

Overall Conclusions

MVV182K

Property-related Taxation: Issues and Trends

**Masaryk University
Brno, Czech Republic**

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Prof Riël Franzsen

South African Research Chair in Tax Policy and Governance

Director: African Tax Institute

University of Pretoria

South Africa



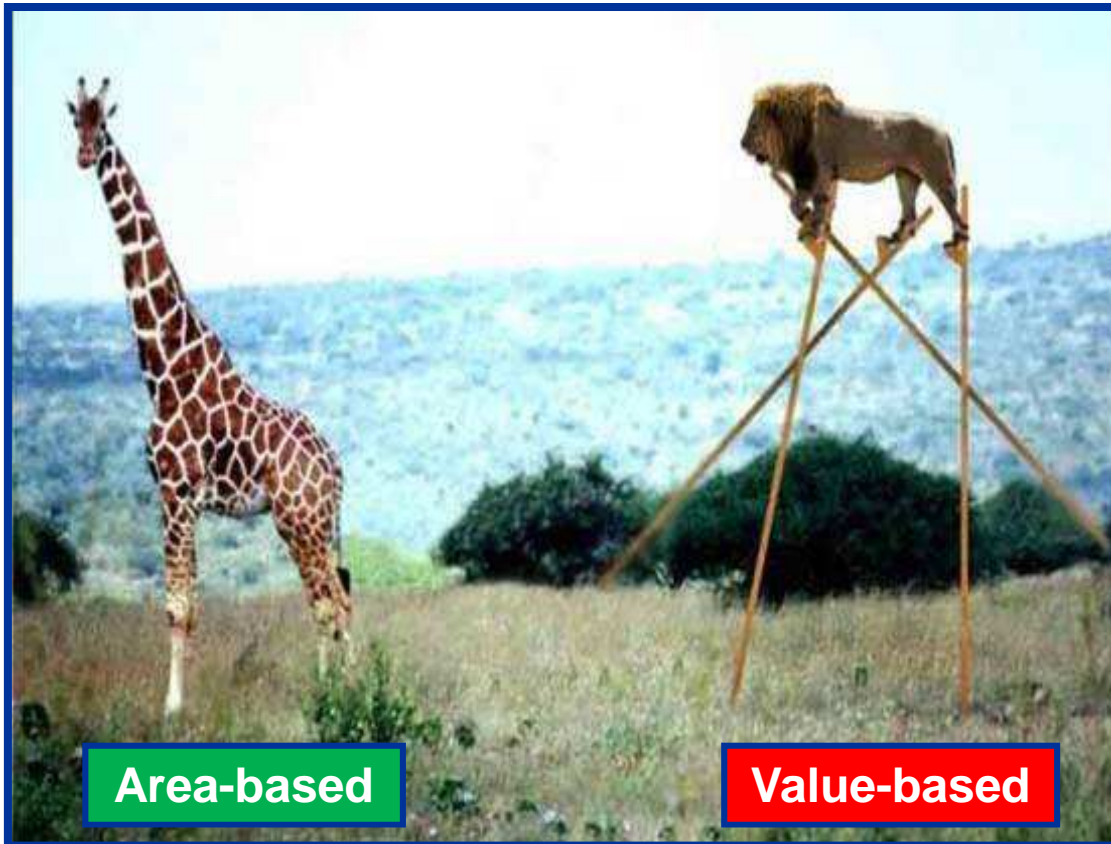
Elements to Consider

- Tax base and property discovery
- Taxpayer
- Valuation and/or assessment
- Tax rates
- Tax relief
- Tax administration
 - Billing
 - Collection
 - Enforcement
- Taxpayer communication
- Overall system management

Key Challenges

- Tax base
 - **Appropriate tax base?**
 - Comprehensive base coverage
 - Property discovery issues
 - Exclusions and/or extensive exemptions
- Valuation
 - Credible data – weak property markets
 - **Capacity**
- Inadequate revenue yields
 - Low tax rates
 - Exemptions and other tax relief
- Billing, collection and **enforcement**
- **So, can these ‘challenges’ be addressed?**

Which system has the competitive advantage?



Area-based

Value-based

“Still, the unassailable advantage of the area-based approach is that it enables the imposition of a property tax where there is no property market – that is where there is no direct evidence on the market value of properties. As such, it might be an appropriate interim, if not long term, approach for a country while it waits for its formal property market to develop.” (Bahl, 2009)

Area-based:

Advantages:

- Simplicity
- Cost
- Functions in less formal markets
- Self-assessment

Disadvantages:

- Lack of buoyancy
- Fairness
- Subjectivity if adjusted for location, etc.

Value-based:

Advantages:

- Buoyancy
- Value reflects benefits received
- Equity (if well-maintained)

Disadvantages:

- Requires some market formality
- Data intensive
- Constantly changing
- Costly to implement and maintain

Tax Reform (1)

“The best approach to reforming tax in a developing country – indeed in any country – is one that takes into account **taxation theory**, **empirical evidence**, and **political and administrative realities** and blends them with a good dose of **local knowledge** and a sound appraisal of the current macroeconomic and international situation to produce **a feasible set of proposals** sufficiently attractive to be implemented and sufficiently robust to withstand changing times, within reason, and **still produce beneficial results.**”

Bird & Oldman *Taxation in Developing Countries* (1990) 3.

“Of course, **no one wants to hear that it may take decades before they are in a position to undertake this or that particular reform successfully**, whether in tax structure or tax administration... What people want to hear is rather that they can simply bolt on this or that new feature to their existing system without making anymore basic changes, and still get good, **quick**, and preferably quantifiable results.”

Bird, 2013

Tax Reform (2)

“Tax policy is the product of political decision making, with economic analysis playing a minor supporting role.”

Richard Holcombe (Holcombe, 1998)

“Good tax policies are worth very little if these cannot be implemented effectively.”

Richard Bird (Bird, 2004)

“Tax administration *is* tax policy.”

Milka Casanegra de Jantscher (Casanegra de Jantscher and Bird, 1992)

“There is no single set of prescriptions - no secret recipe - that, once introduced, will ensure improved tax administration in any country.”

Richard Bird (Bird, 2004)

“...[F]undamental strengthening of revenue collection will be largely a matter of persistent and unspectacular effort ...”

Michael Keen (Keen, 2012)

Considerations for Reform (1)

- Appropriate constitutional, legal and institutional environment
- Political commitment and community support are critical prerequisites for whatever system is selected – i.e. proper education/communication (**Indonesia, Northern Ireland**)
- Appropriate *property tax policies* (i.e. achievable and sustainable goals)
- “Simpler can be better” as it could lead to –
 - Improved base coverage
 - Savings on the cost of assessment, objections and appeals, as well as collection
- Property tax is not a simple tax to levy and collect

Considerations for Reform (2)

- Reform: “Collection-led” (**Indonesia**) or “valuation-pushed” (**Tanzania**)?
 - Dillinger (1992) states that “the low yield of the property tax is... the combined result of inappropriate policy and poor tax administration”.
 - Kelly (2013) states: “A major constraint to improving the property tax in transitional and developing countries is weak administration, often a result of political, institutional and capacity constraints.”
 - All the integral parts for a successful system require attention (i.e. property discovery, base coverage, valuation (where applicable), assessment, billing, collection and enforcement)
- “Transitional” alternatives may produce a more equitable spread of the tax burden in a more cost effective and sustainable (?) manner
 - Market-calibrated area (e.g. **India, Israel**)
 - Value-banding (e.g. **Great Britain, Ireland**)
- Migration (back) to a discrete-value system when capacity constraints are met/revenue yield justifies it...
 - However, “temporary” measures may become difficult to replace: **Czech Republic, Estonia, Bangalore, India** (Rao, 2008)...