

# ***Property Tax and its linkage to NSDI***

Session 9. Property Tax Management System

3 November 2022

ADB-LX Corp Joint Workshop on Building National Spatial Data Infrastructure

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## *Property Tax: the Fundamentals*

***This presentation is divided in 5 main parts:***

- 1. Governmental issue: Political economy & Institutional***
- 2. Technical issue: Policies and Taxation structure***
- 3. Organizational issue: Property Tax administration***
- 4. IT issue: Data and Digitalization or Implementation Structures***
- 5. Conclusion***

# 1. *Governmental issues: Political economy & Institutional*

**The political will remains the fundamental basis of the establishment - or if it already exists, the upgrading – of the PT for a country with the necessary institutional support, all with the objective of generating income for local governments.**

## **Key considerations:**

- Setting revenue raising objectives for Property Tax within a Medium Term Revenue Strategy in the context of increasing domestic resource mobilization.
- Communication with citizens on the link between property tax revenue and expenditure on public services.
- Engaging citizens in local decision making on the application of property tax revenues for social protection/development.

### **Key considerations:**

- Broad-tax base with few exemptions;
- Assessments based on market value with regular and frequent (preferably annual) updates;
- Simple tax rate structure with some bounded discretion in rate-setting by local governments;
- Relief programs that are targeted, easily accessed by those who need assistance, and administratively efficient.

## 2. *PT Technical issue: Policies and Taxation structure*

### *A Broad Property Tax Base*

**In general, international best practices suggest to broadly define the tax base to include all land and/or building (improvements) unless specifically exempted in law.**

#### **International experiences:**

- Exemption for low-income households are commonplace (e.g. Spain, Italy, Japan, Poland) and motivated on social grounds, although means-tested income support targets beneficiaries more accurately (e.g. the Netherlands).
- Setting a minimum tax for low-value properties can strengthen the social contract between the government and taxpayers, enabling all taxpayers to contribute to development and have the legitimacy to hold the government accountable. (e.g. Jamaica, Latvia, U.S. State of Hawaii).
- A systematic review and rationalization could lead to a reduction and/or an elimination of inappropriate or outdated exemptions, resulting in increased potential property tax revenue yield, equity, and efficiency.

## 2. *PT Technical issue: Policies and Taxation structure*

### *A Transparent Property Tax Rate Structure*

**International best practices suggest to keep the tax rate structure as simple, transparent and accountable as possible.**

#### **International experiences:**

- For administrative simplicity, a flat percentage rate structure (e.g. Denmark, Finland), as opposed to progressive property tax rates (e.g. here in South Korea, Ireland, Mexico), is preferred.
- Allowing some bounded discretion on the tax-rate setting between a minimum and maximum tax rate range to local governments can ensure transparency and accountability and to encourage local governments to maintain a high-coverage valuation and collection ratio to achieve the expected revenue, equity, and efficiency objectives. (e.g. Denmark, Netherlands, Norway, Spain).

## 2. PT Technical issue: Policies and Taxation structure

### *A Value-based System*

**International best practices suggest a value-based that is correlated with differences in the relative value of properties as reflected in such factors as size, location, accessibility, land use type, construction type, quality and other property attributes.**

#### **International experiences:**

- Capital Market Value (CM) methods based on recent sales prices are considered best practice (e.g., here in South Korea, Denmark, Spain, Luxemburg, Netherlands, Norway, New Zealand, Sweden)
- Frequent revaluations are important to maintain buoyancy, equity as well as to reduce taxpayer resistance to periodic, large increases in property values. (Every 3 years: Japan, Austria, Australia; Bi-annually: Denmark; Annually: Here in South Korea, Mexico, Netherlands)
- Establishing a specialized valuation unit that collects, manages, and analyzes property market information can ensure transparency and efficiency.

### 3. *Organizational issue: Property Tax Administration*

#### **Key considerations:**

- A fair and efficient property tax system based on taxpayer education and effective penalties for non-reporting.
- Effective management of valuation standards to avoid disparities across the country.
- An assessment function that is proficient in mass appraisal techniques, well managed, transparent, and adequately funded.
- Procedural fairness that allows taxpayers sufficient time to file an appeal, a reasonable burden of proof and access to an independent arbiter.



### 3. Organizational issue: Property Tax administration

Considering that the questions of organization depend very much on the existing situation in a country, there is evidence that moves towards fiscal decentralization may impede reforms because it diverts attention from revenue mobilization. However a suggested Organizational idea is to involve more the Local Government in the process. How?

***A suggested Organizational idea is to propose to develop a Local Government Board (LGB)***

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**Large federations around the world converging on some basic principles of city governance**

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**Mega cities / metropolises govern with more independence, controlling their own cadasters and revenue/expenditure management**

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**Smaller cities / local bodies are provided support from central or state governments**

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**Some examples of a structure similar to the LGB are to be found in British Columbia, Canada; Ontario, Canada; Colombia; The Philippines...**

**A single body that handles property registers/databases of all small cities through a unique IT platform**

### 3. *Organizational issue: Property Tax administration*

## Strengthen Property Tax administration

- It is important to emphasize the need and the benefits of interworking between government departments underpinned by shared data and e-government.
- Collection and enforcement methodologies;
- Capacity building at all levels including municipal/local body levels of government in property tax administration;
- ICT systems providing web-based platforms for taxpayer interface; e-filing, e-payment.

### **Local Government Revenue Board:**

Semi-autonomous, centralized agency housing fiscal cadaster and IT platform for e-administration

### **3. Organizational issue: Property Tax administration**

## **Strengthening Property Tax administration: Improving billing, collection, and enforcement**

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Property Tax administration needs a core staff that can handle taxpayer registration, process tax returns, check for accuracy, inspecting the return in comparison to the tax base, ensure collection of payments, enforce penalties and fines in case of defaulters, and address taxpayer disputes.

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The foundation for ensuring compliance is a robust billing, collection, and enforcement system.

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If valuation is based on clear criteria, disputes will be limited and allow easy appeal and resolution.

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The base (assigned rental value and unit area base rate) needs to be revised every few years (at least between 2 to maximum 5 years).

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Rental value-based system could be replaced by area-based methods or capital value-based methods to make the tax system progressive, buoyant and equitable.

Unit Area Method provides a way forward.

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### 3. Organizational issue: Property Tax administration

#### *In terms of Organization: Property Tax Board good practices*

#### **State Governments should put in place a state level Property Tax Board**

- The Board should assist all municipalities and municipal corporations in the state to put in place an independent and transparent procedure for assessing property tax

#### **The Board**

- (a) shall, or cause to, enumerate all properties within the jurisdiction of the municipalities and corporations;
- (b) shall review the present property tax system and make suggestions for a suitable basis for assessment and valuation of properties; and
- (c) shall make recommendations on modalities for periodic revisions.

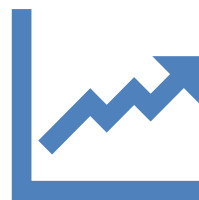
**The exact model to be adopted is left to the State.**

### **3. Organizational issue: Property Tax administration**

***A framework for good practice in terms of Organizational issue for the PT Administration***

#### ***Training***

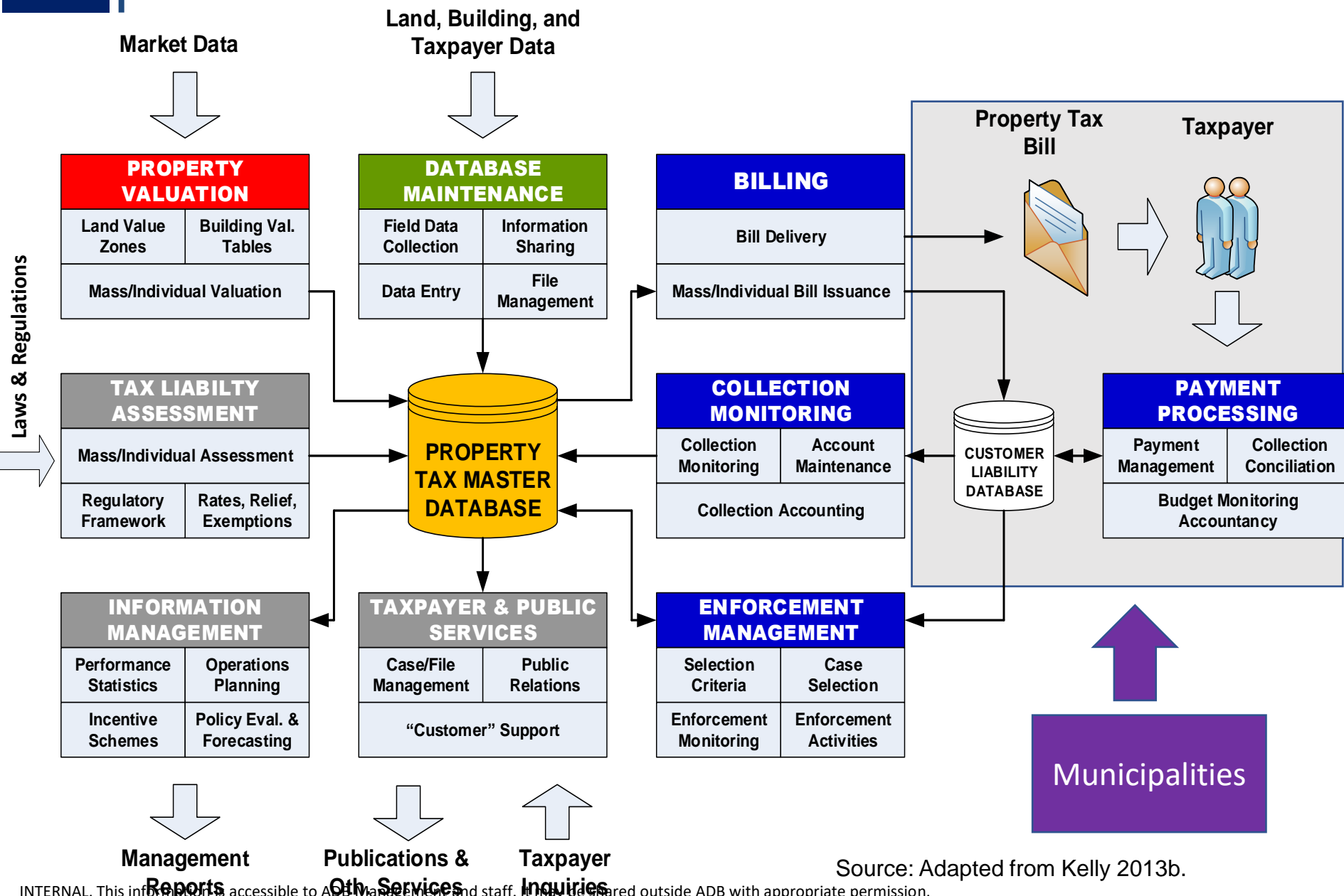
***Capacity building at Local Governments in PT Administration is needed***



Training has an important role in strengthening process activities such as property valuation, property tax administration, data analysis for decision making, futuristic IT tools via AVMs such as CAMA for property tax valuation, and GIS based property tax administration systems

# 3. Organizational issue: Property Tax administration

## Good Practice in terms of Property Tax operations management system



## 4. *IT issue: Data and Digitalization or Implementation Structures*

### ***Key considerations:***

- Develop an Integrated and Comprehensive LIS such as described at the Session 4. Integrated Land Information System and slide above with all the relevant modules.
- Bring modern valuation approaches into use with adequate capacity/training and investment in relevant hardware/software such as described at the Session 7. Land Value Assessment System.
- Property tax records based on an up-to-date Land Registration and Cadastre with effective cooperation in government data sharing such as described at the Session 6. Land Tenure Management.
- Securing accurate data on property sales and countering under-reporting.
- Good use of technology (and skilled staff) for property assessment named Automated Valuation Models (AVMs) (e.g. CAMA with GIS) such as described previously at this session 9.

## ***4. From IT point of view***

### ***Strengthening Property Tax administration: Improving billing, collection, and enforcement***

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IT systems such as LIS system including automated valuation models (AVMs module) can automatically generate property tax bills, ensure they are delivered to each property using GIS maps, or sent by mobile phone and e-mail, if needed bills can be printed at tax offices.

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IT systems can record property tax bills delivered, accounts overdue, generate lists for follow up.

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In the case of developing countries, market-based, mass property valuations or automated valuation models (AVMs) such as for example CAMA system can be difficult in the paucity of reliable data.

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CAMA is possible in large urban jurisdictions where data is available and where large numbers of properties have to be valued at the same time. One advantage is that there could be frequent revaluation cycles.

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## ***4. From IT point of view***

### ***Strengthening Property Tax administration - critical role of ICT systems***

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Web-based platforms for taxpayer interface; e-filing, e-payment like for example in France with “Télé@ctes » system.

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Improved property identification, aspects of valuation automated, improving data management, reduced discretion and corruption.

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It is recommended to have a property tax management system based on online GIS, which should be available to all municipalities.

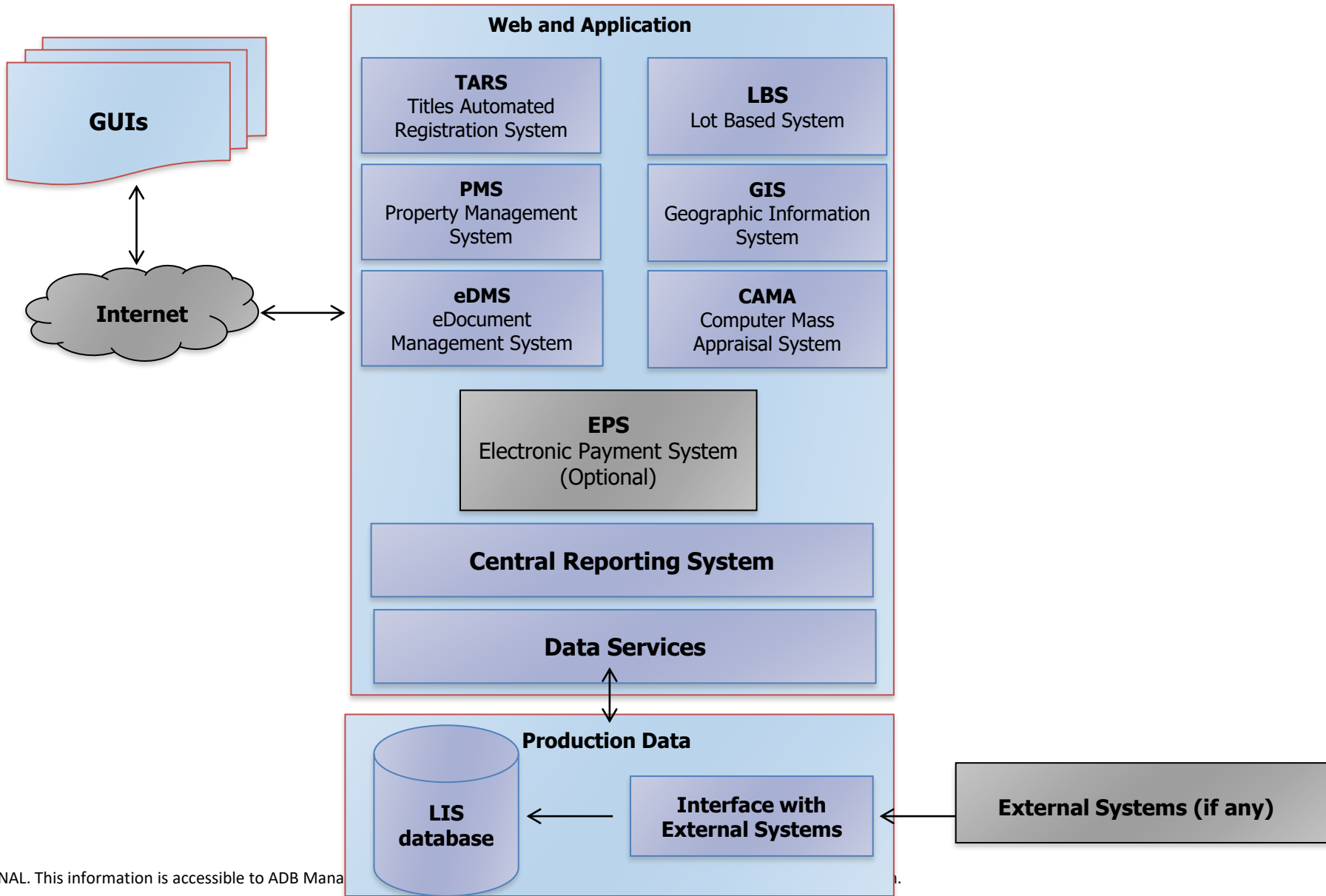
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Develop an automation and digitisation of billing and payment.

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# 4. From IT point of view

Good Practice in terms of LIS i.e. the basic building blocks



## *4. From IT point of view*

### *Updating property data*

- Resolution on GIS imagery often inadequate to resolve valuation disputes in dense areas.
  - New technologies (drones) other than remote sensing is today available, but costly and not appropriate for all types of properties.
  - Supplementing GIS/Drone surveys with door-to-door mapping is still necessary but also expensive.
- **So it is recommended to run best to keep digitized property registers current by linking them to the state cadastral data base and revenue maps.**

## 5. Conclusion

### *Policy issues: Rates and Classifications*

Property tax rates usually set by the State Governments

Rate revisions are uncommon and not linked to Local Governments financing needs

The total tax burden (rates plus valuation of bases) is what matters for compliance

Central Government usually don't have flexibility for adjusting both rates and values to keep a reasonable tax burden

Numerous classifications of property types leads to complexity of tax administration

## 1. Update

### ➤ **Update PT Laws, Institutional Organizations, Land Registration**

- Interworking between government departments underpinned by shared data and e-government.
- Eliminate inefficient exemptions;
- Special treatment of high-value commercial properties;
- Collect & Update Land Registration data/ Cadastre.

## 2. Build

### **Build integrated LIS including AVMs such as CAMA module, on GIS-based, accurate property rolls.**

Through surveys.

## 3. Bring

### **Bring modern valuation approaches into use**

Introduce mass-valuation methodologies via AVMs.