

Property Taxes: A Tool to Raise Revenue?

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#TaxDev

Property Taxes

Difficult to evade & avoid – at least in the short run

- Levied on an easily observable, immovable asset

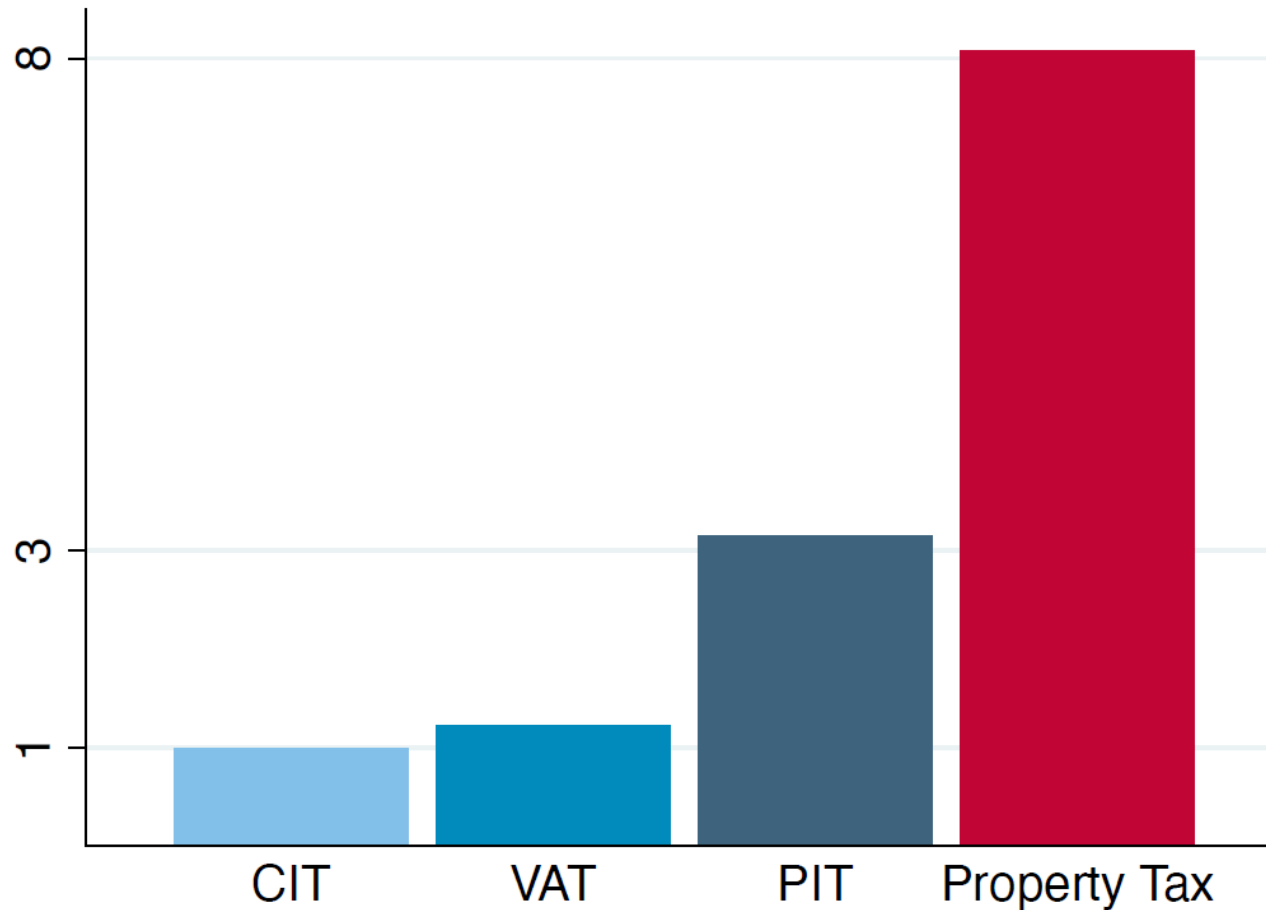
Desirable from a distributional perspective

- A form of a wealth tax, can be a useful supplement in a context of weak income tax capacity

Often most important source of local revenue

- Closely tied to provision of local public goods

Ratio of Tax Revenue to GDP in High vs Low Income Countries



Can Property Tax Revenue be Increased?

If so, what is the right policy instrument to use?

Tax rate changes

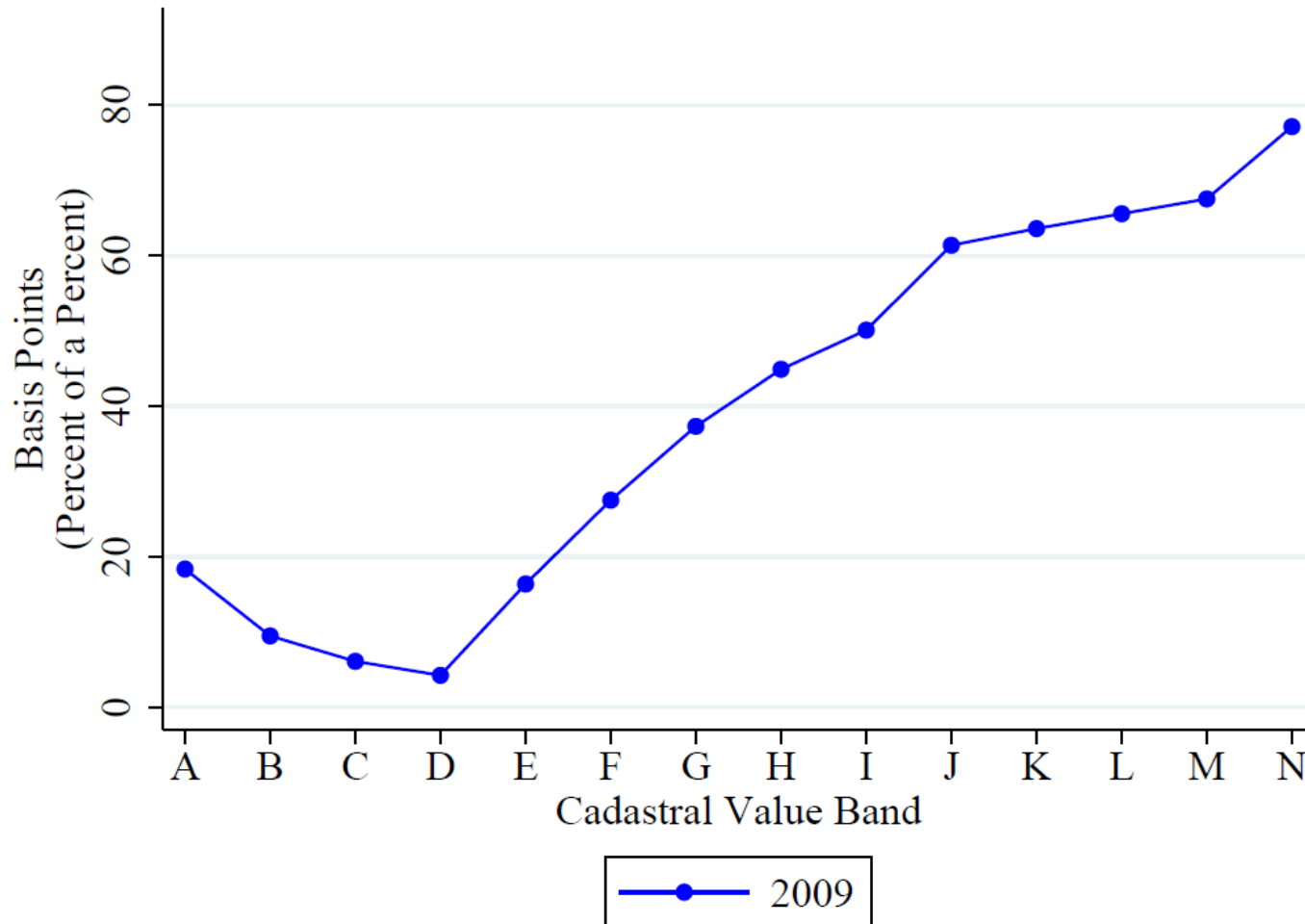
- May inflict a welfare cost on households suffering from liquidity constraints

Tax enforcement

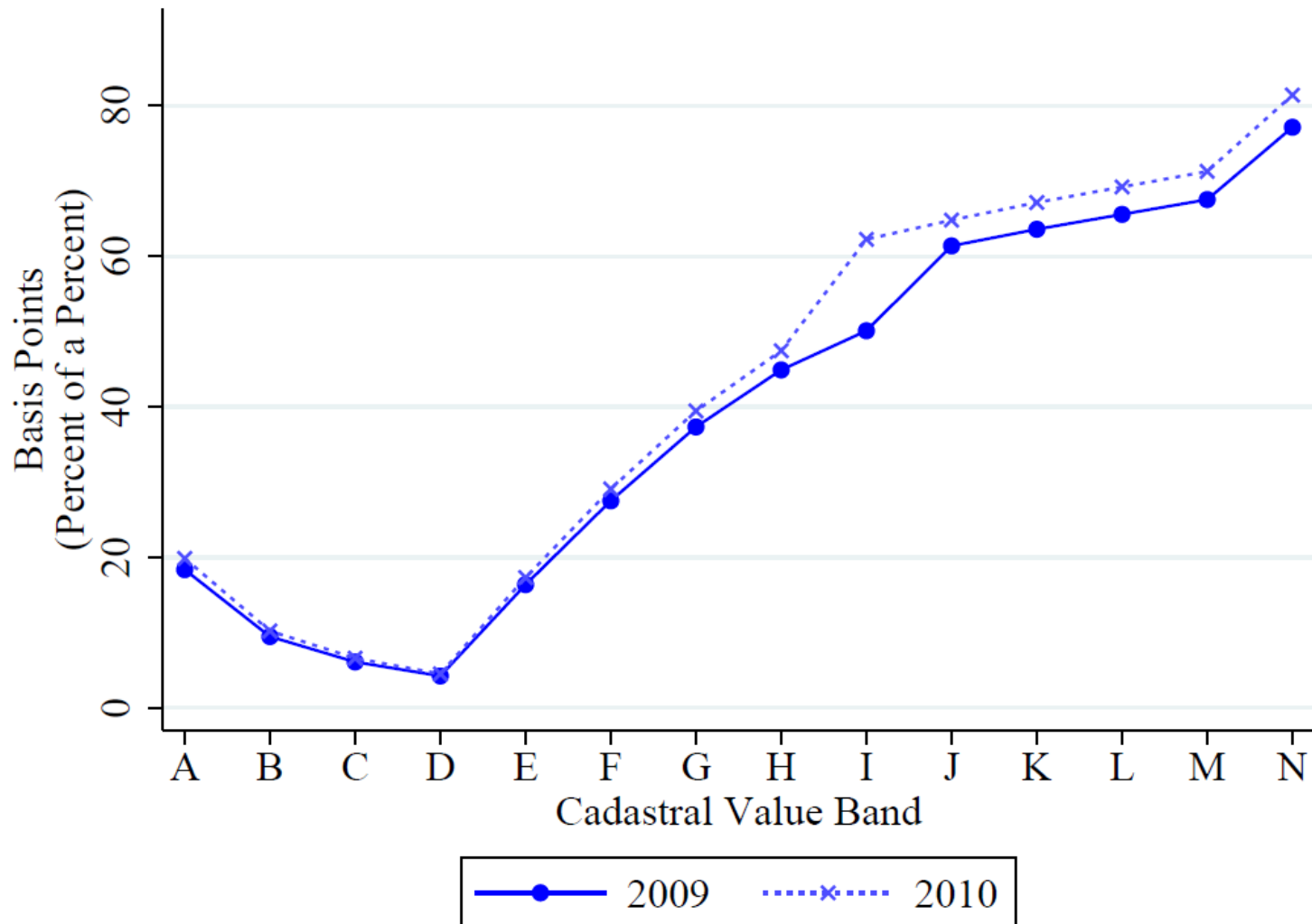
- May inflict a welfare cost (moral cost) on households unable to pay the tax

Evidence based on Brockmeyer, Estefan, Ramirez, Suárez Serrato 2021: Taxing Property in Developing Countries – Theory and Evidence from Mexico

Mexico's Property Tax Schedule

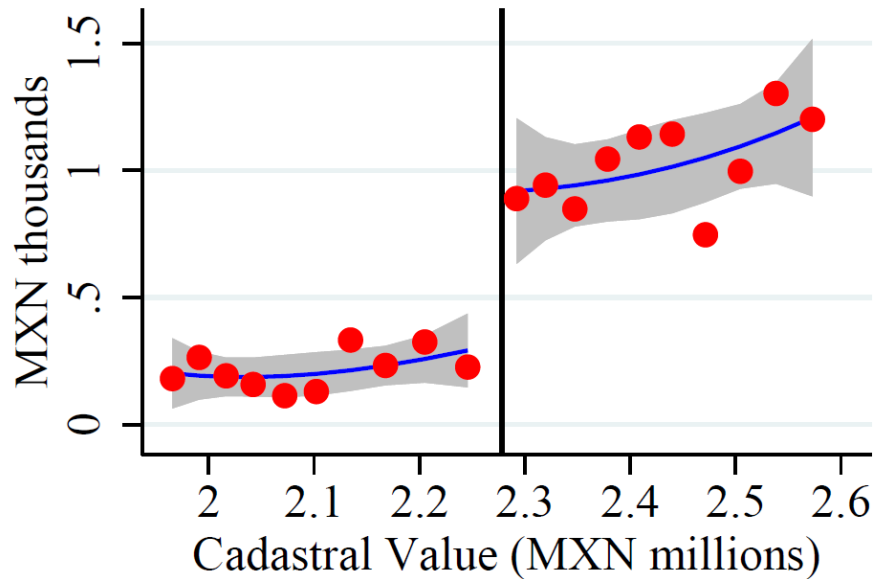


Mexico's Property Tax Schedule



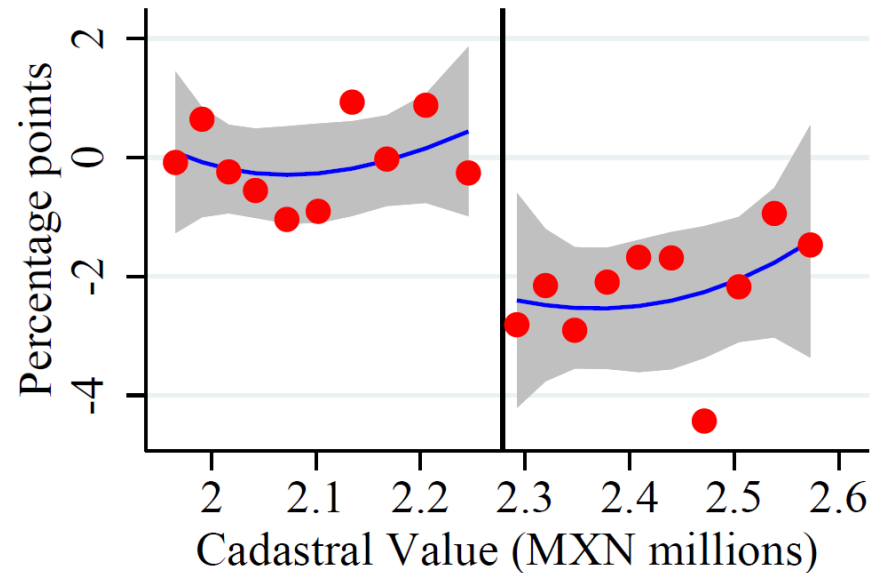
The Effect of a Tax Rate Increase on Tax Payment and Compliance

A: Tax Payment



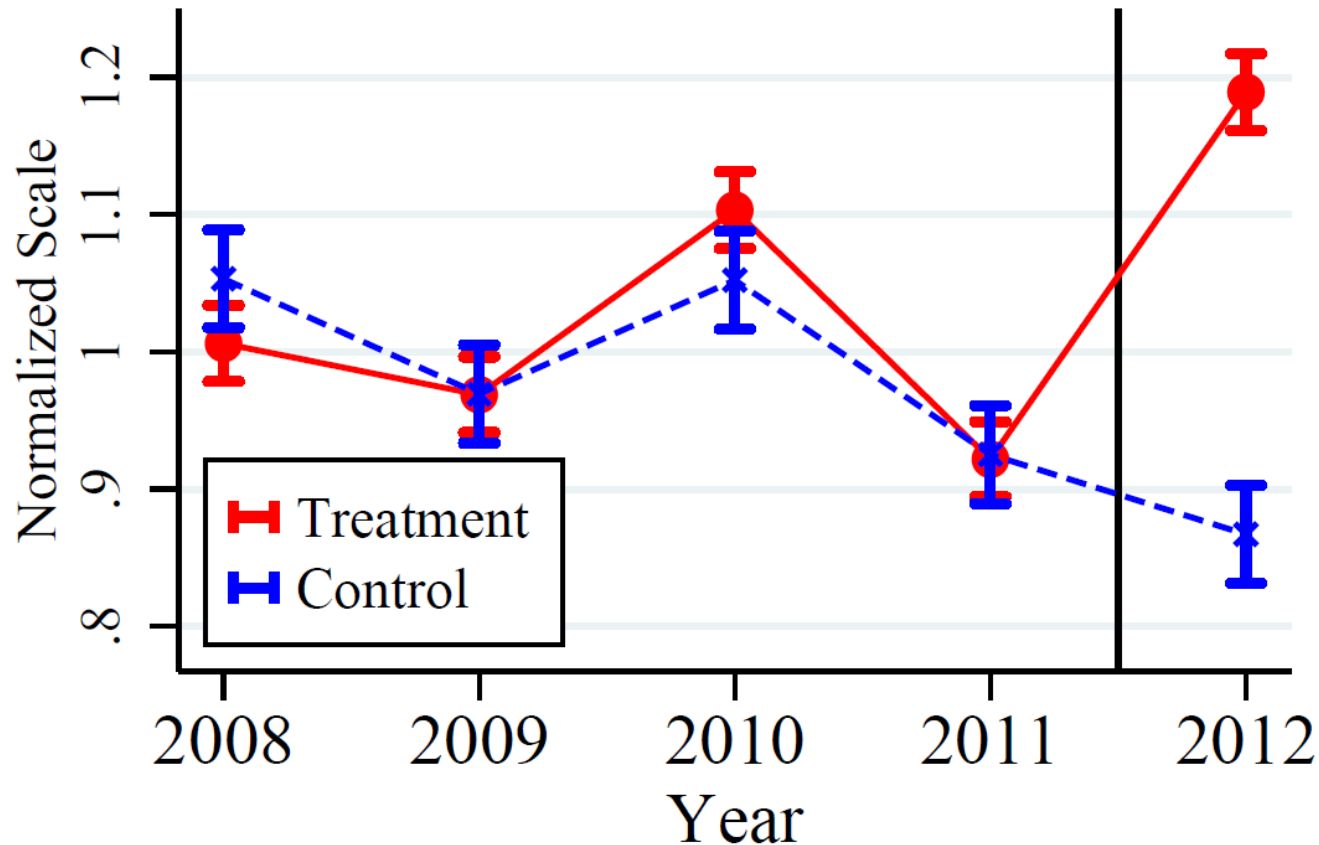
RD = 0.584 (0.240), N=17864 properties

B: Compliance Share



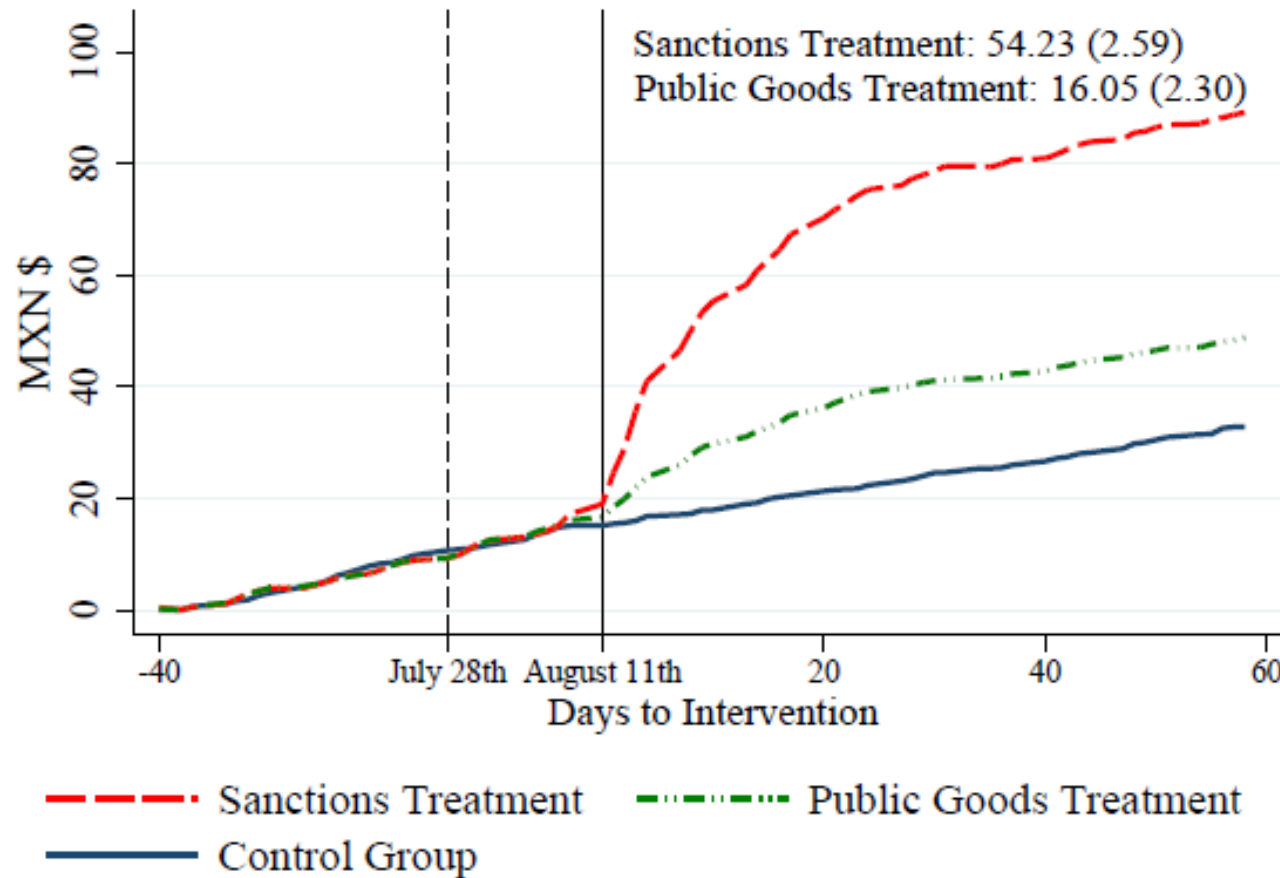
RD = -3.208 (2.043), N=17864 properties

The Effect of a Tax Rate Increase on Paying in Installment




DD = 0.322 (0.018), N=9393 properties per year

The Effect of Enforcement



Policy Implications

Both tax rate increase and enforcement raise revenue

- Tax rate increases raise orders of magnitude more than enforcement
- Tax rate hikes in Mexico City over 2009-2012 lead to ~36% in revenue

Both generate welfare costs

- Via liquidity constraints and moral cost

Comparing revenue gains and welfare costs suggests that tax rate increases are the better policy tool!



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