

CHAPTER 2: Property Taxation and Rating System in Low-Income Neighbourhoods: A Review

The previous chapter gave a brief discussion concerning the challenges and possibilities of the property taxation and rating in Epworth. This chapter seeks to review literature around the concept of property taxation and rating system in low-income neighbourhoods. It also discusses the key theoretical arguments from diverse literatures demonstrating methodological ways to achieving the study aims, and solutions to research questions raised in the research background section in chapter one. The chapter presents empirical studies from different scholars which are possible on the implementation of various ideas in actual situations being experienced by different stakeholders. The chapter is organised into three major sections: The first section is the conceptual framework, including the definition and fundamental concepts of property taxation and rating system within the scope of the study. The second section is on discussions of key theories applicable to the study. The final section provides details on arguments on relevant literature on each and every objective of the study making reference to international and local case studies. The conclusion section sums up the chapter.

In light of this study, the conceptual framework described in figure 2 shows how land polices, land registration, land records and property taxation/rating system are interrelated to each other. This study seeks to address the problems and possibilities of property taxation and rating system in Epworth because in Zimbabwe there are many low-income neighbourhoods where there are missing land records, land registration, lack of inventory of rights to land and functional property rating and taxation system (Moore, 2013). Since the outcome of land registration is as a result of the establishment of updated land records by developing a land registry/cadastre and issuing titles to the rightful owners to have a functional property taxation and rating system.

As land records are established to save many purposes including property taxation, using records to collect property taxes and rates that will bring more efficient and effectiveness of the property taxation system as an income generating tool for Local Authorities (Nengeze, 2018). The full coverage of information on land enables tax authorities to execute efficiency property

taxation activities to collect more property-based revenues. In contrast, if land records are not correct, complete, updated or shared, their relationship with property taxation and rating system is likely to be broken or a gap is increasingly created between the two concepts as evidenced by the case of Epworth.

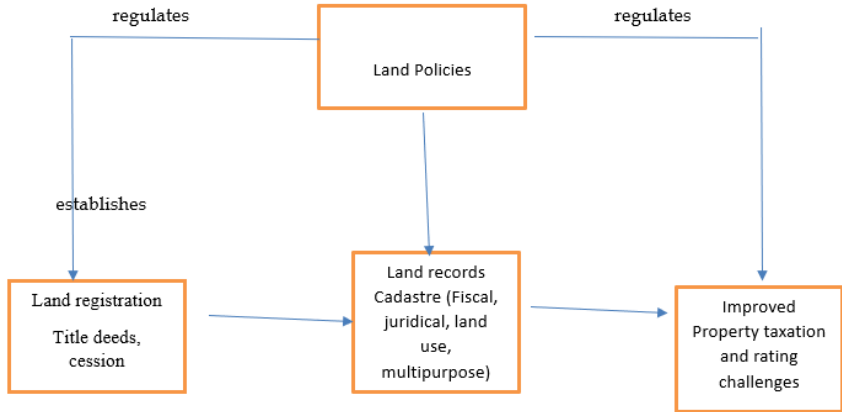


Figure 2: Concept of Improving property taxation and rating system; (Author, 2022)

The property tax is a fine municipal tax however, it is far from ideal because in comparison to the various revenue bases accessible to local governments, it is believing that property tax and rates deserve excellent a proper functional system (McGuire and Dana 2019). The key theories supporting this study includes the traditional tax theory, public choice perspective theory and immovable property taxation theory. These theories explain further the meaning and need of a property taxation and rating system as they have supporting arguments with regards to what, how properties are taxed with the perspective of the public in making decision whether to pay tax or not which helps local authorities to generate more property related revenue.

Due to the public choice strategy for resolving public finance issues, attention has shifted to another aspect of tax systems: their role in encouraging effective decision-making in the public sector. The provision of a precise set of signals, or "tax-prices," that inform local taxpayers and voters about the costs

of public services on which they must make their decisions, is one of a tax system's most crucial roles, according to this paradigm (Monkam and Moore, 2015). This suggests that in a local setting, the local tax system should produce tax bills that are simple to access and give a realistic indication of expenses, so that taxpayers can understand the financial commitment required for planned public expenditure programs. Taxes that are primarily concealed or do not represent the cost of local services are unlikely to give the information required for sound budgetary decisions (Arnold, 2008). If a local government funded its budget with a local company income tax, for instance, citizens would have little knowledge of the total cost of local public services to their houses. Hidden taxes and unidentified tax incidence are not conducive to prudent financial management. This perspective suggests that local property taxes are a dependable source of revenue for local governments (Barrios *et al.*, 2019). Property tax bills are prominently displayed that raises voter knowledge of spending related to municipal initiatives.

Thus, the local property tax appears to perform effectively in its public-choice duty of presenting citizens with a relatively accurate set of tax-prices. However, there is one significant caveat renters. Owner-residents receive frequent property tax bills that show the cost of municipal services to them, whereas occupants of rented properties do not receive such invoices (Bahl, 2009). The current property tax administration sends tax invoices to the owner of the unit, not the resident, thus renters never know the actual amount of property tax charged on their house. This does not, of course, mean that tenants are exempt from paying property taxes (Best *et al.*, 2015) There is reason to suppose that property taxes on rental units are (at some point) passed on to renters. The argument is that renters are not subject to the same conspicuous tax rates as owner-occupants.

Additionally, there is strong evidence that tenants pose as non-payers of local property taxes. They seem to support public spending initiatives considerably more than they would if they owned their own homes and knew exactly how much in property taxes they were responsible for. Further research should be done into how this "renter delusion" affects local government spending (Barrios *et al.*, 2019). If it is large, there may be a strong argument for changing

tax administration such that renters, rather than landlords, get property tax invoices.

As alternatives, two primary tax bases are available: sales taxes and income taxes. Both, however, have significant drawbacks as the principal source of tax collection in a country with numerous tiny local governments (Blochliger, 2015). The basis of a local sales tax is likely to differ significantly amongst local authorities. Residential communities would have tiny bases and would need to establish a somewhat high rate to achieve the necessary income. Significant sales tax differentials would result in costly cross-border excursions as customers sought to acquire products and services in low-tax jurisdictions (Bird and Slack, 2002). Furthermore, sales taxes do not score well on the fairness or ability-to-pay criterion and they fail to meet the public-choice requirement of presenting the people with accurate and visible indications of the costs of public initiatives (Brockmeyer *et al.*, 2020). Although most state and local income taxes are not especially progressive, income taxes have a lot more appeal on equality grounds. They also have the benefit of being visible however, such as sales taxes, face the mobility issue to some level (Bird and Slack, 2002). A jurisdiction that chooses unusually high-income tax rates risks discouraging the admission of new households, particularly those with higher-than-average earnings who would face relatively substantial tax payments.

More broadly, there is something to be argued for avoiding over-reliance on a single tax tool throughout the economy as a whole. Income taxation is the principal source of revenue for the federal and many state governments, and there is growing worry that marginal tax rates on income have become sufficiently high to discourage various types of economic activity (Barrios *et al.*, 2019). By avoiding the substantial use of income taxes and instead focusing on the revenue source that has historically been its own the property tax local government may be able to enhance the overall tax system. User fees that are a form of benefit tax and act as a kind of market test for service supply, are another alluring source of municipal income. The problem is that their applicability is limited. It is possible to charge for the use of some public services, like garbage collection, but it is much more challenging to do so for

collectively used services, like police protection and municipal roads. Fees can be used to fund a limited number of local services, but they cannot be utilised to replace the requirement for a significant local tax.

For local fiscal choice to be meaningful, local citizens must suffer the consequences of their decisions to modify levels of local services. The public must be able to balance the advantages of government initiatives against their costs. Local governments must have their own revenue systems with some control over tax rates for this to happen (Bird and Slack, 2002). With a correctly constructed system of equalising intergovernmental grants, there is certainly some possibility for minimising budgetary discrepancies among jurisdictions. However, the funds should not be so big that they undermine local fiscal sovereignty, and they should be in the form of a lump amount so that municipalities incur the cost of their budgetary decisions on the margin.

There are two groups in the considerable literature on moveable property taxes. The first is focused on the taxes a certain type of real estate, such owner-occupied residences, is subject to over the course of its existence. When compared to other assets and consumer commodities, it highlights the inefficiencies brought about by property taxation in house investment and consumption decisions (Brzeski *et al.*, 2019). The second strand looks at the advantages and disadvantages of a particular tax on immovable property, such as periodic property taxes, at a particular moment in time. The literature assesses taxes in terms of the distortions they cause, their effectiveness and efficiency for economic growth, their equality and fairness, their problems with fiscal federalism, and their barriers to political economy.

Real estate can be developed for investment and use as a business input by a company, for investment and own use by a firm, or for investment and own use by an owner-occupier. According to the optimum tax theory, a variety of taxes would be necessary to cover the many uses of real estate. The task is made more difficult by the possibility of use alterations over time. There are two ways that owner-occupied residences might satisfy their own need such as a home often serves as a household's biggest asset and provides access to a variety of services. If the first viewpoint is accepted, owner-occupied housing should be taxed similarly to other assets to achieve neutral taxation. If the

second viewpoint is accepted, owner-occupied housing should be taxed similarly to other durable consumer goods.

Accordingly, taxing the net return of owning a home would require taxing imputed rent (fictitious rental income) and capital gains from selling the property while allowing for the deduction of costs like depreciation and maintenance costs and interest payments in the case of a debt-financed purchase. This would be necessary for owner-occupied housing to be tax neutral with respect to other assets. In reality, as previously mentioned, the way that housing taxation is currently structured leaves imputed rents and capital gains for primary residences largely untaxed while still allowing for the deduction of mortgage interest. Thus, compared to the efficient level under neutral taxation in the euro area, the user cost of housing capital is cut by about 40%, resulting in an excess consumption of housing services equal to about 30% of financial asset holdings in family portfolios (Fatica and Prammer 2018). If housing is deemed a durable consumer good, it should be liable to VAT. In actuality, most EU members impose a VAT on new building. However, the initial acquisition cost may not be an accurate representation of the stream of services for particularly durable goods like homes. Therefore, an annual tax based on the consumption value of the property is a more effective way to raise money, according to Mirrlees *et al.* (2011). It is applicable to the current housing stock and takes into account changes in the value of housing services. In reality, ongoing property taxes or imputed rent taxation that accurately reflects the property's (consumption) worth would accomplish the task successfully.

Most of the literature on immovable property taxation focuses on one specific type of tax and assesses its merits and drawbacks with respect to i) efficiency and effectiveness considerations, ii) fairness/equity considerations, iii) fiscal federalism considerations and iv) political economy considerations (Duflo, 2017). While property transfer taxes have recently drawn increased attention, particularly as a potential instrument for macro-prudential policy, recurring property taxes on residential property have been the subject of most of the research. Recurrent property taxes have a long history because they are transparent, relatively simple to administer, suitable as a reliable source of income for local governments, and economically efficient (Everest-Phillips,

2009). International organisations like the EU and OECD keep calling for taxes to be changed from labour taxation that causes distortions to property taxation for reasons of efficiency and equity. Indeed, recurrent property taxes are usually found to be among the least detrimental taxes for economic growth (Arnold 2008), while at the same time they respect equity objectives (Courne de *et al.*, 2013).

However, in the majority of the member states, property taxes are sometimes area-based and instead are assessed based on old cadastral values rather than on current market values. While this reduces the possibility of tax-induced underinvestment in housing and also stabilizes member state property tax collections, this very aspect of the property tax system has come under harsh criticism. First, because market changes are not taken into account, the tax has a limited ability to reduce the boom-and-bust cycle of the real estate markets and, as a result, the oscillations in the economy (Everest-Phillips, 2009). The tax is also not regarded as progressive or equitable. Others who have seen a relative increase in wealth due to the market or who now benefit from greater neighbourhood amenities than they did when the cadastral value was established pay the same property tax as people whose property values have remained the same. Since a property tax is not based on current income, it is especially onerous for households with low-incomes and high housing costs, such as senior households (Norregaard, 2013).

To fully realise the theoretical advantages of a recurrent property tax, economists have repeatedly suggested reforms due to the practical shortcomings of the recurrent property tax. Among the most frequently expressed reform necessities is the need to update the tax base to market values to increase the fairness of the tax (Norregaard, 2013; Slack and Bird, 2014; Blochliger, 2015). The problem of equity/distributional concerns might be solved by making the tax system more progressive, for instance by providing low-income households with exemptions or property tax credits depending on their income. Retirement tax breaks would increase older households' capacity to pay their debts (Slack and Bird, 2015). The OECDII has proposed a more radical strategy that would tax immovable property via the income tax system by taxing imputed rents together with other types of income.

Although there are numerous reform suggestions, there have only been a few numbers of significant recurring property tax reforms. Political economy concerns and fiscal federalism frameworks are two potential causes of this. Any change to the property tax design may necessitate changing the intergovernmental transfer schemes because recurrent property taxes are typically devolved to sub-central governments (Blochliger, 2015; Norregaard, 2013). The property tax remains a presumptive tax, based on projected (market) values, even if a well-structured reform allayed some political economy concerns, such as perceived regressivity and injustice owing to outdated market values or problems for households with little liquidity. Any change would produce winners and losers since property taxes are capitalized into property values; often, losers are more vociferous, leading to "tax revolts" (Blochliger, 2015). Slack and Bird (2014) addressed the lack of support for property tax reforms by arguing that political factors frequently take precedence over economic principles, favoring stability above equality and efficiency.

The key theories that have been discussed in this study are Public Choice theory, alternative tax theory and immovable property taxation theory. These theories are important since they highlighted that any economy depends on taxes to function properly, as taxes typically generate the vast majority of the revenue that a government can use. It typically calls for a variety of crucial abilities, such as the ability to interpret and analyse legal documents, perform calculations, and give counsel (Blochliger, 2015). Taxation is a necessary part of government function because without them, it is impossible for them to advance the general welfare and well-being of the population in the country. The goal of conducting tax research is to assist you in accurately defining the tax impact or effect of various tax positions. The outcomes assist business and/or clients in making wise choices regarding tax compliance, planning, and strategies.

As described by the theories taxation involves the collecting of levies, taxes, or charges from citizens, businesses, or other entities that are considered taxable under the laws and regulations by a revenue body. Within the boundaries of a country, state, or area, taxes have an impact on the majority of people in the globe. A third viewpoint holds that taxes are costs incurred by citizens to make claims against the state, contrary to claims made by some

that taxation is theft by the state and that it is a moral obligation (Pomeranz and Vila-Belda, 2019). These theories indicate that taxpayers are responsible for paying taxes on their income, their consumption, and the goods they create or transport. In addition to serving a fiscal function, taxes may also be used to distribute resources throughout society, redistribute income, and level out economic instability to solve concerns with inflation, unemployment, and economic growth (Oliviero *et al.*, 2019). Most social sciences have performed research on taxes and theories explained that legal expert's changes to the law, economists focus on the economic effects of taxes within the parameters of models, accountants organise and measure taxes, and behavioural economists and psychologists try to forecast human behaviour in tax experimentation (Fatica, and Prammer, 2018).

Besides that, the public choice theory provides a clear understanding of fiscal procedures has increased as a result taxes have long needed a critical viewpoint on its effects on people, its social influence, and how it is moulded by culture (Oliviero *et al.*, 2019). Additionally, these theories show how subjects of taxes residents, enterprises, communities, and societies negotiate their connection to the state and to other beneficiaries by their perspective on and practices of taxing. Also alternative tax theory focused on the collecting side of taxes that offers a diverse setting for concerns like governance, policymaking, and digitization. The function of tax advisors, who frequently counsel individuals on tax reduction, also raises questions about their complex relationship with society (Pomeranz and Vila-Belda, 2019). Through the concepts of social contract, governance, fiscal citizenship, reciprocity, and redistribution, anthropologists may clarify and demonstrate the relationships that taxes create between different parties (Barrios *et al.*, 2019).

According to Youngman and Malme (1994), the phrase "property taxation" refers to the far more comprehensive system for taxing land and structures. Taxes on tangible personal property, such as inventory, vehicles, and company equipment, are often referred to as the. A yearly tax on the ownership or use of immovable property (such as land and/or buildings) is known as property tax (Hill and Hill, 2005). Property rating is distinctive because it enables local governments to choose the amount of desired income and then divide this among all eligible taxpayers using a locally calculated

rate impost, according to Emeny and Wilks (1984). According to Mikessel (2003), the fact that property taxes are dependable, stable, and independent of municipal authorities provides them several benefits over alternative types of local governance. Examples of property taxes listed by Franzsen (2003) include property rates, rent income tax, stamp duty, gift tax, inheritance tax, capital gains tax, and other levy types based on the proceeds from the sale of real estate (Franzsen, 2003).

In America, property tax is the oldest tax and the only significant tax on landed wealth, a significant portion of most American households' housing expenses, and the most important income source for local governments (Norregaard, 2013). It is also becoming increasingly constrained by state legislation, charges for communal land, also known as the development levy, are imposed on them based either on the value of the land or on a per-person basis. Zimbabwe's property tax system is as diverse as its local government structure and there are now four types of property taxes in effect these include urban rates, rural rates, additional charges, and community land rates (Fatica, and Prammer, 2018). Urban rates are value-based taxes levied on land and improvements in urban council districts, and designated land in rural council areas. Rural rates, also known as the Land Development Levy, are area-based taxes that apply to rural land. Supplementary charges are levied on users of immovable property in any incorporated area and may be assessed based on property value or size at the discretion of the appropriate local council (Slack and Bird, 2014).

The historical background of property taxation has existed in various forms since civilization as source of wealth on land and its proceeds and before the existence of a monetary system, taxes were paid by a percentage of crops raised (Poghosyan, 2016). The phrases "tax assessor" and "tax collector" are sometimes used interchangeably since historically, the tax assessor and collector were basically the same person (Webster, 2019). Some of the most common forms of taxation over the years have been poll taxes, commodities tariffs, and property taxes on the value of land, buildings, and other personal property. The remainder of the ancient world, including Egypt, Babylon, Persia, China, used property taxes (Pomeranz and Vila-Belda, 2019). The primary objectives of early property taxes were land and its productive value. All personal property, including buildings, land, and animals, were valued

using a general property tax. All personal property, including intangible assets, and ownership, quantity, and sorts of animals were accurately recorded by the assessors. Voters instructed the town council to publish and disseminate a comprehensive list of all taxpayers, together with the amount and basis of their taxes, during an early town meeting (Pomeranz and Vila-Belda, 2019). Property taxes have been a significant source of income for most governments since the dawn of civilisation. Taxes are what we pay for a civilized society, according to Peter Brown and Moira Hepworth's observation from 2000: "There have been good taxation policies created by admirable assessors during Roman emperors.

In the 21st century the modern assessors are mandated to develop more fair and accurate assessments than most of our predecessors, the pressure to have a fair property tax system has always existed (Poghosyan, 2016). It is not enough to have an equitable tax system; the taxpayers need to under fair and equitable. The tools for everyday decisions have significant consequences on residential and commercial taxpayers (Oates and Wallace, 2018). There is need to have a balanced view that considers obligations to both the taxpayers and their jurisdictions and people make the difference in making the system better or worse (Oliviero *et al.*, 2019). The best means to develop an understanding of improvements in assessing is to pursue education of the property taxation system. One of the earliest and most prevalent types of taxation is property tax, also known as property rate, land value tax, land tax, or real estate tax. According to Dye and England (2009), it is as old as civilization and aided in the expansion of the Egyptian and Roman Empires.

The purchase of immovable property is subject to a property transfer tax in almost all European Union members and some of the applicable property taxes are shown in Figure 3. Property tax is usually based on a stock, namely the value of the property, typically measured by the transaction price (Poghosyan, 2016). The maximum statutory tax rates reach up to 12.5% of the transaction price in Belgium, with various exemptions and deductions for first time buyers, permanent residences or small/inexpensive property (Oliviero *et al.*, 2019). New buildings are subject to VAT based on the transaction price in most EU member states that sometimes replace (low) property transfer taxes. In addition, all EU member states levy some kind of

stamp duty linked to the legal recognition of the immovable property transfer and its registration (Slack and Bird, 2014).

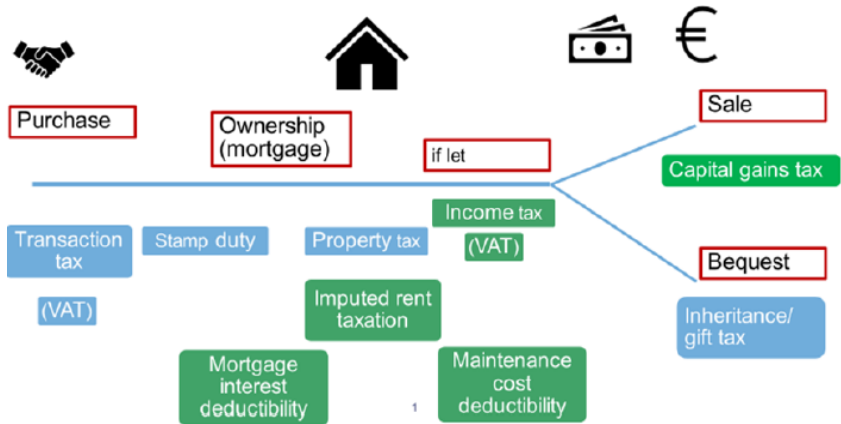


Figure 3: Taxation of immovable properties; Source: (Poghosyan, 2016).

Besides that, if the owner rents out the property and earns actual rental income, the case for a tax on the actual flow of rental income is clear cut. This income is subject to some kind of income taxation in Zimbabwe and other countries. If a private purchase of the immovable property is financed by a mortgage, mortgage interest rates are at least partially deductible as cost associated with the purchase of the property (Johannesson-Linden and Gayer, 2012; Fatica and Prammer, 2018). The sale of the immovable property is generally subject to a capital gains tax, where the difference between the sale and the overall purchase price is taxed in almost of countries as it is regarded as the major income stream of local authorities (Moore 2004; Fatica and Prammer, 2018). At the same time, those member states which tax the profits, allow for generous exemptions for the main residence. In Zimbabwe, capital gains on the first sell of the property, also being a resident, also if you are above the age of 55years ones is liable to tax exempt subject to a minimum time of tenure (2-5 years) or provided that the capital gains are reinvested in the acquisition of a new main residence (Fatica and Prammer, 2018). If immovable property is transferred charge-free in the case of an inheritance or gift, the transfer is subject to inheritance/gift capital gains tax is also exempted. Even if a country does not apply a general inheritance/gift tax, the

cost-free transfer of immovable property might still be subject to taxation (Slack and Bird, 2014).

One of the earliest types of taxes is the tax on land. Urban councils often rely on user fees (for services like housing, water, sewerage, and trash) and property taxes, sometimes known as rates, for the majority of their funding. Therefore, the efficient collection of land taxes is essential to the continued existence of cities. Taxation can be used to reclaim funds used for urban service finance and infrastructure development (Chirisa, 2013). Unless land taxes are avoided, cities are falling farther behind in providing for their steadily expanding populations (Brunori, 2004). As a result, taxation has replaced other traditional means of funding local government in today's cities. When evaluating any type of taxes, it is vital to consider five factors: equality, economic efficiency, administrative feasibility, yield, and political acceptability (Afrodad, 2011). The patterns of land use and development may be significantly impacted by these parameters, directly or indirectly. This is due to the fact that various tax rates on land and buildings can have the same impact that is a high tax on land discourages growth and a lower effective rate on land compared to buildings can aid in the preservation of green spaces around urban centres (Sirken, 2018). More specifically, the worth of the property and the improvements done thereon determines the taxes that urban governments collect.

Racial tensions have been shown to have diminished over time. This may be somewhat explained by the fact that some white people left the nation, initially because they detested living under a black administration and then because of the socioeconomic hardships brought on by the same government (Chirisa, 2013). A significant number of black people gradually ascended the social mobility and political ladder to reach the middle class or wealthy status. As a result, many of them have purchased homes in the suburbs that were formerly exclusively for white people. Additionally, this has led to a social divide in metropolitan areas that is now evident along lines of wealth (Brunori, 2004). After the destruction of the poor's homes in low-income residential areas in 2005, the number of the poor moving into wealthy neighbourhoods to live in now-rented housing in the former servants' quarters significantly increased, possibly motivated by some fraternizing appreciation of fellow Africans or by a desire to earn a living and maintain a

high-class status in society (Afrodad, 2011). In general, middle-class or wealthy neighbourhoods are highly costly to live in. Low-income residential owners must also pay supplemental fees, while the space is taxed in the form of rateable charges called rates (Chirisa, 2013). As a matter of principle, renting out space in high- and middle-class residential areas is a way to supplement the income that is used to pay property taxes.

In Zimbabwe, the local government taxation system comprises, among other things, the collection of money through rates, rentals, license fees, service fees, and parking fees. In addition to property taxes, Zimbabwe also uses licenses (for trade, hawking, practicing, etc.), rates, rentals, and levies as forms of taxation (Sirken, 2018). However, this is insufficient to cover the costs of the services they are supposed to offer. It is necessary to find more funding that can only come from taxes or grants from the federal government (Chirisa 2013). The establishment and operation of local authorities are governed by the Urban Councils Act (Chapter 29:15) and the Rural District Councils Act (Chapter 29:13). Urban areas in Zimbabwe are divided into industrial, commercial, and residential districts. These various locations are subject to distinct taxing regimes. According to the Urban Councils Act, the valuation of properties prepares the way for the collection of rates and mentions the worth of land and improvements (Sirken, 2018). Sewage, housing, and water fees are examples of user fees that are required for the repayment of capital-related loans. There are internal financing options available. Section 290 of the Urban Councils Act also authorises short-term loans from banks and building societies in addition to the grants, loans, and overdrafts already stated from the federal government and contributors (EEA, 2012). The sources, however, lost some of their importance to urban finance as a result of the economy's fall starting in the middle of the 1990s. Taxation by local governments and other means of income production, such as parking meters and beer halls, complement one another (Chirisa, 2013).

The analysis has shown that the state ultimately owns the land. This justifies charging the state a fee that is in the form of various taxes. The criteria for "extracting" the land tax are based on the land's use (residential, commercial, institutional, or otherwise), size, and type of development currently taking place (Chirisa, 2013). A tax is classified as either residential or non-residential under the Urban Councils Act. Residential buildings are those that are

occupied by inhabitants for residential use and are defined by zoning, town planning schemes, and local plans that specify the minimum stand sizes of the relevant locations (Brunori, 2004). The local government is in charge of determining the value of the land. This is typically the same throughout a region (EEA, 2012). This uniformity can be explained by the fact that various areas typically share a location or have similar average land sizes. The local government defines the prospective yield and bases the land charges or prices to be imposed on it, paying attention to the zoning requirements (Adamišin and Tej, 2012). Minimum stand sizes are established based on zoning. One minimum stand size is equivalent to one unit that is the term used to describe the minimum stand size. Larger stands will cover the cost of the additional units they get. The fee is typically determined by how much money the local government wants to raise in a particular area. Typically, only the land is charged for residential areas; no improvements are included for the rating processes as its value is contained in the land, this means that the zoning does not consider the market value of the property for the rating process of residential properties (Chirisa, 2013).

On the other hand, correct assessment is done for non-residential land uses, such as industrial, commercial, churches, crèches, service stations, hotels, government buildings, and flats (the latter of which is taken into account due to its commercial element). Land and improvements on land are included in the appraisal (Adamišin and Tej, 2012). The City Treasury Office will see to it that the billing is done correctly. The units are created by the valuation team, and the fee is calculated based on the financial worth of the improvements and land. Despite working independently, the treasury and valuers complement one another's efforts by helping to generate revenue from improvements and land (Brunori, 2004). After appraisal, land and improvements fall within Harare's and the rest of the nation's jurisdiction for urban taxation. Because the rate is a proportion of the building valuation, valuation determines the rate (taxes), and taxation in Harare is thus determined as a percentage of the building (EEA, 2012).

Therefore, there is no tax if a property has no worth. Various valuation techniques, including the investment method, comparison approach, and profit method, are used. Diverse contexts call for different uses of the methods (Adamišin and Tej, 2012). Overall, there are connections between planning,

valuation, and the treasury. The first action that puts everything in motion and serves as the framework for the other two is planning (Afrodad, 2011). It provides for the physical environment's disposition. Planning produces land uses that are then divided into residential and non-residential categories using zoning, the bulk factor, usage, and location. Due to these considerations, multiple valuation models may be utilised depending on whether the property is residential (thus the comparative value approach) or non-residential (hence the ability to apply investment and profit models, among others). The municipal treasury then steps in to get the values provided by the valuers and multiplies these values using its own ratios and predetermined multipliers to determine the rates to be levied against users (Brunori, 2004). Planning determines the size factor, use, location, and position of the land and building artefacts.

Property taxes are generally levied on all types of properties residential, commercial, and industrial, and on farm properties (Piracha, and Moore, 2015). Sometimes certain classes of property, or property owner, or uses of property, are exempt and sometimes land only is taxed. The first discussion of the question of taxing land vs. land and improvements and then consider exemptions.

Some countries tax only land and a few tax only buildings, most tax both land and buildings or improvements, usually together but in some separately and some also tax even machinery (McCuskey and Franzsen, 2016). In most of the countries studied, the property tax is levied on land and improvements. In some countries, however, only the land portion of the property is taxed (Slack and Bird, 2014). In Tanzania, unusually, only buildings are taxed. In countries where both land and improvements are taxed, the land portion is sometimes taxed more heavily than improvements (Duflo, 2017). As mentioned earlier, the taxation of land only potentially may improve the efficiency of land use. In principle, a tax on site value in effect taxes location rents (the returns from a particular location regardless of the improvements to the site). Since improvements to land (such as structures) are not taxed, the owner has an incentive to develop the land to its most profitable use (McCuskey and Franzsen, 2016). Compared to a property tax on land and buildings that discourages investment in property, a site value tax thus encourages building and improvements.

Assuming land is in fixed supply (the supply of land offered for development is unresponsive to price changes), a tax on land falls on landowners and cannot be shifted to others. Increased site value taxes will thus be capitalized into lower property values (Duflo, 2017). Since the tax is borne proportionately more by owners of land than is the case with a tax on both land and improvements and since landownership is unequally distributed, such a tax should be more progressive (borne relatively more heavily by high-income taxpayers than low-income taxpayers) (Everest-Phillips, 2009). Site value taxation thus scores well in terms of both efficiency and equity of the property taxation system but it requires lot of administrative works in updating all land related records. Accurate land valuation presents a challenge to assessors because most urban real estate sales combine the value of land and improvements (Fatica and Prammer, 2018). Site value taxation requires the subtraction of the value of the improvements from the value of the property as a whole to derive an assessed value for the land. For this reason, some consider that such taxation is unacceptably arbitrary.

On the other hand, some authors have argued that valuation of land alone is probably easier than valuation of property (Fatica and Prammer, 2018; Netzer, 1998). Instead of assessing the value of land and improvements and then subtracting the value of improvements, site values per square meter could, it is argued, be estimated directly from sales and demolition records. This debate has not been resolved in the literature with respect to developed countries. But it must be remembered that the original arguments for site value taxation by George (1879) were made in a context in which cities such as San Francisco were growing rapidly where land that was worthless one day was worth a fortune the next owing to the influx of population. Along these lines, it has sometimes been suggested that valuing land separately may be less of a problem in developing countries in which urban areas are growing rapidly (Bahl, 1998). In many such countries, land and improvements are in practice assessed separately in any case, with land value being estimated on the basis of a land value map and building value in accordance with construction cost tables.

Moreover, even if assessment is done separately, if the rate is uniform and taxpayers can only appeal the total value, however, the division between the two components becomes arbitrary. Another problem has to do with the

potential revenues that can be collected from a site value tax (Fischel, 2016). Since the tax base is considerably smaller than the value of land and improvements combined, site value taxation can only produce comparable revenues at very high rates of tax (Fatica and Prammer, 2018). This is a problem both because higher rates create greater distortions and because it is likely to be politically easier to levy a lower property tax rate on land and improvements than a higher tax rate on the land portion only (Bahl, 1998).

As discussed in the in the text some properties are exempt from the property tax base. Exemptions may be based on various factors such as ownership (such as government-owned property), the use of the property (such as properties used for charitable purposes), or on characteristics of the owner or occupier (Fischel, 2016). In some countries, exemptions are granted by the central or state government; in other countries, exemptions are granted locally; in some, both levels can grant exemptions. Although there is great diversity in the use of exemptions, some properties are exempt in most jurisdictions. For example, property owned and occupied by government is generally exempt from property taxes. Other property types that are often exempt include colleges and universities, churches and cemeteries, public hospitals, charitable institutions, public roads, parks, schools, libraries, foreign embassies, and property owned by international organisations (Fischel, 2016). In some countries, agricultural land and principal residences are also tax exempt and, in some instances, governments make payments in lieu of taxes on their properties (Pomeranz and Vila-Belda, 2019). These payments in lieu are generally negotiated between governments and are often much less than the property taxes would be. In Canada, for example, it is the federal government, and not the taxing authority that determines the values and rates to be used in the payment in lieu calculation.

Exemptions have been criticised on a number of grounds. First, to the extent that people working in government buildings or institutions use municipal services just as workers do in other buildings, they should be taxed (Bahl and Linn, 1992, p.100). The differential treatment means that owners/managers in payment in lieu or taxed properties face higher costs than owners/managers of exempt properties. This differential will have implications for economic competition among businesses and between businesses and government (Kitchen and Vaillancourt, 1990). The differential tax treatment affects

location decisions, choices about what activities to undertake, and other economic decisions. In any case, when property tax exemptions are granted for any reason, all exempt property should nevertheless be assessed in the same way as other properties so that the value of the exemption is known (Fischel, 2016). Furthermore, payments in lieu of taxes should be based on the assessed value and should reflect the taxes that could have been collected. Only when this is done which is almost never the case in practice will the full cost of land use for a particular purpose be taken into account in resource allocation decisions.

Once the taxable base has been determined, the next step is to determine the value to which the tax rate is to be applied. In general, two distinct assessment methodologies are used for property taxation: area-based assessment and value-based assessment, with the latter being divided into capital and rental value approaches (Youngman and Malme, 1994; McCluskey, 1999). In addition, some countries use a system of self-assessment which is shown by figure 4 below.

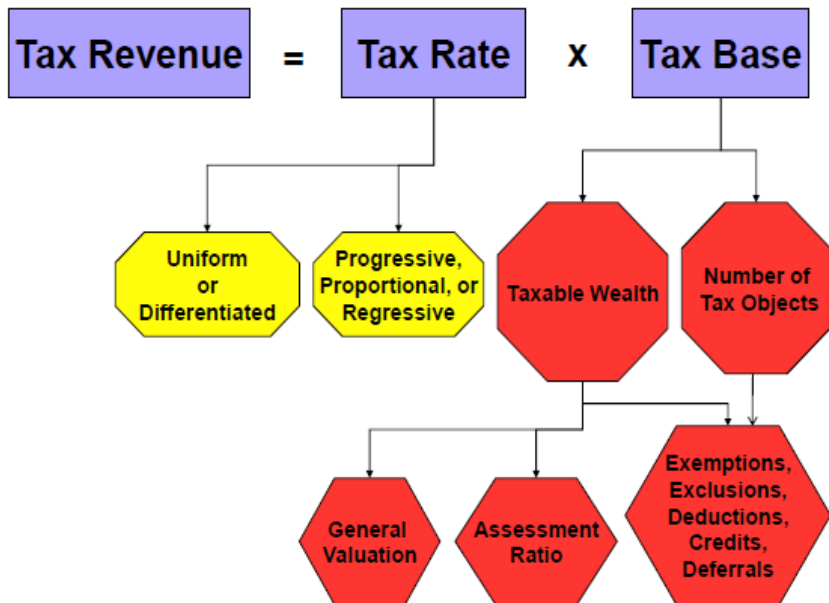


Figure 4: Property Tax Assessment: Source (Franzsen, 2007)

Under an area-based assessment system, a charge is levied per square meter of land area, per square meter of building (or sometimes “usable” space), or some combination of the two. Where measures of area are used for both land and buildings, the assessment of the property is the sum of an assessment rate per square meter multiplied by the size of the land parcel and an assessment rate per square meter multiplied by the size of the building (Goodfellow, 2015). The assessment rates may be the same for land and buildings, or they may be different. For example, a lower unit value per square meter might be applied to buildings to encourage development. Hamilton (2019) noted that a strict per unit assessment results in a tax liability that is directly related to the size of the land and buildings. With unit value assessment, the assessment rate per square foot is adjusted to reflect location, quality of the structure, or other factors (Johannesson-Linden, and Gayer, 2012). Market value has an indirect influence on the assessment base through the application of adjustment factors. For example, the assessment rate per square meter might be adjusted to reflect the location of the property within a particular zone in the city.

Although the specific location of the property within the zone is not taken into account, properties in different zones will have different values. The adjustment factors are derived from average values for groups of properties within each zone and do not reflect the characteristics of each individual property (Johannesson-Linden and Gayer, 2012). When the groups are defined narrowly enough, however, unit value begins to approximate market value. For example, a zone could be defined anywhere from an entire city to specific neighbourhoods to properties on one side of a street. Another, widespread, example of unit-value assessment is in the assessment of agricultural land. In many countries, farm property is assessed at so much per square meter, with the unit value varying with the location (region, accessibility to markets), fertility (irrigation, climatic conditions, soil conditions, hilliness), and sometimes with the crops grown (Weigel, 2020). Such values are sometimes established on the basis of detailed cadastral studies, and sometimes on the basis of sales data on comparable property (Keen and Slemrod 2017). In practice, the values for agricultural land often seem, like other presumptive tax bases, to be established on the low side, in part to avoid excessive protest and appeal.

Market value (or capital value) assessment estimates the value that the market places on individual properties. Market value is defined as the price that would be struck between a willing buyer and a willing seller in an arm's length transaction (Weigel, 2020). The following methods are used to estimate market value: The comparable sales approach looks at valid sales of properties that are similar to the property being assessed (Webster, 2019). It is used when the market is active and similar properties are being sold. The depreciated cost approach values the property by estimating the land value as if it were vacant and adding the cost of replacing the buildings and other improvements to that value. The cost approach is used when the property is relatively new, there are no comparable sales, and the improvements are relatively unique. The cost approach is also normally used to assess industrial properties. Under the income approach, the assessor estimates the potential gross rental income the property could produce and deducts operating expenditures (Webster, 2019). The resulting annual net operating income is converted to a capital value using a capitalization rate. This approach is used mainly for properties with actual rental income.

Market value assessment is used in all the OECD countries studied, and number of others including Indonesia, Philippines, South Africa, Latvia, Argentina, and Mexico. A variation of the market value approach is used in the United Kingdom as noted by Sahari *et al* (2021). Under the British council tax, the value of each residential property is assessed and placed on a valuation list in one of eight valuation bands. The value assigned to each property only indicates the valuation band and not the actual value of the property (Slack and Bird, 2015). Any change in value because of a change in house prices generally does not affect the banding. Individual properties could be re-banded only under two circumstances: if the local area changes for the worse, all homes in the area may be placed into a lower band (Fischel, 2016). If a house is expanded, it will be re-banded only after it is sold; if a home decreases in value because part of it is demolished, it may be re-banded immediately.

Assessing the tax base using an area-based assessment depends on how the tax base is determined, the equity argument with property tax may or may not be valid. Since market value reflects the benefits of local services

supported by the tax, it is generally thought to be more equitable to use market value to determine the tax base than alternative methods like area-based assessment (Oliviero *et al.*, 2019). When determining a property's dimension using an area-based assessment, for instance, the owner may benefit more from having a property close to public parks or important transportation hubs. In general, valuation of properties that does not capture the real value of the property may result in differences in the effective tax rates across properties and hence becomes inequitable (Slack and Bird, 2015). Table 1 summarises the advantages and disadvantages of the two widely used valuation methods.

Table 1: Comparison between two commonly used property assessment methods (Slack and Bird, 2015)

Market-based assessment	Area-based assessment
The benefits from local services financed by the tax can be reflected in property values and help promote accountability and transparency among local officials.	Cannot reflect benefits from local services, and hence it may become difficult to create transparency and accountability among local officials.
Is more equitable since it takes into account the differences in the quality of buildings and locations.	Cannot capture differences in the quality of buildings and locations.
Promotes vertical equity by taxing more high-income households who are more likely to live in high-value neighborhoods.	Is less equitable and may result in larger tax burden on low-income taxpayers than high-income taxpayers.
Can take into account the change in the relative value of the property over time.	Cannot take into account the change in the relative value of the property over time.
Volatile, as market value of properties change over time.	Less volatile as the assessment does not depend on market value.
Difficult to undertake and more expensive to administer.	Easier to undertake and cheaper to administer.

Under the rental value (or annual value) approach, property is assessed according to estimated (not actual) rental value or net rent. One rationale for using rental value is that taxes are paid from income (a flow) rather than from wealth (a stock) and thus it is appropriate to tax the net rental value of real property (Slemrod and Gillitzer, 2013). In theory, however, there should be no difference between a tax on market value and a tax on rental value. When a property is put to its highest and best use and is expected to continue to do so, rental value will bear a predictable relationship to market value the

discounted net stream of net rental payments will be approximately equal to market value (Oates and Wallace, 2018). This relationship does not always hold, however. First, gross rents are often used rather than the economically relevant “net” rents that build in an allowance for maintenance expenditures, insurance costs, and other expenses. Second, most countries tend to assess rental value on the basis of current use (Nengeze, 2018). There can thus be an important difference between market value and rental value.

A property that is under-utilised that is, currently used for a purpose less productive than other possible uses would be assessed much lower under the rental value approach than under the market value approach (Oates and Wallace, 2018). From a land use perspective, a tax based on value in highest and best use is more efficient than a tax based on current use because it stimulates use to its highest potential by increasing the cost of holding unused or under-used land (as compared to developed land). There are some problems with the use of rental value assessment. First, it is difficult to estimate rental value when there is rent control (Mirrlees *et al.*, 2011; Nengeze, 2018). Controlled or subsidized rents cannot be directly used to assess market rents unless the majority of properties are rent controlled. By assigning properties to broad categories rather than assigning a taxable value to each one, the council tax achieves simplicity and stability at the price of accuracy (Mirrlees *et al.*, 2011). Furthermore, because the council tax uses an estimate of market value at a particular point in time and then freezes assessments for the foreseeable future, it will have the same implications as any out-of-date assessment system: inequities will increase over time.

This has been an important problem in India, as discussed in that case study. Second, because vacant land is not taxable under a tax based on rental value in current use (since there is no current use!), an incentive is created in favour of low return uses over high return uses and to withhold rental properties from the market altogether (Nengeze, 2018; McGuire and Dana, 2019). If vacant properties are not taxed, the tax has to be higher on occupied properties to yield the same amount of revenue. These higher taxes further discourage investment. In terms of the administration of the tax, there are some additional difficulties with using rental value (Netzer, 2016). First, rental value is difficult to estimate because there is not much information on

the annual rent of comparable properties for unique commercial and industrial properties such as steel mills, for example, it is difficult to calculate net rents because the distribution of expenses between landlords and tenants differs for different properties

Where it is possible to use market value, it is generally regarded as a better tax base. First, the benefits from services are more closely reflected in property values than in the size of the property (McGuire and Dana; 2019). For example, properties close to transit systems or parks enjoy higher property values. The benefits from these services are not reflected in the dimensions of the property but rather in the value of the property. Even those services where the benefits may relate more closely to property dimensions (such as sidewalks and street lighting, for example) are related more to front footage than to lot size or building size (Hamilton, 2019).

As noted above, if rental value were based on highest and best use, then vacant land would be taxable; the value would have to be estimated on the basis of other properties. Even if rental value were based on current use, it might be possible to assign a non-zero value to vacant land (Keen and Slemrod, 2017). Second, market value has the advantage of capturing the amenities of the neighbourhood, amenities that have often been created by government expenditures and policies (Martinez-Vazquez and Youngman, 2008). Area based assessments (particularly unit assessment) are unlikely to capture these amenities because they do not take into account differences in the quality of buildings nor their location. Consider, for example, the taxes paid by two properties of identical size and age but in different locations. Specifically, one is located next to a park; the other is adjacent to a factory. Under an area-based assessment system, both properties would be levied the same property tax (Kellam and Kew, 2004). Under a value-based assessment system, the property next to the park would pay higher property taxes. In this example, area-based assessments would not be fair.

Besides that, area-based assessment results in a relatively greater burden on low-income taxpayers than high-income taxpayers when compared to value-based assessment. The reason is that average household incomes in high-value neighbourhoods are higher than in low-value neighbourhoods. A tax on area taxes all properties that are the same size the same amount, whether they are

in high-income or low-income neighbourhoods (Kellam and Kew, 2004; Goodfellow, 2015). Similarly, older houses in a bad state of repair but with a large floor area will pay relatively high taxes. Furthermore, if a relatively poor neighbourhood becomes richer, there would be no relative tax change. A tax system that fails to take account of changes in relative values over time will result in inequities (Goodfellow, 2015). If one value per square meter is chosen for all single-family homes, for example, and relative property values change over time as some locations become more desirable over time, then over a period of years if the value per square meter is not changed, inequities in the assessment system will result (Keen and Slemrod, 2017; Hamilton, 2019). One advantage often attributed to unit value assessment is that property taxes on this basis tend to be less volatile than under market value assessment because they do not change when property values change. As just noted, this “advantage” can equally be argued to be a disadvantage, exacerbating inequities.

Unit value assessment is easier to understand and cheaper to administer than value-based assessments. This is particularly true where the real estate market is not well developed, as in many developing and transition countries (Slack and Bird, 2015). However, although unit value may be easier to administer for single-family residential properties, it is difficult to use for multi-residential rental, residential condominium, commercial, and industrial properties (Hamilton, 2019). One problem is what to include for tax purposes. For example, there is the question of whether spaces such as atrium floors, servicing shafts, and elevator spaces should be taxed even though they have no revenue-producing space (Duflo, 2017). There are issues about whether to include structural elements (such as decorative beams) that project outside of the glass line, as is the case with some office towers.

Another problem is how to allocate shared facilities such as common entrances, halls, exits, aisles, atria or malls, among owners/tenants. For example, common areas can be shared on the basis of the size of each unit relative to the total, the rent charged to each unit, or some other measure (Duflo, 2017). A third problem in market economies has been the tendency towards the proliferation of multipliers that are applied to the area of improved property to reflect the relative differences in value. In the Netherlands, for example, the system became so complex that it was

abandoned because the extent of zones is defined more narrowly over time, unit value assessment can easily evolve into something very like a market value system (Youngman and Malme, 2014; Duflo, 2017). It may well be, for example, that this process or something like it will occur in the numerous transition countries currently employing some variant of area-based assessment as a natural outcome of the information on building and land sizes recorded in the records of the old central planning systems.

Self-assessment requires property owners to place an assessed value on their own property. In Hungary, for example, the current local tax system is based on the principle of self-identification. Taxpayers are obliged to register and report their tax obligations to the local tax administration (Courne de *et al.*, 2013). The verification for the tax on buildings and tax on idle land in Hungary requires verification only of the property size and not its market value. In practice, the responsibility of self-registration is not particularly effective because not all owners comply (Brzeski *et al.*, 2014). Consequently, the number of potential taxpayers or taxable assets is generally unknown. The determination of tax liabilities also requires verification of the self-assessment submitted by the taxpayer. The lack of personnel to make field inspections of each property in Hungary means that verification is inadequate. The rental value tax on housing in Tunisia is based on the number of square meters (Best *et al.*, 2015). Taxpayers are required to submit a self-declaration form. Some municipalities verify the declared square meters against existing information, for example from the roll for the rental value tax that existed before 1997, but most municipalities do not (Bahl, 2009).

In Thailand, self-declaration of property owners is made to local assessors who assess the self-declared value and identification in terms of how well it matches their data (Fischel, 2016). Self-declaration of properties by landowners is also required in the Philippines, once every three years. The local assessor then prepares the assessment roll. Where properties are assessed at market value and there is self-assessment, the taxing authority in some countries has the right to buy the property at the assessed value (Fischel, 2016). A system where the taxing authority can buy the property will only be credible if it can and Taiwan is an example (Youngman and

Malme, 1994). This idea is an old one, used in Australia in the 19th century, for example, as noted by Bird *et al.* (2002)..

A recent proposal along similar lines is that people should assess their own properties and then make them public (Tanzi, 2001). Anyone who wanted to buy their property at a price that exceeded the declared price, by some margin such as 40 percent, could make an offer. If the owner refused the offer, the bid plus a penalty would become the new assessment. Although appealing to economists and frequently recommended in the past, such ideas on closer examination seem much less attractive on a number of grounds (Holland and Vaughan, 2017) and have not proven acceptable in practice anywhere. Nonetheless, self-assessment is an appealing procedure to poor countries with little administrative capacity (Arnold, 2008). It does not require assessment staff, and it appears to be easy to implement. In some cases, such as Bogota, it has at times appeared to be relatively successful.

To minimise the obvious problems of understatement associated with any self-assessment system, however, the government has to be prepared to obtain expert assessments of individual properties in cases where it believes self-assessment is inaccurate (Chirisa, 2013). As is usually the case with taxation, there is, in the end, no easy way to get people to tax themselves in the absence of a credible verification process, and expert assessments of course significantly increase the cost of collecting the tax (Arnold, 2008). Self-assessment can lead to inaccurate estimates of property values with a tendency toward underestimation. It violates the principle of fairness on the basis of ability to pay because people with comparable properties will not necessarily pay comparable taxes (Bird and Slack, 2002; Blochliger, 2015). Generally lower-valued properties have a lower rate of underestimation than do higher valued properties, making this assessment approach regressive (taxes are relatively higher on low-valued properties). Under-estimation also obviously erodes the size of the tax base with the usual detrimental effects on tax rates and/or on service levels (Duflo, 2017).

The initial reasons for poor revenue contribution of property tax in developing countries. One of the reasons for the poor revenue contribution of property tax in developing countries is low-level of fiscal decentralisation

(Duflo, 2017). In principle, local government authorities are likely to collect property tax more efficiently than central governments because they can more easily oversee local residents, have better information about their assets, and monitor their compliance (Slack and Bird, 2015). However, property tax collection is often poor also in countries with a more decentralised system of revenue collection and some of the challenges are summarised in Box 1.

One of the most fundamental barriers to effective property taxation is the sustained resistance it faces from property-owning elites, who form a powerful lobby that can block both policy reform and effective implementation (Brockmeyer *et al.*, 2020). This is a particular problem in large capital cities, where resources are concentrated and political and economic elites tend to be closely bound together. Indeed, in such cities, where bureaucratic capacity to overcome some of the administrative challenges is likely to be higher than elsewhere, elite resistance may form the primary obstacle (Blochliger, 2015). Other reasons for the poor revenue contribution of property tax in developing countries are the generally poor property taxation administration, weak enforcement and taxpayers' attitude.

Taxpayers' attitude towards property tax are often unpopular among taxpayers in developing countries due to a number of reasons. Tax that is levied on the wealth of individuals or businesses may not necessarily correspond to the income of the taxpayers (Arnold, 2008). This can particularly overburden those with limited incomes like pensioners. Tax on non-residential properties can be unpopular among business owners as it can affect their resource allocation and investment decisions. The collection of property tax may not be matched with improved local services, largely due to corruption and low-level of accountability among local officials (Brockmeyer *et al.*, 2020)

Weak law enforcement on collection of rates and other property taxes is another problem being faced by local authorities in Zimbabwe. Low political willingness of elected local officials to enforce taxes from the wealthy and the powerful can further exacerbate the low collection rates. Ineffective assessment of properties: This may result in an underestimation of registered properties that further erodes the tax base (Arnold, 2008). The two commonly used property assessment methods, market-based assessment is

generally considered as a better tax base for efficiency and equity reasons (Keen and Slemrod, 2017). Despite this, area-based assessment is widely used in developing countries because it is relatively easier to undertake and cheaper to administer. Given the generally unpopular nature of property tax among taxpayers, politicians may also be less willing to have strong property tax enforcement on poor people residing in poorer neighbourhoods to maximize their vote in elections. Furthermore, punishment for non-compliance such as confiscation of properties may not be politically feasible.

Ineffective assessment of properties may result in an underestimation of registered properties that further erodes the tax base. Of the two commonly used property assessment methods, market-based assessment is generally considered as a better tax base for efficiency and equity reasons (Keen and Slemrod, 2017). Despite this, area-based assessment is widely used in developing countries because it is relatively easier to undertake and cheaper to administer.

Poor tax administration is largely due to inadequate human resource, infrastructure and limited information on properties. These challenges are reflected in a number of tax administrative tasks such as a narrow tax base, ineffective tax assessments of properties and very low tax rates (Keen and Slemrod, 2017).

Box 1: Challenges of property taxation and rating administration in developing countries (Keen and Slemrod, 2017)

Property tax administration in developing countries is generally characterised by the followings:

Narrow tax base: This is due to a large proportion of informally owned properties and a range of legal exemptions and preferential treatment to different types of properties or different groups of society.

Exemptions: These can be provided based on different factors such as the type of ownership and characteristics of the owner or occupier of the property such as exemptions to government-owned properties, properties used for charitable purposes, churches, schools, and hospitals. Such exemptions may create inefficiency if they affect economic competition among businesses and between businesses and the government. They may further narrow the tax base and create a disproportionate burden on taxpayers or localities that do not get such exemptions.

Low tax rates: Tax rates in developing countries are commonly very low. Yet, increasing the tax rate on properties is largely unpopular and may invoke negative reactions from citizens.

Flat rates: When the administrative capacity is low, area specific flat rates may be considered while the property tax system is being developed.

The key component of improved property tax collection rate is as a result of facilitation of voluntary compliance, coupled with projection of a credible enforcement threat by the local authority. This is achieved through a combination of improved taxpayer service, including use of the banking system for tax payments, together with escalating sanctions that culminated in the seizure and liquidation of land and buildings to settle unpaid tax liabilities (Brzeski *et al.*, 2017). The other enforcement measure is only politically and administratively feasible because of the government's policy of deliberately pursuing the tax object (real estate) rather than the tax subject (taxpayer), so it could avoid the sensitive and often problematic issue of identifying ownership of taxed land and buildings (Duflo, 2017). In Indonesia, property tax system is still performing quite well, although it now faces many new challenges in the context of comprehensive decentralisation program. There are also special challenges in property tax reform where there is no well-developed real estate market, either because: 1) the country is transitioning from a planned economy to a market-based economy such as in Central and Eastern Europe, China, and Vietnam, a phenomenon detailed in Malme and Youngman (2001), land is communally owned as in rural South Africa, a predicament examined in Bell and Bowman (2006).

The implementation challenges are especially acute in very poor but rapidly urbanizing nations (sub-Saharan Africa), where the need for property tax reforms is also critical due to the importance of fiscal decentralisation initiatives. Franzsen and Youngman (2009) gave an overview of the state of property taxation in Africa, and McCluskey *et al.* (2003) for a detailed examination of the challenges of property tax reform in Africa through the lens of a case study of Tanzania's experience with property taxation. Hence, property tax reform will upset the status quo to which key stakeholders have already adapted, thus, a special implementation consideration is mitigation of short-term disruptive effects created as a by-product of the transition to a new long-term equilibrium (Arnold, 2008). For example, if reformers pursue a collection-led approach to property tax reform, short-term inequities will probably arise as those already on the existing tax roll are compelled to meet their tax obligations, while those with omitted or grossly undervalued property will not yet be paying their fair share of tax liabilities (Everest-Phillips, 2009). This creates a strong case for maintaining a low effective tax

rate until the tax roll is fairly complete and accurate. However, transitory changes frequently turn into permanent ones since there is nothing more permanent than something that is transient.

The sticker shock of significantly higher property tax obligations following property reassessment is another sort of short-term adjustment hardship. Particularly during a real estate bubble, this can be lessened by lowering the tax rate during a transitional period so that tax responsibilities increase gradually (Goodfellow, 2015). This can be lessened during times of market stability by doing revaluations more frequently and by indexing property values in between revaluations. By lowering tax rates, Hamilton (2019) suggested that it could have been possible to moderate some of the rage that led to the property tax rebellion previously recounted. This is a nice example of indexing between values.

Projects for the digitalisation of property taxes in low- and middle-income communities are reviewed, both recent and continuing. At all phases of the fiscal process, digitalisation presents prospects for enhancing the administration of property taxation (Martinez-Vazquez, and Youngman, 2008). As outlined in Kelly *et al.* (2020), the amount of revenue collected from property taxes is the result of a combination of policy variables and administration variables. Two key elements that are essential to improving the effectiveness of the property taxation system are the methods for determining the tax due and the definition of the tax base. The coverage ratio, or the proportion of taxable properties that are registered, the valuation ratio, or the proportion of the total market value of real estate that is recorded on the valuation roll, and the tax liability assessment ratio, or the proportion of assessed liabilities that are actually being collected on any given property, are among the administration variables. The digitalisation of the property taxes system can immediately help all of these administrative factors. Basic computerised systems are reasonably common and offer the same advantages for other tax instruments as they do for managing property tax assessment datasets and producing tax notifications (McGuire and Dana, 2019).

The advantages of a digitalised system for property taxation include a significant decrease in information management and processing time, the

simplicity of computing summary statistics, the speedy production of tax notifications, and the potential to link property tax data with other administrative data. To fully realise the advantages of digitalisation in the field of property taxation, however, a computerised register is only the first step. Knebelmann (2021), noted that many substantial problems may continue to exist even if a computerised property tax register is established and also the specificity of the property tax leads to additional advantages of switching to digitalised processes, precisely because satellite imagery tools and delocalised data systems can help detect, register, characterise and value properties in other words the tax base.

In fact, a large portion of local funding comes from different fees rather than actual taxes. These can range from charges for parking and billboard advertising to payments for neighbourhood security, planning requests, and other administrative services, and fines for a variety of urban infractions. Taxes, in contrast to these other means of funding the government, do not depend on the "supply or promise of any specific item or service in return for payment" (Lieberman 2002; 91). Taxes are thus usually considered to be qualitatively different from fees, playing broader roles that feed into accountability, state-building and social contracts (Bräutigam *et al.*, 2008; Moore 2004). Local governments in developing countries are frequently heavily reliant on fees, although they typically aim to gradually increase the proportion of local taxes to local fees. Regardless of how the two are split, the majority of local governments rely heavily on payments from the federal government even in situations where there is significant fiscal decentralisation.

The property tax has, historically, been associated with local government in most countries. One reason that taxes on land and property have been considered to be especially appropriate as a local revenue source is that real property is immovable it is unable to shift location in response to the tax (Slack and Bird, 2014). Although a change in property tax may be capitalized into property values in a particular community, and in the long run tax differentials may affect where people locate, these effects are of a smaller magnitude than those that would occur with income and sales taxes at the local level (Slack and Bird, 2014). The link between many of the services that

are normally supported locally and the increase in property values is another justification for why property taxes are thought to be a suitable source of funding for local governments.

For instance, Fischel (2000) stated that because taxes resemble the benefits gained from local services, the property tax in the United States is similar to a benefit tax. If this is the case, financing local services through local property taxes will encourage effective public decision-making because taxpayers will support policies where the benefits outweigh the costs. Both the advantages of local amenities like good schools, easier access to roads and public transportation and the taxes used to pay for those amenities are capitalized into property values. Higher property values will result from either because taxpayers are willing to pay more for better services or lower tax rates.

Naturally, this analysis makes the assumption that local property taxes actually fund services that raise property values and that local governments determine both tax rates and service levels in their jurisdictions. However, this is not the case in low-income neighbourhoods where the issue of property values is unachievable due to subpar land administration and registration procedures. Furthermore, when it comes to justifying the typically greater taxes on non-residential property found in many nations, this line of reasoning looks even more flimsy. Although Bird and McKenzie (2009) argue, an income-type value-added tax appears to be a much more sensible way to “price” local services to businesses than a property tax.

Additionally, property tax is a tax on capital or, to the extent that it applies to housing, a tax on housing services. Zodrow (2000), for example, argues that the property tax in the United States results in distortions in the housing market and in local fiscal decisions. In particular, since the US property tax that is based on market value, falls on both land and improvements it both discourages building and results in the underutilisation of land (Webster, 2019). As a result, the nation's capital per unit of land is lower than is necessary for economic efficiency. For instance, homeowners who make improvements to their home will pay more in taxes as a result that will deter them from doing so. George (2019) has observed that a tax on land values alone would avoid this economic inefficiency and would indeed stimulate the efficient use of land.

Property taxes on land and improvements are the perfect tax for supporting local government level services, according to theory and international best practices, for a variety of reasons (Webster, 2019). Property-related taxes have a high potential for income generation, particularly in increasingly urbanizing areas. Indeed, urbanization is a wealth-creating activity, resulting in increased land prices that, if properly documented, may provide finance for much-needed urban infrastructure and services. The immobility of the property tax base reduces economic efficiency implications and makes it the least distortive tax instrument, followed by consumption taxes, personal income taxes, and corporate income taxes (Johansson, Heady, Arnold, Brys, and Vertia 2008). The value of location-specific capital investments and the advantages of government programs and services that would otherwise be documented through various levies, user fees, and other taxes, are covered by the property tax base due to its immobility. As a result, the property tax might serve as a kind of "benefits tax," distributing the tax burden across properties with different benefits, as indicated by different property prices. The tax base may be relatively easily identified and collected thanks to the immovable property tax base, and the property itself can act as natural collateral in the event of tax non-payment.

Finally, the property tax base may promote more responsive, effective, and accountable local governance and public service delivery as a highly visible and politically sensitive revenue source. Ordinarily, recurring property taxes are justified as "benefit taxes" or "quasi-user charges" for local public services (Weigel, 2020). According to the benefit principle in public finance, those who gain from the government's services should be responsible for paying the corresponding tax or fee. Technically speaking, it is possible to balance the costs of multiple government services by using a system of direct user charges linked to benefits (such as water supply, public transit such as buses, and solid waste collection). For the provision of public goods like local roads and street lighting, fire protection, and security, and social services like education and health, direct user charges are ineffective and/or challenging to administer.

Many countries utilise ad valorem (value-based) property taxes. Due to a lack of valuation data and capabilities, the ad valorem approach is frequently ineffective and has low revenue productivity. Recent experiences from

African countries show that significant and speedy advances in property tax collection are possible even in circumstances with low capability. Numerous changes have been undertaken, including expanding the tax base, reassessing properties, expediting the tax collection procedure, executing a successful collection-led plan to raise the collection ratio among existing properties, or combining a few of the aforementioned techniques.

Due to the challenges involved in implementing the value-based property tax strategy, several governments have adopted area-based valuation as a workaround. In Ethiopia and Mozambique, municipalities impose a presumption fee based on the size and placement of constructions. The system is now so clear and controllable as a result of this (Moore and Monkam 2015). Rwanda first adopted an area-based strategy after realising its inadequate administrative capabilities during the 1994 genocide. Since then, the country has shifted to taxpayer self-assessment that reduces the administrative overhead but increases the likelihood of underpayment. Following the civil war, numerous municipal councils in Sierra Leone, notably those in the nation's capital Freetown and the second-largest city Bo, departed from the *ad valorem* model and opted for an area-based one instead. A property's value was determined by its size, kind of construction, location, and accessibility. This strategy secured the legitimacy of the local administration and was seen as fair. Between 2007 and 2010, the towns' property tax revenue climbed by 300–500% (Jibao and Prichard 2015).

In certain nations, the adoption of contemporary technologies for widespread property appraisal has been successful. Arusha City Council in Tanzania transitioned to a cutting-edge Local Government Revenue Collection Information System (LGRICIS) connected with a geographic information system in 2014 from a manually managed own-source revenue system (or a GIS platform). The new technology enables the local government to identify taxpayers' properties using satellite data and includes a notification and payment-tracking electronic invoicing system. The new approach discovered about 102,000 structures, a huge increase from the former system's 23,000 buildings. The number of qualified taxpayers more than quadrupled in the first 15 months following the implementation of the new system, going from 31,160 to 104,629 in total. The city council increased yearly income by 75% in a year (World Bank 2017).

Property taxes have a great deal of potential to increase income and promote fairness, particularly in developing countries. Currently, the property tax contributes between 0.3% and 0.6% of GDP in underdeveloped countries and between 2% and 3% in OECD nations (Bahl and Martinez-Vasquez, 2008; Bird and Slack, 2004). This international benchmarking points to a high potential for substantial increases in property tax revenues and enhancements to equity and efficiency, particularly in developing countries.

To broaden the tax base, property values, tax collection, tax enforcement, and taxpayer services, nations must execute strategic reform. Interactions between policy and administration must be a part of these improvements. The correct political decisions regarding valuation standards, appeals, collection, and enforcement must be made as part of the tax policy changes, in addition to altering tax base definitions and tax rate structures. As part of the tax administrative reforms, the tax base coverage, valuation, and collection, and taxpayer services, must be improved. Weak administration, typically the consequence of political, institutional, and capacity restrictions, is a significant barrier to developing countries' efforts to improve the administration of the property tax (Fatica and Prammer, 2018). All tax reforms must be country-specific, adjusting international best practices to each distinct reform environment. Property tax reforms must be designed with awareness of these constraints, the existing reform environment, legal and institutional structures, government administration capacities, and political will. To enable the long-term implementation of a more equal and effective property tax system, significant administrative reforms must be implemented within an appropriate property tax policy framework (Bird and Slack, 2004).

A multi-year, systematic, and thorough property tax assessment is necessary to achieve gains in property tax revenue, equity, and efficiency goals. Sustainable property tax reform is needed in emerging nations. Despite the fact that property tax policy may be changed immediately, worldwide experience shows that it will take time for these administrative and regulatory changes to result in increased revenues, efficiency, and equality. Property tax reform must be adopted to give enough time for longer-term, systemic and institutional transformation, even though certain measures may result in an immediate increase in property tax collections. In an ideal world,

property tax reform would be integrated into wider public sector management changes, such as reforms to local government, urban development, public financial management, fiscal decentralisation, and governance (Fatica and Prammer, 2018). This will lessen political, administrative, and taxpayer opposition, help create demand support for the reform, make it simpler to mobilise a wider range of the key stakeholders and resources, balance the impacts and incentives of other reform initiatives, and generate the synergy required to design, implement, and sustain a successful property tax reform. A successful property tax system can then promote these other changes that aim to improve responsible, responsive, and efficient public service delivery (Pomeranz and Vila-Belda, 2019).

The ability to mobilise the political, administrative, and public support necessary to increase property tax revenues, equity, and efficiency requires visionary leadership, an appropriate policy framework, strong administrative capability, and appropriate incentives. This chapter's part focuses on these prerequisites for effective property tax reform, emphasising the crucial administrative and regulatory elements and potential tactics required to make the property taxation system operate in low-income neighbourhoods (Pomeranz and Vila-Belda, 2019).

In many developing countries, efforts are currently being made to enhance broad-based direct taxation, and property tax is seen as a pillar of such efforts. But in the majority of underdeveloped countries, it results in little earnings. Given the aforementioned causes of property tax low-income contribution, the following variables might eventually help it increase. The administrative framework for property taxes, including the choice of the tax base, tax rate, and exemption regulations, should be altered to increase efficiency and equity this helps in improving technological ability to create more accurate property records. This may be accomplished, for instance, by the use of Geographic Information System (GIS) mapping to broaden the scope and staff training to improve valuation methods (Pomeranz and Vila-Belda, 2019). The valuation rolls and property registries need to be updated this helps in increasing the enforcement of laws and increasing compliance by promoting public awareness campaigns and strengthening enforcement measures. If the goal is to enhance local service delivery, fiscal

decentralisation should be strengthened by giving local governments more freedom to manage the collection of property taxes.

Property tax reform policy problems may be divided into three categories: tactical, technical, and political. Many of the policy difficulties covered in we apply to tax change in general and are not only limited to property tax reform. There are always going to be winners and losers in property tax reform, both within the tax administration and among the general public, as discussed by Gillis (1989) and Boskin (1990). Furthermore, the majority of tax workers and taxpayers are dispersed and reactive, in contrast to the organised and proactive nature of internal and external special interests. Internally, this issue is most pressing when dishonest employees who perceive reforms as a threat can easily sabotage the reform through improper, slow, or delayed administration, causing the reform to die by administration.

The challenge is most obvious from the outside when the change is aimed at relatively affluent property owners since the powerful and wealthy will kill the reform. The remedy is essentially political if the issue is. The reform is likely doomed before it is initiated if political leaders do not publicly and consistently support it (Arnold, 2008). Even with significant political backing, a change might nevertheless fall short owing to technical issues. The most prevalent of these are firstly, poor or incomplete information on the present situation, often leading to inaccurate tax forecasting of the likely impact of the reform and thus, unintended consequences; and secondly, insufficient financial and human resources, contributing to inadequate administrative capacity for effective implementation of the reform (Pomeranz and Vila-Belda, 2019). For property tax reform to be successful, careful consideration of the behavioural and administrative aspects is required. Design change without adequate implementation is a surefire formula for failure.

For emerging and transitional economies, these technological flaws are made worse by improper suggestions from donors and experts. Without comprehending the unique context of the country, they are seeking to aid, these advisers frequently attempt to duplicate the tax systems with which they are most aware (Slack and Bird 2014). Furthermore, financial help is occasionally contingent on hiring experts and equipment from the country of origin, regardless of how rational such decisions are. Before accepting

external help, host nations should weigh its entire costs and advantages. The third policy pitfall is a tactical one that has to do with when and how property tax reform should be implemented.

Tax reform in general has been most successful when it has been least needed. This applies to revenue-enhancing property tax reform as well because it allows tax administrators to develop their systems and information bases with very low transitional tax rates (Pomeranz and Vila-Belda, 2019). It also facilitates a learning period for taxpayers to familiarise themselves with the new system, thus enhancing longer term understanding of, and voluntary compliance with the property tax (Slack and Bird 2014). Property tax reform may be implemented in two ways: "big bang" reform, when everything is changed at once, and "asymmetrical" reform that implements changes gradually.

Box 2: Property Taxation and rating process City of Manchester, UK (Barrios *et al.*, 2019)

Tax Rates

Discovering, cataloguing, and estimating the value of all taxable property under the authority of the city are the City Assessor's three main responsibilities. The Assessor's practices must comply with State rules governing property taxes to guarantee that every piece of property is handled equally. Additionally, generally acceptable accounting and appraisal methods must be applied.

Property Taxation Process

Assessed value and the Tax Rate

In order for you and other taxpayers to pay a fair amount of support for the community services you enjoy, the Assessor's main duty is to determine the fair market value of your property. Other organisations, in addition to the city, must collect taxes to maintain these services. State statutes once again outline the authority of these taxing bodies and the types of assets that are tax-exempt, including schools, scout camps, and churches. The governing bodies of the different taxation authorities put out proposed budgets each year. They add up all anticipated sources of income, such as state aid and shared taxes, license fees, and tuition, to finance the expenditures in the budget. The expected expenses are reduced by this. The "tax levy" is the remaining sum that represents the entire amount expected to be collected by property taxes. The City of Manchester's tax levy is determined by the size of the city's budget. The levy is calculated by multiplying the tax rate by the combined market value of all the properties in the city. The tariff is the same for every property owner. This tax rate will equal the precise amount required for the levy to help pay for City expenses when applied to the value of all taxable property in the city. The required tax amount is simply divided by the total assessed value of all taxable property in the City to determine the tax rate.

$\text{Tax Rate} = \text{Levy} \div \text{Total Assessed Value}$

Your share of the levy is calculated using the assessed value of your property once the rate has been established. The amount of taxes you owe are determined by multiplying the tax rate by the assessed value of your property. The tax rate is frequently stated as a "mill rate" or in terms of dollars per thousand. The participation of many City government departments is necessary for the full taxing procedure. The Assessor determines your property's worth. The tax rate required to raise the revenue for these services is established by the Mayor in conjunction with the New Hampshire Department of Revenue Administration.

The Assessor is required to have up-to-date maps that clearly show each city piece of property. Great effort is made to ensure that these maps are maintained current to ensure that there are no omissions. To stay current on building activities, the Assessor works closely with other city departments. To ensure that all properties are assessed fairly, constant attention must be paid to businesses that sell, move, or open in the city.

To determine the value of any piece of property, the Assessor must first know the prices being paid for comparable properties, how much it would cost to replace it today, how much it would cost to operate and maintain it, how much rent it might generate, and many other monetary factors that could affect its value, such as the current interest rates being paid on loans used to purchase or construct properties similar to yours. With the aid of these details, the Assessor is then able to determine the value of the property in three different ways.

The Assessor must create a record identifying you as the owner so that your property is not mistaken for another one. The office logs your postal address, provides a thorough description of the property, creates a legal description, and logs your property's parcel number on an assessor's map. Residential, mercantile, manufacturing, or agricultural values must be designated when they are finally estimated and listed on the annual assessment roll. This data is available for public review and is listed on the assessment roll.

Market Approach, the first step is to look for recently sold houses similar to yours. But to see the truth, one needs carefully examine their selling prices. Due to the buyer's urgency to move in and willingness to spend whatever it took to do so, one home may have sold for more than it was truly worth. The owner of another may have agreed to sell for less than it was really worth because they needed the money immediately soon and were prepared to accept the first offer they received. The Assessor must always take into account such over- or under-pricing when using this method (comparison of the selling prices of properties similar to yours) to determine a fair evaluation of your property's value.

Assessor can use is based on the cost of replacing your property with one that is identical to it, given current labour and material costs. The Assessor must figure out how much depreciation your property has endured if it is older.

If one happens to possess real estate, such as an apartment complex, a store, or an office building, that generates rental revenue in addition to the other two methods, you may use the

third one as well. Here, the Assessor must take into account monetary considerations including your operating costs, taxes, insurance, maintenance costs, the level of financial risk you took to generate revenue from your property, and ultimately, the return that most people would anticipate on a property of this type. Of course, the third strategy cannot be employed if your property is the residence you live in since you receive no revenue from it. However, you may be certain that the Assessor carefully takes into account all the relevant, trustworthy financial factors relative to your property.

Valuing Property

Finding the amount the majority of buyers would pay for your property in its current state can help you estimate its market worth. However, the Assessor has the enormous task of evaluating every single house, store, office complex, and numerous apartment units in Manchester. This involves determining the cost of all the furnishings and office equipment. This is done to prorate the costs of the city's schools, police and fire protection, medical and recreational facilities, and other public services across all taxable property. The cost of these services is split between you and the city according to how valuable your property is in comparison to all other properties there.

9. Why Assessed value changes from year to year

Assessed worth fluctuates organically as market value does. The assessed value would rise, for instance, if you added a family room or built a garage to raise the property's overall market worth. Similar to how a fire would reduce the value of your property, the assessed value would fall to reflect the negative impact this damage has on the property's market worth. A neighbourhood or a certain house style may become particularly popular for a variety of reasons, leading to market value increases that are faster than typical. The Assessor must be alert at all times to spot these tendencies. Inflation and the regional economy have an influence on your estimated worth as well. We are all aware that when the cost of labour, materials, and money rises, so does the value of the current home stock. People have produced this worth via their transactions in the market, not the assessor. Every year, the Assessor is in charge of updating current assessments to reflect changes in the market.

Box 3: UK property Taxation system and housing (Barrios *et al.*, 2019)

Regarding important topics like complexity, tax neutrality, tenure neutrality, equality, and general macroeconomic concerns, the tax treatment of housing differs greatly among OECD countries. According to recent OECD statistics, the UK taxes property more than any other nation in the OECD when all recurring and non-recurring taxes are combined. This is an important distinguishing feature of the UK property tax system. In the UK, total property taxes in 2016 were twice as high as the OECD average at over 4% of GDP. This accounted for 1212% of the taxes that the British government collected. Government spending on housing exceeded the OECD average of about 0.5% in 2016 that is likewise a high level, at 0.72% of GDP. Combining the two results in a picture of the UK housing sector as a significant contribution to state budgets. This raises questions about whether any changes to the taxation of housing would be likely to accomplish their intended purpose and whether there are any lessons to be drawn from the global experience.

The vast and frequently overlapping character of the tax system makes it challenging to prioritise certain policy instruments. Throughout its life cycle, from the acquisition of undeveloped land through the purchasing and selling of residential property, taxation of housing can vary significantly. During market peaks, concerns about housing availability, affordability, and tenure options become especially acute, but the political push for change can be brittle. There are several ongoing housing-related programs at any one moment, making it difficult to determine the effects of each one separately. When making an international comparison, it is also necessary to take into account significant legal, fiscal, and cultural variations.

Box 4: Self- Tax Assessment approach in Bogota City (Duflo, 2017)

Before the 1993 property tax reform, only the less than 50% of all property owners in Bogota city paid property taxes; this is known as the cadastral basis. Additionally, property prices in the cadastral assessments were between 20 and 30 percent below market value. By requiring taxpayers to declare the properties they held and their valuations as part of the 1993 reform, the city (as the sole municipality) significantly increased the amount of information that was accessible about the real estate holdings of the city. The recently passed law stipulated that stated land values may not be less than the highest of the following three benchmarks: (1) 50% of the commercial worth; (2) cadastral valuation; and (3) the self-assessment from the prior year, adjusted. On the basis that it was difficult to determine a market value for every property in the city absent a transaction, the 50% clause was removed in 1994. The self-assessed valuations were utilised as the foundation for computing capital gains on property under the income tax to further improve compliance (applying, however, to only a minority of property owners). The establishment of the city's autonomous cadastral organisation was seen as crucial to carrying out the increased autonomy granted over the property tax base.

In one year, the number of tax files doubled as a result of the reform that included many heretofore unregistered properties in the cadastral basis. In addition, it brought taxable values and market values closer together. As a result, in 1994, real property tax receipts increased by 77 percent. The new plan also caused a steady rise in the number of properties declaring the tax over the course of the following ten years. The economic slump in the late 1990s, however, caused a dramatic decline in property prices, and in many cases the minimal legal value established through self-assessment surpassed the market value. In response, the national government passed legislation in 2000 that did away with the self-assessment clause and established the Urban and Rural Property Valuation Index, a price index that was calculated as the average increase in property prices estimated by the same office and was meant to update cadastral values that were not updated during field activities by the Cadastre Office. As a consequence, more taxpayers—up from 72% in 2000 to 86% in 2002—reported the cadastral value. The number of updated properties reached a historical high and the ratio between cadastral valuation and commercial value was about 81 percent as a result of subsequent valuation improvements based on greatly increasing the coverage of cadastral updating operations.

Two strands of lessons may be drawn from the case studies that have been analysed about immovable property taxation systems and practices. The first strand deals with the taxation of one form of real estate across the course of its existence, such as owner-occupied homes. The second strand weighs the benefits and drawbacks of a specific tax on immovable property at a certain period, such as ongoing property taxes. The current literature in this field is clear-cut, but summarizing the results is less easy. According to the first body of research, immovable property taxes should be neutral to prevent distortionary behaviour. The neutrality benchmark to be used, however, depends on the theoretical perspective adopted. Immovable property may be taxed as a consumption good or as an investment for personal or commercial use that determines the benchmark and potential distortions.

The examination of one tax kind at a time in terms of its benefits and drawbacks for the general public is the second component. Other factors including justice, fiscal federalism, and political economy issues have received less attention because the focus is typically on efficiency considerations of immovable property taxes. A general ranking of the "best immovable property taxes" does not seem to be possible given the trade-offs between these elements, since the outcome of a tax ultimately depends on the specifics of its design and the larger tax structure. Additionally, as stated in the first section of the case study, an appropriate land registration system must be used, and the entire impact of immovable property taxes must be evaluated over the course of the object's life cycle.

The chapter comes to the conclusion that while residential property taxes has many theoretical advantages, its practical implementation deviates greatly from the recommended theoretical approach. According to the available literature and theories discussed in this chapter, this assessment is especially accurate for European countries due to their generally low recurrent property taxation (based on outdated cadastral values), tax-preferential treatment of owner-occupied housing, and tax-preferential treatment of non-owner-occupied housing (on account of the under-taxation of housing equity relative to other investments, and their limited in Africa countries). As a result, in Zimbabwe, the discussed literature is helpful for bringing practice closer to theory while carefully addressing political economic factors that may operate as reform barriers.