

CEM The College of Estate Management

The Basis and Administration of the Property Tax: What can be learned from International Practice

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Contents:

- Alternative bases of tax;**
- Ad Valorem – advantages & disadvantage;**
- Non-market bases – advantages & disadvantages;**
- Other bases;**
- Pre-requisites for a tax base;**
- Conclusions.**

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Most appropriate basis of tax?

- **Ad Valorem bases:**
 - Land only;
 - Buildings only;
 - Land and buildings as one property;
 - Split rating;
- **Non-market bases:**
 - Area-based;
 - Modified area-based.

3/17

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Ad valorem - advantages

- **Uniform ratio between tax and values;**
- **Allows for specific and targeted reliefs;**
- **An objective constraint on a subjective process;**
- **Reflects shifts in values geographically and sectorally.**

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- **Value of property may not reflect “wealth”;**
- **Ignores ability to pay;**
- **Subjective process;**
- **Revaluations may not allow for current MV.**

- **Formula-based;**
 - **Objective calculations;**
 - **Allows for self-assessment;**
 - **May be used where no property market exists;**
 - **Avoids high level of technical skills;**
- BUT**
- **Subjective formula;**
 - **Uncertainty about relative liabilities.**

- **Based on highest and best use;**
- **Encourages optimum use of land;**
- **Encourages expenditure on improvements;**
- **Leads to reduced:**
 - Urban dereliction;
 - Urban sprawl.

- **Availability of comparable market evidence for land only transactions;**
- **Valuation methodology flawed;**
- **Expectation of a high degree of accuracy in land value.**

- **Good indication of “wealth”;**
- **Reflects geographical and sectoral values;**
- **Technical skills normally available;**
- **Can be produced by CAMA system;**
- **Annual revaluations possible;**
- **Improved taxpayer comprehension;**
- **Recognised internationally as “fair”.**

- **Reliant on a healthy, active, transparent property market;**
- **Annual revaluations not always achieved;**
- **Need technical skills to maintain;**
- **Not always reflecting prevailing method of tenure;**
- **Problems with administration may rebound on tax base.**

Has advantages and disadvantages of both land value and capital/rental value bases.

- **Objective;**
- **Comprehensible to taxpayer;**
- **No need for high level technical skills;**
- **Simplicity of data, administration;**
- **Lower costs, no need for revaluations;**
- **Allows for further complexity in valuation as markets improve.**

- **Fails to ensure wealthy pay more;**
- **Subjective formula;**
- **Failure to achieve horizontal and vertical equity;**
- **Bears no relation to ability to pay;**
- **Ignores benefits of location;**
- **Buoyancy achieved by increased tax rates;**
- **Relatively narrow tax base;**
- **Yield tends to be lower than ad valorem basis;**
- **Lack of scarcity value discourages most productive and efficient use of land.**

13/17

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- **Enterprise or going concern value; and**
- **Acquisition value.**

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- **Clear and comprehensive legislation;**
- **Transparency – separate administrative and assessment organisations;**
- **Up-to-date survey / cadastral data;**
- **Access to up-to-date and accurate market transactional data;**
- **Should reflect the prevailing form of tenure;**
- **Appropriate and sufficient resources – human and technical;**
- **Speedy, cheap and comprehensible appeal process.**

- **Property tax provide essential front-line services;**
- **Increased reluctance of central government to fund local services;**
- **High level of social and political acceptability;**
- **“Sustainable” system.**

Thanks for your attention.

Any Questions?