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IV Conferenza sulla Finanza e l'Economia Locale

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SESSIONE III

Governance multilivello in Europa. Riorganizzazione territoriale e sistemi di finanziamento

IL RUOLO DELLA TASSAZIONE NEL FINANZIAMENTO DEGLI ENTI LOCALI: UNA PROSPETTIVA COMPARATIVA

Ernesto Longobardi Università degli Studi di Bari

Francesco Porcelli SOSE SpA e University of Warwick

Il ruolo della tassazione immobiliare nel finanziamento degli enti locali: una prospettiva comparativa

Ernesto Longobardi (Università degli Studi di Bari)
Francesco Porcelli (SOSE SpA e University of Warwick)

Summary

- The role of the property taxes in OECD countries.
- The structure of the property tax: a comparative analysis across different tax systems.

Tax structures in the OECD-area

Percentage share of major tax categories in total tax revenue.

	1985	1995	2005	2010	2012
Personal income tax	30	26	24	24	25
Corporate income tax	8	8	10	9	9
Social security contributions	22	25	25	26	26
Payroll taxes	1	1	1	1	1
Taxes on property	5	5	6	5	5
General consumption taxes	16	19	20	20	20
Specific consumption taxes	16	13	11	11	11
Other taxes	2	3	3	3	3
Total	**100**	**100**	**100**	**100**	**100**

Tax structures in the OECD-area

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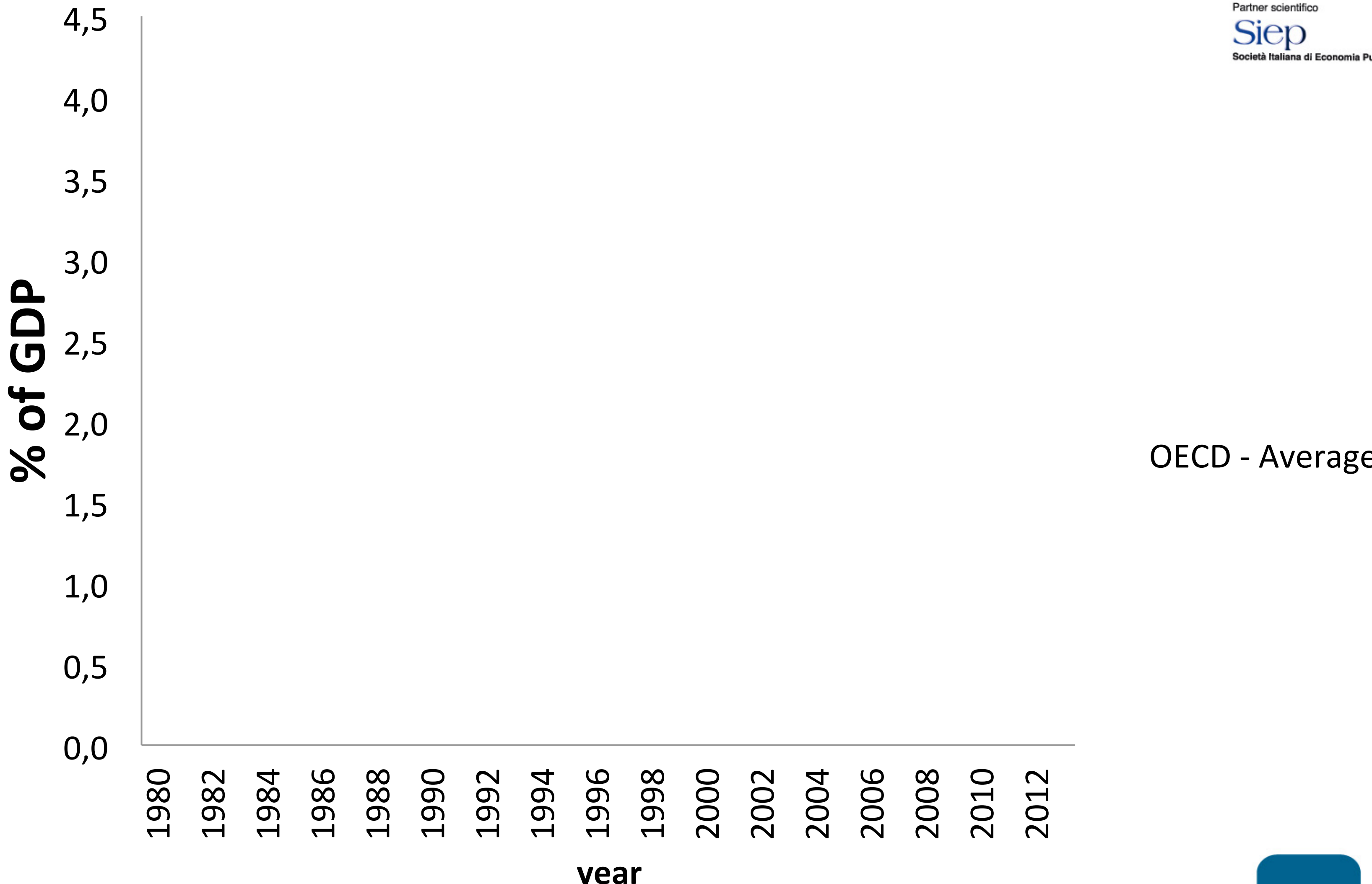
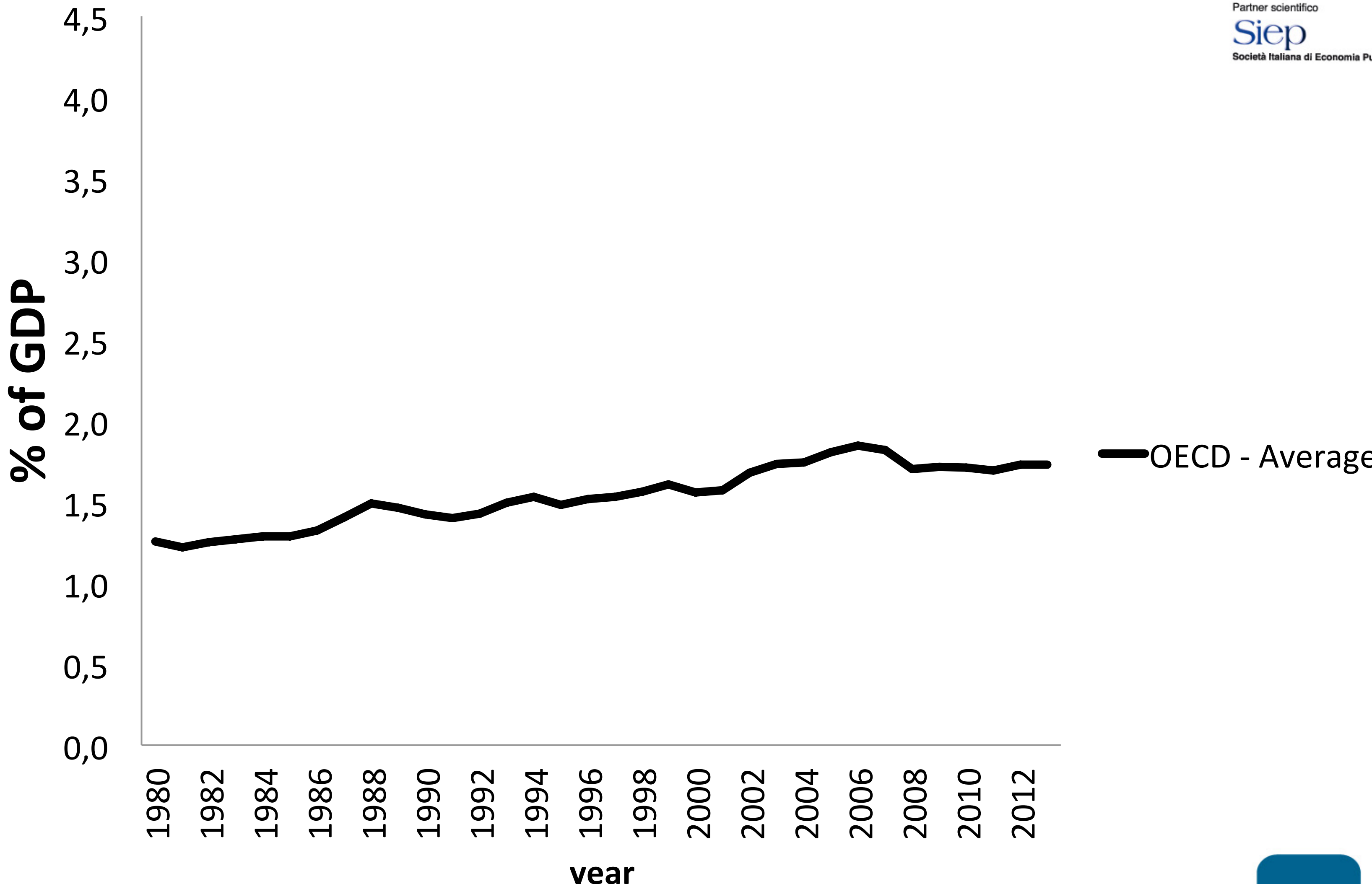
Percentage share of major tax categories in total tax revenue

	Central government		Sub-central government	
	1980	**2012**	**1980**	**2012**
Personal income tax	33	31	67	69
Corporate income tax	37	52	63	48
Social security contributions	99	96	1	4
Payroll taxes	14	10	86	90
Taxes on property	6	4	94	96
General consumption taxes	52	64	48	36
Specific consumption taxes	90	63	10	37
Other taxes	3	8	97	92
Total	**61**	**56**	**39**	**44**

Sub-central property tax revenue



Sub-central property tax revenue



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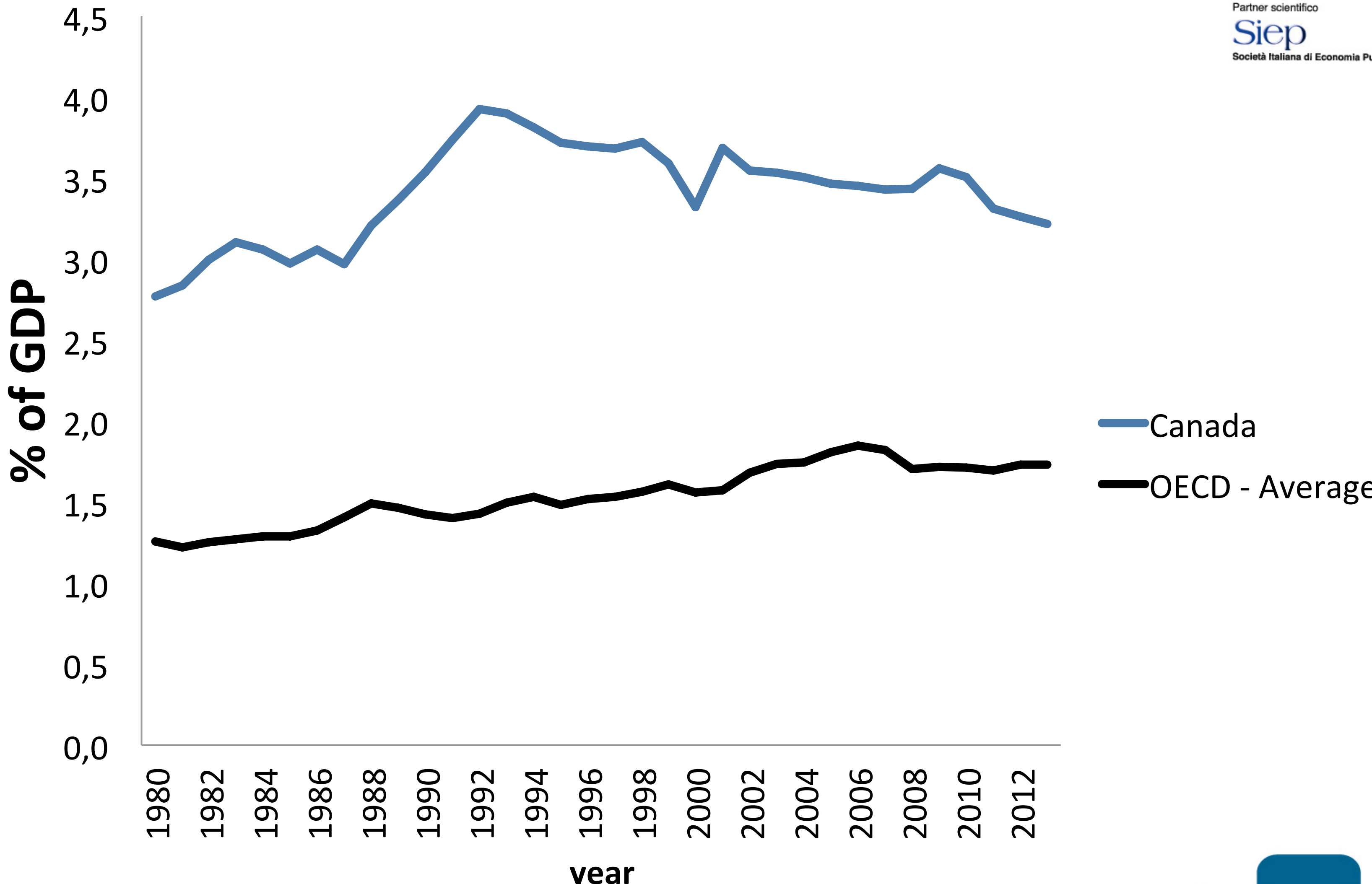

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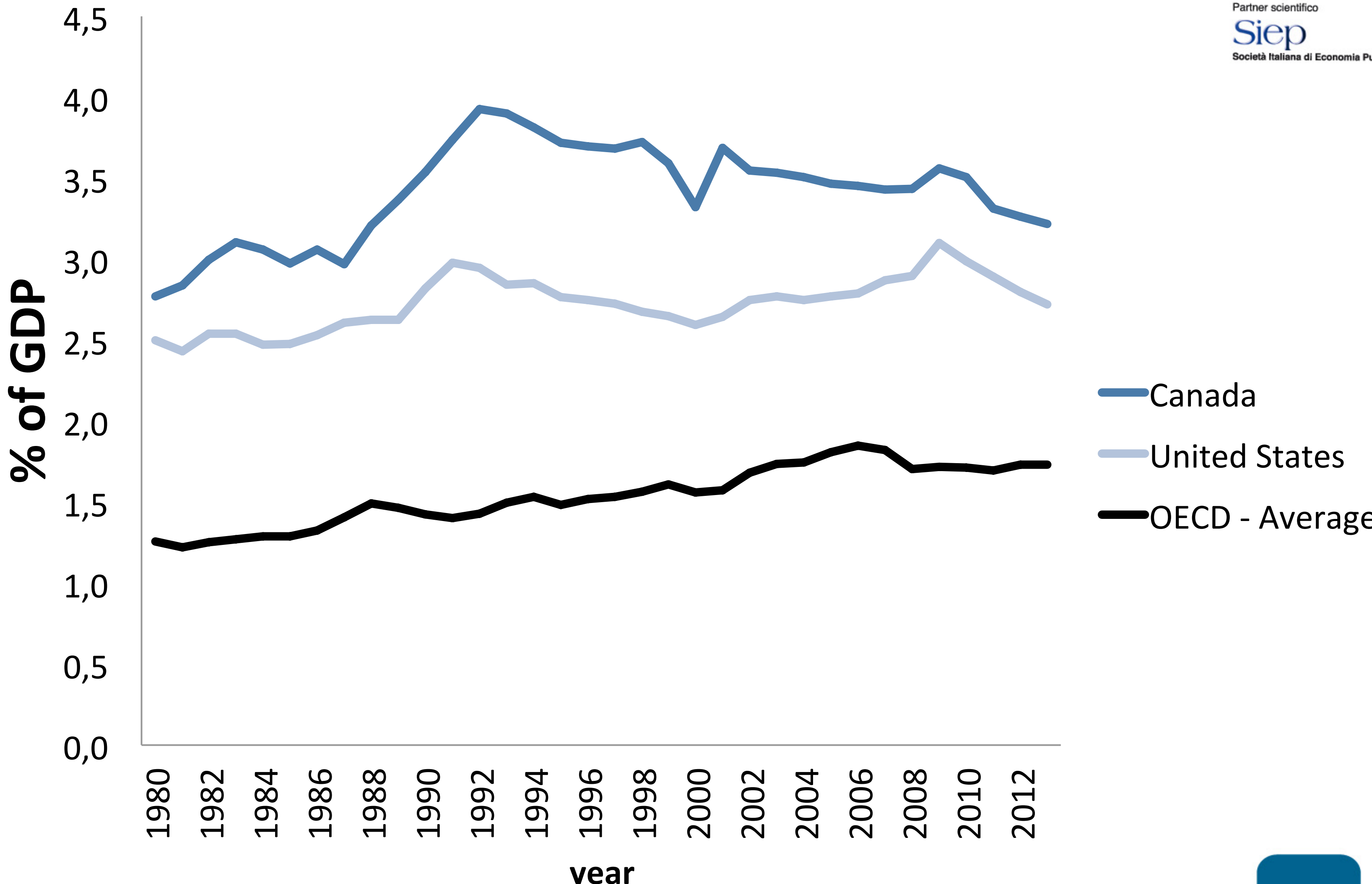

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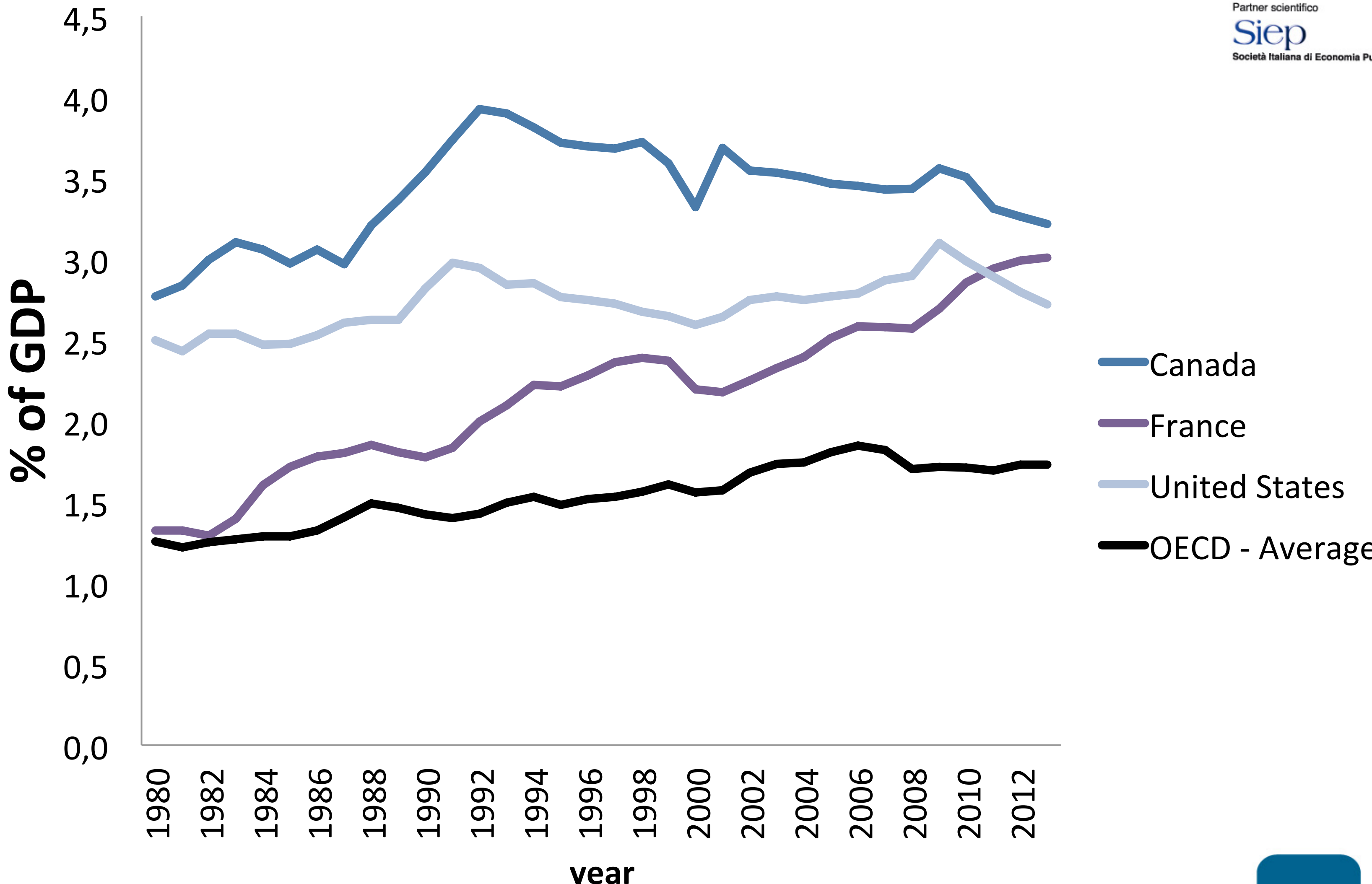

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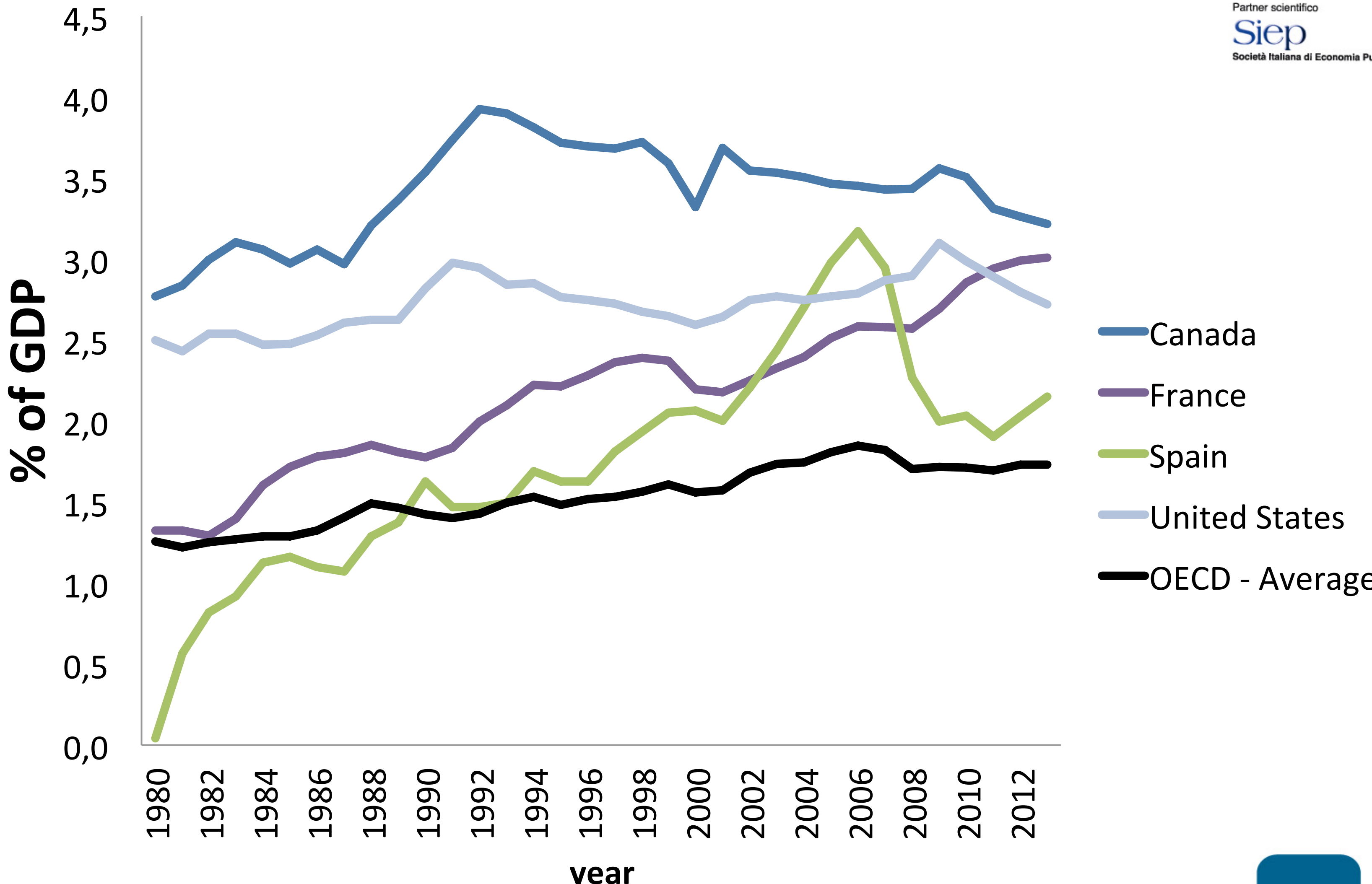

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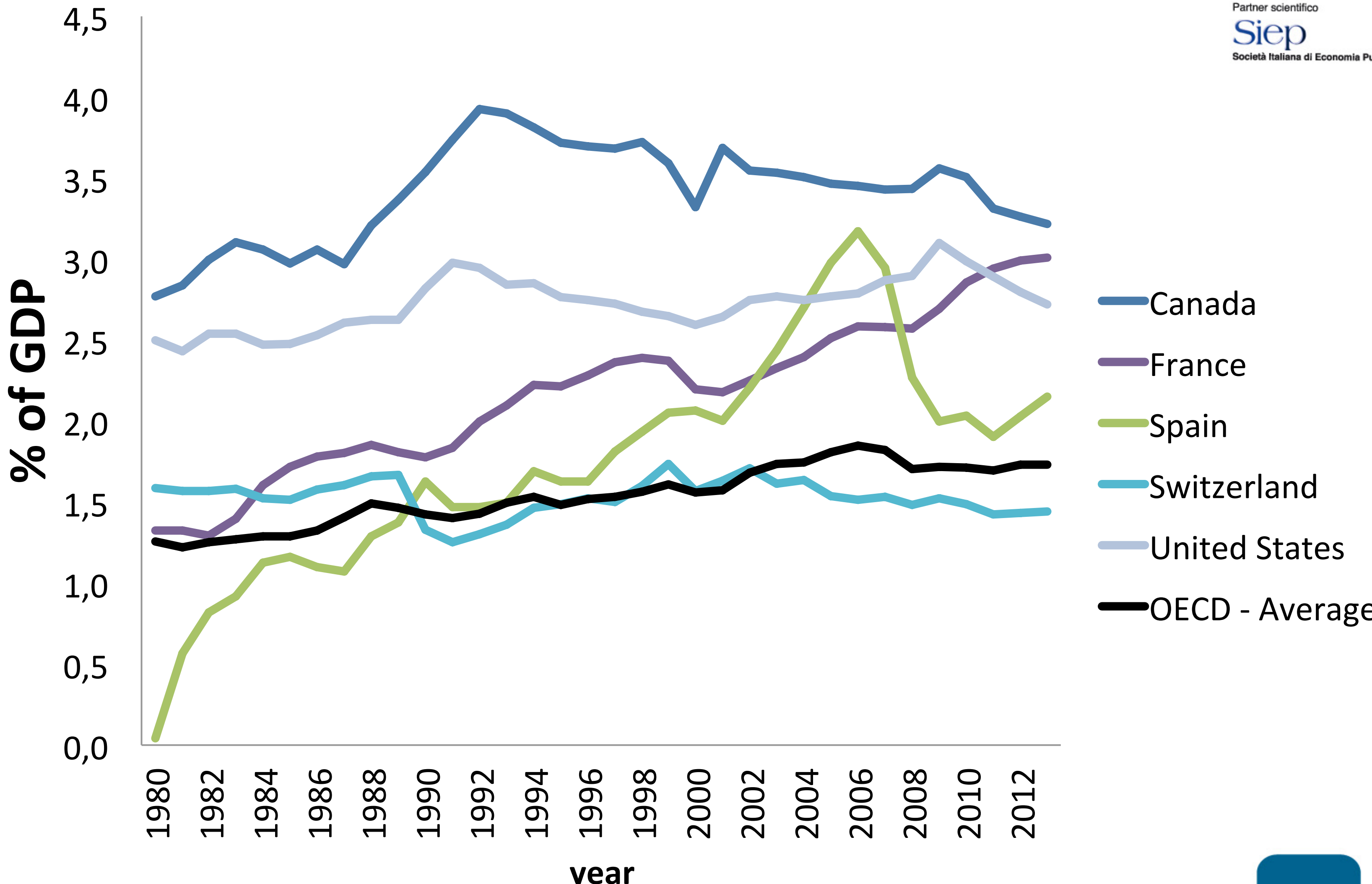

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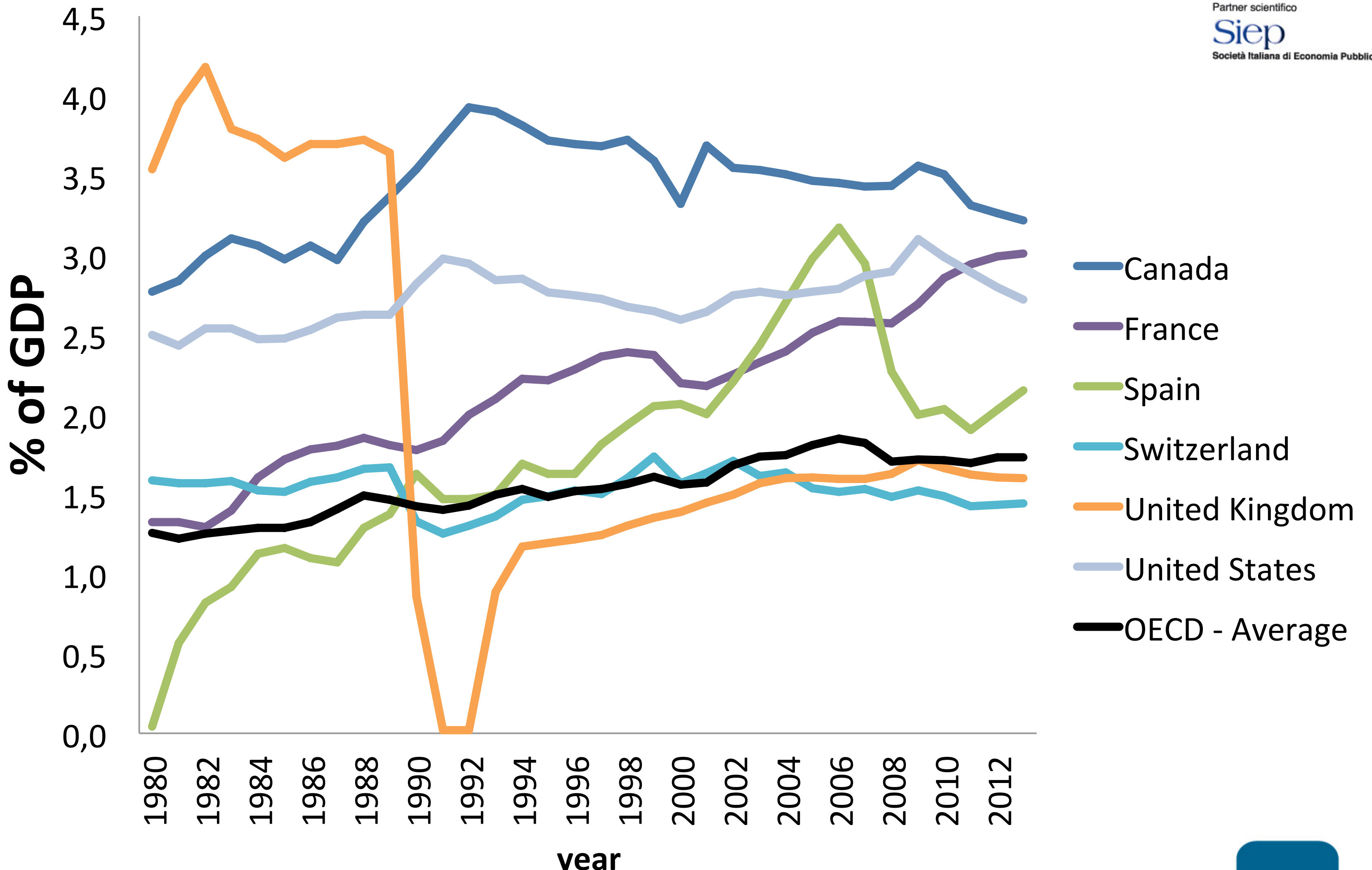
Sub-central property tax revenue



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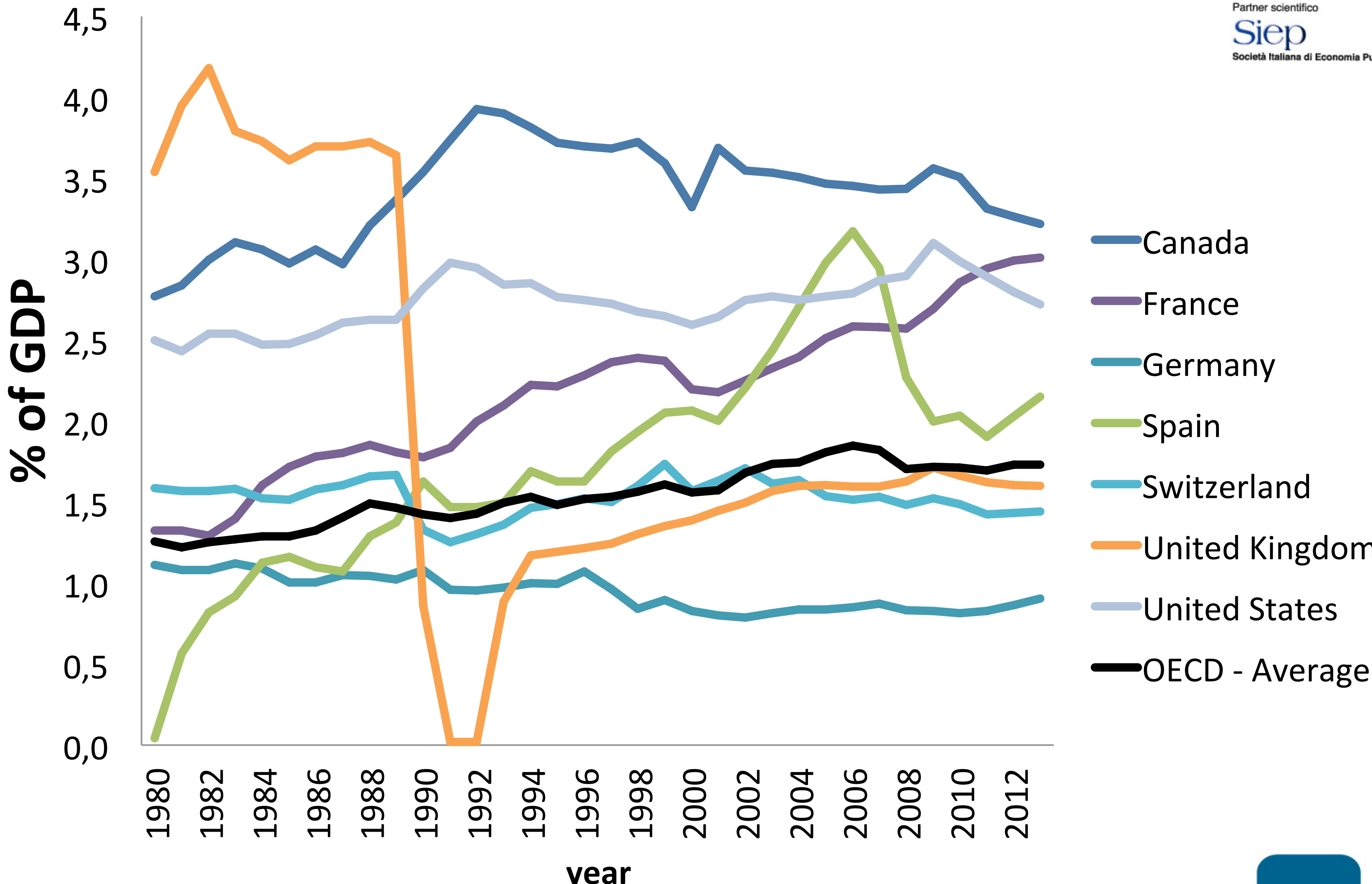

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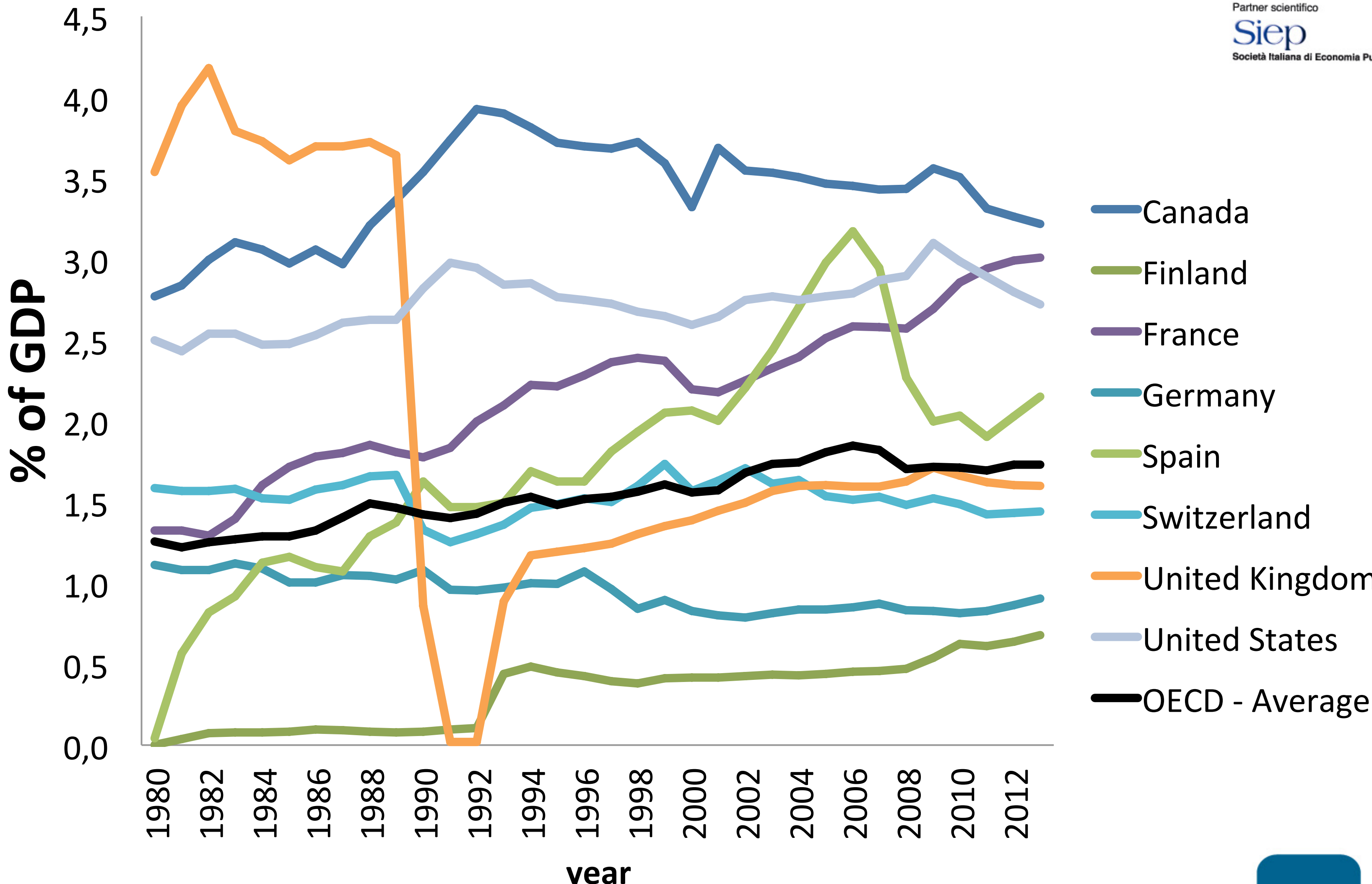

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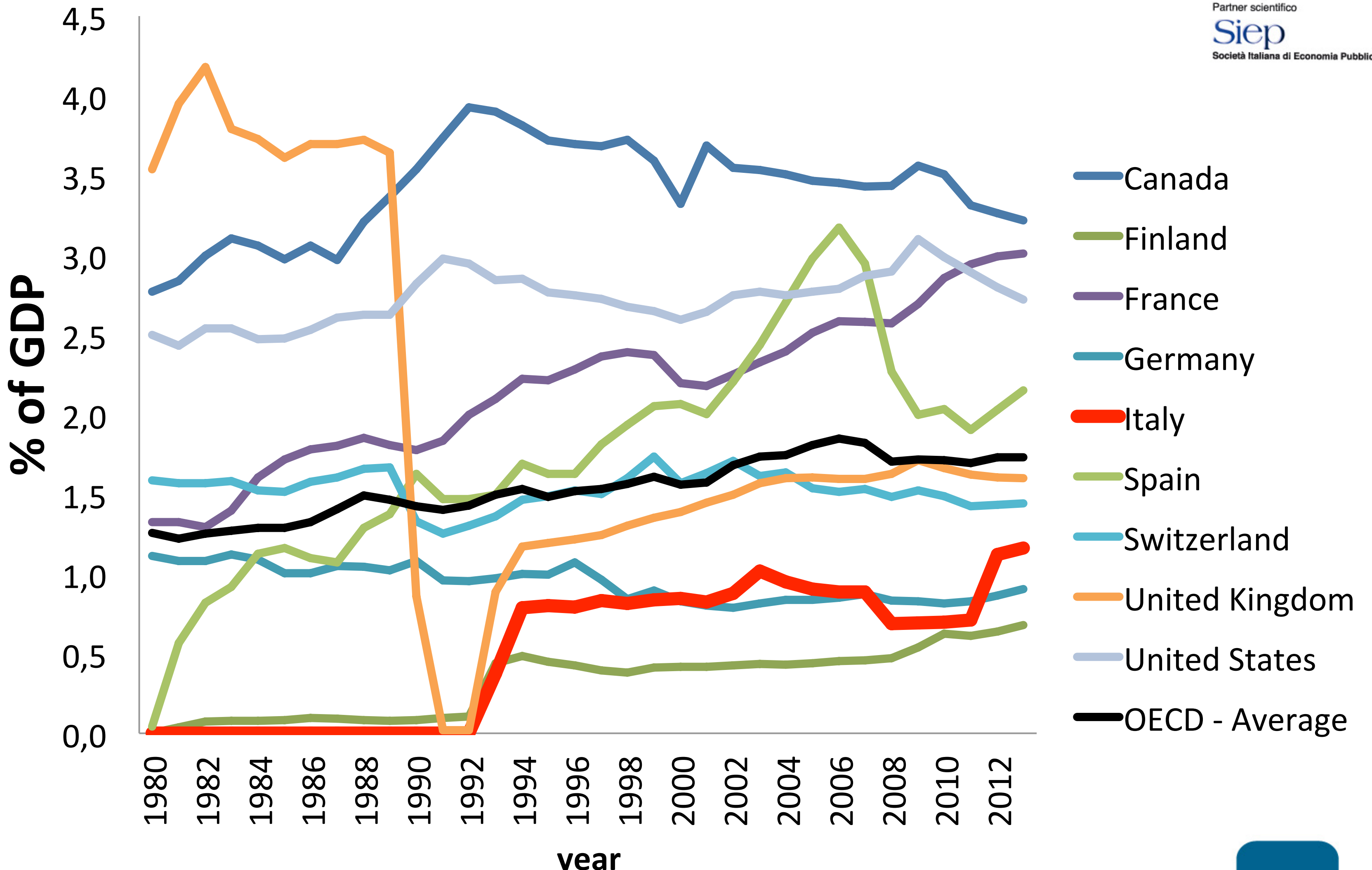

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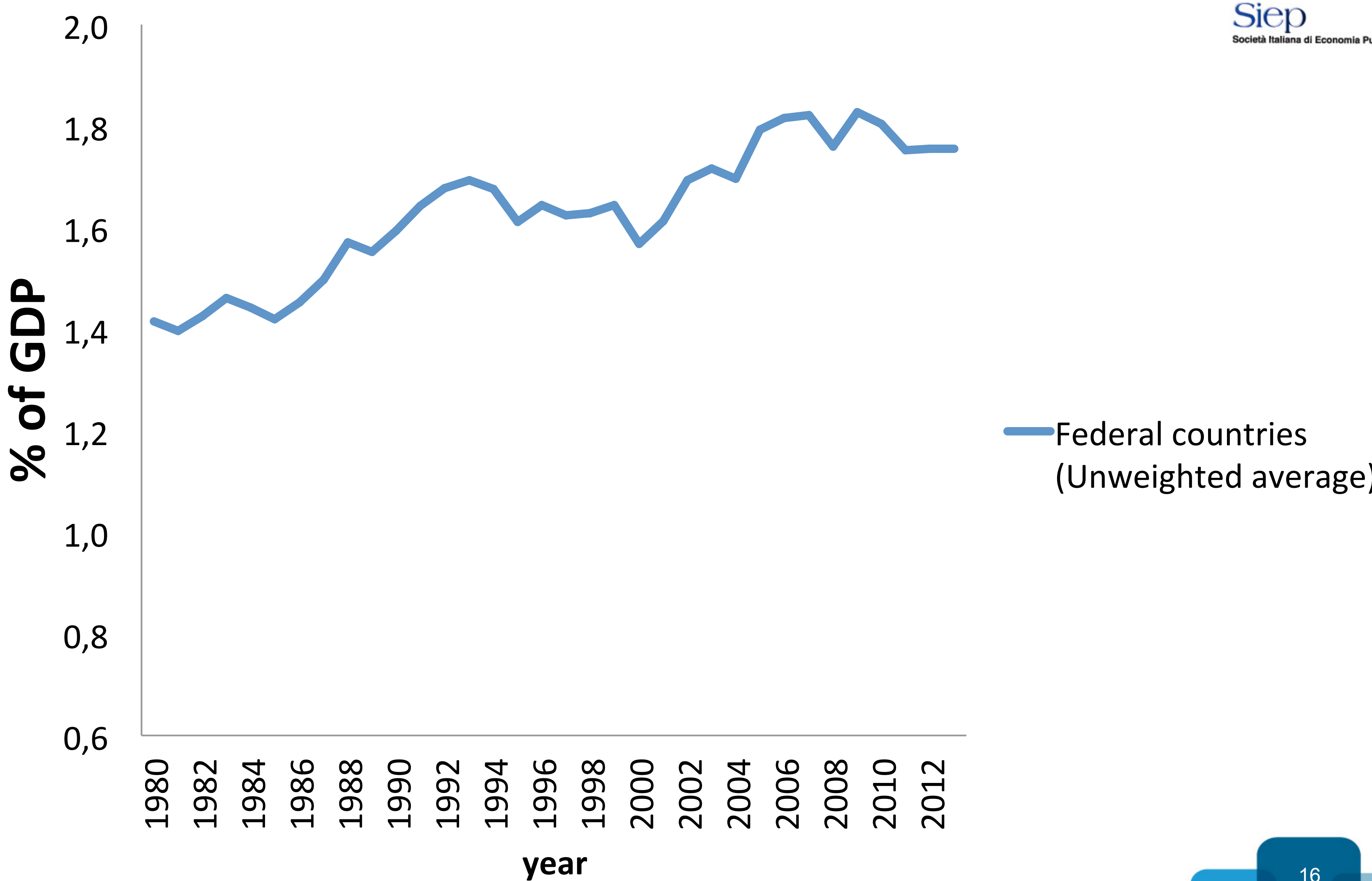

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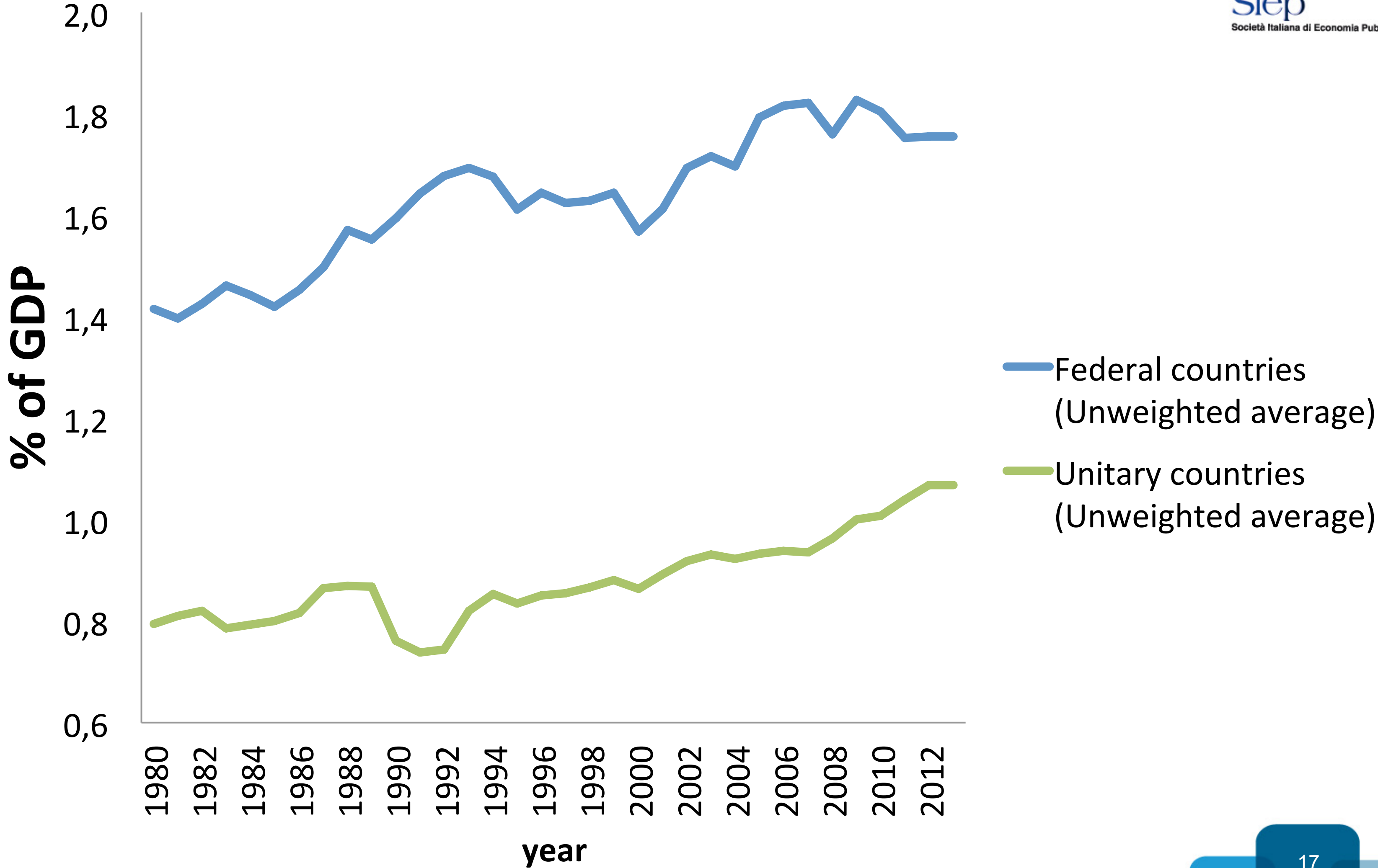
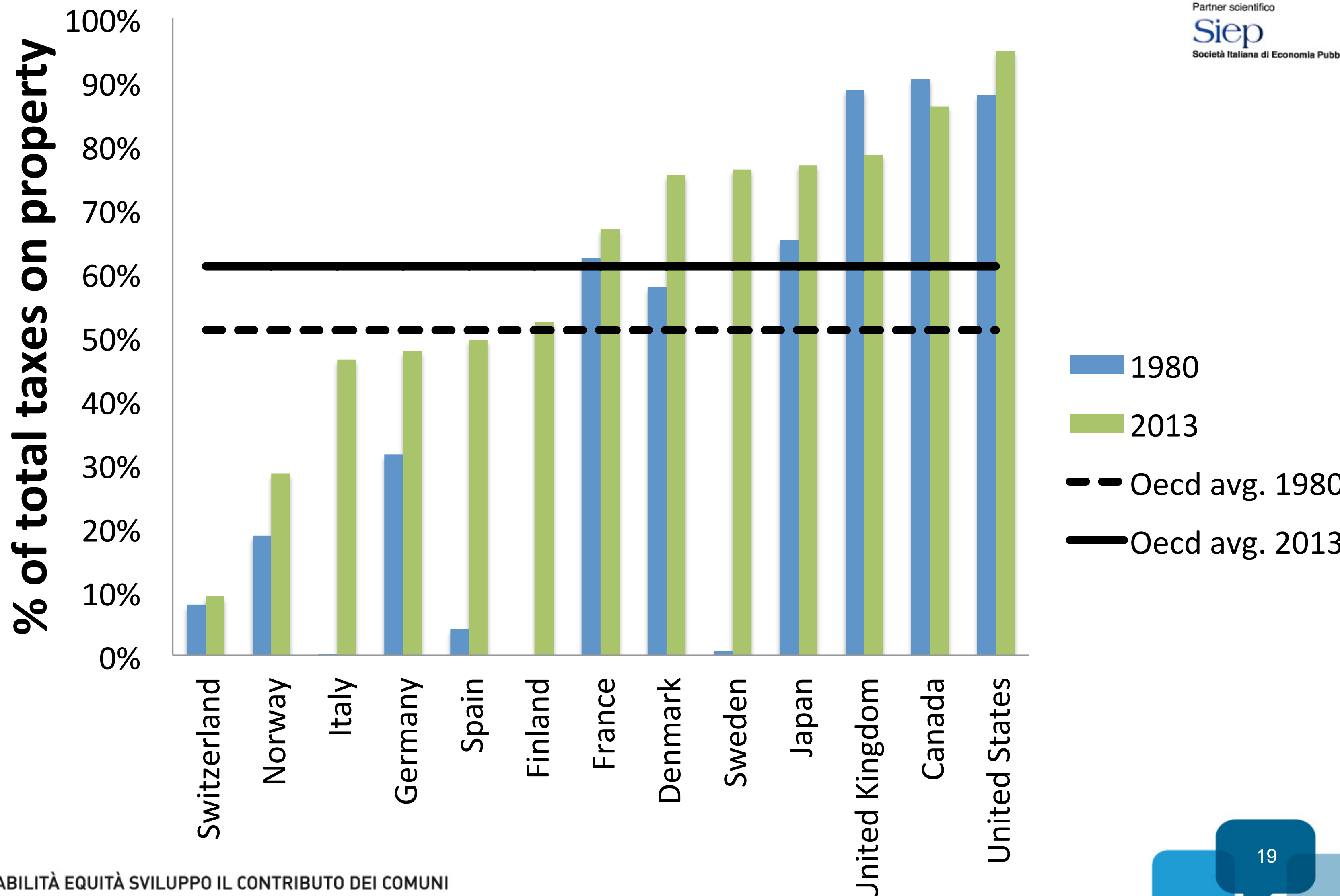


Tax structures in the OECD-area

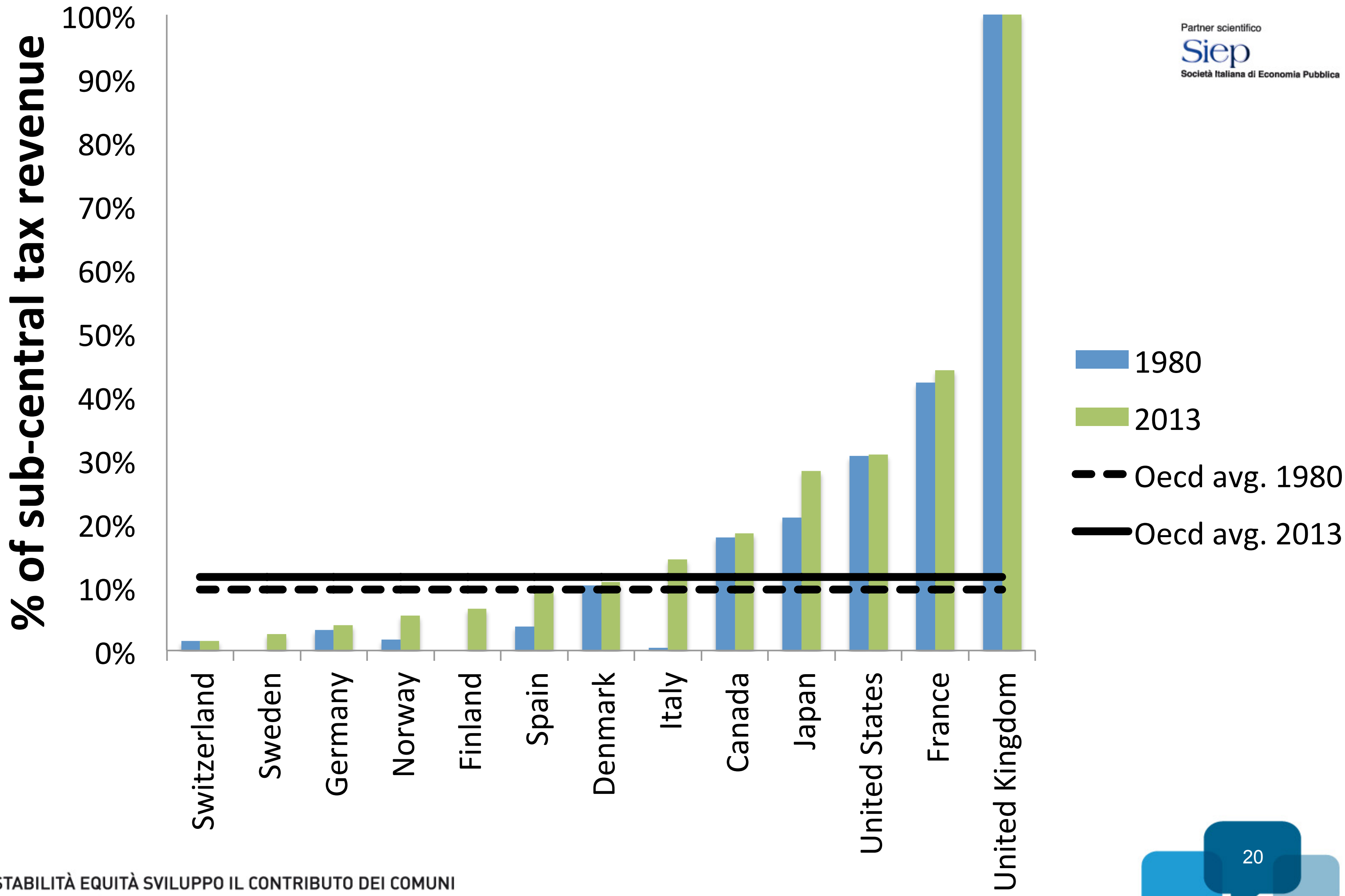
Taxes on property % share of major tax categories

	1985	1995	2005	2010	2012
Recurrent taxes on immovable property	**51**	**54**	**51**	**59**	**61**
Households	*23*	*17*	*20*	*22*	*22*
Others (productive buildings)	*28*	*25*	*27*	*30*	*29*
Taxes on financial and capital transactions	28	26	31	23	21
Recurrent taxes on net wealth	12	11	9	9	10
Estate, inheritance and gift taxes	8	7	7	7	7
Non-recurrent taxes	1	2	1	1	1
Other recurrent taxes on property	0	0	0	1	1
Total	**100**	**100**	**100**	**100**	**100**

Total recurrent taxes on property



Sub-central recurrent taxes on property



What do we learn from OECD data?

- On average OECD countries collect **5% of their tax revenues** through taxes on properties.
- In relative terms, property taxes have a share exceeding **10% of total tax revenue only in four countries** since 1965 (Canada, Korea, the United Kingdom and the United States).
- Revenues from property taxes are **higher in federal countries** (1.7% of GDP 2012) than in unitary countries (1% of GDP in 2012) and is **increasing over time**.
- On average in OECD countries **revenues from recurrent taxes on immovable property are 60% of total taxes on property** in 2012 (50% in 1980) corresponding to 1% of GDP.
- Almost 100% of taxes on properties are **allocated at sub-central level**.
- In OECD countries on average only **12% of total sub-central tax revenues are financed by recurrent taxes on immovable property** in 2012 (100% in UK, 44% in France, 31% in USA), but **increasing over time**.
- In OECD countries on average **43% of total sub-central tax revenues is financed by taxes on income** in 2012 (above 80% in Sweden, Finland, Norway, Denmark and Switzerland), but **decreasing over time**.

Why should we care about recurrent taxes on immovable property?

① Important sources of funding for local governments (municipalities)

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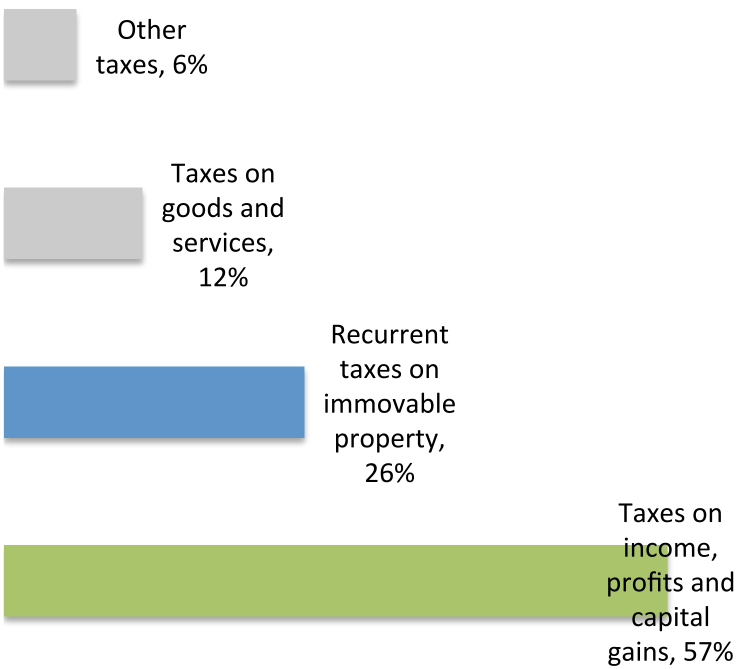
2012 Composition of local tax revenue, OCED average



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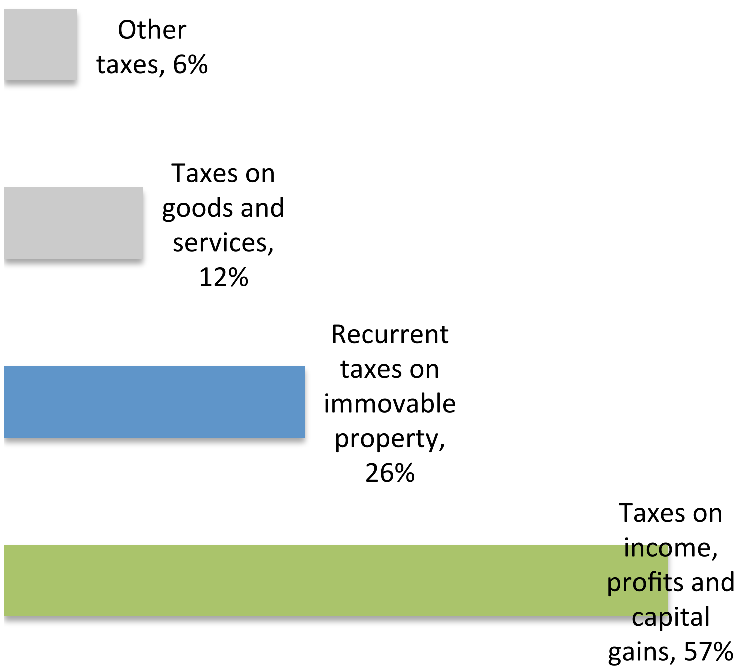
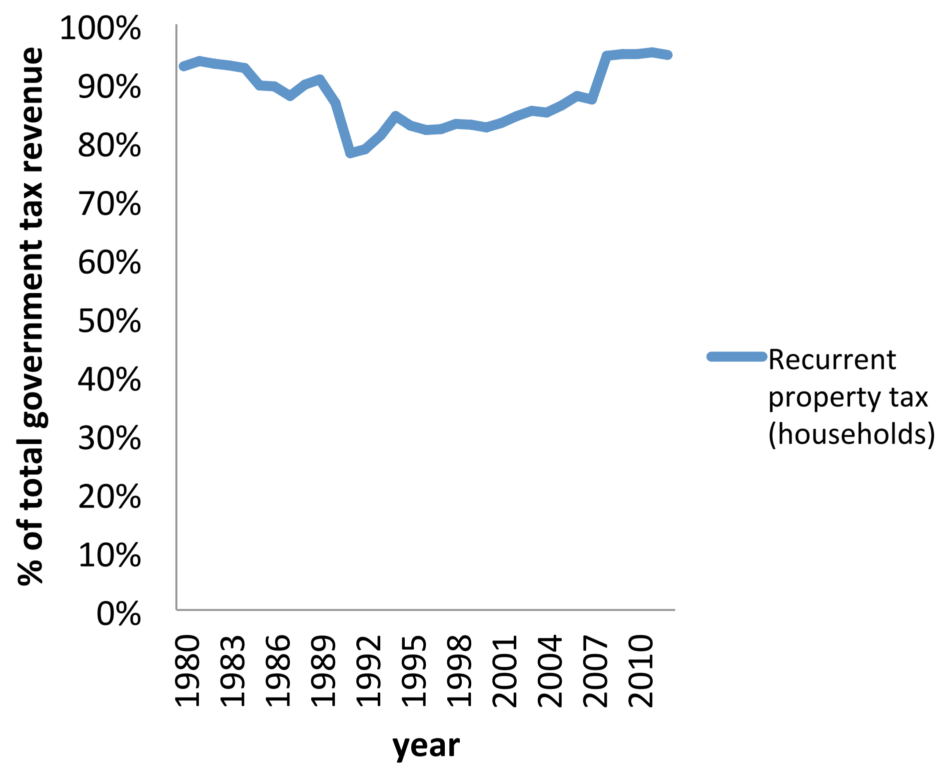


Local government tax revenue OCED average



① Important sources of funding for local governments (municipalities)

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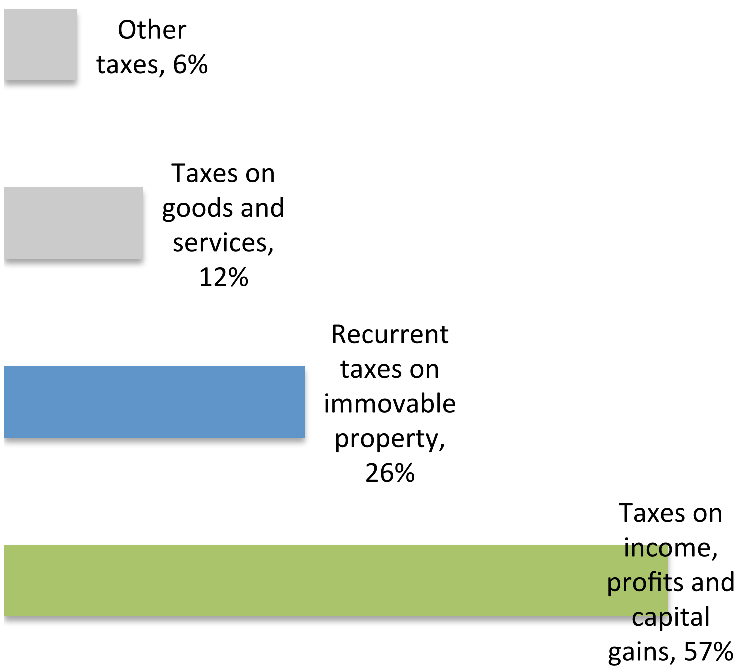
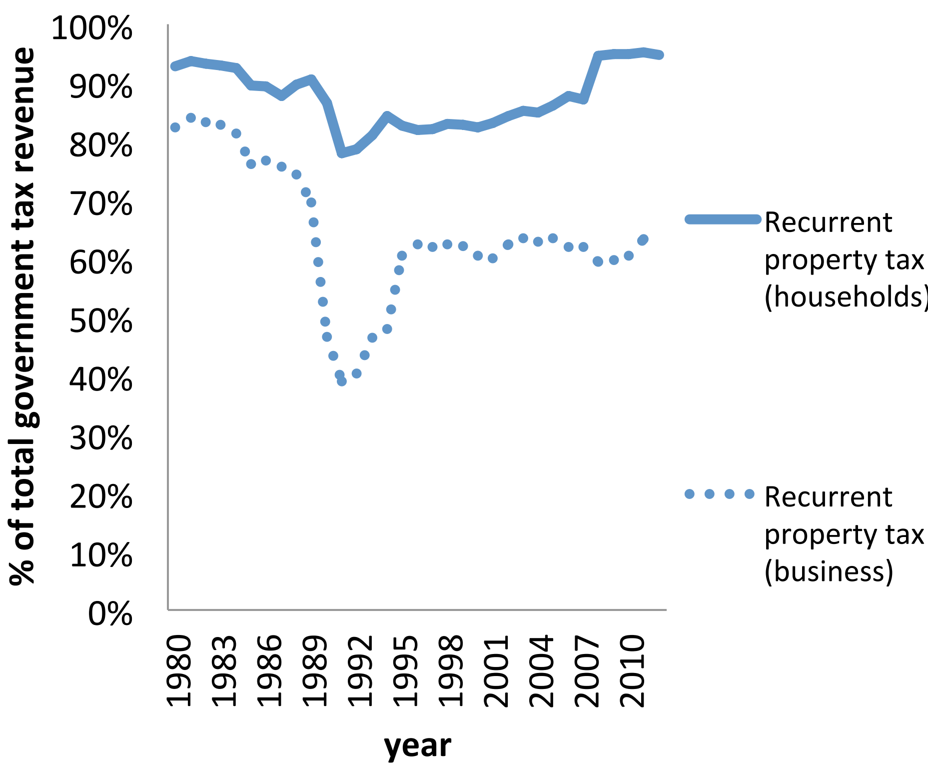
2012 Composition of local tax revenue, OCED average



Local government tax revenue OCED average



① Important sources of funding for local governments (municipalities)

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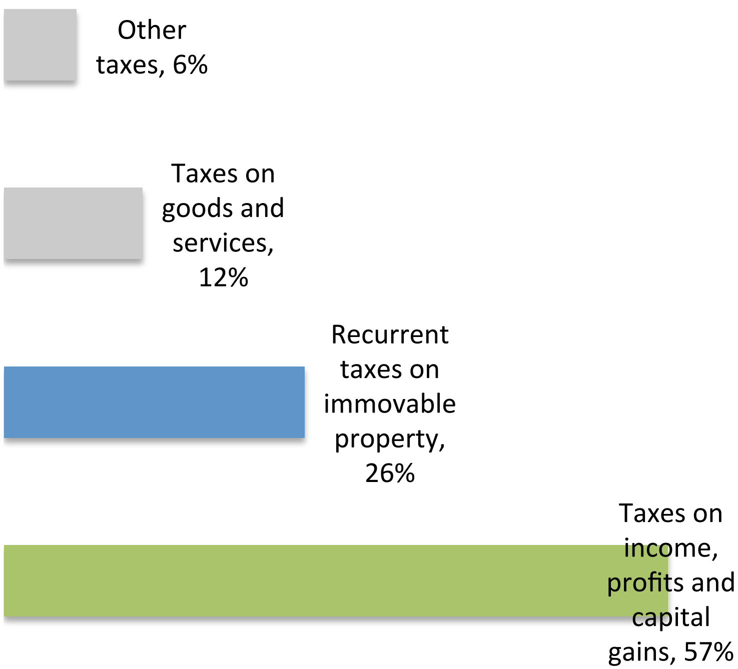

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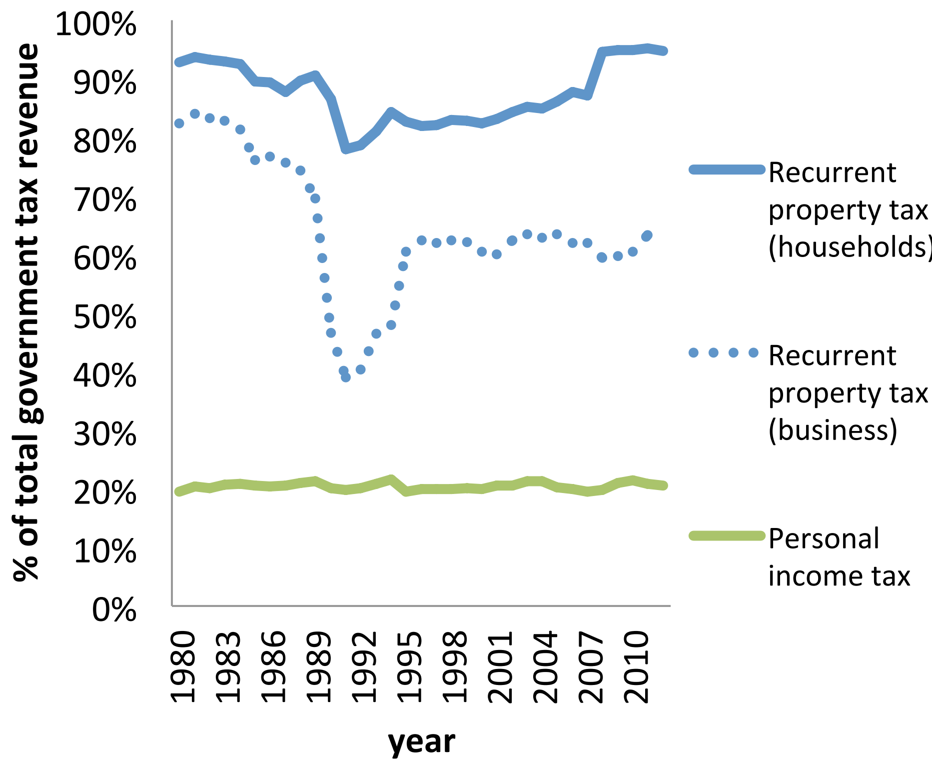

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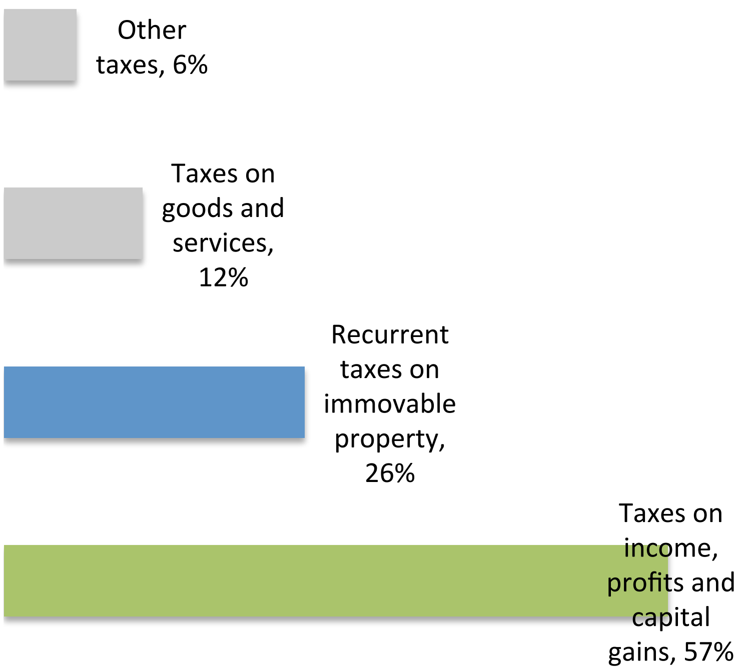

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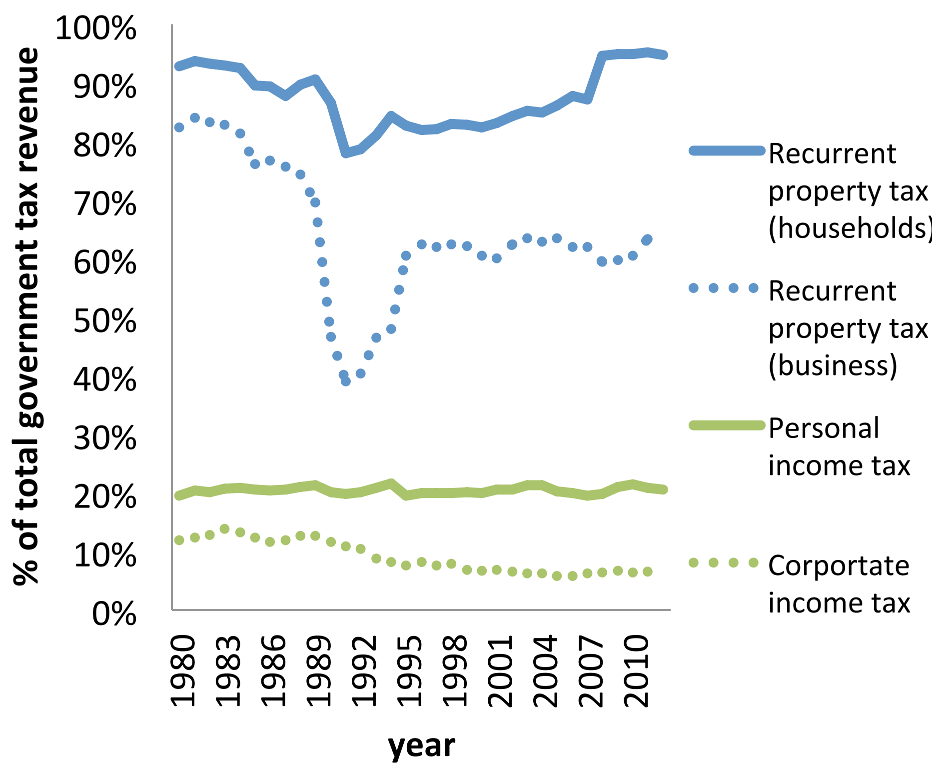
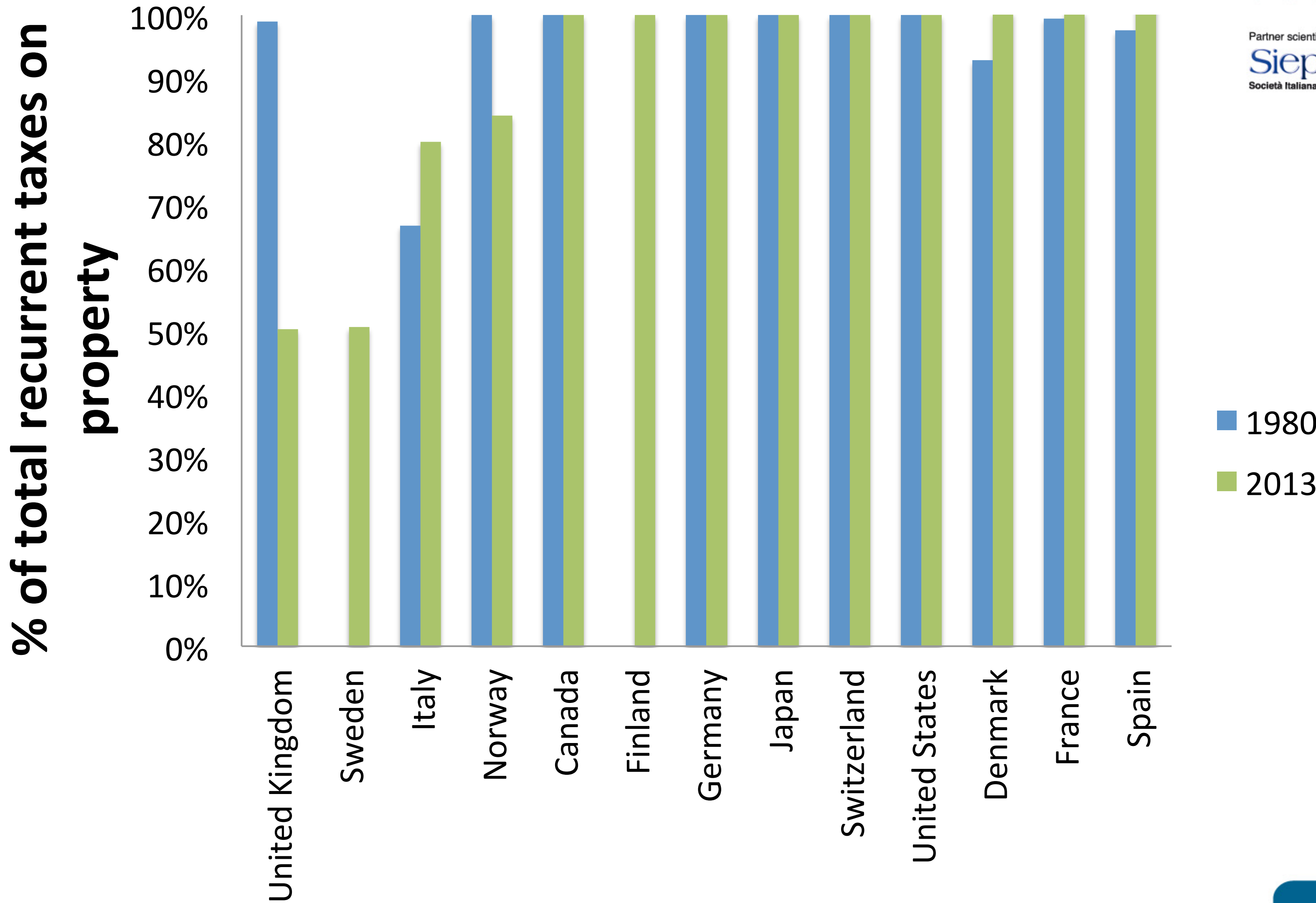


Local recurrent taxes on property



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② Capitalization and distortions in the housing market

- Empirical evidence of capitalization of the property tax into house prices (since the Oates (1969) seminal paper)

- No consensus about the implications of this evidence on the distortionary effect of the property tax
  - ***traditional view*** (Simon 1943 and Netzer 1966)
    - ⇒ argues that the property tax is shifted forward completely to consumers in the form of higher prices for housing services;
  - ***benefit view*** (Hamilton 1975 1976, Fischel 1975 and White 1975)
    - ⇒ concludes that the property tax is simply a payment for local public services received;
  - ***new view*** or ***capital tax* view** (Mieszkowski 1972, Zodrow and Mieszkowski 1983, 1986)
    - ⇒ argues that it is a distortionary tax on the use of capital within a local jurisdiction

③ Tax salience and political economy issues

(Bacco, Porcelli and Redoano 2013, Italian municipalities from 1999 to 2008), behaviour of majors in choosing different sources of fiscal revenues)

Probit point estimates of the probability of incumbent re-election (marginal effects)

	Incumbent candidate
Property tax % change (reduced legal tax rate)	-4.120*** (1.041)
Property tax % change (standard legal tax rate)	-0.0725 (1.004)
Waste taxes (implicit tax rate)	-0.0021 (0.0024)
Other taxes % change (implicit tax rate)	0.0148 (0.0298)
Other Fees % change (implicit tax rate)	-0.016 (0.0097)
Fees for local services % change (implicit tax rate)	0.0677 (0.0541)
Year dummies	yes
Controls	yes
Observations	212

(Standard errors in brackets)

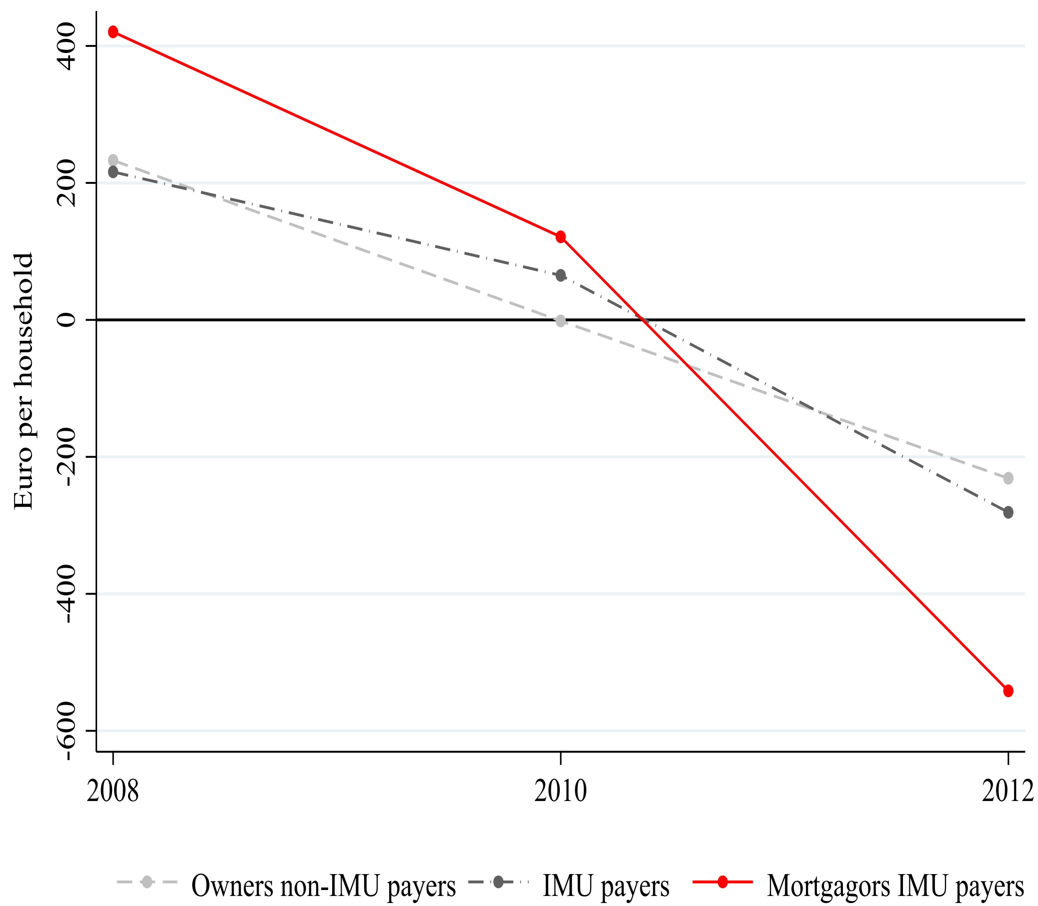
RESULTS

- When politicians face tough political competitions tend to shift the tax burden away from salient source of revenues to maximize the probability of re-election
- Property tax => salient source of revenues
- Fees => non-salient source of revenue

④ Impact on households' consumption

(Surico and Trezzi 2015, Italian 2012 property tax reform,

Data from bi-yearly "SHIW" survey (Bank of Italy)



RESULTS

- In aggregate : **-0.11%** of GDP vs. **+0.90%** of GDP in raised taxes.
- Tax on main dwelling: small revenues and large expenditure cuts.
- Response driven by mortgagors. Non-mortgagors cut savings.
- Other dwellings: large revenues BUT insignificant expenditure cuts.
- Housing taxes can potentially generate large government revenues without highly recessionary effects.
- Shift to taxes on NET housing wealth (i.e. Switzerland) –> make outstanding mortgage deductible (for owner-occupiers).

Two main models of local property tax (LPT)

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- North-American model (Canada and USA)
- The European model (U.K. France)

The North American model

The person responsible for paying the tax is the owner

- LPT is “real” (in rem taxation)
- No or few relives

The underlying philosophy:

- LPT as price for local public services (benefit tax)
- Local public services capitalize in higher property values

The economic incidence of the tax is on the person using the house, it is thus meaningless to consider the tenant as taxable person in place of the owner when the dweller is rented (LPT is shifted into higher rents)

The European model

The person responsible for paying the tax is the occupant (owners or tenants)

- LPT assumes some characteristics of “personality”
- Differential treatments, according to a number of circumstances (age, income, size of the family etc.).

The underlying philosophy:

- Housing markets are imperfect and regulated
- As a consequence the tax is not shifted into higher rents (or it is shifted only partially and slowly), thus it makes sense to distinguish between owners and tenants

While LPT remains essentially a benefit tax, it requires a number of provisions to take into account ability to pay elements.

Responsibility for paying the tax (subject of the tax)

- The owner

- The occupant (user)

- Several countries distinguish
  a. Physical persons
  b. Legal persons (enterprises, other bodies)

Types of properties (object of the tax)

- Land
- Agricultural
- Residential buildings (dwellings)
- Commercial buildings
- Industrial buildings

- In the North American philosophy commercial and industrial buildings should not be taxed
    a. There is not a benefit justification
    b. The tax is inefficient
    c. Tax competition

The tax basis

- Non value (area-based, volume-based)

- Value
  a. Valuation (market values? assessment)
     I. Annual rental value (location value)
     II. Capital value
  b. Cadastral values

The tax rates

- Proportional
- Progressive
- Differentiated according to the type of immovable property

Exemptions and relieves

1. **Primary residences**

   In a very few cases a universal (non-selective) and full exemption for primary residence (like the one in force at present in Italy for Imu) is foreseen (e.g. Niger, Togo, Thailand, Yemen).

   Generally, relieves for primary residence are:

   a. Partial
      - *i. Tax (rate) abatement (e.g. 50%)(Macedonia, Montenegro)*
      - *ii. Deductions from the tax base*
      - *iii. Temporary exemptions (4-8 years Portugal)*

   b. Selective, with eligibility based on age, property value, income etc.

Exemptions and relieves

2. **Elderly people**
   - Relieves
   - Possibility to defer property taxes indefinitely (lien on the property to be recovered when the property is sold or is inherited)

3. **Liquidity problems**
   - To delay payments without penalties and interests

4. **Tax capacity (low income)**
   - To place limits on the proportion of income that can be taken by property taxes
   - Family income or family size (France, Greece, Slovenia)

Exemptions and relieves

5. **Property value**
    - Sometimes small low value residence are exempted (Netherlands)

6. **Other specific circumstances and categories**
    - Disabled people, pensioners, persons in military service, veterans etc.)

Often the criteria are combined: in Denmark, relieves for people over 67, the amount of the relief depending on income and property value

Degree of local governments' autonomy

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- A large spectrum of solutions

- Local discretion:
    a. whether to impose the tax
    b. over the tax basis
    c. in setting tax rates (usually within a range)
    d. regarding exemptions and relives

- More frequent cases: 3) and 4)

Conclusions

- LPT plays a major role in financing local governments. Its role, however, is not overwhelming, being the LPT usually associated to other taxes (specially on income).

- The LPT is mainly considered a benefit tax.

  It follows that:

  a. The owner-occupied dwelling is not exempted, but some forms of tax relief are generally allowed.
  b. Tax relieves may be foreseen in order to take into account some elements of ability to pay, but they should be limited in number in order not to contradict the benefit nature of the tax.
  c. Some specific problems of the LPT, such as the liquidity constraint, may be properly taken care of, with specific measures.

- The autonomy of local government in taxing industrial and commercial buildings should be limited or the taxation should be centralized (U.K. solution).