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Tax on Capital Gains of Housing Estate; a Sustainable Source of Income for Municipalities and an Appropriate Tool to Control Speculation in the Housing Market

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Abstract: By expanding the scope and dimensions of urban life, municipalities, as the main charge of planning system and urban management, have great responsibility and commitment toward society and citizens. It is obvious that performing tasks and duties pertaining to municipalities requires financial resources and appropriate facilities. In our country, unsustainability of municipal revenues has been changed into as one of the main features of cities' finance. Thus, introducing sustainable source of income for municipalities can help remarkably functional independence and their continuity of servicing. One of the other problems of urban system in Iran is price volatility in the housing sector. This has resulted in deviation of capital toward housing speculation as well as disorders of other investment markets in the country because of structural problems of economy and inefficiencies of the government's policies resulting in reducing investment in economic productive sectors, particularly in some years. Therefore, it is necessary to adopt practical strategies to control speculation activities and fluctuations in housing prices by policy-makers. A tax base entitled "tax on capital gains of housing estate" has been introduced by using descriptive-analytical method. It can follow two purposes in urban management and planning system simultaneously. The first goal is to create sustainable revenues for municipalities by using the capacity of transactions and exchanges in housing estate market. The second purpose is to create an efficient and effective tool in management and policy-making of housing estate market aiming to avoid speculative trading in this market. Moreover, this policy is in accordance with paragraph 17 of general policies of resistance economy referring to increase in the share of tax revenues.
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1- Introduction

Urbanization and urban development are one of the contemporary phenomena. At the same time with increase in number of cities and urban population, one of the most major problems facing policy makers and urban planners is how to finance urban expenditures in a stable manner and to provide citizens with sufficient public services (Ghorbani & Azimi, 2014). Therefore, sustainable and independence of municipal revenue sources are of fundamental importance (Bahl et al., 2013). Sustainable sources of finance must be yielded from sources that rights of the posterity would not be violated, quality of life in metropolitan areas would not be damaged, and vital resources for future generations would not be ruined (Navabakhsh & Siahpoush, 2009). Furthermore, sustainable revenue sources play a remarkable role in municipalities' performance independence and service-providing continuity.

One of the problems of Iranian urban system is the price fluctuation in the housing sector. Because of the population pyramid and increase in demand caused by arrival of young population demanding house, on the one hand, and disorder in other investment markets due to economic problems, injection of unplanned liquidity and, continuous and substantial growth of the house prices, on the other hand, Iranian housing market nearly has become an investment market with guaranteed profit and low risk; thus, by provoking growth of the housing demand, speculative motivations has created or intensified price bubble in this market (Khodadadkashi & Razban, 2014). Some of Iranian researchers have explained existence of the speculative demand in housing market and its role in formation of the price bubbles (Gholizadeh & Kamyab, 2008; Khalili Araghi & Rahmani; 2001). International studies have also noted the direct impact of speculative demand on formation of price bubbles in the housing market (Malpezzi & Wachter, 2005).

In Iran, speculative motivations have paved the way for capitals to deviate towards intermediary sector, resulting in reduction of investment in productive economic sectors, particularly in some years. In contrast, the economy will enjoy increase in job opportunities, unemployment reduction and, in turn, economic growth and development, if capitals frozen in housing sector are mobilized into production sector and productive investment. Therefore, the question is: is there an instrument by which the both problem of municipal revenue instability and housing market speculation can be resolved? Research hypothesis is that introduction of a new tax basis, referred to as "tax on capital gain from real estate and housing", not only can be a stable revenue source for municipalities, but also can reduce speculative motivations in housing sector.

2- Literature Review

a) Foreign Researches

Theoretical studies and practical experiments in countries around the world show that taxation of capital gains on real estate can be used as an appropriate policy instrument. Countries choose the aforementioned policy to achieve different goals such as reducing income gap and inequality growth, mobilizing capitals, etc.

In the theoretical aspect, taxation of financial transactions with the goal of decreasing fluctuation in asset prices was firstly introduced by Keynes (1936) for capital market and afterwards by Tobin (1978) for money market (Aregger et al., 2013).

Eyraud (2014) argued that taxes on revenues from speculative activities in the housing market can reduce the entry of these types of investors to the real estate and housing market by moderating the expectation of profiting from the traders of this market compared to other investment opportunities, which may in some way prevent the formation of price bubbles and the big turbulence in this market.

Kholdy & Sohrabian (2011) noted that empirical evidence in some countries confirms that there is a convergence between asset bubbles and speculative activities, and speculative activities play a key role in determining housing prices.

Hsu & Yuan (2001) show that non-taxation of capital gain on housing in Hong Kong has resulted in concertation of capitals in housing sector and government does not have any tools to extract the capitals from that sector.

b) Iranian Researches

In their study, Zaer et. al., (2007) point out that taxation of land and building can propel housing market into efficiency and impede speculation in the market.

Abdi & Askariazad (2008) state that main objective of taxation of capital gain is to restrict speculative activities in the market.

Gholizadeh & Amiri (2013) assess housing sector-related tax regimes in countries around the world and conclude that governments, with the goal of controlling speculation in housing market, use different tax tools including taxation of capital gain on housing.

In their study "Role of Speculation in Variations of Housing Price in Iran (1991-2008)", Khodadadkashi & Razban (2014) put forward taxation as a solution to restrict speculative activities in housing market.

Other countries experience show that asset and land tax constitutes a part of local government's revenue in most countries. Asset tax is a stable and predictable revenue source for local governments and improves independence of local governments from central ones. Land and real estate tax was introduced in the Baltic states in the early 1990s and was put forward as an essential source of municipal tax revenue. In Estonia, land tax introduced in 1993. Objective of the imposition of land tax was to improve land use and the tax was mostly a source of revenue for local government. Land tax is the only tax that municipality of Estonia makes decisions regarding its rates independently. Estonia parliament specifies general framework of land tax rates for municipalities.

In countries such as Japan, Canada, China, and parts of Switzerland, municipalities are required to collect land tax. In Japan, fixed assets are evaluated by municipal officials and price of residential areas are approximated regarding archaism and reduction of their value relative to identical new residential areas. In Germany, department of finance, with collaboration of municipalities, evaluates real estates. In countries with federal system such as the United States, estate tax is not collected nationally but locally, therefore it varies by state. This type of tax depends on value and status of the estate while characteristics and conditions of its owner almost do not matter. Estate tax revenues belongs completely to municipalities. In Canada, estate tax in every province usually is collected in municipal level. In general, this tax is determined according to specified annual value of the estate and its rate varies by number of the floors and municipal area

(Zaer et.al, 2007). In the country, a fifty-percent discount is applied for amount of the estate gain (Harding, 2013). In India, housing tax is collected by municipalities, while one of the effective criterions for the tax amount is quantity of the infrastructures and its accessibility for the people (Sharma, 2008). Capital gain on real estate is taxed in Italy, unless the property is owned for more than five years, or it is owner's main home (Eyraud, 2014). Table 1 represents some information about other countries' experience in taxation of capital gain on real estate and its features.

Table1. Some Features of Taxation of Capital Gain on Real Estates in Different Countries

Country	Is capital gain on personal home taxed?	Is capital gain on real estate taxed?	Time length of holding the property to grant exemption or rate reduction (holding period test)
Czech Republic	No	Yes. It is considered as taxable income. Real estates occupied as personal home at least for two years or owned by the possessor for more than five years are exempted.	5 years
Denmark	No	Yes. It is taxed in a way similar to tax planning excluding personal owner-occupied home.	
Estonia	No	Yes. It is considered as taxable income.	-
Finland	No	Yes. It is considered as capital gain. Finland applies a minimum deduction of 20% of the sales price; but if the property has been held for at least ten years, the minimum deduction is 40%.	10 years
France	No	Yes. The country applies a 19% tax rate with some exemptions. Tax on capital gain from assets is calculated aside from other taxable incomes.	30 years
Germany	No	Yes. It is considered in general taxation.	10 years
Greece	Yes	Yes. A tax rate of 15% is applied.	-
Hungary	Yes	Yes. A tax rate of 16% is imposed.	15 years
Ireland	No	Yes. Tax on capital gain from assets is calculated aside from other taxable incomes.	-
Italy	No	Yes. A tax rate of 20% is levied. The property is tax exempted if it has been held for more than five years.	5 years
Lithuania	No	Yes. Tax rate is 15%, but if the property is a personal home, it is entirely tax exempted.	
Poland	No	Yes. It considered in general taxation. If the property has been held for more than five years, tax exemption is applied.	5 years
Portugal	No	Yes. Portugal includes 50% of gains on real estate as taxable income and further allows indexation if the gain is derived from a property that has been held for two years or more.	-
Slovenia	No	Yes. Depending on time length of holding the property, tax rate varies from 0% to 25%.	20 years
United Kingdom	Yes	Yes. Net capital gain up to a fixed amount is taxed with a rate of 18% and gains exceeding this amount are taxed with a 28% rate. Capital gains are taxed separately from other taxable income received by the individual.	-
Japan	Yes	Yes. Tax on capital gain made on the property decreases after 5 years. Capital gains are taxed separately from other taxable income received by the individual.	5 years
Korea	Yes	Yes. Tax on capital gain made on the property decreases after 10 years.	10 years
Turkey	Yes	Yes. If the property has been held for more than five years, tax exemption is applied.	5 years
United States	Yes. Some exemptions will be applied if the residential property has been held for more than two years.	Yes. If the property has been held for less than one year, it is taxed according to the individuals' general income tax rate. But if the property has been held for longer than one year, a separate rate will be applied.	1 year

Source: (Harding, 2013)

3- Theoretical Background

Taxation of Capital Gain on Real Estates and Housing

Tax on capital gain from real estate and housing ownership is a component of capital gains tax that most of advanced countries such as the Organization for Economic Co-Operation and Development (OECD) members have admitted and applied it as an element of income tax for a near century. This tax is levied on housing price growth, i.e. the difference in price between purchase and sale, depriving its owner of part of the capital gain. Given that capital gain on the housing in Iran, especially in large cities, often exceeds the average capital gain in many productive activities, a lot of capitals are deviated towards the sector and departing from productive ones. In other words, low riskiness of investment in housing against high riskiness of investment in production sector has led massive capitals into nonproductive activities in housing sector, i.e. purchase and sale of hosing with the aim of earning gain. In the economic view, this is an undesirable situation and can play a major role in spreading and intensifying intermediary activities, reducing productive investments, increasing unemployment rate, decreasing production and ultimately waning economic growth. This behavior is completely based on microeconomic theory on risk-averse individuals facing uncertain scenarios. According to the theory for individuals with high risk-aversion, utility of certain amounts outweighs average utility of uncertain amounts. As indicated in figure 1, for the public that are mostly unwilling to bear risk, average but certain gain made on ownership of estate and housing (point B) yields more utility than variable but uncertain gains from other economic sectors (utility level U(B) compared with the average of utility levels U(C) and U(A)). (Abdi & Askariazad, 2008).

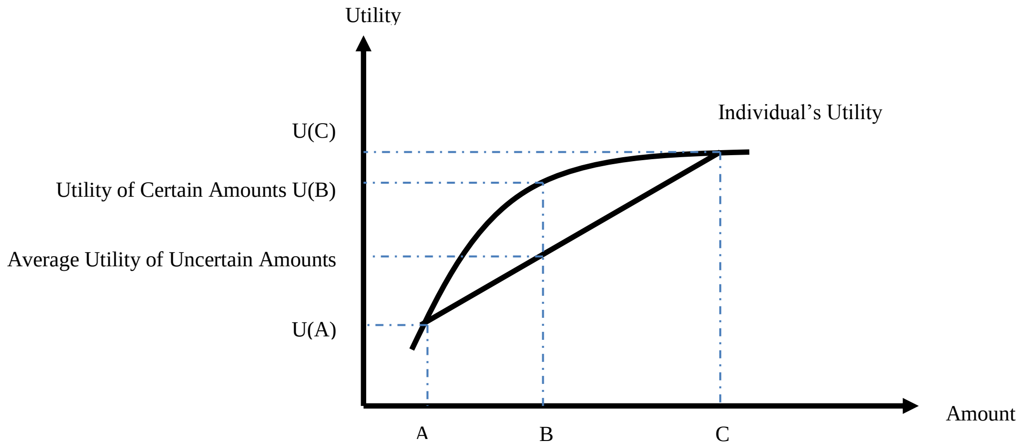

Fig1. Certain Compared with Uncertain Utility for Risk-Averse Individuals

Here, the raised question is how to hamper the deviation of capitals from productive sectors towards speculative activities in housing sector (activities that can play a major role in spreading and intensifying intermediary activities, reducing productive investments, increasing unemployment rate, decreasing production and ultimately waning economic growth). Evidence show that monetary policy does not work in controlling speculative motivations in housing sector because increased purchasing power caused by expansionary policies gives people more power to purchase and as a result more individuals with the speculative motivations participate in the market. Furthermore, contractionary policies decrease purchasing power of all individuals; thus, it seems that taxation of capital gain on real estates and housing as a policy tool can mobilize capitals and result in reduction and control of price fluctuations and speculative activities in housing sector.

Moreover, one can enumerate at least three other reasons as theoretical foundations or necessities for levying tax on capital gain made on real estate and housing:

1- Henry George, a nineteenth-century theoretician and philosopher, believes that taking a percentage of gains on land and real estates as tax is one of the fairest possible taxes, because it hinders gains of godsend sources to be exploited by an elite.

2- At the present time, according to existing tax regime procedures, difference between the sale price and purchase book-value is documented and is subject to income tax. However, Iran, contrary to most countries around the world, does not tax difference between sale price of real estate and housing and their purchasing value.

3- Many times it is observed that a person has purchased a property (including apartment, workhouse, land, and garden) and after a while, because of development of urban services (such as parks and recreation centers, medical centers, educational centers and access to public transport network), price of the property has been increased without being a result of the owner’s effort or general prices inflation. In this case, the owner has been rewarded a gain resulted from expansion of public goods and services, financed by central or local government’s public budget. Therefore, disregarding for distribution of the rents resulted by implementing urban development plans can lead to negative impacts on the desired development of the city (Meratnia, 2000).

The question is: should not people pay the cost of using public goods and, if so, what should be the basis? This question is answered in public finance literature. According to benefit principle, each user should participate in cost of provision of a commodity relative to his/her benefiting from the commodity. One aspect of benefiting from public services relates to increase in value of properties, thus it can be argued that value growth of individuals’ property should be taken as the basis for taxation. Therefore, in terms of economic theory, taxation of capital gain (on real estate, housing, etc.) is considered as justifiable (Carroll & Prante, 2012).

The Way of Taxing Capital Gains on Real Estate and Housing

Many times, housing market faces demand surplus. The surplus will lead suppliers and estate owners to neutralize any tax by increasing the price and to transfer the tax to buyers and this situation ultimately will result in more burden on residential house applicants and extra growth of housing price, thus, imposition of any type of tax cannot meet the need of policy-maker to control speculation in housing market.

A useful suggestion to the problem can be taxation of price growth of real estates and housing. The way of action in this tax basis is as follows: if price growth of real estates and housing was more than general inflation of the economy, the excess of price growth over the inflation is subject to price growth tax. It seems that this is the only instrument that does not contain cascading effects on prices, because, by levying tax on housing price growth, main part of price fluctuations beyond inflation will not be acquired by sellers but it will be taken as tax and this will result in reduction or even elimination of supplier's motivation to offer higher prices. On the other side, this new tax basis simply requires determination of necessary rates and specification of executive instructions and does not require complicated legitimation and formation of any particular institution. Implementation of this tax basis needs determination of two key rates: taxable price growth rate and tax rate on taxable price growth (Edwards, 2012).

With regards to the point that housing like other goods is facing general inflation of the economy, its nominal value should grow to the extent that its real value be maintained; thus, it is reasonable for housing price to be let to grow annually as much of general inflation of the economy (Pomerleau, 2014).

Another rate to be specified is the tax rate on taxable price growth. Generally speaking, controlling speculation in housing market by taxation of capital gain on real estate and housing requires levying a rate with a sufficient deterrence. The rate must at least be determined as high as it equalizes marginal gain of housing sector with average gain of the whole economy[1] (Tsai, 2013).

After determining the two rates, with regards to self-controlling mechanism of this tax basis, one can claim that implementation of the tax does not require establishing particular institutions and legislations to impede tax evasion, because, firstly, all things regarding housing transfer are registered in notary publics; thus, it will be impossible for a transaction to be registered without paying tax on price growth. Secondly, respecting conflict of interests of the two parties (buyer and seller), transaction security of the tax is very high and tax evasion almost is impossible. For example, it is unlikely that transactions are not registered in notary publics in order to evade the tax, because buyers avoid any non-official transaction as they desire not only to transact with security, but also to prevent any likely fraud by the seller. This will entail registering all housing transactions in official notary publics, without any force by the government. Furthermore, it is impossible for seller and buyer to collude with each other, because if the seller suggests paying a part of the tax to the buyer in order to evasion and the buyer consents to documentation of the tax-exempted price instead of the actual price, the buyer will not give his/her consent, because, the present buyer will be the future seller and today's documented price will be the tomorrow's price in the case of calculating tax exemption; therefore, in the time of selling the property, he/she will have less margin to be taxed (Zhang, 2013).

4- Research Method

Here, by explaining some problems of the Iranian macro-economy including speculation in housing market and uncertainty and instability of municipalities' revenue, we try to introduce a new tax basis that simultaneously mitigates both problems. In the process of doing this, we apply descriptive-analytic method.

1- It should be noted that levying higher rates shifts investors' attention from housing sector and can intensify extraction of frozen capitals from the sector.

5- Results

Based on the presented theoretical and empirical background, current part of the paper represents functions of tax on capital gain from real estate and housing, as well as fundamental considerations regarding the tax basis.

Tax on Capital Gain from Real Estate and Housing, a Useful Instrument to Control Speculation in Housing Market

In Iranian economy, due to increase in liquidity and emerging a phenomena referred to as unplanned capitals (particularly in recent years), problems caused by credit resources, as well as non-attraction of some productive activities in comparison with other economic activities, many times the liquidity is led into non-productive sectors and is applied to speculate on assets such as housing and real estates. In these situations, some monetary and fiscal policies by the government could firstly recover economic prosperity so that, because of very likely long-term benefits, enabling business environment of these sectors encourages economic agents to act in the sectors. Secondly, the government should raise cost of mobilizing unplanned capitals into non-productive sectors (Gholizadeh & Amiri, 2013). A solution can be taxation of gain on speculative activities.

Collecting this type of tax, by adjusting speculators' profit expectations in comparison with other investment opportunities, can decrease their participation in housing and real estate market and partly hinder price bubbles formation and huge fluctuations in the market.

In order to separate consumption demand and speculative demand in this tax, the first property that is individuals' consumption demand can be exempted. In addition, in order for this tax not to result in negative impact on housing production, agents that produce and supply housing units during specific time intervals can be exempted; thus, this tax solely targets speculative tax and raises cost of these demands in urban land and housing market. Therefore, with regard to above arguments and following considerations, tax on gain from real estate and housing does not affect cost of productive investment and consumption demand; hence, government (or local governments), by levying tax on gain from real estate and housing, can restrain entry of non-productive capitals into this sector.

Tax on Capital Gain from Real Estate and Housing; a Stable Revenue Source for Municipalities

In a general classification, municipal revenue sources are divided into internal and external ones. In terms of revenue stability, internal revenues[1] are more stable than external ones[2] (Sharzei & Majed, 2011). In other words, revenues collected by municipalities from inside of cities, such as tax and duties, provide more financial stability than other revenue sources, such as government aid and loan.

Assessment of municipal revenue sources shows that stable sources such as land and real estate tax, and revenues yielded from service provision are relatively neglected and attention is given to instable revenues such as the so-called "density permits" duties, building violation mulcts, and the Article 100 duties;[3] thus,

1- It consists of two group of revenue sources: revenues from duties or taxes and non-tax revenues. Revenues collected from service provision and mulcts are considered as non-tax revenues.

2 External revenues consist of government aids and loans. These sources consist of those that are collected outside of the municipality organization.

3- An article of Iranian Municipalities Legislation that specifies penalty of constructing without (or inconsistent with) a license.

their portion in total revenues has been increased.

At the moment, systems of taxing real estates (e.g. tax on housing gain) has been applied as a main factor to increase stable revenues in local governments of countries around the world.

According to economic texts, stable revenue briefly has five characteristics: 1- its source is immortal or has alternative(s); 2- it is continuously collectable; 3- it does not oscillate with financial fluctuation; 4- it increases in step with costs rising; and 5- it does not deteriorate urban development (Ziari & Mahdian Behnammiri, 2013).

According to the definition of tax on capital gain from real estate and housing, value of this tax basis is largely dependent on municipal expenditures and relates to those costs that leads the estates and buildings to increase in value. Moreover, this tax is rarely affected by recession and prosperity cycles of housing market; thus, from this point of view, the tax is viable.

Furthermore, since origin of the tax is effective urban development expenditures that increase the value of urban properties, and with regard to continuity of municipalities' development expenditures, this revenue source is stable and continual and can be collected continuously. On the other hand, since this tax has a direct relation with maintenance of urban space, it has another aspect for sustainability.

Economists consider tax on real estate and housing as an appropriate tax for local governments because it is based on benefits that every person receives from urban services (Bird and Slack, 2013) and, of course, there is a relation between services financed at local level (e.g. establishing schools, access to roads and expressways etc.) and gains related to value of properties (Fischel, 2001). In addition, it is difficult for taxpayers to evade the tax on these assets. Local government can easily control real estate laws and they have necessary instruments to force individuals to pay the tax. Also, because local officials have more information regarding real estate and housing than central government, they have advantage in collecting this type of tax; thus, asset tax, compared with other taxes (including consumption and income tax), can be considered as a relatively stable revenue source for municipalities. On the other hand, this type of local tax increases local power and accountability of local governments (municipalities) (Bird, 2000).

Fundamental Considerations in Designing a System to Tax Capital Gain from Real Estate and Housing

In designing a system to tax capital gain from real estate and housing, issues, such as the way of treating inflation (nominal increase in value of assets), time length of holding the asset, specifying tax basis, exemption thresholds, regional exemptions and so on, need to be considered. Some of the issues are presented in the following.

Capital gain and inflation: Increase in value of an asset caused by general growth of prices is a nominal increscent and is not included in capital gain. If value increase of the property is not indexed and the difference in value between of purchase and sale price is taxed, then this tax would not be an income tax but a wealth tax. Therefore, in designing system of tax on capital gain, indexation must decidedly be considered and real increase in value must be taken as tax basis.

It is important to take attention to the above point in economies with high inflations, like Iran, because if the indexation is not taken account, economic actors and even buyers and sellers without any speculative motivations often have to pay major part of their assets increased nominally as tax. [1]

Long-term and short-term capital gain: Defining capital gain as a tax basis without considering time length of holding the asset is of defects. In legislation of some countries, only short-term (usually one year or less) transfers or capital gains are taxed and sale of assets in long-term is exempted or taxed with a lower rate.[2] It is done because goal of tax regime is to tax speculative activities and to control them and ultimately to support long-term investment; thus, lowering tax rate of long-term capital gain encourages risk taking and entrepreneurship in the economy (Burman & Patrick, 2012). Levying this tax on short-term transactions increases cost of transferring assets and restricts demand and supply of assets in short-term. This action ultimately controls and restricts speculation in market for this type of assets.

In specifying optimal tax rate on short-term and long-term ranges, two matters need to be considered simultaneously. If the short-term rate of tax on capital gain is higher than the long-term one, speculative motivations in the economy will decrease that is considered desired for the economy. At the same time, this will result in freezing properties, i.e. property owners put sale of the property off to benefit the lower tax rates. This leads to delay in applying the property in higher return investments. Therefore, it is necessary to choose optimal short-term and long-term tax rate on capital gain.

Capital gain and capital loss: Sometime realized sale price of the property is less than its purchasing price and sometimes maintenance costs of the property and transaction cost are greater than the capital gain. In these cases, property owner terminologically suffers capital loss; thus, tax system must determine the way of treating the issue. Can capital loss in an asset be exchanged with capital gain in another asset? In addition, can capital loss in current period be taken into account as capital cost in the next period? It is obvious that every method has different impacts on the economic system.

Separating consumption and investment assets: It is necessary to distinguish between transactions for consumption from other transaction. By selling and purchasing assets, many people do not intend to yield gain but they solely aim to upturn their residential or business property. If these people's capital gain is taxed, their ability to upturn their property (often with consumption aims) will decrease. In taxation of capital gain on property and housing, various methods can be used to separate the transactions, including:

1) Exemption of owner-occupied property, regardless of number of transactions made on it

2) Exemption of owner-occupied property provided that it is not transacted more than one time during a year or particular years.

However, if selling and purchasing of asset is intended to investment, productive and speculative investment need to be separated.

Specifying exemptions for underdeveloped areas and urban old textures: One of the main functions of taxation of capital gain

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1- In particular cases, it is possible for growth of housing and property price index to be more than growth of general prices index. In these cases, it is necessary to adjust capital gain to inflation rate of the asset group.

2- See table 1 for more details.

on property and housing is to restrain or reduce speculative demand in housing market and subsequently to control price fluctuations.

One requirement of achieving the goal is to reduce housing demand in populous cities and provide incentives to non-immigration. Exemption of underdeveloped and underprivileged areas from paying tax on capital gain of property and housing can motivate investors to pursue more growth of housing price in these areas. This policy can act as a stimulus, shifting capitals from more developed area towards less developed ones, and improving old textures with the aim of profit making. This situation will facilitate development of these areas;[1] thus, will allay migration from less developed areas towards more developed ones.

Some Legal Backgrounds Regarding Tax on Capital Gain from Property and Housing in Iran

Although laws and regulations regarding taxation shows that Iranian legal system has not considered tax on capital gain from property and housing, but, with recourse to various laws, cases can be found that their rationale is similar to tax on capital gain from property and housing and they can be used to introduce the new tax basis to the country's legal system. In section 3 and 4, General Policies of the System Regarding Municipalities[2] has emphasized the importance of providing stable sources in urban and rural development and management. In section A, Article 174 of the Fifth Five-Year Development Plan, the legislator requires Islamic City Councils and municipalities and other related entities to consider a system for stable revenues of municipalities by reducing fees of construction permits for business, office, and industrial application appropriate with residential use of the same area regarding the territorial conditions and local situation as well as transmuting these fees into service provision duties of instructed units and duties of value added of lands and properties caused by implementing urban development plans, until end of the first year of the five-year plan.

In article 23 of Comprehensive Plan for Stable Revenues and Other Revenues Sources of Tehran Municipality,[3] in order to manage land and building market and hindering speculation over it and balancing value added of construction sector with other productive sectors, Tehran Municipality is required to draft a bill on the way of collecting duties from value-added caused by urban construction activities and increase in value of assets (land, real estate) caused by urban development actions as of enouncing the act as long as one year and a half and submit it to the Tehran City Council. Also, Tehran City Council enacted an act titled "determination of financial criteria and amendment of the way of collecting duties from urban properties in enforcing the new land-use plans",[4] article 2 of which specifies that "with reference to the section 1 of appendix 5 of Master Plan Document, as of enouncement date of this

1- Based on the same argument, exemptions can be granted to urban old textures to stimulate mobilization of capitals from other urban areas towards old textures in order to increase investment in these textures. Therefore, from this point of view, the tax can be also used by municipalities as a policy tool to develop urban old textures.

2- Imparted by the leader Ayatollah Khamenei at February 15, 2011.

3- Enacted during 64th, 66th, and 68th official-public special and ordinary sessions of the Tehran City Council in January, 2008.

4- February 14, 2010.

act and simultaneously with announcing and enforcing the new land-use plans, Tehran Municipality is required to collect a special duty named “score of use in zoning” of the property relative to admissible volume of massing according to the criteria and regulations when issuing building license from owners that their properties use is changed and zoning-to-massing score will cause their property value to increase, and to deposit it in a bank account and expend it on acquisition of land and properties and plans for urban development enacted every year by Tehran City Council simultaneous with Tehran Municipality’s budget.

In section 16 and 18 of the Urban Rehabilitation and Development Law (enacted at November 28, 1968), a duty named “Quality Due” was introduced. Section 18 of the law specifies evaluation of properties and determining compensation and paying it to owners whose property has been seized entirely or partly during enforcement of rehabilitation plans, construction, reparation and development of pathways and provision of public needs. The law also points out that owners whose property quality has increased by enforcement of those plans must pay the Quality Due. However, Quality Due Law was abolished entirely by the Quality Due Abolishment Law (enacted at November 18, 1981).

6- Conclusion and Discussion

Nowadays, lack and instability of Iranian municipalities’ some revenue sources and speculative demand in housing market that intensify price fluctuations are considered as two economic problems of the country. According to arguments represented here, it can be explained that introducing the new tax basis, that is tax on capital gain from property and housing experienced in countries around the world, to Iran will mitigate the two problems significantly. This tax (with keeping in mind the considerations described above) is imposed on the growth of hosing price, i.e. the difference between buy and sell price; thus, it dispossesses the owner of part of the capital gain made from ownership of real estate.

This tax basis not only provide new stable revenue sources for municipalities, but also, by controlling price fluctuation, can play a major role in hindering shifting capitals towards housing sector with the aim of speculative activities. In other words, taxation of gain on speculative activities in housing market, by adjusting speculators expectations regarding profits of this market compared to other investment opportunities, can decrease participation of these investors (speculators) in property and housing market and this will hider formation of price bubbles and acute fluctuations of the market. Ultimately, this will result in meeting consumption demand more easily and improving urban welfare and life quality.

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