

# Valuation and Assessment

**MVV182K**

**Property-related Taxation: Issues and Trends**

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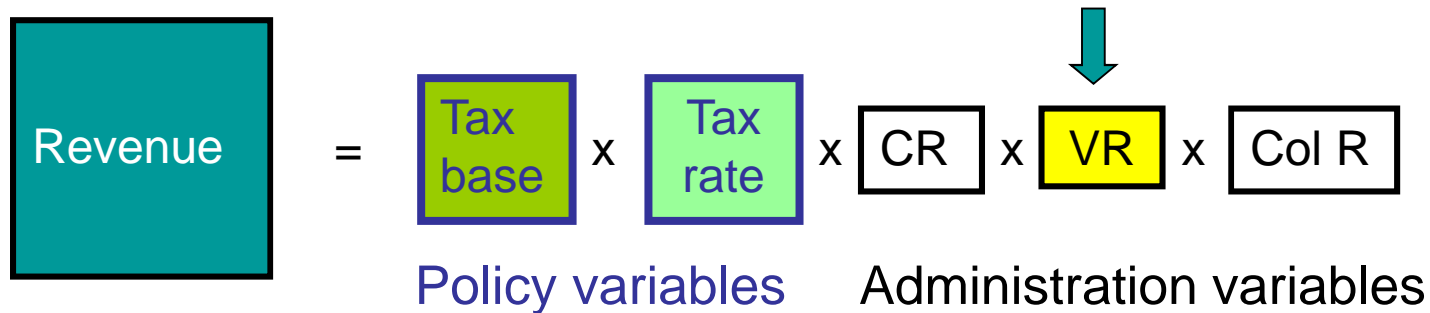


# Elements to Consider

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



# Revenue Mobilization Model



CR: Coverage ratio

VR: Valuation ratio

Col R: Collection ratio

Source: Kelly (2000)

# Introduction

- **Value-based systems**
  - Why use value as tax base?
  - What property value must be used?
- **Who is responsible for property valuations?**
  - Land only; buildings only; land and buildings (separately/collectively)?
  - National government; municipalities; agency; private sector; taxpayer?
  - Advantages and disadvantages regarding the above
- **What methods/techniques are used to value property?**
  - Land? Buildings? 'Banded' values?
  - CAMA and GIS?
- **Valuation**
  - How often are properties valued? Prescribed cycles? During cycles?
  - External quality control?
- **Objection and appeal processes**

# Value

- **Advantages:**
  - Relatively good proxy for ability to pay
  - Relationship between value and public services
  - Data sharing in respect of other property-related taxes
- **Disadvantages:**
  - Requires skills and good market data
  - Could be complex
  - Requires credible objection and appeal processes
  - Costly to implement and to maintain
- **E.g. Australia, Singapore and Zambia**

# Capital Value v Annual Value?

- Capital value:
  - Developed capital market
  - **E.g. Canada, Lithuania, New Zealand, Northern Ireland, South Africa, United States**
- Annual (i.e. rental) value:
  - Sufficient rental evidence
  - **E.g. Egypt, France, Singapore, Uganda, United Kingdom**

# Valuation

- Responsibility
- Qualification of valuers
- Nature and scope – what has to be determined?
- Methodologies?
- Objection and appeal process
  - Payment of tax while case is pending?
- External quality control
- Intellectual property of data

# Valuation Basis

## “Market value”

### South Africa’s Local Government: Municipal Property Rates Act, 2004:

“**Section 46(1)** Subject to any other applicable provisions of this Act, the market value of a property is the amount the property would have realised if sold on the date of valuation in the open market by a willing seller to a willing buyer.”



# Valuation service providers

- Central or provincial/state government **Antigua, Australia, Botswana, Grenada, Hong Kong, Malawi, Slovenia, Uganda, United Kingdom, United States, Zambia**
- Government agency or corporation: **Canada (British Columbia, Ontario), Moldova, New Zealand**
- In-house (i.e. municipality itself): **Lesotho, Macedonia, Namibia, South Africa, Tanzania, Turkey, Zambia**
- Private sector: **Malawi, Namibia, New Zealand, South Africa, Tanzania**
- Self-assessment: **Georgia, India (some cities), Liberia, Romania, Rwanda**

# Valuation Service Providers

## Qualifications of “municipal valuers” (South Africa)

“A municipal valuer -

(a) must be a person registered as a **professional valuer** or **professional associated valuer** in terms of relevant legislation; and

(b) may not be a councillor a of the designating municipality”

# Valuation Methods

- **Comparison method**
  - Direct method – comparing the actual sales prices/rentals of comparable properties (e.g. residential)
- **Income method**
  - Indirect method
  - Estimating the potential revenue stream (**UK**)
- **Cost method**
  - Replacement construction cost
  - Depreciation to be considered
  - Cumbersome to determine (**Ghana, Tanzania**)

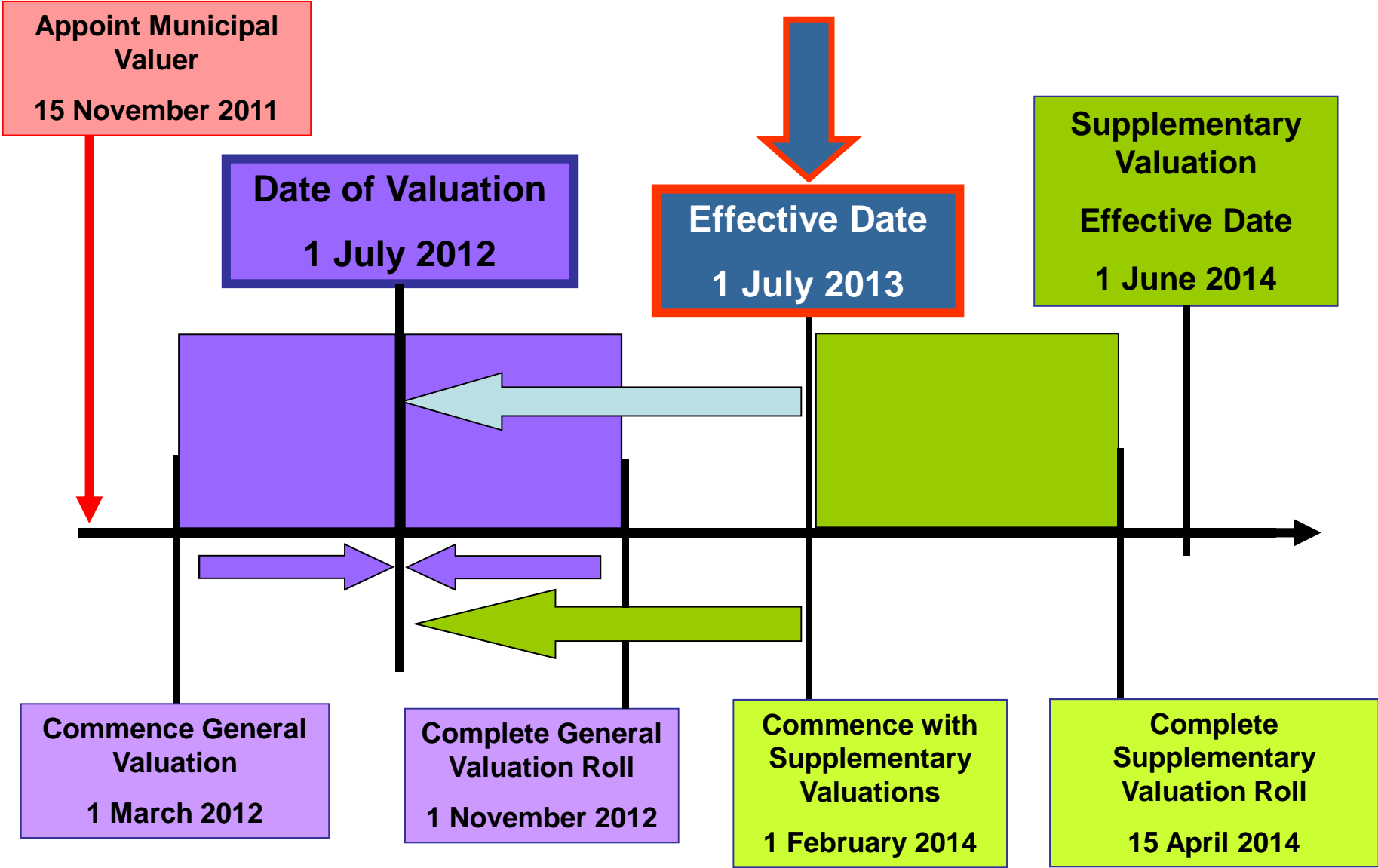
# Technologies and Methodologies

- **Computer-assisted Mass Appraisal (CAMA)**
- **Indexation**
- **Geographic Information Systems (GIS)**
- **Property banding**

# Property Tax Valuation Concepts

- **Date of valuation**
  - All properties are valued with reference to the same date - equity
- **Effective date**
  - The date the valuation roll becomes operational
- **Valuation cycle**
  - Annually; 3-yearly; 5-yearly; 10-yearly?
  - Extensions of the roll?
  - Indexation?
- **Issues**
  - Capacity?
  - Objection and appeal

# Date of Valuation and Effective Date



# Valuation Roll

- Valuation roll must list all properties in the municipality
- Following particulars must be reflected in respect of each property at date of valuation –
  - Unique description of the property (e.g. as in deeds register)
  - The relevant municipal property category
  - Name of the “owner” (as defined)
  - Physical address of property
  - Extent of the property (i.e. size)
  - Market value (if valued)
  - Any other prescribed particulars

# Supplementary Valuations

- Incorrectly omitted from the valuation roll
- Included in a municipality after the last general valuation
- New property – e.g. subdivided or consolidated
- Value has substantially increased or decreased for any reason after the last general valuation
- Substantially incorrectly valued during the last general valuation
- Revalued for any other exceptional reason (e.g. change in category)
- Clerical error



# General Valuation Process

- Process (for valuer)
  - Inventory
  - Data Collection
  - Market research
  - Modelling
  - Quality control



# Objections and Appeals

- Advertising of valuation roll – minimum # of days
  - Official Gazette; local newspaper; web page
  - Individual notices?
  - Owners and other interested parties have right to inspect
- Objection – minimum # of days
  - Formal legal process
  - Possible changes to original value
  - Reasons
  - Costs?
- Appeal – minimum # of days
  - Relevant tribunal
- Payment whilst objection/appeal is pending?



# Valuation - Oversight

- To review the quality (accuracy, consistency, comprehensiveness, etc.) of the **total** valuation roll
- South Africa
  - “The Minister **may monitor**, and **from time to time investigate and issue a public report on**, the effectiveness, consistency, uniformity and application of municipal valuations for rating purposes.”
- Valuers General in Australia and New Zealand

# Valuation - Data

## Valuation (ownership of data)

**South Africa's Local Government: Municipal Property Rates Act, 2004:**

**Copyright of valuation rolls and other data**

**“Section 85 – Copyright of valuation rolls and other documents produced by municipal valuers, assistant municipal valuers or data-collectors in the performance of their functions, and data collected by municipal valuers, assistant municipal valuers or data-collectors for the purpose of preparing valuation rolls, vests in the municipality concerned.”**

# Discernible Trends?

## Recent changes in respect of valuation services

- Central government to in-house: **Lesotho**
- Government to local government: **Macedonia**
- Government to private sector: **Botswana, Malawi, Uganda**
- Increased utilisation of computer-assisted mass appraisal (CAMA): **Cameroon, Malaysia, Slovenia, South Africa**
- Increased consideration of self-assessment as an option: **Georgia, Liberia**

# Cost of 1<sup>st</sup> Valuation Roll in relation to Revenue in Four Rural Municipalities in South Africa

Municipality (Province)	Total Number of Properties	Total Cost (Excl VAT)	Cost per Property	Revenue for 2009/2010
Aganang (Limpopo)	24,258	R1,650,000	R68	R190,082
Umzumbe (KZN)	1,232	R1,440,357	R1,169	R510,309
Blouberg (Limpopo)	5,795	R2,300,000	R397	R484,582
Mutale (Limpopo)	1,255	R3,671,124	R2,925	R763,922

Source: Franzsen & Welgemoed, 2011

“Governance” questions:

- Procurement of valuation services?
- Quality control?
- Education of local councillors and officials?

Policy questions:

- Who should be responsible for valuations and valuation quality control?
- Should small rural councils have a value-based system?
- Is a property tax an option at all?

# Examples

- **British Columbia, Canada**
  - Crown agency (BC Assessment)
  - Annual valuations of all properties in the province
- **United Kingdom**
  - Valuation Office Agency (VOA – Great Britain; Northern Ireland)
  - Non-residential: annual value
  - Residential: capital value (England, Wales, Scotland = banded values; Northern Ireland = discrete capital values)
- **Western Australia**
  - Valuer General Office and Landgate
  - Urban property: 3 to 5 yearly valuation cycles (rental values)
  - Rural property: annual determination of unimproved land values
- **South Africa**
  - ‘Municipal valuers’
  - ‘Market value’ – prescribed valuation cycles (4 + 1 and 5 + 2)

# Conclusions

- Valuation is not an exact science
- Assessments are estimates of value and as such elements of subjectivity are difficult to remove completely
- Having sound and reliable assessments of value can contribute positively to equity and fairness of the property tax
- A credible objection and appeal process is an integral part of a modern value-based system