
CHAPTER – IV

Performance Reviews

REVIEW ON ASSESSMENT AND COLLECTION OF PROPERTY (HOLDING, LATRINE AND WATER) TAXES IN THE STATE OF BIHAR

4.1. HIGHLIGHTS

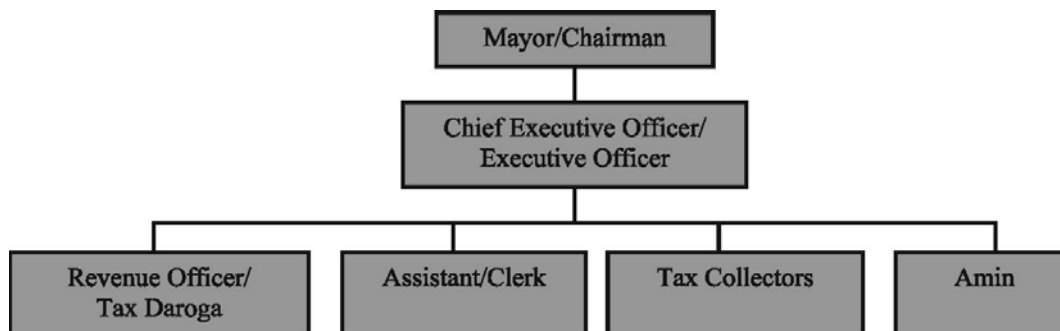
- By changing the situation of road and use of buildings irregularly, Patna Municipal Corporation incurred loss of Rs. 1.01 crore due to under assessment
(Paragraph 4.7.1)
- Non-levy of water rates deprived Gaya Municipal Corporation of revenue of Rs.9.95 Crore.
(Paragraph 4.7.3)
- Sixteen ULBs failed to maintain all the basic records and registers
(Paragraph 4.9.1)
- Two Nagar Parishads incurred a loss of Rs. 63.19 Lakh due to under valuation, consequent to arbitrary fixation of annual rental value. *(Paragraph 4.8.1)*

4.1.1 INTRODUCTION

Assessment and collection of Property (Holding, Latrine and Water taxes) taxes by Urban Local Bodies is governed by provisions contained in Patna Municipal Corporation Act, 1951 and Bihar Municipal Act, 1922. Holding, latrine and water taxes are main sources of revenue of ULBs for which maintenance of records and registers are prescribed under provisions contained in Municipal Accounts Rules (Recovery of taxes) 1951.

4.2. ORGANISATIONAL SET UP

The organisational set up of ULBs for assessment and collection of taxes was as under



4.3. AUDIT OBJECTIVES

Review was conducted with a view to ascertain that:-

Provisions contained in Patna Municipal Corporation Act, 1951, Bihar Municipal Act, 1922 and rules made there under with respect to assessment, demand collection and deposit of property tax were being adhered to effectively and Maintenance of records and registers, as per provisions contained in Municipal Accounts Rule (Recovery of Taxes), 1951, was being done.

4.4. AUDIT CRITERIA

Audit criteria used are: -

- (i) Adherence to provisions of Patna Municipal Corporation Act, 1951, Bihar Municipal Act, 1922, Bihar Municipal Accounts Rule, 1928, Bihar Municipal Accounts (Recovery of Taxes) Rules, 1951 regarding assessment, demand and collection of Holding, Latrine and Water tax.
- (ii) Adherence to Assessment of Annual Rental Value of Holding Rules, 1993.

4.5. AUDIT METHODOLOGY

Audit methodology consisted of: -

- (i) Test check of records/files relating to assessment, collection, deposit of collected amount, Demand Register and internal Control by the executives.
- (ii) Response to questionnaire.

4.6. SCOPE OF AUDIT

The scope of audit was restricted to test check of records pertaining to randomly selected the total of 16 ULBs⁴(Municipal Corporation-5, Nagar Parishad-8 and Nagar Panchayat-3) out of 122 covering the period 2001-06.

4.7 ASSESSMENT OF HOLDINGS IN MUNICIPAL CORPORATIONS

- The State Government in order to manage assessment of holdings properly, framed the Assessment of Annual Rental Value of Holding Rules 1993 in exercise of powers conferred by Section 227 read with sub-section (1) and (2) of Section 130 of Patna Municipal Corporation Act, 1951. These rules provide the following criteria for assessment of holding, fixing of rental value and rate of tax
- Classification of holdings as per situation of the road, use of holding (residential, commercial etc) and type of construction (pucca with R.C.C. roof, pucca with asbestos etc.)
- Methods of calculation of carpet area viz. full measurement of rooms, covered veranda, garage etc.
- Fixing of annual rental value as a multiple of carpet area and rental value fixed as per square feet by the corporation with prior approval of the State Government.

⁴ (Patna, Gaya, Muzaffarpur, Bhagalpur, Darbhanga, Buxar, Biharsharif, Sasaram, Kishanganj, Samastipur, Saharsa, Araria, Aurangabad, Mahnar, Phulwarisharif, Maner)

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- Rate of tax on annual rental value
Holding Tax-2.5 percent
Water Tax-2 percent
Latrine Tax-2 percent
 - All the five municipal corporations (Patna, Muzaffarpur, Gaya, Bhagalpur, Darbhanga) made assessment of holdings under new rules during the period 2001-06.

4.7.1 LOSS DUE TO UNDER ASSESSMENT BY PMC (Rs. 1.01 CRORE)

Under Rule 3 of Assessment of Annual Rental Value of Holdings Rules, 1993 Patna Municipal Corporation notified (Sept. 1993) classification of different roads of Patna and under Rule-5 ibid notified (Sept.1993) rate per square feet for different holdings, vide details in Appendix-XVII, after obtaining approval from the Government.

Test check of records of assessment revealed that all the four circles of Patna Municipal Corporation made under valuation of annual rental value of holdings as shown in Appendix-XVIII. This deprived the Municipal Corporation of revenue of Rs.1.01 crore.

4.7.2 ASSESSMENT OF HOLDING

Section 139 of Patna Municipal Corporation Act, 1951 empowers the Chief Executive Officer to assess holdings, which became liable for taxation after last general assessment. All the five municipal corporations made assessment of such holdings on the basis of report submitted by tax collectors. The corporation did not develop mechanism to ascertain the new holdings, which are being constructed every year.

Even the Regional Development Authority, which passes building plans for construction of new buildings, did not mention date of completion of building and as such number of buildings completed and not assessed by Municipal Corporation could not be ascertained.

Comparative list showing number of buildings for which building plans were passed by the Regional Development Authority and for which assessment was made by the corporation (Appendix-XIX) was studied in detail in audit. Based on these it was observed that number of buildings assessed by three corporations were much less than the number of buildings for which building plans were passed by the Authority.

Though date of Completion of buildings, for which building plans were passed by the authority, had not been mentioned in building plan register of Authority, yet chances of leakage of revenue in respect of unassessed completed buildings, may not be ruled out.

4.7.3 NON-IMPOSITION OF WATER RATES BY MUNICIPAL CORPORATIONS

Rule 27 of patna Municipal Corporation, Water Works maintenance and House

connection and levy of Water Rate Rules 1972 provides that the water rate which the Water Board shall charge for water supplied in addition to the water Tax assessed on the holding under Section 123 (1) (b) read with section 125 of the Act for domestic and non-domestic purpose shall be as follows-

- (1) at the rate of six percent on the annual valuation of each holding excepting such holdings as beyond 400 Yards of public standpost and in addition to the above at the following rates for houses having water connections:-

Rental Value of Holdings	Water charge to be realised from houses having water connections
Upto Rs.500/-	Rs.3/- per
From 501 to 1000/-	Rs.6/
From 1001 to 2000/	Rs.10/
From 2001 to 3000/	Rs.15/-
From 3001 to 5000/	Rs.20/
From 5001 and above	Rs.25/

However, Gaya Municipal Corporation did not impose above two water rates, as a result of which, the corporation was deprived of revenue of Rs.3.57 crore and Rs.6.38 crore respectively (Total 9.95 crore) (Appendix-XX & XXI).

4.8 ASSESSMENT OF ANNUAL RENTAL VALUE OF HOLDINGS IN NAGAR PARISHADS AND NAGAR PANCHAYATS

Sub-section (1) and (2) of Section 98 of Bihar Municipal Act, 1922 provide for fixing annual rental value of holdings, as detailed below:

- Annual rental value of holdings at which the buildings may reasonably be expected to be let out.
- Annual rental value of such holdings, the actual cost of erection of which can be ascertained or estimated and which is or are not intended for letting or for the residence of the owner himself, to be fixed at the rate of seven and half percent of such cost in addition to a reasonable ground rent comprised in the holding.

4.8.1 LOSS DUE TO UNDER VALUATION

Uniform policy for fixation of annual valuation of holdings based on expected rental value was not framed by any Nagar Parishad and Nagar Panchayat, in the absence of which, chances of under valuation would not be ruled out.

Test check of records of two Nagar Parishads revealed that due to arbitrary fixation of expected annual rental value, there was under valuation of Rs.14.95 lakh was in Buxar Nagar Parishad (Appendix-XXII) and Rs.48.24 lakh in Biharsharif Nagar Parishad (Appendix-XXIII).

4.8.2 NON- PRODUCTION OF RECORDS TO AUDIT

Four Nagar Parishads and Nagar Panchayats did not produce records of assessment to audit, in absence of which, no check could be exercised over these records. (Saharsa,

Araria, Mahnar, Phulwarisarif)

4.8.3 NON-IMPOSITION OF TAX

Section 82, 84, 85 and 86 of Bihar Municipal Act, 1922 provide for imposition of holding, latrine and water taxes on each holding situated in a municipal area, but Aurangabad Nagar Parishad, Mahnar Nagar Panchayat and Phulwari Sharif Nagar Panchayat did not impose water tax and latrine tax and Saharsa Nagar Parishad did not impose water tax for which no reasons were assigned.

Non-imposition of taxes deprived U.L.Bs of revenue realisable in the shape of Taxes.

4.8.4 NON-ASSESSMENT OF NEW HOLDINGS

Section 107 of Bihar Municipal Act, 1922 provides for assessment of such holdings, which become liable for taxation after last general assessment. But, Sasaram Nagar Parishad did not assess 9383 new holdings constructed during 1974-2006 (8388 number holdings in 1973-74 rose to 17771 in 2005-06, as per figure furnished). No reasons for the same were assigned.

Further, Bihar Sharif Nagar Parishad did not assess new holdings during 1994-2006. Actual number of holdings constructed after 1993-94 was not made available, but buildings plan register revealed that permission for construction of new buildings had been granted to 1284 cases during 2001-06.

This deprived U.L.Bs of potential revenue in shape of tax.

4.8.5 NON-MONITORING OF NEWLY CONSTRUCTED BUILDINGS

Nagar Parishads and Nagar Panchayats did not develop any mechanism to ascertain the number of newly constructed buildings. Task was left at the disposal of Tax Collecting Sarkars. Hence, chances of large number of buildings remaining unassessed and thereby leakage of revenue may not be ruled out.

4.9 DEMAND

4.9.1 NON MAINTENANCE OF RECORDS.

As per Rule 10 of Municipal Accounts Rules (Recovery of Taxes) 1951 each U.L.B. is required to maintain the Demand and Collection Register in form "B" in which quarterly demand and collection of Holding, Latrine and Water Taxes are entered. This is the basic record of U.L.B through which collection and balance of taxes are watched.

But, none of the 16 U.L.Bs maintained Demand and Collection Register. In replies to audit query, executives of U.L.Bs stated that collection of taxes is made on the basis of rough demand register lying with tax collecting sarkars. Rule 31 *ibid* provides that collecting sarkars shall not be allowed to have access to official demand and collection register and as such dependence of U.L.Bs on collecting sarkar's rough demand register for collection of Municipal revenue is fraught with risk and even chances of leakage of revenue may not be ruled out.

4.9.2 LIST OF OUTSTANDING TAXES

Rule 39 of Municipal Account Rules (Recovery of Taxes) 1951 provides that the Executive Officer shall periodically and always at the end of every half year cause a list of outstanding taxes of the current and the previous years to be prepared from Demand and Collection Register and the list shall be checked with sarkar's ledger and progress statement.

But, none of the 16 U.L.Bs prepared such list, in absence of which, actual outstanding taxes was not ascertainable.

However, the U.L.Bs furnished figures of Demand, Collection and balance of Taxes on the basis of rough demand register lying with Tax Collectors, the accuracy of which could not be verified in audit. (Appendix-XXIV).

The figures indicate that percentage of collection was very poor (5.74% to 60.47%) and outstanding taxes were accumulating. This happened due to lack of monitoring by executives and due to non-issue of demand notice, distress warrant etc. as per provisions of the Act.

4.9.3. NON-MAINTENANCE OF BASIC RECORDS

All the 16 U.L.Bs did not maintain basic records relating to Demand, Collection and balance of Holding, Latrine & Water taxes. Viz. Demand and collection register, Sarkar's Ledger 'K' and progress statement 'L'. In the absence of these records proper checks over the accounts could not be exercised in audit.

4.10 INTERNAL CONTROL MECHANISM

Internal Controls are intended to provide reasonable assurance of proper enforcement of Acts, Rules and bye-laws. Internal Audit is a vital component of all controls to enable an organisation to assure itself that the prescribed systems are functioning reasonably well. Though, no U.L.Bs have internal audit wing, various internal checks have been provided in Account Rules.

But, executives of none of the 16 U.L.Bs exercised internal checks as provided in the following Account Rules resulting in various types of irregularities in the accounts of collection.

Table 6: Details of the checks to be exercised.

Sl. No.	Rule of Bihar Municipal Accounts, Rules, 1928	Particulars of checks to be exercised
1	20	He shall once at least in every week, examine cashier's cash book together with Pass Book, so as to satisfy himself that all moneys received has been remitted to the treasury without delay and that the cashier does not retain in hand sums of money in excess of security.
	Rule of Municipal Account Rules (Recovery of Taxes), 1951	
2	30	The Tax Daroga/Revenue Officer or his assistant shall check collection account with duplicate receipts daily or every alternative day, if permitted by the E.O. and check totals.
3	13	The Executive Officer shall see that the demand and collection registers are free from erasures and no alteration shall be made in them except under his initial.
4	31	The Executive Officer shall be responsible for seeing that the posting of collection of taxes made in Demand and Collection register
5	32	The Executive Officer shall keep the stock of receipt books in his personal custody under lock and key and they shall only be issued under his orders.
6	39	The Executive Officer shall periodically and always at the end of half year cause a list of outstanding taxes of current and previous years to be prepared from Demand and Collection register.
7	9	Forms and registers to be maintained by U.L.Bs.

4.11 CONCLUSIONS

The procedure of assessment, maintenance of basic records, and collection of taxes of all the ULBs test checked was deficient and ineffective. There was complete lack of monitoring and internal checks by the executives. This resulted in under valuation of holdings, non-levy of water rates, and misappropriation of collected funds.

4.12 RECOMMENDATION

ULBs should take immediate steps for maintenance of basic records and the executives of ULBs should monitor and exercise checks over accounts and records as provided in Municipal Accounts Rules.