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Plucking the Hissing Goose : Taxing Residential Property

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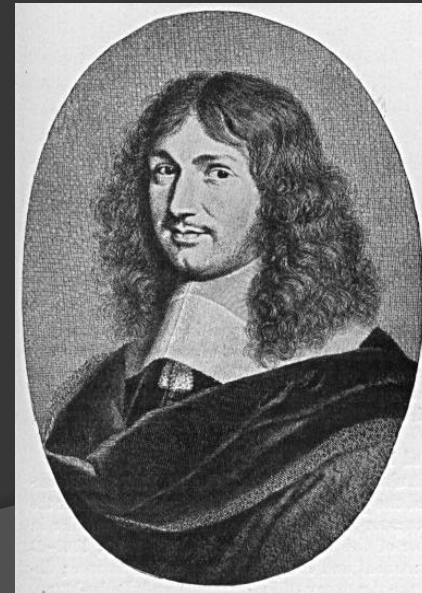
PLUCKING THE HISSING GOOSE

The Hissing Goose

"The art of taxation consists in so plucking the goose as to obtain the largest amount of feathers with the least possible amount of hissing".

◎ **Jean-Baptiste Colbert**

- Louis IV's finance minister
- Credited with saving the French Kingdom from bankruptcy



“ In this world nothing can be said to be certain, except death and taxes.”

Benjamin Franklin, 1817:

- ⦿ Taxes are levied on the factors and output of production
 - Land, Labour, Capital, Enterprise
 - Goods & Services, Transactions
- ⦿ Objective –
 - To take as much as is needed with as little pain as possible
- ⦿ Who and what gets taxed is a painful manifestation of government ideology

Taxing Land

- ◎ **Origins of Land taxes lie in ancient history-**
 - A proxy for ability to pay for benefits provided by the State
- ◎ **Land (a repository of wealth) benefits from government activity**
 - Identification of “Holding”
 - Security of title & occupancy,
 - Support from infrastructure
 - Benefit from services e.g. infrastructure
- ◎ Land Tax seen as a **payment for benefits/ obligations**
 - This influenced early development of property taxes

Let's look at Land

- ⦿ Land
 - Exists in nature-
- ⦿ Capital – added by man
 - In the form of
 - Infrastructure
 - Buildings
 - Planning rules and regulations
- ⦿ To Provide **Real Estate**
 - Property as it is called
 - The bundle of legal rights tied to a physical space
 - Can be separated into Land and Improvements

Increases in land rent /values

- ⦿ Due to general societal influences
 - Should form the basis of government revenues.
 - Adam Smith 1723-1790
 - Ricardo 1772-1823
 - Henry George *Progress and Poverty 1879*
- ⦿ Note
 - Arguments apply to “Land” and not to “Land and Buildings”
 - An important distinction
 - Buildings & improvements are seen as capital

Ground-rents, and the ordinary rent of land, are, therefore, perhaps, the species of revenue which can best bear to have a particular tax imposed upon them. Adam Smith

Land & Property Taxes are supported by economists & other policy makers

- ◎ Strong case can be made for them
 - Nov 1990 Letter to Gorbachev from 30 leading economists
 - *A public revenue system should strive to collect as much of the rent of land as possible ...*
 - Commission on Taxation
 - 1980's & recently recommended them
- ◎ Property taxes should be part of the tax spectrum
 - Can take many forms
 - Many of which we have e.g.
 - Betterment taxes, CGT on Development land, rates etc.
- ◎ **What we do not have is a coherent approach and a Residential Property Tax**

Advantages of Recurrent Annual Land and Property Taxes

- The least damaging of taxes
- Difficult to avoid – land is immobile
- Easy and cheap to administer
- Provides information to assist property markets
- Predictable and buoyant revenue
- Suited to funding local government
- Reduces urban sprawl
- Broadens the tax base
- Acts as a damper on prices in boom times

RPT is a feature of modern tax systems

- ⦿ Found in nearly all OECD Countries
 - Where property tax revenues average about 3% of GDP (4% in Canada)
- ⦿ Used to fund Local Government
 - Significant degree of local democratic control
- ⦿ There are difficulties
 - Often property taxes are regressive
 - Distortions can arise due to inadequate assessment

Property Tax Problems

● In the US

- Much debate
 - A lot of discussion about assessment limits, rollbacks and even elimination
 - Proposition 13 in California.
- A slow decline in the local revenue raised from Property Taxes
 - from 76% in 1970 to 65% by 2006

● In England

- Margaret Thatcher sought a replacement for residential rates -the infamous Community Charge/ Poll Tax
- So unpopular it was replaced by the Council Tax
 - A unique system of banding assessed property values
 - Largely accepted but now requires updating

Why Unpopular?

- ⦿ More **visible** and therefore more painful than other taxes.
- ⦿ Questionable correlation between **ability to pay** and value of home.
- ⦿ When property taxes rise, those on fixed incomes may be **forced to sell or relocate**
 - Often rise because the value of neighbourhoods change
- ⦿ Middle classes have **wealth tied up** in their homes
 - Property taxes seen as **a tax on middle class property holdings.**
 - Seen as **a Home Tax**
- ⦿ A lot of **houses are mortgaged** with owners having limited equity paying the same as those who own outright
- ⦿ Basis of **assessment obscure** or misunderstood.
- ⦿ Required revisions not undertaken - pose threats to some.

Is it possible to have a fair and equitable property tax?

- ⦿ Yes! But a rigorous structure is required
- ⦿ RPT would acquire acceptance if seen
 - As a payment for local services and infrastructure that underpin property values
 - Sewerage, Road maintenance, parks, other amenities.
 - Less costly per unit in urban areas
 - To fund local government with real local democratic control
- ⦿ Clear link of “benefits” to tax paid

Basis of Assessment

- ⦿ **Can be done in a variety of ways**
 - Ad valorem – capital or rental values
 - Self- assessment.
 - Requires price transparency
 - Banding
 - Assessment by professionals
 - Relative property sizes
 - Site value or combination of site and property tax (Split rate)
- ⦿ **All have advantages and disadvantages**
- ⦿ **All require rigorous administrative arrangements**

Land (or Site) Value Taxation

- ⦿ In the programme for government
- ⦿ Based on distinction between
 - Land
 - &
 - Land and Buildings
- ⦿ “Land” Should be Taxed
 - not the improvements to land which are a form of capital
- ⦿ Attractive in principle but difficult to implement in practice

RPT systems require

- **Appropriate administrative structures.**
- **Transparent transaction prices**
- **Good appeal mechanisms**
- Linkage to taxation of non residential property
- Changes to other legislation
- Decisions about Local Authority financing
- Mechanisms to deal with higher prices in particular locations eg Dublin

Without these RPT will be rejected

RPT should be levied

- ⦿ To broaden the tax base
- ⦿ To make tax system more equitable-
 - But only if done properly
- ⦿ There are significant dangers
 - There is a need for considerable transitional arrangements
 - RPTs can be regressive
- ⦿ Needs contextual changes to other taxes
 - As part of a reform of local govt.

Can it be done?..... Yes but.....

- ⦿ No quick win
 - Difficult to see how a RPT can be fair without a properly structured approach to assessment
- Needs
 - Cadastre,
 - Publicly available transaction data,
 - Appropriate administrative system with appeals
- ⦿ Without these a RPT will
 - Add to unrest
 - Reinforce the wrong view that such taxes are undesirable
- ⦿ **Do it properly.... or not do it at all!**

Apparently
geese are great
defenders for a
home!



Thank you!

