



Considerations for land value capture reform in the Greater Amman Municipality

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Final Report

Considerations for land value capture reform in the Greater Amman Municipality

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Land value capture and urban development in Amman

As cities grow, local governments have to make major investments in institutions and infrastructure. Larger cities inherently require more effective provision of public services – such as roads, water, sewerage, and safety – so they can become places of rising living standards and productive industries, as opposed to sites of crowding, congestion and contagious disease. As urban populations grow and investments are made in cities, demand for urban space is capitalised into rising land values.

Policy tools such as contributions and fees are important instruments through which local jurisdictions can tap into these rising values – often forming a critical part of local revenue generation. These tools are typically applied to recoup some or all of the rise in private land values that arise either from public investments, for instance, in roads, public transport, parks etc); or from changes in regulation such as adjustments to zoning. The rationale for this is that governments create the value and so should accrue the benefits so they can either finance the cost of the investment made or reinvest the gain from increased land values into other public goods.¹ If land value capture instruments are not in place, then private individuals will stand to gain from the increased value without having had to invest in any of the costs.

Capturing land values can create a virtuous cycle for cities: first it helps to raise money for public spending, and second, public investments which improve the city may be repaid by recouping a portion of nearby rising land values for the public budget. This **reduced economic burden**, is the principal advantage of value capture tools. Another appealing characteristic is that, when implemented properly, value capture instruments specifically target those who benefit from changes to land use – with their obligations typically reflecting the extent to which they benefit. Value capture instruments are therefore argued to promote **greater equity**, based on benefits received, than more traditional modes of tax and infrastructure finance, which can be deemed unfair if the costs of infrastructure are borne by taxpayers regardless of whether or by how much they benefit from changes to land. Lastly, there are considerations with relation to the **improvement of efficiency**. For example, the immovability of land arguably facilitates easier identification, valuation and accountability in the tax administration process. Furthermore, as a result of its fixed supply, taxing land should not have significant distortionary effects on investment, but instead, should encourage more intensive, well-planned development.

Revenue from land-value capture instruments already constitutes the majority of the Amman's own-source revenue. In 2018, these taxes – which include both land and property taxes – accounted for roughly 60% of the total JD498 million budget (≈700 million USD).² However, in recent years, Amman has been struggling to keep infrastructure and public service delivery at pace with the needs of its rapidly expanding population. Since 2004, Amman's population has more than doubled from around 1.94 million people to an estimated 4.2 million today.³ At the same time, total urban land cover is estimated to have increased by more than 60%.⁴ If Amman continues to grow following its current patterns, it's predicted that by 2030, land consumption could increase by 41.44km² and that this

growth could cost the municipality roughly JD232 million (≈327 million USD) in infrastructure and JD253 million (≈356 million USD) in services.⁵ In order to meet the demands that urban growth will place on the public budget in years to come, the city will need to make concerted efforts to increase revenue, particularly revenue from its land.

There is now a move to amend at least one of the laws that embed its land value capture instruments, namely the *1966 Law (No. 79) of Organizing Cities, Villages and Buildings* (hereafter 'Planning Law'), this presents the city with an opportunity to revise its instruments to be able to raise more revenue. Therefore, this analysis aims to outline some of the current challenges and potential opportunities that can be considered in reforming of the law. The focus is on the implementation of four different taxes and charges that Greater Amman Municipality (GAM) currently has in place as options to capture land value. These are mandated through a combination of the 1966 Planning Law and the *1987 Law (No. 12) of Expropriation* (hereafter 'Expropriation Law')ⁱⁱ, and include: Development Levies, Betterment Levies, Betterment Taxes, and Compensation Fees.

As discussed in this report, the definitions and distinctions made for each of these taxes and charges, as well as their often-times unclear calculations, can result in confusions for taxpayers and administrators alike. As a result, GAM finds itself embroiled in a number of legal cases which cost the city valuable resources and stall urban management. This report draws on economic research and international experience to suggest possible routes through which the GAM could consider reforming these various taxes and charges, and thus enhance its ability to finance development in a growing city.

In the following sections, the report first outlines how similar land value capture instruments are defined and used in standard practice across the world. It then describes the various land financing instruments currently used in Amman and how these relate to practices internationally. The final section of the report details three potential pillars of reform that can be considered in the upcoming revision of the 1966 Planning Law, namely: (i) assessment and calculation, (ii) issuance, and (iii) collection.

Different land value capture instruments

There are a variety of different options to capture land value, which are at the disposal of municipal governments. Based on the current practices in GAM as well as the desired directions of change, this report will focus only on four specific types, namely **land value increment taxes, betterment levies, development impact fees and exactions**. The first instrument relates to increases in land values that arise as a result of public policy changes; whereas the last three relate specifically to public infrastructure investments.

ⁱⁱ **NB:** This law has recently been superseded on July 1st 2019 by the Real Estate and Property Law. This new 2019 law has incorporated most articles from the previous 1987 Expropriation Law, including the one on Betterment Levies, which is still the one referred to as well as further discussed in this report.

Table 1 provides a basic overview of these instruments and their characteristics. It is important to note that these taxes are typically supplementary to a city’s property tax, with the property tax itself being one of the most fundamental forms of land value capture in any city. Although the property tax is not the focus of this policy report, many of the recommendations for the other instruments we discuss are also applicable to it. For a more specific and detailed discussion on common property tax opportunities and challenges as well as approaches used, we refer the reader to an IGC policy paper entitled “*Land and property taxes for municipal finance*”.⁶

Table 1: Land value capture instruments and characteristics

Instrument	Type of Charge	For What	Who Pays	When (usually)	Examples
Land Value Increment Tax ⁱⁱⁱ	Tax	Increased value as a result of public action (e.g. zoning)	Landowners (for reinvestment into public benefit)	Either on a fixed-frequency basis (e.g. yearly) or at the time of transfer.	Taiwan ^{iv} , ^v
Betterment Levy	Tax or Fee	Increased value as a result of public investment (e.g. construction of a road)	Land or property owners in a pre-specified area of influence based on the gains they have accrued	After completion of project within a bounded time period	Bogota, Colombia ^{vi}
Development Impact Fee	Fee (Monetary)	Cover the cost of additional infrastructure and services as a result of a development	Developer	One time, upfront charge	Hong Kong ^{vii}
Exaction	Fee (Non-Monetary)	In-kind contribution linked to the cost of additional infrastructure and services as a result of a development	Developer	One time, upfront contribution	Medellin, Colombia ^{viii}

Land value increment taxes

Local governments can create value when they change or adopt new land use management plans for urbanisation. This is typically done through zoning or re-zoning. Generally speaking, when a property owner or developer wishes to use land in a way that is not permitted by current zoning regulations, they must request their municipality to

ⁱⁱⁱ We use the term Land Value Increment Tax, as used by Walter (2016) and others, to describe taxes based on increases in value that are driven by public administration changes. These should be distinguished from Tax Increment Financing, which is different and a commonly used tool in the US, typically involving the diversion of property taxes from one area to subsidise infrastructure redevelopment projects.

^{iv} See Case Studies 1a and 3 for further details

^v Another form of a land value increment tax, are Certificates of Additional Construction Potential Bonds (CEPACs) which have been successfully used in São Paulo, Brazil. For more details, see [this link](#).

^{vi} See Case Study 1b for further details.

^{vii} See Amirtahmasebi et al (2016) for further details.

^{viii} See Case Study 2 for further details

reclassify the land so that it permits the desired use. This can happen if developers come with new planning proposals for land that is either deemed of a different use or for land that does not yet fall within the masterplan but has to become included to be developed. Rezoning may also happen to adjust regulations over permitted densities for existing land, which can be modified to accommodate new growth.

Since (re)zoning creates new opportunities for how land can best be used, it can invigorate rising demand and value over that land. Moreover, because the power of (re)zoning is one that solely lies with government, any increases in value created by the government through (re)zoning should therefore be attributed to the government rather than any private provider. For that reason, land value increment taxes should be imposed on landowners, as they are the direct recipient of the increased value through no efforts of their own, and the revenues should then be reinvested for the public's benefit.

There are two main features of land value increment taxes that make them unique. First, they are defined as a tax (as opposed to a charge or a fee) as they are not tied to the recovery of costs for specific infrastructure or service improvements. Second, they differ from several other standard land value capture instruments because they should only be associated with the increment in land value, and not the full value of land and buildings, where any increases in the value of physical structures tend to reflect private rather than public investment. These differences are illustrated in the case study of Colombia's *plusvalías* tax (see **Case Study 1a**).⁷

Case Study 1a: Colombia's Land Value Increment Taxes⁸

In 1997, the government administered a law which further requires local governments to adopt a land value increment tax, *plusvalías* (capital gain sharing) as one of the main sources of income when they make new zoning plans.

The key of the *plusvalías* is that it covers government actions that are not directly tied to fiscal costs from public investment projects, but rather gains in real estate prices associated with administrative changes, particularly from (re)zoning. The taxable value for *plusvalías* is calculated on the difference in the land value before and after the approved change and charged to landowners. Local governments are then required to capture between 30-50 percent of this increased value. This revenue is intended to help cover the cost of public projects which other taxes, such as betterment contributions or the annual property taxes, do not finance. However, the implementation of the *plusvalías* has had several challenges associated with calculating changes in land values.⁹ It was not until 2004 that Bogotá began to see any revenue from this source, and even since, it has only generating around USD 6 million per year by 2009, roughly equivalent to 0.35 percent of Bogota's own-source revenue.¹⁰

Betterment levies

Unlike the land value increment tax, a betterment levy can be a tax or a fee that is levied on land and property owners. It is based on the gains accrued in land value as a result of a public investment, for example in road infrastructure. Betterment levies place a supplementary tax in a specified area around a public infrastructure improvement. The

levy can be calculated and charged based on an overall increase in land value, as a tax, or, as is the case in Columbia (see **Case Study 1b**), it can distribute the costs of construction of the infrastructure amongst those that benefit from it, as a fee.

Case Study 1b: Colombia's Betterment Levies ¹¹

Colombian cities have often been revered for their success in land value capture. Perhaps most famously, a form of betterment levy called the *contribución de valorización* has been collected, since 1921, from property owners to finance urban infrastructure.

The *contribución de valorización* is calculated in different ways in different cities in Colombia, but in all cases is charged to all property owners in a pre-determined area of influence, which in turn is based on factors such as accessibility to the infrastructure investment. Some of the cities, like the capital Bogota, solely consider the cost of the construction of the public infrastructure, and then divide this by the number of property owners deemed to be in the area of influence. Other cities, like Medellin, also take into account the value of property before and after the public infrastructure investment is completed, determined by dedicated surveys, amongst other factors. In both cases, the period of paying the levy is no longer than 5 years. This has been an extremely successful levy and has funded about 1 billion USD in public works since it was first introduced.

In theory, with a well-functioning property tax, the betterment levy would not be necessary, as the increment in land values from the investment would be reflected in the assessment base and then captured in the property tax. This is why betterment levies are often considered supplementary to the property tax or in place of it when the property tax functions poorly. In many cities, betterment levies are like special assessments, placing a supplementary tax rate on the property tax in a specified area around the infrastructure.

Development levies: impact fees and exactions

Each new development brings with it an increased load on the local government – in terms of essential infrastructure, including roads, schools, water and utilities – that are needed to service the land to make it both liveable and productive. These infrastructure developments increase the value of land and therefore, a government may expect developers to pay or make equivalent in-kind contributions to cover these costs. The developers, in turn, may pass on these costs to buyers or renters of the properties, who ultimately created the need for the infrastructure investments. However, if there is no specific way to have the developer pay, the costs would have to be recouped in the form of taxes from the general public who may not derive any benefit from these new investments and therefore should not bear the costs.

Development levies are typically applied in one of two ways, either as **impact fees** or **exactions**:

- **Impact Fees** are one-time, up-front charges applied by a government agency to a private developer in connection with the approval of a project. The purpose of the fee is to finance either all, or at least a portion, of the capital costs of public facilities that are needed to ultimately serve the developed piece of land. Developers are

typically required to pay impact fees for new construction as well as redevelopments and renovations that alter building rights and/or regulations.

- **Exactions** are similar to impact fees in that they require developers to make contributions in order to develop a piece of land. However, in this case the contributions are for a specific purpose and can be either in cash or in-kind, such as dedicating land for public facilities or installing utility connections.¹² The applicant will receive the right to develop a piece of land but has to either make provisions for accompanying public land or make a payment to be used for certain public infrastructure that will serve the development.¹³

Both impact fees and exactions have to meet the so-called rational nexus test:¹⁴ there has to be proof that the new development(s) will require new infrastructure; the fee or exaction has to be directly proportional to the size of development; it needs to be of a reasonable magnitude for the developer to pay; and there needs to be a direct link to the development itself. Both are, in principle, a form of taxation applied directly to the developers of residential and commercial property.

In many cases, it may be that development levies are able to spur private investment as they allow for improvements to existing neighbourhoods.¹⁵ For example, impact fees have been successfully used in vibrant real estate markets, like in Hong Kong, to finance a large volume of public infrastructure.¹⁶ In the UK, the government uses the Community Infrastructure Levy as the preferred means of collecting developer contributions to public investments. These charges are applied to residential and commercial construction and have become increasingly important for local revenue generation, growing from an average of £0.2m per charging authority in 2012 to £2m in 2014.¹⁷ However, in other cases, impact fees may be difficult to calculate and may have some disincentivising effects if implemented in places that do not have thriving real estate markets. Therefore, exactions (see **Case Study 2**) may be more suitable for contexts where the exact costs of new infrastructure cannot be established or where the applied charge can be negotiated on a case by case basis.

Case Study 2: Exactions in Medellin, Colombia

There has been widespread construction and redevelopment of Medellin over the last few decades as population growth has driven increased competition for space in the city. To meet some of the demands this urban growth places on public infrastructure and services, the government has made regular use of developer exactions, often described as “urban transfer obligations” in Colombia.

Medellin’s exaction process requires that new developments transfer a certain portion of land to the city for public purposes. The exact amount varies depending on the location and size of the development, as well as a number of other parameters, that are examined for each given project. In cases where it is not possible to transfer land to the city, the obligation can be met through a cash-equivalent payment instead, where the proceeds are earmarked for the creation of public

space elsewhere. In all cases, the land or money must be released to the city before the development can be formally approved.

A set of defined formulas are used to calculate the appropriate land transfer for residential and commercial projects as follows:

- **Residential use land transfer** = (Number of proposed households in new development × Average household size in the area) × Pre-defined Land transfer requirements per inhabitant in the area
- **Commercial use land transfer** = Total area to be built in proposed development × Pre-defined land transfer obligations per m² of development in area

In both cases, further land must be devoted to **public facilities** and added to the total exaction requirement according to the following obligations: 1m² for every proposed new household in residential developments and 1m² per every 100m² of commercial development.

Exactions have proved extremely successful in Medellin, between 2006 and 2011, the city brought in on average USD 11.7 million annually in cash payments from developer exactions, on top of any actual physical land that was transferred to the city. Information on land transfers is less updated and therefore harder to quantify, however, the cash payments alone are a significant contribution to public space and facilities funding and notably almost double the revenue take from Bogota's *plusvalías* tax (described in Case Study 1a), despite being a much smaller city.

Linking the instrument to the use case

It is important to distinguish the difference between land value capture related to changes in policy – as in the case of land value increment taxes – versus those associated with public infrastructure investments – as in the case of betterment levies, impact fees and exactions. The corresponding increases in land values are different in nature and therefore need to be handled differently.

Policy changes to zoning and building regulations warrant land value capture because they grant landowners the opportunity for higher economic rents – for instance, through increasing the size and density of their developments. This gives the landowner a windfall gain, for which, the municipality may expect to take some portion for the public benefit. There are several reasons why the municipality will want to do this:

1. To cover any administrative fees associated with staff costs and bureaucratic or legal procedures that are needed to conduct the policy change;
2. To fund future infrastructure to serve denser developments;
3. To compensate those who will be negatively affected by dense development;
4. To share the publicly generated wealth with the city at large;

The second and third points, in particular, may be needed if the expectation is that the landowner will respond to looser zoning or building restrictions by increasing the density of their developments.

The rationales for value capture related to infrastructure investment are similar, however, there is an important distinction related to their implementation, namely that there should be an explicit link to the construction of tangible infrastructure. For example, in the case of a betterment levy, the link is to the government's investment in public infrastructure, while in the case of an impact fee or exaction, the developer has applied to undertake new construction, which will require further public infrastructure and services. The exact increase in land value arising from the infrastructure investments may be challenging to calculate, however, it can be estimated using the costs of the actual investment itself. In particular, the city should know what it has spent on public infrastructure such as roads, water mains, or electricity. It can then extrapolate the commensurate requirements and expected costs, for a given proposed development and use this value to calculate the impact fee or exaction.

Amman's land value capture instruments

As noted, the 1966 Planning Law has a number of provisions for land value capture instruments, which is a useful foundation for GAM to build upon in its potential reforms. In particular, it provides for the following:

Development Levies (Chapter VII): In the Planning Law there are provisions for two forms of development levies, termed 'general' and 'special' development levies. The fundamental difference between the two is who authorises them: General development levies are implemented following decisions of the Supreme Planning Council, whereas Special Development Levies are decided by the Provincial or Local Planning Committees. According to the Planning Law, the revenues from the levies are used to cover the capital expenses of a particular public or private project. Based on their respective descriptions in the law, these levies fall somewhere on the spectrum of how development impact fees and betterment levies are used in international practice – as described in the previous section. However, as outlined in further detail below, since the Planning Law also has other, more specific and clear provisions for betterment levies, it is likely that those who drafted the law added a separate provision for these development levies in order to have an instrument that could operate in a similar manner to development impact fees, as used internationally. This lack of clarity, however, is likely to be one of the main reasons hindering its implementation.

If Amman's development levies are supposed to fulfil similar functions to the development impact fee, then it is important to note that there are clear differences between the current set-up and how development impact fees are used in practice elsewhere. In particular, the Planning Law stipulates that both the 'general' and 'special' development levies should be charged to land or property owners, but for development impact fees, these should realistically always be charged directly to the developer. Yet, it cannot automatically be assumed that the developer is the same as the land or property owner; they may, for example, be leasing the land for a specified period of time on which they develop the property. A further difference between impact fees as they are conceived and the

development levies currently set out in the law, is that as per the 1966 Planning Law, development levies are calculated by taking the difference between the value of land before and after the development, as well as taking into account pertinent features such as the area of the property under consideration and whether it has a front facing façade. Yet, for development impact fees the rate should be directly linked to, and therefore calculated based on, the estimated expenses that occurred as a result of the development, as opposed to land values. The law does, however, specify in Article 53, the fact that the payments should be one-off or in equivalent instalments over a maximum period of a year, which are akin to impact fees. However, it is not clear whether the payments envisaged by the law are ex-ante or ex-post; if the development levies are meant to function more like impact fees then the law should clearly outline the payment needs to be upfront.

Betterment Levies (Article 54): As for the definition of betterment levies provided in the section on land value capture instruments in the 1966 Planning Law, the Betterment Levies entail a one-off charge levied on land located in a specified area of influence, that has increased in value as a result of a public investment. They are calculated as follows:

- ***For land within 500m of the investment***: 20% of the value of the land price difference (based on the estimated sales price) before and after the project;
- ***For land within 1000m of the investment***: 10% of the value of the land price difference (based on the estimated sales price) before and after the project.

For the betterment levies, the law also makes provisions for an earmarked budget line for the revenues to be paid into. We discuss some of the benefits of earmarking funds later on in this report. Moreover, Article 54.5, where this provision is stipulated, further notes that the revenues from these levies are meant to cover the costs of land expropriation required for future public investment and associated compensations, as well as any other costs of construction.

It is important to note that the 1987 Expropriation Law also has provisions for betterment taxes (Article 24). According to this law, the betterment tax is specifically charged following an official expropriation of land that was for the purpose of the construction of a new road or the expansion of road space. It is charged on property owners (including both those who own land and buildings) directly affected by the road space and it can be up to 25% of the amount of the overall appreciation of the land. This tax is specifically payable in four equal instalments over four years (Article 24.4C). As will be discussed in the next section of this report, the fact that there are stipulations for betterment charges in two different laws, which are further associated with different calculations, may contribute to confusion amongst administrators as well as payers of these taxes.

Compensation Fees (Article 47 & 48): Although the development and betterment levies are very clearly specified in the 1966 Planning Law, GAM has had major challenges in their implementation. In the past, these levies have been subject to a number of court cases, the majority of which GAM has lost. This is as a result of the difficulties faced in attempting to calculate the appropriate fee to be paid with these taxes. Calculations should

be based on the value of investments made on land and the resulting increases in land value; however, GAM does not have clear ways of recording their investment costs and apportioning the tax obligations accordingly. In turn, this makes it difficult to transparently link these investment expenses to potential increases in land value. As a result, these aspects of the calculation have been highly contested and GAM has not been able to implement levies in most of the city. The only area where the levies have been successfully implemented are in Area C, the highest density area of the city, due to their being more detailed information on investment costs available.

For all other parts of the city therefore, GAM has had to find other ways of raising revenue. To do this they have established a so-called *compensation fee*, which relies on an interpretation of Article 47 and 48 of the 1966 Planning Law. In particular, Article 47 of the 1966 Law, outlines that when GAM implements a development decision that results in a fall in land value – for example restricting height regulations where they had previously been more permissive – then GAM needs to pay the landowner compensation for the lost value. Through a backward induction interpretation of this, GAM has now established the compensation fee, which entails a situation where developers and landowners have to pay GAM as a result of so-called “extra development rights” that they request and that, if granted, will increase the value of their land.

The nature of these “extra development rights” have been established through a similar backward induction interpretation but this time from Article 48. In particular, Article 48 outlines in which cases the landowner will not receive compensation from GAM; from this GAM has then established where they can charge compensation fees to developers. These are in three main cases, namely:

- *When developers ask for increased building rights:* In this case, the land being developed is already part of the municipality’s formal zoning plan, which means it is serviced by government infrastructure or at least is expected to be serviced in the future. Private developers are obligated to pay the charge to the General Planning Department before they can be granted additional building rights.
- *When land is to be re-zoned:* Again, these areas are already part of the municipal service plan, but increases in land value are principally driven by an administrative change which affects market conditions as opposed to hard infrastructure improvements. The charge is directed towards private landowners and allows the municipality to capture the increased value that is derived from the government-driven land use change.
- *When developers want unzoned land to become zoned:* This charge occurs when the land is not already part of the masterplan. Land values will increase simply from the administrative change of being integrated into the formal masterplan, hence, warranting land value increment taxes. Furthermore, once land becomes zoned, it is entered into the municipal service plan, meaning that at some stage new infrastructure will need to be put in place to support the development.

Interestingly, although the compensation fee is based on the interpretation of the law, rather than the actual law itself, it is still more widely accepted and thus far less contested, than the levies that are clearly stipulated in the law.

With the exposition given above of the different land value capture instruments that are defined by law in Amman, the following section will discuss some of the key challenges associated with implementing these instruments in practice and how these challenges reveal opportunities where the government could reform its use of land value capture.

Overall challenges

One of the biggest challenges facing Amman is to make taxation politically acceptable. In a recent survey of Jordanian public opinion, just 7% of respondents said that they would support the government levying new taxes in order to improve basic services such as health care, education and infrastructure.¹⁸ Of the 89% that responded in opposition, 70% cited affordability concerns, whilst 12% said that with current service provision being so poor, they had very little expectation that the government could improve the situation even with a higher tax take.¹⁹

This sentiment underscores some important elements that will determine the effectiveness of each of these taxes and fees. First, taxation has to be built on strong administrative foundations to ensure charges are calculated appropriately. Second, the issuance and payment process should not be too cumbersome for taxpayers so as to undermine the ease of compliance and the legitimacy of the system. Lastly, it is essential that local governments can effectively communicate the benefits of paying tax by demonstrating its link to the provision of better infrastructure and services.

In the following section of the report we will focus on the challenges related to the compensation fees, and also highlight three key areas where the GAM could improve revenue in-take from this instrument by:

- Unbundling charges: to improve transparency through better assessments of obligations;
- Improving calculation: through appropriate valuation and fee rates;
- Increasing collection: by enhancing tax compliance.

Considerations for reform

Unbundling charges: who is being taxed for what, when and how?

Tax assessments and obligations

The 1966 Planning Law is actually quite comprehensive in terms of the levies it allows, which have been summarised in **Table 2**. However, in its current formulation three main challenges arise: implementation, target, and timing.

Implementation:

Key message: *The decision to use compensation fees in place of other levies has contributed to complications and overlaps between different charges across different laws. Each case has unique implications for what should be charged, who should be responsible for the obligation, and when the payment should be due. As such, they require specific and distinct tools for land value capture to address them.*

Due to the challenges of calculating Development Levies and Betterment Levies, these are not implemented in practice outside of Area C, resulting in huge lost opportunity for GAM. To cover for this loss of revenue, GAM has defined a compensation fee, which is based on an interpretation of the 1966 Planning Law, rather than enumerated directly in the Law itself. This has resulted in a number of overlaps between different charges across different laws (e.g. with the 1987 Expropriation Law) as well as within the 1966 Planning Law itself. In particular, the compensation fee can be applied under most of the cases for which there are other instruments in the Planning Law that fulfil the same role. This not only adds to the confusion of implementing and collecting the charge, but it prevents the municipality from leveraging the separate advantages of each policy tool it has defined in its laws.

Target:

Key message: *Different stakeholders should be responsible for paying depending on what each of the different fees are trying to achieve, such as whether the aim is to capture land value increases generated by public investments or to cover the public expenses incurred as a result of new developments or to capture increased land values from policy changes.*

In particular, if the purpose of development levies, as the law implies, is to cover the expenses of development, then it may be preferable for the obligation of payment to accrue to private developers, whether they are homebuilders or commercial real estate developers, as highlighted in the section on *Development fees and exactions*. This is because their actions are directly resulting in increased costs for the municipality itself to provide infrastructure and services to the land. These extra investments, in turn, will increase the overall land value, making it appropriate for the municipality to recoup the costs. As noted this can be done by having developers pay a monetary fee, in the form of an impact fee, or by making an in-kind contribution, in the form of an exaction, as highlighted in **Case Study 2**.

In cases where the value of land rises as a result of administrative changes, however, landowners should be responsible for paying the tax, as the value is publicly created. Here the law should clearly stipulate how the charge should be paid by the landowner: this may be done as in current practice when they make a request for land to be rezoned, or the

municipality may also want to consider applying the tax on a fixed-rate basis or at the time of transfer of properties as in the case of Taiwan (see **Case Study 3**). The latter requires more effective valuation of properties and may prolong the receipt of payments to the municipality, however, it could also ease the coordination of LVIT with other property taxes in the city and prevent taxes from being imposed on landowners too early, i.e. before they have seen reasonable increases in their land values.

Unlike the other taxes and levies in the law, given the 1966 Planning Law does not clearly define the compensation fees charged by GAM, it also does not clearly define who pays. For ease of administration and payment, GAM has applied this for when developers request their “extra development rights” from the Planning Department. To receive approval of their request, they also sign a binding document directly with GAM to say they will pay the compensation fee. However, given that this provision is not written directly in law, this is a potential area that GAM could potentially face legal challenges in the future. Therefore, if they want to keep and build on the practice of compensation fees for extra development rights, it will be in GAM’s interest to ensure these current practices are clearly enshrined in the revisions of the 1966 Planning Law.

Furthermore, because the current practice states that landowners can be charged the compensation fee as well, this may cause further challenges in the cases related to unzoned lands because these are areas in Amman where people have settled with unclear ownership rights and poorly defined boundaries delineating their plots from those of others. This makes it very hard to properly record properties and determine who owns what land and therefore who is liable to pay. This means a large share of properties may be missed, while others could be given unsuitable charges, ultimately leading to neglected payments and disputes, even when targeting landowners.

Timing:

Key message: *Payment should also occur at different times depending on the type of levy. Ensuring that these respective value capture instruments are applied at the appropriate time can make them more politically acceptable.*

Although the 1966 Planning Law is clear about the timing for some of the levies, for others this is left unclear. For example, just as the burden of development levies and land value increment taxes should be applied to different economic agents, they should also be applied at different times. For development levies, the costs need to be made upfront on a one-time basis so they can contribute directly towards the impact of a development and its immediate pressure on infrastructure needs. However, with land value increments or betterment levies, that are associated with public actions such as (re)zoning or public investments, these can be charged at the time of property transfer, or even on a recurring basis, within a specified period of time of the impact, as and when land values rise. As the example of Colombia outlined in **Case Study 1a** shows, the charging of the betterment levy (*contribución de valorización*) cannot extend beyond 5 years. All of these factors on

payment should be outlined clearly in law to make it transparent who the targeted tax payers are as well as their proposed payment schedules.

Simplified and more transparent calculations

Key message: *The legitimacy of the calculated fee hinges on whether land is appropriately valued and whether the tax rate applied is deemed fair.*

The 1966 Planning Law outlines the calculation for most of the taxes and levies it stipulates. The one major exception is the calculation of the compensation fee, which is currently calculated based on an interpretation of the 1966 Planning Law by the Comprehensive Planning Department and using a formula from the previously valid 1987 Expropriation Law. As per current practice, it is calculated in a four-stage process as follows:

1. Determining a base land value (adjusted land value). This is a base that takes into account the location of the land (e.g. neighbourhood), the type of the proposed development and the quality of the proposed development. This base land value is updated according to the proposed development;
2. Determining the value of land before and after development/(re)zoning: the land prices would ideally come from sales prices, however, as these are not always readily available, this is done by the GAM's Department for Land and Surveys as described in the next section.
3. Adjusting this by a factor of 25%. This is a reference value which has been adopted from the betterment tax in the 1987 Expropriation Law which stipulates you cannot charge over a quarter.

$$CC^t = \$Base\ Land\ Value^t - Base\ Land\ Value_{123435678} * 0.25$$

which is to say, a 25% fee is applied to the difference in the base land values at time t versus the original, i.e before the new building rights permissions or government-granted land use changes occur. Clearly, we can see that based on the parameters included in the calculating equation, the validity of the compensation fee – as well as the other taxes and levies outlined in the Planning Law for that matter – is predicated on other factors such as: (i) whether the valuation of land is legitimate, and (ii) whether the rate applied to the equation is considered fair.

Valuing land

Key message: *Given that calculations for the levies and the compensation fee are based on changes in land value, frequent and accurate land valuations are essential for fair and efficient revenue generation.*

Under the 1927 Land Demarcation and Valuation Law (hereafter referred to as the 1927 Law), the Department for Land and Surveys has full responsibility for valuing land and property in Jordan.²⁰ This information is then fed into other departments that are in charge

of calculating tax bills based on these values. One of the main issues for agencies like the General Planning Department, is that land and property valuations can often be inaccurate. As a consequence, their tax bills are destined to be imprecise due to the data they receive.

One of the principal issues with the current valuation approach is that the Land and Surveys Department only calculates average values across quite large enumeration areas. This process is derived from some of the earliest fiscal surveys implemented in Jordan shortly after the 1927 Law was passed. However, at this time the population was predominantly rural and the state had not yet determined who owned what land. Therefore, it was easier to divide the population by fiscal blocks, called *quarters* in cities and *hawds* in rural areas, because there was very little variation in land characteristics within these areas.²¹ Now that Jordan is heavily urbanised, it is problematic that the individual plot is not the unit of observation, as average values are likely to neglect significant variations in local neighbourhood characteristics.

Another issue is that valuations tend to be infrequent. This decreases the legitimacy of the tax for two reasons: first, it means the original land values used are often based on outdated estimates; second, it makes it harder to generate accurate predictions of how land values might change following any rezoning or infrastructure instalments. These issues highlight the trade-offs between greater accuracy and greater simplicity that all municipalities face when valuing land and property more generally^{ix}. Although the General Planning Department has little control over the valuation data they receive, this information is relevant because it may suggest alternative options that national authorities could be encouraged to consider.

Taiwan has successfully managed to overcome this by developing a system of land valuation that is updated on the 1st of January every year. This system of calculating land values, outlined in **Case Study 3**, is also outlined on the government website and thus accessible to everyone. The Taiwanese case further demonstrates that land value increments can be successfully separated from other property taxes, such as development levies, through a one-time tax at the time of land transfer. A key foundation to the system's effectiveness is that land registration is efficient and the government undertakes consistent revaluation of land and property.

There are other methods for land valuation that could be considered. For example, many developed countries use market value assessment to value land or property, based either on the sales price of comparable plots or the estimated rent. Yet this may not be feasible for a city like Amman, where the data may not be available. New approaches are consistently being developed that could be more suitable; for instance, recent research has shown that spatial modelling may sometimes actually outperform typical market value

^{ix} We refer the reader to an IGC policy paper on *Land and property taxes for municipal finances*, for a comprehensive review of common valuation approaches – such as market, points/proxy, area and construction-based valuation – and their associated trade-offs.

approaches with less data.²² Moreover, these models can combine very basic property information, such as the area, age and location of a property, with other GIS data that is readily available from government or secondary sources, such as land quality, disposable income or air pollution, to enrich the information available and increase valuation performance, at little or no additional cost.

Case Study 3: Assessing Land Value in Taiwan²³

Taiwan is one of the most successful countries in the Asia region for land value capture.²⁴ One of the features that makes the Taiwanese land tax system unique is that a land value increment tax (LVIT) is embedded in its national constitution. The LVIT has actually shown very effective revenue potential in Taiwan, averaging a combined revenue of 1.6% of GDP since 2000, which by international standards is extremely respectable.²⁵

Each year, the local government provides a value for each parcel of land in its jurisdiction. If a parcel is transferred through regular sale, the valuation department updates their record for the price of the parcel of land at the time of sale. If a parcel is never transferred, then the government assessment is used as the reference value. In order to prevent underreporting of sales transactions, the law stipulates that if the assessed sales price of the parcel is lower than the government assessment, then the government is allowed to purchase the parcel at the sales price.

To calculate the land value increment tax (LVIT), the government takes the difference between the original value of land and the current value of land, adjusting it for inflation and deducting any improvement costs or taxes that have been paid:

$$\text{LVICT} = \text{Tax rate} \times ((\text{Current Value of Land} - \text{Original Value of Land}) \times (\text{Current Consumer Price Index})) - (\text{Land Improvement Costs})$$

Where:

- Current Value:
 - Total contract price current sales agreement OR
 - Land value released by government x acreage
- Previous Value:
 - Total contract price last sales agreement OR
 - Original value set by government x acreage
- Land Improvements: cost of improvements, development impact fee paid, cost of rezoning, land donated, public facilities, fees for rezoning
- Reductions based on how long previous owner held land

The tax rates applied vary based on the size of the calculated land value increment with relation to the original value of land:

- 20% if it is <100 % of previous value
- 30% if it is 100-200% of previous value
- 40% if it is >200% of previous value

There are obvious data challenges associated with land valuation in Amman. These are important issues to address in order to improve the general functioning of the land and property tax system. However, other forms of data, such as expenditure data, will also be

needed for the implementation of value capture instruments that are based on infrastructure investments, such as development levies. Given the aforementioned weaknesses in land valuation, GAM may find it easier, in the short term, to improve its collection of accurate expenditure data since these costs are under their supervision and control as they relate to specific projects the municipality takes on. We discuss this further in the following section.

Calculating the rate

Key Message: *A further consideration for GAM is whether the applied tax rate of 25% for the compensation fee and 20% or 10% for the betterment levy formula, is justifiable.*

Particularly in the case of the compensation fee, the 25% rate seems to only have been chosen for the fact that it is a reference value in the 1987 Expropriation Law. All of these rates may be perceived to be high and thus potentially one of the reasons for the low payment compliance and large number of contending court cases. At present, because there is no calculation enshrined in law for the compensation fees, it also means that with current practice charges are levied in an informal and ad-hoc manner which allows developers to negotiate the tariff applied by GAM and it is then often reduced for those who resist most fervently.

On one hand, charging a flat tariff rate, as is currently done with the 10%, 20% or 25% rate, may be more reasonable in the cases where the charge is applied for rezoning land. Here the rationale of the charge is to capture a portion of the increased value associated with changes in administration of the land. However, it's important to note that this does not negate the fact that there is currently no strong legal or planning justification for why the rate of 25% is applied.

On the other hand, when the compensation fee is used to cover the infrastructure costs of a development, a flat tariff rate will not meet the rational nexus test (as described in the section on *Development fees and exactions*) because the fee is not proportional to the size of the development or its infrastructure implications. Therefore, given that the current Planning Law does not specify a rate, this is an opportunity to leverage the new drafting of the law to clarify the calculation as well as the rates, and thus the tax payer's perception and payment of the tax. It should be emphasised that the reforms in calculation will have to be closely linked to the reforms around *Unbundling charges*.

As already noted, many municipalities with land value capture instruments that are meant to recoup the costs of public investments, such as development impact fees or exactions, closely tie these to the predicted public infrastructure costs of the development. Doing this requires effective current and future planning statistics in order to, for example, evaluate the existing infrastructure situation, how communities will grow as a result of new construction, and thus what the commensurate infrastructure and service growth will need to be. This information is then integrated into capital improvement plans which detail the

projects needed to service anticipated growth, as well as their associated descriptions, cost estimates, schedule and location.²⁶ Having a well-defined capital improvement plan, therefore, is not only critical for communicating the link between the charge and its infrastructure outcomes, which we discuss in more detail later, but it also allows the municipality to assess whether its charge is appropriate for the infrastructure needs of the local area.

Improving collection by linking payments to better infrastructure and services

Key Message: *Taxpayers have the right to know what their contributions are going towards. Once they can see tangible outcomes that are related to their tax and fee payments, the number of contestations with regards to payment may decrease.*

At present, the compensation fee is often contested, renegotiated or avoided; and this problem is particularly acute when it is applied to unzoned land as these areas are not part of the infrastructure and service plan already so there is less salience over what the government will offer in return for the payment of the charge. Therefore, in addition to the revision of the law, GAM may also consider a policy around public communications as a means to foster a more positive image of the charge, as well as the other taxes and levies enshrined in the law, that could encourage citizens to recognise it as a social obligation and legitimate price to pay in return for public infrastructure and services.²⁷

One clear way to demonstrate the link between taxes and better service delivery is to hold public consultations on how the public want their money spent. It is then the government's responsibility to actually deliver on its commitments, which is ultimately the best way to build trust and accountability over time. Concurrently, the government can also communicate how taxes have been spent on public priorities. The government could even solidify its communicated commitments by earmarking funds from its taxes for public priorities. As demonstrated by the example of Lagos in **Case Study 4**, more public participation and political communication can be an effective way in increasing tax compliance.

Case Study 4: Communicating the link between tax and infrastructure in Lagos²⁸

In the 1990s, Lagos, the capital city of Nigeria, was internationally renowned for corruption, weak public infrastructure, low tax compliance, and an over-reliance on oil revenues. With the advent of democracy in 1999, Governor Fashola was elected Governor of Lagos State on a platform of tax reform and infrastructure delivery.

Increasing property tax revenues were spent on highly visible and popular infrastructure, such as roads. This was based on extensive public consultations revealing that, as one of the world's most congested cities of the time, roads were the most pressing issue requiring state government attention. At the same time, the state government used innovative communication practices to demonstrate to citizens that roads could not have been built without their tax contributions.

Between 1999 and 2011, Lagos State's revenues from state-level taxes increased five-fold to over USD1 billion. Capital spending increased from USD600 million in 2006 to USD1.7 billion in 2011. This represents a shift towards a higher tax, higher service delivery equilibrium. What's more, Governor Fashola and his successor Tinubu were both successfully re-elected based on **popular support for the tax and infrastructure reforms.**

It may also help if municipalities can legitimise their communicated commitments.²⁹ One option that Amman might consider would be to split the Compensation Charge into multiple fees that are directly related to tangible infrastructure; this would also support unbundling the charge overall and preventing overlap with other charges. For example, in many municipalities in the USA fees are earmarked in separated escrow accounts for public infrastructure, such as schools, roads, fire and rescue, parks, and sewerage, and cannot be spent on anything other than the proposed infrastructure they were assigned to. However, having a number of separate accounts will also increase the administration of the budgets and this may be a significant trade-off that GAM will have to consider carefully.

Another approach would be to make much greater use of exactions, as noted in **Case Study 2**. As highlighted, property developers share the municipality's costs related to public infrastructure and services that are needed to service areas of new developments. However, depending on how they are implemented, it may provide developers with more choice and control over the infrastructure, as the developers provide it in-kind themselves. Actually being able to tangibly see and coordinate how the tax translates into investment may provide additional incentives for developers to comply with their taxes. Furthermore, GAM may also think about how this can be better tied to other objectives such as equality. For example, for a developer who is thinking about high-end residential developments, GAM may request the in-kind contribution to be affordable housing in another area of the city – this type of policy has been implemented in other places, for instance, in Vancouver, Canada, through the community amenity contributions.³⁰ Potential precedent for in-kind contributions are already in the 1966 Planning Law, which through Articles 56 and 57 allow for land owners to be compensated with other pieces of land, if their land had to be expropriated for public investments.

Recouping the value from Amman's levies and charges

To improve Amman's use of land value capture, first and foremost **an assessment will need to be made about which taxes, levies or compensation fees, GAM will want to continue using.**

Although development and betterment levies are very clearly enshrined in current law, as summarised in **Table 2**, and could serve an important role in increasing GAM's revenues, they are largely not implemented in practice. The choice to adopt compensations fees in their place has led to a confusing system in which one policy tool attempts to encapsulate various elements of several different value capture instruments, including betterment levies, development levies, and land value increment taxes. However, each of these

instruments has its own specific advantages which relate closely to the use-case in question and in particular whether the land value increases they are trying to capture have arisen from changes in policy or an investment in infrastructure. This lack of clarity is further exacerbated by the fact that the use of compensation fees is currently based on interpretation rather than actual stipulation of Jordanian law.

Table 2: Amman’s Land value capture instruments discussed in this report

Instrument	Rationale	Defined by	Used in practice	Main issues
Development levy	Cover capital expenses of public infrastructure investments.	1966 Planning Law	No	<ul style="list-style-type: none"> Lack of distinction from betterment levies. Charged to landowner rather than developer. Rate based on land values rather than infrastructure. Payments not required upfront.
Betterment levy	Recoup value created by public infrastructure investments.	1966 Planning Law & 1987 Expropriation Law	No	<ul style="list-style-type: none"> Stipulated in different ways in two different laws. Weak capacity in calculating infrastructure costs limits accuracy of levy. Applied tax rate currently not related to infrastructure costs.
Compensation fee	Fulfil roles of development and betterment levies via more easily implementable charge for so-called “extra development rights”.	Not legally binding	Yes	<ul style="list-style-type: none"> Based on interpretation rather than law. Applied in place of LVIT, betterment levy, and development levy despite separate use-cases and requirements. Weaknesses in implementation, target, timing, calculation and communication.

This use of compensation fees stems from the fact that the necessary factors for calculating betterment and development levies are currently not well-documented in Amman and therefore the levies used to be widely contested. Hence, a suitable resolution for these levies would be to **either (i) develop methods that allow for more accurate and transparent documentation of GAM’s investments and their links to land values; or (ii) to revise the calculations currently outlined in the 1966 Planning Law so that they can be based on other factors.** These suggestions are potentially a more direct route to resolving the challenges of implementation and enforcement of levies which until now have been offset by the advent of the compensation fee.

Another method of improving clarity in this context, irrespective of whether betterment or development levies are reinstated in practice, would be to **clearly outline the compensation fee and its calculation methodology and payment protocols as part of new legislation.** For any value capture instrument to be used effectively, it is critical that it is clearly defined by legislation which, at a minimum, addresses: the circumstances under which the instrument can and cannot be charged; a formula for calculating the amount of the fee; who the liable taxpayer is; proposed payment schedule; and how the money will be used by the government.

The potential advantage of defining legislation for the compensation fee is that it seems that for about the past 10 years, this fee has already been more successfully implemented and accepted than other levies; hence it may receive less push-back if it is officially enshrined. The drawback here would of course be that one fee would be covering a number of different purposes that in an ideal setting should be separated out and targeted at individuals for particular purposes at specific times, as outlined in the section on international experiences.

If GAM decides to keep the compensation fee and outline it in the new law, **the next consideration would be whether the current rate is appropriate**; this too would then need to be documented as part of the new formulation of the 1966 Planning Law itself in order to make it transparent. To better target the compensation fee, as mentioned above, further considerations could be given to understand how and when the compensation fee is used and to differentiate its calculations to match the situation. The trade-off here is that it reduces the simplicity of calculation and therefore may increase the costs of calculation.

Particularly in the case where the compensation fee is meant to recoup the cost of development (conventionally warranting a development levy), its **calculation will need to be transparent and clear to developers to incentivise them to pay**. Hence, different calculations that more closely reflect the cost of increased infrastructure and service needs of each area where developments are taking place may be necessary in all cases, i.e. whether betterment and development levies are reinstated or whether compensation fees are used in their place. Once the municipality have legitimate and widely accepted infrastructure plans that have already undergone cost appraisals, then they would have a much stronger grounding on which to justify charges, whether through a compensation fee or development levy. It is worth noting that this would also strengthen the legal case when dealing with contribution disputes, potentially avoiding large additional costs to the local government. Over time, as administration for the compensation fee or other charges became more proficient, one would expect these charges could be calculated precisely according to pre-defined criteria that can be adjusted and applied to any developer, in the cases where the charge is tied to new developments. It should be noted that, although not subject of this report, a well-functioning property tax system, based on market values, is another way that investment expenses can more clearly be linked to related increases in land values.

Taking the step **to improve legal and practical clarity around the charges** outlined is an opportunity that will come with the revision on the law. This is clearly, as outlined by this report, an important foundation upon which GAM can build in order to improve the overall administration, issuance and collection of land and property taxes. Over time, such improvements could enhance the general efficiency of the tax system and strengthen the relationship between the state and the taxpayer as it becomes more straightforward to understand and comply with the formal system. Ultimately, these incremental steps will

help the city government to raise finances and support the sustainable growth of Amman through targeted public investments.

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