

Barriers to the Successful Implementation of Property Tax Reforms

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SUMMARY

Research undertaken by the World Bank has identified a number of pre-conditions necessary for the successful implementation of value-based recurrent property taxes. These are a comprehensive system of property registration that identifies taxable properties and their characteristics; an accurate record of transaction prices, both sales prices and rentals, that can be used to estimate the market values of comparable properties; a valuation infrastructure comprising valuation standards, methods of measuring properties in a consistent fashion, qualifications for valuers, and codes of ethics and professional practice so that properties are valued in an accurate and consistent fashion; and efficient systems for billing and collecting the taxes assessed. However, these conditions are not sufficient for successful implementation of property tax reforms. There are a number of examples of countries which have failed to implement technically sound reforms even though the necessary pre-conditions have been met. This paper explores some of the reasons for this using examples from Moldova, Poland, Slovenia, and the United Kingdom. There appear to be a number of governance and political obstacles to be overcome. Recurrent property taxes are local taxes yet reform typically requires the support of central government and significant investment of its resources. The benefits are not always perceived by central government which is not the primary beneficiary of reform. In particular ministries of finance have to be persuaded to lead a reform programme for a type of tax that is very different in its technical demands from those they are used to dealing with and which calls for a different administrative structure from other major taxes. There may be constitutional conflicts between central and local government. Recurrent property taxes are rarely popular. They are obvious and not hidden like taxes taken at source, such as income and sales taxes. The wealthy, who are the ones particularly affected by change, have the resources to mount campaigns of opposition. Many households are asset-rich by cash-poor and can find it difficult to raise the cash to make tax payments. Reforms may result in many more taxpayers facing higher bills than see their tax burden reduced. Reforms to the way in which property taxes are assessed must therefore be seen as part of a wider campaign to make property taxes, local public services, and local governance fairer and more efficient rather than just being about technical valuation matters.

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1. INTRODUCTION

The advantages of recurrent property taxes are well known (Grover et. al., 2017). They are difficult to avoid or evade as they fall on immovable property which cannot be easily hidden. They are well-suited to be local taxes as they fall upon assets that clearly fall within a defined jurisdiction and identify as taxpayers those who have a stake in the community. There is no argument as to whether, say, a house or an office is located within a particular local authority, and its presence there means that the owners benefit from the range of local public services provided. With income and profits taxes, for example, there can be dispute about where the real economic value of a production process is located. For instance, the assembly of a product may take place in location x but the argument may be put forward that the real intellectual property that gives rise to much of its value took place elsewhere, for instance where the design and testing were located. Unlike other types of tax, such as local sales or excise taxes, there is little leakage into other local authority areas. Citizens can avoid paying these taxes by doing their shopping in other local authorities, where tax rates are lower. Recurrent property taxes are amongst the taxes least affected by globalisation. Multinational companies are able to minimise the sums they pay in profits taxes through the use of transfer pricing. Inputs can be purchased from subsidiaries located in countries with lower profits taxes, including paying royalties for the use of intellectual property rights, thereby diverting potentially taxable profits to these. Subsidiaries in low tax economies can make loans on which interest charges, which are tax deductible, are paid by subsidiaries in high tax countries. It may be debatable as to which country the real value added to production actually takes place, but there is no argument about where factories, offices, and retail outlets are located.

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As they fall on wealth, recurrent property taxes identify those who are able to pay since the taxpayers are by definition those who own assets. This is in contrast to sales taxes which can be more of a burden on lower income groups because their higher marginal propensities to consume and lower savings ratios mean that they tend to spend a higher proportion of their incomes. Recurrent property taxes are relatively neutral in their economic impact. Property transfer taxes can encourage informal transactions as buyers and sellers seek to evade paying them or else encourage the declaration of artificially low prices. Income and profits taxes tend to discourage investment, entrepreneurship, savings, and work by taxing the rewards from these. Payroll taxes discourage employment. Sales taxes and excise duties discourage the consumption of the items being taxed. By contrast, recurrent property taxes fall on accumulated wealth and tax past behaviour which cannot be altered retrospectively. They have the added advantage of enabling communities to share in rises in land values to which they have contributed through urbanisation and economic and demographic growth, but the land owners have not, providing that tax assessments are regularly revalued to reflect current market values. They encourage the productive use of land by discouraging land hoarding and unproductive land banking.

With all these advantages, it is therefore unsurprising that recurrent property taxes are widely used. Almy (2014) has identified 166 countries with such taxes. However, they are also very lightly used with the revenue raised generally being a relatively small proportion of the Gross Domestic Product or of tax revenue or local government revenues (Grover et. al., 2016). The reason seems to be that, in many countries, recurrent property taxes are levied on the size of the property rather than its value. Where the tax is levied on size, governments have little real knowledge of the effective rates of tax since a large property of low value may be taxed at a higher proportion of its value than a smaller one of high value. Although governments do modify assessments by coefficients such as location or age of construction, the bands used are usually so broad that each cell contains properties of widely differing unit values. The response of governments would appear to be to set relatively low rates for property taxes in order to avoid bankrupting those taxpayers for whom the effective rate of tax is high rather than seeking ways of identifying the market values of properties and adjusting tax rates so that the assessments reflect these, thereby being able to increase property tax yields.

Previous research has identified a number of technical problems with trying to introduce value-based taxes, principally the need to have a comprehensive register of properties, the need for data about transaction prices, how effectively the property tax system functions, and the need for a valuation infrastructure based on internationally-recognised standards and training of valuers (Grover et. al., 2017). It is self-evident that an effective property tax system identification of all properties that the law determines should be taxable. This is a problem for countries that do not have a comprehensive register of properties. Illegal or informal development is likely to result in properties being missed off tax registers, failure to assess properties that should be liable to tax, loss of tax revenues, and inequity as some of those who should be required to pay property tax not making their fair contribution. Value-based property taxes require that those properties for which there is recent evidence of their

market prices as transactions have recently taken place involving them are used to estimate the market prices of those comparable properties for there have been no recent transactions. This is characteristic of both systems that use valuers to estimate market prices for tax assessments and those that use mass valuation techniques. For the former, valuers subjectively identify those properties that can be regarded as comparable and apply the market evidence from other properties to estimate their value, making adjustments to allow for differences between properties. For the latter, the properties for which there is recent transaction evidence are used as a sample from which equations showing the relationship between their characteristics and the market prices are derived. These equations are then applied to the population of properties with their market values being estimated by substituting the values of their characteristics into the equations. Not only must there be a comprehensive register of properties but there must also be an accurate record of the characteristics of each property so that either the equations from a mass valuation system can be applied or valuers can identify the groups of properties whose features make them comparable. Neither a human-based nor a mass valuation system can function effectively without there being an effective valuation infrastructure comprising valuation standards that are consistent with international ones, how properties are to be measured in a consistent manner, the qualifications that valuers must possess, and the ethical standards and codes of professional practice to which valuers must adhere. These are self-evident in a system that relies upon valuers to undertake tax assessments as without these the amount assessed is likely to depend upon who carried out the assessment and the methods used rather than taxpayers being able to rely on the accuracy and consistency of assessments irrespective of who carried them out. Valuers also play an important part in mass valuation systems though alongside professionals from other disciplines, such as statisticians and econometricians, and semi-skilled clerical workers. They are needed to advise on valuation models and data cleaning, to make judgements where there is insufficient evidence for modelling, to value unique properties, and in the appeals process. Property tax systems need to have efficient systems for the billing and collection of taxes. If tax systems leak revenue because of administrative failures, unpunished delinquency by taxpayers, or excessive exemptions and reliefs, property taxes are undermined no matter what the quality of assessments.

Even when these problems are resolved, reforms can still be blocked. It is possible to identify countries with good systems of property registration, relatively accurate sources of data on transaction prices, a well-functioning valuation infrastructure, and efficient systems of tax collection which have failed to complete the introduction of value-based recurrent property taxes. This paper examines the reasons for this by taking a series of case studies where recurrent property tax reform has encountered problems, not primarily because of the technical problems of introducing value-based recurrent property taxes, but because of other factors. It seeks to identify the types of problems that may be encountered and considers the implications for governments seeking to bring about property tax reforms.

2. WHEN REFORMS ARE INCOMPLETE

Unless countries are willing to invest in comprehensive property registration schemes, securing accurate data on property transaction prices, adopting valuation standards that meet international protocols, and in reliable systems for billing and collecting taxes, successful reform of recurrent property taxation is likely to be an unobtainable objective. However, there are also examples of countries which have gone down the route towards adopting these changes whose reforms have failed to reach a successful conclusion. This section explores why this might be the case.

2.1 Slovenia

One of the earliest countries in Eastern Europe to embark on the systematic reform of recurrent property taxation was Slovenia. Fiscal reforms were seen as an integral part of the development of a democratic system after Slovenia secured its independence from Yugoslavia in 1991, and that tax reforms needed to include the taxes imposed at municipal levels². Slovenia inherited a system in which 85 per cent of the income from property taxes came from two recurrent taxes inherited from the previous political regime that had their origins in the mid-1980s. The tax on property was a tax on buildings, dwellings, garages, and second homes paid by physical persons. Properties were scored according to a government points system, but data was not collected systematically, and so was incomplete and unreliable. Municipalities set the rate of tax per points for their jurisdictions. The charge for the use of building land was a contribution made by the user of building land to the provision of communal infrastructure. It was in origin a payment to the state for the use of publicly land but continued to be levied even after property was privatized, and so was in effect a tax rather than a rent. Taxpayers could be physical or legal persons. The rate was area-based with points according to the characteristics of properties, with municipalities setting the rates according to their own rules. The charge on building land was the most important municipal tax. Reform was needed because of the unregulated way in which tax rates were set and the arbitrary way in which assessments were determined, which owed more fiscal needs than a systematic approach. Challenges in the Constitutional Court meant that the building land charge needed to be replaced by a real estate tax.

A series of projects supported by the Bank for International Reconstruction and Development, FAO, and the IMF were aimed at improving real estate registration, upgrading the legal framework for real estate management, establishing a system for monitoring agricultural land use, and developing a Computer Assisted Mass Appraisal system. New legislation included the Real Estate Recording Act, 2006, and the Real Property Mass Valuation Act, 2006. A sales price register had been used to record market prices since 1997. The initial development of a mass valuation system began in 2006 with the development and calibration of models in 2008 and 2009, and notices sent to owners in 2010. Following complaints by owners, some models were modified and the government approved valuation models in 2012 and a

² This section draws on Žibrik (2016).

Generalized Market Value was set for all real estate. The economic crisis caused a slump in market values and indexation took place in 2013 and 2014. A general appraisal has to be carried out every four years and indexation if values change by more than 10 per cent.

The reforms to property tax assessment should have established the basis for successful reconstruction of the system of recurrent property taxation. The Generalized Market Value has become widely used in a number of applications including for the real estate transfer tax, updating the collateral value of mortgages under the Basel II agreement, compulsory purchase, and to determine whether an applicant meets the criteria for entitlement to social security. The new system of property taxation should have resulted from the Real Property Tax Act, 2014. This was intended to address the substantial differences between municipalities in terms of levels of taxation, scope of objects taxed, and exemptions and reliefs, though municipalities would still be able to change rates by up to 50 per cent in either direction, and the heavy rate of taxation on industrial properties compared with residential ones by increasing taxation on the latter. It also proposed to assign 50 per cent of the revenue to the state budget in response to the worsening fiscal situation. The measures were challenged by municipalities upset with state interference in areas that had previously been their exclusive competence as well as a widespread fear that the new system would result in higher taxation. In 2014 the Constitutional Court in a case brought by a group of deputies from the National Assembly, National Council, and various municipalities determined that some elements of the Real Property Tax Act were unconstitutional, including the division of revenue between the state and municipalities, limits on the ability of municipalities to vary rates by up to 50 per cent on the grounds that it could prevent municipalities from raising sufficient income to meet their legal obligations, the system of appeals, the way in which valuation models were determined, and basis for imposing different rates on different types of real estate³. The result was that new law has had to be drafted to resolve these issues, which was passed on 27 December 2017.

2.2 Moldova

Moldova's tax code was changed in 2000 so as to introduce value-based assessment for property taxation and to replace the land tax and tax on buildings and structures by a single property tax⁴. Land was assessed on the surface area. For agricultural land there was an adjustment for fertility, known as the *bonity*. In the USSR the prices paid for agricultural products varied by regions with the most productive areas receiving the lowest prices; in effect the levying of a land rent or a land tax on the more productive regions relative to less productive ones (Nove, 1980). Residential properties were assessed on their inventory values, based on their depreciated replacement cost. As this did not reflect the influence of location on value, coefficients were applied to these according to the type of settlement in which the property was located. Commercial and industrial properties were assessed on their book

³ Decision of the Constitutional Court Case Number U-I-313/13

(<http://odlocitve.us-rs.si/en/odlocitev/AN03688?q=real+property+mass+valuation+act>: accessed 19 February 2018)

⁴ This section draws on Buzu (2016) and fieldwork undertaken in Moldova.

values, which reflected construction costs. A system of mass valuation was launched in 2004, with the new tax assessments being launched in phases from 2007. The intention was that each year a new class of property would be added to the mass valuation system with assessments being based on market values. Between 2007 and 2012 the mass valuation system was applied progressively to apartments, residential houses, garages, commercial and industrial property, and agricultural land with structures. There are issues with obtaining accurate transaction prices as declared prices were often false due to a “capital gains tax” of 18 per cent being levied on the difference between the actual sales price and official prices, which are often out of date, with the result that the official prices become the ones declared. Other sources had to be used including valuations, auction prices, asking prices, and information from realtors. The mass valuation was carried out by central government, by the cadastre under the supervision of the Agency for Land Relations and Cadastre (ALRC) but municipalities determine tax rates within maximum and minimum limits set by central government and are responsible for collection. A system for licensing valuers under ALRC was set up in 2002.

The system of mass valuation was supposed to be applied to all properties but has actually been applied to only 12.5 per cent. It has not been applied to agricultural land, rural housing, or special purpose properties, like utilities. Moldova is one of the least urbanised countries in Europe and the economy is heavily dependent on agriculture (Buzu, 2016). The law provides for revaluations every three years but none have been carried out. At one level, the problem in completing the mass valuation system looks to be a technical one. Systematic registration of rural properties has not been completed. Nor has there been delimitation of public lands, which include areas such as grazing and internal roads within former *kolkhozy* and collective farms. When the *kolkhozy* and collective farms were divided in the privatisation process, the allocations were often not measured precisely or accurately with the result that some persons now occupy areas greater than their legal entitlement, and these anomalies need to be resolved legally. However, the impediments look to be primarily political and fiscal. The beneficiaries of extending the system of mass valuation are municipalities who stand to gain revenue. The costs of completing systematic first registration, mass valuation, and carrying out revaluations fall on central government. The government has faced severe financial difficulties, particularly following the banking crisis of 2014 (IMF, 2017), and funding for new projects, including ones which could alleviate fiscal pressures in the future, has been limited. There has also been the fear that falling property prices could result in lower property tax revenues, particularly from rural properties. This has prompted fears that reform of property taxation would result in higher taxes. The level of exemptions and reliefs from property taxation significantly undermines the yield and the proportion of property tax revenues absorbed by administrative and collection costs is high (World Bank, 2014). At the time of writing, the Government of Moldova is in the process of negotiating with the World Bank for a loan that, if agreed, would provide funding for completing systematic first registrations, extending mass valuation to those properties not currently covered by it, and carrying out revaluations of the properties already in the mass valuation system .

2.3 Poland

The current system of real estate taxation in Poland came into effect in 1991⁵. There are three property taxes; on real estate, on agricultural land, and on forestry. How the property tax is levied depends upon the type of objective being taxed. Land, other than agricultural and forest land, is assessed on its area as recorded in the cadastre. Buildings are assessed on the usable area. Buildings and objects associated with running a business are assessed on their value. The tax on agricultural land is assessed on the area adjusted by the type and class of agricultural land and the tax district. The tax per hectare is based on the price of a unit of rye. The forestry land tax is based on the area of the land with the rate determined by the selling price of a standard unit of wood. The system of property taxes was introduced approximately two years after Poland's transition to a market economy began but the taxes levied are not based on the market values of individual properties.

The 1991 system was envisaged to be a transitional one until value-based property taxes could be introduced. The Unit for the Reform of the Tax System was created in 1993 with the task of making preparations for the introduction of a new property tax. In 1994 the Ministry of Finance was mandated to introduce a comprehensive reform of real estate records for fiscal purposes, including determining the value of properties. Under the Act on Land Management (1997) mass appraisal was to be used to establish a cadastral value of property for property taxation but also to value the properties belonging to the state and municipalities. Pilot studies on mass valuation were carried out in the 1990s. The Department of Local Taxes and Cadastre was created by the Ministry of Finance in 1998 to implement property tax reform. Mass appraisal provided for under this legislation was never implemented. The reform of property taxation was again proposed in 2012, with the aim of there being a value-based tax system in place by 2020. However, the necessary legal basis for this has not been fulfilled. Laws are needed to specify commencement and completion dates and to identify a source of funding for the work. Technical guidelines are required and municipalities will have to pass resolutions on the costs to be borne by communities.

Poland started to develop a system of electronic property registers in 1995 and by 2010 there was public access to land and mortgage registers through the Ministry of Justice's website. The paper registers have not been fully migrated into electronic form though they have not been discontinued. The cadastre has largely developed the systems that would support a property tax though its data is not yet linked electronically with the land register. There is a two per cent property transfer tax and procedures are in place to verify the accuracy of declared prices so evidence on transaction data is available. Poland has a well-developed system of valuation standards based on European and International ones and a system for licensing valuers based on postgraduate qualifications, professional experience, and an examination. On the face of it, there are no serious barriers to bringing about reform of recurrent property taxation for that it is value-based. There appears though to be no political will to bring about change. There is little

⁵ This section draws upon Walacik (2016).

public support for property tax reform and belief that any change would result in higher taxes (Walacik, 2016).

2.4 United Kingdom

On the face of it, the United Kingdom seems a strange addition to the list of countries for which reforms to value-based recurrent property taxes have failed to be implemented. After all, it raises more money in recurrent property taxes relative to its Gross Domestic Product than any other country in the world. Recurrent taxes on immovable property in the UK amounted to 3.1 percent of GDP in 2015 and 4.1 per cent from all property taxes compared with an arithmetic average for the OECD countries of 1.9 per cent (OECD, 2017). There have been recurrent property taxes since the mid sixteenth century and such taxes are levied on the basis of market value. The UK has a comprehensive fiscal cadastre, well-developed valuation infrastructure, an active property market with open access to data, and tax systems that collect a high proportion of the sums levied.

There are two recurrent property taxes: national non-domestic rates, which fall on non-agricultural non-residential property; and the council tax which falls on residential property. The present system derives from 1988 when the long-standing rating system was replaced. This divided what had been previously a unified system under which local authorities set rates for both domestic and non-domestic properties assessed on their annual values into separate systems for domestic and commercial and industrial properties. Non-domestic properties continued to be assessed on their annual values generated by the government's Valuation Office Agency. A system of regular revaluations every five years was built in rather than the previous occasional ones. The tax though ceased to be a local government tax, although local authorities continue to collect it. Instead central government (or the regional devolved governments) set the rate and the money is notionally paid into a central pool from which local authorities receive revenue according to their populations rather than their contributions. Thus, the business rates have become a hypothecated tax levied by central government for the benefit of local authorities. At the current time, central government is in the process of returning controls over the revenue collected to local authorities but not the power to set the rate. There have been criticisms by some businesses that there is no relationship between profitability of businesses and the property taxes they are asked to pay and that the tax penalises certain types of business that make more intensive use of high value property assets, but this is the nature of recurrent property taxes. It does mean that the burden of business rates tends to be heaviest on service industries in South East England, including London's financial services. Each revaluation brings complaints and appeals, particularly if the government has made the transition reliefs less generous than the previous round, but ultimately the system functions reasonably effectively. The Netherlands found that the number of complaints fell when they moved to annual revaluations of the recurrent property tax (Kuijper and Kathmann, 2016), but there are no proposals to do this in the UK.

By contrast, there are problems with the Council Tax, which successive governments have shied away from tackling. The changes in 1988 brought a radical change to the taxation of

residential property. Domestic rates were abolished and replaced by the Community Charge, a poll tax on each adult resident. Although it is fair to say that domestic rates were never popular, the unpopularity of the Community Charge was even greater, resulting in protests, including riots. The government underestimated the problems and costs of collecting a person-based tax compared with a property-based one, and collection rates fell significantly. Keeping track of mobile populations in the centres of major cities proved challenging in a country with no system of identity cards or requirement on its citizens to register their addresses. The tax was widely perceived to be unfair, being charged on most residents at a flat rate that was unrelated to either income or property assets. In 1991 the government replaced it with the Council Tax, which is a recurrent property tax assessed on the capital or sales value. This was a sensible move given the level of owner occupation of housing in Britain and the limited availability of comparable evidence of market rents for housing. By contrast there is widespread availability of sales price data that can be used as evidence of market values for comparable properties.

Although assessment is based on the market value, domestic properties were placed in one of eight bands. In principle this should make the process of assessment simpler and cheaper rather than a valuation having to be made of each property individually, but the outcome has been to create a regressive tax, the burden of which falls more heavily on those with the least valuable properties. This is the result not of the banding system itself but how the rates in each band are related to each other. Local authorities set the rate for band D properties, which are those that in 1991 were valued at between £68,000 and £88,000. By way of comparison, the average house price at that time was £55,418 (Nationwide Building Society). The rate for Band A properties (those valued at under £40,000) was 6/9th of the Band D rate and that for Band H properties (those valued at over £320,000) was 18/9th of Band D. Band H is an open-ended band. This means that if the Band D rate is set at £600 for the year, a property valued at £35,000 would pay 1.14 per cent of its value but one valued at £330,000 would pay 0.36 per cent of its value, and one valued at £1 million 0.12 per cent of its value.

A further problem is that there has been no revaluation of properties since 1991. The banding system was intended never to require revaluations as it was assumed that all the bands would change at the same rate. The reality has been that different properties have increased in price at different rates resulting in inequality as properties of similar values in 1991 are no longer worth similar amounts. Table 1 provides some indications of the differences by comparing prices of particular types of properties in the second quarter of 1991 (the assessment date was April 1991) with the fourth quarter of 2017.

Table 1 Growth in price of selected types of residential properties 2nd quarter 1991 to 4th quarter 2017

Type of property	2017 prices as multiple of those in 1991	Region	2017 prices as multiple of those in 1991
Terraced house	4.32	North of England	2.55

Detached house	3.33	London	6.05
Semi-detached house	3.85	South West England	3.99
Flats	4.63	West Midlands	3.11

Source: Nationwide Building Society

Successive governments have been aware of these issues. A revaluation was planned for 2007 with subsequent revaluations every ten year, but was abandoned. There are no technical problems with carrying out a revaluation but rather, the problem would appear to be the experience of a revaluation in Wales in 2005. Out of 1,317,450 properties on the tax list, 105,380 (8 per cent) were moved to a lower band but 438,760 (33 per cent) to a higher band (<https://www.gov.uk/government/publications/properties-changing-council-tax-band-as-a-result-of-the-2005-revaluation-in-wales>). The losers outnumbered the gainers by a significant margin so it is clear that revaluation will result in more households experiencing an increase in tax than are likely to gain from a reduction. Further proposals for revaluations were rejected by the government in 2010 and 2016. There have been proposals for a “mansion tax” that would increase the tax burden on highest value properties and overcome the problem of the open ended nature of Band H, though this would not address the fundamentally regressive nature of the tax. The use of 1991 values means that the population now has little understanding of how their assessments were produced. New dwellings have to be valued as if they had existed in 1991 at the values then prevailing. There are valuers trying to do this who were not even born when the original assessments were undertaken.

Rather than reforming the Council Tax, the government has preferred instead to increase rates of Stamp Duty Land Tax, the UK’s property transfer tax, on the highest value properties. This does have the merit of falling on taxpayers when they have the liquidity to pay the tax, something that it can be argued presents problems for asset-rich cash-poor households like pensioners with the Council Tax. However, this does ignore the equity release market in the UK whereby owner occupiers can access part of the equity in their property through an annuity secured on it. There is also a rent a room scheme under which households can rent out part of their homes for up to £7,500 per year with no income tax being charged on the revenue, something that can be readily accessed through websites like Airbnb. Stamp Duty Land Tax is a central government tax whose revenue does not directly benefit local authorities.

3. GOVERNANCE BARRIERS TO PROPERTY TAX REFORM

Perhaps it should not be a surprise that reforms that make sense technically do not always lead to successful implementation. Not everyone is likely to benefit from them and so there can be expected to be opposition. This opposition may be well-organised and articulate whereas the beneficiaries of fairer taxation or of better and more reliable funding for public services may be diffuse, unorganised, and may not recognise that they share a common interest. Property taxes by their nature fall more heavily on the wealthier elements in society, who are precisely the groups who can afford lawyers, lobbyists, and public relations consultants, commission

their own research, and have the resources to mount campaigns and be donors to political parties. Where the common interests of the wealthy and the rest of the population can come together is the affordability of property taxes. A significant part of the population is likely to encounter problems in paying recurrent property taxes because they are asset-rich but cash-poor. This is particularly likely to be encountered in transition countries because of the way in which the housing stock was privatised, either being given to occupiers for nominal amounts or sold at discounted prices. The result is that there are many households who occupy properties that they would never have been able to have purchased in a market economy on their incomes. This particularly applies to pensioner households. Some mitigation can be achieved through reliefs and transition periods but attention has to be paid to how the tax is paid, which may include deferment until the property is sold.

Recurrent property taxes are generally a source of revenue for local government and yet the costs of reforms often fall on central government. A mismatch between those meeting the costs and the beneficiaries is unlike to aid the case for reform. Governments may not perceive the indivisible nature of public finances. Even if they do, they may find themselves immersed in constitutional conflicts between levels of government. Local governments are typically faced with costs of local services that outstrip the revenues they can generate themselves. This problem tends to be resolved through inter-governmental fiscal transfers either in the form of grants or through revenue-sharing arrangements of national taxes, like income tax. If local governments fail to maximise their own revenues, then there is an impact on national finances. For local politicians there are obvious merits in not imposing higher local taxes to fund local public services and the ability to place the blame for the inadequate finances can be laid at the door of central government. Inter-government fiscal transfers give central government power over local governments and leverage to oblige them to follow policies they would not otherwise adopt, so greater fiscal independence may be something they are not keen to encourage.

The use of recurrent property taxes seems often to produce hostile reactions from the population, which can seem out of proportion to the tax burden they create. Perhaps surprisingly opposition can often be encountered from those one would expect to benefit from higher taxes on wealth to fund public services. This may be because they are highly visible in ways that consumption taxes like value added tax, income tax, social security contributions, and profits taxes are not. For households this usually involves handing over money from taxed income to a tax authority rather than this process being hidden through tax deductions at source from earnings or with retailers acting as unseen tax collectors of consumption taxes. Scope for avoiding these taxes or undertaking legal tax minimization is minimal. The local public services they are used to fund are highly visible with the population having a direct experience of them and their management that they do not of many other areas of government expenditure, such as defence. All of these point to the need for careful planning of property tax reforms and for them to be accompanied by careful marketing of the initiative showing how benefits follow from reform. The taxes need to be seen to be fair and the public services they fund to be efficiently run and effectively delivered. Transition economies in particular need to educate their citizens that public services depend on taxation and that there is a

balance to be struck between the burden of taxation and the quality and comprehensiveness of public services.

Although in principle governance is enhanced by linking the costs and benefits of public services so that citizens can make informed choices about trade-offs, politically this can be problematic with anticipated losses attracting more attention and perceived losses than possible gains. It would appear to be much easier for local politicians to increase tax yields by improving collection rates through bringing into the tax system properties not being taxed than to improve the method of tax assessment. There are likely to be fewer losers, and they are unlikely to attract much public sympathy for having evaded taxes in the past. Such action brings an immediate increase in revenue to sweeten any tax increases and the cost of doing this through checking tax rolls against utility bills, electoral registers, and orthophotos is not prohibitive. However, these bring one-off benefits as once untaxed properties are included in the tax rolls there is no further increase in revenue to be obtained by this means. Moving to a value base with regular revaluations is a gift that keeps on giving as revenue continues to be boosted by the capture of increases in values resulting from economic, urban, and demographic growth can produce.

There is often an uphill battle to convince ministries of finance to support property tax reform. Modern trends are to create one-stop shops for businesses' relationships with the tax authorities, capable of dealing with profits and other taxes on the businesses themselves, their role as tax collectors of income tax and social security contributions from their employees, and their collection of consumption taxes like value added tax. Property taxes do not fit easily into this mould. They require specialist assessment methods being based on the value of properties rather than financial transactions. They require specialist tax rolls to be maintained and separate collection methods. Officials in ministries of finance are not specialists in valuation and find themselves acting outside of their comfort zones when it comes to property taxes. They are seen as being the province of ministries of the local government or construction, which are usually much lower in the political pecking order than ministries of finance. Financial pressures though, particularly external ones from creditors or the International Monetary Fund, can raise the priority ministries of finance give to what they are likely to regard as local government finance reforms. Under these circumstances, ministries of finance may, in the words of Rahm Emanuel, President Obama's former Chief of Staff probably quoting Winston Churchill, be persuaded not to let a serious crisis go to waste.

4. CONCLUSIONS

A logical case can be made for tax reform so that recurrent property taxes are levied by value. However, this by itself does not mean that reform will go ahead, even in situations in which the pre-conditions for effective reform have largely been met. Previous research has indicated that successful recurrent property tax reforms that achieve value-based taxation require a comprehensive system of property registration so that all taxable properties are actually taxed, accurate recording of transaction prices so that they can be used to value comparable

properties, a valuation infrastructure comprising internationally-recognised standards for undertaking valuations, the qualification of valuers, and codes of ethics and professional practice, and efficient systems for billing and collecting the taxes assessed.

However, there are countries which substantially achieve these preconditions that have been unable to fully implement reforms. Their experiences point to other barriers to the successful implementation of property tax reforms that go beyond the technical problem. These point to other barriers in the way of successful property tax reforms by way of a governance or political nature. Recurrent property taxes are not popular taxes. They cannot be hidden or deducted at source as income or sales taxes are but require taxpayers to hand over money to the government. Those with significant property assets are likely to lobby against them and asset-rich cash-poor households are also likely to oppose them. If governments are to bring about property tax reforms they must educate the public about why they are necessary and adopt payment strategies that make it easier for taxpayers to meet their demands. Local governance is likely to need to be enhanced and the quality of local public services improved so that taxpayers can see the relationship between higher tax burdens and improved governance and public services.

Successful recurrent property tax reforms are not just about improving the quality and equity of property tax assessments, though this is a key part of the process. Technically sound reforms are not always implemented. Rather improved assessment needs to be part of a wider strategy of persuasion and education of taxpayers and improving governance and public services of the linkages between taxation and public service.

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BIOGRAPHICAL NOTES

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