MINISTRY OF FINANCE

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COMPARATIVE ANALYSIS OF IMMOVABLE PROPERTY TAX SYSTEMS - LESSONS FROM JAPAN FOR MONGOLIA'S TAX REFORM

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01. LEGAL ⚖️ ENVIRONMENT

LEGAL ENVIRONMENT OF MONGOLIA

1 CIVIL CODE

Article 84

✦ Land and items that cannot be used for their intended purpose once separated from the land are considered immovable property.

2 IMMOVABLE PROPERTY TAX LAW

Article 3. Immovable Property Subject to Taxation

✦ All types of immovable property defined in accordance with **Article 84.3 of the Civil Code** of Mongolia are subject to official taxation.

Article 4. Taxpayers of Immovable Property Tax

✦ Entities that own immovable property within the territory of Mongolia are considered taxpayers of the immovable property tax.

Article 5. Valuation for Immovable Property Taxation

✦ The taxable value of immovable property (excluding land) is determined as follows:

➢ Based on the **registered value** in the immovable property register

➢ If unregistered, the value is based on the **insured amount**

➢ If uninsured, the value is based on the **amount recorded in the accounts**

LEGAL ENVIRONMENT OF MONGOLIA

2 IMMOVABLE PROPERTY TAX LAW

Article 6. Tax rate

- The tax rate for immovable property is set between **0.6% to 2.0%** of the taxable value

- The specific rate within this range is determined by **local government** (provincial or municipal) based on local tax policies

Article 7. Tax exemption

- Immovable property of legal entities **financed by central and local budgets**

- The **first two residential properties** owned by citizens or legal entities registered in **Ulaanbaatar**, **all residential properties located in rural areas**

- Public use buildings

- Buildings **in Free-Trade Zones**

- Buildings and facilities registered in designated **special zones of the capital city**

LEGAL ENVIRONMENT OF JAPAN

1 Local Tax Act (地方税法)

Article 382: Fixed Asset Tax Base

🚩 Defines that land, buildings, and depreciable assets are subject to annual taxation as "fixed assets."

🚩 The taxable base is determined by the assessed value recorded in the fixed asset registry maintained by municipalities.

Article 383: Fixed Asset Tax Rate

🚩 Sets the standard fixed asset tax rate at **1.4%** of the assessed value.

🚩 Allows municipal governments to raise the rate to a maximum of **2.1%** under special circumstances.

Article 390: Exemptions

🚩 Exempts specific properties such as **public-use land, schools, and religious institutions**

🚩 Provides reductions **for small-scale residential land and certain agricultural land** to promote equitable taxation

GOVERNMENT OF MONGOLIA

2 Real Estate Appraisal Standards (不動産鑑定評価基準)

Section 1: Valuation Principles

⚑ Establishes that property values for taxation are based on objective market conditions

⚑ Requires revaluation of property **every three years** to ensure accuracy

Section 2: Adjustment Factors

⚑ Specifies that adjustments can be made based on:

➤ **Location-specific factors** (e.g., proximity to urban centers).

➤ **Usage** (e.g., residential vs. commercial use).

➤ **Depreciation** for buildings based on age and wear.

02. CURRENT SITUATION

COMPARISON OF IMMOVABLE PROPERTY TAX CONTRIBUTIONS: MONGOLIA VS OECD COUNTRIES

Country	Property Taxes as % of Total Tax Revenue	Property Taxes as % of GDP	Tax Rates
OECD AVERAGE	5.9%	1.2%	0.5%-3%
MONGOLIA	1.6%	0.2%	0.6%-2%
JAPAN	8.3%	1.8%	1.4%-2.1%
UNITED STATES	11.5%	3.1%	0.2%-3% (varies by local governments)
UNITED KINGDOM	12.5%	4.1%	Based on council tax bands
FRANCE	8.8%	2.8%	0.5%-3% (cadastral value)
GERMANY	2.8%	0.9%	0.26%-1%
ITALY	5.8%	1.2%	0.2%-1.06%
MEXICO	1.2%	0.3%	Below 1%
CANADA	10.9%	2.9%	0.5%-2.5%

At 1.6%, Mongolia relies less on property taxes compared to the OECD average of 5.9%

Source: OECD, Revenue statistics, 2024

STABILITY OF JAPAN'S PROPERTY TAX SYSTEM DURING CHANGING MARKET CONDITIONS

Residential Property Price Index   **Property Tax as % of Total Revenue**

Japan's property tax system ensures *stability, maintaining consistent revenue* despite changes in property prices.

GOVERNMENT OF MONGOLIA

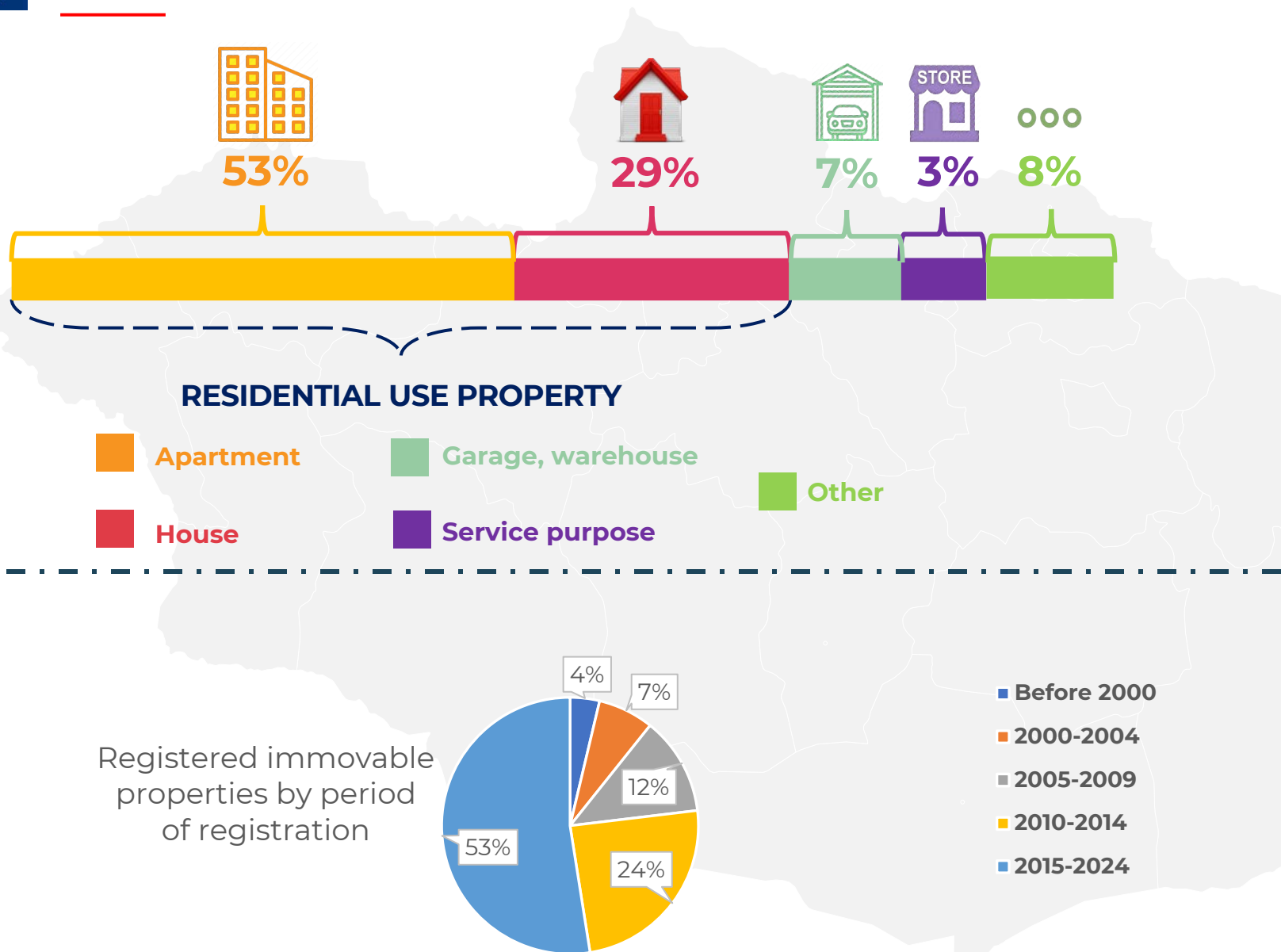**Mongolia's immovable property tax system is not aligned with market conditions, leading to unsustainable tax revenues.**

Chart legend:
— **% Change in Residential Property Price**
— **Change in Property Tax % of Total Tax Revenue**

Source: MOF, MTA data

DISTRIBUTION OF IMMOVABLE PROPERTIES BY PURPOSE AND REGISTRATION PERIOD

53% **29%** **7%** **3%** **8%**

RESIDENTIAL USE PROPERTY

- Apartment
- House
- Garage, warehouse
- Service purpose
- Other

In Mongolia, 82% of all immovable properties are residential use properties.

Registered immovable properties by period of registration

- Before 2000
- 2000-2004
- 2005-2009
- 2010-2014
- 2015-2024

4%
7%
12%
53%
24%

Source: Mongolian tax authority /MTA/

OWNERSHIP DISTRIBUTION OF IMMOVABLE PROPERTIES BY INDIVIDUALS AND LEGAL ENTITIES

Individual

5-9 properties 0.9%
10 properties 0.1%
4 properties 1.1%
3 properties 3.4%
2 properties 27.1%
Owns 1 property 67.4%

Legal entities

10 properties 3.8%
5-9 properties 5.7%
4 properties 3.4%
3 properties 6.4%
2 properties 15.7%
Owns 1 property 65.0%
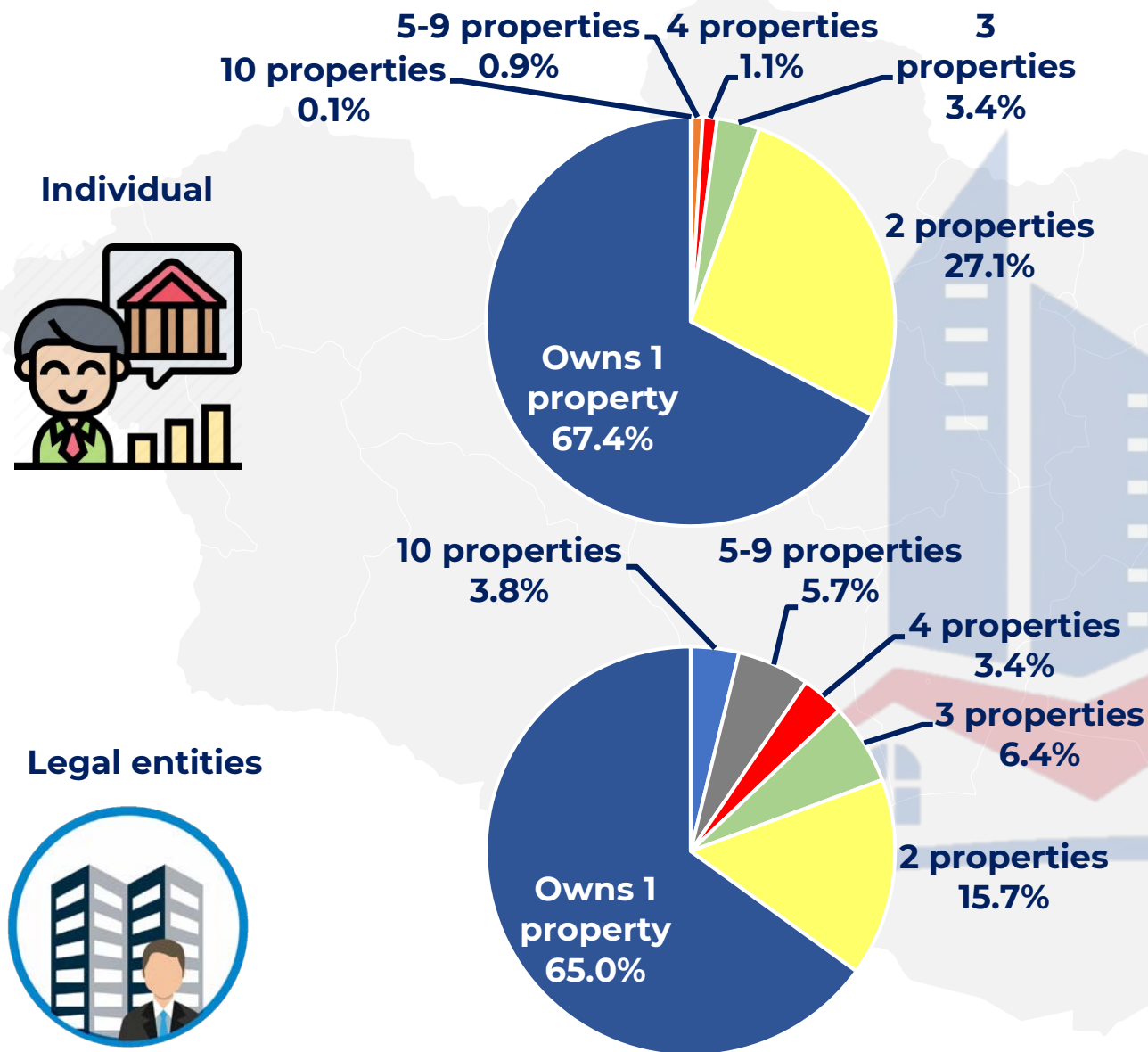
More than 90% of individual and 80% of legal entities owning immovable properties have between one and two properties.

Source: Mongolian tax authority /MTA/

EXAMPLE OF LOW IMMOVABLE PROPERTY TAXPAYERS

Happy Mart LLC Building
Registered price: ¥74.9 million
Market value: ¥828.9 million
11 times

4,500 sq.m   /2013/

Gurvan Gal Trade
Registered price : ¥52.9 million
Market value : ¥1 billion JPY
19 times

5,385 sq.m   /2006/

Mandukhai Hotel
Registered price : ¥0.78 million
Market value : ¥255.7 million
327 times

2,000 sq.m   /2001/

Elbeg Department Store
Registered price : ¥7.94 million
Market value : ¥330.7 million
42 times

3,042 sq.m   /2011/

State Department Store
Registered price : ¥370.4 million
Market value : ¥811.3 million
2 times

26,858 sq.m   /2001/

Youth Hotel
Registered price : ¥35.2 million
Market value : ¥582.1 million
16 times

3,136 sq.m   /2001/

Palace Hotel
Registered price : ¥79.3 million
Market value : ¥485.1 million
6 times

3,226 sq.m   /2018/

Continental Hotel
Registered price : ¥44.1 million
Market value : ¥837.7 million
19 times

4,494 sq.m   /2004/

Source: Mongolian tax authority /MTA/

KEY DIFFERENCES IN PROPERTY VALUATION APPROACHES: JAPAN VS. MONGOLIA

JAPAN

✅ Properties are revalued every 3 years using comprehensive market price data collected and analyzed by institutions such as the Land Appraisal Committee and the Ministry of Land, Infrastructure, Transport and Tourism (MLIT).

✅ The tax base reflects up-to-date market prices

✅ The Japanese Real Estate Appraisal Institute and other government institutions ensure a transparent and professional valuation process.

✅ The revaluation process leverages advanced technology and a well-established legal framework to ensure accuracy and fairness in property tax assessments.

MONGOLIA

❌ No revaluation system for properties unless they are sold or transferred.

❌ Taxable values rely on registered values, which remain static unless the property is sold, insured, or revalued manually

❌ Lacks a centralized institution or system to collect, maintain, and analyze market price data for properties.

❌ Without regular revaluation, the tax system struggles to reflect real market dynamics, limiting its ability to generate equitable and sustainable revenue.

03. JAPANESE PROPERTY VALUATION METHODS

OVERVIEW OF VALUATION APPROACHES FOR PROPERTY TAXATION

JAPANESE PROPERTY VALUATION METHODS

VALUATION METHOD

LAND:
- Valued using the **SALES COMPARISON APPROACH**, based on the actual sales prices of similar land.
- Adjustments are made for location, size, and land use.

BUILDINGS:
- Valued using the **COST APPROACH**, based on the reconstruction cost of identical structures.
- Depreciation is applied to reflect age and condition.

REVALUATION AND TECHNOLOGY

Revaluation Process:
- Conducted **EVERY THREE YEARS** to reflect market trends.
- Exceptions: Significant fall in land value or building alterations/damage.

Use of Technology:
- Municipalities employ **PRIVATE SOFTWARE** for efficient valuation.
- Automated updates for house values based on declared changes.

SUMMARY

1. Japan employs a combination of **SALES COMPARISON**, **COST APPROACH**, and **DEPRECIATION-BASED METHODS** for property valuation.
2. Revaluation occurs every three years, with mechanisms to handle market fluctuations and property changes.
3. Technology plays a critical role in ensuring consistent, efficient, and fair valuations.

04. INTERNATIONAL 🌐 PRACTICE

TAX RATE

FINLAND 0.93%-2.0%

For residential buildings, a tax rate of 0.41-1.0% is applied; for other types of buildings, the rate is 0.93-2.0%. Vacant building spaces are taxed at 2.0-6.0%, while vacant land in the city center intended for construction is taxed at 3.0-6.0%. These rates are imposed once a year. https://vm.fi/en/real-estate-taxation

USA 0.37%-2.2%

The valuation is calculated based on exchange rates, with tax assessed per $1,000 of the valuation. Property tax is levied on the real market value of immovable property, while other taxes are imposed as a certain percentage (valuation ratio) of the market value. https://taxfoundation.org/high-state-property-taxes-2021/

Switzerland 1.0% - 3.0%

Property tax rates depend on the economic location of the property, such as whether it is in the city center or in outlying areas. https://iclg.com/practice-areas/real-estate-laws-and-regulations

SOUTH KOREA 0.07%-5.0%

In the capital territory, newly constructed or expanded factories are subject to a property tax rate that is doubled for the first five years. This tax is applied once a year. https://taxsummaries.pwc.com/republic-of-korea/

SPAIN 0.4%-1.0%

If property is not revalued within five years, the tax rate is doubled. The tax rate, based on cadastral valuations set by the municipal government, varies between 0.4% and 1.1% depending on the region in Spain. https://www.housesinspain.com/

Philippines 0.1%-6.0%

The property tax rate is 1% for rural areas and 2% for urban areas. For unused land, a tax rate of 5% applies. The tax for selling property is 0.5% in rural areas and 0.75% in urban areas. The inheritance tax rate is 6%. A gift tax of 6% is imposed on amounts exceeding $5,000.

Vietnam 0.03%-0.15%

Property tax rates for residential buildings range from 0.03% to 0.15%. Commercial, industrial, and agricultural land is taxed at 0.03%, depending on rice crop yield.
The registration fee (stamp duty) is 0.5%, not exceeding $21,500.
Revenue from property tax constitutes 0.38% of the country's GDP.

Thailand 0.02%-3%

Thailand imposes a Land and Building Tax, which is calculated based on the appraised value of the property. The tax rates vary depending on the property's usage:
Residential properties: 0.02% to 0.1%
Agricultural properties: 0.01% to 0.1%
Commercial properties: 0.3% to 0.7%
Unused/vacant properties: 0.3% to 0.7%, increasing by 0.3% every three years, up to a maximum of 3%

VALUATION OF IMMOVABLE PROPERTY WORLDWIDE

European Union countries

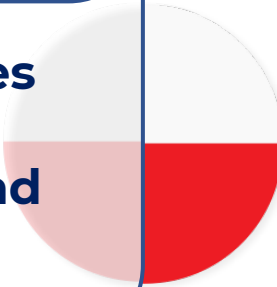**Taxes are levied on 70-75% of the market value**

Italy, Finland

Uses the selling price and cost methods for similar properties

Poland

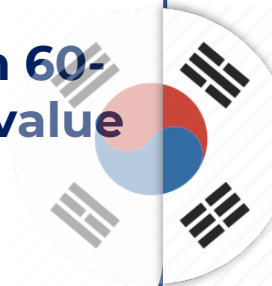**Divides into zones based on size, infrastructure, and location**

Germany

Taxes are levied on 33% of the market value

Korea

Taxes are levied on 60-70% of the market value
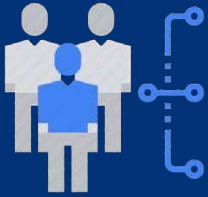
Other countries

Compared to the selling price of similar properties

05. SOLUTION

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SOLUTION 1: ESTABLISH A STRONG LEGAL FRAMEWORK FOR PROPERTY VALUATION

SOLUTION 2: INTRODUCE MUNICIPAL VALUATION OVERSIGHT WITH NATIONAL GUIDANCE

1 **MANDATE REGULAR REVALUATION:**

- *Provision: Introduce a legal requirement to revalue all properties every 3 to 5 years based on property usage.*
- *Purpose: Keep taxable property values up-to-date with market trends, reducing disparities and ensuring fairness.*

2 **ESTABLISH A DEDICATED REVALUATION AGENCY**

- *Provision: Create a centralized agency to oversee property revaluation and manage market data collection.*
- *Key Responsibilities:*
  1. *Market Data Collection:*
     - *Gather data on property transactions, rental prices, and market trends across regions.*
     - *Build and maintain **a centralized property valuation database.***
  2. *Coordination:*
     - *Work with local governments to implement revaluations based on standardized methods.*
  3. *Transparency:*
     - *Publish market value trends and property tax data for public reference.*
- *Purpose: Ensure accurate and fair valuations through consistent data collection and analysis.*

SOLUTION

SOLUTION 1: ESTABLISH A STRONG LEGAL FRAMEWORK FOR PROPERTY VALUATION

SOLUTION 2: INTRODUCE MUNICIPAL VALUATION OVERSIGHT WITH NATIONAL GUIDANCE

3 DEVELOP A STANDARDIZED REVALUATION MECHANISM

- **Provision:** Define clear rules for valuation, including:
  - **Sales Comparison Approach:** For residential and office properties, using recent market transactions.
  - **Cost Approach:** For industrial and garage, warehouse properties, adjusted for age and condition.
- **Purpose:** Provide consistent and reliable valuation methods.

### 4 ENSURE TRANSPARENCY AND APPEALS

- **Provision:** Make valuation data accessible to property owners through a public platform.
  - **Sales Comparison Approach:** For residential and office properties, using recent market transactions.
  - **Cost Approach:** For industrial and garage properties, adjusted for age and condition.
- **Purpose:** Provide consistent and reliable valuation methods.

BENEFITS

- ✓ **Fair Taxation:** Regular updates based on accurate market data reduce disparities between taxable and market values.
- ✓ **Revenue Stability:** Comprehensive data collection ensures predictable property tax revenues.
- ✓ **Public Trust:** Transparency and an appeals system increase taxpayer confidence.

SOLUTION
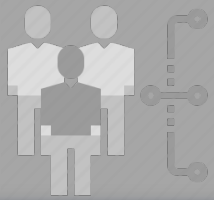
SOLUTION 1: ESTABLISH STRONG LEGAL FRAMEWORK FOR PROPERTY VALUATION

SOLUTION 2: LEVERAGE TECHNOLOGY AND MARKET INTEGRATION FOR EFFICIENT REVALUATION

1 INTRODUCE COMPUTER-ASSISTED MASS APPRAISAL (CAMA) SYSTEMS

- *Provision:* Adopt CAMA technology to automate and standardize property revaluation processes.
- *Key Features:*
  1. Automated analysis of property data (e.g., size, location, and usage).
  2. Integration with market transaction data for accurate valuations.
  3. Real-time adjustments for market trends.
- *Purpose:* Reduce manual workload and increase valuation accuracy and efficiency.

2 DEVELOP A NATIONAL PROPERTY VALUATION DATABASE

- *Provision:* Create a centralized digital database to store and manage property data and market values.
- *Key components:*
  1. Real estate transaction records (e.g., sale prices, rental data).
  2. Property attributes (e.g., type, usage, and location).
  3. Historical valuation data for trend analysis.
- *Purpose:* Provide a reliable foundation for valuations and improve data accessibility for local governments and the public.

SOLUTION 1: ESTABLISH STRONG LEGAL FRAMEWORK FOR PROPERTY VALUATION
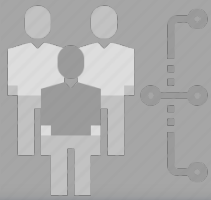
SOLUTION 2: LEVERAGE TECHNOLOGY AND MARKET INTEGRATION FOR EFFICIENT REVALUATION

3 **USE MARKET DATA FOR REGULAR UPDATES**

- *Provision:* Mandate the collection and use of market transaction data for property valuation.
- *Implementation:*
  1. Collaborate with real estate agencies, registration offices, and other stakeholders.
  2. Update valuations annually using market indices, with full revaluations every 3 to 5 years based on property usage.
- *Purpose:* Ensure valuations reflect real market conditions and remain equitable.

4 **PILOT THE SYSTEM IN URBAN AREAS**

- *Provision:* Test the CAMA system and database integration in cities like Ulaanbaatar, where property markets are most dynamic.
- *Purpose:* Identify potential challenges and refine the system before nationwide implementation.

5 **PUBLIC TRANSPARENCY AND STAKEHOLDER ENGAGEMENT**

- *Provision:* Provide property owners with access to valuation data and educate them on how valuations are conducted.
- *Appeals:* Implement an online system for property owners to review and contest their valuations.
- *Purpose:* Build trust in the revaluation process through transparency and accountability.