

# ASSIGNMENT

## Prekovia Property Tax Project (PPTP)

### Part I

There are an estimated 1.5 million properties in Prekovia, approximately 40% of which are located in the capital city, Askoba, and 3 largest towns, whilst the remainder are located in small villages and rural areas. The deeds registration system is only properly maintained in the capital city. There are two property-related taxes in Prekovia, the Property Transfer Tax (PTT) and the recurrent Real Estate Tax (RET). The PTT is levied and administered by the Prekovia Revenue Authority (PRA). The tax base is the “acquisition value of land or buildings” and determined with reference to the consideration paid, or market value (whichever is the higher). The PTT tax rate is a flat 12% for natural persons acquiring real estate (i.e. land and/or buildings) and 15% for “persons other than natural persons”. The RET was decentralized to the local level in 2007 and is levied and collected by municipalities. The tax base is the “market value” of land and buildings. In practice it is only levied in Askoba and the 3 largest towns. In terms of the Immovable Property Valuation Act all municipal valuations for the RET are carried out by the staff of the Real Property Assessment Division (RPAD) situated in the Ministry of Lands. There are only 17 registered valuers in the country of which only 4 work for the RPAD. According to the law, property valuations for property tax purposes must be undertaken every 4 years. In reality valuation rolls are older than 10 years and only exist in Askoba and the 3 regional towns.

As member of an expert Property Tax panel, you are to make recommendations to the Ministry of Finance, addressing the following issues:

- (a) Is the current tax base appropriate?**
- (b) If not, why not and what should the tax base be?**

### Part II

The municipalities of Prekovia have reached the point where they believe that they have most of their properties recorded and reflected on their respective valuation rolls at somewhere near the “market value”. The coverage ratio is estimated to be over 90%. There remain, however, some serious issues:

- Presently national government has set a low, uniform rate for all use categories of property and across all types of municipalities. However, as part of the decentralisation drive, government seems prepared to consider devolving the power to set the property tax rate to local government and to furthermore allow councils to utilise differential rates.
- In Askoba the postal system is used to deliver tax bills, but about 40% are returned to the municipality as “undeliverable”. In the 3 towns tax bills are delivered by hand as many streets do not have names. The postal system does not function in small towns and rural areas and bills are delivered by hand.
- Municipalities are responsible for collection of the RET. All the municipalities are in financial trouble as a result of significant under-collection. Collection ratios have been compiled as follows:  
Rural districts and small towns:      25-30% collection  
Askoba and 3 large towns:              60-70% collection

Taxes must be paid in cash at municipal offices. Rural taxpayers in especially the larger districts complain that municipal offices are not accessible to them and that service delivery is lacking. In Askoba the complaints are usually that taxpayers have to wait hours only to be confronted by rude tax officials. Enforcement remains a problem. In many instances councillors and prominent businesses are amongst the defaulters. A few municipalities publish the names of delinquent taxpayers in local newspapers and on public notice boards, whereas others try to utilise civil courts to recover their debts. However, court processes are lengthy, cumbersome and expensive. The law provides for tax liens as well as property seizure and public auctions. However, these mechanisms are not used in practice. Some of the municipalities are thinking of employing private firms to collect their local taxes.

Address the following issue:

**(c) How should tax rates be determined?**

**In addition you are expected to provide the following:**

- **Set out your top 5 Challenges and top 3 Priorities and Top 3 Opportunities for the Property Tax**
- **Set out your top 3 requests from Central Government to improve the administration**
- **Set out a 5-7 point plan to increase property tax revenue**