

As per your request for
something on Taiwan's land
taxation.

Hope you are still enjoying
California summer.

Warm regards,

John Rice

F: Taiwan

With regards,
John

Property Taxation in Taiwan: Merits, Issues and Options

John Riew

Reprinted from the
INDUSTRY OF FREE CHINA
Vol. LXVIII, No. 1, July, No. 2, August, 1987

This implies K other than "houses"
is untaxed! See p. 7.

Property Taxation in Taiwan: Merits, Issues and Options

John Riew*

I. INTRODUCTION

Unlike other countries such as the United States, Japan, and Korea, Taiwan does not have a tax designated as "property tax." Property taxation, as the term is used here, refers to taxes that are related to possession or transaction of real property (land and buildings), and specifically includes the Land Value Tax, the Land Value Increment Tax, the Agricultural Land Tax, the House Tax, and the Deed Tax.

The Land Value Tax (LVT) and the Land Value Increment Tax (LVIT) are the bulwark of the land-related taxes. In terms of revenue, LVIT exceeds LVT by more than three to one. As late as in 1975, the Agricultural Land Tax (ALT) was as important tax, exceeding LVT in revenue; but today it plays an insignificant role, with its yield accounting for a mere one tenth that of the LVT's.¹ Thus, the LVIT towers over other land-related taxes or, for that matter, any of the property related taxes including the House Tax which substantially exceeds LVT in yield. This prominence of LVIT is attributable to the continuing urbanization, industrialization, and rise in the average income which all contributed to rapid increase in land values, especially in urban areas.

It is worth noting that, in spite of the great interest and extensive debate on land taxation, LVT itself comprises a relatively small portion of the total property-related taxes in Taiwan. In Fiscal Year 1984, the share of LVT in Taiwan's total tax and monopoly revenue was only 2.8 percent, compared with the corresponding figure of 17.6 percent for all property-related taxes. Even the House Tax, which receives much less popular attention than does the LVT, generated as much as 4.1 percent of the total revenue¹.

In the present study, we shall examine the basic features of each of the property-related taxes and evaluate their merits and discuss the related issues and options. In doing so, we shall first survey Taiwan's overall revenue structure in an attempt to define the relative role of property taxation. This will help us in our deliberation of how

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1) The corresponding figure for the Deed Tax (a tax levied primarily on sales of real estate outside the areas where LVIT is taking effect) was 1.2 percent.

property taxation can be made to better fit in as a part of the overall scheme of tax design. Prior to proceeding to the chapters on evaluation, we shall also discuss several objective criteria that will serve as the basis for analyzing the merits of each component of property taxation.

II. TAIWAN'S OVERALL REVENUE STRUCTURE AND THE RELATIVE ROLE OF TAXES ON PROPERTY

1. The Overall Revenue Structure

A wholesome evaluation of a tax or a group of taxes in a given category requires an understanding of the nation's overall tax structure. Thus, while our primary interest in this study relates to property taxation in Taiwan, we shall first examine the nation's overall revenue (tax and nontax) structure.

Focusing on tax revenue, we note in Table 1 that the total taxes levied by all levels of government in Taiwan in Fiscal 1984 (the year ending June 30, 1984) was NT\$343 billion (US\$8.6 billion). Of this total, 56.5 percent represented national taxes with the remaining 43.5 percent going to subnational-level governments. Included among the latter are the Governments of Taiwan Province, Cities of Taipei and Kaoshiung (under the direct control of the central government), 16 hsiens (prefectures) and all municipalities under provincial or prefectural control.

Table 1. Government Revenue—An Overview
Fiscal Year 1984

(Unit: NT\$1,000,000)

Item	Amount	%	%
1. Tax Revenue	343,212	100.0	70.5
National	194,064	56.5	39.8
Subnational	149,148	43.5	30.6
2. Monopoly Revenue	40,152		8.2
3. Surplus, Pub. Enterprise and Pub. Utilities	63,022		12.9
4. Other Revenues	40,820		8.4
Fees	15,819		3.2
Fines and Indemnities	9,871		2.0
Public Property Revenues	15,130		3.1
5. Grand Total	487,200		100.0

Note: Public Property Revenues consist largely of "Proceeds from Sales of Properties and Recalled Capital." They also include a relatively small amount from rental and other earnings on government-owned properties. Excluded from Other Revenues are "Proceeds from Issues of Public Debt," "Receipts from Loans for Economic Construction," "Donations and Contributions," "Surplus of Previous Fiscal Year, and Miscellaneous." These items differ in nature from other current revenues and vary widely from year to year.

Sources: Ministry of Finance, Department of Statistics, *Yearbook of Financial Statistics of the Republic of China, 1984* (Taipei, June 1985), pp. 34-35; 174-175.

Apart from taxes, *Monopoly Revenue* in Taiwan is substantial as are *Surplus from Public Enterprise* and *Other Revenue*. In fact, of the broadly defined Total Revenue (including all nontax revenues shown in Table 1), Tax Revenue comprised only 70.5 percent in 1984, with *Monopoly Revenue*, *Surplus from Public Enterprise*, and *Other Revenue* accounting for 8.2 percent, 12.9 percent, and 8.4 percent respectively. The relative share of Tax Revenue shows no discernible trend over the past decade, while the share of *Monopoly Revenue* increased during the 1980's after a sharp decline between 1975 and 1980 (Appendix Table 3).

2. Tax and Monopoly Revenues of the National Government

The most important sources of revenue at the national level are: (1) Custom Duties, which accounted for NT\$67.7 billion—nearly 35 percent of the national government's total tax revenue—in 1984; (2) the Commodity Tax (28 percent); (3) Individual and Business Income Taxes (17.6 percent and 17.4 percent respectively—together, these two income taxes just about equal the share of Custom Duties); and (4) Estate and Gift Taxes (1.4 percent). Thus, the major taxes levied by the national government are Custom Duties, Commodity Tax, Individual Income Tax, and Business Income Tax. Together, these taxes produced 97.9 percent of the national government's total revenue in 1984. If total revenue is divided between indirect taxes (Custom Duties and Commodity Tax mainly) and direct taxes (Individual and Business Income Taxes, Estate and Gift Taxes), the former exceeds the latter by 27.2 percentage points (63.6 to 36.4 percent).

The share of Customs Duties, we note in Appendix Table 2, was even larger in earlier years. In 1975, for example, Customs Duties' share of the national tax total was 43.2 percent, compared with 34.8 percent in 1984. The share of Commodity Tax, on the other hand, has remained stable in recent years. With regard to income taxes, we note that in earlier years the revenue from Business Income Tax exceeded that of Individual Income Tax by considerable margins (see Appendix Table 2). In recent years, however, the share of Individual Income Tax has risen; its yield in Fiscal 1984 exceeded, albeit slightly, that of Business Income Tax. Restated, Customs Duties, even with its recent relative decline, still remains the largest single source of revenue for the national government. Individual Income Tax, in spite of its notable increase, yields only about one-half as much revenue as Customs Duties and considerably less than Commodity Tax.

3. Revenue of the Subnational Governments

Taxes at subnational levels may be divided between (a) Provincial and City Taxes (the latter involving the two Direct-Control Cities of Taipei and Kaoshiung) and (b)

Table 2. Tax and Monopoly Revenue of the National Government
Fiscal Year 1984

(Unit: NT\$1,000,000)

Item	Amount	%	%
1. National Taxes	194,064	100.0	50.6
Customs Duties	67,622	34.8	17.7
Commodity Tax	54,471	28.1	14.2
Individual Income Tax	34,106	17.6	8.9
Business Income Tax	33,851	17.4	8.8
Estate and Gift Taxes	2,745	1.4	.7
Security Trans. Tax	1,247	.7	.5
Other	22	.0	.0
2. Monopoly Revenue	40,152		10.5
National	26,098		6.8
3. Subnational Taxes	149,148		38.9
4. Tax & Monopoly Revenues Grand Total	383,344		100.0

Note: State monopolies (tobacco and wine) are operated by the Provincial Government. The provincial share of monopoly revenue was derived by subtracting the share of the national government from the total. It may be noted that, under the current formula, 65 percent of monopoly revenue goes to the National Treasury, with the remainder retained by the Provincial Government.

Sources: Ministry of Finance, Department of Statistics, *Yearbook of Financial Statistics of the Republic of China, 1984* (Taipei, June 1985), pp. 76-77, 174-175.

Prefectural and Municipal Taxes.

In Table 3, we note that there are four types of taxes (and a surtax) that are classified as provincial and city taxes. The largest in this category is Business Tax, which in Fiscal 1984 generated 19.3 percent of the tax revenue of all subnational-level governments. If we add Education Surtax that applies to Business Tax, this share rises to 24.0 percent. The Stamp Tax and the Harbor Use Tax also generate substantial revenue, yielding 10.9 percent and 9.7 percent of the subnational tax total respectively. The License Tax is the least important of the four taxes.

While Provincial Government is restricted to these four taxes (plus the Education Surtax), the Cities of Taipei and Kaoshiung can also levy those other taxes (listed in Table 3) which prefectural and other municipal governments are empowered to levy. Among these taxes are all land-related taxes, House Tax, Deed Tax, Slaughter Tax, Amusement Tax and Education Surtax (which applies to House and Deed Taxes).

Tax revenues of subnational governments comprised 38.9 percent of Taiwan's grand total of tax and monopoly revenues in 1984, a figure substantially higher than

the 30.8 percent for a decade earlier (Appendix Table 2). As large as this subnational tax share may seem, it understates the degree of local fiscal self-reliance, considering that a part (35 percent) of monopoly revenue goes to the Province. Thus, with due apportionment of monopoly earnings, total subnational revenue constituted 42.6 percent of Taiwan's revenue total in 1984.

Table 3. Tax and Monopoly Revenues of Subnational Governments
Fiscal Year 1984

(Unit: NT\$1,000,000)

Item	Amount	%	%
1. Taxes at Subnational Levels	149,148	100.0	38.9
A. Provincial & City Taxes	73,948	49.6	19.3
Business Tax	28,796	19.3	7.5
Stamp Tax	16,186	10.9	4.2
Harbor Use Tax	14,523	9.7	3.8
License Tax	7,368	4.9	1.9
Education Surtax	7,075	4.7	1.9
B. Prefectural & Municipal Taxes	75,200	50.4	19.6
Land Taxes	47,196	31.6	12.3
Land Value Tax	10,756	7.2	2.8
Land Value Increment Tax	35,325	23.7	9.2
Agricultural Land Tax	1,115	.7	.3
House Tax	15,652	10.5	4.1
Deeds Tax	4,682	3.1	1.2
Slaughter Tax	2,681	1.8	.7
Amusement Tax	1,033	.7	.3
Education Surtax	3,956	2.7	1.0
2. Monopoly Revenue	40,152		10.5
Subnational	14,053		3.7
3. National Taxes	194,064		50.6
4. Tax & Monopoly Revenues Grand Total	383,344		100.0

Sources: Ministry of Finance, Department of Statistics, *Yearbook of Financial Statistics of The Republic of China, 1984* (Taipei, June 1985), pp. 8-15, 174-175; *Yearbook of Tax Statistics, The Republic of China, 1984* (Taipei, January 1985), pp. 8-15. Educational Surtax applies to business tax and house, deeds, slaughter and amusement taxes.

4. The Share of Taxes on Land and Buildings

What stands out in the landscape of the tax structure of the subnational governments is the prominence of the land-related taxes. The combined yield of the Land

✓ Value Tax (LVT) and the Land Value Increment Tax (LVIT) in Fiscal 1984 amounted to nearly one-third (31.6 percent) of the total tax revenue of the subnational governments or 12.3 percent of the grand total of Taiwan's tax and monopoly revenues. The LVIT alone accounted for three-quarters of the revenue from all land-related taxes (including the Agricultural Land Tax, a relatively inconsequential tax). The revenue from LVIT, it is worth noting, exceeds that from the Individual Income Tax or the Business Income Tax of the Central Government (Table 2), ranking as the third single most important source of revenue (after Customs Duties and Commodity Tax).

The House Tax in Taiwan, unlike in most other countries, is levied independently of the Land Value Tax. Its yield amounts to about 10 percent of total subnational taxes, less than half of the yield of LVIT but more than the yield of LVT.

✓ The relative share of land-related taxes has risen considerably over the past decade. The rise in LVIT, in particular, has been phenomenal, with LVIT revenue increasing from 8.7 percent of the subnational tax total in 1975 to 17.1 percent in 1980, and then to 23.7 percent in 1984 (Appendix Table 3). The trend for the LVT has not been steady; its share rose sharply during the latter part of the seventies but declined considerably during the 1980's. The revenue from the ^{agric}ALT stood at NT\$2.2 billion or 7.3 percent of the subnational tax total in 1975, but dropped eventually to less than NT\$1 billion, a mere 0.7 percent of the total taxes collected by subnational governments. The Deed Tax generated 3.1 percent of total subnational tax revenues, far exceeding the revenue from the ALT.

✓ Thus, in 1984, the aggregate yield from the property-related taxes, LVT, LVIT, ALT, House Tax and Deed Tax (Education Surtax included) comprised 48.3 percent of the total subnational tax revenue. This was 18.6 percent of the total ROC tax and monopoly revenues collected in that year. If Monopoly Revenue is excluded from the total, the share of the property-related taxes rises to 20.8 percent.

5. Recent Tax Reform

Taiwan has recently adopted a Value Added Tax (VAT). At a uniform 5 percent rate, the VAT that covers most goods and services, including food items, went into effect on April 1, 1986 (the rates authorized by the Legislative Yuan range from the minimum 5 percent to the maximum 10 percent). The VAT is to take the place of the Commodity Tax, the Business Tax and the Stamp Tax. The VAT at the current 5 percent rate cannot replace the revenue from these three taxes. Hence some elements under Commodity Tax are retained.

Other major changes involve the across-the-board reduction in income tax rates to take effect beginning in 1986. The maximum rate under Individual Income Tax has

fallen from 60 percent to 50 percent and that under the Business Income Tax from 30 percent to 25 percent. Revenue effects of these rate changes are difficult to predict. Whether supply-side effects of rate reductions in income taxes will at least partially offset the effect of the lower rates in the long run or whether the role of the VAT will eventually expand enough to make up for possible overall revenue shortfalls remains to be seen. In any event, it would seem reasonable to predict that the VAT's relative role will expand fairly rapidly over the coming years, given the revenue shortfall of the 5 percent VAT as a substitute for the three taxes to be phased out and given the continuing relative decline in the revenue share expected of Customs Duties.

III. PROPERTY TAXATION AS A DEVELOPMENTAL POLICY INSTRUMENT

In proceeding with our evaluation of the property-related taxes in Taiwan, we shall first identify certain basic roles property taxation could and should play to help the nation to achieve its developmental goals. Presented below, not necessarily in order of importance, are several aspects which we may consider relevant in this regard.

1. Revenue Considerations

✓✓✓ The process of continuing rapid economic development requires broadening and deepening of the social infrastructure. This, in turn, calls for ever-increasing public funds. Increased revenue, meanwhile, must be realized in a way that is the least adverse to the economy. Property taxation, in this context, can perform a uniquely meritorious role. Taxes on land generally entail no ill effects from the supply side. Taxes on buildings, appropriately designed and administered, could have salutary effects as they exert restraint on excess in housing, thus channeling more resources and skilled construction manpower into productive investments.

2. Equity and Distributional Objectives

✓ Industrialization in developing countries typically proceeds with various governmental support programs, including tax privileges, loan subsidies, and the like. Such programs would tend to add a larger share of the nation's income gains to the wealth of entrepreneurs and high-income equity holders and contribute to widening the disparities between the rich and the poor. This situation, as relates to Taiwan, runs counter to the nation's cherished ideal of "Economic Affluence for All."

In developing countries where an effective implementation of an income tax is difficult, property taxation can fill in as an ideal substitute or supplement, becoming an effective instrument of redistribution. A consumption tax with higher rates on luxury goods could similarly serve this purpose. But, short of a Kaldor-type progressive

expenditure tax, the redistributive potential of a consumption tax is rather limited, given the elastic nature of demand for luxuries and the problem of excess burden (which worsens with higher tax rates), a matter that cannot be ignored totally even with other overriding developmental objectives. Thus, if a progressively structured consumption tax were incorporated in the tax structure, we would still need property taxation to achieve our redistributive goals. To the extent that the ownership of real assets more closely correlates with individuals' economic-financial abilities in developing countries (than is the case among advanced economies), property taxation as a redistributive policy tool would be seen as even more meritorious.

3. Savings and Investment

A major consideration in the tax policy of developing countries concerns the designing of a tax structure that is compatible with savings and investment objectives. Property taxation could score well on this account, as its fuller use allows a reduction in the income tax on savings and investment while at the same time exerting restraints on excess in housing. The basic housing accommodation is an investment in itself, insofar as decent shelter promotes the health and productivity of the working population. Accommodations beyond the basic need, however, add little to productivity and do not constitute investment from the standpoint of the economy. Housing activities compete with private and public sector capital formation for materials and skilled manpower as well as for land space. Housing extravagance, thus, ought to be restrained.

Individuals often consider housing a form of saving. Thus, we may expect a high degree of substitutability between expenditures on housing and household saving. Funds freed from excess outlays on housing, one may argue, will be diverted into land speculation or into hoarding of gold, jewelry, foreign currencies, etc., or some of the funds may be wasted on conspicuous consumption. Legislating land speculation into an unprofitable undertaking is not an impossible task for a determined government. Hoarding of precious goods or foreign currencies can go only so far; it would become less attractive as domestic-international price gaps grow larger under tight control. As for possible diversion of funds into luxury and other consumption, this may not be a totally unacceptable situation; it could help provide certain industries an access to larger and more reliable domestic markets.

Taxes on residential properties may be expected to exert further indirect restraints on consumption of goods and services that are complementary to home ownership. Spending on furniture, appliances, and other household furnishings as well as home energy use most likely will rise commensurate with the size of a house. In his recent paper, Kazuo Sato attributes the high saving rates among Japanese households partly

to their relatively small housing space²⁾. A small home can absorb only so much in consumer durables, including automobiles.

4. Land Speculation

Land speculation arbitrarily raises land values. In developing countries, this is often a major contributing factor to worsening inflation. Funds for the purchase of land could come, to no small extent, from bank loans. Thus, with land speculation activity running high, a larger money supply from loan expansions would tend to further aggravate the problem of inflation.

Rising land values per se adversely affect investment, especially for those businesses requiring extensive land use. Higher costs of land for businesses translate themselves into higher prices. This would be undesirable not only for reasons of inflation but for its adverse effect on the competitiveness of domestic firms in the world market.

Windfall gains from land speculation in many developing countries have been a major cause of widening disparities between haves and have-nots. Furthermore, rapid increases in land values could become a serious social problem, generating deep resentment among younger generations who find their dreams of homeownership becoming increasingly beyond their reach. The circumstances could lead to frustration among large segments of the population and possibly to political instability, one thing any developing country cannot afford as it strives for uninterrupted economic growth.

Permitting land speculation to become a lucrative business will insure the presence of a large number of "entrepreneurs" whose primary activity is land speculation. The larger the number of speculators, the worse the problems they generate for the economy. The wasting of business talent in these unproductive, speculative ventures would be an additional loss to the economy.

X A high land value tax in itself will do little to stop land speculation. Land speculation will continue, only at lower levels of land value brought about by tax capitalization. But, penalty surtaxes on vacant (underutilized) land could raise the holding costs of land. Finally, sufficiently high taxes on land value increment could effectively curb land speculation.

5. Regional Policies and Balanced Growth

Where there exists the problem of urban overconcentration (as may be manifested

2) See Kazuo Sato, "Saving, Investment, and Productivity Growth: A Comparative Analysis of Japan and the U.S." presented at the Annual Meeting of the American Economic Association, San Francisco, December 29, 1983, 26 p.

by severe pollution, traffic, and sanitation problems, a high incidence of crime, shortages of water, power, and housing, and other pressing needs of the urban infrastructure), property taxation can help achieve more balanced regional development. As migrating rural families leave their dwellings (destined to be underutilized) and procure new ones in an urban area already overcrowded, there is a major drain on their financial resources (with negative impact on personal saving) and also on public-sector funds for infrastructure to accommodate the incoming residents³⁾.

Containment of urban overconcentration and balanced growth among regions require a comprehensive set of measures. Property taxation can play an important part in achieving this end.

6. Property Taxation and Local Autonomy

Traditional theory in public sector economics points to the merits of delegating much of the allocational function to the local level. Efficiency in public sector allocation calls for maximum correspondence between consumer-voter preferences and the supply of public services. This can be best achieved, it has been argued, through local decision making on the provision and financing of various services with local benefit incidence. Furthermore, the vitality of the local economy could be strengthened when collective local talents are mobilized and coordinated in pursuit of the respective local and regional interests. It should also be noted that the development of local autonomy and local leadership paves the way for a larger pool of experienced and informed leaders to serve at the national level.

In this context, property taxation would seem to best meet the need. A tax on property is generally easy to administer. Local governments are in close proximity to the tax base and in a position to assess and levy the tax expeditiously and fairly. Moreover, with taxation of immobile assets, loss of tax base to other jurisdictions would be less of a problem. This would make taxes on property a more suitable source of revenue for local governments, compared with alternative taxes on income or sales of consumer goods.

We have examined the potential role of property taxation as it relates to revenue, distributional considerations, effect on savings and investment, land speculation, balanced regional development, and the question of local autonomy. As we now evaluate the merits of the property-related taxes in Taiwan and discuss the relevant issues and options, these specific aspects of policy considerations will be taken into account.

3) For a detailed analysis of possible social costs associated with urban-bound migration, see John Riew, "Migration and Public Policy," *Journal of Regional Science*, Vol. 13, No. 1, 1973, pp. 65-76.

IV. LAND VALUE TAX

1. Basic Features

✓ The Land Value Tax (LVT) follows a uniform graduated (progressive) rate schedule, the tax rate rising with multiples of the so-called "progressive starting value" (PSV)⁴⁾. The PSV is defined as the average value of 7 ares (equivalent to 700 square meters), and is determined for each of the 23 local taxing jurisdictions. These include 16 hsiens (prefectures), 2 cities under direct control of the central government (Taipei and Kaoshiung), and 5 cities under provincial control (Keelung, Taichung, Tainan, Hsin Chu and Ja Yi). ✓ The LVT is levied on the aggregated value of all urban lands owned by a given landowner within each of the 23 jurisdictions. Thus, the basic 1.5 percent rate applies to the aggregate value not in excess of the PSV. Where the value exceeds PSV by less than 500 percent, an additional 0.5 percent is levied on the excess portion, and further additional 1.0 percent is levied on each additional 500 percent in excess, ✓ until the maximum rate of 7 percent is reached. Thus, the 7 percent rate applies to the excess of land value over and above 25 times the PSV. ✓

7,000 s.f.

Exceptions to this standard rate structure are the preferential rate of 0.5 percent applied to owner-occupied residential land (under 3 ares within the city planning areas or under 7 ares outside such areas) and a flat 1.5 percent rate levied on industrial land (factory sites). ✓ It is interesting to note that commercial land is subject to the standard graduated tax rates and, thus, is treated differently from land for industrial use. On the other hand, the law provides for a penalty surtax on vacant land (land on which the value of improvements is less than 10 percent of the land value) at the rate of 2 to 5 times the land value tax leviable thereon at the basic rate of 1.5 percent⁵⁾

The tax rates cited above are all statutory (or nominal) rates and differ greatly from the effective rates that relate to market values of land. The assessed value (declared by government) always lags substantially behind the market value. According to the figures presented by Professor Wei-Shin King, the average assessed value in 1969 was only 52.0 percent of the estimated market value, and the corresponding ratio for 1976 was 67.2 percent⁶⁾. These were the two years during which newly reassessed land values were used. In the years following reassessment, the assessment ratio (the ratio of the assessed to the market value) would continue to fall as the former remained unchanged while the latter kept rising. For example, in 1968 and 1975, the years

4) The statutory basis of the LVT as well as the LVIT is the *Equalization of Land Rights Act* promulgated by the national government in February 1977. This originates from the *Equalization of Urban Land Rights Act* of 1954, revised successively in 1958, 1964, and 1968.

5) The surtax equal to 100 percent of LVT payable on absentee-owned land has been abolished since the *Equalization of Land Rights Act* went into effect.

6) See Wei-Shin King, *Land Taxes of the R.O.C.*, published by Public Finance Training Institute, Ministry of Finance, Republic of China, for The Academy of International Taxation, Taipei, 1984, p. 10.

immediately prior to land value reassessment, the average assessment ratios were as low as 26.0 percent and 19.9 percent, respectively⁷⁾

Considering that land value reassessment has not taken place since 1978, the assessment ratio today must be similar to those low figures of 1968 and 1975. Revenues from LVT have stayed about the same in absolute amount in recent years (Table 3 and Appendix Table 3), in spite of rising land values in most urban areas of Taiwan. The LVT's share in the nation's total tax revenue declined from 4.0 percent in 1980 to 2.8 percent in 1984. Obviously, the LVT's potential is presently not being realized in Taiwan.

The LVT is a broad-based tax and could generate substantial revenue. Furthermore, to the extent that land ownership and one's economic and financial ability are correlated, as may be expected especially among developing countries, LVT can be an effective instrument of redistribution. The intent and the basic design of the present LVT, which incorporates relatively high statutory rates and progression, are to be considered generally salutary. Foremost among our relevant questions is whether the LVT is, in practice, a potent revenue generator and an effective redistributor.

The VAT recently introduced in Taiwan was intended to largely replace consumption- or transaction-related taxes. But, given the need for promoting various targeted industries through income-tax preferences and for providing greater economic incentives in general, the introduction of VAT could allow a further diminution of the role of income taxes. Income taxes (currently levied on both individuals and businesses) yield only about 18 percent of the nation's total tax revenue. Under the circumstances, it is important that the government adopt certain offsetting redistributive measures. A viable option in this connection is fuller and more forceful use of property taxation. Specifically, some adjustments in the present provisions and enforcement of LVT seem to be in order.

Any adjustment or reform in taxation often has multidimensional ramifications. Apart from revenue and redistributive effects, other policy objectives (as referred to in the preceding chapter) also need to be studied. With those goals and objectives in mind, let us examine closely various facets of the existing LVT.

2. The Rate Structure

At the first glance, the LVT rates (ranging from 1.5 to 7.0 percent) may appear high enough to make the tax a potent revenue generator and steep enough to make it an effective income redistributor. As our statistics indicate, however, the LVT is not an important revenue producer and hence cannot claim to serve as an effective

7) The percentage figures are calculated from the data available in the table in Wei-Shin King, *op. cit.*, p. 10.

instrument of redistribution. This failure may be attributed, in large part, to the following factors:

First and most importantly, the assessed values lag far behind and below the market values. The assessment ratios, though varying among regions and between old and newly developing areas, seem, in many cases, to be as low as 30 percent or even less. Second, in spite of its statutory rates, the effective rate progression is very moderate due to the wide value ranges (brackets) over which successively higher surtax rates are applied. Where, for instance, assessed land values exceed PSV by as much as 500 percent, the surtax applicable to the excess is only 0.5 percent. The maximum marginal rate of 7 percent, threatening as it may appear, does not apply until the assessed land value exceeds PSV by as much as 25 times. Finally, we note the preference given to homeowners, under which the applicable tax rate is a mere 0.5 percent, one-third of the basic minimum rate of 1.5 percent. This preference affects all (rich as well as poor) homeowners and is very costly to government revenue. *Tax house, exempt land!*

The question of whether the LVT rate structure should be progressive or proportional continues to elicit debate. Thus, the suggestion that LVT should be made into a proportional tax for the sake of administrative expediency faces the opposing argument that redistribution and revenue considerations call for a progressive LVT⁸⁾.

X When the various aspects of this question are seriously considered, it seems that the case for progression far outweighs the advantage of administrative simplicity of a flat rate. First, note that the current income tax provisions offer numerous preferences for incomes from capital (interest and dividend earnings, capital gains on security transactions, etc.) that accrue mostly to high income individuals. Second, the share of income taxes, small as it may be (Individual and Business Income Taxes together now yield only 18 percent of Taiwan's total tax revenue), is likely to remain small and may even further diminish with the emerging role of VAT. Third, Taiwan's Estate Tax, which affects wealthy segments of the population, is extremely lenient (more about this later). Finally, the potential of the consumption tax in its redistributive role, as already noted, is rather limited. All these seem to point to the merits of and the need for an LVT with a graduated rate structure. The question of administrative expediency is more critical for countries undergoing an earlier stage of development. Taiwan has long passed such a stage, and use of a graduated land tax is well within

✓ 8) Among the advocates of a flat rate LVT are Professor Wei-Shin King and C. Lowell Harriss, while progression is favored by George Lent, formerly of the World Bank, and Professor Chih-Chao Su. See Wei-Shin King, *Ibid*; C. Lowell Harriss, *Land Policy, Land Taxation & Economic Development*, Ministry of Finance, Republic of China, November 1975; George E. Lent, *ROC's Land Value Taxes: An Evaluation*, Ministry of Finance, Republic of China, November 1975; Chih-Chao Su, "Land Tax and Land Value Increment Tax in the Republic of China," mimeo. (undated), National Chengchi University, Taipei, Taiwan.

her administrative capabilities.

XX Having stated the merits of a graduated LVT, this writer believes that the current structure of rate progression leaves room for some adjustments. Let us assume that the assessment values can be brought closer to market values (a policy which most public finance scholars, in fact, favor) to, say, approximately 80 percent of the latter. In that case, the current basic statutory LVT rate of 1.5 percent will be equivalent to a 20 percent excise tax on housing⁹⁾. This may be compared with the current 10 percent Commodity Tax on black-and-white television sets, record players, and pianos, and the 15 percent tax on vacuum cleaners, for instance. Housing is a merit good, and a 20 percent tax on the basic housing need seems excessive. Thus, if the assessed values can be set at about 75 to 80 percent of market values, the basic statutory rate under LVT may be reduced by about one-half of the present level to, say, 0.7 to 0.8 percent.

Reduction in the statutory rates should be across the board. The maximum rate of 7.0 percent, converted to a one-time payment as under an excise tax, would correspond to a 92 percent tax. This compares, for instance, with the 60 percent Commodity Tax levied on automobiles with the maximum cylinder displacement capacity of 3600 cc or more—luxury-class automobiles by Taiwan standards. Again, assuming an 80 percent assessment ratio, the maximum statutory LVT rate could come down to about 5 percent to make the tax on luxury-class residential land more or less at par with other consumer luxuries. Considering imperfection and inherent problems in arriving at accurate assessment of land values, we may be able to further lower the maximum rate to somewhat below that 5 percent.

Rather than setting the tax rates at high levels and having to be lenient on assessment, it would be preferable to have an across-the-board reduction in tax rates while bringing assessment values significantly above the present low levels. With the relatively high tax on land value increments currently being enforced, the maximum rate under LVT could be brought down to perhaps 4 to 5 percent, and the basic rate lowered from the present 1.5 percent to less than 1 percent. In fact, the present low

9) An excise tax rate equivalent, t_e , of an annual LVT, levied at a rate of t , may be derived by

$$t_e = \sum_{n=1}^{\infty} \alpha t / (1+r)^n \quad \text{or}$$

$$t_e = \alpha t \sum_{n=1}^{\infty} (1+r)^{-n} = \alpha t \frac{1}{r} = \alpha t V$$

where α is the assessment ratio and r is an appropriate discount rate. Assuming the assessment ratio of 80 percent and substituting for r the interest rate for long-term deposits (3 years or longer) of 6.5 percent, which prevailed in Taiwan prior to the 1979 oil crisis (which triggered a surge in prices and interest rates), we obtain from the preceding equation, which reduces to

$$t_e = \alpha t (1+r) / r$$

a value of t_e equal to 197, or about 20 percent where the LVT rate, t , is 1.5 percent.

assessment ratios may be attributable to the high statutory rates under LVT. The higher the statutory rates, the more reluctant the tax administrators would be to follow closely the market value in their assessment, either for political reasons or out of their genuine concern over the excessive burden on taxpayers¹⁰⁾.

Given the foregoing appraisal of the rate structure of LVT and assuming the present structure of LVT to remain unchanged (with the multiples approach to progression still in effect), the following changes may be considered desirable:

- a. Reduce the present statutory rates substantially across the board.
- b. Bring the assessed values closer to market values, to, say, approximately 80 percent of the latter.
- c. Narrow the land value range over which each of the successively higher surtax rates is levied so that the tax rate progression becomes more meaningful, with a larger number of landowners being subject to various surtax rates for their larger-than-average land holdings.
- d. Dispense with the preference given to owner-occupied residential land.

These changes could be implemented over time to avoid an abrupt increase in the tax burden, yet, in due time, to enable LVT to play a more potent role as a revenue producer and as an instrument of redistribution.

3. Preferences for Homeowners

The lower rate of 0.5 percent on owner-occupied residential land may be justified on the grounds that housing is a merit good and homeownership ought to be encouraged. A few questions however, need to be addressed with regard to this provision.

The first issue involves the benchmark of 3 ares as the minimum eligible for the low-rate treatment. A 3-are piece of land in an urban area such as Taipei or Kaoshiung is not small; nor is a 7-are plot for a home site in non-urban areas where LVIT is in effect. Reducing this benchmark minimum to about one-half of the current levels may not be unreasonable. This generous homeowner preference, as currently stipulated, is a major factor denying LVT a more important role as a revenue producer.

Moreover, the preferential rate of 0.5 percent is applied to the assessed value lagging, to varying degrees, far behind the market value. If the assessment ratio is taken to be 30 percent, a figure which does not seem out of line at present for most areas, the effective tax rate on owner-occupied land will be 0.12 percent (allowing for the fact

10) The property tax in Pittsburgh, Pennsylvania, for instance, stipulates that land be taxed at twice the rate of buildings. But city assessors over the years have tended to assess land more leniently, thus rendering the original legislative intent (to have land taxed more heavily than improvements) substantially meaningless.

that the taxpayers' own declared land values are typically at 80 percent of the government-declared assessed value). In 1984, the average amount of LVT levied on owner-occupied residential land in the City of Taipei was a mere NT\$1,006 (US\$25, approximately), and the corresponding figure for the urban area of Taiwan as a whole was an even smaller NT\$755 (US\$19)¹¹⁾. If the basic rate of 1.5 percent had been used instead, the average amount of LVT paid by homeowners of Taipei would have been NT\$3,018 (US\$75), the corresponding figure for the average Taiwan urbanite being NT\$2,365 (US\$57). Whether such small differences in the annual tax would have a measurable effect on homeownership is debatable. If this preference was designed more as a way of helping the poor, one would question whether it should be granted to all homeowners, including the wealthy. Also, it should be mentioned that the poor in most need of help would be among those who do not own a home.

In view of the generous stipulation of the minimum area for the preferential rate (the 3 ares rule for urban areas especially) and the fact that the low rate applies to *all* homeowners, revenue loss resulting from this provision would be very large, though relatively small for individual homeowners. Use of a lower basic rate under LVT, in lieu of the present 1.5 percent, in exchange for abolishing the existing homeowner preference is an option that deserves serious consideration.

4. Progressive Levy on Commercial Land

The primary objective of a graduated LVT is promoting equity and redistribution. If so, the object of the tax must be individuals rather than businesses. The latter can be in the form of a sole proprietorship, but they could also be represented by a partnership or a corporation where the owners of the business can be a group of individuals who vary in income level or wealth holding. In the case of a corporation, its equity may be held widely among hundreds of shareholders.

Apart from this aspect of multiple ownership, there is the more fundamental question as to whether land being used for business purposes (be it commercial or industrial) should be subject to anything other than a flat-rate LVT that may be justified as payment for municipal services. Commercial activities derive benefits from services rendered by the local government (police, fire, road, sewage system, sanitation, etc.), perhaps in proportion to the size of the land that constitutes the business premise.

The LVT that discriminates against commercial land and in favor of industrial land seems to be based on the rationale that only industrial or manufacturing activities

11) The figures are derived from *Statistics on the Achievements of Equalization of Land Rights in the Taiwan Area*, Ministry of Interior, Republic of China, October 1, 1985, pp. 6-8. 12) The figures for the PSV are obtained from *Ibid.*, p. 4.

are productive and that the distribution processes that follow production are nonproductive. This is, perhaps, an outmoded way of thinking. Production and distribution must proceed hand in hand, and inefficiency at any stage of this whole chain of processes will effect the overall efficiency of the economy.

Division of activities between production and distribution is best left to the market mechanism. Promoting certain industries under an industrial policy is something else and is well within the proper role of the government's economic policy, especially for developing countries. To attempt to attract people and resources away from commercial activities and into manufacturing is not an appropriate function of government. We should let the market mechanism, not the government, be the arbiter in allocating scarce resources, human and otherwise, between the two sectors.

A discriminatory graduated LVT levied on commercial land will encourage vertical integration of businesses (that combine production and distribution) not for reasons of economic efficiency but for tax advantages (a lower LVT). It will also discourage service industries in general, since they belong to the category of commercial (non-manufacturing) activities regardless of their social merits. If certain categories of services are demeritorious and are to be discouraged, there are other tax measures that can be directed specifically toward them without lumping all service industries in a separate class under LVT¹².

The distorting effect of the present LVT involves not only industrial vs commercial activities, but also impacts on land-use patterns among commercial businesses. Thus, those activities that require large land space will be at a disadvantage vis-a-vis other ventures whose need for land space is relatively small.

It would seem that legitimate commercial activities, department stores, for instance, are in tough competition with underground businesses that are reported to comprise a significant share of the nation's economy. Adding a substantial burden on legitimate businesses under a graduated LVT system does not seem to serve the interest of the wholesome development of the national economy.

5. Variable Progressive Starting Values for Rate Graduation

The present graduated rate structure based on multiples of the Progressive Starting Value (PSV) has been a subject of extensive debate. To this date no clear consensus seems to have emerged as to whether this system should give way to a change. Those who argue for change point to the present inequity of the widely different LVT burdens

12) Since tax capitalization on land value relates to the average LVT rate, larger commercial establishments that are subject to high surtax rates will not even have the benefit of the tax-capitalized lower land values for their LVT base, in spite of the high taxes being paid on their business premises.

falling on the same value of land in different jurisdictions. For example, in 1984, the PSVs for the Cities of Taipei and Kaoshiung were NT\$3,330,000 and NT\$2,070,000, respectively, compared with the low corresponding figures of NT\$223,000 and NT\$249,000 for the rural Hsiens of Tainan and Taitung¹³⁾. Thus, the proponents of change contend that rate graduation should be based on a standard PSV applicable to the entire country, thereby solving the problem of the rural land owners being subjected to higher relative land-tax burdens than their urban counterparts.

Those who oppose the change do not disagree that inequities exist under the current system. However, they see a practical problem: most rural jurisdictions will suffer revenue loss under the new rate system, while such urban areas as Taipei, Kaoshiung, and Keelung will reap substantial revenue gains.

Potential revenue loss to rural hsiens has been a genuine concern. Closely examined, however, this may not be as serious a problem as it would appear. As a factor impacting on the actual amount of taxes collected, the surtax rates under LVT are more cosmetic than real. This is because: a) assessed values lag far behind market values, b) the land space of 7 ares is too large as a basis for arriving at PSV, and c) the ranges of assessed values to which each of the successively higher surtax rates applies are too wide. (Recall, for instance, that the highest rate of 7 percent does not apply until the assessed values are in excess of 25 *times* the PSV).

In Fiscal 1984, the median PSV among the 23 tax jurisdictions was NT\$386,000¹⁴⁾. In that year, the total LVT levies for those jurisdictions with their PSVs above the median amounted to NT\$8,754 million. By contrast, the corresponding figure for those rural hsiens with below the-median PSVs was NT\$1,467 million. If we assume that approximately 30 percent of the latter sum will be lost to the rural hsiens under the new rate system (with a nationwide standard PSV set at the present median), the total revenue loss to these rural jurisdictions will be NT\$440 million or about 5 percent of the total sum of LVT levied by all of the jurisdictions with above-the-median PSVs¹⁵⁾. A provincial fund appropriated by local contributions equivalent to 5 percent of the LVT revenue may be used, on a provisional basis, for redistribution among localities to help overcome transitional fiscal shortfalls associated with the change in the rate system.

Use of the standard PSV for rate graduation will solve the problem of inequity

13) The figures for PSVs are either extracted directly from or calculated from the data available in *Statistics on the Achievements of Equalization of Land Rights in the Taiwan Area*, *op. cit.*, pp. 4-5.

14) The jurisdictions with the PSV's at or above the median include the cities of Taipei and Kaoshiung, the five cities (Keelung, Taichung, Tainan, Hsinchu, and Jayi) under provincial control, and 4 hsiens (Taipei, Ihlán, Taoyuan, and Taichung), which all contain substantial urban segments.

15) The revenue figures aggregated for groups of tax jurisdictions are calculated from the data available from the same sources cited in 13).

involving urban vs rural taxpayers under LVT. The new rate system, it should also be noted, is an important prerequisite to implementation of a provincewide graduated LVT. This will be the next subject of our discussion.

6. Provincewide Levy of a Progressive Land Value Tax

In view of the small share of the income taxes in Taiwan's total revenue and the likelihood of no basic change in this regard (note the underlying considerations stated in Part III), the task of achieving distributional objectives calls for a greater role for consumption and property-related taxation. Excise (selective consumption) taxes with rates to vary according to luxury content ought to be retained and fully enforced, given the recent introduction of a broad-based VAT which even includes food. (This inclusion of food items is to be preferred for revenue and administrative reasons.)

As for consumption taxes as a redistributive tool, however, there are several factors inhibiting their extensive use. While one could readily advocate higher taxes on certain nonessential goods on equity grounds, excise taxes perceived to be excessive will tend to: a) increase the cost of tax administration, b) induce underground activities, which will, in effect, c) cause a reduction in government revenue. Moreover, the higher the tax rates on selective items of consumer goods, the greater the excess burden from resulting distortions in consumption choices.

For distributive purposes, then, we need a "multi-layer system" of which property-related taxes need to be an important part. Specifically, LVT can play a larger role as an instrument of redistribution. It is in this context that we are to assess the case for a provincewide levy of a graduated LVT.

If we accept a graduated LVT for reasons of tax equity and redistribution, the case for the provincewide LVT would be stronger with the ever-increasing interregional mobility of people and capital now being witnessed. Apart from its distributional function, the salutary effects of a graduated LVT on revenue and land speculation would be further amplified if the tax were applied provincewide. As the graduated LVT is enforced only within a city or hsien, it is difficult to prevent an individual from owning land in various jurisdictions in each of which the total value of land does not exceed the PSV. This means that the surtax rates of LVT are by and large impotent as a revenue booster and ineffective in suppressing land speculation activities.

The provincewide levy of a progressive LVT would, undoubtedly, entail an administrative problem that goes beyond those that prevail under the existing system. We may note in this regard that in the United States, where local governments, as in the ROC, have authority over the property tax, railroad properties that cut across localities are taxed by the State Government with the revenues returned to the localities

after administrative costs incurred by the State are subtracted.

A provincewide LVT would require a standard PSV for the entire country which, as discussed earlier, would be a preferable system in its own right. Required also for such an LVT scheme is the equalization of assessed values among jurisdictions for equitable allocation of the revenues collected by the Province. The experience of the State of Wisconsin, a state known for its effective supervision of property taxation, indicates that the problems involving property value equalization are relatively easy to manage once the necessary administrative organization is in place¹⁶⁾

A nagging question arises concerning possible abuse of split ownership of property among relatives and friends. Would people not be tempted to register ownership of land under multiple names to avoid surtaxes? While the possibilities exist, excessive concern about the problem may be unwarranted. First, split ownership among members of the immediate family may be prohibited for LVT purposes. Second, whoever engages in such an act, using friends and relatives outside the family, would run a risk of losing the legal title to part of his asset. Finally, the cases of split ownership can be closely audited for the purpose of LVT and of individual income tax as well, and such a policy can be made known among taxpayers by announcement as well as by precedents.

Under the new Equalization of Land Rights legislation of 1977, the surtax for absentee landowners was abolished, while that for vacant land two to five times the value of LVT payable remains in effect. Provincewide levy of a progressive LVT will make the case for surtaxes on either absentee-owned or vacant land less compelling. Yet, in the interest of suppressing land speculation, we may still want to subject vacant land to a surtax (comprising, say, a certain multiple of the basic starting rate) beyond the regular LVT payable.

7. Uniformity in the Land Value Tax Rates

The standard LVT rate schedule set by the Central Government currently applies uniformly to all local jurisdictions. There is no reason why a certain variability cannot be incorporated in the levy of LVT. Under LVT, Taipei and Kaoshiung (and, perhaps, also the five provincially administered cities) may be authorized to levy a surcharge on the standard LVT with an upper limit stipulated. Thus, a landowner in one of these cities may be levied a surcharge amounting to a certain percentage (with an

16) Under the Wisconsin model, the Provincial Government would determine the assessment ratio for each tax jurisdiction (based on a sales sampling method), and the local assessed values would be adjusted to "full values" according to the assessment ratio attributed to each tax jurisdiction. Under this setup, each city or hsien, regardless of how high or low its average ratio of assessed to market values was, would receive its fair share of revenue from the Province prorated by land values attributed to each jurisdiction.

upper limit, say, of 30 percent) of his LVT, determined on the basis of the standard rate schedule. Such an arrangement could help finance high costs of urban infrastructure and current operation, as well as discourage excessive population concentration in cities.

Local autonomy in Taiwan already has reached mature stage. Delegating to major cities an added authority, albeit a limited one, in the way of financing their local services may contribute to further development of local autonomy and to a wholesome, lively economy for the nation generally.

8. The Problem of Assessment

An up-to-date assessment undertaken by well-trained, competent assessors is probably the most important prerequisite to successful implementation of an LVT that can serve as an important revenue generator as well as a tangible, effective redistributor. Land value assessment in the Taiwan as officials readily admit, has not been done as regularly or as frequently as it should have been done. The total amount of LVT collected in 1980, we note from the statistics in our tables, was NT\$10,338 million; four years later (in 1984), LVT revenues had risen to only NT\$10,756 million. With increases in population and average income, the aggregate land value, especially in urban areas, must surely have risen considerably over these five years. Land value assessment can be done every year, if sampling is used. Only with an effective, institutionalized assessment routine in place can we expect an equitable implementation of a land tax, especially one with as progressive a rate schedule as Taiwan. Allowing assessed land values to remain unchanged until a full-scale reassessment is done several years later would make it difficult for taxpayers who must face abrupt increases in their tax payments.

9. Agricultural Land Tax

Revenues from the ALT have declined in absolute amount from NT\$2,181 million in 1975 to NT\$908 million in 1980 and have not changed much during the 1980s, with NT\$1,115 million recorded for 1984. As a share of Taiwan's total tax revenue, ALT shrank from 2.7 percent in 1975 to 0.3 percent in 1980, and remained at the same 0.3 percent as of 1984. Much of the relative decline in ALT is probably attributable to increases in land values in urban areas during the 1970's; most of the absolute decline may be explained by reclassification of suburban farmland as land now subject to LVT.

The apparently minor role of ALT is said to have resulted from political considerations calling for reduced tax burdens for farmers¹⁷⁾. In spite of improvements in farm productivity over the years, farmers have not fared as well as the urban population,

17) See Wei-Shin King, *op. cit.*, p. 24.

and the lenient policy toward farmers under LVT may indeed have had a considerable salutary effect on income redistribution. With the nation's genuine commitment to "Growth with Equity," there was perhaps a compelling reason for the government to ease the burden on the less affluent farming sector. Then, also, such a policy seems to be consistent with the desires of the leaders of the nation to preserve the traditional cultural heritage which is being infringed upon by the ever-growing urban environment.

All things considered, application of a progressive LVT for farmland is out of the question¹⁸⁾. The ALT could be administered as it is, independent of the LVT. Even with a continuing low-tax policy for farmers, however, a new cadastre of the "presumptive yield" of farmlands in various parts of the island would be in order. This will help eliminate a source of inequity stemming from the use of archaic assessments which in many cases correlate poorly with current productivities of the respective farmlands.

V. LAND VALUE INCREMENT TAX

1. Basic Features and Revenue

The LVIT is levied on the *net increment* to the value of land at the time of transfers of ownership. Ownership transfers refer to those that occur through transactions (or gifts), excluding death transfers. The Statute provides for a schedule of tax rates based on the ratio of the increment in value to its original declared value, rather than on the amount of the increment. Rates range from 40 percent on the first 100 percent increase, to 50 percent on the second 100 percent increase and 60 percent on increases over 200 percent. To compensate for the effects of inflation, the basis for determining the value increment is indexed by the wholesale price index. The tax rates prior to the *Equalization of Land Rights Act* of 1977 ranged from 20 percent to 80 percent in a four-rate structure. At present, a new attempt is being made by the Executive Yuan to effect certain changes in the basic features of the rate structure (discussion of which will follow).

The LVIT comprised 9.2 percent of Taiwan's total tax revenue in 1984, up from 6.0 percent in 1980 and 3.3 percent in 1975 (Appendix Table 3). By comparison, the corresponding figures for LVT were 2.8 percent, 4.0 percent, and 1.8 percent. Thus, LVIT's relative share in total national revenues nearly tripled between 1975 and 1984, while that of LVT rose only moderately during the period and, indeed, has declined considerably in more recent years. To further underscore the important role of the

18) Fragmentation of farmland under a graduated LVT and what it implies for scale economies, and the irrationality of a graduated levy on what are essentially lands for business use all seem to point to the desirability of keeping farmland taxation out of the domain of the LVT.

LVIT, we may note that, for Korea, taxes on land value increments were only a meager 0.6 percent of that country's total tax and monopoly revenues in 1981 (the latest year for which this writer was able to calculate a figure exactly corresponding to the share of Taiwan's LVIT)¹⁹⁾.

In discussing various issues concerning LVIT, we should first identify the basic role which LVIT can and should play in the context of the broad policy objectives of the government. In this regard, we may refer to three policy considerations, including: a) revenue, b) equity and distribution, and c) land speculation.

The LVIT, as a revenue generator, is undoubtedly a potent item in Taiwan's tax system. What this also means, given the relatively high and progressive rate structure, is that the LVIT is an important redistributor and a tax instrument which enables society to expropriate much of the gains that may be considered as rightfully belonging to it. The question remains as to whether the manner in which the rate progression is structured leaves room for improvement. Finally, how effective is the LVIT as a restraint on land speculation? Given the ill effects of land speculation, especially for developing countries, this question needs to be examined closely. It will be demonstrated that, in principle, the LVIT is potentially the most effective policy instrument in curbing land speculation. Taiwan's LVIT, in fact, seems to do rather well in addressing this problem. We shall explore possibilities, however, for further enhancing the role of LVIT for this purpose.

2. The Merits of Rate Progression

One of the main controversies involving LVIT concerns the relative merits of the current progressive rate schedule and a flat rate being proposed. Advantages of administrative expediency granted, a proportional taxation of land value increment would run counter to the taxation philosophy of a nation employing a progressive Individual Income Tax. Increases in land value are a form of economic gain, and there is no rational ground for treating land value increments differently from increases in income. The net increase in land value derives from social development and public investment in infrastructures. Given the nature of the gain, only higher rates seem to be in order under LVIT. It would seem reasonable, for instance, to argue that the maximum rate under LVIT should not fall below the maximum rate under the individual income tax. Consider this also in conjunction with another aim of LVIT: curbing land speculation. The ill effects of land speculation should be of greater concern than any possible

19) The percentage figure for Korea was calculated from the figures available in Kwang Choi, *Compilation of Fiscal Statistics*, Korea Development Institute, Seoul, 1983, p. 75, p. 107; National Tax Administration, Republic of Korea, *Statistical Yearbook of National Tax*, Seoul, 1984, pp. 20-21; Ministry of Home Affairs, *Statistical Yearbook of Local Taxes*, Seoul, 1984, pp. 74-75.

deterrent effects the tax may have on land transfer for development. Deterrence to land transfers, perhaps, can be mitigated more effectively by the levy of LVIT on death transfers than through lower tax rates on land value increments.

Korea, it may be noted, currently applies a 50 percent flat-rate tax on gains in land value. The government-declared values of land in Korea, however, are so low and uneven among areas that the more immediate question that needs to be addressed under the circumstances is not whether the rate should be progressive or proportional but whether the assessed values can be raised significantly closer to market values, expeditiously and in an equitable manner. Taiwan, by contrast, has had a longer history of institutionalized land value assessment, more vigorously carried out specifically with regard to the official "current values," the basis of LVIT.

The preceding analysis points to the propriety of the LVIT rate structure with progression at high rate ranges. However, excessive maximum rates that amount to a full expropriation of the value increment or anything close to it ought to be avoided, if only for the reason that land value assessment is inherently imperfect. A maximum rate higher than the current 60 percent should be contingent upon the government's determination and readiness to enhance the whole institution charged with the task of land value assessment²⁰.

3. The Basis of Rate Progression

The present rule of rate graduation based on percent increase in land value does seem to have certain merits. The larger the gain per dollar invested in land, one could reasonably argue, the greater the share the government should be entitled to. Such a view, however, would be more appropriate if the periods over which gains accrue were the same in all cases. A 200 percent increase in land value over a several-year period, for instance, may not be any more of a windfall gain than a 100 percent increase over half that period.

Even so, one may still point out that moving away from the existing percent-gain approach may induce split sales of a given lot. Through fractionalized sales of a larger lot one could moderate the effect of progression. This scheme, however, could be made to offer no tax benefit to a seller under a stipulation that LVIT is first computed on the basis of the entire lot and then multiplied by the fraction that represents each sale.

The current rule of progression based on percent increase, as we can readily agree, favors short-term gains. To the extent that land speculators' typical transaction cycle

20) This assessment is based on information conveyed to this writer concerning the ratios of official "current values" to market values, which reportedly average about 70 percent overall but generally range between 90 and 100 percent in the cities of Taipei and Kaoshiung.

is shorter than that of ordinary landowners, this rule will have a perverse effect on land speculation.

Under Taiwan's Individual Income Tax, progression relates to the absolute amount of earning. The question of inconsistency would arise when progression under LVIT is based on percentage increase in gain. If we were to apply progression according to the rate of increase in value, we could not overlook the difference in the periods over which such gains accrue, given the fact that in most instances the longer-term gains are larger than the shorter-term gains. Over looking this difference would be tantamount to applying the same progressive individual income tax on two incomes, of which one is a lower amount but earned over a year and the other is a larger sum cumulated over a number of years.

The bill recently presented to the Legislative Yuan by the Central Administration calls for moving away from the present percent-increase approach to progression. The LVIT rates proposed under the bill range from 40 percent on the first NT\$600,000 of land value gains, 50 percent on gains between NT\$600,000 and NT\$1,000,000, and 55 percent on further gains up to NT\$1,400,000, to 60 percent on increments beyond NT\$1,400,000. This amendment is reported to have been voted down at the first-round legislative deliberation²¹⁾. The eventual outcome may prove different. The new basis for progression embodied in the bill would be a change in the right direction. Given the rigor with which the official "current values" follow market values, the levels of tax rates proposed in the amendment would also seem appropriate.

4. LVIT and Land Speculation

Re ripening

A tax on land, according to the traditional notion, constitutes a holding cost of land and such a tax, at a sufficiently high rate, can be an effective deterrent to land speculation. This perception is largely a myth. Through tax capitalization, the LVT will lower land values and the return per dollar invested in land could remain, for the most part, unaffected. An LVT, over the range of feasible rates, cannot exert more than a minimal influence on land speculation activities.

To clarify this point, let us assume that a piece of land yields an annual rent of R , the appropriate discount rate is i , and the land sells for the price of $V = R/i$. If a land speculator expects the value to rise by G in n years, the present value of the land as perceived by the speculator will be

$$V(s) = R/i + G/(1+i)^n \quad (1)$$

With a positive G , $V(s)$ exceeds V and the land purchase would become profitable.

21) *China Daily News*, Taipei, March 21, 1986, p. 2.

Now, LVT is levied at an effective rate of t (a rate that relates to market values) and, through tax capitalization, V falls to

$$V' = (R - V't)/i \quad (2)$$

where $V't$ is the amount of LVT paid on the value-depreciated land. With land values falling, the speculator can now afford to purchase more land which would now correspond, in value, to $V' + dV$ where

$$\begin{aligned} dV &= V - V' = R/i - (R - V't)/i \text{ or} \\ dV &= V't/i \end{aligned} \quad (3)$$

Meanwhile, with the LVT in force, the value of $V(s)$ in (1) needs to be adjusted to

$$\begin{aligned} V'(s) &= (R - V't)/i + (G - Gt/i)/(1+i)^n V'/V \text{ or} \\ V'(s) &= (R - V't)/i + G(1-t/i)(1+i)^{-n} V'/V \end{aligned} \quad (4)$$

Likewise, the present value (speculator-perceived) of the incrementally purchased land will be

$$dV(s) = V't/i + G(1-t/i)(1+i)^{-n}(1 - V'/V) \quad (5)$$

assuming that the speculator anticipates the same rate of value increment for both (the initial and incremental) parts of land. Summing (4) and (5), the total speculator-perceived present value of the lands purchased will be

$$V'(s) + dV(s) = R/i + G(1-t/i)(1+i)^{-n} \quad (6)$$

Recall that the amount of capital invested in land is the same before and after the LVT. Comparing (1) and (6), however, we note

$$\begin{aligned} V(s) - [V'(s) + dV(s)] &= G(1+i)^{-n} - G(1-t/i)(1+i)^{-n} \\ &= (Gt/i)(1+i)^{-n} \end{aligned} \quad (7)$$

The term on the righthand side of (7) represents the present value of LVT applied to G , the land value gain, and is positive. Thus, the speculator-perceived present value of the purchased land is lower with an LVT. The difference, indicated by the term $(Gt/i)(1+i)^{-n}$, however, will be shown to be quite small given the range of the relevant values which prevail under Taiwan's LVT.

For illustration, let us assume that a) land speculators space their land purchases in time and across tax jurisdictions to avoid the surtax beyond the basic 1.5 percent under LVT, b) the ratio of the official assessed values to market values is 40 percent, a figure that seems higher than the actual ratio currently in effect, c) the speculators' land transaction cycle is three years, and d) the appropriate discount rate is 6.5 percent (Part IV, footnote 9). Under the circumstances, the loss in the present value of G

attributable to LVT will be 7.6 percent, meaning 92.4 percent of the land value gain will remain with the speculators. Taking an alternative LVT rate of 3 percent does not change the picture very much: the loss in the present value of G due to LVT will be 15.3 percent, with the remaining 84.7 percent left with the purchaser of the land. The shares of the gains untapped by LVT seem too large for the LVT to support its claim of potency as a deterrent to land speculation. Herein lies the important role of LVIT. The LVIT directly impacts on G; the higher its rate, the smaller the net G and thus the greater its dampening effect on land speculation activities. ✓

Given rapid urbanization-industrialization processes combined with continuing investment in public infrastructures that takes place in developing countries, especially among the newly industrialized countries, the cases of doubling or tripling of land values over a relatively short period have not been uncommon. Against such backgrounds, the recent experiences in Korea are worth noting. The official "current values," the basis used for her *Land Transfer Gains Tax* (Korea's equivalent of LVIT) are, reportedly, so out of line with market values that, in spite of the current nominal tax rate of 50 percent, the actual effective tax rate may be estimated to be within a low range of 10 to 15 percent²²). This situation explains, at least in part, recurrent surges in land speculation activities which destabilize the country's real estate markets, often with concomitant aggravation of inflation. The circumstances, in turn, call for a succession of ad hoc administrative measures, each with wide latitudes for discretion, arbitrariness and attendant inequities. A standardized measure against land speculation, in the form of a strictly and efficiently enforced LVIT, though not a complete solution would avoid many of these problems while contributing substantially to the State Treasury.

5. Land Value Increments and Death Transfers

Land value gains escape LVIT at death transfer. Though these gains are captured by the Estate Tax, two basic features of the Estate Tax make the latter only a partial redemption, at best in most cases, for forgiven LVIT. First, the Estate Tax provides for exemptions and deductions which are not allowed under LVIT. Second, and more importantly, Taiwan's Estate Tax rates are extremely lenient, with rates ranging from 2 percent to 60 percent. The maximum rate equals that of LVIT, but this rate does not take effect until the amount of taxable estate exceeds NT\$160 million, equivalent to US\$4,000,000. By comparison, Korea's maximum rate of 60 percent applies to amounts over the equivalent of US\$560,000. It may be noted also that the maximum rate under the Japanese Estate Tax is 75 percent and applies to taxable amounts in

22) The average ratio of official current values to market values in Seoul, as announced by the City Government recently, was 22.2 percent. If we use this figure as the basis for our estimation, the effective tax rate under the ROK's land transfer gains tax would be 11.1 percent. See *Chosun Ilbo* Daily News, Seoul, July 1, 1986, p. 10.

excess of ¥500 million, equivalent to US\$2,778,000 (using the current appreciated exchange rate of US\$1=¥180). The 60 percent marginal rate under the Japanese Estate Tax applies on amounts over the equivalent of US\$778,000.

The main problem of using the LVIT at death transfers as a credit against the Estate Tax, as has been proposed, is that, in many cases, there will not be enough Estate Taxes against which the LVIT credit can be used. Under the Estate Tax, for instance, a marginal rate as low as 20 percent is levied on taxable estates valued from NT\$4,080,000 to NT\$5,100,000 (equivalent of US\$102,000 to US\$127,500). Recall the minuscule amount of revenue generated by the Estate Tax—comprising a mere 0.7 percent of Taiwan's total tax revenue (Table 2)—and the much larger 9.2 percent of the same. If we assume that land value increments escaping LVIT through death transfers cost the government about one-third of the current revenue from LVIT, we can easily understand the problem involving the proposed use of LVIT as a credit against the Estate Tax.

A major concern for the government when LVIT is levied on death transfers will be the liquidity problem facing the inheritors with their tax liability on the gains yet to be realized. A grace period for tax payment can be granted interest-free for a few years, but with interest charged for payment that takes a longer (than stipulated) period.

Levy of LVIT at death transfer, with provisions for alleviating hardships for taxpayers with liquidity problems, will eliminate the present inequity. There is no question that this will also add substantially to government revenue. Finally, but not the least important, it will significantly reduce cases of "locked-in ownership" of land. That land value gains at death transfers are free of LVIT probably is the more potent impediment to transfers of lands (and their optional use) than are the current levies under LVIT.

VI. HOUSE TAX²³⁾

1. Statutory Rates and Revenue

The current tax rate on residential buildings, owner-occupied or rented, is 1.38 percent that on business structures is 3.0 percent. The Statute authorizes a proportional rate ranging from 1.38 percent to 2 percent for residential buildings and a rate from 3.0 percent to 5.0 percent for business structures. The yield from the House Tax in Fiscal 1984 comprised 4.1 percent of Taiwan's total tax revenue, considerably higher than the LVT's 2.8 percent. This was to be expected considering that building values, in general, exceed the values of land sites. One could, in fact, reasonably expect the

23) Data and information this writer was able to gather on the House Tax are sketchy and limited. Thus, only a few general comments and thoughts are presented here on selected aspects of the House Tax.

relative share²⁴⁾ of House Tax to increase over time with continuing expansion in building activity.²⁴⁾ Thus, as a revenue source the potential of the House Tax deserves more attention than it has received in the past.

2. The Question of the Rate Structure

Under the Commodity Tax in Taiwan, luxury goods are taxed generally at much higher rates than are other goods. Thus, high-value automobiles, for instance, are taxed at a 60 percent rate, while the smallest cylinder-capacity automobiles are taxed at 25 percent. Likewise, the Commodity Tax on high-value cosmetics ranges from 60 percent to 100 percent, while the rate on low-value items in this category is a flat 15 percent. If the progressively structured Commodity Tax is justified under the ability principle of taxation and for redistributational purposes, one wonders why the same rationale fails to apply to housing under the House Tax.

If the assessed values of buildings average approximately 70 percent of market values, which is the figure indicated to this writer by officials of the Provincial Government, the effective (the market value-related) House Tax rate would be 0.97 percent. If we were to take a lower figure of 50 percent instead (in case the current prevailing assessment ratio is lower than the one cited above), the effective House Tax rate would be 0.69 percent. The excise tax equivalent of an annual House Tax with an effective rate of 0.97 percent is 15.7 percent, based on the 70 percent assessment ratio.²⁵⁾ The corresponding rate, if we use the alternative 50 percent assessment ratio, would be 11.3 percent. Whatever we may say about the propriety of these rates as applied to low-value homes, they seem to be too low for luxury-class houses. This follows when we consider how other consumer luxuries are treated under the Consumption Tax (as well as under Customs Duties) and, even more so, when we take into account the fact that

24) Expansion in building activities that occurs under continuing economic development will also increase land values, but evidence seems to indicate that the rise in building values substantially outpaces the increase in land values. We may note an interesting empirical study in this context, though of an American city dating back to the late 1950s. The aggregate equalized values (about 90 percent of market values) of taxable buildings in Milwaukee, a major city in the U.S., were 3.8 times the values of land. Moreover, the figures presented in that study reveal a rapidly increasing relative share of building values over the preceding decades (See Harold M. Groves, "Statistical History of the Property Tax Base in Wisconsin," *The American Journal of Economics and Sociology*, Vol. 20, January 1961, pp. 127-146). As reported in Taiwan, the total assessed values of taxable buildings in the City of Taipei and Taipei Hsien were NT\$248 billion and NT\$151 billion, amounting to 1.28 times and 1.74 times, respectively, their total assessed values of taxable lands (Ministry of Finance, *Year Book of Tax Statistics, Republic of China, 1984*, Taipei, 1985, pp 200-204). The difference in the building/land value ratios between Urban Taipei and Milwaukee may be explained largely by high relative population density in Taiwan impacting positively on land values there. But to the extent that the historical trend observed in the City of Milwaukee is indicative of what happens in other urban areas, the relative share of building values would be expected to rise over time in various urban areas in Taiwan.

25) The excise tax rate equivalent of an annual House Tax was derived using the same method as presented in Footnote 9) of Part IV (Land Value Tax).

home ownership generates a need for various municipal services (police, fire, sewer, road, sanitation, etc.)

Higher effective rates on excess components of housing have numerous merits. They will: a) give consistency to the tax structure by allowing for similar treatment of all luxuries, including housing, as occurs under the progressively structured Consumption Tax; b) help achieve the government's redistributive goal, an important task in view of the small share of income taxes in Taiwan's revenue system and the likelihood that this share will remain low; c) exert restraint on housing excesses and channel scarce materials and skilled construction manpower into more productive areas; and d) increase government revenue, allowing, among other things, a reduction of House Tax burdens on low-value homes.

Given administrative problems of implementing a graduated levy of the House Tax, only a moderate progression in rates, ranging, say, from 0.5 percent to 3.0 percent (at an assessment ratio of 70 percent), would be in order. Joint ownership of a single family home among family members should in principle be prohibited. Whoever uses friends or relatives outside the family for split ownership to avoid or moderate progression would run the risk of losing legal title to part of his assets (as was discussed in the context of LVT) and could be subject to closer scrutiny by the authorities. Nevertheless, the higher the marginal rates, the greater will be the temptation to attempt to defeat the effects of the progression.

The provincewide levy proposed earlier for the LVT (or, for that matter, the hsienwide levy currently in effect under the LVT) is not warranted under the House Tax. One important merit of the provincewide levy of the LVT is prevention of land speculation. The question of land speculation has little relevance to the House Tax. Apart from redistributive considerations, a major rationale for a graduated levy of the House Tax is to restrain excess or luxury in housing. Housing luxury, however, is to be judged on a house-by-house basis.

3. Higher Rates on Business Structures

The basis on which buildings used for businesses are taxed at the higher rate of 3 percent (versus 1.38 percent for residential buildings) is not clear. It cannot be justified on the ability principle of taxation, since the principle should appropriately apply to individuals, not to business entities which could represent individuals of varying abilities. Moreover, House Tax levies on business structures will, in large part, be shifted forward to consumers in the form of higher prices. If a higher tax were to be justified at all, it would perhaps have to be for reasons that the business-related buildings require greater amounts of municipal services per dollar of property value than do residential

buildings. For that matter, we may consider also such external costs as the air, the water, and the noise pollution generated on the business premises. Taking these factors into account, one could justifiably argue for taxing manufacturing structures in urban areas at a rate higher than commercial buildings. Our reservations concerning the tax rate on business structures thus relate not so much to the higher rate per se as to the absence of a clearly discernible rationale for such rate differentiation.

4. House Tax and Housing Industry

The proposition that the House Tax be levied on a graduated rate schedule may be objected to by some who believe that such a system is not in the best interest of maintaining the healthy state of the nation's housing industry. The health of the housing industry should be judged in terms of *stability*, not in terms of the *level* of construction activity. And a low flat-rate House Tax is not a solution to the problem of instability in the housing industry. Occasional downturns in the housing industry are a transitory problem and, as such, the problem should be addressed with a transitory solution. A *temporary* Individual Income Tax credit, for instance, for purchases of new homes would be preferable to a provision permanently imbedded in the tax law. Such a measure was actually put into effect in the United States with a degree of success during a brief period in the late 1970s.

The recent legislation in Taiwan that provides for a tax credit for home purchases is reportedly aimed at stimulating purchases of new homes, especially apartments, since a large number of recently built apartment units are receiving lukewarm buyer response. This tax credit will tend to sustain housing activities at a higher level on a permanent basis. Apart from the question of whether this is a salutary development, a tax provision that perpetuates the stimulus will deprive the government of an important policy option for coping with future ups and downs in the housing industry.

5. Deed Tax

The Deed Tax is levied primarily on sales of real estate (land and buildings) outside the areas where the LVIT is in effect. Since the LVIT is expected eventually to extend to all land, the role of the Deed Tax will diminish over time. But it is still a substantial tax, currently comprising 3.1 percent of all subnational-level tax revenues and 1.2 percent of Taiwan's aggregate revenue (Table 3). The tax rate is 7.5 percent, payable by the buyer on the official assessed values of real estate. Assuming an assessment ratio of 30 percent for land and 50 percent for buildings, and further assuming a land-to-building value ratio of one to two, the Deed Tax would correspond to an effective rate of 3.25 percent, much too high for a tax levied on the asset's sales

value.²⁶⁾ Other than the virtue that it generates substantial revenue for rural local governments, neither the benefit principle nor the ability principle nor any conceivable major social objective can justify such a tax burden.

If the Deed Tax is intended to serve as a substitute for LVIT in rural areas, its distributional impact can be highly capricious. Where sales involve lands with large value increments, the Deed Tax may constitute undertaxation while representing over-taxation where value increments are small, especially in view of the fact that the Deed Tax applies also to buildings not subject to the LVIT.

VII CONCLUSION

Property taxation, broadly defined to include taxes on ownership, value increments, and sales of real estate, occupies a prominent position in Taiwan's revenue system. In Fiscal 1984, property-related taxes generated nearly one-half of all taxes collected by the subnational governments and represented one-fifth of the total tax revenue of all levels of government in Taiwan. This amount, it is worth noting, equals the combined sum of Individual Income Tax and Business Income Tax levied by the central government.

The land taxes, specifically the Land Value Tax and the Land Value Increment Tax, constitute the bulwark of Taiwan's property taxation. Least adverse to economic incentives and least distortive of resource allocation, these taxes actively promote important national policy objectives. They are an effective income redistributor and help achieve the country's cherished goal of "Growth with Equity." They (the LVIT in particular) significantly curb land speculation activities, a source of numerous economic and social problems among many developing countries. We note also that the Land Value Tax and the House Tax have great potential for restraining excess and luxury in housing, which often attract scarce material and manpower resources away from more productive areas. Fuller and more effective use of property taxes will bolster local fiscal self-reliance, thus strengthening local autonomy in Taiwan. Finally, perhaps most important, the large relative share of property-related taxes allows lesser general dependence on income taxes and permits specific tax preferences for saving and investment in various targeted areas.

The merits cited above, for the most part, transcend a single nation. The experience of Taiwan indicates that, for many developing countries, property taxation can be an untapped reservoir of huge potential revenue. Taxes on properties are relatively easy to administer. Those nations pursuing ambitious economic development policies will

26) The effective rate was derived from $t = t[\alpha s + \beta(1-s)]$ where t is the nominal rate of Deed Tax, α and β are the assessment ratios for taxable land and buildings respectively, and s is the share of the land value to the combined sum of the land and improvement values.

have much to gain by examining and possibly adopting selected elements in the Taiwan model of property taxation. Indeed, certain features of the latter offer a useful lesson even for some of the more industrialized nations, including the United States.

Taiwan's property taxation, despite its many virtues, leaves much room for adjustment and improvement. The role of LVT has steadily declined since the late 1970's. This is apparent in the statistics showing a complete standstill in the LVT revenue—an incomprehensible situation given the rapid overall rise in land values during that period. Large unmet needs for social infrastructure in the continuing pursuit of rapid economic development call for the restoration of the role of LVT to its former prominence and, in fact, further enhancement of that role. To this end, an important first step would be to update the assessed values, bringing them closer to market values. This may be done along with a) redefining the progressive starting value at a lower level; b) narrowing the successive land value brackets (that is, reducing the magnitude of the multiples of PSV) to which each of the surtax rates applies; and c) implementing a substantial across-the-board reduction in the statutory LVT rates. A gradual move toward a provincewide levy of LVT is also recommended. This will enhance the role of LVT as an instrument of redistribution and as a restraining influence on land speculation activities. A provincewide levy of LVT requires a standardized PSV (which will help rectify the present inequity of variable PSVs), but can proceed without any basic change in the existing administrative arrangement involving LVT. Application of a progressive LVT on land used for business purposes is unwarranted.

As for the Land Value Increment Tax, the rate structure which is graduated with percentage increases in value should be replaced by a system of graduation based on the absolute amount of the gains. The current rule of progression favors short-term gains. Since land speculators' transaction cycles are generally of a shorter term, this system will have a perverse effect on land speculation. The recent Cabinet proposal calling for change in the rule for rate progression to follow the absolute amount approach (reportedly voted down by the Legislative Yuan at the time of this writing) was a move in the right direction and should eventually be adopted.

Another major issue associated with the LVIT involves the treatment of land value gains at death transfer. In the interest of equity and of removing impediments to land transfers (as well as of revenue considerations), the value increments at death transfer should be made taxable under LVIT. Provisions to accommodate for liquidity problems facing the inheritors are in order.

In Taiwan, a broad variety of luxury goods and services are taxed at high rates under Commodity Tax and under Customs Duties. That the House Tax does not differentiate between "basic shelter" and "luxury housing" is difficult to defend. Adding

moderate progression to the House Tax, ranging from a minimum rate of, say, 0.5 percent to a maximum rate of about 3 percent, in place of the current flat rate of 1.38 percent, is an option that the government should consider. Such a rate scheme, combined with a program to bring the assessed values closer to market values, will enhance the role of the House Tax as a revenue generator and a redistributor. High effective LVT rates may not be totally effective as a restraining influence on housing excess, as such rates may lead to a pattern of land-intensive vertical expansion in housing structure. More tangible effective rates under the House Tax will capture what the LVT may fail to achieve in this regard.

Consumption taxation (short of the Kaldor-type expenditure tax) has limited potential as an instrument of redistribution, given the elastic nature of demand for luxuries, further growth of underground transactions, and the problem of excess burden (which worsens with rising tax rates—an issue that cannot be totally ignored even with other overriding developmental concerns). Moreover, the relatively minor role played by income taxes in Taiwan and the prospect that it will remain so places more of the redistributive task squarely on property taxation. It is in this context that we note a compelling need for adding greater substance to the progressivity of property-related taxes, including the House Tax.

The system of taxes on properties in Taiwan did not emerge overnight. It has undergone changes in various stages. It will continue its transformation over the coming years and will, eventually, become a finer system, one which will better meet the needs of the nation and serve as a truly great example and source of inspiration to aspiring Third World nations and even beyond.

Appendix Table 1. Government Revenue—An Overview
Fiscal Years 1975 and 1980

(Unit: NT\$1,000,000)

Item	1975			1980		
	Amount	%	%	Amount	%	%
1. Tax Revenue	84,389	100.0	69.0	237,187	100.0	73.1
National	57,964	68.7	47.4	155,463	65.5	47.9
Subnational	26,425	31.3	21.6	81,724	34.5	25.2
2. Monopoly Revenue	13,115		10.7	24,162		7.4
3. Surplus of Public Enterprises	14,225		11.6	33,105		10.2
4. Other Revenues	10,571		8.6	30,167		9.3
Fees	4,651		3.8	10,226		3.2
Fines & Indemnities	1,836		1.5	5,347		1.6
Revenues from Public Properties	4,084		3.3	14,594		4.5
5. Grand Total	122,300		100.0	324,621		100.0

Notes: Revenues from Public Properties consist largely of "Proceeds from Sales of Properties and Recalled Capital." They also include relatively small amounts of rental and other earnings on government-owned properties. Not included in the category of Other Revenues are "Proceeds from Issues of Public Debt," "Receipts from Loans for Economic Construction," "Donations and Contributions," "Surplus of Previous Fiscal Years and Miscellaneous." These items differ in nature from other current revenues and vary widely from year to year.

Sources: Ministry of Finance, Department of Statistics, *Yearbook of Financial Statistics of the Republic of China, 1984* (Taipei, June 1985), pp. 34-35; 174-175.

Appendix Table 2. Tax and Monopoly Revenue of the National Government
Fiscal Years 1976 and 1980

(Unit: NT\$1,000,000)

Item	1975			1980		
	Amount	%	%	Amount	%	%
1. National Taxes	54,404	100.0	55.8	145,282	100.0	55.6
Customs Duties	23,527	43.2	24.1	57,002	39.2	21.8
Commodity Tax	14,018	25.7	14.4	41,678	28.7	15.9
Individual Income Tax	7,087	13.0	7.3	18,811	12.9	7.2
Business Income Tax	9,286	17.1	9.5	26,241	18.6	10.0
Estate and Gift Taxes	149	.3	.2	1,087	.7	.4
Security Trans. Tax	137	.3	.1	692	.5	.3
Other	199	.4	.2	24	.0	.0
2. Monopoly Revenue	13,115		13.4	24,162		9.2
National Government	8,525		8.7	15,706		6.0
3. Subnational Taxes	29,984		30.8	91,904		35.2
4. Tax & Monopoly Revenues Grand Total	97,504		100.0	261,349		100.0

Sources: Ministry of Finance, Department of Statistics, *Yearbook of Financial Statistics of the Republic of China, 1984* (Taipei, June 1985), pp. 76-77, 174-175.

Note: State monopoly businesses (tobacco and wine) are operated by the Provincial Government. The provincial portion of the monopoly revenue was derived by subtracting the national government's share from the total. The formula under which the national and provincial governments share 65 and 35 percent, respectively, of the total monopoly revenue was in effect in these earlier years also.

Appendix Table 3. Tax and Monopoly Revenues of Subnational Governments
Selective Fiscal Years, 1975-1982

(Unit: NT\$1,000,000)

Item	1975			1978			1980			1982		
	Amount	%	%	Amount	%	%	Amount	%	%	Amount	%	%
1. Taxes at Subnational Levels	29,981	100.0	30.8	56,702	100.0	33.7	91,905	100.0	35.2	127,965	100.0	37.8
A. Provin. & City Taxes	16,757	55.9	17.2	28,117	49.6	16.7	46,719	50.8	17.9	62,170	48.6	18.4
Business Tax	5,813	19.4	6.0	9,735	17.2	5.8	16,479	17.9	6.3	24,230	18.9	7.2
Stamp Tax	3,560	11.9	3.7	6,269	11.1	3.7	10,180	11.1	3.9	13,224	10.3	3.9
Harbor Use Tax	4,620	15.4	4.7	7,942	14.0	4.7	11,409	12.4	4.4	12,658	9.9	3.7
License Tax	1,330	4.4	1.4	1,768	3.1	1.1	4,586	5.0	1.8	6,105	4.8	1.8
Education Surtax	1,434	4.8	1.5	2,403	4.2	1.4	4,065	4.4	1.6	5,953	4.7	1.8
B. Prefectural & Municipal Taxes	13,224	44.1	16.6	28,585	50.4	17.0	45,186	49.2	17.2	65,795	51.4	19.5
Land Taxes	6,234	20.8	7.8	15,732	27.7	9.4	26,999	29.4	10.3	41,143	32.2	12.2
Land Value Tax	1,439	4.8	1.8	5,053	8.9	3.0	10,388	12.3	4.0	10,509	8.2	3.1
L. V. Increment Tax	2,617	8.7	3.3	9,278	16.4	5.5	15,704	17.1	6.0	29,473	23.0	8.7
Agricultural Land Tax	2,181	7.3	2.7	1,401	2.5	.8	908	1.0	.3	1,160	.9	.3
House Tax	2,896	9.7	3.6	4,581	8.1	2.7	6,821	7.4	2.6	12,680	9.9	3.8
Deeds Tax	1,191	4.0	1.5	2,408	4.2	1.4	3,477	3.8	1.3	4,475	3.5	1.3
Slaughter Tax	1,022	3.4	1.3	2,411	4.3	1.4	2,901	3.2	1.1	2,689	2.1	.8
Amusement Tax	353	1.2	.4	558	1.0	.3	845	1.0	.3	1,101	.9	.3
Education Surtax	1,095	3.7	1.4	2,190	3.9	1.3	3,085	3.4	1.2	3,707	2.9	1.1
Feast Tax	433	1.4	.4	705	1.2	.4	1,057	1.2	.4	0	.0	.0
2. Monopoly Revenue	13,115		13.5	19,145		11.4	24,162		9.2	37,594		11.1
Subnational	4,590		5.8	6,701		4.0	8,457		3.2	13,158		3.9
3. National Taxes	54,404		55.8	92,347		54.9	145,282		55.6	172,531		51.0
4. Tax & Monopoly Revenues Grand Total	97,504		100.0	168,194		100.0	261,349		100.0	338,090		100.0

Sources: Ministry of Finance, *Yearbook of Financial Statistics of the Republic of China, 1984*, (Taipei, 1985), pp. 76-77, 174-175; *Yearbook of Tax Statistics, The Republic of China, 1984* (Taipei, 1985), pp. 8-15. The stamp tax, a national tax until 1981, has since been transferred to the Provincial Government and the two Direct-Control Cities (Taipei and Kaohsiung). Land Taxes used to be levied by the Provincial Government and the Direct-Control Cities. Provincial authority over Land Taxes has been delegated to the prefectural and municipal governments since 1982.