



LINCOLN INSTITUTE
OF LAND POLICY

Introduction to Principles of Public Finance and Real Property Taxation

Outline

- Role of local government
- Linking revenues to expenditures
- Why the property tax is a good tax
- Importance of property tax in different countries
- Impact of the property tax on economic decisions

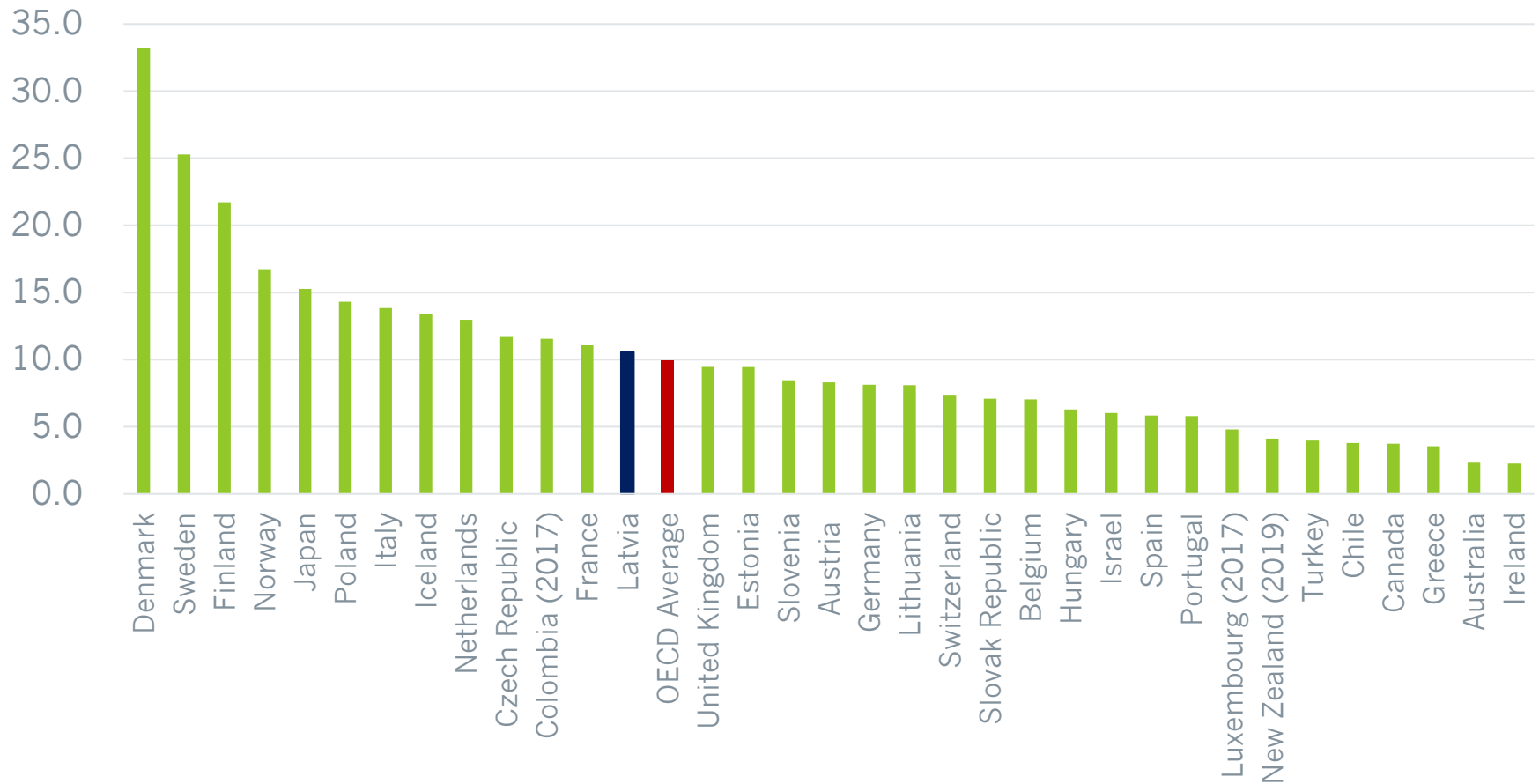
Role of Local Government

- Let's start by asking what is the role of government
 - Stabilization – maintenance of stable prices, employment, and economic growth
 - Redistribution of income
 - Efficient allocation of resources
- What is the role of local government?
 - Allocation of resources (service delivery)
 - Access

What services do local governments deliver?

General government administration	Health <ul style="list-style-type: none"> • Public health • Ambulance service
Protection <ul style="list-style-type: none"> • Fire • Police • Emergency planning 	Social services <ul style="list-style-type: none"> • Welfare assistance • Day care services and children's assistance • Homes for the aged • Social housing
Roads <ul style="list-style-type: none"> • Local roads • Sidewalks • Streetlights • Parking 	Recreation and culture <ul style="list-style-type: none"> • Community parks and recreation programs • Local libraries • Community centres, theatres, auditoriums • Convention facilities
Public transit	Education (primary and secondary)
Environment <ul style="list-style-type: none"> • Water supply and distribution • Sewage collection and treatment • Solid waste management 	Planning and development <ul style="list-style-type: none"> • Local planning, zoning, severances, approvals • Local economic development

Municipal Expenditures as % of GDP, Selected OECD Countries, 2018



Link Revenue Decisions to Spending Decisions



Photo by Ewan Munro via Flickr (<https://flic.kr/p/59Gv7L>)

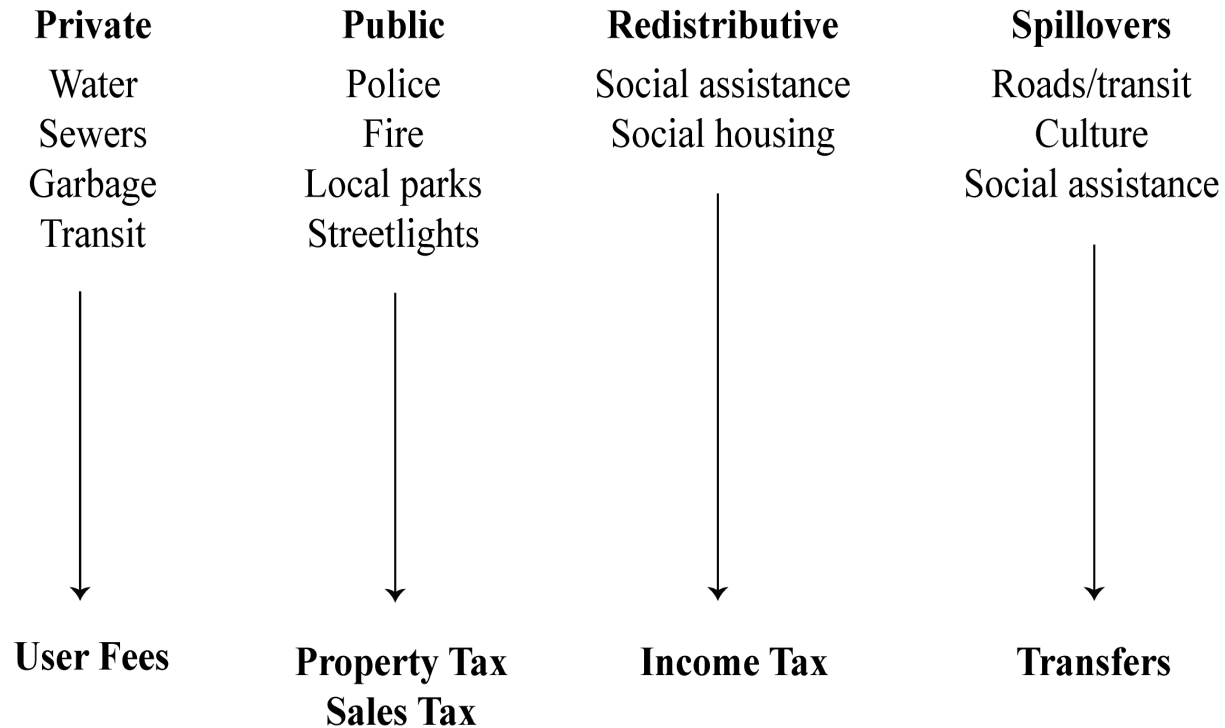


Photo by Ian A. McCord via Flickr (<https://bit.ly/204GpyC>)

Link Revenue Decisions to Spending Decisions

- Taxpayers less averse to paying taxes when they know where their tax dollars are being spent
- Those who make expenditure decisions should make revenue decisions – accountable government
- Revenue tool should match expenditure being funded

Different Service Characteristics – Different Revenue Sources



Different Infrastructure – Different Fiscal Tools

User fees



identifiable
beneficiaries
(transit, water)

Taxes



short asset life
(police cars,
computers)

Land value capture taxes



increase
property
values
(transit)

Development charges



growth-related costs;
new development or
redvelopment
(water, roads, sewers)

Transfers



spill over
municipal
boundaries
(roads, transit)

Borrowing



large scale assets
with long life
(roads, bridges)

P3s



large in scale;
revenue stream;
measurable results
(toll roads)

Characteristics of a Good Local Tax

- Tax base should be relatively immobile
- Tax revenues should be adequate, stable, and predictable
- Tax should not be exported easily to other jurisdictions
- Tax should be visible and accountable
- Taxpayers should perceive that the tax is fair based on:
 - Benefits received from local services
 - Ability to pay
- Tax should be relatively easy to administer

A Tale of Two Taxes: The Residential Property Tax Can be a Good Local Tax

	Residential Property	Non-Residential Property
Immobile tax base	Yes	Yes
Predictable and stable revenues	Yes	Yes
No tax exporting	Yes	No
Visible and accountable	Yes	No
Fair based on benefits received	Yes	No
Fair based on ability to pay	Yes	?
Easy to administer	Yes	No

Pressure on Residential Property Taxes

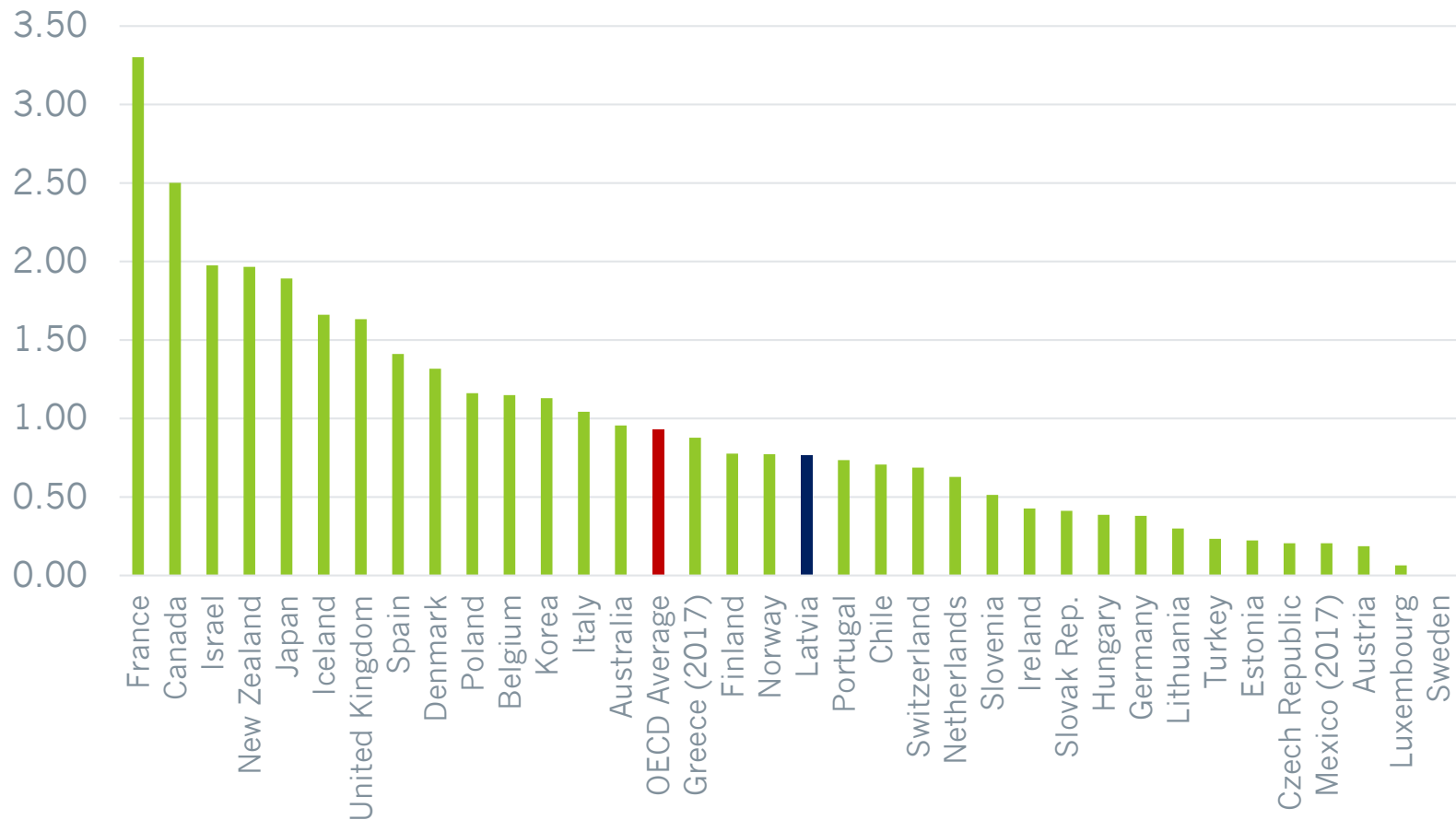
Changing employment landscape:

- Move from manufacturing to service economy/knowledge-based jobs
- Traditional office spaces becoming obsolete; more people working from home during COVID-19 pandemic; workplaces are shrinking
- Reduced demand for retail spaces
- Many manufacturing plants are being replaced by warehouses and distribution centres

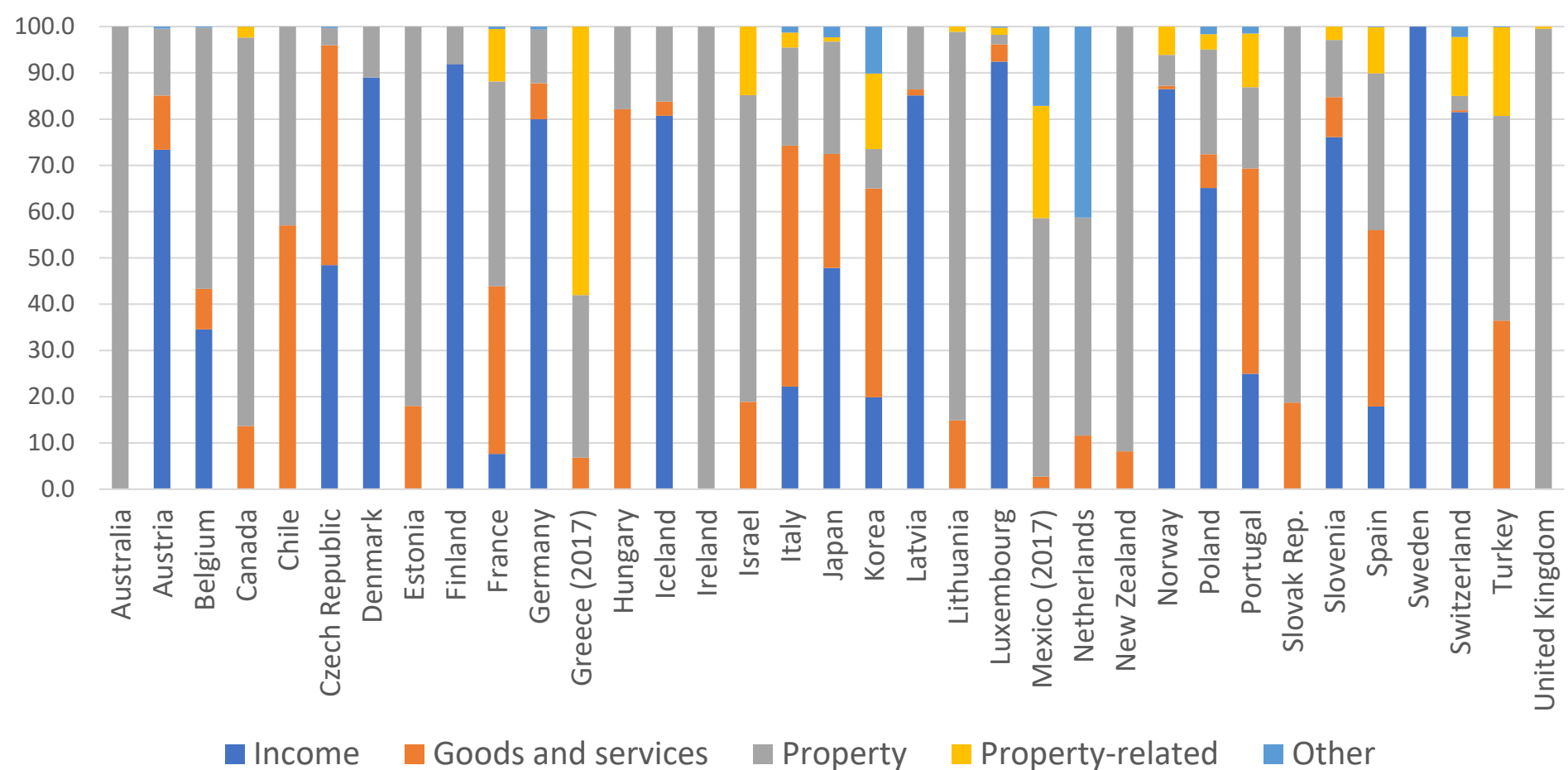
Means...

- Potential decline in non-residential property tax revenues/increased reliance on unpopular residential property tax

Property Taxes as % of GDP, Selected OECD Countries, 2018



Sources of Local Taxation, Selected OECD Countries, 2018



Impact of Property Tax on Economic Behavior

- Incidence of the property tax
- Household mobility
- Improvements to property
- Business location
- Land use and real estate speculation
- Urban sprawl
- Impact of COVID-19

Incidence of the Property Tax

- Who bears the burden depends on one's view of the property tax:
 - Benefits tax
 - Excise tax on housing
 - Capital tax
 - Tax on wealth

Impact on Household Mobility

- Some impact on the decision to move and where to move
- Need to look at expenditure differentials as well as tax differentials
- Stronger impact between metropolitan areas than within metropolitan areas

Impact on Property Improvements, Housing Abandonment, New Construction

- Property tax discourages investment in improvements, other things being equal
- Some limited evidence that the property tax increases abandonment of properties
- Also limited evidence that property tax reduces housing starts

Impact on Business Location

- Some impact on business location; commercial property more mobile than residential
- Depends on the type of business (e.g., manufacturing, retail, etc.) and how important is a specific location
- Greater impact within metropolitan areas than between metropolitan areas

Impact on Land Use and Real Estate Speculation

- Preferential treatment of farmland (e.g., value in current use rather than highest and best use) keeps more land in farms
- Reduces conversion of farmland to urban development
- Most relevant on the urban fringe
- Not much evidence of an impact on real estate speculation

Impact on Urban Sprawl

- Improvement effect: property tax reduces density – any investment that increases property value will increase the tax and discourage investment – increases sprawl
- Dwelling size effect: it increases density because the tax is shifted onto consumers and leads to a reduction in the size of homes and more density – reduces sprawl
- Empirical evidence suggests it reduces sprawl
- Property tax policy can reduce density:
 - e.g., tax often favours single-family homes over apartments

Impact of COVID-19

- Property tax deferrals in many countries
 - Temporary loss of revenues
 - Loss of penalty and interest revenues
- Shutdown of small businesses and working from home will decrease business property tax base
- Impact on property values?

Thank you

ENID SLACK

INSTITUTE ON MUNICIPAL FINANCE AND GOVERNANCE, UNIVERSITY OF TORONTO

enid.slack@utoronto.ca



113 BRATTLE STREET CAMBRIDGE, MA 02138 @LANDPOLICY LINCOLNINST.EDU