ADB

The Governance Brief

ISSUE 38 • 2020

Cambodia's Property Tax Reform

Policy Considerations Toward Sustained Revenue Mobilization

by Sissie Fung and Brian McAuley[1]

1. Introduction

Cambodia has achieved remarkable economic development over the last 20 years and is among the fastest-growing economies in Southeast Asia. With an expected gross domestic product (GDP) growth of 6.8% in 2020 (Table, p. 2), Cambodia performs better than other countries in the region, such as Singapore (1.4%), Thailand (3.2%), and Viet Nam (6.7%).[2] Cambodia attained middle-income status in July 2016, and it has reduced its poverty rate from 47.8% in 2007 to 13.5% in 2014.[3] However, although GDP per capita has increased dramatically—reaching a high of $1,384.42 in 2017—it is low by global standards, equivalent only to 12.9% of the world's average.[4]

Land has always been at the center of socioeconomic development in Cambodia, which has a traditionally agricultural society. After the downfall of the Khmer Rouge regime, under which most of land tenure and cadastral records were destroyed and private property was abolished, the government began the long process of transitioning toward a free-market system. The change of market system provided an important impetus for Cambodia's comprehensive land-related reforms, which included the creation of a framework for the recognition of private property rights, the establishment of a system for granting and issuing economic land concessions to domestic and foreign investors, the delegation of land administration from central to provincial level, and the creation of a single land registry authority responsible of registering all land in the country.[5]

Since the adoption of the 2001 Land Law, the Government of Cambodia has made significant progress in developing policy and regulatory frameworks for land management and land use.

For inquiries, comments, and suggestions, please contact the editor of the Governance Brief, Claudia Buentjen, at +632 8683 1852 or cbuentjen@adb.org, SDCC Thematic Advisory Service Cluster, Governance Thematic Group. Previous issues of *The Governance Brief* can be accessed at http://www.adb.org/publications/series/governance-briefs.

[1] The authors work as consultants with the Asian Development Bank (ADB) on strengthening tax policy and administration capacity to mobilize domestic resources for ADB's developing member countries (DMCs). This policy brief is produced with financial support from ADB Domestic Resource Mobilization Trust Fund (ADB DRMTF) and Japan Fund for Poverty Reduction (JFPR) with contribution from the Government of Japan. The views expressed herein are the authors' own and can in no way be taken to reflect the official opinion of ADB, ADB DRMTF, JFPR or the Government of Japan.

[2] ADB. 2019. *Asian Development Outlook 2019 Update: Fostering Growth and Inclusion in Asia's Cities.* Manila. https://www.adb.org/sites/default/files/publication/524596/ado2019-update.pdf.

[3] ADB. 2018. Cambodia: Fact Sheet. https://www.adb.org/sites/default/files/publication/27757/cam-2017.pdf.

[4] The World Bank Group. World Bank national accounts data, and OECD National Accounts data files. https://data.worldbank.org/indicator/NY.GDP.PCAP.CD (accessed 8 February 2019).

[5] S. Sovann. 2010. *Land Reform in Cambodia: Social Aspects of Land Administration and Land Reform*. http://www.fig.net/resources/proceedings/fig_proceedings/fig2010/papers/ts07j/ts07j_sovann_4633.pdf.

The government is committed to continue the land reform program under the new rectangular strategy for 2018–2023.

Growth Rate of GDP (% per year)

	2018	2019		2020	
		ADO 2019	Update	ADO 2019	Update
Southeast Asia	**5.1**	**4.9**	**4.5**	**5.0**	**4.7**
Brunei Darussalam	0.1	1.0	1.0	1.5	1.5
Cambodia	7.5	7.0	7.0	6.8	6.8
Indonesia	5.2	5.2	5.1	5.3	5.2
Lao PDR	6.3	6.5	6.2	6.5	6.2
Malaysia	4.7	4.5	4.5	4.7	4.7
Myanmar	6.8	6.6	6.6	6.8	6.8
Philippines	6.2	6.4	6.0	6.4	6.2
Singapore	3.1	2.6	0.7	2.6	1.4
Thailand	4.1	3.9	3.0	3.7	3.2
Viet Nam	7.1	6.8	6.8	6.7	6.7

ADO = Asian Development Outlook, GDP = gross domestic product, Lao PDR = Lao People's Democratic Republic.
Source: Asian Development Bank. 2019. *Asian Development Outlook 2019 Update: Fostering Growth and Inclusion in Asia's Cities*. Manila.

It has established mechanisms for out-of-court land dispute settlement and land dispute prevention, improved land tenure security through land registration and title issuance, and spurred the equitable distribution of land through social land concession and land grant schemes. As set out in the *Rectangular Strategy for Growth, Employment, Equity and Efficiency, Phase III* of the Fifth Legislature of the National Assembly, Cambodia's land reform program aims to:

- strengthen the system of land management,
- facilitate land distribution and utilization,
- ensure the security of titles of land ownership,
- eliminate illegal and anarchic land grabbing, and
- prevent misuse of land acquisition and landholding of concessions for speculative purposes or without any productive purpose.[6]

To meet these objectives, the government recognized that it has to address challenges such as inconsistency in updating land information, inadequate institutional coordination, protracted delays in land dispute settlement, and allocation of financial and human resources for land surveying. The government is committed to continue the land reform program under the new rectangular strategy for 2018–2023, aimed at more efficient land use and management.[7] It has articulated its vision to integrate the Agenda 2030 for Sustainable Development in its plans and ensure a secure, inclusive, and prosperous society that eliminates poverty and leaves no one behind.

In terms of revenue performance, the General Department of Taxation (GDT) has an impressive track record in revenue collection, often exceeding the government's budget targets (Figure 1).[8] Its success is attributed to the effective management

[6] Royal Government of Cambodia, Fifth Legislature of the National Assembly. 2013. *Rectangular Strategy for Growth, Employment, Equity and Efficiency, Phase III*. Phnom Penh. http://cnv.org.kh/wp-content/uploads/2013/10/26sep13_rectangular-strategy_phaseIII.pdf.

[7] Royal Government of Cambodia, Sixth Legislature of the National Assembly. 2018. *Rectangular Strategy for Growth, Employment, Equity and Efficiency: Building the Foundation Toward Realizing the Cambodia Vision 2050, Phase IV*. Phnom Penh. http://cnv.org.kh/wp-content/uploads/2012/10/Rectangular-Strategy-Phase-IV-of-the-Royal-Government-of-Cambodia-of-the-Sixth-Legislature-of-the-National-Assembly-2018-2023.pdf.

[8] International Monetary Fund. 2018. Cambodia: Technical Assistance Report–Tax Administration Modernization Priorities 2019-23. *IMF Country Report No. 18/305*. Washington, DC.

of a strategic organizational reform over the last 5 years; the introduction of an information technology-based taxpayer registration system, which has expanded the taxpayer base; and a significant increase in the number of qualified staff.

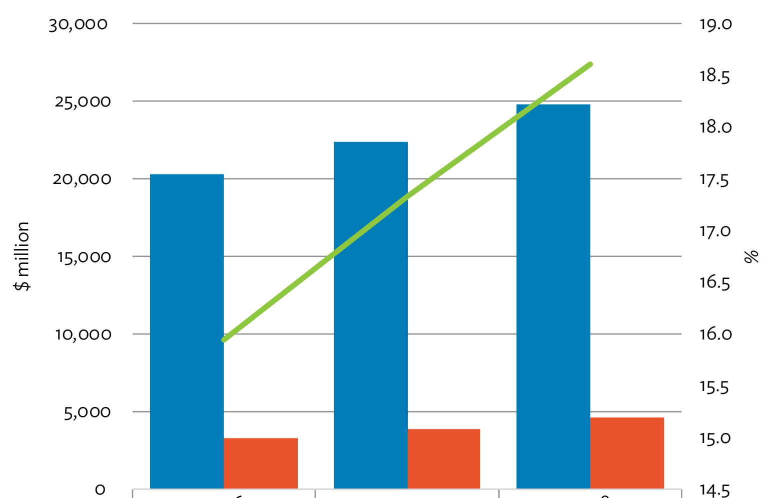
Alongside its goals of sustaining economic growth amid fair competition and social justice, and achieving the national development objectives and the Sustainable Development Goals, Cambodia has developed a new Revenue Mobilization Strategy for 2019–2023 to further improve its revenue administration and tax collection sustainability. Under this strategy, the GDT is considering various policy and administrative measures, including a reform to improve the productivity of its recurrent property tax system.[9]

2. Property Taxation and Domestic Resource Mobilization

Property taxation is regarded as one of the best forms of taxation because it contributes to social equity and economic efficiency while providing a stable and predictable revenue source for governments. However, for many Asian Development Bank (ADB) developing member countries (DMCs), existing property tax regimes produce very low revenues due to poor system design, many exemptions, incomplete property databases, and weak administration. Developing and maintaining an effective and efficient property tax system are hindered by rapid urbanization, informal and nontransparent land markets, institutional constraints, public resistance, and lack of human and financial resources. As such, the revenue performance of property taxes remains substandard. In some high-performing economies in the Organisation for Economic Co-operation and Development (OECD), for example, revenue from recurrent property taxes as a percentage of the GDP could reach up to 2.8% in France and 3.1% in the United Kingdom (in 2017).[10] In Asia's developing countries such as Indonesia, the Philippines, and Thailand, revenue from recurrent property taxes yields only 0.12%–0.38% of GDP (Figure 2).[11] Other

Property taxation is regarded as one of the best forms of taxation because it contributes to social equity and economic efficiency while providing a stable and predictable revenue source for governments.

Figure 1: Cambodia's Tax-to-GDP Ratio, 2016–2018



	2016	2017	2018
GDP ($ million)	20,311	22,412	24,833
Total tax revenue ($ million)	3,239	3,885	4,620
Tax-to-GDP (%)	15.95	17.33	18.60

GDP = gross domestic product.
Source: Government of Cambodia, Ministry of Economy and Finance, General Department of Taxation.

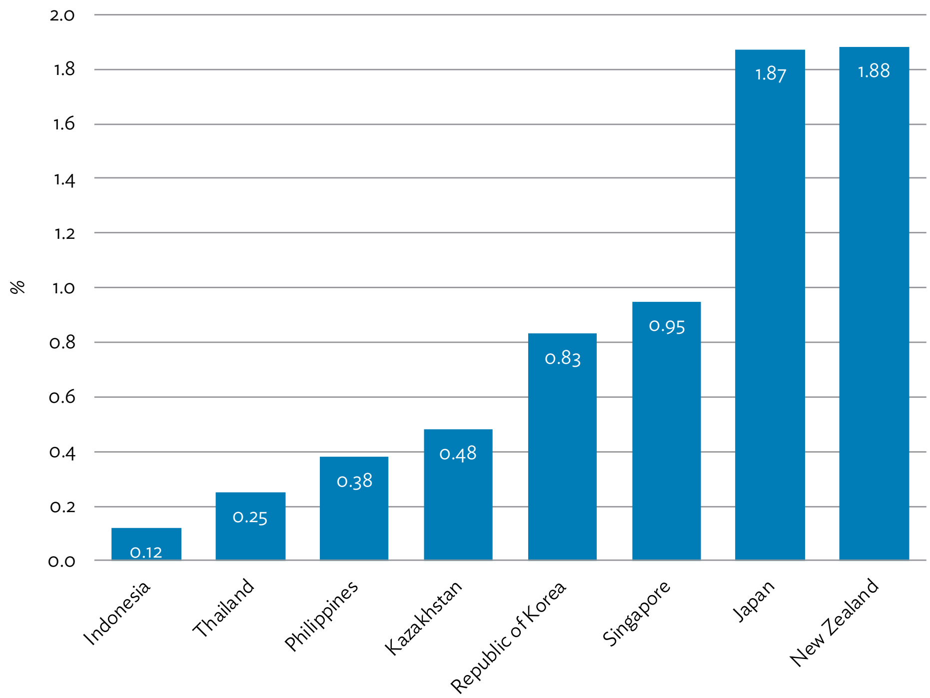
[9] ADB is conducting a benchmark study for enhanced revenue performance of recurrent property taxes in Southeast Asia under the ADB DRMTF, in which Cambodia is one of the four benchmarking partners. The ADB DRMTF is a multi-partner trust fund established in July 2017 to enhance domestic resource mobilization in ADB's DMCs and help them achieve the United Nation's 2030 Sustainable Development Goals. See https://www.adb.org/site/funds/funds/domestic-resource-mobilization-trust-fund.

[10] OECD. 2018. *Revenue Statistics 2018*. Paris.

[11] OECD. 2019. *Revenue Statistics in Asian and Pacific Economies 2019*. Paris.

Increasing the property tax revenue to 1%–1.5% of the GDP would be beneficial to the country.

Figure 2: Recurrent Property Tax Revenue as Percentage of GDP in Selected Asia and the Pacific Economies, 2017



GDP = gross domestic product.

Source: Organisation for Economic Co-operation and Development. 2019. *Revenue Statistics in Asian and Pacific Economies 2019*. Paris.

DMCs in the region, including Cambodia, have even lower yield. Based on the conservative revenue forecast by the Ministry of Economy and Finance (MEF), the recurrent immovable property tax is expected to produce $27.8 million in 2019 or 0.10% of GDP.[12]

There is substantial scope for increasing revenues, but this must be applied gradually and carefully to avoid sudden impacts, particularly on vulnerable taxpayers. Increasing the property tax revenue to 1%–1.5% of the GDP would be beneficial to the country. Setting such a goal for, say, 10 years hence could establish a context for the continuous improvement of the system and administration of property tax in the long term.

3. Cambodia's Immovable Property Tax

In Cambodia, the introduction of the Tax on Immovable Property (TIP) under the 2010 Law on Financial Management was a positive step toward sustained revenue mobilization. Under this law, a 0.1% recurrent property tax is applied to immovable properties with a market value in excess of KR100 million (approximately $25,000).[13] The market value is assessed and updated regularly by the Immovable Properties Appraisal and Valuation Commission, under the political responsibility of MEF. In Cambodia, all taxes, including TIP, are administered by the State through the GDT (Box, p. 5).

Like most recurrent property taxes, the revenue from TIP is allocated to subnational administrations for their development. The tax, however, has not yet become a significant revenue producer for Cambodia due to policy design and administrative issues. The statutory tax rate is low, and the scope of tax is limited to properties located in the capital city of Phnom Penh and in provincial cities. In addition, a large number of properties, particularly those in the provinces, is exempted from taxation. Furthermore, the tax base for the immovable property tax is not based on the full market value but calculated at 80%

[12] Government of Cambodia, Ministry of Economy and Finance. 2019. *Budget Law*. Phnom Penh.

[13] "KR" refers to riels.

Box: Cambodia's Taxes on Real Properties

Tax on Immovable Property (TIP): Effective 2011, a uniform 0.1% recurrent tax is applied on immovable properties, which is defined as land, houses, buildings, and other constructions built on land, located in a limited number of urban areas. The tax base is 80% of the assessed market value of the property minus a general exemption of KR100 million (approximately $25,000). Certain immovable properties are exempted: agricultural land; properties belonging to the government, religious or charitable institutions, diplomatic or consular mission, and international organizations; public infrastructure; immovable properties located in special economic zones; and houses, buildings, and structures which are under construction (less than 80% completed) and have not yet been used.

Tax on Unused Land (TUL): Introduced in 1995, the TUL is levied on unused land, including unused land with existing buildings in an abandoned state, at a rate of 2% tax on the assessed market value of the land per square meter.

Property transfer tax: A 4% registration tax is levied on the transfer value or the assessed market value of the property, as determined by the Immovable Property Assessment Committee (whichever is higher), for the transfer of ownership or right of possession of immovable property. Transfer among family or relatives, however, is exempted from registration tax but might be subject to preferential duties.

Income tax: Rental income from immovable properties is subject to withholding tax at a rate of 10%.

Sources: Government of Cambodia, Ministry of Economy and Finance, General Department of Taxation; and International Bureau of Fiscal Documentation.

of a discounted property base value (which is the appraised market value minus KR100 million).

Besides the low rate and narrow tax base, difficulties in the inclusion of all properties in the tax roll have also contributed to the poor revenue performance of TIP. As the fiscal cadastre is person-based, the system depends largely on taxpayers to register their properties.[14] To do this, they have to submit accurate declarations of their property holdings and supporting documents (PT01 form); file the property tax return (PT02 form); calculate their tax liability; and pay their taxes at any tax branch or any branch of the financial institutions authorized to collect tax payments—e.g., Canadia Bank, Acleda Bank, Wing (Cambodia) Limited Specialized Bank—before the deadline of 30 September each year. When registering their properties, taxpayers are given a Property Identification Number (PIN). However, there are cases of tax officials issuing two or more PINs on one property, taxpayers not filing their tax returns, and wrongful filing (e.g., underreporting of the size of property or appraisal valuation, nonreporting of changes in merging or splitting of land and other modification of properties). On top of these, fragmented and incomplete data-keeping, as well as lack of coordination between government institutions responsible for registering and maintaining property records, complicate the government's efforts to improve the coverage ratio of the property tax.

To address these challenges, the GDT is gaining better access to property information from the General Department of Cadastre and Geography of the Ministry of Land Management, Urban Planning and Construction. It is also conducting periodic surveys by trained property assessors to increase the number of properties registered in the tax system and to update the existing property information in the database.

Another determinant of revenue performance of the property tax is the valuation. A property tax system based on assessed market values

[14] A fiscal cadastre can either be person- or taxpayer-based or property- or map-based. A person-based cadastre lists the persons, both physical and legal, and information about the properties they are known to possess. By contrast, a property-based cadastre is organized by property, which holds information on the location, zoning, and the owners and/or users.

Real estate sales and transactions are believed to be often underreported to evade the 4% transfer tax.

depends on the presence of a transparent and active real estate market, which offers a source of accurate transaction data as a basis for an objective assessment of the market value of all types of real property in all locations. In Cambodia, the property market is considered immature and developing. The land tenure and titling system cannot yet ensure transparency and security of the titles of land ownership. Real estate sales and transactions are believed to be often underreported to evade the 4% transfer tax. As such, reliable data on recent sales and listing prices in Cambodia are not readily available to provide accurate market value assessments.

4. Reform Strategy

In its Revenue Mobilization Strategy for 2014–2018, Cambodia made it a policy to increase domestic resource mobilization by improving revenue administration and tax collection through better skills and systems, and not through new or increased taxes. So, although the statutory property tax rate is very low, the current approach to increase revenue from property tax is mainly an administrative move meant to improve the registration and valuation of properties in the tax roll, strengthen enforcement and compliance, and gain better access to information.

This strategic approach is prudent. It will bring all properties, particularly high-value ones, into the registry and improve the administration and collection systems before increasing tax rates. It is fairer to registered properties to defer rate hikes until the property tax base has been updated with all properties within scope. This approach, based on fairness and accompanied by good communication to taxpayers, should promote public acceptance of these revenue-raising reforms.

To ensure the success of the administrative reforms, Cambodia is developing a set of key performance indicators and targets under the Revenue Mobilization Strategy for 2019–2023 to monitor the implementation and results of ongoing reform efforts. Under the new strategy, the government is considering to expand the scope of the property tax to downtown areas (mainly districts) and to review the exemption policies. The government is also preparing a law that will give the tax administration powers to obtain information and data from relevant government institutions for tax purposes. This legislation is expected to come into force in 2020.

5. Compliance and Administration

Completing the property tax register is a priority. This should be linked to strengthening the collection processes and proofing them against leakages, since higher taxation often creates incentives for abuse.

While it is easy to implement and is appealing in countries with little administrative capacity, a tax system based on self-assessment and self-declaration is likely to produce underestimates. To overcome this problem, the tax administration has the right to verify the tax base and tax payments, and to impose penalties in cases of nonregistration, underpayment of tax, and nonfiling of a tax return. In practice, however, the GDT has applied a soft approach to collecting the immovable property tax. It has relied on a system in which a transfer of ownership cannot occur until a property owner's tax debts, including penalties, have been paid in full, which effectively defers the tax.

6. Cushioning the Impact of a Tax Increase

Cambodia recently completed a revaluation of properties. Effective 1 July 2019, property base values for the purpose of transfer tax have been revised and increased across the country. In some potential urban areas, the increase was 70%-80% of the market value. For the levy of the immovable property tax, the reappraisal is expected to create a significant tax hike (in some cases, an increase of 100%), as the last update took place in 2014. To make the property tax more palatable politically and to address the concerns of "asset-rich and cash-poor" households, the Government of Cambodia is studying policy options to dampen the impact of the tax increase, which include an adjustment of the tax base value or the base exemption. The government has also proposed that properties shall be reappraised at least every 5 years.

Infrequent revaluations, especially in high-growth areas, can result in sharp overnight increase in property valuations and corresponding tax liabilities. Adjusting the tax base value, e.g., by phasing in the value or tax increase in increments over several years, can provide taxpayers transitional relief. As an alternative, Cambodia is considering adjusting the base exemption. Depending on the design—and provided that the threshold is set low enough—a basic exemption of very low-value properties can be equitable as it favors income progressivity and could improve the fiscal performance of property taxes due to lower collection costs.[15] Conversely, if the basic exemption is set too high, it will erode the tax base and encourage rent-seeking behavior by taxpayers. The current base exemption is set at KR100 million (approximately $25,000) and is applicable to every taxable property in Cambodia, regardless of the value of the property, the income-level of the property owner, or the amount of property owned. The policy consideration to significantly increase the exemption, though administratively simple, should be carefully weighed against the costs of revenue loss; the efficacy of the policy instrument in delivering its objective; the distributional impact on different groups and on progressivity; the associated costs of rent-seeking behavior; and the availability of other, more cost-effective policy alternatives.

If the objective is to cushion poorer taxpayers from excessive property tax burden, other policy instruments can be evaluated, such as subsidies for qualified owner-occupiers or voluntary deferral arrangements, where taxpayers may defer all or part of their taxes, sometimes with interest accruing over the deferred amount, until their financial circumstances improve or the property is transferred. The deferral becomes a lien on the property. Improving the ease of payment, e.g., by allowing taxpayers to pay their tax in monthly installments via utility bills or having the tax deducted at source from salary or occupational pension, could address some of the liquidity constraint issues. Such policies might provide a more targeted and cost-effective relief scheme.

Instead of adjusting the tax base value or the base exemption to mitigate the impact of a sudden tax increase due to the reappraisal of properties, having more frequent revaluations and applying annual indexation (e.g., by the rate of inflation) between valuation cycles can achieve that objective. Frequent updating of property values has the added advantage of maintaining the buoyancy in tax revenue.

7. Conclusion and Policy Recommendations

Cambodia has taken a cautious but sensible approach to enhancing the revenue performance of the immovable property tax by focusing on administrative improvements that expand the tax base coverage, increase the valuation level, and strengthen the enforcement and compliance measures while providing tax relief to address social equity concerns.

Developing an effective and efficient market value-based property tax system requires a long-term strategy and an upfront investment in human resources, a comprehensive fiscal cadastre, and valuation infrastructure. Against this backdrop, the government's decision to not increase the tax rates at this stage is prudent. Raising tax rates without first ensuring that all taxable properties, particularly high-value ones, are included in the tax roll would raise social justice and equity concerns, and could undermine reform efforts. Cambodia should, however, consider in due course a policy of gradual increases to the tax rate once the system is working effectively. In the longer term, the property tax could be expanded across the whole country.

A well-designed property tax relief should improve equity and provide the public confidence that the tax is fair. This, however, needs to be balanced against the erosion of the tax base, cost-effectiveness of the measure, its distributional impact, the associated social costs of rent-seeking behavior, and administrative complexity and politics. A blanket approach to adjust the tax base value or base exemption to mitigate the impact of tax increase, although administratively simple, might be too broad as it applies uniformly to all taxpayers, regardless of their household income and wealth. Instead, Cambodia could consider other policy measures that provide a more cost-effective and targeted relief. Having shorter valuation cycles with annual indexing of the property values in between can smoothen the sharp tax increases due to a quinquennial valuation while maintaining the buoyancy in property tax revenue.

Cambodia should, however, consider in due course a policy of gradual increases to the tax rate once the system is working effectively.

[15] R. Maurer and A. Paugam. 2000. Reform Toward Ad Valorem Property Tax in Transition Economies: Fiscal and Land Use Benefits. *Land and Real Estate Initiative, Background Series 13*. Washington, DC: World Bank.

References

Asian Development Bank (ADB). 2019. *Asian Development Outlook 2019 Update: Fostering Growth and Inclusion in Asia's Cities.* Manila. https://www.adb.org/sites/default/files/publication/524596/ado2019-update.pdf.

ADB. 2018. Cambodia: Fact Sheet. https://www.adb.org/sites/default/files/publication/27757/cam-2017.pdf.

IBFD. 2018. Tax Research Platform, Country Key Features of Cambodia.

International Monetary Fund. 2018. Cambodia: Technical Assistance Report–Tax Administration Modernization Priorities 2019-23. *IMF Country Report No. 18/305*. Washington, DC. https://www.imf.org/en/Publications/CR/Issues/2018/11/07/Cambodia-Technical-Assistance-Report-Tax-Administration-Modernization-Priorities-201923-46336.

R. Maurer and A. Paugam. 2000. Reform Toward Ad Valorem Property Tax in Transition Economies: Fiscal and Land Use Benefits. *Land and Real Estate Initiative, Background Series 13*. Washington, DC: World Bank.

Organisation for Economic Co-operation and Development (OECD). 2018. *Revenue Statistics 2018*. Paris. https://doi.org/10.1787/rev_stats-2018-en.

OECD. 2019. *Revenue Statistics in Asian and Pacific Economies 2019*. Paris. https://doi.org/10.1787/b614e035-en.

Royal Government of Cambodia, Fifth Legislature of the National Assembly. 2013. *Rectangular Strategy for Growth, Employment, Equity and Efficiency, Phase III*. Phnom Penh. http://cnv.org.kh/wp-content/uploads/2013/10/26sep13_rectangular-strategy_phaseIII.pdf.

Royal Government of Cambodia, Sixth Legislature of the National Assembly. 2018. *Rectangular Strategy for Growth, Employment, Equity and Efficiency: Building the Foundation Toward Realizing the Cambodia Vision 2050, Phase IV*. Phnom Penh. http://cnv.org.kh/wp-content/uploads/2012/10/Rectangular-Strategy-Phase-IV-of-the-Royal-Government-of-Cambodia-of-the-Sixth-Legislature-of-the-National-Assembly-2018-2023.pdf.

S. Sovann. 2010. *Land Reform in Cambodia: Social Aspects of Land Administration and Land Reform*. http://www.fig.net/resources/proceedings/fig_proceedings/fig2010/papers/ts07j/ts07j_sovann_4633.pdf.

World Bank. 2018. *Cambodia Economic Update: Recent Economic Developments and Outlook.* http://documents.worldbank.org/curated/en/888141543247252447/pdf/132482-WP-PUBLIC-nov-28-Economic-Update-Nov-final-01Low-res.pdf.

The World Bank Group. World Bank national accounts data, and OECD National Accounts data files. https://data.worldbank.org/indicator/NY.GDP.PCAP.CD (accessed 8 February 2019).

The governance brief was peer-reviewed by Roy Bahl, Ian Lloyd, and Yasushi Suzuki.

In this report, "$" refers to United States dollars.

ISBN 978-92-9262-005-9 (print), 978-92-9262-006-6 (electronic)
ISSN 2520-6591 (print), 2520-6605 (electronic)
Publication Stock No. BRF200014
http://www.adb.org/publications/corrigenda
pubsmarketing@adb.org
https://www.adb.org/publications/series/governance-briefs
DOI http://dx.doi.org/10.22617/BRF200014