

Property Taxation

Overview

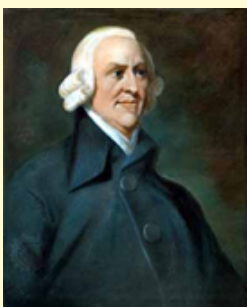
The principles of sharing land values through taxation was advocated by Dr. Sun Yat-Sen, the founder of Republic of China who was inspired by the American social reformer Henry George.

In order to materialize Dr. Sun's ideals, the principle of Equalization of Land Rights is manifested in the Constitution and various legislations were enacted accordingly. As a result, land and buildings in Taiwan have been taxed separately and at differing rates. This type of tax regime was carefully crafted so as to utilize land to its full capacity and share the increment in land value among all citizens.

Over the years, some novel measures are employed such as 100% tax rate on land value increment, taxes on idle land, and additional tax on transfer of short-term holding (less than 2 years), among others. The challenge ahead is whether this unusual tax regime can withstand the test of time while retaining the spirit of Georgism.

The Idea of Taxing Land

The idea of taxing land has a long and rich tradition that at least dates back to the father of economics discipline, Adam Smith. This idea was endorsed later by a number of eminent economists and social reformers, such as David Ricardo, John S. Mill and Henry George. Dr. Sun Yat-Sen, the founder of Republic of China, in pursuit of the equal enjoyment of social prosperity, proposed Equalization of Land Rights that was largely inspired by the predecessors. Sun's proposition of sharing increment of land value was declared in the Constitution. The idea of taxing land is well received and promoted by Nobel Laureates, such as William Vickrey and Milton Friedman, among others. The late Professor Lowell Harriss long associated with the Lincoln Institute of Land Policy was also an active advocate of land tax. The David C. Lincoln Fellowships in Land Value Taxation were established in 1999 to encourage study of land taxation in honor of David C. Lincoln, founding chairman of the Lincoln Institute who sadly passed away in March 2018.



Adam Smith
1723-1790

Ground-rents (residential land values), so far as they exceed the ordinary rent of land (agricultural land), are altogether owing to the good government of the sovereign...



David Ricardo
1772 -1823

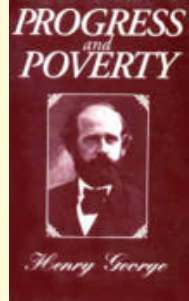
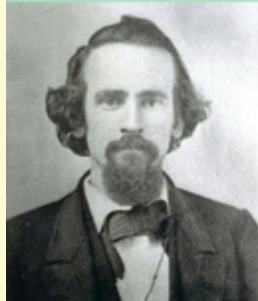
A land-tax, ... is in effect a tax on rent; ... it will not in any way affect the price of raw produce, but will fall wholly on the landlords.

Property Taxation



John Stuart Mill
1806-1873

The ordinary progress of a society which increases in wealth, is at all times tending to augment the incomes of landlords;...They grow richer, as it were in their sleep, without working, risking, or economizing. sovereign...



Henry George 1839-1897

It is not the land that they want. What they want is the income from it. They are buying it not because they themselves want to use it, but because by and by, as population increases, numbers of American citizens will want to use it, and then they can say to these American citizens: "You can use this land provided you pay us one-half of all you make upon it."



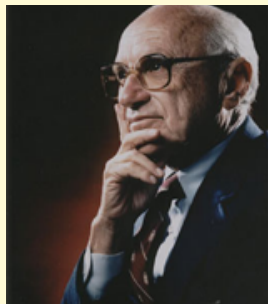
Sun Yat-Sen 1866-1925

If the value of a piece of land has increased, not through the exertion of labor or the employment of capital, the State shall levy thereon an increment tax, the proceeds of which shall be enjoyed by the people in common. (Article 143, Constitution of the Republic of China)



William Vickrey
1914-1996, Nobel Prize Winner in Economics of 1996

...removing almost all business taxes, including property taxes on improvements, ...and replacing them with taxes on site values, would substantially improve the economic efficiency of the jurisdiction.



Milton Friedman
1912-2006, Nobel Prize Winner in Economics of 1976

In my opinion the least bad tax is the property tax on the unimproved value of land, the Henry George argument of many, many years ago.



C. Lowell Harriss
1912-2009

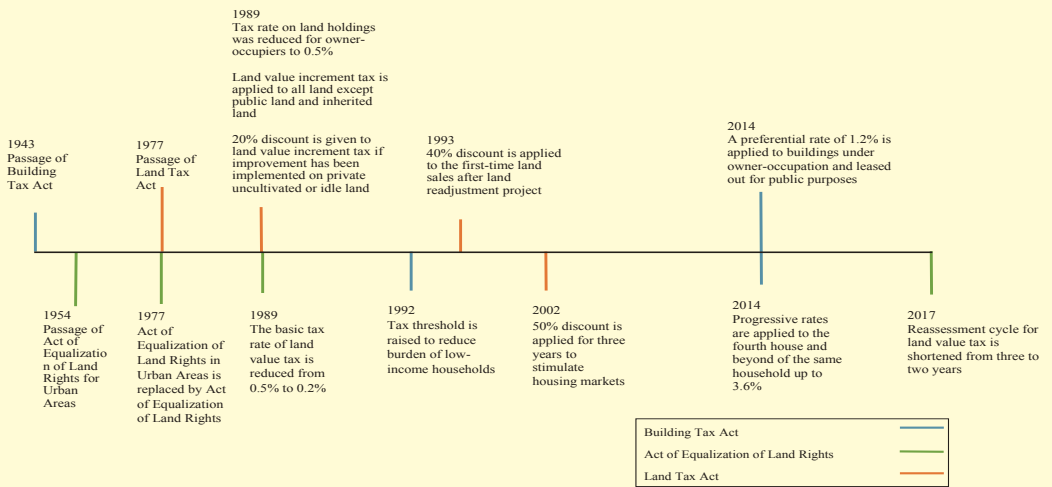
Columbia University Educator, Economist and Advocate of Land Tax Reform

A major shift of emphasis should be away from talking about the higher burdens on land values and toward reducing tax burdens on man-made capital.

Property Taxation

Evolution of Tax Legislations

1. Various legislations were enacted, not only to raise tax revenue but also to ensure land resources being used efficiently and fairly.
2. A progressive tax regime is applied to land, for both land value tax and land value increment tax, so as to alleviate the concentration of ownership and take away the unearned income.
3. The highest rate of tax bracket for land value increment tax reached 100% between 1954 and 1968.
4. The effective tax rate has been significantly below its nominal rate because of the under-assessed tax base.



Structure of Taxes on Land and Buildings

1. From inception of the legislations, a split-rate regime was employed on both holding and transfer taxes to promote the efficiency and fairness of land uses.
2. In the early stage of tax implementation, self-reporting of land values by owners was attempted but later was found not feasible.
3. Specifically defined value and incremental value of land and building were created to meet the purposes of various taxes.
4. Integration of land and building as a joint tax base has been discussed for many years. A move in this direction was evidenced by the passage of Integrated Property Transaction Income Tax in 2016.

