Policy Focus Report • Lincoln Institute of Land Policy

Improving the Performance of the Property Tax in Latin America

CLAUDIA M. DE CESARE

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Policy Focus Report Series

The policy focus report series is published by the Lincoln Institute of Land Policy to address timely public policy issues relating to land use, land markets, and property taxation. Each report is designed to bridge the gap between theory and practice by combining research findings, case studies, and contributions from scholars in a variety of academic disciplines and from professional practitioners, local officials, and citizens in diverse communities.

About This Report

Property taxation is one of the core topics of the Lincoln Institute of Land Policy and is of central importance in Latin America, where the property tax remains the best way to support local public expenditures. While there is great diversity in property tax administration among Latin American countries, most have a poor performance record in terms of efficient tax collection. Even though aggregate revenue figures are low, many jurisdictions have embarked on successful property tax reform with tangible benefits for financing urban development and enhancing the sustainability of local governments. These cases demonstrate that there is ample room for improvement throughout the region.

This report reflects years of extensive research and practical insights gained from training and demonstration projects as part of the Lincoln Institute's property tax programs in Latin America. One such initiative is Capacity Building for the Property Tax in Brazil, a program designed to assist more than 5,600 municipalities in their fiscal administration of the property tax and to provide training on issues associated with cadastres, property valuation, and tax assessment.

The report also draws on the results of an ongoing survey of property tax systems across Latin America. This survey provides financial, legal, and administrative data on a large number of jurisdictions, along with indicators on tax performance as a revenue source, efficiency in tax collections, assessment practices, and use of cadastres. The information is systematically recorded to allow comparative analyses across countries and is constantly updated on the Lincoln Institute website at *http://www.lincolninst.edu/subcenters/property-tax-in-latin-america*.

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ISBN 978-1-55844-240-5
Policy Focus Report/Code PF033

ON THE COVER:
Contrasting low- and high-income areas in Caracas, Venezuela, are emblematic of conditions throughout Latin America.

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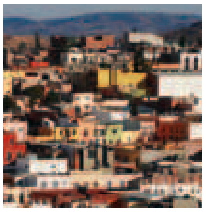

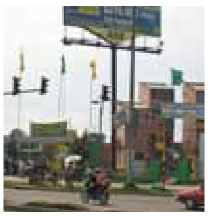

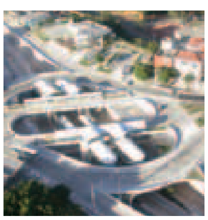

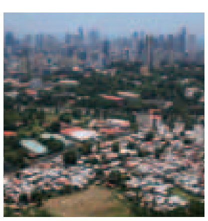

Executive Summary

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A low-middle-class neighborhood of transitional formal and informal development in Rio de Janeiro, Brazil, presents challenges for property classification, valuation, and taxation.

The challenges of establishing a successful and sustainable property tax in Latin American countries are numerous and varied, yet many jurisdictions are implementing viable reforms. Public officials responsible for tax administration often face intense political pressure because the property tax is universal and highly visible. Public dissatisfaction arises because the property tax requires payment independent of a property transaction. Moreover, equitable property tax assessment depends on a variety of factors, including operational efficiency, technical expertise, available data, administrative capacity, and political will.

Certain conditions in Latin America compound these difficulties. Large disparities in income and wealth complicate the setting of equitable property tax rates, and as a result some municipalities are under-resourced to support efficient property tax collection. Limited access to data on property sales prices hampers accurate valuations, as does the great diversity in land tenure and occupation patterns in the region.

An added difficulty is the distrust of public authorities by many taxpayers in view of weak governance and corruption.

Widespread informal land occupation also complicates matters. Excluding informal properties limits the universality of the tax and its ability to generate revenue, but including such properties requires significant efforts to update cadastral records. How residents of informal areas perceive the tax is another concern.

Reports on property tax revenues in Latin America are not consistent, the quality of the data is less than satisfactory, and collections vary greatly across jurisdictions and countries. The available evidence indicates that the property tax is of limited importance as a source of revenue to support local expenditures. As a result, it is easy to understand why using fees and charges instead of reforming the property tax might be less influenced by political factors, easier to administer, more efficient, and more capable of generating revenue.

Nevertheless, property taxation remains the best way to support local public expenditures for several reasons, including its familiarity to taxpayers, its progressivity relative to taxes on consumption, and the difficulty of tax avoidance. Indeed, a growing number of municipalities demonstrate the feasibility of operating efficient property tax systems. Based on their experiences, this report presents a comprehensive framework that could help overcome many of the traditional roadblocks to successful property taxation in Latin America. Recommended reforms focus on three areas.

Fiscal policy. The structure of own-source revenue and tax-sharing arrangements affect the need for and the willingness of local governments to collect property taxes. Fiscal policies should support local autonomy, avoid duplication of effort across levels of government and/or agencies, improve clarity of legislation, support under-resourced cities and towns, and guarantee the universality of the tax. These goals can be achieved by adopting policies that adhere to basic principles of equity, ability to pay, universality, legality and certainty, effective administration, and transparency.

Tax policies. Certain tax policies—such as those benefiting tax delinquents and limiting the universality of the tax—create inequities and inefficiencies in the system. Other policy choices can help create sustainable property tax systems, such as having the same level of government both decide on public expenditures and set property tax rates.

Assessment practices and collection procedures. Some of the shortcomings in tax administration relate to property cadastre systems, which may be more sophisticated than local technical capacity can support or cost more than the revenues produced by the property tax. Better tax administration thus requires increased efforts to design cadastres for sustainability and the application of more flexible cadastral and valuation approaches to improve the accuracy and uniformity of valuations. Encouraging tax payments, negotiating tax debts, and consistently applying sanctions in cases of tax evasion can all help to improve collections. Effective public information campaigns on taxation procedures and on the use of tax revenues can strengthen fiscal culture and promote trust.

Municipalities that implement these reforms can benefit from greater revenues to invest in local public services. Improvements in property tax collections should strengthen local governance while underscoring the shared responsibility of citizens and public authorities for urban development.

CHAPTER 1

Challenges and Benefits of Property Taxation

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Guatemala City has a strong heritage of public support for urban planning and design and is working on a viable property tax program.

Many Latin American countries have instituted fiscal decentralization and increased local government responsibility for expenditures. There is a growing awareness that transfers from higher-level governments are unlikely to be able to sustain local government's rising share of public expenditures, and that local government will have to bridge the expected revenue gap with increased own-source revenues. Experts on public finance view the property tax as a particularly efficient and appropriate tax instrument for local governments.

However, developing countries generally do not depend on property taxation. Property tax revenues in the 2000s averaged 0.6 percent of gross domestic product (GDP) and 2.4 percent of total government expenditures for developing countries, while for countries in the Organisation for Economic Co-operation and Development (OECD) the shares were 2.12 percent of GDP and over 4 percent of total government expenditures (Bahl and Martinez-Vazquez 2008). Accordingly, an expanded property tax is an obvious candidate for local governments to explore. This report reviews recent experience with property tax reform in Latin America and recommends necessary and desirable steps toward implementation.

PRINCIPLES OF PROPERTY TAXATION

Real property taxation presents several challenges in any context. Due to its visibility, the property tax tends to generate a variety of political and economic concerns. Authorities in charge of property tax administration are subject to intense pressure because taxpayers clearly take note of unfairness, inefficiency, and administrative problems (Kitchen 1992). In addition, the universality of the tax raises social concerns about placing a relatively higher burden on low-income citizens.

Collection of the property tax is another problematic aspect. Focusing primarily on developed economies, Youngman (1997) found that the property tax requires payments independent of income flow, and cash-poor owners can lose their properties if they cannot keep up with their tax bills. The liquidity problem of owners lacking the ready cash to make tax payments is a major concern.

Moreover, accurate property assessment requires operational efficiency, technical expertise, and administrative capacity. Assessing the tax depends on sustained local efforts to record property characteristics and ownership data. In addition, estimating the market value of properties for assessment purposes involves setting the most likely price a property would bring in a competitive and open market where the seller and the buyer are acting prudently and knowledgeably.

However, market value is essentially unobservable. As Evans (1995) explains, the market value of a given property is expressed not as a single figure but as a range of prices. It is also possible to find different prices for similar properties due to market imperfections. Any valuation model thus contains market errors (unpredictable components) that reflect the intrinsic nature of property prices. Most assessment biases result from poor valuation practices and political interference.

While tax policy choices can vary widely depending on government beliefs, public commitments, and regulatory goals, they must adhere to certain basic fiscal principles.

- ***Equity.*** Tax equity refers to equal treatment of similarly situated taxpayers. In the case of the property tax, assessed values should be consistent with market values across and within property groups. In certain circumstances, the equity principle allows for differential treatment for taxpayers based on economic, social, and other policy goals.
- ***Ability to pay.*** A frequent criticism of the property tax is that it may place higher burdens on low-income taxpayers due to assessment errors. This type of inequity creates systematic differences in assessments for groups of properties defined by value, as when high-value properties are under-assessed relative to low-value properties. While correcting regressive assessments is a priority, it is also important to identify the inequities caused by certain patterns of housing expenditures and to implement relief measures to protect families that cannot afford the tax payments.
- ***Universality.*** In theory, every family should contribute toward local public expenses. In practice, though, allowing preferential tax treatment or in-kind services in lieu of taxes is a reasonable solution for families unable to pay taxes directly. Widespread informality in Latin American cities calls for treating occupants and property owners similarly for property tax purposes. Tax authorities should minimize exemptions and other concessions in most cases.
- ***Legality and certainty.*** Legislation that clearly defines tax obligations and procedures is essential to a well-performing

property tax system. When the law is too complex or ambiguous or it changes frequently, uncertainty leads to payment delays and encourages tax evasion. For taxation purposes, the "keep it simple" principle is best.

- ***Effective administration.*** Good tax administration practices avoid duplication of efforts. Greater efficiency also leads to more affordable costs for tax collection and related activities.
- ***Transparency.*** Transparency in property tax administration reduces tax evasion. This can be achieved through wide dissemination of information to citizens, disclosure of assessment practices and results, and accurate information on the uses of property tax revenues. Public participation in local revenue and expenditure decisions, along with public relations programs, also can improve fiscal accountability.

SPECIAL OBSTACLES IN LATIN AMERICA

While these principles are common to any property tax system, several conditions specific to Latin America add to the complexity of levying and collecting property taxes.

- ***Income inequality.*** Latin America is highly urbanized with relatively high per capita GDP, but it also has much more income inequality than the 34 OECD countries. Bolivia, Brazil, and Haiti are extreme regional examples (De Cesare and Lazo 2008). This inequality raises concerns about the many families that cannot afford to pay the tax and jurisdictions under-resourced to administer the tax.
- ***Housing informality***. Informal settlements and other types of irregular occupation are widespread in the region, particularly in the larger cities (Smolka and De Cesare 2011). The common practice of excluding informal properties from the tax base reduces the universality of the tax, with a consequent loss of potential revenues. The high incidence of informality also means that great effort is required to keep property cadastres updated. In addition, the cost of using conventional cadastral and mapping techniques is much higher in informal areas than in legally occupied areas.
- ***Diversity in land tenure and occupation.*** The wide range of formal and informal settlement patterns means that properties in Latin American cities tend to be more heterogeneous than those in developed countries. The multiple forms of tenure also can result in more assessment errors.
- ***Lack of market transparency.*** Neither the tax authorities nor the public in Latin America has ready access to real estate market information. Real estate registries are often unwilling to disclose sales prices and do not record informal property transactions. Sellers often underdeclare sales prices to avoid registration costs and taxation. Realtors are also reluctant to disclose their records, claiming customer confidentiality, and some also argue against disclosure based on security concerns. Imperfect information affects the market by increasing the variability in sales prices, which in turn tends to increase assessment error and inequality.

Property tax revenues are relatively limited in Latin America compared to their share in other global regions. As a result, taxpayers and tax authorities alike generally view assessment inequities and collection inefficiencies with a certain tolerance. In most cases, eliminating those biases and inefficiencies would shift the distribution of the tax burden, no doubt raising dissatisfaction among citizens facing significant tax

© CRISTINE ROCHOL/PORTO ALEGRE MUNICIPAL GOVERNMENT

New transportation infrastructure in Porto Alegre, Brazil, exemplifies the urban services that benefit from local property tax revenues.

increases. To avoid this political fallout, tax authorities in Latin America often resist making the reforms necessary to improve their property tax systems.

BENEFITS OF THE PROPERTY TAX

Despite these challenges, the property tax remains the best option for raising revenues to pay for local public services in Latin American countries and cities, for several reasons.

- ***Tradition.*** Records of taxes levied on land and buildings date back more than 200 years, indicating a reasonable degree of familiarity and acceptance among citizens, as well as awareness of tax procedures among public administrators.
- ***Progressivity.*** Direct taxes such as the property tax place heavier tax burdens on the owners of more highly valued properties, and this progressive effect is especially attractive in countries where wealth is more highly concentrated than income. Taxes on goods and services, which are essentially regressive, currently prevail in the region. Indeed, consumption taxes represent more than 50 percent of the tax burden in Latin America on average compared with 31.7 percent in OECD countries (De Cesare and Lazo 2008).
- ***Regulatory impacts.*** A vigorous tax on real estate can be instrumental in imprinting discipline in urban land markets. In particular, it can improve land use efficiency. It can also help to prevent the spread of housing informality. Informal settlements receive little attention from public officials because they do not contribute to public revenues, and they remain informal and off the tax rolls

Residents of Belo Horizonte, Brazil, receive assistance at one of several taxpayer service centers.

because of this neglect. Taxing informal properties could reorient the provision of public services, reduce the extraordinarily high land prices in third world cities, improve the efficiency of serviced land, and increase land titling (Smolka and De Cesare 2010).

- ***Taxpayer awareness.*** Property taxation may help to build a positive fiscal culture by making citizens more aware of their responsibility for the cost of public services. Not surprisingly, many in Latin America refer to the property tax as "the citizen tax."
- ***Government transparency.*** The visibility of the property tax, often considered a liability, in fact helps to increase the transparency of local government and encourages fiscal accountability when the tax system is equitable and revenues are used properly. As a result, property taxation may serve to improve governance and raise taxpayer confidence in local government.
- ***Local autonomy.*** The property tax is a major element in promoting local autonomy. It has the potential to constitute the primary source of revenue for maintaining local urban infrastructure and services.

A growing number of municipalities in Latin America now recognize the benefits of improving those aspects of the property tax system that lie within their sphere of influence. The recent experience of Belo Horizonte, Brazil, illustrates how the choice of appropriate policies and procedures can yield positive results (Domingos 2011).

Property tax reform in Belo Horizonte started in 2010 with the revision of land value maps to increase coverage, eliminate distortions, and improve technical standards. Promotion of a new fiscal culture made it possible to institutionalize the periodic updating of property values used to calculate the tax. Citizens and public authorities alike supported a permanent process of updating property valuations to reflect market changes.

Key elements of the city's reform program included positive interaction between the executive and local legislation, a broad public information campaign, and technical innovations to ensure the fairness and accuracy of valuation practices. In addition, the reform introduced tax relief measures intended to limit the impact of the property taxation changes in the short term. Disclosure of assessment practices and results and dissemination of information on the uses of property tax revenues contributed to a 19 percent increase in revenues in the first year. This positive trend has continued, corroborating the principle that transparency reduces tax evasion.

CHAPTER 2

Current Property Tax Performance in the Region

There is broad consensus regarding the limited capacity of the property tax to generate revenue in Latin America.

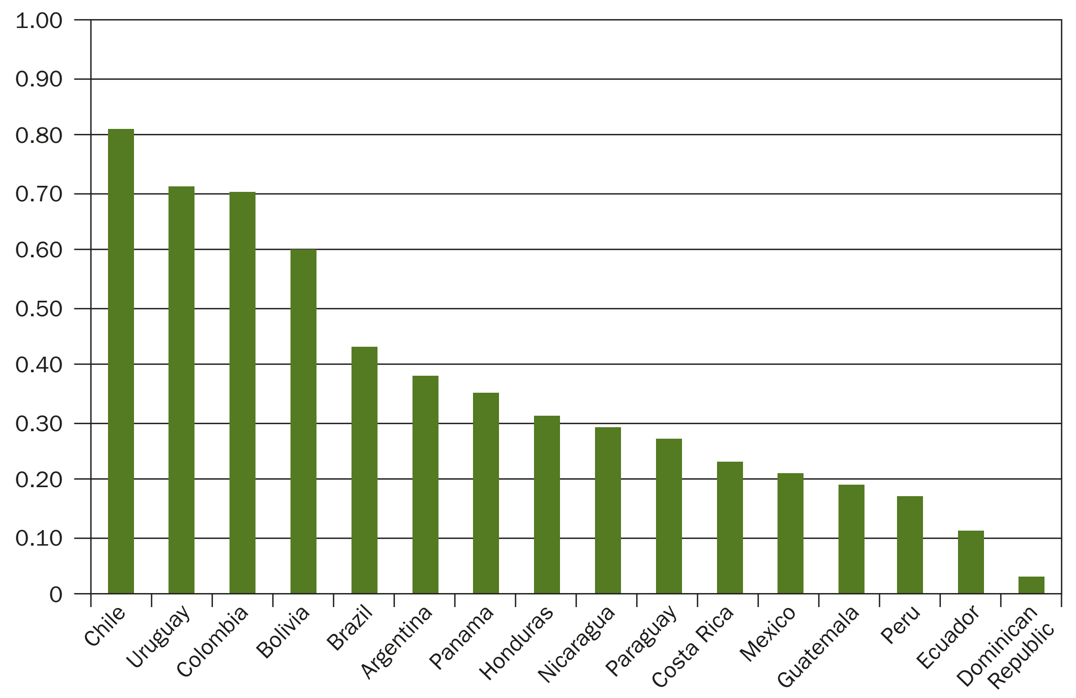
CONTRIBUTION OF PROPERTY TAXES TO GDP

Statistics for 16 Latin American countries corroborate other findings that average property tax revenues represent only a small share of GDP (figure 2.1). However, property tax performance varies significantly among these countries, with Chile reporting the highest share (0.81 percent) and the Dominican Republic the lowest (0.03 percent).

Data for the same sample of 16 countries show no direct relationship between property tax performance and the national tax burden (figure 2.2). In countries such as Brazil and Argentina, which have a high tax burden (above 25 percent of GDP), the property tax has moderate importance. In Colombia and Chile, where the tax burden is around 15–20 percent of GDP, property tax revenues are more important. Figure 2.3 also shows no correlation between per capita GDP and property tax revenues.

Considering all taxes on property, including recurrent taxes on real estate and personal property (such as taxes on real estate transfers, succession, donation, and inheritance), the combined revenue in Latin America represents 0.94 percent of GDP on average.

FIGURE 2.1
Property Tax Revenue as a Percentage of GDP in the 2000s



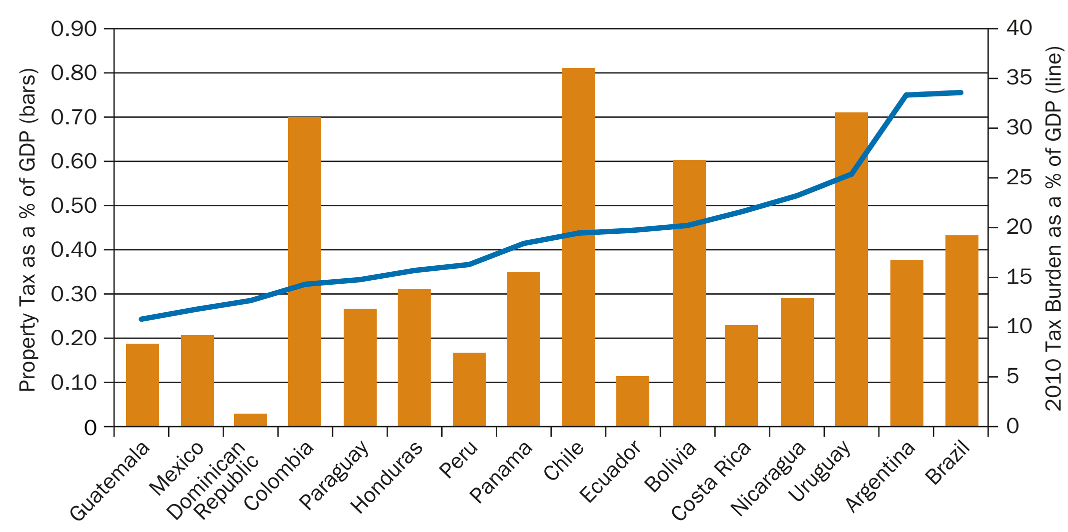
Source: Prepared by the author based on data sources listed in Appendix A.

VARIATIONS IN PROPERTY TAX REVENUES

Property tax revenue growth in Latin America over the past decade shows no clear trend across countries. Annual levels and growth rates in eight selected countries over the 2000–2010 decade vary greatly, suggesting that broad factors cannot explain revenue changes in the region (figure 2.4).

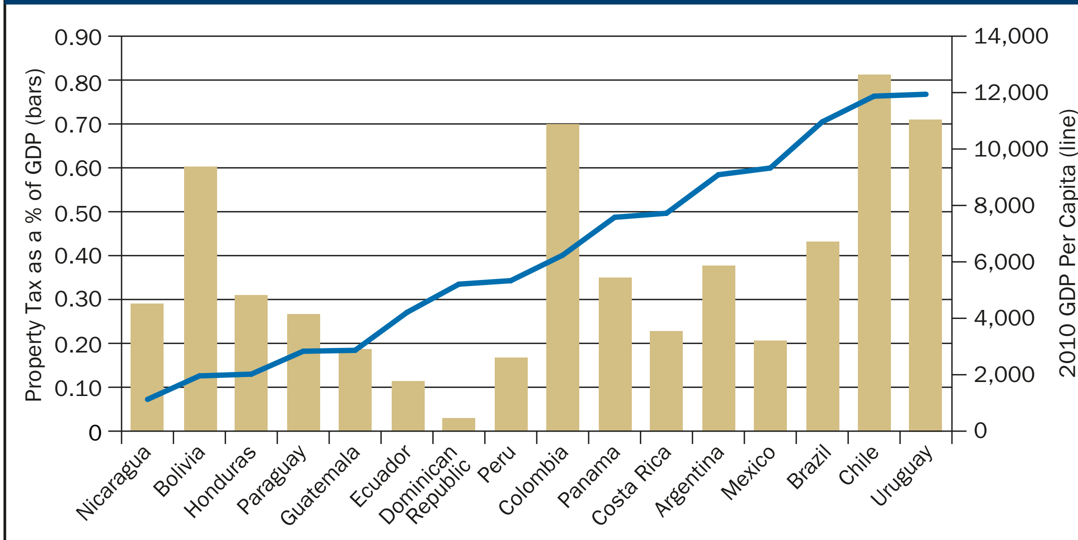
Property tax revenues represent a relatively stable share of GDP in Brazil (0.43–0.47 percent) and Peru (0.15–0.20 percent),

FIGURE 2.2
Property Tax Revenue and Tax Burden as a Percent of GDP in 2010



Source: Prepared by the author based on data sources listed in Appendix A.

FIGURE 2.3
Property Tax Revenue and Tax Burden as a Percent of GDP and Per Capita GDP in 2010



Source: Prepared by the author based on data sources listed in Appendix A.

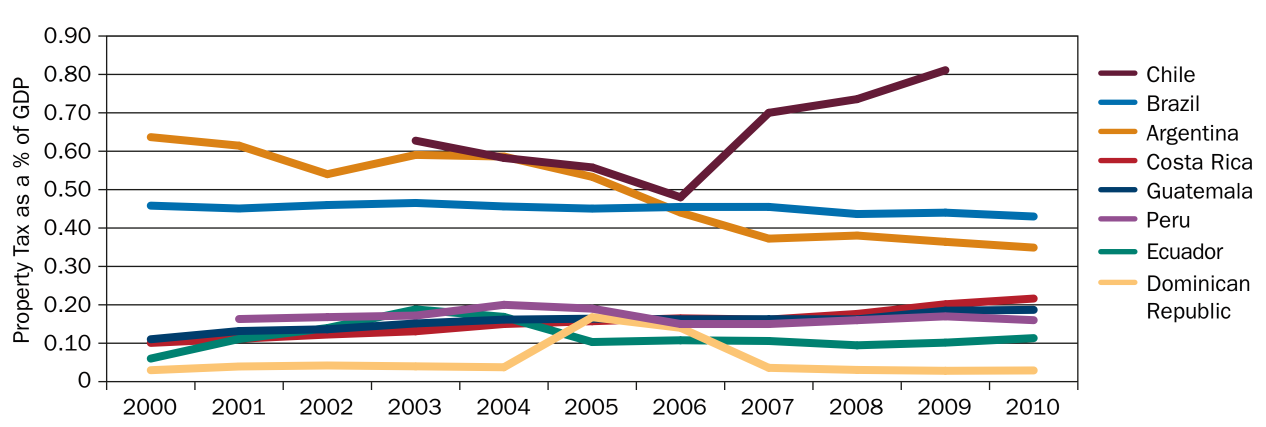
while in Costa Rica and Guatemala the share rose significantly, indicating that large improvements can occur over a relatively short period. Ecuador experienced several fluctuations that ended with moderate gains. Chile saw two distinct trends during the decade: from 2003 to 2006, property tax revenues declined as a percentage of GDP, but after its 2006 reform revenues rose sharply. Property tax revenues in the Dominican Republic remained a small (0.03 percent) share of GDP, except in 2005 and 2006. Argentina is the only country where the importance of the property tax decreased significantly, with revenues falling from 0.64 percent to 0.35 percent of GDP. This reflects the economic crisis of the 2000s as well as the fact that the property tax is a provincial not a municipal tax. Provinces have other sources of revenue that are less visible and easier to collect, thus reducing their reliance on the property tax.

On average, property tax revenues in 16 sample countries accounted for about 2 percent of the national tax burden in the 2000s (figure 2.5). However, like the country shares as a percentage of GDP shown in figure 2.1, these shares vary widely. In Chile and Colombia, the share is relatively high, contributing more than 4.5 percent of the tax burden. Most other countries had shares between 1 and 3, except the Dominican Republic whose contribution is unusually low. Because the overall tax burden in OECD countries (37 percent) is nearly twice that of Latin American countries (19 percent), the mean contribution from all real and personal property taxes, such as taxes on automobiles, is nevertheless about 5 percent in both regions.

MUNICIPAL PERFORMANCE COMPARISONS

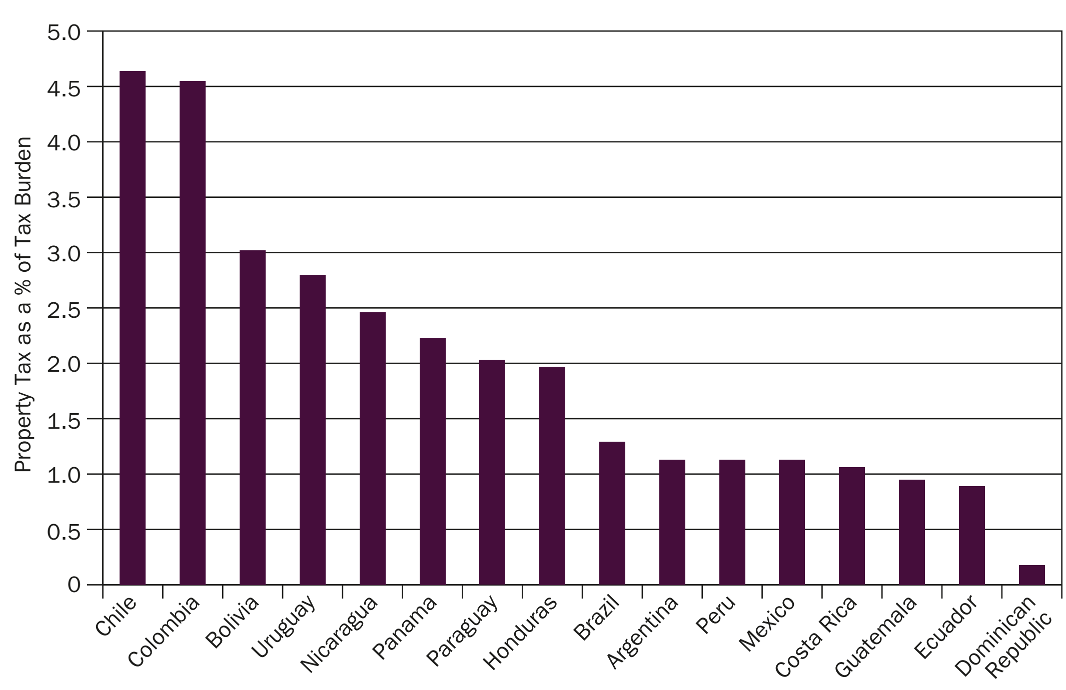
Several studies have found pronounced differences in tax collections within as well as across countries. National property tax revenues in Latin America reflect primarily the performance of the larger cities, which collect more property tax per capita on average than smaller cities and towns. For example, property tax revenues in Mexico City (Federal District) represented 0.42 percent of GDP in 2004, and accounted for about 30 percent of the total property tax collected in the country, even though only 9 percent of the Mexican population lives

FIGURE 2.4
Annual Growth of Property Tax Revenue as a Percentage of GDP, 2000–2010



Source: Prepared by the author based on data sources listed in Appendix A.

FIGURE 2.5
Property Tax Revenue as a Percentage of the National Tax Burden in the 2000s



Source: Prepared by the author based on data sources listed in Appendix A.

in the capital (De Cesare 2008). Depending on the municipality, revenues from the property tax in Mexico varied from US$1.20 to US$385 per capita in 2004.

Similarly, larger cities of 100,000 or more inhabitants in Brazil accounted for approximately 85 percent of total property tax revenues in 2005, but they had only 57 percent of the country's population (De Cesare 2008). This concentration of property tax revenues in larger cities is due to higher property values and to economies of scale in implementing and updating the cadastres, performing property assessments, and collecting and enforcing the tax. Smaller municipalities may find that establishing and managing such complex systems is too expensive relative to tax collections, or they may be too poor to develop the necessary institutional capacity. It is also important to note that small municipalities benefit more than proportionally from the Brazilian model of intergovernmental transfers.

Property tax collections as measured by a Lincoln Institute survey sample of 37 cities show a mean of 0.55 percent of municipal GDP in the 2000s (figure 2.6). Although the shares vary widely across jurisdictions (with a coefficient of variation of 64 percent), property tax collections above 1 percent of GDP are atypical. Revenues in most Latin American jurisdictions account for between 0.20 and 1.0 percent of municipal GDP.

Based on a different sample of 64 cities, survey results also found that the property tax as a share of revenue collected from local taxes varied widely between 2.53 and 83.37 percent, with a mean value of 23.78 percent. Only six cities in the sample had property tax collections that exceeded 45 percent of local tax revenues.Thus, property taxes account for a reasonably large share of locally raised revenues in a few cities, although such revenues still constitute a small share of total revenue.

In summary, property taxation in general plays a small role in the local budgets of most Latin American jurisdictions, but its importance is nevertheless increasing—particularly in the larger cities. Relatively little effort is given to the implementation of a comprehensive property tax system in most places. Nevertheless, the wide variation in the ability of the property tax to raise revenue suggests the potential for improvement across the region.

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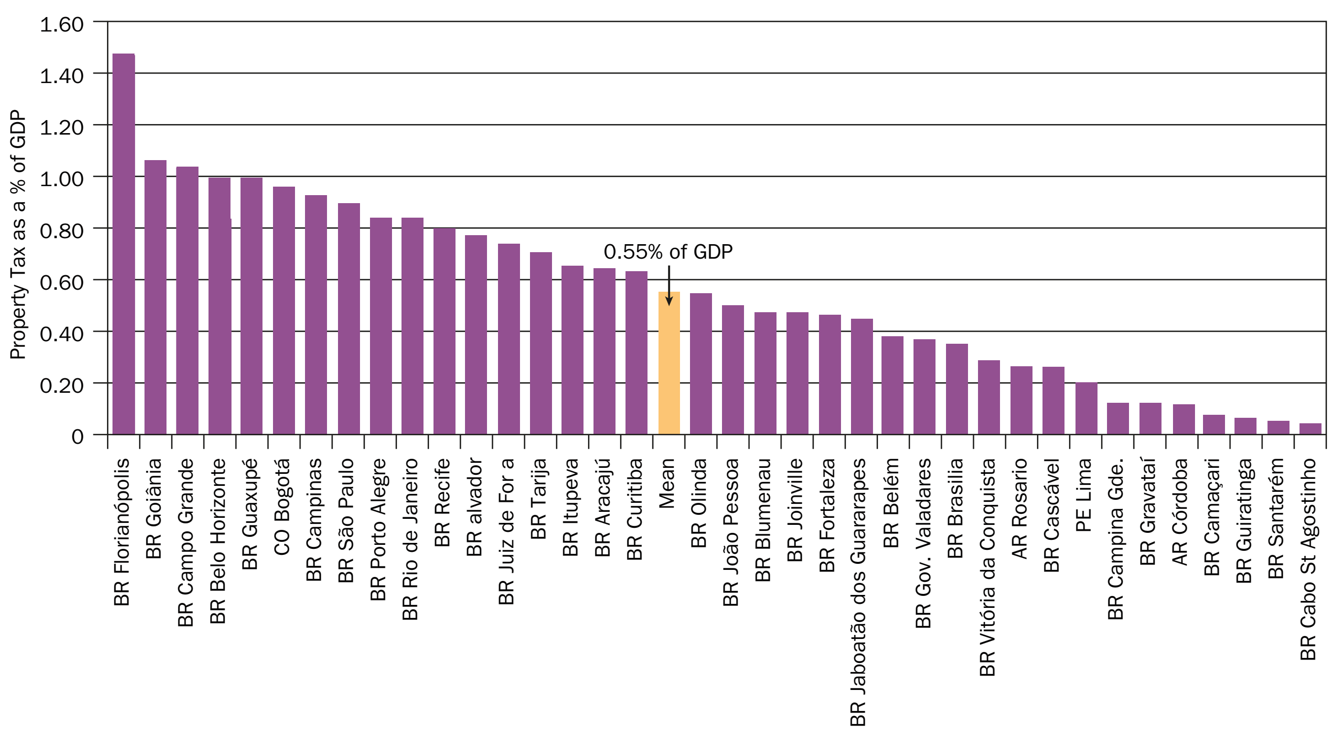
Innovative modular houses in Guayaquil, Ecuador, comply with building regulations and are affordable for low-income residents, but are not necessarily recorded for tax purposes.

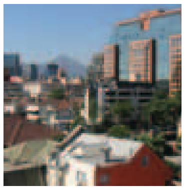
FIGURE 2.6

Property Tax Revenue as a Percentage of Municipal GDP in 37 Cities, 2003–2010



Source: Lincoln Institute Survey (Appendix B).

Note: Country abbreviations: Argentina (AR); Brazil (BR); Colombia (CO); Peru (PE).



CHAPTER 3

Determinants of Property Tax Performance

Characteristics such as population size, level of income, and socio-economic development directly affect a municipality's capacity to raise own-revenues. As property values grow, property tax revenues also may increase, reflecting the expansion of the tax base. The performance of the property tax is also influenced by the fiscal structure and national tax policies adopted by each country. For example, the level of fiscal decentralization, the tax-sharing arrangements, and the system of intergovernmental transfers may encourage or discourage efforts by local governments to collect own-revenues. In certain countries, subnational governments have been given some taxation powers that have crowded out the property tax, as in the cases of payroll taxes in Mexico and sales taxes in Argentina, Brazil, and Colombia.

This chapter shows that although national and even global factors beyond the control of local jurisdictions are indeed relevant, their impact on property tax collections varies significantly depending on how local governments choose to administer the tax.

FACTORS AFFECTING REVENUE GENERATION

Several country-specific factors affect the ability of the property tax to generate revenue, both directly and indirectly. These factors fall into three categories: socioeconomic characteristics of the jurisdiction; tax policy and legal arrangements; and property assessment and administrative practices.

The fiscal capacity of jurisdictions—their ability to impose and collect property taxes

Development of the former Puerto Madero port area in Buenos Aires, Argentina, created an up-scale gentrified area and expanded the city's property tax base.

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—varies according to their socioeconomic characteristics, such as the size of the real estate stock, real estate prices, personal income of residents, poverty levels, income distribution, degree of urbanization, economic base, and prevailing property rights and land tenure. Tax officials must consider these conditions, but have no power to modify most of them at the local level.

Tax policy and legislative decisions in Latin America are rarely made by the same level of government. The distribution of certain fiscal powers and functions directly affects the capacity of jurisdictions to raise revenue. Even when local governments are empowered to impose property taxes, a higher level of government often sets assessment parameters or statutory tax rates. For example, states in Mexico must approve the value maps used at the local level. In Colombia the central government exercises fiscal oversight of municipalities. Although local authorities have no decision-making power over many aspects of tax policy, they do have the capacity to exert political leadership to promote change.

Subnational governments in most Latin American countries generally have responsibility for tax assessment and administration. Their actions therefore have great potential to boost property tax revenues. In standard property tax legislation, improved performance depends primarily on the tax authority and its practices related to the cadastre, property valuation, and tax collection and enforcement.

Other factors indirectly determine property tax revenues, such as the extent of fiscal decentralization, institutional development of the judiciary and legislative branches of government, and political considerations.

Fiscal decentralization can play an important role for several reasons. In particular, incentives built into such a system can potentially encourage or discourage local government efforts to collect property taxes. Inadequate design of fiscal decentralization accounts, at least in part, for the weak performance of the property tax in Latin America. Findings from recent studies by Sepulveda and Martinez-Vazquez (2011) and Afonso et al. (2010) suggest three reasons:

- Intergovernmental transfers negatively affect property tax revenues. Regardless of the level of fiscal autonomy, local tax efforts decrease with higher transferred revenues. While it is a worthy goal to equalize the fiscal capacity of jurisdictions, the challenge of intergovernmental transfers seems to be in finding a formula that does not discourage property tax efforts.
- Conversely, the share of subnational revenue (a proxy for autonomy) relates positively to property tax collections.
- Smaller jurisdictions that benefit relatively more from intergovernmental transfers tend to show limited tax collection effort. Property tax revenues are more important in larger jurisdictions.

Institutional arrangements and the level of institutional development also matter. For instance, when local governments have the power to impose taxes that are less visible and easier to administer, such as sales and service taxes, the property tax is likely to become a lower priority because it is more difficult and costly to administer and may generate less revenue than other taxes. Similarly, when municipalities can make expenditure decisions but have no power to set key revenue determinants, such as tax rates, they have limited ability to improve property tax performance.

The functioning of the legislative and judiciary branches of government also affects property tax performance, and political goals often drive legislative tax decisions, particularly at the local level. In Bogotá, Colombia, for example, the legislative council blocked property tax reform in 2001 until an initiative of the mayor called for a voluntary additional tax payment. Approximately 63,500 taxpayers participated in the campaign by making a 10 percent voluntary contribution to the industry, commerce, and advertisement tax (ICA), the automobile tax, and the property tax. This result demonstrated taxpayers' willingness to pay, succeeded in raising tax revenues independently of legislative approval, and paved the way for subsequent tax reform (Pinilla and Florián 2011).

Similarly, the judiciary in most countries is responsible for guaranteeing enforcement and resolving property tax disputes and appeals, but often carries out these functions with limited knowledge of property tax issues. This is especially so in high-level courts. Specialized tax tribunals do not exist in Latin America, and the courts often disregard tax legislation under the guise of

TABLE 3.1

Allocation of Property Tax Responsibilities by Level of Government in Selected Countries

Country	Native Name of the Tax	Scope of the Tax Base	Tax Legislation Institution	Tax Responsibilities			
				Tax Assessment	Tax Rates	Fiscal Oversight	Tax Collection
Argentina	*Impuesto inmobiliario*	Rural and urban	Provincial	Provincial	Provincial	Provincial	Provincial
Bolivia	*Impuesto sobre la propiedad de bienes inmuebles*	Rural and urban	Central	Central/ Municipal	Central	Central/ Municipal	Central/ Municipal
Brazil	*Imposto sobre a propriedade predial e territorial urbana*	Urban only	Central/ Municipal	Municipal	Municipal	Municipal	Municipal
	Imposto territorial rural	Rural only	Central	Central	Central	Central	Central
Chile	*Impuesto terrotirial*	Rural and urban	Central	Central	Central	Central	Central
Colombia	*Impuesto predial unificado*	Rural and urban	Central/ Municipal	Central/ Municipal	Central (range)/ Municipal (rates)	Central/ Municipal	Central/ Municipal
Costa Rica	*Impuesto sobre bienes inmuebles*	Rural and urban	Central	Central/ Municipal	Central	Central/ Municipal	Central/ Municipal
Ecuador	*Impuesto sobre los predios urbanos*	Urban only	Central/ Municipal	Municipal	Central (range)/ Municipal (rates)	Municipal	Municipal
	Impuesto sobre los predios rurales	Rural only	Central/ Municipal	Municipal	Central (range)/ Municipal (rates)	Municipal	Municipal
Guatemala	*Impuesto único sobre inmuebles*	Rural and urban	Central	Municipal	Central	Municipal	Municipal
Honduras	*Impuesto sobre bienes inmuebles*	Rural and urban	Central	Municipal	Central (range)/ Municipal (rates)	Muncipal	Muncipal
Mexico	*Impuesto predial*	Rural and urban	State	Municipal	Municipal	Municipal	Municipal
Paraguay	*Impuesto inmobiliario*	Rural and urban	Central/ Municipal	Central/ Municipal	Central	Municipal	Municipal
Venezuela	*Impuesto sobre inmuebles urbanos*	Urban only	Municipal	Municipal	Municipal	Municipal	Municipal
	Impuesto sobre inmuebles rurales	Rural only	Central	Central	Central	Central	Central

protecting human rights. For example, courts seldom exercise the right to seize and sell property when taxes go unpaid.

INSTITUTIONAL ARRANGEMENTS AND RESPONSIBILITIES

Latin American countries distribute tax responsibilities among different levels of government (table 3.1). It is important to understand how they regulate specific elements of the property tax—in particular, the definition of the tax base, the universality of the tax, preferential treatment of certain taxpayers, establishment of tax rates, and distribution of tax revenues. Policy choices in all these areas have direct implications for how well the property tax performs.

Taxation Responsibilities

By design, the purpose of the property tax is to support local government activities. In Latin America, however, the division of tax responsibilities is not always clear or consistent. Marked differences exist between federal systems and unitary systems of government. In federal countries such as Brazil and Mexico, subnational governments have a considerable amount of control, and municipal governments in particular often have relative autonomy regarding property taxation, although not necessarily in all aspects.

Responsibility for property taxation also varies according to the geographic definition of the tax base. In Brazil, Ecuador, and Venezuela, for instance, property taxation operates differently in rural and urban areas, with the tax on rural property set at the national level and that on urban property set at the municipal level. In Brazil, however, municipalities can assume responsibility for fiscal oversight and collection of the rural property tax when they demonstrate the capacity to do so. In general, the rural-urban distinction leads to duplication of efforts because it requires two teams of assessors and different cadastre systems. This structure also makes it harder for the municipality to establish an integrated land policy for its entire territory.

Duplication of effort also occurs in Argentina, where provincial and municipal governments perform functions that demand essentially the same tasks. The property tax is a second-tier (provincial) government tax, while municipalities set fees and charges to fund urban public services. These fees and charges have similar regulatory features as the property tax, apply to all real estate properties, and require many of the same efforts, such as recording property characteristics, identifying property rights, verifying the provision of public services, and estimating assessed values. Moreover, the estimation of property values at the provincial level tends to be less accurate than the valuations done at local level.

The capacity of municipalities to carry out property taxation functions also varies widely within and across Latin American countries. In decentralized property tax systems, such as urban areas in Brazil, Venezuela, and Ecuador, municipalities are fully responsible for tax assessment and administration, regardless of their level of institutional development. Some under-resourced municipalities are simply incapable of achieving good results, however, and require the support of higher levels of government to perform these functions.

Countries approach the problem of uneven local institutional capacity in different ways. In Mexico, for instance, municipalities lacking the technical capacity to assess real estate property can transfer that responsibility to the second-tier state government, where cadastre institutes are common. In Colombia, cadastre and tax assessment functions are centralized, but municipalities with demonstrated capacity, such as Bogotá, may assume responsibility for these activities.

In other countries, first- or second-tier levels of government generally monitor tax assessment to ensure equity. For example, in Costa Rica and Bolivia the central government exercises fiscal oversight over municipalities. Local governments in Costa Rica are legally responsible for property valuation, but must use central government valuation models. Their only choice is which particular version of the model to use. Unclear division of responsibilities reduces accountability and can result in failure of both levels of government to produce accurate assessed values. More research is needed to determine whether centralized or decentralized administration of the property tax works better for lower income countries.

Tax Base

In most Latin American countries, the national government defines the base for the property tax, generally including the value of both land and buildings. A few jurisdictions deviate from this pattern, such as Mexicali, Mexico, where the tax base is the land value only. The states of Zacatecas and Estado de Mexico in Mexico, as well as a few jurisdictions in Argentina, rely on area-based systems.

Regardless of how the tax base is defined, most Latin American countries do not require that market value be the basis for assessments. Instead, tax legislation commonly uses ambiguous terms such as fiscal valuation or value, cadastral value, official appraisal, fiscal appraisal, cadastral appraisal, or taxable value that may or may not correspond to market value. This practice leaves room for arbitrary assessments, which in turn erodes the ability to evaluate tax appeals fairly because assessed values can be whatever the tax authority determines them to be.

Using market value as the basis for property tax assessment has several advantages. When assessed values are estimated accurately, the property tax serves as an efficient instrument for value capture. In addition, market value assessment is likely to improve perceptions of fairness and thus promote greater acceptance of the tax.

Furthermore, an accurate assessment informs taxpayers about the value of their properties and is useful for auditing declared sales prices for taxes on real estate transfers. The property transfer tax is almost as popular as the property tax in the region. Although they have a similar tax base, these two taxes are not always administered at the same government level. Even when they are both administered at the municipal level, as in Brazil, Mexico, and Venezuela, their implementation does not always overlap and may produce administrative inefficiencies.

While most Latin American countries assess each property individually, Ecuador, Guatemala, Nicaragua, and Peru assess the tax based on the sum of the values of all properties owned by a single taxpayer. The drawback to this approach is that objection to the assessment of one property prevents collection of taxes for all of that taxpayer's properties. At the same time, owners who cannot afford to make tax payments for all their properties cannot make payments for a single property. Taxing individual rather than multiple properties has the added advantage that it is easier to use the property as guarantee against nonpayment.

Universality of the Tax

The property tax not only legitimizes citizens' rights to demand public services, but also raises public awareness about the responsibility to pay for those services. In theory, the property tax should be universal, covering owners as well as occupants of informal

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Clandestine additions in high-income residential neighborhoods of Rio de Janeiro, Brazil, add to property values, but lax assessment and enforcement means these improvements are not fully taxed.

properties who may own the house but lack title to the land. Basing the tax on both property ownership and occupation is good practice in several Latin American countries, including Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Guatemala, Honduras, Mexico, and Uruguay.

In Ecuador, however, only owners pay the property tax. Excluding occupants from the tax rolls not only reduces tax revenues but also creates inequity by treating otherwise similar properties differently depending on land tenure. Conversely, taxing properties that lack registered titles could reorient the provision of public services to informal settlements, among other benefits.

Tax Exclusions, Exemptions, and Other Preferential Treatment

Constitutional restrictions on the right to impose property taxes reduce universality by excluding certain types of property from the tax base. In Brazil, for example, the constitution forbids taxation of state and federal properties. The exclusion applies even when such properties are not used by the government, as when rented or occupied by private parties. The exclusion of public sector properties from the tax rolls shifts the tax burden to private owners who actually pay the property tax. The fact that public entities tend to own properties in high-value urban areas only exacerbates the problem. Providing free public services and urban infrastructure to government properties thus imposes a high cost on the community.

Tax exemptions have similar effects. Exemptions are established by law and allow otherwise taxable properties to pay no taxes. In general, exemptions are intended for such social purposes as protecting families that cannot afford the tax. Concern about ability to pay takes several forms in Latin America, including exemptions for low-income families, retired and elderly people, widows, pensioners, and orphans (De Cesare 2008).

Some countries or jurisdictions exempt an especially large share of properties, creating inequities and perhaps unduly reducing the universality of the tax. In the Dominican Republic, only real estate with a value of more than about US$150,000 is subject to the tax. In Chile, only residential properties valued at more than about US$30,000 are taxed. As a result, more than 60 percent of properties recorded in the cadastre are exempt. Carrying exempt properties on the tax rolls is useful since the exemptions may change over time. Whether other countries besides Chile do that is an interesting question for further research.

In São Paulo, Brazil, approximately 40 percent of residential properties are exempt from the property tax including residences of retirees, all properties valued less than US$43,000, and residential properties valued less than US$56,800. Municipal law grants a tax discount of approximately US$22,700 out of the value of residential properties assessed at more than US$56,800 but less than US$113,600.

The most common exemptions in Latin American are for embassies, religious properties, and schools and other facilities used for educational purposes (De Cesare 2008). Other exemptions adopted in some countries apply to properties used by political parties or unions, charity organization, sports and recreational associations, and hospitals. Bolivia, Ecuador, and Peru have considered exempting communally owned property as well.

Preferential tax treatment in Latin America may include tax amnesty (waiving of tax debt or late payment penalties) and abatements (reduction of tax liability). From 2000 to 2006, approximately 100 jurisdictions in Brazil, Ecuador, Guatemala, Honduras, and Uruguay provided tax amnesty, while 27 offered abatements (De Cesare 2008). Tax breaks reported by 30 jurisdictions include discounts for advance payment and for land parcels under construction, as well as deductions of other taxes. Tax amnesty and abatement are unfair to those who actually pay the full tax bill and are likely to encourage tax evasion by others expecting similar treatment. Further research is needed to assess the results of amnesties, especially considering their widespread use in the region.

Inequity may also result from granting tax incentives to private firms, a strategy used by several jurisdictions to attract new economic activity and create more jobs. The municipality of Camaçari, Brazil, recently used this strategy, and as a result raised taxes for both local residents and pre-existing firms. As Slack and Bird (2006) discuss, most firms would locate in a particular area regardless of these benefits, because property taxes are not a key element in business location decisions (as compared with the economic characteristics of the region, among other factors). Indeed, providing such breaks can erode the local tax base, resulting in cutbacks in public services that ultimately reduce the attractiveness of the city as a center of economic activity.

Tax Rates

The power to set property tax rates ideally should rest with the level of government that makes expenditure decisions, preferably the local government. The central governments in Brazil and Venezuela set rural property tax rates, but Brazil, Venezuela, and Uruguay allow municipalities to set urban property tax rates. The national government sets property tax rates in Bolivia, Chile, Costa Rica, the Dominican Republic, Guatemala, Nicaragua, Paraguay, and Peru.

In Colombia, Ecuador, and Honduras, municipalities can set property tax rates within a range defined by the national government. Such a policy may in fact be appropriate during the early stages of fiscal decentralization, as it tends to discourage complaints from taxpayers and reinforce local autonomy. In Argentina, property tax rates are set at the provincial level.

While the primary function of tax rates is to define the amount of contributions, they may also serve to redistribute the tax burden among distinct classes of taxpayers. Under the simplest scheme, a flat rate applies to all taxable properties. In this case, levies are proportional to assessed values and therefore do not affect distribution of the tax burden. Costa Rica, the Dominican Republic, Nicaragua, and Paraguay all apply a flat rate countrywide.

More complex schemes, including selective or differential tax rates, progressive rates, or mixed criteria, are also common. Colombia's national law requires property tax rates to be selective and progressive, and to consider the socioeconomic status of taxpayers, the use of urban land, and the date of the last cadastre update, among other factors. Such complex rate structures can be counterproductive, however, to the extent that they may foster tax evasion, perceptions of unfairness, and limited compliance. In Bogotá, for example, tax rates vary according to property size, encouraging taxpayers to under-report building area (Puentes 2002).

Property use is one of the most common criteria for applying selective tax rates in Latin America. In Chile and many jurisdictions in Argentina and Brazil tax rates are higher for unoccupied and undeveloped land. This is a well-known and largely accepted strategy for deterring land speculation and promoting more efficient land use. Some jurisdictions also impose higher tax rates on properties located in zones with better services and infrastructure. In theory, though, if assessed values reflect market values, public investment in infrastructure and public services is already capitalized into property prices. As such, the application of differential rates according to service levels in effect imposes an additional burden ("value capture") on the property.

The perception that progressive tax rates distribute the tax burden according to ability to pay is widespread in the region. As a result, higher tax rates for high-value properties have popular support. Bolivia, Chile, Guatemala, Peru, and many municipalities in Brazil set progressive rates. Although there is no evidence that this strategy improves income distribution, some tax officials and taxpayers (especially those benefiting from lower rates on their own properties) consider a progressive rate structure to be fair. The exemption of lower-value properties from the tax can be seen as having a similar effect as progressive tax rates. Although easier to implement than progressive tax rates, exemptions unquestionably reduce the universality of the tax, as noted earlier.

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Speculation of vacant land, as shown on the outskirts of Guatemala City, promotes inefficient land use and informality, and raises interest in imposing progressive tax rates.

Rates that exceed the taxpayer's ability to pay tend to encourage tax evasion and produce unrecoverable losses to the public treasury. In the 2000s, the rates applied to vacant land in Porto Alegre, Brazil, were as high as 6 percent of assessed value, while those for occupied residential and nonresidential property were only 0.85–1.15 percent of assessed value. This policy led to evasion of 67 percent of the tax on vacant land, compared with less than 15 percent on occupied properties (De Cesare and Lazo 2008).

Revenue Distribution

Municipalities collect and control property tax revenues in most Latin American countries—even those with highly centralized fiscal structures. Revenue distribution, however, varies within the region (table 3.2). In Argentina and Chile, redistribution is intended to improve equity across municipalities. In Costa Rica, the Dominican Republic, and Peru, property tax revenues support cadastral and property valuation activities, among other expenditures.

SUMMARY

The institutional arrangements described here largely determine property tax policy in the region. National governments primarily exercise the function of setting fiscal policy, making it difficult for local governments to have a significant voice. Similarly, the socioeconomic and other characteristics affecting the revenue-raising capacity of the property tax lie outside the decision-making sphere of local jurisdictions. Nevertheless, local taxing authorities can still have an impact on performance by addressing aspects of the property tax system for which they are directly responsible.

TABLE 3.2
Distribution of Property Tax Revenues in Selected Countries

Country	Recipient of Property Tax Revenues
Argentina	There is no single rule. In general, property tax revenues are included in the intergovernmental revenue-sharing fund, transferred from provinces to municipalities.
Bolivia	Municipalities.
Brazil (rural)	Federal government, except when the responsibility for fiscal oversight and collection has been transferred to municipalities. In that case, revenues accrue to the municipality.
Brazil (urban)	Municipalities.
Chile	Municipalities. A 40-percent share goes to the jurisdiction generating the revenue, and 60 percent goes to a fund that redistributes the revenue to municipalities according to a formula that considers exemptions and poverty levels.
Colombia	Municipalities, with 10 percent earmarked for the national social housing fund.
Costa Rica	Municipalities, with 1 percent dedicated to the technical regulatory agency ONT (*Órgano de Normalización Técnica*); 3 percent to the national cadastre; and 10 percent to the Board of Education.
Dominican Republic	Municipalities receive 20 percent while the central government receives 80 percent. The central government share is earmarked to finance housing programs and to improve the efficiency of the General Cadastre Administration.
Ecuador (urban)	Municipalities.
Guatemala	Municipalities and the corresponding second-tier government entities. Those municipalities responsible for overall administration and tax collection keep the entire amount.
Honduras	Municipalities.
Mexico	Municipalities.
Nicaragua	Municipalities.
Paraguay	Municipalities and departments, with 70 percent to the municipality generating the revenue; 15 percent to the department; and 15 percent to a fund distributed among municipalities with low resources.
Peru	Municipalities, with 5 percent earmarked for maintenance of the district cadastre, and 0.3 percent for the National Tax Council (which determines property valuations).
Uruguay	Departments.
Venezuela (urban)	Municipalities.

CHAPTER 4
Property Tax System Components

An online cadastre map outlines properties in a neighborhood of Bogotá, Colombia.

Practices related to cadastral record-keeping, tax assessment, and collection and enforcement are key elements of a property tax system. The following review of current procedures reveals multiple opportunities for reform in how Latin American countries manage their property tax systems.

CADASTRAL RECORDS

Property cadastres in Latin America traditionally have several shortcomings: exclusion of informal properties; lack of connection with the public property registry; and omission of relevant information. However, in his extensive reviews of recent cadastre practices, Erba (2006; 2007; 2008) found that much progress has occurred in the region over the past 20 years.

Most jurisdictions now use digital systems, and numerous cadastres have been upgraded with geographic information systems (GIS). Some municipalities have already developed multipurpose cadastres—cost-effective systems that integrate parcel-level data from public and private entities. Participating institutions provide, share, and upgrade information continuously using common alphanumeric and cartographic standards. This technique is gaining wide support in Latin America. For example, the Ministry of Cities in Brazil developed the National Guidelines for Multipurpose Land Cadastre (*Diretrizes Nacionais para o Cadastro Territorial Multifinalitário*, CTM) in 2009 to promote the practice at the municipal level (Ministério das Cidades 2009).

Many countries, including Chile, Honduras, and Nicaragua, use modern land information systems that incorporate geospatial data. For example, Chile's National System of Land Information Coordination

(*Sistema Nacional de Coordinación de Información Territorial*, SNIT) integrates information so that systems managed by different government departments and entities can interact with one another.

To ensure a satisfactory level of uniformity of land information across countries, either national or regional cadastral standards have been developed in Argentina, Bolivia, Brazil (rural cadastre), and Mexico.

International organizations, including the Canadian International Development Agency, Inter-American Development Bank, Organization of American States, The World Bank, and the United States Agency for International Development, have provided technical and financial assistance for cadastre modernization to such countries as Argentina, Costa Rica, Ecuador, Honduras, and Paraguay. Some countries also provide funding to local governments to update their cadastres as part of an effort to increase property tax revenues. Improving cadastral systems is one of the principal goals of the Brazilian federal program to modernize public administration and taxation at the municipal level.

Several countries, including El Salvador, Honduras, and Nicaragua, have instituted innovative ways to finance the maintenance of cadastral systems, including sales of digital maps, cadastral data, and other products. Other countries have developed new strategies for expanding cadastral coverage at relatively low cost to the government. Argentina and Uruguay require that landowners pay for certified land surveys at the time of property transfers. Self-reporting, a scheme widely used in Colombia and Peru, is another productive way to update cadastral information, provided the tax authorities have reference parameters to ensure accuracy.

Some jurisdictions have overcome the resistance of public registries to share information by using integration agreements that provide for periodic or ongoing exchanges of data in Costa Rica, Guatemala, Honduras, and Peru. Colombia has pioneered "urban observatories" to share information on real estate property, particularly appraisal and sales price data. Several partners can potentially cooperate in these ventures, including public registries, agencies responsible for issuing subdivision and building permits, public and private utility companies, firms providing urban services, land developers, realtors, valuation institutions, and other similar organizations.

In summary, efforts to improve property cadastral systems are clearly on the agendas of countries in Latin America, and many of these initiatives are aimed at implementing multipurpose cadastres. Frequently missing, however, is a strategy to make the new cadastral systems sustainable by implementing regular and systematic updates.

ASSESSMENT PRACTICES

Current property assessment in Latin America takes two complementary forms—self-assessment and mass appraisals—although some jurisdictions still retain the traditional method of direct inspection by valuators or assessors. Colombia, Guatemala, Honduras, Mexico, Peru, and Venezuela use self-assessment, although not exclusively. This approach generally requires legislation to set limits on reported values. For example, the self-assessed value cannot be lower than the previously assessed value for the same property. Self-assessment works best when it uses as a reference the typical land and building values calculated by the tax authority. The most well-known self-assessment success story is that of Bogotá, Colombia, where the practice quickly increased assessment levels, significantly expanded tax rolls, and reinforced public confidence in the tax system (Puentes 2002; Dillinger 2000).

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Valuable building adornments, like these in a colonial section of Lima, Peru, are difficult to assess for tax purposes.

Other Latin American countries favor mass appraisals based on cost or other criteria. The most common valuation methods are calculation of an average value per unit of land area per homogeneous zone, based on sale prices of parcels and adjusted for parcel characteristics and similar factors; application of multiple regression analysis; and use of spatial (geostatistical) models.

A more arbitrary way of establishing land values is through a valuation committee made up of politicians, public officials, technicians, and representatives of the real estate market and the building industry. The committee estimates values using average cost per unit of floor area for various types and styles of buildings. The base for estimating the property value is typically the building cost per unit multiplied by the floor area and discounted by a depreciation factor, and then adjusted with other factors such as the position of the parcel in the block. Estimates of land values are often based on homogenous zones registered in the cadastre.

The intervals between mass assessments in Latin America tend to be long. In a study of 83 cases, the cycle averaged six years (De Cesare 2010). In 25 percent of the cases, cycles reached 10 years. The maximum was usually 25 years, although one outlier was 60 years. In Chile, Colombia, Costa Rica, and Guatemala, the law sets a maximum of five years between mass assessments. Federal guidelines in Brazil also recommend a five-year interval, although this is not a legal requirement; for smaller municipalities with fewer than 20,000 inhabitants the recommended interval is eight years.

Assessed values must be adjusted annually between mass assessments, especially under highly inflationary conditions. However, data on the same sample of 83 cases show yearly adjustments in only 50 jurisdictions (about 60 percent). In most cases, the adjustment involved applying general inflation rates (80 percent), although some jurisdictions used property price indexes (20 percent).

To achieve equity, assessment levels should be close to 100 percent and uniform across all properties. However, most municipalities do not measure the accuracy of assessed values. Whenever jurisdictions do disclose valuation records, it is clear that assessed levels are low.

The Institute for the Technical Development of Public Treasuries in Mexico (*Instituto para el Desarrollo Técnico de las Haciendas Públicas:* INDETEC 2005) reports large disparities between assessed values and market values, ranging from 10 percent to 90 percent depending on the jurisdiction. Anecdotal evidence suggests that assessments in Colombia average about 40–50 percent of market value. In Porto Alegre, Brazil, assessed values of residential properties in the late 1990s were only 19.2 percent of property sales prices (De Cesare 2003).

These disparities arise for several reasons.

- The cost approach to valuation largely disregards property characteristics. The same valuation model applies to any type of property, whether it is a house or a large industrial complex, thus introducing valuation errors. Some assessors justify this approach in the mistaken belief that it ensures uniform treatment of taxpayers.
- Valuation models often omit important variables, thus creating assessment biases.
- Assessments of residential and nonresidential property have two components—land value and building costs—but the calculation method used is not always clear. Some jurisdictions use arbitrary factors to adjust average land values and building costs rather than calibrate their models through market analysis.
- Because the property tax is highly visible, many municipalities consider reassessment politically risky and allow long intervals to occur between mass appraisals.
- Real estate sales prices in most Latin American countries are not readily available, adding to the difficulty of performing reliable market analyses.
- The cadastre is frequently incomplete. Data may be recorded incorrectly or omit important property characteristics that explain the variability in sales prices.
- The great diversity in property characteristics and tenure arrangements leads to wide variation in sales prices, even for properties in the same neighborhood, and increases the errors in valuation models.
- Even when assessment standards are in place, they tend to focus on procedures rather than on parameters to test the accuracy of assessed values.

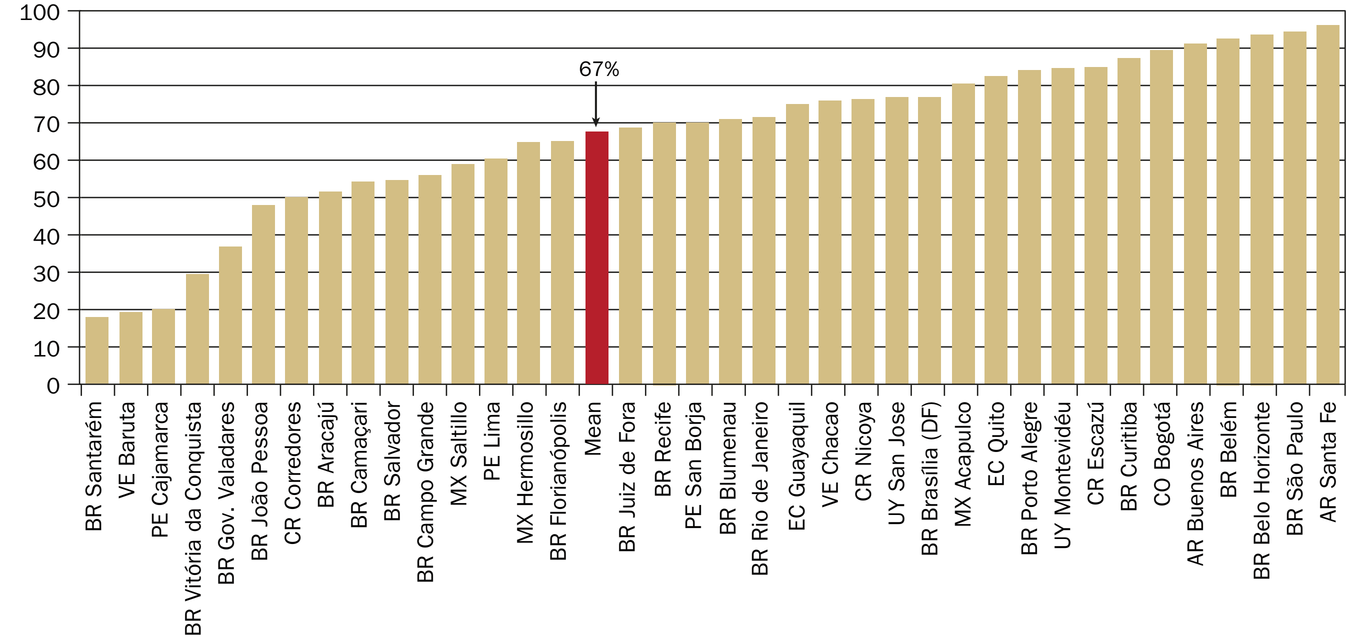
COLLECTION AND ENFORCEMENT

Property tax collection in Latin America is often inefficient. Data from the 2000s indicate that only 67 percent of the tax assessed was actually collected (figure 4.1). Only 25 percent of the jurisdictions analyzed collected more than 80 percent of the tax assessed. This ratio is relatively low and likely reflects weak enforcement of the tax. Tax administrators tend to attribute such lackluster results to a "culture of nonpayment," although a "culture of noncollection" may be a better explanation.

The following common practices in the region limit effective revenue collection.

- Taxpayers may be responsible for picking up their own tax bills at the city hall.
- Tax assessment and collection are not integrated activities.
- Generous amnesties and abatements encourage tax evasion because other taxpayers expect preferential treatment.
- Enforcement is difficult—particularly in its most severe forms, such as seizure of property due to nonpayment of the tax—because the judiciary is lenient and often rules against such actions.
- Collection attempts may occur after the statutory period for recovering the tax (usually five years), which has the same effect as a tax write-off or no enforcement.
- Cadastral errors or long intervals between updates lead to misidentification of delinquent taxpayers in court. This precludes

FIGURE 4.1
Revenue Collected as a Percentage of Property Tax Assessed in 37 Cities, 2000s



Source: Lincoln Institute Survey (Appendix B).
Note: Country abbreviations: Argentina (AR); Brazil (BR); Colombia (CO); Costa Rica (CR); Ecuador (EC); Mexico (MX); Peru (PE); Uruguay (UY); VE (Venezuela).

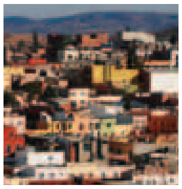
recovery of the tax and undermines the credibility of the tax system.

Notwithstanding these problems, some jurisdictions have introduced collection and enforcement best practices with good results, including public campaigns that explain procedures to taxpayers and indicate how tax revenues are used, as in Belo Horizonte, Brazil. Other practices include intensive use of the Internet to inform taxpayers and facilitate payments, hiring a professional team to negotiate tax debts, and better integration of tax assessment with the collection and enforcement systems. An effective way to disseminate good practices is for national governments to encourage interchange of information across jurisdictions, giving local officials and residents the opportunity to compare performance.

Imposing and actually implementing severe penalties for tax evasion also can strengthen the fiscal culture in the jurisdiction. Penalties may involve restrictions on property transfers, transactions with public agencies, access to public benefits, or access to bank credit.

SUMMARY

As more Latin American cities are moving to improve the performance of the property tax as a source of revenue to finance urban development, they are finding ways to address difficult administrative problems related to cadastral recordkeeping, property valuation, and tax collection and enforcement. Local governments are also making progress in overcoming political hurdles through more transparent taxation practices. Larger cities implement these reforms more often, since they can take advantage of economies of scale, greater institutional capacity, and a larger tax base compared to smaller jurisdictions.



CHAPTER 5
A Framework for Reform

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The renovated historic public marketplace and new transportation facilities reinvigorated the central area of Porto Alegre, Brazil, and enhanced its tax base.

A well-functioning property tax system that is fair, efficient, and sustainable reflects sound fiscal principles. The system must also be comprehensive enough to cover all the main components affecting performance and provide instruments to monitor and evaluate results systematically. Based on the principles outlined in this report, it is possible to set clear goals for property tax reform in Latin America.

- ***Tax policy*** should set tax rates in line with revenue needs, while also eliminating preferential tax treatment that encourages tax evasion and allowing exemptions only for families that are unable to pay.
- ***Property cadastres*** should be uniform within jurisdictions and record information on both informal and formal properties. In planning for cadastre modernization, jurisdictions should assess possible improvements according to technical capacity, cost-benefit analysis, and sustainability.
- ***Property assessment*** requires uniform valuations at levels approximating market values. Shorter intervals between general valuations as well as yearly adjustments are necessary, especially under highly inflationary conditions. A technical approach that overrides political considerations is the best way to ensure equity and efficiency in the tax system.

- ***Property tax collection and enforcement*** must be connected to tax assessment and cadastral records. Several methods are available to encourage tax payment and improve the efficiency of collections and enforcement, including expanding the ways and places where taxpayers can pay their taxes, allowing electronic payments, and handling tax delinquency primarily through debt negotiations.
- ***Fiscal culture*** should be strengthened through public relations campaigns and other methods that improve the transparency of property tax administration, thereby building taxpayer confidence in the system's equity and promoting compliance. Tax authorities can improve collections by disclosing assessment practices and results, disseminating information on the uses of property tax revenues, and providing other accurate and timely information to the public.

The following sections offer guidelines for reforming specific components of the property tax system that can be adapted according to the goals, legal requirements, and major characteristics of the country and local jurisdiction.

CADASTRAL RECORDS

Property cadastres assemble data on parcels and buildings, property rights, property use, property value, public equipment and services, and other relevant attributes of real estate properties. The property cadastre works best when linked to a cadastre of taxpayers whose personal data are also registered and linked. Integrating the institutions that manage geospatial information at the parcel level also enhances the sustainability of the property cadastre.

The following actions are conducive to institutional integration:

- Identify relevant institutions and their interest in sharing data;
- Develop interinstitutional agreements;
- Use existing cartographic documents;
- Make alphanumeric databases compatible; and
- Unify the cadastre of public roads, streets, and avenues.

The construction and operation of the property cadastre involves continuous, periodic, and complementary activities (table 5.1 and figure 5.1). Citizens can call for updates, or tax authorities can update records when inconsistencies are identified. Mass updates occur at the time of global aerial and land surveys or when institutional data are integrated.

The use of GIS facilitates integration of databases as well as visualization of the data to reveal patterns and trends. The areas covered by specific cadastres (also referred to as thematic cadastres) are usually the

TABLE 5.1
Key Activities Related to the Property Cadastre

Continuous Activities	▪ Reception, analysis, and verification of building plans and land development projects ▪ Maintenance of the cartographic base ▪ Assignment of cadastral codes to new parcels and properties ▪ Updating of alphanumeric data ▪ Integration of alphanumeric data and maps using GIS ▪ Data transfers to other areas, when necessary
Periodic Activities	▪ Identification of cartographic gaps ▪ Identification of inconsistencies between cartographic and alphanumeric data ▪ Production of statistics ▪ Incorporation of data on informal property ▪ Mass exchange of data ▪ Validation of data to be available on the Internet ▪ Implementation of special land surveys
Complementary Activities	▪ Management of tax complaints over property characteristics ▪ Preparation of contracts for cooperative agreements and liaisons ▪ Preparation of contracts for global land surveys and aerial photography

FIGURE 5.1
Operational Framework of the Property Cadastre

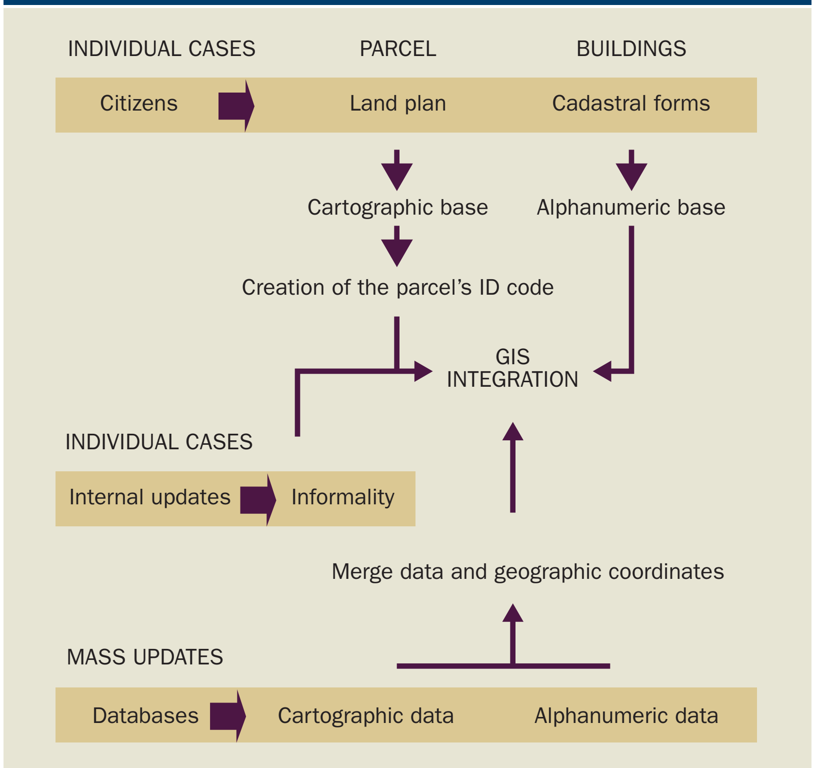

TABLE 5.2
Key Activities Related to the Property Assessment

Structuring Activities	▪ Definition of goals and priorities ▪ Evaluation of current valuation standards and legislation
Continuous Activities	▪ Collection of sales prices for all property types ▪ Updating of the database on sale prices ▪ Verification of data consistency ▪ Calculation/monitoring of building costs ▪ Calculation/monitoring of price indexes, inflation rates, and other economic indicators
Periodic Activities	▪ (Re)definition of homogeneous land values zones ▪ Analysis of the effects of key variables on prices of different types of properties ▪ Development and application of valuation models ▪ Validation and calibration of valuation models ▪ Application of adjustment factors for lags between mass valuations
Complementary Activities	▪ Presentation and discussion of results to groups representing the community and local legislators ▪ Communication of results to taxpayers ▪ Management of complaints and appeals of assessed values ▪ Statistical control of level and uniformity of assessed values over time

parts of GIS that include information on environmental factors (land, geology, and vegetal coverage); public infrastructure (road systems, utilities, and hydrographs); land use regulations; public equipment; and socioeconomic characteristics. Local interests and needs may dictate the inclusion of more attributes in the cadastre.

ASSESSMENT PRACTICES

The major activities related to property assessment are outlined in table 5.2. There are several methods for carrying out property valuations based on sales comparisons, cost, income, or self-assessment. Depending on the property type and the data available, a mix of valuation approaches is likely to yield the best results. Regardless of the method used, however, assessed values for all properties must bear a close and consistent relationship with market values. To ensure equity, tax authorities should use an independent data sample to assess the ratio between market and assessed property values.

If the sales comparison method is used, market value should be based on the prices of properties sold during a period close to the assessment date. In addition, valuation models should be developed for each type of property (such as houses, apartments, and offices). This method requires a representative sample of sales prices per property type. When sales prices are either unreliable or unavailable, asking prices can be used. When neither sales nor asking prices are available, external appraisals or the opinions of experts can be used as reference.

Multiple regression analysis is the technique traditionally used to evaluate the relevance of different price determinants and to estimate assessed values. When the cadastre is integrated with GIS, multiple regression analysis significantly improves the spatial analysis of property prices. Since prices vary with location, the use of geographically weighted regression analysis also improves the accuracy of tax assessments. This method is being adopted by an increasing number of jurisdictions.

The cost method is the traditional and most commonly used approach to estimate assessed values for tax purposes in Latin America. It involves data on building costs and depreciation factors, and is likely to yield more accurate estimates when the model is calibrated using market analysis. The income approach to valuation is only applicable to properties for which current or potential rental income data are available.

Self-assessment is a valuation approach that helps keep taxpayers aware of their responsibility for public expenditures. Self-reporting or self-assessment schemes also have the benefit of improving the coverage of property cadastres, especially when property information is incomplete or nonexistent or when sale prices are unavailable. Instituting a means to ensure the reliability of reported values—such as using declared values for expropriation purposes or imposing severe penalties for intentional underestimation—is clearly essential.

Individual appraisals are the best approach for accurately valuing atypical properties. Such properties may be large industrial facilities, commercial developments, historic heritage buildings, hospitals, and hotels. In individual appraisals, it is important to verify the consistency of assessments through cross-data examination and graphic analysis.

Figure 5.2 depicts how the valuation process should function. Accurate calibration of property valuation models requires dividing the database into two samples,

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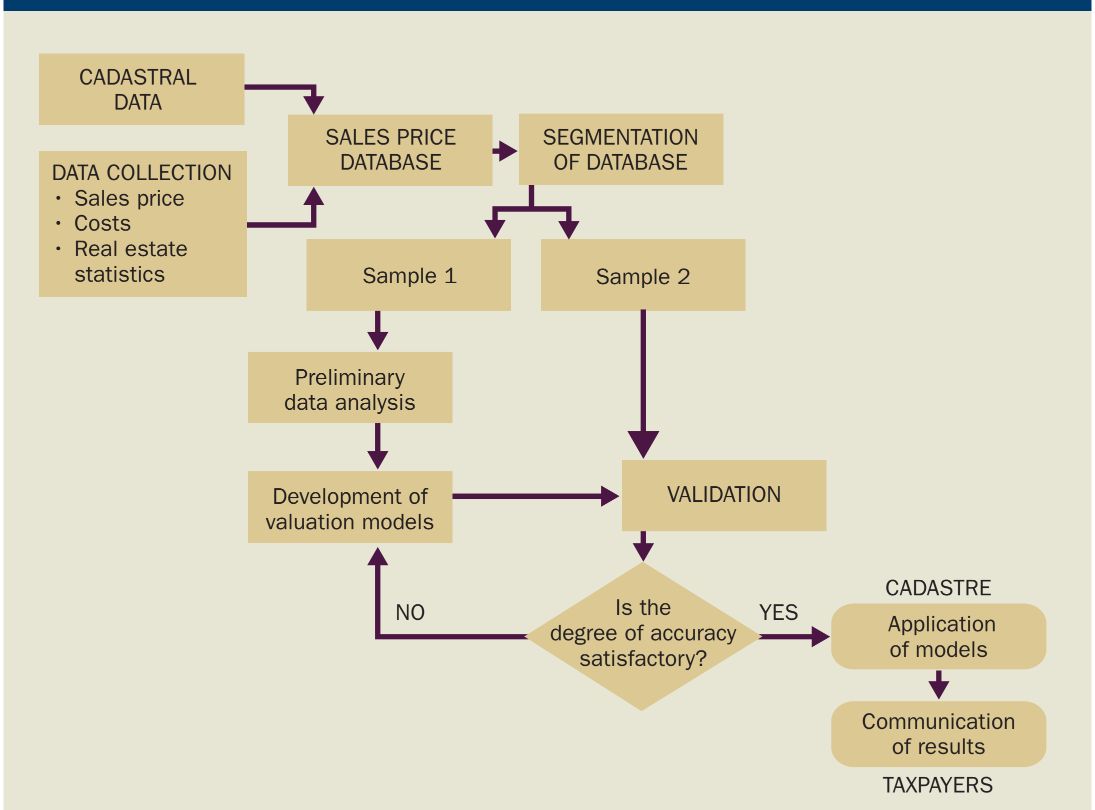
Mortgage lenders and real estate market consultants stimulate development in a low-income area of Bogotá, Colombia.

according to major classes of properties. One sample is used to develop the model and another to measure the accuracy of market value estimates. Another important step is communicating assessed values to taxpayers before delivering the tax bills to ensure there is time to make any necessary corrections.

It is now common practice in Latin America to discuss property valuation methods and results publicly. This process often involves discussions with representatives of groups interested in property assessment, such as politicians, private assessors, realtors, and community leaders in addition to the public. The use of valuation standards can improve the quality and acceptability of property valuations for tax purposes and make the information easier for taxpayers to understand. Recommended standards include the following:

- ***Control valuation accuracy.*** Technical parameters, such as calculation of assessment levels and assessment uniformity, are important to control accuracy. In contrast, approving valuations through a political process may prolong the assessment interval and exacerbate inequities.
- ***Present clear information on valuations to taxpayers.*** Providing information on a small sample of similar, recently sold properties can help assure taxpayers about the accuracy of the assessments and promote confidence in the tax system.
- ***Select a maximum valuation cycle.*** Keeping assessed values closely correlated with market values requires that the

FIGURE 5.2
Operational Framework of the Property Valuation



intervals between valuations be short—in most cases, three to five years.

- ***Provide support to smaller jurisdictions.*** The International Property Tax Institute (2007) reports that valuation costs drop sharply when the number of properties exceeds 750,000. This suggests that a state or central agency should provide cadastral and valuation services to smaller jurisdictions unable to afford the costs.

COLLECTION AND ENFORCEMENT

Tax collections relate directly to assessments, which in turn rely on cadastral data. Having the correct addresses and telephone numbers of taxpayers is a precondition for improved property tax collection and enforcement. Also critical is the use of automatic collection systems that are integrated with the cadastre in a way that allows continuous updating. Table 5.3 lists the main activities related to collection, recovery, and enforcement of property taxes.

Figure 5.3 presents the general framework for property tax collection. The tax assessor is usually responsible for calculating the tax, after which tax bills are prepared and distributed. Tax bills should also be accessible on the Internet and available at taxpayer service centers. Tax authorities should publicize the tax calendar and tax payment options using all available means, including the Internet, radio and television, billboards, local newspapers, and brochures. In addition, payment options should include direct debit, debit or credit cards, telephone banking, and bank transfers. Experience shows that payments by mail are less efficient.

Throughout the year, tax authorities should monitor payments and enforce compliance on a timely basis, and establish a dedicated unit for collecting unpaid taxes. This unit should be empowered to impose penalties to make late payments less attractive, and should evaluate the reasons for nonpayment to help devise more effective collection strategies. Installment payments may be an option for some delinquent taxpayers. This option would require no previous agreement, and taxpayers could simply enroll in the program by paying the first installment. The use of private tax collectors is not common practice and has had mixed results in the region. This option should not be adopted without careful consideration. On the other hand, tax authorities may give incentives to taxpayers who pay in advance with good collection results, as for example in Belo Horizonte (Domingos 2011).

In cases of nonpayment of taxes, negotiation of tax debt is always the preferred option, rather than enforcement of maximum penalties, and tends to achieve a higher recovery rate than judicial action. But when tax authorities have exhausted all

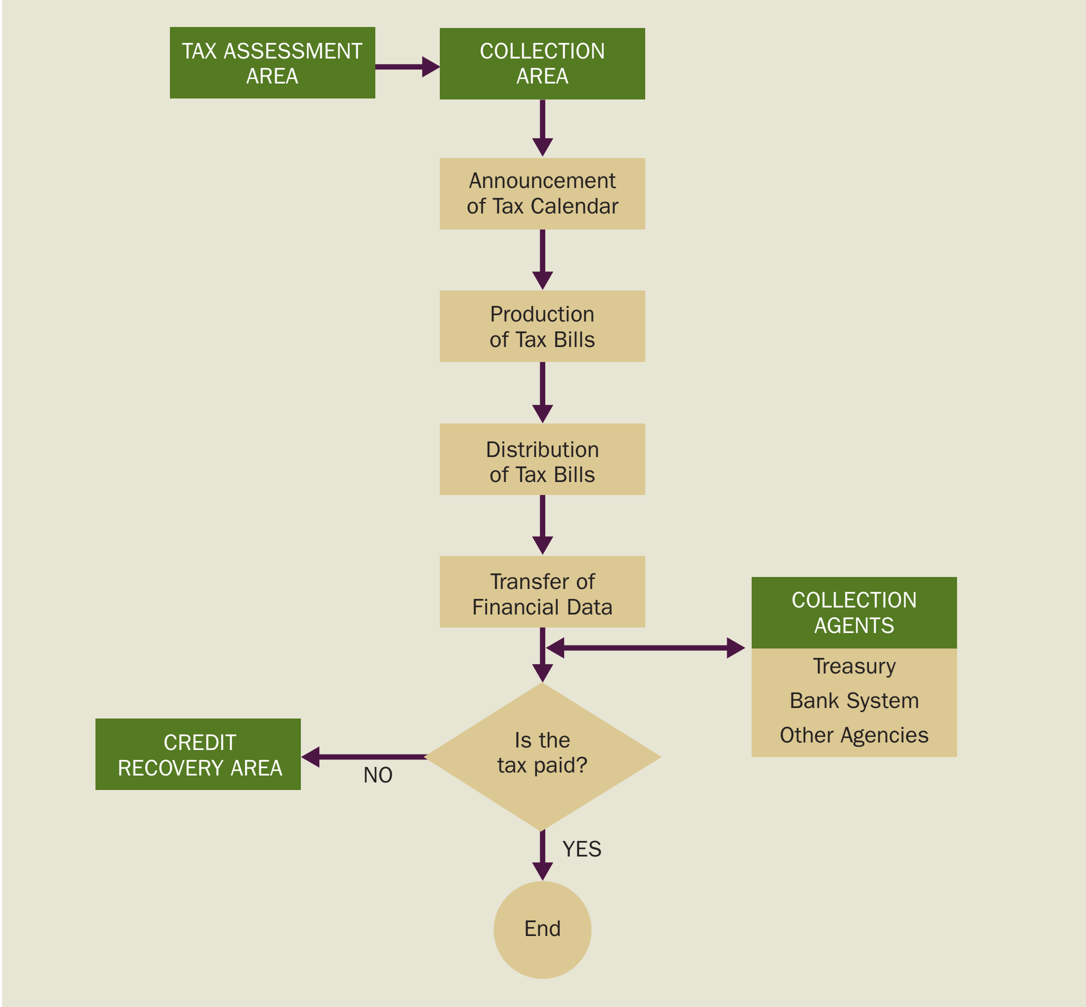
TABLE 5.3
Key Activities Related to Tax Collection and Enforcement

Collection	▪ Produce tax bills based on the tax assessment ▪ Distribute tax bills to taxpayers ▪ Guarantee access to tax bills on the Internet ▪ Distribute the database containing the tax bills to the bank system and other authorized collection agencies; use of diverse payment modes facilitates collections ▪ Advertise tax obligations and their deadlines ▪ Monitor tax payments
Recovery	▪ Identify tax debtors ▪ Classify tax debtors according to different criteria ▪ Establish collection strategies according to taxpayers' class ▪ Distribute official tax debt notices ▪ Contact first the taxpayers with high-value debts and reliable tax assessments ▪ Negotiate tax debts ▪ Monitor payments of tax debts
Enforcement	▪ Identify uncollected debt situations and their status ▪ Verify if the collection procedures were carried out according to the law (double-check official notices, tax complaints, etc.) ▪ Inventory tax debtors' assets ▪ Prepare certificates of tax enforcement (fiscal prosecution) ▪ Distribute certificates in court ▪ Follow-up on the execution of the process in court until either the judicial order mandates compensation or an agreement is reached

opportunities for negotiation, enforcement may be necessary. Nevertheless, court action should occur only when the amount due is substantial and exceeds the cost of enforcement. Imposing maximum penalties for nonpayment of property taxes is rare. Still, enterprises are closed down if they do not pay value added taxes and they may have services cut off when utility bills go unpaid. This indicates that rigorous enforcement is not incompatible with the Latin American culture.

To bring cases to court, the identity of the taxpayer, the assessed value, and the property characteristics must be accurate. Then the tax authority may use the property as a guarantee for tax recovery. Depending on specific tax legislation, the property may be sold at public auction to pay the back taxes, or the amount due may be deducted from the taxpayer's other assets. Negotiating the payments should still be an option throughout the legal process, and all taxpayers must have the right to appeal. Fairness in evaluating objections to the property tax is essential to build confidence in the tax system. Establishing administrative tax tribunals is one way to improve

FIGURE 5.3
Framework for Tax Collection



the quality of resolutions of tax objections and appeals.

FISCAL CULTURE AND PERFORMANCE MONITORING

A strong fiscal culture reflects taxpayers' awareness that public services and property taxes should be aligned, and therefore raises the productivity of the tax. A strong fiscal culture also leads to more scrutiny by taxpayers of how the tax is administered, which in turn serves as a broad-based monitoring system that can be an incentive for local tax authorities to strive for better performance of the property tax system.

Public outreach plays an integral role in an efficient property tax system. Ideally, a single agency, such as a taxpayer tribunal, responds in a timely manner to such requirements as information on legal issues, standards, procedures, and deadlines. The same agency can also update taxpayer data, receive self-reports on property characteristics and self-assessments, produce tax certificates, record complaints, pay financial compensation, negotiate debts, and set guidelines for tax exemptions and other concessions. Simplifying the procedures for handling tax appeals and using standards to evaluate claims are also priorities.

The media can help disseminate information and provide more active, fluid, and transparent communication between tax authorities and citizens. Larger municipalities might institute call centers to allow taxpayers to complete some procedures on the phone rather than in person. Publicizing information on the use of property tax revenues is another effective way to strengthen the local fiscal culture by underscoring the public's shared responsibility for urban services.

Lessons from successful property tax reforms in some cities and countries highlight the importance of systematical monitoring and evaluation. A sustainable property tax system is one that generates data that can be used to evaluate trends. Ongoing evaluation of results allows the tax authority to guide revenue and expenditure decisions, identify strengths and weaknesses, measure progress, establish new goals, and correct the course of action.

The measures for evaluating performance should include both global and intermediary indicators. Global indicators help assess the overall ability of the property tax system to raise revenue while intermediate indicators capture the performance of key system components (table 5.4).

TABLE 5.4
Global and Intermediate Indicators to Measure Performance of the Property Tax System

Type	Proposed Indicators
Global Issues	▪ Fiscal independence, i.e., degree to which the tax authority has power to define key system components ▪ Share of the property tax compared to total local tax revenues ▪ Property tax revenue per capita ▪ Property tax revenue as a percentage of the tax assessed ▪ Administrative efficiency (administrative costs vs. revenue)
Cadastral Records	▪ Cadastre coverage ratio ▪ Cadastre coverage of informal property ▪ Degree of continuity in updating property data ▪ Degree of accuracy and completeness of recorded property characteristics ▪ Degree of integration among institutions that manage geospatial data and the cadastre ▪ Consistency of alphanumeric data exchanged among institutions that manage geospatial data and the cadastre ▪ Consistency of cartographic data exchanged among institutions that manage geospatial data and the cadastre ▪ Degree of linkage among alphanumeric and cartographic data
Property Assessment	▪ Assessment level (valuation ratio relative to market value) ▪ Assessment uniformity
Tax Collection and Enforcement	▪ Collection ratio as apercentage of total tax liability ▪ Collection ratio of tax debts
Public Relations	▪ Degree of taxpayer satisfaction ▪ Number of claims and appeals

CHAPTER 6

Conclusions and Recommendations

A well-established real estate market in Santiago, Chile, justifies efforts to implement a sophisticated property tax collection system.

Although the property tax is not yet a significant revenue source in most of Latin America, a number of jurisdictions in every country administer well-performing property tax systems that support local public expenditures. The fact that municipal successes occur in cities of varying population size, socioeconomic base, and location or level of informality suggests that no major impediments stand in the way of broad improvements for property taxation in the region.

Indeed, most cities have mature real estate markets, which provide a solid base for implementing the tax. In addition, fiscal decentralization in recent decades has granted local governments additional responsibilities and resources and, in many cases, jurisdiction over the property tax. Technical and administrative capacity is also widely available, at least in large cities, and acceptance of the property tax is growing. Most of these improvements take place without the need for changes in existing laws and the constitutional framework.

By highlighting common weaknesses in current practices and procedures, this report has demonstrated that there is ample room for improvement in all components of property tax systems, including cadastral records, property assessment, tax collection and enforcement, and fiscal culture. The basic framework for reform outlined here focuses on two major sets of actions: making better tax policy choices and administering property tax systems more efficiently.

TAX POLICY CHOICES

Policies conducive to well-performing property tax systems should incorporate five key requirements:

- reinforce local autonomy;
- avoid duplication of effort;
- guarantee universality of the tax;
- insist on clear legislation; and
- provide support for under-resourced jurisdictions.

Local governments should have the power to set property tax rates in most cases. Only in the early phases of its fiscal decentralization process should the national government set tax rate parameters. In addition, the same level of government that makes expenditure decisions should also have responsibility for levying property taxes. This institutional structure minimizes duplication of effort, promotes greater consistency across tax bases, and improves taxpayer compliance. To facilitate implementation, the language of tax laws should be unambiguous, leaving no room for misinterpretation of responsibilities.

Given widespread informality in Latin American cities, tax policy aimed at universality must apply to both owners and occupants of properties. Eliminating the large number of tax exemptions and concessions currently allowed by local authorities will directly improve universality, equity, and collections.

Unambiguous legislation regarding tax obligations and procedures is essential to ensure consistency in property taxation practices and, more importantly, avoid detraction from sound fiscal principles. Moreover, national and subnational laws should complement each other in supporting an efficient tax administration.

Finally, national governments or a second-tier government agency should support jurisdictions that lack the resources to perform complex property tax-related tasks. Along with supplying direct services, agencies created for this purpose can help build local capacity by providing standards and benchmarks, oversight, training, and tech-nical assistance.

ADMINISTRATIVE REFORMS

Good management is central to property tax reform in Latin America, particularly for local governments with the most decision-making power. Based on the experiences of jurisdictions that have instituted well-performing systems, a successful program should:

- rely on transparency;
- tax properties individually;
- upgrade technology periodically;
- design cadastres for sustainability;
- extend the tax to informal properties; and
- improve the accuracy and uniformity of valuations and the efficiency of collections.

The test of whether a system is transparent or not comes when both tax authorities and taxpayers are able to provide the same answer to the question: “What is the purpose of the property tax?” This means that tax authorities must disclose the types of services funded by the tax, ideally allowing community participation in public spending decisions. Transparency in both revenues and expenditures can serve to build greater confidence in government.

Taxation of individual parcels rather than a single assessment on multiple properties of the same owner is desirable as a standard that benefits collections. Levying a single tax on all of a taxpayers’ properties means that an objection to the assessment on one property prevents payment for all properties. Similarly, clustering several properties for tax purposes makes it difficult to expropriate any single property or to use a given property as a guarantee against nonpayment.

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An expensive new bridge next to a slum in São Paulo, Brazil, highlights contrasts in the use of public tax revenues and raises concerns about the distribution of tax benefits.

When updating technology for tax administration, local governments should ensure the best fit between the technology and the local jurisdiction's needs and capabilities. Therefore, decisions to adopt new technologies must be grounded in cost-benefit analysis and evidence that novel ways of doing things will in fact be sustainable.

When building a comprehensive cadastre, simplicity, accuracy, and low cost should be the guiding principles. To meet these criteria, tax authorities should conduct cost-benefit analyses and assess the feasibility of updating cadastral information before adding new attributes. It is better to have a simple cadastre that records a few attributes accurately and updates them regularly than to have a large number of attributes based on unreliable data that are very costly to update.

To address the problem of taxing informal property, local jurisdictions should consider innovative approaches to cadastral recordkeeping and valuation. In particular, self-reporting and self-assessment are more flexible and less costly when applied to informal properties. Jurisdictions can also use nontraditional approaches—such as allowing low-income taxpayers to provide community services or neighborhood improvements in lieu of taxes.

Improving the accuracy and uniformity of valuations must be an ongoing priority. Jurisdictions can achieve that goal by maintaining technical rather than political control over assessments, keeping assessments close to market values, and disseminating information on valuations to taxpayers. Similarly, jurisdictions should continuously strive to improve tax collections. Efforts to encourage tax payments, negotiate tax debts, and apply penalties for tax evasion also strengthen efficiency.

The full potential of property taxation is currently unexplored in Latin America. Despite the significant challenges in the region, more functional property tax systems clearly are achievable. Successful outcomes will depend to a large extent on sensible policy choices and administrative efforts. The fiscal and regulatory benefits of an effective tax on land and buildings amply justify these reforms.

APPENDIX A
Data Sources

COUNTRY, YEAR, AND DATA SOURCES FOR FIGURES 2.1 AND 2.4

- Argentina (2010): Contaduría General de la Provincia y Dirección Nacional de Coordinación Fiscal con las Provincias; CEPAL
- Bolivia (2006): CEPAL
- Brazil (2009): Secretaria do Tesouro Nacional; Instituto Brasileiro de Geografia e Estatística (IBGE)
- Chile (2009): Tesorería General de la República; Instituto Nacional de Estadísticas (INE)
- Colombia (2006): data provided by a respondent of the Lincoln Institute of Land Policy's survey on the property tax; CEPAL
- Costa Rica (2009): Contraloría General de la República; Instituto Nacional de Estadística y Censos (INEC)
- Ecuador (2010): Banco del Estado; Banco Central del Ecuador
- Guatemala (2006); Intendencia de Recaudación y Gestión; Superintendencia de Administración Tributaria (SAT); Ministerio de Finanzas Públicas; Banco de Guatemala
- Honduras (2005): Secretaria de Gobernación y Justicia; CEPAL
- Mexico (2006): Instituto para el Desarrollo Técnico de las Haciendas Públicas (INDETEC)
- Nicaragua (2010): data provided by a respondent of the Lincoln Institute of Land Policy's survey on the property tax
- Panama (2006): Ministerio de Economía y Finanzas; Informe Económico Anual 2006.
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- Peru (2009): Cuenta General de la República-MEF; Banco Central de Reserva del Perú; Instituto Nacional de Estadística e Informática
- República Dominicana (2010): Dirección General de Impuestos Internos; Oficina Nacional de Estadística (ONE)
- Uruguay: Sepulveda and Martinez-Vazquez (2011)

DATA SOURCES FOR FIGURES 2.2, 2.3, AND 2.5

Appendix A sources and the Statistics and Economic Indicators prepared by CEPAL (Comisión Económica para América Latina y el Caribe). CEPAL covers national tax burden statistics for Argentina, Bolivia, Brazil, Chile, Costa Rica, and Mexico only; statistics for the other countries report the taxes collected at the central government level.

APPENDIX B
Lincoln Institute of Land Policy Online Survey

The Lincoln Institute maintains an online survey questionnaire on property taxation in Latin America, and information is collected regularly. Respondents include public administrators, tax agents, revenue agents, legislators, academics, and tax administrators from various countries and jurisdictions in the region. The survey results are collected in a database that is expanded periodically by adding new members to the network of respondents and having registered respondents update the data for each jurisdiction. Due to the ongoing nature of the survey, the number of jurisdictions varies for each period during which analyses are conducted. Further information is available at *http://www.lincolninst.edu/subcenters/property-tax-in-latin-america*.

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ACKNOWLEDGMENTS

For their valuable contributions to the framework on reforming the property tax system in Latin America, I thank Diego Erba, a fellow in the Lincoln Institute's Program on Latin America and the Caribbean; Charles Johnstone, managing director of Property Taxation and Valuation Services, AEC International, Toronto, Canada; and Luis Alberto Arias Minaya, INDE Consultores SAC, Universidad de Lima and Universidad Católica y Escuela Superior de Adminisractión de Negocios (ESAN), Peru. I also acknowledge Roy Bahl for his insightful and useful comments on the text. Special thanks to Martim Smolka, director of the Lincoln Institute's Program on Latin America and the Caribbean, for encouraging me to research and prepare this report, and to Anna Sant'Anna, senior research associate in the program, for her careful editing and revisions.

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Improving the Performance of the Property Tax in Latin America

The challenges of establishing a successful and sustainable property tax in Latin American countries are numerous and varied, yet many jurisdictions are implementing viable reforms. Public officials responsible for tax administration face intense political pressure because the property tax is universal and highly visible. Public dissatisfaction arises because the property tax requires payment independent of a property transaction. Moreover, equitable property tax assessment depends on a variety of factors, including operational efficiency, technical expertise, available data, administrative capacity, and political will.

In spite of these and other challenges, property taxation remains the best way to support local public expenditures for several reasons, including its familiarity to taxpayers, its progressivity relative to taxes on consumption, and the difficulty of tax avoidance. This report presents a comprehensive framework that could help overcome many of the traditional roadblocks to successful property taxation in Latin America. Recommended reforms focus on three areas.

- **Fiscal policy.** Property tax reforms should support local autonomy, avoid duplication of effort across levels of government and/or agencies, improve clarity of legislation, support under-resourced cities and towns, and guarantee the universality of the tax. These goals can be achieved by adopting policies that adhere to basic principles of equity, ability to pay, universality, legality and certainty, effective administration, and transparency.
- **Tax policies.** Certain tax policies—such as those benefiting tax delinquents and limiting the universality of the tax—create inequities and inefficiencies in the system. Other policy choices can help create sustainable property tax systems, such as having the same level of government both decide on public expenditures and set property tax rates.
- **Assessment practices and collection procedures.** Better tax administration requires increased efforts to design cadastres for sustainability and apply more flexible cadastral and valuation approaches to improve the accuracy and uniformity of valuations. Encouraging tax payments, negotiating tax debts, and consistently applying sanctions in cases of tax evasion can help to improve collections. Effective public information campaigns on taxation procedures and the use of tax revenues can strengthen fiscal culture and promote trust.

Municipalities that implement these reforms can benefit from greater revenues to invest in local public services. Improvements in property tax collections should strengthen local governance while underscoring the shared responsibility of citizens and public authorities for urban development.

LINCOLN INSTITUTE OF LAND POLICY

ISBN 978-1-55844-240-5
Policy Focus Report/Code PF033

ISBN 978-1-55844-240-5
9 781558 442405