



FISCAL AFFAIRS

Options for Advancing Property Tax in Asia

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OUTLINE OF TALK

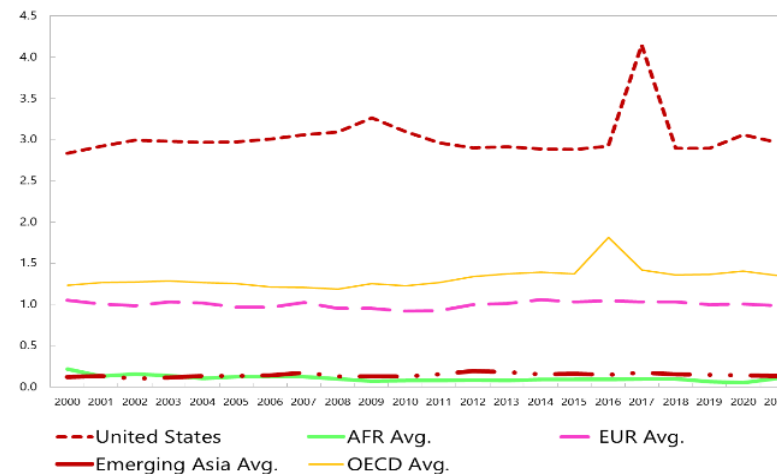
- 1. Introduction: Revenue Potential, Economic Virtues, Local Public Finance**
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INTRODUCTION

Revenue Potential of Property Taxes

- Property taxes are an under-utilized source of revenues in many countries.
- Revenues from property taxes are much higher in advanced economies than in Emerging Asia (more than 1 percent of GDP in OECD countries, but only around 0.1 percent of GDP in Emerging Asia).
- A reasonable target for property tax revenue-to-GDP is at least 1 percent.

Property Tax Collections in Comparator Country Groups in Percent of GDP



Economic Virtues of Recurrent Property Taxes

- *Research has shown that property taxes and the value of local public services are both **capitalized** into housing prices.*
 - Examples of local public services include local parks and roads, sewage, rubbish removal, proximity to subway stations, and schools.
 - The implication of this observation is that **recurrent property taxes on real estate** can provide a direct link between tax payments and improvements in local services.
 - But for this to be true, the tax must be **assessed on market values and broad-based**.
 - Appealing to the **benefit principle** of tax fairness (“users pay for benefits”) can elicit political support for relying on property taxes for local public finance.
 - Property taxes are also regarded as vertically **equitable** (ownership is correlated with wealth).
- *Research has shown that property taxes have a relatively **benign impact on economic growth**.*
 - Property taxes are less distortive than taxes on labor and capital investment. This is because the tax base (especially the land component of real estate) is immobile.

Local Revenues Supports Fiscal Decentralization

- In many developing countries, there is rapid urbanization, placing stress on local public finances.
- By capturing part of the wealth generated through construction-intensive urbanization, which is capitalized in rising land prices, taxing real estate more effectively can play a meaningful role in raising revenue, **especially at the local level**.
- Using the revenues to finance improved local public services and infrastructure enhances local authorities' political accountability and taxpayers' acceptance of property taxation.

PROPERTY TAX DESIGN

Options for the Tax Base: Capital Value (a Stock) Versus Rental Value (a Flow)

- With **capital value** assessment (often called “capital-improved value” of land), the tax base is determined by the price the asset would command in the market, if sold.
- With a **rental-value** assessment, the tax base is determined by the annual income the property would command in the market, if rented out.
- Both market-based approaches are widespread.
- It is not uncommon, however, for the **assessed value** to be set at a fixed discount of the market value or rental value. (Why?)
- Another approach is **area-based taxation**, i.e., some fixed amount per square meter.

Decentralization of Rate-Setting

- **There are marked differences between countries with respect to the fiscal autonomy of municipalities for setting property tax rates.**
- In Asia, commonly the central government has the responsibility to set the statutory rate. In India, Malaysia, Philippines, and Thailand, responsibility for the rates is a local prerogative but with some conditions imposed by the central government (such as the maximum and minimum allowable tax rates).
- In some African countries, property tax rates are determined centrally (e.g., in Algeria, Cameroon, Egypt, and Rwanda). Botswana allows for local discretion over tax rate-setting, but central government approval of locally determined tax rates is required.
- In Europe, local governments are usually responsible for the property tax rate.

Tax Rates: Some Examples

Tax Rates of Residential and Non-Residential Properties in Selected Cities (Countries) in 2025

City (Country)	Tax base	2025 Tax rate (percent)		
		Residential	Commercial	Ratio
Ahmedabad (India)	Adjusted area	Rs.16/- per m ²	Rs.28/- per m ²	1:1.75
Cambodia	Market Value	0.1	0.1	1:1
Cape Town (South Africa)	Market value	0.6631	1.5582	1:2.35
Johannesburg (South Africa)	Market value	0.9125	2.2813	1:2.5
Lusaka (Zambia)	Market value	0.1	0.2	1:2
Perth (Australia)	Gross rental value	6.074	6.820	1:1.12
Toronto (Canada)	Market value	0.592	1.385	1:2.34
Thailand	Market value	0.1	0.4	1:4
Vancouver (Canada)	Market value	0.312	1.113	1:3.57
Rwanda	Market value	0.5	0.3	1:0.6

- Tax rate for commercial property typically higher than for residential property.
- **Equivalence** between the tax rate on rental value versus tax rate on capital value:

Tax rate on rental value = Tax rate on capital value ÷

(Interest rate – Growth rate of rental income + Tax rate on capital value)

Property Tax Relief

- **Property tax relief** can be provided in various ways, including exemptions, differential tax rates, deferments, rebates, and discounts for early payment.
- Some countries have adopted a **property value threshold** for assessing property tax. The threshold must be neither too generous nor too restrictive.
- **Deferral of property tax** for “asset-rich but cash-poor” (typically, pensioners): the arrears would become due in full – with or without interest – when the property is sold or inherited.
- Relief can improve equity and fairness, but badly designed tax relief programs (poorly targeted, easily abused) result in **base erosion and complex administrative provisions**.

Property Tax Exemptions

- Many countries have a long list of property tax exemptions.
- The effective functioning of the system is improved if exemptions are kept to an absolute minimum. Exemptions and tax relief should be restricted to properties meeting **narrowly defined criteria**.
- Exemptions for cultural or religious public benefit organizations, if maintained, should be qualified and defined carefully to restrict the list. **Properties not directly used for the public benefit activity should be taxed.** For example, only the church sanctuary should be exempted, not rental lands owned by the church.
- **State-owned entities** often benefit from property tax exemptions (in Asian countries and elsewhere). However, central governments use local facilities and could therefore contribute payments to the defraying of local government costs. Legislation in Kenya and Zambia allows for payment in lieu of taxes and in Canada the federal government provides grants to the provinces equal to what the property tax would have generated.

TAX ADMINISTRATION: CHALLENGES AND SOLUTIONS FOR VALUATION, COVERAGE, BILLING AND COLLECTION

Property Identification (Coverage)

- Imposing a property tax depends on the existence of a **fiscal cadaster**, which records facets of a property that are needed to manage a recurrent property tax, including a description of the property (size, age, building material, use), taxpayer information (owner or occupier), valuation, and location (that is, the physical address).
- **A data sharing protocol** should be instituted, whereby the land titling or deeds office records the transaction values systematically throughout the country. This would ensure realized property transaction prices are recorded accurately and consistently. The information would be shared with the fiscal and legal cadasters in support of local property valuation offices, local tax administrations, and central revenue administrations tasked with capital income taxation.
- **Advances in information technologies** for property identification can be leveraged to facilitate property tax administration in capacity-challenged countries.

Satellite Imagery and GIS

- **Satellite imagery** can be effective for mapping all taxable properties in a jurisdiction's boundaries. Geo-referencing the satellite image of a land parcel or property to a unique property identification number (which is a combination of a ward number, street number and plot number) will improve coverage of taxable properties and the ability to bill the properties.
- Recording of the property inventory commences with comprehensive satellite mapping of individual properties and the measuring of buildings' surface areas.
- Second, through door-to-door field surveys and mandatory self-reporting, knowledge is built up about the nature, usage, type of construction, number of floors, and age of the buildings.
- This information is incorporated on a map with **geographic information system (GIS)** coordinates to which photos of the property could be added.

Valuations of Properties

- Outdated valuations are common in developing countries. The result is:
 - Low effective tax rates and weak revenue buoyancy. (Effective tax rate is tax/market value. Buoyancy is how revenue tracks GDP.)
 - Unfairness across different properties because of arbitrary deviations from current market values.
- Value assessments should be updated periodically (3 to 7 years, ideally annually) and indexed between valuation years.
 - Annual valuations are cost-effective and realistic only if supported by **Computer-Assisted Mass Appraisal – CAMA**), which is feasible only where data quality and modelling skills permit.
- “Hybrid” or **Adjusted Area-Based Assessments** can be used as a transition to market value assessments.
 - Such assessments start with a baseline amount of tax per square meter of property, then adjusted by coefficients that reflect characteristics of the properties that correlate with market value.

Hybrid Approach to Assessment

- New Delhi and Ahmedabad (India) introduced an adjusted area-based system that offers a short- to medium-term alternative to market valuation. This method does not require individual parcel revaluation since it can be based on a self-reporting of the assessable value of the property.
- A basic arithmetic formula is applied to calculate the property tax, based on the **covered/roofed area** of the building and the **unit area value** (fixed by the local government) or the unit area tax for the category (of locality or amenity) of the property.
- The main practical challenge is the accurate determination of the surface area of the building or parcel. Available advances in the technology of satellite imagery can address this hurdle. The Indian cities created fiscal cadasters with information from GIS maps that geo-referenced all the particulars of the filed self-assessed property tax returns.
- Annual value = unit-area value X covered/built-up area X factors (use, structure, occupancy).
- The unit-area values refer to geographic value zones. (In New Delhi, zones A to H with category D constituting the base unit-area value of 320 Rupees per m².)

Hybrid Approach to Assessment: New Delhi

- The multiplicative value adjustment factors refer to occupancy (self-owned or rented); age and use of building (residential vs non-residential); quality or structure. For categories E to H, multiplicative factors of less than 1.0 are used; for categories A to C, factors greater than 1.0 are used.

The Multiplicative Adjustment Factors							
Occupancy		Structure		Age		Use	
Factor	Factor		Factor		Factor		Factor
(Residential)							
Owner-occupied	1.0	Pucca	1.0	After 2000	1.0	Medical institutions, religious purposes, schools	1.0
Tenanted	2.0	Semi-pucca	0.7	1990 to 2000	0.9	(Vacant), utilities, telecommunication	2.0
		Kutchha	0.5	1980 to 1990	0.8	Industry, entertainment, clubs	3.0
				1970 to 1980	0.7	Retail, restaurants	4.0
				1960 to 1970	0.6	Hotels, towers	10.0

- The (2025) tax rates on the annual unit area values of vacant land or covered space of the building for residential property categories are 12 percent for A and B, 11 percent for C to E, and 7 percent for categories F to H; and for nonresidential property categories, the rates are 20 percent for A to E, and 15 percent for F to H.
- Example of an owner-occupied 200 m² restaurant of good-quality material built in 1995 with a unit-area value of 500 rupees/m² would pay (in 2025) property tax as follows: $500 \times 200 \times [1.0 \text{ (owner-occupied)} \times 1.0 \text{ (quality)} \times 0.9 \text{ (age)} \times 4.0 \text{ (use)}] \times \text{tax rate of 12\%} = 43,200 \text{ rupees}$.

Billing and Enforcement

- Many challenges in billing, facilitating, and enforcing payment of property taxes. Facilitation can include e-payment, following up the initial invoice, etc.
- Administrative enforcement measures should include the right to authorize a **restraint on the transfer of ownership of a tax-delinquent property**. A clearance certificate can be issued to attest that a property is fully current with the payment of all property taxes, service fees, transfer duties, and municipal charges.
- Other legal enforcement measures include attachment of wages (i.e., withholding or seizure), attachment of bank accounts, attachment of rent, action against property occupiers, tax liens, seizure of goods, and forfeiture.
- In most countries, billing, collection, and enforcement of property taxes occurs at the local level. This approach promotes local fiscal autonomy and responsibility and exploits familiarity with local conditions.
- However, **national tax administrations are more proficient** in tracking down corruption and misuse of funds, have access to significant amounts of taxpayer data that can assist in enforcing property taxation, and they carry more political weight when enforcing payments from elites.
- **When the local tax administrations are unable to effectively enforce property tax collection, it is advisable to recentralize the enforcement function until the local capacity has been improved** (as in Rwanda, Tanzania, the Gambia, and the Republic of Srpska).

THANK YOU FOR YOUR PARTICIPATION

For further information, see the IMF's How to Design and Implement Property Tax Reforms (Grote and Wen, 2024)

<https://www.imf.org/en/Publications/imf-how-to-notes/Issues/2024/09/19/How-to-Design-and-Implement-Property-Tax-Reforms-55510>