

Property Tax Base Issues and Trends

**MVV182K Property-related Taxation: Issues and
International Trends
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Prof William McCluskey

*African Tax Institute
University of Pretoria
South Africa*



What will be covered

- Issues impacting on property tax base
 - Real estate Markets/Data/Transactions
 - Land tenure
 - Culture and historical context
 - Politics
- 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?

Real Estate Markets

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

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

Nature and scope of tax base

First important policy decision:

- **Choice:**
 - Single base vs. multiple tax bases
 - National/Provincial vs. local choice (Australia, New Zealand)
- **Extent:**
 - Broad versus narrow?
 - Urban versus rural?
- Decision must be informed by **law**, politics, institutions, culture, realities, i.e. prevailing “property tax environment”

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 (e.g. South Africa)
 - **Northern Ireland**
 - **Romania**
- 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)

Changes in the Basis: Examples

- **Northern Ireland/GB**

- Rental Value  to Capital Value

- **Cameroon and Rwanda**

- Area  Capital value

- **South Africa**

- Had 3 value-based options  “Capital value”

- **Slovenia**

- - Area  **Capital Value (possibly??)**

- **St Lucia**

- Residential: capital value  Environmental Levy

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



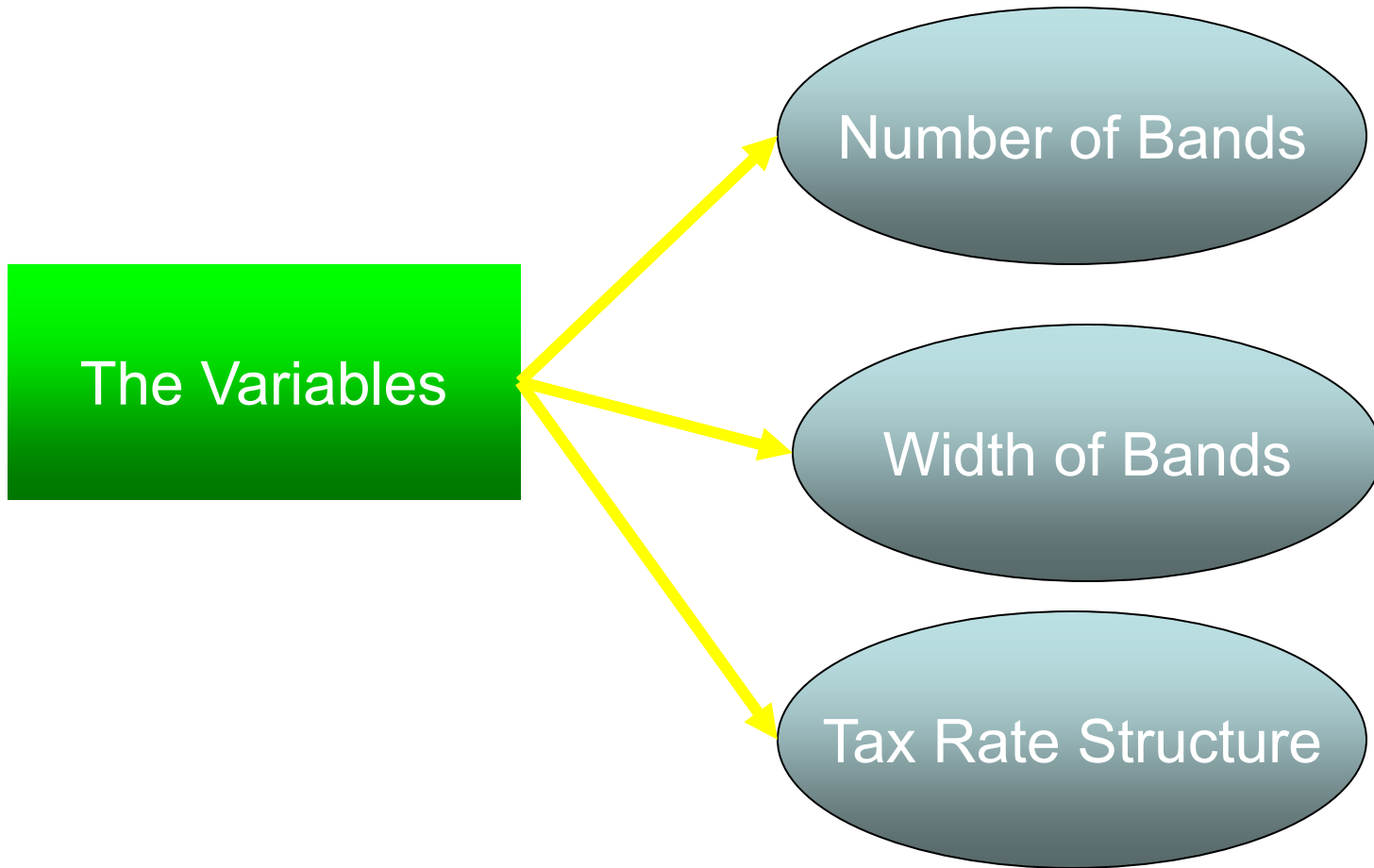
- **Residential properties**

- 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

Banded System



RANGE OF VALUES

Valuation Band	Scotland	England	Wales	Proportion of Band D bill payable
A	Up to 27,000	Up to 40,000	Up to 30,000	6/9
B	27,001 — 35,000	40,001 — 52,000	30,001 — 39,000	7/9
C	35,001 — 45,000	52,001 — 68,000	39,001 — 51,000	8/9
D	45,001 — 58,000	68,001 — 88,000	51,001 — 66,000	9/9
E	58,001 — 80,000	88,001 — 120,000	66,001 — 90,000	11/9
F	80,001 — 106,000	120,001 — 160,000	90,001 — 120,000	13/9
G	106,001 — 212,000	160,001 — 320,000	120,001 — 240,000	15/9
H	Over 212,000	Over 320,000	Over 240,000	18/9

Republic of Ireland:

Actual Residential Property Tax: July 2013

Valuation band €	Mid-point of valuation band €	LPT in 2013
0 to 100,000	50,000	€90
100,001 to 150,000	125,000	€224
150,001 to 200,000	175,000	€314
200,001 to 250,000	225,000	€404
250,001 to 300,000	275,000	€494
300,001 to 350,000	325,000	€584
350,001 to 400,000	375,000	€674
400,001 to 450,000	425,000	€764
450,001 to 500,000	475,000	€854
500,001 to 550,000	525,000	€944
550,001 to 600,000	575,000	€1034
600,001 to 650,000	625,000	€1124
650,001 to 700,000	675,000	€1214
700,001 to 750,000	725,000	€1304
750,001 to 800,000	775,000	€1394
800,001 to 850,000	825,000	€1484
850,001 to 900,000	875,000	€1574
900,001 to 950,000	925,000	€1664
950,001 to 1,000,000	975,000	€1754

National central tax rate will be 0.18% up to €1 million and 0.25% on excess value over €1 million

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

Tax base coverage

- **Administration**

- **Aim: Comprehensive coverage**

- Property discovery

- Deeds office, title office, cadastral office

- Municipality (**Macedonia, Romania**)

- Revenue authority?

- Manual systems

- Aerial and satellite photography

- Geographic Information Systems (GIS)(**Bangalore**, India; **Bogotá**, Colombia; **Cape Town**, South Africa)

- Data owned by utilities (e.g. electricity and/or water companies)(**Georgia**)

- Use computers for data gathering & data management

Property discovery

- Problematic in many developing countries
 - Urbanization
 - Informal development
 - Weak property markets
 - Title or deeds registration lacking
 - High transfer taxes?
 - Unclear tenure rights
 - High transfer taxes?
- Fiscal cadastre v legal cadastre
 - **Collect only information/data needed!**

Property discovery

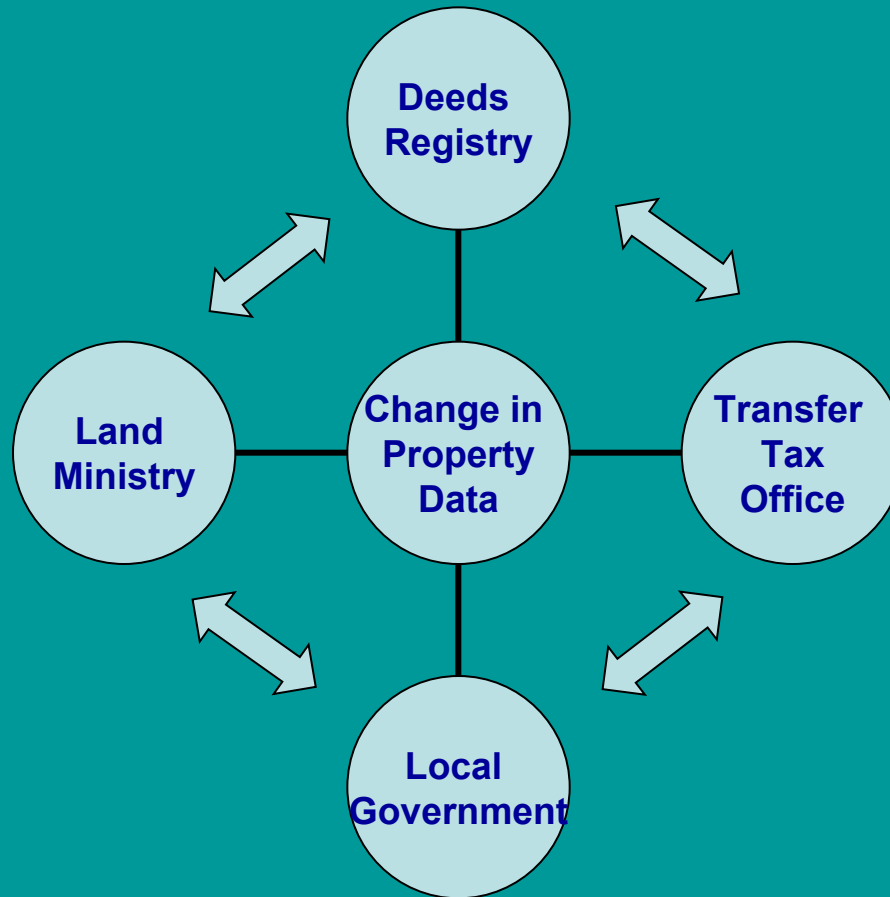


Imagery Date: 12/31/2009

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25°45'21.63" S 28°13'52.91" E elev 1369 m

Eye alt 1.57 km

Information sharing



Conclusions

- Choice of base should be informed by sound policy and country-specific realities
- The choices are limited
- **Remember:** Property tax is a difficult and costly tax to administer because of its data requirements