

OECD Working Papers on Fiscal Federalism

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ISSN: 22265848 (online) | <https://doi.org/10.1787/22265848>

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The Political Economy of Property Tax Reform

Property taxes are generally considered by economists to be good taxes, and many countries are being advised to increase and improve their property taxes. In practice, however, property tax reforms have often proved to be difficult to carry out successfully. This paper discusses why property taxes are particularly challenging to reform and suggests several ways in which efforts to reform this tax may become more successful in the future. After a brief introductory section on the 'disconnect' between the economics and the politics of property tax reform, Section 2 summarizes recent experiences in five OECD countries with property tax reform. Against this background, Section 3 sets out the key elements of a good property tax reform and Section 4 discusses several aspects of property tax reform that seem to have derailed or distorted reforms in practice. Unfortunately, some of the solutions countries have adopted to deal with such problems are themselves problematic, either because they do not really solve the problem or because they hamper rather than work towards the establishment of a good property tax. Fortunately, as Section 5 outlines, it is possible to devise strategies for property tax reform that incorporate more acceptable solutions to most problems. As Section 6 concludes, good property tax reform is not easy. But it can definitely be achieved if an appropriately designed reform package is properly introduced and implemented.

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Keywords: property tax, tax reform, political economy

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09 Apr 2014

36 **pages**

No. 18

<https://doi.org/10.1787/5jz5pzvzv6r7-en>