



HOW TO

NOTES

How to Design and Implement Property Tax Reforms

Martin Grote and Jean-François Wen

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How to Design and Implement Property Tax Reforms

Martin Grote and Jean-François Wen

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Property taxes are often under-exploited sources of local public revenues. A broad-based tax, raised at modest rates, can potentially generate significantly higher revenues in many countries, and meet most of the costs of improved local public services. This note provides a practical guide to designing and implementing reforms to recurrent taxes on immovable property and real estate transfer taxes. It addresses the fundamental policy choices regarding the property tax base and tax rate, and the key functions of the tax administration for managing collections – valuation, billing, and enforcement. The advice in the note stems from a review of the literature¹ and insights gained from the experiences of the Fiscal Affairs Department in delivering capacity development on property taxes. It covers and updates some of the analytical work by Norregaard (2013) while providing granular advice on practical aspects of reforming property taxes. The note is motivated by the resource mobilization needs of developing countries, but the design considerations are also pertinent for advanced and emerging market economies seeking to increase the revenue productivity of property taxes.

Introduction

“Taxes on property” designates a broad category of taxes that are payable on the use, ownership, or transfer of wealth. They may be levied at regular intervals, one time only, or on a change in ownership (IMF 2014). This note focuses on reforming the most common types of property taxes: the *recurrent tax on immovable property* (paid annually on an assessed value of buildings and land, that is, real estate) and the *real property transfer tax* (levied as a tax or a stamp duty when there is a change in real estate ownership).²

Significant scope exists for increasing revenues from property taxes, especially in developing countries. Total property taxes in Sub-Saharan Africa and Emerging Asia barely raised 0.1 percent of GDP in 2021, versus an average of 1 percent in Europe, 3 percent for the US, and 1.4 percent in the OECD (Figure 1).³ A reasonable

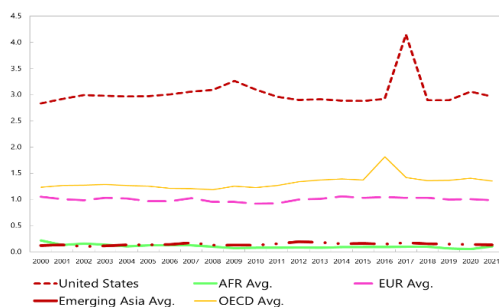
¹ In particular, of great use are the analyses provided in the encyclopedic cross-country comparative studies in Franzsen and McCluskey, (2017); Franzsen and McCluskey (2005); Kelly, White, and Aanchal (2020); McCluskey, Bahl, and Franzsen (2022); Kelly (2013b); and Almy (2013).

² Real estate transfer taxes are in the revenue category “taxes on financial and capital transactions” in the IMF’s Government Finance Statistics Manual. This category was classified as “taxes on property” in IMF (2001) but was reclassified as “taxes on goods and services” in IMF (2014). Capital gains on property sales are classified as “taxes on income, profits, and capital gains” (not taxes on property).

³ Figure 1 shows total property tax revenues. The peak in 2017 for the United States (US) is due to “non-recurrent taxes on net wealth” – a component of taxes on property broadly defined – and is attributable to a one-time tax on unrepatriated past foreign earnings of US corporations as part of the Tax Cut and Jobs Act (2017) (OECD 2019, p. 20).

target for property tax revenue-to-GDP is between 1 and 2 percent (UN-Habitat 2011a).⁴ The buoyancy of property tax revenue with respect to economic growth – estimated at 1.048 for OECD countries over the long run (OECD 2023) – is likely much lower in non-OECD countries where property assessments are often static. Revenues from recurrent property taxes on immovable property dominate revenues from financial and capital transactions taxes, including levies on sales of real estate, although there are regional exceptions (Figure 2).

Figure 1. Property Tax Collections in Key Economies and Comparator Country Groups in Percent of GDP



Source: GFS and WoRLD

Figure 2. Recurrent and Transaction Taxes in Percent of GDP



Source: OECD

Many factors contribute to the low productivity of recurrent property taxes in developing economies. Coverage of taxable properties is low; tax assessors inaccurately evaluate properties and the associated tax bills; capacity of the tax administration is weak; and paper-based record-keeping facilitates the falsification of data. Revenues would be significantly improved by expanding coverage, rationalizing the multitude of exemptions, more regularly updating property value assessments, and enabling electronic tax filing and payment. Advances in digital mapping technologies offer possible solutions for identifying property parcels and buildings, registering their ownership, and mapping their geographic location in a central fiscal cadaster (IMF 2018, p. 69). Aerial and satellite imagery can be highly effective tools to support property tax administration in a cost-effective manner.

Successful structural property tax reforms are comprehensive, make use of wide stakeholder consultations, and include a review of the intergovernmental fiscal transfer system to encourage subnational governments to exploit their own-source revenues. Careful planning and wide consultations must precede reforms to neutralize negative perceptions of the recurrent property tax. The best publicity is to remind taxpayers that those consuming local public services should make reasonable contributions to defraying their costs. Successful property tax reform also depends on strategic timing and bundling of the reforms with a reduction of capital transfer duties and changes in the inter-governmental transfers necessary to be able to finance synchronized changes in the fiscal decentralization framework. Because reforms to local public finances imply greater revenue autonomy for municipalities, undertaking property tax reforms necessitates *a priori* that the central government firmly supports the accompanying devolution of tax and spending powers (Keith 1993). Local governments must be incentivized for maximum property tax effort by, for instance, reducing allocations of shared taxes over time or designing inter-governmental grants to reward greater municipal tax collection.

The communication strategy should focus on the asymmetry of winners and losers. Government information campaigns should highlight that property taxes improve the overall distributional fairness of a tax system by stressing, for example, that owners of multiple properties like farms, forests and residential units who hitherto received public services without paying any property tax would now begin to contribute, which could afford a

⁴ This range is consistent with FAD technical assistance reports that estimated the potential tax effort of the property tax in various African countries using stochastic frontier models. See Caldeira and others (2019) for a discussion of the empirical method.

commensurate lowering of overall property tax rates. The high visibility of property taxes could be used to expose those who currently enjoy multiple exemptions weighed against the cost of local public services rendered to them. The fairness of the means-tested exemptions for low-income households and deferrals for those facing cash constraints can be emphasized. Also, if the property tax would trigger a softening of property prices, first-time buyers would be put in a better position to acquire property of their own with its associated enhancement of intergenerational fairness and social benefits.

Recurrent Property Tax

A well-designed and properly administered property tax can mobilize revenues fairly and efficiently. Recurrent property taxes that are broad-based and assessed on market values provide a link between payments and local services because they are imposed on owners whose property values appreciate with improvements in local roads, sewage, rubbish removal and other local services funded by enhanced collections.⁵ Appealing to the benefit principle of tax fairness (users pay) can elicit political support for relying on property taxes for local public finance and encourage local politicians to make efficient fiscal decisions. The user-pay or “benefit tax” analogy is suggestive but far from exact because most property tax systems have redistributive aspects.⁶ The tax is commonly regarded as progressive in that property ownership is correlated with wealth⁷ and it is known to have a relatively benign impact on economic growth (it is less distortive than taxes on labor because the relative immobility of real estate limits the behavioral responses to the tax).⁸ Its immobile tax base makes the recurrent property tax ideally suited for local government finance.

Tax Base

Two distinct approaches are widely used to assess property values for the recurrent property tax. *Value-based assessments* rely on market transactions to assess the value of property. *Area-based assessments* refer to the size of the land (m² or acre) and/or buildings (m² of actual floor or usable floor area). Unit-area tax rates (rate/m²) are sometimes adjusted for location, property use, and physical characteristics such as construction materials or age of the improvements. Although adjustments introduce complexity to a simple system, and are usually subjective and non-transparent, they generally improve horizontal and vertical equity (Franzsen and McCluskey 2017, p. 7). The tax rates for land and buildings per m² could be the same or different. A flat tax per property with

⁵ Research has shown that property taxes and the value of local public services are both capitalized into housing prices. See, for example, Nguyen-Hang and Yinger (2011).

⁶ The benefit principle features prominently in public finance by being a theoretical tool that informs tax policy design, especially with reference to granting exemptions and tax rate reductions. Its attraction stems from the tenet that people should be taxed in a ratio that is commensurate with the level of benefits received. Intuitively, it could guide policymakers to design an equitable tax system. But in practice it is difficult to quantify individual benefits received, say from street lighting, urban cleaning, or the maintenance of parks. The benefits received principle is therefore an instrument that guides – not a rigid framework – tax policy design. It should be evaluated as a trade-off vis-à-vis the other tax policy design tenets of equity, neutrality, simplicity and administrability. The benefit principle assists in finding an appropriate balance between efficiency and equity, attempting to distribute the property tax burden fairly, especially when demands for tax relief start to build.

⁷ A tax on land is borne by landowners because usable land is in fixed supply. Similarly, a tax on structures is borne by their owners in the short run because buildings are essentially immovable. However, in the long run, the tax on structures may discourage new construction and repairs to the existing stock of buildings. Localities with relatively high residential property tax rates may face gradual outflows of housing, resulting in some of the tax being shifted from recipients of capital income onto occupants of housing in the form of higher rental prices (and higher imputed rent for owner-occupiers). Thus, if the consumption of housing services as a share of income is decreasing with income levels, then residential property taxes can be regressive or less progressive than in the short run. In a small open economy context – which characterizes most developing countries – construction investment may be particularly sensitive to domestic property tax rates. Economists have not reached a consensus on the overall incidence of the property tax (Oates and Fischel 2016, p. 415). Concerns about its regressivity should be handled through property tax relief schemes and income transfer programs targeted on the truly needy (Kitchen 2013, p. 29).

⁸ See Acosta-Ormaechea, Sola, and Yoo (2018).

or without rudimentary adjustments for size, location, or use is less common, but may be useful when information on land parcels or values are unavailable.

An overriding factor for choosing the most appropriate tax base is the maturity of the real property market and the quality of information on sale or rental transactions. In countries where property markets are efficient and the valuation skills and capacity exist to determine credible property values on a significant scale and on a regular basis, value-based assessment is the preferred option on grounds of fairness and buoyancy (Franzsen and McCluskey 2013, p. 44). A simple area-based assessment can result in the same tax burden for a person living in a derelict house as a person living nearby in a newly renovated, similarly-sized, house. Market-value approaches improve the buoyancy of revenues in times of urban growth, while the area-based approach requires the statutory rates to be adjusted to reflect inflation and market value appreciations, or else revenues will stagnate. Area-based assessment are suitable in countries where no formalized or active land market exists or where property valuation and administrative capacities are weak.

Area-Based Assessments

Area-based assessments can be adjusted to reflect factors affecting market appraisals. Such a “hybrid” system is used in India (see Box 1). The municipalities of New Delhi and Ahmedabad aimed to approximate market values by applying carefully selected coefficients to simple unit-area values to overcome the challenges of costly periodic property revaluations. It constitutes an interim solution to generate property tax revenues until sufficient valuation capacity exists for a fully-fledged market-value-based property tax. Similarly, several South-Eastern European countries are currently in a transitional phase where forms of area-based approaches are being applied as close proxies for market value.

The unit-area method significantly simplifies the valuation function. Hence, there is little reason, given the use of satellite imagery, to delay greater utilization of the property tax, even in valuation capacity-challenged countries. It is important to note that the introduction of such an alternative valuation model is linked explicitly to information on surface areas, which is more readily available than market values. The basic unit-area values established for different municipal zones can be derived by an initial study of typical sale or rental prices per m² across relatively homogeneous neighborhoods.

The effective functioning of the system is improved if exemptions are kept to an absolute minimum. Even places of religious worship should be liable for water and sewerage charges. Only slum areas that are not connected to any municipal services should be exempt based on the principle of benefits received. However, UN-Habitat (2011a) makes the point that in several countries the proportion of the population living in slums greatly exceeds the percent considered to be poor, and that instituting a land tax on the occupants of land in informal settlements (rather than the owners, who may be unidentifiable) can be considered as a property tax option. While redistributing resources to provide basic services in deprived areas should be a priority for central and state governments, international experience suggests that it is important that poor communities contribute to their own public financing to any small extent possible (Bird 1995, p. 41).

Box 1. India's Area-Based Property Tax System

New Delhi and Ahmedabad introduced an adjusted area-based system that offers a short- to medium-term alternative to market valuation. This method does not require individual parcel revaluation since it is based on a self-reporting of the assessable value of the property. The buoyancy of the unit area method (UAM) can be guaranteed through regular revision of the multiplicative factors/coefficients for property attributes such as location, age, residential vs. non-residential use, and occupancy. A basic arithmetic formula is applied to calculate the property tax, based on the covered/roofed area of the building and the unit area value (fixed by the local government) or the unit area tax for the category (of locality or amenity) of the property. This makes it possible for any citizen to self-declare his/her property's tax value.

The main practical challenge is the accurate determination of the surface area of the building or parcel. Available advances in the technology of satellite imagery can address this hurdle. The Indian cities created fiscal cadasters with information from GIS maps that geo-reference all the particulars of the filed self-assessed property tax returns. This enabled the local governments to generate automatic notices to properties for which the system indicated a blank tax return on the GIS map. The formula for calculating annual UAM value is:

Annual value = unit-area value X covered/built-up area X multiplicative factors.

The unit-area values refer to eight value zones (A to H) with category D constituting the base unit-area value of 320 Rupees per m². The other categories are A, the highest unit value, set at Rupees 630/m²; B at Rupees 500; C at Rupees 400; E at Rupees 270; F at Rupees 230; G at Rupees 200; and H at Rupees 100.

The multiplicative value adjustment factors refer to occupancy (self-owned or rented); age and use of building (residential vs non-residential); quality or structure. For categories E to H, multiplicative factors of less than 1.0 are used; for categories A to C, factors greater than 1.0 are used. The 2011 tax rates on the annual value of vacant land or covered space of the building for the respective categories for residential property were 10 percent for categories A to E and 6 percent for categories F to H; and 10 percent for all categories of nonresidential property. The data requirements for this method are less than for a value-based approach. Additional property characteristics can be incorporated as adjustment factors toward a closer approximation to market value.

The Multiplicative Adjustment Factors

| Occupancy Factor (Residential) | Factor | Structure | Factor | Age | Factor | Use | Factor |
|--------------------------------|--------|------------|--------|--------------|--------|---|--------|
| Owner-occupied | 1.0 | Pucca | 1.0 | After 2000 | 1.0 | Medical institutions, religious purposes, schools | 1.0 |
| Tenanted | 2.0 | Semi-pucca | 0.7 | 1990 to 2000 | 0.9 | (Vacant), utilities, telecommunication | 2.0 |
| | | Kutchra | 0.5 | 1980 to 1990 | 0.8 | Industrial (occupied), museums, theaters | 3.0 |
| | | | | 1970 to 1980 | 0.7 | Business, retail | 4.0 |
| | | | | 1960 to 1970 | 0.6 | Hotels, towers | 10.0 |
| | | | | Before 1960 | 0.5 | | |

Example of an owner-occupied 200 m² business property of good-quality material built in 1995 with a unit-area value of 500 rupees/m² would pay (in 2011) property tax as follows:

$500 \times 200 \times [1.0 \text{ (owner-occupied)} \times 1.0 \text{ (quality)} \times 0.9 \text{ (age)} \times 4.0 \text{ (use)}] \times \text{tax rate of } 10\% = 36,000 \text{ rupees.}$

Sources: The Delhi Municipal Corporation (Amendment) Act 2003, read with the Delhi Municipal Corporation (Property Tax) By-laws 2003 and Franzsen and McCluskey (2017, pp. 575–76).

Value-Based Assessment

Three standard valuation methods are commonly used to estimate market values. These are the “comparable sales” method; the “cost” method; and the “income” method. The first uses observed recent sales prices of comparable properties as evidence of the value of the property being assessed. Under the cost method, the assessment is based on the sum of the value of the land and the estimated replacement cost of the construction (as new) less depreciation. This method is sometimes used for public utilities and linear properties, or types of

industrial properties that are rarely sold (that is, market price evidence is infrequent).⁹ Under the income method, the expected annual net rental income that can be generated by the property over its life is capitalized by applying a discount rate to estimate the net present value of the property. This method is used for commercial properties, such as shopping centers, when there are insufficient open market transactions or when comparable property or cost estimates are unavailable.¹⁰

The property tax or valuation law will usually contain a definition of the valuation standard (for example, “market value” or “assessed value”).¹¹ In many countries a national law provides for a uniform tax base for the entire country (for example, Brazil, Estonia, Indonesia, the Philippines, South Africa, and Zambia).¹² Some countries (or states, in federal countries) provide local governments with a choice of tax bases, for example, either capital value or rental value systems (for example, Australia, Kenya, Malaysia, Namibia, and New Zealand). Local governments can then determine which base is most appropriate for local valuation capacity and circumstances. In federal countries, the decision about the tax base may rest with the state/provincial level (for example, Australia, Canada, India, Nigeria, and the United States). To preserve the fairness of the system, it is essential that all properties within a jurisdiction are valued in a uniform manner, approximately simultaneously, and with reference to the specified value standard. Value assessments should be updated periodically (ideally annually, but this would be cost-effective and realistic only if supported by computer-aided mass appraisals) to ensure that the property tax base reflects changes in housing values.¹³

Because value-based assessments are only estimates of market values, the valuations can be contested. This situation is quite dissimilar to other taxes, which are based on realizations or deemed realizations of transaction values, measured income flows, sales, or consumption. Each periodic value update will initiate negativity and resistance from property owners, who may insist on transition rules to forestall potentially higher tax payments. These rules can render the system complex and may compromise fairness. To minimize objections and appeals by taxpayers, the tax assessment values are sometimes discounted market value appraisals (for example, in the case of Slovenia it was initially agreed that the property tax should be calculated on 70–75 percent of the market value).¹⁴ Communicating clearly in property tax information fliers the application of a discounted appraisal value can enhance acceptance of value-based assessments.¹⁵

A property tax can be applied to the capital value (a stock) or to the rental value (a flow) of a property. With a rental-value assessment, the annual rent the property would command in the market is assessed. It may then assume some percentage of that estimate as the taxable base. This approach uses rents based on current

⁹ Linear property usually runs in a linear fashion, such as the pipes and cables of linear infrastructure (pipelines, electric transmission lines, telecommunications systems, and so on).

¹⁰ Forest and agricultural land are often valued using the productivity value of the land in combination with commodity prices and a capitalization rate set by legislation. Similarly, appraisals of mineral reserve values typically use discounted cash flow analysis – see, for example, property tax rule 469 (mining properties) in the state of California available at <https://www.boe.ca.gov>. Instruction on how to use the income approach for property tax valuations is available at the same website.

¹¹ A subtlety arises when the value of a property in its current use differs from its highest or best use. The distinction matters when the current use of the property is suboptimal, which might arise with unused land or vacant buildings. Experience suggests, however, that actual market prices tend to reflect future and not present uses. Several European jurisdictions (for example, Denmark and Sweden) provide rules to base the valuation on the most economical use of the property and disregard under-use of land which could be the current situation. In contrast, the UK valuation standard is to take the actual/current use and, hence, vacant land and buildings benefit from a lower assessment (Almy 2013).

¹² Franzsen and McCluskey (2017, p. 6).

¹³ In some OECD countries property values are appraised annually (for example, Canada, Finland, and the United States), while in others the valuations are updated every few years or they are adjusted with a housing price index for the years between the country-wide revaluation dates.

¹⁴ Discounting the appraisal is purely cosmetic. What should matter to the taxpayer is the effective tax rate, equal to the tax burden as a share of the property’s market value, where the tax burden is the product of the tax rate and the appraised value. A low tax rate applied to full market value can result in the same effective tax rate as a higher tax rate applied to a below-market assessment. However, for a given tax rate, individual homeowners may feel reassured that they are not overly taxed as the result of an appraisal that over-estimates the market value of their property.

¹⁵ See Grote, Borst, and McCluskey (2016, p. 42).

patterns of property use rather than potential valuations. In contrast, the capital value approach tends to reflect the value in the highest alternative or best use of the property and, hence, tends to tax gains in value that the owner has not yet realized (Franzsen and McCluskey 2017, p. 10). One rationale for using rental value for assessing property tax liabilities is by analogy with income taxes paid on rental income (Bird and Slack 2004a, p. 28).

Capital Value

There are generally four types of property objects for the purpose of capital value taxation: (1) *Capital-improved value* (the collective value of land and any property improvements – generally buildings – affixed to the underlying site or land); (2) *Unimproved land value or site value* (land as if unimproved, thus ignoring any improvements effected to that land); (3) A tax based on *land and improvements as separate taxable objects* (two valuations for two separate taxes); and (4) A tax on the *value of buildings only* (ignoring the value of the land on which the building was constructed).

In the majority of countries tax assessment is on capital-improved value.¹⁶ It is common in advanced economies (for example, Canada, Germany, Finland, Italy, New Zealand, and the United States), but also encountered in emerging economies (for example, Argentina, Brazil, Malaysia, and South Africa). Where real estate transaction data is routinely captured, accurately reflects market value, and a strong property valuer profession exists, improved-capital value provides a good proxy for the benefits received from local infrastructure and a close basis for taxing real property wealth. In countries where the owner of land is also the owner of any improvements on the land, it would be difficult to determine separate values for the “land component” and the “building component.” In such an environment land and buildings cannot be alienated or acquired separately. The property is perceived as a single unit and is taxed with reference to its total value.

A rather simplified system based on capital improved values can be established using value bands. In 1993 Great Britain replaced its politically unacceptable poll tax with the so-called Council Tax. This tax (only applying to residential properties) allocates all dwellings to one of eight value bands and sets a levy for each of these value bands. It is a crude way of valuing properties but has the advantage that the valuation authority does not have to defend discrete values for every dwelling. With only eight value bands and a 1:3 ratio of tax liabilities between bottom and top the system is regressive, compromising the vertical equity maxim.¹⁷ Ireland implemented a property tax based on value bands in 2013, whereby tax liabilities are calculated by applying a uniform local tax rate to the mid-point of each band (and an additional marginal rate on properties valued over €1 million).

A few countries utilize a capital value-based approach where the value of land and buildings are separated, for example, Denmark, Grenada, and Namibia (and some states in the United States). Under this *split-rate* system, land (as if unimproved) and buildings (construction costs) are valued separately, or one is deduced from the other as a residual value from the total market value of the property. A high tax rate can be applied to land, encouraging development, while the building stock is typically taxed more lightly to encourage building construction, urban development, and densification.¹⁸ Given that credible and defensible values must be determined for both the land and the building components, the valuation cost is high, possibly compromising the regular revaluation requirement (Franzsen and McCluskey 2013, p. 44).

¹⁶ Franzsen and McCluskey (2013, p. 52).

¹⁷ This means that the tax liability for a property in the highest value band is only three times greater than that of a property in the lowest value band.

¹⁸ In some countries, for example, Rwanda, buildings are taxed on market value while land is taxed based on area size, with vacant lots for construction attracting an additional 100 percent of the land tax.

Land-value tax is based on the “unimproved value of land.”¹⁹ As capital improvements or constructions on the land are ignored, a land or site value system requires significantly less data to set up and maintain compared to capital-improved value.²⁰ However, when determining the market value of land, existing zoning regulations must be considered. Note that there is some artificiality in jurisdictions where there are only few sales per annum of vacant land parcels that can be used as comparable sales to determine land values for all the properties in the jurisdiction. Taxpayers may find it difficult to ignore the existing improvements in determining their properties’ taxable values, and excluding buildings, as a highly visible form of capital wealth, may prove politically unacceptable in some countries. Given the narrow tax base that results from excluding improvements, statutory tax rates need to be higher to generate meaningful revenues.²¹

Where land cannot be taxed for political or cultural reasons, taxing buildings alone is an option. In many cities in developing countries the value of buildings as a ratio of total value is considerable and, with significant development, the tax base is relatively buoyant. Building values are often determined from building costs, but which are adjusted to reflect depreciation. Compared to determining land values, however, the valuation of buildings is much more complex, and therefore time-consuming and costly.

Tax Rate

Which Authority Should Set the Rate?

Setting the property tax rate locally is crucial for local political accountability. Very often the proceeds of the property tax and its administration are assigned to the local governments. A local authority needs to balance attentively the benefits of its service delivery with the associated costs payable by the local electorate via the property tax system. Balancing must be done transparently to hold local governments accountable to the taxpayers. It is common and good practice, however, for the central government to restrict rates to a statutory range to minimize aggressive tax competition between local governments, or to mitigate attempts to export property tax burdens to residents of other jurisdictions.²² A political motive for the central government to put an upper limit on local property tax rates is to restrict municipal government spending growth (Kitchen 2017).

There are marked differences between countries with respect to the fiscal autonomy of municipalities for setting property tax rates.²³ In Algeria, Cameroon, Egypt, and Rwanda tax rates are determined centrally. Botswana allows for local discretion over tax rate-setting, but central government approval of locally determined tax rates is required. Uganda and Madagascar make this rate-setting autonomy subject to prescribed legal minimum and maximum rates. In Asia, commonly the central government has the responsibility to set the statutory rate

¹⁹ Since the days of Henry George (1879), many economists view land value as the ideal tax base – that is, replacing income taxes and taxes on capital with land-value taxation would translate into efficiency gains because an immovable factor can bear a high tax burden without the risk of relocating to a low-tax jurisdiction. See Kumhof and others (2021) for a recent discussion of the reform proposal.

²⁰ Some improvements (such as leveling, clearing, and underground drainage) may over time have merged with land to such an extent that it becomes difficult, if not artificial, to disregard these when determining the value of the relevant land parcel (Franzsen and McCluskey 2013, p. 47). In most modern-day land value systems (for example, New South Wales, Queensland, and Western Australia) “unimproved land value” or “site value” will be appropriately defined to include these “site improvements.”

²¹ Unimproved land value could utilize valuation zones for all taxable areas. Unimproved site value lends itself to the use of “pattern valuing” given the homogeneity of parcels in similar locations. This would necessitate the creation of a range of value zones based on land use such as residential, commercial, and industrial. Average prices per square meter can be derived from market analysis which are then applied to all parcels in the zone. In addition, adjustment factors could be developed to reflect, for example, the quality of the adjacent road (main tar, secondary tar, gravel, and dust), water supply (mains, well/bore, river or none), electricity (mains or none), sewage (mains, septic tank, pit, or none) and parcel shape (regular, irregular, flat, or sloping).

²² Residential property taxes may be exported by imposing a higher rate on property held by non-residents. High tax rates on business properties may be exported by depressing the return on capital elsewhere, due to capital flight from the high tax jurisdiction, or via a fall in the value of commercial land that is preponderantly owned by non-residents.

²³ For a discussion of cross-country rate-setting practices in Africa and Asia, see Franzsen and McCluskey (2017) and McCluskey, Bahl, and Franzsen (2022).

(including the maximum and minimum).²⁴ In India and Malaysia responsibility for the rates is a local prerogative but with some conditions imposed by the central government.²⁵

Flat Versus Graduated Rate

Taxing higher valued properties at higher statutory rates is sometimes used to establish greater progressivity in the system (for example, Singapore, Guatemala, Morocco). A progressive tax rate may also be applied to the total value of an individual's multiple land holdings (for example, Peru, Ecuador) to increase the tax burden on concentrations of property holdings. But in the case of developing countries, graduated rates compromise simplicity. Many local jurisdictions determine property taxes residually to finance the budget gap between projected expenditures and non-tax revenues. Doing so is much more complicated with progressive, rather than flat, property tax rates. Moreover, graduated rates make property tax liabilities less transparent for homeowners.

Commercial Versus Residential Properties

Many jurisdictions apply higher property tax rates on non-residential properties. This is the case in countries such as Australia, Canada, India, Liberia, Pakistan, and South Africa. Presumably the reason for it is to capture the greater tax-paying capacity of commercial and industrial land (and for downright political economy reasons: large numbers of voting residential property owners versus relatively few commercial or business owners). Then again, some countries apply lower rates for selected industries such as manufacturing and tourism. However, if commercial and residential properties benefit from the same level of municipal service, then no rate differentiation in favor of residential properties is justified.²⁶ If rates differentiate according to differences in quality, use of properties, and multiple property ownership, taxpayers will seek to artificially reclassify use or values simply to profit from the lower rate. Moreover, market valuations to a large extent already reflect differences in ability-to-pay – making discriminatory rates superfluous. In a simplified value-based or area-based system, however, some form of differentiation may be appropriate to compensate for under-valuations of high-end properties.²⁷

Surtax on Undeveloped Land

Imposing a higher property tax rate or surtax on vacant or unimproved land is quite common. Examples include Brazil, Namibia, Senegal, and Venezuela. In the capital of Namibia, Windhoek, for example, such impost is called a building penalty clause, which imposes a penal rate or much higher tax rate on vacant land lots that stay undeveloped for extended periods. A surtax on vacant urban land can deter land hoarding by speculators. Vacant urban land at the very least should generally not be left untaxed, because urbanization and development render the resource increasingly scarce and valuable. Also, a tax rate differentiation that discourages urban sprawl, is politically more palatable than an outright regulatory prohibition or sanction.

The effectiveness of a surtax hinges on the definition of “vacant” land. Ambiguities in the definition invite abusive tax planning. For example, taxpayers could avoid the higher charge if they were to erect a structure that looks

²⁴ McCluskey, Bahl, and Franzsen (2022, p. 32).

²⁵ While the rates for property taxes are not set by India's Central Government, the 15th Finance Commission required that States notify it of the floor property tax rate for urban local bodies in their jurisdiction and that property tax revenue grow by at least the average growth in state-level GDP over the most recent five years. These requirements are pre-conditions for accessing grants from the Central Government.

²⁶ Studies have shown that the non-residential sector receives proportionately less benefits from local government services than the residential sector. Thus, if any rate differentiation is justifiable, it is in favor of the non-residential properties. See Bird and Slack (2004a): 37. In Rwanda, the property tax rates for commercial and industrial properties are lower than for residential properties. Agricultural land is often taxed at a preferential rate, which is justifiable in terms of the benefit received principle insofar as the agricultural areas receive fewer public services.

²⁷ *Implicit* rate differentiation across property classes occurs when a jurisdiction sets a uniform statutory tax rate but applies different discounts to market values (that is, when assessments of property values are purposefully below 100 percent of market values). This approach is less transparent for taxpayers than assessing all properties at a uniform rate (100 percent or some lesser percentage) while varying the statutory tax rates.

like an improvement but remains unsuitable for human occupation or residential or commercial use. In its simplest meaning, “vacant land” can be defined as “land that has no buildings on it and is not being used.”²⁸

Situations exist where it is uneconomical to develop certain land areas.²⁹ The imposition of a higher property tax rate or surtax on vacant land should only apply to speculative land holdings, including land sterilization (that is, restrictions to prohibit improvements) by the corporate sector for purposes of future expansion plans. Other vacant land holdings due to unattractive physical characteristics of the land parcels or uncertain or overlapping land use or ownership rights should not attract a higher tax burden until all remaining legal uncertainties have been regularized.

Level of Rate

Internationally, and especially in developing countries, property tax rates are generally very low, partially explaining the low revenue importance of property taxes as a percentage of GDP. Tax rates for market value-based (land and improvements) systems typically range from 0.5 to 2 percent but are higher for land-only systems. Local governments often set their *ad valorem* property tax rates residually to balance their budgets after accounting for their projected expenditures and their other sources of revenues (such as user fees and transfers from higher levels of government in the country).³⁰ If an area-based property tax system is adopted, the rate is in units of, say, €/m². A simple method to determine whether a property tax charge is excessive or affordable is to express it as a multiple of the annual motor vehicle license fee (circulation tax) or some other common expenditure item such as the cost of filling up a vehicle with gasoline.³¹

Exemptions and Other Tax Reliefs

Tax relief should be restricted to properties meeting narrowly defined criteria. This includes properties that are tax exempt through international conventions, such as reciprocal tax privileges granted to diplomatic and consular offices and multilateral organizations, and merit use of land (for example, schools and churches). Most jurisdictions apply such exemption lists for property taxation. Exemptions for cultural or religious public benefit organizations, if maintained, should be qualified and defined carefully to restrict the list. For example, properties not directly used for the public benefit activity should be taxed – that is, only the church sanctuary should be exempted, not rental lands owned by the church. An inclusive approach is best, imposing property rates on all cultural, religious, and public benefit organizations, in order to preserve a broad base and minimize economic distortions.³² If these institutions are deemed to generate positive social externalities, they can be directly rewarded with transparent grants (Kitchen 1992). An alternative for this taxpayer category is a discounted “service charge” in lieu of the standard property tax. This approach has been adopted in Bangalore, India, where

²⁸ Definition of vacant land from the Cambridge Business English Dictionary. The definition used in legislation should be drafted to suit the intended objective and scope of the surtax – and it needs to be informed by the legal drafting rules and practices of the jurisdiction.

²⁹ Northam (1971) lists some pertinent reasons why there exists urban unimproved land: (1) irregularly shaped, small remnants of land that remain after the main division of land and which are not suited for the average property owner; (2) land lots with adverse topographical characteristics making any development too expensive; (3) parcels held by the corporate sector for future developments or expansions; (4) institutional vacant land sterilized by public authorities for future development of public infrastructure, schools, and health facilities; (5) land affected by insecure property rights due to inconclusive land use regularization processes (that is, no legal certainty exists against expropriation); (6) unimproved land sterilized for speculation and which is held until land values have sufficiently appreciated due to a growing scarcity of urban land.

³⁰ See Bird and Slack (2004a, p. 33). The tax rate is sometimes expressed as a “mill rate,” which states the amount of tax per \$1,000 of property value.

³¹ Affordability of property taxes could be measured directly in relation to average household income. However, some countries may lack detailed data on average income per region. As a reference point, in the United States property tax payments account for about 3 percent of household income across most income percentiles (Langley and Youngman 2021, p. 9).

³² Tax expenditures associated with exempting non-profit hospitals from taxes (including property taxes) could exceed the community benefits they provide; it can also be argued that exempting churches entangles religion and state while, in effect, subsidizing wealthy organizations that often possess valuable urban land.

the charge raises 25 percent of the property tax. It applies to all exempt properties (for example, government and charities), except for places of worship and homes for the destitute.

State-owned entities often benefit from property tax exemptions. The rationale is that these properties are used for physical infrastructure operations, or for the delivery of broadly accessible public goods and services by the state, such as the supply of electricity, water, road connection, and general administrative services.³³ Most countries follow this approach which seems acceptable. However, central governments use local facilities and could therefore contribute payments to the defraying of local government costs. In some countries, therefore, government-owned properties are indeed taxable (for example, Ghana and South Africa). Legislation in Kenya and Zambia allows for payment in lieu of taxes and in Canada the federal government provides grants to the provinces equal to what the property tax would have generated (in principle).

Some jurisdictions “reward” new constructions. In the case of Africa, widespread property tax relief is offered for newly developed or renovated residential properties – often in the form of exemptions or tax holidays (for example, from five to 10 years in Angola, five years in Benin, Equatorial Guinea, Madagascar, and Morocco; three years in Gabon; and two years in Niger, Chad, and São Tomé and Príncipe). Revenue loss through granting tax exemptions comes over and above the failure in many countries to keep the valuation roll of properties regularly updated. Since residential property commonly constitutes the largest sector of new construction, long-term exemptions narrow the tax base, leading to higher taxes on older building stock, which is indefensible from an equity perspective. Managing tax preferences fairly will become difficult if the incurred revenues forgone are not accurately accounted for in annual tax expenditure budgets, because the relief translates into sizable subsidies to homeowners who consume costly local public services. It is also inequitable because similar tax relief is not being offered to tenants of rented new residential properties. Tax holiday schemes for new construction are difficult to administer and prone to abuse. There is little evidence that tax relief granted under a recurrent property tax for newly constructed residential housing encourages development of vacant urban land (Franzsen and McCluskey 2017, p. 60). Indeed, given the already low level of property taxes in most developing countries, the pro-development impact of these exemptions is doubtful.

Hardship relief measures can be used to shield low-income owners from property taxes. The poor often live in areas with limited infrastructure or public services generally, and consequently, have low assessment values for their properties. An exemption would accord some rough justice in areas where tax collection costs likely exceed the revenues that would be raised. Thus, some countries (for example, South Africa) have adopted a value threshold for a market-value based property tax.³⁴ The threshold must be neither too generous nor too restrictive. Households above the threshold seeking relief should be means tested or handled on a case-by-case basis. Property tax relief can also be provided in the form of an income tax credit or a grant to limit property tax payment as a share of income. This method is common in the United States and Canada, and often extends to renters to recognize the pass-through of property tax to rental prices.

Liquidity problems caused by the recurrent property tax can be addressed by deferring tax payments. Tax deferral could be a practical measure to deal with “asset-rich, cash-poor” taxpayers (for example, pensioners) or even in respect of absentee landowners and the temporarily unemployed.³⁵ Under a deferment scheme, arrears would become due in full – with or without interest – when the property is alienated (for example, through sale or inheritance). Internationally, deferment schemes are typically reserved only for the elderly or exceptional circumstances. Limiting eligibility for deferments is important, given the potential impact that these legitimate “arrears” may have on a municipality’s cash flow. Tax deferment is an option that is well suited to transition economies where many tenants of government-owned apartments were granted ownership rights – especially

³³ It is generally undesirable to assess items such as roads, sewers, storm drains, bridges, and so on (Keith 1993). Moreover, it may be pointless for the local government to tax property owned by the very same local authority.

³⁴ However, a dwelling size threshold would be regressive because it gives more relief to luxury-home owners in good locations than to those in modest homes and mediocre locations.

³⁵ Tax deferment schemes are used, for example., in British Columbia in Canada and North Carolina in the US.

where the values of these apartments have increased materially over time as the property market developed. This is the case in most Central and Eastern European countries and former member states of the Soviet Union.

Policy advice

- Local authorities with little property transaction evidence or little valuation capacity should consider implementing simplified valuation approaches based on area, with or without adjustments to reflect location, age, quality of building materials, use of the building, and access to utility services.
- To promote local fiscal autonomy, local governments should have some flexibility to select a property tax rate within a centrally determined narrow range.
- The rate should be flat for all properties, with no differentiation in favor of residential or commercial properties, unless clearly justified by service differentials.
- If local authorities wish to tax vacant urban land more by imposing a surtax or higher rate, two key considerations and prudent steps need to inform the policy stance: (1) identify all vacant urban land and determine whether the total surface area thereof has remained constant or changed; and (2) carefully analyze the main reasons for the trend to establish *ex ante* if any tax response would be effective.
- Exemptions, holidays, or other relief from the property tax should be severely limited to certain organizations, and, ideally, means-tested and reviewed annually when provided to individuals.
- Tax deferment schemes for “asset-rich but cash-poor” taxpayers could lessen the cash impact on certain households, especially the elderly. Under a deferment scheme, ensure that property tax arrears become due in full when the property is alienated through a sale or inheritance.

Transaction Taxes on Real Estate

It is common in many countries to pay transaction taxes upon the acquisition or resale of real estate. These are assessed when the statutory title to real property is transferred to another party and can be levied as a property transfer tax (focusing on the underlying legal cause for the change of ownership, for example, a contract of sale) or as a stamp duty (focusing on the deed or contract document). The outcome is largely similar since both are applied to the total value of a real property transaction. Legal liability for payment of the tax may rest with the buyer, the seller, or both. These taxes are often charged even if the transfer is not the result of a sale, for example, a donation or exchange, or where there is merely a change in beneficial ownership of shares in a company where real property constitutes more than 50 percent of the total value of the company.

Many developed and developing countries raise significant revenues from property transfer taxes – which commonly are under the jurisdiction of central government. In several countries the revenues from transfer duties dwarf the revenue take from the recurrent property tax.³⁶ Out of the 38 OECD countries, 30 of them levy transfer duties or transaction taxes on the market value of the property (OECD 2022, p. 90). Table 1 shows real estate transfer tax or stamp duty rates for an international selection of countries.

³⁶ Countries for which revenues from taxes on financial and capital transactions are more than twice the size of revenues obtained from a recurrent property tax and are at least 0.6 percent of GDP in 2020 are Cambodia, China, Korea, Singapore, Antigua and Barbuda, Argentina, Liechtenstein, Luxembourg, Mauritius, and Türkiye (McCluskey, Bahl, and Franzsen 2022). In several developing countries, transfer duties dwarf recurrent property taxes but mainly because of the weak or non-existent revenues from the latter tax.

Table 1. Transfer Taxes on Acquisitions of Residential Property in 2023

| Region / Country | Rates | Region / Country | Rates |
|-----------------------------------|-------------|---------------------------|-------------|
| <i>South and Central America:</i> | | <i>Asia and Australia</i> | |
| Argentina | 1.5 | Australia | 1.25 - 5.5 |
| Brazil | 2.0 - 3.0 | Cambodia | 4.0 |
| Chile | 0.0 | China | 3.0 - 5.0 |
| Costa Rica | 1.5 | Indonesia | 5.0 |
| Peru | 3.0 | Japan | 3.45 |
| Venezuela | 0.45 - 0.60 | Republic of Korea | 1.0 - 7.0 |
| <i>North America</i> | | Malaysia | 1.0 - 4.0 |
| Canada | 0 - 5.0 | Philippines | 2.25 - 2.50 |
| Mexico | 2.0 - 5.0 | <i>Africa</i> | |
| United States | 0 - 3.0 | Burkina Faso | 8.00 |
| <i>Europe</i> | | Dem. Republic of Congo | 3.00 |
| Austria | 3.5 | Kenya | 2.0 - 4.0 |
| Belgium | 3.0 - 12.5 | Mauritius | 10.00 |
| Cyprus | 3.0 - 8.0 | Mozambique | 2.40 |
| Denmark | 0.6 | Namibia | 1.0 - 8.0 |
| Finland | 4.0 | Niger | 1.50 |
| France | 5.8 | South Africa | 0 - 13.0 |
| Germany | 3.5 - 6.5 | <i>Caribbean</i> | |
| Greece | 3.0 | Antigua and Barbuda | 10.0 |
| Ireland | 1.0 - 2.0 | Bahamas | 4.0 - 10.0 |
| Italy | 7.0 - 9.0 | Barbados | 2.5 |
| Luxembourg | 7.0 - 10.0 | Dominica | 10.0 |
| Malta | 0.0 - 5.0 | Grenada | 5.0 |
| Netherlands | 2.0 - 10.4 | Guyana | 2.0 |
| Norway | 2.5 | Jamaica | 2.0 |
| Portugal | 5.0 - 7.3 | St. Vincent and Grenadine | 10.0 |
| Spain | 6.0 - 11.0 | St. Kitts and Nevis | 5.0 - 18.5 |
| Sweden | 1.5 | St. Lucia | 2.5 - 5.0 |
| Switzerland | 0 - 3.3 | Trinidad and Tobago | 3.0 - 10.0 |
| United Kingdom | 0 - 12.0 | | |

Sources: UN Habitat, 2011, *Land and Property Tax--A Policy Guide*; www.dentons.com, *Global Tax Guide*; Deloitte, *International Tax Highlights*; PWC, *Tax Summaries--2023*; PWC, *Real Estate Transfer Tax, 2023*; Thomson Reuters, *Practical Law, 2021*; Baker McKensie, *Global Corporate Real Estate Guide, 2023*; Suntrust.com, *The Cost of Transfer of Title in the Philippines, 2023*.

Notes: Rates are for a transfer tax and/or stamp tax - combined buyer and seller - for the acquisition of a residential home by a resident individual. Where a range is shown, it refers either to regional differences in the country or to progressive marginal rates.

Transaction taxes have administrative advantages.³⁷ (1) The tax base is the purchase price, which is highly visible and constitutes an accurate measure of market value. (2) They are payable when taxpayers have more liquidity (say selling a property and buying a new one) – unlike the situation of “asset-rich but cash-poor” property owners who are liable for the recurrent property tax. (3) Real estate buyers are incentivized to report transactions

³⁷ Norregaard (2013, p. 29) and OECD (2022, p. 90).

in the property registry to acquire legal documents that guarantee their ownership rights and to have a properly recorded base cost for capital gains tax purposes (that is, the higher the base cost the lower future capital gains). (4) They enjoy high compliance rates and low administrative cost compared to other taxes in the housing sector. (5) They face less political resistance than recurrent property taxes because parties to a property transaction seem to consider them during the negotiation of the purchase price.

A drawback of transfer duties on immovable property is their distortive effect on real estate sales, especially if imposed with high rates.³⁸ They: (1) reduce the number of transactions to the detriment of labor and residential mobility;³⁹ (2) encourage underreporting of transaction prices; and (3) lead to evasion through non-reporting of transactions. Following a global trend, some of the countries in the Caribbean and many countries in Francophone Africa have been reducing their property transfer tax rates.⁴⁰ Some countries have abolished either the transfer tax or the stamp duty, where both taxes were payable in the past. These tax reduction initiatives may indeed mitigate the under-declaration of sales prices.

Imposing a transfer tax (perhaps with an exempt property value threshold) could be adopted in countries where weak administrative capacity makes higher collections from a recurrent property tax infeasible. This observation could apply where the cadaster is incomplete and/or there is incapacity to verify properties' market values on a large scale. When a jurisdiction's administration gets more advanced and the property tax is functioning well, the efficiency gains of a recurrent property tax start to count for more. It is then when the transfer duty rate should be reduced to low levels, possibly in combination with the introduction of a capital gains tax. In general, the effective tax rate resulting from the combination of transfer tax, recurrent property tax and capital gains tax should be considered as a whole, to avoid undermining the liquidity of the real estate market.

Experience suggests that high transfer tax rates will require effective anti-avoidance legislation. The anti-avoidance legislation should include measures such as enhanced monitoring by the revenue administration of true market values for property transactions. Attempts to avoid the registration of change of ownership through an entry at the central property title registry should be a punishable offence. Making sure that all outstanding property taxes have been paid before a new title registration can be certified would be a strong feature of the system.

The collection and verification of realized values for transferred real estate generates market value evidence that can inform updates to the valuation rolls. Sharing the information across the administrations of all taxes relying on housing market values – that is, transfer tax, recurrent property tax, capital gains tax, and VAT for newly constructed properties – would mutually reinforce tax compliance across multiple taxes. Hence, the fiscal authorities should integrate the separate data bases to enhance the interoperability of a revenue service's information platform and assist in capturing cost-effectively the transaction values from sales, disposals, gifts, and inheritances, all of which could attract capital gains tax, income tax, and transfer tax. For this reason, as well as the complexity of verifying whether reported transaction prices reflect market values, transfer taxes are best suited for collections by the national revenue authority.

³⁸ Norregaard (2013, p. 29) and OECD (2022, p. 90).

³⁹ Transactions taxes trigger increases in ask prices and reductions in bid prices. The result of the widening gap is a reduction in trading and longer hold periods – the so-called lock-in effect, whereby owners desist from selling their properties to avoid incurring the transfer tax or stamp duty. Housing transaction taxes may thus lead to a misallocation of the housing stock by, for example, discouraging young families from upsizing their housing and by discouraging retiree households from downsizing. In contrast, a recurrent property tax does not impact on mobility or the allocation of assets. Empirical research confirms the theoretical point that eliminating land transfer taxes in favor of revenue-equivalent recurrent property taxes could result in annual welfare gains; see Dachis and others (2012).

⁴⁰ Franzsen and McCluskey (2017, pp. 46-47).

Policy advice

- Maintain a property transfer tax as an acceptable alternative until an easy-to-administer and more revenue productive recurrent property tax system has been established.
- The revenue service, as part of its functional responsibilities, should automatically notify the central property registry whenever the transfer tax for a property disposal has been paid.
- Integrate separate databases to enhance the interoperability of a revenue service's information platform and to assist in capturing cost-effectively the transaction values from realization events, disposals, gifts and inheritances, all of which could attract capital gains tax, income tax, and transfer tax.
- Centralize the administration of capital gains tax, income, and transfer taxes, as this supports cost-effective value verification.

Property Tax Administration

Property tax administration includes the following multidisciplinary functions and expertise: controlling registration of land titles (legal cadaster maintenance); establishing and keeping up to date the fiscal cadaster (ownership, attributes and location of property, owner's address at council level, and most recently recorded market or transaction value); assessment of property values; collection of property data; objections and appeals against an assessment on the valuation rolls; billing; collection; and enforcement of past-due obligations. One can have a modern recurrent property tax design but without sufficient administrative skills, experience, and sound administrative practices, the property tax will not deliver on its revenue potential.⁴¹ The property tax revenue identity (Box 2) gives a framework for analyzing administrative data and diagnosing weaknesses (Kelly 2000 and 2013b).

The revenue performance of the recurrent property tax should be assessed. A starting point would be to calculate property tax revenues per capita in each locality to identify regional disparities and their sources (for example, weak coverage, outdated valuations, accumulated arrears, and so on). Local revenue performance can be benchmarked against an estimate of the revenue potential of the property tax, roughly equal to one to two percent of the product of national GDP per capita and the size of the local population (UN-Habitat 2011a).

⁴¹ See Keith (1993) for a manual on setting up a valuation office, including organizational structure, staffing, and training.

Box 2. Property Tax Revenue Identity

$$\text{Property Tax Revenue Collected} = \text{Tax Rate} \times \text{Legal Base} \times \text{Valuation Ratio} \times \text{Coverage Ratio} \times \text{Collection Ratio}$$

where

- a. **Tax Rate** (t) is the average tax rate. It is defined as the total property tax liability billed (R) divided by the assessment of total property values, where the latter expression is the product of the number of properties in the tax rolls (N) and their average value assessment (A).
- b. **Legal Base** (B) is the product of the total number of properties legally subject to tax (N^*) and the average market value of the properties in the tax rolls (A^*).
- c. **Valuation Ratio** (V) is the average value assessment of the properties in the tax rolls (A) divided by their average market value (A^*).
- d. **Coverage Ratio** (C) is the number of properties in the tax rolls (N) divided by the number of properties legally subject to tax (N^*).
- e. **Enforcement (or Collection Ratio)** (E) is the total property tax revenue collected (RC) divided by the total property tax liability billed (R).

The total amount of property tax revenues collected can be expressed as a mathematical identity:

$$RC = (R/(N \times A)) \times (N^* \times A^*) \times \left(\frac{A}{A^*}\right) \times \left(\frac{N}{N^*}\right) \times \left(\frac{RC}{R}\right)$$

Equivalently, the equation can be written $RC = (t \times B)(V \times C \times E)$, where the first term in parentheses is determined by policy choices and the second represents administrative efficiency.⁴²

Improving administrative efficiency alone can generate important increases in property tax revenues. This is illustrated with Table 2 which depicts three scenarios.

Current scenario: For a variety of reasons only 75 percent of the taxable land parcels have been identified and are included on the tax rolls. Moreover, the valuations are several years old, resulting in properties being valued only at 60 percent of their current market value.⁴³ The tax administration is rather ineffective in collections and enforcement, collecting only 45 percent of the tax liabilities due. The administrative efficiency is then 0.20.⁴⁴

Improvement scenarios: If the administration is improved slightly as shown in scenario 1, the administrative efficiency increases to 0.33. If further improvements in administration occur as shown in scenario 2, the improved level of administrative efficiency increases to 0.73. Thus, the efficiency ratio increases by 65 percent (= 100 x 0.13/0.20) in scenario 1 and by 265 percent (= 100 x 0.53/0.20) in scenario 2.

Table 2. Administrative Efficiency—An Example

| Administrative Ratios | Current Performance | Scenario 1 | Scenario 2 |
|-----------------------|---------------------|------------|------------|
| Coverage Ratio | 0.75 | 0.85 | 0.95 |
| Valuation Ratio | 0.60 | 0.70 | 0.90 |
| Collection Ratio | 0.45 | 0.55 | 0.85 |
| Efficiency Level | 0.20 | 0.33 | 0.73 |

Source: IMF staff calculations

⁴² The expression for the tax rate, t , can itself be further separated into two parts for analytical purposes, following Linn (1980): the average tax rate on non-exempted properties in the tax rolls and the proportion of properties in the tax rolls that are legally exempted from tax, measured as the ratio of non-exempted properties to the total of exempted and non-exempted properties in the tax rolls. This can be useful to highlight revenue losses stemming from exemptions. Note that exemptions are distinct from exclusions, where the latter term refers to properties that are, by law, left off the tax rolls and therefore whose values are not assessed.

⁴³ It can also be the case that the assessments are a fraction of the market value to enhance political acceptability of the tax. In that case, fractional valuation (discounting) reflects a deliberate policy choice, in addition to a possible administrative gap.

⁴⁴ The calculation of the current administrative efficiency is: Administrative Efficiency (AE) = Coverage Ratio (=0.75) x Valuation Ratio (=0.60) x Collection Ratio (=0.45); that is, AE = 0.75*0.60*0.45 which is 0.20. Notice that the multiplicative nature of the ratios in the revenue identity implies that the weakest link in the chain (in this example, the collections ratio) is the principal driver of AE. If, for example, just one of the ratios were equal to zero, then regardless of the levels of the remaining ratios, AE would be nil.

Estimates of administrative ratios in low- and middle-income countries vary widely. There are few case studies available, but the ranges for the ratios are likely to be indicative of what is observed in practice elsewhere in countries at similar levels of development. Point estimates of collection ratios range between 20 and 80 percent in African countries (World Bank 1992; Keith 1993; Kich 1996). Valuation ratios in developing countries are observed from 20 to 80 percent (Kelly 1993; Rezk 2004), and coverage ratios from 20 to 70 percent (Kelly 1992; Vaillancourt 2004). A study of 37 cities across Latin American countries yielded a range for the coverage ratio from about 20 to 95 percent and an average of 67 percent (De Cesare 2012).⁴⁵

Better property tax administration tends to eclipse policy decisions for improving the property tax revenue yield and its buoyancy. The observation (Kelly 1993) implies that governments must strive above all for improvements in tax administration, notably for all properties to be captured on the tax rolls, for property to be valued close to market value, for tax liabilities to be assessed accurately, collected, and enforced. Thus, the coverage, valuation, and collection ratios are critical variables driving property tax yield, buoyancy, economic efficiency, and overall equity.

Coverage

Legal and Fiscal Cadasters

Imposing a property tax depends on the existence of a fiscal cadaster – not necessarily the legal cadaster. A legal cadaster or property register records land and building information based on legal rights and ownership. Typically, the legal cadaster or register only includes parcels of land that have full legal titles of ownership – any overlaying property rights or contested property rights per parcel must be resolved first before they are added to the legal cadaster and this process of clarification – that is, coverage of all parcels in a central property register – can take many years. A property tax does not need this level of certainty as it can be imposed on the owner or occupier without perfect knowledge of who is the certified owner.⁴⁶

In contrast, without a fiscal cadaster or register for recording property tax objects, a property tax cannot be administered. A fiscal cadaster records facets of a real property that are needed to manage a recurrent property tax. It includes a legal description of a building, taxpayer information (owner or occupier), land and property information (such as size), a property's physical characteristics (age, building material, and use), valuation, and location (that is, the physical address). The cadaster office should share this critical information (that is, change of ownership, property locality, and market value) with the local governments who maintain decentralized fiscal cadasters for purposes of billing and collecting property taxes. Over time the fiscal and legal cadasters should be integrated to ensure interoperability of relevant information per parcel of land. Integration can be achieved by using a unique property identification number per parcel to be applied in both types of cadasters.

⁴⁵ Kelly (1993) reports collection ratios for Indonesia, ranging from 31 to 92 percent in Indonesia prior to a reform that raised the range of rates for the same municipalities to 53 to 100 percent. Kelly, White, and Aanchal (2020, p. 82) note that coverage and collection ratios in OECD countries are close to 100 percent, but for low and middle-income countries their estimated average ratio for coverage is in the range of 40 to 60 percent, whereas the collection ratio ranges from 30 to 60 percent.

⁴⁶ The property tax policy must decide whether to tax the owner of land with its capital improvements or the occupier (that is, the tenant). Commonly, the owner is liable for the recurrent property tax. But given the often unresolved and overlapping ownership rights, or because of absentee ownership, taxing the occupier (who would be registered in the fiscal cadaster), provides a practical administrative let-out for local authorities when they cannot identify the registered legal owners. Occupiers, often authorized to do so in legislation, can then deduct the property tax payment from the rent payable to the owner – see Keith (1993, p. 10); Collier and others (2018, p. 11); and Franzsen and McCluskey (2017, pp. 12, 17, 18, 117, 294-296, 417, and 451). The tax incidence would still largely rest with the owners due to reduced rent payments from occupiers. More generally, after rental prices adjust in the market for accommodation, the economic incidence of the tax is independent of the legal incidence and would tend to fall on owners due to the fixed supply of land and the slow adjustment of capital improvements. In the United Kingdom prior to 1990 tenants were liable for property tax and in France and Francophone Africa the local residence tax is levied on home occupants.

A data sharing protocol should be instituted, whereby the land titling or deeds office records the transaction values systematically throughout the country. This would ensure realized property transaction prices are recorded accurately and consistently. The information would be shared with the fiscal and legal cadasters in support of local property valuation offices, local tax administrations, and central revenue administrations tasked with capital income taxation.

Satellite imagery can be effective for mapping all taxable properties in a jurisdiction's boundaries. Geo-referencing the satellite image of a land parcel or property to a unique property identification number (which is a combination of a ward number, street number and plot number) will improve coverage of taxable properties and the ability to bill the properties. Recording of the property inventory commences with comprehensive satellite mapping of individual properties and the measuring of buildings' surface areas. Second, through door-to-door field surveys, knowledge is built up about the nature, usage, type of construction, number of floors, and age of the buildings. This information is to be incorporated on a map with geographic information system (GIS) coordinates to which photos of the property could be added. Third, this new data is compared to current data on the property register, often revealing gaps vis-à-vis the new reality on the ground. Because satellite imagery can create up-to-date maps as the basis for a fiscal cadaster, there is no good reason to delay accelerating property tax collections until a central (legal) cadaster of all registered properties exists.

Assessment (Valuation)

Levels of Administration in Charge of Assessments

There are choices over responsibility for the valuation of properties. These are: (1) national government; (2) dedicated national government agency; (3) local government valuation department; (4) private sector; (5) self-assessment or -declaration of values; or (6) combination of the above.⁴⁷ In several countries the private sector is partially involved in the valuation process.

A centralized valuation administration has the following advantages. It: (1) improves the economies of scale in terms of valuation skills and the use of automated mass appraisal approaches; (2) provides a single structure for dealing with all ratepayers throughout the country; (3) permits the development of a single information system to support a national valuation; (4) improves the quality of valuations through consistent and uniform processes; (5) can be better resourced to deal with valuation across regional or local jurisdiction boundaries within the country. Disadvantages of a centralized valuation department include: (1) valuation may become remote from where the property is located with a loss of local knowledge; and (2) unless there is a local dimension to the valuation department property owners may have considerable distances to travel to meet valuation officials.

The benefits of local valuation administration include: (1) familiarity with local conditions of the real estate market; (2) ease for property owners to see which government is administering the property rates; and (3) better transparency in the valuation process through having locally based meetings with property owners. Disadvantages of a local valuation department include: (1) lack of experienced staff with the requisite valuation skills; (2) inability to value all specialized property within the local jurisdiction; and (3) inability to retain staff resulting in significant workflow and planning issues.

Outsourcing valuations to private valuers is a common practice where local governments have insufficient capacity.⁴⁸ Contracts with the private sector can involve doing valuations for all properties or specific types of property. Outsourcing can be made more cost-effective if several municipalities collectively contract with one valuation provider (as practiced in South Africa). There is a trend of valuation firms specializing in undertaking

⁴⁷ Grote and McCluskey (2022, p. 60).

⁴⁸ McCluskey, Bahl, and Franzsen (2022, p. 50).

municipal valuations for property tax purposes (for example, The Netherlands, South Africa, New Zealand, and the state of Victoria in Australia).

Automated Valuation Using Computer-Assisted Mass Appraisal

Where data quality and modelling skills permit, Computer-Assisted Mass Appraisal (CAMA) is universally used as a cost-effective way to value many residential properties.⁴⁹ It refers to a system that uses multivariate statistics to arrive at estimates of the property values, essentially assigning weights to select property characteristics that correlate strongly with observed market values. A CAMA system is comprised of these key components: (1) Model Specification (mathematical form of the valuation model or models); (2) Sales Price and Property Descriptive Data (inputs for calibrating the model); (3) Income and Expense and Property Descriptive Data (inputs used for income-generating properties); (4) Statistical Software (usually a multivariate statistics method); (5) Model Calibration (statistical estimates of the parameter values); (6) Properties to be valued (property characteristics used as inputs for the valuation model); (7) Valuation Software (routine for predicting and storing outputs based on the inputs); and (8) Value Estimates (outputs of the model saved to a database). The purpose of the CAMA system is to efficiently provide an accurate, uniform, equitable estimate of market value for real estate.

The core of the CAMA system is an integrated database of properties. In contrast, a series of separate data silos would require decisions on how to match or join parcel data with other data sources that do not have a parcel reference. An integrated database affords inter-operational efficiencies as well as ensuring a higher degree of data integrity. The benefit of the CAMA methodology is that the statistical models can be applied to large numbers of properties, for example, all apartment buildings in cities. Calibration techniques are largely in the domain of multiple regression analysis.⁵⁰ The development of such approaches requires characteristic data on the population of properties to be valued along with transaction data. The essence of the methodology is that predictive models are built on the transaction data, tested for accuracy and quality, and then applied to the entire population of property parcels.

International experience suggests that developing a CAMA solution takes several years. The level of complexity in the design as well as development costs would be beyond the resources of small municipalities. Hence, the more likely candidates to develop a CAMA system are national government and larger municipalities, and it would take several years to build such technical capacity. The introduction of a CAMA approach would also require the creation of an opportunity for taxpayers to lodge objections and appeals to the assessed values. This is one area that should not be underestimated given the time required to deal with multiple challenges. As a rule of thumb, following the valuation of all properties within a jurisdiction, some two to five percent would be the subject of an appeal.⁵¹ There are also legal fees, valuer fees and court costs for handling appeals.

Payers of a market-based property tax require an appeals process that is quick, cheap, simple, proportionate, stress free, rigorous, authoritative, and final.⁵² In view of this the following principles need to be considered carefully: (1) Independence from those whose decisions are being reviewed; (2) Timeliness and costs that are proportional to the perceived damaging tax burden; (3) Process of informal hearing that seeks to resolve the dispute; (4) Comprehensive process description and guidelines that are non-technical; (5) Non-adversarial hearings that are not too legalistic and intelligible to the layman; (6) Consistent decisions; and (7) Cost-effective outcomes for the taxpayer.

⁴⁹ McCluskey and others (2013). See also Kelly, White, and Aanchal (2020, pp. 163 and 195).

⁵⁰ New techniques based on artificial intelligence algorithms are also being developed.

⁵¹ Grote and McCluskey (2022, p. 69).

⁵² McCluskey, Bahl, and Franzsen (2022, p. 49–50) and IAAO (2014).

Self-Declared Value-Banding⁵³

Most homeowners are knowledgeable about the market value of their primary home. Their reference may be recent sales and published data on house price movements. Where in doubt, individual estimates can be obtained from professional valuers. Owners, therefore, should be able to estimate the value of their property. This is the essence of a self-declared value banding regime for the recurrent property tax. In a self-assessment regime, owners are asked to identify which value band their property should be allocated to. All properties that are assigned to a value band will attract an identical tax liability. After a general reevaluation (say every five years), properties may move to another band if their value appreciates or depreciates. Ireland's residential property tax value bands rely on self-declarations.⁵⁴ Self-declared value banding can also be attractive for lower-income countries because it is cheaper to implement and maintain than a capital market value system that assesses every property individually.

Self-declaration allows for an assessment of large numbers of properties within a short time.⁵⁵ Because the estimated values would be self-declared, taxpayers' objections should be few.⁵⁶ If property owners comply with the legal provisions and guidance, the valuation is unlikely to be challenged by the administration. However, the system must provide for a firm challenge if there is deliberate undervaluation. The risk of under-declaration can be minimized if information supporting the declared value is accompanied by supporting documentation. One should accept that the property owners' estimates of market values are generally made in good faith. The principle would be to accept the declared value but supplement it with anti-avoidance measures if under-declaration arises. For example, if a dwelling is sold for a price significantly higher than the declared value (that is, within two years of the declaration) additional tax plus interest could be payable. In cases where no declaration is made, the municipality could simply estimate the property value.

A balance should be struck between parsimony in the number of bands and avoiding substantial tax liability differences between adjacent bands. With fewer and wider bands, it is easier to carry out a self-assessment, but very wide bands could create inequities. The number of bands selected should be sufficient to avoid exposing taxpayers to disproportionate risks if they incorrectly position their properties by one or even two bands. A key requirement for self-declaration is to provide owners with easily accessible market related information, including recent purchase prices (ideally recorded in an up-to-date Sales Price Register), asking prices of similar property on real estate agents' websites, property insurance values, and recent valuations conducted by authorized valuers for mortgages. A realistic timeline to have a working self-declaration banding system is two years. This would allow the authorities to conduct pilot testing of the components of a banding approach, such as band widths.

Sales Price Registers

Given the importance of transaction prices for the valuation of property, countries should consider establishing a Sales Price Register (SPR) based on declared transaction prices. A national government institution should assume the function of establishing and maintaining a SPR – for example, the national statistical bureau. The SPR would essentially be a separate database but with links to the national cadaster. A good example of this is the *Swedish Mapping, Cadastral and Land Registration Authority* which is the custodian of the SPR that fundamentally supports the veracity of property assessments for the recurrent property tax. Similarly, the

⁵³ This section draws heavily from Grote and McCluskey (2022).

⁵⁴ In the case of non-residential buildings, owners are required to obtain a valuation report.

⁵⁵ For Great Britain's Council Tax, some 30 million residential properties were assessed in 1993 using owners' self-declarations of value. Subsequently, property valuation is carried out by the Valuation Office Agency in England and Wales and by Scottish Assessors in Scotland. Self-assessed valuation was also an important feature of Colombia's property tax system in the 1990s (Bird 2004, p. 270).

⁵⁶ Franzsen and McCluskey (2017, pp. 76-77).

Slovenian Surveying and Mapping Authority maintains the Property Market Register with its recorded transaction prices for purposes of mass valuation, property indices, individual valuation, and market research.⁵⁷

The data in the SPR serves multiple purposes for the taxation of real property. It can support the development of a national house price index, and it could also be used to: (1) establish benchmark values for capital gains tax involving real estate; and (2) provide indicative average prices of residential property at both city and county levels. Furthermore, SPR data is key for developing and testing the accuracy of CAMA models.

Billing, Collections, and Enforcement

Administrative enforcement measures should include the right to authorize a restraint on the transfer of ownership of a tax-delinquent property. A clearance certificate can be issued to attest that a property is fully current with the payment of all property taxes, service fees, transfer duties, and municipal charges. Other legal enforcement measures include civil action, attachment of wages (that is, a garnishment order), attachment of bank accounts, attachment of rent, action against property occupiers, tax liens, seizure of goods, and forfeiture. Tax compliance can be enhanced by adopting a system of property tax payments in installments (for example, monthly as in Namibia and South Africa), to help taxpayers manage their cash flow more effectively.⁵⁸

In most countries, billing, collection, and enforcement of property taxes occurs at the local level. This approach promotes local fiscal autonomy and responsibility and exploits familiarity with local conditions. However, the enforcement powers of sub-national localities are often constrained. Legal and administrative mechanisms necessary to apply, in fair and responsible ways, the most effective instruments for dealing with tax delinquents, including bank account freezes, garnishment orders, and property seizures, may be in place only for the central tax administration. Further, national tax administrations are more proficient in tracking down corruption and misuse of funds, have access to significant amounts of taxpayer data that can assist in enforcing property taxation, and they carry more political weight when enforcing payments from elites.⁵⁹ When the local tax administrations are unable to effectively enforce property tax collection, it is advisable to recentralize the enforcement function until the local capacity has been improved (as in Rwanda, Tanzania, the Gambia, and the Republic of Srpska).

Local utilities can be contracted for billing and collection of property tax bills. In many developing countries, property owners are difficult to trace because title registrations are uncertain; but the occupiers of properties are more readily identified because they live there and may subscribe to utility services. Thus, to facilitate the collector's task, some countries have the tax obligation appear as a separate item on the utility bill. In Greece the municipal property tax is imposed on the property owner but charged via electricity bills. If the bill is issued in the renter's name, they can deduct the amount from the monthly rent.⁶⁰

A high priority collection-led strategy for mobilizing property tax revenues could be adopted even before a property tax design is modernized. In developing countries, the major administrative constraint is collection and enforcement. The key to improving property tax collection is to understand the various reasons for low collections and taxpayer non-compliance, identify possible options for government intervention – including demonstrating that enhanced revenues are utilized for improved local public service delivery – and then develop the system's capacity for property tax collections (see Box 3). Increasing the size of the tax base by revaluation and tax roll

⁵⁷ Grote and McCluskey (2022, pp. 54–55).

⁵⁸ Franzsen and McCluskey (2017, pp. 89–96).

⁵⁹ Goodfellow (2017, p. 3).

⁶⁰ Cameroon also has tried to link property tax collection with the payment of electricity bills. A difficulty it has encountered is that most electricity subscribers are tenants, but many do not possess lease contracts to prove this and to identify the owners. Moreover, to avoid liability for the property tax, owners avoid signing leases.

expansion should follow only then. For all these separate reform steps, significant political will is required to successfully implement improved collection and enforcement.

Box 3. Select Practices to Improve Property Tax Collections

| Reason for Compliance Gap | Package of Corrective Measures |
|---|---|
| <p>Inadequate accountability for collected taxes and frequent misappropriation of budget resources in all tiers of government:</p> <p>Taxpayers in general, but property taxpayers particularly, may evince a low tax morale due to their experience of lack of public service delivery. This is especially problematic for efforts that seek to improve compliance with the property tax as it is a very visible tax with explicit invoicing.</p> | <ul style="list-style-type: none"> • Improve public finance management rules, especially at the local government level. • Subject local governments to regular audit by the state audit board or court of accounts to reveal misappropriation of funds or corruption in public procurement. • Hold accounting officers accountable for such revealed malpractices. • Improve transparency for the relationship between raised local taxes and expenditure outlays on improvements of local infrastructure, by initiating public consultations on the selection of local public improvement districts. • Inform taxpayers through billboards what public infrastructure projects have been paid by their property tax contributions. • Improve key messaging on prudent budgeting through citizens’ guides in local newspapers that reveal in simple language key aspects of the local budget such as the level of property taxes raised, in relation to market price developments of residential properties, and the expenditure programs made possible through taxation. |
| <p>Unfairness because of outdated property information or proliferation of tax relief measures:</p> <ul style="list-style-type: none"> • Infrequent or irregular property valuations erode horizontal and vertical fairness of the system (that is, outdated cadaster records with previously recorded properties that are not periodically revalued and, hence, are taxed on dated low values whereas new developments are assessed on recent and much higher values). • Outdated property information that does not capture additions or improvements to existing properties. • Granting numerous tax relief measures through exemptions or reduced tax rates may fuel resentment within the non-privileged community of property owners. | <ul style="list-style-type: none"> • Improve the continuous capturing of market price evidence of realized property transactions. • Institute linkage and interoperability of information platforms across levels of government (that is, the legal and fiscal cadasters of local governments) that share the latest sales prices of property transactions. • Ensure that value changes of real estate due to additions or improvements are duly exchanged with the fiscal cadasters operated by local governments (for example, annual updating of a supplemental valuation roll). • To rationalize property tax relief measures, introduce regular tax expenditure reporting with improved estimation of forgone tax revenues. • Guarantee a simple objection and appeals process whereby property owners can contest inaccurate property valuations. This creates a positive feedback loop for taxpayers, informing them that the property tax structure is administered fairly. |
| <p>Cashflow problems through lumpiness of tax payments:</p> <p>Since many countries collect only annually the property tax liability, many taxpayers complain about the cash outflow shock for which they are unprepared.</p> | <ul style="list-style-type: none"> • Introduce installment options such as monthly or quarterly payments as this facilitates taxpayers’ annual cashflow planning. • Enable taxpayers to pay online or simplify tax payment procedures to reduce compliance costs by establishing convenient payment options such as the initially East |

| | |
|--|---|
| | <p>and Southern African mobile phone-based money transfer service and payments system.⁶¹</p> <ul style="list-style-type: none"> • Discourage physical contact between taxpayers standing in queues waiting to pay in cash at a municipal office. |
| <p>Lack of enforcement and/or high compliance costs:</p> <ul style="list-style-type: none"> • If citizens are faced with an ineffective and burdensome tax administration such as poor facilities and complex rules resulting in a heavy compliance burden, they may delay or postpone for long periods the settling of their tax liabilities. • Invoicing and billing may be irregular, or it relies on self-assessment of the property value, and self-calculation of the property tax liability without any support from tax filing and outreach offices. • Given the unpopularity of the highly visible property tax, central and local governments may lack the political will to enforce the law, or worse, they may grant frequent payment amnesties. | <p>The following enforcement measures could be considered where the forced sale of the immovable property with outstanding property tax liabilities is the last resort:</p> <ul style="list-style-type: none"> • Issue monthly tax invoices, mail electronically and/or deliver by hand, and follow up on undelivered invoices. • Let public broadcasters or local newspapers announce frequently the due dates for property tax payments. • Levy late fee payments with interest. • Require property tax clearance certificates for registering a sale and purchase of real estate in the national legal cadaster which is important for the protection of property rights. • In addition, require property tax clearance certificates for renewing the annual motor vehicle license. • To enforce property tax payments for late payers, issue garnishing orders for rents and wages. • Consider seizure and auction of movable goods. • Impose tax liens on property titles. • Freeze bank accounts of delinquent property taxpayers. • Seize and auction the immovable property; and • Rationalize enforcement measures against property tax non-compliance with the court systems, collection agencies and lawyers, especially in a situation where the courts are overloaded, translating into long waiting times. |

Source: Lessons from IMF technical advice to member states; Kelly 2013b, Table 6.2; and Kelly, R. White, and Aanchal 2020.

Implementation advice

Valuation and coverage

- Calculate property tax revenues per capita in each municipality and compare these to estimates of their revenue potential; identify weakest links in the chain of administrative functions.
- Use aerial surveillance technology such as drones or satellite imagery to expedite the compilation of a fiscal cadaster or to compare routinely the completeness of both the fiscal and legal cadasters.
- Plan for the land titling or deeds office to systematically record throughout the country the transaction values that would be shared with the fiscal and legal cadasters in support of local property valuation offices, local tax administrations, and central revenue administrations tasked with capital income taxation.
- Apply a CAMA approach for evaluating numerous properties without the need for site-inspection.
- Evaluate the potential of introducing value banding for the residential property tax and consider the option of residential property owners self-declaring the band they believe corresponds to the market value of their property. For most developing countries, this is a more affordable and immediate solution for establishing valuations for the recurrent property tax.
- Ensure there are sufficient taxation bands so that property owners can place their properties in an appropriate valuation band with confidence and adopt credible and effective anti-undervaluation measures.
- Establish a Sales Price Register within the national statistical office.

Billing and enforcement

⁶¹ M-Pesa (M for mobile, pesa is Swahili for money) is a mobile phone-based money transfer service, payments and micro-financing service, launched in 2007 by Vodafone and Safaricom, the largest mobile network operator in Kenya. It has since expanded to Tanzania, Mozambique, DRC, Lesotho, Ghana, Egypt, Afghanistan, and South Africa.

- Split between national and subnational levels of government the shared administration of property taxes, which includes central cadastral property registration, sharing cadastral information with decentralized fiscal cadasters, and central management, coordination, and supervision of periodic country-wide revaluations, but with local billing, collection, and enforcement.
- Assign unique property identification numbers to all land parcels and ensure the interoperability of the various property registries.
- Require a property tax payment-clearance certificate that ensures that all outstanding property taxes have been paid before a new property title registration can be certified.
- Consider issuing property tax bills monthly or arrange for more frequent installment payments of property taxes.
- Develop strategies to deliver property tax invoices to property owners, and follow-up on undelivered or returned tax invoices.
- Payments should be discharged through the banking system or mobile networks with a minimum of compliance burdens for taxpayers.
- Before modernizing property tax design, adopt a high priority collection-led strategy for property tax mobilization by improving tax administration through billing and invoicing to the correct address; improving collection using information and communications technology; and maintaining continuous follow-up and enforcement actions.
- In the short run, focus the administrative reform efforts on collecting from the relatively small number of high-end residential and commercial properties.

Conclusions

Recurrent property taxes should feature more prominently in domestic resource mobilization. Levied on a broad base, they have the potential to contribute 1 to 2 percent of GDP in revenues, significantly more than in many countries currently. Taxing immovable property is optimal from a redistributive perspective as it enables local governments to capture the wealth generated by construction-intensive urbanization, which is capitalized in rising land values. Using the revenues to finance improved local public services enhances local authorities' accountability and political acceptability of property taxation, if properly communicated. Advances in information technologies for property identification and simplified valuation options can be leveraged to facilitate property tax administration in capacity-challenged countries. This note provides a guide to successfully implementing and administering property tax reforms, focusing on recurrent taxes on immovable property and the real estate transfer tax or stamp duty. It addresses the fundamental policy choices regarding the property tax base and tax rate, and the key functions of the tax administration for managing collections – valuation, billing, and enforcement.

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