TECHNICAL ASSISTANCE REPORT

SRI LANKA

Property Taxation at the National and Sub-national Level

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Acronyms and Abbreviations

AVM	Automated Valuation Model
CEB	Ceylon Electricity Board
CGT	Capital Gains Tax
CMC	Colombo Municipal Council
CMU	Change Management Unit
EFF	Extended Fund Facility
GIS	Geographic Information System
GPS	Global Positioning System
GVD	Government Valuation Department
ICT	Information, Communication & Technology
IRA	Inland Revenue Act
IRD	Inland Revenue Department
IRIT	Imputed Rental Income Tax
MC	Municipal Council
PIT	Personal Income Tax
PS	Pradeshiya Sabha
SPRR	Sales Price and Rent Register
UC	Urban Council
VAT	Value-added Tax

Preface

In response to a request from the Sri Lankan authorities, a technical assistance mission of the Fiscal Affairs Department (FAD) of the IMF visited Colombo, during the period February 7th – February 21st, 2024, to support the government in implementing its commitments made under the Extended Fund Facility that was reached in September 2022 in relation to property and wealth taxation. The mission was led by Sebastian Beer (FAD) and comprised Riël Franzsen and William McCluskey (both external experts).

The mission was received by the Secretary of the Treasury, Ministry of Finance Mr. K. M. Mahinda Siriwardana and benefitted from the support of the Director General of the Department of Fiscal Policy, Mr. Kapila Senanayake and their staff, notable Ms. Thanuja Perara, Tax Advisor, Ministry of Finance.

The mission held meetings with officials from the Department of Fiscal Policy, Finance Commission, Ministry of Provincial Councils and Local Government Affairs, Chief Valuer's Office, Surveyor Department, Registrar's General Department, Land Commissioner General Department and several municipal councils and Pradeshiya Sabhas.

The mission wishes to express its sincere appreciation for the excellent support, cooperation, and hospitality that it received from the authorities of Sri Lanka and all individuals and organizations met during its stay in Colombo, notably Mr. Darshana Wijesiriwardane.

Executive Summary

Central government revenue

Meeting the commitments made under the current IMF program will require new central government taxes. Under the EFF arrangement, the authorities committed to revamping the property tax system and introducing a wealth transfer tax to support fiscal consolidation.[1] However, in accordance with Sri Lanka's constitution, property-related tax revenue, currently amounting to around 0.2 percent of GDP, fully accrues to subnational governments. An increase in subnational property-related tax revenues could, in principle, reduce the need for transfers from the central government somewhat. But the potential reduction in transfers that could be achieved is, at least in the short term, severely limited (less than 0.05 percent of GDP).

Taxing the imputed rental income from owner-occupied and vacant residential property, rather than taxing real property directly, would allow raising central government revenue.[2] Imputed rental income is the deemed income that homeowners could earn if they rented out their homes. For tax purposes, such income can be defined as a fixed percentage of a property's market value. The fundamental difference between an imputed rental income tax and a property tax is a legal interpretation of what constitutes the base: income or an asset. Imputed rental income is taxed under the Inland Revenue Act, thus raising central government revenue while avoiding constitutional constraints of taxing property directly. Economically, however, the taxes are both assessed with reference to the market value of real property, thus coming with similar difficulties (for instance, around valuation) and opportunities (such as increasing the progressivity of the tax system).

Given the paucity of information on market values, the revenue yield of such a tax is difficult to gauge but will likely fall short of expectations. In contrast to local property taxes, imputed rental income taxes are commonly not levied on commercial property, with beneficial effects on efficiency but reducing their revenue potential. Estimations leveraging municipal council information suggest that a such a tax could be highly progressive and yield around 0.4 to 0.6 percent of GDP, depending on design aspects.[3]

Data collection on market values needs to commence immediately. The valuation department has determined around 3.5 million Annual Values (AVs) – estimates of how much a property would yield if it were rented out for one year. These valuations are largely not digitized, outdated, and unrelated to actual market rental values. Immediate priorities include:

- **Digitizing AVs for all municipal councils.** The Department of Fiscal Policy should collect information on all assessed AVs from municipal councils, together with information on the property type (residential, commercial, or government) and the ward number.

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[1] The combined long-term revenue potential of such a reform is estimated at around 1.2 percent of GDP.

[2] A similar tax was previously included in the Inland Revenue Act. No. 10 of 2006. Due to wide exemptions and the use of outdated and downward biased annual values, the tax generated hardly any revenue.

[3] The estimations rely on strong assumptions and incomplete information and should thus be interpreted with great caution.

- **Determining capital values of standard properties.** The valuation department needs to assess the capital value of a representative sample of standard properties in all municipal councils. Around 50 valuations per council may suffice to estimate all capital values by applying simple adjustment coefficients to AVs. The estimated data can be used to design the imputed rental income tax and to provide guidance to taxpayers, as the tax will need to be self-assessed in the medium term.
- **Introducing a digital sales price and rents register (SPRR).** A digital SPRR is the key resource for the assessment of property values and hence the basis for several taxes, including imputed rental income taxation, capital gains taxation, stamp duties, and local recurrent property taxes.

The lower-than-expected revenue from nationwide property taxation will require additional tax changes at the central level. The capital gains tax is an important complement to imputed rental income taxation. It should be reformed to replace the exemption of the first home with a value threshold. As previously recommended,[4] the exemption of capital gains from the sale of listed shared should be removed and the VAT treatment of owner-occupied housing should be aligned with international best practice, including by taxing the first sale of residential property. Finally, to reduce transfers to local governments, stamp duties on lease contracts and vehicle registration fees could be increased.[5] In the medium term, the reliance on stamp duties (both centrally and locally) should be reduced. In case the improvement of the main taxes is insufficient to meet the revenue goals, an electricity surcharge would be an easily administered approach to support central government revenue, but it would be weakly targeted and less equitable.

Subnational property taxation

The reliance on recurrent taxation should increase over the medium term. Stamp duties are a volatile revenue source and can induce under-declaration of market transactions. Local recurrent property taxes are more stable and more efficient. Unlocking the potential from recurrent property taxation will require fundamental reforms that will take 5 to 7 years.

In the short term, local authorities should be encouraged to adjust recurrent property tax liabilities more continuously and introduce hardship relief mechanisms. A major problem is the combination of constant tax rates, outdated AV assessments, and the lack of mechanisms to provide relief. Re-valuations directly increases tax liabilities, creating downward pressure on the reassessed amount. Such pressure can be reduced by adjusting tax rates or the tax base on a yearly basis, for instance, by leveraging information that is captured for the imputed rental income tax.

In the medium term, the tax base for recurrent property taxes should change. Residential property in municipal councils should be taxed based on the property's market values while commercial property can retain the current rental values. Property in urban councils and Pradeshiya Sabhas should be taxed using a simple formulaic assessment approach. This reform will reduce pressure from the valuation department and enable more accurate and timely assessments. The move towards a new assessment basis should be accompanied by transferring the authority for the timing of valuations to the central government.

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[4] See Klemm and others (2022).

[5] The increase in vehicle registration fees will only increase revenues once the import ban has been abolished.

Recommendations

Imputed rental taxation		
1.2	Introduce an imputed rental income tax (IRIT) with an appropriate value threshold and separate rate schedule in the Inland Revenue Act (IRA) by 2025.	ST
1.2	Include anti-avoidance provisions in the 2017 IRA that counter the use of “residential” companies and discretionary trusts to avoid IRIT.	ST
Complementary tax design changes at the central level		
2.1	Replace the capital gains tax (CGT) exemption for a primary residence with an appropriate value threshold that is aligned with the value threshold for the IRIT.	ST
2.2	Remove the exemption of capital gains taxation for listed companies on the stock exchange.	ST
2.3	After a review as regards lease amounts and affordability, consider an increase of stamp duties on leases of land from 0.1 percent to 0.2 percent.	ST
2.4	Consider the introduction of an electricity usage tax.	ST
2.5	Share the CEB data base with IRD, the Surveyor General, the Government Valuation Department (GVD), and eventually local authorities to assist them in improving their own data bases on properties and taxpayers.	ST
2.6	Align the VAT treatment of residential property transactions with international best practice by exempting resales and rental contracts but taxing all first sales.	MT
Building fit-for-purpose data infrastructure		
3.1	Introduce a Sale Price and Rent Register (SPRR) as soon as possible	ST
3.2	Digitize the rating valuation records held by the GVD.	ST
3.3	Revise the information provided by notaries on land and property transactions to include the cadastral number, buyer TIN and ID numbers and the GVD assessment value roll number.	ST
3.4	Immediately assess market values of a representative sample of standard properties throughout the country. Design a process to re-estimate such representative samples on an annual basis.	ST
3.5	Using the assessed market values in combination with AVs from municipal councils, establish a first database of estimated current market values to (i.) design the IRIT and (ii.) provide guidance on market values to taxpayers.	ST
Subnational taxation – stamp duty reform		
4.1	Introduce a zero-percent threshold to alleviate the burden on the poor – in line with the threshold for IRIT and CGT.	ST

4.2	Introduce a further threshold at an appropriate level to introduce further progressivity and to account for the revenue loss resulting from the zero-rating.	ST
4.3	Stamp duties should be reduced over the medium term as the revenue from assessment rates increases.	MT
Subnational taxation – enabling recurrent taxation		
5.1	Avoid discrete jumps in tax liability by either adjusting the tax base or the tax liability between assessments.	ST
5.2	Introduce a nation-wide minimum value threshold for residential property to exempt low-value residential property from assessment rates. Municipal councils should be allowed to increase this threshold on the basis of their own peculiar circumstances.	MT
5.3	The ministry responsible for local government must in consultation with municipal councils determine criteria and provide guidelines for the introduction of hardship relief programs.	MT
5.4	Amend the Municipal Council Ordinance to allow municipal councils to introduce a deferral scheme to assist "asset rich-cash poor" taxpayers.	MT
5.5	Local authorities should regularly review all exemptions to audit continued eligibility and to report on the revenue foregone.	MT
5.6	The GVD should develop a five-year rolling program for undertaking local authority revaluations and annual supplementary valuations.	MT
Subnational taxation – valuation reforms		
6.1	The GVD should develop automated valuation models.	MT
6.2	Accelerate the completion of the GVD E-Valuation System.	MT
6.3	For Municipal Councils, shift from annual value to capital value.	MT
6.4	For Urban Councils and Pradeshiya Shabha, shift to the simplified assessment methodology.	MT
6.5	Design and develop the ICT system to administer the simplified assessment methodology.	MT

I. Introduction

1. To meet commitments made under the current IMF program, property-related taxes need to increase in 2025. On March 20th, 2023, the IMF board approved an Extended Fund Facility (EFF) of about USD 3 billion. The program aims to increase the primary balance (estimated to be at -3.7 percent of GDP in 2022) by 6 percentage points over 3 years to reach 2.3 percent by 2025. Under the EFF agreement, the authorities committed to revamping the property tax system and introducing a wealth transfer tax. The long-term revenue potential of related reforms was estimated at around 1.2 percent by Klemm and others (2022). The country team estimates that a revenue increase of about 1 percent of GDP will be necessary in 2025 to achieve the anticipated fiscal consolidation path.

2. Envisioned tax policy changes will need to be carefully tailored and communicated against the background of recent reform implementation and upcoming presidential elections. Sri Lanka has implemented major structural reforms of all major taxes since 2022. Total tax revenue is estimated to have increased from 7.3 percent of GDP in 2022 to 9.8 percent of GDP in 2023 as a result. Additional revenue gains of around 2.6 percent of GDP are anticipated for this year, largely due an increase in the VAT rate to 18 percent and to other incremental reforms of indirect taxes (removal of vast majority of VAT exemptions, increase in excise tax rates, increase in sugar tax). While the implemented reforms have improved revenue and increased the fairness and efficiency of the tax system, they have also elevated the tax burden on compliant taxpayers notably. Reforms of the personal income tax led to protests in 2022. With presidential elections coming up this year, anticipated policy changes will need to be carefully designed, timed, and communicated.

3. This report builds on the analysis and recommendations provided during a previous mission on property taxation, delivered in July 2023 (Beer and others, 2023). The first mission took stock of the current system of property-related taxes and laid out broad options for the reform. The mission's main recommendations included: (i.) changing the valuation basis of residential property from rental values to capital values for municipal councils, (ii.) introducing a simplified assessment system for local government property taxes in rural councils and Pradeshiya Sabhas[6], (iii.) increasing stamp duties in the short run, and (iv.) urgently devising a mechanism to ensure that any increased revenue from property taxation increases the central government budget to meet the commitments made under the current IMF program. While many of the recommendations are reiterated and explained in more detail in this report, the increase in stamp duties no longer appears to be a viable option considering new information the mission received. As a result, new central government taxes seem unavoidable.

4. This report focuses on real property taxation at the national and subnational level. Inheritance and estate taxation, while depicting an important component for comprehensive wealth taxation in the medium term, are not immediate priorities for 2024 given the severe data constraints and capacity limitations to administer new taxes. However, many of the reforms recommended in this report, notably on data collection and digitalization, will ease the introduction of a wealth transfer tax.

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[6] Pradeshiya Sabha means a local elected authority constituted under the Pradeshiya Sabha Act (No. 15 of 1987).

Deliberations on wealth transfer taxation would ideally commence in 2025, once the immediate priorities for property taxation have been taken care of.

A. Limiting factors

Constitutional constraints

5. Property-related tax revenue currently amounts to around 0.2 percent of GDP and, in accordance with Sri Lanka's constitution, fully accrues to subnational governments. The revenue is raised from two measures: stamp duties that apply on property transaction and lease contracts, and recurrent property taxes (Assessment Rates, or AR).[7] Stamp duties on lease contracts are collected by the central government and transferred to provincial councils. All other stamp duties and local Assessment Rates are collected at the subnational level. The 13th amendment of Sri Lanka's constitution clarifies that property-related tax revenues accrue to subnational governments. All taxes collected at the central level are thus transferred to provincial councils. Notably, the constitution allows for amendments of laws that are under the authority of subnational governments (specified in the Ninth Schedule of the Constitution; the Provincial Council List) under the condition that all nine provincial councils agree to such amendment. In principle, the revenue allocation of property-related revenue could thus be changed.

Table 1. Combined Central and Local Revenue Collections (in Percent of GDP)

Stamp duties	**0.14**
Collected by IRD	0.04
Collected at subnational level	0.09
Rates	**0.07**
Total	0.20

Notes: finance commission report, 2021, national budget department, IMF-staff computations

6. Within constitutional constraints, central government revenue can be increased in two ways:

- **Indirectly, through a reduction in transfers.** The central government provides grants, amounting to 1.3 percent of GDP, to provincial councils, largely to finance recurrent spending that is not covered by recurrent provincial-level revenues. To the extent that property-related taxes increase provincial council revenue, an increase in property-related tax revenue could indirectly foster the central government budget.

- **Directly, through increases in central government taxation.** New central government taxation can support fiscal consolidation only if it is carefully designed and legislated in a way that is not an infringement of the constitution. In principle, there are two such ways: imposing taxes that are not directly levied on property or seeking approval of the provincial councils to change the revenue

[7] In principle, revenue should also be raised through the capital gains tax and VAT. However, due to existing exemptions and the non-existence of property data, the revenue collections from these taxes on property is minimal.

allocation of property-related taxes.[8] Importantly, any new taxes need to keep the administrative burden manageable, as current resource constraints at IRD are already overwhelming.

7. **In practice, new central government taxes are inevitable.** The main transfer from the central government (the block grant) is calculated as the difference between provincial spending needs and revenue, a subcomponent of which is revenue that is collected centrally by IRD and shared with provincial councils. There are two such shared revenue types: stamp duties on leases, which accrue 100 percent to provincial councils, and vehicle registration fees, which accrue 70 percent to provincial councils. An increase in these taxes directly increases provincial revenue and thus reduces the size of the block grant. However, other stamp duties on property transfers and recurrent property tax revenues directly accrue to local governments and therefore don't impact on the size of transfers. Since stamp duties on leases only account for 0.04 percent of GDP, potential revenue gains through the indirect channel are limited.

Data constraints

8. **Property taxation needs to build on accurate and comprehensive information.** Such information is needed to inform the policy design, to determine tax liability, and to verify compliance. In the absence of data, taxpayers' risk appetite will determine the effective tax burden, reducing the fairness and the revenue performance of the system.

9. **Annual value assessments by the Government Valuation Department (GVD) – the only comprehensive information available – depicts an insufficient basis to inform property taxation in its current form.** The valuation department has determined around 3.5 million Annual Values (AVs) – estimates of how much a property would yield if it were rented out for one year. The valuations are: (i.) largely not digitally recorded, (ii.) reflect historic valuations that, in some municipalities, can be 10 years old[9], (iii.) due to a lack of common identifiers, are not linkable to taxpayers, and (iv.) maybe most importantly, are unrelated to actual market rental values. The average AV determined by the GVD in a sample of residential properties located in municipal councils outside of Colombo,[10] implies a monthly rental value of around LKR 2400 (7.5 USD). While residential property value estimates are similar in Colombo, commercial property has higher average values (Table 2).[11]

Table 2. Average Annual Values by Property Type and Municipality

Municipality	Property type	Number of properties	Average Annual Value (in LKR)
Outside of Colombo	Commercial	25054	130244
	Residential	109524	29335
Colombo	Commercial	41918	304881
	Residential	127494	34563

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[8] The authorities expressed a strong preference for the first approach, partly because of upcoming presidential elections.

[9] The Government Valuation Department has determined the AV for around 120 thousand properties in the last two years. Before that, valuations were delayed by Covid and resource constraints.

[10] The mission team obtained a large sample of property-level valuations from municipal councils (discussed in detail in section x).

[11] The difference may partly reflect true differences in value and partly the fact that Colombo is the only municipality with in-house valuers.

Notes: municipal council valuations, IMF-staff computations

10. **Reasons for the undervaluation of AVs are multi-faceted.** One reason is technical. Around 80 percent of residential property is owner-occupied. As a result, there is thin empirical evidence on rental payments that could inform AV estimates. However, the main impediments to more accurate valuation are institutional and political constraints:

- **Valuations are done infrequently,** partly because of capacity constraints within the GVD and partly because local governments need to request a re-valuation rather than automatically receiving one during a valuation cycle.

- **There are no interim adjustments of tax payments.** In other countries, recurrent property tax rates are adjusted between valuations to account for changing market conditions, inflation, and most importantly, local spending needs. In Sri Lanka, the adjustment of rates is politically difficult and can be easily challenged, as local taxation is legally tied to service provisions. Unless the local government can demonstrate increased service provision, room for tax rate changes is limited.

- **Taxpayer's limited willingness to accept discrete tax hikes exerts downward pressure on valuations.** Tax rates are widely perceived to be fixed (even though they can be adjusted according to the law) and a re-valuation thus directly impacts tax liability. After delayed valuations, this puts downward pressure on the degree to which AVs can be aligned with market conditions. According to some local experts in the field, the outcome of valuations is largely determined by local government's spending needs and perceptions of current taxpayer support.

B. Overview of recommended reform

11. **Property taxation should be viewed holistically.** What matters to taxpayers is the combined tax burden that results from different taxes levied by local and the national governments. Property tax reform should thus aim for a system that imposes an appropriate tax burden and introduces minimal distortions, irrespective of which government level collects or receives the revenue. A desirable property and wealth taxation system is characterized by the following features:

- **Strong reliance on major income taxes.** Property and wealth can be taxed through the main income and consumption-based taxes. Removing existing exemptions, as opposed to introducing more taxes, improves administrability of the tax system and can reduce distortions that are currently present through the unequal treatment of income sources or consumption types.

- **Recurrent taxation.** While transaction-based taxes are easier to administer, they are less efficient means to raise revenue. High transaction-based taxation reduces the volume of transactions, potentially leading to a misallocation of ownership, and incentivizes under-declaration of transaction values, with negative effects on the available evidence that can be used for valuation purposes.

- **Limited taxation of productive assets.** There are two competing arguments around the taxation of commercial property: on the one hand, production efficiency requires that the tax system leaves business decisions unaffected, which calls for the non-taxation of productive inputs. Instead, revenue should be raised from taxing economic rents. On the other hand, businesses, like other taxpayers,

benefit from public service provision. Where the cost of providing such services is related to property values (such as for waste collection or infrastructure), property taxes may increase efficiency by putting a price on service provision and internalizing otherwise public costs.[12]

12. Implementation of a comprehensive and well-balanced property tax system will take time. Property taxation needs to rely on comprehensive and accurate information, which requires a change in valuation techniques (from manual towards more automated mass valuation approaches) and the construction of linkable databases, in addition to major tax law changes. A comprehensive database of current market values could inform several government departments and depict the basis for the assessment of several taxes. However, reforming the obligations of the GVD and building data will take time. Until then, transitional imperfections in the design and administrability of property taxation are inevitable. The authorities should adopt a phased, incremental implementation approach, with fiscal consolidation needs dictating the sequence of required reform steps.

Central government priorities

13. Constitutional constraints to raising central government revenue from property taxation can be avoided by introducing an imputed rental income tax (IRIT). Such tax is levied on the implicit income (or benefit) that is derived from owner-occupied property and would be imposed under the Inland Revenue Act, with revenue naturally accruing to the central government.[13] Since Sri Lanka's private sector is already plagued by a distortive turnover-based tax (the social security levy) it is advisable that the IRIT be levied only on owner-occupied residential property and not on commercial property. Commercial property is typically more valuable than residential property. The restricted application of the tax implies that revenue expectations need to be lowered relative to what would be raised by a full-fledged national property tax.

14. To compensate for the lower-than-expected revenue from recurrent property taxation at the national level, other taxes will need to be adjusted too. The capital gains tax (CGT) is an important complement to the IRIT. It should be reformed to replace the exemption of the first home with a value threshold. Moreover, as previously recommended, the exemption of capital gains from the sale of listed shared should be removed and the VAT treatment of residential property, including owner-occupied housing, should be aligned with international best practice by taxing the first sale of such property. To reduce transfers to local governments, stamp duties on lease contracts and vehicle registration fees could be increased. However, the increase in vehicle registration fees will only increase revenues once the import ban has been abolished. In the medium term, the reliance on stamp duties as a revenue source should be avoided.

15. Successful implementation of property tax reform will require substantive investments in data collection, recording and storage. This entails digitizing information collected by the GVD, however imperfect that data may be, and immediately introducing a provisional digital Sales Price and Rents Register (SPRR), which automatically records information on notarized property contracts. As

[12] As the share of total public spending that is directly linked to property values is commonly small, there is only limited justification for the taxation of commercial property. Nevertheless, in practice, commercial property is often taxed more heavily than residential property, likely for the perceived higher ability to pay of business owners.

[13] The Inland Revenue Act (IRA) included an imputed rental income tax – albeit with a very small base – up until 2019.

building a robust database will take time, provisional data sources will need to be used for the design and administration of property taxation in the next few years. Ideally, a comprehensive register of current market values could be leveraged for the assessment of a variety of taxes both national and sub-national taxes, including the imputed income tax, capital gains tax, stamp duties, and local recurrent property taxation.

Improving local government taxation

16. Local governments should reduce their reliance on stamp duties on property transfers as a central revenue source. Stamp duties revenues are volatile and can induce under-declaration of market transactions. Local recurrent property taxes are more stable and more efficient. However, recurrent taxation at the local level is currently fraught with difficulties, including outdated AVs, fixed tax rates, and an inability to provide relief to taxpayers. Unlocking the potential of recurrent property taxation and rebalancing the tax mix will require fundamental reforms that will take 5 to 7 years.

17. In the short term, the introduction of a value threshold, targeted hardship relief measures, and interim tax assessments will reduce pressure on valuation efforts. A major problem is the combination of fixed tax rates and outdated AV assessments. Re-valuations directly increases tax liabilities, creating downward pressure on the reassessed amount. In addition to the introduction of a nationwide value threshold, below which property should be exempt, such pressure can be reduced by either adjusting tax rates or the tax base on a yearly basis.

18. As recommended in the 2023 TA report (Beer and others, 2023), the introduction of a progressive rate schedule for stamp duties on property transfers should be considered. A zero percent threshold should be introduced that should be aligned with the threshold determined for the IRIT and the CGT. Above this threshold a 4 percent rate should be levied on sales and donations. A further threshold should also be considered above which a rate of 6 percent should be levied. These higher rates should compensate for the revenue loss due to the tax-exempt threshold that will accommodate the poor but should also more specifically target high-value properties over the next few years.[14]

19. In the medium term, the tax base for recurrent property taxes should change. Residential property in municipal councils should be taxed based on the property's market values while commercial property can retain the current rental values. Property in urban councils and Pradeshiya Sabhas should be taxed using a simple formulaic assessment approach. This reform will reduce pressure on the GVD and enable more accurate and timely assessments. The move towards a new assessment basis should be accompanied by transferring the authority for the timing of valuations to the central government and the GVD.

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[14] A common feature in especially countries or jurisdictions with progressive tax rates, is a dispensation to accommodate first-time homeowners through the use of a zero percent value threshold (South Africa), or different value thresholds or lower rates (Hong Kong, Hungary, United Kingdom). In the United Kingdom, for example, the first GBP 250,000 is taxed at 0 percent, the next GBP 675,000 at 5 percent, the next GBP 575,000 at 10 percent and above GBP 1,500,000 the rate is 12 percent.

C. Implementation timeline

Next steps

20. The suggested reform requires changes in several acts, regulations, and forms. Besides amendments of the IRA (for IRIT and reforms to the CGT), it will require a change in the VAT Act, in the income tax return, to capture information needed for the IRIT. The Notaries Act will need to be amended to expand information that is automatically shared with the land registry. The Municipal Council Ordinance should be amended to transfer the authority for planning of valuations to the GVD. The more prominent changes are stated in Table 3.

21. In addition, data needs to be gathered to inform the design of the IRIT. Specifically, MoF needs to obtain a current list of annual value assessment of all residential buildings in all municipal councils, it needs to obtain actual market values of representative buildings in all municipal councils that can be linked to the annual value assessments, and it needs to start collecting information from contracts (sales and rents) in an SPRR.

Medium-term planning

22. To move from the current rating basis to reflect capital value for municipal councils and a simplified methodology for other local authorities would require detailed project planning. Detailed research will need to be conducted on such matters as the proposed valuation and assessment models, the likely tax rates to be suggested and the financial impact on taxpayers as a result of the changes. The reform project will have two major components: (1) deliver a capital value property tax system for municipal councils; and (2) deliver a simplified assessment methodology for Urban Councils and Pradeshiya Sabhas.

Table 3. Changes to Laws and, Regulations and Forms

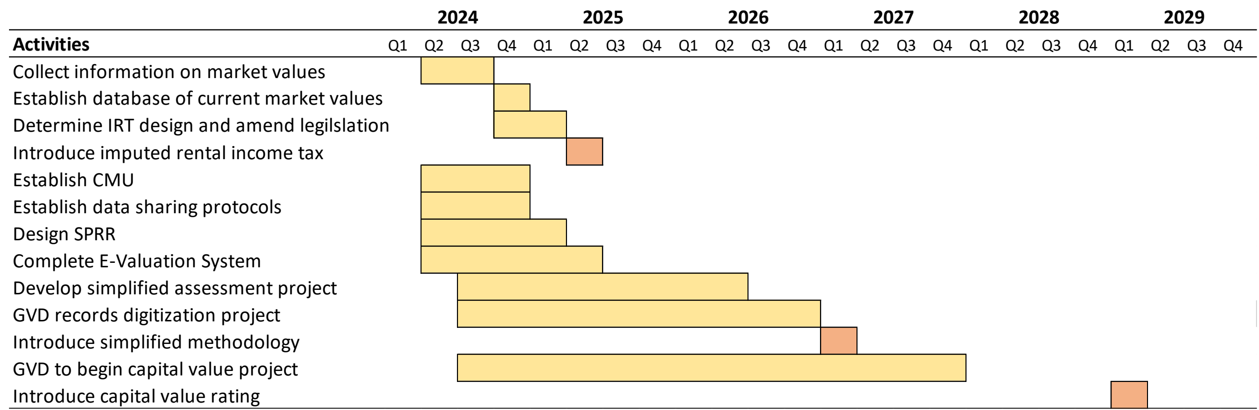
Act or Ordinance	Change proposed
Inland Revenue Act of 2017	Chapter to introduce IRIT; amendments to CGT
Value Added Tax Act of 2002	Change in property treatment
Municipal Council Ordinance 17 of 1947	Changes to assessment rate chapter and ancillary sections
Notaries Act 1 of 1907	Sharing of data with various government department
Pradeshiya Sabhas Act 21 of 1987	Changes to assessment rate chapter and ancillary sections
Stamp Duties Act of 1982	Schedule of rates
Stamp Duties (Special Provisons) Act 12 of 2006	Schedule of rates
Rating and Valuation Ordinance 30 of 1946	Changes to assessment rate chapter and ancillary sections
Urban Authorities Ordinance 61 of 1939	Changes to assessment rate chapter and ancillary sections
Regulation	
Regulation under the Notaries Act	Sharing of data with various government department
Forms	
Form No. – Asmt_IIT_003_E: Statement of Assets and Liabilities – Individuals	More details on property to enable identification
Guidelines	
Hardship relief	To be designed and published by ministry responsible for local government

23. The starting point would be to set up a Change Management Unit (CMU). Major changes in a property tax system inevitably require strong political support at the highest levels of government. Especially in reforms intended to enhance overall revenue collection, sustained commitment from senior public officials is essential to final implementation of changes that are likely to have a significant reach. Moving the recurrent property tax to a market-based capital value system is further complicated by the number of different government agencies that will need to cooperate in order to achieve the desired outcome. There are several ministries and agencies, each holding data or having experience that will be important for implementing the needed changes in the property tax. This CMU should be charged with both providing the sustained leadership and support for the necessary legal and administrative changes, and with ensuring that all relevant agencies provide the cooperation and information sharing necessary to the success of the project. One of the first tasks of the CMU will be to appoint a project director. This individual will have overall responsibility for managing the development and implementation of the new property tax system. In addition, other members of the project team should include individuals from multiple ministries and agencies who have knowledge and expertise related to the various facets of the property tax project. The CMU should develop a road map which would focus on specific tasks in the development and implementation of the new system including the following:

- Development of the Implementation Plan for the project;
- Development of the SPRR;
- Development of automated mass valuation methodology integrated with a GIS system;
- Creating a public information campaign;
- Undertaking revenue impact analysis;
- Drafting new comprehensive property tax legislation;
- Development of future valuation methods, assessment methodology, data standards and data sources;
- Appoint outside experts to assist in some tasks, but it should have access to the expertise necessary to efficiently achieve the tasks associated with the creation and implementation of the new capital value system.

24. There is an expectation that the entire property tax reform project will take around five years. By virtue of the fact that the valuation department has the requisite valuation skills and data on taxable properties this could well reduce the overall timeline of the project. Figure 1 highlights the main roadmap activities, which should form the core of the implementation plan. Obviously, a critical milestone will be the appointment of the project team. The establishment of the CMU should be publicly announced and should provide periodic public updates on the progress of the property tax project. Key to gaining public support for any changes made will be transparency in the goals being pursued, and the methods to be employed in levying the reformed tax.

Figure 1. Roadmap for the Main Activities



II. Imputed Rental Income Tax

25. Imputed rental income is the income that homeowners could earn if they rented out their homes. This can be defined as a percentage of a property's market value. For instance, 3 to 4 percent of a property's market value may give a reasonable estimate for what could be received from renting out. Alternatively, imputed rental income can be assessed by the government. Such a tax was previously levied in Sri Lanka under the Inland Revenue Act No. 10 of 2006. Under this regime, primary residences were exempt and the assessed values for rating purposes were used to determine the base.[15] Given the broad exemption and the use of outdated and downward biased AVs, the tax did not generate much revenue.[16]

26. The economic rationale for an IRIT is strong. Households can invest their savings into a productive asset (such as a machine, a share in a company or rental property) or into non-productive assets (such as residential property for their own use). While the return to investments into productive assets (business profits, dividends, interest, rental income, etc.) is taxed under the income tax, the return to investments in owner-occupied property is not. The tax system thus provides an implicit subsidy for homeownership, disincentivizing the accumulation of productive capital, with negative repercussions for real output. A fully neutral taxation of owner-occupation requires full taxation of imputed rents, of capital gains on housing, and deductibility of mortgage interest payments.

27. Property taxes and IRITs can similarly contribute to achieving distributional objectives. An IRIT can be designed such that it resembles the outcomes of a recurrent property tax on capital values. For instance, if imputed rental income amounts to 4 percent of a property's capital value, then a property tax of 1 percent levied on the capital value is equivalent to an IRIT of 25 percent levied on imputed rental income (because $0.04 * 0.25 = 0.01$). As capital (and capital income) is more heavily concentrated than labor incomes, the taxation of property is an important element in taxing wealth comprehensively.

28. However, since property taxes and IRITs are weakly linked to taxpayers' ability to pay, they need to be carefully designed. Even though an IRIT is formally an income tax, and will be legislated under the IRA, the tax burden is effectively determined by an asset's value. The return to this asset does not generate cash-flow and IRITs can thus result in imposing a tax burden in excess of real income. IRITs needs to include robust hardship relief measures to avoid such situations.

[15] Under the previous IRIT regime, the 2006 Inland Revenue Act (IRA) stipulated: "Where the annual value of any land and improvements thereon or of any place of residence has been assessed for rating purposes by a local authority, such annual value less a deduction of 25 percent on account of repairs and other expenses, shall be the net annual value …" (section 5(2)).

[16] And had it done so, it would have undermined horizontal equity, as rating valuations don't reflect market values, and some valuations are much older than others.

A. Design

The basics

29. The IRIT should be levied on the imputed income from owner-occupied and vacant residential property above a generous exemption threshold. This implies the exclusion of any commercial property used for housing and any property of an individual that is currently rented out – as rental income will already be captured as investment income under the PIT. The proposed tax base differs from Sri Lanka's Assessment Rates, where 70 percent of the revenue is generated from commercial property and no exemption threshold is foreseen.

30. In principle, a comprehensive income definition that includes employment-, investment-, and imputed rental income would improve the progressivity of the tax system. In a comprehensive income taxation system, the marginal tax burden on imputed rental income (or any other income) would directly depend on other income sources. Such system would strengthen the link between imposing taxes on imputed rental income and the taxpayer's ability to pay. However, comprehensive taxation would require a redesign of the tax brackets, which were devised with a smaller tax base in mind. And devising such tax brackets requires robust information on individuals' various income sources, which will take time to collect.

31. Until linkable information on property values and individual income is available, imputed rental income should be taxed separately under a new schedule of the Inland Revenue Act (IRA). In the short run, this is the more practical policy option that allows raising revenue with some certainty. The tax brackets applied within this new schedule should be progressive (options are addressed in the following section) and will depend on the revenue target, the distribution of property market values – which are currently unknown – and the definition of the tax base, which should be aligned with other income source definitions**.** Specifically, to avoid distortions, the tax base for imputed rental income should be aligned with the tax base of rental income, which allows deducting deemed maintenance costs (25 percent of the gross amount) and local assessment rates, but provides no deduction for mortgage interest,[17] thus avoiding the incentive to over-leverage the acquisition of property.

32. The IRIT should include hardship-relief measures as the tax base will be, at least in the short term, unrelated to taxpayers' ability to pay. As a general measure, imputed rental income should only be taxed above some threshold to ensure the IRIT targets the wealthier owner-occupied residential properties. Above that threshold (or after a basic allowance), a graduated schedule should apply (that is discussed in the following section). In addition, to provide hardship-relief and avoid cashflow problems, relief could be provided automatically using a simple mechanical approach: for instance, IRIT obligations could be capped in terms of a multiple of other income tax obligations. This approach would ensure that property does not need to be sold for settling tax liabilities in case imputed rental income is the only type of income. While an automatic approach reduces administrative costs, it could potentially lead to unfair outcomes. Alternatively, relief could be provided on a case-by-case

[17] Such deduction existed before but was removed with effect from 1st January 2023.

basis, where taxpayers would need to request relief and provide evidence. This issue is discussed in more detail below.

Anti-abuse measures

33. Rented out property should be exempt from IRIT only if the reported rental income reflects market outcomes. Implementing such a provision will require IRD to collect information on actual market rentals to verify declared rental income. It will also require collecting more information on the rented-out property in the tax return, such as the size (m^2) of the property. To the extent rental income does not reflect market outcomes, IRIT should be levied on the difference between market outcomes and declared rental income. This treatment aims at reducing arbitrage opportunities that exist when rental income is subject to a different tax rate schedule than imputed rental income, which will be the case in the short term.

34. It will be necessary to introduce anti-avoidance measures to deal with more sophisticated avoidance mechanisms such as "corporatization". These consist of setting up a company and transferring a residential property or properties to the company. The former owner now becomes a shareholder. It will also involve transactions that will have the effect that the use or enjoyment of "residential property" can be obtained in one of the following ways: (1) by purchasing shares in a "residential property company" which owns the residential property; or (2) indirectly, by acquiring shares in a holding company which can, together with its subsidiaries, be regarded as a "residential property company" if they were not separate entities; or (3) by substituting a beneficiary or trustee of a discretionary trust that owns residential property through its ownership of shares or interests in a "residential property company".

35. The goal with these provisions is that the person acquiring rights to or holding "residential property" in this manner cannot avoid the payment of IRIT on the basis that no immovable property (i.e., land and/or buildings) is (directly) owned by an individual. In these cases, the "market value" is the proportional share of the market value of any property held by the company which is attributable to the shares or rights to which they relate. In other words, the value of the company's residential property is attributed to the shareholder, or in the case of co-shareholders, in proportion to their overall shareholding in the company. In determining the taxable value of the shareholding, no account must be taken of any lease on the property or liability in respect of any loan or debt related to the property. The value of the residential property must, however, comprise more than 50 percent of the aggregate market value of all the company's assets.[18]

36. "Residential property companies" are companies that own "residential property", whether directly, indirectly or by way of contingent rights to trust property, as their primary assets. The following are specifically included in the definition of the term "residential property" for the purposes of the definition of "property" and "residential property company": (1) A dwelling-house, holiday home, apartment, or similar abode; (2) Improved or unimproved land zoned for residential use; and (3) any real right (e.g., usufruct or fideicommissum) pertaining to any of the above-mentioned types

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[18] If, in the Sri Lankan context, trusts can be used to avoid the IRIT, an anti-avoidance mechanism must also be included in the Inland Revenue Act to deal with this avoidance mechanism.

of property. Properties held by business enterprises that are liable to be registered for VAT are excluded from the definition as these are going concerns and therefore not deemed to be used to avoid the tax an individual would have paid. It may also be necessary to exclude specific types of property in the hospitality sector by excluding: (1) an aparthotel complex, hotel, guesthouse, or similar structure of more than, for example, five units as long as they have been rented to five or more persons unconnected to their owner; or (2) any immovable property of a vendor forming part of an enterprise for VAT purposes.

Administrative aspects

37. The basis of the IRIT will be the self-declared estimated capital value of the residential property, made on an annual basis in the income tax return, for the foreseeable future. As no database currently exists that would allow IRD to determine capital values for all properties subject to the tax, this is the most viable option. In principle, the IRIT could also be automatically assessed based on a comprehensive and accurate database of current capital values, as is the case in the Netherlands (see Box 1). Indeed, compiling a database of estimated current capital values is an immediate priority,

Box 1. Valuation in the Netherlands

The Netherlands is respected within the global valuation industry for well-drafted policies, adoption of automated mass valuation, mature institutional frameworks, and efficient operational practices. The number of property parcels extents to some 9 million. The Netherlands has a total of 393 local government units.

Responsibility for property valuation. The Netherlands assigns the determination of valuations for the purposes of recurrent property tax to each of the 393 municipalities. The municipalities in turn procure specialists in the field of mass valuation, statistics, econometrics, and data management to value the properties. A central government agency is then responsible to audit, annually the quality of the municipal valuations.

Valuation. The property value known as the WOZ (*Wet Waardering Onroerende Zaken*,) is prepared on an annual basis. The values generated are not only used for recurrent property taxation purposes but are used by several other public organizations. The Tax and Customs Administration use the WOZ value to calculate income tax (notional rental values for owner-occupiers), corporate tax and inheritance tax while the water authorities or polder boards use the WOZ value to determine the water system tax.

Real estate data. The main property register is the System of Key Registers which consists of thIRITeen relational databases. The Key Register for Assessed Values (Basisregistratie WOZ) contains various data fields including: the WOZ-value, the valuation date, valuation object (property description) and the person liable for the payment of the property tax. These property data sets are continually updated and checked by various stakeholders. The Key Register for Assessed Values is linked to both the Key Register of Cadastre (Basisregistratie Kadaster – BRK) and the Key Register of Addresses and Buildings (Basisregistratie Adressen en Gebouwen – BAG). The coverage of the recurrent property tax is dependent on the completeness and accuracy of the Key Register of Cadastre.

The valuation processes for recurrent property taxation includes the analysis of sales transactions, the generation of values using mass appraisal techniques. An important data set required for mass valuation purposes is the data about the real estate properties being transacted in the market. This data includes the characteristics or attributes of the properties as well as current photographs of the properties. Asking prices for properties on the market is mined from various on-line commercial real estate platforms. All final sales prices are recorded in the System of Key Registers. This public data is used by buyers and sellers as a reliable reference for the accurate market value of comparable properties.

to provide IRD a tool for audit selection and to provide some guidance on the potential capital value to taxpayers (see Designing Fit-for-Purpose Data Infrastructure). However, it will take many years to improve the quality of such data up to a point where it can reliably and automatically provide the assessment for the IRIT.

38. Self-declaration will require various changes to the income tax return to expand the information that is available to IRD. In principle, all individuals must already annually submit a summary of their assets and liabilities with their income tax return.[19] In respect of immovable property, an individual must declare all immovable properties on the basis of: (1) the “situation” (physical address); (2) date of acquisition; (3) cost; and (4) market value. Additional information should be gathered for two reasons:

- **Risk indicators.** To allow IRD estimating the likelihood of under-declaration, a few basic variables on properties should be recorded through the tax return, such as size (m^2) and residential property type (single family home, apartment, row house, etc.).
- **Common identifiers.** To link the information provided in the tax return with other data sources requires recording a few unique identifiers, including the GVD assessment roll number and the cadastral number. If information from the Ceylon Electricity Board (CEB) is going to be used for risk assessments, the CEB personal electricity account number should be recorded too.

39. Voluntary compliance can be encouraged through penalties and automatic verification of the history of self-declared values upon sale of owner-occupied property. Sale information should automatically feed into a digital SPRR, which should be available to IRD. If the recorded sales price deviates by a certain percentage from an average of the two latest self-assessed amounts, taxpayers should be liable to penalties and payment of additional IRIT.

B. Rate structure and potential revenue yield

40. This section explores the revenue yield from imputed rental income taxation under different rate structures, combining several information sources. A dataset of around 300 thousand AVs determined by the GVD for 10 municipal councils depict the basis for the computations. These data do not reflect market rental values and they are a subset of all properties that are potentially subject to imputed income taxation. The observed annual value assessments are multiplied with a municipality-specific adjustment factor so that the median monthly rental value amounts to LKR 40 thousand in all municipalities. In a second step, missing values of around 800 thousand properties are imputed assuming these follow the same distribution as the observed data.[20] Annex 1 provides details.

41. While the suggested rate structures are within international norms and the revenue yields appear realistic, more data is needed to determine an adequate design of the IRIT for Sri

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[19] According to Section 126 of the IRA, every person chargeable with income tax under the IRA shall furnish an income tax return.

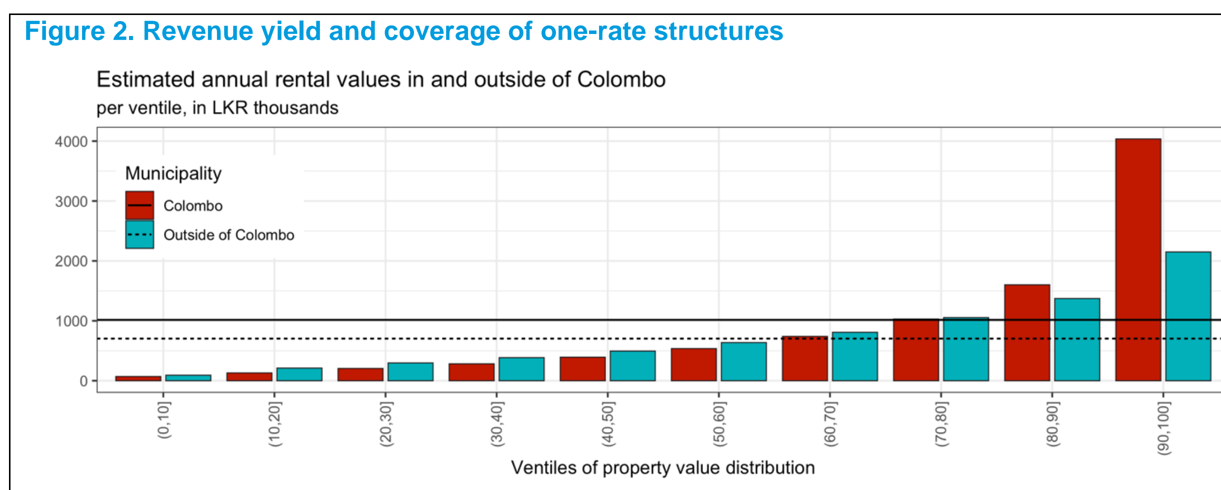
[20] The valuation department has assessed values of around 3.4 million properties. The received sample of 300 thousand properties is assumed to be representative of 1.1 million properties (all municipal councils plus 25 percent of the remaining properties).

Lanka. The calculations below consider the revenue effect of taxing property progressively at rates between of 1 and 2.2 percent of the property's market value. Similar tax rates are applied elsewhere: for instance, the Netherlands taxes property with a progressive schedule between 0.35 and 2.35 percent and within the US, states apply average tax rates between 0.32 and 2.23 percent. The results presented in this section provide a rough indication of distributional effects and potential revenue yields of such rate structures in Sri Lanka. However, actual (rather than crudely approximated) information on market values is needed to analyze these effects and to guide the design of the new IRIT. The simulations in this section are insufficient to determine an adequate rate structure.

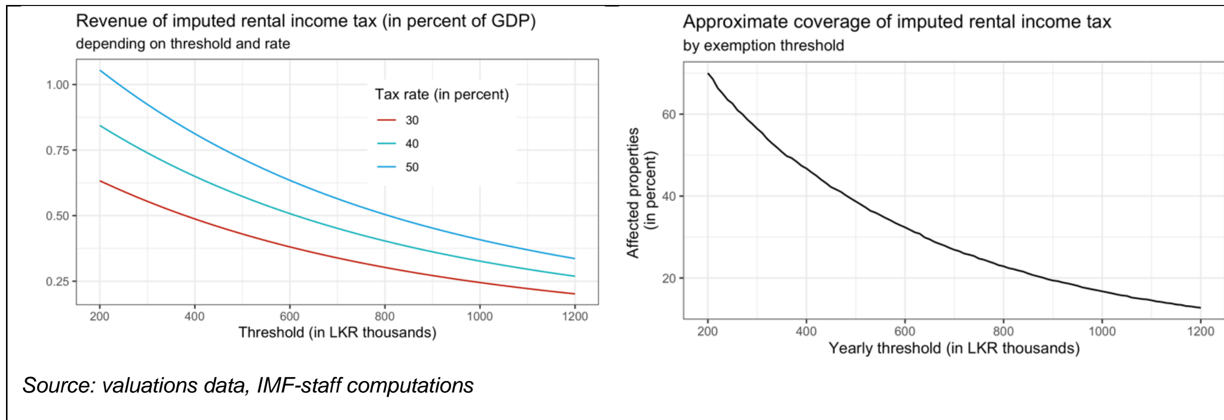
42. Figure 2 (upper panel) illustrates the simulated distribution of annual rental values. By construction, 50 percent of rental values are below LKR 480 thousand (LKR 40 thousand per month). The distribution implies that 80 percent of properties yield less than LKR 1 million per year. The rental value of the top ten percent of Colombo's residential properties is estimated at LKR 4 million, while the top ten percent outside of Colombo are worth roughly half that amount. These numbers can be translated into approximate capital values by applying a capitalization ratio. For instance, a capitalization ratio of 25[21] implies that the median household's residential property has an approximate capital value of LKR 12 million and 80 percent of houses are worth less than LKR 25 million. Annual rental values of the top ten percent in Colombo translate into average capital values of LKR 100 million. Nationwide, the top ten percent properties would be worth around LKR 80 million with a capitalization ratio of 25 (and LKR 96 million with a cap-ratio of 30).

43. A system with one rate above some exemption threshold could potentially generate around 0.5 percent of GDP for a wide range of parameter combinations. For instance, a flat rate of 30 percent applied on imputed rental income above an exemption of around LKR 400 thousand would yield 0.5 percent of GDP, as would a flat rate of 50 percent applied on values that exceed LKR 800 thousand (Figure 2, lower left panel). While the first system would cover 55 percent, or around 600 thousand properties, the second system would only apply to the top 30 percent (330 thousand properties) as shown in Figure 2, lower right panel.

Figure 2. Revenue yield and coverage of one-rate structures



[21] Numbeo.com suggests capitalization ratios between 30 and 45 in Sri Lanka, depending on the location of the property. The capitalization ratio of 25 was suggested by valuation professionals in Sri Lanka.



Source: valuations data, IMF-staff computations

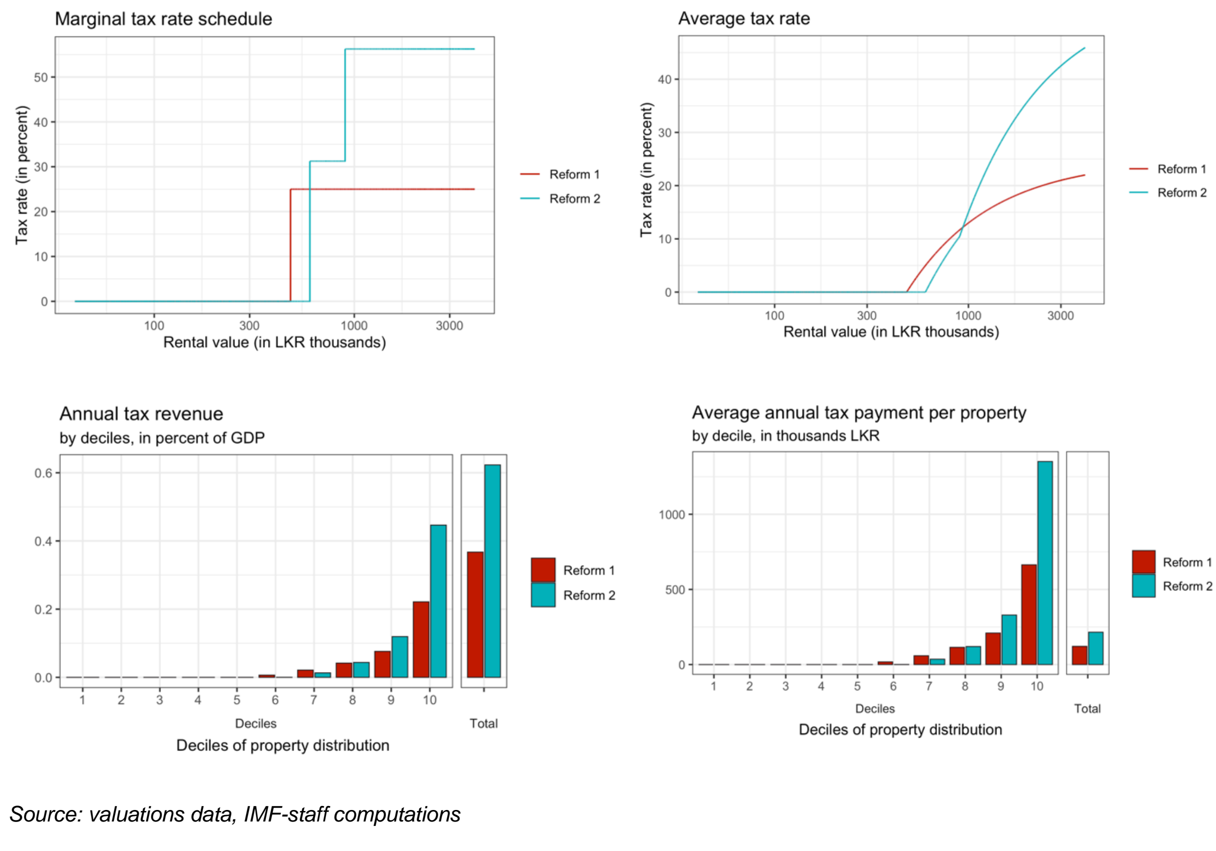
44. However, a graduated schedule may more effectively serve the government's objective of taxing wealth. Two reform scenarios are considered for illustration: Reform 1 applies a flat rate of 25 percent above a threshold of LKR 480 thousand (50 percent of in-scope properties). Reform 2 applies a rate of 31.25[22] above an exemption threshold of LKR 600 thousand, and a rate of 56.25 on the excess of annual values above LKR 900 thousand (or the top 25 percent). The upper panel of Figure 2 illustrates the marginal and average tax rate of these schedules. Revenue collections and tax payments are distributed as follows:

- **Under the graduated schedule,** tax collections from the top decile would amount to 0.45 percent of GDP, or three quarters of estimated total tax revenue of 0.6 percent of GDP. The tax burden would be low for the bottom 90 percent, with 60 percent not paying tax, 30 percent paying less than LKR 300 thousand annually, and the top decile – around 110 thousand properties, with average values estimated to lie between LKR 80 to 100 million – contributing an average of LKR 1.3 million per household.

- **Under the flat schedule,** tax collections from the top decile amount to about 0.2 percent of GDP, or 60 percent of the total (0.35 percent of GDP). Tax payments would exceed those under the graduated schedule up to the 8th decile of the property distribution, and thus result in a less progressive system. The ninth decile would pay less than LKR 250 thousand annually while the top decile would pay less than LKR 750 thousand.

[22] The rate is chosen so that market values would be taxed at a rate of 1.25 percent, assuming a capitalization ratio of 25.

Figure 3. Revenue and distributional consequences of two reform scenarios



Source: valuations data, IMF-staff computations

45. Using capital values rather than imputed rental income as the base is the preferred option in practice. For simplicity of presentation, the above calculations use imputed rental values as the base (to avoid the impression that capitalization ratios matter for estimated revenue yields). However, the concept of imputed rental values is more difficult to understand, and taxpayers are more likely to know the potential sales price of their homes. More importantly, the tax rate schedule under the two tax bases would look different even if the effective tax burden remained unchanged. Table 4 summarizes how the graduated schedule would need to be formulated if the actual capitalization ratio is 25 or 30, respectively. The lower rates (remaining below 2 percent if the capitalization ratio is 30) and higher thresholds (in the millions rather than thousands) of the market-value based system are likely more manageable to communicate.

Table 4. Alternative tax base and rate definitions with equivalent outcomes

Base	Imputed rental income	Market value (cap ratio of 25)	Market value (cap ratio of 30)
1st threshold (in LKR thousands)	600	15000	18000
Rate above 1st threshold (in percent)	31.25	1.25	1.04
2nd threshold (in LKR thousands)	900	22500	27000
Rate above 2nd threshold (in percent)	56.25	2.25	1.875

Notes: Table shows how graduated tax rate schedule on imputed rental income would need to be formulated if the true capitalization ratio is 25 or 30 respectively.

46. The estimates should be interpreted with caution. Two parameters are key in estimating revenue effects: the median rental value across municipalities and the number of potentially covered residential units. For instance, if the actual median value were only LKR 30 thousand (rather than LKR 40 thousand) and only 840 thousand properties were in-scope (rather than 1.1 million), revenue collections would be 50 percent lower. The sensitivity of estimation results to changes in the underlying assumptions highlights the importance of collecting information on property market values in the short term.

Recommendations

- Introduce an IRIT with an appropriate value threshold and separate rate schedule in 2025.
- Insert anti-avoidance provisions in the 2017 IRA that counter the use of “residential property” companies and discretionary trusts to avoid IRIT.

III. Complementary Tax Design Changes

A. Improvements in the main income taxes

Capital gains taxation

47. Wealth accumulation through price changes is currently only weakly captured by the capital gains tax (CGT), which applies a concessionary rate of 10 percent, assessed upon realization. Gains on the disposal of investment assets are exempt if the gain is less than LKR 50,000 per assets and LKR 600,000 per year. It is fully exempt if the gain derives from shares listed on the Colombo stock exchange.[23] Gains on the disposal of an individual's principal place of residence are exempt if that place has been owned continuously for three years and inhabited for at least two years.

48. Capital gains on the sale of a taxpayers' primary residence should be taxable above some threshold. The current exemption amplifies the distortion against investments in productive assets, which would be liable to capital gains taxation. To raise revenue and increase the efficiency of the tax system, the exemption of the primary residence should be replaced with a fixed allowance so that capital gains are only taxable above some threshold. Several countries, such as the Republic of Korea, Mexico, and South Africa tax the capital gain from the alienation of a primary residence when it exceeds a prescribed value.

49. The incentives granted to companies listed on the stock exchange are distortive and no longer needed. Companies list at the stock exchange to expand their financing opportunities rather than to enjoy tax incentives. The incentives currently granted put smaller non-listed companies at a competitive disadvantage, they can be used to avoid taxation, and contribute to the low revenue yield from the CGT. Historical prices of traded shares are readily available, providing one of the few simple areas for implementation of the CGT.

50. Once capital gains taxation is applied broadly on the alienation of all property, stamp duty on property transfers should be phased out. Taxing transactions rather than capital gains is inequitable and leads to misallocation of assets. While a tax on capital gains reduces the net of tax earnings from selling an asset only if the asset appreciated, a tax on transactions is always due, even when the value of the underlying asset decreased. By neglecting the change in value, a tax on transactions imposes a lower effective tax rate on more profitable asset disposals. Moreover, some assets that would generate a positive return in the absence of a tax would generate a negative net of tax return in the presence of a transaction-based tax and thus refrain from selling the asset. Transaction-based taxes thus distort the decision of whether to dispose of an asset and may lead to inefficiently long holding periods. Conversely, if the pre-tax earnings from the disposal are positive, the net of tax earnings remain positive with a CGT.

[23] In lieu of capital gains tax, a transaction levy is imposed at a rate of 0.3 percent on both the buyer and seller of shares.

VAT on real property

51. VAT should apply uniformly on all consumption of residential property, regardless of whether the property is rented or bought. The price of residential accommodation at first sale is approximately equal to the value of the flow of services the property will generate for its owner. Taxing the initial sale price of new residential property through VAT is equivalent to taxing future imputed rents, which is known as the "tax prepayment" method. Modern VAT systems, such as those in Canada, Australia and New Zealand, tax newly built residential properties. Ideally, resales of property should be subject to VAT too and property owners should receive a credit for the input VAT paid, so that every transaction taxes the added imputed rental value implicit in the price change. For neutrality, renting should then be treated the same, and all rent contracts should be subject to VAT.

52. In practice, however, it is impractical to tax the resale of residential property (including owner-occupied housing), justifying the exemption of rental contracts too. Taxation of resales would require mass registration of all property owners for one-off transactions, likely stretching administrative capacity in most countries. Resales by owner-occupiers are thus generally exempt worldwide. This means that an important share of imputed rent – those that justify increases in property values – are not subject to VAT even where all first sales are taxable. To the extent that imputed rents to owner-occupiers are not taxed under the VAT, an exemption for renters puts them in the equivalent tax position as owners.

53. To improve neutrality and fairness, Sri Lanka's VAT system should be aligned with international best practice, including by imposing tax on the first sale of all residential property. Currently all sales (both first and resale) of residential property, other than condominiums, are exempt and rental contracts are liable to VAT (see Table 5). This introduces several non-neutralities and reduces the fairness of the system: it induces a tax bias against renting and taxes the consumption of condominiums multiple times. The current system likely reflects the perception that condominiums and rental contracts are typically enjoyed by the better-off, thus increasing the progressivity of the system. However, the VAT is a weak instrument to achieve distributional objectives. Rather, it should be designed in a way that allows generating revenue without distorting consumption or production decisions and distributional objectives should be pursued with other taxes, such as the income tax.

54. Commercial property transactions generally occur between taxable traders, so that standard VAT principles can be applied.[24] This is the case in Sri Lanka (both on sale and leasing). In Sri Lanka, VAT is generally not payable on the value of commercial land per se, but only on the value of the improvements constructed on it. This is because the value of a supply is equal to the land and its improvements (e.g., total purchase price) less the value of the land at the time of supply (section 5 of the VAT Act). This universal adjustment can be removed once the treatment of immovable property transactions in Sri Lanka is aligned with international best practice to enable more comprehensive taxation. These adjustments (for otherwise taxable supplies) also create opportunities for valuation arbitrage, abuse, and increased tax disputes.

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[24] Commercial leasing and, in some countries, sales of commercial real property are generally taxable under VAT. Because this represents input VAT that is recoverable, the taxable approach to commercial property allows the VAT chain to be preserved without distorting effects.

Table 5. VAT treatment of property

Type of transaction	International common practice	Treatment in Sri Lanka
Sales		
Commercial properties	Taxable	Taxable
Residential properties		
New sale	Taxable	Condominiums (taxable); others (exempt)
Resale	Exempt	Condominiums (taxable); others (exempt)
Leasing		
Commercial properties*	Taxable	Taxable
Residential properties**	Exempt	Taxable

* Should be defined to include hotel and hotel accommodation.

** Should be defined to exclude the supply of any residential accommodation for use for short term occupation by an individual, which would be treated in the same way as commercial properties.

Source: VAT Act

B. Alternative options

Stamp duty increase

55. Only a few stamp duties are collected by the central government.[25] Stamp duty on leases of government land, which is about 80 percent of all land, is payable at 0.1 percent upfront (i.e., when the leases commence). The Registrar General Department will only register leases on receipt of a stamped document or bank receipt and provides a monthly list of all leases registered to IRD. In 2022, stamp duty collected centrally was LKR 9.1 billion (about 0.04 percent of GDP).

56. Stamp duties for commercial and industrial leases could be increased to 0.2 percent (payable upfront) for the next few years. Lease payments are determined with reference to capital values provided by the GVD and the lease values determined as a percentage of the capital value depending on who the lessee and/or land use is. If it is a religious or non-profit organization it is 4 percent, if agricultural land it is 4 percent, and if leased for commercial or industrial use, 6 percent. Leases are for 30 years, and lease payments revised every 5 years. The differentiated percentages assume an ability to pay. Further research into ability to pay may be required, but—in principle—an increase in stamp duties should be considered. The revenue potential may be 0.04 percent of GDP.

Introduction of an electricity usage tax

57. An electricity usage tax would be simple to administer but would be only weakly targeted at wealth. The *CEB Statistical Digest Report 2022* provides data on the number of electricity

[25] Through the Stamp Duty (Special Provisions) Act No. 12 of 2006 central stamp duties were reintroduced for central government, but for only ten instruments, including “a lease or hire of any property”.

consumer accounts by tariff at the end of 2022. At the time, there were a total of more than 6.93 million accounts of which 5.97 million were residential accounts and 911,126 commercial (including hotels) and industrial accounts – see Table 6. There are more than 600,000 high-use (in excess of 180 kWh per month) residential consumer accounts. While these consumers are likely to constitute wealthier households, electricity usage and wealth are only weakly correlated. For instance, low-wealth households with high consumption (say, due to large family size) could end up paying more tax than high-wealth households with low electricity consumption (say, due to small family size). Nevertheless, an electricity usage tax could be collected as a surcharge on the monthly electricity bills sent by CEB to all account holders and thus increase revenue at low collection costs.

58. An electricity surcharge could raise between 0.2 percent and 0.5 percent of GDP. For instance, an electricity usage tax of LKR100,000 per year could be introduced on the 600,000 high-use residential electricity consumers as well as on all "general purpose" (i.e., commercial), hotel and industrial accounts (911,126 accounts). Such a fee could raise LKR151 billion (0.5 percent of GDP). Under Scenario 2, small- and medium-sized non-residential enterprises are excluded, as many of these enterprises are likely too small to bear the additional burden of such a tax on top of the recently increased electricity tariffs. The overall collectable amount would be LKR61.25 billion (0.2 percent of GDP) from the taxation of residential property and only large commercial, hotel and industrial enterprises are added (only 547 accounts). If the tax is only levied on the more than 600,000 high-usage residential consumer accounts, it still raises more than LKR60 billion.

59. The surcharge could be imposed on the total value of electricity consumption above some threshold or be designed as a specific charge that also addresses environmental concerns. The calculations above consider the revenue effects of a fixed fee for lack of more granular information. A better design would impose the surcharge ad-valorem, that is, on a household's total electricity cost above some exemption threshold. In this way, the surcharge would better differentiate between households of different electricity consumption above some threshold and also increase the marginal cost of electricity consumption. Moreover, in case electricity comes from fossil fuels (such as coal or oil which currently account for more than 50 percent of total energy production and are not directly subject to specific excise taxation), a specific charge per kWh could differentiate between different fuel sources and thus more effectively address environmental concerns.

60. Even if an electricity usage tax is not introduced, the impressive CEB database may be useful resource for several government departments. CEB supplies electricity to over 80 percent of households. The data collected includes information on consumers, addresses, and global positioning system (GPS) coordinates for every connection. This may be very useful resource for IRD, the Surveyor General, GVD, and local authorities as regards data on taxpayers and properties.

Table 6. CEB Consumer Accounts

		Scenario 1		Scenario 2	
Tariff	**Consumer accounts**	**Taxable accounts**	**LKR 100,000 p/a**	**Taxable accounts**	**LKR 100,000 p/a**
Domestic	5,970,326	600,000	60,000,000,000	600,000	60,000,000,000
Religious	43,199		-		-
General Purpose Total	841,747		-		-

GP 1 Small	835,641	835,641	83,564,100,000		-
GP 2 Medium	5,918	5,918	591,800,000	5,918	591,800,000
GP 3 Large	188	188	18,800,000	188	18,800,000
Hotel Total	564		-		-
H 1 Small	174	174	17,400,000		-
H 2 Medium	371	371	37,100,000	371	37,100,000
H 3 Large	19	19	1,900,000	19	1,900,000
Industrial Total	68,815		-		-
IP 1 Small	62,832	62,832	6,283,200,000		-
IP 2 Medium	5,643	5,643	564,300,000	5,643	564,300,000
IP 3 Large	340	340	34,000,000	340	34,000,000
Government Total	9,315				
GV 1 Small	8,856				
GV 2 Medium	453				
GV 3 Large	6				
Agriculture Bulk Supply: LECO	2,767				
L2 11kV & above	1				
Street Lighting	1				
Total	**6,936,735**	**1,511,126**	**151,112,600,000**	**612,479**	**61,247,900,000**
In percent of GDP			**0.5**		**0.2**

Source: Based on CEB 2022.

Mansion tax

61. The mansion tax was included in the Finance Bill after the 2015 Interim Budget, but not introduced.[26] It was to be levied as an annual tax from April 1, 2015, on every owner of a "mansion" constructed on or after April 1, 2000. A mansion is defined as a residential building constructed on or after April 1, 2000, of not less than 10,000 square feet and a value on April 1 of any year is not less than LKR 150 million. When first announced the minimum area was 5,000 square feet and the value LKR 100 million, but after concerns had been raised, the changes were made to narrow the base. The value must be determined by the GVD. Condominium units are specifically included. The mansion tax was to be a fixed amount of LKR 1 million to paid to IRD in 4 installments, but the revenue was to be remitted to local authorities.

62. The mansion tax, as legislated, raises a number of concerns. The tax base as first announced was already—by design—narrow and arbitrary. By increasing the area and value thresholds it was further eroded. If the value of a luxury residential property must be determined by the GVD, why exclude mansions constructed prior to April 2000? By applying an area threshold of 10,000 square feet (about 929m^2) many high-value apartments would be excluded. If the value of each "mansion" must be determined by the GVD, why levy a flat tax of LKR 1 million rather than a value-based tax of, say 1 percent? The effective tax rate of a LKR 1 million tax on a mansion of LKR150 000 is 0.67 percent, but

[26] PART VIII of the 2015 Finance Act.

on a LKR250 million mansion it is only 0.4 percent and on a luxurious house of LKR 95 million it is close to zero percent. If the goal is to tax wealth, a fixed tax amount is unfair.

63. If the authorities decide to introduce the mansion tax in the future, the area threshold should be eliminated. Apply only a credible value threshold that could be determined on the basis of the data base to be introduced by the GVD to determine market values across the country and, in a few years' time, the SPRR index. The tax should be a percentage of value, not a fixed amount per property. It will, constitutionally, be a sub-national tax and thus not benefit the central government budget directly.

64. Although not common, there are examples of property type taxes on luxury housing in other jurisdictions. For example, Turkey levies a luxury house tax on residential property. Properties valued at more than TRY 9 967 000 (USD 321,250) are subject to a luxury housing tax at a progressive rate of 0.3 to 1.0 percent. In British Columbia, Canada, an additional property transfer tax is payable on the value of residential properties worth more than CAD 3 million. The rate is 2 percent on the value exceeding CAD 3 million. In 2023, a proposal to introduce a recurrent mansion tax in the city of Vancouver was, however, shut down.

Recommendations

- Replace the CGT exemption for a primary residence with an appropriate value threshold that is aligned with the value threshold for the IRIT.
- Remove the exemption of capital gains taxation for listed companies on the stock exchange.
- After a review as regards lease amounts and affordability, consider an increase of stamp duties on leases of land from 0.1 percent to 0.2 percent.
- Consider the introduction of an electricity usage tax.
- Share the CEB data base with IRD, the Surveyor General, GVD, and eventually local authorities to assist them in improving their own data bases on properties and taxpayers.
- Align the VAT treatment of residential property transactions with international best practice by exempting resales and rental contracts but taxing all first sales.

IV. Designing Fit-for-Purpose Data Infrastructure

A. Immediate data needs for the IRIT

65. Establishing a database of approximate current capital values of residential properties is an immediate priority. Such database is required to:

- **Guide the IRIT's design.** Before the tax can be legislated, its impact on taxpayers and the potential revenue yield needs to be understood.
- **Provide a basis for audit selection.** Capital values will be self-declared and IRD currently has no possibility to verify such information.
- **Inform taxpayers on reasonable capital values.** Taxpayer's knowledge on capital values may be limited and the authorities thus need to provide guidance on what capital values are reasonable, depending on property characteristics.

66. Estimated market values will need to be based on digitized AV assessments from municipal councils. In a first step, a complete list of all assessed AVs of residential property in all municipal councils needs to be obtained in digital format. This list should contain as much detail as possible, but at the very least, include information on the property type (residential or not), the Ward number, and ideally (but potentially not possible) the size (m^2) of the property. In a second step, AVs for all properties in municipal councils need to be adjusted to reflect market values.

67. The conversion into market values requires assessing capital values of standard properties in all municipal councils immediately. What is needed is a representative sample, rather than a comprehensive list, of actual capital values throughout the country. In each Ward, the capital value of a few standard properties, maybe 30 to 50, needs to be determined. Based on this information, the GVD can compute property-specific ratios of capital values relative to previously determined AVs. Subsequently, Ward-specific average ratios of capital value to AVs can be constructed. Applying these Ward-specific averages to all AVs within a given Ward provide a first comprehensive list of estimated capital values.

68. To update the list of estimated current capital values will require yearly valuations of standard properties. Since local government property tax reform will take time, the GVD will need to continue providing assessment of AVs to local governments in the medium term. However, a team of valuers will need be dedicated to the valuation of capital values of standard properties for IRD and the department of fiscal policy to maintain a list of current capital values.

B. Building data for the medium term

Digitizing market transaction evidence

69. Information on market transactions needs to be captured and stored in a digital database – the digital Sale Price and Rent Register (SPRR). There is currently no systematic

approach adopted for the collection of market transactions. Sale prices and rentals can be sourced from notarized purchase contracts and the registration of rental contracts but only on a manual case-by-case basis. The development of the digital SPRR would be a critical valuation resource with applicability across several property taxes and income taxes. Ideally, a project should be initiated to design the database to capture information provided by notaries. A project at the preliminary design stage has been started by the North-Western Province to capture information on transactions. Whilst the primary purpose of this project is to automate the calculation and payment of stamp duty on property transfers, it could be expanded into the SPRR.

70. Transaction evidence should be linkable to the land information system and the national cadaster, which requires a change in the information provided by notaries. The Surveyor General has a spatially enabled database of land parcels, with each having a unique cadastral number. This database is not currently shared with other departments. To allow connecting data, information provided by notaries should be expanded to include the cadastral number of the parcel, the buyer's personal identification (ID) or Tax Identification Number (TIN) and the unique local authority assessment rates roll number. The effect of these changes would be to identify transacted or rented property also spatially and ultimately the ability to join this information with the textual data held by the GVD.

71. To fully develop the SPRR will take in the region of 18 months, but a provisional version should be established earlier. Key activities for the SPRR include: (1) the development of the database; (2) the collection of at least 2 years of historic transactions, which would largely be an intensive manual process; (3) provide a module for the calculation and payment of stamp duty on property transfers; (4) identify those parts of the SPRR that would be available for public viewing; (5) create the digital links with the notaries public; and (6) build-in the spatial links with the land cadaster. However, to reduce the need for ex-post digitization, a provisional SPRR should be adopted to start capturing transaction information this year.

72. An important question would be whether the information held in the SPRR should also be publicly available. Data confidentiality, particularly personal information of individuals, would have to be respected. However, there are good examples of market transactions being open to the public (Republic of Ireland, Netherlands, and British Columbia, Canada). Transparency around transactions would also reduce opportunities for fraudulent and corrupt practices.

Digital inventory of all properties

73. A second critical resource for valuation is digital granular information on each property. Granular information on property characteristics such as size, age, condition, utilities, etc. are collected through periodic field inspections by the GVD. As this data is not recorded digitally, it has limited usefulness in terms of supporting an automated valuation approach. A project should be initiated to undertake the digitization of the valuation report cards held by the GVD. Information on properties for assessment rates purposes including drawings is held in large files. This is a critical resource that could easily be lost or destroyed if the storage areas were affected by fire, and/or flooding. As this information is likely to extend to several million documents it would take in the region of two years to complete.

74. The E-Valuation system could be considered as a proto-type of the required database. The GVD has for some time been developing a digital tool, the E-Valuation system to support their valuation activities. This tool has been designed to digitally record data as it is collected in the field by inspectors. The digitized data would then be in a format that could be used for mass valuation purposes. Hence, it would be imperative to accelerate the completion of this tool.

Recommendations

- Introduce a Sale Price and Rent Register as soon as possible.
- Digitize the rating valuation records held by the GVD.
- Revise the information provided by notaries on land and property transactions to include the cadastral number, buyer TIN and ID numbers and the GVD assessment rates roll number.
- Immediately assess market values of a representative sample of standard properties throughout the country. Design a process to re-estimate such representative samples on an annual basis.
- Using the assessed market values in combination with AVs from municipal councils, establish a first database of estimated current market values to (i.) design the IRIT and (ii.) provide guidance on market values to taxpayers.

V. Subnational Property Taxes

75. Stamp duty on property transfers is a central revenue source for local authorities. The revenue from provincial stamp duties are devolved to the local authorities – i.e., municipal councils, urban councils, and Pradeshiya Sabhas.[27] For sales agreements the current tax rates are 3 percent on the first LKR 50,000 and 4 percent above that amount. For donations the rates are 1 percent on first LKR50,000 and thereafter 2 percent. These thresholds have not been amended in many years and are nominal. Progress has been made because of amendments to the Notaries Act and the monthly reports notaries submit to the Land Registry will now be shared with IRD. According to the Ministry of Public Administration, Home Affairs, Provincial Councils and Local Government, stamp duties accounted for 30 percent of local authorities' own revenue in 2023 while recurrent property taxation accounted for 25 percent.

76. There are several reasons why the theoretically superior recurrent property taxes underperform. The GVD is mandated to provide an extensive range of valuations,[28] in addition to being solely responsible for determining AVs and any re-assessment of AVs for all local authorities (except for the Colombo Municipal Council, CMC). Hence, AVs are required to be provided for most of the 340 local authorities on a 5-yearly revaluation cycle. Tax rates applied on properties are determined by local authorities and range between 5 and 35 percent. As discussed previously, reasons for the undervaluation of AVs and low revenue performance are multifaceted (see also Beer and others, 2023) and include:

- **A dearth of open market rental evidence**. This lack of evidence is particularly noticeable in the residential property sector which is largely dominated by owner occupation. There are no official sources for determining rental values on residential property. Information is largely from informal market surveys, even where rental agreements exist, they are typically not registered.

- **Delays in 5-year valuation cycle.** Valuations are done at the request of local authorities which typically do not follow a five-yearly cycle. The GVD cannot plan their rating valuation work with any degree of certainty and the Covid pandemic has further delayed valuations. According to research by the Provincial Councils and Local Government Division there are 43 out of 47 local authorities in the Central Province that have very out-of-date annual values. Some 23 of the local authorities have annual values that have not been revised for more than 11 years.

- **Non-comprehensive tax base coverage.** Newly developed properties are not being valued between revaluations resulting in a loss or revenue. Local authorities have made little attempt to ensure that their registers are updated on a regular basis to identify new properties. This is largely because the GVD would need to return to the local authority to value these properties on a frequent basis which is an onerous task for them. In the Pradeshiya Sabhas only properties that are located

[27] The Provincial Revenue Departments retain a collection fee and some of the local authorities visited by the mission indicated that the revenue to be remitted was not necessarily paid to the local authorities.

[28] Including those required for compulsory purchase, stamp duty, miscellaneous capital and asset valuations and rental valuations for various government institutions.

within demarcated developed areas which are provided with services are liable to the assessment rates. Hence, many properties typically fall outside of the tax net.

A. Stamp duty reform

77. Some countries with transfer taxes or stamp duties levied at high rates provide relief to certain target groups. Many jurisdictions utilize multiple tax rates for the transfer tax/stamp duty (Namibia, Singapore, South Africa, and the United Kingdom). A common feature in especially countries or jurisdictions with progressive tax rates is a dispensation to accommodate first-time homeowners through the use of a zero percent value threshold (South Africa), different value thresholds, or lower rates (Hong Kong, Hungary, United Kingdom). In the United Kingdom, for example, the first GBP 250,000 is taxed at 0 percent, the next GBP 675,000 at 5 percent, the next GBP 575,000 at 10 percent and above GBP 1,500,000 the rate is 12 percent.

78. The introduction of a progressive rate schedule should be considered in the short term. A zero percent threshold should be introduced that should be aligned with the threshold determined for the IRIT. Above this threshold, a 4 percent rate should be levied on sales and donations. A further threshold should also be considered above which a rate of 6 percent should be levied. These higher rates should compensate for the revenue loss due to the tax-exempt threshold that will accommodate the poor but should also more specifically target the high-value properties over the next few years.

79. In the medium term, as revenue from recurrent taxation increases, stamp duties should be reduced.

B. Improving the design of recurrent property taxation

Continuous tax liabilities

80. The rates applied on assessed property values are tied to service provision. Changing rates requires approval from the provincial councils. While rate changes are in principle possible according to the law, most local governments have not changed their rates in decades. As a result, a reassessment of property values implies an increase in tax liabilities. This makes the GVD’s work difficult.

81. The tax liability should develop continuously between assessments to reduce pressure on re-valuations or sudden adjustments to otherwise static tax rates. Such pressure can be reduced in two ways:

- **Rate adjustment:** local property tax rates could be set on a yearly basis to reflect local authorities’ spending needs and / or to account for inflation.
- **Base adjustment:** alternatively, the tax base could be adjusted on a yearly basis, using interim (or temporary) valuations.

82. While the economic rationale of rate and base adjustments are equivalent, the legal underpinnings may be quite different. This is especially true in the Sri Lankan context, where the

applied rates are tied to service provision. In general, rate adjustments are justified by authorities' (changing) revenue needs while base adjustments reflect changes in exogenous conditions. Against this background, indexing tax bases to some variable that reflects such exogenous change is likely the preferential practice for Sri Lanka. Such tax base adjustments could leverage information on local property developments that will be collected for the IRIT. The representative sample of market values would allow the development of municipality-specific price indices.

Hardship relief

83. To the extent that central government social assistance programs (i.e., the expenditure side of the budget) cannot appropriately address social hardship, it can be addressed through a variety of measures in the property tax law (i.e., the revenue side of the budget). Relief on the basis of economic or social grounds should preferably be granted through properly designed tax relief schemes (e.g., rebates or deferment), not through tax base exclusions, area-based thresholds, or blanket exemptions. The authorities should select measures that accommodate true hardship cases without undermining the integrity of the property tax, and without unnecessarily eroding its revenue potential. Targeted tax relief—either permanent or temporarily—could be offered. The granting of hardship relief should ideally be intended to be for a time-limited period.

84. Preferably the tax base should be as broad as possible and excluding certain types of property through a narrowly defined base should be avoided. Secondly, all taxable objects should be valued in the same manner so that the tax burden can be fairly distributed. Thirdly, a uniform tax rate should ideally be applied, although internationally it is common to differentiate between property owners, especially with reference to property use. As a fourth option, exemptions or rebates can be granted to certain categories of owners or categories of use to reduce the taxable amount. A fifth possibility is to reduce the actual amount of tax – once determined, by allowing a discount or granting deferral of payment. The impact on the effective tax rate payable (i.e., tax paid as a percentage of market value), if all or some of these measures are used in combination, can be substantial – as illustrated in Table 7.

Table 7. Impact of Tax Relief

Example	
Residential property value	50,000,000
Value threshold	25,000,000
Taxable value	25,000,000
Statutory tax rate: 1.0%	250,000
Rebate (above 65): 10%	25,000
Tax Amount	225,000
Discount for early payment: 5%	11,250
Final payment	**213,750**
Effective tax rate	**0.4%**

85. A measure that could provide general ("blanket") relief, is a threshold that forgives property tax for those living in properties below a stated area (m^2) or value threshold. The poor often live in areas or neighborhoods with limited public services and infrastructure and consequently low assessment values for their properties. An exemption or threshold will therefore accord some rough justice to areas where tax collection costs may likely exceed the revenue take anyway. A value threshold (Cambodia, Egypt, Indonesia, South Africa) is preferable to an area threshold (Pakistan). The latter is regressive because it gives relief to luxury-apartment and -home owners in high-value locations in the same manner as to those in modest apartments or homes of similar size but located in poorer locations. For this reason, some countries have adopted a value threshold for a market-value based property tax.

86. Property value is generally a good proxy for the service levels, but not for a taxpayer's ability to pay. In the same manner that it cannot simply be assumed that all property owners in rural local authorities are poor, not all property owners in high-value neighborhoods are necessarily wealthy. Although a "blanket approach" has some administrative appeal, it may have unintended consequences. As a value threshold is a crude measure to address the plight of property owners who are "asset rich, but cash poor" and must not be set too high as it also benefits the wealthy, other (additional) mechanisms should also be considered.

87. The appropriate value threshold must be determined carefully so as not to be too generous or restrictive. This is indeed a risk if a single threshold is applied country wide – as is the case in Egypt. South Africa applies a low, minimum value threshold for residential properties across all municipalities. Even this threshold may be waived if it would prove detrimental to a municipality's tax base. Municipalities determine their own value-thresholds (there is no maximum). Typically, municipalities with a large tax base and high-value properties have high value thresholds to assist vulnerable residents in low-value areas. The law prescribes a nominal minimum value threshold of ZAR 15,000 (KLR 248,000 or USD795) which applies country-wide, but local authorities have the statutory authority to determine a higher threshold based on their own peculiar circumstances (e.g., average residential property values and income levels). Across the country, the 2024 threshold varies between the minimum of approximately USD 795 (in some poor rural local authorities) and USD 23,800 (in the City of Cape Town). The value threshold amounts to a deduction from the taxable value as it is impermissible to tax the value below the threshold of residential properties, so even the wealthier residential taxpayers receive some benefit.[29] As suggested above, introducing a low minimum value threshold below which no property tax is payable is considered a practical mechanism to accommodate taxpayers with low incomes in low value neighborhoods.

88. Another way of addressing potential hardship is through a well-designed hardship relief scheme that will target only those in need of relief. In this case the focus is on the amount of tax payable. Examples of such hardship relief programs exist in many countries (e.g., Australia, Canada, Singapore, South Africa, and the United Kingdom). In most instances, it will range from partial relief (e.g., a rebate) to a full exemption (i.e., 100 percent relief). It is often based on pensionable age as well as disability, and usually "means-tested," as not all elderly or disabled individuals are necessarily poor.

[29] For example, a Cape Town residence valued at USD 30,000 will only be taxed on USD 6,200 (i.e., the amount exceeding the threshold).

Taxpayers are generally required to annually apply in writing for the relief and submit proof that they indeed qualify. It should apply only in respect of a taxpayer's primary residence. Although the central government could publish guidelines in this regard, each local authority should ideally design its own jurisdiction-specific tax relief scheme. However, such a scheme presupposes the necessary capacity to properly design and diligently administer the provisions of the scheme.

89. Given the importance of property rates as an own source of revenue in South Africa, tax bills are generally high, and municipalities must therefore make provision for hardship relief. Hardship relief is available to households that cannot afford to pay some or all of the rate's bill. Taxpayers annually apply in writing for the relief. They must also submit sufficient proof that they indeed qualify. Table 8 and Table 9 provide examples of the 2024 hardship relief schemes in the City of Tshwane (i.e., Pretoria) and City of Cape Town, South Africa. Relief in the form of a rebate is "means-tested" and granted to, for example, temporarily unemployed residential taxpayers on application. Importantly, it considers the income of the total household, not only the income of the taxpayer. The percentage rebate granted to different gross monthly household income levels is determined according to a schedule. The gross monthly household income will be rounded off to the nearest rand in order to determine the percentile rate applicable. To some extent these tables reflect the difference in cost of living – with Cape Town as the more expensive city to live in.

Table 8. Relief on the Basis of Ability to Pay in the City of Tshwane

Minimum gross monthly household income	Maximum gross monthly household income	Percentage rebate
ZAR O	ZAR 8,950	60
ZAR 8,951	ZAR 10,050	50
ZAR 10,051	ZAR 11,150	40
ZAR 11,151	ZAR 12,250	30
ZAR 12,251	ZAR 13,900	20
ZAR 13,901	ZAR 16,775	10

Source: City of Tshwane Property Rates Policy, 2023-2024.
Note: USD 1.00 = ZAR 18.90 = LKR 312.50.

Table 9. Relief on the Basis of Ability to Pay in the City of Cape Town

Minimum gross monthly household income	Maximum gross monthly household income	Percentage rebate
ZAR O	ZAR 7,500	100
ZAR 7,501	ZAR 10,000	95
ZAR 10,001	ZAR 14,000	90
ZAR 14,001	ZAR 15,000	80
ZAR 15,001	ZAR 16,000	70
ZAR 16,001	ZAR 17,000	60
ZAR 17,001	ZAR 18,000	50
ZAR 18,001	ZAR 19,000	40
ZAR 19,001	ZAR 20,000	30
ZAR 20,001	ZAR 21,000	20
ZAR 21,001	ZAR 22,000	10

Source: City of Cape Town Property Rates Policy, 2023-2024.
Note: USD 1.00 = ZAR 18.90 = LKR 312.50.

90. Through exemptions and rebates, although well-targeted, local government forgoes revenue permanently. It may also be difficult to quantify the revenue forgone. In some instances, it may therefore be more appropriate to defer tax liability of a cash-strapped taxpayer until the property is transferred.

91. Alternatively, as an additional hardship-relief option, one could introduce a tax deferral provision (or "mortgaging" of property tax liability). In an often highly politicized property tax environment, tax deferral could be effective in dealing with "asset rich, cash poor" taxpayers or those who are temporarily unemployed. In terms of the deferral scheme these cohorts of taxpayers can go in arrears with their property tax payments. It would not attract penalties, but interest should be charged on the outstanding amounts. For the unemployed, the arrears of their property tax bills would start to become payable when they return to gainful employment, but with suitable phasing.[30] In all cases, under a deferral scheme, arrears would become due in full when the property is alienated (e.g., through sale, donation, or inheritance). At this point, the deferred tax is collected with interest.

92. Internationally property tax deferral schemes are typically reserved for exceptional circumstances only, given the potential impact that these legitimate "arrears" may have on a municipality's cash flow. Clear guidelines on what constitutes "exceptional circumstances" will be required to avoid too much political or administrative discretion. Interestingly, some studies of existing deferral programs show surprisingly low take-up. Seemingly, elderly households prefer to leave their property to heirs without tax obligations attached to them (OECD, 2022).

93. Careful design of the scheme is paramount: significant uptake of a mortgaging program that is too generous (e.g., as regards eligibility criteria and/or the interest charged on the deferred tax), may have an impact on a jurisdiction's current revenues.[31] Tax deferrals raise some challenges. If deferral provisions are targeted, there may be administrative and equity challenges associated with defining and identifying the qualifying taxpayers, whereas an automatic right to deferral (i.e., not dependent on income or wealth) may be simpler but poorly targeted and could lead to significant revenue shortfalls in the short-and medium-run (OECD, 2022). Lastly, a deferral program also presupposes the administrative capacity at the local authority level to design and manage the program.

94. In the Sri Lankan context, three relief mechanisms could be considered for municipal councils. These are: (1) a residential value threshold that applies to all residential property; (2) an on-application relief scheme providing rebates on the basis of a "means test"; and (3) a tax deferral scheme.

95. Municipal councils could be allowed, based on local circumstances and market evidence, to increase the value threshold above the nationally prescribed minimum. For example, CMC may have to apply a higher value threshold, but this should not undermine the tax base

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[30] E.g., previously unemployed property taxpayers could be required to make accelerated repayments of say 120 percent of their current property tax until arrears a fully wiped out.

[31] By June 2018, about 3 percent of British Columbia's property taxpayers had approved tax deferrals. The deferred amount was about CAD 970 million—approximately 13 percent of the total potential revenue.

of smaller communities in other regions in the country. It must be kept in mind that a threshold is a blanket approach that benefits the poor and the wealthy and the level thereof must be carefully selected. The rebate scheme and tax deferral should be narrowly targeting "cash poor" individuals through a means test.

96. With most property tax exemptions, it is a good practice to review these periodically, for example every three or five years. Renewal of relief would depend on successful evaluation. If exemptions no longer support the original purpose, they should be terminated. Second, if capacity allows, all exempt properties are recorded on the valuation list, which would require the periodic revaluation and publishing of results. This would allow authorities at national and local level to monitor annually forgone property tax revenues on exempt property. The tax expenditure should be communicated to all taxpayers – so that those who benefit from the relief should view it as a privilege not a right, paid by others who do not qualify for relief.

C. Improving Tax Base Assessments

Short-term options

97. The GVD should be responsible for the timing of revaluations. The ability of the GVD to provide timely rating valuations is often impacted by having to deal with other urgent requests made by national government and an insufficient number of professional valuers. The result is that local authorities often experience significant delays in the revision of their valuation registers. An issue outside of the control of the GVD is that they cannot plan with any degree of certainty their rating valuation work. This is due to the fact that local authorities are required to request a revaluation which first has to be approved by the provincial administration. Such requests do not typically follow a five-yearly cycle. The result is that the GVD may not have the resources to deal with local authority requests.

98. Valuations for assessment rates in Sri Lanka currently rely on manual approaches and processes. The introduction of automation and mass valuation would improve valuation efficiency and directly result in significant time savings when undertaking rating valuations. Mass valuation systems applied to land and buildings are found in many countries (Hong Kong, Netherlands, several states in Australia, Slovenia and the Republic of Korea). The need for mass valuation is linked to a government responsibility – national or local – to apply a recurrent property tax. The case for the use of mass valuation lies partly in efficiency, i.e., maintaining low costs of implementation through the valuation of many properties at the same time; and partly in providing an equitable and fair tax on land and buildings. Because of its close link to the fiscal necessities of states, mass valuation is also promoted as a way to increase revenues from property tax by applying estimated market values to the calculation of the property tax base. Finally, mass valuation models are largely demonstrated to achieve more accurate and efficient price analyses than traditional appraisal techniques.[32]

[32] McCluskey, WJ., McCord, M., Davis, PT., Haran, M. and McIlhatton, D. 2013. Prediction accuracy in mass appraisal: a comparison of modern approaches. Journal of Property Research 30(4).239-265. Bidanset, P., Rakow, R. 2022. Survey on the

99. The mass valuation process includes the following steps: identifying properties to be valued; defining the market area in terms of consistent behavior on the part of property owners and would-be purchasers; identifying characteristics of supply and demand that affect the creation of value in the defined market area; developing a model structure that reflects the relationship among the characteristics affecting property value in the market area; calibrating the model structure to determine, among other attributes, the contribution of the individual property features affecting value; applying the results reflected by the model to the characteristics of the property(ies) being valued; validating the adopted mass valuation model through quality assurance techniques and ratio analysis; and re-calibrating the mass valuation model if required.

Change in the basis of taxation – municipal councils

100. There are strong arguments to adopt the capital (market) value for the assessment of residential property within the 24 municipal councils. There would be several distinct advantages of adopting capital value including: (1) the availability of market evidence; (2) more transparent value basis; (3) easier for ratepayers to understand; (4) is a basis used for national property-related taxes (stamp duty, CGT, and potentially as the basis for determining imputed rental income). From an international perspective there are similar examples where the property tax assessment of residential property shifted from rental value to capital value. These include the Republic of Ireland, several states in Malaysia and Great Britain (i.e., England, Scotland and Wales). A typical definition or market value would be: *"The amount that the property would have realized if sold on the date of valuation in the open market by a willing seller to a willing buyer."*

101. The annual value basis would be retained for commercial property given the availability of rental evidence for this sector. Market rents for commercial property would appear to be more readily available. The GVD has the power to require occupiers of commercial property to furnish information on the lease arrangements including the rent payable, basis of the rent, terms of the lease and any other contractual obligations. The SPRR would also be used to collate the collection of market rents in a systematic manner. This leads to the conclusion that the assessment of commercial property should remain on the rental value basis.

102. Given the range of activities to be undertaken, the timeline for the transition to the capital value methodology will take in the region of 3 to 5 years. There will be several key activities required to deliver capital values including: (1) establishing the SPRR; (2) adopting mass valuation methodologies; (3) drafting of supporting legislation; (4) undertaking pilot projects to demonstrate the methodologies; (5) analysis of the revenue impact as a consequence of the change; and (6) developing an effective communication strategy to inform the taxpaying public.

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use of automated valuation models (AVMs) in government assessment offices: an analysis of AVM use, acceptance, and barriers to more widespread implementation. Journal of Property Tax Assessment & Administration, 19(2).

Change in the basis of taxation – Urban Councils and Pradeshiya Sabhas

103. The option for Urban Councils and Pradeshiya Sabhas would involve a more simplified assessment methodology that would not be based on the "value" of the property. In contrast, the simplified system is less advisable in Municipal councils, given the greater variation in property values paired with more administrative capacity there.[33] For other types of local governments, a few adjustment coefficients would be used to determine the tax liability. This methodology would be applied all properties including residential and commercial. The rationale for this approach is based on the facts that in these local authorities, property markets are opaque, and the lack of accurate sources of information on property capital or rental values. Moreover, there is insufficient valuation capacity within government and incomplete registration of titles to property.

104. There are several international examples of where a simplified methodology has been adopted to replace the existing value-based approach. A good example can be found in India where a similar property tax to Sri Lanka was introduced by the British colonial administration. Box 2. India's Simplified Assessment System, outlines the property tax reform that occurred in India where several cities abandoned the annual rental value and introduced a simplified methodology. Another example can be found in Sierra Leone where the capital city, Freetown, as well as a number of small towns have adopted a simplified valuation methodology in preference to the existing annual rental value. Similarly, in Mzuzu, Malawi's third largest city, a simplified system was introduced in 2013. Revenues increased by 700 percent between 2013 and 2018 (Chirambo and McCluskey, 2019).

105. If the Urban Councils and Pradeshiya Sabhas opt for the simplified assessment system this will reduce the pressure on the GVD in terms of providing rating valuations. This will be important as the GVD will be allocated additional tasks under the IRIT.

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[33] See also discussion on rationale for differentiated valuation basis in Beer and others (2023).

106. Under this simplified approach the most common methodology is to base the assessment of the property on the actual size of land and buildings. Countries that use area-based approaches, such as India and the Czech Republic, often make adjustments for specific characteristics (such as location, urban or rural zone, population of municipality, building condition, property use, and depreciation) to proxy market value and to enhance the fairness of the tax. Although revenue buoyancy can be an issue, the adjustments can be periodically changed to ensure revenue growth.[34]

Box 2. India's Simplified Assessment System

The property tax system in India has a long history being originally introduced by the British colonial administration. The tax base was defined as the annual rental value of land and buildings. The annual rental value method of assessment was one of the most prevalent systems in India. This system of assessment in a considerable number of municipalities was non-transparent and not capable of self-assessment. In this context, government had recommended the adoption a formula-based system, which minimizes discretion at field level and is capable of self-assessment. In view of the poor financial condition of the local authorities, it was recognized that the property tax must be made a revenue productive tax instrument through an appropriate reform strategy.

Following Patna Municipal Corporation's successful demonstration of the implementation of the unit area method in 2002, other municipal authorities have gradually transitioned to this method of estimating the property tax base given its predictability and ease of compliance under self-assessment methods (including Ahmedabad, Bangalore, Chennai, Delhi and Surat). Under this method, properties are classified for property tax purposes using criteria such as location, actual use, and construction type. As in other systems allowances are provided for age of a building and occupancy (owned or rented).

The main advantages of unit area-based property taxation were found to be objectivity, transparency, fairness, and lower compliance costs which benefit both the taxpayers and the government. The transition to this method was expected to bring immediate outcomes of higher tax yields and better compliance. However, adoption of an area-based system cannot produce these results automatically. Sustained efforts on the part of local authorities to build up an efficient tax administration are required for effective implementation of property tax reforms, which can ensure that the advantages accrue to the net benefit of the system.

107. The structure of the assessment methodology should be centrally developed while giving local authorities full control of the administration of the simplified approach. The methodology will be based on the selection of a small number of property related characteristics with associated adjustment factors. The GVD could be engaged to support this key component given it has much of the required data. See Annex B for a sample of property characteristics and adjustment factors. Adjustment factors can be calibrated to suit the environment of local authorities. As this is not a value-based property tax the GVD will not have any direct input into the assessment other than initially

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[34] Rao, V.U.A. 2008. Is Area-Based Assessment on Alternative, an Intermediate step, or an Impediment to Value-based Taxation. In Bahl, R., J. Martinez-Vazquez, and J. Youngman, eds. *Making the Property Tax Work: Experiences in Developing and Transitional Countries*. Cambridge, Massachusetts: Lincoln Institute of Land Policy (pp. 241–267).

providing property data that they have for each local authority. In consequence each local authority will be responsible for collecting and maintaining the necessary data on properties. The administration to support this will have to be developed along with the ICT to manage the system. Ideally, a single national uniform ICT system should be designed and developed. This will be important as having multiple, fragmented systems developed by each local authority would not be efficient. In addition, a centrally developed, standardized solution could be completed more quickly and more cost effectively.

108. The transition to the simplified methodology will take in the region of 2-3 years. There will be several key activities required to support this methodology including: (1) establishing the ICT to support the system; (2) collection of the required data; (3) development of the assessment methodology; (4) drafting the supporting legislation; (5) undertaking pilot projects to demonstrate the methodologies; (6) analysis of the revenue impact as a consequence of the change; and (7) developing an effective communication strategy to inform the taxpaying public.

Recommendations

- Introduce a zero-percent threshold to alleviate the burden on the poor – in line with the threshold for IRIT and CGT.
- Introduce a further threshold at an appropriate level to introduce further progressivity and to account for the revenue loss resulting from the zero-rating.
- Stamp duties should be reduced over the medium term as the revenue from assessment rates increases.
- Avoid discrete jumps in tax liability by either adjusting the tax base or the tax liability between assessments.
- Introduce a nation-wide minimum value threshold for residential property to exempt low-value residential property from assessment rates. Municipal councils should be allowed to increase this threshold on the basis of their own peculiar circumstances.
- The ministry responsible for local government must in consultation with municipal councils determine criteria and provide guidelines for the introduction of hardship relief programs.
- Amend the Municipal Council Ordinance to allow municipal councils to introduce a deferral scheme to assist "asset rich-cash poor" taxpayers.
- Local authorities should regularly review all exemptions to audit continued eligibility and to report on the revenue foregone.
- The GVD should develop a five-year rolling program for undertaking local authority revaluations and annual supplementary valuations.
- The GVD should develop automated valuation models.
- Accelerate the completion of the GVD E-Valuation System.
- For Municipal Councils, shift from annual value to capital value.
- For Urban Councils and Pradeshiya Shabha, shift to the simplified assessment methodology.
- Design and develop the ICT system to administer the simplified assessment methodology.

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Annex A. Adjusting Rental Values and Imputing Missing Data

Table A1 summarizes descriptive statistics of the valuations sample. Out of around 420 thousand valuations, 70 percent were conducted for residential property, with an average valuation of LKR 31 thousand. Even though commercial properties only represent 20 percent of the sample, they contribute 70 percent, or around 5 billion LKR, of total tax recorded in the dataset due to higher values and higher tax rates applied on such property.

Table A. 1. Descriptive Statistics Valuations Sample

Property type	Number of properties	Number (in percent of total)	Value (in millions)	Average value (in thousands)	Value (in percent of total)	Tax (in millions)	Tax (in percent of GDP)	Tax rate (in percent)
Commercial	81809	19.5	17477	214	60.6	5082	0.017	29.1
Other	45304	10.8	2407	53	8.3	651	0.002	27.0
Residential	293111	69.8	8974	31	31.1	1430	0.005	15.9
Total	420224	100.0	28857	69	100.0	7163	0.024	24.8

The valuation information contrasts starkly with anecdotal evidence of market outcomes. According to lankapropertyweb.com, a major Sri Lankan real estate online platform, the houses in 2023 were sold for an average price of LKR 62 million. Assuming the ratio of market value to yearly rental price is 30,[35] this average sales price translates to an annual rental payment of around 2 million. According to numbeo.com, another international real estate online information platform, average rental values range between LKR 408 thousand (for a 1-bedroom apartment outside of city centers) to LKR 2.25 million (for a 3-bedroom apartment in city centers).

The valuation data is adjusted by multiplying AVs with municipality specific adjustment ratios. The ratios are chosen such that the median property rental value in each municipality is equal to LKR 480 thousand, implying a monthly payment of LKR 40 thousand. This value was suggested by several government officials the mission team met and seems to be in line with anecdotal market evidence. Across the sample, the ratio of the median residential property value relative to the assumed value is 31 (last column of Table A.2.)

Table A. 2. Descriptive Statistics - Residential Property Valuations

Municipality	Number of residential properties	AVs				Adjustment factor
		5th percentile	Median value	95th percentile	Mean	
Batticaloa	25615	3.5	12.0	42.1	16.3	40.0
Colombo	127494	2.9	16.3	123.0	34.6	29.4

[35] According to numbeo.com the price to rent ratio ranges between 27 (in city centers) to 45 (outside).

Galle	22321	2.5	11.8	41.5	15.7	40.8
Hambanthota	10381	1.0	3.5	18.8	5.9	137.9
Jafna	21672	1.0	16.8	63.0	22.7	28.6
Kandy	17722	5.1	32.0	113.2	42.4	15.0
Kurunegela	6704	17.1	112.5	341.2	136.8	4.3
Matale	12756	1.0	9.9	44.0	14.5	48.3
Polonnaruwa	7337	0.5	12.0	43.4	18.2	39.9
Sri Jaya	41109	1.1	17.9	97.9	30.6	26.8
All	293111	1.525	15.6	107.5	30.6	30.8

Notes: values (percentiles, median, and mean) are in LKR thousands. The adjustment factor is computed as $\frac{480}{median\ value}$*. Source: administrative data, IMF-staff computations.*

Up to 1.1 million residential properties may be affected by the tax. The GVD has assessed AVs for 945 thousand properties in municipal councils, 1.8 million properties in Pradeshiya Sabhas, and 600 thousand properties in urban councils. Assuming that the share of residential properties in all properties is representative in the valuation sample (70 percent), there exist around 2.4 million residential properties in Sri Lanka. Urban councils and some Pradeshiya Sabhas tend to be less developed with lower property values. The computations thus assume that all residential properties in municipal councils (662 thousand) and only 25 percent of residential properties outside of municipal councils (440 thousand properties) are potentially going to be affected by the imputed income tax. The remaining 1.3 million properties are not expected to be captured by the new tax.

To compute a simulated distribution of potentially in-scope entities, each observation is assigned a weight. Colombo's distribution of AVs is more unequal, with a much higher ratio of the 95th percentile value relative to the median value than in other municipal councils. To account for the fact that Colombo's distribution is likely less representative of missing property value information, properties in Colombo are assigned a weight of 1.5 while properties outside of Colombo are assigned a weight of 5.5. The weighted number of properties is equal to 1.1 million.

Annex B. Simplified Assessment Methodology

A simplified assessment methodology is based on: (1) selecting the LKR per m^2; and (2) selecting adjustment factors. Ideally, the number of adjustment factors should be kept to a minimum. In the example below, four factors have been chosen. The adjustment factors can be revised every 5 years.

Tax Liability = {Area(m^2) x LKR/m^2}x {LOCATION x AGE/CONDITION x PROPERTY USE x RESIDENTIAL USE}

- **Location Factor.** The effect of location is driven by an adjustment factor which is a proxy designed to capture the value of a specific area for residential and non-residential uses. There are a number of options that could be used such as Grama Niladari Divisions (GNDs), Wards and proximity to road. In Table B1 four qualities of road are chosen with adjustment factors being prescribed for each type of road.

Table B. 1. Proximity to road factors	Factor
Main Road	2.50
Secondary Road	1.50
Tertiary Road	0.90
Unpaved Road	0.50

- **Age/Condition of Building Factor.** The condition factor is designed to reflect depreciation in the “value” of buildings constructed on the land parcel. Buildings are grouped into five categories.

Table B. 2. Age/Condition of building	Factor
Modern, Excellent< 10 years	1.50
Good>10 to 20years	1.25
Average>20 to 30 years	1.00
Poor>30 to 40years	0.60
Dilapidated>40 years	0.25

- **Residential Use Factor.** Where a property is classified as residential different adjustments are made to reflect the type of residential property.

- **Commercial Property Use Factor.** This adjustment factor takes into account the actual use of the commercial building.

Table B. 3. Type of residential building	Factor
Apartment	1.75
Individual House	1.50
Row House	1.00
Other	1.00

Table B. 4. Type of commercial building	Factor
Hotels, Restaurant, Entertainment Places, Open-air theatre, Service station, Cinema,	10
Retail malls, shops	8
Offices, Bank, Central Government office, State Government office, Post-office, Commercial and / or industrial office	7
Dish antennae, Antenna towers, Signboard, hoarding, Mobile phone towers	6
Dispensary, Hospital, Clinic, Maternity home, Laboratory	4
Industrial (light and heavy); storage warehouses	4
Private Nursery, Private and Govt. Schools, Private and Govt. Colleges, University campus, Museum, Community halls, Social institutes run by public charitable trust and non-grantable schools.	0

Temple, Mosque, Derasar (Jain Temple), Church, Roza, Tombs, Gurudwara (Sikh Temple), Graveyard, Kabrastan, crematorium, well, public bath.	0