

BUSI 443: REAL PROPERTY ASSESSMENT

Answer Guide No. 1

CHAPTER 1: The Ad Valorem Tax System

Marks: 1 mark per question.

1. Answer: 1
The tax proposed by the Mayor is similar to a poll tax. Option (1) is the correct answer, as difficulty in valuing land is associated with a land value tax, not a poll tax. A poll tax is a regressive tax that creates evasion and enforcement difficulties. Because people are mobile, it is usually difficult and expensive to register people for the tax.

2. Answer: 3
Option (3) is a false statement because with the incentive effect a tax on land will NOT affect the quantity of land supplied. This is due to the fact that the supply of land is fixed or inelastic.

3. Answer: 3
Proposition 13 has created several problems in the state of California including: a system that discriminates against growing families; incentives to conduct property transactions under the table; and appraisal, valuation, appeal, and administration functions have become more complex, with errors in inventory gathering and administration. Option (3) outlines the intent of the Proposition 13 legislation, rather than a direct problem resulting from it.

4. Answer: 3
Statement C is the only true statement. Statement A is false, because central control of assessment promotes uniformity of administrative procedures. Statement B is false, because Denmark is well noted for its extensive integrated tax system. Statement D is incorrect, as property tax in Canada is administered locally by municipal governments.

5. Answer: 1
Option (1) is the correct answer. The pure income tax is a progressive tax because tax rates increase as income increases. Option (2), the Goods and Services Tax (GST), is a sales tax in Canada. Sales taxes in general are often argued to be regressive because those with lower incomes spend a larger proportion of their income on consumption. Option (3), a poll tax, is not based on income, but rather a charge on everyone (i.e., the poorer you are, the bigger proportion of your income is going to the tax, compared to a rich person). Option (4) is the definition of a regressive tax.

6. Answer: 2
The "Old View" regarding the regressiveness and progressiveness of tax divides property tax into two categories: land and improvements (structures). Because structures are investment decisions, the property tax that falls on the structure can be shifted to the price of the consumer goods and services that are provided by the structures. Assuming that land is fixed in supply, property taxes that fall on land must be borne by landowners, because they cannot alter the quantity of land supplied and thus pass the tax onto consumers. Option (2) is an assumption of the "New View" of property tax incidence.

7. Answer: 4
Statement D refers to the benefits received principle -- property taxes are justified because the services of local government accrue directly to property, such as roads, sewers, and fire protection. Statement A and B both refer to the principle of ability to pay. Statement C is false because contemporary theory on property tax incidence shows that renters also pay a share of property tax through their rent, and thus the benefits received principle can be used to justify using property taxes to pay for "people-related" services.
8. Answer: 4
All statements are correct.
9. Answer: 1
The scenario violates the accountability principle, which says that tax burdens should not be exported.
10. Answer: 4
Leigh should focus on all of the principles listed. Administration, accountability, neutrality, fairness (including horizontal and vertical equity), and a stable tax base are all important criteria that would exist in a good property taxation system.
-
- 10 Total Marks