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Property Tax and Assessment News from Around the World

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Myanmar has one of the lowest tax takes in the world

That makes it hard for the new, democratic government to offer decent public services

INSIDE a noodle house in central Yangon, business is buzzing. Customers huddle over tables, slurping down chicken soup or gobbling dumplings. Everyone pays in cash. Few customers ask for receipts. When your correspondent does so, one is handed over, complete with government-issued stickers. But the cost of the meal goes up. On the vast majority of the restaurant's sales, it seems, no one is paying any tax.

Over the past decade the Burmese economy has boomed. Last year it grew by 5.9%. In the medium term growth is expected to average 7.1% a year, according to the World Bank, making the country one of the peppiest in the region. Poverty, though still stark, has fallen.

Yet Myanmar has the lowest tax take in South-East Asia and one of the lowest in the world, at a meagre 7.5% of GDP. That compares with 16% in Thailand and 14% in Cambodia. Under Myanmar's military rulers, the picture used to be even worse. In 2011 the government collected less than 4% of GDP. That year, however, Thein Sein, the general who had just become president, launched an economic reform programme that included opening an office responsible for collecting tax from big firms. By 2015 government revenue had more than doubled (see chart). It has since stagnated.

The generals permitted free elections in 2015, allowing the National League for Democracy to come to power. Among its priorities are clamping down on corruption and broadening the tax base. Businessmen complain that taxmen gouge them for bribes, not revenue for the state. Humbler citizens, meanwhile, tend not to pay tax on their income.

Other taxes are routinely dodged, too. In order to avoid paying property taxes, some buyers and sellers, or landlords and tenants, create two contracts: one recording the actual transaction and a dummy to be submitted for tax purposes, says Lachlan McDonald, an economist at the Renaissance Institute, a think-tank in Yangon. Most Burmese donate money to Buddhist temples or other religious institutions as a matter of course. Handing money over to the exchequer is a far less common activity.

"People do not want to pay tax because they have never had much from the government," says Matthew Arnold of the Asia Foundation, an American NGO. Under the military regime, generals made money from jade, narcotics and construction; Burmese without connections made so little money there was little point asking them for any. As a result, municipal services, which are meant to be paid for through local taxes, were and are scant. In Yangon the official municipal charge for rubbish collection is a token 600 kyats ($0.44) a month. But a resident complains that to get the rubbish taken away, she must pay informal street-cleaners an extra 200 kyats a bag.

It does not help that the system for collecting taxes is hopelessly antiquated. Assessments for property taxes are based on poor proxies for value such as the number of storeys in a building and the materials from which it is built. There is no effort to account for inflation. All the relevant information is kept on paper, with almost no digital records. According to Michael Lwin of Koe Koe Tech, a firm that has launched a pilot scheme to allow local governments to offer services online, this system puts the average annual rental value of the 23,516 recorded properties in the relatively affluent city of Taunggyi at $21, when in practice buildings are let out for much more. Even if tax collectors really intended to raise money for the government, it would be hard to collect much.

The city government in Yangon, the commercial capital, has set up an office to check up on a broader range of potential taxpayers, beyond the big fish. But the NLD government may be facing a Catch-22: it will be hard to persuade Burmese to pay tax unless they receive some services in return, but it will also be hard to offer decent services without collecting some tax.