Introduction to Property-related Taxes

MVV182K Property-related Taxation: Issues and Trends
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UNIVERSITAS MASARYKIANA BRUNENSIS

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)

This course consists of the following sessions:

- Session 1: Property-related taxation and international overview
- Session 2: Czech Republic property tax system
- Session 3: Property tax bases – Issues and trends
- Session 4: Valuation and assessment
- Session 5: Property tax rates
- Session 6: Tax relief
- Session 7: Billing, collection and enforcement
- Session 8: Other local taxes
- Session 9: Workshop
- Session 10: Overall conclusions

This course (3)

Instructors:

- **Prof Riël Franzsen**, Director: African Tax Institute, University of Pretoria, South Africa
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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 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 (e.g. in respect of property tax)

Country realities

- 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

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 and fees

- Real Property Transfer Tax
- Stamp Duty

- 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, Betterment Levies, Land Value Capture Instruments

- Land rent

- Registration Fees or Publication Fees

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”

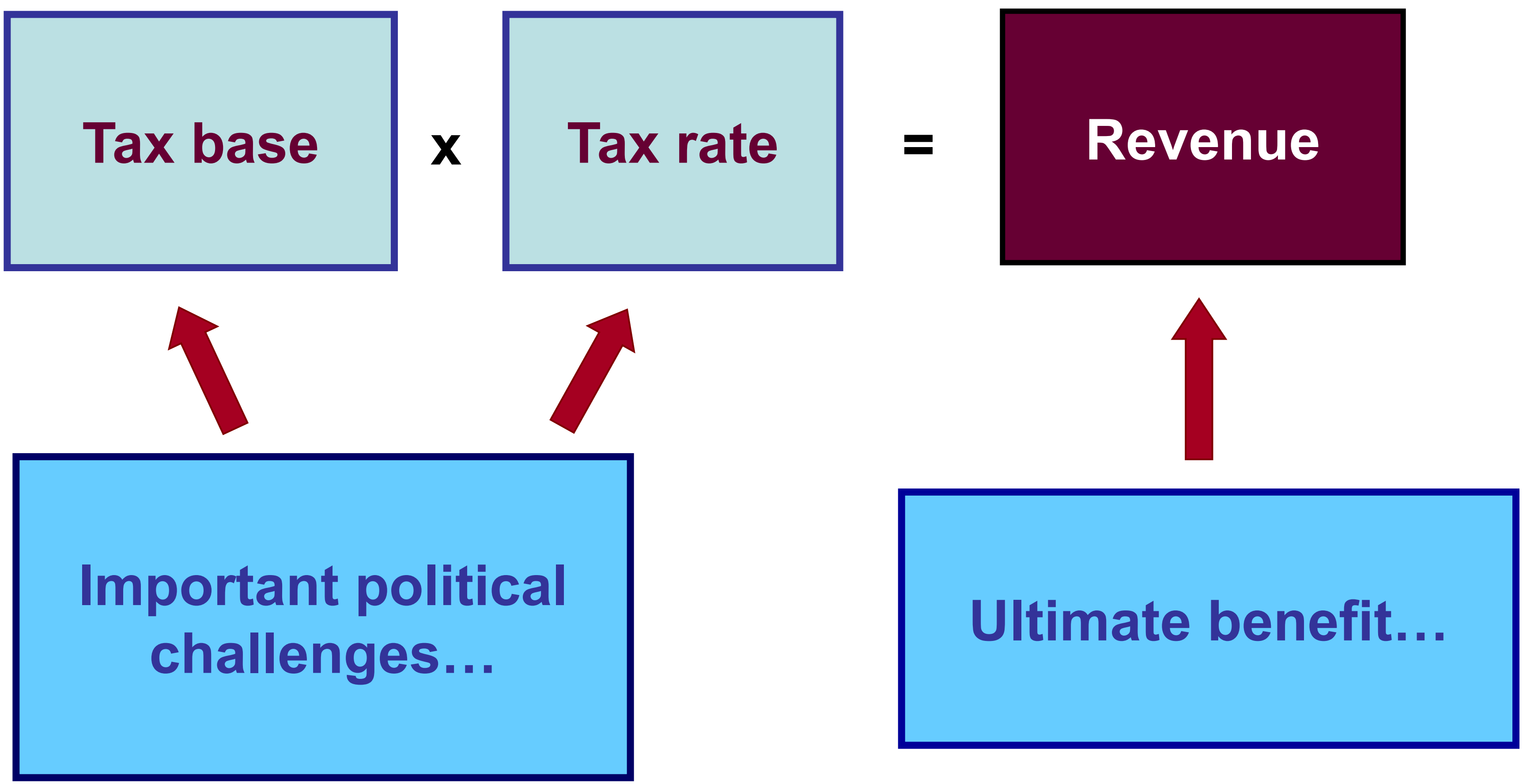
“Property tax”

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

Revenue: The basics



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)

Why tax property?

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

Why tax property?

Disadvantages

– Highly political

– Taxes unrealised income

– Cumbersome to maintain

– High administration cost

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).

Recurrent property taxes as percentage of GDP in CEE country member states of the EU - 2006 to 2015

Country	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Bulgaria	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3
Croatia	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Czech Republic	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Estonia	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Hungary	0.2	0.2	0.3	0.3	0.3	0.3	0.4	0.5	0.6	0.5
Latvia	0.6	0.5	0.4	0.6	0.7	0.8	0.8	0.8	0.8	0.8
Lithuania	0.3	0.3	0.3	0.3	0.4	0.3	0.3	0.3	0.3	0.3
Poland	1.3	1.2	1.2	1.2	1.1	1.1	1.2	1.3	1.2	1.2
Romania	0.6	0.7	0.6	0.6	0.7	0.7	0.6	0.6	0.6	0.6
Slovakia	0.4	0;.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Slovenia	0.4	0.4	0.4	0.5	0.5	0.5	0.5	0.6	0.5	0.5

Source: Eurostat 2017; Brzeski, Romanova & Franzsen 2019

Other property taxes as percentage of GDP in CESE country member states of the EU - 2006 to 2015

Country	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Bulgaria	0.4	0.5	0.5	0.3	0.2	0.2	0.2	0.2	0.3	0.3
Croatia	0.5	0.5	0.6	0.5	0.5	0.5	0.4	0.5	0.5	0.5
Czech Republic	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.4
Estonia	0.1	0.2	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Hungary	0.6	0.5	0.6	0.5	0.8	0.8	0.8	0.7	0.7	0.7
Latvia	0.5	0.5	0.3	0.3	0.3	0.3	0.4	0.3	0.4	0.3
Lithuania	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.4
Poland	0.3	0.3	0.3	0.2	0.3	0.3	0.3	0.3	0.2	0.3
Romania	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Slovakia	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Slovenia	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.2	0.1

Source: Eurostat 2017

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.

What do property taxes 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

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:
    - 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**

Recurrent Property Tax International Overview

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Introduction

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

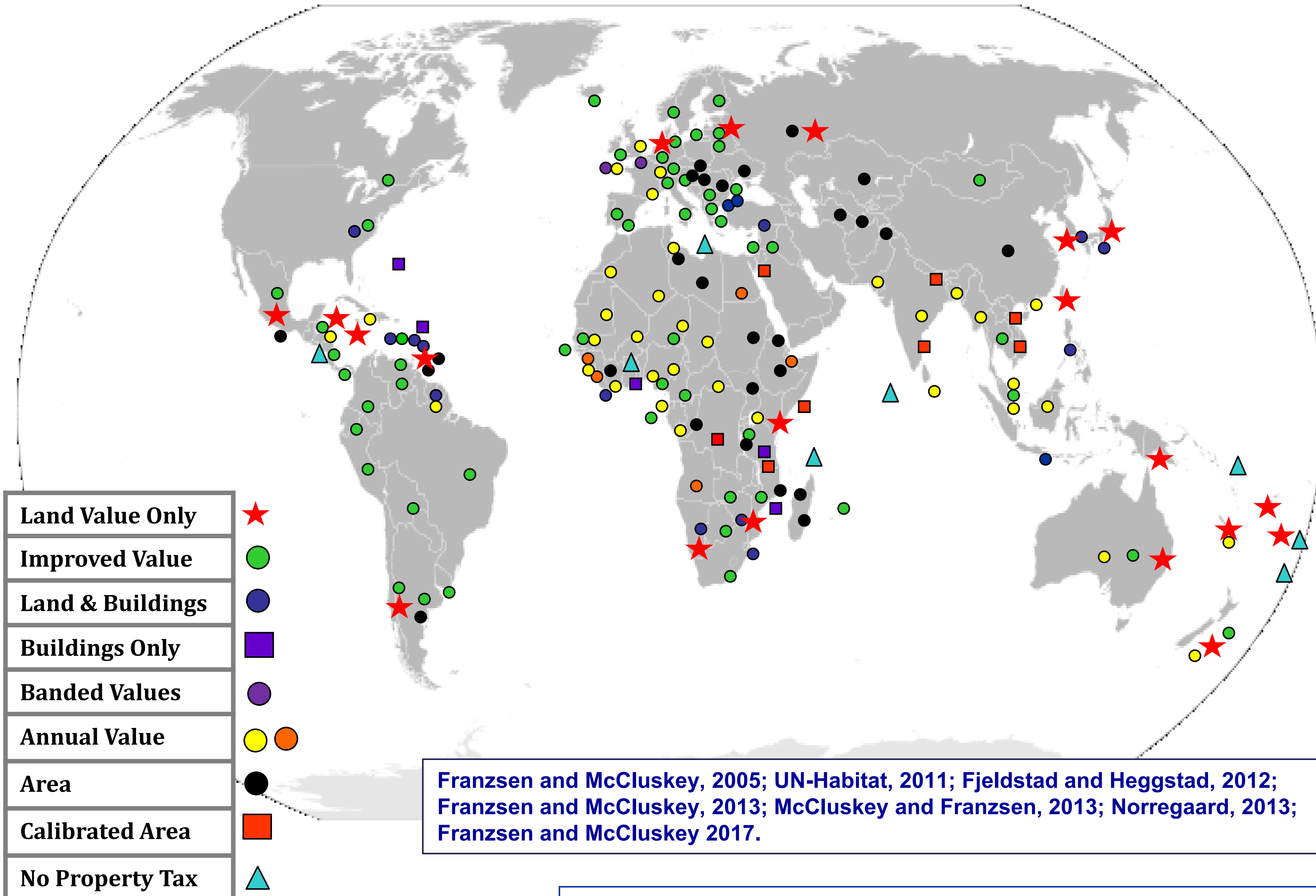
Comparative reviews

- 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

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

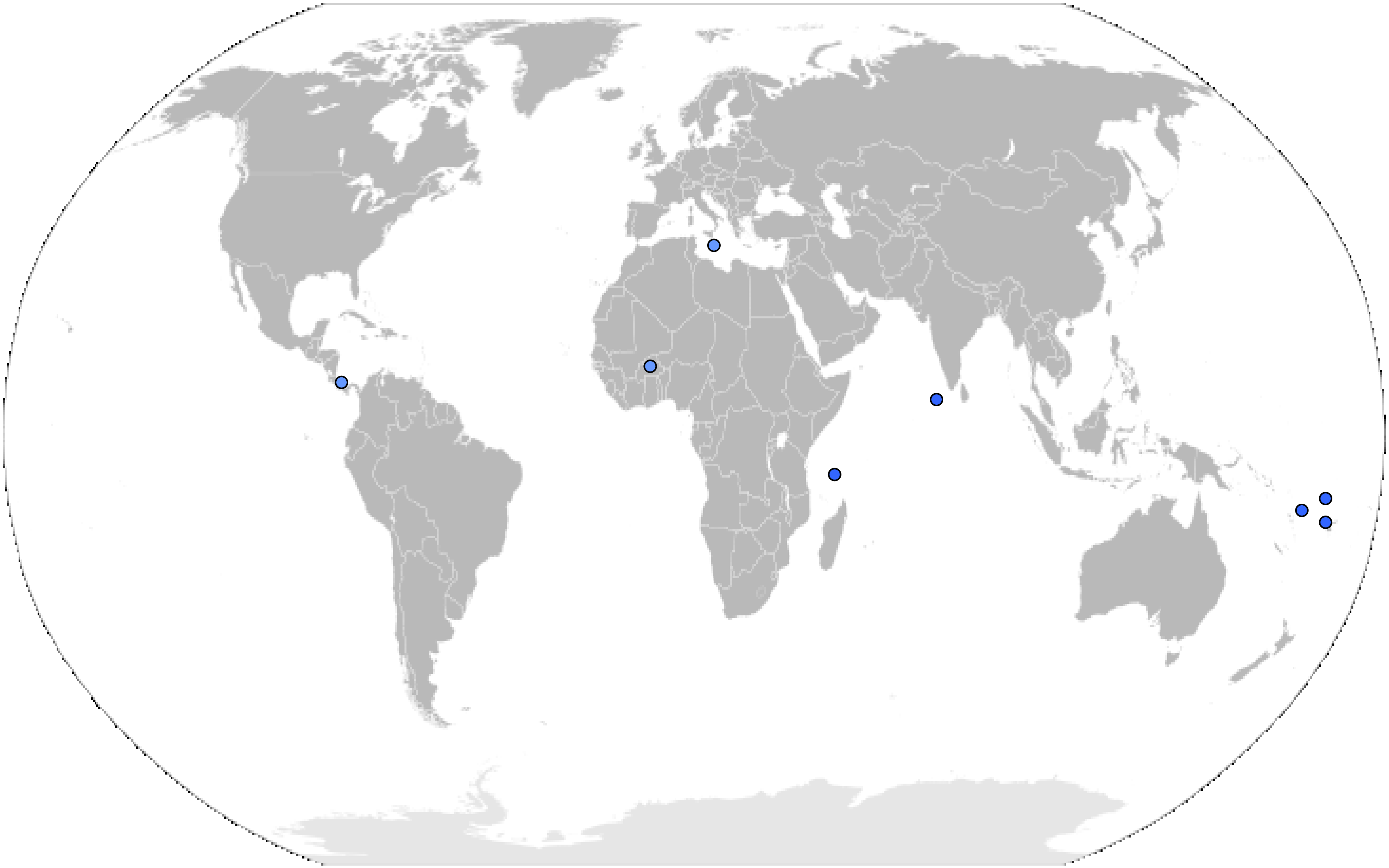
Property tax systems



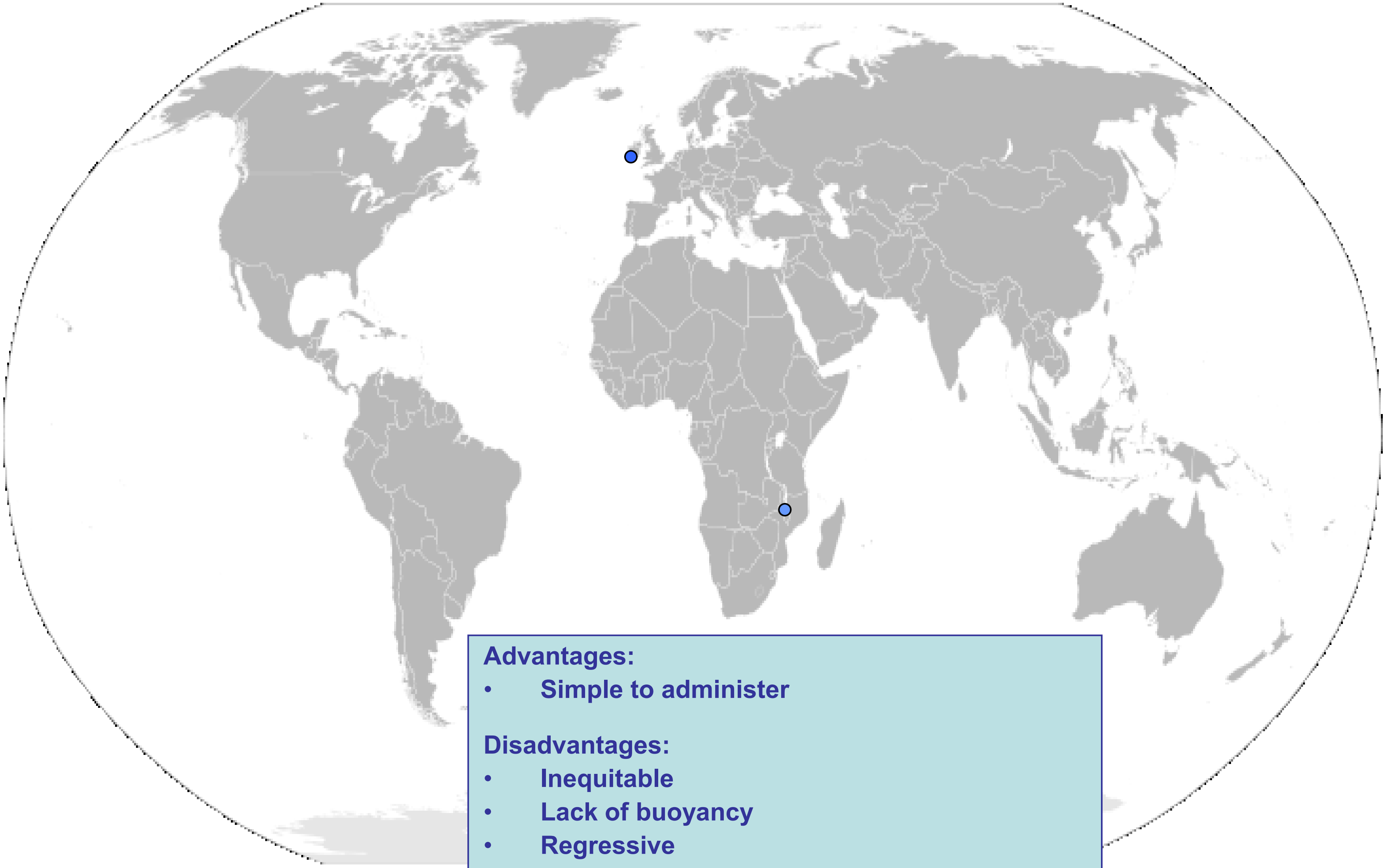
Franzsen and McCluskey, 2005; UN-Habitat, 2011; Fjeldstad and Heggstad, 2012; Franzsen and McCluskey, 2013; McCluskey and Franzsen, 2013; Norregaard, 2013; Franzsen and McCluskey 2017.

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

No property tax system



Per unit (‘flat’) tax system



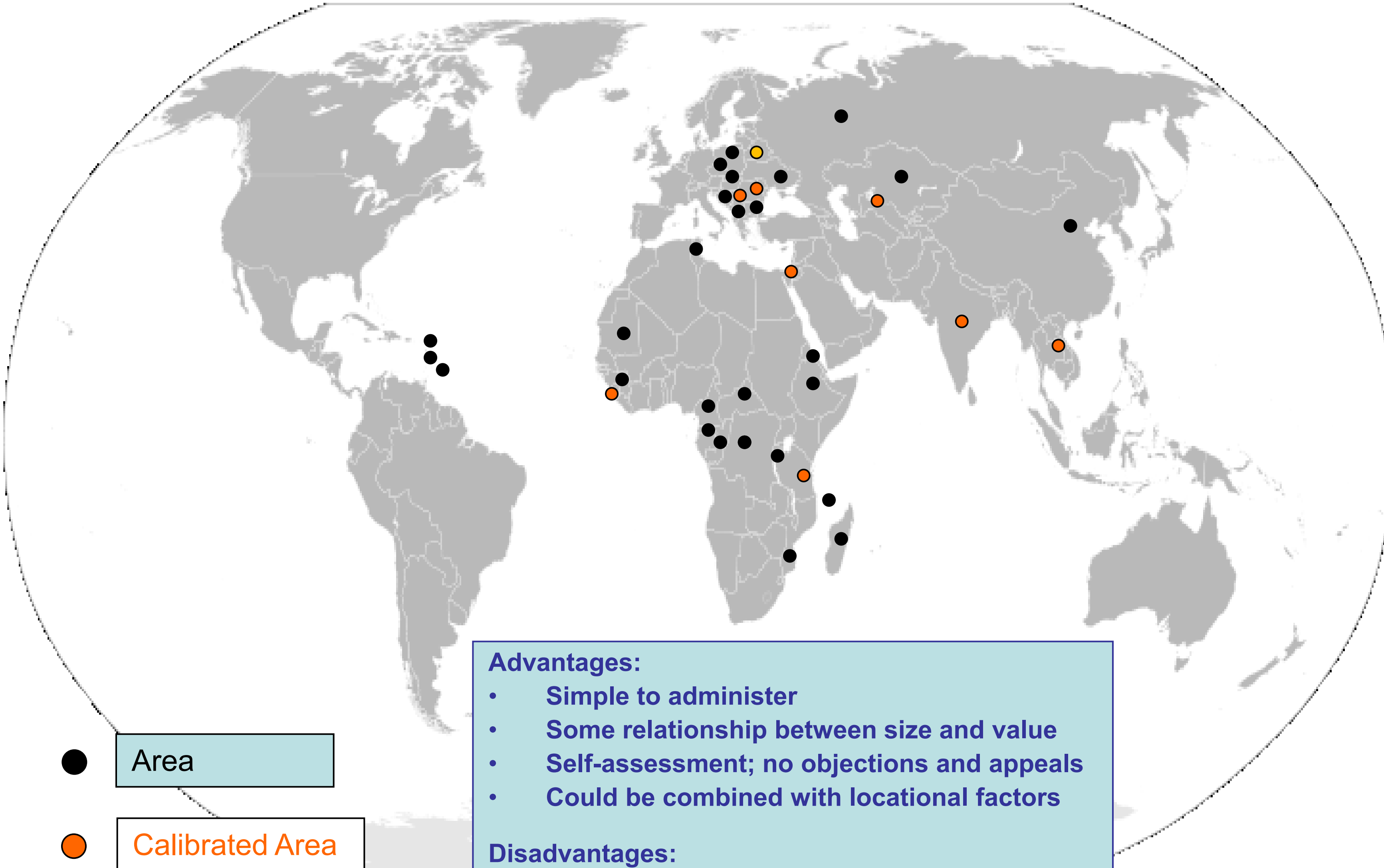
Advantages:

- Simple to administer

Disadvantages:

- Inequitable
- Lack of buoyancy
- Regressive

Area-based tax system



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

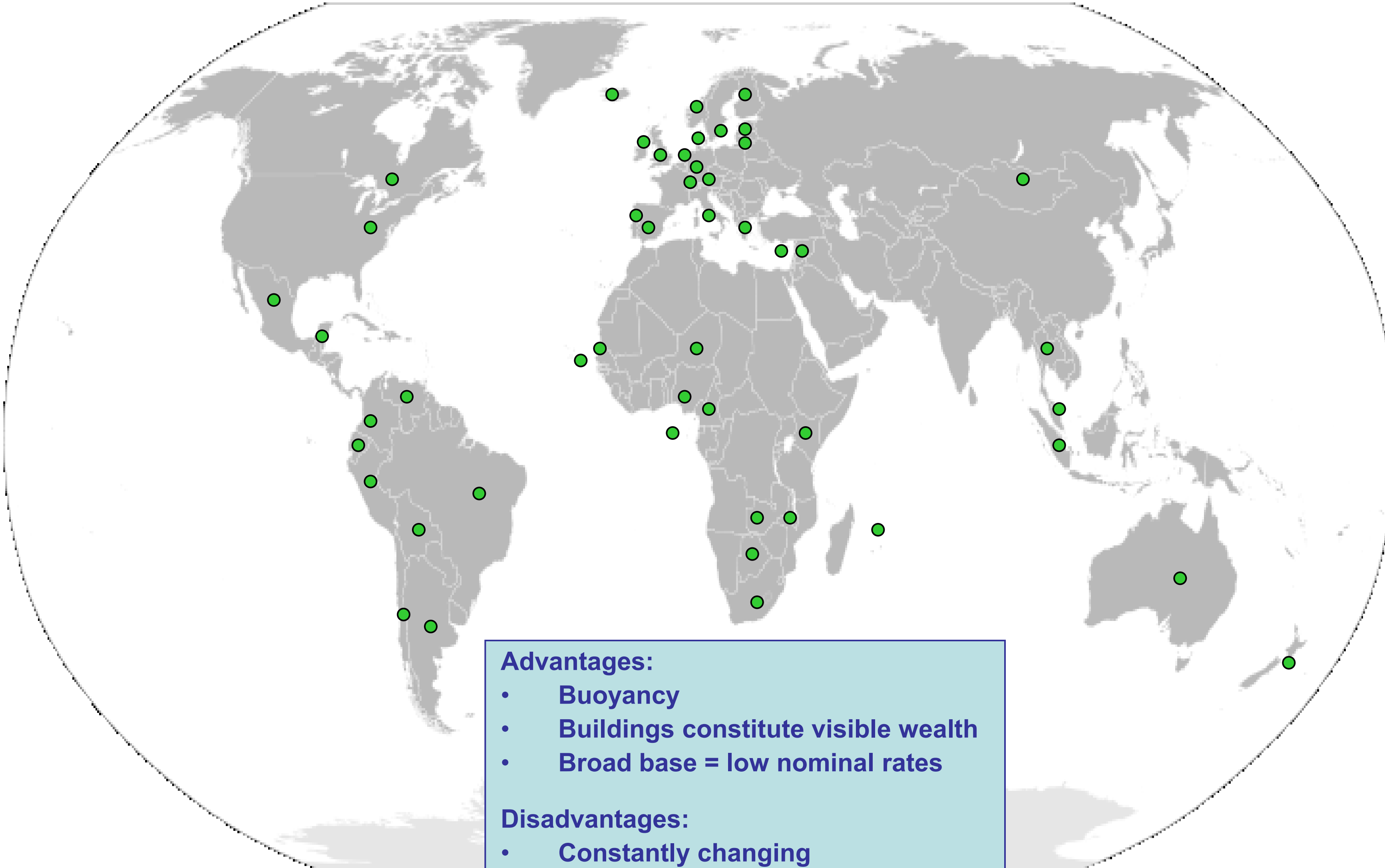
Advantages:

- 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



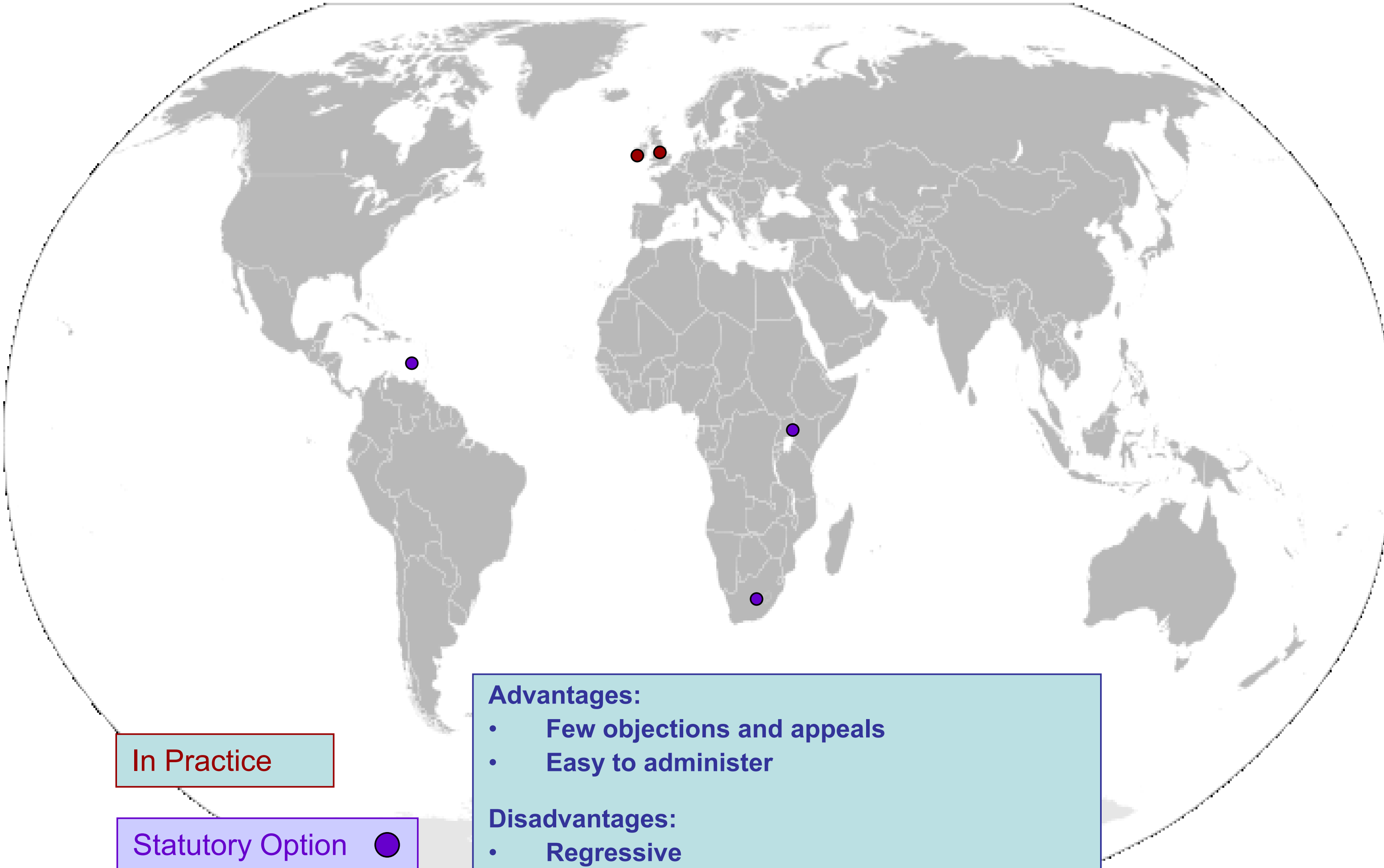
Advantages:

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

Disadvantages:

- Constantly changing
- Costly to maintain
- Could stifle development

Banded capital value system



In Practice

Statutory Option

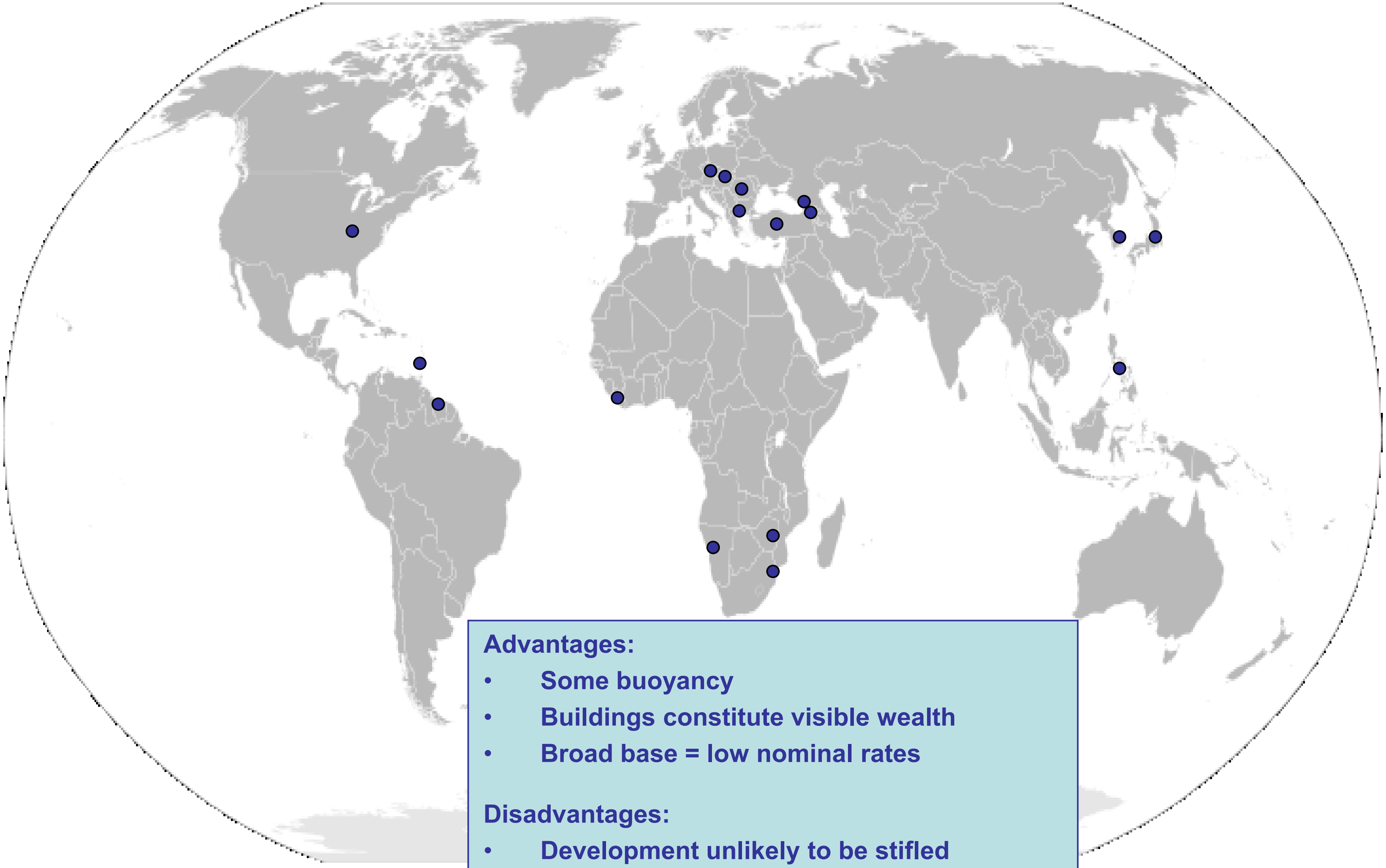
Advantages:

- **Few objections and appeals**
- **Easy to administer**

Disadvantages:

- **Regressive**

Land and buildings separately



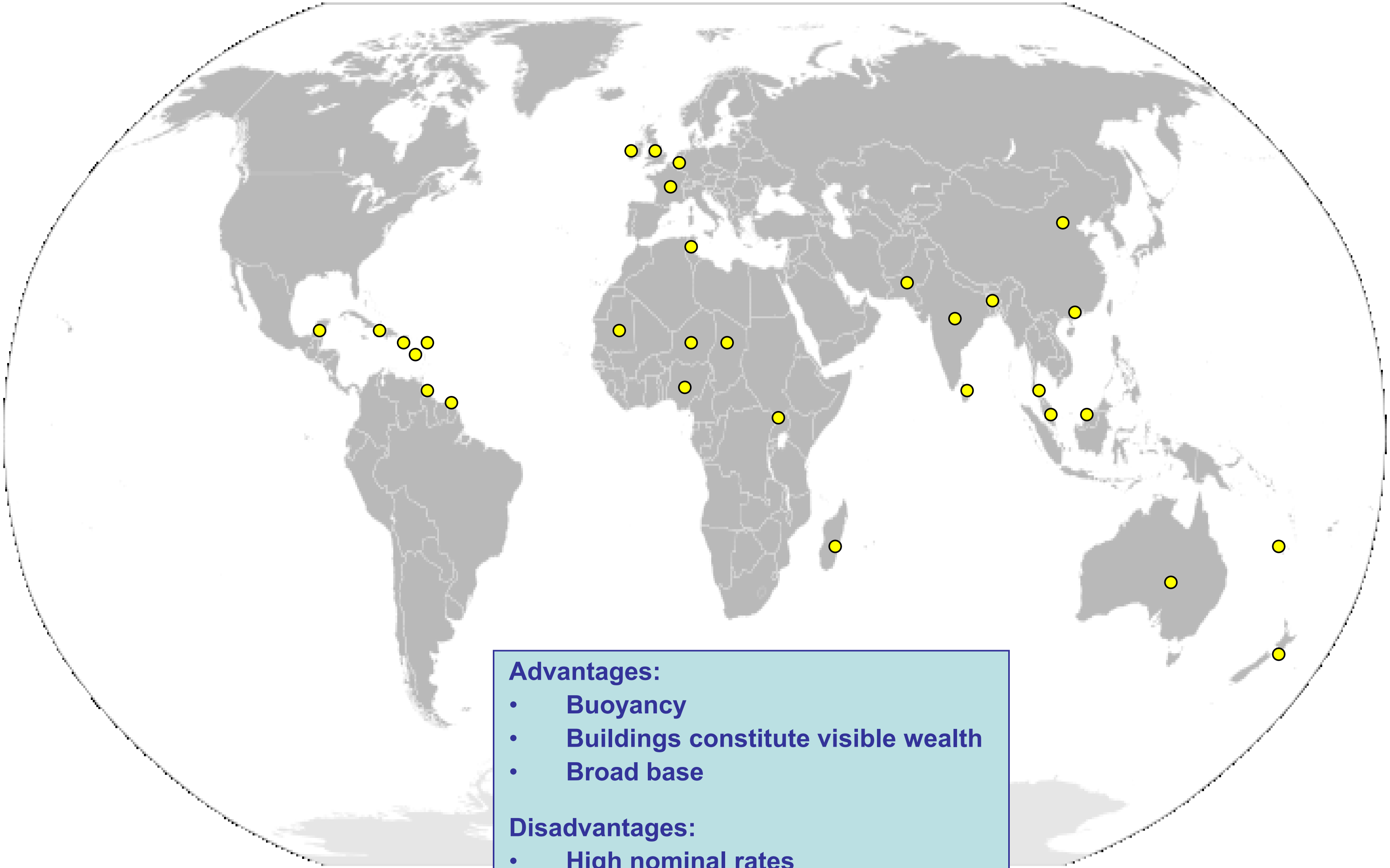
Advantages:

- 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



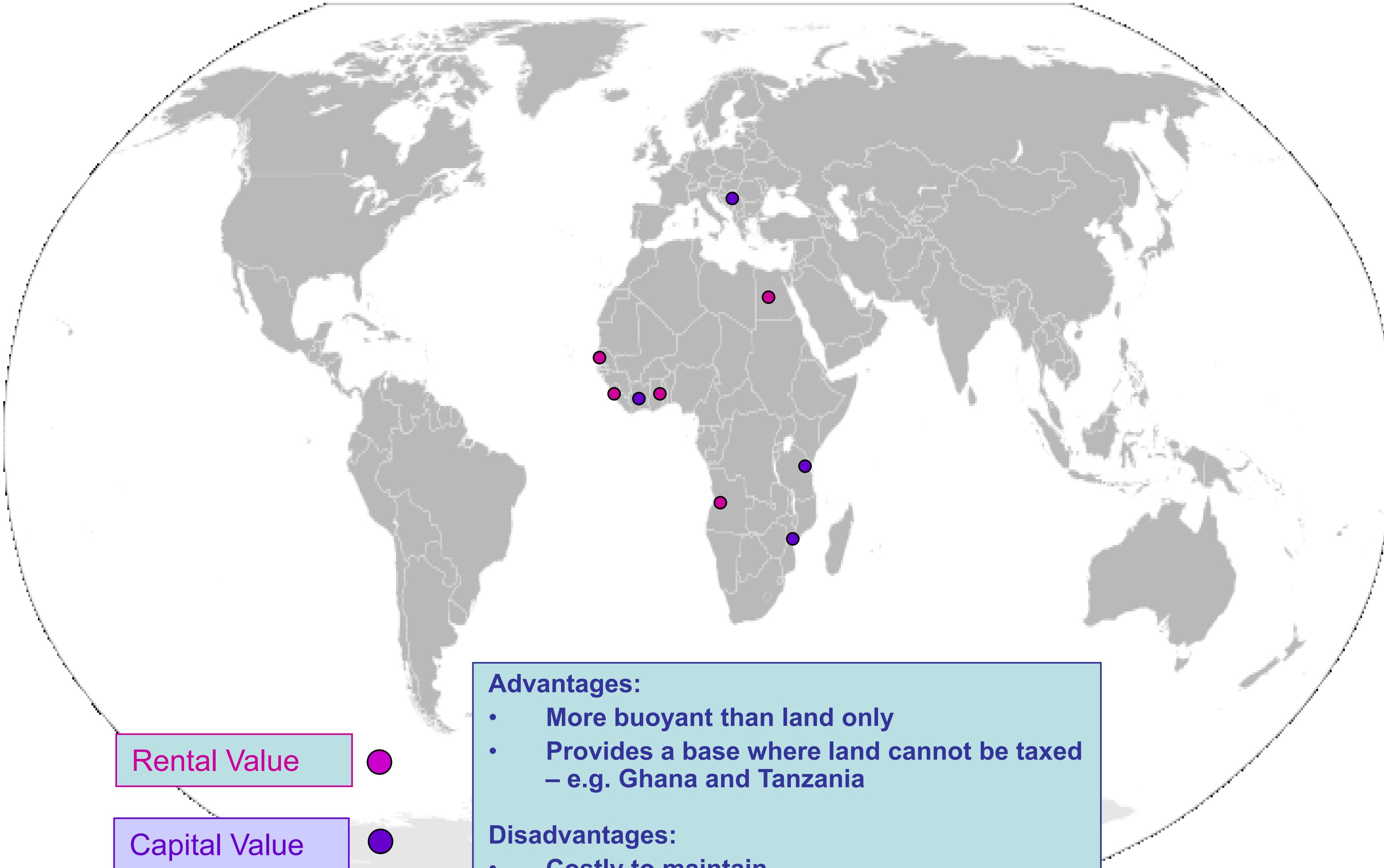
Advantages:

- Buoyancy
- Buildings constitute visible wealth
- Broad base

Disadvantages:

- High nominal rates
- Costly to maintain

Building value systems



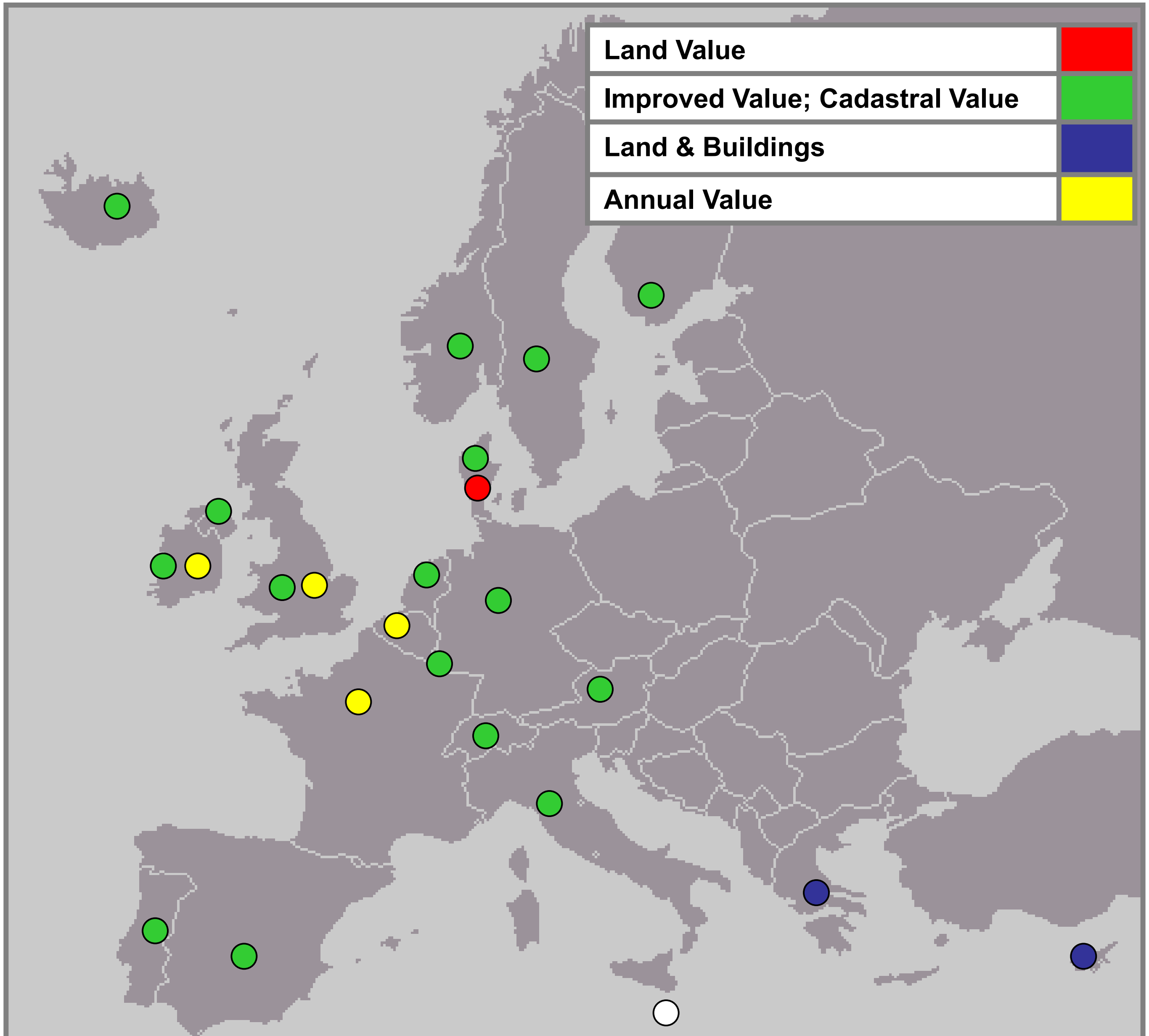
Advantages:

- 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

Western Europe



Austria
Belgium
Cyprus
Denmark
Finland
France
Germany
Greece
Iceland
Ireland
Italy
Luxembourg
Malta
Netherlands
Norway
Portugal
Spain
Sweden
Switzerland
United Kingdom

Central, East & South-Eastern Europe

- Albania
- Belarus
- Bosnia & Herzegovina
- Bulgaria
- Czech Republic
- Croatia
- Estonia
- Hungary
- Kosovo
- Latvia
- Lithuania
- Macedonia
- Moldova
- Montenegro
- Poland
- Romania
- Serbia
- Slovakia
- Slovenia
- Srpska (B&H)
- Turkey
- Ukraine

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

Discernible 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): **Lesotho, Namibia, South Africa, Tanzania (?), Zambia**
  - Private sector: **Malawi, Namibia, New Zealand, South Africa, Tanzania (?)**
  - 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, Slovenia, South Africa**

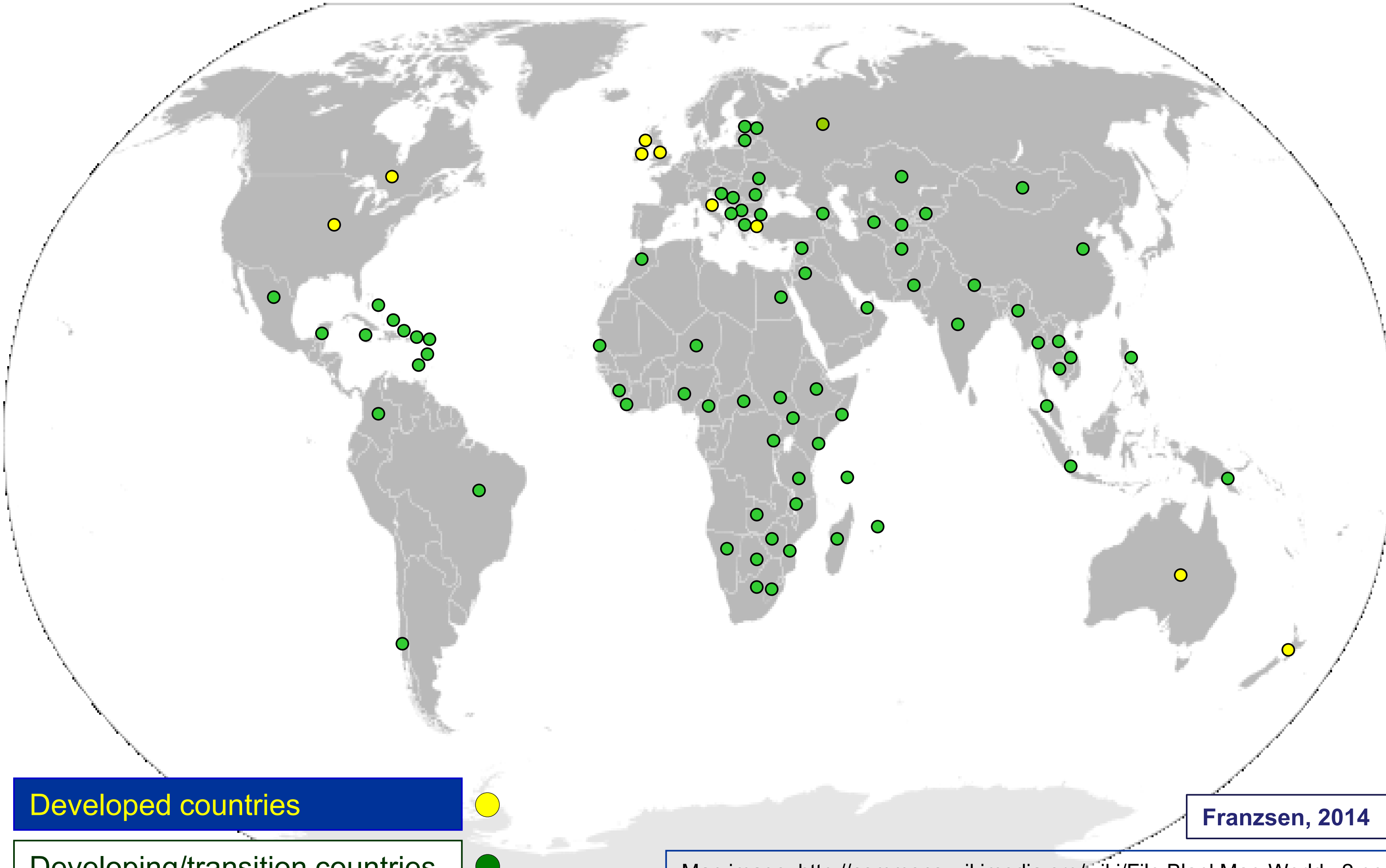
Trends: Tax rates

- 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: 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



Developed countries

Developing/transition countries

Franzsen, 2014

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

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