

PROPERTY TAX BANDING: A SOLUTION FOR DEVELOPING COUNTRIES

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Introduction

In the experience of the authors there is no other recorded system of using banded values for property taxation purposes anywhere else in the world. The first introduction in Britain in 1993 of banding as an integral part of real property taxation in the form of a new Council Tax on residential property (thus replacing the ill-fated Community Charge or Poll Tax as it was more infamously known) is well established (see Plimmer et al. 1998). Ad valorem property taxes have historically developed around the singular notion that discrete assessed values are essential. The purpose of this paper is to illustrate the experience of a banded approach in Britain and then to suggest the potential application of such a system in other countries.

The American Heritage Dictionary (1995) defines banding in general terms as “to join so as to form a larger or more comprehensive group”. The New Oxford Dictionary (1998) defines banding more specifically as “the division of something into a series of ranges or categories (used especially in financial contexts)” and gives as a fiscal example: “the earnings-related banding of contributions”.

One of the founding principles of any tax, including the property tax, is the perception, and indeed, the reality of ‘fairness’. The question, which needs to be considered, is ‘fairness’ directly correlated with having discrete values on each and every property? ‘Fairness’ has never been defined in a land taxation context; for example, one of the stated principles on which the UK government devised the Council Tax was ‘fairness’. Indeed, it is likely that ‘fairness’ in taxation is a concept related to the historical, cultural and social background of the taxpayer. Nevertheless, it is generally accepted that ‘fairness’ related to the degree to which the principles of horizontal and vertical equity are achieved by the taxation system.

Key words: property tax, discrete values, value bands, potential use

The British experience with a banded property tax

Banding was introduced into Great Britain following the failure of the highly unpopular Community Charge (or Poll Tax). The social unrest and developing culture of non-payment with which the Community Charge was greeted by the British public forced the then Conservative Government to devise a “fairer” system of financing local authority expenditure, as rapidly as possible. With the British 400 year old tradition of paying for local authorities’ services with a local tax based on annual value, some kind of property capital value-based tax was perceived as socially-acceptable. However, there was no time to implement a property tax system.

Under the British banded system each property is allocated to one of 8 value bands (although it is possible to vary the number of bands and to have fewer wider bands or more narrower bands, as appropriate). This means that properties within the same band pay the same property tax, and there is essentially no need to have detailed, discrete valuations of each property.

Table 1 shows the value banding structure as applied in England and Scotland (there is a slightly different set of value bands for Wales). In many respects the current structure has a strong degree of arbitrariness having been quickly chosen as a politically acceptable replacement for the Poll Tax.

Table 1: Value bands in England and Scotland

Valuation Band	Range of Values
Band A	Not exceeding £40,000
Band B	Exceeding £40,000 but not exceeding £52,000
Band C	Exceeding £52,000 but not exceeding £68,000
Band D	Exceeding £68,000 but not exceeding £88,000
Band E	Exceeding £88,000 but not exceeding £120,000
Band F	Exceeding £120,000 but not exceeding £160,000
Band G	Exceeding £160,000 but not exceeding £320,000
Band H	Exceeding £320,000

The banded approach is to a large extent flexible in two respects firstly, the number and width of the bands can be altered relatively easily and secondly, the relationship in respect to tax paid can be changed by altering the relative weights between the bands (see Table 3).

It was the government's view that with the introduction of Council Tax, that there would be less need for frequent revaluations, as long as the relativities between bands remain broadly stable across the country. These arguments on appeals and frequency of revaluations get stronger with fewer, broader bands, but those are cruder and thus less fair than more numerous, narrower bands. It is important that the right balance of the number and size of possible bands, in comparing the advantages and disadvantages of a banding regime with those of the present system.

Advantages of Banding

It is pertinent now to consider the theory underpinning the adoption of banding as compared to the alternative of assessing discrete figures for each property. Because of the British public's reaction to the Poll Tax the government was under pressure to find a socially-acceptable replacement as a matter of urgency. A banded system was a unique solution and, as such, was subjected to minimal scrutiny. Its advantages were perceived as follows:

1. it is a quicker process, when timing is important, as with the required rapid imposition of the Council Tax (HMSO, 1991);
2. It is a cheaper process, when costing is important, which was clearly a determining factor in the selected operation of the Council Tax as a solution to domestic rating problems (HMSO, 1991);
3. It makes the valuer's task easier;
4. It is a robust, simple system that was expected to be capable of containing value movements within its broad framework and therefore extending the useful life of the initial Council Tax bands;
5. The volume of appeal challenges from Council Taxpayers was reduced because banding affords a less precise area of valuation dispute; and
6. It allows for a process of competitive tendering by using the expertise of the private sector.
7. It does not need an explainable mass appraisal model or a defensible value estimate. But rather, evidence to substantiate the property has been correctly banded.

Despite the government's large programme of reform, it continues to recognise the advantages of banding property values for tax purposes. The strength of a property-based tax rests on the robustness of the valuation of property on which it is levied, in that it has a resilience over time and has the inherent ability to withstand adverse conditions. There is also an element of pragmatism within a banded system which obviates the need to dwell on details. Council tax was designed to avoid the problems of the earlier rates system by placing properties into wide valuation bands. The banding system means that there have to be major changes in relative property prices before significant numbers of households are being unfairly treated. This makes it possible to extend the period between expensive and potentially disruptive revaluations, particularly as the cost of a revaluation is over £100 million. (DETR, 1998)

However, there is the general difficulty, common with most banding exercises, of

accurate band allocation when dealing with any subject items that are 'on the cusp' between bands. But, pragmatically, one could make a reasonable assumption that, in Council Tax banding, the benefit of any doubt should be given by the valuer/appraiser to the taxpayer in terms of allocating to the lower rather than the higher band.

The Council Tax has largely been accepted as a residential tax by the British public and its government and is expected to endure for an extensive period.

Disadvantages

Despite its apparent advantages (one of which must be its absence of public criticisms), banding as basis for levying tax has its drawbacks. Some relate to the principles of the tax, others to the way the tax has been implemented in Britain.

Criticisms from informed commentators on the implementation of the tax focus on the absence of revaluation and the limitations of the existing band structure. This was part of the response from the Institute of Revenues, Rating and Valuation (IRRV) to the government's 1997/98 consultation document:

"Splitting Band A into two or more bands would have the potential to reduce the Council Tax bills of those living in the properties with the lowest values. There is a strong positive correlation between residency in the lowest council tax band and receipt of council tax benefit⁴. As a result, splitting Band A would be very likely to reduce the total cost of council tax benefit, which is currently borne by the Exchequer.

"There is also merit in altering the ratios of taxes paid by taxpayers in different bands. Currently, a taxpayer in a Band H property pays three times the level of Council Tax paid by a resident in a Band A property, yet their property is worth at least eight times as much." (IRRV, 1998).

The RICS (1998) took the view that the banding exercise carried out when the Council Tax was introduced is now becoming tainted with inaccuracy due to the increasing value of certain types of residential accommodation when compared with others in the same geographical locus and, in some cases, a general reduction in value of other types of accommodation often due to economic influences. Ten years is a very long time in any market, and especially so in the volatile and reactive residential housing market.

The RICS (1998) has taken the view that the system needs changing or, more likely, that a revaluation is now long overdue. Such a revaluation would go a long way to obviating many of the criticisms levelled at the current Valuation lists, and it is accordingly recommended that early consideration be given to such an exercise.

⁴ Council Tax benefit is state support paid to Council Tax payers on low income.

Thus, initial allocations for banding now have reached a questionable “sell by date” and the arguments for an ad valorem revaluation or at least a rebanding are looming large. But what that form of revaluation should take is still moot. It is time to recognise the sophistication within property appraisal and the expectations of the taxpayers and take advantage of the available modern technology of mass appraisal, which is well-established in other parts of the world. This could entail a discrete valuation process, easily subsumable into a wider range of band allocations, with the added opportunity of frequent updating at minimised cost and effort. Vertical equity also demands a greater link between relative banded values and the level of tax imposed on those bands in order to reduce the currently high level of regressivity.

Potential application of the banded system in transitional and developing countries

In the experience of the authors, the banded residential property tax as used in Britain is unique within the field of ad valorem property tax systems. There are however, systems which utilise for example, beacon properties as a means of identifying groups of similar properties to which the same tax liability is levied; a further example uses broad land uses and zoning (for the Arnona in Israel see Portnov et al, 2000). This part of the Paper considers the strengths of such a system and highlights its potential for greater international use, particularly for developing and transitional countries. A banded property tax would be a useful interim measure for those transitional countries who have decided to move to a discrete ad valorem approach but where the infrastructure and administration is not yet in place (Central and East European countries). In addition, the banded approach could well have an important application for countries/jurisdictions where the existing ad valorem property tax system is in severe decline due to various problems including few qualified staff, lack of resources etc (as in a large number of African and South American countries).

Within a banded system, it is not necessary to specifically value each property but rather to assess in which value band the property should be placed. Inherent within this methodology are the arguments for and against the need to have an exact, discrete estimate of values given the fact that valuation is not an exact science.

In the ideal world, it would be preferable to have current and up-to-date values on each taxable property, but we do not live in the ideal world. The compromise is that with discrete value systems, costs of revaluation tend to result in irregular and infrequent general revaluations. Would a banded system fare any better?

Clearly, all properties within a value band pay the same amount of property tax and will continue doing so until some overt act requires a reassessment of a property's value or where all properties are reassessed at a revaluation. Ignoring

any change in assessed value due to physical changes in the property, there is a greater built-in 'room for manoeuvre' whereby value increases occasioned by market movements may not affect the banding of the property over the short to medium term. This is unlike the discrete system where, assuming the need to achieve accuracy of the tax base during its life, any change in value will or should result in a revised assessment and tax liability. In addition, small structural changes within the banded system would not normally result in such a significant value shift as to move the property into a higher tax band, again, unlike the discrete system.

There must also be some distinct advantages over a discrete system if a banded system is to be chosen. Table 2 provides the authors' perceptions of a fairly robust comparison between a banded valuation system and one based on discrete values. The scaling range adopted is between 1 and 5 with 1 representing poor and 5 very good.

Table 2: Comparison between banded and discrete value systems

Criteria	Banded	Discrete
Simplicity	5	3
Valuation costs	5	2
Comprehensibility	5	4
Practicability	4/5	2/3
Administration	4	4
Transparent	4	4
Fairness	3	4/5
Progressivity	4	4
Stability of revenue	4/5	4/5
Buoyancy	4	5

The banded system scores well against such aspects as simplicity, valuation costs and taxpayer comprehensibility, but fares less well on fairness and progressivity. In contrast, the discrete value approach fares well on buoyancy and fairness, but less so against valuation costs and practicality.

A banded approach, properly constructed could well have potential application in developing countries and those 'transitional' countries of Central and Eastern Europe. Within this latter group of countries, the legacy of Communism and socialist polices has created an environment where the majority of real property was held by the state. These transitional countries, so called because of their move towards democracy and away from the previous centrally planned economies, are seeking to promote aspects of fiscal decentralisation (Paugam, 1999).

A number of countries including Poland, Czech Republic, Hungary, Bulgaria and Romania have a form of property tax based on the floor area of the building

(structures) and the land (McCluskey et al, 1998). In view of the fairly widespread use of this approach what characteristics makes it an acceptable methodology? It is technically easier, as it is much simpler to establish the floor space of a flat than its market value. At the same time many implementing jurisdictions recognize the disadvantages of this type of approach, namely that it is much more inequitable than taxing on value basis. If this is viewed from the perspective of fairness; the literature shows that there is a tighter relationship between the value of properties and services consumed than between the size of properties and services used. If fairness is perceived in such a way that similarly situated groups should bear similar burdens, while differing groups should bear differing burdens, then tax levied on the basis of floor space is patently unfair, as larger properties are not necessarily more valuable (Balas and Kovacs, 1999). Given that the relationship between property value and income is closer than that between floor space and income, then wealthier citizens will pay a greater portion of the tax with a value-based tax. In the Czech Republic for example, the assessed value of developed land is determined by applying a fixed rate per square metre based on the ground floor area of the building and then applying a coefficient to this based on the population size of the local authority. For the capital Prague, the coefficient is 4.5, and for a local authority of less than 300 inhabitants the figure is 0.3 (Rohlickova, 1999). In Slovenia, a point system is used in association with the area of the property. Each building is allocated a number of points based on its age, location, amenities, condition etc., The number of points is multiplied by the area of the building and the value per point (the value per point is determined annually by the municipality) (Bevc, 2001). Other more rudimentary approaches, as used in Bosnia and Herzegovina, adopt the categorizing real property into groups and then apply differing flat rates per m² for each property (Zorn, et al, 1999) .

Area and point based tax systems have been introduced in recognition of the need to tax real property within local authority areas as a means to raise finance to meet infrastructural and other locally based expenditures. Nevertheless, these systems are practicable and socially acceptable and, for as long as these systems remain so, there may be little incentive/political will to change them. There are however, several problems associated with non-value based taxes mostly related to ability to pay, fairness and tax buoyancy. Clearly, many of these countries view their existing property tax systems as purely temporary until they have reached a stage when discrete ad valorem systems can be put in place. There may be an opportunity to refine such systems to reflect an ad valorem property value once the property market develops to the stage where such a tax base can be sustained. In an effort to improve equity and to take advantage of the rapidly developing property markets, many transitional countries have implemented fiscal reforms, which include the utilisation of ad valorem systems.

The introduction of ad valorem-based local property taxes is recognised as an important and essential development to create fiscal autonomy for local

government. There is now a growing trend in transitional economies towards the introduction of ad valorem-based property taxes. Estonia has been in the process of implementing such a tax since 1993 (Tiits and Tomson, 1999); Lithuania is engaged in a reform process regarding both market valuation methodology for the existing land tax and extending the tax to include buildings (IMF, 1998a); Latvia is also finalising its property tax reforms (IMF, 1998b); Romania formally adopted a market value-based property tax in 1997, but assessed values bear little relationship to market values; Poland (Eckert and Kelly, 1991), Czech Republic (OECD, 1996), Hungary (Balas and Kovacs, 1999), Slovenia (Bevc, 2001) and Armenia (USAID, 1997) are all at various stages within a property tax reform process. Land and property markets within these countries are beginning to mature and benefit from the processes of privatisation and the influx of external funds into real estate.

There is an argument that a logical step in the development of ad valorem property taxes for these countries would be to consider a banded property tax. Several countries already utilise property groupings based on geographic location which in some respects are robust proxies for value zones. To develop value bands would not necessitate or create large scale administrative or assessment difficulties.

The problems facing countries in Africa and South America stem from a different source. In many of these countries there are long traditions in the use and application of ad valorem (discrete value) property tax systems. Many of these originally imported during the colonial expansion of Britain, France and Spain. Whilst there is a tradition of implementing and administering such systems the problems being faced by many countries in these regions result from the systematic decline and neglect of such systems. The declining importance of the property tax is at variance to the need for municipalities to raise even greater levels of revenue from fewer tax sources. Such a scenario can be found in such countries as Kenya (Konyimbih, 2001; Kelly, 1998), Botswana (Monagen, 1999), South Africa (Franzsen, 1999), Tanzania (Kelly, 2000), Brazil (Villela, 2001), Chile (de Cesare, 2001), Columbia (de Cesare, 2001), and Mexico (de Cesare, 2001). To re-establish a fully fledged ad valorem system could well be outside of the financial resources of jurisdictions and countries alike. Valuation rolls become dated, assessments bear little relationship to the underlying market value and the task of realigning assessments to market values becomes a significant financial risk, particularly where collection rates are low. This disequilibrium of cost and revenue collected is at the centre of the lack of political will to reinvest in the property tax administrative machinery.

Countries seeking either to introduce a property tax or undertaking major reforms need to evaluate the various options available. The next part of the paper provides a brief review of three assessment options.

Ad valorem assessment: the options

Notwithstanding the ongoing development of property markets, it must be recognised that the real estate markets in most of the countries of Central and Eastern Europe, South America and Africa are highly imperfect. They are generally characterised by the lack of quality data on transactions, high transfer taxes result in under-declared values, absence of suitably qualified appraisers and a limited administrative structure.

The successful shift to implementing ad valorem systems must recognise the need to adopt policies, practices and procedures which are appropriate to the administrative capacity of the tax department. Simplification of policy and administrative procedures will facilitate both tax administration and compliance. Countries face a number of operational difficulties in the administration of the property tax. There is often the lack of accurate base maps, property ownership information is incomplete, lack of property details, absence of supporting institutional structures capable of providing supporting data and managing information and finally the absence of a legal framework to justify the imposition of land-based municipal taxation.

What are the appraisal options for a value-based property tax? At the one extreme, there is a simple system of self-appraisal, and at the other, a highly complex mass appraisal approach, and in the middle the traditional manual assessment approach. Self-assessment has yielded some interesting results in countries such as Columbia and Bolivia, where it has been used to remedy the deficiencies of the local property tax administration and its inability to make reasonable estimates of the market value of real property (Villela, 2001). The real problem is that when using the self-appraisal technique, the equity of property tax can be distorted, as people with similar-valued properties may end up paying different levels of tax. In the long run this technique can lead to the erosion of the real value of the local government's revenues, as property owners, when submitting their appraisals, will naturally not wish to reflect increases in value. Self-appraisal would tend to have fairly low 'appraisal' costs and generally lower levels of appeal; however, it would lead to significant inequities, verification of values would be costly given the natural tendency to under-estimate values and the tax base would be unstable, leading to a lack of buoyancy in revenue and possible high rates of non-compliance.

The traditional manual approach to assessment relies heavily on expert knowledge and is intensive on manpower resources as each property tends to be individually assessed. In many ways, though, this detailed property-by-property approach can be extremely accurate, however, it is becoming almost impossible for those authorities charged with the assessment/reassessment task to actually fulfil their obligations. Hence, the significant revaluation lags being experienced in many countries and jurisdictions (Olima, 2000; Nsamba-Gayiiya, 2001). The deriving of discrete values on a manual basis using appraisers also has a

number of constraints such as labour costs, length of time to value all properties and the availability of professionally qualified personnel.

Adopting a computer assisted mass appraisal approach has the advantages of objectivity, economies of scale and the ability to update values frequently (McCluskey, 1999). Whilst its use is becoming more widespread it does suffer from a number of important drawbacks including high initial costs of introduction, data intensive, lack of transparency in the derived models and the need for suitably qualified specialised staff. The techniques used are data intensive and require various assumptions to be satisfied with regard to the data being used, otherwise the results can be poor in terms of accuracy and reliability. Such systems have expensive set-up costs and require considerable training in their use. Given these constraints one would have to conclude that the introduction of such an assessment approach may not represent the optimum solution for many countries.

The three options discussed generally have the objective to place a discrete assessed value on each taxable property. The alternative to these would be to develop a non-discrete value banded system. The application of value bands is, by definition, a robust approach to value assessment. It has a number of important operational advantages to developing and transitional countries who are either seeking to improve an already existing property tax system which may have fallen into 'disrepair' or wishing to introduce a new ad valorem-based property tax without the complexity of valuation attached to a discrete value system.

There are a number of factors that are considered to be of fundamental importance to the efficient operation of an ad valorem property tax, these include, transaction data, assessment approach, revaluations and appeals. Each of these will now be considered in relation to a banded approach.

Real Estate Transaction Data

With ad valorem property tax systems there is an underlying requirement of needing 'sufficient' transaction data. The optimal situation would be to have representative samples of transactions/sales of all property types in all locations. However, the reality is that this optimal situation is rarely satisfied even in the more developed and mature property markets and even less so in developing and transitional countries where active and stable open property markets are extremely thin or non-existent.

There is often a scarcity of real estate sales due to markets not being fully developed or being directly related to tenure, property rights or customary/tribal restrictions. In addition, there are the empirical problems associated in attempting to quantify market value of existing property in the absence of market data

(Antwi, 1997; Robinson, 1997). A banded assessment approach is considerably less demanding in terms of data requirements (i.e. both in terms of quality and quantity) than a discrete system. Typically, the system would require fewer transactions and not be constrained to generate new assessed values each time a property has been 'improved', unlike discrete value systems.

Valuation/Assessment Approach

In those cases where property markets, whilst existing and developing, are nonetheless limited, there is the need to ensure that valuation practices and procedures are developed to reflect this constraint. The initial objective should be to achieve a valuation system, which exhibits robustness, reliability and simplicity to reflect the various constraints. As Kelly (1994) suggests in relation to valuation systems, they should ideally be chosen on the grounds of simplicity, transparency and explainability to the taxpayer.

The assessment techniques should not be overly complex, avoid excessive demands for detailed, extensive data and allow for the application of simplistic mass appraisal models. This simplicity of approach will, or should, ensure that future revaluations can be easily undertaken in a cost-effective manner. In this way, the techniques used to fix a property-based assessment can be perceived as both reasonable and socially acceptable by the taxpayers. Over time, as markets mature and data becomes more available the methodology for valuation can be refined as appropriate.

There is of course no particular reason for developing a highly sophisticated and complex ad valorem property tax valuation system, except for the increased desire for optimum levels of horizontal and vertical equity which is assumed to be the demand of the taxpaying public. The banded system is to some extent founded on the principle that valuation/assessment is not an exact science, therefore, the ideal in having absolute values could be considered as non-essential. The use of value bands particularly for residential property does not necessitate a precise valuation of each property, but rather an informed opinion as to which band it should be allocated. Indeed, identifying 'standard' or 'beacon' properties which have been sold at the valuation date (i.e. allocated into a specific band) can be used to estimate values/bands for other similar properties. This would effectively allow bulk assessments to be completed quickly at a fairly minimal cost by relatively less qualified staff. There is also the opportunity to apply broad and relatively simplistic mass valuation techniques which can automate the process of band allocation.

There is also the potential to use the private sector to a greater extent given their expertise and local knowledge of property markets. Private sector resources of realtors rather than appraisers would be well placed to undertake blocks of valuations in specific geographic areas resulting in a speedier and cheaper valuation process.

Revaluations

The cycle of revaluations under a banded system is likely to involve less frequent revaluations than under a discrete value system. This is based on the premise that changes in a property's value due to physical changes and market price movements can, to a large extent, be absorbed within the band and hence not necessitating a move in band. The issue here is not the absolute values of properties but the relative value of one property against others. Therefore, if all properties experienced an equal change in value there would be no need to have a revaluation because the overall relativities would not have altered. But property markets are imperfect and do not always move in the same direction at the same rate at the same time. Therefore, the obligation to undertake a revaluation is an important one, particularly if the banded property tax is to be accepted by taxpayers as being 'fair'. Such a system will be successful if there is a clear, distinct and continuous relationship between the value of a taxpayer's property and the value band it is placed in. Such a relationship will only be established if the value bands and house price movements are regularly monitored and reassessed.

Therefore, there is a need to have some form of periodic check on whether properties are still in the correct band. Otherwise, as significant changes in values occur over time in certain areas, the banding allocations will become unfair, unacceptable and unrealistic. With discrete value systems, international practice on revaluation cycles would tend to indicate a norm of between three to five years (McCluskey, 1998). However, one would expect that under a properly designed banded system, revaluations should occur at anything between five to ten years. In addition, if the value bands are indexed, possibly on a five-year cycle this could well extend the life of the assessed values beyond a ten-year revaluation. However, a banded system is time-specific, and only value-specific if values change too rapidly therefore, much depends upon the movement in market prices and the magnitude of inter-regional and intra-regional changes (Farrington and Lee, 1992).

Appeals

By not having to value each property to a specific figure but rather within a price range it is reasonable to conclude that the number of appeals against the initial valuation generated by a banded system should be lower than with a discrete value approach. Clearly then, with a banded system a taxpayer will be less concerned with the actual value of the property but more with the appropriateness of the banding allocation. Only, if the taxpayer believes the property to have been incorrectly banded would an exact, precise valuation would be required for the appeal. It would be expected that appeals against the band would be limited to properties whose values lie around the edges of each

band. This is an important issue given that any 'new' property tax system or one that is substantively modified can be adversely affected if there are numerous appeals. The legislative role of specifying opportunities for appeal subsequent to the initial revaluation appeal period will also be significant. With a proper market value monitoring system, which could invoke revaluations, the number of appeals should decline, as the system becomes more transparent and acceptable to taxpayers.

Having considered the above factors in the light of a banded value approach it would be useful to investigate two other issues namely, the number and width of value bands and the associated tax rate structure. Given the experience of Britain in using such a system it is intended to use data from that jurisdiction to highlight a number of issues.

Value Bands

Banding falls uneasily between a truly progressive property tax system requiring the use of more bands that could be locally or regionally determined, and an administratively simpler system requiring the use of a small number of bands. The use of fewer wider bands would mean fewer appeals, whereas a larger number of narrower bands would result in many properties having to be rebanded following improvements that affect the market value of the property.

It could be argued that the application of locally determined or regional bands as opposed to nationally derived bands (as is the case in Britain) would ensure greater fairness in the system. The banded approach would have considerable flexibility allowing for regional bands which would allow for the structure and composition of the regional property market to be reflected in the size and distribution of the value bands. High value areas and low value areas could have bands developed to suit the average property prices in those areas.

In Britain each property is placed into one of only eight value bands. There is no empirical justification for having eight bands but rather there may be regional evidence to suggest a greater number say between 10-15. The important issue here is one of flexibility and designing a value structure which suits the local/regional property market.

Tax Structure

When the banded property tax was introduced in Britain, in addition to specifying the value parameters of each band, Central Government specified the level of tax which was to be levied on each band. Band D is the so-called "average" tax band and legislation ensures that properties in Band A (the lowest tax band) are charged only two thirds (6/9) the level of tax for Band D. Similarly, properties in

Band H (the highest tax band) are charged twice (18/9) the level of tax for Band D. The relative tax levels are shown in Table 3.

Table 3: Relativity between bands

Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H
6	7	8	9	11	13	15	18

The use of banding means that the property tax is manifestly not a proportional tax which would increase as a continuous linear function of a dwelling's market value. Instead the amount a taxpayer will pay depends on the band to which the property has been allocated. In Britain, Band D was taken as the 'base band' in that a jurisdiction determines the level of tax liability for Band D properties and then the tax liability for the other bands is calculated by reference to a predetermined formula. Table 4 shows the percentage liability for each band in terms of Band D (assuming Band D attracts a tax of £500).

Table 4: Percentage liability in terms of Band D

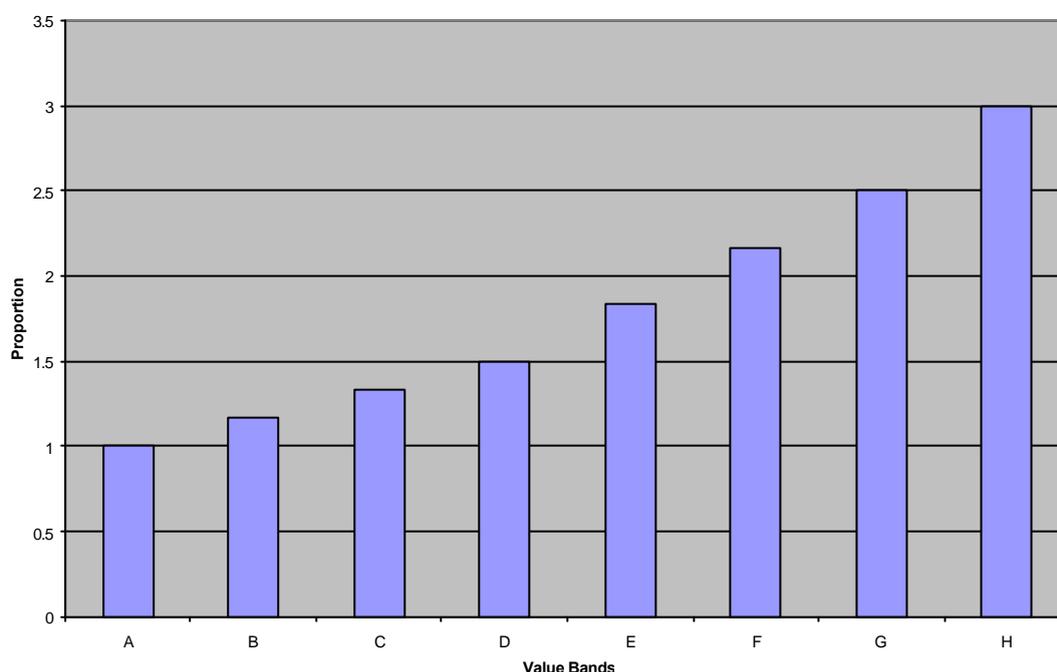
Band	Percentage of Band D	Actual liability
A	66%	£333
B	77%	£385
C	88%	£440
D	100%	£500
E	122%	£610
F	144%	£720
G	166%	£830
H	200%	£1,000

Figure 1 illustrates the progression in terms of the relativities between the various bands. For example a property in Band H pays three times the tax in comparison to a Band A property. Obviously, the progressivity of the tax can be affected by altering the relative percentage weightings of each band to the base band. Ensuring that the tax minimises regressivity and enhances progressivity is of crucial importance as a balance must be achieved between the contributions made by poorest (assumed to be those occupying the cheapest housing) of society in comparison to the more well off.

The cheapest Band H properties are about four times the value of a Band D property and Band H has no upper limit. This means that a dwelling with a capital value exceeding £3.2m attracts the same level of Council Tax as the cheapest property within the band despite being worth ten times as much.

Thus, the Council Tax does not require taxpayers to pay in proportion to the banded value of their properties and therefore fails to achieve any reasonable degree of vertical equity. There have been calls for additional bands beyond Band H, to demonstrate that for residences worth millions, their occupiers pay substantially more than their neighbours in more modest Band H residences. Similarly, it has been demonstrated that there is a vast range of residential property prices within Band A, whose occupiers are disadvantaged when compared with their neighbours (Plimmer, et al. 1998; RICS, 1998; IRRV, 1998).

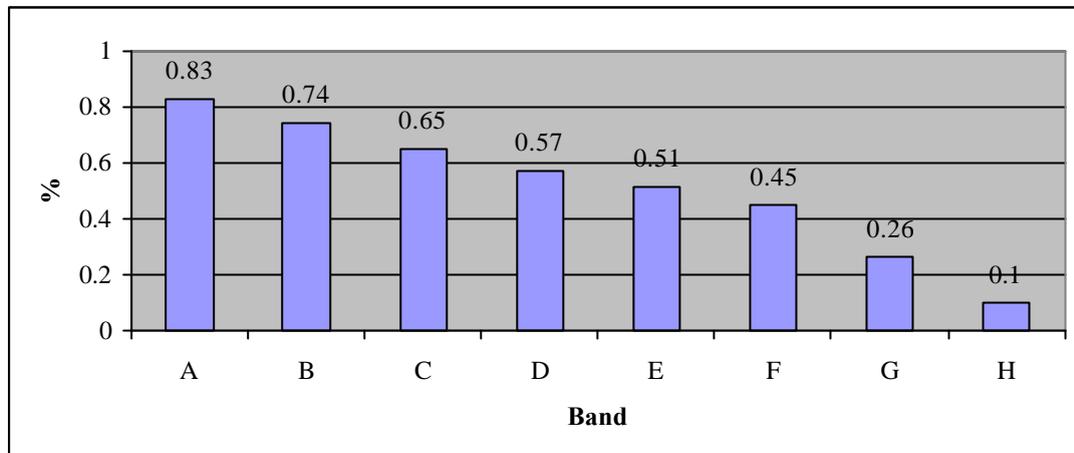
Figure 1: Variation of bills for different bands



Calls for a reform of the banding system (in addition to a revaluation) have been made by both The Royal Institution of Chartered Surveyors (RICS, 1998) and the Institute of Revenues Rating and Valuation (IRRV, 1998). These organisations, which represent appraisers, municipal tax administrators and other interested professionals, have both declared that the value bands are too wide, particularly at the extremes (Bands A and H) and have expressed concern at the failure to implement a rebanding of property since the original exercise.

Figure 2 illustrates the range of effective tax rates based on the banded structure used in Britain. The percentage figures are calculated on the basis of a Band D property paying £500 and the tax rate determined in relation to the upper band value. It highlights that for Band A properties owners pay 0.83% for a £40,000 dwelling, whereas for a property worth 1m the effective tax rate is only 0.1%. Clearly there is a need to re-examine the regressive rate structure.

Figure 2: Effective tax rates



Using the British model as an example one can see the potential flexibility that a banded property tax has to offer. This flexibility can be developed in terms of the number of bands, their width and the effective tax structure and can be easily adapted and can be easily adapted over time to suit changing circumstances.

Conclusions

This paper has focused on the banding of residential properties and one of the main views of the authors is that value banding for property tax purposes could have a wider application in terms of its usage within transitional and developing countries. It is considered that a banded approach, if designed to reflect both the structure of the property values and the cultural and social expectations of the taxpayers, in terms of the number of bands, size of bands, tax structure etc. can overcome those technical and administrative valuation-based issues typically found in most developing and transitional countries. This will ensure that investment in property tax reform will be rewarded with a more stable and predictable tax yield. The necessity of having simple, cost effective solutions to the ad valorem problem will lead to enhancements in the system and ultimately to the potential to introduce more advanced assessment approaches, if required. Banding allows the establishment of different value bands (and therefore the imposition of differential tax levels between different types of property) between different jurisdictions.

Placing domestic properties into one of several value bands is a relatively inexpensive and efficient procedure to produce assessed values on which to base a source for local authority revenue. The use of private sector valuers in co-operation with government valuers can speed up the process and reduces the cost with minimal loss of accuracy.

Value bands and the frequency of revaluations/rebanding should reflect the nature of the property market within a given jurisdiction. The relativities of level of tax imposed between bands should reflect closely the relative values within each band. In this way, vertical equity can be optimised and social acceptability improved.

Banding of property values does not, however, obviate the need for revaluations of the tax base. Regular and frequent revaluations are necessary to ensure that the tax is levied on values which are current, thereby improving both horizontal and vertical equity between taxpayers. However, under a banded system it is likely that revaluations could be more infrequent in comparison to discrete value systems.

The flexibility of the banded approach has already been mentioned but this particular attribute should not be under-estimated. It would allow jurisdictions at the local or regional level to establish a banding structure which suits the local or regional property market and at the same time to develop a tax rate structure which adequately reflects the concepts of progressivity.

It is vital to remember that the object of any local authority tax is to ensure sufficient finance to provide for appropriate local authority services to the community. In that light, it is important to ensure that the tax does not fall on those without appropriate financial resources to pay. An efficient and effective tax rebate and hardship system, either incorporated within the tax system or which operates alongside it, is vital to protect those on low incomes. Resources should be concentrated on those without the financial resources to pay, rather than offered to other sectors of the community e.g. a sole occupier, whose financial needs are not assessed.

Local authorities should be given sufficient respect, freedom and responsibility to establish and administer a taxation system which provides them with sufficient financial resources and direct democratic accountability with their electorate, without the need for central government to monitor the authorities or protect the local taxpayers.

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