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The Land Value Tax in Jamaica: An Analysis and Options for Reform

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1. Introduction

In 2003-04, Jamaica undertook a comprehensive evaluation of its tax structure, including its property tax. A prior study of the tax structure was conducted in 1984-87 (see Bahl 1991). This article is a summary of the recent analysis of the Jamaican land value tax and of the recommendations that were made.

2. A Brief History

In 1957, Jamaica converted its property tax from one based on the capital value of land and all improvements, to one based on just the unimproved value of land, i.e., to a land value tax. The adoption of the unimproved value of land as the base for Jamaica's property tax was based on the 1944 recommendation of the Commission on Inquiry, chaired by the Honorable Simon

Bloomberg. The recommendation was subsequently endorsed by the International Bank for Reconstruction and Development, but the implementation of this change was delayed because of the absence of a legal cadastre.[2]

The property system that existed in 1944 was a capital-based system in which both land and improvements were subject to property taxation. However, the tax relied on self-assessment by owners; each owner was required to declare the true and correct description and value of his property (Chang 1966). The Collector of Taxes could counter-assess those parcels for which he believed the owner had not provided the true and correct value. Risden (1979) reports that it was estimated that on average the assessed value was less than one-third of the fair market value of the property and that there was gross non-uniformity in the assessments.

Chang (1966) reports there were two major factors associated with the introduction of the land valuation legislation. First, there was the belief that land value taxation does not tax what a person puts into land and it discourages the withholding of land from use. Second, the existing property tax system was highly unsatisfactory. In addition, according to Rosengard (1998), one of the principal objectives of this change was agrarian reform, along with a desire to shift the relative property tax burden from poor to wealthy landowners.

Recently, the land value tax has become a revenue source dedicated to local governments. While collected by the national government, the revenue is returned to the parish from which the revenue was collected.

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[1] A special note of thanks to Sally Wallace, Roy Bahl, Paul Lai, and Eric Allen who were very helpful in conducting this research.

[2]For a history of land value taxation in Jamaica see Chang (1966) and Risden (1979). See Holland and Follain (1991) for an earlier evaluation of the Jamaican property tax.

3. The Property Tax Base

The base of the property tax, as spelled out in the *Land Valuation Act* of 1956, as amended, is the value of unimproved land. The *Land Valuation Act* does not regard the removal of timber or vegetable growth, the draining, filling, excavation or reclamation of the land, projects that are designed to prevent erosion or flooding, or grading or leveling of land as improvements. As Chang (1966) and Holland and Follain (1991) note, by excluding these changes to the land from the category of improvements, Jamaica achieved a major simplification in tax administration since nonstructural improvements are difficult to value. While Jamaica's property tax is thus a site value tax, and not strictly a land value tax,[3] we use the terms land value, unimproved value, and site value synonymously.

The debate over the choice between a land value property tax and a capital value property tax has a long history in Jamaica. The first formal call for a land value tax occurred in 1944 with the publication of the Bloomburg Commission report. John R. Hicks and Ursula K. Hicks (1954) argued against the permanent adoption of a land value tax, instead recommending that capital improvements be initially excluded from the base, but then be brought into the base over time.

Although Jamaica has had a land value tax for nearly 50 years, the issue of whether to switch to a capital value tax continues to be discussed. The issue was addressed in the mid-1980s by Holland and Follain (1991) and Follain and Miyake (1991) as part of the Jamaica Tax Structure Examination Project. Continuing with a land value tax has a number of advantages over a capital value tax, the principal one being that a land value tax does not discourage capital investment as a capital value tax would (Mills 1998). In addition, for Jamaica, shifting to a capital value tax would be costly to develop, would require substantial lead time to put the information system in place, and would be more costly to manage. Thus, it was recommended in both the earlier reform study and the recent study that Jamaica retain its land value tax.

[3] For a discussion of these distinctions, see Oldman and Teachout (1979).

4. Valuation of Land

There are two main policy issues associated with the valuation of land, the accuracy of the valuation and the frequency of the valuation. We consider these in turn.

Accuracy of Valuation. In 2002, the Jamaican Land Value Division (LVD) completed a revaluation of all property. While the valuation staff appears to be well trained, and capable of producing an accurate roll of land valuations, the calculations of value had to be done manually since the computer software necessary to automate the calculation was not yet available. Most of the valuations were completed without a specific field visit. While a cadastral map exists, it has not been fully computerized. These deficiencies are being addressed.

What remains a problem is the availability of data on arms length sales of unimproved property, which of course critical to producing accurate valuations. There are several sources of sales data that LVD relied on to conduct the 2002 valuation, but the baseline data on land sales are the declared values on sales prices reported to the Stamp Office. All transfers of real property are subject to the stamp tax and the property transfer tax. But there are several issues regarding Stamp Office data.

Because the stamp duty and property transfer tax combine to 13 percent of the transaction value, there is a significant incentive for under-declaration. The Stamp Office does make a determination regarding the accuracy of these self-reported values, but that information is not provided to the LVD. Furthermore, it is generally acknowledged that as a result of informal transfers of property, which typically involves the exchange of rural property between relatives or close friends, a substantial but unknown percentage of transfers avoid these taxes.

The Stamp Office does not require that the valuation number of a parcel be reported, but should be required to do so. The Stamp Office uses its own numbering system, with each

transfer getting a unique identification number. LVD has to match the sold parcel with the equivalent parcel in the property tax roll and has to do that by attempting to match the owner's name and the parcel's address.

Sales data are not public information and the Stamp Office is not required to supply it to the Land Valuation Division. For the 2002 general revaluation, the Stamp Office voluntarily provided declared sales data to LVD, however, this practice appears to have been discontinued. The Stamp Office should provide records of these transfers to the LVD.

The number of sales of unimproved parcels has declined over time, and in the urbanized areas the lack of such parcels is becoming a problem. More than one year of sales data was used in the recent valuation process.

There is no ex-post verification of the accuracy of the valuations, i.e., no sales-ratio study is conducted. Sales-ratio studies could provide a check on the accuracy of the valuations, even if done only in the years following general revaluation.

Frequency of Valuations. The second main issue associated with the valuation is the frequency of valuations. The *Land Valuation Act* provides for new valuations every five years, although the Minister of Finance may change that. In actuality, revaluations have been conducted on about a nine-year cycle, with revaluations undertaken in 1974, 1983, 1993, and 2002.

Generally, the value of any land parcel cannot be changed between general revaluations. The principal exception is if the parcel is subdivided. When there is a subdivision of a parcel values placed on the parcels are based on land values as of the last complete valuation, i.e., the value of the parcel is backdated. The result is extremely little growth in the property tax base between valuations. For example, between 1999-00 and 2000-01, the base increased by less than

one percent.

A second issue is the growth in inequities over time. Since the increases in land values are not uniform across properties, the result is that property tax liabilities become less related to true market value of land as the time period since the last general revaluation grows longer. This is illustrated in Tables 1 and 2.

Table 1 shows the average percentage change in value by 2001 value class. As can be seen, the average percentage change is smaller the larger is the 2001 value. In fact, on average, the highest valued parcels realized decreases as a result of the 2002 revaluation.

One way to illustrate the inequity that arises when market values change but taxable values are not changed is to calculate consider the distribution of the assessment ratio, i.e., the ratio of taxable value to market value. Assuming that the 2003 values equal the true market value, the assessment ratio can be calculated as the ratio of the 2001 value to the 2003 value (Table 2). The median assessment ratio was 0.114. If all parcels had the same ratio, there is no equity issue, every parcel would be taxed on the same percentage of its market value. As can be seen, there is substantial variation in the assessment ratio, although almost 58 percent of the parcels have assessment ratios of 0.05 to 0.20.

Such inequities can lead to a lack of confidence in the property tax. If an owner knows that his or her tax liability is substantially more than that for a similar but lower assessed parcel, the result can be a lack of compliance (see Pommerehne and Weck-Hannemann 1989; Spicer and Becker 1980; Alm, Jackson, and McKee 1993; Alm, McClelland, and Schulze 1999).

5. Property Tax Rates

The 2002 general revaluation of land values led to substantial increases in taxable values, about a 6.1-fold increase. If the tax rate structure that had been in existence since 1993 (Table 3) was applied to the new valuations, property tax liabilities would have increased from J$738.4 million in 2001-02 to J$7,253.2 million in 2002-03, a staggering 9.8-fold increase in total tax liability over the actual tax liability in 2001. There was a sense that such increases would have been politically unacceptable. Jamaica is not alone in this concern, rollback of rates at the time of general revaluation is not an uncommon practice.

In 2002, Parliament adopted a new rate structure (see Table 4) that retained the progressive nature of the 1993 tax rate structure, but had fewer brackets than before, and was set so that tax liability increased over the previous, pre-revaluation year. There was strong public opposition to this new rate structure, and before it could be fully implemented, Parliament added a set of caps or maximum property tax liabilities. Table 5 shows the caps for 2003-04.

The imposition of the caps results in effective property tax rates (defined here as the property tax liability divided by the assessed property value) that have a very peculiar relationship to property value. Figures 1 and 2 show the effective property tax rate for each of these specific property values. Figure 1 shows the pattern over all values up to J$250 million, while Figure 2 shows the pattern up to a value of J$20 million making it easier to see the pattern at lower property values. Also included in Figures 1 and 2 are the effective tax rates that would apply if there were no caps.

Some rather unusual patterns are observed in the effective rates with the caps. First, for land values above the point in the value class where the property tax liability implied by the statutory tax rate equals the cap, the effective rate goes down. Second, there is a large difference

in tax liability for a parcel at the top of one value class and a parcel at the bottom of the next highest value class, since the cap for one value class does not apply to parcels in the next highest value class.

These notches and discontinuities in the tax rate structure created by the caps create inequities in the property tax. As seen in Figures 1 and 2, small differences in value can result in very large differences in tax liability, and at the upper end of each value class the effective tax rates are lower than for lower valued property.

The presence of the caps also reduces tax revenue. For 2003, the presence of the caps resulted in a total property tax liability that was about 25 percent below what the liability would have been in the absence of the caps.

The current rate structure has four tax brackets. For most countries the property tax rate is the same for all property values, although many countries do have differential tax rates based on factors such as the use of property and location (for example, Kenya, New Zealand and Zimbabwe). For countries that have tax rates that vary with property values the number of brackets varies widely. Chile has two rates, 2 percent on property under a certain value and 1.425 percent for property over that value. On the other hand, Thailand has 31 brackets, with rates varying from 0.3 percent to 0.64 percent but the rates are not progressive. In Columbia, Cali has 6 rates on residential property ranging from 0.4 percent to 0.145 percent, while Barranquilla has 6 rates ranging from 0.3 percent to 1 percent. Pakistan has 3 brackets, Cyprus has 8 brackets, and the Philippines has 9 brackets for residential property, 8 for commercial property, and 6 for agricultural property.

There are several ways that the tax rate structure could be reformed. The first would be to remove the property tax caps. The current property tax liability caps create an irrational and

unfair structure of property tax rates should be eliminated. This would remove disincentives for under-declaration of values, make the property tax more equitable, and increase revenues by about 25 percent. The drawback is that property tax liabilities would increase, with about 70 percent of this increase coming in the top value class (over J$2.5million). Unless stronger enforcement options were adopted, this might result in a further reduction in the collection rate.

A second reform would be to create a threshold exemption. A threshold deduction of J$200,000 would eliminate nearly 190,000 parcels from the rolls (27 percent of total parcels), thus reducing staff time and office resources in mailing and collecting property taxes. The resulting reduction in tax liability would be 13.4 percent, but there would be an increase in the progressivity of the effective rate structure.

A third reform would be to change the rate structure. The progressive rate structure provides an incentive to subdivide property for purely tax purposes. Moreover, the higher rates in the top land value bracket encourage tax evasion. But the progressive rate structure also provides a disincentive to hold large tracts of land, thereby encouraging the breakup of large parcels, and discourages the assembly of large tracts. Several alternative structures were considered, but the recommendation was to adopt a flat rate property tax. There are several advantages to a flat rate structure.[4] First, it would eliminate the incentive to subdivide property in order to reduce property tax liability. Second, it makes discretionary rate increases easier than a structure with multiple rates. Third, there is no bracket creep if the rates are indexed to inflation or if parcels are revalued. Fourth, a lower flat rate might reduce evasion among the higher bracket payers. A flat rate of 0.45 percent with no exemptions would be revenue neutral, if collection rates remained constant.

[4] Bird (1974) makes a strong case for a flat rate property tax.

6. Objections to Assessed Values

Owners have the right to object to the assessed value, the procedures for which are laid out in Part III of the *Land Valuation Act* and are consistent with common practices in developed countries.

For the 2002 revaluation, 6,067 appeals were filed, or less than one percent of the total number of parcels. As of February 17, 2004, 1,145 appeals have been settled, of which 540 were disallowed and 141 were allowed in full. Holland and Follain (1991) report that after the 1974 valuation objections were made on about 9 percent of all properties. The difference in the volume of objections between 2002 and 1974 suggest that the 2002 valuations were less likely to overstate market value.

7. Exempt Properties

Jamaica exempts a fairly standard set of properties from property taxation. The exempt property includes essentially land owned by the government (61.8 percent), and land used for schools (10.2 percent), religious (5.7 percent, hospitals, cemeteries, and charitable purposes. In 2003, there were 9,944 parcels that were exempt, amounting to J$26.8 billion in property value. There appear to be no issues that need to be addressed regarding exempt properties.

8. Derating

Land which is used exclusively or principally for bona fide agricultural production can be derated, i.e., receive a property tax reduction of 50 percent, but subject to a minimum land tax of J$600. The derating certificate is granted for a period of one to three years, but three years is the typical period. A new certificate can be granted upon the expiration of a previous derating certificate. According to government data, in 2002-03, there were 167 parcels that qualified for

derating. The reduction in taxable value as a result of these derated parcels was J$598.8 million, or about 0.1 percent of the total property tax base.

9. Relief

There are two types of relief: statutory and discretionary.

Statutory Relief. Statutory relief allows agricultural and residential land to be valued in terms of its current use rather than highest and best use. Relief does not depend on the characteristics of the owner or the size or value of the parcel. A relief certificate is not transferable and is void if the owner dies or the land exchanges hand. A relief certificate continues in force until a new valuation roll comes into force.

In 2003-04, according to government records, there were 31 applications for statutory relief, of which 15 were approved. These 15 parcels have an assessed value of J$78.5 million, but a taxable value because of relief of J$25.4 million. Thus, the reduction in taxable value because of statutory relief is J$53.1 million. Thus, it does not appear that statutory relief has much effect on the magnitude of property tax revenue.

Discretionary Relief. The Minister of Finance may provide discretionary relief from the whole or any part of the property tax if he is satisfied that it would be just and equitable to do so. The relief is only for the current year, but the owner can apply each year. Provision for discretionary relief was originally intended for pensioners on a fixed income, although there have been some cases of relief for people who have inherited land they cannot afford to develop. The use of discretionary relief has expanded more broadly to low-income families.

For 2002-03 there were 841 applications for discretionary relief, of which 581 applications were approved. Discretionary relief is less than 0.1 percent of tax collections, an

extremely small amount.

Discretionary relief is ad hoc. Given its purpose, i.e., property tax relief for low income households, it would be desirable to develop a more formal structure of relief that limited relief to land owners meeting certain conditions. Discretionary relief could be retained for cases in which the owner does not quality for regular relief but for whom property tax are onerous.

10. Tax Collection

Inland Revenue prepares the tax assessment notices, stating the property tax due, and sends them out by the end of March. If the land tax is not paid within two to three months of due date, the taxpayer is first reminded by letter or phone call. If the owner does not pay by the end of April, the legislation calls for a penalty of 10 percent and interest of 15 percent per annum of the amount due. If a partial payment is made, no penalty is imposed. The Commissioner of Inland Revenue may waive any or all of the interest for reasons that appear to him/her to be sufficient. It was reported that for 2002 and 2003 tax liabilities, penalty and interest for late payment were waived.

Further enforcement steps are authorized, for example, issuing a levy warrant or having the court issue a summons. But these steps are not particularly effective and legally cumbersome. It is unclear whether the government can foreclose on real property; in any event, this enforcement weapon has not been used in recent times.

The collection rate for property taxes is very low, and declined precipitously after 2002. Consider first the one-year collection rate, i.e., the percentage of tax obligations paid by the end of the tax year. For 2001-02, 52.0 percent of 2001-02 tax obligations were paid by March 31, 2002. For 2002-03, only 25.5 percent of obligations were paid by March 31, 2003, a substantial

decrease in the collection rate. For 2003-04, the one-year collection rate rose to 40.0 percent. By the end of April 2004, only 65.4 percent of the 2001-02 tax obligations had been collected and only 46.7 percent of the 2002-03 tax obligations. For 2002-03, property tax liabilities on 37 percent of the parcels were paid in full, 16 percent were paid in part, and for 47 percent of the parcels no payment was made.

Table 6 shows how the to-date collection rate for 2002-03 varies across property value classes. The lowest collection rates are for the lowest and highest two value classes, while the highest collection rate is observed for the mid-value classes. The range of collection rates is modestly high, 15.6 percentage point. There are substantial differences in collection rates across parishes, ranging from 29.3 percent in the parish of Trelawny to 56.5 percent in the parish of Kingston.

The decrease in collection rates that occurred in 2002-03 is no doubt associated with the new valuations and tax rates. However, at this same time, the government waived penalties and interest for non payment. Note that even in 2001-02, the collection rate was low, even though for most parcels the property tax liability had not changed since 1993, the date of the last valuation and tax rate change. This certainly seems to suggest that there is a lack of enforcement, a conclusion also drawn from interviews with representatives of the Inland Revenue Department about steps that are taken to enforce payment.

A reasonable goal is to increase the collection rate to at least the pre-2002 rate of 52.0 percent and hopefully higher, say 75 percent, within three years. There are several steps that could be taken to increase the collection rate, some of which are more feasible than others.

- Make it easier for owners to pay property taxes. For example, rather than allow payment only at offices of Inland Revenue, provision could be made to allow for-profit collection agencies to receive payment.

- Reinstate the penalties and interest, which have not been imposed since 2001.

- Increase the interest rate that is charged on the unpaid balance. The penalty should be imposed on the unpaid balance if full payment is not made by the due date. The interest rate that is specified in legislation is 15 percent, which, given the market interest rate in Jamaica, is too low.

- Tie property tax payment to another type of payment, e.g., the water bill, and/or require proof of payment of property taxes in order to renew one's driver's license, business license, or obtain various permits**.** Since the compliance rate is lowest for residential and non-residential owners in the highest value class, this could be an effective tool of enforcement.

- Foreclose on property, including improvements, for which property taxes are in arrears. Once the government has foreclosed, it can sell the property and collect the taxes, penalties and interest that are owed. While such action would be expensive relative to the revenue collected, particularly for low-value parcels, once such action has been taken it provides a credible threat to other owners, and thus may not have to be exercised very often. Because of the legal uncertainties associated with this action, legislation needs to be passed to clarify the government's authority.

11. Revenue

The revenues derived from the tax are low due to compliance problems, infrequent revaluations, a complicated tax structure, and the presence of preferential treatments. At present, the property tax generates an amount equivalent to about 1 percent of total revenue and about 0.23 percent of Gross Domestic Product. This amount is low by comparison to other countries and low by comparison to the historical performance of the property tax in Jamaica. An issue to be addressed is whether the Government wants the property tax to play a larger role in the revenue system; there are numerous ways by which property tax revenues can be increased.

As noted above, the property tax base is legally fixed between general revaluations (except for increases in land value due to subdivisions or changes in land use). This means that there is limited growth in revenues, even if land values are growing. Meanwhile, the local

government expenditures that these taxes finance continue to increase during the period between revaluations.

That general revaluations are now on a nine-year cycle, rather than the five-year cycle prescribed by law, complicates the problem. When a general revaluation does occur, there is a large one-time increase in potential tax liability. Because of expected taxpayer unrest (as in 2002), tax rates are reduced, which further dampens revenue productivity. For example, if the 1993 tax rate schedule had been fully applied to the new (2002) tax roll, liabilities would have increased by a factor of 9.8. This seems too great a tax shock to be feasible.

The historic pattern of property tax collections is shown in Table 7. Column 1 shows annual property tax revenue. Between general revaluations property tax revenue could increase as a result of the subdivision of parcels, parcels being added to the tax roll (e.g., a previously untaxed parcel is identified), exempt property becomes nonexempt, changes in relief or derating of parcels, or changes in the collection rate. But, even when land is subdivided the values applied to the subdivided parcels are based on market values that existed at the date of the previous valuation. Most of the year-to-year changes in property tax revenue are due to changes in the collection rate, including late payments for obligations for previous years. For example, between 1999-00 and 2000-01, annual property tax collections increased from J$577 million to J$644 million. However, tax obligations increased by less than J$7 million. Between 2000-01 and 2001-02, property tax collections increased from J$644 million to J$677, while tax obligations decreased by over J$15 million.

Columns 2 and 3 of Table 7 present property taxes per capita in nominal and real terms. For 2002-03, property taxes per capita were J$352.06. (In real per capita terms this is less than the amount collected in 1994-95.) For the period 1997-98 through 2002-03, nominal property

taxes per capita increased 11.3 percent per year, while in real terms they increased 3.7 percent per year.

Over the past decade, the increase in property tax revenues has barely kept pace with the growth in GDP. Column 4 shows property taxes as a share of GDP. The share of GDP increased from about 0.19 percent before 2002 to 0.23 percent after the implementation of the 2002 valuations. (After the general revaluation in 1993 property taxes as a share of GDP rose to as high as 0.28 percent.) All of this suggests that property taxes in Jamaica are low and between revaluations do not increase with the growth of the economy.

The amounts reported for Jamaica in Table 7 seem small, but in reality the property tax is not a major source of revenue in very many places, the United States where the property tax constitutes 9 percent of total government revenue and Canada where it is 10 percent are exceptions. We compare the ratio of property tax revenue to total tax revenue for all countries for which data are available for the 1970s, 1980s and 1990s and show the results in Table 8. These statistics show that the relative reliance on the property tax in Jamaica has declined significantly over the past three decades. It fell from an average of 3.11 percent of total taxes in the 1970s to 0.66 percent in the 1990s. It is also the case that Jamaica's reliance on the property tax was above the developing country average in the 1970s, but is now well below the average. From these data, we can say that Jamaica now uses the property tax less intensively than do other developing countries.

Another standard for cross-country comparison is property tax revenue as a percent of GDP. This calculation makes an adjustment for income level and allows comparison of Jamaican property tax burdens with that in other countries, even higher income industrialized countries. We present such a comparison in the right side panel in Table 8. In the 1990s, the

latest years for which comparative data are available, property tax revenues in Jamaica averaged only about 0.16 percent of GDP. By comparison with other countries in the sample, this is low. It is quite a contrast with the 1970s, when the share of property tax in GDP in Jamaica was about equal to the international average and well above that in developing countries.

As noted above, property tax revenues do not increase adequately between general revaluation periods. A more steady increase in property tax revenues may be accomplished in two ways: (a) conducting more frequent general revaluations as required by the law, and (b) developing a method of indexation to provide some annual revenue growth.

Conduct General Revaluations More Frequently. Waiting nine or 10 years between revaluations has three undesirable effects. First, it significantly reduces the revenue income elasticity of property tax revenue. Second, it allows large inequities to arise among land owners since market values change differentially by parcel during these long periods between revaluations. Third, it results in a shock to taxpayers at the time of revaluation and this causes political leaders to adopt tax rate rollbacks which further erode the revenue productivity of the property tax. Thus, it would be desirable to conduct general revaluations every three to five years.

One possible drawback to more frequent general revaluation is cost. The cost of the 2002 general revaluation is estimated at J$110 to J$115 million. This is equivalent to about 4.6 percent of current annual property tax liabilities, and about 10 percent of annual property tax collections. To ensure that a general revaluation is conducted at least every five years, the government could consider allocating J$20 million from the property tax revenues to a special fund that would be available to conduct the next revaluation, which should be in 2007.

Index Valuations between General Revaluations. Another possibility is to simply adjust land values each year by an arbitrary index, e.g., the inflation rate. This approach would have some advantages. If the CPI had been used as the index between 1993 and 2002, the tax shock at the time of general revaluation in 2002 would have been reduced by half. The result of this could have been a lesser rollback and therefore a stronger revenue contribution of the property tax.

Increasing all land values by the same percentage does nothing to correct for differences between assessed value and market value that arise over time as a result of differential increases in the market value of properties. An alternative to an across-the-board increase is to construct an index of the increase in land values for each parish, taking the ratio of the average price per square meter of vacant parcels that were sold in a parish in two separate years. We simulated the impact of using such an indexing method and found that this approach actually results in greater inequities in valuation than does the general indexing approach. [5]

12. Summary and Conclusions

Jamaica has had a land value tax for fifty years. While there is much that is good about the structure and administration of the tax, there were four major issues that needed to be addressed. First, the time between revaluations needs to shortened in order to increase the growth in revenue and to avoid the problem that arises with such massive increases in value that

[5] The implication of this later result is that the distribution of the increases in taxable value, combined with the peculiarities of the rate structure results in an actual increase in tax liabilities that is less than the calculated increase if all values had increased by the same percentage. On average, parcels which had a high assessed value in 2001 had a lower assessed value in 2003. Thus, parcels that would have been taxed at high tax rates experienced a decrease in value, while those taxed at low tax rates were the ones that experienced an increase in value. This pattern of value changes reduced the potential increase in tax liability from an equal percentage increase in value. Furthermore, the very large percentage increases pushed property up against the tax cap, further limiting the increase in property tax liability.

occurred after the 2002 revaluation. Second, the tax caps need to be removed and serious consideration needs to be given to moving to a flat tax rate with a threshold exemption. Third, Jamaica needs to give much greater attention to increasing the collection rate. Finally, consideration should be given to the how important a role the land value tax should play in Jamaica's fiscal system.

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Table 1: Average Percentage Change in Value

Value Class (in thousand J$)	Number of Parcels	Average Percent Increase
< 25	167,248	4701.9
25-50	215,871	1748.1
50-100	168,371	1017.8
100-150	41,295	605.9
150-200	24,097	493.9
200-300	21,868	405.6
300-400	12,918	271.4
400-500	11,151	181.2
500-750	9,555	97.8
750-1,000	4,211	30.6
1,000-2,000	4,321	-25.2
> 2,000	3,366	-6.7

Table 2: Ratio of 2001 Value to 2003 Value

Ratio Values	Percent of Parcels
< 0.05	5.30%
0.05 - 0.10	31.86
0.1 – 0.15	26.00
0.15 – 0.20	13.83
0.20 – 0.30	12.89
0.30 – 0.40	5.30
0.40 – 0.50	2.26
0.50 – 0.75	1.61
0.75 – 1.0	0.88
1.0 – 100	0.06
> 100	0.02

Table 3: Property Tax Rate Schedule as of April 1993

Values (in J$)	Property Tax Rates (in J$)
Up to 20,000	50
20,001 to 50,000	50 + 0.1% of the value exceeding 20,000
50,001 to 100,000	80 + 0.3% of the value exceeding 50,000
100,001 to 500,000	230 + 0.75% of the value exceeding 100,000
500,001 to 1,000,000	3,230 +1.50% of the value exceeding 500,000
1,000,001 to 2,500,000	10,730 + 2.00% of the value exceeding 1,000,000
2,500,001 to 5,000,000	40,730 + 2.50% of the value exceeding 2,500,000
Over 5,000,000	103,230 + 3.00% of the value exceeding 5,000,000

Table 4: Property Tax Rate Schedule Adopted by Parliament
(in J$)

Property Value	Tax Rate
Less than 200,000	600
J$200,001 to 1,000,000	600 + 0.3% of the amount over 200,000
J$1,000,001 to 2,500,000	3,000 + 0.5% of the amount over 1,000,000
2,500,001 or more	10,500 + 1.75% of the amount over 2,500,000

Table 5: Property Tax Caps (2003-2004)
(in J$)

Property Value	Cap (maximum tax liability)
200,000 or less	600
200,001 to 300,000	800
300,001 to 400,000	1,100
400,001 to 500,000	1,500
500,001 to 1,000,000	1,700
1,000,001 to 2,500,000	4,000
2,500,001 to 5,000,000	11,000
5,000,001 to 10,000,000	87,000
10,000,001 to 50,000,000	320,000
50,000,001 to 200,000,000	1,500,000
200,000,001 or more	4,000,000

Table 6: Collection Rate (2002-2003)

	Collection Rate (in percent)	
Value Class (in J$)	All Parcels (percent residential)	Residential Parcels (in percent)
<200	35.9 (23.7)	44.9
200-300	40.0 (44.0)	43.6
300-400	41.0 (53.7)	42.8
400-500	42.5 (61.1)	44.5
500-750	46.7 (61.7)	49.5
750-1,000	53.2 (58.3)	57.9
1,000-2,000	51.5 (55.0)	59.3
2,000-3,500	47.9 (50.8)	55.7
3,500-5,000	46.2 (31.8)	53.0
> 5,000	37.3 (20.8)	33.3

Table 7: Property Tax Collections

Financial Year	Property Tax Collections (in millions of J$)	Property Taxes per Capita (current dollars)	Property Taxes per Capita (constant dollars)	Property Taxes as a Percent of GDP
1997-98	524.7	206.0	294.0	0.20
1998-99	512.9	199.8	264.3	0.18
1999-00	577.3	223.6	277.0	0.19
2000-01	644.4	248.1	286.7	0.19
2001-02	677.9	259.5	278.4	0.18
2002-03[a]	924.0	352.1	352.1	0.23
2003-04	1,489.7	NA	NA	NA

Source: Property Tax Revenue: Inland Revenue Department; Population: Statistical Institute of Jamaica; Inflation and GDP: Statistical Digest, December 2003, Statistical Institute of Jamaica.
NA: not available
a. New property tax rates became effective April 2002.

Table 8: Subnational Property Taxes

	Property Tax as a Share of Total Tax[a]			Property Tax as a Share of GDP[a]		
	1970s	1980s	1990s	1970s	1980s	1990s
OECD countries	4.09	3.96	4.22	1.24	1.31	1.44
Number of countries	16	18	15	16	18	16
Developing countries	2.30	1.66	2.06	0.42	0.36	0.42
Number of countries	16	21	19	20	27	23
Transition countries	3.08	1.65	2.06	0.34	0.59	0.54
Number of countries	1	4	19	1	4	20
All the countries	3.19	2.62	2.72	0.77	0.73	0.75
Number of countries	33	43	52	37	49	58
Jamaica[b]	3.11	1.49	0.66	0.78	0.39	0.16

Source: International Monetary Fund (2001), *Government Finance Statistics Yearbook*, Washington, DC: International Monetary Fund.
Jamaica data are for the 1990s are from the Government of Jamaica sources.
[a] Average of whatever data are available for the period.
[b] Jamaica data are averages for the periods 1975-1979, 1980-1985, and 1990-1999.

Figure 1: Effective Tax Rates

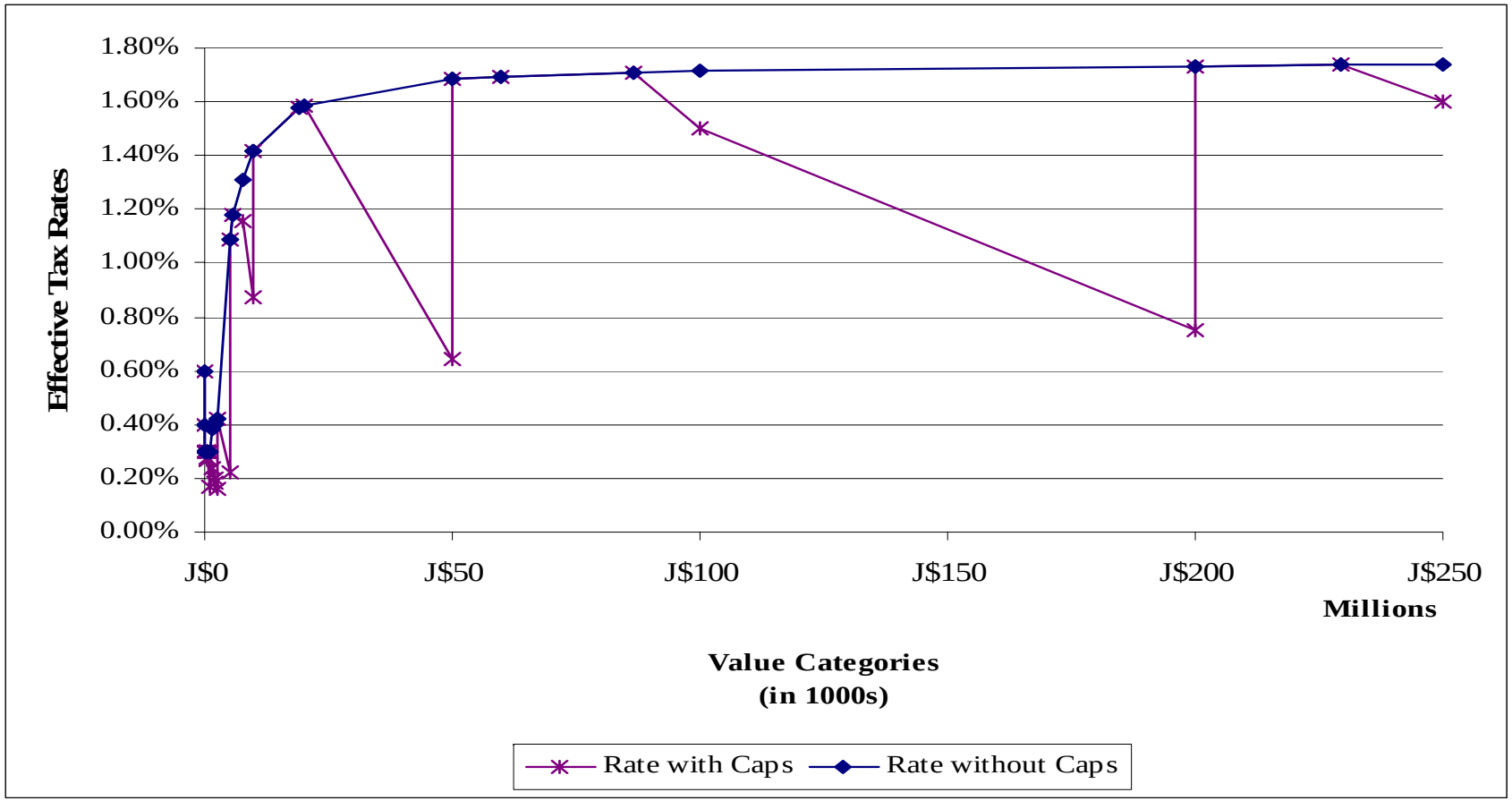

Figure 2: Effective Tax Rates