AD VALOREM PROPERTY TAX REFORM IN POLAND: A U.S. STUDY TOUR

SEPTEMBER 26 – OCTOBER 4, 1998

FINAL REPORT

PREPARED FOR

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PREPARED BY

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I. INTRODUCTION

There are three different types of property taxes in Poland – an agriculture tax, a forest tax, and a real property tax. The real property tax applies to all property other than agriculture and forestry, and is based on the area of land and the book value of the improvements. As state administration in Poland is decentralized, local governments need to shift toward a real property tax based on value, not area.

There is a system of real property registry, or cadastre. In fact, there are multiple cadastres – e.g., a ***legal*** cadastre and a ***physical*** cadastre. Each, however, is inadequate for the needs of a real property tax system based on market value. The data are incomplete, from a tax perspective, and not often updated. A new ***fiscal*** cadastre needs to be developed.

Property tax reform in Poland is critical for the success of local self-governments. USAID has supported efforts to identify and analyze policy options for modifying property taxes in Poland since 1992. Through the Krakow Real Estate Institute – in conjunction with the International City/County Management Association, the International Association of Assessing Officers, and the Lincoln Institute of Land Policy – USAID supported the review of laws governing property taxation and the feasibility of converting to an ad valorem tax; development of a manual addressing the administrative, management and structural issues around implementation; development of a draft law; and preparation of discussion papers summarizing recommendations and the results of a simulation exercise carried out in Krakow to test mass appraisal methods and techniques.

With the growth in the real estate market in Poland, and the need to strengthen the finances of local self-governments, the new national government has expressed an interest in mobilizing for property tax reform. However, the number of committed reformers is small. They need guidance and orientation to potential issues and alternatives to build support for necessary legislative reforms. In addition, they need exposure to implementation practices for a value-based property tax. Finally, they need to address concepts which are not yet familiar to policy makers in Poland, but are extremely important in implementation, taxpayer education, taxpayer service, public relations, as well as the finance and administration of an ad valorem property tax.

II. A U.S. STUDY TOUR

In order to address these issues, USAID, in conjunction with the Krakow Real Estate Institute, initiated a U.S. study tour with two primary objectives:

- Assist in the formulation of a sound legislative and regulatory framework for property tax reform in Poland.

- Develop knowledge about various possibilities for implementing reform through alternative instruments and organizational solutions.

It was anticipated that, through the course of the study tour, the group would be exposed to:

- Comparative discussions of ad valorem property tax systems functioning in market economies.
- Alternative systems functioning in the U.S. (mainstream and on the West Coast) and their premises and justifications.
- Functioning ad valorem administrations and their advantages and disadvantages in technical and economic terms.
- Practices in taxpayer education, service, and public relations.
- Evaluation and discussion of the current state of development in Poland and pending regulatory challenges.

To accomplish these objectives, the study tour was structured to combine

- discussions of property tax policies in different states in the U.S.

- discussions of property tax practices in other countries.

- visits to functioning local valuation offices (one county and one city).

- opportunities for the study tour participants to assimilate what they learned and discuss the implications for property tax reform in Poland.

ICMA contracted with MEB Associates, Inc. to organize the study tour.

A. The Delegation

The primary in-country partner for organizing the study tour was the Krakow Real Estate Institute under the leadership of the Executive Director, Jan Brzeski who is also advisor to the Deputy Prime Minister. Jan Brzeski headed the delegation.

While the primary purpose of the study tour was to learn more about property tax administration in the U.S., a secondary objective was to start to build a core group of professionals in Poland who would take the lead on designing and implementing property tax reform. Therefore, the delegation included representatives from Parliament, the Ministry of Finance, and local government. Specifically, study tour participants included:

DR. KAZIMIERZ SZCZYGIELSKI – Member of Parliament, Deputy Chair, Physical Planning, Construction and Housing Committee, Parliamentary Club of the Union for Freedom.

WLODZIMIERZ WASINSKI – Member of Parliament, Deputy Chair, Physical Planning, Construction and Housing Committee, Parliamentary Caucus of the Solidarity Election Action.

GRZERORZ GERARD NOWECKI – Ministry of Finance, Director, Office of Local Government Finances and Cadastre.

ANDRZEJ K. R. J. BIEN – Ministry of Finance, Councilor to the Minister, Bureau of Fiscal System Reform.

DR. JAN J. KONIECZNY – Ministry of Finance, Advisor to the Minister, U.N. and E.U. Local Government Expert.

ADAM DOBINSKI – Director, Land Information Center, City Council, Bytom.

The study tour provided an opportunity for these individuals, who do not regularly talk to each other, to spend time together discussing issues of mutual interest, seeing them from different perspectives. While the study tour provided a common understanding of many issues, it also allowed the participants to develop a cohesive core group of senior policy makers to design and implement property tax legislation in Poland.

B. Study Tour Agenda – Washington D.C.

The study tour was limited to seven days in the U.S. Participants arrived in Washington D.C. at midnight on Saturday, September 26 and departed from Boston the morning of October 4. The seven days were divided between Washington D.C. and Boston – in large part because the list of people they wanted to see where concentrated in those two areas.

Jan Brzeski, in designing the study tour, indicated a desire to meet with Dr. Joe Eckert who had worked with Jan on USAID sponsored property tax projects in Poland. Dr. Eckert and Renata Frenzen, from National Economic Research Associates, played a critical role in organizing study tour activities in Washington D.C. The itinerary for the Washington D.C. portion of the study tour is included in Appendix A of this report.

Orientation

One objective of the study tour was to convey to the participants the wide range of property tax practices in the U.S. -- we essentially have 51 different property tax systems. The orientation session Sunday morning provided a general overview of an optimal property

tax structure and a discussion of the wide range of property tax practices in the U.S. (See Appendix B).

Property tax relief was a major concern for the study tour participants. In their view, in order to make a value based local property tax politically palatable, they would have to insulate individual taxpayers from heavy property tax burdens. First, they recognized that the property tax will come under increasing pressure as a source of funds for autonomous local self-governments so rates will tend to go up. Second, people have not had the freedom to move from place to place and currently live in houses essentially assigned by the government. Therefore, a person with low current income, assigned a house in what turns out to be an expensive neighborhood, should not be punished and forced to move. For the tax to be accepted, they felt relief had to be given to large numbers of individual taxpayers. I provided background material describing various property tax relief mechanisms and discussing the strengths and weaknesses of each. (Provided under separate cover)

Glen Lee, Budget Office, City of Seattle, also attended the Sunday morning orientation session. His presentation focused on the different types of property tax relief and limitations used in California, Oregon, and Washington. He summarized the key features of California's Proposition 13, Oregon's Measure 5 and 50, and Washington's new limitations. He also presented data analyzing the effectiveness of each. His main point was that different policy tools achieve different things and the Poles need to be very clear and explicit about their policy objectives for property tax reform and property tax relief. (See Appendix C)

National Economic Research Associates

On Monday morning the study tour participants met with Dr. Eckert and his colleagues at National Economic Research Associates (NERA). Dr. Eckert provided a general overview of the increasing importance of local property taxes worldwide and discussed valuation techniques including Computer Assisted Mass Appraisal (CAMA).

Jerry Grad, President of the International Property Tax Institute made a presentation about property tax appeals processes and some of their key characteristics – simplicity, accessibility, and timeliness. Tina Morton, Manager of the Department of Public Information and Training in the Travis Country Tax Office in Austin Texas and Renata Bilinska-Frenzen, Senior Land Revenue Management Specialist at NERA, made a presentation on public relations and taxpayer education. They talked about their taxpayer education project in Russia.

Field Visit to Fairfax County Department of Tax Administration

On Monday afternoon the study tour participants where hosted by John M. Yeatman, Director, Real Estate Division, Fairfax County Department of Tax Administration. This provided and opportunity for the participants to see up close an operating department responsible for property tax administration. They had an opportunity to see how CAMA systems are implemented in Fairfax County and understand the data needs of such a system. They received practical demonstrations of how the system actually works.

World Bank

On Tuesday morning the study tour participants had a meeting at the World Bank to discuss international experiences with local property taxes. The meeting was organized by Dr. Robert Ebel, Economic Development Institute at the World Bank. Attendees, in addition to Dr. Ebel, included, among others, Omar Razzaz, Matts Anderson, Alain Bertaud, and Dana Weist.

The Polish delegation started the discussion by giving some background on their task and talking about some of the ideas they had for property tax reform legislation in Poland. Issues included development of a fiscal cadastre, determination of the base of the property tax, and other administrative issues including which level of government should be responsible for property tax administration. The following discussion provided and opportunity for the World Bank representatives to respond to what the Poles had said based on their international experience.

Workshop

Tuesday afternoon the participants returned to the NERA offices to have a general discussion on property tax reform issues in Poland. This discussion provided an opportunity for them to discuss some of the things they had heard and seen in the context of reform in Poland. The workshop was fundamentally conducted by the Poles with participation from Dr. Eckert, Ms. Frenzen, Tony Levitas (DAI office in Warsaw), John Yeatman (Fairfax County), and Glen Lee (City of Seattle).

Second World Bank Meeting

Wednesday morning the Poles had another meeting at the World Bank. This meeting was something they arranged for themselves. It was a private meeting with Margaret Thalwitz to discuss current and prospective World Bank activities in Poland.

C. Study Tour Agenda – Boston

The second half of the week was spent in Boston. The group was hosted by the Lincoln Institute of Land Policy while in Boston. Jane Malme, Fellow; Joan Youngman, Senior Fellow; and Dennis Robinson, Vice President of Programs and Operations took the lead in organizing activities in Boston. The itinerary for the Boston portion of the study tour is included in Appendix D.

Orientation

The group convened at the Lincoln Institute of Land Policy on Wednesday afternoon for an orientation to the Boston portion of their study tour. In addition, Joan Youngman

provided some general comments on the role and structure of the local property tax based on her recent experiences in Russia, the Baltics, and Central and Eastern Europe.

Market Valuation Techniques – CAMA and GIS

Jeffrey Epstein from the Boston office of NERA made a presentation Thursday morning on the application of CAMA and GIS techniques and technology to valuation of real property in a developing country – Trinidad. The review of this project presented a step-by-step process for building the database, developing the technology, and valuing properties based on actual experience in a developing country. It provided useful insights into the time and financial resources necessary to carry out such a project.

State-Local Relationships

Thursday afternoon the group visited the Director of the Division of Local Services in the Massachusetts State Department of Revenue and his senior staff. This is the office in state government that monitors local government compliance with state laws dealing with balanced budgets, property tax rate limits, valuation standards, etc. This was an extremely interesting meeting for the study tour participants who were very concerned about intergovernmental relations when the Poviat (the new county level of government) is responsible for valuations, but the local government is responsible for setting rates and receives all the revenues. They were also interested in what oversight or monitoring responsibility should be vested at the national level and what enforcement mechanisms should be made available to ensure that local governments, and Poviats, meet their obligations under the new legislation.

Boston City Assessing Department

After their meeting with the Director of the Division of Local Services, the group visited the Boston City Assessing Department. Their host was Richard Carlson, Director of Valuation in the Assessing Department.

Their first stop was to the office that dealt with taxpayer education and complaints. They toured the office, talked to the staff, reviewed taxpayer education materials, and watched as taxpayer complaints were addressed in a direct, open, and expeditious manner.

The next stop was Mr. Carlson's office where he laid out the changes being implemented in the valuation process in Boston. Apparently, in the mid-1980s the real property valuation process had essentially collapsed. Valuations were out-of-date, inequities were widespread, taxpayer confidence was eroding, and compliance rates were declining. It was also costing the City at least 10 percent of its annual revenue in refunds of taxes on valuations they could not defend.

This was an excellent discussion because he laid out explicitly the steps that had to be taken to get the system back on track. Starting with the importance of the valuation process, its integrity, and efforts to regain taxpayer confidence. As a result of these efforts, and the

introduction of modern valuation techniques, the rolls are updated annually, fairness has improved, and compliance rates are increasing. As a result, the Assessing Department was presenting the Mayor with an unanticipated surplus of several million dollars.

Cadastre Modernization

Friday morning Dennis Robinson presented the group information on cadastre modernization. He described the different kinds of cadastres, the different types of information needed for each, and made a strong case that a fiscal cadastre was needed. He went over the types of information that should be included in such a cadastre and how that information could be developed quickly and cost effectively through the sharing of information among Ministries.

International Experience

The group was then joined by Joan Youngman to talk about her work in Central and Eastern Europe, the Baltics, and Russia. A number of international fellows visiting the Lincoln Institute also joined the discussion, including Dr. Hui from Hong Kong, Dr. Smolka from Latin America, and Steve Mayo, previously from the World Bank.

Workshop

Friday afternoon was devoted to the study tour participants to review what they had heard and seen and discuss the implications for their property tax reform legislation. After some summary comments by Jane Malme and Tony Levitas, the group was left alone to assimilate what they had learned and summarize their conclusions by writing their final report. This is a report by the participants themselves setting out what the current situation is in Poland, what their objectives for property tax reform are, and the implications for property tax reform in Poland of what they learned on the study tour. (See Appendix E)

III. RESULTS OF THE STUDY TOUR

A. Study Tour Objectives

The feedback obtained from the study tour participants before they returned to Poland, and the feedback obtained since their return, indicates that the study tour successfully addressed the main objectives of the participants. Specifically,

- Comparative information on property tax systems operating in other countries was obtained during meetings at NERA, the World Bank, and the Lincoln Institute of Land Policy.

- Alternative property tax systems in the U.S. were presented by Glen Lee and their field visits to Fairfax County and the City of Boston. Constant comparisons were made across different state property tax systems in valuation methods and timing,

forms of property tax relief, setting rates, protecting the integrity of the tax base, monitoring local government compliance with state laws, and other critical policy concerns.

- Field visits to the valuation offices in Fairfax County and the City of Boston provided first hand exposure to design and implementation of CAMA systems, database development and maintenance, the cost of setting up and operating such systems, appeals processes, and taxpayer services.

- Time was set aside at NERA, the World Bank, and the Lincoln Institute for the Poles to layout their policy concerns, discuss some of their proposals, and obtain feedback from experts with experience in the U.S. and other countries.

B. Study Tour Logistics

Logistically, I think the study tour went surprisingly smoothly. USAID did not give formal approval for the study tour until four days before the departure of the participants from Poland, and USAID had been very adamant that no work was to be started before final approval was granted. In spite of the time constraints this imposed, things came together very well. A very good team of people had been assembled and things quickly fell into place. Specifically,

- World Learning in Poland stepped in to handle all of the paperwork necessary for the Poles to travel – visas, etc.
- The Krakow Real Estate Institute fronted the funds for the tickets from Poland to the U.S. and return.
- ICMA's staff dealt expeditiously with all contracting issues – MEB Associates, Inc., translation, interpretation, etc.
- ICMA's staff took responsibility for all administrative issues not handled by the World Learning Center in Poland – within U.S. travel, tax forms, health forms, etc.
- Colleagues from NERA, World Bank, and Lincoln Institute worked collaboratively under extremely tight deadlines imposed by USAID to make necessary contacts and organize meetings and logistics in Washington D.C. and Boston.

This was really a team effort that involved a lot of different organizations in Poland and the U.S. that worked extremely well together under extraordinarily difficult circumstances.

My most important concern was the fact that funds for only one interpreter were included in the budget. Given the intensity of the meetings, the busy schedule because of the limited time available, the limited number of people that spoke English, and the long days, this put extraordinary pressure on the interpreter. While the interpreter performed above and

beyond all reasonable expectations, the next study tour should have funds for two interpreters.

A second issue is the manner in which the interpretation took place. Because we were dealing with concepts and ideas that were new to many of the Poles, simultaneous translation would not work. We used sequential translation that was time consuming. A hybrid type of translation that combined the speed of simultaneous translation with the flexibility to stop and explain concepts would be extremely useful.

C. Participant's Evaluation

At the initial orientation session on Sunday, September 27, the participants were assigned the task of writing a report summarizing what they learned on the study tour and its relevance to their task in Poland. That report is included in Appendix E and summarized here.

According to the participants, the U.S. experience identified some critical steps in the development of the structure for an optimal real property taxation system. Among them are:

- The necessity to maintain integrity, openness, and transparency of the system;
- The structure of the tax base should be defined in a uniform way and should be a function of the market value (fiscal value);
- This value should be updated in specific time periods (from 1 to 5 years);
- The equitability of the system should be ensured so that those taxpayers who own properties of similar value would pay similar taxes;
- The process of property assessment has to be free from any political pressure and discretion;
- The structure of the tax should be as simple as possible to ensure the maximum effectiveness of its collection;
- the tax system should have clear and accessible appeal procedures which allow taxpayers to question their assessments thereby ensuring the widest possible public acceptance; and
- The adopted tax relief and exemption system should not invalidate the structure of the system.

The participants concluded that in order to meet the above mentioned requirements it is necessary to create indispensable legal, organizational, and financial frameworks. According to the participants, one of the most important aspects of this issue is to have properly trained staff on all levels of system operation and management. In order to accomplish that it is necessary to develop and implement a staff education system. Another aspect of no lesser importance is to conduct public relations and education campaigns aimed at the decision-makers and the public at large.

D. Next Steps

A number of issues were discussed by the Poles. It was clear that they are anxious to move forward because property tax reform is a central part of their overall decentralization strategy. However, the changes being contemplated are extremely radical and they were constantly concerned about how to develop popular support for such reforms. A number of things must be done to fully reform the property tax in Poland – some are technical in nature and some are political, or strategic, in nature.

For example, according to the study tour participants, the opinion of all the U.S. experts (from NERA, the World Bank, Lincoln Institute, and local and state government), the optimum solution would be to start the process of creating a fiscal cadastre. Such a first step is critical to develop the information bases for valuing individual properties. The U.S. experts made the case that such a first step offers a relatively high return on investment compared with other components of such system. Much of the initial data might be obtained from Ministries that maintain the other cadastres, i.e. the legal and physical cadastres. Such basic data could provide the bases for initial valuations using CAMA models.

As a result of the study tour it became evident to the study tour participants that the premises of the real property tax reform system that are being developed in Poland correspond to several American and worldwide experiences and practices. Therefore, the Poles concluded that further collaboration with U.S. experts seems to be advisable and should be continued. In their view, an ideal approach to the implementation of the real property tax reform in Poland would be for the U.S. side to participate in all phases of implementation work. The starting point of such involvement would include organizing a series of meetings, seminars, and conferences to build the support of policy makers, elected officials, citizen groups, and others.

In addition, there was concern expressed that until such support is in place, a wholesale change in local property taxes would not be accepted. Therefore, the study tour participants explored the idea of phasing in the changes. For example, a pilot, or demonstration, program implementing such a system in a few large cities initially would be valuable. Such a pilot, or demonstration, project would build the expertise to implement such a system, provide useful information about the time and financial resources necessary to put such a system in place, illustrate what changes in the distribution of the tax burden might be expected, and provide experience with the new system. Such a demonstration or pilot study would be an important component of a long-term strategy of shifting from the current real property tax based on area and book value of improvements to a more equitable real property tax based on market value. There seemed to be strong support from U.S. experts for such a gradual phase in strategy.

APPENDIX A

WASHINGTON D.C. ITINERARY

(Polish Version Provided Under Separate Cover)

AD VALOREM PROPERTY TAX REFORM:
A U.S. STUDY TOUR
SEPTEMBER 26 – OCTOBER 4, 1998

SPONSORED BY
U.S. AGENCY FOR INTERNATIONAL DEVLOPMENT
INTERNATIONAL CITY/COUNTY MANAGERS ASSOCIATION

ITINERARY

Organized by
MEB Associates, Inc.
National Economic Research Associates (NERA)
Lincoln Institute of Land Policy

SATURDAY, SEPTEMBER 26

Group arrives at National Airport at 23.58 on DL 2011 from New York City and is transported to The Carlyle Suites, 1731 New Hampshire Avenue, NW.

SUNDAY, SEPTEMBER 27

10.00 to 12.30	Study Tour Orientation, Carlyle Suites
12.30 to	Free time in Washington D.C.

MONDAY, SEPTEMBER 28

08.30	Meet in Hotel lobby for transportation to NERA
09.00 to 10.00	Dr. Joe Eckert, Vice President, NERA "Globalization and Property Taxation: Valuation Techniques with a Focus on Computer-Assisted Mass Appraisal (CAMA)"
10.00 to 10.45	Jerry Grad, President, International Property Tax Institute "The Appeals Process"
10.45 to 11.00	Coffee Break

11.00 to 13.00	Renata Bilinska-Frenzen, Senior Land Revenue Management Specialist, NERA Tina Morton, Manager, Public Information and Training, Travis County Tax Office, Austin, Texas "Public Relations and Taxpayer Education: Domestic and International Experience"
13.00 to 14.00	Lunch Hosted by NERA
14.30 to 17.30	Field visit, John Yeatman, Director, Real Estate Division Fairfax County Department of Tax Administration
17.30	Return to the Carlyle Suites
18.30	Depart hotel for dinner at Michael Bell's home: 7005 Tilden Lane, Rockville, MD Telephone: 301.984.2161

TUESDAY, SEPTEMBER 29

9:00 AM	Meet in Hotel lobby for transportation to World Bank
09.30 to 12.00	Robert Ebel, Economic Development Institute, The World Bank "Cadastral System Development and Property Taxes"
12.30 to 13.30	Lunch
14.00 to 15.00	John Yeatman, Director, Real Estate Division, Fairfax County Department of Tax Administration Follow-up to field visit (at NERA)
15.00 to 17.00	"Property Tax Reform Policy Issues and Proposals in Poland: A Panel Discussion," Dr. Joe Eckert, Moderator

WEDNESDAY, SEPTEMBER 30

8:00 AM	Meet in Hotel lobby for transportation to World Bank
08.30 to 10.00	Meeting at World Bank with Margaret Thalwitz
10.30	Depart for National Airport, departing at 11.55 for Boston on DL 4315 arriving at Logan Airport at 13.45

APPENDIX B

CHARACTERISTICS OF AN OPTIMAL PROPERTY TAX SYSTEM

AND

AN OVERVIEW OF PROPERTY TAX PRACTICES IN THE U.S.

(Polish Version Provided Under Separate Cover)

Characteristics of
An Optimal Property Tax System

by

Dr. Michael E. Bell
MEB Associates, Inc.

and

Dr. John H. Bowman
MEB Associates, Inc.
Virginia Commonwealth University

Prepared for

Ad Valorem Property Tax Reforms:
A U.S. Study Tour

Sponsored by

United States Agency for International Development
International City/County Managers Association

Organized by

MEB Associates, Inc.

September 1998

CHARACTERISTICS OF AN OPTIMAL PROPERTY TAX SYSTEM

Dr. Michael E. Bell
Dr. John H. Bowman

The fundamental characteristics of a high-quality local property tax system are:

- Legitimacy of the tax
- Openness of the valuation process
- Technical proficiency of valuations
- Relief for those with the heaviest tax burden relative to income.

These fundamental characteristics of a property tax system can provide a framework for restructuring property taxes in Poland. In some instances, the various characteristics may pull in opposite directions, making tradeoffs between them necessary. These tradeoffs need to be made through an open and transparent political process at the local level.

Legitimacy

Acceptance of the property tax depends upon its legitimacy – the determination of tax liabilities for individual taxpayers according to explicit standards set forth in legislation. Individual taxpayers must feel that they, along with all others, are contributing their fair share to the general operation of local government. Therefore, the legitimacy of the property tax, and ultimately the legitimacy of local government, depend on the uniform determination of the tax base. We believe these conditions are met best when there is uniform valuation of all properties at 100 percent of market value.

UNIFORMITY

A uniform base is important in two contexts. First***, uniformity is important within each jurisdiction***. The values set for individual properties determine the distribution of responsibility for funding local government activities across taxpayers. If the property tax amounts are to be accepted as fair, individual property valuations must be at the same percentage of market value. This will ensure that the distribution of tax liability – i.e., the support of local government activities – is distributed across individual property owners in relation to their share of the total tax base.

Second, ***uniformity across jurisdictions also is important***, to the extent that the property base either is levied upon by larger governmental units or used for non-tax purposes. For example, the valuation base may be used as a factor in addressing disparities in intergovernmental fiscal capacity, or it could be used to regulate the amount of debt incurred by local governments. In all such cases, it is important that the comparisons be based on comparable information. If valuations per capita across cities are used as an allocation factor in intergovernmental or intrametropolitan equalization grants, it is important to ensure that low valuations per capita represent poor jurisdictions, not jurisdictions valuing property at a low percentage of market value.

PROPERTY TAX BASE: MARKET VALUE

An implication of the uniformity goal is that properties should be valued at 100 percent of market value. This has intuitive appeal, because the individual taxpayer generally has an idea of what the property could sell for. Full market-value assessment (or valuation) thus contributes to the transparency and acceptance of the tax. Further, research indicates that assessment at market value enhances attainment of uniformity in the outcome of the valuation process, in part because market value is a meaningful figure. Valuation at market level also is relatively easy to administer, because information on actual market transactions is available to the valuer. Finally, it facilitates comparisons of fiscal capacity across jurisdictions.

VALUATION CYCLE

Maintaining values at market level requires periodic revaluation or adjustment to reflect changes occurring in a dynamic market setting. Without timely adjustment, property valuations tend over time to fall relative to the market, and to fall at different rates, for market pressures differ across types of properties and areas. Therefore, timely revaluation is required – probably at least every three years, but in no case more than every five years.

EQUITY ACROSS TAXPAYERS

A property tax system must achieve equity across taxpayers if it is to command acceptance over time. Equity has three dimensions. First, there is equity across taxpayers in similar circumstances. In this case, taxpayers with properties of similar values should pay similar taxes (horizontal equity). Second, taxpayers with properties of different value should pay different tax amounts proportionate to the differences in the underlying market values (vertical equity). Third, if the tax base is used to levy taxes by a broader unit, or is used for non-tax purposes, such as allocating intergovernmental grants or limiting local borrowing, then valuations must be comparable across localities.

Reliance on 100 percent of market value as the base of the tax promotes the attainment of this objective. Annual assessment/sales ratio studies are necessary to determine the extent to which these equity objectives are met.

EFFICIENCY

Broadly speaking, efficiency implies the avoidance of waste. In taxation, there are two dimensions of efficiency. One concerns ***simplicity***, which may be thought of as making administration of and compliance with the tax as easy as possible; otherwise, excessive resources are devoted to making the tax function. This is promoted by broad coverage of the tax (including rural property and government-owned property) in a uniform manner – uniform as to both base (valuation) and rates.

Absent uniform treatment, multiple categories of property emerge which are treated differently. In such a system, taxpayers seek to be put into the more favorable categories or, failing that, to have new categories created that would result in more favorable treatment than afforded by existing ones. This means higher costs for both taxpayers and taxing authorities. The differentials of a non-uniform system also may make attractive, due to tax differences, choices that otherwise would have been relatively unattractive. This violates the principle of ***neutrality***, the other aspect of efficiency.

ENFORCEABILITY

Ultimately, the property tax must be enforceable. This requires that tax liabilities be determined in an unambiguous fashion, that bills be deliverable to the intended party, and that there be a mechanism for collecting the amounts determined. When payment is not made in a timely manner, there must be a means of assuring payment, which ultimately may include sale of the taxed property to satisfy the tax obligation.

Openness

To accomplish the legitimacy described above, the valuation process, and the outcomes of that process, must be transparent and accepted by all taxpayers. If a tax functions in a confusing or unclear manner, it is unlikely that the taxpayers will accept readily and unquestioningly their obligations under it. Thus, determination of both the tax base and the rates levied upon it need to be understood by the taxpayers.

Valuing the entire property at 100 percent of market value furthers the objective of making the determination of the tax base understandable to the taxpayer. Annual monitoring of the outcome of the valuation process demonstrates the extent to which uniformity of market value has been attained. Finally, all taxpayers must have the right to challenge their individual valuations.

MONITORING

It is important to assure that property valuation standards are met. The valuation task is complex, and it cannot be assumed that uniformity at market value always is the end result, even though that is required. Thus, a system for monitoring valuation outcomes is needed. Systematic, frequent ***assessment-sales ratio studies*** are the mechanism for this. Such studies

provide measures of central tendency, which indicate whether values are, on average, at market value. The ratios for individual properties also can be used to generate measures of the uniformity of values both across properties of the same value (horizontal equity) and across properties of different value (vertical equity). Such information is important for promoting public understanding and acceptance of property values. It also helps valuers in their efforts to comply with valuation objectives, by indicating where valuation outcomes fall short of the standards. Such monitoring activities should be carried out at the voivoidship level, on an annual basis.

SIMPLE AND TRANSPARENT APPEALS PROCESS

Valuation is as much art as it is science. The task of the valuer is probably the most difficult task in tax administration. As a result, the valuation of an individual property may not accurately represent market value – especially in the eyes of the taxpayer. Therefore, it is essential that a high-quality tax system include a simple and expedient appeals process that provides opportunities to the taxpayer to address errors. Such a process would include an initial appeal to the municipal valuation office, and if needed, a second level of appeal to a valuation board, and ultimately to the courts.

Technical Proficiency

This characteristic of the valuation process boils down to professionalizing the valuation system by providing appropriate administrative structure, employing valuers who are trained and technically competent, and providing them with the tools needed to perform well.

ADMINISTRATIVE STRUCTURE

The primary issue here is which level of government should be responsible for the valuation process. The argument often is made that the valuation function should be centralized to achieve economies in employing specialized staff. There is no empirical evidence to support this assertion. In fact, available empirical evidence indicates that local valuations can be at least as accurate as valuations made by a government of broader jurisdiction, in part because the ability to contract for valuation services makes specialized resources available on a part-time basis. Valuations should be done at the lowest tier of government possible, but, in any event, the valuation function should be insulated from political interference.

STAFFING

Evidence about staffing patterns and their impact on the uniformity of valuations is mixed. However, it is generally agreed that valuation outcomes are improved when valuers are full-time, rather than part-time; and when valuers have targeted, professional training and certification. Outside valuers under contract often can provide more uniform valuations than those in local valuation offices.

VALUATION TOOLS

Clear empirical support exists for the proposition that the availability of proper valuation tools is necessary to achieve the desired degree of uniformity. More uniform valuations are associated with the use of tax maps, systematic tracking of building permits to monitor property changes, use of standard appraisal manuals, and computer-assisted mass appraisal techniques (CAMA).

Relief from Extraordinary Tax Burdens

Governments must provide explicit relief from onerous property tax liabilities for those in need of relief, basically to recognize the cash-flow problem that can result from an annual tax on accumulated wealth that must be paid out of current income. The logic is that such explicit relief will take pressure off of valuers to provide *ad hoc* relief and, thus, free them to perform the valuation task better. It is related to the openness characteristic, making clear that responsibility for tax relief rests not with the valuer, but with political decision makers.

Redistribution through property taxation may be pursued at two very different levels, and with somewhat different objectives. One level is between individual taxpayers, and the other is between jurisdictions.

REDISTRIBUTION AMONG INDIVIDUALS

Property taxation is a levy on accumulated wealth. Ultimately, however, it is paid out of current income. Thus, the property tax may cause a cash-flow imbalance. Moreover, for taxpayers with very low incomes, the amount of property tax may impose a truly onerous burden. In such instances, well-designed relief measures can make the tax more appropriate. Any relief, however, implies redistribution of tax burdens and, to some extent, departure from the fundamental principles of property taxation as a tax on asset value. For this reason, relief mechanisms should be designed with care and relief should be limited to those most in need.

A number of approaches are available to mitigate these problems. Exemptions of part or all of the base of the tax for certain properties based on the use of the property are typical. This approach, however, imposes higher property tax liabilities on the property valuations left in the base. Also, such exemptions are not targeted on those most in need. Such exemptions, as a general rule, should be avoided in favor of more targeted relief mechanisms. Since property tax relief is, in essence, a scarce commodity, it should be targeted on those most in need.

One targeted relief mechanism is a rebate, or credit, which provides greater relief to low-valued properties. For example, the property tax liability could be determined for the median-value property in a taxing unit, and a political decision could then be made to provide

a rebate, or credit, for some portion of that tax liability, e.g., 25 percent of the tax liability. Then a rebate, or credit, equal to that fixed amount of Zloty could be provided to each taxpayer. The Zloty amount would be a larger proportion of the tax liability on a low-value property and a very small proportion of the tax liability on a high-value property. The drawback is that some relief is provided to all taxpayers, regardless of their need.

Alternatively, relief may be targeted on those facing the most onerous property tax burden relative to their ability to pay out of current income. Such a circuit breaker approach would provide relief that declined as income increased, and the relief would phase out at some level of income. The primary problem with this approach may be a lack of accurate data on family income, which would be the measure used to determine eligibility for the relief.

REDISTRIBUTION AMONG LOCALITIES

Often, political boundaries do not correspond well to the boundaries of what may be called economic areas. In such cases, flows of economic activity proceed across political boundaries. Thus, people may live in one locality, work in another, and shop in yet another. Some areas may be primarily residential in character, others may contain concentrations of retail shops or industrial activities. One result of such differences tends to be intergovernmental disparities in tax capacity, both in absolute and per capita terms. Moreover, the effect may increase over time. Localities with more property wealth per capita can provide a relatively high level of services at a relatively lower rate, and the lower rate in turn tends to enable them to attract more businesses and residents, thus increasing the disparities.

Two approaches to mitigating these problems are tax-base sharing and a two-tier local property tax. Under tax-base sharing, some percentage of property value is placed in a pool at the level of the metropolitan area where it is taxed at the average rate for the metropolitan area. This common tax pool is then shared back to each sub-metropolitan jurisdiction in an equalizing manner. Thus, wherever new value is created within the broader area, it is to some extent taxable by all localities within that area. There are two parts to the reasoning behind such an approach. One proposition is that economic activity – perhaps especially business investment – affects a broader area than the individual municipality within which it is located. All localities within the broader area may benefit from new employment or shopping opportunities, for example, and they all may bear part of any congestion or pollution costs. Thus, all are able to tax, to some extent, the property value of the whole area. Second, competition among localities within a metropolitan area for the location of business activity often tends to harm the localities. Base sharing reduces the tax-rate differences resulting in location decisions that are based on economic, not tax, considerations.

Much the same reasoning applies to the two-tier local tax approach. Under this approach, business (non-residential or non-domestic) property would be taxed at a uniform rate throughout the metropolitan area, and the sub-metropolitan jurisdictions would levy their property tax upon the residential (domestic) base only. This approach eliminates local tax

rates as a factor in business location within the metropolitan area, for a single rate applies throughout the area. It also reduces disparities in tax capacity among sub-metropolitan jurisdictions, and leaves local residents taxing only themselves when they opt to raise more tax revenue to provide higher services.

A more common way of dealing with disparities in tax capacity is through intergovernmental grants from levels of government with broader jurisdiction. Either base sharing or the two-tier local tax, however, would reduce the disparities to be treated by national governments. Moreover, it is important to recognize that when local governments are given exclusive authority to tax the business property values within their borders, they are, in effect, given a form of intergovernmental aid. The taxes imposed on most business property will fall on persons who are not resident in the taxing unit, and who are not party to the taxing decision. The incidence of the tax may rest with one or more of three groups – owners (shareholders, in the case of corporations), customers, and resources suppliers, such as workers. For many businesses, each of these groups is to a large extent not resident within the locality where the taxed property is located. Thus, exclusive authority to tax such property within that narrow territory is authority to impose a tax on non-residents, which is a form of intergovernmental aid.

ACCOUNTABILITY: NATIONAL, PROVINCIAL, AND LOCAL ROLES

An important part of an optimal, or high-quality, property tax system is establishing clear "rules of the game" so that taxpayers will know what to expect, and each local policy maker and official will know their responsibilities and the range for local choice in property tax matters.

General standards that apply throughout the country should be set by the national government. The general aim is to provide a framework within which voivoidships or poviats are free to make choices on matters that have little effect beyond their borders. National requirements or guidelines should include the following:

- Stipulate that valuation be at 100 percent of market value, because that is the most meaningful, or transparent, possible measure of value.

- Require that the whole property – both site and improvements – be valued, regardless of what portion of the property value may ultimately be taxed, again because this is the most meaningful point of departure. Also, if property values are used for tax or non-tax purposes across municipal borders, it will be important to have a common measure of value.

- Define the framework for an appeals process, to assure that it is simple, expedient, and open to all.

- Require that properties be revalued at least every three to five years.

- Require that the outcome of the valuation process be monitored, as through an assessment-sales ratio study, to determine the extent to which the legal standards actually are met. Responsibility for such studies probably should be at the voivoidship level. The studies would improve transparency for taxpayers, enable valuers to determine where improved values are most needed, and provide national government information that could be used in equalizing across localities.

- Set professional standards for valuers to assure professional competence and performance, as is done under existing legislation.

FINANCING GOVERNMENT IN THE U.S.

THE ROLE OF PROPERTY TAXES

(Polish Version Provided Under Separate Cover)

TABLE 1 FINANCING GOVERNMENT IN THE U.S., 1992 (BILLIONS)			
	FEDERAL	STATE/LOCAL	LOCAL
GENERAL REVENUE	$854.8	$979.1	$579.1
INTERGOVERNMENTAL	3.4	179.2	218.0
FROM FEDERAL	--	179.2	20.1
FROM STATE	3.4	--	197.9
FROM LOCAL	--	--	--
OWN-SOURCE REV	851.4	799.9	361.1
TAXES	659.0	559.9	228.7
PROPERTY	--	180.3	173.0
GENERAL SALES	--	132.0	23.3
INDIVIDUAL INC	476.5	115.6	10.6
CURRENT CHARGES	89.5	138.3	132.4
PREPARED BY MEB ASSOCIATES, INC.			

EXHIBIT: LOCAL SHARE	
GENERAL REVENUES 31.6 %	
OWN-SOURCE REVENUE 21.9	
TAXES	18.8
PROPERTY	96.0
GENERAL SALES	17.7
INDIVIDUAL INCOME	1.8
CURRENT CHARGES	58.1
PREPARED BY MEB ASSOCIATES, INC.	

TABLE 2
FINANCING LOCAL GOVERNMENTS, 1992
(BILLIONS)

	GEN REV	INTRGOV	OWN REV	TAXES	PROP TAX	CHARGES
ALL LOCAL	$579.1	$218.0	$361.1	$228.7	$173.0	$85.4
COUNTIES	148.4	55.3	93.1	55.5	41.2	24.2
MUNICIPALITIES	175.1	49.5	125.6	76.4	40.4	30.1
TOWNSHIPS	20.6	5.0	15.6	12.4	11.5	1.8
SCHOOL DIST	198.3	107.2	91.2	76.3	74.3	8.3
SPECIAL DIST	50.4	14.8	35.6	8.1	5.4	20.9

PREPARED BY MEB ASSOCIATES, INC.

TABLE 3
SHARE OF LOCAL REVENUES BY TYPE OF GOVERNMENT, 1992
(PERCENT)

	GEN REV	INTRGOV	OWN REV	TAXES	PROP TAX	CHARGES
ALL LOCAL	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %
COUNTIES	25.6	25.4	25.8	24.3	23.8	28.3
MUNICIPALITIES	30.2	22.7	34.8	33.4	23.4	35.2
TOWNSHIPS	3.6	2.3	4.3	5.4	6.6	2.1
SCHOOL DIST	34.2	49.2	25.3	33.4	42.9	9.7
SPECIAL DIST	8.7	6.8	9.9	3.5	3.1	24.5

PREPARED BY MEB ASSOCIATES, INC.

TABLE 4
LOCAL GOVERNMENT FINANCE BY TYPE OF REVENUE, 1992
(PERCENT)

	GEN REV	INTRGOV	OWN REV	TAXES	PROP TAX	CHARGES
ALL LOCAL	100.0 %	37.6 %	62.4 %	39.5 %	29.9 %	14.7 %
COUNTIES	100.0 %	37.3 %	62.7 %	37.4 %	27.8 %	16.3 %
MUNICIPALITIES	100.0 %	28.3 %	71.7 %	43.6 %	23.1 %	17.2 %
TOWNSHIPS	100.0 %	24.3 %	75.7 %	60.2 %	55.8 %	8.7 %
SCHOOL DIST	100.0 %	54.1 %	46.0 %	38.5 %	37.5 %	4.2 %
SPECIAL DIST	100.0 %	29.4 %	70.6 %	16.1 %	10.7 %	41.5 %

PREPARED BY MEB ASSOCIATES, INC.

TABLE 5 PROPERTY TAX USE BY TYPE OF GOVERNMENT, 1992				
TYPE OF GOVERNMENT	TAX AMOUNT (BILLIONS)	PERCENT DISTRIBUTION	PROPERTY TAXES AS A % OF TOTAL TAXES	OWN REVENUE
ALL LOCAL GOVT	$173.0	100.0	75.6	47.9
COUNTIES	41.2	23.8	74.4	44.3
MUNICIPALITIES	40.4	23.4	52.9	32.2
TOWNSHIPS	11.5	6.6	93.0	73.9
SCHOOL DISTRICTS	74.3	42.9	97.4	81.6
SPECIAL DISTRICTS	5.4	3.1	66.8	15.2
PREPARED BY MEB ASSOCIATES, INC.				

APPENDIX C

PROPERTY TAX LIMITATIONS IN CALIFORNIA, OREGON, AND WASHINGTON

BY

GLEN LEE
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APPENDIX D

BOSTON ITINERARY

APPENDIX E

STUDY TOUR PARTICIPANT'S FINAL REPORT