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

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CONTENTS

ABSTRACT

This paper provides a comprehensive comparative analysis of immovable property tax systems in Japan and Mongolia, focusing on their structural features, implementation strategies, and overall effectiveness. Mongolia's property tax system faces significant challenges, with 82% of immovable properties classified as residential but largely exempt from taxation under current laws. Disparities between registered property values and actual market prices further reduce the system's equity and revenue potential. By contrast, Japan's system, governed by well-defined appraisal standards and decentralized administration, offers valuable lessons in achieving balance between equity, efficiency, and revenue stability. Drawing on Mongolia's Immovable Property Tax Law, relevant data, and Japan's practices, this study identifies actionable strategies to enhance tax administration and equity. The findings contribute to the broader discourse on fiscal decentralization, offering practical insights into how Mongolia can modernize its tax system while promoting socio-economic development and governance reforms.

1.INTRODUCTION

Immovable property taxes serve as a foundation of local government revenue systems, providing critical funding for public services such as education, infrastructure development, and public safety. In an era of globalization and increasing demands for efficient governance, property tax systems are receiving increased attention for their ability to balance equity, administrative efficiency, and revenue generation. This paper undertakes a comparative analysis of property tax systems in Japan and Mongolia, exploring their structural strengths, operational challenges, and opportunities for reform.

Japan's property tax system is renowned for its reliability and well-structured administrative framework. Governed by detailed appraisal standards, such as the Japanese Real Estate Appraisal Standards, the system ensures consistency and fairness across local jurisdictions. Local governments have a lot of independence, allowing them to adjust tax policies to local needs. However, there are still issues like unequal property valuations, outdated assessments, and public concerns about fairness and openness.

By contrast, Mongolia's property tax system is characterized by extensive exemptions and outdated property valuation practices, leading to a static and often inequitable tax base. With 82% of properties classified as residential and significant discrepancies between registered and market property values, the system struggles to generate sufficient revenue or promote equitable taxation. Current laws exempt the first two residential properties in Ulaanbaatar and all rural residential properties, worsening fiscal limitations and creating systemic inefficiencies.

This study aims to explore how lessons from Japan's property tax system can inform Mongolia's reform efforts. By examining key elements such as tax assessment methods, exemption policies, and administrative practices, this paper identifies actionable strategies that align with Mongolia's socio-economic and political context. The findings highlight the potential for property tax reform to address pressing fiscal challenges while promoting equitable and sustainable development.

2.BACKGROUND

2.1. Overview of Immovable Property Tax Systems

Immovable property taxes are levied on real estate assets and represent a vital source of stable and predictable revenue for local governments. These taxes typically fund essential public services such as education, healthcare, infrastructure, and public safety. Unlike other taxes, property taxes are based on immovable assets, which makes them harder to avoid and less affected by economic changes.

The structure and implementation of property tax systems vary widely across countries, reflecting diverse historical, economic, and political contexts. Effective systems strike a balance between equity, ensuring that tax burdens are distributed fairly, and administrative efficiency, which minimizes costs while maximizing compliance. Understanding these differences offers valuable insight into the challenges and opportunities faced by countries like Japan and Mongolia.

2.2.Japan's Property Tax System

Japan's property tax framework is established under the Local Tax Law and is widely regarded as a model of administrative sophistication. Key features of the system include:

- **Appraisal Standards**: The Property Assessment Standards, a nationally standardized framework, ensure consistent and equitable valuation of land, buildings, and other immovable assets.
- **Decentralized Administration**: Local governments independently manage property tax collection and policy implementation, allowing for adjustments based on regional economic conditions and needs.
- **Tax Rates and Exemptions**: Flexible tax rates and targeted exemptions support policy objectives, such as preserving agricultural land, promoting nonprofit activities, and reducing tax burdens on homeowners.

Despite its strengths, the Japanese system is not without challenges. Rising property values, particularly in urban areas, outpace periodic valuation updates, leading to perceived inequities in tax burdens. Additionally, municipalities in rural areas with declining populations face difficulties in maintaining valuation accuracy due to resource constraints.

2.3.Mongolia's Property Tax System

Mongolia's property tax system is in a state of transition, aiming to modernize its framework to enhance fiscal sustainability and equity. Key aspects include:

- **Historical Context**: Since transitioning to a market economy in the early 1990s, Mongolia has shifted from reliance on central government revenues to exploration of decentralized sources like property taxes. This transition has been marked by an evolving legal and administrative landscape.
- **Current Challenges**: The system faces significant obstacles, including inadequate property valuation mechanisms that rely on static, outdated registered values; broad tax exemptions, such as the exemption of the first two residential properties in Ulaanbaatar and all rural residential properties, which narrow the tax base and create inequities; and limited institutional capacity and administrative inefficiencies, which reduce the effectiveness of tax collection and compliance.
- **Valuation Gaps**: A critical issue is the substantial difference between registered property values and actual market prices, particularly for residential properties. Registered values are often five times lower than market prices, undermining the tax system's equity and revenue potential.
- **Reform Efforts**: Recent initiatives aim to modernize the system by improving property assessments, improving taxpayer education, and simplifying tax collection processes. However, these efforts face resistance from established interests and challenges in public understanding, particularly regarding fairness and transparency.

2.4.Comparative Insights

The comparison between Japan's and Mongolia's property tax systems highlights significant differences in their design and effectiveness. While Japan's system uses advanced appraisal methods and decentralized administration to achieve equity and efficiency, Mongolia's reliance on exemptions and static valuations limits its ability to meet fiscal and social goals. This comparison provides a basis for exploring best practices and practical strategies for Mongolia's ongoing reforms.

3.LITERATURE REVIEW

The literature on property taxation highlights the diverse challenges and opportunities involved in designing and implementing effective tax systems. While much has been written about efficiency, equity, and fiscal decentralization, the relevance of these principles differs significantly across countries due to varying socio-economic contexts and administrative capacities.

3.1.Efficiency and Equity in Property Taxation:

Bird and Slack (Bird, 2014) emphasize that efficient property tax systems limit inefficiencies in economic behavior, while equitable systems ensure a fair distribution of tax burdens. Japan's periodic revaluation system exemplifies these principles by maintaining an accurate and current tax base, which supports both revenue stability and fairness among taxpayers. By contrast, Mongolia's reliance on static property valuations and extensive exemptions weakens these goals. The outdated valuation practices create significant inequities, giving certain property owners an unfair advantage and reducing the potential for sustainable revenue generation.

3.2.Comparative Perspectives:

Research by Slack and Bird (Bird, 2014) on property tax reforms in OECD countries underscores the importance of integrating technology and conducting regular property reassessments. These practices enhance both efficiency and equity by ensuring tax bases reflect current market conditions. Japan's commitment to standardized appraisal guidelines aligns with these findings, promoting consistency and fairness. Conversely, Mongolia's reliance on manual valuation processes and absence of standardized practices highlights the challenges faced by emerging economies in adopting these best practices. Implementing even gradual reforms, such as digitizing property records, could lay the groundwork for more comprehensive improvements in Mongolia's tax system.

3.3.Political Economy of Property Tax Reform:

Property tax reforms are often met with resistance due to their high visibility and direct impact on taxpayers. Slack (Bird, 2014) argues that public perceptions of fairness are crucial to the success of these reforms. Japan's mechanisms to moderate sudden tax increases such as phased adjustments and exemptions for vulnerable groups illustrate strategies to address such resistance. For Mongolia, overcoming opposition from stakeholders benefiting from the current system will require transparent communication and targeted public education campaigns. Highlighting the

long-term benefits of reform, such as improved infrastructure and public services, could help attract broader support.

3.4.Role of Technology:

The introduction of Computer-Assisted Mass Appraisal (CAMA) systems in countries like the United States demonstrates the transformative potential of technology in property tax administration. These systems improve valuation accuracy and administrative efficiency, reducing reliance on manual processes. While Japan has gradually integrated similar technologies, Mongolia faces significant resource constraints that limit its ability to adopt such advancements. However, gradual steps, such as centralizing property data and digitizing records, could serve as a foundation for future technological integration and modernization.

3.5.Fiscal Decentralization:

Property taxes are widely regarded as a stable revenue source for local governments, supporting fiscal decentralization efforts. The OECD advocates for decentralized property tax administration, allowing municipalities to tailor policies to local conditions. Japan's system exemplifies this approach, balancing local autonomy with national consistency through standardized appraisal frameworks. By contrast, Mongolia's centralized decision-making limits local government's ability to address regional disparities and adapt to local needs. Strengthening local administrative capacity and granting municipalities greater autonomy could enhance the effectiveness and equity of Mongolia's property tax system.

3.6.Conclusion

The literature highlights the importance of designing and implementing property tax systems that align with local contexts to achieve efficiency and equity. While Japan's system showcases the benefits of periodic revaluation, technological integration, and decentralized administration, Mongolia's challenges highlight the need for gradual, targeted reforms. Insights from the literature provide a strong foundation for identifying practical strategies that balance long-term goals with the immediate realities of Mongolia's fiscal and administrative landscape.

4.METHODOLOGY

This study employs a qualitative comparative analysis methodology to examine the immovable property tax systems of Japan and Mongolia. The chosen approach enables an in-depth exploration of the contextual, legal, and practical aspects of property taxation in each country. This methodology aims to identify best practices, challenges, and lessons learned from each system, ultimately informing recommendations for Mongolia's tax reform efforts. The following sections outline the research design, data collection methods, and analytical techniques used in this study.

4.1.Research Design

The research adopts a comparative case study design, providing a detailed understanding of the property tax systems in Japan and Mongolia. This design is particularly suitable for the study. as

it allows for the exploration of both qualitative and quantitative data to capture the details and unique features of each system. The focus is primarily on qualitative data, supplemented by quantitative information where relevant, to provide a comprehensive perspective on the immovable property tax frameworks in both countries.

The comparative analysis is structured around key themes, such as legal frameworks, valuation practices, tax rates, exemptions, and compliance mechanisms. By comparing these elements, the study highlights effective practices in Japan that could be adapted to improve the property tax system in Mongolia.

4.2.Data Collection Methods

Data for this research was gathered through a combination of methods to ensure a comprehensive understanding of the property tax systems:

- **Document Analysis**: Key legislative documents, including the Immovable Property Tax Law in Mongolia and the Japanese Real Estate Appraisal Standards, were reviewed. This analysis provided insights into the legal frameworks governing property taxation in each country, highlighting legal regulations, tax obligations, and administrative procedures. Additionally, reports from international organizations such as the OECD, World Bank, and local government publications were examined to provide context and insight into best practices and challenges faced in property tax administration.

- **Statistical Data**: Quantitative data on property ownership, tax exemptions, and valuation differences were collected from government reports and databases, including the National Statistical Office of Mongolia and local government tax records. This data was crucial for identifying trends and patterns in the property tax systems, particularly regarding the residential property market. Specific attention was given to understanding the distribution of residential versus commercial properties and the implications of tax exemptions on local revenue generation.

- **Case Studies**: Specific case studies of local government tax administration practices in Japan were analyzed to identify successful strategies and challenges encountered in implementing property tax reforms. For instance, the study explored how local governments adjust tax rates and property valuations in response to changing market conditions and assessed the effectiveness of taxpayer outreach programs.

- **Expert Input:** Semi-structured interviews were conducted with tax policy experts and local government officials in Mongolia. Additionally, a set of questions was prepared and shared with officials from Japan's Ministry of Internal Affairs and Communications (MIC) to gather insights into property valuation methodologies, revaluation processes, the use of technology, and challenges in property tax administration. These efforts aimed to capture diverse viewpoints on the practical aspects of property tax systems, public perceptions of fairness, and the political economy surrounding property tax reform. Participants were selected using a purposive sampling approach to ensure that the information gathered was both relevant and detailed**.**

4.3.Analytical Techniques

The analysis was conducted using a focused approach, which involved several steps:

- **Comparative Analysis**: Data from document reviews, statistical sources, case studies, and interviews were systematically compared to identify similarities and differences between the property tax systems of Japan and Mongolia. For example, the analysis examined variations in tax base assessment methods, rates, exemptions, and administrative capacities. This helped identify how each system addresses challenges related to equity, efficiency, and compliance.

5.COMPARATIVE ANALYSIS

5.1.Tax Base and Assessment Methods

The tax base and the methods used to assess properties form the foundation of any property tax system. The approaches in Japan and Mongolia highlight stark contrasts in terms of comprehensiveness, accuracy, and alignment with market realities.

- **Japan:**
  - The taxable base in Japan is well-defined, covering land, buildings, and depreciable assets, as stipulated under the Local Tax Act. Assessments follow the nationally standardized Property Assessment Standards.
  - Land: Valuation uses the sales comparison approach, analyzing actual sales prices of comparable properties within specific categories, such as residential or agricultural land, ensuring market relevance.
  - Buildings: The cost approach calculates the reconstruction cost of an identical structure at the time of assessment, adjusted for depreciation based on the building's age and wear.
  - Depreciable Assets: Valuations are based on acquisition prices, depreciated over time according to standard formulas.
  - Local governments play a key role in conducting assessments, ensuring compliance with national standards while adapting processes to meet local needs.

- **Mongolia:**
  - The taxable base includes land and buildings but lacks a systematic approach for updating valuations. Property values are often static, tied to registered values that remain unchanged unless the property is sold, insured, or revalued manually.
  - There is no framework comparable to Japan's Property Assessment Standards. Reliance on outdated values results in significant gaps, with registered prices often being five times lower than market values, undermining equity and revenue potential.
  - The absence of mechanisms to account for depreciation, market trends, or changes in property conditions further increases these challenges.

*Figure 1 Examples of Low Immovable Property Valuation in Mongolia*

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 state Registration Office data

5.2.Revaluation and Technology Use

Regular revaluation is critical for aligning tax bases with market conditions and ensuring fairness. Japan and Mongolia exhibit significant differences in this area.

- **Japan:**

*Figure 2 Relationship Between Residential Property Price Index and Property Tax Revenue (% of Total Revenue)*
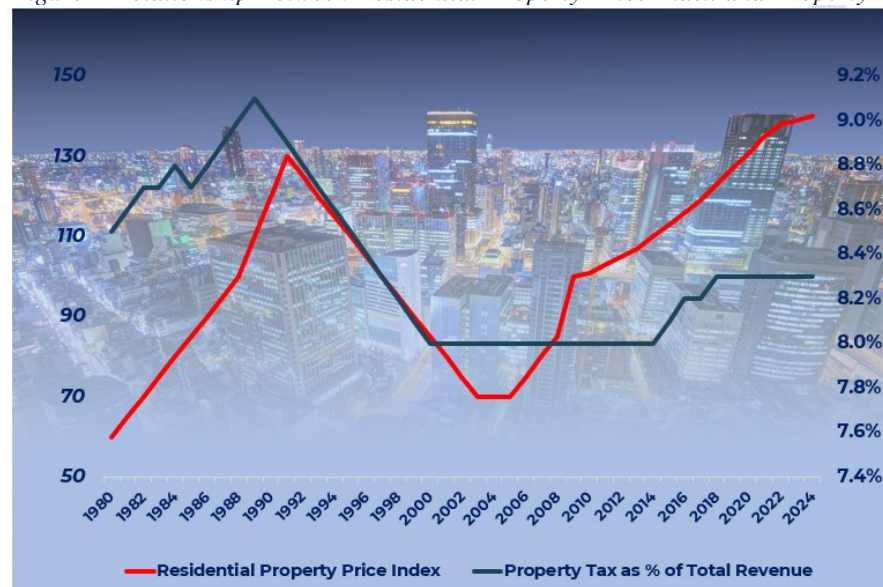
Source: Federal Reserve Bank of St.Louis (Residential Property Prices for Japan, 2024)

- o Properties are revalued every three years, following strict national standards. This ensures the taxable value reflects current market conditions.
- o Market trends influence valuations, while for buildings, reconstruction costs and depreciation are recalculated. Adjustments are made to reduce sharp tax increases, promoting equity and compliance.
- o Technology plays a pivotal role. Municipalities use specialized software for mass appraisal and adjustments. Integrated data from construction projects, property transactions, and government surveys maintain accuracy.
- o Despite advancements, Japan faces challenges in securing skilled staff for property assessments, particularly in areas with declining populations.

- **Mongolia:**

Figure 3 Changes in Residential Property Prices vs. Property Tax Revenue
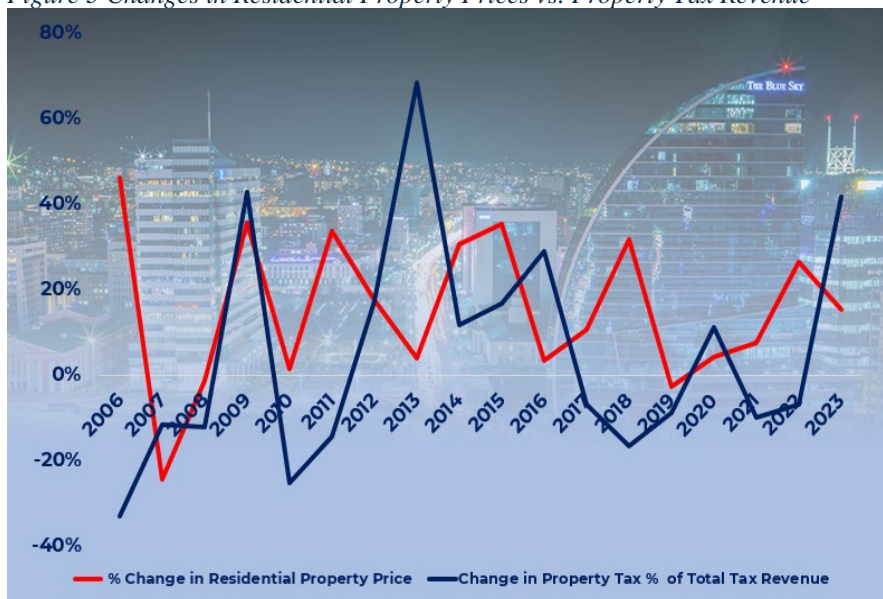
Source: Mongolian state Registration Office data

- o Revaluation occurs irregularly, primarily initiated by property transactions or insurance assessments. The lack of periodic updates leads to a static tax base disconnected from market realities.
- o Valuations are often conducted manually, making the process labor-intensive and susceptible to errors.
- o Without centralized data collection systems, assessments lack consistency and transparency, undermining public trust in the system.

5.3. Tax Rates, Revenue Contribution, and Exemptions
Tax rates and exemptions significantly influence the equity and efficiency of property tax systems.

Figure 4 Comparison of Property Tax Contributions and Tax Rates Across Selected 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%

Source: OECD (Revenue Statistics in Asia and the Pacific, 2024)

- **OECD Average:**
  - On average, property taxes account for 5.9% of total tax revenue and 1.2% of GDP across OECD countries. Tax rates range from 0.5% to 3%, depending on national and local government policies.
  - The OECD emphasizes that efficient property tax systems should balance equity, revenue stability, and local fiscal needs, with regular revaluation and targeted exemptions to ensure fairness.

- **Japan:**
  - The standard property tax rate is 1.4%, with municipalities permitted to raise it to 2.1% if needed. This flexibility allows local governments to address fiscal requirements.
  - Exemptions target policy goals, such as preserving agricultural land and supporting non-profits. Small-scale residential land receives a 50% tax base reduction to ease homeowner burdens.
  - Measures to moderate tax increases prevent disproportionate impacts on taxpayers, maintaining system stability.
  - Japan's property tax contribution (8.3% of total tax revenue and 1.8% of GDP) is above the OECD average, reflecting the robustness of its system.

- **Mongolia:**
  - Tax rates range from 0.6% to 2.0%, determined by local governments. However, extensive exemptions create inequities and narrow the tax base.
  - Rural residential properties are fully exempt, as are the first two properties owned by individuals or entities in Ulaanbaatar. These exemptions disproportionately benefit wealthier property owners with multiple holdings, undermining equity.

- Mongolia's property tax contribution (1.6% of total tax revenue and 0.2% of GDP) is below the OECD average, highlighting the need for reforms to broaden the tax base and improve equity.

5.4.Administration and Public Transparency

Effective administration and transparency are vital for taxpayer compliance and trust.

- **Japan:**
    - Tax administration is decentralized, with municipalities responsible for valuations, levies, and collections. Consistency is maintained through compliance with the nationally defined Property Assessment Standards.
    - Transparency is a fundamental aspect of Japan's system. Taxpayers can access detailed property valuation information and appeal assessments through independent review committees.
    - Public education initiatives enhance compliance by helping taxpayers understand their obligations and valuation processes.

- **Mongolia:**
    - Administrative capacity is a significant limitation. Local governments often lack the resources and expertise needed for effective valuations and tax collection.
    - Transparency is limited, with minimal public access to valuation methods or tax data. Appeals processes, if available, are not widely publicized or trusted.
    - These limitations result in low compliance rates and public dissatisfaction with the system.

5.5.Key Findings

- **Efficiency and Equity:**
    - Japan's system balances efficiency and equity through periodic revaluation, targeted exemptions, and the use of technology. These practices ensure fair tax distribution and stable revenue generation.
    - Mongolia's system, characterized by static valuations and extensive exemptions, struggles to achieve similar outcomes. The lack of a robust revaluation framework results in outdated assessments and reduced fiscal capacity.
- **Administrative Capacity:**
    - Japan's decentralized but standardized approach allows municipalities to adapt to local needs while maintaining national consistency.
    - Mongolia's centralized system faces resource constraints and limited administrative capacity.
- **Public Trust:**
    - Transparency and taxpayer engagement in Japan foster public trust, whereas Mongolia's system faces skepticism due to opaque processes and inequitable outcomes.

This comparative analysis underscores the critical need for Mongolia to adopt periodic revaluation, integrate technology, and enhance transparency to strengthen its property tax system.

6.FINDINGS

6.1.Strengths of Japan's Property Tax System

- Periodic Revaluation Ensures Market Relevance:
    - Japan's property revaluation every three years ensures taxable values closely reflect market conditions, reducing disparities caused by market changes.
    - Land: Valued based on actual sales prices of comparable properties, considering location-specific factors such as urban versus rural settings.
    - Buildings: Assessed using reconstruction costs adjusted for depreciation, ensuring fair treatment of properties of different ages and conditions.
    - Flexibility in the system allows for mid-cycle revaluations in cases such as significant land price decreases or major property alterations.
- Use of Technology for Efficiency:
    - Municipalities employ software solutions for mass appraisal, reducing manual workload and improving consistency in valuations.
    - Automated updates for newly constructed or altered buildings ensure that taxable values remain accurate without requiring full manual reassessments.
    - Integration of data from land price surveys, inheritance tax assessments, and public land valuations enhances reliability and accuracy.
- Decentralized Administration:
    - Local governments are empowered to levy and collect property taxes while adhering to national guidelines set by the Property Assessment Standards. This balance ensures both standardization and adaptability.
    - Municipalities can adjust tax rates (e.g., raising the standard rate of 1.4% to a maximum of 2.1%) based on local economic and fiscal conditions, enabling tailored responses to regional needs.
- Public Transparency and Appeals Mechanisms:
    - Taxpayers can access valuation data through publicly available ledgers and taxation registers. Statements sent to property owners outline how their properties were valued, enhancing understanding and trust.
    - The Fixed Asset Valuation Review Committee provides an impartial platform for taxpayers to contest valuations, fostering accountability and allowing for effective addressing of grievances.

6.2.Challenges in Japan's Property Tax System

- Resource Constraints:
    - Rural areas with declining populations face difficulties in recruiting and retaining skilled valuation staff, potentially compromising the accuracy of property assessments.

- The growing reliance on technology for assessments requires continuous investment in software upgrades, training, and maintenance, which can strain local budgets.
- Public Perception of Tax Burden:
  - Despite measures to moderate tax increases during market surges, public discontent remains, particularly in urban areas where property values increase rapidly.
  - Concerns about the equitable distribution of tax burdens highlight the need for ongoing communication and refinement of exemption policies.

6.3. Strengths of Mongolia's Property Tax System

- Flexibility in Tax Rate Determination:
  - Local governments have the authority to set property tax rates within the legislated range of 0.6% to 2.0%, allowing adjustments to reflect local fiscal priorities and economic conditions.
- Exemptions Supporting Rural Development:
  - Full exemptions for residential properties in rural areas reduce financial burdens on households in less developed regions, aligning with socio-economic development goals.
  - Exemptions for the first two residential properties in Ulaanbaatar aim to support property ownership among middle- and lower-income families.
- Potential for Reform:
  - Mongolia has acknowledged its challenges and is exploring reforms to modernize its property tax system. Recent discussions on valuation practices and potential technological adoption signal progress toward more equitable taxation.

6.4. Challenges in Mongolia's Property Tax System

- Outdated Valuation Practices:
  - Property values are tied to registered prices, which often remain static for decades unless a property is sold, insured, or revalued manually.
  - Registered property values are typically 5 to 6 times lower than market values, leading to significant inequities and reduced revenue potential.
- Inequitable Exemption Policies:
  - Broad exemptions overly benefit wealthier individuals with multiple properties while also failing to incentivize the inclusion of rural properties in the tax base.
  - Exemptions severely limit the taxable base, restricting the system's ability to generate sustainable revenue.
- Administrative Limitations:
  - Many local governments lack the technical capacity, financial resources, and skilled personnel required for effective property valuation and tax collection.
  - The absence of standardized data collection and management processes leads to inconsistencies across jurisdictions, further eroding public trust.
- Transparency Deficits:
  - Limited public access to valuation methodologies and the absence of a robust appeals process reduce taxpayer engagement and confidence in the system.

6.5.Opportunities for Mongolia

- Adopting Best Practices from Japan:
    - Introducing a triennial revaluation system based on updated market data can ensure valuations reflect current conditions and enhance equity.
    - Leveraging technology such as CAMA (Computer-Assisted Mass Appraisal) systems would streamline valuations and reduce administrative burdens.
    - Establishing a transparent appeals mechanism would empower taxpayers to challenge discrepancies, fostering trust and accountability.
- Building Institutional Capacity:
    - A centralized property valuation agency could oversee assessments, standardize methodologies, and ensure consistency across regions.
    - Regular training programs for tax officials on modern appraisal techniques and data management can address the existing skill gaps.
- Revising Exemption Policies:
    - Narrow the Scope of Exemption:
        - Focus on primary residences for low-income households and essential properties like schools and hospitals.
        - Gradually phase out exemptions for secondary and tertiary properties, particularly in urban areas.
    - Introduce Sliding Scale Exemptions:
        - Implement income-based or property value-based exemptions to ensure relief is provided to those who need it most.
    - Public Engagement and Transparency:
        - Educate taxpayers on the rationale behind exemptions and their intended goals.
        - Publish detailed data on exempted properties to enhance accountability and trust.
- Potential Revenue Gains:
    - Closing the gap between registered and market values could increase property tax revenues by an estimated 50-75%.
    - Revising exemption policies to include only essential properties could broaden the tax base by 20-30%.

6.6.Key Lessons for Mongolia

- Modernization Requires Commitment:
    - Transforming Mongolia's property tax system will require sustained political will, significant investment in technology, and capacity-building efforts at the local level.
- Balancing Equity and Revenue:
    - The system must aim for a broad tax base with periodic updates to taxable values, reducing disparities and ensuring stable revenue streams for local governments.
- Transparency as a Pillar:
    - Public engagement and access to valuation data are critical for building trust and improving compliance. Transparent processes, coupled with an effective appeals mechanism, can address taxpayer grievances and enhance system credibility.

- Leveraging Technology:
    - Digital tools like CAMA and centralized data management systems can significantly enhance the efficiency, accuracy, and transparency of property valuations.

7.DISCUSSION

7.1.Interpreting the Findings

The comparative analysis of Japan's and Mongolia's property tax systems reveals critical differences that have significant implications for tax policy design and implementation.
- **Japan's Strength in Policy Design and Administration:**
    - Japan's property tax system is a model of balance, ensuring equity, stability, and adaptability. The periodic revaluation system, supported by standardized guidelines, enables property valuations to remain relevant in changing market conditions. This contrasts sharply with Mongolia, where static valuations limit the tax system's ability to reflect economic realities.
    - The use of technology in Japan not only enhances accuracy but also reduces administrative burdens. Mongolia's reliance on manual processes highlights the need for modernization to improve efficiency and transparency.
- **Challenges in Adaptability:**
    - Japan's experience with addressing public dissatisfaction over rising property values underscores the importance of taxpayer engagement and communication. Mongolia can learn from Japan's mechanisms to moderate tax burdens during property market surges, mitigating resistance to reforms.

7.2.Implications for Mongolia

- **Equity in Taxation:**
    - Mongolia's current tax structure, with its broad exemptions and static valuations, disproportionately benefits wealthier individuals and limits revenue from high-value properties. Implementing a regular revaluation mechanism could ensure a more equitable distribution of tax burdens, aligning with the principles of progressive taxation.
    - Revisiting exemption policies is essential. While exemptions for rural properties support socio-economic goals, they need to be balanced against the need for a broader and more sustainable tax base.
- **Fiscal Sustainability:**
    - The limited revenue generated by Mongolia's property tax system impairs local governments' ability to fund public services and infrastructure. By adopting Japan's practice of leveraging market data and advanced valuation techniques, Mongolia can expand its tax base and enhance revenue stability.
    - Strengthening institutional capacity, particularly through the establishment of a centralized valuation agency, could provide the necessary oversight and consistency to address administrative challenges.

7.3.Lessons from Literature

- **Efficiency and Fairness:**
  - According to Bird and Slack (Bird, 2014), an efficient property tax system minimizes economic distortions while ensuring fairness. Japan's system achieves this through clear legal frameworks, periodic updates, and targeted exemptions. Mongolia's system, however, struggles with inefficiencies due to its reliance on outdated valuation methods and broad exemptions.
- **Comparative Perspectives:**
  - Slack and Bird's (Bird, 2014) examination of property tax reforms across OECD countries highlights the importance of regular revaluation and the integration of technology. Mongolia's current state reflects the challenges faced by many emerging economies, where resource constraints and institutional inertia hinder reform efforts.
- **Political Economy of Reform:**
  - The political visibility of property taxes often creates resistance to reform, as seen in Japan's experience with public dissatisfaction over rising tax burdens. Mongolia's policymakers must anticipate and address such resistance through public education and phased implementation of reforms.

7.4.Opportunities for Innovation

- **Technology Integration:**
  - The adoption of Computer-Assisted Mass Appraisal (CAMA) systems represents a significant opportunity for Mongolia to modernize its property tax administration. By automating valuations and integrating market data, Mongolia can reduce manual errors and enhance efficiency.
  - Establishing a centralized digital database for property records can further streamline administration and provide a reliable foundation for policy decisions.

- **Public Engagement:**
  - Transparency and taxpayer education are crucial for building trust in the revaluation process. Mongolia can learn from Japan's appeals mechanisms and public access to valuation data to enhance accountability and compliance.
  - Stakeholder engagement, particularly with local governments, property owners, and industry experts, can foster support for reforms and ensure their smooth implementation.

7.5.Broader Implications for Fiscal Policy

- **Decentralization and Local Governance:**
  - Mongolia's transition to a decentralized fiscal system relies heavily on strengthening local revenue sources. Reforming the property tax system aligns with global trends in fiscal decentralization, enabling local governments to exercise greater autonomy and accountability.

o Lessons from Japan's decentralized approach, combined with national oversight, provide a blueprint for achieving this balance.
- **Sustainable Development Goals:**
   o An equitable and efficient property tax system contributes to broader socio-economic objectives, such as reducing inequality and funding essential services. Mongolia's reforms can play a pivotal role in achieving these goals, particularly in the context of urbanization and rural development.

7.6.Challenges Ahead

- **Political Resistance:**
   o Implementing regular revaluations and reducing exemptions may face opposition from influential stakeholders, particularly those benefiting from the current system. Policymakers must navigate these dynamics carefully to ensure reforms are not derailed.
- **Resource Constraints:**
   o Limited financial and human resources remain a significant barrier to implementing advanced systems like CAMA or conducting regular revaluations. International assistance and capacity-building initiatives may be necessary to address these gaps.
- **Balancing Short- and Long-Term Goals:**
   o While immediate reforms, such as introducing a centralized valuation agency, can yield quick wins, long-term goals like developing public trust and modernizing technology require sustained effort and investment.

8.CONCLUSION

8.1.Summary of Main Findings

The comparative analysis of property tax systems in Japan and Mongolia underscores significant contrasts in their design, implementation, and effectiveness. Japan's system, characterized by periodic revaluation, standardized methodologies, and effective use of technology, ensures equity and stability. By contrast, Mongolia's system, constrained by static valuations, extensive exemptions, and limited administrative capacity, struggles to achieve similar outcomes.
Key takeaways include:

- **Japan's Strengths:**
   o Periodic revaluation every three years maintains alignment with market conditions.
   o Decentralized administration, supported by national standards, balances local autonomy with consistency.
   o Public transparency and appeals mechanisms enhance taxpayer trust and compliance.
- **Mongolia's Challenges:**
   o Static valuations and broad exemptions erode the taxable base and equity.
   o Limited use of technology and outdated administrative practices reduce efficiency.
   o Resource constraints and transparency deficits hinder taxpayer confidence.

8.2.Recommendations for Mongolia

Drawing lessons from Japan, the following recommendations can guide Mongolia's property tax reform:

1. **Introduce Regular Revaluation:**
   o Implement a triennial revaluation system to ensure that taxable values reflect current market conditions.
   o Use methodologies such as the sales comparison approach for land and the cost approach for buildings.
2. **Leverage Technology:**
   o Adopt Computer-Assisted Mass Appraisal (CAMA) systems to automate valuations and reduce manual errors.
   o Develop a centralized digital database for property records to enhance data management and decision-making.
3. **Strengthen Institutional Capacity:**
   o Establish a dedicated property valuation agency to oversee and standardize assessments nationwide.
   o Conduct training programs for tax officials to build expertise in modern appraisal techniques.
4. **Revise Exemption Policies:**
   o Phase out broad exemptions in favor of targeted relief measures for low-income households and essential services.
   o Align exemptions with national and local development goals to ensure fiscal sustainability.
5. **Enhance Transparency and Public Engagement:**
   o Provide taxpayers with access to valuation data and clear explanations of assessment processes.
   o Establish an independent appeals mechanism to address grievances and build public trust.

8.3.Broader Implications

A reformed property tax system in Mongolia has the potential to:
- **Enhance Fiscal Sustainability:**
  o Expanding the tax base and improving compliance will provide local governments with stable revenue sources to fund public services and infrastructure.
- **Promote Equity:**
  o Regular revaluation and targeted exemptions will ensure a fairer distribution of the tax burden across property owners.
- **Strengthen Local Governance:**
  o Decentralized administration, supported by standardized practices, will empower local governments to respond more effectively to regional needs.

8.4.Future Research Directions

While this study provides a comprehensive analysis, further research is needed to:
- Examine the socio-economic impacts of property tax reforms on different demographic groups in Mongolia.
- Explore the feasibility and cost-effectiveness of implementing advanced technologies like CAMA.
- Investigate public perceptions of property taxation to inform strategies for improving taxpayer compliance and trust.

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