

Property-related Taxes Introduction

MVV182K Property-related Taxation: Issues and Trends

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Introduction

- Enabling tax environment
- Property-related taxation
 - History
 - Concepts and definitions
 - Revenue importance

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?

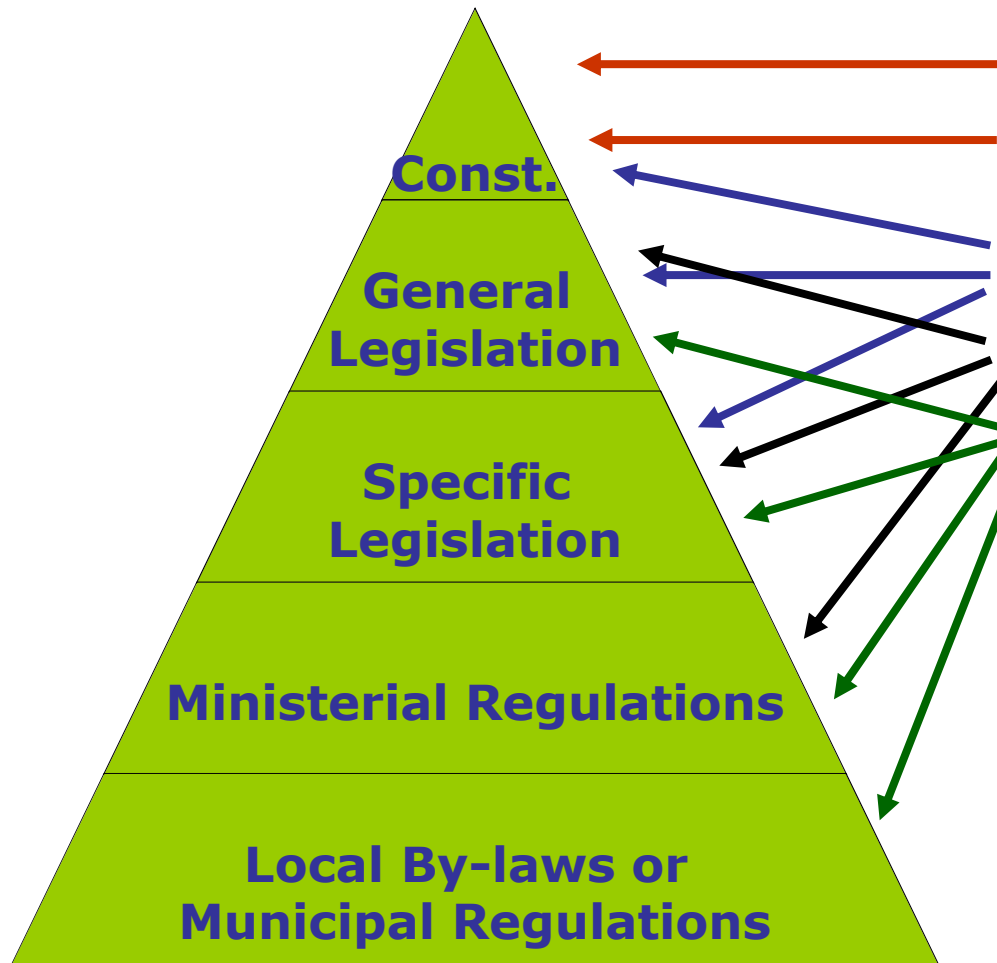
Does legislation allow for –

- 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?

Constitutional & Legal Framework



- Ideals
- Principles
- Broad framework
- General provisions
- Detail provisions
- Options?
- Alternatives?
- Prescriptive provisions?
- Discretionary powers?

Property Tax and Own Source Revenue

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

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

Basic Approaches to Decentralization

- **Revenue-Sharing Model (i.e. Weak Decentralization)**
 - Grants
 - Shared taxes
 - Only “minor” own taxes
- **Revenue Assignment Model (i.e. Strong Decentralization)**
 - Grants
 - Shared taxes
 - Significant own taxes (i.e. local/sub-national autonomy)
 - **Property tax**
 - Loans
 - User charges
- **Which one of these two models – if any – applies in your country?**

Realities within a Country

- Policy → Law → Administration
- 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

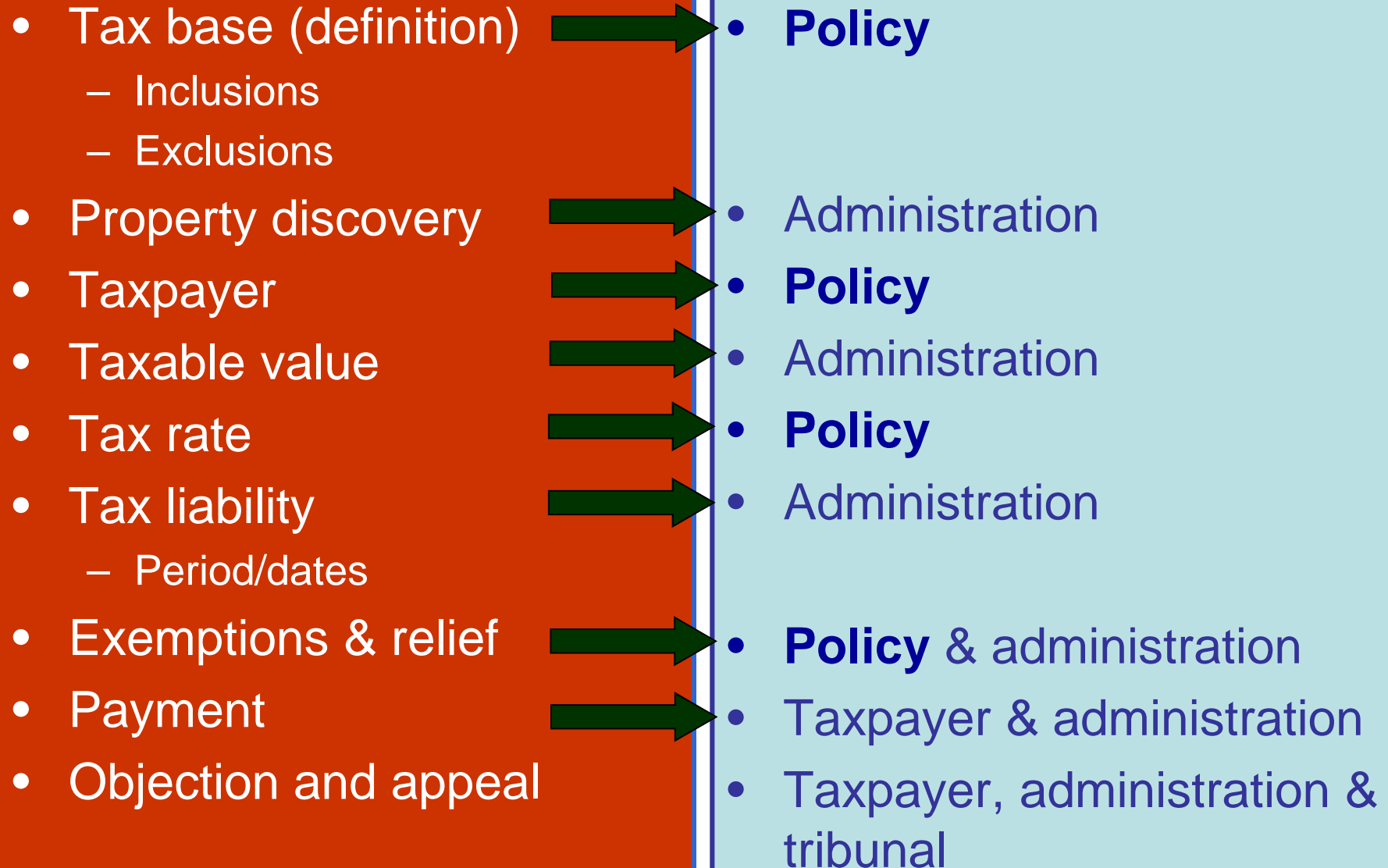
History of Property Taxation

- Antiquity
 - China (2697 BC)
 - Mesopotamia
 - Egypt
 - Macedonia
 - Rome
- England – “Poor Relief Act” (1601)
- Europe and her colonies

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)

Key Aspects of a Property-related Tax



Property-related Taxes and Fees

- Real Property Transfer Tax
 - Stamp Duty
 - Value-added Tax (VAT)
 - Estate Duty, Death Duty, Succession Tax
 - Donations Tax, Gift Tax
 - **Capital Gains Tax**
 - Land-value Increment Tax
 - **Land Tax or Site Value Tax**
 - **Building Tax**
 - **Property Tax**
 - **Development Charges and Betterment Levies**
 - **Land rent**
 - **Registration Fees or Publication Fees**
-
- The diagram consists of two blue arrows pointing to the left. The first arrow is positioned to the right of the first five items in the list, with a blue bracket grouping them. The second arrow is positioned to the right of the last five items in the list, with a blue bracket grouping them.

Relevant Definitions

“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 Tax Property?

Advantages

- Property is fixed in location
- Property is highly visible
- Land has an inherent value
- Taxpayers are (usually) readily identifiable

Revenue Importance

Levels of and Trends in Property Tax Revenues (Percent of GDP)

	1970s	1980s	1990s	2000s
OECD countries (number of countries)	1.24 (16)	1.31 (18)	1.44 (16)	2.12 (18)
Developing countries (number of countries)	0.42 (20)	0.36 (27)	0.42 (23)	0.60 (29)
Transition countries (number of countries)	0.34 (1)	0.59 (4)	0.54 (20)	0.68 (18)
All countries (number of countries)	0.77 (37)	0.73 (49)	0.75 (59)	1.04 (65)

Source: Bahl and Martinez-Vazquez (2008).

Revenue Importance

Metropolitan Property Tax in Selected Cities

Metro	Population			Property tax		
	Country (million)	Metro (million)	Metro % of total	Country total	Metro	Metro % of total
Accra	25.2	3.9	15.48	3.73 (2007)	1.93	51.74
Belgrade	7.3	1.7	23.29	16.832 (2009)	4.793	28.48
Cape Town	48.9	3.0	6.13	26.492 (2009)	3.241	12.23
Dar es Salaam	43.6	2.7	6.19	7.580 (2010)	4.212	55.57
Durban (eThekweni)	48.9	3.5	7.16	26.492 (2009)	3.912	14.77
Johannesburg	48.9	7.5	15.34	26.492 (2009)	3.331	12.57
Kampala	35.9	1.7	4.74	43.30 (2008)	4.98	11.5
Kingston	2.9	0.7	24.14	1,395 (2009)	384	27.53
Manila	103.8	21.3	20.52	30.185 (2009)	13.779	45.65
Pretoria (Tshwane)	48.9	2.5	5.11	26.492 (2009)	2.257	8.52

Source: McCluskey & Franzsen (2013).

European Union: Property Taxes' Revenue Importance (2010)

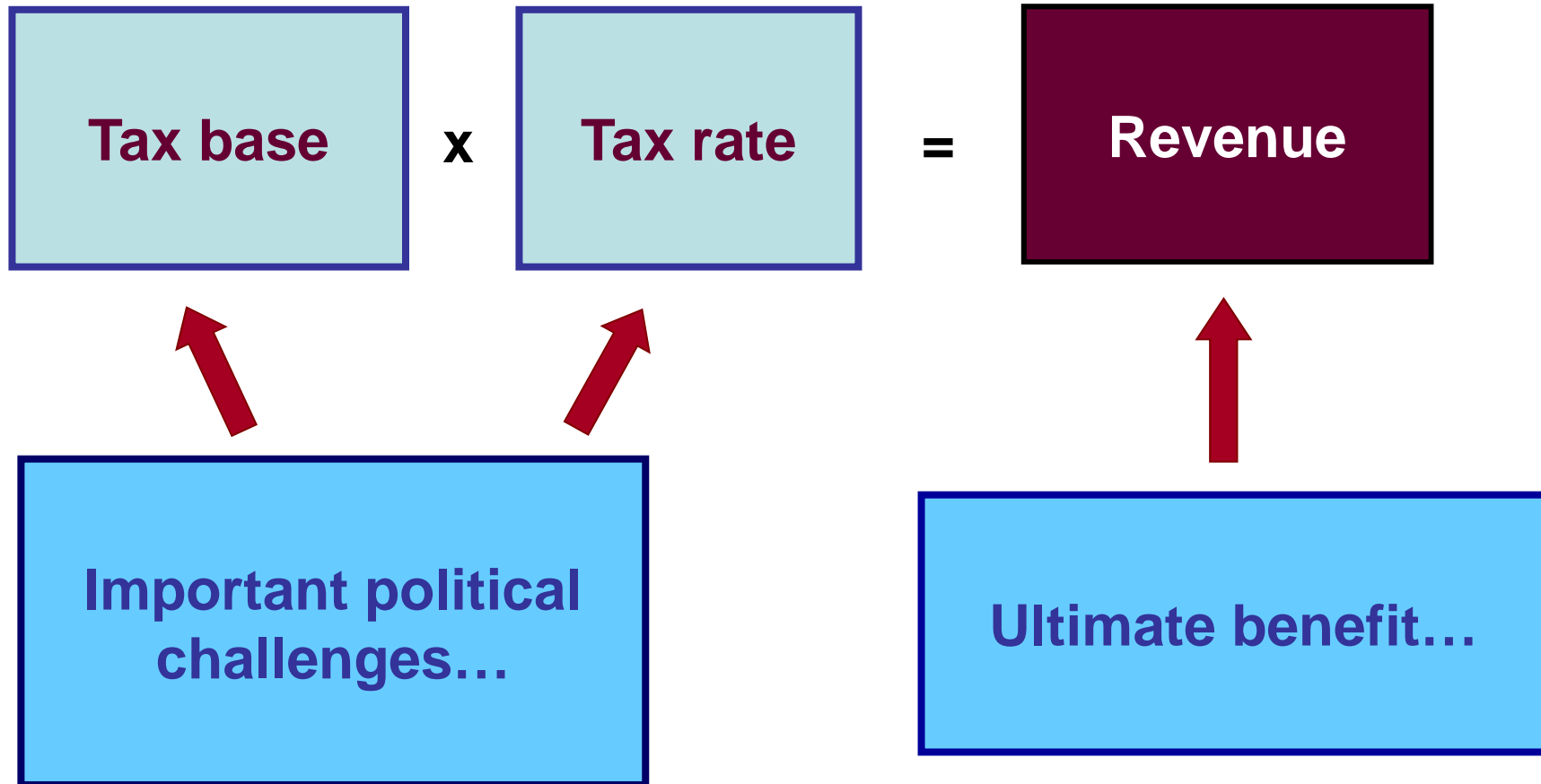
Country	Property Tax Revenue (Percentage of GDP)			As Percentage of GDP in 2010		Revenue in 2010
	2000	2009	2010	Recurrent Taxes	Transaction Taxes	€ Millions
Austria	0.6	0.5	0.5	0.2	0.3	1,488
Belgium	2.8	3.0	3.1	1.3	1.8	11,037
Bulgaria	0.2	0.5	0.5	0.3	0.2	187
Czech Republic	0.5	0.4	0.4	0.2	0.2	2,662
Cyprus	1.5	0.9	1.0	0.6	0.3	167
Denmark	1.6	1.9	1.9	1.4	0.5	4,523
Estonia	0.4	0.3	0.4	0.4	-	51
Finland	1.1	1.1	1.2	0.6	0.5	2,087
France	2.9	3.3	3.4	2.3	1.1	66,501
Germany	0.9	0.9	0.8	0.5	0.4	21,010
Greece	2.0	1.3	0.9	0.3	0.6	1,998
Hungary	0.7	0.8	1.1	0.3	0.8	1,105
Ireland	1.7	1.6	1.6	0.9	0.7	2,471
Italy	1.9	2.2	1.9	0.6	1.3	28,902
Latvia	0.9	0.7	0.9	0.8	0.1	154
Lithuania	0.7	0.5	0.5	0.4	0.2	147
Luxembourg	1.9	1.1	1.1	0.1	1.0	435
Malta	0.8	1.1	1.1	-	1.1	66
Netherlands	2.0	1.3	1.3	0.5	0.8	7,569
Poland	1.1	1.2	1.2	1.2	-	4,194
Portugal	1.2	1.2	1.2	0.6	0.6	2,096
Romania	0.7	0.8	0.9	0.7	0.2	1,038
Slovenia	0.6	0.6	0.6	0.5	0.1	219
Slovakia	0.6	0.4	0.4	0.4	-	277
Spain	2.2	2.1	2.1	1.0	1.2	22,571
Sweden	1.7	1.1	1.1	0.8	0.3	3,656
United Kingdom	4.2	4.3	4.2	3.4	0.8	71,854
Unweighted average	1.4	1.3	1.3	0.8	0.6	

Source: "Taxation Trends in the European Union" (January 2012): <http://ec.europa.eu/taxtrends>

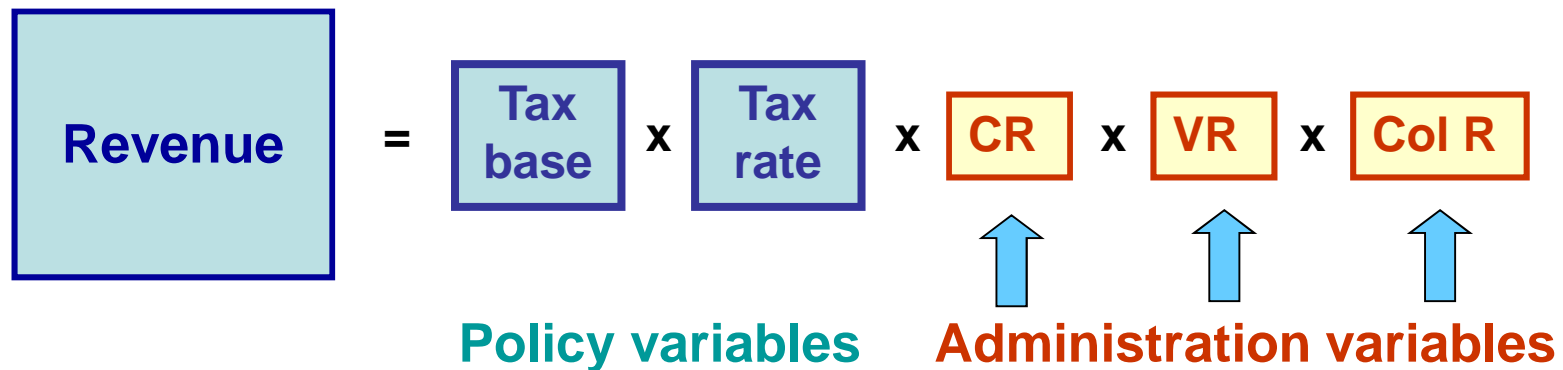
Local Expenditure and Revenue

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: The Basics



Revenue Mobilization Model



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

Source: Kelly (2000)

Further key challenges...

Property Tax - Challenges

- Property tax is a difficult tax to administer
 - Data intensive (property discovery, assessment)
 - 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:
 - Bahl, 2009; Norregaard, 2013
- It must be possible and practicable to implement (local) 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**