Strategies for Cost-Effective Property Valuation Systems

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Property Valuation: A Crucial Step in Property Tax Administration

- The main goal of property valuation is to establish the market value of a property, so that it can be used for property tax assessment.
- But, availability of data on market values is often limited in lower income countries
- Using various methods, property assessment aims to approximate market value of properties for taxation purposes.
- Property assessment is effective when the methodology for assessing values for all assessable properties is consistent, transparent and delivers progressivity and equity in the tax distribution:
  - horizontal equity of valuation for similar properties,
  - vertical equity such that more valuable properties are assessed at a higher value and vice versa

How to choose an effective property assessment method?

Three Dominants Models

Area-Based

- Simple method using the size of the building and location
- Simple to administer and to implement where property market data is not easily available
- **Disadvantages**
  - Not necessarily fair with major concerns about inequity
  - Does not take into account the differences in quality of buildings

Hybrid Models

- Combination of information about the property size, location and easily observable physical characteristics.
- More efficient in time and costs
- Simpler to administer and more transparent than the expert-led valuation
- More equitable than area-based approaches
- **Disadvantages**
  - Oversimplification of the model can create inequity
  - Choosing more characteristics can lead to more subjectivity and unfairness

Expert Driven Market Value Assessment

- Relied of trained professional valuers
- Values estimated based on comparison to available market data
- **Disadvantages**
  - Costly
  - Market data is not often available in countries with less developed property markets
  - Highly subjective valuation
  - Risks of collusion or corruption

Challenges with Valuation in Lower-Income Countries

- Valuation rolls across lower-income countries are incomplete and severely out-of-date, thus dramatically reducing potential property tax yield.

- Systems heavily relying on expert-driven methods are complex and hard to administer in contexts where market data is hardly available.

- Valuation rolls are not regularly updated due to high costs and are often non-transparent, subjective and prone to collusion and corruption

- Consequently, in several lower-income countries, valuation practices lead to massive inequities resulting in the undervaluation of high-value properties and the over-valuation of low-value properties.

Key Questions

1) How to build a system that can deliver ***progressivity and equity,*** *is* ***simple*** *enough to be administrable and* ***transparent*** *enough to reduce collusion and abuse?*

2) How to ensure that the valuation methodology is ***transparent*** *and* ***clear*** *to taxpayers in order to build* ***trust and compliance****?*

3) What ***procedures*** *should be in place to ensure regular updating of property valuations as new buildings are completed, additions made, or demolitions occur?*