Developing quality training approaches for effective property tax administration

Richard GROVER, United Kingdom

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SUMMARY

A number of countries are in the process of introducing taxes based on the value of real estate. The paper describes a project to create an e-learning course to train those involved in the valuation and administration of such taxes. Market value real estate taxes help countries tackle the problem of declining company tax yields and are fairer than other real estate taxes. Some of the countries introducing market value taxes appear to lack capacity in valuation and the course produced by this project seeks to address this problem. The use of e-learning helps to develop courses that are better suited to the needs of individual students. This is important when students come with different prior learning. They are well-suited to programme learning approaches and the transmission of knowledge. This conflicts with educational theories that support learning by discovery. A challenge in e-learning is to develop approaches that develop understanding and skills through experience.

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1. INTRODUCTION: THE LEONARDO DA VINCI PROJECT

This paper presents the outcomes of a Leonardo da Vinci project RO/05/B/P/PP175018, *Developing quality training approaches for property market valuation professionals for an effective property tax administration*, which was funded by the Agentia Nationala Leonardo da Vinci of Romania. The project took place over the period 2006-07 and resulted in the creation of an e-learning multi-media course aimed at those involved in the administration of real estate taxes assessed on the basis of open market values. The project was led by Centrul Regional de Formare Continua Pentru Administratia Publica Locala of Bucharest (CRFB) under the management of Virgil Pamfil. The other partners in the project were Asociata Nationala a Evaluarorilor din Romania (ANEVAR), the Technical University of Bucharest, the University of West Hungary, CVT Georgiki Anaptixi (Greece), and Oxford Brookes University (UK). Although the four countries involved are all members of the European Union, there is considerable variation in the ways in which they levy real estate taxes and the development of their property valuation infrastructures so that the project provided important comparisons of and contrasts in experience, and opportunities for the transfer of knowledge, experience and know how, a process from which all the partners were able to benefit.

The project involved two main stages: a research stage and an implementation phase. The first stage included research into the real estate tax systems, valuation standards, the qualifications and training of valuers, standards for measuring properties, and ethical standards for valuers in Greece, Hungary, Romania, and the UK. Research was also undertaken into best practice in the education and training of valuers.

The second part was the creation of the course itself. This comprises eight modules or units plus a ninth one designed to provide a training programme for potential trainers. The modules explain valuation concepts and principles, what determines property value, how buildings are measured for valuation purposes, valuation methods, mass appraisal techniques, and comparative real estate taxes. The course is designed to sit on a MOODLE platform and is available in Romanian, Hungarian, Greek, English, and French. It is intended to be taken at postgraduate level. The partners have the power under an intellectual property rights agreement to customise it so that it can be delivered in whatever way best suits their local conditions. This also enables them to change and update the course over time so that it does not become outmoded.

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2. THE PROBLEM: SHOULD COUNTRIES DEVELOP *AD VALOREM* REAL ESTATE TAXES?

A course designed to provide quality training for effective property tax administration is only worthwhile if governments both wish to levy real estate taxes and do so on an *ad valorem* basis. Real estate taxes are very widely used, particularly as a means of raising revenue for local government. McCluskey (1991), for example, estimated that 130 countries levied real estate taxes. However, this does not mean that they use *ad valorem* taxes. *Ad valorem* taxes are ones that are levied by value. By contrast specific taxes are levied on the basis of a physical measure such a volume or weight or, in the case of real estate taxes, by area or the presence of physical characteristics, such as facilities, construction methods, or architectural style. Specific real estate taxes require different skills amongst those assessing and administering them, such as measurement and identification of constructions from *ad valorem* ones which require the exercise of valuation skills.

The value of a property can be defined as being:

> The estimated amount for which a 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 compulsion (Standard 1 International Valuation Standards, 2005, 3.1).

Ad valorem real estate taxes are preferable to specific ones on grounds of equity. A tax that is levied on the basis of the value of real estate affects taxpayers equally. Therefore taxpayers with similar wealth have to hand over the same proportion of their assets in tax. By contrast, a specific real estate tax levied on, say, the size of the property means that the proportion of the value taken varies. This does not satisfy the principle of horizontal equity amongst taxpayers, in other words taxing those who are equal equally. Only an *ad valorem* real estate tax can do this.

An important question is whether it is worthwhile developing real estate taxes based upon market values. The answer to this question is not obviously yes. It is quite feasible to develop tax systems that do not contain real estate taxes. For most countries, real estate taxes raise comparatively little revenue. By contrast, the UK has a relatively high level of dependence upon property taxes, with 11% of net tax revenues come from taxes on the value of real estate, which is approximately 4% of the Gross Domestic Product[1]. Administratively, real estate taxes appear archaic, having a structure that is specific to them because of their demands for specialised activities such as property valuations. The modern tendency in tax systems is to organise taxes according to function, such as audit or accounting, or by taxpayer segment, such as large taxpayers (OECD 2004).

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[1] These figures are estimated from HM Treasury (2008). Business rates and the council tax, which are annual taxes on the value of non-domestic and residential property respectively, produced 4.3% and 4.6% of net tax revenue in 2006/07. Figures from previous years suggest that two-thirds of the yield from stamp duties and one-third of that from capital gains tax and inheritance tax also come from real estate.

The justification for creating real estate taxes based on market values is because of their traditional virtues, namely that they are difficult to avoid and are equitable as they reflect taxpayers' ability to pay. What makes real estate taxes difficult to avoid is the immobility of property. This makes real estate taxes a particularly good source of finance for local government where distances to the next municipality's jurisdiction can make local sales or income taxes problematic. People can work in one local authority and live or shop in another with lower local income or sales taxes. Property is by contrast immobile. The use of local sales and income taxes is problematic because of the potential for tax competition between local authorities and the distortion of economic activity that results as people and businesses respond to different tax rates.

Globalisation has reduced the barriers to international trade and investment and exposed national governments to erosion of tax yields from companies and high income individuals. Tax competition between countries has made it increasingly difficult to tax companies and entrepreneurs who can relocate to low tax regimes. Thus national governments have to deal with problems of tax competition, particularly in the area of company taxation. They are becoming increasingly exposed to the same type of problem that has traditionally plagued local government finances. For example in 2007 220 of the 700 largest businesses in Britain paid no corporation (profits) tax and 210 paid less than £10 million (NAO 2007). The explanation is that good tax planning using allowances, channelling revenue to overseas subsidiaries, and double tax treaties enabled many large businesses legitimately to avoid paying corporation tax. Real estate taxes are less susceptible to tax avoidance techniques than income or profits taxes because of the immobility of property. Tax planning has undermined the use of stated profits or incomes as indicators of ability to pay. Although people may plead that they have low incomes or companies that they have low profits, the occupancy or ownership of real estate can point to the ability to pay taxes.

Creating a successful system for raising revenues from real estate taxes using market values is not easy. There are probably six key preconditions necessary for this (Anghel & Grover 2007): the ability to create a fiscal cadastre; the availability of qualified valuers; valuation standards that set out methods and approaches; market transparency and availability of transaction data; and control of corruption in taxation.
The project only addresses one of these issues, namely the availability of skilled valuers. It presupposes that the other preconditions can be achieved.

3. REAL ESTATE TAXES IN ROMANIA, HUNGARY, GREECE, AND UK

The real estate tax regimes of the four countries present some important contrasts. Hungary and Romania are transitional economies. They have had to cope with severe fiscal challenges because of rising budgetary deficits. These resulted from demands for increased expenditure to support households through social assistance and housing and utility subsidies at a time when turnover taxes were in decline. Privatisation meant that the state lost control over enterprises and a captive source of revenue. This required the creation of new taxes. By contrast Greece and the UK are established market economies. The UK has long had a system of real estate taxes based on market values. In 1909 it created an office of government valuers trained in the same way as their private sector counterparts to undertake tax and other public valuations on the same principles as private valuations.

In Romania taxes on real estate are a component of local taxation along with taxes on vehicles, notices, licenses, advertising, and hotels. The buildings tax is payable by the owners with exemptions including buildings owned by the state and local authorities. The taxable value of a building is determined by multiplying the gross external area by the appropriate coefficient per square metre. Coefficients vary according to the type of construction and the location. The land tax is similarly calculated by multiplying the size by the coefficient per square metre determined by the location and use category. Where real estate is sold within three years of acquisition, the revenue from the transfer is subject to a real estate transfer tax on the difference between the transaction price and the base value. In Romania real estate taxes are not assessed on a market value basis, though there are plans to change this.

The current taxation system has been operational in Hungary since 1998. The building tax is based on either the floor space or the adjusted value of real estate, which is 50% of the fair market value. Land tax is similarly based on either the size of the land or the adjusted market value. In Hungary the use of open market values in real estate taxes is much stronger than in Romania but is not universal. Municipalities can opt to use *either* adjusted market values *or* area for the buildings and land taxes. Therefore they can choose whether to levy *ad valorem* or specific taxes on real estate.

Greece has an annual tax on real estate and a tax on real estate transfers. It is in the process of changing its real estate taxation to a system that is more clearly linked to market values. The annual tax is supposed to be based on comparable market value data but, in practice, is likely to be a compromise between the value declared by the owner and that decided by a tax inspector. Three systems are currently in operation. The 1982 appraisal system was based upon parameters relating to the property rather than the market values. Under the 1996 system defined values were used. Under that of 2000 a mass appraisal system has been introduced. The system is moving towards *ad valorem* taxes but these do not appear currently to be universal.

The UK has two annual taxes on real estate: business rates are levied on the annual (rental) value of non-domestic property; and council tax is charged on the capital value of residential property. Business rates are revalued every five years to market values. Agricultural property is exempt but not government property. Assessment is by the Valuation Office Agency (VOA), the government's valuers, who employ 1,340 chartered surveyors as valuers. The council tax is also valued by the VOA but is levied by local authorities. For political reasons, there has been no revaluation since 1991. Capital rather than rental value was used as the tax base because of the low level of private rented housing in the UK and the limited availability of comparable rental evidence. There are three significant taxes on real estate transfers which fall on market values: capital gains tax on the profits made from sales of assets; inheritance tax on bequests and gifts *inter vivos;* and stamp duty land tax on purchases of real estate and on leases.

Only one of the four countries, the UK, unequivocally has a real estate taxation system based on market values. Greece and Hungary have elements of *ad valorem* real estate taxes and Romania proposes to move to such a system. The question arises as to whether these countries have sufficient qualified valuers to operate market value based real estate taxes and whether the training of valuers is adequate for this purpose.

4. THE QUALIFICATIONS OF VALUERS

In the UK "valuer" is not a reserved occupational title and anyone can set himself up as a valuer and value properties. In practice, property valuers are members of the Royal Institution of Chartered Surveyors (RICS) or one of its smaller rivals as major clients, such as banks, insurance companies, and pension funds, have taken the view that only RICS members are acceptable. This provides them with a guarantee that technical and ethical standards will be followed. The RICS is a self-regulatory professional body. To become a member, candidates must possess a cognate degree or diploma from an accredited university course. Approximately 20 universities in the UK offer accredited degree courses in valuation or related disciplines and there are also 39 programmes in 13 continental European countries. Entrants must pass an Assessment of Professional Competence examination after approximately two years of supervised work and training with an approved firm. Members agree to follow valuation standards and the code of professional conduct. There is no shortage of graduates entering the profession in the UK. The supply of graduates adjusts to meet the demands of employers.

In Romanian law property valuation must be undertaken by *authorised* valuers, but the term is not clearly or legally defined. Valuers are generally recognised as being members of ANEVAR, the Romanian valuation professional body, or of a body like the Corps of Technical Experts. ANEVAR has accredited courses at seven universities. About 300 persons each year obtain formal qualifications as real estate expert valuer from ANEVAR as a result of taking its training courses. There are approximately 4,500 ANEVAR members, of whom 2,800 are real estate valuers, and over 150 affiliated firms. The qualifications needed to enter the training programmes are a university degree or diploma in economics, technology, law, or architecture that has required a minimum of four years of study. There is also a period of supervised practice of two years.

In Hungary Magyar Ingatlanszövetség, the Hungarian Real Estate Association (MAISZ), was established in 1991. It has 550 members, including 110 individuals and 330 valuation companies. In 2003 it created a certification body EUFIM. The training level of real estate appraisers is extremely heterogeneous. At the bottom are entrepreneurs who are high school graduates with just a few months training, whilst at the top level are those with several university diplomas or graduating with advanced professional training from MAISZ.

In neither Hungary and Romania is the number of qualified valuers likely to be sufficient to support a fully functioning real estate tax system based on market values. In the UK there is approximately one qualified valuer for every 2000 persons. For Romania it is estimated at 1:8,000 and in Hungary 1:18,000. This is essentially the problem that the course has been designed address.

5. THE PEDAGOGIC CHOICES

The target population for a training course on tax valuations is likely to be students who are in employment but seeking to increase their valuation skills. The valuation profession did not exist in the transition economies during the Communist period. Its members have been recruited from those converting from other professions. The typical student is likely to have completed a first degree. They are likely only to be able to study part-time because of employment commitments. This is in contrast to the UK where most of the entrants to the valuation profession have never worked in another profession. They enter the profession after having taken a first or masters degree in real estate management. A mature profession needs to replace those leaving through retirement, but a new profession has to grow rapidly to meet client demands and does so by retraining entrants from other professions.

The market research we undertook came out with a clear conclusion as to the medium through which valuers preferred to be trained. The majority stated that their first preference was for face-to-face tuition: in Hungary 50% of respondents; Romania 51%; the UK 63%; though in Greece only 9%.. Blended learning was the preferred approach of 31% of Hungarian respondents, 19% from Romania, and 34% from UK. Only in Greece were distance learning courses the preferred option.

There are good university courses in valuation in Romania, Hungary and the UK capable of delivering face-to-face tuition. This does raise the question of whether an e-learning course is needed. One could argue that it is neither what the customer wants nor is it necessary to achieve the desired outcome of increasing capacity. The economic case for distance learning is that it enables small student populations located at low densities to study on a part-time basis. However, this argument is unconvincing in many cases when one examines actual student and employer behaviour. Experience at Oxford Brookes University suggests that part-time students are willing to travel considerable distances and for their employers to permit them to attend university on a day- or block- release basis. There are heavy start-up costs for e-learning which call into question its economic viability unless there are large student populations from which to generate economies of scale. But is there a pedagogic case for e-learning?

Our target students can be expected to have a non-cognate degree and therefore bring prior learning to the course. Students can therefore be expected bring transferable skills from previous courses, particularly study skills. Therefore one should not have to design a course that develops study skills like reflective learning and self-assessment. This is a clear pedagogic advantage. However, students also come with discipline skills and knowledge but from a variety of subject backgrounds. This provides a considerable pedagogic challenge to the teacher who finds that within the same cohort there are those who have no prior knowledge whilst others bring sufficient discipline skills that they can undertake genuine postgraduate studies[1] in the area. Some examples illustrate the problems encountered in a valuation course. One of the fundamental principles behind valuation is that society has a preference for liquidity. Valuation methods reflect this and are based upon discounted cash flow methods. Economics graduates are familiar with these but not those from a law or architecture background. By contrast, economics graduates lack the construction knowledge possessed by architecture graduates which is needed for the depreciated replacement cost method of valuation.

The advantage of an e-learning programme is the ability to tailor the programme to individual student needs. Students can omit parts of a programme for which they have prior knowledge and devote more time to areas in which their previous education and experience is lacking. Material can also be learned in different sequences. Self assessment tests can be used to enable students to check the adequacy of their prior learning. The core text can be used to direct those who need additional support to where this can be obtained. Students can set their own pace of study. They can also access the material at any time rather than during timetabled classes. They can repeat sections until they have mastered the material.

How can one then overcome the lack of enthusiasm from the target student population for distance learning courses? The answer may well lie in using e-learning to deliver a blended approach as has been happening in the distance learning courses offered by bodies like the British Open University since the early 1970s. The Open University has regularly been rated by students as being amongst the top five British universities for teaching quality. From the outset its approach has been to produce a blend of learning from written units, containing self assessment questions and guidance on reflective learning, assessment through tutor- and computer-marked assignments and unseen written examinations, face-to-face tutorials and telephone consultations with local tutors, student self-managed study groups, and audio visual material. This was all started in an era when students did not own personal computers, mobile phones or video recorders, interactive computer facilities were via teletype machines not screens, and there was no internet. Anything that was achievable with 1970s technology can certainly be done using modern facilities, and generally at lower cost. A blended learning approach can include:

- Interactive links between students and tutors and between students through the internet.
- Real time responses to computer-marked assignments.
- Genuine multi-media course material and not just text, as these can sit on same platform rather than requiring humans linking together different technologies.

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[1] There is a debate as to whether this type of conversion course should be regarded as a "postgraduate" one or not. Postgraduate implies a level of knowledge and skills beyond those that would be acquired in a first degree and not merely that the course was taken after the acquisition of a first degree. A course that is taken after a first degree but achieves an undergraduate level knowledge and skills should be regarded as being a "graduate" one. A masters course that provides a conversion route for non-cognate graduates into a profession will typically contain a mixture of postgraduate and graduate level modules or modules that have graduate and postgraduate components.

- The use of chat rooms, discussion boards, and social networks, like Facebook, to support virtual study groups.
- The retention of records to create an audit trail, for example, of what material a student has accessed and when and retention of work submitted for assessment purposes.
- Access by tutors to material created by others.
- Access by students to electronic libraries.

However, at the heart of this lies an important pedagogic problem. There is little doubt that the material that lends itself best to an e-learning framework is that which fits into a programme learning approach. For example, teaching students the valuation formula and methods does lend itself well to such an approach. The medium of delivery is different from a traditional course but the positivist model of a teacher transmitting knowledge to passive student recipients can be similar. The question is whether this is an effective learning approach and whether it permits the development of skills, like exercising judgement, and the understanding of concepts. For example, the preferred technique used in valuation is the comparable method. This involves valuing a property by reference to other similar properties for which there is recent market evidence. In reality, every property is different if only in terms of its location. A judgement has to be made about how closely another property is comparable and what adjustments might need to be made to the price to reflect differences in characteristics and risk. In practice there are usually few transactions in an area over a period of time which exacerbates the problem.

This raises the question of how effective an e-learning programme can be in developing skills like judgement rather than in learning facts and techniques. In essence, the challenge within e-learning is how to respond to the ideas of educationalists like Dewey that learning is based on discovery rather than the transmission of information. In other words, can we design e-learning environments in which students discover with the aid of virtual mentoring rather than using them to transmit information to be learned? It is possible to produce e-learning course material which takes students through activities designed to be journeys of discovery. It requires care in the preparation of learning material and is demanding on those producing it. It requires the writers to lead students through discovery exercises, including their own research, through which they learn the principles. It requires students to put into practice what they have learned.

A particularly important influence on the use of e-learning technologies has been the American educationalist Ernest Boyer, whose work has influenced the design of a number of learning spaces in American and British universities, including the joint Undergraduate Reinvention Centre at Warwick and Oxford Brookes Universities. Boyer argued against the differentiation in universities between teaching and research arguing instead that there are a number of versions of scholarship – discovery (research); integration that explores disciplinary connections; application and engagements with the wider community; and the evaluation of teaching. He advocated every university providing opportunities to learn through enquiry. The Undergraduate Reinvention Centre in the School of Built Environment at Oxford Brookes University is an example of the fusing of the power of e-learning facilities with Boyer's advocacy of enquiry-based learning. It is a social learning space designed so that students should become active in the production of real knowledge rather than just being passive recipients of what the lecturer or the web-based course tells them. In the process they are also likely to develop the skills sought by employers like self-motivation, communications, and team-working. The space is highly flexible. Screens, furniture and equipment are mobile and can be configured in many different ways. It is not a teaching space but a learning space particularly used by students for project work and research. It provides access to web-based learning and is equipped with multi-media facilities. It is an environment in which groups of students can come together to work on projects. However, this operates in a face-to-face environment supported by e-learning and in which there is a long tradition of experiential learning using projects. The challenge is whether one can find ways of developing experiential learning for distance learning. Alternatively in a blended learning approach for distance learning, students can gain access to this method of learning only through attending university as part of their overall experience.

6. CONCLUSIONS

We successfully produced a valuation course suitable for those working on real estate taxes that is capable of addressing the capacity problems of countries introducing market value real estate taxes. The research we did informed the final outcome though, inevitably, if we had known at the beginning what we did by the end of the project the final outcome would probably have been improved. Producing a course in five languages involved significant work on translations and placed a constraint upon what could be produced with the result that some of the material produced could not be used. Parts of the course have been written in a style that favours a discovery approach to learning and recognises the issues involved in developing skills as distinct from imparting knowledge. By focusing on valuation, the project was concerned with the element in a real estate management course that is most suited to a programme learning approach. The course is not set in stone but has been created in a way that will allow it to evolve over time as a result of the flexible intellectual property rights agreement.

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BIOGRAPHICAL NOTES

Richard Grover is an economist and chartered surveyor. He is Principal Lecturer in Economics and Investment Appraisal at Oxford Brookes University and was formerly Assistant Dean of the School of Built Environment at Oxford Brookes University. He has undertaken a number of projects on the newly emerging private land markets in Eastern Europe, particularly in Bulgaria, Romania, and Russia, for a variety of clients including the World Bank and the Food and Agriculture Organization of the United Nations. He is the UK representative on FIG Commission 7.

CONTACTS

Richard Grover
Department of Real Estate & Construction
School of Built Environment
Oxford Brookes University
Gipsy Lane
Oxford OX3 0BP
United Kingdom
Tel +44 (0)1865 483488
rgrover@brookes.ac.uk
Web: www.brookes.ac.uk