

IPTI - RICS Conference
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International Property Tax Diversity in Reform Considerations

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W. Jan Brzeski
European Property Institute (Poland)



International Property Tax Institute

Reform Considerations

- ❑ Almost all countries have pty tax, so there is experience (good, bad)
- ❑ Some 50 countries presently involved in reforming their pty taxes
- ❑ Focus on urban pty tax in developing, emerging, transition economies
- ❑ Legal/institutional frameworks disconnect from actual practice
- ❑ Maintenance of tax base (reassessment) a major challenge
- ❑ Imbalance between “upstream” and “downstream” admin capacities
- ❑ Poor “downstream admin capacity” often compromises the system
- ❑ Non-fiscal impact of tax rate policies on land development decisions
- ❑ Non-fiscal impact on urban land use and productivity
- ❑ Non-fiscal impact on land speculation and housing affordability
- ❑ Non-fiscal impact on price capitalization in real estate markets
- ❖ *Pty tax also an instrument of better urban management (fiscal, real)*

Diversity of Tax Base Systems

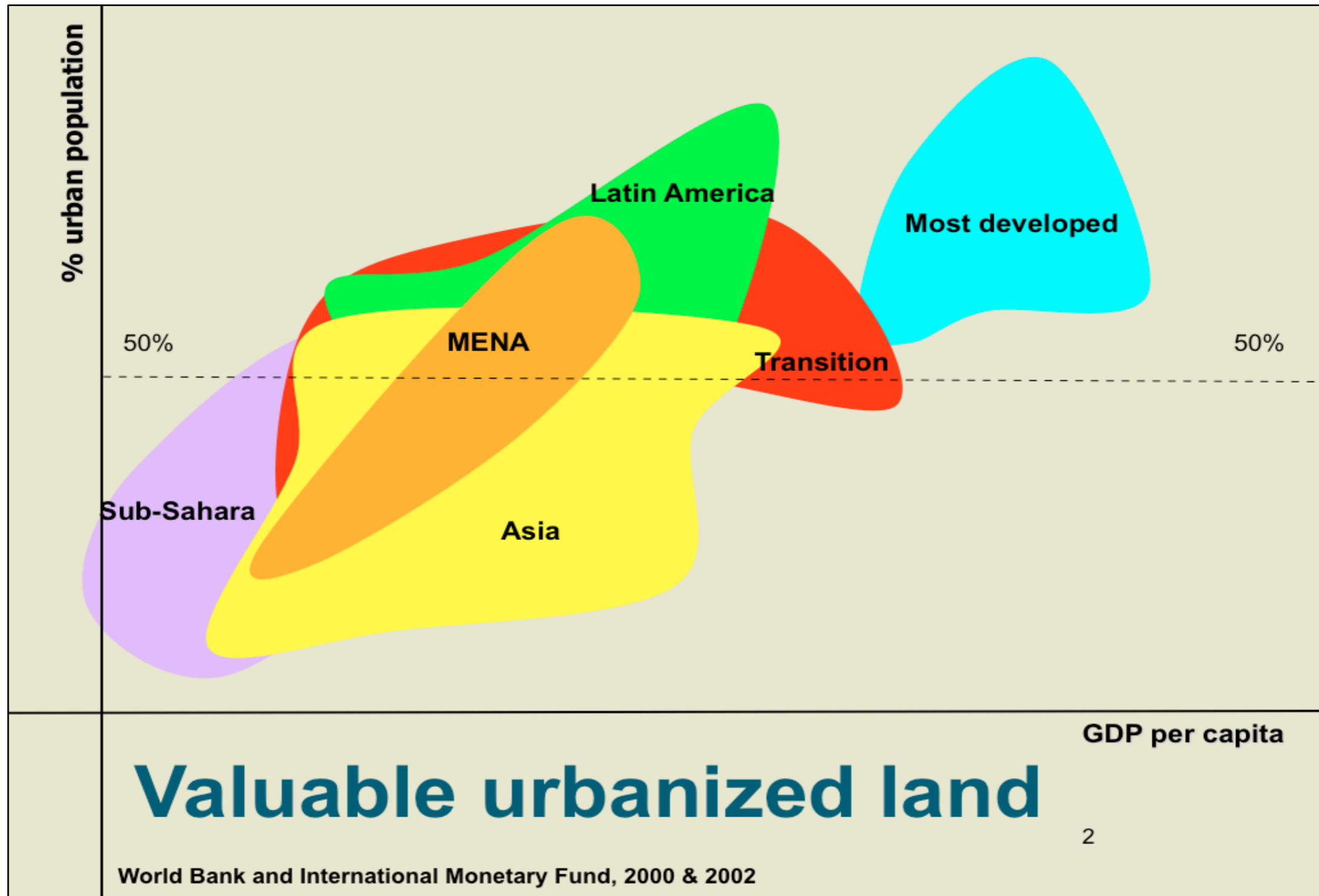
Region	Countries	Cap land value only	Cap value land with building together	Cap value land and building separate	Cap value building only	Annual rental value	Area-based	Unitary flat tax
Africa	25	4	8	3	4	7	11	6
Caribbean	13	1	4	2	0	8	5	0
Asia	24	2	6	2	0	11	11	0
Oceania	7	6	2	0	0	4	0	0
W. Europe	13	0	9	0	0	6	0	0
E. Europe	20	1	6	0	0	0	15	0
Latin Amer	16	2	14	1	0	1	0	0
N. America	3	0	3	0	0	0	0	0
TOTAL	121	16	52	8	4	37	42	6

Source: M. Bell, George Washington Institute of Public Policy, Washington, DC (October 2010).

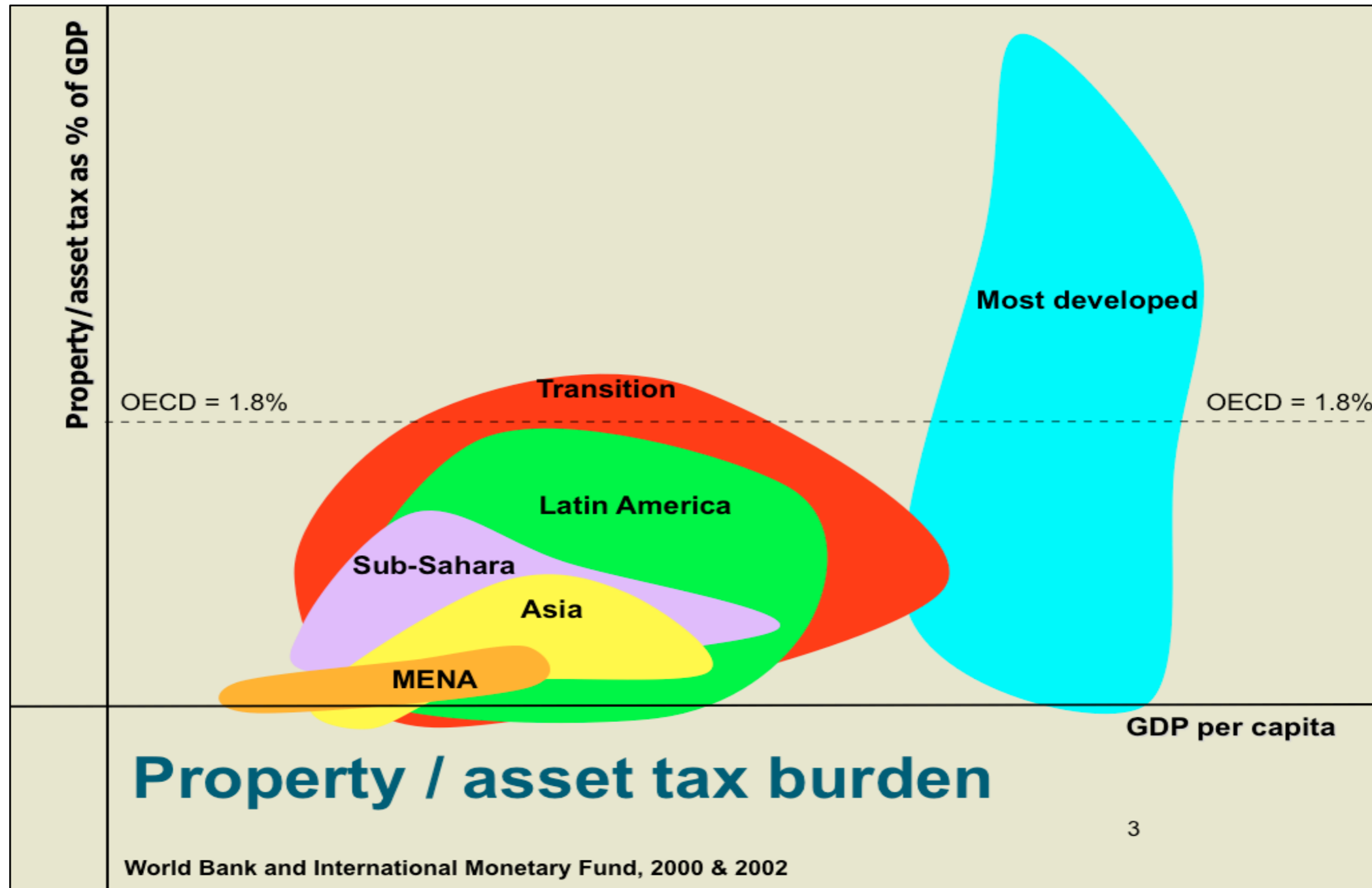
Simplified Tax Base Models

- ❑ Raising revenue in simplest and fastest way or reducing admin costs with more or less compromising of equity issues
- ❑ Unitary flat tax - each pty contributes equally (e.g. Ireland)
- ❑ Historical acquisition values / costs (e.g. California, Poland)
- ❑ Relative values through banding may satisfy taxpayers while drastically reducing admin / reassessment costs

Potential for Urban Pty Tax Revenues



Actual Pty Tax Revenues



Unexploited Revenue Potential

- ❑ Even some high-income countries do not exploit property tax potential
- ❑ Reforms in lower-income countries produced marginally higher revenues (downstream) but much higher costs (upstream)
- ❑ Upstream progress (coverage, assessment) has been eroded by poor downstream performance (collection, enforcement)
- ❑ Central framework design has been eroded by local tax rate and exemption policies
- ❑ 50% collection rates not uncommon in “valuation driven” reforms
- ❖ *Western models inadequate for developing, emerging and transition countries due to poor cadastral, market and admin capacities*

For all its economic virtues, the property tax carries a high political price as its visibility and tangibility to (voting) taxpayers evokes political sensitivity making it often ambivalent to politicians, who view it more as “necessity” than “beauty”.

Erosion of political will can lead to endless delays in tax base reassessment even in highly developed countries, to profusion of exemptions and other tax relief measures, low collection effectiveness and poor (if any) enforcement.

Lessons Learned for Reform Planning

- ❑ Pty tax policy reform is tax admin and political economy
- ❑ Second best, but fiscally optimal solutions should be considered
- ❑ Keep the system as simple as practically possible
- ❑ The weakest component can compromise system's performance
- ❑ Set the system at affordable tax burden, but yielding sufficient revenue
- ❑ Set horizontal equity at just politically acceptable level (not higher)
- ❑ Set admin costs at levels commensurate with realistic revenue levels
- ❑ Assign 100% revenue to local gov'ts, maximize their tax base and give them full tax rate discretion
- ❑ Set distributional equity at level comensurate with tax burden
- ❑ Follow collection-led strategy as catalyst for admin components
- ❑ Customize system design and admin to local capacity constraints
- ❑ Include non-fiscal benefits in cost-benefit analysis of reforms

Some Points to Ponder

- “Ineffective” ad valorem vs. “effective” area-based:
 - ✓ *from ineffective rental value to market calibrated carpet area (India)*
 - ✓ *from subject based area to market calibrated cadastral area (Poland)*
 - ❖ *Perhaps market calibrated area based system can be a first step*
- Tax formula for small / rural vs. large / urban jurisdictions
 - ✓ *little value differentiation makes it cost-ineffective to use ad valorem*
 - ❖ *Perhaps jurisdictions could choose tax base formula*

Some Points to Ponder (2)

- Revenue stability during prolonged recession
 - ✓ *Area-based revenues do not fall during deep market downturns*
 - ✓ *Ad valorem requires costly (financially, politically) market recalibration*
 - ❖ *Perhaps value banding is sufficient for sharing tax burden*

- Contribution from business vs. residential properties
 - ✓ *businesses often contribute the most of property tax revenues*
 - ✓ *most of assessment efforts often given to residential properties*
 - ❖ *Perhaps more focus on assessing business properties*

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THANK YOU
wladyslaw.brzeski@ein-epi.eu

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