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Kathmandu, Nepal 14–16 November

**REGIONAL CONFERENCE 2024**

*Climate Responsive Land Governance and Disaster Resilience: Safeguarding Land Rights*



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# Land and Property Valuation and Taxation in Bhutan

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## Property Assessment and Valuation Division

- Royal Civil Service Commission during 9<sup>th</sup> session held on date 17<sup>th</sup> July 2024 approved the establishment of Property Assessment and Valuation Division under Finance Secretary.
- 2008 to 2024 July – Property Assessment and Valuation Agency.
- Key Roles
  1. Fix land Compensation rates for government acquisition – Land Act of Bhutan 2007
  2. Update Valuation list for property taxation – Property Tax act of Bhutan 2022
  3. Conduct Valuation for Land and Buildings in Government Acquisitions



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## Compensation and Taxation

- **Land**
  - ✓ Land rates are predetermined Based on Land Class (rural) and Precinct (urban)
  - ✓ Land value is calculated by multiplying land rate of that area to the land size.
  - ✓ Tax amount is calculated by applying property tax rate (0.1%) to the land value.

- **Building**

Compensation – Cost of Construction/Replacement at the date of Valuation

Taxation – Capitalized Value based on Rental Method



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## LAND CLASSIFICATION

### 1. Urban land

- **64 Urban centers**
  - 4 Thromdes (Cities)
  - 33 planned urban centers ( dzongkhag throms/ youngla throms)
  - 27 without structural plan (commercial and residential usage)

### 2. Rural land

- **Broadly categorized under three category as follows**
  1. Dry Land (Kamzhing)
  2. Wet land (Chhuzhing)
  3. Orchard (Choesha Dumra)





## Urban land Valuation

Following three approaches is used to indicate the base rate

- I. **Existing Government Rates (PAVA 2017)** – The Lhengye Zhungtshog approved these urban rates in April 2017 and was the existing rate then.
- II. **Financial Institution Rates (FIR)** – These rates were adopted by the Financial Institutions for their insurance, mortgage and acquiring purposes.
- III. **Market Records (MR)** – These rates were collected by PAVA and indicated the ongoing market rates.

• Weightings were then provided to the above rates to come up with the base rate which was as follows.

- $BR = \text{Average of the LZ 2017} + FIR + MR$





## Urban land Valuation

1. **Unplanned Urban Center land** – Land Compensation Rate is kept at Base rate based on Commercial and Residential Use.

### 2. Planned Urban centers

- Weightage is assign to the base rate to obtain final land value of land for a particular precinct.
- A matrix is designed based on allowable land usage, percentage of ground coverage, allowable number of stories and so on, based on the Development Control Reports (DCR) of the specific Local Area Plan . Average Value obtained from matrix is multiplied with based rate to get final value of land in the particular precinct.





## Classification of Rural Area

Sl. No.	Name of Place under assessment	Distance from the municipal boundary	Class
1	O	$H \leq 1$ KM	A1
3	Q	$H \leq 3$ km	A
4	R	$3 < H \leq 6$ km	B
5	S	$6 < H \leq 9$ km	C
6	T	Above 9 km	D

The above is further applied to the chiwogs mapping and subsequently, the 1044 chiwogs are further categorized into their respective classes

The land plots in specific chiwogs are assigned same class as chiwog class.





## Rural Land Valuation

- I. **Income Approach Analysis Method (IA)** – based on the inherent capacity of the land to produce crops/fruits and calculating its capacity to produce monetary income.
  -
- I. **Comparative Method (MKR)** – based on market information gathered from the Dzongkhags and data collected by the PAVA team.
  - **Cost Method (AFI)** – based on the Financial Institutions rates used particularly for insurance and mortgage purposes.
- Land Compensation Rate for Class A = 33.33% of IA + 33.33% of MKR + 33.33% of AFI
- Land Compensation Rate for Class B = LCR Class A - (LCR Class A x 25%)
- Land Compensation Rate for Class C = LCR Class A – (LCR Class A x 50%)
- Land Compensation Rate for Class D = Rate arrived as per Income Approach Analysis (IA)

For Class A1 rural land, the valuation was worked by taking the percentage difference between the rural land rate at the periphery and the rate at the municipal border.



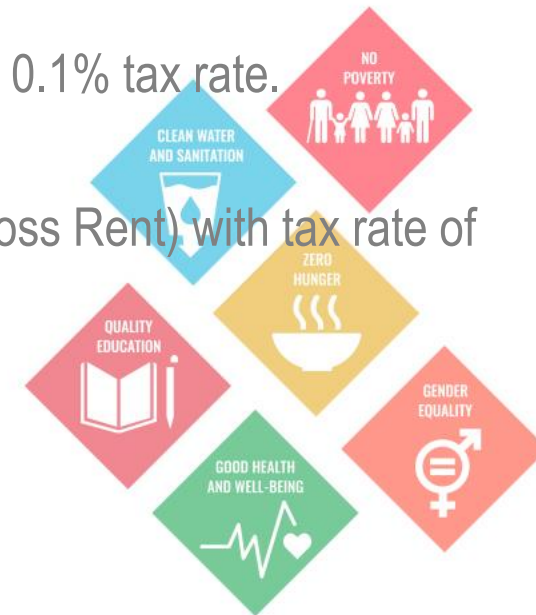




## Property Tax

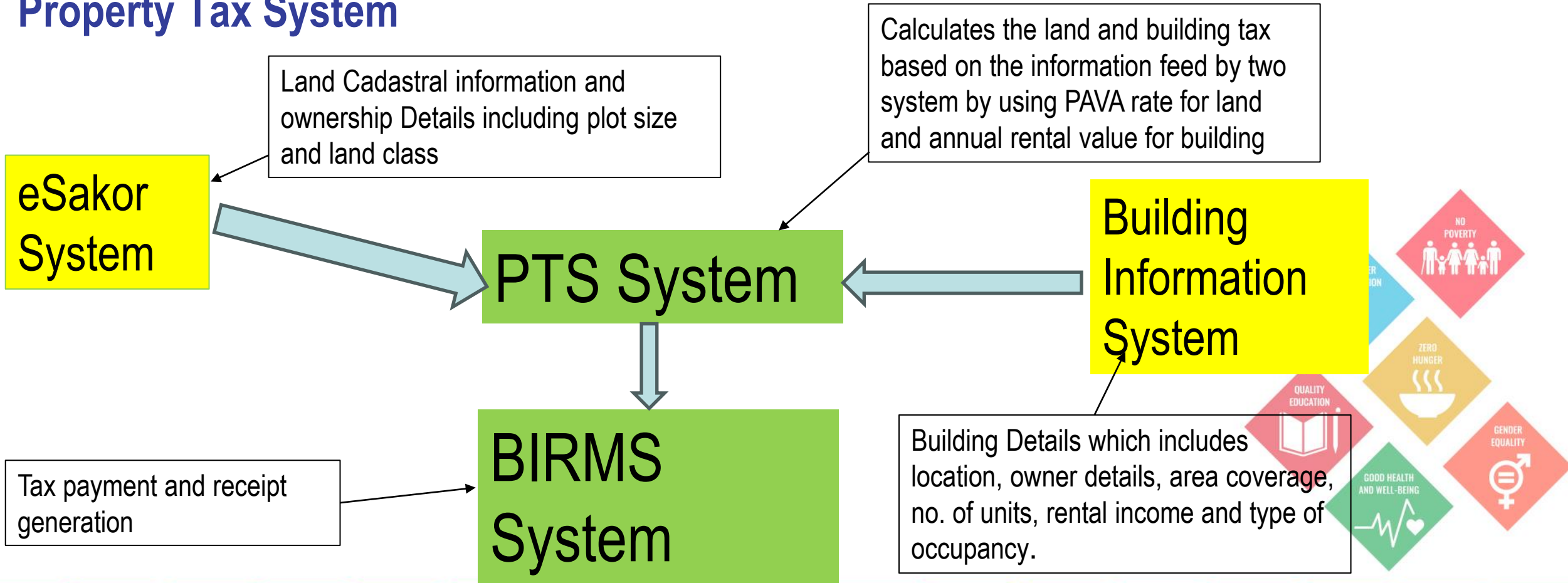
- Property Tax Act 2022
- Value Based Taxation

1. **Land Tax** – Payable each year based on land value Calculated using PAVA rates by applying 0.1% tax rate.
2. **Building Tax** – Based on taxable Building Value determined using Rental method (Annual Gross Rent) with tax rate of 0.1%.  
Median Rent – Used to calculate annual rent for Building without rental income





## Property Tax System



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## Challenges in Land Valuation

1. Inconsistent market transection data since the sale value declared is usually low to curtail transection tax.
2. Lack of Certified Valuers, the valuation work is carried out by Engineers and Surveyor.
3. The approach to valuation does not conform with International valuation standard and best practices.
4. No common valuation guidelines to determine the value of infrastructures.
5. Difficulties in assigning land class as land within the same chiwog or area can vary significantly in factors such as slope, ruggedness, accessibility, and productivity.



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## Way Forward

- Certification of Valuers (World Bank Support)**

The first cohort of certified valuers, comprising 30 individuals from various organizations, will complete their training in December 2024. Participants include representatives from the Ministry of Finance, National Land Commission of Bhutan, Ministry of Infrastructure and Transport, financial institutions, Royal University of Bhutan, and private real estate agencies.

- Establishment of Bhutan Valuation Standard**

Following the completion of the certification course, a core working group will be formed to draft and formally institute the Bhutan Valuation Standard. Once implemented, the Bhutan Valuation Standard will be mandatory for all agencies involved in property transactions and taxation to ensure uniformity and adherence to standardized practices.



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