

HOW USEFUL IS INTERNATIONAL ADVICE ABOUT PROPERTY TAX AND PROPERTY VALUATION?

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The answer is that sometimes it is useful and sometimes it is not. It depends on the situation. And it depends on the adviser and the receiver of the advice. Below are some of my general opinions. I will include some of my personal experiences as a consultant for IMF, OECD, EU and the WB. Finally, I will refer to some episodes when I was an instructor and course leader at training and seminars.

Transition to Market Economy

When there is a major change of the economic situation, a country might wish to receive advice or assistance. This was the situation around 1990 when a number of countries in Central and Eastern Europe changed from a planned economy to a market economy. This change resulted, among other things, in a need to change the existing system of taxation.

Denmark gave extensive advice to the Slovak Republic around that time. The results were summed up in a “Master Plan for the Tax Administration in the Republic of Slovakia”. This was presented at an OECD conference in Bratislava in May 1991.

Many transition countries received advice in those years. Some advice was useful – and some was harmful. The worst example was the US advice to Russia about the “Big Bang Change” to Market Economy. Also, the USAID project about property taxation and valuation in Tver and Novgorod in Russia was, in my view, ill-advised and had no positive effects. The project said that property tax should be based on market values calculated by Computer Assisted Mass Valuation. Valuations should be done by each of the many thousand local governments – creating a wonderful market for private valuation firms. The US advisors could probably not imagine any other solution. The projects in the two cities were a complete failure. After some years, Russia designed a very good Federal System of Cadastral Property Valuation. That system was useful in the actual situation in Russia where the government is very centralized and where private sales of properties and apartments had just started.

International Advice

Many people think that advisers from small countries are the best. Advisers from the Netherlands, Denmark and Sweden are examples. Recently, advisers from the Baltic countries have been very active. I think the reason is mainly psychological; citizens of small countries are more aware of the situation in other countries and are more likely to recognise that it may be different from what is in their home country. Advisers from the Baltic countries know how the situation was under the planned economy, and how that economy was changed to a market economy.

It is my experience that property tax and property valuation are completely different in each country. They are as different as different species of animals. During my first advisory mission to Bangladesh in 1985, I was subject to a cultural shock. The project leader from the World Bank met me at the airport. In the car, he asked me what we should change in Bangladesh. I was shocked. I explained that I would like to find out a little about the situation in Bangladesh before I gave my opinion.

In Indonesia I was employed by the Harvard Institute of International Development. At the same time, there was a Dutch company, ILIS, who suggested Indonesia should start working on a digital cadastral map. My employer told me that we should kill that project based on my advice. I should express the view that a photographic map obviously was so much better as photographs were so much easier to understand than a digital map. This was common sense they told me. I was shocked again. I had to explain that I was not a "Hired Gun". I would like to know a little more about the two competing projects and the situation in Indonesia before forming my opinion.

In the Danish language we have a phrase: "To be a good consultant you must have big ears and a small mouth." Not a bad approach. That is assuming that your purpose is to benefit the consulted more than to benefit those who are paying you.

Professional backgrounds among advisers can vary considerably. Many land surveyors have been educated in property valuation. Their perspectives are often limited to the estimation of market values. But a wider perspective can be very useful. Tax policy and public finance are often very useful to know about.

In Africa, foreign advisers were very concerned with the valuation process and how accurate it was. But often the efficiency of the collection process for the property tax was more important for the public finance than the valuation process.

Many projects are assisted by several international organizations and projects. The most concerning case I know of is the one dealing with land reform in Belarus. There are seven different World Bank projects all considering that issue, but there is no coordination between the different projects. Another phrase in the Danish language is: "One hand does not know what the other hand is doing".

Land tax has been introduced in many transition countries (e.g. Russia, Estonia, Belarus and Ukraine). Before that only Denmark, New Zealand and Australia had a land tax. It is more difficult to give advice about a tax on land if your own country has a property tax on both land and buildings. Another difficulty is the role of central and local government in property taxation and valuation in your country. As has been demonstrated in Russia, it can be difficult for some advisors to imagine a federal or national system.

Use of Market Values

There has been an "obsession" about using market values as the basis for the property tax. Apparently, that was so obvious that there was no explanation of why it was the best way to do it. The World Bank still has this opinion. Of course, there are many reasons why using market values are very good. But it can be very expensive. Many projects supported by the Lincoln Institute of Land Policy to introduce market values for property taxation in different countries in Eastern Europe have failed due to the failure to obtain political support and/or due to the high costs involved.

The Lincoln Institute was very important in connection with developing computerized mass valuation. I found the "World Congress on Computer Assisted Valuation" in Cambridge in 1982, 1985 and 1988 very useful. There were 230, 275 and 227 participants from almost 40 countries. Arlo Woolery was the director of the Lincoln Institute at that time. He became my hero. He had a past in radio. He was an expert communicator and he really understood the subject. He said that presentations should be short and sweet. He was also a very kind man.

The first warning I saw in the literature about the problems related to basing property tax on market values was in March 2009. It was in a publication from NALAS, the Network of Associations of Local Authorities of South-East Europe. The publication was called "Improvement of Local Property Tax Administration in South East Europe". The important text is: "It was stated that computer assisted mass appraisal might produce accurate and fair results of property value. However, this method is criticized because of the high costs of introduction and hiring specialized staff, the need for extensive databases, and the lack of transparency in these often rather complicated models". The same publication mentions that a possible solution can be a combination of area-based and value-based assessments for property tax. This method is used for the property taxes in Romania and Bulgaria.

Several countries in transition expressed the view that they want to use international standards for mass valuation. There are very good standards for valuation by the private sector of valuation of property for investment. They describe, for example, the European standards. They help investors to know that properties used for investment purposes are valued in the same way in different European countries. However, there are no international standards relating to valuations for property tax purposes. And how could there be? Every country is different. Perhaps they were thinking about the "Standard on Mass Appraisal of Real Property" published by the International Association of Assessing Officers (IAAO), in the USA. These standards are intended for the many valuation authorities in the USA (circa 7,000) and in Canada. But their usefulness is very limited for countries outside of North America. IAAO have also published a document entitled "Guidance on International Mass Appraisal and Related Tax policy". But this does not describe a standard. It is a useful description about the different possibilities that can be used in a country.

Central valuation is obviously cheaper than local valuation. Central valuation is also advisable if the property tax or land tax is a local tax. In Denmark, the central tax administration assumed complete control of valuation. The local offices of the tax administration have the contact with the taxpayers and supply the local knowledge of the property market. A separate appeal administration is also under central control. In Estonia, the national cadaster performs the land valuation on behalf of the municipalities. This is because only the municipality of the capital has the administrative capacity to do it themselves.

Transparency

Using accurate market values does not contribute to the transparency of the taxation of properties; this can be a disadvantage. However, it is possible to make mass valuation more understandable for taxpayers and the general public. In this respect, I especially admire the system in Turkey. After each revaluation (at five years' intervals) they publish a "Land Value Book" of more than a thousand pages (now also on the internet). Here you can see the value per square meter of land in every street or street section in the major cities. This way, the citizens can ensure that there is consistency and uniformity and, in particular, that the streets containing properties belonging to the mayor and other important persons are not valued too low.

In Denmark, the Valuation List was previously displayed in the municipal office for some months after the valuation. The list has the street address and the cadastral number of each property, the name of the owner, and the property value, the land value and the code of use. Today, the valuation results are available for the public on the internet and the digital maps available on the internet show the cadastral number of the parcels.

In Estonia, the results of the valuation of land are presented at local hearings. Objections from the hearings can result in changes. When the land tax bill is sent out, appeals can only be made about the size of the land, not about the land value.

Conferences and Seminars

When I started to participate in conferences and seminars I was very naive. I thought that the purpose was to benefit the participants. But, in my view, it is vice versa. I think it is the presenters that are to be benefitted and made to feel important. I have been surprised to see that, very often, the person giving a presentation does not attend other parts of the conference. Apparently, they are not interested in listening to the other presentations about the subject. Or perhaps they feel that they have to show how very busy they are.

It is also important which kind of English is used. Using many phrases or sayings can make it very difficult for that part of the audience that is coming from another country. Even a British participant might not understand an American speaker using many British sayings. It is my experience that participants from foreign countries best understand the speaker if clear and simple language is used. Remember that many participants in conferences do not have English as their mother tongue.

In OECD training courses for the transition countries, I have found that the exchange of experience between countries in more or less the same situation can be very useful. The teachers used the first half of the week to talk about property tax and valuation in various Western countries. The rest of the week was used for "Country Presentations" according to the guidelines for these presentations that were sent in advance to the participants. During one of the evaluation discussions one statement was: "I have participated in several of these courses. It is the same that happens every time. And I benefit more and more from the course."