

# PROPERTY TAXATION AND SUSTAINABLE REAL ESTATE MARKETS

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**VALUATION SURVEYORS WANTED** in Government Department; age 35 to 45 years; must have had good experience in the valuation of real property and qualified as Fellow of the Surveyors' Institution. Salary to commence at £550 per annum.—Address, with copies of three testimonials.—Valuation (118), "Estates Gazette" office, 34 and 35, Kirby Street, E.C. 966

**This Conveyance** is made the Thirtieth day of March One thousand nine hundred and thirty.

**Between**  
The Honourable Ernest Maxwell Scott Esq. M.P. of Encombe Castle in the County of Dorset a Minister in His Majesty's Diplomatic Service (hereinafter called "the Vendor") of the first part The Honourable (commonly called "the Lady") Margaret Rachel Hamilton Russell (the wife of the Honourable Frederick Gustavus Hamilton Russell) of No. 3 Cambridge Gate Regent Park in the County of London John Wentworth George Bond Esq. of The Grange (formerly Church Grange) Warham in the said County of Dorset Esquire and Charles Gibbons May of 119 Lincoln Inn Fields in the County of London Solicitor (hereinafter called "the Trustees") of the second part and Mary Anne Edmonds wife of Timothy Edmonds of Swanage in the County of Dorset Fisherman (hereinafter

W. KYBERT & SON,  
LAW STATIONERS,  
10, PORTUGAL ST. LINCOLN'S INN, W.C.2.

ONE POUND





Just as the density of top predators provides an indication of the health of an ecosystem so value-based recurrent taxes have a similar totem status with respect to real estate markets



# INFLUENCES ON USE OF PROPERTY TAXES SUGGESTED BY LITERATURE:

- Income level
- Extent of urbanisation
- Openness of economy
- Legal heritage
- Degree of decentralisation in government

**The issue is** how governments **may be able to change** usage of value-based property taxes and **overcome barriers** rather than cultural/ historical/ legacy issues influencing past usage.

## WALTER (2011) CONDITIONS FOR VALUE-BASED RECURRENT PROPERTY TAXES

- Capital markets should function reasonable well to finance real estate purchases.
- There are an adequate number and quality of supporting trades such as valuers and estate agents.
- Property rights and titles are well-documented and marketable.
- There must also be enough market transactions for all classes of property in the various locations to enable the market price to be reliably derived.

# WORLD BANK/ FAO KNOWLEDGE PROJECT 2014-16

- **9 case studies:** Albania, Kazakhstan, Lithuania, Moldova, Netherlands, Poland, Serbia, Slovenia, Turkey from Europe and Central Asia Region. Published in *Land Tenure Journal*, Issue 2, 2015, <http://www.fao.org/3/a-i5429t.pdf>
- **Range of countries** from those who had implemented successful value –based property tax reforms to those experimenting with pilot studies
- Lithuania successful introduction – Moldova good system but roll out incomplete and no revaluations - Slovenia and Poland good systems but implementation blocked – Serbia, Turkey, Albania and Kazakhstan at various stages in experimenting with mass valuation
- Role of the **Netherlands** as a **control** – successful system of value-based property taxation with annual revaluation and multiple usage of assessments by public bodies – devolved assessment by municipalities with standards set by central body

# PRINCIPAL FINDINGS

World Bank/ FAO Knowledge Project, *Property Valuation and Taxation for Fiscal Sustainability and Improved Local Governance in Europe and Central Asia*

# IMPORTANCE OF QUALITY OF PROPERTY REGISTRATION

- Need for **comprehensive register** of properties – issues of systematic first registration, informality, voluntary registration of transfers, registration of leases
- Register of **3-dimensional rights** and not just parcels or buildings – units of occupation rather than ownership, ancillary spaces and rights
- **Characteristics and attributes** of properties are recorded – unreliable and inconsistent data can be declared about **property characteristics** eg size – footprint rather than floor area, terraces excluded
- Maintenance of currency of register – use of automatic updating and data capture where possible

# IMPORTANCE OF QUALITY OF PRICE DATA

- Need for sources of **accurate price data** as basis for estimating market prices eg declared prices on registration
- Need for **efficient and transparent markets** with adequate numbers of transactions of each type of property
- Problem of **tax evasion and declaration of false prices** – incentives to cheat to avoid taxes and fees
- **Weak tax enforcement** mechanisms undermine data quality
- If declared transactions prices **unreliable** can use alternative eg asking prices, mortgage valuations, databases of valuers and realtors
- Development of **sales price, rental and mortgage valuation registers** to improve transparency and reliability of data



# VALUATION INFRASTRUCTURE: A NECESSARY PRE-CONDITION

Adoption of **internationally-recognised valuation standards** and creation of a **valuation profession**:

- Valuation terminology and valuation framework
- Valuation methodologies
- Measurement standards
- Qualifications and education of valuers
- Enforceable ethical standards and codes of professional conduct
- Licensing of valuers or requirement to use valuers who follow valuation standards

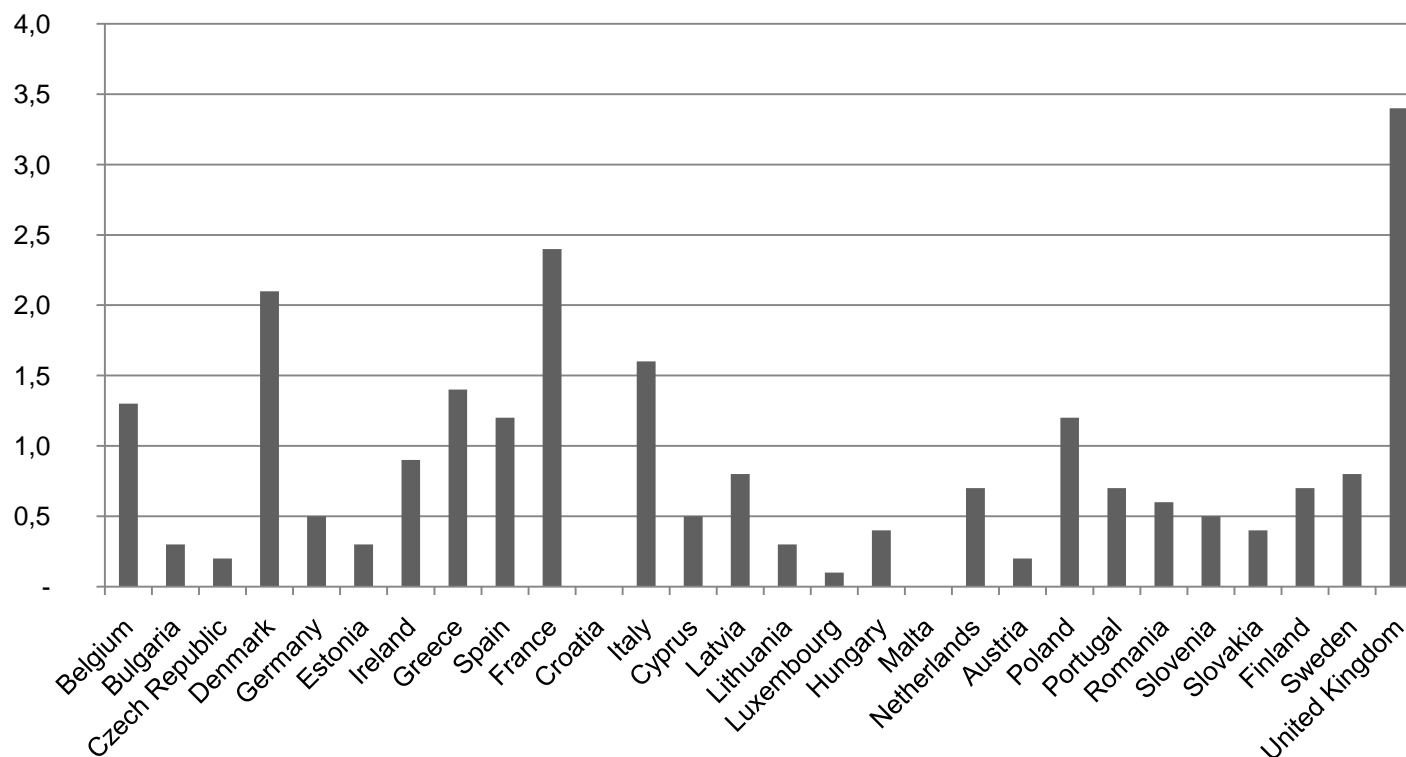
# QUALITY OF TAX COLLECTION

- Quality of billing systems
- Variability in collection rates and in enforcement systems
- Differences between household and business collection rates
- Overcoming culture of non-payment
- Transparency issues: are the elites paying their taxes?

# RECURRENT PROPERTY TAXES – THE UNDER-UTILISED TAX

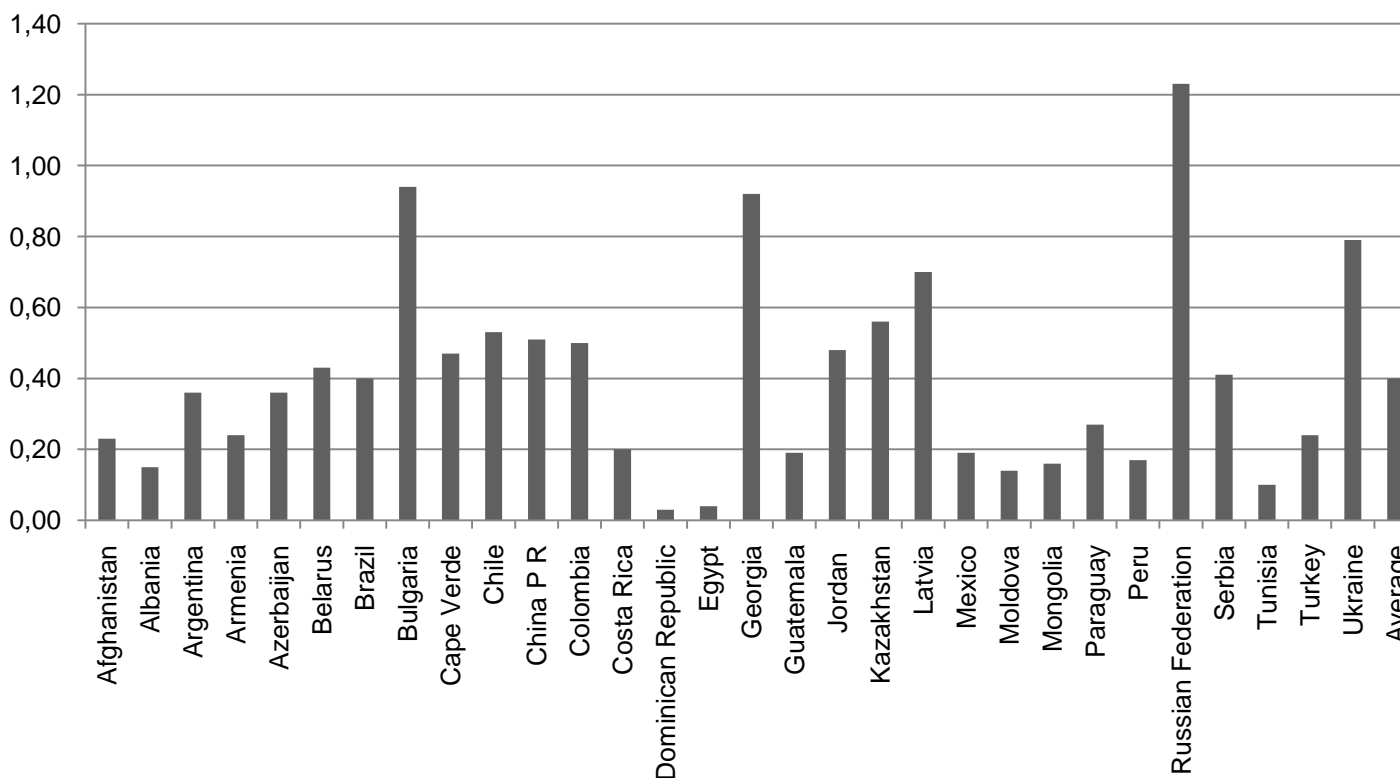
- Two main types of property tax:
  - Recurrent – levied annually
  - Sporadic – levied when there is a trigger event eg sale of property, mortgage, change in town planning consent, death of owner
  
- Recurrent property taxes are **widely found** – Almy (2014) identified 166 countries with them
  
- But **lightly used**
  - arithmetic average percentage of Gross Domestic Product raised by recurrent property taxes for the EU is just 0.8 percent.
  - Norregaard (2013) found that the proportion of GDP generated in this way by middle and low-income countries was only 0.4 percent.

# RECURRENT TAXES ON IMMOVABLE PROPERTY AS A PERCENTAGE OF THE GROSS DOMESTIC PRODUCT IN THE EUROPEAN UNION, 2012



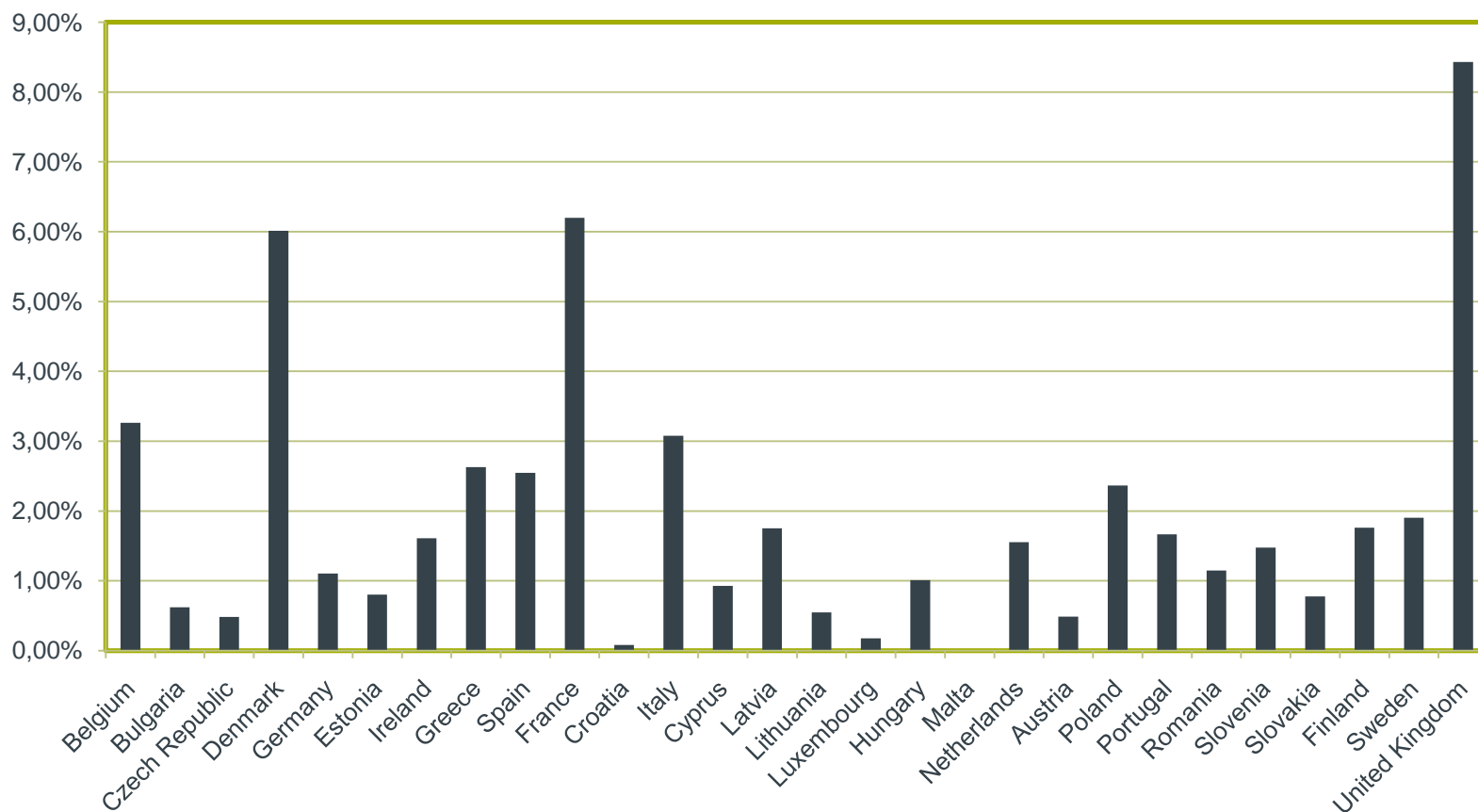
Source: Eurostat (2014) *Taxation Trends in the European Union*

# RECURRENT TAXES ON IMMOVABLE PROPERTY AS A PERCENTAGE OF THE GROSS DOMESTIC PRODUCT IN MIDDLE- AND LOW-INCOME COUNTRIES, 2010



Source: Norregaard (2013) IMF Working Paper WP/13/129

# RECURRENT TAXES ON IMMOVABLE PROPERTY IN THE EU AS A PERCENTAGE OF GROSS VALUE ADDED LESS EMPLOYEE COMPENSATION



Source: Eurostat with calculations by the authors

# MERITS OF RECURRENT VALUE-BASED PROPERTY TAXES

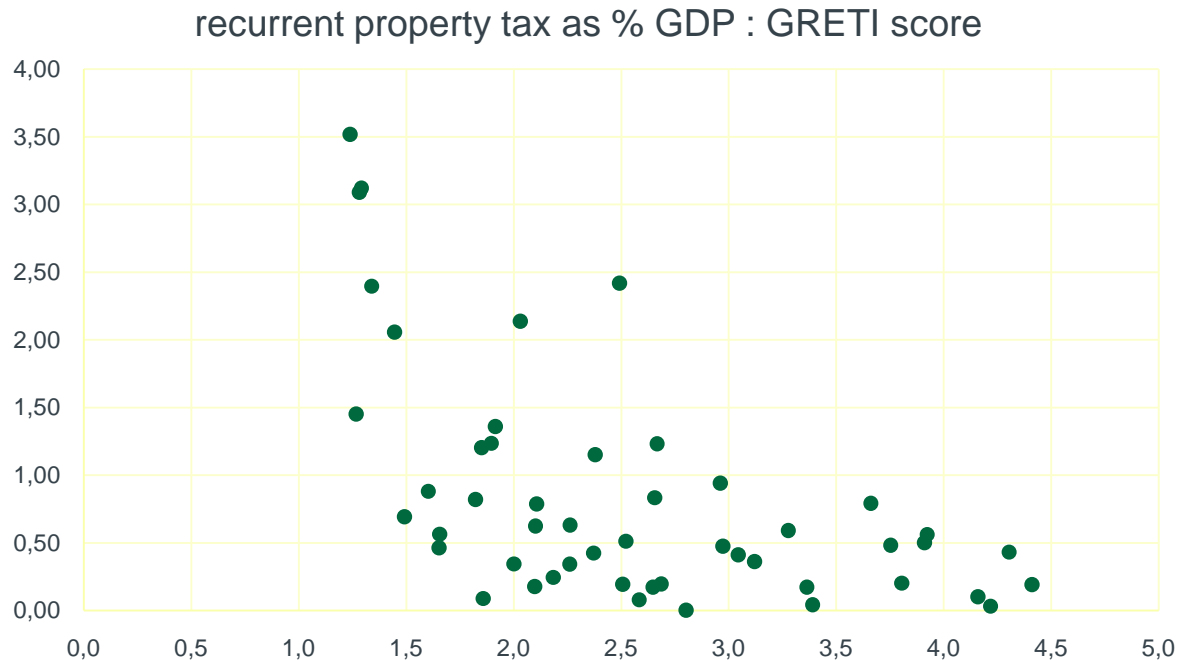
- Suitability as local taxes as fall on **immobile assets**
- Reduces local governments' dependency **on inter-governmental fiscal transfers** at a time when many governments are under **fiscal strain**
- Increases **accountability** of local governments to citizens
- Helps to **counter tax avoidance** by multi-national companies and tax erosion resulting from **globalisation**
- **Reduces reliance** on income, profits and sales taxes and social security contributions and their **distorting effects** on work and investment
- Taxes wealth – helps promote **equity** in taxation by reducing tax burden on low income groups from income and sales taxes
- Helps counter **inter-generational** wealth inequalities

# SO WHY IS A TAX WITH SO MANY MERITS SO LIGHTLY USED?

- Many recurrent property taxes not levied on market value.  
Common alternatives:
  - Area sometimes modified by coefficients but these do not accurately reflect market values – sets an effective ceiling on tax rates
  - Depreciated historic cost or book value of buildings – not what prudent owners would spend today and use of artificial depreciation rates rather than obsolescence based on market value
  - “Cadastre” values set by mass valuation systems that do not reflect market values
  - Out of date values rather than regular revaluations
- Public and political opposition to property taxes – lack of champions in government
- Need to put in place preconditions for successful tax reform – valuation infrastructure, property registration, quality of price data, improvements in tax collection



# HOW IMPORTANT IS PROPERTY MARKET EFFICIENCY? HIGHER TAX YIELDS FOUND IN THE MORE TRANSPARENT MARKETS



Data: Market efficiency JLL Global Real Estate Tax Indicator 1.0 is transparent, 5.0 opaque

Recurrent property tax as % GDP: OECD, Norregaard, Eurostat

## SOME FINAL THOUGHTS

- Transparent property markets with high recurrent property tax yields do not necessarily have good property registration systems eg USA need for title insurance, UK no cadastre – but have secure property rights, very active property trading and efficient property finance markets
- High levels of intergovernmental fiscal transfers from central to local government can result in fiscal instability if they result in high levels of government debt or budgetary deficits
- Successful economic unions like USA, UK, Canada and Australia have found ways of transferring income from prosperous to less prosperous regions, eg through defence expenditure or healthcare, to reflect constraints on levying taxes in poorer regions. Unsuccessful ones ignore the problem.