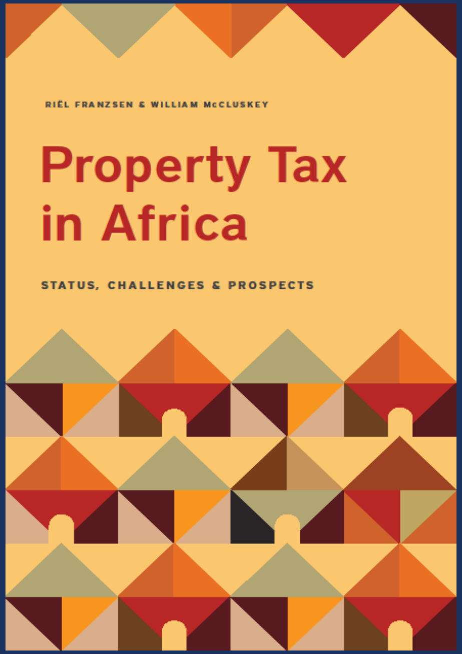
AFRICAN TAX INSTITUTE

MVV182K/01:

PROPERTY-RELATED TAXES – ISSUES & TRENDS

INTRODUCTION TO PROPERTY-RELATED TAXES



UNIVERSITAS MASARYKIANA BRUNENSIS

Riël Franzsen
SA Research Chair in
Tax Policy & Governance
African Tax Institute

This course (1)

After this course you should –

- have a fair understanding of the key international policy, legal and administrative issues and trends in relation to real estate transfer taxes and recurrent property taxes; and
- be able to evaluate how property-related taxes in the Czech Republic relate to international policy trends and practices.

A detailed discussion of property-related taxes in the Czech Republic falls outside the scope of this course

This course (2)

Tuesday 2 May 2023		
Time	Lecturer	Topic
10:00 – 11:40	Franzsen	Introduction to property-related taxes Real estate transfer taxes
12:00 – 13:40	Radvan	Real estate transfer taxes in Europe Czech Republic property tax system
14:00 – 15:40	Franzsen McCluskey	Recurrent property tax – international overview Property tax base options – issues and trends
Wednesday 3 May 2023		
12:00 – 13:40	McCluskey	Valuation, assessment and tax administration
14:00 – 15:40	Franzsen McCluskey and Franzsen	Property tax rates and tax relief Workshop and overall conclusions

This course (3)

Instructors:

- Prof Riël Franzsen, Director: African Tax Institute, University of Pretoria (South Africa)
- Prof Michal Radvan, Faculty of Law, Masaryk University (Czech Republic)
- Prof William McCluskey, Extraordinary Professor, African Tax Institute, University of Pretoria (Northern Ireland, UK)

Introduction

- An enabling tax environment
  - Constitutional and legal environment
  - Political environment
  - Institutional environment
  - Real-world environment

- Property-related taxation
  - History
  - Concepts and definitions
  - Key policy and administrative features
  - Revenue importance
  - Challenges

Property tax and other own-source revenue

- Implementation of (sub-national) taxes:
  - Constitutional and legal framework
  - **Political environment**
  - Fiscal environment
  - **Institutional environment**
  - Specific legislation
  - **Realities** within which the law and administration function

Constitutional & legal environment

What does the Constitution and/or other enabling legislation dictate or allow?

- Does it provide mere principles or guidelines, or an actual framework?
- Is a provision descriptive or is it prescriptive?
- Fiscal capacity and/or tax effort?

Does legislation allow for –

- Tax (base) sharing?
- Revenue sharing?
- Options or alternatives (e.g. regarding tax base)?

Which level or tier of government –

- Determines the tax base?
- Levies the tax?
- Sets the tax rate or rates?
- Grants exemptions and other tax relief?
- Is responsible for collection and enforcement?
- Is entitled to the revenue?

Political environment

- Decentralization versus centralization
- National fiscal policy versus local fiscal policy
- Local government reform
- Land use policies versus fiscal policies
- Equity versus revenue
- Equity versus efficiency
- Ministerial discretion
- Vested interests
- Election politics

Institutional framework

- Which ***level*** or ***tier*** of government –
  - Decides on the tax base?
  - Is responsible for collecting relevant data?
  - Is responsible for valuation or assessment?
  - Is responsible for setting tax rates?
  - Is responsible for collecting the tax?
  - Has oversight functions regarding any of the above functions?
- Avoid duplication, overlapping or fragmentation of functions

The law and taxation

Policy | Law | Administration

- "Law" (its relevance for purposes of taxation)
  - Constitution
  - Specific laws (e.g. Revenue Code; Income Tax Act; Tax Administration Act)
  - General laws
  - Regulations and rulings
  - Common law (e.g. family law, law of succession)
    - E.g. definition of "spouse" for tax law purposes

Country realities

- Availability of relevant data
  - Property-related data
    - E.g. a deeds registry, sales records
  - Fragmented data collection and maintenance responsibilities
    - E.g. different ministries or levels of government; private sector

- Availability of necessary capacity, skills and resources to administer the property tax
    - E.g. numbers of valuation professionals
    - E.g. budgeted funds to maintain system

“Immovable property” as a taxable object

- Property-related taxes –
  - Income produced (e.g. Ancient China)
  - Ownership or occupation (e.g. property taxes)
  - Acquisition and/or alienation (i.e. transfer)

History of property taxation

- Antiquity
  - China (2,697 BC)
  - Mesopotamia
  - Egypt
  - Macedonia
  - Rome

- England – “Poor Relief Act” (1601)

- Europe and her colonies

Property-related taxes, fees & charghes

- Real Property Transfer Tax
- Stamp Duty

- Estate/Succession Tax
- Donations/Gift Tax

- Capital Gains Tax
- Land-value Increment Tax

- Land Tax, Unimproved Value Tax, Site Value Tax
- Building Tax
- Property Tax (= Land & Buildings)

- Land Value Capture & Land-based Finance Instruments: E.g. Development Charges, Betterment Levies

- Registration Fees or Publication Fees

- Land Rent

Relevant defenitions

“Property-related tax”

A tax on the ownership, occupation, or transfer of “property”

“Property transfer tax”

A tax on the acquisition or alienation (or both) of “property”

“Property tax”

A recurrent tax imposed by government on the ownership or occupation of (***immovable***) property

“Rates”

A term used in many countries (with a British colonial heritage) for a property tax levied at the local government level

Why property tax?

Advantages

- Property is fixed in location
- Property is highly visible
- Land has an inherent value
- Taxpayers are (usually) readily identifiable
- Relationship between revenue and public services
- Low compliance cost
- If well administered, may yield significant revenues in a sustainable and predictable manner

Disadvantages

- Highly political
- Taxes unrealised income
- Cumbersome to maintain
- High administration cost

Revenue – the basics …

Tax base x **Tax rate** = **Revenue**

Important political challenges…

Ultimate benefit…

Revenue mobilization model

Revenue = **Tax base** x **Tax rate** x **CR** x **VR** x **Col R**

Policy variables

Administration variables

CR: Coverage ratio
VR: Valuation ratio
Col R: Collection ratio

Further key challenges…

Source: Kelly (2000)

What services does the recurrent property tax typically fund?

Municipal service	Usual funding mechanism
Water supply	User charges and surcharges
Electricity supply	User charges and surcharges
Sewage collection and disposal	User charges and surcharges
Refuse removal	User charges and surcharges
Municipal health services	User charges, grants
Municipal roads	Property tax and other local taxes
Storm water drainage	Property tax and other local taxes
Street lighting	Property tax and other local taxes
Municipal parks and recreation	Property tax and other local taxes
Parking	User charge
Municipal libraries	User charge
Cemeteries	Property tax and other local taxes
Infrastructure	Grants, borrowing (i.e. loans)
Maintenance of infrastructure	Property tax and other local taxes

Revenue importance

Levels of and Trends in Property Tax Revenues

(Percent of GDP)

Region (# Countries)	2010	2014	2015	2016	2017	2018	2019	2020
EU (27)	1.9	2.3	2.3	2.3	2.3	2.4	2.2	2.3
OECD (38)	1.6	1.9	1.9	2.3	1.9	1.9	1.8	1.9
Africa (31)	0.4	0.4	0.4	0.4	0.3	0.3	0.4	0.3
Asia-Pacific (28)	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Latin America (26)	0.8	0.9	0.9	0.8	0.9	0.8	0.9	0.8

Sources: OECD Global Revenue Statistics Database (2022); European Commission 2020 (2020). The number of countries in each grouping as of 2022 is shown in brackets.

European Union: Property taxes' per capita revenue importance (2015)

Country	2015 Population ('000)	Recurrent PT ('000)	PT in € per capita (est.)	Other PT ('000)	Other PT in € per capita (est.)	All PT ('000)	All PT in € per capita (est.)
Austria	8 545	700 000	**81.92**	2 200 000	**257.46**	2 900 000	**339.38**
Belgium	11 299	5 400 000	**477.92**	9 500 000	**840.78**	14 900 000	**1 318.70**
Bulgaria	7 150	100 000	**13.99**	100 000	**13.99**	0 300 000	**41.96**
Croatia	4 240	0	**0.00**	200 000	**47.17**	0 200 000	**47.17**
Cyprus	1 165	200 000	**171.67**	0	**0.00**	0 200 000	**171.67**
Czech Republic	10 543	400 000	**37.94**	600 000	**56.91**	1 000 000	**94.85**
Denmark	5 669	5 600 000	**987.83**	1 500 000	**264.60**	7 100 000	**1 252.43**
Estonia	1 313	100 000	**76.16**	0	**0.00**	100 000	**76.16**
Finland	5 503	1 600 000	**290.75**	1 400 000	**254.41**	3 000 000	**545.16**
France	64 395	69 700 000	**1 082.38**	31 600 000	**490.72**	101 300 000	**1 573.10**
Germany	80 689	13 200 000	**163.59**	19 100 000	**236.71**	32 300 000	**400.30**
Greece	10 955	4 700 000	**429.03**	1 000 000	**91.28**	5 700 000	**520.31**
Hungary	9 855	600 000	**60.88**	800 000	**81.18**	1 400 000	**142.06**
Ireland	4 688	1 800 000	**383.96**	1 600 000	**341.30**	3 400 000	**725.26**
Italy	59 798	27 500 000	**459.88**	16 900 000	**282.62**	44 300 000	**740.83**
Latvia	1 971	200 000	**101.47**	100 000	**50.74**	300 000	**152.21**
Lithuania	2 878	100 000	**34.75**	100 000	**34.75**	300 000	**104.24**
Luxembourg	567	0	**0.00**	700 000	**1 234.57**	800 000	**1 410.93**
Malta	419	0	**0.00**	100 000	**238.66**	100 000	**238.66**
Netherlands	16 925	5 800 000	**342.69**	4 300 000	**254.06**	10 100 000	**596.75**
Poland	38 612	5 300 000	**137.26**	1 400 000	**36.26**	6 700 000	**173.52**
Portugal	10 350	1 500 000	**144.93**	2 000 000	**193.24**	3 500 000	**338.16**
Romania	19 511	1 000 000	**51.25**	400 000	**20.50**	1 400 000	**71.75**
Slovakia	5 426	300 000	**55.29**	0	**0.00**	300 000	**55.29**
Slovenia	2 068	200 000	**96.71**	0	**0.00**	200 000	**96.71**
Spain	46 122	13 600 000	**294.87**	16 900 000	**366.42**	30 500 000	**661.29**
Sweden	9 779	3 600 000	**368.14**	1 700 000	**173.84**	5 300 000	**541.98**
United Kingdom	64 716	79 300 000	**1 225.35**	29 700 000	**458.93**	109 000 000	**1 684.28**
CESE countries	103 567	8 300 000	80.14	3 700 000	35.73	12 200 000	117.80
Non CESE countries	401 584	234 300 000	**583.44**	140 300 000	**349.37**	374 400 000	**932.31**
European Union	505 151	242 600 000	**480.25**	144 000 000	**285.06**	386 600 000	**765.32**

Sources: Brzeski, Romanova & Franzsen 2019; Eurostat 2017; United Nations Department of Economic & Social Affairs 2015.

Taxes on property as % of GDP

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Ranking 2020	Revenue 2020 (million EUR)
EU-27	1.9	2.0	2.1	2.2	2.3	2.3	2.3	2.3	2.2	2.2	2.3		302 724
Belgium	3.1	3.3	3.5	3.6	3.6	3.6	3.6	3.5	3.5	3.5	3.5	2	16 054
Bulgaria	0.5	0.5	0.8	0.9	0.9	0.9	0.9	0.8	0.8	0.8	0.7	20	444
Czechia	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.5	0.3	26	661
Denmark	2.5	2.6	2.5	2.6	2.6	2.7	2.5	2.5	2.5	2.7	2.6	5	8 263
Germany	0.8	0.9	0.9	0.9	1.0	1.1	1.1	1.1	1.1	1.2	1.3	12	44 657
Estonia	0.4	0.4	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.3	27	81
Ireland	1.4	1.6	1.7	1.8	1.9	1.3	1.2	1.2	1.2	1.1	1.1	15	3 928
Greece	2.0	2.8	3.3	3.6	3.2	3.5	3.5	3.5	3.3	3.3	3.4	3	5 544
Spain	2.1	2.0	2.4	2.6	2.7	2.8	2.8	2.7	2.7	2.6	2.7	4	30 026
France	4.0	4.3	4.3	4.3	4.5	4.6	4.7	4.8	4.6	4.5	4.6	1	106 013
Croatia	1.0	1.1	1.1	1.1	1.1	1.1	1.1	1.0	1.1	1.1	1.1	14	535
Italy	1.8	2.0	2.5	2.6	2.8	2.7	2.4	2.4	2.4	2.4	2.4	7	40 130
Cyprus	1.2	1.0	1.0	1.3	1.3	1.5	1.1	1.1	0.9	0.9	0.8	19	165
Latvia	1.0	1.1	1.2	1.1	1.2	1.2	1.2	1.1	1.0	1.0	1.0	17	303
Lithuania	0.7	0.6	0.6	0.4	0.5	0.5	0.4	0.4	0.3	0.3	0.3	25	165
Luxembourg	1.0	1.1	1.2	1.2	1.2	1.5	2.0	2.1	2.5	2.4	2.5	6	1 615
Hungary	1.1	1.1	1.2	1.3	1.3	1.3	1.1	1.1	1.0	1.0	1.1	13	1 517
Malta	1.0	1.0	0.9	0.9	0.9	1.0	1.1	1.1	1.3	1.1	0.7	21	93
Netherlands	1.3	1.1	1.1	1.2	1.6	1.5	1.6	1.7	1.7	1.6	1.8	9	14 667
Austria	0.7	0.8	0.9	0.8	0.8	0.9	0.8	0.8	0.8	0.8	0.9	18	3 339
Poland	1.4	1.4	1.5	1.6	1.6	1.7	1.8	1.8	1.7	1.7	1.7	10	9 019
Portugal	1.7	1.8	1.8	1.9	2.0	2.1	2.1	2.2	2.2	2.2	2.3	8	4 565
Romania	0.8	0.8	0.9	0.9	0.9	0.9	0.8	0.7	0.6	0.7	0.6	23	1 342
Slovenia	0.6	0.6	0.6	0.7	0.7	0.6	0.6	0.6	0.6	0.6	0.6	22	295
Slovakia	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.5	24	438
Finland	1.1	1.1	1.2	1.3	1.4	1.4	1.4	1.6	1.5	1.6	1.6	11	3 866
Sweden	1.0	1.0	1.1	1.2	1.1	1.1	1.2	1.1	1.2	1.1	1.1	16	4 999
Iceland	2.0	1.9	1.9	1.9	1.8	1.8	17.3	2.1	2.1	2.1	2.3		445
Norway	1.1	1.0	1.0	1.1	1.1	1.1	1.1	1.2	1.1	1.2	1.2		3 953

Source: European Commission, DG Taxation and Customs Union, based on Eurostat data

Property tax challenges

- Property tax is a challenging tax to administer
  - Data intensive (property discovery, assessment)
    - Important role for information & communication technology (ICT)
  - High administration costs (unpopular with officials and administrators)
  - High political costs (unpopular with politicians)
  - Seldom properly understood (unpopular with taxpayers)

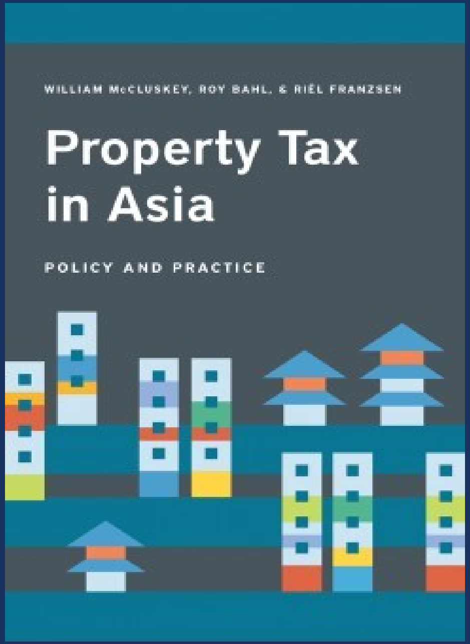
Conclusions

- "Tax administration = tax policy"
  - Study:
    - Norregaard, 2013
- It must be possible and practicable to implement tax policies in the short term and these must be sustainable in the long term
- **The recurrent property tax is a difficult and costly tax to administer**

MVV182K/01:

PROPERTY-RELATED TAXES – ISSUES & TRENDS

PROPERTY TRANSFER TAXES – AN OVERVIEW



Riël Franzsen
SA Research Chair in
Tax Policy & Governance
African Tax Institute

Property as a taxable object

10 May 1529

What is the significance of this date?

Historic overview

- Property transfer has been a taxable event since ancient times
  - Egypt
  - Rome
  - **Charles V - 10 May 1529**
  - Spain – Alva and the 5% tax (1571)
  - Holland
    - Transfer duty (40th penny – i.e. 2.5%) in 1598
    - Stamp duties in 1624

Property transfers a taxable events

- Property is fixed in location
- Property is highly visible
- Property has an inherent value
- Taxpayers are usually readily identifiable
- Transfers are often “public” and require official input
- **Administrative provisions**
  - **No legal transfer of (property) rights before payment of tax**

  (i.e. before tenure rights are acknowledged and protected in terms of law)

Comparative overview

Taxes on the transfer of real estate

- **Transaction-type taxes**
  - Focuses on the underlying *transaction* (e.g. contract of sale)
  - Typical in Civil Law-countries with a European legal tradition
  - E.g. Belgium, Germany, Luxembourg, Spain
  - High tax rates (often above 5%) – e.g. Belgium, Spain
  - South Africa: 0% to 13%, Zambia: 5% (was 10% from 2014 to 2016)

- **Stamp duties**
  - Focuses on *documents* (e.g. deed of sale/registration)
  - Typical in Common Law-countries with an English legal tradition
  - E.g. UK, US, Canada, Australia, **India**
  - Low tax rates (generally below 2%), **but**:
    - UK: 0% to 12%
    - Grenada: 10% and St Vincent & The Grenadines: 10%

- **Both stamp duty and transfer tax(es)**
  - Some Caribbean countries, Thailand, **Lesotho**

Registration fees

- Focuses on registration, but constitutes a user charge rather than a tax

Some policy issues

- ## Tax base
  - Possible “overlap” with other taxes
    - Value-added tax (VAT)
    - Capital wealth taxes (death duties and gift taxes)
    - Capital gains tax (CGT)
  - Taxation at more than one government level
  - Scope of “acquisition”
  - Scope of “property”

- ## Taxpayer
  - Seller, or buyer, or both?
    - Caribbean countries
  - Higher rates on acquisition by non-citizens
    - Caribbean, Seychelles, Botswana

Taxable value

- ‘Consideration’
  - Additions
  - Exclusions

and/or

- ‘Declared value’
  - The contracting parties provide values

and/or

- ‘Market value’
  - Responsibility?
  - Capacity?

Real Property Transfer Tax Rates: Europe

Western Europe	Transfer Tax (%)		CEE & SEE Countries	Transfer Tax (%)	
	Minimum	Maximum		Minimum	Maximum
Austria ⬇	3.5		Bosnia & Herzegovina	5.0	
Belgium	10.0	12.5	Bulgaria	2.0	4.0
Cyprus	3.0	8.0	Croatia	5.0	
Denmark	0.6	1.5	Czech Republic ⬇	0.0	
Finland	4.0		Estonia	0.27	0.4
France	0.7	5.1	Hungary	10.0	
Germany ⬇	3.5	6.0	Kosovo	0.0	
Greece ⬇	3.0		Latvia	2.5	
Ireland ⬇	1.0	2.0	Lithuania	0.2	1.0
Italy ⬇	2.0	9.0	Moldova	0.2	0.5
Luxembourg	10.0		Montenegro	2.0	
Malta	5.0		North Macedonia	2.0	4.0
Netherlands ⬇	2.0		Poland	2.0	
Norway	2.5		Romania	1.0	3.0
Portugal	6.5		Russia	Fixed fees	
Spain	6.0	10.0	Serbia	2.5	
Sweden	3.0		Srpska (B&H)	0.0	
Switzerland	0.0	3.3	Slovakia	0.0	
United Kingdom ⬆	0.0	12.0	Slovenia	2.0	

Sources: UN Habitat, *Land and Property Tax-A Policy Guide* (2011); *World Bank's Doing Business* (2020); McCluskey et al (forthcoming).

Real Property Transfer Taxes in 44 African Countries

Country	Tax Rate	Country	Tax Rate
Algeria	5% + 1%	Kenya	2% (rural) and 4% (urban)
Angola	2% + 0.3%	Lesotho	3% to 4% (TT) + 1% to 3% (SD)
Benin	8%	Liberia	A fixed fee of LRD100
Botswana	5% and 30%	Libya	5%, 8% and 10%
Burundi	3%	Malawi	1.5%
Cameroon	From 5% to 15%	Mali	7% + XOF26,500 + 1.5%
Cape Verde	3% + 1%	Mauritania	From 0.25% to 15%
Central African Rep	7.5% + 1% + XAF5,000	Mauritius	0.1% to 12% + 5%
Chad	10% + XAF1,000	Morocco	6% + 1%
Comoros	2% to 9% (on selling price) + 2%	Mozambique	2% + 0.2%
Congo	15% + 0.5% + 0.2%	Namibia	0% - 8% (individuals); 12% (other)
Côte d'Ivoire	7.5% (juristic persons), 4% (other)	Niger	3%
DRC	Ranges from 5% to 10%	Nigeria	0.75%
Djibouti	3%	Rwanda	A fixed fee of RWF20,000
Egypt	2.5%	STP	8%
Eritrea	4% + ERN340 (maximum)	Senegal	10%
Eswatini	2% to 6%	South Africa	0% to 13% sliding scale
Ethiopia	2% + small ETB fixed amount	Sudan	2.5% to 6%
Gabon	6%	Tanzania	1%
Ghana	0.25% to 1%	Togo	6% + XOF1,000 p/page
Guinea	5% + 0.25% to 1%	Tunisia	5% + 1%
Guinea-Bissau	10% + 0.5% + XOF2,000	Zambia	5%

Source: Adapted and updated from Franzsen & McCluskey (2017); Franzsen (2020).

Property transfer taxes – tax rate design

- Single flat rate
  - E.g. **Zambia**, Croatia
- Multiple flat rates – depending on who acquires
  - Citizens vs. non-citizens (e.g. **Botswana**, also Grenada, Saint Lucia)
  - Natural persons vs. companies (e.g. **Namibia**, also Armenia)
- Progressive tax rates – with reference to value
  - Possible zero-rating (e.g. **South Africa**)
- Multiple taxes, e.g. transfer tax and stamp duty
  - E.g. **Eswatini**, **Lesotho**, Thailand
- Transfer tax and tax rate trends
  - Abolition – Kosovo, Slovakia, Srpska (in Bosnia & Herzegovina), most recently Czech Republic (2020)
  - Reductions in tax rates – some **African** & Caribbean countries, Indian states
  - Recent increases in tax rates – **South Africa**, United Kingdom

Typical problem area

- Nature of ‘property’
  - Is ‘property’ properly defined in the law?
- Separate properties for a lump-sum price
- Property includes other items
  - e.g. goodwill and/or movables
- Valuation of limited real rights (e.g. usufruct) and/or bare *dominium*
- ‘Indirect acquisitions’ - through companies, corporations, or trusts
- Multiplicity of similar taxes – e.g. Caribbean and Thailand

Issues - property transfer taxes

- Co-existence with a VAT, capital gains tax (CGT) and property tax
  - **Should transfer taxes be replaced by CGT?**

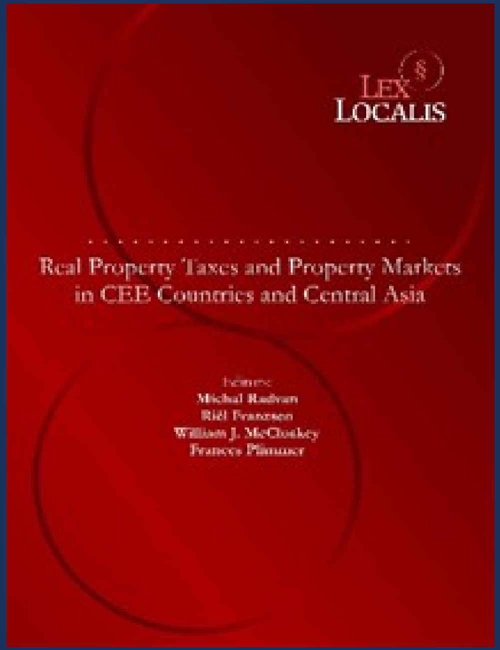
- Impact on -
  - Overall fiscal policies
  - Property markets (e.g. **Caribbean countries**)
  - Cost of housing (e.g. **Croatia, Hungary**)
  - Credible property values (e.g. **Kenya, Thailand, Zambia**)
  - Recurrent property tax base

- **Papers/book chapters on property transfer tax issues:**
  - **Bahl, R.W. 2004.** 'Property Transfer Tax and Stamp Duty'. *ISP Working Paper 04-27*, Andrew Young School of Policy Studies, Georgia State University
  - **Franzsen, R. 2020.** 'A Review of Property Transfer Taxes in Africa' in *Land Reform in Africa New Ideas Opportunities and Challenges*, African Development Bank: Abidjan, 112-131

MVV182K/01:

PROPERTY-RELATED TAXES – ISSUES & TRENDS

RECURRENT PROPERTY TAXES – AN OVERVIEW



Riël Franzsen
SA Research Chair in
Tax Policy & Governance
African Tax Institute

Introduction

- Comparative reviews and terminology
- Tax bases
  - Options and trends
- Valuation
  - Options and trends
- Tax rates
  - Options and trends
- Tax administration
- Reform

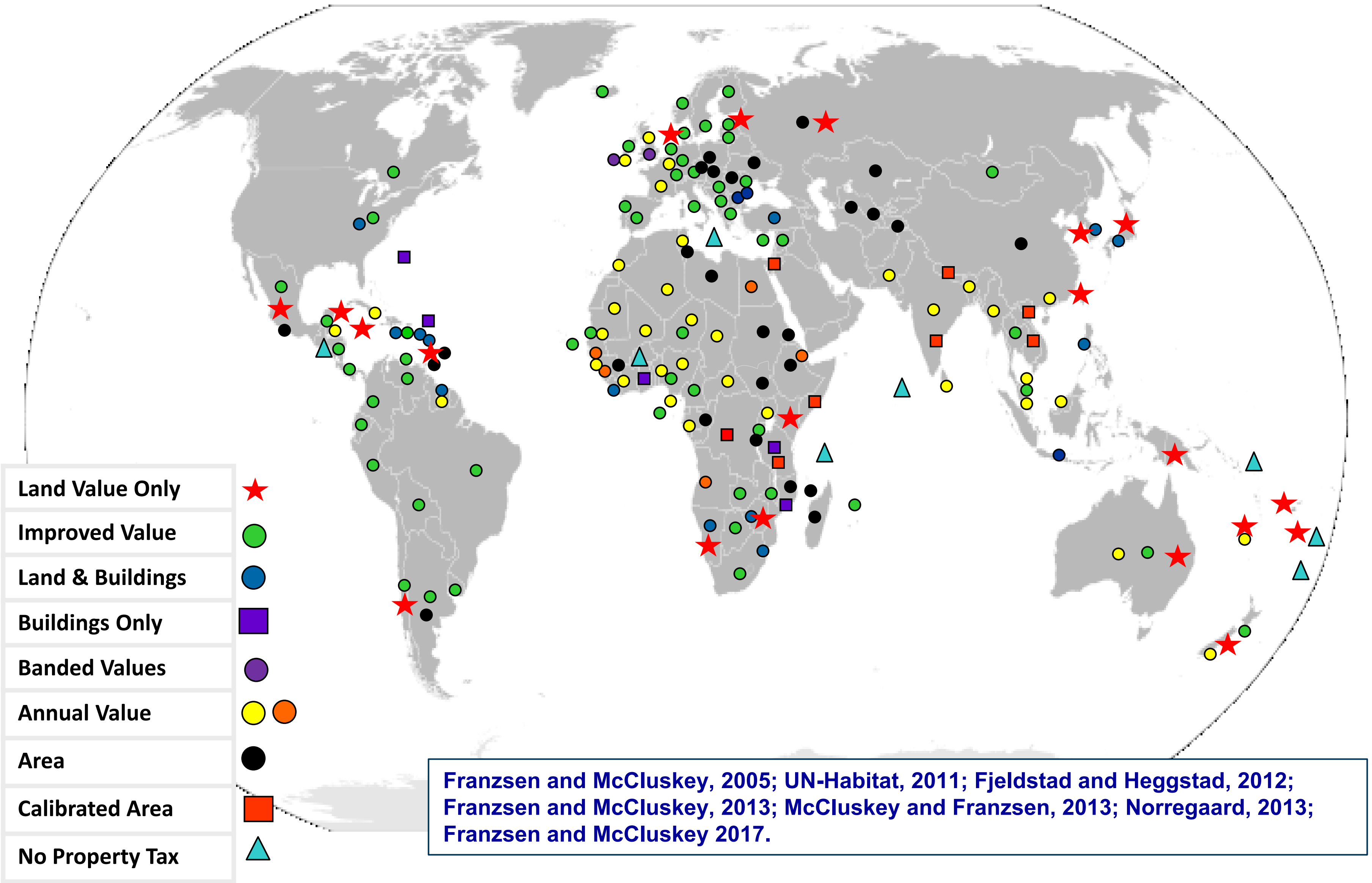
Comparative reviews

- International best practice
- Lessons
- Regional or international trends
- Dangers
  - Terminology
  - Law versus reality
  - Historic development (e.g. colonial heritage)
  - Political, social, economic and institutional issues
  - Country/region-specific realities
    - Land tenure
    - Property markets
    - Reliable data

Recurrent property tax base options

- **Simple per-unit "flat tax" systems**
- **Area-based systems**
  - Simple area (unadjusted)
  - "Calibrated" area systems (e.g., adjusted for location and/or use)
- **Capital value systems**
  - Land only
  - Land and buildings collectively
  - Land and buildings separately
  - Buildings only
  - Value-banding
- **Rental value systems**
  - Land and buildings collectively
  - Buildings only

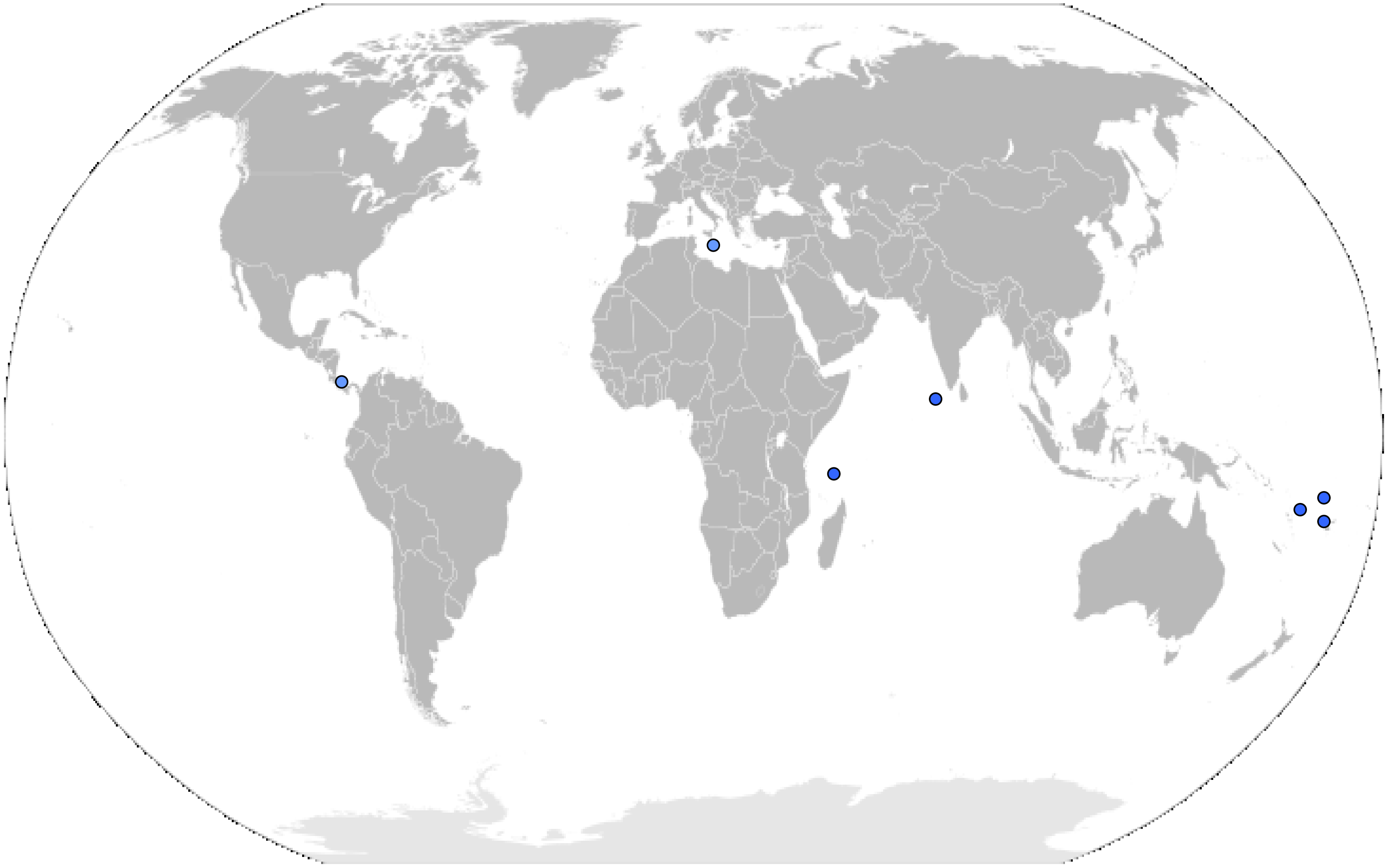
Property tax systems



Franzsen and McCluskey, 2005; UN-Habitat, 2011; Fjeldstad and Heggstad, 2012; Franzsen and McCluskey, 2013; McCluskey and Franzsen, 2013; Norregaard, 2013; Franzsen and McCluskey 2017.

Map image: http://commons.wikimedia.org/wiki/File:BlankMap-World-v2.png

No recurrent property tax system



Per unit (‘flat’) tax system

Advantages:

- Simple to administer

Disadvantages:

- Inequitable
- Lack of buoyancy
- Regressive

Area-based tax system

- Area
- Calibrated Area

Advantages:
- Simple to administer
- Some relationship between size and value
- Self-assessment; no objections and appeals
- Could be combined with locational factors

Disadvantages:
- Lack of buoyancy
- Regressive

Land value tax system

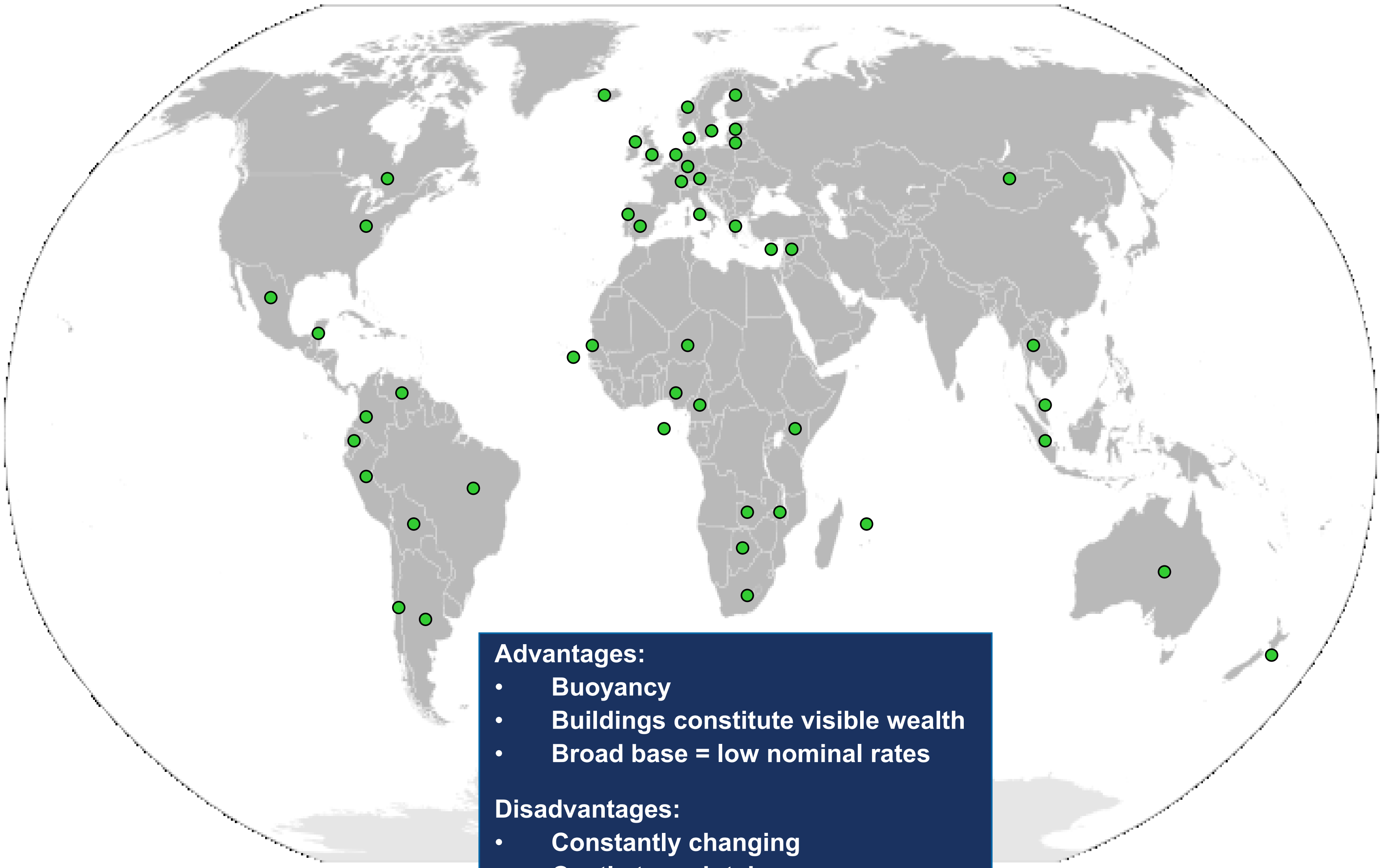
Advantages:

- Requires little data to set up
- Cheap to administer
- Easy to maintain
- Does not deter improvement

Disadvantages:

- Lack of buoyancy
- Narrow base = high nominal tax rates

Capital improved value system



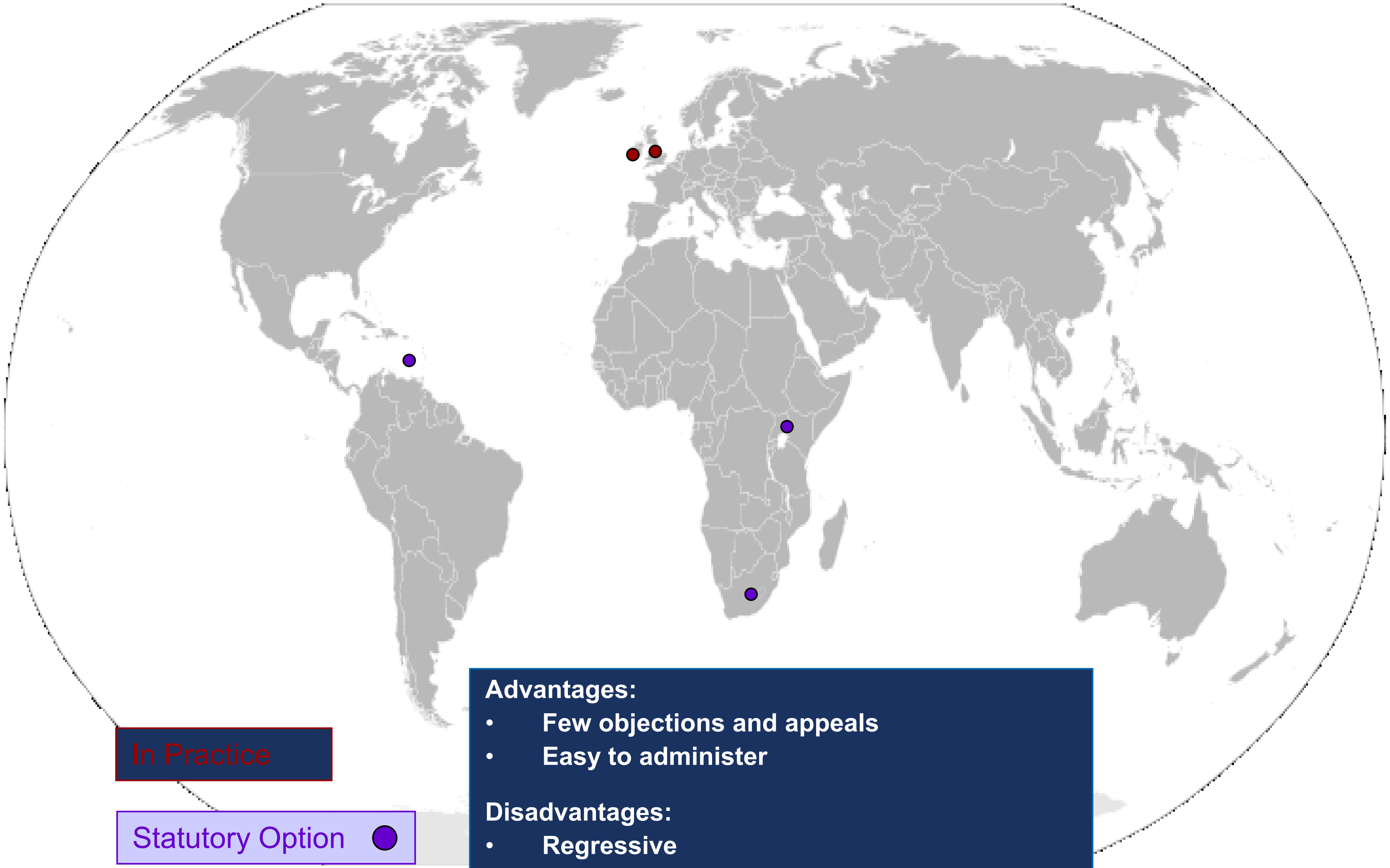
Advantages:

- **Buoyancy**
- **Buildings constitute visible wealth**
- **Broad base = low nominal rates**

Disadvantages:

- **Constantly changing**
- **Costly to maintain**
- **Could stifle development**

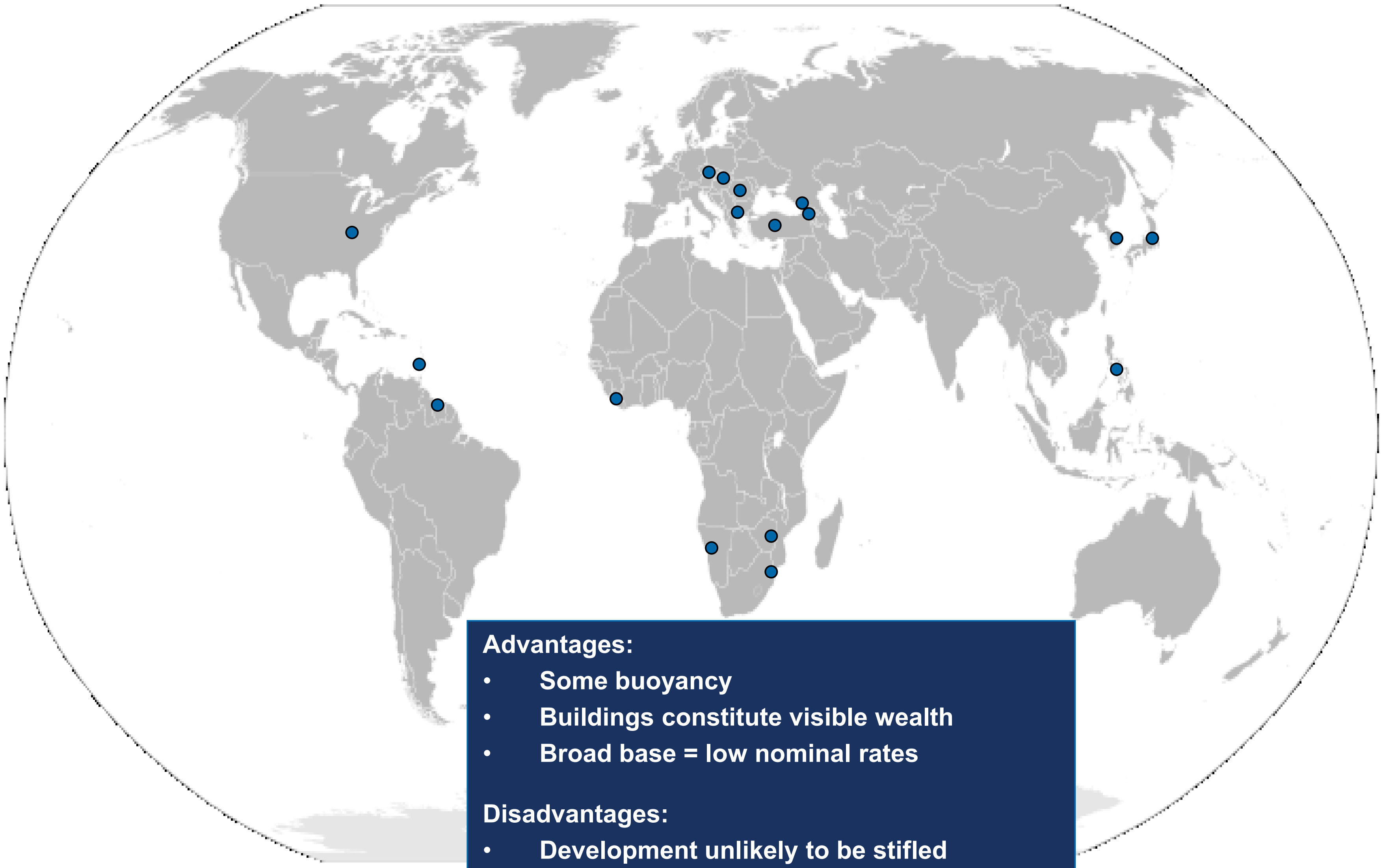
Banded capital value system



Advantages:
- Few objections and appeals
- Easy to administer

Disadvantages:
- Regressive

Land and buildings separately



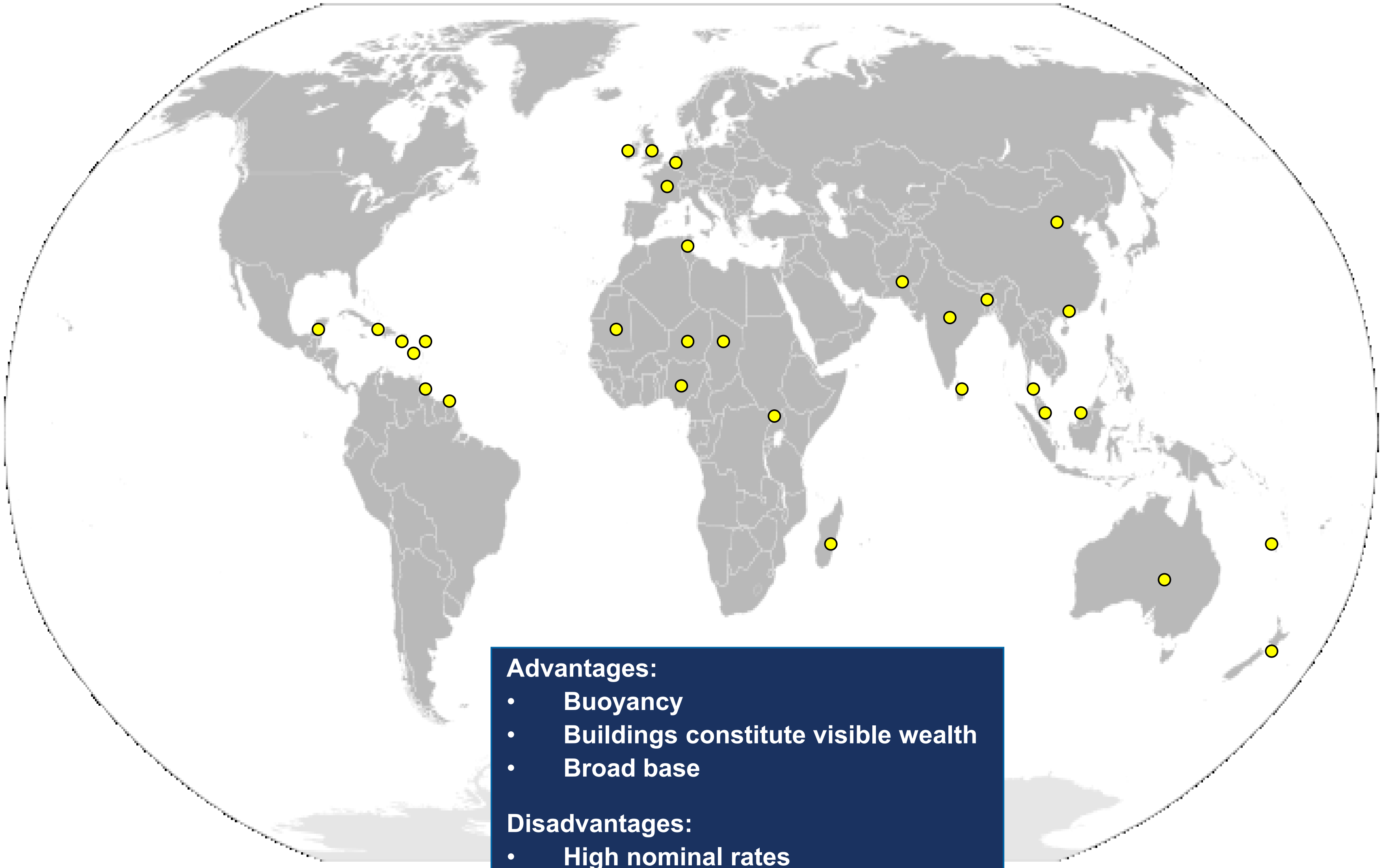
Advantages:

- Some buoyancy
- Buildings constitute visible wealth
- Broad base = low nominal rates

Disadvantages:

- Development unlikely to be stifled
- Constantly changing
- Costly to maintain (require various values)

Annual (i.e., rental) value system



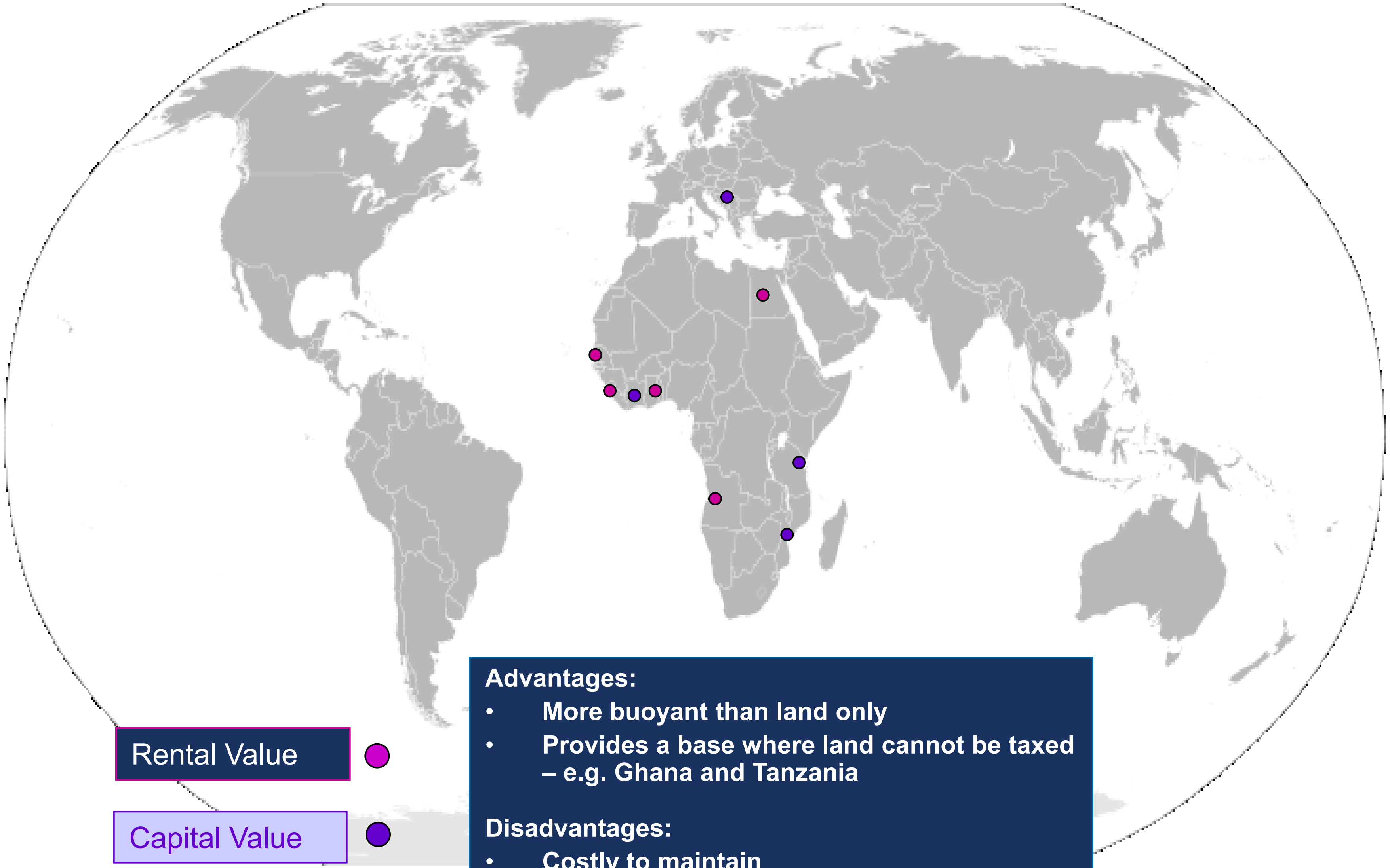
Advantages:

- Buoyancy
- Buildings constitute visible wealth
- Broad base

Disadvantages:

- High nominal rates
- Costly to maintain

Building value systems



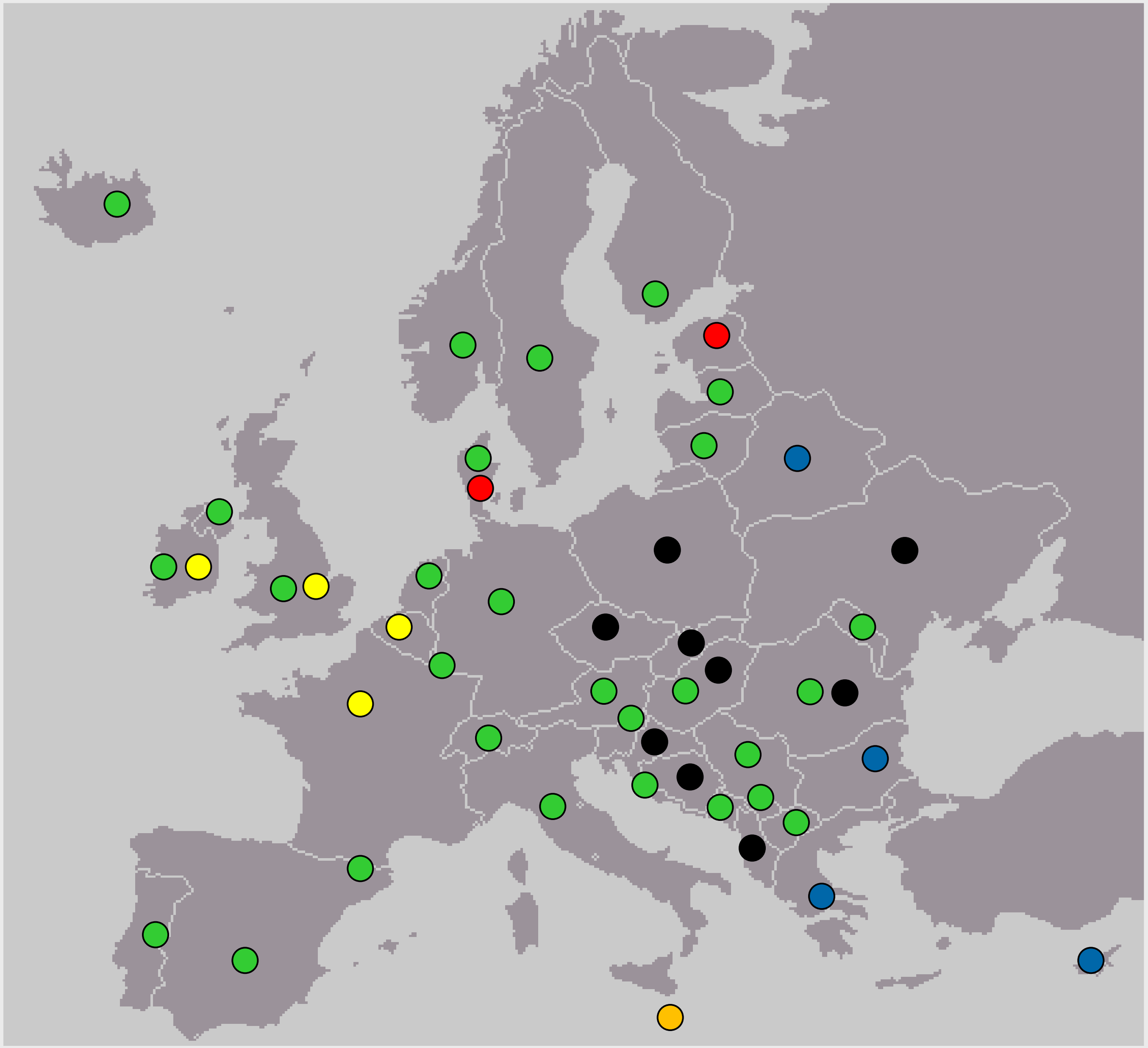
Advantages:

- More buoyant than land only
- Provides a base where land cannot be taxed – e.g. Ghana and Tanzania

Disadvantages:

- Costly to maintain
- Could stifle development

Europe



Land Value	
Improved Value; Cadastral Value	
Land & Buildings	
Annual Value	
Area	
No tax	

Discernable trends – tax base

- Single, uniform tax base determined nationally (or at state/provincial level in federal countries)
  - **Brazil, Canada, Egypt, South Africa, Uganda**
- Multiple tax bases determined nationally (or at state/provincial level in federal countries), local government can choose preferred base
  - **Australia: South Australia, Victoria**
  - **Malaysia, New Zealand, South Africa (before 2005), United Kingdom**
- Move to capital (improved) value as preferred tax base
  - **Anguila, Cameroon, Kosovo, Lithuania, Mauritius, Mozambique, Nigeria (Lagos State), Northern Ireland, Rwanda, Saint Lucia, Slovenia, South Africa**
- Move to simplified calibrated area-based or value zonal systems
  - **Afghanistan, India, Malawi, Sierra Leone, Somalia**

Trends - valuation

- Valuation service providers
  - Government or government agency: **Australia, Botswana, Canada, Hong Kong, Latvia, Lithuania, Malawi, New Zealand, Slovenia, Uganda, United Kingdom, Zambia**
  - In-house (i.e. municipality itself): **Kenya, Lesotho, Namibia, South Africa, United States**
  - Committees: **Egypt, Jordan, Yemen**
  - Private sector: **Malawi, Namibia, New Zealand, South Africa**
  - Self-assessment: **Cabo Verde; India (some cities), Liberia, Rwanda**

- Recent changes in respect of valuation services
  - Government to private sector: **Botswana, Malawi, Uganda**

- Increased utilisation of computer-assisted mass appraisal (CAMA): **Cameroon, Malaysia, Netherlands, Slovenia, South Africa**

Trends – tax rates

- Uniform versus differential tax rates
  - Many countries allow for differential rates (mostly on basis of use): **Armenia, Canada, South Africa, Zambia**

- Setting of tax rates
  - Tax rates determined nationally: **Armenia, Cameroon, Egypt, Jamaica, Rwanda**
  - Limited scope to set rates locally within nationally-determined parameters: **Romania, Uganda**
  - Tax rates determined locally and usually annually: **Australia, Botswana, Canada, New Zealand, South Africa, Zambia**

- Oversight or control
  - Many countries provide for central/state approval or some oversight over locally-determined tax rates: **Botswana, Namibia, Zambia**
  - Possible rate-capping: **South Africa**

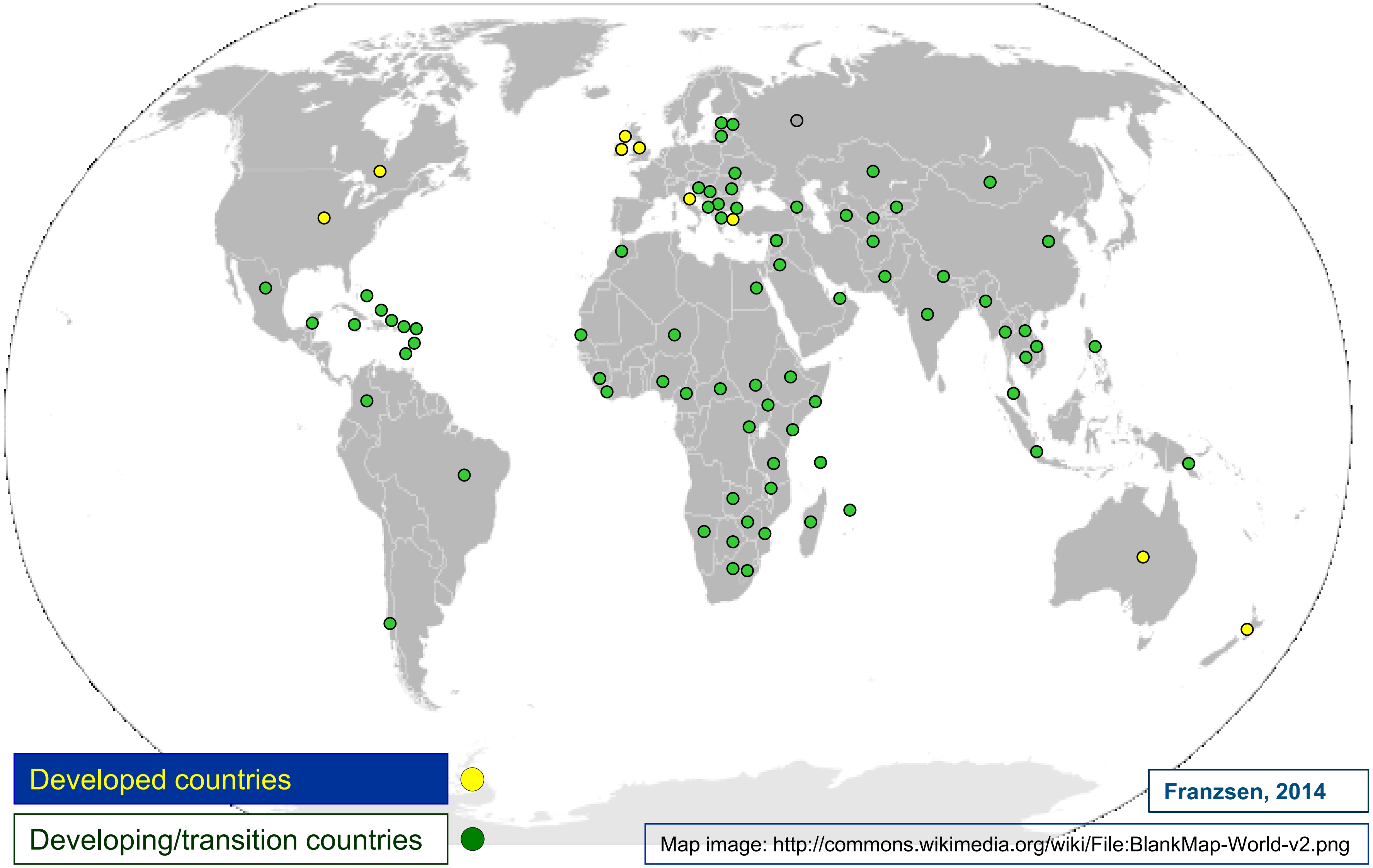
Status of tax administration

- **Billing**
  - Problematic in many countries due to poor taxpayer data and/or poor postal services and lack of street addresses: **Malawi, Philippines, Sierra Leone, South Africa, St Kitts & Nevis**

- **Collection**
  - Low or declining compliance due to poor or complete lack of service delivery: **Philippines, Nigeria, South Africa**
  - Low due to poor enforcement: **Tanzania, Uganda**
  - Political interference: **Gabon, Senegal, Tanzania**

- **Enforcement**
  - Despite mechanisms in the law, generally weak due to lack of political and institutional support: **Rwanda, Thailand, Uganda**
  - Proper enforcement: **Australia, Canada, Hong Kong, New Zealand, Singapore, South Africa…, United States**

Recent or current property tax reforms



Conclusions

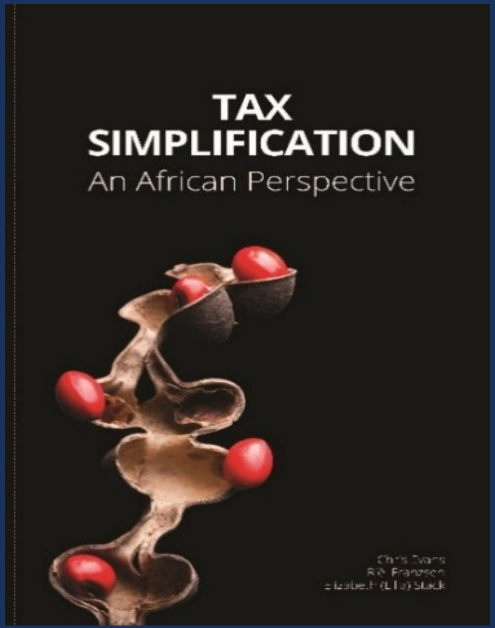
- “No one size fits all…” – diversity is the name of the game
- The “best” system is the one that generates sufficient revenue in an as equitable manner as possible
- Despite of (or because of) its political visibility, the property tax is an increasingly popular source of revenue at especially the local level of government

AFRICAN TAX INSTITUTE

MVV182K/01:

PROPERTY-RELATED TAXES – ISSUES & TRENDS

TAX RATES & TAX RELIEF



UNIVERSITAS · MASARYKIANA BRUNENSIS ·

Riël Franzsen
SA Research Chair in
Tax Policy & Governance
African Tax Institute

Introduction (1)

- Tax base
- Property discovery
- Valuation
- Assessment
- **Tax rates**
- **Tax relief**
- Billing
- Collection
- Enforcement
- System Management

Introduction (2)

- Tax rate = converting assessment (i.e. assessed value) into a tax bill

- Determining an appropriate tax rate constitutes a critically important step in the context of any property tax system

- The tax rate depends primarily on
  - the revenue requirements of the taxing authority
  - the nature and extent of the tax base

- A further important policy issue: How often should tax rates be determined?

Revenue Mobilisation Model

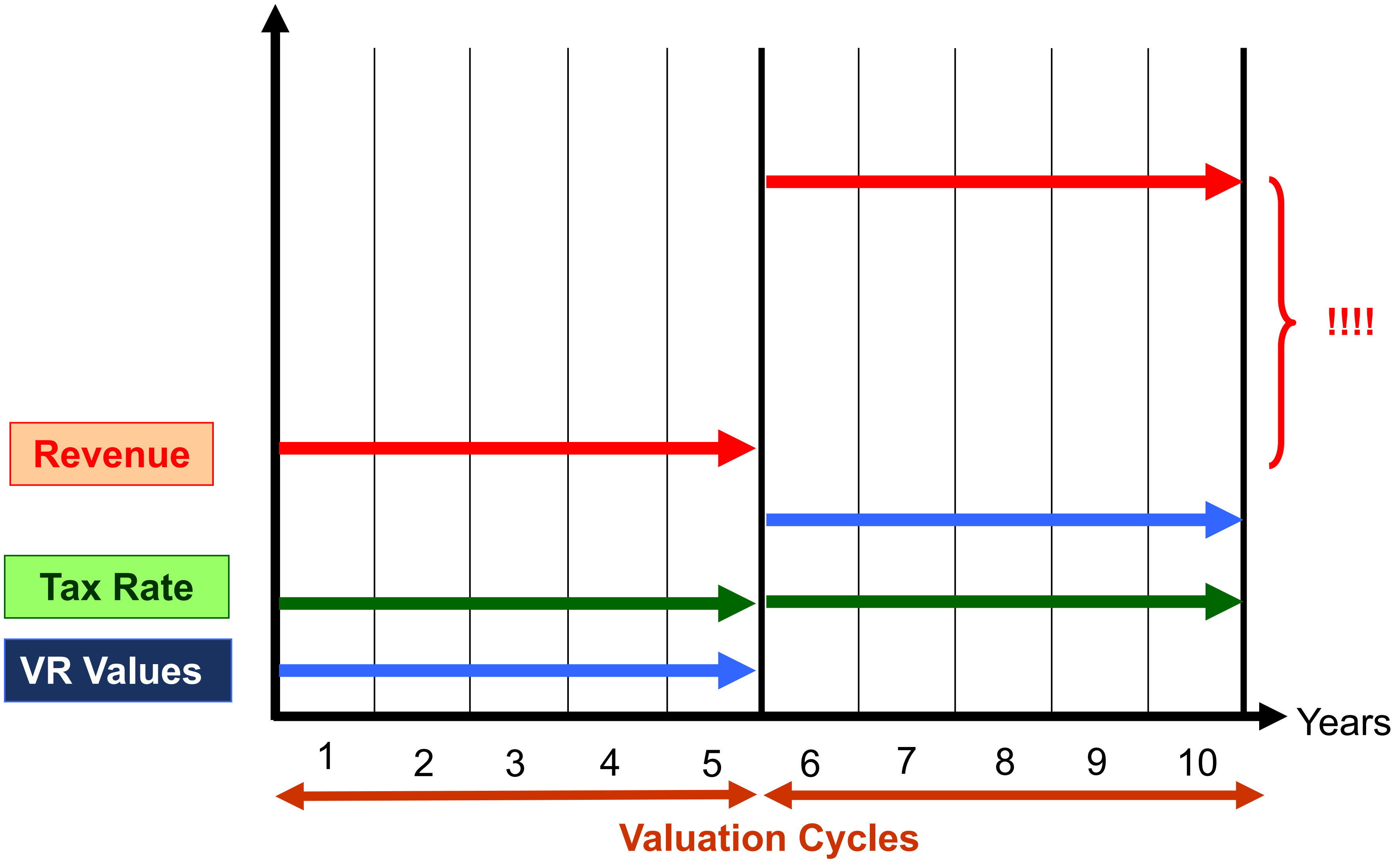
Revenue = **Tax base** x **Tax rate** x **CR** x **VR** x **Col R**

Policy variables | **Administration variables**

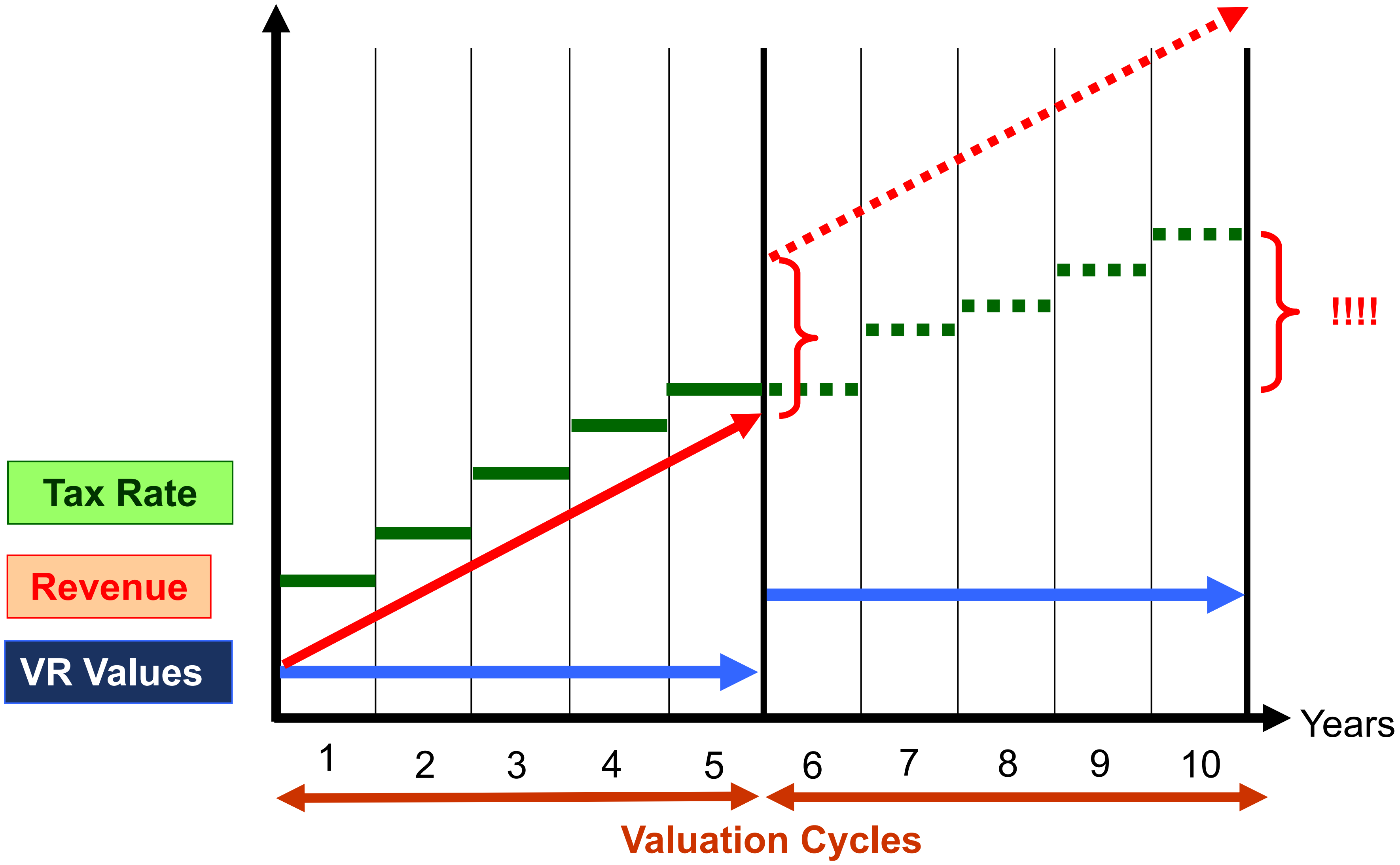
CR: Coverage ratio
VR: Valuation ratio
Col R: Collection ratio

Source: Kelly (2000)

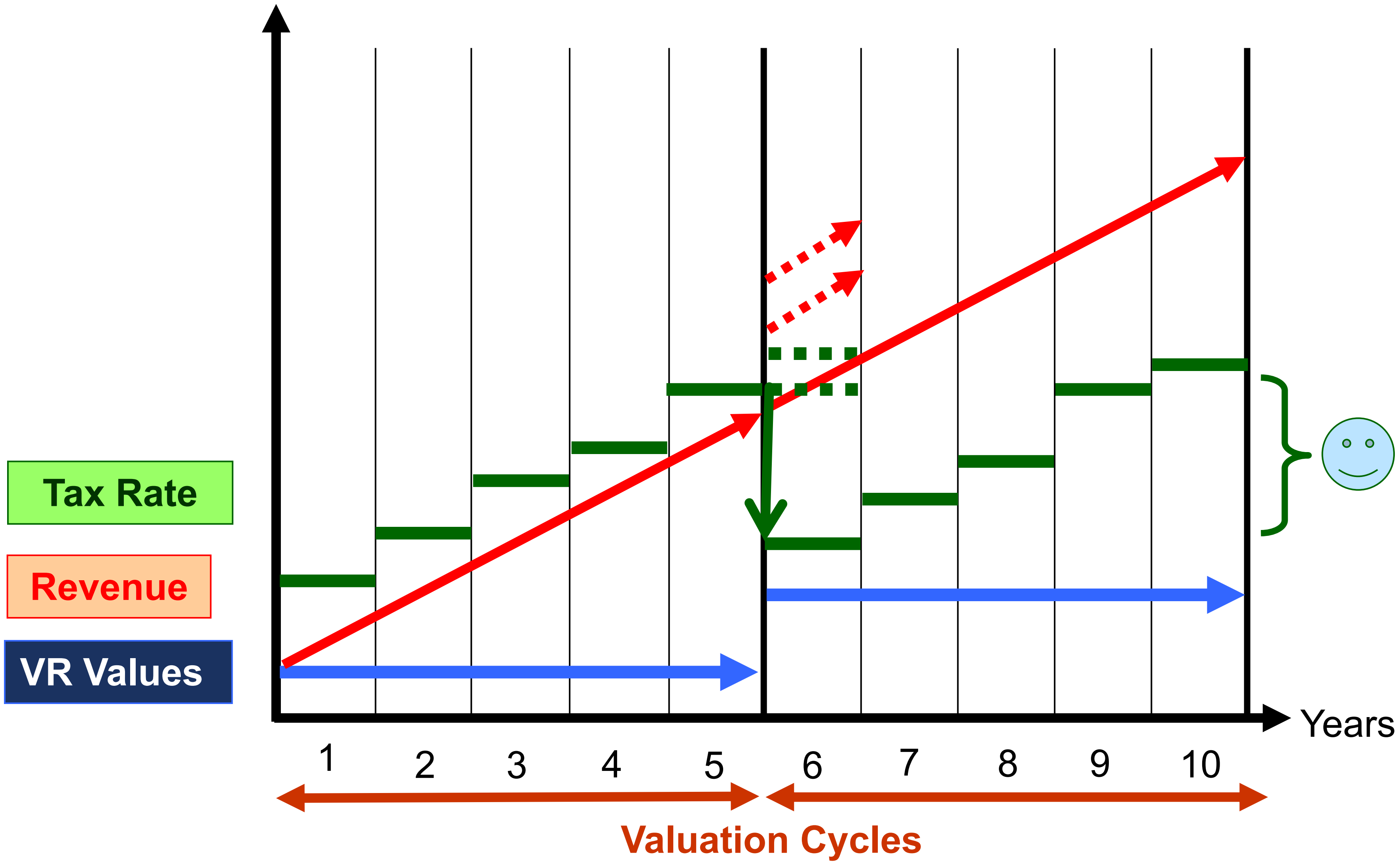
Values vs. tax rates (1)

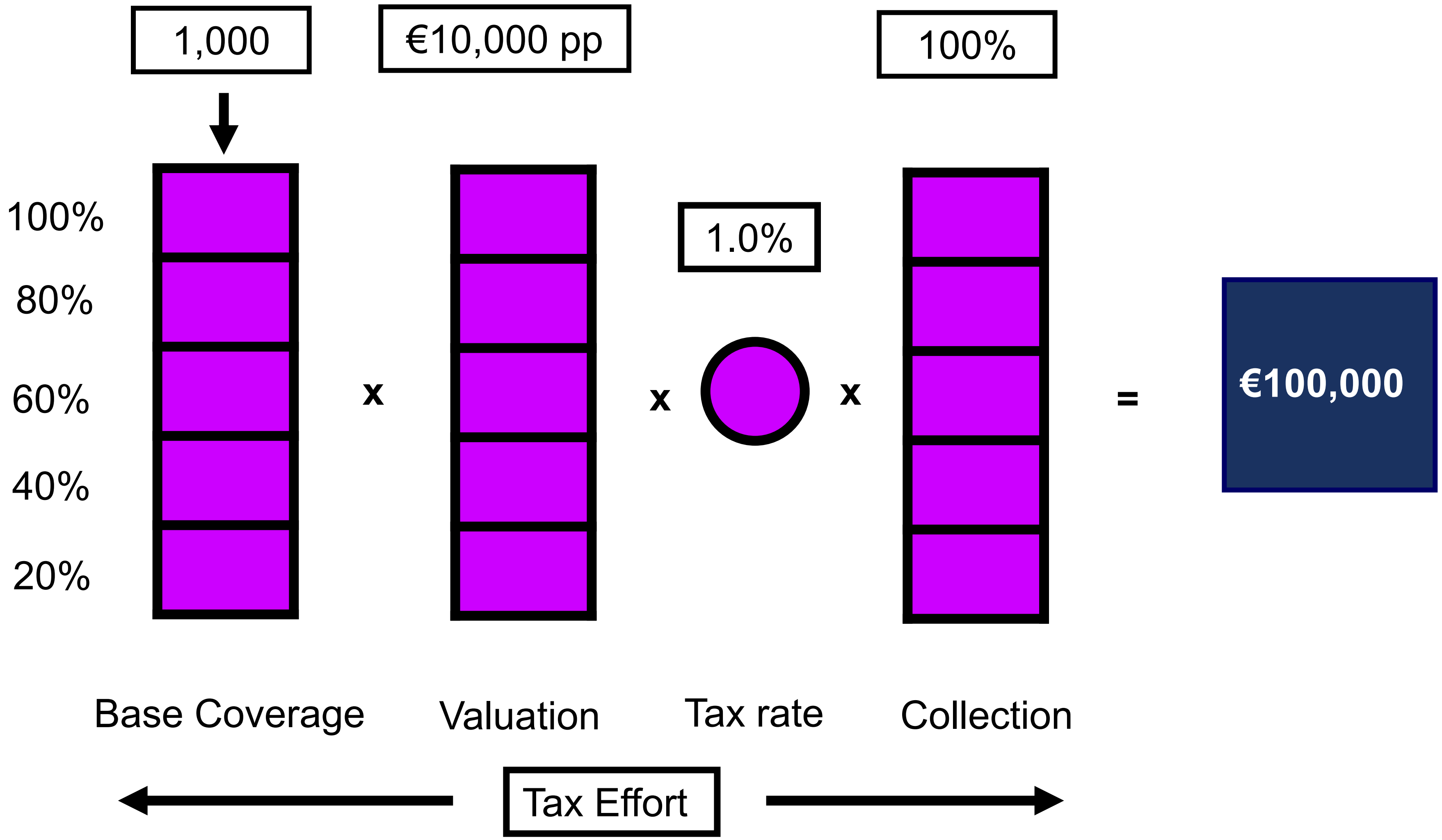


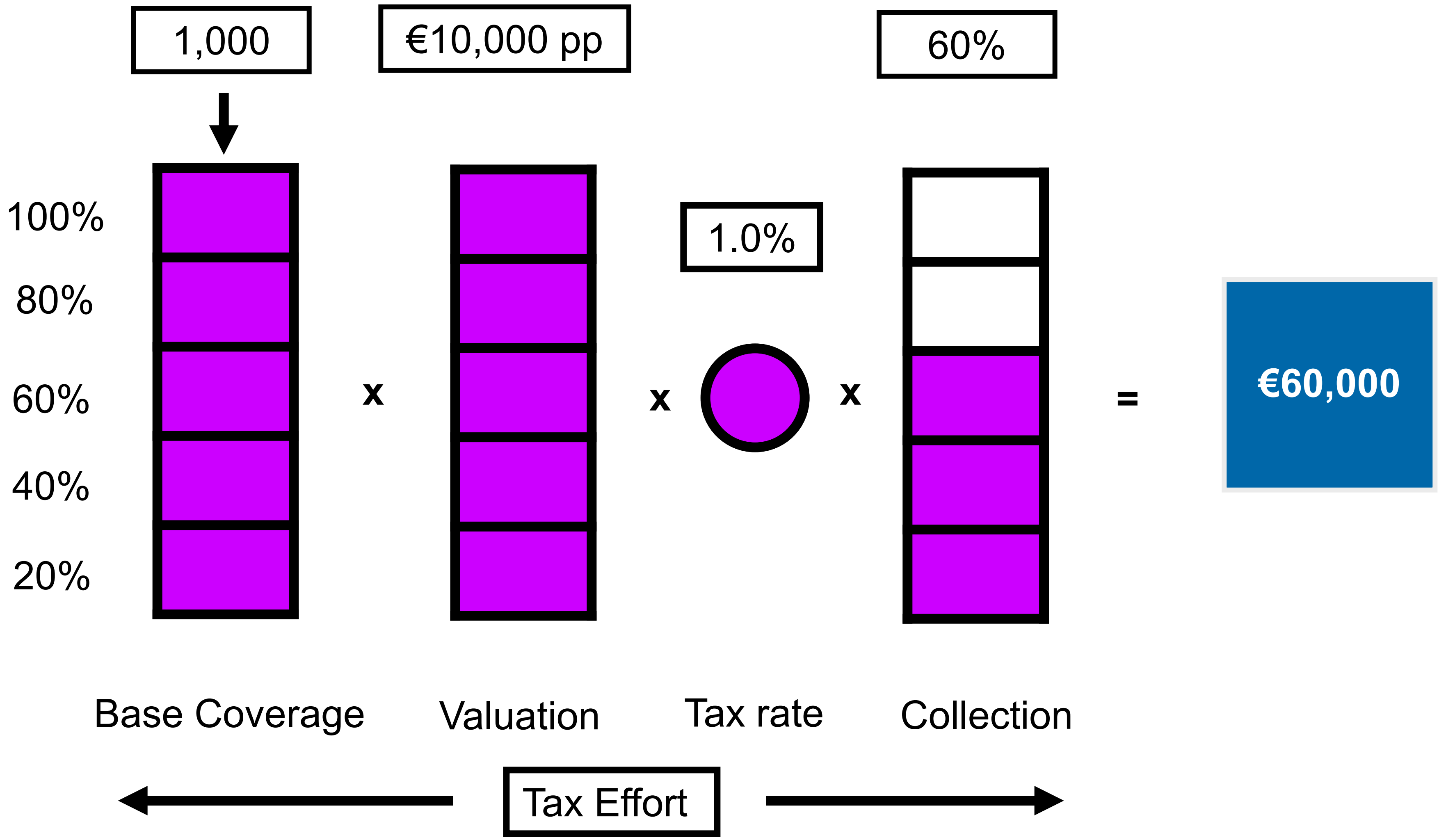
Values vs. tax rates (2)

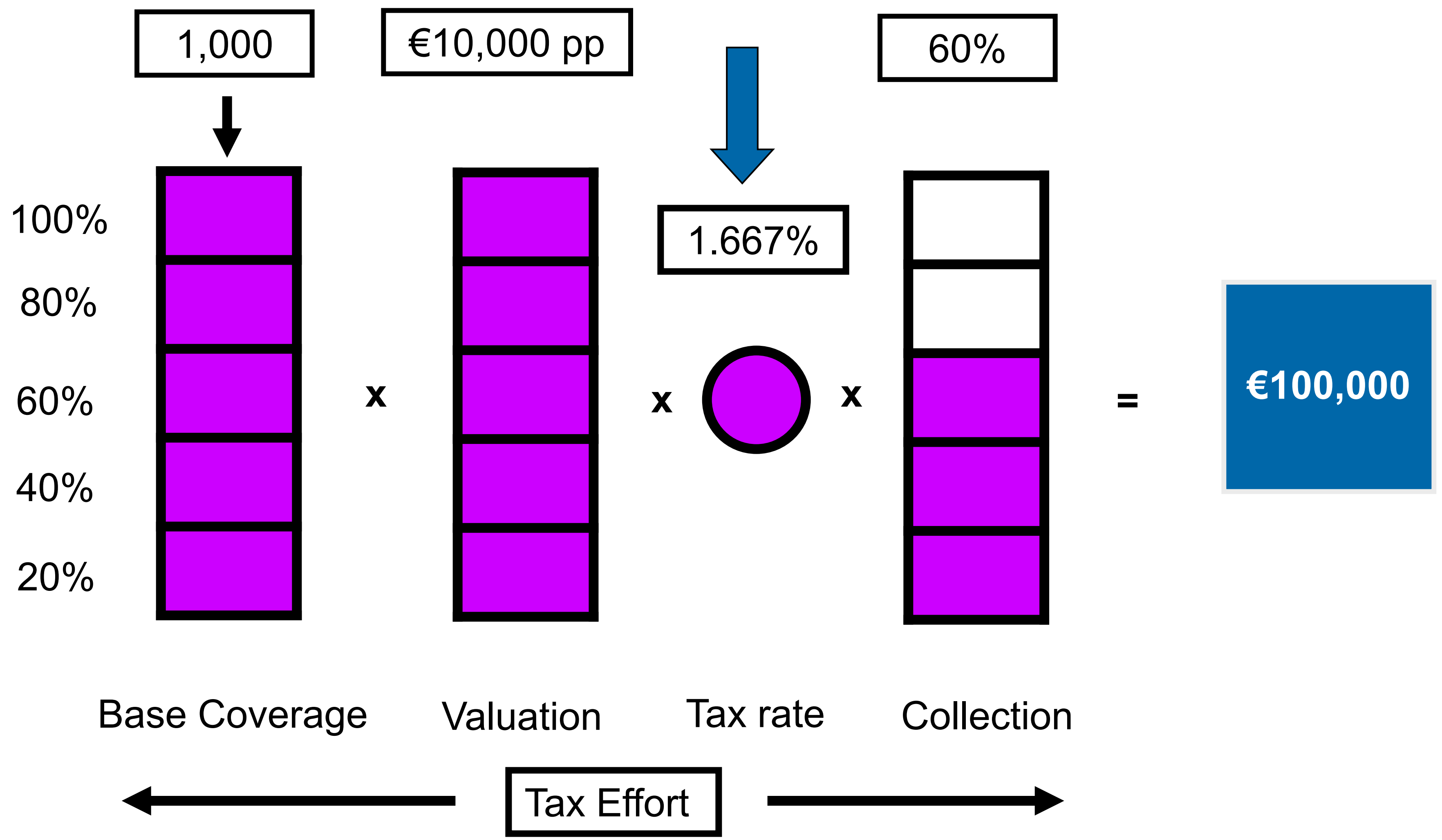


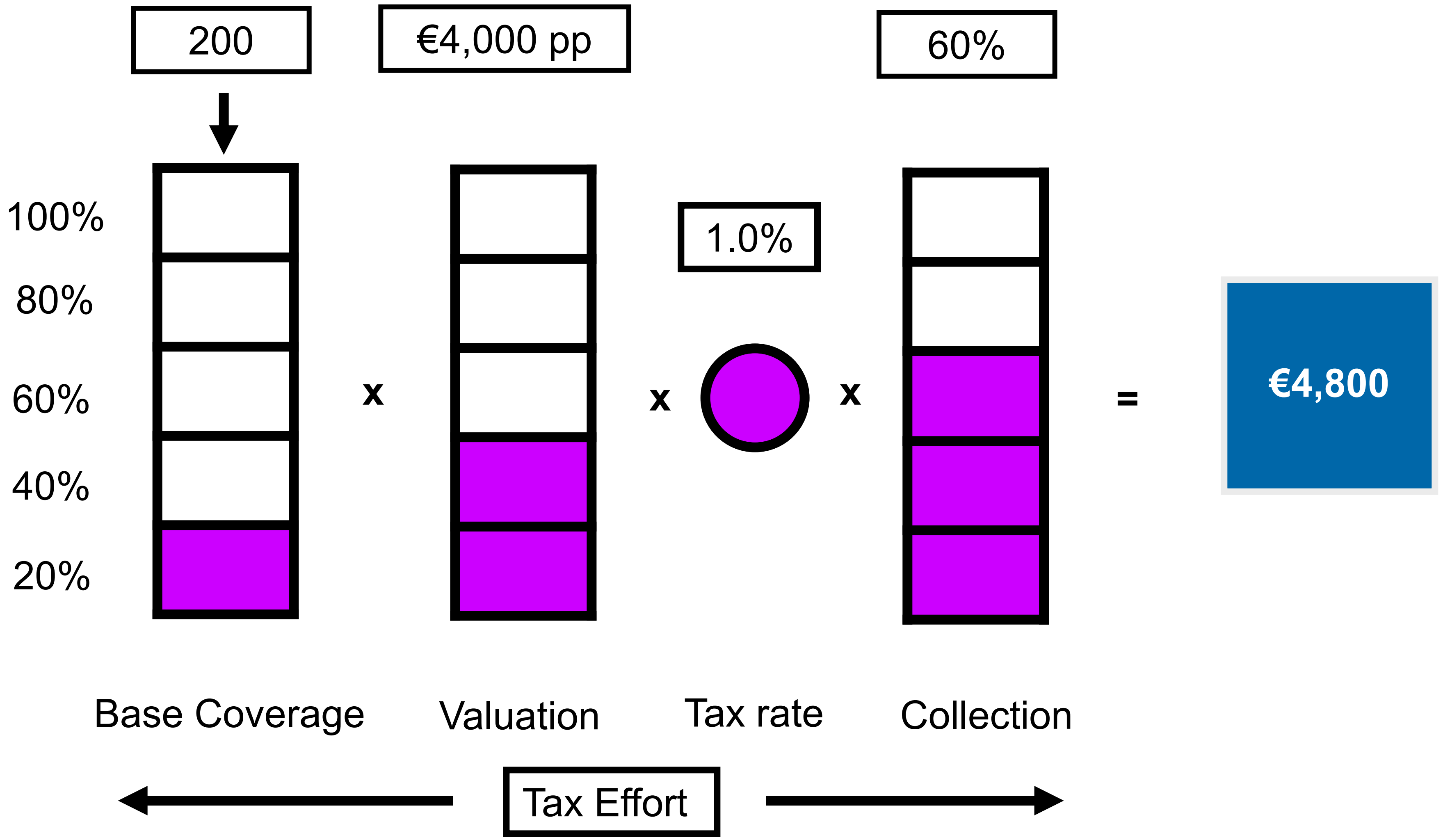
Values vs. tax rates (3)




1,000
€10,000 pp
100%
100%
80%
60%
40%
20%
x
1.0%
x
x
=
€100,000
Base Coverage
Valuation
Tax rate
Collection
Tax Effort


1,000
€10,000 pp
60%
100%
80%
60%
40%
20%
1.0%
x
x
x
=
€60,000
Base Coverage
Valuation
Tax rate
Collection
Tax Effort


1,000
€10,000 pp
60%
1.667%
100%
80%
60%
40%
20%
x
x
x
=
€100,000
Base Coverage
Valuation
Tax rate
Collection
Tax Effort


200
€4,000 pp
60%
1.0%
100%
80%
60%
40%
20%
x
x
x
=
€4,800
Base Coverage
Valuation
Tax rate
Collection
Tax Effort

Base vs. rate vs. revenue

- Revenue needs and tax base are the most important determinants for the tax rate

- The approach to tax base:
  - Narrow base = High nominal rate or rates
  - Broad base = Low nominal rate or rates

- The approach to revenue:
  - “How much can we get?” – primary source of revenue
  - “How much do we need?” = residual source of revenue

What should the tax rate be?

Examples of tax rates

- Kingstown, Saint Vincent (2014): **0.08%**
- Dar es Salaam, Tanzania (2012): **0.1%**
- Cape Town, South Africa (2014): **0.45%**
- Toronto, Canada (2015): **0.7056037%**
- Nairobi, Kenya (2016): **17%**
- Mumbai, India (2011): **276%**

What do these tax rates tell us?

Examples of tax rates

- Kingstown, Saint Vincent (2014): **0.08%**
  - Revenue neutral tax reform
- Dar es Salaam, Tanzania (2012): **0.1%**
  - Tax base - capital value of buildings only; very poor community
- Cape Town, South Africa (2014): **0.45%**
  - Market value, first year of new valuation roll
- Toronto, Canada (2015): **0.7056037%**
  - Market value; affluent community; tax also funds education
- Nairobi, Kenya (2016): **17%**
  - Land value only; last valuation done in 1982
- Mumbai, India (2011): **276%**
  - Annual rental value; rent control enforces an artificial ceiling value

So, do not compare apples with pears!

Tax rate comparison

- Rate comparisons are difficult because –
  - Tax bases differ (nature)
  - Narrow base versus broad base (i.e. extent)
  - Valuation assessment levels may differ
  - Ages of valuation rolls may differ
  - Importance of property tax as a source of revenue differ
  - Expenditure responsibilities differ
  - Expenditure needs differ

- Tax administration may also be a determinant –
  - Weak collection may necessitate higher rates
  - Improved base coverage may result in lower rates
  - Regular revaluations may result in lower nominal rates

Relationship – Tax rate & tax base

Land (€200,000) + Building (€800,000)	= €1,000,000
Annual yield is 10%	= € 100,000
Base = Total Value	= €1,000,000
Tax @ 1%	= € 10,000
Base = Land Value	= € 200,000
Tax @ 5%	= € 10,000
Base = Building value	= € 800,000
Tax @ 1,25%	= € 10,000
Base = Annual value	= € 100,000
Tax @ 10%	= € 10,000

Tax rate design

Flat rate or progressive rates (i.e., sliding scale)?

and

Uniform rate or differential rates?

Progressive rates

- Basis for progressive rates:
  - Usually value, but could be area (m^2)
- Why use progressive property tax rates?
  - What is the objective with the tax?
  - Perceived ability to pay
  - Land reform?
- Administration
  - Single versus multiple-ownership
    - Linking multiple properties to a single owner
  - Billing and collection
  - Complexity (cost and opportunities for corruption)
- Examples:
  - Armenia; Morocco

Differential rates

- Basis for differential rates:
  - Property use categories
    - Actual use
    - Zoned use
  - Land versus improvements
  - Size
  - Value
- Reasons for differentiation?
- Issues?

City of Perth, Western Australia
Rates for 2015/2016

Land use category	Rate (c/$ of gross rental value)	Ratio in relation to residential
Residential	4.4107	1:1
Hotel	5.0032	1:1.13
Commercial	5.0032	1:1.13
Retail	5.0032	1:1.13
Office	2.9079	1:0.66
Vacant land	5.8157	1:1.32

Source: *www.perth.wa.gov.wa (2015)*

City of Toronto, Ontario, Canada – 2015 Property Tax Rates

Description	City Tax Rate %	Education Tax Rate %	Transit Tax Rate %	Total Tax Rate %
Residential	0.5081190%	0.1950000%	0.0024847%	0.7056037%
Multi-Residential	1.5290188%	0.1950000%	0.0025294%	1.7265482%
New Multi-Residential	0.5081190%	0.1950000%	0.0024847%	0.7056037%
Commercial General	1.5361843%	1.2278260%	0.0025294%	2.7665397%
Residual Commercial - Band 1	1.2811685%	1.2278260%	0.0021095%	2.5111040%
Residual Commercial - Band 2	1.5361843%	1.2278260%	0.0025294%	2.7665397%
Industrial	1.5301969%	1.2946100%	0.0025294%	2.8273363%
Pipelines	0.9773995%	1.5065730%	0.0047794%	2.4887519%
Farmlands	0.1270297%	0.0487500%	0.0006212%	0.1764009%
Managed Forests	0.1270297%	0.0487500%	0.0006212%	0.1764009%

Tax Rates and Ratios for 2015/2016:
4 Metropolitan Municipalities in South Africa

Property categories	Cape Town		eThekwini		Johannesburg		Tshwane	
	c/R	Ratio	c/R	Ratio	c/R	Ratio	c/R	Ratio
Residential	0.6931	1.00	1,115	1.000	0.6531	1.00	1,013	1.00
Com & Bus	1.2508	1,80	2.528	2.267	1.8287	2,80	3,056	3.02
Industrial	1.2508	1,80	3,262	2.926	1.8287	2,80	3,056	3.02
Vacant land	1.2508	1,80	4.998	4.483	2.6124	4.00	6,573	6.49
Agricultural	0.1251	0.18	0.279	0.250	0.1632	0.25	0.253	0.25
State-owned	-	-	-	-	0.9796	1.50	3,056	3.02
PSI	0.2234	0.18	0.279	0.250	0.1632	0.25	-	-

Source: Metropolitan Municipalities

Split-Rate Tax Rates: Example

Mbabane, Swaziland Tax Rates for 2014/2015

Category	Land Value	Improvements
Developed Residential	1.29%	0.21%
Undeveloped Residential	1.51%	-
Developed Commercial	2.53%	0.7%
Undeveloped Commercial	2.22%	-
Public Open Spaces	1.82%	-

Source: City of Mbabane

Who determines the tax rate(s)?

- Central government
  - Rate fixed in law (e.g. Cameroon, Egypt, Kosovo)
  - Issues?
- Shared tax versus shared revenue
- Local government:
  - Direct oversight and/or central government approval (e.g. Botswana, Namibia)
  - Indirect oversight
    - Standard rate (e.g. Japan)
    - Ratios pertaining to differential rates (e.g. South Africa)
    - Compliance with constitutional guidelines (e.g. South Africa)
  - Statutory limitations (maximum and/or minimum rates) (e.g. Uganda)
  - Citizen oversight (e.g. California)

Advantages and disadvantages?

How are tax rates set?

"Budget residual option"

$$\text{Tax rate} = \frac{(\text{Expenditure} - \text{other revenues})}{\text{Total assessed value}}$$

$$\text{Tax rate} = \frac{(€50{,}000{,}000 - €20{,}000{,}000)}{€2{,}000{,}000{,}000}$$

$= 0.015$

$= 1.5\%$

= 1.5c in the €

Nominal versus Effective Rates

- Whether set locally or centrally, and whether fixed or set annually, nominal tax rates tend to be higher than effective tax rates
- Effective rate = Tax amount/Property value
- Reasons:
  - Value reductions
  - Assessment ratios
  - Rebates
  - Exemptions

Example	
Property value	€100,000
Value reduction	€15,000
Assessment ratio	0.8
Nominal tax rate	1.5%
Rebate	10%
Tax Amount	€918
Effective tax rate	€918/€100,000 = 0.918%

Tax rate issues

- Multiplicity of differential tax rates
  - Many countries allow for differential rates
    - Armenia; Poland
- Static tax rates
  - Armenia
- Centrally- or locally-determined tax rates
  - Central: Armenia
  - Local: Some central (or provincial/state) oversight or control over locally-set tax rates

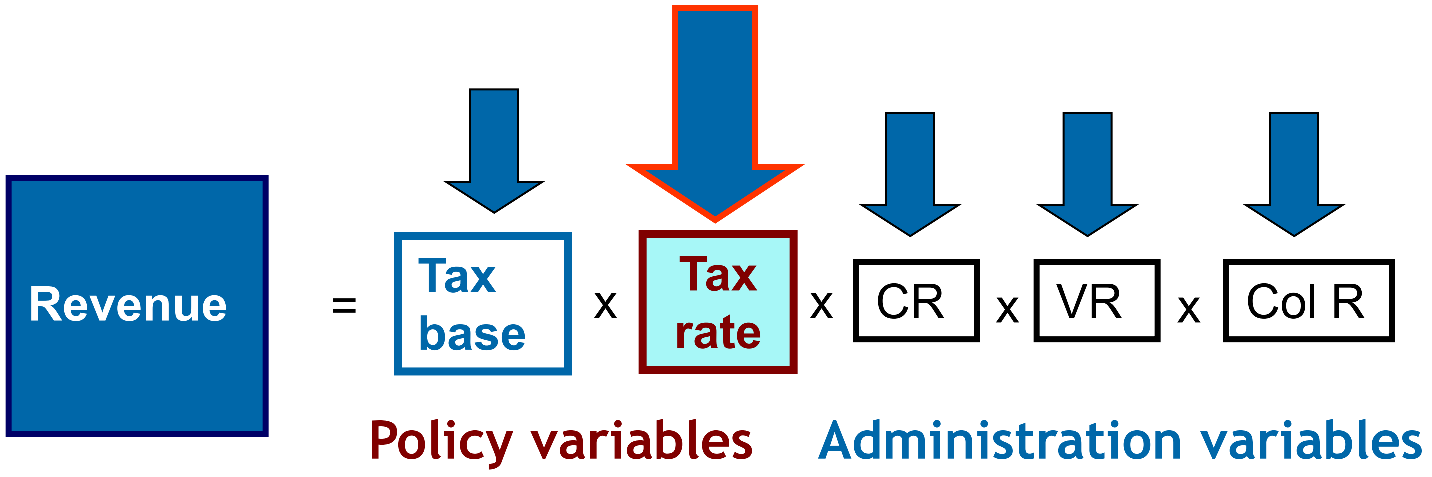
Tax relief

- What is "tax relief"?
- Why grant it?
- What are the dangers?
- How much relief?
- How should it be granted?
- Mandatory or discretionary?
- Automatic or on application?

What is tax relief?

- "Tax relief" implies that some taxpayers, or properties, or property categories receive preferential treatment and should be justified in a rates policy as some are paying more if other are paying less…
- Relief is an expenditure – and should ideally be quantified and reflected as such in the budget
- The relief could be granted –
  - to persons (e.g. pensioners, the aged) – usually "means tested"
  - on the basis of use (e.g. properties used for bona fide farming; sports facilities)
  - on the basis of location (e.g. rural)
- Mandatory and/or discretionary relief

Revenue Mobilisatio Model: Tax relief



CR: Coverage ratio

VR: Valuation ratio

Col R: Collection ratio

- Source: Kelly (2000)

Relief mechanisms – How?

- Base:
  - Exclusions

- Assessment:
  - Value reductions
  - Preferential valuation (e.g. “current use” value)

- Tax rate:
  - Rebate
  - Partial exemption
  - Full exemption
  - Differential rates
  - Rate capping
  - Phase-in
  - Tax holiday

- Payment:
  - Deferral
  - Income tax deductible
  - Tax amnesty

Candidates for relief – Who?

- Poor and indigent
- Pensioners
- Unemployed taxpayers
- Farmers
- Religious, charitable & educational institutions
- Sports clubs
- Foreign embassies
- Conservation land
- Monuments and national heritage sites
- Properties damaged by natural disasters (e.g. flooding)
- **National and/or provincial/state government**
- **Residential properties**
- **Vacant/unoccupied properties**

Purpose of relief – Why?

- To alleviate financial hardship
  - Actual (e.g. unemployed)
  - Perceived (e.g. pensioners or the aged)
- Social or political “merit”
  - E.g. sports clubs, political parties
- Environmental protection
- Counter shifts in incidence
- Achieve “equity”

Dangers of tax relief

- Erosion of the tax base
- Temporary relief measures tend to become permanent
- Understatement of fiscal capacity
- Loss of transparency
- Loss of accountability (if granted by different levels)
- Pressures to extend relief to other “deserving” groups/entities
- Administrative complexity
- Administrative discretion and corruption
- Unintended consequences or missing the target

Exemptions

- Distinguish exemption (assessed, but not (fully) taxed) from exclusion (excluded from the base or assessment)
- Based on ownership – e.g. government
- Based on ownership *and* use – e.g. religious, charitable, conservation purposes
- Based on use – e.g. bona fide farming
- Based on value – e.g. below a value threshold
- Problems:
  - Unless accounted for, conceals fiscal capacity
  - Political pressure by similar ‘pressure’ groupings

Rate capping

- Protection of taxpayers
- Protection of national interests and national (fiscal) policies
- Prevents or limits (unhealthy) tax competition between municipalities
- Loss of local autonomy
- Statutory overrides?

Relief associated with payment

- Deferment
  - Administration
  - Interest rate
  - On application
    - E.g. British Columbia, Canada
  - As long as existing use is maintained
    - E.g. New Zealand

- Deductibility from income tax
  - Tax exporting

Relief - Recommendations

- Relief mechanisms should be restricted to an absolute minimum
- Preferably not be related to the tax base (i.e. an exclusion) or assessment (i.e. preferential valuation)
- Must be quantifiable and justifiable
- Cost should ideally be reflected in annual budget

Conclusions

- Recommendations for tax rate *and* tax relief policies
  - Keep it simple - equity comes with a price tag
- Differential rates:
  - Limit the number of classifications
  - Quantify and justify the differentiation
- Tax rates: Revenue should at least (re)cover the costs related to all of the steps in the comprehensive property tax model
- Keep tax relief to the absolute minimum – as it erodes the tax base
- Review relief policies/programmes regularly