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IMF TELLS CAMBODIA TO SHAKE-UP PROPERTY TAX TO PROMOTE GROWTH 1

IMF tells Cambodia to shake-up property tax to promote growth

Reform of property taxation would be the most effective way of boosting growth and tackling inequality in Cambodia, new research has found.

The impact of different fiscal reforms in the country, in which income inequality, particularly between urban and rural areas, remains stubbornly high despite progress in combating poverty, according to analysis released by the International Monetary Fund last week.

Specifically, it compared how GDP and inequality would be affected by a permanent increase of 0.5% in GDP in infrastructure investment financed by increasing either property levies, VAT or income tax.

The reform of property taxation generated the largest positive effect on GDP and the most significant reduction in inequality, the working paper concluded.

“This is because property taxes are inherently progressive: wealthier households own more and valuable property and will thus also pay a higher property tax,” it said.

“At the same time, property taxes do not distort the incentive to supply labour or undertake investments.”

Inequality could be further reduced by targeting infrastructure spending towards poor rural households or by complementing it with more efficient social spending, it suggested.

Average income in rural households, which make up almost 80% of Cambodia’s population, is only 60% that of households in urban areas.

The last two decades have seen solid growth in Cambodia and a decrease in consumption inequality, thought to be partially due to increased government spending on education and subsidies.

However, the research found that obstacles to growth persist, and income inequality between regions remains a concern.

There are “substantial” gaps in infrastructure across the country, where only 10.5% of all roads are paved, and the share of the population with access to safe drinking water, basic sanitation and electricity is relatively low.

Cambodian tax policies also rely heavily on non-progressive tax sources, predominantly VAT, which accounts for 61% of total tax revenue, or just under 17% of GDP, while property taxation yields just 0.1% of GDP.

Authors Niels-Jakob Harbo Hansen and Albe Gjonbalaj said the results highlighted the trade-off faced by policy makers in designing a reform package.

International Property Tax Institute

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“Enhanced infrastructure could help raise income, especially in rural areas, by improving market access and factor mobility,” it concluded.

“Financing these investments through progressive income taxation, such as property taxation, can help reduce inequality further.”

However, additional investment in tax administration – for example to update the register of taxpayers - would be needed to reap the full benefits of reform, it said.

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