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Property Taxation: Shaping Economies and Supporting Real Estate Markets



When carefully designed, real estate taxation can be more than a tool for Governments to raise revenue; taxes can be used to influence real estate development and to achieve wider economic and social goals. At the same time, the owners of real estate work with tax lawyers, accountants and advisers to reduce their exposure to such taxes.

What is real estate taxation?

Almost every Government needs to raise revenue through taxation. From an administrative point of view, one of the most straightforward ways to do so is through different forms of taxation on the built environment.¹ Real estate cannot be moved to avoid tax; it is directly visible for valuation purposes, and its ownership can often be tracked through land registries and contracts.

Historically, therefore, taxes on property have often preceded income tax or taxes on other forms of wealth. In Ancient Rome, *tributum soli* was normally levied as either a fixed sum (*stipendium*) as in Spain and Africa, or a tithe (*decuma*) paid in kind and leased by the censors in Rome.² In early medieval England, the Danegeld helped finance foreign wars.³ Property taxes arrived later in Islamic countries since wealth was not so concentrated in land for many centuries. However, in the Ottoman Empire, for example, *Kharaj* was levied on the subjects of the Caliph.⁴ Today, property taxes come in many forms and are almost ubiquitous.

- Registration fees, often called stamp duty from the official stamp placed on a property transfer on payment of the tax. In the UK, for example, stamp duty land tax (SDLT) is levied at varying rates depending on the type of property (own home vs investment residential properties, and commercial properties), the tenure (whether freehold or leasehold), the residency status of the purchaser, whether they are first-time buyers, corporates or individuals, and the value of the property.^{5,6} In Saudi Arabia, last year saw the introduction of a 5% real estate transfer tax (RETT) payable by the seller.⁷

- Land and property taxes, also called rates, council taxes or service charges.⁸ These are taxes on ownership, often levied at local Government level. The structure of these taxes has varied extensively over time, with many challenges for the different levels of Government over how to allocate it between services and across types of property.

- Income taxes levied on corporate entities that own and often operate real estate. Usually, net operating income is the starting point for the taxable basis on which they are calculated. However, there are often deductions, including mortgage interest, maintenance, insurance, and property management fees as well as annual depreciation and capital allowances.⁹ Zakat may also be payable on rental and developer income.¹⁰

- Capital gains tax (CGT). In many jurisdictions, purchasers must pay a percentage of the increase in value of any property when they sell, even possibly annually. However, there are usually annual offsetting allowances. Currently, where Gulf jurisdictions impose CGT, it excludes real estate.¹¹

- Inheritance taxes. Those inheriting estates above a certain value are obliged to pay a percentage in tax. Real estate forms part of

the estate. Islamic inheritance law, *Faraid*, faces especial issues in respect of the indivisibility of real estate assets. Tension between fixed shares and indivisible assets often requires either sale, buyout, or co-ownership – each with its own potential complexities.

- Value-added tax (VAT). While in most jurisdictions transactions involving land and property are generally exempt from VAT by default,¹² owners' expenditures often do incur VAT.



What are the economic effects?

Real estate taxation, when designed with care, becomes more than a revenue tool—it becomes a mechanism of civic stewardship. It is a mistake to believe that the positive effects of property taxes are felt only by those who benefit from Government expenditure as a whole. There are many reasons why this is not so.

Economists and politicians in countries such as Australia and the UK generally view stamp duty taxes such as SDLT as among the less desirable of real estate taxes since they are regressive and constrain liquidity in real estate markets.^{13 14} However, under the quite different economic circumstances of the Gulf, these objections may not be valid or they may be counterbalanced by economic priorities such as tracking real estate activity, reducing speculation, and providing a transparent framework for ownership transitions.¹⁵ Perhaps at least as important are the available exemptions to the RETT, which include transfers to close relatives, to Government entities or for public utility projects, as well as for specific charitable donations or endowments recognised by the state.

Similarly, there has long been debate about the economic effects of property taxes. Some economists believe that consumers bear the cost through increased property prices. Others maintain they are simply a way of paying for services, while still others point to their function in capital allocation.¹⁶ What is certain is that most land and property taxes are neither raised nor spent at a national level. They help pay for local infrastructure such as roads, upon which property depends for its value. Many years ago, Tiebout suggested that the result was a kind of 'market' in which consumers chose between different levels of service provision and the taxes required to pay for them. The concept has been an attractive subject for studies ever since.¹⁷

It is clear, however, that differential tax rates between sectors can encourage investment in those sectors with lower rates.¹⁸ A well-known example is the white land tax in Saudi Arabia which introduced a 2.5% levy on undeveloped land in 2015 and then raised it to 10% three years later.¹⁹ The tax was aimed at encouraging the release of residential land into the market, improve competition, and reduce land speculation. Commentators assess that it has contributed to the achievement of all of these objectives: the white land tax exemplifies how targeted property taxation can reshape market behaviour, releasing idle assets into productive use and aligning fiscal policy with housing goals.²⁰

Saudi Arabia and many other jurisdictions have also adopted the policy of imposing additional taxes on vacant properties, especially on empty houses in areas with high housing demand.²¹ This can serve to increase the supply of rental housing and help to constrain rent rises.²²

Excluding first-time buyers from taxes applicable to other home buyers, such as the exemption from 2018 onwards of Saudi first-home buyers from paying tax up to SAR1m, can contribute to improving the rate of home ownership.²³ Similarly, higher taxes on

overseas buyers, as implemented in several Australian and Canadian jurisdictions, is intended to support domestic lower-income groups, putting a brake on overseas buyers in particular sectors, price brackets or even geographies.^{24 25}

Allowances against income taxes can serve to encourage capex and maintenance expenditure. Capital allowances are one direct method available to the authorities. In this case, the owner's expenditure on capex reduces the taxation base of the property. Depreciation of improvements to land (infrastructure and buildings) also reduces the taxation base and can serve as an incentive for owners to carry out renovations and capital improvements.

CGT serves to curb speculative trading, including in real estate. Saudi Arabia's current emphasis on CGT and VAT over income tax reflects a strategic orientation towards taxing transactions and capital rather than labour. As real estate taxation evolves, this model offers a blueprint: tax the movement of wealth, not its creation.

Where income and property taxes are in force at similar levels across all competing jurisdictions, measures such as tax increment financing, business improvement districts, spatially targeted and zone-based tax concessions such as Free Zones and even firm-specific incentives can all serve to influence corporate location decisions.





Property taxation represents a comparative advantage opportunity. By integrating transparency, fairness, and strategic incentives, Gulf jurisdictions can drive investment while building sustainable, equitable real estate markets.

Hassan Alladin
Associate Director, Strategy and Consulting



Strategies for minimising taxes on real estate

Real estate taxes may have significant economic benefits. Nevertheless, those paying them – the real estate owners – make every effort to minimise their tax exposure. They rely on advisers to deploy their expertise in conjunction with tax lawyers and accountants to minimise their tax burden. Strategies include the use of pass-through structures such as limited partnerships, offshore structures and trusts, judicious timing for capex and revaluations, and utilisation of capital and capital gains tax allowances (such as renewable energy grants) wherever possible.²⁶

All of these strategies are known to Governments, who take them into account in both the ways they design and implement property taxation as well as in their revenue planning. For example, Governments typically adopt measures such as integration of land registry and taxation institutions, which encourages both transparency and efficiency, regulation of ownership structures, auditing capex and capping allowances and tax reliefs.

Conclusion: A fine balance

In implementing real estate taxation, Governments face a traditional 'wicked problem', one with no solution for all its aspects: no real estate stakeholder, even Government itself, wants to impose real estate taxes where they can be avoided, yet their imposition remains a necessity.

Despite this conundrum, two almost universally recognised principles stand out. First, not all property taxes are economically or ethically equivalent. Careful attention needs to be given to the best real estate taxes to implement. Second, however, there is ample evidence that when carefully constructed and properly implemented, property taxation can play a prominent role in encouraging real estate investment and shaping how real estate is built, owned, managed, renovated, tenanted and valued. For example, in the future, climate-linked property taxation based on building in flood risk zones and the use of energy efficiency incentives are likely to expand.

With a wealth of international experience to draw on, Gulf Governments have already demonstrated their ability to take account of both of these principles in optimising property taxation in their own jurisdictions. As it continues to develop, property taxation can and will become a comparative advantage for the Gulf – not only contributing to economic efficiency but also reflecting both fiscal efficiency and a deeper commitment to fairness in taxation, transparency, and civic responsibility.



Authors



Julian Roche

Chief Economist
Cavendish Maxwell
julian.roche@cavendishmaxwell.com



Ali Siddiqui

Research Manager
ali.siddiqui@cavendishmaxwell.com
+971 50 877 0190

Key Contacts



Hassan Alladin

Associate Director, Strategy and Consulting
hassan.alladin@cavendishmaxwell.com
+971 50 117 5265



Zacky Sajjad

Director, Business Development and Client Relations
zacky.sajjad@cavendishmaxwell.com
+971 50 644 5089

Dubai

+971 4 453 9525
dubai@cavendishmaxwell.com
2204 Marina Plaza, Dubai Marina, P.O. Box 118624, Dubai, UAE

Dubai | Abu Dhabi | Sharjah | Ajman | Ras Al Khaimah | Muscat | Kuwait City | Riyadh



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