FINIS·CORONAT·OPVS

# WHITE PAPER

Ministry of Finance, Trade and Economic Planning

# FOREIGN-OWNED PROPERTY TAX

*White Papers communicate a decided Government policy or approach on a particular issue. They are chiefly intended as statements of Government policy.*

The Ministry of Finance, Trade and Economic Planning is proposing the following policy for the implementation of Property Tax on foreign owned properties in Seychelles. This document will be used for consultation with stakeholders before finalisation. There will be a series of consultation meeting which will be communicated to the public in due course.

## 1. INTRODUCTION

Following this brief introduction, the next part of this paper sets out briefly the rationale for taxing property, both as a source of Government revenue and in terms of its effects on influencing the land market; the tax base; scope; rate; valuation method; institutional arrangements and the timeline for its implementation.

Taxes on property have both fiscal and non-fiscal effects. The revenue such taxes produce is often seen as an important source of finance for Governments. The extent to which those Governments have control over property taxes is thus often an important determinant of the extent to which they are able to make autonomous expenditure decisions. The level, design, and control of property taxation are thus, in many countries, critical elements in effective decentralisation policy.

Currently, the Government of Seychelles taxes land in the form of the Stamp Duty at a rate of 5% of the total value of the land sold. Pursuant to the Immovable Property (Transfer Restriction) Act, non-Seychellois may purchase land after having first obtained the sanction from the Minister and is liable to pay:

- Sanction processing fee of 1.5% of the consideration amount;
- Stamp duty of 5% of the consideration amount; and
- Sanction fee of 11% of the consideration amount

## 2. OBJECTIVE OF THE FOREIGN-OWNED PROPERTY TAX

The objective of the foreign-owned property tax can be deduced to be two-fold.

i. <u>To influence the land market</u>

   This will address the perceived problem of alienation of land owned by nationals to non-nationals. If it has any market impacts, these are likely to depress "base price" downwards.

ii. <u>To increase tax revenue</u>

   This will open a new revenue source in order to increase total tax yield which will vary substantially according to the scope and coverage of the tax. The assumption made is that revenues from foreign-owned property tax would not be offset by decreases in other sources.

## 3. PROPERTY TAX BASIS

<u>Value based</u>

Value-based option utilises methods and techniques that rely on market transactions to inform the value of property. Value base option can be further categorised into "**Capital value**" which is the structure of the value based option for the property tax system.

**Capital value**

**Capital improved value** (i.e., the collective value of land and any improvements—generally buildings—affixed to the land, i.e., total value). In jurisdictions where the capital property market is well-developed and the property valuers' profession is functioning adequately, the capital improved value is the preferred system. The system adapts in situations where the owner of the land is also the owner of any improvements on the land, it would be conceptually difficult to determine separate values for the "land component" and the "building component". In such an environment land and buildings cannot be alienated or acquired separately and therefore there is only one single value. The property is perceived as a whole and therefore taxed with reference to the totality of its value. This option is also in line with international trends. Therefore, this should be the focus of attention for the Government.

| **Basis of property tax** | **Potential Applicability** | **Comments** |
|---|---|---|
| Capital Improved Value | Yes | There are sufficient sales evident for residential property which is justified through issuance of stamp duty and sanction fees which is based on capital value. |

**Proposal: To tax Capital improved value (i.e. land and improvement)**

## 4. SCOPE OF PROPERTY TAX

Scope of Property Tax define the target group in which the tax would be applicable. There are essentially four options that could be considered and they are:

i. Foreign owned residential property only;
ii. Foreign company-owned properties only;
iii. All foreign owned residential and company-owned properties;
iv. All foreign owned residential, company-owned and leased properties

Consideration must be made before establishing the scope and breadth of the tax base. For example, if partially owned foreign companies are to be taxed, due consideration must be given on what percentage of foreign ownership would trigger tax liability. In order to avoid complexity and the ability to manipulate the system it is proposed that any level of foreign ownership would be sufficient.

With respect to leased property it will be important to clearly specify the length of lease that would create liability. For example, property held on long leases such as greater than for example 21 years could be considered as 'owned' by the leaseholder and fall under the tax.

**Proposal: It is therefore being proposed that all foreign owned residential, company-owned and leased properties above 25 years are subject to the Foreign-owned property tax.**

## 5. TAX RATE

The structure of the tax must also be considered, on whether to apply a flat tax rate across the board for all properties or to apply differential tax rates where different property sectors will have different rates.

It is important to note that the basis of the Foreign-owned Property Tax according to international norms tends to vary between 0.2 per cent and 1 per cent of total capital value.

**Proposal: It is being proposed that the initial tax rate is set to 0.25%.**

## 6. VALUATION APPROACH

There are two approaches to valuation of property for the purposes of Property Tax in Seychelles:

a. Self-declaration

Self-declaration is reliant on the owner of the taxable property in declaring in the prescribed manner the open market value of their property. To support their valuation documentary evidence should be provided such as:

- recent valuation and
- if purchased within the last 2 years evidence of the purchase price;

Self-declaration of property data is a way to broaden the tax base and keep data up-to-date. The concept of self-declaration has two components; firstly, the declaration of the property ownership along with some basic property related data; and secondly a declaration of the value of the property.

Self-declaration of property data is not by itself an issue and is widely used in countries with mature value-based property tax systems (Kenya, Namibia and South Africa). Each taxpayer is compelled by law to periodically (for e.g., annually) declare the extent of his/her property to the tax administration (for e.g., Cape Verde and Madagascar).

If the owners of commercial property in particular have to declare their property values, the values should be prepared by professional valuers or other recognized professional bodies such as accountants. Many high value properties are regularly valued for accounting purposes. As land registration is becoming more comprehensive, authorities have good information on properties and are therefore better enabled to perform an audit function.

Other advantages of this option would include:

- The removal, to a large extent, of objections and appeals by owners although the tax administration can object to the taxpayer's declared value;
- A feasible method for the rapid identification of foreign owned properties and values in an environment where this information would be extremely difficult to generate; and
- Cost effective administration.

There are a number of disadvantages of self-declaration, including:

- Ensuring that all owners have in fact declared the value of the property. To address this the authorities should have a detailed list of properties that they believe are foreign owned. Follow-ups can be made to address compliance. If no declaration is made the authorities can assess the property with the owner having no right of appeal; and
- A robust quality audit of the declared values should be undertaken to indicate the level of values declared. Significant under-declaration if proven could result in penalties.

b. National Land Valuation Board (NLVB)

It is very common to have the central government valuation department to undertake the valuations of all taxable properties. Given the limitation in terms of professionally qualified valuers in Seychelles' government valuation department, the NLVB (comprising of private sector valuers which makes up the bulk of qualified valuers in the country) to vet and scrutinise declaration of land valuation. The government valuation department would act as the alternative valuer in the event that the verdict of the NLVB does not satisfy the property owner.

Having a Government valuation department has several administrative advantages including:

- Improves the chances that any economies of scale will be realized in terms of valuation skills and the eventual use of automated mass appraisal approaches;
- It also provides a single structure for dealing with all taxpayers throughout the country;
- It improves the chances that taxpayers will receive consistent and uniform treatment by the valuation department;
- It can be better equipped in terms of resources to better able to deal with specialized valuation activities such as resort properties and commercial enterprises.

A possible disadvantage of this option would be in being able to recruit suitably qualified valuation staff. There is usually competition from the private sector who normally have much better remuneration packages.

**Proposal: It is being proposed that a mix valuation approach is adopted- Self-declaration and that a National Land Valuation Board is established.**

## 7. INSTITUTONAL ARRANGEMENTS

Successful administration of the property tax requires the collaboration and co-operation of several ministries and departments. In the context of the Seychelles this will require;

i. Ministry responsible for Finance for Property Tax policies

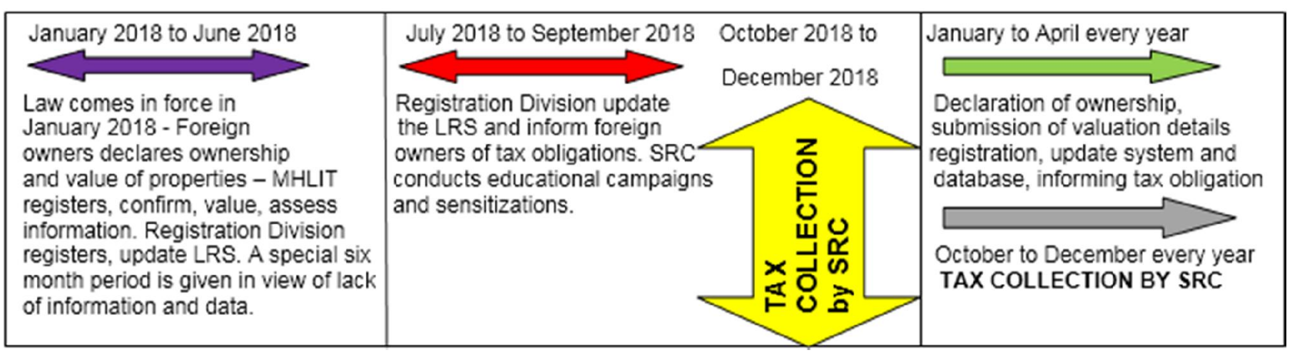
ii. Ministry responsible for Habitat for foreign ownership declaration, valuation and data storage of the GIS that is integrated with the Land Registration System;

iii. Registration Division – Land Registry and record keeping through management of land ownership and core data through a fully functioning existing Land Registry System

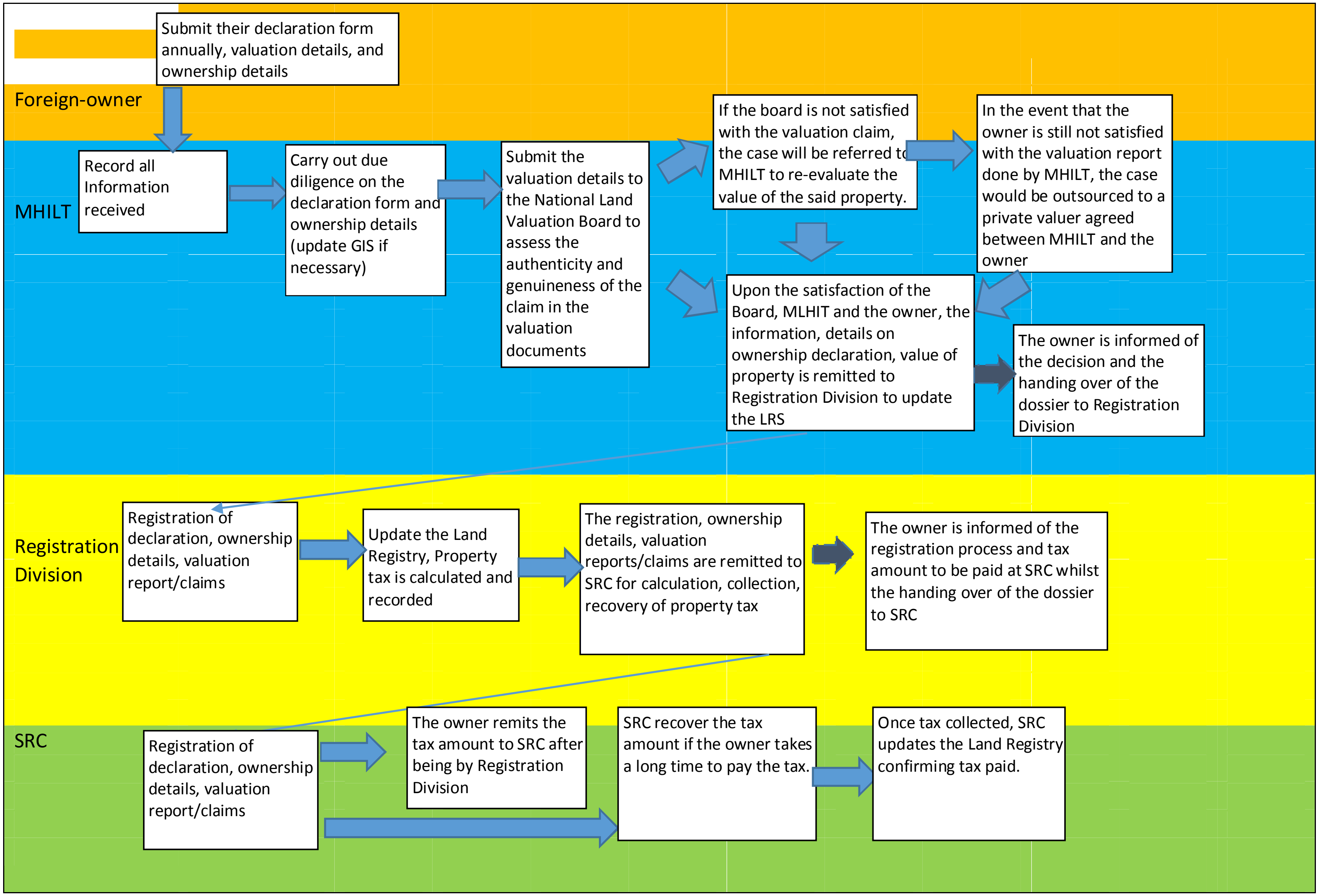
iv. Seychelles Revenue Commission to administer the billing, collection and recovery systems.

Annex 1 outlines a detailed flow chart of the process for the functioning of the property tax system.

## 8. IMPLEMENTATION TIMELINE



**ANNEX 1**



Foreign-owner
MHILT
Registration Division
SRC
Submit their declaration form annually, valuation details, and ownership details
Record all Information received
Carry out due diligence on the declaration form and ownership details (update GIS if necessary)
Submit the valuation details to the National Land Valuation Board to assess the authenticity and genuineness of the claim in the valuation documents
If the board is not satisfied with the valuation claim, the case will be referred to MHILT to re-evaluate the value of the said property.
In the event that the owner is still not satisfied with the valuation report done by MHILT, the case would be outsourced to a private valuer agreed between MHILT and the owner
Upon the satisfaction of the Board, MLHIT and the owner, the information, details on ownership declaration, value of property is remitted to Registration Division to update the LRS
The owner is informed of the decision and the handing over of the dossier to Registration Division
Registration of declaration, ownership details, valuation report/claims
Update the Land Registry, Property tax is calculated and recorded
The registration, ownership details, valuation reports/claims are remitted to SRC for calculation, collection, recovery of property tax
The owner is informed of the registration process and tax amount to be paid at SRC whilst the handing over of the dossier to SRC
Registration of declaration, ownership details, valuation report/claims
The owner remits the tax amount to SRC after being by Registration Division
SRC recover the tax amount if the owner takes a long time to pay the tax.
Once tax collected, SRC updates the Land Registry confirming tax paid.