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PROPERTY TAX IN ASIA

Policy and Practice



Edited by

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Context and Comparative Analysis

ROY BAHL, WILLIAM MCCLUSKEY, RIËL FRANZSEN,
AND WENJING LI

The 2020s could see more emphasis on land and property taxation in Asia. Certainly, the timing and the setting are right: Jurisdictions in South and East Asia are rapidly urbanizing, land values have risen, and demand for better public infrastructure and poverty alleviation in cities has increased. The coronavirus pandemic has left many Asian jurisdictions struggling with higher debt and deficits and facing pressure to find new ways to support budget expenditures. Some jurisdictions in the region have overcome the constraints to adopting modern property tax practices and could be role models for transforming property taxation into a stronger revenue-raising instrument for other jurisdictions.

Property taxation is not new to Asia. China has some of the oldest examples of property and land taxes, the Philippine version has been emerging since 1901, and the property tax laws in Hong Kong (a special administrative region, or SAR, of China) were in place in 1845. Some Asian jurisdictions have modernized their property taxes to keep in step with their economic growth, but others have allowed their property taxes to fall into disrepair. This analysis aims to show how to make good practices better and how to put weak practices on a path to improvement.

Scope of Study

This book addresses three questions:

- Why has land and property taxation not emerged as a more important revenue source in East, Southeast, and South Asia?
- Is there likely to be fiscal space¹ to increase the level of property taxation during the next decade?
- What types of reforms are most likely to advance property taxation as a revenue instrument?

Part 1 of this book attempts to answer these questions. In doing this, we try to strike a balance between using international comparisons and in-depth studies of specific jurisdictions and territories. The case study analyses in part 2 give detailed accounts of property tax practices and outcomes in 13 jurisdictions (countries or administrative regions).

This chapter provides an overview of the jurisdictions chosen for in-depth analysis and examines the extent to which they represent South and East Asia. It also presents a statistical analysis of the determinants of regional variations in property tax revenues and compares property tax performance in Asia with the rest of the world, which helps explain why some jurisdictions and regions use property and land taxes more than others.

Chapter 2 compares best practices with current practices in these jurisdictions. Detail is provided on tax base and rate features, valuation, administration, transfer taxes, and equity and allocative effects. This allows a deeper analysis of the problems with implementing property tax policy than that underlying the reform proposals often offer.

Chapter 3 gives some answers to the three questions posed and lays out the prospects for property tax reform according to what was learned from this study of Asian property taxation. It can guide policy makers looking to translate these lessons into a reform strategy that increases revenues.

Overview of the 13 Case Studies

The sheer size of Asia entailed limiting the analysis to 13 jurisdictions in East and South Asia. They are not meant to be a representative sample in the statistical sense. To compare richer jurisdictions that apply more modern approaches with ones at earlier stages of economic development, the following were purposely included:

- All the largest economies in South and East Asia.
- All jurisdictions with readily available data and recurrent property tax revenues that were reported to be equivalent to about 1 percent or more of GDP (gross domestic product).
- Low- and middle-income jurisdictions with available, adequate data and where the property tax was already established by 2020.

Table 1.1 shows data for the thirteen jurisdictions studied and for five other jurisdictions in East and South Asia.

The 13 jurisdictions show significant variation in per capita income (GDP). Five have per capita GDP greater than USD 20,000 and six have GDP of less than USD 10,000. Population sizes and degrees of urbanization also vary greatly. Some have centralized forms of revenue mobilization and do not make much room for local-government revenue autonomy (e.g., Korea and China), whereas others have embraced features of fiscal federalism (e.g., India, Pakistan, the Philippines, and Malaysia). China and Vietnam do not allow private ownership of land and so rely more heavily on taxing user rights. Most have long experience with property taxation (e.g., Hong Kong and the Philippines), one has more recently adopted a new system (Thailand), and another has undergone significant structural changes (Singapore). The sample may not be fully representative in all dimensions of socioeconomic structure, but it does appear to offer a good cross section of the Asian experience with land and property taxation.

What Is a Property Tax?

The variable of most interest in this empirical analysis is the amount of revenue raised from property taxation. Most Western jurisdictions use *property tax* to refer to an annual tax on the value of property, but this study uses a broader definition that includes all taxes related to the transfer of ownership or user rights, all taxes on registration of property, and all taxes designed for betterment or land value capture (see box 1.1). As discussed later, transfer tax revenues exceed annual property tax revenues in many of the jurisdictions studied. Part 1 separates discussion of the annual property tax from discussion of the more broadly defined *total property taxes*.

In this study, land and property taxes are defined in accordance with the *Government Finance Statistics Manual*, the flagship compilation by the International Monetary Fund (IMF) of comparative international fiscal data: “Taxes payable on the use, ownership, or transfer of wealth” (IMF 2014, 93). This view of taxes on land and property encompasses not only

Table 1.1 Property Tax Revenues and Key Data in Asian Jurisdictions

Jurisdiction¹	Year²	Property Tax Revenue (% of GDP)³	Recurrent Property Tax Revenue (% of GDP)⁴	GDP per Capita (in current USD)⁵	Total Population (millions)⁵	Urban Population (% of total population)⁵
Afghanistan	2017	0.00	0.00	519.90	36.3	25.3
Bhutan	2018	0.00	0.00	3,243.50	0.8	40.9
China	2018	2.00	0.67	9,976.70	1,392.7	59.2
Hong Kong SAR, China	2018	4.53	0.96	48,542.70	7.5	100.0
India	2018	0.61	0.15	1,996.90	1,352.6	34.0
Indonesia	2019	0.42	0.28	4,135.20	270.6	56.0
Japan	2018	2.56	1.89	39,159.40	126.5	91.6
Korea, Rep.	2018	3.30	1.23	33,422.90	51.6	81.5
Lao, PDR (Laos)	2018	0.12	0.12	2,542.50	7.1	35.0
Malaysia	2018	No data	No data	11,377.70	31.5	76.0
Mongolia	2018	0.44	0.44	4,135.00	3.2	68.4
Nepal	2017	0.01	No data	1,048.50	27.6	19.3

Pakistan	2018	No data	0.13	1,482.20	212.2	36.7
Philippines	2018	0.81	0.35	3,252.10	106.7	46.9
Singapore	2018	1.70	0.92	66,679.00	5.6	100.0
Taiwan, China	2018	1.43	0.93	25,026.00	23.6	79.6
Thailand	2018	0.23	0.23	7,296.90	69.4	49.9
Vietnam	2018	3.87	0.03	2,566.40	95.5	35.9

Sources: IMF (2020, 2021); OECD (2021a); World Bank (2021); and the case studies in part 2 of this book.

¹ The 13 jurisdictions in boldface are analyzed in part 2.

² Data are for the latest year available between 2016 and 2019.

³ Data for China, Hong Kong SAR, China, India, Indonesia, the Philippines, Singapore, Taiwan, China, and Vietnam are from part 2 case studies; data for other jurisdictions are from IMF (2020).

⁴ Data for Hong Kong SAR, India, Indonesia, Pakistan, Taiwan, and Vietnam are from part 2 case studies; data for Afghanistan, China, Japan, Republic of Korea (South Korea), Mongolia, Singapore, and Thailand are from IMF (2021); and data for Bhutan, Lao PDR, and the Philippines are from OECD (2021a).

⁵ Data are from World Bank (2021).

the recurrent tax on the value of land and improvements but also the taxes on property transfers (e.g., stamp duties, transfer taxes, and registration taxes). If personal property such as cars, boats, or machinery and equipment is part of a jurisdiction's tax base, this is also included. For jurisdictions that capture data on betterment charges, development charges, and other forms of value capture, these are also counted as property taxes. In jurisdictions where all land is government owned, several forms of land and property taxes are charged. These include rents on leased properties and taxes on the right to use the land or to exchange the right to use the land. All these are defined as land and property taxes and are in the definition used here.

In many cases, data are not fully reported in the IMF's government finance statistics (GFS) framework, possibly because of lack of definitional clarity or because of data-gathering issues. If data for a jurisdiction are not available, IMF's World Revenue Longitudinal Data (WoRLD) dataset sometimes imported data from the Organization for Economic Cooperation and Development (OECD). If the WoRLD data set seemed incomplete or was at odds with the case studies, we used the respective government estimates of property tax revenues. In doing this, we tried to stay within the definitional boundaries set by the international agencies (OECD 2021b), but we recognize that these data might not be fully consistent with the WoRLD dataset. These data adjustments are described in more detail in box 1.1.

International Comparisons

Nearly all jurisdictions and dependent territories in Asia have some form of taxation tied to land and property, but these taxes do not make a major contribution to government revenues. On average, total property tax revenues account for about 1.3 percent of GDP for the 17 jurisdictions in East, Southeast, and South Asia for which comparable data are available, versus 3.4 percent in North America (table 1.2). The comparable numbers for recurrent property taxes are 0.45 percent and 2.94 percent, respectively. These disparities suggest a missed opportunity for Asian jurisdictions to mobilize additional revenues.

What Explains the Variations Among Jurisdictions and Territories?

As shown in table 1.2, average property tax revenues as a percentage of GDP in East, Southeast, and South Asia exceed the average for all 130 jurisdictions reported by the IMF. But there is a great deal of variation across the regions and even within Asia. This suggests that the explanation for differences goes well beyond location.

Box 1.1 DATA USED FOR THE COMPARATIVE ANALYSIS

Ideally, all taxes on real property would be included in this comparison of property tax revenue mobilization in Asia with that in the rest of the world, irrespective of how the tax is levied. The comparisons would include all recurrent taxes on real property—whether the tax base is rental value, capital value, or area—and all one-time levies on property transfers, including capital gains taxes on real property sales. In jurisdictions where land is government owned, the definition would include annual taxes on user rights such as rents and the transfer of user rights. Unfortunately, no such data set exists.

Two data sources are available. The IMF's GFS framework and the OECD's Global Revenue Statistics Database are the most comprehensive databases (OECD 2021a, b). We decided on the GFS as reported in the WoRLD dataset because the coverage is greater (189 jurisdictions) and because some jurisdiction statistics in the WoRLD database are the same as those from the OECD. We augmented the database in four ways.

- Data were not available in the WoRLD or GFS series for some of our 13 jurisdictions. After study of the property tax classifications in GFS, we decided that the data reported in the case studies of Taiwan, India, and Vietnam in part 2 would be suitable.
- The Hong Kong data in WoRLD appear to understate property transfer tax revenue and recurrent property tax revenue. We have substituted Hong Kong data from the case study for the WoRLD entries.
- The main data source for recurrent property tax revenues is the GFS data set from the IMF. We have adjusted this data set by substituting the missing values with those in OECD's Global Revenue Statistics Database if available. As a result, the recurrent property tax revenues for 91 jurisdictions are from IMF's GFS data set and for 44 jurisdictions are from OECD's Global Revenue Statistics Database. We carry out robustness tests on both the adjusted and the unadjusted samples.
- Finally, we note that there is ample opportunity for a misstatement of data on transfer taxes. In fact, there are significant differences in the data reported for China, Singapore, the Philippines, and Indonesia case studies and that reported in WoRLD. We have substituted the jurisdiction case study data for that reported by WoRLD.

We are more confident in the adjusted data set for recurrent property tax revenues than for total property tax revenues because there was a closer match between the case study and the GFS data. The following table presents the comparisons.

Box Data Table 1

Jurisdiction	WoRLD Set PT/Y (year)	GFS Data RPT/Y (year)	Case Study Data PT/Y (year)	Case Study Data RPT/Y (year)
China	1.48 (2017)	0.67 (2018)	2.00 (2018)	0.58 (2018)
Hong Kong SAR, China	0.96 (2017)	0.73 (2017)	4.53 (2018)	0.96 (2018)
India	-	-	-	0.15 (2018)
Indonesia	0.35 (2018)	0.35 (2018)	0.42 (2019)	0.28 (2019)
Japan	2.56 (2018)	1.89 (2018)	2.69 (2018)	1.96 (2018)
Korea, Rep.	3.30 (2018)	1.23 (2018)	3.30 (2017)	1.10 (2017)
Malaysia	-	-	-	-
Pakistan	-	-	-	0.13 (2018)
Philippines	0.48 (2018)	0.35 (2018)	0.81 (2018)	0.38 (2018)
Singapore	0.92 (2018)	0.92 (2018)	1.70 (2018)	0.90 (2018)
Taiwan	-	-	1.43 (2018)	0.93 (2018)
Thailand	0.23 (2018)	0.23 (2018)	0.21 (2018)	0.21 (2018)
Vietnam	-	0.03 (2018)	3.87 (2018)	0.03 (2018)

Note: PT/Y (year) = total property tax as a percentage of GDP in a given year; RPT/Y = recurrent property tax as a percentage of GDP in a given year.

Table 1.2 Average Levels of Property Taxation in Asia and Other Regions¹

Jurisdiction	Property Tax Revenue (% of GDP)²	Recurrent Property Tax Revenue (% of GDP)³	Per Capita GDP (current USD)⁴	Population (millions)⁴	Number of Jurisdictions⁵
All jurisdictions	0.95	0.58	19,393.18	46.17	130/137/218
Europe and Central Asia	1.30	0.84	32,170.92	18.79	44/48/58
Latin America and Caribbean	0.66	0.52	10,263.50	23.61	27/26/42
Middle East and North Africa	0.80	0.41	19,133.07	26.09	9/8/21
North America	3.42	2.94	54,759.16	181.95	2/2/3
Sub-Saharan Africa	0.21	0.19	3,463.73	16.38	23/24/48
South Asia and East Asia–Pacific ⁶	1.18	0.42	17,012.05	129.67	25/29/46
East, Southeast, and South Asia⁷	1.31	0.45	17,770.95	192.45	17/19/26

Sources: IMF (2020, 2021); OECD (2021a); World Bank (2021); and supplemented by data from part 2.

¹ “Other regions” as defined by the World Bank.

² Data are for the latest year available between 2016 and 2018 except for the Philippines (2019) from IMF (2020) and supplemented by data from part 2.

³ Data are for the latest year available between 2016 and 2018 (except for Indonesia data in 2019) from IMF (2021), supplemented by data from OECD (2021a) and from part 2.

⁴ The year is the same as for recurrent property tax in percentage of GDP.

⁵ The leftmost number represents jurisdictions whose property taxes in percentage of GDP is available in the constructed data set described in note 2. The middle number represents jurisdictions whose recurrent property taxes in percentage of GDP is available in the constructed data set described in note 3. The rightmost number represents total jurisdictions in each region defined by the World Bank.

⁶ A combination of region groups of “East Asia and Pacific” and “South Asia” defined by the World Bank.

⁷ A subset of jurisdictions in the South Asia and East Asia–Pacific group are excluded because adequate comparative recurrent property tax data are not readily available: Bangladesh, Brunei Darussalam, Cambodia, Democratic People’s Republic of Korea (North Korea), Malaysia, Nepal, and Sri Lanka.

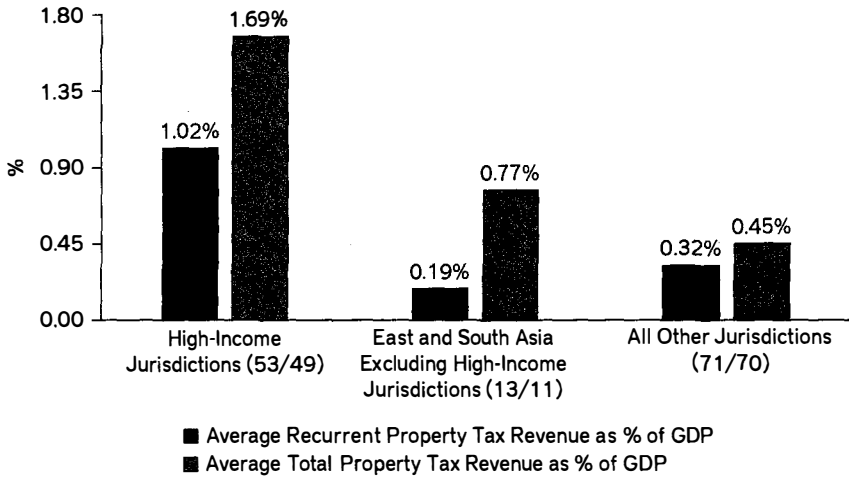
One approach to understanding this variation is to statistically link the level of property tax revenues to individual jurisdiction characteristics. Property tax revenue performance is determined by three factors: the size and structure of the tax base (taxable capacity), external factors related to the socioeconomic structure of the jurisdiction, and the discretionary actions taken to capture property tax revenues from this base (tax effort). The multiple regression analysis carried out here takes into account the taxable base and the external factors. The remainder of the variation can be attributed to differences in property tax effort and to random variations. The regression results help explain why some governments use the property tax more intensively than others.

Regression Model

The dependent variable in this regression analysis is property tax revenue, standardized as a percentage of GDP. This is a measure of the effective rate of property tax and is a reasonable and widely used basis for comparing property tax revenues across regions. Two definitions of the dependent variable are specified in this study. First, we follow the practice used in most comparative studies of property taxation and define the dependent variable to include only recurrent property tax revenues as a percentage of GDP (RPT/Y) (Norregaard 2013). Second, we analyze total property tax revenues as a percentage of GDP (PT/Y), which includes both recurrent revenue and one-time levies such as property transfer taxes.

The determinants of property tax revenue levels in this analysis are measured by six independent variables. Typically, jurisdictions with a higher per capita GDP (Y/P) have a stronger base for property taxation. All other things being equal, higher income levels will lead to a higher-value housing stock and will be supported by a larger and more advanced commercial and industrial sector; in addition, the jurisdiction or territory will likely have a more formal and active property market, which may stimulate a larger volume of property transfers. Higher-income jurisdictions are more likely to have adopted a fiscal decentralization strategy for financing subnational governments, and the property tax is well suited for local-government taxation (Bahl and Bird 2018; Martinez-Vazquez 2015). Figure 1.1 shows the relationship between income levels and effective property tax rates.

The degree of urbanization (U) in a jurisdiction or territory signals a stronger property tax base. In many ways, land and property taxes are urban taxes, and property tax collections concentrate in the larger urban centers. About 38 percent of Philippine national property tax collections are raised in the metro Manila cities of Manila City, Quezon

Figure 1.1 Relationship Between Income Levels and Effective Property Tax Rates

Sources: IMF (2020, 2021); OECD (2021a); World Bank (2020); and supplemented by data from part 2 case studies.

Note: The numbers below each group of jurisdictions are the numbers of jurisdictions with data on recurrent property tax (number on the left) versus total property tax (number on the right).

City, and Makati; Jakarta accounts for about 43 percent of total Indonesian property tax collections; and Bangkok and Pattaya City collect 40 percent of Thailand's national property taxes. We also test the hypothesis that jurisdictions with larger populations will raise more from property taxation.

Rural land is typically subject to annual property taxes and taxes on land use transfers and property ownership transfers. The rural sector, particularly agricultural property, often receives preferential treatment in rate, valuation, or exemption levels. We measure variations in the potential for taxing rural land using the share of arable land (AL) of the total land and expect a positive effect on per capita property tax revenues.

The more effectively the government implements its policies, the more likely it is to realize the potential of the property tax base. The World Bank's indexes of government effectiveness include the rule of law—that is, perceptions of the extent to which people have confidence in and abide by the rules of society, including the quality of contract enforcement, property rights, the police, and the courts (Kaufman, Kraay, and Mastruzzi 2010). We include this index of rule of law (RL) as an independent variable.

The size of a jurisdiction should also be related to the level of property taxation because of the expected greater numbers of local governments and the expected greater degree of fiscal decentralization. We control for this effect by including population size (TP) as an independent variable.

Finally, as noted previously, jurisdictions with a tradition of highly centralized governance are less likely to have devolved significant revenue autonomy to subnational units of government. The absence of property tax competition among local governments and the presence of stronger enforcement by central governments and more government involvement in land management may lead to higher levels of property taxation and thus may impose heavier effective tax rates on land and land transfers. We include a dummy variable (Trans) to identify transition jurisdictions, which are those defined as such by the United Nations (former Soviet Union jurisdictions, jurisdictions of the former Yugoslavia, mainland China, and Vietnam).

Results

This multiple regression analysis explores two questions: How much of the wide disparity in property tax revenue performance can be explained with these six variables? Which of the six are statistically significant determinants?

The regression models presented here explain nearly half the variation across jurisdictions in both measures of the dependent variable. Although these models do provide useful information about patterns of revenue mobilization, they also suggest that about half the variation cannot be explained. This suggests that tax effort, the willingness to tax, is a major part of the story.

Table 1.3 presents the results for three specifications of this model for each dependent variable.

The results for the recurrent property tax (RPT/Y) in models I-III show that property tax revenues are significantly higher in jurisdictions with a higher per capita GDP² and a higher rate of urbanization. This result squares with expectations and with the findings of earlier work. Different specifications lead to the same conclusion about the strong influence of income and urbanization on the effective property tax rate but also show that, *ceteris paribus*, revenues tend to be higher in transition jurisdictions. Neither the arable land nor the rule of law variable was significant, the former perhaps because of the property tax preferences given to the agricultural sector and the latter arguably because of its high correlation with national income levels. The total population of a jurisdiction was not a significant determinant. This model explains 47 to 50 percent of the

Table 1.3 Multiple Regression Analysis of the Determinants of Variations in Property Tax Revenues

Variables	Dependent Variable: ln RPT/Y			Dependent Variable: ln PT/Y		
	Model I	Model II	Model III	Model IV	Model V	Model VI
ln Y/P	0.5418*** (0.1807)	0.5564*** (0.0975)	0.5659*** (0.0970)	0.2303 (0.1833)	0.5996*** (0.1124)	0.1748 (0.1845)
ln U	0.8535** (0.3800)	0.8296** (0.3329)	0.7517** (0.3290)	0.9525** (0.3724)	0.8284** (0.3532)	1.1704*** (0.3649)
ln AL	0.0319 (0.1012)	0.0914 (0.0888)		0.0875 (0.1049)	0.2304** (0.1002)	0.1609 (0.1011)
ln TP	0.0445 (0.0617)			0.1409** (0.0637)		
ln RL	0.2516 (0.6331)			2.0149*** (0.6441)		1.9214*** (0.6529)
Trans	0.5651** (0.2695)		0.5724** (0.2591)	0.6043* (0.3219)		0.5419* (0.3258)
Constant	-10.6559*** (1.3379)	-9.7247*** (1.0819)	-9.4021*** (1.0252)	-11.6495*** (1.3531)	-10.2287*** (1.1094)	-9.8329*** (1.0927)
Observations	112	114	115	127	128	127
Adj. R-squared	0.4804	0.4597	0.4613	0.4711	0.4193	0.4541

Note: RPT/Y = recurrent property tax as a percentage of GDP in a given year; PT/Y = total property tax as a percentage of GDP in a given year; Y/P = GDP per capita in a given year; U = urbanization; AL = arable land; TP = total population; RL = rule of law; Trans = transition jurisdictions. Models are estimated by the ordinary least squares method on cross section data for the latest year during 2016–2018 for which data are available. Data are expressed in logarithms. Panel data were not used because many years were missing. Standard errors are in parentheses.

*** $p < .01$, ** $p < .05$, * $p < .1$

variation in recurrent property tax revenue levels, suggesting that much of the variation is due to lower levels of tax effort.

When the dependent variable is specified as total property tax revenues (PT/Y) and includes property transfer taxes, the results are similar in that higher levels of revenue are associated with higher levels of income and urbanization. In table 1.3, the results for total property tax revenues and recurrent property tax revenues are not strictly comparable because the sample size for total property tax revenues is significantly reduced owing to lack of data. Higher revenue being associated with higher income and urbanization is consistent with the hypothesis that the level of annual property tax revenues is driven by the economy of cities. Interestingly, the arable land variable is significant, suggesting a significantly greater role for land use changes in revenue mobilization. Moreover, these results show that, for a given level of income and urbanization, transition jurisdictions raise more revenue from land and property taxes.

The results of this statistical analysis are helpful in thinking about the future of property taxation and property tax reform. They are consistent with a conclusion that this tax is now structured to suit higher-income jurisdictions with more developed business and residential infrastructures. In effect, it is an urban tax on the value of land and improvements of the residential and commercial or industrial sectors in urban areas and, to a lesser extent, a tax on land in rural areas.

Often missed in the analysis of the determinants of property tax revenue performance is recognition that the part of the tax levied on transfers of ownership and land use is a large share of property tax revenues in many jurisdictions. Because transfer taxes are often imposed by a higher level of government than are recurrent property taxes, their effective tax rate may be higher and their enforcement better than that of recurrent property taxes.

Implications

These results are consistent with three general directions for reform:

- Only about half the interregional variation in the revenue productivity of property tax is explained by these models. As we argue in the next two chapters, much of the rest is due to an unwillingness to raise effective tax rates. Political leaders know what to do to produce more revenue from the property tax; they just do not want to do it. Consistent with this finding, the chapters in part 2 lay out reform programs that would require discretionary actions, such as building databases that assist in identifying properties, increasing nominal tax

rates, reducing exemptions and preferential treatment, updating valuations, and seeking stronger enforcement. These problems and options are explored in chapters 2 and 3.

- The property tax revenue base is heavily concentrated in cities, and the property tax structure should be rethought so as to give urban governments more incentive to increase effective tax rates. This might include more discretion to use development charges and land value capture approaches and possibly even reductions in intergovernmental transfers to cities.
- The reliance on one-time versus annual property taxes is of some concern in Asian jurisdictions. But the concerns can be turned into advantages by a better merging of policies and administration of the recurrent property tax and property transfer taxes. This is further discussed in chapters 2 and 3.

Notes

1. Fiscal space refers to the ability of a government budget to expand so that government resources are sustainably sufficient to fund a desired purpose. Fiscal space depends on tax capacity, or the size and structure of the tax base.

2. Because these are log-log form regressions, the coefficients are interpreted as elasticities. For example, when a jurisdiction's income elasticity is 0.5564 and we assume a 1% property tax revenue share of GDP, a 10% higher level of per capita GDP indicates that the jurisdiction's property tax share of GDP would rise from 1% to $1\% + (10 \times 0.5564\%) = 1.05564\%$.

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