

Georgia State University

ScholarWorks @ Georgia State University

ECON Publications

Department of Economics

2022

Lessons Learned and Prospects for Reform

Roy W. Bahl

Georgia State University, rbahl@gsu.edu

William J. McCluskey

wj.mccluskey@ulster.ac.uk

Riël Franzsen

African Tax Institute, riel.franzsen@up.ac.za

Follow this and additional works at: https://scholarworks.gsu.edu/econ_facpub



Part of the [Economics Commons](#)

Recommended Citation

Bahl, Roy W., William McCluskey and Riel Franzsen. "Lessons Learned and Prospects for Reform" in *Property Tax in Property Tax in Asia: Policy and Practice*. Cambridge Mass: Lincoln Institute of Land Policy, 2022, pp 89-108.

This Book Chapter is brought to you for free and open access by the Department of Economics at ScholarWorks @ Georgia State University. It has been accepted for inclusion in ECON Publications by an authorized administrator of ScholarWorks @ Georgia State University. For more information, please contact scholarworks@gsu.edu.

PROPERTY TAX IN ASIA

Policy and Practice



Edited by

William McCluskey, Roy Bahl, and Riël Franzsen



LINCOLN INSTITUTE
OF LAND POLICY

Cambridge, Massachusetts

© 2022 by the Lincoln Institute of Land Policy

First printing

All rights reserved.

ISBN: 978-1-55844-423-2 (paper)

ISBN: 978-1-55844-426-3 (epub)

Library of Congress Control Number: 2022941513

Composed in Janson by Westchester Publishing Services in Danbury, Connecticut.
Printed and bound by Books International in Dulles, Virginia.

♻️ The paper is acid-free, FSC certified, 30 percent post-consumer recycled fiber.



Lessons Learned and Prospects for Reform

ROY BAHL, WILLIAM MCCLUSKEY, AND RIËL FRANZSEN

Chapter 1 of this book poses three questions:

- Why has land and property taxation not become a stronger source of funding for governments in Asia?
- Could the land and property base generate a significantly greater flow of revenue?
- What reforms could produce such an outcome?

To answer these questions, we begin with two general observations. The first is that asking about *Asia* paints with too broad a brush. Property and land taxes in the five higher-income jurisdictions studied here (Hong Kong, Japan, Korea, Singapore, and Taiwan) have performed well. These jurisdictions have embraced new technologies and have shaped their rate and base structures to fit their economic and social goals. Although problems remain, all are in positions to increase revenue mobilization from the property tax.

China and Vietnam have not yet committed to adopt a broad-based, revenue-productive annual property tax regime, yet they raise revenues from land and property taxes that are near or above the level of their middle-income cohort. Both jurisdictions, however, have the decision about a broad-based annual tax on their policy agendas.

Five other jurisdictions (India, Indonesia, Pakistan, the Philippines, and Thailand) fall in the low-performing category. Although there is room for improvement across all Asia, these lower-income jurisdictions face the most binding constraints, including a technology and management infrastructure too weak to support an efficient property tax system and the inability to overcome political opposition to taxing property wealth. It is not yet clear whether these jurisdictions will restructure their land and property tax systems to increase revenue mobilization.

The second general observation draws a distinction between more revenue-productive property taxation and better property taxation. Better property taxation could result from reforms to make the tax more fair, more efficiently run, and less politically driven. This could be done by rolling back exemptions, bringing all eligible properties into the net, improving collection rates, and improving the equity of valuation. The additional revenues raised from better taxation could be rolled into lower statutory rates, thereby making the reform package revenue neutral. Thus, better property taxation can lead to a more efficient revenue growth path, whereas generating more revenue from current rate and base structures would amplify the distortions and inefficiencies that are now in place.

Constraints on Property Tax Revenue Mobilization

Every property tax system is different, and roadblocks to better revenue performance must be studied on a case-by-case basis. As Kelly, White, and Anand (2020, 14, 89) put it, the answers are almost always “situation-specific.” That said, the case studies in part 2 identify several constraints to revenue growth shared by lower-income jurisdictions in South and Southeast Asia. Perhaps the most important constraint is the one they cannot address in the short run—their low-income status. Their capacity to raise property taxes will remain low until the base they collect from is larger. Compared with higher-income jurisdictions, the informal sector of their economies is relatively large, they are more rural, small-scale agriculture is widespread, the aggregate value of real property is low, and so on (World Bank 2006). For example, Indonesia and the Philippines have farther to reach to gain a particular revenue target than do Korea and Singapore. Even if low-income jurisdictions can modernize the structure and management of their property tax systems, property tax revenues will remain low.

Another way to look at the issue is to assess the potential of low-income jurisdictions to mobilize higher revenue levels from their property taxes, under existing conditions. If defining *potential* as the revenue yield from a broader tax base, better valuation, and more efficient administration, clearly their revenue has room to grow. The problems and constraints to

reaching revenue potential in the lower-income jurisdictions in Asia involve the following:

THE TAX BASES ARE NARROW

Generating high revenue yield requires high statutory tax rates. Exemptions and preferential treatments are rarely tracked, but qualitative analysis suggests that they significantly lower revenues. In addition, properties are assessed at values lower than market levels, and collection rates in many jurisdictions are low. In the higher-income jurisdictions of Asia, by contrast, these tax expenditures are monitored and appear to be better controlled.

REVENUE ELASTICITY IS LOW

In lower-income jurisdictions, most of the automatic growth in revenues comes from wider coverage of the tax and from new construction. As a consequence, property tax revenue growth cannot keep pace with GDP growth. Revenue growth from discretionary changes comes from revaluations and reassessments at a higher percentage of market value, but most lower-income jurisdictions have been slow to make these changes. And when they do, much of the new revenue often is given back as a transition benefit to make the new tax roll acceptable. The higher-income jurisdictions in Asia tend to revalue more frequently, some annually. The ratio of property tax revenues to GDP in 24 Asian and Pacific jurisdictions has remained constant over 2010–2019 (OECD 2021, 69).

ANNUAL LAND AND PROPERTY TAXES ARE EXPENSIVE TO IMPLEMENT

New technologies and the training for them may not be affordable (or may not be a high priority) in some low-income jurisdictions, especially considering the relatively low amount of revenue likely to be realized. But not embracing new technologies also has a cost. The failure to modernize administration of the property tax translates to only a 32 percent coverage of properties in Indonesia and about 30 percent in India (where a formal count of properties in a jurisdiction is not even required). In Thailand, where a new property tax regime was put in place in 2020, the seemingly impossible task of documenting and valuing every piece of property still lies ahead. Malaysian valuations are more than 10 years out of date and are held back by a predominantly manual system.

OTHER TAXES ARE FAVORED OVER THE PROPERTY TAX

Other taxes are more easily administered and more revenue productive and impose less visible burdens on taxpayers. Local political leaders prefer, for example, revenue from business taxes or intergovernmental transfers paid from central government taxes because they can be promoted as having

someone else pay for local services. In the Philippines, the largest inter-governmental transfer in the fiscal system now accounts for two-thirds of local-government revenues, and the property tax share is only about 13 percent.

PROPERTY TAX ADMINISTRATION IS DIFFICULT

The players involved in identifying and valuing properties, collecting the tax, and managing the data lack coordination. In the Philippines, 20 different government agencies have some responsibility for valuation. In Indonesia, the data management system is not coordinated even among the different agencies that administer the property tax. And in Vietnam there is weak coordination of data sharing. Taiwan's split-rate property tax (different rates on land than buildings) is administered by two different departments that do not coordinate closely. Even high-income jurisdictions can face challenges in organizing data, as evidenced by the issues surrounding Japan's property ownership records. But in most of the higher-income jurisdictions of Asia, this tends to be less of a problem.

GOVERNMENTS AND TAXPAYERS ARE UNWILLING TO MAKE CHANGES

The property tax has many vocal enemies and few champions. Arguably, the greatest constraint to increased property taxation among the lower-income jurisdictions of Asia is the unwillingness of political leaders and some voters to accept the discretionary changes necessary to make property taxes more effective revenue instruments. The tax can seem unfair to homeowners because it is paid annually on an asset that does not produce a cash flow, because its base is defined subjectively, and because they think (probably correctly) that all property tax reform does is tax them more heavily. Taxpayers do not like it because they are reminded annually about the amount they pay and politicians dislike it because they equate higher property tax burdens with fewer votes (Ahmad, Brosio, and Jiménez 2019; Bahl and Bird 2018). It almost always draws the ire of powerful interest groups such as the agricultural sector and developers. Attempts at revaluation in Delhi, India, are regularly rejected by the local councils. In Vietnam, a proposed broad-based property tax was turned back because of strong resistance from interest groups. In Thailand, a new property tax regime was legislated only after significant revenue-losing concessions were made to objectors.

External Factors

Urbanization is driving up land and property values, technology advances are making property tax administration more efficient, and fiscal

decentralization is increasing the demand for local-government taxes. Asian governments could take advantage of these trends to improve the budgetary importance of their land and property taxes (UN-Habitat 2020).

URBANIZATION INCREASES REVENUE POTENTIAL

Asia already has more megacities—metropolitan areas with 10 million people or more—than any other continent¹ and is riding a wave of urbanization (table 3.1, and see chapter 1, table 1). Between 2000 and 2025, an estimated 1.1 billion people will have migrated into Asian urban areas. The agglomeration benefits of urbanization and more advanced infrastructure and education systems will bring higher productivity and earnings (Glaeser and Joshi-Ghani 2015). To improve their infrastructures, cities will have to raise government revenues. Increasing urban property values, more demand for public services, a large concentration of population and economic activity—all bode well for the prospects of increased revenues from property and land taxation (Bahl 2018; Bryan, Glaeser, and Tsivanidis 2021; Collier 2017).

In many ways, land and property taxes *are* urban taxes. About 40 percent of all property taxes in India are collected in Mumbai, 42 percent of Thailand's are from Bangkok, 43 percent of Indonesia's are from Jakarta, and 27 percent of Malaysia's are from Kuala Lumpur. The square-meter value of residential land in Tokyo is nearly six times the national average, and commercial and industrial land is valued at sixteen times the national average.

Capturing the fiscal space generated by urbanization will not be easy or automatic. For example, assessment ratios in Vietnam's larger cities are as low as 30–50 percent. Hanoi, Vietnam's capital and second-largest city, has experienced rapid urbanization but collects very little from recurrent property tax—only about USD 2 per capita from its nonagricultural land use tax in 2016. In Taiwan, where the six largest cities account for more than 80 percent of revenue collections, assessment ratios were last updated in 2018. India is home to some of the world's largest cities yet has one of the weakest property tax regimes, due in part to intergovernmental fiscal tensions. India's 28 state governments determine the fiscal space for the more than 4,000 urban local governments by defining local tax policies, including the choice of tax rates and the determination of whom to include or exclude from payment of taxes. Some would argue that state governments in India have not set the stage for increased property taxation in big cities (Mohanty 2014; Pethe 2013). In Japan, policy makers have yet to fully address the problem of land and property ownership.

Table 3.1 Projected City Growth from 2018 and 2030

Jurisdiction	2018			2030		
	No. Cities, Population 1-5 Million	No. Cities, Population 5-10 Million	No. Cities, Population 10 Million+	No. Cities, Population 1-5 Million	No. Cities, Population 5-10 Million	No. Cities, Population 10 million+
China	105	13	6	146	19	8
Hong Kong	0	1	0	0	1	0
India	52	4	5	62	2	7
Indonesia	13	0	1	18	0	1
Japan	4	2	2	4	2	2
Korea	9	1	0	9	0	1
Malaysia	0	1	0	1	1	0
Pakistan	8	0	2	9	0	2
Philippines	1	0	1	4	0	1
Singapore	0	1	0	0	1	0
Taiwan	0	5	0	0	5	0
Thailand	3	0	1	3	0	1
Vietnam	4	1	0	4	1	1
Total	199	29	18	260	32	24

Source: United Nations (2018).

TECHNOLOGY IS HERE

Technology is already strengthening administration of land and property taxes in low- and middle-income jurisdictions, and their ability to absorb these innovations is improving. Computer-assisted mass appraisal keeps valuation rolls more current; geographic information systems (GIS) better identify properties, which increases property tax coverage; and database management links the agencies that administer the tax. Hong Kong and Singapore, at one end of the spectrum, administer state-of-the-art systems that generate high rates of compliance. At the other end, lower-income jurisdictions of Asia have remained burdened with more primitive and partially manual systems.

To reform their property tax systems, several cities in India digitized property tax data and developed a GIS-based mapping of properties to ensure that all properties were captured in the database. Some cities were not covered by a GIS; their property tax data was made compatible so that it could be easily integrated into the database in the future. “The reform was built around an information and communication technology system. This system provided the cities with web-based platforms for effective administration and taxpayer interface, including e-filing and e-payment. The . . . technology provided the potential . . . [for] improving outcomes by strengthening property identification, automating aspects of valuation, improving data management, and reducing the scope for rent-seeking” (Kelly, White, and Anand 2020, 132).

Zanzibar offers an interesting solution to a property tax regime that was “largely ineffective, with low tax base coverage and incomplete implementation of the property tax legislation, leading to poor collections. . . . The reform strategy has centered on building a fiscal cadastre (tax base) with the use of drone technology.” . . . The creation of the fiscal cadastre [resulted in spatially identifying] some 500,000 building footprints across Zanzibar’s two islands . . . using drone technology. . . . Of these buildings, individual property information on 13,232 buildings was collected through field data collection and on-the-ground inspections. This was a notable achievement given that the current property tax system under the 1934 Ordinance had only 1,370 buildings on the tax roll” (Kelly, White, and Anand 2020, 146).

PROPERTY TAXES ARE AN IMPORTANT REVENUE SOURCE IN FISCALLY DECENTRALIZED JURISDICTIONS

The property tax usually meets the important criterion that the boundaries of its benefits and burdens roughly correspond (Bahl and Bird 2018). One econometric analysis consistent with the hypothesis that the intensity

of use of the property tax is driven significantly by the jurisdiction's degree of expenditure decentralization is in Bahl and Martinez-Vazquez (2008). Central governments in a postpandemic world are likely to expect more local-government revenue mobilization and may grade local governments according to their property tax effort.

Indonesia devolved the administration of the property tax to local government in 2011. The objective was to give greater autonomy to local government and an incentive to more efficiently collect revenues. Thailand reformed property tax administration by giving local government more responsibilities in collecting building information data and assessing land and buildings on the basis of values supplied by its treasury department.

Most jurisdictions that have decentralized their fiscal system have concentrated on assigning expenditure responsibilities to subnational governments. The assignment of revenue-raising powers, especially in low-income jurisdictions, has been more limited (Bahl and Martinez-Vazquez 2008). Where property taxing powers have been devolved (the Philippines and Indonesia), there has been a wide disparity in the ability to value and collect the tax.

Some jurisdictions, notably China, Vietnam, Korea, and Japan, have given local governments relatively little fiscal autonomy and arguably have dampened some of the accountability gains that property taxation might have offered. Yet even in these places, effective property tax rates are relatively high, possibly because of stronger enforcement and/or because of heavy reliance on transfer taxes.

Reform Directions

Urbanization and a growing value base suggest that there is significant room for property tax revenue increases. But assigning a target level of revenue to this potential requires a detailed jurisdiction study of exemptions, preferential tax treatments, assessment rates, and collection rates. One of the few studies that attempted to estimate the revenue potential of property taxes (for Pakistan) found that even an increase to 0.5 percent of GDP would involve major administrative and policy reforms (McCluskey and McCord 2021).

There are four ways to increase property tax revenues in poor jurisdictions in Asia: integrating all (or most) land and property taxation into a single system, implementing specific policies to hit higher revenue targets, better managing property taxes, and upgrading technology. Each of these reform options will find advocates and detractors, and buy-in will be hard to attain.

Develop a Property and Land Tax Strategy

Most jurisdictions do not have a comprehensive strategy guiding property tax reform—or at least, not a written strategy they consult. Rather, they opportunistically identify discretionary changes in their tax structure, and their reform choices are heavily influenced by the contemporary political economy. Past performance should be an important contributor to this process, but in fact, many jurisdictions do not even monitor their property tax systems very well.

There are exceptions. Singapore and Hong Kong know where property taxation fits in their overall tax regime. In Singapore, a key national economic and social goal is to provide adequate and affordable housing for all citizens and to encourage owner occupancy. This goal has been achieved in part by keeping the annual cost of housing down and by limiting acquisition and holding costs for low- and middle-income homeowners. Hong Kong has used its ample reserves and land leases to maintain its position as a city with a relatively low property tax. In both jurisdictions, the ratio of recurrent property tax revenue to GDP is less than 1 percent, lower than the roughly 1.4 percent international average for high-income jurisdictions. The property tax is well managed in both jurisdictions, and its outcomes are transparent. If the current revenue mobilization strategy holds, these two cities are not likely to significantly increase revenues from the annual property tax, even though both have the capacity to do so. Both jurisdictions raise more revenue from taxes on property transfers than from recurrent property taxes (table 3.2).

By contrast, most of the lower-income jurisdictions covered in this book do not have a long-term strategy for improving their recurrent property tax system or, as we argue later, for moving toward an improved property transfer tax system. Some, however, have been debating this. For example, policy makers in China and Vietnam are concerned whether property taxes on land use transactions and land leases can be sustained at present levels. The Chinese government has for some time been in internal discussions about the possibility of introducing an annual property tax, and some of the same issues have been considered in two (failed) reform proposals in Vietnam.

Take a Comprehensive Approach to Reform

The reforms described in the 13 case studies are a mixture of structural and administrative changes. For the lower-income jurisdictions, the reform agendas are extensive and could take years. For example, restructuring bases and raising rates, rethinking and reducing exemptions, increasing coverage of the base, updating valuations, and improving

Table 3.2 Revenue Division Between Recurrent and All Other Property and Land Tax Revenues

Jurisdiction	Year	Revenues from Recurrent Property and Land Taxes (%)	Nonrecurrent Revenues from Other Property and Land Taxes (%)
China	2016	45	55
Hong Kong	2016	28	72
India	2017	31	69
Indonesia	2017	46	54
Japan	2017	82	18
Korea	2017	75	25
Malaysia	n/d	n/d	n/d
Pakistan	2017	16	~84
Philippines	2018	49	51
Singapore	2017	48	~52
Taiwan	2017	67	33
Thailand	2013	21	79
Vietnam	2017	1	99

Source: Case studies in part 2 of this book.

compliance are on nearly every reform list. As pointed out in chapter 2 (see box 2.1), revenue outcomes from the property tax depend on all the components of the reform working in the same direction. For example, an updated valuation roll means relatively little if only 50 percent of tax liabilities are collected, and a 100 percent collection rate generates little revenue if the statutory tax rate is very low, and so on. The bottom line here is that a productive and sustainable property tax reform has five legs—tax base, valuation, tax rates, collections, and continuous system management—and all must be part of the reform if revenues are to be increased and sustained.² Especially for the low-performing jurisdictions, this is a big hurdle to overcome, politically, institutionally, and even technically.

Clarify the Different Roles of Statutory Rates and Valuation

Valuation is the way that government defines its tax base, in terms of ability to pay or benefits received. The tax will be fair in such a system if all properties are assessed on the same basis. The statutory rates are determined as part of the political process, usually on the basis of revenue

needs and on equity objectives in the case of progressive revenue structures. But too often governments in Asia do not keep these roles separate and use fractional assessments and other preferential valuation policy as part of the tax rate structure. Property taxation in these jurisdictions would be better served by keeping the valuation and rate setting components separate.

Eliminate Unnecessary Tax Preferences

Almost all the property tax systems studied here are complicated and cluttered with tax relief programs and interventions to promote or discourage certain activities. Most reformers argue that the property tax base should be expanded by removing exemptions and preferential assessments that are not achieving their objectives and those that are no longer needed (Kelly 2014). Policy makers and students of the property tax have noted this and have urged a review to clean out the tax relief package. But few have adopted this strategy, and in fact, most jurisdictions do not even track the revenue cost of these programs.

The recommendations here are to make property tax preferences more transparent and to evaluate their effectiveness. This involves doing four things. First, restructure the intergovernmental transfer system to penalize improper property tax exemptions or substandard tax rates, as is done in Japan. Second, make an annual inventory of all exemptions and preferential treatments and identify the revenue cost of each. Third, for all future exemptions and preferential treatments, require that each be accompanied by a fiscal note that identifies revenue costs and each be reevaluated periodically as a condition of being revoked. Fourth, make this information widely available to the public.

All thresholds set for the taxation of real property should be evaluated according to their revenue costs and their benefits. This analysis will shed light on the important question of how much tax base is being given away with high thresholds.

To be sure, there are no immutable laws about who deserves property tax preferences, but there is a need for the public to understand who is benefiting from these tax structure arrangements and how much could be gained by making them less liberal.

Simplify the Tax Structure

Property tax structures are usually complicated. Different statutory rate structures apply to different uses of property, and different assessment ratios apply to different sectors of the economy. On top of this, different valuation

approaches are used for different types of property. Special features abound. The situation becomes even more confused when jurisdictions impose several different property taxes.

A careful review of the tax structure may show that much of its complication is unnecessary because the effective rates are set so low that the complications have little effect. They make the tax more costly to administer and hard for taxpayers to understand. If taxpayers do not understand a rule, they will possibly not be willing to comply with it and might be generally more resistant to property taxation.

Rationalize the Use of Property Transfer Taxes

The property transfer tax has significant revenue potential. However, in many jurisdictions it is not considered part of the general property tax regime. Integrating the recurrent property tax and the property transfer tax might unlock the revenue potential of land and property tax. This might be done in several ways (Bahl and Bird 2018; Franzsen 2020; McCluskey, Franzsen, and Bahl 2017; Wallace 2018). Jurisdictions could build transfer taxes into their property tax revenue strategies. The impacts of transfer taxes on housing markets should be harmonized with those of the other components of the recurrent property tax system—for example, the rates of holdings taxes. The transfer taxes and recurrent property taxes could be jointly administered so as to improve the valuation accuracy of both (Bahl, Cyan, and Wallace 2011). The way this might be done is to levy a base rate for revenue purposes and an additional surrate to address housing market issues. Finally, the reform path would replace the property transfer tax with a tax on capital gains on the transfer of immovable property. Although some administrative obstacles to implementation of a capital gains tax exist, the problems are no more difficult to resolve than those that prevent the present sales tax on transfers from working. Some parts of Asia (e.g., China, Korea, Malaysia, and Taiwan) already have some experience with capital gains taxes on real property transfers.

Improve Valuation

Possibly the most binding constraint on increased property tax revenue in lower-income Asian jurisdictions is the undervaluation of property. The property tax base is usually set as a market value, but the actual valuation is almost always much lower. If the assessment ratio is 50 percent, as has been roughly estimated by past researchers, only about half the property tax revenue potential is captured and sometimes is reduced even further by fractional assessment practices. In the higher-income jurisdictions of

Asia, the valuation rates are much higher, in part because property transfers are usually reported at market levels.

An important step toward moving assessment ratios closer to market levels in the low-income jurisdictions is to force accurate declarations of real property sales prices. This can be done with four actions. First, levy and vigorously enforce a heavy penalty on the underdeclaration of sales values. Second, employ a specific cadre of valuers to check the declared sales values against market levels. Third, require a match between the taxable values used for the property transfer tax and the recurrent property tax. With such a system in place and properly monitored, the revenue potential of both taxes could be increased. Fourth, the valuations of properties for transfer tax purposes and for recurrent property tax purposes should be harmonized or even merged. The use of accurately declared property values could make computer-assisted mass appraisal systems work more effectively and support market value assessments.

Improve Voluntary Compliance with the Property Tax

The high-income jurisdictions of Asia have almost full voluntary compliance with the property tax. Individuals and companies tend to pay amounts due in a timely fashion. But in the lower-income jurisdictions of Asia, collection rates are much lower, and consequently, revenue loss and rates of arrears are greater in some jurisdictions. Possible reasons for lower rates of compliance in the low-income jurisdictions in Asia are that compliance costs are too high, enforcement is not aggressive enough, and the social contract between governments and voters is inadequate.

At first glance, high compliance cost does not appear to be the problem, because all jurisdictions seem to have lowered the cost of compliance, and collections have moved toward urban areas, where electronic means of payment are more likely to be used. High rates of delinquency, however, suggest inadequate fear of penalties. Records on the application of penalties are not readily available, but many low-income jurisdictions are reticent to use aggressive enforcement measures. Also, some taxpayers may perceive no obligation to pay property taxes because the government has not provided adequate public services.

The reform strategy here is straightforward. The government must vigorously enforce the tax by applying the penalties that are in place for nonpayers and pressing for collections of arrears. Taxpayers need to believe they will be detected and penalized if they are delinquent. Fixing the social contract is a more difficult matter, but it begins with transparency in the management and outcomes of the property tax law.

Simplify and Improve Public Management

Fiscal management is a problem in many low-income jurisdictions, and in almost every jurisdiction there are calls for consolidation of duplicative government activities. Perhaps nowhere is this more evident than for the recurrent property tax and the property transfer tax. The case studies in part 2 of this book provide specific examples, such as the Philippines' 20 different agencies responsible for some aspect of valuation; Indonesia's six property taxes, each administered by a different agency; and in other jurisdictions, ownership records that are not regularly transmitted to valuation offices on a timely basis and duplicative tasks and overlapping assignments. The consolidation of responsibility for property tax management is long overdue and should be high on the agenda in many low- and middle-income jurisdictions.

Harness the Power of Information Technology

Efficient administration of the property tax requires use of information technology (IT). The days of manual administration with paper-based record keeping should be relegated to history. The handling of large volumes of data on many thousands of individual properties requires relational databases. An administrative system with digital data directly contributes to greater taxpayer confidence (McCluskey et al. 2018). Few would dispute that IT presents many advantages for both taxpayers and administration departments, including enhanced electronic services and payment options. These service enhancements make the process of paying taxes and fees simpler, faster, and easier to understand, thereby making compliance easier and more efficient (McCluskey et al. 2018).

The majority of the jurisdictions included in this book have integrated IT within the management of the property tax. More specifically, data on the valuation rolls are integrated with ownership and occupancy information. Generation of property tax bills monthly or annually requires a huge effort that can be effectively undertaken only by software solutions. Collection-led strategies (Kelly 2014) can achieve greater efficiency if the billing system is automated. There are good examples of cashless payments made through the banking system or via numerous payment points (such as shops, post offices, and ATMs).

Jurisdictions have improved their revenue administration by incorporating IT-based solutions, but automation of valuation and data collection activities lags in some places. Data collection still relies on manual interventions in Indonesia, Malaysia, Philippines, Thailand, and Vietnam, although the situation is improving. For example, Indonesia (Jakarta) uses

unmanned aerial vehicles (drones) to capture imagery and spatial data, and municipalities in Malaysia and the Philippines are gradually developing their own GIS-based applications.

There is significant scope for greater reliance on automated valuation, but development of such techniques remains a challenge in some jurisdictions. Hong Kong and Korea are clear world leaders, having developed advanced mass valuation solutions that have given them the capacity to conduct annual revaluations. Vietnam has been exploring (with the technical assistance of the Korea Real Estate Board) the development of GIS-based approaches for land valuation. Where the property tax is administered by local government, the capacity to develop mass valuation techniques moves at a slower and rather fragmented pace (Indonesia, Malaysia, and Philippines). Much depends on higher-level governments taking the lead and providing technical training, as has been seen in the Philippines. In Malaysia, the university sector has led the way in developing mass valuation systems that are being used by local government.

Many areas now recognize that all aspects of property tax administration need to be reengineered to reduce costs and improve revenue collection. Collaboration and sharing of best practices are growing, evidenced by the Korea Real Estate Board sharing expertise with Vietnam. China has also been benefiting from the technical experience that its Hong Kong Special Administrative Region has developed over the last 100 years with its property tax.

Donor agencies such as the World Bank and Asian Development Bank have been supporting reform projects. India, Indonesia, Pakistan, the Philippines, and Thailand have taken advantage of these technical assistance programs, and many of these projects are still in progress.

Conclusion

The higher-income jurisdictions of Asia have budgetary space to increase revenue mobilization from their modern, well-structured property tax systems. These systems accurately assess land and property according to value. If urbanization in Asia continues to drive up land and housing prices, these jurisdictions are in a position to realize budgetary benefits.

The property tax systems of China and Vietnam are in transition. Both have property and land tax regimes that tax transfers of user rights, but neither has adopted a broad-based annual property tax. In these jurisdictions, it is questionable whether one-time taxes and charges on land use rights will be a sustainable revenue source.

In some lower-income jurisdictions in Asia, revenues from recurrent property taxes are well below 1 percent of GDP. The cause is often piecemeal

reforms over a long period, leading to narrow tax bases, undervaluation, poor compliance, and an unwillingness to take on the tough reforms needed. The jurisdictions that can reform their property tax system to have a more fair and efficient base will see increased revenues.

An often-overlooked reform of property taxation in lower-income jurisdictions is the reform of property transfer taxes. Properly administered and properly integrated with recurrent property taxes, they could lead to significantly greater overall property tax revenue.

Notes

1. The United Nations reports 20 megacities in Asia as of 2018, plus another 28 cities with 5–10 million and 250 cities with 1–5 million. By 2030, these totals are expected to grow to 27, 34, and 330, respectively (United Nations 2018).

2. For a more formal discussion of this argument, see Bahl and Bird (2018, 245–247, 270–274) and Kelly, White, and Anand (2020).

References

- Ahmad, E., G. Brosio, and J. P. Jiménez. 2019. “Options for Retooling Property Taxation in Latin America.” Paper presented at the eighth Jornadas Iberoamericanas de Financiación Local, Mexico (October 1–2).
- Bahl, R. 2018. “Metropolitan City Finances in the Asia and Pacific Region: Issues, Problems and Reform Options.” In *Tax Policy for Sustainable Development in Asia and the Pacific*, ed. T. Subhanij, S. Banerjee, and Z. Jian, 25–70. United Nations Publication ST/ESCAP/2806. Bangkok: United Nations Economic Social and Economic Commission for Asia and the Pacific.
- Bahl, R., and R. M. Bird. 2018. *Fiscal Decentralization and Local Finance in Developing Countries*. Cheltenham, UK: Edward Elgar.
- Bahl, R., M. Cyan, and S. Wallace. 2011. “Challenges to Intergovernmental Fiscal Relations in Pakistan: The Revenue Assignment Dimension.” In *Decentralization in Developing Countries*, ed. J. Martinez-Vazquez and F. Vaillancourt, 131–154. Cheltenham, UK: Edward Elgar.
- Bahl, R., and J. Martinez-Vazquez. 2008. “The Property Tax in Developing Countries: Current Practice and Prospects.” In *Making the Property Tax Work: Experiences in Developing and Transitional Countries*, ed. R. Bahl, J. Martinez-Vazquez, and J. Youngman, 35–57. Cambridge, MA: Lincoln Institute of Land Policy.
- Bing, Y., K. Connelly, and M. E. Bell. 2009. “A Compendium of Countries with an Area Based Property Tax.” Working paper WP09BY1. Cambridge, MA: Lincoln Institute of Land Policy.
- Bryan, G., E. Glaeser, and N. Tsivanidis. 2021. “Cities.” IGC evidence paper. International Growth Center, LSE, and University of Oxford (May).
- Franzsen, R. C. D. 2020. “A Review of Property Transfer Taxes in Africa.” In *Rethinking Land Reform in Africa: New Ideas, Opportunities, and Challenges*, 112–131. Abidjan, Ivory Coast: African Development Bank.
- Glaeser, E., and J.-G. Abha. 2015. *The Urban Imperative: Towards Competitive Cities*. New Delhi: Oxford University Press.

- Kelly, R. 2014. "Implementing Sustainable Property Tax Reform in Developing Countries." In *Taxation and Development: The Weakest Link? Essays in Honor of Roy Bahl*, ed. R. M. Bird and J. Martinez-Vazquez, 326–363. Cheltenham, UK: Edward Elgar.
- Kelly, R., R. White, and A. Anand. 2020. *Property Tax Diagnostic Manual*. Washington, DC: World Bank.
- McCluskey, W., R. Franzsen, and R. Bahl. 2017. "Challenges, Prospects and Recommendations." In *Property Tax in Africa: Status, Challenges and Prospects*, ed. R. C. D. Franzsen and W. J. McCluskey, 551–592. Cambridge, MA: Lincoln Institute of Land Policy.
- McCluskey, W. J., R. Franzsen, M. Kabinga, and C. Kasese. 2018. "The Role of Information Communication Technology to Enhance Property Tax Revenue in Africa: A Tale of Four Cities in Three Countries." Working paper 88. International Center for Tax and Development.
- McCluskey, W. J., and M. McCord. 2021. "Overview of the Urban Immovable Property Tax in Pakistan and Revenue Simulations." World Bank Report. Washington, DC.
- Mohanty, P. K. 2014. *Cities and Public Policy: An Urban Agenda for India*. New Delhi: Sage Publications.
- OECD (Organization for Economic Cooperation and Development). 2021. *Revenue Statistics in Asia and the Pacific 2021: Emerging Challenges for the Asia-Pacific Region in the COVID-19 Era*. Paris: OECD. <https://doi.org/10.1787/ed374457-en>.
- Pethe, A. 2013. "Metropolitan Public Finances: The Case of Mumbai." In *Financing Metropolitan Governments in Developing Countries*, ed. R. Bahl, J. Linn, and D. Wetzel, 243–272. Cambridge, MA: Lincoln Institute of Land Policy.
- UN-Habitat. 2020. *The Value of Sustainable Urbanization*. World Cities Report 2020. Nairobi: UN-Habitat. https://unhabitat.org/sites/default/files/2020/10/wcr_2020_report.pdf.
- United Nations. 2018. "Country Profiles." World Urbanization Prospects 2018. United Nations, Department of Economic and Social Affairs, Population Division. <https://population.un.org/wup/Country-Profiles/>.
- Wallace, S. 2018. "Property Transfer Taxes." Working paper WP-18-02. Pretoria, South Africa: African Tax Institute, University of Pretoria.
- World Bank. 2006. *Where Is the Wealth of Nations? Measuring Capital for the 21st Century*. Washington, DC: World Bank.