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### Valuation Banding – An International Property Tax Solution?

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#### **ABSTRACT**

Since 1993 Britain has used a 'banded' property tax as opposed to discrete values for the assessment of residential property. The expressed views of the British Government on its operational worth as a means of assessing and administering a residential property tax are examined and the possibilities of reviewing and revaluating the tax base are explored. In summary, the purpose of this paper is to present findings on the operation of this unique system highlighting strengths and weaknesses and its viability/applicability in other countries and jurisdictions.

Since the initiatory research work was completed the research team has been afforded access to domestic property survey data in England as part of a new pilot project it is conducting in conjunction with the Inland Revenue Valuation Office Agency (IRVOA). This body is charged by the UK Government with the responsibility of valuing (*inter alia*) all real property for local and central taxation purposes. The additional data thus provided affords the opportunity for a larger geographical area of study and the paper will present these analytical findings.

The paper concludes by drawing together recommendations in relation to how the system can be improved; does it represent a fair and equitable alternative approach to discrete value based systems? This part of the paper will examine the potential for such a system in other jurisdictions particularly where resources are limited in terms of experienced appraisers, availability of technology and tradition of applying ad valorem taxation. In addition, there is the opportunity to take advantage of the available technology of mass appraisal. For domestic property taxation this could entail a discrete valuation process, easily subsumable into banded allocations as and if required under the extant banded property tax system, with the added opportunity of frequent updating at minimised cost and effort.

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## **PART I: BANDING IN BRITAIN**

### **Banding of Assessed Values**

Banding was introduced into Britain (Northern Ireland was excluded from these reforms) following the failure of the highly unpopular Community Charge (or Poll Tax). The social unrest and developing culture of non-payment with which the Community Charge was greeted by the British public forced the then Conservative Government to devise a “fairer” system of financing local authority expenditure, as rapidly as possible. With the British 400 year old tradition of paying for local authorities’ services with a local tax based on annual value, some kind of property capital value-based tax was perceived as socially acceptable. However, there was no time to implement a true *ad valorem* property tax system.

In November 1990, investigations were begun to find a replacement for the Community Charge (or Poll Tax). In April 1991, the details of the Council Tax were announced to the British Parliament and in April 1993, the Council Tax was first levied on domestic occupiers and owners in Britain.

The American Heritage Dictionary (1995) defines banding in general terms as “*to join so as to form a larger or more comprehensive group*”

The New Oxford Dictionary (1998) defines banding more specifically as “*the division of something into a series of ranges or categories (used especially in financial contexts)*” and gives as a fiscal example: “*the earnings-related banding of contributions*”.

There are two other examples that can be drawn, with particular reference to property appraisal practice in the UK. We are, of course, immediately concerned with the banding of capital values of domestic properties for Council Tax purposes (which is described in more detail below) but the advisory RICS Red Book (1995) for UK valuers does take on board another recommended practice of banding in a quite different sphere as described in its Guidance Note 5.4.2

*“It is frequently difficult, if not impossible, to put a precise life on a building or group of buildings and Valuers may, therefore have to resort to ‘banding’ of lives. Information should be available to identify buildings which are unlikely to remain beyond, say, 20 years, and at the other extreme buildings with a life of more than, say, 50 years should be noted as having a life of ‘not less than 50 years’. It is apparent that the Valuer’s task is made easier by the use of broad bands and in the majority of cases it is likely these will meet the company’s requirements.”*

But to return to the main thrust of this Paper, which concerns the use of banding as an assessment and administration process in the realms of real property taxation, in the experience of the authors there is no other recorded system of using banded values for property taxation purposes anywhere else in the world. The first introduction in Britain in 1993 of banding as an integral part of real property taxation in the form of a new Council Tax on residential property (thus replacing the ill-fated Community Charge or Poll Tax as it was more infamously known) is now considered briefly.

### **Basis of Assessment**

The basis of valuation is capital value, subject to certain assumptions, but basically it is the amount which the dwelling in question might reasonably have been expected to realise if it had been sold in the open market by a willing vendor on the 1<sup>st</sup> April 1991.

### **Application of Banding**

Strictly speaking, dwellings were not “valued” for the purposes of the Council Tax. Instead, all dwellings which are liable to Council Tax were placed by appraisers into one of eight value bands. The bands which have not been altered since the tax was introduced (s.5 (2) LGFA 1992), are illustrated in **Appendix I** (Bands for England, Scotland and Wales). The value bands were constructed around the average property values in the respective countries, and therefore, reflect the relatively low value of residential properties in Wales compared with England and Scotland.

Initially, it was proposed that bands should be regularly reviewed, to take into account changes in house prices, and it was proposed that the Department of the Environment (now the Department of Environment, Transport and the Regions (DETR)) would reserve the power to order an area revaluation in cases where there had been significant differential movement in the values of different kinds of dwellings.

However, there is no indication (April 2001) that there is any political will to introduce a revaluation or even a review of bands. The values are now ten years out of date and the residential property market in Britain continues to be volatile, with recent press reports indicating significant increases in capital values in dwellings in certain parts of the country.

Only a complete revaluation will reflect the shift in residential prices over the past nine years between the different regions of the country and between the variations in prices of the different kinds of dwellings taxed. Evidence of the urgent need for such a revaluation based on a sample of sales of dwellings in South East Wales is presented later in this Paper.

### **Advantages of Banding**

It is pertinent now to consider the theory underpinning the adoption of banding as compared to the alternative of assessing discrete figures for each property. Because of the British public’s reaction to the Community Charge (Poll Tax) the government was under pressure to find a socially acceptable replacement as a matter of urgency. A banded system was a unique solution and, as such, was subjected to minimal scrutiny. Its advantages were perceived as follows:

- ?? it is a quicker process, when timing is important, as with the required rapid imposition of the Council Tax (HMSO, 1991; Lawson, 1991);
- ?? it is a cheaper process, when costing is important, which was clearly a determining factor in the selected operation of the Council Tax as a solution to domestic property tax problems (HMSO, 1991);
- ?? it makes the valuer’s task easier (refer also GN 5.4.2 above);
- ?? it is a robust system that was expected to be capable of containing value movements within its broad framework and therefore extending the useful life of the initial Council Tax bands;

- ?? the volume of appeal challenges from Council Taxpayers was reduced because banding affords a less precise area of valuation dispute; and
- ?? it allows for a process of competitive tendering by using the expertise of the private sector.

Despite the government's large programme of reform, it continues to recognise the advantages of banding property values for tax purposes:

*The strength of a property based tax rests on the robustness of the valuation of property on which it is levied. Council tax was designed to avoid the problems of the earlier rates system by placing properties into wide valuation bands. The banding system means that there have to be major changes in relative property prices before significant numbers of households are being unfairly treated. This makes it possible to extend the period between expensive and potentially disruptive revaluations, particularly as the cost of a revaluation is over £100 million. (DETR, 1998)*

However, there is the general difficulty, common with most banding exercises, of accurate band allocation when dealing with any subject items that are 'on the cusp' between bands. But, pragmatically, one could make a reasonable assumption that, in Council Tax banding, the benefit of any doubt should be given by the valuer/appraiser to the taxpayer in terms of allocating to the lower rather than the higher band.

Incidentally, a similar practical stance is also taken by the UK's Inland Revenue in dealing with income tax matters, where the taxpayer is given the benefit of rounding down sourced income items and rounding up tax credits.

The Council Tax has largely been accepted as a residential tax by the British public and its government and is expected to endure for an extensive period. Criticisms from informed commentators, however, concentrate on the implementation of the tax and centre on the details of the structure of the Council Tax. The general consensus of opinion is that the initial allocations for banding now have reached a questionable "sell by date" and the arguments for an *ad valorem* revaluation or at least a rebanding are looming large.

But what that form of revaluation or rebanding should take is still moot and we argue later in this Paper that it is time to take advantage of the available modern technology of mass appraisal that is well established in other parts of the world. This could entail a discrete valuation process, easily subsumable into a wider range of band allocations, with the added opportunity of frequent updating at minimised cost and effort. Vertical equity also demands a greater link between relative banded values and the level of tax imposed on those bands in order to reduce the currently high level of regressivity.

## **PART II: EVIDENCE OF ISSUES AND PROBLEMS**

This part of the paper describes some of the analytical findings of the ongoing research as to the efficacy of the operation of the Council Tax system in Britain since 1993.

### **Empirical Evidence for the Need for Revaluations**

The British Government made no provision within the original legislation for regular revaluations or rebanding of the tax base. It had been anticipated that banding would obviate the need for regular and frequent revaluations, because of the assumption that properties would move between bands. What was ignored was that within the long established and highly volatile British housing market, property types in different locations do not increase or decrease in value at the same rate or at the same time. Factors, which influence the capital values of property, are more complex and it can be argued that each property type in each location has its own factors that influence capital values.

### **Analysis of Data**

We set out below summaries from our data analyses that demonstrate how the original banding exercise (geared to 1991 capital values) has drifted “off- target” over the past ten years in term of assessment accuracy.

#### **Welsh Data Table (sales 1997-1998):**

<b>No. of Properties sold within Band</b>	<b>396</b>	<b>55.1%</b>
<b>No. of Properties sold below Band</b>	<b>180</b>	<b>25.0%</b>
<b>No. of Properties sold above Band</b>	<b>143</b>	<b>19.9%</b>
<b>Total</b>	<b>720</b>	<b>100.0%</b>

[A more detailed analysis of this Table is presented in **Appendix II**]

The authors have previously reported (Plimmer, 2000) (Plimmer et al, 2000) with a detailed analysis of a sample of 720 Welsh data transactions between 1997-1998, where only 55% of properties were sold at prices that fall within their allocated Council Tax bands. Of the balance of some 45% of the properties, these were sold at prices that indicated a different Council Tax band.

#### **English Data Table (sales 1999-2000):**

<b>No. of Properties sold within Band</b>	<b>919</b>	<b>50.6%</b>
<b>No. of Properties sold below Band</b>	<b>86</b>	<b>4.7%</b>
<b>No. of Properties sold above Band</b>	<b>811</b>	<b>44.7%</b>
<b>Total</b>	<b>1816</b>	<b>100.0%</b>

[A more detailed analysis of this Table is presented in **Appendix II**]

More recently the authors were afforded access to data from the Valuation Office Agency (VOA) comprising 1,816 transactions over a period from March 1999 to February 2000 from a billing authority area in England. Consequent upon a similar form of analysis it was found that only some 51% of properties were sold at prices that fall within their allocated Council Tax bands. Of the balance of some 49% of the properties, these were sold at prices that indicated a different Council Tax band

The English data set has been analysed on a band-by-band basis to establish the distribution of properties whose sale prices fall above, within and below the value bands. Similarly, analysis has considered the extent to which the entire data set could be rebanded and the resulting shift of properties between bands. This pattern of analysis mirrors earlier analysis of Welsh data and provides additional evidence on which to support both the nature of that data set and those earlier conclusions. It also provides limited evidence of the number and range of

transactions in a billing authority area over a twelve month period of time, which would indicate the nature of the market evidence the VOA would have available on which to base any rebanding of domestic property.

### **Conclusion from these Analyses**

As with the earlier Welsh analysis, this later English analysis demonstrates evidence to support a rebanding of residential properties. It is clear that, as time progresses, the accuracy of the bands (currently only 55% and 51% respectively from the two data sets) is likely to become further reduced. Furthermore, a revaluation and rebanding of the Britain's entire residential property base is likely to take at least two years to take effect. In the interests of equity and fairness, serious consideration should now be given to such an exercise.

Overall we would argue that it is not possible to retain a fair and equitable residential property tax based on the banded value of properties without the benefit of regular and frequent rebanding and revaluations. Ten years is clearly too long in the UK's volatile property market to anticipate that property values will either remain stable within bands or shift in a relatively uniform fashion between tax bands.

In summary, the analysis of these data sets does arguably support the conclusion that the current valuation lists no longer provide a basis for a fair and equitable residential property tax in Britain.

### **PART III: POTENTIAL APPLICATION IN OTHER COUNTRIES AND JURISDICTIONS**

In the experience of the authors, the banded residential property tax as used in Britain is unique within the field of *ad valorem* property tax systems. This part of the Paper considers the strengths of such a system and highlights its potential for greater international use, particularly for developing countries.

Within a banded system, it is not necessary to specifically value each property but rather to assess in which value band the property should be placed. Inherent within this methodology are the arguments for and against the need to have an exact, discrete estimate of values given the fact that valuation is not an exact science (DETR, 2000).

One of the founding principles of any tax, including the property tax, is the perception, and indeed, the reality of 'fairness'. The question, which needs to be considered, is 'fairness' directly correlated with having discrete values on each and every property? 'Fairness' has never been defined in a land taxation context; for example, one of the stated principles on which the UK government devised the Council Tax was 'fairness'. This concept was undefined in the discussion document and in the subsequent legislation (HMSO, 1991). Indeed, it is likely that 'fairness' in taxation is a concept related to the historical, cultural and social background of the taxpayer. Nevertheless, it is generally accepted that 'fairness' related to the degree to which the principles of horizontal and vertical equity are achieved by the taxation system.

In the ideal world, it would be preferable to have current and up-to-date values on each taxable property, but we do not live in the ideal world. The compromise is that with discrete value systems, costs of revaluation tend to result irregular and infrequent general

revaluations. Therefore within discrete systems the principle of fairness is compromised. Would a banded system fare any better?

Clearly, all properties within a value band pay the same amount of property tax and will continue doing so until some overt act requires a reassessment of a property's value or where all properties are reassessed at a revaluation. Ignoring any change in assessed value due to physical changes in the property, there is a greater built-in 'comfort zone' whereby value increases occasioned by market movements do not radically affect the banding of the property over a relatively long period of time. This is unlike the discrete system where any change in value will or should result in a revised tax liability. In addition, small structural changes within the banded system would not normally result in such a significant value shift as to move the property into a higher tax band, again, unlike the discrete system.

Clearly there must be some distinct advantages over a discrete system if a banded system is to be chosen. The following Table provides the authors' perceptions of a fairly robust comparison between a banded valuation system and one based on discrete values. The scaling range adopted is between 1 and 5 with 1 representing poor and 5 very good.

### Comparison between banded and discrete value systems

Criteria	Banded	Discrete
Simplicity	5	3
Valuation costs	5	2
Comprehensibility	5	4
Practicability	4/5	2/3
Administration	4	4
Transparent	4	4
Fairness	3/4	4/5
Progressive	4	4
Stability of revenue	4/5	4/5
Buoyancy	4	5

A banded approach, properly constructed could well have potential application not only in developed countries, but more so, in developing countries and those 'transitional' countries of Central and Eastern Europe. Within this latter group of countries, the legacy of Communism and socialist polices has created an environment where the majority of real property was held by the state. These transitional countries, so called because of their move towards democracy and away from the previous centrally planned economies, are seeking to promote aspects of fiscal decentralisation (Paugam, 1999).

A number of countries including Poland, Czech Republic, Hungary, Bulgaria and Romania have a form of property tax based on the floor area of the building (McCluskey et al, 1998). Due to the relatively under-developed property market, many transitional countries initially opted for property tax systems based on a per square metre basis (Eckert and Kelly, 1991). Such area-based tax systems were introduced as a recognition of the need to tax real property within local authority areas as a means to raise finance to meet infrastructural and other locally-based expenditures. There may be an opportunity to refine such systems to reflect an *ad valorem* property value once the property market develops to the stage where such a tax base can be sustained. Nevertheless, these systems are practicable and socially-acceptable and, for as long as these systems remain so, there may be little incentive/political will to

change them. There are clear problems associated with area-based taxes related to ability to pay, fairness and tax buoyancy. In an effort to improve equity and to take advantage of the rapidly developing property markets, many transitional countries have implemented fiscal reforms, which include the utilisation of *ad valorem* systems.

The introduction of *ad valorem*-based local property taxes is recognised as an important and essential development to create fiscal autonomy for local government. There is now a growing trend in transitional economies towards the introduction of *ad valorem*-based property taxes. Estonia has been in the process of implementing such a tax since 1993; Lithuania is engaged in a reform process regarding both market valuation methodology for the existing land tax and extending the tax to include buildings (IMF, 1998a); Latvia is also finalising its property tax reforms (IMF, 1998b); Romania formally adopted a market value-based property tax in 1997, but assessed values bear little relationship to market values; Poland, Czech Republic, Hungary, Slovenia and Armenia are all at various stages within a property tax reform process (OECD, 1996; Balas and Kovacs, 1999; USAID, 1997; and Eckert and Kelly, 1991). Land and property markets within these countries are beginning to mature and benefit from the processes of privatisation and the influx of external funds into real estate.

Notwithstanding the ongoing development of property markets, it must be recognised that the real estate markets in most of the countries of Central and Eastern Europe are highly imperfect. They are characterised by the lack of quality data on transactions, high transfer costs result in under-declared values, absence of suitably qualified appraisers and a limited administrative structure.

What are the appraisal options for a value-based property tax? At the one extreme, there is a simple system of self-appraisal, and at the other, a highly complex mass appraisal approach. Self-appraisal would tend to have fairly low 'appraisal' costs and generally lower levels of appeal; however, it would lead to significant inequities, verification of values would be costly given the natural tendency to under-estimate values and the tax base would be unstable, leading to a lack of buoyancy in revenue and possible high rates of non-compliance. The mass appraisal approach has the advantages of objectivity, economies of scale and the ability to update values easily; disadvantages include high initial costs of introduction, data intensive, lack of transparency and need for suitably qualified staff and technology. Within these two extremes are three other possible approaches: firstly, the use of expert appraisers to manually derive discrete values; secondly, the use of value zones defined by floor area, location or land use; and thirdly the use of value bands.

The successful shift to implementing *ad valorem* systems must recognise the need to adopt policies, practices and procedures which are appropriate to the administrative capacity of the tax department. Simplification of policy and administrative procedures will facilitate both tax administration and compliance. Countries face a number of operational difficulties in the administration of the property tax. There is often the lack of accurate base maps, property ownership information, lack of property details, absence of supporting institutional structures capable of providing supporting data and managing information and finally the absence of a legal framework to justify the imposition of land-based municipal taxation.

Given the constraints on the availability of sales data, it could be argued that mass appraisal techniques could prove to be unsatisfactory in terms of achieving assessment uniformity. The techniques used are data intensive and require various assumptions to be satisfied with regard to the data being used, otherwise the results can be unstable. Such systems have expensive set-up costs and require considerable training in their use. The deriving of discrete values on



a manual basis using appraisers also has a number of constraints such as labour costs, length of time to value all properties and the availability of professionally qualified personnel. A feasible alternative is the banding of property-assessed values, which could utilise some of the capabilities of a mass appraisal approach and the market expertise of private sector appraisers. As Kelly (1994) suggests in relation to valuation systems, they should ideally be chosen on the grounds of simplicity, transparency and explainability to the taxpayer.

The application of value bands is by definition a robust approach to value assessment. It has a number of important operational advantages to developing and transitional countries that are either seeking to improve an already existing property tax system that may have fallen into 'disrepair'. Alternatively, there may be a wish to introduce a new *ad valorem*-based property tax without the complexity of valuation attached to a discrete value system.

### *Real Estate Transaction Data*

With every *ad valorem* property tax system there is an underlying requirement of having 'sufficient' transaction data. The optimal situation would be to have representative samples of transactions/sales of all property types in all locations. However, the reality is that this optimal situation is rarely satisfied and even less so in developing and transitional countries where active and stable open property markets are extremely thin or non-existent. There is often a scarcity of real estate sales due to markets not being fully developed or being directly related to tenure, property rights or customary/tribal restrictions. In addition, there are the empirical problems associated in attempting to quantify market value of existing property in the absence of market data (Antwi, 1997; Robinson, 1997). A banded assessment approach is considerably less demanding in terms of data requirements (i.e. both quality and quantity) than a discrete system. Typically, the system would require fewer transactions and not be constrained to generate new assessed values each time a property has been 'improved' or for new properties, unlike discrete value systems.

### *Valuation/assessment Approach*

In those cases where property markets, whilst existing and developing, are nonetheless limited, there is the need to ensure that valuation practices and procedures are developed to reflect this constraint. The initial objective should be to achieve a valuation system, which exhibits robustness, reliability and simplicity to reflect the various constraints. The techniques should not be overly complex, avoid excessive demands for detailed data and allow for the application of simplistic mass appraisal models. This simplicity of approach will, or should, ensure that future revaluations can be easily undertaken in a cost-effective manner. In this way, the techniques used to fix a property-based assessment can be perceived as both reasonable and socially acceptable by the taxpayers. Over time, as markets mature and data becomes more available the methodology for valuation can be refined as appropriate.

There is of course no particular reason for developing a sophisticated, refined and complex *ad valorem* property tax system, except for the increased desire for optimum levels of horizontal and vertical equity which is assumed to be the demand of the taxpaying public. The banded system is to some extent founded on the principle that valuation/assessment is not an exact science, therefore, the ideal in having absolute values could be considered a step too far. The use of value bands particularly for residential property does not necessitate a precise valuation of each property, but rather an informed opinion as to which band it should be allocated. Indeed, identifying 'standard' or 'beacon' properties which have been sold at the valuation date (i.e. allocated into a specific band) can be used to estimate values/bands for

other similar properties. This would effectively allow bulk assessments to be completed quickly at a fairly minimal cost by relatively less qualified staff.

There is also the potential to use the private sector to a greater extent given their expertise and local knowledge of property markets. Private sector resources of realtors rather than appraisers would be well placed to undertake blocks of valuations in specific geographic areas resulting in a speedier and cheaper valuation process. The use of the private sector requires that the quality of the valuation work be strictly monitored to ensure uniformity of assessments; aspects of quality control would normally be a function of a government department.

### *Value Bands*

Banding falls uneasily between a truly progressive property tax system requiring the use of more bands that could be locally or regionally determined, and an administratively simpler system requiring the use of a small number of bands. The use of fewer wider bands would mean fewer appeals, whereas a larger number of narrower bands would result in many properties having to be rebanded following improvements that affect the market value of the property.

It could be argued that the application of locally determined or regional bands as opposed to nationally derived bands (Britain has three national bands) would ensure greater fairness in the system. Regional bands would allow for the structure of the regional property market to be reflected in the size and distribution of the value bands. High value areas and low value areas could have bands developed to suit the average property prices in those areas.

### *Revaluations*

The cycle of revaluations under a banded system is likely to involve less frequent revaluations than under a discrete value system. This is based on the premise that changes in a property's value due to physical changes and market price movements can, to a large extent, be absorbed within the band and hence not necessitating a move in band. The issue here is not the absolute values of properties but the relative value of one property against others. Therefore if all properties experienced an equal change in value there would be no need to have a revaluation because the relativities would not have altered. But property markets are imperfect and do not always move in the same direction at the same rate at the same time. Therefore the obligation to undertake a revaluation is an important one, particularly if the banded property tax is to be accepted by taxpayers as being 'fair'. Such a system will be successful if there is a clear, distinct and continuous relationship between the value of a taxpayer's property and the value band it is placed in. Such a relationship will only be established if the value bands and house price movements are regularly monitored and reassessed.

Therefore there is a need to have some form of periodic check on whether properties are still in the correct band. Otherwise, as significant changes in values occur over time in certain areas, the banding allocations will become unfair, unacceptable and unrealistic. With discrete value systems, international practice on revaluation cycles would tend to indicate a norm of between three to five years (McCluskey, 1998). However, one would expect that under a properly-designed banded system, revaluations should occur at anything between five to ten years. In addition, if the value bands are indexed, possibly on a five-year cycle this could well extend the life of the assessed values beyond a ten-year revaluation. However, a banded system is time-specific, and only value-specific if values change too rapidly therefore, much

depends upon the movement in market prices and the magnitude of inter-regional and intra-regional changes (Farrington and Lee, 1992).

### *Appeals*

By not having to value each property to a specific figure but rather within a price range it is reasonable to conclude that the number of appeals against the initial valuation generated by a banded system should be lower than with a discrete value approach. Clearly then, with a banded system a taxpayer will be less concerned with the actual value of the property but more with the appropriateness of the banding allocation. Only, if the taxpayer believes the property to have been incorrectly banded would an exact, precise valuation would be required for the appeal. It would be expected that appeals against the band would be limited to properties whose values lie around the edges of each band. This is an important issue given that any 'new' property tax system or one that is substantively modified can be adversely affected if there are numerous appeals. The legislative role of specifying opportunities for appeal subsequent to the initial revaluation appeal period will also be significant. With a proper market value monitoring system, which could invoke revaluations, the number of appeals should decline, as the system becomes more transparent and acceptable to taxpayers.

### **Final Conclusions**

- ?? This paper has focused on the banding of residential properties. But this is not to say that commercial property cannot be assessed under such an approach, but rather, as residential property in all countries tend to represent the bulk of taxable property, it was considered more appropriate to investigate this property sector. It is one of the main views of the authors that value banding for property tax purposes could have a wider application in terms of international usage.
- ?? It is considered that a banded approach, if properly designed, in terms of the number of bands, size of bands, tax structure etc. can overcome those technical and administrative valuation-based issues typically found in most developing and transitional countries. This will ensure that investment in property tax reform will be rewarded with a more stable and predictable tax yield. The necessity of having simple, cost effective solutions to the *ad valorem* problem will lead to enhancements in the system and ultimately to the potential to introduce more advanced assessment approaches, if required.
- ?? Banding allows the establishment of different value bands (and therefore the imposition of differential tax levels between different types of property) between different jurisdictions.
- ?? Placing the domestic property into one of several value bands is a relatively cheap and fast procedure to produce taxable values on which to base a source for local authority revenue. The use of non-government valuers probably speeds the process and reduces the cost with minimal loss of accuracy.
- ?? Value bands and the frequency of revaluations/rebanding should reflect the nature of the property market within a given jurisdiction.

- ?? The relativities of level of tax imposed between bands should reflect closely the relative values within each band. In this way, vertical equity can be optimised and social acceptability improved.
- ?? Banding of property values does not, however, obviate the need for revaluations of the tax base. Regular and frequent revaluations are necessary to ensure that the tax is levied on values that are current, thereby improving both horizontal and vertical equity between taxpayers. Existing bands in Britain are not robust enough to reflect the significant shifts in its volatile residential property market over such a long period of time since the 1991 valuation date. The results of the research data demonstrate that it is the poorest (defined as those who occupying the least valuable properties) who are financially disadvantaged by the failure to revalue, the corollary being that it is those who occupy the more valuable property who are benefiting most from the failure to revalue the tax base.
- ?? It is vital to remember that the object of any local authority tax is to ensure sufficient finance to provide for appropriate local authority services to the community. In that light, it is important to ensure that the tax does not fall on those without appropriate financial resources to pay. An efficient and effective system, either incorporated alongside the tax system or which operates alongside it, is vital to protect those on low incomes. Resources should be concentrated on those without the financial resources to pay, rather than offered to other sectors of the community e.g. a sole occupier, whose financial needs are not assessed.
- ?? Local authorities should be given sufficient respect, freedom and responsibility to establish and administer a taxation system that provides them with sufficient financial resources and direct democratic accountability with their electorate, without the need for central government to monitor the authorities or protect the local taxpayers.
- ?? “Fairness” (defined as “perceived as fair by the public” (HMSO, 1991)) was one the criteria on which the Council Tax was based. “Fairness” implies a range of parities, including horizontal equity and vertical equity. The perception of the public is that the Council Tax is a tax based on property values and therefore (unlike its immediate predecessor) that there are safeguards built in to protect the poorest (those living in the lower value properties). It is suggested that what is “fair” to one community may not be as “fair” to another. There is, therefore, a need to establish what characteristics are perceived as ‘fair’ in any social and cultural context and are essential for any tax system to be acceptable to its taxpayers.

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## Appendix I

### Value bands for England, Scotland and Wales

#### Value bands in England and Scotland

<b>Valuation Band</b>	<b>Range of Values</b>
Band A	Not exceeding £40,000
Band B	Exceeding £40,000 but not exceeding £52,000
Band C	Exceeding £52,000 but not exceeding £68,000
Band D	Exceeding £68,000 but not exceeding £88,000
Band E	Exceeding £88,000 but not exceeding £120,000
Band F	Exceeding £120,000 but not exceeding £160,000
Band G	Exceeding £160,000 but not exceeding £320,000
Band H	Exceeding £320,000

#### Value bands in Wales

<b>Valuation Band</b>	<b>Range of Values</b>
Band A	Not exceeding £30,000
Band B	Exceeding £30,000 but not exceeding £39,000
Band C	Exceeding £39,000 but not exceeding £51,000
Band D	Exceeding £51,000 but not exceeding £66,000
Band E	Exceeding £66,000 but not exceeding £90,000
Band F	Exceeding £90,000 but not exceeding £120,000
Band G	Exceeding £120,000 but not exceeding £240,000
Band H	Exceeding £240,000

## Appendix II

### Welsh Data Table (sales 1997-1998)

Band	Properties Allocated		Below Min. Level		Within Band Level		Above Max. Level	
Band A	14	1.9%	0	0.0%	11	1.5%	3	0.4%
Band B	241	33.5%	76	10.6%	119	16.5%	46	6.4%
Band C	190	26.4%	45	6.3%	106	14.7%	39	5.4%
Band D	147	20.4%	41	5.7%	78	10.8%	28	3.9%
Band E	75	10.4%	7	1.0%	47	6.5%	21	2.9%
Band F	30	4.2%	4	0.6%	20	2.8%	6	0.8%
Band G	21	2.9%	6	0.8%	15	2.1%	0	0.0%
Band H	2	0.3%	1	0.1%	1	0.1%	0	0.0%
<b>Totals</b>	<b>720</b>	<b>100.0%</b>	<b>180</b>	<b>25.0%</b>	<b>397</b>	<b>55.1%</b>	<b>143</b>	<b>19.9%</b>

### English Data Table (sales 1999-2000)

Band	Properties Allocated		Below Min. Level		Within Band Level		Above Max. Level	
Band A	482	26.5%	0	0.0%	310	17.1%	172	9.5%
Band B	611	33.6%	59	3.2%	283	15.6%	269	14.8%
Band C	355	19.5%	15	0.8%	157	8.6%	183	10.1%
Band D	215	11.8%	7	0.4%	97	5.3%	111	6.1%
Band E	102	5.6%	4	0.2%	41	2.3%	57	3.1%
Band F	33	1.8%	1	0.1%	15	0.8%	17	0.9%
Band G	17	0.9%	0	0.0%	15	0.8%	2	0.1%
Band H	1	0.1%	0	0.0%	1	0.1%	0	0.0%
<b>Totals</b>	<b>1816</b>	<b>100.0%</b>	<b>86</b>	<b>4.7%</b>	<b>919</b>	<b>50.6%</b>	<b>811</b>	<b>44.7%</b>