

ANNEX 5 - Model Criteria for Property Tax Systems

- **Adequate revenue yield:** The various types of local property tax are merely different mechanisms for sharing, among local residents, a proportion of the cost of providing local services. However, if yields are to be sufficient to ensure real political autonomy and meet future demands placed upon it, the tax base needs to be sufficiently robust (evidence based so that it can withstand challenge), broad based (reliefs kept to a minimum), up to date and discriminating (progressive) to both command widespread support and be credible.
- **Equity of distribution:** Those in the same circumstances within the same district/jurisdiction should be equally taxed. Those receiving benefit from public expenditure should contribute through taxation according to their ability to pay.
- **Minimum interference in markets:** Taxes can influence how taxpayers behave. Ideally, according to market theory, taxes should be neutral i.e. they should not distort how taxpayers behave. When taxes are neutral, market-pricing mechanisms produce the most efficient allocation of resources.
- **Stability and certainty:** The local taxation base needs to be predictable in order to underpin the provision of public services. Furthermore, from an individual taxpayer/ratepayer's perspective, this is an important factor in budgeting. Stability and certainty are key considerations both in the choice of system and in its subsequent maintenance (e.g. regularity of general revaluations).
- **Should support/not interfere with policy objectives:** The tax structure should not threaten overall fiscal targets and its impact on benefit and rebate expenditure should be taken into account.
- **Non-arbitrary administration:** This relates to the objectivity and consistency of assessment and that actual property transactions provide the necessary evidence for ensuring that a value-based system is established and maintained in a non-arbitrary manner.
- **Transparent and easily understood by taxpayer:** The local property tax should seek to encourage and strengthen local democracy requiring it to be easily understood and responsive to the demands of taxpayers. Ratepayers/taxpayers need to be able to understand their assessments and associated bills.
- **Low administration and compliance costs:** A tax on immovable property is relatively easy to administer once the property and payee databases have been established. If allowances, reliefs and exemptions are complicated these

significantly increase the costs of administration.¹ Furthermore, who is taxed (the owner, occupier, individual) has a direct bearing on cost. Compliance costs (on the taxpayer) tend to be low for property taxes generally but, again, it depends on the relief provisions.

- **Difficult to evade:** The current rating system is difficult to evade, with collection rates around 95%.

¹ Internationally, assessment and collection costs are in the region of 2 to 5%. The current rates system in Northern Ireland costs around 3%.