

Property Taxation – Value Banding

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Key words: Property Taxation; Banding; International Application; Valuation/Appraisal.

ABSTRACT

Following the dramatic failure of the British Poll Tax (or Community Charge) to resolve the long-standing problems with the rating system, the government introduced a hybrid property and people tax system. This paper describes the British residential Council Tax system which is a unique local authority property tax based on banded property values.

All residential properties in England, Scotland and Wales are allocated to one of eight value bands, as at 1 April 1991, on the assumption that their values, and therefore the tax liability of their occupiers, would shift uniformly over time. Central government controls the relative tax liability within the bands and has, until recently, limited the level of tax which local authorities can levy. There is an assumption within the tax system that all dwellings are occupied by two or more adults and, where this is not the case, a 25% rebate is automatically given.

The paper reports on recent research which demonstrates the advantages and limitations of such a property tax system, including the flaw in the assumption that property values shift uniformly over time and the problems inherent in the lowest and highest value bands. The regressivity of this banded system and the possible remedies to minimise its impact on occupiers of the lowest value properties are also demonstrated. Issues of equity, fairness and local democratic accountability will also be discussed.

The paper includes an argument for developing a banded system as a tax base for countries with a limited property market and/or limited resources. In effect, such a banded approach, properly constituted, could well have potential application in developing countries and those 'transitional' countries of Central and Eastern Europe

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TS9.2 New Directions in Valuation Methodologies I
Frances Plimmer, William McCluskey and Owen Connellan
Property Taxation – Value Banding

FIG XXII International Congress
Washington, D.C. USA, April 19-26 2002

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