Introduction. Despite the priority of Ukraine’s economic development in the near future is to increase economic growth, the strategic focus of its development that is emphasized in the Government’s Action Program, is to ensure inclusive economic growth [1]. In characterizing the relationship between these two priorities – short-term and strategic – it is necessary to assume that increasing economic growth is an important precondition for the implementation of its inclusive focus. However, inclusive growth cannot be assessed only in terms of GDP or GDP per capita growth. It should also be seen as a process that creates opportunities for all segments of the population to work, develop, improve their skills and contribute to the development of society. In addition, inclusive growth emphasizes on a more dynamic definition of equity that takes into account the impact of income policies on people’s well-being throughout their life cycle, as well as the well-being of generations [2]. Mentioned above is estimated with the Inclusive Development Index (IDI), developed by the World Economic Forum, that is based on 12 indicators, which, in addition to GDP per capita, also include: labor productivity determining the level of wages; the level of employment as an indicator of economic opportunities and, ultimately, family security; the expectancy healthy life as an indicator of quality of life; median household income, characterizing the progress in the achieved level of living standards; poverty line; Gini coefficient by income – a standard international indicator of inequality; and the Gini coefficient for property (wealth) – an indicator of the concentration of wealth; adjusted net savings – an indicator that measures the actual rate of savings in the economy after taking into account investment in human capital, the depletion of natural resources and the damage caused by
environmental pollution; public debt as a share of GDP, illustrating the scale of the current generation’s debt compared to the potential of future generations; demographic burden that is the main indicator of possible future pressure on public finances; and the carbon intensity of economic production that is an indicator of the country’s relative efficiency in the field of climate change [3].

Given the components of the index of inclusive economic growth, to provide it is necessary to implement a set of measures in the economic, social, environmental, budgetary, debt, tax policy. The significance of tax policy in the system of instruments for inclusive economic growth is determined by its ability to influence the distribution of its results among different segments of the population, including the global problem of growing inequality in income and wealth. However, not all tax policy instruments that can improve the situation with inequality meet the requirements of inclusive economic growth, but only those one that do not have a negative impact on the behavior of economic agents, and thus, do not slow down economic growth. Thus, tax policy of inclusive growth, as noted by Brys, B. et al. (2016), is associated with the management of a compromise between fairness and efficiency. This compromise can be reached either by reducing the loss to provide equity of tax reforms aimed at improving efficiency, or by reducing the loss of efficiency in tax reforms aimed at improving fairness, or by implementing tax reforms that increase both efficiency and fairness [2]. The OECD experts also emphasize the possibility of implementing a strategy aimed at solving these two tasks at the same time, emphasizing that inclusive growth oriented taxation policies should go beyond traditional political trade-offs between fairness and efficiency. It should reduce inequality without lowering economic growth [4].

Literature review. The most thoroughly the issues of tax policy formation of inclusive economic growth are covered in the already mentioned works [2, 4]. The publication of Akgun, O. et al. (2017), as well as OECD experts [5, 6] is devoted to the analysis of the cumulative impact of changes in the tax structure on growth and inequality. The approaches to the design of tax reforms, developed on the basis of the rating of different taxes in the context of their impact on economic growth, are reflected in the OECD Recommendations published in 2008 in the working papers of the Economic Department № 620 “Taxation and Economic Growth”, and in 2010 – in the working papers of the same organization “Tax policy reforms and economic growth” [7]. A
plenty of publications deal with the tax impact on the redistribution of income the purpose of which is reducing inequality and poverty regardless their influence on economic growth [8, 9, 10]. The Ukrainian scientists have not studied the problems of tax policy of inclusive economic growth. The publications covered only some aspects of the tax system functioning (mostly personal income tax) concerning with income equalization [11-16].

The purpose of the article. The formation of the tax policy for inclusive economic growth involves identifying areas for the reform of the entire tax system. In the process of developing measures to reform the taxes that better meet the requirements of economic efficiency; the emphasis is on ways to increase their fairness, while for taxes that better perform the redistributive function the ways to increase their economic efficiency should be identified. However, due to the limited scope of this article, it is impossible to cover all direction of a tax system design focused on inclusive economic growth. The purpose of the article is to identify ways to reform only real estate taxes that meet both economic efficiency and equity requirements.

Research methodology. The study is based on the theoretical foundation of optimal taxation in the welfare economy, in particular, on the conceptual provisions of the theories of excessive tax burden, fairness in taxation from the standpoint of benefit and solvency. The analysis of ways to form a tax system that would meet the requirements of inclusive growth was conducted using the already compiled rating of taxes on the criterion of economic efficiency or their impact on economic growth [7]. The ways of reforming in accordance with the requirements of social fairness were determined taking into account that taxes can affect equity in the distribution of income and wealth not only directly – through the income redistribution effects that are the consequences of tax payment, they can change taxpayers’ behavior as well. In addition taxes can provide budgetary revenue that can be used to pay transfers to the poor. It means that even unfair but financially effective taxes, provided they are used to fund government programs to reduce inequality and poverty, can be part of a comprehensive growth-oriented tax reform. In the process of research the general scientific and special methods of cognition were used: abstract and logical assumptions – in the study of compliance of property taxes with the requirements of economic efficiency and social fairness; critical analysis of the different approaches to assessing the economic efficiency of periodic taxes on residential real estate; a combination of theoretical and
empirical analysis – in substantiating ways to reform real estate taxes in order to bring them closer to the requirements of inclusive growth and to the actual design of such taxes in OECD countries.

**Results.** According to the OECD Recommendations “Tax Policy reforms and Economic Growth”, periodic real estate taxes [7] distort the economic choice of taxpayers the least (and therefore the most effective). This kind of taxes takes the first place in the ranking according to this criterion. It means that these taxes are the easiest to adapt to the requirements of inclusive growth. To do this, it is only necessary to develop measures that increase their fairness. However, there are two points of view on this tax in theory, none of which can be considered the one that has won the majority of supporters. According to one of them, the real estate tax is neutral, according to another – distorting. The neutral nature of the real estate tax is substantiated by representatives of the “benefit theory” (Hamilton, B. (1975) [17], Fischel, W. (2000) [18]), according to which the tax is a payment for the benefits that each payer receives from the consumption of public goods funded with taxes. In turn, taxation on the principle of benefit provides for certain conditions: 1) mobility of taxpayers who can change their place of residence in search of jurisdiction (territorial community) that provides the most acceptable for each individual payer the correlation between real estate tax and public goods; precise zoning as a prerequisite for the homogeneity of each jurisdiction by type of building in which the property tax does not affect the consumption of housing and eliminates the problem of “free rider”; 3) the presence of a large number of competing jurisdictions as a prerequisite to realise the payer’s right to free choice. It is under these conditions the individual equivalence in real estate taxation is ensured (and the tax itself is converted into a lump sum (not deforming)), i.e. a correspondence is achieved between the amount of tax paid and the benefit from the consumption of public goods. The representatives of traditional and new views believe that real estate taxes are distorting taxes. In this case, according to the traditional views (G. Simon, D. Netzer), they are capitalized in the value of real estate (its price), and the end result of taxation depends on the elasticity of supply and demand for real estate by price. Real estate taxes are considered in the context of taxation of land and capital invested in improvements, including real estate other than land. The fact that the real estate tax may have different effects on land in contrast to other forms of capital (invested in real estate other than land) is a result of the difference in the elasticity of their supply.
The supply of capital is considered perfectly elastic, and the supply of land is considered perfectly inelastic. If the return on capital for owners is carried out at the nationally determined rent rate for capital (Rn), then in the result of the introduction of real estate tax (t) (in the context of capital tax invested in land improvements) the cost of capital will increase to Rn (1 + t) to keep the return on capital after tax at Rn, and the amount of capital in the jurisdiction, as well as demand for it will fall. Instead, the introduction of a land tax will result in its ideal capitalization in the price of land that will fall [19].

According to the new views (Mieszkowski, P., Zodrow, G. (1984)), real estate tax has two effects: the effect of “income tax” – the effect that results in a decrease in net return on capital in the amount of tax, and the effect of “excise tax” – the effect that causes a net redistribution of income between owners of factors of production and consumers [20]. To analyze these effects, Mieszkowski and Zodrow use a model with many assumptions, the main of which are the full mobility of capital in all jurisdictions, the division of jurisdictions into zones of high and low demand for public goods, restrictions on the use of lump-sum (non-deformable) taxes to fund public goods that encourages communities to introduce a real estate tax in order to provide additional funding. In the case of differentiated real estate taxation in jurisdictions with high tax rates the relative value of housing increases and the return on capital invested in real estate falls compared to jurisdictions with low tax rates. The result is an outflow of mobile capital from jurisdictions with high property taxes, as well as other losses, in particular in the form of job losses and a reducing of the tax base. The transfer of capital will take place until its return in all jurisdictions is equalized. In the end, it will be set at a lower level than before the introduction of real estate tax. Another direction of capital outflow due to the high real estate tax may be its outflow from the field of housing construction to other fields that will reduce the return on capital in the economy as a whole. The excise effect of the property tax is manifested in a distortion of consumption that will ultimately result in higher house prices and land prices, as well as lower wages in both types of jurisdictions. All mentioned above allowed the authors to conclude that the real estate tax leads to many distortions, especially in the distribution of capital, and therefore is a distorting tax.

The representatives of different theories explain the impact of periodic taxes on real estate and income redistribution in different ways. According to the theory of benefit, such taxes have limited opportunities
for redistribution, because under the conditions of unrestricted mobility, taxpayers can choose a jurisdiction where real estate tax will be an adequate payment for the benefits of consuming public goods provided in this jurisdiction.

According to the traditional views, periodic property taxes, in terms of land taxation, are progressive, as they fall more on the owners, who usually have higher incomes. However, a part of the tax burden, that falls on buildings (improvements) is distributed between economic agents both on the supply side and on the demand side. Because tenants tend to have lower incomes, this part of the tax burden is rather proportional or even regressive [21]. However, Netzer, D. (1966) suggested that the regression of real estate tax will be less if consumers who make decisions about housing, consider the prospects of income for periods exceeding one year [19].

According to the new views, the real estate tax as a form of capital tax has an important redistributive component, as its main burden is borne by the owners of capital (capitalists) [20]. At the same time the tax burden due to the outflow of capital from high to low tax sectors is distributed among all capital owners. As the latter usually have higher incomes the real estate tax becomes progressive. Regardless the theoretical ideas about the real estate tax, it is perceived as unfair in the public consciousness due to the following reasons: 1) the contradiction between the high market value of property owned by certain households and the low levels of their disposable income (due to retirement, job loss, temporary disability, etc.), in a result of which they may have difficulties in paying tax obligations; 2) imperfect assessment of the object of taxation both in the case of its determination on the basis of real estate area (such assessment does not take into account its quality and location) and on the basis of value (due to periodic revaluations and imperfect methods of assessment the object of taxation in the calculation of the tax liability may be significantly deviate from the market value of real estate). In particular, the value of real estate for tax purposes is not updated for many years in many EU member states. If difference between the appraised and market value of real estate are not substantiated it can cause unfair and unpopular property taxes.

By eliminating these causes of unfairness of periodic taxes on real estate (reducing their negative impact) it is possible to achieve their maximum compliance with the requirements of inclusive economic growth. To this end, the different approaches are used especially different types of tax benefits. Some of them, called “Quantity-Based
Restrictions” [22], are a kind of protection against excessive tax burden on low-income taxpayers. They work only when the amount of tax specified in the declaration exceeds the statutory percentage of income of the property owner. The consequence of such measures is to limit the number of beneficiaries and provide it only to those who need it most. Special benefits in many countries are provided for the elderly and people with disabilities. For example, in France, low-income people over the age of 75 are exempt from paying the tax, and in Denmark the people over the age of 67 pay the tax at a reduced rate with the actual amount of the benefit depending on the income and value of the property. In Greece, real estate tax benefits are provided to the unemployed, the disabled and families with four or more children. In Hungary, social housing and real estate of up to 100 m² in villages with less than 500 inhabitants are exempt from tax [23]. Another type of tax benefits is a tax rebate called “owner-occupied housing allowance” [2]. Although the latter is provided regardless of income, i.e. to all homeowners, and provides for tax exemption of part of the value (or area) of real estate used by the owner as primary housing (it gives additional progressiveness to real estate tax), the tax benefit can be set so that the low-income households living in a small house will not pay tax at all. This tax rebate may also contain a component that allows taxpayers to cover the depreciation of property – as an approximate amount of costs incurred by households to obtain imputed income from real estate. One of the ways to avoid arrears of real estate tax the persons experiencing temporary difficulties may be allowed to pay it not in a lump sum, but in installments. In addition, some real estate tax systems provide for the possibility of deferring the payment of real estate tax (including for the elderly – indefinitely) without paying penalties until the sale of property or death of its owner. In particular, there is a possibility of deferring the property tax in Denmark (for people over 65), France (in case of trouble), Germany, the Netherlands, Spain, Sweden (in case of unemployment or illness), Turkey and the United Kingdom [23]. In order to avoid injustice related to the mismatch of the value of the object of taxation to the market value of real estate, any increase in periodic real estate taxes should be accompanied by a revaluation of real estate that should be carried out regularly (for example, every five years or more), and the value of the property should be adjusted for inflation between revaluations. However, for certain groups of taxpayers, especially the elderly, a “frozen assessment" may be used which involves fixing the appraised value of real estate for tax
purposes, despite fluctuations in its market value. As a rule, the increase in the “frozen assessment” occurs only due to the annual adjustment of the tax base with the inflation index [24].

The introduction of a tax rate with a slight progressiveness can also help increase the fairness of the periodic real estate tax. For example, in Denmark, the residential property tax has a two-class progressive rate structure: property up to DKK 2.6 million is taxed at a rate of 1%, above this amount at a rate of 3%. A two-class progressive rate structure for single-family homes also exists in Germany (0.26% for single-family properties with an estimated value of up to € 38,347 and 0.35% for properties with an estimated value exceeding this amount) [23].

As for other property taxes (inheritance taxes, net property taxes, property transactions taxes), according to the OECD Recommendations, they are less favourable for economic growth than periodic real estate taxes and consumption taxes, but more favourable than personal income taxes. Among them, inheritance taxes are considered the least distorting, and property transactions taxes are the most distorting. The characterization of inheritance taxes as sufficiently effective is based on the assessment of their impact on incentives to work, savings and investments of both testators and heirs. In particular, it is considered that such a tax may, on the one hand, encourage the prudent conduct of the testator in order to compensate the loss of part of the inherited income through the payment of tax (income effect). On the other hand, because of the costs to be incurred for the transfer of the inheritance, the testator may be interested in increasing his lifetime consumption rather than saving (substitution effect). Which of the effects outweighs ultimately depends on the size of the tax rate(s). Given the preferential conditions of taxation of inheritance received by family members of the first degree of kinship, as well as the fact that an important motive for savings is the inheritance of property to immediate heirs, it can be concluded that in most cases inheritance tax will not demotivate savings. In addition, inheritance taxes, as a result of their payment after death, may have less of a negative impact on the testator’s investment decisions during his or her life than a comprehensive income tax. As for the impact of the tax on the behavior of the heirs, by reducing the amount of the inheritance, it can encourage the heir to work harder and make savings both before and after the inheritance. If we consider the

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3 This tax can be withheld both from the testators in the form of inheritance tax and from the heirs in the form of inheritance tax (on inherited property).
inheritance as one that is acquired without the heir’s own efforts, and therefore is an unforeseen income, then the taxation of it should not affect the behavior of the heir.

Without making significant distortions in the economic decisions of taxpayers, inheritance taxes are fair enough. First, the taxation of property received without the efforts of the heir is fairer than the taxation of income earned by one’s own labor. Second, inheritance taxes, especially when they imposed on heirs, reduce the concentration of wealth and help reduce inequalities in its distribution. Third, they reduce the unfairness associated with unequal opportunities of taxpayers. One of them receive inherit, which increases their solvency while others do not.

To ensure the inheritance taxes to contribute to inclusive growth the key is their design. In particular, T. Piketti and E. Saez, developing a theory of optimal capital taxation, found that given the high concentration of inherited wealth in countries where the share of wills in national income is high (for example, 15%, as in France) the optimal linear inheritance tax rate can be up to 60%, and the optimal tax rate applied to the leading owners of wealth can be even higher (70-80%), especially if the wills are large [25].

According to modern ideas, it is possible to increase the redistributive effect of inheritance taxes, and hence the impact on inequality in the distribution of wealth, by applying differentiated tax rates depending on the value of inherited property. This approach has become widespread in European countries such as Belgium (tax is levied at rates of 3 to 80%; they vary depending on the region, beneficiary and value of inherited property), Denmark (0-52.7%), Germany (7- 50%), France (5-45%), the Netherlands (10-40%), Great Britain (0-40%) and others [26].

One of the main arguments for the use of another property tax – the tax on the net value of property (net wealth) is its possible impact on the concentration of wealth that has reached excessive proportions in the world, and property inequality. Another argument for its introduction may be the lack of a well-designed personal income tax in the country, which would cover all types of personal income from capital. However, despite these arguments, the scope of the property tax in the world is narrowing. If in 1990 it was levied in 12 the OECD countries, in 2018 – only in three: Switzerland, Spain and Norway [27]. Austria, Denmark, Germany, the Netherlands, Finland, Iceland, Luxembourg and Sweden are among the countries that waived the tax in the mid-1990s. The
waiver of this tax can be explained by several reasons:

1) the tax is quite difficult to administer due to the wide range of objects of taxation, the possibility of evasion of declaring certain assets, problems with their assessment, the presence of a significant number of deductions and other tax benefits aimed at reducing the tax burden on the less affluent people or restrictions the number of its payers including only rich people;

2) the objects included in the tax base on net value property (it includes tangible and intangible assets owned by an individual: the real estate, financial assets, bank deposits, the share of property in business, etc., less liabilities on these assets) are also taxed. For example, it can be real estate tax, personal income tax. Therefore, if the latter are designed well enough, there is no need to tax the net asset value;

3) taxes on the net value of property are more distorting than taxes on inheritance and periodic taxes on real estate. In particular, compared to the latter, they distort the investment decisions of taxpayers, creating incentives for investment in tax-exempt assets, as well as for investments made through borrowed funds.

Given this fact, most countries are unlikely to consider the introduction of a property tax as part of a modern tax reform aimed at inclusive growth. However, if to use this tax is expedient the following aspects should be taken into account when the tax design is developed: 1) the possibility of choosing between a tax with a broad base (the choice in its favour involves solving the problem of preventing double taxation of assets) and a tax that will be paid only by the rich (this choice will require finding ways to reduce distortions caused by such tax); 2) the possibility of effective tax administration; 3) the public perception of the problem of income inequality and wealth and the severity of this problem in a particular country. Despite the theoretical estimates of real estate taxes as the most favorable for economic growth and the possibility of such a change in their design that would meet the requirements of inclusive growth, in most countries they do not play a major role, and the latter is characterized by a declining trend in the long

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4 The development of the tax in this direction is evidenced by the changes in its collection, made in 2019 in Argentina. Among them: the increase of the threshold of tax exemption from 1 050 000 ARS to 2 000 000 ARS; the introduction of a tax exemption for residential buildings, which are now subject to wealth tax only if their estimated value exceeds ARS 18 million; the replacement of the fixed tax rate with progressive ones, which increase with the value of taxpayers’ assets [28].
run. In particular, in the OECD countries, real estate tax revenues averaged about 8% of total tax revenues in 1965, compared to about 5.7% nowadays. However, during 2000-2017, the dynamics of tax revenues in different the OECD countries were not characterized by the same trends: 24 countries reported an increase in real estate tax revenues as a share of GDP, and 15 countries – a decline. Its largest growth was in Argentina, Belgium, the United States and France, and its decline – in Iceland, Sweden and Switzerland. In 2017 the amount of income collected from real estate taxes ranged from 0.2% of GDP in Indonesia to 4.4% of GDP in France. The real estate tax reforms have been limited in recent years, and the potential of this tax is not realized [28].

Conclusions and discussion. Thus, the main task of the tax policy aimed at ensuring inclusive economic growth is to find ways to resolve the fundamental contradiction between economic efficiency and social fairness of taxation. If in theory it can be solved in one of three ways – either by increasing the fairness of taxes, which are characterized by a high level of economic efficiency, or by increasing the efficiency of taxes with high redistributive properties, or by implementing measures that simultaneously can solve both problems, in practice (due to the inconsistency of the actual design of a tax to its theoretical model) is mostly used the third way, which allows to overcome the shortcomings of different taxes, increasing both their efficiency and fairness. Despite the fact that in the theory of taxation there is no single point of view in the assessment of economic efficiency and fairness of periodic real estate taxes, in the ranking of taxes compiled by the OECD experts on the criterion of economic efficiency, they take first place. As for other property taxes (inheritance taxes, net property taxes and property transaction taxes), according to the OECD Recommendations, they are less favorable for economic growth than periodic real estate taxes and consumption taxes, but more favorable than personal income tax and corporate income tax. Given mentioned above issues the reform of periodic real estate taxes in the process of building a tax system that meets the requirements of inclusive economic growth, should be in the direction of improving their fairness. The latter is possible through the introduction of tax benefits for the poor and the elderly, installments and deferrals of tax for those who are experiencing temporary difficulties and cannot meet tax obligations on time, the use of a moderately progressive scale of tax rates. Increasing the fairness of inheritance and gift taxes in the modern world is through the application of differentiated tax rates depending on the value of inherited property.
Regarding the tax on the net value of property, the scope of its use is characterized by a tendency to narrow.

In general, despite the high positions in the ranking on the criterion of economic efficiency of property taxes, their place in the tax systems of most OECD countries is quite modest indicating that their potential is no realized. One of the reasons for this situation is the narrowing of the tax base due to large-scale tax benefits that help mitigate tax unfairness. Thus, on the one hand, it is not possible to reduce the unfairness of property taxes without the application of tax benefits, but, on the other hand, their application hinders progressive changes in the structure of tax systems aimed at shifting the tax burden on real estate taxes. The ways to resolve this controversy should be the subject of further research.

References:


