

Strategies for Property Tax Reform

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1. Introduction

- Introduction Arjen Schep
- This presentation:
 - ~~✗~~ *valuation or assessment technique*
 - ~~✗~~ *technical elements of property tax*
 - ~~✓~~ *(elements for) strategies for Property Tax (PT) reform*
 - *Based on:*
 - ✓ *Academic literature*
 - ✓ *Own research*
 - ✓ *Africa project VNG international*
- Beforehand: no 'silver bullet' strategy available
- Goal: Insight in specific challenges in PT Reform and able to translate these into a possible strategy for own specific situation



Presentation outline

1. Introduction

2. Basic elements of a good property tax

- *2.1 A good tax in general*
- *2.2 A good local tax*
- *2.3 Why don't property taxes live up to their expectations?*

3. Central & Local government relations

- *3.1 Central or Local Property Tax*
- *3.2 Intergovernmental transfers*
- *3.3 Tax revenue autonomy & fiscal capacity of local governments*

4. Strategies for PT Reform

- *4.1 General Strategies*
- *4.2 Necessary conditions for successful PT Reform*
- *4.3 Collection Led Strategy vs. Valuation Pushed Strategy*
- *4.4 Property Tax Administration*
- *4.5 Building a taxpayers culture*
- *4.6 Role of decentralization in PT Reform*

5. Conclusions

6. Example from VNG International in Ghana

2. Basic elements of a good property tax

A good tax in general (1)

- *Efficiency*
 - No distortions of adequate allocation of resources
 - ‘**Benefit principle**’ is applied
- *Equity and fairness*
 - Horizontal equity: equal treatment of taxpayers
 - Vertical equity: ‘**ability to pay principle**’ is applied
- *Revenue adequacy*
 - High revenue/low collection costs
 - Tax base is stable



2. Basic elements of a good property tax

A good tax in general (2)

- *Low costs of administration and compliance*
 - Administration costs reduce revenue
 - Compliance costs reduce available income
- *Political acceptability*
 - Cooperation of relevant agents & institutions required to prevent:
 - Low voluntary compliance
 - Inadequate laws
 - Deficient enforcement
- *Minimize tax avoidance and tax evasion*
 - No legal or illegal eluding of tax burden (relation with fairness of tax and with enforcement)

2. Basic elements of a good profit tax

A good local tax

- *Visibility of tax instrument*
 - Both weakness and strength
- *Immovability of tax base*
 - Prevent taxpayers 'voting with their feet'
 - No 'race to the bottom'
- *Geographic neutrality*
 - No interference with commercial goods & services and business location decisions across jurisdictions
- *No exportation of taxes*
 - Avoid charging of non-residents (contrary to benefit principle)
- *Even distribution of tax revenue sources among jurisdictions*



2. Basic elements of a good property tax

Why don't property taxes live up to their expectations?

- *Low level of fiscal decentralization*
- *Resistance from property-owning elites*
- *Poor tax administration*
 - Narrow tax base
 - Ineffective tax assessment
 - Low tax rates
- *Taxpayers' attitude*
- *Weak enforcement*



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 - 4.1 *General Strategies*
 - 4.2 *Necessary conditions for successful PT Reform*
 - 4.3 *Collection Led Strategy vs. Valuation Pushed Strategy*
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3. Central & Local government relations

3.1 Central or local property tax?

| Principle | Central PT | Local Gvmt PT |
|--------------------------|------------|---------------|
| Efficiency | - | + |
| Equity and Fairness | + | - |
| Revenue Adequacy | + | - |
| Low administration costs | +/- | - |
| Low compliance costs | | |
| Political acceptability | - | + |
| Tax compliance | - | + |

Conclusion: try to combine strenghts of both government layers to avoid weaknesses

3. Central & Local government relations

3.2 Intergovernmental transfers

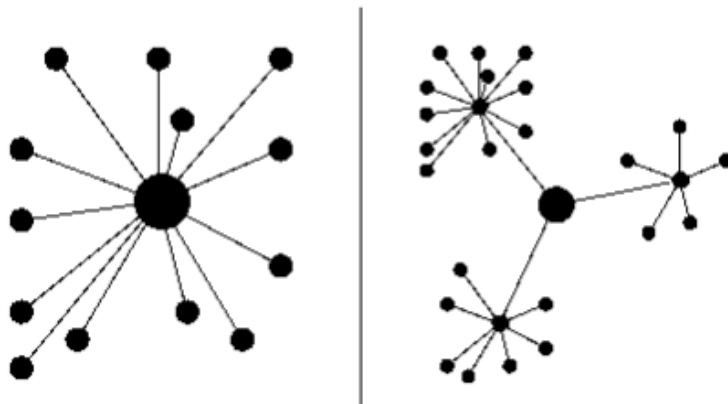
- *Intergovernmental transfers can undermine local governments incentives to raise own revenues when those transfers are:*
 - Non-transparent
 - Irregular
 - Unpredictable
 - Mostly tied grants
 - Not based on preration mechanisms (not striving for horizontal balance among local governments)
- *Fiscal decentralization frameworks should also imply:*
 - The (effective and stable) allocation of financial resources at the local level
 - Interrelation between local taxation and transfers!

3. Central & Local government relations

3.3 Tax revenue autonomy & fiscal capacity of local governments

- *Decentralization Theorem (Oates 1972)*
Social welfare is greater if decisions about type and amount of public goods are allowed to be made locally
- *Certain degree of autonomy on setting the tariffs and on expenditure decisions required*
- *Conditions:*
 - sufficient technical and administrative capacity
 - fiscal autonomy to increase amount of local revenues

Centralization and Decentralization



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 - 4.2 *Necessary conditions for successful PT Reform*
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4. Strategies for Property Tax Reform

4.1 General strategies (1)

- *IMF (Fiscal Monitor)*
 - Broaden tax bases before raising taxes
 - Rely more on taxing consumption rather than labor
 - Strengthen property taxes
 - Seize opportunities to raise revenue while correcting environmental and other distortions by carbon pricing
- *IMF:*
 - Advanced economies: flawed design is predominant problem
 - Other economies: problematic compliance is the problem

4. Strategies for Property Tax Reform

4.2 Necessary conditions for successful PT Reform (1)

- Keep **tax policy** simple and appropriately tailored to **existing environment** of:
 - Political will
 - Legal structure
 - Institutional capacity across property related agencies
 - Level of available information on properties and market values
 - Human resource capacity
 - Financial resources

4. Strategies for Property Tax Reform

4.2 Necessary conditions for successful PT Reform (2)

- *Existence of a strong tax administration*
- *Support from taxpayers*
- *Political will is essential*
- *When focus is on assessment base:*
 - ✓ Availability of technical expertise
 - ✓ Existing of a cadaster
 - ✓ Existing of a land registration system
 - ✓ Capacity of local government
 - ✓ Solid administrative infrastructure
- *When PT Reform leads to tax shifts within or among property classes:*
 - ✓ Phase-in mechanism is required (compliance) (cushion the impact)



4. Strategies for Property Tax Reform

4.3 Collection Led Strategy vs. Valuation Pushed Strategy (1)

(Source: R. Kelly 2012)

- *Collection led strategy*

Strengthen PT-collection by

- Improving collection and enforcement with taxpayer service
- Less attention on improving quality of property information and accuracy of property valuation.
- Collection leads to revenue, equity, efficiency and accountability

- *Valuation pushed strategy*

Improving coverage and valuation ratios by focusing on:

- Tax mapping
- Fiscal Cadaster information
- Accurate valuation

➤ **Start with Collection led strategy,
then followed by Valuation pushed strategy**

4. Strategies for Property Tax Reform

4.3 Collection Led Strategy vs. Valuation Pushed Strategy: illustration

- *Example of Quezon (Philippines) (1)*
 - *Started with collection-led strategy*
 - *PT Reform was linked to Local government management reforms: linking of enhanced revenues with expenditures on improved local services.*
 - *Mobilize stakeholder support by linking improved property tax mobilization with improved service delivery*



4. Strategies for Property Tax Reform

4.3 Collection Led Strategy vs. Valuation Pushed Strategy: *illustration*

- *Example of Quezon (Philippines) (2)*
 - Strong political leadership
 - Excellent technical support
 - Successful delivery of quality taxpayer education and awareness
 - Lowering compliance costs
 - Link improved property tax mobilization with improved service delivery

Avoid traffic & save time
when you use GCash to pay for your business tax,
real property tax, and other dues!



  **GCash**



4. Strategies for Property Tax Reform

4.4 Property tax administration

- *Research: Tax Administration is main constraint on tax policy in developing countries, due to*
 - Narrow tax base
 - Exemptions
 - Ineffective assessment of properties by
 - Poor market information
 - Lack of frequent revaluations
 - Inaccuracies in cadaster
 - Lack of qualified assessors
 - Etc.
 - Low tax rates
 - Low collection and enforcement and low taxpayer service
- *“A poorly administered tax may be worse than no tax at all”*
- *Accuracy of property value versus administrative costs: trade off (more accurate costs more)*

4. Strategies for Property Tax Reform

4.5 Building a tax payers culture (1)

Besides technical approach also:

- **Engagement** between governments and citizens over tax issues
- Tax system can contribute to **accountability relationships** between government and citizens
- *Resolving technical issues (narrow tax base, exemptions, etc.) have also effect on compliance of tax payers*
 - Leads to a fair and equitable tax regime
 - Builds a tax paying culture
- **Compliance strategy**
 - Not only based on detection and punishment, but also on
 - Services and trust
- *Find right **balance** between expansion of tax base, compliance and enforcement*

4. Strategies for Property Tax Reform

4.5 Building a tax payers culture (2)

- *Revenue enhancement should be linked to quality and quantity of government expenditure: improve public expenditure management and delivery of public services*
 - Property Tax is perceived as a 'benefit tax'
 - Accountability of government is improved
 - Tax reform can become catalyst for improvements in government performance
- *Improve tax compliance by improving 'customer service'*
 - Make paying taxes 'user-friendly'
 - Reduce administrative costs
 - Simplify regulation and procedures
 - Provide information/education
 - Use mobile apps and websites
 - Etc.

4. Strategies for Property Tax Reform

4.6 Role of decentralization on PT Reform (1)

- *Success of PT Reform is dependent on level of decentralization of adequate revenue autonomy in regard to:*
 - Responsibility
 - Capacity
 - Resources
- *Local governments should be given*
 - Adequate and necessary discretion
 - Accountability constraints
 - Influence tax policy and administration (at the margin)
 - Possibility to link PT revenue mobilization with improved service delivery
- Intergovernmental transfers and shared taxes should be designed to minimize disincentives for mobilization of local revenues

4. Strategies for Property Tax Reform

4.6 Role of decentralization on PT Reform (2)

- *Essential for effective decentralization (of PT)*
 - Local government should be able to raise a good share of their revenues by **setting tax rates for property tax**
 - Decentralization can be asymmetric:
 - Full tax administration for large local governments (with more administrative capacity)
 - Smaller government: limited tax administration functions
 - >**Trade off**: efficiency vs. accountability
 - Authority to change tax base? Only in situations of significant hardship, s.a. circuit breakers
 - Local authorities should be politically accountable to their communities
 - Improving tax compliance is shared responsibility of Central government and Local government



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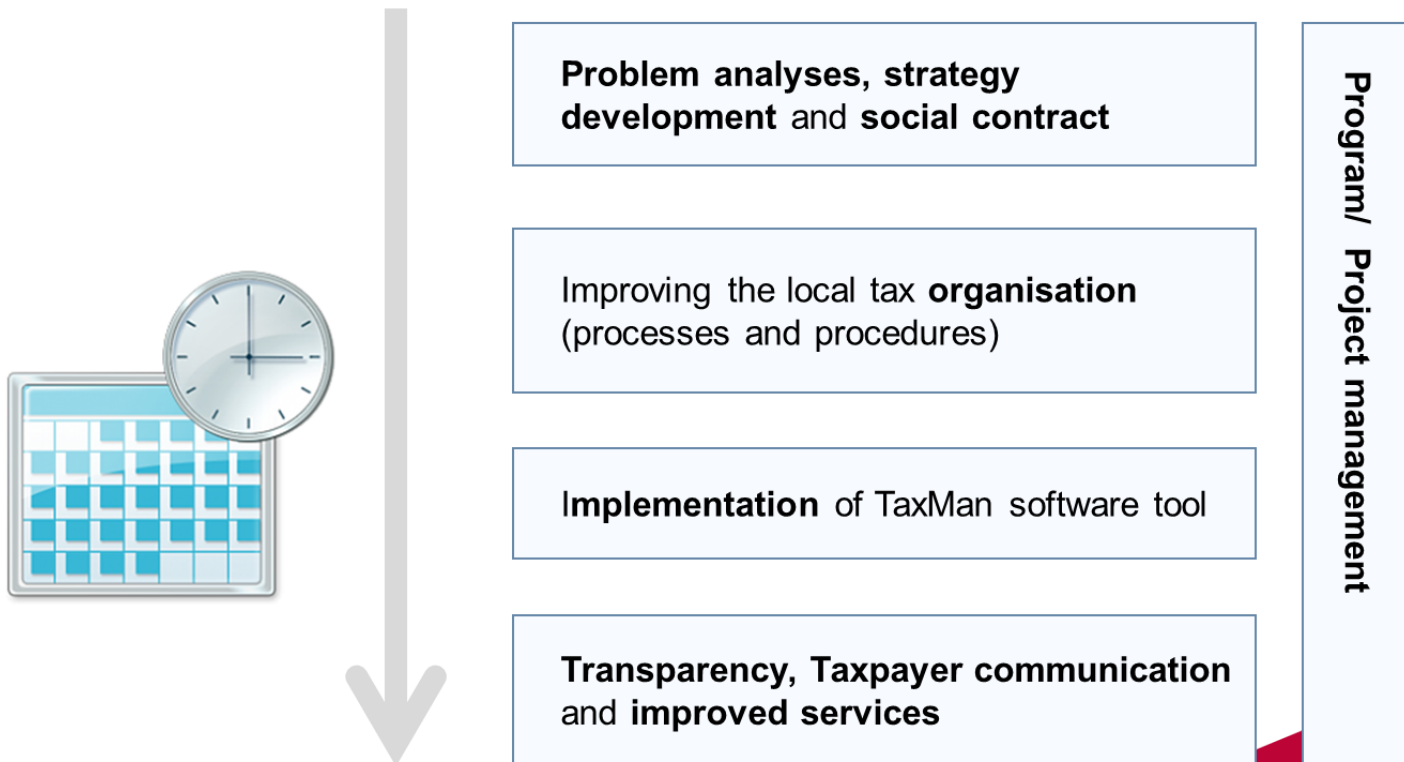
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6. Example from VNG International in Ghana

5. Conclusions

- *PT can become a good instrument for domestic resource mobilisation*
- *Both technical and policy issues have to be addressed*
- *Combine strengths of both central and local government*
- *Improve tax administration*
- *Start with Collection led strategy, then followed by Valuation pushed strategy*
- *Find right balance between expansion of tax base, compliance and enforcement*
- *Get support and compliance from taxpayers*
- *Cushion the impact*
- *Link revenue enhancement to quality of government expenditure*
- *Decentralize adequate revenue autonomy to local government*
- *Intergovernmental transfers should encourage mobilization of local revenues*

6. Example: VNG International in Ghana

- *VNG International: International Cooperation Agency of the Association of Netherlands Municipalities*
- *Project: Increase local tax revenues to finance sustainable services in Ghana*
- *Methodology of VNG International:*



6. Example: VNG International in Ghana

Some results in Ghana (City of Elmina)

- *City of 35.000 inhabitants*
- *Strategy for increased revenues & improved services;*
 - Council and citizens involved by communication campaigns
- *Database to levy taxes increased 20 times*
 - *Improved procedures and processes implemented;*
 - *'TaxMan' tool delivered to support municipality with property tax*



6. Example: VNG International in Ghana

Some results in Ghana

The municipality of Kadjebi has **doubled their revenues in a year;**

Elmina has **increased** its base **for property tax 20 times;**

To **increase revenues** out of market fees Kumasi successfully involved the so called market queens by negotiating with them **which improvements they wanted** to be in place **in exchange for their help to collect revenues.**

Ghana's big harbour city Tema has been helped to become in control again by helping them **to develop a strategy to partially replace expensive third parties** which received up to 30% of revenues collected. The strategy **includes the use of the free VNG software** to levy and collect local taxes.

Sekondi Takoradi **has developed policies on revenue collection and ICT**, which are being presented to NALAG (Ghana's association of municipalities) so **they can be used for all municipalities**



THANK YOU
for your
ATTENTION!

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