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MUNICIPALITIES ARE PLAYING POLITICS WITH PROPERTY TAX..... 1

Municipalities Are Playing Politics With Property Tax

The authors of the study looked at data on buildings and housing from the 2011 census as well as analysing the tax policy behaviour of 8,036 West German municipalities. The local fiscal situation, as well as socio-economic factors and political preferences were also factored into the analysis.

In order to determine whether and to what extent the share of home-owners living in a municipality has an effect on the property tax multiplier in that municipality, historical data on damage done to housing during the Second World War was also used. This war damage led to property ownership being greatly suppressed in favour of the construction of rental properties in the hardest hit municipalities in the years following 1945.

'When it comes to setting the property tax multiplier, local politicians tend to be guided not only by the state of the municipality's own fiscal situation but also by what neighbouring municipalities are doing,' summarises Dr. Oliver Lerbs, acting head of ZEW's Research Department 'International Finance and Financial Management' and coordinator of the research area 'Household Finance and Real Estate'.

Another factor is the share of property ownership versus renting in the municipality's housing stock. 'Regardless of a municipality's size and structure, a higher percentage of rental properties often results in higher property tax. If the share of home-owners in Germany was ten percentage points higher, this would cost the municipalities somewhere in the region of 120 to 140 million euros in property tax revenue,' says Oliver Lerbs.

'The reason for this, based on our estimates, is that property tax is far more noticeable to home-owners. As a result, the political desire for high property tax rates is lower than in municipalities in which more of the residents rent,' explains Professor Roland Füss, professor of real estate finance at the University of St. Gallen and co-author of the study.

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