

Taxation and land markets

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Purposes of this session

- Identify all taxes that might impact on property markets
- Identify how each tax might effect property markets
- examine three common distortionary factors

Some general comments on taxation

- A statement of the obvious! The main purpose of taxation is revenue generation
- Taxation administration is a harsh discipline
- Anything to do with taxation is highly political
- Tax administrators dislike 'exemptions'

Taxation and social engineering

- Many examples of taxation being used negatively to discourage activities.
- Taxes on alcohol and tobacco
- High taxes sometimes designed to redistribute wealth
- Fewer successful examples of positive effects from taxation

What to look for

- What is the rate of tax?
- What exemptions are there?

Markets in real property

- Property markets will operate if the conditions are right
- Action: remove all impediments to the free open operation of real property markets

Taxes affecting real property

- Annual Property taxes
- Transfer taxes and 'stamp duty'
- Income and corporation taxes
- Taxes on death
- Capital Gains tax
- Wealth taxes or capital taxes
- Betterment Taxes
- VAT

Income tax & corporation taxes

- Complex but generally neither are distort property markets
- Look at capital allowances. A way of encouraging investment in property

Taxes on death

- Law and custom can affect the pattern of ownership; and thus indirectly the property market
- Taxation has less effect on propoerty markets

Capital Gains Tax

- Not common
- Can affect markets
- *to be discussed if required*

VAT

- Probably not distortionary but will discuss if required

Betterment taxes

- Very complex to administer. Where they exist they can affect property markets

Annual property taxes

- Very common.
- Several different bases of assessment: capital value, rental value, site value, value of buildings only
- Who is the taxpayer? The owner of the occupier?

Annual property taxes

- Need not adversely affect the property markets
- BUT BEWARE links to the land registration system. Not good if only registered properties are taxed
- Bad for registration: bad for property tax
- Remedy. Properties taxable if registered or could be registered

Annual property taxes

- Basis of assessment: 'current use value' or 'highest and best use'
- Encouraging optimum use of land
- Difficulties of collection

Stamp duty and transfer taxes

- How do these taxes work? Tax is a percentage of the sale price. (ad valorem)
- How much is the combined fee and the transfer tax?
- If less than 4%; OK

Stamp duty & transfer taxes at high rates

- seller and purchaser look at total cost: fees and tax
- If over 10%; ---
- RESULT: avoidance and evasion,
- RESULT: mis-reporting of sale price

Using transfer to collect back taxes

- Not uncommon. No registration until certificate that all back taxes paid
- No registration without certificates from zoning authorities and building by-law authorities
- RESULT: discourages registration

Three common adverse factors

- Linkage between registration and property tax
- Use occasion of transfer to collect back taxes
- Transfer taxes at high rates

Things to discuss

- Encouraging the consolidation of scattered holdings. Should such transactions be free of transfer tax? Legal definition?
- Encouraging the amalgamation of small uneconomic holdings. Should such transactions be free of transfer tax? Legal definition?
- Instead of tax exemptions would direct government **grants** be more effective?
- Taxation in your country. Does any particular tax cause difficulties for land administration?
- Taxation in your country. Have you any examples of taxation being successfully used as an incentive?