

FIG
2018
ISTANBUL



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6-11 May 2018

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XVI FIG Congress 2018



**EMBRACING OUR SMART WORLD WHERE THE CONTINENTS CONNECT:
ENHANCING THE GEOSPATIAL MATURITY OF SOCIETIES**

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EMBRACING OUR SMART WORLD WHERE THE CONTINENTS CONNECT:

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Success factors for a property taxation system and the consequent risks

Ruud M. Kathmann

Netherlands Council for Real Estate Assessment

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Program

- Introducing the Netherlands and its system of property taxation
- Success factors and consequent risks
 - Success factor 1: Layer of government responsible
 - Success factor 2: Tax basis
 - Success factor 3: Accuracy market analysis and valuation
 - Success factor 4: Valuation frequency
 - Success factor 5: Data management
 - Success factor 6: Interaction with taxpayers
- Concluding remarks and questions



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Introducing the Netherlands and its system of property taxation

- Getting to know the Netherlands

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Location



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Governmental structure



1 country



12 provinces



380 municipalities



21 waterboards

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Characteristics of The Netherlands

- Some facts:
- 17 million inhabitants
- Area: 41,526 km² (16,221 square miles)
- 9 million residential and non-residential properties
- Total value: over € 2,000 billion
- More than € 11 billion tax revenues based on the assessed value
- Total costs for appraisal and assessment:
 - € 150 million (€ 16 per property per year)

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Property tax

- Property tax based on market value
- Property tax on different levels of government
- Land and building as one property
- Property tax for owner and user
- Annual assessment
- Valuation done by municipalities, or
- Shared service centers

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Property tax rates

National revenue office



Tax rate (residential): 0.3% (0,5%)

Tax rate (non-residential):

Municipality



0.2% (average)

0.5% (average)

Polderboard

	2014	2013	verandering
WATERHAPRELASTINGEN			
opbrengsten			
Zakenvaardigheid (opbrengstvermindering)	€ 37,25	€ 32,84	4,41%
Zakenvaardigheid	€ 475,67	€ 477,92	-0,47%
Verenigingsoverdracht (opbrengstvermindering)	€ 35,25	€ 33,84	4,44%
Verenigingsoverdracht	€ 475,67	€ 477,92	-0,47%
Watervervalding opbrengsten	€ 38,25	€ 33,74	14,52%
Watervervalding opbrengsten (%)	€ 25,68	€ 20,84	23,23%
Samtelling watervervalding 2014			
Zakenvaardigheid	€ 37,25	€ 32,84	
Watervervalding opbrengsten	€ 18,25	€ 20,24	
Watervervalding opbrengsten (%)	€ 29,18	€ 25,24	
WATERHAPRELASTINGEN			
opbrengsten			
Watervervalding (€)	1.647.000	1.648.000	0,06%
Watervervalding (€)	1.647.000	1.648.000	0,06%
Watervervalding (€)			
Watervervalding (€)	€ 18,25	€ 20,24	10,32%
Watervervalding (%)	€ 20,31	€ 21,00	3,33%
Watervervalding (€)			
Watervervalding (€)	€ 4,93	€ 4,90	0,61%
Watervervalding (%)	€ 8,09	€ 8,76	6,62%
Watervervalding (€)			
Zakenvaardigheid	€ 37,25	€ 32,84	per vermindering (%)
Verenigingsoverdracht	€ 35,25	€ 33,84	per vermindering (%)
Watervervalding van 1 m ²	€ 475,67	€ 477,92	0,47%
Watervervalding van 1 m ² of above	€ 37,25	€ 32,84	per vergoeding (%)

0.05% (average)

0.05% (average)

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Act for Real Estate Assessment

- In Dutch: “Wet WOZ”
- Formal base for:
 - the Netherlands Council for Real Estate Assessment
 - the annual assessment of all real property
 - only for assessment, not for taxes
 - the base register of assessed values
- Entered into force in 1995

Netherlands Council for Real Estate Assessment

- In Dutch: Waarderingskamer
- Main task: quality control of mass valuation
- Involved parties:
 - municipalities (380)
 - polderboards (21)
 - national revenue office
- Council board has 11 members
 - Staff 21 persons
 - Minister of Finance is responsible



Success factors

- **Success factor 1: Layer of government responsible**
- Success factor 2: Tax basis
- Success factor 3: Accuracy market analysis and valuation
- Success factor 4: Valuation frequency
- Success factor 5: Data management
- Success factor 6: Interaction with taxpayers

Layer of government responsible

- Different choices have to be made:
 - Who is responsible for legislation?
 - Who is responsible for tax rates?
 - Who is responsible for registration activities?
 - Who is responsible for valuation?
 - Who is responsible for taxation?
 - Who is responsible for centralized oversight and quality control?
- Central vs decentral (national, regional or local)
- All have pros and cons

The Netherlands system

- Municipalities are responsible for the valuation process
- Municipalities, polderboards and the national revenue office use (the same) assessed values to levy (different) taxes
- Central administration is responsible for legislation
- Each layer responsible for its tax rates
- Registration is based on system of base registers
- The Netherlands Council for Real Estate Assessment is responsible for the quality control

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Advantages

- Valuation takes place close to taxpayer
- Extensive local (market) knowledge
- Close to relevant (spatial) data
- More innovative power
- Centralized working procedures / uniform quality level
- Uniform legislation, clear case law

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Risks of decentralized system

- “Weakest link” (municipality) can influence public perception
- Insufficient possibilities for specialization
 - Some municipalities too small
- Lack of uniformity between municipalities
- Quality level differs
- Fast- and slow adaptors of new developments

How we deal with this risks

- Position of the Netherlands Council of Real Estate Assessment
 - Quality control
 - Defining uniform working procedures and definitions of registrations
 - Advisory role in legislation developments
 - Stimulating role in new innovations
- Union of municipalities supports in specialized valuation activities
- Municipalities cooperate in regional partnerships

Success factors

- Success factor 1: Layer of government responsible
- **Success factor 2: Tax basis**
- Success factor 3: Accuracy market analysis and valuation
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Tax base

- Property taxes come in many types and forms:
 - Based on the land area/plot size
 - Based on area of building
 - Rental value
 - Capital value (such as market value)
 - Land value (land tax)
 - Window tax
- All have pros and cons



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The Netherlands system

- Market value as a well accepted basis for taxation
- Total immovable property (land and improvements)
- Market Value (IVS/EVS):
 - The estimated amount for which the property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without being under compulsion.
- Assumption that all right are in one hand:
 - The value is determined in accordance with the value which would be allocated to the property if the full and unencumbered ownership thereof can be transferred and the acquirer is able to make full and immediate use of the property in the condition in which it was acquired.

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Advantages

- More accurate value, more equitable taxation
- More efficiency in a recurrent process of market analysis, valuation, appeals, etc.
- Appropriate to use for multiple purposes
- IAAO standard: A market value system provides estimates of value that maximize uniformity, fairness, transparency, and understandability.

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Risks of market value as tax base

- Assessment in sparsely populated areas can be difficult
- More subjective elements / more discussion possible
- Changing market preferences affect the tax base
- Market developments influence revenues or tax rates

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How we deal with this risks

- Market analysis, market analysis, market analysis
 - Standardized working procedures
 - Each transaction must be analyzed
 - Results must be registered
- Transparency of market and transparency of valuations
- Broad use of valuations can lead to opposite interests
- Opposite interest can lead to correct market values

Success factors

- Success factor 1: Layer of government responsible
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- **Success factor 3: Accuracy market analysis and valuation**
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Accuracy of valuations

- Tax court decision: “Municipality must be able to explain and defend each valuation with (market) data. A statistical check of a valuation model is not enough.”
- Taxpayers in general are familiar with market data of comparable properties
- Increasing demand for formal assessed value for other purposes than tax

The Netherlands system

- Residential property: value based on comparable sales
 - CAMA systems
 - Systematic and direct comparison with other property (that has been sold recently)
 - (statistical) clusters or calculating models (sometimes using MRA)
 - Often distinguishing: Building itself, plot, Annexes and outbuildings
 - valuation report
- Non-residential property:
 - Offices, retail and other commercial real estate:
 - Market value based on rental prices (capitalization) or based on DCF method
 - Schools, hospitals, railway stations:
 - Market value or, when higher, reproduction costs (ground + building)

Valuation report

 Gemeente Delft		Valuation report	
Property location			
Street:	Molenweide		
Number:	33		
Residence:	Delft		
Cadastral information			
Municipality:	Parcel number:	Size:	
.....	
.....	
Object characteristics			
Type:	.....	
Building year:	.....	
Size:	.....	
Market data			
The appraised property is sold:			
Selling date:	Selling price:	Special circumstances:	
.....	
Other relevant market data:			
Street:	.....	Street:	.....
Number:	.....	Number:	.....
Residence:	.....	Residence:	.....
Type:	.....	Type:	.....
Building year:	.....	Building year:	.....
Selling date:	.....	Selling date:	.....
Selling price:	Selling price:
Assessed value:	Assessed value:
		Assessed value: € 200.000	

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Advantages

- Accurate values have a broader possible use
- Accurate values lead to a higher trust for taxpayers

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Risks of high accuracy demands

- By focussing on individual properties, inequity looms
- Missing market data leads to inaccurate valuations
- Discussions and formal procedures about small value differences

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How we deal with this risk

- Applying IAAO standards on ratio studies to check and improve the quality of valuations
- Market data!

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Success factors

- Success factor 1: Layer of government responsible
- Success factor 2: Tax basis
- Success factor 3: Accuracy market analysis and valuation
- **Success factor 4: Valuation frequency**
- Success factor 5: Data management
- Success factor 6: Interaction with taxpayers

Valuation frequency

- Different approaches possible
 - no reassessments, fixed valuation date,
 - revaluation every four or five years (sometimes postponed)
 - annual indexation of assessed value
 - no fixed frequency
 - annual valuation



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The Netherlands system

- We started with a four-yearly valuation
 - valuation date two years before first year of use
- We gradually accelerated to a annual valuation
 - with the valuation date one year before year of use
- There are discussions on further acceleration

Tax Year	1997-2001	2001-2004	2005 - 2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Valuation Date	1-1-1995	1-1-1999	1-1-2003	1-1-2005	1-1-2007	1-1-2008	1-1-2009	1-1-2010	1-1-2011	1-1-2012	1-1-2013	1-1-2014	1-1-2015	1-1-2016

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Advantages

- More up-to-date value, more equitable taxation
- Annual opportunity to appeal gives confidence
- Appropriate to use for multiple purposes
- More efficiency in a recurrent process of market analysis, valuation, appeals, etc.
- No big changes in value per year
- Higher level of acceptance by taxpayers

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Risks of annual valuations

- Small disruptions of the process may lead to major delays
- Objections and appeals;
- IT problems
- Less predictability for the taxpayer
- Less stability in tax income in rapidly changing markets
- Little time for calibrating valuation models
- Difficult to implement improvements in an ongoing process

How we deal with this risks

- We started with a low valuation frequency
- We gradually accelerated the valuation frequency
- We stimulated a process based approach rather than a project based approach
- We stimulate municipalities to systematically manage the process:
 - learn from objections and appeals
- Flexible tax rates / regulated tax yield (on a national level)

Success factors

- Success factor 1: Layer of government responsible
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- **Success factor 5: Data management**
- Success factor 6: Interaction with taxpayers

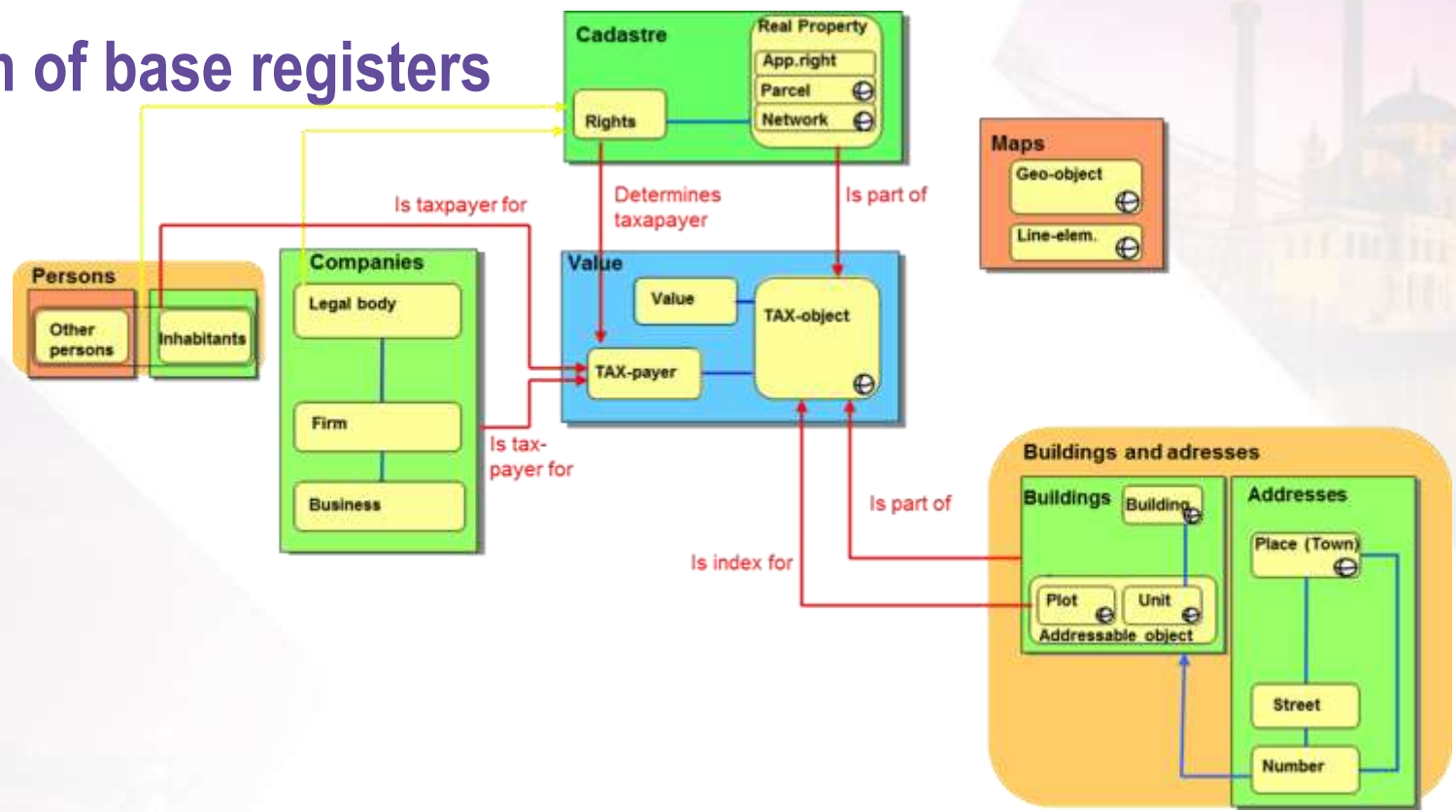
Data management

- The most important element of the valuation process
- Data quality, data quality, data quality
- Which data sources are already available?
 - Registration of ownership
 - Registration of buildings
 - Registration of
- Big influence on the entire system of property taxation
- How to assess the market value without transparency of transactions?

The Netherlands system

- Our experiences:
 - Data quality management is one of the toughest parts of property valuation
 - Data collection is one of the most expensive parts of the valuation process
 - 25% of the total costs
- Four important sources of data:
 - Information derived from the system of base registers
 - Information derived from real estate ads
 - Specific information collected by municipalities
 - Specific information derived from interaction with taxpayers

The system of base registers





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Advantages

- Recurrent process forces municipalities to keep data up-to-date
- Sharing data has a positive influence on the efficiency
- Sharing data: beneficial for the taxpayer's trust in the government

COSTS PER ACTIVITY



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Risks concerning data management

- Poor data quality equals poor valuations
- Relevant characteristics will change over time
- Large improvements in data quality are time consuming (with an annual valuation this can be a problem)
- Large improvements in data quality (or data collection) are expensive
- High degree of dependency on:
 - other government organizations
 - information technology



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How we deal with this risks

- Compulsory use of information from the system of base registers
- Compulsory annual audit on property characteristics which include:
 - Sample
 - Municipal review and conclusions on the quality
 - Measures to improve data if necessary
- IAAO Standards (check characteristics at least once every five years)
- Compulsory own assessment of the results of the appeals
- Interaction with taxpayers!

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Success factors

- Success factor 1: Layer of government responsible
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- **Success factor 6: Interaction with taxpayers**

Interaction with taxpayers

- Owner knows best
- IAAO: “Both valuation and taxation programs need to be visible and transparent and include controls on the incidence and burden of property taxes.”
- Low trust of taxpayers can lead to more complaints and appeals
- Complaints and appeals are time- and money consuming!
- Formal vs. informal approach

The Netherlands system

- Most municipalities try to have informal interaction before sending out the tax notices:
 - primarily to ask owner/occupier to check registered property characteristics
 - secondarily to present the pre-assessed value
 - thirdly to involve the taxpayer in the valuation process (this will increase the taxpayer's trust)
- Also, most municipalities have a system of informal appeal before formal procedures

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Advantages

- Efficient way to collect, maintain and check data
- Owner knows it's property best!
- By involving taxpayers their trust in the process will increase (research has shown a positive effect)
- Informal objections are less time (and money) consuming

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Risks of interaction with taxpayers

- Too much focus on individual properties may lead to inequality between valuations
- Confronting taxpayers with low quality data can be ill fated for tax payer's trust
- To a certain point dependent on reliability of taxpayers:
 - willingness to help
 - honesty
- Informal procedures may not interfere with legal protection

How we deal with this risks

- Only good quality data can be used
- Signals of taxpayers always have to be reviewed by the assessor
- Always take into account effects for other (similar) properties (domino effect)
- Interaction can only be done by qualified employees (to communicate properly is a special skill)

Concluding remarks

- Dependent on certain variables, different systems of property taxation evolve
- Every system has its strengths, weaknesses and consequent risks
- For a system to succeed, be aware of those risks and deal with them!
- Monitor periodically if the environment changes and adaptation is needed
- Implement measures to deal with the consequent risk of a system of property taxation



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