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Property Taxes:  
A Review of International  
Experience

Chris Heady  
Department of Economics

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## Structure of the presentation

- Focus is on recurrent taxes on immovable property
  - What is good about property taxes?
    - Role in local government finance
    - OECD's recent study on tax and economic growth
  - International revenue patterns
    - Time trends
    - Cross-country differences
  - Problems with property taxes
    - Valuation
    - Low income owners of valuable property
  - Other issues
  - Conclusions

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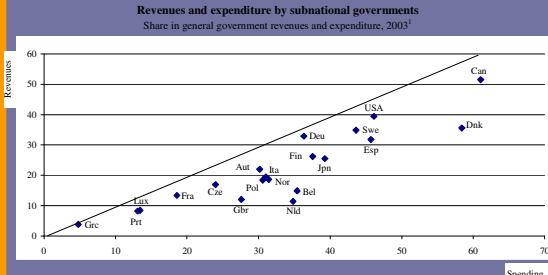
## Role in local government finance

- Annual property taxes are a major source of local government revenues in many countries
- They are good taxes for local control as the tax base is not very mobile
- They are also hard to evade
- Many countries have large vertical fiscal imbalances between levels of government. These could be reduced if greater local government tax revenues were obtained
- Greater use of annual property taxes could improve democratic accountability at the local level.

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## Fiscal imbalance

Revenues and expenditure by subnational governments  
Share in general government revenues and expenditure, 2003<sup>1</sup>



Country	Revenues (%)	Spending (%)
Can	55	65
USA	45	40
Deu	35	30
Swe	35	35
Fin	30	25
Den	30	30
Ita	25	20
Nor	25	25
Pol	20	15
Bel	20	20
Nld	15	10
Gre	15	15
Fra	15	15
Aut	15	15
Por	10	10
Spa	10	10
prt	10	10
irc	5	5

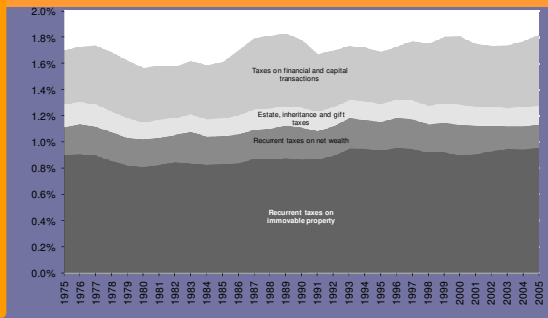
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## Conclusions of the Tax and Growth study

- The rate of growth, at least in the short to medium term, can be increased by a modest shift of taxation from income taxes to consumption taxes and recurrent taxes on immovable property
- Recurrent taxes on immovable property are better for growth than other types of property tax (on financial and capital transactions, on wealth and on inheritance)
- Recurrent taxes on residential property are better for growth than on other property
- These taxes offset the preferences typically applied to residential property in the rest of the tax code

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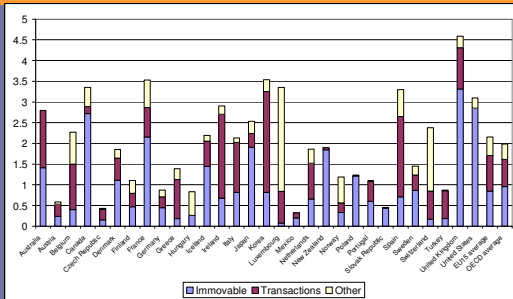
## The evolution of property taxes OECD average (as a percentage of GDP)



Year	Recurrent taxes on immovable property (%)	Recurrent taxes on net wealth (%)	Estate, inheritance and gift taxes (%)	Taxes on financial and capital transactions (%)
1975	0.85	0.15	0.15	0.05
1976	0.85	0.15	0.15	0.05
1977	0.85	0.15	0.15	0.05
1978	0.85	0.15	0.15	0.05
1979	0.85	0.15	0.15	0.05
1980	0.85	0.15	0.15	0.05
1981	0.85	0.15	0.15	0.05
1982	0.85	0.15	0.15	0.05
1983	0.85	0.15	0.15	0.05
1984	0.85	0.15	0.15	0.05
1985	0.85	0.15	0.15	0.05
1986	0.85	0.15	0.15	0.05
1987	0.85	0.15	0.15	0.05
1988	0.85	0.15	0.15	0.05
1989	0.85	0.15	0.15	0.05
1990	0.85	0.15	0.15	0.05
1991	0.85	0.15	0.15	0.05
1992	0.85	0.15	0.15	0.05
1993	0.85	0.15	0.15	0.05
1994	0.85	0.15	0.15	0.05
1995	0.85	0.15	0.15	0.05
1996	0.85	0.15	0.15	0.05
1997	0.85	0.15	0.15	0.05
1998	0.85	0.15	0.15	0.05
1999	0.85	0.15	0.15	0.05
2000	0.85	0.15	0.15	0.05
2001	0.85	0.15	0.15	0.05
2002	0.85	0.15	0.15	0.05
2003	0.85	0.15	0.15	0.05
2004	0.85	0.15	0.15	0.05
2005	0.85	0.15	0.15	0.05

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## The pattern of property taxes as a share of GDP, 2006



## Valuation

- Many OECD countries have very out of date property valuations, particularly for residential property
- This makes the property tax unpopular because of its obvious unfairness
- Once a revaluation has been postponed, it becomes progressively harder, politically, to carry one out – a vicious spiral. The losers are always louder than the gainers
- Modern technology has made revaluations cheaper to carry out
- The key is to have regular and frequent revaluations

## Low income owners of valuable property

The most popular example of this is an elderly widow who lives alone in the large house in which she raised her children. The value of her property will be a much higher multiple of her income than for most people

- Many OECD countries offer reduced rates of property tax for the old, the disabled and those on low income (sometimes in combination)
- Should this reduction be turned into a loan, that is repaid on the death of the owner? Otherwise, it is encouraging wasteful use of the housing stock

## Other issues

- Tax base: land value or land & buildings?
  - Both systems are used within the OECD
  - Land value is less distortionary but land & buildings can offset other distortions in the tax system
- Single tax rate, progressive rates or bands?
  - Single rate is simpler but can be seen as harsh on the poor
  - Progressive rates may seem fairer, but why only consider this aspect of wealth
  - Bands can limit tax liability (link to benefit tax idea) but can also be regressive
- Balance between residential and other property
  - Residential is more efficient but differences could distort planning decisions

## Conclusions

- Annual property taxes, especially on residences, are good for economic performance and local government
- There is considerable scope for many countries to increase their revenues from these taxes
- A key element in making property taxes acceptable is to keep the valuations up to date
- It is also necessary to have some way of dealing with the problem of people on low income in valuable houses