

Comparative Analysis of the Performance of Property Tax in OECD and Non-OECD Countries

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Abstract: Property tax is universally known as a local source of generating revenue at the lowest tier of government. The performance of property tax in advanced countries is pretty good compared to unsatisfactory result in developing countries. This study compared the performance of property tax in OECD and non-OECD countries. The methodology used was mainly the review of results of recent research studies conducted in some specific countries. Findings indicated that property tax is doing pretty well in many OECD countries and is very excellent in some of the countries, the tax performs unsatisfactory in many non-OECD countries and very poor in some of the non-OECD countries. Thus, OECD countries yields property tax return higher than non-OECD countries due to high level of urbanization and industrialization.

Key words: Property tax, performance, OECD and non-OECD countries, local source, pretty well

INTRODUCTION

The impact of property tax in most developing nations across the world is not significant compared to the scenario in developed nations. Lack of proper implementation of property tax in developing countries, has paved way to tax evasion by property and business proprietors. The tax levied at municipal level, has important fiscal impact on the economy such that it enable local governments to make important economic and political decision (Bird and Slack, 2003). The term 'property tax' is synonymous to 'tenement rating' levied on real estate (land or building); this type of tax has formed an integral source of revenue to municipal councils across the world; used for the provision of community infrastructure and services (Franzsen, 2002). Most countries often levy other property-related taxes like capital gain tax, stamp duty, inheritance tax, etc.

According to Muhammad *et al.* (2012) this tax is a levy imposed on any person occupying a property as in United Kingdom; the same is levied on the property owner as in Malaysia (Muhammad *et al.*, 2012) as well as in Nigeria. Property tax (tenement rate) is a tax levied on real properties at local level in which occupiers or owners as the case may be will pay to the municipal authority, the proceeds is used to defray the cost of community maintenance and services like sanitation, provision of drainages, health care services, etc. (Nwachukwu and

Emoh, 2010). The overall administration and success of rating is not without some operational problems like the unpopularity of the tax arising from ignorance, it being ad valorem tax (based on value) often deter home owners from improving the quality of their houses because value of improved property quickly appreciate and higher value in real estate culminates to high tax liability (Kuye, 2002) rating exercise is rigorous and costly, as it requires regular revaluation at given interval; accumulation of tax arrears is another impediment to the delivery of services as in non-payment and collection problem in Johor and Kuala Lumpur City Hall resulted to unpaid tax arrears of RM 168-400 million in 2009; these among others affect the smooth operation of the exercise (Pawi *et al.*, 2012).

Property tax is a source of revenue that has not been fully exploited in many countries, despite its potency property tax suffers poor or partial implementation. The fact that real estate is immovable and cannot be hidden make tax evasion difficult thus if properly implemented, municipal governments can augment internal revenue with property tax. This form of tax is underutilized or not properly harnessed in many countries, the scenario is worse in developing countries as property tax percentage of GDP is only around 0.6% compared to 2.1% in OECD countries, according to percentage of property tax to GDP in many African countries is <0.5%; though at the moment both developed and developing nations have renewed concern over property tax.

A major property tax reform in Nigeria was in 2001 effective only in Lagos State, the latest in Africa was in Mauritius 2009. This study sought to compare the performance of property tax in the Organisation for Economic Cooperation and Development (OECD) countries with some non-OECD countries around the world, with a view to understand why a great margin of difference exist between these two sets of countries, as far as property taxation is concern. In this study, more emphasis is put on the extent of good performance of property tax in highly developed and industrialised nations and whether or not urbanisation and industrialisation have positive impact on property tax performance and whether property tax can be a catalyst for urban development and developing countries can harness this lucrative local source of revenue.

Literature review: Property tax despite its unpopularity is confessed to be essential and inevitable source of revenue, this tax contributes up to 44.9% of revenue in Kuala Lumpur, Malaysia; 34% in Makati City, 5.8% in Singapore and 3.8% in Hong Kong. In practice, the tax is heavy on non-domestic (business units) properties than domestic thus, the rate ascribe to non-domestic properties is always higher, it is also difficult to assess non-domestic property for rating, though is a good tax but its application in most local areas where there are no economic investments may be unviable because higher rate are ascribe to non-residential (business units) properties than the residential (domestic) properties (Bird and Slack, 2004).

There is great variability and huge margin of difference between countries in terms of property tax contribution, in the property tax in OECD on average is one-third of the total sub-national tax revenues; in few countries of OECD like UK, US, Australia, Canada, Ireland and New Zealand property tax contributes about 90% of sub-national revenue while in countries like Estonia, Finland, Luxemburg, Sweden and Switzerland the tax is not significant (Presbitero *et al.*, 2014). The tax proceeds may be shared between different tiers of governments depending on the countries but in most OECD nations property tax funds are exclusively vested in the local governments. The scenario in many Africa countries is not encouraging as municipal authorities lack financial strength as a result they rely on central government for funds allocation, as such local governments are bedevilled by governance problem, poor settlements, lack of water, electricity, poor sanitation, etc., all these are the basic local problems which property tax seek to redress.

The service delivery should complement tax collection and both should be commensurate in order to inspire ratepayers to promptly respond to payment. Low tax collection inevitably affects the delivery of services and provision of community facilities; in the level of performance of property tax in Malaysia is not encouraging given the huge outstanding tax arrears, this may to a great extent contribute to the unsatisfactory service delivery (Pawi *et al.*, 2012). According to Bahl and Bird (2008) for effective fiscal decentralization in developing countries and efficient provision of facilities and services needed by the local community, municipal authorities should have more power to levy and administer taxes; this can be a respond to the “lack of political will” as a factor identified as militating against the implementation of property taxation in Bauchi metropolis of Nigeria (Muhammad and Ishiaku, 2013).

Political reason is one of the major problem affecting smooth implementation of property rating in most developing countries, already the tax is unpopular among local people and is constantly being criticized. Zodrow, (2001) opined that property tax in ‘traditional opinion’ is a burden on tenant in terms of house prices; or in ‘benefit opinion’ the tax is a payment for the local facilities and services enjoyed while the ‘new opinion’ sees property tax as a distortionary tax on capital in housing market. According to both politicians and taxpayers often echoed their criticisms on the status of property taxation; these problems have impact on rate collection and service delivery. It was alleged that property tax is not suffice enough to meet the cost of facilities and services in municipal areas but in there is no proven evidence to support this allegation. On the contrary, property tax in some countries can contribute up to 90% of Subnational revenue (Presbitero *et al.*, 2014).

MATERIALS AND METHODS

This study is designed to focus on the performance of property taxation in the OECD and non-OECD countries. Data collected and analysed in recent relevant studies were reviewed and compared in this study. The scope of the study covered the yield and performance of property tax in OECD countries from 1965-2010 and non-OECD countries in the year 2010, the study considered 2010 for non-OECD countries due to dearth of comprehensive information. The main focus is the performance of property tax in two perspectives namely property tax in relation to GDP and property tax in relation to total municipal revenue with a view to discerning the reason for poor performance of the tax in developing countries.

Property tax in oecd countries: Governments across the world rely on a different kind of revenues for economic development. Property tax is particularly relevant and associated with municipal areas. Local authorities are enjoined to provide local services and maintain local infrastructures; however, it can be confessed that local governments are financed by the State and/or Federal fund allocations as well as special grants (Adedokun, 2004), in most scenarios local governments funding are not sufficed enough to carry out its duties, this stressed the economic justification for property tax. This form of tax is well implemented in most OECD countries with some adjustments to suit peculiar local circumstances. However, property tax reform in OECD countries is rare as there was resistance to reform that will confer more prominent role on property tax in many OECD countries.

The tax on real properties is considered very efficient and has least negative impact on economic growth though the tax is levied only on physical properties, there can be tendency that an investor may be discouraged from making physical investment, equally homeowners may be reluctant to improve their houses to avoid paying higher tax, because the tax being ad valorem is based on value. However, even the most advanced OECD countries operate with outdated property value for a long time. This can be detrimental to the progress of property rating exercise; for instance the structure of property rating in the UK was flawed since inception in 1993, since then the banding system was not updated to reflect the frequent changes in property value. Countries like Austria, still applies an old cadastral values of 1973, the United Kingdom uses 1991, Germany still maintains 1964 property values, Cyprus uses 1980, Belgium applies 1975 property value, very few countries carryout revaluation exercise to update property values; in Netherland revaluation is done annually, biannually in Denmark and after every 3 years in Sweden. Updating property value is imperative to avoid under-taxing or over-taxing property, especially as this form of tax is characterized as ad valorem (based on value).

In non-OECD countries like Moldova, Tunisia and Peru property tax in relation to both GDP and total local revenue is very meagre on the other hand; in most African countries, rates collection and enforcement of the tax against evasion and non-compliance is not supported by the authorities or any machinery and necessary information for the smooth operation of the exercise are not in place, there is poor rating administration and total lack of political will for rating of real properties.

From Table 1, it can be discerned that impact of property tax on the GDP in almost all the OECD countries is <3%, except Canada in 1965, 1995 and 2010; and Ireland in 1965 only, as well as United Kingdom and United States throughout the period under consideration have a good property tax revenue. For the 34 OECD countries, there are 204 property tax reports in the table and over 70% of the data reported for the specified years indicated that property tax to GDP is <1%. The average performance of property tax in relation to GDP from 1965-2010 is not encouraging, in 1965 it was 0.67%, 0.66% in 1975, 0.65% in 1985, 0.92% in 1995, 0.96% in 2005 and 1.05% in 2010. The pace of growth of property tax is relatively slow especially in the first 30 years while toward 2010 a slight improvement was recorded where average figure for all the countries in 2010 was 1.05%. Only 6 countries in OECD have good property taxation index compared to other countries.

Twelve countries have recorded reasonable but fluctuating figure in contribution to GDP over 45 years, these countries are Australia, Canada, Denmark, France,

Table 1: Property Tax as a Percentage of Gdp in Some Oecd Countries for Selected Years from 1965 -2010 (%)

Countries	1965	1975	1985	1995	2005	2010
Australia	1.4	1.3	1.3	1.3	1.4	1.4
Austria	0.5	0.3	0.3	0.3	0.3	0.2
Belgium	0.0	0.2	0.3	0.4	0.4	1.2
Canada	3.1	2.7	2.6	3.2	2.7	3.1
Chile	-	-	-	0.6	0.6	0.5
Czech Republic	-	-	-	0.2	0.2	0.2
Denmark	1.5	1.5	0.9	1.0	1.1	1.4
Estonia	-	-	-	0.3	0.3	0.4
Finland	0.0	0.0	0.1	0.5	0.5	0.7
France	0.7	1.1	1.5	1.9	2.1	2.5
Germany	0.5	0.4	0.4	0.4	0.5	0.5
Greece	0.0	0.1	0.1	0.2	0.1	0.1
Hungary	-	-	-	0.1	0.3	0.3
Iceland	-	0.9	0.9	1.3	1.4	1.9
Ireland	3.9	2.2	0.9	0.8	0.7	0.9
Israel	-	-	-	2.3	2.5	2.3
Italy	0.4	0.0	0.0	0.8	0.8	0.6
Japan	0.9	1.21	1.6	2.1	2	2.1
Korea	-	0.4	0.5	0.7	0.6	0.8
Luxemburg	0.4	0.2	0.2	0.1	0.1	0.1
Mexico	-	-	0.1	0.2	0.2	0.2
Netherlands	0.3	0.3	0.8	0.8	0.8	0.7
New Zealand	2.1	2.0	2.0	1.7	1.8	2.1
Norway	0.2	0.2	0.2	0.3	0.2	0.3
Poland	-	-	-	1.0	1.3	1.2
Portugal	0.0	0.0	0.0	0.4	0.6	0.6
Slovak Republic	-	-	-	0.6	0.5	0.4
Slovenia	-	-	-	0.4	0.4	0.5
Spain	0.1	0.1	0.6	0.6	0.7	0.9
Sweden	0.0	0.0	0.4	0.8	0.9	0.8
Switzerland	0.1	0.2	0.1	0.1	0.2	0.1
Turkey	-	-	-	0.0	0.2	0.3
United Kingdom	3.4	3.8	3.8	3.0	3.3	3.4
United States	3.4	3.2	2.5	2.8	2.9	3.0

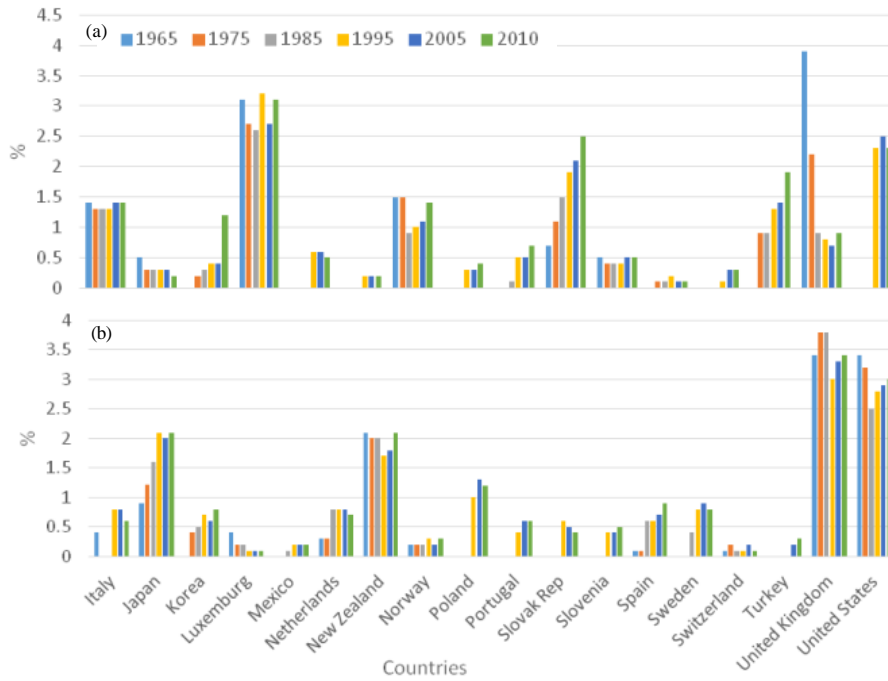


Fig. 1: a, b) A chart of property tax as a percentage of GDP in some OECD Countries for Selected Years from 1965-2010

Iceland, Ireland, Israel, Japan, New Zealand, Poland, United Kingdom and United States. Australia has a steady record with an average of 1.35% of property tax contribution to GDP; Belgium performed relatively well only in 2010 where 1.2% was recorded; Canada has a very good record since 1965-2010 with property tax average 2.9% of GDP; Denmark has an average of 1.23%; property tax contribution in France continue to improve year by year with 2.5% recorded in 2010; Germany has an average below 0.5%; while property rating in Iceland is on the increase from about 1% in 1975- 2% in 2010.

Ireland started with the highest figure of 3.9% in 1965 alone but diminished down to a figure <1% in 2010 alone, this was because residential property tax was abolished in 1978 (Bird and Slack, 2003); available record on property tax in Israel from 1995-2010 indicated a positive development of up to 2.5% contribution to GDP; the scenario in Japan and New Zealand is relatively good with contribution up to 2.1%; the United Kingdom and United States have the most stable property taxation system, though United Kingdom with average of 3.45% contribution to GDP is slightly higher than that of United States 2.97%. However, Turkey has the lowest property tax figure in relation to the GDP, others are Czech Republic, Greece, Estonia, Hungary, Luxemburg, Mexico and Switzerland all of them with just about 0.1% contribution to GDP.

It is apparently clear that only the most industrialised nations of the OECD generate reasonable internal revenue through property taxation, more than less industrialised ones; even though data reviewed in this study reveals that property tax rarely yield more than 3% of GDP in the industrialised OECD countries; according to Slack property tax contribution to GDP in almost all OECD countries is much <3%, this can be evidently seen in the charts illustrated in Fig. 1a and b. Slack further considers the fact that property tax is under-utilized and contemplates whether the tax is really a reliable tax for municipal governments, or whether a different approach can be taken to make the tax more productive to serve people at the municipal level better. Convincingly (Bird and Slack, 2014) concluded that property tax can be regarded as good and reliable source of revenue, in that real properties are immovable and cannot be hidden to evade tax.

Poor yield from property tax in non-OECD countries (notably developing countries) can be attributed to speculative landholding which in effect hinders the pace of urbanization. Though, the tax is unpopular among taxpayers and it hardly can provide the sufficient fund needed to finance local expenditure however, if properly implemented the tax can strengthen local government autonomy by financing local services such as community sanitation, construction of drainages, maintenance of schools, healthcare delivery, construction of markets, motor parks. Growing concern about property tax in many

countries led to a reform in some countries like United Kingdom, Canada, Ireland, Greece and Italy all from OECD (Bird and Slack, 2014).

RESULTS AND DISCUSSION

Property tax as a percentage of total municipal taxes in OECD countries: All municipal authorities in 34 OECD countries imposed property tax where it accounts for more than 10% of total municipal taxes in 27 countries, however, property tax accounts for >90% of total municipal taxes in Canada, New Zealand and Israel; and accounts for 100% in Australia, United Kingdom and Ireland; about 50% in Belgium, France, Czech, Mexico, Slovak; 73% in United States, 47% in Netherlands, 40% in Chile, 33.9% in Portugal and 29% in Japan, Poland and Spain; the lowest property tax in relation to the total municipal taxes was 1.4% recorded in Switzerland.

A well-implemented property taxation has the potential to compete with any local source of revenue. Though, the whole scenario is dependent on individual country's interest and priority, those countries that placed more interest on property rating, can focus on how best it can be harnessed. From Table 2 where property tax ratio of contribution to municipal revenue is the highest, the other three sources of revenue contributed much less. On the other hand, where income tax or goods and services tax are the highest contributor, property tax declines to the lowest. This may indicate that individual country's interest and priority at a particular point in time has role to play in determining property taxation. For example in Finland, income tax as a percentage of total municipal taxes was 93.6% while good and services tax yields 0% and property tax yields only 6.3%; in Hungary good and services tax yields 80% and income tax 0.2% while property tax yields 14.2%; in UK municipal authority gets 100% of her local revenue from property tax and 0% from all other sources (Fig. 2a and b).

It can be discerned that in the 34 countries of the OECD listed above, municipal revenue is generated from four distinct sources, namely the income tax, goods and services tax, property tax and other sources. It can be seen that, the higher the revenue generated from a particular source, the lower will be the revenue from the other three sources. For instance, when property tax contribution to municipal revenue is 100% in Australia, Ireland and United Kingdom, it is 0% from all other sources; likewise in Canada, Israel and New Zealand >90% of the local revenue come from property tax while the rest is generated mainly from goods and services tax. In United States,

Table 2: Property tax as a percentage of total municipal taxes in OECD countries (%)

Countries	Income tax	Goods and services tax	Property tax	Others*
Australia	0.0	0.0	100.0	0.0
Austria	61.4	9.9	15.4	13.3
Belgium	36.7	9.9	53.2	0.3
Canada	0.0	2.0	91.2	6.8
Chile	0.0	59.7	40.3	0.0
Czech Republic	0.0	48.5	51.5	0.0
Denmark	89.0	0.1	10.8	0.1
Estonia	89.6	2.6	7.8	0.0
Finland	93.6	0.0	6.3	0.1
France	8.4	25.3	53.8	12.5
Germany	78.1	6.0	15.8	0.1
Greece	0.0	21.4	24.0	54.7
Hungary	0.2	80.0	14.2	5.6
Iceland	77.4	2.0	20.6	0.0
Ireland	0.0	0.0	100.0	0.0
Israel	0.0	4.8	95.2	0.0
Italy	25.0	32.9	9.4	32.7
Japan	48.6	19.4	29.8	2.2
Korea	16.8	26.7	16.3	40.1
Luxemburg	92.2	1.4	4.4	2.0
Mexico	0.3	1.7	59.3	38.7
Netherlands	0.0	50.0	47.6	2.3
New Zealand	0.0	8.7	91.3	0.0
Norway	88.5	1.4	4.8	5.3
Poland	58.2	8.3	29.1	4.4
Portugal	34.6	26.4	33.9	5.2
Slovak Republic	0.0	49.2	50.8	0.0
Slovenia	78.5	6.5	11.9	3.2
Spain	20.6	39.2	29.6	10.6
Sweden	97.4	0.0	2.6	0.0
Switzerland	84.3	1.3	1.4	13.1
Turkey	24.5	49.8	11.1	14.5
United Kingdom	0.0	0.0	100.0	0.0
United States	5.2	21.4	73.4	0.1

property tax remits over 73% of local revenue and the three other sources make for 27%. Where income tax records higher tax, other sources remit a meagre ratio, as can be noticed in Finland, Denmark, Luxemburg, Estonia, Norway, Germany, Sweden and Switzerland.

Property tax in non-OECD countries: Developing countries across the world are facing problems on local revenue generation, the general performance of tax revenue to the GDP in developing countries is poor compared to most OECD countries, thereby creating huge 'tax gap' difference between the tax collected and what could be collected. These countries are said to be bedevilled with mainly political challenges in dealing with revenue generation; the discovery of natural resources in some developing countries notably Africa and the huge revenue fetched by respective governments tends to reduce the dependency on non-resources revenues (Mascagni *et al.*, 2014). Thus, despite the potentiality of property tax, it is far from being the main source of local revenue in developing countries (Sepulveda and Martinez-Vazquez, 2011).

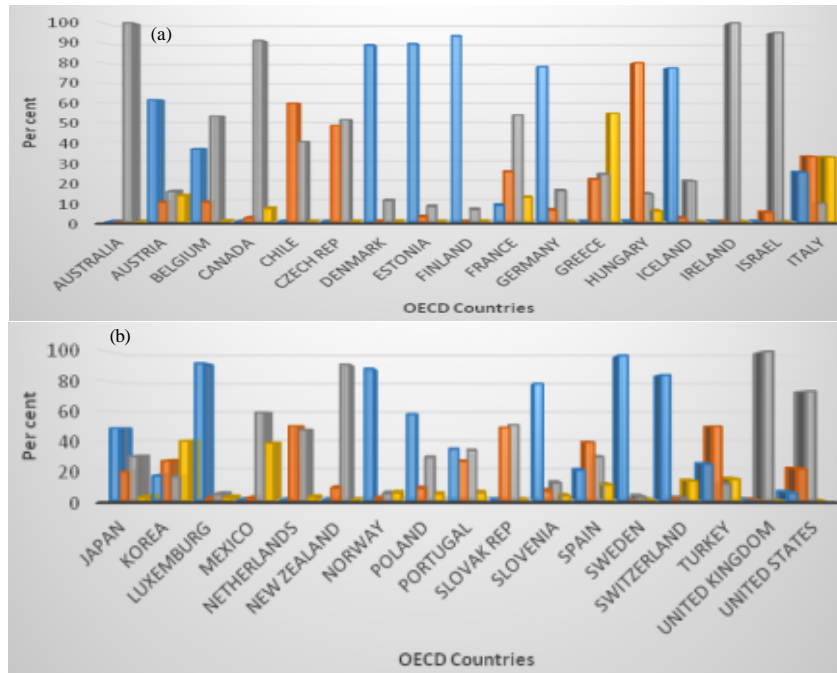


Fig. 2: a, b) A chart of property tax as a percentage of total municipal taxes from the year 1965-2010

Table 3: property tax as a percentage of gdp and total municipal taxes in some Non-OECD countries in 2010

Countries	GDP (%)	Total municipal taxes
Afghanistan	0.23	58.0
China P.R. Mainland	0.51	6.1
Paraguay	0.27	55.0
Armenia	0.24	45.0
Brazil	0.40	30.0
Russian Federation	1.23	17.0
Georgia	0.92	70.0
Guatemala	0.19	100
Moldova	0.14	3.1
Mongolia	0.16	6.8
unisia	0.10	17.3
Ukraine	0.79	13.0
Costa Rica	0.20	33.0
Turkey	0.24	10.0
Ghana	-	-
Bulgaria	0.94	65.0
Nigeria	-	-
Cape Verde	0.47	70.62
Kerya	0.25	15.00
South Africa	-	21%
Latvia	0.70	12.45
Serbia Rep	0.41	12.19
Peru	0.17	26

Bird and Slack (2003), Norregaard (2013)

The performance of property tax in developing and transition countries is not encouraging compared to OECD countries, in the year 2000, the property tax in 18 countries of OECD is 2.12% of GDP, in 29 developing countries property tax relative to GDP is 0.60 and 0.68% in 18 transition countries. There is the indication that performance of property tax is influence by the level of economic growth and development. The performance of

property tax in most developing countries is poor in relation to GDP, as in Table 3, the tax contributed <0.05% to GDP in most countries while contribution to total municipal taxes is not encouraging, as in 14 countries is <30% (Bird and Slack, 2003).

The figure reported for Kenya was that of the year 2000. The Nigerian taxation system is weak due to the dearth of data on real property and reliance on crude oil revenue (Salami, 2011) property tax is deficient in many developing countries.

The impact of property tax on GDP in OECD countries is good and particularly excellent in some countries like Australia, Canada, Denmark, France, Iceland, Ireland, Israel, Japan, New Zealand, Poland, United Kingdom and United States. No doubt the contribution of property tax to total municipal revenue is higher compared to GDP, because GDP deals with total value of goods and services produced in a given country by both the citizen and foreigners, GDP has to do with the national economy index, while the total municipal taxes look at the revenues that accrued to the local government council only. In most non-OECD countries, property tax in relation to GDP is <0.50%. Poor yield from property tax can be attributed to low urbanisation, according to Latin American countries indicated inadequate public infrastructure investment; this could affect property taxation as the assessment of properties for rating is based on property value (ad valorem) thus, the higher the value of real estate, the higher the tax such property could command (Kuye, 2002) (Fig. 3).

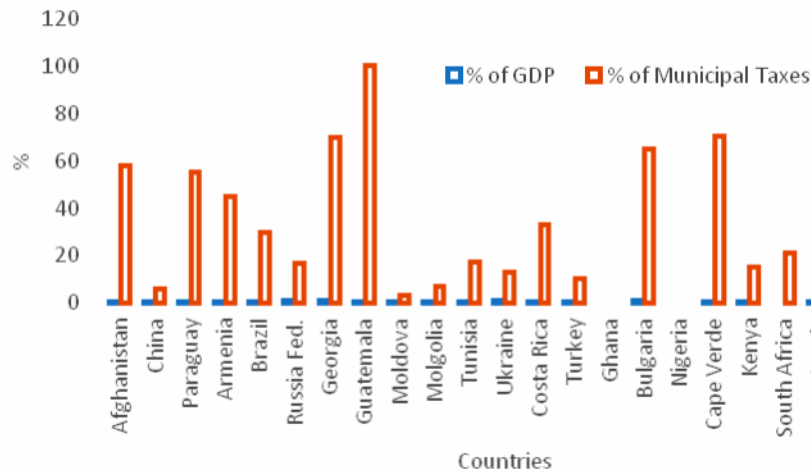


Fig. 3: A chart of property tax as a percentage of GDP and total municipal taxes (Bird and Slack, 2003)

In some countries, property tax is shared among the three tiers of government, namely the Central/Federal, Regional/State and local governments. For instance in Australia, about 63% of the municipal taxes remain with the local government while 37% goes to Regional/State government; In Austria, 4.8% of municipal tax goes to Central government, 5.9% to State and 89.3% remain with the local government; in Belgium 0.8% goes to Central, 3.3% to the State and 96% to Local government. Countries like Denmark, Germany, Hungary, Ireland, Italy, Japan, New Zealand, Spain etc bestowed all the local revenue to the local government while in Canada 7.8% of the local revenue is remitted to the State and 92.2% to the local government; in Switzerland 29.5% is remitted to the State and 70.5% to the local government; in Mexico 33.1% goes to the State and 66.9% to the local government.

CONCLUSION

Property tax is doing pretty well in many OECD countries and is very excellent in some of the countries; and is unsatisfactory in many non-OECD countries and very poor in most of the non-OECD countries. The performance of property tax is attributed to the amount of money real estate in a given geographical area can yield annually (rental value) or capital value, since the tax is calculated on the basis of property value (ad valorem), thus the higher the value of real estate, the higher the tax liability and vice versa. There is an indication that, proximity to important features, locational attributes etc influence the rental and capital value of a property, therefore real properties located in urban areas, in the midst of good infrastructural development and neighbourhood facilities are likely to command higher

rental and capital values due high level commercial activities. This scenario in turn culminates to huge property tax return. Thus, OECD countries yields property tax return higher than non-OECD countries due to high level of urbanization and industrialization.

SUGGESTIONS

- Measuring the impact of urbanization/infrastructure on property tax
- Proposing a simple framework for property rating in developing countries

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