

FINNISH FORAY

SOARING land prices in Helsinki have panicked Finland's government into proposing a tax on land zoned for multi-family residential buildings. A rate of 10% on the taxable value in the first year diminishes to 5% in subsequent years.

The plan has not received the unqualified blessing of Finland's leading land-use expert, Professor Pekka Virtanen of the Helsinki University of Technology, pictured right.

In recent years, he has published articles in the Finnish newspapers advocating a fully-fledged system of land value taxation – or a partial variant of that fiscal policy, in which the tax rate is reduced on the value of buildings and raised on the value of land.

Even so, Prof. Virtanen reluctantly accepts the new tax as "better than nothing." But, he points out, the tax is shot through with loopholes. Even the municipalities which would gain from the revenue can sidestep the obligation to impose the tax.

"The politicians are being cautious," reports Prof. Virtanen. "They feel that land value taxation is not very popular even among ordinary people, to say nothing of the bigger landowners. They accept the 'penalty tax' because it is a temporary solution, and directed at

Helsinki
probes
the LVT
option



some bigger landowners, especially the so called 'grunders' or big developers who own large tracts in the Helsinki region.

"This is a typical case where politicians count probable votes and do not think about the problem or the effective solution."

The deterrent effect of the tax on the land hoarders is not likely to be effective. For the assessed value of land in Helsinki is notoriously low, and the gap between taxable and market values has increased in the past 12 months as prices have risen steeply.

A committee set up by the Ministry of Finance to investigate the workings of the property tax is expected to report at the end of January; observers do not expect it to propose radical reforms.

In fact, the Helsinki land market is likely to be aggravated further this year, for the government proposes to raise

the tax on the capital gains made from the sale of land. Owners are expected to withhold their sites from the market, thereby restricting the supply of land further – and forcing up prices even higher!

The reasons for the boom in real estate are the same as those that operated throughout the world since the crash of the stock markets in October 1987.

Explains Prof. Virtanen:

"Many investors got frightened and sold their bonds and debentures to invest in more secure and concrete objects.

"Simultaneously – by a mere chance – the Bank of Finland slackened its rule that you had to save a certain amount of money (normally 20% of the price of the residence to be bought). Now the lending became 'free'. You could borrow money up to 100% of the value of the house or apartment. Even more than that, you could have 'eternal' loans, i.e. loans for which you only pay interest.

"These two factors suddenly caused a sharp rise in demand, and prices grew at annual rates of 30% to 50%.

"There were no demographic or planning explanations for the steep rise in prices, and foreigners play no role in our real estate market: they have very limited rights to acquire real estate in Finland."

for residential use fell from 19.3% to 16.6% of the market value.

More recent changes are not reflected in these figures: for revaluations are carried out only once every three years. A further limitation is that any tax increase is restricted to 10%.

Taking into account these additional factors, some critics have estimated the average tax rate on land to be only 0.15%, as com-

pared with the nominal 1.4%.

"Reform of the taxation of land," says the survey, "has become more important given the rapid recent rise in land prices." We cannot but agree. Yet its authors put forward the possible difficulty that, because land prices have risen faster than incomes, some land-holders may not be able to afford a more realistic rate of tax.

This is hardly admissible; for the

increased taxes themselves, or even the knowledge that they were on the way, would start to bring the prices down from their present monopoly-induced level. Furthermore, other, less just, taxes could be reduced in compensation.

A word of warning. Japanese advocates of the increased land value tax will need to look sharp; for there is already a movement afoot to decrease it still further.