



PROPERTY TAXATION FOR DEVELOPING ECONOMIES

FRANCES PLIMMER AND WILLIAM J MCCLUSKEY PROPOSE A BANDED PROPERTY TAX SYSTEM BASED ON AVAILABLE RESOURCES THAT COUNTRIES CAN TAILOR TO THEIR OWN PARTICULAR SITUATIONS

The specialism of property taxation deals with aspects of land and how they can be used to benefit nations in general and local communities in particular. But it rarely involves whizzy technology or high-level, high-profile exposure in the media, so isn't 'sexy'. Where it is topical, it's because something has gone wrong, but an awful lot has to go wrong in a property tax system before governments are willing to invest time and money in reforming what has at least some measure of social acceptability.

Regardless of the nature of the property tax system, what really matters is that the tax is paid, services are provided and the tax paid reflects an element of benefit. The promotion of a so-called 'ideal' system that provides an annual reassessment using sophisticated technology of the market value of all taxable units is all very well for jurisdictions where the resources exist to provide such data and where there is a competent and efficient administration. Sadly, this is not universally the case.

We propose that instead of basing a property tax on what (apparently) works well elsewhere, jurisdictions develop their tax reform programmes based on four available resources, reflecting the basic needs for a workable property tax system.

1. Data on real estate

Any property tax should be based on available real estate data, which can be as simple as the fact that a building exists in a particular location and is used for one of a range of purposes. Such details can be gathered by visual inspection or using the community to provide the basic (and additional) data.

2. Human and technical resources

'Human resources' refers to the quantity as well as the quality and range of professional expertise necessary to analyse and manage available data and to produce taxable assessments to deal effectively and efficiently with appeals against assessment to the satisfaction of

taxpayers and the tax spending authority. Similarly, 'technical resources' refers to the quality, efficiency and appropriateness of technical support in the production of taxable assessments and the administration of tax bills, collection and appeals.

3. Data on the individual taxpayers

In most jurisdictions, it is the property owner who pays property taxes, but this is not universally true and there may be good reasons to tax the occupier instead.

Where private land ownership is alien to the culture, imposing the tax on the occupiers will better reflect the traditional perception of land and property rights, and thus be more likely to be administratively and socially acceptable.

Where records of ownership are incomplete or unreliable, there is a major practical difficulty in imposing the tax on an owner. Identifying an occupier – being the person who opens the door – is far easier than establishing legal ownership. Indeed, it allows for squatters to be taxed without providing any legitimacy to their occupation – after all, they benefit from services provided by the municipality.

Provided that the basis of assessment relates to the value of occupation and the benefits that accrue or might accrue to an occupier (and not to an owner), the levying of the tax on occupiers deals with a number of potential difficulties in the imposition, administration and collection of tax, which increases the yield of the tax.

4. Administration

With the exception of assessment, which should be an independent function of government, billing and collection may potentially be absorbed into existing municipality functions and bureaucracy. Again, systems should reflect available resources, which might include mobile phone technology to communicate with taxpayers and provide a method for direct payment. Compliance with tax demands is a vital



governments, increasing the pressure on local governments to be more financially self-sufficient.

Effective and efficient local property taxes can go a long way to achieve such self-sufficiency, while also improving the services provided to their customers and thereby improving their quality of life. Being realistic about how such property systems should work is important if such outcomes are to be achieved.



THERE ARE A LARGE NUMBER OF PROPERTY TAX SYSTEMS OPERATING INEFFICIENTLY, OFTEN BECAUSE ASSESSMENTS ARE OUT OF DATE OR COLLECTION RATES ARE ABYSMALLY LOW

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aspect of administration and the failure to achieve high levels of compliance may be systemic. Non-payment of taxes may be the result of perceptions of unfairness or inequity, which bring the tax into disrepute, or there may be issues of 'unfairness' – a failure to link the tax paid to the ability to pay or the requirement that the poorest in society contribute at the same time as receiving government support. Non-payment should be investigated and changes made to remove or minimise the rate of non-compliance and in that way promote fairness (as between taxpayers) and increase tax yield and services provided.

Banding

In the absence of skilled valuation staff, properties can be taxed, based on their recordable attributes. Bands should be based on property attributes that are valued in the community, such as the number of rooms, type of construction or proximity to transport routes, water, electricity, town centre or any other relevant environmental characteristic. If available, sale prices can be used.

There are essentially three main elements of a banded system:

1. The range covered by the bands, which should reflect the range of 'values' of the real estate.
2. The number of value bands and widths – the fewer the bands, the wider the ranges and the more tolerant they are to rough estimates of property values.
3. The tax multiplier (or tax ratio) per band or the tax rate (%) per band. This is essentially the determining of the relative tax liability for taxpayers in the band.

Conclusion

There are a large number of property tax systems operating inefficiently, often because assessments are out of date or collection rates are abysmally low. Once a tax system is seen as 'unfair', it loses credibility with taxpayers, who tend to feel justified in not paying.

Reforming such systems or replacing them with more effective ones is increasingly important as central governments around the world are limiting the money they pass to local



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