

Survey of complex property tax regimes informs debate on land taxation

WILLIAM McCluskey starts by saying that interest in property taxation has been steadily growing over the last 20 years primarily because it is an ideal source of tax revenue. With so much wealth tied up in land and buildings the idea of taxing the unearned element is clearly popular worldwide, but as this book reveals, there are many ways in which this can be done. It is this variety which is one of the strengths of this book.

In all 21 countries are reported on by a wealth of authors. It is the largest coverage of comparative material in one publication which is to be applauded although there are notable gaps in this coverage.

In Europe chapters are to be found on Cyprus, the Czech Republic, Estonia, Hungary, Ireland, the Netherlands and Poland. A notable exception is Denmark.

Those interested in the former Soviet satellite republics in Central and Eastern Europe with their distinct disadvantages of limited private ownership and partial cadastral records will be particularly rewarded. In Estonia the basis of the tax is open market value of the land only whereas in the Czech Republic, Hungary and Poland, property taxes apply to land and buildings in a variety of ways. In the Czech Republic, for example, there is a form of development charge which is based on a calculation of building footprint multiplied by a coefficient based on the number of inhabitants in the municipality where the development is proposed.

IN SINGAPORE, property tax is the second largest source of government revenue after income tax although with growing affluence and a government sales tax it may by now have been relegated to third place. The interesting thing about Singapore, however, is that property tax can be used to influence economic policy, although being based on the English rating system (with variations) it is not without problems as Chapter 2 highlights.

Hong Kong's rating system is again similar to the UK, with all rateable property assigned a rateable value and kept in a valuation list. However, with a volatile property market land prices can distort the rating assessment which can produce difficulties. The response is reported but what is not covered is the system of land sales and the effects of there being only leasehold interests in property.

In Malaysia there is no property tax in many parts of the country and not surprisingly their local authority services are limited. The rating system is based on the English system but it travelled via India and underwent some changes on the way. The fundamental difference is that the liability to rates falls on the owner of land rather than the occupier. Assessment is based on land with or without buildings.

Further differences can be found in Pakistan where three systems of property tax are in operation. Within the rural areas land revenue is more in the form of a rent although as the author points out very little has been collected. Similarly the urban system is not a success story; problems arise over the frequency of valuation, exemptions and an apparent lack of transparency. The chapter is useful in drawing attention to these matters.

Thailand's two property taxes are referred to, one on buildings – a house and building tax – and one on land development. Under the former the owner is liable although there are many exemptions including government buildings, hospitals and religious properties. The tax on land development is perhaps more interesting in that it is based on land value although, again there are many exemptions. What is more inter-

esting is how the tax is calculated: the medium value computed from three recent sale prices of land with no account taken of improvements. Prices are used for four years and made public.

In the Philippines, the basis of the tax is market value of actual uses set within a classification system based on local government units and property sectors such as residential, commercial and timberland.

MOVING TO the Americas, the book provides information on Brazil and Jamaica. Supporters of land tax may be disappointed that the United States is not included but both of the above countries provide interesting information. In Brazil, whilst the method of land value assessment is market value a cost approach is applied which breaks this value down into land value and building cost. The former is further broken down into ULV which is a typical land value per unit land area (US \$m²) and LA which is land area (m²). A useful methodology for calculating land value is then provided.

The chapter on Jamaica also provides detailed definitions on unimproved land value. Reference is made to cost effectiveness, the discouragement of speculation and other advantages but, significantly, it also highlights disadvantages of site value rating such as penalising the holding of accommodation land when a change of use is not yet economic. In all a useful chapter.

Botswana, Zimbabwe, South Africa and Kenya display substantial differences in approach and not just between countries. In Kenya, for instance, rating authorities can adopt up to six different forms of property taxation although the tendency in all four countries is to combine land and buildings for assessment purposes.

South Africa is interesting because local government has the option to choose between rating the unimproved value of land only, its improved value or a composite of the two where both are rated at different levels. Site value is arrived at on the basis of improvement not being made and the value of improvements is

arrived at by subtracting site value from improved value! Some variations occur and exemptions and rebates exist in all nine provinces. It should be noted however that South Africa's local government is still undergoing transition from apartheid and issues and problems remain because of this. The chapter provides useful information on all of these matters.

The two chapters which are likely to be of greatest interest to Georgists relate to New Zealand and Australia. The one on New Zealand provides useful information on the historical development of tax on unimproved value and at how and why a reversal occurred in the 1980s. It also provides useful definitions, the information required for each property and significantly why the residual approach (capital value minus the value of improvements equals land value) is not accepted for rating purposes. This makes pertinent reading.

So too does the chapter on Australia. It goes into the definition of land value in great detail and provides information and discussion on the necessary criteria for a good tax. For those interested in the practicalities of land value taxation these and other issues are covered in detail.

In all, it is a book with a wealth of information which should assist the debate on land value taxation.

