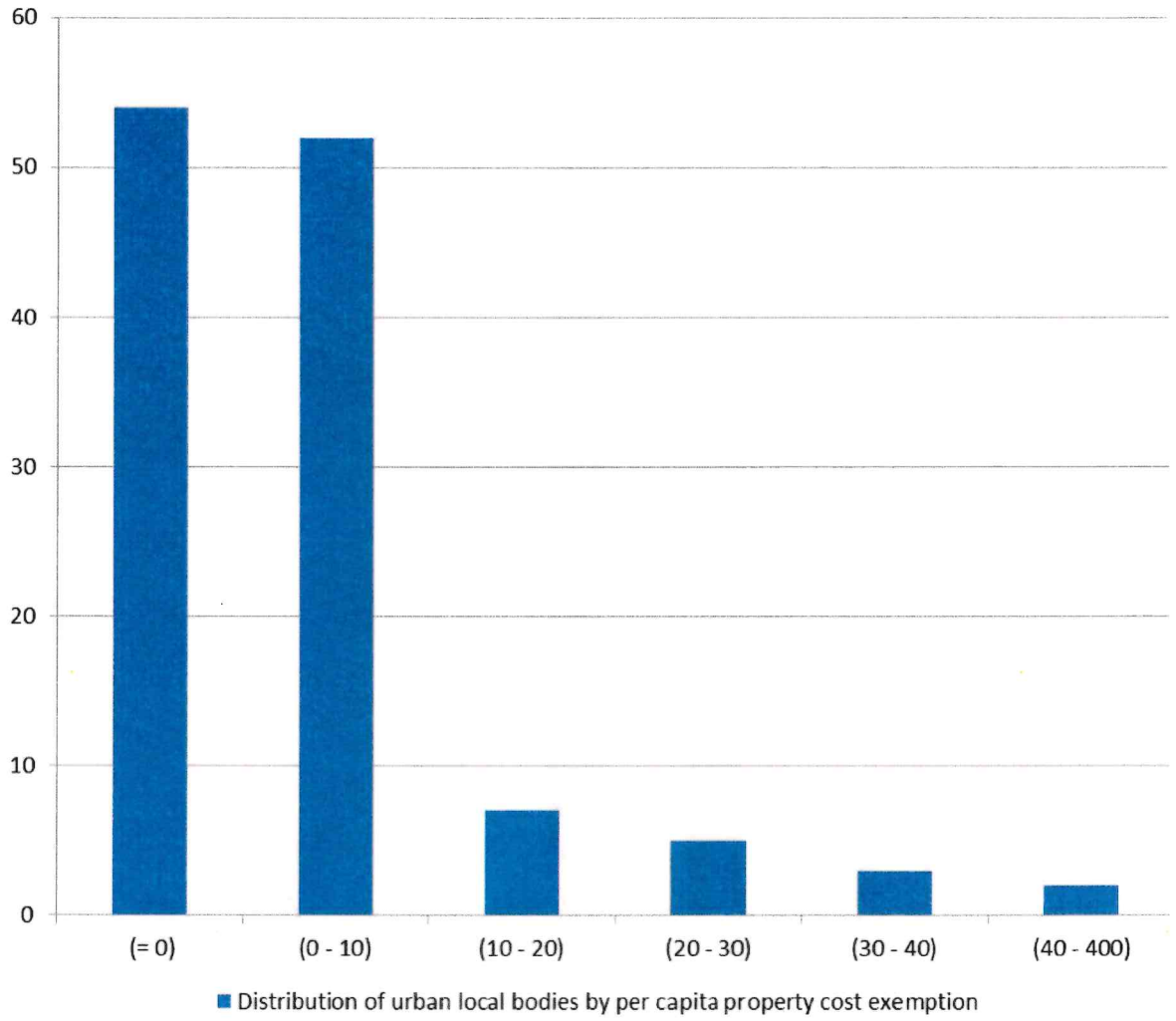
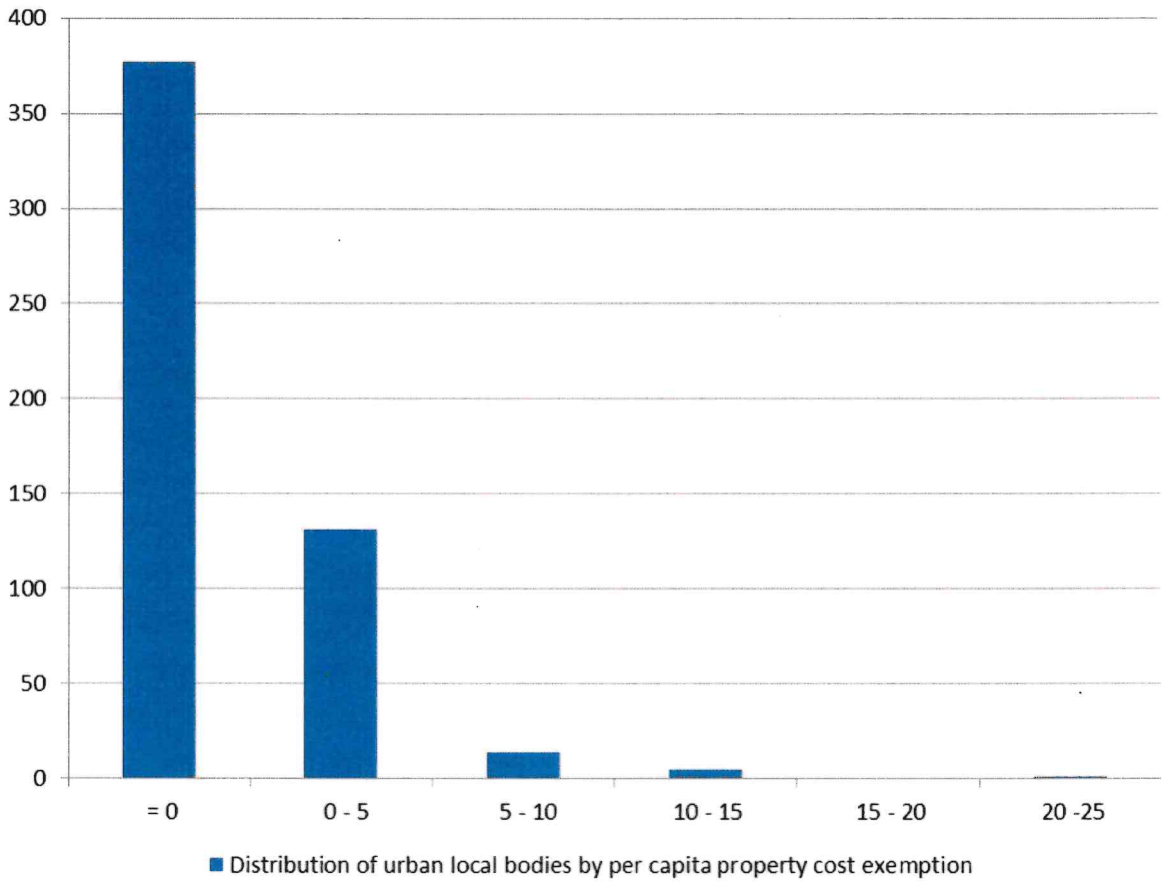


Figure A8.17 Distribution of Urban Local Bodies by Per Capita Property Exemption for Town Panchayats (2010-14)



CHAPTER 9

Examining Untapped Property Tax Potential for ULBs in Tamil Nadu

9.1 Introduction

Prior to 14th Finance Commission, earlier Finance Commissions have used two types of criteria for determining grants to States for panchayats and municipalities. The first related to the need for resources and the second related to the extent of devolution or decentralization to local bodies by the States. However, 14th FC noted some difficulty to assess the actual level of devolution relative to the optimal level, due to the unavailability of accurate, reliable information of the ground position. Keeping in view the fact that the overall scheme of the Constitutional provisions gives primacy to the role of the States and have placed local government in the State list, population and area are criteria used by past Finance Commissions that reflect need for resources. The measures recommended or the grants given basically intend to supplement the resources of panchayats and municipalities. The purpose of such supplementing is to aid these institutions in their primary function to deliver basic civic services.

Therefore, 14th FC used criteria that reflect needs in order to determine the grants to panchayats and municipalities, namely population and area. The delivery of basic civic services is related to the current population to be served within the administrative jurisdiction of the local body. Area is also relevant from the viewpoint of the costs of delivering such services. Therefore, 14th FC recommended distribution of grants to the States using 2011 population data with weight of 90 per cent and area with weight of 10 per cent. The grant to each State will be divided into two - a grant to duly constituted gram panchayats and a grant to duly constituted municipalities, on the basis of urban and rural population of that State using the data of Census 2011.

9.2 Quantum of grants

In fact 13th FC Commission recommended that the local bodies be transferred a percentage of the divisible pool of the previous year as stipulated by it, after converting this share into grants-in-aid under Article 275 of the Constitution. It had estimated this amount to be Rs. 87,519 crore for five years from 2010 to 2015.

Besides it, most States opined to 14th FC that 5 per cent of the divisible pool should be given as grants to the local bodies.

Thus with a view that the local bodies need to spend not only on the provision of basic

services to the people, but also require support for administrative infrastructure and capacity building 14th FC has given importance to stability and predictability of resources that should flow to the local bodies. Thus it worked out the total size of the grant to be Rs. 2,87,436 crore for the period 2015-20, constituting an assistance of Rs. 488 per capita per annum at an aggregate level. Of this, the grant recommended to panchayats is Rs. 2,00,292.2 crore and that to municipalities is Rs. 87,143.8 crore. The grant assessed by 14th FC for each State for each year is fixed. This is to ensure stable flow of resources at predictable intervals.

14th FC recommended grants are in two parts - a basic grant and a performance grant for duly constituted gram panchayats and municipalities. In the case of gram panchayats, 90 per cent of the grant will be the basic grant and 10 per cent will be the performance grant. In the case of municipalities, the division between basic and performance grant will be on an 80:20 basis. The shares of the States for these grants are set out in Annex 9.1 of 14th FC report.

Basically performance grants by 14th FC should address the following issues: (i) making available reliable data on local bodies' receipt and expenditure through audited accounts; and (ii) improvement in own revenues. In addition, the urban local bodies have to measure and publish service level benchmarks for basic services. These performance grants will be disbursed from the second year of award period, that is, 2016-17 onwards, so as to enable sufficient time to State Governments and the local bodies to put in place a scheme and mechanism for implementation. The details of the performance grants for ULBs are left to the respective states subject to certain eligibility criteria. To be eligible, as per 14th FC, the urban local body will have to submit audited annual accounts that relate to a year not earlier than two years preceding the year in which it seeks to claim the performance grant. It will also have to show an increase in own revenues over the preceding year, as reflected in these audited accounts. In addition, it must publish the service level benchmarks relating to basic urban services each year for the period of the award and make it publically available. The service level benchmarks of the Ministry of Urban Development may be used for this purpose. The improvement in revenues will be determined on the basis of these audited accounts and on no other basis.

Besides the grants from 14th FC, there is a considerable scope for the local bodies to improve revenues from own sources by taking steps as recommended by the State Finance Commissions.

Further according to 14th FC, States need to take the measures to augment the resources at the State and local bodies' level. The major thrust in regard to ULBs is on property tax.

It is noted by 14th FC that in many States including Tamil Nadu where tax is being levied, the rates have not been revised periodically and the list of taxable properties is not being updated and a large number of properties remain outside the tax net.

Also earlier SFCs have pointed out that the tax is levied on annual rental value, which leads to lower buoyancy. Another pertinent observation from SFCs is the thrust on a need to review the exemptions that have been granted. Thus the studies and report from Central and state finance commissions has underlined that the potential for collection of property tax has not been fully tapped and have suggested that more revenues even at the modest rates applicable to the existing tax base is feasible.

Overall view of 14th FC thus include: 1) focus on property tax reforms including objective determination of the base and its regular revision to adjust for inflation 2) strengthening of mechanisms for assessment, levy and collection and improving billing and collection efficiency. Mostly there is a convergence of views in SFC reports that property tax should be levied on plinth area basis which is also endorsed by 14th FC.

Based on the above synthesis of central and state finance commission reports and based on our analysis in different chapters of this report, we also suggest that the existing rules be reviewed and amplified to facilitate the levy of property tax and the granting of exemptions be minimized. The assessment of properties may be done every four or five years and the urban local bodies should introduce the system of self-assessment. We recommend that action be taken by the States to share information regarding property tax among the municipalities, State and Union Governments.

9.3 - *Use of Land-based Instruments*

Another important source of tapping property tax potential is in land based instruments. For instance, SFCs have observed that the urban local bodies do not have a systemic approach to listing of vacant lands. Therefore, such lands often go untaxed and the vacant land tax is demanded only when owners approach authorities for approval of building plans. The SFCs have observed the need to rationalize the rates of taxes on vacant land and have suggested that the tax be fixed as a percentage of the tax on buildings, depending on the class of the city. In the view of 14th FC, this tax, if administered properly, has the potential to earn large revenues for the urban local bodies. It is thus suggested by 14th FC that the levy of vacant land tax by peri-urban panchayats be considered. In addition, a part of land conversion charges can be shared by State Governments with municipalities and panchayats. It is further observed that betterment tax is available to both gram

panchayats and municipalities as an optional tax. The urban local bodies were generally not levying this tax, even though they are allowed to. Thus taking into consideration 14th FC and SFCs recommendations we also favour that the States should review the position and prepare a clear framework of rules for the levy of betterment tax.

Vacant Land Tax (VLT)

According to 4th State Finance Commission of Tamil Nadu, the Vacant Land Tax on lands which are not used exclusively for agriculture purposes and are not occupied by or adjacent and appurtenant to buildings was levied on capital value basis on such percentage not exceeding 6% of the capital value of such lands. Since August 2009, the VLT is levied on plinth area basis with a minimum of 0.20 paise and a maximum of 0.60 paise per sq. ft. per half year.

However, according to 4thTNSFC, there is no systematic approach of listing out vacant lands within the ULBs limit and assessing the tax promptly. It is observed that the Registration Department has to send 'M Notices' to the local bodies concerned indicating the change of ownership by registration of sales, transfers etc. This is not supervised by the ULBs. Only when the people approach for building plan, the local bodies insist for payment of VLT. Instead, the details on the registration of properties have to be obtained from the Registration Department periodically by the ULBs and VLT levied.

Keeping in view above observations, 4thTNSFC Commission recommended that the details on change of ownership by registration of sales, transfers etc of properties be obtained from the Registration Department periodically by the ULBs and VLT levied.

Thus, Vacant Land Tax could be an important instrument to enhance property tax revenues of ULBs in Tamil Nadu. In fact many countries and states impose a vacant land tax in densely populated urban areas to penalize owners who leave valuable land idle and to encourage development of this land. In India all the four major cities have a vacant land tax. While this tax is meant more as a regulatory measure to encourage vacant land in densely populated areas to be developed for use, if suitably designed it would also enable value capture.

2. Another important area of land based instruments is Cell Phone Towers. Generally local bodies viewed that the cell phone towers are growing like mushrooms but no revenue could be earned from the mobile service providers and hence suggested for levy of tax/license fee on cell phone towers. For instance, it was observed that in Delhi Municipal Corporation, the mobile service providers have to get a local license from the Corporation and if the towers are situated in

Corporation/Government lands, they have to pay rent also.[8]

However, despite certain Orders in favor of cell towers, government notifications in Tamil Nadu so far do not prohibit the local bodies from levying house tax/property tax on Cell towers. An example as to how to use this can be borrowed from the practice of Municipal Corporation of Delhi which levies a license fee of Rs.5.00 lakh per tower and if the towers are erected in Municipal building Rs.25/- per sq. ft per month is charged towards license fee for the space to be used for erecting the temporary structure subject to a minimum of Rs.25,000/- per month. The license fee is payable for 3 months in advance and thereafter by 10th day of each month. Thus 4th TNSFC Commission felt that there is a need to consider the levy of additional House tax/Property tax on the owners of the buildings having cell phone towers as applicable to commercial buildings.

There is also an economic rationale for land value based instruments. Economics treats land, as it does labor and capital, as a factor of production whose rewards are determined by marginal productivity.

The economic surplus generated for land owners are largely conferred by various forms of social "externalities". Saleable value of a piece of land is basically the capitalized value of all future incomes expected from that land. The total capitalized value of land in an urban setting can be broken up into the following components:

First, capitalized value of access to urban externalities reflects the land's amenity and aspect, its prospects for trading labor, goods and services, its proximity to cultural development or recreational activities. This 'raw' value increases as the positive

[8] E&AR Department suggested in its report that the owners of buildings on which cell phone towers are erected can be subjected to pay a percentage of rent received by them from the service providers. In G.O.Ms.No.2, Information Technology Department, Dated: 01.04.2002, orders were issued permitting any licensed telecom company to install Base Trans receiver Station (BTS) Towers, equipment room and generator room on roof top or on the ground/premises and buildings belonging to Government on certain terms and conditions. Subsequently, BTS Towers were also permitted to be installed on private land/buildings. In G.O.Ms.No.302, Housing and Urban Development Department, Dated: 12.12.2002, the installation of BTS Towers were permitted in all land use zones in the Master Plan. Orders were also issued in G.O.Ms.No.177, MA & WS (MA-I) Department, Dated: 17.12.2002, to exempt the BTS Towers from the Tamil Nadu District Municipalities Building Rules 1972 and Multistoried and Public Building Rules, 1973. Energy Department, in its letter No.5742/C3, Dated: 26.03.2009 had suggested to RD & PR/MA & WS Department so as to instruct the local bodies not to insist upon building permission from the cell phone companies for erection of BTS Towers.

externalities generated by access and amenities gets larger.

Second, there is a Capitalized value of access to 'social' infrastructure which refers to infrastructure that can be characterized as public goods, e.g. major roads, schools hospitals, public transport, parks, law and order etc.

Third, there is a Capitalized value of 'development' infrastructure which can be characterized as 'non-public' goods, where it is possible to identify and assign the cost of infrastructure to individual users, is classified under 'development' infrastructure. This component reflects the value of access to off-site infrastructure, e.g. water, sewerage, storm water drainage, waste collection and disposal, local roads etc.

Fourth, there is a Capitalized value of any on-site improvements like buildings.

The first three components represent the land's intrinsic value. Rezoning land for urban uses or otherwise granting upgraded development rights will create an expectation that these three components will increase. If landowners or developers are charged for the value of development infrastructure (component) then the increase in the first two components represent a "windfall" gain to the landowner. It makes sense for the larger community to capture a share of this windfall gain or "unearned" income. (Fensham and Gleeson, 2003).

Thus Keeping in view the intrinsic value of land improvement through development activities there are a number of methods used in other countries to capture value enhancement of land.

For instance, the system of land tenure in the Australian Capital Territory (ACT) uses the mechanism of providing Development and Use Rights on Land through Long-term Leases for capture of land value betterment. In this jurisdiction government is the monopoly landowner and distributes 99-year leases at the time land is designated urban. Value increments are thus socialized at the point of land production. When a developer or leaseholder successfully applies for a lease variation to upgrade development rights, the Australian Valuation Office undertakes an assessment of the unimproved value of the land pre-and-post the lease variation decision and a betterment charge is levied at 75 percent of the difference. (Fensham and Gleeson, 2003).

Likewise, in Hong Kong through Leasehold system the government has a strong constitutional mandate to regulate its land use and land related revenues. Instead of selling land permanently to private individuals, the government leases multiple land rights to developers. The government possesses the right to own and private developers lease from the government provides the right to develop, use, transfer, inherit and benefit from land. There are three categories of land related revenues in

Hong Kong – lease revenues, 'rates' based on the 'ratable' value (which is equivalent to the market rental value) that is paid by owner occupied properties and property tax paid by commercial real estates which is a percentage (15%) of the income earned from the buildings. Of these, land leasing has the most significant role in recouping a portion of the land value increments from private land and property holders. There are four occasions during the leasing process the government can capture the profit from increased land values. These occassions include:

(i) Signing the lease after the public auction,

(ii) Modifying the lease conditions,

(iii) Renewing the land contracts &

(iv) Collecting the annual land rent.

The Hong Kong government captured nearly 39 percent of the land-value increments occurring between 1970 and 1991 from leasing of land. These captured values on average paid for about 55 percent of the annual infrastructure investment in Hong Kong.

3. Third mechanism to capture land value based property taxation could be the concept of land banking. It implies that a government acquires privately owned land areas prior to development or rezoning. Land is purchased at the value of current permitted land use. After development or after rezoning it is sold again. The local government thus can capture a significant part of the betterment in land values created by the development or rezoning. This method could be especially implemented in urban fringe areas where vast agricultural areas can typically be purchased at the value of current permitted land use. In this regard, the land bank in Delhi is an example. It was developed during the 1960s to direct and control the development of the city. The scheme, which was started in 1961, allowed the Delhi Development Authority (DDA) to take control over all land designated for urban development. DDA would subdivide and service the land. The acquisition process was under the 1894 Land Acquisition Act. It was stipulated that the serviced land should be disposed of by auction to the highest bidder except in some specified cases. The financial success of the land bank is indicated by the increase of the revolving fund set up for the purpose. The fund increased from Rs. 50 million in 1961 to Rs. 2068 million in 1981, an increase of 4136 per cent. DDA became the largest landowner during the same time period. However, apart from the fact that DDA became extremely wealthy, the land bank mechanism was fraught with problems caused by acquisition, disposal and development policies. Also the objectives of regulating land values, preventing the concentration of land ownership in a few private hands and safeguarding the interests of the poor and underprivileged were not fully met. Land values actually increased considerably since the

introduction of the scheme. And DDA has not been very successful in distributing land to low-income groups. As of 1982, 44 percent of the total amount of plots had been distributed to low-income groups and the high-income group which constituted eight per cent of the population, received 38 per cent of the plots and 58 per cent of the residential land area. (ESCAP, 1995)

In fact, Maharashtra also adopted this approach in 1970, when the City and Industrial Development Corporation of Maharashtra Ltd. was incorporated and authorized to acquire about 16,000 hectares of privately owned land to plan, develop and create the new metro centre of Navi Mumbai. The gains received by CIDCO from the appreciated land values paid off for the entire expenses of the project.

Fourth mechanism could be Land Value Taxation. In this category, (i) there could be a uniform land tax, paid annually without any discrimination, (ii) there could be a vacant land tax in urban areas or (iii) there could be a tax on land value increments.

Looking into the experience of other countries, for instance, all six states in Australia and majority of the municipalities tax land values and some states exempt improvements (buildings) in whole or in part. The city of Sydney derives all its municipal revenue from land value taxation. Various cities in western Canada tax land at a higher rate than their tax improvements. Most states in the U.S. have a general property tax (on land and buildings) however many cities in Pennsylvania and one city in New York state are now applying the 'graded tax plan' whereby land is taxed at a higher rate than improvement.

Fifth mechanism could be Land value increment tax, capital gains tax and Development Extraction Levy:

Among these, Land Value Increment Tax is imposed either on the realized increase in land value as in Israel and Malaysia or it is levied on unrealized value increments (as in Taiwan and Italy).

For example in UK the development charge of the 1947 Act, the betterment levy of the 1967 Act and the development land tax of the 1976 Act, while differing considerably in their approach, all had the common aim of siphoning from the landowner/developer to the benefit of the community some significant share in the increase in development value at the point of development. However, all these provisions, which were introduced by Labor Governments, were scrapped after a comparatively short period by successive Conservative Governments. This led to the operation of planning gains or planning obligations. This latter term implies that when deciding to grant approval to a planning application, local planning authorities are able to impose conditions on approval as they think fit, under the Town and Country Planning Act 1971. Such

freedom to impose various conditions has been constrained by a Department of the Environment (DOE) circular in 1995 following rulings in the court against unreasonableness.

In order to overcome these constraints local planning authorities have been able to enter into agreements with the developers which enabled them to extend the scope of relevant conditions. While originally conceived as a minor addition to planning control powers, the scope of such agreement expanded considerably during the 1970s. This was because local governments were having restrictions on their financial resources and freedom to spend. Landowners, developers and financial institutions were making fortunes out of planning permissions for development rights and were prepared to accept the planning gains conditions imposed on them. This allowed the local governments to enhance their financial resources.

In 1983 the Government attempted to regularize such practices by explaining it as follows: "Planning Gain is a term that has come to be applied whenever, in connection with a grant or planning permission, a local planning authority seeks to impose on a developer an obligation to carry out works not included in the development for which permission has been sought, or to make some payment or confer some extraneous right or benefit in return for permitting development to take place. The planning gains must be reasonable, depending on the circumstances, and tests of such reasonableness presented." The experience under planning gain was mixed. It was later clarified by UK govt. that the Planning Acts do not envisage planning powers to be used for such purposes and in this sense attempts to exact planning gains would be outside the scope of the planning process.

Capital Gains Tax – In the context of U.K, this was applied. It implied that with a disposal of an interest in land there will be a liability to Capital Gains Tax (CGT) levied on the increase in the value of the asset during the period for which the taxpayer has owned it. This is in effect a general tax on income. However, prior to the merging of the capital gains tax on land with the general income tax; a land related Development Gains Tax had been introduced in 1973. This in effect was a charge to tax being made first on the specific betterment and then the CGT was on any general betterment remaining. Subsequently in 1974, the DGT was merged with the CGT. Currently property taxes for local government are divided into two categories, business rates and council tax. These are levied on the occupier of the landed property and the basis of valuation is the whole property i.e. land and building taken together. The basis of assessment is the annual value of the land and buildings in occupation. (Lichfield and Connellan, 2000).

Another country, for instance in U.SA, since 1970 it was felt that real estate growth was not producing sufficient revenue at constant tax rates to compensate host jurisdictions for the increased public costs. Localities were facing rising marginal costs for new infrastructure. Opportunities to mobilize additional resources through the existing avenues of seeking more assistance from higher levels of government and raising local tax rates, user fees etc. were reaching their limits. In this context a new strategy was adopted whereby private real estate developers were required to underwrite public investments. This strategy of "exacting" public investment commitments from developers has been ascendant in recent years.

Thus 'Development Exactions' are imposed by government mandate on real estate developers which requires them to expend resources for the provision of public facilities or services as a condition for receiving development permits. Such exactions may be in kind or financial. In-kind exactions require developers to contribute land to construct public facilities or to provide public services. Financial exactions, most commonly known as 'impact fees', require developers to make monetary payments into public coffers. (Altschuler and Gomez-Ibanez, 1993)

9.4 *Possible Policy Instruments for Betterment in ULBs of Tamil Nadu:*

Based on the economic rationale outlined above, given the existing taxes/levies on value of land or income from land and given the constitutional provisions and jurisdictional authorities, the following new instruments could be used to effectively capture some of the betterment gains in land values:

Development Gains Tax/Charges could be levied when planning permissions are granted to develop the land i.e. when agricultural land gets converted into land for residential, industrial or commercial use and when building permissions are sought. These charges could be levied as a proportion of the increment in land value due to development of infrastructure from a specified time period.

From a Constitutional point of view, land is primarily a matter of provincial concern as provided in Entry 18 of the State List (List II) in Schedule VII of the Constitution of India. Entry 49 of the State List states that the State Legislature is competent to levy tax on land and buildings irrespective of the utilization in any form by the occupier. Taxes on land on which forests stand are also permissible under Entry 49. Entry 86 of List I permits the central government to levy a tax on the capital value of assets and the Wealth Tax comes under this category. Taxes both under Entry 49 of List II and Entry 86 of List I can coexist. They are

separate and distinct entities and do not overlap each other. The power to levy tax on land and buildings under Entry 49 of List II does not trench on the power imposed under Entry 86 of List I. For the purpose of levy of tax under Entry 49, the state legislature may adopt for determining the incidence of tax the annual or the capital value of land or the annual value of buildings. However, it must be a tax on individual units i.e. it must tax on land and buildings separately as units. It cannot be a composite tax on the value of all lands and building owned by an individual. Such a composite tax can be levied under Entry 86 of List I. Also, Entry 5 of List II in Schedule VII empowers the State Legislature to legislate on all matters pertaining to local government; it can confer powers on the local government provided it is for the purpose of local self government. Given these provisions, the state legislature has the authority to confer power on local governments to levy the suggested development gains tax/charges that is related to the appreciation in the capital value of land. This tax/charge may be as a cost of improvement and hence could be deducted while computing the net capital gains for the levy of capital gains tax.

The development gains charges could also be levied in stages – first when land gets reclassified from agriculture to urban (commercial, industrial or residential) and then when planning permissions are sought to develop the land and again when additional development takes place. The development gains charges should be in terms of per square meter/foot of land and should not be related to the built up floor area. Logically it is the improvement in land values as a result of externalities that is being tapped here and it should be independent of the developed floor area.

However, it must be noted that the development charges currently levied at the time of granting planning permission are designed only to cover the administrative expenses of the development authority, or the local body as the case may be, as also to partially cover the capital cost of providing the development infrastructure. These capital costs relate to the historical cost of providing the infrastructure and are typically inadequate to meet the incremental capital costs. However, conceptually our suggestion here is based on the land value appreciation and hence is likely to provide adequate funds for enhancing the social infrastructure capacity of the developing locality. This would facilitate social infrastructure to keep up with the development needs. With this provision, the cost for providing the development infrastructure (electricity, telephone etc.) must be directly charged by the company responsible for their provision and wherever possible on the basis of consumption levels.

Betterment Charges/Contributions could be collected on an annual or half-yearly basis, from all the landowners whose property has already been developed and put to use.

These charges should be a percentage (say 1% or 2%) of the value of land and must be levied on all landowners whose land has been developed and put to use, irrespective of the type of use. The levy could be annual or half-yearly and landowners may be allowed to pay the amount in monthly installments if they desire. The capital gains tax rules allow for any betterment charges paid to local town planning authorities to be deducted while computing net capital gains, treating it as a cost of improvement. These charges would also be equitable since wealthier landowners would be contributing larger amounts for the public benefit. Owner occupied residences, where the household incomes are very low and below taxable limits may probably be exempted from these charges.

In addition, the existing property tax mechanism, which is based on the annual rental income from the property, and the duties and fees levied on transfer of property, would capture a part of the betterment gains.

For maximizing the revenue realization based on the betterment capture mechanisms suggested here, it is important that the guideline values of land are updated at frequent intervals and stay close to the heels of the market value.

3. Service charges on government property

Article 285(1) of the Constitution exempts all properties of the Union Government from all taxes imposed by a State or any other authority within a State, unless Parliament expressly provides for such levy by law. The FC-XI had recommended that all government properties of the Union as well as the States should be subject to levy of user charges which should be regulated by suitable legislations. The FC-XIII had urged that the Union Government and the State Governments issue executive instructions that all their respective departments pay appropriate service charges to the local bodies. In a number of States, local body representatives pointed out that the local bodies needed to be compensated for the civic services they provided.

In this context, the recommendations of 14th Finance Commission indicate that the Union and State Governments examine in depth the issue of properly compensating local bodies for the civic services provided by them to government properties and take necessary action, including enacting suitable legislation, in this regard. The Commission pointed out that the local bodies are not able to meet even a fraction of their expenditure on providing basic services and have largely become dependent on the transfer of one fund or another. Thus there is a need for the States to empower the local bodies to collect tax and non-tax receipts. To implement the measures outlined above, the State Governments may have to bring in necessary legislations as appropriate. In some cases, the State Governments may need to frame rules and fix rates of levy to allow the local bodies to effectively tap the existing sources

of revenues. Alternatively, the local bodies may be given powers to decide the rates themselves, subject to a floor and ceiling rate set by the State.

Besides, the State Government should not provide exemptions to any entity from the tax and non-tax levies that are in the jurisdiction of local bodies. In cases where the grant of such an exemption becomes necessary, the local bodies should be compensated for the loss.

CHAPTER 10

Trends and Driving Forces of Urbanization

10.1 Introduction

The process of urbanization, or "urban transition", describes a shift in a population from one that is dispersed across small rural settlements in which agriculture is the dominant economic activity towards one where the population is concentrated in larger, dense urban settlements characterized by industrial and service activities (Montgomery et al., 2004). Urbanization, in turn, generally has had a positive impact on economic development and poverty reduction. The density of people and businesses in cities facilitates knowledge and information sharing, fostering new enterprises and technological innovation. Approximately 80 per cent of global gross domestic product (GDP) is generated in cities (Grübler and Fisk, 2013).

There exists no common global definition of what constitutes an urban settlement. As a result, the urban definition employed by national statistical offices varies widely across countries, and in some cases has even changed over time within a country. India's urban areas are defined on the basis of two criteria. First, the state government grants municipal status – corporation, municipal council, notified town area committee or nagar panchayat, etc to a settlement. Such settlements are known as statutory or municipal towns in the census definition of urban areas. Second, if a settlement does not have an urban civic status, but satisfies demographic and economic criteria, like a population of more than 5,000, a density of 400 persons per square kilometer and 75% male workforce in the non-agricultural sector, it can be declared urban.

The rate at which the percentage urban grows or declines is called the urbanization rate. It is a function of the respective rates of change and relative sizes of the urban and rural populations in a country or a state. Data on decadal census are the main source of data for studies in urbanization. This chapter makes use of census 2001 and 2011 to study the trends in urbanization. Level of urbanization in India, measured as percentage of urban population to total population, increased from 27.81% in 2001 Census to 31.16% in 2011 Census. The proportion of rural population declined from 72.19% to 68.84%. The absolute increase in population is more in urban areas than rural areas as per the 2011 census. Maharashtra

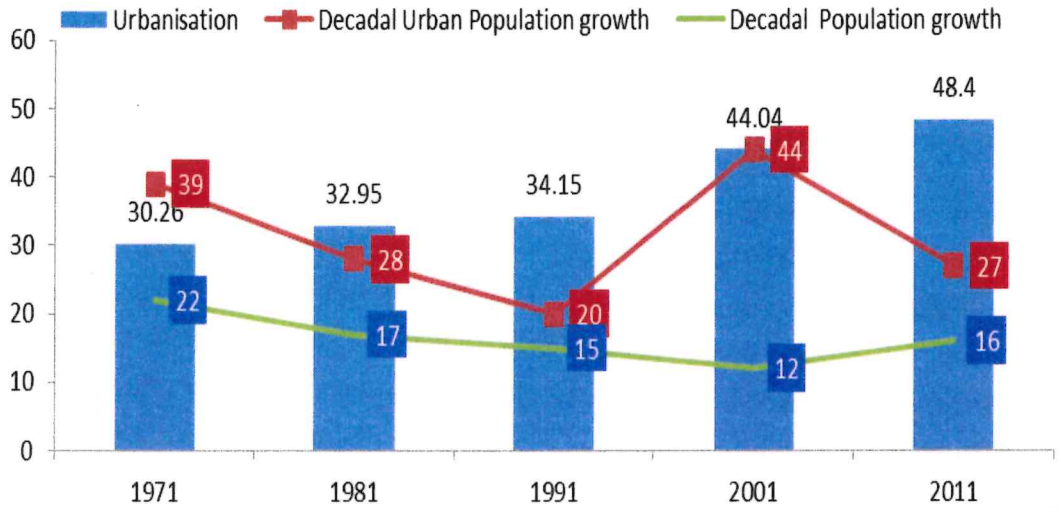
with 50.8 million (share is 13.5%), has the largest share of urban population as per 2011 census, followed by Uttar Pradesh with 44.4 million (11.8%) and Tamil Nadu 34.9 million (9.3%).

10.2 A macro picture of urbanization in Tamil Nadu.

As already mentioned in Chapter 1 the urban population of Tamil Nadu constitutes 48.4 % of total population according to 2011 census (Figure 10.1). Gradual increase in the urbanization level and growth in urban population has been witnessed in Tamil Nadu state since 1971 to 2011. In 1971, 30.26% of total population in Tamil Nadu residee in urban areas, there has been an increase in the percentage of people liveingin urban areas. As per the latest census report (census 2011), 48% of the population lives in the urban areas of the Tamil Nadu state. The decadal urban population growth is always higher than the total population growth ibetween 1961-1971 to 2001-2011.

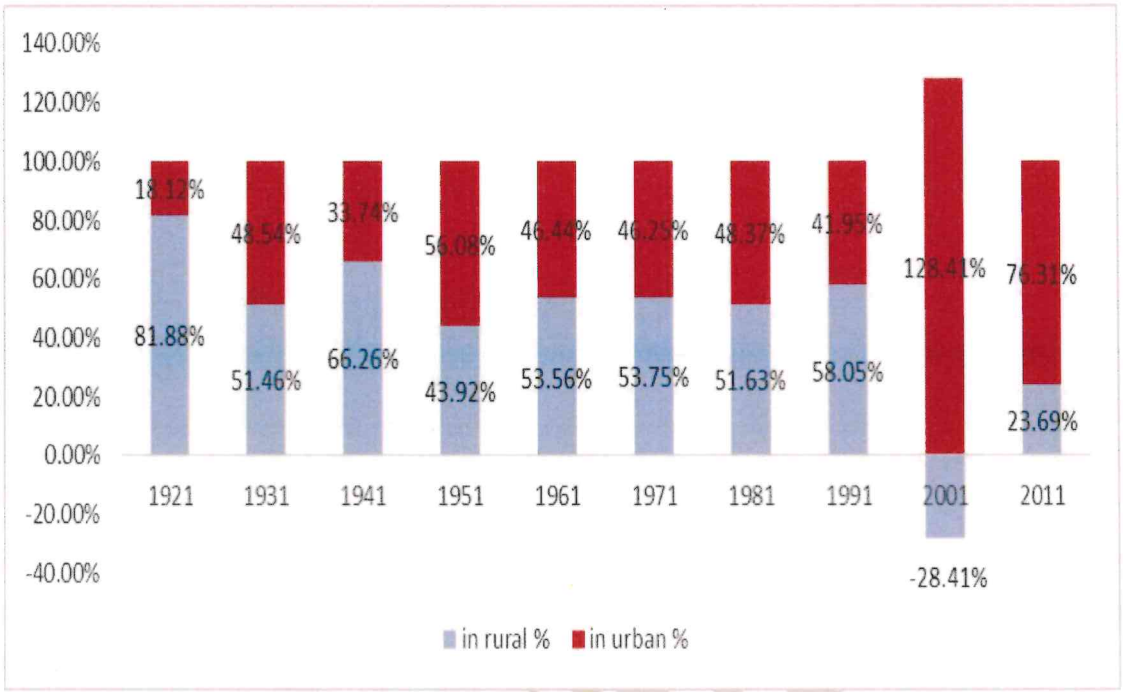
During the period of 1911 to 1921 only 18% increase in the migration of people from rural to urban areas of the Tami Nadu State (Figure 10.2). The successive periods shows a mixed trend of increasing and decreasing the growth of percentage of people migrated to urban areas. The record percentage increment of 128.41% occurred in the decade of 1991 to 2001. If these trends continuing, according to forecast, by 2026, 54 million people of Tamil Nadu state would be residing in the urban area constituting nearly 74.8 % of the state population (Source: Population Projection for India and States 2001-2026, Census of India).

Figure 10.1 . Trends in Urbanisation in Tamil Nadu 1971-2011



Source: Various census reports

Figure 10.2 Decennial variation of urban rural population (%)



Source: based on Table 10.1A in Appendix

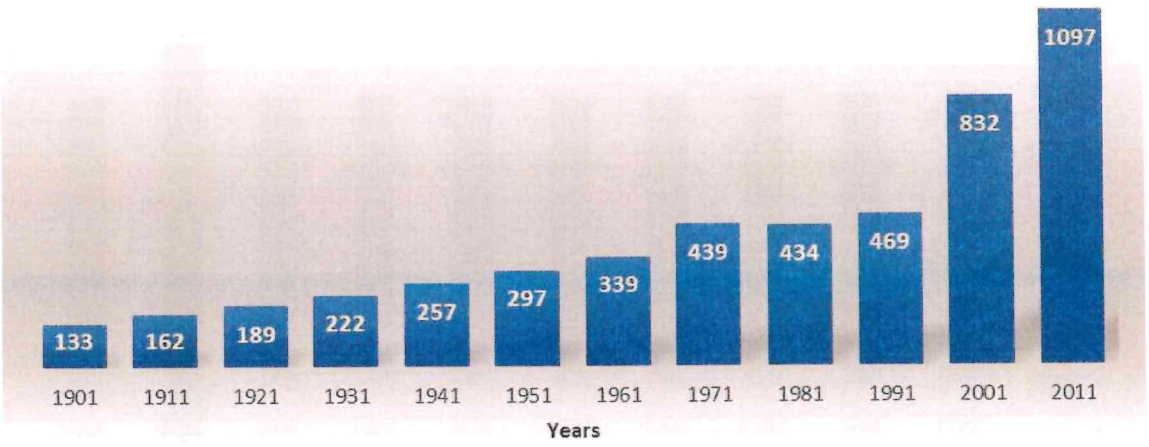
In line with overall trends in the Urbanization, there is an increase in the number of towns as defined by census. There were only 832 towns according to 2001 census and it increased to 1097 town in 2011. (Table 10.1 and Figure 10.3) There is no change in the number of statutory towns during this period, but the census towns increased from 111 in 2001 to 376 in 2011. The number of villages has decreased from 16317 in 2001 to 15979 in 2011.Details of Number of towns in each census from 1901 to 2011 are given in the Figure 10.3. It is evident that the growth in Towns had accelerated since 1991. The number of Towns have more than doubled in 2011 compared to 1991

Table 10.1 : Number of Census Towns and Statutory towns in 2001 and 2011

	2001	2011	Increase
No of Towns	832	1097	265
No of Statutory Towns*	721	721	0
No of Census Towns	111	376	265
No of Villages	16317	15979	-338

Source: Tamil Nadu Primary Census Abstract, Number of statutory towns has reduced to post 2011 census*

Figure 10.3 Number of Towns in Tamil Nadu 1901-2011



Source: Tamil Nadu Primary Census Abstract

10.3 District wise trends in Urbanization.

In 2001 Tamil Nadu state has 30 districts which have increased by 32 in numbers in 2001 (Krishnagiri and Tiruppur are new districts). Chennai is a 100% urban population district. After Chennai, Kanniyakumari, Coimbatore, Thiruvallur, and Kancheepuram are the most urbanized district in Tamil Nadu state. Perambalur, Villuppuram and Ariyalur are the least urbanized districts in Tamil Nadu. Krishnagiri District was formed by carving out five taluka and ten blocks of the erstwhile Dharmapuri district. Tiruppur district was formed in 2009, carved out of the Coimbatore and Erode districts making it the 32nd district of the Tamil Nadu.

Kancheepuram districts reported highest (65%) decadal growth in urban population among the rest of the districts of the Tamil Nadu followed by Thiruvallur (62%). On the other hand, four districts, Dharmapuri, Coimbatore, Erode and The Nilgiris reported a decrease in urban population for the same period of time. The reason behind the decrease in urban population in Dharmapuri, Coimbatore and Erode districts are the formation of two new districts.

Villupuram (16.0%) has recorded the highest decadal growth rate in rural population and Kancheepuram (65.4%) has the highest decadal growth rate in urban population during 2001-2011. Population density in Census 2011 works out to be 555 showing an increase of 75 points from 2001. Chennai (26,553) turns out to be the most densely inhabited followed by Kanniyakumari (1,111) in all districts, both in 2001 and 2011 Census. Ariyalur District (88.9%) has the largest proportion of rural population; Chennai (100%) has the highest proportion of urban population followed by Kanniyakumari (82.3%).

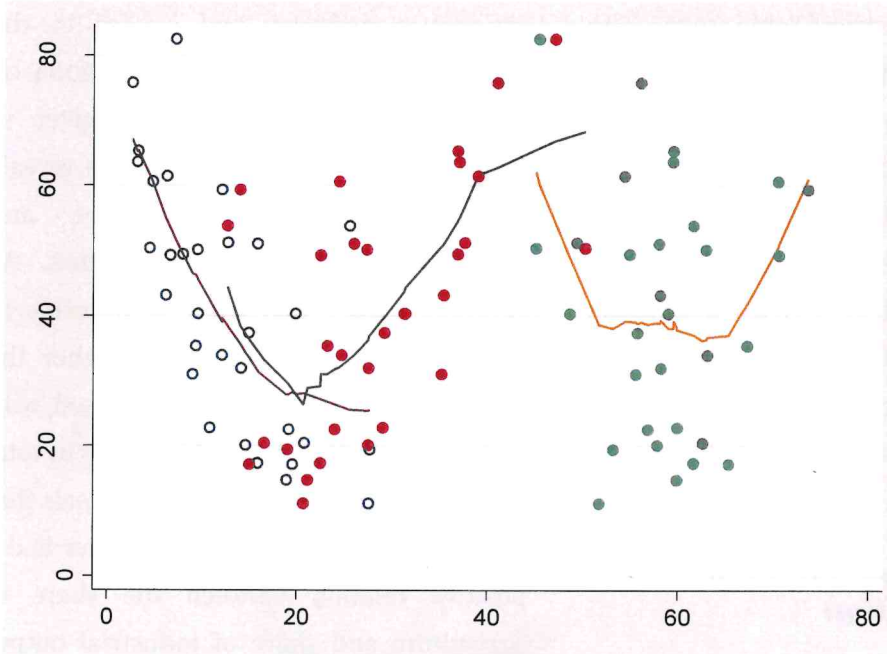
As our focus is on Urban Local Bodies the trends in population growth in the ULBs are analyzed for each district (Table 10.5A). The ULBs in all districts of Tamil Nadu have shown positive growths in population for the decade 2001-2011 except for the ULBs in The Nilgiris (Udhagamandalam). This trend is almost the same when compared with the entire-district-wise population growth rates. The ULBs in Kancheepuram (41.58) reported the highest population growth during 2001-2011. Followed by Thiruvallur (25.48).

10.4 Key driving forces of Urbanization

This section examines some of the key driving forces of urbanization at district level. Due to unavailability of data at ULB level for most of the important determinants we are not able to look into the factor at local level. However approximately 90% urban population of each district resides in local urban bodies the key driving factors of urbanization at district level can hold for ULBs. The reasons for urbanization can be many; the predominant push in urbanization comes in the form of migratory labor force. The labor force usually participates in infrastructure and service driven industries. Thus we can expect high correlation between industrial and service sector output with urbanization.

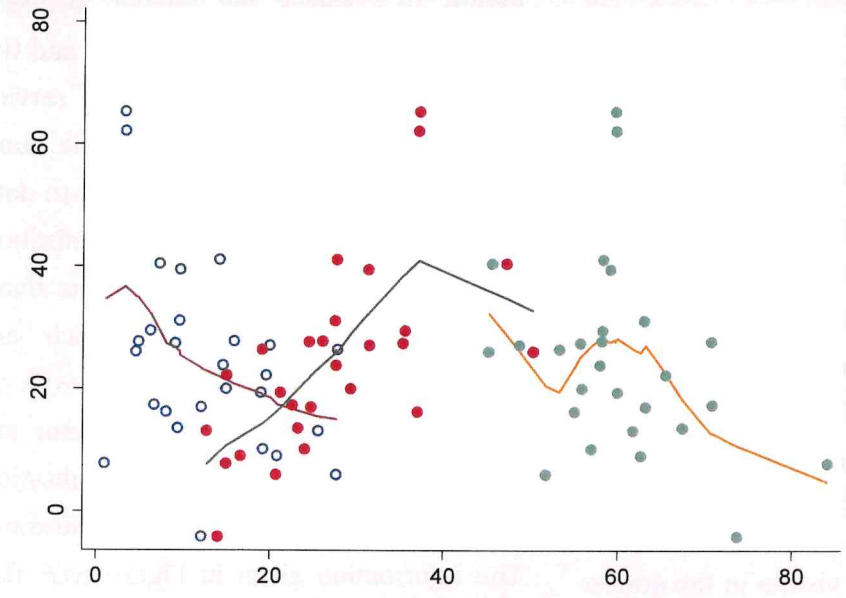
This pattern is clearly visible in the scatter plot given in Figure 10.4, 10.5 and 10.6. The relation between the urbanization as measured by urban population to total population in 2011 and the share of agriculture, industry and service to the Gross District Domestic Product (2004-05 prices) for the year 2009-10 is given in Table 10.4.The loess fit to the data reveals that the share of agriculture and urbanization are negatively related. As expected higher the share of industry in GDDP (if the share is 20%) higher the urbanization. Urbanisation decreased with an increase in the share of industry in total GDDP. A closer look at the data reveals that the Districts with has 20% and lower had a positive relation between the share of agriculture and share of industrial output (Nilgiris, Perambalur, Pudukottai, Ariyalur etc). The urbanisation rate has no relation with the share of districts for districts with the share of service between 50 to 70 %. (Majority of districts falls in this range). Figure 10.5 shows the relation between decadal urban population growth and the share of agriculture, industry and service sector. The results indicate that the more industrialized districts as per 2009-10 data witnessed higher growth in urbanization population. The relation between the share of agriculture sector and service are negative in general. But the districts with 50 to 60 percent share of service sector are positively related. The industrialisation have a strong influence on urbanisation. The information given in Figure 10.6 also gives similar inference.

Figure 10.4 Urbanization vs share of agriculture, service and industry sectors



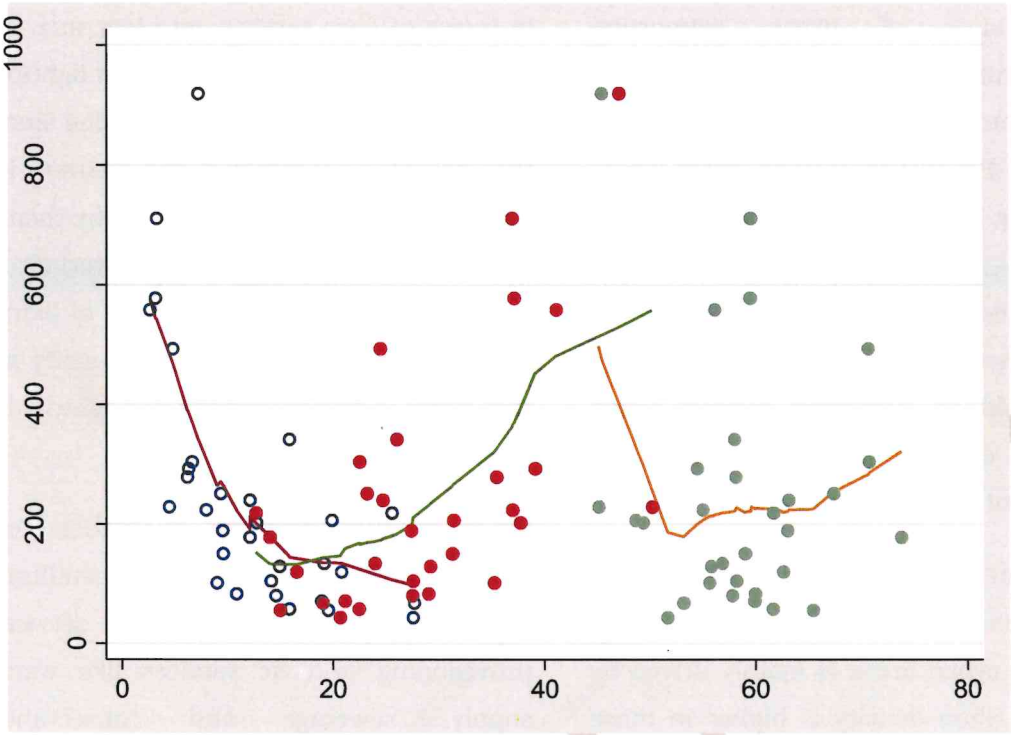
Note : Share of agriculture (circle dots) industry(red dots) and service sector to total District GDP is given in X axis . Chennai was excluded as it was an outlier with 100% urbanisation

Figure 10.5 Urban Population growth and share of agriculture, service and industry sectors



Note : Share of agriculture (circle dots) industry(red dots) and service sector to total District GDP is given in X axis

Figure 10.6 Urban Population Density vs share of agriculture, service and industry sectors



Note : Share of agriculture (circle dots) industry(red dots) and service sector to total District GDP is given in X axis, Chennai was excluded as it was an outlier with very high population density.

The spatial pattern of urbanization (Figure 10.1A) also reveals that there is a trend toward agglomeration around industrialized regions and special economic zones – especially that around the Thiruvallur District near stretching out from Poonamallee and in the Kancheepuram District – Sriperumbudur along the MEPZ (Madras Export Processing Zone). These take advantage of the transportation accessibility which the industrialized zones are integrated with. Towns such as Kundrathur Sembakkam, Mangadu and Perungalathur in Kancheepuram district are heavily industrialized and are extremely well connected with Chennai. Similarly Tiruverkadu in Thiruvallur District is another industrial area extremely well connected with Chennai.

10.5 *Issues and problems faced by Fastest Growing Urban centers*

Given the trend in urbanization, ULBs in Tamil Nadu are not able to accommodate the scale of inflow into the districts and thus there is a very haphazard development of slums. Inward migrations and slum-settlements create a distortion in the natural state of the districts predominantly in terms of its demography. There would be

increased pressure in social and welfare services and a need to upgrade the status of infrastructure and civic services9. The current state of urban supporting infrastructure is very bad in Municipal Corporation[10]. The state of Municipalities and Town Panchayats is even worse where basic civic necessities are very sparsely available – and even if available, they are over-utilized and under-maintained. This is because there is no clear understanding of who should be providing services when there is a clear conflict between the state government and the local bodies.

The productive capacity of cities crucially depends on the workforce which is driving it; this in urban areas is mainly driven by migrants. Slum density is higher in those districts with metropolitan corporations since they house most of the non-notified slums and shanties. These non-notified slums are where the migrant working class is housed – there is an urgent need to formalize the housing status of migratory workers since the floating population base of most ULBs needs urgent stabilization (Table 10.6A). They contribute towards urban productivity in a very significant manner but are unable to find living space and thus become a burden on urban infrastructure. They usually put up temporary, unauthorized and illegal structures in slums as shelter. The slum and shanties which are spread throughout ULBs on their peripheries become a major burden in terms of civic services on costs such as water & sewerage, connectivity and lighting services. They are an onerous burden since they provide very minimal cost recovery in part of the urban space occupied by them; on a holistic note, the migrant workforce should be given adequate amount of living space and amenities with good quality so that there is a level-harmonious growth in the population of the ULB.

Similarly, the floating population on average yearly basis poses huge expenditure strain on ULBs. This includes services provisioning of civic services like water supply, sewerage and conservancy (including education, roads, upkeep and maintenance of civic amenities). If these structures and expenditures were made formalized, it would be better in anticipating future expenditures and incidences. All this would in all, help with the overall development of the ULBs.

As a whole, the negative impacts which are imposed by urbanization need to be carefully planned for in terms of contingencies and thus mitigated by developing strategies which can take care of the major problem which occur in providing basic civil amenities in urban areas. The State Government needs to prepare an urbanization strategy which takes into account the specificities of Urban Areas through their linkages with rural areas, the

[9] The Isher Judge Ahluwalia Committee estimates that 40 lakh cr. needed on infrastructure investment itself

[10] As discussed in the previous chapters the own revenue sources are not sufficient to cover the revenue expenditure in many ULBs.

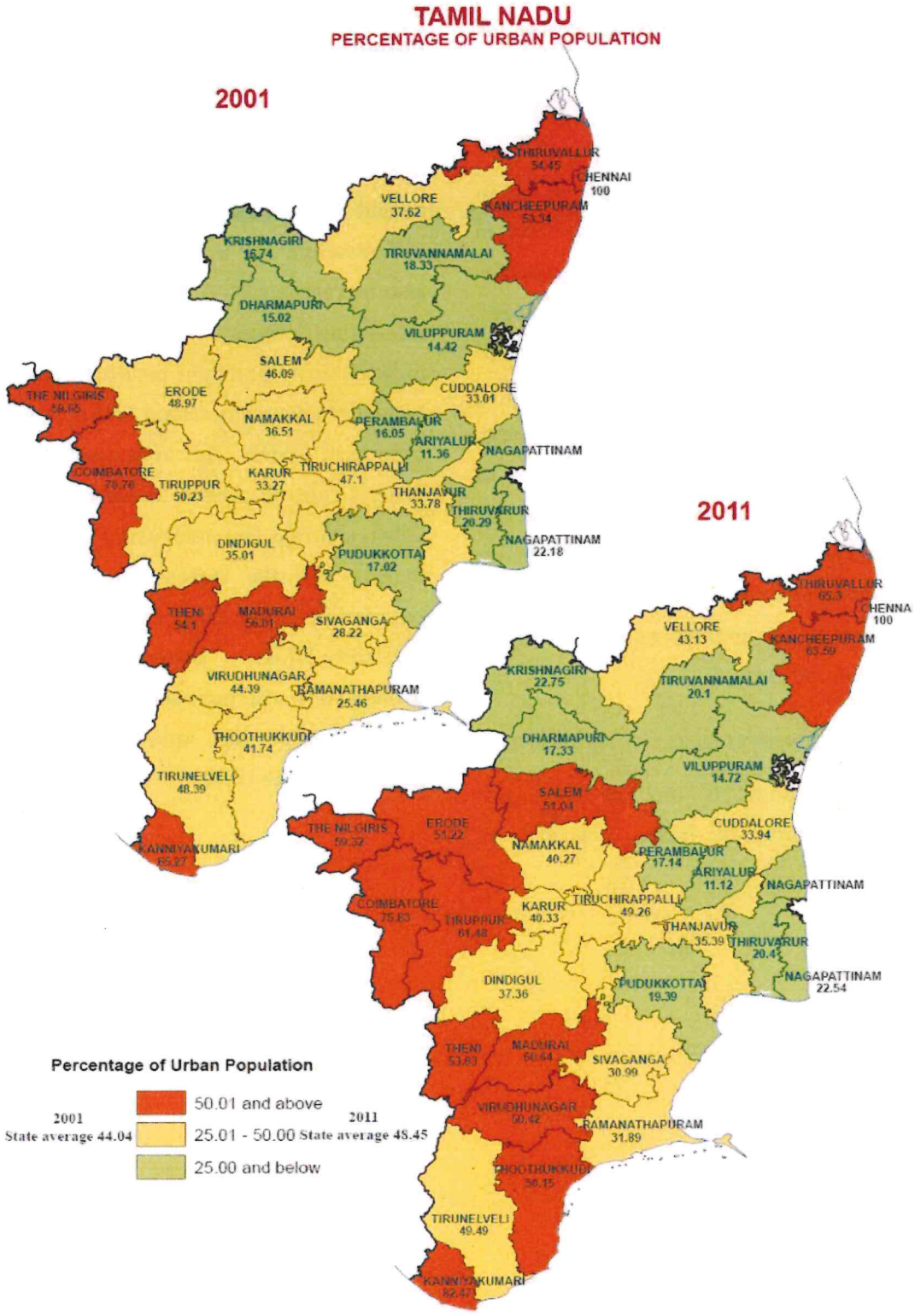
inter- sectoral as well as spatial features of the ULB.

The acuteness of the problems faced by ULBs can be countered with the right mode of policy instruments which have coherent impacts. If the impacts are not too interactive in nature and have direct effects (policy-wise) then they can be put in use in an urban framework. Since the urban spaces have very diverse population structure separated by thin boundaries, thus policy specificity has to be a major objective if they are to be implemented in ULBs. The goals of urbanization strategy should involve strengthening the scope of action of the ULBs by giving them better financial autonomy and devolve more funds towards them so that a ULB is able to meet the needs to the present as well as future urban populations.

10.6 Summary and Conclusion

The Tamil nadu is one of the most urbanised states in India. The rate of growth of urbanisation in Tamil Nadu is higher than the rate of urbanisation at National level. The urbanisation rate is increased considerable in the post liberalisation era. The urbanisation seems to highly correlated with the industrialisation in Tamil Nadu. The districts with higher share of industrial output have reported faster rate of urbanisation. The urban population density also increases with increase in the share of industrial output. The results doesn't indicate any significant positive correlation between urbanisation and share of service output in GSDP. The urbanisation in the state is centred around already established urban centres. The increasing level of slum density and the increase in the floating population poses huge expenditure strain for the ULBs Increasing trends in urbanisation also pose serious challenges in the quantity and quality of services provided by the ULBs.

Figure A10.1. Maps of Tamil Nadu for 2001 and 2011 according to the level of Urbanisation



Source: Provisional Population Totals, Census India 2011

Table A10.1: Tamil Nadu Urban Rural Share 1971-2011

Year	Population			Increment during the decade		
	Total	Rural	Urban	in Total	in Rural	in Urban
1971	41199168	28734334	12464834	7512215	4037909 (53.75%)	3474306 (46.25%)
1981	48408077	32456202	15951875	7208909	3721868 (51.63%)	3487041 (48.37%)
1991	55858946	36781354	19077592	7450869	4325152 (58.05%)	3125717 (41.95%)
2001	62405679	34921681	27483998	6546733	-1859673 (-28.41%)	8406406 (128.41%)
2011	72147030	37229590	34917440	9741351	2307909 (23.39%)	7433442 (76.31%)

Source: Census (2011)

Table A10.2: Tamil Nadu Urban Population Growth, 1971-2011

Year	No. of Towns	Total Population	Urban Population	Percentage of Urban Population
1971	439	41199168	12464834	30.46
1981	434	48408077	15951875	32.95
1991	469	55858946	19077592	34.15
2001	832	62405679	27483998	44.04
2011	1097	72147030	34917440	48.40

Source: Census (2011)

Table A10.3: District wise urbanization and decadal growth

Districts	Percentage of urban population to total population in districts		Decadal Growth in urban population
	2001	2011	(2001 to 2011)
Ariyalur	11.36%	11.10%	6.09%
Chennai	100.00%	100.00%	6.98%
Coimbatore	66.02%	75.73%	-7.14%
Cuddalore	33.01%	33.97%	17.34%
Dharmapuri	15.96%	17.32%	-42.78%
Dindigul	35.01%	37.41%	20.02%
Erode	46.25%	51.43%	-3.01%
Kancheepuram	53.34%	63.49%	65.37%
Kanniyakumari	65.27%	82.33%	40.76%
Karur	33.27%	40.82%	39.60%
Madurai	56.01%	60.78%	27.88%
Nagapattinam	22.18%	22.56%	10.40%
Namakkal	36.51%	40.32%	27.68%
Perambalur	16.05%	17.19%	22.65%
Pudukkottai	17.02%	19.55%	27.36%
Ramanathapuram	25.46%	30.34%	35.82%
Salem	46.09%	50.95%	27.62%
Sivaganga	28.22%	30.83%	26.61%
Thanjavur	33.78%	35.39%	13.73%
The Nilgiris	59.65%	59.24%	-4.17%
Theni	54.10%	53.82%	13.29%
Thiruvallur	54.45%	65.14%	61.88%
Thiruvarur	20.29%	20.39%	8.66%
Thoothukkudi	42.28%	50.10%	31.89%
Tiruchirappalli	47.10%	49.15%	17.46%
Tirunelveli	48.03%	49.40%	16.20%
Tiruvannamalai	18.33%	20.08%	23.50%
Vellore	37.62%	43.24%	30.12%
Viluppuram	14.42%	15.01%	21.59%
Virudhunagar	44.39%	50.47%	26.10%
Krishnagiri		22.79%	NA
Tiruppur		61.36%	NA

Source: Census 2011

Table A10.4: District Wise Categorization of ULBs

Row labels	Municipal Corporation	Municipality	Census Town and Town Panchayats	Grand Total
Kanniyakumari	0	4	54	58
Erode	1	3	42	46
Coimbatore	1	2	34	37
Salem	1	3	33	37
Tirunelveli	1	7	33	41
Dindigul	0	3	24	27
Kancheepuram	0	7	20	27
Theni	0	5	20	25
Thanjavur	0	3	19	22
Vellore	1	12	18	31
Thoothukkudi	1	2	17	20
Namakkal	0	5	17	22
Viluppuram	0	3	15	18
Tiruchirappalli	1	4	14	19
Tiruppur	1	4	14	19
Cuddalore	0	5	14	19
Karur	0	2	11	13
The nilgiris	0	3	11	14
Sivaganga	0	3	10	13
Thiruvallur	0	4	10	14
Virudhunagar	0	6	10	16
Madurai	1	3	9	13
Dharmapuri	0	1	9	10
Nagapattinam	0	4	9	13
Tiruvannamalai	0	2	9	11
Pudukkottai	0	2	7	9
Ramanathapuram	0	4	7	11
Thiruvarur	0	4	7	11
Krishnagiri	0	2	6	8
Perambalur	0	1	4	5
Ariyalur	0	2	2	4

*Source: Census 2011*Chennai Metropolitan Corporation Omitted*

Table A10.5: Decadal population and growths of ULBs in every district.

Row labels	Population ULBs 1991	Population Growth ULBs 1981-91	Population ULBs 2001	Population Growth of ULBs 1991-01	Population of ULBs 2011	Population Growth 2001-11	Number of ULBs 2011
Kancheepuram	520285	20.44	874471	17.41	1178619	41.58	27
Thiruvallur	329661	24.24	524480	15.17	722036	25.48	14
Krishnagiri	116773	11.82	230173	60.65	285512	20.91	8
Viluppuram	206463	2.00	414654	3.39	509106	20.84	18
Perambalur	26451	8.30	79220	8.45	97163	18.66	5
Sivaganga	193980	15.57	280936	11.49	335775	18.21	13
Tiruppur	403670	10.96	728741	15.36	881176	17.68	19
Ramanathapuram	207784	10.11	302394	8.20	344175	17.49	11
Cuddalore	432587	8.98	591394	3.26	675830	16.73	19
Madurai	1055443	6.42	1156210	7.24	1263931	15.50	13
Theni	317497	4.06	532418	2.71	604646	14.93	25
Pudukkottai	151062	10.35	213842	4.69	239451	14.90	9
Coimbatore	1102469	3.13	1573785	7.60	1802614	14.23	37
Vellore	811531	10.31	1076982	9.53	1181816	13.69	31
Dharmapuri	94993	5.89	183278	3.51	204139	13.00	10
Namakkal	263247	5.88	499642	6.41	557105	11.61	22
Salem	629161	3.07	1362096	5.68	1562360	11.34	37
Karur	113605	2.41	234227	4.53	252701	11.15	13
Dindigul	332397	4.48	646060	4.72	704854	10.97	27
Kanniyakumari	270109	0.83	1069428	0.57	1176167	10.88	58
Tirunelveli	504563	4.36	1230378	2.40	1383180	10.67	41
Thiruvarur	150945	8.08	237243	3.83	257795	9.40	11
Tiruvannamalai	156820	4.43	288391	4.61	318434	8.35	11
Nagapattinam	247509	6.89	341761	10.25	366867	7.71	13

Virudhunagar	361489	7.48	506198	3.80	530030	7.43	16
Chennai	3841396	17.24	4343645	13.07	4600000	6.98	1
Erode	308550	4.15	708331	0.64	758963	6.92	46
Thanjavur	466752	8.21	667981	1.77	703337	6.56	22
Tiruchirappalli	572488	7.43	1118287	6.53	1235767	5.99	19
Ariyalur	24141	4.25	78985	3.81	83794	5.21	4
Thoothukkudi	413861	8.41	557272	6.12	603446	4.57	20
The nilgiris	272456	9.74	388800	6.42	372696	-7.43	14

Source: Various census reports

Table A10.6: District Wise (Only ULB figures) of Slums, BPL and Floating Populations

Row labels	Pop 2011	Slum Pop	Number of Slums	Slum Density	BPL Pop (2004)	% of BPL Pop	Floating Pop	Ratio - Floating to Total	Slum to Tot Pop
Madurai	1263931	513753	300	1712.51	537138	15.00	413543	25.05	40.65
Chennai	4600000	1827372	1332	1371.90	1338652	29.01	2200000	47.83	39.73
Tiruppur	881176	295972	370	799.92	222985	15.66	483462	35.10	33.59
Nagapattinam	366867	112862	216	522.51	100399	23.00	136147	46.80	30.76
Tiruchirappalli	1383180	422365	448	942.78	226583	17.79	621828	112.73	30.54
Vellore	1181816	357289	531	672.86	171142	55.16	500866	34.96	30.23
Coimbatore	1802614	519444	421	1233.83	412618	12.41	707989	19.11	28.82
Ariyalur	83794	23901	30	796.70	12050	13.95	41092	45.88	28.52
Thiruvarur	257795	72053	174	414.10	70093	22.98	81388	25.51	27.95
Tiruvannamalai	318434	86610	55	1574.73	87634	26.21	149886	23.33	27.20
Kancheepuram	1178619	313496	312	1004.79	200203	20.27	649436	48.67	26.60
Krishnagiri	285512	73819	647	114.09	61219	16.52	340381	54.83	25.85
Theni	604646	153302	161	952.19	68804	12.35	197735	66.92	25.35
Virudhunagar	530030	134073	154	870.60	60758	11.32	326140	63.23	25.30
Cuddalore	675830	169806	1477	114.97	102113	16.22	274739	40.84	25.13
Erode	758963	181743	450	403.87	151878	10.36	270163	37.03	23.95
Thoothukkudi	603446	140220	110	1274.73	163475	17.36	1365329	349.91	23.24
Ramanathapuram	344175	79801	105	760.01	42844	23.24	203930	57.84	23.19
Perambalur	97163	19591	18	1088.39	8744	7.25	100260	112.96	20.16
The nilgiris	372696	71072	178	399.28	74420	17.55	115135	15.88	19.07
Dharmapuri	204139	36450	48	759.38	22783	21.55	123700	61.50	17.86
Sivaganga	335775	51721	188	275.11	60720	14.99	154626	33.23	15.40
Namakkal	557105	82691	174	475.24	87909	34.89	141430	20.69	14.84
Kanniyakumari	1176167	49048	474	103.48	215065	17.52	982011	75.62	4.17

Based on SFC data, Omits those districts which have a BPL% of more than 100.

CHAPTER 11

The Income and Expenditure Pattern of ULBs with Focus on FGUC

11.1 Introduction

In the last 20 years, the pace of urbanization in Tamil Nadu has been very fast. According to the 1991 Census, only 34.15% of the total population in Tamil Nadu was classified as urban but in 2011, it has risen to 48.45%, an increase of 14.3%. It tops the list of urbanized states with 48.45% of its population living in urban areas, followed by Kerala, Maharashtra and Gujarat. Tamil Nadu has emerged as the most urbanized State and as per the Socio Economic and Caste Census 2011, of the total households in the State 42.47 per cent are in urban areas. Even spread of small, medium and major towns, migration of people from rural areas in search of employment and the presence of industrial estates in all districts contributed to speedy urbanization of Tamil Nadu. Constraints including lack of purchasing power, security of tenure of land, unclear titles of house property in rural areas, unavailability of flexible housing finance system, lack of awareness about building technologies and paucity of public fund are resulting in inadequate housing and habitat conditions especially for the poor and economically weaker Sections. While urban population in Tamil Nadu grew by 27 percent, reported slum population has grown from 28.38 lakh to approximately 59 lakh, a growth of 150 percent (Working Group Report on Housing, Tamil Nadu). Although Tamil Nadu stands at the forefront of the urbanization trend, yet various challenges relating to service and governance in urbanized areas need to be tackled. Moreover, in the coming decades, the urban sector will play a crucial role in the structural transformation of economy.

11.2 Identifying Fast Growing Urban Centres (FGUCs)

We have used data on population of ULBs from Census 2001 and 2011 to identify the FGUCs in Tamil Nadu[11]. We have stratified ULBs into three FUGC groups limiting the number to 42 in each group. The FUGCs so identified are given in Tables 12, Table 13 and 14 at appendix section of this chapter.

Table 11.1 provides a snapshot of the fast growing urban centers in the state of Tamil Nadu.

[11] The ULBs were reorganised post 2011 census, but this study use Census 2011 classification.

Table 11.1: Classification of Fast Growing Urban Centers (FGUC) in Tamil Nadu

Category	Number
Total Fastest Growing Urban Centers (FGUC 1+FGUC 2+FGUC 3)	**126**
FGUC 1	**42**
Municipalities	**9**
Town panchayats	**33**
FGUC 2	**42**
Municipalities	**5**
Town Panchayats	**36**
Corporations	**1**
FGUC 3	**42**
Municipalities	**6**
Town Panchayats	**36**

Source: Authors' calculation from TNSFC –Census data

The demand for funding urban infrastructure services has been lifted up in many folds due to rapid urbanization. Since public revenues for these services are inadequate, Urban Local Bodies (ULBs) should hunt for alternative sources to finance the infrastructure and other basic need. The objective of this chapter is to closely examine the municipal financial pattern for fast growing urbanized centres in search of untapped potential of revenue sources to the urbanization process in Tamil Nadu. Further, the revenue management of urban local bodies (ULBs) has been assuming much greater importance with the urban areas gradually becoming more important not only to serve the population growth but also for inclusive economic growth.

However, the performance (both physical and financial) of urban local government may vary between the municipalities (of cities) and Municipal Corporation of larger urban agglomerations as well as amongst themselves (Nallathiga, 2008). In this regard, we examine one such parameter – the municipal finance, which varies widely across the urban local bodies. There are reasons of such variation, as evident from several studies, however neither any clear cut explanation could be provided for the same, nor is it prudent to provide so. As, in India, due to its inherent variety the urban local bodies also has either acquired or inherited those varieties which gets reflected in its functioning as well as finances.

11.3 Present Status of Functional Domain of ULBs

Municipal finance addresses issues around expenditure at the local level and accountability for expenditure and revenue decisions including the municipal budgetary process and financial management (UN Habitat, 2009). There are three types of urban local bodies with

different sizes. From municipal corporation (which do have smaller units such as wards within them) down to municipalities to town and notified area communities, but the latter are not component of municipal corporations (Singh, 1997). However, for urban areas with population over five lakhs and having last three year's average annual incomes over ₹ 300 million are classified as Municipal Corporation and those with population over 30,000 and income over ₹ 5 million as municipalities. This land mark 74th Constitutional Amendment Act (CAA, henceforth) provide for direct election to the general bodies of their local bodies headed by a mayor and consisting of elected councilors (Venkatachalan, 2007).Thus, municipal finance is about the revenue and expenditure decision of municipal governments. It covers the sources of revenue that are used by municipal government such as taxes (property, income, sales, and excise taxes), user fees and intergovernmental transfers. It includes ways of financing infrastructure through the use of operating revenues and borrowing as well as charges on developers and public private partnership.

The 74th amendment provides for a schedule of functions (schedule 12) i.e., considered appropriate for the ULBs. The list reproduced else-were, envisage that ULBs should assume responsibilities for such functions as planning for social and economic development, urban poverty alleviation, urban planning and regulation of land use, slum improvement and urban forestry, in addition to their additional role as entities for supplying basic infrastructure and services. The list is discretionary. It is the discretionary nature of the list that led many to interpret that the reallocation of schedule 12 responsibilities between state and municipalities is a matter for the state to be determined, given that the states in India are at different stages of development and given the uneven capacities and undertaking additional responsibilities, the incorporation of schedule 12 function and their de facto transfer is an evolutionary and incremental process (Mathur and Petersone, 2006).

Urban local bodies in states play a crucial role in the delivery of social and economic services (public health, education, housing, and urban development), and in the provision of infrastructure (power, irrigation, and transport). They together are responsible for executing Central Government policies and programs, including those for alleviating poverty and providing social security. The 74th amendment of the constitution was meant to distinguish the functions and financial powers of the local governments. The 12th schedule of the Constitution provides for the eighteen functions that are to be undertaken by the urban local bodies e.g. Urban Planning including town planning, roads and bridges, fire services, urban poverty alleviation etc. To undertake and thereby maintain the said 18 functions, the role of both finances and functionaries are crucial. Here, given the mandate, we

discuss about the municipal finances in the state to the extent possible.

11.4 *Fiscal Powers of ULBs in Tamil Nadu*

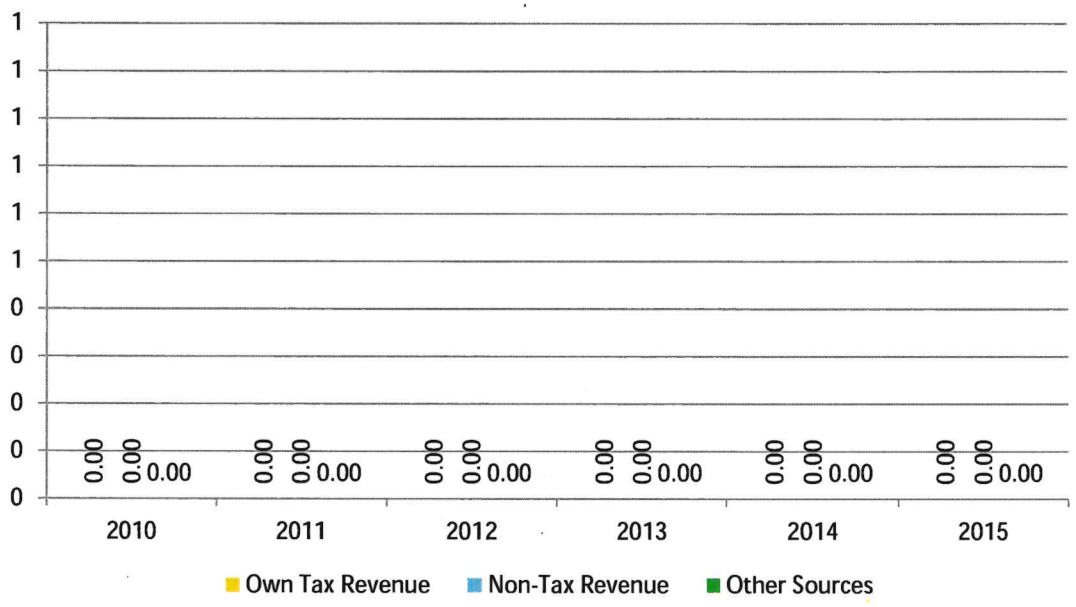
The revenue base of the urban local bodies consists of their own tax and non-tax income, grants as defined by the Finance Commission, grants and loans from the higher level of governments, and market borrowings. The constitution of India specify about the taxes that are to be divided between the union government and the state governments. The fiscal powers of ULBs have typically comprised of property taxes, octori (a tax on the entry of goods in to local areas for consumption), advertisement taxes, entertainment taxes, taxes on profession, trades, calling and employment and others. The general postulate underline the assignment of the fiscal power is that the revenue from these taxes should be adequate to meet the operational expenditure of ULBs, however, given the relative inflexibility and low buoyancy of many of these taxes and the defaulting in adjusting in local tax rate, state governments have traditionally used a system of grants-in-aid and tax sharing arrangements for bridging the revenue gap faced by the ULBs. In addition to grant and tax sharing the state government utilizes the instrument of specific purpose grant, often extensively, for advancing state level goals and mandates. It is important to note that unlike in centre state fiscal relations which are clearly set out, the state municipal acts do not provide for transfer to ULBs or do so under specific circumstances. Transfers are thus determined in an ad-hoc manner (Mathur and Peterson, 2006).

In case for Tamil Nadu, the combined revenue for all the FGUC's did grow during the period 2010-2015 with a compound annual average growth rate (CAGR) of 13.06 %. However, a breakup of this income pool would reveal that the major contributor in this revenue growth was the grants that the ULBs received under different heads. Figure 11.4 and 11.2 help us to justify the said scenario for the FGUC's. It is quite evident from Figure 11.1 and Figure 11.2 that over the years in concern the magnitude of total revenue pool may be impressive with an overall CAGR of 13.06 % but, the distribution of contributors has been quite unimpressive for the FGUC's. The share of own tax revenue and non-tax revenue revolves around much below 30 percent of total revenue. Also a minute observation would reveal that the performance of non-tax revenue, a form of indirect taxation, has been better compared to own revenue from 2010-2015.

Figure 11.3 summarizes the fact. It is seen that the own tax pool is largely dominated by property tax, though the collection remained on an average around 33.85 %. The contribution of 'other taxes' in the own tax pool, shows a slight improvement during the years in concern with its share in the own tax pool rising from 12.66% to 15.64%. This certainly shows that the government has

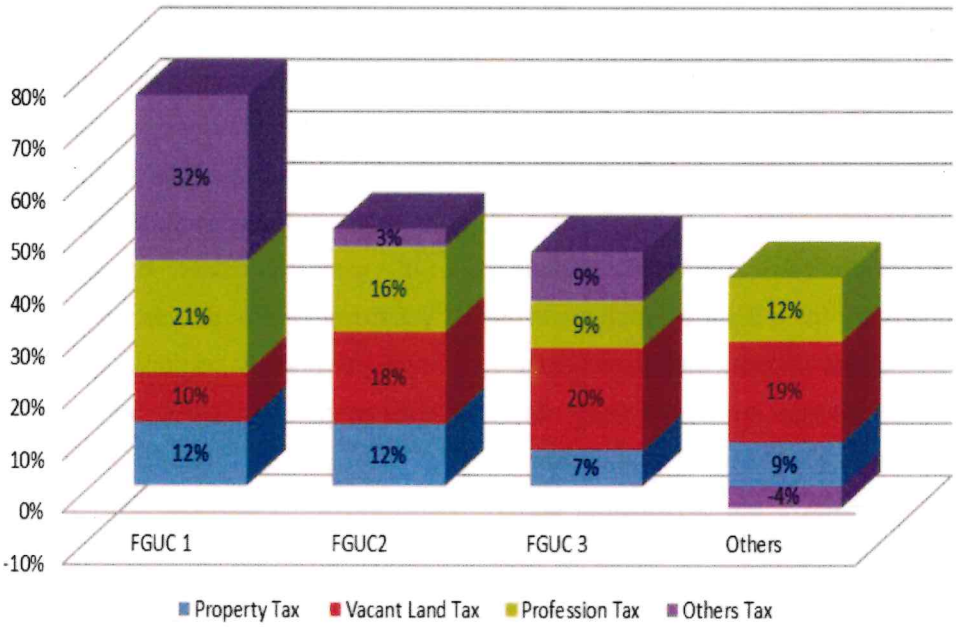
been trying to strengthen the tax base coming under this category.

Figure 11.1: Distribution of Total Income of the FGUC's in Tamil Nadu (2010-2015, in %)



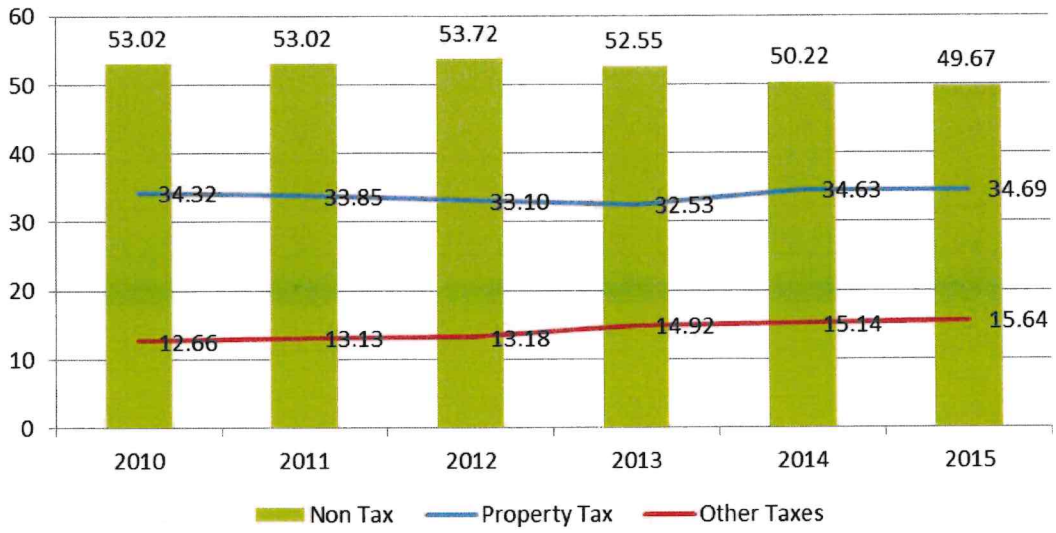
Source: Authors calculation based on Table 8, Table 9, Table 10 in Appendices

Figure 11.2: Own Tax Revenue in FGUCs and Others (Compound Average Growth Rate over 5 years)



Source: Authors calculation based on Table 8, Table 9, Table 10 in Appendices..

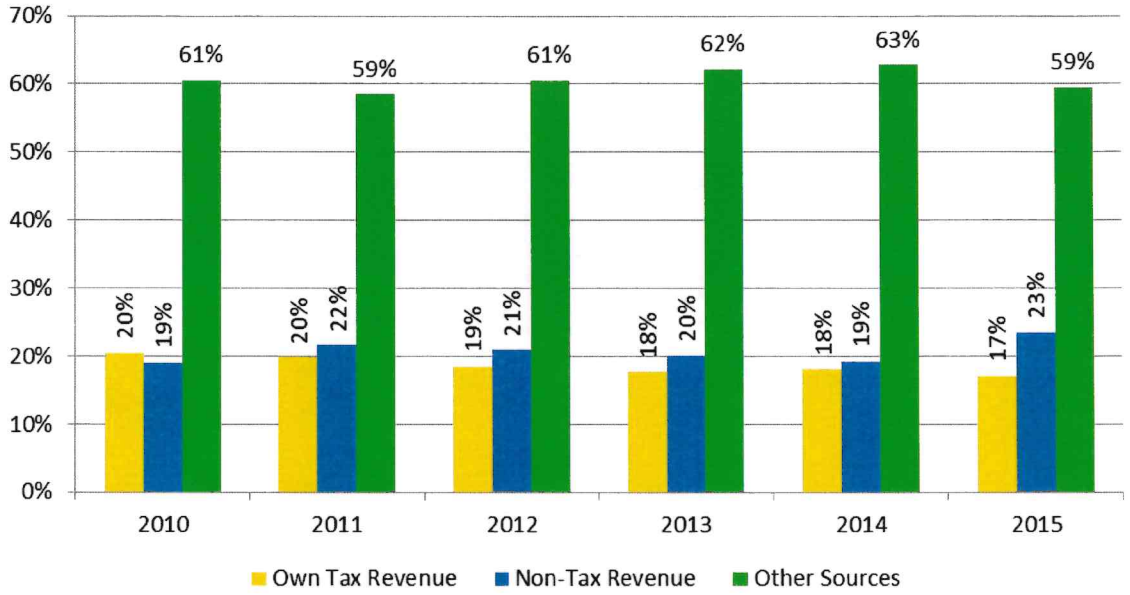
Figure 11.3: Distribution of Combined Own Revenue Pool for the FGUC's in Tamil Nadu during 2010-2015 (in %)



Source: Authors calculation based on Table 8, Table 9, Table 10 in Appendices

The major players in the 'other sources' comprises of SFC Devolution plus Assigned Revenues and Grants from State Government. Needless to mention that, direct taxation is still perceived as a prudent source of taxation by the local bodies and the result being the slow pace of own tax revenue collection over the years. Now, too much dependence on transfers over the years simply impacts upon the autonomy of the local bodies and also growth of non-tax over the years might not be fruitful if continued indefinitely. The FGUC's should , by all means try to strike a balance between these three major sources and pave forward towards self-reliance in the coming days. However, looking at Figure 11.4, it seems that the non-FGUC's are performing better compared to the FGUC's in terms of own revenue generation. As evident, the magnitude of dependence from other sources has been much less compared to the FGUCs. This is indeed a welcome step. Having said so, the figure also reveals that in the total revenue pool, non-tax revenue has been a preferred mode and the contribution has risen from 19% to 23% from 2010 to 2015 respectively. On the other hand, the contribution of own tax in the said pool is gradually declining from 20% during 2010 to 18% during 2013 to 17% in 2015. The reason needs to be understood and sorted with. For example, is it a reflection of low collection, or untapped tax base or something else? Whatever be the reason, such decline in the own tax pool is certainly not expected and thus needs to be sorted out immediately.

Figure 11.4: Distribution of Total Income of the Non-FGUC's in Tamil Nadu (2010-2015, in %)



Source: Authors calculation based on Table 10 in Appendices.

Figure 11.5 throws some more insight into the revenue pattern from 'other sources' for the FGUC 1, FGUC 2,FGUC 3 and the Non-FGUCs. The patterns are not really progressive over the years (2010-2015). Rather, what is evident that that compared to 2010, the dependency on state transfers during 2015 for these four categories is on an average stagnant.

Figure 11.5: Revenue Structure of FGUCs and Others (Compound Average Growth Rate over 5 years)

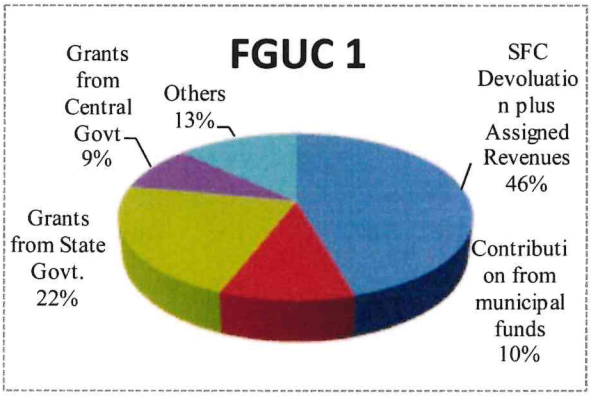
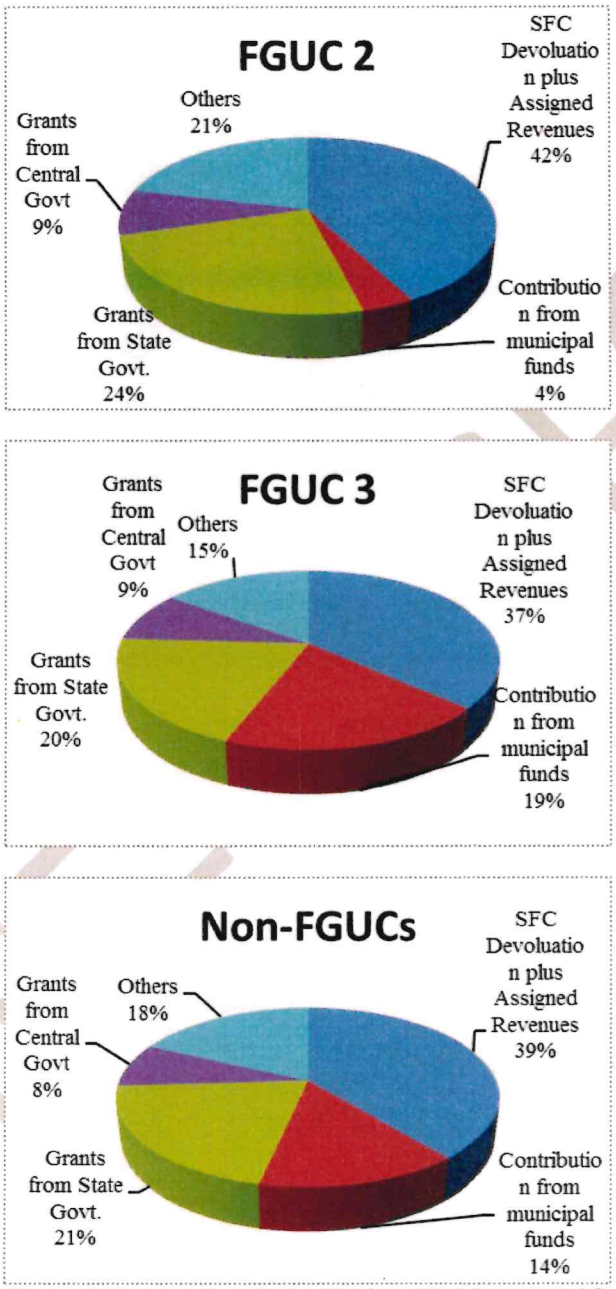


Figure 11.5: Revenue Structure of FGUCs and Others (Compound Average Growth Rate over 5 years) (Cont...)



Source: Authors calculation based on Table 8, Table 9, Table 10, Table 11 in Appendices..

As already mentioned that, it is these other sources that constitute the major revenue pool for the ULB's in Tamil Nadu, and in that the reliance on the state transfers are quite evident. The need for a massive municipal reform, taking care of the function-functionaries and the governance is a dire need- if at all self-reliance is the final objective. The reform should categorically emphasize on the systematic generation and archiving of the data set for all categories. Especially, for

the grants devolved through the SFC's there should be a milestone based approach, which would specifically target to empower the ULB's towards self-reliance.

Now we can estimate collection efficiency for property tax collection specifically for 3 different FGUCs using ratio of arrear demand to current demand and ratio of arrear collection to arrear demand. Higher arrear collection to arrear demand and lower percentage of arrear demand to current demand indicate collection efficiency. FGUC 1 has been improving its performance over last five years compare to other urban centres.

Table 11.2: Collection Efficiency Indicators

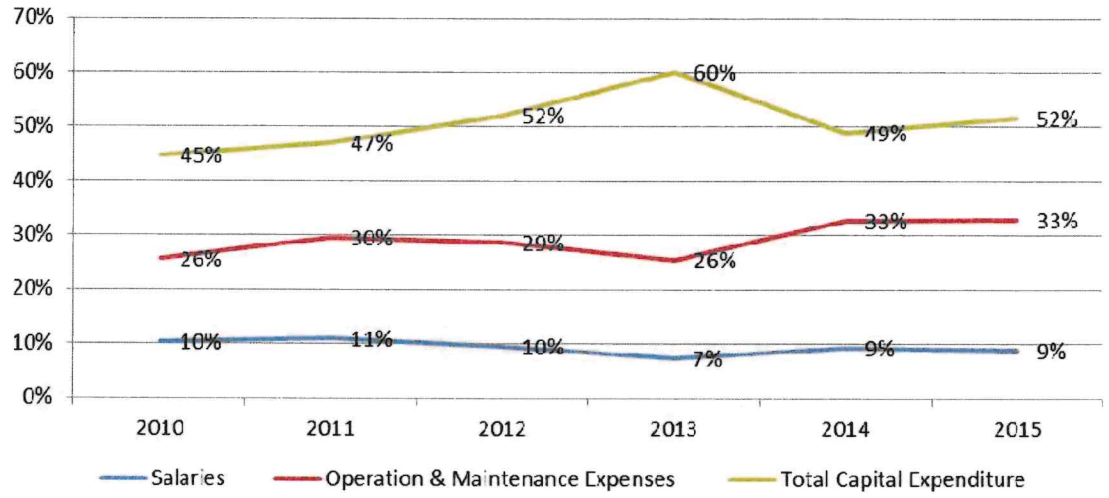
	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
FGUC 1						
Arrear demand as a % of current demand	97%	93%	84%	54%	45%	46%
Current collection as a % of current demand	69%	76%	79%	85%	83%	81%
FGUC 2						
Arrear demand as a % of current demand	49%	51%	48%	37%	30%	34%
Current collection as a % of current demand	82%	83%	88%	86%	90%	84%
FGUC 3						
Arrear demand as a % of current demand	60%	58%	56%	47%	40%	33%
Current collection as a % of current demand	78%	81%	85%	88%	88%	87%

Source: Compiled and calculated from data provided by Fifth TNSFC

11.5 Growth of Expenditure

In order to comprehend the fiscal pressures generated by demographic, economic and physical growth of the metropolitan cities of India, the trend in, and the patterns of, both revenue and capital expenditures need to be studied in detail. A cursory look at the data presented in many tables ostensibly reveals manifold increase in expenditure over the years. In the following pages trends in expenditure and its growth rate are analyzed for understanding the actual growth in relation to population and price changes. Below we provide a description of the expenditure patterns of the urban local bodies in Tamil Nadu for the years in concern.

Figure 11.6: Distribution of Major Expenditure Components as a percentage of Total Expenditure for FGUC-1 in Tamil Nadu during 2010-2015



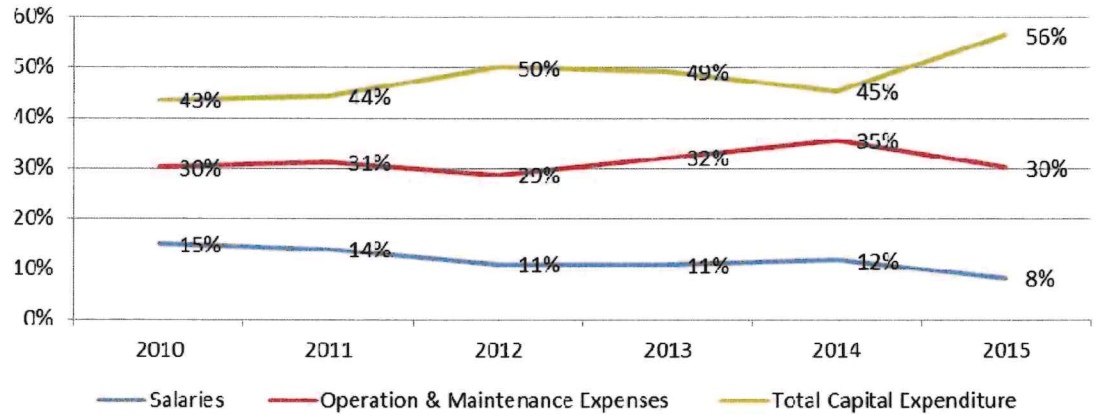
Source: Authors calculation based on Table A11.5 in appendix

Figure 11.6 provides a clear pattern of the major expenditure handles for FGUC's in Tamil Nadu for the year 2010-2015.FGUC-1's are devoting substantial resources for capital expenditure and operation and maintenance component- which implies that they may be intending to provide better service delivery and hence the hike in expenditure. A detail survey of this FGUC-1's might provide us a better picture of the reality. Nonetheless, also true is the fact that the spending on capital expenditure around 45% of total expenditure during 2010. This increased to a level of 60% during 2013, but declined thereafter and reached around 52% during 2015.On the other hand, from 2013 onwards the operation and maintenance expenditure started rising. Is it an outcome of the fact that, once the infrastructure was in place (say till 2013) the FGUC-1's are now focusing on the maintenance part for better service delivery (as evident from the rise in O&M expenditure from 2013? Also, it may be so that they are not in favour of any further investment of new infrastructure and more prone to maintain and preserve the existing ones and focus on better public service delivery? If that is the case, then certainly they deserve a pat. As said, for a deeper introspection on these minute aspects for a better policy design and prescription, further research on the subject should be a priority. Also, it is to note that, the salary component is stagnant at around 9 to 10%. The ULBs should look into this matter, as with rising inflation the incentives should be compatible for the functionaries.

Figure 11.7 provide us with the expenditure pattern of the FGUC-2's and FGUC-3's for Tamil Nadu from 2010-2015. The general patterns are quite similar to that for FGUC-1's and therefore needs no further explanation. However, looking at Figure 11 we see that salaries as a percentage of total expenditure shows a declining trend from 15% of total expenditure during 2010 to 8% of total expenditure during 2015. This observation is little worrisome and might have a probable explanation. The falling and stagnancy of this particular component only indicates that there might not be enough recruitment during these years and the recurring salary component was thus affected. The proposition could have been proved if, the data on recurring salary expenses and that for daily wages for these years was available. Nonetheless, if the non-recruitment is the sole cause, then it has to dealt with seriousness, as otherwise the relation between function and functionaries would be distorted and thus service delivery. Nonetheless, for FGUC-2's it is seen that they have focused on the operation and maintenance part till 2014 and thereafter concentrated on new capital investments. Moving on to, Figure 11 we see that for FGUC-3's the pattern reveals that there is a clear and rising trend in favour of the salary component. Now, these may have several probable explanation .Firstly, a high figure might indicate that there might be a salary hike for the employees. Secondly, a rise in the salary component may be due to the fact that arrears had been paid to the employees at large. On the other hand, these ULBs have not focused much on their capital investments which shows stagnancy around 48% of total expenditure during 2010-2014 and thereby falling to 40%. For, these FGUC-3's they did tried to keep up the expenditure portion for operation and maintenance, which essentially adds to their positivity towards service delivery.

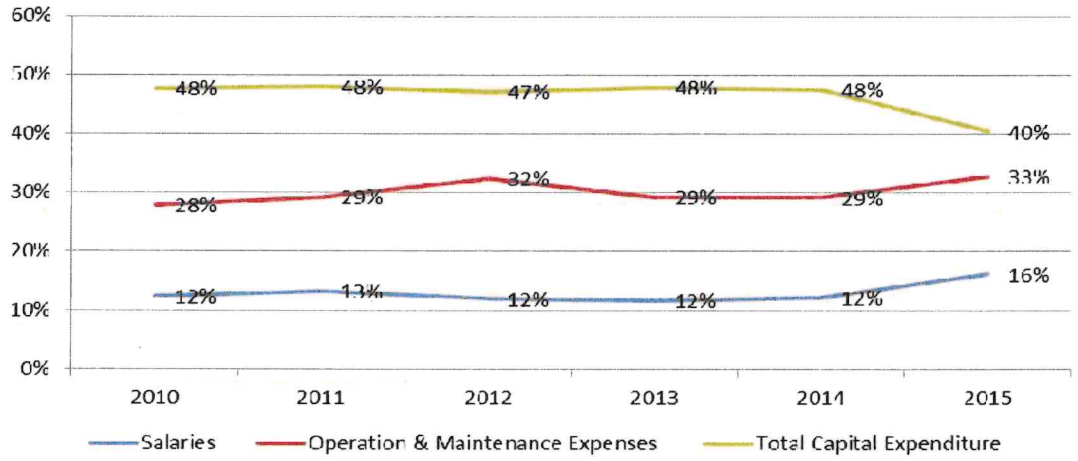
Figure 11.9 focusses on the distribution of major expenditure handles as a percentage of total expenditure for the Non-FGUC's in Tamil Nadu during 2010-2015. Here, we see that after 2011 there has been a sharp decline in the share of salary component; however it remained moreover stagnant till 2015. These non-FGUCs maintained a more or less similar share of expenditure for both capital expenditure and operation and maintenance expenditure during the years in concern

Figure 11.7: Distribution of Major Expenditure Components as a percentage of Total Expenditure for FGUC-2 in Tamil Nadu during 2010-2015



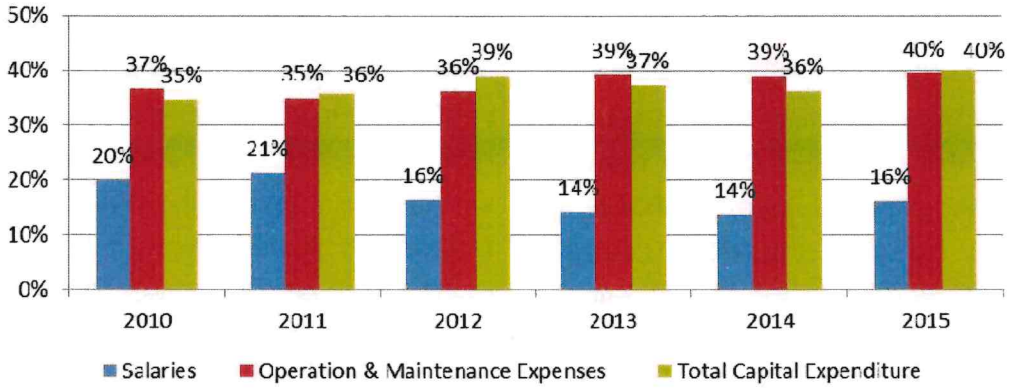
Source: Authors calculation based on Table A11.6 in Appendices.

Figure 11.8: Distribution of Major Expenditure Components as a percentage of Total Expenditure for FGUC-3 in Tamil Nadu during 2010-2015



Source: Authors calculation based on Table 11.7 in Appendix

Figure 11.4 : Distribution of Major Expenditure Components as a percentage of Total Expenditure for Non-FGUC in Tamil Nadu during 2010-2015



Source: Authors calculation based on Table in appendix

Table 11.3: Compound Annual Average Growth of Major Expenditure Handles for all types of ULBs in Tamil Nadu during 2010-2015 (in %)

Major Expenditure Heads	FGUC-1	FGUC-2	FGUC-3	Non-FGUC
Salaries	**10.01**	**10.39**	**10.25**	**11.88**
Operation & Maintenance Expenses (O&M)	**19.19**	**24.12**	**8.03**	**18.34**
O&M- General administration	18.64	26.61	4.56	**18.41**
O&M-Water Supply	19.71	26.53	8.98	**14.73**
O&M-Public Health (Sanitation)	65.51	53.09	1.12	**10.12**
O&M-Other Expenses	19.29	18.29	12.62	**20.46**
Total Revenue Expenditure	**16.83**	**20.23**	**8.73**	**16.23**
Total Capital Expenditure (CapEx)	**16.74**	**30.73**	**1.17**	**20.04**
CapEx -Roads	14.86	26.09	-	**22.58**
CapEx -Public Health & Sanitation	25.32	44.12	-	**2.42**
CapEx -Other Expenditure	18.30	30.69	4.20	**20.04**
Total Expenditure	**13.43**	**24.13**	**4.56**	**16.60**

Source: Authors calculation based on Table A11.5, Table A11.6, Table 11.7 in Appendix

Table 11.3 provides us with the compound annual average growth of major expenditure handles for all types of ULBs in Tamil Nadu during 2010-2015. It is seen that the growth in salaries was on an average 10% for the FGUC's and slightly higher for the Non-FGUCs (11.88%). For the operation and maintenance category, it is seen that the highest CAGR is reported for FGUC-2 (24.12%) category followed by FGUC-1 (19.29%), Non-FGUCs (18.34%) and FGUC-3 (8.73%). A close introspection of the available data reveals that expenditure for water supply for the FGUC-2's had actually risen from Rs.3046.73 crore during 2010 to Rs.9880.64 crore during 2015. Whereas, the same for FGUC-1 and FGUC-3 was from Rs.1760.57 crore to Rs.4327.53 crore and Rs.1321.04 crore to Rs.2030.76 crore respectively during the said years. Notably, as a part of the operation and maintenance expenditure, data has been provided for 'other expenses' and this also shows a considerable growth during the said years. However, due to unavailability of data regarding the break-up of this component, further analysis is not possible. The CAGR for public health and sanitation as a part of the O&M for the FGUC-1 and FGUC-2 shows a figure of 65.51% and 53.09% respectively. This is the reflection of the drastic rise in the expenditure for the said component in recent years. For example, for FGUC-1 the expenditure for public health (sanitation) rose from Rs.9.97 crore in 2010 to Rs.123.84 crore in 2015

Figure 11.5: Salary Expenditure for FGUCs and Others (CAGR over 5 Years)

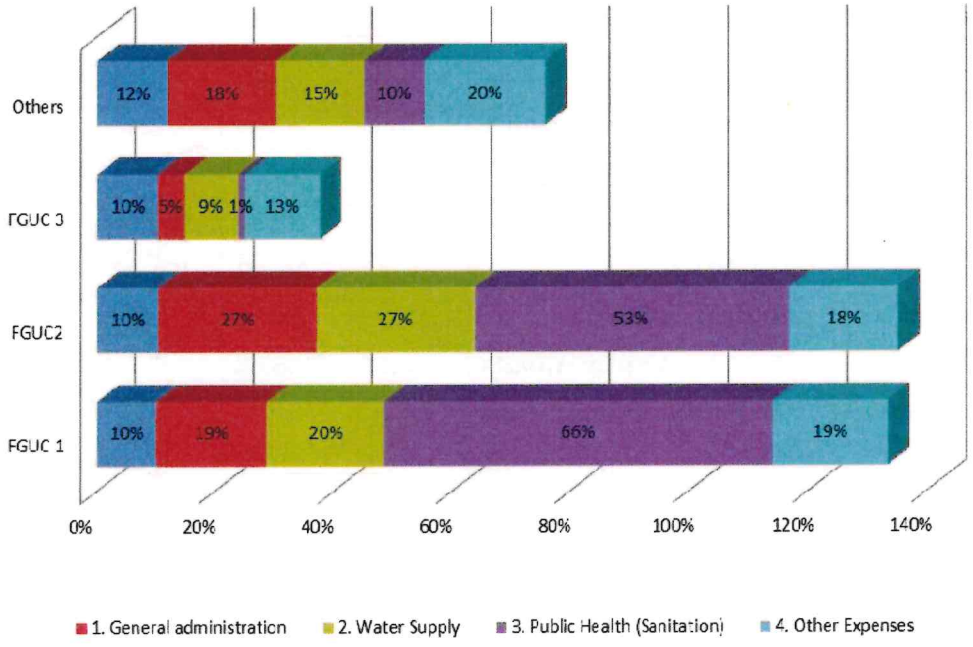
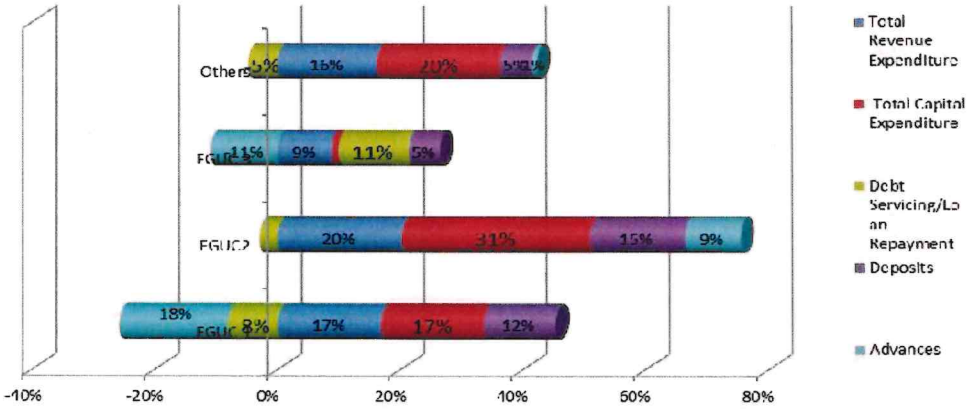


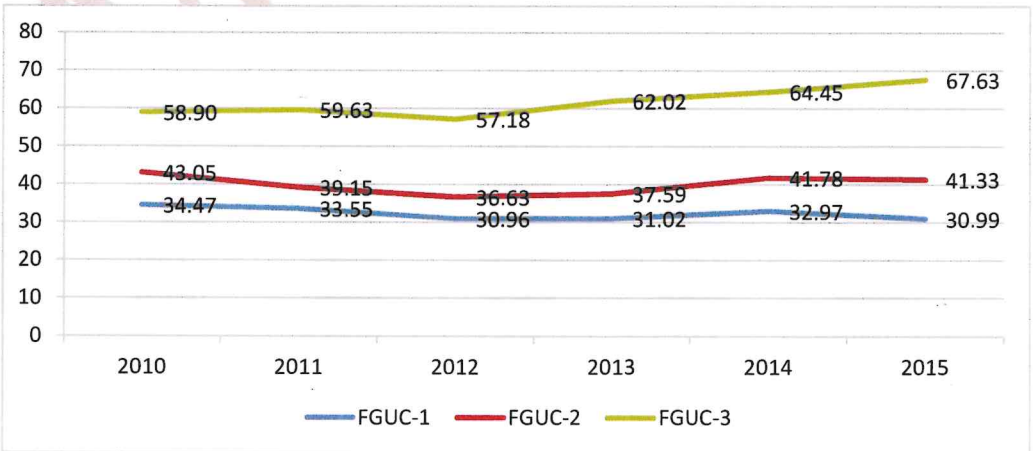
Figure 11.6: Expenditure Structure of FGUCs and Others (CAGR over 5 years)



11.6 Financial Management

To assess the state of financial management some basic ratios has been calculated. Based on the same, it is seen from Figure 11.2 that for FGUC -2 & 3, salary expenditure comprises less than 50 % of their own revenue collected during the said years. On an average for these ULB's there is some room for the recurring expenditures to be covered from the own revenue. This is indeed a positive sign towards self-reliance. However, for the FGUC-3's it is seen that most of the own revenue collected is incurred to pay the salaries of the employees and therefore quite obviously too little is left for other recurring expenditures. Obviously, there is a dire need to investigate deeper and strengthen the own revenue handles for these ULB's on priority. On an average, during 2010 to 2015, 32%, 40% and 62% of the own revenue expenditures were spent to pay the salaries of employees belonging to FGUC-1, FGUC-2 and FGUC-3 respectively.

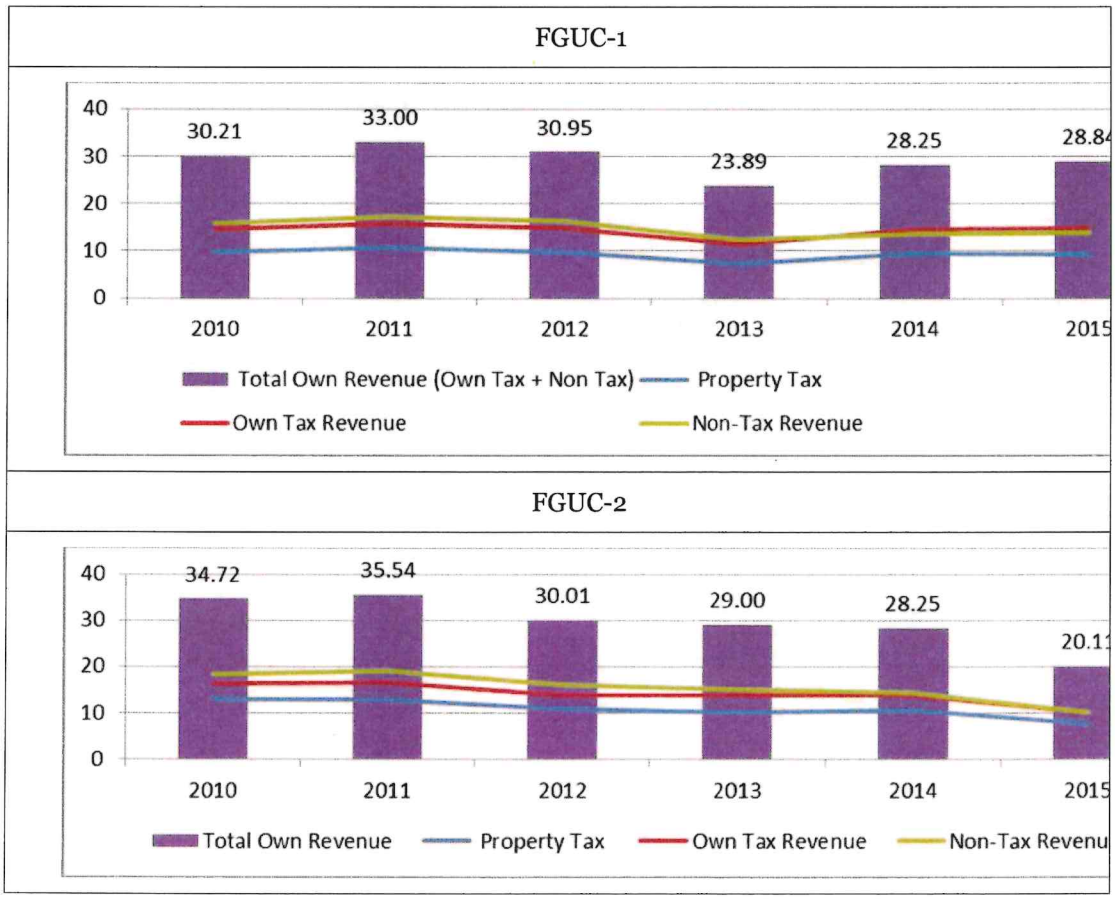
Figure 11.12: Percentage of Salary Expenditure covered through Own Revenue



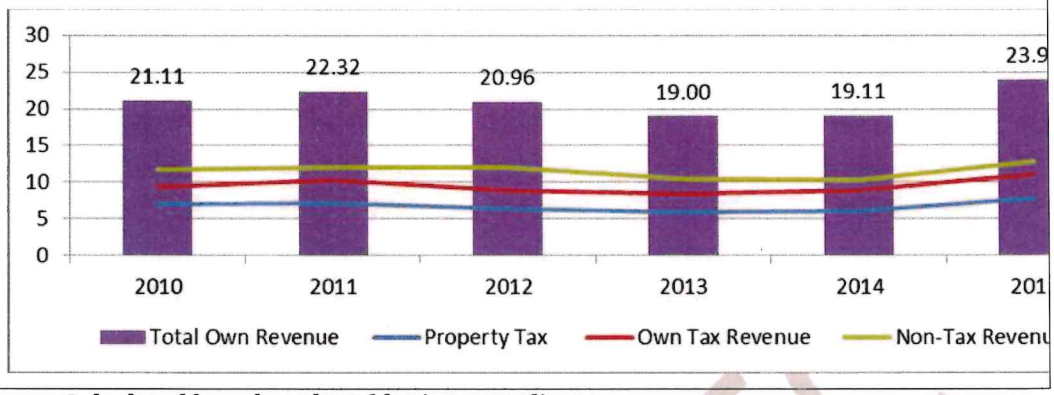
Source: Calculated based on the tables in appendix.

A close look into the data would reveal that though these ULBs could have managed the major component of their recurring expenditure, that is the salary component, by means of their own revenue, however in terms of total expenditure, the scenario is not very impressive. On an average during 2010-2015, the own revenue component contributed around 29.19%, 29.60 % and 21.08% of the total expenditures for FGUC-1, FGUC-2 and FGUC-3 respectively. In these, figures throws some light in the share of some of the major components of own revenue , as how much they contribute to finance the total expenditures of these ULBs. It is seen that for all types of ULBs the situation has not changed and remained stagnant over the periods in concern. For the FGUC-1 and FGUC-2's less than 20% of the total expenditures were financed through own revenue and for FGUC-3 it is less than 15%. Naturally, the magnitude of dependence on other sources can be well understood. This situation needs to be dealt seriously. In the other sources, a major portion comes in the form of SFC grants and state government grants.

Figure 11.13: Share of Own Revenues to Finance Total Expenditure (%)



FGUC-3



Source: Calculated based on the tables in appendix

11.7 Major Observations

- There is a clear pattern of rising dependence on state transfers for the ULBs . The ULBs need to lower this dependence over time.
- Clearly, apart from property tax, the other sources of own tax are not prominent. Rather, their contribution is close to negligible. The ULB's need to identify and thereby tap other possible sources of own tax revenue and balance the skewed dependence upon property tax.
- For all the FGUC's even the share of property tax in total revenue reveals a sense of stagnancy. More so, for the FGUC-1, it is showing a falling trend. This is worrisome. Property tax being the most prudent source of own revenue for the ULBs, such trends are neither expected nor accepted.
- Among other sources of revenue, it is seen that the SFC grants and other grants from the state government constitute the major share. To streamline these grants and to get the best outcome from them, especially, for the grants devolved through the SFC's there should be a milestone based approach, which would specifically target to empower the ULB's towards self-reliance. Adhocism has only led towards more dependency.
- In terms of expenditure, it is seen that though there is a growth in salaries in absolute terms. The falling and stagnancy of this particular component, as a percentage of total expenditure, only indicates that there might not be enough recruitment during these years and the recurring salary component was thus affected. The proposition could have been proved if, the data on recurring salary expenses and that for daily wages for these years was available. Nonetheless, if the non-recruitment is the sole cause, then it has to dealt with seriousness, as otherwise the relation between function and

functionaries would be distorted and thus service delivery.

- It is quite surprising that expenditure data only on account of water supply and sanitation (as a part of public health) has been provided. All other expenditures are clubbed as 'other expenditure'. This is quite surprising. This immediately raises the question that if at all the services as per the 74th CAA have bene transferred to the ULBs? If they are not transferred even as of 2016, then the state government should take a strong note of this and help the ULBs fulfill the constitutional mandate. Alternatively, if we assume that the services are transferred, the meagre figures for these 'other expenditures' only indicates pity shape of service delivery, if at all expenditure could be a parameter to judge the quality of service delivery a-priori.
- The need for a massive municipal reform, taking care of the function-functionaries and the governance is a dire need- if at all self-reliance is the final objective. The reform should categorically emphasize on the systematic generation and archiving of the data set for all categories. Especially, the detail break-up of data in this era of e-governance is not a big hurdle. The said reform, should also take into account both the resource mobilization and expenditure management as a twin mandate and prepare an implementable roadmap for the ULBs. The reforms should be done parallelly, rather taking one after another. A balanced growth path for reform should be adopted, to be precise.

Appendices for Chapter 11

Table A11.1: Distribution of Income for FGUC - 1in Tamil Nadu during 2010-2015 (in Rs. Crore)

Heads of Revenue/Income	2010	2011	2012	2013	2014	2015
(a) Property Tax	3587.56	4125.11	4703.65	5113.71	5648.03	**6408.32**
(b) Vacant Land Tax	704.7	864.62	922.6	1025.85	987.18	**1110.6**
(c) Profession Tax	1057.95	1149.14	1549.37	1878.5	2189.64	**2798.96**
(d) Others Tax	0.15	0.04	0.28	0	0.85	**0.6**
Own Tax Revenue	5350.36	6138.91	7175.9	8018.06	8825.7	**10318.48**
Non-Tax Revenue	5787.37	6658.41	7925.57	8681.43	8194.06	**9647.6**
(A) Total Own Revenue	**11137.73**	**12797.32**	**15101.47**	**16699.49**	**17019.76**	**19966.08**
SFC Devolution plus Assigned Revenues	11845.07	12750.2	15718.26	18941.74	21425.84	**23945.43**
Contribution from municipal funds	1882.68	2054.4	3414.04	5180.28	5691.01	**5613.66**
Grants from State Government	6253.3	5099.56	8184.7	10919.47	9023.07	**11241.11**
Grants from Central Government	2449.37	2135.98	3426.22	3549.03	5525.44	**3735.99**
Others	3226.61	3348.69	4530.76	7235.16	4914.69	**6744.96**
(B) Others Sources	**25657.03**	**25388.83**	**35273.98**	**45825.68**	**46580.05**	**51281.15**
Total Income(A+B)	**36794.76**	**38186.15**	**50375.45**	**62525.17**	**63599.81**	**71247.23**
Distribution of Income for Fast Growing Urban Centers -Category 1 (FGUC-1) in Tamil Nadu during 2010-2015 as a % of Total Income						
Heads of Revenue/Income	2010	2011	2012	2013	2014	2015
(a) Property Tax	10%	11%	9%	8%	9%	**9%**
(b) Vacant Land Tax	2%	2%	2%	2%	2%	**2%**
(c) Profession Tax	3%	3%	3%	3%	3%	**4%**
(d) Others Tax	0%	0%	0%	0%	0%	**0%**
Own Tax Revenue	15%	16%	14%	13%	14%	**14%**
Non-Tax Revenue	16%	17%	16%	14%	13%	**14%**
(A) Total Own Revenue	30%	34%	30%	27%	27%	**28%**
SFC Devolution plus Assigned Revenues	32%	33%	31%	30%	34%	**34%**
Contribution from municipal funds	5%	5%	7%	8%	9%	**8%**
Grants from State Government	17%	13%	16%	17%	14%	**16%**
Grants from Central Government	7%	6%	7%	6%	9%	**5%**
Others	9%	9%	9%	12%	8%	**9%**
(B) Others Sources	**70%**	**66%**	**70%**	**73%**	**73%**	**72%**

Table A11.2: Distribution of Income for Fast Growing Urban Centers -Category 2 (FGUC-2) in Tamil Nadu during 2010-2015 (in Rs. Crore)

Heads of Revenue/Income	2010	2011	2012	2013	2014	2015
(a) Property Tax	4026.37	4939.42	5633.71	5923.29	6449.74	7100.22
(b) Vacant Land Tax	150.57	162.62	202.6	258.83	326.9	339.54
(c) Profession Tax	846.5	1223.65	1321.9	1417.29	1643.5	1808.32
(d) Others Tax	92.86	0.55	127.86	524.84	99.81	110.26
Own Tax Revenue	5116.3	6326.24	7286.07	8124.25	8519.95	9358.34
Non-Tax Revenue	5763.26	7322.68	8377.32	8808.46	8813.68	9215.05
(A) Total Own Revenue	10879.56	13648.92	15663.39	16932.71	17333.63	18573.39
SFC Devolution plus Assigned Revenues	10192.07	12031.01	13941.03	20847.5	21270.22	20172.26
Contribution from municipal funds	663.76	490.07	570.77	877.26	950.6	5300.35
Grants from State Govt.	6587.85	6221.98	8605.96	9310.05	11671.97	14172.69
Grants from Central Govt	2383.83	3290.5	4543.74	3273.7	2255.49	3673.45
Others	6706.94	4403.02	6741.22	6718.17	4451.29	20558.52
(B) Others Sources	26534.45	26436.58	34402.72	41026.68	40599.57	63877.27
Total Income(A+B)	37414.01	40085.5	50066.11	57959.39	57933.2	82450.66
Distribution of Income for Fast Growing Urban Centers -Category 2 (FGUC-2) in Tamil Nadu during 2010-2015 as a % of Total Income						
Heads of Revenue/Income	2010	2011	2012	2013	2014	2015
(a) Property Tax	11%	12%	11%	10%	11%	9%
(b) Vacant Land Tax	0%	0%	0%	0%	1%	0%
(c) Profession Tax	2%	3%	3%	2%	3%	2%
(d) Others Tax	0%	0%	0%	1%	0%	0%
Own Tax Revenue	14%	16%	15%	14%	15%	11%
Non-Tax Revenue	15%	18%	17%	15%	15%	11%
(A) Total Own Revenue	29%	34%	31%	29%	30%	23%
SFC Devolution plus Assigned Revenues	27%	30%	28%	36%	37%	24%
Contribution from municipal funds	2%	1%	1%	2%	2%	6%
Grants from State Government	18%	16%	17%	16%	20%	17%
Grants from Central Government	6%	8%	9%	6%	4%	4%
Others	18%	11%	13%	12%	8%	25%
(B) Others Sources	71%	66%	69%	71%	70%	77%

Table A11.3: Distribution of Income for Fast Growing Urban Centers -Category 3 (FGUC-3) in Tamil Nadu during 2010-2015 (in Rs. Crore)

Heads of Revenue/Income	2010	2011	2012	2013	2014	2015
(a) Property Tax	1704.58	1765.86	1925.33	2061.91	2243.54	2388.67
(b) Vacant Land Tax	107.08	137.79	206.72	237.63	247.83	263.69
(c) Profession Tax	429.12	455.73	474.33	569.78	670.33	658.06
(d) Others Tax	47.81	205.6	77.89	96.51	105.13	75.09
Own Tax Revenue	2288.59	2564.98	2684.27	2965.83	3266.83	3385.51
Non-Tax Revenue	2847.08	2983.78	3596.19	3671.3	3788.67	3901.67
(A) Total Own Revenue	5135.67	5548.76	6280.46	6637.13	7055.5	7287.18
SFC Devolution plus Assigned Revenues	6590.91	7106.99	8561.59	9865.64	10299.14	9444.33
Contribution from municipal funds	3206.74	3524	5592.58	5552.09	4943.3	4377.32
Grants from State Government	6345.29	3951.76	3877.29	4519.82	4193.37	5453.74
Grants from Central Government	1760.39	1643.96	1977.76	2834.63	3079.03	1666.84
Others	2789.72	2893.79	3162.07	5446.65	3932.75	2874.99
(B) Others Sources	20693.05	19120.5	23171.29	28218.83	26447.59	23817.22
Total Income(A+B)	25828.72	24669.26	29451.75	34855.96	33503.09	31104.4
Distribution of Income for Fast Growing Urban Centers -Category 3 (FGUC-3) in Tamil Nadu during 2010-2015 as a % of Total Income						
Heads of Revenue / Income	2010	2011	2012	2013	2014	2015
(a) Property Tax	7%	7%	7%	6%	7%	8%
(b) Vacant Land Tax	0%	1%	1%	1%	1%	1%
(c) Profession Tax	2%	2%	2%	2%	2%	2%
(d) Others Tax	0%	1%	0%	0%	0%	0%
Own Tax Revenue	9%	10%	9%	9%	10%	11%
Non-Tax Revenue	11%	12%	12%	11%	11%	13%
(A) Total Own Revenue	20%	22%	21%	19%	21%	23%
SFC Devolution plus Assigned Revenues	26%	29%	29%	28%	31%	30%
Contribution from municipal funds	12%	14%	19%	16%	15%	14%
Grants from State Government	25%	16%	13%	13%	13%	18%
Grants from Central Government	7%	7%	7%	8%	9%	5%
Others	11%	12%	11%	16%	12%	9%
(B) Others Sources	80%	78%	79%	81%	79%	77%

Table A11.4: Distribution of Income for Rest of the Urban Centers Other than FGUCs in Tamil Nadu during 2010-2015 (in Rs. Crore)

Heads of Revenue/Income	2010	2011	2012	2013	2014	2015
(a) Property Tax	123881.9	124508.9	142333.8	155371.5	170155.6	186682.5
(b) Vacant Land Tax	3700.65	4473.23	6867.83	7947.75	6505.75	8975.58
(c) Profession Tax	23852.74	26795.38	32206.13	36206.9	38726.18	42499.98
(d) Others Tax	1022.81	599.26	911.08	1067.99	739.78	830.35
Own Tax Revenue	152458.1	156376.8	182318.8	200594.2	216127.3	238988.4
Non-Tax Revenue	142073	170486.9	205888.9	227625.1	230081.4	328376.8
(A) Total Own Revenue	294531.1	326863.7	388207.7	428219.2	446208.7	567365.1
SFC Devolution plus Assigned Revenues	176202.7	212117.5	260441.6	276069	262500.4	295624.8
Contribution from municipal funds	54348.05	55021.86	83758.4	123846.4	127905.2	101050.9
Grants from State Government	101614.1	82987.65	114006.3	138478.6	139767.3	208311.3
Grants from Central Government	50831.74	38580.22	53948.72	53619.37	47695.18	58470.13
Others	68298.16	72281.77	85042.96	113464.4	174600.2	169155.2
(B) Others Sources	451294.8	460989	597198	705477.7	752468.3	832612.3
Total Income(A+B)	745825.9	787852.7	985405.8	1133697	1198677	1399977
Distribution of Income for Rest of the Urban Centers Other than FGUCs in Tamil Nadu during 2010-2015 as a Percentage of Total Income						
Heads of Revenue/Income	2010	2011	2012	2013	2014	2015
(a) Property Tax	17%	16%	14%	14%	14%	13%
(b) Vacant Land Tax	0%	1%	1%	1%	1%	1%
(c) Profession Tax	3%	3%	3%	3%	3%	3%
(d) Others Tax	0%	0%	0%	0%	0%	0%
Own Tax Revenue	20%	20%	19%	18%	18%	17%
Non-Tax Revenue	19%	22%	21%	20%	19%	23%
(A) Total Own Revenue	39%	41%	39%	38%	37%	41%
SFC Devolution plus Assigned Revenues	24%	27%	26%	24%	22%	21%
Contribution from municipal funds	7%	7%	8%	11%	11%	7%
Grants from State Government	14%	11%	12%	12%	12%	15%
Grants from Central Government	7%	5%	5%	5%	4%	4%
Others	9%	9%	9%	10%	15%	12%
(B) Others Sources	61%	59%	61%	62%	63%	59%

Table A11.5: Distribution of Expenditure for FGUC-1 in Tamil Nadu during 2010-2015 (in Rs. Crore)

Heads of Expenditure	2010	2011	2012	2013	2014	2015
(A) Salaries	3839.09	4293.99	4676.06	5179.79	5611.75	6187.05
1. General administration	4137.01	5617.46	6826.03	8869.17	9110.58	9722.11
2. Water Supply	1760.57	1768	2324.71	3317.56	3941.33	4327.53
3. Public Health (Sanitation)	9.97	9.99	25.2	45.02	49.8	123.84
4. Other Expenses	3559.9	4102.49	4821.76	5680.11	6605.21	8599.75
(B) Operation & Maintenance Expenses (1+2+3+4)	9467.45	11497.94	13997.7	17911.86	19706.92	22773.23
(I) Total Revenue Expenditure (A+B)	13306.54	15791.93	18673.76	23091.65	25318.67	28960.28
1. Roads	8718.66	9893.06	14205.92	18451.44	15972.76	17426.67
2. Public Health & Sanitation	410.28	484.14	846.53	1576.55	1287.92	1268.02
3. Other Expenditure	7384.51	7891.35	10408.49	22049.85	12273.18	17110.63
(II) Total Capital Expenditure (1+2+3)	16513.45	18268.55	25460.94	42077.84	29533.86	35805.32
(III) Debt Servicing/Loan Repayment	1893.6	1735.58	1673.5	2113.25	1354.93	1234.43
(IV)Deposits	934.06	1007.98	1391.41	1553.04	1770.77	1631.48
(V) Advances	4222.77	1974.91	1586.16	1066.76	2264.63	1595.43
Total Expenditure (I+II+III+IV+V)	36870.42	38778.95	48785.77	69902.54	60242.86	69226.94
Distribution of Expenditure for FGUC-1 in Tamil Nadu during 2010-2015 as a Percentage of Total Expenditure						
Heads of Expenditure	2010	2011	2012	2013	2014	2015
(A) Salaries	10%	11%	10%	7%	9%	9%
1. General administration	11%	14%	14%	13%	15%	14%
2. Water Supply	5%	5%	5%	5%	7%	6%
3. Public Health (Sanitation)	0%	0%	0%	0%	0%	0%
4. Other Expenses	10%	11%	10%	8%	11%	12%
(B) Operation & Maintenance Expenses (1+2+3+4)	26%	30%	29%	26%	33%	33%
(I) Total Revenue Expenditure (A+B)	36%	41%	38%	33%	42%	42%
1. Roads	24%	26%	29%	26%	27%	25%
2. Public Health & Sanitation	1%	1%	2%	2%	2%	2%
3. Other Expenditure	20%	20%	21%	32%	20%	25%
(II) Total Capital Expenditure (1+2+3)	45%	47%	52%	60%	49%	52%
(III) Debt Servicing/Loan Repayment	5%	4%	3%	3%	2%	2%
(IV)Deposits	3%	3%	3%	2%	3%	2%
(V) Advances	11%	5%	3%	2%	4%	2%

Table A11.6: Distribution of Expenditure for FGUC-2 in Tamil Nadu during 2010-2015 (in Rs. Crore)

Heads of Expenditure	2010	2011	2012	2013	2014	2015
(A) Salaries	4683.69	5343.26	5737.21	6365.02	7242.43	7676.6
1. General administration	3193.51	3748.1	4051.9	5435.16	5656.02	10389.19
2. Water Supply	3046.73	4183.71	5427.34	7416.41	8116.12	9880.64
3. Public Health (Sanitation)	22.05	48.94	125.93	183.38	353.51	185.4
4. Other Expenses	3193.02	3982.61	5358.53	5687.02	7635.36	7394.16
(B) Operation & Maintenance Expenses (1+2+3+4)	9455.31	11963.36	14963.7	18721.97	21761.01	27849.39
(I) Total Revenue Expenditure (A+B)	14139	17306.62	20700.91	25086.99	29003.44	35525.99
1. Roads	5651.2	7488.38	11212.59	12351.24	13025.32	18012.23
2. Public Health & Sanitation	1501.74	2705.65	3321.55	4070.15	2860.6	9337.54
3. Other Expenditure	6466.09	6808.34	11554.47	12271	11901.93	24653.98
(II) Total Capital Expenditure (1+2+3)	13619.03	17002.37	26088.61	28692.39	27787.85	52003.75
(III) Debt Servicing/Loan Repayment	1756.37	1623.79	1407.3	1150.18	1566.54	1507.65
(IV)Deposits	1001.36	1068.37	1694.62	2081.87	1722.27	2053.09
(V) Advances	820	1399.84	2301.73	1387.03	1279.57	1264.53
Total Expenditure (I+II+III+IV+V)	31335.76	38400.99	52193.17	58398.46	61359.67	92355.01
Distribution of Expenditure for FGUC-2 in Tamil Nadu during 2010-2015 as a Percentage of Total Expenditure						
Heads of Expenditure	2010	2011	2012	2013	2014	2015
(A) Salaries	15%	14%	11%	11%	12%	8%
1. General administration	10%	10%	8%	9%	9%	11%
2. Water Supply	10%	11%	10%	13%	13%	11%
3. Public Health (Sanitation)	0%	0%	0%	0%	1%	0%
4. Other Expenses	10%	10%	10%	10%	12%	8%
(B) Operation & Maintenance Expenses (1+2+3+4)	30%	31%	29%	32%	35%	30%
(I) Total Revenue Expenditure (A+B)	45%	45%	40%	43%	47%	38%
1. Roads	18%	20%	21%	21%	21%	20%
2. Public Health & Sanitation	5%	7%	6%	7%	5%	10%
3. Other Expenditure	21%	18%	22%	21%	19%	27%
(II) Total Capital Expenditure (1+2+3)	43%	44%	50%	49%	45%	56%
(III) Debt Servicing/Loan Repayment	6%	4%	3%	2%	3%	2%
(IV)Deposits	3%	3%	3%	4%	3%	2%
(V) Advances	3%	4%	4%	2%	2%	1%

Table A11.7: Distribution of Expenditure for FGUC-3 in Tamil Nadu during 2010-2015 (in Rs. Crore)

Heads of Expenditure	2010	2011	2012	2013	2014	2015
(A) Salaries	3025.12	3308.93	3591.19	4116.36	4547.55	4928.37
1. General administration	3432.93	3593.81	5160.03	4964.66	4537.49	4289.7
2. Water Supply	1321.04	1321.28	1778.09	2219.08	2368.39	2030.76
3. Public Health (Sanitation)	25.57	20.33	48.37	14.58	21.03	27.04
4. Other Expenses	2010.17	2347.69	2753.27	3022.79	3866.64	3642.15
(B) Operation & Maintenance Expenses (1+2+3+4)	6789.71	7283.11	9739.76	10221.11	10793.55	9989.65
(I) Total Revenue Expenditure (A+B)	9814.83	10592.04	13330.95	14337.47	15341.1	14918.02
1. Roads	5488.79	6063.72	6228.91	6427.08	6551.22	5437.35
2. Public Health & Sanitation	1249.79	972.8	1331.61	1375.47	1722.95	881.05
3. Other Expenditure	4876.62	4914.9	6604.57	8959.34	9300.81	5991.82
(II) Total Capital Expenditure (1+2+3)	11615.2	11951.42	14165.09	16761.89	17574.98	12310.22
(III) Debt Servicing/Loan Repayment	742.93	694.72	885.17	1704.16	1597.47	1273.54
(IV)Deposits	963.14	1133.98	1305.76	1465.64	1485.99	1239.83
(V) Advances	1192.6	489.26	281.62	670.03	914.31	668.18
Total Expenditure (I+II+III+IV+V)	24328.7	24861.42	29968.59	34939.19	36913.85	30409.79
Distribution of Expenditure for FGUC-3 in Tamil Nadu during 2010-2015 as a Percentage of Total Expenditure						
Heads of Expenditure	2010	2011	2012	2013	2014	2015
(A) Salaries	12%	13%	12%	12%	12%	16%
1. General administration	14%	14%	17%	14%	12%	14%
2. Water Supply	5%	5%	6%	6%	6%	7%
3. Public Health (Sanitation)	0%	0%	0%	0%	0%	0%
4. Other Expenses	8%	9%	9%	9%	10%	12%
(B) Operation & Maintenance Expenses (1+2+3+4)	28%	29%	32%	29%	29%	33%
(I) Total Revenue Expenditure (A+B)	40%	43%	44%	41%	42%	49%
1. Roads	23%	24%	21%	18%	18%	18%
2. Public Health & Sanitation	5%	4%	4%	4%	5%	3%
3. Other Expenditure	20%	20%	22%	26%	25%	20%
(II) Total Capital Expenditure (1+2+3)	48%	48%	47%	48%	48%	40%
(III) Debt Servicing/Loan Repayment	3%	3%	3%	5%	4%	4%
(IV)Deposits	4%	5%	4%	4%	4%	4%
(V) Advances	5%	2%	1%	2%	2%	2%

Table A11.8: Distribution of Expenditure for Non-FGUCs in Tamil Nadu during 2010-2015 (in Rs. Crore)

Heads of Expenditure	2010	2011	2012	2013	2014	2015
(A) Salaries	130335.3	150037	159117.9	176629.3	193501.8	228475.3
1. General administration	174876	172291.3	252094.6	361487.9	404504.4	407067.4
2. Water Supply	25357.57	27456	37016.94	51420.35	58719.6	50402.43
3. Public Health (Sanitation)	1472.26	1232.34	1389.37	2486.76	2374.43	2384.18
4. Other Expenses	38211.65	46369.7	61543.68	73172.91	79927.63	96920.34
(B) Operation & Maintenance Expenses (1+2+3+4)	239917.5	247349.3	352044.6	488567.9	545526.1	556774.3
(I) Total Revenue Expenditure (A+B)	370252.7	397386.3	511162.5	665197.2	739027.9	785249.7
1. Roads	102962.4	113351.3	186017.5	230192.8	272569.6	284956.2
2. Public Health & Sanitation	20765.28	18658.43	27273.28	30721.36	25036.22	23403.9
3. Other Expenditure	102430.9	120827.8	164151	203299.2	211955	255256
(II) Total Capital Expenditure (1+2+3)	226158.6	252837.5	377441.7	464213.4	509560.8	563616.1
(III) Debt Servicing/Loan Repayment	15322.25	15494.47	23163.22	37725.07	52935.78	11967.35
(IV)Deposits	17761.25	17278.63	22134.68	24430.44	30466.48	23001.59
(V) Advances	24073.31	22786.76	36041.29	50955.72	69854.55	25023.81
Total Expenditure (I+II+III+IV+V)	653568.1	705783.7	969943.4	1242522	1401845	1408859
Distribution of Expenditure for Non-FGUCs in Tamil Nadu during 2010-2015 as a Percentage of Total Expenditure						
Heads of Expenditure	2010	2011	2012	2013	2014	2015
(A) Salaries	20%	21%	16%	14%	14%	16%
1. General administration	27%	24%	26%	29%	29%	29%
2. Water Supply	4%	4%	4%	4%	4%	4%
3. Public Health (Sanitation)	0%	0%	0%	0%	0%	0%
4. Other Expenses	6%	7%	6%	6%	6%	7%
(B) Operation & Maintenance Expenses (1+2+3+4)	37%	35%	36%	39%	39%	40%
(I) Total Revenue Expenditure (A+B)	57%	56%	53%	54%	53%	56%
1. Roads	16%	16%	19%	19%	19%	20%
2. Public Health & Sanitation	3%	3%	3%	2%	2%	2%
3. Other Expenditure	16%	17%	17%	16%	15%	18%
(II) Total Capital Expenditure (1+2+3)	35%	36%	39%	37%	36%	40%
(III) Debt Servicing/Loan Repayment	2%	2%	2%	3%	4%	1%
(IV)Deposits	3%	2%	2%	2%	2%	2%
(V) Advances	4%	3%	4%	4%	5%	2%

Table A11.9: Fastest Growing Urban centres 1 (FGUC1)

Name of the ULB	District	Categary
Anakaputhur	Kancheepuram	Municipality
Maraimalainagar	Kancheepuram	Municipality
Pammal	Kancheepuram	Municipality
Sembakkam	Kancheepuram	Town Panchayat
Avadi	Thiruvallur	Municipality
Tiruverkadu	Thiruvallur	Municipality
Kallakkurichi	Viluppuram	Municipality
Walajapet	Vellore	Municipality
Hosur	Krishnagiri	Municipality
Palladam	Tiruppur	Municipality
Chitlapakkam	Kancheepuram	Town Panchayat
Kundrathur	Kancheepuram	Town Panchayat
Mangadu	Kancheepuram	Town Panchayat
Nandivaram-Guduvancheri	Kancheepuram	Town Panchayat
Peerkankaranai	Kancheepuram	Town Panchayat
Perungalathur	Kancheepuram	Town Panchayat
Sriperumbudur	Kancheepuram	Town Panchayat
Thiruneermalai	Kancheepuram	Town Panchayat
Thiruporur	Kancheepuram	Town Panchayat
Walajabad	Kancheepuram	Town Panchayat
AnnamalaiNagar	Cuddalore	Town Panchayat
Killai	Cuddalore	Town Panchayat
Vadalur	Cuddalore	Town Panchayat
Thiagadurgam	Viluppuram	Town Panchayat
Thakkolam	Vellore	Town Panchayat
Tharamangalam	Salem	Town Panchayat
Velur	Namakkal	Town Panchayat
Bhavanisagar	Erode	Town Panchayat
Perundurai	Erode	Town Panchayat
Idikarai	Coimbatore	Town Panchayat
Irugur	Coimbatore	Town Panchayat
Narasimhanaicken-palayam	Coimbatore	Town Panchayat
Vellalur	Coimbatore	Town Panchayat
Pallapatti	Karur	Town Panchayat
Labbaikudikadu	Perambalur	Town Panchayat
Devadanapatti	Theni	Town Panchayat
Chettiarpatti	Virudhunagar	Town Panchayat
Kottaiyur	Sivaganga	Town Panchayat
Sankarnagar	Tirunelveli	Town Panchayat
Reethapuram	Kanniyakumari	Town Panchayat
Samalapuram	Tiruppur	Town Panchayat
Thirumuruganpoondi	Tiruppur	Town Panchayat

Table A11.10: Fastest Growing Urban centres 2 (FGUC2)

Name of the ULB	District	Categary
Tiruppur	Tiruppur	Municipal Corporation
Tambaram	Kancheepuram	Municipality
Punjaipuliampatti	Erode	Municipality
Perambalur	Perambalur	Municipality
Keelakarai	Ramanathapuram	Municipality
Devakottai	Sivaganga	Municipality
Ponneri	Thiruvallur	Town Panchayat
Thirunindravur	Thiruvallur	Town Panchayat
Mangalampet	Cuddalore	Town Panchayat
Arakandanallur	Viluppuram	Town Panchayat
Chinnasalem	Viluppuram	Town Panchayat
Gingee	Viluppuram	Town Panchayat
Kottakuppam	Viluppuram	Town Panchayat
Sankarapuram	Viluppuram	Census Town
Kannankurichi	Salem	Town Panchayat
Mecheri	Salem	Town Panchayat
Alampalayam	Namakkal	Town Panchayat
Erumaipatti	Namakkal	Town Panchayat
Pothanur	Namakkal	Town Panchayat
Ariyappampalayam	Erode	Town Panchayat
Chettipalayam	Coimbatore	Town Panchayat
Kannampalayam	Coimbatore	Town Panchayat
Karamadai	Coimbatore	Town Panchayat
Karumathampatti	Coimbatore	Town Panchayat
Mopperipalayam	Coimbatore	Town Panchayat
Sarcarsamakulam	Coimbatore	Town Panchayat
Thenkarai	Theni	Town Panchayat
Muthupet	Thiruvarur	Town Panchayat
Palamedu	Madurai	Town Panchayat
Kamayagoundanpatti	Theni	Town Panchayat
Melachokkanathapuram	Theni	Town Panchayat
PalaniChettipatti	Theni	Town Panchayat
Uthamapalayam	Theni	Town Panchayat
R.S.Mangalam	Ramanathapuram	Town Panchayat
Kariapatti	Virudhunagar	Town Panchayat
Nerkuppai	Sivaganga	Town Panchayat
Ilayangudi	Sivaganga	Town Panchayat
Surandai	Tirunelveli	Town Panchayat
Ezhudesam	Kanniyakumari	Town Panchayat
Bargur	Krishnagiri	Town Panchayat
Denkanikottai	Krishnagiri	Town Panchayat
Avanashi	Tiruppur	Town Panchayat

Table A11.11: Fastest Growing Urban centres 3 (FGUC3)

Name of the ULB	District	Categary
Thiruvallur	Thiruvallur	Municipality
Virudhachalam	Cuddalore	Municipality
Melvisharam	Vellore	Municipality
Pernampattu	Vellore	Municipality
Oddanchatram	Dindigul	Town Panchayat
Karaikkudi	Sivaganga	Municipality
Kayalpattinam	Thoothukkudi	Municipality
Mamallapuram	Kancheepuram	Town Panchayat
Tirukalukundram	Kancheepuram	Town Panchayat
Thirumazhisai	Thiruvallur	Town Panchayat
Kattumannarkoil	Cuddalore	Town Panchayat
Kurinjipadi	Cuddalore	Town Panchayat
Parangipettai	Cuddalore	Town Panchayat
Ulundurpettai	Viluppuram	Town Panchayat
Kolathur	Salem	Town Panchayat
Omalur	Salem	Town Panchayat
Pandamangalam	Namakkal	Town Panchayat
Pillanallur	Namakkal	Town Panchayat
Marandahalli	Dharmapuri	Town Panchayat
Ettimadai	Coimbatore	Town Panchayat
Thondamuthur	Coimbatore	Town Panchayat
Manachanallur	Tiruchirappalli	Town Panchayat
Karambakkudi	Pudukkottai	Town Panchayat
Keeramangalam	Pudukkottai	Town Panchayat
Paravai	Madurai	Town Panchayat
Vadipatti	Madurai	Town Panchayat
Kombai	Theni	Town Panchayat
Agaram	Dindigul	Town Panchayat
Abiramam	Ramanathapuram	Town Panchayat
Sayalgudi	Ramanathapuram	Town Panchayat
Thondi	Ramanathapuram	Town Panchayat
Manamadurai	Sivaganga	Town Panchayat
Pallathur	Sivaganga	Town Panchayat
Puduvayal	Sivaganga	Town Panchayat
Eruvadi	Tirunelveli	Town Panchayat
Thisayanvilai	Tirunelveli	Town Panchayat
VadakaraiKeezhpadugai	Tirunelveli	Town Panchayat
Vadakkuvalliyur	Tirunelveli	Town Panchayat
Alur	Kanniyakumari	Town Panchayat
Kelamangalam	Krishnagiri	Town Panchayat
Kunnathur	Tiruppur	Town Panchayat
Uthukuli	Tiruppur	Town Panchayat

CHAPTER 12

Conclusion and Policy Suggestions

The entire analysis presents us multiple aspects of issues related to property tax revenue in Urban Local Bodies in Tamil Nadu in multiple dimensions. It includes the major issues related to urban property tax collection, structure, demand gap, trends, projection, errors in valuation of tax base etc. It also places a detailed analysis with aggregate and dis-aggregate data set reported by Fifth State Finance Commission, Tamil Nadu. Further, the study tries to capture another newly raised issue in the area of municipal finance which is about Fastest Growing Urban Centres (FGUCs). In order to judge the trend of their financial structure the study identifies all FGUCs for the State and classifies them into three different categories according to the pace of urbanisation then took a close look on their revenue and expenditure pattern for last five years. Apart from that this study elucidates the patterns of financial devolution across ULBs and its impact on urban development. Last but not the least, it has formed a theoretical framework on the basis of existing norms and projection for award period with normative suggestion for tapping tax potential of the state. We have provided a fairly comprehensive status report on the different aspects related to municipal financial patterns with special focus on property tax revenue of ULBs in Tamil Nadu. Apart from that this involves a major exercise especially in terms of major data gaps that we have pointed out at the end of this text. Here is the summary of analytical findings drawn from entire analysis as following.

12.1 State wise Disparity in Property Tax Collection for 6 Select States (Based on Data Reported by RBI, Various Years, Past Studies)

State wise property tax collection data are not available for all states in secondary reliable sources. This study is bound to restrict for 6 select states, viz., Andhra Pradesh, Gujarat, Kerala, Rajasthan, Tamil Nadu and West Bengal.

a) We have observed that Tamil Nadu stands in third position in property tax collection among six states in absolute value.

b) A healthy average 5-year annual, year-on-year growth trend of about 12% per annum with the fastest growth of 16% happening in 2009-10 for Tamil Nadu. The Own Tax Revenue also displays a healthy average 5-year annual, year-on-year growth trend of about 13%, with the fastest growth in OTR also taking place in the same 2009-10 period with about 18.5% growth in that particular year of accounting.

c) We have examined that Tamil Nadu and West Bengal both have very little share of Immovable Property Tax in GSDP – indicating that the collection receipts of

these states for property taxes are quite low.

d) There is low buoyancy in the taxes and many inter-state variations persist in the collection of these revenues.

e) Many inter-state variations also exist on account of differential laws existent in the collection of property taxes and the non-uniform process of reforms being carried out. For instance, the High Powered Expert Committee on Urbanization (HPEC, 2011) reports that the abolishment of property tax collections by ULBs have taken place in some – while most other states collect these taxes. The co-existence of these differentials will present themselves in a distortionary way in the data and the rationalization of the it.

f) The problems which persist in the poor performance could also be attributed to the poor assessment rates bad enforcement leading to low efficiency of collection. Exemptions have also been shown to play a major role in contributing towards low property tax receipts.

g) If documentation is read in fine print, there might be a gaping principal-agent problem in the sense that although property taxes are collected and used by ULBs, their actual rates and structures are set by the state governments. The gaps in understanding of ULB requirements and setting tax rates could be a significant factor affecting these trends.

I. Trends in Municipal income of ULBs in Tamil Nadu with special reference to property tax

a) The growth of municipal income is higher for Corporations (13.2%) compared to Municipalities (4.6%) and Town Panchayats (4.2%).

b) The share of own revenue to total income is higher for Corporations (43%) compared to Municipalities and Town panchayats.

c) There is decreasing trend in the share of own revenue to total income for the Corporations from 2011-12 to 2014-15. The share of own revenue of Town Panchayats has increased, but it remained more or less same for the municipalities during 2010-16. Own revenue contributed more to the growth per annum of Town Panchayats and Municipalities compared to Corporations. Whereas, the share of non tax revenue to total income has increased for Corporations and Town Panchayats(marginally) and it was stagnant for Municipalities.

d) There is decreasing trend in the share of property tax in total own revenue for corporations, it is more or less stagnant for town Panchayats and Municipalities.Degree of Self-Reliance is the highest with respect to corporations and it varies over time. There is a decreasing trend in the self reliance for Municipalities and the performance of Town panchayats is the lowest among all these.

e) Approximately ¼ of the revenues expenditure is covered by property taxes in Municipalities and Corporations. In Town panchayats it covers only 10% of revenue expenditure

f) The ratio of property tax to revenue expenditure shows a declining trend for all tier of ULBs

II. *Valuation, Practices and Trend in Assessments of Properties in Tamil Nadu*

a) Proper assessment and valuation of properties are very important factors that determine that influence property tax revenue.

b) Unavailability of data on indicators of coverage and market value of properties at local level limits our analysis in this direction. However, low correlation between population size and property tax revenue at Town Panchayats and Municipality level can be treated as symptoms of inefficiencies in property tax system.

c) Correlation between property tax revenue and population size for town panchayats (0.30) and municipalities (0.40) are considerably low.

d) The low correlation between population size and property tax revenue indicates that there is a scope to increase tax revenues with either proper and timely revision of assessment (No of total assessments has increased only marginally) and valuation or better coverage as most of the Tamil Nadu ULBs perform better in collection efficiency.

III. *Tracking Efficiency in Collection of Property Tax for ULBs*

a) The indicators of collection efficiency in general highlight the higher collection efficiency in property tax collection for Town panchayats followed by Municipalities.

b) Arrear demand has decreased in Municipalities, and it is almost stagnant for town panchayats but has increased for Corporations.

c) The arrear collection has grown 13% in corporations, 3% (municipalities) and 8% (town panchayats) per annum.

d) Town Panchayats and Municipalities have higher growth per property collection and demand compared to corporations.

e) The annual growth rate of current demand of property tax has declined steadily since 2010-11 for the corporations.

f) Collection rates are higher in Town panchayats followed by Municipalities and Corporations

g) There is an increasing trend in the collection rate for municipalities, it is more or less stagnant for town panchayats, but it started declining for corporations after 2013-14.

h) In terms of the tax collection ratio the town panchayats has reached the target set by JNNURM (85%). The collection ratios for municipalities are also close to 80%. And it is around 74% for Corporations.

i) There is an increasing trend in the collection ratio for both town panchayats

and municipalities except between 2014-15 to 2015-16.

j) Arrear collection rates are higher for Corporations,but it also has high level of arrear demand to current demand

IV. *Projections of Property Tax Collection for Tamil Nadu*

a) The projections based on linear trend and quadratic trend model give more conservative figure for the property tax collections.

b) The projections are lower compared to the projections based on growth rates.

V. *Existing norms, exemptions and projections for 2017-2022*

Given the fact that exemptions erode the tax base and reduce the property tax collections, we have calculated potential revenues which are gross of exemptions and compared it with the actual collections.

a) In the presence of exemptions the actual property tax revenues are around 98 percent of the potential revenues for the duration 2010-14.

b) The highest erosion of the tax base is seen for town panchayats where nearly 4 percent of the potential revenues are lost due to exemptions. This is followed by municipalities with their respective realization of potential being only 96.6 percent.

c) There is a scope to raise tax revenue by means of appropriate changes in tax rates or by compensating ULBs for theses exemptions.

d) In corporations only population has shown statistical significant whereas for other two sets other two variables (either one or both) have appeared statistically significant.

e) Overall explanatory power of these fits is the highest for corporation data set.

f) There is a need to increase property tax rates or administrative efficiency such that actual property tax can increase by an extent of 7 percent (for municipalities), 4 percent (for Town panchayats) and 3 percent (for corporations).

g) Comparison in terms of per capita property tax and ratio to GSDP regarding tax potential in Tamil Nadu also indicates that Tamil Nadu needs to improve performance to match with other comparable States.

VI. *Tapping untapped property tax potential for ULBs in Tamil Nadu*

1) Development Gains Tax/Charges could be levied when agricultural land gets converted into land for residential, industrial or commercial use and when building permissions are sought. These charges could be levied as a proportion of the increment in land value due to development of infrastructure from a specified time period.

2) Given the provisions, the state legislature has the authority to confer power on local governments to levy the suggested development gains tax/charges that is related to the appreciation in the capital value of land. This tax/charge may be as a cost of improvement and hence could be

deducted while computing the net capital gains for the levy of capital gains tax.

3) The development gains charges could also be levied in stages – first when land gets reclassified from agriculture to urban (commercial, industrial or residential) and then when planning permissions are sought to develop the land and again when additional development takes place.
4) The development gains charges should be in terms of per square meter/foot of land and should not be related to the built up floor area. Logically it is the improvement in land values as a result of externalities that is being tapped here and it should be independent of the developed floor area.
5) Based on the land value appreciation and hence is likely to provide adequate funds for enhancing the social infrastructure capacity of the developing locality. This would facilitate social infrastructure to keep up with the development needs.
6) The cost for providing the development infrastructure (electricity, telephone etc.) must be directly charged by the company responsible for their provision and wherever possible on the basis of consumption levels.
7) Betterment Charges/Contributions could be collected on an annual or half-yearly basis, from all the landowners whose property has already been developed and put to use.
8) These charges should be a percentage (say 1% or 2%) of the value of land and must be levied on all landowners whose land has been developed and put to use, irrespective of the type of use.
9) The levy could be annual or half-yearly and landowners may be allowed to pay the amount in monthly installments if they desire.
10) The capital gains tax rules allow for any betterment charges paid to local town planning authorities to be deducted while computing net capital gains, treating it as a cost of improvement.
11) These charges would also be equitable since wealthier landowners would be contributing larger amounts for the public benefit.
12) Owner occupied residences, where the household incomes are very low and below taxable limits may probably be exempted from these charges.
13) The duties and fees levied on transfer of property, would capture a part of the betterment gains.
14) It is important that the guideline values of land are updated at frequent intervals and stay close to the heels of the market value.
15) Local bodies needed to be compensated for the civic services they provided.
16) There is a need for the States to empower the local bodies to collect tax and non-tax receipts.
17) The State Governments may have to bring in necessary legislations as appropriate.
18) In some cases, the State Governments may need to frame rules and fix rates of levy to allow the local bodies to effectively tap the existing sources of revenues.

19) Alternatively, the local bodies may be given powers to decide the rates themselves, subject to a floor and ceiling rate set by the State.

20) State Government should not provide exemptions to any entity from the tax and non-tax levies that are in the jurisdiction of local bodies. In cases where the grant of such an exemption becomes necessary, the local bodies should be compensated for the loss.

VII. Issues Related to Fastest Growing Urbanization

a) There is a clear pattern of rising dependence on state transfers for the ULBs. The ULBs need to lower this dependence over time.

b) Clearly, apart from property tax, the other sources of own tax are not prominent. Rather, their contribution is close to negligible. The ULB's need to identify and thereby tap other possible sources of own tax revenue and balance the skewed dependence upon.

c) For all the FGUC's even the share of property tax in total revenue reveals a sense of stagnancy. More so, for the FGUC-1, it is showing a falling trend.

d) Among other sources of revenue, it is seen that the SFC grants and other grants from the state government constitute the major share. To streamline these grants and to get the best outcome from them, especially, for the grants devolved through the SFC's there should be a milestone based approach, which would specifically target to empower the ULB's towards self-reliance. Adhocism has only led towards more dependency.

e) In terms of expenditure, it is seen that though there is a growth in salaries in absolute terms. There might not be enough recruitment during these years and the recurring salary component was thus affected.

f) It is quite surprising that expenditure data only on account of water supply and sanitation (as a part of public health) has been provided. All other expenditures are clubbed as 'other expenditure'.

g) The need for a massive municipal reform, taking care of the function-functionaries and the governance is a dire need- if at all self-reliance is the final objective. The reform should categorically emphasize on the systematic generation and archiving of the data set for all categories.

h) Reforms should also take into account both the resource mobilization and expenditure management as a twin mandate and prepare an implementable roadmap for the ULBs. The reforms should be done parallelly, rather taking one after another. A balanced growth path for reform should be adopted, to be precise.

12.2 Specific Gaps in Data Reported (as on Sep 2016) by State Finance Commission, Tamil Nadu

- **Municipal Corporations**

1. 2015 population for Tirunelveli Corporation is not available.
2. Coimbatore and Madurai have negative population growth.

- **Municipalities**

1. Hosur population growth rate is 572% in five years.
2. Mannargudi population growth is 46% in five years.
3. Nagercoil population growth rate is 57% in five years.
4. Villupuram population growth rate is 58% in five years.
5. Puliyangudi and Rameswaramhave 0% population growth rate in 5 years.
6. 2015 population data for Idappadi, Ottanchathiram and Vikramasingapuram are not available.
7. Maraimalainagar has negative population growth rate (95%).
8. Kallakurichi and Valparaihave negative population growth.

- **Town Panchayats**

1. 2015 population data for Abiramam, Kallukuttam and Pullambadi are not available.
2. Perungulam, Sambavarvadakarai , TNPL PugalurandGingee has negative population growth.
3. In 2015 Attayampatty, Naravarikuppam and Pallipathave population figures same as in 2011.
4. Population figure of Nanguneri for 2011 is not available.

ULB Wise Specific Names

- **Zero-Reporting Total Own Revenue:** ULB Name: Musiri; Year: 2015
- **Zero-Reporting Property Tax:**

Year wise ULB Name :

Pallikonda	2011
Pallikonda	2012
Pallikonda	2013
Pallikonda	2014
Pallikonda	2015
Musiri	2015

- **Zero-Reporting Grand Total Revenue**

ULB Name	Year
Musiri	2015

- **Reported Negative Rates**

➢ 188/665 (28% of the ULBs) Reported negative growth rates in total own revenue for the periods of 2014 to 2015
➢ 201/664 (30% of the ULBs) Reported negative growth rates in total own revenue for the periods of 2013 to 2014
➢ 284/664 (42% of the ULBs) Reported negative growth rates in total own revenue for the periods of 2012 to 2013
➢ 369/664 (55% of the ULBs) Report negative growth rates in total own revenue for the periods of 2011 to 2012
➢ 128/665 (32% of the ULBs) Report negative growth rates in property tax receipts for the periods of 2014 to 2015
➢ 221/664 (35% of the ULBs) Report negative growth rates in property tax receipts for the periods of 2013 to 2014
➢ 318/664 (47% of the ULBs) Report negative growth rates in property tax receipts for the periods of 2012 to 2013

- 131/664 (19% of the ULBs) Report negative growth rates in Grand Total Income for the periods of 2013 to 2014
- 282/664 (42% of the ULBs) Report negative growth rates in Grand Total Income for the periods of 2012 to 2013
- 393/664 (59% of the ULBs) Report negative growth rates in Grand Total Income for the periods of 2011 to 2012
- 153/665 (23% of the ULBs) Report negative growth rates in Grand Total Expenditure for the periods of 2014 to 2015
- 191/664 (28% of the ULBs) Report negative growth rates in Grand Total Expenditure for the periods of 2013 to 2014
- 303/664 (45% of the ULBs) Report negative growth rates in Grand Total Expenditure for the periods of 2012 to 2013
- 402/664 (60% of the ULBs) Report negative growth rates in Grand Total Expenditure for the periods of 2011 to 2012

Non Reporting of Annual Accounts - Municipal Corporations

- **Roads**
  - Thanjavur - 2015, 2016
- **Culverts**
  - Trichy - 2010 To 2016
  - Madurai - 2010 To 2016
  - Thanjavur - 2015, 16
  - Tirunelveli - 50l Only?
  - Thoothukudi - 2010 To 2016
- **Storm Water Drains**
  - Erode
  - Thanjavur
  - Dindigul
  - Tiruppur
- **Water Supply**
  - Thanjavur - 2015, 16
  - Tirunelveli - 2016
- **Street Lighting**
  - Salem
  - Thanjavur
- **Public Health & Sanitation**
  - Salem
  - Madurai
  - Tiruppur
- **Conservancy**
  - Vellore
  - Salem
  - Erode
  - Thiruchirapalli
  - Coimbatore
- **Schools**
  - Thanjavur
  - Tirunelveli ((from item 9 onwards, there are too little filled values, too man zero values))

- **Another major problem in reliability of state level data set.**
- There is huge gap between RBI data set and the aggregate data set provided by the Fifth State Finance Commission, for state property tax collection, Tamil Nadu.

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