

## Paper 6: Valuation for Taxes on Real Property

Tzu-chin Lin

Taiwan is one of the very few countries where land and buildings have always been taxed separately and at differing rates. This type of taxation system was proposed by the founding father of this country, Dr. Sun Yat-Sen inspired by a number of eminent economists and social reformers, such as David Ricardo, John S. Mill and Henry George. This tax system was created at the outset to utilize land to its full capacity, and at the same time distribute the increment in land value fairly. The tax system seems to be well structured, but surprisingly little of its practice is known. This article therefore first provides a concise overview of how Taiwan's property tax system was created and what major changes have occurred over the last half century. The gaps are identified between original ideas and later practices when time evolves. The recent series of tax reforms in response to the soaring housing price, low effective tax rate and worsened wealth distribution are then put in perspective. In order to properly evaluate the pros and cons of Taiwan's tax system on land and buildings, some carefully selected valuation issues are explored; such as self-assessment of land, separation of land from building values and two sets of taxable values for a parcel of land, among others. In so doing, this paper aims to share with the international audience the rare and valuable experience of Taiwan in its search of an efficient and fair tax. Either this experience is deemed to be a success or failure, it is a story worth reading.

**Keyword:** Split-rate Tax, Land Valuation, Building Valuation



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# Valuation for Taxing Land and Buildings

Tzu-Chin Lin

Dept. of Land Economics

National Chengchi University

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# Overview of Presentation

- Why Taiwan Treats Land Differently
- A Carefully Crafted Land Tax Regime
- Reflections on Taiwan Experience
- Recommendations for Ourselves and the World



# Part I

## Why Taiwan Treats Land Differently

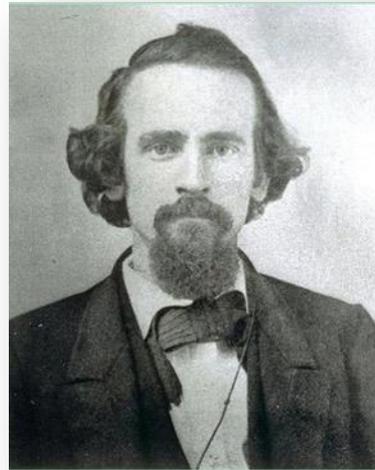




**David Ricardo**  
1772 -1823

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A tax on land meets both requirements of efficiency and fairness



**Henry George**  
1839-1897

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A single tax on land



**Sun Yat-Sen**  
1866-1925

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*Equalization of Land Rights* as the cure for disproportionate distribution of wealth



**William Vickrey**  
1914-1996

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Nobel Prize Winner  
in Economics of 1996



**Milton Friedman**  
1912-2006

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Nobel Prize Winner  
in Economics of 1976



**C. Lowell Harriss**  
1912-2009

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Economist and  
Advocate of Land  
Tax Reform

- ✓ Land is given by the nature and its rise in value shall be enjoyed by the society as a whole through taxation.
- ✓ One crucial design of this tax regime is regarding land assessment.





## Part II

# A Carefully Crafted Land Tax Regime



# Special Features of Land Tax and Assessment

- ✓ major legislations were enacted in the 1950s through 1970s
- ✓ taxpayers are encouraged to report the value of their land
- ✓ land and buildings are taxed separately at differing rates
- ✓ land value tax is levied annually with a progressive rate structure
- ✓ land value increment tax is levied with a progressive rate structure
- ✓ a preferential rate is offered to owner-occupants
- ✓ idle land tax can be levied at the discretion of local governments

Figure 1 A Land Value Section in a Newly Developed Neighborhood



Figure 2 A Land Value Section in an Old Neighborhood



Figure 3 Distribution of Assessed Land Values across Taipei City

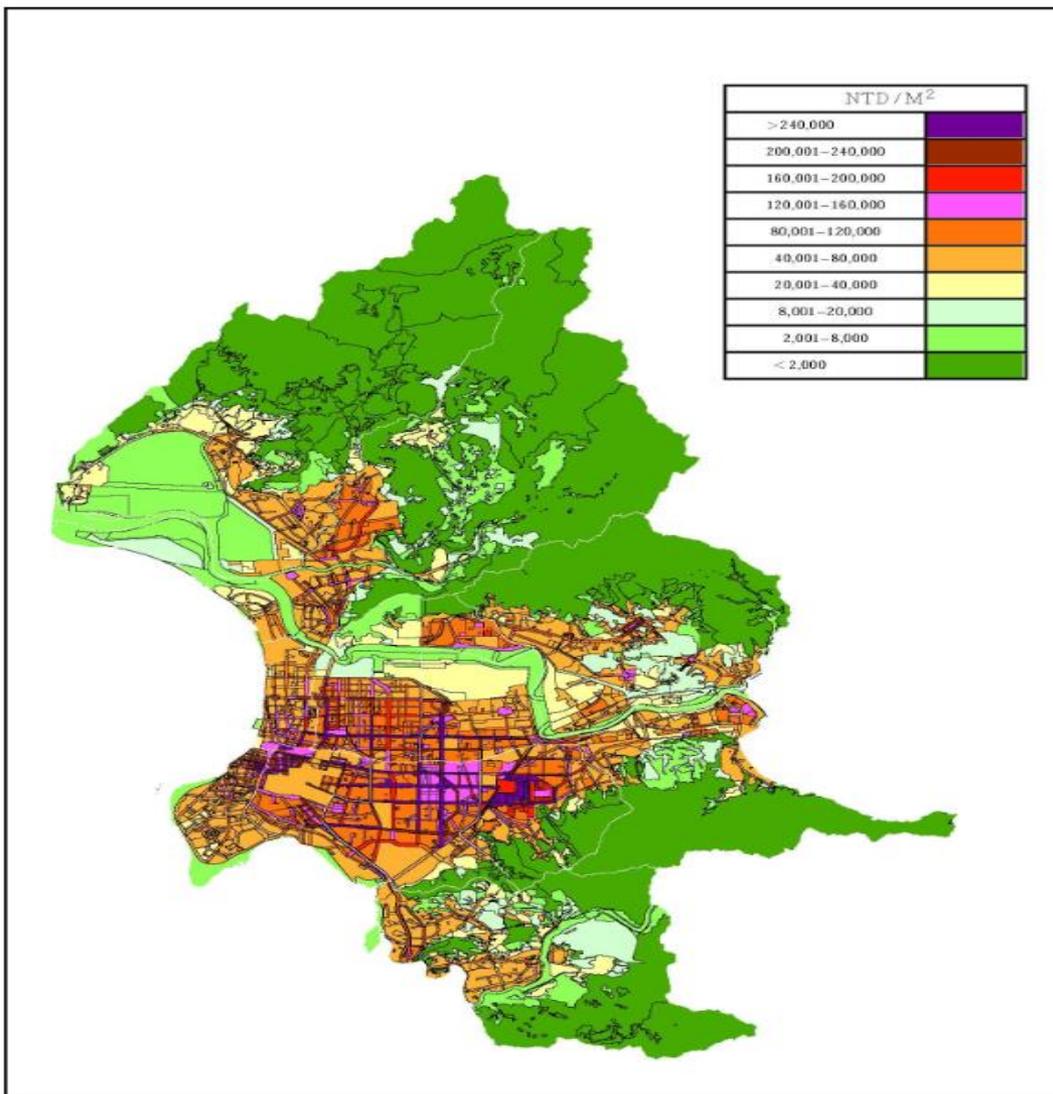


Table 1 Number of Self-reporting of Assessed Land Values in Taipei

Years	Parcels subject to value re-assessment	Parcels reported
1964	174,740	125,578
1968	177,115	171,799
1969	21,299	20,499
1974	391,785	386,457
1978	-	-
1987	1,174,550	14,420
1991	1,565,623	728
1994	1,685,305	489
1997	1,771,234	531
2000	1,894,078	482
2004	2,238,941	426
2007	2,108,991	586
2010	2,244,473	747
2013	2,376,816	839
2016	2,485,891	760

Table 2 Distribution of Land Parcels under Various Rates of Land Value Tax in Taiwan (2011-2013)

	Number of Land Parcels (in 1000s)		
	2011	2012	2013
Basic rate (1%)	10,000(57.5%)	9,320(52.3%)	9,530 (51.2%)
Progressive rate (1.5%)	1,030 (5.9%)	1,050 (5.9%)	1,070 (5.8%)
Progressive (2.5%)	120 (0.7%)	120 (0.7%)	120 (0.7%)
Progressive (3.5%)	40 (0.2%)	40 (0.2%)	50 (0.3%)
Progressive rate (4.5%)	20 (0.1%)	20 (0.1%)	30 (0.2%)
Progressive rate (5.5%)	130 (0.7%)	140 (0.8%)	150 (0.8%)
Special rate for residential owner-occupation (0.2%)	5,420 (31.2%)	5,600 (31.4%)	5,790 (31.1%)
Industrial and mining land (1%)	100 (0.6%)	90 (0.5%)	100 (0.5%)
Reserved land for public facilities	470 (2.7%)	460 (2.6%)	500 (2.7%)
others	40 (0.2%)	970 (5.5%)	1,260 (6.8%)
total	17,380 (100%)	17,810 (100%)	18,600 (100%)

Table 3 Sources of Land Value Increment Tax Revenue in Taiwan (2012-2017)

Categories	2015		2016		2017	
	Parcels (%)	%	parcels	%	parcels	%
Total	1,358,060	100%	1,235,632	100%	1,009,124	100%
Residential owner-occupants (preferential rate 10%)	70,284	5%	69,504	6%	66,079	7%
Progressive rates	643,138	48%	636,561	52%	517,054	51%
20%	446,669	33%	438,989	36%	349,319	35%
30%	51,166	4%	68,242	6%	60,588	6%
40%	143,982	11%	128,075	10%	105,613	10%
others	1,321	0%	1,255	0%	1,534	0%
Tax-exemption	644,638	47%	529,567	43%	425,991	42%

Table 4 Idle Land Tax in Taipei

Time period	Measures	Parcels	Hectares	Outcomes
1968-1973	Two times the amount of land value tax is imposed if no development occurs before the specified date	7052	171.58	Amount of idle land tax collected: 15,802,000 NT (527,000 US)
1979-1983	Land is purchased by government if no development occurs before the specified date	4499	146.24	<ol style="list-style-type: none"> <li>1. Development of 3,533 parcels at the size of 125.96 hectares</li> <li>2. Purchase of 121 parcels at the size of 1.91 hectares with 657,713,876 NT (22,000,000 US)</li> </ol>

Table 5 Distribution of Houses among Private Individuals in Taiwan (2014)

	Number of Owners	Number of Houses
1 house	4,929,897 (79.7%)	4,929,897 (60.9%)
2 houses	914,481 (14.8%)	1,828,962 (22.6%)
3 houses	211,750 (3.4%)	635,250 (7.8%)
(4-10) houses	121,530 (2.0%)	601,442 (7.4%)
(11-100) houses	5,632 (0.1%)	93,842 (1.2%)
Over 101 houses	23 (0.0%)	3,462 (0.0%)
Total	6,183,313 (100%)	8,092,855 (100%)



## Part III

# Reflections on Taiwan Experience

## *Challenge & Response*

1. massive administration resources are required
2. lack of market information
3. disjunction between theory and practice
4. political pressure on assessment results
5. induced bias caused by centrally-set tax rates

1. land valuation sections were created
2. collaboration with private sectors, and mandatory price registration since 2012
3. issue of assessment guidance
4. participation of external experts
5. organized campaign groups act as the watchdog

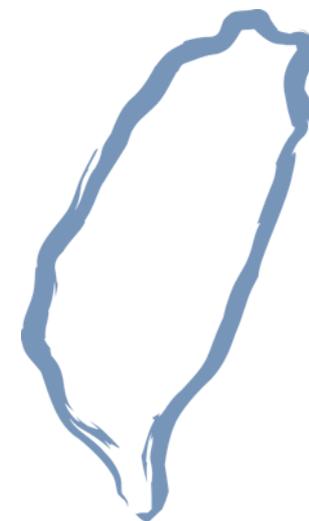


## Part IV

# Recommendations for Ourselves and the World



- wiser use of market information and modern technology
- defensible assessment results in the courts
- overhaul of land taxes as a policy tool



- reliable title registration and transparent market
- clear guidelines for assessment
- mechanism of dispute resolution
- land taxes in the policy toolbox





***THANK YOU***



*Tzu-Chin Lin*  
*tclin@nccu.edu.tw*