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How to Reform the Property Tax: Lessons from around the World

Enid Slack and Richard M. Bird

Abstract

Property taxes are generally considered by economists to be good taxes, and many countries are being advised to increase and improve their property taxes. In practice, however, property tax reforms have often proved to be difficult to carry out successfully. This paper discusses why property taxes are particularly challenging to reform and suggests several ways in which efforts to reform this tax may become more successful in the future.

Keywords: property tax, tax reform, local finance, political economy

JEL codes: H24, H25, H71, D78

How to Reform the Property Tax: Lessons from around the World

Recently, property taxation has been much discussed in Toronto, as well as elsewhere in Canada and in many other countries as well. Economists often argue that property taxes are good sources of local finance and that they should continue to be the main source of municipal finance (McMillan and Dahlby 2014). But people are seldom keen on them and politicians are generally reluctant to support increasing property taxes, especially the taxes on owner-occupied residences, even though the economic argument for raising such taxes is strongest. Nonetheless, property taxes are not only the most important source of local finance in Canada, but are also more important than in most developed countries. Indeed, as Table 1 shows, apart from the United States and Canada, property taxes accounted in 2010 for more than 3 percent of GDP only in Britain, while 22 OECD countries collected less than 1 percent of GDP from such taxes.[1]

Property tax reform has proved to be difficult in rich and poor countries alike. It has been as hard to achieve in countries such as Greece and Italy, in which little money is collected from property taxes, as it has been in Canada, the United States, or the United Kingdom, in which they are relatively important.[2] In the European Union, for example, although increasing reliance on property taxes was recommended for 11 EU countries in 2014, and nine actually did increase the rate or base of the tax over the 2011–2014 period, revenues from this source did not increase (Garnier et al. 2014). Similarly, despite decades of recommendations from international agencies (e.g., IMF 2013) to make more use of property taxes, reforming the tax has proved difficult in developing countries and not all reforms have been successful (Norregaard 2013). And in Canada, of course, as in the United States – two countries more reliant on local property taxes than most – property tax issues continue to be matters of public concern in jurisdictions across the continent.[3]

1. Table 1 includes only “recurrent” property taxes and does not include either taxes on property transfers (such as that now imposed in Toronto (Dachis 2012) or other property-based taxes such as the land value recapture taxes in a few jurisdictions and the various forms of development charges, impact fees, betterment levies, and special assessments found in many others.
2. The Greek, Italian, and British cases are discussed briefly in Slack and Bird (2014). See also Bises and Scialà (2014) for a more detailed discussion of Italy – a country in which property tax policy has been reversed a number of times in recent years – as well as Mirrlees et al. (2011) for a detailed examination of the British case. In Greece, a major campaign promise of the recently elected government was to abolish the recently reformed property tax.
3. In the United States, for example, a recent report on a “sample” of major property tax issues mentions over half the states, including major studies in states as diverse as North Dakota and New York, where the Governor called the property tax “the most onerous tax” (Collins and Langley 2014). In Canada, in addition to detailed studies on Alberta (McMillan and Dahlby 2014) and Ontario (Bird, Slack, and Tassonyi 2012), there have been important recent studies in Vancouver (2007) and Nova Scotia (Kitchen and Slack 2014).

Table 1: Recurrent Property Taxes as a Percentage of GDP, Selected OECD Countries (%)

	1965	1975	1985	1995	2005	2010
Australia	1.4	1.3	1.3	1.3	1.4	1.4
Austria	0.5	0.3	0.3	0.3	0.3	0.2
Belgium	0.0	0.2	0.3	0.4	0.4	1.2
Canada	3.1	2.7	2.6	3.2	2.7	3.1
Chile				0.6	0.6	0.5
Czech Republic				0.2	0.2	0.2
Denmark	1.5	1.5	0.9	1.0	1.1	1.4
Estonia				0.3	0.3	0.4
Finland	0.0	0.0	0.1	0.5	0.5	0.7
France	0.7	1.1	1.5	1.9	2.1	2.5
Germany	0.5	0.4	0.4	0.4	0.5	0.5
Greece	0.0	0.1	0.1	0.2	0.1	0.1
Hungary				0.1	0.3	0.3
Iceland		0.9	0.9	1.3	1.4	1.9
Ireland	3.9	2.2	0.9	0.8	0.7	0.9
Israel				2.3	2.5	2.3
Italy	0.4	0.0	0.0	0.8	0.8	0.6
Japan	0.9	1.21	1.6	2.1	2.0	2.1
Korea		0.4	0.5	0.7	0.6	0.8
Luxembourg	0.4	0.2	0.2	0.1	0.1	0.1
Mexico			0.1	0.2	0.2	0.2
Netherlands	0.3	0.3	0.8	0.8	0.8	0.7
New Zealand	2.1	2.0	2.0	1.7	1.8	2.1
Norway	0.2	0.2	0.2	0.3	0.2	0.3
Poland				1.0	1.3	1.2
Portugal	0.0	0.0	0.0	0.4	0.6	0.6
Slovak Republic				0.6	0.5	0.4
Slovenia				0.4	0.4	0.5
Spain	0.1	0.1	0.6	0.6	0.7	0.9
Sweden	0.0	0.0	0.4	0.8	0.9	0.8
Switzerland	0.1	0.2	0.1	0.1	0.2	0.1
Turkey				0.0	0.2	0.3
United Kingdom	3.4	3.8	3.8	3.0	3.3	3.4
United States	3.4	3.2	2.5	2.8	2.9	3.0

Source: OECD (2012).

In recent years, many countries around the world have accumulated experience with a variety of property tax reforms, both successful and not so successful.[4] Although every case is of course different in details – and details matter when it comes to designing policy reforms – our argument in this paper is, first, that there are some common reasons for the apparent sharp "disconnect" between the economics and the politics of property tax reform and second, that there are lessons to be learned from experience elsewhere with attempts to deal with the problems that often block successful reform.

To set the stage, we begin with a brief section setting out the case, economic and political, for property taxes. The following section then discusses four key elements of any property tax: determining the tax base, setting the tax rate, assessing particular properties, and collecting the tax. Against this background, the final two sections lay out the main argument of the paper. The first describes six obstacles often encountered in attempting to reform an existing property tax (or, in some countries, to implement such a tax in the first place). The final section considers a number of strategies that various jurisdictions have used in attempting to overcome these obstacles. We argue that some of these approaches are generally more advisable than others and that, as always in policy analysis, success in each case is likely to require careful design and implementation.

1. The Property Tax Is a Good Tax

Taxes on immovable property have many virtues, especially for local governments.[5] It is difficult to evade such taxes because property is immovable: the tax base cannot shift location in response to the tax and property cannot be hidden. Moreover, property taxes are in principle economically efficient because they distort the allocation of resources less than other taxes (Johannesson et al. 2008). Since changes in property taxes are, to a large extent, capitalized over time into property values, their impact on economic behaviour is likely to be smaller than that of other taxes such as income and sales taxes.[6]

Local property taxes promote local autonomy and accountability owing to the connection between many of the services provided at the local level (for example, schools, roads, transit, and parks) and property values. When local property taxes finance local services, public-sector decisions will tend to be more efficient because taxpayers will presumably support those activities for which the benefits received exceed the taxes. Property values will increase to the (usually significant) extent

4. For reasons of space, this paper does not discuss specific countries: those interested can find more detailed discussions in such earlier reviews as Bird and Slack (2004, 2007); an earlier version of the main argument of the present paper, with some case studies, may be found in Slack and Bird (2014).
5. For an earlier discussion of why the property tax is a good tax, see Slack (2011).
6. For two interesting recent studies on the extent to which property taxes are capitalized in quite different settings, see Borge and Rattsø (2014) on Norway, and Lutz (2015) on New Hampshire.

that benefits and taxes are capitalized into property values (Fischel 2001).[7] Residential property taxes are especially appropriate to fund local government spending because they are largely borne by local residents who use local services.[8]

Despite its virtues, however, the property tax is not popular with taxpayers and politicians. It has been characterized as the "tax everyone loves to hate" (Rosengard 2013) and criticized as unfair, because it is unrelated to ability to pay or to benefits received; unsuitable because it supports services that are not related to property; and inadequate because it does not provide sufficient revenue to meet local expenditure needs. It has also been criticized for its negative effects on housing, land use, and urban development (Slack 2002).[9]

Although the property tax in most countries is levied by local governments, often it is not a truly local tax – that is, one for which the local government decides whether to levy the tax or not; determines the precise base of the tax; sets the tax rate; administers (assesses, collects, enforces) the tax; keeps all the revenue collected; and may grant tax allowances or reliefs to individuals and firms (Bird 2011). In OECD countries, although local governments have more discretion with respect to property taxes, which provide about 30 percent of local revenue, than

7. Despite evidence like that cited in the previous note, this argument does not imply that changes in property taxes are immediately and fully capitalized in changing property prices. Properties do not usually turn over quickly, and in any case, full capitalization assumes conditions that are seldom fully satisfied: local property taxes finance services that benefit property values; the main burden of such taxes falls on local residents; those who wish to "buy" other combinations of services and taxes are free to move to other jurisdictions; owing to their sensitivity to property values, people act rationally in response to such signals; and local governments do what voters want them to do (Bird and Slack 2007). A competing view sees the property tax as essentially a tax on capital which discourages investment, with differing effective rates in different localities resulting in further distortions in the housing market, in business location decisions, and in local government fiscal decisions (Zodrow 2001). As Lutz (2015) shows, each view may be more or less valid in particular local markets at particular times.
8. In some countries, such as Poland, most property taxes are collected not from residents but from businesses. Often, property taxes imposed on businesses exceed the benefits businesses receive from local services. Moreover, businesses are more mobile than residents and thus more responsive to property tax changes, and business taxpayers are not eligible to vote in the jurisdictions where their businesses are located. For these and other reasons, the residential property tax is a much better tax for local governments than the non-residential property tax: in the United Kingdom, for example, business property is subject only to a uniform national tax. More generally, Bird (2014) argues on "benefit" grounds that differentially heavy business property taxes should be replaced by a less distortionary "business value tax," a case supported by Gugl and Zodrow (2014).
9. For example, a tax on property value will, other things being equal, discourage investment in property and hence reduce urban density. Similarly, the differentially higher taxation on non-residential properties found in many countries favours residential over commercial and industrial uses of land.

they do over other taxes, the tax is not usually fully under local control. In fact, one study found that local governments have full discretion on rates and reliefs with respect to only 16 percent of their property tax revenue, full discretion on rates for another 22 percent, and rate discretion within a limited range for another 38 percent (Blöchliger and Rabesona 2009).

Even when there is some local discretion, higher-level governments often oversee the design and operation of the local property tax. For example, they may specify how assessments should be performed or take over the assessment function. Central assessment of property values may achieve economies of scale and ensure uniformity in assessment practices (Strauss and Sullivan 1998). Experience suggests that it is often advisable for the central (or state) government to set the rules for local assessments, provide assessment manuals, and take some responsibility for training assessors in order both to support and strengthen local government and to ensure more uniform outcomes across jurisdictions. Responsibility for rate-setting also varies among countries.

How well local property taxes ensure political accountability thus depends to a considerable extent on how intergovernmental finances are structured in terms of the spending and taxing powers assigned to local governments and the general nature of relations between different levels of government. Intergovernmental fiscal transfers are also important, for two key reasons.

First, accountability works in part through electoral democracy.[10] If local electors do not like what their local government does, or does not do, they can (try to) throw the rascals out at the next election. But if the rascals who fail to collect local taxes or to spend revenues efficiently are bailed out by discretionary transfers, they may not be thrown out but rather re-elected for their success in obtaining more transfers.

Second, equalization transfers intended to enable different jurisdictions to respond equally to incentives must be carefully designed to ensure that, at the margin, the costs and benefits of local fiscal decisions are borne locally, while taking interjurisdictional spillovers adequately into account (Bird and Smart 2002). Consistent application of such rules imposes a hard budget constraint on local decision-makers and makes them accountable for the consequences of their decisions. It is important that transfers not reduce accountability by reducing the cost to local decision-makers of failing to develop their own tax bases or increase tax rates (Blöchliger and Vammalle 2012). Of course, neither local decision-makers nor their constituents are likely to be happy to be

10. Accountability depends on much more than elections, of course, in particular the clarity with which governments report to citizens and the extent to which such information shapes political responses.

subject to such a budget constraint: it is always easier and more pleasant to spend "other people's money" (Bird and Slack 2014).

2. Elements of Property Tax Reform

The four key components of a property tax system are determining the tax base, assessing that base, setting the tax rate, and running the system. Getting any one of these components wrong may prove fatal to reform efforts.

2.1 Determining the tax base

The first key design question is what should be taxed.[11] Certain properties are exempt in most jurisdictions. For example, property owned and occupied by government is generally exempt from property taxes.[12] Other typical exemptions include colleges and universities, churches and cemeteries, public hospitals, charitable institutions, public roads, parks, schools, libraries, foreign embassies, and property owned by international organizations. In some countries, agricultural land and principal residences are also exempt.

Exemptions have been criticized on a number of grounds. First, since governments use municipal services, like others who occupy space, they should be taxed (Bahl and Linn 1992). Second, since taxed properties face higher costs than exempt properties, economic competition among businesses and between businesses and government is distorted (Kitchen and Vaillancourt 1990). Third, differential tax treatment also distorts location decisions, choices about what activities to undertake, and other economic decisions. Fourth, exemptions narrow the tax base and either increase taxes on the remaining taxpayers or reduce the level of local services. Finally, since the proportion of tax-exempt properties varies by municipality, disproportionate tax burdens are created across communities. This result is especially troublesome when higher-level governments determine what is exempt from local taxation.[13]

Local governments themselves often provide tax incentives to attract businesses. The usual argument is that such incentives will result in job creation, investment in the local area, and increased local output (Brunori 2003). Governments engage in tax competition to attract and keep taxpayers, who are believed to contribute more in local revenues than they consume in government

11. Actually, a first question is whether to tax land or improvements or both. Most countries tax both although, despite some administrative problems in built-up areas, the taxation of land only (site value taxation) scores well in terms of both efficiency and equity (Bird and Slack 2004).
12. In Canada, governments generally make payments in lieu of taxes on their properties but such payments are usually negotiated between governments and are often much less than "normal" property taxes (Kitchen and Vaillancourt 1990).
13. In Poland, for example, centrally granted exemptions are a hot political issue. Local governments argue that the central government should compensate them for the loss of revenues and the introduction of new exemptions should require local government consent (Swianiewicz and Łukomska 2015).

services. However, although property taxes, at least at the relatively high level found in the United States, may have some influence on business location (Bartik 1991), on the whole, U.S. evidence suggests that property tax incentives, rather than being an effective strategy to achieve economic growth, have often resulted in a deterioration of the tax base and lower levels of public services (Kenyon, Langley, and Paquin 2012). Lower taxes for new businesses locating in a municipality are wasted on firms that would have located there anyway and may lead not only to unfair competition among businesses but also to corruption.

All in all, local governments are well advised to stay out of the business of giving away their potential tax base. Those that choose to do so should not be rewarded with increased intergovernmental transfers to compensate for the lack of own-source revenues and poor-quality services. Nor should one government (state or national) be able to give away the tax base of another government (municipality).

2.2 Assessing properties

Once the tax base is decided, a second key question is how to determine its value. Two distinct assessment methodologies are used to establish values for tax purposes: area-based assessment and value-based assessment, with the latter being divided into capital and rental value approaches.[14] A few countries, such as Ireland, use some variant of self-assessment. The conventional consensus is that capital (or market) value taxation is best, for several reasons.[15] For one thing, benefits from services are more closely reflected in property values than in the size of the property. For example, properties close to transit systems or parks enjoy higher property values. Moreover, market value also has the advantage of capturing the value added by neighbourhood amenities created by government expenditures and policies. Finally, any assessment system that fails to take account of changes in relative values over time will result in inequities.

14. Under the rental value (annual value) approach, property is assessed according to estimated rental value or net rent. In theory, there should be no difference between a tax on market value and one on rental value. When a property is put to its highest and best use and is expected to continue to do so, rental value will bear a predictable relationship to market value – the discounted stream of net rental payments will be approximately equal to market value. However, gross rents are often used rather than the economically relevant "net" rents that build in an allowance for maintenance expenditures, insurance costs, and other expenses. Furthermore, most countries tend to assess rental value on the basis of current use (actual rents paid) rather than the highest and best use.

15. In practice, most countries use a mixture of systems. For example, a country employing market-value assessment may tax single-family residences on the basis of values estimated by what is called the comparable sales method, commercial properties on the basis of values estimated by capitalizing some income stream, industrial properties largely on the basis of their estimated depreciated cost method, and rural properties on the basis of a more or less refined area (value per unit) method: see Bird and Slack (2004) and Norregaard (2013) for further discussion.

Some countries use area-based systems of taxation because they lack the necessary information, expertise, and resources to determine market values (as is the case in Greece) or perhaps (as in Poland) because the market-value approach is considered politically unacceptable.[16] Germany, where property tax reform has long been discussed but never implemented, is currently considering three different reform proposals – market value, area-based, and a combination of the two with land based on market value and buildings area-based (Färber, Salm, and Hengstwerth 2015).[17]

Some countries use variants of self-assessment, under which property owners place an assessed value on their own property. In Ireland, for example, taxpayers are required to determine the value of their property and choose the correct value band. Self-assessment is an appealing procedure in countries with little administrative capacity. It does not require expert assessment staff and is easy to implement. However, self-assessment is unlikely to yield accurate estimates of property values and likely to produce underestimates, with lower-valued properties generally less underestimated than higher-valued properties, so that the result is regressive.[18] Governments need to obtain (often costly) expert assessments of individual properties when they think self-assessment is inaccurate.

2.3 Setting the tax rate

Three major issues arise with respect to tax rates. Who sets them? Are they differentiated, and, if so, how? And can taxpayers understand how the rate is applied to particular properties?

Sometimes rates are set by the central government.[19] Sometimes there is local discretion within centrally set limits.[20] Sometimes there is complete local

16. An area-based system may gradually be shifted to a market-value based system over time as the housing market develops by weighting the area by indicators of quality and location. For example, a tax based on the number of square metres of a structure could be adjusted to reflect the quality of the unit and its location. For location, each municipality could be divided into zones to reflect different market values. A zone located in a desirable neighbourhood would have a higher factor than a zone located in a less desirable neighbourhood. Over time, zones could be defined more narrowly from entire neighbourhoods to sections of neighbourhoods to individual blocks. Eventually, such narrowing of zones comes close to approximating market value (Slack, LaFaver, and Shpak 1998). Differentiating tax rates by location of properties as a way to link the value of property and the tax burden under the area-based system in Poland was supported by the Union of Polish Metropolises (Swianiewicz and Łukomska 2015).

17. The current property tax in Germany is based on 1964 assessed values in West Germany and 1935 values in the former East Germany.

18.“Auction” approaches to overcome this bias have been frequently suggested and, on a few occasions, actually implemented – though seldom with much success (Bird 1984).

19. In most Latin American countries, for example, property tax rates are legislated at the national or regional level, although administration is local (Ahmad, Brosio, and Jimenez 2013).

20. In Germany, the federal government is responsible for property tax legislation and the calculation of the property tax and the state governments are responsible for assessing the property and setting the base tax rate to determine the standard tax. Municipalities can apply individual local multipliers to the standard property tax (Färber, Salm, and Hengstwerth 2015).

discretion. For a local government to make efficient fiscal decisions, it must weigh the benefits (at the margin) of proposed services against the costs of providing them. If local governments do not finance services themselves, the connection between expenditures and revenues is lost and the choice of services will not be based on an accurate perception of their cost.[21] Setting local tax rates places accountability for tax decisions at the local level, and increased accountability may lead to better local services (Hoffman and Gibson 2005) and perhaps even to a sounder development path over time (Sokoloff and Zolt 2006).

Local determination of tax rates is particularly important for accountability in countries in which a senior level of government determines the tax base. However, a minimum tax rate may be needed to avoid distorting tax competition. Richer local governments may choose to lower tax rates to attract business. With their larger tax bases, they can provide equivalent services at lower rates than poorer competing regions. Even when the resulting location shifts are not allocatively distorting, they are generally politically unwelcome.

Similarly, a maximum rate may be needed to prevent distorting tax exporting, with local governments levying higher tax rates on industries in the belief that the ultimate tax burden will be borne by non-residents (Boadway and Kitchen 1999). Tax exporting severs the connection between payers and beneficiaries and makes decentralized decision-making less efficient. Political leaders prefer to provide services to their constituents without placing the burden of payment on them. Those who do not pay for services, however, are likely to use them inefficiently and demand more.

Variable tax rates (or differentiation of property taxes among property classes) may be justified on a number of grounds. For example, the benefits from local public services are different for different property classes. In particular, a case can be made on these grounds for taxing non-residential properties at lower rates than residential properties (Kitchen and Slack 1993). Since business capital tends to be more mobile than residential capital, efficiency arguments imply that business property should be taxed more lightly. In reality, however, lower rates are most often applied to residential properties, presumably for political reasons.[22]

There is little economic rationale for higher taxation of non-residential property. Differentially higher taxation distorts land use decisions and favours residential use over commercial and industrial use (Maurer and Paugam 2000). Special taxation of one factor of production (real property) may also distort productive efficiency by inducing a different choice of factor mix in producing goods and services. However, homeowners are more likely to vote in local elections than tenants, while non-residential owners and consumers who may bear some of

21. This argument assumes that any externalities of local taxing and spending decisions are appropriately offset by intergovernmental transfers.
22. In Poland, for example, although property taxes are not very high, the commercial tax rate is more than 30 times the residential tax rate (Swianiewicz and Łukomska 2015).

the burden of non-residential taxes have no vote (although political contributions and connections may give them a voice in the local political process).

Farm properties are favoured in many countries as part of a more general policy of protecting farmland.[23] Favourable treatment of agricultural land is usually designed to preserve it from conversion to urban use. Basing the property tax on value in current use may, however, be insufficient to protect farmland from development because the resulting tax differential is unlikely to be large enough to compensate for the much higher prices that would be paid if the land were converted to urban use (Maurer and Paugam 2000). Even if it does not achieve its intended aim, favourable treatment of rural land may increase speculation at the urban fringe and increase urban land prices.

When central governments set local property tax rates, local accountability is clearly reduced. But if the tax burden increases, the only possible reason is that the assessed value of the property has increased. On the other hand, when property tax rates are (as in North America) determined annually by local governments – a system more conducive to local accountability – it is less clear to any taxpayer why his or her tax bill changes in any year.

Suppose, for example, that local government budgets must be balanced – as is required in many jurisdictions, including Ontario. The additional amount that any locality must raise from property taxation in a particular period is then determined not only by changes in local expenditures, but also by changes in transfers from other levels of governments and other revenues: it is the residual resulting from this calculation that must be financed by property taxes. The change in that residual divided by the assessment base yields the average property tax rate increase that must be imposed. But the base itself changes with a market-value assessment system, with some values changing much more than others. The tax imposed on any particular property in any year thus depends not only on the overall change in the tax demand and in the assessment base but also on the extent to which the change in the valuation of that property is greater or smaller than the average change in assessed values. It is hard for most people to figure all this out.

2.4 Running the system

How well property taxes are administered affects not only revenue but also equity and efficiency. Poor administration is an impediment to implementing property tax reform. Sometimes, local authorities simply do not have the capacity to administer the tax properly.

Three key steps are involved in the process of taxing real property: (1) identifying the properties being taxed; (2) preparing a tax roll (which contains a description of the property and the amount of assessment) and responding

23. A common way to favour farm properties is to assess them at the value in current use rather than market value which reflects the highest and best use. This means that the value of a farm is determined by its selling price if it were to continue to be used as a farm. Other ways of favouring farm properties include providing exemptions for part or all of the farm property, lowering tax rates on farms, or providing farm tax rebates.

to assessment appeals; and (3) issuing tax bills, collecting taxes, and dealing with arrears.

The first step, identifying the property and determining the owner (or the person responsible for tax liability), also requires ensuring that information on properties in the jurisdiction is updated and consistent.[24]

Fair and productive property taxes require both good initial assessment and periodic re-evaluation to reflect changes in value. Many countries have no provision for regular re-evaluations of the tax base or have postponed revaluations. As a result, assessed values bear little relationship to market value or annual rental value. Austria, for example, applies cadastral values from 1973 and England and Scotland from 1991 for residential properties.[25] Belgium uses values from 1975 and Germany from 1964, although both index the values with inflation or a corrective factor. Regular updates occur, however, annually in the Netherlands, biannually in Denmark, and every three years in Sweden (Johannesson-Linden and Gayer 2012).

Indexing by the rate of inflation is not as good a way to ensure accurate values as reassessment because property values change at different rates in different neighbourhoods and for different property characteristics. Nonetheless, where financial resources are insufficient for regular reassessments, indexing (over a three-to-five-year period) that reflects relative price changes among locations and property markets may both ameliorate taxpayers' discomfort with large assessment changes and improve information about market trends for assessment administrators.[26]

A final essential component of a good system is an error-correction mechanism that allows taxpayers to appeal their assessment if they think it is wrong. An appeal system is both desirable and necessary: in reality, however, its outcome may sometimes be to reduce equity, simply because appeals are invariably most requested by better-off taxpayers (especially larger businesses) who have more to gain and can better afford to pursue legal appeals.

Administration of the property tax can be sufficiently costly to be an obstacle to reform (Brys 2011).[27] Administering the property tax so that it is as acceptably "fair" as other taxes is neither easy nor cheap (Bird and Slack 2007). Some property tax reforms, especially in poorer countries, have failed at least in part because the

24. Many countries combine property identification and assessment in a cadastral system.
25. Wales updated its valuations in 2005 based on values in 2003.
26. Keenan (2015) recently noted that many people in Toronto think their property tax bill (and city revenue) increases at the same rate as the market price of housing. Of course, this does not happen in jurisdictions like Toronto, in which (as discussed earlier) how much any individual's taxes rise is the result of the interaction of a number of complex factors. However, if property tax payments were indexed to the rate of inflation, at least "real" property taxes would not decline when the general price level rose, as is now the case – although they would still decline relative to house prices when the housing market is booming, as it has for a surprisingly long time in Toronto.
27. For more detailed discussion of the elements of property tax administration, see Kelly (2013).

cost associated with administrative improvements was too high relative to the potential yield from the improved property tax (Bahl and Wallace 2008).

On the other hand, once a property tax is established, a survey of industrialized countries found that administrative costs, although somewhat higher than for most major taxes, were on average only 1.35 percent of taxes, ranging from a minimum of 0.13 percent to a maximum of 3.69 percent (International Property Tax Institute 2007).

3. Obstacles to Property Tax Reform

If property taxes are so good, especially as a source of local government finance, and there is so much experience in administering them, why are they so difficult to reform? At least six major obstacles that have made reform difficult may be identified.[28]

3.1 Salience

Much resistance to the property tax appears to be because it is so visible or, more broadly, because its visibility and other characteristics make people particularly aware of it. Unlike the income tax, the property tax is not withheld at source. Unlike the sales tax, it is not paid in small amounts with each daily purchase. Instead, the property tax generally has to be paid directly by taxpayers in periodic lump sum payments (except when taxes are included in monthly mortgage payments). Property tax liabilities are usually sufficiently large that taxpayers have to save in advance or increase their debt to pay the taxes. Property taxes are thus more noticeable than other taxes.[29] Moreover, the property tax finances services of which people are usually well aware, such as roads, garbage collection, and neighbourhood parks. Studies show that residents are more willing to pay for local services when they rate their government and service provision highly (Simonsen and Robbins, 2003). If services are not considered adequate, however, they are more likely to complain about their property taxes.

Awareness of the property tax is one factor explaining the unpopularity of the tax and the prevalence of property tax revolts in the United States, a country in which property taxes are relatively high in comparative terms (see Table 1). Visibility is desirable from a decision-making perspective, however, because it makes taxpayers aware of the costs of local public services. Indeed, voters facing a non-benevolent government may want to keep their taxes more visible even though – or because – they hate such taxes (Cabral and Hoxby 2012).

Public awareness of taxes enhances accountability, which is a good thing from both an economic (hard budget constraint) and political (democratic) perspective. However, visibility makes property taxes more difficult to sell politically and more

28. Many of the problems with the property tax were also identified in Slack (2011).
29. Cabral and Hoxby (2012) identify variation in the salience of the property tax across time and jurisdiction by using conditionally random variation in tax escrow (a method of paying property taxes that is less visible because it is included in the mortgage payment and not paid separately).

difficult to increase or reform than other taxes. Ireland recently chose to reduce the visibility of the property tax by allowing taxpayers the option of having the tax withheld from employment or pension income.

3.2 Liquidity

The property tax does not reflect a real cash flow but rather an imputed one that may not necessarily reflect the owner's current situation (Johannesson-Linden and Gayer 2012). The imperfect association between homeowners' incomes and property tax liabilities may create problems for taxpayers such as seniors with low incomes. It is thus not surprising that the most vocal opponents to property taxes and tax reform are often seniors, many of whom may be asset-rich but cash-poor.[30]

One way to address cash-flow problems is to provide tax relief to seniors through tax deferral schemes.[31] Property tax deferrals permit the property owner to defer some or all property taxes. The outstanding amount becomes a lien against the property and is payable when the property is transferred. It is a deferral of taxes rather than a tax rebate. In some cases, an interest charge (often below the market rate of interest) applies to the deferred taxes.[32]

Although the economic arguments for using tax deferral schemes are strong, such schemes are seldom popular with taxpayers: the take-up rate of such programs is often extremely low "largely owing to the strong attachment of the old to their homes and to their desire to leave them unencumbered for their heirs" (Bird and Slack 1978, p.98).

3.3 Regressivity

One hindrance to property tax reform arises from the belief that the tax is regressive. Who pays the property tax, and is it equitable? There are as many answers as there are views about the property tax.

Those who consider property tax as a tax on housing services tend to think that it is inherently regressive because housing represents a larger share of consumption for poorer households. Those who view the tax as essentially a tax on capital tend to think that it is progressive because income from capital represents a higher share of income for richer households. Those who view the

30. Since seniors are more likely to own their home than others, they are less adversely affected by the fact that the property tax is imposed on the gross value rather than the net (of indebtedness) value.

31. Another way to address asset-rich low-income households is to waive or reduce the property tax liability that exceeds a certain percentage of income (Johannesson-Linden and Gayer 2012). The threshold could be based on income only or combined with age or family requirements. For more detailed discussion of property tax relief schemes in Ontario, see Bird and Slack (1978).

32. Although it would seem fairer to expand property tax relief to the non-elderly, this is seldom done with deferrals because the loans would be outstanding for a much longer period and it would be necessary to determine eligibility to receive a referral to ensure a reasonable number of beneficiaries. Deferral schemes may be funded by central governments if they wish to compensate local governments for revenues forgone.

portion of the tax that falls on land as being paid out of economic rent consider it to be inherently equitable to tax "unearned increments" that often arise from public actions. Those who view property tax as essentially a benefit tax see no more sense in asking if the "price" of local public services (the property tax) is regressive than in asking if the price charged for anything else is regressive: voluntary exchange (imposing property taxes as generalized user charges for services) does not, in their view, raise any question of incidence.

Although not conclusive, the empirical evidence on capitalization on the one hand and "tax exporting" on the other, at least in the United States and Canada, suggests that there may be something in each of these views (Bird and Slack 1993).[33] Since most quantitative studies of property tax incidence essentially report the assumptions used in allocating property tax revenues across income classes, they add no additional evidence: what one believes about the equity or inequity of the property tax depends mainly on what one thinks of the property tax in the first place.

Property taxes may be levied at flat or graduated rates. Graduation may also be introduced by exempting low-value properties. While there is little case for rate progressivity (Bird and Slack 2004), the progressivity of the tax can be enhanced by measures designed to reduce or eliminate the tax liability on low-income taxpayers (IMF 2013). For example, the tax could apply only to property values above a certain threshold, such as the homestead exemptions provided in parts of Canada and the United States, which lower the assessed value of owner-occupied principal residences and can be set at a dollar amount or as a percentage of assessed value. Other design changes such as circuit breakers or the property tax credits found in Ontario target assistance to low-income and elderly residents whose taxes exceed a certain percentage of their income (Haveman and Sexton 2008).

3.4 Inelasticity

Property tax revenues are relatively inelastic: unless the base or rate is changed, revenues do not change. Unlike income or sales taxes, property taxes do not automatically increase with growth. Even with a market-value based tax, property values generally respond more slowly to changes in economic activity than do incomes or sales because few jurisdictions update property values for taxation purposes annually or even regularly. Taxes based on area are even more inelastic. To maintain property tax revenues in real terms (let alone increase them), rates usually need to be increased. One result is to increase accountability because local authorities must increase tax rates and persuade taxpayers that they are justified in doing so.[34] But this good feature is seldom considered desirable by those held accountable.

33. See also the recent studies cited in note 6 above.
34. Even when assessed values increase, many North American jurisdictions (including Ontario) require municipalities to lower their tax rates so that taxes do not increase just because assessments do. Sometimes municipalities can maintain their tax rates in the face of an assessment increase, but must report it to taxpayers as a tax increase. In some jurisdictions, this measure is known as "revenue neutrality"; in others as "truth in taxation."

As times change, perspectives may change. When the economic tide is rising, local governments deplore the inelasticity of the property tax because their revenues do not expand automatically with growth and because they have to ask voters to pay higher rates simply to maintain revenues in real terms. But the stability of property tax revenues may be considered a good feature by local governments in times of recession, since it provides a more stable fiscal base for financing local services than they would otherwise have.[35] At the same time, however, local taxpayers may be unhappy because their property taxes do not go down as quickly as their incomes and probably not as quickly as the value of their properties.

3.5 Volatility

Volatility can be a problem for taxpayers when values rise quickly, since they are unlikely to do so uniformly (Haveman and Sexton 2008). Even if total local tax revenues remain constant, there may be large swings in the distribution of the property tax burden. Shifts in taxes on properties whose values are changing more rapidly than the average are a particular problem when the impact is not uniform (Dornfest 2005). "Property tax revolts" have mainly occurred in market-value systems in which rapidly rising housing prices have led to dramatic increases in property taxes.

Recent housing "bubbles" (such as those in Toronto and Vancouver) have called attention to this problem, even in countries with well-run property tax systems like Denmark.[36] Annual reassessments reduce the magnitude of such shifts, but a more common reaction has been to delay re-evaluations (McCluskey and Franzsen 2013). As assessment inequities become more and more entrenched over time, politicians find it more and more difficult to update values and good assessment practices are less and less likely to be followed (Bahl, Martinez-Vazquez, and Youngman 2010).

3.6 Presumption

A final reason taxpayers dislike the property tax is that they may not agree with or indeed understand the base of the tax. Most taxes are based on flows – income or sales. Although the tax base may sometimes be the source of argument between the taxpayer and the tax authority, there is, in principle, a measurable economic activity on the basis of which the tax is levied. Property taxes, on the other hand,

35. For an interesting discussion of the stabilization impact of property taxation, a subject not further explored here, see Muellbauer (2005).
36. The Danish tax was recently criticized because the lagged assessment base makes the tax undesirably pro-cyclical since taxes increase (relative to market values) when housing prices fall and decline when housing prices rise, as they have more recently (Calleson 2014). Of course, as discussed earlier in note 26, since the extent to which taxes rise when housing prices rise is often much less than needed simply to maintain the real level of the tax, effective tax rates may nonetheless decline over time, as has been true in Ontario for most of the last few decades (Bird, Slack, and Tassonyi 2012).

are usually based on asset values. Unless the asset subject to tax is sold in an arm's-length transaction by a willing buyer to an unrelated willing seller on the precise valuation date specified in the law, someone has to determine the value that serves as the basis on which to assess the tax: the property tax is inherently a presumptive tax.

Property tax valuations are thus always arguable, and such arguments are more likely to be made the less people trust government. It is not surprising that the results of this administrative process, no matter how technically good, are often perceived to be unfair and arbitrary. Taxpayers' perceptions of the fairness of the tax impact the extent to which governments can reform the tax. If the rate is very low, such problems may not be worth bothering about; but when the rate is increased (or a new property tax is proposed, as in Greece or Ireland), people are likely to become much more resistant to paying.

4. Strategies for Property Tax Reform

The reasons for undertaking property tax reform vary over time and across countries: increasing local revenues (and perhaps reducing transfers to local governments), improving local fiscal performance, removing inequities in the tax system so that there is similar treatment of similar properties, reducing administrative and compliance costs by simplifying the tax system, and improving efficiency by reducing the impact of taxes on households and business decisions (Slack and Bird 2014).

The economic approach to property tax reform emphasizes efficiency. In reality, however, "tax policy is the product of political decision making, with economic analysis playing only a minor supporting role" (Holcombe 1998). As a rule, politicians are less concerned with economic efficiency than with equity and public acceptability – concerns that often lead to such structural elements as exemptions, procedural elements such as less frequent assessments, and an array of supposedly transitional limits and constraints on the tax (Giertz 2006). Property tax reform requires close attention not only to the substance of the reform, but also to the process by which taxpayers are induced to accept reform as necessary and even desirable.

4.1 The Process of Property Tax Reform

A well-designed reform is more likely to succeed; but it is not necessarily more likely to be accepted. Tax reform is more a political exercise than a technical one. Someone always loses from tax reform and losers are vocal in their opposition. Nonetheless, reform requires not only sufficient and sustained political will and support to ensure that it is implemented, but sufficient political acceptance to ensure that it is sustainable and sustained.

Taxpayers (and local governments) must accept the reform. Both are more likely to do so if they have been consulted and feel that their concerns have been properly heard. Consultation raises awareness of the reform and stakeholders who have participated in the consultation process are less likely to oppose it. Of course, consultation also runs the risk of consolidating opposition to reform: it is not easy to convince people that reform is needed, especially when they have little trust in their leaders.

Taxpayers' perceptions of how fair the property tax is and how fairly it is implemented affect the extent to which local governments can raise the tax. There is some evidence that people treat local taxes as essentially prices for local services, an outcome that is on the whole to be welcomed. However, for people to respond appropriately to tax prices, they must be aware of those prices. Strengthening the linkage between local taxes and local expenditures may increase both awareness and support (Bird and Slack 2014).

More and better "taxpayer education" has often been put forward as a way to increase public understanding and acceptance of rising property tax bills. The inherent arbitrariness of assessment combined with the complex institutional process behind the "local tax demand" almost guarantees that many taxpayers will not understand or trust the basis on which property values are assessed or how the tax bills they receive are related to those assessments.

A proper communications strategy that engages businesses, special interest groups, academics, and the broader public may help to overcome some of the obstacles to property tax reform (Brys 2011). But communication must be in a form that taxpayers understand. Often there is a striking divergence between the popular perception of the tax and that of experts, who "speak an obscure and unrecognizable language to each other" and "have forgotten how to communicate and 'frame' the property and land tax issue sensibly" (Pagano and Jacob 2008, pp. 30–31).

One way to overcome the distrust of what politicians say and the incomprehensibility of experts may be to create a credible independent panel outside the direct influence of the politicians or the administration that includes both those who know the subject (experts) and people who know how to communicate with non-experts to help develop and interpret the reform package to the public (Blöchliger and Vammalle 2012). The public may still not understand exactly what is being proposed, let alone what it might mean for them personally, but they may, perhaps, be more willing to heed the words of respected outsiders than those of governments directly implicated in the reform process.

However, people seldom grasp the wider context when it comes to questions about national or even local tax policy. They relate more to what changes will mean for them or to stories they read or hear about individual cases than to explanations of the complexity of the property tax "system." As a result, to launch and carry through any significant property tax reform, would-be reformers must convince taxpayers that the expected changes are fair and reasonable. Through a combination of careful reform design and substantial consultative discussions in which the concerns of citizens are taken seriously and responded to appropriately, enough people may accept that the changes make sense to make reform possible.

4.2 The Substance of Property Tax Reform

Table 2 relates the six major obstacles to property tax reforms to the various "solutions" that have been employed or considered to deal with them.

The simplest case relates to the question of the tax's inelasticity. To make the property tax a better source of revenue for local governments by ensuring that the tax base captures a fair share of economic growth for the local public sector, the path to success lies in such well-known efforts as more frequent reassessments, perhaps supplemented by some indexing, and cushioned to some extent by phasing in increases in the tax base over several periods.[37]

The remaining issues are harder to deal with. The table identifies a number of approaches that could be used to overcome these obstacles to reform. Some are considerably more promising than others.

For example, the visibility of the property tax makes it difficult to reform the tax. The best approach to dealing with this problem without reducing accountability is by bundling tax reform with improvements in service delivery: people are happier to pay taxes when they see what they are getting for them. This approach is more feasible when tax changes are phased in over several years along with improved services.

Another possible approach, taken recently in Ireland, is to hide some of the impact of the tax through withholding mechanisms: people are more willing to pay taxes when they do so incrementally rather than in a lump sum. Doing so reduces transparency, but may sometimes be necessary to make property tax reform politically palatable.

Some common approaches to "cushioning" the visibility of property tax reform have drawbacks, even though they may be politically attractive. Limiting (capping) increases in the tax rate or (through assessment limits) in the tax base not only reduces the impact of the reform, but also perpetuates the inequities any reforms are intended to reduce. Because such measures reduce the elasticity of property tax revenues, they increase the pressure for such future reforms. "Solutions" that end up increasing the underlying problem are not really solutions.

Similarly, liquidity constraints are often cited as an obstacle to property tax reform. Every taxing jurisdiction contains some elderly persons on a fixed income who bought a house 50 years ago that is now worth 20 times what they paid for it so that they cannot afford to pay increased property taxes. Deferring tax increases until the property is passed to someone else (preferably, though seldom in practice, with interest being charged on deferred payments) is technically the best way to address the cash-flow problem. However, the evidence is that such programs are not very popular.[38] Politicians seldom want to throw the elderly out of their homes

37. How to make the local property tax a better tax in general is not discussed here, but see Bird, Slack, and Tassonyi (2012) for a detailed examination of municipal property taxation in Ontario.
38. Some evidence suggests that deferrals for seniors are seldom used by low-income persons and sometimes used mostly by better-off people who invest the savings elsewhere.

Table 2: Strategies for Property Tax Reform

Issues and Problems	*Promising Approaches*	*Less Promising Approaches*
Salience: property tax is more noticeable than other taxes	Couple tax reform with improvements in local services Withhold tax at source or provide other payment options Phase in changes	Set assessment limits Cap the property tax
Liquidity constraints: imperfect association between taxpayers' incomes and property taxes, especially for seniors	Offer tax deferrals for seniors Provide more payment options Phase in changes	Set assessment limits Cap the property tax
Perceived regressivity: taxes higher as a percent of income for low-income taxpayers	Offer property tax credits Offer tax deferrals Bundle with other tax reforms Package with expenditure changes Provide low-income housing exemptions	Implement banding Implement classified property tax rates Set progressive tax rates Set assessment limits Cap the property tax
Volatility: potentially large swings in taxes for some taxpayers	Conduct annual reassessments Index the tax base Provide taxpayer education Communicate in an understandable form Phase in changes	Set assessment limits Cap the property tax
Presumptive tax: tax base is inherently arbitrary	Provide taxpayer education Conduct public consultations Make appeal process accessible Phase in changes	Allow self-assessment Implement classified property tax rates Set assessment limits Cap the property tax
Inelasticity (a problem for local governments, not for taxpayers): taxes do not increase with growth	Conduct annual reassessments Index the tax base Phase in changes	

or even to put a lien on their property. Property tax reform is delayed year after year because it is arguably unfair to someone while the unfairness of the unreformed system to a less well-defined group, less easy to headline in the media, is ignored. Phasing in changes gradually and providing alternative payment systems may be of some use in overcoming this problem.

Property tax relief schemes may also be used to counter the common objection that property tax reform is regressive. It is conceptually and empirically difficult to analyse the effects on the distribution of personal income of a (largely capitalized) tax on a particular form of gross wealth, but many people seem to assume that more progressive rates mean more progressive outcomes. Measures such as banding and classified tax rates are often justified in part on progressivity grounds. In countries where income taxes reach much of the populace, the best way to deal with perceived regressivity is probably to provide relief through some form of income-related credit against income tax (Bird and Slack 1978). Tax deferrals or the exemption of very low-valued residential properties may also be used in some circumstances.

Annual reassessments go a long way toward addressing inelasticity and volatility in the property tax. Yet annual reassessments are a rare occurrence around the world. The reasons vary: in some cases the resources to update assessment on an annual basis are simply unavailable; in others, political fallout from reminding taxpayers each year how much their property tax base has increased is too painful. When annual assessment is too costly or difficult, indexing between assessment years may be one way to phase in changes; another is to phase in above-average increases. Even though phasing in means that some taxpayers are allowed to pay less while others have to pay more, transitory phase-ins may make it easier for people to swallow the reform medicine.

4.3 Transitioning to Success

No matter how well a reform is marketed, the economically ideal current value assessment system with a uniform rate is unlikely to emerge. The costs and benefits of any reform are likely to be unevenly distributed (Blöchliger and Vammalle 2012). There are always winners and losers from tax reform. The losers tend to be very vocal (even if they are the minority) because they value their losses more than the winners (even if they are the majority) value their gains. Losers tend to have "well-identified stakes and interests which they tend to defend vigorously" (Blöchliger and Vammalle 2012, p. 13). Moreover, people may suspect that any change in tax policy is probably a way for governments to raise the aggregate level of taxes so that the number of losers and the magnitude of the losses outweigh the number of gainers and the magnitude of the gains.[39]

Such problems are not unique to property taxes, but are particularly significant in this case owing to the visibility of the tax (Slack 2013). Increasing taxes on some taxpayers (particularly on politically influential residential homeowners) is never easy. When losses are concentrated and gains dispersed, as in most property tax reforms, those negatively affected are motivated to spend time and resources in political action that may result in institutionalized groups (such as small business or seniors) opposing reform. Winners are often not even aware

39. The timing of the reform may also be important: it is easier to implement a reform when you have budgetary surpluses to compensate the losers from reform (Brys 2011) or when incomes are rising so rapidly that tax increases are hardly noticed. When neither condition holds, as in Greece and Italy (Slack and Bird 2014), property tax reform starts with two important strikes against it.

of the potential gains from reform (Blöchliger and Vammalle 2012). The fact that the costs of reform tend to be apparent immediately while most of the benefits emerge later does not help.

Since property tax reform usually results in major tax shifts, some form of phase-in mechanism is almost invariably politically necessary to cushion the impact, at least in the short run (Blöchliger and Vammalle 2012). Failure to allow adequately for transitional problems and to cushion burden shifts adequately can be fatal defects. But there is an obvious conflict between moving to a fairer system as quickly as possible and lessening the impact on those whose taxes would increase. Phase-ins are more needed the longer the reform is delayed, since the expected tax shifts will likely be sizable and the associated reactions strong. Phase-in schemes can dampen the tax shifts, but they also reduce the fairness that the reform was trying to bring about.[40]

Assessment limits have often been introduced in North America as a quick, attractive "fix" to the political problems arising from volatility in market value assessment (Haveman and Sexton 2008).[41] But assessment limits complicate the administration of the property tax and create confusion among taxpayers because taxes are no longer calculated simply as a tax rate multiplied by the tax base. Moreover, since there is no incentive to review one's assessment, volatility arising from assessment errors is less likely to be corrected. Assessment limitations that persist until the time of sale (as in California) may distort economic decision-making severely: for example, homeowners have a reduced incentive to move (for example, to take a better job) because even if they moved to a house of equal value their property taxes would rise.[42]

Assessment limits generally help those who are being made wealthier by the market at the expense of those whose property values have not changed.[43] Capping may not only help most those who need it least, but even result in increased taxes

40. The consequence of paying inadequate attention to such problems in designing a reform may be successive pieces of legislation to cap residential tax increases and claw back non-residential tax decreases, sometimes almost to the point of reintroducing the inequities in the system that necessitated reform in the first place (Bird, Slack, and Tassonyi 2012).
41.The classic example of capping assessments and property taxes was Proposition 13, passed in California in 1978, under which property tax rates cannot exceed 1 percent of the property's market value and valuations cannot grow by more than 2 percent per year unless the property is sold (this provision is known as time-of-sale reassessment). Tax freezes were also implemented in Sweden and Denmark at various times. In 2008, Sweden gave up on the property tax and replaced it by a lump sum tax on each residential property.
42. However, it should be noted that one study of an assessment freeze in a Georgia county found no statistically significant evidence of taxpayers' being discouraged from moving (Sjoquist and Pandey 2001).
43. Capping favours property owners with high incomes and high property values at the expense of owners with lower property values and lower incomes; seniors at the expense of young homeowners; and properties sold long ago at the expense of properties sold more recently (Slack 2010).

for some whom it is designed to help. Such measures do not deal with the perceived problems they are intended to solve and may in some cases make them even worse.

Tax caps and assessment limits promote stability as the most important feature of a good local tax, ahead of equity, efficiency, administration, and even taxpayer understanding. A better way to address hardships from market value assessment is through measures like property tax credits and deferrals (such as those recently introduced in Ireland). Another approach to liquidity problems arising from property tax increases is to create more payment options for taxpayers, such as more frequent payments, the use of bank and credit cards, and perhaps even withholding from salary payments at source (as is also currently being done in Ireland).

From a political perspective, such property tax relief measures may make reform more palatable to the electorate (Oates 2001). At the same time, however, such schemes impair the effectiveness and efficiency of local government finance. Limitations on property taxes in the United States have undermined the role of the property tax in encouraging efficient budgetary decisions and resulted in a decline in local property taxes and an increase in intergovernmental transfers (Oates 2001). Another problem with property tax relief measures is the danger that transitional or remedial measures take on a life of their own and extend beyond the time required for the transition: "Once a freeze is imposed, the process of thawing may be too painful to bear" (Youngman 1999, p. 1395).

The message is clear: transitional measures have usually proved to be politically necessary when reforming property taxes to ameliorate the large shifts in tax burdens that may result. Almost never, however, has sufficient attention been paid to designing and implementing such measures in ways that ensure they will not only be transitory but also not undermine the goals of the initial reform.

Conclusion

The property tax is complex for several reasons: it interacts in many ways with different components of the local and intergovernmental finance systems; its incidence is difficult to determine; and it is difficult to administer fairly and acceptably. The property tax intersects with many different concerns – local politics and public services, the appropriate roles of local and higher-level governments, beliefs about the real and desired distributional effects of tax changes, housing markets, and so on – so that any proposed change is likely to be understood in very different ways by different people with different concerns. The result of the interplay of these different factors in most countries has been the long-term persistence of many economically undesirable characteristics in the design and administration of property taxes and many failed attempts to reform such taxes.

To increase property taxes and make them better, reform may need to be linked to broader reforms in public-sector management aimed at improving both public services and governance (Bird and Slack 2014). The future of local property taxation depends in large part on the role that local governments are expected (and able) to play. A local property tax reform accompanied by changes in the transfer system to support and encourage local accountability to local residents for the taxes they pay and the services they receive, as well as perhaps some realignment of functions and finances between levels of government, offers a more promising path to reform than a "stand-alone" reform effort. Simply increasing property taxes with nothing else changing – pushed, for example, by a central or provincial government trying to reduce its budget deficit by off-loading more fiscal responsibility on local governments – is unlikely to be successful.

Whether bundled or not, property tax reforms could usually be better designed and implemented than has generally been the case. Considerable planning is needed for success to be achieved. Moreover, since property tax reform is not a one-time effort, close attention needs to be paid to smoothing the rough patches that will inevitably be encountered on the road to successful reform. That road may be longer and harder than many seem to think. But most countries can and should do a better job with the property tax than they have done to date.

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