Neapolis University

HEPHAESTUS Repository **http://hephaestus.nup.ac.cy**

School of Architecture, Land and Environmental Sciences Articles

2015

Theories and philosophy of property taxation

Dimopoulos, Thomas

http://hdl.handle.net/11728/6273

Downloaded from HEPHAESTUS Repository, Neapolis University institutional repository

THEORIES AND PHILOSOPHY OF PROPERTY TAXATION

By Thomas Dimopoulos

Lecturer (STS) in Real Estate, Department of Real Estate, Neapolis University Pafos, Cyprus; 00357 – 26843307, t.dimopoulos@nup.ac.cy

PhD candidate in Real Estate, Faculty of Engineering and Technology - Department of Civil Engineering and Geomatics, Cyprus University of Technology, P.O.Box 50329 – 3603, Lemesos, thomas.dimopoulos@cut.ac.cy

Founder & CEO of AXIA Chartered Surveyors ltd (www.axiavaluers.com), thomas@axiavaluers.com

ΤΕΥΧΟΣ Ν.79/2015

ISSN 1106-91-71

Library.panteion.gr/pandemos

KEY WORDS: Property Taxation, Aristotle, Politics, Philosophy, Possession

ABSTRACT:
Since its birth, property taxation has been a major source of revenue. Taxation in general, is an important conduit to generate revenue and also a tool to redistribute wealth. It can act as a tool to manage land use, urban density and expansion, speculations, economic cycles and transactions. Nowadays, property taxation is more important than ever, especially because a great number of countries are not able to finance their selves. Therefore, their first course of action is to establish new taxation measures (most of the times not affordable) on properties. This paper aims to examine the property taxation concept from a philosophical point of view. The writer is focusing on Aristotle’s work ‘Politics’ and others.

Why property tax is necessary?
According to Aristotle, property forms part of the household; consequently, the art of acquiring it, forms the basis of managing the household. Household is made up of freemen and slaves. He asserted that no person can live well, unless provided with necessities. Furthermore, basing on Aristotle, a person who owns property has psychological satisfaction, for it fulfills the human instinct for ownership and possession. Aristotle’s view was against communism ownership of property, for he argued that, property is significant to individuals producing it; as such, necessary to the entire society. This means, in order to acquire property, a person must have shelter, be clad and must eat. Property is not the same as wealth is a byproduct of wealth. One needs to have property to generate wealth. Aristotle affirms that the art of acquiring wealth is a

total distinct art from acquiring property. Wealth is a constituent of a household (Aristotle and Ellis, 2006, p 18).

According to his philosophical point of view, Aristotle regards the whole system of governance as a single entity entitled to oversee the existence of democracy and the rule of law. As a result, he advocates, for the elimination of sleaze in the system and adherence to democracy to ensure the ruled, and the poor gets the maximum out of the system. For this reason, Aristotle considers property as the focal point for ensuring the prevalence of both democracy and the rule of law in any state. This is achieved by ensuring there is equality in administration of power. The poor should not feel marginalized by the few rich or oppressed with heavy taxation burden. (Aristotle and Keyt, 1999, p 102). He exemplifies that as part of a household, property should have a manager within the circles of the state. Furthermore, Aristotle views property as a significant factor that has a lot of importance to the development of a state. This is also true to the modern societies and economies when trying to develop a sophisticated economic system.

According to Aristotle, taxes on private property have a lot of significance that prevails in the modern society. Such tax, contributes to the pool of a countries resources. Aristotle in his book, “Politika,” discusses the importance of a nation having enough resources. He holds the view that resource taps human creativity. It enables human beings to fulfill their potential for a virtuous life. More so, a nation with enough resources will efficiently espouse democracy, oligarchy, and whatever other good regime in existent. Resources will see to the flourishing of a state. He points out that the citizens together with those in power should create mechanism for replenishing a country’s wealth. Taxation is A such means. Taxation should be done through just means and should be for all. Taxation should apply to all who have property. This means that the class of people without property, such as slaves and women in ancient Greece, should not be subjected to taxation.

As mentioned above, a household comprises of free men and slaves. Slaves and women during Aristotle time were considered as property. In that time, property was essential to enable the men tap their full potential in the execution of their talents. It enables the citizens of Greece produce wealth (CCH State Tax Law Editors, 2007, p 7). This means that taxation should be based on wealth and not property. Property is a mechanism employed to get wealth. Unfortunately, not all people can get wealth, but majority are capable of owning a property that will generate wealth. The best model of taxation should be based on wealth and not property. However, there should also be some sort of sanction in place for those who fail to utilize the property capable of generating wealth. This sanction could be in form of a tax too, but the citizens need be informed of its nature. For instance, and owners who leave their land to lie idle should be fined, thorough taxes in order to encourage productive use of resources. This is a model that can be used in our world today, to minimize wastage of resources. Fair taxation will encourage a sense of economic equality and fairness that espouses for the existence of justice in the society. In the modern world, taxation should be applied in a manner, which the returns will benefit the citizens.

Furthermore, in his work "Politics", Aristotle explains what economy entails and the difference between politics and economy (Aristotle and Ellis, 2006, p 14). The household in Aristotle's context refers to a man and his property. Countries should subject the household to taxation. As a result, this will enable the country to sustain its economic activities and cater for the salaries of the civil servants. Through this means, the country will have equality; politicians will focus on politics while citizens will focus on building the economy through the acquiring of more properties to create wealth. Furthermore, if Aristotle's concept is applied in today's economies, there will be no mismanagement of state and private properties. Consequently, the collected revenues will be re-invested in diverse businesses and expand state resources for the benefit of compatriots.

Ancient philosophers like Juan de Marian and Aristotle argued that society existed way long before any known form of government in the world. Only after the formation of the society came the idea of creating power. Basing on the above facts, it is evident that the ruling class has a mandate to serve and benefit the society. As the two noted, the kingship of Alexander, Cyrus, and Caesar overtaxed properties, which resulted to a lot of robbery due to the faultiness of the system. As the guardians of power, the society should champion for the adoption of sophisticated taxation systems, which will eliminate the over taxation of property. Since property tax is the significant source of revenue for any country, the society should adhere to the payment of the tax. This will make the citizen have a voice in the running of the country and evaluate any non-performance of the system because feel that they have become involved in the ruling (Aristotle and Ellis, 2006, p 99).

Consequently, the property tax if applied the correct way it will eradicate any form of mismanagement of public properties in the democratic state (La Forest, 2006, p 175). In addition, if the society is in charge of paying property taxes then the government will be liable and accountable to the society. Basing on the Aristotle's arguments, to make use of the collected taxes, policy makers in a country should not be allowed to own properties, for the collected revenue will be diverted to other activities. As earlier stated, the ownership will in no doubt exacerbate the effects of corruption in the country because leaders will be gullible to spend the raised taxes back to the society to spur development. This will contradict the true meaning of democracy, "the government of the people, for the people, and by the people." In short, property taxes as the stable and reliable source of revenue for any country in the world, directly affects the style of the ruling, either democratic or authoritarian. =importance of tax in a modern society

Lastly, the aspect of the importance of property taxation is that it funds significant services offered by any government in the world, which helps the household. The household needs a system that can be a catalyst to democracy, the rule of law, with the society’s resources. Since corruption is a vice in the modern countries, leaders should focus on the teachings of Aristotle on the property and taxation. The equality within the society should be determined by the ownership of the property where the taxpayers should be given a chance to own properties. Conversely, those in authority should be exempted from owning any form of property. Moreover, leaders should be paid well in order to ensure there is no prevalence of some form of corruption. Since leaders lack any form of property, they cannot spend the revenues obtained from the society in expanding their empires. Accordingly, most of the effort will be directed to the society ensuring uniform, the maximum growth rate, and the honoring of democracy. All these can be attributed to the ownership of the property and its importance when taxed (Cordes, 2005, p 78).

Who should pay taxes?

In today’s society, taxation is necessary. Taxes form the biggest part of any government’s resources. Studies have shown that taxation needs to be applied uniformly to all for an efficiency state. Taxation on property and wealth will strengthen the economies of a country. This is because the government will be able to afford the citizens a basic virtuous life. Aristotle was a contender of virtuous living. A virtuous life is one where all citizens are content, productive and in a peaceful coexistence. Political and economic strife murders the concept of virtuous living. Heavy taxation can destroy the concept of a fulfilled life as propagated for by Aristotle. Therefore, governments need to be careful how they impose taxes, to preserve and foster a free and content society. Most countries impose taxes on real property. Real property includes but not limited to land and any property attached to land.

Alluding to the works of Aristotle, Plato’s, and Mariana, they asserted that, kings were not eligible to own properties at the expense of the society because this move would jeopardize the state of the economy (Laures and Mariana, 1928, p 53). In brief, their arguments were that Kings as leaders are corrupt in nature, but should not be exempted from paying taxes. The traditional reason why the kings were exempted from taxation was that all property belonged to the king. Therefore, one could not tax himself. However, this philosophy has long been broken; people live in democratic states where all men have equal opportunity for wealth and power. Therefore, leaders should not be exempted from their duty to contribute to a country’s economy through tax. They too need to pay taxes, especially on their income. Since leaders aren't special people but mare representation of people's will, leaders should be treated just like ordinary citizens. They too should pay property taxes. All adults who own property should pay property taxes. Taxation should not be done on wealth, as it would discourage the ethics of hard work. Unless obtained through inheritance, most wealth is an accumulation of property that descends form hard work.

In an ideal economy therefore, both the ruled and the ruling class should pay tax. In Aristotle's teachings, in the "Politika" he affirms that the management of the state revenues is inappropriate, even though rulers are determined to carry on with wars, own many properties, and exempt themselves from paying taxes. Aristotle was referring to the Spartans who had made his citizens greedy and city poor (Aristotle and Ellis, 2006, p 168). According to the above analysis, it is evident that if the ruling classes do not pay taxes, they will use the opportunity and expand their property base without thinking of the welfare of the society. Furthermore, if leaders engage in paying of taxes, this approach will enable the citizens of the related country to develop an open mind towards the payment of taxes without evading whenever they get an opportunity, (Aristotle and Keyt, 1999, p 68). Both parties should pay taxes in order to ensure uniformity in the development of the country. Consequently, if citizens and those in authority pay taxes, the move will enable relevant authorities determine the net worth of leaders, especially when the law does not permit them to own property. Aristotle did say that a good regime is one where a good man lays down his comfort for the fulfillment of others. He says that this is the tragedy of politics where the pursuit of virtue supersedes the pursuit for wealth and military power. This simply means that leaders are not in power to enhance their influence but rather to serve people.

In conclusion, Aristotle and Plato acknowledged social fulfillment to be a product of political and economic equality. For instance, in today's economy, most leaders who do not exercise the aspects of democracy advocates for constitutions that will eliminate them from paying taxes. This approach is common to aristocratic and dictatorial rules across the world. As a result, most citizens in these countries meet the burden associated with high taxation. According to Mariana, a philosopher, if those in authority do not pay taxes, citizens risks imposition of new taxes on a daily basis. The day-to-day increasing of taxation benefits the leaders' benefits where they develop the ability to meet their needs and intervene in varied warfare's using taxpayers' money (CCH State Tax Law Editors, 2009, p 7). The arguments are that if the system makes it mandatory for leaders to pay taxes there will be no extra spending by those in government. Moreover, if one party pays tax while the other does not, this move will aggravate the existence of corruption in the public service. For example, in the modern world, if leaders and their subjects, both pay taxes, development will increase, and there will be no conflicts between the two parties. There will be harmonious living, which will lead to a virtuous life. In the words of Aristotle, man is a political animal who requires a partnership in the right and just things to create a stable household and city, (Aristotle and Ellis, 2006, p 37).

Is property considered as wealth?

As discussed earlier, property is not wealth. Wealth is an accumulation of property. In ancient Greece, every free person was supposed to have some form of property to create more property and eventually store up wealth for him or her. Property is not the same as because wealth is a byproduct of having and utilizing property. One needs to have property to generate wealth. Aristotle affirms that the art of acquiring wealth is a total distinct art from acquiring property. Wealth is a constituent of a household (Aristotle and Ellis, 2006, p 18).

As the Greece philosophers agreed on, property is important for two main reasons. Firstly, property helps to alleviate poverty. Poverty is a destroyer of polity. Secondly, property is needed to motivate people's creativity. This creativity propelled Greece to its exceptional art, architecture and wealth. Therefore, one can boldly say that property is somewhat the tool that one needs to acquire wealth. Taxation should, therefore, be implemented evenly on all tools to foster equality and encourage hard work and commitment to achieving one's economic vision and purpose. It is also a constitutional requirement in many jurisdictions to create taxation systems that apply uniformly t all the citizen regardless of their status. Briefly, Aristotle does acknowledge that a city, which would be equated to a state now, contains three classes of people. These are the few rich, the middleclass and the majority poor. Aristotle encourages governments to nurture the middleclass group, as they are the best class of people in any good regime. A regime will be deemed good if it works toward the benefit of all. The wealthy should not exploit the poor and the opposite is true.

In the modern society, wealth can be described as an abundance of important resources, (CCH State Tax Law Editors, 2007, p35). Any person, government or organization is capable of acquiring wealth. Wealth can also be said to be the value of accumulated property. Wealth can be gifted or acquired through hard work. Ones worth is derived from the calculation of all his or her accumulated resources. In order to promote economic growth and development, governments should refrain from taxing wealth. It is believed that wealth is the accumulation of an individual's effort. Taxation on wealth therefore would be demoralizing as many people think of paying taxes as a punishment than a duty to nation building. Moreover, taxation on wealth would amount to double taxation, as property is usually taxed before accumulation. In addition, the government may lack a means of keeping count of individual's wealth, bearing in mind that wealth is volatile, one minute it is in abundance the next it have volatized.

What is the relevance of Aristotle theory on Property taxation today?

As mentioned earlier, the government obtains most of its revenue from taxes. The biggest collection of tax is that from the property. For instance, the government receives about ten percent of its total revenue from property tax (La Forest, 2006, p 106). Property tax on real property includes; taxes on immovable property, municipal, communal and sewerage rates. Taxes on real property may entail indirect levies in the form of transfer fees, capital gains tax and VAT charged on new developments. Although unpleasant to pay, the tax paid on both real and personal property is imperative for any government. The government uses the revenue, which comprises of taxes mainly, to build the infrastructure and any other public amenities. Moreover, wages and salaries of the leaders have to be sources from the taxes. Therefore, taxation is an important governance tool. Aristotle said that each government should adduce mechanisms that will bring about the best regime. The best regime is one, which is easier and attainable for all. This shows that all citizens have a duty to ensure growth and development for their country. Citizens participate through paying of taxes. However, taxes should be paid according to an individual's capacity. This means that the vagrant and those with low value personal property should not pay taxes. Taxation should not seem as a punishment but rather a noble duty, in order to promote compliance.

Aristotle acknowledges the importance of a self-sufficient reign. In order to achieve this self sufficient regime Aristotle advocates for equality where the inferior are not living under insufficiency because of the taxation regime. To this end, Aristotle theory of distributive justice should help countries formulate the best taxation structure to the benefit of all citizens (Davis 1996, p 45). Firstly, the theory seeks equitability reign, therefore, the poor should not undergo proportional tax systems like the rich. In fact, the rich should pay higher taxes because they control much of the resources in the country. For example, charging levies on idle land would not affect the poor but the rich because they own the land resources and most of which is idle. In this connection, the affluent should be paying higher taxes compared to the poor. In addition, the virtue ethics theory as applied by Aristotle should not compel a country to source its revenues from the middle class leaving out the upper class. More so, it is the duty of rich to understand it is their obligation to pay taxes to raise higher revenues and foster economic growth (Sheffrin 2013, p72). Deontology theory requires citizens to understand their duties and responsibilities to the state and also for the government to know its functions towards the populace. Consequently, in the modern world, governments should seek to enforce legislation that will ensure there is the implementation of a progressive tax structure to achieve equality in the society.

Aristotle through his theories on equality corruption was an issue and approach to tackling the social vice is always a problem that may even bring forth critiquing Aristotle theories. For example, advocating that people in governance should not own property is an attempt to control market forces. Denying rational agents the need to invest so that they do not engage in corruption would be promoting inequality and an infringement of human rights. Therefore, as a way of creating effective management systems the people in power should be allowed to own property. However, legislation should be strict and independent of control from the people in power. In this connection, it would be easier to induce the politicians to honor their obligations to the state such as paying taxes. In addition, accumulation of wealth to the high extreme by such individuals while they are in power and their life after public office should attract higher rates of taxation. In the light of this such measure would promote equality for all people as well as discouraging corruption to amass wealth.

References

Aristotle, & Ellis, W. (2006). *Politics*. Middlesex, [England], Echo Library.

Aristotle, & Keyt, D. (1999). *Politics. Books V and VI Books V and VI*. New York, Oxford University Press.

Bird, R. M. (2004). *International handbook of land and property taxation*. Northampton, UK, Edward Elgar

Boethius, Goins, S. E., Wyman, B. H., & Pearce, J. (2012). *The Consolation of philosophy: with an introduction and contemporary criticism*. San Francisco, Ignatius Press.

Bone, J. S. (2006). *California property tax*. Chicago, CCH Inc.

CCH State Tax Law Editors. (2007). *U.s. Master Property Tax Guide, 2007*. Cch Inc. 7

CCH State Tax Law Editors. (2009). *U.s. Master Property Tax Guide 2009*. Cch Inc. 7

Cordes, J. J. (2005). *The encyclopedia of taxation & tax policy*. Washington, D.C., Urban Institute Press.

Davis, M. (1996). *The politics of philosophy: a commentary on Aristotle's Politics*. Lanham, Md, Rowman & Littlefield Publ. 115

Drahozal, C. R. (2004). *The supremacy clause: a reference guide to the United States Constitution*. Westport, Conn, Praeger.

Flanagan, T., Macpherson, C. B., & Parel, A. (1979). *Theories of property Aristotle to the present: essays*. Waterloo, Ont, Published for the Calgary Institute for the Humanities by Wilfrid Laurier University Press. http://site.ebrary.com/id/10139822. 267

Harriss, C. L. (1968). *Property taxation: economic aspects*. New York, Tax Foundation].

Harriss, C. L., & Oates, W. E. (2001). *Property taxation and local government finance: essays in honor of C. Lowell Harriss*. Cambridge, MA, Lincoln Institute of Land Policy.

La Forest, A. W., Oosterhoff, A. H., & Anger, H. D. (2006). Anger & Honsberger Law of real property.

Laures, J., & Mariana, J. D. (1928). *The political economy of Juan de Mariana*. New York, Fordham University Press. 178

McCluskey, W. J., Cornia, G. C., & Walters, L. C. (2013). *A primer on property tax administration and policy*. Chichester, West Sussex, Wiley-Blackwell. http://search.ebscohost.com/login.aspx?direct=true&scope=site&db=nlebk&db=nlabk&AN=494666

McDaniel, P. R., Ault, H. J., & Repetti, J. R. (2005). *Introduction to United States international taxation*. The Hague, The Netherlands, Kluwer Law International.

Plato, & Jowett, B. (2008). *Laws*. New York, Cosimo Inc.

Sheffrin, S. M. (2013). *Tax fairness and folk justice*.

Sinclair, R. K. (1988). *Democracy and participation in Athens*. Cambridge [Cambridgeshire], Cambridge University Press.123