BACKGROUND NOTE

# Strengthening Property Taxation Within Developing Asia

William McCluskey, Roy Bahl, and Riël Franzsen

# STRENGTHENING PROPERTY TAXATION WITHIN DEVELOPING ASIA[1]

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## Introduction

Globally, there is a renewed focus among developing countries on domestic revenue mobilization as an integral part of achieving the United Nations Sustainable Development Goals. Even before the coronavirus disease (COVID-19 pandemic, it was estimated that achieving the Sustainable Development Goals in developing countries would require an extra 2% of gross domestic product (GDP) from public sources (Subhanij et al. 2018: 2–5). The negative impact of the pandemic on Asian government revenues and expenditures has further deepened the revenue shortfall.

The property tax can be of great importance in this context. If properly administered, it can be a buoyant source of revenue and an excellent tax to support the provision of local government services (Bahl and Bird 2018, and Bahl 2009). However, increased reliance on the property tax involves important issues of intergovernmental fiscal design (Norregaard 2013). Interestingly, there are indications that decentralization in itself may incentivize increased revenue mobilization from property taxation (Bahl and Martinez-Vazquez 2008). This supports the notion that increased reliance on property taxation could be part of a strategy for strengthened fiscal decentralization (Kelly 2014).

The main argument in this background paper is that the revenue potential of the property tax in lower-income countries of Asia can only be captured if they tax "better", i.e., if they recognize that revenues are held back by poor valuation practices, flawed tax structures, and weak enforcement. The only route to a sustainable and successful reform will involve addressing all of these issues with a strategic implementation plan.

Rapid urbanization in Asia's cities requires appropriate sources of revenue to provide the services and infrastructure that city dwellers will demand increasingly. On the supply side, urbanization is stimulating the growth in land values and earnings, which bodes well for revenue growth from taxes on land and property.[3] It is common to find that the property tax has a focus on urban areas as these are the areas of more intense development and higher land and property values. Comparative statistical analyses show that recurrent property taxes are higher in more urbanized countries and, within-country analyses, show that a disproportionately large share of property taxes are raised in the larger cities (McCluskey, Bahl, and Franzsen (2022) forthcoming).

In this background paper, the focus is primarily on recurrent property taxes in the 24 members of the Asian Development Bank (ADB)[4] each with a population of more than 2 million. Most of the remaining members are micro or small island states and many of them do not, as yet, levy a recurrent property tax.

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[1] This paper draws heavily from our forthcoming book, *Property Tax in Asia: Policy and Practice*.

[2] The African Tax Institute, University of Pretoria, Pretoria, South Africa.

[3] On average, Asia is 50% urbanized and accounts for 54% of the world's urban population. About 2.3 billion people live in Asian cities (UN-Habitat 2021: 12) (Appendix).

[4] Afghanistan, Armenia, Azerbaijan, Bangladesh, Cambodia, People's Republic of China (PRC), Georgia, India, Indonesia, Kazakhstan, Kyrgyz Republic, Lao People's Democratic Republic, Mongolia, Myanmar, Nepal, Pakistan, Papua New Guinea, Philippines, Tajikistan, Thailand, Turkmenistan, Uzbekistan, and Viet Nam.

**Importance of Property Tax Revenue**

Table 1 provides an overview of the importance of property taxes as a percentage of GDP in selected ADB members.[5] These comparisons allow us to draw a few general conclusions.

Several countries in central Asia (Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyz Republic, and Uzbekistan) have a property tax-to-GDP ratio higher than other countries in developing Asia. In part, this could be explained by them having a system of centralized administration. Valuation is a centralized function, while the other administrative functions are handled through a system of decentralized tax offices (McCluskey 2016). In addition, many of these countries have invested heavily in developing their land and property cadastres, ensuring a more comprehensive coverage of properties.

**Table 1: Recurrent Property Taxes as a Percentage of Gross Domestic Product in Selected Asian Countries**

| Country | Income Level | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|
| Afghanistan | Low | 0.12 | 0.12 | 0.00 | 0.00 | 0.00 |
| Armenia | Upper middle | 0.39 | 0.46 | 0.47 | 0.47 | 0.42 |
| Azerbaijan | Upper middle | 0.32 | 0.39 | 0.39 | 0.35 | 0.31 |
| China, People's Republic of | Upper middle | 0.5 | 0.61 | 0.62 | 0.57 | 0.67 |
| Georgia | Upper middle | 0.79 | 0.85 | 1.01 | 0.97 | 0.99 |
| India | Lower middle | 0.01 | 0.01 | 0.00 | 0.00 | 0.15 |
| Indonesia | Lower middle | 0.22 | 0.25 | 0.38 | 0.42 | 0.28 |
| Kazakhstan | Upper middle | 0.47 | 0.55 | 0.45 | 0.47 | 0.48 |
| Kyrgyz Republic | Lower middle | 0.55 | 0.53 | 0.52 | 0.49 | 0.49 |
| Lao People's Democratic Republic | Lower middle | 0.11 | 0.11 | 0.08 | 0.08 | 0.12 |
| Mongolia | Lower middle | 0.23 | 0.37 | 0.44 | 0.47 | 0.44 |
| Myanmar | Lower middle | 0.02 | 0.02 | 0.05 | 0.05 | 0.01 |
| Nepal | Lower middle | 0.00 | 0.00 | 0.00 | 0.00 | 0.01 |
| **Pakistan** | Lower middle | n/d | n/d | n/d | n/d | 0.13 |
| Papua New Guinea | Lower middle | 0.02 | 0.01 | 0.01 | 0.01 | 0.00 |
| Philippines | Lower middle | 0.04 | 0.00 | 0.00 | 0.00 | 0.35 |
| Thailand | Upper middle | 0.24 | 0.24 | 0.23 | 0.25 | 0.23 |

[5] The International Monetary Fund's World Revenue Longitudinal database (WoRLD)provides the best comparative fiscal data available in its compilation for 189 jurisdictions around the world. But, particularly on matters of subnational government finance, this data bank is limited in terms of the amount of information provided and in terms of the way in which the data are disaggregated. In particular, the data on property taxation does not lend itself to easy comparisons across countries because of issues related to the reporting of one-time levies on property transfers. These concerns are discussed in McCluskey, Bahl, and Franzsen (forthcoming)

| | | | | | | |
|---|---|---|---|---|---|---|
| Timor-Leste | Lower middle | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Uzbekistan | Lower middle | 1.08 | 1.02 | 1.08 | 1.06 | 1.01 |
| Viet Nam | Lower middle | n/d | n/d | n/d | n/d | 0.03 |
| **Average** | | **0.28** | **0.31** | **0.32** | **0.31** | **0.32** |
| Japan | High | 1.96 | 1.86 | 1.92 | 1.91 | 1.90 |
| Korea, Republic of | High | 0.84 | 0.76 | 0.76 | 0.79 | 0.82 |
| Singapore | High | 1.10 | 1.05 | 0.97 | 0.90 | 0.92 |
| **Average** | | **1.30** | **1.22** | **1.22** | **1.20** | **1.21** |

n/d = No data.
Sources: International Monetary Fund World Revenue Longitudina, 2020; International Monetary Fund–Government Finance Statistics, 2021; Organisation for Economic Co-operation and Development Global (accessed 27 October 2021); Revenue Statistics Database, 2021; and World Bank World Development Indicators, 2021 (accessed 27 October 2021).

First, little revenue is raised for the annual recurrent property tax in low-income and middle-income countries of developing Asia. The average in the sample here is only about 0.32% of GDP, and there are few signs that it has been growing in recent years. Compared to the averages for all taxes in Asian countries of about 15% of GDP, it has not been a major contributor to overall revenue mobilization. Second, it is noteworthy that the property tax ratios for three high-income countries in Asia, namely Japan, the Republic of Korea (ROK), and Singapore, the percentages are about three times higher than the average for the 21 low-income and middle-income countries shown in Table 1.[6] Table 2 provides a comparison of property taxes (broadly-defined) in various regions.[7]

**Table 2: Property Taxes as a Percentage of Gross Domestic Product in Different Regions around the World**

| Region (# Countries) | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| European Union (27) | 2.3 | 2.3 | 2.3 | 2.3 | 2.4 |
| Organisation for Economic Co-operation and Development (37) | 1.9 | 1.9 | 2.3 | 1.9 | 1.9 |
| Africa (30) | 0.4 | 0.4 | 0.4 | 0.3 | 0.3 |
| Asia and Pacific (24) | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 |
| Latin America (26) | 0.9 | 0.9 | 0.8 | 0.9 | 0.8 |

Source: Organisation for Economic Co-operation and Development Global Revenue Statistics Database, 2021 (accessed 27 October 2021).

The statistics in Tables 1 and 2 raise important questions. Are Asian countries exploiting the full potential of the recurrent property tax? What are the policy and administrative challenges that

[6] Similarly, the high-income jurisdictions, Hong Kong, China; and Taipei,China, also raise close to 1% of GDP from recurrent property taxes.
[7] Broadly defined, "property taxes" include property transfer taxes, stamp duty, as well as estate and gift taxes.

prevent them from significantly increasing the revenue take from recurrent property taxes, and what can they do to address these challenges?[8]

**Property Tax Bases in Developing Asia**

A key policy issue to consider is the choice of a property tax base. Should it include land and buildings,[9] or should it be limited to land?[10] The taxation of land and buildings dominates (Table 2 and Bahl et al. 2010; Almy 2014; Radvan et al. 2021; McCluskey, Bahl and Franzsen forthcoming) because it provides a broader tax base and, to some, a sense of fairness. Some countries have implemented more complex bases by using more than one recurrent tax base (People's Republic of China (PRC), the Philippines, and Viet Nam). In countries where a higher rate is applied to land than buildings, the objective is to provide an incentive for property development.

The way in which the tax base is legally defined is an important policy consideration. Tax base coverage and the way in which it is valued are equally important. When defined in this way, there is much more diversity in the tax bases used in developing Asia (Table 3).

Some countries not wishing to use market value can apply derivatives of value commonly referred to as cadastral value, normative value, or balance sheet value. While referred to as values, they have a very loose connection to market value. Cadastral value and normative value are normally more closely related to area-based approaches, given that the method of assessment is prescriptive and formulaic. An adjusted area basis is widely used as, for example in Azerbaijan, Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan. A "thin" or underdeveloped real estate market that generates insufficient transactions is often the justification for non-value-based approaches.

**Table 3: Property Tax Bases and Assessment Approaches used in Asia**

| Tax Base | Comments | Countries |
|---|---|---|
| Capital value of land and buildings (improvements) collectively | Land and buildings are valued as one distinct indivisible property. Functions effectively where there are ample open market sales data. | Cambodia, Georgia, India (Mumbai), Mongolia, Nepal |
| Separate values for land and buildings | Common in former socialist countries, and low-income and middle-income countries | Afghanistan, Armenia, People's Republic of China (PRC), Indonesia, Kyrgyz Republic, the Philippines, Thailand |
| Land only - capital value-based | This approach only taxes the land and ignores the value of the buildings and other improvements on the land. The need for sufficient vacant land sales data are particularly important in urban areas. | Fiji, Papua New Guinea, Solomon Islands, Vanuatu, Viet Nam |

[8] These questions are addressed in McCluskey, Bahl, and Franzsen (forthcoming).
[9] The tax base sometimes includes plant and machinery, or personal property (e.g., boats).
[10] In Fiji, Papua New Guinea, Solomon Islands, and Vanuatu, land is the only tax base (Franzsen 2009) as is the case in Viet Nam. In the PRC, separate taxes on land and buildings exist (McCluskey, Bahl, and Franzsen forthcoming).

| | | |
|---|---|---|
| Land only – area-based | A simple, pragmatic approach in the absence of a land market or assessed values | PRC (land use tax); Lao People's Democratic Republic |
| Buildings only | Where land is excluded for ideological, historic, or social reasons | PRC (real estate tax) |
| Cadastral, normative, and balance sheet valuation approaches to land and/or buildings | Formulaic nonmarket value approaches that apply prescribed methods to determine the assessment | Armenia, Kazakhstan (nonresidential), Mongolia, Turkmenistan (nonresidential), Uzbekistan (nonresidential) |
| Rental value of land and buildings (improvements) | This valuation approach is applied when property leasing is the principal form of tenure and there is ample rental evidence for all types of property. | Bangladesh, India, Pakistan, Myanmar (urban) |
| Area-based with adjustment factors | Typically applied where no formalized real property market exists. Market transactions are thin across urban and rural settings. | Azerbaijan; India (Bangalore, Delhi); Kazakhstan (residential); Myanmar (agricultural land); Tajikistan; Turkmenistan (residential); Uzbekistan (residential) |
| No recurrent property tax | Some of these countries have property transfer taxes. | Cook Islands, Maldives, Marshall Islands, Micronesia, Nauru, Niue, Palau, Samoa, Tonga, Tuvalu |

Note: Some cities in India use capital value, some rental value, and others adjusted area as tax base.
Source: Authors – with reference to Franzsen (2009) and Almy (2014).

**Assessment of the Tax Base**

The issue of property valuation is often subject to significant criticism because of its subjectivity (Bird and Slack 2014). It is seen as the necessary condition for a revenue-productive and a fair property tax. However, this may be an exaggerated criticism as many countries move towards more simplified valuation/assessment approaches and away from the individual assessed value on each property. Value banding is one approach that is gaining traction in developed (Ireland and United Kingdom are good examples) and developing countries (Somalia) (McCluskey et al. 2002). In general, two valuation options are typically used for property tax. The first incorporates market price-based methods to estimate capital values or rental values (Franzsen and McCluskey 2013). The second option is a non-value-based approach (McCluskey and Franzsen 2013) which is based principally on the area of land and buildings, and locations.

The use of market values often faces the difficult requirement (usually a legislative one) that the values be updated periodically. In practice, revaluations might take place every year (Hong Kong, China; and Singapore) or every 3 years (Indonesia, the Philippines), or even longer (India). Revaluations are politically sensitive, particularly if they coincide with national elections. They are also expensive and can take time and effort to finish. Having a gap of several years between revaluations often results in significant value shifts at the individual property level, and significant tax increases. In the end, the revaluation shock may be tempered by a cap on revenue increases, thereby giving back part of the revenue mobilization increase produced by the revaluation.

From a valuation perspective, high-rise apartment or condominium buildings afford opportunities of economies of scale. The properties are largely homogeneous and well suited to simplified valuation approaches (Hong Kong, China is a good example of this).

When the land and building components are separately assessed, a commonly-used approach is to determine the value of the buildings according to their replacement cost. The idea behind this approach is to cost out the depreciated value of the structure that is currently on the property.

The non-value approach is typically applied in cases where property markets are not sufficiently developed to allow determination of credible property values across all types of property. Linked to this is are three additional factors: (i) insufficient valuation capacity within government; (ii) incomplete registration of titles to property; and (iii) insufficient market transactions, and when they do occur the reliability is suspect because of the under-declaration of the transfer price (UN Habitat 2011).

Under a non-value approach the most common methodology is to base the assessed value of the property on the actual size of land and buildings (McCluskey and Franzsen 2013). Countries that use area-based approaches, such as India and Tajikistan, often make adjustments for specific characteristics (such as location, urban or rural zone, population of municipality, building condition, property use, and depreciation) to proxy market value and to enhance the fairness of the tax (Rao 2008). Although revenue buoyancy is an issue, area-based assessments continue to be used extensively in former socialist countries, notwithstanding the fact that land and buildings have undergone privatization and property markets are rapidly developing.

**Administration**

The literature is extensive on the problematic issues around the administration of the property tax (McCluskey et al. 2017; Norregaard 2013; Bahl, Martinez-Vazquez, and Youngman 2008). In fact, administration weaknesses are not solely found in developing countries; high-income countries face many of the same problems. For subnational governments, the management of several hundred thousand properties liable to property tax is a real challenge. However, technology can provide solutions to facilitate (i) property identification (using aerial imagery); (ii) billing (through better communication, e-demand notices, email); (iii) payments (via internet banking, payments through mobile phone platforms); (iv) valuation (by means of simplified automated approaches; and (v) monitoring compliance (through the use of geographic information systems) (McCluskey et al. 2018).

Across the countries of developing Asia, the responsibility of administrating the property tax is evenly split between local administration (Afghanistan, Bangladesh, India, Indonesia, Myanmar, the Philippines); central administration (Armenia, Azerbaijan, Cambodia, Georgia, Kazakhstan, Kyrgyz Republic, Mongolia, Uzbekistan); and shared administration (Nepal, Papua New Guinea, Thailand, and Viet Nam). In the context of fiscal decentralization, by far the vast majority of countries allocate the property tax revenue to subnational governments.

**Equity**

An important question regarding the political acceptance of the property tax is whether it is fair and equitable. The former is usually taken to mean whether the tax burdens fall on people according to their ability to pay, and the latter whether similar properties pay the same property tax. In fact,

developing countries do not often do incidence studies to test the former pattern of equity, and do not do sales-assessment studies to test the latter. We are left to speculate about whether the general patterns are progressive or regressive, and about sales-assessment inequities.

In theory, the distribution of property tax burdens is progressive (Bahl and Bird 2018, chapter 6). That part of the tax on land, an immovable factor, is shifted backward to owners who tend to be in the higher-income classes. But most property tax regimes levy against buildings as well, and that part of the tax is split between users of the property and owners, and adds a regressive element, depending on the mobility of capital. Moreover, countries have structured their tax rates and bases to make the distribution of property tax burdens more progressive (e.g., graduated tax rate structures and the exemption of lower-valued properties) or more regressive effect (e.g., the preferential treatment of owner-occupied properties, and high threshold exemptions). On balance, the recurrent property and land taxes are probably not regressive (Birdsall and Gupta 2018). However, the introduction of tax features that tend to be progressive is important to make reform results politically acceptable, and is often revenue losers.

The property transfer tax is a whole different matter. The base of the tax is either property value, or capital gains from the sale, and the tax tends to be paid at a high rate of compliance in most countries. It is initially borne by buyers and sellers, depending on market conditions and, on balance, is likely progressive in its distribution of tax burdens. However, its administration is flawed by accepting declared values of transactions, which likely reduces its progressive effects.

**Efficiency**

Economists and planners especially are interested in whether the property tax influences the use of land, even to a point of recommending the introduction of special taxes on undesirable uses of land. In theory, and in the absence of externalities, a local government tax on land is economically efficient if it does not compromise the market allocation of resources. Since land is immobile, the tax cannot be shifted to change the relative prices of capital and labor. Nobel laureate in economics, William Vickery (Dye and England 2009:3), famously stated: “The property tax is, economically speaking, a combination of one of the worst taxes — that part levied on real estate improvements … and one of the best taxes —- the tax on land or site value.”

In fact, most economies tax land and buildings. Viet Nam taxes only land, the PRC exempts residential buildings and Taipei,China taxes land and buildings separately. However, many countries value land and buildings separately and by different methods (Indonesia, the Philippines, and Thailand). And in a few cases (Pakistan), buildings are taxed at a higher rate than land, which is a disincentive to development. Possibly because the effective tax rates are so low, it is not clear that the differential taxes on land and buildings has had much effect. Another approach has been to tax vacant or underutilized lands, but there is no evidence that these have had much success in bringing land into development (the Philippines).

In search of revenue and political acceptability of recurrent property taxes, some countries have added features that potentially compromise the efficiency of the property tax. These involve fractional assessments (the Philippines) according to property use, differential tax rates applied to certain types of property (Thailand), and outright exemptions of certain types of property from tax. In most of developing Asia, the property tax systems are fraught with these kinds of distortions.

Property transfer taxes are used intentionally to help correct housing boom-and-bust cycles, but they compromise the development of property markets and cause wide swings in tax revenues. However, property transfer taxes can be revenue productive; can influence the valuation of property; and, even in cases where the management of these taxes is at the central or state government level, the resulting revenues may be assigned to local governments (the Philippines).

From 2000, the PRC has been investigating the introduction of a recurrent property tax (Davis et al. 2019). One of the main objectives has been to provide local governments with a more stable and predictable revenue stream, given the volatility of land sales. More certainty on the introduction of a property tax has been announced in 2021 with the intention of undertaking several large city-based pilot projects. While local government in the PRC relies on revenue from land sales, the same is also true in Viet Nam where local government raises significant revenue from the sale of land use right certificates (Liu forthcoming, and McCluskey and Trinh 2012).

**Why are property tax revenues so low in developing Asia?**

Few countries in developing Asia can trace their weak revenue performance to a single cause. Almost always, it is because of multiple constraints, beginning with a weak economic base and a hard-to-tax real estate sector. Beyond this, tax structures have developed in haphazard ways, sometimes taking advantage of opportunities, sometimes cognizant of administrative feasibility, and sometimes not, usually constrained by management problems, and always influenced by the political economy (ADB 2020).

Some constraints are common to many (most) developing Asia countries. First, tax bases have been narrowed by granting liberal exemptions and preferential tax treatments. These tax relief packages are not reviewed frequently, and their revenue costs are not monitored but generally believed to erode the tax base by a substantial amount.

Second, property valuations are often out of date because the legally prescribed revaluation cycles are not complied with. The result has been to put off revaluations, sometimes for quite long periods. Kelly, White, and Anand (2020) reckon that the ratio of assessed value to market value is in the range of 30%–50% in low-income countries largely as a result of infrequent revaluations.

Third, central (and state) governments have not given adequate incentives to local governments to make heavier use of the property tax in local budget policy. In many countries, higher level governments have held back on giving stronger revenue raising autonomy to local governments, and have not captured the potential benefits of fiscal decentralization. In other cases, lucrative intergovernmental transfers have crowded out the use of local property taxation. Elected local mayors and councils have been all too happy with these arrangements, since it frees them from making unpopular taxing decisions.[11]

Fourth, advocates of stronger property taxation have not been able to overcome the strong opposition of powerful interest groups, voter apathy, and political rent seeking. The final results in tax reform proposals in too many countries has been a rejection of some provisions of the new tax proposal, or outright rejection of the reform program. Thailand and Viet Nam are recent examples. This has led leaders in some countries to begin working on strengthening their compact with local

[11] The diversity of these experiences is reviewed in Bahl and Bird 2018.

voters in order to develop a friendlier audience for better property taxation. The contract would involve more transparency, less inequity and favorable treatment, and better local public services.

Fifth, in most developing Asian economies, even adopted reforms have come with compromises, e.g., effective rate roll backs in the aftermath of revaluations in Malaysia or the adoption of fractional assessment practices in the Philippines. Legislated assessment limits on a value-based property tax are relatively uncommon in Asia (the ROK and the Philippines). They can be used as a mechanism to differentiate between land use types or as a way to reduce taxpayer pushbacks. However, some successful revaluation practices in Asia (Hong Kong, China; and Singapore) have mostly avoided such compromises, but have kept their effective property tax rates low as a matter of government policy.

**Reform Policies**

Is it possible to increase the revenue mobilization from property taxation as high as 1% of GDP? Various estimates place collection rates in the range of 30%–60% (Bird and Slack 2004, and National Institute of Urban Affairs 2010).

Add to this the shortfalls in coverage and the overgenerous package of tax preferences that have been rolled out, it seems reasonable to conclude that a target of 1% of GDP is well within the tax potential of many low-income and middle-income countries in Asia. How could this be achieved? By taking a more holistic view on improving the efficiency of the current property tax administration, it is possible to increase revenue. A key area is to improve the tax base coverage to ensure that all properties liable to property tax are included in the valuation register or fiscal cadastre. A second area is to improve collection by making it easier for taxpayers to pay and to incentivize taxpayers. Third, assessed values supped should be increased to be more representative of current market values. All of this is more difficult when countries do not use a value-based property tax. In those cases, moving to a value-based approach would create a more buoyant base, but this comes with significant administrative burdens that some countries are not able to manage. Last, the tax base, tax rates should be set high enough to cover the administrative costs and to make the desired contribution to financing public services.

To reach this higher level of revenue mobilization, governments must get the tax structure and administration "right." Levying higher taxes on a system is not a good strategy where the base has been significantly eroded by exemptions and preferential tax treatments, where properties are significantly undervalued, and where collection rates are low. This would only worsen the distortions already present in the system and erode confidence in the property tax on the part of those who presently comply. McCluskey, Bahl, and Franzsen (forthcoming) argue that countries must make their property tax "better" before they can increase revenues from it.

Below are some general ideas that might be part of the property tax strategy of developing countries in Asia.

(i) Reforms should be comprehensive rather than piecemeal. It is not possible to effectively change any one of property base coverage, tax rates, assessment, or collections without taking account of the other legs in the system. The lesson here is that property tax reform programs are not quick fixes, like an increase in the income tax, but involve serious analysis to develop the reform architecture and necessary administrative changes.

A good example of a major property tax reform project was undertaken in Punjab, Pakistan. The modernization of the urban immoveable property tax involved improving the administration which suffered from outdated manual processes, paper-based records, poor collection, and low tax base coverage. The project began in 2014 (largely completed in 2016) with the development of a geographic information system-based administration platform that utilized satellite imagery along with a mass property data collection. The digitization of records, automation of systems, and field surveys to validate records added more than half a million new taxable units to the tax base. Property tax collections also improved. Pre-project, the average annual increase was some 5% (in nominal terms) reaching 6% during the project years (McCluskey 2020).

(ii) Lower-income countries struggle with having to do individual property valuation, yet to make property tax reform work, property valuations need to be raised to market value levels and revaluations need to be regular. Possible solutions are, a simplified value-based banded system (Somalia), or one that uses objective assessment adjustments (Sierra Leone), or alternatively the use of value zones (the Philippines, the ROK) have shown merit, but they have not graduated property tax revenues to sufficiently high levels.

Property tax reforms recently undertaken in Freetown, Sierra Leone demonstrate that moving from a value-based system (rental value) to one based on the size of the building, location, condition and actual use resulted in improved revenue performance (Grieco et al. 2020).

(iii) Often, a key structural problem is the lack of buoyancy in the revenue from the land and property tax. International norms would dictate that the revenue from property tax should at least keep pace with inflation and be correlated with rising expenditure costs facing local government. Low revenue buoyancy is related to assessments that are fixed for several years, and tax exemptions and preferential assessments that are too large.

(iv) The property transfer tax system needs to be based on assessed market value rather than declared values. This might be accomplished (overtime) by monitoring declarations and imposing penalties on detected under-declarations. Another result of such a reform could be better information to support assessment practices for the recurrent property tax.

(v) All exemptions and other preferential tax treatments should be regularly reviewed and graded, and their revenue cost assessed. All future exemptions should face provision for re-voting to extend their tenure. The property tax base is eroded in some jurisdictions because of explicit policy decisions to limit the use of property taxes by governments through exemptions, tax and expenditure limits, tax incentives (to attract business), and other preferential treatments. Narrowing the property tax base means that tax rates have to be higher to collect the same amount of revenue, but this increases the excess burden of the property tax and harms the efficiency of the system.

(vi) In many countries the property tax is too complicated. At least in the short run, valuation approaches should be aligned to the capacity of the department that undertakes the valuations and the type and quality of available data.

(vii) Enforcement is lax in many Asian countries, as evidenced by low collection rates and large arrears. The laws should be applied to delinquents, and penalties should be assessed.

(viii) Governments should be more transparent in reporting the outcomes of their property tax system to taxpayers.

**Levers for Unlocking the Revenue Potential of the Property Tax**

Maximizing the revenue potential of the property tax involves many moving parts. Table 4 illuminates the levers that, through improved administration and appropriate tax policy, could result in increased revenues. Some of these levers are administrative actions, for example, appropriate billing, and developing easy payment options. Others might rest with a higher level of government, e.g., technology where efficiencies can result in positive revenue gains but where the potential cost for a local government to develop or procure the systems may be prohibitive.

**Table 4: Levers to Improve Property Tax Revenue**

| | Revenue impact | Administrative Feasibility | Politically Acceptable | Legislatively Possible |
|---|---|---|---|---|
| **Policy levers** | | | | |
| Basis of the tax | This can be significant | Challenges in determining the value for each property | Could be an issue if this results in significant shifts in tax liability | Would require legislative support |
| Tax rates | Potentially significant | Avoid too many different rates; correct distortions in the base before increasing tax rates | Problematic and sensitive issues in terms of liability | Legislation may need to be amended |
| Exemptions and reliefs | Potentially significant | Not normally an issue | Politically sensitive | Legislation may need to be amended |
| **Administrative Levers** | | | | |
| Comprehensive tax base | Significant because there is a broader tax base. | If resources are weak, this could be a significant challenge. | Including all areas within the tax net can be met with resistance. | Laws may need to be changed to ensure that all properties are included. |
| Having up-to-date property values | Having current values improves fairness, and could have a significant revenue impact. | Represents a major challenge because of the lack of resources and cost implications | Can be extremely unpopular | Legislation may specify the frequency of updating values or it may be silent. |

| | | | | |
|---|---|---|---|---|
| Efficient billing | Low | Often an issue because of the number of bills to be distributed. | Normally not an issue | Normally not an issue |
| Simple payment modalities | Significant as it facilitates easier payment. | Requires agreement with banking and mobile phone sectors | Normally not an issue | Normally not an issue |
| Effective enforcement | Potentially significant to ensure that arrears plus fines are collected. | Problematic where recourse is primarily through the courts. | Can be an issue where there is reluctance to enforce against vested interests | Laws typically provide for enforcement measures. |
| Technology | Can be significant because of efficiency gains | Cost and capacity to implement may be issues | Normally not an issue | Normally not an issue |

Source: Authors' compilation.

**Conclusions**

Property tax reforms should be rooted in a sound policy framework, and must be executed through well-drafted laws. This applies to all essential features: property identification, tax base selection, valuation, assessment, tax rate determination, billing, collection, enforcement, as well as overall system management. These functions are often performed by different entities or agencies implying a need for collaboration, coordination, and cooperation. If done well, digital solutions such as aerial imagery and the use of information technology can improve efficiency, reduce administrative and compliance costs, and, importantly, also improve taxpayer trust and confidence (McCluskey et al. 2018).

Property tax reform strategies within the context of political and fiscal decentralization goals must consider local context, including diverging political interests at central and subnational government levels. The sharing of data between institutions is becoming a central theme in supporting the property tax. Moving data from analogue to digital makes for easier sharing, but still being cognizant of the need for confidentiality. Keeping all role players well informed and properly sequencing reform initiatives are crucial.

The watchword for property tax reform in developing Asia should be that countries have to tax better before they can tax more (McCluskey, Bahl, and Franzsen forthcoming).

## APPENDIX: URBAN POPULATION IN ASIA

| Country | 2020 Population (million) | Urban Population as a % Total Population[a] (2020) | Population in Largest City as % of Urban Population[b] (2020) | Population in Largest City as % of Total Population (2020) | Average Annual ncrease in Urban Popilation[c] (2015–2020) |
|---|---|---|---|---|---|
| Afghanistan | 38.93 | 26 | 42 | 11 | 3.37 |
| Armenia | 2.96 | 63 | 58 | 37 | 0.22 |
| Azerbaijan | 10.11 | 56 | 41 | 23 | 1.58 |
| Bangladesh | 164.69 | 38 | 33 | 13 | 3.17 |
| Cambodia | 16.72 | 24 | 51 | 12 | 3.25 |
| China, People's Republic of | 1,402.11 | 61 | 3 | 2 | 2.42 |
| Georgia | 3.71 | 59 | 49 | 29 | 0.42 |
| India | 1,380.00 | 35 | 6 | 2 | 2.37 |
| Indonesia | 273.52 | 57 | 7 | 4 | 2.27 |
| Kazakhstan | 18.75 | 58 | 18 | 2 | 1.29 |
| Kyrgyz Republic | 6.59 | 37 | 43 | 16 | 2.03 |
| Lao People's Democratic Republic | 7.28 | 36 | 26 | 9 | 3.28 |
| Mongolia | 3.28 | 69 | 70 | 48 | 1.63 |
| Myanmar | 54.41 | 31 | 31 | 10 | 1.74 |
| Nepal | 29.14 | 21 | 24 | 5 | 3.15 |
| Pakistan | 220.89 | 37 | 20 | 7 | 2.53 |
| Papua New Guinea | 8.95 | 13 | 32 | 4 | 2.51 |
| Philippines | 109.58 | 47 | 27 | 13 | 1.99 |
| Tajikistan | 9.54 | 28 | 35 | 10 | 2.62 |
| Thailand | 69.80 | 51 | 29 | 15 | 1.73 |
| Timor-Leste | 1.32 | 31 | n/d | n/d | 3.35 |
| Turkmenistan | 6.03 | 53 | 27 | 14 | 2.46 |
| Uzbekistan | 34.23 | 50 | 15 | 8 | 1.28 |
| Viet Nam | 97.34 | 37 | 24 | 9 | 2.98 |

n/d = No data.

[a] https://data.worldbank.org/indicator/SP.URB.TOTL.IN.ZS?view=chart (accessed 27 October 2021).

[b] https://data.worldbank.org/indicator/EN.URB.LCTY.UR.ZS?view=chart (accessed 27 October 2021).

[c] https://unhabitat.org/sites/default/files/2020/10/wcr_2020_report.pdf (accessed 27 October 2021).

Sources: World Bank (2021; 2020) and UN-Habitat (2020).

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