

**PROPERTY TAXES  
IN SRI LANKA:  
PROPOSAL FOR A  
MORE EFFECTIVE  
VALUATION METHOD**



# Property Taxes in Sri Lanka: Proposal for a More Effective Valuation Method

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This paper is based on a number of sources, including the author's own field work; interviews with policymakers in Colombo; an excellent recent analysis of Sri Lanka's property tax system by the IMF (IMF 2024); a range of other documents; and the supportive insights of Professor Wilson Prichard, Director of the Local Government Revenue Initiative, University of Toronto. The main source of statistical information used here on local government finances is the OECD/UCLG World Observatory on Subnational Government Finance and Investment (SNG-WOFI). Author wishes to thank Nishan de Mel and Shantayanan Devarajan for very helpful comments on an earlier draft.\*

## Abstract

The main property tax, generally known as the *rate assessment system*, generates tiny amounts of revenue for local councils. It has the potential to produce much more, providing local councils with their own financial resources, independent of central government. The focus of reform should be on replacing the current antiquated method of property valuation with much more effective digital methods.

\*The findings, interpretations, and conclusions expressed in these papers are entirely those of the author(s).

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## 1. Summary

- 1.1. The Government of Sri Lanka has agreed in principle to introduce a new property tax by 2027. This is one component of the current Extended Fund Facility Arrangement with the IMF.
- 1.2. Independent of the IMF Arrangement, there is a strong case for a radical overhaul of the current property tax, that is generally known as the rate assessment system. It raises tiny amounts of revenue and provides very little funding to the local councils (Municipal, Urban and Rural) to which it is constitutionally assigned. There is potential to raise much more revenue from this much under-used source.
- 1.3. The focus of reform should be on replacing the weakest component of the current rate assessment system which is the method by which individual properties are valued for tax purposes. Valuations are currently done manually through site inspections of individual properties. That is expensive, slow, and vulnerable to corruption. It can be replaced by choosing from a suite of new but tested digital technologies that generate fair and consistent property valuations on a mass basis at very low cost. These new digital property valuation technologies are widely used globally. In this paper, they are labelled Points Based Valuation (PBV). They are otherwise called Computer-Assisted Mass Appraisal (CAMA) or Automated Valuation Models (AVM).
- 1.4. Government needs to encourage and support the creation of one or more groups of people with digital skills who can begin to experiment with PBV, adapt it to the range of local conditions in Sri Lanka, and motivate buy-in from a few local councils. Initial success should generate a further demand for PBV and stimulate more organisations to begin to provide it.
- 1.5. From an organisational and logistical perspective, the road to reform is challenging. The data that the government has on the valuation of buildings for property tax purposes is inadequate, inaccurate and often outdated. It is currently being digitised, but that is a very first step. Reform will require the cooperation of a range of government organisations.
- 1.6. The current political environment is in many ways conducive to property tax reform.
- 1.7. The proposed shift to PBV implies only minimal changes to current law. Property tax will continue to be levied on the same basis. It is the valuation method that needs changing.

## 2. Property Tax Basics<sup>1</sup>

2.1. Several different types of taxes can be levied on property. In this paper, and according to standard international practice, the term “property tax” refers to a recurrent annual tax payable by the owners of (registered) residential, commercial and industrial properties. The current property tax system in Sri Lanka is officially known as the “assessment rate” system.

2.2. In Sri Lanka as in most countries, property tax revenues are constitutionally assigned to local governments, i.e. to Municipal, Urban or Rural Councils.<sup>2</sup>

2.3. In principle, property tax may be levied (a) solely on buildings (b) solely on land or (c) on both buildings and on the land on which they sit. The latter is the method currently used in Sri Lanka. For the purposes of the current assessment rate system, ‘property’ is defined as buildings and the associated land. There is no reason to change this.<sup>3</sup>

2.4. The value of a property for property tax purposes may in principle be expressed either as an estimated capital value or as an estimated annual rental value. The latter is used in Sri Lanka. It would be better in the long term to change to capital values.<sup>4</sup> It would however be possible to retain the rental valuation principle while changing the valuation method.<sup>5</sup>

2.5. The assessed value of a property for property tax purposes is called its Annual Value.

2.6. Individual annual property tax bills are determined by applying a Rate Percentage to the Annual Value. For example, if the Rate Percentage is set at 10%, a property with an Annual Value of Rs 50,000 will be billed for Rs 5,000.

2.7. The Rate Percentage is determined separately by each Local Council and may be changed annually. This in principle enables Councils to maintain their property tax income levels despite inflation or (increasing) rates of property undervaluation. They can simply continue to increase the Rate Percentage.

2.8. Within each local council area, the Rate Percentage virtually always varies according to the designated use of the property. The big difference is between residential and commercial properties. The rate for commercial properties is almost always a substantial multiple of the residential rate. For example, for the Dehiwala-Mount Lavinia Municipal Council, the current Rate Percentage for residential properties is 6% and for commercial properties it is up to 30%.<sup>6</sup>

2.9. Under this system, it is possible for the headline figures for average property tax Annual Values and Percentage Rates to differ considerably between council areas.<sup>7</sup> Imagine two houses, located in the adjacent Gampaha and the Minuwangoda Urban Council areas respectively, that each have a market value of Rs20 million. The Gampaha house might have an Annual Value of Rs400,000 million on which the Percentage

1 Norregaard (2013) is among the many useful sources of information on the advantages of property taxes.

2 Provincial Councils play no significant role.

3 Municipal and Urban Councils have the legal authority to assess and collect property taxes on vacant land plots. This power is rarely if ever used.

4 Capital valuation is preferable for two reasons. One is that the valuations generated algorithmically through PBV need to be calibrated and cross-checked against actual local values. It is easier to locate information on local capital values (i.e. the prices at which properties are advertised for sale or sold) than on local property rental prices. The other is that it is easier to use information on property tax valuations to increase the coverage and accuracy of other property-related taxes – Stamp Duty on property sales and Capital Gains Tax – if it is expressed as a capital value.

5 That would involve fewer changes in the law.

6 The average Annual Values for commercial properties are about 9 times those of residential properties within the Colombo Municipality and 4 times in the other 23 municipalities (IMF 2024: 13).

7 A recent investigation revealed that the highest Rate Percentage charged by a local councils was 35% and the lowest was 5% (IMF 2024: 38).

Rate is 7%, while for the Minuwangoda house the figures are Rs140,000 and 20% respectively. They would both have property tax bills of Rs28,000. This kind of variation between local council areas is inevitable if local councils are to exercise fiscal authority. It is not problematic. What matters from the perspective of perceived and actual fairness is that Annual Values should be similar for similar properties within any single local council area.

2.10. Fairness is however compromised when, as often happens in Sri Lanka, either (a) some newly built properties are not registered for property tax and/or (b) there are very long delays in revising Annual Values upwards to take account of rises in market value occasioned by extensions and improvements to existing buildings or improvements in local public infrastructure (electricity and water supply, sewerage, roads, public transport, traffic control etc). In these circumstances, Annual Values of individual properties appear increasingly arbitrary relative to one another. A brief look at the history of the property tax system gives us an understanding of this problem.

### **3. A Brief History**

3.1. The current assessment rate system evolved from a replica of the British rates system. It originates in the creation of municipal government structures in Colombo, Galle and Kandy in the 1860s.<sup>8</sup>

3.2. A key feature was – and is – that, at the point of valuation or revaluation, professionally qualified valuers visit each property, inspect it inside and out, and then calculate an annual rental value on the basis of (a) a wide range of features of the property itself (size, construction quality, building materials, internal bathrooms, ventilation); (b) its access to services like water, sanitation, electricity, public transport, and street lighting; and (c) its location more generally.

3.3. There are five main sources of concern about the coverage and integrity of the current property valuation system:

- Are all newly built properties actually registered for property tax? All new buildings are supposed to be authorised by the local council before construction begins. It is at this point that they should be registered for property tax. It is widely believed that there is some evasion.
- Are the Annual Values attributed to newly built properties by local authority staff accurate? Those staff are not trained valuers and enjoy considerable discretion in making their assessments. The key assessment criterion is their opinion about the potential annual rental value. There are no databanks on actual market rentals to which they can refer. The potential for collusion with the owners in undervaluation seems to be considerable.
- Are the increases in property market values that result from extensions and improvements to existing buildings or improvements in local public infrastructure adequately captured through revaluation? The answer is certainly negative. There is considerable variation among local councils in the extent to which particular extensions and improvements require pre-construction approval. It is likely that even those legal requirements are widely evaded. There is no effective mechanism to ensure that extensions and improvements routinely lead to appropriate increases in Annual Values. Further, there is no general system or practice for revaluing properties that benefit specifically and directly from any local improvement in sewerage, electricity or other public infrastructure.

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<sup>8</sup> Urban and Town Councils were established only in 1939 and 1946, respectively.

- The institutional opportunity to correct for these sources of under-registration and under-valuation is provided by recurrent “general revaluations.” These are undertaken one local authority area at a time and conducted by the professional valuers employed by the Government Valuation Department.<sup>9</sup> At a general revaluation, all properties within a local government area are subject to revaluation. In principle, general revaluations are to be undertaken every five years. In practice, they are much less frequent.<sup>10</sup> The reasons are explained in Section 5.
- Although conducted by professional valuers, general revaluations are not immune to bias and collusive deals between property owner and valuer to reduce assessments in exchange for a bribe. Valuation requires internal inspection of the property and likely involves direct face-to-face contact between valuers and property owners. Again, while assessments of Annual Value in principle are determined by actual local market rental values, there is no reference database on the rental market.

## 4. Low Level Equilibrium

4.1. The current property tax system is at a low level equilibrium in the sense that few resources or energies are put into it, and in return it generates little output. A few statistics and vignettes illustrate that:

- In 2021-22, property taxes, in the sense that we are using the term here, accounted for less than 0.1% of GDP. That figure is low even by the standards of low- and middle-income countries, which generally under-use property taxes – for much the same reasons as in Sri Lanka (IMF 2024: 12).<sup>11</sup>
- Property taxes – and indeed taxes in general – are a minor source of revenues for local councils.<sup>12</sup> Councils are financed mainly by direct grants from central government (OECD-UCLG World Observatory on Subnational Government Finance and Investment (SNG-WOFI)).
- Correspondingly, local councils devote few resources to revenue collection<sup>13</sup> and do not always make it easy to pay property tax.<sup>14</sup>
- Individual property tax bills are generally low. They may not even cover the cost of collection. Property owners sometimes pay them willingly because a property tax receipt may be useful in case of a legal dispute about property ownership.
- It seems that large proportions of property owners, whether registered for property tax or not, simply do not pay. A senior officer of the Colombo Municipal Corporation recently advised that there are estimated

9 The Colombo Municipal Council is the exception in that it employs its own valuers. The current boundaries of the Colombo Municipality are almost the same as its original 1865 boundaries. It houses less than 3% of the population of the country, and only a fraction of the population of what is often termed the Colombo metropolitan area. The other 23 Municipal Councils, 41 Urban Councils and 276 Rural Councils depend on the Government Valuation Department.

10 For example, when in 2022 and 2023 Covid was no longer seriously interrupting its operations, the Government Valuation Department issued new annual valuations for about 120,000 properties. That represents about 3.5% of the 3.5 million stock of properties for which it has recorded annual valuations (IMF 2024: 13). That in turn implies that the average local government unit would receive a block revaluation once every 30 years. See also IMF 2024: 38.

11 At that point the two main taxes on properties – stamp duties on property transactions and property taxes – collectively accounted only for about 0.2% of GDP – and about 2% of all government revenue. About two-thirds of that total came from stamp duties. Stamp duties on long term leases are collected by the Inland Revenue Department, that transfers the money to Provincial Councils. Stamp duties on changes in property ownership are collected directly by Provincial Councils, for their own use (IMF 2024: 12).

12 A study of 134 Municipal, Urban and Rural Councils found that on average, for the year 2020, rates and other taxes amounted to only 8% of their total revenues and 18% of revenues they generated themselves (UNDP 2023: 10). See also OECD-UCLG World Observatory on Subnational Government Finance and Investment (SNG-WOFI).

13 The same UNDP study found that, on average, only 7% of local council employees had any revenue collection responsibilities, and half the Rural Councils had no one in this role (UNDP 2023: 12).

14 In the Colombo Municipal Council area, property taxes can be paid only by cheque. Cheques are no longer widely used.

to be about 110,000 commercial properties in the council area, and only about 20,000 regularly pay property tax.

- The current property tax system functions in part as a tax on larger or more prominent commercial establishments, rather than properties in general.

## 5. Why this Low Level Equilibrium?

5.1. At present, none of the organisations and agents involved in the property tax system has a strong incentive to bring it to life, i.e. to begin to collect significant revenue and use that to provide tangible local services. The reasons are intertwined with local government revenue issues more broadly:

- Local councils currently have very low incentives to seek to collect significant revenues from property taxes or any other source (Asia Foundation 2016; Tampi and Nixon 2025; UNDP 2023). First, and most obviously, they do not depend principally on revenue that they raise themselves ('own revenues') to cover their spending. Transfers from central government are their dominant source of income, averaging about 80% for Municipal and Urban Councils. Large proportions of those fiscal transfers are tied to specific programmes and activities. Local councils have limited control over spending. Second, the largest component of fiscal transfers are grants to cover the (full) salaries of local government employees. Local councils have only partial control over their own staff, who are appointed, promoted and (effectively) paid by central government.<sup>15</sup> Those staff have no pressing interest in extending councils' revenue raising capacities. They are paid almost regardless of the work they do.<sup>16</sup>
- Increases in property taxes and general revaluations are always unpopular with local voters, especially when, as in Sri Lanka, (a) many of them currently benefit from obvious undervaluation and (b) there are no inspiring examples of local councils that have transparently and obviously used additional property tax revenues to provide enhanced local services. Not only are local councils effectively discouraged from using property taxes to raise revenue, but they are not strongly motivated to raise own revenues from any source. In any event, the national government guarantees to cover their biggest single item of expenditure – employee salaries – and is likely to give them additional funds to spend. Why make the efforts to collect more money locally?
- Local councils do not seem to be clamouring for the Government Valuation Department to do revaluations (IMF 2024: 38). Any council inclined to request a general revaluation and thus increase its property tax base faces a long delay, probably of at least a decade, before that revaluation happens. The need for property valuations and revaluations has increased as the quality of the national housing stock has improved, the landscape has become more urbanised, and the population liable in principle for property tax has expanded.<sup>17</sup>

15 Technically, staff are employed and paid by the councils. But their appointments, promotions, disciplinary regimes, salary scales and pension rights are largely controlled by central government through the Local Government Service Commission, under the Ministry of Public Administration and Local Government. The money to pay staff salaries is transferred from central government. The most senior local government staff, like Municipal Commissioners, are central government officers seconded from the Sri Lanka Administrative Service.

16 We should not under-estimate the influence of staff on the decisions made by local councils. Staff out-number councillors. They are permanent, while councillors may be in office only for much shorter periods of time.

17 Note that the majority of households are not required to pay property tax. Precise figures are not available, but we can make a reasonable estimate. Property taxes are levied only (a) within Municipal and Urban Council jurisdictions and (b) within Rural Council jurisdictions, only in specifically demarcated development zones where the council provides some services. There are no official figures on the proportion of Rural Council populations that live in such zones. Estimates range between 10% and 20%. Given that about 75% of the total population live in Rural Council areas, we can estimate that around 60-70% of the total population or households are legally exempt from the property tax.

- However, the Government Valuation Department has been unable to meet that need. In part, this is because the Department faces the same capacity constraints as many other government departments, but it is also because the Department is motivated to give priority to other clients. First, the fees it is allowed to charge local councils for general revaluations do not cover its operational costs. That in turn is tied into the very low levels of property tax valuations and revenues, the bleak fiscal situation of each local council, and to the relatively high costs of sending a professional valuer to inspect every property at revaluation. In effect, only central government has the money to cover the actual costs of revaluation, and it is unwilling to do that – partly no doubt because any potential revenue increase is uncertain. Second, the Government Valuation Department has more attractive clients for its services. Valuations for property tax purposes are but a small part of its wide portfolio of valuation responsibilities to the entire public sector and many commercial organisations.<sup>18</sup> Valuation fees account for only about 10% of its income; the remainder comes directly from the Treasury (Government Valuation Department 2021: 14).

5.2. There is then no single reason for the sluggish condition of the property tax system. A series of factors interact. But the key to unlocking change lies in the valuation system, because PBV provides an accessible, low-cost method for breaking the current systemic logjam.

## 6. Points Based Valuation (PBV)<sup>19</sup>

6.1. There are two fundamental differences between conventional (or ‘expert’) valuation procedures and PBV:

- Conventional valuation is conducted one property at a time, while PBV involves mass valuation of large numbers of adjacent properties simultaneously.
- Conventional valuation requires professional valuers to visit and inspect each property – and normally to inspect the interior. By contrast, PBV involves the use of digital technologies to (a) collect various kinds of external images of a property (b) translate them into a numerical score (*points*) that reflects the features that affect its market value (size, construction quality, facilities, services, location etc) and (c) convert the numerical score into a capital or rental value on the basis of data on actual capital or rental values from a sample of properties in the city or locality.

6.2. There are four main stages to the creation of a PBV system:

- **Mapping and Property Identification**

The process begins with the creation of a digital map using aerial imagery and basic Geographic Information System (GIS) tools. Enumerators trace visible buildings and/or parcel boundaries and assign each property a unique ID and geographic coordinates. This provides a property measurement and location for valuation purposes, ensures complete property coverage, and supports planning of field data collection. For a city of about 100,000 properties, this activity can often be completed in 1–4 weeks once aerial imagery has been acquired.

18 The Department’s website currently lists 433 organisations, not including local councils, for which it charges full or 50% fees for valuation services. Much of its work is land acquisition for public purposes and in valuing state assets. Department of Valuation Sri Lanka ‘Valuation Fees’ at <https://valuationdept.gov.lk/images/content/Valuation-Fees.pdf>.

19 This section is based in particular on Pillai, Prichard and Stewart-Wilson (2025). Knebelmann (2022) is also very useful. The website of the Local Government Revenue Initiative (Logri) is a treasure trove of information on recent experiences with PBV and property tax reform generally.

### ▪ **Field Data Collection**

Field teams inspect all properties to collect valuation data without needing to enter them. They first take a photo of each property for verification and then confirm the number of storeys and the accuracy of the building footprint recorded from aerial imagery. They also record additional observable characteristics used for valuation, such as the roofing and wall materials, infrastructure access (e.g., electricity, roads, water) and the general construction quality. Entering this information into digital forms ensures data standardisation and minimises errors.<sup>20</sup> For a city of about 100,000 properties a team of 100 well trained enumerators can generally collect this data in about 3 months, with the time required declining or increasing depending on the number of enumerators and pace of data collection.

### ▪ **Model Calibration**

Expert valuers assess the taxable value of a randomly selected sample of properties across the jurisdiction. That data is then used in a simple regression analysis to calibrate the weights given to the observable property features used in the valuation model. The model is then iteratively reviewed for fit and predictive performance. The goal is to adjust variables and weights to ensure that the valuation formula aligns with local market realities<sup>21</sup> and to ensure that it is easy to understand for administrators and taxpayers.

### ▪ **Mass Valuation and Tax Roll Generation**

Once the model has been agreed, the formula is applied to the data that has been collected for all mapped properties, producing a comprehensive register of assessed property values.

Once these foundational processes are complete, it is easy to automate billing and payments processing, and to continuously update valuations for new construction and major modifications.<sup>22</sup> PBV can also be flexibly adapted to varying contexts. For example, in larger cities containing a wide range of buildings, it may be calibrated to take account of a larger range of property characteristics. This generates greater valuation accuracy, especially for more expensive properties, with slightly higher valuation costs per property. In small towns or rural areas where properties are less diverse and the differences among them more immediately obvious, valuation may be based on a handful of property features.<sup>23</sup> Unit costs are then lower. Similarly, there is a wide range of choice about the extent to which responsibility for the creation and maintenance of a PBV system is shared between central and local government, and between different central government organisations.

The introduction of PBV incurs start-up time and costs. The processes of training staff, experimenting and refining implementation processes might take up to two years. But the main policy question is not whether Sri Lanka should explore this technology but how long it can afford to ignore it. PBV is widely used in some parts of the world. The UK Valuation Office Agency is using it to assist in revaluing 1.5 million domestic properties in Wales for Council Tax purposes in 2025.<sup>24</sup> It was recently estimated that close to a half of property and real estate appraisals globally involve some use of PBV/CAMA/AVM technologies.<sup>25</sup>

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20 Governments may opt to have enumerators collect additional data – for example about residents, ownership or businesses – depending on timelines, budgets and priorities.

21 For example, the initial version of the valuation model may give a weighting of 40% for building size, 15% for construction material, 15% for access to piped water, 15% to location, and 15% for a range of other factors. The purpose of the regression analysis is to check whether this corresponds to the weightings that people give to these variables when buying and selling houses in that jurisdiction.

22 The valuation model also needs occasional updating to take account of changes in the local property market. That requires expert valuation of a random sample of local properties.

23 For example: building area, number of floors, and location.

24 UK Government 'How model-assisted valuation delivers large-scale property valuations at <https://www.gov.uk/guidance/how-model-assisted-valuation-delivers-large-scale-property-valuations>.

25 Gitnux 'Appraisal Statistics' at <https://gitnux.org/appraisal-statistics/>.

## 7. Politics and Implementation

7.1. It has been more than two years since the Sri Lankan government agreed with the IMF to introduce a new property tax. The initial proposal, for an Imputed Rental Income Tax, has rightly been rejected by the current government.<sup>26</sup> The government is committed to the principle of a new property tax, but the details remain open. Meanwhile, the Government Valuation Department is digitizing its property valuation records and developing a new nationwide Sales Price and Rents Register. That Register is intended principally to provide a basis for valuation for property tax purposes. It will also be useful for other purposes, including levying capital gains tax on properties more effectively.

7.2. These steps are significant, but they will not provide a firm foundation for an effective, fair and comprehensive new property tax. Existing valuations are much too low on average and to some degree random (IMF 2024: 13). The valuation records relate to properties and contain no common identifier to link them to the owners (or the people who have paid the tax). Some kind of complete revaluation process will be essential. The choice is between (a) PBV or (b) a long drawn-out process requiring expert valuers – or some less professional substitutes – to make judgements about individual properties. There will be pressures to do the latter. It is much less disturbing for existing institutions and interests. People owning more valuable properties will welcome any delay. The start-up time and costs required to initiate PBV will be likely be exaggerated.

7.3. Here are four political resources that the government will be able to mobilise in support of the introduction of PBV:

### 1. It is both fair and economically efficient to raise significant revenue from property taxes rather than from alternatives like income taxes or VAT.<sup>27</sup>

Property taxes are intrinsically a good source of government revenue or, for those people who are sceptical of the value of any tax, the least bad one:<sup>28</sup>

- They are hard to evade because buildings are visible and do not move.
- They are fair because in every society people with higher levels of income and wealth own more property. The more that governments depend on property taxes, the more the overall tax burden is shifted onto the shoulders of those most able to bear it.<sup>29</sup>
- Property taxes have positive effects on economic growth. Wealthy people have a natural inclination to buy up and hold onto land and large houses as a way of enjoying and conserving their wealth. In the long term, the value of land and property will tend to increase relative to other assets and potential investments. This gives richer people an incentive to speculate in property: to buy larger houses than they really need and to hold on to undeveloped land rather than sell it for housing, commercial or industrial development. These speculative benefits to wealthy people impose corresponding costs on poorer people. The land they need for housing or commercial purposes becomes more expensive.

26 For details of the Imputed Rental Income Tax see IMF (2024). For an explanation of why it was a bad idea, see M. Moore 'Property Taxes: No Thanks but Many Thanks to the IMF' Daily Mirror 3 October 2023 at <https://www.dailymirror.lk/opinion/Property-Taxes-No-Thanks-but-Many-Thanks-to-the-IMF/231-291948>.

27 In addition to property taxes, there are other ways of taxing property and wealth, notably (a) stamp duties on property transactions (b) capital gains taxes and (c) inheritance taxes and taxes on property rental incomes. These are all under-used in Sri Lanka.

28 This raises the question of why they are so under-used in some many countries. There are two major reasons. One is the political resistance of the more wealthy and influential people who would face the largest tax increases. The other is that property taxes are mostly collected by and for local governments, and most central governments are not in practice keen that local governments should have much financial independence. They find ways of frustrating it (Khemani 2015).

29 Provided of course that the taxes are not very regressive. They should either be levied as a constant or increasing proportion of the value of the property.

If rich people are required to pay (higher) property taxes on their houses and their undeveloped land, they will buy or hold on to less and make more available for the rest of society. Further, property taxes have no significant negative effects on economic growth because they do not discourage work or productive investment.

## **2. PBV generates fairer valuations than conventional systems.**

Valuers may be bribed to undervalue larger properties or simply be susceptible to normal human biases, blandishments and prejudices. The only rigorous research on the topic concludes that increasing the amount of discretion for individual valuation experts increases the number of unfair valuations. Automated valuations are fairer (Knebelmann, Pouliquen, and Sarr 2024). PBV can be considered a dimension of Clean Sri Lanka, a governmental initiative seeking to portray Sri Lanka as a “cleaner, greener, and more sustainable country.”<sup>30</sup>

## **3. Local councils are more likely actively to support PBV if they are given more financial autonomy by central government.**

As explained above, local councils in Sri Lanka currently have low incentives to seek to collect significant property tax revenues, or indeed own revenues of any kind. However, the government has already begun to put this right. From 2024, the grant to local councils to cover recurrent expenditure was cut by 20%. It is planned to repeat this every year. This could result in local councils becoming responsible for paying their staff from their own revenues. In addition to motivating local councils to collect more own revenue, this should also give local government staff a direct self-interest in increasing local revenue collection, and thus in implementing PBV. That in turn might open the way toward local councils being granted – or taking – more influence over the number and type of people they want to employ and staff recruitment and promotions.

## **4. The introduction of PBV can boost the process of democratising local government.**

As explained above, PBV procedures and valuation criteria are flexible. They can be adapted to suit local circumstances. Densely populated cities will generally justify a more sophisticated valuation system, while small town and rural areas need something more basic. Colombo Municipal Council in particular is likely capable of managing PBV on its own, while Rural Councils and Town Councils will need a great deal of support. A strong central government commitment will be needed to establish a PBV mechanism, and to change the law and fiscal policies to give local councils real incentives to raise substantial own revenues. Otherwise, there is a very good case for allowing local councils a great deal of freedom in deciding whether and how they wish to adopt PBV. Enthusiastic adopters are more likely to be successful.<sup>31</sup>

<sup>30</sup> See <https://cleansrilanka.gov.lk/> for details.

<sup>31</sup> Government could encourage local councils to take the rather challenging step of introducing PBV by providing, for a short initial period of 4 to 5 years, a revenue top up to match the revenue collected under PBV.

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