

## The role of property taxes in the financing of local government: Case of Turkey

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### Abstract

Central governments canalize to decentralized organization for compensate public demands faster, high quality and efficiency in globalization process. Local governments take effectively charge in distribution of income, education, health, housing on local basis which are parts of public policy and increasing the welfare level of the citizens of their municipality with their own facilities. The most important mission is incumbent to municipalities which is local governments' type, in decentralized organization. Municipalities have two types incoming source; one of them from central governments sources the other one is internal revenue. This study aims to give information about municipalities which are at the forefront among local governments and property tax which is one of income sources municipalities. In this sense, law no. 5393 which was accepted on the 3rd of July, 2007 was studied in the frame of property tax and information about the phases of municipalities from the foundation up to now and their financial structure was given.

Keywords: property tax, local government, decentralization, budget.

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## 1. Introduction

In the most general definition, local administrations are the administration units which are generated by the members of community living together in a certain geographic place like a village or a town in order to get the common services which they need most. The units are defined as public corporate entities who are organized to carry out the common services, chosen by local unity and have duties and authorities adjusted by laws, special income, budget, staff and can departure autonomously in its relationship with central administration. Universal qualities are very important which are also approved by Turkey and take part in the documents of United Nations, Europe Council and IULA in terms of determining the relationship between local administrations and central government. In fact, according to these documents, the local administration is an institution in the integrity of the administration system of the country and the establishing principles, duties and authorities, income systems of local administrations are defined by legislative power. On the other hand, although local unities are not under hierarchical control of the central administration defines national goals, targets, principals and standards which local unities should obey in order to provide integrity and unity in the administration of the country. Also, local unities can't act against the rules and judgements of central administrations which are applied to whole country. Central government can decide on the type, kind, authorities and way of administration of local administration unilaterally as it wants. These institutions are allowed to respond local demands and needs within the framework by central government. As it is seen, the local administration is a part of public administration device and central government can change the whole role and functions of these institutions with their policies for local administrations. Local administrations has three functions which are the basic three functions of public finance; providing the economic stability, distribution of income and providing the public services. Local administrations has an active role in providing basic social policy such as income distribution, education, health, dwelling which is a part of local administrations public policy and undertaken by government and enhancing the welfare of the citizens in their own unit.

In this study, the aim is to give information about property tax which is one of the source of income of municipality which is important among the local administrations.

## 2. A General View To Property Tax

Property is used to express the assets which consists of building, land and terrain in folk speech (Aksoy, 1982). Property tax is the oldest tax among the taxes which is taken through wealth and is applied in almost all of the countries (Maliye Dergisi, 2010). It has a qualification that indicates the ability to pay tax of individuals and excise the immovable wealth factors such as building and terrain. Nowadays, property taxes are collected through declaration base, till 1970's it has been collected through value of immovable properties or gross income. Property tax was among the general budget income in between 1972-1985. In 1986, collection and income of property tax was belonged to local administrations completely (Nadaroglu, 1996). There are two basic reasons of letting the local administrations have the property tax. First of these is that tax subject is localized in local boundaries, second is that it has an important role place among the factors which effect the value of property in municipality services (Nadaroglu, 2001). The reasons of collecting property tax have resemblance to wealth tax's. Because property tax is one of the most important parts of wealth tax. In other words, the reason of existence of this tax is ability to pay base or the principal pf utilization. But the real reason of existence of property tax should be based upon the idea of providing income or being a common tax. Building or terrain are no longer indicators of ability to pay and in addition to this principal of utilizatiin has lost its currency. Because property tax has been habitual for a long time, and it is both real and local quality, there is no need for more reason. Also as it is known, because there is no other basic tax source of local administration, other taxes such as local income tax, general or specific consumption taxes are difficult to be applied because of different reasons, it is suitable for

local administrations to apply limited tax (Mutluer, 2007). Briefly we can say that the reason of collecting property tax is that it is a habitual tax and it provides income.

Under the date of, 11.08.1970 promulgated, in the framework of 1319 numbered law, property tax collected by municipalities has become suitable for the conditions of today with a lot of arrangements. Some of these arrangements, with numbered 5393 municipality law try to make optimization by ending the paying share from the property tax collected by municipalities to the metropolitan municipality and provincial special administration (Turkoglu, 2009:107). In the previous applications, municipalities had to reserve the %15 of whole income of property tax collected for provincial special administration, %20 of the rest %85 share, if it is possible, had to be reserved for metropolitan municipality. Municipalities could reserve only %68 of taxes collected for themselves. The application of giving declaration every four years to pay the tax has been taken off since 2002. The tax which is calculated every year is paid in 2 equal installments until the end of May and November. According to 29th item of property tax law, minimum unit values are determined in accordance with the value of the tax.

### **3. The Features Of Property Tax**

Property tax is a kind of tax which has different features from other taxes. In this context, property tax has a different way of imposition and establishment. To make an evaluation without understanding the features of this difference leads to misunderstandings and debates in the implementation phase (Çomaklı, 2007).

Property tax is a special wealth tax which is collected through real or legal individuals' buildings and terrains (Aksoy, 1998). This tax is a real and gross wealth tax. While collecting property tax which is paid because of having building or terrain, it is not important that there is debt because of immovable property or not (Nadaroglu, 1996). So, property tax is a gross tax. Because the conditions of real or legal individuals are not considered while calculating the property tax, it is an objective tax (Aksoy, 1998).

Wealth taxes are categorized under 2 groups according to wideness of extent of wealth facts; general wealth taxes, specific wealth taxes. While general wealth taxes aim to collect taxes through individuals' whole wealth, specific wealth taxes aim to collect taxes through only some wealth factors (Pehlivan, 2005). Specific wealth taxes aim to collect taxes through realty such as building, terrain, land.

Wealth taxes which are collected in regular intervals every year are perpetual wealth taxes. Wealth taxes collected through wealth factors for once are temporary wealth taxes (Erdem, Şenyüz, Tatlıoğlu, 2003). If the tax taken through the wealth can be paid with the income of the wealth, it is a nominal wealth tax (Pehlivan, 2005). But if it can't be paid with the income of the wealth, it is a real wealth tax (Nadaroglu, 1996). We can summarize the features of property tax as perpetual, ordinary, nominal and specific wealth tax.

#### **3.1. Building Tax**

The concept of building related to real estate tax law means the whole of constructions and buildings either on land or in the air regardless of the item which is important in the building process. Also, according to Tax Law, building complements stated in law have been evaluated with building (Emlak Vergisi Kanunu, 1970: madde 2).

### 3.1.1. The Subject of Building Tax

The subject of building tax is formed by buildings within the boundaries of Turkey (EVK, 1970: madde 1) so, taxpayer's will pay tax only their buildings in Turkey. In other words, their buildings which are abroad don't fall under this tax (Aslan, 2001: 194). At the same time, incomplete buildings under construction aren't evaluated as a building. It is important the building is regulatory compliance or not in terms of tax. Incomplete buildings (flat or office) taken residence permit or certificate of occupancy have been evaluated as a building even they aren't actually used. The quality of materials used building process isn't important. The building can be made by Stone, iron, wood, beton or plastic. The difference of building materials don't effect to building's quality. But they effect to building's value. In point of usage, yards, gardens, coal cellars used on building process have been accepted as building site's complementary (Vergi Usul Hukuku, 1961: madde 39).

According to property law, independent sections of the buildings which have property law have been accepted as a independent building (Senyuz, 2005).

Table 1. Rates of Building Tax

Rate Of Structure	Quality Of Building	The Place Of Building	The Position of Taxpayer	Rate (Thousand)
Normal	Housing	-	-	1
	Non-Domestic	-	-	2
Incremental	Housing	Borders of Metropolis and their urban area	-	2
	Non-domestic	Borders of Metropolis and Their Urban Area	-	4
Reduced		-	People who haven't got any incomes	0
	Housing (Residence only one more than 200m <sup>2</sup> )	-	People who take incomes only social security institution	0
		-	People who are veterans, widows and orphans of martyr.	0

Source: <http://www.ivdb.gov.tr/pratik/oranlar/emlakverorn.htm>

The right of determination which one will be accepted as a land within not parcelled area that is within the border or out of city is given to cabinet officers. This right is used by cabinet officers with judgement 83/6122 and first item that exhibits a piece of land accepted as a land (Senyuz, 2005: 320).

Even though the name of land tax is differently mentioned in law, the concept of land is used including the concept of building plot. In this study, we'll express in the form of only one concept.

### 3.2.2. The Subject of Land Tax

Lands and building plots within the border of Turkey form the subject of land tax. As above, parcelled lands by city are accepted as building plot. Lands evaluated within the border of urban area out of municipal boundaries are a subject of land tax (Tortop, 1996: 138).

Who will be taxpayer of land tax is said within the frame of EVK. m.13 and according to this, land's owner or benefical owner if there aren't both of them, saver as if land's owner will pay the tax.

In the case of coownership, land's owner'll be taxpayer according to their share percentage. In coownership (collective) taxpayers are severally responsible. In coownership, each person'll individualistically give the land tax according to their share percentage and each taxpayer's assasment'll levy according to this.

Because of land gained income tax exemption,obligation finishes the instalment which follows the date occuring this event.The tax of restricted saving land hasn't been taken in the process that begins the instalment following prohobition date.The taxes of burning or broken building lands because of natural disaster haven't taken for two years which began after occuring this event (Tortop, 1996:141).

Tax assessment's rules related to land tax are stated (EVK, 1970: madde 17 ). Determination of related land's value according to these law enforcement are accepted as a tax assesment of land tax.In a word,tax assesment of land tax is tax value of located land or building plot.While agricultural land's tax value determines the possibility of land's yield beside land's buying and selling rate (Aslan, 2001: 204).

Land tax's rate is one per thousand while building plot's rate is three per thousand. These rates are applied increasing %100 within the borders of metropolis and their neighbouring applied the law no.5216.Cabinet officers can reduce by half the tax rate or increase threefold it (EVK, 1970: madde 18).

According to rules related to determination minimum unit value for land and building pilot and Tax Law, appreciated rate is calculated with not subdivide plot accepted each street for lands, different sections in term of street or value for village, land's type for each city or town.

Calculated tax value as building tax is found that starting the following year and increasing one half assessment rate each year as to previous year (Şenyuz, 2005).

That is simple that is tax's value relating to land and building plot. Coming event is multiplying land's or building plot's square measure to square meter unit value appreciated by valuation commision or increasing by half following years as to previous year.

Table 2. Building Plots' and Land's Rates

Rate Structure	Quality Of Land	The Place Of Land	Rates (Thousand)
Normal	Land	-	1
	Building Plot	-	3
Incremental	Land	Borders Of Metropolis and Their Urban Area	2
	Building Plot	Borders Of Metropolis and Their Urban Area	6

Source: Developed by authors.

Cabinet officers are authorized for the numbers above reducing by half or tripling.

#### 4. Conclusion

Although land tax has been applied in many countries for centruies,it is a new application for Turkey. In 1972,Vbuilding and building plot taxes are converted to land tax and they are given to centralized administration with the date of 1985 and the law no 1239. They have been totally given to local administration since 1986. So land tax is cnverted to local tax.

The best kind of tax is land tax assigned to local administration as a utility tax. Because landlors can directly utilize many of services presented local administration. The rate of land tax within the rates of total incomes is important and stable income source in some OECD countries. And this rate is higher than in Turkey. But land taxes can't be stable and rich income source and realistic in Turkey. Cities haven't a right to determine application of tax assessment, rates, exemption and exception. So, the tax given to cities bothers financially and application of law. This source isn't utilized effectively especially some small cities that are close link to voters.

To achieve productivity in land tax :

1. Cities within the frame of dependency on legal regulations have to increase rates of collected taxes, charges' and expenses' income.

2. Cities' tax income and expenses' amount hasn't been updated from 2015 to our days. The minor change of income growth provides to cities when they pay attention to tax attention.

3. Unrecordeds should be precluded on tax.

4. The laws should be applied to collecting tax claimant and there isn't vote concern.

5. Citizenship consciousness should be increase.

6. Goods and services generated income should be used effectively on production and distribution.

7. Land development should be make in an effective way.

8. The lands shouldn't be buy before town plannings which provide to sell higher price.

There are requirements both on the side of income and expenses to provide increasing of income and absorption of expenses appeared with the social development and cities' population growth. When we take a consider that public finance's income and expense are inseparable. Also, if the incomes aren't enough ,the important step should be that expenses' situation comes under review before the solution of increasing of income sources is asserted.We make an effort to balance of income and expenses with determination order of priority of services, localpublic's decision and application of source methods also not financially border to local public. After this point, increasing of income amount is compulsory, the suggestions stated increasing of present income should be emphasise. When, these aren't enough, central administration should give new revenue items to cities as above.

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