

# Property Tax Rates

## MVV182K Property-related Taxation: Issues and Trends

**Masaryk University  
Brno, Czech Republic**

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**Prof Riël Franzsen**

*South African Research Chair in Tax Policy and Governance*

*Director: African Tax Institute*

*University of Pretoria*

*South Africa*



# Introduction (1)

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



# Introduction (2)

- Determining **an appropriate tax rate** constitutes a critically important step in the context of any property tax system
- Tax rate = converting assessment into a tax bill
- The tax rate depends primarily on the **revenue** requirements of the taxing authority and the nature and extent of the **tax base**
- An important policy decision must be taken on how often rates are determined –
  - Annually
  - Regularly
  - Irregularly

# Tax Rates

## Third important policy decision:

- Who determines tax rates?
  - Central/state government or local government?
  - Local government with central government oversight?
- How are tax rates determined?
  - Fixed in national legislation
  - Annually (in terms of regulation or by-law)
- Minimum or maximum rates?
- Uniform or differential tax rates?

# Tax Rates Oversight

## Tax rates (maximum)

### Namibia's Local Authorities Act, 1992:

Section 73(3): "A rates shall not be determined under subsection (1) –

(a) by the municipal council of a municipality... in excess of **two and a half cent per rand of the valuation of any rateable property...**

except with the **prior** approval in writing of the Minister."

# Tax Rate Differentiation

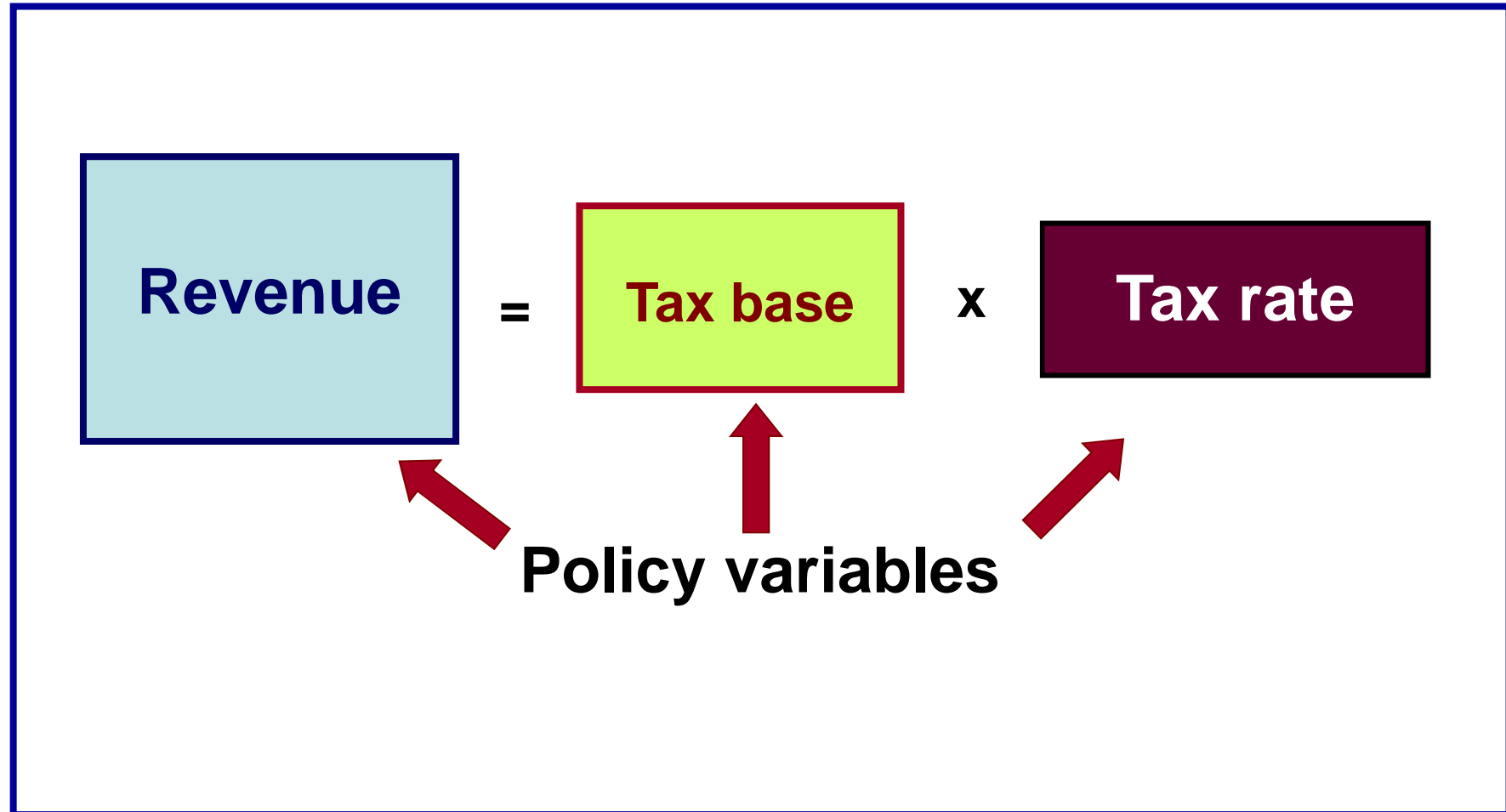
## Tax rates (differential rates)

### Swaziland's Rating Act, 1995:

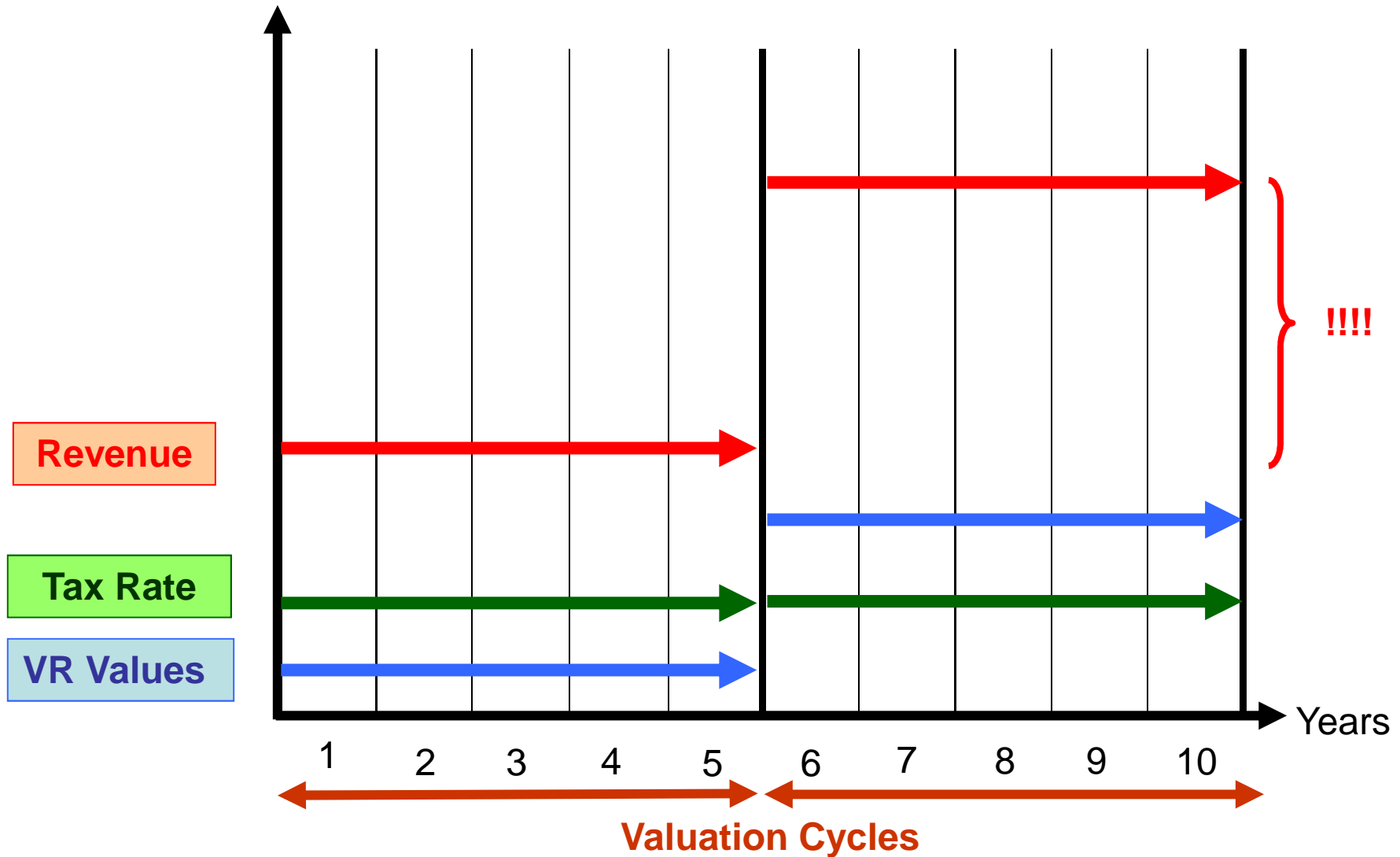
Section 5(1): “Notwithstanding Section 4, the local authority may make, **assess and levy a differential rate, which may be higher or lower than the general rate, upon specified categories of residential or non-residential immovable property.**”

Section 5(3): “The categorization of immovable property for differential rating shall be **subject to the approval of the Minister.**”

# Revenue: The Basics

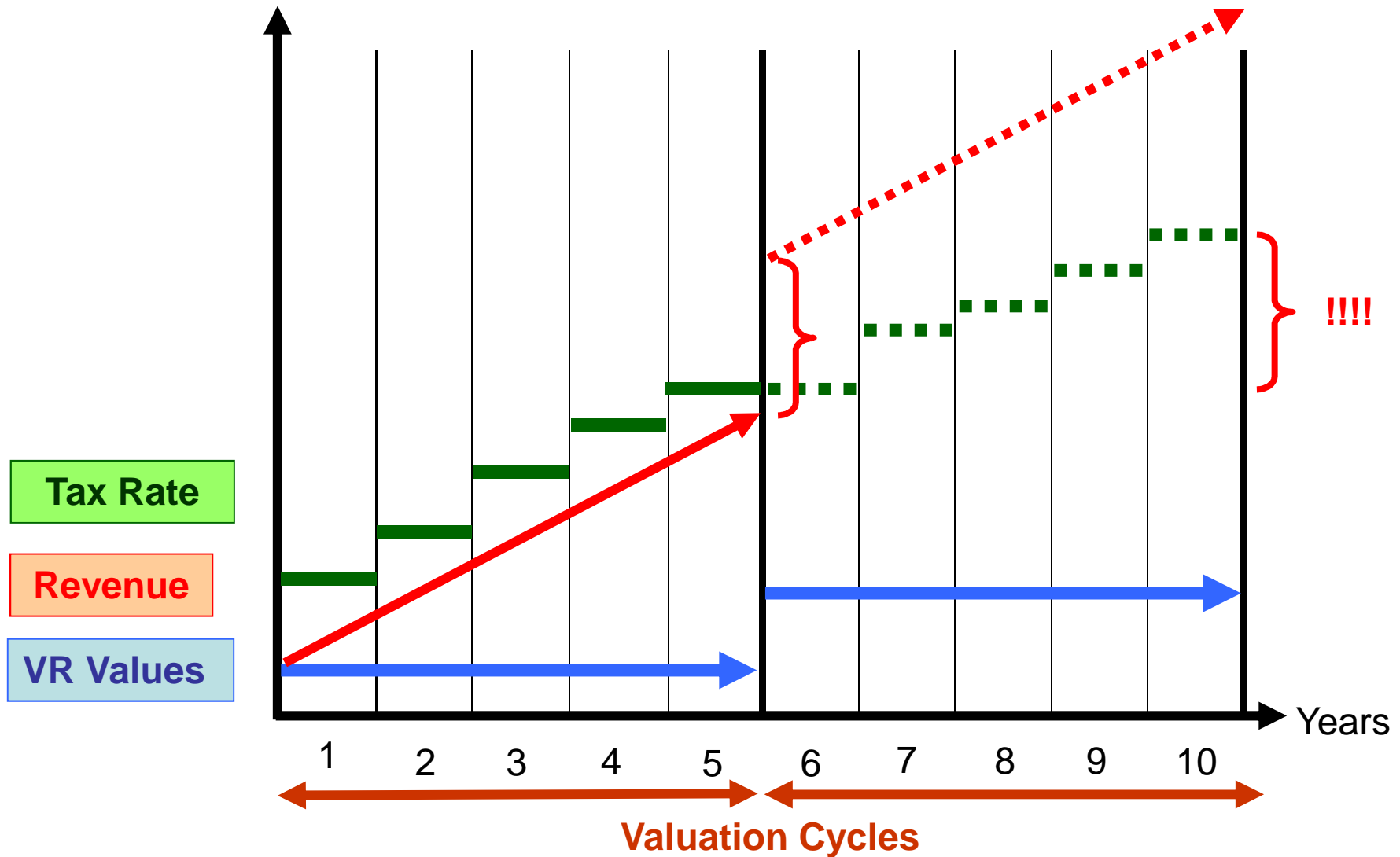


# Values versus Tax Rate (1)

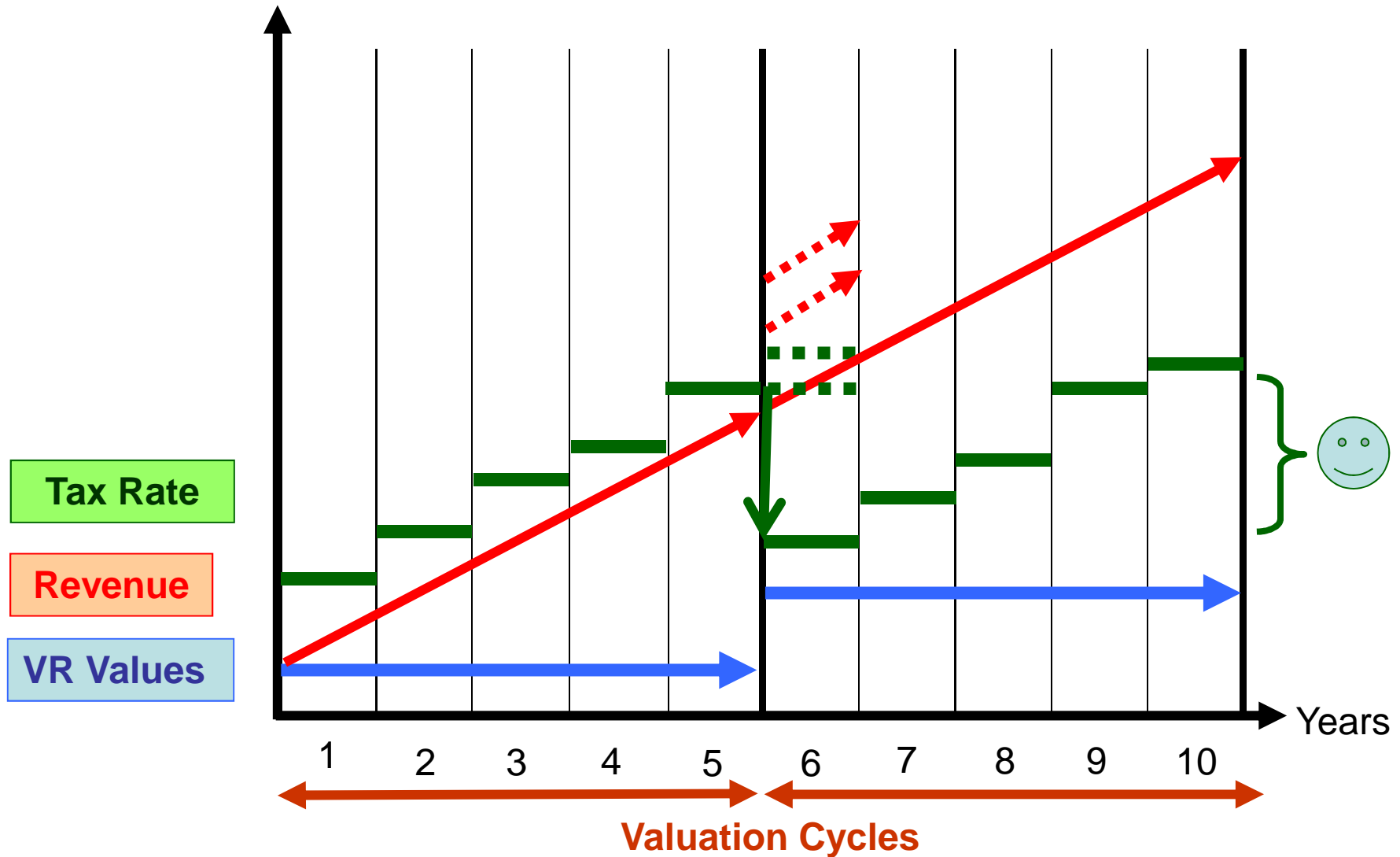




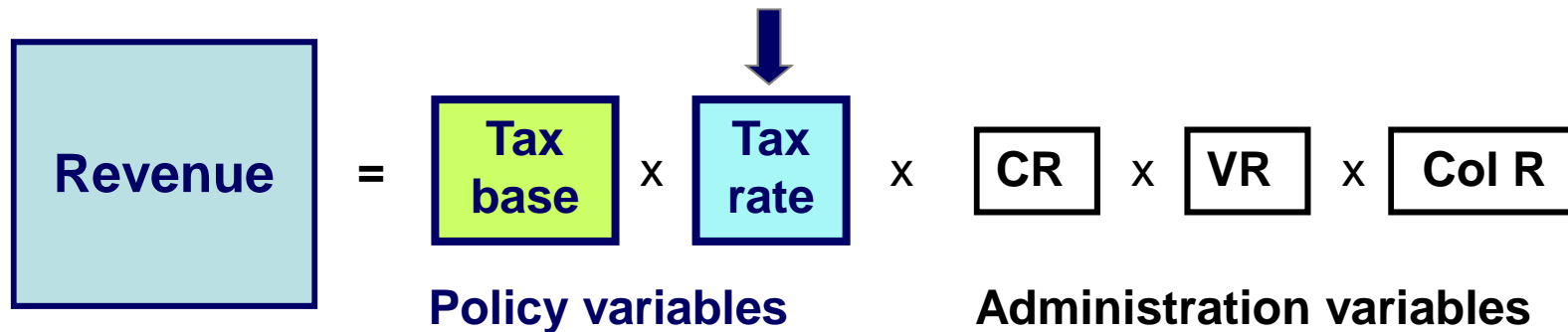
# Values versus Tax Rate (2)



# Values versus Tax Rate (3)



# Revenue Mobilization Model



**CR: Coverage ratio**

**VR: Valuation ratio**

**Col R: Collection ratio**

Source: Kelly (2000)

# Tax Base versus Rate

- Tax base is an important determinant for the tax rate
- The approach to tax base:
  - Narrow base = High nominal tax rate or rates
  - Broad base = Low nominal tax rate or rates

# Revenue v Rate

- Revenue is also an important determinant for the tax rate
- The approach to revenue:
  - “How much do we need?”
  - “How much can we get?”
- The answer to these questions may be very different – and has a fundamental impact on the setting of tax rates
  - Is property tax a primary or a residual source of revenue?
- What should the tax rate be?

## Examples: Residential 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 (2014): **34%**
- Mumbai, India (2011): **276%**

## Examples: Residential 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 (2014): **34%**
  - 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 apples!**

# Relationship: Tax Rate and 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 Comparisons

- 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

# Tax Rate Design

- Flat rate versus progressive rates
  - Why a flat (single) rate?
  - Why progressive rates?
- Uniform rate versus differential rates (also referred to as “classified rates”)
  - Why a uniform rate?
  - Why differential rates?

# Rate and Tax Incidence

- Proportional rate
  - As the value of property rises, tax liability rises by the same percentage
  - Thus, the tax constitutes a constant percentage of value at all value levels
- Progressive rates
  - As value rises, taxes take an *increasing* percentage of value
  - i.e. increasing effective tax rate
- Regressive rates
  - As value rises, taxes take a *smaller* percentage of the value
  - i.e. decreasing effective tax rate

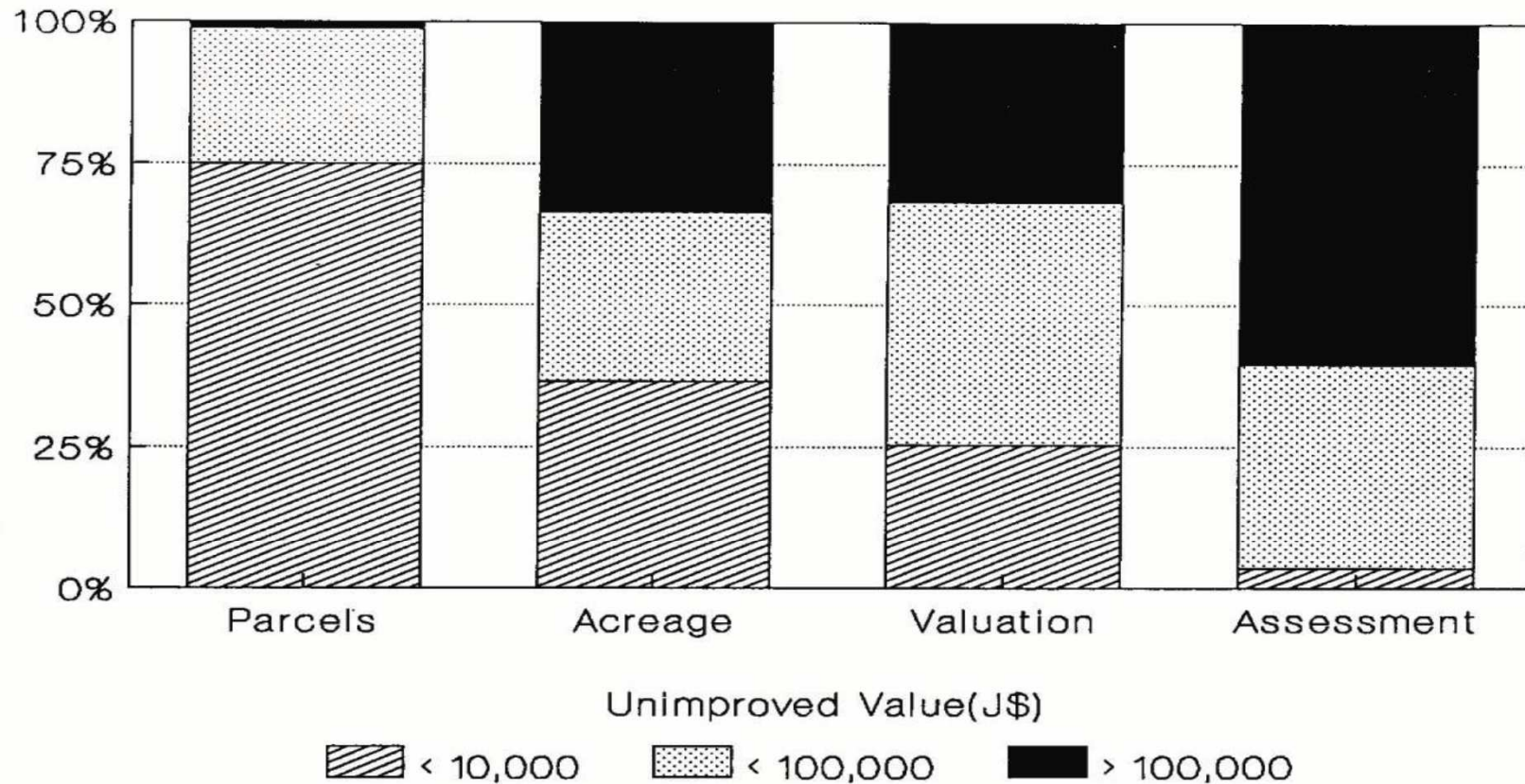
# Progressive Tax Rates (1)

- Basis for progressive rates:
  - Size
  - **Value**
  - Property use
    - Actual use
    - Zoned use
  - **Land versus improvements**

# Progressive Tax Rates (2)

- Why?
  - Perceived ability to pay
    - Larger size and/or higher value = greater ability?
  - Land reform initiatives
- Administration
  - Single parcels versus multiple parcels
    - Linking properties to single owner
  - Billing and collection
  - Complexity
  - Corruption
- Examples:
  - Value-based systems (e.g. until recently, **Jamaica**)

## PROPERTY TAX COMPOSITION IN JAMAICA



Source: Rosengard, 1998.

**Fewer than 5% of properties constitute about 30% of the total value and is liable for more than 60% of the revenue.**

# Differential Tax Rates

- Basis for different rates:
  - Property use categories
    - Actual use
    - Zoned use
  - Land versus improvements
  - Size
  - Value

# Differential Tax Rates

- Reasons:
  - Equity
  - Political
  - Non-revenue reasons
    - Absenteeism
    - Vacant land
    - Speculation
- Issues:
  - Administrative costs
  - Number of differential rates



# City of Perth (Western Australia) Tax 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](http://www.perth.wa.gov.wa) (2015)

## City of Toronto – 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

Property categories	Cape Town		eThekweni		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

# Split-rate Structure

- Efficiency and equity considerations
  - Incentive to develop?
- Cost of valuations
  - Credible values for improved property, the land only, as well as improvements
  - Improvements or land as residual value?
- Examples:
  - Namibia, Swaziland and South Africa
  - Pittsburgh, Pennsylvania, United States
  - Botswana...

# Who determines Tax Rates?

- What does the law dictate or allow?
- Central government
  - Fixed in law (e.g. Cameroon, Uganda)
- Shared tax versus shared revenue
  - Cameroon (pre- and post-2007) versus Uganda
- Local government:
  - Complete freedom
  - Direct oversight and/or central government approval (e.g. Botswana)
  - Indirect oversight (e.g. South Africa)
    - Ratios pertaining to differential rates
    - Compliance with constitutional guidelines
  - Statutory limitations (maximum and/or minimum rates) (e.g. Uganda)
  - Citizen oversight (e.g. California)
- Tax competition

# Local Rate Setting

- Advantages:
  - Local accountability is increased
  - Fiscal capacity and tax effort
  - Efficiency: Better relationship between local revenue and expenditure decisions
- Disadvantages:
  - High rates to account for poor administration
  - Complex rate structures complicates administration and increases administrative discretion (and corruption)
  - Distortions in economic decisions

# How and When are Rates Set?

- Annually
  - “Budget residual option”

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

$$\begin{aligned}\text{Tax rate} &= \frac{(\$50,000,000 - \$20,000,000)}{\$2,000,000,000} \\ &= 0.015 \\ &= 1.5\% \\ &= 1.5\text{c in the } \$\end{aligned}$$



# Annual Rates versus Fixed Rates (1)

## Determining tax rates annually

### – Advantages:

- Incremental increases to allow for –
  - Fixed value base (between revaluations)
  - Increasing revenue demands
  - Inflation
  - New valuation roll

### – Disadvantages:

- Taxpayer uncertainty
- “Once-off” high rates on certain property categories

# Annual Rates versus Fixed Rates (2)

## Fixed rates

### – Advantages:

- Certainty (local government and taxpayers)
- “Fixed rate incentives”
  - Maximizing base coverage
  - Maximizing valuation coverage
  - Maximizing collection efforts

### – Disadvantages:

- No proper link between expenditures and revenues
- Lack of buoyancy with no annual adjustment for fixed assessment base and/or inflation

# Nominal versus Effective Rates

- Whether set locally or nationally, and whether fixed or set annually, the nominal rate tend to be higher than the effective rate
- 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

- Tax rates versus “tax effort”
- Levels of local discretion
  - Limited discretion + possible statutory overrides
- Ideally: Effective rates should be as close as possible to statutory (i.e. nominal) rates – implying few reductions, rebates, etc.
- Fewer rates imply reduced administration and compliance costs
- Do not offset the costly efforts of tax base coverage and assessment coverage through too low tax rates
- Narrow base = high rates

# Trends: Tax Rates

- Uniform versus differential tax rates in the Commonwealth of Nations:
  - Africa: Majority allow for differential rates
    - South Africa – new MPRA (s 19)
  - Caribbean: Majority allow for differential rates
  - Asia and the South Pacific: Majority allow for differential rates
- Tax rates: Annual versus static
  - Static rates: Ghana, Tanzania
- Nationally set rates or at least oversight
  - The vast majority of countries provide at least for some central (or provincial/state) oversight or control over locally-set tax rates

# Conclusions

- Recommendations for tax rate design
  - Keep it simple - equity comes with a price tag
- Where differential (i.e. classified) rates are used, limit the number of tax rates
- Justify (and quantify) the differentiation
- The rate should be such that the revenue at least recover the costs related to all of the steps in the comprehensive property tax model