
Formulating Property Tax Strategies – Local Autonomy and Taxation

Enid Slack
Institute on Municipal Finance and Governance
Munk Centre for International Studies, University of Toronto
IPTI and IRRV Conference on Land Value Capture in Urban
Development
Warsaw, Poland
June 23, 2009

The property tax plays an important role in local government

- Source of revenue for local governments
 - Ability to deliver services
 - The extent of local control affects local autonomy
- Impact on land use
 - Property tax can shape urban development patterns
- Impact on other economic and social goals
 - Property tax can influence business location
 - Property tax relief can help relieve property tax burden on low-income taxpayers

Different property tax strategies will affect ability to achieve different goals

- Who determines the strategy
- What is included in the tax base
- Setting tax rates
- Tax administration
- Property tax incentives
- Property tax relief
- Land value capture taxes

Who determines the strategy?

- A local tax is one where the local government:
 - ❑ determines whether the tax is imposed
 - ❑ determines the tax base
 - ❑ sets the tax rate
 - ❑ collects the revenue and enforces the tax
 - ❑ receives the revenue

Who determines the strategy?

- Rarely are all decisions made by local governments
- Local tax rate setting is essential to being a local tax
- The level of government making the spending decisions should set the tax rate

What is included in the tax base - land only or land and improvements?

- Land only:
 - ❑ Fewer potential revenues
 - ❑ Provides incentive to develop land

- Land and improvements:
 - ❑ Lower tax rates to achieve same revenues
 - ❑ Discourages investment in property

What is included in the tax base – how many exemptions?

- Some properties are exempt in most countries (churches, cemeteries, government properties):
 - ❑ Shrinks revenue base
 - ❑ Inequitable
 - ❑ Affects location decisions
 - ❑ Implications for economic competition

Setting Tax Rates

- Differential rates can reflect:
 - differential benefits received
 - mobility of capital
 - land use objectives
- Need for local taxing authority but may also need limits to avoid tax competition and tax exporting

Setting Tax Rates

- Property tax differentials that do not reflect service differentials will create subsidies (positive and negative) that will worsen development patterns
- Often apartments pay higher tax rates than single-family homes; non-residential properties pay more than residential
- Farm properties are favoured (value in current use)

Tax Administration

- Tax administration has impact on revenue yield and efficiency and equity of the tax
- Good administration is needed to maximize revenues
- Elements of tax administration:
 - Property identification
 - Assessment
 - Tax collection and enforcement

Property Tax Incentives

- To attract new business and expand property tax revenues
- Matter more for mobile, capital intensive industries than others
- Impact reduced if other municipalities offer them
- Services and quality of life matter
- Size of tax incentive matters

Property Tax Incentives

- Shows that municipality is pro-business
- Benefits of business to community exceed costs of services (but who bears the costs and who enjoys the benefits?)
- Benefits of agglomeration economies -- e.g. larger market, many competing suppliers (but can the municipality determine who these firms are?)

Property Tax Incentives

- Zero sum game – development in one location at expense of another location
- Economic activity may have located without tax incentive
- Tax competition results in inefficiently low services
- Tax increases for existing taxpayers

Property Tax Incentives

- Lower taxes overall on non-residential properties are preferable to tax incentives to individual firms
- Investing in infrastructure and providing services is preferable to tax incentives because they also influence firm location but provide tangible resource to community

Property Tax Relief

- Property tax credits
- Tax deferrals
- Exemptions
- Grants
- Tax reductions, cancellations or refunds
- Assessment limitations
- Tax rate limitations
- Tax levy limitations

Property Tax Relief

- Relief measures make tax more acceptable to taxpayers
- Property tax credits and deferrals have some merit because they target relief on low-income taxpayers but ...
- Assessment limits create more problems than they solve

Property tax credits (circuit breakers) are fair and cost effective

- Based on property taxes paid (or rent paid) and taxable income
- Administered and paid for by state/provincial governments
- Tax relief increases as income declines -- reduces regressivity of property tax
- Targets relief to those most in need

Assessment limits can result in unintended consequences

- Taxes are less uniform and more arbitrary
- Properties with similar values pay different taxes
- Erodes the tax base
- No incentive to review assessment (since it is not used for taxes; never correct assessment errors)
- Those with capped assessments have incentive to demand more expenditures

Land value capture taxes can affect land use

- Tax on the increment in land value attributed to public investment
- Method for public sector to tax some or all of the windfall gain created by public investment to pay for the public investment
- Can be used to revitalize older neighbourhoods and reduce the need to develop greenfield sites

Property tax strategies: conclusions

- Property tax strategies have an impact on:
 - Municipal revenues and local autonomy
 - Land use
 - Other social and economic objectives

Property tax strategies: conclusions

- ❑ Municipal revenues: local tax rate setting; minimum exemptions; strong administration
 - ❑ Land use: Property taxes should reflect benefits received; eliminate over-taxation of apartments and non-residential properties
 - ❑ Social and economic objectives: lower business taxes overall preferable to targeted incentives; circuit-breakers preferred to assessment limits
-