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Property Tax and Assessment News from Around the World

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Property tax: A step in the right direction

A government move to introduce a new form of property tax is a step in the right direction but minor details need to be sorted out to make sure there are no grey areas or loopholes.

When it comes to taxation, real estate is a focus for governments worldwide because of its immovable nature. The universally accepted rule of law is real property is taxed according to the law of the land wherein it is situated. Therefore, it is impossible to transfer, conceal or move it away from the taxing jurisdiction.

A wide range of taxes is imposed on various types of property around the world. Some are based on actual sales and rentals, some on derived incomes or capital gains, while others are recurrent, normally quarterly or annually.

Most countries have some form of recurrent property tax with different methods of calculation and rates, depending on how a property is used and occupied.

In Thailand, the government is seeking to levy taxes on property and land. The new proposed property tax shall be a recurrent tax levied on land and built property, irrespective of whether it is owner-occupied, rented out or vacant.

With the law, the calculation of the property tax in Thailand will change from a cost-approach assessment to one based on land use.

The proposed "cost approach" is a transition from the previous "income approach" whereby the tax was only based on the annual revenue generated from rented properties. Under the new scheme, the taxable value shall be based on the appraised value of the property, calculated from the standard land and building value determined by the Treasury Department.

Another shift is the levying tax rate shall now be based on land use instead of its annually appraised value. Different rates of tax will be charged based on its use and functions.

Residential properties will be subjected to a new residential tax rate, with a 50-million-baht exception for first homes and a starting levy rate of 0.03% on second homes onwards.

However, there is a lot of overlapping in the classifications of commercial and residential properties. For example, a commercial property is classified as one that generates an income. However, a residential condo can also generate an income if it is rented. This is something that needs to be addressed before the new law takes effect.

Residential property tax Comparison

	Thailand	UK	Singapore	Hong Kong
Taxation Method	**Based on capital value (government-assessed value)**	**Fixed amount per tax band**	**Based on assumed rental values**	**5% on assessed rental value (government rate annually)**
Tax Calculation	**Residential use** Progressive tax rate (0.5% ceiling)	**Tax Band** A fixed amount charge to a range of value bands (from A to H) The tax band is based on government-assessed capital values at 1991 prices.	**Varies types of rate** Charged based on percentage of assumed rental value assessed by the government.	**Assumed rental value** Charged based on percentage of assumed rental value assessed by the government. **Rate**: 5% of assumed rental value
	First-home rate First B50m – exempted >B50m to B100m – 0.05% >B100m – 0.1%		**Rate Types** - Occupier or first- home - Rental - Second-Home - Vacant	
	Second-home rate First B50m – 0.03% > B50m to B100m – 0.05%			

Source: CBRE (illustration purposes only)

When compared to major Asian countries like Hong Kong and Singapore, the annual property tax in those countries is based on a percentage of the assumed rental value, irrespective of whether the property is owner-occupied, rented or vacant.

The assumed rental value is calculated by government valuation departments, who appraise the rental value for every property. In Hong Kong, the rate is equivalent to 5% of the assumed rental value while Singapore applies different rates depending on whether it is owner-occupied, rented, vacant, or a second-home property.

In the UK, the property tax rates are based on the type of use. The so-called "council tax" is determined by a local government authority who charges a fixed annual sum based on a range of value bands.

The value band (or tax band) is based on the local government's assessed capital value at 1991 prices. The highest value band is "H" for the properties whose 1991 value was over £320,000. Therefore, no matter what the total value of a home in the H band is, the fixed annual sum remains the same whether the assessed value is £320,000 or £32 million.

Now the Thai government is taking a huge step forward by updating their method of tax collection to be more organised and transparent while ending the existing household tax system. As the policy is being introduced to improve consistency and transparency, it is important that there are no grey areas or loopholes.

The policy also aims to reduce the wealth gap, which will be achievable as long as the rates in the lower tax bands are low, otherwise, it could reverse the effect and widen the wealth gap.

Additionally, it is important that the rates are not too high, or they could discourage property investment and growth. After all, Thailand is a small market compared to other advanced economies like the UK, Hong Kong and Singapore.

In any case, the policy is a step in the right direction for Thailand's property industry, one that could stimulate growth in certain markets and eliminate confusion among investors.