



Introduction of a Property Tax

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Overview

- Introduction
- Cambodia in perspective
- Rationale and objectives of property tax
- Establishing the tax base
- Administering the tax
- Conclusion



Property Taxes

- Property taxes are popping up on the policy agenda in countries around the world
- Potential role of property taxes in developing countries as in developed countries is mainly as a source of local revenues – sometimes used in part as a tool to affect land use but not a good idea especially when tax not well established
- Appropriate role of property taxes, design and implementation differ in different countries and change over time in any one country: “No one size fits all”



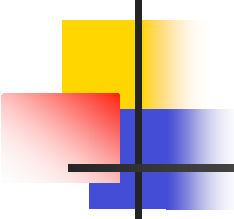
The Real World of Property Taxation

- Land and property taxes are not big revenue producers in any country
- But, they are an important source of *local* revenue in many countries --40% of all sub-national taxes in developing countries and 35 percent in developed countries



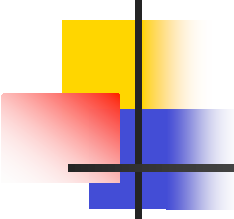
Cambodia in perspective

- Taxes on real property are ancient and widespread in world
- But not in this region
- Some types of taxes on property do exist in Cambodia– transfers, rental income
- But, as in Vietnam and Laos, until now no real property tax as such.



Rationale and Objectives of Property Tax (I)

- Financial base for local governments in many countries
- Appropriate local tax for political, economic, and administrative reasons
- National tax in a few countries largely for administrative reasons (though revenues usually go to local level)



Rationale and Objectives of Property Tax (II)

- Revenue – unlikely to be large from national perspective
- Although may be useful supplement to income and other taxes from some policy perspectives (wealth, capital gains)
- May also to some extent provide some useful administrative information useful for other taxes
- BUT: also likely to be relatively expensive (per \$ revenue) to implement and unlikely to be popular



Economics of Land and Property Taxes

- Property is immovable
- Tax on benefits received from local services or a tax on capital?
- Who really pays the property tax?



Political and Administrative Aspects

- Visibility
- + Inelasticity (requiring frequent rate increases)
- + Inherent costliness and arbitrariness (of base determination, especially of values)
- = Unpopularity
- Except perhaps to extent offset by visible local benefits: is local autonomy valued nationally?



Introducing a Property Tax

What is needed?

- Adequate technical expertise
- Existence of cadastre, land registration system, local government capacity, solid administrative structure
- Phase-in mechanisms
- Political will
- Taxpayer support



Setting up a Property Tax: The Ideal

- Taxpayers - clear property titles and clear property law
- Tax law – well-designed and understandable
- Tax base – land register; measurements (cadastre); valuation; exemptions
- Administration – established before implementing law



What is Taxed? - I

- Land only – a few countries (all land, occupied land, vacant land)
- Buildings only – even fewer countries
- Land and buildings separately
- Land and improvements – most countries
- And in a few cases even more (e.g. machinery)



What is Taxed - II

- Residential property
 - Separate houses
 - Multi-family units
 - Temporary accommodation (often special 'hotel' or 'tourist' taxes)
- Non-residential property
 - Commercial
 - Industrial
- Special cases
 - Agricultural land
 - Public land
 - Forest land
 - Utilities



What is Not Taxed - Exemptions

- By ownership (government, public agencies – education, health - diplomatic)
- By use (charity, agriculture)
- By characteristics of owner (aged, disabled, poor)



Determining the Tax Base

- Area-based assessment
- Market-value (capital value) assessment
- Rental-value assessment
- Self-assessment
- Different methods for different types



Determining the Tax Base (I)

- Most PT are based on some estimate of market value
- But this assumes a functioning and transparent market, good property records, and considerable administrative expertise
- It seems unlikely these conditions exist at present in Cambodia



Determining the Tax Base (II)

Most common alternative likely some form of
'unit value' (fixed tax per unit of size)

Again requires good property records with
respect to measurement and title

May be costly to establish even this base

And of course need to maintain it over time

Also usually need to adjust tax rate periodically



Setting Tax Rate

- Property tax on houses always unpopular but a logical and feasible source of local revenue
- Property tax on businesses often popular but much less logical especially if, as is often done, taxed at higher rates
- As with all taxes, broader base and more uniform rates are best
- Don't give away the (potential) tax base!



Running the System

- “Tax administration is tax policy”
- Steps:
 - Identification of properties being taxed
 - Preparation of a tax roll (description of the property and the amount of assessment)
 - Issuing tax bills, collecting taxes and dealing with arrears



Property Tax Administration

- Who sets the rate?
- Who identifies the base?
- Who assesses properties?
- Who decides appeals?
- Who sends the bills?
- Who collects payments?
- Who enforces the tax? And how?
- Who receives the revenue?



Dividing Tax Administration

- Central valuation and central collection
 - Pakistan, France, Jamaica
- Central valuation and local collection
 - U.K., Colombia
- Local valuation and central collection
 - Tunisia, Slovenia
- Local valuation and local collection
 - India, Mexico, U.S.



Property tax(es)

- Residential and non-residential taxes different in some important ways
- Urban and rural (including but not limited to agriculture) also different
- But it is important to design and implement tax as simply as possible so best to avoid such features as progressive rates, special taxes on idle lands, etc.
- PT rates usually low but still changes may impact often volatile urban property markets and important to place PT in perspective given other taxes affecting property e.g. on rental income, capital gains, and transfer taxes.



Conclusions

- Countries do many different things
- But good property tax policy should usually
 - Focus on providing local revenue
 - In as simple a fashion a possible
 - And should not be overloaded with non-fiscal tasks
- Caution: Do not underestimate substantial administrative effort required to set up and maintain tax base