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MUMBAI PROPERTY TAX: Analysis of Revised Rates

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Your View

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The Municipal Corporation of Mumbai is in the process of sending notices to all the property owners for payment of taxes from 2010, assessing tax on the basis of the capital value of lands and buildings rules published under No. AC/NTC/1310/2011-2012. The notices have created unease amongst the citizens as the entire method of calculation has been changed resulting into substantial increase in the property taxes.

Previously, the Municipal Corporation followed the rateable value system wherein the assessment was calculated on basis of annual rent for which such land and building might reasonably be expected to let from year to year with a deduction of 10% of the said annual rent. The Municipal Corporation has changed the assessment system from annual rent to the capital value of the property.

By this new system the Municipal Corporation has attempted to cover and include each and every category / part of the property for the purpose of assessment and has assigned different weightage's to the same. As per the new capital value system the following are to be taken into consideration for the purpose of calculation:

1. Relative rate of base value(this is the value assigned by the Ready Reckoner to the property per sq.mt)
2. Use category
3. Nature of type of building
4. Age of the building
5. Floor number
6. Built up area

Multiplying the above as per the weightage will result into the capital value of the premise.

This capital value multiplied with the rates of taxation as published by the Municipal Corporation (Assessment & Collection Department) will give the **PROPERTY TAX** payable. In addition to this terrace in exclusive possession, mezzanine floor, loft, attic, dry balcony and niches are also to be included in the built up area for the purpose of assessment as may be applicable.

Further, the rules also specify areas that need to be considered for the purpose of calculation of the built up area. Therefore, as per these new rules of assessment the property tax for the building will depend upon (i) total area of flats, (ii) basement (iii) stilts (iv) porch (v) service floor, (vii) refuge area (viii) entrance lobby (ix) lounge (x) air conditioning plant room (xi) air handling room (xii) structure for an effluent treatment plant (xiii) watchman cabin (xiv) gymnasium (xv) club house (xvi) jogging track, (xvii) health club (xviii) private terrace as a part of each flat in a building. Property tax will depend upon the area where the building is situated, the construction of the building and amenities provided in the building. Therefore, two buildings adjacent to each other can have substantial difference in the assessment of property tax. The consumers while purchasing flats in a building will now also have to keep the above in consideration for the payment of property tax. This method of assessment may also affect the design and construction of the building by builders / developers.

The new capital value system of assessment are based on Ready Reckoner Rates and the Ready Reckoner rates which are for the time being in force. The Government of Maharashtra revises these rates every year and therefore this revision will have an impact on the property taxes and an upward revision every year.

The only clarification that the rules give is that these rules will have primacy over the "Important Guidelines of Stamp Duty Valuation" specified in the Ready Reckoner.

At present there is capping of 2 times for residential and 3 times for commercial for a period of 5 years commencing from April 2010. There is no cap presently prescribed for the period beyond April 2015.

For example:
An old building consisting of commercial and residential tenants is assessed at Rs. 17,302/- for 6 months as per the old municipal property rules (i.e. rateable system) and the tax under the new capital value system is Rs. 1,49,504/- for six months. The building as per the new capital value system will be assessed at Rs. 43,135/- for 6 months after capping the same at 2.5 times (i.e. 2 times for residential and 3 times for commercial) equivalent to 250% from the old rates. The capping is only for a period of 5 years from first assessed (i.e. 2010) for buildings constructed prior to 2010. However after the capping is removed the property tax will be raised to Rs. 1, 49,504. /- for 6 months thereby equivalent to over 850%.

The new system of calculation though specific will eventually result in an exorbitant increase in property tax and will substantially add to the cost of living in the city.

- ***By Nirav Jani (Associate) and Dilnaz Bapasola (Para Legal)***

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