International Literature Review for the Commission on Local Taxation

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1 Introduction

This paper presents findings from our international evidence review. It focuses on comparative high-level analysis of local taxation and individual national systems of local taxation, analysed, broadly since 2000. The first substantive part of the paper is an overview of the key messages from a number of high-level cross-country syntheses of local tax evidence. These include a review of studies conducted for the OECD, IMF and UN Habitat. They allow for analysis of a wide range of developed economies' local taxation systems. Second, the paper draws on lessons from specific national systems and studies applied to them. The research examined also allow us to generate wider principles, key messages and, interestingly, tell us much about the challenges of the reform of local tax systems, especially those pertaining to property taxes.

2 Method

A structured approach to the literature review is important for ensuring the identification of current literature, its limitations, and quality, and to help answer the specific research question. The aim of this review was to carry out a systematic search of: '*how international tax systems impact on the issues relevant to the LTC's remit*', with particular focus on '*the impacts on individuals, households and inequalities in income and wealth*'. The search for sources was based on several key strands:

- A key word database search for academic papers and books;
- A key word search in Google scholar and Google for academic and grey literature;
- A search of key literature by specific international organisations (i.e. OECD);
- The key exclusions and rules: post 2000; OECD plus transition countries;
- Reviewing papers in light of personal knowledge/experience literatures;
- A snowball additional search involving reviewing the references of selected outputs.

Methodological considerations

The initial trawl of the literature on local property tax models since 2000 highlights a number of important methodological considerations:

- There exists an extensive academic literature.
- The terms "local property tax" and "local income tax" are rather broad terms, making the search labour intensive, if we were to ensure key literature were not missed.

Given the breadth of papers available, we carefully sifted the evidence to filter out anything unreliable and focussed on those papers providing a comparison of country systems, or provide in depth discussion and analysis of country tax systems most relevant to the UK.

The evidence review is modelled loosely on the *What Works Scotland* evidence bank approach[i]. The *What Works Scotland* approach to evidence reviews is a rigorous and standardized search strategy based on academic journal articles using key word searches, alongside a grey literature search on similar principles. The search uses social science databases and more open search engines via Google. A more inductive snowballing search exercise was also undertaken, using specific subject knowledge of the report's authors and by making one review of the references of the papers selected. Table 1 below provides a summary of the search inclusion and exclusion criteria, which also included a focused review of the most appropriate publications:

The scope of the evidence review focuses on existing international studies considering the range and impact of property tax and other local tax systems. Unlike a systematic literature review, all relevant studies are not identified or appraised for their methodological rigour or quality. Rather, the review provides a snap shot of the range of studies providing insight on the impact of local and/or property tax systems, and the potential relevance to the Scottish local tax context.

The academic databases and key search terms used reflect the social science field most relevant to the area of study, including: economics, politics, public policy and finance. A broad search of the grey literature using google scholar also revealed a range of key country papers relevant to the field of study, and which helped to identify some key sources. The OECD database was searched as a key source.

The approach taken generated large numbers of results (Table 2 suggests more than 10,000), though once exclusions were applied we were left with a manageable though large number of papers and reports numbering roughly one hundred separate retrieved documents. The literature review that followed was based on this set of papers along with relevant other studies known to the authors on the basis that they were known to make a useful contribution to the task in hand. This is inevitably a little ad hoc but is outweighed, we believe, by the added-value they make to the review.

Table 1: Search Criteria

Search Criteria:
Search 2000 – 2015
OECD Countries
Transitional economies as second order search
Exclusion Criteria:
1. Detailed micro case studies of specific locations within a country
2. Detailed technical accounts of a specific local tax system e.g. valuation practice
Brainstorming of important sources:
Classic or standard UK reviews including grey literature (i.e. The Burt Review; The Lyons Review)
US Lincoln Land Institute
IFS Mirrlees review
Northern Ireland reform of rates in early 2000s
International review based academic journals e.g. Journal of economic literature/economic perspectives
Academic Database of journal articles and working papers:
ProQuest IBSS (International Bibliography of Social Sciences)
Key words:
Local taxation/taxes; local property taxes/taxation; land value taxes/taxation; site value taxes/taxation; local income taxes/taxation/local government taxes
[comparative/international reviews of…]
[OECD, European]
[evidence reviews/literature reviews]

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Table 2: Indicative summary of the main search results:

Database	Search Criteria	Results and Exclusions	Total Selected
ProQuest IBSS	"local property tax"; 2000 - 2015; Fields: Title and Abstract; Language: English Only; Peer Reviewed:	33 Results	4 selected
ProQuest IBSS	"local income tax"; 2000 - 2015; Fields: Title and Abstract; Language: English Only; Peer Reviewed:	5 results	3 selected
ProQuest IBSS	"land value tax"; 2000 - 2015; Fields: Title and Abstract; Language: English Only; Peer Reviewed:	9 results	8 selected
ProQuest IBSS	"local government tax"; 2000 - 2015; Fields: Title and Abstract; Language: English Only; Peer Reviewed:	6 results	0 selected
Google Scholar	"local property tax"; 2000 - 2015;	6,310 results	too high a yield to search individually
Google Scholar	"property tax literature review"; 2000 – 2015	2 results	1 selected
Google Scholar	"local property tax" AND "literature review"; 2000 – 2015	729 results	included duplicates already retrieved.
Google Scholar	"local income tax" AND "literature review"; 2000 – 2015	204 results	Some duplicates. Going through first 10 pages 24 papers retrieved
Google Scholar	"local government tax" AND "literature review"; 2000 – 2015	370 results	Some duplicates. Going through first 10 pages no extra retrieved
Google Scholar	"property tax in developing countries"; 2000 – 2015	11 results	6 retrieved
Google Scholar	"local government tax in developing countries"; 2000 – 2015	2 results	0 retrieved
Google Scholar	"local income tax"; 2000 – 2016	2920 results	Too high a yield. first 10 pages checked. 20 retrieved. Duplicates already retrieved.
OECD	"property tax"' Between 2000 and 2015	58 results	All reviewed and 23 selected
OECD	"local property tax" Between 2000 and 2015 AND All Fields containing '"local property tax"' Published Between 2000 and 2015	150 results	Looking through first 5 pages: duplicates of articles already found
OECD	'"land value tax"' Restricted to Language(s) English Including Multilingual Summaries Published Between2000 and 2015	54 results	Looked through all and none selected as duplicates of articles previously found
OECD	"local government tax"' Restricted to Language(s) English Including Multilingual Summaries Published Between 2000 and 2015	220 results	Looked through first 5 pages: duplicates found and 5 selected

Box 1: OECD Analysis of Local Taxes and Sub-Central Tax Autonomy

OECD publishes a wide range of data and analysis of local government finance for member countries. Appendix Table 1 of this evidence review summarises the distribution of local taxes across the OECD members in 2010 (Slack and Bird, 2014).The data covers 34 countries from the United States to Luxembourg but also including central and East European countries, Japan, Korea, Australia and New Zealand, as well as Mexico, Chile, Turkey and Canada.

Six countries rely on property taxes for 90% or more of their local tax revenue (including the UK, Australia, Ireland and Canada). At the same time, ten OECD countries rely on income taxes for at least 75 per cent of their local tax revenue (including the Scandinavian group, Denmark, Germany, Iceland, Luxembourg, Slovenia and Switzerland). It is not clear from this table to what extent this incorporate elements of tax sharing with national income taxation. Six countries rely on taxes on goods and services to support at least 48% of local tax revenues (Slovakia, Turkey, Chile, Czech, Hungary and, surprisingly, the Netherlands). Only Greece relies on 'other taxes' to raise 50% or more of its local tax revenue.

The UK, Ireland, Australia have just one tax raising all local tax though Sweden, Luxembourg, Israel and Finland all have one tax raising more than 90% of their local tax revenues. On the other hand, twenty countries operate a diverse system with at least two taxes where the smaller contribution is at least 20%.

Blochliger and Nettley (2015) use a number of metrics to provide an indication of the degree of sub-central tax autonomy enjoyed by State and local governments across OECD countries (based on 2011 data). For reference, 10 of the 34 member states have either: state, regional or Lander governments as well as local government. The authors define tax autonomy in terms of the extent of freedom of lower tiers of government over tax policy in their jurisdiction in terms of tax base and tax rates with special attention given to the specifics of tax-sharing arrangements (which is sometimes difficult to isolate and to contrast from intergovernmental grants). The authors are also able to compare change over time from 1995 to 2011 (though note that OECD membership expanded considerably over this period).

The authors report that policy changes in the form of expansion or reduction of local control or a swapping between sub-central taxes and intergovernmental grants arises largely from legislative amendment and explains increased autonomy in countries like Belgium, Italy or Spain – all involved in a 'long term decentralisation process' (p.6). Cyclical factors, associated with economic change impact on tax revenues and autonomy as well: income taxes are more elastic with respect to economic growth or decline than are, for instance, property taxes.

Between 1995 and 2011, the share of taxes allocated to the sub-central level increased from 13.5% to 15.5% and where tax base and rate-setting was decentralised, the share of autonomous local tax revenue also increased. The authors also found that the frequency of tax-sharing and powers that only allowed tax-setting fell. The authors argue that this process of decentralisation was more marked at State/Region/Lander level; whereas local government was more stable in terms of degree of autonomy. This is in strong contrast to the narrowing of autonomy of local government functions and finance in the UK since the end of the 1970s.

3 Preliminaries

We begin the analysis by reviewing important facts and concepts. There are three key points to take on board:

- The UK property tax burden is high in OECD terms but this can be misrepresentative if treated in isolation.
- Second, there is considerable variety in the practice of local taxation across OECD and Europe.
- The position taken on the technical *incidence* of the property tax is crucial to the analysis and to distributional research on different local taxes.

First, it is regularly pointed out in the UK literature that UK property taxes impose a higher burden on the UK than property taxes in other OECD countries. Smith (2015) points out that overall taxation as a share of GDP across the OECD rose from 25% in 1965 to 34% in 2012. During that period, however, property taxes fell from 7.9 to 5.4 per cent as a share of all tax revenues. OECD evidence also suggests that both in terms of total property taxes as a proportion of GDP and recurring property taxes as a proportion of GDP, the UK is at or near the top of the tables. UK figures (2010, OECD Revenue Statistics for 2011) on this basis are 4.23% and 3.42% respectively. However, an examination of the literature suggests that this is not quite so straightforward.

- The appropriate comparison for a local tax review is to focus on the level of recurring taxes on immobile property only (including commercial non-residential property) i.e. not national and transactions related taxes, estate duties, etc. but also to compare it with all local taxes as a share of GDP. Note, however, that in the UK, non-domestic property taxation is not a local tax.
- The international evidence indicates that in general property taxes are relatively low yielding taxes (and this is widely seen as a criticism and scope for future development). In fact, many countries choose to levy other taxes such as on incomes, sales and other form of revenue-raising (e.g. alcohol and gambling license fees).
- The Burt Review (2006, pp.26-27) shows clearly that most countries use multiple local taxes (23 out of 28 in their study) and that local income taxes (personal and corporate) tend to have a much higher yield (averaging 4% of GDP for those who use them) with sales taxes similar to property taxes (1.7-1.8% of GDP).
- Slack (2013) contrasts London with 6 other leading cities – whereas London has control over council tax, the other cities have much more fiscal discretion: Frankfurt, Madrid, Tokyo, New York, Paris and Berlin all have at least five local taxes to work with.[1]

[1] These included estate taxes, sales taxes, dog licenses, allocations of land transfer taxes, parking fees, resident taxes, urban planning taxes, excise duties, gambling taxes, etc.,

- This all means that several countries generate a higher local tax yield as a share of GDP – they just do not rely on a single tax related to property the way the UK does. Indeed, the UK property tax share is large precisely because there are no other forms of local tax. However, this is not to say that critics of property taxation are wrong when they argue that the UK as a whole has a strong reliance on property taxes (once we include stamp duty/LBTT and, less so, other property-related wealth taxation such as inheritance tax). Neither is this to claim that these are all uniformly efficient or well-constructed forms of taxation.
- Box 1 and Appendix Table 1 are arguably a more useful guide regarding local taxes and local autonomy. Appendix Table 1 covers the OECD for 2010, assessing different levels of local tax and as a share of all local spending. Twenty countries have at least two taxes where the smaller contribution is at least 20%, only three countries are wholly reliant on property taxes locally (UK, Ireland and Australia) and nine countries raise more than three-quarters of their local taxes from income taxes[ii].

Second, and has already been suggested, there are a wide variety of approaches to local taxation in OECD countries. A 2007 study for the Northern Ireland Assembly (pp.2-3) noted:

'Countries' systems of local taxation tend to fall into two broad categories; those primarily reliant on income tax, and those dependent upon property tax. Generally, within the EU, income taxes dominate. In Belgium, Denmark, Finland, Germany, Iceland, Luxembourg, Norway, Sweden, and Switzerland, more than 80 percent of tax revenues are derived from personal and/or corporate income tax. On the other hand, property taxes contribute more than 80 per cent of local tax revenues in Australia, Canada, Ireland, the Netherlands, New Zealand, the U.K and the U.S.A. Other countries which employ a local property tax, albeit to a lesser degree, include Austria, Finland, Germany, Portugal, Spain, Belgium, Denmark and France.'

and

'Austria, France, Greece, Italy, Portugal and Spain are unusually fiscally diversified; they rely on a mixture of local tax sources. On the other hand, as indicated above and illustrated bellow, the U.K. is somewhat unusual in its exclusive reliance upon property taxation.'

A third important introductory comment to make concerns the *incidence* of local taxes i.e. who does it fall on and how we interpret its degree of progressivity. The incidence of a local income tax is straightforward – it can be measured directly as a percentage of current income. This is not so in the case of the property tax. There are several perspectives (Bird and Slack, 2004):

(1) As a tax on housing services it is regressive as housing generally constitutes a relatively larger share of consumption by poor people. This is the most common and most widely understood feature of property taxes both in terms of public attitudes, political perceptions and as a driver of much property tax reform e.g. the desire to redesign taxes

(and that of specific income-related rebates) to be more progressive in terms of current incomes and to protect the asset rich cash poor.

(2) As a tax on capital (tied up in housing wealth), it is essentially progressive since ownership of capital as a rule is relatively concentrated within higher income groups. This failure to tax this wealth appropriately may also be more expensive for the economy in the sense that it ties up more potentially productive wealth in predominantly unproductive second hand housing.

(3) Those who think that tax falling on land is in effect paid out of economic rent and that this is inherently equitable to tax such unearned increments arising from public actions. Again, it is argued that failure to levy such a land value or site value tax prevents an opportunity to promote the more efficient use of land.

(4) Others who view property taxes as essentially a user price or benefits taxes and tend to think it makes little sense to consider whether the price of public services or indeed anything else commodified in this way is regressive – it is inherently a voluntary exchange and does not therefore raise questions of incidence, as understood in the three cases above.

These are not straightforward to reconcile or to adjudicate over. This is all the more important when conducting an evidence review because it is clear that prior beliefs about the nature of incidence determine the types of empirical research subsequently undertaken. In other words, the way empirical work is defined precludes any answer to which is the appropriate view on incidence. This is centrally important because it makes it that much harder to have a sensible discussion about the distributional effects of property taxes. It also makes discussion of the economic and incidence implications of their reform even more complex.

Progressivity is also not completely straightforward. The literature would indicate that the general rule of thumb would be to examine the proportion of income given to a specific tax for a given sub-group of the population e.g. decile, quintile or quartile – and in turn to see whether the proportion rises as you go up the income distribution (progressive), stays the same (proportional) or falls (regressive). Thus a regressive property tax would account for a higher share of income for a lower decile than for higher deciles.

But even that is not the whole story. More decisions have to be made and communicated:

- Are we dealing with current annual incomes by household, in gross or net terms?
- Are we adjusting (equivalising) for household size and needs?
- What about longer term measures of income and wealth?

- Are we looking at the target tax (e.g. the council tax or a proposed alternative) in isolation or also in terms of how it impacts on the incidence of all taxes on the population?
- If there are multiple taxes we need to assess their contribution together, as well as possible interactions between them.

Table 3 Mirrlees Review – A Good Tax System and the Current UK Tax System

A Good Tax system	Current UK system
1. Taxes on Earnings	
A progressive income tax with a transparent & coherent rate structure A single integrated benefit for those on low incomes or high needs A schedule of effective tax rates that reflects evidence on behavioural responses	An opaque jumble of different effective rates as a result of tapered allowances and a separate NI system. A highly complex array of benefits. A rate structure that reduces employment and earnings more than is necessary.
2. Indirect Taxes	
A largely uniform VAT, with a small number of targeted exemptions based on efficiency reasons and equivalent taxes on financial services & housing No transactions taxes Additional taxes on alcohol & tobacco	VAT with extensive zero-rating, reduced rating and exemptions. Stamp duty on transactions of property and securities. Additional taxes on alcohol and tobacco
3. Environmental Taxes	
Consistent price on carbon emissions Well targeted tax on road congestion	Arbitrary & inconsistent prices on emissions from different sources, set at zero for some. Poorly targeted tax on fuel consumption.
4. Taxation on Savings & Wealth	
No tax on the normal return to savings, with some additional incentive to retirement saving Standard income tax rates applied to all sources after an allowance for the normal rate of return on savings, with lower personal tax rates on income from already taxed company shares A lifetime wealth transfer tax	Normal return taxed on many but not all forms of savings – additional but poorly designed incentives for retirement savings. Income tax, NICs and CGT together imply different rates of tax on different types of income: wages, profits, capital gains, etc. Some recognition of corporation tax in dividend taxation but not in capital gains tax. An ineffective inheritance tax capturing only some assets transferred at or near death.
5. Business Taxes	
Single rate of corporation tax with no tax on the normal return on investment Equal treatment of income derived from employment, self-employment or running a small company No tax on intermediate outputs but land value tax at least for agricultural and business land	Corporation tax differentiated by company profits with no allowance for equity financing costs. Preferential treatment for self-employment and distributed profits. An input tax on buildings (business rates) & no land value taxation.

Source: Mirrlees, et al (2012), Table 1, p.663

Slack and Bird (2014) make a good point that thinking about incidence in terms of tax reform involving property taxation is inherently problematic since the regressivity or otherwise is difficult to measure because we are dealing with the distributional effects of a largely *capitalised* tax[iii] on a particular form of gross wealth (empirical estimates of incidence typically reflect the ex ante assumptions made about the nature of property taxes and hence what their incidence is measured against) and, in addition, property prices are lower than they would be in the absence of the property tax.

Box 2: Property Taxation Explained:

Economists generally regard property taxes, in terms of taxes on immovable property, as good taxes for local government (IMF 2013), albeit in practice, property tax reform has been difficult (Slack and Bird, 2014). Arguments supporting property taxes include that it promotes local autonomy and accountability due to the links between local services; that it is difficult to avoid and easy to collect; that property values reflect implicit demand for local public services (and inter-jurisdictional differentials) capitalized into property values; and, that residential property taxes are appropriate for funding local government spending given that residents are thought to be significant users of local services.

Arguments often deployed against property taxes include that they are perceived to be unfair because they are insufficiently related to the ability to pay or benefits received, and also in terms of regressive incidence based on a tax on housing consumption which places a larger burden on poorer households; they are a tax on property which relates to service delivery that are thought (at least in part) to be unrelated to property; they produce a low yield and may not provide sufficient revenue to support local expenditure requirements; and, depending on their design, property taxes may discourage highest value land use and urban development..

In most countries, higher level governments play an important role in the design and operation of local property taxes. Importantly, the extent to which local property taxes can be a relatively efficient tax depends largely on intergovernmental fiscal transfer equalization relating to the spending and taxing powers assigned to local governments.

Property tax design issues are a common complex issue relating to: tax base calculation method (i.e. what should be taxed); assessment methods (i.e. how should it be determined: area-or value-based assessment); tax rates (i.e. who sets them; how are they differentiated; can it be understood by the taxpayer); collection systems (i.e. the type pf administrative system directly affects the collectability of the revenue collected).

Property taxes are also visible taxes, paid directly by taxpayers and often having to be paid in advance. Also, given that they tend to pay for local services that are being used, in the case of services not being highly regarded by taxpayers, this causes a sense of discontent in the system. Albeit transparency is good from the decision-makers perspective, it makes them difficult from a political perspective in terms of increases to the system and as Norregaard (2013) points out that their unpopularity can be attributed in part to their transparency and the limited scope for tax avoidance and evasion.

There are also the different views on *incidence*: those who regard the property tax as either a regressive tax (i.e. a tax on property where housing is a larger part of poorer peoples' consumption) or a progressive tax (i.e. a tax on capital and a higher share of rich peoples' income). For example, given that property taxes don't reflect current real cash flow, they are often disputed by asset-rich individuals who are cash poor (i.e. the elderly). Property tax yields are also thought highly inelastic and can be volatile in terms of changes in individual tax bills, particularly after revaluations.

Regardless of administering difficulties with the property tax, it remains one of the main revenue tools across the developing world, where despite evidence to suggest that a *"collection- led rather than a valuation-pushed reform of the property tax is a more prudent approach…reforms in many low- income developing countries still focuses primarily on assessment approaches"* (McCluskey et al, 2013, p.179)

An ideal local tax system would be efficient, fair, and support Government spending. To minimise inefficiency effects, economic theory argues that tax should be levied on those tax bases where there is least likely to be any behavioural change from the imposition of a tax. However, it is difficult to achieve in reality. Table 1, reprinted from Mirrlees et al (2012, p.663), provides a summary of what might be regarded 'a good tax system' compared to the UK's current tax system. For many economists, the Mirrlees review acts as a benchmark for tax reform to focus on.[iv]

A synthesis of the comparative literature provides an overview of the high-level studies that explicitly compare and contrast national systems and consider issues of relevance to taxation reform. Box 2 summarises the arguments about property taxes made in this paper.

4 Key Messages from High-level Comparative Studies

What are the main points that resonate from the cross-country synthesis?

First, there are a wide variety of local taxes in operation in terms of critical features of their design. This is true for both property and income based systems of local taxation. These include:

- The nature of the tax base and its assessment. Typically, property tax bases are developed based either on rental values, capital values, land values only or area-based measures. All are generally required to have some form of regular general revaluation process built-in as well as a system for enforcement and appeal.
- Who sets the rate of tax and how it is adjusted? In other words, to what extent are local governments free to set tax rates annually – most countries adopt some form of central influence or control over the size of increase, perhaps through indices link to cost of living or other rules (Slack and Bird, 2014, suggest that across OECD on average local governments only have discretion over 16% of their property tax revenue). In most Latin American countries property tax rates are set by the state government and in Germany, for instance, it is set by the Federal government in conjunction with the Lander who set a base rate for municipalities.
- A contentious question generally is the appropriate balance between local autonomy and higher level influence or control often manifested through tax and grant sharing to achieve national policy objectives or to assist with resource or need equalisation (i.e. national equity issues at a local level). In practice it is not realistic to wholly separate local tax from the wider system of local government finance or indeed from the tax burden as a whole.
- As is discussed below, for property tax systems, there are many examples of policies that seek to mitigate or ameliorate the high visibility and perceived current income regressivity of the taxes.

Second, recurrent local land and property taxes take on several different forms but commentators argue that key positive features reappear. Almy (2013) argues that many countries do not have a uniform national property tax system i.e. local authorities tailor the system to their local needs. He contends that the principal generic arguments for a property tax are that 1. they are hard to avoid or 'flee'; 2. local government services are provided to occupiers/owners; 3. the tax captures some of the uplift in land values following public investment; 4. as a dedicated source of revenue, the property tax provides a degree of local autonomy [true of *any* genuinely local tax]; 5. its high visibility provides accountability and transparency; and, 6. land registration/cadastral systems have wider value and can support the functioning of wider property markets. Blochliger (2015) argues that econometric analysis suggests that property taxes can play a small but significant role in reducing house price volatility. They can also underpin sustainable land use via land valuation taxes by helping to constrain urban sprawl and promoting the development of brown field sites.

However, the positive elements also contain the source of problems for property taxes (Blochliger, 2015). Almy (2013) stresses that property taxes are under-utilised as a source of revenue despite their positive economic merit (being difficult to avoid, taxing wealth and incentivising land use). The property tax is what Enid Slack calls a *presumptive tax* – it is widely felt to be imposed on taxpayers and its visibility, perceived regressivity and frequent valuation disagreement leads to unpopularity with citizens and politicians. Almy argues that this in turns leads to 'legislative neglect', that is, a relative lack of willingness of legislators to actively renew, update and maintain the property tax in terms of revaluation, tax rate setting and the relationship with the wider local government finance system. Presumption and its political consequences are integral to any discussion of tax reform involving property taxes.

Third, governments respond to the saliency of property taxes by using a battery of policies to ameliorate the unpopularity of property taxes and in particular their perceived regressiveness for particular income groups (and not just low income households). Many of these schemes have distributional and other (arguably) unintended or cumulative consequences. Across the OECD, these include:

- Banding, as in the case of the council tax, though in principle the weights chosen between each band relative to the benchmark could be organised in different ways.
- Caps on tax bills. This is a common way of reducing the cost of living effects of annual increases that are perceived to be politically challenging – this may involve real or nominal freezes, other limits to increases, with more or less discretion for local government within such systems. There are also constitutionally-binding limits on tax bill increases such as Proposition 13 in California.
- Property tax reliefs and exemptions are in general terms universal but everywhere different in their specifics. Many types of property or land uses have exemptions or other concessions, as do household circumstances in some countries. At the same time, property tax in both the domestic and non-domestic settings may be allowance for tax deductibility for property taxes.
- Deferrals, rebates and abatements are widely used, again varying in their national specifics. Deferring payments have been available in different forms among other places, in Denmark, France, Germany, the Netherlands, Spain, Sweden, parts of the

United States and Northern Ireland (Almy, 2013) till the point of sale or as a lien on estates. Evidence from Northern Ireland and the United States suggest they are not popular with taxpayers (Northern Ireland Assembly, 2007). Rebate schemes focus on low current incomes and face the high cost of delivering means-tested benefits, even if they are well-targeted.

- Income-related 'circuit-breakers' that protect households from paying an excessive share of income on property taxes or do so on some kind of sliding scale. These are common in North America.
- Delays in revaluation – this can be a form of regressive subsidy to the extent that the property tax is a wealth tax and housing wealth is held more by higher income groups who would benefit from the failure to uplift property values through regular revaluation.

Fourth, several countries have embarked on property tax reform in recent years. The main examples are: Denmark, Estonia, Hungary, Iceland, Latvia, Lithuania, Macedonia, Netherlands, Russia, Sweden, Greece, Ireland and the UK (council tax in 1993 and, separately, Northern Ireland rates in 2007) The reasons for the reforms have been related national tax reforms, local government finance reform, specific changes to local taxation based on principles of reducing inequality, raising revenue or tax simplification.

Fifth, several countries employ variations on Land Value Taxation or Site Value Taxation (Dye and England, 2010) – see Box 4. The Lincoln Institute for Land Policy identify present and recent examples in Australia, New Zealand, South Africa, as well as Estonia and Fiji. Examples also abound from within the United States: Connecticut, Hawaii, Pennsylvania and Virginia are four states with such taxes or who have recently piloted them. Other commentators (e.g. Andy Wightman's presentation to the Commission on land value taxation) have cited examples from across Africa (e.g. Namibia), the Americas (e.g. Argentina), Asia (e.g. Japan) and other parts of Europe (e.g. Denmark, Latvia).

Sixth, a number of countries rely primarily or extensively on local income taxation (see Box 3). We must however distinguish between locally-raised income tax and sharing nationally collected revenue, subsequently assigned to local government. Corporate income tax is also often used locally in a way analogous to non-domestic property taxation (and as well as property taxation).

Those countries where the largest source of local tax revenue is income tax (i.e. Denmark, Finland, Germany, Norway, Sweden, Switzerland) tend to have local governments who have significant responsibility for redistributive services (i.e. people related services: social services and housing (Slack and Bird, 2014).

Local income tax may also supplement property taxes and other local taxes – this is actually very common (e.g. France, Switzerland, Belgium, Norway, some US States and Denmark – Northern Ireland Assembly, 2007). Burt (2006), however, argues that public opinion does not support the introduction of supplementary taxes because it is perceived to be a way of crating more tax revenues rather than redistributing existing levels of revenue (i.e. a neutral overall yield).

Box 3: Income Tax Systems Explained

Any system based on income tax would need to address the structural question of service decentralisation and the extent to which income taxes are truly local or assigned form national sources. The tax base would normally be earned income and would need to affix income earned to place of residence and not place of employment. Of course, there is no fundamental reason why other forms of income accruing to households could not also be included other than simplicity and transparency (and indeed that would be more consistent with the national income tax system – Burt, 2006).

A local income tax would normally be added to the national income tax structure and set of allowances. In other words it would be as progressive as is the national system. The common sense view is that this is the basis of a 'fair' system measured in terms of current incomes, and is widely supported in public or social attitudes surveys (Burt, 2006), though the decision not to tax property may be viewed as less progressive in terms of the taxation of wealth. Again, the debate is about the correct interpretation of tax incidence and whether or not the focus should be on the progressivity of a given tax or the tax burden as a whole. The extensive use of local income tax is also associated in countries like Denmark with a different balance of services by local government in the form of greater decentralisation of core welfare functions like health care.

Local income taxes face specific challenges on a number of fronts. First of all, unlike taxes on property, taxes on income are volatile and elastic. The tax base is mobile, increasingly so, and there is a danger that differential tax rates may induce mobility, that tax can be avoided and not collected as planned (Smith, 2015). In many of the countries more reliant on income taxes, corporate income taxes often make up an important share of tax revenues and these are also subject to fiscal mobility and tax avoidance questions. These tax flight issues operate across local authority boundaries. The tax yield for a local income tax depends on three factors: the number of taxable units, the tax rates and local economic conditions (Burt, 2006) - deficits and surpluses may be more common requiring financing and more short run central government intervention.

In New York city, a progressive local income tax is levied in addition to other multiple local taxes (including property) with a top rate of 4.25% for those earning more than $150,000. The Northern Ireland Assembly research (2007) considered that the unique wold city nature of Manhattan made this a viable tax less subject to fiscal mobility problems than elsewhere – but cautioned that this would be less likely in more normal urban circumstances.

Local income tax, second, is a tax on productive economic activity and may be detrimental to economic growth in a way that well designed taxes on land and property (inherently less productive) are not. Linked to this is the idea that additional taxes on income may lead to a net reduction in labour supply depending on the balance of income and substitution effects - this is why a sense of the size of the local tax rates implied is so important. Burt (2006) tried to model this and also found there is some evidence that high combined national and local income taxes discourage entrepreneurship.

Burt (2006. P.2) summarised their criticisms of a local income tax: First, the tax base should be as broad as possible. Around one-third of UK tax receipts already come from UK income tax. A property tax on the other hand would widen the tax base. Second, wealth, as well as income, should be taxed. Again, depending on your view of the incidence question, property may be viewed as a store of wealth. Third, additional income tax is a disincentive to work. Fourth, yield would be more volatile than under a property tax, and runs revenue risks because of more mobile taxable units (i.e. people engaging in 'fiscal flight'). Finally, local income tax is a "fair" tax 'only if it was levied on all income but this would be extremely complex and expensive to do so'. Only applying the tax to earned income 'would arguably not be "fair"'.

Some systems also distinguish between truly local taxes, or assigned national income taxes redistributed locally, or, systems that split the two in some way (and would also need to decide the extent to which tax rates are set locally and whether they are limited in some fashion). Compared with the UK, local income taxes at local level are often associated with greater local responsibility for service delivery as is the case in Denmark or Sweden – the level of service decentralisation would not apply to a country like the UK

(NIA, 2007).

Finally, local property taxes have wider impacts on economies:

- On the housing market they may operate to counter-act well known tax biases in favour of home ownership, which may exacerbate market volatility and wider problems resulting from excess favouring of home ownership. Alm et al (2011) looked at the impact of the US housing market collapse after 2006 and argued that rather than falling house prices damaging the property tax yield, price falls only fed into valuations with a lag and that many local governments were able to compensate through adjusting tax rates that would have realistically been possible using other forms of tax such as on local incomes.
- Property taxes influence economic decisions more generally as part of the total tax system. Widening the tax base to include more immovable property and land may reduce revenue risk, lower reliance on more mobile (within and between nations) and volatile sources of taxation such as incomes. It may also, on a revenue neutral basis, allow for lowering marginal tax rates on income by shifting tax towards property.
- Recurrent property taxes are often argued to be preferred to taxes on transactions that may be inefficient because they restrict mobility and they have much more volatile and unpredictable yields.
- Many countries operate incentives through the local property tax system to encourage investment into specific places, though it is contentious as to what this does for economic efficiency more generally (Norregaard, 2013).
- Local government has an important impact on the overall burden of taxes and this would still be the case if they were 100% funded by central government grants, even if the visibility and saliency were completely altered.

5 Combining Local Taxes

A striking feature of the Burt analysis was that 23 out of 28 countries studied adopted multiple local taxes - usually a combination of property and income taxes (see Appendix Table 1 for OECD data in 2010). However, Burt (2006) argues that public opinion does not support the introduction of supplementary taxes because it is perceived to be a way of creating more tax revenues rather than redistributing existing levels of revenue (i.e. a neutral overall yield). Any effort to introduce such taxes to either supplement a reformed council tax or a new property tax undoubtedly needs to address this saliency issue.

There are as many different sets of hybrid systems as countries that run them. Slack (2013) presents seven completely different fiscal arrangements across hybrid taxes in seven global cities (see below). The income tax element may be a supplement or the core form of local tax; it may be a national surcharge on the national income tax that is then redistributed locally or in some cases it may be a genuinely local contribution. Again, as with property taxes, the rate and the total bill may be capped in different ways by the national government.

On the other hand, there may be value in developing multiple local taxes, of which income tax is one component, and which the net overall tax take is revenue neutral (i.e. the same tax take as presently with the council tax alone). Slack's (2013) contribution compares and contrasts the local fiscal powers open to a number of leading global cities (e.g. London, Paris, New York, Tokyo, Madrid, Berlin). She finds that all of them bar London had access to at least five local sources of revenue. London relies wholly on the council tax.

Box 4: Land Value Taxation

Land Value Taxation (LVT) has a long pedigree going back to Ricardo, Henry George and Lloyd George. This idea of taxing land alone, normally at its highest and best land use (i.e. in the UK its existing use or the use it has specific planning permission for) is seen as a tax on the ownership of the land asset rather than a tax on its economic use or development (McCluskey, et al, 2007; Dye and England, 2010; Wightman, 2010). In that sense, the tax is one on economic rent and is economically efficient and widely supported by economists (Mirrlees, et al, 2011). LVT or site value taxation as it is also known have been deployed in many places and remain in use today (Wightman, 2010; Dye and England, 2010), such as Australia, New Zealand and South Africa, as well as Estonia and Fiji. Examples also exist from within the United States: Connecticut, Hawaii, Pennsylvania and Virginia. Other commentators (e.g. Wightman's 2015 presentation to the Commission cite examples from across Africa (e.g. Namibia), the Americas (e.g. Argentina), Asia (e.g. Japan) and other parts of Europe (e.g. Denmark, Latvia).

As an exercise for the Green party, Wightman (2010) calculated a broadly revenue neutral LVT replacement of council tax premised on land constituting just over 24% of property value and setting the tax rate at 3.16% of land value. This would lead to 75% of properties in bands A-D facing lower tax liabilities but all properties in bands F-H paying more. A significant first round distributional impact – though one would anticipate that the market would respond to the tax over time, which might, through general equilibrium capitalisation processes, induce second round effects. Note also that non domestic rates would also be included in the LVT system. Smith (2015) raises an important implementation issue – there is a risk that introducing LVT may initially lead to significant land value falls as a result of the capitalisation of future tax liabilities into the value of land. At least at the outset, the economic impact of the LVT may not be as benign as its proponents claim or at the very least careful consideration would have to be given as to how it is introduced (perhaps by phasing it in or offering compensation to those initially affected) and indeed the sole reliance on it for revenue might be reassessed and constitute further reason for combining different local taxes.

We could go further - should LVT be a national or a local tax? Muellbauer and McLean (both in: IPPR, 2005) argue from different perspectives regarding whether it would be better to adopt a national LVT as part of the policy menu to improve the efficiency of the housing market (Muellbauer) or as a local tax reflecting spatial land and planning issues locally (McLean). Wightman also argues that the LVT might employ a national element e.g. 1% on value and the rest set locally, so as to capture the non-local elements of land value variation (where that part of the revenues is redistributed back to councils on a per capita basis).

The tax is clearly radical and would imply significant redistribution. Issues would therefore arise as to how lessen the impact on asset rich cash poor households or indeed lower income households more generally. Here, proponents like Wightman share the views of Muellbauer on council tax reform i.e. adopt generous allowances for low income households and tax deferral options. The challenges arising from redistribution and also from the costs and feasibility of setting up the tax base are non-trivial. There would need to be a comprehensive valuation of all land and this will need to be regularly updated and revalued periodically.

What are the arguments for a combined tax revenue-neutral approach? First, logically, the two taxes would individually have less marginal impact on households introducing a degree of progressivity and limiting the burden of the property tax. This would also alter the distributional outcome of the local tax burden. Second, this would be a simpler alternative to applying circuit breakers to the property tax and may actually allow the authorities to develop a more pure property tax albeit with a more modest yield (pragmatically, this may help overcome the residual resistance to property taxes).

Third, Hollis et al (1992) develop a coherent argument in favour of linking local tax type to service provision - services more related to redistributive/need functions could be funded by a combination of national grants and local income tax while more local amenity or facility related services would be funded by property taxes. A similar division might logically be applied to non-domestic or business property taxes.

Burt (2006), however, strongly argued against multiple taxes in general and income tax as a supplementary tax to the property tax on the grounds that it would be perceived as a revenue increase by taxpayers, that it would be more complex, less transparent and more costly to operate. All of these challenges would need to be overcome if a multiple tax solution was to be advanced. This property tax and supplementary income tax approach would lessen the fairness problems property taxes face but would benefit from the technical superiority of the property tax element. It should be able to reduce the reliance on caps or other circuit breakers on property tax liabilities. It could also overcome worries about fiscal flight because either tax element will be that much smaller in yield or tax liability terms than if there was only one tax. Depending on their mix, there need be less reliance on means-tested benefits. A final issue will be how one transitions from the existing system to the new approach – a goal of implementation should be to minimize the maximum losses any below average income household might face in a given year.

6 Contrasting National Systems of Local Taxation

In this section we provide a bit more detail on specific national tax systems.

a) *Northern Ireland*

The domestic rating system (i.e. a tax on property) is unique to Northern Ireland (i.e. council tax in rest of the UK), which uses a hypothetical net annual value (NAV) for each rateable property, with the rate liability calculated by applying a rate in the pound to the assessed NAV. Domestic rates were made up of both the regional rate (set by the Assembly) and the District rate (set by local councils). Northern Ireland avoided both the Community Charge (poll tax) and council tax but introduced a new form of property tax in 2007.

The rating system remained relatively unchanged since its inception in 1852, until it came under scrutiny following the formation of the new Assembly in 1998, followed by a rating review in 2001 resulting in the *Review of Rating Policy: A Consultation Paper in May 2002,* and concluded in 2007 with the new tax. The outcome was extensive support for a new local tax system, with no strong desire recorded for the retention of the existing system and in fact general public agreement that a capital valuation based system would be fairer, supporting a move from rental to capital values for the domestic sector (McClusky and Wood, 2010).

The Policy Paper *'Reform of the Domestic Rating System in Northern Ireland: A Fairer Share'*, published in July 2004, assessed the various options for a new system based on capital values, resulting in a reformed residential property tax (McClusky et al, 2007), by moving to a rating system based on capital values and thought to be a more transparent system for understanding the rationale behind assessed values (NIE, 2002b).

McCluskey et al's, (2007, p145) analysis, which used property values as a proxy for ability to pay, suggests that a discrete capital value system provides greater performance (in terms of winners) and greater fairness than either the former rental valuation tax base (NAV rating system) or the type of banded system associated with council tax. In particular, McCluskey et al (2007) demonstrate that the banding system would incur more losers in more-deprived areas. The application of a banded rating system is thought to provide a `fair' tax system, which is to some extent proportional and progressive. The capital value system is simply based on two operations: the valuation of property and the setting of a rate.

The outcome was a new Northern Ireland domestic rating system in April 2007 (based on domestic valuation of 1 January 2005), where rates are levied on the value of the whole property and no distinction made between the land value and the improvements. However, the actual reform process extended beyond the assessment of residential property to include: method of valuation; capping and minimum payment; transitional arrangements; provision of reliefs; rating of vacant domestic properties; appeal system; frequency of revaluations; and valuation assumptions. A political concern was that a clear majority of taxpayers would either pay the same or less under such a system, in revenue neutral terms, and implementation would progress under transitional arrangements to assist those who may face increases under the new system and with a commitment to regular revaluations, initially every five years, in order to ensure that the system is up-to-date and reflects changes in the property market (McCluskey and Wood, 2010).

The Northern Irish approach is essentially the same as that proposed in Scotland by the Burt Review in 2006. More recently, there followed a severe property crash in Northern Ireland in 2008, with the 2007 rating system thought to be having little impact on house prices or behaviour, sparking a rating review in 2009, to consider alternatives for improving the tax system in the short-medium term, and the feasibility of longer-term tax alternatives and/or supplements.

b) New Zealand

Advocates of Land Value Taxes (LVT) historically referred to New Zealand (NZ) as a good practice example. However, 1989 saw a significant increase in commercial land values which were used to inform the tax rate being levied the following year, resulting in the then Government decision to remove the tax in 1991 for what were thought to be practical and political reasons, with the tax replaced by a property tax (IPPR, 2005). Property taxes account for more than 90 per cent of the whole sub-national revenue system (Presbitero, et al. 2014)

Property taxes are managed and collected by local authorities, and thought to be the most important source of revenue for local government in NZ, where local councils would choose their preferred rate levying approach: either, the capital value of land, or annual land values, although the majority (i.e. 50 Territorial Local Authorities) are thought to have used land values (NIA, 2007). The tax approach in NZ over the last twenty years has been a broad-base low-rate approach (BBLR), which involves lowering tax rates and widening tax bases to try to avoid creating tax preferred investments or income sources. As such, as tax rates increase, the costs associated with imposing the tax also increase more than proportionately. The system has resulted in high investment and low returns in the property market. This obviously means that high rates of tax create concerns. It also means that there are greater than proportional economic gains.

More recently, a Tax Working Group (TWG) was established in 2009, to assess the NZ tax system, resulting in the 2010 report: "A tax system for New Zealand's future". The principles underlining the approach included reducing relying on the taxation on internationally mobile factors of production and seek a broad base low rate reduced revenue risk tax system as a whole (within which local taxes would complement the aggregate approach). The working group also supported the UK Mirrlees Review approach to taxing rental returns to property net of a risk free rate of return. A new land tax was seen as a way of broadening the tax base to allow marginal rates to come down overall.

c) Canada

In Canada, local governments are largely run by the provinces. Following 30 years of tax reviews and proposals, property tax reform was finally implemented in Ontario, Canada in 1998. The property tax is the only local tax levied in Canada mainly by local government, although the state government levies almost 40 per cent of total property tax revenues. Thus Canada's property tax system is often thought not a truly local tax (i.e. where local taxes would be set and administered by local government and retaining all the revenue collected) (see see Bird, Slack and Tassonyi, 2012).

The initial and subsequent tax review was thought a major challenge to the political system, limiting the province's ability to launch and maintain the new system provided (Slack and Bird, 2014). At the same time as the review of property tax, the province implemented significant changes to structure of local government, reducing the number of local authorities from 800 to 445 between 1996 and 2004 (Tindal and Tindal 2009).

The business community were characterised to be relatively over-taxed under the old tax system, thus, many of the new tax measures were thought to be explicitly intended to reduce the ability of local authorities to tax business more heavily than housing. Hence, the property tax reform had two critical components: market value assessment (i.e. a uniform assessment system based on 'current value' or market value) was implemented across all provinces, and variable property tax rates (i.e. an explicitly 'classified' property tax system). Local authorities were free in principle to set their own tax rates, optional systems and to levy different rates on seven different classes of property established by the province. The result was a 'classified' property tax, where all real property was taxed at a uniform rate (Slack and Bird 2014).

d) *Sweden*

Swedish taxes and tax rates are set by the politicians in the Riksdag (i.e. Swedish Parliament) and by the municipalities and county councils, where the collection of taxes is undertaken by the Tax Agency (the Swedish Tax Administration merged the ten regional authorities and the headquarters into one on January 1, 2004), for the whole country. Taxes are then divided between the state, the county councils and the municipalities finance all public expenses.

The general structure of the Swedish tax system can be traced back to medieval roots, when an ancient land tax was phased out for income and property taxes raised by local government with introduction of a progressive tax system in 1902, and income tax gradually becoming the most important source of revenue by the mid-20th century. By the 1970s, individuals were the main source of direct taxes, as opposed to households. However, the trend in the late 20th century has been towards a system of indirect taxation, especially in social security contributions by making benefits taxable. For example, indirect taxes (i.e. VAT and excise duties) increased relative to GDP from 12 per cent in 1970 to 12.8 per cent in 2000, and to 13.5 per cent in 2010 (STA, 2012).

The local income tax in Sweden constitutes the main source of revenue for local government, who are responsible for the main welfare systems and have a large degree of local autonomy with regards to the setting of local income tax rates. As such, tax policy is an important issue for local policy making due to the progressive nature of the tax system in place. Swedish local governments have the constitutional right to set the local income tax rate, where only income is taxed locally and property taxes being set at the national level.

In the 1970s, the problem of narrow tax bases and high tax rates received a lot of attention at a time when inflation increased. As such, taxpayers were thought to have adapted their behaviour in ways that made both the tax system and the economy as a whole less efficient. As a response, the government in 1981 lowered marginal tax rates and reduced the value of debt interest deductions.

More radical reform followed in 1991 with local tax rates being lowered to about 31 per cent) and the tax on capital income being separated from the tax on earned income and levied at a flat rate of 30 per cent (STA, 2012), and financed by a general broadening of the tax base by higher rates of indirect taxes.

Local government taxation by municipalities is thought to be significantly higher relative to other international countries (OECD review, 2006, p.174) given their responsibility for setting proportional income tax rates, aside from general national government freezes (i.e. where national government is responsible for determining the income tax base and sets the tax rate for higher income brackets). However, subsequent reforms to Swedish local income taxes has meant removing capital income tax from the local tax base, leaving it a tax on households' earned income. Hence, around 80 per cent of taxpayers only pay at the local level as central government only collects from those who are over the middle-class range.

e) *Republic of Ireland*

Ireland has an income tax, a VAT, and various other taxes, where taxation of earnings is progressive, with little or no income tax paid by low earners and a high rate applied to middle to top earners. However a large proportion of central government tax revenue is derived from value added tax (VAT), excise duties and other taxes on consumption.

The tax burden in Ireland in recent years is thought by some to be *too low* with scope to increase as a share of output. It has also been suggested that there is *no scope for fiscal adjustment on the revenue side* and *the tax burden on labour is too high*. Whilst at the same time others have argued that the tax burden *is not high enough on high earners*. Overall, it is thought there has been little progress on the potential for (revenue neutral) shifts in the structure of taxation in Ireland in recent years (O'Conner, 2013, p.153).

Ireland abolished the residential property tax in 1978 and kept the local rates on commercial property. The non-residential property tax base had not been updated since 1852 and is now the subject of rolling revaluations by the Irish Valuation Office (IVO).

The progressivity of Ireland's income tax system was thought to be far less than other OECD countries and suggested that it might benefit more from a revenue neutral shift towards consumption or property tax (OECD, 2010). The wider principle of neutrality was one of the key guiding principles of a recent Commission on Taxation (2009) in Ireland.

Recent reforms of tax in Ireland have involved changes to the local residential property tax system, now using a banding system similar to that in the UK, with 19 different bands, and a clear indication of *the movement toward the use of capital improved valuation* (McCluskey et al, 2013, p. 176). The property values are self-assessed by owners who determine the market value (i.e. using online guides or register of general sales) of their property and selecting the most relevant value band. An annual lump sum household charge was also introduced in 2012 for one year and subsequently replaced by a residential property tax in 2013.

The residential property tax rate is set centrally, although from 2015 local authorities are able to vary the central rates by plus or minus 15 per cent, and all revenues collected go to the local authorities. Property owners have the choice of paying their local property tax in one single payment or deducted at source from salary or occupational pensions. It is thought these recent tax reforms would have most likely been opposed without the introduction of banding to provide taxpayers with reassurance of greater stability and predictability (Slack and Bird, 2014).

f) Land Value Taxation (LVT) in the United States

LVT may be a pure land tax or a two rate tax with a higher rate on land than on building improvements. In the USA, examples date back to 1913. Pittsburgh and Scranton taxed land values at a higher rate than buildings. In 1981, 15 municipalities in Pennsylvania introduced a two rate land and property tax.

The LVT was introduced in Pennsylvania mainly as a result of the perception that wealthy landowners were withholding land for speculative purposes. LVT was thought to offer a more equitable outcome and an efficient one in that there would be no opportunity to pass the tax on to other users and no incentive to withhold land from the market. Indeed, municipal officials in Pennsylvania viewed LVT as a local policy able to help reverse economic decline and revitalise the economy through its impact on land markets.

However, when revaluation assessments were announced in 2001, it was apparent that there had been large movements in values and a significant redistribution in the tax burden. And this led to problems familiar to property taxation more generally.

LVT also requires consistent administration and assessment procedures, consistent professional staff and accurate, credible valuations. This has not always been the case. In Alleghny County, problems with deficient assessment practices leading to Pittsburgh rescinding a two rate system of property tax in 2001, ordering a five year freeze on property assessments and firing 42 assessors. LVT was also blamed for inaccurate assessments and clumsy rate setting procedures in Pittsburgh. In Philadelphia, a two rate land and property tax was phased in, in part because it was felt that revenue from a pure land tax would be an inadequate substitute for a traditional property tax

7 Reforming Property Tax systems

There is considerable interest in and experience of property tax reform internationally. As we have seen, several countries have recently introduced reforms and many more are evidently contemplating change. Many countries and systems of local government wrestle with the potential of property taxes versus the limited political room for manoeuvre they fell they can operate within.

Slack and Bird (2014) distinguish four general issues for property tax reform: establishing the preferred tax base, how to assess the tax base, how to set the tax rate and thus the tax bill, and, how to run the system itself? Almy (2013) concludes that '*unless the tax structure is simple enough to be efficiently administered, and fair enough to gain the confidence of the population, administrative reform by itself will not succeed.'*

Table 4 below from Slack and Bird (2014) is a helpful analysis of the challenges and possible ways forward with reform. They identify six principal challenges and differentiate ways forward as a result of those challenges into promising and those that are less promising.

- Salience. The high visibility of the tax requires change to be transitioned and for improvements in local services to go alongside tax reform.
- Liquidity Constraints (e.g. the cash poor- asset rich problem). These suggest deferral and other payment options and against value phasing-in change.
- Perceived Regessivity on current income measures. This suggests a range of ways of reducing this impact including low income exemptions.
- Volatility in terms of large movements in individual taxpayer bills. The authors argue for annual evaluations and for phasing in reform.
- Presumptive nature of the tax. The antagonism to the form of tax requires education and consultation, phasing-in and good systems of appeal.
- Inelasticity. The tax base is less buoyant than incomes and this is a problem for revenue risk rather than the tax payer and is another argument for more regular i.e. annual revaluations.

It is striking that most of their 'challenges' demonstrate common problematic approaches to reform: for instance, property tax capping and limiting tax assessment/revaluation as well as a range of attempts to make property taxes more progressive. Overall, reform is multi-dimensional, political and complex:

"…property tax reforms could clearly be designed and implemented much more sensibly than appears to have been the case. To do so, however, countries need to recognise clearly both the nature of the task facing would-be reformers and also the complexity of the task they face….inextricably related to very long-lived assets and often deep-rooted social beliefs and norms." Slack and Bird, 2014, p.26

Table 4 Strategies for Property Tax Reform

Issues & Problems	Promising Approaches	Problematic Approaches
Salience: property tax is more visible than other taxes	Link tax reforms with improvement in local services Phase-in Withhold tax at source and other payment options	Assessment limits PT capping
Liquidity constraints: imperfect association between taxpayers' incomes and PT especially for seniors	Tax deferrals for seniors More payment options Phase-in	Assessment limits PT capping
Perceived regressivity: taxes higher as a % of income for low income taxpayers	Tax credits deferrals bundle with other tax reforms Bundle with spending changes low-income housing exemptions	Banding Classified tax rates Progressive tax rates Assessment limits PT capping
Volatility: potentially large swings in taxes for some taxpayers	Annual reassessment Index base Taxpayer education Communication in understandable forms Phase-in	Assessment limits PT capping
Presumptive Tax: taxbase is inherently arbitrary	Taxpayer education Consultation Accessible appeals process Phase-in	Self-assessment Classified PT rates Assessment limit PT capping
Inelasticity is problem for LG, not for taxpayers: taxes do not increase with econ growth	Annual reassessment Index base phase-in	

Source: Slack and Bird 2014 Table 1.

8 Conclusions: Reflections from the Evidence on the Commission's Remit

The purpose of this evidence review was to examine systems that exist abroad and how they impact on the issues that the Commission will consider as part of their remit for Scotland. The Commission remit has been convened to identify and examine alternatives to the council tax that would deliver a fairer system of local taxation. In doing so, the Commission will consider, to paraphrase:

- *The impacts on individuals, households and inequalities in income and wealth.*
- *The wider impacts, including housing market and land use.*
- *Administration & collection, including transition and subsequent operation.*
- *Potential timetables for transition, given the 2017 Local Government elections.*
- *The impacts on supporting local democracy, ie financial accountability and autonomy.*
- *The revenue raising capacity of the alternatives*

What does this international review tell us thus far with regard to these criteria?

First, there is a disconnect between the economic and in-principle arguments about local taxes in general, and property taxes in particular, and how they are perceived by people and politicians. We have seen that academic commentators are widely positively disposed to property taxation as an instrument for doing good but that there is also recognition that as a salient, highly visible, presumptive tax, arguments over incidence are trumped by the question of ability to pay from current income. Ironically, this has led to many of the difficulties we see with property taxes around the world as governments attempt to assuage voters by softening the incidence of the property tax through reforms like circuit-breakers, postponing revaluation and by employing other ostensibly progressive measures to alleviate the symptoms. Finding the right way to compensate low income tax payers remains a critical issue for property taxation.

Second, the prior question of how one judges the incidence of property taxation is also fundamental. If one starts from view that the property tax is one on housing services as opposed to wealth then completely different conclusions are arrived at as to tax fairness and any interpretation of the evidence will be conditioned by ones' perspective on incidence. At the same time there are several issues with local income taxes – they are only as fair as how they are defined in practice and how progressive the wider income tax structures that they operate within actually are (i.e. there is a degree of path dependence with the wider income tax system). There are other questions about the degree of local autonomy they afford and the extent to which they may have volatile yields, operate pro-cyclically and whether they induce fiscal mobility of households and firms.

Third, land and property taxes may have desirable impacts on housing markets and land use but that also depends on design – there is plenty of international evidence suggesting it can go wrong (Slack and Bird, 2014; Almy, 2013; Norregaard, 2013). Those measures aimed at addressing perceived problems with property taxes (saliency, presumptive nature and regressive incidence) that ameliorate often lead to technical problems and political unwillingness to revalue. The international evidence shows remarkable variation in all of those key aspects of property taxes: tax base, assessment method, tax rate-setting and help for households. This generates a large set of design choices for land and property taxes in practice, even if there are a smaller set of general principles, ones that we have attempted to highlight in this paper.

Fourth, the synthesis of different local tax experiences across countries, tell us a lot about property tax reform and how difficult it can be to achieve. One use of Table 4 above would be as an aid or criteria with which to assess the council tax (or indeed other options that might arise) – it would seem to suggest that there were many in-built problems with council tax as a model from day one. Anticipating that there may be short run transitional problems in advance of desirable long-term impacts is a key way to lay the ground for reform (such as what we saw with the initial capitalisation effects thought to be associated with the introduction of a land or site value tax).

Fifth, systems of local tax and the inter-governmental finance and distribution of services are highly idiosyncratic. They are the product of long periods of evolution and punctuated periods of reform. With such different contexts, design details and complex interactions with other taxes, one must be cautious about reading too much into the simple transferability of local tax systems across nations with often very different governance institutions. Policy transfer in order to reform local tax problems should not be embarked on lightly.

Finally, and returning to Burt and the other cross-national reviews, it is apparent that cities and national systems of local government typically have more than one local tax at their disposal and frequently have many taxes at their disposal. More taxes of lower yield but revenue neutral overall may also of course reduce revenue risk as well. This is most clear where we consider a local income tax as a (minor partner) supplement but it may be true of other local taxes though one would need to evaluate the administrative cost of their development and running costs as well as their own buoyancy and capacity to generate revenue. In an international context, nonetheless, it remains odd to restrict oneself to one form of domestic local tax.

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Appendix Table 1: Local Taxes in OECD Countries, 2010

	*Income**	*Goods & Services*	*Property*	*Other***	*Local Taxes as % of Local Expenditure*
Australia	0	0	100	0	n.a.
Austria	61.4	9.9	15.4	13.3	59
Belgium	36.7	9.9	53.2	0.3	31.9
Canada	0	2	91.2	6.8	n.a.
Chile	0	59.7	40.3	0	n.a.
Czech	0	48.5	51.5	0	39.7
Denmark	89	0.1	10.8	0.1	34.1
Estonia	89.6	2.6	7.8	0.1	45.5
Finland	93.6	0	6.3	0.1	45.7
France	8.4	25.3	53.8	12.5	39
Germany	78.1	6	15.8	0.1	36
Greece	0	21.4	24	54.7	11.9
Hungary	0.2	80	14.2	5.6	19.3
Iceland	77.4	2	20.6	0	67.1
Ireland	0	0	100	0	13.5
Israel	0	4.8	95.2	0	39.1
Italy	25	32.9	9.4	32.7	41.4
Japan	48.6	19.4	29.8	2.2	n.a.
Korea	16.8	26.7	16.3	40.1	n.a.
Luxembourg	92.2	1.4	4.4	2	31.1.
Mexico	0.3	1.7	59.3	38.7	n.a.
Netherlands	0	50	47.6	2.3	8.6
New Zealand	0	8.7	91.3	0	n.a.
Norway	88.5	1.4	4.8	5.3	38.3
Poland	58.2	8.3	29.1	4.4	26.8
Portugal	34.6	26.4	33.9	5.2	24.6
Slovak	0	49.2	50.8	0	11.4
Slovenia	78.5	6.5	11.9	3.2	40.3

Spain	20.6	39.2	29.6	10.6	41.9
Sweden	97.4	0	2.6	0	64.1
Switzerland	84.3	1.3	1.4	13.1	58.5
Turkey	24.5	49.8	11.1	14.5	n.a.
United States	5.2	21.4	73.4	0.1	n.a
UK	**0**	**0**	**100**	**0**	**12.6**

Note: *includes income and payroll taxes; **includes social security contributions, other property-related taxes and other taxes

Source: Slack and Bird, 2014

[i] Web Reference: http://whatworksscotland.ac.uk/

[ii] A detailed annotated spreadsheet assessing OECD country local tax systems constructed by the authors and Emma Close from the Commission secretariat is available from the Commission on Local Tax Reform on request.

[iii] Tax capitalization concerns the embedding of future expected tax liabilities or indeed the net benefit or cost of services paid for out of taxes – into capital values. These may also reflect inter-jurisdictional differences in taxation and/or services provided. Relatively higher local taxes, or relatively less attractive net bundles of benefits of services minus taxes, or a comparatively high cost compared to other local authorities – may all reduce capital values (and vice versa for lower cost outcomes).

[iv] Mirrlees favoured a land valuation tax and a tax on housing services (to proxy for VAT). More immediately, they proposed a reform of council tax to make it more closely related to property values, regularly revalued and reducing the discounts and exemptions available. The review also proposes major changes to the taxation of home ownership, rented housing and transactions taxes..