

# Tax Relief

## MVV182K Property-related Taxation: Issues and Trends

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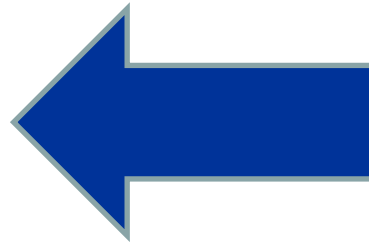
*University of Pretoria*

*South Africa*



# Introduction (1)

- Tax base
- Property discovery
- Valuation
- Assessment
- Tax rates
- **Tax relief**
- Billing
- Collection
- Enforcement
- System Management



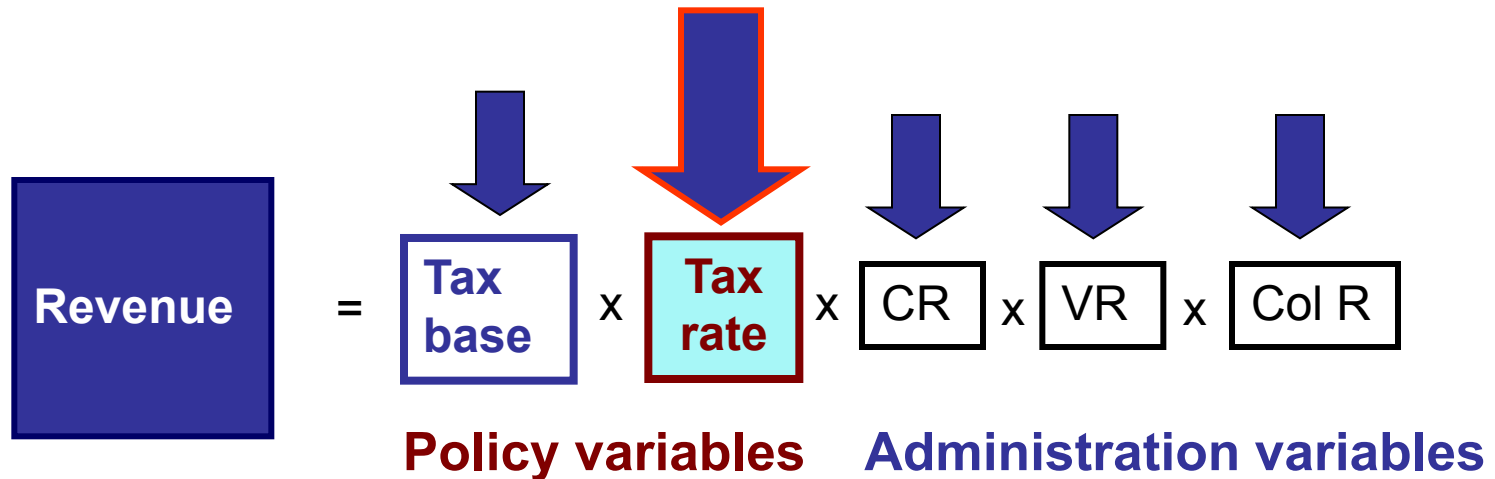
# What is Tax Relief? (1)

- “Tax relief” implies that some taxpayers, or properties, or property categories receive preferential treatment and should be justified in a rates policy as some are paying more if other are paying less...
- Relief is an *expenditure* – and should ideally be quantified and reflected as such in the (municipal) budget
  - Example: South Africa’s property tax law

# What is Tax Relief? (2)

- The relief could be granted –
  - to **persons**
    - E.g. pensioners, the aged) – usually “means tested”
  - on the basis of **use**
    - E.g. properties used for *bona fide* farming; sports facilities
  - on the basis of **location**
    - E.g. rural properties; conservation land
- Should property tax relief be –
  - Mandatory (i.e. fixed in the law), or discretionary (a local, political choice)?
  - Granted *automatically* or *on application*?

# Revenue Mobilization Model: Tax Relief



CR: Coverage ratio

VR: Valuation ratio

Col R: Collection ratio

- Source: Kelly (2000)

# Typical Candidates for Relief

- Poor and indigent
- Pensioners
- Unemployed taxpayers
- Farmers
- Religious, charitable & educational institutions
- Sports clubs
- Foreign embassies
- Conservation land
- Monuments and national heritage sites
- Properties damaged by natural disasters (e.g. flooding)
- **National and/or provincial/state government**
- **Residential properties**
- **Vacant/unoccupied properties**

# Purpose of Relief (i.e. “Why?”)

- To alleviate financial hardship
  - Actual (e.g. unemployed)
  - Perceived (e.g. pensioners or the aged)
- Social or political “merit”
  - E.g. sports clubs, political parties
- Environmental protection
- Counter shifts in incidence
- Achieve “equity”

# Tax Relief Mechanisms (“How”?)

- Base:
  - Exclusions
- Assessment:
  - Value reductions
  - Preferential valuation (e.g. “current use” value)
- Tax rate:
  - Rebate
  - Partial exemption
  - Full exemption
  - Differential rates
  - Rate capping
  - Phase-in
  - Tax holiday
- Payment:
  - Deferral
  - Income tax deductible
  - Tax amnesty



# Dangers

- Erosion of the tax base
- Temporary relief measures tend to become permanent
- Understatement of fiscal capacity
- Loss of transparency
- Loss of accountability (if granted by different levels)
- Pressures to extend relief to other “deserving” groups/entities
- Administrative complexity
- Administrative discretion and corruption
- Unintended consequences or missing the target

# Exemptions

- Distinguish exemption (assessed, but not (fully) taxed) from exclusion (excluded from the base or assessment)
- Based on ownership – e.g. government
- Based on ownership *and* use – e.g. religious, charitable, conservation purposes
- Based on use – e.g. bona fide farming
- Based on value – e.g. below a value threshold
- Problems:
  - Unless accounted for, conceals fiscal capacity
  - Political pressure by similar ‘pressure’ groupings

# Rate Capping

- Protection of taxpayers
- Protection of national interests and national (fiscal) policies
- Prevents or limits (unhealthy) tax competition between municipalities
- Loss of local autonomy
- Statutory overrides

# Relief regarding Payment

- Deferment
  - Administration
  - Interest rate
  - On application
    - E.g. British Columbia, Canada
  - As long as existing use is maintained
    - E.g. New Zealand
- Deductibility from income tax
  - Tax exporting

# Recommendations: Tax Relief

- Relief mechanisms should be restricted to an absolute minimum
- Preferably not be related to the tax base (i.e. an exclusion) or assessment (i.e. preferential valuation)
- Must be quantifiable and justifiable
- Cost should ideally be reflected in annual budget

# Conclusions

- Recommendations for tax relief policies
  - Keep it simple - equity comes with a price tag
- Keep tax relief to the absolute minimum – as it erodes the tax base
- Review relief policies/programmes regularly