Tax Relief

MVV182K Property-related Taxation: Issues and Trends

Masaryk University

Brno, Czech Republic

30 September 2015

Prof Riël Franzsen

South African Research Chair in Tax Policy and Governance

Director: African Tax Institute

University of Pretoria

South Africa

Introduction

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

Tax Relief

Fourth important policy decision:

- Nature and scope of possible tax relief
- Granted at central and/or local level?
- Unacceptable “relief” mechanisms
  - Non-collection
  - Non-enforcement

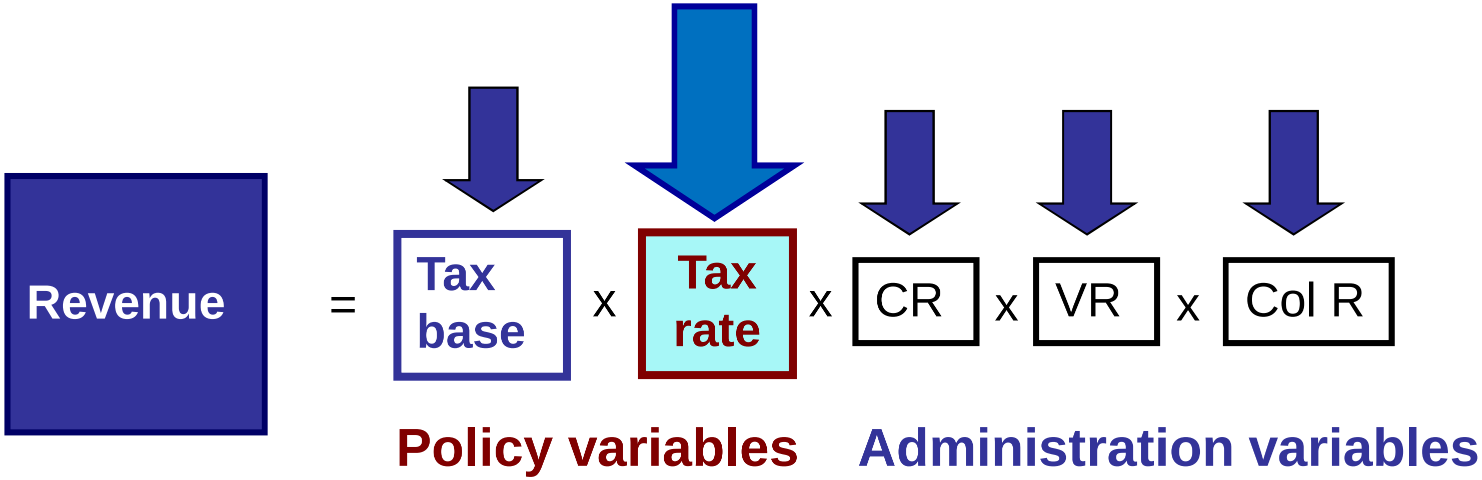
Tax Relief: Introduction

- What is “tax relief”?
- Why?
- What are the dangers?
- How should it be granted?
- How much?
- With reference to owner, occupier, use, location?
- 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 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 Mobilization Model: Tax Relief and Effective Tax Rates



CR: Coverage ratio

VR: Valuation ratio

Col R: Collection ratio

- **Source: Kelly (2000)**

Typical Candidates for Relief

- Pensioners
- Poor and indigent
- Unemployed taxpayers
- Farmers
- Religious, charitable & educational institutions
- Sports clubs
- Political parties
- 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 (i.e. “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
- Enhance simplicity
- Improve equity

Dangers

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

Tax Relief Mechanisms ("How"?)

- **Base:**
  - Exclusions
- **Assessment:**
  - Value thresholds
  - Value reductions
  - Preferential valuation (e.g. "current use" value)
- **Tax rate:**
  - Rebate
  - Exemption
  - Differential rates
  - Rate capping
  - Phase-in
  - "Tax holidays"
- **Payment:**
  - Deferral
  - Income tax deductible

Relief with respect to Values

- Value thresholds

- Value reductions
  - Market value versus “assessed value”
  - Conservative values

- Preferential valuation
  - “Highest and best use” (= market value) versus “current use value”
  - United States: agricultural property

- Issues?

Rebates

- Usually associated with a uniform (single) tax rate
- **Effect: Creates differential rates**
- Often granted to residential properties
  - Residents are voters
  - Commercial and industrial properties can usually deduct tax as an expenditure
- Examples:
  - Tshwane Metro Municipality, South Africa (2012/2013)
  - eThekwini Metro Municipality, South Africa

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

Differential Rates

- Ideally property (and therefore rate) categories should be limited

- Implicitly amounts to relief for those properties with a lower rate or rates and should therefore by justifiable

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

Phasing-in Provisions & Tax Holidays

- By nature temporary
- Phasing-in (to overcome specific realities resulting from –
  - Comprehensive property tax reforms
  - Base extension
  - Revaluation
  - Can be immensely complicated (e.g. Ontario, Canada)
  - Example: South Africa – in respect of “newly- rateable property”
- Tax holidays
  - Who benefits (and how much?) and who pays?
  - Example: Hotel groups in the Caribbean

Relief regarding Payment

- Deferral:
  - Administration
  - Interest
  - On application
    - E.g. British Columbia, Canada
  - As long as use is maintained
    - E.g. New Zealand
- Deductibility from income tax?
  - Tax exporting

Policy 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 be reflected in annual budget

Conclusions

- Recommendations for tax relief policies
  - Keep it simple - equity comes with a price tag
  - Design the relief scheme carefully to target only those who should receive the benefit
  - Quantifiable
- Review tax relief policies/programmes regularly
- On application, rather than automatic
- Keep tax relief to the absolute minimum – as it erodes the tax base