

Property Taxation for Developing Economies



FIG Commission 9 – Valuation and the Management of Real Estate

Property Taxation for Developing Economies

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William J McCluskey

INTERNATIONAL FEDERATION OF SURVEYORS (FIG)

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FOREWORD

The International Federation of Surveyors (FIG), and Commission 9 (The Valuation and Management of Real Estate) are proud to present *Property Taxation for Developing Economies*, by Frances Plimmer and William J McCluskey. This work promotes the careful consideration of a transparent, fair, fast and relatively cost efficient real estate taxation system that could be applied successfully in some developing and transitional economies.

Many advanced economies rely upon a complex *ad valorem* property tax regime that inherently requires relatively high cost and expertise levels. The authors propose the consideration of a less costly and more easily established *banding system* and discuss how and why this system may be introduced into jurisdictions which lack the necessary resources to implement a more complex discrete *ad valorem* assessment system.

This publication touches upon the various types of taxation common among national economies and narrows its focus specifically upon *recurrent property taxes*. The authors examine the primary social need for a recurrent property tax, various taxation systems, the data, resources and skills necessary for its implementation as well as ongoing maintenance and social acceptance factors, as a setting for any successful tax regime and economy.

Within Great Britain and Ireland, a very cost and time efficient system was needed to overcome some of the barriers in creating a complex discrete *ad valorem* recurrent property tax system. From this need, a *banding system*, was born. A property value *banding system* allocates properties into different categories (or Bands) according to an estimate of some value based criteria as a basis for the property tax bill. Instead of valuing properties to a discrete point, the property values are estimated according to a range of values (Bands). Based on the level of available data, resources, economic, social and political realities, *banding* should be considered as a possible and proven system for producing a speedy, transparent, fair, cheap and robust tax base.

This work considers the benefits of its wider application across nations in a theoretical discussion as well as examining case studies showing how this system has fared in jurisdictions where it is currently being applied. These case studies expand upon the theoretical discussion by allowing real world experience, to highlight the strengths and weaknesses of its application in other countries.

The primary focus of this publication is the application of the *banding system*, and this is considered in comparison with *discrete ad valorem* taxation systems with greatest emphasis on residential properties. Residential properties make up the bulk of the real estate tax base in most regions and a greater flexibility in *banding* or emphasis on discrete valuation is likely more appropriate for commercial and unusual property types. The relative benefits of the *banding system* should be carefully considered as either a long term or interim solution in an emerging economy's development toward sustainable property taxation. The work herein gives a clear picture of these two systems, and provides an excellent resource for decision makers to consider how they may apply in other countries. This work significantly enhances the current body of work on recurrent property taxation and is a valuable tool for decision makers at all levels.

Steven Nystrom

MAI – FIG Chairman of Commission 9 (2015)

Chryssy Potsiou

FIG President

FOREWORD

The main objective of the Global Land Tools Network is to contribute to poverty alleviation and the Sustainable Development Goals (SDGs) through land reform, improved land management and security of tenure.

This publication discusses a practical and resource-led approach to implementing an efficient and effective system of taxing real estate in order to raise funds to pay for much needed community services for the benefit of local inhabitants.

The focus is on developing a system based on available resources, rather than a “wish list”, and recommends that the tax be paid by property occupiers (rather than owners) in the absence of a comprehensive land title register.

Such a system can be both sustainable and scalable, and, with good governance together with the delivery of appropriate services, can enhance the quality of life and opportunities for improvement for communities.

The support of the GLTN for this FIG publication demonstrates the continued commitment of both organisations to their common goal of delivering beneficial land administration systems for the improved financial, physical and social environments of the world’s disadvantaged citizens.

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EXECUTIVE SUMMARY

The purpose of this paper is to promote discussion on a relatively simple, sustainable, speedy and cost-effective system of property taxation which can be introduced in jurisdictions with a paucity of the resources normally required to administer a more complex ad valorem property tax regime. This discussion takes place within the context of existing examples of Banded tax assessments and is based on the needs and the limited resources of the so-called developing and transitional economies.

Community growth, in terms of environmental, economic and social development, is inextricably linked to the provision of public services which facilitate and enable groups and individuals to improve their circumstances. However, local government can generally only afford the provision of such services provided the community contributes in the form of local taxation, generally a levy based on the value (or some surrogate) of the real estate owned and occupied by individuals, companies and other groups.

There is a wide range of different forms of local taxation applied throughout the world, but most rely to a greater or lesser extent on complex economic, technical and human resources. Similarly, to tax property owners, a comprehensive and up-to-date database of registered land owners is required. But how can local governments respond to the needs of their communities for public services when such resources are absent?

This report demonstrates the development of a property tax system built around available resources, rather than a "wish list". Two case studies illustrate the successful introduction of the Banding of tax assessments, in contexts where speed and low cost of introduction were critical, and where tax was imposed on residential occupiers (in the absence of a complete and up-to-date register of owners).

Banding works on the principle of grouping together dwellings into various value (or some surrogate) bands and applying a rate of tax to each band. In this way, there is need for only minimal valuation skills and the process of banding can be achieved swiftly and cheaply. Provided the taxpayers can be satisfied with the extent to which horizontal and vertical equity are sacrificed (i.e. those in similar situations pay similar amounts of tax, and those in different situations pay different amounts of tax, as reflected in the bands), then a high degree of social acceptability for the system is likely. This can be improved by involving communities themselves in the process of introducing the tax as well as by extensive education of communities as to the characteristics of and reasons for such a tax system.

By adapting the principles discussed in this report, jurisdictions can use their available resources to develop a tax system which produces a reliable revenue stream for the provision of much needed local public services in a speedy manner.



INTRODUCTION

The purpose of this paper is to promote discussion on a relatively simple, sustainable, speedy and cost-effective system of property taxation which can be introduced in jurisdictions with a paucity of the resources normally required to administer a more complex *ad valorem* property tax regime. This discussion takes place within the context of existing examples of banded tax assessments and is based on the needs and the limited resources of the so-called developing and transitional economies.

Property taxes, or more specifically, taxes on real estate, are imposed in almost every country in the world as part of a balanced system of taxation (IAAO, 2010). Such taxes can be broadly classified in two ways:

(a) 'General' taxes, such as an income tax, capital gains tax, transfer tax, death / inheritance taxes, and sales tax, are imposed on a range of real estate assets or transaction events. These include the receipt of income from investments, or capital receipts on the disposals of a range of assets, including real estate. In general terms, real estate is treated no differently from any other asset class. These are not what we classify as 'property taxes', and this paper is not concerned with such 'general' taxes;

(b) 'Recurrent' taxes on the value of, or some surrogate figure applied to, units of real estate, which may comprise 'land', 'land and buildings' or 'buildings'. Other assets may be included within these definitions but only because of their (physical) attachment to the land etc. and because of the nature of the definition of taxable property, imposed by the individual nation's legislation. Thus, for example, where the tax is imposed on 'land and buildings' or 'buildings' alone, the taxable real estate may include plant and machinery, pipes installed in the building for the supply and disposal of water, electrical services and other 'chattels' which have become an integral part of the building.

This paper is solely concerned with such recurrent taxes which are imposed in almost all countries across the world, and which in this paper are called 'property tax' (Bird and Slack, 2004; McCluskey, 1999).

All taxes are a creation of national legislation, (they do not exist in common law), and the specific details of the property tax imposed in any jurisdiction are contained in the relevant body of legislation. In many countries, the body of law which relates to such taxes includes government regulations issued in accordance with existing legislation and judicial interpretations of legislation.

The tax payable is a factor of the level of tax imposed (or the rate of tax) and the assessed value (or some surrogate of the value) of the property to be taxed. The calculation of tax payable is, therefore, a simple calculation of rate of tax multiplied by the assessed value. For example: a 10 cents in the dollar rate of tax and an assessed value of \$5,000 produces a tax bill of ($\$0.10 * \$5,000$) \$500.

The tax rate is determined in accordance with national legislation, normally by either national or local governments or a combination of the two; where, for example, national government fixes the rate of tax and individual municipalities may have the power to vary this rate by a given percentage (often within a narrow range).

The assessed value of taxable property is normally either:

- a. based on the value of the property (an *ad valorem* tax base); or
- b. a non-value assessment, which may be the product of a formula based on such 'value influence' factors such as age, use, location, and (net or gross) usable area.

There is, however, a huge variation in the nature and structure of property assessments across the world, and for further information, readers are advised to consult more detailed texts on the subject, such as McCluskey et al., (2013) and Slack and Bird, (2015). In some countries (for example, China, Botswana, Lesotho), such taxes are imposed within urban areas only. In some cases, (e.g. Australia, the United Kingdom and the United States), different states, jurisdictions or cities within the country operate different forms of property tax systems. Indeed, the huge variation of property taxes imposed in countries around the world makes any generalisation of specifics extremely hard. Thus, it is clear that, in terms of property taxation, no one size fits all.

A property tax system which works well in one jurisdiction may not be transposable to another with equally successful results. Differences in socio-political aspirations, perceptions of and traditions relating to land rights, infrastructures, available resources, history, needs and cultures all have an effect on the type of property tax which will or will not work for the stakeholders involved (UN-HABITAT 2011b).

Regardless of national etc. variations, the principle which seems to underpin such taxes is that their revenue (generally supplemented by additional central government funds) supports local services which benefit both individuals, their real estate and their wider community, in terms of improving the quality of life of residents and increasing the value of real estate. It is also recognised (UN-HABITAT, 2011a) that taxation can be a tool to manage land use and urban development, as well as a means to recoup increases in land values which result from the range of taxation and other government policies.

National legislation is likely to be responsible for identifying the nature and range of services which are to be provided by local authorities. Where there is flexibility within

the system for the municipalities to vary the level of tax raised, there may also be the opportunity for discretion as to the nature and quality of services provided. In this way, such a system is able to respond to calls for increased or varied service provision, recognising a degree of local democratic accountability between the local taxpayers and the local authorities.

The Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries and Forests in the Context of National Food Security (FAO, 2012) recognise the importance of property taxes as sources of funding for local services:

States should strive to develop policies, laws and organisational frameworks for regulating all aspects pertaining to taxation of tenure rights. Tax policies and laws should be used where appropriate to provide for effective financing for decentralized levels of government and local provision of services and infrastructure. (ibid. para. 19.2)

The rights which are fundamental to property ownership and occupation have significant 'value' attached to them and this 'value' is directly linked to the benefits which owners and occupiers received from the quality of their immediate and wider locational environment. Such an environment is maintained and improved by the services provided by the municipality which is the recipient of the yield of the property tax thus creating a clear and perceptible link in the minds of taxpayers as to the benefits which tax paid bring. (Plimmer and McCluskey, 2012a; 2012b). A property tax which reflects the up-to-date *ad valorem* 'value' of real estate and which is charged on an annual basis is therefore considered to be an integral part of a balanced national taxation regime (IAAO, 2010).

It is generally recognised (IAAO, 2010) that an up-to-date *ad valorem* tax base provides the 'best' system of spreading the tax burden across taxpayers based on their relative wealth in terms of their real estate holdings, and thus maximising 'fairness' between taxpayers. Such a tax base should be subject to annual revaluations so that the share of the tax liability between taxpayers is continually adjusted to reflect the relative movement of property prices in the market.

In countries where there is a mature property tax, which is levied on the market value of real estate, where collection rates are high (e.g. above 95%), where there is a culture of tax payments, and where society is provided with useful, well organised and beneficial public services, there is of necessity a large, efficient and effective resource base to support the tax regime of assessment, billing, enforcement, payment—as well as service provision (Bahl and Wallace, 2008; Bahl et al., 2010).

Thus, the opportunity to produce such *ad valorem* assessments is generally limited to those countries with certain very specific resources, which include:

- a. an active, thriving and mature property market in which all types of taxable real estate are traded and from which a suitable amount of accurate and reliable transactional data is available for comparison purposes;
- b. a database of property owners on whom the tax can be imposed, generally based on or linked to a register of land title or cadastre of land ownership;
- c. a system of municipalities with the staffing and technological resources to both administer the demand for, collection and enforcement of a tax liability, and to provide the necessary public services efficiently and effectively;

- d. a separate body of professional valuers or assessors, skilled and experienced in the full range of valuation methodologies and in the valuation of all types of taxable properties, from all locations within the jurisdiction in which the tax is imposed;
- e. a population which recognises the benefits of the services paid for by their taxes and which is therefore willing to pay, as well as to engage with their municipality in genuine debate as to the nature and quality of the services provided, and
- f. a government which is responsive to changing circumstances and which ensures that the legislation under which the property tax is imposed is up-to-date, comprehensive, coherent, and appropriate for the needs of all stakeholders.

In order to obtain such data, personnel and technological resources are required to gather and analyse relevant information and, in the case of the assessment, a high level of professional expertise is necessary. Similarly, complex technology to support its administration is also important for effective and efficient management of the process. All this, of course, costs money, not merely in terms of capital expenditure, but also in terms of on-going maintenance (as well as the costs of the education of human resources). For financial and other reasons, many governments are unable to develop and maintain such a system for the raising of property-based taxation. In such cases, where no or limited funding is available for public services, the demand for the full range and quality of public services from communities continues unsatisfied, with the potential for social resentment and unrest.

Where the necessary resources to produce an *ad valorem* tax base are lacking, some surrogate non-value-based assessment must be relied upon, or, as in the case of Great Britain in the early 1990s and the Republic of Ireland more recently, where cost and speed were major considerations (refer the Appendices).

We therefore hypothesise that where a paucity of necessary resources is the major barrier to the introduction of a property tax system, or such a barrier prevents the improvement of a limited or unsatisfactory tax regime, a simple system based on the banding of properties which reflects the available data and resources could provide an opportunity to achieve revenue from land 'value' and thus income for municipalities to improve the economic, social and physical environment of their citizens.

This publication discusses some of the basic criteria which are normally considered to be important in a real property tax; the issue of necessary resources is then discussed. The focus of this paper on a system of 'banding' taxable units is explained together with an analytical reflection as to how this system might be introduced into jurisdictions which lack necessary resources to implement a more complex system of discrete *ad valorem* assessments. Finally, two case study examples of banding in practice are presented in the Appendices. These discuss how and why banding has been introduced and implemented within two jurisdictions, together with the perceived benefits and disadvantages. The experiences from these case studies are referred to, as necessary, in the earlier parts of this publication.



PROPERTY TAXES – A WIDER CONTEXT

Property taxation is part of the wider land governance '*policies, processes and institutions by which land, property and natural resources are managed*' (FIG, 2014: 13) It is generally recognised that the potential of property taxes to contribute to the improvement of local communities is quite high. (UN-HABITAT, 2011b)

Property taxation relies on a number of specific land administration processes, including an efficient property market, secure and registered legal rights to land, a profession capable of delivering reliable and justifiable property values, land use controls and a comprehensive, effective and efficient legislative code within which property taxes can be levied, collected and spent (Slack and Bird, 2015; UN-HABITAT 2011a; 2011b).

Property taxation and the assessment on which the tax is based provides both the community and the tiers of government with clear information about the relative 'value' associated with different land uses and different locations. This encourages optimum use of land and informs both public decisions on planning and other land administration systems.

Property tax is placed within the range of benefits which accrue from sound land administration systems. When such revenues generally pay for local economic, social and environmental services and benefits, and such provision is seen as a vital component of a sustainable community, it creates a '*virtuous circle*' of quality services, increased property values, and the potential for increased revenue. (Plimmer & McCluskey 2012a & 2012b).

Within the context of '*Fit-For-Purpose*', being defined as: '*... designed for the purpose of managing current land issues within a specific country or region ...*' (FIG, 2014:6), we focus our argument for a property tax system for so-called developing economies not on the well-recognised theoretical principles nor on any particular '*successful*' property tax regimes which may exist in long-standing and developed countries. Instead, we look at the issue from a resources-perspective for individual countries, recognising the practicalities which limit the implementation of what may be considered by some to be the '*best*' property tax systems.

Thus, this text is not concerned with analysing or comparing the property tax regimes in different countries. Instead, it focuses on the available resources of the so-called developing countries and considers how these can be used to implement and maintain an effective and efficient income-generating property tax system. In doing so, it reflects a range of real estate tax-raising characteristics and desirable outcomes which have the potential to secure an efficient, effective and '*fit for purpose*' property tax regime, based on limited resources, while being capable of future sophistication as the opportunity arises.

Criteria for a Property Tax

The desirable criteria of a property tax can be viewed from a variety of perspectives – including those of the government, the spending authority, the tax collecting authority, the assessing authority, the tax payer and the wider community. Each one of these has a different desirable outcome from and characteristics of a property tax (Page, 1976).

For example, the government will not want a property tax to impede its management of the national economy. Nor will it want one which brings existing taxes and tiers of government administration into conflict. The tax spending authority will require a stable, predictable, and certain yield which is demonstrably its '*own*'¹ and which is sufficient to meet its financial obligations to its citizens as well as achieve their aspirations. The tax collecting authority will require a tax which is difficult to evade and avoid, and which is levied under clear and unambiguous legislation. Collection should be by simple, cheap and convenient methods which ensure a high rate of compliance and minimal losses and costs (Bird and Slack, 2007; Slack, 2011). Developing a culture of tax payment, a clear link between the tax paid and community benefits which result is seen as an incentive to deal with problems of non-compliance (UN-HABITAT, 2011a).

The assessing authority (which should be demonstrable independent of both the tax collecting and tax spending authorities) requires adequate human (in quality and number) and technological resources, sufficient data and appropriate legislation to minimise the cost and time spent providing reliable tax assessments. The needs of the taxpayer include the perception of '*fairness*' (however that is defined in any given community) in the administration, implementation and wider effects of the tax; a high degree of comprehension in the system; convenient and cheap methods of appeal and payment; that it not be required to raise excessive amounts of revenue; it should include no illogical or anachronistic exemptions; and should be seen to be spent efficiently and wisely on socially beneficial services. Taxpayers may also expect tax rebates to be applied to those who reflect current perceptions of '*limited means*'.

1 i.e. the yield is not shared with other authorities nor is the fixing of the rate of tax subject to external influence.

All of the above require an up-to-date and realistic evaluation of a range of needs and available resources. There is little point, for example, in devising a property tax system which requires up-to-date sale prices of all varieties of real estate, in locations where there is no active, healthy and transparent property market. Nor is it appropriate to expect a tax system which relies on experienced property professionals in jurisdictions where such skills are in short supply.

Practicality of Reform

However, in any given jurisdiction, an existing property tax system tends to be a product of:

- a. history;
- b. political will; and
- c. social (or cultural) acceptability.

In many cases, political inertia means that such a tax system is hopelessly out-of-date. This is true for example in France, where the basis of assessment has not been updated since 1970; and in England where the basis of assessment for residential properties has not been updated since 1993. While revenue may be collected, such out-of-date assessments fail to recognise the shifts in relative '*values*' of different locations and / or forms of real estate.

Similarly, where exemptions from (any or all of) the tax payable are made to reflect specific social or economic difficulties, a failure to remove any such an advantage to a particular group of taxpayers as the result of temporary social or economic difficulties may result in inequity or perceived inequity. For example, in Great Britain, the Council Tax paid includes a '*personal element*' which reflects the number of adults in occupation. This stems from the government's unsuccessful Poll Tax levied between 1989 and 1993. Where there is only one adult in occupation, the entire Council Tax bill is reduced by 25%, regardless of the relative '*value*' of the dwelling or the '*wealth*' of the individual concerned. Apart from the obvious discrepancies in tax bills for two neighbouring households, such a reduction has major social and political implications. For example, it encourages the underuse of properties by rewarding single adult occupation; and puts additional pressure on the chronic and severe housing shortage in Britain.

Such perceived inequities may not be a problem for taxpayers (and tax collectors) provided that the sums demanded are not excessive and that the disparity in current property values (which would be reflected in up-to-date tax assessments) does not cause resentment. Similarly, where the funding needs of spending authorities are not under pressure, the loss in revenue may be acceptable. Where taxpayers are satisfied with the property tax system, where compliance rates are high and there is no social pressure for reform, there is likely to be no political incentive to change an existing taxation system. Popular pressure for reform is likely to emanate from taxpayers where perceived '*unfairness*' reaches a critical point.

Major reforms to property tax systems take a long time, they are costly and, potentially, disruptive to property tax payers and their sources of revenue and of course, to the tax spending authorities and the services they fund. Businesses must adapt their financing arrangements, and residential taxpayers reconsider their financial management

accordingly. It may also have drastic political implications, if the change is not socially acceptable to the taxpayer community (Slack and Bird, 2015; Norregaard, 2013).

It also relies on governments to set up systems to monitor the evolving socio-economic acceptability of their property tax regime on a frequent and regular basis in order to avoid major expensive and damaging reforms. Where resources (specifically funding) are lacking, minor legislative reforms are likely to be more acceptable than a major replacement of one system with another. However, this level of reform may be insufficient to deal with fundamental, longstanding criticisms and may therefore lack governmental support, if the few gains to be made are not considered to be sufficiently politically beneficial.

Resources

The resources normally anticipated for an effective and efficient property tax vary with each system and therefore with each jurisdiction. However, the basic needs are for:

1. Data on the real estate to be taxed and on which to base a tax assessment;
2. Human and technological resources to analyse such data and produce the tax assessment;
3. Data on the individual taxpayers, and access to information including an education programme to ensure that they are fully aware of the reasons for and underlying principles of the tax, as well as the amount of their tax liability; and
4. Administration to support the above, including effective and efficient billing, collection and enforcement.

1. Data on the Real Estate to Be Taxed

It is axiomatic that any property tax system should be based on real estate data. While in many jurisdictions, this may be detailed and sophisticated, reflecting information on accommodation, nature of construction, areas (dimensions), uses, sale prices and those of comparable property, at its most basic level, it may be sufficient to record that a property exists in a particular location. Any additional facts which can be seen from an external inspection or from existing data sources, such as use, nature of construction and other '*material*' details can be used to add variation to the taxable assessment, if this is considered appropriate.

Within the wider context of land administration, innovative methods of data collection are being used to gather facts about real estate, including ownership rights and community aspirations. For example, the use of crowdsourcing ² (refer, for example, McLaren, 2011) offers the means of developing a partnership between land professionals and citizens in directly capturing and maintaining relevant data about their real estate, based on mobile phone technology. Envisaged largely as a means of acquiring 'people – land' relationships in order to expand land registration processes under a Social Tenure Domain Model (see, Lemmen, 2010), such methods of data capture can eas-

2 Defined as the process of obtaining necessary data by soliciting contributions from a large group of people, especially an online community. In this way, each contribution combines with others to achieve a greater result. There is evidence of increased use of crowdsourcing by governments for knowledge search and civic engagement. (Anon, 2015b).

ily be employed by property professionals to develop as simple or detailed a data base of real estate as appropriate. We do not discuss these opportunities for the capture of real estate data further here.

While many so-called developed communities (e.g. Hong Kong, Northern Ireland, United States of America) have developed highly complex sophisticated Computer Assisted Mass Appraisal techniques to produce tax assessments, there is also evidence of more simple methodologies being used to achieve satisfactory results. For example, in Israel the tax base is a factor of use; location; property type; and age within the value zones determined for each municipality (McCluskey and Franzsen, 2013, p. 293).

Also of interest are the approaches adopted by the so-called emerging economies of Eastern Europe as they evolved from command to capitalist economies. In Slovenia, the tax assessment is based on a number of 'points' allocated according to a prescribed criteria which reflects the building's age, location, condition, equipment and useable area. The Czech Republic applies a tax rate per square metre depending on the use and type of the building. (*ibid.* p. 292).

Thus it is possible to develop a property tax system based on available data within any given location. The nature of tax assessments should be considered alongside both the availability of data and the provision of the services for which they pay. Expecting a community to pay for services with they do not then receive is unreasonable. So, if services can initially only be provided with certain urban areas, then it is these areas which should be the priority for tax assessment and tax implementation. As additional data, and as data from more locations becomes available, so a property tax system can be extended both in terms of taxable criteria and in terms of jurisdiction as well as service provision.

2. Human and Technological Resources

Human resources refer to the number as well as the quality and range of professional expertise necessary to analyse and manage available data and to produce taxable assessments. It is also necessary to have sufficient resources to deal effectively and efficiently with appeals against assessment to the satisfaction of taxpayers and the tax spending authority. Similarly, technical resources refer to the quality, efficiency and appropriateness of technological support in both the production of taxable assessments and in the administration of tax bills, collection and appeals.

There is, for example, little point in establishing highly complex computer-based computations where the necessary hardware and software are not available or which are not capable of being operated effectively and efficiently because staff do not have the necessary expertise. A far simpler formula to fix assessments which reflects what are recognised as '*valuable*' or '*material*' property characteristics should be developed within the context of both the available data and other resources.

In terms of human resources, it is vital that the needs of the property tax system (or a potential property tax system) are reflected in the education provided to local / national aspiring and existing assessors. Levels of competence may vary according to the needs of the system, but developing a recognised pathway to quality specialist expertise is considered to be important for the long term sustainability of a robust and reliable property tax system.

3. Data on the Individual Taxpayers

In the majority of jurisdictions, it is the owner who is the payer of property taxes, but this is not universally true and there may be good reasons not to tax the owner. In the UK, for example, where a nationwide property tax was introduced in the 17th century at a time when real estate ownership was in the hands of very few citizens, the taxation of occupiers allowed the tax burden to be spread more widely. In France, too, the residential property tax (*taxe d'habitation*) is levied on occupiers.

According to UN-HABITAT (2011b) in jurisdictions where private land ownership is alien to the culture, then imposing the tax on the occupiers (rather than owners) will better reflect the traditional perception of land and property rights, and thus would more likely to be administratively and socially acceptable.

In the case of jurisdictions where records of ownership are incomplete or unreliable, there is a major practical difficulty in imposing the liability for the property tax on an owner. Bearing in mind our underlying premise of a property tax for developing economies—specifically that the system of taxation should reflect available data and resources—there is no reason why the taxpayer should be the owner, particularly if ownership records are inadequate for the purpose.

What matters is that:

- (a) the tax is paid,
- (b) services are provided; and
- (c) tax paid reflects an element of benefit (and is therefore socially acceptable).

As a matter of principle, there is a logical argument for making the occupier the taxpayer i.e. the person who has the liability to pay the tax. Occupiers derive benefit from their occupation of real estate, both from the reality and the theoretical financial benefit of occupation (specifically, the ability to rent out occupation to others). The quality of their occupation is improved by services provided by municipalities and other governmental organisations, while the absence of such services reduces the quality (and therefore the value) of their occupation.

Assuming that the taxes levied are spent on environmental services, then occupiers benefit directly from the added value which such services bring to their occupation – refuse collection, street cleaning, community facilities etc.

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

Firstly, the individual to be taxed is a matter of fact, not law. There is no need to investigate either who the property owner is nor the nature of those ownership rights. It avoids the taxation system becoming embroiled in ownership disputes or arguments over legal rights to property. Instead, it is sufficient to establish who is in occupation of the property (in simplistic terms, who opens the door on enquiry) for that individual to be named as the tax payer. In a worst case scenario, tax bills can be addressed to: 'The Occupier', with the individual required either to pay or to identify another to pay the bill. Indeed, it allows for squatters to be taxed without providing any legitimacy to their

occupation. After all, as occupiers, these individuals too benefit from services provided by the municipality.

Curiously, it seems that imposing the liability to pay the tax on the occupier also implies that the burden of the tax will be borne by the 'owner'. Distinguishing the individual with the liability of the tax (i.e. the individual who has to pay the money to the tax collector) from the individual who has the burden of the tax (i.e. the individual who is out of pocket as a result of the tax) is an important issue here.

There is evidence (Emeny & Wilks, 1984: 187 *et seq.*) that an occupier / tenant will consider the total costs of occupation (rent and occupational taxes) when considering how much to pay to occupy a property. As the occupational taxes increase, so (it is argued) the amount of rent which can be paid is reduced, and vice versa. Thus, any tenant will, effectively, pass on the burden of the tax liability to a landlord in the form of reduced rent. This 'rent rates equation' was demonstrated clearly during the proliferation of Enterprise Zones in the UK during the 1980s, when occupiers of properties within the designated Zones were not required to pay any property (or other) taxes, and there was a clear increase in rental levels (it was assumed, directly) as a result.

Thus, regardless of who is nominated as the taxpayer, it seems that it will be the owner who is out of pocket as a result of recurrent property taxes³. Nevertheless, from the tax collectors point of view, it is easier, cheaper and more certain to levy the tax on those in occupation rather than to investigate ownership rights and records and levy the tax directly on owners, some of whom may live outside the jurisdiction. Reducing administrative costs in this way ensures more funds for front-line services which is a significant bonus.

Introducing a property tax system in which the taxpayer is 'the occupier' avoids the need for such complex and costly investigation, optimises yield and is thus a major recommendation of this proposal.

4. Administration

Administration for property tax covers assessment, appeals, billing, collection and enforcement. With the exception of assessment (which we recommend should be an independent function of government, based on whatever criteria is appropriate for the jurisdiction), billing and collection may potentially be absorbed into existing municipality functions and bureaucracy. Systems should reflect available resources which might, in some cases, include mobile phone technology to communicate with taxpayer and to provide a vehicle for direct payment.

Compliance with demands is a vital aspect of tax administration and the failure to achieve high levels of compliance may be systemic: being, for example, the result of an ignorance of the benefits which accrue through tax spending, the absence of a payment culture where a community has not evolved with the beneficial relationship between tax paid and services provided. Non-payment of taxes may be the result of perceptions of unfairness or inequity which bring the tax into disrepute, or there may be issues of 'unfairness' – for example a failure to link the tax paid to the ability to pay or the requirement that the poorest in society contribute at the same time as receiving government funding.

3 There are a range of theories which support this principle, which are not considered further here.

What is important is that assessment is independent of the tax fixing, collecting and spending powers, and that local authorities are seen to have a degree of independence from central government and autonomy in their income and spending policies.

Fairness and Equity

Within tax regimes '*fairness and equity*' are generally recognised as:

- horizontal equity i.e. those in a similar position (based on the criteria of assessment) pay similar amounts of tax; and
- vertical equity i.e. those in a more advantageous position pay more tax than those in a less advantageous position.

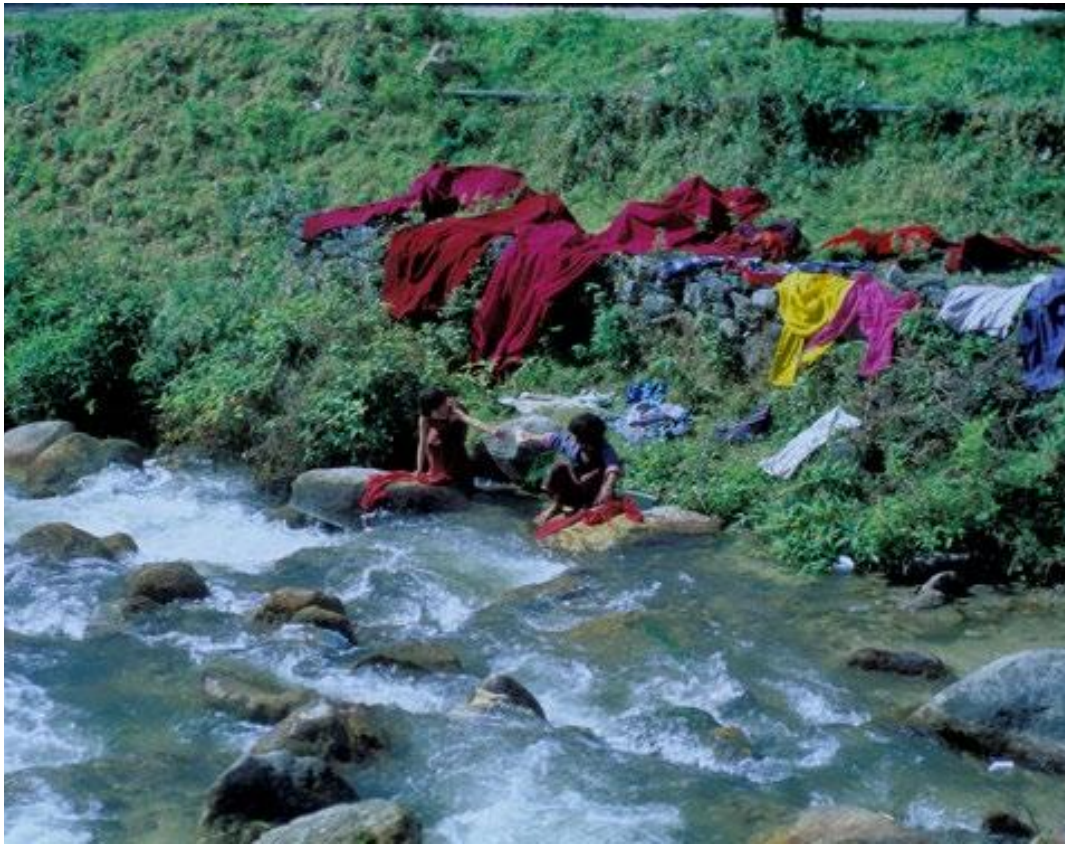
Vertical equity can be manipulated so that the range of tax payable across the taxpayer spectrum is wide or narrow. This is a principle which should be carefully discussed because vertical equity is an outcome of the relative rates of tax imposed and therefore tends to be government controlled and enshrined in statute (refer Appendix 1 for further discussions on vertical equity).

Where property tax systems have been in existence for a long time and where they are considered to work satisfactorily, they do so because of the high element of trust which the taxpaying community has for local government. This trust relies not merely on the certainty that the services funded from the tax will be provided in the future, but also that the municipality is spending that funding wisely, in the best interests of the community. This too reflects community perceptions of an absence of '*unfairness*' and is vital for social acceptability (i.e. the payment) of a new property tax system.

Summary

This paper reflects on the opportunities to develop a property tax system for countries without an existing system for raising local revenue (or with one which is inadequate for their needs, and their aspirations) and for which an absence of appropriate resources is the major barrier.

Based on research into property tax systems around the world, we discuss both a process and a solution to achieve a revenue-raising tax base which reflects the available resources and need, and which is capable of refinement over time and with increased experience and resources (Slack and Bird, 2014; Slack and Bird, 2015; UN-HABITAT, 2011a; UN-HABITAT, 2011b).



PROPERTY VALUE BANDING

Introduction

The American Heritage Dictionary (1995) defines Banding in general terms as *'to join so as to form a larger or more comprehensive group'* and the New Oxford Dictionary (1998) defines Banding more specifically as *'the division of something into a series of ranges or categories (used especially in financial contexts)'* and gives as a fiscal example: *'the earnings-related banding of contributions'*.

A property value Banding system relies upon the concept of allocating properties into different categories (or Bands) according to an estimate of their capital or rental value (or on some surrogate value-related criteria) for the purposes of determining a property tax bill. Rather than valuing the properties to a discrete figure, the property values are estimated according to a range of values within each Bands. Where appropriate and sufficient valuation resources are available, it is possible to value to a discrete figure and then to place the property into the appropriate value Band. When such resources are lacking or where other factors take priority, banding is a proven system for producing a speedy, cheap and robust tax base.

There is no intrinsic reason why banding should be based on estimates of real estate value. Quality of location, construction, accommodation, use etc. could equally be used

to band property, so that perceptions of relative benefits (as surrogates for 'value') provided a basis to distinguish bands.

There are essentially three key elements of a Banded system:

1. firstly, the range covered by the bands (which should reflect the range of 'values' of the real estate within the jurisdiction);
2. secondly; the number of value Bands and linked to that the Band widths (the fewer the bands, the wider the 'value' ranges and the more tolerant they are to rough estimates of property 'values'); and
3. thirdly, the tax multiplier (or tax ratio) per Band or the tax rate (%) per band. This final element is essentially the determining of the relative tax liability for taxpayers within value band.

These elements can be modified in different ways to achieve a Banding system which can perform in different degrees of progressivity, a key factor in assessing the horizontal and vertical equity or perceived 'fairness' of a tax. This aspect is of particular importance as it effectively controls the level of taxpayer liability based on the relative 'value' bands. It can, for example, ensure that those whose property is included in the lower 'value' bands pay a relative high or low proportion of the tax compared with those whose property is included in the higher 'value' bands. Thus, desirable socio-political outcomes can be achieved by varying the tax ratio applied to each Band.

The Banding approach has been used (since 1993) for the assessment of domestic properties⁴ in Great Britain (England, Scotland and Wales) (in the form of the Council Tax) and from 2013 in the Republic of Ireland (Local Property Tax).

The main focus of this paper concerns the use of Banding as an assessment and administration process within real property taxation. In the experience of the authors there are no other recorded systems of using Banded values for property taxation purposes anywhere else in the world. There does appear to be a growing international interest in this approach particularly for developing countries (Plimmer et al., 2002). The Banding approach can also be used as an integrated tax system, this is because built into the system is the tax liability on a per property basis. Thus, the paper provides an analysis of a unique system and considers its suitability for application elsewhere.

The Appendices provide a critical overview of the Banding system as used in Great Britain and the Republic of Ireland for domestic properties. There are interesting differences between the two Banding approaches in terms of the number and width of the value bands, tax rates and in the assessment of the values. Yet in both countries, there were similar resource issues which made Banding an attractive option. These were:

- the absence of funds to pay for a more complex system;
- the need for a system that would be broadly acceptable to the taxpaying public;
- the absence of up-to-date sales data and therefore an inability to produce an 'ad valorem' tax base;
- the absence of a complete register of land owners; and
- the need for a speedy introduction of a tax system.

4 Non-domestic properties in the UK are taxed on a discrete net annual rental value revised every five years.

A recognised advantage of the Banded system was that assessments could be provided by *'unqualified'* professionals because of the relative simplicity of the Banding process. This too helped both to speed up the operation and to reduce costs.

The analysis of the Council Tax (Great Britain) and the Local Property Tax (Republic of Ireland) provides details and criticisms of the particular variations of Banding which have been applied in these jurisdictions. What follows is our review of how such a system might be adapted and applied to other countries.

Banding vs Discrete Ad Valorem Valuations

The Banded residential property tax as used in Great Britain and the Republic of Ireland is unique within the field of value-based property tax systems. This part of the paper considers the strengths of such a system and highlights its potential for greater international use, particularly for developing countries.

Within a banded system, it is not necessary to specifically value each property but rather to assess in which value band the property should be placed. Inherent within this methodology are the arguments for and against the need to have an exact, discrete estimate of values given the fact that valuation is not an exact science (DETR, 2000).

One of the fundamental principles of any tax, including the property tax, is the perception, and indeed, the reality, of *'fairness'*. However, this is an entirely subjective term. What is *'fair'* from the point of view of the tax spending authority may not be *'fair'* from the point of view of the taxpayer, for example. The question, which needs to be considered, is: Is *'fairness'* directly correlated with having discrete values on each and every property?

'Fairness' has never been defined in a land taxation framework. Nevertheless, it is widely used in that context: for example, one of the stated principles on which the UK government devised the Council Tax was *'fairness'*. This concept was unsatisfactorily defined in the discussion document and in the subsequent legislation (HMSO, 1991). Indeed, it is likely that *'fairness'* in taxation is a concept related to the historical, cultural and social background of the taxpayer and other stakeholders, and the extent to which *'fairness'* is achieved is the balance struck between the demands of all of these stakeholders.

In the absence of any definition of *"fairness"* within a taxation context, it may be more appropriate to consider tax systems in terms of unacceptable levels of *'unfairness'* from the perspective of the taxpaying public, and which results in vociferous demands for reform. Nevertheless, it is generally accepted in tax literature that *'fairness'* relates to the degree to which the principles of horizontal and vertical equity are achieved by the taxation system.

In an ideal world, it would be preferable to have current and up-to-date values on each taxable property, but we do not live in the ideal world. The compromise is that with discrete value systems, costs of revaluation tend to result in irregular and infrequent general revaluations with the resulting *'unfairness'* in the relative balance of assessments. Therefore within discrete systems the principle of *'fairness'* is compromised to the extent that resources are not applied to update values annually. Would a banded system fare any better?

Within the systems currently in operation, all properties within a given value Band attract the same amount of property tax and will continue doing so until some overt act requires a reassessment of a property's value or until all properties are reassessed

(rebanding) at a revaluation. Ignoring any change in assessed value due to physical changes in the property, there is a greater built-in 'comfort zone' or room for manoeuvre within Banding, whereby value increases occasioned by small market movements do not radically affect the Band of the property over a period of time. This is in contrast to a discrete system where any change in value will or should result in a revised tax assessment and subsequent liability. In addition, small structural changes within the Banded system would not normally result in such a significant value shift as to move the property into a higher (or lower) tax Band, again, unlike the discrete system.

Clearly there must be some distinct advantages over a discrete system if a Banded system is to be chosen. Table 1 provides the authors' perceptions (in the absence of any other evidence or experience of Banding) of a fairly robust comparison between a Banded valuation system and one based on discrete values. The scaling range adopted is between 1 and 5, with 1 representing poor and 5 very good.

Table 1: Comparison between Banded and discrete value systems.

| Criteria | Banded | Discrete |
|----------------------|---------------|-----------------|
| Simplicity | 5 | 2 |
| Low Valuation costs | 5 | 1 |
| Comprehensibility | 5 | 3 |
| Practicability | 4/5 | 2/3 |
| Administration | 4 | 4 |
| Transparency | 4 | 4 |
| Fairness | 3 | 4/5 |
| Progressive | 4 | 4 |
| Stability of revenue | 4/5 | 4/5 |
| Buoyancy | 3 | 5 |

Source: Authors' own scoring system.

Some of the criteria above (for example, 'Progressive' and 'Fairness') are based on certain assumptions. These include the assumption that a Banded system would be linked to a progressive system of tax rates; and that the values would be reviewed (rebanding) at regular (but infrequent) intervals to ensure a high degree of vertical and horizontal equity between assessments.

A Banded approach, properly constructed, could well have potential application not only in developed countries, but more so, in so-called developing countries and those 'transitional' countries of Central and Eastern Europe. Within this latter group of countries, the legacy of Communism and socialist policies has created an environment where the majority of real property was held by the state. These transitional countries, so called because of their move towards democracy and away from the previous centrally planned economies, are seeking to promote aspects of fiscal decentralisation (Paugam, 1999).

A number of countries including Poland, Czech Republic, Hungary, Bulgaria and Romania have a form of property tax based on the floor/surface area of the building (McCluskey et al., 1998). Due to the relatively under-developed property market, many transitional countries initially opted for property tax systems based on an area ('per square metre') basis (Eckert and Kelly, 1991). Such area-based tax systems were introduced in recognition of the need to tax real property within local authority areas as a means to

raise finance to meet infrastructural and other locally-based expenditures. There may be an opportunity to refine such systems to reflect *ad valorem* property values once the property market develops to the stage where sales data to support such a tax base become available.

Nevertheless, these systems are practicable and socially-acceptable and, for as long as they remain so, there may be little incentive or political will to change them. There are clear problems associated with area-based taxes related to ability to pay, 'fairness' and tax buoyancy. In an effort to improve equity and to take advantage of the rapidly developing property markets, many transitional countries have implemented fiscal reforms, which include the utilisation of *ad valorem* systems.

The introduction of *ad valorem*-based local property taxes is recognised as an important and essential development to create fiscal autonomy for local government. There is now a growing trend in transitional economies towards the introduction of *ad valorem*-based property taxes. Estonia implemented a land value tax in 1993; Lithuania and Latvia have progressed to discrete value based property taxes (McCluskey & Plimmer, 2007). Romania formally adopted a market value-based property tax in 1997, but assessed values bear little relationship to market values. Poland, Czech Republic, Hungary, Slovenia and Armenia are all at various stages within a property tax reform process (OECD, 1996; Balas and Kovacs, 1999; USAID, 1997; and Eckert and Kelly, 1991). Land and property markets within these countries are beginning to mature and benefit from the processes of privatisation and the influx of external funds into real estate.

Notwithstanding the ongoing development of property markets, it must be recognised that the real estate markets in most of the countries of Central and Eastern Europe are highly imperfect. They are characterised by the lack of quality data on transactions, high transfer costs which result in under-declared values, a lack of transparency, a paucity of suitably qualified appraisers, and a limited administrative structure. Nevertheless, as such markets develop, so the data necessary to provide transactional evidence on which to base *ad valorem* tax assessments and other necessary resources will emerge.

What are the appraisal options for a value-based property tax? At the one extreme, there is a simple system of self-assessment, and at the other, a highly complex mass appraisal approach. Self-assessment would tend to have fairly low 'appraisal' costs and generally lower levels of appeal. However, it would lead to significant inequities (horizontal and vertical); verification of values would be costly given the natural tendency of taxpayers to under-estimate values; and the tax base would be unstable, leading to a lack of buoyancy in revenue and possible high rates of non-compliance.

The mass appraisal approach has the advantages of objectivity, economies of scale and the ability to update values easily. However, it also has the disadvantages of high initial costs of introduction, data intensity, lack of transparency, the need for suitably qualified staff and a high level technological resources.

Within these two extremes are three other possible approaches: firstly, the use of expert appraisers to manually derive discrete values; secondly, the use of value zones defined by floor area, location or land use; and thirdly the use of value bands.

The successful shift to implementing *ad valorem* systems must recognise the need to adopt policies, practices and procedures which are appropriate to the nations' resources, the administrative capacity of the tax department and the currently available data. While a long-term goal may be assessments based on discrete market values, interim

measures may need to be in place in order to raise funds for the provision of services, to develop a tax-paying culture and to allow for the development of necessary systems (such as a fully functioning property market) to provide necessary resources to underpin the longer term goal. The simplification of policy, practice and administrative procedures will facilitate both tax administration and compliance, both of which reduce reliance of financial resources and maximise yield.

Countries face a number of operational difficulties in the administration of the property tax. There is often the lack of accurate base maps, and property ownership information, a lack of property details, the absence of supporting institutional structures capable of providing additional data and managing information, the limitations of an emerging property market and a paucity of reliable transactional data; and finally the absence of a legal framework to underpin the imposition of land-based municipal taxation.

Given the constraints on the availability of sales data, it could be argued that mass appraisal techniques could prove to be unsatisfactory in terms of achieving assessment uniformity. The techniques used are data intensive and require detailed and quality data, otherwise the results can be unstable. Such systems have expensive set-up costs and require considerable skill and training in their use. The deriving of discrete values on a manual basis using appraisers also has a number of constraints such as labour costs, length of time to value all properties and the availability of professionally qualified personnel. A feasible alternative is the Banding of property-assessed values, which could utilise some of the capabilities of a mass appraisal approach and the market expertise of private sector appraisers. As Kelly (1994) suggests in relation to valuation systems, they should ideally be chosen on the grounds of simplicity, transparency and explainability to the taxpayer. We would add that they should also be chosen on the basis of available resources.

The application of value Bands is by definition a robust approach to value assessment. It has a number of important operational advantages to so-called developing and transitional countries that are either seeking to improve an already existing property tax system that may have fallen into 'disrepair' or to introduce a property tax system where none existed before or has not existed for some time. Alternatively, there may be a wish to introduce a value-based property tax without the complexity attached to a discrete value system. For those aspiring to a discrete value system but which lack relevant reliable transactional data and other relevant data, value banding establishes an initial administrative 'template' which can raise funds and provide services while improvements are being made to achieve a more complex and sophisticated tax-raising system over time.

Real Estate Data

With every *ad valorem* property tax system there is an underlying requirement of having sufficient and reliable transaction data as well as data about the characteristics of dwelling itself. The optimal situation would be to have representative samples of transactions and sales data of all property types in all locations. However, the reality is that this is rarely achievable, and even less so in developing and transitional countries where active, stable and transparent open property markets are extremely thin or non-existent. There is often a scarcity of real estate sales because markets are not fully developed or not being directly related to tenure, property rights or customary/tribal

restrictions. In addition, there are the empirical problems associated in attempting to quantify the market value of existing properties in the absence of market data (Antwi, 1997; Robinson, 1997).

A Banded assessment approach is considerably less demanding in terms of data requirements (i.e. both quality and quantity) than a discrete system. Typically, the system would require fewer transactions and not be constrained to generate new assessed values each time a property has been improved or for new properties, unlike discrete value systems. Similarly, such a system could rely on an estimate of value based on the 'valuable' characteristics of the dwelling and its location.

In those cases where property markets, whilst existing and developing, are nonetheless limited, there is the need to ensure that valuation practices and procedures are developed appropriately to reflect this constraint. The initial objective should be to achieve a valuation system, which exhibits robustness, reliability and simplicity in the light of the various constraints. The techniques should not be overly complex; they should reflect available data and allow for the application of simplistic mass appraisal models. This simplicity of approach will, or should, ensure that future revaluations can be easily undertaken in a cost-effective manner. In this way, the techniques used to fix a property-based assessment can be perceived as both reasonable and socially acceptable by the taxpayers. Over time, as markets mature and data and other resources becomes more available, the methodology for valuation can be refined as appropriate.

There is of course no particular reason for developing a sophisticated, refined and complex *ad valorem* property tax system, except for the desire for optimum levels of horizontal and vertical equity which is assumed to be the demand of the taxpaying public.

The Banded system is to some extent founded on the principle that valuation/assessment is not an exact science, that taxpayers are not concerned with the absolute accuracy of their tax assessments and will accept some form of generalisation, provided the resulting degree of 'unfairness' is within acceptable limits. On this basis, therefore, the ideal in having absolute values, and the costs involved, could be considered an unnecessary waste of valuable resources. The use of value Bands particularly for residential property does not necessitate a precise valuation of each property, but rather an informed opinion as to which Band it should be allocated. Indeed, identifying 'standard' or 'beacon' properties which have been sold at the valuation date (and allocated into a specific Band) can be used to estimate values or Bands for other similar properties. This would effectively allow bulk assessments to be completed quickly at a fairly minimal cost by relatively less qualified staff (as occurred in Great Britain in 1992 – refer Appendix 1).

There is also the potential to use the private sector to a greater extent given their expertise and local knowledge of property markets. Private sector resources of estate agents (realtors) rather than valuers (appraisers) would be well placed to undertake blocks of valuations in specific geographic areas resulting in a speedier and cheaper valuation process. The use of the private sector requires that the quality of the valuation work be strictly monitored to ensure uniformity of assessments; aspects of quality control would normally be a function of a government department. (Refer Appendices for experience of quality control).

Basically, a Banded property system can be set up to reflect the available resources in any jurisdiction. Resources such as data about the properties themselves, their resi-

dents or occupiers, and the material attributes which affect value might be the bare minimum necessary to set up such a system.

Value Bands

Banding falls uneasily between a truly progressive property tax system requiring the use of more bands that could be locally or regionally determined, and an administratively simpler system requiring the use of a small number of Bands. The use of fewer wider Bands has the potential to result in fewer valuation / banding appeals, longer periods between rebanding or revaluation exercises, but with more aggrieved taxpayers who see themselves paying the same level of tax as those with 'better' properties. By contrast, a larger number of narrower Bands would result in many properties having to be rebanded following improvements that affect the market value of the property, increased administrative complexity but a greater degree of taxpayer satisfaction at the apparent degree of vertical equity, assuming sufficiently frequent rebanding to keep pace with shifts in market values, particularly at the higher value Bands in a rising property market.

It could be argued that the application of locally determined or regional Bands as opposed to nationally derived Bands (Great Britain has three national Bands) would ensure greater equity in the system. Regional Bands would allow for the structure of the regional property market to be reflected in the size and distribution of the value Bands. High value areas and low value areas could have Bands developed to suit the range of property prices in those areas. The potential to achieve different Bands for different locations improves the prospect of perceived equity from taxpayers, with perhaps only minimal increases in year-on-year administration.

Revaluations or Rebanding

The cycle of revaluations under a Banded system is likely to involve less frequent revaluations than under a discrete value system. This is based on the premise that changes in a property's value due to physical changes and market price movements can, to a large extent, be absorbed within the breadth of the band and hence not necessitate a shift from one Band to another.

The issue here is not the absolute values of properties but the relative value of one property against others. Therefore if all properties experienced an equal change in value there would be no need to have a revaluation because the relativities would not have altered even though values may have changed. But property markets are imperfect and do not always move in the same direction at the same rate at the same time in the same location for different property types. Therefore the obligation to undertake a revaluation is an important one, particularly if the Banded property tax is to be perceived by taxpayers as being '*fair*'.

Such a system can only be successful if there is a clear, distinct and continuous relationship between the value of a taxpayer's property and the value Band it is placed in and in relation to other properties in the locality. Such relationships will only be established if the value Bands and property price movements are regularly monitored and reassessed.

Therefore there is a need to have some form of periodic check on whether properties are still in the correct Band. Otherwise, as significant changes in values occur over time in certain areas, the Banding allocations will become unfair, unacceptable and unrealistic (refer Appendix 1).

With discrete value systems, international practice on revaluation cycles would tend to indicate a norm of between three to five years (McCluskey, 1998). Nevertheless, one would expect that under a properly-designed and implemented Banded system, revaluations, while they may be less frequent than under a discrete *ad valorem* system, should occur at perhaps between five to ten years. In addition, if the value Bands are indexed, possibly on a five-year cycle, this could well extend the life of the assessed values beyond a ten-year revaluation. Therefore, the frequency of revaluations for a Banded tax base depends upon the movement in market prices and the magnitude of inter-regional changes (Farrington and Lee, 1992).

Rate of Tax

It is vital that the rate of tax applied to the various Bands achieves a suitable socio-economic outcome. Regressive forms of tax (being those which place a higher burden on the relatively poor) tend to be seen as '*unfair*'; in contrast, those which place a higher proportional burden on the relatively wealthy, are considered to achieve a fairer social outcome.

As can be seen from Appendix 1, the tax rates applied to the English Banding system achieve a highly regressive outcome, with properties in lowest Band 'A' attract two-thirds of the rate of tax payable by properties in so-called average Band 'D'. Similarly, properties in average Band 'D' attract half the rate of tax payable by properties in highest Band 'H'. Yet the ratio of property values in Bands 'A' compared to Band 'D' is more than twice (at the top end of the bands) and four times for Bands 'D' compared to Band 'H'. The failure of the tax ratios to reflect even the relativities of the value bands has created a regressive tax system, which relies on a parallel benefits system to relieve any financial hardship caused. The fact that these Bands have never been revised since their introduction (in 1993) merely exacerbates the relative advantages and disadvantages in tax bills.

The tax rates applied therefore contribute significantly to the regressivity of the British tax system and it is recommended that other countries consider imposing tax rates which are tied more closely to the value Bands and which therefore achieve a more progressive tax system which imposes less of a financial burden on those in the lower Bands.

Appeals

By not having to value each property to a specific figure but rather within a price range it is reasonable to conclude that the number of appeals against the initial valuation generated by a Banded system should be lower than with a discrete value approach. Clearly then, with a Banded system a taxpayer is less concerned with the actual value of the property but more with the appropriateness of its Band allocation. Only if the taxpayer believes the property to have been incorrectly Banded might an exact, precise valuation be required for the appeal. It would be expected that appeals against the

Band allocation would be limited to properties whose values lie around the edges of Bands.

This is an important issue given that any 'new' property tax system or one that is substantively modified can be adversely affected if there are numerous appeals. The legislative role of specifying opportunities for appeal subsequent to the initial revaluation appeal period will also be significant. With an appropriate market value monitoring system, which could invoke revaluations, the number of appeals should decline, as the system becomes more transparent and acceptable to taxpayers.

Prior to the introduction of any new tax regime, a campaign of public education should be embarked upon, so that prospective taxpayers become aware with what is being proposed and why. Such a campaign has the potential to greatly reduce the number of tax appeals by increasing familiarity and with the new system and thereby its social acceptability in advance of its implementation (Gloude-mans and Montgomery, 2008)

Other Resources

This paper focuses mainly on the Banding of real estate values to provide a tax base for raising revenue for municipalities to spend on public services. Nevertheless, we have recognised that, in addition to real estate-related data and resources, there is also a need to reflect existing human and technological resources in developing such a system.

Similarly, where land ownership records are scant or unreliable, we recognise that imposing the tax liability on occupiers, who are more easily identified and who also obtain benefits from services provided, is a tried and tested method of securing not only increased compliance, but also a cheaper and speedier alternative to the development of reliable land ownership records to support a tax.

Conclusions

This paper has focused on the Banding of residential properties. But this is not to say that commercial property cannot be assessed under a similar an approach, but rather, as residential property in all countries tend to represent the bulk of taxable property, it was considered more appropriate to examine such a property tax system within this property sector. It is one of the main conclusions of the research that value banding for property tax purposes could have a wider application in terms of international usage.

It is considered that a banded approach, if properly designed, in terms of the number of bands, width of bands, rate of tax structure etc. to reflect available resources, and levied on occupiers can overcome those resource-based problems typically found in most so-called developing and transitional countries. This will ensure that investment in property tax introduction and reform will be rewarded with a stable and predictable tax yield leading to the provision of community services which add value to real estate and wider societies. The achievement of simple, cost effective solutions to the *ad valorem* problem has the potential to lead to enhancements in the system and ultimately to the introduction of more sophisticated assessment approaches, as resources become available and if required.

Banding allows the establishment of different value Bands (and therefore the imposition of differential tax levels between different types and values of property) and between different jurisdictions. The ability to tailor the tax provisions to reflect the needs of and opportunities offered by different locations allows for a single basic system to be introduced with geographically-appropriate variations.

Placing each unit of domestic property into one of several value bands is a proven relatively cheap and fast procedure to achieve taxable values on which to provide a source for local authority revenue. The use of non-government valuers probably speeds the process as well as ensuring benefits from the highly important issue of local knowledge.

The relativities of levels of tax imposed between bands should reflect closely the relative property values within each band as well as the expectations of the wider society. In this way, vertical equity can be optimised and social acceptability improved. It may be that progressive rates of taxation achieve a higher degree of social acceptability within any jurisdiction.

Banding of property values does not, however, obviate the need for revaluations of the tax base. Regular and frequent revaluations are necessary to ensure that the tax is levied on values that are current, thereby improving both horizontal and vertical equity between taxpayers. Value Bands and the frequency of revaluations/rebanding should reflect the nature of and changes within the property market of any given jurisdiction. While it may not be appropriate to set a rigid time period for revaluations, it may be prudent to ensure that the number, widths of, and relative rates of tax applied to the bands are revisited every ten years.

It is vital to remember that the object of any local authority tax is to ensure sufficient finance to provide for appropriate local authority services to the community. Such a tax is merely a means to an end. In that light, it is important to ensure that the tax does not fall on those without appropriate financial resources to pay. An efficient and effective benefit system, which operates alongside it and which is linked to the individual (not the property), is vital to protect those on low incomes. Resources should be concentrated on those without the financial resources to pay, rather than offered to other sectors of the community e.g. a sole occupier or a 'pensioner', whose financial needs are not recognised.

Local authorities should be given sufficient respect, freedom and responsibility to establish and administer a taxation system that provides them with adequate financial resources and the opportunity to develop direct democratic accountability with their electorate, without the need for central government to monitor the authorities or 'protect' the local taxpayers by interfering with the level of tax imposed.

Many countries are struggling with inadequate and unsatisfactory tax systems, largely because of a lack of resources. We offer our experience of the Banding of property values as a potential solution to achieve a simple, stable and effective tax base on which tax can be levied to provide services for the benefit of local communities. Local community economic and social stability and growth are vital for the future of us all.



APPENDICES

Appendix 1 – The Property Banding System In Great Britain⁵

Background

A system of Banding (which is the basis of the Council Tax⁶) was introduced into Great Britain (Northern Ireland was excluded from these reforms) following the failure of the highly unpopular Community Charge (or Poll Tax). The social unrest and developing culture of non-payment with which the Community Charge was greeted by the British public forced the then Conservative Government to devise a '*fairer*' system of financing local authority expenditure, as rapidly as possible. With the British 400 year old tradition of paying for local authorities' services with a local tax based on the annual value of real estate, some kind of property capital value-based tax was perceived as socially acceptable.

However, the ferocity of the public opposition to the Community Charge meant that there was no time to devise a true *ad valorem* property tax system. In addition, the costs involved in developing and implementing the failed Community Charge meant that a key government objective was that the Council Tax should be cheap to implement.

5 Defined as England, Scotland and Wales. Northern Ireland is excluded from this definition.

6 Council Tax is applied only to domestic taxable properties. It does not include development land, nor any development potential in a dwelling.

Thus, despite Britain's wealth of professional valuation skills, technological and administrative resources, the limitations of cost and time were the driving forces behind the introduction of the Council Tax.

In November 1990, investigations began to find a replacement for the Community Charge. In April 1991, the details of the Council Tax based on the banded values of residential real estate were announced to the British Parliament and, in April 1993, the Council Tax was first levied on domestic occupiers and owners in Great Britain. The government's goal of a speedy solution had been achieved.

Process of Assessment

The basis of assessment is capital value, subject to certain assumptions, but essentially it is the amount which the dwelling in question might reasonably have been expected to realise if it had been sold in the open market by a willing vendor on the 1st April 1991 (the valuation date).

Strictly speaking, dwellings were not '*valued*' for the purposes of the Council Tax. Instead, all dwellings liable to Council Tax were placed by the British government's Valuation Office Agency (VOA) into one of eight value bands. In all cases, the value Bands were constructed around the (then) average property values in the respective countries, and therefore, reflected the relatively low value of residential properties in Wales compared with England and Scotland. The Bands for England and Scotland have not been altered since the tax was introduced in 1993 though there was a rebanding exercise undertaken in Wales in 2005, where the number and values of bands were altered (see Tables 2 and 3 below).

The process adopted by the government was to utilise the private sector to 'band' in the region of 11 million dwellings (50%) in England and Wales, with the remaining 50% being 'banded' by the VOA. The VOA also had the responsibility of quality controlling the banding exercise undertaken by the private sector. In Scotland the Banding exercise was undertaken by the Scottish Assessors, again with the assistance of the private sector. Some 23 million residential properties were 'Banded' over a period of eight months, and with an average cost of £1.58 (at 1991 prices, now 2.45USD) per dwelling paid to the private sector. It was almost invariably limited to external inspections only and not all of those undertaking the Banding were professionally qualified.

Advantages of Banding

A Banded system was urgently needed as a solution to resolve the public unrest at the perceived iniquity of the Community Charge (Poll Tax) and, as such, was subjected to minimal scrutiny. Its advantages for Great Britain were perceived as follows:

- it was a speedy process. Timing was important. The required rapid imposition of the Council Tax took only 18 months from the political decision to replace the Community Charge, to the its implementation in April 1993 (HMSO, 1991; Lawson, 1991);
- it was a cheap process. Costs were clearly a determining factor (particularly given the public funding already spent on the Community Charge) in the selection of the Banding system as a solution to domestic property tax problems (HMSO, 1991);
- it avoided the need for expensive qualified valuation staff and technological resources, and was therefore cheap to implement;

- it was seen as a robust system that was expected to be capable of containing value movements within its broad framework and therefore extending the useful life of the initial Council Tax bands;
- the volume of appeal challenges from Council Taxpayers (and therefore the costs of the appeal process) was reduced because Banding affords a less precise area of valuation dispute; and
- it allowed for a process of competitive tendering by using the expertise of the private sector in the process of allocation of dwellings to a particular Band, which also had an implication for costs.

An additional advantage within the British context is the very high rate of taxpayer compliance (97% in England) which reflects both the range and flexibility of available methods of payment, as well as the social acceptability of the tax itself.

Initially, it was anticipated that no future revaluation (or rebanding) would be necessary, the assumption being that all house prices would move through the Bands at a reasonably uniform rate. This, of course, did not happen. However, it was planned that Bands should be reviewed regularly, to take into account changes in house prices over time, and it was proposed that the then Department of Environment, Transport and the Regions (DETR) would reserve the power to order a revaluation in locations where there had been significant differential movement in the values of different kinds of dwellings. Nevertheless, to date, only Wales has undertaken the rebanding of assessments. The reasons for this and the implications are discussed further below.

The Council Tax

The Banded property tax system (known as the Council Tax⁷) for domestic property came into force in April 1993 and was based on property values as at 1 April 1991. The Department of Environment Green Paper (HMSO, 1991) laid out the basic elements of the Banded system:

- There were eight valuation Bands (categorised as Bands A through H) (see Table 2);
- A 3:1 tax ratio between the bill paid by owners of property in the highest value Band (H) in comparison with lowest (A); in other words if a taxpayer owned a property in Band 'A' and paid £1,000 then the owner of a property in the highest value Band 'H' would have to pay £3,000 (see Table 3);
- Band 'D' was selected to represent the reference (so called 'average') Band from which the tax paid for the other bands is mathematically calculated;
- A system of '*ninths*' is used to determine the relevant tax multipliers per Band, with Band 'D' representing '*nine ninths*' or one (see Table 3); and
- A starting point for Band 'A' of '*six ninths*' or 0.66.

A benefit of Banding was the establishing of a series of value bands developed by reference to the average value of dwellings in the different regions; therefore different bands were developed for England, Scotland and Wales (see Table 2).

⁷ The Council Tax also included a 'personal' element which reflected the number of adults resident at the dwelling (Plimmer, 1998). This 'personal' element is ignored in this paper, which focuses entirely on the property aspects of the tax.

However, there is the general difficulty, common with most banding exercises, of accurate band allocation when dealing with any subject items that are 'on the cusp' between Bands. But, pragmatically, one could make a reasonable assumption that, in Council Tax banding, the benefit of any doubt should be given by the valuer/appraiser to the taxpayer in terms of allocating to the lower rather than the higher band.

Table 2: Valuation bands in Great Britain (based on 1991 values).

Range of values

| Valuation Band | Scotland (£) | England (£) | Wales (£) | Proportion of Band D bill payable |
|-----------------------|---------------------|--------------------|------------------|--|
| A | Up to 27,000 | Up to 40,000 | Up to 30,000 | 6/9 |
| B | 27,001–35,000 | 40,001–52,000 | 30,001–39,000 | 7/9 |
| C | 35,001–45,000 | 52,001–68,000 | 39,001–51,000 | 8/9 |
| D | 45,001–58,000 | 68,001–88,000 | 51,001–66,000 | 9/9 |
| E | 58,001–80,000 | 88,001–120,000 | 66,001–90,000 | 11/9 |
| F | 80,001–106,000 | 120,001–160,000 | 90,001–120,000 | 13/9 |
| G | 106,001–212,000 | 160,001–320,000 | 120,001–240,000 | 15/9 |
| H | Over 212,000 | Over 320,000 | Over 240,000 | 18/9 |

In Wales, the bands were re-set on 1 April 2005 by the National Assembly for Wales, based on 2003 values. In addition to revising the Band boundaries upwards, an extra band was added to reflect the post-1991 shifts in dwelling prices. Note that the ratios between the (original) bands are maintained, with the new upper Band 'I' attracting another one third of the tax liability.

Table 3: Valuation Bands in Wales from 2005.

| Band | Value | Ratio | Ratio as % |
|-------------|----------------------|--------------|-------------------|
| A | up to £44,000 | 6/9 | 0.67 |
| B | £44,001 to £65,000 | 7/9 | 0.78 |
| C | £65,001 to £91,000 | 8/9 | 0.89 |
| D | £91,001 to £123,000 | 9/9 | 1.00 |
| E | £123,001 to £162,000 | 11/9 | 1.22 |
| F | £162,001 to £223,000 | 13/9 | 1.44 |
| G | £223,001 to £324,000 | 15/9 | 1.67 |
| H | £324,001 to £424,000 | 18/9 | 2 |
| I | £424,001 and above | 21/9 | 2.33 |

Table 4 provides an example of the tax liabilities for properties in each value Band based on the eight Bands still used in England. Band D is taken as the reference or 'average' band with a liability of say £1,500. The overall tax ratio is 3:1 on ninths, as shown by the fact that Band 'A' property pays one-third (£1,000) of property in Band 'H' twice (£3,000) that of Band 'D'. The tax to be paid for property in the other bands is also shown in the Table 3.

Table 4: Tax Liabilities for Value Bands (England).

| Band | Ratio | Tax liability (£) | Tax (£) |
|------|-------|-------------------|---------|
| A | 6/9 | 1,500 × 6/9 | 1,000 |
| B | 7/9 | 1,500 × 7/9 | 1,166 |
| C | 8/9 | 1,500 × 8/9 | 1,333 |
| D | 9/9 | 1,500 × 9/9 | 1,500 |
| E | 11/9 | 1,500 × 11/9 | 1,833 |
| F | 13/9 | 1,500 × 13/9 | 2,166 |
| G | 15/9 | 1,500 × 15/9 | 2,500 |
| H | 18/9 | 1,500 × 18/9 | 3,000 |

It must be remembered that the number of Bands, their value widths and tax ratios applied are politically determined variables. They can be changed in order to 'fit' in with the property market of the jurisdiction or to meet other issues of tax progressivity or socio-political demands.

Figure 1 illustrates the tax bill progressivity, demonstrating that the bills increase as the Banded value of property increases, in this case the tax ratio of 3:1 applies. It is generally recognised that the tax ratio ensures that the Council Tax is a highly regressive tax. However, it would be a relatively simple process to ensure that those whose properties are allocated to the higher value bands paid a higher proportion of the tax and therefore reduce the tax burden on those whose dwellings are in the lower value bands.

Rate of Council Tax

The rate at which the Council Tax is levied varies with each municipality which has the freedom to fix the rate in accordance with its spending programme, thus achieving a degree of local accountability. However, the UK government has reserved to itself the right to 'cap' the rate of Council Tax imposed by any local authority in its area and, with increasing pressure on public spending, central government imposes limits on the level of Council Tax which can be charged.

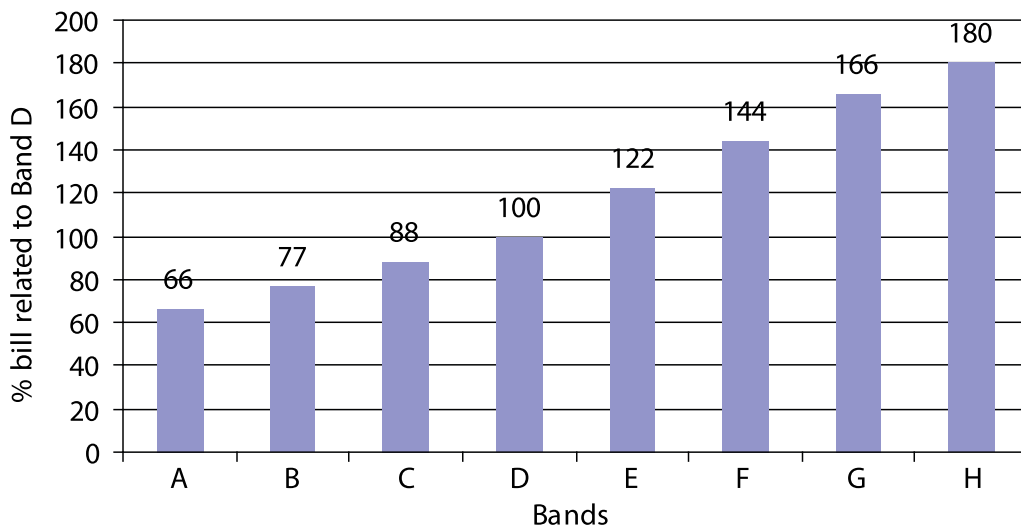


Figure 1: Tax bills as a percentage of Band D.

Taxpayers

Council Tax established a '*hierarchy*' of taxpayers, ranging from resident owners (of varying rights) to occupiers of limited or no legal rights to occupation. In the absence of an occupier, an owner not in occupation becomes liable to pay the tax. This reflects the early British law and tradition (dating back to the 17th century) of imposing the local property tax on 'occupiers' and not owners, and the more recent policy of taxing owners of empty premises.

It is also important to remember that England and Wales do not have a comprehensive register of land owners. Taxing occupiers where owners cannot be identified ensures that tax collection is relatively cheap and easy for local authorities.

Revaluation

The British Government made no provision within the original legislation for regular revaluations or rebanding of the tax base. It had been anticipated that Banding would obviate the need for regular and frequent revaluations, because of the assumption that properties would move between bands. What was ignored was that within the complex and highly volatile British housing market, similar property types in different locations do not increase or decrease in value at the same rate or at the same time. International and national factors which influence the capital values of property are extremely intricate and it can be argued that each property type in each location has its own local factors which also influence capital values. Any system of Banded property values needs therefore to incorporate the principle of regular (if perhaps less frequent) rebanding exercises.

Current issues with the Council Tax

The Council Tax has largely been accepted as a residential tax by the British public and is expected to endure for the foreseeable future. However, there are growing criticisms from those on fixed income facing the annual increases which are attached to Council Tax bills. Criticisms from informed commentators, however, tend to concentrate on the details of the structure of the Council Tax.

The general consensus of opinion is that the initial allocations for banding now have reached a very questionable '*sell by date*' and the arguments for an *ad valorem* revaluation or at least a rebanding to reflect the ever increasing prices of properties are looming large. This is particularly so in the light of the recent political concern over the taxation of higher value domestic properties. Proposals have been discussed for the introduction of a so-called Mansion tax designed to remedy the deficiency of the Council Tax Bands by introducing an additional tax on the most expensive residential properties, identified politically as those exceeding £2 million. Currently, the owners of such properties in England pay as much Council Tax as if their properties were worth £320,000 (just 16%).

It is acknowledged (Centre for Policy Studies, 2012) that some 75,000 dwellings in the UK are worth more than £2 million. Based on an average proposed Mansion Tax of £20,000 per annum, just £1.5 billion (0.25% of government revenues) would be raised. While this may be considered as a very small contribution to public funds, in the light of the current stringent cut-backs in public services, such a contribution may be very welcome. In addition, given the post-2012 increase in London residential prices, these figures must be considered as extremely low estimates. Similarly concerns are raised

over the fact that 31% of such properties in London have been in the same ownership for over 10 years, (15% for over 20 years) and highlighting the perennial British anxiety for the potential liability of 'pensioners'.

It seems obvious to us that, rather than introduce a totally new and highly selective property tax which runs the risk of not being cost effective, it would be quicker, cheaper and more socially acceptable to revalue or reband the existing and out-of-date system of Bands by adding more Bands at the upper level (to include a Band exceeding £2 million) and to modify the tax ratios applied to the new bands.

The government had planned to revalue (or reband) all properties in England in 2007 (the first revaluation since 1993) but, in September 2005, it was announced that the revaluation in England would be postponed. At the same time, the terms of reference of the Lyons Inquiry (into the role, function and funding of local government – Lyons Inquiry, 2007) were extended and the report date pushed back to December 2006 (subsequently extended to 2007). In 2010, it was announced that consideration of any future rebanding in England would wait '*after the next election*' (recently held in 2015).

In Wales, tax bills based on the property rebanding (effectively the revaluation) using 2003 property prices, were issued in 2005. Because of the surge in house prices over the late 1990s and early 2000s, more than a third of properties in Wales found themselves in a band higher than under the 1991 valuation. Some properties were moved up as many as four bands with consequently large increases in the amount of Council Tax demanded. Some properties were moved into the new additional Band I at the top of the price range (see Table 3). Only 8% of properties were moved down in bands (Anon. 2015a).

However, there is no indication (as of 2015) that there is any political will to introduce a rebanding (revaluation) or even a review of bands for England. With the devolution of increased powers to the Scottish Assembly, it will be interesting to see whether and to what extent the Scottish Banding system diverges from England and whether the Scots take on board lessons from the Welsh 2015 rebanding exercise.

The future shape of the Council Tax (certainly in England) is still moot and we argue in this paper that it is time to take advantage of the available modern technology of mass appraisal that is well established in other parts of the world. This could entail a discrete valuation process, which could be easily subsumed into a wider range of band allocations, with the added opportunity of frequent updating at minimised cost and effort. Vertical equity also demands a greater link between relative banded values and the level of tax imposed on those bands in order to reduce what is clearly a highly regressive tax. Given that the resource issues which drove the original Banding exercise in 1991 no longer apply (except, perhaps, with the exception of limited public funds), there is no intrinsic reason at all why improved levels of vertical and horizontal equity should not be achieved for the British taxpaying public.

Despite the government's large programme of reform, it has continued to recognise the advantages of banding property values for tax purposes:

The strength of a property based tax rests on the robustness of the valuation of property on which it is levied. Council tax was designed to avoid the problems of the earlier rates system by placing properties into wide valuation bands. The banding system means that there have to be major changes in relative property prices before significant numbers of households are being unfairly treated. This makes it possi-

ble to extend the period between expensive and potentially disruptive revaluations, particularly as the cost of a revaluation is over £100 million. (DETR, 1998)

Nevertheless, political pressure is growing to increase the level of taxation applied to the most expensive housing in England.

Existing band widths in England are not robust enough to reflect the significant shifts in its volatile residential property market over such a long period of time since the 1991 valuation date. Research demonstrates that it is the poorest (defined as those who occupying the least valuable properties) who are financially disadvantaged by the failure to revalue the tax base, the corollary being that it is those who occupy the more valuable property who are benefiting. As a result, political pressure is being applied for what we argue would be an unnecessary and costly tax to be applied specifically to the most expensive properties when a simple and relatively inexpensive rebanding and a reconsideration of tax rates would resolve the problem

'Fairness' (defined as *'perceived as fair by the public'* (HMSO, 1991)) was one the criteria on which the Council Tax was based. *'Fairness'* implies a range of parities, including horizontal equity and vertical equity. The perception of the public is that the Council Tax is a tax based on property values and therefore (unlike its immediate predecessor) that there are safeguards built in to protect the poorest (defined as those living in the lower value properties). It is suggested that what is *'fair'* to one stakeholder may not be *'fair'* to another. There is, therefore, a need to establish what characteristics are perceived as *'fair'* in any social and cultural context and are therefore essential for any tax system to be acceptable to its taxpayers. From the on-going political debate, the Council Tax in England has ceased to demonstrate acceptable levels of *'fairness'* and its reform is urgently overdue.



Appendix 2 – The Property Banding System in the Republic of Ireland

Background

In order to cover escalating government costs, in November 2010, the Irish government agreed a multi-year funding deal with the European Union (EU) and the International Monetary Fund (IMF). Despite not providing any official money as part of the programme, the European Central Bank (ECB) was involved in over-seeing the programme, along with the European Commission and the IMF. The programme provided funding commitments of €67.5 billion, two-thirds of which was to come from the European funds. In return for this funding, the programme contained commitments from the Irish government to restructure the banking sector, to implement further fiscal adjustment and to introduce various reforms. The introduction of a property tax⁸ was an important element of these proposals (Callan et al., 2010; Keane, *et al*, 2012).

In advance of the proposed property tax, a new and temporary '*Household Charge*' on residential occupiers in Ireland was introduced. It was reminiscent of the poll tax in Britain that had prompted riots 21 years ago (refer, for example, Plimmer, 1998). The Minister for the Environment initially set the flat charge at €100 (USD108) a year for two years, starting in 2012. It was acknowledged that the flat charge/tax was not based on ability to pay or on a householder's technical wealth, measured in assets such as the size, location or value of the taxpayer's dwelling. Instead, it was introduced as an interim measure, set at a minimal level, to be implemented for two years after which some form of property tax would be introduced.

8 The Republic of Ireland had abandoned a residential property 'rate' in 1977.

The flat-rate Household Charge in the 2012 Budget was flagged as a ‘... *first step towards a value based property tax*’ to be developed in later years (IMF, 2011). Arguments for and against the introduction (or re-introduction) of a property tax had been debated for more than 30 years, and were rekindled by the 2012 context (Callan et al., 2010; Keane et al., 2012).

However, a property tax based on discrete ‘*ad valorem*’ professional valuations was predicated on the necessary resources being in place to make that possible. Such resources included a register of house sale prices and a complete nationwide coverage of zip or postcodes in Ireland, which were yet to be introduced. In the absence of these vital resources, an alternative system of taxation was sought and, in preparation for the new value-based property tax, the *Report of the Commission on Taxation* (Commission of Taxation 2009) provided an illustrative model for an annual, self-assessed, property tax based on the banded values of residential property.

Advantage of Banding in Ireland

The advantages of this proposal were seen to include the following:

- it is perceived as ‘*fairer*’ than a flat-rate charge on all households;
- self-assessment allows a relatively easy, cheap and fast collection of valuation data;
- unlike other options, it is not based on unavailable information; and
- over time, the system could be developed into a more accurate system.

The disadvantages of this proposal include the following:

- self assessment is likely to lead to inconsistent estimates of property values (although these problems could be addressed through audit checks by the agency administering the system);
- it does not allow for future improvements to accuracy;
- information about building use is not currently available, which would hinder the enforcement and compliance of the tax, given that this tax is to be levied on domestic properties only;
- there are potential difficulties with valuing properties which are close to the edges of the Bands; and
- any tax based solely on valuations would probably be higher in the Dublin area and, to a lesser extent, other urban areas, so the tax could be open to similar criticisms to those levelled at the previous residential property tax (i.e. it had been based on an antiquated valuation system which was inequitable, and the burden of the tax increased rapidly in most areas, more rapidly than incomes or inflation (Commission of Taxation, 2009: 156).

Local Property Tax

In 2013 an annual Local Property Tax (LPT) charged on all residential properties in Ireland came into effect. The LPT is collected by the Revenue Commissioners based on the (banded) market value of relevant properties. The LPT is a self-assessment tax so it is based on the taxpayers own assessment of the market value of their property. The

Revenue Commissioners do not value properties for LPT purposes but provide guidance on how to value property and provide an indicative assessment of the value of different property types.

Residential property is defined as any building or structure (or part of a building) which is used as, or is suitable for use as, a dwelling and includes grounds of up to one acre. The LPT does not apply to development sites or farmland.

During March 2013 the Revenue Commissioners wrote to residential property owners. This letter included an LPT Return form for completion and a tax estimate of LPT liability. The tax estimate given by the Revenue Commissioners is not based on a valuation of a property but is simply the amount that the Revenue Commissioners will collect from property owners if they do not submit their LPT return.

As LPT is a self-assessed tax, the owner is obliged to determine the market value of any property for which they are the liable person. The tax is based on the market value which the property could reasonably be expected to fetch in sale on the open market on the valuation date. The valuation date is 1 May 2013 for the four-year period until 2016. This means that the valuation of any property for LPT purposes on 1 May 2013 remains the same for 2013–2016 and is not affected by any subsequent repairs or improvements made to the property, or by any general increase in property prices, during this period. The next valuation date is 1 November 2016 and will be used to determine tax liability from 2017.

A taxpayer is liable for the Local Property Tax if s/he owned a residential property on the 1 May 2013 for the year 2013 and, for following years, 1 November in the preceding year. So for 2014 the liability date was 1 November 2013. For 2015 the liability date is 1 November 2014. The Revenue Commissioners offers a range of methods for paying the tax with the taxpayer opting to make one single payment or phasing payments in equal instalments.

Assessment

Property valuation guidance, available from the Revenue Commissioners provides indicative property values based on:

- the type of property e.g. detached, semi-detached, apartment;
- the age of the property e.g. built before the year 2000 or after;
- the average price of the type of property for the general area;
- whether the property has certain unique features, is smaller or larger than the average for the specific location, is in a significantly poor state of repair or has exceptional features, which will have to be factored into the assessment of the valuation.

The Revenue Commissioners developed an online guide providing indicative property values for different property types across the country. Generally the Revenue Commissioners will accept the self-assessed property valuation; however, the valuation can be queried if it has reason to believe the property has been under-valued. The Revenue Commissioners can legally enter a residential property for the purpose of ascertaining its chargeable value. If a taxpayer does not submit a Local Property Tax return with the self-assessment of the LPT payable, the Revenue Estimate becomes due and payable.

Interest charges at 8% per annum apply to late payment of LPT and additional penalties may also arise. Any unpaid LPT attaches to the property and taxpayers will not be able to sell it without prior payment of any LPT, interest and penalties due. The Revenue Estimate is automatically displaced when a self-assessment return is submitted showing the amount of LPT due.

Valuation evidence can be obtained from:

- the Residential Property Price Register produced by the Property Services Regulatory Authority (PSRA), which provides the actual sales price of all properties sold since January 2010⁹;
- a competent professional valuer;
- a recent purchase price, or from a professional valuation obtained in recent years, although this valuation may be adjusted for any change in values in the area since the date of this valuation; and
- other sources of information relating to local properties, such as the property section of local newspapers, information from local estate agents and property websites.

Liability for LPT

All owners of residential property, including rental properties, are liable to pay the tax. The following groups are also liable for LPT:

- those who have a long-term lease (20 years or more);
- those with a life interest or long-term right of residence (life or more than 20 years) in a residential property;
- local authorities or social housing organisations;
- a person acting as a personal representative for a deceased owner (for example, as an executor/administrator of an estate). Trustees or beneficiaries are jointly liable where a residential property is held in trust;
- joint owners: if there is more than one owner they need to agree who will make the LPT return and pay the tax. If no one pays the tax, the Revenue Commissioners can collect the Revenue Estimate of the LPT liability from any of the owners;
- where a residential property is rented on a normal short-term lease (less than 20 years), the landlord will be liable for LPT. Long-term leases (more than 20 years), life tenancies and situations where a person occupies a residential property on a rent-free basis over an extended period and without challenge to their right of occupation will be treated as if the occupant owns the property and it is the occupier who is therefore liable for LPT;
- if a residential property is suitable for use as a dwelling but is unoccupied, it is liable for LPT. However, if the property is not suitable for use as a dwelling (e.g. it is in a dilapidated condition), it is not liable for LPT and there is no need to make an LPT return.

⁹ The absence of such a data source in the Republic was a significant factor in the choice of banded property values as a basis of assessment.

Tax Rates

The LPT is based on a series of value bands. The first band covers all properties up to a capital value of €100,000 as at 1 May 2013. Bands then go up in multiples of €50,000. If a property is valued at €1 million or lower, the tax is based on the mid-point of the relevant band. For properties valued over €1 million, the tax is charged on the balance over €1 million, with no banding applied. The basic LPT rate was set at 0.18% for properties valued under €1 million and 0.25% on the amount of the value over €1 million. This is illustrated in Table 4.

From 2015, these basic rates can be increased or decreased by 'the local adjustment factor' of up to 15%.

Table 4: Value Bands and Tax Rate.

| Valuation band (€) | Mid-point (€) | Rate | LPT 2014 (€) | LPT 2013 (€) |
|--------------------|---------------|-------|--------------|--------------|
| 0–100,000 | 50,000 | 0.18% | 90 | 45 |
| 100,001–150,000 | 125,000 | 0.18% | 225 | 112 |
| 150,001–200,000 | 175,000 | 0.18% | 315 | 157 |
| 200,001–250,000 | 225,000 | 0.18% | 405 | 202 |
| 250,001–300,000 | 275,000 | 0.18% | 495 | 247 |
| 300,001–350,000 | 325,000 | 0.18% | 585 | 292 |
| 350,001–400,000 | 375,000 | 0.18% | 675 | 337 |
| 400,001–450,000 | 425,000 | 0.18% | 765 | 382 |
| 450,001–500,000 | 475,000 | 0.18% | 855 | 427 |
| 500,001–550,000 | 525,000 | 0.18% | 945 | 472 |
| 550,001–600,000 | 575,000 | 0.18% | 1,035 | 517 |
| 600,001–650,000 | 625,000 | 0.18% | 1,125 | 562 |
| 650,001–700,000 | 675,000 | 0.18% | 1,215 | 607 |
| 700,001–750,000 | 725,000 | 0.18% | 1,305 | 652 |
| 750,001–800,000 | 775,000 | 0.18% | 1,395 | 697 |
| 800,001–850,000 | 825,000 | 0.18% | 1,485 | 742 |
| 850,001–900,000 | 875,000 | 0.18% | 1,575 | 787 |
| 900,001–950,000 | 925,000 | 0.18% | 1,665 | 832 |
| 950,001–1,000,000 | 975,000 | 0.18% | 1,755 | 877 |

Properties worth more than €1 million are assessed on the actual value at 0.18% on the first €1 million and 0.25% on the portion above €1 million.

The following illustrative examples demonstrate how the tax is applied.

Example 1: Property valued under €1 million

If the market value of the residential property is €230,000, the property is taxed at the mid point of the €200,000 to €250,000 value band, being €225,000. The annual tax for 2014 is then calculated at (€225,000 x 0.18%) €405.

Example 2: Property valued over €1 million

If the market value of the residential property is €1,340,000, the tax payable in 2014 is a combination of: (€1,000,000 x 0.18%) €1,800, plus (€340,000 x 0.25) €850, being (€1,800 + €850) €2,650.

The Local Adjustment Factor

From 2015 onwards, local authorities can vary the basic LPT rate on residential properties in their administrative area. The basic rates of LPT are 0.18% and 0.25%. These rates can be increased or decreased by up to 15% (both rates must be adjusted by the same amount).

The introduction of the 'local adjustment factor' means that residential properties of the same value in different local authority areas may pay different amounts of LPT from 2015 onwards, depending on whether the local authority has applied a 'local adjustment factor' or not.

Objections and Appeals

In general, because LPT is a self-assessed tax, formal appeals may only arise in a small number of situations. The liable person cannot appeal without making a Return and paying the self-assessed amount. If the taxpayer does not agree with the Notice of Estimate, it must be replaced by a self-assessment and the submission of the Return. If there is a disagreement between the taxpayer and the Revenue Commissioners on matters relating to LPT, such as whether the property is residential, whether the taxpayer is liable, matters to do with value or deferral that cannot be resolved, the Revenue Commissioners will issue a formal Notice of Assessment or a formal decision or determination. An appeal to the Appeal Commissioners against those notices can be made.

Critique

It is too soon to reflect on how the implementation of the Local Property Tax will be received by the Irish taxpaying public. As with the British, the Banded Local Property Tax was introduced to resolve the paucity of resources, specifically property sales data and finance, and provides an interesting contrast to the British system, with its use of self-assessment and Local Adjustment Factor. Given that Ireland has not had a property tax system since the mid-1970s, taxpayer reaction will be particularly interesting to monitor.

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Fundamental to the development of economic and social opportunities for communities is the effective and efficient provision of basic public services. However, these need to be paid for, normally by a levy on the local population. In many places, such taxes are not levied, largely, because the resources considered necessary are absent. This FIG report discusses a tried and tested property tax system based on available resources and data sets rather than a “wish list”. Two examples of such a system currently in operation are discussed and it is suggested that other countries can adapt these principles into a property tax system which reflects their individual needs and resources.