



2010-10-15

# Plucking the Hissing Goose : Taxing Residential Property

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## Recommended Citation

Dunne, T. (2010) Plucking the Hissing Goose Taxing Residential Property, Power point presentation.

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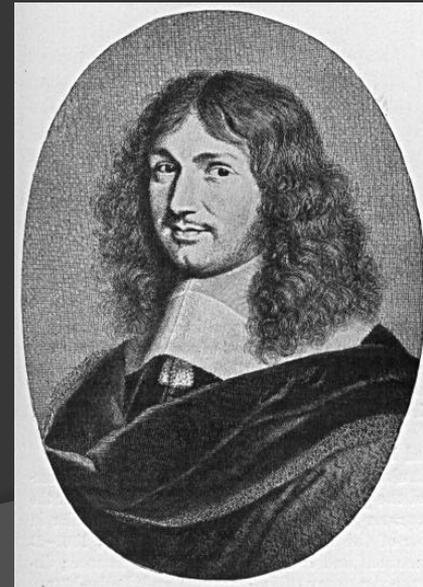
# PLUCKING THE HISSING GOOSE

# 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 XIV'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!

