

Tax Rates!

MVV182K Property-related Taxation: Issues and Trends

Masaryk University
Brno, Czech Republic

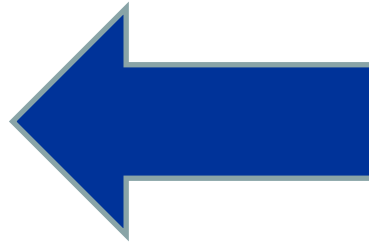
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Introduction (1)

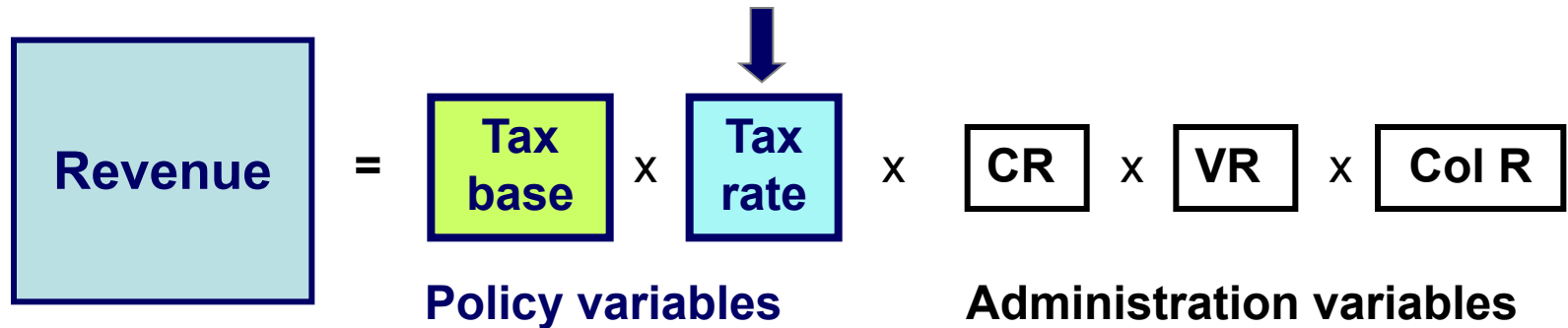
- Tax base
- Property discovery
- Valuation
- Assessment
- **Tax rates**
- Tax relief
- Billing
- Collection
- Enforcement
- System Management



Introduction (2)

- Tax rate = converting assessment (i.e. assessed value) into a tax bill
- Determining **an appropriate tax rate** constitutes a critically important step in the context of any property tax system
- The tax rate depends primarily on
 - the **revenue** requirements of the taxing authority
 - the nature and extent of the **tax base**
- A further important policy issue: **How often should tax rates be determined?**

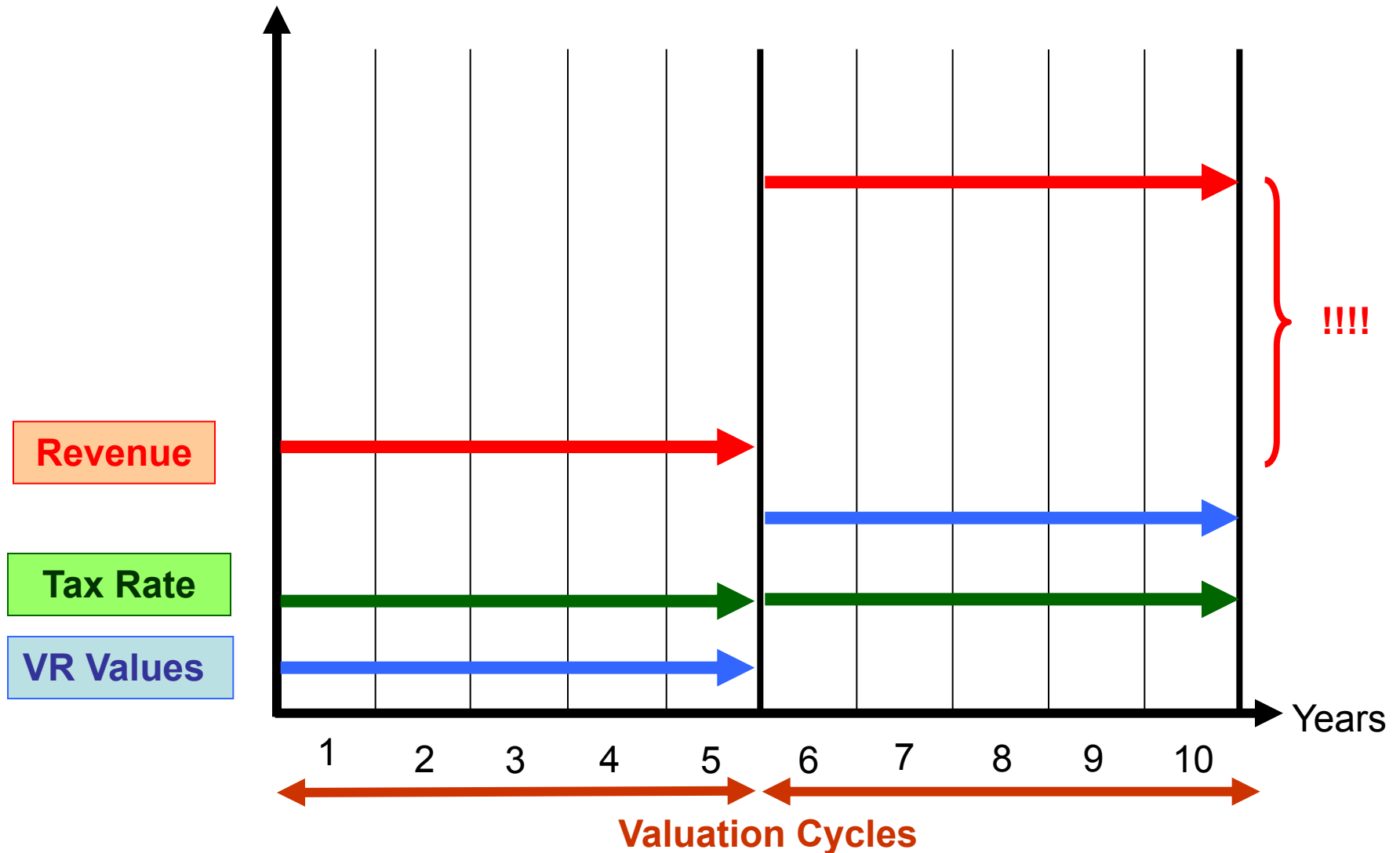
The Revenue Mobilization Model



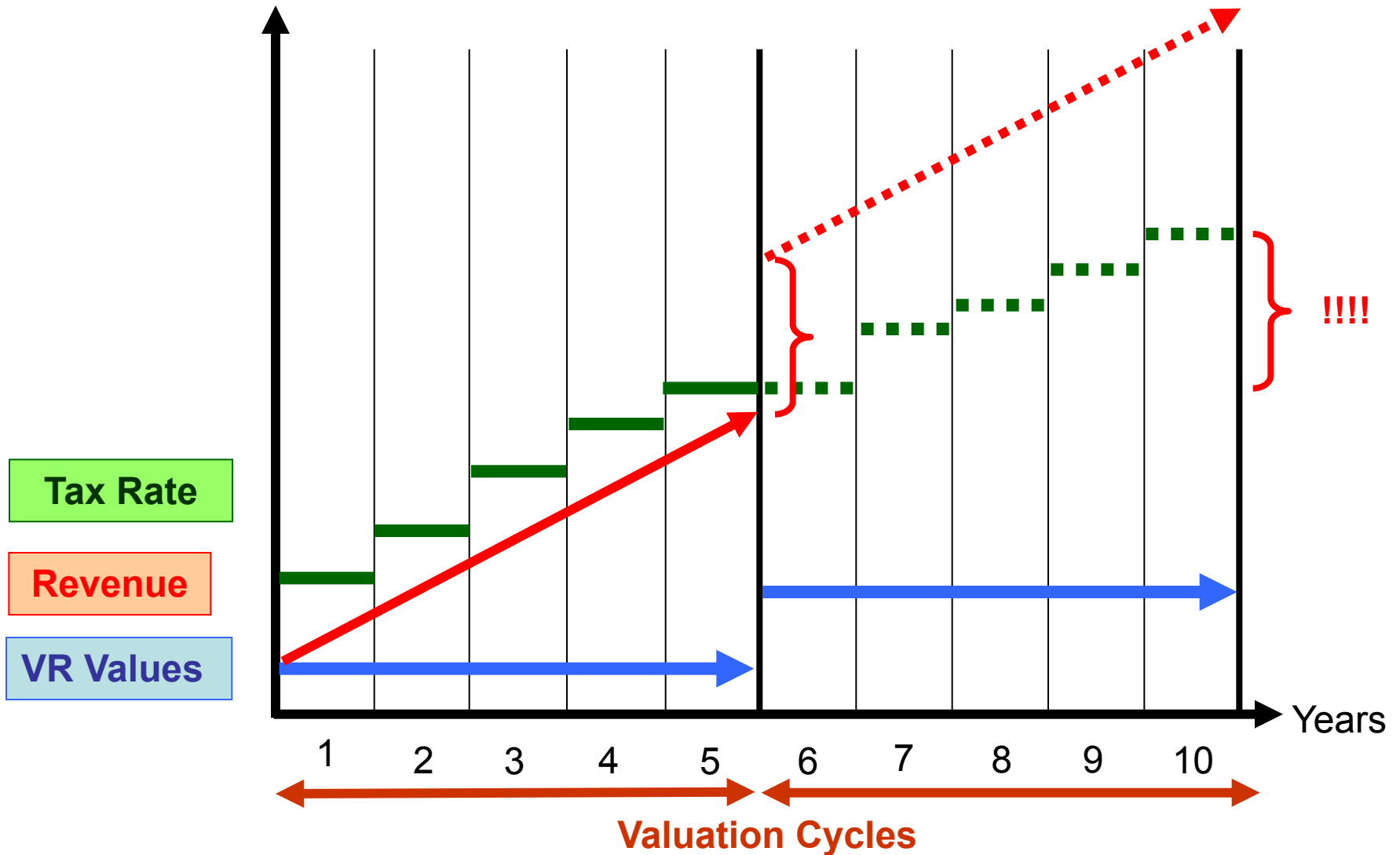
CR: Coverage ratio
VR: Valuation ratio
Col R: Collection ratio

Source: Kelly (2000)

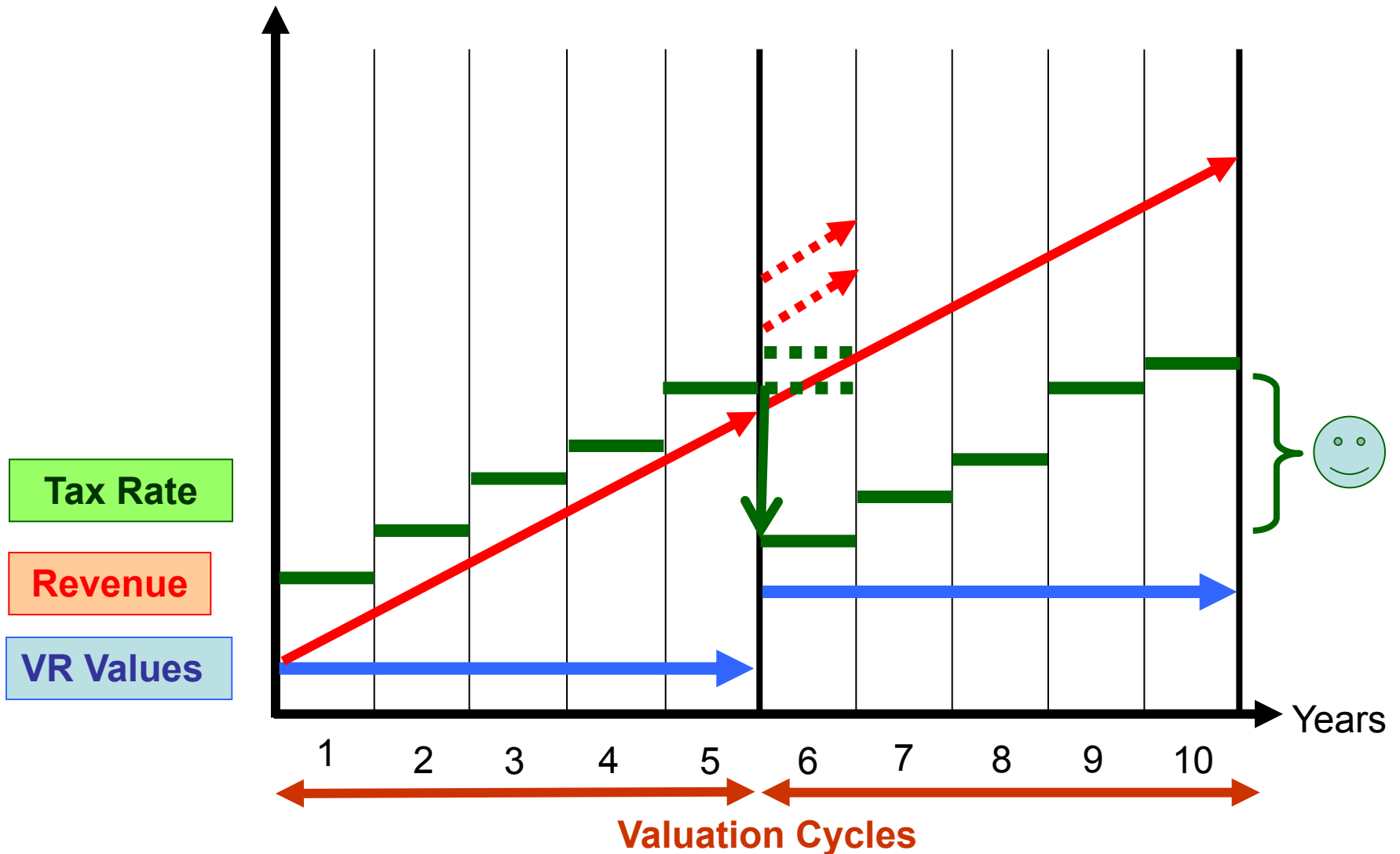
Values versus Tax Rate (1)

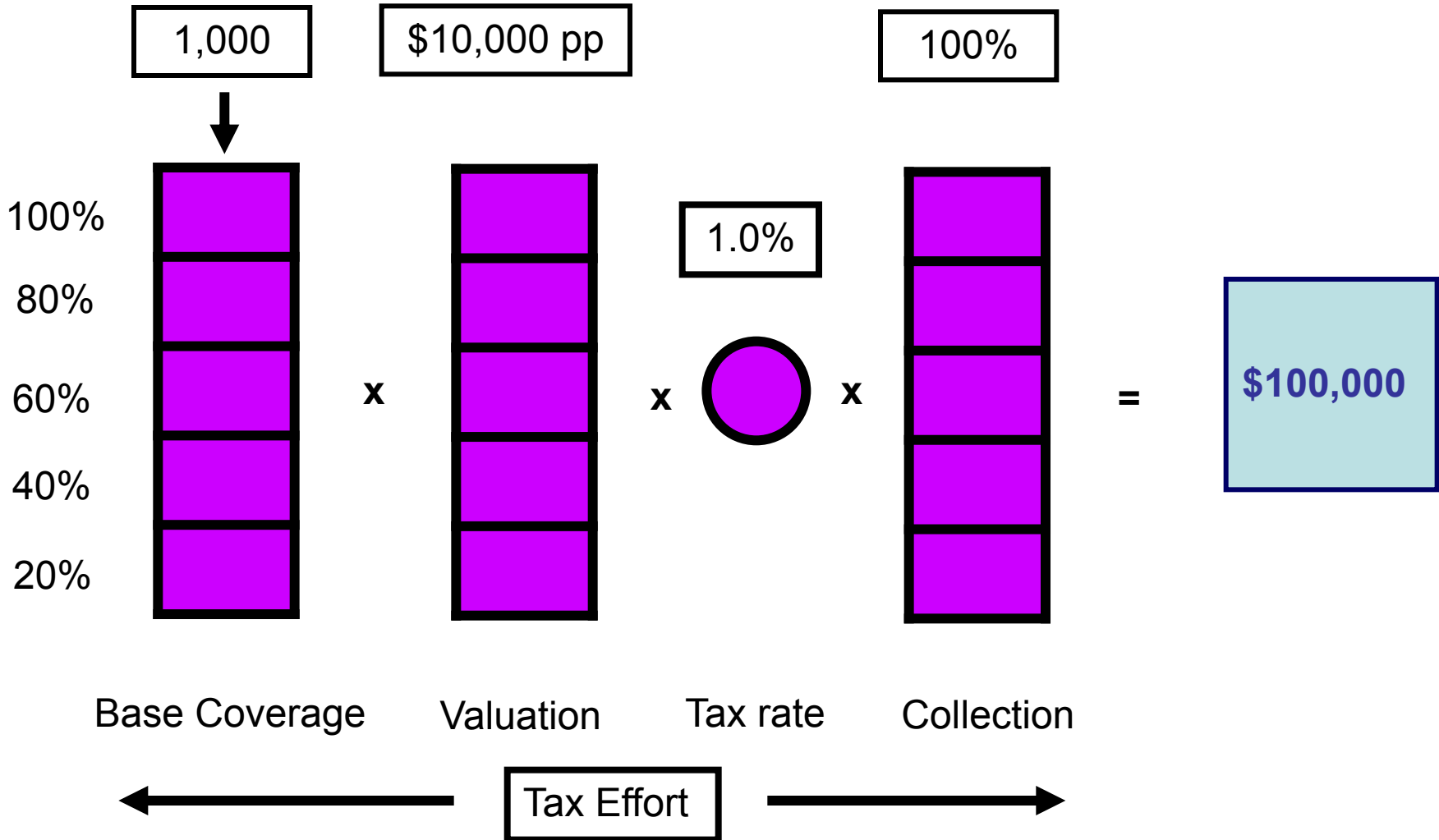


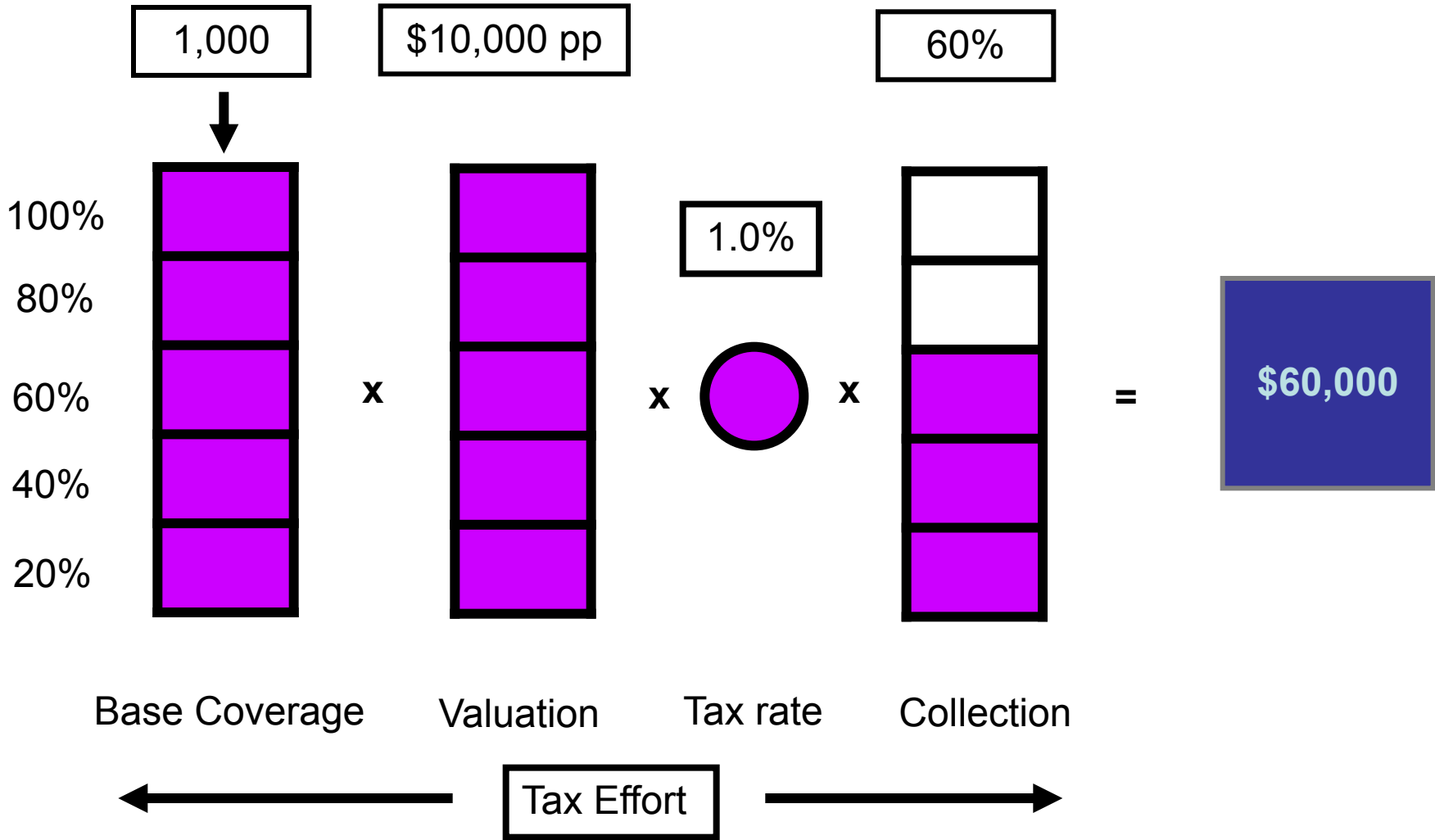
Values versus Tax Rate (2)

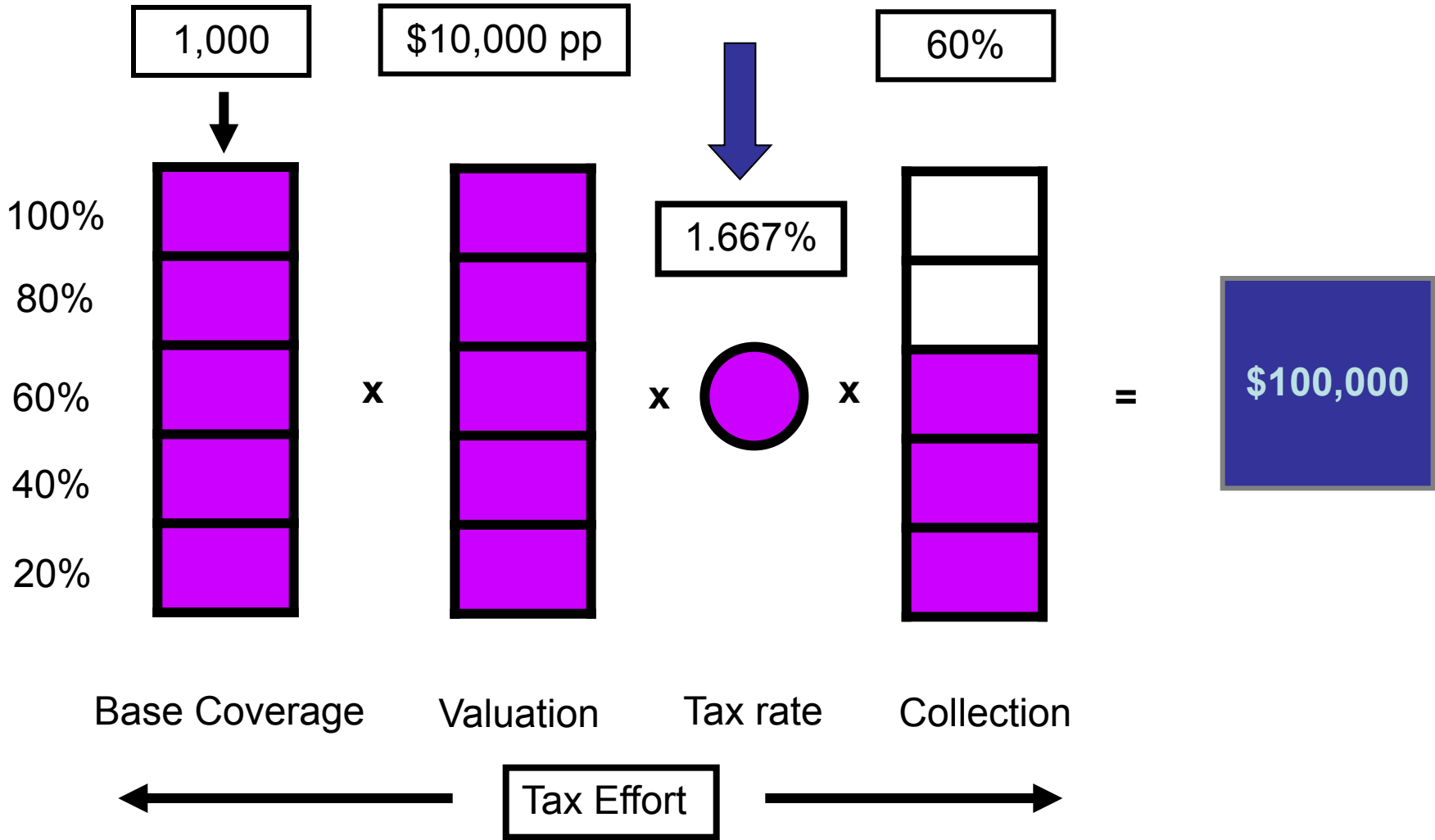


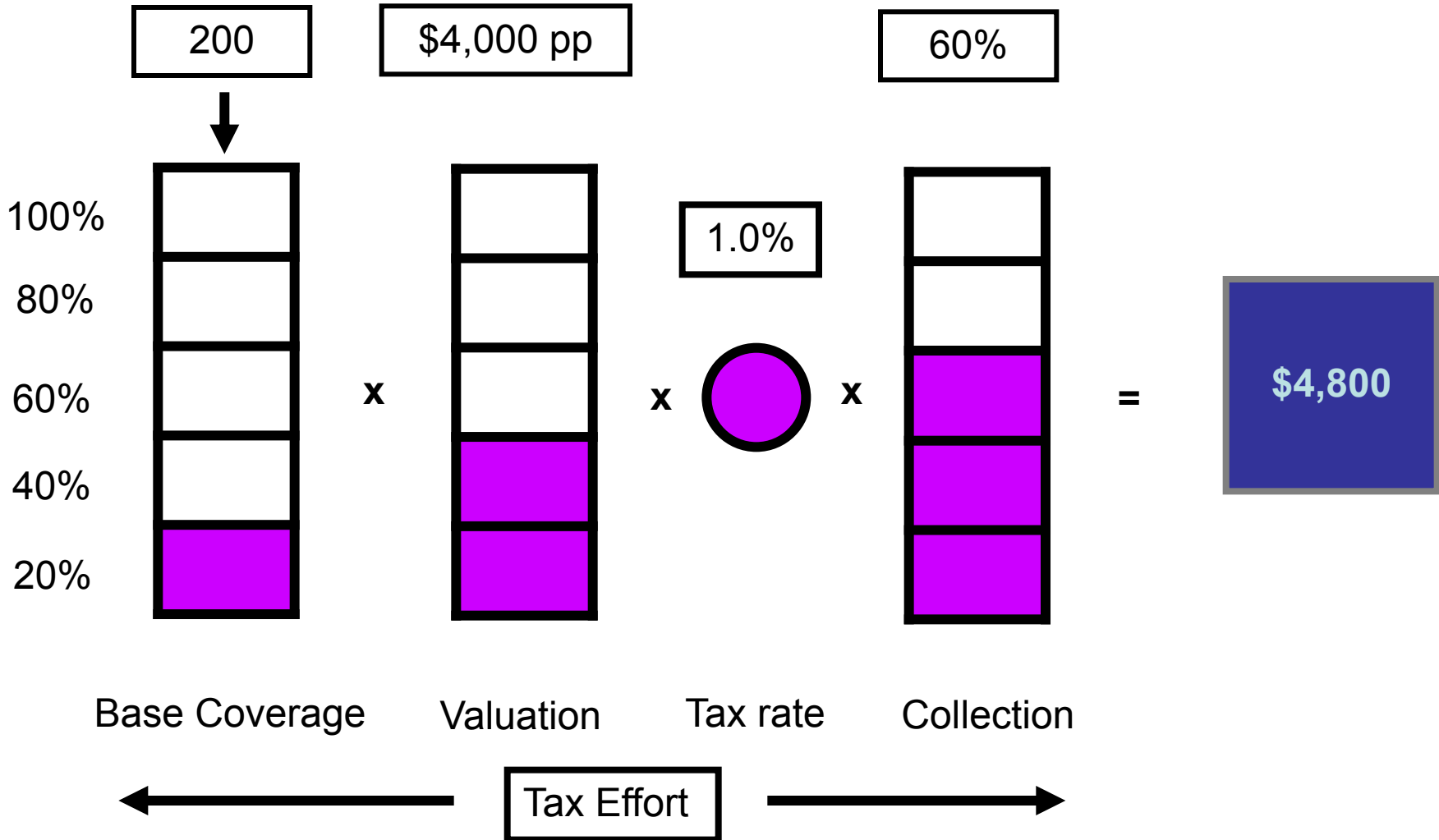
Values versus Tax Rate (3)











Base v Rate v Revenue

- Revenue and **tax base** are the most important determinants for the tax rate
- The approach to **tax base**:
 - Narrow base = High nominal rate or rates
 - Broad base = Low nominal rate or rates
- The approach to **revenue**:
 - “How much can we get?” – primary source of revenue
 - “How much do we need?” = residual source of revenue

What should the tax rate be?

Examples of Residential Tax Rates

- Kingstown, Saint Vincent (2014): **0.08%**
- Dar es Salaam, Tanzania (2012): **0.1%**
- Cape Town, South Africa (2014): **0.45%**
- Toronto, Canada (2015): **0.7056037%**
- Nairobi, Kenya (2016): **17%**
- Mumbai, India (2011): **276%**

Examples: Residential Tax Rates...

- Kingstown, Saint Vincent (2014): **0.08%**
 - Revenue neutral tax reform
- Dar es Salaam, Tanzania (2012): **0.1%**
 - Tax base – capital value of buildings only; very poor community
- Cape Town, South Africa (2014): **0.45%**
 - Market value, first year of new valuation roll
- Toronto, Canada (2015): **0.7056037%**
 - Market value; affluent community; tax also funds education
- Nairobi, Kenya (2016): **17%**
 - Land value only; last valuation done in 1982
- Mumbai, India (2011): **276%**
 - Annual rental value; rent control enforces an artificial ceiling value

So, do not compare apples with pears!

Tax Rate Comparisons

- Rate comparisons are difficult because –
 - Tax bases differ (nature)
 - Narrow base versus broad base (i.e. extent)
 - Valuation assessment levels may differ
 - Ages of valuation rolls may differ
 - Importance of property tax as a source of revenue differ
 - Expenditure responsibilities differ
 - Expenditure needs differ
- Tax administration may also be a determinant –
 - Weak collection may necessitate higher rates
 - Improved base coverage may result in lower rates
 - Regular revaluations may result in lower nominal rates

Relationship: Tax Rate and Tax Base

Land (\$200,000) + Building (\$800,000) = \$1,000,000
Annual yield is 10% = \$ 100,000

Base = Total Value = \$1,000,000
Tax @ 1% = \$ 10,000

Base = Land Value = \$ 200,000
Tax @ 5% = \$ 10,000

Base = Building value = \$ 800,000
Tax @ 1,25% = \$ 10,000

Base = Annual value = \$ 100,000
Tax @ 10% = \$ 10,000

Tax Rate Design

**Flat rate or progressive rates
(i.e., sliding scale)?**

and

**Uniform rate or differential
rates?**

Progressive Tax Rates

- Basis for progressive rates:
 - Usually value, but could be area (m²)
- Why use progressive property tax rates?
 - What is the objective with the tax?
 - Perceived ability to pay
 - Land reform?
- Administration
 - Single versus multiple-ownership
 - Linking multiple properties to a single owner
 - Billing and collection
 - Complexity (cost and opportunities for corruption)
- Examples:
 - **Armenia; Morocco**

Differential Tax Rates

- Basis for differential rates:
 - Property use categories
 - Actual use
 - Zoned use
 - Land versus improvements
 - Size
 - Value
- Reasons for differentiation?
- Issues?

City of Perth, Western Australia Rates for 2015/2016

Land use category	Rate (c/\$ of gross rental value)	Ratio in relation to residential
Residential	4.4107	1:1
Hotel	5.0032	1:1.13
Commercial	5.0032	1:1.13
Retail	5.0032	1:1.13
Office	2.9079	1:0.66
Vacant land	5.8157	1:1.32

Source: www.perth.wa.gov.wa (2015)

City of Toronto, Ontario, Canada – 2015 Property Tax Rates

Description	City Tax Rate %	Education Tax Rate %	Transit Tax Rate %	Total Tax Rate %
Residential	0.5081190%	0.1950000%	0.0024847%	0.7056037%
Multi-Residential	1.5290188%	0.1950000%	0.0025294%	1.7265482%
New Multi-Residential	0.5081190%	0.1950000%	0.0024847%	0.7056037%
Commercial General	1.5361843%	1.2278260%	0.0025294%	2.7665397%
Residual Commercial - Band 1	1.2811685%	1.2278260%	0.0021095%	2.5111040%
Residual Commercial - Band 2	1.5361843%	1.2278260%	0.0025294%	2.7665397%
Industrial	1.5301969%	1.2946100%	0.0025294%	2.8273363%
Pipelines	0.9773995%	1.5065730%	0.0047794%	2.4887519%
Farmlands	0.1270297%	0.0487500%	0.0006212%	0.1764009%
Managed Forests	0.1270297%	0.0487500%	0.0006212%	0.1764009%

Tax Rates and Ratios for 2015/2016: 4 Metropolitan Municipalities in South Africa

Property categories	Cape Town		eThekweni		Johannesburg		Tshwane	
	c/R	Ratio	c/R	Ratio	c/R	Ratio	c/R	Ratio
Residential	0.6931	1.00	1,115	1.000	0.6531	1.00	1,013	1.00
Com & Bus	1.2508	1,80	2.528	2.267	1.8287	2,80	3,056	3.02
Industrial	1.2508	1,80	3,262	2.926	1.8287	2,80	3,056	3.02
Vacant land	1.2508	1,80	4.998	4.483	2.6124	4.00	6,573	6.49
Agricultural	0.1251	0.18	0.279	0.250	0.1632	0.25	0.253	0.25
State-owned	-	-	-	-	0.9796	1.50	3,056	3.02
PSI	0.2234	0.18	0.279	0.250	0.1632	0.25	-	-

Source: Metropolitan Municipalities

Split-Rate Tax Rates: Example

Mbabane, Eswatini Tax Rates for 2014/2015

Category	Land Value	Improvements
Developed Residential	1.29%	0.21%
Undeveloped Residential	1.51%	-
Developed Commercial	2.53%	0.7%
Undeveloped Commercial	2.22%	-
Public Open Spaces	1.82%	-

Source: City of Mbabane

Who sets the Tax Rate(s)?

- Central government
 - Rate fixed in law (e.g. Cameroon, Egypt, Uganda)
 - Issues?
- Shared tax versus shared revenue
- Local government:
 - Direct oversight and/or central government approval (e.g. Botswana, Namibia)
 - Indirect oversight (e.g. South Africa)
 - Ratios pertaining to differential rates
 - Compliance with constitutional guidelines
 - Statutory limitations (maximum and/or minimum rates) (e.g. Uganda)
 - Citizen oversight (e.g. California)

Advantages and disadvantages?

How are Rates Set?

“Budget residual option”

$$\text{Tax rate} = \frac{\text{Expenditure} - \text{other revenues}}{\text{Total assessed value}}$$

$$\text{Tax rate} = \frac{(\$50,000,000 - \$20,000,000)}{\$2,000,000,000}$$

$$= 0.015$$

$$= 1.5\%$$

$$= 1.5\text{c in the } \$$$

Nominal versus Effective Rates

- Whether set locally or centrally, and whether fixed or set annually, nominal tax rates tend to be higher than effective tax rates
- Effective rate = Tax amount/Property value
- Reasons:
 - Value reductions
 - Assessment ratios
 - Rebates
 - Exemptions

Example	
Property value	\$100,000
Value reduction	\$15,000
Assessment ratio	0.8
Nominal tax rate	1.5%
Rebate	10%
Tax Amount	\$918
Effective tax rate	$\$918/\$100,000$ = 0.918%

Tax Rates Issues

- Multiplicity of differential tax rates
 - Many countries allow for differential rates
 - Armenia; Poland
- Static tax rates
 - Armenia
- Centrally- or locally-determined tax rates
 - Central: Armenia
 - Local: Some central (or provincial/state) oversight or control over locally-set tax rates