

# Bringing two-rate property tax into force

## Land management by taxation

**M.E. Hoefsloot - 1007157**

Faculty of Civil Engineering and Geosciences  
Department of Geodesy, Department of OTB  
Delft University of Technology  
Jaffalaan 9, 2628 BX Delft, the Netherlands  
Email: m.e.hoefsloot@student.tudelft.nl

This essay is the written assignment for the workshop: Land management by taxation, as part of the course Land Management. In this essay I will focus on the introduction of a two-rate property tax system in the Netherlands.

### 1. Introduction

Land taxation can be used for different purposes, it can be used to raise income for the public purse, or to help finance associated external works, or as an instrument of land-use planning. The latter of these intentions can help when you want to affect land use, for one reason or another. At the moment there are two ways to levy tax. One is the conventional or typical property tax, which imposes a single rate tax on the combined value of land and buildings. The other is a viable alternative to the conventional one. It is a two-rate tax and imposes a low rate on buildings and a higher rate on land values.

With this essay I will look to the effects of introducing this new two-rate property tax system in a medium-sized city like Zoetermeer (110.000 citizens), where I am growing up. First I will describe the conventional property tax and the two-rate property tax in theory, then I will look to the situation as it stands in the Netherlands, and after that I will describe the way of bringing the two-rate property tax into force, how this tax can be used as an instrument of land-use planning, and to the impacts of changing the tax system.

### 2. Conventional property tax

Under the conventional, equal-rate property tax system, each owner's tax bill is prepared by multiplying the total assessed value (TV) by the levy rate, usually expressed as a per-

thousand figure, or mill rate. For example, if the assessed value of a given property were €100.000, and the levy rate were €4 per thousand of assessed value, the tax bill would be €400. In each county the assessor calculates the levy rate by dividing the total projected revenues authorized for the various taxing districts by the total assessed value of real estate in the county. To find the mill rate, the resulting ratio is multiplied by 1.000. (Gihring, 1999)

### 3. Two-rate property tax

Under the alternative two-rate property tax system, the total levy rate is split, and applied differentially to land values (LVs) and to improvement values (IVs). The assessed land value of each property is multiplied by the higher fraction of the levy rate, and the assessed building value is multiplied by the lower fraction. (Gihring, 1999) In this study, the proportionate rates for land and buildings are derived from a complex function to minimize the effects of any abrupt change in tax billing for the owners most affected by the new tax.

Note that, in practice, the concept of revenue neutrality applies not to single parcels but to an entire taxing jurisdiction. Thus, individual properties' tax bills may be either higher or lower as compared to the conventional tax, though all are taxed under the same set of differential rates. (Gihring, 1999)

A phase-in period gives the property owners whose taxes rise an opportunity to gradually adjust property prices downwards, as the capitalized market value of their land diminishes because of the land value tax. The phase-in also gives owners time to adjust their

investment decisions. A transition period -- maybe ten years, more or less -- during which the levy rate differential gradually' would rise to a concluding level, perhaps short of a 100 percent land value tax, would avoid undue financial stress on land owners. (Gihring, 1999)

#### 4. Situation as it stands in the Netherlands - OZB

Annually the main tenant receives one or more assessments for municipal taxes. One of these taxes is called "Onroerende-zaakbelastingen (OZB)" or in English property tax. You have to pay this when you use properties or when you own properties on the first of January of the fiscal year. Examples of properties are houses and company premises. The municipality levy tax on all properties within its municipal boundaries. In the Netherlands the property tax is split in two parts, one part has to be paid by the owner and one by the user.

The tax amount is based upon the economical worth of the property and a tax rate. In the Netherlands this is a tax rate per €2.268. To lower the tax burden, municipalities have the possibility to make a difference between houses and other buildings. The economical worth is fixed every four year and is indexed for the fiscal year. This economical worth is based on many qualities of the properties, including the land.

In the box below an example of the calculation of the annual tax can be found.

##### Example (Zoetermeer, 2004)

According to the assessment, your property is worth €160.000.  $€160.000 / €2268 = 70$

Non-house:

You are **owner**:  $70 * €7,10 = €497$

You are **user**:  $70 * €5,68 = €360$

Total (**owner** and **user**): €857

House:

You are **owner**:  $70 * €4,83 = €338$

You are **user**:  $70 * €3,87 = €270$

Total (**owner** and **user**): €608

#### 5. Bringing two-rate property tax into force

You can imagine, because the qualities of the properties are known, the economical worth can be split into two values, one part is the value of the land, the other of the buildings. For a known residential area with equal houses and non-equal parcels, it is possible to divide the land value from the total value. After that it is also possible to change the tax rate in a way that the land value is high taxed and the value of the building is low taxed, but the total tax amount remains the same.

It is nice to introduce this way of taxing, at the time the new economical worth is fixed, in the Netherlands that will be in 2008. And the government should make clear the effects are minimized for most main tenants.

#### 6. Tax impacts on land use

The intention to introduce a new tax system was to create an instrument of land-use planning. Therefore, results of the tax shift should:

- affect owners' decisions about land utilization;
- create enough financial incentive to stimulate more contiguous development of land within the urban growth boundary of vacant and underutilized sites;
- induce revitalization of downtown vacant and underutilized sites;
- facilitate the eventual replacement of low-intensity uses with more building-intensive uses;
- reducing the pressure for urban sprawl.

In my opinion this is only possible when the government makes a distinction between different kinds of land use. Examples of these are: residential, commercial, public, community services, industrial, utilities, vacant, farm and resource use, and open space. Studies of Gihring (1999), McGreal et al. (2002) and Needham (2000), did yield an answer to the question: "Does tax shifting has impact on land use?" and I agree with them.

#### 7. Conclusions

Over 27 countries already shifted from the conventional tax system to a two-rate tax system and all are in general content about it, so why not in the Netherlands? The

Netherlands levy a comparatively low tax rate, here is less urban sprawl, and less vacant sites, therefore the impacts are not that big as in the United States or anywhere else. In my opinion in about four years we will have a two-rate tax in the Netherlands, and why not?

## **References**

Thomas A. Gihring (1999) Incentive Property Taxation: A Potential Tool for Urban Growth Management, *Journal of the American Planning Association*, 65(1), pp. 62-79.

Stanley McGreal, Jim Berry, Greg Lloyd and John McCarthy (2002) Tax-based Mechanisms in Urban Regeneration: Dublin and Chicago Models, *Urban Studies*, 39 (10), pp. 1819-1831.

Barrie Needham (2000) Land taxation, development charges, and the effects on land-use, *Journal of Property Research*, 17(3), pp. 241-257.

Walter Rybeck (1998) Land Value Taxation, In: Willem van Vliet (ed.) *The Encyclopaedia of Housing*, Thousand Oaks: SAGE, pp. 323-324.

Municipality of Zoetermeer (2004) Gemeentelijke Belastingwijzer 1, *Gemeente Zoetermeer, Afdeling Belastingen*.

**Words: 1.222 (1000-2500)**

**Cijfer: 7**