

## Briefing No. 1



### WHY PROPERTY TAXATION?

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This briefing explains why property taxation is important and identifies the principles that should underpin its design.

#### Summary

- Property taxes have been used across the world for centuries because they are a fair and reliable way to raise revenue.
- Property taxes can have beneficial side effects, including making housing more affordable and encouraging investment in the productive economy.
- To be fair, property which is taxed should be revalued automatically and frequently.

#### Introduction

Property taxes have been used across the world for centuries. Like all taxes, they are not of themselves popular, but they are widely used with good reason. They provide a fair and reliable way to raise revenue and to address some of the inequalities that arise from the housing market. We tried living without property taxes, but ended up with the poll tax. The Council Tax was rushed in to replace it, but it too is now out of date and is increasingly unfair. The Scottish Government is looking for a replacement to the Council Tax.

#### Why property taxation?

We believe that a fair system of property tax should form the basis of local government taxation because:

- Property is fixed and space, is immobile, and so is easy to tax. This means that, unlike many other taxes, property taxes can't be dodged by wealthy people by moving themselves or their companies abroad. They have to pay their share along with everyone else.
- Property taxes can help to make housing more affordable – reversing the trend that has priced more and more people being out of housing.
- Property taxes reduce boom-and-bust cycles in the housing market. These cycles allow a few people to get rich, but at the cost of leaving thousands of people in negative equity and having their homes repossessed when prices fall.

- Property taxes help society to recoup some of the benefits that some people receive because they are lucky enough to live close to new infrastructure or other amenities. They do this because the value of property rises when the area they're located in benefits from public investment.
- Property taxes encourage people to invest in the productive economy, ensuring a prosperous future for us all. We all know that ever more inflated house prices doesn't make us any better off in the long run.

A well-designed property tax should incorporate the following principles.

- Properties that are taxed should be revalued automatically and frequently. One of the reasons the Council Tax is unfair is that it is based on property values that are nearly a quarter of a century out of date. You wouldn't expect to pay income tax based on what you earned in 1991!
- Property taxes can be designed better to deal with anomalies that have been found with previous forms of local taxes:
  - Direct help toward low-income households
  - Deferring tax payments for asset rich/ cash poor households
  - Regular statutory revaluations
  - Combining property and other taxes, as is common elsewhere, to raise the same yield.

## Conclusion

If you're still not convinced, think of it the other way round - not taxing property will simply encourage more wealth holding and speculative activity in property simply because it is untaxed. Remember: it was lending on the property market that led to the Global Financial Crisis. Stoking it up again is not the solution.