

Building Better Futures

By strengthening democratic local government

VNG International is an expert in strengthening democratic local government in developing and transitional countries. Local governments play a key role in the provision of basic services such as water, waste management, health care and housing. They have profound impact on areas like safety, food security, rule of law, and women's rights. Our projects contribute sustainably to better futures for people, communities and countries.

VNG International runs over sixty projects worldwide, funded by various donors including the Dutch Ministry of Foreign Affairs, the European Union and the World Bank. We are embedded in the Dutch local government sector and we have an extensive international network of experts in the fields of decentralisation and local administration at our disposal.

In 1993 VNG International was founded by Vereniging Nederlandse Gemeenten (VNG), the Association of Netherlands Municipalities. Globally we are represented through our daughter company in Tunis, as well as over 15 local project offices.

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Improving property tax

A comprehensive approach





Urbanisation

Urbanisation is an undeniable global trend. By 2030, urban areas are estimated to house 60% of the world's population. Of these urban inhabitants, 828 million people will live in slums, and the numbers are projected to keep rising. Cities are facing enormous urban challenges including tackling the impact of climate change, insufficient funds to provide basic services, the provisioning of healthcare and education, and to restore deteriorated infrastructure – all of which disproportionately affect the urban poor.



Tax collection

Given this context, it is easy to imagine that many people across the globe have no access to clean drinking water, their homes are left dark without electricity, and roads remain unpaved. Everybody knows, whether you like to pay them or not, that revenues from (local) taxes can fund the basic public services we all need. However, in many countries local governments only receive 10% to 20% of the revenues that could have been collected. This is a resource mobilisation gap up to 80% to 90%.

As highlighted by SDG 17, enhancing domestic resource mobilisation, by strengthening the ability of cities and regions to collect revenues, is an important enabler for governments to provide better and more accountable services to their citizens.

Why focus on local tax?

Taxation is about asking a fair contribution to your citizens and businesses for governments to provide for good services. However, in many cases there is reluctance to pay taxes because of distrust in governments and public servants. To improve this tax compliance culture, it is necessary to link the improvement of services for citizens and businesses directly to the levying of taxes.

At the local level, the distance between citizens and the government is small, which provides the opportunity to local governments to show specifically on what tax revenue is spent. Therefore the connection between revenue and services can be made very clear. Also, there is opportunity for investment priority setting when local governments organize public events. For tax payers, this is an incentive to pay tax and hold their governments accountable for what is done with the revenues. For governments, this is an incentive to invest more in services on the local level, and to be transparent about how the revenue is spent.

Why property tax?

Property taxes are an efficient, equitable and effective revenue instrument for municipalities; equipping them with the resources they need to make decisions that suit the local context. Property falls on fixed assets that cannot be moved to another jurisdiction, which constitutes it as a viable source for financing local services. Accordingly, they are an important revenue source for cities around the world.

However in many countries, actual property tax collection plays a smaller role than it could. The yield of property tax often accounts for very limited amounts of revenue, which shows that property tax is underutilized as a revenue instrument.

Our approach

With our taxation team, we strengthen tax administration in transitional and developing countries. Our services vary from managing the introduction of complete new taxation process (e.g. property rate collection in Ghana), or the introduction of a Fees for Water Management (Ethiopia), to decentralisation of property tax collection from the Ministry of Finance to the local level (Palestine Territories). Also our team has conducted tax feasibility studies in several countries such as Myanmar, Zimbabwe and Mozambique.

Key feature of our approach is to link taxpayers contributions to tangible expenditures in services, infrastructure and amenities through clear, effective communication. Doing so, we help to build a taxpayers climate that is built on trust in the local government. Our development partners are the Dutch Ministry of Foreign Affairs, the European Commission and the World Bank.

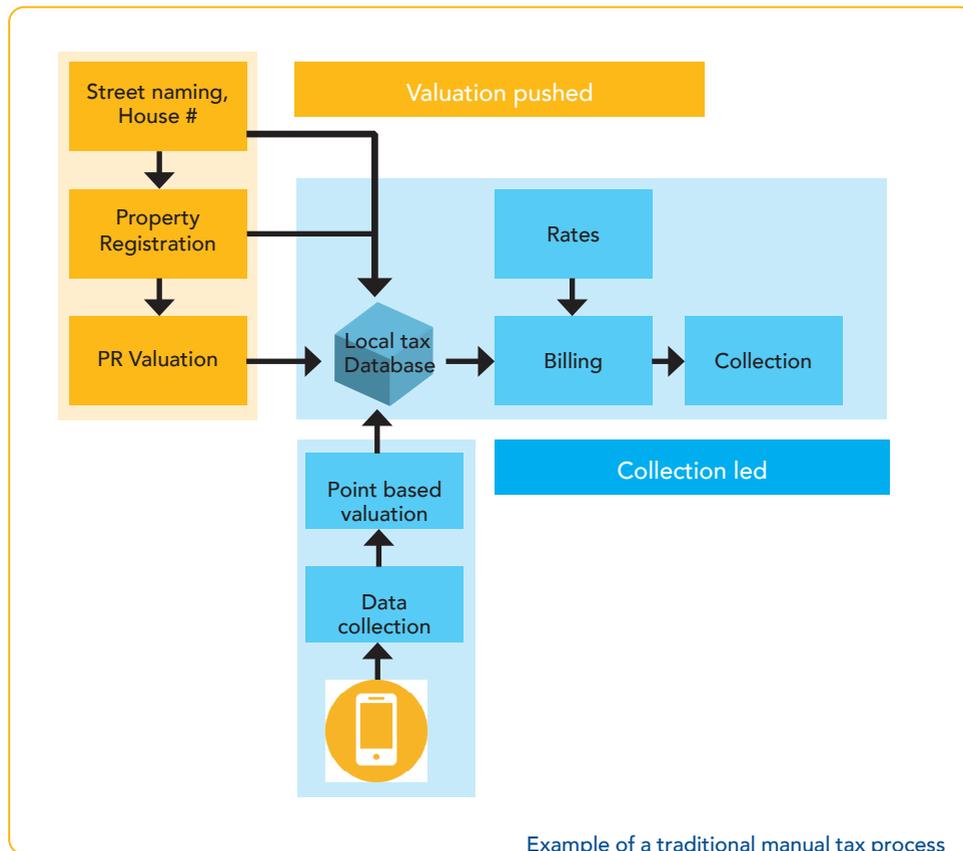


Valuation pushed strategy

Traditionally, the approach towards improving property taxation has been VALUATION PUSHED; which means that there is a focus on improving the valuation data and the coverage of this data. This is the most accurate approach in terms of estimating market prices, but is costly in terms of time and money.

Valuation pushed strategy key features:

- Tax mapping
- Fiscal Cadaster information
- More accurate valuation



Example of a traditional manual tax process

Collection led strategy

Recently, academic studies have pointed out a COLLECTION LED strategy, that focuses on the complete tax chain from start to end. It improves the billing, collection and communication process of property tax, making use of the data available. If needed, the property tax process can be fed with an area or points based assessment of property, that costs much less than traditional methods of property valuation.

Collection led strategy key features

- Focused on the complete tax process
- Less attention on improving quality of property information and accuracy of property valuation.
- An improved tax process leads to more revenue, equity, efficiency and accountability



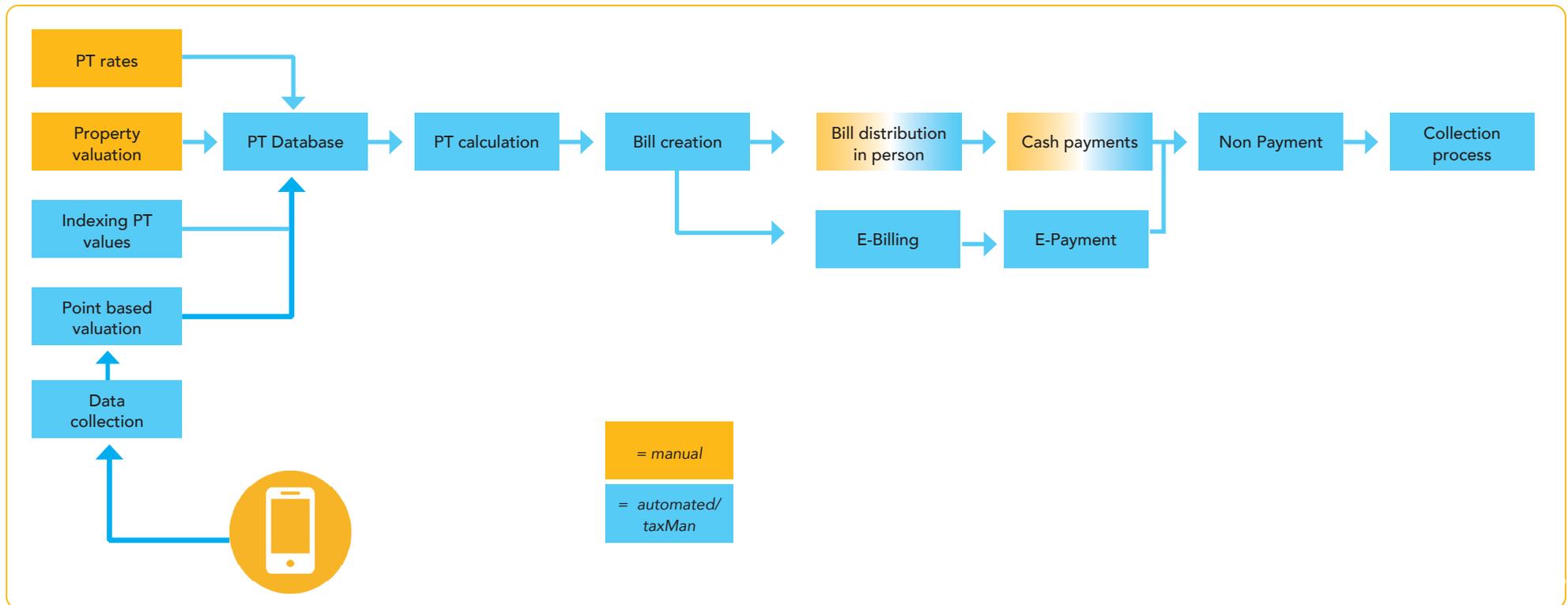
Property Tax Solutions

VNG International applies the collection led approach, focusing on innovating and improving all components of the tax chain; from data collection to revenue collection and compliance. This entails analysis and redesign of the property tax system, with the implementation of customized IT solutions that facilitates the complete process.

With this approach our project partners have shown to improve revenue collection within two years.



Example of a redesigned automated tax process as applied in 33 municipalities in Ghana



Key components of our approach are:



PROCESS:

analysis of the organisational and information processes and technical assistance to improve them. A reference model is developed that maps the current processes and structures the optimal solutions.



IT:

implementation of tailor made tax software **taxMan**, plus other digitized applications such as light assessment of properties with mobile devices and e-payment of the tax bill.



COMMUNICATION:

development of an actionable tax payer communication strategy that increases awareness of tax payers why they pay tax and increases accountability of governments towards the provision of services.



LEGAL:

support in creating the legal framework necessary to increase property tax revenues.

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