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Plucking the Hissing Goose: Taxing Residential Property

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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!
Thank you!

Apparently geese are great defenders for a home!