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VALUATION FOR PROPERTY TAX PURPOSE. ANALYSIS OF THE EU TRANSITIONAL COUNTRIES

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Emphasis on taxation of property in the EU countries

The design of real estate property tax system is in the last period a subject for debate, attracting attention in the political, social or academic debates. This is due because taxation on real estate property could be:

- **New source of revenues**. In many European countries there is an important need to find new financial resources; the fact that real estate taxes are quite low in many countries create the opportunity for this countries to obtain a convenient not expensive and short term solution;

- **New source of economic growth**. There are recent studies which identified taxes on real estate property as one of the least detrimental to GDP (see e.g. Johansson et al. (2008) and Arnold et al. (2011). In this context there are some voices which sustain the necessity to move the tax intensity from labour taxes (that discourage employment) towards taxes on consumption and property;

Emphasis on taxation of property in the EU countries

- **A source of stability**. Taxes on property are recurrent and offer an important advantage of a high stability of tax revenue flow, which facilitates a reliable budgetary planning. This could be an important issue for indebted economies, an attractive feature particularly for highly indebted countries, for which an increasing in stability of revenues are very important in achieving good debt financing conditions on the global capital market;

- **A way to avoid future crisis**. There are many voices which consider the favorable tax treatment of mortgages as one of the important contributing factors to the housing price bubble that has played an important role in the crisis in several countries. In this context, it is important to ensure a more balanced tax treatment of housing (see European Commission (2011a).

The property tax system is founded by a number of ***principles***:

- **Uniformity:** implies proportional taxation in correlation with the “ability to pay”. A market value based system could represent a fiscal benefits because avoid the case in which taxpayers paying less than they might be willing to accept.

- **Neutrality:** a efficient tax system not distort economic decisions and encourage an optimal mix of factors of production (capital, workforce, management and land).

- **Stimulation of Direct Investments:** Tax preferences and incentive are sometimes used to attract investment in a particular area.

- **Transparency:** is a characteristic of democratic society.

- **Flexibility:** is related with the ability of tax to rise or to fall in accordance with the economic evolution.

In the new EU countries there are some **constraints** on real estate taxes:

- Past history of collectivization of land ownership and subsidized housing
- Little role for real estate taxes in a centrally planned economy as limited private ownership of land
- Many inhabitants now occupy dwellings whose value is out of line with their incomes because of privatization and restitution
- Weak infrastructure of real estate markets
- Poor transparency in real estate market

Because of this pattern in Romania and probably in other new EU countries a few of principles of the property tax system are not fully realized.

The uniformity, transparency and flexibility are not accomplished yet in Romanian tax system.

In the last 16 years the gap between new EU countries and EU 27 remain significant in terms of taxes on property in GDP. In 2010 the average New EU countries is around **0,7%** in GDP vs. **1,3 %** average EU countries. Also differences between countries is important: the lowest tax rate is Estonia and Slovakia (0.4% in GDP) and the highest is 1,2% in GDP in Poland, as is seen in the table below:

TAXES ON PROPERTY - TOTAL % GDP, 1995 - 2010

		1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Revenues 2010 mil E
1	Bulgaria BG	0.3	0.2	0.1	0.2	0.2	0.2	0.2	0.3	0.3	0.4	0.4	0.6	0.7	0.7	0.5	0.5	187
2	Czech Republic CZ	0.5	0.5	0.6	0.6	0.5	0.5	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4	662
3	Estonia EE	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.2	0.2	0.3	0.3	0.4	51
4	Hungary HU	0.5	0.6	0.6	0.6	0.6	0.7	0.7	0.7	0.8	0.8	0.8	0.8	0.8	0.8	0.8	1.1	1,105
5	Latvia LV	1.0	1.0	1.1	1.2	0.9	0.9	0.9	0.8	0.8	0.8	0.7	0.6	0.9	0.7	0.7	0.9	154
6	Lithuania LT	0.7	0.8	0.7	0.7	0.8	0.7	0.6	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.5	0.5	147
7	Poland PL	1.1	1.1	1.1	1.1	1.1	1.1	1.3	1.4	1.4	1.3	1.3	1.2	1.2	1.2	1.2	1.2	4,194
9	Slovakia SK	0.5	0.6	0.6	0.6	0.6	0.6	0.5	0.6	0.6	0.5	0.5	0.4	0.4	0.4	0.4	0.4	277
10	Slovenia SI	0.6	0.5	0.6	0.7	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	219
	EU 27	1.2	1.2	1.3	1.3	1.4	1.4	1.3	1.3	1.4	1.5	1.5	1.5	1.5	1.4	1.3	1.3	256,465
	EU 17	1.2	1.3	1.4	1.4	1.4	1.5	1.4	1.4	1.4	1.5	1.6	1.6	1.6	1.4	1.4	1.3	168,945
	% average 10 new EU vs EU 27	-51%	-51%	-54%	-50%	-54%	-54%	-51%	-51%	-54%	-58%	-59%	-60%	-56%	-55%	-52%	-47%	

Source: Taxation trends in the European Union

Also the level of taxes on property in total taxation represent an important gap between new EU countries and EU 27. In 2010 the average New EU countries is around **2,2%** in total taxation vs. **3,6 %** average EU countries.

TAXES ON PROPERTY - TOTAL % total taxation, 1995 - 2010

		1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
1	Bulgaria BG	0.8	0.8	0.3	0.8	0.8	0.8	0.8	1.0	1.1	1.1	1.3	1.9	2.1	2.2	1.9	1.9
2	Czech Republic CZ	1.5	1.5	1.6	1.7	1.5	1.5	1.5	1.5	1.5	1.1	1.2	1.2	1.2	1.2	1.2	1.3
3	Estonia EE	1.0	1.1	1.1	1.1	1.1	1.3	1.2	1.1	1.1	1.0	0.9	0.8	0.7	0.9	1.0	1.0
4	Hungary HU	1.2	1.5	1.5	1.6	1.6	1.7	1.8	1.8	2.1	2.2	2.2	2.2	2.0	2.1	2.0	3.0
5	Latvia LV	3.0	3.2	3.3	3.6	2.8	3.2	3.1	2.9	2.8	2.7	2.3	2.0	3.0	2.3	2.7	3.1
6	Lithuania LT	2.6	2.8	2.4	2.2	2.4	2.4	2.1	2.1	1.9	1.7	1.5	1.4	1.2	1.3	1.7	2.0
7	Poland PL	2.8	2.9	3.0	3.1	3.3	3.5	4.0	4.4	4.2	4.2	4.0	3.7	3.4	3.5	3.8	3.7
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
9	Slovakia SK	1.3	1.5	1.6	1.6	1.7	1.7	1.7	1.7	1.7	1.7	1.6	1.5	1.4	1.3	1.5	1.5
10	Slovenia SI	1.4	1.4	1.7	1.9	1.9	1.7	1.7	1.6	1.5	1.5	1.5	1.6	1.6	1.5	1.6	1.6
	EU 27	3.2	3.3	3.4	3.5	3.6	3.7	3.6	3.6	3.7	3.9	3.9	4.0	4.0	3.8	3.6	3.6
	EU 17	3.4	3.5	3.6	3.7	3.8	4.0	3.7	3.7	3.8	4.1	4.3	4.3	4.3	3.9	3.7	3.6
	% average 10 new EU vs EU 27	-48%	-46%	-49%	-46%	-47%	-46%	-43%	-43%	-44%	-49%	-51%	-52%	-50%	-49%	-44%	-38%

Source: Taxation trends in the European Union

For real estate taxes there is an important distinction between **recurrent taxes** on real estate property, which typically take the form of annual payments due by the owner, whose amount is linked to a measure of the value of the property and **transaction taxes** that are typically charged on the occasion of the sale or transfer of the property.

RECURRENT TAXES ON IMMOVABLE PROPERTY - TOTAL % GDP, 1995 - 2010

		1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Revenues 2010 mil E
1	Bulgaria BG	0.1	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.3	0.3	98
2	Czech Republic CZ	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	346
3	Estonia EE	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.2	0.2	0.3	0.3	0.4	51
4	Hungary HU	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3	299
5	Latvia LV	1.0	1.0	1.1	1.2	0.9	0.9	0.9	0.8	0.8	0.8	0.7	0.6	0.8	0.6	0.6	0.8	138
6	Lithuania LT	0.3	0.4	0.4	0.4	0.4	0.4	0.5	0.5	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.4	102
7	Poland PL	1.0	1.0	1.1	1.1	1.1	1.1	1.3	1.4	1.3	1.3	1.3	1.2	1.2	1.2	1.2	1.2	4,121
[illegible]																		
9	Slovakia SK	0.4	0.5	0.5	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	277
10	Slovenia SI	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	173
	EU 27	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	158,130
	EU 17	0.5	0.6	0.5	0.6	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	88,079
	% average 10 new EU vs EU 27	-30%	-39%	-37%	-33%	-34%	-33%	-29%	-31%	-34%	-34%	-37%	-39%	-33%	-36%	-34%	-27%	

Source: Taxation trends in the European Union

For real estate **transaction taxes** is also a very important gap between new EU countries and average EU 27, with a gap around **70%** in 2010 average 10 new EU countries vs. EU 27.

TRANZACTION TAXES ON IMMOVABLE PROPERTY - TOTAL % GDP, 1995 - 2010

		1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Revenues 2010 mil E
1	Bulgaria BG	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.3	0.4	0.5	0.5	0.3	0.2	89
2	Czech Republic CZ	0.3	0.3	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.2	0.3	0.3	0.3	0.3	0.2	0.2	316
3	Estonia EE	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0
4	Hungary HU	0.4	0.5	0.4	0.4	0.5	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.5	0.6	0.5	0.8	806
5	Latvia LV	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	56
6	Lithuania LT	0.4	0.4	0.3	0.3	0.3	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	45
7	Poland PL	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	73
[redacted]																		
9	Slovakia SK	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0
10	Slovenia SI	0.2	0.2	0.2	0.2	0.3	0.2	0.2	0.2	0.1	0.1	0.2	0.2	0.2	0.2	0.1	0.1	46
	EU 27	0.5	0.6	0.6	0.7	0.7	0.7	0.7	0.6	0.6	0.7	0.8	0.8	0.8	0.7	0.6	0.6	98,335
	EU 17	0.7	0.7	0.8	0.8	0.9	0.9	0.8	0.8	0.8	0.9	1.0	1.0	1.0	0.8	0.7	0.7	80,866
	% average 10 new EU vs EU 27	-68%	-72%	-75%	-76%	-74%	-76%	-80%	-77%	-73%	-79%	-79%	-76%	-75%	-71%	-73%	-70%	

Source: Taxation trends in the European Union

Valuation for property tax in EU Transitional Countries. The case of Romania

Valuation for property tax in Europe offers special challenges because each country has a different definition of real estate property for tax purpose, different approach on real property value and taxation, different level of development in valuating profession etc.

The development of the Single European Market has opened the local markets (including real estate markets) to global competition.

Many of the new EU countries (including Romania) have used the unit approach due to objective and subjective reasons.

As objective explanations not to use market value as a base for real estate property tax: lack of reliable real estate market information (limited and restricted property market), insufficient resources to develop mass appraisal system etc.

A subjective reason is related with political decisions; many politicians are afraid to approve changing into the basis for valuation in taxation process because an expected increasing in real estate property tax

Non-Market Valuation methods used in Romania

Some transitional countries continue not to rely on market value in other words no using direct market evidence in valuation of properties for taxation. A group of “experts” defines a number of factors which are presumed to affect the property value. There is a group of factors like as: population, urban infrastructure, the general quality of the area, quality of the construction etc.

The basic approach is to develop a “gravity” model to create a territorial indices and a map of the tax area of the city or of the village.

In Romania the real estate tax base is different for tax payers (individual vs. companies) and for real estate components (land and building).

The tax base for land is based on non market valuation and for the building could be market value for companies (due to international accounting standards requirements – fair value) or acquisition cost (if the company decide not to reevaluate fixed assets). The quality of valuation is also an issue for the uniformity of the real estate tax system in Romania.

Regarding the transaction tax on immovable properties the tax base is the declared price with a minimum tax base established in accordance with yearly “valuation catalog” realized by Romanian Chamber of Notaries.

Development of market value real estate taxes in the new EU countries

There is a real need to develop a real estate tax system based on market value indication of properties because the positive effects on social and economic activity. Achievement of this objective need the existence of **preconditions** for the development of market value real estate taxes:

- A political agreement
- The ability to create and maintain a fiscal cadastre.
- The existence of an adequate quantity of qualified valuers and adequate valuation standards
- Data on market prices being available to those carrying out tax valuations.

Also, making a shift from actual status to another base for real estate tax need to take in consideration a **set of acceptable outcomes** as:

- Taxpayer acceptability;
- Resource implications;
- Practical and political considerations;
- National, cultural and social environment issues.

Conclusions (1)

The design of real estate property tax system in the last few y[redacted] debate, attracting attention in the political, social or academic deba[redacted]

Taxation on real estate property could be: new source of revenues, new source of economic growth, a source of stability, a way to avoid future crisis etc.

The present system of valuation for property tax purpose in the EU transitional countries is not enough developed to sustain an effective tax system, including the necessity to move the tax intensity from labour taxes (that discourage employment) towards taxes on consumption and property.

For the EU transitional countries in this context there is an opportunity to modernize the real estate tax system in accordance with the general accepted principles: uniformity, neutrality, stimulation of direct investment, transparency, public acceptance, flexibility and cost effectiveness.

Conclusions (2)

One of the major issue is the valuation base which must be re
market value.

There are some preconditions for the development of market value real estate taxes like as: existence of a political agreement, the existence of a reliable fiscal cadastre, the existence of an adequate quantity of qualified valuating professionals and adequate valuation standards etc.

An important element in this process is related with the existence of a well developed valuating profession.

In the majority of new EU countries the profession is very young and number of qualified valuating professionals is insufficient to support a fully functioning real estate tax system based on market values.

THANK YOU!