

Overview of the Property Tax in Latin America

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Summary

This article presents the main results of a survey that is being conducted on the property tax in Latin America, based on a snapshot taken in September 2008. Survey data is being collected on an ongoing basis using the Lincoln Institute of Land Policy's Web site. The data base currently incorporates results referring to 66 jurisdictions located in 13 different countries. An analysis of the data shows that it is not possible to identify a common pattern in the policy decisions regarding property taxes in the region. The significance of the tax as a source of revenue in Latin America is fairly limited. Although the revenue generating ability of the property tax is influenced by certain economic variables, such as GDP or poverty level, a large part of the problem is how the tax collection is managed. Even the municipalities that collect more than 1 percent of GDP have a great potential to increase revenue from this tax.

Key words: Property tax in Latin America, tax base, tax rate, taxpayers, cadastre, tax assessment, tax revenues and collection

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Overview of the Property Tax in Latin America

1. Introduction

This paper discusses the main results of a survey on the property tax in Latin America, based on a snapshot taken in September 2008. Survey data is being collected on an ongoing basis using the Lincoln Institute of Land Policy's Web site. It summarizes the data collected by the questionnaires in tables, graphs, basic statistical measurements and histograms. When feasible, the data collected was supplemented by primary and secondary sources of information, such as tax legislation, census statistics, financial reports from the governments and international compilations that compare different countries.

The main characteristics of the tax in various jurisdictions in Latin America were evaluated in the study, including its principal provisions, administrative aspects and the importance of the taxes a source of revenue. By jurisdiction, it considers the level of the government (country, state/province/department, municipality) that is responsible for establishing the tax.

The organization and compilation of data on close to 20 countries is an enormous challenge. Due to the fact that the tax is generally instituted at local or state levels of government, a census-related appraisal of the tax is beyond the objectives of this study. However, it seeks to analyze the tax in terms of the behavior of a sample of jurisdictions. Because the research is ongoing, the results will be reviewed and updated periodically. As for the scope of the topics researched, the respondents had limited knowledge of and/or access to all of the information that was analyzed. The diversity of tax management and reporting in the various countries and jurisdictions makes it difficult to analyze consistently some of the data collected. Consequently, there is variability in the group of jurisdictions and/or countries considered for each specific topic. The basic data used for the analysis presented here is available in the section "Access to the Data" (<http://www.lincolninst.edu/subcenters/PTLA/pt/data.asp>).

2. Methodological Notes

The data analyzed was essentially collected through a questionnaire available on-line that can be accessed at: http://www.lincolninst.edu/subcenters/PTLA/pt/questionnaire_intro.aspos.

It should be noted that in the great majority of cases the questionnaires were answered by professionals with full knowledge of the topic, such as public administrators, tax agents, revenue agents, legislators, academics and tax policy makers and/or tax administrators. However, there are no guarantees with regard to the trustworthiness and/or degree of reliability of the responses.

When feasible, the data collected was supplemented by primary and secondary sources of information, such as legislation, census statistics, tax reports from governments and international compilations.

Due to the ongoing nature of the survey, the number of jurisdictions considered by the comparative analysis varies for each period during which the analyses were conducted.

The data bank is being expanded by adding new members to the network of respondents and having registered respondents update the data for each jurisdiction periodically.

The information regarding past fiscal years was stored in the data bank and is used to study the evolution of the existing systems.

In September 2008, the survey contained information on 13 countries and 66 different jurisdictions. The data was collected for two or more fiscal years in various jurisdictions. Therefore, this paper analyzes the property tax in a total of approximately 120 different observations. On average, there are approximately two records (1.8) per jurisdiction.

Due to the lack of available data, there is some variability in the group of jurisdictions and/or countries whose results were considered for each one of the specific topics covered. However, the analysis includes information on other Latin American countries that has not yet been incorporated into the survey.

Due to the relatively small size of the sample of jurisdictions studied, the data was not broken down into classes with similar characteristics.

3. Jurisdictions Covered by the Study

In September 2008, the survey of data consisted of information on 13 countries and 66 different jurisdictions. El Salvador was excluded from the survey since it is one of the few countries in Latin America with no property tax. Nevertheless, significant information was obtained through research on the incidence of taxes in covering the costs of urban services. Chart 1 below lists the jurisdictions and the countries currently included in the analysis. As mentioned previously, when feasible, the analyses included information on other Latin American countries not yet incorporated into the data survey.

There is great variability in the characteristics of the countries studied in terms of size, population, wealth, tax burden and the structure of public financing. Whereas Costa Rica covers 51,100 km² and has a population of approximately 4.1 million, Brazil has a population of more than 170 million distributed over an area of 8,514,877 km². Great variability is also observed in the Gross Domestic Product (GDP). Argentina, Chile, Mexico, and Brazil post significantly higher values than countries such as Bolivia, Honduras, Paraguay, and even higher when compared to Haiti, for example.¹

¹It should be taken into account that the marked fluctuation of the dollar in recent years and the differences in purchasing power among the countries might result in some distortions in the use of the GDP as an indicator.

Chart 1 – Jurisdictions and Countries Covered by the Study

Country	Jurisdictions			
	States/Provinces	Municipalities		
Argentina	Ciudad Autónoma de Buenos Aires (DF)			
	Buenos Aires	---	---	---
	Córdoba	---	---	---
	Santa Fé	Rosario	---	---
Bolivia	---	Tarija		
Brazil	Brasília (DF)			
		Aracaju	Chá Grande	Juiz de Fora
		Belém	Curitiba	Olinda
		Belo Horizonte	Florianópolis	Porto Alegre
		Blumenau	Goiania	Recife
		Brasília	Gravataí	Rio de Janeiro
		Cabo de St. Agostinho	Guaxupé	Salvador
		Camaçari	Jaboatão dos Guararapes	São Paulo
		Campina Grande	João Pessoa	Vitória da Conquista
		Campo Grande	Joinville	----
Chile	---	---		
Colombia	---	Bogotá	Barranquilla	Neiva
Costa Rica	----	Alajuela	Escazú	Poás
		San José	----	----
Ecuador	---	Cañar	Guayaquil	Quito
Guatemala	---	Ciudad de Guatemala	Villa Cañales	----
Honduras	---	Tegucigalpa	San Antonio del Norte	----
Mexico	Ciudad de Mexico (DF)			
		Acapulco de Juarez	Saltillo	Toluca
		Guanajuato	Santiago Querétaro	Uruapan
		Hermosillo	Tepic	Zapopan
Peru	---	Chota	Lima	Mariscal Neto
		San Borja	----	----
Uruguay	---	Montevideo	----	----
		San Jose	----	----
Venezuela	---	Baruta	Chacao	----

Similarly, there are great differences in relation to the magnitude of the tax burden. Brazil represents the benchmark for the region, with a tax burden that exceeds 35 percent of the GDP, comparable to the tax burden of developed countries. In contrast, a tax burden of less than 20 percent was observed in Ecuador, Guatemala, Haiti, Mexico, Paraguay and the Dominican Republic. It should be noted, however, that a lower tax burden does not necessarily represent worse conditions of public financing, as we also need to consider that some countries depend on other sources of financing, such as, for example, the Canal in Panama or oil revenues in Ecuador or Venezuela. Similarly, there is a lot of variability in the principal characteristics of the group of jurisdictions studied, which include major metropolitan areas such as São Paulo (Brazil), Mexico City (Mexico) and Rio de Janeiro (Brazil), with over six million inhabitants, as well as municipalities with only 50 thousand inhabitants.

Due to the relatively small size of the sample studied, the data was not segmented by class. Once more jurisdictions are incorporated into the survey, a function will be added to the Web site to allow a search of results by jurisdictions with similar characteristics.

4. Importance of the Tax

The property tax is recognized internationally as a prevailing alternative for the financing of urban public services. With the exception of Cuba, El Salvador and Haiti, all of the other Latin American countries have established property taxes. However, in the great majority of cases, the tax has a limited significance as a source of revenue. Consequently, its desirable effects, such as a reduction in the price of land due to the capitalization effect of the tax; incentive for urban development and deterring speculation as it increases the cost of maintaining vacant urban spaces; and recovery of the value added to the land by public investments in the form of higher taxes, have a minimum impact.

This section examines the importance of the property tax as a source of revenue at different levels of aggregation. Table 1 compares the property tax revenues in twelve Latin American countries. It uses the last year in which information was obtained for each one of the countries considered. Due to the sharp discrepancy between the data collected in 2000 and 2006, we decided to exclude Bolivia.

As illustrated in Table 1, the total tax burden in Latin America is on average about 19 percent of GDP. The property tax represents on average 1.6 percent of the tax burden. The greatest incidence of the property tax on the tax burden was observed in Chile (3.33 percent), Panama (2.21 percent) and Paraguay (1.97 percent). However, the tax burden as a percentage of GDP is not very significant in Paraguay and Panama. In contrast, the lowest incidence of the property tax on the tax burden was observed in Costa Rica (0.58 percent), Peru (0.92 percent) and the Dominican Republic (0.94 percent).

Table1 - Property Tax

Countries	Year	Population	Tax Burden/GDP (%)	Per capita GDP		Property Tax		
				US\$	PPA 2004	% of GDP	% of Tax Burden	US\$ per Capita
Argentina	2006	39,254,267	27.44	5,478	13,298	0.44	1.61	24.25
Brazil	2006	181,960,417	26.48	5,735	8,195	0.45	1.72	26.08
Chile	2003	15,919,479	18.83	4,923	10,874	0.63	3.33	30.89
Colombia	2006	43,405,387	---	3,185	7,256	0.62	---	19.75
Costa Rica	2005	4,322,000	20.55	4,831	9,481	0.12	0.58	5.80
Guatemala	2006	12,728,111	12.30	2,287	2,876	0.16	1.30	3.66
Honduras	2005	6,975,000	18.35	1,218	4,313	0.31	1.69	3.78
Mexico	2006	104,419,383	20.60	9,140	9,803	0.21	1.00	18.82
Panama	2006	3,283,959	15.86	5,206	7,278	0.35	2.21	18.22
Paraguay	2006	6,586,404	13.49	1,230	4,813	0.27	1.97	3.27
Peru	2006	27,720,014	16.41	3,333	5,678	0.15	0.92	5.02
Dominican Republic	2006	9,183,984	14.15	2,779	7,449	0.13	0.94	3.69
Average		37,979,867.05	18.59	4,112.12	7,609.50	0.32	1.57	13.60
Median		14,323,795.00	18.35	4,082.27	7,363.50	0.29	1.61	12.01
Standard deviation		53,528,205.86	4.96	2,244.38	2,965.83	0.18	0.77	10.40
Coefficient of variation (%)		140.94	26.69	54.58	38.98	56.85	48.94	76.45
Minimum Value		3,283,959	12.30	1,217.85	2,876.00	0.12	0.58	3.27
Maximum value		181,960,417	27.44	9,140.14	13,298.00	0.63	3.33	30.89
Number of observations		12	11	12	12	12	11	12

Source: Our own work, based on the data used for calculation of the indicator “1.1 Property tax revenues as a percentage of the GDP (%) in the Country” (Access at: http://www.lincolnst.edu/subcenters/PTLA/pt/indicators_group_1.asp).

On average, approximately US\$ 14.00 per capita was levied in the countries studied. The coefficient of variation of more than 75 percent indicates the high variability of the tax per capita in the countries studied. The tax represents on average 0.32 percent of GDP. The variability is greater than the incidence of the property tax in the tax burden.

Figure 1 illustrates the property tax in terms of GDP (%). Chile and Colombia are the countries where the tax represents the highest percentage of GDP. The maximum tax revenues observed in Latin America results in approximately 0.60 percent of the GDP. In general, the tax represents at least 1 percent of GDP in most developed countries, reaching milestones of 3 to 4 percent of GDP in Canada, the United States and the United Kingdom. In contrast, the property tax falls under 0.50 percent of GDP in the other countries of Latin America.

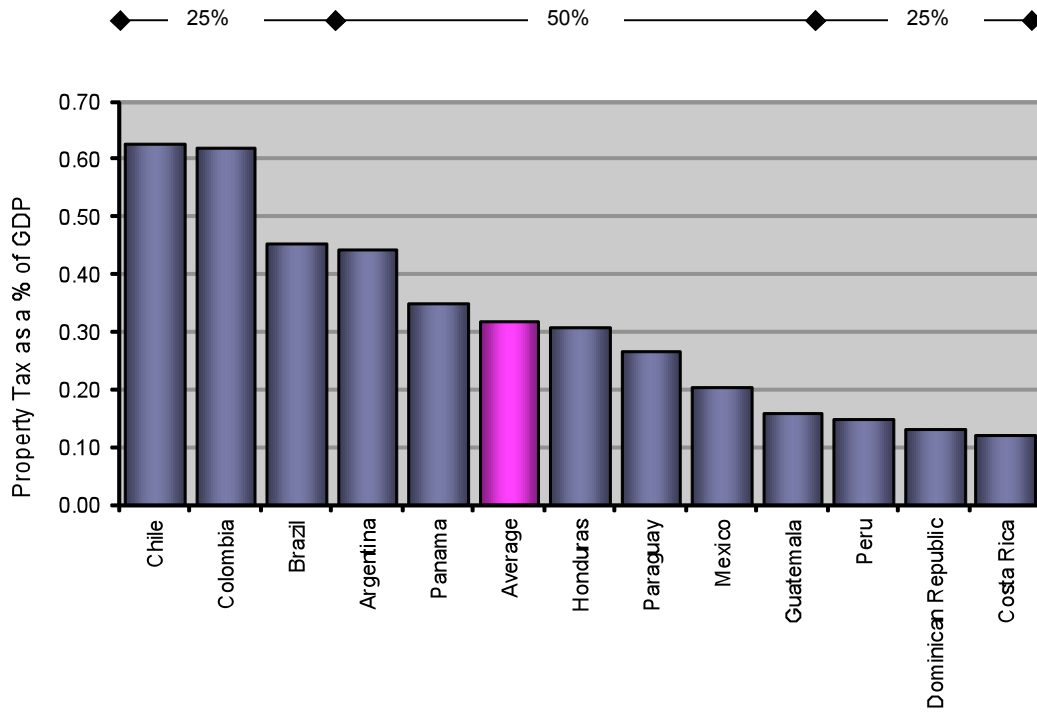


Figure 1 –Property Tax as a percentage of GDP, 2003-2006

Source: My work, based on Table 1.

Notwithstanding the devaluation of the dollar in recent years, figure 2 illustrates the behavior of the per capita tax converted into American dollars. A major difference can be identified between the countries with taxes above and below the regional average.

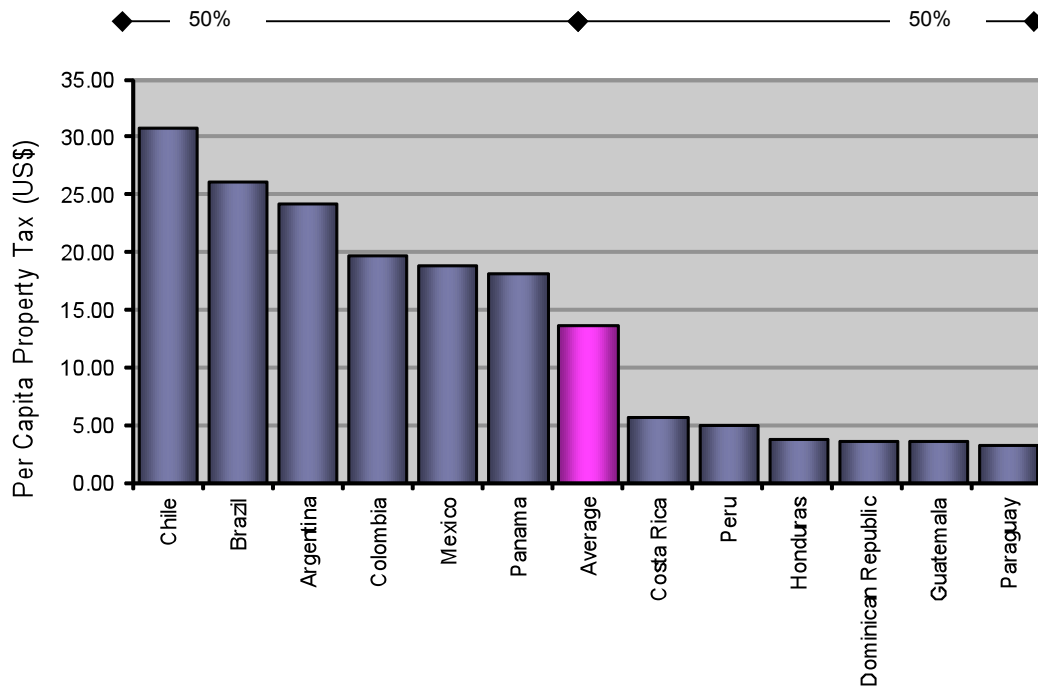


Figure 2 - Per Capita Property Tax (US\$), 2003-2006

Source: My work, based on Table 1.

Figure3 illustrates the incidence of the property tax as a percentage of the total tax burden. In comparative terms, there is a strong incidence of the property tax in Chile, which is the country with the highest level of centralized tax collection. In Brazil, Argentina, Colombia, Mexico and Panama, the property tax represents between 1.5 and 2.5 percent of the total tax burden. For the other countries studied, the tax represents up to 1 percent of the tax burden.

Figures 4 and 5 show the correlation of the property taxes a percentage of the GDP with the per capita GDP in PPP (Purchasing Power Parity) and the size of the country, measured by its population. No trend was identified in the behavior of the tax in connection with the per capita GDP. However, minimizing the distortions generated by the differences in terms of purchasing power in the various countries, it can be observed that as the per capita GDP in PPP increases, the property tax revenues also increase. Mexico, the Dominican Republic and Costa Rica deviate from this pattern, as they are countries with above average per capita GDP in PPP, but the significance of the tax as a source of revenue is well below the average for Latin American countries (figure 4).

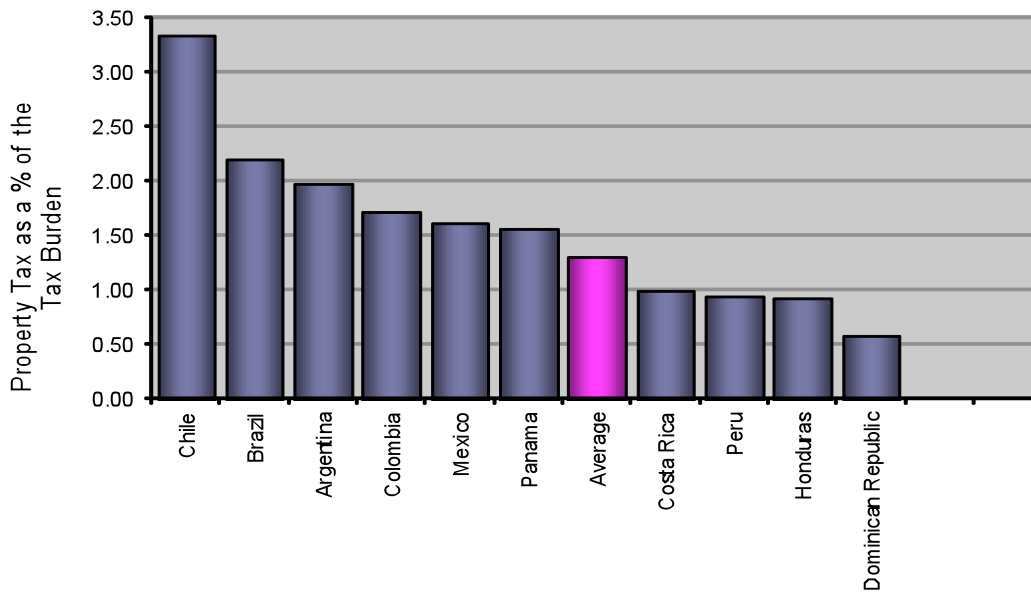


Figure 3 - Property Tax as a Percentage of the Tax Burden, 2003-2006

Source: My work, based on Table 1.

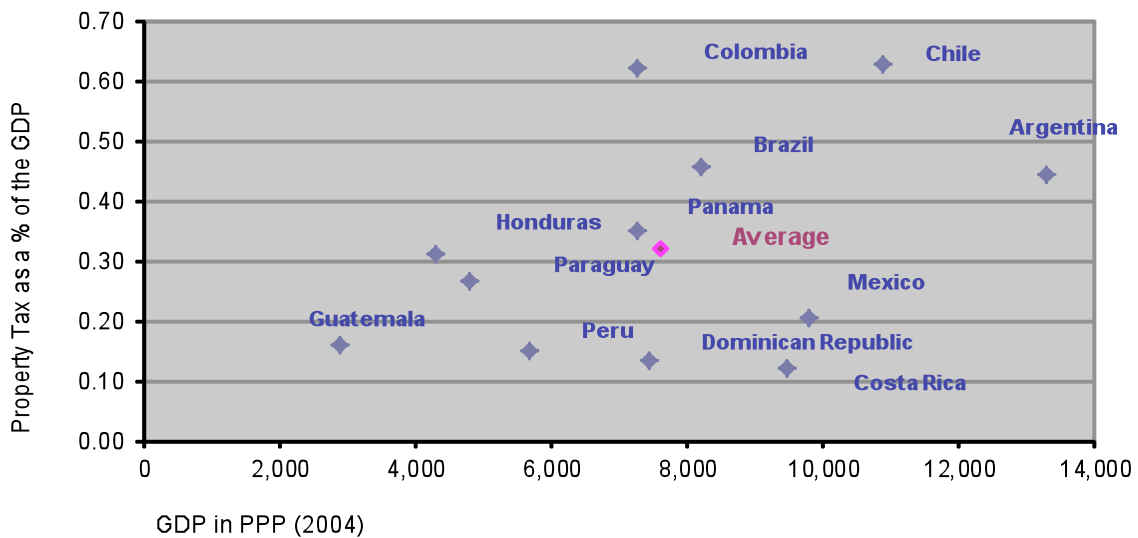


Figure 4 - Property Tax as a Percentage of the GDP (2003-2006) in Purchasing Power Parity (2004)

Source: My work, based on Table 1.

As for the correlation of the tax with population size, there is a tendency for larger countries to levy more taxes. Brazil and Mexico, with a population of more than 100 million, were excluded from this analysis because of the great discrepancy with the remaining countries, which all have fewer than 50 million inhabitants (figure 5).

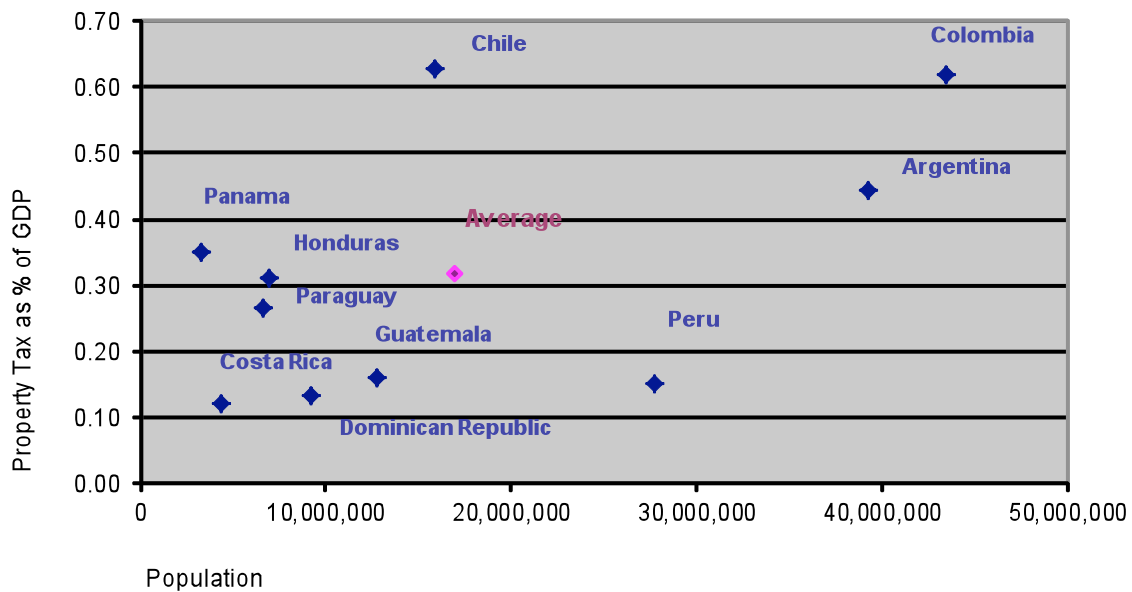


Figure 5 - Relationship between the Property Tax and Population

Source: My work, based on Table 1.

The figures presented below were produced for the countries where it was possible to put together a small series on the evolution of the property tax as a source of revenue as a percentage of GDP. A trend toward a reduction in the importance of the tax as a source of revenue over the period was observed in Argentina and Chile. It is interesting to note that they are both countries where a greater significance of the tax as a source of revenue is observed in comparative terms. The behavior of the tax in Brazil was virtually stable over the period of analysis. A slight trend toward growth was observed in Guatemala, where the tax is less important with regard to the GDP (less than 0.2 percent of the GDP).

As will be discussed in the coming sections, a tax reform was carried out in Chile and took effect as of 2005, including a reassessment of urban real estate. The marked reduction in the tax levied after the reform may be the result of the transition plans applied to minimize the impact of the tax at an individual level during the first years of the transition. However, there had already been a trend toward a reduction in taxes in the years prior to the reform.

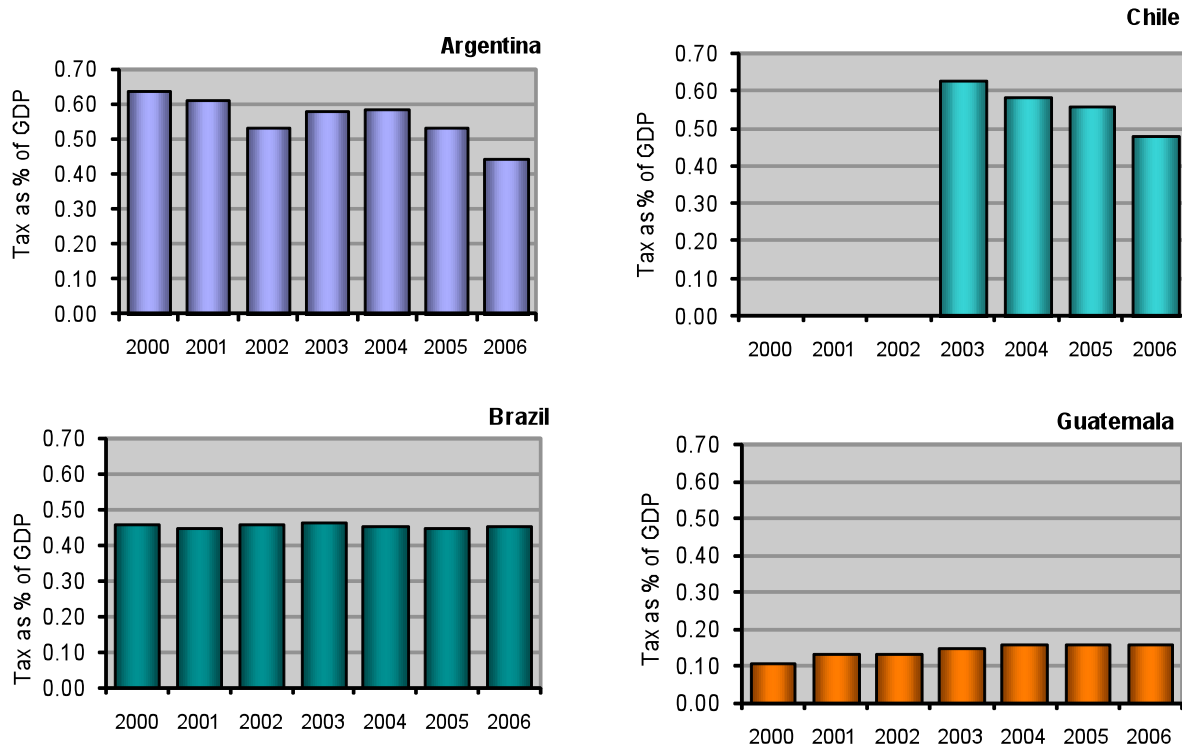


Figure 6 - Relationship between the Property Tax and Population in Argentina, Brazil, Chile and Guatemala

Source: Our own work based on the data used for calculation of the indicator “1.1 Revenue collected in property taxes as a percentage of the GDP in the country” (Access at: http://www.lincolnst.edu/subcenters/PTLA/pt/indicators_group_1.asp).

We also compared the revenue collected in property taxes in each State/Province as a percentage of GDP, independently of the level of government in charge of collecting the tax, divided by the gross domestic product of the State/Province.² On average, the taxes levied by states/provinces represented 0.29 percent of the GDP, but with a high variability, reflected by the coefficient of variation (over 70 percent). The lowest level (0.09 percent of GDP) was observed in the State of Coahuila de Zagarzo, Mexico, in 1999, while the highest was observed in the State of São Paulo, Brazil, in 2004. The data on taxes collected by state/province is represented in figure 7.

There is no clear trend with regard to the behavior of the tax. However, great variability can be observed in the incidence of the tax as a source of revenue in the states considered. In total, 98 observations were considered, with a series of 4 to 6 years of records for different states.

²See Indicator “1.3 Revenue collected in Property Tax as a percentage of the GDP in the State” - http://www.lincolnst.edu/subcenters/PTLA/pt/indicators_group_1.asp

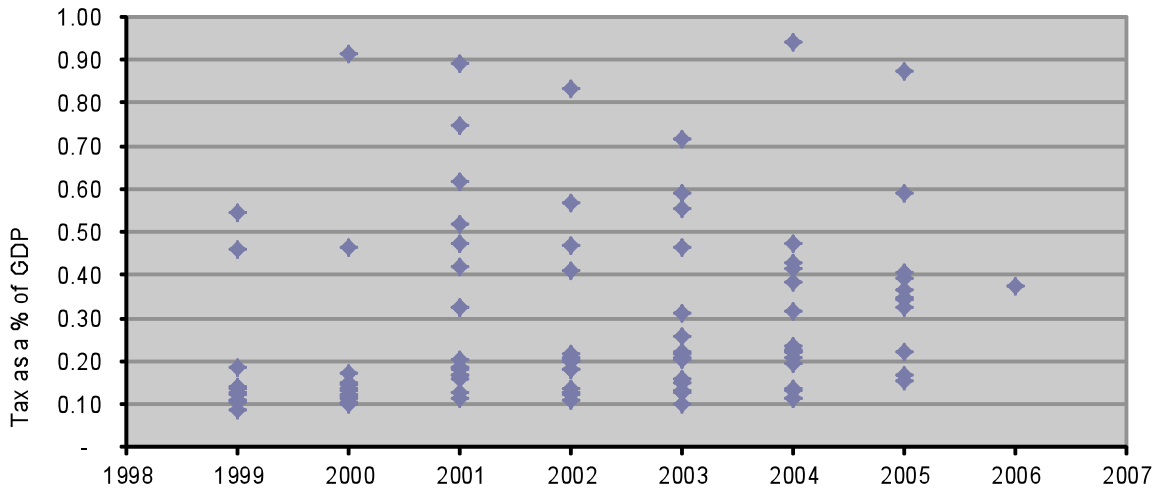


Figure 7 –Revenue Collected in Property Tax as a Percentage of the GDP in the State

Source: Our own work, based on the data used for calculation of the indicator “1.3 Revenue collected in property tax as a percentage of the GDP in the State” (Access at:

http://www.lincolnst.edu/subcenters/PTLA/pt/indicators_group_1.asp).

Table 2 shows the same information, but eliminates the historical series, showing only the result for the last year in which information was collected for a given state/province.

The revenue collected in property taxes by municipalities as a percentage of the GDP is higher than the average reached in the states. Considering the 50 cases observed, the municipalities collected on average 0.72 percent of the municipal GDP. The minimum tax collection was observed in Cabo St. Agostinho, Brazil, 2005 (0.04 percent), and the maximum in the Municipality of São Paulo, Brazil, 2004 (1.49 percent of the GDP).³ If available, observations for two or three fiscal years were included in the analysis. The data on the taxes collected by municipality is represented in figure 8. There is a noticeable variability among the municipalities studied and no clear trend was detected in the behavior of the tax during the period of analysis.

³The data used can be accessed

at: http://www.lincolnst.edu/subcenters/PTLA/pt/indicators_group_1.asp. See indicator “1.4 Revenue collected in Property Tax as a percentage of the GDP in the Municipality.”

Table 2 – Revenue Collected in Property Taxes as a Percentage of the GDP in the State/Province

Country	Fiscal Year	State/Province	Indicator (%)
Argentina	2001	Buenos Aires	0.62
Argentina	2002	Ciudad Autonoma de Buenos Aires (DF)	0.83
Argentina	2001	Santa Fé	0.89
Brazil	2005	Bahia ⁽¹⁾	0.17
Brazil	2003	Brasília (DF)	0.55
Brazil	2003	Mato Grosso do Sul	0.72
Brazil	2005	Minas Gerais ⁽¹⁾	0.34
Brazil	2004	Pará	0.11
Brazil	2005	Paraíba ⁽¹⁾	0.16
Brazil	2005	Paraná ⁽¹⁾	0.37
Brazil	2005	Pernambuco	0.35
Brazil	2005	Rio de Janeiro ⁽¹⁾	0.59
Brazil	2005	Rio Grande do Sul ⁽¹⁾	0.33
Brazil	2005	Santa Catarina ⁽¹⁾	0.39
Brazil	2005	São Paulo ⁽¹⁾	0.87
Brazil	2005	Sergipe ⁽¹⁾	0.22
Mexico	2006	Ciudad de Mexico (DF)	0.37
Mexico	2004	Coahuila de Zagarzoa	0.11
Mexico	2004	Estado de México	0.22
Mexico	2004	Guanajuato	0.23
Mexico	2004	Guerrero	0.14
Mexico	2004	Jalisco	0.22
Mexico	2004	Michoacan Ocampo	0.13
Mexico	2004	Nayarit	0.21
Mexico	2004	Querétaro Arteaga	0.23
Mexico	2004	Sonora	0.19
Average			0.37
Median			0.28
Standart deviation			0.24
Coefficient of variation (%)			66.44
Minumum value			0.11
Maximum value			0.89
Number of observations			26

Source: Our own work, based on the data used for calculation of the indicator “1.3 Revenue collected in property taxes as a percentage of the GDP in the State” (Access at: http://www.lincolnst.edu/subcenters/PTLA/pt/indicators_group_1.asp) including an observation for each State/Province.

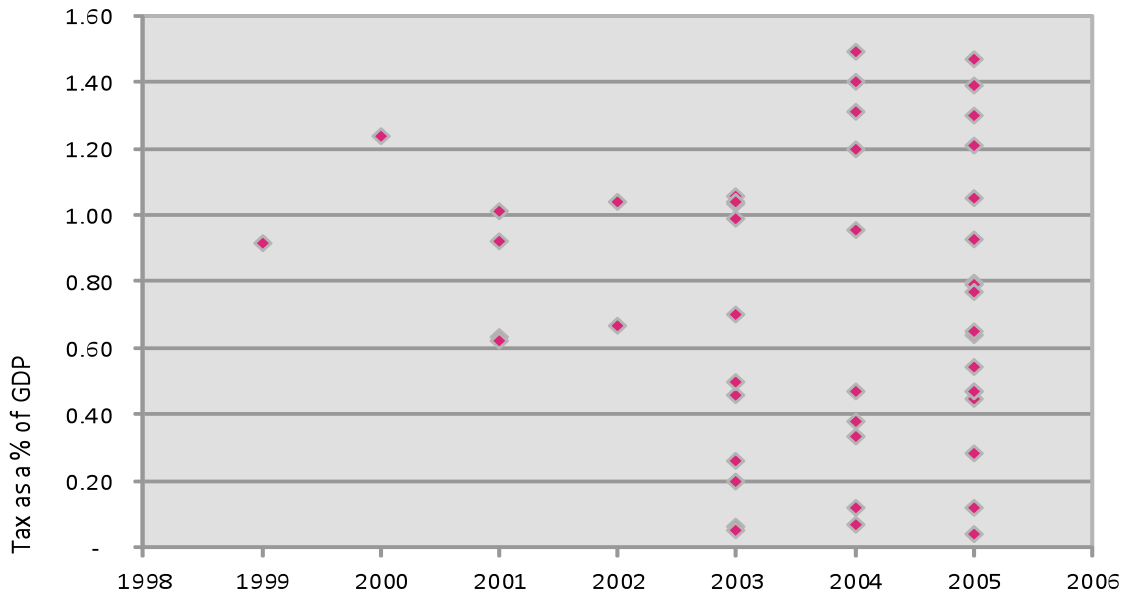


Figure 8 –Revenue Collected in Property Taxes as a Percentage of the GDP in the Municipality

Source: Our own work based on the data used for calculation of the indicator “1.4 Revenue collected in property taxes as a percentage of the GDP in the Municipality” (Access at: http://www.lincolnst.edu/subcenters/PTLA/pt/indicators_group_1.asp).

Eliminating the historical series and keeping the last year of observation for each municipality, the average is reduced from 0.72 percent of the GDP to 0.63 percent, and the variability among the observations, measured by the coefficient of variation, decreases from 59 percent to 40 percent (See table 3). Figure 9 shows the observations considered.

Table 3 – Revenue Collected in Property Taxes as a Percentage of the GDP in the Municipality

Observations: 32		Tax/GDP (%)
BENCHMARK	Average	0.63
	Median	0.59
	Coefficient of Variation (%)	40
	Minimum Value	0.04
	Maximum Value	1.47

Source: Our own work.

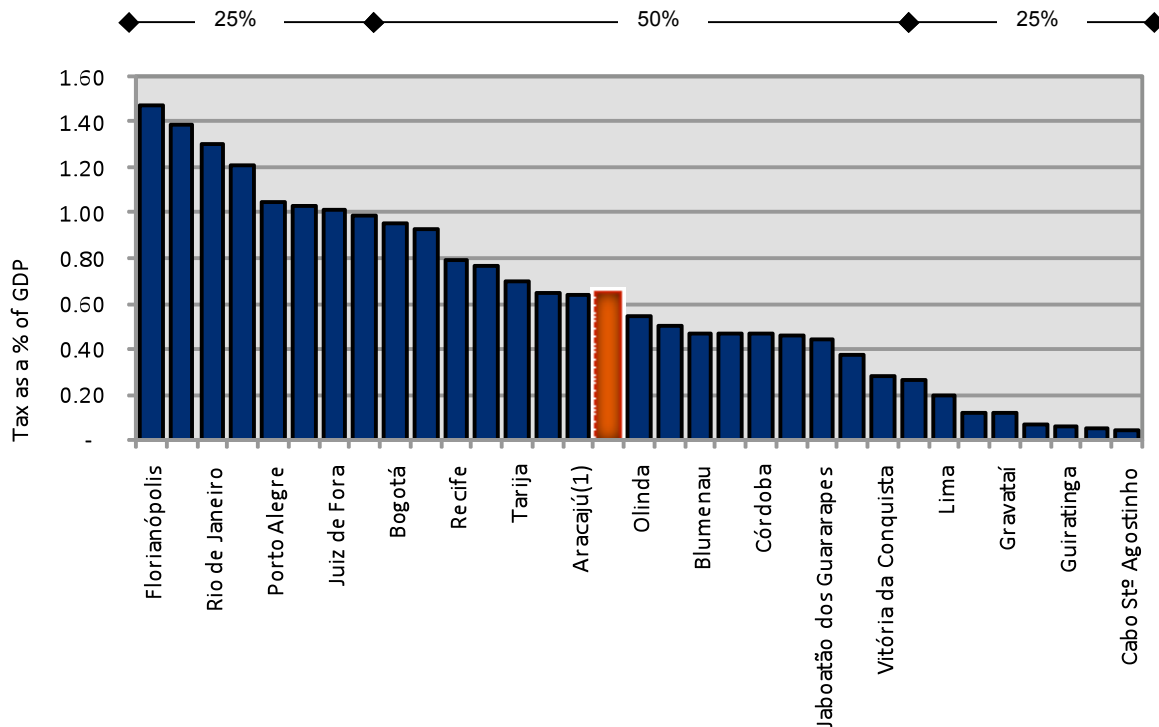


Figure 9 - Property Taxes Collected as a Percentage of the GDP in the Municipality: 32 observations

Source: Our own work, based on the data used for calculation of the indicator “1.4 Revenue collected in property taxes as a percentage of the GDP in the Municipality” (Access at: http://www.lincolninst.edu/subcenters/PTLA/pt/indicators_group_1.asp). Thirty-two different municipalities were considered.

Note: (1) The indicator was calculated using the GDP for the year 2004, updated for 2005 by the IPCA.

5. Characterization of the Tax

This section studies the fiscal performance of the property tax in the various jurisdictions and countries, covering an analysis of the tax responsibilities, tax basis and taxpayer, tax base, rate and tax exemption and fiscal benefits. It discusses the likely impact of fiscal policy decisions on the equity, efficiency and effectiveness of the systems.

Tax Responsibilities

The appropriate establishment of tax responsibilities is of fundamental importance in guaranteeing satisfactory fiscal performance. Traditionally, the property tax is the responsibility of local or state levels of government, and more specifically of municipal governments.

As observed in table 4, there is a great diversity of tax responsibilities from an institutional standpoint with respect to the property tax in Latin America. A complete centralization of the tax is observed in Chile, where legal provisions are established at the national level. The Internal Revenue Service [*Servicio de Impuestos Internos (SII)*] is responsible for the

administration (cadastre, property assessment and establishment) of the tax, and the National Treasury [*Tesorería General de la República*] is in charge of collections. The funds collected, however, are intended for the municipalities (See Section 8, Distribution of Revenue). A similar level of centralization is observed in the Dominican Republic, which has not yet been incorporated into the Data Survey, and in Brazil and Uruguay for the tax on rural real estate. Currently, in Brazil, it is possible to trace back the establishment, control, levy and collection of the rural tax to agreements with the municipalities (Law 11.250/05). However, the federal legislation governing the Tax on Rural Territorial Property (ITR) also has full jurisdiction.

In contrast, a noticeable level of decentralization in the urban property tax was observed in Brazil and Venezuela. There are few rules established at the national level, since municipalities have autonomy to define the key elements of tax policy, such as rates and exemptions. In Brazil, the tax basis, the tax base and the IPTU taxpayer are defined in the National Tax Code [CTN] which is, therefore, uniform at the national level. There is full autonomy both in Brazil and in Venezuela regarding the administration (cadastre, assessment and calculation), control and levy of the tax.

A somewhat atypical situation is observed in Argentina. While the property tax is essentially a provincial tax, it is up to the municipalities to institute an assessment to afford the cost of urban services, which has fundamental regulatory characteristics almost identical to those established for the “property tax” in different towns. In such situations, there is a duplication of effort between provinces and municipalities in the formulation and updating of the cadastre.

Some Argentine provinces delegate to the municipalities, entirely or in part, the right to institute the property tax, including Misiones, Chaco, Chubut, Corrientes, Formosa, Río Negro, Santa Cruz and Tierra del Fuego.

In Uruguay, the departments are responsible for the institution, control and levy of the tax. With the exception of Montevideo, cadastre and appraisals are the responsibility of the Central Government, through the *National Cadastre Service*.

Article 115 of the Mexican Constitution determines the exclusive competence of the municipalities with regard to any type of tax related to real estate. Among this group, the main tribute is the property tax (Property Tax). The State Congresses establish the basic regulations for the establishment of the tax by municipalities. It is up to the municipalities to propose rates to the Congresses on an annual basis, with unit cost tables for land and construction to be used to calculate the tax. As a rule, the functions of administration (cadastre, property assessment and calculation of the tax), control and levy are a municipal task. However, through agreements, these functions may be passed back to the States. This practice is observed, for example, in the State of Querétaro de Arteaga.

In the other countries, a great degree of sharing is observed in tax responsibilities. Legislation is established at the national level in Bolivia, Costa Rica, Guatemala, Paraguay and Peru. That means that municipalities do not have the right to set rates in those countries. In Peru, the responsibility of the municipalities is limited to the functions of control and collection. Paraguay has a similar structure. However, the task of tax administration may be passed back to municipalities if they prove technical ability to carry out the task. In Bolivia, although the tax administration is a municipal responsibility, the rules for cadastre management are

established at the national level. The tasks of control and collection are exercised by the Ministry of Finance in partnership with the municipal governments. In Guatemala⁴ and Costa Rica, the municipal governments are responsible for the administration, control and collection of the tax. In Guatemala, in the event of a lack of technical ability by the municipalities, the responsibility can be passed to the national body.

The tax legislation is fundamentally established at a national level in Honduras and Ecuador. However, some significant provisions are established by the municipal governments. For example, the municipalities have to propose the tax rates.

Finally, in Colombia, except for large municipalities, cadastre and appraisals are generally done by the [Instituto Geográfico] Agustín Codazzi Geographic Institute (IGAC). The other tasks are assigned to the municipal governments.

In summary, reduced municipal autonomy can be observed in various situations in Latin America. The support or even the leadership of higher levels of government for high-cost activities that require technical ability and technological resources, such as cadastre, assessment of real estate or even tax collection, may be an interesting alternative to minimize the problems encountered in administration of the tax, mainly by the smaller municipalities. In the same regard, the alternative might guarantee greater uniformity in knowledge of the territory, or even be a way of strategically promoting more confidence in establishing collection of the tax, insofar as the level of government that is benefiting from the tax collection is not the same one defining technical issues relative to its establishment.

At any rate, guaranteeing municipalities the right to set tax rates is an essential element if we want fiscal policy to remain in the municipal sphere. In addition, the measure offers the potential of promoting the connection between revenue and public expenses, considering the preferences of the community with regard to the public services to be financed.

Tax Basis and Taxpayer

The legal application of the tax is a consequence of the tax basis. Due to the high number of irregular settlements in Latin America, the inclusion of the possessor as taxpayer is essential for expanding the universal nature of the tax. Except for Ecuador, and Baruta (Venezuela), the other countries studied - Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Guatemala, Honduras, Mexico, Peru, Uruguay and Venezuela (Chacao) - include both ownership and possession in situations of application of the tax basis for property tax. In Peru, the possessor or other holders of domain are considered responsible for the tax obligation even in situations in which the existence of the owner has not been established.

Holders of State assets are taxpayers for tax obligations in Argentina and in Guatemala. In the case of Mexico, the circumstances for application of the tax include real estate in the public domain that is part of federal, state and municipal assets that may be used by state-affiliated or private entities for any reason, for administrative purposes or for purposes other than their objective.

⁴Since 1995.

Chart 2 – Tax Responsibilities

Country	Responsible Jurisdiction			
	Tax Establishment	Tax Assessment	Fiscal Verification	Tax Collection
Chile	At National Level	Central Government	Central Government	Central Government
Brazil - Urban	At National Level	Central Government	Central Government	Central Government
Uruguay - Rural	At National Level	Central/Departamental Government	Departamental Government	Departamental Government
Peru	At National Level	Central Government	Municipal/Districtal Government	Municipal/Districtal Government
Paraguay	At National Level	Central/Municipal	Municipal Government	Municipal Government
Bolivia	At National Level	Municipal Government	Central/Municipal	Central/Municipal
Guatemala	At National Level	Municipal Government	Municipal Government	Municipal Government
Costa Rica	At National Level	Municipal Government	Municipal Government	Municipal Government
Honduras	At National/Municipal Level	Municipal Government	Municipal Government	Municipal Government
Ecuador	At National/Municipal Level	Municipal Government	Municipal Government	Municipal Government
Uruguay - Urban	At Departamental Level	Central/Departamental Government	Departamental Government	Departamental Government
Argentina - Impuesto Inmobiliario	At Provincial/FD Level	Provincial/FD Government	Provincial/FD Government	Provincial/FD Government
Mexico	At State/FD/Municipal Level	Municipal/FD Government	Municipal/FD Government	Municipal/FD Government
Colombia	At Municipal/FD Level	Central/FD/Municipal Government	Municipal/FD Government	Municipal/FD Government
Brazil - Urban	At Municipal/FD Level	Municipal/FD Government	Municipal/FD Government	Municipal/FD Government
Venezuela - Urban	At Municipal/FD Level	Municipal/FD Government	Municipal/FD Government	Municipal/FD Government
Argentina - Municipal fee	At Municipal Level	Municipal Government	Municipal Government	Municipal Government

CENTRALIZATION



DECENTRALIZATION

Source: Our own work, based on the data provided in “III. Principal Provisions: 2. Responsibilities” (Access at: <http://www.lincolinst.edu/subcenters/PTLA/pt/data.asp>). Fifty-seven different jurisdictions were considered.

Tax Base

The inclusion of the value of the land and buildings in the tax base is one of the rare absolute agreements among the jurisdictions studied. In general, the tax base is defined at the national level. The freedom to choose the tax base is observed in few countries, including Argentina and Mexico. Nor is there always a clear concept associated with the terminology used to define the tax base. Expressions such as *fiscal valuation or value*, *cadastral value*, *official appraisal*, *fiscal appraisal*, *cadastral appraisal* or *taxable value* are used, with no legal certainty as to their equivalence to the market value of the real estate. In contrast, in the case of Ecuador, there is legislation that specifies that the tax base has to be at least 40 percent of the commercial value of the real estate. In Ecuador, Guatemala, Peru, and Nicaragua, the tax

base consists of the total value of all of the real estate owned by the same taxpayer in the jurisdiction.

Rates

This Section examines the rate regulations, i.e. the rates set forth by current legislation. Due to the variability in the level of the appraisals in connection with the market value in the various jurisdictions, there may be significant differences between the nominal rates and the actual rates that result from the tax divided by the real market value of the real estate. Under these circumstances, a higher rate does not necessarily represent a higher tax. Therefore, the main objective of this section is to compare the structure of application of the rates to their absolute values.

Rates are established at the national level in six of the thirteen countries studied, which are: Bolivia, Chile, Costa Rica, Guatemala, Paraguay and Peru. For rural real estate, the rule is also valid for Brazil and Uruguay. Other countries in Latin America where municipalities do not have the responsibility to set rates include Nicaragua and the Dominican Republic. In Argentina, rates are typically set at the provincial level. In Colombia, Honduras and Ecuador, rates are set by municipalities. However, minimum and maximum limits defined at the national level must be respected, such as:

- Colombia: The rates have to be set between 0.10 and 1.6 percent. National legislation also stipulates that the rates have to be selective and progressive, considering, among other factors, socio-economic strata, the uses of urban land, and the degree to which the cadastre is updated. The rates applied to land zoned for urbanization but not actually urbanized could reach the maximum of 3.3 percent.
- Ecuador: The rates have to be set between 0.025 and 0.50 percent. Additional rates (surcharges) may be applied in the case of real estate with no buildings or obsolete property, the value of which has to be set between 0.10 and 0.20 percent.
- Honduras: For urban real estate, the rates have to be set between 0.15 and 0.50 percent; although they may range between 0.15 and 0.25 percent for rural real estate.

The 72 observations collected and/or researched on current rates reflect the practices adopted by almost 60 different jurisdictions. The application of surcharges is relatively common in the jurisdictions studied, and may represent an increase of 100 percent in the rate.⁵ Common situations for their application involve penalties for land that is not used or is underused, non-conforming work and work that is stalled.

There are also situations in which the surcharge is intended to produce revenue for specific purposes, such as financing of fire fighters, agricultural centers or environmental protection. More atypical criteria for the application of surcharges might include, for example, the formation of a permanent fund intended to expand the metro networks in the city of Buenos Aires, Argentina.

⁵See “III. Principal Provisions: 6. Rates - Criterion, Surcharge and Rate Reduction” at: <http://www.lincolnst.edu/subcenters/PTLA/pt/data.asp>.

In contrast, there are a number of diverse situations that result in a reduction of tax rates, such as: factors of depreciation not foreseen by law; restored real estate, land located in a Watershed Protection Area or a Permanent Protection Area, real estate used for agricultural production, vacant land with ongoing construction, sports organizations; built-up real estate of up to 80 m², real estate with parking areas, etc.

Urban Real Estate

There is great diversity in the criteria established for the application of rates in the jurisdictions studied. Some jurisdictions and countries have a simplified flat tax rate. In other cases, selective, progressive, or even a combination of rate criteria are applied. The criteria established to define the differentiated (i.e. selective) rates vary. One of the most frequently used criteria is a break-down by type of use of the real estate (vacant land, residential real estate and non-residential real estate). Considering 57 different jurisdictions, an effort is being made to continue to summarize the criteria used for application of the property tax rates.

Chart 3: Criteria Established to Define Rates

Criterion I – Flat Rates

Num	Country	Name	Type	Fiscal Year	Observation
1	Costa Rica	----	Municipality	2001-06	---
3	Honduras	San Antonio del Norte	Municipality	2004	---
2	Honduras	Tegucigalpa	Municipality	2002-03	---
4	Venezuela	Baruta	Municipality	2004-06	---

Criterion II – Selective rates, classified by use of the real estate – Vacant Land, Residential and Non-Residential Real Estate– and flat rates within each category

Num	Country	Name	Type	Fiscal Year	Observation
1	Brazil	Brasília	Municipality	2002-06	---
2	Brazil	Cabo de Sto. Agostinho	Municipality	2006	---
3	Brazil	João Pessoa	Municipality	2003	---
4	Brazil	Santarém	Municipality	2003	---
5	Ecuador	Cañar	Municipality	2006	Sum of assessed value of all properties that belongs to the taxpayer in the jurisdiction
6	Mexico	Acapulco de Juárez	Municipality	2001-03	---
7	Mexico	Guanajuato	Municipality	2003-04	---
8	Mexico	Santiago de Querétaro	Municipality	2004	---
9	Mexico	Tepic	Municipality	2005	---
10	Venezuela	Chacao	Municipality	2003	---

Criterion III – Progressive Rates (with no variation between categories of use of the real estate)

Num	Country	Name	Type	Fiscal Year	Observation
1	Argentina	Santa Fé	Provincia	2004	---
2	Bolivia	Tarija	Municipio	2003	---
3	Ecuador	Quito	Municipio	2003	Sum of assessed value of all properties that belongs to the taxpayer in the jurisdiction
4	Guatemala	----	Municipio	2003-04	Sum of assessed value of all properties that belongs to the taxpayer in the jurisdiction
5	Mexico	----	Municipios do Estado de México	2006	---
6	Peru	---	Municipios	2001-06	Sum of assessed value of all properties that belongs to the taxpayer in the jurisdiction

Criterion IV – Selective rates, classified by use of the real estate –Vacant Land, Residential and Non-Residential Real Estate–and progressive rates within each category

Num	Country	Name	Type	Fiscal Year	Observation
1	Argentina	Buenos Aires	Province	2003	---
2	Argentina	Rosario	Municipality	2002-03	---
3	Brazil	Aracajú	Municipality	2006	---
4	Brazil	Belém	Municipality	2000-04	---
5	Brazil	Curitiba	Municipality	2001-06	---
6	Brazil	Olinda	Municipality	2006	---
7	Brazil	Rio de Janeiro	Municipality	2006	---
8	Brazil	São Paulo	Municipality	2006	---

Criterion V – Selective rates for each category of real estate use, but identical for the different categories of use – Vacant Land, Residential and Non-Residential Real Estate

Num	Country	Name	Type	Fiscal Year	Criteria
1	Mexico	---	Municipalities of the State of Michoacan de Ocampo	2002	Avaliation date
2	Uruguay	Montevideo	Municipality	2006	Provision of public services
3	Uruguay	San Jose	Municipality	2002	Provision of public services

VI. Combination of Criteria

Country	Jurisdiction	Fiscal Year	Vacant Land	Residential Real Estate	Non-Residential Real Estate
Argentina	Autonomous City of Buenos Aires (FD)	2003	Type of use of the zone	Fixed rate, and progressive for surcharge	Fixed rate, and progressive for surcharge
Argentina	Córdoba	2004	Location	Construction standard in building and location of the real estate	Type of access to the road system and location of the real estate
Argentina	Rosario	2006	Progressive (non-continuous)	Location	Progressive (non-continuous)
Brazil	Belo Horizonte	2002-06	Provision of public services	Progressive	Progressive
Brazil	Blumenau	2005	Location	Progressive, separate effect on land and building values	Progressive, separate effect on land and building values
Brazil	Camaçari	2004	Wall or fence	Flat	Type of use
Brazil	Campina Grande	2006	Area of land	Flat	Flat
Brazil	Campo Grande	2003	Provision of public services	Flat	Flat
Brazil	Florianópolis	2001-06	Conforms to permitted use, considering the building potential	Selective and separate effect on land and building values	Selective and separate effect on land and building values
Brazil	Gravatá	2004	Location; Progressive	Progressive	Progressive
Brazil	Jaboatão dos Guararapes	2006	Fence and sidewalk	Progressive	Progressive
Brazil	Joinville	2006	Location	Total built-up area	Type of use
Brazil	Juiz de Fora	2006	Fence and enclosure	Flat	Flat
Brazil	Porto Alegre	2001-06	Location; Progressive	Flat	Flat
Brazil	Recife	2002-06	Real estate that is not built up and does not have an enclosure or sidewalk; 5%	Progressive	Progressive
Brazil	Salvador	2006	Flat	Construction standard	Construction standard
Brazil	Vitória da Conquista	2004-06	Enclosure and location of land	Flat	Flat
Chile	--	2004-06	Flat	Progressive	Flat
Colombia	Barranquilla	1998	Provision of public services	Socio-economic class	Flat
Colombia	Bogotá	2004-06	Progressive	Socio-economic class and value of the real estate	Type of use and, in some cases, the value of the real estate (taxed base)
Colombia	Bogotá	2001-03	Size	Socio-economic class, area of construction and value of the real estate	Economic use, intensity of trade, level of environmental contamination, type of capital of the company (public or private)
Mexico	Mexico City (FD)	2003	Fixed rate; Progressive for surcharge.	Fixed rate; Progressive for surcharge	Fixed rate; Progressive for surcharge
Mexico	Hermosillo	2001	Type of use	Type of use	Flat
Mexico	Satillo	2003	Location	Flat	Flat
Mexico	Zapopan	2001-02	Fixed rate; Date of appraisal	Fixed rate; Date of appraisal	Fixed rate; Date of appraisal

Source: Our own work, based on the data provided in “III. Principal Provisions: 6. Rates (yearly at %) – Urban Real Estate” (Access at: <http://www.lincolnst.edu/subcenters/PTLA/pt/data.asp>). Fifty-seven jurisdictions were considered.

Considering the scope of situations identified, the number of classes established for application of the rates varies from one to nineteen: The jurisdictions that set more than 10 different categories include Mexico City, Mexico (19); Buenos Aires, Argentina (15); Quito,

Ecuador (14); Rosário⁶, Argentina (14); Municipalities of the State of Mexico (14); Province of Buenos Aires (13); and Bogotá, Colombia (10). Very complex structures that involve a combination of different criteria tend to cause taxpayers to omit information and, in general, there is a lot of subjectivity in its definition.

Although there are several jurisdictions that opt for a flat rate, based on the data studied it can be confirmed that there is a trend toward stronger taxation on vacant land, confirming the preoccupation with providing an incentive for urban development and/or fighting real estate speculation that has already been identified through the use of surcharges for land that is not built up or not being used.

As indicated in table 4, the average rates applied to vacant land exceed by 165 percent and 75 percent respectively those that are applied to the residential or non-residential real estate. The average rate applied to non-residential real estate exceeds by 50 percent the average rate for the segment of residential real estate.

Table 4 – Rate Regulations: Urban Real Estate (%)

Benchmark	Land			Residential Real State			Non-residential Real State		
	Minimum	Maximum	Average	Minimum	Maximum	Average	Minimum	Maximum	Average
Simple Average	1.31	2.57	1.94	0.53	0.93	0.73	0.80	1.44	1.12
Observations	52	52	52	49	49	49	49	49	49

Source: Our own work, based on data provided in “III. Principal Provisions: 6. Rates (yearly in %) – Urban Real Estate” (Access at: <http://www.lincolinst.edu/subcenters/PTLA/pt/data.asp>).

Rural Real Estate

The criteria for differentiation between the rates applied to rural real estate include the existence of construction, the size of the parcel, the use and/or usability of the parcel, the date of appraisal and the public services available. Average rates for rural real estate represent about 0.60 percent of the value of the real estate (See table 5). This means that they tend to be lower than the rates applied for urban residential real estate (0.73 percent on average).

Table 5 – Rate Regulations: Rural Real Estate (%)

	Land			Improvements		
	Minimum	Maximum	Average	Minimum	Maximum	Average
Simple Average	0,3	0,9	0,6	0,4	0,7	0,5
Observations	92	02	52	21	41	81
	1	1	1	8	8	8

Source: Our own work, based on data provided in “III. Principal Provisions: 6. Rates (yearly in %) – Rural Real Estate” (Access at: <http://www.lincolinst.edu/subcenters/PTLA/pt/data.asp>).

Immunities, Exemptions and Concessions

The concession of tax benefits is common, although ideally it would be advisable to guarantee the universality of the tax on property, reducing tax benefits to situations where there is an

⁶General rate on real estate

absolute lack of ability to pay. The figure shown below illustrates the most popular tax allowances in terms of the real estate subject of immunities and exemptions in the jurisdictions studied. In the case of multiple registries for the same jurisdiction, the most current registry was retained. Fifty-eight different jurisdictions were considered.

As can be observed, government buildings are subject to immunity or exemption in all of the cases studied. Only in Mexico, and recently in Peru, is this benefit limited to real estate occupied for activities related to essential government purposes. It is also common to grant immunity or exemptions to embassies, schools, religious temples or religious institutions. Although exemptions for low income families and/or low-value real estate may be used, this is not the greatest concern (most popular) among the jurisdictions studied.

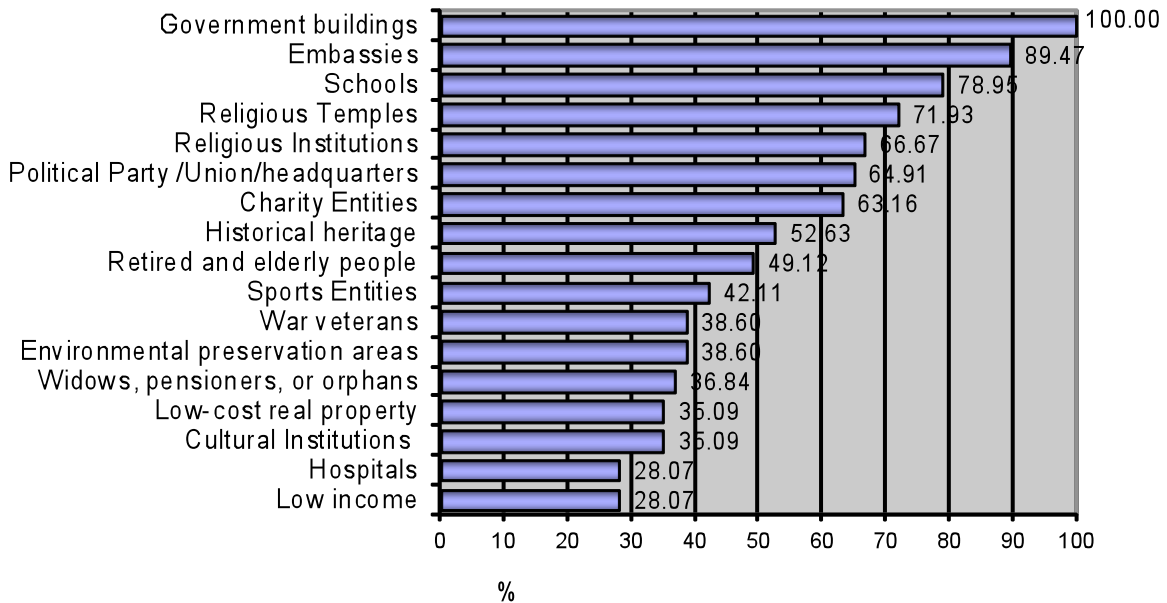


Figure 10 –Types of real estate or categories of taxpayers commonly considered immune or tax exempt

Source:Our own work, based on the data provided in “III. Principal Provisions: 7. Immunities, Exemptions and Concessions” (Access at: <http://www.lincolnst.edu/subcenters/PTLA/pt/data.asp>). Fifty-eight different jurisdictions were considered.

Unfortunately, during the period from 2000 to 2006, 15 percent and 27 percent, respectively, of situations of amnesty and abatement of the tax to be paid were recorded, considering the 96 cases being studied. Tax incentives and/or tax breaks were identified in approximately 30 percent of the cases, including situations of discounts for advance payment, real estate of public officials, land under construction, low-cost housing or real estate for social housing, value, real estate for preservation of environmental or cultural heritage, deduction of other taxes, etc. In two situations, tax incentives were granted for companies based on generating jobs.

There are some worrisome situations that result in the reduction of the universality of the tax, including the following:

- In the Dominican Republic the application of the tax is limited to real estate with a value of more than five million pesos (approximately US\$ 150,000). As a result, some of the families surveyed did not know about the existence of the tax in the country.
- In Chile, residential real estate with a value of less than approximately US\$ 30,000 is exempt; this result in the exemption of more than 60 percent of the units registered.
- In the city of São Paulo, Brazil, 40 percent of the residential real estate registered is exempted.

An article published recently in the newspaper “Panamá América” (2007) touches on some relevant concerns with regard to the property tax:

“(…) a simpler legal regulation is required, that clearly establishes all of the elements of the tax structure (tax basis, tax base, taxpayer, etc.) and principally the elimination of the excessive number of exemptions, since the only thing they do is erode the tax base and affect the equity the tax should have, when construction and improvements are exempted without considering their value” (...) “It is logical that real estate of limited value be exempted to benefit the owners or occupants who have limited income, but there is no justification for exempting real estate or construction with a high value.”

6. Administration of the Tax

The administration of the tax on property represents a challenge when the establishment of the tax depends fundamentally and/or traditionally on a fiscal action. Activities of an essentially technical nature, such as the structuring and maintenance of a cadastre and the assessment of real estate, require technological resources and qualified staff. Aside from the cost factor, one has to take into consideration the time for carrying out these activities. The most likely causes of low performance of the tax as a source of revenue and the inequities in distribution of the tax burden tend to be associated with inaccuracies and omissions in the cadastre, with a lack of uniformity (high variability in the level of assessments), and with a low level of value estimates when compared to market values, or even with the lack of efficiency in collection. The goal of this section is to examine the administration of the property tax in Latin America on the basis of information obtained through the survey of data.

Cadastre

The cadastre is an essential supporting instrument for the municipalities, as it consolidates and integrates various types of information – fiscal, social, economic, legal and environmental – about the land. It therefore assumes an essential role for urban organization and territorial management.

One of the main indicators for assessing the condition of the cadastre in a given fiscal area is its degree of coverage of the properties in the actual city. This research evaluates the number of properties registered in the cadastre as a percentage of the total number of properties existing in the jurisdiction, considering the actual city. Forty-seven responses were obtained, covering a total of thirty different jurisdictions. Although on average approximately 80

percent of the real estate was registered, we note a certain inconsistency in the responses received. Various municipalities with an average and/or high level of informality reported that 100 percent of the properties were registered. It is likely that the response was given taking only the legal city into consideration. At any rate, the indicator varied from 13 to 100 percent for the jurisdictions studied.⁷

In connection with cadastral management, based on the 110 responses obtained, we can confirm that:

- In the majority of cases there are no periodic inspections of the registered real estate. Inspections are conducted promptly when there are plans for a change in the plot plan and/or at the request of the taxpayer, or else during periods of re-registration. Based on an average of the 35 responses obtained, general inspections are conducted once every five years. It should be noted that there is no set frequency for the great majority of the jurisdictions.
- The taxpayer has the obligation to declare changes in the plot plan, changes in the use of the real estate or changes in the property rights in approximately 62% of cases.
- As for the cadastre organization, the following resources were identified: use of computer systems in 78 percent of cases; geographic information systems (GIS) in 47 percent of cases; manual entry in 33 percent of cases; computer aided design (CAD) in 31 percent of cases; and microfilm in 16 percent of cases. Some respondents reported that the cadastre was integrated with the real estate registry. Approximately five municipalities reported that they were developing GIS systems.
- The use of cadastral maps – paper and digital – was reported in more than 65 percent of cases. Aerial photography surveying was reported in 68 percent of cases, and satellite images in just 10 percent of cases. There is a lot of variation in the level of updating of the aerial photography surveys. Surveys were outdated by seven years on average, and in some cases were outdated by 25 years. There was one interesting situation in which the jurisdiction obtained the aerial photography survey through an agreement with the police.
- A variety of cadastral updating methods were reported, including: statements from taxpayers, construction permits and certificates of occupancy, charters of operation for companies, random inspections and/or re-registration, exchange of data with the real estate registry, integration with the property or commercial cadastres or other cadastres.
- Other uses of the cadastres analyzed include urban planning, neighborhood impact studies, installation of new production units, land tenure regularization, health, environment and analysis of expropriation proceedings.
- Despite being essential to the activity of the municipalities, it was not rare to find cadastres unfit to carry out even the basic fiscal activities, not to mention a more comprehensive management of the city.

⁷Access at: http://www.lincolnst.edu/subcenters/PTLA/pt/indicators_group_3.asp.

Real Estate Appraisal

Outdated appraisals tend to directly affect the efficiency of the tax as a source of revenue,⁸ whereas distortions and errors in estimates directly affect the distribution of the tax burden and confidence in the system. Due strictly to the low quality of appraisals, i.e. imperfections of an essentially administrative nature, the tax burden may be incorrectly distributed among taxpayers. Consequently, properties of the same value might be assessed, and subsequently taxed, at different assessment levels, hampering the principle of isonomy. It is not uncommon for distortions in assessments to foster regressivity in the tax assessments, as properties with a high value are under assessed, in relative terms, in comparison with real estate of a lower value.

The indicators most recommended to analyze the fiscal performance of assessments are the level and uniformity of the valuation.⁹ The level of the appraisals refers to the percentage or ratio by which the properties are assessed in relation to their market value; uniformity is related to the isonomic handling of individual properties. The International Association of Assessing Officers (IAAO) recommends the use of the median of the ratio between the appraised value and the sale price to identify the level at which a group of properties was assessed in relation to the values used on the real estate market, showing how closely the real estate was assessed to the legal or desired level. The benchmark most used to verify the uniformity of appraisals is the coefficient of dispersion in relation to the median (CD), which indicates the variability of the appraisals in relation to the market value of the real estate. The CD is the average deviation, expressed as a percentage of the level at which each property was assessed in relation to the median of the appraised value divided by the market value. When these ratios follow a normal distribution, the average and the coefficient of variation (CV) may be used as a substitute for the median and the CD.

It is interesting to note that only 20 jurisdictions among the more than 60 involved in this study specified the average level of the property valuations conducted for taxation purposes. In some cases, the same level was specified for the different types of use of the real estate. Since, in practice, it is unlikely that there will be exact correspondence to the benchmark in various data samples, it is possible that the level reported was just the perception of the respondent. This means that in some cases there was probably no statistical study of this issue. At any rate, considering the data available, the average level of the assessments would be about 60 percent of the market value of the real estate.¹⁰ There is a high probability that the assessments represent even less than 60 percent of the market value. More alarming still was the total lack of responses about the level of uniformity of the appraisals, measured by the coefficient of dispersion or variation.

With regard to the assessment practices, based on the 77 responses obtained, the study indicates that:

- Self-assessment is used in 23 percent of cases, including the following jurisdictions: Barranquilla and Bogotá (Colombia); Escazú, Poás and San José (Costa Rica);

⁸ Except in the cases in which there was an increase in the rate to compensate for the loss.

⁹ International Association of Assessing Officers (IAAO). 2007. Standards on Ratio Studies.

¹⁰ See Indicator “4.1 Level of the appraisals in relation to market value (%)” available on line at: http://www.lincolnst.edu/subcenters/PTLA/pt/indicators_group_4.asp.

Guatemala City and Villa Cañales (Guatemala); San Antonio del Norte and Tegucigalpa (Honduras), Mexico City, State of Mexico and Zapopan (Mexico); Lima and San Borja (Peru); and Baruta (Venezuela).

- In approximately 50 percent of cases the existence of a work team was indicated, comprised of engineers and architects in 50 percent of cases. The hiring of outside services is observed in 21 percent of cases.
- Assessment methods used include essentially the replacement cost method. The comparative method of market data is used, in almost all cases, only to estimate the value of the land. Descriptive statistics are used in 40 percent of cases and multiple regressions in 14 percent of cases.
- As benchmarks for quality control of the work, the use of the average or median was indicated in 31 percent of cases, and the coefficient of variation in 14 percent of cases.
- Readjustments of mass appraisals were done in 60 percent of cases, using the inflation index 81 percent of the time and the real estate price indices 23 percent of the time. Maximum intervals between mass assessments are established by legislation in 35 percent of the jurisdictions studied.
- The existence of national or regional regulations to measure performance of the assessments, specifically for valuations conducted for taxation purposes, was indicated in 13 percent of cases.
- Only 50 percent of the respondents reported the average real cycles between mass assessments, indicating that it was six years, on average.

The responses obtained show significant potential for improvement the work in Latin America, whether through a reduction in the assessment cycles, improvement in the assessment techniques used, a definition of maximum assessment cycles, efficient methods of adjusting the values between intervals without assessments, and introduction of quality control measures. The lack of response in many questions surveyed suggests that the problem may be even greater than that identified by the results obtained.

Levy and Collection

Another very relevant topic is the issue of evasion. It is common for tax administrators to attribute the results of a low tax collection to a culture of not paying. On the other hand, it is important to realize that the culture of “not paying” is directly fed by the culture of “not charging.”

Figure 11 shows the revenue levied by the tax divided by the total tax assessments, considering the payment of the tax within the fiscal year. Thirty-five different jurisdictions were considered. On average, the jurisdictions studied collected 67 percent of the assessed tax. Municipalities such as Santárem, Brazil (2003) and Baruta, Venezuela (2003) raised less than 20 percent of the assessed tax. Only 25 percent of the jurisdictions studied raised more than 80 percent of the assessed tax.

Factors that could affect the efficiency of collection include the granting of amnesty and abatements. During the period from 2000 to 2006, respectively 15 percent and 27 percent of the jurisdictions studied offered amnesty and abatements. Another factor that might be

related to evasion is the lack of information provided to the taxpayer. Of the 64 different jurisdictions that provided information about communications and operational resources available, it was observed that only 12.5 percent of those jurisdictions had fiscal education programs, 14 percent provided manuals, 36 percent offered informative brochures. Advertising campaigns about the tax were carried out by most of the jurisdictions (62 percent of cases). With regard to use of the Internet to make it easier to reach the taxpayers, there is quite a variety in the type of services available. As expected, a more intense use of technological resources was observed in the larger jurisdictions.

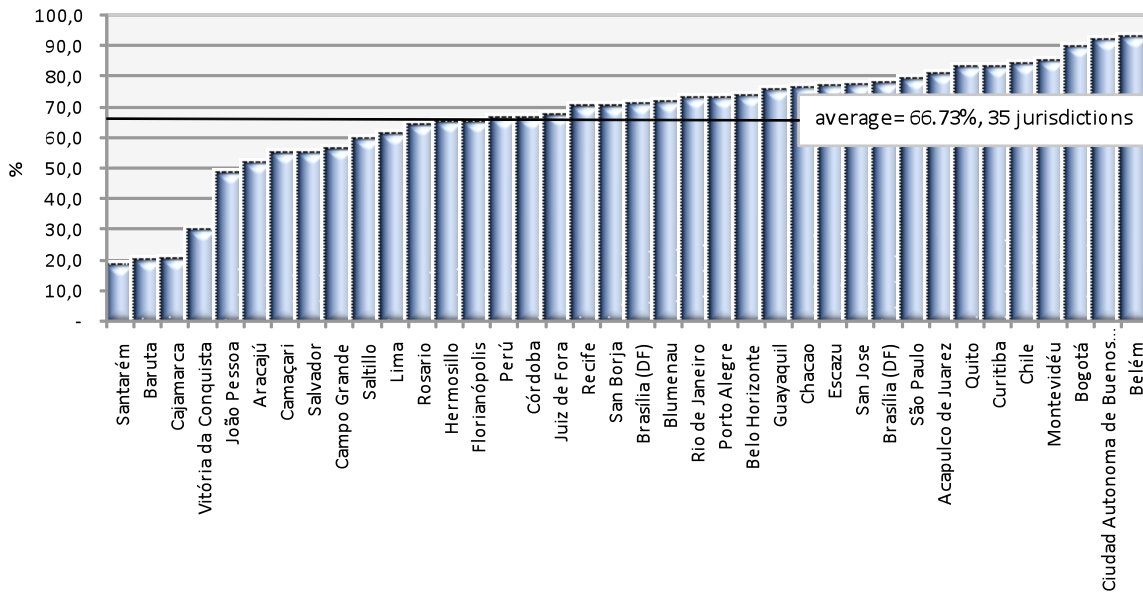


Figure 11 – Revenues collected in property tax as a percentage of total tax assessments

Source: Our own work, based on the data used for calculation of the indicator “2.3 Revenue collected spontaneously by the property tax as a percentage of total tax assessments in the jurisdiction.” (Access at: http://www.lincolinst.edu/subcenters/PTLA/pt/indicators_group_2.asp).

[average = 66.73%, 35 jurisdictions]

Although it has been feasible to check the penalties related to non-compliance with a tax obligation, it was not possible to check the effectiveness of its application. At any rate, it was noted that not all the jurisdictions studied impose a fine or are concerned about fiscal enforcement. The application of late fines is a practice adopted in a wide majority of cases. In approximately 50 percent of the municipalities, legislation provides for the loss of the property in the event of non-payment of the tax. Some jurisdictions report that the judiciary imposes barriers to the application of this measure. Other alternatives mentioned in the survey data to combat evasion include mechanisms such as the seizure of goods, prohibition to transfer the property or obtain construction permits, a restriction on carrying out transactions of any kind with public agencies, or receiving credit.

In closing, there was an attempt to obtain information about the administrative costs of tax collection. It was verified that only nine of the jurisdictions studied had data on the cost of tax administration. On average, the administrative cost of this small sample of municipalities

represented approximately 4 percent of total assessments and 6 percent of the revenue collected.

7. Relevant Changes

There are a great many interesting initiatives being carried out by the jurisdictions studied to improve the performance of the tax, among which the following are highlighted:¹¹

- Training of work teams;
- Organizational restructuring;
- Introduction of progressive rates and also replacement of progressive rates with flat rates;
- Consolidation of tax legislation;
- Better integration with other taxes;
- Setting up partnerships and agreements for exchange of data;
- Establishment of specific management unit for the tax cadastre at the same hierarchical level as management of the calculation of the tax;
- Reorganization and/or updating of the cadastre;
- Creation of a temporary program for voluntary cadastre of buildings;
- Cadastral revision of real estate with a higher value and of higher valued lots;
- Installation of a new computer system to calculate and manage property taxes;
- Consolidation of tax collection in horizontal condominiums in irregular areas;
- Rezoning;
- Reassessment of the real estate;
- Modernization of the services to taxpayers;
- Distribution of prizes to complying taxpayers and discounts to taxpayers who pay promptly;
- Setting up a Service Center catering to taxpayers;
- Decentralization of collections;
- Reduction in the time for receiving/filling out returns, allowing more opportunity for collection and reduction of evasion;
- Implementation of electronic payment methods such as online payment systems;
- Establishment of a municipal association that is separate from the organizational structure of the municipality for the levy and collection of all municipal taxes, or outsourcing the work to external firm;
- Increase in services available on the Internet;

¹¹See “IV. Administrative Aspects: 8. Relevant Changes in the Property Tax & General Observations”, available on line em <http://www.lincolninst.edu/subcenters/PTLA/pt/data.asp>.

- Setting up a Fiscal Enforcement Board and a Fiscal Executive Board to take firm action for court-ordered collection of tax debts.

8. Distribution of the Revenue

Below is a summary of the distribution of revenue generated by the property tax among the various levels of government and/or programs. With the exception of Argentina, revenue from the tax essentially goes to the municipalities even in cases of a high level of centralization in the institution and/or administration of the tax. One finds situations in which the revenue is used for purposes of equalization among municipalities. It might possibly be better to use taxes established at a national level for purposes of equalization and preserve the property tax, with essentially local characteristics, to justify negotiation between government and community on the package of public services vs. tax contributions.

Chart 4 – Distribution of Property Tax Revenues

Country	Distribution of Revenue
Argentina	There is no single rule in the country. In general, the tax is included in the revenue from co-participation of the provinces in the municipalities.
Bolivia	Municipalities.
Brazil (urban)	Municipalities.
Colombia	Municipalities, except 10% that is directed to the social welfare housing fund.
Costa Rica	Municipalities, except the following percentages: 1% for the <i>Órgano de Normalización Técnica (ONT)</i> [Technical Regulation Agency], 3% for the national cadastre and 10% for the Boards of Education.
Chile	Municipalities, 40% to the town where the tax is generated and 60% for a fund (Common Municipal Fund) through which revenue is re-distributed to municipalities in accordance with a factor that considers exemptions and poverty levels.
Ecuador	Municipalities.
Guatemala	Municipalities and State. For municipalities responsible for administration and tax collection, the entire amount is assigned to it.
Honduras	Municipalities.
Mexico	Municipalities.
Nicaragua	Municipalities.
Paraguay	Municipalities and departments: 70% for the municipality generating the revenue, 15% for the department, and 15% is distributed among municipalities with lesser resources.
Peru	Municipalities. Except 5% that is allotted to maintenance of the district cadastre, and 0.3% is transferred to the National Taxation Council for determination of the value of the land and construction
Dominican Republic	20% of the revenue is allocated to municipalities and 80% goes to Central Government to finance housing programs, as well as to make the assignments and duties of the <i>General Cadastre Administration</i> more efficient.
Uruguay	Departments.
Venezuela	Municipalities.

9. Concluding Remarks

It is not possible to identify uniformity in fiscal policy decisions relative to the property tax in Latin America. The eminently local nature of this tax shows a diversity of fiscal preferences. However, there are some aspects that should be eliminated from the current systems, such as a reduction in the tax base generated by an abusive number of exemptions, the granting of amnesty and/or abatements, or the lack of transparency of the systems.

The importance of the property tax as a source of revenue in Latin America is fairly limited. The average tax collection is less than 0.35 percent of the GDP, representing less than US\$ 14.00 per inhabitant or 1 percent of the tax burden. Although there is some influence of economic variables, such as GDP or the poverty level, in the ability of the tax to generate revenue, a large part of the problem is related to administration of the tax. The data survey showed repeated evidence of a need to improve the functions related to the cadastre, the assessment of real estate and the collection of the tax. One aspect that merits attention is the low level of monitoring of the tax, which even makes it difficult to analyze the current situation with any degree of accuracy. The limited number of jurisdictions that provided information on administrative costs, level of coverage or uniformity of the appraisals, suggests a need to improve the mechanisms for standardization and control of fiscal results.

Briefly analyzing the behavior of the jurisdictions that show satisfactory performance in the context of the region, such as Florianópolis, São Paulo, Belo Horizonte, and Rio de Janeiro, one observes continued activity toward improvement of administrative practices and service to the taxpayer. Even those municipalities that exceed 1 percent of the GDP in terms of collections have ample potential to increase revenue, which could be generated, for example, by a reduction in exemptions in São Paulo, re-assessment of real estate in Belo Horizonte and in Rio de Janeiro, or an improvement in the efficiency of the levy in Florianópolis.

At any rate, a reflection on improvements of equity, efficiency and effectiveness of the property tax in Latin America should also encompass a concern for small municipalities that have limited technical capacity and resources. In closing, it is important to note that the legitimacy of initiatives of fiscal reforms and revisions must be ensured through the association of the tax with public expenditures that benefit the community.