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LAND TENURE JOURNAL

REVUE DES QUESTIONS FONCIÈRES

REVISTA SOBRE TENENCIA DE LA TIERRA

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The *Land Tenure Journal* is a peer-reviewed, open-access flagship journal of the Climate, Energy and Tenure Division (NRC) of the Food and Agriculture Organization of the United Nations (FAO). The *Land Tenure Journal*, launched in early 2010, is a successor to the *Land Reform, Land Settlement and Cooperatives*, which was published between 1964 and 2009. The *Land Tenure Journal* is a medium for the dissemination of quality information and diversified views on land and natural resources tenure. It aims to be a leading publication in the areas of land tenure, land policy and land reform. The prime beneficiaries of the journal are land administrators and professionals although it also allows room for relevant academic contributions and theoretical analyses.

REVUE DES QUESTIONS FONCIÈRES

La *Revue des questions foncières* est une publication phare, accessible à tous et révisée par les pairs de la Division du climat, de l'énergie et des régimes fonciers (NRC) de l'Organisation des Nations Unies pour l'alimentation et l'agriculture (FAO). La *Revue des questions foncières*, lancée au début 2010, est le successeur de la revue *Réforme agraire, colonisation et coopératives agricoles*, publiée par la FAO entre 1964 et 2009. La *Revue des questions foncières* est un outil de diffusion d'informations de qualité et d'opinions diversifiées sur le foncier et les ressources naturelles. Elle a pour ambition d'être une publication de pointe sur les questions relatives aux régimes fonciers, aux politiques foncières et à la réforme agraire. Les premiers bénéficiaires de la revue sont les administrateurs des terres et les professionnels du foncier, mais elle est également ouverte à des contributions universitaires et à des analyses théoriques pertinentes.

REVISTA SOBRE TENENCIA DE LA TIERRA

La *Revista sobre tenencia de la tierra* es una revista insignia, de libre acceso, revisada por pares de la División de Clima, Energía y Tenencia de Tierras (NRC) de la Organización de las Naciones Unidas para la Alimentación y la Agricultura (FAO). Es la sucesora de *Reforma agraria, colonización de la tierra y cooperativas*, que se publicó entre 1964 y 2009. La *Revista sobre tenencia de la tierra*, cuyo primer numero apareció a comienzos de 2010, es un medio de difusión de información de calidad que proporciona opiniones diversas sobre la tenencia de la tierra y los recursos naturales. Aspira a ser una publicación líder en el sector de la tenencia de la tierra, la política agraria y la reforma agraria. Los principales beneficiarios de la revista son los administradores de la tierra y los profesionales del sector aunque también da espacio a contribuciones académicas relevantes y análisis teóricos.

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Preface

Thematic issue on property valuation and taxation in Europe and Central Asia

This thematic issue on property valuation and taxation was conceived as a compendium of good practices and lessons learned in the context of the *Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries and Forests in the Context of National Food Security* (the Voluntary Guidelines). It marks a successful outcome of a knowledge project carried out jointly by the World Bank and FAO in 2014-2015. It is our great pleasure through this publication to pay tribute to yet another manifestation of our long-term and fruitful global cooperation in the broader field of land tenure governance.

The Voluntary Guidelines address valuation and taxation as key elements in the administration of tenure and emphasise the core role of valuation and taxation in promoting broader social, economic, environmental and sustainable development objectives and providing for effective financing of decentralized government levels and local provision of services and

Préface

Numéro thématique sur l'évaluation et l'imposition des biens immobiliers en Europe et Asie centrale

Ce numéro thématique sur l'évaluation des biens fonciers et l'imposition est un recueil de bonnes pratiques et d'enseignements à tirer qui s'inscrit dans le contexte des *Directives volontaires pour une gouvernance responsable des régimes fonciers applicables aux terres, aux pêches et aux forêts dans le contexte de la sécurité alimentaire nationale* (les Directives volontaires). Il présente un projet d'approfondissement des connaissances conjointement réalisé par la Banque mondiale et la FAO en 2014-2015. Nous avons ainsi le plaisir de rendre hommage à la coopération mondiale sur le long terme mené de manière fructueuse dans le domaine plus large de la gouvernance foncière.

Les Directives volontaires considèrent l'évaluation des biens et la fiscalité comme des éléments clés de l'administration foncière et mettent l'accent sur le rôle central de l'évaluation et de l'imposition des biens fonciers dans la promotion des objectifs sociaux,

Prefacio

Edición temática relativa a la valoración y la tributación de bienes raíces en Europa y Asia Central

La edición temática sobre valoración y tributación de bienes raíces se concibió como un compendio de buenas prácticas y enseñanzas aprendidas en el contexto de las *Directrices voluntarias sobre la gobernanza responsable de la tenencia de la tierra, la pesca y los bosques en el contexto de la seguridad alimentaria nacional* (en adelante, las Directrices voluntarias). Marca el formidable resultado de un proyecto de conocimientos que el Banco Mundial y la FAO realizaron conjuntamente en el período 2014-2015. Es un gran placer para nosotros rendir homenaje por medio de esta publicación a una manifestación más de nuestra fructífera cooperación mundial a largo plazo en la esfera más general de la gobernanza de la tenencia de la tierra.

En las Directrices voluntarias se trata sobre la valoración y la tributación como elementos fundamentales para la administración de la tenencia y se hace hincapié en la función central de estas a la hora de

infrastructure. The World Bank and FAO have supported reforms in the land sector in Europe and Central Asia (ECA) since the early 1990s. The World Bank has funded 42 land projects in 24 ECA countries in support of reforms in land, land administration, and land management, many in cooperation with FAO. Recently, the World Bank and FAO land administration teams have faced growing interest by ECA countries seeking to increase local revenues, enhance state land management practices, and define state asset values accurately. To take stock of such developments, the "Property Valuation and Taxation for Improving Local Governance in ECA" project focused on specific cases of property valuation and property tax reforms in a number of ECA countries during a regional conference held in Vilnius, Lithuania in June 2015, organized by the Centre of Registers of Lithuania.

This thematic issue on property valuation and taxation in ECA features an overarching summary and nine country case studies: Albania, Kazakhstan, Lithuania, Moldova, the Netherlands, Poland, Serbia, Slovenia and Turkey which

économiques, environnementaux et de développement durable et la mise en place de financements efficaces à des niveaux décentralisés de l'État ainsi que des services et des infrastructures au niveau local. La Banque mondiale et la FAO soutiennent les réformes du secteur foncier en Europe et Asie centrale depuis le début des années 1990. La Banque mondiale a financé 42 projets de terrain dans 24 pays d'Europe et d'Asie centrale pour soutenir les réformes foncières et l'administration et la gestion des terres, en coopération avec la FAO dans de nombreux cas. Récemment, les équipes de la Banque mondiale et de la FAO travaillant sur l'administration des terres ont voulu répondre à l'intérêt croissant des pays de l'Europe et de l'Asie centrale qui cherchent à augmenter les revenus locaux, à améliorer les pratiques de gestion des terres de l'État, et à estimer la valeur des biens fonciers de l'État avec précision. Pour ce faire, un projet d'évaluation des biens immobiliers et de fiscalité foncière pour améliorer la gouvernance locale en Europe et en Asie centrale, axé sur des cas précis d'évaluation des biens et de

promover objetivos sociales, económicos, ambientales y de desarrollo sostenible más amplios y proporcionar una financiación eficaz a los niveles descentralizados de gobierno y para la prestación de servicios e infraestructura. El Banco Mundial y la FAO han respaldado reformas en el sector de la tierra de Europa y Asia Central desde principios de la década de 1990. El Banco Mundial ha financiado 42 proyectos de tierras en 24 países de esta región en apoyo de reformas agrarias, de administración y de gestión de la tierra, muchos de los cuales en cooperación con la FAO. Recientemente, los equipos de administración de tierras del Banco Mundial y la FAO han respondido al creciente interés de los países de Europa y Asia Central buscando incrementar los ingresos locales, perfeccionar las prácticas estatales de gestión de la tierra y definir el valor de los activos estatales con precisión. Para hacer un balance de tales progresos, el Proyecto de valoración y tributación de bienes raíces para mejorar la gobernanza local en Europa y Asia Central se centró en casos específicos de reformas a la valoración y la

were developed on the basis of the detailed country reports presented during the Vilnius conference. The thematic issue showcases countries at varying stages in the development of mass valuation systems utilizing land registry and cadastre records, and value-based recurrent property taxes, ranging from well-established systems to countries that only carried out pilot studies or were considering their options. These experiences indicate that mass valuation systems are beneficial beyond taxation, serving multiple purposes from increasing access to real property market information to improving accuracy of corporate and public asset values, and providing a benchmark for fair compensation. With a proper infrastructure in place value-based property taxes can be designed to be economically efficient and equitable. They can play important roles in financing local governments and in national tax systems. Their visibility means that their imposition is a sensitive issue and the case studies include ones from countries where their development has been impeded. The case studies have identified some key conditions that

réforme de l'imposition foncière d'un certain nombre de pays de l'Europe et de l'Asie centrale, a été développé au cours d'une conférence régionale tenue à Vilnius, en Lituanie, en juin 2015. Cette conférence a été organisée par le Bureau des registres de la Lituanie.

Ce numéro thématique sur l'évaluation des biens fonciers et l'imposition foncière en Europe et en Asie centrale propose une brève synthèse et neuf études de cas nationales sur l'Albanie, le Kazakhstan, la Lituanie, la Moldavie, les Pays-Bas, la Pologne, la Serbie, la Slovénie et la Turquie réalisées à partir des rapports nationaux détaillés présentés au cours de la conférence de Vilnius. Ce numéro thématique présente des pays qui en sont à des stades différents de développement de leur système d'évaluation sur large échelle des biens fonciers sur la base des enregistrements au cadastre et des impôts fonciers fondés sur la valeur des biens. Le prisme est large entre les systèmes nationaux bien établis et les pays qui n'en sont encore qu'au stade de l'étude pilote ou qui envisagent les diverses options qui s'offrent à eux. Ces expériences

tributación de bienes raíces en una serie de países de la región durante una conferencia regional organizada por el Centro lituano de registros, que tuvo lugar en Vilna (Lituania) en junio de 2015.

En esta edición temática relativa a la valoración y la tributación de bienes raíces en Europa y Asia Central se ofrece un resumen general y nueve estudios de casos nacionales —a saber: Albania, Eslovenia, Kazajstán, Lituania, Moldova, los Países Bajos, Polonia, Serbia y Turquía—, que fueron elaborados sobre la base de los detallados informes nacionales presentados durante la conferencia celebrada en Vilna. En esta edición temática se exponen varias etapas del desarrollo de los sistemas de valoración en masa de los países, que van desde países con sistemas bien establecidos a países que solo realizaron estudios experimentales o estaban estudiando sus alternativas, empleando para ello los documentos de los registros y catastros de tierras y los impuestos recurrentes sobre bienes raíces basados en su valor. Estas experiencias indican que los sistemas de valoración en masa son beneficiosos más allá de la

aid the success of property tax reform, including the adoption of a valuation infrastructure, and the main areas in which work should be undertaken. Anticipating a broader, global interest we hope that this set of experiences will be valuable for practitioners and readers outside the ECA region, too.

We would like to express our sincere gratitude to all the authors, to the guest editor, and many others who have contributed to this themed edition of the *Land Tenure Journal* on property valuation and taxation in Europe and Central Asia.

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montrent que les systèmes d'évaluation globale apportent de nombreux choses au-delà de l'apport financier, puisqu'ils ont des fins multiples allant de l'augmentation de l'accès à l'information sur le marché des biens immobiliers à l'amélioration de la valeur des biens publics et privés, et qu'ils fournissent un point de référence pour une rémunération équitable. Une infrastructure adéquate permet d'établir des taxes foncières axées sur la valeur économiquement efficaces et équitables. Elles peuvent jouer un rôle important dans le financement des collectivités locales et dans les systèmes fiscaux nationaux. Les questions d'impositions fiscales sont un sujet sensible et certaines études de cas montrent que le développement de tels systèmes peut être parfois entravé. Les études de cas ont identifié certaines conditions clés qui facilitent les réformes de la fiscalité foncière, notamment par l'adoption d'une infrastructure d'évaluation, et l'identification des principaux domaines dans lesquels des travaux devraient être entrepris. À un niveau plus large encore, nous espérons que cette série d'expériences intéressera également les spécialistes

tributación, ya que tienen múltiples finalidades, desde incrementar el acceso a la información sobre el mercado de bienes raíces hasta aumentar la exactitud del valor de los activos públicos y empresariales, y proporcionan un punto de referencia para ofrecer una indemnización justa. Con una estructura adecuada en pie, pueden diseñarse impuestos sobre bienes raíces basados en su valor de modo que sean equitativos y eficientes desde el punto de vista económico. Pueden desempeñar una función importante a la hora de financiar a gobiernos locales y en los sistemas tributarios nacionales. Su visibilidad hace que su imposición sea una cuestión delicada y entre los estudios de casos cabe destacar algunos países donde se ha impedido su desarrollo. Gracias a los estudios de casos, se han identificado algunas condiciones fundamentales que contribuyen al éxito de la reforma al impuesto sobre bienes raíces, como la adopción de una infraestructura de valoración, y las esferas principales en las que se debería trabajar. Previendo un mayor interés a nivel mundial, esperamos que este conjunto de experiencias también resulte valioso para profesionales y

et les lecteurs appartenant à d'autres régions que celles de l'Europe et de l'Asie évoquées dans ces articles.

Nous tenons à exprimer notre sincère gratitude à tous les auteurs ainsi qu'à l'éditeur invité, et aux autres personnes qui ont contribué à cette publication de la *Revue des questions foncières* sur l'évaluation des biens fonciers et la fiscalité en Europe et en Asie centrale.

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especialistas fuera de la región de Europa y Asia Central.

Quisiéramos expresar nuestro más sincero agradecimiento a todos los autores, al editor invitado, y a muchas otras personas que han contribuido a la realización de esta edición temática de la *Revista sobre tenencia de la tierra* relativa a la valoración y la tributación de bienes raíces en Europa y Asia Central.

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PROPERTY VALUATION AND TAXATION FOR FISCAL SUSTAINABILITY AND IMPROVED LOCAL GOVERNANCE in the Europe and Central Asia region

ÉVALUATION DES BIENS FONCIERS ET FISCALITÉ EN TERMES DE VIABILITÉ BUDGÉTAIRE ET D'AMÉLIORATION DE LA GOUVERNANCE LOCALE en Europe et Asie centrale

LA VALORACIÓN Y LA TRIBUTACIÓN DE BIENES RAÍCES A FAVOR DE LA SOSTENIBILIDAD FISCAL Y UNA MEJOR GOBERNANZA LOCAL en la región de Europa y Asia Central

ABSTRACT

MASS VALUATION SYSTEMS

VALUATION INFRASTRUCTURE

RECURRENT TAXES ON IMMOVABLE PROPERTY

VALUE-BASED PROPERTY TAXATION

TRANSITION COUNTRIES

This article presents the context of and conclusions from a knowledge project into property valuation and taxation in the Europe and Central Asia (ECA) region within the framework of the *Voluntary Guidelines on the Responsible Governance of Tenure* carried out by the World Bank, FAO and the Centre of Registers of Lithuania. The intention was to identify the lessons learned from valuation and property tax reforms and good practice that could be shared. The research was primarily based on nine country case studies from countries at varying stages in the development of mass valuation systems utilizing land registry and cadastre records, and value-based recurrent property

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SYSTÈME D'ÉVALUATION GLOBAL

ÉVALUATION DES INFRASTRUCTURES

IMPÔTS RÉCURRENTS SUR LES BIENS IMMOBILIERS

IMPOSITION BASÉE SUR LA VALEUR DES BIENS

PAYS EN TRANSITION

Cet article présente le contexte et les conclusions d'un projet de consolidation des connaissances sur l'évaluation des biens et d'imposition foncière en Europe et en Asie centrale développé dans le cadre des *Directives volontaires pour une gouvernance responsable des régimes fonciers* par la Banque mondiale, la FAO et le Bureau des registres de la Lituanie. L'objectif était d'identifier les enseignements tirés de l'évaluation des biens et de la réforme de l'impôt foncier et les bonnes pratiques qui pourraient être diffusées. Les recherches se sont principalement axées sur neuf études de cas nationales de pays qui en sont à des stades différents de développement de leur système d'évaluation globale des biens

SUMARIO

SISTEMAS DE VALORACIÓN EN MASA

INFRAESTRUCTURA DE VALORACIÓN

IMPUESTOS RECURRENTES SOBRE BIENES RAÍCES

IMPUESTOS SOBRE BIENES RAÍCES BASADOS EN SU VALOR

PAÍSES DE TRANSICIÓN

Este artículo presenta el contexto y las conclusiones de un proyecto de conocimientos sobre valoración y tributación de bienes raíces en la región de Europa y Asia Central en el marco de las *Directrices voluntarias sobre la gobernanza responsable de la tenencia* llevado a cabo por el Banco Mundial, la FAO y el Centro de Registros de Lituania. Su finalidad consistía en identificar las enseñanzas aprendidas de las reformas en la valoración y la tributación de bienes raíces, y las buenas prácticas que podían compartirse. La investigación se basó principalmente en nueve estudios de casos provenientes de países en diversas etapas del desarrollo de sistemas de valoración en masa, que van desde países con sistemas

taxes, varying from those with well-established systems to countries that had carried out pilot studies or were considering their options. Mass valuation systems are beneficial beyond taxation serving multiple purposes from increasing access to real property market information to improving accuracy of corporate and public asset values, and providing a benchmark for fair compensation. With a proper infrastructure in place value-based property taxes can be designed to be economically efficient and equitable. They can play important roles in financing local governments and in national tax systems. Their visibility means that their imposition is a sensitive issue and the case studies include ones from countries where their development has been impeded. The cases studies have identified some key conditions that aid the success of property tax reform, including the adoption of a valuation infrastructure, and the main areas in which work should be undertaken.

fonciers à partir des enregistrements au cadastre et des impôts fonciers basés sur la valeur des biens. Le prisme est large entre les systèmes nationaux bien établis et les pays qui n'en sont encore qu'au stade de l'étude pilote ou qui envisagent les diverses options qui s'offrent à eux. Ces expériences montrent que les systèmes d'évaluation globale apportent de nombreux choses au-delà de la l'apport financier, puisqu'ils ont des fins multiples allant de l'augmentation de l'accès à l'information sur le marché des biens immobiliers à l'amélioration de la valeur des biens publics et privés, et qu'ils fournissent un point de référence pour une rémunération équitable. Une infrastructure adéquate permet d'établir des taxes foncières axées sur la valeur économiquement efficaces et équitables. Elles peuvent jouer un rôle important dans le financement des collectivités locales et dans les systèmes fiscaux nationaux. Les questions d'impositions fiscales sont un sujet sensible et certaines études de cas montrent que le développement de tels systèmes peut être entravé. Les études de cas ont identifié certaines conditions clés qui facilitent les réformes de la fiscalité foncière, notamment par l'adoption d'une infrastructure d'évaluation, et le choix des principaux domaines dans lesquels des travaux devraient être entrepris.

bien establecidos a países que solo realizaron estudios experimentales o estaban estudiando sus alternativas, empleando para ello los documentos de los registros y catastros de tierras y los impuestos recurrentes sobre bienes raíces basados en su valor. Los sistemas de valoración en masa son beneficiosos más allá de la tributación, ya que tienen múltiples finalidades, desde incrementar el acceso a la información sobre el mercado de bienes raíces hasta aumentar la exactitud del valor de los activos públicos y empresariales, y proporcionan un punto de referencia para ofrecer una indemnización justa. Con una estructura adecuada en pie, pueden diseñarse impuestos sobre bienes raíces basados en su valor de modo que sean equitativos y eficientes desde el punto de vista económico. Pueden desempeñar una función importante a la hora de financiar a gobiernos locales y en los sistemas tributarios nacionales. Su visibilidad hace que su imposición sea una cuestión delicada y entre los estudios de casos cabe destacar algunos países donde se ha impedido su desarrollo. Gracias a los estudios de casos, se han identificado algunas condiciones fundamentales que contribuyen al éxito de la reforma al impuesto sobre bienes raíces, como la adopción de una infraestructura de valoración, y las esferas principales en las que se debería trabajar.

BACKGROUND TO THE PROJECT

Since 2014, the World Bank, FAO and the Centre of Registers of Lithuania have worked on a knowledge project on property taxation and valuation in the Europe and Central Asia (ECA) region. The initiative is financed by the World Bank ECA region's Programmatic Trust Fund for Public Finance Management and the World Bank – FAO Cooperative Programme. The intention was to identify and share good practice on the lessons learned from mass valuation systems, valuation infrastructure and property tax reforms within the framework of the *Voluntary Guidelines on the Responsible Governance of Tenure*[1] (the Voluntary Guidelines). Case studies drawn from countries in the region ranged from those with well-established systems of value-based property taxation to those which have been piloting mass valuation systems or considering their options. Nine case studies – Albania, Kazakhstan, Lithuania, Moldova, the Netherlands, Poland, Serbia, Slovenia and Turkey – were presented at a regional workshop in Vilnius on 3-5 June 2015 and are included in this themed edition of *Land Tenure Journal*.

The project's objective is to improve the knowledge and understanding of mass property valuation and taxation systems and highlight regional best practices, and thereby impact the distributional fairness with which property taxes are levied, the way revenue is collected and the quality of governance. The World Bank and FAO have supported land reform projects in the ECA region since the early 1990s following the ending of socialist regimes in the region. The World Bank has funded 42 land projects in 24 ECA countries in support of reforms in land, land administration, and land management, many in cooperation with FAO. Recently, the World Bank and FAO land administration teams have faced growing interest by ECA countries seeking to increase local revenues, enhance state land management practices, and define state asset values accurately. Operations to enhance property valuation

1 The FAO / Committee on World Food Security (CFS) globally endorsed *Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries and Forests in the Context of National Food Security* (FAO/CFS, 2012) address valuation and taxation issues respectively in sections 18 and 19; see http://www.fao.org/docrep/016/i2801e/i2801e.pdf

systems have been completed in Slovenia, Russia, Azerbaijan and Moldova; are on-going in Turkey and Serbia; and under preparation in Albania and Romania. These experiences show that cross-sectoral knowledge needs to be consolidated on spatial (land) records, property valuation and taxation applications, tax policies and municipal financing to provide best practice responses to this growing demand.

THE IMPORTANCE OF VALUATION IN PUBLIC SECTOR ADMINISTRATION

> "States should ensure that appropriate systems are used for the fair and timely valuation of tenure rights for specific purposes, such as operation of markets, security for loans, transactions in tenure rights as a result of investments, expropriation and taxation."
>
> Voluntary Guidelines (FAO/CFS, 2012: 18.1)

A valuation system capable of generating fair and timely estimates of value is a pre-requisite for the many value-based decisions and questions required within a jurisdiction in the responsible governance of tenure. An important instance among these requirements is valuation for value-based property taxes. The broad infrastructure required should comprise a tenure system that encourages and requires transparency in transactions to provide reliable data as the basis for assessment of values, valuation standards that are consistent with internationally-recognised valuation standards, laying down the qualifications and professional education, including valuation methodologies, required to be a valuer, and setting ethical and professional standards to be followed in valuation and tax assessment.

A valuation system capable of generating fair and timely estimates of value is a pre-requisite for value-based property taxes

The development of value-based property taxes requires skills in valuation, statistics, econometrics, geomatics and computing to create and maintain mass valuation models and the databases on which they depend. The use of value-based taxes and mass valuation techniques requires the development of capacity, both technical and human, and the commitment of adequate resources on a continuing basis. Mass valuation systems can reduce the

The use of value-based taxes and mass valuation techniques requires the development of capacity

number of valuers needed to implement value-based taxes but sufficient human valuation capacity is still needed to check and advise on the statistical models produced by mass valuation systems, to value those properties for which the models are inappropriate, and to handle appeals. Without regular revaluations, value-based assessments will cease to be representative of current market values and property taxes become inefficient and inequitable.

Transparent assessments of tax values are needed, including the dissemination of assessed values via the internet, so that taxpayers can check their assessments and compare them with comparable properties. Taxpayers need to be able to find out how their assessments have been determined. They should have the right to challenge the assessments through fair and independent appeals systems that are not costly for them to use. It should be recognised that such challenges help to test the accuracy of assessments, which is necessary as valuations are ultimately opinions about the likely sale prices of properties and are not facts. Transparency reduces the scope for corruption on the part of assessors and collectors and "special deals" for favoured taxpayers. Property taxes are particularly dependent on the quality of their administrations if they are to function efficiently and equitably (Slack and Bird, 2014). Reliable systems are needed for the billing and collection of taxes. This requires the development of collection-led strategies, including making it easy for taxpayers to make payments and to pay in instalments to reduce illiquidity problems (NALAS, 2009; Kelly, 2013). Effective enforcement strategies are also needed including the seizure of assets belonging to delinquent taxpayers (De Cesare, 2012). The separation of assessment and collection functions can improve the quality of governance and the reliability of assessments because those undertaking assessment have no direct financial interest in the outcome and may, as a result, be more objective. The development of robust quality assurance systems for assessments helps to enhance their quality.

Transparent assessments of tax values are needed

Mass valuations for value-based property taxes have the potential to be used for a multitude of purposes. This enables the costs of setting up and maintaining the systems to be spread between uses. There is potential to recover costs and generate income by providing services and information to professionals and third parties like banks and other financial institutions. Mass

valuation data has an economic value for businesses. Mass valuation data can provide an important and impartial reference to asset value definition in corporate audits, and equally to state asset monitoring and management. Mass valuation data can also provide a verification benchmark to assess fairness of acquisition compensation or the correctness of a declared property transaction price, and not least in assessing values of collateral. Valuations for different purposes can require a different basis for value, which means that safeguards are needed to ensure the appropriate basis for valuations used in each case. Not all the potential uses require the same level of accuracy as property taxes; some may need a higher level. Public and political acceptance of mass valuation (and value-based property taxes) can come from recognising the potential social and public benefits it offers, for example in improving the management of public assets and by increasing stability of the banking system.

THE ROLE OF VALUE-BASED PROPERTY TAXES

The main reason, in this era of globalisation, why recurrent property taxes are particularly suitable for local taxation and sporadic taxes for national taxation is they fall on fixed assets that cannot be moved to another jurisdiction. Well administered recurrent and sporadic property taxes cannot be easily avoided and can help offset the erosion of national tax bases resulting from globalisation as they are amongst the taxes least affected by it (Johansson *et al.*, 2008). By implication, the effectiveness of local property taxation impacts on national fiscal stability.

The effectiveness of local property taxation impacts on national fiscal stability

Recurrent property taxes can help improve responsiveness to local needs (FAO, 2007; FAO/CFS, 2012: 19.2) as they exhibit subsidiarity, with service provision and the resolution of issues typically at the most local level consistent with efficient and cost-effective delivery. They can also reduce dependency on inter-governmental fiscal transfers meaning that, in times of unsustainable budgetary deficits or levels of national debt, central government may have to increase its borrowing to facilitate higher expenditure by local governments. For example, in Moldova the property tax provided 8 percent of local government revenues whilst central government grants provided

44 percent. In Lithuania taxes on property provide 10 percent of local revenues but 60 percent is from central government.

There is a case on grounds of economic efficiency for levying recurrent value-based property taxes to order to reduce reliance on income and profits taxes, which have potentially distorting effects on economic decisions due to disincentives for work, investment and enterprise (Johansson *et al.*, 2008; Slack and Bird, 2014). Recurrent property taxes are relatively neutral in their impact; "the fact that the property tax, to the degree it is a tax on accumulated wealth, does not alter future behaviour" (Norregaard, 2013: p.14). It can be further argued on the grounds of equity that taxing people and businesses on their ability to pay should include taxes on wealth and the assets from which benefits are derived. They can help secure greater equity in taxation between those whose main asset is their ability to generate income through work and those with wealth.

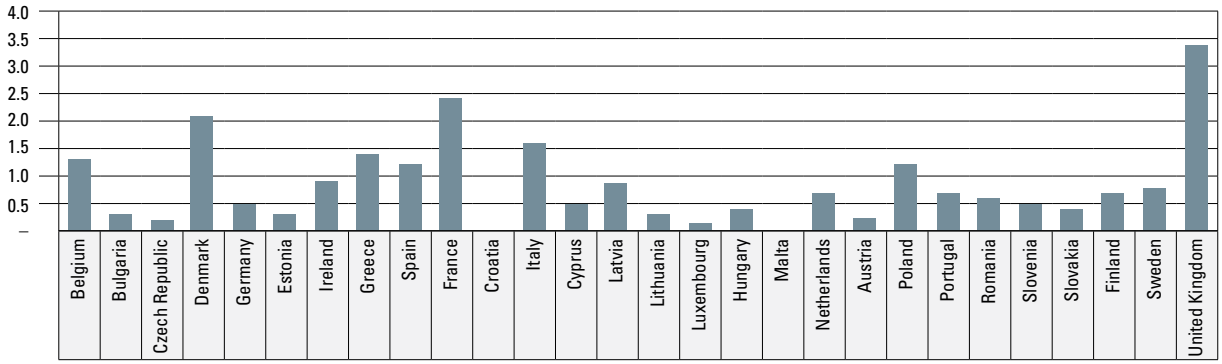
There is a long-standing argument (Ricardo, 1817; George, 1879) that it is legitimate to tax unearned increases in asset values that have resulted from economic or urban growth rather than from investment by the owners since these have been created by society as a whole rather than by individual entrepreneurship. Failure to do so "can encourage speculation through the idle holding of land in anticipation of large capital gains and rent seeking" (Deininger *et al.*, 2012: p.32).

Recurrent property taxes can play a significant role in a tax system, but they are underutilised resources in most countries, with only a minority raising significant amounts in this way. Figures 1 and 2 show recurrent property taxes as a proportion of the Gross Domestic Product (GDP) in the European Union (EU) and a group of middle and low-income countries. The arithmetic average for the EU is 0.8 percent and that for the middle and low-income countries 0.4 percent. Both of these are far below what is achieved by the United Kingdom (3.4 percent), France (2.4 percent) or Denmark (2.1 percent).

Figures 1 and 2 suggest that there is considerable unfulfilled potential for increasing the revenue derived from recurrent property taxes in most countries, particularly in transition countries and those with middle or low incomes. This raises the question as to what barriers there are to making greater use of this type of tax and whether they can be addressed. The case study countries provide answers to some of these questions.

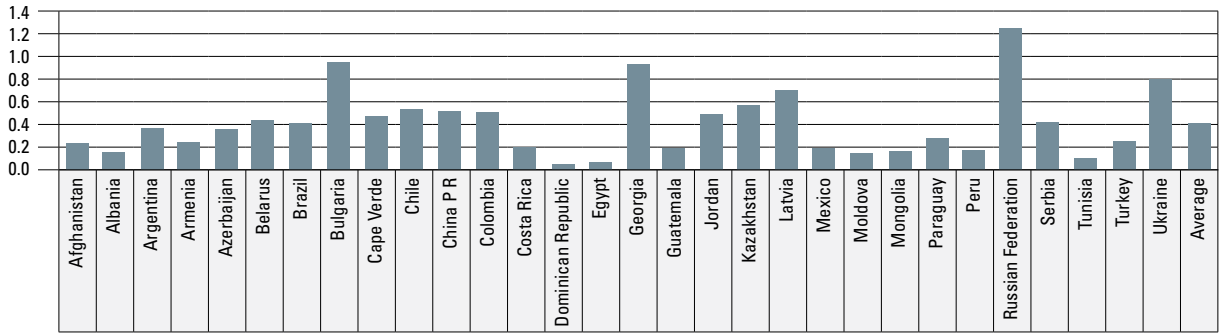
There is considerable unfulfilled potential for increasing the revenue derived from recurrent property taxes

Figure 1
Recurrent Taxes on Immovable Property as a Percentage of the Gross Domestic Product in the European Union, 2012



Source: Eurostat, 2014

Figure 2
Recurrent Taxes on Immovable Property as a Percentage of the Gross Domestic Product in Middle- and Low-Income Countries, 2010



Source: Norregaard, 2013

THE CASE STUDY COUNTRIES AND LESSONS LEARNED[2]

The focus in the selected study countries, Albania, Kazakhstan, Lithuania, Moldova, the Netherlands, Poland, Serbia, Slovenia and Turkey, is on recurrent annual taxes on immovable properties, and, secondarily, on sporadic taxes, including property transfer taxes, inheritance and gifts taxes, capital gains taxes, and development charges payable after a trigger event such as the sale or transfer of the property, its redevelopment or the death of the owner. More accurate methods of estimating the market value of properties should improve the fairness and efficiency of both recurrent and sporadic taxes. Recurrent property taxes in many countries are levied according to the size of the property, though the assessment may be modified by coefficients that reflect certain characteristics, such as land quality or the age of the buildings. By contrast, value-based taxes are levied on the estimated market value of the property. Property taxes based on value can be argued to be inherently fairer than those based on area since they reflect taxpayers' wealth and the value of the assets occupied and the benefits that flow from these. With area-based taxes, properties which are of similar size but of different value are likely to be charged the same amount of tax with the result that some taxpayers are required to pay a higher percentage of their property's value than others. Governments imposing area-based property taxes may have little idea what the effective tax rates on households and businesses are. Taxpayers may find illicit ways of minimising high nominal rates of tax or change their behaviour in economically distorting ways to avoid paying them.

More accurate methods of estimating the market value of properties should improve the fairness of recurrent taxes

Typically revenue from recurrent annual taxes is received by local governments and in many cases is the major component of the revenues under their direct control. They fall on those who live in or run businesses from properties within an area and benefit from local public services. The efficiency with which property taxes are levied has major implications for the financial stability of sub-national governments and the quality of their governance. If local governments become more reliant on their own revenues,

2 Please see subsequent country case study articles in this volume for detailed analysis.

this can increase their accountability to their citizens as the link between expenditure on local public services and taxation becomes more explicit. It can also improve the fiscal sustainability of national finances by reducing financial pressures on national governments. Regularly revalued recurrent property taxes enable local governments to capture increases in property values resulting from economic or urban growth, which can be used to fund infrastructure and local services.

Moving from area-based to value-based property taxes requires the capacity to estimate market values of properties. A major impediment to this has been lack of valuation capacity in the selected study countries. The following presents the case study countries at different stages in their development of mass valuation systems and value-based property taxes examining what processes work most effectively and the issues that arise.

Lithuania and the Netherlands have well-developed functioning systems that differ in the degree of central control exercised, with the Dutch system favouring decentralised, quality assured annual revaluations by 393 local authorities, who can outsource this or form shared centres. The annual property tax assessments are also used for a range of tax and other purposes, including setting rents for social housing and the prevention of mortgage fraud. Lithuania's property tax and valuation systems were initially based on cadastral and book values but are now market value-based. The central government's mass valuation system was created after the valuation infrastructure had been developed so that Lithuania had the capacity to create and maintain a value-based property tax system before work was started on implementing it. Low notary and registration fees, a capital gains tax and widespread use of mortgages mean there is little incentive to under-declare prices which improves the potential for accuracy in mass valuation through the reliability of transactions data.

Moldova, Slovenia and Poland have undertaken significant development of their value-based property taxes but have not progressed these to full development, showing that improving tax systems is not just a matter of finding technical solutions to problems. It will always be a very sensitive political question. Initially Moldova's assessments were based on inventory and book values rather than market values. Since the 2004 mass valuation, market

value based assessments have taken place, but the majority of properties in this predominantly rural country have not been brought into this system and revaluations have not being carried out and values are becoming increasingly less accurate. Slovenia's mass valuation market value-based property tax system was completed in 2013. However, implementation is stalled as a result of rulings by the Constitutional Court that the system is unlawful, requiring a return to the previous system until these are resolved. Poland's work on a system of value-based property taxation to replace older, area-based taxes has progressed substantially since 1993, but legislation for its implementation has not been passed and there appears to be little public support for this.

Kazakhstan, Turkey, Albania and Serbia are at relatively early stages in developing mass valuation systems and applying these to value-based property taxes. Kazakhstan and Turkey are piloting the viability of developing mass valuation systems. In Kazakhstan there is no property transfer tax and the fees for registering a property are low, but the registers are not generally up to date for all transactions. In Turkey reliable transaction price data does not exist due to under-declaration because of the high rate at which property transfer fees are charged. Turkey's well-regulated capital markets valuation infrastructure suggests that mortgage valuations may be a more reliable source of data than declared transaction prices.

Serbia has only recently encouraged the development of a valuation infrastructure and suffers from a number of problems with its annual property tax, with non-transparent valuation methodologies and significant numbers of properties not being recorded in tax rolls. The creation of a sales price register will aid transparency and future use of mass valuation and improved records will assist fairness and increase tax yields. Albania's rapid urbanisation and extensive informal development have resulted in similar problems to those of Serbia of non–recording of properties in tax rolls. Similar strategies are being used to develop a valuation infrastructure. There is a concrete requirement in Albania's case for restitution and compensation for property expropriated during socialist times, which has involved establishing a sales price database and a methodology for deriving market prices in accordance with international valuation standards.

Although a strong case can be made in principle for the use of recurrent property taxes as local taxes to help fund local governments and to help produce a sustainable and balanced national tax system, the selected study countries show that property taxes are typically relatively lightly used and governments appear reluctant to increase significantly their reliance on them.

This may be partly because of the perceived technical demands and costs of developing value-based property tax systems. While property taxes do require different administrative systems and skill sets from most other taxes, the skills (valuation) and data sets (cadastre, registration, etc.) required are essential core elements for the broad thrust of economic development, bringing many agencies of government together, including national cadastres and land registries, tax authorities, municipalities, and national banks (as the regulators of mortgage markets). Advocating for these requirements may, however, be outside the technical competencies of typical ministries of finance (as the lead ministry for taxation), with the result that property taxes may lack effective champions in government. However, recognition of importance is increasing not least due to the advancing digitalization that depends on cadastre and land records as among the core infrastructure for electronic government and services. Cadastres, which are well used to dealing with property data, equally, tend to lack the financial and valuation skills needed to levy taxes. Each country needs to address the best way to achieve cooperation between the various bodies involved, particularly if there are histories of distrust and inter-agency rivalries.

Property taxes are a sensitive issue that produces significant reactions from the population. They are highly visible in ways that sales taxes (often hidden in the price of the goods bought) and income taxes (which may be deducted at source) are not. Visibility, accountability, enhancement of local economic management and the potential to support local democracy are all potential positives from property taxes, "But that does not make it popular, and the unavoidable and uncompromising nature of property tax has led to it being neglected globally" (Monkam and Moore, 2015: p.4). Poland's and Slovenia's well-designed systems have not been implemented because of political and public reactions to them. Moldova has not extended the new

Property taxes are a sensitive issue that produces significant reactions from the population

property tax into rural areas or been willing to fund further development work or revaluations in spite of the technical merits of the new tax.

The tax system needs to be seen as fair by the population as part of a tax system which will objectively and transparently identify liability related to ability to pay on the basis of the value of their property. Identifying and understanding the problems of stakeholders with a new tax requires targeted, intelligent research and effective public relations to address the issue at source, as there are inevitably winners and losers. Taxes imposed according to the size of the property are not inherently fair because of differences in effective tax rates between taxpayers (Norregaard, 2013). Fairness in property taxation requires the use of value-based taxes, notwithstanding that area-based property taxes are easier to implement (Almy, 2014). Value-based taxes can also encourage the productive use of land to generate income to pay the taxes (Malme and Youngman, 2001).

An important component in the development of value-based property taxation is the use of public awareness campaigns to educate the population about how the tax revenues are going to be used and the reasons why these burdens are being imposed (Slack and Bird, 2014). This could include the role that property tax assessments play in defining property rights and enhancing the security of those who pay them (Malme and Youngman, 2001; Smolka and De Cesare, 2013). One of the conclusions from the Albanian case study was that such a campaign is needed as a way of combating the high evasion rate.

Tax compliance is inversely correlated with corruption (Torgler, 2011) and countries that are most successful in controlling corruption are able to raise significantly higher revenues from property taxes (Walters, 2011). Wider initiatives on public administration and governance and to improve the legitimacy of governments may also be required along with increased transparency in public finances if the public are to be persuaded that taxes are being levied for their benefit and are not being wasted or rewarding corruption (Kelly, 2013). Although not a part of this study, FAO's work with Transparency International (2009) has shown that the land sector is the third highest (after the police and judiciary) in which people reported paying bribes in the previous twelve months and, in many countries, transparency could be improved over the way property tax rates are set and how assessments are undertaken.

Tax compliance is inversely correlated with corruption

Extensive exemption from property taxes increase the tax burden on those who are not entitled to them. One of the most common blanket exemptions, of national, regional and local governments from paying property taxes locally on their assets, increases the tax burden on the private sector and households and removes a potentially significant incentive for public bodies from making most efficient use of their assets. Public sector exemptions can also crowd out the private sector because public sector bodies can capitalise on their property tax exemptions and offer higher bids for assets.

Addressing the balance of the tax burden between residential and commercial taxpayers is important, particularly as residential property taxpayers are voters whereas legal entities are not. Governments may prefer to reduce the tax burden on voters, reflecting the relative simplicity of collecting business taxes, but care needs to be taken not to undermine the economic activities that generate tax revenues. Affordability in property taxes is also important where taxes fall on assets that are not income producing (Malme and Youngman, 2001). Many transition economy households acquired housing through privatisation at nominal prices (in Slovenia at about 10 percent of market prices) or through restitution and whose market value may bear little relationship to the owners' current or past incomes. This can cause problems for low income owners who possess high value real estate due to social housing having been passed to tenants (NALAS, 2009). Some reliefs are likely to be required to mitigate the liquidity problem they face and there are a variety of possible approaches (Haveman and Sexton, 2008).

Affordability in property taxes is important

The case studies identified several prerequisites for sustainable value-based property taxation. Their tax base is market values. Assessment requires reliable ways of collecting accurate data on transactions, so transparency of transaction prices is needed. In developed market economies market values are estimated using data from actual transactions. In the absence of this, other approaches are likely to be used for taxation (Malme and Youngman, 2001), but statistical manipulation in mass valuations cannot compensate for unreliable or inaccurate transaction data and any resulting value-based tax assessments will be problematic. Transaction and sales and rental price registers are valuable tools, which should be linked to notaries and sales contracts and which should be a key priority for generating transparency.

Assessment requires reliable ways of collecting accurate data on transactions

High rates of property transfer taxes and fees discourage registration and owners from seeking planning and building consents, which can result in illegal and informal development. They are also likely to result in the under-declaration of sales prices (tax evasion), which undermines the revenue from such taxes and the accuracy of information about the property market. Making false price declarations needs to be discouraged not just by penalties, which may be unenforceable, but also through adjusting incentives. These may include the use of capital gains taxes that tax the difference between the declared purchase price and the eventual sales price, and by linking of mortgage valuations and assessments of collateral with the declared price. The open publication of transactions prices in property registers makes false declarations more obvious and less easy to achieve, although confidentiality laws can prevent full disclosure.

Effective land and property registration systems provide a database that will help in implementing property taxes and weaknesses in these undermine the ability to collect property taxes as the Albania and Serbia cases show. Acceptance of property taxes is likely to be undermined if taxpayers realise that others evade paying them because their property is not recorded in the registration system. Informal land occupancy and construction makes it difficult to maintain tax rolls and undermines the universality of property taxes (De Cesare, 2012; Almy, 2014). Cadastres need to record buildings and not just land parcels. They should record three-dimensional rights and not just the footprints of buildings so that the sub-divisions of buildings into different units of ownership and occupancy can be identified. Mass valuation requires more detailed information about the characteristics of each unit than is normally recorded in a cadastre or land registry.

Informal land occupancy and construction makes it difficult to maintain tax rolls and undermines the universality of property taxes

CONCLUSIONS

The case study countries' experience shows that moving from area-based to value-based property taxes requires the capacity to estimate market values of properties. A major impediment to this has been lack of valuation capacity in the selected study countries and, in all cases, efforts have been made to

develop this critical capacity and associated infrastructure reflecting the importance attached by the countries to this.

It remains the case, however, that the selected study countries show that property taxes are typically relatively lightly used and governments appear reluctant to increase significantly their reliance on them. There appear to be several reasons for this. The technical demands and costs of developing value-based property tax systems are perceived to be high, but this may reflect more the lack of understanding by typical ministries of finance, the needed infrastructure of this type of taxation, and thus property valuation and taxation can lack effective champions in government. Also, this reflects lack of awareness of mass valuation systems' potential to serve multiple economic purposes beyond taxation including the monitoring and management of public and corporate assets and increasing stability of the banking system. Characteristically, property taxes are a sensitive issue because they are generally unavoidable and uncompromising. The case study countries show the need for targeted, intelligent research and effective public relations to ensure appropriate information and messaging so that the inherent fairness of value-based taxes and the uses to which the revenues will be put are fully understood. A further key reason for reluctance of governments to increase significantly their reliance on value-based property tax systems relates to the need to be able to convince taxpayers that the taxes will be levied for the benefit of the community and not be wasted or reward corruption.

The selected country case studies reinforce several important technical questions in relation to implementing value-based property taxes. Exemptions from property taxes are often extensive, but should be minimised, with even national, regional and local governments paying property taxes on their assets. Care should be taken in addressing the balance of the tax burden between residential and commercial taxpayers to avoid undermining the economic activities that generate tax revenues. Moreover, particularly in the transitional economies – where many households acquired housing through privatisation at nominal prices or through restitution, – pragmatic reliefs are likely to be required to mitigate the liquidity problem faced by owners.

The study identified several prerequisites for sustainable value-based property taxation. Their tax base is market values. Assessment requires

reliable ways of collecting accurate data on transactions, so transparency of transaction prices is needed. In countries where such data is not available, strategies need to be developed to make this information transparent. Transaction and sales and rental price registers are valuable tools, which should be linked to notaries and sales contracts and which should be a key priority for generating transparency. False price declarations need to be discouraged by penalties, by the use of capital gains taxes, and by linking mortgage valuations and assessments of collateral with the declared price. Transparency of transactions prices in property registers, even within appropriate confidentiality restrictions, can make false declarations more obvious and less easy to achieve. Important databases for these are provided by effective land and property registration systems, ensuring that all potentially liable properties, including those informally occupied or constructed, are addressed appropriately in the system.

The country case studies show clearly that achieving effective and efficient value-based property taxation is a long-term goal and several iterations may be required to achieve well-developed systems and practices and to find an acceptable approach for the majority of taxpayers and citizens. Costs tend to fall over time due to a learning curve effect and costs of developing infrastructure will need to be justified by benefits beyond taxation. The countries that have made the most effective use of property taxes took time to develop their systems, using a variety of approaches, and these are still evolving. Countries introducing value-based property taxation need to develop a roadmap of the steps required and to adopt a realistic timescale over which these can be implemented. One does not need to start with a fully functioning property tax system from the outset but, rather, to look towards developing one, including the pre-requisites, in stages over time.

Achieving effective and efficient value-based property taxation is a long-term goal

Countries introducing value-based property taxation need to develop a roadmap

Work will be needed to make tax rolls comprehensive, to ensure that billing systems function effectively, to put in place efficient valuation infrastructure with appropriate internationally-recognised technical and ethical standards, valuer education and qualifications, and for there to be a transparent property market with effective systems for reporting transactions and prices. The country case studies show that uplift in revenues can be obtained by more comprehensive registration of properties for tax purposes

and improved billing and collection methods. Sustained, fair revenue raising requires value-based property taxes with regular revaluations to prevent assessments getting out of step with market values and to enable society to capture part of the value increases resulting from economic or urban growth. For cost and capacity reasons newly established value-based tax systems use mass valuation methods.

A well-functioning value-based property tax system is one significant indicator that the necessary valuation and property market systems are in place for an effectively functioning property market.

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PROPERTY TAXATION AND VALUATION IN LITHUANIA

L'IMPOSITION ET L'ÉVALUATION DES BIENS FONCIERS EN LITUANIE

LA VALORACIÓN Y LA TRIBUTACIÓN DE BIENES RAÍCES EN LITUANIA

ABSTRACT

STATE ENTERPRISE CENTRE OF REGISTERS

REAL PROPERTY REGISTER

MASS VALUATION

This case study traces developments in immovable property valuation and taxation in Lithuania following its declaration of independence from the Soviet Union in 1990. It examines the development of policies and institutions that support mass valuation and property tax administration, focussing on the State Enterprise Centre of Registers, a state-owned corporation that manages the cadastre and other registers and the mass valuation system that it has established. Since independence Lithuania has pursued a clear agenda of strengthening democracy and establishing a market economy. Policies established private property rights and transferred property from the state to enterprises and individuals.

RÉSUMÉ

BUREAU DES REGISTRES DE L'ÉTAT

REGISTRE DES BIENS IMMOBILIERS

ÉVALUATION À GRANDE ÉCHELLE

Cette étude de cas retrace la mise en place de l'évaluation des biens fonciers et de la fiscalité en Lituanie à la suite de sa déclaration d'indépendance par rapport à l'Union soviétique en 1990. Elle examine les politiques et les institutions qui ont soutenu cette évaluation globale et l'administration de l'impôt foncier, en mettant l'accent sur le Bureau des registres, une société d'État qui gère le cadastre et les autres registres nationaux et le système d'évaluation global mis en place. Depuis son indépendance, la Lituanie cherche à mettre en place un programme clair de renforcement de la démocratie et d'économie de marché. Les politiques ont établi des droits en matière de propriété privée et ont transféré les biens de l'État aux entreprises et aux particuliers.

SUMARIO

CENTRO ESTATAL DE REGISTROS

REGISTRO DE BIENES RAÍCES

VALORACIÓN EN MASA

En este estudio de caso se siguen los avances en el ámbito de la valoración y la tributación de bienes inmuebles en Lituania tras su declaración de independencia de la Unión Soviética en 1990. En él se examina el desarrollo de las políticas y las instituciones que prestan apoyo a la valoración en masa y la administración de los impuestos sobre bienes raíces y se pone de manifiesto al Centro empresarial estatal de registros, una corporación estatal que gestiona el catastro, entre otros registros, y el sistema de valoración en masa que este ha puesto en práctica. Desde su independencia, Lituania ha tenido una agenda clara para fortalecer la democracia y establecer una economía de mercado. Sus políticas establecieron derechos a la propiedad privada y transfirieron propiedades del Estado a empresas e individuos.

BACKGROUND

Lithuania is a low tax economy with taxes amounting to 27.4 percent of the Gross Domestic Product (GDP), one of the lowest ratios in the European Union (EU). Sales taxes are one of the most important source of revenue at 7.9 percent of GDP, with social contributions producing 10.9 percent and income tax 4.7 percent (Eurostat, 2012). By contrast, property taxes amount to only 0.5 percent of GDP. Following municipal reforms between 1999 and 2000, Lithuania was divided into 60 municipalities (*savivaldybes*). The 10 counties (*apskritys*) are now administrative divisions of central government and have no governing body. Municipalities receive about 60 percent of their revenue in grants from central government and are responsible for 25 percent of total government expenditure (IMF, 2012). Local governments receive about 20 percent of all taxes. Personal income tax (PIT) is shared between the municipality in which the taxpayer works and all other municipalities, distributed based on an equalization formula. Property taxes are assessed and collected by central government but the revenues are assigned to local governments with the exception of the tax on luxury residences. Taxes on property contribute more than 10 percent of local tax revenues. They are a comparatively stable source of revenue compared with PIT.

LAND REFORM AND THE DEVELOPMENT OF THE PROPERTY MARKET

From 1989, Lithuania began enacting laws to restore property ownership rights, starting with the restitution and privatisation programmes that became operational in 1991. Buildings may be owned separately from the land parcel(s) on which they are situated and can be owned by foreigners and enterprises. The Law on the Real Property Cadastre, 2000, established a unified cadastre and register system although conflicting restitution claims and complex ownership patterns for land and premises have complicated valuation and taxation. By 2000, 1.1 million citizens owned property (Valetta, 2000) although property registration was only required where property was to be transferred. The market has developed in sophistication and major firms of estate agents and valuers now publish market analyses on the internet.

Mortgages first became available in 1994 and since 1998 the Ministry of Justice has operated a mortgage registry.

The privatization programme demanded more developed valuation methods. The Lithuanian Association of Property Valuers (LAPV – *Lietuvos turto vertintojų asociacija*) was established in 1994. It has been instrumental in developing educational materials, professional qualifications and standards. The General Property Valuation Principles, approved by the Government in 1995, provided a framework for specifying the skills licenced valuers are required to possess. The Law on Fundamentals of Valuation of Property and Business, 1999, provided definitions and valuation procedures, which have been refined in subsequent legislation. The law recognizes mass valuation as a discipline, identifies the three basic valuations approaches and provides guidance on their use. Shortly thereafter, the Ministry of Finance began certifying valuers. In 1998 this task was taken over by the Ministry of Finance's Property Valuation Oversight Agency (*Turto vertinimo priežiūros tarnyba*). By 1996, 125 of the 200 certified valuers were real property valuers. By 2015, there were 119 property and business valuation enterprises, 270 registered valuers and about 300 valuation assistants.

Mass valuation was introduced after 2000. While private valuers work mostly on individual valuations, mass valuation is carried out by the Centre of Registers. The LAPV played a constructive role in establishing the valuation methods used in property taxation. Nevertheless, there has been some tension between people who believe in the potential effectiveness of modern mass valuation methods and traditionally schooled valuers who are sceptical of multivariate statistical methods. Some private valuers resented the Centre of Registers' valuation activities and the policies that determine access to its data (Deveikis *et al.*, 2013).

When Lithuania regained independence, land books from the 1940s still existed in most rural areas. Building and premise records dating back to 1945 were held by the Bureaux of Technical Inventory (BTI). Although the cadastre had parcel numbers, building records were not linked to them. A bottom-up system developed (Valetta, 2000). Regional cadastre offices were responsible for implementing central guidelines, solving problems in practice and setting priorities. The needs of the central administration were not prioritised and full national integration was delayed until 1997.

In 1997 the inventory bureaux, surveying offices, and the existing cadastre were merged and the State Land Cadastre and Register was established as a government enterprise. Efforts to computerise property records began in the same year. The State Land Cadastre and Register also took over the map-making activities of the State Land Survey Institute and when the enterprise register was added to its responsibilities, it was renamed the State Enterprise Centre of Registers (*Registru Centras*). The base registers kept by the Centre are the real property register and cadastre, the register of legal entities, the address register and the population register. It is also responsible for the national Geographical Information System (GIS) and for completing tax valuations of land and buildings. The Centre has achieved inter-operability in its main registers. Since 2009 properties can be registered electronically. The parties to the transaction need only to communicate with a notary. Registration costs are low at 0.8 percent of the value, including taxes, registration and notarial fees (World Bank, 2014). The Centre functions on the principle of cost recovery. That is, it seeks funds from the central government sufficient to cover the costs of its public functions, and it sets fees sufficient to cover the costs of the private services it provides. At the same time, the Centre strives for efficient operations.

TAXES ON PROPERTY

Lithuania has separate taxes on land and immovable property (buildings). They have been reformed since they were first introduced in 1992 and 1995 respectively and are now value-based. However, the long-standing goal of introducing a unified tax has not been realised and the government has not attempted to extend the buildings tax to include ordinary residential buildings.

The land tax was originally based on a cadastral value established by the Ministry of Agriculture. This used a notional value that was based on the productivity of the soil in rural areas and the "conditional productivity of the soil" in urban areas. The land tax was paid by owners of private land, whether they were natural or legal persons. Later coefficients, designed to represent market factors, were applied. These reflected the location of each land parcel, access to infrastructure and economic significance. This was a prelude to

true market-based valuations. Although the valuations were indexed, they were not otherwise updated. Consequently a gap between cadastral and market values developed and grew. By 2013, when a market-based land tax was introduced, the gap between the cadastral and market values could be substantial as Figures 1 and 2 suggest. However, the new approach does not seem to have encountered any widespread opposition.

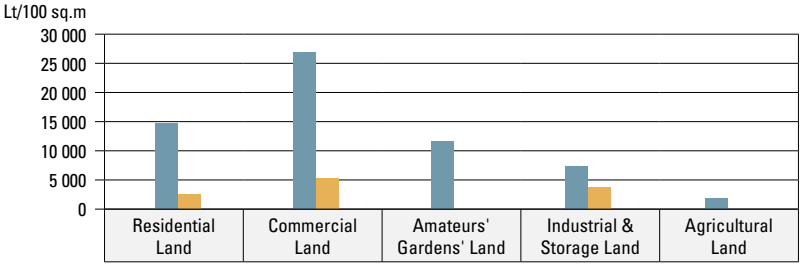


Figure 1
Land values in the city of Vilnius in 2013

Source: Centre of Registers

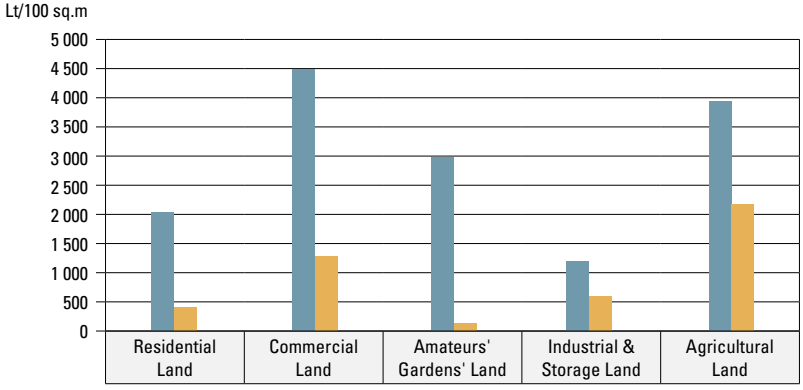


Figure 2
Land values in the Repiblic of Lithuania in 2013

Source: Centre of Registers

The law set the tax rate at 1.5 percent of the cadastral value, although municipalities could apply a lower rate. In 1994 land tax yielded 0.2 percent of total government revenues and 0.6 percent of municipal government revenues. By 2003, the Ministry of Finance realised the tax was not viable. Administrative costs averaged 4 litas (Lt) per taxpayer which exceeded the average revenues. In 2013, land began to be valued according to its market value and revalued every five years. Municipalities determined rates based on land use and location within a range from 0.01 to 4.0 percent. The highest rate was applied to abandoned land. Given the likelihood of greatly increased tax burdens, these were to be phased in at 20 percent of the increase each year over a four year period.

The immovable property (buildings) tax came into force in 1995 and was paid by certain classes of enterprises. For legal persons, the tax was based on the book values that were compiled for balance sheets. For enterprises owned by physical persons, the tax was levied at a rate of 5 percent of the Soviet-era inventory values. In 2002 taxable values were changed and the estimated replacement costs were used with adjustments made for location. The adjustments were aimed at bringing average estimated values into line with average sales prices. In 2006 buildings and premises owned by physical persons became taxable, although several categories of buildings were exempted, most notably dwellings. The tax base was the market value, estimated using mass valuation. Initially, the rate of tax was 1 percent, although municipalities could reduce this by up to half, at the expense of their budgets. Later the rate range was set between 0.3 and 1.0 percent. In January 2013, municipalities were given greater latitude over the rates applied to the property of legal persons so that they could classify properties for taxation purposes and determine differential rates of between 0.3 and 3.0 percent of the taxable value. Also from 2013, a luxury tax is applied at 0.5 percent to property belonging to physical persons that is valued at more than €220 000. About 2 000 taxpayers are liable for this tax, which the central government currently receives.

The immovable property tax has a long list of exemptions for agriculture, art, bankrupt entities, burial services and cemeteries, charities, education, environmental protection, fire prevention, free economic zones, gardening, governments (state, municipal and foreign), health care, homeowners associations, religion, science, social services, and trade unions.

Lithuania also has other taxes and fees based on property tax values. While it does not have a real estate transfer tax, notary and registration fees are based on the assessed value. Inheritance tax and capital gains tax also make use of these values. Capital gains are taxed at 15 percent if the property is sold within five years. This provides buyers with an incentive to disclose actual prices when registering transfers rather than trying to avoid registration fees by under-declaring prices. The tax on persons who lease state-owned land is based on the land tax value. These values also are used in computing social support for the poor and in government asset management.

ADMINISTRATIVE ARRANGEMENTS FOR VALUATION AND TAXATION

The main actors in the administration of property taxes are the Centre of Registers, which is responsible for valuation, and the State Tax Inspectorate (STI), which is responsible for tax collection. The Centre is self-governing and has a board appointed by the Ministry of Justice. It receives funds from the Ministry of Finance for property tax related activities but its other activities are self-financing.

The Centre has ten county offices and 40 municipal customer service offices. The headquarters in Vilnius deals with information technology, the four main registers and valuation. The Real Property Valuation Department has divisions for the public sector and for commercial services. The Valuation for Public Needs Division employs 32 certified valuers along with a support team composed of GIS specialists, programmers and cadastral surveyors. The Vilnius staff, which includes two valuers, are responsible for work planning, methodological guidance, coordination and control. Each of the ten branch offices has between two and five valuers who are responsible for the annual valuation of land and buildings in their county. It can be argued that having valuers with knowledge of local property markets is very important in achieving accurate valuations. The division provides market analyses to the Centre's clients and some valuers also produce single property valuations. Valuers must possess a university degree, experience and be certified. The valuation workload currently includes 2.2 million land plots and 3.3 million

structures. In 2015 the budget for mass valuation was €660 000 and the cost per valuation was approximately €1 compared with the cost of conventional individual appraisal of approximately €100. The mass valuation budget is approximately 0.6 percent of total land and building tax revenues. Considering the multiple uses for mass valuation data, this is very reasonable.

The mass valuation budget is approximately 0.6 percent of total land and building tax revenues

The Centre provides the STI with data twice a year. The STI determines which properties are taxable, collects data on municipal tax rates and exemptions, and maintains registers of land and building taxpayers. It has ten County Tax Inspectorates (CTIs). Taxpayers are required to submit returns annually with separate returns for land and immovable property. Taxpayers compute their taxes based on the municipality in which a property is located and any reliefs for which they are eligible. Land and immovable property tax payments are made to CTIs and receipts are transferred directly to municipalities.

THE VALUATION SYSTEM

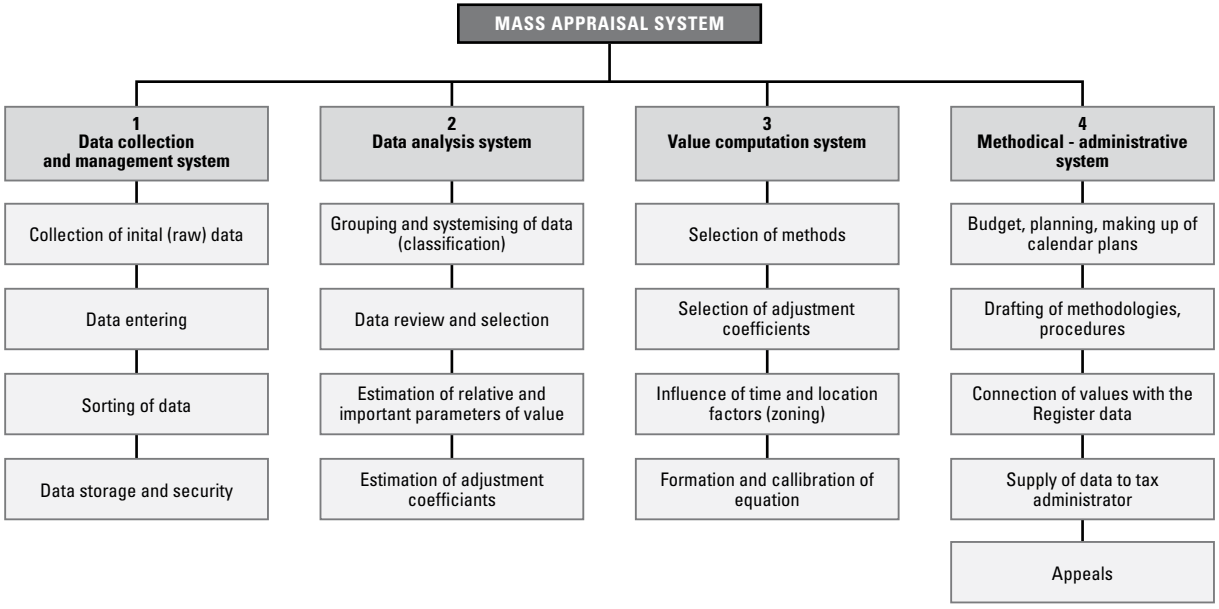
The Centre began developing its value-based mass valuation system in 1998. The Centre received assistance from Denmark, Finland, the Netherlands, Sweden, the Organisation for Economic Cooperation and Development (OECD), the European Union (EU), and the Lincoln Institute of Land Policy. The Ministry of Finance started to provide funding in 2002. The system for the valuation of buildings was considered operational in 2005, when the first buildings mass valuation was performed.

The legal and regulatory framework for valuation is detailed yet flexible, reflecting the fact that a single methodology is not appropriate for all types of property. Multivariate statistical models are used when there are sufficient sales. Valuer judgment supplements data analysis when there is insufficient market evidence. Collecting data in a uniform digital format is essential for developing mass valuation models and allows automation of the identification of the main factors influencing value. The use of statistical methods reduces the possibility of mistakes and random factors influencing value.

The Centre computerises data on indicators of value, including prices, construction costs, rents, and property attributes. Valuers are not responsible for data collection but the Centre receives information on sales and leases

from notaries. Supplementary sources of market information include individual valuation reports and data about supply and demand. The database, which is updated daily, contains all transactions made since 1998 and contains close to two million records. Although opinion is divided about the accuracy of declared prices, the general view is that there is little to be gained from concealing true prices. Notary and registration fees are fairly low, widespread use of mortgage finance provides an incentive for accurate collateral declarations, and capital gains tax liability provides a further deterrent. The Centre has developed procedures for screening potentially problematic price data, for example for related party and multiple property transfers and trades. After screening, about 60 percent of sales are available for use in mass valuation.

Figure 3
The Lithuanian mass valuation system



Source: Centre of Registers

Originally the only property attribute information available was on agricultural holdings or from the technical inventory records. Information on size, layout, and construction materials was available only for apartments, individual family houses and dachas, and private garages. Equally problematic was the fact that data in the past was neither well-maintained nor computerised. Now details on all types of buildings are recorded. Attribute data is obtained from historical records, plans and field surveys. Attribute data on new construction comes from building permits issued by the State Territorial Planning and Construction Inspectorate and the private cadastral surveyors who measure construction. The system contains information on the size and use of plots of land, together with available infrastructure. Building attributes include size (such as the usable area, garage area and storage areas),

Figure 4
Extract from a GIS map showing parcel boundaries and centroids of buildings

Source: Centre of Registers

use, type of construction, number of stories, number of units or rooms, year of construction or reconstruction, and heating type. Cadastral maps provide information on the location of buildings and parcels and contain centroids for the buildings so that valuations are geo-referenced. There are still issues about the adequacy of the data for valuation, particularly data on building condition, quality of construction and location, and about the accuracy of the data collected in the past.

VALUATION METHODS AND MODELS

Lithuania's approach to mass valuation follows accepted international practice. Building and land models are multiplicative or hybrid. The most recent revaluation for building tax purposes was made in 2011 and is valid for five years but valuation information is updated annually for other public-sector uses. Price trends are updated and new time adjustment factors are computed when the sales data used is more than a year old. Value zone boundaries are reviewed and borders are changed as necessary. About 1 200 value zones have been delineated by studying price information on GIS maps and employing certain key principles: that price levels in adjoining zones should differ by at least 15 percent, value zone boundaries in rural areas must follow the boundaries of residential areas, and value zones in cities should be at least three hectares in size. The same zones are used in all land and buildings valuations. Each municipality has a land value model for each of five land categories and a building value model for each of ten building categories.

The Centre classifies buildings and structures for valuation and taxation purposes and takes the following valuation approach for each group. The sales comparison approach is used in the valuation of residential property, gardens and residential garages. The sales comparison and income capitalisation approaches are used to value commercial buildings. The cost approach is used in the valuation of other buildings and engineering structures. Location adjustment coefficients are applied in all instances.

The sales comparison approach is used in the mass valuation of land. Values produced for land tax purposes are valid for five years, although the models are updated annually. The valuations currently in force were made in 2013.

Land is classified for valuation purposes as follows, using the Ministry of Agriculture's official land use classes: residential, commercial, industrial and warehouse, amateur garden, and agricultural, each of which has sub-classes.

A separate model is calibrated for each land type in each municipality. There are currently about 300 land models. The factors used in the models are location, size, land use, and the productivity of agricultural land (known as the *bonitet*). Multiple regression and correlation are used to identify the significance of qualitative and quantitative factors. The valuation of land for tax purposes disregards factors such as mineral resources, certain restrictions on economic activity (except where ecological protection or recreation zones have been formed), prospective changes in land use, structures and plantings on the parcel, restrictions because of debt, contamination, and the condition of neighbouring units. When it is necessary to use transactions older than one year, sales prices are adjusted to take account of any significant changes in price levels.

The values developed for land and building tax purposes are documented in separate valuation reports for each municipality and displayed on maps. The public have access to information on individual properties and there is broader access for registered users. Owners can obtain an official extract from the Real Property Register, which provides them with an up-to-date value for concluding transactions and documenting succession or gifts. Other applications have been developed for institutions with specialised needs, such as municipalities and CTIs. Value maps can be searched from the address register but only generalised price data is publicly available.

Appeals against valuations can be made to the Centre's Commission for the Examination of Taxpayers' Appeals on Land and Other Real Estate. The Commission considers requests to use an individual valuation report submitted by the taxpayer as the tax value when the difference in value is 20 percent or more. An appeal is normally required to demonstrate that the property suffered from locational and qualitative deficiencies that are not reflected in the valuation models. If a taxpayer disagrees with the Commission's decision, there is a right to appeal to the Vilnius Regional Administrative Court and from this to the Supreme Administrative Court. In the two years following the 2011 building revaluations there were about 1 400 appeals and following the 2013 land revaluation there were about 170 appeals.

CONCLUSIONS

Lithuania has created a well thought out real property cadastre and registration system. The establishment of the State Enterprise Centre of Registers has been central to this success. The Centre's corporate structure has afforded it relative independence, enabling it to act strategically and anticipate needs. It pursued a step-by-step approach to developing the real property register and cadastre and the accompanying market database. The successful integration of descriptive and graphical data is a major achievement. Data limitations notwithstanding, the mass valuation system is among the best and its decentralised nature is worthy of emulation.

Data limitations notwithstanding, the mass valuation system is among the best and its decentralised nature is worthy of emulation

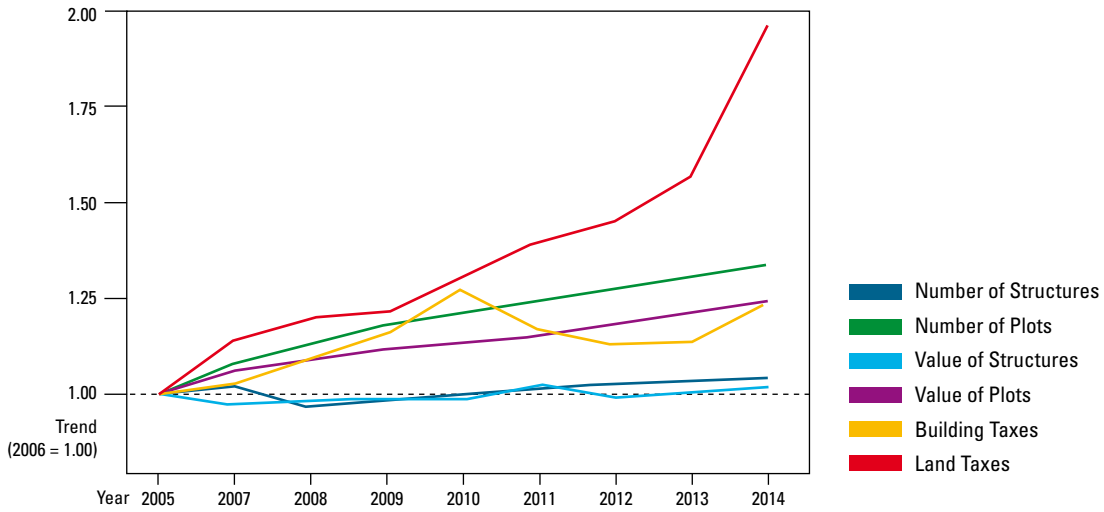
The use of the internet to publish information on market values has facilitated the development of the property market. Geographical Information Systems are used to produce value maps. It is doubtful that the valuation system would be affordable if it did not have multiple uses and aim to make its products beneficial to the real estate community in general. Although concerns have been voiced in the private sector because the Centre's unrestricted access to the data in its custody could give it a competitive advantage over private valuers, in the past valuers' access to mass data may also have instead been jeopardised by policies restricting access (Deveikis *et al.*, 2013). Even if warranted, such concerns are not unique to Lithuania. There is often tension between conventionally-trained valuers and mass valuers. Enlightened members of both groups recognize that neither approach can satisfy all valuation needs and given that markets thrive on information, unduly restricting access to market data would undermine the Centre's goal of benefiting the real estate community as a whole.

In Lithuania questions are raised over whether it is possible to avoid buildings tax by not registering one's ownership or interest in a property. Building data maintenance is a universal concern because of the costs associated with periodic re-inspections. The Centre's use of images provides a cost effective way of verifying major building features. However, there is an absence of qualitative data in the system. There appears to have been no concerted effort to assemble such information and the STI's tax returns do not seem to ask for descriptive information. While the strategy of specifying a large number of valuation models means that valuers in county offices are

more likely to "own" the models and taxpayers are more likely to accept local models as valid, broader models might produce superior results.

Lithuania continues to rely on two recurrent property taxes, with separate sets of design principles, valuation models and taxpayer registers. However, there has not been a rigorous analysis of either tax or an investigation into what a consolidated real estate tax might imply in terms of tax burdens. Until the fiscal and economic performance of the two taxes and the practical issues involved in a combined tax are thoroughly understood, there is little value in speculating about a unified land and building tax. Having separate land and building taxes is not unusual but is indicative of the potential problems in extending the buildings tax to residential properties. A lack of performance analysis is also not unusual. The immovable property tax is far more important fiscally than the land tax – producing four times as much revenue – but neither are major sources of revenue. As Figure 5 suggests, the land tax has been more dynamic. The fact that the average value indexes

Figure 5
Indices of land and building inventories, average values and average taxes (2006 - 2014)



Source: Centre of Registers

closely track the number of land and structure units available suggests that the valuation models have been consistent over time. Whether markets are, in fact, actually stable remains to be tested. However, land values seem to be increasing more rapidly than structure values. Whether the structure valuation models adequately capture the effects of location is another question.

ACKNOWLEDGEMENTS

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PROPERTY VALUATION AND TAXATION IN THE NETHERLANDS

ÉVALUATION DES BIENS ET IMPOSITION FISCALE AUX PAYS-BAS

LA VALORACIÓN Y LA TRIBUTACIÓN DE BIENES RAÍCES EN LOS PAÍSES BAJOS

ABSTRACT

ANNUAL APPRAISAL

SINGLE DATA COLLECTION – MULTIPLE USES

QUALITY CONTROL

COUNCIL FOR REAL ESTATE ASSESSMENT

In the Netherlands municipalities perform an annual appraisal of all real estate. The assessed values are used for a real estate tax by the municipalities, but also for taxation on other levels of government like the real estate tax by the polder boards and the income tax and inheritance tax by central government. The assessed values however are not solely used for taxation but for instance also for setting the maximum rent for social housing and the prevention of real estate fraud.

Annual revaluation has been undertaken since 2007. Experience has taught that annual appraisal

RÉSUMÉ

ÉVALUATION ANNUELLE

COLLECTE DE DONNÉES UNIQUE – UTILISATIONS MULTIPLES

CONTRÔLE DE LA QUALITÉ

CONSEIL NATIONAL DE L'ESTIMATION DE L'IMMOBILIER

Aux Pays-Bas, les municipalités réévaluent chaque année l'ensemble des biens immobiliers. Les valeurs estimées sont utilisées pour établir une taxe foncière perçue par les municipalités, mais aussi pour la fiscalité des autres entités gouvernementales comme la taxe immobilière perçue par les conseils des polders et l'impôt sur le revenu et celui sur les successions perçus par le gouvernement central. Les valeurs imposables ne sont pas uniquement utilisées pour la taxation, mais également par exemple pour fixer un loyer maximal pour le logement social et la prévention de la fraude immobilière.

SUMARIO

TASACIÓN ANUAL

RECOLECCIÓN ÚNICA DE DATOS PARA USOS MÚLTIPLES

CONTROL DE CALIDAD

CONSEJO PARA LA EVALUACIÓN DE BIENES RAÍCES

Los municipios de los Países Bajos llevan a cabo una tasación anual de todos los bienes raíces. Los valores evaluados se utilizan para fijar un impuesto sobre bienes raíces de los municipios, pero también para la tributación a otros niveles de gobierno, como el impuesto sobre bienes raíces de las juntas de pólderes y los impuestos sobre los ingresos y la herencia del gobierno central. No obstante, los valores tasados no se emplean únicamente en la tributación, sino, por ejemplo, también para establecer el alquiler máximo de las viviendas sociales y prevenir fraudes en el sector de los bienes raíces.

is a more efficient process than the revaluations that took place every four years before 2007. The annual revaluation is done using computer assisted mass appraisal and continuous updating of data. In updating the data the appraisal process cooperates with the updating of base registers in the Netherlands, especially the updating of the Base Register for Buildings and the large scale base maps.

For the updating of data and the appraisal municipalities sometimes cooperate in shared service centres and some market analysis is even done on a more central level. Municipalities not only cooperate with each other, but also with taxpayers to keep the data up to date.

Une revalorisation annuelle a été entreprise depuis 2007. L'expérience a montré que l'évaluation annuelle est un processus plus efficace que les réévaluations qui avaient lieu tous les quatre ans avant 2007. La revalorisation annuelle a été informatisée et une mise à jour continue des données est dorénavant possible. La mise à jour des données se fait conjointement avec la mise à jour des registres de base du Pays-Bas, en particulier la mise à jour du cadastre pour les bâtiments et les cartes à grande échelle.

Pour la mise à jour et l'estimation des données, les municipalités coopèrent parfois à travers les mêmes services et une analyse de marché est même faite à un niveau plus central. Non seulement les municipalités coopèrent les unes avec les autres, mais également avec les contribuables pour maintenir les données à jour.

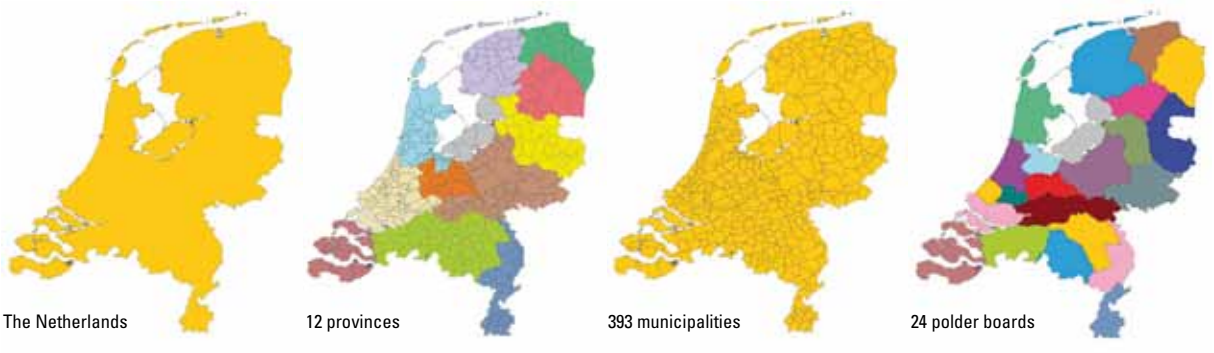
Se viene realizando una revaluación anual desde 2007. La experiencia ha enseñado que la tasación anual es un proceso más eficiente que las revaluaciones que se realizaban cada cuatro años antes de 2007. La revaluación anual se lleva a cabo mediante una tasación en masa informatizada y la actualización continua de datos. Al actualizar los datos, el proceso de tasación contribuye a la actualización de los registros básicos de los Países Bajos, en especial la actualización del Registro básico para edificios y los mapas básicos a gran escala.

Para actualizar la información, a veces los municipios que realizan las tasaciones colaboran en centros de servicios compartidos e, incluso, se llevan a cabo algunos análisis de mercado a nivel más centralizado. Los municipios no solo cooperan entre ellos, sino también con los contribuyentes para mantener la información al día.

BACKGROUND

The Netherlands has central, provincial and local governments. Local government consists of 12 provinces, 393 municipalities and 24 polder boards, the last of which are responsible for drainage, water quality and flood protection. Figure 1 shows the provinces, municipalities and polder boards. All levels of government levy taxes on real estate. Municipalities and polder boards levy a recurrent annual tax.

Figure 1
Decentralised Government in the Netherlands



Until 1995 the various authorities were individually responsible for assessing property tax values and applied a variety of methods and definitions. On 1 January 1995, the Special Act for Real Estate Assessment (*Wet Waardering Onroerende Zaken* or Wet WOZ) came into force. This law established a common definition of real estate property values that were to be used in all tax calculations irrespective of which level of government levied them, and made it mandatory for other government organizations to use these assessed values for tax purposes. Initially the Act required municipalities to

revalue all real estate properties every four years but, since 2007, there has been an annual appraisal with the reference date set one year prior to the year of use. The Council for Real Estate Assessment (*Waarderingskamer*), an independent government organization, supervises and monitors the quality of real estate property assessment.

In 2006, WOZ-registration (the registration of assessed values) was integrated into the System of Base Registers, which is being developed within the Dutch government. Municipal registration of assessed values has therefore become part of the public sector information system, which now includes 11 interconnected base registers. There are, for example, base registers for the cadastre, registered persons or inhabitants and businesses. These registers have been maintained for a long time but in recent years they have been modernized and integrated to form the System of Base Registers. The inclusion of assessed values in this system has had an impact on the work procedures underlying the maintenance of public sector information. These work procedures are increasingly integrated with each other. A digital infrastructure has been developed in the Netherlands which central and local governments are obliged to use when they design their digital services for citizens and businesses. Each inhabitant of the Netherlands has a safe digital letterbox to receive (confidential) communications from government agencies.

Municipal registration of assessed values has become part of the public sector information system

FINANCIAL POLICY AND PUBLIC FINANCES

Approximately €16.5 billion is levied in the Netherlands annually through real estate taxes, amounting to 2.8 percent of the gross domestic product (GDP). Of this €14.5 billion is in the form of recurrent taxes payable by owners and users of real estate. The other €2 billion is levied though sporadic taxes triggered by a particular event, such as the sale of a property or inheritance. These are levied by central government, which also raises €4.5 billion each year from recurrent real estate taxes. These include a tax on the imputed rent that owner-occupiers of residential property are deemed to be paying themselves, a charge on landlords who own ten or more residential properties, and a charge on residential properties not permanently occupied by the owner.

Each of these taxes is based on the assessed value of the property. The central government raises approximately 5 percent of its tax revenue from real estate taxes. Municipalities levy an annual property tax and raise money through non-discretionary fees for services such as household waste collection and sewer connections. Some municipalities levy these fees according to how much they use the services whilst others levy fees according to the value of the property. Municipalities raise about 8 percent of their revenue from the annual property tax and a further 10 percent from non-discretionary fees. The polder boards levy taxes for water system charges and water treatment.

For most of these taxes the taxable amount is the assessed value (WOZ-value), which is determined by municipalities on an annual basis. According to the Special Act for Real Estate Assessment (Wet WOZ) municipalities are required to supply the assessment data to other government organizations, which are obliged to use it. The law specifies that an independent organization must supervise and monitor the quality of the valuation. This organization is the Netherlands Council for Real Estate Assessment (*Waarderingskamer*).

The Real Estate Property Tax (OZB, *Onroerende Zaak Belastingen*) is levied and collected by municipalities. For residential properties the owner often pays the tax at a lower rate than that charged on non-residential properties. For non-residential properties both the owner and the occupier pay the tax, which means that an owner-occupier pays twice. Each owner receives an assessment notification, as do occupiers of non-residential properties. If the taxpayer is a natural person on a low income, he or she may be eligible for a tax refund. The tax rate is determined by municipalities with rates varying between municipalities. For owners of residential properties tax rates are between 0.1 and 0.2 percent of the WOZ-value. For non-residential properties tax rates can be twice as much and fall on both occupiers and owners. For an owner-occupier of a non-residential property, the tax rate can amount to 0.6 percent of the WOZ-value. Only a small proportion of properties are exempt, the most important being public roads, agricultural land (but not agricultural buildings), nature areas, churches, and property belonging to international organizations.

The WOZ-value is also used in other property taxes. The imputed tax on the rent that owner-occupiers are deemed to be paying themselves is assessed

as a percentage of the WOZ-value, 0.75 percent in 2015. This is added to the income of the homeowner. Mortgage interest for the private residence is treated as an allowable expense that can be deducted from the income. For a residential property that is not permanently inhabited by the owner, such as a vacation home or a house that is rented out, a percentage of the WOZ-value is added to the assets, which are subject to an annual wealth tax. The landlord charge, which falls on owners of ten or more residential properties, is based on a percentage of the WOZ-value. This was 0.381 percent in 2014. The valuation of residential properties for inheritance tax also uses the WOZ-value. Water system charges, levied by polder boards, are payable on developed properties as a percentage of the WOZ-value, with the rates varying from 0.05 to 0.1 percent.

The WOZ-values are used for a number of other purposes besides taxation. Some of these are required by law, for example to set a maximum rent for social housing. The WOZ-value is also used by notaries, banks and insurance companies for the prevention of mortgage and real estate fraud. Following Parliament's decision to make the WOZ-values for residential properties publically available from 2016, it is expected that their uses will expand.

THE ASSESSMENT OF REAL ESTATE PROPERTIES

The WOZ-value is an estimate of the market value of real estate (land and buildings) on the valuation reference date, which is 1 January prior to the current fiscal year. There is an annual valuation and the new WOZ-values are announced in an assessment notice for the municipal real estate tax. The valuation is already in use for taxation purposes before it has been finalised while objection and appeal is still possible. If the assessed value changes because of an appeal, the assessment notices for all the real estate property taxes will be adjusted accordingly. Municipalities are responsible for the execution of the Special Act for Real Estate Assessment and while they often use shared service centres, they also have the freedom to outsource to the private sector.

The taxpayer can examine the valuation report on his own property via the internet and review the accuracy of the assessment. The proportion of assessments to which taxpayers have objected has declined from 8 percent in 2001 to 1.3 percent in 2015. A key factor in this has probably been the transition in 2007 from revaluations every four years to annual ones. Legislation has been passed, but has not yet been implemented, whereby taxpayers can examine the WOZ-values of other residential properties as well. If they wish, taxpayers can file a complaint with the municipality against the assessed value, tax liability or exemptions. If the complaint is rejected, three levels of appeal are possible. The first phase is to the District Court while further appeals can be made to the Court of Appeal. Ultimately, there is the option of an appeal in cassation (an appeal against a point of law but not against the facts of the case or the valuation) to the Supreme Court. A number of formal complaints and appeals can be mitigated by providing the taxpayers with an opportunity to have informal contact with the assessment or tax officer and by involving the taxpayer, in one way or another, in the assessment of the WOZ-value. Tax evasion for real estate taxes is rare and is more difficult than for turnover and income taxes because of reliable cadastral ownership registration.

The taxpayer can examine the valuation report on his own property via the internet and review the accuracy of the assessment

The municipality is fully responsible for the tax administration. It makes use of various base registers, such as the Cadastre and the Register of Persons (Inhabitants). The Cadastre is the responsibility of the Netherlands Cadastre, Land Registry and Mapping Agency or *Kadaster* as it is generally known. The municipality ensures that the data used for the appraisal and assessment corresponds with the registration of building permits and the base register of addresses and buildings, so that changes in real estate objects and new construction and demolition are taken into account. There is no obligation on taxpayers to file an assessment or declaration but they are obliged to share information when the municipality asks for it. The accuracy of the tax system can be attributed partly to periodic cross-checking with the cadastre and the base registration of addresses and buildings, and partly by allowing taxpayers to self-check their assessments.

The WOZ-value is defined as the market value of a property, determined using the International Valuation Standards, on the valuation reference date.

It is determined on the assumption that all rights in the property belong to one party. This means, for example, that the assessment does not take into account whether the taxpayer is a leaseholder rather than a freeholder or if the property is rented out. The market value is the highest and best use of the property, which is determined by the development potential set out in the local zoning plan. The state of the property on the value reference date determines the assessment. However, if the state of the property drastically changes after the value reference date and before the year in which the WOZ-value is validated, for example, due to new construction, demolition or renovation, the actual state on 1 January of the year in which the WOZ-value is validated is considered to be definitive.

For non-residential properties that have no market value because there is no general market for them (for example, schools, power plants and industrial complexes), the Special Act for Real Estate Assessment determines that the WOZ-value is the depreciated replacement cost because this is the value to the current owner. Municipalities collect building costs in a mutual database. Indexes of changes in construction costs are published annually. Based on this data, national valuation directives for specific types of properties are defined on an annual basis. Municipalities must value properties for which there is no market value using these valuation directives. This ensures that the valuation of these property types takes place in a uniform and consistent manner.

When measuring the dimensions of real properties, municipalities record either the useable area or the gross volume of the building. A municipality must use a single system for each category of building. Increasingly, municipalities have been opting for the usable floor area of buildings because this is listed in the base register of buildings. The usable floor area and the gross volume are defined in the standard NEN 2580. This is a formal standard set by the Netherlands Standardization Board (NNI, *Nederlands Normalisatie Instituut*). This standard defines all possible methods used in the Netherlands to measure a building. For residential properties this norm has been translated into a simple measuring procedure. This procedure is prescribed by real estate agency organizations for their members to apply.

Three methods are used for valuation. The sales comparison approach is mandatory for assessing residential properties. Non-residential property

is assessed using the market value and the depreciated replacement cost approach, with the higher value being applied. In most instances, the assessor knows in advance whether a non-residential property falls into a category for which there is no market value, meaning that the depreciated replacement cost method must be used. The market value for a non-residential property can be assessed using three different methods: the sales comparison approach, the income approach by capitalising the rental value, or the discounted cash flow method.

The characteristics of properties must be verified at least once every five years and also when there are modifications to the property or changes in ownership. The property characteristics used in valuation are partly taken out of other base registers and are partly collected specifically for the valuation process. Most are specifically collected for the process. Ortho-photography is used to detect changes automatically in the characteristics of registered property. Increasingly, aerial photography and automatic change detection are being integrated with map updates and updating the Base Register for Buildings.

The market data used for appraisals consists primarily of sales prices and estate agent listings for residential and non-residential properties and of rental and sales data for non-residential properties. Estate agent listings are freely available over the internet. Municipalities receive the sales prices from the Cadastre. They can request additional information from the new owner regarding the circumstances under which a sale was conducted. Rentals for non-residential properties, such as shops and offices, and turnover data are requested directly from the taxpayer. All these sources of market data can be regarded as reliable. Information that is requested from taxpayers is also reliable because they are asked to send in evidence, such as a rental contract.

Several organizations publish price indexes for different categories of real estate properties. The main index for residential properties is the Price Index for Existing Homes, which is compiled by the Central Bureau of Statistics and the Cadastre. This is based on residential property sales registered in the Cadastre and is calculated by comparing the declared sales price with the WOZ-value. In this repeat sales index, known as a Sales Price Appraisal Ratio, the WOZ-value is used as the first sale price. Estate agent organizations

publish indexes that are generally based on the median sales prices resulting from transactions made by their members. There are also indexes from the economic models made by linking the sales numbers in the Cadastre to the characteristics of the homes being sold. For non-residential properties the data available refers only to the number or volume of transactions and the extent of the space available and vacancy levels.

Mass valuation is the only approach capable of valuing approximately 8.5 million properties annually and is a means by which the most important quality requirements can be guaranteed. The *Waarderingskamer* (the Netherlands Council for Real Estate Assessment) has formulated guidelines to which appraisal systems must conform. As many sales prices are used in the models as possible. Therefore municipalities must use all sales in the year prior to the valuation reference date and all the sales up to six months after that date.

Mass valuation is the only approach capable of valuing approximately 8.5 million properties annually

A number of registers have been designated as base registers that contain data about citizens, businesses and institutions recorded in a centralized manner. Those responsible for this system assume that the authenticated data is of such a high quality that all branches of government can use this information for their work without any further investigation. One of the most important concepts behind this idea is mandatory feedback. If the data user doubts the reliability of any of the data, she or he may desist from using it only if the concerns about its reliability have been reported back to the organisation responsible for the base register. The administrator will then investigate the accuracy of the data. In this way a self-correcting system is created. Ownership is recorded in the Base Register Cadastre along with sales prices. The Base Register of Addresses and Buildings is used to identify buildings and their primary characteristics, such as usable floor area and year of construction.

A municipality receives all sales of residential and non-residential properties and their reported prices from the Cadastre. The proportion of residential properties sold each year varies with the state of the property market. In a buoyant market, such as 1997-2007 between 2.7 and 3 per cent of the stock is sold. When the market is more depressed, such as 2009 – 2011, the proportion falls to 1.6 to 1.7 per cent. This information is believed to be highly reliable. But not every reported sales price corresponds with the

requirements for deriving the WOZ-value, for example that it is on an "arm's length basis". Sales must therefore be analysed. This analysis is an on-going process, conducted by the municipalities who compare the sale price with the assessed value and an analysis of the property's characteristics. If this comparison shows an unexpected value change or reveals changes in the property's characteristics, it should be investigated further. This can be done through an inspection of the premises or by requesting additional information from the new owner. It is important that the results of this analysis are recorded in a systematic manner.

The data in the base registers is not sufficiently detailed for mass valuation, so information from other sources must also be used. This could include the building type, the size of different parts of the building (for instance, shopping space versus storage space, or an old part of the building versus a newly built extension, or annexes to the building), or information that provides insight into the maintenance condition or quality of a property. Some market data is collected by the municipalities themselves (such as rental prices for non-residential properties) by sending out questionnaires or by asking stakeholders to provide information through interactive websites.

Municipalities are responsible for selecting the valuation system they use for the appraisal of residential and non-residential properties. Some municipalities use models based on regression analysis. Others use systems based on the clustering of similar properties in the same area. Both types of valuation systems are capable of meeting the requirements set by the *Waarderingskamer*, which has not imposed external quality requirements on the mass appraisal system, preferring instead to promote competition in the development of valuation systems. The fact that a relatively large group of municipalities use valuation models based on clustering similar objects is instead a result of legislation and case law which require, in the case of disputes, that an individual valuation outcome has been assessed. Inaccuracies in any model that is used to estimate the value of an individual property are not acceptable. If model-based valuations have been executed, the municipality produces a valuation report for all residential properties. In this report comparison with market data is limited to a selection of three property sales. However, it is possible to use other sales in the valuation

report in order to support the assessed value. For non-residential properties the valuation report shows how the value has been estimated, for example, through the capitalisation of the rental value.

THE ROLE OF THE *WAARDERINGSKAMER*

The *Waarderingskamer* is an independent organization that supervises and monitors valuation in accordance with the Special Act for Real Estate Assessment. Municipalities are obliged to carry out ratio studies and must inform *Waarderingskamer* of the results of their quality control. If municipalities do not meet the minimum quality standards set, the Mayor and Aldermen are initially held accountable. If the necessary improvements are not realized then the Minister of Finance may, in extreme cases, decide to have the work executed by another body. The *Waarderingskamer* formulates quality standards and guidelines with which the assessment process must comply. These relate to the valuations, the underlying work procedures and the internal management of these work procedures. Standards include ones for updating property characteristics and for examining the completeness of tax registers. In addition, it reviews whether municipalities meet the quality standards and guidelines and *Waarderingskamer* carries out quality checks at about a quarter of the municipalities each year. There are different guidelines and standards for residential and non-residential properties. Initially, municipalities decide whether the appraisals meet these standards but the *Waarderingskamer* conducts risk-based inspections and sanctions can be applied if municipalities do not meet requirements. Between 70 and 80 percent of the municipalities are audited each year and all are required to complete a questionnaire twice a year, which includes information about the results of the revaluation and the handling of objections and appeals. Sanctions include preventing municipalities from sending out tax bills until they have addressed the shortcomings.

The Netherlands has a system for the certification of appraisers. Although there is no legal requirement for market valuations (sales values, rental values or book values) to be carried out by a certified appraiser, they usually are. Listed

market appraisers are required to undergo continuing professional education and to comply with a code of ethics. While there are no formal requirements for training or qualifications for the assessment officers responsible for the mass valuation process, municipalities are responsible for having sufficiently trained and qualified personnel. Substantive guidelines on training and qualification requirements have been developed by the *Waarderingskamer*. Appraisers who meet these guidelines can be listed in a national register, which is linked to the registry of market appraisers. Due to the specialized character of the mass appraisal process, an important portion of the work is undertaken by specialists in defining and optimizing models, rather than by appraisers. These specialists usually have a background in statistics or econometrics and accurate data management.

LESSONS LEARNED

The transition from a four-year revaluation system to a system of annual valuation has increased the number of taxes for which the WOZ-value can be used, as well as increasing its uses outside of taxation. The number of complaints and appeals has fallen because assessments better match the values perceived by taxpayers. Involvement of taxpayers in the valuation process increases their confidence in the outcome, in particular giving taxpayers the ability to assist in the determination of the property characteristics, although these changes need to be verified before inclusion in the register. Other bodies like the Ministry of the Interior have also come to have an interest in the accuracy of the data.

The transition from a four-year revaluation system to a system of annual valuation has increased the number of taxes for which the WOZ-value can be used

An annual valuation can be more process-driven than a four-year cycle and is therefore more efficient. Between 1997 and 2014 the cost of valuation dropped from €190 million each year to €150 million. The gradual transition from a four-year to an annual valuation cycle enabled work processes to be improved. Such improvements to the system can be realized more readily when there are more frequent revaluations. Costs per property of revaluations have fallen over time from €23 in 1997 to €17 in 2014.

Proper registration of property characteristics is a prerequisite of accurate valuations and for taxpayer trust. Therefore investment must be made to keep the registration of property characteristics up to date. Process-based registration updates are less expensive than periodic revaluations. The principle of "single data collection, multiple uses" is recommended for efficiency. The primary responsibility for the quality of mass valuation should be placed at as low a level as possible so that the organizations which carry out the valuations are responsible for quality control. In the Netherlands these are the municipalities. However, the joint collection of market information and cooperation of municipalities results in better appraisals, greater consistency and in significant cost savings. It is advisable to place responsibility for securing efficiency, clarity, quality and uniformity in a single external organization so that there is consistency in the approach to valuations across the country as a whole.

Proper registration of property characteristics is a prerequisite of accurate valuations and for taxpayer trust

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PROPERTY ASSESSMENT AND TAXATION IN THE REPUBLIC OF MOLDOVA

ÉVALUATION DES BIENS FONCIERS ET IMPOSITION FISCALE EN RÉPUBLIQUE DE MOLDAVIE

LA EVALUACIÓN Y LA TRIBUTACIÓN DE BIENES RAÍCES EN LA REPÚBLICA DE MOLDOVA

ABSTRACT

PROPERTY ASSESSMENT

MARKET VALUE-BASED PROPERTY TAXATION

PROPERTY TAX REVENUE

This article provides a survey of the experience gained by the Republic of Moldova in implementing a new real property taxation system based on assessed (market) value. The tax reform's merits are considered – as well as its key differences from the preceding property taxation system. An analysis is provided of the outcomes of implementing value-based property taxation for individual types of real property. Problems are identified that are preventing the completion of mass real property valuation and hindering the implementation of the new tax system. They include in particular certain methodology-related and organizational aspects of property assessment as well as the

RÉSUMÉ

ÉVALUATION DES BIENS FONCIERS

IMPOSITION BASÉE SUR LA VALEUR MARCHANDE DES BIENS

RECETTES DE L'IMPÔT FONCIER

Cet article présente l'expérience acquise par la République de Moldavie dans la mise en œuvre d'un nouveau système d'imposition des biens immobiliers évalués sur la base de leur valeur (marchande). Les mérites de la réforme fiscale sont considérés ainsi que les différences fondamentales avec le système d'imposition des biens fonciers précédent. Une analyse concernant les résultats de la mise en œuvre de l'imposition foncière basée sur la valeur des différents types de biens immobiliers est ensuite proposée. Les problèmes qui ont entravé l'évaluation des biens immobiliers et la mise en œuvre du nouveau système d'imposition sont identifiés. Ils concernent en particulier certains

SUMARIO

EVALUACIÓN DE BIENES RAÍCES

TRIBUTACIÓN DE BIENES RAÍCES BASADA EN SU VALOR DE MERCADO

INGRESOS DERIVADOS DEL IMPUESTO SOBRE BIENES RAÍCES

En este artículo se ofrece un examen de las experiencias adquiridas por la República de Moldova al poner en marcha un nuevo sistema de tributación de bienes raíces basado en su valor tasado (de mercado). Se estudian los méritos de la reforma tributaria, así como las diferencias fundamentales entre esta y el sistema tributario anterior de bienes raíces. Se muestra un análisis de los resultados de la aplicación de un sistema de tributación de bienes raíces basado en su valor para tipos individuales de bienes raíces. Se determinan los problemas que impiden finalizar la valoración de bienes raíces en masa y obstaculizan la aplicación del nuevo sistema tributario. Entre ellos cabe destacar, en particular,

lack of adequate arrangements for the financing of mass registration and assessment of real property. No assessment has been performed for certain real property types, in particular agricultural land, which accounts for over 70 percent of the total real property in Moldova, because the land market is underdeveloped and the switch to value-based property taxation of such real property will not be feasible. As a result, Moldova is using two taxation systems in parallel: market value-based property taxation and the old (area-based) system. The article examines the economic efficiency of the new taxation system and the role played by revenues from the real property tax in local administration budgets. Real property tax exemptions and reliefs are analyzed from this perspective and the necessity of revaluing real property for tax purposes is discussed.

aspects liés à la méthodologie et à l'organisation de l'évaluation des biens fonciers ainsi que l'absence de dispositions adéquates pour le financement de l'enregistrement et l'évaluation des biens immobiliers à grande échelle. Aucune évaluation n'a été effectuée pour certains types de biens immobiliers, en particulier les terres agricoles, qui représentent plus de 70 pour cent des biens fonciers totaux réels en Moldavie, du fait que le marché des terres est sous-développé et que le passage à une taxation basée sur la valeur de ces biens immobiliers n'était pas faisable. En conséquence, la Moldavie utilise deux systèmes d'imposition parallèles: l'impôt foncier basé sur la valeur du marché et l'ancien système (par superficie). L'article examine l'efficacité du nouveau système d'imposition en termes économique et le rôle joué par les recettes de la taxe perçue sur les biens immobiliers dans les budgets de l'administration locale. Les exemptions et les exonérations fiscales sur les biens immobiliers sont analysées dans cette perspective et la nécessité de réévaluer les biens immobiliers à des fins fiscales est discutée.

ciertos aspectos de la organización y relacionados con las metodologías para la evaluación de bienes raíces, así como la carencia de disposiciones adecuadas para la financiación del registro y la evaluación en masa de bienes raíces. No se ha realizado ninguna evaluación para determinados tipos de bienes raíces, en particular los terrenos agrícolas, que representan más del 70 por ciento del total de bienes raíces de Moldova, debido a que el mercado de tierras está subdesarrollado y para esos bienes raíces no sería viable la transición a una tributación de bienes basada en su valor. Como resultado, Moldova está utilizando dos sistemas tributarios de forma paralela: la tributación de bienes raíces basadas en su valor de mercado y el antiguo sistema (basado en la superficie). En el artículo se examina la eficiencia económica del nuevo sistema tributario y la función que desempeñan los ingresos derivados del impuesto sobre bienes raíces en los presupuestos administrativos a nivel local. Las exenciones y reducciones fiscales para los bienes raíces se analizan desde esta perspectiva y se debate sobre la necesidad de revaluar los bienes raíces con finalidades impositivas.

INTRODUCTION

The property tax on immovable property was introduced with the privatization of buildings and structures. The Law on Privatization, 1991 was the framework for the transfer of state property into private ownership and led to the introduction of a property taxation system. Most apartments in multi-storey blocks were privatized between 1993 and 1995. Privatization of all real property objects took the form of national patrimony vouchers. Household plots were transferred to house owners free of charge. Industrial and commercial buildings were mainly privatized between 1994 and 1998. Trade in land began after enactment of the Law on Normative Prices and Procedures for Land Purchase and Sale, 1997. Property rights are subject to compulsory registration and must be entered in the Real Property Register in compliance with the Law on Real Property Cadastre (Government of Moldova, 1998).

FINANCIAL POLICIES AND PUBLIC FINANCES

Before the early 2000s, the system for taxing land was based on surface area. A fixed rate per hectare was applied to agricultural land and a fixed rate per hundred square metres for land within settlement boundaries. The value of agricultural land was then adjusted depending on its soil fertility (or *bonity*). The term *bonity* originated from the Latin *bonitas*, which means 'high quality'. This indicator shows soil fertility ratings in points per hectare. The average bonity of agricultural land in Moldova is 65 points per hectare of agricultural land.

The tax base for residential properties was the inventory value while the book value was used for commercial buildings and structures. The inventory value was based on the replacement cost of the property adjusted for its physical deterioration. The assessment did not take the property's location into account, which meant that the value of similar sized houses would be the same whether they were in Chisinau (the capital city) or in a remote rural settlement. To remedy this, the inventory value was adjusted using differential tax rates to reflect the location of residential properties. This

adjustment was set at 0.3 percent for the capital city and large towns, 0.2 percent for medium-sized towns, and 0.1 percent for rural settlements. Book values, for commercial properties, reflected the construction cost of buildings and structures on the date they were commissioned or on the date they were included in the enterprise's balance sheet. They were not adjusted for changes in the environment over time and, for this reason, the tax values became increasingly symbolic.

By the mid-1990's it was clear that inventory values were significantly lower than market values. From 1999, adjusting indexes were applied to the tax rates for buildings with a basic construction area of more than one hundred square metres. This had the effect of doubling the tax on large dwellings. In 2000 the Moldovan Parliament approved Title VI of the Tax Code (Government of Moldova, 2000), which introduced value-based property tax assessment and the use of a single property tax, instead of a land tax and an immovable property tax on buildings and structures. The property tax base is now the appraised value of an integral property parcel – a land parcel together with all improvements on it.

In 2000 the Moldovan Parliament approved Title VI of the Tax Code, which introduced value-based property tax assessment and the use of a single property tax, instead of a land tax and an immovable property tax on buildings and structures

Since 2004 Moldova has been conducting mass property valuation for tax assessment purposes. Yet in 2013, property taxes raised just 0.16 percent of Gross Domestic Product (GDP), accounting for 0.85 percent of the national public budget and 1.0 percent of all tax revenue. By comparison, income tax raised 13.2 percent of national tax revenues, Value-added Tax (VAT) 37.8 percent, social insurance charges 24.2 percent, and excise duties 11.0 percent.

Local governments are responsible for collecting property taxes. There are 978 local public administrations in Moldova administering 1 679 settlements (cities, towns and villages). Local public administrations serve notices requesting to pay tax. In cities and towns these are served on each real property owner by post. In villages collectors of local taxes employed by the local public administration hand over these notices to real property owners personally. They set the annual tax rate for each type of property within the maximum and minimum limits set by central government. For example, a single property tax rate (0.1 percent of the appraised value of the concerned property object) applies to all property types in Chisinau, the capital city of Moldova.

Since the start of a new property tax reform, property tax contributions have fallen from 11.3 percent of local government budgets in 2006 to 7.6 percent in 2013. However, in that same period property tax revenue actually increased by 35 percent. The switch to the new form of assessment and collection is more noticeable in some taxpayer categories than others with the property tax collected from enterprises that own commercial and industrial property increasing by 84 percent after the switch to the value-based assessment method.

The contribution property tax makes to local public administration budgets can be insignificant compared to the sums received from central government. In 2013 inter-governmental transfers accounted for 43.7 percent of local government revenue. Local governments also retain a portion of income tax revenues. Their share is calculated at a flat rate depending on the types of settlement it is applied to. Rural governments, for example, retain 75 percent of the income tax revenues from their jurisdiction. Regional treasuries retain 25 percent of the income tax collected from individuals and municipal administrations retain 45 percent of the income tax collected from individuals. In 2013, income tax revenues made up 84 percent of local government tax revenues.

PROPERTY TAX REFORM

The transition to value-based property tax assessment method started in 2007. When mass valuation was launched in 2004, it was assumed that all properties would be valued within five years (between 2004 and 2008). The expectation was that an additional type of property would be valued each year and that the new assessment method would be implemented in stages. However, the valuations have not yet been completed. The property types for which mass valuation has been completed account for about 12.5 percent of all properties.

The expectation was that an additional type of property would be valued each year and that the new assessment method would be implemented in stages

There are now two property tax assessment methods in use. The new property tax assessment method applies to properties such as apartments and family houses in urban areas, garages in garage owner associations, land parcels in summer-house owner associations, commercial and industrial

property, and agricultural land where the structures on it are used for business. The switch to value-based assessments has had more of an impact on some of these taxpayer categories than others. In the meantime, the old assessment method applies to agricultural land, houses in rural areas, property in public ownership, engineering infrastructure systems, and specific purpose properties such as power plants, railway stations and airports. "Area-based assessment approach for agricultural land" means that the law sets a flat amount payable as tax per hectare of agricultural land. The flat tax rate is up to MDL110 per hectare for land without an assessed bonity value (other than pastures and hayfields) and up to MDL55 per hectare for pastures and hayfields. The law sets the tax rate for land with assessed bonity value as a flat amount payable as tax per point on one hectare. Thus, the flat amount payable as tax per point on one hectare is up to MDL1.5 for any agricultural land other than pastures and hayfields and up to MDL0.75 for pastures and hayfields.

There are three main reasons for the current situation. Firstly, mass property registration and valuation is funded from the national budget whereas property tax revenues form part of local government revenues, which means that the national government does not directly benefit from the switch to a new assessment method. As a result, no funding has been allocated for mass property registration for a number of years. Approximately 450 000 houses in rural areas have not been registered and the registration of property in public ownership and special purpose facilities is also incomplete. The information registered in the Real Property Cadastre is the basis for mass valuation, so valuation is not possible if registration has not been undertaken. A distinction should be made between property objects not registered in the cadastre but falling into the categories of property objects covered by initial mass registration and property objects falling into categories of objects not covered by initial mass registration. Regarding the former class of property objects, it is often the case that the owner of the unregistered property object cannot be identified and the rights to the property are not known – that is why such property is not taxed. Regarding the latter class, if the initial mass registration of property objects falling in the concerned category (e.g. residential houses in villages) has not yet been completed, the owners pay tax on such property object according to the old tax assessment system.

Secondly, with an urban population estimated at 47 percent, Moldova is one of the least urbanized countries in Europe and the economy is heavily dependent on agriculture. Currently, agricultural land accounts for over 70 percent of all property and is assessed for tax according to its area. During the privatisation of agricultural plots in collective farms, each former member of a *kolkhoz* (or collective) received a share of the land depending on their years of service and wages, on average acquiring 1.5 hectares. If local governments switch from an area to a value-based system, they could lose more than 75 percent of their current land tax revenues because of the low market value of agricultural land. The property tax rate would have to be increased to compensate local governments for this loss and the attitude of taxpayers to this measure is likely to be negative.

Thirdly, there are problems with the registration of transportation, communications and utility networks, properties in public ownership and special purpose facilities. These properties are currently taxed on their book value but not all state property is registered in the cadastre. It contains the property of state enterprises but progress in registering properties managed by ministries or local public administrations has been slow because of incomplete documentation. The boundaries between state property and local government property have not been determined because of inadequate finance, errors during the mass privatization of land and opportunistic behaviour on the part of local administrations, some of which have tried to acquire public land for themselves.

In most cases, delays in the switch to the new value-based assessment result from problems with property registration rather than being caused by problems with mass valuation itself.

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Property tax revenue could be higher but there are long lists of the entities and individuals who are either fully or partially exempt, including public authorities, religious organizations, old-age pensioners, people with disabilities, and the families of military personnel killed on active service. Taxpayers are given notice to pay at least two months before the payment deadline and all taxpayers are entitled to a discount of 15 percent if they pay at least six weeks before the payment deadline for the first half of their tax bill. Although all these property tax exemptions have been granted as social measures, some

TYPE OF PROPERTY	NUMBER OF OBJECTS	REGISTRATION PERIOD	DATE OF MASS VALUATION	NEW TAX SYSTEM (year of implementation)
Apartments	335 000	2000–2002	1 June 2004	2007
Residential houses in cities	175 000	2001–2003	1 June 2005	2007
Garages	50 000	2006–2007	1 June 2007	2010
Commercial and industrial real property	90 000	Registration in the assessment process	1 June 2009	2010
Agricultural land – total, including:	4 010 000			
→ plots within lawn-and-garden associations with/without structures	80 000	2006–2007	1 June 2007	2010
→ agricultural land with structures	30 000	2009–2010	1 June 2011	2012
→ land for agricultural use	3 000 000	1998–2003	Not accomplished	Not applied
→ gardens	900 000	2000–2010	Not accomplished	Not applied
Houses in villages	930 000	550 000 objects registered	In progress mass data collection	Not applied
Special-purpose objects / Public property / Other objects	110 000	Sporadic registration	Not accomplished	Not applied
TOTAL:	5 700 000			

Source: data provided by the Agency for Land Relations and Cadastre

Table 1
Implementation of real property mass registration, mass valuation and the new tax system

exemptions could be argued to be excessive. For example, owners of forests and land under bodies of water are fully exempt from land tax even when the land has been leased out and is therefore generating an income for example from tourism, country recreation and retreat centres and holiday homes in wooded areas. Weaknesses in the fiscal cadastre mean it is not possible to state how many properties are exempt from property tax.

Table 2
Real property tax and land tax exemptions and benefits in 2013

TAX TYPE	PAYABLE BY	EXEMPTIONS AS A PERCENTAGE OF THE MAXIMUM POSSIBLE TAX REVENUE	ACTUAL TAX REVENUE AS A PERCENTAGE OF THE MAXIMUM POSSIBLE TAX REVENUE
Real property	Individuals	27.0	73.0
Real property	Entities	54.6	45.4
Land tax	Individuals	16.1	83.9
Land tax	Entities	48.5	51.5

Source: data provided by the Agency for Land Relations and Cadastre

Moving to a value-based system of property tax assessment affects other taxes associated with property because the base for their assessment changes as a consequence. The base value for capital gains tax is the same as the one used for property tax. Capital gains tax falls on the difference between this base value and the sales price. Inheritance and gifts tax also use the property tax assessment value as do notaries' fees and the tax on property transactions.

The implementation of value-based property tax has already yielded results and local government revenues have increased due to the expansion of the tax base caused by:

- The assessed values of real properties resulting from mass valuation methods are higher than the (normative) tax values applied in the old system;
- As a result of the mass registration of real property preceding mass valuation, surveys revealed that up to 30 percent of properties were not registered in the cadastre and had therefore not been assessed for tax.

The tax is also fairer. Owners of more valuable properties pay more tax. As a result, taxpayer confidence in the system has increased.

The implementation of value-based property tax has already yielded results and local government revenues have increased due to the expansion of the tax base

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MASS VALUATION

Valuations are performed by the cadastre and its territorial offices as no other body is sufficiently large. Moldova uses a centralized value transmission system. The information on appraised value and core characteristics of appraised property objects as well as the owners is in the central cadastral database and transferred to the Main State Fiscal Inspectorate following procedures prescribed by the law. The Main State Fiscal Inspectorate disseminates this information to the relevant territorial tax offices. Then the information on appraised value of real property is made available to the local public administrations.

Mass valuation models are developed and approved by the Agency for Land Relations and Cadastre. The same valuation models are used throughout Moldova to appraise each property type. Valuation quality is monitored by the cadastre head office. There are ten licensed property valuers in the head office who use their extensive experience to oversee the most complicated parts of the mass valuation process. They develop, test and adjust valuation models, compile guidelines (for data collection and value computations, for example), and deliver training to the territorial cadastral office valuers. Large-scale routine and labour-intensive work is performed by the 50 valuers in the territorial cadastral offices. This includes gathering market data, developing value zone maps, collecting information on properties, calculating values, and notifying owners of the appraised values. Maintenance of the fiscal

cadastre is the responsibility of the Main Fiscal Inspectorate who works with cadastral data and information from local governments. Cooperation with the local public administrations is necessary wherever the old taxation system is used since local public administrations maintain their own registers of the objects not registered in the cadastre. They hold unique information on the residential properties in each settlement and their owners.

Taxable objects include land, buildings, apartments, and structures under construction which are 50 percent complete. Apartments and other self-contained premises are measured to the inner faces of walls and dwelling houses are measured to the outer faces. When the income approach is used, valuations of commercial property take the useful area into account, that is the internal area that can be let. When the cost and sales comparison approaches are used, it is the area within the outer faces of the walls that is used.

Article 279(4) of the Tax Code says that market valuation methods must be used to determine appraised values. Assessment does not include an analysis of the highest and best use. The appraised value is therefore the market value in its current use. The property is also assumed to be vacant and available for sale or lease on standard terms. The price is what a typical buyer would be willing to pay rather than what would be offered by a special purchaser. The sales comparison method is used for apartments, self-contained premises within a block, dwelling houses, garages, summer houses, land for construction, and standard commercial and industrial properties. The valuation of more complex commercial and industrial properties uses the sales comparison, depreciated replacement cost and the income capitalization methods. Since none of these offers significant advantages for valuation of such objects, all three methods are used and the values arrived at are subsequently reconciled. The depreciated replacement cost method is used for the valuation of properties in undeveloped markets.

The law allows mass valuation for standard properties but individual valuations must be undertaken for non-standard properties. The models use standard statistical methods, including the analysis of data quality and uniformity, data clustering, Geographic Information System (GIS) tools and the determination of multi-colinearity. Regression analysis is used to determine the impact of different value factors.

Table 3

Coefficients used in the valuation model for residential houses in 2005

VALUATION DATE: 1 JUNE 2005, CHISINAU

VALUE ZONES		BASIC VALUE IN MDL PER SQUARE METER			
454, 455, 456, 457, 459	1.00	Land plot	957.60	Outdoor kitchen	4 057.20
460, 461, 462, 465, 458, 476, 675	0.87	Apartment in a one-storey house	4 551.75	Garage	3 276.00
463, 466, 468, 475, 478, 483	0.80	Main building	5 355.00	Two-storey garage (with a cellar)	3 603.60
464, 467, 481	0.73	Sauna	3 061.80	Garage with a cellar	3 603.60
473, 469, 482, 484	0.62	Swimming pool	3 061.80	Shed (lean-to/repair shop/warehouse)	3 061.80
472, 480, 485, 918, 919, 676	0.57	Cellar	1 688.40	Shed with a cellar	3 368.00
470, 471	0.51				
479, 917	0.45				
		ADJUSTING COEFFICIENTS FOR OWNERSHIP TYPE:			
		Privatized land plot			1.00
		Land plot in possession (adjacent to the main plot)			0.90

LAND PLOT

AREA		ACCESS ROAD		WATER LINE		SEWAGE		DEVELOPMENT	
0 < S <= 0.05	1.05	None	0.90	None	0.80	None	0.85	Paving	1.01
0.05 < S <= 0.07	1.00	Mud road	0.93	Local	0.86	Local	0.93	Swimming pool	1.03
0.07 < S <=0.12	0.99	Gravel road	0.94	Seasonal	0.96	Municipal	1.00	Water well	1.01
0.12 < S < …	0.80	Paved road	1.00	Municipal	1.00	GAS LINE	1.00	NO GAS LINE	0.83

MAIN BUILDING

OTHER STOREYS		HEATING		AUXILIARY STRUCTURES		STATE OF THE BUILDING			
Basement	1.06	Own boiler	1.13	Cellar	1.10	Excellent	1.19	Poor	0.76
Semi-basement	1.09	Municipal heating	1.13	Garage	0.90	Very good	1.17		
Attic	0.94	Stove	1.00	Sauna	1.12	Good	1.00		
		None	0.92			Fair	0.91		
STRUCTURE TYPE		STATE OF COMPLETION		WINDOWS		EXTERNAL FINISHING		ARCHITECTURAL STYLE	
Shared wall	0.85	50-65%	0.75	Glass envelope	1.05	Ordinary	1.00	Austere	1.00
Separate-standing	1.00	66-79%	0.85	Double wooden frames	1.00	With decorations	1.10	Medium	1.04
Part of a building	0.85	80-95%	0.95	Single wooden frame	0.94	None	0.92	Advanced	1.11
		96-100%	1.00						

YEAR OF CONSTRUCTION / OVERHAUL		WALL MATERIAL		ROOFING MATERIAL	
1900< YYYY <=1955	0.65	Adobe	0.83	Asbestos cement shingles	1.00
1956< YYYY <=1965	0.76	Clay	0.79	Asphalt sheets	1.00
1966< YYYY <=1975	0.80	Concrete	0.90	Zinc-galvanized steel	1.05
1976< YYYY <=1985	1.00	Bricks	1.08	Roof steel	1.05
1986< YYYY<=1995	1.03	Quarry stone	1.80	Slates	1.07
1996< YYYY <=2000	1.06	Limestone	1.00	Metal shingles	1.07
2001< YYYY <…	1.08				
REDUCING COEFFICIENT IN CASE OF ANOTHER MAIN BUILDING ON THE LAND PLOT					0.90

A Delphi approach with a panel of skilled valuers was used to develop hybrid mass valuation methods. The development of a value zoning map for each settlement ensures that due consideration is given to the property's location. An analysis of selling prices for each type of property forms the basis for determining the boundaries of the value zones. The mass valuation model takes account of location through the use of coefficients that reflect the price differences between zones. The acceptable accuracy level of the valuation models depends on the level of property market development in a region. The tolerance between the estimated and market value should be ±25 percent for urban properties, where the market is relatively well developed, but can be as high as ±35–40 percent for rural properties. The use of valuation models simplifies the valuation process but yields less accurate results, although the software does prevent incorrect computations. A tolerance of ±10–15 percent is generally regarded as being acceptable in mass valuation.

The price information used in mass valuation includes: prices from sale contracts that are registered in the cadastre, asking prices, price information obtained from realtors and valuers, and information obtained from local public administrations on actual selling prices paid at auction. Prices are analysed to exclude untrue prices. Asking prices are adjusted for the current market situation. To compute price indexes, the cadastre has developed a property price register compiled from transactions. Property sale contracts are thought to contain understated prices in 90 percent of cases. Prices are often understated in an effort to avoid the property sales tax, which is high at 18 percent of the sales price. Regular revaluations would help to curb tax evasion because sales prices in contracts do not tend to fall below the assessed prices used for tax purposes. The development of a mortgage market has resulted in 36.7 percent more mortgage loans being registered in the cadastre in 2014 than in 2011. To put that into context, the number of registered transactions for the same period grew by only 4.2 percent. Mortgage valuations recorded in the cadastre provide a relatively accurate assessment of the collateral offered to the lender even when declared prices are inaccurate.

The assessment date is 1 June of the year in which a particular property type is to be valued. Assessments come into effect the next year. Legal persons assess their own properties and the accuracy of these assessments is verified by the relevant territorial tax office. Property tax for individuals is computed by local governments and the relevant territorial tax office provides methodological assistance. Property owners are responsible for paying the tax but, in the case of properties in public ownership, the tenant is the taxpayer. The procedures and formulas for calculating property tax are detailed in the Tax Code and in the payment notices sent to owners and occupiers so that taxpayers can verify the accuracy of the assessment and appeal if necessary. Appeals must be made within one month of receipt of the notice. If the cadastral authorities refuse to accept the appeal, the owner is entitled to pursue the claim through the courts.

The Tax Code requires revaluation to be carried out every three years but this has not happened. As a result there are significant differences between market values and appraised values. The differences at the time of mass valuation were 10–15 percent.

Table 4

Number of transactions and property registrations in 2014 by property type

PROPERTY TYPE	REGISTRATION TYPE								
	TRANSACTIONS					OTHER REGISTRATIONS			TOTAL REGISTRATIONS
	Purchase, sale	Donation, exchange	Succession by inheritance	Other	Total	Mortgage	Tenancy	Primary registration	
Land for development	8 774	2 986	3 910	3 885	19 555	1 152	761	10 122	31 590
Agricultural land	75 941	39 860	60 649	21 775	198 225	9 553	34 804	13 677	256 259
Apartments	14 690	4 135	7 103	10 748	36 676	7 514	60	11 765	56 015
Residential houses	7 755	7 881	12 723	7 235	35 594	2 819	33	9 325	47 771
Commercial property	2 480	324	302	1 015	4 121	4 579	615	3 922	13 237
Other	2 345	509	686	945	4 485	2 156	122	6 010	12 773
Total	111 985	55 695	85 373	45 603	298 656	27 773	36 395	54 821	417 645

TYPE OF PROPERTY	APPRAISED VALUE (MDL per 1 m²)	DATE OF MASS VALUATION	CURRENT MARKET VALUE (AS OF 01.01.2015) (MDL per 1 m²)	AV/MV RATIO
Apartments	5 682	1 June 2004	12 955	0,44
Residential houses	5 355	1 June 2005	11 152	0,48
Commercial property (shops)	12 962	1 June 2009	14 602	0,89
Office property	11 017	1 June 2009	12 411	0,89
Industrial property	7 113	1 June 2009	7 122	0,99
Warehouses	5 848	1 June 2009	5 856	0,99

Table 5
The relationship between appraised values (AV) and market values (MV) for real property in Chisinau

Collection rates for taxes are relatively high at 99.2 percent for land tax payable by individuals and 95.8 percent for land tax payable by legal entities. The collection rate for property taxes assessed under to the new assessment system is slightly lower at 94.7 percent for individuals and 90.1 percent for legal entities. The cost of mass valuation for urban residential property between 2004 and 2005 was approximately MDL5 million, which is only 33 percent of the growth in annual tax revenues following the switch to a value-based assessment method. Appraisal costs per apartment were MDL5.35 or €0.36 in 2004. Appraisal costs per residential block were MDL21.5 or €1.4 in 2005. The cost of cadastral surveying, registration and mass valuation of commercial and industrial property was MDL26.9 million, which is 77 percent of the annual growth in annual tax revenues following the switch.

THE VALUATION INFRASTRUCTURE

In Moldova, valuation activities are regulated. Valuations, excluding those for tax purposes, may only be performed by licensed valuation companies, who must have at least one licensed valuer. The licensing requirements are based on European Valuation Standards but they also take into account the specific features of this profession as it has developed in Moldova.

The Law on Valuation Activities (Government of Moldova, 2002) defines a valuer as an individual of good repute who has completed a relevant university course, obtained a licence, gained sufficient experience in valuation, mastered professional skills and is sufficiently competent to perform valuations (Article 1). More specifically, a valuer must have completed a course of studies at a technical or an economics university, had at least one year's experience as an employee of a valuation company, and passed the examination set by the Licensing Board of the Agency for Land Relations and Cadastre. The Board can discipline valuers who breach requirements, issuing warnings and suspending or withdrawing licences. There is no requirement for professional indemnity insurance or for valuers to be a member of a professional body. The Licensing Chamber within the Moldovan Ministry of the Economy issues licences to valuation companies and valuers can only carry out valuations as employees of a licensed company.

Valuers performing property valuations, for tax purposes or any other reason, use the information registered in the cadastre, which includes technical inventory files. The cadastre has information on more than 85 percent of property objects. It registers buildings and structures as well as apartments and other self-contained premises within a block. The information includes the area of the land and buildings as measured by licensed cadastral surveyors. The value assessed for tax purposes is registered in the cadastre's VALUECAD database and is computed using the mass valuation algorithm. The extent of physical deterioration of industrial and commercial buildings is determined by construction regulations approved for different building types between 1986 and 1989. Valuers determine the replacement value of buildings and structures on the basis of the Summary Tables developed between 1969 and 1971. The replacement values of residential properties are determined by the Summary Tables of Values for Technical Surveying Purposes, which were produced in 1997. These tables are not adapted to modern building materials and techniques. Multiple indexes are therefore used to restate 1969 prices at today's values. The National Agency of Statistics issues quarterly construction price indexes for different industries. The necessity of using multiple indexes to restate 1969 prices as prices at the day of valuation has an adverse impact on the quality of the resultant replacement value figures.

CONCLUSIONS

The transition to a value-based property tax system has been successful. Moldova succeeded in mobilizing skilled technical labour and finding the finances required to establish a multi-functional property cadastre in which mass valuation plays an integral part. A legal framework, methodology and information technology infrastructure have been established for mass valuation. Urban residential property and industrial and commercial property have been assessed in accordance with the new value-based method, which has proved to be efficient and effective. Value-based property taxes have produced a good return on the investment made.

Although the property tax reform was successfully launched, the process is currently suspended. Mass registration and valuation of rural residential property, properties in public ownership and special purpose properties has not been completed. The value-based assessment of agricultural land is currently not feasible because the market is underdeveloped. Consequently, the property tax on all these property types is still assessed using the old system.

A prerequisite for the successful implementation of a property tax assessment system is political will and policies that are not dependent on a government or minister for their continuity. Effective liaison between the various governmental agencies is essential if they are to work as a single team and deal with emerging problems. There also needs to be close cooperation between local governments, who are the beneficiaries of property tax reform, and the cadastral and tax authorities.

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Upon reflection, there are several lessons to be learned from Moldova's experience. A more efficient arrangement should have been established for co-financing property registration, mass valuation and the cadastre so that responsibility for their continuation and development did not fall only on central government. An optimal arrangement would involve a self-sustaining mechanism to finance system development using a portion of the property tax revenue collected.

Implementation of the new system should also have begun with an assessment of commercial and industrial properties. These would have generated a higher initial influx of tax revenue for local governments and

elicited a positive response from the public. In practice, tax reform started with residential property and only moved onto commercial and industrial property after three years.

Local governments could also have been more proactively involved in identifying property objects and holders of rights. As it was, local governments did not see the advantages of having a real property cadastre in place and performing mass valuations. This is why the process of establishing the tax base is incomplete.

Improvements to the legislative framework are also necessary to ensure that the property market develops and that there is transparency in property transactions and prices. This is crucial if accurate market data is to be made available. Accurate market data is an essential component for mass valuations and for an efficient property market.

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THE PROCESS OF INTRODUCING A MODERN REAL PROPERTY TAX IN SLOVENIA

LE PROCESSUS D'INTRODUCTION D'UN IMPÔT FONCIER MODERNE EN SLOVÉNIE

EL PROCESO PARA INTRODUCIR UN IMPUESTO MODERNO SOBRE BIENES RAÍCES EN ESLOVENIA

ABSTRACT

PROPERTY TAX

MASS VALUATION

CONSTITUTIONAL RESTRICTIONS

Slovenia became an independent state on 25 June 1991 when it separated from Yugoslavia. It inherited the socialist system in which ownership of private property was restricted and only permitted in some cases. Fiscal and tax reforms were part of the development of a democratic system in Slovenia. They included taxes at a municipal level with the goal of modernizing the property tax system by relating it to the value of properties. The article presents the development of mass valuation, the current situation with respect to the taxation of real estate and the attempts at modernizing it through introducing real estate tax based on market value. These ended in 2014 with Constitutional Court's decision on abolishing the

RÉSUMÉ

IMPÔT FONCIER

ÉVALUATION À GRANDE ÉCHELLE

RESTRICTIONS CONSTITUTIONNELLES

La Slovénie est devenue un État indépendant le 25 juin 1991, lorsqu'elle n'a plus fait partie de la Yougoslavie. Elle a hérité du système socialiste où la propriété de biens privés était limitée et seulement permise dans certains cas. Les réformes budgétaires et fiscales ont fait partie de l'élaboration du nouveau système démocratique de la Slovénie. Des taxes municipales ont été établies dans le but de moderniser le système de l'impôt foncier en le rapportant à la valeur des propriétés. L'article présente comment une évaluation des biens fonciers sur grande échelle a été réalisée, ainsi que la situation actuelle concernant l'imposition des biens immobiliers et les tentatives de modernisation

SUMARIO

IMPUESTO SOBRE BIENES RAÍCES

VALORACIÓN EN MASA

RESTRICCIONES CONSTITUCIONALES

Eslovenia se convirtió en un Estado independiente el 25 de junio de 1991, cuando se separó de Yugoslavia. Heredó el sistema socialista en que la posesión de propiedad privada era restringida y se permitía solo en algunos casos. Las reformas tributarias y fiscales eran parte del desarrollo de un sistema democrático en el país. Incluían impuestos a nivel municipal cuyo objetivo era el de modernizar el sistema tributario sobre bienes raíces relacionándolo con el valor de las propiedades. El artículo presenta el desarrollo de la valoración en masa, la situación actual respecto de la tributación de bienes raíces y los intentos de modernizarla introduciendo un impuesto sobre bienes raíces basado en su valor de

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new system. The current government has set the goal of preparing a new proposal on real estate taxation, but the discussions show that Slovenia is, once again, at the very beginning, debating about proper tax bases, the suitability of mass valuation and the role of municipalities. The future development of property tax in Slovenia is therefore uncertain.

à travers l'introduction de la taxe foncière sur la base de la valeur du marché. Ce processus a été finalisé en 2014 avec la décision de la Cour constitutionnelle d'abolir le nouveau système. Le gouvernement actuel a fixé l'objectif de préparer une nouvelle proposition d'imposition des biens fonciers, mais les discussions ont montré que la Slovénie est, encore une fois, au tout début de ce processus, les débats portant sur les bases d'imposition appropriées, la pertinence de l'évaluation des biens sur grande échelle et du rôle des municipalités. Le développement futur de l'impôt foncier en Slovénie est donc incertain.

mercado. Estos intentos llegaron a su fin en 2014, con la decisión de la Corte Constitucional de abolir el nuevo sistema. El gobierno actual ha fijado el objetivo de preparar una nueva propuesta para la tributación de bienes raíces, pero los debates muestran que Eslovenia se encuentra, una vez más, al principio, debatiendo sobre las bases impositivas adecuadas, la idoneidad de la valoración en masa y la función de los municipios. El futuro desarrollo del impuesto sobre bienes raíces en Eslovenia es, por tanto, incierto.

BACKGROUND

Slovenia became an independent state on 25 June 1991 when it separated from Yugoslavia. It inherited the socialist system in which ownership of private property was restricted, only permitted in some cases. Private farmers could, for example, own up to ten hectares of land. All building land, on the other hand, was publicly owned. However, Slovenia started to develop a democratic market economy and, with its new Constitution, introduced some important political, structural and legal changes.

The Denationalization Act (Republic of Slovenia, 1991b) allowed for nationalized property to be returned or compensation provided to the original owners or their legal successors. The law was also the basis for the privatization of all building land, the holders of use rights being the main beneficiaries. It enabled full implementation of private property ownership for all types of real estates. In the process of privatization an important role was played by the Housing Act (Republic of Slovenia, 1991a) which enabled most of the apartments in public ownership (over 160 000 apartments) to be privatized, being bought by their users or tenants at very favourable prices (for approximately 10 percent of the market price). Part of Slovenia's development of a democratic system was fiscal and tax reforms which included taxes at the municipal level with the goal of modernizing the property tax system by relating it to the value of properties.

PROPERTY TAXES IN SLOVENIA

Slovenia has nearly 2.1 million inhabitants in an area of 20.3 million square kilometres. The country has two levels of government: central and municipal. Each of the 211 municipalities has an average of 10 000 inhabitants. Half of the municipalities have less than 5 000 inhabitants and some only have a few hundred inhabitants.

In Slovenia, tax revenues represent about 85 percent of the total consolidated national budget while taxes on property account for only 1.85 percent of that total, which amounts to only 0.6 percent of the Gross

Domestic Product (GDP). The combined municipal budgets represent around 13 percent of the consolidated state budget, nearly 65 percent of this is from tax revenues, of which 80 percent is from personal income tax (allocated from the state to the local level). Property taxes account for around 15 percent of the total tax revenue at the local level. This percentage has remained constant during recent years.

Most of the revenue from property taxes (85 percent) comes from two recurrent taxes on real estate: the tax on property and the charges for the use of building land. Both taxes originate from the mid-1980s and were inherited from the previous political system.

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The tax on property is a tax on buildings, parts of buildings, dwellings, garages and second homes. Taxpayers can only be physical persons, whether owners or users. Properties subject to this tax are registered in a special tax evidence at the Tax Authority (TA), based on reporting by new buyers. Since data is not collected systematically the evidence is incomplete and unreliable. Properties in the evidence are scored according to a government points system. Municipalities have the right each year to set the rate of tax per points for their area.

Tax rates are progressive and range from 0.1 to 1.0 percent for buildings and apartments, 0.2 to 1.5 percent for summerhouses, and 0.15 to 1.25 percent for business premises. For apartments and residential houses, in which the owners or their children have permanent residency, the law allows for a reduction of the tax base for the value of the first 160 square metres of residence area. Exemptions are set for buildings used for agricultural purposes and residential houses of farmers, business premises in use for business purposes by the owner or the tenant, and cultural or historical monuments. Temporary ten-year exemptions can be granted for new or renovated residential buildings, if the value of these buildings has increased by more than 50 percent. For taxpayers who are owner-occupiers with family members who live with them, every additional family member if the household size is more than three results in the tax being decreased by 10 percent for each additional person.

The charge for the use of building land is a compensation that the user of building land contributes to the local community in return for the provision of communal infrastructure. The name originated in socialist times when

building land was mostly publicly owned and the charge remained unchanged even after privatization. The charge is a contribution by the actual user of the land to the costs of providing public infrastructure, which is met by the municipalities. Therefore, the charge has the characteristics of a property tax.

The charge is levied on vacant and developed building land. Agricultural land is not charged. Those liable to pay the charge are the actual users, who can be the owner, the tenant or other persons holding the right to use the property. Taxpayers can be legal or physical persons. Exemptions set in the law include land and buildings used by the military, churches, embassies and other official foreign entities. The law also allows the temporary exemption for 5 years of new residential buildings based on the taxpayers' application and the exemption of people with low incomes. Municipalities that wish to use exemptions have to set more detailed rules. Tax rates are set by municipalities in accordance with their autonomous rules. It is area-based tax, calculated on points attributed according to real estate characteristics and the value of a point. Data on the real estate that is subject to the charge is recorded in the municipalities' registers.

Due to unsystematic and incomplete tax evidence at the TA and extensive exemptions, the tax on property provides an insignificant amount of tax revenue for municipalities, amounting to less than 1.3 percent of their real estate tax revenues. The charge for the use of building land is the most important municipal tax and contributes more than 80 percent of the total property tax revenues for the municipalities. The rest is of the revenue comes from the real estate transfer tax, inheritance and gifts tax and the tax on water vessels.

DEVELOPMENT OF A MARKET-BASED VALUATION SYSTEM

The existing system of real estate taxation in Slovenia is in need of major reform. The fundamental problem is that there is a dual system whereby two similar taxes are charged on the same type of real estate and individuals can pay two taxes on the same property at one and the same time. There is also a problem with the uncontrolled and unregulated way in which tax rates are set, whereby municipalities have total power and freedom. Arbitrary action by

municipalities results in incomparable tax rates, which have been set mainly according to a municipality's fiscal needs. Both taxes are frequently subject to complaints. The charge for the use of building land accounts for more than 50 percent of all tax complaints to the TA. There is also the question why tax is charged only for some types of real estate while most land is not taxed. The main problem is obsolescence in the existing system which itself is not transparent, is often arbitrarily implemented, and is consequently unfair and even unconstitutional. Many municipal ordinances have been found in some parts to be unconstitutional and have had to be revised. The Constitutional Court in several rulings decided that the charge for the use of building land is problematic and must be converted as soon as possible into a real estate tax.

With the new political and economic system, politicians decided that the comprehensive real estate registration reforms should include modernisation of the real estate taxation system. The process was carried out through several projects that were supported by the World Bank, the International Bank for Reconstruction and Development, the International Monetary Fund, and the Food and Agriculture Organization of the United Nations (FAO). The aim of the projects was to improve the real estate registration system, upgrade the legal framework for real estate management, establish an agricultural land use monitoring system, and design and test a market-based property tax and valuation system. The most important of these were the FAO project (1996–1998) for developing a modern agricultural land classification and valuation system, and two World Bank projects (ONIX from 1996 to 2000 and the Real Estate Registration Modernization Project from 2000 to 2005) for developing the geo-informational infrastructure and increasing the efficiency and effectiveness of real estate administration systems. The most important outcomes were the digitization of the cadastral maps and the land book registry system, the establishment of a building cadastre and Real Property Register (which started to operate in 2010), the development of agricultural land use monitoring based on ortho-photo maps, and the development of the Computer Assisted Mass Appraisal system. Based on these results, new legislation was adopted, including the Real Estate Recording Act (Republic of Slovenia, 2006a) and the Real Property Mass Valuation Act (Republic of Slovenia, 2006b), which were approved by Parliament in 2006.

The process was carried out through several projects that were supported by the World Bank, the International Bank for Reconstruction and Development, the International Monetary Fund, and the Food and Agriculture Organization of the United Nations

THE MARKET-BASED MASS VALUATION SYSTEM

The implementation phase of the mass valuation system started in 2006 by establishing a Valuation Office at the Surveying and Mapping Authority (SMA). The Office is responsible for analysing sales and preparing property market reports, improving sales data used for designing the valuation models, notifying owners of property values and calculating the values of all properties registered in the Real Property Register (RPR). The Valuation Office employs around 20 experts from different professions, half of them at central level and the remainder at regional level.

The first task for the Valuation Office was to establish a sales price register recording market prices, collected in Slovenia since 1997. The Office then began analysing market data for different types of properties. The results were used as a basis for developing mass valuation models. The initial development and calibration of the valuation models took place between 2008 and 2009. Models were developed for all types of real estate registered in the RPR. For the purpose of registration and valuation, real estate is considered to be land, buildings or parts of buildings. Infrastructure by itself, such as roads and pipelines, is not registered in the RPR and is not subject to valuation.

Mass valuation in Slovenia is based on the methods set by the International Valuation Standards Council. According to the availability of market data, the models for residential properties, shops, offices and undeveloped land (such as agricultural land, forests and building land awaiting development) are based on the sales comparison approach. For industrial buildings, agricultural buildings and other buildings (used for public, religious and educational purposes) models that combine the sales comparison approach and cost approach were developed. For some special types of real estate, such as buildings and land for energy (electricity) production, buildings and land for mineral exploitation, ports and service stations, models based on the income approach were developed.

In January 2010, experimental valuation was completed and approximately 1.2 million notices to property owners and co-owners for approximately 6.5 million properties were sent out. For about 550 000 properties, owners filed complaints, 33 percent of which were about the properties' valuation. Of

these 70 percent were for agriculture and forest land, which suggested that the valuation model needed to change; about 10 percent were for houses, 10 percent for apartments and 10 percent for other types of properties. Based on these complaints some models were modified or updated.

The valuation models were approved by the Government in January 2012. A Generalized Market Value (GMV), the value set by mass valuation, was recorded in the RPR for all real estate. As a result of mass valuation, a GMV is attributed to every property in the RPR. It is considered to be information about real estate and is therefore made public. In 2013, while the market dropped significantly due to the economic crises, the first indexation was carried out. The second indexation followed in 2014. By law, a general appraisal has to be carried out at least every four years and indexation must take place in between general appraisals if the index of values changes by more than 10 percent. In this case, all properties of a particular type in an area with an index greater than 10 percent have their assessment increased.

The valuation models were approved by the Government in January 2012. A Generalized Market Value, the value set by mass valuation, was recorded in the Real Property Register for all real estate

THE DIFFERENT USES OF MASS VALUATION

Although the modernisation of property tax was the driving force behind the development of mass valuation in Slovenia, the system functions successfully as an independent process, even though property taxation based on market values has not yet been introduced. Under the Real Property Mass Valuation Act (Republic of Slovenia, 2006b), mass valuation is designated for taxation and other public purposes. The main use of the system was supposed to be for public purposes but the values are used more and more for different private and business purposes.

The Generalized Market Value (GMV) is considered to be a benchmark for determining the real estate transfer tax. If the contract price is less than 80 percent of the GMV, the TA can calculate the real estate transfer tax using the GMV, unless the taxpayer provides evidence of the market value through an individual valuation. In a similar way, the GMV is used in inheritance and gifts tax calculations – the TA can utilise the GMV if a valuation cannot be supported by a contract or a court decision, or if the value is lower than the

GMV recorded in the RPR and the taxpayer does not provide evidence for an alternative value through an individual valuation.

The GMV is also used in social security support. The GMV is used to calculate the value of the real estate assets owned by an applicant and his family members, including his residential property, to determine if the value exceeds certain limits set per family member.

Another important use for the GMV is set out in the law regarding the siting of infrastructure projects of national importance. Although the rules are not yet fully developed and implemented, they are intended to calculate in a uniform and transparent way compensation for the value of real estate acquired through compulsory purchase to facilitate investment in public infrastructure.

Data on values of real estate from the RPR are also used to calculate a house price index using the hedonic approach, for monitoring land prices through indexes, and to develop a methodology for upgrading the calculation of GDP that includes real estate values in the framework.

The Mortgage Bond and Municipal Bond Act allows the GMV to be used to set the mortgage collateral value of real estate. It is also used by the Bank of Slovenia for updating the calculation of the capital adequacy of banks under the Basel II agreement.

The GMV in the RPR and data from the sales price register are the only systematic source of data on real estate market situations and therefore are regularly reviewed by individuals and used by valuers. Access to the general database for private purposes is available without charge but a fee is charged when more detailed data are used for business purposes.

ATTEMPTS TO INTRODUCE A MARKET-BASED PROPERTY TAX IN SLOVENIA

Following independence, various Slovenian governments have considered introducing a modern real estate tax based on market values. The first proposal for a law was put forward in 1997 but it was unrealistic because there was no mass valuation system or any other means of determining the tax base on

value. Also, Slovenia at that stage did not have a register of buildings, so only taxation of unimproved land would have been possible. A second proposal was prepared as part of the World Bank projects but no legislation emerged. There were a few more attempts from the programmes of different governments, but these were directed more towards improvements in the valuation system than towards the introduction of real estate taxation. Even the government that was responsible for the preparation and subsequent introduction of the Real Property Mass Valuation Act in 2006 was not particularly supportive of real estate taxation.

The first proposal with even a slight chance of being addressed seriously was the draft law prepared in parallel with the first execution of mass valuation in 2009. At that time, the complete RPR was in place. Solutions were put forward based on data from experimental valuations. The first analyses exposed problems with transforming the charges for the use of building land and tax on property into a modern real estate tax. Due to substantial differences between municipalities in levels of taxation, the scope of objects taxed, exemptions and reliefs, it was difficult to prepare a proposal on tax rates and provisions to ensure that municipalities would not lose the right to impose some of their specific variations because of the wide range of effective tax rates. It was proposed that the tax rates would be set at a minimum level and that every municipality could decide its own rate independently. Initial public discussions revealed that in spite of a public relations campaign, people mainly opposed the new tax because they expected it to increase their tax burden. The strongest opposition came from municipalities. The system would have made procedures for setting the tax more transparent and the differences between municipalities would have become more evident. Early elections interrupted the process and caused it to be postponed for four years.

The next attempt, which ended in constitutional dispute, began in 2013. At that time, Slovenia was struggling with the economic crisis, which was in its fifth consecutive year. The government, following international recommendations, tried to consolidate public finances and introduce a real estate property tax based on market values.

Within the preparatory phase, extensive and detailed analyses were executed. The data showed that under the existing system, business and

industrial properties were paying the dominant share (more than 70 percent) and that the effective tax rate for these types of properties (tax rate to market value) was high, on the average 0.7 percent in comparison to residential properties which had an average effective tax rate of only approximately 0.08 percent. The analyses also confirmed that effective tax rates differed widely between municipalities: for residential properties from 0.002 to 0.4 percent, and for business and industry from 0.1 to over 3.0 percent. It was clear that the harmonisation of the system would be difficult.

Because property taxes contributed relatively little to Slovenia's GDP, the government wanted to raise the tax revenue by increasing the level of taxation, mainly for residential properties, and retain part of the revenue for the state budget. The main objectives were to:

- Replace the existing property tax system with a unified, transparent, fair and effective real estate tax;
- Widen the definition of taxable objects to include all types of real estate;
- Use market values as the tax base;
- Increase the tax burden on residential properties;
- Maintain the average level of taxation for business and industrial properties;
- Increase the revenue raised as a share of GDP from 0.6 to 1.2 percent;
- Ensure that every municipality could achieve at least the same revenue as in the previous system;
- Assign part of the revenue (50 percent) to the state budget.

The proposed Real Property Tax Act was drafted in June 2013 and made available for public and professional discussion. Despite uncooperative municipalities, negative public opinion and a lack of determination on the part of the government, the Real Property Tax Act came into effect on 1 January 2014 (Republic of Slovenia, 2014a). The main elements in the law were:

- The definition of taxable objects was widened to include all real estate in the Real Property Register (RPR);
- The taxpayer was defined as the owner (acquirer), or in limited cases the actual user;
- The tax base was the Generalized Market Value;

Despite uncooperative municipalities, negative public opinion and a lack of determination on the part of the government, the Real Property Tax Act came into effect on 1 January 2014

- Different tax rates were set for each type of real estate:
  - residential property 0.15 percent,
  - empty residential properties 0.50 percent,
  - business and industrial properties 0.70 percent,
  - unimproved land 0.50 percent,
  - agricultural land 0.15 percent, and
  - forest land 0.07 percent;
- Higher taxes were set for non-residential apartments (that is apartments which are not occupied by the owner and are not rented out), illegal buildings, and residential properties valued in excess of €500 000;
- A 50 percent reduction was applied to the tax payable by disabled persons in wheelchairs and taxpayers entitled to social benefits;
- Exemptions were set for diplomatic and international institutions, humanitarian organizations, religious buildings and unproductive land;
- Municipalities could change the rates by up to 50 percent in either direction for different types of real estate.

After the law was passed, owners received once again information on the value of their properties. Since taxpayers expected the tax to be increased significantly, especially for residential properties, they started to check and change the data in the RPR. The Surveying and Mapping Authority (SMA) received several hundred thousand requests in less than two months. This exposed shortcomings in the procedures for changing data as well as problems with data quality and the lack of coordination between different government institutions.

Although the law came into effect, political discussions and lobbying continued. These revealed widespread misunderstanding of the mass valuation system and dissatisfaction with assessed values and the high rates of tax. There were also demands for additional exemptions. Much of the opposition came from municipalities. They were dissatisfied with the state interfering in matters, which previously had been within the exclusive competence of municipalities. Immediately after the law was adopted, the constitutional dispute began.

Despite the similarity between the new Slovenian real property taxation system and comparable international practice, the calculations that confirmed

that no municipality would receive less income than before, and a huge amount of data supporting government statements that the average tax burden would not change for business and industrial properties and would still be quite low for residential properties (rising from an average of approximately €51 to €99 per property), the Constitutional Court ruled against the measure (Republic of Slovenia, 2014b). It determined that:

1. The tax levied under the Real Property Tax Act shall be abolished due to unconstitutional elements. Specifically:
   - → Setting the tax base on the General Market Value is unconstitutional due to some unlawful elements in the Real Property Mass Valuation Act (see point 2);
   - → The use of different rates for residential and unoccupied housing, and for business real estate and energy plants, is inconsistent because the tax rates differentiate between properties other than by objective criteria;
   - → The procedure for appeals against the tax base is incomplete because it does not provide for the possibility of complaint against all elements of the valuation, particularly no complaint is possible against the value and data in the RPR;
   - → The 50:50 division of the tax revenue between the state and municipalities is unconstitutional. The tax should mainly benefit municipalities;
   - → The ability of municipalities to change rates by plus or minus 50 percent is unconstitutional because it limits the right of municipalities to raise enough income to cover their legal obligations.

2. Some articles of the Real Property Mass Valuation Act are inconsistent with the Constitution where they are concerned with mass valuation for tax purposes.
   - → The determination of valuation models and valuation methods is unconstitutional because it does not provide sufficient legal certainty while allowing essential elements of the system to be determined by governmental regulations;
   - → The possibility of owners appealing against and influencing the value is limited and legally insubstantial.

Although only some articles of both laws were disputed in the Constitutional Court, the Court decided to abolish the whole Real Property Tax Act and prevent the Real Property Mass Valuation Act being used for taxing real properties. At the same time, the Court ruled that the previous flawed system must remain in use. (Republic of Slovenia, 2014b)

FOLLOW UP TO THE CONSTITUTIONAL COURT'S DECISION

The Constitutional Court did not oppose a property tax based on market values. On the contrary, it supported it and indirectly ordered the government to prepare new solutions in line with the Constitution as soon as possible. But the Court raised some issues with how complaints against a tax base set by law can be put on a constitutional basis, how limitations on using different tax rates can be resolved, and how competencies of municipalities can be widened without maintaining the current lack of transparency and inconsistency of the existing system. These issues must be resolved before a new law can be drafted.

The Court raised some issues with how complaints against a tax base set by law can be put on a constitutional basis, how limitations on using different tax rates can be resolved, and how competencies of municipalities can be widened without maintaining the current lack of transparency and inconsistency of the existing system

The current government supports in principle a new system of real estate although there is no unified view on using market value as a tax base. It would like to keep taxation simple and low with the burden on average at the current level. It would like the revenue to be only for municipalities and to set a number of policy instruments that would enable municipalities to implement their own spatial, economic and social policies. The government has set up a special Project Council, as advisory body to prepare professionally coordinated proposals, and a Project Group, which has to assess the ideas proposed by the Council.

Based on the decisions of the Constitutional Court, some important changes in the mass valuation system are already in preparation. An upgrade of the complaints procedure is planned that should enable property owners to provide proof of the way in which special circumstances, that are not considered in the models, have affected the value of their property. The Constitutional Court has ruled that the law has to be supplemented with mass valuation standards and other essential elements of the system. It is expected that a

new Real Property Mass Valuation Act, that resolves the unconstitutional elements, will be adopted in the middle of 2016. The new law is expected to set out the standards to be used in mass valuation.

The preparation of a new property tax system is dependent on political factors, which makes it difficult to forecast future developments. Municipalities are once again not supportive and would like to prolong the use of the previous system or even have it adopted permanently again. Discussions within the Project Council showed that Slovenia is once again at the very beginning of a debate about proper tax bases (such as value, area, and simplified administrative methods) and the quality of models and data, and advantages of mass valuation in general. The future development of property tax in Slovenia is therefore uncertain.

The preparation of a new property tax system is dependent on political factors, which makes it difficult to forecast future developments

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PROPERTY TAXATION IN POLAND: legislation without implementation

LA FISCALITÉ FONCIÈRE EN POLOGNE: une législation sans mise en œuvre

LA TRIBUTACIÓN DE BIENES RAÍCES EN POLONIA: leyes que no se aplican

ABSTRACT

PROPERTY TAXATION

MASS APPRAISAL

VALUE-BASED TAX

The paper introduces the shape of Polish property taxation both as far as the current solutions are concerned and the vision for future changes. It describes present solutions concerning the current area-based property tax, agricultural tax and forestry tax, giving additionally details on the proportion of income received by municipalities form these taxes. It focuses also on mass appraisal and value-based taxation in Poland explaining the main assumptions of the technical procedure and institutions involved in the legal procedure.

RÉSUMÉ

IMPÔT FONCIER

ÉVALUATION À GRANDE ÉCHELLE

IMPÔT SUR LA BASE DE LA VALEUR DES BIENS

Le document présente le système d'imposition foncière de la Pologne à la fois au niveau des solutions actuelles et des changements à venir. Il décrit le système d'imposition foncière actuel fondé sur la superficie, la taxe agricole et la taxe forestière, et détaille par ailleurs la proportion des revenus perçus par les municipalités qui ont établi ces taxes. Il met également l'accent sur l'évaluation des biens fonciers réalisée à grande échelle et la fiscalité basée sur la valeur en Pologne expliquant les principales hypothèses de la procédure technique et les institutions qui sont impliquées dans la procédure juridique.

SUMARIO

TRIBUTACIÓN DE BIENES RAÍCES

TASACIÓN EN MASA

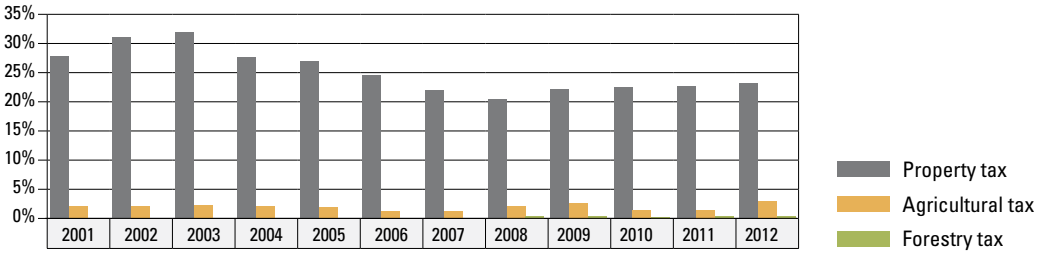
IMPUESTO BASADO EN EL VALOR

En este documento se introduce la estructura de la tributación de bienes raíces en Polonia, tanto en lo que respecta a las soluciones actuales como en previsión de futuros cambios. En él se describen las soluciones actuales en lo referente al impuesto actual de bienes raíces basado en su superficie, el impuesto agrícola y el impuesto sobre los bosques y se ofrece información adicional detallada acerca de la proporción de los ingresos que reciben los municipios gracias a estos impuestos. Además, se centra en la tasación en masa y la tributación del país basada en el valor y se explican los principales supuestos acerca del procedimiento técnico y las instituciones que intervienen en el procedimiento jurídico.

INTRODUCTION

Property tax is a major source of income for the 2 479 municipalities in Poland, which are the only level of government who can levy property taxes. Neither provinces, nor districts are able to do so. Between 2001 and 2012 property tax was responsible for 20 - 33 percent of municipal revenues, second only to central government transfers of income tax.

Figure 1
Proportion of income received by municipalities from real estate taxes



Source: Central Statistical Office

THE CURRENT AREA-BASED PROPERTY TAXATION SYSTEM

Real estate taxes in Poland are levied on property, agricultural land and forestry land. These taxes are authorized respectively by the Act on Taxes and Local Fees 1991, the Act on Agricultural Land Tax 1984, and the Act on Forestry Land Tax 2002. For each, taxpayers can be individuals or legal entities (including businesses, organisations and companies) who own, use or have perpetual land use rights, or are the occupiers of real estate belonging to the State Treasury or local governments. Polish land law has the concept of perpetual usufruct so that, for example, the owner of a house may have the perpetual use of the land on which it stands, which can be in separate ownership.

The property taxation system in Poland is, however, complicated by the number of legal regulations that govern the system in addition to the three basic acts. Moreover, the legislation has been subject to frequent amendments. For example, between 2003 and 2013 the three fundamental acts were amended nearly 40 times and further changes were also applied to other legal acts that affect the design of the taxes and the system of tax exemptions.

PROPERTY TAX

The real estate tax system came into effect in 1991, following Poland's move from a centrally-planned to a market economy two years earlier. Taxable objects are land (unless taxed as forestry or agricultural land) and buildings or premises associated with running a business.

The way in which the tax is determined depends on the type of object to which it is applied. For land, the assessment is based on the area recorded in the cadastre. For buildings, assessment is based on the usable area, which is determined either by measuring the building or from statements provided by the owner. For objects associated with running a business, such as fences or roads, the tax base is the market value. Tax rates are determined by the municipality up to the limit set by the annual index published by the Ministry of Finance.

Table 1
Land tax rates 2008 - 2014
(PLN per square metre)

YEAR	LAND USED FOR BUSINESS PURPOSES	UNDER BODIES OF WATER OR POWER STATIONS	OTHER LAND
2008	0.71	3.74	0.35
2009	0.74	3.90	0.37
2010	0.77	4.04	0.39
2011	0.80	4.15	0.41
2012	0.84	4.33	0.43
2013	0.88	4.51	0.45
2014	0.89	4.56	0.46

Source: Central Statistical Office

Municipalities can adopt different tax rates for specific types of property within the criteria set out in legislation. There are many full or partial exemptions for specific groups of taxpayers. These can be divided into three groups: those referred to in the Act, exemptions adopted by municipal council resolutions, and exemptions regulated by separate laws. The Act refers to exemptions that are dependent on how the land is used (object criteria) and exemptions that depend on who the owner or user is (subject criteria). Exemptions based on subject criteria might, for example, apply to buildings belonging to the railway network, harbour infrastructures. Exemption based on object criteria might be applied, for example, to land and buildings registered as monuments. Exemptions granted by a municipal council, on the other hand, can only be applied according to subject criteria, being wholly dependent on the type of owner or user. Tax exemptions regulated by other laws include relief granted to churches and exemptions relating to special economic zones and public roads.

Municipalities can adopt different tax rates for specific types of property within the criteria set out in legislation

AGRICULTURAL TAX

The agricultural tax is levied on land only. It is based on area, which is adjusted for the type and class of agricultural land (taken from the cadastre) and the tax district. Four districts have been established, which include municipalities and cities according to their economic circumstances and productivity. The agricultural tax per hectare on farmland is the monetary equivalent (in *złoty*, PLN) of 2.5 quintals (250 kilogrammes) of rye, calculated at the average purchase price of rye for the 11 quarters preceding the tax year. For non-farmland it is the monetary equivalent of 5 quintals (500 kilogrammes) of rye. Prices are determined by the Statistical Office. Municipal councils have the power to reduce the notional purchase price of rye used within a municipality for calculating the agricultural tax, and thereby affect the income generated from this tax.

FORESTRY TAX

The forestry tax was introduced in 1991. It is similar to the agricultural tax and falls on land classified as forests in the register of land and buildings maintained by the county *Starost* (head of district). The taxable amount is calculated using the forest area in hectares as recorded in the cadastre. The tax per hectare is the monetary equivalent (in *złoty*) of 0.22 cubic metres of wood, calculated at the average selling price of wood for the three quarters preceding the tax year as determined by the Statistical Office using data supplied by the Forest Inspectorate. As in the case of the agricultural tax, municipal councils have the power to reduce the amount representing the average selling price of wood that is used to calculate the tax in their municipality.

Just as with the other property taxes, there are exemptions based on object and subject criteria and municipal councils are permitted to add further exemptions based on object criteria. Statutory exemptions include forests with trees that are up to 40 years old, forests entered in the register of monuments, and land that is ecologically important. Exemptions based on the owners or occupiers include universities and scientific institutes.

MASS APPRAISAL AND VALUE-BASED TAXATION IN POLAND

Work on the reform of real estate taxation in Poland has been on-going since the beginning of the transition. In 1993 the Unit for the Reform of the Tax System was created. Its main task was to make basic preparations for the introduction of a new property tax. In 1994 the unit drafted detailed plans for a real estate cadastre which proposed not only the creation of the cadastre but also the introduction of tax reforms, all to be undertaken by 1999. In the Strategy of 7 June 1994, the Council of Ministers approved a decision that obliged the Ministry of Finance to introduce a comprehensive reform of real estate records for fiscal purposes, which included determining the value of properties for tax purposes. In September 1998 the Ministry of Finance created the Department of Local Taxes and Cadastre, whose aim was, amongst other things, to prepare and implement property tax reform.

According to the Act on Land Management (Government of Poland, 1997), mass appraisal was defined as the "legal and technical procedure of real estate valuation in order to establish the cadastral value of the property, (...) It is conducted for real estate that is the objects of taxation according to legal acts concerning property tax". The cadastral value was to be used to determine the tax. It was also to be used to value properties owned by the State or by local authorities in circumstances where it might be necessary to determine their value. However, mass appraisal has not yet actually been implemented.

Later, a thorough reform of property taxation was again proposed in the 2012 project, the Establishment of a National Urban Policy until 2020, which was developed by the Ministry of Regional Development. It indicated five urban policy goals to be achieved by 2020, promoting sustainable urban development and preventing the negative impact of suburbanization. This was to be supported by, amongst other things, reform of the property tax system through the introduction of a value-based tax system. However, the discussion of the property tax reform encountered major political resistance, mainly from opposition parties. Consequently, two months later, the amended Project on Urban Policy until 2020 no longer contained any mention of property tax reform. Currently no work is being undertaken at a central level to introduce property tax reform. Due to political considerations, it seems that one should not anticipate the start of this work in the near future.

However a mass appraisal system for value-based property taxation has been, in part, regulated by the Act on Land Management (Government of Poland, 1997) and the Ministry Council's Act on Mass Appraisal of Real Estate (Government of Poland, 2005). At present these acts do not fulfil all the necessary legal and formal requirements. Mass appraisal in Poland must be preceded by a separate law to specify the commencement and completion dates and identify a source of funding. Resolutions must also be passed by the municipal councils on the costs to be borne by communities. Technical guidelines for cadastral services, comprehensively detailing all the practical details of the intended procedure are also required (Hopfer, 2008). What follows is therefore a system for mass appraisal that is adapted for Poland's particular circumstances and the legislation that is already in place.

Mass appraisal in Poland must be preceded by a separate law to specify the commencement and completion dates and identify a source of funding

THE INSTITUTIONS AND ADMINISTRATIVE AND LEGAL PROCEDURES MASS APPRAISAL WILL INVOLVE

Since 1 January 1999 Poland has had a three-level administrative system, which replaced the two-level system established in 1975. The country is divided into 16 provinces, 380 districts and 2 479 municipalities.

The legal and technical aspects of mass appraisal require involvement from national, regional and local bodies. The Surveyor General of Poland will be responsible for directing mass appraisal and overseeing its progress and the *Voivods* (heads of province) will be responsible for issuing public notices when mass appraisal is completed in their municipality. Once mass appraisal is initiated, the cadastral authority will carry it out at a district level under the supervision of the *Starost* (head of district), thereby adding cadastral values to the register of properties. At the moment it is uncertain whether municipalities will have to pay the cadastral authority to carry this out and this matter will need to be clarified by the enabling legislation. There were some pilot studies of mass appraisal carried out in the 1990s.

The legal and technical aspects of mass appraisal require involvement from national, regional and local bodies

Figure 2
Administrative divisions in Poland

Source: author's own study

The *Starost* will need to notify the general public of the start date and will be responsible for overseeing mass appraisal, the collating of maps and taxation tables, resolution of cadastral values and seeing the valuations recorded in the cadastre. The district level cadastral authority will be responsible for actually undertaking mass appraisal and, for each municipality, preparing taxation maps and tables, and carrying out an annual cadastral value review. The municipal council will though need to pass a resolution giving legal force to these taxation maps and tables, to decisions that resolve objections, and in support of future revaluations.

The taxation maps and tables prepared by the cadastral authority will be based on representative properties that have been individually valued by property valuers. The cadastral authority, in consultation with the mayor, will determine the date mass appraisal commences and will make the taxation maps and tables available for public inspection for a period of at least 21 days. Information on this should also be published in the local press and anywhere else that is acceptable to communities. The published information should also specify the place and dates when the documents will be displayed and include instructions about lodging complaints. Anyone whose legal interest is affected by the findings of the maps and tables can then file a complaint. The cadastral authority will be responsible for considering objections and presenting them to the relevant municipality with the proposed solutions.

Those dissatisfied with the proposed arrangements might further appeal to the provincial Administrative Court, and then to the national Administrative Court. Resolutions are to be published in the official provincial gazette. After establishing and authorising the cadastral value of properties, the cadastral authority will submit an application to the governor before declaring in the official provincial journal that the mass appraisal process is complete.

During the five years between mass appraisals, all cadastral values should be reviewed. An annual survey of cadastral values is to be performed for at least 20 percent of the real estate in selected areas of each municipality to check the adequacy of mass appraisals. The review of cadastral values should also include comparisons between the valuation reports and prices achieved on the real estate market. This review of cadastral values requires the use of statistical methods and its results are to be announced to the municipalities

During the five years between mass appraisals, all cadastral values should be reviewed. An annual survey of cadastral values is to be performed for at least 20 percent of the real estate in selected areas of each municipality to check the adequacy of mass appraisals

by 31 March each year. During the periods between mass appraisals, price indexes are to be used to determine the current cadastral value of properties, but who is to produce the indexes and the way these are to be compiled has not yet been determined.

Table 2
The legal basis for the responsibilities of particular bodies during mass appraisal

BODY RESPONSIBLE	ACTIVITY	LEGAL BASIS
Surveyor General of Poland	Preparing directions for conducting mass appraisal and overseeing its progress	art. 7a pkt 12, Act on geodesy and cartography of 17.05. 1989
Voivod (head of province)	Issuing public notices on completion of mass appraisal for the local government	§ 14, Act of Ministry Council of 29.06. 2005 on mass appraisal of the real estates
Starost (head of district)	Responsible for conducting mass appraisal, collecting maps and taxation tables, determining cadastral values and recording them in cadastre	art. 161 ust. 1; art. 169 ust. 1; art. 170 ust. 1, Act on land management of 21.08. 1997 Art. 7d pkt 5, Act on geodesy and cartography of 17.05. 1989
Starost with the municipal major	Deciding the date to commence mass appraisal, publically displaying taxation maps and tables.	art. 169 ust. 2, Act on land management of 21.08. 1997
Cadastral authority at district level	Conducting mass appraisal for the municipalities, preparing taxation maps and tables, annually reviewing cadastral values	art. 172 ust. 1, Act on land management of 21.08. 1997
Municipal council	Authorising the legal (administrative) force of taxation maps and tables, making decisions to resolve objections and concerning revaluation (the next mass appraisal)	art. 169 ust. 4; art. 163 ust. 3, Act on land management of 21.08. 1997
Property valuer	Preparing valuations for representative properties, updating cadastral values at the request of property owners	art. 161 ust. 3, Act on land management of 21.08. 1997

Source: author's own study

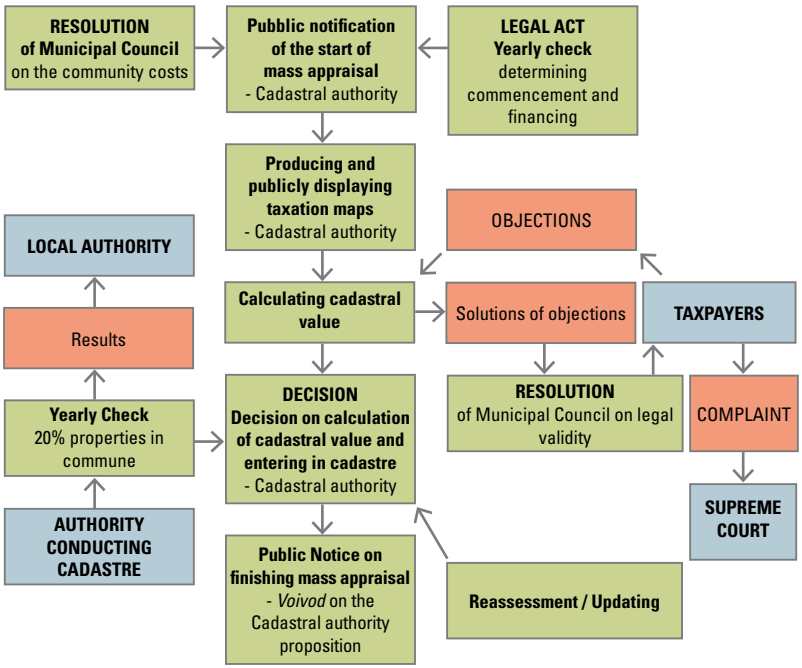


Figure 3
Legal process of mass appraisal

Source: author's own study

DATA SOURCES FOR MASS APPRAISAL

The main sources of data for mass appraisal are: the real estate cadastre, land registers, local land use plans; data on transaction prices, rents and income from properties; base maps, surveying records from public utilities; documents, statements and information provided by property owners, freeholders and other persons; information from public authorities, including the tax authorities, and the findings of any inspections in the field. Additional data sources include technical inventory data, building permit records and construction

documentation, and the statistical data from the Central Statistical Office. All these sources can be used to determine the cadastral value.

THE MASS APPRAISAL PROCESS AND ITS GUIDING PRINCIPLES

Mass appraisal will begin by monitoring the property market. This will enable value zones to be determined and descriptions of representative properties to be produced. There can be different zones for different types of property. The next stage involves the computation of unit values for representative properties and of the taxation units which will be used to establish the cadastral value. Taxation maps and tables are to be prepared separately for each municipality and are the most important elements that the technical procedures must produce.

The taxation tables are to be based on the tax values per square metre for particular land components, which will have been identified from representative properties. In each zone a taxation table will be prepared for each group of components. The data in the taxation tables should be similar to the data listed in the taxation zones on the taxation map.

The taxation map is to be based on the cadastral map with the addition of taxation zones, which include: the zone identifier, identifiers of land parcels linking them to the real estate cadastre, soil type, the value per square metre of land for representative properties, and detail the characteristics of those representative properties. The taxation map will also include information on the way in which the characteristics of other properties in the taxation zone are weighted in the statistical analysis. The weights have not yet been specified. The resultant cadastral unit value of each parcel of land will also be added to the map.

The cadastral value of a taxable object is to be either its tax value, if the object is formed of an entire property, or the sum of the values of several objects, where each of the objects is only part of the property or where they represent the various components of a property. The term tax object should be interpreted differently, depending on whether it is comprised of

The cadastral value of a taxable object is to be either its tax value, if the object is formed of an entire property, or the sum of the values of several objects, where each of the objects is only part of the property or where they represent the various components of a property

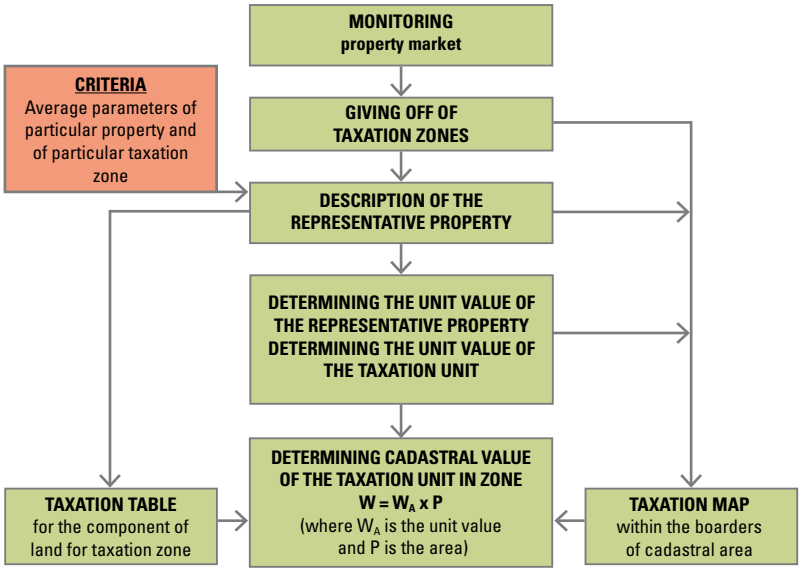


Figure 4
The mass appraisal process

Source: author's own study

land or of another component of the property. If an object is comprised of only the land, it should be understood to be a plot of land or part of such a plot, designated in the land use plan for use other than by neighbouring plots or the rest of the plot. For property components, the object can be a building, an apartment or other elements permanently fixed to the ground. The cadastral value of the property is to be based on the estimated value of representative real estate, assessed according to type, in the municipality. The value of representative property is to be determined by the transaction prices of real estate in the municipality. In the absence of a sufficient number of transactions, those from neighbouring municipalities can be used instead. This valuation of representative properties and the production of taxation maps and tables is to be undertaken by licensed property valuers from the

private sector who will be employed to do this by the cadastral authority. The resulting valuations and maps are the responsibility of the cadastral authority.

The cadastral values determined by mass appraisal ought to reflect the differences between particular properties and be comparable with the market value. That is why a number of features are used to estimate the value (see Table 3). (Kuryj, 2001)

The cadastral values determined by mass appraisal ought to reflect the differences between particular properties and be comparable with the market value

Table 3
The main features of properties used in mass appraisal

BUILDING LAND	AGRICULTURE & FOREST LAND	BUILDINGS	FLATS
→ location, → designation in local development plan, → facilities (technical infrastructure), → intensity of buildings.	→ location, → type of land user, → technical infrastructure for agriculture and forest production, → soil type and quality.	→ location, → type of building, → internal installations, → technical data from cadastre, → depreciation.	→ location inside building, → type of flat, → type of internal installations, → depreciation.
Other features can be used if they are important for a particular zone.			

Source: author's own study

The cadastral value of the property will be estimated for the whole property or for part of it if elements have been distinguished as separate objects of taxation. If the property is located in more than one municipality, the cadastral value will be determined separately for each part according to the municipality in which it is located. If one needs to use several approaches to determine the cadastral value because a property has several uses for which various valuation methodologies are deemed appropriate, the value is to be determined separately for each part. The cadastral value of land is to be derived by multiplying the area shown in the cadastre by the unit value. (Sobieraj, 2010)

In order to estimate the cadastral value of the various components of land, one determines the unit values of the components, taking into account their location and the differences that exist between them. The unit values of components of land in particular groups are to be presented in the taxation

tables. The cadastral value of the overall land component is the sum of the cadastral values of the individual objects that make it up. The cadastral value of each object is calculated by multiplying the area shown in the cadastre and the unit values shown in the taxation tables. These rules apply also to buildings and apartments which are the subject of separate property rights.

Estimating cadastral values will follow a number of stages:

1. The preparation of a property index card with the characteristics of the property.
2. Classification of properties into types.
3. Property market monitoring.
4. Integrating property characteristics derived from different sources.
5. The division into tax zones and the selection of representative properties.
6. Map creation and the listing of tax zones and unit values.
7. Computing cadastral values for all properties.
8. Registration of values in the cadastre.

CONCLUSIONS

At present there is little public support to initiate a shift to value-based property taxation and mass appraisal. According to a survey by the Public Opinion Research Centre (CBOS) in 2000, over 52 percent of respondents had not heard about the proposal to introduce value-based property taxation and only 20 percent claimed any knowledge of value-based property tax. Most of the respondents were critical of any change in property tax from an area-based to a value-based system. Thirty-three percent of respondents believed that a value-based tax was not as fair, while 25 percent considered a value-based system to be fairer. The overriding belief demonstrated by respondents was that any change to the property tax system would result in an increased tax burden (Głuszak and Marona, 2015).

Reform of the current property tax system in Poland can be supported by the experience of other countries, although in analysing property taxation systems, one can see that there is no uniform model which might be transposed

to Poland without modification. The structural elements of tax systems (the tax base, objects taxed, tax exemptions, and tax rates) have been shaped by each nation's social, cultural and historical heritage. This has led, in some countries, to very specific solutions not found in other tax systems.

As part of the on-going discussion on reforming the system of real estate taxation in Poland, it is worth underlining at least two potential solutions. The first solution, offering the only possibility for rational change, is to move to a value-based property tax with assessments registered in the real estate fiscal cadastre. The alternative might be to divide the maximum rates of area-based tax into zones, so that the zones with higher property values have higher rates, closer to the maximum rate, while zones where properties are cheaper, have lower rates. This would at least move Poland closer to a system where tax is more directly dependent on property values.

Reform of the current property tax system in Poland can be supported by the experience of other countries, although there is no uniform model which might be transposed to Poland without modification

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REAL PROPERTY TAXATION IN THE REPUBLIC OF KAZAKHSTAN

L'IMPOSITION FONCIÈRE EN RÉPUBLIQUE DU KAZAKHSTAN

LA TRIBUTACIÓN DE BIENES RAÍCES EN LA REPÚBLICA DE KAZAJSTÁN

ABSTRACT

PILOT STUDY

APARTMENTS

MULTIPLE REGRESSION ANALYSIS

VALUE-BASED PROPERTY TAX

The Republic of Kazakhstan in Central Asia is the world's largest landlocked country by land area and the ninth largest country in the world. It has a territory of 2 724 900 square kilometres, which in relative terms is larger than Western Europe. The current property tax in Kazakhstan is primarily based on an adjusted area system. Apart from property owned by legal entitles, where a book value is adopted, the land and property tax for individuals involves a significant number of adjustment coefficients. Kazakhstan has the fundamental components necessary for having a value-based property tax such as a maturing

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ÉTUDE PILOTE

APPARTEMENTS

ANALYSE DE RÉGRESSION MULTIPLE

IMPÔT FONCIER BASÉ SUR LA VALEUR

La République du Kazakhstan en Asie centrale est le plus grand pays enclavé du monde par sa superficie et le neuvième plus grand pays au niveau mondial. Son territoire d'une superficie de 2 724 900 kilomètres carrés, en fait un pays plus grand que l'Europe occidentale. Le système de taxation foncière actuel du Kazakhstan est principalement basé sur la superficie. En dehors des biens fonciers appartenant légalement à des propriétaires, où une valeur comptable est adoptée, la taxe foncière et immobilière pour les individus comporte un nombre important de coefficients d'ajustement. Le

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APARTAMENTOS

ANÁLISIS DE REGRESIÓN MÚLTIPLE

IMPUESTO SOBRE BIENES RAÍCES BASADO EN SU VALOR

La República de Kazajstán en Asia Central es el país sin litoral más grande del mundo por superficie de tierra y el noveno país más grande del mundo. Cuenta con un territorio de 2 724 900 kilómetros cuadrados, que en términos relativos es más grande que Europa occidental. El actual impuesto sobre bienes raíces de Kazajstán está basado principalmente en un sistema de ajustes por superficie. Además de las propiedades poseídas con títulos legales, para las que se adopta un valor nominal, el impuesto sobre la tierra y las propiedades para los individuos supone un número significativo de coeficientes de

property registration system, an active, transparent property market at least in the large urban areas, a developing property valuation profession and the political desire to explore the introduction of a value-based property tax. The development of a value-based property tax should significantly simplify the assessment approach. This paper provides evidence on the viability of adopting market prices, at least for the apartment sector in Astana, and makes several recommendations as to how to improve the quality of the data that would underpin a market price based property tax.

Kazakhstan possède les éléments fondamentaux nécessaires pour mettre en place un impôt foncier basé sur la valeur des biens tel que le système d'enregistrement au cadastre, un marché immobilier actif et transparent, au moins dans les grandes zones urbaines, des professionnels de l'évaluation des biens fonciers en plein développement et la volonté politique pour explorer la mise en place d'une taxe en fonction de la valeur des biens fonciers. Le développement d'une taxe foncière basée sur la valeur devrait considérablement simplifier les tentatives d'évaluation. Ce document fournit la preuve de la viabilité d'adopter un système basé sur les prix du marché, au moins pour le secteur d'Astana, et fait plusieurs recommandations sur la façon d'améliorer la qualité des données qui sous-tendrait un système d'imposition des biens fonciers basé sur le prix du marché.

ajuste. Kazajstán dispone de los elementos fundamentales necesarios para tener un impuesto sobre bienes raíces basado en su valor, como un sistema de registro de bienes raíces en evolución, un mercado transparente y activo de bienes raíces, al menos en las grandes zonas urbanas, una profesión de valoración de bienes raíces en desarrollo y el deseo político de estudiar la introducción de un impuesto sobre bienes raíces basado en su valor. El desarrollo de un impuesto tal debería simplificar notablemente el enfoque de evaluación. En este documento se proporcionan pruebas de la viabilidad de adoptar precios de mercado, al menos para el sector de apartamentos de Astaná, y se formulan varias recomendaciones sobre la manera de mejorar la calidad de la información que podría sustentar un impuesto sobre bienes raíces basado en precios de mercado.

INTRODUCTION

Land and property taxes in Kazakhstan are primarily based on an adjusted area system that uses a significant number of adjustment coefficients. The only exception to this is property owned by legal entitles for which the book value is adopted. The development of a value-based property tax could significantly simplify the assessment process. However the viability of adopting market prices needs to be examined along with ways of improving the quality of the data that would underpin a market price based property tax.

Land and property taxes in Kazakhstan are primarily based on an adjusted area system that uses a significant number of adjustment coefficients

THE ADJUSTED AREA SYSTEM: CURRENT LAND AND PROPERTY TAX

Property taxes in Kazakhstan consist of a tax on agricultural land, an urban land tax and property tax on individuals and legal entities. The land tax is imposed on both legal entities and individuals as a fixed annual payment based on the area of the land they own, while property tax on legal entities is based on annual net book value of the property assets. The land tax provisions are contained in Chapter 53 of the 2013 Tax Code.

Property taxes in Kazakhstan consist of a tax on agricultural land, an urban land tax and property tax on individuals and legal entities

Land is categorised as either:

1. agricultural land;
2. land in populated areas;
3. land associated with industry, transport, communication, defence and other non-agricultural uses;
4. land belonging to specially protected natural territories, recreational land, land for historic or cultural uses, forestry land, water resource land and reserve land.

The land within populated areas is further divided depending on whether it is occupied by residential property or not.

Physical and legal persons with rights of ownership or use (including permanent use) are liable to pay the land tax. Legal persons are specifically

obliged to assess the amount of land tax due according to its book value. State-owned institutions, veterans of World War II and religious associations are excluded from land tax liabilities, as are land plots used in association with the special tax regime for peasant or farmer holdings (Chapter 53 Art. 373 of the Tax Code). Other land not liable for land taxation includes plots in common use in populated areas (squares, streets, roads, parks, public gardens, boulevards, ponds, beaches, cemeteries, water pipelines, heating pipelines, electric power transmission lines, water purifying structures) and land plots occupied by state-owned roads.

The tax on agricultural land is based on the area of the plot. The sum per hectare is then differentiated according to the quality of the soil for steppe lands, dry steppe zones, semi-desert, desert and piedmont desert zones.

The basic tax rate for agricultural land granted to natural persons for smallholdings and gardens is 20 tenge[1] per 0.01 hectare for land up to 0.5 hectares and 100 tenge per 0.01 hectare for land in excess of 0.5 hectares. The tax rates for agricultural land in populated areas are calculated per square metre and vary according to location. There is a separate rate for agricultural plots occupied with houses. In Almaty, the largest city, the rate is 28.95 tenge per square metre for agricultural land and 0.96 tenge if the land is occupied with a house. In villages the rates are 0.48 and 0.09 tenge respectively.

Land plots attached to houses are also taxed according to where they are located. For Astana, Almaty and cities of provincial importance, land up to 1 000 square metres is taxed at a rate of 0.20 tenge per square metre and land exceeding 1 000 square metres – at 6.00 tenge per square metre. In other populated areas, land up to 5 000 square metres is taxed at 0.20 tenge per square metre and land exceeding 5 000 square metres at 1.00 tenge per square metre. Local governments can reduce the tax rate on land plots exceeding 1 000 square metres from 6.00 to 0.20 tenge per square metre.

Land tax is paid to the local authority.

1 The exchange rate of the tenge to the US dollar was pegged at around 185 tenge per US dollar at the time of research, and until 20 August 2015 when the Kazakhstan National Bank did away with the currency band with respect to the conversion rate of the tenge; the tenge is currently a free-floating currency and has lost half of its value since 20 August 2015.

Property tax liabilities are contained in Chapter 57 of the Tax Code. Those liable include legal persons, individual entrepreneurs and concessionaires. The tax for property belonging to individual entrepreneurs and legal entities is based on the average annual balance sheet value.

Legal persons are liable to pay at a rate of 1.5 percent. Individual entrepreneurs and legal persons who are eligible for a special tax regime based on a simplified declaration are liable to pay at a rate of 0.5 percent of the yearly average value. Property tax payment is also made to the local authority.

Property tax for natural persons is governed by Article 405 of the Tax Code. Taxable property includes dwellings, summer houses, garages, constructions and facilities under construction. The taxable value for dwelling houses and summer houses is determined annually (on 1 January) by the State Agency for the Registration of Real Estate Titles using the following formula:

$$V = V_b \times S \times C_{phys} \times C_{func} \times C_{zon} \times C_{ch.mai}$$

V	value of the property;
V_b	base value per square metre for dwelling and summer houses;
S	the area (in square metres) of the dwelling or summer house;
C_{phys}	coefficient of physical depreciation;
C_{func}	coefficient of functional depreciation;
C_{zon}	coefficient of zoning;
$C_{ch.mai}$	coefficient of change in the monthly assessment index.

The rate per square metre for dwellings and summer houses is based on its location. In Almaty, for example, it is 30 000 tenge per square metre; in villages it is 2 700 tenge per square metre. The value of dwellings and summer houses is depreciated by a coefficient according to their age. Adjustments to the tax value are also made for the number of storeys, according to whether the buildings are equipped with services such as water and sewage systems, the type of heating system and the zone in which it is located.

Tax rates for natural persons vary on a sliding scale from 0.05 percent of the first 1 million tenge of a property's taxable value up to 748 300 tenge, to 1 percent of values in excess of 120 million tenge.

FUNDAMENTALS FOR A MARKET VALUE-BASED PROPERTY TAX

For a market based property tax to work efficiently and effectively, a number of fundamentals need to be in place, notably: transparent ownership rights that can be traded on the real estate market, mortgage finance, a means of registering ownership rights, market activity, valuation expertise, and property transfer taxes that do not discourage registration.

For a market based property tax to work efficiently and effectively, a number of fundamentals need to be in place, notably: transparent ownership rights that can be traded on the real estate market, mortgage finance, a means of registering ownership rights, market activity, valuation expertise, and property transfer taxes that do not discourage registration

The Land Code of Kazakhstan governs the allocation of land parcels and land use rights. Ownership, permanent use, short term use and lease are categories of rights allocated for land parcels. The Land Code echoes Article 6(3) of the Constitution providing for state ownership of the land as a natural resource. Notwithstanding this, land and property can be in private ownership. Ownership of property and land are also linked. When title to a building is assigned it causes the simultaneous assignment of the land that the building occupies. Protecting private ownership of land and property in law is an essential pre-requisite for having a value-based property tax.

The Land Code established the Land Resources Management Agency (LRMA) as the primary authority for the administration of land, responsible for providing land information and security of land rights. Kazakhstan operates a dual agency approach to cadastre and registration. The cadastre is operated and maintained by the LRMA, and the registration system is operated and maintained by the Ministry of Justice (MoJ). Both agencies are decentralized and operate at three levels of government: oblasts, municipal cities and rayons.

The Law Regarding State Registration of Immovable Property Rights of 25 December 1995 directed the establishment of the immovable property registration system and its subsequent operation. The Immovable Property Registration System (IPRS) is under the MoJ's authority. It is mandatory to register all land leases and private land conveyances that have transferred land rights from the state to legal or private persons. However, with the exception of that initial conveyance of land rights from the state into private ownership, registering immovable property rights in the IPRS is not mandatory.

Figure 1 shows the number of residential property transactions by oblast. It demonstrates the dynamic nature of the real estate market and the potential for using transacted prices to estimate market value for property taxation.

Figure 2 is an index of price per square metre and illustrates the growth in residential property prices in Kazakhstan between 2000 and 2014.

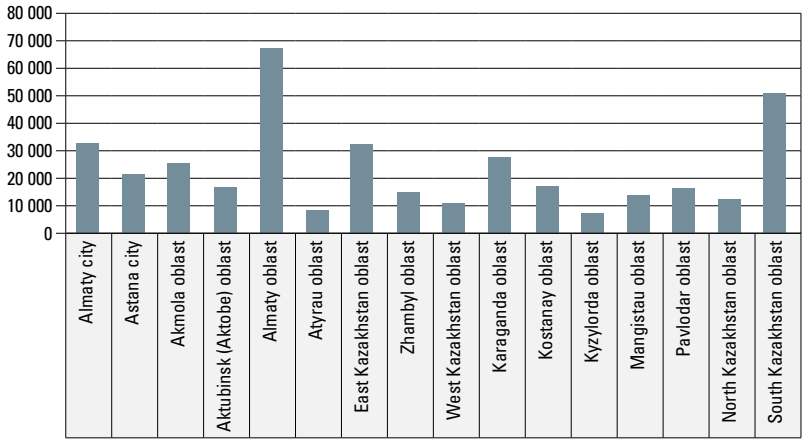

Figure 1
Number of residential property transactions by oblast in 2013

Source: Kazakh Statistics Agency (SAK, 2014)

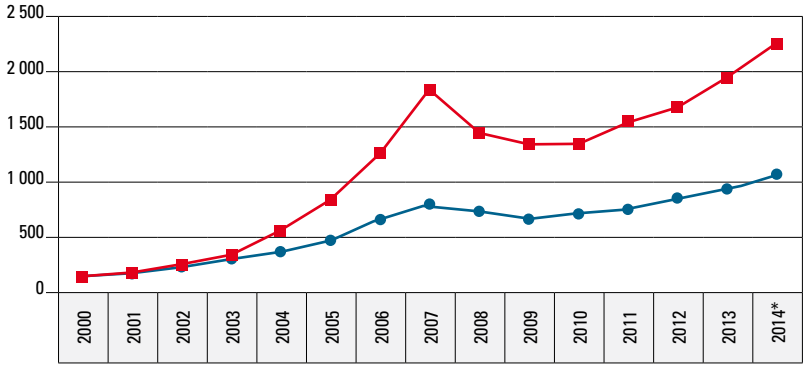

Figure 2
Growth in property prices for residential property in Kazakhstan

Source: Kazakh Statistics Agency (SAK, 2014)

Kazakhstan does not currently levy a property transfer tax and there are relatively low administrative fees for registering property. These help encourage the development of a formal property market. The development of a value-based property tax also relies on the expertise of valuation professionals. This is particularly important when commercial or industrial properties are valued. Founded in December 2001, the Chamber of Professional Appraisers (CPA) has played a significant role in the development of the valuation profession and the education and upgrade programs available. The CPA has 57 member companies and over a hundred individual appraisers. It has had a significant role in the development of National Standards based on the International and European Valuation Standards.

Kazakhstan does not currently levy a property transfer tax and there are relatively low administrative fees for registering property. These help encourage the development of a formal property market

DATA MODELLING METHODOLOGY

The market value of a property is a function of its characteristics (location, age, condition, size). Prices also depend on the state of the market at the time of sale. Using Multiple Regression Analysis (MRA), the value of a property can be disaggregated into coefficients associated with characteristics or variables (Rosen, 1974; McCluskey *et al.*, 2013; Adair and McGreal, 1988). This assesses the contribution these characteristics make to the value and provides a weighting for each characteristic. The accuracy of the model depends on the quantity and quality of the data available. The value of a property is regressed on a series of variables representing characteristics (some specific to the property itself, others related to its location) and an implicit value is estimated for each characteristic (Gloudemans, 1999).

The market value of a property is a function of its characteristics (location, age, condition, size). Prices also depend on the state of the market at the time of sale

The specification of any MRA model is determined by the choice of dependent and independent variables, the functional form of the relationship between these variables, and the statistical significance of the relationship between the independent variables and a dependent variable. Multiple regression seeks to study the statistical relationship between one dependent variable , in this case value, and several independent variables, (Benjamin *et al.*, 2004).

The objective of MRA is to develop a strong predictive relationship between property characteristics and value, so that value can be estimated using the

known characteristics (IAAO, 2011). There are two types of MRA used in mass appraisal: standard linear regression models and non-linear regression techniques. Transformations can be used to turn non-linear relationships into linear ones, for example, by taking the logarithms of the data.

A MASS APPRAISAL CASE STUDY – APARTMENTS IN ASTANA

Statistical modelling requires access to sufficient transaction data of adequate quality. It is important that the data is collected and recorded in a consistent manner. The transaction data for this case study came from the Ministry of Justice. The data set contained 46 689 apartment transactions in Astana. Table 1 shows that the largest apartment was 864 square metres. The average apartment was 64 square metres. Transaction prices range from zero to 39 billion tenge. The average price was 14 million tenge. The standard deviation of price is uncharacteristically large indicating a wide distribution of prices. Tests of normality on the quantitative variables of price and size indicate a positive skew because of very high transaction prices in some cases and large apartment sizes. This was exacerbated by the inclusion of properties with very low or 'zero tenge' prices and size. Data cleaning was therefore required.

	MINIMUM	MAXIMUM	MEAN	STANDARD DEVIATION
SIZE (m²)	0	864	63.60	40.32
PRICE (tenge)	0	38 955 000 000	14 061 168	183 106 759

Table 1
Descriptive statistics on size and price

The first data cleaning stage involved identifying any problems with missing values or spurious coding. This involved subjectively trimming the data to remove cases that had obvious atypical values. The second stage involved a more objective approach. Outliers that have an undue influence on the coefficients, were removed by using Cook's Distance during the second stage

of the Multiple Regression Analysis (MRA). Data cleaning removed transaction prices that exceeded 800 million tenge and those of less than 100 000 tenge, including 2 644 cases where the price recorded was zero.

Apartments that were smaller than 15 square metres or larger than 350 square metres were excluded. Figure 3 shows the important influence that the size variable has on price – the linear correlation coefficient (R) is 0.57. The scatter diagram also indicates additional possible outliers, for example very small apartments with high prices and large apartments with relatively low prices. These were dealt with at the second stage of data cleaning.

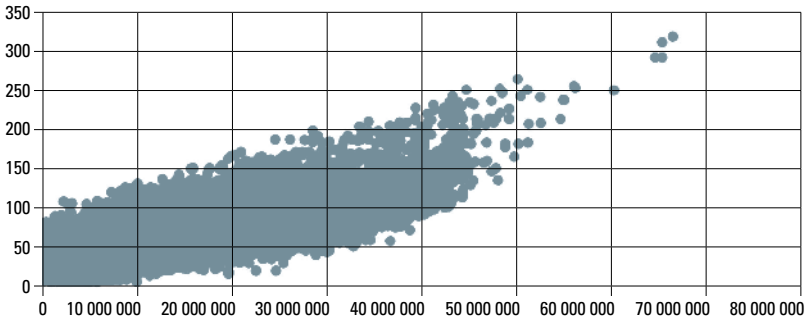

Figure 3
Scatterplot of price against size
(tenge/square metres)

Binary variables were created for the three districts in Astana; Almaty, Esil and Saryarka. In other words if the apartment is located in Almaty it is coded as Almaty = 1 and Esil = 0 and Saryarka = 0. These acted as proxies for location. A more granular location variable would have been useful but unfortunately none was available.

Apartments with more than six bedrooms were excluded from the analysis but apartments identified as having zero bedrooms were retained because they could be described as studios with only one room.

The "balcony" variable was problematic because only 49 percent were coded as having a balcony. It was unclear if the others had no balconies or if the field had not been completed. A binary variable was created to reflect the presence or absence of a balcony. The mean size of a balcony was 1.31 square metres so its effect on price is likely to have been negligible.

The construction dates for the buildings ranged from 1936 to 2014. Six age bands were created and included as separate variables.

The apartments were located across a large number of floors within their blocks, from the ground floor to the 42nd floor. Five floor bands were created and included as separate variables. The first floor band includes floors 0 - 5, for example.

The "total rooms" variable captured the number of rooms in an apartment inclusive of bedrooms, kitchen, living room and dining room. There is a significant correlation (0.65) between the apartment size and the number of bedrooms and also between the apartment size and the total number of rooms (0.69). The "total rooms" variable was therefore not used.

Prices were collected for a three-year period and a variable called 'months' was created to reflect the effect of time on transaction prices. January 2011 was taken as the start point as month '0' and July 2014 as the end point, month '43'.

This set of eight variables includes those that one would expect to have *a priori* an influence on value. Not all of the variables supplied were used because of missing data and high correlations with other independent variables. For the functional form of the MRA model, we might have tested a linear additive model before proceeding to investigate more complex model forms such as semi-logarithmic and double-logarithmic models, where the independent variable is transformed into logarithms and where both independent and dependent variables are transformed into logarithms. Transformations of these types allow the existence of non-linear relationships to be explored. The approach adopted here was first to develop an additive linear MRA and then to consider the potential of a semi-logarithmic model. The variables used in the model are shown in Table 2.

Table 2
Variables

VARIABLE	TYPE	DESCRIPTION
PRICE	Continuous	price in tenge
SIZE	Continuous	size in square metres
MONTHS	Continuous	month of transaction
BALCONY	Binary	2 binary variables to reflect having a balcony or not
BEDS	Binary	7 binary variables to reflect number of bedrooms
AGE	Binary	6 binary variables to reflect age of building
FLOOR	Binary	5 binary variables to reflect which floor an apartment is located on
DISTRICT	Binary	3 binary variables to reflect districts in Astana

For the MRA additive model the dependent variable is price and is regressed against the variables shown in Table 2. The unstandardized coefficients for the binary variables are interpreted against the base. The base is shown in Table 3.

MRA Model 1 is based on the data that has been cleaned with the obvious outliers removed. The adjusted coefficient of determination[2] (R^2) of 0.56, indicating that 56 percent of the variability in the price is explained, whilst giving a reasonable level of explanation, suggests that there may be other outliers within the data that are exerting an influence on the coefficients. There may also be missing variables that, if included, could improve the results.

Table 3
MRA Model 1-
Additive model summary

R	R SQUARE	ADJUSTED R SQUARE	STANDARD ERROR OF THE ESTIMATE
0.75	0.56	0.56	6 927 990.10

The regression coefficients, t-stats and level of significance are reported in Table 4. For every increase of 1 square metre in size, the price increases by 198 261 tenge. For every additional month, the price increases by 192 431 tenge. The base is a two-bed apartment. Apartments with three, four, and five bedrooms are worth more than a two-bed. However a studio

2 This term is interpreted as the proportion of the variance in the dependent variable (price) that is predictable from the independent variables.

apartment with zero bedrooms and apartments with six bedrooms are worth less than a two-bed. The base district is Almaty. Apartments in Esil are worth more and apartments located in Saryarka are worth less. The base for the floor is FLOOR_1 (floors 0 - 5). Apartments located on upper floors are worth more. In terms of the age of the building, the base is apartments built after 2001 (2001–2014). The coefficients show that older apartment buildings are worth more. Generally, the variables are significant for explaining price. However, BED_5, FLOOR_5 and AGE_1 were not found to be significant.

Table 4
MRA Model 1 – Additive model coefficients

	NON-STANDARDISED COEFFICIENTS		STANDARDISED COEFFICIENTS	T-STATS	SIGNIFICANCE
	B	Standard Error	Beta		
(Constant)	- 4 223 420.917	136 394.979		- 30.965	0.000
SIZE	198 261.212	1 525.042	0.683	130.004	0.000
MONTHS	192 431.621	2 965.654	0.211	64.887	0.000
BED_0	- 2 062 331.400	235 205.045	- 0.029	- 8.768	0.000
BED_1	492 753.132	88 298.344	0.022	5.581	0.000
BED_3	160 673.793	99 764.847	0.007	1.611	0.107
BED_4	354 464.334	175 219.910	0.008	2.023	0.043
BED_5	146 928.577	399 585.467	0.001	0.368	0.713
BED_6	- 2 878 101.487	870 117.556	- 0.011	- 3.308	0.001
FLOOR_2	365 017.781	84 347.529	0.015	4.328	0.000
FLOOR_3	1 488 002.759	125 785.113	0.041	11.830	0.000
FLOOR_4	1 759 310.844	331 483.781	0.017	5.307	0.000
FLOOR_5	408 362.678	1 685 383.074	0.001	0.242	0.809
ESIL	1 513 346.091	101 553.908	0.054	14.902	0.000
SARYARKA	- 1 263 352.353	78 279.673	- 0.057	- 16.139	0.000
AGE_1	398 194.228	387 580.837	0.003	1.027	0.304
AGE_2	1 175 927.618	145 004.790	0.029	8.110	0.000
AGE_3	1 079 896.070	139 109.922	0.027	7.763	0.000
AGE_4	1 000 805.149	125 475.562	0.028	7.976	0.000
AGE_5	1 744 318.259	152 907.354	0.039	11.408	0.000

The approach for MRA Model 2 more scientifically removed any outlier based on Cook's Distance. Cook's Distance identifies cases that are influential or have a significant effect on the regression solution, distorting the solution for the remaining cases in the analysis. While we cannot associate a probability with Cook's Distance, we can identify problematic cases that have a score larger than the criteria computed using the equation:

Equation 1 $\frac{4}{n}$

where *n* is the number of cases in the analysis. This will allow the removal of any case that exerts an undue influence on the prediction of price. Cook's Distance is calculated by reference to Equation 2:

Equation 2 $\frac{4}{Total\ sales} = \frac{4}{40\ 138} = 0.0000996$

The MRA is then run, saving the Cooks-D calculated for each case. This figure is then compared to the figure obtained from Equation 1. If the individual Cooks-D is greater than the result from Equation 2 then the case is deemed to be an outlier and is removed. As a result of running this procedure, an additional 2 362 cases were removed. The MRA was then run on this 'cleaner' data set. The results are shown in Tables 5 and 6.

At this stage the data on balconies was still included. Table 5 shows that the adjusted R^2 has increased to 0.67 following the removal of the outliers. Sixty-seven percent of the variation in the price is therefore explained by the model.

Table 5
MRA Model 2 – Results

R	R SQUARE	ADJUSTED R SQUARE	STANDARD ERROR OF THE ESTIMATE
0.819	0.671	0.671	4 712 783.692

Table 6
MRA Model 2 – Variable coefficients

	NON-STANDARDISED COEFFICIENTS		STANDARDISED COEFFICIENTS	T-STATS	SIGNIFICANCE
	B	Standard Error	Beta		
(Constant)	- 4 658 279.319	112 539.532		- 41.392	0.000
SIZE	224 024.106	1 417.730	0.801	158.016	0.000
MONTHS	184 519.673	2 105.541	0.255	87.635	0.000
BAL_YES	- 1 972 020.908	48 662.161	- 0.120	- 40.525	0.000
ESIL	1 197 818.605	73 401.729	0.052	16.319	0.000
SARYARKA	- 1 360 714.377	54 232.746	- 0.078	- 25.090	0.000
BED_0	- 2 083 714.470	186 055.154	- 0.033	- 11.199	0.000
BED_1	749 383.511	64 445.756	0.043	11.628	0.000
BED_3	- 869 818.217	72 763.558	- 0.044	- 11.954	0.000
BED_4	- 429 591.380	140 883.549	- 0.011	- 3.049	0.002
BED_5	- 2 085 787.924	418 488.669	- 0.015	- 4.984	0.000
BED_6	- 4 875 726.193	1 428 712.684	- 0.010	- 3.413	0.001
FLOOR_2	470 961.108	59 173.508	0.025	7.959	0.000
FLOOR_3	1 264 266.508	90 097.829	0.043	14.032	0.000
FLOOR_4	2 605 049.827	299340.769	0.025	8.703	0.000
FLOOR_5	- 268 087.978	3 334 019.519	0.000	- 0.080	0.936
AGE_1	406 795.389	283 460.347	0.004	1.435	0.151
AGE_2	1 256 838.951	101 167.048	0.040	12.423	0.000
AGE_3	1 385 888.852	97 075.446	0.045	14.276	0.000
AGE_4	1 415 831.556	87 175.618	0.052	16.241	0.000
AGE_5	1 884 971.608	107 901.359	0.053	17.469	0.000

The majority of the variables are significant and have the appropriate signs. Although any apartment with more than two bedrooms showed a reduction in price, balconies seem to have a negative influence on price. Figure 4 shows the actual price plotted against the model-generated predicted price.

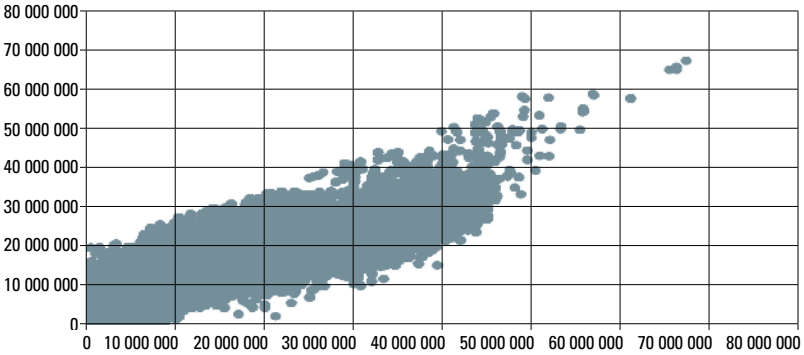

Figure 4
Actual price plotted against predicted price (tenge)

In MRA Model 3, the natural logarithm of price is taken as the dependent variable. The results of the regression are actually poorer than the additive MRA model with an adjusted R^2 of 0.53. (Table 7)

R	R SQUARE	ADJUSTED R SQUARE	STANDARD ERROR OF THE ESTIMATE
0.729	0.532	0.532	0.5323

Table 7
MRA Model 3 – Results

It is evident that the semi-logarithmic model does not improve the predictive accuracy. In any mass appraisal approach it is important to have quality control measures to verify the results of the predictive model before such estimates are used to levy property tax. This might also be useful if the predicted values need to be defended during an objection or appeal.

CONCLUSIONS

Kazakhstan has the necessary prerequisites for a market value-based property tax for at least the residential sector and the MRA case study offers some justification for further developing the use of automated valuation approaches. There are also certain practical actions which would facilitate its introduction. If a centralised Valuation Department was established, it could co-ordinate valuation activities and support the development of a value-based property tax. If a new property tax is to be rolled out nationally, standardised valuation practices and procedures need to be developed to ensure uniformity in approach.

Developing administrative procedures and creating a sales database specifically for property taxation would help to ensure that the key value influencing variables are properly recorded. Transacted property might also be inspected, at least externally, by staff from the Valuation Department. A fiscal cadastre could provide information on each taxable property and improve transparency in the property valuation and taxation system. Although this research has focused on residential apartments, consideration should be given to the valuation methodologies that can be used for commercial and industrial property.

Raw data on apartment sales in Astana was supplied by the Ministry of Justice to facilitate this research project. 46 689 transactions were provided, spanning three and a half years. All of the variables required extensive data cleaning to remove spurious data entries and missing data. This resulted in a workable dataset of 40 138 apartments.

The Multiple Regression Analysis (MRA) model specifications included a linear additive model and a semi-logarithmic model. The best results in terms of adjusted R^2 were achieved using the linear model, which had an adjusted R^2 of 0.67. The results from the MRA were relatively disappointing; they did not achieve an adjusted R^2 of more than 0.80. Whilst the majority of the variables used were statistically significant, the models had missing variables such as location.

Kazakhstan has the necessary prerequisites for a market value-based property tax for at least the residential sector and the Multiple Regression Analysis case study offers some justification for further developing the use of automated valuation approaches

Developing administrative procedures and creating a sales database specifically for property taxation would help to ensure that the key value influencing variables are properly recorded

The data on variables, recorded on the sale of a property, should ideally be supplemented by additional data on variables related to location and accessibility. The use of a Geographic Information System (GIS) might in practice provide useful support for delineating valuation zones and sub-market groups. But even while recognising the limits of the available data, it is still possible to consider a market value-based valuation methodology that in part utilises market transactions and MRA. This approach could use Value Zones. Districts can be sub-divided into value zones for apartments and single family residential property. Transactions can be analysed to determine the price of an average property. MRA can then be used to develop adjustments between the average property and all of the other properties within the Value Zone. This is a more robust methodology and does not rely fully on a MRA model.

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PROPERTY VALUATION AND TAXATION FOR IMPROVING LOCAL GOVERNANCE IN TURKEY

ÉVALUATION ET IMPOSITION FONCIÈRE POUR AMÉLIORER LA GOUVERNANCE LOCALE EN TURQUIE

LA VALORACIÓN Y LA TRIBUTACIÓN DE BIENES RAÍCES A FIN DE MEJORAR LA GOBERNANZA LOCAL EN TURQUÍA

ABSTRACT

MASS VALUATION

TURKEY

PROPERTY TAXATION

LOCAL GOVERNANCE

This article discusses the mass valuation techniques used in the property valuation component of the Land Registry and Cadastre Modernization project conducted by General Directorate of Land Registry and Cadastre with the support of International Bank for Reconstruction and Development. One of the objects of the property valuation component was to carry out a mass property valuation pilot for tax purposes in two municipalities. Mass valuation is defined by the International Association of Assessing Officers as "the process of valuing a group of properties as of a given date and using common data, standardized methods, and statistical testing". In

RÉSUMÉ

ÉVALUATION À GRANDE ÉCHELLE

TURQUIE

IMPÔT FONCIER

GOUVERNANCE LOCALE

Cet article décrit les techniques d'évaluation sur grande échelle utilisées dans la composante du projet de modernisation du Registre foncier et du cadastre menée par la Direction générale de l'enregistrement des terres et du cadastre avec le soutien de la Banque internationale pour la reconstruction et le développement. Un des objectifs de la composante d'évaluation des biens fonciers était de réaliser un projet pilote d'évaluation des biens fonciers sur grande échelle à des fins fiscales dans deux municipalités. L'évaluation à grande échelle est définie par l'Association internationale des fonctionnaires qui réalisent les évaluations (International Association

SUMARIO

VALORACIÓN EN MASA

TURQUÍA

TRIBUTACIÓN DE BIENES RAÍCES

GOBERNANZA LOCAL

En este artículo se analizan las técnicas de valoración en masa utilizadas en el componente de valoración de bienes raíces del Proyecto de modernización del registro y catastro de tierras llevado a cabo por la Dirección general del registro y catastro de tierras con apoyo del Banco Internacional de Reconstrucción y Fomento. Uno de los objetivos del componente de valoración de bienes raíces consistía en realizar una valoración experimental de bienes raíces en masa con finalidades tributarias en dos municipios. La Asociación internacional de funcionarios de evaluación (International Association of Assessing Officers) define a la valoración en masa como "el proceso

this study three different methods were used for mass valuation in the two pilot areas, Fatih / Istanbul and Mamak / Ankara: Multiple Regression Analysis, Artificial Neural Networks and Decision Trees. The article discusses Mass valuation processes (data management, data analyses, model building and ratio analyses); mass valuation techniques (Multiple Regression Analysis, Artificial Neural Networks and Decision Trees); and the results of the mass valuation models built by these three methods for Fatih and Mamak.

of Assessing Officers) comme «le processus d'évaluation d'un groupe de biens fonciers à une date donnée et l'utilisation de données communes, de méthodes normalisées, et de tests statistiques». Dans cette étude, trois méthodes différentes ont été utilisées pour cette évaluation dans les deux zones pilotes, Fatih / Istanbul et Mamak / Ankara: analyse de régression multiple, réseaux de neurones artificiels et arbres décisionnels. L'article discute des processus d'évaluation à grande échelle (gestion des données, analyse des données, construction de modèles et analyses de ratios); des techniques d'évaluation à grande échelle (analyse de régression multiple, réseaux de neurones artificiels et arbres décisionnels); et les résultats des modèles d'évaluation sur grande échelle obtenus à partir de ces trois méthodes pour Fatih et Mamak.

de valoración de un grupo de bienes raíces en una fecha determinada, empleando información en común y métodos normalizados y realizando pruebas estadísticas". En este estudio se utilizaron tres métodos diferentes para la valoración en masa de dos zonas experimentales, Fatih / Estambul y Mamak / Ankara: análisis de regresión múltiple, redes neuronales artificiales y árboles de decisión. En el artículo se analizan procesos de valoración en masa (gestión de datos, análisis de datos, elaboración de modelos y análisis de coeficientes); técnicas de valoración en masa (análisis de regresión múltiple, redes neuronales artificiales y árboles de decisión), y los resultados de los modelos de valoración en masa construidos por estos tres métodos para Fatih y Mamak.

INTRODUCTION

Turkey is a large country, with a population of 77.7 million[1], approximately 56.5 million parcels, and over 2 million property transactions a year[2]. The population has been growing rapidly at an annual rate of 13.7 per thousand in 2013. It has been experiencing rapid urbanisation, which requires significant investment in infrastructure. This raises the question of how such investment should best be financed and whether property taxes can and should play a role in this.

Turkey is a large country, with a population of 77.7 million, approximately 56.5 million parcels, and over 2 million property transactions a year

Property taxes in 2013 amounted to 1.4 percent of the Gross Domestic Product (GDP), up from 0.9 percent in 2009. However, recurrent taxes on immovable property were only 0.2 percent of GDP, indicating that Turkey mainly uses sporadic rather than annual property taxes. District, city and town municipalities are able to assess and collect annual property taxes. For the 919 district municipalities and 396 town municipalities, annual property taxes account for 15 percent of their budgets. Property taxes account for 5 percent of the 81 city municipality budgets. Fiftyty-five percent of the tax revenues raised by district and town municipalities and 42 percent of those raised by city municipalities are from property taxes. In addition to these 1 396 district, city and town municipalities, there are also 30 metropolitan cities, each with its own municipalities such as Fatih in Istanbul and Mamak in Ankara. These metropolitan municipalities are not able to levy property taxes but are responsible for strategic plans, major roads and other infrastructure, water supply, healthcare and social services. Much of the infrastructure needed to satisfy Turkey's growing urban population has to be provided by this level of local government. The metropolitan municipalities are therefore unable to tax the growth in property values that have occurred as a result of economic and urban growth, which means they are unable to levy tax revenues to finance infrastructure (World Bank, 2014). Fiscal transfers from central government account for 40 percent of district and town municipality revenues and 50 percent for city municipalities but 68 percent of metropolitan city revenues.

Property taxes in 2013 amounted to 1.4 percent of the Gross Domestic Product (GDP), up from 0.9 percent in 2009. However, recurrent taxes on immovable property were only 0.2 percent of GDP

1 *Source*: TurkStat, available at http://www.turkstat.gov.tr/UstMenu.do?metod=temelist

2 *Source*: General Directorate of Land Registry and Cadastre GIS, available at http://cbs.tkgm.gov.tr/default.aspx

THE ANNUAL IMMOVABLE PROPERTY TAX

The annual property tax is assessed and collected by district, city and town municipalities. The valuation methods are determined by central government. The annual property tax has two parts: a buildings tax and an urban and rural land tax. The current property tax was introduced in 1970 using the declarative method. Taxpayers had to file a property tax form every four years in which they declared the value of their properties to the local authorities. Most undervalued their properties and the values did not represent the market value. In 2002 (under law 4751), the declarative method was replaced by the informative system. Under this system, taxpayers provided the municipality with information about their properties. This includes new construction, additions to existing buildings, any changes to the elevator or heating systems, changes of use (for example from housing to commercial use), changes in the land conditions (as the result of land consolidation for example), and any permanent changes which may cause a 25 percent increase or decrease in the value of the property (Özkök-Çubukçu, 2013). A significant portion of this information is not currently used in valuation.

The annual property tax is assessed and collected by district, city and town municipalities. The valuation methods are determined by central government. The annual property tax has two parts: a buildings tax and an urban and rural land tax. The current property tax was introduced in 1970

The tax value of urban land is calculated by examining various factors that influence the value of the streets and main roads. These include transportation, distance from commercial areas, access to municipal services such as water and electricity, zoning status, topographic status, and land position (for example whether it is a corner parcel or has a roadside position). It is an area-based system. According to the tax legislation of Turkey, the value is defined as tax value, not the market value. In rural areas the tax value is calculated on the basis of land type such as whether it is barren or wetland.

Building valuations are calculated using construction costs per square metre to produce a depreciated replacement cost of the building (Özkök-Çubukçu, 2013). The costs are determined jointly each year by the Ministry of Finance and the Ministry of Urbanization and the Environment. The depreciation rates were set by legislation in 1982. The rates vary according to the type of construction: steel or concrete frame, masonry, wooden, and mud-brick. The maximum rate of depreciation is achieved after 75 years and varies between 60 percent, where the building has a steel or concrete frame, up to

95 percent for a mud-brick building. Tax values for buildings are calculated by multiplying the building's area by the cost per square metre. This value is added to the value for the land on which the building stands. Revaluations of buildings, urban land and rural land are usually carried out every four years. During the interim periods, tax values are increased by the revaluation rate or half of this rate (according to the decision of Ministry Council) announced by the Ministry of Finance each year, which is usually approximately the rate of inflation.

Minimum property tax values for urban and rural lands are determined by valuation commissions. Calculation is made by considering streets and main roads. There are three types of commission: a Central Valuation Commission in every city, a Valuation Commission for Urban Land in every district, and a Valuation Commission for Rural Land within provincial administrative boundaries. Each Central Valuation Commission acts as a supreme board for its city and can overrule other commissions, particularly in determining the minimum tax values of those areas located on the municipality boundaries where different commissions might otherwise produce different valuations for parts of the same street. Building valuations are made in a mathematical way by using the "ordinary construction costs per square metre" which are determined and published by the Ministry of Finance and the Ministry of Environment and Urbanization jointly every year.

Minimum property tax values for urban and rural lands are determined by valuation commissions. Calculation is made by considering streets and main roads

Building valuations are made in a mathematical way by using the "ordinary construction costs per square metre" which are determined and published by the Ministry of Finance and the Ministry of Environment and Urbanization jointly every year

Valuation Commissions for Urban Land, for example, consist of the mayor or his deputy, a civil servant from the municipality, the Land Registry Office manager or his deputy, a representative of the chamber of commerce and the chairman of the village or neighbourhood. Commissions do not include any qualified professional valuers, but they may draw on valuation assistance and new regulations from the Revenue Administration allow valuations to be outsourced to the private sector. As it is, the values estimated by commissions are usually below the market prices.

Central Valuation Commissions consist of the governor or his deputy, head of provincial treasury, land registry office manager, representatives of the chamber of commerce, chamber of certified public accountants, union of chambers of merchants and craftsmen. Central Valuation Commissions do not include any qualified professional valuers.

Central Valuation Commissions do not include any qualified professional valuers

The regulations require that one of three valuation methods is used to value land. Valuations can utilise arm's length land prices, buying and selling price lists, or can calculate the land tax value from the building tax value, which uses the depreciated replacement cost. Value maps should then be generated but none have ever been prepared. Property Tax General Communiqués require that the cost approach should be used for building valuations for taxation purposes. Consequently land valuation is important where there are buildings if the value is to reflect the total market price of land and buildings. There is little evidence that this is done in a rigorous or scientific way.

Table 1
Property tax rates

PROPERTY TYPE	TAX RATE (EXCLUDING METROPOLITAN MUNICIPALITIES)	TAX RATE FOR METROPOLITAN MUNICIPALITIES
Urban land	0.3 %	0.6 %
Rural land	0.1 %	0.2 %
Houses	0.1 %	0.2 %
Other buildings	0.2 %	0.4 %

Exemptions from the annual property taxes can be permanent or temporary and are defined separately for buildings and land. State land is exempted from the urban and rural land tax. Afforested areas are exempted for 50 years and reclaimed areas for 10 years. Public buildings are exempted from the buildings tax. There are temporary exemptions of tourism buildings for the first 5 years, buildings constructed after natural disasters for the first 10 years, and industrial facilities built in undeveloped areas for the first 5 years. New residential buildings receive a 25 percent discount on their tax value for the first 5 years. The Council of Ministers can apply property tax exemptions to homeowners whose only income is from social security, their orphans and widows, housewives and unemployed people with no income, disabled people, veterans, people perished on active military service, orphans and those who have only one house of less than 200 square metres.

Various institutions, organizations, village and neighbourhood chairmen as well as affected individuals have a right to object to the valuation commissions' decisions. Appeal is made to the Tax Court. Tax courts are composed of a presiding judge and a sufficient number of members. These members are assigned by the Ministry of Justice. Tax courts deal with tax disputes in their jurisdiction. Regional Administrative Courts solve disputes on competence and jurisdiction among the administrative and tax courts in their territory.

The property tax assessments are also used to determine other fees. Charges for road, water and sewerage connections payable to local governments by the beneficiaries after construction or renovation of the systems are based on the tax value of the property. Charges may be up to 2 percent of the tax value. Land registry fees are paid jointly by buyers and sellers and are supposed to be 4 percent of the transaction price. In reality the declared sum is based on the tax value, which is below the price. With the growth of the mortgage market, declared prices have moved closer to transaction prices because valuations for loan collateral reflect market prices.

The property tax assessments are also used to determine other fees. Charges for road, water and sewerage connections payable to local governments by the beneficiaries after construction or renovation of the systems are based on the tax value of the property

VALUATION INFRASTRUCTURE

The Capital Markets Board (CMB) is responsible for regulating valuation activities that fall within the scope of capital market institutions, such as mortgage finance and asset management companies. Valuers require a license to carry out residential and commercial mortgage valuations. In 2001 the CMB set out regulations for real estate valuation companies, which included operational principles and requirements for partners, managers and appraisers. Valuation companies are not, for example, permitted to work as real estate brokers. The CMB adopted the International Valuation Standards in 2006 and valuation companies are expected to work within the accepted international valuation principles[3]. The version currently in use is a Turkish translation of the 2005 International Valuation Standards, which has not been updated to reflect subsequent changes, although the Association of Appraisal Experts of Turkey has started to prepare revised standards that reflect Turkish circumstances.

The Capital Markets Board adopted the International Valuation Standards in 2006 and valuation companies are expected to work within the accepted international valuation principles

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The Association of Appraisal Experts of Turkey (*Türkiye Değerleme Uzmanlari Birliği*, TDUB) is a professional organization authorized by the CMB to improve the real estate market and appraisal activities by providing training, issuing certificates, establishing professional rules and standards, taking measures against unfair competition and disciplining members for breaching standards. Under the Capital Market Law 6362, valuers and appraisal firms are required to join the Association, which means that they must meet its requirements for valuer qualification. Members must share information on mortgage valuations with the Association. However, the Association has not yet established an information system to record this data, even though mortgage valuations provide the most reliable transaction price data currently available. Turkey has an efficient system for carrying out valuations for the capital market, which are done substantially in accordance with internally-accepted practice. However, this system is not used for property tax valuations.

The Central Bank of the Republic of Turkey launched a Housing Price Index in January 2010 to monitor house prices on a monthly basis. The official

3 *Source*: Capital Markets Board, available at www.spk.gov.tr

records kept in Land Registry Offices do not reflect true transaction prices because sellers and buyers avoid declaring the real prices to avoid paying high transaction fees. So the Index uses data from the valuation reports prepared by valuation companies that are authorized by the Capital Market Board. Commercial banks submit valuation reports to the Central Bank on a monthly basis. The Central Bank uses the Stratified Median Price Method (Kaya *et al.*, 2012) to calculate a house price index and a new housing price index. The House Price Index includes 74 cities, with seven cities excluded on the grounds of insufficient data. The New Housing Price Index is calculated for newly-constructed residential properties in 45 cities.

The official records kept in Land Registry Offices do not reflect true transaction prices because sellers and buyers avoid declaring the real prices to avoid paying high transaction fees

MASS VALUATION PILOT STUDIES

Turkey does not use mass valuation for tax purposes, although there have been some academic studies exploring its potential. The General Directorate of Land Registry and Cadastre (*Tapu ve Kadastro Genel Müdürlüğü*, TKGM) has started work on this as part of the Land Registry and Cadastre Modernization Project, which is part-financed by a loan agreed in 2008 with the International Bank for Reconstruction and Development (the World Bank). Pilot studies were carried out in two municipalities, Fatih in Istanbul and Mamak in Ankara in 2013-2014. The choice of municipality was determined by willingness to cooperate, the quality of their city information systems, and the existence of active property markets. The two areas and the way in which the pilot studies were conducted are discussed in more detail in Yıldız and Güneş (2015) and Güneş and Yıldız (2015).

Pilot studies were carried out in two municipalities, Fatih in Istanbul and Mamak in Ankara in 2013-2014

Data collection was undertaken by contractors under the supervision of TKGM staff. Data was collected on a wide variety of potential independent variables (see Table 2) that were deemed capable of influencing value. Not all these variables could be used in model building. For example, parking could not be used for Fatih since few buildings have parking areas. Some of the variables showed high correlation with each other, causing problems with multicolinearity. These correlated variables were removed or the correlations

neutralized. For the mass valuation of land Principal Component Analysis (PCA) was applied as the variables were highly correlated. As Table 3 shows, two components were extracted, which explain 91.07 percent of the total variance. Component 2 was weighted towards distance to mosques and main roads and Component 1 included the rest of the distance variables.

Table 2
Potential independent variables deemed capable of influencing property value

PARCEL DETAILS	BUILDING AND ZONING DETAILS
1. Neighbourhood 2. Street/road 3. Development status of the region 4. Slope 5. Earthquake* 6. Location of parcel 7. Does it have road frontage? 8. Street width	1. Occupancy permit 2. Exterior material 3. Physical state of building 4. Parking area 5. Does it have an elevator? 6. Building age 7. Number of floors 8. Is it in a building complex? 9. Facility management
INDIVIDUAL UNIT DETAILS	**DISTANCES**
1. Location of individual unit on floor 2. Directional aspect of individual unit 3. Number of directional aspects of individual unit 4. Gross indoor area 5. Gross outdoor area 6. Gross area of storeroom/coal cellar 7. Number of rooms 8. Number of baths 9. Does it have a balcony? 10. Is there a separate independent living room? 11. On which floor? 12. Heating system 13. Land area	1. Distance to city centre 2. Distance to a main road 3. Distance to a metro station 4. Distance to a metrobus hub* 5. Distance to a bus stop 6. Distance to a tramway station* 7. Distance to Marmaray station* 8. Distance to suburban train station** 9. Distance to elementary school 10. Distance to high school 11. Distance to university 12. Distance to cultural areas 13. Distance to recreational areas 14. Distance to a hospital 15. Distance to a mosque 16. Distance to supermarket 17. Distance to a bazaar 18. Distance to a shopping centre 19. Distance from garbage dump** 20. Distance from shanty settlements** 21. Distance to sea*

* These variables were only for Faith
** These variables were only for Mamak

Table 3
Principal component analysis results

Total variance explained

	INITIAL EIGENVALUES			ROTATION SUMS OF SQUARED LOADINGS		
Component	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	12.213	81.421	81.421	11.931	79.540	79.540
2	1.449	9.658	91.079	1.731	11.539	91.079
3	0.692	4.617	95.695			
4	0.338	2.250	97.946			

Model building was undertaken using SPSS software (see, for example, Van den Berg, 2014). Multiple regression analysis, artificial neural networks, decision trees and linear modelling were explored so that comparisons could be made between methods. All of the methods produced successful results for residential properties in Fatih but in Mamak the results of the multiple regression analysis and linear model could not be used because of multicolinearity. There were high correlations between some of the variables. For instance, correlation rate is higher than 70 percent between number of rooms and gross indoor area, and also between the building age and physical state of building variables. Other high correlations were seen between some of the distance variables, for example over 80 percent correlation was calculated between distance to city centre and distance to university.

Multiple regression analysis, artificial neural networks, decision trees and linear modelling were explored so that comparisons could be made between methods

Data on property characteristics was drawn from TKGM's TAKBIS database (which stores parcel locations and surface areas, property types, transaction dates, rights and responsibilities, and ownership) and from the municipalities' databases (which hold real estate tax information, building permissions, and zoning plans and functions). Some municipalities have developed their own digital information system for urban property while architectural plans of buildings kept in the Land Registry and municipal archives are mostly in analogue form. TAKBIS and the municipal databases are not linked. Inconsistencies can occur and the data is not always accurate. For example, a residential unit may be used informally as an office without the owner informing the Land Registry or municipality and incurring higher property taxes.

The availability of reliable property prices presented a major challenge. Sellers and buyers must declare the price when the transaction is registered. The transaction fee is calculated using this price. The land registry fee is shared by the seller and buyer equally and is 4 percent of the declared value. The lower acceptable limit is the tax value which is usually the price that is declared. Most registered prices do not therefore reflect the real situation. Various alternatives were tried, including mortgage valuations, asking prices, and questioning sellers and buyers when registering transactions to determine what the real price was. Price data was obtained for 2 702 residential properties in Fatih and 2 722 in Mamak. Commercial properties were excluded from the study because price data could not be obtained from enough properties for modelling to take place.

Extreme values and outliers were excluded using approaches such as Cook's Distance, Mahalanobis's Distance, standard deviation and confidence intervals (Akdeniz, 2011). The tests were made at the 95 percent confidence level with 3 standard deviations being taken as the cut-off point. The number of the properties used in Fatih and Mamak is shown in Table 4. After data cleaning, the sample was 2 447 residential properties in Fatih and 2 372 properties and 367 parcels of land in Mamak.

Table 4
Number of the properties in the Fatih and Mamak pilot studies

	FATIH RESIDENTIAL	MAMAK RESIDENTIAL	MAMAK LAND
Number of properties	16 910	26 057	3 275
Number of properties with price data	2 702	2 722	691
Number of unusual points	255	350	324
Number of properties used in modelling sample	2 447	2 372	367

The data set was randomly divided into two groups. The "training" set used approximately 80 percent of the data for model building (1 934 residential properties for Fatih and 1 885 properties and 293 land parcels for Mamak). The second group, the "testing" set (513 residential properties for Fatih and

487 properties and 74 land parcels for Mamak), was used to calculate the values of properties using the models. These were compared with real prices to evaluate the success of the approach.

MODEL BUILDING: MULTIPLE REGRESSION ANALYSIS

Multiple Regression Analysis (MRA) is the most common method used in mass valuation and a stepwise approach was used in both the Mamak and Fatih pilots. There were problems with multicolinearity in the Mamak data so the MRA model was rejected despite showing statistical significance. The Durbin-Watson statistic for residential properties was 1.91 for Fatih data but 1.52 for Mamak. Even though the Variance Inflation Factor (VIF)/Tolerance values did not show a multicolinearity problem for the Mamak data, the coefficients table showed unexpected results for some. For instance, the constant was calculated to be 3 997.85, which was low and not significant ($p = 0.448$). Similarly, the parameters for variables such as number of rooms, number of baths, and distance to a hospital were not significant. According to Analysis of Variance (ANOVA) the regression model for Fatih showed statistical significance at the 95 percent confidence level.

The adjusted R^2 value for Fatih was 0.701. The Fatih coefficients are shown in Table 5 and are statistically significant for the 19 variables. The regression equation for residential properties in Fatih is:

Value = 63 593.85 + 1 740.40(gross indoor area)
+ 5 982.67(floor number) – 8.65(distance to metro station) – 16.25(distance to university)
+ 25 187.25(elevator) – 571.25(building age)+ 777.37(street width)
+ 511.57(area per share)+ 8.99(distance to recreational areas)
+ 9 031.55(road frontage)+ 290.88(gross outdoor area)
+ 6 920.87(location of parcel) – 1 385.25(gross area of storeroom)
+ 6 123.64(balcony) – 9.45(distance to supermarket) – 4.72(distance to metrobus station)
+ 4 349.91(development status of the region)
+ 25.81(distance to main road) – 10.83(distance to bus station)

Table 5
Coefficients for residential properties in Fatih

	UNSTANDARDIZED COEFFICIENTS		STANDARDIZED COEFFICIENTS			COLLINEARITY STATISTICS	
	B	STANDARD ERROR	BETA	T	SIGNIFICANCE	TOLERANCE	VIF
(Constant)	63 593.853	6 481.266		9.812	0.000		
Gross indoor area	1 740.401	46.619	0.576	37.332	0.000	0.651	1.535
Floor number	5 982.675	568.827	0.148	10.518	0.000	0.784	1.276
Distance to metro station	- 8.650	2.082	- 0.109	- 4.155	0.000	0.227	4.398
Distance to university	- 16.256	2.383	- 0.180	- 6.821	0.000	0.223	4.478
Elevator	25 187.257	4 206.053	0.078	5.988	0.000	0.918	1.090
Building age	- 571.252	69.286	- 0.109	- 8.245	0.000	0.883	1.133
Street width	777.371	177.165	0.064	4.388	0.000	0.736	1.359
Area per share	511.579	85.342	0.092	5.994	0.000	0.655	1.527
Distance to recreational areas	8.990	1.958	0.063	4.590	0.000	0.813	1.231
Road frontage	9 031.557	2 320.405	0.057	3.892	0.000	0.720	1.389
Gross outdoor area	290.889	95.489	0.041	3.046	0.002	0.840	1.190
Location of parcel	6 920.876	1 788.788	0.050	3.869	0.000	0.931	1.074
Gross area of storeroom	- 1 385.258	403.523	- 0.043	- 3.433	0.001	0.970	1.031
Balcony	6 123.643	1 853.320	0.046	3.304	0.001	0.800	1.250
Distance to supermarket	- 9.454	3.276	- 0.040	- 2.886	0.004	0.797	1.254
Distance to metrobus station	- 4.727	1.658	- 0.090	- 2.851	0.004	0.156	6.395
Development status of the region	4 349.914	1 770.094	0.036	2.457	0.014	0.706	1.417
Distance to main road	25.812	7.991	0.049	3.230	0.001	0.662	1.511
Distance to bus station	- 10.833	4.362	- 0.040	- 2.484	0.013	0.611	1.638

Various inferences can be drawn. For instance, the value (in Turkish lira, TL) of a residence in Fatih increases by 1 740 TL per square metre. Higher floor numbers make a positive contribution to value and the ground floor makes a negative contribution. If the building is old, this has a negative effect on value. The average estimated value of a residence in Fatih was 156 982 TL, the average estimation success rate was 82.52 percent and the standard deviation was 14.4 percent. The distance variables have negative signs showing preference for living close to transport facilities, major employers and supermarkets. This may reflect transportation problems in Istanbul.

MODEL BUILDING: SOME ALTERNATIVE APPROACHES

The Decision Tree method is a graphical technique based on data mining processes which aims is to create a model that can predict the value of the dependent variable using a machine learning approach. In this study, the CHAID (CHi-squared Automatic Interaction Detector) algorithm was used.

In this study, groupings and tree diagram refractions were done automatically on the basis of statistical significance. In Fatih the first refraction was based on the development status of the region variable. The average residence values were calculated as 139 996 TL in less developed areas and 176 930 TL in developed areas. For second-level refractions, six subgroups for the less developed group and five for the developed group were created based on gross indoor area. The average estimated value for residential properties was 156 583 TL in Fatih and 104 060 TL in Mamak. The average success rates for estimations were 80.49 percent and 85.5 percent respectively, and the standard deviations were 16.03 percent and 12.5 percent. For land parcels in Mamak the average estimated unit value was 239.4 TL per square metre, the average estimation success rate was 86.3 percent and standard deviation 18.35 percent.

Artificial Neural Networks (ANN) simulate the human neural system by generalising learning patterns from samples and making decisions using the knowledge gained (Güneri and Apaydın, 2004). ANNs tend to produce more successful results than other methods but there is reluctance to use them for mass valuation (Kauko and d'Amato, 2008; Arijón, 2012) due to the

problem of explaining why a given solution has been chosen. For residential properties in Fatih and Mamak the average estimated values were 157 201 TL and 106 079 TL, the average success rate for estimations 80.40 percent and 85.45 percent, and the standard deviations were 16.28 percent and 11.8 percent respectively.

Generalized linear models (GLM) permit the dependent variable to have errors that are not normally distributed (Lindquist, 2011). The coefficients were not found to be significant for residential properties in Mamak. In Fatih, the average estimated value was 156 687 TL, the average estimated success rate was 83.14 percent and the standard deviation was 13.58 percent. For land parcels in Mamak the average estimated unit value was 234.9 TL per square metre, the average estimation success rate was 85.7 percent and standard deviation was 14.06 percent.

CONCLUSIONS

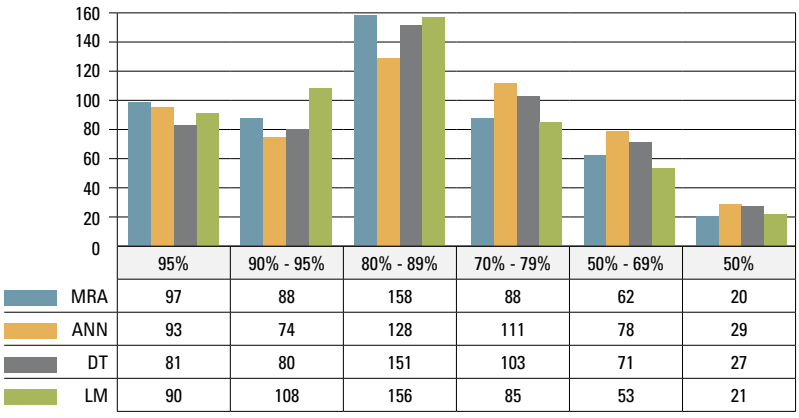
Gross indoor area, floor number, elevator, street width, distances to main road, metro station, metrobus station and area per share were common to all four methods used in Fatih. Distances to transportation were more important for Fatih than Mamak. Gross indoor area, gross outdoor area, floor number, area per share, development status of the region, number of floors, heating system, road frontage and distance to university were the most significant variables for both the methods used in Mamak. One of the largest universities in Turkey is located close to Mamak. For both models of land values in Mamak, neighbourhood, development function, street width and distance factors, produced using Principal Component Analysis, are the most significant variables.

Ratio studies compare value estimates with actual prices achieved. The Price-Related Differential (PRD) is the mean ratio divided by the weighted mean ratio and is an indicator of bias in valuations. The chief measure of uniformity within a group of properties, the Coefficient of Dispersion (COD), measures the average percentage deviation of individual ratios from the median ratio (IAAO, 2013). In this study both the COD and PRD are within the ranges accepted by IAAO.

The success of the modelling methods is shown in Figures 1 and 2. MRA, ANNs, Decision Trees and Linear Models produced good levels of success. ANN was most successful but poses problems when it comes to explaining its results to taxpayers which makes the use of MRA preferable.

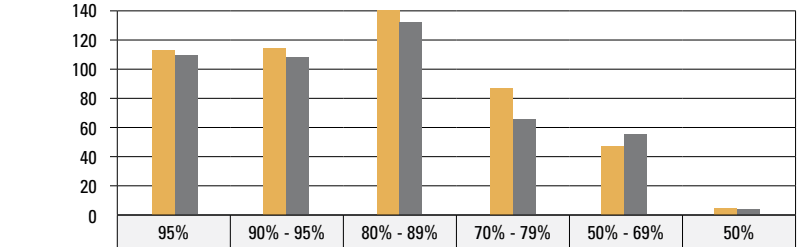
Comparisons were made between the current property tax valuations and the estimated values for properties whose attributes were known. These were calculated using four methods for residential properties in Fatih and two

MRA, ANNs, Decision Trees and Linear Models produced good levels of success. ANN was most successful but poses problems when it comes to explaining its results to taxpayers which makes the use of MRA preferable



	95%	90% - 95%	80% - 89%	70% - 79%	50% - 69%	50%
MRA	97	88	158	88	62	20
ANN	93	74	128	111	78	29
DT	81	80	151	103	71	27
LM	90	108	156	85	53	21

Figure 1
Faith residential properties - success levels of modelling methods



	95%	90% - 95%	80% - 89%	70% - 79%	50% - 69%	50%
ANN	111	108	136	78	49	5
DT	109	112	142	65	55	4

Figure 2
Mamak residential properties - success levels of modelling methods

methods for properties and two methods for land in Mamak. All methods gave similar results. The comparisons therefore used arithmetic averages of the estimated values. The results are shown in Tables 6 and 7. In Fatih, the difference between the current and estimated annual property tax was over 1.7 billion TL – the estimated tax due was 2.94 times the current rate charged. For Mamak the estimated tax due was 1.88 times the current rate, a difference of 767 million TL.

Table 7 shows the difference between the transaction fee values taken from the TAKBIS database and those estimated from the models. There is a difference of over 240 million TL in Fatih and 532 million TL in Mamak. The estimated transaction fees should be 2.5 times the current fees in Fatih and 2.1 times the transaction fees in Mamak.

In Fatih, the estimated tax due was 2.94 times the current rate charged. For Mamak the estimated tax due was 1.88 times the current rate, a difference of 767 million TL

The estimated transaction fees should be 2.5 times the current fees in Fatih and 2.1 times the transaction fees in Mamak

Table 6

Evaluation of the Fatih and Mamak pilot implementations in terms of annual property tax (in TL)

	A	B	C = B×0.2%	D	E = D×0.2%	F = D - B	G = E/C
	Number of properties	Total of property tax values	Tax amount calculated based on current tax values	Average total of estimated values	Estimated tax amount calculated based on average estimated values	Difference between the total values	Rate of difference
Fatih	16 845	915 793 129.00	1 831 586.26	2 693 626 192.14	5 387 252.38	1 777 833 063.14	2.94 times
Mamak	15 037	872 906 000.00	1 745 812.00	1 640 881 703.19	3 281 763.41	767 975 703.19	1.88 times

Table 7

Evaluation of the Fatih and Mamak pilot implementations in terms of transaction fees (in TL)

	A	B	C = B×4%	D	E = D×4%	F = D - B	G = E/C
	Number of properties	Total of TAKBIS values	Transaction fee based on TAKBIS values	Average total of estimated values	Transaction fee based on average estimated values	Difference between the total values	Rate of difference
Fatih	2 530	160 195 700.00	6 407 828.00	400 949 315.98	16 037 972.64	240 753 615.98	2.50
Mamak	9 315	483 780 128.94	19 351 205.16	1 016 525 029.33	40 661 001.17	532 744 900.39	2.10

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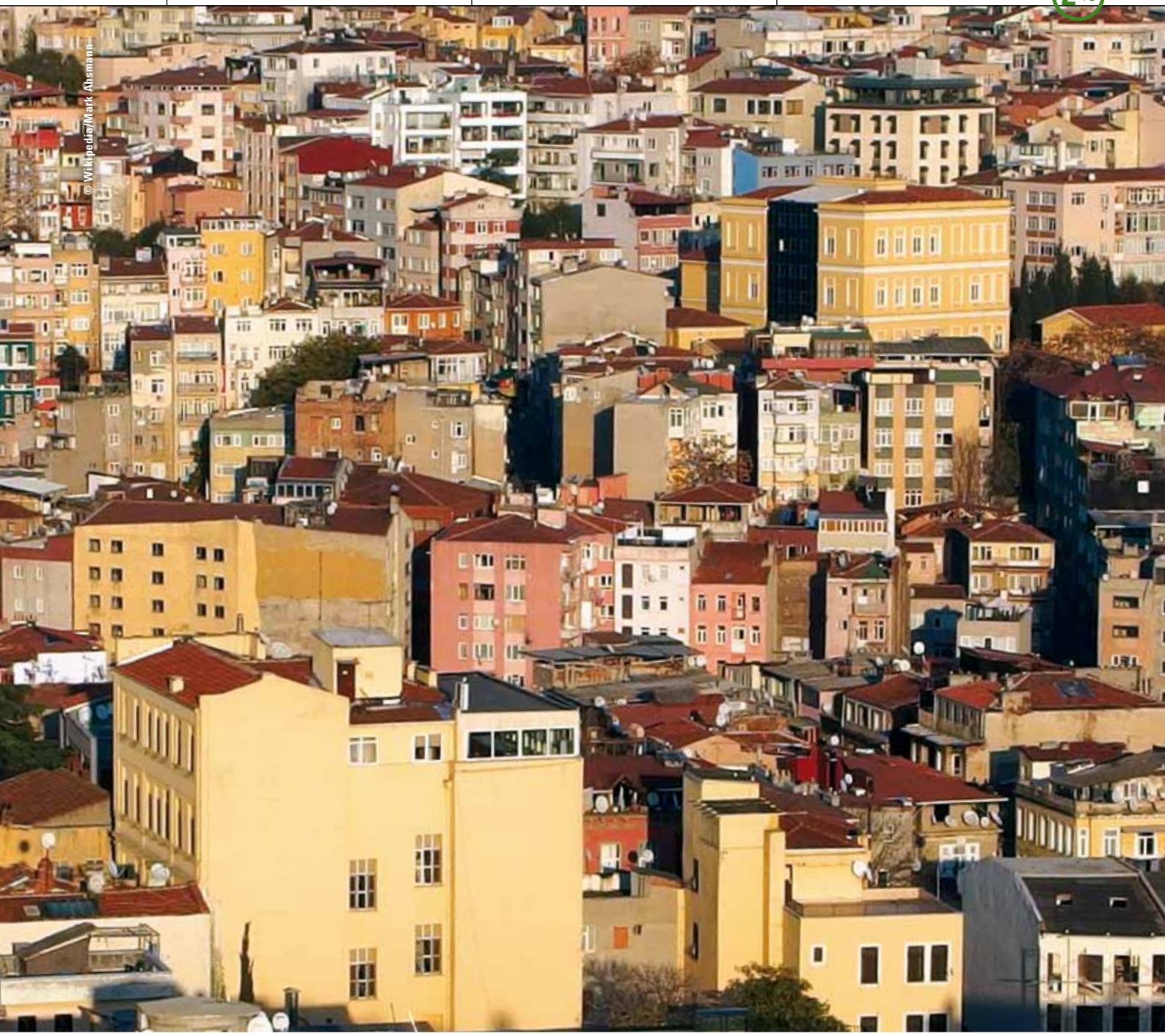

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SERBIA: CASE STUDY ON PROPERTY VALUATION AND TAXATION

SERBIE: ÉTUDE DE CAS SUR L'ÉVALUATION DES BIENS ET L'IMPOSITION FISCALE

SERBIA: ESTUDIO DE CASO SOBRE TRIBUTACIÓN Y VALORACIÓN DE BIENES RAÍCES

ABSTRACT

SALES PRICE REGISTER

SHADOW PROPERTY TAXES

FISCAL CADASTRE

REPUBLIC GEODETIC AUTHORITY

Serbia is facing a fiscal crisis because the budgetary deficit and level of government debt are unsustainable. The decentralisation of national tax revenues, in a way that does not incentivise local governments to maximise their own revenues, has been particularly problematic. Whilst the yield from recurrent property taxes in Serbia is comparable to that obtained by other countries in the region, it falls short of the average achieved by the Organisation for Economic Cooperation and Development (OECD) countries. Property tax legislation supports tax assessments based on market values but the means of achieving this are not currently available.

RÉSUMÉ

REGISTRE DES PRIX DES VENTES

IMPÔTS FONCIERS VIRTUELS

CADASTRE FISCAL

AUTORITÉ GÉODÉSIQUE DE LA RÉPUBLIQUE

La Serbie est confrontée à une crise financière en raison de son déficit budgétaire et du niveau non viable de sa dette publique. La décentralisation des recettes fiscales nationales sans incitation des gouvernements locaux à maximiser leurs recettes propres a été particulièrement problématique. Alors que le rendement des impôts fonciers récurrents en Serbie est comparable à celui obtenu par d'autres pays de la région, il est loin de la moyenne atteinte par les pays de l'Organisation de coopération et de développement économiques (OCDE). La législation fiscale sur les biens fonciers soutient l'évaluation de l'imposition en fonction des valeurs du marché,

SUMARIO

REGISTRO DE PRECIOS DE VENTA

IMPUESTOS SUMERGIDOS DE BIENES RAÍCES

CATASTRO FISCAL

AUTORIDAD GEODÉSICA DE LA REPÚBLICA

Serbia está haciendo frente a una crisis fiscal debido a que el déficit presupuestario y el nivel de la deuda gubernamental son insostenibles. La descentralización de los ingresos tributarios nacionales, de un modo que no proporciona incentivos a los gobiernos locales para que aumenten sus propios ingresos al máximo, ha sido particularmente problemática. Si bien el rédito de los impuestos recurrentes sobre bienes raíces en Serbia se compara al que se obtiene en otros países de la región, no llega a alcanzar el promedio alcanzado por los países de la Organización para la Cooperación y el Desarrollo Económicos (OCDE). La legislación relativa al impuesto sobre bienes

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Two things are needed to improve property taxation: the cadastre needs to become a record of each building and sub-division with a unique identification number rather than just a record of parcels and a system of mass valuation must be established. The Republic Geodetic Authority has made a major contribution towards mass valuation and improved market transparency by creating a Sales Price Register.

mais les moyens d'y parvenir ne sont pas actuellement disponibles. Deux choses sont nécessaires pour améliorer l'impôt foncier: le cadastre doit devenir un registre de l'ensemble des bâtiments et sous-divisions avec un numéro d'identification unique plutôt que d'enregistrer seulement les parcelles et un système d'évaluation sur grande échelle doit être mis en place. L'Autorité géodésique de la République a contribué de manière importante à l'évaluation des biens fonciers sur grande échelle et à l'amélioration de la transparence du marché en créant un registre des prix de vente.

raíces respalda las tasaciones de impuestos basadas en el valor de mercado, pero la forma de lograrlo al momento no está a disposición. Se necesitan dos cosas para mejorar la tributación de bienes raíces: es preciso que el catastro tenga un registro de cada edificio y subdivisión con un número de identificación exclusivo en lugar de tener solo un registro de parcelas, y debe establecerse un sistema de valoración en masa. La Autoridad Geodésica de la República ha realizado una gran contribución en pos de la valoración en masa y ha incrementado la transparencia de mercado al crear el Registro de precios de venta.

BACKGROUND

Modern Serbia emerged from the break-up of Yugoslavia in the 1990s. Its turbulent recent history, combined with nearly 60 years of socialism, has left property records and the land administration system in poor shape. Transition to a market economy began after the democratic changes of October 2000, when President Slobodan Milosevic and his socialist government were overthrown. Although Serbia became a Candidate Member of the European Union (EU) in 2012, progress towards meeting membership requirements has been slow, causing the EU to conclude that "the functioning of market mechanisms remains hampered by significant distortions and legal uncertainty" (European Commission, 2014, p.16).

Serbia has had a significant informal land sector. During the socialist period, approximately 75 percent of agricultural land was part of private family farms. Land transactions were mainly conducted informally and not registered. During the rapid industrialization of the 1970s, urban areas encroached on agricultural land. Urban expansion was not supported by efficient spatial planning and many illegal developments resulted. Recurrent ethnic conflicts in Kosovo during the 1980s and violent conflicts in former Yugoslavia during the 1990s resulted in almost half a million refugees and internally displaced persons (IDP) having to be housed.

Property rights on developed urban land were not registered in a viable registration system because of obsolete land books and the use of a dual system in which land registration was the responsibility of the courts and the cadastre was maintained by the Republic Geodetic Authority (*Republički geodetski zavod*, RGZ). Since 2000 Serbia has invested substantial resources in the creation of a unified system of land registration and cadastre operated by the RGZ. Since 2012 the unified system has been extended to include the whole country. However, the efforts to reform the property tax system have had to contend with a difficult legacy.

FINANCIAL POLICY AND PUBLIC FINANCES

Serbia has an annual property tax levied by municipalities, of which there are 168 excluding Kosovo[1], and three sporadic taxes raised by central government that fall substantially, but not exclusively, on property – the property transfer tax, the inheritance and gifts tax, and capital gains tax. Serbia has a problem with fiscal imbalances. The fiscal deficit in 2014 was an unsustainable 6.6 percent of the Gross Domestic Product (GDP) (World Bank, 2015). A significant part of this is due to revenue underperformance (European Commission, 2014, pp. 18-19, 64). Serbia has decentralised the revenue from a number of key national taxes. These contribute a significant portion of local government revenues but they also disincentivise local governments to maximise their "own" revenue streams or discipline their expenditure (IMF, 2013, p.22). It is unsurprising that local politicians would rather utilise funds transferred from central government than impose unpopular local taxes.

Serbia has decentralised the revenue from a number of key national taxes. These contribute a significant portion of local government revenues but they also disincentivise local governments to maximise their "own" revenue streams or discipline their expenditure

One way that municipalities responded to problems in raising revenue was by developing alternative charges, mainly on businesses. These included communal fees such as fees on business signage. There were approximately 15 communal fees at one stage but legal changes in 2012 have reduced the number permissible. Municipalities have also been able to levy quasi-property taxes in the form of the urban land use charge, which was payable by companies whose buildings were on state land, and the development fee payable on new construction and development.

Serbia raises comparatively little of its tax revenue from annual property taxes, only approximately 0.6 percent of GDP (World Bank, 2012, p.33). This figure would have been significantly higher if the urban land use charge had been defined as a property tax because this charge appears to have raised almost as much revenue as the property tax. The charge depended on the location within the municipality and the extent of land development. The World Bank found that in 2010 26 percent of local government revenue in

1 References to Kosovo shall be understood in the context of United Nations Security Council Resolution 1244 (1999).

Belgrade and 33 percent of other local government revenues came from transfers of personal income tax. By comparison, the annual property tax and urban land use fee together raised only 18 percent of revenue in Belgrade and 13-14 percent for other local governments (World Bank, 2012, p.26). The land development fee raised 9 percent of revenue in Belgrade, 12 percent in three other cities, and 3 percent elsewhere. However it is central government that retains responsibility for some of the most expensive public services, including teachers' salaries and primary healthcare. Improving the yield from property taxation could reduce the fiscal deficit and increase the proportion of local government expenditure that is met by their own resources. Moreover, much of the revenue raised by local governments from property has come from the urban land use charge and the development fee rather than from the annual property tax. The problem is not only one of fiscal deficits but of imbalance in the revenue system.

Improving the yield from property taxation could reduce the fiscal deficit and increase the proportion of local government expenditure that is met by their own resources

PROPERTY TAXES

The annual property tax is payable by either the holder of the rights or the lessee. Exemptions are made for properties owned by the state and local governments, churches and religious buildings, cultural and historical monuments, infrastructure and buildings used for public utilities, and for persons whose total property amounts to less than 400 000 dinars (approximately US$4 000). Properties let free to those driven into exile after 1 August 1995 are also exempted if the family earns no income. Reductions are available if a dwelling is in owner occupation and for small dwellings occupied by persons over 65 years of age. Local governments can set annual property tax rates up to specified maximum levels. Since 2012 these are 0.4 percent of the property's value for legal persons and 0.3 percent on land for physical persons. There is a progressive rate on property, other than land, for physical persons which ranges between 0.4 percent on the first 10 million dinars of value up to 2.0 percent on any value over 50 million dinars (approximately US$470 000).

For taxation purposes, taxpayers are divided into two groups: those that keep records (corporate bodies for example) and those that do not (including the self-employed as well as households). For taxpayers who do not keep records, the tax base, other than for agricultural and forest land, is the market value on 31 December of the year preceding the one in which the tax is payable. The value is determined by the useable area and the average sales price per square metre for the zone in which the property is located. Local governments define the zones, which are the same for all types of real estate, and there must be at least two zones. Following changes made in 2013, the average prices are now based on at least three transaction prices realised in the zone between 1 January and 30 September of the year preceding the one in which the tax is to be levied. If no transactions took place, those from neighbouring zones are used.

For taxpayers who keep records, assessments used to be based on the book value of properties as recorded in their accounts. Historically, the Serbian Generally Accepted Accounting Practice used depreciated historical costs and was very prescriptive, setting out how the costs of buildings were to be calculated and the rates of depreciation to be used. These values were eroded by inflation making assessments substantially lower than market values. At the start of 2014, changes were implemented to ensure that property tax assessment was based on fair value as defined by the International Accounting Standards. Local governments had to establish a means for doing this by November 2013. The change was expected to result in a substantial increase in the assessed value of commercial property, although there were doubts regarding the capacity of local governments to achieve this and to produce fair value assessments.

The change was accompanied by the abolition of the urban land use charge for business properties. The urban land use charge was paid on residential and business property which had not converted the land on which their buildings stand into private ownership. When state businesses were privatised, the land on which their buildings stand remained in state hands. Households could readily convert this land into private ownership but businesses encountered problems, particularly over the level of compensation to be paid. This meant

that the urban land use fee fell primarily on businesses and was a significant source of revenue. It was however abolished at the start of 2014, when the tax base for the annual property tax on commercial property was changed and municipalities were permitted to levy higher rates of the annual property tax to compensate them for the loss of revenue. The abolition was intended to, in part, compensate companies for increases in the annual property tax. In principle, the 2013 changes should have replaced one significant source of income for local governments, the urban land use fee, with income from a reformed annual property tax and provide a mechanism whereby businesses are taxed on the market value of their property. However, failure to assess the market value of commercial properties along with the abolition of the urban land use charge necessitated a significant increase in the annual property tax households and unincorporated businesses were charged.

Before 2013, annual property tax assessments for agricultural and forestry land were based on cadastral values dating back to 1994. These had been eroded by inflation to such an extent that sending out tax demands cost more than the revenue payments generated. The Ministry of Agriculture, Forestry and Water Management estimated that cadastral values needed to be raised by 40 or 50 times to reflect current market values. The Ministry's Land Unit has a database of the rents achieved for State land in open auctions so comparable values were available and market values could be assessed from this and capital values from sales.

The development fee is a charge for infrastructure triggered by development. It is based on the price of construction work per square metre and varies according to the use of the property and the zone in which it is located. Revenue varies depending on the amount of activity in the property market. It is an important source of revenue, particularly in Belgrade. Although, in principle, this is a fee for the provision of infrastructure, the method by which it is levied is more akin to a tax. Local governments typically set rates for different zones and property uses. This has led to the belief that the development fee is a value capture device, an approach that has been advocated by the Standing Conference of Towns and Municipalities (Žerjav, 2013), rather than being for cost recovery of infrastructure. Confusion is

caused because some local authorities are willing to waive the development fee and utility connection charges in order to secure investments that they hope will create employment and generate future tax revenues.

The property transfer tax falls on transfers of real estate, intellectual property rights and motor vehicles and is also payable when state-owned building land is leased for more than one year. In essence, it taxes transfers of freeholds, long leases and use rights. The rate is 2.5 percent and the tax base is the market price or the contract price, whichever is higher. The Tax Administration use statistical checks to decide whether the declared price is an underestimate of the market price. However, the data available on each property is limited and consequently the process may not actually produce market values. The seller is formally responsible for declaring the transfer and paying the tax but in practice it is usually the buyer who pays. Exemptions apply when a resident buys his own socially-owned dwelling, to transfers between spouses, privatisations, and when small dwellings are purchased by first time buyers. Transfers of assets in company mergers are also exempt. Many development sites are owned by special purpose vehicles, which means that the tax is avoided during their acquisition – the site remains in the legal ownership of a single company even though the beneficial ownership of that company changes.

The inheritance and gifts tax falls on a range of assets including real estate and the taxpayer is the recipient. The tax base for bequests is the market value less debts and other costs. For gifts it is just the market value. The tax is progressive and different rates are applied according to where in the order of succession the bequest is made. All declared values are checked by the Tax Administration.

Although capital gains tax is not covered by the Law on Property Taxes (2001 with various amendments), similar valuation issues arise with it as with the other property taxes. Capital gains is levied at 15 percent on the difference between the disposal value and the acquisition value less depreciation. The disposal value used is either the contract value or the market price as estimated by the Tax Authority. Companies can offset improvement costs against gains and individuals are exempted if the asset is held for 10 years or longer.

ISSUES WITH THE ANNUAL PROPERTY TAX

Serbia's annual and sporadic taxes are *de jure* based on the use of market values. In principle, these taxes, particularly the annual property tax, ought to be fair because assessments based on market values should ensure that physical and legal persons are taxed according to the value of their assets. In practice though there are numerous problems with the administration of the annual property tax and with valuations, which also impacts the sporadic taxes. Problems with revenue buoyancy have prompted local governments to use "shadow" local property taxes, such as communal fees, to supplement revenues, which have potentially detrimental economic consequences. The urban land use charge and development fee have probably also had adverse effects.

Problems with revenue buoyancy have prompted local governments to use "shadow" local property taxes, such as communal fees, to supplement revenues, which have potentially detrimental economic consequences

The extent to which properties are not being assessed for tax and the property tax is being evaded compound matters. It is estimated that 14 percent of apartments, 22 percent of family homes, and 15 percent of commercial premises are unregistered. Thirty-seven percent of municipalities put the level of unregistered properties at between 20 and 40 percent (Arsić *et al.*, 2012, pp. 9, 40). A study by the World Bank in Aranđelovac found 21 000 electricity consumers but only 9 500 property taxpayers (World Bank, 2012). In Inđija the number of taxable properties was increased from 16 000 to 26 000 by cross-checking utilities and land use databases. Nationally, collection rates for billed tax are comparatively low by regional standards, at 85 percent for legal entities and 75 percent for natural persons (Arsić *et al.*, 2012, pp. 9, 40).

Responsibility for the annual property tax was transferred to local governments in 2007-08 but without adequate support being put in place, without staff being transferred, and at a time when the Ministry of Finance was capping salary bills. Some municipalities recruited capable former central government employees and were able to retain their knowledge and experience. Other municipalities took the view that the calibre of central government employees was such that they were relieved not to be obliged to re-employ them.

Annual property taxes are subject to economies of scale and the small size of municipalities undermines this. The EU has expressed concern that "administrative and management capacity at local level continues to be

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weak and significant disparities between municipalities persist" (European Commission, 2014, p.9), although these comments were not made specifically in respect of property taxation. Whilst property tax administrations in some municipalities are well-organised, in others obsolete equipment, weak systems and procedures, and a lack of valuation capacity remain problematic. In some cases there may also be local political influence over assessments.

There are also issues with the way market values are calculated. The Statistical Authority provides data derived from construction companies on the selling prices for new housing. This may though be unrelated to the market price for existing properties. The Tax Administration also provides average prices from the property transfer tax. There is a rulebook on assessing the tax base. There is some evidence to suggest that municipalities have problems obtaining information from these rulebook-prescribed sources (Arsić *et al.*, 2012, p. 49). Recent legislation has sought to address these problems by requiring that State and local authorities provide information within 15 days, making officials who are responsible for delays subject to penalties. However municipalities often substitute their own data and there is local discretion as to how such data is used. Valuation methods can be opaque and vary between municipalities.

Serbia does not have a well-developed valuation infrastructure. There are no officially adopted valuation standards and there is no licensing system for valuers, other than for mortgage valuations which are undertaken by court experts appointed by the Ministry of Justice. These court experts are construction professionals with qualifications in engineering or architecture but they are not required to have any valuation qualifications or to follow any valuation standards. In 2014, the Ministry of Finance formed a commission with members from ministries, banks, RGZ and private valuation professional bodies to develop a legal framework for the valuation profession. The *Nacionalno Udruženje Procenitelja Srbije* (NUPS, National Association of Valuers in Serbia) has done a great deal of work to promote the use of the International and European Valuation Standards and to develop educational and examination programmes for valuers. But these need the support of the government and the banks to be effective. Currently they are aimed at improving private valuations rather than at valuations undertaken for tax purposes.

IMPROVING THE QUALITY OF PROPERTY TAXATION

Progress on improving the quality of property taxation depends on the availability of accurate data on property prices that can be used for mass valuations and the development of a comprehensive record of properties along with the characteristics that determine their value. While the real estate cadastre records parcels, objects and parts of objects based on the will of the owner, in order for the cadastre to serve for fiscal purposes it needs to contain all buildings and their sub-divisions.

Progress on improving the quality of property taxation depends on the availability of accurate data on property prices that can be used for mass valuations and the development of a comprehensive record of properties along with the characteristics that determine their value

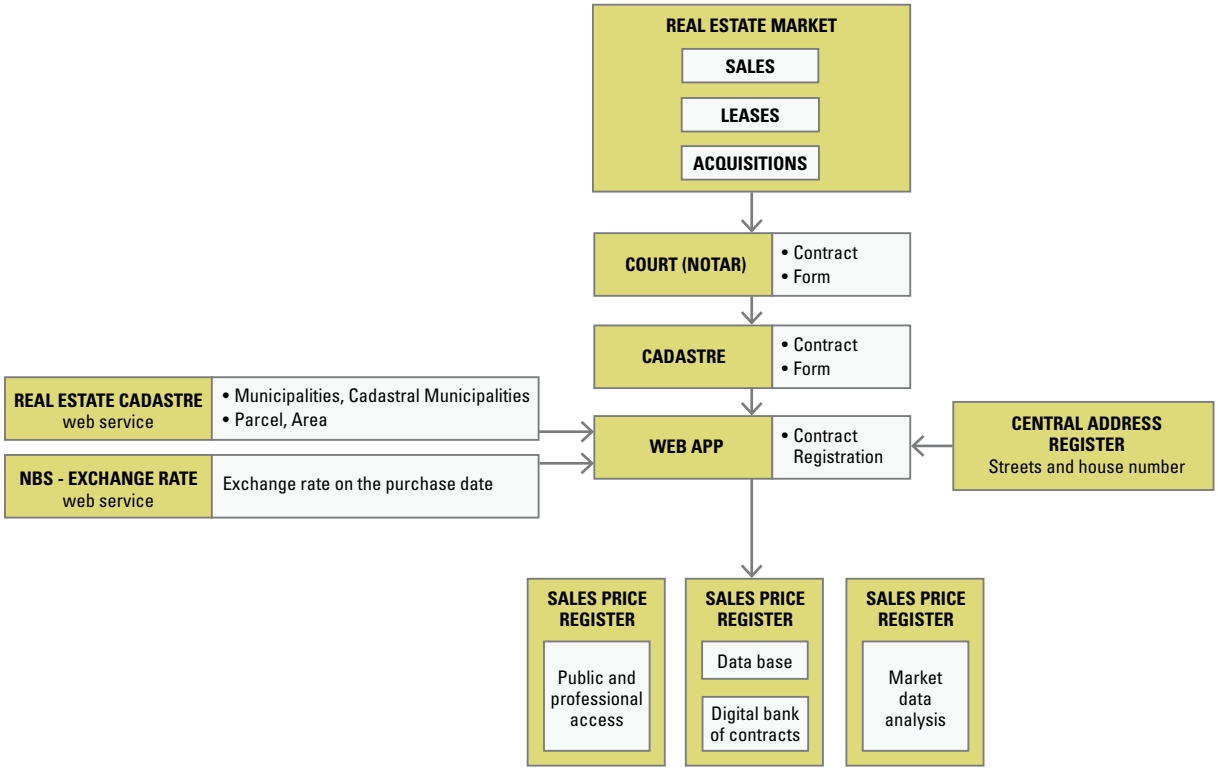
In 2007 the RGZ started capacity building with aid from the Swedish International Development Agency (SIDA). This supported the development of an Information Technology (IT) system for a Sales Price Register, the first version of which was finished at the end of 2012. The RGZ received data on nearly 685 000 transactions for the period 2007 to 2011 from the Tax Authority. The main task was to prepare the data for use: formatting and coding records of parcels, addresses, dates and contract numbers; determining whether there was one transaction or several; and creating links to RGZ's Real Estate Cadastre and geo-locations databases.

A pilot project concluded that only 10 percent of the properties could be accurately identified, though with further manual checking this proportion was increased to 20 percent. There was however no clear identification of the properties and their locations. The biggest problem was with parts of buildings such as apartments and business premises. In roughly half of the records the municipality and address were missing and 40 percent of parcels did not have a parcel number. In addition digital cadastre maps were not available for the whole country. The cadastre ought by law to record parcels, the buildings within those parcels and special parts of buildings but currently does not record all the buildings within those parcels or how they have been subdivided. Where buildings are recorded, the locations are not always accurate. Updating the real estate cadastre records or compiling a comprehensive register of buildings and units of occupancy will be a major task.

Data on transactions was usually limited to price, purchase date and surface area. The Real Estate Cadastre (REC) contains the type of land (for land), cultivation and class (for agricultural land) and the number of floors in a building, its usage, structure, and the floor apartments are on. Considerable work was undertaken to try to combine Tax Administration and REC data but with limited results. Attempts were made to create value zones for different types of real estate but it proved impossible to develop even simple valuation models because identifying properties in the Tax Authority data was problematic and the REC did not record all real estate. Areas were also not measured consistently: the Tax Authority records the taxable area and the REC records the parcel area. There was insufficient data for market analysis in either Tax Authority or REC data.

Since 2011 the RGZ has been responsible for mass valuation according to the Law on State Surveying and Cadastre. The Mass Valuation System is based on the Swedish and Slovenian models. Its main duties are data collection, market analysis, developing models for the values of different types of real estate, and valuation of properties registered in the REC. The Sales Price Register is central to data collection and was the first component to be developed. It became fully operational from the beginning of 2014 and contains data going back to April 2012. The other components will be developed as part of a project to be funded with a World Bank loan.

Figure 1
Scheme of the Sales Price Register



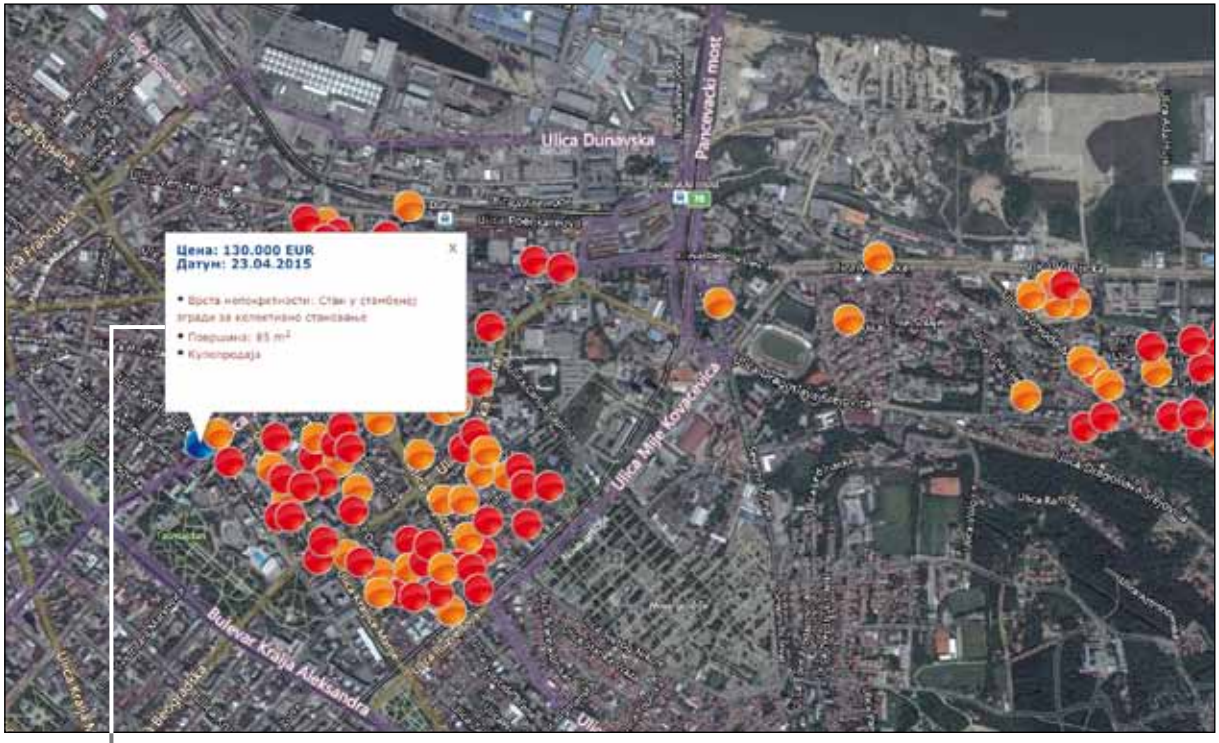
The RGZ has received data on approximately 71 000 transactions for 2012-2013 and 111 000 from 2014 of which 75 percent are sales. The rest are mainly gifts but there are also exchanges, leases and other transfers. The RGZ has so far recorded 145 000 (as at 21 August 2015) contracts in the Sales Price Register. Contracts are received by approximately 100 local cadastre officers working in 71 offices. From the end of 2014 those registering a change of title

must also supply additional data about the property. The system also collects digitalised copies of contracts. It is currently running through RGZ's intranet but there are plans to run it through the internet with access by notaries rather than cadastre officers. The basic data is available through the RGZ's official website[2] (see Figure 2). The public have access to the sale location, price, purchase date, real estate type, area and transaction type (such as sale or transfer between relatives) (see Figure 3). There are plans to extend online access to professionals (mainly banks and valuers). Currently they can though obtain reports on sales of specific types of real estate by time and locality.

Figure 2
Public access to Sales Price Register data – data selection

2 Available at http://katastar.rgz.gov.rs/registarprometanepokretnosti/

Figure 3
Public access to Sales Price Register data – layout of the display



Цена: 130.000 EUR	PRICE WITH CURRENCY
Датум: 23.04.2015	PURCHASE DATE
***Врста непокретности: Стан у стамбеној згради за колективно становање**	REAL ESTATE TYPE
***Површина: 85 m²**	AREA
***Купопродаја**	TYPE OF PURCHASE (SALE, SALE FROM INVESTOR, SALE BETWEEN RELATIVES)

CONCLUSIONS

Improving the annual property tax would help to address Serbia's fiscal problems. In particular, an increased yield would help local governments make better use of their own resources. This could be achieved by ensuring that all properties liable for taxation are actually assessed, are assessed on their actual market value, and that the revenue due is collected. None of this is easy to achieve and substantial reforms to the cadastre and the system of valuations are required, including development of a comprehensive fiscal register that contains all the buildings and parts of buildings and those characteristics that determine their value.

Serbia has taken a significant step towards creating a mass valuation system through the RGZ's development of a Sales Price Register. This should also improve market transparency. The Sales Price Register provides: data on comparable sales prices for use by valuers and others, the raw data for compiling property price indexes, and data from which a mass valuation model can be developed. RGZ and the Government of Serbia are committed to mass valuation and a loan agreement with the World Bank for a project that includes further work on developing mass valuation has recently been agreed. A mass valuation system cannot be developed without accurate records on all types of real estate which includes those characteristics that determine their value. It will be necessary to collect rental data, especially on commercial properties, as well as sales prices.

Serbia has taken a significant step towards creating a mass valuation system through the RGZ's development of a Sales Price Register

ACKNOWLEDGEMENTS

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Council, NALED, the American Chamber of Commerce, the United States Agency for International Development (USAID), Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), the National Association of Valuers of Serbia, the Association of Court Experts, Belgrade University, Belgrade University of Applied Sciences for Civil Engineering and Geodesy, various municipalities, banks, legal practices, valuers, and auditors. We are grateful for the comments on earlier versions of this paper received from our colleagues Aanchal Anand, Gavin Adlington, and Tony Lamb. The opinions expressed in this paper are ours and do not necessarily reflect those of RGZ or the World Bank.

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THE BEST
BURGERS
PASTE


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PROPERTY TAXATION IN ALBANIA

L'IMPOSITION FONCIÈRE EN ALBANIE

TRIBUTACIÓN DE BIENES RAÍCES EN ALBANIA

ABSTRACT

The rapid growth in Albania's urban population and urban areas during the last 20 years has not been accompanied by the development of a stable financial system for local governments. As a result they have had difficulty providing the local services and infrastructure this growth requires. Value-based property taxes can ease this situation, providing local governments with a stable source of revenue that taps into the increase in wealth arising from urban growth. At present, property taxes in Albania are area rather than value-based.

URBAN GROWTH

RESTITUTION

INFORMAL DEVELOPMENT

VALUE-BASED PROPERTY TAX

PROPERTY REGISTRATION

RÉSUMÉ

La croissance rapide de la population urbaine et des zones urbaines de l'Albanie au cours des 20 dernières années n'a pas été accompagnée par le développement d'un système financier stable pour les gouvernements locaux. Ils ont donc éprouvé de nombreuses difficultés à fournir les services locaux et les infrastructures que cette croissance exigeait. Les taxes foncières fondées sur la valeur des biens fonciers pourraient améliorer cette situation en fournissant aux gouvernements locaux une source stable de revenus qui tire avantage

CROISSANCE URBAINE

RESTITUTION

DÉVELOPPEMENT INFORMEL

TAXE FONCIÈRE BASÉE SUR LA VALEUR DES BIENS

ENREGISTREMENT DES BIENS AU CADASTRE

SUMARIO

El rápido crecimiento de la población urbana y las zonas urbanas de Albania durante los últimos 20 años no se han visto acompañados por el desarrollo de un sistema financiero estable para los gobiernos locales. Como resultado, estos han tenido dificultad para proporcionar los servicios y la infraestructura a nivel local que exige dicho crecimiento. Los impuestos sobre bienes raíces basados en su valor pueden facilitar esta situación, proporcionando a los gobiernos locales una fuente estable de ingresos que aprovecha el incremento de las riquezas

CRECIMIENTO URBANO

RESTITUCIÓN

DESARROLLO INFORMAL

IMPUESTO SOBRE BIENES RAÍCES BASADO EN EL VALOR

REGISTRO DE LA PROPIEDAD

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They fall on agricultural land and buildings but not on urban land. Informal urban development and the problems encountered with disputed property claims, result in low registration rates in urban areas. This undermines property tax yields. There are also issues with the billing and collection of property taxes. Yields from business properties are higher than for residential properties because local governments make greater efforts to collect these. While there are weaknesses in the property taxation system, value-based approaches to

de l'augmentation des richesses découlant de la croissance urbaine. À l'heure actuelle, les impôts fonciers en Albanie sont plutôt ajustés à la superficie que fondés sur la valeur des biens. La terre et les bâtiments agricoles sont imposés contrairement aux terrains urbains. Le développement urbain informel et les problèmes rencontrés lors des conflits de propriété font que peu de biens fonciers sont enregistrés au cadastre dans les zones urbaines, ce qui sape les rendements de l'impôt foncier. Des problèmes existent également au

derivadas del crecimiento urbano. Al momento, los impuestos sobre bienes raíces en Albania se basan más en la superficie que en el valor. Afectan a los edificios y terrenos agrícolas, pero no a los terrenos urbanos. El desarrollo urbano informal y los problemas encontrados en relación con controversias en torno a reclamaciones sobre la propiedad dan lugar a tasas bajas de registración en las zonas urbanas, lo cual debilita el rédito de los impuestos sobre bienes raíces. También hay problemas con

restitution and compensation are by comparison quite developed. The Agency for Restitution and Compensation has developed a database of sales contract prices and a methodology for producing average prices.

niveau de la facturation et du recouvrement des impôts fonciers. Les rendements des immeubles commerciaux sont plus élevés que ceux des propriétés résidentielles du fait que les gouvernements locaux font davantage d'efforts pour recouvrir ces taxes. Bien qu'il existe des faiblesses dans le système d'imposition des biens fonciers, les approches de restitution et d'indemnisation fondées sur la valeur sont, en comparaison, très développées. L'Agence pour la restitution et l'indemnisation a développé une base de données des prix des contrats de vente et une méthodologie pour produire des prix moyens.

la facturación y la recolección de estos impuestos. El rédito de los impuestos a las empresas es mayor que el del impuesto a las propiedades residenciales, debido a que los gobiernos locales encuentran más trabajoso recaudar estos últimos. Si bien existen deficiencias en el sistema de tributación sobre bienes raíces, los enfoques basados en el valor que se aplican a la restitución y las indemnizaciones están bastante desarrollados en comparación. El Organismo de restitución e indemnizaciones ha elaborado una base de datos de precios de contrato de venta y una metodología para generar precios promedio.

INTRODUCTION

During the last 20 years, Albania has undertaken significant reforms in land management. It privatized buildings, decentralized administration (giving local governments greater responsibility for infrastructure, local services and land use planning), and has improved the spatial planning system. In spite of these reforms some significant problems remain. The urban population has increased rapidly despite the overall decrease in the country's population. There is still little formal control of development and although the phenomenal informal growth of cities experienced in the 1990s is no longer occurring on as large a scale, it has not been eradicated. Overconcentration has occurred with intensive high-rise development in major cities and along some corridors. But while cities are dominated by informal development, this is not necessarily of poor quality.

Local governance in Albania is organized in two levels of government: (i) Municipalities are the basic units of local government, representing the first level of local government. Following a territorial administrative reform undertaken during 2014, and the local elections undertaken on June 2015, previous 373 local government units[1] were consolidated into 61 municipalities. The Law on the Organization and Functioning of Local Governments[2] broadly assigns responsibilities to local governments in areas such as infrastructure, public services, local economic development, civil security, and agriculture. A second level of local government is formed by 12 '*qarks*' (counties), each of them containing a number of municipalities. They have been organized as coordinating bodies with very little exclusive responsibility for preparing regional policies and implementing them in harmonization with national policies.

1 Albania has inherited a territorial-administrative structure characterized by too many small local government units. Before 2015, about 41 percent of local government units in Albania had less than 5 000 inhabitants.

2 Recently a new draft Law on the Organization and Functioning of Local Government has been prepared, and was sent for approval. It aims to improve local autonomy and expand the authority and responsibilities of local governments in Albania.

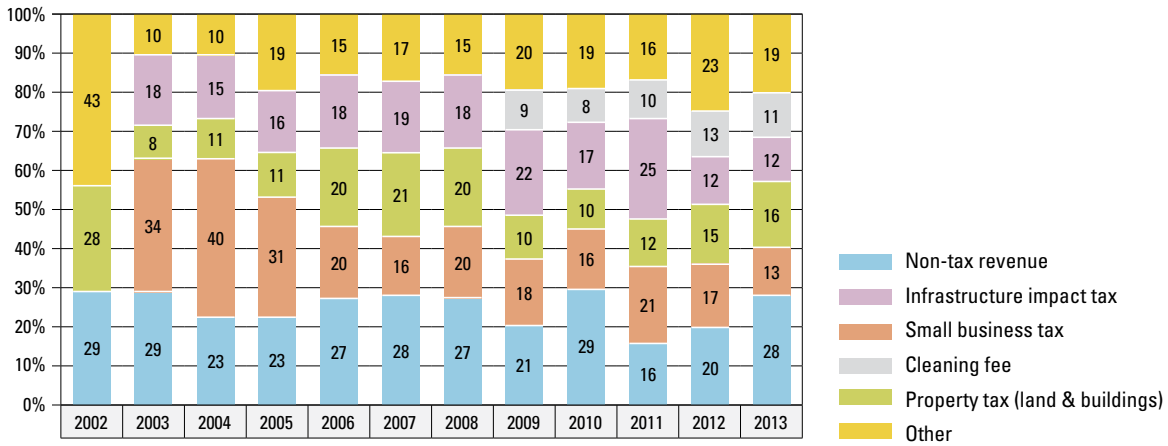
In Albania, local governments do not have the power to raise funds from the considerable land development and wealth which their infrastructure services and planning underpin. They therefore do not have the resources to fund the infrastructure and local services which the growing urban areas require. Developers and landowners have been able to enjoy the benefits of growth with little responsibility for the costs that result (Gjika and Shutina, 2010). The provision of a system for collecting stable revenues for local governments is essential if they are to provide local services, development control and infrastructure. Reform of the property tax system can play an important part in achieving this and in providing financial stability for local governments.

Although there has been substantial decentralization of responsibilities to local governments, they are still dependent on transfers of funds from national government (PLGP/USAID, 2012). Albania does not have any system for sharing corporate or personal income tax and local governments have few of their own revenue sources. These are the lowest in all countries in South East Europe at only 1.9 percent of Gross Domestic Product (GDP) (NALAS, 2012). The main own revenue sources for local governments in Albania through taxes and fees include the small business tax, the property tax (on buildings and agricultural land), the infrastructure impact tax, a tax on immovable property transactions, a tax on vehicles, fees on solid waste collection, fees on occupying public space, and fees on billboards (Figure 1).

Ideally, local governments should rely more on their own revenue sources; on property taxes, development fees and land value capture (Figure 2). Unfortunately, in a country where responsibility for financing most local services lies with central government (via conditional grants to local authorities), the case for assigning more sources of revenue to local governments has not been compelling.

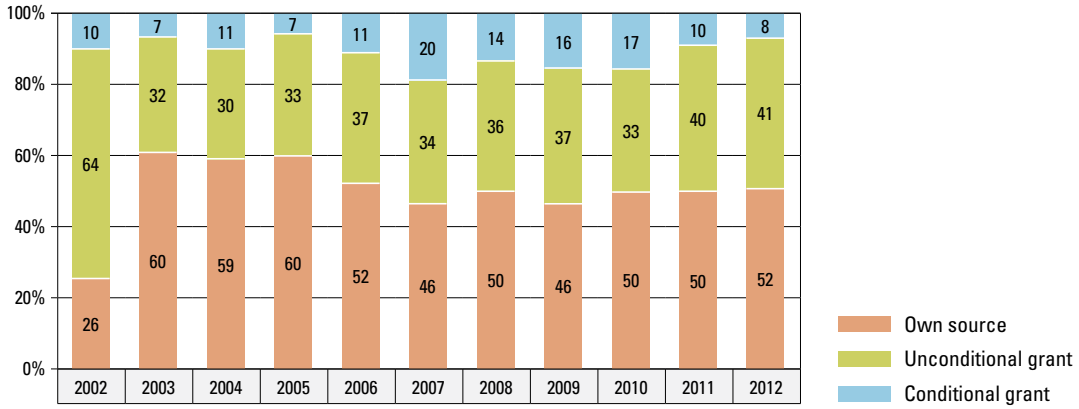
Albania's rapid urbanization has taken place against a backdrop of severe economic problems. GDP dropped by over 30 percent in the first two years of the transition to a market economy (1991–1992). Although economic growth recovered in the period up to 2009, it has been low since 2011 (World Bank, 2013). Albania's external growth drivers are the weakest in the region and are expected to remain so in the medium-term (IMF, 2014). Albania's fiscal position deteriorated substantially in 2013. Public debt rose sharply to over

Figure 1
Composition of local governments' own revenues 2002 - 2013



Source: Ministry of Finance and author's calculations

Figure 2
Basic composition of local governments' own revenues as a percentage of total revenue 2002 - 2012

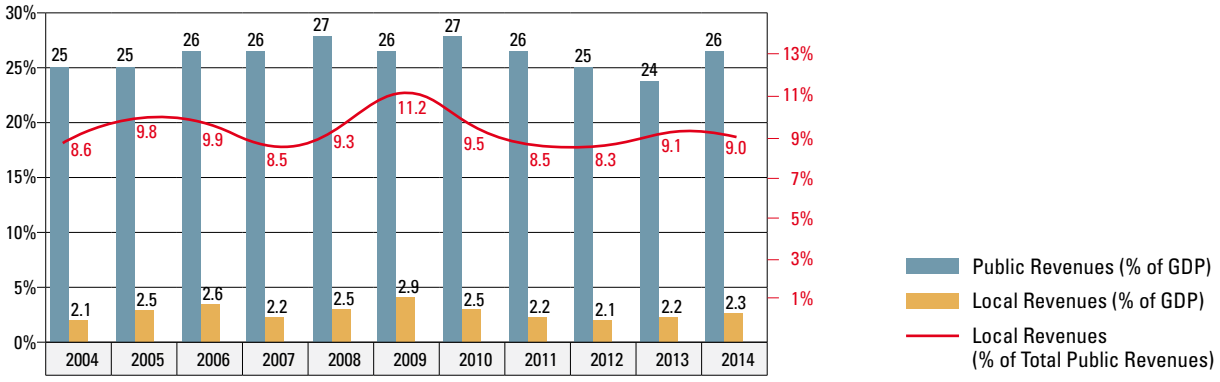


Source: Ministry of Finance and author's calculations

71 percent of GDP – one of the highest levels in the region. Meanwhile, Albania's revenue and spending to GDP ratios remain the lowest in the region (tax revenues are generally no more than 23 percent of GDP), mainly due to low tax rates and poor efficiency ratios. The 2007 - 2008 tax reforms, which substantially lowered tax rates ostensibly to enhance competitiveness, reduced revenue from Corporate Income Tax (CIT). Excise and property tax rates and other fees have remained unchanged for years and an increase in the Personal Income Tax (PIT) exemption threshold in 2013 has further exacerbated the problem (Figure 3). The high rates of informal economy result in huge sums of uncollected taxes and this has also caused the reduction of the state budget income. Albania's fiscal problems require not only reforms on the formalization of economy and improving tax administration, but also the development of new sources of tax revenue, such as reforms to, and the recasting of existing taxes, particularly property taxes.

Figure 3

Local government revenues in Albania as a share of GDP and total public revenues 2004-2014

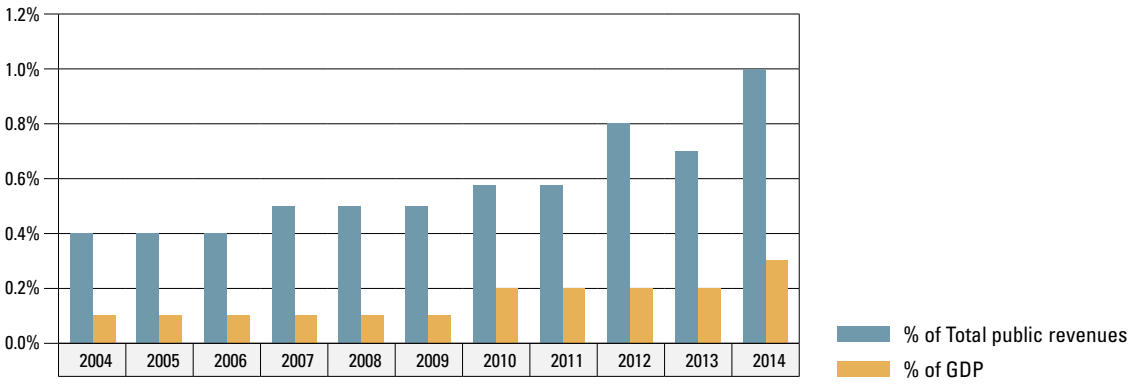


Source: Ministry of Finance and author's calculations

PROPERTY TAXES

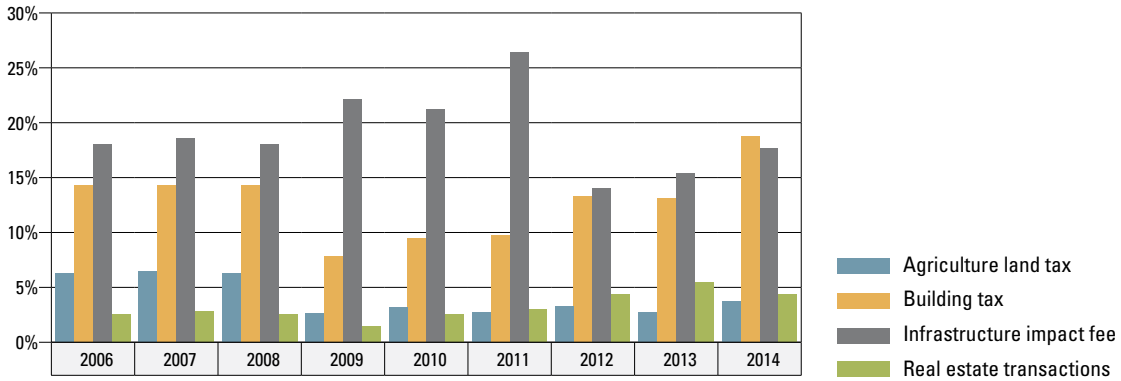
The Law on the Organization and Functioning of Local Government (8652/2000) states that local governments may receive revenues from taxes, fees, fines and penalties, the rental or sale of local government assets, central government grants, shares in Personal and Corporate Income Tax and borrowing. Locally-derived taxes include recurrent property taxes on agricultural land and urban buildings, taxes on small businesses, hotels and the transfer of immovable property, and income taxes on gifts and inheritances. These revenues were augmented in 2006 by the Law on Local Tax Systems (amended in 2009, 2010, 2011 and 2014), which defines in greater detail the tax and fee powers of local governments as well as initiating an Infrastructure Impact Fee. The small business tax in the past made up a substantial, though declining, proportion of local governments' own revenues. The yield from this fell from 40 percent of local governments' own revenues in 2004 to 13 percent

Figure 4
Property tax in Albania



Source: Ministry of Finance and author's calculations

Figure 5
Property related taxes as percentage of local government units own source revenues



Source: Ministry of Finance and author's calculations

in 2013. It was capped at a rate of 7.5 percent in 2014 (Levitas, 2010, 2014; Levitas and Gjika, 2013), necessitating the creation of an alternative source of local taxation. Over the last ten years, 20–30 percent of local government revenue has come from non-tax sources, including fines, penalties, interest, revenue from the sale or rental of assets, and carryovers from previous years.

Immovable property taxation started in 1994. Property taxation consists of two area-based taxes. The agricultural land tax falls on agricultural land and the building tax falls on residential, business and institutional buildings. There are relatively few exemptions. Cultivated land with fruit trees or grapevines is exempted from the agricultural land tax for five years after planting. Buildings owned by central or local government that are used for non-profit purposes are exempt from the buildings tax, such as the buildings used by religious communities and state-owned properties used by public utilities. Urban land is untaxed, although there have been several draft laws prepared since 2008 that seek to change this.

Initially the Ministry of Finance was responsible for the administration of property taxes and the revenues were shared, 40 percent going to the central budget and 60 percent to local governments. Local governments were responsible for documenting buildings in their jurisdiction. The national power supply company was assigned the role of tax agent, receiving a 5 percent commission on the tax collected. In 1998 responsibility for administering the taxes was transferred to local governments. The power company however continued in the role of tax agent. In 2002 property tax was classified as a local tax and tax revenues, though still collected by central government, were fully assigned to local governments. In 2006 the property tax was completely transferred to local governments. At that time they started to be responsible also for billing and collection of the property taxes in their territory though some continued to use the power company as tax agent.

The Law on Local Government Taxation, 2006 (amended in 2009, 2013 and 2014), defines the tax base categories and tax levels for each category. The tax base is the area of the building or agricultural land. The schedule sets different base rates for the four groups of local governments: Tirana and Durres, 12 mid-size municipalities, other municipalities, and communes. Local governments can establish different zones within their jurisdictions. They determine the subcategories of tax and their respective tax levels, tax relief or exemptions for certain categories of taxpayers, and approve instalment payments. The base rates per hectare for agricultural land are set according to seven categories of land quality and four groups of local governments. No distinction is made between legal and physical persons. The tax on buildings is applied to all categories of public or private facilities, with the exemptions mentioned above. The taxpayers can be physical or legal persons, domestic or foreign, owners or users or administrators of real estate. Overall, revenues mainly come from building tax. Very little is derived from agricultural land tax.

Revenues mainly come from building tax. Very little is derived from agricultural land tax

The tax on urban and rural buildings is based on the surface area. Market value does not factor into the assessment. The rates per square metre consider the location within the local government territory and are adjusted for the age of the building (built before or after 1993) and its current use (residential, trade, tourist, and other). Obtaining an accurate measurement of the building is therefore a critical factor in correctly assessing its tax value. The size of a

building is recorded in the application for registration with the Immovable Property Register Office (IPRO). Various opinions have been expressed as to how accurate the registered size is. In most of the cases the property area is self-declared and often only records the footprint of the building rather than the sum of the areas of the different floors.

At 0.13 percent of GDP, the yield from property taxes is very modest. An International Monetary Fund (IMF) mission in 2014 concluded that the yield is only about one-quarter of the potential revenue possible under present provisions (Norregaard *et al.*, 2014). This is due to various factors. The tax base is quite narrow because it does not include urban land. Tax rates are extremely low at €5 to €10[3] per year on average. There are weaknesses in tax administration and enforcement. Where registration has never been completed, properties are declared and registered only if their owners decide to do so or if they are identified through other records. Tax values are also based on the property characteristics reported by the holders or owners. In most cases they do not report the true characteristics in terms of surface area or value. Tax collection is poor. The average collection rate in the largest local authorities is below 50 percent. Since 2005, the property tax has produced between ALL1.5 billion (2009-2011) and ALL3.2 billion (2008) in annual revenue, which accounts for 10-21 percent of local governments' own revenues. The yield has fluctuated and is very sensitive to the amount of effort local governments put into collection. The larger problem – the underfunding of local governments – cannot be fixed simply by making property tax more productive, but the revenue does need to increase with the rising property values.

The Infrastructure Impact Fee is a one-time charge that local governments can impose on new private construction. The base of the tax is the cost of the investment as stated in an investor's construction permit. Local governments can set the tax rate at 1-3 percent of this value (2-4 percent in Tirana) (Levitas, 2014). It has been an important source of local governments' own revenue, generating between ALL1.6 billion and ALL3.2 billion in annual

3 approx. € 1 = 139 Albanian lek, ALL

income and accounting for 12–25 percent of local government revenue. It has replaced the small business tax as the single most important source of local governments' own revenue. The purpose of the tax is to generate revenue that can be used to build the public infrastructure required to service the new private buildings. Because of this, there have been discussions as to whether the tax should be defined as capital revenue and legally earmarked for investment (PLGP/USAID, 2012). There is currently no requirement that it should be spent on public infrastructure. As a result, local governments often use the proceeds of the tax to fund their operating costs.

Tax on Transfer of Property Rights is paid periodically when certain events take place, such as the sale of the property. This tax is collected through IPRO, which acts as the tax agent for local government. There are two different taxes on the transfer of property rights in Albania, one national and the other local. When the owner/transferor is a natural person, individual or group of individuals, the Tax on Transfer of Property Rights is calculated as 15 percent of income from the sale. This tax goes to the general budget. Specific legal rules are applied to calculate the property value for this purpose. If the property owner/transferor is a juridical person or business, a specific transfer tax is applied which is calculated as a fixed amount per square metre differentiated according to three categories of buildings: residential, business and other buildings. This is a local tax, and since 2006 has generated between 1.4-5.3 percent of local government revenues.

There are two different taxes on the transfer of property rights in Albania, one national and the other local

PROPERTY TAX REFORM

One of the early recommendations of the World Bank was that the government should establish an area-based property tax, then develop a proper database of buildings and land and create a methodology for calculating tax and assessing land values, and finally establish a value-based property tax. Although the Albanian Government has wanted to reform the property tax by moving from an area-based to a value-based system, and a number of relevant laws have been amended, little has actually happened. One example of limited change

was the Law of the Local Tax System, 2014, which extended the tax base and introduced higher tax rates for second homes and business properties.

Over a three-year period (2010-2012), the Ministry of Justice revised the map of land and building values. These are used as a reference point in property transactions and in the building industry. Although the practice of calculating land values is not well established, it does exist. It is the calculation of parcel size and constructed area that presents an on-going problem. Whether applying an area-based or a value-based tax, the same problem emerges: plots and buildings need to be properly registered.

With support from the World Bank, the Immovable Property Register Office (IPRO) has been creating an electronic property registry which, when completed, should facilitate the administration of property tax by providing a comprehensive register of properties. The data collected includes neighbouring land owners, boundaries, and the geographical location of the parcel and building, as well as the size, shape and perimeter of the parcel/building, a topographic map, its unique identification number, and the property rights. The data does not include the building characteristics needed for valuation. The IPRO is the only legal provider of the property registration data. Information is accessible to the local governments but they may be required to pay for this service. Work on updating the property register and converting paper-based records to a digital format has been on-going for over a decade. Whilst some progress has been made by the IPRO on the initial registration of buildings, there are significant issues with recording subsequent transactions. The legalization of informal settlements and resolution of disputes between old landlords and newcomers is slow because of political and social tensions. The IPRO does not register properties until all claims are resolved. One result of this policy is that if there is any question or dispute about the status of a property, it is not registered by the IPRO. Given the informality and amount of illegal construction in Albania over the years, many occupied properties are not registered. While there is a process for legalizing informally constructed buildings, such buildings are not registered until the process is complete. The IPRO estimates that it has records for some 60–70 percent of all properties. It has completed first registration for 83 percent of rural cadastral zones,

but only 25 percent of urban cadastral zones. As a result, most properties in urban areas remain unregistered (World Bank, 2011).

Local tax legislation defines the taxable area when the IPRO's documentation is missing. In the absence of property documentation, municipal tax offices can use data declared by physical persons and legal entities until the data is verified. If the property is not registered, municipalities are permitted to recognize ownership certificates that come from decisions on ownership, from the commission for compensation of immovable property, and from restitution and privatization.

Local tax legislation defines the taxable area when the IPRO's documentation is missing. In the absence of property documentation, municipal tax offices can use data declared by physical persons and legal entities until the data is verified

Some local governments have responded to the problems with property registration by creating their own databases of properties and have initiated field inspections to extend IPRO data. The city of Tirana, for example, recently inspected and measured all commercial properties, which resulted in a 15 percent increase in the number of taxable properties and a 60 percent increase in the tax billed. The city of Fier is creating its own Geographic Information System (GIS), starting with the IPRO data, as declared by the taxpayer, and augmenting it with field surveys for all properties in the city. It undertook field inspections of 516 buildings to update their property information. Subsequently, revenues increased from US$45 000 (€35 870) to US$130 000 (€103 626) as a result of capturing buildings that were not part of the existing tax base (IMF, 2014). The city of Elbasan has levied a fixed property tax of ALL700 (€5) on all residential properties and is collecting the tax through the water billing system. They have also re-measured commercial buildings. The result of these efforts has been to nearly double the amount of property tax collected in the city. Other cities are also considering using water bills as a means of collecting the tax although low collection rates may limit the effectiveness of this approach (Norregaard *et al.*, 2014).

There is a need to overcome the social and cultural views that influence tax evasion. The national government could work with donors and local governments to create a public relations campaign that focuses attention on why property tax needs to be paid and how these taxes facilitate better local services. Linking elements of the grant system to property tax collection so that the grant assumes a given level of collection could encourage local

governments to be more active in collecting revenue. As in other countries in the region, the property tax is extremely unpopular politically and local governments often focus their collection efforts on corporations (who do not vote) instead of on individuals (who do).

The main problem is with collecting the tax from households rather than businesses. Businesses are formally registered with local governments, fewer in number and are more easily identifiable. Local governments are willing to impose on business tenants the requirement to either pay the tax or pass the bill on to the owner. Rates of tax are also higher for businesses, which gives local governments an incentive to collect them. For example, the rate for a retail business in Tirana is over 13 times higher than that for a residential apartment in the same building. Where a residential property would pay, for example, ALL3 900 (€28), a retail shop of the same size and in the same building would pay ALL52 000 (€372). Outside Tirana the rate for commercial properties can be over 33 times higher than for residential properties (IMF, 2014). By comparison, households are not adequately registered and the ownership of residential properties is more difficult to determine.

The problem faced by all local governments is the lack of a comprehensive and accurate address system. A link is needed between the property and the person who should be billed for the tax. Users of property may be tenants but local governments may be reluctant, in the case of residential property, to make occupiers responsible for either paying the tax or passing the bill on to the owner. It would also be useful if codes were introduced that distinguish the tax yield coming from legal and physical persons so that policy makers have a better idea of who is really paying the tax. Arrears due on residential buildings are usually collected only when the taxpayer requests an official document. The document is withheld until the arrears are cleared. Local governments can though contract a tax agent to improve collection rates. Korça Municipality, for example, has such a contract with the water supply enterprise and recently updated the water supply enterprise database for property tax collection purposes.

The problem faced by all local governments is the lack of a comprehensive and accurate address system. A link is needed between the property and the person who should be billed for the tax

Tax rates on agricultural land are relatively low while collection rates extremely low. The highest valued agricultural land is in the prefecture of Fier

Tax rates on agricultural land are relatively low while collection rates extremely low

and has an estimated market value of ALL496 per square metre. An average size farm in that area has an estimated market value of ALL6.45 million (€46 000) and a tax obligation of ALL7 280 (€52), an effective rate of 0.11 percent. Lower quality land has lower tax rates which can be as little as 0.06 percent of the market value. The agricultural land tax actually collected averaged ALL546 (€3.90) per farm across Albania (IMF, 2014). Agricultural land is extremely fragmented in Albania and is characterized by large numbers of very small parcels. Given these large numbers, the administration of this component of property taxation is challenging. Various government initiatives to encourage the development of larger farming units through co-operative agreements and leasing arrangements have not proved very successful.

The development of property valuations and the data to support them is limited. The IPRO has an appraisal system for determining the property transfer tax but this is not used for recurrent property taxation. The National Housing Agency (which also estimates residential construction costs) annually publishes average transaction values for the 12 regions in Albania, subdivided into the main regional cities, and publishes average transaction prices for apartments in Tirana. Although this information is at a relatively high level of abstraction, it is useful when it is used in conjunction with the actual sales transactions held by the IPRO.

The area where valuation is best developed is in restitution. The 2004 Law on Restitution and Compensation of Property, amended in 2012, establishes that the valuation of real estate in Albania is (for restitution purposes) to be based on the market price in accordance with international standards. The Agency for Restitution and Compensation has had a working group of experts since October 2012, which has estimated property values for all types of real estate. The value is equal to the average property price listed in sales contracts. The variables used to adjust the value are the age and condition of buildings, the distance from the city centre, and for agricultural properties the quality of the land or timber. The Agency has established a database of prices and receives IPRO data on sales contracts. The data is pooled by type and cadastral areas. The calculation of the market value for an area excludes the top and bottom ten percent of contracts for each type of property. A

minimum of three contracts for each type of asset are used for a cadastral area and the unit value of the area is equal to the average price in those contracts. For cadastral areas or villages that have no transactions for a particular type of real estate, the value is calculated by grouping the sales contracts at a higher level, initially the commune but possibly the district. The value maps are based on the official cadastral maps from IPRO.

CONCLUSIONS

The lessons learned from the attempts at property tax reform in Albania have been summarised by the Planning and Local Governance Project (PLGP) supported by the United States Agency for International Development (USAID) and implemented in Albania since 2011 (PLGP/USAID, 2013). PLGP works both at the national policy level and at the local level to promote acceptance of the principles of decentralized governance, and to disseminate and institutionalize practical and effective methods and techniques for municipal management. There is a need to develop roundtables and policy forums to promote dialogue and find consensus between central and local government stakeholders on the need to accelerate the development of the property registration and taxation systems in urban and rural areas. Property taxes can serve not only as a revenue source but also as a means of controlling land and property development. The overreliance of local governments on the infrastructure impact tax and the failure to develop a more stable source of revenue using market value based property taxes needs to be addressed. The new government's intention to create a Central-Local Government Consultation Council could serve as the basis for this dialogue.

A working group should be formed to develop the exchange of property registration data between the IPRO and local governments. At present, there is practically no exchange of information, even though the law requires the IPRO to provide local governments with data on changes in property registration. Local governments should develop a property tax registration system that incorporates the basic data and meets the International Association of

Assessment Officers (IAAO) standards for property tax systems. The present IPRO property data is not sufficient to meet these requirements. The IPRO and local governments can develop specifications for the property data that is needed, identify how it is going to be collected and shared, and the processes for providing valuations, billing statements, and collection procedures.

It is critical that a public awareness campaign is developed, which is aimed at local governments and citizens to communicate the benefits of property taxation and the impact revenues can have on the delivery of local services. If this civic commitment is not realized, the property tax system will not be efficient or enforceable.

Modification of the present legislation on property tax rates and tax bases would give local governments greater flexibility to set tax rates, incorporate market values into property tax assessments, and utilize tax agents for collection. The present property tax, based on area and zones, is too restrictive. It is not fair or equitable because it does not allow market values that have increased the wealth of owners to be taken into account. The experience gained in the restitution programme could be utilized to develop value-based property taxation.

Modification of the present legislation on property tax rates and tax bases would give local governments greater flexibility to set tax rates, incorporate market values into property tax assessments, and utilize tax agents for collection

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