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DISCREPANCIES IN CIRCLE RATES ARE PROMOTING BLACK MONEY

IN REAL ESTATE TRANSACTION

Circle rates: Government notify the minimum rates for valuation of immovable properties (land & building) for the prevention of under value registration of assets. In different states these rates are known with different names like Circle Rate, Collector Rate or Government Guideline Rates etc and generally revised annually. At the time of registration of transfer of properties, these rates act as guide of the value for property registration authorities as stamp duty is levied on the higher among circle rate value and the actual transaction value recorded in the sale deed. These rates have an important role in revenue generation for the state governments, therefore must reflect the market rates or at least near the market rates to restrict under value registration to avoid stamp duty. Generally, these rates are revised annually but sometime even before that when there is significant change in the market rates is observed before the annual review of the rates. Delhi is an exception that the rates have not been revised since the year 2014.

It is a tendency in the secondary real estate market that people register the property at circle rate value even if the actual transaction takes place on higher value. The gap between circle rate value and market value is paid in cash and not recorded in the sale deeds. If the circle rate values are significantly lower than the market value then the considerable sale consideration is paid in black money. **Therefore, if the circle rates are lower than the market value then it will promote black money in real estate transactions.**

Actual Transactions: If we take the example of Delhi, where last time the circle rates were revised in Sept 2014 and no increase or revision has been notified in the last 8 years. In place of increasing the circle rates to keep pace with market rates the Delhi Government has announced 20% reduction in Feb 2021 to facilitate real estate transactions at lower stamp duty. The government has given this relaxation to the public to save stamp duty but in reality, this is promoting black money in transactions because to save the duty the purchaser has to record the transaction value much below the actual transaction and the balance has to be paid in cash/off the records. For example, the circle rate of land in Janakpuri or Nirman Vihar is Rs 1,27,680.00 per sqmt, after 20% discount this is Rs 1,02,144.00 whereas if we see the properties listed for sale on various property portals, the plots are listed for sale at around Rs 4,00,000.00 per sqmt. In case of sale of 100 sq mt plot buyers will tend to record the transaction only Rs 1 cr ie value at circle rate and the balance amount of Rs 3 cr will be transacted in cash/black money.

Similarly, the circle rate of DDA flats in Vasant Kunj is Rs 76,200.00 per sqmt after 20% reduction this comes to Rs 60,960.00 per sq mt, accordingly the value of a 120 sq mt flat comes to Rs 73.15 lakh whereas the actual market rate is around four times of circle rate amounting to Rs 275.00 lakh (around Rs 2,30,000.00 per sq mt). These examples show **that to get the relief of less stamp duty payment due to reduction in circle rate will induce people to transact considerable portion ie amount above circle rate value of sale consideration in black money.**

In place of reducing circle rate stamp duty shall be reduced: To give relief in stamp duty the government should reduce the stamp duty not the circle rate. In Delhi the current stamp duty rate on property registration is 6% for male & 4% for female on higher value among circle rate value or actual transaction value. If this rate is reduced, the actual stamp duty will come down and people will record the actual transaction in the transfer documents and in their books of accounts.