The Basis and Administration of the Property Tax: What can be learned from International Practice

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Contents:

- Alternative bases of tax;
- Ad Valorem – advantages & disadvantage;
- Non-market bases – advantages & disadvantages;
- Other bases;
- Pre-requisites for a tax base;
- Conclusions.
Most appropriate basis of tax?

- **Ad Valorem bases:**
  - Land only;
  - Buildings only;
  - Land and buildings as one property;
  - Split rating;
- **Non-market bases:**
  - Area-based;
  - Modified area-based.

Ad valorem - advantages

- Uniform ratio between tax and values;
- Allows for specific and targeted reliefs;
- An objective constraint on a subjective process;
- Reflects shifts in values geographically and sectorally.
Ad valorem - disadvantages

- Value of property may not reflect “wealth”;
- Ignores ability to pay;
- Subjective process;
- Revaluations may not allow for current MV.

Non-market-based systems

- Formula-based;
- Objective calculations;
- Allows for self-assessment;
- May be used where no property market exists;
- Avoids high level of technical skills;
  BUT
- Subjective formula;
- Uncertainty about relative liabilities.
Land Value - Advantages

- Based on highest and best use;
- Encourages optimum use of land;
- Encourages expenditure on improvements;
- Leads to reduced:
  - Urban dereliction;
  - Urban sprawl.

Land Value - disadvantages

- Availability of comparable market evidence for land only transactions;
- Valuation methodology flawed;
- Expectation of a high degree of accuracy in land value.
Capital and Rental Values - advantages

- Good indication of “wealth”;
- Reflects geographical and sectoral values;
- Technical skills normally available;
- Can be produced by CAMA system;
- Annual revaluations possible;
- Improved taxpayer comprehension;
- Recognised internationally as “fair”.

Capital and Rental Values - disadvantages

- Reliant on a healthy, active, transparent property market;
- Annual revaluations not always achieved;
- Need technical skills to maintain;
- Not always reflecting prevailing method of tenure;
- Problems with administration may rebound on tax base.
Spilt rate taxes – pros and cons

Has advantages and disadvantages of both land value and capital/rental value bases.

Modified area basis - advantages

- Objective;
- Comprehensible to taxpayer;
- No need for high level technical skills;
- Simplicity of data, administration;
- Lower costs, no need for revaluations;
- Allows for further complexity in valuation as markets improve.
Modified area basis - disadvantages

- Fails to ensure wealthy pay more;
- Subjective formula;
- Failure to achieve horizontal and vertical equity;
- Bears no relation to ability to pay;
- Ignores benefits of location;
- Buoyancy achieved by increased tax rates;
- Relatively narrow tax base;
- Yield tends to be lower than ad valorem basis;
- Lack of scarcity value discourages most productive and efficient use of land.

Other bases

- Enterprise or going concern value; and
- Acquisition value.
Prerequisites of a tax base

• Clear and comprehensive legislation;
• Transparency – separate administrative and assessment organisations;
• Up-to-date survey / cadastral data;
• Access to up-to-date and accurate market transactional data;
• Should reflect the prevailing form of tenure;
• Appropriate and sufficient resources – human and technical;
• Speedy, cheap and comprehensible appeal process.

Conclusions

• Property tax provide essential front-line services;
• Increased reluctance of central government to fund local services;
• High level of social and political acceptability;
• “Sustainable” system.
Thanks for your attention.

Any Questions?