Participación en Plusvalías (Capital gain sharing)

DESCRIPTION

Participación en Plusvalías qualifies public participation in land value increase from public action, to be used for social investments. This tax aims at capturing the added-value generated by the transformation of agricultural land into urban or suburban land, or changes in land use and densities to accommodate future growth (by increasing the density index, the construction index). Thereby Colombian cities are required to capture, as a one-time assessment, 30 to 50 percent of this increased value through the Participación en Plusvalías by taxing land and buildings owners. The revenue collected is made available to cover the cost of several public works or projects (and not just a specific one): road infrastructure projects and public transport systems, but also social housing projects, urban renewal programs or maintenance of the municipality’s cultural heritage.

LEVEL OF GOVERNMENT OR ACTOR INITIATOR

Municipal government (Through City and District Councils)

INSTITUTIONAL AND REGULATORY FRAMEWORK

The legal definition of Participación en Plusvalías dates back to the 1989 Urban reform law with the notion of "Contribución de desarrollo municipal". Act 388/1997 reinforced this notion, by creating the notion "Participación en Plusvalías" (Art 73) and by enabling local governments to use this instrument as a key funding source for future development. Participación en Plusvalías are also mentioned in Colombia’s urban development policies (Article 85). Article 74 specifies the conditions for the assessment of this tax. Plusvalías can be paid in land, as a percentage of participation in the project, in infrastructure or in cash.

TRACK RECORD OF THE USE OF THIS INSTRUMENT

The implementation of this instrument was difficult. For instance, the Municipality of Bogota could only get revenue from participacion in plusvalias in 2004. By 2009, the tax generated between US$5.5 and US$6 million per year (approximately 0.35% of Bogotá’s own-source revenue). Finally, on average most of the experiences of Participacion en Plusvalias were based on changes on land uses, and not on public works and investments (as it is the case for contribucion de valorizacion).
EVOLUTIONS AND OUTCOMES

The use of plusvalia has encountered many difficulties in unclear valuation methodologies, landowners resistance, and complex rules.

STAKEHOLDERS INVOLVED

The City Council must give its approval to the recovery plan, and the tax is then paid by landowners and promoters for them to contribute to development costs. The implementation of PPV has encountered significant resistance, primarily around the issues of questioning valuation methods and captation of virtual plus valia (until the good is sold).

PUBLIC MANAGEMENT AND ACCOUNTABILITY

The high rates (30-50%) often compulsory imposed to the targeted population by this instrument engender significant public resistance. Moreover, there is an important delay between the time when the decision is debated and made to change the zoning or land-use of an area, and therefore to generate a plusvalia, and the time when the landowners actually have to pay (when the land-use change is officially approved and the "beneficiary" request a specific authorization to build for instance).

ANALYSIS AND ASSESSMENT OF THE TOOL

- Theoretically this tax can play a major role for sustainably financing urban development, as its scope is greater than other urban development taxes in Colombia. However it has had a very limited success, as it tries to conceal very ambitious social objectives with only one instrument (besides urban development, it also aims at market regulation and management).
- Moreover, technical constraints make it very difficult to calculate the incremental land value before the project is completed, especially for large long-term project. These constraint have led to high collection costs, charges of assessment biases and institutional corruption.
- In addition to these challenges, it is above all very complexe to tax increases in land value due to changing market conditions. The tax is based on virtual value until the building or land is sold, which means on the one hand that this value may also evolve negatively with time, and on the other hand that the owner may not be wealthy enough to pay the tax without selling its property. Except in Bogota, very few other cities in Colombia have succeeded in implementing the tax.

Sources: Furtado y Acosta (2012)