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OF LAND POLICY

Approaches to Taxing Residential Property

Issues and Challenges

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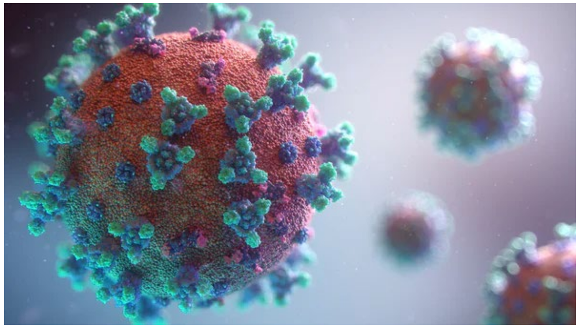
Rationale for Taxing Residences

- **Fairness** – all property owners should contribute to the cost of public services by paying property taxes
- **Lower Tax Rates** – a broader tax base results in lower overall rates for everyone
- **Economic Efficiency** – if residents benefit from public services but don't pay for them, they'll demand more services than they would if they had to pay

Residential Property

- Special treatment of primary residence
  - India, Morocco, Pakistan
- Owner-occupied versus tenanted
  - India, Pakistan, Singapore, Uganda
- New construction or material renovation
  - Tax holidays applied in some countries, e.g., Morocco
  - Why?

- **Possible Covid-19 relief**
  - Rebate or reduction
    - Should ideally be means-tested
    - Hong Kong – 2003 SARS
  - Waiver
    - Post natural disasters (e.g., flooding)
  - Deferment



Preferential Tax Treatment for Residences (U.S. and Canada)

Residences are included in the tax base throughout the U.S. and Canada, although many jurisdictions provide some type of preferential treatment:

- **Classification Systems** that provide for a reduction in the assessment level or tax rate for residences
- **Homestead exemptions** that provide a reduction in the assessment for a taxpayer's principal residence
- More targeted tax relief programs:
  - **Circuit breakers**
  - **Tax deferral programs**

Reduction in Assessment Level or Tax Rate

- **Fractional assessment systems** (classification or differentials)
  - Assess property at some percentage of market value
  - Types:
    - Uniform (i.e., all property assessed at 40% of current market value)
    - Different by class or type of property (i.e., residential at 12%, farms at 20%, commercial at 25%, etc.)
- **Tax rate classification** - all property assessed uniformly, but tax rates vary by class or type of property, for example:

Property Type	Tax Rate
Residential	1%
Business	2.5%

- Tax rate classification systems are generally preferred since properties remain uniformly assessed at market value, making the valuation more understandable and transparent.

Homestead exemptions reduce the assessment for a taxpayer’s principal residence

- Homestead exemptions remove a fixed amount or a percentage of value from the taxable value of a property.
- The exemption is usually restricted to the primary residence of the taxpayer.
- Fixed-amount exemptions grant proportionately more relief to low-value property, where the fixed amount may make up a significant percentage of the total taxable value.

	Home 1	Home 2
Value	100,000	500,000
Homestead Exemption	10,000	10,000
Net Value	90,000	490,000
Percent Reduction	10%	2%

- Since homestead exemptions remove just a portion of the taxable value for these properties, they are a way of providing preferential treatment for a primary residence while keeping them in the tax base.

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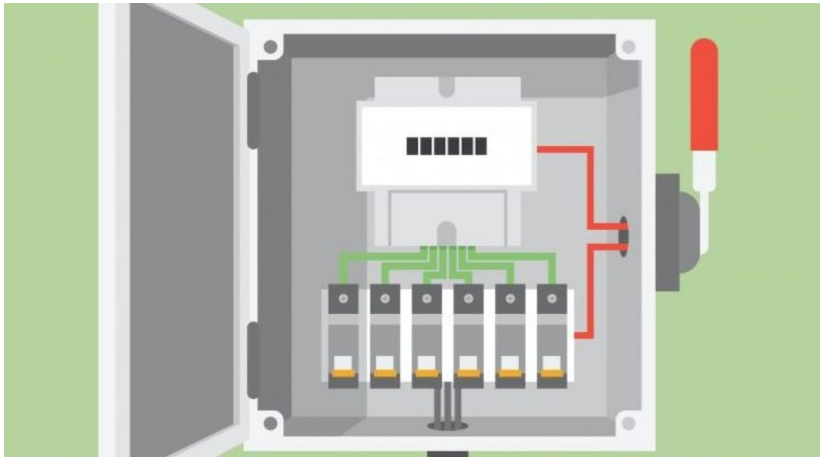
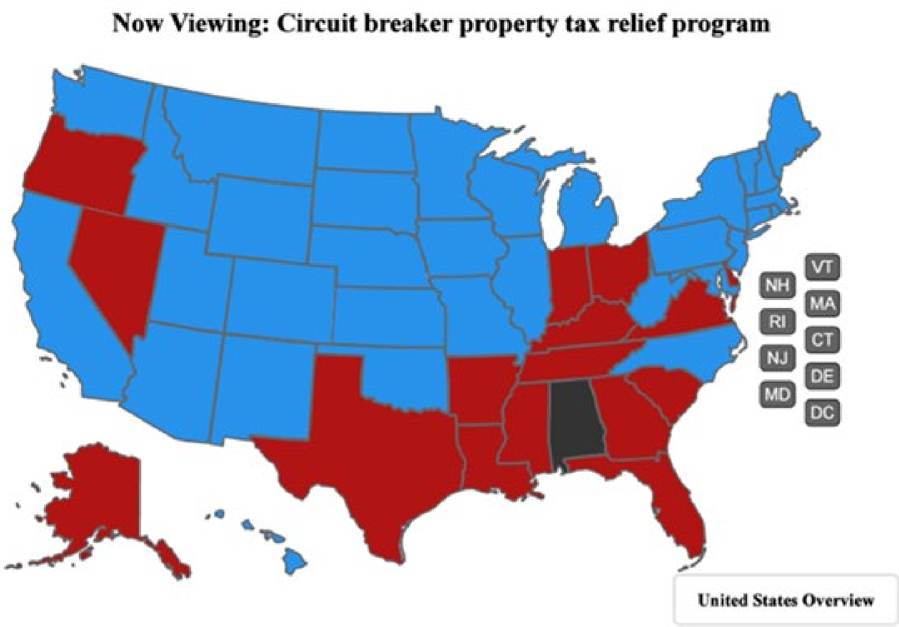
Circuit Breaker Programs



- Circuit breakers provide relief when the level of property taxes exceeds a set threshold percentage of income, with the circuit breaker benefit offsetting property taxes above that level
- Provide property tax relief to households with highest tax burdens relative to income
- Cost-effective because they target relief to households with the lowest ability to pay
- 34 of 50 states in U.S. have circuit breaker programs (shown in blue)

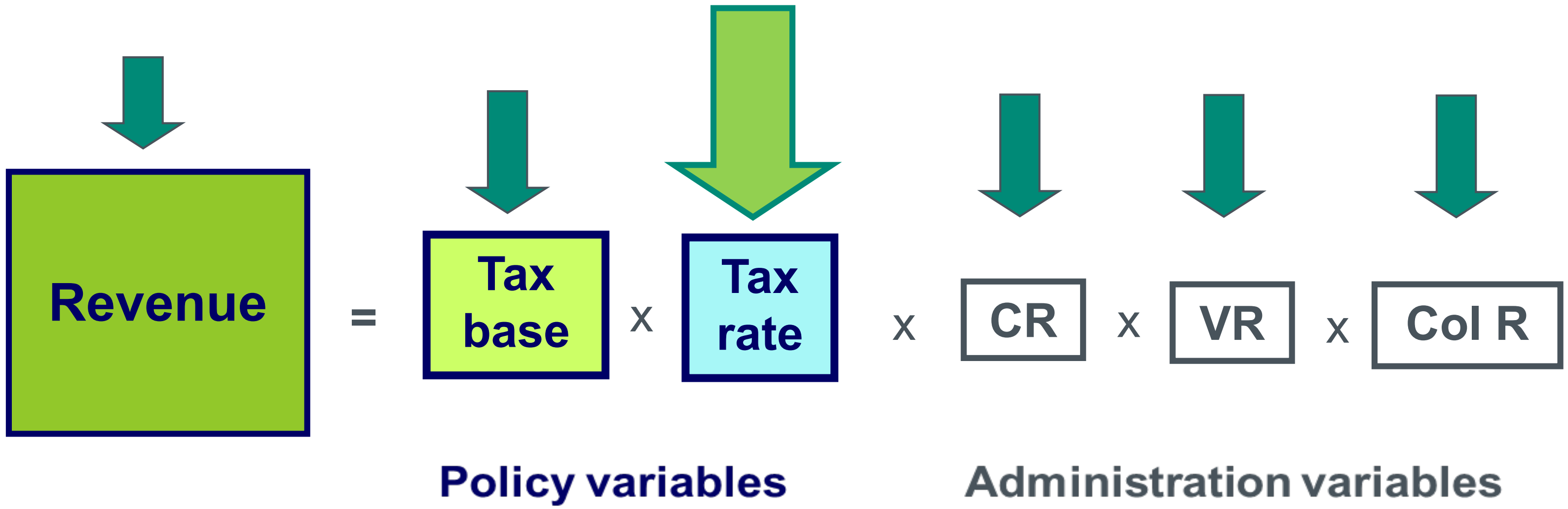


Circuit Breaker Example

- For example, under a circuit breaker with a 5% threshold, taxpayers would receive a credit equal to the amount their property tax bill exceeds 5 percent of their income.
- In that case, a household with a $10,000 income and $800 property tax bill (8 percent of the income) would receive a $300 tax credit.
- Some circuit breakers set multiple threshold percentages, with the thresholds applied incrementally like a graduated income tax.

Tax Bill	$800
Income	$10,000
Circuit Breaker Threshold	5%
Circuit Breaker Limit	$500
Circuit Breaker Relief	$300

Revenue Mobilization Model



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

Source: Kelly (2000)

Residential Property – Tax Relief (1)

- Different taxes for residential and non-residential property
  - Council tax (residential) and uniform business rates (non-residential) in UK
- Exclusions
  - De jure (China)
  - De facto (real estate tax in China)
- Valuation
  - Applies tax rate to percentage of assessed value (Khyber Pakhtunkhwa, Pakistan)
- Value capping
  - Cap value increase when revaluation occurs (California, Japan)
- Valuation thresholds
  - No tax or zero-rating below threshold (Armenia, Egypt, Hong Kong, Indonesia, South Africa)
- Area thresholds
  - No tax on specified area (m^2) (Pakistan)
  - Rebate applies to specified area (Japan)

Residential Property – Tax Relief (2)

- Differentiated tax rates
  - Lower tax rate for residential property (Malaysia, South Africa, Zambia)
- Differentiation can be based on –
  - City population
    - Urban and township land use tax in China
  - Location
    - China, NSW [Australia], Philippines
  - Property size
    - Pakistan
  - Property value
    - Progressive tax rates for residential properties in Singapore
  - Use
    - Malaysia, South Africa, Vietnam
  - Occupancy
    - Pakistan
  - A combination of some of these factors – e.g., Pakistan

Residential Property – Tax Relief (3)

- Exemptions
  - E.g., property owned by a widow (Sindh, Pakistan)
- Rebates
  - Poor access to water (Hong Kong)
  - To incentivize quality, safety, and earthquake-proofing (Japan)
- Tax threshold
  - Tax only payable if it exceeds specified amount
    - E.g., HKD3,000 = USD390 = EUR350 (Hong Kong)
- Discounts
  - For early payment of tax (Pakistan, Philippines)
- Waiver
  - Philippines
  - Vietnam
- Deferral
  - British Columbia, Canada
  - Schemes require careful design

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Property Tax Deferrals

- Tax deferrals allow homeowners to draw on the equity of their home to pay current taxes.
- Deferred taxes must be repaid, usually with interest, so the fiscal impact on the taxing jurisdiction is minimal.
- Tax deferrals are used in many jurisdictions to relieve tax burdens on households who may be house "rich" but have low incomes.
- Deferral programs usually have low participation - but are important as they preclude long-time homeowners being forced out of their home from rising taxes.

Progressive rates or additional taxes

- Progressive tax rates
  - Singapore applies progressive rates to residential property
  - In combination with a value threshold (SGD8,000 = USD5,560 = EUR5,090) to exclude poorer owner-occupied residences

- Property transfer taxes
  - Very high additional stamp duties in Hong Kong and Singapore
  - Luxury sales tax in Indonesia – above IDR30 billion = EUR1.84 million
  - Relief for first-time home owners (Hong Kong, Hungary)

- Taxes on total land/property holding
  - Romania, Taiwan, Vietnam

Thank you

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