



UNITED NATIONS
UNIVERSITY
UNU-WIDER

DRAFT

WIDER Development Conference

Public economics for development

5-6 July 2017 | Maputo, Mozambique

This is a draft version of a conference paper submitted for presentation at UNU-WIDER's conference, held in Maputo on 5-6 July 2017. This is not a formal publication of UNU-WIDER and may reflect work-in-progress.

THIS DRAFT IS NOT TO BE CITED, QUOTED OR ATTRIBUTED WITHOUT PERMISSION FROM AUTHOR(S).

Myanmar Real Estate holding Tax: A Modest Proposal for Municipal Finance in Myanmar

Min Ye Paing Hein

Myanmar Development Institute

Abstract

This paper delineates a proposal for Myanmar Real Estate Holding Tax (MRSHT). Building on conventional theoretical wisdom that property tax provides a robust tax base for municipal revenue, the paper argues that the proposal of real estate holding tax as a source of municipal finance provides a constellation of benefits to Myanmar given its current policy economy of taxation and strategic priority on national reconciliation. Moreover, the paper not only suggests an optimal sequencing strategy but also presents a systematic analysis of the best-fit option for Myanmar in terms of specific tax base, tax rate, property valuation, administrative requirements and political economy considerations. With this proposal, the paper aims to shed some light on the gaps and chasms in Myanmar's path towards fiscal decentralization.

Introduction

Myanmar has the lowest tax revenue per GDP in the Southeast Asia. In 2015/16 fiscal year, tax per GDP ratio for Myanmar is 7.5 percent compared to 15.7 percent in Laos DPR and 14.2 percent in Cambodia in 2015.¹ Although the ratio has been steadily increasing from 6.3 percent in 2012/2013 to 7.7 percent in 2016/2017, this progress is gradual and hesitant.

Although there is an existing system of property taxation at some municipalities in Myanmar, property tax as a source of municipal finance has never been systematically and strategically explored in the context of fiscal decentralization and post-conflict national reconciliation.

Extant literature has spoken voluminously about the general principles of municipal finance such as the subsidiarity principle and benefit principle. As per the subsidiarity principle, the efficient provision of services requires that decision-making takes place at the level of government that is closest to the beneficiary. (Barnett, 1997) or service provision at the level of government that is closest to the customers. The benefit principle posits that the tax burden should be borne by those who directly benefit from the provisions of services that are financed by the said tax revenue (Bird, 2001).

¹ International Monetary Fund (IMF). (2014). *Myanmar: 2014 Article IV Consultation— Staff Report; Press Release; and Statement by the Executive Director for Myanmar*. Washington, D.C.: International Monetary Fund, Publication Services.

Similarly, extant literature on municipal taxation extols multifarious virtues of Property Tax as a source of municipal finance including but limited to the following reasons.²

(1) Stable and substantial source of revenue

It is the least distortive tax instrument with most resistance to cyclical fluctuations in the economy.

(2) Enhancing the progressivity and fairness of the tax system (Example, South Korea)

(3) Strengthening the agenda of fiscal decentralization by promoting accountability and transparency at the subnational level (Linking tax revenue to service delivery at the subnational level)

(4) Promoting effective and optimal use of Land.

(5) Countering Speculative housing booms and busts (Example: China, Singapore)

According to the OECD, property tax is defined as recurrent and non-recurrent taxes on the use, ownership or transfer of property including taxes on immovable property or net wealth, taxes on the change of ownership of property through inheritance or gift and taxes on financial and capital transactions.³

There are myriad compelling arguments to introduce and implement a new property tax in Myanmar. First, Myanmar has a narrow tax base and very low tax revenue as discussed before. Therefore, a new property tax regime would have the desired effect of broadening the tax base and thus increasing the tax revenue. Second, access to land has been identified as one of the major constraints for private sector growth in Myanmar. (World Bank, 2015) Moreover, pervasive land disputes and land speculation pose major hindrances for economic growth. In a milieu of negative real interest rates, volatile exchange market and resource-driven economic growth, land hoarding and land speculation had become strategic options for those who became prosperous under the military and pseudo-military regimes. In 2014, price per square meter of prime real state properties had exceeded those of Manhattan and Singapore.⁴ Since then, property prices have been on a steady decline due to a recent surfeit of housing and imposition of high

² Clements et Al (2015) Inequality and Fiscal Policy, International Monetary Fund

³ <https://data.oecd.org/tax/tax-on-property.html>

⁴ In the city's three sole 1990s-era towers, where annual rents have climbed to more than \$100 a square foot, compared with less than \$75 in downtown Manhattan. (<http://www.bloomberg.com/news/articles/2013-07-29/yangon-more-expensive-than-nyc-sparking-boom-real-estate>)

transaction tax on property sales. However, past practices of land hoarding and land speculation might have led to a high concentration of land ownership.⁵ A proper policy of property tax, in conjunction with transparent land policy, is critical in promoting the optimal and productive land while countering the speculative practices on land.

As enshrined in the 2008 constitution, sub-national government has the legal mandate to collect revenues from property taxes. However, due to lack of a proper cadastral, valuation and policy framework, this major source of municipal finance has been severely underutilized. As the country moves towards fiscal decentralization, a robust and rigorous reform of property tax regime is important for strengthening sub-national fiscal autonomy and sub-national basic service delivery. Given a high concentration of land in the hands of political connected interests, property tax reform would also enhance the progressivity and fairness of the tax system.

In the current tax landscape in Myanmar, there is a functioning tax regime for property transfers and property translation. There is no tax regime or schedule for real estate holdings in Myanmar. The table 1 delineates the new tax schedule for property transfers or sales that was implemented under the Union Tax Law 2015. This move was a sharp departure from the previous tax regime of 30 percent for all property purchases with undisclosed income sources. Although this move was designed to resuscitate the morbid real estate market, the implementation of this new property tax regime led to 61 percent decline in real estate tax revenue in the first six month of the fiscal year 2015-2016.⁶

Application of General rules of property taxation to Myanmar

As the first step, tax base needs to be clearly defined. It is important to specify whether land or improvements of land or both would fall under the definition of property. In the same vein, if the use of property such as residential versus commercial versus agricultural land is an important dimension in the definition of the tax base, then a systematic cadastral would be the first item in our tax reform agenda. Building a systematic cadastral database may come at a cost but studies have shown that the benefits far outweigh the cost of building a cadastral. For example, Bustamante and Gaviria (2004) examine the case of Bogota to demonstrate the cost and benefit of a systematic cadastral for generating tax revenue. Between 2000 and 2003, 1,734,622 properties were updated with 102,532 new listings. The cost of updating was four million USD but the

⁵ On the basis of the high level of concentration of ownership, a tax on the land value base would seem to be the most progressive (Bahl & Martinez-Vazquez, 2007)

⁶ <http://www.mmtimes.com/index.php/business/property-news/14113-new-property-tax-rates-can-spur-demand-for-real-estate-market.html>

<http://www.mmtimes.com/index.php/business/property-news/17253-lower-rates-see-real-estate-tax-revenues-plummet-61pc.html>

increase in base value and tax revenue was far great with an increase in tax revenue by an additional 24 million USD per year. In 2008-2009, a comprehensive update was conducted to cover 2.1 million properties with 98.6 coverage. Although the total cost for the update was around 15 million USD for two years, the increase in tax revenue amounted to an additional 48 million USD in 2009 and 123 million USD in 2010 for the city of Bogota.

In Myanmar, the UN-Habitat has supported the introduction of the GIS-based digital cadastral system in two pilot townships in rural areas. Although there are some movements towards building a GIS-based cadastral database by the Yangon City Municipal Council (YCDC), the progress has been slow and haphazard. For the property tax reform agenda, GIS-based cadastral database systems need to be introduced and developed in Yangon and Mandalay Metropolitan areas. The geo-coded locations of all properties should be linked with the property tax system including location, size, use, ownership, tax liability and tax payment via the assignment of unique property identity numbers. There may be a need to create of a national agency to oversee the GIS-based cadaster system as in the cases of Estonia, Latvia, and Lithuania. Donor support in this area of GIS and public financial management in Myanmar is very strong. Enough financial and technical support can be harnessed to support this database.

The valuation of properties, once they are documented in an inventory, is the next sequence in the reform. This paper makes a careful assessment of four main property valuation systems for their fitness to Myanmar's context. First, the use of average rental value, which is most common amongst the former British colonies, is based on the assessment of property value on the basis of its estimated annual rental value. Given overvalued housing prices in Yangon and high variances in price-to-rent ratios across types and townships, current rental values may not accurately reflect the underlying value of the property. Moreover, given a scarcity of rent information for certain types of properties (ex: Industrial Property, Vacant Land) and certain areas (rural rental market is very thin), the use of average rental value may be quite limiting in the case of Myanmar. The Site-Value System, which is commonly practiced in Australia and New Zealand, only records the value of land excluding structural improvements. In Myanmar's context, it would be difficult to make such an assessment on the value of land in highly urbanized areas in Yangon and Mandalay without structural improvements. Moreover, the exclusion of such improvements would diminish the equity of the tax since the improvements may account for a great proportion of the total value of the property. On the other hand, capital value system (CV) has increasingly become popular internationally accounting for the value of land including structural improvements. This method works best in the countries where is a long and well-established tradition of land markets. However, in Myanmar where the land markets are still thin and inefficient, the adoption of such a method would herald high administrative costs due to under-declaration of values and incomplete market information. Lastly, there is the valuation method known as the Unit Area-based Method (UAM), which imposes a tax schedule on each parcel at a specific rate per unit area of land and per unit area of structures. It is uniquely relevant for the countries such as Myanmar without formal land markets. For example, Ahmedabad deploys UAM that indexes each property according to location, building size, usage, age, and occupancy. In

Bangalore, a creative hybrid between an area- based system and a value-based system has been successfully implemented. A custom-made hybrid between CV and UAM is recommended for Myanmar.

Under the existing property tax landscape for the city of Yangon, Yangon's Internal Revenue Department (IRD) is the implementing agency for property transactions and assorted fees under the umbrella of property tax. For the valuation of property transactions, the previous system of self-assessment led to serious underreporting. Since 2013, the IRD has migrated to a different system of area-based valuation. Progressivity of taxation is maintained with higher tax rates being applied to properties under the higher valuation brackets. Under the new structure, the IRD implemented price surveys⁷ and determine the value-per-square-foot area for neighborhoods within the township in Yangon by the Township Appraisal Board. The data is then compiled the data by the regional board and submitted to the regional government for approval. The IRD planned to update the evaluation annually and the Second Annual Survey was implemented in October 2014. In late 2016, the YCDC announced that a new set of property values, which are higher than the valuations from 2014, have been submitted to the government for approval. It is recommended that the Property Appraisal Committee by the IRD (which has been conducting valuation for the property transaction tax) should be reorganized at the township level rather than at a cruder zone level. This valuation committee should draw memberships from the technical staff of the IRD, Myanmar Real Estate Service Association (MRESR), external tax and real estate experts, online real estate services (online listing of properties and prices by township) and the community leaders from the township. The set of valuations from this exercise would provide one of the major benchmarks for property valuation that is proposed in the paper.

Another critical decision to be made with regards to the determination of the tax base is the provision on exemption. We can classify the objects of the tax base for Myanmar real estate holding tax into three mutually exclusive categories.

- (1) Owner-Occupied Residential Properties
- (2) Non-Owner Occupied Residential Properties
- (3) Commercial and Industrial Properties (Non-Residential)

The table 2 illustrates the virtues and vices of the scenario with tax exemptions or Zero tax rate for certain categories versus the scenario with no exemptions. In the first

⁷ <http://www.mmtimes.com/index.php/special-features/200-property-2014/12241-sales-sluggish-in-yangon.html>

<http://www.mmtimes.com/index.php/business/property-news/12695-property-transactions-slowed-in-2014.html>

scenario, there may be two options. The first option is to provide exemptions to all first owner-occupied residential properties and the second option is to exempt all first owner-occupied Residential Properties below a certain price threshold. With this arraignment, the tax regime will be able to maintain the progressivity of taxation while increasing public support for the proposed system of taxation, at least from lower and middle-income brackets. The primary pitfall of the system with exemptions is that it presents opportunity for people to deploy creative tax evasion strategies. For example, the imposition of a tax regime on second residential properties precipitated a markedly high divorce rate in Beijing as the tax regime presents an opportunity for the couples with two properties could opt to divorce, claim one house for each, sell them tax-free under certain conditions and then rejoin in the holy matrimony.⁸ The second scenario is the scenario without any exemption. Under this scenario, there is less opportunity for tax administration and the cost of tax administration can be relatively lower compared to that in the first scenario. However, such a universal property tax has the potential to generate public resistance from the perception of a limited progressivity of taxation.

If exemption is granted to the first owner-occupier residential property or first owner- occupier residential properties below a certain value threshold, then it is imperative to build an inventory of properties to be linked to each individual property owner within and across townships. There is a need to make cross identification between individuals (households) and property registrations across administrative boundaries of townships (assuming that we plan to collect information on property at the township level). Only through such an exercise, the total number of real estate holdings per taxpayer can be determined. For example, the Republic of Korea implemented the nationwide Comprehensive Real Estate Holding tax (CREHT) to discourage excessive holding of real estates in 2004.⁹The Korean government imposed property tax as a local tax and CREHT as a national tax. The Korean experiment in the real estate holding tax suggests a high data requirement for the administration of a holding tax. The Korean government designed a national-wide data system to link property ownership records with family registration records to aggregate or enumerate total number of holdings for progressive taxation. Korea was the only country that successfully implemented the progressive property taxation based on the comprehensive value of land and properties in the entire country. The table 3 demonstrates the tax schedule of CREHT from Korea and one can see that progressivity of taxation is maintained vigorously. The very character of our real estate holding tax (if exemptions are to be granted to the first owner-occupier residence) requires an oversight mechanism (a higher level municipal authority) that cut across the administrative boundaries of townships for the enumeration of total number of real estate

⁸ <http://www.straitstimes.com/asia/beijing-divorces-soar-as-couples-seek-to-avoid-property-tax>

⁹ A Guide to Korean Taxation at http://english.mosf.go.kr/upload/eco/2012/07/FILE_09CGH6_20120724140314_1.pdf

holdings for individual property owners. The process of valuation also most frequently rests with the higher-level authority to ensure a uniform definition of “market value” and uniform standard of valuation across different municipalities. (World Bank, 2014 P.166)

Property Tax Reform in Myanmar: The introduction of Self Assessment and Multiple Benchmarks

Given high administrative cost for data collection and valuation, the participation of the public in the design and implementation of the reform is essential for the reform of property tax regime for Myanmar. Successful implementation of self-assessment in Bangalore and Bogota points to two important features of the tax reform.

- (1) Checks and Balances in the system of valuation
- (2) Public Awareness and Participation.

(1) Checks and Balances in Property Valuation

Introducing checks and balances in property valuation is one of the most innovative features in the tax reform agenda. The experiments in Bogota and Bangalore offer two examples to anchor Myanmar’s experiment with creative approach to checks and balances in property valuation. For example, Bogota experimented with three benchmarks to check the robustness and reliability of self-assessed property values. More specifically, self-assessed values must be checked against the following three benchmarks and cannot be less than the highest of three benchmarks¹⁰

- (i) 50 percent of commercial value. (It was dropped in 1994)
- (ii) The cadastral valuation
- (iii) Past year evaluation indexed by inflation.

In Bangalore, unit area values were fixed for the properties located in each of six different zones (by ownerships and physical characteristics.)¹¹

- (i) Property owners declared the physical characteristics of their property.
- (ii) Property owners would calculate the tax amount on their own.
- (iii) Guidelines and procedures for resolving grievances are also clearly stated and widely disseminated through the media.
- (iv) GIS (Geographical Information System) database of all properties within the city’s municipal limits to allow for physical verification of each property.
- (v) Individual tax filings are checked against the database and those who entered wrong tax information would have to pay double the taxable amount along with two percent interest per month.¹²

¹⁰ Clements et Al (2015) Inequality and Fiscal Policy, International Monetary Fund

¹¹ Bandyopadhyay, Simanti (2013) Property Taxation in Indian Cities: A Comparison of Delhi and Bangalore, International Center for Public Policy, Working Paper 13-21.

Given that the method of self-assessment provides the least-cost method of valuation and its popularity and acceptance has been growing around the world including Bangalore, Hong Kong, Kuala Lumpur, Abidjan, Kigali, Kinshasa, Niamey, Ahmedabad, Chennai and New Delhi¹³, it is our recommendation is that Myanmar should also adopt this method in line with international practices and norms. However, to mitigate the issue of undervaluation, property values from the system of self-assessment should be checked against other benchmarks and the violators will be legally compelled to incur heavy penalties. The virtue of using multiple benchmarks is that it reduces the reliance on the robustness of a single valuation such as the unit-based valuation by the government agencies.

I) The first Benchmark: Unit-Area-Based Valuation

As discussed earlier in the paper, the Unit-Area-based valuation should be conducted for each ward or an agglomeration of wards in each township. This valuation is to be collected by the township valuation agency comprised of the staff from the IRD, representatives from real estate association, independent experts, community leaders and online real estate services. The valuation should be transparent, methodologically robust and reliable. This valuation will be used checked against the valuation from self-assessment.

(II) The Second Benchmark: Computer-Assisted Mass Appraisal (CAMA)

This valuation is based on the values predicted by the price index of residential properties from the representative sample of sold properties. In developing countries (given the scarcity of sales price data to link sale prices with location and physical attributes of the properties), computer-assisted mass appraisal (CAMA) method has been deployed to estimate the market value for a class of real estate holdings from existing sales prices. In some transitional countries, the integration of the GIS technology with the CAMA method has resulted in almost 100 percent property base coverage and annual updating of values.¹⁴ This regression-based appraisal method can establish the lower and upper bound for the property values with a given physical attributes in a given location in Yangon. We can then use this lower and upper bound of the estimate to check the validity of self-assessment.

(III) The Third Benchmark: Community Price Index

¹² http://siteresources.worldbank.org/INTEMPowerment/Resources/14832_Bangalore-web.pdf

¹³ Clements et Al, P.214

¹⁴ Financing Metropolitan Governments in Developing Countries, Cambridge, MA: Lincoln Institute Press

Self-assessed value should also be verified the community price index for each ward. In each ward, public meeting shall be held to construct a community price index for properties with certain physical characteristics within the ward. (Similar exercises were conducted in the implementation of the progesa program in Mexico to construct community poverty index to target the poorest households in the conditional cash transfer program). These price indexes shall then be used to check against the reliability of self-assessment of the property owners in each ward.

The role of public support in property tax reform

Public support of the tax reform and awareness of the benefits of tax reform are essential ingredients in the successful implementation of the reform. Public consultation should be held between senior officers and various interest groups on the direct benefit of property taxation for the communities. In Bangalore, the authority launched a well-designed public information campaign to establish the credibility of the tax regime and to encourage voluntary compliance. Public meetings were held between senior officers and various interest groups to discuss the cost and benefit of the program.¹⁵ Furthermore, the revenue department established help centers to address the concerns of the citizens. The media further supported the campaign with the columns in the major newspapers addressing the complaints from the citizens and the responses from the authorities. In Myanmar, due to wide popularity of face-book, it is recommended that social media, in conjunction with the print media, should be utilized to the fullest possible extent to promote public awareness and to address the concerns of the taxpayers. Help centers and hotlines should be established at the township IRD offices. Lastly, citizen Report Card should be deployed as a chosen instrument to record and monitor public perceptions and suggestions on the quality, adequacy and efficiency of property tax implementation and service provision.

Proposed Two Tiers of Real Estate Taxation System in Myanmar

(1) First Tier: Tax on Property Transfers

It is designed as a local tax at the township level to promote transparency, accountability and effectiveness of property taxation. Existing tax schedule on property transfer can be maintained or revised when the newly minted data on property valuation arrive at the IRD.

(2) Second Tier: Tax on Real Estate Holdings (at the level of Yangon and Mandalay Municipal Areas)

15

Tax Base and Rate Determination can be assigned to the Tax authorities at Yangon and Mandalay Municipal Areas. Tax Revenue may also be shared with the township municipal organs in accordance with the number of tax objects (holdings) in each township.

We can also consider two possible options in determination of the tax base of the property transfer tax. The first option is to tax all property transactions within the designated areas in major cities such as Yangon and Mandalay. The second option is to grant exemption to the first homebuyer under a certain value threshold to encourage homeownership for the people. Inheritance and gift of non-owner occupier residential home should share the same tax schedule as the second homebuyer. It is primarily designed to reduce the risk of tax avoidance by siphoning the properties off to others. This new practice of reducing tax rates for property transactions with disclosed income is consistent with international practices to mitigate the under-declaration of sales prices. (Bahl 2008, P.22) Alternatively, the authority of setting tax rate on property transfers (within a narrow well-defined band of tax rates) could be assigned to the township level tax administration. This is primarily designed to forge a strong link between property tax reform and fiscal decentralization agenda.

Selecting the tax schedule for Myanmar real estate holding tax

In selecting a tax schedule for Myanmar's experiment, we can either choose the option of a uniform single tax rate or a classified tax schedule. With the first option, tax liabilities vary only with the differences in the property valuation but they are not a function of differential land use and/or ownership tenure.¹⁶ With the second option of a classified tax schedule, tax rates would vary with the use of property and tenure. It is more commonly practiced. We also recommend that a progressive Tax schedule to implemented, thus shifting the property tax burden to those properties with a higher "ability to pay with the caveat that this schedule works best if there is a strong correlation between property value and taxpayer income.

Proposed structure of Tax Administration

The current structure rests on the authority of City Development Committees in Yangon and Mandalay such as YCDC & MCDC. In the case of the YCDC, the committee consists of 115 members-four members from the YCDC executive committee, three members for each of four districts and three for each township while the Chairman is the mayor and minister of development affairs for the region. However, the current structure of tax administration faces a number of challenges. First, there is a very low level of public trust in the YCDC, which is connected to a long history of corruption and poor service delivery. Therefore, the reform of municipal council is essential in the tax reform agenda. The members should be elected via free and fair municipal Elections at

¹⁶ Kelly, Roy (2013): Making the Property Tax Work, International Center for Public Policy, <http://aysps.gsu.edu/isp/images/ispwp1311.pdf>

the township level (very low public participation in 2014 election and only six elected positions out of 13 in the top council (not at the district and township level) were contested (MDRI, 2014). Therefore, administrative reform should go hand-in-hand with the tax reform. The role of internal Revenue Department is pivotal given its previous experience in property valuation and tax collection. Yet, the IRD is also fraught with similar institutional challenges in terms of public trust and corruption.

Therefore, this paper proposes the formation of a strategic oversight committee on property tax reform along with implementation unit at the township level in 33 townships in Yangon and Seven townships in Mandalay. The members can be drawn from Regional/State government, regional parliamentarians, community leaders, representatives from civil service organizations, and representatives from private sector including Myanmar Real Estate Services Association (MRESA) as well as independent technical tax and real estate experts. The reform committee and implementation units should be Responsible for monitoring and overseeing the implementation of the property tax -Establishment and Maintenance of Public Grievance System at the township level. The committee should also play a leading role in the campaign to socialize the Property tax in sensitizing the public about intent and direct benefits of the tax) while overseeing the standardization of Assessment and record-keeping and checking across townships. Public Accounts Committee of the parliament may also offer an additional layer of oversight and review on the revenue-collection and performance of the reform committee.

Tax collection and Enforcement of Property Tax in Myanmar

Experiences with property tax regimes around the world indicate that compliance and collection rates are low in some of the developing countries. This table illustrates the variations in the collection rates amongst selected cities ranging from 15 percent to 90 percent.

Table3: Collection rates in selected cities

| Cities | Estimated Collection rates (2009) |
|---------------|-----------------------------------|
| Accra | 35 |
| Cape town | 90-95 |
| Manila | 55-90 |
| Kingston | 55-60 |
| Dar es Salaam | 45-55 |

(See: Bahl, R., Johannes F. L., & Wetzel, D.L. (2013))

Therefore, it is important to make property tax easy to administer and collect. In Bangalore, the authorities made it possible for the taxpayers to pay their property taxes via branches of private banks.¹⁷ The reformer should stress the link between property tax

¹⁷ <http://www.thehindu.com/news/cities/bangalore/pay-property-tax-at-banks->

and improved service delivery. Community participation in the implementation of the tax as well as in the local decision-making process for municipal budgeting (participatory budgeting) is the key to success.

To make the tax collection accessible to the general public, the online payment online (e-payment) should be installed and implemented for the holders of any credit/debit cards in the local banks or taxpayers with local bank accounts. This availability of this option may be restricted to a certain segment of the taxpayers given that only 5 percent of the population have bank accounts in 2015. Another option is to offer an over the counter Payment option via some Local Banks. The local banks should be authorized to receive tax payments over the counter. The last option is to collect the tax at the Township IRD office.

Political Economy Consideration of Real Estate Holding Tax

It is often a politically unpopular tax instrument. Strong political will of the government and the support of the public is essential. In Myanmar, land speculators and land hoarders are most often politically connected and powerful. During the military regime, rent sharing was often conducted through land concessions and land grants to specific politically connected companies, individuals and the members of the political and military elites. The implementation of this holding tax may generate strong political resistance from these deeply entrenched interests and powerful elites. Such examples of political resistance are legion across the world. For example, in Korea, a constellation of powerful high-end homeowners secured a ruling on the partial unconstitutionality of real estate holding tax from the Korean Constitutional Court in an effort to repeal the law in 2008.¹⁸

Therefore, we must stress the significance and role of public support and political will for the successful implementation of such a reform. Direct and indirect benefits of this important tax reform must be communicated to the public in a consistent and coherent manner to generate public support of the reform. Moreover, this tax reform should be coupled with general administrative reforms at the municipal level so as to garner public trust in the municipal government and the quality of public service delivery at the municipal level.

Conclusion

Myanmar is at a critical juncture in its transition to a democratic system of governance. Decades of fiscal profligacy, civil wars and deeply entrenched extractive institutions have left a deep scar on the political and economic landscape of the fledgling democracy. To rebuild the institutions and provide high quality public service delivery, the government

now/article5039355.ece

¹⁸ http://www.koreatimes.co.kr/www/news/nation/2008/11/113_34347.html

would need to expand its tax base and increase its tax revenue for public expenditure. Moreover, the need for national reconciliation in the aftermath of bitter and long-lasting civil wars is prominent. Fiscal decentralization agenda is an essential step in generating and cementing the web of trust between the government and multiple ethnic groups across various regions. Therefore, this paper posits that the reform of property tax regime as a strong source of municipal finance is an important policy instrument for both economic and political rejuvenation of Myanmar.

However, there is a plethora of risks and challenges in the road to reform. The Current constitution drafted under the military government presents no clear definition of expenditure functions for sub-national governments. Therefore, there is a great need to clearly redefine and expand the expenditure function of the municipal council at the township level and Yangon/Mandalay Metropolitan municipal authorities. The government should consider the delegation of expenditure for health, education, and social welfare to the subnational authorities. Since property tax has high visibility, the programs that are financed by property tax should also enjoy high visibility. Moreover, the paper argues that given the political economy of public administration at the municipal level, administrative reform at the municipal level should be coupled with the proposed reform in property taxation. This proposal should be followed by a meticulous and rigorous study of the cost of proposed tax administration (cadastral data collection, valuation and implementation) and the estimates of potential revenue gain from pilot property tax reform in Yangon and Mandalay.

Citation

Bahl, Roy (2008). “Opportunities and Risks of Fiscal Decentralization: A Developing Country Perspective” in *Fiscal Decentralization and Land Policies*, G. Ingram and Y.H. Hong, (editors), Cambridge, Mass. Lincoln Institute of Land Policy.

Barnett, R.R. (1997) “Subsidiarity, enabling government, and local governance.” In Hobson, P.A.R, and St-Hilaire, F. (Eds.), *Urban governance and finance: A question of who does what*, Montreal: The Institute for Research on Public Policy.

Bird, R.M. (2001) “Subnational Revenues: Realities and Prospects”, Working paper, Washington, D.C.: World Bank Institute

Bustamante, Lilian and Nestor Gaviria (2004) *The Bogota cadastre: example of a multipurpose cadaster*, *Land Lines* 16(April): 3– 4.

World Bank Group (2015) *Myanmar Investment Climate Assessment: Sustaining Reforms in a Time of Transition*. Washington, DC

Clements et Al (2015) *Inequality and Fiscal Policy*, International Monetary Fund

Bandyopadhyay, Simanti (2013) *Property Taxation in Indian Cities: A Comparison of Delhi and Bangalore*, International Center for Public Policy, Working Paper 13-21.

Farvacque-Vitkovic, Catherine; Kopanyi, Mihaly (2014) *Municipal Finances: A Handbook for Local Governments*. Washington, DC: World Bank

Bahl, R., Johannes F. L., & Wetzel, D.L. (2013). *Financing Metropolitan Governments in Developing Countries*, Cambridge, MA: Lincoln Institute for Land

Kelly, Roy (2013): *Making the Property Tax Work*, International Center for Public Policy

Appendix

Table 1: Valuation of Property Valuation Systems for Myanmar

| Valuation System | Relevance for Myanmar Context |
|---|--|
| Average Rental Value (Example: former British Colonies) | <ul style="list-style-type: none"> (1) Assessment of property on the basis of its estimated annual rental value (2) Given overvalued housing prices in Yangon and high price-to-rent ratio, current rental (3) Values may not accurately reflect the underlying value of the property. (4) Scarcity of rent information for certain types of properties. (ex: Industrial Property, Vacant Land) |
| Site-Value System (Australia, Newland) | <ul style="list-style-type: none"> 1. The value of land excluding structural improvements 2. Difficulty in making assessment only on land in highly urbanized areas in Yangon and Mandalay 3. Exclusion of Improvements would diminish the equity of the tax since the improvements may account for a great proportion of the total value of the property. |
| Capital Value Systems (CV) | <ul style="list-style-type: none"> 1. The value of land including structural improvements 2. Market-based valuation 3. International trend in adoption of this method. 4. Potential Problems: high Administrative cost, incomplete market 5. Information and Under-declaration of values |
| Unit Area-based Method (UAM) | <ul style="list-style-type: none"> 1. Tax each parcel at a specific rate per unit area of land and per unit area of structures and relevant in the countries without formal land market. (ibid) 2. For example, Ahmedabad deploys UAM that indexes each property according to location, building size, usage, age, and occupancy 3. In Bangalore, a creative hybrid between an area- based system and a value-based system has been successfully implemented. 4. A custom-made hybrid between CV and UAM is recommended for Myanmar. |

Table 2: To Exempt or Not To Exempt: Proposed Tax Base (Myanmar Real Estate Holding Tax, 2016)

| First Scenario (Exemptions) or Zero tax rate for certain categories. | Second Scenario (No Exemptions) |
|--|--|
| (i) First Owner-Occupied Residential Properties are Exempted (OR) (ii) First Owner-Occupied Residential Properties below a certain price threshold are exempted. | Second Option: No Exemptions. |
| The virtue: (1) Maintain Progressivity of Property Taxation (2) Increase public support for Property Taxation (lower and middle income bracket) | The virtue: (1) Less opportunity for tax evasion (2) Lower administrative cost |
| The vice: (1) Opportunity for tax evasion strategies | The vice: (1) Could generate public resistance against the tax. (2) Lack of progressivity. |