

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

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I TOLD YOU YOUR COSTUME WAS TOO SCARY!

Property Tax

TRICK OR TREAT

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The Principles of Municipal taxation (Why should we collect taxes at the municipal level?)

- (1) 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.
- (2) Benefit principle: Tax should be paid for public service provision by those who directly benefit from those services (Bird, 2001a).

example: Parks and Roads

Is Property Tax a good municipal tax?

- (1) Relative immobility of the tax base
- (2) Relatively stable and predictable source of tax revenue
- (3) Visibility of the tax to ensure accountability
- (4) Public perception of fairness
- (5) Easiness of tax administration

What is Property Tax?

- Recurrent and non-recurrent taxes on the use, ownership or transfer of property.
- These include 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.¹

Whither property tax in Myanmar?

- (1) Narrow tax base and very low tax revenue (lowest tax per GDP ratio in Southeast Asia)
- (2) Speculative housing prices³
- (3) An important source of municipal finance (strengthening sub-national fiscal autonomy and sub-national basic service delivery)
- (4) High Concentration of Land Ownership⁵ (promoting the optimal use of land)
- (5) Enhancing the progressivity and fairness of the tax system

3 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>)

4 *Property Price Keep the Locks on Myanmar*. Office Space in Yangon the Most Expensive in Region (Wall Street Journal September 18, 2013)

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*)

Property Tax is an Important Source of Municipal Finance

(See more at *A Primer on Property Tax: Administration and Policy*, First Edition.)

Table 1.1 Reliance on property taxes by local governments

Countries	Types of property tax	Property tax as % of local revenues
OECD		
Australia	State land tax; municipal rates	37.7 ¹
Canada	Property tax	53.3
Germany	Land tax	15.5
Japan	Fixed property tax	25.5
United Kingdom	Council tax (local tax on residential property); Business rates (central tax on non-residential property)	33.0 ²
Central and eastern Europe		
Hungary	Building tax; plot tax; communal tax	13.6 ³
Latvia	Real estate tax	18.2 ⁴
Poland	Urban real estate tax; agricultural tax; forest tax	9.7
Russia	Land tax; individual property tax; enterprise assets tax	7.0
Ukraine	Land payments and taxes	9.3
Latin America		
Argentina	Property tax	35.0 ⁵
Chile	Property tax	35.1 ⁶
Colombia	Unified property tax	35.0 ⁷
Mexico	Property tax	58.7 ⁸
Nicaragua	Property tax	6.4
Asia		
China	Urban and township land use tax; house property tax; urban real estate tax; farm land occupation tax	4.9
India	Property tax	7.0–41.0 ⁹
Indonesia	Land and building tax	10.7
Philippines	Real property tax	13.4
Thailand	Buildings and land tax; land development tax	1.4
Africa		
Guinea	Rental value tax on housing; local business taxes	32.0
Kenya	Property rates	15.0
South Africa	Rates on property	21.0
Tanzania	Local building tax; national land rents	4.0
Tunisia	Rental value tax on housing; tax on unbuilt land; local business tax	32.4

Notes:

¹Includes only local taxation and not the state tax on land.

²Includes the local council tax and the local share of national non-domestic rates.

³Includes other local taxes such as a tourism tax.

⁴Percentage of local taxes.

⁵This refers only to the municipal tax. There is also a property tax at the provincial level.

⁶The property tax is a national tax earmarked for local governments; 40% of revenues remains with municipalities where property is located.

⁷Property taxes as a percentage of total Colombian local taxes.

⁸Percentage of municipal taxes.

⁹The range depends on the state.

Source: Bird and Steck (2004a)

What are the General Rules for Property Tax (Tax Base)

First, tax base needs to be clearly defined and valued.

(1) The definition of Property

(a) Land (b) Improvements of Land (c) Both

(2) Use of Property

(Example, Residential versus commercial or Urban versus Agricultural Land)

First, we need a cadastral.

Cost and Benefit of a systematic cadastral database (Bustamante and Gaviria, 2004)

- Bogota (2000-2003)
- Updated 1,734,622 (102,532 new category)
- Increase in base value and tax revenue
- Cost of updating (4 million USD)
- Increase in tax revenue (additional 24 million USD per year)
- Comprehensive update in 2008-2009 (2.1 million, 98.6 percent coverage)
- Total cost (15 million USD for two years (2008-2009))
- Increase in tax revenue (additional 48 million USD per year in 2009 and 123 million USD in 2010)

Valuation of Property Valuation Systems for Myanmar

Valuation System	Relevance for Myanmar Tax Reform
Average Rental Value (Example: former British Colonies)	<ol 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 values may not accurately reflect the underlying value of the property. (3) Scarcity of rent information for certain types of properties. (ex: Industrial Property, Vacant Land)
Site-Value System (Australia, Newland)	<ol 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)	<ol 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 information and Under-declaration of values
Unit Area-based Method (UAM)	<ol 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.

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

Objects to be taxed:

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

First Option (Exemptions) or Zero tax rate for certain categories.	Second Option (No Exemptions)
<p>(i) First Owner-Occupied Residential Properties are Exempted (OR) (ii) First Owner-Occupied Residential Properties below a certain price threshold are exempted.</p>	<p>Second Option: No Exemptions.</p>
<p>The virtue:</p> <ol style="list-style-type: none"> (1) maintain Progressivity of Property Taxation (2) Increase public support for Property Taxation (lower and middle income bracket) 	<p>The virtue:</p> <ol style="list-style-type: none"> (1) Less opportunity for tax evasion (2) Lower administrative cost
<p>The vice:</p> <ol style="list-style-type: none"> (1) Opportunity for tax evasion strategies 	<p>The vice:</p> <ol style="list-style-type: none"> (1) could generate public resistance against the tax. (2) Lack of progressivity.

Administrative Requirements for Tax Base Determination in Myanmar (MREHT)

- 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). As such, total number of real estate holdings per taxpayer can be determined.
- For example, the Republic of Korea implemented the nation-wide Comprehensive Real Estate Holding tax (CREHT) to discourage **excessive holding** of real estates in 2004.

High Data Requirement for Comprehensive Real Estate Holding Tax (Korea, 2004)

- The 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.⁸
- The very character of our real estate holding tax (with exemption granted to the owner-occupier residence) requires a oversight mechanism (a higher level municipal authority) that cut across the administrative boundaries of townships for the enumeration of total number of real estate holdings for individual property owners.

⁸ See more: A Guide to Korean Taxation at http://english.mosf.go.kr/upload/eco/2012/07/FILE_09CGH6_20120724140314_1.pdf
Farracque-Vitkovic, Catherine, Kopanyi, Mihaly, Municipal Finances : A Handbook for Local Governments. Washington, DC: World Bank, 2014

CREHT (Republic of Korea, 2004-Present) (Source: Global Property)

COMPREHENSIVE REAL ESTATE HOLDING TAX ON RESIDENTIAL HOUSES	
TAX BASE, KRW (US\$)	TAX RATE
Up to 600 million (US\$517,241)	0.50%
600 million – 1.2 billion (US\$1,034,483)	0.75%
1.2 billion – 5 billion (US\$4,310,345)	1.00%
5 billion to 9.4 billion (US\$8,103,448)	1.50%
Over 9.4 billion (US\$8,103,448)	2.00%
COMPREHENSIVE REAL ESTATE HOLDING TAX ON LAND	
TAX BASE, KRW (US\$)	TAX RATE
Up to 1.5 billion (US\$1,293,103)	0.75%
1.5 billion – 4.5 billion (US\$3,879,310)	1.50%
Over 4.5 billion (US\$3,879,310)	2.00%
COMPREHENSIVE REAL ESTATE HOLDING TAX ON LAND ATTACHED TO BUILDINGS	
TAX BASE, KRW (US\$)	TAX RATE
Up to 20 billion (US\$17,241,379)	0.50%
20 billion – 40 billion (US\$34,482,759)	0.60%
Over 40 billion (US\$34,482,759)	0.70%

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 (International Examples)

In **Bogota**, declared values cannot be less than the highest of **three benchmarks**

- (i) 50 percent of commercial value. (it was dropped in 1994)
- (ii) The cadastral valuation
- (iii) past year evaluation indexed by inflation.¹⁰

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

- (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.¹¹

¹⁰ Clements et Al, Inequality and Fiscal Policy, International Monetary Fund, 23 Sep 2015

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

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

Example: Unit Area Value Assessment in Bangalore

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

Table A2 Unit Area Value for Assessment of Residential Properties: Bangalore

Description of the Property	Ownership Status	Zonal unit area factor (Rs. Per square feet)					
		A	B	C	D	E	F
RCC or Madras Terrace Buildings	Tenanted	5	4	3.6	3.2	2.4	2
	Owner-occupied	2.5	2	1.8	1.6	1.2	1
RCC or Madras Terrace and where the flooring of the entire house is cement or red stone	Tenanted	4	3.5	3	2.5	1.6	1.4
	Owner-occupied	2	1.75	1.5	1.25	0.8	0.7
Tiled/Sheet of all kinds	Tenanted	3	2.5	2	1.6	1	0.8
	Owner-occupied	1.5	1.25	1	0.8	0.5	0.4
All hutments, house built/ allotted for the poor by the govt. under any scheme or houses declared as slum by KSCB* or by the commissioner of BBMP having a build up area of less than 300 sq. Ft.	Tenanted	Annual Composite tax of Rs.160					
	Owner-occupied	Annual Composite tax of Rs.80					
Special Category	Annual composite tax for 110 villages at the following rates (for owner occupied units)**						
	For area less than 300 sq. Ft		Lump sum tax of Rs. 100+ cess				
	For area more than 301 sq. Ft but less than 500 sq ft.		Lump Sum tax of Rs.250+ cess				
	For area more than 501 sq. Ft but less than 1000 sq. Ft		Lump sum tax of Rs.500+cess				
	For area more than 1001 sq ft. But less than 1500 sq.ft.		Lump sum tax of Rs.750+cess				
	For area more than 1501 sq. Ft.		Lump sum tax of Rs.1000+cess				

*KSCB stands for Karnataka Slum Clearance Board

**For tenanted properties the rates are twice as these with the addition of cess

(2) The Role of Public Support in Property Tax Reform (Bangalore)

- 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 between senior officers and various interest groups to discuss the cost and benefit of the program.¹³
- The revenue department established help centers to address the concerns of the citizens
- The media supported the campaign with the columns in the major newspapers addressing the complaints from the citizens and the responses from the authorities.

Proposed Options for Tax Base Determination and Valuation for the Pilot Property Tax in Myanmar

(1) First Step: An **inventory of properties** in Yangon and Mandalay Metropolitan Areas

Proposal: Satellite Imagery and GIS (Geographical Information System)-based Databases (Data Sources: Google Earth, GIS database, and General Administrative Department)

- Allocation of unique property identity numbers to link property location with property tax data including location, size, use, ownership, tax liability, and tax payment.
- Creation of a national agency to oversee the GIS-based cadaster system: Example: Estonia, Latvia, and Lithuania.
- Donor support in this area of GIS in Myanmar is very strong. Enough financial and technical support can be harnessed to support this database.
- Detailed satellite imagery of Yangon/Mandalay can be acquired from Google Earth and can be linked to the information in the local GAD offices.

Self Assessment and Benchmarking Valuation for the Pilot Property Taxation in Myanmar

(2) Second Step: Valuation of taxable properties

Self Assessment is an alternative, popular and least-cost method of valuation.

- Example: Bangalore, Hong Kong, Kuala Lumpur, Abidjan, Kigali, Kinshasa, Niamey, Ahmedabad, Chennai and Delhi

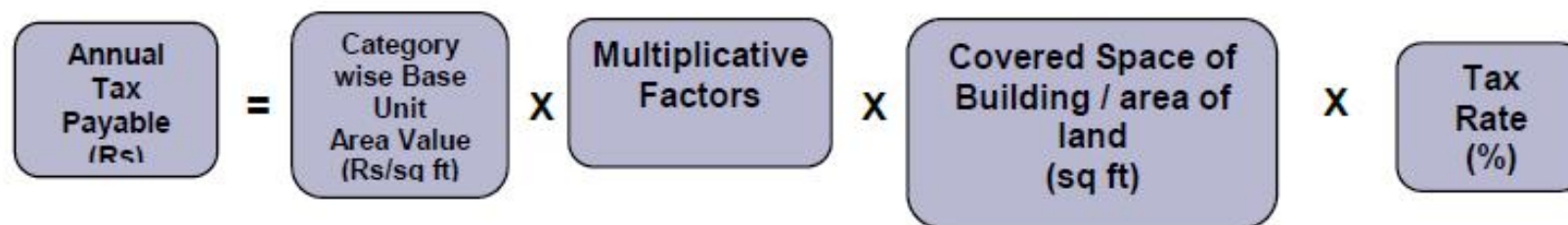
The value from self assessment in our pilot project should be checked against **other benchmarks** and the violators will be legally compelled to incur heavy penalties.

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.

Three possible benchmarks are proposed as follow:

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

- Unit-Area-based valuation to 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.¹⁴
- 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.¹⁵
- 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

- 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 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.
- Public consultation should be held between senior officers and various interest groups on the direct benefit of property taxation for the communities.
- The use of social and print media to address the concerns of the taxpayers
- Establishment of help centers at the township IRD offices
- **Citizen Report Cards** on the quality, adequacy and efficiency of property tax implementation and service provision.

Choosing a Tax rate¹⁶

1. A uniform single tax rate

- (Tax liabilities vary only with the differences in the property valuation, as not a function of differential land use and/or ownership tenure)

2. A classified tax rate structure.

(Tax rate to vary by property use and tenure and more commonly practiced)

- Progressive Tax Rate- shifting the property tax burden to those properties with a higher “ability to pay. Works best if there is a strong correlation between a property and taxpayer income.

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 are essential.
- In 2008, 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.¹⁶

Tax collection and Enforcement of Property Tax in Myanmar

- Compliance and collection rates are low in some of the developing countries.

Country	Collection Ratio
Philippines	50
Kenya	60
Croatia	70
Macedonia	15
Mumbai	55
Colombia	75
Bogota	90

- 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
- Should stress the link between property tax 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.

Proposal for Tax Collection (Property Tax) in Myanmar

- Online Payment option (e-payment)

(1) holders of any credit/debit cards by local banks

(2) Taxpayers with accounts in the local banks

This availability of this option may be restricted to a certain segment of the taxpayers given only 5 percent of the population have bank accounts in 2015.

- Over the counter Payment option

Local Banks such as KBZ, CB, YOMA, AYEYAR...etc should be authorized to receive tax payments over the counter

- Collection at the Township IRD office.

Rethinking Municipal Finances in Myanmar: Revenue and Expenditure Assignment

- There is a need to clearly redefine and expand the expenditure function of the municipal council at the township level and Yangon/Mandalay Metropolitan municipal authorities.
- Should consider the delegation of expenditure for health, education, 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.