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Is 'betterment levy' a good idea?

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It's an arbitrary revenue collection measure

A betterment levy is a tax that the state collects on a plot of land that its actions have in some way made 'better'. For instance, if building roads, metros or airports with public money leads to an appreciation in land prices in the vicinity of these projects, then landowners enjoy a windfall gain.

The proponents of a betterment levy argue this gain should be taxed much like winning a lottery (a purely speculative activity). Attractive and logical as it may sound, the idea has several problems and worrying implications. First, if there should be a 'betterment levy' should there also be a 'worsening subsidy'?

For example, what if a garbage dump is located outside my house that is rarely cleaned and stinks? If my property value falls am I entitled to compensation from the state? In other words, should not the 'betterment levy' be symmetric in both directions?

In fact, it is ironic that in our country locating intrusive and noisy projects such as airports near houses is considered 'betterment'! For that matter ask any home-owner on Pusa Road in Delhi that fronts an elevated Metro rail corridor with a train running by every so often whether the loss of peace and privacy is betterment!

Be that as it may, the basic question is who knows the value of land better, the market or the bureaucrat? Any action public or private, good or bad, is reflected in the value of land and if property tax collection were efficient and transparent any change in land values (in either direction) would be captured.

In fact, the proposal of a betterment levy doing the rounds in the central government is a cop out, an idea cooked up by babus who have failed to reform the system of land and property taxation in our country and now want to complicate it further by introducing an arbitrary and ad-hoc revenue collection measure.

Rather than beat around the bush why don't they just seize the bull by the horns and have a computerised, transparent and honest system of property taxation that is based on the true value of properties? Well, we all know the answer!

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Compensate builders for infrastructure created

Right upfront any developer worth their salt will tell you that more the tax burdens — the government levies on the real estate sector — the harder it gets for common man to purchase his dream house. This is particularly important considering that we are faced with a shortage of nearly 20 million units as of today.

A 'betterment tax' is a proposed levy on the margin on purchase price of a property and the resale of the same. This is over and above any other applicable taxes prevalent today, for example the capital gains tax. The proceeds from this 'betterment tax' is meant to go towards development of infrastructure in that region. Some states like Andhra Pradesh have already experimented with this type of tax.

Infrastructure development by the government authorities in and around private development sites is certainly welcome. In fact, downright necessary for civilised habitation. Besides, as demonstrated by Greater Noida, where the fast pace of infrastructure development has encouraged all top developers to launch premium residential and retail projects in the region, such infrastructure development helps attract investment. In that sense better infrastructure is a boon for private developers.

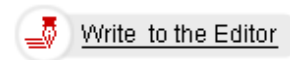
But how much is that infrastructure worth, 5% or 10%? And what about the expenses incurred by the big developers who go a long way in providing advanced internal and external development in their township projects?

Will there be a commensurate concession for such infrastructure development by them? Besides, who will monitor the direction of this investment (from the levy) to ensure that it is used for infrastructure development and not election funding?

One solution to the above questions could be that the 'betterment levy' is structured appropriately, based on the grading of developers on the basis of size and the number of development sites.

There could also be an infrastructure fund created under an external monitor. Such a monitoring body could not only contribute towards the betterment of urban infrastructure but also act as an ombudsman for the monies collected through the betterment tax. Only when these parameters are in place we could think of a betterment tax.

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