



Proceedings of the 2006 Land Policy Conference

LAND POLICIES AND THEIR OUTCOMES

Edited by Gregory K. Ingram and Yu-Hung Hong

Land Policies and Their Outcomes

Edited by

Gregory K. Ingram and Yu-Hung Hong

© 2007 by the Lincoln Institute of Land Policy
All rights reserved.

Library of Congress Cataloging-in-Publication Data

Land policies and their outcomes /
edited by Gregory K. Ingram and Yu-Hung Hong.
p. cm.

Includes index.

ISBN-13: 978-1-55844-172-9

ISBN-10: 1-55844-172-7

1. Land use, Urban—Congresses. 2. City planning—
Congresses. I. Ingram, Gregory K. II. Hong, Yu-Hung.

HD1319.L37 2007

333.77—dc22 2007008649

Designed by Vern Associates

Composed in Sabon by Achorn International in Bolton, Massachusetts.
Printed and bound by Webcom Limited in Toronto, Ontario, Canada.
The paper is Legacy Trade Book White, an acid-free, recycled sheet.

CONTENTS

| | |
|--|-------------|
| <i>List of Tables</i> | <i>viii</i> |
| <i>List of Figures</i> | <i>xi</i> |
| <i>Preface</i> | <i>xv</i> |
| Introduction | 1 |
| 1. <i>Issues and Themes</i> | 3 |
| Gregory K. Ingram and Yu-Hung Hong | |
| Public Actions and Property Prices | 19 |
| 2. <i>Restricting Residential Construction</i> | 21 |
| Edward L. Glaeser | |
| 3. <i>Regulation and Property Values in the United States: The High Cost of Monopoly</i> | 46 |
| John M. Quigley | |
| COMMENTARY | 66 |
| Katherine A. Kiel | |
| 4. <i>The Efficiency and Equity of Tiebout in the United States: Taxes, Services, and Property Values</i> | 68 |
| Thomas J. Nechyba | |
| COMMENTARY | 87 |
| Daphne A. Kenyon | |
| 5. <i>The Economics of Conservation Easements</i> | 90 |
| Andrew J. Plantinga | |
| COMMENTARY | 118 |
| V. Kerry Smith | |
| The Importance of Land Value in Today's Economy | 125 |
| 6. <i>The Value of Land in the United States: 1975–2005</i> | 127 |
| Karl E. Case | |

| | |
|---|------------|
| COMMENTARY | 148 |
| <i>Stephen Malpezzi</i> | |
| 7. <i>Urban Land Rents in the United States</i> | 157 |
| David Barker | |
| COMMENTARY | 181 |
| <i>Robin A. Dubin</i> | |
| Land and Property Taxation | 183 |
| 8. <i>Land Value Taxation as a Method of Financing Municipal Expenditures in U.S. Cities</i> | 185 |
| Richard W. England | |
| COMMENTARY | 201 |
| <i>Robert M. Schwab</i> | |
| 9. <i>Taxing Land and Property in Emerging Economies: Raising Revenue . . . and More?</i> | 204 |
| Richard M. Bird and Enid Slack | |
| COMMENTARY | 234 |
| <i>Miguel Urrutia</i> | |
| Urban Development and Revitalization | 237 |
| 10. <i>Asia's Urban Century: Emerging Trends</i> | 239 |
| Rakesh Mohan | |
| 11. <i>The United Kingdom's Experience in Revitalizing Inner Cities</i> | 259 |
| Peter Hall | |
| COMMENTARY | 284 |
| <i>Jody Tableporter</i> | |
| 12. <i>Hopeful Signs: U.S. Urban Revitalization in the Twenty-First Century</i> | 286 |
| Eugénie L. Birch | |
| COMMENTARY | 326 |
| <i>William C. Apgar</i> | |

| | |
|---|-----|
| New Developments in Land and Housing Markets | 331 |
| 13. <i>Community Land Trusts and Housing Affordability</i> | 333 |
| Steven C. Bourassa | |
| COMMENTARY | 367 |
| Stephen C. Sheppard | |
| 14. <i>Multiple-Home Ownership and the Income Elasticity of Housing Demand</i> | 372 |
| Eric Belsky, Zhu Xiao Di, and Dan McCue | |
| COMMENTARY | 401 |
| Michael Carliner | |
| 15. <i>Brazil's Urban Land and Housing Markets: How Well Are They Working?</i> | 405 |
| David E. Dowall | |
| COMMENTARY | 438 |
| J. Vernon Henderson | |
| | |
| <i>Contributors</i> | 441 |
| <i>Index</i> | 443 |
| <i>About the Lincoln Institute of Land Policy</i> | 464 |

9

Taxing Land and Property in Emerging Economies: Raising Revenue . . . and More?

Richard M. Bird and Enid Slack

Recently, many developing and transitional countries have become more interested in land and property taxes. Colombia, for example, is considering a major reform of rural property taxes as part of its attempt to “reincorporate” parts of a countryside long dominated by various guerrilla and antiguerrilla forces into the “normal” governance system (Garzón and Vázquez-Caro 2004). China, too, is considering the role of land and property taxation in its burgeoning urban areas (Bird 2005). For various reasons and with varying degrees of urgency, property taxation keeps popping up on the policy agendas of countries around the world.

From a purely fiscal perspective, the extent to which real estate taxes can produce revenue to finance local services is especially important in countries that are decentralizing, which many emerging economies have been doing in recent years. When public funds are as hard to find as they are in most such countries, additional revenues from property taxes are obviously desirable. Moreover, at least some countries are beginning to pay attention to the potentially beneficial allocative effects that properly structured and implemented land taxes might have in both rural and urban contexts.¹ Finally, and in some ways perhaps most important, some recent literature suggests that local property taxes may play a critical role in helping to develop the institutional social capital needed for good governance and sustainable economic development (Sokoloff and Zolt 2005).

The authors are grateful for comments on an earlier version of this chapter by Miguel Urrutia, Yu-Hung Hong, and participants at the Conference on Land Policies for Urban Development, Lincoln Institute of Land Policy, Cambridge Massachusetts, June 5–6, 2006.

1. For references to earlier discussions of this question, see Oldman et al. (1967) on urban land and Bird (1974) on rural land.

These are broad themes, and the discussion in this chapter is for the most part in equally broad terms, even though much of it is based on the authors' recent study of land and property taxes in 25 countries (Bird and Slack 2004).² That study did not yield simple general conclusions: the appropriate role played by taxes on land and real property and the design and implementation of such taxes are likely both to vary by country and to change over time in any one country. Indeed, the dictum that no one size fits all is especially relevant when it comes to land and property taxes, because the level, structure, and effects of these taxes depend not only on the nature, development, and distribution of property rights, but also on the extent to which local governments have real decision-making power.

This chapter is organized as follows. First, it sets out briefly the roles that real property taxes could play in developing countries. It then notes how very far reality diverges from this prescription. Those who would change the situation must first think through carefully and in some depth the underlying policy problems. As with any political institution, the role played by land taxes in any country is critically dependent on the many political, social, historical, and economic factors that shape public policy. Significant policy reforms are more likely to reflect changes in the balance of the factors underlying any existing "equilibrium" than to induce such changes (Bird 2003b). This case is not argued in detail here, however. Instead, this chapter simply notes some reasons why property taxes may prove more difficult to reform than other taxes.

Experience suggests that to move forward with property tax reform one must be not only modest in assessing the real potential for change, but also careful to get some critical details right. This chapter therefore describes next a few aspects of how to do it right—specifically, whether the usual argument for moving quickly to a modern market value system in less developed countries always makes sense.

Next, the chapter looks briefly at the arguments for utilizing taxes on land and property to achieve broader land policy goals. It argues that experience suggests that emerging countries should focus primarily on developing a sound local property tax rather than venturing down this path.

Finally, to make some of these points a bit more concrete, the chapter concludes with a brief look at the property tax in China. This case study stresses the need to pay much more attention to the quite different situations in the rural and urban areas of developing countries in designing and implementing land and property taxes as an effective source of local revenue.

The Potential Roles of Land Taxes —————

Taxes on land and property are found everywhere. In both principle and practice, such taxes may have important fiscal and nonfiscal effects. The revenue they produce is often an important source of finance for local governments. The extent to which

2. Other useful cross-country comparative studies of land and property taxes in emerging economies include those by Strasma et al. (1987); Bahl and Linn (1992); Youngman and Malme (1994); Municipal Development Programme (1996); Rosengard (1998); McCluskey (1999); Brown and Hepworth (2000); Andelson (2000); Malme and Youngman (2001); and McCluskey and Franzsen (2005).

local governments have control over property taxes is an important determinant of the extent to which they are able to make autonomous expenditure decisions, and the degree of such autonomy is, in turn, an important element in improving the delivery of local public services.³ The level, design, and control of property taxation are critical elements in determining the effectiveness of decentralization policy in many countries. Scholars have also suggested that land taxation could be used purposively to shape urban development patterns and to foster rural land reform, and some countries have tried to do some things along these lines. In principle, then, land taxes have, at least potentially, two distinct roles in emerging economies: the first is as a source of local revenues, and the second is as a tool to affect land use.

PROVIDING LOCAL REVENUE

Property taxes generate a significant proportion of local government revenues in relatively few countries—mainly developed countries influenced by British experience. In most developing and transitional countries, property taxes provide only a small, though sometimes significant, share of the revenue available for local governments. Property tax revenues are relatively low in many developing and transitional economies, in part because of the way in which the tax is administered. As a rule, the coverage of the tax is not comprehensive and assessments are low, as are both the nominal tax rates and collections. The prevailing low tax rates are often imposed by the higher levels of government. But even when local governments set rates, they usually find rate increases in this very visible tax difficult to sell politically. In any case, simply raising the legal tax rate seldom seems appropriate in emerging countries, because doing so would place the burden of the increase on “those few individuals whose properties are on the tax rolls, accurately valued, and from whom taxes are actually collected” (Dillinger 1991, 5).

Despite its many problems, however, “the property tax remains the predominant option for raising revenues at the local government level in Latin America” (De Cesare 2002, 9). And not just there. Even though the potential yield of land and property taxes is unlikely to be huge, revenues from this source will never be very elastic, and administrative costs are often substantial, especially when a market value assessment system has to be put into place,⁴ an expanded property tax remains both a logical and a desirable objective for many countries, particularly those in which local governments are expected to play a bigger role in allocating public sector resources.

ASSISTING LAND POLICY

The instruments used by local governments to raise revenues affect the nature, location, and density of development. In urban areas, for example, local govern-

3. See Hoffman and Gibson (2005) for a recent case study and Sokoloff and Zolt (2005) for a historical perspective.

4. As Evans (2003) notes, the compliance costs of real property taxes are likely to be relatively low. The other side of this coin, however, is that the administrative costs (per dollar of revenue) are likely to be relatively high. As Dillinger (1991) stresses, from a revenue perspective many developing countries have spent far too much effort on improving assessment systems and not nearly enough on improving the “sharp end” of the tax system—effective collection. See also Kelly (1995).

ments can affect urban form not only by means of planning tools, but also by means of financial tools such as the property tax. Among other things, increases in the property tax should result in a reduction in density, other things being equal. The nature of the tax base is also important. Where the tax is levied on the assessed value of property (land and improvements), any investment such as a building that increases the value of the property increases the assessed value and tax.⁵ Higher property taxes thus provide an incentive for less densely developed projects—for example, scattered, single-family homes rather than apartment buildings. A tax on land only provides an incentive for greater density relative to a tax on both land and improvements. The choice of highest and best use (rather than current use) as the tax base is also likely to result in higher densities because of the need to generate more income from the property.

To the extent that property tax differentials are matched by differentials in expenditures on public services, they should not have a distortionary impact on location or land use. When the public services received by a property owner enhance the value of the property and result in higher property taxes, the property tax may be thought of loosely as a benefits tax. Where such “matching” does not occur, however, a pattern of positive and negative subsidies will influence urban development patterns, usually in a way that worsens it. As Oldman et al. (1967) argued decades ago in the context of an early analysis of Mexico City’s finances, such misallocations may be especially damaging in the rapidly urbanizing cities of the developing world. This concern seems equally valid today in countries such as China (Bird 2005). Taxes on land and property are seldom matched by service benefits in developing countries. In particular, compared with residential properties, nonresidential properties are often overtaxed relative to the benefits received; tax competition among municipalities often does not reflect differential service benefits; and the common practice of providing favorable tax treatment for farm properties creates further distortions.

Several key policy choices could have an impact on land use: what is included and excluded from the tax base; how property value is defined for different classes of property; what percentage of value is taxable for each class; and how effective tax rates vary within and between classes of property. The information available on many of these points in most developing countries is inadequate to permit analysis of the effects of the existing—almost certainly nonoptimal—tax systems on land use. In view of the very low effective tax rates generally applied, any resulting distortions may not be great. Nevertheless, because of the current pressures for further decentralization and the likelihood of increased reliance in at least some countries on land and property taxation as a source of local finance, property tax reforms should be designed properly from an economic perspective. In practice, in most developing countries what is most important is simply to develop more effective local property taxes. Attention should be paid to the potentially undesirable fiscal incentives for land use, but as a rule the task of putting a good property tax into place should not be complicated by attempting to carry out land use planning by means of fiscal instruments.

5. This observation assumes that an increase in the value of the property will be reflected in the value assessed for taxation purposes, which is by no means always true in developing countries.

The Real World of Property Taxation ---

The diversity in land and property taxes across countries is striking (see Bird and Slack [2004] for a review). Differences emerge in how the tax base is determined, how tax rates are set, and how able countries are to levy and collect the tax. In some countries, one property tax covers all types of property. In others, different taxes apply to different components of real property. Countries may, for example, have separate taxes on land and buildings, separate taxes on residential and non-residential property, or separate taxes in urban and rural areas. Moreover, there are often significant differences within countries. The greater the degree of local discretion in establishing the tax base and setting the rates, the greater is the diversity within a country, particularly in federal systems in which the state or provincial government often provides the legal framework under which municipalities operate. Summarizing this reality is made even more difficult by the lack of internationally comparable information.

TAXES AS A SOURCE OF LOCAL REVENUE

It is clear, however, that property taxes are not big revenue producers in any country. As table 9.1 shows, at the turn of the century such taxes accounted in developing countries for only about one-half of 1 percent of the gross domestic product (GDP)—and only about 2 percent of total tax revenue—up a bit from earlier decades.⁶ The equivalent share for the industrial countries forming the Organisation for Economic Co-operation and Development (OECD) remained at a bit more than 1 percent of GDP (and about 4 percent of all tax revenues) throughout the period from 1970 to the present.⁷ By contrast, property taxes often are important sources of *local revenue* in many countries, especially in developing ones. In the 1990s, for example, property taxes accounted for 40 percent of all subnational taxes in developing countries and 35 percent (up from 30 percent in earlier decades) in developed countries. These taxes financed a bit more than 10 percent of the subnational expenditures in both groups. As the country information shown later in table 9.2 indicates, the relative importance of local property taxes as a share of both GDP and local revenues varies widely from country to country, within both developing country and developed country groups.

THE ECONOMICS OF LAND AND PROPERTY TAXES

Historically, in most countries the property tax has been associated with local government. Interestingly, recent studies suggest that the greater extent to which

6. All statements made in this section are based essentially on data drawn from the International Monetary Fund's *Government Finance Statistics Yearbook*, the only comparable source available for non-OECD countries. These data are subject to many qualifications, as noted in that source—see, for example, IMF (2005). In addition, because the coverage of local finance in this source is both patchy and varies considerably from period to period, all comparisons must be taken with a grain of salt.

7. These data do not include taxes on land and buildings accruing to central governments. Because in most countries property taxes basically accrue to local governments, they are often called simply local taxes.

Table 9.1
Local Property Taxes as Share of Gross Domestic Product and Local Revenue (%)

| | 1970s | 1980s | 1990s | 2000s |
|----------------------|-----------|-----------|-----------|-----------|
| Developed countries | 1.24/17.4 | 1.31/17.0 | 1.44/17.9 | 1.46/13.0 |
| Developing countries | 0.42/27.6 | 0.36/24.3 | 0.42/19.1 | 0.53/18.3 |
| Transition countries | 0.34/6.7 | 0.59/8.5 | 0.54/8.8 | 0.72/7.2 |
| All countries | 0.77/22.8 | 0.73/20.4 | 0.75/15.6 | 0.95/11.9 |

Note: The first number in each cell is share of gross domestic product (GDP); the second is share of local revenue. Numbers are not directly comparable either between groups or periods because of the different coverage in each cell. Data shown for the 2000s are usually the three-year average for 2002–2004 and include all 55 countries (21 developed, 17 developing, and 17 transitional) for which the necessary data are available in IMF (2005).

Sources: Bahl (2002) and additional calculations by Bahl and Tummennasan, as reported in Bird and Slack (2004). Figures for the 2000s are calculated by authors using data from the IMF (2005).

local governments are financed by local property taxes in North America compared with Latin America is one reason for the differential developmental paths followed by the two regions (Sokoloff and Zolt 2005). Taxes on land and buildings are an especially appropriate local revenue source, in part because real property is immovable—that is, it is unable to shift location in response to the tax. Although a change in property tax may be capitalized into property values in a particular community, and in the long run tax differentials may affect where people locate, these effects are smaller in magnitude than those that would occur with income and sales taxes at the local level.

Property taxes are also an appropriate local revenue source because of the connection between services funded at the local level and property values. Fischel (2001), for example, argues that the property tax in the United States is like a benefits tax, because taxes approximate the benefits received from local services. To the extent that this observation is true, the use of local property taxes to finance local services promotes efficient public decisions, because taxpayers will support those measures for which the benefits exceed the taxes. Both the benefits derived from local services such as good schools and better access to roads and transit and the taxes used to finance such services are capitalized into property values. Because taxpayers are willing to pay more for better services and lower tax rates, either will translate into higher property values.

This analysis is based, however, on various assumptions. For example, it is assumed that local property taxes finance services that benefit property values; that the economic incidence of such taxes is on local residents, so they are the ones who end up paying them; that both tax rates and service levels are decided by local residents; that those who wish to “buy” other combinations of services and tax rates are free to move to other jurisdictions; that people—impelled by their sensitivity to property values—will act rationally in response to such signals; and that local governments do what voters want them to do. The strength and validity of many of these assumptions is obviously suspect in the context of many developing countries. Moreover, this argument becomes particularly tenuous when it is used to explain the widespread phenomenon of higher taxation on nonresidential property.

Table 9.2

Selected Characteristics of the Property Tax in 25 Countries

| | Local Property Taxes as Percentage of Local Government Revenues, 2002–2004 ^a | Basis of Assessment | Local Discretion Over Tax Rates? | Different Tax by Property Class? |
|-----------------------------------|--|--|---|-------------------------------------|
| <i>OECD</i> | | | | |
| Australia | 37.6 | Market value or rental value or both | Yes for local tax, but limits on annual revenue increases | Yes |
| Canada | 38.7 | Market value | Yes, but some restrictions | Yes |
| Germany | 5.6 | Market value; area in former GDR | Central base rates; local leverage factors | Yes |
| Japan | — | Market value | National standard and maximum rates | No, assessment differentials |
| UK | 0.1 | Market value (residential); rental value (nonresidential) | Residential tax only; centrally determined tax ratios for bands | Two separate taxes |
| <i>Central and Eastern Europe</i> | | | | |
| Hungary | 4.0 | Area or adjusted market value | Yes, within legal limits | Yes |
| Latvia | 8.8 | Market value | No, local governments can grant relief | No |
| Poland | 9.2 | Area | Yes, subject to minimum and maximum rates | Yes |
| Russia | 8.0 | Area; inventory of structures, value of assets | Yes, within narrow range set by the central government | Yes |
| Ukraine | 4.7 | Area | No | No |

| | | | | |
|---------------|------|---|---|--------------------------------|
| Argentina | — | Market value | Yes | Yes |
| Chile | 22.4 | Area by location for land; construction value for buildings | No | No |
| Colombia | — | Market value | Yes, subject to central government limits | Yes |
| Mexico | 1.9 | Market value | Yes | Yes |
| Nicaragua | — | Cadastral value | No | No |
| <i>Asia</i> | | | | |
| China | 2.4 | Area; market value or rental value | No | No |
| India | — | Mostly annual rental value; some area and market value | Yes, subject to state restrictions | Yes |
| Indonesia | — | Market value | No, can change valuation deduction | No |
| Philippines | — | Market value | Yes, subject to maximum and minimum rates | No, assessment differentials |
| Thailand | 12.2 | Rental value; market value | No | Yes |
| <i>Africa</i> | | | | |
| Guinea | — | Rental value | No | Yes |
| Kenya | — | Area or market value or both | Yes | Yes, but rarely differentiated |
| South Africa | 18.4 | Market value | Yes | No, relief mechanisms used |
| Tanzania | — | Market value or replacement cost | Yes | Yes |
| Tunisia | — | Area; rental value | No | No |

^a Three-year average: 2001–2003 for China, Hungary, and Poland, and 1998–2000 for Mexico.

— = Not available.

Sources: Bird and Slack (2004); property tax share of local revenues calculated from data in IMF (2005).

By contrast, some economists see the property tax as essentially a tax on capital or, to the extent it falls on housing, as a tax on housing services. Zodrow (2001), for example, argues that the property tax in the United States results in distortions in the housing market and in local fiscal decisions. In particular, taxes like the U.S. property tax that are based on market value discourage building and result in the underutilization of land. The result is that the country ends up with less capital per unit of land than is economically efficient. Homeowners who improve their houses, for example, face higher taxes as a result and will thus be discouraged from doing so. As Henry George (1979) said in 1879, a tax on land values alone would avoid this economic inefficiency and would stimulate efficient land use.

A tax on land value taxes only location rents (the returns from a particular location regardless of the improvements to the site). Because improvements to land (such as structures) are not taxed, the owner has an incentive to develop the land to its most profitable use. By contrast, a property tax on land and buildings increases the relative price of capital to land and thus discourages investment in improvements and results in a lower capital to land ratio. Assuming land is in fixed supply, a tax on land falls on landowners and cannot be shifted to others, and so land rents do not increase and higher site value taxes are capitalized into lower property values. Because the tax is borne proportionately more by owners of land and because land ownership is unequally distributed, a tax on land only is more progressive than a tax on land and improvements if the capital to land ratio declines with income, as is likely true in North America.⁸ Site value taxation thus often scores well in terms of both equity and efficiency. Indeed, taxes on land are generally regarded as one of the least distortionary taxes, whereas more general taxes on property distort decisions about improvements (investment) to buildings. So why, as table 9.2 shows, do most countries levy property taxes on both land and *improvements*, a term that includes structures, buildings, irrigation systems, and other manmade features?

One reason may be that the valuation of land alone can be difficult, especially in urban areas where most real estate sales combine the value of land and improvements so that the value of improvements must be subtracted to derive an assessed value for land. Others argue, however, that valuation of land alone is probably easier than valuation of property (Netzer 1998) and can often be estimated directly from sales and demolition records. The original arguments for site value taxation were made in 1879 in a context in which cities such as San Francisco were growing rapidly (George 1979). Land that was worthless one day was worth a fortune the next, largely because of the rapid influx of population. Valuing land separately may be less of a problem when urban areas are growing rapidly, as in most developing countries (Bahl 1998). Another problem with taxing land only is that because the tax base is considerably smaller than the value of land and improvements combined, a higher (and thus politically more difficult) rate is needed to generate comparable revenues. In any event, in many countries land and improvements are, in practice, assessed separately. Land value is estimated on the basis of a land

8. But if the capital to land ratio rises with income, as De Cesare et al. (2003) argue is true in Porto Alegre, Brazil, for example, then taxing only land would be regressive.

value map and building value in accordance with construction cost tables—and, unfortunately, both sets of values are often long out of date.

WHO PAYS THE PROPERTY TAX?

Quite apart from the question of taxing land only, why has so much other good advice bestowed for so many years by experts in so many countries about the desirability of relying more heavily on property taxes had so little apparent effect? One reason is that property taxes are particularly difficult taxes in several important respects. To illustrate, what one thinks of the present and possible future of any tax inevitably depends, in part, on what one thinks its incidence might be—that is, who pays the property tax? And is it an equitable tax? There appear to be as many answers to these questions as there are views about the property tax. Those who view taxes on residential real property as essentially taxes on housing services tend to think that property taxes are inherently regressive, because the cost of housing usually constitutes a relatively larger share of consumption for poorer people than for richer people. People who view property taxes as essentially a tax on capital tend to think that such taxes are inherently progressive, because, in general, income from capital constitutes a relatively higher share of the income of richer people than of poorer people. Those who believe that the portion of the tax that falls on land is paid out of economic rent consider the taxation of such “unearned increments” arising (often) from public actions to be inherently equitable. Those who view property tax as essentially a benefits tax tend to think that it makes no more sense to ask whether the “price” of local public services (the property tax) is regressive than to ask whether the price charged for anything else is regressive: voluntary exchange (imposing property taxes as generalized user charges for services) does not, in their view, raise any question of incidence. Although hardly conclusive, the empirical evidence on capitalization, on the one hand, and “tax exporting,” on the other, at least in the United States and Canada, suggests that there may be something in all of these views.⁹ In the end, it seems, beliefs about the equity or inequity of the property tax appear to depend largely on what one thinks of the property tax in the first place.

POLITICAL AND ADMINISTRATIVE ASPECTS

Of course, the property tax is hardly the only tax for which incidence is a black box. Nevertheless, at least four additional characteristics of the property tax differentiate it from other taxes: (1) its visibility; (2) its inelasticity; (3) its inherent arbitrariness; and (4) at least in some countries, the extent to which it reflects local autonomy. First, as usually applied, the property tax is a very visible tax. Unlike the income tax, it is not largely withheld at source. Unlike the sales tax, it is not paid in small amounts with each daily purchase. Instead, the property tax is generally paid directly by taxpayers in periodic lump sum payments. Thus, taxpayers tend to be more aware of how much they are paying in property taxes than in other taxes.¹⁰ Moreover, the

9. This literature is reviewed in most textbooks. For one example, see Bird and Slack (1993).

10. Some mortgage institutions, however, include property tax payments in the monthly mortgage payments, thereby reducing the visibility of the property tax for customers who pay their taxes along with their mortgage payments.

property tax usually finances services that are quite visible as well, such as roads, garbage collection, and neighborhood parks. From a decision-making perspective, visibility is clearly desirable, because it makes taxpayers aware of the costs of local public services. Awareness enhances accountability, which is obviously a good thing from both an economic (hard budget constraint) and political (democratic) point of view. It does not, however, make the property tax popular. On the contrary, as discussed later in this chapter, it appears that governments often find it harder to raise (or reform) property taxes than other taxes.

A second important characteristic of the property tax is that reform efforts are unlikely to have big revenue payoffs simply because the base of the tax is invariably relatively inelastic. Bahl (2002), for example, notes that the GDP elasticity of the property tax in general has been close to unity for decades (see table 9.1). Property values generally respond more slowly to annual changes in economic activity than do incomes, and even when values do rise rapidly, few jurisdictions—and almost none in emerging economies—update property values for taxation purposes on an annual basis.¹¹ As a result, to maintain property tax revenues in real terms (let alone raise property tax revenues), it is generally necessary to increase the “headline” tax rate. As with visibility, inelasticity may mean greater accountability (taxing authorities have to increase the tax rate to increase tax revenues), but it also almost always results in greater taxpayer resistance.

Third, most taxes are based on flows—income or sales. The tax base may sometimes be the source of argument between taxpayer and tax authority, but at least there is a measurable economic activity on the basis of which the tax is levied. By contrast, taxes on land and property are generally based on stocks—that is, asset values. Unless the asset subject to tax is sold by willing buyers to willing sellers within the tax period, someone has to determine the value that serves as the basis on which to assess the tax. Unfortunately, valuation is inherently and inevitably an arguable matter. If there is a self-assessment system, owners are likely to undervalue their property; if there is an official (cadastral) assessment system, owners are likely to feel that their property is (at least in relative terms) overvalued. One way or another, someone has to determine the tax base for the property tax in a way that is not applied to any other significant tax. It is not surprising, then, that the results are often perceived to be unfair and arbitrary. It is also not surprising that the process of obtaining “good” (close to market, fair) valuations is seldom cheap. Indeed, administering a property tax at the same level of fairness (nonarbitrariness) characterizing most other major taxes is both a relatively costly operation and one that, no matter how well it may be done, is not easily accepted as fair by many taxpayers.¹²

11. For example, as a result of the well-known “bubble” in asset prices in Japan in the 1980s, at one point the effective rate of the fixed property tax in Tokyo was estimated to have fallen to 0.05 percent (Ishi 2001).

12. In a pioneering study of the Malaysian land tax (which is based on area, location, and use and not on value), Manaf, Hasseldine, and Hodges (2005) find that the low and decreasing compliance rates observed (especially for agricultural land) reflect many factors, including the perceived fairness of the system and taxpayer knowledge of the system. Unfortunately, no variables reflecting perceptions of local (state) expenditures are included in the study.

Finally, to the extent that property taxes are levied only by local governments, they support local autonomy. However, the extent to which such autonomy is either desired or attained is very country-specific. In most developing countries, local government autonomy is often heavily constrained when it comes to taxation. One explanation is simply that central authorities are reluctant to grant such autonomy to local governments (Ebel and Taliercio 2005). Central governments either do not trust local governments to exercise their taxing authority appropriately, or they are afraid local autonomy will impinge on their own ability to levy property taxes or other taxes. Central governments may at times find it sensible to set limits on property tax rates (for example, to restrict the export of taxes to other jurisdictions), but the degree and nature of the control observed in many countries go well beyond this purpose.

Another explanation for restrictions on local autonomy is that sometimes both central and local government officials confuse revenue sharing and own-source revenue autonomy (Bird, Ebel, and Wallich 1995). With revenue sharing, although the proceeds of the tax accrue in whole or in part to local governments, the central government sets the tax rates and assesses and collects the tax. Shared tax revenues may be distributed among local governments on the basis of where the revenues were collected or on the basis of a formula (for example, on a per capita basis). Revenue sharing is essentially a transfer in which local government revenues are tied to the specified revenues of the central government. It is not the same as the authority to levy one's own taxes.

A third explanation is that local governments are generally reluctant to take advantage of the legal authority they do have (Ebel and Taliercio 2005). One reason is that a differential property tax rate could encourage migration to jurisdictions with lower tax rates. Such tax competition could then create an environment in which municipalities become more efficient in their use of resources and more accountable to taxpayers. But it also may result in harmful competition, which would produce a less than optimally sized local public sector. A more likely reason for the reluctance of local officials and politicians to use property taxes, however, is simply that they are unwilling to face the political fallout from levying taxes and would prefer to have the central government bear that responsibility.

An essential ingredient of responsible local autonomy—or, if one prefers, of a “hard” local budget constraint (Rodden, Eskeland, and Litvack 2003)—is setting tax rates locally rather than at a senior level of government. The property tax systems in most emerging countries fall far short of this standard. In many transitional countries, one result of the lack of local control over property taxes is a disincentive to privatize properties. Local governments are unwilling to dispose of properties if they can control the revenue they receive from leasing them, whereas they have no control over property tax revenues.¹³ To avoid such distortions, local governments need better control over local tax sources if they are to get out of the land development business—a business for which they are generally ill suited.

13. It is, of course, possible to subject leaseholds to property taxes, but the point here relates to the difference in the degree of local control over lease and tax revenue.

Reforming Property Taxes

Many countries have introduced property tax reforms of varying degrees and varieties. The reasons for undertaking such reforms have varied. In some countries, property tax reform was part of an overall reform of local government structure and finance. In others, it was part of a reform of the overall tax system. In still others, property tax reform was carried out on its own without being part of other government initiatives. Most reforms have focused on either updating assessments or moving from some other base, such as an area-based system, to a value-based system. As Kelly (1995) shows, however, in most emerging countries not only is it not enough to reform assessments, but concentrating on assessment reform may in the end subvert the entire reform effort.

An important conclusion drawn from a recent review of property tax reforms in countries such as Indonesia, Colombia, and Kenya is that to implement property tax reform successfully—where success is defined as raising more revenue in a relatively efficient, equitable, and sustainable way—a country must have several basic elements in place (Bird and Slack 2004). The preconditions for reform depend, to some extent, on the type of reform being implemented. If the reform focuses on the assessment base, for example, a precondition for successful implementation of that reform is the availability of adequate technical expertise. Other preconditions include the existence of a cadastre, a land registration system, adequate local government capacity, and a solid administrative infrastructure. In addition, considerable and sustained political will is needed to ensure that the reform is implemented. For example, in Indonesia the key to relatively successful property tax reform was sustained political will. In Kenya, the primary obstacle to implementing property tax reform has been lack of political will and weak administration. Both education and incentives are needed for successful revenue mobilization. Taxpayers need not only to receive improved local services, but also to perceive that taxes are being administered fairly (Manaf, Hesseldine, and Hodges 2005). Achieving this goal requires improved tax administration—that is, better property identification and management, valuation and assessment, billing and collection, enforcement, and taxpayer service. Few if any emerging economies can manage to do all of these things well.

In addition, if reform is expected to result in major tax shifts within or among property classes, some form of phase-in mechanism is almost invariably necessary politically to cushion the impact. Failure to allow adequately for transitional problems and to cushion burden shifts is often fatal. No matter how economically desirable the long-run outcome of property tax reform may be in terms of the equity and efficiency of the tax, its transitional effects may be sufficiently undesirable in political terms to kill it. Some ways of dealing with this problem seem better than others. For example, tax limitations (or tax capping) such as Proposition 13 in California should be avoided.¹⁴ Although the California system has been successful

14. Under Proposition 13, property tax rates cannot exceed 1 percent of a property's market value, and valuations cannot grow by more than 2 percent per year unless the property is sold (this provision is known as the time-of-sale reassessment). Proposition 13 also requires that state tax rate increases be approved by a two-thirds vote in the state legislature and that local tax rate increases be approved by a referendum.

at providing certainty and stability for those taxpayers who stay in their homes, such freezes break the link between taxes and market values and thus make property taxes less uniform and more arbitrary. Equity is sacrificed, because properties with similar market values do not pay the same taxes. Moreover, because there is no incentive to review one's assessment, assessment errors may never be corrected. Perhaps most important, "once a freeze is imposed, the process of thawing may be too painful to bear" (Youngman 1999, 1395).

A simple phase-in of tax increases over a relatively short period of time is a better way to cushion the impact of property tax reform. Conflicts always arise between moving to a fairer system as quickly as possible and lessening the impact on those whose taxes would increase. Nevertheless, because of the size of the tax shifts required, phase-ins are often needed when reform has been delayed for a long time. Care must be taken, however, that transitional or remedial measures such as phasing in tax increases do not take on a life of their own and extend beyond the time required for the transition.

Tax reform is always as much or more a political exercise as it is a technical exercise. Because of the visibility of the property tax and the inherent subjectivity of determining its base, property tax reform is especially vulnerable to criticism if it is not well administered. Setting up and running a decent property tax are complex and expensive tasks. If too much pressure is put on the tax, the system may break down. As noted earlier, many factors have to be in place for a successful reform: (1) clear goals; (2) a strong commitment from all levels of government; (3) careful and detailed plans for dealing with legislation, valuation, administration, training, collection, and adjudication; and (4)—perhaps most important—political acceptance of the need for the reform. How likely is it that all—or sometimes any—of these conditions will be satisfied in most developing and transitional countries? How much cost in terms of time and effort must be incurred to secure them, and will the expected benefits justify this use of scarce political, technical, and economic resources? Such questions can be answered only by detailed consideration of the circumstances of each individual country.

To cut to the chase, in the end the only way to achieve successful property tax reform in any country is to secure sufficient support from a significant proportion of taxpayers. Support is more likely when taxpayers feel they are receiving adequate services for the property taxes that they are paying, and when they perceive that the process for taxing property is fair and accountable. In most emerging countries, governments have a long way to go before these preconditions are satisfied. An approach coupling property tax reform with significant decentralization may have a better chance of success than an approach that consists of either one alone.

Increasing the fairness of the property tax does not often seem to be a stated objective of reform in any country. Indeed, it is an elusive goal. Moving to a fairer system is difficult, because it invariably means shifts in taxes among taxpayers. Even if reform improves not only equity but also the efficiency and administration of the tax and phase-in mechanisms are in place to ease the impact, invariably there will still be winners and losers. Those who benefit from reform usually remain silent. Those who lose tend to be vocal. With a highly visible tax such as the property tax, increasing taxes on the more affluent—and usually politically influential—residential homeowners (as sensible reform would often require) is not likely to prove easy anywhere.

Thus, the politics of successful property tax reform is not propitious in most countries. Such reform is usually difficult technically and often not too rewarding in either revenue or political terms. In these circumstances, it is encouraging that some emerging countries such as Indonesia and Colombia have nevertheless achieved some success. It may be difficult to improve land and property taxes substantially in a short time, but it is possible to improve them to a meaningful degree in most countries, provided—and this is a major proviso—that the will to do so is really there.

Getting It Right

Successful property tax reform is thus possible if it is done right. But what is “right” when it comes to property taxation? Essentially, it is a matter of deciding how to determine the tax base, at what rate to tax it, and how to keep the system, once established, functioning properly. Although many options are available at each stage of this story, for simplicity’s sake this chapter will focus on a streamlined version.

DETERMINING THE TAX BASE

What should be taxed? Two distinct assessment methodologies are commonly used for property taxation: area-based assessment and value-based assessment (see table 9.2). The value-based approach is divided into capital and rental value approaches (Youngman and Malme 1994). A few countries use some variant of self-assessment. The conventional consensus is that capital (or market) value taxation is best for several reasons. For one thing, property values more closely reflect the benefits from services than the size of the property. For example, properties close to transit systems or parks enjoy higher values. Market value also has the advantage of capturing the amenities of a neighborhood—amenities that have often been created by government expenditures and policies. Finally, any assessment system that fails to take into account changes in relative values over time will result in inequities.

In practice, though, most countries use a mix of systems. For example, a country employing market value assessment may actually tax single-family residences on the basis of values estimated by the comparable sales method, commercial properties on the basis of values estimated by capitalizing some income stream, industrial properties largely on the basis of their estimated depreciated cost method, and rural properties on the basis of a more or less refined area (value per unit) method.

Many transitional countries use area-based systems of taxation, because, in the absence of a housing market, they lack the necessary information and expertise to determine market values. As housing markets develop, governments may gradually shift from an area-based system to a market value-based system over a period of years by weighting the area by indicators of quality and location. For example, a tax based on the number of square meters of a structure could be adjusted to reflect the quality of the unit and its location. Quality might reflect the age of the unit and whether it has been renovated. For location, each municipality could be divided into zones to reflect different market values. A zone located in a desirable neighborhood would have a higher factor than a zone located in a less desirable neighborhood. Over time, zones could be defined more narrowly, from entire neighborhoods to sections of neighborhoods to individual blocks. Eventually, the

narrowing of zones would reduce each zone to something approximating the size of an individual house, and the unit value system would, at that point, approximate market value (Slack, LaFaver, and Shpak 1998).

In some countries, property owners place an assessed value on their own property. In Hungary, for example, the local tax system is based on the principle of self-identification in which taxpayers are obliged to register and report their tax obligations to the local tax administration. In Thailand, a self-declaration is made to the local assessors, who assess the self-declared value and identification in terms of how well they match the data on hand. Self-declaration of properties by landowners is also required in the Philippines once every three years. The local assessor then prepares the assessment roll. Self-assessment appeals to poor countries with little administrative capacity. It does not appear to require an expert assessment staff, and it seems to be easy to implement. Indeed, in Bogotá, Colombia, self-assessment was relatively successful in increasing revenues from property taxes, albeit at a time of rapidly rising property prices. A recent report recommended, largely on the basis of the Bogotá experience, that self-assessment also be utilized to a considerable extent in rural areas of Colombia (Garzón and Vázquez-Caro 2004).

In some countries, the taxing authority has the right to buy the property at the self-assessed value. But such a system is credible only if the authority actually can and will buy the property. In practice, this right seems to have been exercised only rarely, presumably because of the political and budgetary impossibility of large-scale property purchases. Tanzi (2001) recently proposed that people assess their own property and then make the self-assessed value public. Anyone who wanted to buy the property could make an offer at a price that exceeded the declared price by some margin (such as 40 percent). If the owner refused the offer, the bid price plus a penalty would become the new assessment. Although appealing to economists, and frequently recommended in the past, such ideas on closer examination seem much less attractive and have not proven viable in practice (Holland and Vaughan 1970).¹⁵

In general, self-assessment seems likely to lead to inaccurate estimates of property values, with a tendency toward underestimation. It violates the principle of fairness on the basis of ability to pay, because people with comparable properties will not necessarily pay comparable taxes. Because lower-valued properties generally have a lower rate of underestimation than do higher-valued properties, this approach is regressive (that is, taxes are relatively higher on lower-valued properties). Moreover, underestimation erodes the size of the tax base with the usual detrimental effects on tax rates or service levels. In the end, there is no easy way to get people to tax themselves in the absence of a credible verification process.¹⁶ To minimize the obvious problems of understatement associated with self-assessment,

15. For a brief review of the history of this idea and the problems with it, see Bird (1984b).

16. Few seem likely to match the high standards set over four centuries ago by, of all people, Machiavelli, who once wrote, "When these republics [in the province of Germany] have need to spend any sum of money on the public account . . . each person presents himself to the tax-collectors in accordance with the constitutional practice of the town. He then takes an oath to pay the appropriate sum, and throws into a chest provided for the purpose the amount which he conscientiously thinks that he should pay; but of this payment there is no witness save the man who pays" (Machiavelli 1983, 244–245).

a government must be prepared to obtain (costly) expert assessments of individual properties when it believes self-assessment is inaccurate.

HOLDING ONTO THE TAX BASE

Local governments are often tempted to provide tax incentives such as reduced tax rates or even complete tax forgiveness to attract businesses to their jurisdictions. The usual arguments for such incentives are that they will result in job creation, investment in the local area, and increased local output (Brunori 2003). Frequently, local governments engage in such tax competition to attract and keep taxpayers who are believed to contribute more in local revenues than they consume in government services. Property taxes, at least at U.S. levels, do appear to have a small but significant influence on business location (Bartik 1991), but there is little or no evidence that property tax incentives are an effective strategy for achieving economic growth. Tax incentives often lead to a deterioration of the tax base and are accompanied by lower levels of public services.

Generally, the lower taxes offered to new businesses locating in a municipality mean higher taxes for the other taxpayers such as existing residents. Moreover, tax incentives are often wasted on firms that would have located in a municipality anyway. They may lead not only to unfair competition among businesses but also to corruption. All in all, local governments would seem well advised to stay out of the business of giving away their potential tax bases. Certainly when they choose to do so, they should not be rewarded with increased intergovernmental transfers to compensate for the lack of own-source revenues and poor-quality services. Nor should one government (the central authority) give away the tax base of another government (the municipality).

SETTING THE TAX RATE

Three major issues surround tax rates. Who sets them? Are they differentiated, and, if so, how? And finally, at what level should they be set? Sometimes, rates are set by the central government. Sometimes, there is some local discretion, within centrally set limits. And sometimes, there is complete local discretion. Even where rates are locally determined, they are often limited by the central government. Table 9.2 shows the extent of local discretion in setting property tax rates in 25 countries.

To make efficient fiscal decisions, a local government must weigh the benefits of the proposed services against the costs of providing them. If local governments do not finance services themselves, then the link between expenditures and revenues is lost and the choice of services will not be based on an accurate perception of their cost. Setting tax rates at the local level places accountability for tax decisions at the local level, and greater accountability leads to better local services (Hoffman and Gibson 2005). It may even lead to a sounder development path over time (Sokoloff and Zolt 2005).

Local determination of tax rates is particularly important in countries in which a senior level of government determines the tax base. Local tax rates may have to be set within limits, however, to avoid distortions. A minimum tax rate may be needed to avoid distorting tax competition. Richer local governments may choose to lower tax rates to attract business. With their larger tax bases, they can

provide equivalent services at lower rates than poorer competing regions. The resulting location shifts may not be allocatively distorting, but they are generally politically unwelcome. A maximum rate also may be needed to prevent distorting tax exporting, whereby local governments levy higher tax rates on industries in the belief that the ultimate tax burden will be borne by nonresidents (Boadway and Kitchen 1999). Such tax exporting severs the connection between payers and beneficiaries and renders decentralized decision making about taxing and spending inefficient.

Whether directed from above or left on their own, many local governments levy rates that differ by property class (see table 9.2).¹⁷ Different rates may be imposed for different classes of property such as residential, commercial, and industrial. Using this approach, local governments may attempt to manage the distribution of the tax burden across various property classes, as well as the size of the overall tax burden on taxpayers. Generally, where variable tax rates are applied, properties are assessed at a uniform ratio (100 percent or some lesser percentage) of market value. Another way to differentiate among property classes is through a classified assessment system, such as in the Philippines. Under this system, types of property (such as residential and commercial) are differentiated according to ratios of assessed value, but a uniform tax rate is applied. Variable tax rates are more visible and easier for taxpayers to understand than a classified assessment system, which may, unfortunately, be one reason that differentiated rates seem to be less common than differentiated assessment ratios. Often, assessment ratios differ substantially among classes of property more as a matter of practice than of law and are thus virtually invisible.

Variable tax rates (or other differentiation of property taxes among property classes) may be justified on several grounds. For example, it can be argued that the benefits of local public services are different for different property classes. In particular, a case can be made on benefit grounds for taxing nonresidential properties at a lower rate than residential properties (Kitchen and Slack 1993). But no examples of such differentiation come to mind. On efficiency grounds, property taxes should be high for those components of the tax base that are the least elastic in supply. Because business capital tends to be more mobile than residential capital, efficiency arguments again lead to the conclusion that business property should be taxed more lightly than residential property. In reality, however, lower rates are generally applied to residential properties for obvious political reasons (Thirsk 1982). Variable tax rates also can be used to achieve certain land use objectives. Because higher property taxes on buildings tend to slow development, differential taxes in different locations may be desired if the aim is to develop some neighborhoods instead of others.

Yet however one looks at it, there is little economic rationale for the most common of all property tax differentials, the higher taxation of nonresidential

17. Property tax rates can also vary according to the services received. Some jurisdictions have a general tax rate across the city and a special area rate or an additional surcharge in those parts of the city that receive services provided only to them such as garbage collection, street lighting, or transit.

property. Differentially higher taxation distorts land use decisions and favors residential use over commercial and industrial use. A similar rate on both uses would ensure that the choice is based on the highest and best use (Maurer and Paugam 2000). Special taxation of one factor of production (real property) may also distort productive efficiency by inducing a different choice of factor mix in producing goods and services.¹⁸

In some countries, much of their agricultural land is simply not taxed. In others, rather than assessing farms at their market value (which presumably reflects the highest and best use), farms are assessed at their value in current use. Even in market value systems, the value of a farm for tax purposes is often determined by its selling price as if it continues to be used as a farm. Alternative uses of a farm (such as a housing subdivision), or its speculative value, are not considered in the determination of value.¹⁹ Such favorable treatment of agricultural land is usually designed to prevent its conversion to urban use. Basing the property tax on value in current use, however, is probably not sufficient to preserve farmland, because the resulting tax differential is unlikely to be large enough to compensate for the much higher prices that would be paid if the land were converted to urban use (Maurer and Paugam 2000). Furthermore, favorable treatment of rural land can increase speculation at the urban fringe and thus end up increasing urban land prices.

Another question is whether the property tax is levied at a flat or graduated rate. In many countries, some graduation is introduced by exempting low-value properties. In a few instances (for example, some provinces in Argentina) the tax rate increases with the value of the taxed property. In Thailand, the tax rate also increases, but in a way that results in regressive rates. Many countries impose higher taxes on “idle lands”—though seldom with much effect (Bird and Slack 2004). Particularly in rural areas, some countries have occasionally attempted to use progressive land taxes as, in effect, proxy income taxes by attempting first to aggregate all land owned by a single person and then to impose a graduated tax. Such schemes have generally failed, however, because of both the administrative difficulty of assembling the information (particularly when properties are located in different jurisdictions) and the political unreality of attempting to accomplish “land reform by stealth” in this way (Bird 1974).

Such details pale in most developing countries next to what is perhaps the most striking feature of their property taxes—their very low tax rates. Even in countries such as Argentina in which progressive rates are imposed, the top rate (on assessed value) seldom exceeds much more than 1 percent, and it is often lower. In Indonesia, for example, the centrally set land tax rate is only 0.5 percent. Moreover, as a rule the effective rate of property taxes is, because of low assessment ratios and poor enforcement, much lower than the nominal or statutory rate. Other factors resulting in low effective tax rates in many countries are lags in reassessment and the inadequacy of adjustment for value changes. In the Philippines, for example,

18. For a proposal for a more neutral form of local business taxation, see Bird (2003a).

19. This outcome is even more likely when, as is common in many countries, agricultural land is taxed on an area basis, adjusted by crop utilization and, perhaps, by average crop prices (Bird 1974).

when the nominal rate was as high as 2 percent, the effective rate was estimated to be only 0.07 percent (Guevara, Gracia, and Espano 1994).

RUNNING THE SYSTEM

“Tax administration is tax policy” is a common observation in tax discussions in developing and transitional countries. No form of taxation is more dependent on administration than property taxation. How well land and property taxes are administered affects not only a country’s revenue but also its equity and efficiency. In many countries, poor tax administration is an impediment to implementing the property tax. Indeed local authorities simply do not have the capacity to administer the tax: (1) many administrative functions are performed manually rather than being computerized; (2) the revenue base does not include all taxable properties; (3) collection rates are low; and (4) enforcement is almost nonexistent. Even countries with relatively good property tax administration often have problems updating values on a regular basis. Recognizing the difficulty of local administration, many countries involve higher-level governments in some aspects of property tax administration, notably assessment. Even then, however, the results often leave much to be desired, because higher-level administrations often have little incentive to respond to the needs of local governments for up-to-date, accurate tax base information.

Three central steps are involved in the process of taxing real property: (1) identifying the properties being taxed; (2) preparing a tax roll that contains a description of the property and the amount of assessment and responding to assessment appeals; and (3) issuing tax bills, collecting taxes, and dealing with arrears. The first step in levying a property tax is to identify the property and to determine the owner (or other person responsible for tax liability). A fiscal cadastre requires information for each property including a description, a definition of its boundaries (using cadastral maps), ownership, and the value of land and improvements. A cadastre is an inventory of all properties with a unique property identification number for each parcel to allow tracking all parcels. Property identifiers allow for linking the assessment, billing, and property transfer records. A good property identification system also requires that information on properties within the jurisdiction be updated and made consistent. In many developing countries, much of the needed information is simply not available to anyone in the “official” information system. De Soto (2000), for example, points out that in Latin America the relevant information is not fully legally recorded for 80 percent or more of land and property.²⁰ For a property tax to work properly, information for each property about an assessment roll number of the property, the address, the owner(s) of the property, the area in square meters, and the age of the unit, and whether it has been renovated would have to be collected.²¹ The information

20. For an analysis of land titling and other key questions of land policy in developing and transitional countries, see World Bank (2003).

21. The cost of collecting the information could be added to the tax bill. In some Canadian provinces, for example, the assessment function is performed by a corporation that represents municipalities in the province. The cost of the assessment function is passed on to the municipalities, which add this cost to property tax bills.

collected should be reported in a consistent way and updated on an annual basis (Slack, LaFaver, and Shpak 1998).

The simple process of property identification is often difficult in emerging economies. Revenue base information is generally neither up-to-date nor complete. In Kenya, for example, the fiscal cadastre and valuation rolls include only between 20 and 70 percent of the total taxable land. In Guinea, the tax roll in 1999 covered only about a third of taxable property. The information needed to support a fiscal cadastre on a consistent nationwide basis is sometimes fragmented between the central and local governments. In Hungary, for example, the Land Offices of the Ministry of Agriculture manage the legal cadastre, but they have no information on property values; Duty Offices at the local level keep transactions records. Tax departments within local governments keep information on residential units, and local technical departments maintain the local master plans for land use zoning and information on building permits and public utility infrastructure. These databases are not integrated.

Another common problem is the lack of an adequate system for monitoring and recording land transfers. In the Philippines, for example, the law requires the registrars of deeds, notaries public, and building officials to submit documents on property transfers to the assessors. In practice, however, assessors generally rely on taxpayers for this information. As is common in developing countries, it is often easier in the Philippines to obtain (unreliable) information from taxpayers than (probably no more reliable) information from other agencies. In many countries, property records are not computerized. In Kenya, for example, property records are maintained manually and in an ad hoc manner. In Thailand, because local governments cannot afford to maintain a good record of property identification data, taxes are simply not collected on some properties. Thailand is hardly unique in this respect.

For the costs of local government to be shared fairly among taxpayers, property taxes must be based on assessments that are uniform within each jurisdiction. Uniform assessments are easier to achieve where the assessment function is centralized. One U.S. study, for example, finds that the use of county rather than local assessors results in more uniform residential assessments (Strauss and Sullivan 1998). Another study suggests that any economies of scale in the assessment function are more likely to be achieved at the central (state) government level (Sjoquist and Walker 1999). One way to achieve economies of scale while maintaining local assessment is by contracting out the assessment function (Bell 1999).

Fair, productive property taxes require not only a good initial assessment, but also periodic revaluation to reflect changes in value. Frequent valuations maintain the legitimacy of the tax and reduce the risk of sudden, dramatic shifts in tax burdens from large increases in assessed values. In a value-based system in which property values are changing, a shorter time frame for reassessments would allow those assessments to better reflect current market conditions. Indexing (such as by the rate of inflation) is carried out in some countries (for example, Colombia), but it is not as good as reassessment because property values change at a different rate in different neighborhoods and for different property characteristics. Fairness is not achieved when property assessments are merely increased by a common factor on an annual basis. Nevertheless, where financial resources are insufficient to undertake regular reassessments, indexing may be useful. Indexing over a three- to

five-year period that reflects relative price changes among locations and property markets can both ameliorate taxpayers' discomfort with large assessment changes and improve information about market trends for assessment administrators.

No matter how well designed and implemented it may be, any property tax system may make mistakes. An essential component of a good system is thus an error correction mechanism, and one critical element of such a mechanism is an appeals process for taxpayers wishing to contest their assessments. Such appeals processes usually include an informal review by the valuation office to correct factual errors and differences in views of the assessed value. If differences are not resolved at this stage, appeals proceed to a valuation review board made up of experts in valuation. In some countries, there is a third stage in which taxpayers can appeal the decision of the valuation review board to a specialized tax court. An appeals system is both desirable and necessary. In reality, however, its outcome may sometimes reduce equity, simply because appeals are invariably most utilized by better-off taxpayers, who have more to gain and can better afford to pursue legal redress. In most developing countries, such concerns are more theoretical than real, because, in practice, assessments are seldom appealed—perhaps because the taxes imposed are so small that appealing them is not worth the time of those most likely to do so, or perhaps because the same (well-off) people may have other, less formal, ways of seeking relief (corruption), or perhaps because the formal system is so cumbersome and difficult to use that it is not worth pursuing.

Alternatively, in some countries appeals may be infrequent simply because there is no effective way to collect unpaid taxes. Tax arrears as a proportion of taxes collectible are low in most developed countries (for example, 3–4 percent in Japan and the United Kingdom), but they are very large in some developing and transitional countries (for example, 50 percent in parts of Kenya and the Philippines and up to 70 percent in Russia). In principle, if the property tax is not paid within a specified time period after the due date, interest (and a late fee) should be charged, with the ultimate enforcement measure being sale of the property. But such sales almost never occur in developing countries. A more effective enforcement mechanism (at least for properties transferred within the formal legal system) may be not to permit property transfers unless property taxes are up-to-date.

Other Taxes on Land and Property

A variety of other taxes—transfer taxes, stamp taxes, capital gains taxes, value-added taxes (VATs), inheritance taxes—are also applied to land and property in most countries. Such taxes may generate more revenue than property taxes, but they often have undesirable economic effects. Such taxes deserve closer attention than they normally receive. By contrast, a few countries also apply “special” land taxes intended to achieve explicitly nonfiscal objectives. Such taxes perhaps deserve less attention than they have attracted.

TAXES ON PROPERTY TRANSFERS

The most common alternative form of land tax is that on land transfers. Land transfers are sometimes subject to various taxes and charges—land transfer taxes,

stamp duties, notarial fees, registry charges, VATs, and, in some instances, succession and gift taxes.²² Although it is beyond the scope of this chapter to discuss these taxes in detail, it should nevertheless be noted, as British economist David Ricardo pointed out two centuries ago, that taxes on the transfer of property are in a sense the ultimate “antimarket” tax, and indeed are an antidevelopment tax (Ricardo 1821).²³ Such taxes discourage the development and formalization of land markets. Their popularity, often at surprisingly high rates, is presumably attributable primarily to administrative convenience. Something happens that comes to the attention of the authorities—that is, the “taxable event” (the recorded exchange of title) is visible, even if the true value of the transaction usually is not.

In principle, countries concerned about efficient land use would be well advised to lower land transfer taxes and make up any revenue loss by strengthening basic property taxes. In practice, however, the administrative ease and political popularity of taxing transfers seems almost always to outweigh the less visible economic costs of doing so.

SPECIAL TAXES ON LAND

A few countries appear to have listened more closely to the experts when it comes to introducing special land taxes for essentially nonfiscal purposes—that is, to reap “unearned increments” (known as *plusvalía* in Colombia), to recoup the costs of public investment expenditures (using development charges in Canada and special assessments and betterment levies in various countries), or to discourage what the Philippines calls the holding of idle land (as in the Philippines and some Latin American countries). Such nonfiscal objectives of land taxation have received considerable attention in the literature over the years.

Because land and property taxes clearly have nonfiscal impacts (such as on land use patterns), those impacts should be taken explicitly into account by the officials designing and evaluating land and property tax systems. Taxing land alone is more favorable to investment and growth than taxing land and improvements (Netzer 1998). The uneven way in which property taxes are often applied within urban areas—with differential taxes on housing and business, for example, and different impacts in older and newer areas—may affect the pattern of urban growth (Slack 2002). Rural development patterns also may be affected by land taxation (Bird 1974). Ideally, sensible fiscal (and land) planning should take such effects into account, for example, by placing a heavier burden on land than on improvements when it is feasible to do so.

That said, imposing special land taxes explicitly to achieve desired nonfiscal outcomes is a temptation that should generally be resisted. From Britain to Colombia, from the Philippines to Tunisia, instances of land tax design intended primarily to achieve such objectives are easy to find. Considerably more difficult to find is evidence that such tax gadgets have produced net beneficial results. The effort de-

22. The treatment of land and real property under a VAT is a complex issue. For discussion, see Bird and Gendron (forthcoming).

23. For an early analysis of such “market-d discouraging” transfer taxes and for references to the literature, see Bird (1967).

voted to designing land taxes intended primarily to achieve nonfiscal purposes may at times have detracted from the more important task of implementing an effective and efficient revenue source for local governments (Bird 1974). Putting in place rural land reform, controlling urban land speculation, reaping land value increments for public purposes—all these are worthy objectives. But attempting to achieve them indirectly through the clever design of fiscal instruments may sometimes be counterproductive and almost always has proved not to be worth the effort.

An example is the *plusvalía* or land value increment tax found in some Latin American countries (Smolka and Furtado 2001). This tax is, no doubt, a good idea in principle. But no one, anywhere, has been able to go very far with this approach in practice: witness the account in Hood (1976) of Britain's futile attempts to tax land value increments in the 1950s and 1960s. Similarly, attempts to adjust rural land taxation, in part to achieve land reform by stealth, seem doomed.²⁴ As Hirschman (1967) notes, what cannot be done openly for political reasons can seldom be accomplished indirectly, especially when it is adverse to the perceived interests of the land-owning elite.

In the end, the only nonbasic property tax that really seems worth exploring in most countries is some form of the special assessment or betterment tax. Countries such as Colombia have had considerable success recouping some of the benefits to adjacent property owners from certain public investments using such means. However, it is neither easy nor costless to establish and operate such a system under the conditions found in a developing country (Rhoads and Bird 1969). Perhaps for this reason, few countries have managed to do much with this potentially useful fiscal instrument.²⁵ Similarly, although development charges, exactions, and other forms of "value capture" are being increasingly employed by some U.S. states and Canadian provinces, and some useful lessons for other countries may perhaps be learned from this experience (Slack 2002), the role of such devices also seems likely to be very limited in the circumstances of most developing and transitional countries.

Conclusions: The Case of China —————

One way to conclude a general survey such as this one is to consider some of the issues raised in the context of a particular country. China is hardly a typical developing country, but it is an important one, and its circumstances clearly illustrate one of the central problems facing property tax designers around the developing world: not only does one size not fit all when it comes to designing policies for particular countries, but one size may often not fit all even within any one country. Consider, for example, how China might deal with its three property tax problems: what to do in rural China, what to do in urban China, and what to do in the "land between."²⁶

24. Such land reform has frequently been proposed in India, where the issue is especially salient because of the unfortunate constitutional exclusion of agricultural income from the central income tax.

25. See, for example, the account of Colombia's long experience in Bird (1984a).

26. For a broader treatment of China's fiscal and intergovernmental problems, see Wong and Bird (2005).

RURAL CHINA

China's prolonged economic boom began in the 1980s in the rural sector—first in agriculture and then with small industries. Although the growth impetus has now clearly shifted to urban areas, China remains to a surprising extent a rural country: indeed, there are actually now more people in the rural sector than when the boom started, and many of them are very poor and getting older. The rural sector remained at the periphery of the Chinese fiscal system throughout the 1980s and 1990s—lightly taxed, but also receiving few subsidies or budgetary expenditures. And yet at the same time the state steadily was extending its reach into the rural sector with policies mandating family planning, the provision of free universal education through junior middle school, and the standards under which services were to be provided—all of which increased the costs of government at the grassroots levels of the townships and villages. In addition, local officials expanded their demands for resources, in part simply to pay for their own salaries. But the grassroots governments received no new revenue sources to pay for such activities. The result was an explosion of levies and fees, a bigger burden on poor rural taxpayers, and greater political unrest (Jin and Shen 2006). One recent response was to abolish the long-standing “agricultural tax”; another was to announce that a new rural property tax would be introduced. But what kind of tax? Does it make sense in China to think of introducing a “conventional” market value tax in rural areas? Any viable form of rural property tax in China, as in many countries, seems more likely to be along the lines of a classified area-based tax—that is, close in some ways to the old agricultural tax—than the sort of modern, computer-assisted market appraisal (CAMA)-based tax generally recommended by experts these days. But politics likely rules out any quick return to any form of sensible property tax in China's rural areas.

URBAN CHINA

The other side of the Chinese coin is that China's cities are growing so rapidly that within a decade half or more of its population will be urban. So far, however, the pattern of urban growth in China has not followed that found in other countries at a similarly early stage of rapid development (Au and Henderson 2002). Moreover, in some critical respects the internal pattern of growth within Chinese cities has also deviated from what economic logic would suggest is sensible, although in this respect at least its experience is not too different from what has been seen elsewhere. The present urban finance system in China is clearly far from rational (Hong 2003). Up to now, many Chinese cities seem to have divided their efforts between attempting to keep unsuccessful businesses in operation through protectionist measures and attempting to attract new businesses by distorting land and capital markets. Unless cities are given sufficient “good” fiscal instruments to finance their expansion, they are likely to continue, as in the past, to cope with the problems facing them by recourse to “bad” ones, such as extrabudgetary funds (Wong 1999), arbitrary and illogical fees (Hong 2003), and distorted “public-private” schemes (Wong 2003).

In some cities, much investment in both infrastructure and housing has been financed by bank loans, often with repayment capacity estimated on the basis of expected sales of appreciated land leases. Many urban local governments throughout the country have been dependent on the sale of such leases for a considerable fraction of their revenues and have been heavily involved in land and real estate

development. The role of local governments is critical to the acquisition of land for development, especially when the conversion of farmland is involved. These activities can be very profitable, and so governments have not been slow to move into not only developing serviced land but even building shopping complexes and housing developments. Unfortunately, exactly what has been done, by whom, and who bears how much risk are all unclear, because most such activities are conducted through companies and corporations in which various governments are involved in ways that are murky and completely hidden from public scrutiny.

Despite the obvious risks in such involvement, arguably local governments in expanding urban areas have had little choice but to take the gamble, because they are responsible for financing infrastructure but have neither the tax resources to do so nor the authority to borrow. However, it appears that government officials have at times used off-budget financing of urban growth in China more to exploit their monopoly on land acquisition and information about development plans than to benefit the public. The system has facilitated the provision of urban infrastructure in some Chinese cities. However, it has also exacerbated the lack of transparency in local fiscal matters, reduced the effectiveness of budgetary procedures, created considerable opportunities for both waste and corruption, and distracted government officials from their primary task of providing public services. It has also hindered market reform.

An alternative approach to financing urban development is to think of cities as, in effect, enterprises that provide services of various sorts both to urban residents and to the country as a whole.²⁷ Like any enterprise operating in a globally as well as nationally competitive environment, success depends on both obtaining sufficient resources and using them in the right combinations to produce goods and services that appeal to potential customers. An “urban enterprise” will succeed in improving a society’s welfare only if the prices considered by all relevant decision makers are “right” in the sense of correctly representing social opportunity costs. Indeed, decision makers must both pay the correct input prices and charge the correct prices for their outputs.

To avoid replicating the experience of too many cities in other countries and ending up with what a well-known early paper on this subject in the United States provocatively—and accurately—called “The City as a Distorted Price System” (Thompson 1976), China must get its urban prices right. In particular, both public and private decision makers should be working with the correct prices for land, which requires both an appropriate regulatory structure and, very important, an appropriate land tax system so that the best use is made of scarce urban space.²⁸ Excessive decentralization, for example, already appears to be emerging in some cities. Rapid rises in land prices frequently signal large shifts in land use that reflect underlying fiscal regulatory distortions. Unfortunately, as Hong (2003) shows in detail, the foundation on which to

27. Other approaches to urban finance are, for example, focusing on reducing urban poverty through using local finance for redistributive purposes. As discussed elsewhere (Bird 2001), however, the benefit approach taken here provides a sounder analytical structure within which to consider urban finance issues and is not necessarily inconsistent with poverty alleviation concerns. For an interesting alternative approach to the “benefit” model with a Chinese twist, see Deng (2003).

28. See Bahl and Zhang (1989) for their prescient early recognition of the importance of this point for China’s sound urban growth, and see Hong (2003) for a more recent appraisal.

build a decent land tax system in China remains illusive.²⁹ The road to such a tax in China clearly depends on the extent to which a “normal” land market is established or at least simulated. Only then will local governments be willing (or forced) to give up their present reliance on selling land leases for revenue. In doing so, they are essentially trading off a future income stream for current revenue that is all too often spent on current expenditures, thereby building up problems for future sustainability. In the long run, the way to go in urban China does indeed seem to be to follow the conventional wisdom and move toward a modern property tax based on market appraisals.

THE “LAND BETWEEN”

But if China’s path ahead is indeed one of two-track reform toward a classified area-based rural tax and a market value-based urban tax, an obvious problem looms. What happens to the land between—the actual (and potential) urban fringe? One solution may be, as discussed earlier, to use the area-based system as a starting point to move toward a market value-based system over a period of years. For example, as urbanization creeps closer, the tax based on area might be adjusted by zones to reflect different market values. A zone located closer to recently urbanized land would have a higher factor than a zone located farther away. As the prospect of land conversion (rural to urban) nears, zones could be defined more and more narrowly until at some point the zone becomes an individual property and the area-based system becomes in effect a market value system.

When that point is reached everywhere in the country—most likely many, many years in the future—China’s three property tax systems will have become one, and that one will look like the best practice system commonly advocated everywhere. To get to this point from the very different conditions that now exist not only in China but also in developing and transitional countries around the world, would-be property tax reformers must both spend much more time working out the many difficult details that they do not yet seem to recognize and pay much more attention to the important political economy issues that shape land tax policy and practice. It will not be a simple process.

REFERENCES

- Andelson, R. V., ed. 2000. *Land-value taxation around the world*. 3rd ed. Malden, MA: Blackwell.
- Au, C-C., and V. Henderson. 2002. How migration restrictions limit agglomeration and productivity in China. NBER working paper no. 8707. Cambridge, MA: National Bureau of Economic Research.
- Bahl, R. 1998. Land taxes versus property taxes in developing and transition countries. In *Land value taxation: Can it and will it work today?* D. Netzer, ed. Cambridge, MA: Lincoln Institute of Land Policy.

29. Deng (2003) makes an interesting argument, claiming that to at least some extent the land leasing, land user fees, and even the murky “public-private” arrangements characterizing most land use decisions in Chinese cities may approximate the effects of a decent land tax, but he also concludes that, at most, the present system may constitute a transitory stage on the way to the necessary improved land tax system.

- Bahl, R. 2002. The property tax in developing countries: Where are we in 2002? Presentation at Lincoln Institute of Land Policy, Cambridge, MA.
- Bahl, R., and J. F. Linn. 1992. *Urban public finance in developing countries*. New York: Oxford University Press.
- Bahl, R., and J. Zhang. 1989. Taxing urban land in China. Discussion paper. Report INU 39. Washington, DC: Infrastructure and Urban Development Department, World Bank (March).
- Bartik, T. J. 1991. *Who benefits from state and local economic development policies?* Kalamazoo, MI: W. E. Upjohn Institute.
- Bell, M. E. 1999. *An optimal property tax: Concepts and practices*. Washington, DC: World Bank Institute.
- Bird, R. M. 1967. Stamp tax reform in Colombia. *Bulletin for International Fiscal Documentation* 21(June):247–255.
- . 1974. *Taxing agricultural land in developing countries*. Cambridge, MA: Harvard University Press.
- . 1984a. *Intergovernmental finance in Colombia*. Cambridge, MA: Harvard Law School International Tax Program.
- . 1984b. Put up or shut up: Self assessment and asymmetric information. *Journal of Policy Analysis and Management* 3:618–620.
- . 2001. Setting the stage: Municipal finance and intergovernmental finance. In *The challenge of urban government*, R. Stren and M. E. Freire, eds. Washington, DC: World Bank Institute.
- . 2003a. A new look at local business taxes. *Tax Notes International* 19 (May): 695–711.
- . 2003b. Taxation in Latin America: Reflections on sustainability and the balance between efficiency and equity. ITP paper 0306. Toronto: International Tax Program, Rotman School of Management, University of Toronto (June).
- . 2005. Getting it right: Financing urban development in China. *Asia-Pacific Tax Bulletin* 11(2):107–117.
- Bird, R. M., and P-P. Gendron. Forthcoming. *Value added taxes in developing and transitional countries*. Cambridge: Cambridge University Press.
- Bird, R. M., and E. Slack. 1993. *Urban public finance in Canada*. 2nd ed. Toronto: John Wiley.
- . 2004. *International handbook on land and property taxation*. Cheltenham, UK: Edward Elgar.
- Bird, R. M., R. D. Ebel, and C. I. Wallich. 1995. *Decentralization of the socialist state: Intergovernmental finance in transition economies*. Washington, DC: World Bank.
- Boadway, R. W., and H. M. Kitchen. 1999. *Canadian tax policy*. 3rd ed. Toronto: Canadian Tax Foundation.
- Brown, P. K., and M. A. Hepworth. 2000. A study of European land tax systems. Working paper. Cambridge, MA: Lincoln Institute of Land Policy.
- Brunori, D. 2003. *Local tax policy: A federalist perspective*. Washington, DC: Urban Institute Press.
- De Cesare, C. 2002. Toward more effective property tax systems in Latin America. *Land Lines* (January):9–11.
- De Cesare, C. M., L. C. P. da Silva Filho, M. Yoshinori Une, and S. C. Wendt. 2003. Analyzing the feasibility of moving to a land value-based property tax system: A case study from Brazil. Working paper. Cambridge, MA: Lincoln Institute of Land Policy.
- De Soto, H. 2000. *The mystery of capital*. New York: Basic Books.
- Deng, F. F. 2003. Public land leasing and the changing roles of local government in urban China. *Annals of Regional Science* 39(2):353–373.

- Dillinger, W. 1991. *Urban property tax reform: Guidelines and recommendations*. Washington, DC: Urban Management and Municipal Finance, World Bank.
- Ebel, R. D., and R. Taliercio. 2005. Subnational tax policy and administration in developing economies. *Tax Notes International* 7 (March):919–936.
- Evans, C. 2003. Studying the studies: An overview of recent research on taxation operating costs. *eJournal of Tax Research* 1(1):64–92.
- Fischel, W. A. 2001. Homevoters, municipal corporate governance, and the benefit view of the property tax. *National Tax Journal* 54(1):157–173.
- Garzón, H., and J. Vázquez-Caro. 2004. Colombia: La perspectiva del impuesto predial en áreas rurales. Informe preparado para la misión del AID en Colombia, Bogotá (25 May).
- George, H. 1979. *Progress and poverty*. New York: Robert Schalkenbach Foundation.
- Guevara, M. M., J. P. Gracia, and V. C. Espano. 1994. A study of the performance and cost effectiveness of the real property tax. A study prepared under the Local Development Assistance Program, Manila (July).
- Hirschman, A. O. 1967. *Journeys toward progress*. New York: Twentieth Century Fund.
- Hoffman, B. D., and C. C. Gibson. 2005. Fiscal governance and public services: Evidence from Tanzania and Zambia. San Diego: Department of Political Science, University of California San Diego (August).
- Holland, D. M., and W. Vaughan. 1970. Self-assessment of property taxes. In *Land and property taxation*, A. P. Becker, ed. Madison: University of Wisconsin Press.
- Hong, Y.-H. 2003. The last straw: Reforming local property taxes in the People's Republic of China. Cambridge, MA: Lincoln Institute of Land Policy (February).
- Hood, C. C. 1976. *The limits of administration*. London: John Wiley.
- IMF—International Monetary Fund. 2005. *Government finance statistics yearbook 2005*. Washington, DC: IMF.
- Ishi, H. 2001. *The Japanese tax system*. 3rd ed. Oxford: Oxford University Press.
- Jin, J., and C. Shen. 2006. Fiscal decentralization and peasants' financial burden in China. Unpublished paper. College Park: University of Maryland.
- Kelly, R. 1995. Property tax reform in Indonesia: Applying a collection-led strategy. *Bulletin for Indonesian Economic Studies* 29:85–104.
- Kitchen, H., and E. Slack. 1993. *Business property taxation*. Kingston, ON: Government and Competitiveness Project, School of Policy Studies, Queen's University.
- Machiavelli, N. 1983. *The discourses*, B. Crick, ed. New York: Penguin Books.
- Malme, J. H., and J. M. Youngman. 2001. *The development of the property tax in economies in transition*. WBI Learning Resources Series. Washington, DC: World Bank.
- Manaf, N. A. A., J. Hasseldine, and R. Hodges. 2005. The determinants of Malaysian land taxpayers' compliance attitudes. *eJournal of Tax Research* 3(2):206–221.
- Maurer, R., and A. Paugam. 2000. Reform toward ad valorem property tax in transition economies: Fiscal and land use benefits. Land and Real Estate Initiative, Background Series 13. Washington, DC: World Bank.
- McCluskey, W. J., ed. 1999. *Property tax: An international comparative review*. Aldershot, UK: Ashgate.
- McCluskey, W. J., and R. C. D. Franzsen. 2005. An exploratory overview of property taxation in the Commonwealth of Nations. Working paper. Cambridge, MA: Lincoln Institute of Land Policy (November).
- Municipal Development Programme. 1996. Property tax in eastern and southern Africa: Challenges and lessons learned. Working paper no. 2. Harare, Zimbabwe: Municipal Development Programme for Eastern and Southern Africa.
- Netzer, D. 1998. The relevance and feasibility of land value taxation in the rich countries. In *Land value taxation: Can it and will it work today?* D. Netzer, ed. Cambridge, MA: Lincoln Institute of Land Policy.

- Oldman, O., H. Aaron, R. Bird, and S. Kass. 1967. *Financing urban development in Mexico City*. Cambridge, MA: Harvard University Press.
- Rhoads, W. G., and R. M. Bird. 1969. The valorization tax in Colombia: An example for other developing countries? In *Land and building taxes*, A. P. Becker, ed. Madison: University of Wisconsin Press.
- Ricardo, D. 1821. *The principles of political economy and taxation*. 3rd ed. London: John Murray.
- Rodden, J., G. Eskeland, and J. Litvack, eds. 2003. *Fiscal decentralization and the challenge of hard budget constraints*. Cambridge, MA: MIT Press.
- Rosengard, J. K. 1998. *Property tax reform in developing countries*. Boston: Kluwer Academic Publishers.
- Sjoquist, D. L., and M. B. Walker. 1999. Economies of scale in property tax assessment. *National Tax Journal* 52(2):207–220.
- Slack, E. 2002. *Municipal finance and the pattern of urban growth*. Toronto: C. D. Howe Institute.
- Slack, E., J. LaFaver, and I. Shpak. 1998. Property tax in Ukraine: Third attempt. In *Budget and Fiscal Review*. Kiev: Fiscal Analysis Office, Verkhovna Rada (second quarter).
- Smolka, M., and F. Furtado. 2001. Lessons from the Latin American experience with value capture. *Land Lines* (July):5–7.
- Sokoloff, K. L., and E. M. Zolt. 2005. Inequality and the evolution of institutions of taxation: Evidence from the economic history of the Americas. Unpublished paper. Los Angeles: University of California, Los Angeles (November).
- Strasma, J., J. Alm, E. Shearer, and A. Waldstein. 1987. *The impact of agricultural land revenue systems on agricultural land usage in developing countries*. Burlington, VT: Associates in Rural Development.
- Strauss, R. P., and S. R. Sullivan. 1998. The political economy of the property tax: Assessor authority and assessment uniformity. *State Tax Notes* (December).
- Tanzi, V. 2001. Pitfalls on the road to fiscal decentralization. Working paper no. 19. Washington, DC: Carnegie Endowment for International Peace.
- Thirsk, W. R. 1982. Political sensitivity vs. economic sensibility: A tale of two property taxes. In *Tax policy options for the 1980s*, W. R. Thirsk and J. Whalley, eds. Toronto: Canadian Tax Foundation.
- Thompson, W. 1976. The city as a distorted price system. In *The urban economy*, H. Hochman, ed. New York: Norton.
- Wong, C. 1999. Converting fees into taxes: Reform of extrabudgetary funds and intergovernmental fiscal relations in China, 1999 and beyond. Paper presented at Association for Asian Studies, Boston (March).
- . 2003. Economic growth under decentralization: Old wine in new bottles? Another look at fiscal incentives in China. Paper presented at Workshop on National Market Integration, Beijing (September).
- Wong, C., and R. M. Bird. 2005. China's fiscal system: A work in progress. ITP paper 0515. Toronto: International Tax Program, Joseph L. Rotman School of Management, University of Toronto (October).
- World Bank. 2003. *Land policies for growth and poverty reduction*. Washington, DC: World Bank.
- Youngman, J. M. 1999. The hardest challenge for value-based property taxes: Part II. *State Tax Notes* (April).
- Youngman, J. M., and J. H. Malme. 1994. *An international survey of taxes on land and buildings*. Deventer: Kluwer Law and Taxation Publishers.
- Zodrow, G. R. 2001. The property tax as a capital tax: A room with three views. *National Tax Journal* 54(1):139–153.