Property Tax Base Issues and Trends

MVV182K Property-related Taxation: Issues and Trends
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Brno, Czech Republic

29 September 2015

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Introduction

- Issues impacting on property tax base
    - Land tenure
    - Markets
    - Culture and historical context

- Property tax base options
    - Key policy decisions
    - Trends
    - Examples

Elements to Consider

- **Tax base and property discovery**
- Taxpayer
- Valuation and/or assessment
- Tax rates
- Tax relief
- Billing
- Collection
- Enforcement

- Taxpayer communication
- Overall system management

Land Tenure

- Ownership
- Co-ownership
- Communal ownership
- Long-term leasehold
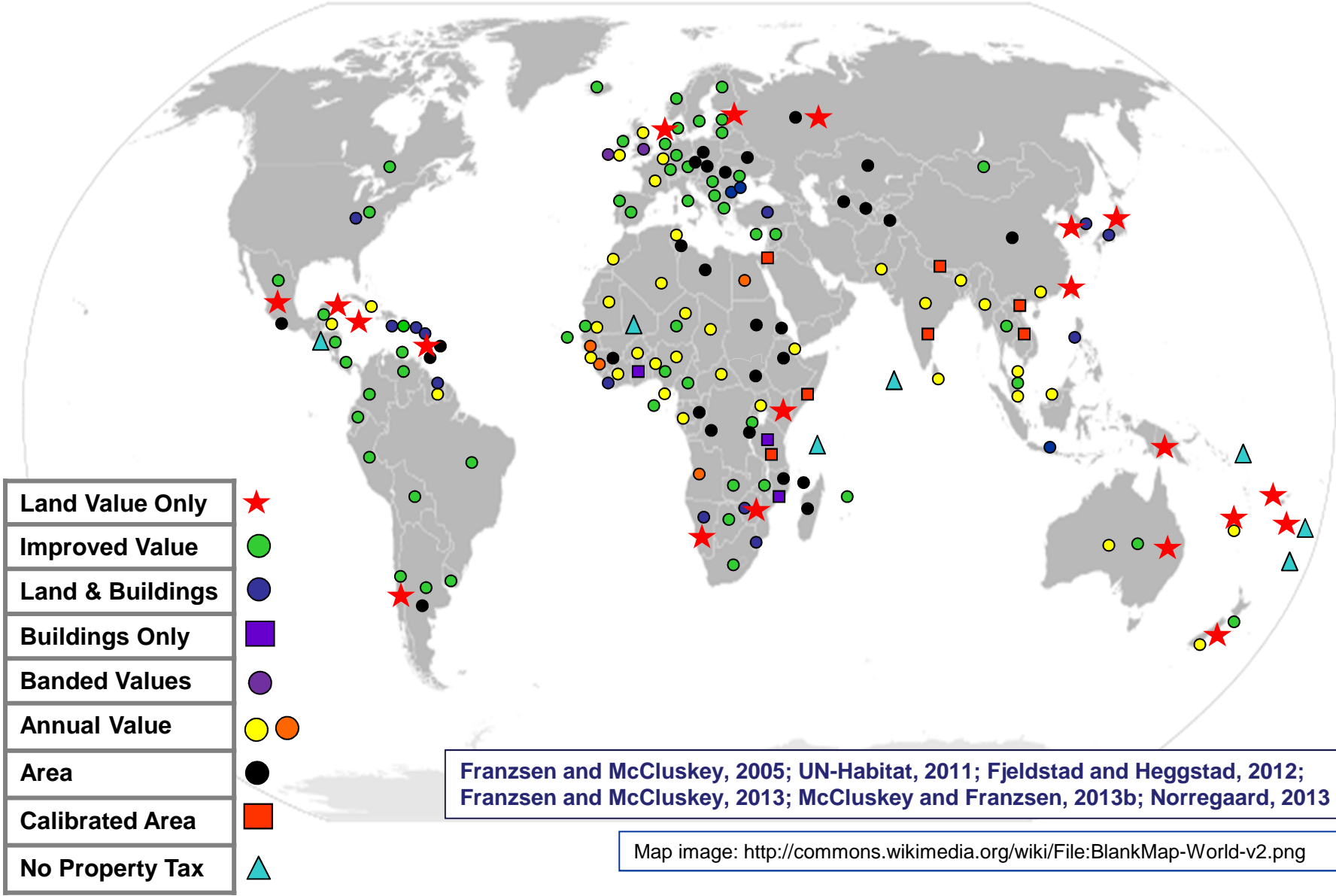- Short-term lease/rental
- Usufruct
- Others?

Property Markets

- Insecure tenure
- Formal vs. land/property markets
- Cadastres v land registration/land titling
- Political interference (e.g. 'land grabs')
- Capital vs. rental markets

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

Legend:

Symbol	Meaning
Red Star	Land Value Only
Green Circle	Improved Value
Dark Blue Circle	Land & Buildings
Purple Square	Buildings Only
Purple Circle	Banded Values
Yellow/Orange Circle	Annual Value
Black Circle	Area
Orange Square	Calibrated Area
Cyan Triangle	No Property Tax

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

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

Nature and Scope of Tax Base

First important policy decision:

- **Choice:**
  - Single base vs. multiple tax bases
  - National vs. local choice

- **Extent:**
  - Broad versus narrow?
  - Urban versus rural?

- Decision must be informed by **law**, politics, institutions, culture, realities, i.e. prevailing "property tax environment"

Nature and Scope of "Property"

Example: South Africa

"Property" means –

(a) immovable property registered in the name of a person, including, in the case of a sectional title scheme, a sectional title unit registered in the name of a person;

(b) a right registered against immovable property in the name of a person, excluding a mortgage bond registered against the property;

(c) a land tenure right registered in the name of a person or granted to a person in terms of legislation…

Tax Base Assessment

Second important policy decision:

- How should the tax base be "weighted" (i.e. how should the property tax burden be allocated to taxpayers)?

    - **Property unit** (i.e., each property, regardless of size or location, pay an equal amount of tax)

    - **Property size** (i.e., each property regardless of location would pay an equal per sq. m. rate)

    - **Property value (i.e., each property would pay the tax based on their relative property value)**

- Decision to be informed by the property market and other country-specific realities (i.e. available skills and capacity)

Tax Base Assessment

- **Area-based systems**
  - Assessment done on basis of size of property
  - Location, use, age, quality could be included as factors
  - Self-assessment possible

- **Value-based systems**
  - Requires credible data
  - Responsibility for valuation
  - Resource intensive
  - Requires continuous maintenance and regular, comprehensive revaluations
  - Requires at least some minimum valuation skills and capacity (even if only to audit self-declared values)

Categorisation of Property

- **Location**
  - Urban versus rural

- **Size/Value**

- **Use**
  - Residential versus non-residential
  - Non-residential (urban):
    - Commercial
      - Retail, offices, hotels
    - Industrial
    - Agricultural
    - Vacant

- **Ownership**
  - Government, natural persons, companies

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Taxpayer

- Owners
  - Could be broadly defined
  - **South Africa**

- Occupiers
  - **United Kingdom – non-residential**

- Owners and/or occupiers
  - In a few jurisdictions separate property taxes are levied on owners and occupiers (**Denmark**)

- Some systems allow for collection from the occupier if the owner does not pay
  - This is an enforcement mechanism

Example: "Owner"

"owner"-

(a)   in relation to a property referred to in paragraph (a) of the definition of "property", means a person in whose name ownership of the property is registered;

(b)   in relation to a land tenure right referred to in paragraph (c) of the definition of "property", means a person in whose name the right is registered or to whom it was granted in terms of legislation;

provided that a person mentioned below may for the purposes of this Act be regarded by a municipality as the owner of a property in the following cases:

(i)   A trustee, in the case of a property in a trust;

(ii) an administrator in the case of a property in a deceased estate;

(iii) a trustee or liquidator, in the case of a property in an insolvent estate;

(iv) a person in whose name a usufruct or other personal servitude is registered, in the case of a property that is subject to a usufruct or other personal servitude;

(v)   a lessee, in the case of a property that is registered in the name of a municipality and is leased by it;

Discernible 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, Western Australia**
  - **Malaysia, New Zealand, United Kingdom**

- Move to capital (improved) value as preferred tax base
  - **Anguila, Cameroon, Kosovo, Latvia, Lithuania, Macedonia, Mauritius, Montenegro, Northern Ireland, Rwanda, Serbia, Slovenia, South Africa, Srpska**

- Move to rental value as preferred tax base
 - **Gabon, New Zealand, Sierra Leone**

Possible Alternatives?

- **Multiple tax bases**
  - Urban v rural: **Western Australia**, **Barbados**
  - Residential v non-residential: **United Kingdom**
  - Undeveloped v developed: **Côte d'Ivoire**

- **Value banding**
  - **Great Britain, Republic of Ireland**
  - References in law – **St Vincent & the Grenadines, South Africa** and **Uganda**
  - Research by Plimmer, Connellan and McCluskey

- **Calibrated area**
  - **Israel** and **India**
  - Research by Davis (PhD, University of Ulster, UK)

Example 1: Urban v Rural Systems

Western Australia
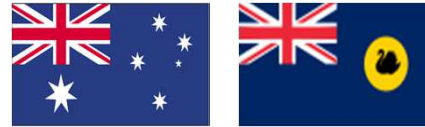
- **Gross rental value** (GRV) system used in urban jurisdictions as well as urban properties in rural jurisdictions
  - GRV determined by the Valuer General Office –
    - 3-yearly in the Perth Metropolitan Area
    - 4-yearly or 5-yearly in non-metropolitan council areas

- **Unimproved (site) value** system used in respect of rural properties in rural jurisdictions
  - Unimproved (site) values determined annually (for the state's land tax) by the Valuer General Office

Example 2: Value Banding

United Kingdom

- **Residential properties**
  - 22 million **properties** had to be 'valued' in 9 months for the council tax

  - Highly developed **capital market** and predominantly owner-occupied – thus capital values chosen

  - Concept of value banding was devised
    - 8 appropriately designed value bands and 1:3 tax rate ratio across these 8 value bands

  - No discrete values required, fewer objections and appeals

- **Commercial and industrial properties**:
  - Taxed on an **annual rental value** basis – sufficient rental evidence

Example 3: Calibrated Area

India

– ARV system under increasing pressure
  - Rent control
  - Valuation capacity and skills
  - Corruption

– Introduced a simplified area-based system with less reliance on the valuation profession

– Area x tax rate x **location factor** x building age x building type x building use x occupancy factor

Conclusions

- Choice of base should be informed by sound policy and country-specific realities

- **Remember:** Property tax is a difficult and costly tax to administer because of its data requirements