



## ***Property tax: Regressive or Progressive?***

*“A person doesn't know how much he has to be thankful for until he has to pay taxes on it” ~Author Unknown*

The presentation of the 2009/10 Trinidad and Tobago budget on 7 September reinforced a clear message in the minds of many. The land of 'Oil and Music' is in no way insulated from the global economic downturn which has plagued countries from the United States, to the Eurozone and our regional counterparts. The fall in oil and gas prices from the highs seen in 2008 along with a general slowdown in economic activity, decreasing private sector expenditure and the threat of rising unemployment were the main reasons noted by the Government of Trinidad and Tobago for the fiscal deficit seen in the last year. Oddly enough, while a fiscal deficit and financing a deficit are key concerns for any country, most of us seem more concerned (and justifiably so) with the new property tax system that is supposed to be implemented by 1 January 2010. What exactly does this property tax entail and what will it mean to our developing nation?

According to the property tax reform as stated in the 2009/10 Budget, “The present system of property taxation in the nine Regional Corporations and Tobago is still governed by the Land and Building Taxes of 1920 where the last global assessment of property values was conducted in 1948”. “In the Municipal Corporations, dates for property reassessments range from 1975 in Port of Spain, to 2008 in Point Fortin”. The present property tax system includes a land and building tax where properties in the nine Regional Corporations and Tobago pay a tax rate in the range of TT\$10.00-TT\$20.00 per acre with a 7.50% tax on the annual rental value of the building. Meanwhile, in the Municipal Corporations, tax rates on residential, commercial, industrial and agricultural lands range from 10% in Port of Spain to 2% in Point Fortin. This system was referred to as ‘antiquated, inefficient and inequitable’ hence the proposition of the new Property tax system.

The methodology for the new property tax regime is based on a rental value appraisal and on the present market values of properties. The proposition is for a 3%, 5% and 1% tax on residential, commercial and agricultural properties respectively. For industrial properties, the tax will be 6% of the annual taxable value based on 6% of the installed cost of plant, machinery and associated buildings..

We all know that taxation acts as a form of revenue to the government and property tax said to be one of the best options for developing economies given the accumulated wealth tied up in real estate. It serves as a revenue generator and research shows that it provides an adequate stream of income which should provide local governments with a significant portion of its financial needs. These finances should then be used to maintain and improve infrastructure investments and provide the necessary services in the respective areas which will be a great benefit to the taxpayers and one few would

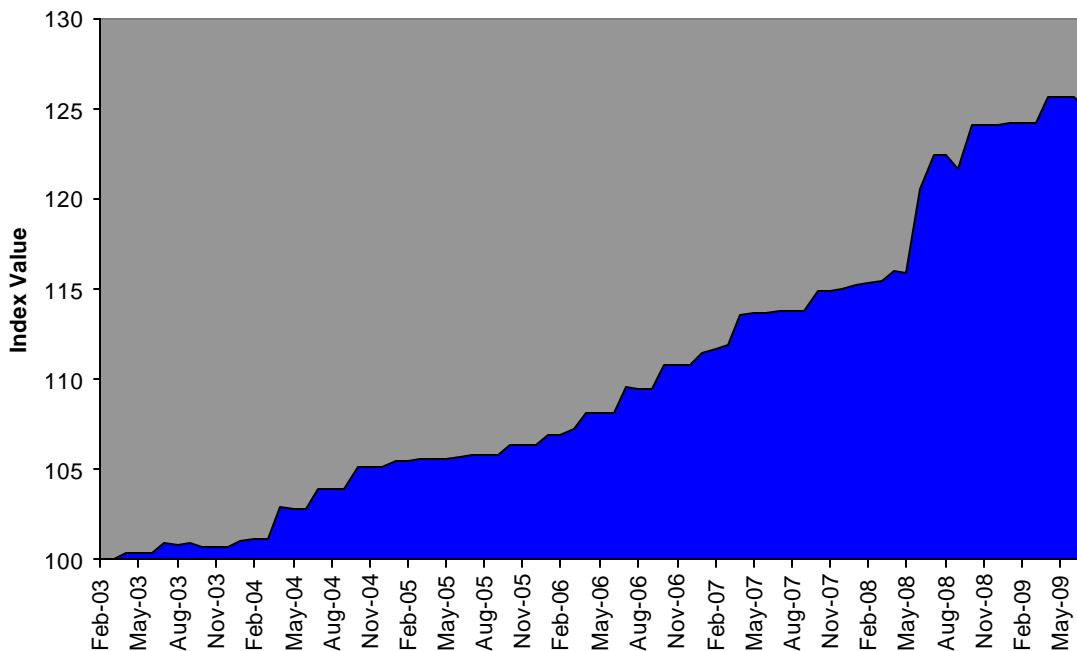
argue with.

Along with the new tax system there is the ambitious plan to 'improve and streamline the systems of assessment, management and collection of property taxes throughout the country'. This is proposed to be done through a single assessment agency-the Valuation Division- and a single collection agency-the Board of Inland Revenue with the District Revenue Offices to be equipped with information technology and infrastructure, all by 1 January 2010.

For developing countries, research shows that property tax, which usually accounts for 20%-30% of the total tax revenues, is not always best utilized given the weaknesses in property assessment, administration and the collection and enforcement of different aspects of the tax regime. Most of the literature on property tax clearly point out that without the ease of administration, simplicity in application, cost effectiveness and efficiency in relation to maintaining the quality of the tax base, the tax regime will fail to meet the government's objective of an equitable tax system.

Assuming the smooth and successful implementation of the new property tax system along with all of the structures to support the ease and efficiency of the regime, what are the possible economic implications?

**Figure 1: Index of Retail Prices - Housing - (Jan. 03=100)**



From Figure 1, we see the rise in the index value of house prices from February 2003 to May 2009 which approximates to a 25% increase over the period. Given the revaluation of properties after so many years that comes with the new property tax, one can expect property valuations will be higher than the levels seen at the last global assessment of property values in 1948. This begs the question of who actually bears the burden of the tax. A popular example used to address this question is in the case of a landlord who may have to pay a higher property tax bill and offsets this cost with a rental increase for his tenant.

Property tax has been argued as being both regressive and progressive. Regressive in the sense of, high asset groups that tend to accumulate more assets over time for example a farmer who obtains land maybe through inheritance. This farmer who owns a high number of assets may have a high property tax bill and during times of drought or flooding, a greater portion of their income will have to be spent on tax. In other words, a significant chunk of their income will be expended on taxes payable on the amount of assets held. Whether or not the property tax turns out to be progressive or regressive depends primarily upon the efficient implementation of the regime. Another important factor necessary to ensure the efficiency of property tax, besides developing procedures that are sustainable over time, is to ensure that taxpayers are kept well-informed as transparency will play a vital role. This is likely to improve the linkage between revenue generation, local expenditure and benefits received.

The fact remains, as with most government policies, the real benefit will only come with the sustainable and effective implementation of the new system. While the timing of this new property tax is debatable given the current slowdown in the local economy, maintaining equity and updating a very much outdated valuation system can be a positive development. As research shows, the taxation of real property is a better route to creating a 'stable, predictable and sufficient' revenue stream for the government. Increasing revenue to the government will have its benefits, especially given the outlook for the local economy. Whether or not all of these plans will be implemented in the suggested time frame will be the more difficult question.

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## FINANCIAL & ECONOMIC INDICATORS

As at 10 September, 2009

<u>Exchange Rate/US\$</u>	<u>Closing Value</u>	<u>Previous Week</u>
Yen	91.73	92.64
Euro	1.46	1.43
Jamaica	88.95	89.05
Guyana	204.90	205.20

<u>Commodity Prices</u>	<u>Closing Value</u>	<u>Previous Week</u>
Crude oil (US\$/bbl)	71.94	67.96
Natural Gas (US\$/mmbtu)	2.68	2.06
Gold (US\$/Troy Ounce)	996.60	991.85

### Eurobond Indices (As at 10-09-09)

Lehman Brothers Global Aggregate Index (Return % YTD)	6.76
JP Morgan EMBI+ (Basis points)	358
JP Morgan Central America and Caribbean Index (CACI) (YTD return %)	27.10

<u>Policy Interest Rates (%)</u>	<u>Closing Value</u>	<u>Previous Week</u>
United States	0.15	0.15
Euro Zone	1.00	1.00
Japan	0.10	0.10
Brazil	8.75	8.75
Trinidad	6.75	6.75
Jamaica	13.50	13.50
Barbados	2.50	2.50

<u>Market Interest Rates (%)</u>	<u>Closing Value</u>	<u>Previous Week</u>
US 90-day T-Bill	0.14	0.13
US 10-Yr Treasury	3.35	3.45
3-month UK Libor	0.63	0.67
Japan 90-day T-Bill	0.28	0.28
Brazil 90-day T-Bill	8.59	8.61
TT 90-day T-Bill	2.23	2.34
Jamaica 90-day T-Bill	16.72	16.72
Barbados 90-day T-Bill	3.65	3.62

Sources: Bloomberg, J.P. Morgan, CMMB, Central Bank of Trinidad and Tobago, Bank of Jamaica, Central Bank of Barbados, [www.lehman.com](http://www.lehman.com)

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