



Paper 7: Split-Rate Property Tax System

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Unlike major jurisdictions in USA, all jurisdictions in Taiwan implement a split-rate ad valorem property tax system. Both land value and building value are taxed separately at different rates. The former one is called land value tax, and the later one is called building tax. The ad valorem property tax revenue in Taiwan is approximately less than 1% of GDP. The broadly defined property tax revenue including ad valorem tax revenue and capital gain tax revenue takes up 1.5% of GDP.

The current split-rate tax system can be considered as an income inelastic, unequal, regressive, and positive capitalization system. Furthermore, it faces a variety of problems such as high administration costs, biased tax bases, low effective property tax rate, and difficulty in using real transaction price as tax base. The experiences of Taiwan implementing a split-rate property tax system provide positive and negative lessons to those jurisdictions in the world which are considering to moving from a single-rate property tax system to two-rate property tax system.

Keyword: Split-rate System, Land Value Tax, Building Tax, Value Assessment



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Split-Rate Property Tax System

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Outline

Introduction of split-rate property tax system

Practice and Reform

Special Features

Fiscal Financing, Efficiency, Equity

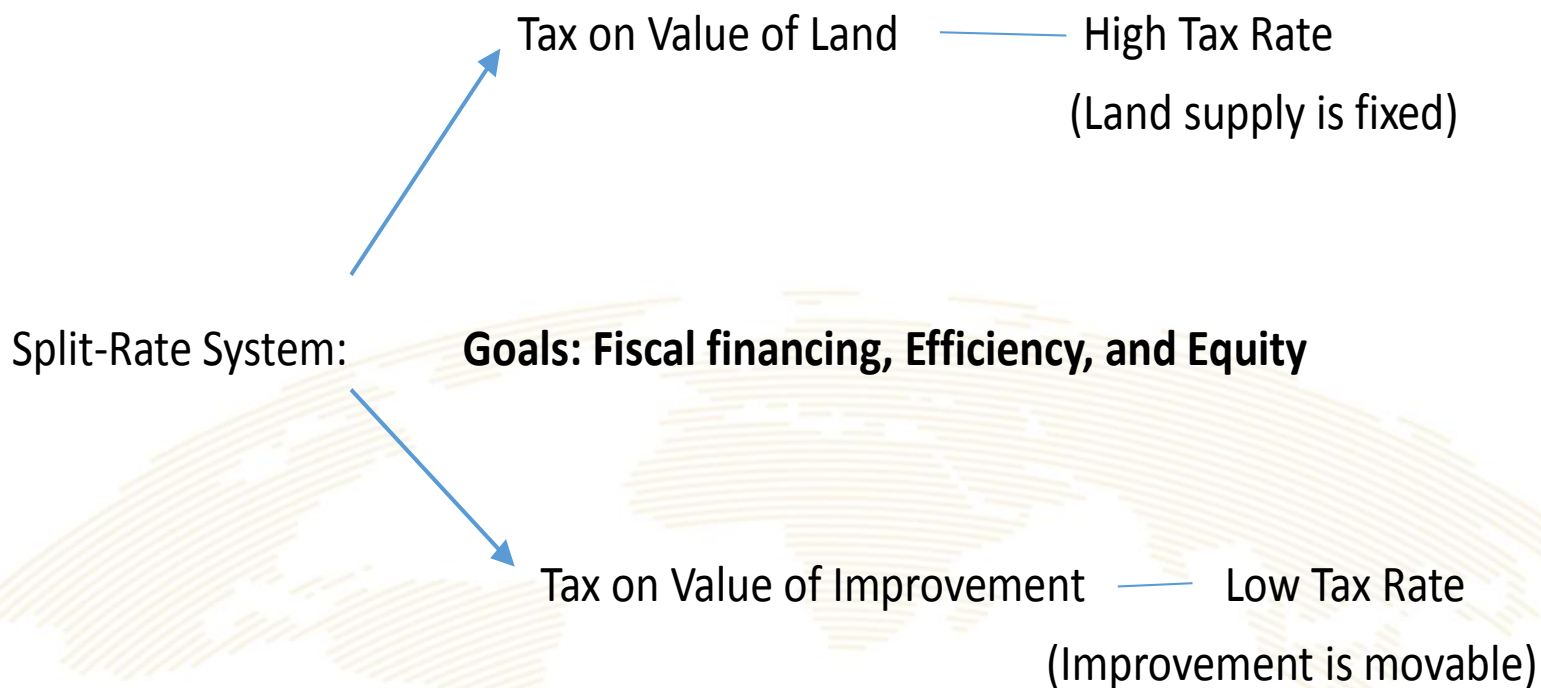
Problems and Challenges

Lessons

Recommendations for future



Split-Rate Property Tax System





Split-Rate Property Tax System

Challenges of Implementation:

administrative challenges

assessment challenges

Cities of implementing:

700 cities in 30 countries worldwide including Pittsburg in USA.



Historical Background

Time of implementation: 1968

Reasons of Implementation:

Land Value Tax: for capturing the speculative land value.

Building tax : for fiscal financing



Tax Rates and Reform

Kinds of Tax	Progressivity	Tax Rate Reform	Actual Rate now
Land Value Tax	Progressive Tax	Non-Owner-occupied Initial: 12 brackets (1.5%~6.5%) Now: 6 brackets (1% ~5.5%)	1% (most cases)
	Flat	Owner-occupied Initial: 0.2% Now: 0.2%	0.2%
Building Tax	Flat Tax	Non-Owner-occupied Initial: (1.2%-2%) Now: (1.5%~3.6%)	1.5%
		Owner-occupied Initial: (1.2%~2%) Now: (1.2%~2%)	1.2%



Special Feature 1

- The tax rate for land value is generally smaller than the tax rate for building value. This violates the basic rationale.
- *Proponent*: Land administration scholars (for land justice reason)
- *Opponent*: economists (for efficiency reason)



Special Feature 2

- Both land value tax rate and building tax rate are centrally regulated, so they are uniform across jurisdictions. Local government can only influence the tax bases.
- *Outcome*: Tax bases are under-assessed for the purpose of local tax competition.



Special Feature 3

- Both land value tax and building tax are administered by two different government offices. Land administration office is responsible for land value tax, whereas local tax authority is responsible for building tax.
- *Outcome:* Administration costs are high.



Special Feature 4

- Because of implementing split-rate system, Taiwan can levy building tax (but not land value tax) on the value of illegally added structure.
- *Outcome*: Most owners of illegal structures do not know that they are paying taxes for illegal parts.



Fiscal Financing

- Split-rate property tax revenue takes up less than 1% of GDP.
- Split-rate property tax revenue takes up 7% of total local tax revenue.
- Building tax revenues collected from illegal structures in Taipei were totally NT\$92,821,739 (US\$3,000,000).



Efficient?

- Unfortunately, there is no existing study that empirically examines the link between split-rate taxation and efficiency of land use.



Fairness?

- There is a wide differential in effective tax rates across individual properties.
- Effective tax rates fall with incomes.
- Current tax rate is smaller than optimal tax rate for both medium value and high value properties.



Problems and Challenges

- High administration costs
- Large assessment biases
- Low effective tax rates
- No use of real estate transaction price as tax base



Lessons

- A well-designed split-rate property tax system should concern more about:
 - (1) the setting of tax rates
 - (2) the assessment biases of tax bases
 - (3) effectiveness of administration.



Recommendation for Taiwan

- To have a single administration office
- To reduce the assessment biases
- To raise the tax rate for land value tax
- To effectively utilize the real transaction price data in value assessment



Recommendations for Rest of the World

Cities in the rest of world can consider to adopt land value tax (building value is tax free), a variant of split-rate system.





THANK YOU

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