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The Property Tax in Development and in Transition[1]

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Introduction

Even developed nations with non-transitional economies are often in transition with respect to the property tax. This challenges the concept of "transition," for while developing countries may be defined by objective criteria, such as per capita income, transition countries are less easily identified. The term clearly fits nations of the former Soviet Union that have experienced global changes in their political, legal, and economic systems. But what of a country such as South Africa, which in the same period has undergone a change in government, adopted a new constitution—and changed its system of property taxation? It may be instructive for purposes of international comparisons to consider classification of property tax systems as well as classification of entire countries. From this perspective, it could be argued that many longstanding tax systems (sometimes identified by region or locality rather than on a nationwide basis) are in transition, often dramatically so.

Traditional British property taxes, or "rates," and the property tax systems of countries with a British legal heritage, such as the United States, Canada, Australia, and

[1] Paper prepared for the conference: "Making the Property Tax Work in Developing and Transitional Countries" Andrew Young School of Policy Studies and Lincoln Institute of Land Policy October 15-17, 2006

New Zealand, are usually considered in a category of their own, with the longest history and the strongest role in local finance. Yet some of these systems have experienced enormous changes over the past two decades, with various jurisdictions completely revising their approaches to valuation and assessment, and indeed to state and local fiscal relations. It is hard to argue that these changes do not constitute transitions.

Many factors common to international experience have contributed to this instability. Whatever benefits the high visibility of the property tax offers in terms of accountability and transparency, it also produces a level of scrutiny and political opposition that insure continual pressure for reform—or at least change. The existence of numerous units of local government, the propensity of regional and national governments to alter local tax regimes even in times of overall political stability, and the attraction of the property tax as the focus of voter discontent, all affect even the most firmly grounded larger political systems. This shared context of political ferment extends the relevance of international comparisons of both successful and unsuccessful property tax reform efforts for other countries attempting to revise their tax systems, or facing pressure for a fundamental change in the near future. The following brief review of some of the past decades' developments in Great Britain and the United States is intended to suggest the case for considering even these property tax systems to be in "transition."

Great Britain: Wholesale Transition

Any review of the countries most often associated with highly developed property tax systems must begin with Great Britain. The centuries-long heritage of British property taxes, or rates, dates directly to the Elizabethan era and the Poor Relief Act of 1601, and indirectly even earlier to Tudor rates and land taxes.[2] This venerable historical precedent provided no defense against enormous upheavals in the past two decades, despite the fact that Great Britain exhibited none of systemic global changes in its economic, legal, or political systems that might identify a country in transition.

In fact, these changes were catalyzed by elements familiar to any jurisdiction imposing a value-based tax on real property: reassessments postponed for so many years

[2] Soos 2006, pp. 157-158.

as to make the shock of an update to current market values politically unacceptable; reactions against attempts to shift local tax burdens to nonresidents through disproportionate business levies; resentment by older taxpayers who believed themselves to be subsidizing large young families occupying smaller spaces. This combustible mix required only Mrs. Thatcher's longstanding personal animus against traditional rates to ignite a full-blown transition. The last general revaluation of property in Britain before Mrs. Thatcher took office was conducted in 1973. In 1979, she responded to the political problem of updating values with the statement, "There's no problem. We're not doing it."[3] Another decade of rapid value increases for homeowners in southeast England only insured that a shift to accurate market values would be so disruptive as to be politically unacceptable.

While appreciating the difficulties of maintaining a value-based tax, many observers found Mrs. Thatcher's determination for a wholesale transition astonishing. Even her cabinet minister in charge of its implementation noted that it might be "a change of excessively heroic proportions."[4] In place of residential property taxes, Great Britain at the end of the twentieth century actually introduced a poll tax, perhaps the most primitive means of allocating the cost of government. That enactment certainly have been a surprise to Ursula Hicks, who in her 1961 survey of taxation in the developing world termed the poll tax a "hut tax."[5] Public reaction to the 1990 poll tax, officially known as the Community Charge, paralleled the response to a poll tax instituted by Richard II more than six hundred years earlier, which helped spark the Peasants' Revolt.[6] Surveying legal cases arising from poll tax protests, one commentator wrote, "Surely no modern tax has created such rancour, cost so much to collect and also not to collect, contributed so

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[3] Butler, Adonis, and Travers 1994, p. 61.
[4] Craig R. Whitney, "Poll Tax in This Aide's Environment," *The New York Times*, June 19, 1990, p. A10 (quoting Christopher Patten, Minister for the Environment).
[5] Hicks 1961, p. 298.
[6] "Poll tax arrears were written off by Parliament later in 1381. Sir Richard Waldegrave, Speaker of the House of Commons, who had himself been a poll tax commissioner in Essex, blamed the failure of the tax on 'dishonest, greedy and violent officials.' His descendant, William Waldegrave, was to be a chief instigator of the next flat-rate poll tax 600 years later. ... The 1990 poll tax had led to serious civil unrest in virtually the same areas of London as the 1381 poll tax." Butler, Adonis, and Travers 1994, pp. 13, 153 [citations omitted].

greatly to the unpopularity and eventual downfall of a prime minister and temporarily shaken a government's confidence through by-election failure."[7]

Property tax administrators around the world might be surprised to learn that the defect intended to be remedied by the poll tax was the insufficient visibility of traditional rates. Mrs. Thatcher was convinced that only the householders directly responsible for payment of taxes were sensitive to the cost of government services. "[T]he people who actually own property and pay property taxes directly are often a minority of a locality's population....The untaxed majorities, mostly renters, often vote for the Labor Party...."[8] In any event, the short-lived poll tax did succeed in establishing that a levy could be even more visible and even more unpopular than the property tax.

Less noticed amidst the furor over the Community Charge was a fundamental change in local responsibility for business property taxes. The national government took responsibility for setting a single national tax rate for nondomestic property and redistributing the proceeds to localities according to their population, not according to business situs. This responded to concerns over local attempts to favor homeowners and export tax burdens, but at a cost in local control over revenue, as nondomestic rates became the equivalent of a central government grant.

The new residential property tax, or Council Tax, that was quickly pressed into service to replace the Community Charge, is not based on exact values. Instead, each home is assigned to a class or band of value, and all properties in that band pay the same amount of tax. Homes of lowest value are assigned to Band A, and homes of the highest value to Band H. Band D is intended to represent the average tax, with all other bands taxed in proportion to the amount paid on a Band D house.

Band	**Value**	**Percent of Band D Tax**
A	Under £40,000	66.6%
B	£40,001-£52,000	77.7%
C	£52,001-£68,000	88.8%
D	£68,001-£88,000	100%
E	£88,001-£120,000	122.2%
F	£120,001-£160,000	144.4%

[7] Thomas 1992, p. 208.
[8] "A New Battle of Britain," *The Wall Street Journal*, March 23, 1990, p. A14.

G	£160,001-£320,000	166.6%
H	Over £320,000	200%

The most expensive homes in Britain are worth enormously more than £320,000, but their tax is limited to twice the amount paid by the Band D home, worth £88,000 or less. Within each band, the tax rate as a percentage of market value declines as property values increase, and this phenomenon accelerates dramatically as values rise above £320,000. Despite this, the Council Tax has been successful in quelling the furor aroused by the poll tax. This has presented many tax experts with the puzzle of reconciling the tax's popularity with its seeming unfairness.

One observer who has followed these developments closely is Patrick Doherty, past President of the Institute of Revenues, Rating and Valuation, the professional organization of British property tax administrators. In his writings he has stressed the political reality that in addition to standard criteria such as efficiency, accountability and horizontal equity, a tax must "feel fair" to taxpayers. Doherty points out that the Council Tax "is not related to ability to pay nor are the Bands related to socio-economic groups but it gives the appearance of being progressive whilst it is, in practice, regressive in nature. It is, however, accepted by taxpayers and is actually perceived as fair."[9] This raises a question as to how long a fairly arbitrary levy will be "felt fair" if rates rise or circumstances change.

In fact, the relative stability of the Council Tax may already be shifting. The first update to the 1991 valuations on which the Council Tax is based was planned for 2005. Of course, fourteen years is far too long for a change in values to be politically acceptable as routine update – recall that the 1973 general revaluation was only six years old when Mrs. Thatcher first refused to confront a reassessment After investing tens of millions of pounds in drawing up new valuation rolls, the government announced in September, 2005 that revaluation would be postponed until 2009 at the earliest.

[9] Doherty 1999.

The United States: Retail Transition

The tens of thousands of taxing jurisdictions in the United States present examples of nearly every possible approach to property taxation. Within this array, both large and small systems have faced fundamental changes in recent years, some moving closer to accurate market-based assessments and some rejecting that goal altogether.

California's Proposition 13 is the best known example of this type of complete revision, but far from the only one. By a statewide ballot in 1978, voters there eliminated the market-value tax base and adopted an "acquisition-value system," with taxes generally based on purchase price with a modest inflation adjustment, to be replaced by the new purchase price when the property changes hands. Following this example, Michigan adopted a similar assessment limit in 1994. Oregon voters went even farther in 1997, setting assessment levels at 90% of the 1995-1996 assessment rolls, allowing a maximum annual inflation adjustment of 3 percent, and, most significantly, not updating to market value upon sale. Florida's "Save Our Homes" amendment to the state constitution limits homestead property valuation increases to the lesser of 3 percent or the consumer price index each year. Restricting this benefit to homestead property means that the state's large population of vacation homeowners and nonresidents with winter property in Florida can pay far more in property tax than owners of identical homestead property. These states together provide examples of acquisition-value systems applicable to all properties, applicable to homestead property, updated upon sale, and not updated at all. Other states have narrower assessment limits, such as the Texas restriction on value increases for senior citizens' school property taxes. The Montana legislature responded to rising market prices by requiring the new values in a 1997 reassessment to be phased in over a fifty-year period.[10]

Proposition 13 is extremely popular. When Macy's department stores succeeded in the difficult task of obtaining Supreme Court review of its California property tax assessment—on the very plausible grounds that an acquisition-value base favored resident businesses over new entrants from other states, and thus violated the Commerce

[10] See *Montana v. PPL*, BDV-05-273(d), 8th District Court, Cascade County, Montana (April 28, 2006).

Clause of the federal constitution—the threat of a consumer backlash against the company was sufficient to persuade it to withdraw its appeal without a hearing.[11]

In many ways, the popularity of Proposition 13 parallels the popularity of the Council Tax, in that each replaced a value-based tax with a more politically palatable alternative. In each instance, the transition greatly reduced local fiscal autonomy and centralized taxing and spending decisions—in the case of Proposition 13, to the state government, and in the case of the Council Tax, to the national government. This is one reason why Proposition 13 is not entirely stable. It may "feel fair" because its effects on local government are not associated with its assessment provisions, but those effects carry their own unpopularity. For example, local dependence on sales tax revenue in the wake of Proposition 13 has led a "fiscalization of land use," with large retailer establishments sought as a means of improving local finance. Local revenue shortfalls give rise to periodic reform suggestions, the most politically feasible of which would probably involve a "split roll," with business property taxed at full market value while the residential property tax remained on an acquisition-value basis.

Recentralization in California has been strengthened by moves to equalize school finance across the state, which has led to a far greater state role in education policy. One commentator observed, "Political support for education in California has been eroding steadily for two decades…Under the current system, the governor and legislature decide how much funding schools get, and the state Department of Education tells them how to spend it."[12] This echoes Pat Doherty's criticism of the British approach: "This centralised system has fostered a culture of dependence. It has squeezed out local ambition, local choice and accountability, and has focused the attention of managers on the dictates of Whitehall, rather than on the needs and wishes of service users and local residents."[13]

A second source of instability stems from Proposition 13's reassessment of property upon sale. This provision reflects the problem of taxing unrealized asset appreciation. In the 1970s, many California homeowners saw rapid, unanticipated

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[11] Robert H. Freilich, Laurie L. Vaskov, and Frederick Ernst, "1991-92 Supreme Court Review," *The Urban Lawyer* 669, 737-738 (1992).
[12] Deborah Anderluh, "New Report Blasts Education in State," *Sacramento Bee*, April 19, 1995, p. A1.
[13] Doherty (2006).

increases in their property values. These increases were accurately tracked by an assessment system that had been reformed after a series of highly publicized scandals that led to criminal prosecution of assessment corruption. Tax rates were not reduced proportionately, and a multi-billion dollar state surplus was not used for tax relief, in part because of the need to respond to legal challenges to the state system of school finance. In this situation, changing the value-based property tax to a type of installment-basis sales tax—where a tax based on purchase price was due every year of the owner's tenure—addressed the problem of unanticipated assessment increases. Like a sales tax, the property tax could be considered voluntary, a fixed amount agreed to by the purchaser as a condition of sale.

This solution to the problem of annual reassessment, however, raised a new political problem when purchasers face increased taxes when they purchase a new home. In particular, senior citizens moving out of their family homes could confront much higher taxes on much smaller residences. Therefore reassessment is continually delayed by new exceptions to the definition of a "change in ownership," such as a transfer from a parent to a child, or from a grandparent to a grandchild, or a purchase of a new residence by homeowners over the age of 55.

Texas presents a similar situation. There, the state constitution freezes school property taxes for senior citizens. As with Proposition 13, this was not thought to require a corresponding reduction in taxes upon a new residence, so long as the new taxes were themselves stable and predictable. The impetus to protect the cash-poor long-term homeowner did not imply any obligation to protect the new owner who could afford to purchase at current prices. Yet once taxes were frozen for senior citizens, the prospect of moving to full assessment upon a new residence—an assessment that would not rise with rising market values—was entirely unwelcome even to those with the funds to buy a larger property. In arguing to change the law, one state senator cited the case of a senior citizen whose school taxes rose from $212 to $1740 because of a move to a new residence.[14] In response, a new amendment permitted a senior homeowner's frozen assessment to be transferred on a pro-rata basis to a new home. Thus the frozen

[14]Chris Harris "Amendment 1: Good for Texas Taxpayers," *The Fort Worth Star-Telegram*, August 2, 1997, p. 13.

assessment on a $50,000 home would constitute half the taxes on a new $100,000 residence. Texas then extended its freeze once again, to permit this proportional transfer to be retroactive for up to five years in specified counties.

The only end point to this particular form of transition would replace a value-based tax with a specific excise assigned to each parcel of real property. In fact, this step would bring the cycle that began with reform of the pre-Proposition 13 California tax full circle, from increased accuracy in market valuation to rejection of a market value tax base altogether. One of the most common causes of inaccurate assessments is inaction, simply carrying the prior year's values on the tax rolls with no attempt at revaluation. At its extreme, without even reassessment upon sale, this could result in a set of levies, each specific to a given taxable parcel, with no necessary relationship to value or purchase price but offering complete predictability in taxation.

Even this approach is not without its potential for destabilization and transition. Nassau County, on Long Island in New York, for decades used 1938 construction costs, and 1964 land values in its assessment system. However, a Justice Department civil rights action forced a 2003 revaluation, arguing that decades of inaction penalized minority homeowners in neighborhoods suffering declining property values with higher effective tax rates than were paid in prosperous areas. A revaluation of this magnitude essentially establishes a new tax system, with all the political problems attendant on such a step.

In Massachusetts, a series of court cases, legislation, and ballot initiatives caused an enormous transition during the 1980s, but one that actually brought the state largely onto a market-value assessment system. Like many states, Massachusetts had a long history of accepting fractional assessments and de facto classification—taxation of different classes of property at different effective tax rates, even though the state required uniformity in property taxation. In 1890, the Massachusetts Supreme Judicial Court identified the relevant legal question to be "whether the property has been valued at more than its fair cash value, and not whether it has been valued relatively more or less than similar property of other persons."[15] This fairly invited stable, predictable assessments not based on market value, despite state constitutional and statutory provisions to the contrary..

All this changed radically between 1979 and 1981. In that period, the state's Supreme Judicial Court held that taxpayers harmed by disproportionate assessment had the right to the same treatment as the most favored class of property owners.[16] In 1890, the court had felt that disproportionate assessment was not in itself even grounds for an appeal. By 1979, the same court recognized that even requiring proof of disproportionate assessment "imposes on the taxpayer a wasteful burden of proving the assessed values and the fair cash values of a great number of properties other than his own. To require the taxpayer to revalue even a substantial fraction of the property of a large city may be tantamount to a denial of relief."[17] Political and legal responses to the court's new willingness to enforce full-value assessment were rapid and dramatic. Voters approved a system of limited classification with restrictions on tax rates and collections, but new state oversight required triennial certification of full-value assessment as the background for these new limitations. This produced a system that has remained relatively stable for twenty-five years.[18]

These fiscal transitions have both influenced and been influenced by corresponding changes in intergovernmental relations. In general, limitations on local property taxes have produced greater dependence on state aid and a consequent centralization of authority, particularly in the area of school finance. These school funding are generally not grounded in tax law, but rather in interpretations of state constitutional provisions requiring state government to insure uniform access to adequate education. In several states, such as Michigan and New Hampshire, a statewide property tax has been a central instrument for equalization of local school spending. This is another case of a transition running full circle, for property taxes were an important

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[15] *Lowell v. Commissioners of Middlesex County*, 152 Mass. 372, 375; 25 N.E. 469, 470 (1890). This position, which was similar to that of other state courts, was found to violate the federal constitutional guarantee of equal protection in *Sioux City Bridge Co. v. Dakota County*, 260 U.S. 441 (1923).
[16] *Tregor v. Board of Assessors*, 377 Mass. 602, 387 N.E.2d 538 (1979).
[17] *Id.* at 377 Mass. 609, 387 N.E. 2d 543 (citations omitted).
[18] It is currently being tested by a real estate market that combines declining commercial values with extremely high residential prices.

source of state revenue until the early twentieth century, when the introduction of state income and sales taxes largely relegated property taxation to the realm of local finance.

The continuing technological transition of recent decades has revolutionized some assessment systems, with much wider applications possible the future. Computer-assisted mass appraisal initially allowed development of statistical models for property values based on building characteristics and neighborhood location. Its coordination with geographic information systems could potentially improve tax valuation, particularly in estimating the land value component of improved parcels. The absence of substantial numbers of vacant land sales in urbanized areas has long been a stumbling block to consideration of graded tax or land tax proposals. In theory, jurisdiction-wide land assessment has one advantage over mass appraisal of buildings: the fact that each parcel should stand in an explicable value relationship to contiguous land could permit the development of value maps for all taxable sites. This is still a long-term and somewhat futuristic prospect, but the astonishing transition in assessment technology over the past several decades demonstrates how quickly the futuristic can become commonplace.

Consider, for example, the public availability of property information. Although international commentary often characterizes the United States as a model of open information concerning property data, in a number of "non-disclosure" states sale prices are not a matter of public record. As web sites for estimating house values become more expansive and sophisticated, sale prices even in nondisclosure states are certain to become more widely known. Disclosure can take a number of forms beyond straightforward filing of sales prices, such as public data on transfer taxes that are themselves based on sales price, or requirements for filing deeds in a public registry. Although approximately a dozen states have some nondisclosure policies, only Idaho, Missouri, and Texas have no statewide registration requirement for legal documents of conveyance, the sale price, or the transfer tax.[19] At the same time, many "disclosure" states are making tax assessments themselves available online. These steps could change the fundamental context of some property tax systems. Fractional assessment and de facto classification flourished in eras in which determining the relative tax burdens of similar property was, as the Massachusetts court wrote, "a wasteful burden." The ready

[19] Dornfest 2004, p. 34.

availability of price and assessment information could diminish public tolerance for inaccurate tax values.

Electronic payment options are an example of another technical innovation that could potentially have significant implications for public attitudes towards the property tax. There is no question but that the high visibility of the tax, laudable though that may be in terms of accountability and public awareness, is an important factor in its unpopularity relative to consumption taxes or to income taxes that are withheld at the source. If direct debit payment were to become administratively feasible, perhaps encouraged by a slight payment discount or other incentive, that visibility might be significantly reduced.

International Transition and Development

If even those countries with the longest and most stable history of real property taxation often are in a state of transition on that point, how does this perspective affect the comparative study of international property tax experiences? Perhaps considering the transitional aspects of any property tax system, whether it exists within a larger national political transition or not, may provide a wider range of experiences from which to draw lessons and suggestions for specific tax reform efforts.

Consider, for example, property tax developments in the Baltic states since 1991, and the potential applicability of these experiences to other nations. Estonia offers perhaps the most dramatic example, since it instituted a tax based on land value in 1993, even before property markets had grown to the point of supplying reliable land price information. The Estonian Land Board held regional and local public meetings to draw up land maps reflecting the relative desirability of different locations. This provided the basis for an initial indexing system for distribution of the tax burden. The success of this effort has obvious implications for land value mapping, serving as a kind of case study on a national scale.

Another important distinguishing aspect of the Estonian experience was the land-policy motivation for implementation of the tax. It was not instituted as primarily a revenue instrument, but as an adjunct to the restitution of land to pre-Communist owners and their heirs. The land tax was considered a means of encouraging productive use or sale of this property by the new class of largely absentee landowners. However, the tax has been fairly stable for over a decade, and even resistant to change. Officials who now would like to see the tax base expanded to include buildings have been unsuccessful in this regard.

A final instructive feature of the Estonian land tax is its very limited use of exemptions. Government buildings are generally subject to tax and, most unconventionally of all, there were few agricultural preferences until Estonia's accession to membership in the European Union encouraged agricultural landowners to press for subsidies akin to those enjoyed by farmers in other European Union member states.

The large number of new landowners receiving property under restitution in Estonia raised an issue familiar to any jurisdiction with a significant number of second homes or vacation property: "Namely, a tax burden export from municipalities where the property is located to other jurisdictions where the landowner resides. This results in landowners not participating in the decision-making processes over land tax rates and public spending, despite having to pay a property tax to that particular municipality."[20]

The Estonian example is one particularly dramatic instance of a transformation in property tax practice with lessons even for countries whose overall economic and legal institutions are not in transition. The example of a successful tax that allows only very limited exemptions, taxes most government property, and even avoided agricultural preferences until accession to European Union membership emboldened the farm lobby to seek subsidies similar to those enjoyed by its peers in other nations, demonstrates how transitional situations may permit the achievement of tax policy goals, such as base broadening, that often seem politically impossible in established tax systems.

Nor are these examples limited to post-Communist governments. One of the most important current property tax transitions concerns Northern Ireland, where a number of factors have combined to require a significant increase in local government revenues. European Union mandates—for example, water quality standards— will require enormous new infrastructure investment that will not be met by central government grants. The central government is particularly unwilling to assume these responsibilities

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[20] Trasberg 2004, p. 35.

because Northern Ireland has long held local property taxes below the national average. At the same time, the outdated assessment rolls would not support a rate increase based on past values. Northern Ireland has had a property tax based on rental values since 1826, but in the last seventy years there have been general revaluations of all properties only in 1935, 1957, and 1976, the last based on rental values from the late 1960s.

In response, Northern Ireland is in the process of implementing an entirely new system of property taxation. First the Northern Ireland Executive, and after suspension of the Northern Ireland Assembly, the Finance Minister for Northern Ireland, has overseen a full-scale revaluation and a change to capital valuation. Over 700,000 residential properties have been revalued, and in a dramatic changes, assessments are now to be based on capital value rather than rental value. The new values, published in 2006, will be phased in as the basis for taxation over a three year period beginning in 2007. Perhaps the most surprising achievement is the end of "industrial derating," or the exemption of industrial property from tax. This was introduced in the Depression of the 1930s, and the example of an enormous tax preference established for decades actually being reversed is as dramatic an example of transition as can be found in the field of property taxation.

Ontario provides another example of political will achieving reassessment after a long period of inactivity. Nearly four decades ago, a report by the Ontario Committee on Taxation led to a provincial market-value assessment system, which was offered to municipalities on a voluntary basis. For nearly twenty years the province thus had a patchwork system of different assessment methods, valuation bases, and property classifications, with some municipalities simply forgoing revaluation altogether for decades at a time.

Like Northern Ireland, Ontario determined to introduce a market-value tax base long after such a measure seemed politically impossible. A province-wide revaluation in 1998 was followed by an update only three years later, and reassessments have followed annually thereafter. Like Massachusetts, Ontario addressed the longstanding historical discrimination against commercial, industrial and multi-family property by permitting an explicit and limited range of tax ratios for different property classes. Most significantly in regard to tax limitation measures, the province limited tax increases for commercial, industrial, and multi-family property to 10 percent in 1998, 5 percent in 1999, and 5 percent in 2000. These limits expired altogether in 2001.

On more specific, individual valuation and assessment issues, numerous parallels offer the opportunity for cross-border lessons. The attraction of fractional assessment, for example, is not limited to any national context. James Bonbright wrote in 1937, "Gullible taxpayers associate a larger valuation with a larger tax, or at any rate are less contentious about a relatively excessive assessment if it does not exceed their estimate of true value."[21] Yet many jurisdictions make this distortion all but transparent by setting taxable value at a given percentage of market value—50 percent in Michigan, and 80 percent in Slovenia.

Similarly, public-private assessment authorities that function as valuation agencies and also as revenue-generating enterprises are an intercontinental phenomenon, from Lithuania to British Columbia to New Zealand. Highly sophisticated statistical models for estimation of market values show great similarities in Vilnius, Lucas County, Ohio, Northern Ireland, and Cape Town. The struggles of "nondisclosure states" in the U.S. with a new era of online information are echoed in the U.K., where price and ownership are not matters of public record, and in Lithuania and Poland, where price but not ownership information is available to the public. When district councils in Great Britain print leaflets featuring soccer stars urging taxpayers to use direct debit for their Council Tax bills ("Don't Pay the Penalty—Pay by Direct Debit"), or when Kentucky allows out-of-state investors to buy the right to collect unpaid property tax bills, the results will be of interest to tax administrators from far beyond the jurisdiction's borders.

International Issues and International Lessons

The ultimate challenge for international case studies is the identification of lessons for others facing similar issues. Even this cursory overview demonstrates the general applicability of basic principles, such as the need to keep assessments current if a market value-based tax is to be stable in the long run. Whether the venue is Toronto,

[21] Bonbright 1937, p. 498.

Nassau County, or the whole of England, long delays between revaluations followed by the shock of drastic redistributions of the tax burden are a certain road to tax revolts.

Accuracy in assessment is a necessary but not sufficient condition for stability in a property tax system. The pre-Proposition 13 California assessment system was highly accurate, but the lack of any compensating mechanism for reducing tax rates as property values soared meant that homeowners faced rapidly rising tax bills based on accurate assessments. Ideally, in such a situation rates would fall to maintain stability in actual tax bills. However, the appeal of increased collections with no increase in tax rates is often too much for hard-pressed government officials to resist. Moreover, a rate reduction will not maintain levies and collections in a jurisdiction that confronts non-uniform increases in values across different property categories or locations.

These situations require some combination of tax relief, deferred payment options, and public notification (such as "truth in taxation" measures[22])—and, most of all, political will to maintain a value-based system. Public information is perhaps the most important element in this mix. At one extreme, the local meetings to react to initial value maps in Estonia helped prepare for public acceptance of an entirely new tax. At the other, California's failure to respond to public indignation over a multi-billion-dollar state surplus at a time of rapidly rising property taxes helped overturn a value-based tax altogether.

The almost irresistible attraction of the property tax as a focus of protest places a special burden on public administrators and politicians to counter popular misconceptions with something of the zest that the implacable foes of taxation bring to their message. Everywhere the specter of aged homeowners being dispossessed for nonpayment exercises an enormous power over the public imagination, and almost nowhere are there factual cases to support this. Tax deferral options for senior citizens are often underutilized, but their very existence serves a crucial function if it allows this charge to be refuted. Consider the impact of the plight of (somewhat hypothetical) senior citizens on the transition in Great Britain:

> It is hard to exaggerate the political potency of the "little old ladies" to the poll tax debate. As a beleaguered minority, they excited the anguish of

[22] See Cornia and Walters 2005.

> everyone involved in the review; and as an image in the minds of Tory politicians, they usurped rational thinking on the subject of the pros and cons of different taxes, and the capacity of rebates to iron out flagrant anomalies.....[23]

These authors do not find it possible to judge whether legislators were "deluged by letters from elderly widows unable to pay their rate bills," or whether this was "a convenient, tear-jerking justification for a change decided upon for other reasons."[24] Could a vigorous examination of senior exemptions, rebates, deferrals, and effective tax rates have had an effect on this debate? Consider a 2001 study by the Boston Globe, which found that a Massachusetts program allowing low-income seniors to defer their property taxes as long as they lived in their property had only ten participants in the entire city of Boston.[25]

The short-term appeal of tax freezes and other methods of decoupling payments from market value are often the first step in undoing a value-based tax system. In this respect a tax freeze is the equivalent to a deferred reassessment, increasing the political problems of revaluation as time passes and the tax rolls grow more out of date.

The benefits of increased communication are not universal for a highly visible tax. The technology for alternate payment options, such as electronic payment, direct debit, or bundling the property tax with mortgage payments or income tax withholding, may benefit the property tax politically even as technological advances in geographic information systems and statistical modeling assist the valuation process itself.

Technological advances in computer-assisted mass appraisal are often considered evidence of the limits on relevance of international property tax reform efforts. Of course, affluent nations may have the luxury of investing in more expensive technology and seeking more precision in valuation than may be appropriate for a developing country, but this dichotomy greatly oversimplifies the range of tax administration options. Some transition countries are utilizing highly sophisticated modeling software, some developed countries have reverted to shockingly crude valuation measures, and some technological advances may improve collections and enhance the political acceptability of the property

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[23] Butler, Adonis, and Travers 1994, pp. 52-53.
[24] Id. at 53.
[25] David Abel, "Many Cash-Strapped Seniors Hold On to Valuable Property," *The Boston Globe*, August 3, 2001, p. A1.

tax in developing nations. Pat Doherty's comments on the need for the tax to "feel fair" are relevant in all these contexts.

Conclusion

Within the specific confines of real property taxation, transition is a fact of life. For policymakers, analysts, and tax administrators, this is the burden of a highly visible tax often associated with an accessible level of local government. The corresponding benefit lies in the continual opportunity to effect improvement in a tax that is never completely stable. Perhaps another benefit can be found in the kaleidoscopic array of changing valuation, assessment, and administrative provisions that transit across property tax systems worldwide. Useful as the distinction between developing, developed, and transition economies can be, it can disguise the significant common issues they face in achieving equitable, efficient, and politically acceptable forms of property taxation. The United Kingdom and the nations whose British heritage included strong local property tax systems have undergone property tax transitions as dramatic as those in any post-Communist society. At the same time, the difficulties and challenges faced by central and eastern European nations seeking to institute value-based tax systems are familiar to policymakers in developing and developed economies alike. Fortunately, the property tax transitions include examples of enormous improvement and political will as well as the inevitable cases of decline and desuetude. The universality of transition provides a basis for fruitful application of these lessons.

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