

Land value tax in Estonia

Sustainable land policy through taxation?

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Land Governance & Taxation

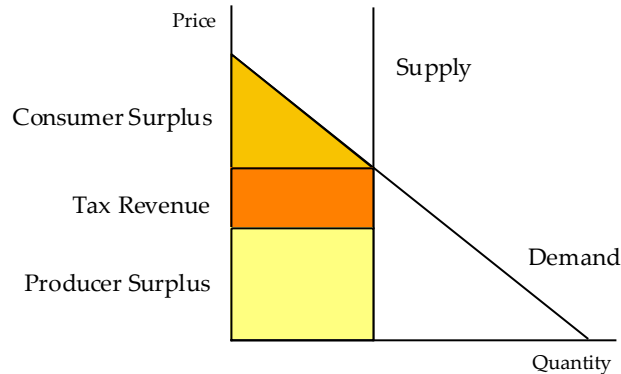
- In most countries: „Property Tax“, determined (partly) by size / value of buildings
- Alternative: “Land Value Tax” (LVT), levied only on the plot value

Why tax real estate / land?

- Evasion near impossible -> stable income resource
- Buoyancy
- Typically local taxes that function like public service contributions
- Typically a progressive tax

LVT: General Advantages

- Non-distortionary to the market equilibrium
- Land is different from other goods: exclusion of others from use infeasible

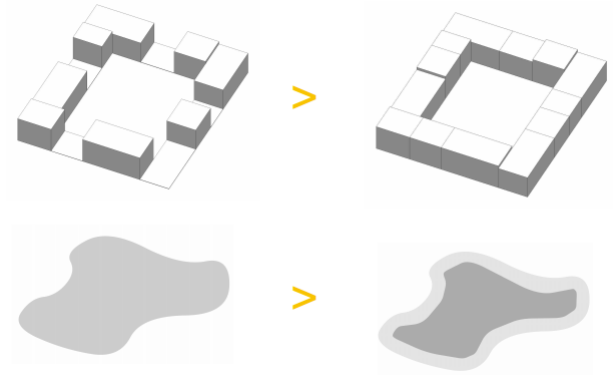


Urban Planning – Goals

- Density / Reduction of ‘Sprawl’
- Minimise Land Consumption
- Brownfield Redevelopment
- Plan realisation

LVT: Planning Advantages

- Encourages Landowners to maximise the use of their land (within the scope of planning regulations) - Cho et al. (2013)
- Captures Land Value Rises induced by public investments



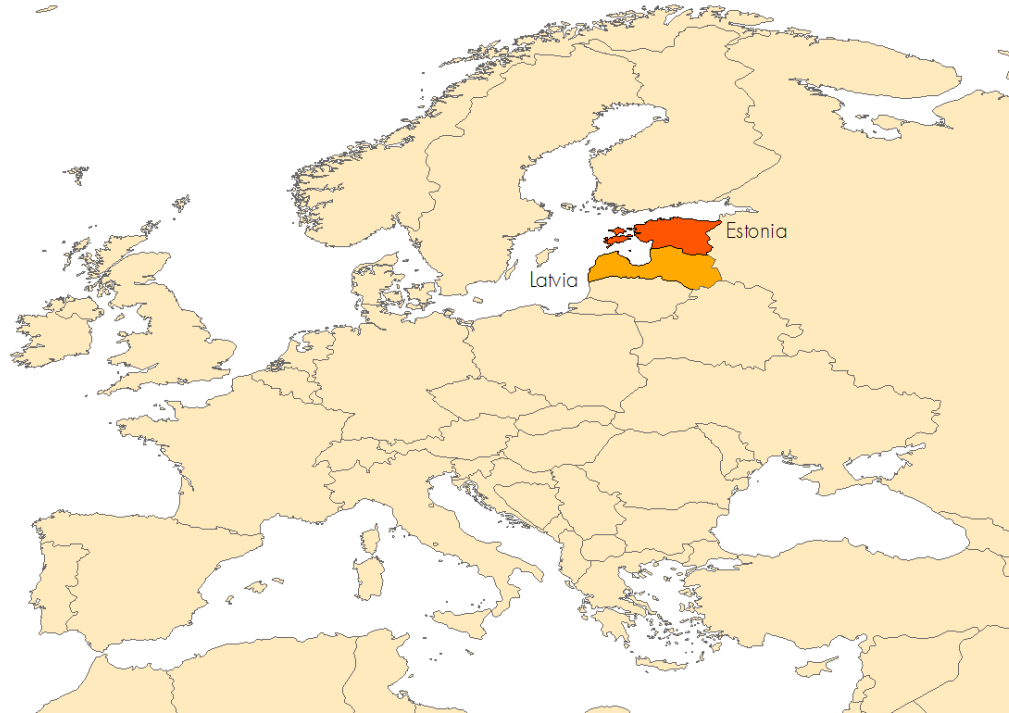
LVT: Requirements

- Land register
- Independent valuation board
- Regular assessments

LVT: Criticism

- Fair Valuation
- „High Asset Low Income“ Problem
- Spurs Gentrification?
- Leads to premature development and in turn lower density - Lim (1992)
- Larger homes – offset the densifying effect? - Song and Zenou (2006)

Case Study: Estonia



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LVT in Estonia

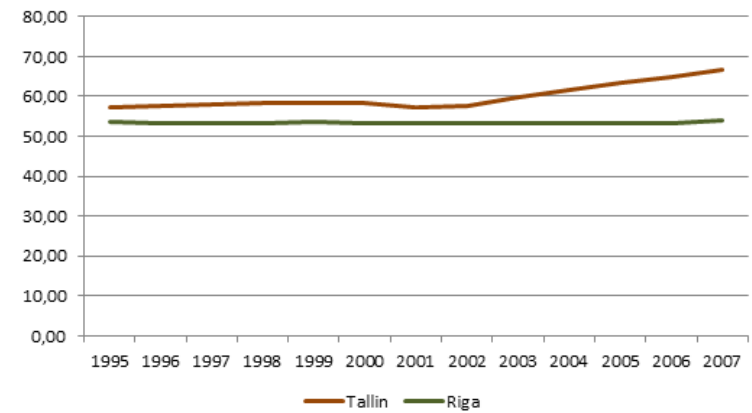
- Municipalities can set rate: Between 0,1-2,5% of assessed plot value, also differing according to use classes
- Plot values are assessed by National Land Board based on transaction database
- In the last years: Exemptions (e.g. Tallinn: Owner-occupiers <1500m²)

Methodology

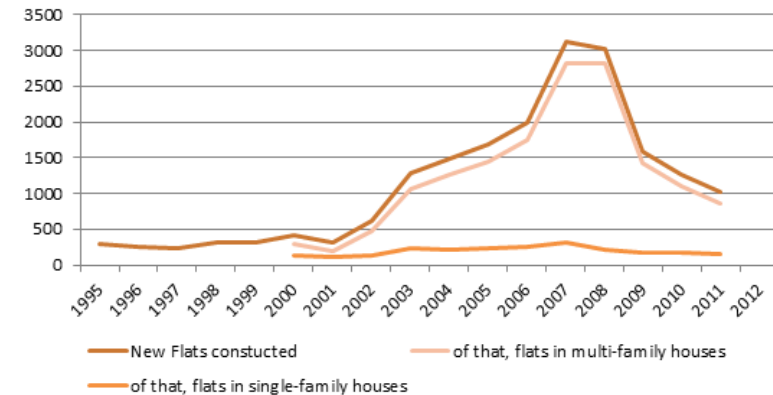
- Site visit
- Literature review, Interviews
- Quantitative analysis: Comparison Riga-Tallinn

Results I

- “Instead of the outward sprawl of detached houses over time, we see in-fills of vacant lands around Tallinn, and the growth of dwellings into heights” (Tammamaru et al., 2009, p. 431).



Total floor space in residential buildings per km²



New construction in Tallinn by type

Results II

- Sprawl occurred despite LVT
- Non-built up land sometimes yields higher revenue



Results III

- Mixed
- Problem: Clear distinction of influences