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YANGON TO REFORM PROPERTY TAX SYSTEM, IMPROVE CITY'S DEVELOPMENT 1

Yangon to reform property tax system, improve city's development

The Yangon Regional Government will review and restructure the city's property tax system as part of a wider effort to improve and develop the Yangon region, Chief Minister U Phyo Min Thein said in December.

The Chief Minister was speaking during the launch of a discussion and research paper proposing changes to the Myanmar property system by Renaissance Institute Myanmar.

"Property taxes are a critical source of revenue which can be channeled towards better infrastructure in the city. But currently, the property tax rates in Yangon are very low. I think reforms must be made," U Phyo Min Thein said.

Having a strong, well-managed property tax system is useful and necessary as property taxes are a source of regular and lucrative revenue for the municipal authorities. Property taxes are distinct from other charges levied on property, such as land tax, stamp duties and capital gains tax, which are paid to the Union Government.

In Myanmar, property taxes are levied at the municipal level and based on an estimate of the value of the underlying property, implying that the taxes rise in tandem with property valuations over time.

Less than a cup of tea

In Yangon, the official property tax rate is 13 percent of the annual rental value, comprising taxes collected across land and buildings as well as street lighting. That, however, is less than the maximum allowable tax rate of 20pc in the city, according to research from Renaissance Institute.

In fact, property tax collections in Yangon amounted to just K2,535 (\$1.86) per capita in 2016, the research showed. Put in another perspective, the median tax payment by individual property owners, which is paid every six months, amounted to just K203, which is equivalent to just one cup of tea, or less, in Yangon.

In other words, "the small amounts collected mean that property taxes account for a small share of total municipal revenue – about 2pc-6pc in the cities we examined," said Lachlan McDonald, economist at Renaissance Institute. "This is much smaller reliance on property tax compared to the rest of the region."

One reason for this is poor understanding and ill perception of municipal governments. "Service delivery is often weak and of low quality, which undermines public trust in local authorities. As such, municipalities have become stuck in a low-tax, low service situation, in which people pay a small amount of tax and are fiercely resistant to increase," Mr McDonald writes in his research.

The Yangon Regional Government is aware of the problems. One of the issues which require fixing is the gap between municipal revenues deployed in the 33 townships within Yangon city, which receives the lion's share of those revenues, and the 12 outside the city, which benefit less, U Phyo Min Thein said.

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“The Regional Government will adjust property taxes to more appropriate levels to better serve every township in Yangon,” he said.

So what can be done to reform the system and improve property tax collections in Yangon and the rest of the country?

Property tax reform

Among the recommendations included in the Renaissance Institute’s report is ensuring all levels of government and municipal authorities are on the same page. “Municipalities are not currently high in the priorities for public sector reform in Myanmar and have no specific Ministry in the Union Government,” it said.

“A concerted effort is therefore required to bring stakeholders from across the government together to engage in a broad policy dialogue on municipal governance and set in place a new strategy for dealing with urbanisation.”

A wider tax base will be essential in ensuring higher property tax yields. This will involve effective record keeping, closing the large outstanding gaps in cadastral records and ensuring that information in those records is up to date and accurate at the municipal level. At the same time, the Yangon City Development Committee (YCDC) must also identify ways to encourage compliance through a mix of incentives, sanctions and penalties that are both practical and realistic.

Meanwhile, changes to the current methods of valuing property are warranted to raise the amount of taxes the YCDC can collect. This includes increasing the number of floors considered in valuing multi-storied properties. “Adding more floors to the existing property classification system will more accurately value larger properties and allow valuation systems to evolve with the city’s development.”

Deploying new technology to support more accurate mass property valuations in Yangon, such as geographic information systems (GIS), mapping satellite data and computer-aided mass valuation systems, is also necessary. “Initial trials are likely to be best suited to the areas where residential property values are highest, such as Inya Lake and Golden Valley.”

Yangon mayor U Maung Maung Soe also added that property taxes must be restructured to include collections for water, electricity and garbage collection. “Yangon property taxes need to be levied and collected more systematically. All immovable properties both above and below ground must be taxed appropriately,” he said.

Not the right time

Whatever the case, “the current entrenched ways of working and perverse incentives in the existing system mean that reforms will take time,” Mr McDonald writes.

They will likely be met with some resistance, too. “I cannot figure out why property tax reforms are being talked about in the current environment, where the property market is sluggish and prices are unstable,” said U Sai Khung Nong of Sai Khung Nong Real Estate Agency.

The way he sees it, “if the property market is stagnant, condominiums and apartments will not be sold. This, in turn, will impact the industries connected to property, such as construction materials, which will impact workers and create additional burdens for some property owners,” he said.

“This is not the right time to talk about raising property tax. We cannot compare with the international community. Things must be done only after evaluating our domestic circumstances.”

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