

The Evolution and Operation of Recurrent Property Taxation

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Keywords: Land value, improved value, rating, recurrent property taxation

SUMMARY

Recurrent property taxation is an important revenue stream for sub-national governments around the world. In its various forms, land value as a base of recurrent taxation has become less common in many countries over the past twenty years. This has largely been attributed to a number of factors ranging from pressure imposed by opponents of land value taxation, to challenges against non-demonstrable methods of assessing the underlying value of land in highly urbanized locations, where land transactions are few.

This paper is a review and critique of the evolution of recurrent property taxation and the transition of the base of this tax from land to improved value in some countries. It analyses the methodological voids which have armed opponents of land value taxation with the justification for such a transition to alternate bases. It further articulates the difference between local government council rating and a broader non-earmarked land tax. A United States case study has been used to demonstrate the demise of land as the base of recurrent property taxation and the emerging similarities in Australia.

In conclusion, the paper provides a framework for the harmonious coexistence of land value taxation and the rating of land and establishes key requirements in developing and maintaining a robust land value taxation system in highly urbanized locations.

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INTRODUCTION

Recurrent property taxation also known as land value taxation is an important component in the taxation revenue mix of Australian government, accounting for 4 percent of all taxation revenue raised (Commonwealth of Australia 2008). This tax is levied by state government in the form of land tax and by local government in the form of council rates across Australia and is an important part of each level of government's revenue source. Figure 1 highlights revenue from land tax as a percentage of total tax raised by each state and local government in Australia.

Figure 1: Revenue from recurrent property taxation as a percentage of total revenue

	NSW	VIC	Qld	WA	SA	Tas	Average
Land Tax	11	20	8	8	-	-	11.8%
Council Rates	37	47	26	43	58	32	37%

Source: IPART 2008

Despite opposition to land value taxation, the importance of this tax to sub-national government is best exhibited in countries where it has either been abolished or limited. This is best demonstrated in the United States where this tax has been divested to local and county levels of government, with the amount of tax raised annually restricted by state government.

The success in limiting the increase in recurrent taxation annually in the United States is well documented (Haveman & Sexton 2008). The most significant impact of limitations are noted in California and Massachusetts. In these states, the increase in recurrent property taxation is restricted to 1 & 2.5 percent of market value respectively, well below the rate of inflation (Ladd 1998). As more responsibility is placed on local and state government for the provision of services, requisite funding is needed by these levels of government in meeting their responsibilities, of which recurrent property taxation is an important part of their income mix.

In contrasting Australia and the United States over the past century, Figure 2 is a snapshot of the change in land tax revenues and the divestment of the recurrent tax to local government in the United States.

Figure 2: Australia & United States land tax revenue as a percentage of total tax

Year	Aust Cmwth	Aust State	Aust Local	US State	US Local
1910-20	4.2%	2.4%	-	38.9%	77.4%
1942	8%	5%	40%	6.2%	80.8%
1999	-	9.1%	36%	1.8%	44.6%

Sources: Reece 1992, Fisher 2002.

In contrast to Australia where recurrent property taxation has moved from Commonwealth to state and local government, in the United States property taxation has passed from the states to local government. Whilst in the current era, the amount of tax raised at the local government level in the United States is comparable as a percentage to the revenue raised in Australia, the percentage in the United States has continued to drop. In the case of residential property a key difference exists between the United States and Australia. In Australia, residential property other than the principle residence is both taxed by local government through council rating as well as land taxed by state government.

STRUCTURE & TAXATION BY GOVERNMENT

The structure of government largely impacts on the operation and functionality of a country. The structure of government is often perceived from the top down when looking at a country from a geographic perspective. It is apparent when looking at Australia the country is divided into six states and two territories. That is the geographic representation that many Australians see and relate too. In contrast to this perspective, a more significant reality and non-graphic perspective exists at the demographic and urban agglomeration level, that is the habitat of the population.

Rosenberg (2005) highlights the density dilemma facing governments around the world as 90 percent of the earth's population live on approximately 10 percent of the land. In Australia, Sydney and Melbourne are identified as two of the worlds one hundred most populated cities with correspondingly higher urban agglomeration rates. As at 2007, the United Nations (2007) ranked Sydney 65th and Melbourne 76th most populated cities in the world. The Australian Bureau of Statistics (2008) highlights that 64 percent of Australia's population live within its six major cities, in which most of the countries taxes and in particular recurrent property taxes are raised.

Australia has three levels of government, commonwealth, state and local government. Australia like the United States and United Kingdom, have two levels of government under their constitutions. Local government is not a level of government but a legislative arm of state government administered under legislation in each state of Australia. Pearson (1994) defines local government as an instrument of state government in Australia. "In 1974 and again in 1988 referenda were held to alter the Constitution of Australia to provide constitutional recognition of local government in Australia. Neither of these referenda was successful" (Standing Committee on Economics, Finance and Public Administration 2003:23).

From a taxation and operational perspective the income to service ratio of government in Australia is disproportionate. Figure 3 is a break up of taxation income raised by each level of government in Australia.

Figure 3: Taxation collection by level of government

Government	% of total tax collected
Local	3%
State	15%
Commonwealth	82%

Source: IPART NSW 2008

As highlighted in Figure 3, Australia operates under the financial structure of fiscal federalism as highlighted by McMillan (2008). The majority of tax is collected by the Commonwealth and redistributed to the states and local government through grants. The consequence of this process is that as an operating arm of state government, local government does not have power of itself to raise taxes without the consent of the states. Whilst not a focus of this paper, local and state government are heavily reliant in grant revenue for their operations. To this end, recurrent property taxation is a key source of taxation raised and retained by state and local government across Australia. As commitment continues to grow on the services of the states and local government, recurrent property taxation is a fundamental and crucial source of revenue.

EVOLUTION OF RECURRENT PROPERTY TAXATION

The following section provides a summary of the evolution of the bases on which recurrent property taxation has been levied. Of note is the ongoing revision of the base and the issues associated with its implementation and opposition to it. Of all the issues associated with revolutions against property taxes, Fisher (2002) highlights that taxation of the principle place of residence has historically and continues to be the primary cause of concern for taxpayers.

The taxation of land as a source of government revenue pre-dates the Roman Empire with traces of its existence dating back to Ancient Egypt 3,500 B.C., where taxes based on the value of produce of land were levied. During this period cattle, crops and produce were recorded by tax assessors and tax was levied at 10 percent of actual production. The Athenian Empire of ancient Greece achieved success through prudent implementation of tax policy which comprised a combination of personal and property taxes during the earlier part of its reign between 530-468 B.C. (Carlson 2005).

Alexander the Great between 356–323 B.C. in his conquests through Persia, India and Egypt implemented property taxes to assist in financial restoration of these economies and the promotion of employment and labour in rebuilding services and infrastructure. Half of the taxes collected in were allocated to expenditure on public goods and infrastructure. During 200 B.C. – 300 A.D. the Roman Empire developed and introduced the first value based system of taxing land. The primary feature of this system was to tax land, not on what it produced, but on what it could produce. This value based approach was adopted to combat the emerging shortage of food by farmers who were not utilizing land to its maximum potential. (Carlson 2005).

The medieval period was a period of particular notoriety for king, country and subject in the administration of land and asset taxes. In 1086 during the reign of William the Conqueror, the first national and orderly record of wealth and estate was established. The 'Doomsday Book' was a detailed and comprehensive audit of the assets owned in England at that time. The intentions and objective of the book was clear and its accuracy concise, "there was no single hide nor a yard of land, nor indeed one ox, nor one cow nor one pig which was left out" (Daw 2002:5) The Doomsday book marked the first account of assets in ascertaining and matching ownership with assets and the first survey of land in England. The survey of land and cadastral mapping of land provided the first attempt to formulate value by reference to land attributes.

Following the implementation of the failed tax on personal property introduced in 1290 which was difficult to administer and police, due to personal property being moved from one residence to another, the focus once again moved to property. Seeking some level of tangible measurement the Hearth tax was introduced in 1662. Gibson (1998) highlights the negative impact of this tax, which taxed property based on the number of fireplaces in a property. Also known as the chimney tax, this tax was readily assessable from the exterior of the property by reference to the number of chimneys. The tax was unpopular and despite an increase in the threshold of the number of hearths of two per house, the tax was abolished by King William III in 1689 and replaced by a window tax.

The window tax lasted almost two hundred years until it was repealed in 1851 and replaced by a house duty. The window tax was seen as easily assessable and in effect taxed larger property higher as larger houses generally had more windows. Opposition to the tax was consistent as it was seen as a tax on light and air. A similar tax existed in France from 1798 to 1926 known as the Doors and Windows Tax. Despite the simplicity of the tax and its codified base, its administrative simplicity and efficiency were far less a priority to its popularity (Timmins 2001).

The Colonial period denoted a period of settlement, growth and the development of land in the United States. Carlson (2005) highlights taxes on property were paid to the church for over 100 years. From the beginning of this period taxes on land, buildings and personal property were levied. As the tax grew, councils were directed at the request of their communities to publish lists of taxpayers, their assets and tax payable. This pressure grew from suspicions of inequitable assessments, abatements and residency fraud due to movement of assets between residences.

The under-valuation of property was stated to be a cause of inequitable application of taxation with property valued as low as one fifth of the market value of property in the United States during the 1800s. An ideological divide between the north and south saw property taxes move out of favour in the south where larger estates were held by the wealthy. The move away from property based tax resulted in a move to poll taxes.

As once again the necessity for property taxes grew, a residential frontage tax was introduced in New Orleans which was met with the development of the shotgun house, a long narrow house developed to avoid the tax. As the tax moved to a 2nd storey tax, the camel back house

was developed with the second storey set back to avoid the property tax. The final attempt to establish consistency of the base of a property tax, resulted in a room tax, which subsequently resulted in the bricking up of closets and pantries in attempts to minimize the impact of the tax on the house. Fisher (2002) highlights that whilst these taxes were unpopular uniformity existed in their application.

The pre-modern era was a period of extensive economic thought and evolution of theory for the support of land value as the base for recurrent property taxation. Smith (1776) differentiated between tax on rural and developed land and argued that taxation of land would fall on economic surpluses of land and could not be passed onto consumers in the price of goods. Ricardo (1817) contested that the rent on land be established after allowances for the cost of production and hence would not have an impact on production. Mill (1824) progressed the argument of Ricardo to suggest that the capitalist of land was indifferent as to whether they paid a surplus to Government in taxes or a rent to an individual. Following on, Henry George (1879) during a time of economic hardship and land shortage, in part due to land speculation, championed the idea of replacing all taxes with a single tax on land. Many of these theories were a product of the circumstances of the times they evolved within. Despite the theory of economic rent falling on land, Augustine *et al* (2009) highlight that in economic downturns residential property bears the tax burden of business use property which requires tax incentives to attract economic activity.

Figure 4: Summary of the evolution of recurrent property taxes

Period	Tax Base	Response / Rise & Fall
3000BC – 300 AD	Tax based on percentage of production	Became the basis for income tax
1000 – 1600 AD	Fireplace tax (England) Window tax (England) Room tax (France)	Viewed as a warmth tax Viewed as a light & air tax
1620 – 1820 AD	Frontage tax & 2 nd story tax Room tax (United States)	Changes in house design to avoid the tax i.e. setting back of 2 nd story, removal of pantries & closets
1800 – 1900 AD	House tax	Viewed as a broad based and acceptable measure
1900 - 1990	Land value taxation / hybrid of land value taxation (LVT)	Adopted in Australia, Canada, New Zealand, Denmark and parts of the United States.
1990 to present	Improved value, assessed annual value (AAV), building tax & land value tax	Move away from LVT, primary argument, being unsustainable and inequitable determination of value.

Sources: Carlson 2005, Daw 2002 & Gibson (1998)

As at 2010 land value is the primary basis for the assessment of land taxation in Australia, although provisions exist for council rating to be assessed on the improved value of land. In highlighting the differences between unimproved, land and improved value reference to the

various tax and valuation of land legislation is needed as these are broadly defined within the respective legislation. A summary of these definitions in Australia are best set out as follows:

Figure 5: Bases of value

Base Value	Conceptual Meaning
Unimproved Value	Land with or without services to land and excluding and excavation of the land. Broadly no or minimal improvement to the land.
Land Value	Land including any improvements to it, including water sewerage services drainage, excavation and its retention, clearing and removal of stones.
Improved Value	Land including water sewerage services drainage, excavation and its retention, clearing and removal of stones plus the added value of buildings erected on the land.

The definitions within the various state valuation of land legislation vary from state to state, across Australia, however Figure 5 provides a broad over view of the respective meanings of each basis of value. The primary difference between these definitions is the variation between improvements to and on land.

A LOCAL STATE OR COMMONWEALTH TAX FOR AUSTRALIA

The assignment of income from recurrent property taxation is but one consideration in the imposition of this tax. An additional focus of the debate focuses on which level of government should impose, collect and receive this tax. This is important to the stability and longevity of the tax itself. What may be seen as a duplicitous tax in countries where recurrent property taxes are levied at different levels of government, can be distinguished by reference to their objectives and purpose.

In contrasting this view, the United States is an example where recurrent property tax base has been devolved to local government as a single tax. One of the dilemmas faced in the United States is that the property tax has partly become an earmarked tax. Kenyon (2007) discusses that local property taxation is partly earmarked to school funding with the balance of funding coming from state government. A related consequence of reduced revenue from property taxes in the United States has resulted in all but five States of the United States having been litigated by their communities resulting from insufficient funding for schools. Fisher (2002) further highlights the issues with earmarking in which state legislators impose earmarking of local government property taxes to road building and water services.

Restrictions on increases in revenue from recurrent property taxation raised by local government in the United States, United Kingdom and in parts of Australia currently exist. Local government rate revenue in NSW and Australia has not been a steady and reliable source of revenue for Local Government or impost for ratepayers during its history. The Australian Council of Australian Local Government Associations ACALGA (1963) highlights public concern in the post WWII era of 1947-1960 in which Local Government rate revenue across Australia rose by 406 percent, whilst the population increased by 35 percent. During this period the ACALGA rallied the Commonwealth for a fixed share of Commonwealth income tax revenue. This commitment from the Commonwealth did not

eventuate until the late 1970s and in 1967 with the support of the ACALGA the NSW Government launched a Royal Commission into Rating Valuation and Local Government Finance. The primary finding of the Commission was that rate revenue should not be the sole source of revenue of Local Government. This inquiry was the first of many initiatives by the NSW Government to break the 'ratepayer ideology' funding by Local Government.

The findings of the NSW Royal Commission are an important part of contextualizing revenue from property which should not be limitless. In 1977 NSW introduced rate pegging. "Its introduction was seen as a response to the economic conditions of the time including spiraling cost-push inflation. However its use in NSW has no parallel in any other State." (Local Government Association of NSW 2003:3). In NSW the increase in local government rate revenue is tied to the annual increase in wages across New South Wales. This is an important affordability measure for owner occupiers who do not derive income from their homes or any other source of income. It is this factor which draws the line between local taxation pegged to affordability versus a state based tax assessed on unfettered increases in value, or property / land wealth taxation.

In 1993 a further measure was introduced in local government rating in New South Wales at the end of term of the conservative state government. The review of the Local Government Act in 1993 introduced a provision which allowed local government to raise up to fifty percent of its annual rate revenue from a base amount per property, with the balance raised from the land value component of property. In effect local government in New South Wales has the option of levying up to half of its recurrent property tax as a base amount per property. This is a significant factor which cannot be overlooked in the future direction of value as a base and devolution of recurrent property taxation to local governments. At the local government level there is much greater resistance to value as a base for recurrent property taxation in some local government locations. This is particularly the case where significant variation exists in property values within local government areas. The key issue affecting local government as an operational arm of government is highlighted by Hague *et al* (1994:178), as "They are often too small to deliver local services efficiently, they lack financial autonomy and they are easily dominated by local elites."

In 1997 the New South Wales government introduced the Premium Property Tax Act 1998 which extended the imposition of state based land taxes on the principle place of residence with land values over \$1m. This threshold was indexed annually to catch the top 0.2 percent of residential properties based on land value. This legislation was removed in 2005 land tax year as significant resistance from larger residential property owners emerged who, mounted challenges to this tax based on the reliability of the methods used to determine the underlying value of land. The Premium Property Tax challenged the attempt to remove the tax free status of the taxpayer's home.

Australia like Denmark has similar recurrent property taxation systems with two distinct charges for two levels of government. The primary difference is that Denmark administers the tax and valuation of property at the Commonwealth level. In contrast, Australia largely administers is recurrent property tax and valuations at the state level. Cagdas (2006) highlights that the Danish system was specifically centralized in 2001 to ensure uniformity

and consistency in the administration of the property tax, the valuation of the base and the regulation of land and property information systems needed for the assessment of other taxes. As highlighted in Figure 6, Denmark and Australia are among the few countries which impose a recurrent tax on land. The importance of this delineation is that state based land taxes are imposed annually on the full value of land, sometimes referred to as land or site value. There is no pegging or restriction on revenue from this tax at the state level in either country.

Denmark case study summary

In 2000 Denmark introduced a revolutionary approach to recurrent property taxation which has secured and stabilized the revenue stream from these taxes. The key points of the Danish system which commenced in 2002 are as follows:

- Three annual taxes are levied on property in the form of a Land Tax levied on all land, a Service Tax levied on business use property and a Property Value Tax levied on owner occupied dwellings and summer houses.
- The central government has full responsibility for the tax, valuations and land / property information systems. These tasks and responsibilities will be administered through States. The objective of this being consistency and equity in the imposition of the tax across the country.
- Annual valuations have been replaced with valuations undertaken every two years. This provides greater opportunity for market and transaction analysis to be carried out as well as trend analysis.
- Freeze on the amount of tax to be raised from owner occupied dwellings, with some discretion provided to municipal councils to increase the land tax rate if necessary.
- A single tier collection point has been established for the collection of each of the three taxes.
- From 2007 the number of municipalities in Denmark will be reduced from 271 to approximately 100. This will improve the framework for the provisions of public tasks and services. (Skatteministeriet 2007)

In addition to the above, Denmark has strong mechanisms for gathering and analysis of property information, including details of improvements and building areas. Details of age and upgrades of improvements for assessing depreciation of improvements are also recorded.

Denmark has a strong local government system with a high proportion of total government expenses. Local and county government is the beneficiary of all recurrent property taxes in Denmark. Total recurrent property taxation represents approximately 3.8 percent of the total tax collected in Denmark (Muller 2000).

Figure 6: Levels of government imposing recurrent property taxation

Country	Collecting Authority	Revenue Ownership	Base value Local / Council	Land Value Taxation
United Kingdom	Central	Local	Residential improved values & income business	No
Denmark	Central	Local / State	Improved, land & bldg Value	Yes
United States	Local	Local	Improved Value	No
Canada	Local	Local	Improved	No
Australia	Local & State	Local & State	Land value & improved value	Yes
New Zealand	Local	Local	Improved in urban & land value non-urban locations	Non-urban locations only

Sources: Bird 2002, McClusky 2005, Muller 2001

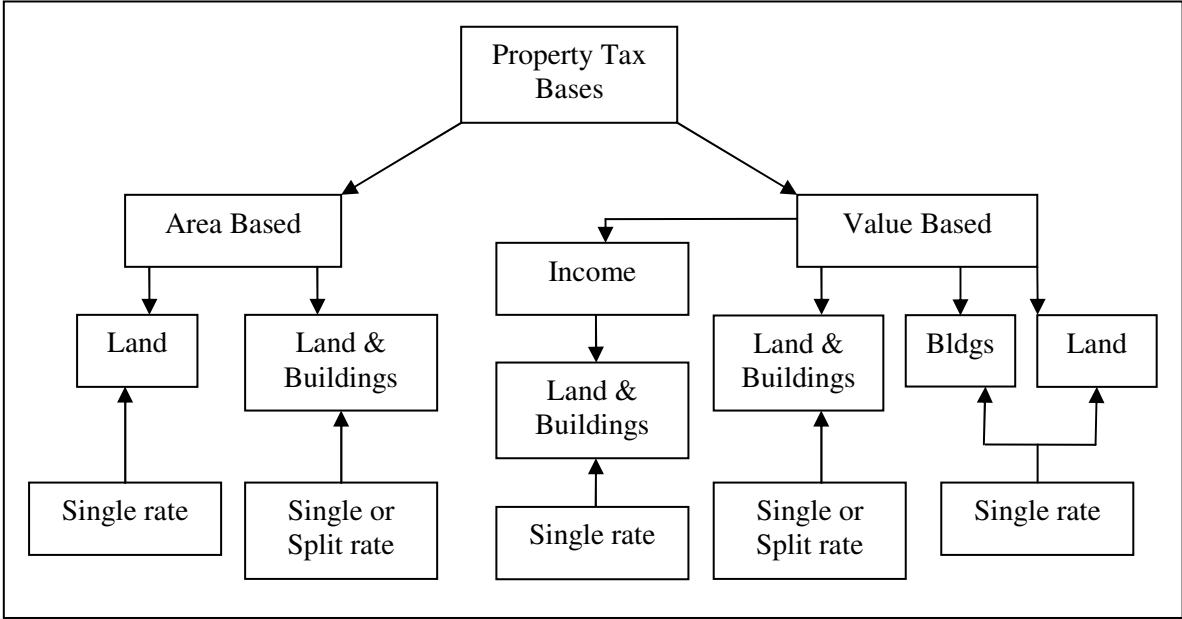
The importance of the impact of divesting recurrent property taxation to lower levels of government cannot be underestimated. This is in contrast to the allocation of recurrent property tax revenue being allocated or assigned to local government by central government. As noted in Figure 6, where recurrent property taxation has been moved solely to local government or defined solely as a local government tax, a decline in the tax has resulted. Oakes (1990) argues this is primarily due to the fact that local government rates are a distinct tax in contrast to land taxes. Council rates are argued to be a user pay tax, which whilst not directly earmarked to any specific local government service in Australia, are in fact more closely aligned to the services provided by local government. This seems to be an important perception for tax payers in digesting a recurrent tax on their principle residence. Australia and Denmark are noted by Vickers (2008) as among the leading countries in the imposition of a balanced recurrent property tax on land.

ISSUES WITH BASES OF RECURRENT PROPERTY TAXATION

As discussed in the evolution of recurrent property taxation, the various bases on which a recurrent property tax have been levied has changed for a variety of reasons in which the base has been deemed unpopular. In the 21st century, there are arguments and challenges against the use of land value and indeed value itself as a base for recurrent property taxation. This section looks at the current variations of the base used to assess recurrent property taxes around the world and pending issues with this tax.

The base of recurrent property taxation in the present era takes many forms and applications internationally. A number of considerations including property information systems and transaction data play an important part in the imposition and administration of recurrent property taxation. Figure 7 is a summary of the iterations of recurrent property taxation internationally. In the hierarchical order of application, area based taxation either on land or buildings are used in transition countries in which the market for property transactions is limited. The measure of certainty in these countries lies within definable areas in which land and buildings can be measured. Despite limitations in the development of land and property markets, RICS (2007) highlight the progression towards value based taxation in a number of evolving economies.

Figure 7: Bases of recurrent property taxes



Source: Mangioni (2009)

In contrast to systemizing the determination of the underlying value of land in urban built up locations where land rarely transacts, the option to move the base to improved value has been the default action and remedy to the underlying problem in many countries. Jonsson (2006) discusses the current systemic problems in the assessment of the improved value of property. In the United States the administrative efficiency of income from recurrent property taxation has been eroded as the challenges to the perceived added value of improvements have become commonplace. What the administrators and legislators of recurrent property taxation fail to address is that the label of the tax is a loose sequence of words left to the interpretive views of taxpayers, their advisers and the courts to decipher. Much of the problem fuelling this issue is the liberal and conceptual definitions of value use to describe the base on which the tax is levied.

In the case of land value as a base for recurrent property taxation, challenges to its measurability have consumed the courts around the world in countries where land is, or has

been use as the base of recurrent property taxation. The primary argument featuring in these cases is the lack of transactions of vacant land sales in locations in which the tax is levied in well defined and highly urbanised markets. This argument has been successful in the movement of the base from land to improved value in a number of countries including New Zealand, United States and United Kingdom. Endemic to the problem with value and hence valuation of any base, is the level of micro analysis used to both prescribe the base by administrators and hence to challenge the tax by taxpayers.

The following case study provides an overview of the removal of land value as the base in Philadelphia, one of the last states to use land as a base for recurrent property taxation in the United States.

Pittsburgh Philadelphia case study summary

Pittsburgh over the past 100 years adopted a split rate tax with a greater portion of the tax falling on land. By 2001 the ratio of tax on land to buildings was 6:1.

The focus on increases in property taxation was seen as an answer to reducing local income taxes, which inhibited employment in Pittsburgh making it a less competitive location to set up business.

Following a prolonged period between valuations, land and property values were chronically undervalued. In 2001 Sabre consultant valuers were engaged by the city to carry out a revaluation of all land and buildings.

The values determined by Sabre resulted in an increase in the aggregate value of land and improvements of 50 percent from \$8.91 billion in 2000 to \$13.35 billion in 2001. The key issue was the move from fractional to the full value of land. The land value component moved from a range of 4 to 20 percent of total value in 2000 to a range of 22 to 29 percent in 2001. 170,000 appeals were received for 550,000 properties.

Fundamental to the failure of the valuation of the land component was the use of the land residual method of assessment. It was stated that land was to be assessed exclusive of buildings and that Sabre determined a total value and deducted the added value of improvements to deduce the land value. This method was adopted as in absence of vacant land sales.

In the fight to retain the split rate over an improved value base, concern for lower and middle valued houses was cited as the tax would shift from a combination of a location tax on the land component and improvements to a merged improved value in which the improvements could only be assessed by reference to their size.

Debate over earmarking was raised with objections to the tax on the land component of property in which the same services were provided to all residential property regardless of the

land value component. In 2003, the split rate tax was replaced with a single rate tax on the improved value of property (Hughes 2006).

The suggestion that the land values resulting from the residual method of valuation were too high was solely based on the size of the increase in the land value component compared with the previous year. The fact was that values including land had been adjusted annually using non-market methods of adjustment including indexing for a number of years prior to 2001. The use of residual methods of valuation has in fact traditionally and consistently yielded lower land values than direct comparison with vacant land sales, Hudson (2001). This highlights that in the United States, the added value of improvements have traditionally been over estimated when the residual method of appraisal has been used, resulting in conservative land values.

Issues with land as a base

In evolving urban locations where vacant land sales are numerous, a bottom up approach in the determination of land value is sustainable by reference to the sale of vacant urban land. In contrast to this, in highly urbanized locations where vacant land sales do not transact, and reliance is either placed on property designated for redevelopment or fully developed land, a top down approach to the systematic deduction of land value is needed. The most difficult task in the determination process is the first step of judgment, being the highest and best use of land. How do the existing improvements contribute to that use and finally how are adjustments made consistently and transparently in the systematic determination of the underlying the value of land. This issue was highlighted by the NSW Ombudsman (2005) as a primary concern in the deduction of the underlying value of land in Sydney.

The use of value based taxation has also passed through a number of iterations in its operation in many countries. In a number of countries where land value taxation has been in operation for a number of decades, the tax has moved from land or site value to improved value. A number of reasons are given for this change. These include the argument that improved value is better understood by taxpayers (McCluskey & Franzsen 2005) and that improved value is more aligned with the vertical equity of the services the property utilizes (Hassan 2002). This is of relevance in countries where a recurrent tax on property exists at the local government level and is perceived to constitute an earmarked tax for services rendered by local government.

Hassan (2002) highlights issues with vertical equity in the use of site or land taxes for local government rating. The argument being that improved value provides equity for property owners and is predicated on buildings of different sizes utilizes different levels of local government services. Hence a vacant block does not utilize any services of local government. This trend has also evolved in the United States with Philadelphia being one of the last states to convert the base of its recurrent property tax to improved value as covered earlier. The United States derives its property taxes at the local government level based on improved value.

In the case of New Zealand, regardless of attempts to simplify the determination of the base of land value taxation through the move to Capital Improved Values, McCluskey and Franzsen (2005:127) in defining the disadvantages of capital value highlight the following points:

- There will be more demand on the resources of the valuation service provider to value improvements;
- Objections to the value of improvements can be time consuming and protracted;
- Capital value rating can be a deterrent to improving property. This could result in illegal buildings or improvements being made;
- Adjoining properties using similar council services will have significantly different rate accounts if the capital values are significantly different, even though the land values may be the same;
- Capital value enables a fairer and less complex system of rating to be established than does land value.

What has become apparent in many countries which have adopted improved value as a base of this tax is the systematic undervaluation of the base (Fisher 2002). The determination of improved value in which the attributes of improvements in addition to land, would at best result in an average improved value of by location, where there is some level of uniformity and use of improvements. This means that improved property below the average value would be disadvantaged and improved property above the average would be under taxed.

DIRECTION FOR AUSTRALIAN RECURRENT PROPERTY TAXATION

The discussion on the evolution of recurrent property taxation is an indicator that in a number of countries two trends are emerging. The first being that land as a basis of value, has reached its peak around 1980 – 90 and has been in steady decline apart from the cessation countries of eastern Europe. Secondly the administration of recurrent property taxation has moved towards the lower tier of governments, namely local or county governments.

Despite the use of land value as a base in Australia for recurrent taxation purposes, a number of states have moved towards improved value for local government rating purposes. In contrast to the commentary of McCluskey *et al* (2007) which sets out the rationale that rate payers better understand improved value of property, Vickers (2007:28) differs in his view for the demise of land value taxation in Australia;

“Nevertheless there are indications that a general shift in the ‘wrong’ direction is occurring, possibly because home-owners are a powerful lobby group and prefer to see income and expenditure taxed than their wealth.”

Whilst focus has centered on the broad discussion of land value taxation, a greater issue looms within Australia over the value of land as the base of this tax and further, how the value of land has evolved. Key to the issue of its evolution is the fact that land value taxation is assessed, administered and collected by state government in Australia. This has resulted in

disparity in the base of this tax and the way in which the tax is administered. Mangioni (2006) provides a snapshot of the differences in the tax and bases of this tax across Australia.

Figure 8: National land tax comparison Australia 2006

	NSW	VIC	QLD	WA	SA
Threshold value *	\$352,000	\$200,000	\$450,000	\$130,000	\$100,000
Top tax rate	1.7%	3.5%	1.25%	2.5%	3.7%
Top tax rate value *	\$352,000	\$2,700,000	\$3,000,000	\$5,000,000	\$1,000,000
Value definition	Land Value	Site Value	Unimproved Value	Unimproved Value	Site Value
Valuation frequency	Annual	Bi Annual	Annual with 3 year average	Annual	Maximum interval 5 yearly
Tax Legislation	Land Tax Management Act 1956	Land Tax Act 1958 & 2005	Land Tax Act 1915	Land Tax Assessment Act 2002	Land Tax Act 1936

Source: Mangioni (2006)

South Australia was the first state to introduce land tax in 1884. By 1915 each state had introduced a state based land tax independent of council rating. The Commonwealth also imposed land tax between 1911 - 1952. By the end of the 1950s, each state had its own land tax and valuation of land legislation in place to deal with this tax, (Smith 2005).

As of 2010 each state of Australia imposes land taxation under respective state land tax legislation. Despite the taxation legislation in each state enabling the taxation of land, this tax is determined on a variety of bases and definitions across Australia, as highlighted in Figure 8. What in essence is the same tax levied on the same underlying base, is actually defined and dealt with differently, state by state. In addition to definitional differences, different thresholds and rates in the dollar apply across Australia.

Differences between the thresholds and rates in the dollar are explicit from state to state, what remains unknown are the implicit differences in the underlying value of the base on which this tax is assessed. Whilst differences in values across land uses and locations were established in NSW by the NSW Ombudsman (2005), the differences across Australia, within and across similar land uses is not readily apparent or transparent to taxpayers. What cannot be readily compared is the underlying value of the base of specific land uses across the cities of Australia where the tax is primarily levied.

Whilst land tax is administered by the states of Australia, it is in effect a national tax imposed across Australia on the same base, land. What has seemingly become an additional layer of complexity in the assessment of this tax has been the determination of the value of land. This in part has occurred in highly urbanized locations where land rarely transacts. The response to this in a number of countries and now emerging in Australia in some states for council rating purposes has been a move towards the use of improved value.

Whilst much time and money has been spent on the development of mass appraisal valuation systems, the underlying and looming issue of what land value constitutes and how it is deduced in the first instance remains unanswered. Conceptual definitions of land, site or unimproved value in respective valuation of land legislation are non-codified or prescriptive. In the ongoing process of improving this tax, a number of reforms are needed to ensure equity and administrative efficiency in the assessment of the base of this tax. Figure 9 provides a summary of the initial reforms needed in achieving these objectives.

Figure 9: Framework for Reform

Governing Issues	Authority	Objective
Land Tax and Valuation of Land legislation.	National legislation	<ul style="list-style-type: none"> • A common Valuation of Land and Land Tax Management legislation. • Removal of conceptual definitions of value and the adoption of uniform procedures and processes in the deduction of value in valuation of land legislation.
How should recurrent property taxation be administered	State & Commonwealth Government	<ul style="list-style-type: none"> • The higher the tier of government, the more removed from local influences and the greater consistency in the administration of the tax and its base across the state & country. • Opportunity for a central authority to establish harmonious assessment of this tax across the country
The base of the tax & its determination	Land Value – In line with the name of the tax	National consistency and uniformity in the name and determination of value.
Resources needed for the determination and sustainability of all taxation derived from property.	Shared Commonwealth / States property data bases	Provide gross building areas of all structures for the deduction of land & site values. More robust method of calculating liabilities for composite assets in CGT and GST Compulsory link from council DA register to LPI & GST disclosure Register of leasing and rent review data

CONCLUSION

The movement of recurrent property taxation to a lower tier of government has ultimately resulted of the removal of recurrent location taxation, based on value. Whilst Australia has been named as a forerunner in land value taxation, it is Denmark which is the international standout in the implementation and administration of recurrent property taxation. This is premised on the fact that property taxes are imposed, administered and assessed at the central level of Government. The tax is then assigned to the lower tiers of government.

The Danish system is robust, definitive and pragmatic. Property information and data transaction systems provide a solid platform for the uniform application and administered of its tax system. The issues afflicting property related politics at the local level of government level are removed, as the property tax is a local tax but centrally administered. This centralization provides a basis for greater consistency and uniformity of recurrent property taxes across the country.

As highlighted, recurrent property taxation has evolved and passed through a number of iterations in its existence over the past two millennia. Its resilience to change is as solid as the fundamentals which underpin the determination of its base. Despite challenges to land value as a base, the movement to improved value is one which has proven as problematic as land value, however has been tempered by rate pegging and tax circuit breakers which have cushioned the tax for many property owners at the expense of taxation revenue in other countries. The taxation of improved value including land as an appreciating component of value and improvements as a depreciating component of value should not replace a land value taxation as a separate location tax.

Whilst the use of improved value in the assessment of local council rating in some states of Australia exists, it is important that distinction between a local service tax based on improved value and broader land value tax are maintained. In contrast to the United States where this distinction has merged into a local government tax, a progressive erosion of recurrent property tax has resulted. Opposition has primarily emerged from residential owner occupiers in the United States. Similar opposition was demonstrated by home owners in Australia with the Premium Property Tax in New South Wales which operated between 1998 and 2005.

In view of the fact that the assessment of this tax is reliant on the amalgam of valuation principles, property information systems and the overarching principles of good tax design, the importance of transparency, equity and consistency are prime arbiters in its ongoing success. To this end, it is imperative that jurisdictions imposing this tax work together in setting, reviewing and achieving benchmarks needed for this tax to operate as efficiently and seamlessly across national jurisdictions.

In order for this objective to be achieved in Australia, consistency across both land tax and valuation of land legislation, practices and procedures will be needed. As highlighted in the history of recurrent property taxation, the bases on which this tax has been levied have risen and fallen over centuries. Land as a base for recurrent property tax is now in decline

internationally. Consistent demonstrable methods of measuring and assessing the underlying value of land will ultimately be the arbiter of its longevity.

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Qualifications

Master of Applied Science (Research) UTS
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