



Real Property Taxation: an **International** *Perspective*

The taxation of real property for public purposes is an activity becoming omnipresent on a global basis.

This is perhaps not unexpected if you recall that the history of this form of taxation dates back thousands of years to origins in the Middle East and Asia. If you consider the often passionate public maligning of the property tax across Canada and the United States, however, it may still come as a surprise to some to note its modern spread into both developing and “transitional” economies around the balance of the world.

The detailed reasons for the spread of the *ad valorem* style of property taxation in recent years are of course diverse and beyond the scope of this article. Suffice to say that most of the old reasons for its popularity remain, e.g., identifiable assets to tax, relatively stable, difficult to evade, etc. These reasons have now been augmented by an emerging global economy populated by rapidly growing urban centres requiring stable revenue sources and sound financial infrastructures.

These needs coincide with the strengths of a tax on property and also fall within a comfort area for financial institutions attracted to the collateral

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potential that comes with land registry and taxation records that comprise a financial cadastre system.

The global interest in developing land registries, valuation processes, and taxation infrastructures to support property tax systems led to the establishment of the International Property Tax Institute (IPTI) in 1996. IPTI is a non-profit organization (www.ipti.org) that has as its mission:

to internationally promote and foster property taxation and assessment ideals founded upon the general principles of fairness and equity within the partnership of practitioners, governments, and taxpayers.

With annual conferences held in eight nations over its first eight years of existence, IPTI has developed an insight into the state of property taxation around the world. This article presents a capsule view of the tax’s status for each of the major continental areas.

North America

Across Canada and the United States, the property tax has become the primary source of revenue for local government. In many jurisdictions it also provides a degree of funding for school systems. The property tax in North America is usually applied to a property valuation (assessment roll) that reflects the capital market value of the property subject to taxation. In Canada it is typically “real property” against which the tax is levied, whereas in the United States, a tax on “personal property” often accompanies the tax on real property.

Valuation processes in Canada and the US are very sophisticated and highly automated. In most major jurisdictions, valuation models have been developed to be applied in Computer Assisted Mass Appraisal (CAMA) programs, to derive current market values for the various property types. Such programs are often integrated with Geographic Information Systems to assist with both the valuation process and in the graphic display of the results.

Issues affecting property taxation in North America are numerous but it is the inherently subjective nature of the market-value determination process and the perceived high rates of taxation that attract the most attention.

Computer valuation models have become so accurate, they reduce the issue of residential assessment appeals to a manageable extent in many areas. The need to minimize the operating expense of property taxes to businesses, combined with complexity of valuing commercial and industrial properties, however, has led to a booming “appeal” business for these property types. This in turn has led to serious instability in tax revenues for some municipal governments.

The high visibility of the property tax and the quantum amounts derived have created a circumstance that has led to an ongoing debate on its future across many jurisdictions on this continent and in fact legislative restrictions on the tax—such as *Proposition 13* in California—already exist in some locales.

Latin America

IPTI’s 2004 conference in Guadalajara, Mexico, highlighted the status and issues of property taxation in Central and South America.

Interest in property taxation in this region reflects the worldwide movement to introduce the tax as a means of providing financial support and enhanced autonomy to local government.

Property taxes have existed to a nominal degree in many Latin American nations for some time. Political and logistical issues, however, continue to slow its development. Numerous issues ranging from policy matters on liability and enforcement, to deficiencies in the land registry systems, to the choice of appropriate valuation processes are all under review.

Although the concept of a tax on property has to some extent been accepted, debate continues as to whether the tax should be on capital value or rental value and whether the tax should be on land only or on land and improvements.

One of the key issues logistically is an often inadequate cadastral system to which a property tax can be tied.

Ownership records may be outdated, are often incomplete, and in the urban areas with large communities of “squatters,” may simply not exist. Without the existence of a proper cadastre, the administrative requirements of both the valuation and taxation systems are difficult, or impossible, to meet.

The valuation process in Latin America reflects the lack of records upon which CAMA systems can be built. Mass appraisal of properties is therefore difficult, resulting in a cumbersome reliance on single property appraisal processes. Costs and time limit the effectiveness of single property appraisal for this purpose.

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Latin American governments are working diligently to address each of these issues and their debates on innovative solutions custom-tailored to work within the reality of their environment continue.

Europe

There are many variations of real property taxation existent across Europe.

In the United Kingdom, a long history exists of taxing real property on a market-related basis for the support of local government. At the next level of detail, numerous differences are apparent. Central government has traditionally played a greater role in the collecting and the dispensing of property tax revenue to local government in the UK, as compared to North America.

The valuation process also differs in that the basis of value historically has been “annual rental value” as opposed to capital value. Major changes are occurring in recent years and a movement to greater local control and a reliance on capital value is developing,

with a concurrent introduction of CAMA support.

Elsewhere in Europe, property tax exists in myriad circumstances. These range from variations where rental value is reported as part of income taxation, e.g., Sweden, to area-based valuation systems, e.g., Poland, to rental value systems, e.g., France.

In countries in transition from the old Communist systems, out of date and incomplete records of ownership are a further complication and a significant problem. Where property tax does exist in European nations, revaluation cycles are frequently greatly out of date and equity suffers accordingly.

Municipalities in European nations depend to a far greater extent on revenue transfers from senior governments for their local financial needs than do their counterparts in North America. In many cases, property tax is in fact quite a small component of the total taxation regime.

Africa

African nations are also undertaking numerous initiatives to introduce North American-style property tax schemes.

The African nations share some problems with their Latin American counterparts in that they frequently lack the prerequisite cadastral records necessary to implement current and equitable real property valuation and taxation systems.

Valuation systems exist, based on land only values, site values, rental values, and capital values. A lack of trained valuers is a significant issue and “mass appraisal” is handicapped by the above-noted cadastre problems.

A significant issue in much of Africa is a decidedly low rate of success in collecting property taxes. Enforcement standards are low and, without the revenue yield coming in, it is difficult for municipal government to make necessary improvements and to justify the “per parcel” valuation costs associated with sophisticated assessment processes.

Accuracy in valuation is of little benefit if no one pays the taxes ultimately imposed. Efforts are underway to simplify the valuation process through consideration of such concepts as area-based values and to improve collection systems, as well.

Exceptions do exist in the problem regions. By way of example, it is noted that several urban centres in South Africa are currently employing modern CAMA systems designed to capture capital values.

Asia

Variations, as you might expect, exist across the breadth of this continent.

India has a long history of reliance on property taxation to support local government and it does so through a rental value assessment process. Reform is ongoing, particularly on policy questions regarding the distribution of the tax load across property types, but also to deal with valuation issues such as the impact of rent controls on the property marketplace.

In other areas where the historic British influence has been felt, a similar pattern exists of a tax based on rental values. The administrative area of Hong Kong in the People's Republic of China has an extremely sophisticated and successful electronically administered system of valuation and tax collection processes.

On the Mainland, China is now actively moving to develop a property tax system relying on mass appraisal assessment processes, to be applied particularly to commercial and industrial property types. Taxation of agricultural lands and residential properties is also being examined as part of this reform.

Western-style property tax schemes also exist in the Philippines and in Thailand, with the latter employing and expanding modern systems to capture rental values. A lack of country-wide standards for valuation causes difficulties in the Philippines, as does a lack of confidence in the integrity of local government councils.

Australia

Property taxation in Australia dates back into the 1800s. State or territorial governments have the responsibility for the valuation process and both state and local governments have authority to set and impose the rates of taxation.

Only land value is captured in the assessment process in Australia and, regionally, it may be either the capital or rental value of unimproved land that is being estimated. Reassessment cycles are legislated and modern valuation systems are in place to determine values. Where improvements (buildings) exist on the land, debates are frequently triggered as to the relative apportionment of the total value of the property between the land (taxable) and improvement (non-taxable) components.

In recent years the fixed rates of taxation assigned to land have also become problematic. Rapidly increasing land values arising from recreational

and population pressures have produced noteworthy tax increases.

There is reportedly a growing sentiment for “user-pay” fees to replace land taxes in some parts of Australia.

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Conclusions

Property taxation with all of its warts and blemishes continues to not only survive, but to expand on a global basis. There are many underlying reasons, including its practical benefits, but also reasons reflective of global economic and political influences. As property tax becomes more commonplace, a growing

global community of practitioners, academics, politicians, and taxpayers is seeking opportunities to dialogue and exchange best practices on an international basis.

The International Property Tax Institute is one of the organizations now existent to fulfill that role. ▲

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