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PROPERTY TAX IN URBAN INDIA

ISSUES AND CHALLENGES

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Preface

The study "Property Tax in Urban India: Issues and Challenges" has been carried out by the National Institute of Public Finance and Policy supported by the Ministry of Housing and Urban Affairs (MoHUA) under the MoHUA – NIPFP research programme.

The study examines the challenges and issues surrounding property tax collection in urban India, focusing on its critical role as the primary source of own-revenue for municipal corporations. Despite its importance, property tax collections remain considerably below potential due to factors such as incomplete property registers, outdated valuation methods, limited local autonomy, and ineffective billing and collection mechanisms. Using audited financial statements of 183 municipal corporations across 22 states from 2019-20 to 2021-22, the study finds that property tax collections accounted for about 0.07 percent of country's GDP. The study underscores the need for reforms and emphasizes greater local autonomy and control, digitalization of property data, adoption of capital value-based assessments, and strengthened intergovernmental cooperation to improve property tax administration and resource mobilization.

The study team consists of Manish Gupta, and Aakash Gupta. The opinions and analyses here are those of the authors only. The members of the Governing Body of the National Institute of Public Finance and Policy are in no way responsible for these.

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Property Tax in Urban India: Issues and Challenges[1]

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Abstract:

The paper examines the challenges and issues surrounding property tax collection in urban India, focusing on its critical role as the primary source of own-revenue for municipal corporations. Despite its importance, property tax collections remain considerably below potential due to factors such as incomplete property registers, outdated valuation methods, limited local autonomy, and ineffective billing and collection mechanisms. Using audited financial statements of 183 municipal corporations across 22 states from 2019-20 to 2021-22, the study finds that property tax collections accounted for about 0.07 percent of country's GDP and in per capita terms it was ranged between Rs.863-927. An important issue facing property tax administration in Indian cities is the problem of unchecked arrears. The study finds that on average property arrears amount to about 170 percent of property tax revenue i.e., for every Rs.100 property tax collections, Rs.170 remain uncollected as arrears. The paper comparing India's property tax system with international practices, underscores the need for reforms in tax base identification, valuation methods, and enforcement. It emphasises greater local autonomy and control, digitalization of property data, adoption of capital value-based assessments, and strengthened intergovernmental cooperation to improve property tax administration and resource mobilization.

1. Introduction

The 74th Constitution Amendment Act (CAA), 1992 provided constitutional status to urban local bodies (ULBs) in India. The Act came into force with the objective of institutionalising democratic decentralisation at the urban local level. The Twelfth Schedule containing an illustrative list of eighteen functions that the state legislature may assign to the municipal bodies so as to ensure effective governance at the local level was added to the Constitution by this Act. The 74th CAA did not provide for a 'municipal revenue/finance list' in the Constitution to match the municipal functions listed, and left the issue of financial devolution

[1] The research is supported by Ministry of Housing and Urban Affairs, Government of India.

to state governments. Municipal bodies in India can levy and collect only those taxes that state governments choose to devolve (HPEC, 2011).

Further, Article 243W of the Constitution states that, "…Legislature of a State may, by law, endow— (a) the Municipalities with such powers and authority as may be necessary to enable them to function as institutions of self-government and such law may contain provisions for the devolution of powers and responsibilities upon Municipalities…". Since the transfer of such powers and responsibilities to ULBs have been left at the discretion of state legislatures, it has led to a worrying trend - states have neither adequately devolved municipal functions, nor empowered the municipal bodies with adequate revenue sources (C&AG, 2024).

Most states have adopted a piecemeal approach and have not fully transferred the funds, functions and functionaries to ULBs. As a result, there is a disconnect between the functional responsibilities of local bodies and their capacity to generate resources (Vaidya, 2009). Thus, while the local bodies are responsible for providing basic services, they do not have adequate revenue handles to provide for the same. Consequently, they rely on higher level of government – both state and central government for their financial needs. This is in sharp distinction from the well-established theory of *Wicksellian Connection*, which argues that for efficient public service delivery by any government, there should be strong linkages between revenue and expenditure decisions (Breton, 1996; Slack, 2014).

Moreover, in cases where state governments have transferred the authority to levy certain taxes—such as profession tax, vehicle tax, tax on animals—to ULBs, it is often observed that these taxes are neither levied nor collected effectively. As a result, property tax has emerged as the primary source of own revenue for the ULBs. Globally, property tax is widely recognized as the principal means of generating revenue for local governments (Rao, 2013; UN-Habitat, 2009). Given its centrality to municipal finance, it becomes important to take a closer look at the role of property tax in urban governance—examining its importance as a revenue source, the institutional and administrative frameworks that support its implementation, the socio-economic and political context in which it functions, and the opportunities it offers for building fiscally empowered local governments.

The rest of the paper is organised as follows. Section 2 discusses the conceptual background of property tax and its administration, with a special focus on India. Section 3 presents a cross-country comparison of property tax. Section 4 explores factors that adversely impact property tax revenues in India, while reforms needed to address these issues are discussed in section 5. Section 6 outlines the steps taken by the Union government and institutions like Central Finance Commissions to improve property tax systems in Indian cities. Section 7 analyses property tax revenue performance of 183 municipal corporations (MCs) in India using audited financial statements (AFS) for the period 2019-20 to 2021-22. Section 8 concludes the paper.

2. Property Tax— Conceptual Background

Property tax is a tax levied by municipal bodies on property owners based on the value of the property (both land and building). Slack and Bird (2015) refer to property tax as a "good tax" because property is immobile, making it difficult to evade such a tax. Efficient property tax administration involves:

i. Identification of the Tax Base: This includes enumerating and maintaining an accurate property tax roll,
ii. Assessment and Valuation: Determining the tax rate, assessing, and valuing the properties on the roll to calculate the tax amount for each property, and
iii. Billing and Collection: Issuing tax bills and collecting the taxes.

An additional aspect of property tax administration involves managing the system effectively, which includes addressing challenges in any of the above-mentioned steps. These challenges generally include managing arrears arising due to late payments, resolving taxpayer appeals and grievances, and regularly updating property rolls and tax rates.

Of the three steps mentioned above, the second step—assessment and valuation of properties—can be approached in three different ways: Annual Rental Value (ARV) method, Unit Area Value (UAV) method, and Capital Value (CV) method. Under the ARV method, property tax is assessed as per the perceived or estimated rental value of the said property. It involves estimating the value of a property based on the income it could generate if it were rented out. Under the UAV method, unit area of properties is valued based on various benchmarks such as age, location, usage, structure, construction type etc. Lastly, under the CV method, a property is evaluated simply on the basis of its market value or market rate. Once the valuation is done, the property tax payable is determined by applying a tax rate to the estimated value of the property. In India, states have adopted different methods of valuation of property tax (Table 1).

Table 1: Property tax valuation methods adopted in states in India

Valuation Method	States
Annual Rental Value	Assam, Bihar, Chhattisgarh, Madhya Pradesh, Maharashtra, Tamil Nadu, Uttar Pradesh, West Bengal (all ULBs except Kolkata), Hyderabad, Goa, Meghalaya
Unit Area Value	Gujarat, Himachal Pradesh, Kerala, Mizoram, Odisha, Tripura, Kolkata, Jammu & Kashmir, Sikkim
Capital Value	Andhra Pradesh, Jharkhand, Karnataka, Punjab, Rajasthan, Telangana (all ULBs except Hyderabad), Uttarakhand, Maharashtra, Nagaland
Differential Flat Rate	Haryana

Source: Statutory Provisions in State Acts; A Toolkit for Property Tax Reforms (2021)

3. A Cross-Country Comparison of Property Tax Collection

Despite being the primary source of revenue for ULBs, property tax collection in India continues to remain substantially below its potential. The High-Powered Expert Committee (HPEC) noted that in 2006-07, property tax revenues in different states in India were very low

ranging from 0.16 to 0.24 percent of GDP as compared to around 0.60 percent of GDP in many developing countries (HPEC, 2011; Mathur et al., 2009). The 15th Finance Commission highlighted that international experience points to property taxation as one of the best tax options for local governments. Yet, by global standards, property tax revenues in Indian cities are only a fraction of the developing-country average of about 0.7 percent of GDP (FC-XV, 2020).

Table 2: Cross country comparison of Property Tax Revenue (% of GDP)

Countries	2019	2020	2021
Brazil	0.81	0.81	0.84
Chile	0.78	0.79	0.73
China	1.41	1.32	1.26
India	*0.09*	*0.10*	*0.08*
Indonesia	0.17	0.22	0.19
Japan	1.90	1.98	1.93
Korea	1.11	1.18	1.16
Mexico	0.21	0.22	0.23
Philippines	0.36	0.39	0.40
Russian Federation	0.22	0.22	0.19
South Africa	1.26	1.33	1.26
Thailand	0.22	0.04	0.03
Turkey	0.22	0.22	0.19

Note: Property tax numbers for India is for 232 MCs
Source: Government Finance Statistics, IMF *(Accessed on August 01, 2025);* RBI (2024)

The RBI (2024) report finds that property tax collection in India aggregating across 232 MCs was around 0.09 percent of GDP in 2019-20. It fell to 0.08 percent in 2021-22. In comparison, the average property tax revenue in OECD countries in 2021 was around 1.9 percent of GDP (OECD, 2023). Property tax collections in India is also lower as compared to other BRICS nations. Property tax expressed as percent of GDP range between 0.81- 0.84 percent in Brazil, 1.26-1.41 percent in China, and 1.26-1.33 percent in South Africa. Russia, which has a relatively low property tax to GDP ratio among the BRICS nations, collects between 0.19-0.22 percent of GDP, which is around twice the level in India. Property tax-GDP ratio in India is even lower than some of the other developing countries viz., Philippines, Mexico, Chile, Indonesia, and Turkey. Among the countries compared, only Thailand has a lower property tax-GDP ratio than India (Table 2).

An important aspect of municipal revenues in India is the dependence of ULBs on property tax revenues to meet their overall resource requirements. A recent study by Gupta et al (2025) using audited financial statement of 166 MCs for the period 2019-20 to 2021-22 finds that property tax accounts for about 69-71 percent of their own-tax revenue and around 37-41 of their own revenues. RBI (2024) finds that for 2023-24, property tax constitutes over 60

percent of own tax revenue of MCs. These findings, when combined with the underperformance of Indian cities in terms of property tax revenue generation, reflects the concerning state of municipal finances in India.

Another area of concern is the method of property valuation employed by ULBs across India. As evident from Table 1, the ARV method remains the most commonly used approach in Indian states and cities. In contrast, majority of OECD countries and many Asian and BRICS countries such as Brazil, Russia, South Africa, Japan, Korea and Indonesia use the Capital Value (CV) method for property valuation (Table 3). We discuss the advantages of the CV method over ARV method in the following section. Additionally, in India in 2017, the division between revenues from recurrent sources such as property and land taxes, and non-recurrent sources such as taxes on property transfers, stood at 31 percent and 69 percent, respectively. In contrast, some of the Asian countries like China (45 percent), Indonesia (46 percent), Japan (82 percent), and Korea (75 percent) raised a significantly higher proportion of their revenues from recurrent sources (McCluskey et al., 2022).

Table 3: Property tax valuation methods adopted in different countries

Valuation Method	Countries
Annual Rental Value	Belgium, France, Italy, Singapore
Unit Area Value	Czech Republic, Israel, Poland
Capital Value	Brazil, Chile, Indonesia, Japan, Korea, Russia, South Africa, Thailand, Most OECD countries
Multiple Bases	India, China, Mexico

Source: Almy, R. (2014); McClusky et al. (2022), OECD (2021)

4. Reasons for Low Property Tax Collection in India

Low property tax collection in India can be attributed to factors which include among others incomplete property rolls, ineffective administration in identifying properties and collecting taxes, outdated tax rates, extensive exemptions by state governments that neglect ULBs' financial needs, and persistent undervaluation of properties, exacerbated by insufficient information available with local governments (Awasthi and Nagarajan, 2020). In this section we discuss some of these issues in more details. These factors are categorized according to their impact on the different components of property tax administration, as discussed in Section 2.

Identification of Tax Base: One of the major challenges to effective property tax administration in India is the maintenance of property tax roll. For efficient property tax collection, ULBs must ensure that all properties within their jurisdiction are accurately enumerated and property tax rolls are regularly updated. The Second Administrative Reforms Commission estimates that only 60-70 percent of properties in urban areas are actually assessed (SARC, 2007). A study conducted for the Economic Survey 2016-17 assessed the property tax potential of Bengaluru and Jaipur using satellite imagery data. It finds that these cities were collecting only 5-20 percent of their estimated property tax potential, indicating

that even the basic step of properly identifying the tax base could lead to a manifold increase in property tax revenues. Furthermore, even if a ULB is able to identify and assess all properties in its jurisdiction, it still faces the challenge of keeping the property tax rolls updated to reflect changes in property details, ownership, or the addition of new taxable properties.

Assessment and Valuation of Properties: Several factors adversely affect this step of property tax administration, all of which can be traced back to a single issue - reluctance of state governments to relinquish control over powers that are ideally suited for local governments. First of these factors relates to determination of property tax rates. In India, property tax rates are frequently based on historical precedents and are not aligned with local bodies' revenue needs. Typically, state governments set the tax rates for ULBs under their jurisdiction. Apart from that, there is the issue of exemptions from property tax provided by state governments to different types of properties. Exempt properties make up roughly 10 percent of all urban properties and about 11 percent of properties that have been assessed (Chattopadhyay and Kumar, 2019). Local bodies in India have very little control over tax rates, tax base and exemptions. Everything is decided by the state government. Additionally, there is the issue of the method used for valuation of properties. Of the three valuation methods discussed in Section 2, the CV method is conventionally considered to be the best one (Slack and Bird, 2015). Many countries have moved towards CV method for better exploitation of property tax as a source of revenue for local bodies.

Not many states in India have adopted the CV method for property tax purposes as evident from Table 1. However, the ARV and UAV methods, which are followed in majority of Indian states have several shortcomings. In ARV method, the connection between perceived rental values and actual market values is quite weak. This is mainly because there is a lack of reliable data on market rental values. In certain instances, actual rental income is used, but it depends on the taxpayers' discretion and may not reflect the true rent owed. Additionally, significant differences arise between the assessed rental value and the actual market value due to the discretionary powers held by revenue officials, which weakens the tax base.[2] The Eleventh Finance Commission identified rent control laws as one of the major factors impeding revenue from property tax. Kholodilin (2024) discusses how rent control can reduce property tax revenue by lowering the valuation of regulated properties.

The UAV method too has its drawbacks. Using property size as a basis for taxation does not accurately reflect the benefits a property owner receives from civic services. A more appropriate indicator would be the property's market value, which tends to increase over time due to factors like urban development and improved infrastructure. However, the UAV method does not capture such changes in value, leading to a mismatch between the actual benefits received and the tax levied. Moreover, it is also sometimes considered regressive because it imposes the same tax on properties of equal size, regardless of their location. As a

[2] A Toolkit for Property Tax Reforms (2021) and Nath (1987).

result, lower-income households in less affluent neighbourhoods bear a similar tax burden as higher-income households in more valuable areas, leading to an inequitable system (Mishra et al., 2022).

Billing and Collection: ULBs in India need to go a long way to efficiently undertake this last step of property tax administration which pertains to billing and collection. On average just 37 percent of property tax demand is collected and in a city like Delhi this number is 19 percent (Chattopadhyay, 2015). In 2006–2007, the average property tax collected per capita in the 36 largest cities in India was approximately Rs 486 as compared to a demand of Rs 1,229 (i.e., around 39.5 percent of property tax demand could be collected) (Mathur et al., 2009). Despite the existence of penalties and fines for late or non-payment, these are seldom enforced, reflecting both the influence of local political dynamics and a lack of rigorous commitment to tax collection (Chattopadhyay and Kumar, 2019). The lax attitude of ULBs towards tax collection can also be gauged from the amount of arrears.[3] Rosengard (2013) famously described property tax as the "*tax everyone loves to hate*." Non-payment of property tax and tax evasion remains a persistent challenge for ULBs.

Other Factors Impacting Property Tax Administration in India: There are other factors that adversely impact property tax collection in India. ULBs in India are understaffed. A report by the Comptroller and Auditor General of India (C&AG, 2024) covering 393 ULBs across 18 states finds that 37 percent of the sanctioned positions are vacant. Furthermore, the existing staff often lack training and necessary skills to effectively manage property tax administration (Awasthi and Nagarajan, 2020).

Political economy consideration is another important factor negatively impacting property tax revenue in developing countries. Since local governments are more directly connected to citizens, the local power structure and the political feasibility of decisions influence both the enforcement of property taxes and timely revaluation of properties (Bahl and Wallace, 2008; Awasthi and Nagarajan, 2020). Additionally, the control exercised by state governments over key decisions related to property tax administration in Indian cities viz., setting rates, timely revisions, determining valuation methods, and identifying exempted properties further complicates the power dynamics in property tax governance.

Improving property tax collection requires sustained effort, institutional commitment, and strategic interventions.

5. Property Tax Reforms

Strategies/Reforms to enhance property tax revenue (classified according to the main components of property tax administration) include:

Reforms for Better Identification of Tax Base: Mapping and maintaining a digital database of properties using Geographic Information System (GIS) can help resolve the issue of

[3] See section 8.3.

incomplete property tax rolls. There are several examples of cities/MCs/ULBs in India that have adopted GIS enabled database for identification of properties and increasing their property tax revenues. Bengaluru was the first city in India to implement a GIS-enabled property tax database across the entire city, mapping 1.7 million properties and assigning each a unique property identification number. Property tax collection in Greater Bengaluru MC increased by about 39 percent between 2009-10 and 2010-11 (Mishra et al., 2022). After undertaking property mapping through GIS, unique property IDs and property survey, Vishakhapatnam MC's property tax revenue increased from Rs 77 crore to Rs 169 crore between 2010-11 and 2013-14. Another success story is that of Raipur MC where, in 2017-18, the number of assessed properties went up by 54 percent and property tax demand by 68 percent due to the creation of a digital database of properties using GIS (Awasthi et al., 2021). The Corporation also employed drones to gather images from across the city to conduct a more robust mapping of properties. At the state level, Jharkhand serves as a good example, where a series of reforms in property tax administration—ranging from governance-related changes to integration of IT tools led to the number of assessed properties nearly doubling from 4.37 lakh in 2016-17 to 8.48 lakh in 2021-22, thereby reducing the number of unassessed households by 35 percent (Kumar and Goel, 2023).

Identification of properties should be followed by regular updating of property rolls to ensure new properties as well as changes in the ownership, land use, built-up area etc. of the existing properties get incorporated. The AASTHI Project in Karnataka, which utilized GIS technology and field surveys, brought 1.2 million previously unassessed properties into the tax net (Awasthi and Nagarajan, 2020).

Reforms for Better Assessment and Valuation of Properties: As discussed earlier, an important issue impacting property tax collections is excessive control of State Government over matters that should ideally be in the purview of local governments. An essential reform in this regard is with respect to the determination of property tax rates. States need to ensure that property tax rates are determined independent of any political considerations. The rates should account for the expenditure on municipal services provided by local bodies and their resource requirements. Sustained and timely revision of property tax rates go a long way in making local bodies self-sufficient. Also, there is an urgent need for reforms in property tax laws, especially rationalising the exemptions provided to different types of properties across states.

As countries reform their property tax systems, they move from ARV method of property valuation to CV or UAV methods.[4] Patna MC was the first ULB to successfully transition to UAV method of valuation in 2002 and is one of the top performers when it comes to the share of property tax revenue in own revenue (Awasthi and Nagarajan, 2020). This model was later adopted by many other municipalities including Bengaluru and Ahmedabad MCs which

[4] The report of the Property Tax Reforms Committee, Bruhat Bengaluru Mahanagara Palike, gives a detailed account of how the transition from a pre-existing valuation method to capital-based valuation method can be efficiently made (Property Tax Reforms Committee, BBMP, 2024).

resulted in an increase in their property tax revenues (Chattopadhyay, 2015). In 2011, Pune MC transitioned to capital value-based system which made the city's property tax system more buoyant and progressive (Awasthi and Nagarajan, 2020).

Reforms for Better Billing and Collection: One of the principal strategies that has been implemented in various ULBs to simplify the property tax regime is the system of self-assessment of property, shifting the responsibility to calculate payable tax from local body officials to property owners. While on one hand this system reduces the burden on municipalities which are usually under staffed, on other self-assessment system makes the whole process more accessible and transparent for the tax payers which in turn improves tax compliance as a whole. The Bruhat Bangalore Mahanagara Palike (BBMP) was able to increase its property tax collections from Rs 440 crore in 2007-08 to Rs 1210 crore in 2011-12 by incorporating self-assessment system and facilitating online payment of tax (Chattopadhyay, 2015). Many cities in Gujarat and West Bengal and Delhi are among those that have successfully transitioned to self-assessment system of property tax calculation. The switch to self-assessment system should be accompanied by identification and initiation of penal action on defaulters. Measures like imposition of fines, restriction of property sales or development permissions without fulfilment of tax liabilities, publication of defaulters' list etc. can also help improve tax compliance.

Ranchi MC showcases how improvements in billing and collection systems can lead to significant increases in property tax revenues. In 2014, the Corporation outsourced property tax collection to a private agency, which enabled real-time generation of tax demand, door-to-door collection, and a more efficient grievance redressal system. As a result, property tax revenues increased from Rs 9 crore in 2014 to Rs 43 crore in 2017 (Awasthi and Nagarajan, 2020). Introduction of a universal payment platform in the form of Mobile Point of Sale devices in several ULBs of Odisha has led to a more efficient property tax collection system. It improved agent efficiency by eliminating the need for manual entry of collection data, which previously took about 2 hours per person per day.[5]

6. Role of Central Government and Central Institutions

Over the years, the Government of India has consistently endeavoured to boost property tax collections in ULBs. There have been several central government schemes that have given specific attention to property tax systems in India. Additionally, successive Central Finance Commissions (CFCs) starting from the 10th Finance Commission (FC) have also recommended measures to augment ULBs' revenues from property tax.

The 10th FC recommended against dependency on transfers from upper-tiers of government to meet the resource requirements. It underlined the importance of ULBs raising their own

[5] A Toolkit for Property Tax Reforms (2021)

resources, suggesting that for effective decentralisation of the development process, local resources should be mobilised for local development.

The 11th FC identified several factors responsible for under exploitation of property tax in India— absence of a standardised mechanism to determine and revise property tax rates, concession and exemptions to property tax accorded by states, inefficient administration leading to accumulation of arrears to list a few. Entangling of municipal property tax laws with rent control legislations was singled out as the most important factor causing under exploitation of property tax. It recommended delinking of property tax from rent control laws. In also put forth the need to recover property tax from the occupier when a property has been let out. Further, the Commission recommended distribution of 20 percent of the grants to states on the basis of an *index of decentralisation*. The assignment of power to levy property tax to local bodies was one of the parameters in this index.

The 12th FC, while allocating funds to local bodies, encouraged them to prioritize spending on GIS for mapping properties in urban areas. The 13th FC recommended that state governments should ensure all local authorities adopt either the unit area method or CV method for property tax assessment, while restricting exemptions. Furthermore, over one third of the total grant recommended by the Commission for local bodies was conditional grant. The states had to meet a set of nine conditions for it to be eligible for this grant. Two of these nine conditions were with respect to property taxes namely (i) states had to empower all local bodies to impose property taxes on all types of residential and commercial properties, and any obstacles in this regard had to be eliminated; (ii) states had to establish a Property Tax Board which would help in assessment of property tax in all ULBs in the state.

The 14th FC recommended that states implement property tax reforms, focusing on objective base determination with regular inflation adjustments, and strengthening assessment and collection mechanisms. It recommended that existing rules be reviewed for effective imposition of property tax while minimising exemptions. The Commission proposed that property assessments occur every four or five years, with ULBs adopting self-assessment systems. It recommended that states should take necessary actions to improve information sharing on property tax among local, state, and union governments.

The 15th FC made notification of minimum floor rate a pre-condition for states to receive ULB grants. Additionally, it recommended that a state will receive grants based on the growth of property tax revenues in ULBs, provided that these revenues grow in line with the average growth rate of the state's GSDP over the past five years. The report also stressed on the importance of laws governing enumeration, assessment, valuation and billing, and the role they play in increasing the buoyancy of property taxes. Consequently, a medium-term agenda assigned to the states was to adopt best practices with regards to these laws and codify them in a Model Property Tax Act with the help of the Union government.

Various schemes and programs of the central government have also put special emphasis on reforming the property tax systems in the country. The Jawaharlal Nehru Urban Renewal

Mission (JNNURM) launched in 2005, mandated ULBs under the Mission to update property tax systems using GIS. ULBs had to achieve a collection efficiency of at least 85 percent by effectively implementing GIS within the mission period. Additionally, the mission guidelines encouraged introduction of Property Title Certification System and computerizing the process of property registration in ULBs. Other schemes like AMRUT 2.0 and Swachh Bharat Mission - Urban 2.0 also included property tax related reforms as mandatory conditions for states and ULBs in order to avail central government assistance. Specifically, both these schemes reiterate the condition of notifying property floor rates set forth by the 15th FC along with their timely revision.

More recently, the central government's scheme for Special Assistance to States for Capital Investment (SASCI) 2023-24 and 2024-25 emphasised on reforming property tax systems in the states. Under SASCI 2023-24 states must achieve certain milestones which include preparing a roadmap for property tax governance reforms, ensuring a year-on-year increase in property tax collections in at least 10 percent of AMRUT cities, and ring-fencing property tax and user charges for municipal bond issuance, to qualify for this assistance. Similarly, SASCI 2024-25 aims to incentivize states to achieve key milestone(s) in the creation of urban land records which include aerial survey and mapping, field survey and ground truthing by rovers, and dispute resolution and finalisation of maps. The goal is to ensure these records are precise, up-to-date and seamlessly integrated with the property tax records of ULBs.

7. Property Tax Collection in India – Evidence from Audited Financial Statements of MCs

This section analyses property tax revenue performance of MCs in India using audited financial statements (AFS) for the years 2019-20 to 2021-22.[6] The study covers 183 MCs spread across 22 states for which data was available for all the three years 2019-20 to 2021-22.[7]

A review of municipal acts of states reveals that in many states the municipal acts specify the list of taxes/levies that forms part of the property tax levied by MCs (Table 4). However, the list varies across states. This makes property tax numbers incomparable across states. Moreover, even within a state, there is often little clarity on whether MCs/ULBs are fully complying with the provisions of their respective state acts and collecting the associated taxes/levies. Adding to this complexity is the way these taxes are reported in the income-expenditure statements. For example, even if MCs in a state are levying property and the

[6] Unlike other reports on municipal finances (RBI, 2022 and 2024; Mohanty et al., 2007) that rely on budget estimates to assess the financial position of ULBs, the current study uses financial data from the (AFS) of MCs. A study by Subalakshmi and Raghunathan (undated) highlights that ULB budgets in India are often unaudited and primarily cash based. There are considerable variations between actual numbers presented in the budgets and those reported in AFS. Given these shortcomings, AFS makes for a better source for assessing indicators related to ULB finances.

[7] Meghalaya and Nagaland do not have any MC. The AFS of MCs in four states - Arunachal Pradesh, Goa, Manipur, and Sikkim were not available for the years 2019–20, 2020–21 and 2021–22. State-wise distribution of the number of MCs is presented in Appendix.

associated taxes/levies as specified in the act, a review of their AFS reveals inconsistencies in reporting. It is often unclear whether the reported property tax numbers include these associated taxes or if they are being reported separately, further complicating any form of comparative analysis.

Table 4: Taxes included in the Property Tax

State	Taxes
Andhra Pradesh	General tax, water tax, drainage tax, lighting tax, conservancy tax
Assam	-
Bihar	-
Chhattisgarh	-
Gujarat	Water tax, conservancy tax, general tax, betterment charges
Haryana	Water tax, fire tax
Himachal Pradesh	-
Jharkhand	-
Karnataka	-
Kerala	Tax for general purposes and service tax. Service tax may comprise of, water and drainage tax, lighting tax, sanitary tax
Madhya Pradesh	-
Maharashtra	Water tax, water benefit tax, sewerage/conservancy tax, sewerage benefit tax, general tax, education cess, street tax, betterment charges
Mizoram	General tax, water and drainage tax, lighting tax, scavenging tax
Odisha	-
Punjab	Water tax, fire tax, general tax
Rajasthan	-
Tamil Nadu	-
Telangana	-
Tripura	Sewerage tax, conservancy tax, lighting tax
Uttar Pradesh	General tax, water tax, drainage tax, conservancy tax
Uttarakhand	General tax, water tax, drainage tax, conservancy tax
West Bengal	-

Source: Statutory Provisions in State Municipal Acts

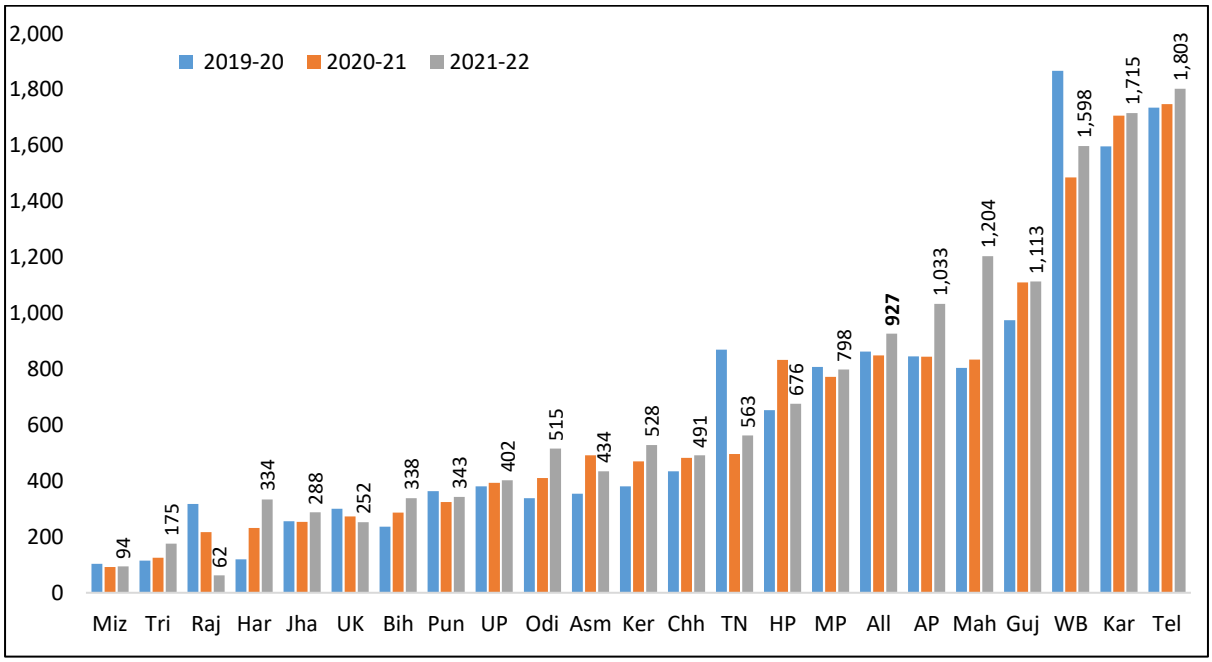
This caveat highlights the need for standardisation in the way property taxes and financial statements are reported across states. The National Municipal Accounting Manual, 2004, was an initial step in this direction, but much more needs to be done regarding its implementation. Furthermore, a standardised reporting format at a more granular level would help resolve the issue of comparing property tax collections across states. Our analysis of property tax collections by MCs across states in India is subject to the above-mentioned caveat.

7.1 State Wise Property Tax Collections

Property tax collections by the selected MCs in 2021-22 stood at Rs. 15,359 crore growing at a compound annual growth rate (CAGR) of 5.6 percent between 2019-20 and 2021-22. It constituted around 0.07 percent of GDP.[8] In per capital terms it was around Rs.927 as compared to Rs.863 in 2019-20 with wide variation across states (Fig-1).[9]

In 16 out of 22 states we observe an increase in the per capita property tax revenue between 2019-20 and 2021-22.[10] Of the 6 states which show a decline, four states – Rajasthan (-80.56 percent), Tamil Nadu (-35.26 percent), Uttarakhand (-16.17 percent) and West Bengal (-14.41 percent) stand out with a sharp decline in property tax collection. Two of these states – Tamil Nadu and West Bengal were among the top property tax performers in 2019-20.

Fig 1: State-wise per capita property tax revenue (Rs.)



Source: Audited financial statements of municipal corporations and authors' calculations.

An important aspect that has been widely discussed relates to the reliance of MCs in India on property tax revenues. This dependency is illustrated in Fig-2. On average property tax account for about 65 percent of own tax revenues in the selected MCs and the all-state average (3-year average) per capita property tax collection is around Rs.880. Maharashtra and Tamil Nadu are the only two states where property tax revenue accounts for less than 50 percent of MCs' own tax revenue. In other words, in these two states there are other buoyant

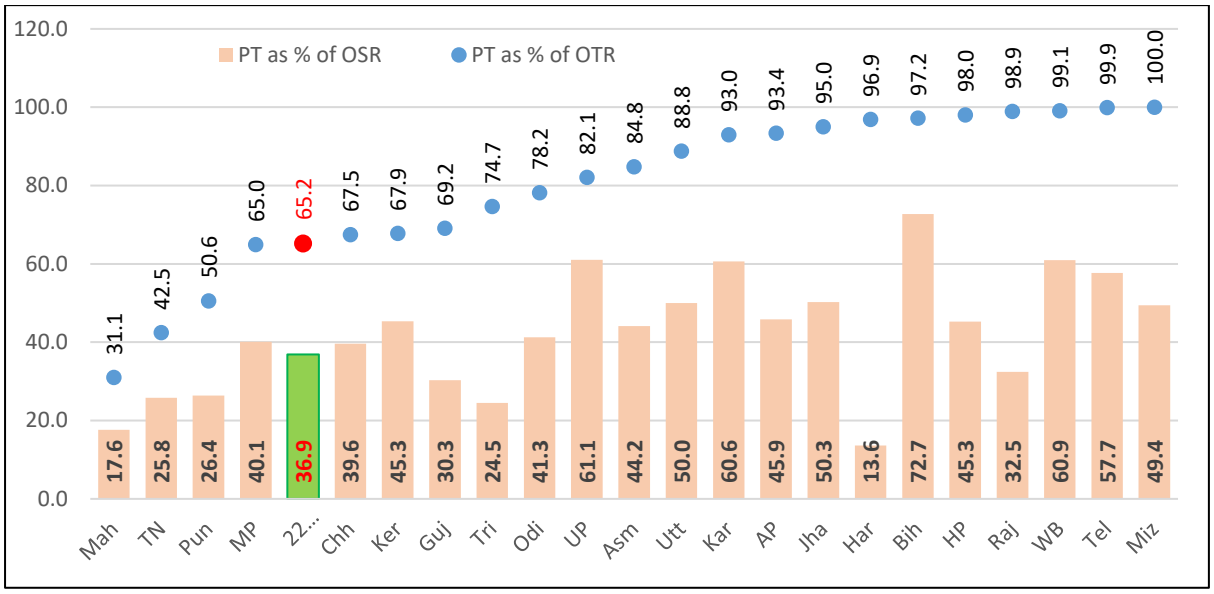
[8] Its share in the aggregate GSDP of 22 states was also 0.07 percent.

[9] In order to calculate per capita numbers, state-specific urban growth rate was derived from MoHFW (2024) report. State-specific urban growth rate was then applied to 2011 ULB population for projecting ULB population for the three years under consideration.

[10] State-wise property tax numbers are derived by aggregating property tax across selected MCs in respective states.

tax handles complementing property tax. Further, MCs in both these states perform relatively well in per capita property tax collection as well (Fig-1).

Fig 2: Property Tax as percent of Own Tax & Own Source Revenue (3-yr avg, 2019-20 - 2021-22)



Source: Audited financial statements of MCs and authors' calculations

MCs' reliance on property tax can also be gauged by considering its share in own-source revenues (OSR).[11] As is evident from Fig-2, property tax accounts for more than one-half of OSR in MCs in 7 out of the 22 states analysed. The share of property tax in OSR varies between 13.6 percent (Haryana) and 72.7 percent (Bihar) with all-state average of around 37 percent. Low share in OSR implies that MCs are more dependent on non-tax sources and/or collection from property tax is low. Similarly, high share in OSR implies low/negligible revenues from non-tax sources.

7.2 Million-Plus Vs Non-Million Plus Cities – A comparative analysis[12]

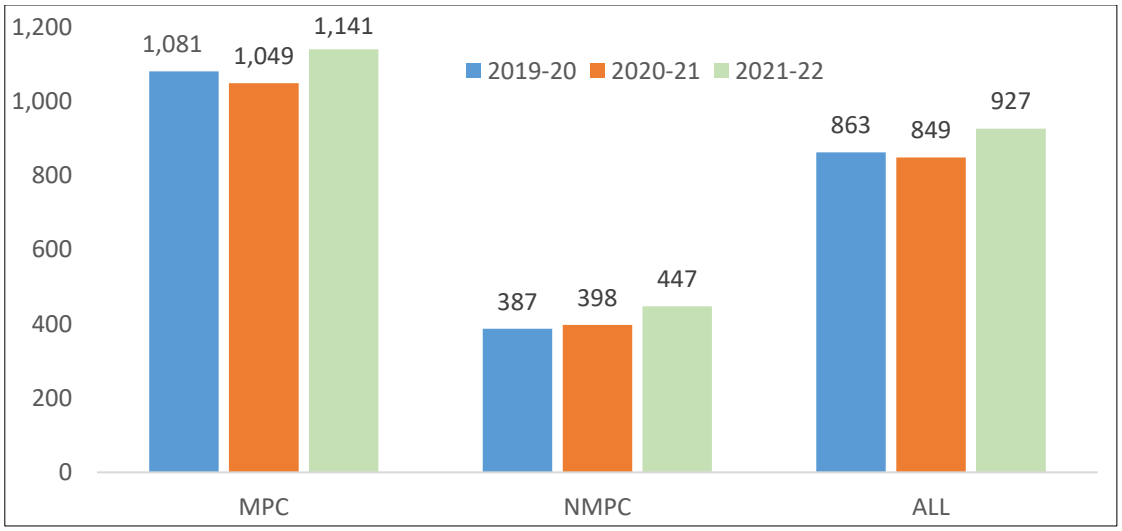
We classify MCs into (i) Million plus cities (MPCs) and (ii) non-million plus cities (NMPC). Out of the 183 municipal corporations considered in the analysis, 48 are MPCs and 135 are NMPCs. A comparative analysis of property tax collection by MPCs and NMPCs reveals that MPCs collect more property tax, both in absolute and per capita terms (Fig. 3), compared to NMPCs. On average, property tax collection aggregated across MPCs at Rs. 12,238.02 crore is almost six times that of NMPCs. The per capita property tax collection by MPCs ranged between Rs.1078-1141 as compared to Rs.387-447 for NMPCs during 2019-20 and 2021-22. The all-MC per capita property tax collection was around Rs.863-927.

[11] Own-source revenues comprise both tax and non-tax revenues. Tax revenue includes revenues from advertisement tax, water tax, sewerage tax etc. Non-tax revenue includes revenues from rental income, user-charges, fees, fine and penalties, income from interest and investments among others.

[12] This categorisation is used in many of the government schemes including 15th FC, AMRUT 2.0, SASCI etc.

MPCs are larger municipal corporations with greater resources and capacities compared to NMPCs. Moreover, the broader and more diverse set of economic activities in MPCs provides them a larger scope and potential for resource mobilisation. As a result, it is reasonable to expect them to outperform their NMPC counterparts across various financial indicators including property tax.

Fig 3: Per capita Property Tax Revenue of MCs by Population categories (Rs.)



Source: Audited financial statements of municipal corporations and authors' calculations

A clear pattern emerges when comparing MPCs and NMPCs based on the share of property tax in different revenue categories. In case of MPCs, property tax accounts for a relatively smaller share of own tax revenues as compared to the NMPCs (Table 5). This could be attributed to the fact that MPCs, while collecting higher property tax revenues, are also more likely to generate higher revenues from other tax handles like the sewerage tax, advertisement tax, water tax etc. as compared to the NMPCs thereby resulting in a relatively lower share of property tax in their own-taxes.

Table 5: Property Tax related Indicators—MPCs versus NMPCs

	Property Tax as % of OTR			Property Tax as % of OSR			Property Tax as % of TRR		
Year	MPC	NMPC	All-MCs	MPC	NMPC	All-MCs	MPC	NMPC	All-MCs
2019-20	64.9	68.2	65.3	37.3	33.1	36.6	22.9	13.6	20.9
2020-21	63.8	70.1	64.7	39.8	34.1	38.8	22.4	14.0	20.6
2021-22	65.0	68.4	65.5	36.2	31.3	35.4	21.4	14.1	19.9

Source: Audited financial statements of municipal corporations and authors' calculations

However, when considering the share of property tax in own source revenue (OSR) and total revenue receipt (TRR), the share is higher in case of MPCs (Table 5). A lower share of property tax in OSR in case of NMPCs could be attributed to the fact that for them revenues from other own sources namely, non-tax sources like rent, fees, fines, user charges etc. and other taxes could be relatively higher than the property tax vis-à-vis the MPCs. Further, relatively smaller MCs (i.e., NMPCs) are more dependent on transfers from higher tiers of government for their

overall resource requirement which explains the lower share of property tax in their total revenue receipts (for further discussion see Gupta et al, 2025).

7.3 A Relation between Property Tax collection and Population Size of MCs

The relationship between per capita property tax collection and population size of MCs is examined empirically using an OLS regression framework. Four specifications are presented with per capita property tax revenue as the dependent variable. The independent variables are population of the corporation[13] and a dummy variable (dMPC) for MPC and NMPC. The dummy variable dMPC takes value 1 if the corporation is MPC, and 0 otherwise.

In models (i) and (ii) we have used data for 183 MCs for the year 2021-22, while models (iii) and (iv) use three-year average (average of 2019-20 to 2021-22) data of 183 MCs. The regression results are presented in Table 6.

From the specifications estimated we observe that the size of the corporations, represented by population, is positively related to per capita property tax revenue and the results are significant in all the specifications. In other words, per capita property tax revenue collection increases with the size of the city. Per capita property tax collection is also higher for million-plus cities as compared to non-million-plus cities. The effect is not significant.

Table 6: Regression of Property Tax Revenue Per Capita on Population

Variables	Dependent Variable: Per capita property tax revenue			
	(i)	(ii)	(iii)	(iv)
Population	0.0001735*** (0.000028)	0.0001617*** (0.000037)	0.0001713*** (0.000027)	0.0001654*** (0.000035)
dMPC	--	57.06 (115.996)	--	27.865 (108.378)
Constant	410.238*** (46.621)	405.972*** (47.517)	379.723*** (43.130)	377.695*** (43.955)
Observations	183	183	183	183

Note: dMPC is a dummy variable. dMPC =1 if the corporation is MPC; = 0 otherwise
Standard errors in parentheses; *** p < 0.01, ** p < 0.05, * p < 0.1

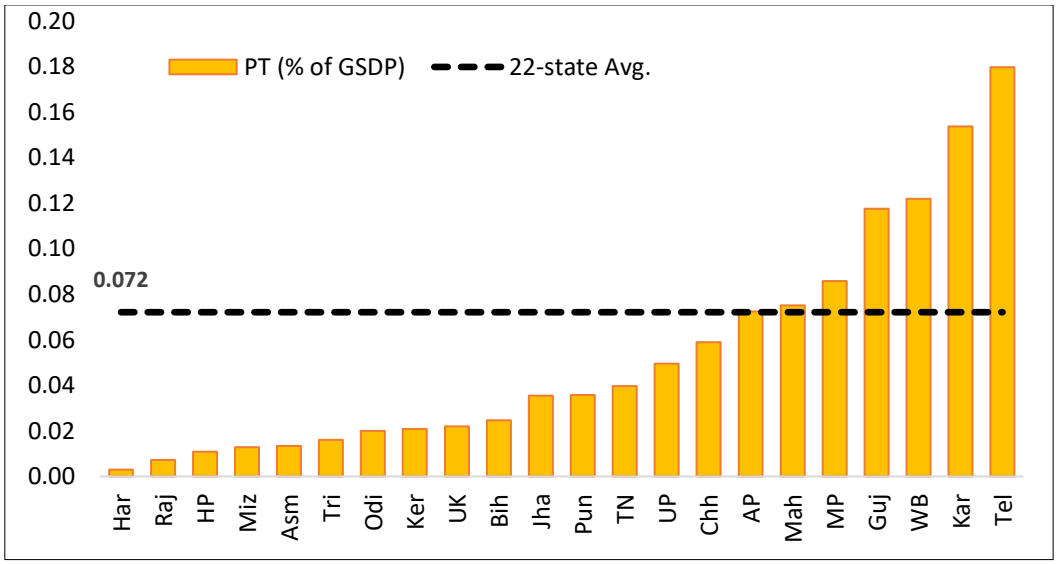
Thus, we find property tax (expressed in per capita terms) increases with the size of the corporations (expressed in terms of population size) irrespective of whether the corporation is MPC or not. In other words, with the increase in population of MCs, per capita property tax collections also increase. This can be attributed to the *agglomeration effect*, wherein larger population and greater economic activity in larger cities result in higher per capita tax collection.

[13] Using state-wise urban population growth from the report of National Population Commission (MoHFW) 2011 population of MCs have been projected for 2019-20, 2020-21 and 2021-22. The population of MCs here refer to the projected population.

7.4 Property Tax and GSDP

Expressing state-wise property tax collections as percent of states' GSDP, we find that on average it accounts for a mere 0.07 percent. However, there are large inter-state variations ranging from 0.003 percent of GSDP in case of Haryana to 0.18 percent in Telangana (Fig-4). In seven states property tax collection as percent of GSDP is higher than the all-state average.

Fig 4: Property Tax as a Percentage of GSDP (Average of 3-yrs 2019-20 to 2021-22)



Source: AFS of MCs, GSDP from MoSPI, and authors' calculations

Sixty-nine out of 183 MCs considered in the study show property tax growth greater than or equal to their respective state's most recent five-year average GSDP growth rate—a condition set by the 15th FC for ULB to receive grants from the fiscal year 2023–24.[14] This number of MCs showing growth in property tax equal to or higher than the GSDP growth remains unchanged when the average GSDP growth over the last two years (i.e., during 2019-20 and 2021-22) is considered (Table 7).[15]

Table 7: No. of MCs meeting 15th FC Conditions - 2021-22

	No. of MCs considered	No. of MCs meeting 5-yr GSDP condition	No. of MCs meeting 2-yr GSDP condition
MPC	48	19	19
NMPC	135	50	50
Total	**183**	**69**	**69**

Source: AFS of MCs, GSDP from MoSPI; Authors' calculations

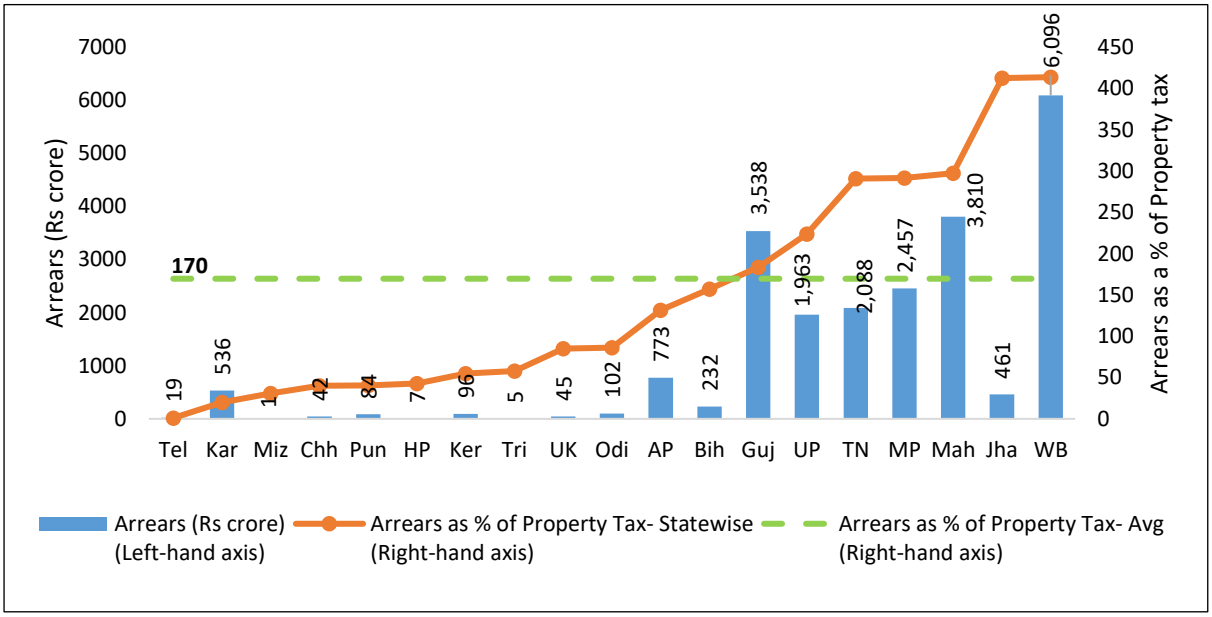
7.5 Property Tax Arrears

An important issue facing property tax administration in Indian cities is the problem of unchecked property tax arrears (11th FC, 1999). Property tax receivables data in the balance

[14] Considering the impact of COVID-19, we have taken the CAGR of property tax between 2019-20 and 2021-22. This helped smoothen the drop and subsequent recovery in property tax collections due to the pandemic.
[15] For state-wise numbers, see appendix.

sheet of MCs provides estimates of property tax arrears accumulated by MCs (see NMAM, 2004). Of the 183 MCs considered, balance sheet was available for 168 MCs spread over 22 states for the period 2019-20 to 2021-22.

Fig 5: State-wise Property Tax Arrears - (3-year average, 2019-20 to 2021-22)



Note: Does not include Assam, Haryana and Rajasthan as MCs in these states report zero arrears.
Source: AFS of MCs and authors' calculations

From the examination of property tax arrears data – both in absolute terms (average of 3-years) as well as percentage of the property tax revenues (Fig-5), it is observed that property tax arrears is among the highest in West Bengal accounting for about Rs.6096 crore or 413.8 percent of the property tax revenue collected by the selected MCs in the state. Notably, West Bengal also ranks among the states with the highest per capita property tax collection (Fig-1). For MCs in a large number of states, arrears surpass property tax collections. On average, property tax arrears amount to over 170 percent of property tax revenue. In other words, on average, for every Rs.100 collected as property tax, Rs.170 remain uncollected as arrears underscoring the need for addressing the issue of arrears.

8. Conclusion

Our analysis of the audited financial statement of 183 municipal corporation in India finds that property tax collections in 2021-22 stood at Rs. 15,359 crores, constituting a mere 0.07 percent of country's GDP and averaging about Rs. 927 per capita. It is considerably lower as compared to the developing country average of 0.7 percent of GDP and well below that in some of the BRICS nations like Brazil (0.81-0.84 percent), China (1.26-1.41 percent), and South Africa (1.26-1.33 percent). The problem is compounded by the fact that property tax is the most important source of own-revenues of corporations accounting for about 65 percent of own-tax revenues and around 37 percent of total own source revenues of corporations.

Further, larger corporations (i.e., million plus corporations) accounts for most of the property tax collections. The study finds that property tax (expressed in per capita terms) increases with the size of the corporations, attributable to the agglomeration effect.

Further, despite several initiatives by the central government through its various schemes and recommendations of different Finance Commissions, both states and ULBs continue to underperform and property tax collections remain low.

Low property tax collections can be attributed to factor which include, among others, too much state control and very limited autonomy to local governments in deciding the rates, base, exceptions etc., low tax rates which are not updated/revised regularly, extensive exemptions by state governments that neglect ULBs' financial needs, low collection efficiency. Further, due to political economic considerations, local bodies are not keen to collect taxes.

The lax attitude of ULBs towards property tax collection can also be gauged from the amount of arrears. The study finds that on average, property tax arrears amount to over 170 percent of property tax revenue i.e., for every Rs.100 collected as property tax, Rs.170 remain uncollected as arrears underscoring the need for addressing this.

Dependence on property taxes, combined with low collection and substantial property tax arrears that often exceed actual collections does not auger well for fiscal health of cities in India.

The need of the hour is to approach this issue comprehensively, rather than relying on quick fixes that may only provide short-term relief. A more sincere and thorough approach involves addressing all the three key steps in effective property tax implementation: identification of the tax base, assessment and valuation, and finally, billing and collection. Best practices such as digitalizing property registers, conducting GIS surveys of the jurisdiction, adopting the capital valuation method for property assessment, and taking an active approach towards billing and collection should be implemented by both state government and ULBs.

Another critical issue is the level of control that states have over the third tier of government. Key aspects of property tax administration, such as property tax rates and exemptions, fall under state control. This dependency puts municipal corporations at a disadvantage, limiting their control over their most important revenue source and negatively affecting overall property tax administration in the country.

Further uniform or “one size fits all” kind of reforms will not work. Smaller cities need tailored support like technical assistance, capacity building, and adjusted revenue targets, while larger cities can invest in improving their tax administration processes and adopting advanced technologies. Policy measures must therefore be calibrated to city size, since the route to fiscal strength varies between larger cities and smaller urban areas.

What is needed is a collaborative effort, with all three tiers of government working together to achieve the common goal of improving municipal finances, of which property tax is certainly the most important part. Without addressing these fundamental issues revealed by

the available data, Indian cities will continue to face severe fiscal constraints that undermine their ability to provide essential services and support sustainable urban development.

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Appendix

Table A1: State-wise Number of MCs and those meeting the 15th FC Condition, 2021-22

State	No. of MCs	MCs considered	No. of MCs meeting condition (5-year GSDP)	No. of MCs meeting condition (2-year GSDP)
Andhra Pradesh	17	12	3	3
Arunachal Pradesh	1	0	--	--
Assam	1	1	1	1
Bihar	19	11	4	4
Chhattisgarh	14	13	4	4
Goa	1	0	--	--
Gujarat	8	6	1	1
Haryana	11	2	2	2
Himachal Pradesh	5	2	0	0
Jharkhand	10	9	6	6
Karnataka	11	10	4	4
Kerala	6	5	5	5
Madhya Pradesh	16	16	7	7
Maharashtra	28	20	11	10
Manipur	1	0	--	--
Mizoram	1	1	0	0
Odisha	5	5	2	2
Punjab	13	10	0	0
Rajasthan	10	2	0	0
Sikkim	1	0	--	--
Tamil Nadu	21	14	1	1
Telangana	13	11	4	4
Tripura	1	1	1	1
Uttar Pradesh	17	17	9	9
Uttarakhand	8	8	4	5
West Bengal	7	7	0	0
Total	**246**	**183**	**69**	**69**

Source: Ministry of Housing and Urban Affairs, audited financial statements of MCs, GSDP from MoSPI.
Note: Meghalaya and Nagaland do not have any MC.

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