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THE PROPERTY TAX COLLECTOR-TAXPAYER RELATIONSHIP & THE COMPLIANCE EQUILIBRIUM

*A case study on the factors influencing property tax
compliance in a small island state*

C. Lowell Harriss Dissertation Fellowship Symposium
Lincoln Institute of Land Policy
22 February 2019

PRESENTATION OUTLINE

- Research Objective and Questions
- Background to the Study
- Theoretical Justification for the Study
- Research Method & Data Collection Techniques
- Jamaica's Property Tax Institution
- Research Findings & Analysis
- Conclusion & Recommendations for Future Research

RESEARCH OBJECTIVE & QUESTIONS

RESEARCH OBJECTIVE:

To conduct an investigation into the factors influencing property tax compliance in a small island developing state

RESEARCH QUESTIONS:

1. How are the practices of tax administrators influencing compliance?
2. What are the motivations of taxpayers towards the property tax?
3. What is the outcome when administrative practices and taxpayer motivations are combined?

BACKGROUND TO THE STUDY - 1

- Tax revenue is the bread and butter of economies (Slemrod, 2015), but generally economies in the developing world struggle to achieve high tax compliance rates.
- Jamaica is no exception to this anomaly, as the island's history of low property tax compliance predates her independence from the British Monarchy.
- Although the low property tax compliance issue in Jamaica has been longstanding, the reasons for it are unclear.

BACKGROUND TO THE STUDY - 2

- However, it has been observed that Jamaica has implemented changes in an attempt to improve compliance. They are as follows:
 - A land administration system that mirrors the Dutch Model of Land Registration - a fully computerised & coordinated system
 - A land titling programme (referred to as L.A.M.P.) that makes title registration cheaper for the owners of unregistered property rights.
 - Implemented legislations to strengthen the autonomy of municipalities – such as the Local Government Financing (and Financial Management Act)
 - Passing legislative amendments to the Tax Collection & Land Valuation Acts to strengthen the enforcement capabilities of tax collectors and real estate appraisers

BACKGROUND TO THE STUDY - 3

- Repealing outdated legislations (i.e. the Parochial Roads Act 1900), that governed the property tax.
- Provisos in legislations such as Registration of Titles Act 1889, Conveyancing Act 1889, Property Tax Act 1903, Land Valuation Act 1957 and the Local Government (Financing & Financial Management) Act are working against the property tax.
 - Areas covered in these provisos are – maintenance of title and deeds registers, structure & maintenance of the valuation roll, identification of property taxpayers and allocation of the tax revenue.
- A connection shared by these provisos is their importance to compliance. In this respect, attaining high compliance rates will be difficult if legislations weaken the ability of collectors to identify & maintain accurate records on taxpayers.

THEORETICAL JUSTIFICATION

- Franzoni (1998) recommended the use of a legal and economic analysis approach to investigating compliance.
- Slemrod & Gillitzer (2013) & Slemrod (2016) argued, a tax systems approach is needed to investigate compliance because the econometric modelling techniques applied in tax scholarship assumed taxes were administered costlessly and this assumption is wrong.
- Property Tax Scholars (e.g. Bahl & Martinez-Vasquez, 2008; Bird & Slack, 2002; Bird, 2013) also stressed tax administration is costly.
- Bird & Slack (2002) also argued, the property tax is more dependent on tax administration than any other tax.
- Castro & Scartascini (2015) asserted, more research is needed on the causal channels through which the factors affecting compliance operates.

THE ANALYTICAL FRAMEWORK - 1

- The recommendations of tax scholars (mentioned on the previous slide) suggest research that will address how tax administration and taxpayer motivations are affecting compliance is needed to obtain a causal explanation on how the compliance outcome is created.
- They also imply that a research methodology which includes an institutional approach is needed to conduct such an investigation.
- In relation to property tax compliance an institutional approach which draws on the disciplines of Law, Economics, Political Science along with behavioural sciences is required. As a result, Douglas North's Institutions, Transaction Costs and Economic Performance Framework is used as the analytical lens for this study.

THE ANALYTICAL FRAMEWORK - 2

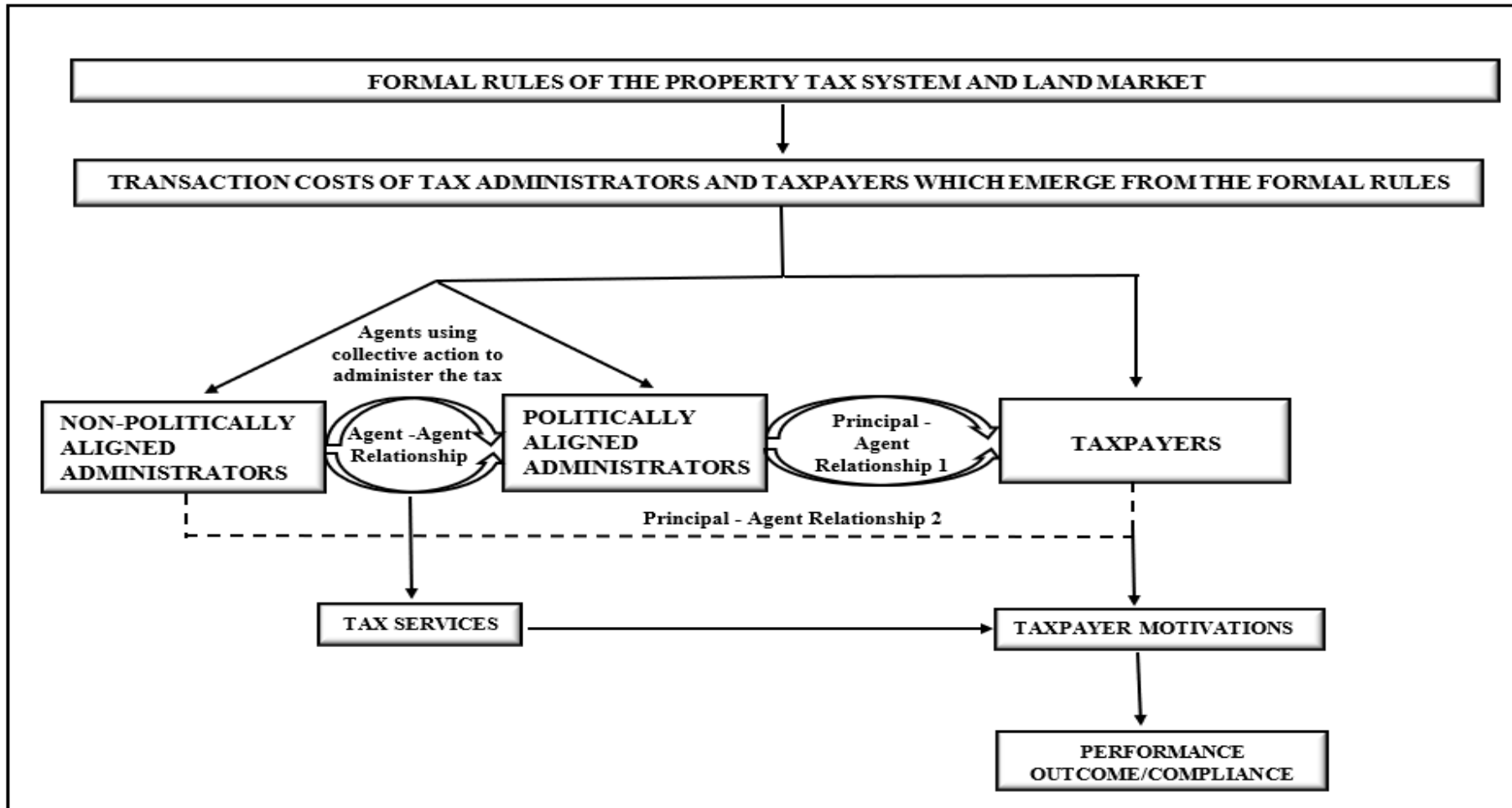
KEY TERMS IN NORTH'S FRAMEWORK

- **Institution** – formal (e.g. legislations) and informal rules (e.g. norms)
- **Organisations** – group of players formed by institutions
- **Transaction costs** – information cost, enforcement costs, measurement costs, ideology of agents created by formal and informal rules

POSTULATES IMPLICIT IN NORTH'S FRAMEWORK

- **Bounded Rationality** - North argued rationality was relative and determined by the subjective model actors.
- **Agency Theory** – North also contends that institutions shaped agency relationships.
- **The Partiality Problem** – incomplete knowledge & agents adversely affecting others while pursuing their partial interests

THE ANALYTICAL FRAMEWORK - 3



RESEARCH METHOD & DATA COLLECTION TECHNIQUES - 1

- **Mixed Methods (QUAL-QUAN) Approach is used to conduct the study.**

Selection of Study Areas

- Pilot Study: St. Catherine
- Selection Criteria (Main Study): parishes with the highest, lowest & 50% land registration rate
- Main Study: Kingston, St. Elizabeth & Hanover

Sequential Data Collection Design

- Qualitative – snowball sampling
- Quantitative – stratified random sampling

RESEARCH METHOD & DATA COLLECTION TECHNIQUES - 2

Qualitative Data Collection Strategy:

- Economic Analysis of Legislations governing the property tax and land market.
- Development of interview guides and questionnaire based on preliminary results of the *ex ante* analysis.
- Conducting 7 Pilot Interviews with tax administrators & taxpayers.
- Refining interview questions based on preliminary results from pilot interviews.
- Administration of 36 interviews with tax administrators & taxpayers

RESEARCH METHOD & DATA COLLECTION TECHNIQUES - 3

Quantitative Data Collection Strategy:

- Revising questionnaire based on preliminary analysis of pilot interviews
- Programming of questionnaire on android tablets
- Training Workshop with questionnaire administrators
- Administration of pilot questionnaires
- Revising questionnaire based on results of pilot study
- Administration of final questionnaire to 900 taxpayers in high, middle & low-income neighbourhoods across 3 parishes in 3 weeks.

RESEARCH METHOD & DATA COLLECTION TECHNIQUES - 4

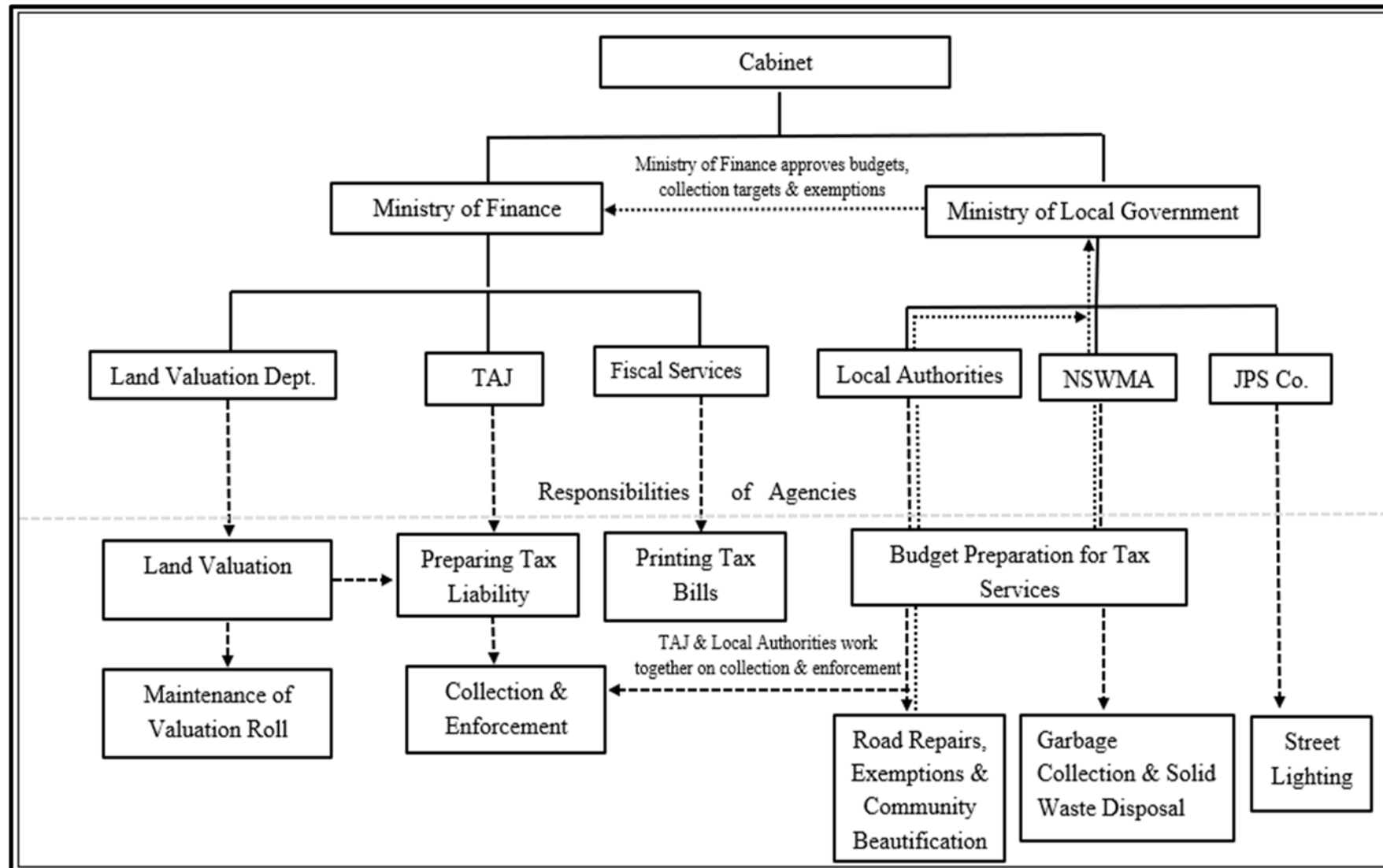
Qualitative Analytical Approach:

- Deductive Thematic Analysis - a hybrid of economic analysis of law and thematic analysis of semi-structured interviews.

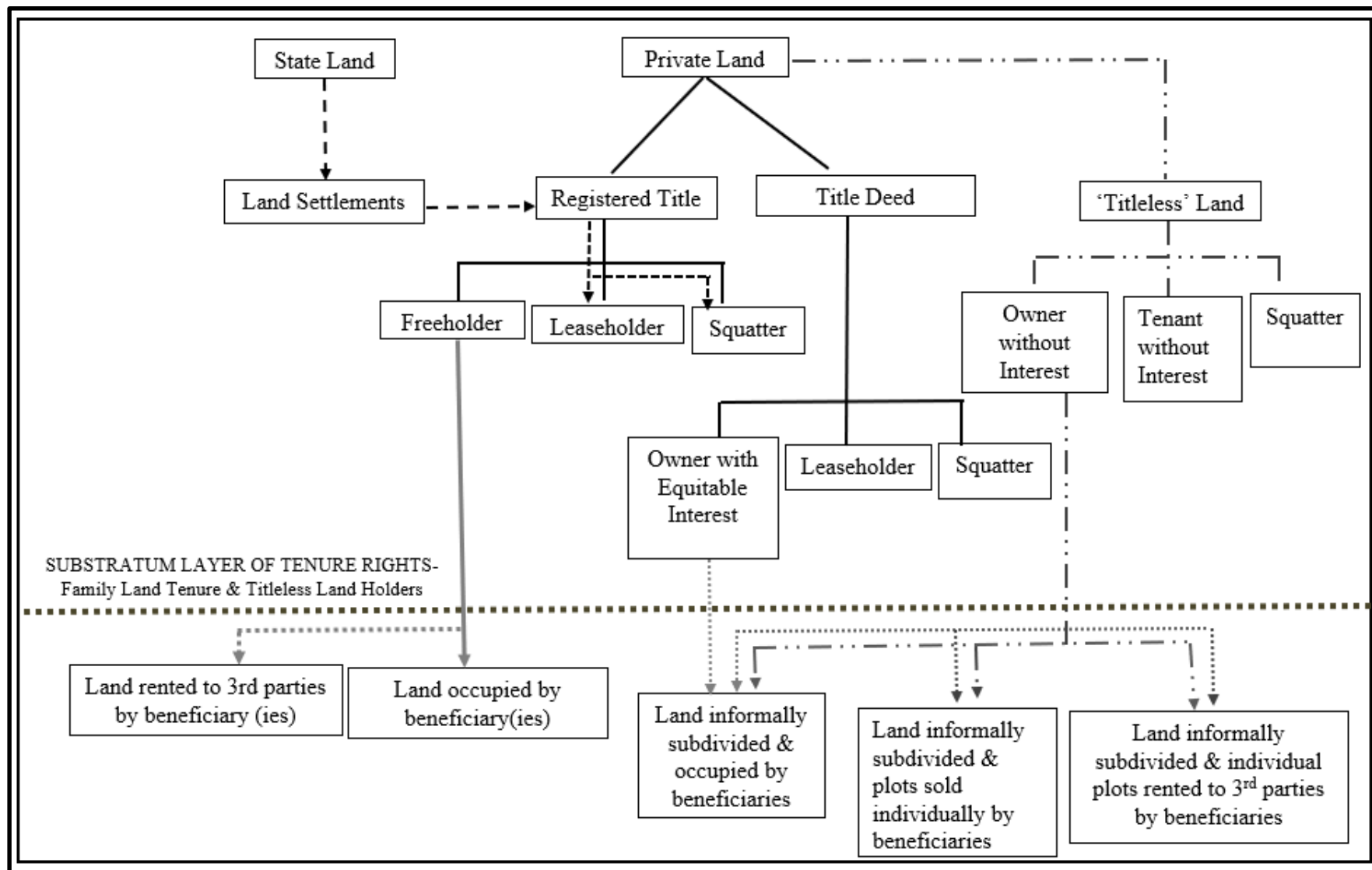
Quantitative Analytical Approach

- Creation of database with 39 variables that captured the attitudes, property and property tax payment records for each taxpayer respondent from the questionnaire – Lambert Conformal Projection Model, iMap Jamaica & Property Tax Payment Portal.
- Application of Hosmer & Lemeshow Purposeful Selection of Variables Model Building Technique & a priori knowledge to create logistic regression model.

THE PROPERTY TAX INSTITUTION - 1



THE PROPERTY TAX INSTITUTION - 2



RESEARCH FINDINGS & ANALYSIS - 1: *LAND REGISTRATION & THE PERSON IN POSSESSION CRITERIA*

Land Registration

- *High Land Registration Fees*
 - Intervivos transfers: 18-20% of improved property value
 - Testamentary transfers: varies depending on whether the deceased died testate or intestate; normally ranges between 10-12% of value at date of death.
- *Coordination Problem*
 - The inability of both land registration systems to enable tax administrators to have complete knowledge on all persons in possession.
 - The moral dilemma associated with the PIP Criteria as it may be interpreted that squatters one type of persons in possession.

RESEARCH FINDINGS & ANALYSIS - 2: LAND REGISTRATION & THE PERSON IN POSSESSION CRITERIA

The Moral Dilemma of Valuers & Tax Collectors

- Legislations recognising the rights of squatters – Section 70 of ROTA, Section 3 of LAA, Section 7 of Trespass Act
- Case Law reinforcing rights of squatters - Chisholm v. Hall [1957], Raffone v. Pottinger [2007], Lazarus v. Recreational Holdings Limited [2016], Perry v. Bough *et.al.* [2018]
- Housing Act giving power to the Minister of Housing to compulsorily acquire squatter sites.
- Property owners losing their properties to squatters with 1 year of undisturbed possession.

RESEARCH FINDINGS & ANALYSIS - 3: LAND REGISTRATION & THE PERSON IN POSSESSION CRITERIA

The Person in Possession Criteria

- *Property Tax Act*

"owner, occupier, mortgagee in possession or other person in actual possession of such property"

- *Land Valuation Act*

"the attorney, overseer or manager or other person having the management of or the collection or receipt of the rents, issues or profits of any land as well as the owner, occupier or person actually in possession of such land"

RESEARCH FINDINGS & ANALYSIS - 4: *LAND REGISTRATION & THE PERSON IN POSSESSION CRITERIA*

Definition of Owner in the Land Valuation Act

"the person who, whether jointly or severally is seised or possessed of or entitled to any estate or interest in land and shall include any person who, whether severally or jointly, claims that there is vested in him, and any person in whom the Commissioner believes there is vested, in possession, remainder or reversion, any estate or interest at law or in equity in the parcel of land"

RESEARCH FINDINGS & ANALYSIS - 5: LAND REGISTRATION & THE PERSON IN POSSESSION CRITERIA

Structure of the Valuation Roll Specified by the Land Valuation Act

- *the name, nationality and postal address of the owner;*
- *the situation, description and measurement or area of the land;*
- *the unimproved value of the land;*
- *such additional particulars, including the improved value of land, as may be prescribed*

RESEARCH FINDINGS & ANALYSIS - 6: IMPLICATIONS OF *THE PERSON IN POSSESSION* CRITERIA

Dubious Valuation Roll & Weak Enforcement

- Incomplete nature of the law on possession enabled valuers & tax collectors to attenuate their moral dilemma by creating an informal rule that protected the rights of property owners.
- **Valuers:** Beneficiaries & Squatters excluded from the roll
- **Tax Collectors:** Tax was not enforced against squatters

Other factors reinforcing the Problem of Weak Enforcement

- Seven-Year Rule & Absence of Property Seizures

RESEARCH FINDINGS & ANALYSIS - 7: IMPLICATIONS OF *THE PERSON IN POSSESSION* CRITERIA

Weak Enforcement Cont'd

- Politically aligned administrators (Councillors & MPs) benefiting from the incomplete knowledge of squatters and their inability to afford home ownership to obtain political mileage by using compulsory acquisition to acquire squatter sites since the government properties were exempt from the property tax.
- They also placed gunmen on squatter sites to prevent citizens affiliated with other political parties from moving into their constituency.

RESEARCH FINDINGS & ANALYSIS - 8: IMPLICATIONS OF *THE PERSON IN POSSESSION* CRITERIA

“People in this community do not own land. Everyone in this community is a squatter. When I came here to live in the 1980's I asked the owner for a house spot to live and told me to ask the Prime Minister for a house spot. I came here because I had my children and I had nowhere to live. At the time I asked the councillor to ask the member of parliament if I could live here. The member of parliament told me that I can live on the land and I thanked him because I had nowhere to go. But we had to vote him out because he is full of violence. He filled the community with guns.”

(SQUAT 2, a squatter of 37 years in Hanover)

RESEARCH FINDINGS & ANALYSIS - 9: IMPLICATIONS OF *THE PERSON IN POSSESSION* CRITERIA

"I was associated with gunmen but being associated with gunmen is not a criminal offence."

(Orette Golding, a Former Prime Minister of Jamaica)

Golding had said that, under the old-style politics in which he was involved, gunmen served a function in his former Central St Catherine constituency by keeping supporters of the People's National Party out of the area

(The Jamaica Gleaner, 20 September 2010, para. 7)

RESEARCH FINDINGS & ANALYSIS - 10: AMBIGUOUS CONTRACTUAL RELATIONS & TAXPAYER MOTIVATIONS

Unclear Allocation of Tax Revenue

Section 14, Local Gov't Financing & Financial Mgmt. Act

“...there shall be paid out of the Parochial Revenue Fund to each Municipal Corporation, not later than the last day in each month in respect of amounts received by the Fund as property tax and licence duties in the preceding month, an amount equivalent to – Ninety percent of the amount paid into the Fund in respect of property tax paid in respect of property in the relevant parish...”

RESEARCH FINDINGS & ANALYSIS - 11: AMBIGUOUS CONTRACTUAL RELATIONS & TAXPAYER MOTIVATIONS

Unclear Allocation of Tax Revenue Cont'd

“... the remaining ten percent paid into the Fund in respect of property tax shall be distributed to each Municipal Corporation, on the basis of the needs of the relevant parish, upon an application made to the Minister by the Municipal Corporation and after consultation by the Minister with the Municipal Corporation.”

RESEARCH FINDINGS & ANALYSIS - 12: AMBIGUOUS CONTRACTUAL RELATIONS & TAXPAYER MOTIVATIONS

Unclear Allocation of Tax Revenue

- 2 to 7% of tax revenue allocated to MCs, No clear path of funding for revaluations, Insufficient allocations to service providers.

"I have been here for over ten years and I have never seen a month where we received a subvention that was adequate for us to cover all our expenses. Every month we are in the red. Many of the garbage trucks are old. They break down very often. Sometimes for weeks the garbage in some communities are not collected."

(SWD 1, senior tax administrator at the NSWMA)

RESEARCH FINDINGS & ANALYSIS - 13: AMBIGUOUS CONTRACTUAL RELATIONS & TAXPAYER MOTIVATIONS

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RESEARCH FINDINGS & ANALYSIS - 14: AMBIGUOUS CONTRACTUAL RELATIONS & TAXPAYER MOTIVATIONS

Poor Quality Tax Services

"I feel that what I'm called upon to pay for property tax is a pittance based on my value. I have an acre in Jack's Hill. An acre in Jack's Hill should value five hundred thousand US dollars. They have my value at fifteen million Jamaican dollars. They talk about unimproved value, but that value to me is very, very low. Based on what I'm paying, I think the service I'm getting is fantastic."

(ORP 5, an owner of registered property in Kingston and St. Andrew)

RESEARCH FINDINGS & ANALYSIS - 15: AMBIGUOUS CONTRACTUAL RELATIONS & TAXPAYER MOTIVATIONS

Quality of Tax Services

"The roads are very poor. When I was going up, before we had asphalted roads in the community, there was a select group of persons who would fix the road, whenever it needs fixing and the Parish Council would pay them. Now that the roads have been asphalted, we don't have any de-bushing anymore. In fact, the drains that are to enable water runoff are blocked and they aren't cleaned anymore."

(BURP 1, a beneficiary of unregistered property in Kingston and St. Andrew)

Income Group		Drains	Roads	Street Lights
Low-Income	N	120	158	157
	Mean	2.14	2.20	2.90
	Std. Deviation	1.318	1.292	1.272
	Median	2.00	2.00	3.00
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Middle-Income	N	129	186	186
	Mean	2.25	2.48	2.85
	Std. Deviation	1.250	1.236	1.180
	Median	2.00	2.00	3.00
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High-Income	N	128	181	180
	Mean	2.24	2.72	3.30
	Std. Deviation	1.284	1.253	1.209
	Median	2.00	3.00	3.00
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Total	N	377	525	523
	Mean	2.21	2.48	3.02
	Std. Deviation	1.281	1.273	1.233
	Median	2.00	2.00	3.00
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Test Statistics	Chi-Square	1.041	14.530	13.556
	<i>df</i>	2	2	2
	Asymp. Sig	.594	.001	.001

RESEARCH FINDINGS & ANALYSIS - 16: AMBIGUOUS CONTRACTUAL RELATIONS & TAXPAYER MOTIVATIONS

Factors Affecting Compliance

- Taxpayer Morale
- Quality of Tax Services
- Tenure Insecurity – Tax functioned as imputed rent for invisible taxpayers
- Weak Enforcement

Regression model on taxpayer behaviour: entire sample

Independent Variables	B	S.E.	Wald	df	Sig.	Exp(B)	95% C.I.for EXP(B)	
							Lower	Upper
Sex(1)	-.040	.214	.034	1	.854	.961	.631	1.463
Parental Status(1)**	.598	.303	3.905	1	.048	1.818	1.005	3.290
Registration Status of Parcel(1)*	.604	.353	2.930	1	.087	1.829	.916	3.653
Type of Property Interest			3.342	2	.188			
Type of Property Interest(1)	-.458	.310	2.175	1	.140	.633	.344	1.162
Type of Property Interest(2)*	-.413	.249	2.746	1	.097	.662	.406	1.078
Social Desirability Bias Score	-.018	.044	.164	1	.686	.982	.902	1.070
Parish			.473	2	.789			
Parish(1)	-.137	.290	.222	1	.637	.872	.494	1.540
Parish(2)	.053	.269	.039	1	.844	1.055	.623	1.786
Income Group			1.551	2	.460			
Income Group(1)	.205	.266	.596	1	.440	1.228	.729	2.066
Income Group(2)	.350	.282	1.544	1	.214	1.419	.817	2.465
2016 Penalty(1)***	-1.888	.212	79.270	1	.000	.151	.100	.229
Land Size	.000	.000	.544	1	.461	1.000	1.000	1.000
QualityofTaxServicesDummy(1)	.210	.207	1.021	1	.312	1.233	.821	1.852
Constant	.525	.483	1.181	1	.277	1.691		

*Significant at 90% **Significant at 95%, ***Significant at 99%

Regression model on taxpayer behaviour: visible taxpayers

Independent Variables	B	S.E.	Wald	df	Sig.	Exp(B)	95% C.I.for EXP(B)	
							Lower	Upper
Sex(1)	-.038	.320	.014	1	.905	.963	.514	1.803
Parental Status(1)	.575	.510	1.272	1	.259	1.778	.654	4.831
Registration Status of Parcel(1)	-.279	1.081	.066	1	.797	.757	.091	6.302
Social Desirability Bias Score	.051	.065	.622	1	.430	1.052	.927	1.195
Land Size	.000	.000	.100	1	.752	1.000	1.000	1.000
2016 Penalty(1)***	-2.329	.334	48.651	1	.000	.097	.051	.187
Parish			1.133	2	.567			
Parish(1)	.423	.464	.828	1	.363	1.526	.614	3.791
Parish(2)	-.030	.406	.006	1	.940	.970	.438	2.148
Income Group			.450	2	.798			
Income Group(1)	-.034	.476	.005	1	.944	.967	.380	2.457
Income Group(2)	-.248	.448	.306	1	.580	.780	.324	1.879
Qualityoftaxservices dummy(1)	.193	.324	.355	1	.551	1.213	.643	2.288
Constant	1.481	1.207	1.505	1	.220	4.396		

*Significant at 90% **Significant at 95%. ***Significant at 99%

Regression model on taxpayer behaviour: invisible taxpayers

Independent Variables	B	S.E.	Wald	df	Sig.	Exp(B)	95% C.I. for EXP(B)	
							Lower	Upper
Sex(1)	.316	.406	.604	1	.437	1.371	.618	3.041
Parental Status(1)*	1.015	.582	3.039	1	.081	2.760	.881	8.640
Registration Status of Parcel(1)*	.882	.500	3.114	1	.078	2.416	.907	6.435
Social Desirability Bias Score	-.002	.084	.001	1	.977	.998	.846	1.176
Land Size	.000	.000	1.953	1	.162	1.000	1.000	1.000
2016 Penalty(1)***	-1.836	.425	18.620	1	.000	.160	.069	.367
Parish			4.424	2	.109			
Parish(1)	-.475	.520	.837	1	.360	.622	.224	1.722
Parish(2)	.653	.587	1.238	1	.266	1.922	.608	6.077
Income Group***			9.274	2	.010			
Income Group(1)***	1.329	.467	8.089	1	.004	3.777	1.512	9.438
Income Group(2)**	1.240	.545	5.175	1	.023	3.457	1.187	10.066
Qualityoftaxservices dummy(1)**	.764	.385	3.932	1	.047	2.146	1.009	4.565
Constant	-1.056	.868	1.480	1	.224	.348		

*Significant at 90% **Significant at 95%, ***Significant at 99%

CONCLUSION & RECOMMENDATIONS

- The incomplete nature of the law on possession was the root cause of the coordination problem in Jamaica's property tax institution.
- The formal and informal rules of the institution enabled tax administrators and taxpayers to free-ride on their responsibilities.
- The findings suggest Jamaica's property tax institution needs to be overhauled to reverse the path of the institution.