Property Tax: lessons from Asia-Pacific

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The potential of property tax

Addis Ababa Action Agenda: Mobilization and effective use of domestic resources, underscored by the principle of national ownership, are central to sustainable development (incl. achieving the SDGs).

Property tax has great revenue potential and represents one of the largest sources of untapped revenue for developing countries.
Why Property Taxation?

- Significant revenue raising capacity
- Fair: imposed on property owners whose properties increase in value due to improvements in local infrastructure
- Transparent and visible due to immobile tax base (relatively difficult to evade)
- Efficient and stable revenue source; provides meaningful revenue autonomy to local governments in fiscal decentralized systems
- Progressive: burden predominantly borne by middle- and high-income earners
- Less distortive effects on long-term economic growth than other taxes
However, largely untapped in low-income DMCs

- Difficulties developing/maintaining efficient property tax system due to capacity & resources constraints, immature property markets, underdeveloped land tenure/titling system, land disputes; exacerbated by rapid urbanization and growth in informal settlements.

- Requires an up-front investment in training and creation (or upgrading) of the necessary administrative infrastructure and comprehensive fiscal cadastre

- Highly unpopular, especially with elites: need to build popular support
**ADB DRMTF Benchmark study**

**Aim**
- Analysis of property tax system for improved revenue performance
- Collaboration and knowledge sharing between DMCs

**Countries**
- Cambodia
- Viet Nam
- Thailand
- Philippines

**Output**
- Technical workshops and conference
- Report of the study (2020)
Pillars of the study

Policy rationales

- Raising revenue
- Land value capture
- Decentralization
- Efficient land use
- Curbing land speculation

Policy elements

- Tax base
- Tax subject
- Tax rate
- Valuation
- Exemption policies

Administrative arrangement

- Tax assessment & valuation
- Billing, collection & enforcement
- Appeal
- Taxpayer service & education

Property registration & Fiscal cadastre

- Land registration system
- Registry of deeds vs title
- Mission
- Institutional framework
Property Tax: Revenue performance

Recurrent Property Tax Revenue as a share of GDP in 2017

Source: OECD (2019), Revenue Statistics; Cambodia GDT, Viet Nam MOF
## Common reasons for underperformance

<table>
<thead>
<tr>
<th>Policy design</th>
<th>Administration</th>
<th>Institutional</th>
<th>Political</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of appropriate evidence-based analysis</td>
<td>Capacity constraints and lack of technical expertise</td>
<td>Lack of coordination and data-sharing across government</td>
<td>Lack of internal and external support for reform</td>
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<tr>
<td>Narrow tax base, many exemptions, wasteful incentives, low tax rates</td>
<td>Undervaluation &amp; lack of regular re-evaluation</td>
<td>Fragmented data keeping</td>
<td>Tactical: poor timing and sequencing of property tax reform</td>
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<td>High reliance on intergovernmental transfers</td>
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Contribution to other government strategies

- Higher rates on underused land can promote infrastructure development
- Well-designed property tax based on market valuations can dampen house-price volatility, curb speculation and play a role in land value capture
- However, role of property tax in fiscal decentralization is more nuanced....
Property tax as a local tax

- Widely considered to be the ideal tax to finance sub-national budgets
- While property tax is one of the most important tax revenue sources for local governments, it represents only a small fraction of the overall sub-national budget in the 4 countries
- In most Asian Pacific economies, sub-national governments are highly dependent on intergovernmental transfers and shared revenues from national tax collection, which are often formula-based and not linked to the local tax efforts.
Domestic Resource Mobilization Trust Fund

Distribution of Philippine’s LGUs income

Province
- IRA 72%
- Local Sources 17%
- Other External Sources 3%
- Other Non-Income Receipts 4%
- Receipts from Loans and Borrowings 4%
- Other Receipts 1%

Municipality
- IRA 73%
- Local Sources 17%
- Other External Sources...
- Other Non-Income Receipts 2%
- Receipts from Loans and Borrowings 2%
- Other Receipts 1%

City
- IRA 41%
- Local Sources 51%
- Other External Sources 4%
- Other Non-Income Receipts 2%
- Receipts from Loans and Borrowings 2%
- Other Receipts 1%

All LGUs
- IRA 59%
- Local Sources 32%
- Other External Sources...
- Other Non-Income Receipts 2%
- Receipts from Loans and Borrowings 3%
- Other Receipts 1%

Source: Bureau of Local Government Finance
Distribution of Thailand’s Local Gov. income

Source: Fiscal Policy Office of Thailand, Ministry of Finance
Property tax and fiscal decentralization

- While there is scope for property tax to make a bigger contribution to local government finance, fiscal decentralization has not been a driver of resource mobilization in low-income developing countries.

- Local decision-making process can also be captured by the local elite.

- Decentralization has sometimes sacrificed scale economies in services and national government control over scarce fiscal resources; produced greater regional inequality and macroeconomic instability; and made policy coordination among levels of government more difficult.
Current reforms: a positive step towards sustainable revenue mobilization

Cambodia
- Revenue Mobilization Strategy 2019-2023
- Administrative reform
- Improved access to property information from Cadastre
- Periodic survey
- Updating property values/info
- Expanding territorial scope

Philippines
- Valuation reform (Package 3)
- Adopting international standards
- Establishing single valuation base for taxation
- Recentralize the approval of SMVs
- Improve property valuation & assessment

Thailand
- Enacted Land and Building Tax Act (2020)
- Increase revenue by 25% (from THB 30 billion to THB 40 billion)
- Broadening tax base; progressive tax rate structure
- Enhance property tax administration by merging 2 laws

Viet Nam
- Developing new Law on Property Tax
- Increase resources
- Dis-incentivize speculation in residential houses and land
- Promote efficient land use
- Simplify legal framework by merging 2 taxes
Opportunities for enhanced revenue performance

Tax Policy Design

- **Enhance economic efficiency:**
  - minimize exemptions to ensure a broader property tax base
  - higher tax rates on vacant/undeveloped land
  - shorter valuation-cycles with annual indexing in-between

- **Enhance social equity/progressivity for inclusive growth:**
  - exempt very low-value properties
  - reduce impact of tax for low-income households (e.g. basic allowance or tax credit to qualifying owner-occupiers)
  - voluntary deferral arrangements
  - convenient payment methods (e.g. monthly installments) to ease liquidity constraints
Opportunities for enhanced revenue performance

Property Tax Administration

➢ Weak administration is the main obstacle for revenue mobilization in low-income developing countries

➢ Keeping administration and enforcement at central level until local capacity is better developed would improve tax revenue performance, while have the efficiency advantages of scale and technical expertise, uniformity in assessment and collection practices and deal consistently with appeals and disputes (especially with powerful property owners)

➢ Ensure better data-exchange between government departments responsible for land information system, cadaster, valuation and property tax administration functions
Adopting a comprehensive approach

- Improved inter-institutional cooperation and coordination
- System of administrative and regulatory oversight

- Encourage constructive government-citizen engagement
- Improved service delivery and taxpayer education

- Capacity building
- Improved fiscal cadaster maintenance
- Tax collection and enforcement
- Appeal system

- Appropriate evidence-based analysis:
  - Broadening tax base
  - Regular valuation
  - Effective tax rates
- Monitoring ongoing and completed reform

- Improved inter-institutional framework

- Tax policy reform
- Tax administration reform

- Strengthening inter-institutional framework

- Political commitment and public support
Making property tax politically more palatable

1. Setting a long-term revenue goal (1% of GDP or more)
2. Phase-in mechanisms: phasing in the tax changes over time
3. Conducting annual reassessments or indexing between valuations
4. Providing alternative payment systems
5. Voluntary deferral systems
6. Tax relief schemes to low-income taxpayers
7. Better taxpayer education and proper communication strategy with stakeholders to increase public understanding and acceptance
Role of E-governance

“The use of ICT or digital technology to more effectively and efficiently deliver government services to citizens and businesses.”

- **Integrated data-base**: linking spatial data infrastructure, land administration, land tenure management with fiscal cadastre and property tax register

- **New technologies**: computerized land information systems with digital maps, including computer-assisted mass appraisal (CAMA) system module, with 3-D Cadastre, to facilitate market research, integrated with tax administration and geographic information systems (GIS)
Space-Based Technology and Artificial Intelligence Technology to Enhance Property Taxation

- The mechanism to monitor tax collections and estimations across a country and verify the need to update tax parcel maps.

- The impact of SBT and AI Technology will include (i) administrative cost reduction and (ii) macro intelligence.

- This methodology has been implemented in some developed countries.