Barriers to the Successful Implementation of Property Tax Reforms

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SUMMARY

The advantages of recurrent property taxes are well known. They are difficult to avoid or evade as they fall on immovable property. They are well-suited to be local taxes as they fall upon assets that clearly fall within a jurisdiction and identify as taxpayers those who have a stake in the community. Unlike other types of tax there is little leakage into other local authority areas and they are amongst the taxes least affected by globalisation. As they fall on wealth they identify those who are able to pay taxes. They can be designed so as to minimise administrative costs and are relatively neutral in their economic impact. They enable communities to share in rises in land values to which they have contributed through urbanisation and economic and demographic growth. They encourage the productive use of land. They are widely used with most countries having a recurrent property tax but they are also very lightly used with the revenue raised generally being a relatively small proportion of the Gross Domestic Product or of tax revenue or local government revenues. The reason seems to be that, in many countries, recurrent property taxes are levied on the size of the property rather than its value. Previous research has identified a number of technical problems with trying to introduce value-based taxes, principally the need to have a comprehensive register of properties, the need for data about transaction prices, how effectively the property tax system functions, and the need for a valuation infrastructure based on internationally-recognised standards and training of valuers. Even when these are resolved reform can still be blocked. This paper examines the reasons for this by looking a series of case studies where recurrent property tax reform has encountered problems. In Moldova the extension of a working system has been blocked by a lack of commitment of resources; in Slovenia property tax reform has led to constitutional conflicts; in the UK attempts to revalue council tax have come to nothing; in Poland no starting date has been set for the commencement of tax reform; and in Turkey a move from pilot studies to a roll out of a reformed system has been difficult to achieve. By contrast the Netherlands has a system of annual revaluations, the results of which are used throughout government and for non-governmental

purposes and Lithuania has brought about the successful introduction of a value-based mass valuation system.