



LINCOLN INSTITUTE
OF LAND POLICY

Uniform Policies and Local Options

Property Tax Base and Tax Rate Design

July 8, 2020 | RIËL FRANZSEN | DIRECTOR: AFRICAN TAX INSTITUTE, UNIVERSITY OF PRETORIA, SOUTH AFRICA

Issues to be Discussed

- Deciding on a tax base and tax rates are **key policy decisions**
- Tax base:
 - Who decides?
 - Issues to consider
 - Uniformity versus local choice; administrative capacity
 - One or more taxes
 - One or more tax base options
- Tax rates:
 - Who decides?
 - Issues to consider
 - Uniformity versus local choice

Property Tax Base Options

- Deciding on a tax base or bases – **key policy decision**
 - Who decides?
 - Almost always a central government (South Africa) or state-level (Australia, Canada, India) law
 - Some local discretion on tax rate and tax relief, sometimes even on tax base
 - Issues to consider
 - Uniformity (South Africa) versus local choice (Namibia)
 - One tax or multiple taxes
 - Single tax base (South Africa) or options (New Zealand)
 - Multiple taxes (China, United Kingdom)?
- Tax base: Area-based or value-based systems?
 - Market evidence – i.e., should be data-driven

Property Tax Base Options

- Simple per-unit “flat tax” systems (Ireland – 2012/2013)
- Area-based systems
 - Simple area (China)
 - “Calibrated” area systems (India)
- Capital value systems
 - Land only (Estonia, Jamaica, Kenya)
 - Land and buildings collectively (Canada, United States)
 - Land and buildings separately (Bulgaria, Namibia, Philippines)
 - Buildings only (Ghana, Tanzania)
 - Value-banding (Ireland, Great Britain)
- Rental value systems
 - Land and buildings collectively (Australia, New Zealand)
 - Buildings only (Egypt, Sierra Leone)

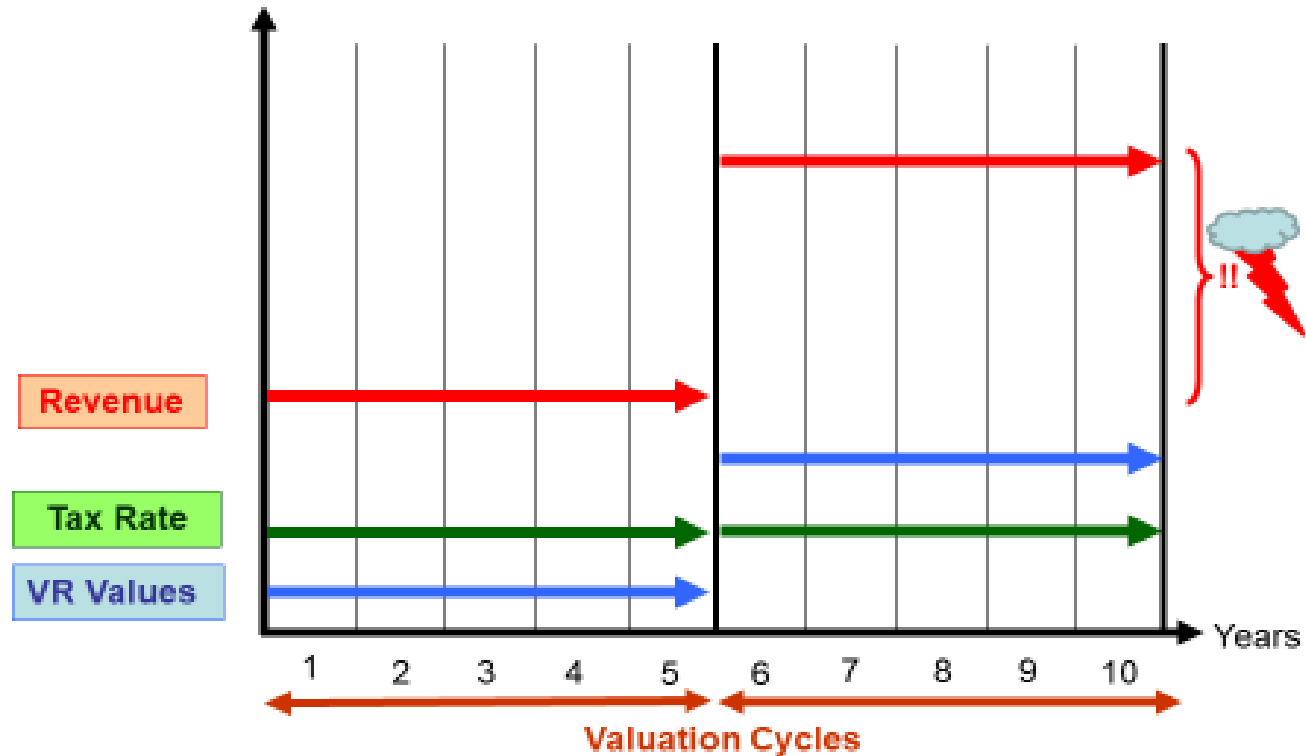
Tax Rate Options

- Setting tax rates
 - Fixed rates
 - Maximum rates and/or minimum rates
 - **“Standard rate” – Japan’s fixed asset tax**
- Single versus multiple rates
 - Single, fixed rate for all properties – Egypt (national), Pakistan (provincial)
 - Multiple rates, usually with reference to use
- Uniform versus differentiated rates
 - Uniform rate - simple
 - Differentiation on basis of use, location, value, etc.
- Flat versus progressive rates
 - Progressive rates – Armenia (residential) and Singapore (residential)

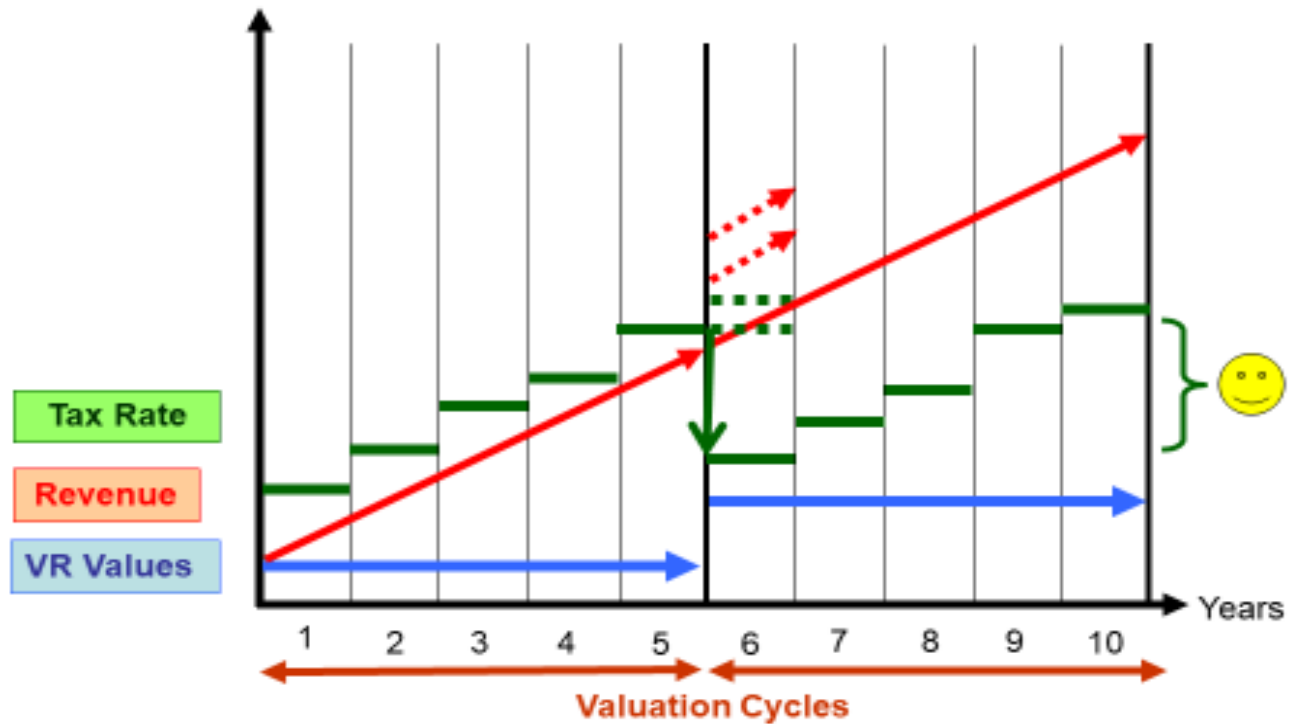
Who Determines Tax Rates and How Often?

- What does the law dictate or allow?
 - Central government – usually fixed and applies country-wide
 - **Cameroon, Egypt, Indonesia**
 - Local government
 - Direct oversight or central government approval
 - **Botswana, Zambia**
 - Indirect oversight
 - **South Africa**
 - Ratios pertaining to differential rates
 - Compliance with constitutional guidelines
 - Statutory limitations (maximum and/or minimum rates)
 - **Malaysia, Uganda**
 - Citizen oversight
 - **California, United States**
- Tax rates must ideally be determined annually

Tax Base Versus Tax Rates (1)



Tax Base Versus Tax Rates (2)



Examples: Tax Base Versus Tax Rate (1)

City	Country	Year	Tax rate (%)
Kingstown	St Vincent & Grenadines	2014	0.08
Dar es Salaam	Tanzania	2012	0.1
Cape Town	South Africa	2014	0.45
Toronto	Canada	2015	0.7056037
Nairobi	Kenya	2014	34
Mumbai	India	2011	276

What do these tax rates tell us?

Examples: Tax Base Versus Tax Rate (2)

City	Year	Tax rate (%)	Explanation
Kingstown	2014	0.08	Revenue neutral tax reform from ARV to capital value
Dar es Salaam	2012	0.1	Building value only; generally poor community
Cape Town	2014	0.45	Market value , first year of new valuation roll
Toronto	2015	0.7056037	Market value ; affluent community; tax also funds education
Nairobi	2014	34	Land value only; last general valuation in 1982
Mumbai	2011	276	Annual rental value ; rent control enforces an artificial ceiling value

Do not compare apples with pears!

Relationship Between Tax Base and Tax Rate

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

City of Toronto, Ontario

Property tax rates for 2015

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%

City of Perth, Western Australia

Tax 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).

4 Metropolitan Municipalities, South Africa

Tax rates and ratios for 2015/2016

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
Commercial	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
Infrastructure	0.2234	0.18	0.279	0.250	0.1632	0.25	-	-

Source: Metropolitan Municipalities

Mbabane, Eswatini [Swaziland]

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

Tax Base and Rates – Conclusions

- Narrow tax base implies high tax rates
- Local choice and discretion
 - Rigorous oversight
 - Limited discretion + possible statutory overrides
- Effective rates should be close to statutory rates
 - implies few reductions, rebates, etc.
- Fewer rates: lower administration and compliance costs
- Too low tax rates may negate costly efforts of tax base and assessment coverage and increased revenues

Thank you

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