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Property Tax: No More Vacancy Exemptions

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About the author
Mona Fawaz is a professor in Urban Studies and Planning at the American University of Beirut and LCPS senior fellow. Her scholarly interests stem from the imperative of making cities more inclusive, particularly from the perspective of enabling low-income dwellers to take part in shaping their cities. Her work spans across urban history and historiography, social and spatial justice, informality and the law, property and space, as well as planning practice, theory, and pedagogy. Fawaz has authored over forty scholarly articles, book sections, and reports in Arabic, French, and English. She is currently working on an alternative history of Beirut, a project that aims to critically engage scholarship about the city's history in its post-independence period and propose an alternative narrative built from the standpoint of urban peripheries. She holds a BArch from the American University of Beirut (1995), a Masters in City and Regional Planning (1998) and a PhD (2004) from the Department of Urban Studies and Planning at the Massachusetts Institute of Technology. Fawaz was a fellow at the Radcliffe Institute of Advanced Studies at Harvard University during the 2014/15 academic year.

Abir Zaatari is a researcher at the Beirut Urban Lab, a research center based in the Maroun Semaan Faculty of Engineering and Architecture at the American University of Beirut. She holds a Masters in Urban Planning and Policy (AUB, 2019) and a Bachelor of Architecture (AUB, 2011). Abir's research draws from the related fields of urban planning and economics, focusing on the impacts of state policies on housing justice and affordability in Beirut's housing market over the past decade.

Executive Summary

The current economic and financial crises in Lebanon require reconsideration for how policymakers approach land and its management. To date, built-property is considered an income-generating asset and consequently only profits reaped from the exploitation or sale of this commodity are taxed. Similarly, financial regulations have incentivized investment in land, favoring its role as an asset where wealth can be stored. In both cases, the role of land as a basic ingredient for improving livelihoods or enhancing production is compromised. As the Lebanese look for options to reignite a failing economy, we argue in this brief that property taxation needs to be used to influence social policy and economic decisions positively. We show that the current practice of exempting vacant built property from taxes undermines the vital contributions the built environment could play to boost the economy. Therefore, we recommend revoking those tax exemptions and reintroducing taxes on all built property, irrespective of the occupancy status, within a progressive scale that accounts for hardship cases.

Our argument is based on research we conducted at the Beirut Urban Lab at the Maroun Semaan Faculty of Engineering and Architecture at the American University of Beirut, taking the case of Municipal Beirut. Vacancy figures are based on a thorough field survey of all 2,692 filed construction permits between 1996 and 2018. Figures about officially reported municipal vacancies were obtained from the City of Beirut's Municipality directly. All laws were reviewed through the official gazette records. Calculations of property taxation and their exemption benefited from the generous review of a municipal employee.

Vacancy in the Built-Property Taxation Law in Lebanon

The property taxation framework in Lebanon encompasses the typical bundle of registration and property transfer fees, built property tax, land tax, and enhancement taxes. Two annual property taxes exempt vacant properties: The Built Property Tax Law of 1962 and the Municipal Rental Value Fee. The Built Property Tax[1] (ضريبة الأملاك المبنية) is collected by the Ministry of Finance annually and paid by all property owners as long as they benefit from a rent reaped from the use of their property. Article 15 of the law explicitly exempts vacant property of the Built Property Tax on the grounds of a cessation of revenues. Law 60/88 on Municipal Charges and Fees (الرسوم والعلاوات البلدية) regulates all taxes and fees imposed by municipal authorities on city dwellers. These fees include the Rental Value Fee (رسم القيمة التأجيرية) in article 3, which is imposed on the *occupant* (الشاغل) of any unit, whether residential or commercial, against municipal services such as security, sewer cleaning, and sweeping. By imposing the charge of municipal service fees on occupants, the law implicitly exempts any empty unit from the payment of municipal taxes. Both the Built Property Tax and the Municipal Rental Value Fee have been amended several times since they were originally passed in the 1920s, but they maintain a similar spirit in their approach to taxation.

As they stand, tax exemptions on vacancy are counterproductive to economic development and detrimental to urban livability

1 The Built Property Tax was first passed in 1922 by decision 1481 and adopted a regressive tax model on net revenues generated from properties.

Exempting Vacancy from Taxation is a Bad Proposition

At the surface, there may be a logic behind the vacancy exemption: If taxes are reaped on profit, then an unexploited unit is not taxable. However, as they stand, tax exemptions on vacancy (i) provide the wrong incentives and encourage speculative behavior; (ii) reduce tax revenue potential for both local and central authorities; and (iii) facilitate tax evasion. As such, they are counterproductive to economic development and detrimental to urban livability.

Reverse tax incentives

First, vacancy tax exemptions have encouraged speculative practices in the real estate sector by allowing developers and homeowners to hoard empty apartments at no cost while the housing crisis soars. The Beirut Urban Lab survey of all buildings developed between 1996-2018 found that 23% of the housing stock developed during this period in Municipal Beirut were unoccupied. These amount to more than 7,000 apartments, distributed across the city. Of those, 65% are unsold while 35% are kept by property owners fully unoccupied. Vacancy is particularly high in Beirut's high-end market where one in two apartments is vacant. The 23% vacancy ratio is in line with an earlier rapid investigation conducted in Municipal Beirut that estimated that one in five apartments of the pre-1990 housing stock was vacant.

Real estate developers and investors have been able to develop and hoard large numbers of housing units for extended periods without adjusting prices, since the costs of holding on to empty property is minimal given tax exemptions. Among those, the Beirut Urban Lab survey of building developments in the 1996-2018 period showed that bank subsidiaries and investment companies that make up 5% of the total number of real estate developers in Beirut, have developed more than 15% of the city's built-up area. Similarly, the practice of Lebanese expatriates to purchase often luxurious real estate property in Beirut as a safe destination for their accumulated wealth has turned housing units in Beirut into tax-free safe deposit boxes. Locally, the breakdown of Lebanon's banking sector has also encouraged many to invest in real estate. Although a potentially interesting option for account holders, the general impact of this strategy is to intensify the ongoing trend of using vacant apartments in Beirut as assets. Ultimately, the social value of land as home and/or workplace has been compromised. Apartment prices in Beirut are inaccessible to wide sections of society and the cost of rent is prohibitive for businesses. Conversely, land speculation has provided an attractive investment that deters investors from other potentially productive sectors.

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Losing out on Revenue

Second, by exempting vacancy from taxation, local and central authorities incur substantial losses in revenue. Taking the assumption that 20% of

Municipal Beirut is vacant, and based on the current rates of taxation, a rapid estimate of the Municipality of Beirut's yearly losses with this exemption exceeds $33 million. These losses are equal to 13% of the municipality's reported annual budget, which is about $240 million. As for the Ministry of Finance, its losses amount to a hefty yearly $100 million based on the back of the envelope calculation of tax exemptions in Beirut's municipal districts alone. These numbers show that local and central agencies are losing a sizable source of funding. Extending the study beyond the municipal administrative districts of the capital city will increase substantially the numbers.

As for the Ministry of Finance, its losses amount to a hefty yearly $100 million based on the back of the envelope calculation of tax exemptions in Beirut's municipal districts alone

Increases Tax Evasion

Third, the current taxation system facilitates over-reporting of vacancy and consequently tax evasion practices, inflating public losses. At least three laws and circulars regulate the process of reporting vacancy for exemption,[2] and these successive revisions have gradually eased vacancy reporting mechanisms, consequently facilitating over-reporting. The analysis of data indicates that homeowners tend to report vacancy even when a unit is occupied, hence evading taxes. A comparison of the Beirut Urban Lab surveys with the numbers reported by the Municipality of Beirut reflects gross overestimations in public records, where an inflated figure of over 50% vacancy is reported for Beirut's housing stock (table 1). A simple estimate of the losses in taxation revenues given this over-reporting of vacancy brings up the loss of municipal revenues at $86 million (or more than one third of the municipal budget) and an additional $260 million in losses for the Ministry of Finance from vacancy only.

An inflated figure of over 50% vacancy is reported for Beirut's housing stock

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These are Law 0/1962, Law 583/2004, and Circular 2179/2011. In its 1922 version, the Built Property Tax imposed tedious short-term revisions of the procedures that mandated homeowners to report on vacancy every six months through intensive declaration and inspection procedure.

Table 1 **Vacant Units in Municipal Beirut**

Cadastral Zone	Number of Occupied Units	Number of Vacant Units	Percentage of Vacancy as per Municipal records	Percentage of Vacancy as per BUL Survey
Medawar	3,126	2,552	45%	42%
Remeil	8,395	8,437	50%	23%
Achrafieh	17,516	19,368	53%	27%
Saife	1,807	1,202	40%	15%
Marfaa	461	71	13%	56%
Mina El Housn	3,411	1,739	34%	18%
Bachoura	4,516	4,057	47%	21%
Zoukak El Blatt	3,053	3,423	53%	21%
Ain El Mreisseh	3,137	2,166	41%	22%
Mazraa	21,995	33,103	60%	16%
Mousaytbeh	20,412	26,625	57%	25%
Ras Beirut	15,830	13,902	47%	23%
Total Average	103,659	116,645	53%	23%

A readjustment of the property taxation law that introduces vacancy tax is necessary to limit speculative practices, enhance the real estate market efficiency, and increase much needed revenues for local and central public agencies. The reversal of this exemption will however be unpopular and requires an informed policy dialogue. The wide range of stakeholders who benefit from vacancy exemptions such as real estate developers, associated syndicates, and property owners might argue that lifting the exemption will discourage private investments and interrupt Lebanon's economic cycle that relies heavily on the contribution of the real estate sector to its GDP, amounting to at least 15%. Although a potential consideration, this argument should be brushed in favor of balancing the economic value of land and apartments for their use value over their role as asset, a direly needed correction in a market where a severe distortion has reduced land to the role of an asset. Furthermore, these concerns could be eased by encouraging rental options that facilitate the occupation of housing units without requiring developers, expatriates, or other investors to lose the asset dimension of their apartments.

More and more global capitals are adopting stringent vacancy regulations that impose progressively higher taxation on units left empty

Opponents of lifting the vacancy exemption also argue that the measure may remain ineffective for incentivizing occupancy.[3] It may well be that well-off property owners will choose to pay the tax and hold on to their vacant units, while more vulnerable property owners risk losing their properties due to their inability to pay the tax. It is worth recalling here that what is proposed as a first measure is not a vacancy tax but rather lifting the vacancy exemption. Neither of the two property taxes already in place exempts lower income property owners from paying taxes in their current form. Therefore, we strongly recommend introducing such measures to support cases of vulnerability and hardship, easing in on the long run progressive taxation that accounts for income inequality.[4] As it stands, the law incentivizes low-income property owners to misreport, making it an inadequate policy approach.

More and more global capitals are adopting stringent vacancy regulations that impose progressively higher taxation on units left empty. As they have become aware of the economic losses incurred by such speculative practices, cities such as Paris, Barcelona, Berlin, and Vancouver, among others, have introduced tax on homes that remain vacant for an extended period. The measures proposed in this short piece for lifting the tax exemption in Lebanon are a small step in the right direction. While standard policy taxation design may seek to minimize the taxes' effects on economic choices, an adequately designed policy taxation scheme can stimulate more efficient and sustainable uses of land, foster a better environment for economic development, and improve the equity of the distribution of the overall tax burdens.[5] For Lebanon to recover, it will be imperative to set in place a sound economic policy. Land regulations are a pillar in that direction.

3
Dye, R.and R. England. 2010. 'Assessing the Theory and Practice of Land Value Taxation.' Cambridge, Massachusetts: Lincoln Institute of Land Policy.

4
Only the built property tax accounts for a progressive scheme whereby the value of property tax increases substantially on pricy units.

5
Bahl, R., J. Martinez-Vazquez, and J. Youngman. 2008. 'The Property Tax in Practice.' In *Making the Property Tax Work: Experiences in Developing and Transitional Countries* (pp. 1-15). Cambridge, Massachusetts: Lincoln Institute of Land Policy.

Appendix A **Built Property Tax Laws in Lebanon**

	Law Title	Law Number	Date of Issuance	Amendments	Scope of Tax	Tax Incidence	Tax Valuation	Vacancy	Vacancy Declaration and Exemption Process
Ministry of Finance وزارة المالية	Built Property Tax (ضريبة الاملاك المبنية)	Decision 1481 قرار 1481	13/08/1922	Canceled	Article 1: Starting from the beginning of January 1922, the property tax on buildings based on a single method is to be collected in all parts of Greater Lebanon.	Article 7: This tax is levied on all constructions and buildings subject to costs, from its owners or investors. If there is no known owner, then whoever disposes of it or squats in it. If the property is constructed on leased land, the government has the option to collect the tax from both the land and building owners.	Article 1: As of January 1922, the built-up property tax is collected throughout Lebanon, at a uniform basic rate of 12%. In addition to this rate attributable to the government alone, an additional tax is charged to the municipalities' account for buildings located within their areas of jurisdiction. The municipal tax shall not be less than 1% and not exceeding 3% of the annual rental value of the unit.	Article 6: If the property or part of it is not leased or inhabited, the owner has the right to call for an exemption from the tax on the entire property or from part of it in the following year.	Article 6: The landlord is required to submit to the Greater Lebanon Directorate or to the designated accountant an official petition stating that the entire property or part of it is vacant. The directorate submits the petition to the commissioner, which is only considered if the unit has been vacant for at least six consecutive months starting from the date of submitting the petition. At the end of the first six-month period, the owner must, if the property remains vacant or not leased, submit a second written petition to demonstrate his/her right for an additional six-month exemption period. The government has the authority to verify the contents of the said petitions.
	Built Property Tax Law	Law 0	15/12/1930	Canceled			Article 14: The property tax is collected at a basic rate of 8.5% of the rent value.		
	Built Property Tax (ضريبة الاملاك المبنية)	Law 0	17/09/1962	Amended by Law 27/1980, Law 366/1994, 583/2004, and Decree 40/2007	Article 1: The built property tax addresses buildings of all types, regardless of the material of construction, and whatever the location.	Article 2: The investor: Whether it is an owner who benefits from the building through leasing or operating it, or a tenant that benefits from the secondary lease (even if illegally subleased). Article 60: Tax is imposed on the owner or investor.	Article 54: Built property tax is subject to the annual net revenue of each property, according to the following rates: - 4% for revenues that do not exceed LBP 40 million. - 6% for revenues between LBP 40 million and LBP 80 million. - 8% for revenues between LBP 80 million and LBP 20 million. - 11% for revenues between LBP 20 million and LBP 1 million. - 14% for revenues that exceed LBP 1 million.	Article 15: The tax is exempt by the termination of building revenues due to vacancy.	Article 16: The owner or investor who wishes to benefit from the provisions of Article 15 must submit a written statement to the competent financial department on: 1- Building vacancy: In this case, the revenues are considered suspended from the beginning of the month following the presentation of the permit. 2- The vacancy has ended: In this case, the building is considered occupied and with revenues as of the beginning of the month following the month in which it was leased.
	General Budget	Law 583	23/04/2004	-	-	-	-		Article 33: Declaring to the municipality: The owner or the investor can submit a declaration of vacancy to the financial department dealing with the built-up property tax (within the Ministry of Finance), in the municipality in which the property is located. In this case, the municipality or the concerned accountant must deposit to the other financial department officers a signed copy of this declaration within a period not exceeding one month from the date of declaration.

Appendix B **Municipal Fees and Charges Laws in Lebanon**

	Law Title	Law Number	Date of Issuance	Status and Number of Amendments	Scope of Tax	Tax Incidence	Tax Valuation	Vacancy	Vacancy Declaration and Exemption Process
Municipality البلدية	Amendment to Municipal Fees Law (تعديل نظام الرسوم البلدية)	Legislative Decree 18 مرسوم اشتراعي 18	11/12/1939	Canceled	Article 15: Tax is imposed on each building based on its estimated rental value.	Article 2: This fee is required for the occupant of the property or its investor, whether it is an owner or tenant, or if the property is used for housing, or for the profession of a craft, garage, khan, warehouse, etc.	Article 2: Municipalities can collect a fee equivalent to 3% at most of the rental value of the built property. This fee shall be imposed on the occupant of the property or its investor, whether it is an owner or tenant, or if the property is used for housing, or for the profession of a craft, garage, khan, or warehouse, etc.	-	-
	Municipal Fees الرسوم البلدية	Legislative Decree 68 مرسوم إشتراعي 86	5/8/1967	Canceled	Article 9: The concept of rental value includes everything that the lessor receives or gets from the tenant in cash or in the form of a benefit.	Article 5: The occupants of the buildings are charged a fee for the rental value.	Article 7: The annual rates of drawing are determined as follows: A - Buildings used for housing. 3% for the section of the rental value, which ranges between LBP 1 and LBP 500 4% for the section of the rental value, which is more than LBP 500 and does not exceed LBP 2,000 5% for the section of rental value, which is more than LBP 2,000 and does not exceed LBP 4,000 7% for the section of the rental value which is more than LBP 4,000 and does not exceed LBP 8,000 10% for the section of the rental value, which exceeds LBP 8,000.	-	-
	Municipal Fees and Charges (الرسوم والعلاوات البلدية)	Law 60 قانون رقم 60	12/8/1988	Amended by Law 14/1990, Law 671/1998, Law 173/2000	Article 3: The building occupants are charged an annual fee on the rental value.	Article 4 The fee is imposed on the occupant of the building, tenant or property owner.	Article 12: The fees are determined on the bases of the rental value as follows: 5% of the rental value of properties used for housing. 7% of the rental value of non-residential premises. That the amount of the annual fee imposed in each assignment should not be less than / LBP 25,000 for properties used for housings and for / LBP 50,000 for properties used for commercial use.	-	-
	Vacancy permits submitted by munucipalities	Circular 2179	11/8/2011	-	-	-	-	-	Article 1: The departments concerned with building property tax affairs are required to consider all documents submitted by the municipality and within which a vacancy permit is issued for a property as a declaration of vacancy for this property and should be submitted to the related Built Property Tax department under Ministry of Finance on the date of registration of the document, whereby Articles 15 and 16 of the Building Property Tax Law apply.

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A Policy Brief is a short piece regularly published by LCPS that analyzes key political, economic, and social issues and provides policy recommendations to a wide audience of decision makers and the public at large.

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