

# Recent Theories and Practices of Real Estate Assessment (for tax purposes) and Appeal Mechanism in the ASEAN Region

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## Abstract

This paper centres on the advancement in ad valorem taxation theories and practices in the ASEAN region, consisting of 10 countries. It reviews the regulation on property taxes in this region for an overview. The techniques used for assessment practices are also elaborated with some recommendations for future development in an environment in which limited data are available for reliable analysis and statistical modeling.



Source: <http://english.cri.cn/3126/2006/09/03/961@134350.htm>

It is an honor for the author to present this paper at the 2015 PRRES Congress hosted by the Pacific Rim Real Estate Society during January 18-21, 2015 in Kuala Lumpur, Malaysia. This paper describes the ASEAN features, property taxation in each of the 10 countries of ASEAN, and innovation in property taxation and the like.

## The ASEAN Region

ASEAN, or the Association of Southeast Asian Nations, is a geo-political and economic organization of ten countries located in Southeast Asia, which was formed on 8 August 1967 by Indonesia, Malaysia, the Philippines, Singapore, and Thailand. Nowadays, the member states also include Brunei, Cambodia, Laos, Myanmar, and Vietnam. The aims of ASEAN are to accelerate economic growth, social progress, and cultural development among its members, to protect regional peace and stability, and to provide opportunities for member countries to discuss differences peacefully. See more about ASEAN at [www.asean.org](http://www.asean.org).

The ASEAN Economic Community (AEC) has the goal of regional economic integration by 2015. The AEC envisages the following key characteristics:

1. to be a single market and production base
2. to be a highly-competitive economic region
3. to be a region of equitable economic development
4. to be a region fully integrated into the global economy

According to ASEAN, the AEC areas of cooperation include human resource development and capacity building; recognition of professional qualifications; closer consultation on macroeconomic and financial policies; trade financing measures; enhanced infrastructure and communications connectivity; development of electronic transactions through e-ASEAN; integration of industries across the region to promote regional sourcing; and the enhancement of private sector involvement for the building the AEC. In short, the AEC will transform ASEAN into a region with free movement of goods, services, investment, skilled labour, and freer flow of capital. You can see more about ASEAN at [www.asean.org/communities/asean-economic-community](http://www.asean.org/communities/asean-economic-community).

COMPARISON OF ASEAN COUNTRIES AND CHINA														
Countries	Land Area		Population					GDP					Popu- lation below Poverty	
	(Excluding Water) Sq.Km.	Com- pared*	Million	Com- pared*	Den- sity/ sq.km	Growth per Year	%Urban Popu- lation	Bil- lion US\$	Total Com- pared*	Per cap Com- pared* US\$	% of Agri Sector	Growth per Year		
Brunei	5,265	0.06%	0.409	0.03%	78	1.7%	76%	21	0.19%	51,445	6.12	0.8%	2.2%	0.0%
Cambodia	176,515	1.84%	14.953	1.11%	85	1.7%	20%	34	0.30%	2,262	0.27	34.6%	7.1%	31.0%
Indonesia	1,811,569	18.93%	248.645	18.51%	137	1.0%	44%	1,125	9.96%	4,525	0.54	14.7%	6.5%	12.5%
Laos	230,800	2.41%	6.586	0.49%	29	1.7%	33%	17	0.15%	2,643	0.31	27.8%	8.0%	26.0%
Malaysia	328,657	3.43%	29.180	2.17%	89	1.5%	72%	464	4.10%	15,891	1.89	11.9%	5.1%	3.8%
Myanmar	653,508	6.83%	54.585	4.06%	84	1.1%	34%	83	0.73%	1,515	0.18	39.3%	5.5%	32.7%
Philippines	298,170	3.12%	103.775	7.73%	348	1.9%	49%	391	3.46%	3,769	0.45	12.8%	3.9%	26.5%
Singapore	687	0.01%	5.353	0.40%	7,793	2.0%	100%	315	2.79%	58,821	6.99	0.1%	4.9%	0.0%
Thailand	513,120	5.36%	67.091	4.99%	131	0.5%	34%	602	5.33%	8,976	1.07	13.3%	5.7%	8.1%
Vietnam	310,070	3.24%	91.519	6.81%	295	1.1%	30%	300	2.65%	3,278	0.39	22.0%	5.9%	14.5%
ASEAN	4,328,361	45.23%	622.096	46.31%	144	1.2%	42%	3,352	29.66%	5,388	0.64	13.9%	5.6%	16.5%
China	9,569,901	100.00%	1,343.240	100.00%	140	0.5%	47%	11,300	100.00%	8,412	1.00	10.0%	9.2%	13.4%

Compared\* = compared to Thailand; [www.cia.gov/cia/publications/factbook](http://www.cia.gov/cia/publications/factbook) as of June 2013

The nature of ASEAN can be extracted from the above table and elaborated as follows:

1. It has a total area of 4.328 million sq. kilometres, which is around 45.23% of China. The largest countries in the ASEAN areas are Indonesia, Myanmar, and Thailand, constituting 18.93%, 6.83% and 5.36% of China respectively.
2. The population of ASEAN is approximately 622 million or 46.31% of China. The three largest countries in terms of population include Indonesia, the Philippines, and Vietnam, constituting 18.51%, 7.73% and 6.81% of China.
3. Considering population density, ASEAN and China are similar at 144 persons per sq. kilometre. Only Singapore, the Philippines, and Vietnam have a higher population density than China. The rest are of lower density.

4. The population growth in ASEAN is 1.2%, whereas it is 0.5% in China. Birth control is more effective in China. Only Singapore has a higher population growth because of migration. Its net birth rate is quite low at around 0.6% only {1}.
5. ASEAN has a similar proportion of urban population at 42% compared to 47% in China. Only countries with a lot of islands have a greater urban population. Countries in peninsular areas tend to have a lower proportion of urban population.
6. In the case of GDP, ASEAN as a whole produces only 29.66% of that produced in China. In the case of GDP per capita, only Singapore and Brunei have a significantly higher GDP per capita than China at 6.99 and 6.12 times higher than China. On the other hand, Malaysia's GDP per capita is almost twice that of China (1.89 times). Thailand's GDP per capita is similar to China at 1.07 times above that in China.
7. China is very industrialized with only 10% of the GDP contributed by the agricultural sector, whereas it is 13.9% across the whole ASEAN region. In less developed countries, the GDP of the agricultural sector seems to be higher.
8. GDP growth in China has been higher than that in the ASEAN region for the past two decades. Nowadays, it is still very high in China.
9. Considering poverty, only 13.4% of the Chinese population is below the poverty line, a performance which is much better than many ASEAN countries. In ASEAN, only Brunei, Singapore, Malaysia, and Thailand have a lower percentage of people below the poverty line.

### **AEC and ASEAN Countries**

Regarding the opinion of professional property valuers in ASEAN, the economy and property markets in this region were assessed and the level of credibility of real estate professionals was compared with other professions in the society. What will happen in the real estate markets and professions after the institution of the AEC in 2015? Let's explore this latest survey {2}.

Dr. Sopon Pornchokchai, President of the Thai Appraisal Foundation, went to the 17th Congress of the ASEAN Valuers Association (AVA) held from July 2 to 5, 2012 in Brunei and once again in Nha Trang, Vietnam in April 2014. He conducted a survey of ASEAN valuers on the future of the countries in ASEAN, as well as the valuation profession compared with others, together with an outlook on the future of the ASEAN Economic Community (AEC).

There were 150 participants at these AVA Congresses. Members of all of the ASEAN countries, except Myanmar, were present and responded to the questionnaire. There were also participants from other countries, such as Australia, China, Hong Kong, and the UAE.

Considering the economic situation of countries compared to 2010 or two years ago, 56% assessed that it was better. Only 7% said that it was worsening. The rest (36%) saw no change. In detail, most valuers from Brunei, Singapore, and Thailand saw no change, whereas the rest saw some significant, positive changes. However, regarding the economy in the next two years (2014), most (67%) said that it would be better. Only 4% said that it was worsening. Most of the Thai valuers assessed that the situation could be the same as today.

In the case of property markets, 63% assessed that the situation was better than that in 2010. However, only half of the valuers in Thailand and Brunei assessed the situation in this way. This might be due to the past political turmoil in Thailand or the economic stagnation in Brunei. Concerning future prospects for 2014, most (66%) believed that they would be better. Only 8% said the contrary. In the case of Thailand, it was considered that the 2014 property markets would still be the same as today. Perhaps Thai valuers were not so confident about the future prospects of the economy or the property markets.

The valuers were asked to assess the professional credibility of different professions, with the assumption that the credibility of medical doctors was 100%. On the whole, engineers earned a credibility score of 80%, followed by valuers (77%) and lawyers (75%). Brokers earned the lowest score of 68%. That the brokers earned the lowest score might be due to the fact that there is still no legal control for this profession.

Considering the AEC, 62% perceived that the AEC would have a positive effect on their own countries. However, for the countries outside the ASEAN region, this would not have much effect. Among the ASEAN countries, Thailand and Vietnam seemed to be worried about the AEC. Perhaps competition might be worrying them.

Vietnam seemed to be most ready for the AEC in 2015, where the level of readiness assessed by valuers was 86%. The second was Malaysia at 72%, and the third was Thailand at 67%, followed by Indonesia (63%). Brunei and the Philippines earned 58% and 57%. The lowest score was Cambodia (48%). There was no assessment for Singapore because of the few numbers of respondents in this case.

Compared to the 2014 findings. Valuers in most countries saw the development of economy and real estate markets during 2012 to 2014. However, in the case of Thailand with political problems, Thai professionals were more pessimistic. However, in the case of 2016, professionals in all countries are very optimistic about the future due to the opening up of the regional economy. It seems that the credibility of valuers in this region is developing over time.

It is expected that in terms of real estate development, Thailand will be among the largest markets. According to the Agency for Real Estate Affairs, which is Thailand's first and largest real estate information and valuation centre, the annual development value of real estate is around US\$ 10 billion. Therefore, investors from other countries may like to come to this attractive market. Although the Jakarta and Manila markets are smaller to that of Bangkok, they both will have strong attraction for investors. The fast-growing economy and strong political stability of Indonesia and the Philippines are among the major drives behind the promising property markets.

It is expected that big developers from Singapore, Malaysia, and Thailand will develop cross-border real estate projects. Major developments would be low-rise housing projects as well as owner-occupied apartment (condominium) projects in major cities, such as Bangkok, Jakarta, Manila, and Ho Chi Minh City.

In the case of surveyors, valuers or appraisers, and brokers, major firms in Singapore and Malaysia should move ahead to other countries. However, there are already transnational property consultant firms with branches in different countries. Local consultant firms should join together therefore as a strategic alliance to work in the borderless community of the AEC in the future.

In sum, the economy and property markets in this region have developed over time. If medical doctors are assessed at a 100% credibility, valuers across ASEAN assessed their own profession at 77% after engineers (80%), but better than lawyers and brokers, who earned 75% and 68%. After the 2015 AEC, Bangkok, Jakarta, and Manila could attract a lot of cross-border investment from neighboring countries because of the size and the good prospect of the market. Expectedly, local property consultants will pull together for strategic alliances with services that can better cater to customers.

### **Property Taxes in the ASEAN Region**

The following is a review of property and related taxes in ASEAN countries:

#### **1. Brunei**

According to the Brunei Economic Development Board (BEDB) {3}, properties under commercial use are subject to property tax based on the estimated value of the property. The quantum is decided by the local municipal board. However, in practice, there is no property tax. There is a 12% building tax in Bandar Seri Begawan {4}, and there was also an estate tax. However, it was abolished in 2013 {5}.

#### **2. Cambodia**

According to the KPMG {6}, tax on immovable property (TIP) will be collected annually at the rate of 0.1 percent on the value of immovable property, which is more than the threshold of KHR100,000,000 (approximately USD25,000). The value of the immovable property is assessed by the Assessment Committee, which is set up by the Ministry of Economy and Finance.

In addition, in the case of the transfer of assets, there is a 4 percent property transfer tax on the transfer of titles of certain assets, such as land, buildings, and vehicles. There is also a tax levied on unused land and the registered owner of the land is responsible for the payment of the tax. Tax on unused land is based on 2 percent of the market price per square meter as determined by the committee for the valuation of this country.

#### **3. Indonesia**

Property taxes are calculated on both the land's worth and any buildings that might occupy it. Property tax in Indonesia is thus defined as Land and Building Tax or Pajak Bumi dan Bangunan {7}. Rates vary by region, but are generally between 0.1 percent to 0.2 percent of the property's value. Tax re-assessments take place every three years, except in fast-growing areas where re-assessment takes place every year.

Residences valued in excess of one billion rupiah (USD 86,805) are taxed at the top of the tax scale (0.2 percent). On the other end of the scale, properties valued at less than eight million rupiah are exempt from any tax, as are properties used for the public benefit (social, educational, and religious purposes).

In the case of the Land and Building Transfer Tax, when a piece of land changes hands, both buyer and seller must pay a five percent transfer tax, which is based on the sale price or government assessed value, whichever is the higher. A transfer tax is levied on the sale of real property in Indonesia at a flat rate of 5%. The tax base is the transfer value of the property, without any deductions.

A capital gains tax is also levied. Capital gains derived by nonresident individuals from selling real property are taxed at a flat rate of 20%. Furthermore, sales of luxury houses, apartments, townhouses, and condominium units are subject to a 20% sales tax.

#### 4. Laos

Laos taxation on land is very clear-cut. Please see the following tables:

Area Subjected to Agriculture Land Tax	Land Tax Rates (kips/ha/year)					
	Low Land Area		Plateau Area		Mountainous Area	
	Urban Area	Rural Area	Urban Area	Rural Area	Urban Area	Rural Area
<b>I. Rice Field Area:</b>						
1. Paddy-fields	45,000	35,000	40,000	30,000	25,000	20,000
2. Paddy-field sustaining of damage by natural disaster:						
2.1 Area sustaining more than 70% of damage from natural disasters should be exempted from tax for the whole year.	.....	.....	.....	.....	.....	.....
2.2 Area sustaining less than 70% to 50%.	10,000	5,000	9,000	5,000	5,000	5,000
2.3 Area sustaining less than 50%	20,000	10,000	10,000	10,000	8,000	8,000
3. Fallow rice fields	30,000	20,000	20,000	15,000	20,000	10,000
<b>II. Upland Rice Field:</b>						
1. Sedentary rice fields	20,000	15,000	16,000	14,000	14,000	12,000
2. Rotating rice fields	25,000	20,000	25,000	15,000	20,000	15,000
<b>III. Orchard:</b>						
1. Horticulture	12,000	9,000	11,000	10,000	10,000	10,000
2. Orchard trees	30,000	20,000	20,000	10,000	15,000	8,000
3. Industrial and annual crops	45,000	35,000	40,000	30,000	30,000	20,000
4. Medicinal plants	20,000	10,000	15,000	8,000	10,000	6,000
5. All types of vegetables	30,000	20,000	25,000	15,000	12,000	8,000
6. All types of woods	25,000	15,000	20,000	10,000	12,000	8,000
<b>IV. Livestock Rearing Land:</b>						
1. Natural livestock grassland	35,000	20,000	30,000	15,000	20,000	12,000
2. Cleared natural livestock grassland	30,000	10,000	25,000	8,000	16,000	6,000
3. Livestock farm	45,000	35,000	40,000	30,000	30,000	20,000
4. Aquatic life rearing ponds	40,000	30,000	35,000	25,000	30,000	20,000
<b>V. Other Agricultural Land:</b>						
1. Grassland without livestock	40,000	30,000	35,000	25,000	30,000	20,000
2. Other unused agricultural land	40,000	30,000	35,000	25,000	30,000	20,000

Source: [www.slideshare.net/LIWG-Laos/presidential-decree-01-on-land-tax-eng](http://www.slideshare.net/LIWG-Laos/presidential-decree-01-on-land-tax-eng)

For non-farm land, the rate is as follows:

Areas Subjected to Construction Land Tax	Land Tax Rates (kips/m <sup>2</sup> /year)			
	Residential Area	Land for Building Industrial and Handicraft Area	Land for Building Commercial and Service Shops	Vacant Land (non-developed land)
<b>I. Towns administered by the Capital City:</b>				
1. Central urban zone	80	180	300	300
2. Peri-urban zone	60	150	240	240
3. Sub-urban zone	40	80	180	180
4. Urban development zone	30	60	100	100
<b>II. Towns administered by provincial authorities:</b>				
1. Central urban zone	60	160	250	250
2. Peri-urban zone	50	120	200	200
3. Sub-urban zone	30	60	180	180
4. Urban development zone	20	40	80	80
<b>III. Towns administered by district authorities or Chief-towns:</b>				
1. Central urban zone	25	60	120	120
2. Urban development zone	20	30	60	60
<b>IV. Rural Areas:</b>				
1. Lowland villages	15	20	30	45
2. Upland villages	10	15	25	30
3. Highland villages	5	8	15	15

Source: [www.slideshare.net/LIWG-Laos/presidential-decree-01-on-land-tax-eng](http://www.slideshare.net/LIWG-Laos/presidential-decree-01-on-land-tax-eng)

In addition, there is also tax on income from the transfer of land and buildings which is subject to income tax at the rate of five percent {8}. However, there is no inheritance or estate tax in Laos.

## 5. Malaysia

In Malaysia, property tax is payable on all property, including shops, factories, and agricultural land. Local jurisdictions are responsible for collecting property tax, which varies depending on the jurisdiction. A local property tax, which is based on the annual rental value of a property, is determined by local authorities, generally at a rate of six percent for residential properties and is payable in two installments annually. The rate is around 1-2%.

The real property gains tax (RPGT) applies to properties sold less than five years after purchase. Those sold less than two years after purchase are subject to ten percent RPGT and those sold between two and five years after purchase are subject to five percent RGPT.

In the case of stamp duty on the transfer of the right or ownership, for the first RM 100,000 (USD 33,333), the stamp duty is one percent. For the next RM 400,000 (USD 133,333), the stamp duty is two percent, and for anything over RM 500,000 (USD 166,667), the stamp duty is three percent. The above information is available at the reference {9}.

## 6. Myanmar

According to Deloitte {10}, there is no separate capital gains tax law. Income tax is levied on gains from the sale, exchange, or transfer of capital assets (e.g. land, buildings, vehicles, and any capital assets of an enterprise). Capital assets also include shares, bonds, and similar instruments. The rates of tax are 10% for resident companies and 40% for nonresident companies.

However, there is no real property tax nor inheritance or estate tax. There is no tax on transfers of capital assets, but there is a stamp duty.

Lease-fee tax in Myanmar		
Lease Period	In Yangon, Mandalay & Naypyidaw	In other areas
<1 year	3.5% of the whole amount	1.5%
1-3 years	3.5% of the average annual rent	1.5%
>3 years	7% of the average annual rent	5%

Source: [www.vdb-loi.com/vdb/analysis/leasing-of-real-estate-by-foreigners/](http://www.vdb-loi.com/vdb/analysis/leasing-of-real-estate-by-foreigners/)

## 7. The Philippines

The Real Property Tax (RPT) and Special Education Fund Tax (SEFT) are imposed on real estate in the Philippines {11}. The tax rate is around 2-3% varying from city to city. Properties in commercial and residential areas are paid at a slightly different rate. There is also a 10% - 20% discount on full payment as well.

The sale of real estate is subject to a capital gains tax at the rate of six percent of the gross selling price or fair market value. A stamp duty of PHP15 for every PHP1,000 will apply to the transfer of real property {12}.

## 8. Singapore

In general, property tax is levied on all real estate in Singapore and is payable annually by the owner at the beginning of the year. The annual property tax is calculated based on a percentage (tax rate) of the gross annual value of the property as determined by the property tax department. A progressive property tax rate of 0% to 6% applies for owner-occupied residential property and 10% for other property. A property tax exemption for land under development may be granted in certain cases {13}.

### For let-out HDB flat

Annual Value and Tax Rate	Tax Payable
\$10,500 x 10%	\$1,050.00
<b>Tax Payable in 2013</b>	<b><u>\$1,050.00</u></b>

### For owner-occupied HDB flat

Annual Value and Tax Rates	Tax Payable
First \$6,000 x 0%	\$ 0.00
Next \$4,500 x 4%	\$180.00
Less *Owner-Occupied HDB Rebate	<u>\$ 40.00</u>
<b>Tax Payable in 2013</b>	<b><u>\$140.00</u></b>
<b>Monthly instalment payment</b>	<b>\$11.67</b>

### \*2013 Property Tax Rebate for Owner-Occupied HDB Flats

Source: [www.iras.gov.sg/irasHome/page04.aspx?id=10112](http://www.iras.gov.sg/irasHome/page04.aspx?id=10112)

A stamp duty is applicable to a sale of mortgage of real estate and shares and a lease of immovable property. An ad valorem stamp duty is chargeable on a lease or agreement for a lease of any immovable property with annual rents exceeding SGD 1,000. Leases with annual rents not exceeding SGD 1,000 are exempt. The buyers' stamp duty on the acquisition of all property is 1% for the first SGD 180,000, 2% for the next SGD 180,000, and 3% thereafter. With effect from December 8, 2011, speculative buyers will have to pay another 3% of the stamp duty for buying real estate. It is 10% in the case of foreign buyers of real estate in Singapore {14}.

All owners of owner-occupied flats will be given a one-time rebate. This rebate is a fixed amount of \$40, which will be automatically set-off against the property tax payable in 2013. This rebate will not apply to non-owner-occupied HDB flats, which are currently taxed at 10%. In addition, the government has given a new property tax rebate to owners of owner-occupied HDB flats for 2012 to help HDB households offset some of the increase in property tax. The rebate amount is \$55 or the actual property tax amount, whichever is lower {15}.

## 9. Thailand

Actually, there are no general property taxes (land and building tax) in Thailand, but real properties put to commercial use (residential houses not “owner occupied” and commercial buildings) must under the Building and Land Tax Act pay a “rental” tax at a rate of 12.5% of the annual rental value or the annual assessed rental value, whichever is higher. The annual assessed rental value is based on a calculation method over the appraised value of the property (land, house, apartment). If anyone leases a property at a rent lower than a reasonable rent, the amount could be adjusted and the lessor could be taxed on what the rent should have been {16}.

There are also some small property taxes on real estate but they are a very insignificant amount. In the future, the proposed the tax rate shall not exceed 0.5% of the appraised value of the land and building if put to “commercial” use. The tax rate shall not exceed 0.1% of the appraised value of the property when used as private residence and a tax of 0.05% of the appraised value shall be charged if the land is used for agricultural purposes.

Considering Stamp Duty on transaction of properties, one will have to pay 0.5% of the value. The transfer fee is approximately 2% of the government-assessed value. There is no inheritance tax applicable in the case of Thailand. In addition, there is also a tax of 3.3% of the assessed value applicable to trading properties {17}.

## 10. Vietnam

According to the PWC, one major tax for real estate in Vietnam is the Capital Assignment Profits Tax (“CAPT”). Gains derived by an entity on transfers of interests (as opposed to shares) in a Vietnam limited liability company or another enterprise are subject to 25% CIT {18}.

In addition, the rental of land use rights by foreign investors (if not contributed as capital) is in effect a form of property tax. It is usually known as land rental and the range of rates is wide depending upon the location, infrastructure, and the industrial sector in which the business is operating. In addition, owners of houses and apartments have to pay land tax under the law on non-agricultural land use tax. The tax is charged on the specific land area used based on the prescribed price per square meter and progressive tax rates range from 0.03% to 0.15%.

### Problems in Property Taxation & Good Examples

One major problem encountered is the declaration of the price too far below the market value resulting in paying lower tax, which happens across the region. For example, Indonesia's Taxation Directorate General office would probe property firms' reports in the hope of recovering trillions of rupiah (USD 1 =10,317 rupiah) from improper and undervalued transactions {19}.

According to the taxation director general, his office will soon deploy resources to property firms to check their past reports. He said that most of the reports contained errors in the declared tax value. In the same report, it was stated that “If it turns out that they have been paying lower tax than they should, we will ask them to pay the difference.”

It would be difficult for the tax office to carry out thorough investigations into thousands of transactions. This is another problem of manpower in dealing with hundreds of thousands of transactions. Therefore, there must be some threshold to value properties. For example, property where there is a potential price of over some five million Baht must be valued properly in order to tax properly. The cost of valuing properties is a lot smaller than the tax collected.

Another problem is the exemption of tax which would create some inequality in paying tax. The new land and building tax law should not have exemptions, as it could result in unequal tax collection and fraud. In Thailand, the Fiscal Policy Office has completed the draft law. It requires owners of non-commercial lands and buildings to pay tax of no more than 0.1% of the tax-based value. Agricultural property would face a tax up to 0.05% and others up to 0.5%.

However, the draft has proposed many exemptions, for example, for residential buildings on 50 square wah or less and worth less than one million baht in key areas, including Bangkok, Phuket, and Pattaya. As well, residential buildings worth less than 500,000 Baht in municipal areas and those worth less than 300,000 baht in sub-district administration areas would be exempt. Such exemptions could lead to fraud, as assets could be undervalued in an attempt to avoid tax {20}.



### **Norfolk Town, A Good Case Study**

For a good example, there is the great example of Norfolk Town where the author went to visit to learn about property taxation in September 2004 {21}. This town is in Massachusetts. Norfolk is a good case study of how town administration and property taxation work hand in hand.

Norfolk is located approximately 40 kilometres southwest of Boston. It has only 2,895 housing units and about 4,000 parcels of land (for all types of real estate development). Growth in this town had been minimal in light of its age, 143 years (Norfolk was established in 1870). This minimal growth had resulted partly from careful planning, which allowed no haphazard growth to occur.

Property tax was the major source of income for the town administration. In the 2004 fiscal year, Norfolk expected to collect some USD 13.3 million in property taxes, of which USD 13 million came from real estate developments. Property tax revenue would account for approximately 55% of the overall income of the town. This meant that about 45% of the town's income comes from the state government. At that time, education was the town's major expense, expected to cost in the area of USD 12 million. This was an admirable public investment.

Since property tax is the major resource for local development, efficient systems of levy had to be in place. According to Ms. Donna Putt, Chairman of the Board of Assessors, and Ms. Deborah Robbins, Chief Assessor of Norfolk, people reporting falsified values for housing sales were subject to a fine and possible jail terms. Neighbours were also allowed to report cases of miscalculation. This was something that is not likely to happen in Thailand or in ASEAN today.

For the 2004 fiscal year, the property tax rate was 1.193%. This rate can be adjusted each year, depending on the town's budgeting needs. In Thailand, the 2005 property tax rate was 0.1%, around one-twelfth of Norfolk's tax rate. This would not be adequate for funding the programs of local administrations.

In the US, there is little difference between the government-assessed value and the market value of a house. This is a key difference between the US and Thailand, where we try to keep the assessed values at a minimum to reduce the tax burden on the public. However, this might be poor logic. What we could do is lower the tax rate levied at the market value. Distorted assessments by tax authorities provide the potential for corruption to occur and give politicians an issue to manipulate during campaigning.

Assessments in Norfolk are very precise. Only 0.1% of homeowners objected to their assessed values. This might be because both the authorities and residents understand the valuation methods and process. In the valuation profession worldwide, the market comparison approach (a logical model) is the most widely accepted method for assessing a property's value. In addition, the cost approach to value (an aggregation model) is also used to recheck assessments and to consider depreciation. Lastly, the income approach to value (a simulation model) is used mainly for income-producing properties.

Considering valuation practices, an assessor might inspect a house only if the owner agrees. Otherwise, he has to estimate its value from outside the building. If a homeowner disagrees with the assessed value, he then has to allow the assessor to inspect the house for a value adjustment (if any). In addition, CAMA (computer-assisted mass appraisal) or AVM (Automated Valuation Method) is also applied to assist in the valuation of properties in many towns in the United States.

According to the 2003 Norfolk Town Report, the total value of the 2,895 housing units was USD 1.1 billion or USD 0.38 million per unit. This was higher than the overall US average of USD 0.22 million. House prices in Norfolk increased by 13% from 2003 to 2004. It was amazing to learn that in 1995, an average house price in Norfolk was only USD 0.19 million. This implies that property values have doubled (97%) from 1995 to 2003.

According to the town authorities, it was estimated that the growth rate in housing supply in Norfolk was around 6% per year, but that demand had been around 9%. Consequently, housing prices have increased over time. Another reason for the increase was that there was a high school located in Norfolk that serves students from three towns. In brief, it can be observed that property prices depend on the state of the economy. If the economy is good, prices tend to escalate and vice versa.

The value of a house consists of land and improvements to the land, usually in the form of a building. The typical ratio of land to improvement is 1:2. For example, say a luxury house in Norfolk is worth USD 1.3 million. Land contributes USD 0.43 million, whereas improvements (before depreciation) contribute the rest.

We can see the differences between Norfolk and Bangkok or other cities in ASEAN. Many of the practices in Norfolk should be applied in Bangkok or other cities. However, we need to scrutinize and carefully analyze how to do things better in Thailand.

Norfolk's success in the area of property taxation is not technology. Things are more manageable in Norfolk because there is a good database listing information on transactions with exact sales prices. This type of database should be considered a major part of any town's administrative infrastructure and should be developed further.

Several measures such as tax reductions and fines should be adopted to ensure that people report exact transaction prices. More important for the success of a local jurisdiction's property tax collection system is the restructuring taxation rates, resource allocation, and an increase in the role of local authorities in the taxation process. In addition, the personal judgement of authorities should be kept at a minimum to reduce possible loopholes for corruption.

Last but not least, the participation of the local residents in each jurisdiction has to be exercised. In Norfolk, around 20 town boards are open to public volunteers to assist the town government in creating systems of good governance in local administration. Unlike Thailand, administrative power is placed in the hands of the public, rather than just in the hands of the mayor and his or her deputies. Norfolk is thus a good example of grassroots democracy and liberty entrenched in a liberal-minded American society.

### **Innovation in Property Taxation**

The experience learnt from Norfolk Town was very useful. However, other innovations in property taxation learnt from countries in the ASEAN region which could be shared with others include:

#### **1. Zone by Zone Assessment**

In Ho Chi Minh City, the authorities involved do not assess all of the properties every year but rather assess only one-third or one-fourth of them a year. Therefore, data from the whole city would be updated in a round of three years. This is to economize on the cost of conducting valuation on an annual basis.

#### **2. Minimum Price for Valuation**

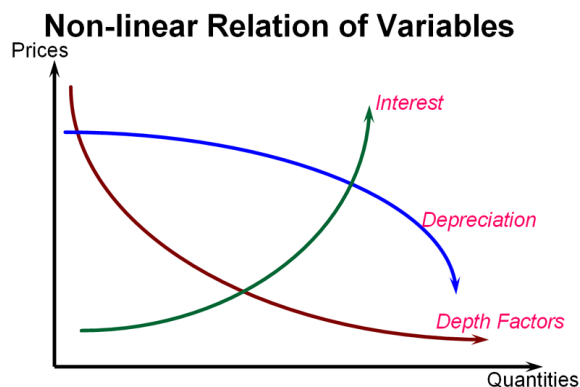
In the case of the transaction of property which exceeds a certain price or size, a single valuation should be conducted. For example, for properties preliminarily assessed at USD 100,000, a valuation must be conducted. The cost of this valuation should be only USD 100-200, whereas possible transaction tax could be 3% or USD 3,000. The cost of the valuation would be very low indeed.

#### **3. Measures of Punishment**

Like developed countries, certain measures of punishment within the rule of law are really needed. This would help force buyers and sellers to provide the exact prices transacted. Further, a good database could be built to help facilitate sound valuation.

#### **4. CAMA Modeling**

Normally, multiple regression analysis (MRA) is used in this computation. Most of them have a linear relation. From time to time, the model used is of non-linear such as the one shown here:

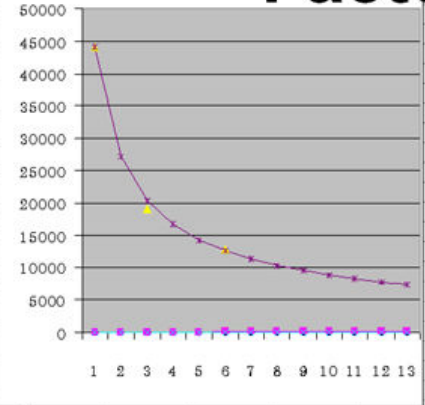


Source: Agency for Real Estate Affairs ([www.area.co.th](http://www.area.co.th))

Basic surveys on property transactions to build up a non-linear relation with some certain exponential factors are shown as follows:

A	B	C	D	E	F	G	H	I
2								05-kredfah.3
3	<b>Shophouses and Duplex of Kred Fah Estate</b>							
4	Description			Comparable Properties No.				
5				0	2	4	6	7
6	Land area (sq.wah)			18.0	35.0	35.0	35.0	35.0
7	Building area (sq.m)			164.0	84.0	84.0	84.0	84.0
8	Offered (Mil. Baht)							
9	Condition			SH, front	Duplex, 250 m		Dplx, 60m	
10	Sold (Mil. Baht)			2.000	1.300	1.300	1.400	1.500
11	When sold			1998	1997	2002	1997	1997
12	Adjusted (%)			-5%	0%	0%	0%	0%
13	Final Adjustment			1.900	1.300	1.300	1.400	1.500
14	Final value estimate			1.900	1.300		1.450	
15	Hard cost of the development				70%		70%	
16	Estimated hard cost (Mil Baht)			1.33	0.91		1.015	
17	Cost of construction/sq.m (Baht)*			4,901	4,901		4,901	
18	Total cost of construction (Mil.)			0.804	0.412		0.412	
19	Land value in total (Mil Baht)			0.526	0.498		0.603	
20	Land value (Baht/sq wah)			29,240	14,239		17,239	
21	*VAT costs = 2002 cost table of the Valuers Association of Thailand							
22								
23								
24	Exponential function							
25	times	metres		-0.38	Explain E	Calculated	Explain G	
26	1	0	29,240	1	=E26*\$E\$25	29,240	=D\$26*E26	
27	2	20		0.7684376	=E27*\$E\$25	22,469	=D\$26*E27	
28	3	40		0.6587095	=E28*\$E\$25	19,261	=D\$26*E28	
29	4	60	17,239	0.5904963	=E29*\$E\$25	17,266	=D\$26*E29	
30	5	80		0.5424896	=E30*\$E\$25	15,862	=D\$26*E30	
31	6	100		0.5061771	=E31*\$E\$25	14,801	=D\$26*E31	
32	7	120		0.4773784	=E32*\$E\$25	13,958	=D\$26*E32	
33	8	140		0.4537596	=E33*\$E\$25	13,268	=D\$26*E33	
34	9	160		0.4338982	=E34*\$E\$25	12,687	=D\$26*E34	
35	10	180		0.4168694	=E35*\$E\$25	12,189	=D\$26*E35	
36	11	200		0.4020414	=E36*\$E\$25	11,756	=D\$26*E36	
37	12	220		0.3889655	=E37*\$E\$25	11,373	=D\$26*E37	
38	13	240	14,239	0.3773128	=E38*\$E\$25	11,033	=D\$26*E38	

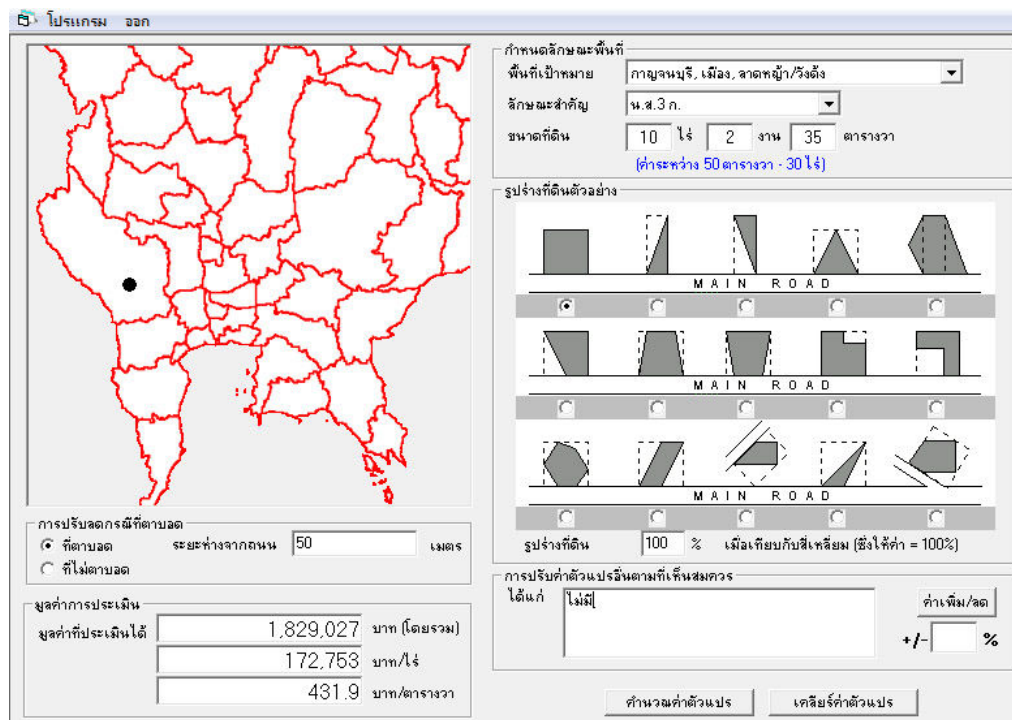
# Extracting the Relationship of the Depth Factor



Source: Agency for Real Estate Affairs (www.area.co.th)

### 5. User-Friendly Presentation/Calculation

In our presentation for CAMA used in property taxation is applicable in some small proposed jurisdictions. The first one is for the valuation of agricultural land in different provinces in Thailand with the differences in shape, land area, blind land (or not), type of land title certificates, width, depth, and the like.



Source: Agency for Real Estate Affairs (www.area.co.th)

บ้านเดี่ยว	ทาวน์เฮ้าส์	อาคารพาณิชย์	อาคารชุดพักอาศัย
ขนาดห้องชุด	50 ตารางเมตร		
สิ่งอำนวยความสะดวก			
<input checked="" type="checkbox"/> สระว่ายน้ำ	การดูแล	สภาพอาคาร	
<input type="checkbox"/> ฟิตเนส	<input checked="" type="radio"/> ดูแลดี <input type="radio"/> ปกติ	<input checked="" type="radio"/> ดีมาก	
<input checked="" type="checkbox"/> ชาน้ำ	ติดตั้งใหญ่	<input type="radio"/> ดี	
<input checked="" type="checkbox"/> สวนสาธารณะ	<input type="radio"/> ใช่ <input checked="" type="radio"/> ไม่ใช่	<input type="radio"/> ไม่ค่อยดี	
<input type="checkbox"/> สนามเด็กเล่น	ใกล้ชุมชน/ตลาด		
	<input checked="" type="radio"/> ใช่ <input type="radio"/> ไม่ใช่		
อาคารสูง	20 ชั้น		
ตั้งอยู่ชั้นที่	18		
ราคาทรัพย์สินโดยรวม		1,075,304 บาท	
ราคาห้องชุด/ตารางเมตร		21,506.07 บาท	
คำนวณราคา		เคลียร์ค่าตัวแปร	

Source: Agency for Real Estate Affairs (www.area.co.th)

The second is the use of buildings (detached, townhouse or apartment units) in a small district in Bangkok with differences in quite a few components, such as floors and the like. In Bangkok, with a building of five floors or below, there is no lift. Hence the prices are different in accordance with the nature of the floor as well. Both are constructed using Visual Basic.net for user-friendly application.

### Concluding Remarks

This paper is an overview of the ASEAN region and its prospects in anticipation of the enactment of the ASEAN Economic Community, which will be a major drive for ASEAN in the near future. The possible cooperation between ASEAN and China would be very fruitful for all parties involved. Property-related taxation in ASEAN was reviewed, and it was seen that there are some advancements in property taxation in the ASEAN region, even in socialist countries such as Cambodia and Vietnam, where we can learn from their experience.

One of the problems in property taxation in this region is the equation of the non-true sale price with the real value of the. If this problem can be overcome, a reliable database could be built. According to advanced cities such as Norfolk, a good system of property taxation and valuation does not depend on great programming or techniques but on a reliable and comprehensive database. Some simple modeling of CAMA can also be used in particular towns or cities for mass appraisal.

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#### **About the Author**

Dr. Sopon Pornchokchai has had experience in real estate research and valuation since 1982. He is an experienced valuer and lecturer on valuation at the undergraduate and graduate levels and in training courses in Thailand and abroad. He has been a consultant to the ESCAP, UN-Habitat, the International Labour Organization and other international organizations. He earned a Ph.D. in land and housing from the Asian Institute of Technology (AIT) and had further property valuation training at the LRTI-Lincoln Institute of Land Policy and in housing development from Katholieke Universiteit Leuven (Belgium).

Currently, Dr. Pornchokchai is the President of the Thai Appraisal Foundation, President of the Agency for Real Estate Affairs, IAAO representative to Thailand, board member of the ASEAN Valuers Association and the Valuation Advisory Group of the Appraisal Foundation (USA)—the International Advisory Board which is the regulatory body of the appraisal profession in the USA. His research masterpieces include the discovery of 1,020 slums (1985), CAMA (computer-assisted mass appraisal) modeling (1990), forecast of 300,000 unoccupied housing units (1995 and 1998), study for property information centre (2000), the roadmap for the valuation profession (Ministry of Finance Vietnam, 2006), and the consultancy service to the Ministry of Finance, Indonesia (2008), World Bank Indonesia (2010), and UNCHS Vietnam (2012).