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REVIEW OF PROPERTY TAXATION IN TRINIDAD & TOBAGO

(Based on Min. of Planning and Development report of 1994)

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PROPERTY TAXATION **IN TRINIDAD AND TOBAGO**

1.0 CURRENT SYSTEM OF PROPERTY TAXATION

- 1.1. The islands of Trinidad and Tobago make up the Republic of Trinidad and Tobago. For Local Government purposes, Trinidad has five (5) Municipal Corporations for the cities of Port of Spain and San Fernando and the Boroughs of Arima, Point Fortin and Chaguanas and nine (9) Regional Corporations, which cover smaller towns and rural areas. Tobago is not a regional corporation. The island enjoys a certain measure of autonomy over its affairs under the Tobago House of Assembly Act.
- 1.2. The Municipal Corporations Act 1990 (Act No. 21 of 1990) [MCA] governs the levy and collection of house rates in the Municipalities, Port of Spain, San Fernando, Arima and Point Fortin. Under the Act, the house rate is charged on the basis of the Annual Rateable Value (ARV) of the property. However, in the rest of Trinidad and Tobago, that is, the areas falling within the jurisdiction of the Regional Municipalities and in Tobago, the Land and Building Taxes Act, Chapter 76:04 continues to apply. Land is taxed at a fixed rate on the basis of acreage and buildings are taxed on the basis of the ARV, with adjustments being made for the rental value attributable to the land. There are approximately thirty three thousand four hundred (33,400) assessed hereditaments in the Municipal Corporations and about two hundred and forty one thousand (241,000) assessed properties in the rest of the country. However, for administrative reasons, assessments in the Borough of Point Fortin continue to be made under the Lands and Buildings Taxes Act.
- 1.3. Before the passage of the MCA, the Municipalities of Port of Spain, San Fernando and Arima were responsible for the assessment and collection of house rates. Objections against assessments were also heard, in the first instance, by the Municipal Councils, with appeals going to the Tax Appeal Board and, further, on questions of law, to the Court of Appeals. After the enactment of the MCA, the responsibility for assessment has been given to the city Assessor. Where no City Assessor has been appointed, for example in Point Fortin, assessments are made by the Commissioner of Valuation, who heads the Valuation Division of the Ministry of Finance of the Central Government. Objections to the assessments of the City Assessor go to the Commission of Valuation. Where the Commissioner himself makes the initial assessment, the MCA permits objections to be made to his office.
- 1.4. Appeals can be filed to the Tax Appeal Board against assessment orders of the Commissioner of Valuations. It should be noted that no new assessment have yet been made after the passage of the MCA and house rates continue to be collected on the basis of the pre-1990 rolls who also collects other local

charges, fees and taxes such as lease rents, cemetery tax, market and abattoir fees, to name a few sources of Local Government revenue.

- 1.5 In areas covered by the Regional Corporations and in Tobago, assessment and collection of Land and Building Taxes are the responsibility of District Revenue Officers (DROs), who are under the administrative control of the Board of Inland Revenue (BIR) of the Central Government. There are eighteen (18) District Revenue Offices/Sub-offices. In a de fact sense, the DRO depends on the Commissioner of Valuations to carry out assessments. Initial objections to assessments are filed before the DRO who, in turn, seeks the advice of the Commissioner of Valuations. The tax authority, however, is the District Revenue Officers who would normally accept the advice of the Commissioner of Valuations. Further appeals from the orders of the DRO follow the same route as in the case of house rate assessments in the Municipal corporations. Besides collecting land and building taxes, the DROs also collect property rents for the Commissioner of State Land and other Central Government charges such as income tax payments, driving permit fees, license fees etc.
- 1.6 Some initial attempts to computerize the assessment roll of the DROs have been made, but the process is incomplete. In accordance with the Municipal Corporations Act 1990, jurisdiction over the DROs is expected to be transferred to the respective Regional Corporations, by proclamation of the relevant portions of the Act in so far as they apply to the several new Regional Corporations.

2.0 PROBLEMS WITH THE CURRENT SYSTEM

- 2.1 As would be evident from above, there is a lack of uniformity in the law and practice of property tax. There are no uniform property tax rates among the Municipalities. Outside of the Municipalities, there is a fixed property tax rate under the Land & Building Taxes legislation. Also, property valuations underlying the collection of the property tax have not been revised for the last sixty (60) years. As such, old properties continue to be taxed on the basis of their original low valuations, whereas new and improved properties are taxed on the basis of significantly higher valuations made after their completion or renovation. These factors make the current system inequitable. Further, the application of the same rate to all properties in a particular jurisdiction irrespective of value leads to regressivity.
- 2.2 The current system has also lost its ability to raise adequate revenues to meet the growing expenditure needs of Local Governments. The Land and Building Taxes collected by the Central Government has declined to less than one percent (1%) of its total tax revenues. In 1992, the estimated collection was TT \$40.0 million out of total Central Government tax revenues of TT \$5,447.2 million. The collection of house rates by the

corporations of Port of Spain, San Fernando and Arima in 1990 was about TT \$17.0 million. Although this constituted eighty five percent (85%) of their total revenue collections, it was only seventeen (17%) of their total expenditure. The corporations are, therefore, heavily dependent on Central Government subsidies for financing their budgetary deficit.

- 2.3 The state of records relevant to the efficient administration of property tax is unsatisfactory. The city of Port of Spain has good records regarding buildings, but these are deficient in respect of land areas. Outside the Municipalities, there are reasonably good records of land areas, but records exist for only about fifty percent (50%) of the buildings. Location of properties outside of the municipalities is also a major problem. The Valuation Division's Site Value records (which excludes improvements) are over twenty five (25) years out of date and there is no mechanism in place to up date property tax purposes, stored in a manner that allows easy retrieval is a critical necessity. The Town and Country Planning Division of the Ministry of Housing and Settlements has produced plans for the regional and sub-regional towns in accordance with their statutes. However, these are not always current, particularly at the smallest level of disaggregation, that is small towns and villages. The Central Statistical Office (CSO), Office of the Prime Minister, also maintains a spatial database on buildings and occupants at the Enumeration District level of disaggregation. That is, small areas containing populations of approximately 150 households. The data of CSO is computerized, including the ED maps which are digitized. In addition to the TCPD and CSO, the Lands and Surveys Division of the Ministry of Housing and Settlements a source of maps and aerial photographs. No mechanisms currently exist to link the records on the Assessment Roll of the Valuation Division to relevant data collected by other Government agencies such as the Registrar-General's Office (Land Registry), the Valuations Division, the Town and Country Planning Division, the Central Statistical Office and the Lands and Surveys Division.
- 2.4 The Valuation Division, which is responsible for all valuation under the Lands and Buildings Taxes Act and now under the Municipal Corporations Act, in cases where no Assessor is appointed, has major staff shortages at the professional and technical levels. The State's valuation and estate management functions were carried out by a large number of relatively independent Agencies up until the early 1960's. None of these Agencies had any staff qualified in Valuation and Land Economy/ Land Management (V&L.E/L.M) except at the office of the Director of Surveys. Here although the professionals were trained in Land Surveying where V&L.E/L.M inputs were limited they were very experienced in Valuation and Estate Management.
- 2.5 The Valuation Division was set up in the late 1960's to centralise the State's V&L.E/L.M expertise as it was impractical to provide properly trained

professional and technical staff in all Agencies engaged in Valuation and Estate Management functions in the short to medium term. In the late 50's to early 60's several scholarships were awarded to pursue professional qualifications in Estate Management, V&L.E/L.M in the U.K. Most of these scholarships were granted to staff actually engaged in Valuation and Estate Management. Most of the technical officers in these Agencies involved in Valuation and Estate Management were drafted into the Valuation Division and provided with an intensive one year (1967/68) technical training course in the elements of Valuation and Land Economy. No further training have been provided for new entrants to replace losses, and there are no local Agencies providing training at either the technical or professional level in Valuation, Estate Management and Land Economy. Also, no scholarships for training at the professional level have been awarded for over a decade.

- 2.6 The net effect is that in the Valuation Division today all fifty (50) posts at the technical recruitment level of Valuation Assistant's I are vacant as are twenty (20) of the forty three (43) posts at the next level of Valuation Assistant's II. All nine (9) posts at the professional level of Valuer are vacant and one of the four (4) posts of Assistant Commissioner of Valuations is also vacant. In the Drawing Office two (2) posts of Draughtsman I and all four (4) posts of Trainee Draughtsman are vacant. The Quantity Surveying Section has been reduced to a single officer.
- 2.7 Many agencies continue to be responsible for Estate Management and/or Valuation functions including Policy Matters but with the exception of PIDCOTT (TIDCO) none has qualified Valuation and Land Economy staff.
- 2.8 Similar staff shortages also affect the City Assessors in the Municipalities. The level of staff training is inadequate and no formal training to valuers has been provided since 1976. The operations of the DROs and the City Assessors and City Treasurers are not computerized. This state of affairs contributes to inefficiencies in billing, monitoring of collections and identification of defaulters. Enforcement of payment from defaulters is sporadic and ineffective. Property tax arrears are understood to be about four to five times the annual collections, a substantial part of which is owed by state enterprises. Tax payment procedures require taxpayers to make payments only at District Revenue Offices covering the geographic area where the property is located. This requirement puts taxpayers living at places other than the location of their property to considerable inconvenience. Taxpayers also do not receive timely personal reminders of their tax liability. Reminders are sometimes given through general press advertisements. These factors, when combined with the perception of inequity and unfairness, affect the level of voluntary compliance.

3.0 CURRENT BASIS OF VALUATION AND TAXATION

Valuation

- 3.1 Trinidad and Tobago are currently assessed by reference to the Annual Rental Value (ARV) System of Valuation. Rating against the resultant values are made in accordance with the provisions of either the Municipal Corporations Act, 1990 as amended or the Lands and Buildings Taxes Act, Chapter 76:04 as amended.
- 3.2 The system in use while once considered adequate has not been maintained, resulting in a substantial number of inequities. Valuations using the system have not been updated for all properties but, have in effect been selective. New properties have been valued using more recent rental values while numerous existing properties continue to have values from as long as sixty (60) years ago. The current minimum property tax on buildings at \$0.96 per year results in considerable time being wasted on the assessment of low value properties
- 3.3 The observance of periodic revaluation of real property tend to be observed in the breach. In the Municipal Corporation Ordinances relating to port of Spain and San Fernando, there is a mandatory provision to revalue all property subject to rates once every three years. In the case of the Arima and Point Fortin Corporations, the Act is silent but implies every year. However, under the Land & Building Taxes Act, once an "Assessment Roll" has been published by the District Revenue Office (DRO), that Roll shall continue in operation for 14 years until a new roll comes into operation. During the intervening period, the DRO is empowered to amend the Roll to "make the roll true and correct" which includes the power to make reassessments at any time. The actual custodians of the Roll when produced are either the District Revenue Officer or the Municipal Clerk, and is subject to their absolute control. Only the District Revenue Officer or the Municipal Clerk can cause additions or re-valuations for properties requiring amendment such as those resulting from new construction.
- 3.4 The inability to update and maintain these rolls has created severe inequities between properties and in addition has failed to create resultant taxation that should have kept pace with the values of the property and inflationary trends.
- 3.5 All the property Tax laws in the country requires assessed values to be maintained up to date which should also assist in keeping a national LSI/GIS up to date. However, instructions from the Authorities have stopped all re-assessment except where properties have been improved but no satisfactory machinery has been improved but no satisfactory machinery been put in place to ensure that all improved buildings are reassessed within a reasonable time. The failure of the former Municipalities to properly implement the rating provision under the Municipal Corporation Act (#21 of

1990) cast doubt on the validity of their Property Tax Rolls. The last exercise carried out by the Inland Revenue Division to discover un-assessed and under-assessed buildings failed to identify many of the properties, as the details of the properties when last assessed were not available to those carrying out the exercise. Less than 20% of the properties in the country are property assessed. Over 50% are grossly under assessed (i.e. paying less than 25% of a proper rate). This has serious effects on Government's proposal to make Local Government self reliant in the short run.

- 3.6 At present valuations are completed by the Valuation Division of the Ministry of Finance except for the areas of Port of Spain, Arima and San Fernando who employ their own Valuation Staff authorized by statute.

Taxation

- 3.7 Rates applied to the returned values are legislated and have been constant. For areas governed by the Municipal Corporations Act which encompasses the areas of Port of Spain, Arima and San Fernando the Council may levy a rate of up to ten per cent (10%) of the assessed value. Areas governed by the Lands and Buildings Taxes Act are levied a rate of seven point five per cent (7.5%) in respect of buildings, and land is subject to a fixed rate on the basis of acreage. It must be noted that the preceding rates apply to the majority of properties. Specific classification of properties have differing rates as prescribed in the appropriate legislation.
- 3.8 The rates once applied are then issued to the taxpayer. It should be noted that not all taxpayers receive a billing document from the District Revenue Officer and reliance is placed on the taxpayer voluntary payment through advertising to ensure payment of the rates due. This has been necessitated by limited human resources and the fact that the system is totally manual.
- 3.9 Levies are due on or before June 30 in each year. Payments to be made to the District Revenue Officers are required to be provided in person by either cash or credited cheque. In the Cities some leniency of payment exists in that payments may be made by ordinary cheque provided through the mail.
- 3.10 Levies outstanding at July 1 are assessed a ten per cent penalty for late payment by an increased assessment that is immediately applied to the outstanding amount. Effective July 1 1994 property falling under the Lands and Buildings Taxes Act, Ch. 76:04, are liable to attract a penalty of ten per cent (10%) and, in addition, a further charge of fifteen per cent (15%) per annum, that is 1.25% per month to the unpaid tax balance on the first day of each month until paid, if in arrears at July 1. Cities will be using this provision effective January 1 1995.

- 3.11 *It must be noted that all documentation related to the Valuation Rolls and resultant Tax Rolls are prepared and maintained manually. While current legislation is very strict regarding arrears, an ineffective means of follow-up (limited manpower to enforce collection and minimal computerization) preclude effective collection of all but the most significant of outstanding accounts.*

Water and Sewerage Authority (W.A.S.A.)

- 3.12 The W.A.S.A. Act Ch. 54:40 (4th Schedule Part VII) requires a water rate to be imposed on all properties within 400 meters of a stand pipe, and properties which are supplied with water for domestic purposes, which must be based on the Assessed Annual Value for Property Tax purposes. Note well that metered charges are additional for properties connected to the system. Sewerage rates must also be based on the Assessed Annual Value of the property (5th Schedule Part III).
- 3.13 Major reasons for W.A.S.A.'s present financial predicament are as follows:
- (i) Assessed Values are in most cases unrealistically low as they are obviously out of date
 - (ii) Over the last twelve (12) years the Public Utilities Tribunal has tried to solve W.A.S.A.'s financial problem with no significant success because the major cause of the problem has not been addressed. As a result enormous increases in rates have been imposed on the less valuable properties with significant reductions in the liability of the most valuable properties.
 - (iii) Statements in the daily press continue to indicate that further attempts being made to solve the problems are along the same lines as those, which have failed on more than one occasion.
 - (iv) A Public Utilities research paper has advised against the use of property values in Utility rating (Water and Sewerage).
 - (v) Unless assessed values are updated or some alternative rating basis satisfying the ability to pay principle is imposed, W.A.S.A. cannot be expected to solve its financial problems in the foreseeable future.

4. PREVIOUS VALUATION AND TAXATION REFORMS

- 4.1 In June 1963, the United Nations recruited Mr. John M. Copes to undertake a review of the country's valuation system as well as the administrative system.
- 4.2 The Act also created the office of Commissioner of Valuations and the Valuation Division was established within the Ministry of Finance. However, the provisions of the Act relating to the basis of site value were never implemented. Following his review, the Valuation of Land Act, 1969 was enacted by

- Parliament. This Act provided for the valuation of land and improvements on the basis of site value.
- 4.3 In 1969, the Division undertook to update the valuations in order to present a Roll with the values as determined. As a result of adverse public reaction, the values determined by the Valuation Division were not implemented. The end result was the return to the previously sanctioned rolls, based on the Annual Rental Values prior to 1969.
 - 4.4 In 1978, the GORTT again determined that Real Property Valuation and tax reform should be revisited. A committee was established under the Chairmanship of Mr. Randolph Kong which provided a report now referred to as the "Kong Report".
 - 4.5 The Committee was charged with the responsibility to review and provide recommendations related to:
 - The Draft Proposed Rating Act, 1972;
 - The Draft White Paper on the Proposed Act; and
 - A paper titled "*Proposals for Property Tax Reform*", that was prepared by the Commissioner of Valuations.
 - 4.6 Following their deliberations, the Kong Committee recommended that reform of valuations be undertaken by use of the "pure" site value approach to valuations. It was determined that the proposed methodology and resultant tax reform would be beneficial and administratively effective.
 - 4.7 As the country was experiencing the benefits of a vibrant economy, the GORTT felt that real property taxation was not a priority. As a result of this it took no action for reforming the valuation and taxation systems in place.
 - 4.8 In 1991, the GORTT became concerned again with the property taxation problems, following a downturn in the country's economy. It was determined that the cost of services provided by the Municipalities to real property bore little relationship to the revenues received from tax levies and significant revenue short-falls were being experienced. Compounding this issue was the fact that property tax arrears were extremely high.
 - 4.9 Due to the concerns expressed and identified, the GORTT, through the assistance of the Commonwealth Fund for Technical Cooperation, engaged Mr. F. B. Hetteriachchi, Chartered Valuation Surveyor, to complete a review of valuation and taxation.
 - 4.10 Mr. Hetteriachchi's report titled "*Property Taxation in Trinidad and Tobago*" recommended that the country revalue and reform its system by use of the Improved Capital Value approach to valuation. The Report recommended that

the Improved Capital Value System be established, based on the "marked Value of property as a whole, including land, building, machinery, plant and equipment".

- 4.11 In May 1994, following a comprehensive review by a working group of valuation and administrative experts, the Cabinet accepted this proposal.
- 4.12 This acceptance is predicated on all properties in Trinidad and Tobago being valued using the Improved Capital Value methodology.
- 4.13 It is envisaged that this system, when uniformly applied, will ensure fairness and equitable treatment of taxpayers, not currently realized due to the inability to support the current system.

5 REFORM PROGRAMME

- 5.1 In October 1993, the Government of the Republic of Trinidad and Tobago (GORTT) decided to use funds available under a World Bank Technical Assistance Loan (TAL 3153 TR) to undertake a comprehensive reform of property tax policy and administration. The objective is to establish an equitable, efficient and effective property tax system that would: (1) enable Local Governments to raise a greater proportion of their financing needs locally, thereby reducing their dependence on Central Government subsidies and, (2) facilitate voluntary compliance in the payment of property taxes. The reform measures will also empower regional corporations to be responsible for raising their own revenue to meet expenditure for services. Legal provision already exists in the Municipal Corporations Act, 1990 for this activity.
- 5.2 A pilot effort at mass re-assessment was conducted by a consultant, but the results were not used to implement reform.
- 5.3 Stamp Duty. The regulations and procedures for granting exemptions from Stamp Duty on the transfer of interests in real property are deficient, mainly due to an absence of a Valuation and Land Economy input. The failure of the Board of Inland Revenue to implement the form jointly designed with the Valuations division for Stamp duty applications, does not only result in delays and a loss of revenue but also has an adverse affect on the Valuation Division's Market (Analysis) Database.