



**Responsible Land Governance:
Towards an Evidence Based Approach**
ANNUAL WORLD BANK CONFERENCE ON LAND AND POVERTY
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The Critical Elements of Sustainable Property Tax Implementation and Reform

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Abstract

This paper seeks to outline the key elements of a sustainable implementation process for property tax. It highlights the need to select an appropriately skilled team of consultants and to utilize “in country” expertise. The paper outlines a series of critical actions which are necessary for a successful modernization programme with particular emphasis on the practical application of modern techniques and an emphasis on understanding the “country situation” before you embark on the change programme. It also emphasizes the need to educate the potential taxpayer and deliver an education programme for the taxing authority staff. The importance of the institutional setting in the country is highlighted as a significant precursor as is the incidence of corruption and fraud. There is also a clear statement on the importance of compliance and the consequential collection process.

Key Words:

Property Tax, Implementation, Sustainable, Consultants

The Critical Elements of Sustainable Property Tax Implementation and Reform

Introduction

Over the years it has been recognised that the property tax has great revenue potential. Taxes on immovable property are regarded by public finance experts as a suitable source of revenue for sub national governments. However from within the professional bodies, valuers schooled in traditional single-property valuation methods tend to regard assessors and the mass valuation methods used in property taxation as unworthy of consideration.

Notwithstanding these diverse views the property tax is an important fiscal instrument. In recent years it has been used as a stimulus to countries that were in economic freefall. There are significant examples of encouragement given to distressed economies to improve the performance of existing property taxes and to introduce new ones.

The last thirty years has seen dramatic economic shifts in transition countries. These movements have been supported by numerous missions financed by various donor agencies and countries. Some of these projects have been a resounding success and some have not. There is a tendency for Technical Assistance in some of these missions to be driven by the strengths of the consultants rather than the needs of the client country. This paper seeks to set out a “template” which draws out the critical elements of sustainable property tax implementation and reform. This template builds upon the excellent work delivered in numerous countries and is a further step on the route to developing standards that will provide consistency in the outcomes delivered in future missions concerning the use of land and property taxes in financing sub national government.

Designing and implementing land and property tax reforms is an important element of a country’s economic health. So often these reforms are built around advice from international experts. This initial advice can often influence the overall project. The quality of this advice must be second to none. Those involved must research the country situation and ensure that any advice suits the

current circumstances of that country. Any reforms must be fit for purpose and sustainable. It is unacceptable for consultants to deliver “what they think is best” rather than properly researched proposals that deliver workable and acceptable systems.

One of the critical elements of the reform process is the effective involvement of local experts who have sufficient authority to ensure productive project management. Too often “local advice” is either ignored or totally disregarded. It is important that “in country” protocols are observed, particularly those that impact on the timely delivery of the objectives of the project.

In this paper I will identify the key elements of the approach to the delivery of successful and sustainable reforms. Those involved must take ownership of their role in any project. Integrity must always prevail. Technical Assistance should be seen as a “duty” to those who retain you and the country you are assisting.

A precursor to any project should be the selection of the team who are going to carry out the work. You must have a group who possess the appropriate skills to meet the clients demands there should also be a willingness to adjust the membership of the team as the project objectives become clearer. An essential element of this is the recruitment of local intelligence so you can have a clear understanding of the culture and institution setting in the host province or country. Right from the outset of any project there should be a skills audit of the available in country resources. The reality of any mission is that it will thrive off the quality of local intelligence. This can only be delivered by local experts. Their skills need to be effectively utilised.

The “critical” elements of the template are encompassed in the following paragraphs:-

Purpose and objectives

The reform programme in any country must have a stated purpose and clear objectives. These must be built around political will and the policy derived from it, this is sometimes known as a “policy first” approach. By having clear objectives and clarity of policy much time, effort and cost can be saved by avoiding approaches that would be unacceptable to the mission recipient.

Situation Report

The first step after achieving clarity on the purpose and objectives would be to develop a detailed situation report. This is a form of diagnostic which would examine current systems and gather local evidence on what is working and what is not. The report will have several strands. The follow list is not exhaustive but seeks to give a flavour of a comprehensive situation report.

- The nature of existing property and land taxes
- The purpose of property and land taxes, is it revenue mobilisation to finance sub national or national government, fiscal decentralisation or some other purpose
- Does the tax deliver any unintended consequences?
- The quality and coverage of the tax base
- The complexity of the tax structure
- The yield from those taxes
- The cost of the tax administration

- The quality of the tax administration both in terms of human and physical resources
- The public acceptance of the tax
- The compliance regime and the quality of its performance

Institutional and economic setting

This would be part of a careful study of the democratic and legislative processes in the country having particular regard to political will and timelines. There would be a need to understand the legislative setting and the content of any current statutes and subordinate powers. This study must recognise that developing countries and those in transition are not as agile in governance terms as industrialised countries. In these countries consideration should be given to a planned transition in any new or modified tax regime. This is particularly important where there may be taxpayer resistance. There would also be a detailed analysis of the economic drivers in the country. These would be drawn from established and trusted sources such as the World Bank, the IMF and the OECD

The incidence of fraud and corruption

Winning taxpayer confidence is critical to the modernisation or reform of any taxation system. There must be a thorough investigation into the current evidence of activity in this area. Information would be drawn from trusted sources as well as in country reviews. A range of challenges should be answered as part of any project to ensure the structure of any system is resilient to fraud and corruption. The range of challenges could include:-

- Is an integrated Fraud and Corruption Strategy across all spheres of Government in place and how is this assessed in terms of efficacy?
- Has a fraud and corruption risk assessments been conducted?
- If yes, has a risk register been created?
- Is intelligence gathered on incidents of fraud and corruption across Government?
- Has the issue of conflicts of interest been addressed and is there an assessment of supplier and employee relationships?
- Is the link between fraud and corruption recognised and is the impact on service delivery quantified? a
- Is there a structured and integrated assessment of “fraud and corruption health”?
- There must be a clear understanding of the incidence of general tax avoidance and evasion. This must be factored into any model to ensure accuracy of the potential tax yield.

The tax base

The selection of the tax base is always a challenge. It is generally driven by the quality and volume of available evidence. The normal sources are the rental value, the capital value of land and improvements, the land value, or in extreme circumstances the physical area. The international trend seems to be toward capital value of land and improvements. The reality is that any of the four can work effectively. The right choice needs to be determined by the in country circumstances particularly in relation to the reliability of the available evidence. Irrespective of the choice the expected revenue potential of the taxing instrument needs to be properly measured particularly having regard to the ability of those liable to actually pay the tax.

The measurement of the tax base should include volumes, assessment methodology and potential revenue yield. The quality and depth of the tax base are important in creating a system which is

acceptable to all taxpayers. A weak approach to maximising coverage will damage public confidence in the reforms.

Exemptions

It is inevitable that there will be a desire to introduce a range of exemptions and reliefs. Whatever reliefs and exemptions are eventually selected it is important that all land and/or property are valued and appear in the tax base. Adopting this practice ensures that there is proper measurement of the revenue forgone from the application of such concessions and that there is a clear understanding of the financial impact of such policies.

The policy decisions in relation to the scope and range of exemptions must meet criteria that are determined locally. This decision is critical to the success of the tax particularly in terms of public acceptance. It is important that there is no preferential treatment based upon politically driven decisions. The approach to the selection of exemptions and reliefs must be based on the need to create a scheme that enhances the acceptance of the potential tax and does not substantially erode the tax base.

The decision on the selection of exemptions will ultimately be based upon local evidence. Any decision must take account of the general principals outlined above. There are some exemptions that will be based upon international treaties others will be promoted by local statutes and other aspects of the host countries general taxation approach. These could include religious bodies, charities and similar not for profit entities. The selection of exemptions could be time limited and subject to periodic review to ensure they are meeting any predetermined objective.

Linked to these decisions is the treatment of government properties and those available exclusively for public use. The international treatment of this type of property is generally resolved by payment in lieu of tax.

Administration

There are eight the aspects of an efficient land and/or property tax administration; they are staff selection and training, use of technology, the quality of the tax base both in terms of accuracy and coverage, identifying the taxpayer, taxpayer education, collection, enforcement and administrative integrity. These aspects are equally important fail on one and the whole administrative process could fail and would jeopardise the overall success of the reform.

Effective administration sits alongside the institutional and governance issues. They are mutually dependant. Never lose sight of the overall objective. You are reforming a tax process the ultimate aim is to raise revenue to create stable national and sub-national government.

Any project must deliver systems that are sustainable. The system must meet the needs of the client country and be deliverable within the country setting. It is no use developing sophisticated procedures built around technology that cannot be maintained in the long term. The cost of the valuation process and the cost of administration must be properly measured using appropriate account standards and they must be benchmarked using international comparators.

Impact assessment

Impact Assessments are evidence-based procedures that assess the effects of public policy. Impact assessments can be based on policy, equality, poverty, the environment and other socio economic issues. Impact assessments focus on specific themes of the project.

Communication

At the outset of any mission a communication strategy must be developed. It is essential that all team members and stakeholders are kept fully informed of developments and any issues that may delay progress. The communication strategy must be transparent and meaningful. Keeping those around you informed is a foundation of a successful mission..

Modelling

In the delivery plan of any reform programme there must be a model of the overall system. This model will be used to test any theories or leading edge developments. The effective use of modelling techniques will dramatically reduce the risk of failure or unexpected outcomes. The elements of an effective model could include the following, the content is illustrative, and there could be more elements. These would be built around the country setting

Taxpayer education and propaganda

Taxpayer education and propaganda relating to any tax reform is critical to the success of the delivery of the final system. The features of an education programme should be appropriate to the country situation. It will consist of media exposure, web and news casts, the use of social media and conventional government announcements.

Compliance

The development of an efficient compliance regime is important. This must be carefully modelled to ensure it is fit for purpose and appropriate to the host country and its enforcement processes. These processes must be effective and transparent to such an extent that they send a positive message to all taxpayers that non-payment will be dealt with in an effective and timely manner.

Effective project management

A project management tool must always be used to monitor the overall activity. A typical tool would include deliverables, monitoring, resource allocation, slippage, and remedial action and anticipated outcomes.

Consultation

Consultation and dissemination of the project is critical to its success. From the outset a detailed consultation strategy should be developed. Effective consultation will give ownership of the project to all stakeholders and participants.

The peer and post implementation review

At the conclusion of any project it must be subjected to a peer review. The delivery of the review must be from recognised and respected sources. This is not a “rubber stamping” exercise it must be meaningful and fit for purpose and rigorous in its application.

After the first year of the new regime there should be a post implementation review which give a root and branch assessment of the first year’s performance of the new tax.

In conclusion

This paper is borne out of frustration. The days of consultant tourism must end. There have been many successful missions that have delivered excellent results. We must learn from excellence and discard failure. Effective use must be made of in country skills in the delivery of missions. All projects must recognise the country setting and deliver programmes that can be achieved and maintained after the mission has ended.

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