

A SURVEY OF PROPERTY TAX SYSTEMS IN EUROPE

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1. Introduction

1.1 Scope and Approach

This report discusses features of, and issues related to, property tax systems in Europe in 2000. Its purpose is to provide a background for recommendations concerning a property tax system for the Republic of Slovenia. The focus is on recurrent taxes on land, buildings, and other property. Two sets of systems are examined: (1) those of transitional economies in Eastern and Central Europe such as Slovenia's (see table 1-1) and (2) those of developed economies in Western Europe (table 1-2). Among other things, the former set of countries can provide lessons on developmental issues and the latter can illustrate mature property tax systems, although not always models. However, the "transitional" and "developed" labels have more to do with history than with current social and economic status.

Within the limits of available information sources, this review attempts to look at property tax systems systematically. That is, it considers the setting for property taxation and the institutions involved, the features of the property tax systems, and attempts to improve systems of property taxation. The issues discussed include those that arise with many property tax systems. Common options are described.

The report does not attempt to cover exhaustively other taxes based on property values, such as transfer taxes, gift and inheritance taxes, gains taxes, net wealth taxes, and taxes on imputed income from owner-occupied properties. It does cover rents for use of government-owned land in transitional countries that are the equivalent of taxes¹. However, it should be noted that taxes on ordinary real property transfers could serve as a useful source of property price data, which are crucial to the administration of a market value-based property tax. Unfortunately, in addition to raising revenue (which may be used to defray the cost of maintaining the legal cadastre), real property transfer taxes may also have the social purpose of slowing the accumulation of wealth. The problem is: rates that are sufficiently high to slow the accumulation of wealth tend to encourage concealment of property transfers and misstatement of the value of the property transferred. Estonian municipalities have the right to acquire a property at its declared value for public purposes. This gives buyers an incentive to declare a realistic price.

This report is based on a variety of sources (see section 11), including the author's personal experience. Readers should be aware the change is constant in property taxation just as it is in other things. Consequently, some statements may be out of date.

¹ For more information on rents as taxes (in Ukraine), see Deakin 1996 (the full bibliographical reference is given in section 11.2.1 of this report). Other ex-communist countries with such taxes include Bulgaria, Estonia (starting from 2000), Lithuania, Romania, the Russian Federation, and Slovenia. In the Russian Federation, land that is rented from the state is not subject to the land tax.

Table 1-1. Property Tax Systems in Transitional Countries

Country	Land	Buildings	Movables	Other Property-Related Taxes	Reforms Planned?
Albania	Tax on Agricultural Land (1994)	Tax on Buildings (1994)	No	No (1996)	Yes
Armenia	Land Tax (1994)	Property Tax (1995, revised 1998)	Industrial plant and equipment, & some vehicles	Transfers, gifts & inheritances	Yes, a consolidated property tax based on market values.
Belarus	Land Tax (1991)	Real Estate Tax (1991)			
Bosnia & Herzegovina					
Bulgaria	Yes (1988, agricultural land rent)	Property Tax (1952)		Transfers, gifts, & inheritances	Yes
Croatia		Yes (Country cottages and rest centers)		Transfers	
Czech Republic	Real Estate Property Tax (1993)	Real Estate Property Tax (1993)	No	Transfers, gifts, & inheritances	Yes, a market value-based property tax, but parliament's approval has not yet been obtained.
Estonia	Land Tax (1993)	No	No	Land use fee (2000)	Yes, a market value-based property tax that includes buildings in the base.
Georgia	Agricultural Land Tax (1995) Tax on Non-Agricultural Land (1997)	Tax on Property of Natural Persons (1993) Tax on Property of Enterprises (1993)	Yes	Transfers	Yes. The taxes were revised effective 1 January 1998, and further revisions are planned.

Country	Land	Buildings	Movables	Other Property-Related Taxes	Reforms Planned?
Hungary	Tax on Plots (1991)	Tax on Buildings (1991) Tourist traffic tax on holiday houses		Communal tax ¹ Transfers	
Latvia	Real Property Tax (1998)	Real Property Tax (1998) (Land only in 1998 and 1999)	Plant & equipment (under old property tax)	Transfers, gifts, & inheritances	Reforms in process—converting from 1991 land and property taxes to the new real property tax
Lithuania	Land Tax (1990, revised in 1992)	Enterprise Real Estate Tax (1995)		Transfers	Yes, a market value-based property tax, but implementation has been delayed
Moldova	Land Tax	Immovable Property Tax (1994)	Plant and equipment (under property tax)		
Poland	Agricultural & Forest Land Taxes Urban Property Tax (1991)	Urban Property Tax (1991)		Transfers, gifts, & inheritances	Yes, a unified tax on immovable property and increasing local government autonomy over property taxation
Romania	Tax on Land (1981) Fee for the use of State-owned land (1975)	Tax on Buildings (1981)	No	Agriculture income tax on plot areas greater than 1,000 m ² Transfers	Yes, there are plans to tax land based on its value in use.
Russian Federation	Land Tax (1991)	Tax on Property of Physical Persons (1991) Tax on Property of Enterprises (1991)	Industrial plant and equipment, & some vehicles	Transfers, gifts & inheritances	

Country	Land	Buildings	Movables	Other Property-Related Taxes	Reforms Planned?
Slovak Republic	Real Estate Tax (1993)	Real Estate Tax (1993)		Transfers, gifts & inheritances	Yes, a market-value-based property tax
Slovenia	Charge for Use of Building Ground (1995)	Property Tax	Property Tax (ships)	Transfers, gifts, & inheritances	Yes, a market value-based property tax
Ukraine	Yes	Yes		Transfers	
Yugoslavia					

Notes:

1. The Communal Tax is a flat tax per property of 12,000 forints per year.

A blank signifies that no information is available.

Table 1-2. Property Tax Systems in Developed Countries

Country	Land	Buildings	Movables	Other property-related taxes	Comments
Austria	Real Property Tax	Real Property Tax		Inheritance tax	The real property tax is the <i>Grundsteuer</i> .
Belgium					
Denmark	Land Tax ¹ (1926) Service Tax ¹ (1961)	Property Value Tax (2000) Service Tax (1961)	No	Transfers, gifts & inheritances	The land tax is the <i>Grundskyld</i> , the service tax is the <i>Daekningafgift</i> , and the property value tax is the <i>Ejendomsvaerdiskat</i> .
Finland	Real Estate Tax	Real Estate Tax	Buildings on leased land		The real estate tax, <i>Kiintestövero</i> ; <i>Fas-tighetsskatt</i> , was instituted in 1994.
France	Land & Building Tax ¹ Business Tax	Land & Building Tax Housing Tax Business Tax	Business Tax		The tax on land and buildings (property tax) is the <i>Taxe Foncière (sur les propriétés bâties)</i> . The land tax is the <i>Taxe Foncière (sur les propriétés non bâties)</i> . The Housing Tax (property tax or tax on land and buildings) is the <i>Taxe d'Habitation</i> . The Business Tax is the <i>Taxe Professionnelle</i> . It was introduced in 1976 and produces the largest amount of revenue (in large part from pay-rolls).
Germany	Real Property Tax ¹	Real Property Tax	No (b)		The real property tax is the <i>Grundsteuer</i> . (b) Except agricultural and forestry establishments, for which livestock and some machinery is taxable.
Greece	State Real Estate Tax Local Real Estate Duty	State Real Estate Tax Local Real Estate Duty			
Ireland	Rates Residential Property Tax	Rates Residential Property Tax			Rates were abolished on domestic (residential) property in 1978 and on land in 1984, when the National Residential Property Tax was introduced.

Country	Land	Buildings	Movables	Other prop-erty-related taxes	Comments
Italy	Communal Tax on Immovable Property (1993)	Communal Tax on Immovable Property Local Government Business Tax (1989)	No	Transfers, gifts & inheritances Refuse removal	The Communal Tax on Immovable Property is the <i>Imposta Comunale sugli immobili</i> and the Local Government Business Tax is the <i>Imposta comunale sull'industria, arti e professioni</i> .
Luxembourg					
Netherlands	Municipal Tax (1970) ¹	Municipal Tax (1970)	Yes (1995)		The immovable property tax (OZB) is the <i>Onroerende-Zaakbelasting</i> . It has two components: the user tax and the owner tax. Counterpart taxes on certain movable properties (houseboats and the like) were introduced in 1995, although only a few municipalities tax movable property. Municipalities became responsible for administration in 1992.
Norway	Real Estate Tax	Real Estate Tax	Business Tax		
Portugal	Municipal Tax (1989)	Municipal Tax (1989)			Prior to 1989, there were two property taxes based on annual values: the rural property tax and the urban property tax. Municipalities received all of the revenue, except that the central government retained a portion to cover the costs of valuation and collection.
Spain	Rural Land Tax ¹ Urban Land Tax ^{1,2}	Rural Land Tax Urban Land Tax ²	No		
Sweden	Real Estate Tax ¹	Real Estate Tax	No		The national real estate tax is the <i>Statlig Fastighetskatt</i> , which came into force in 1985. The Swedish property tax system has undergone many changes. The forestry tax was abolished in 1992, and commercial property was removed in 1993.

Country	Land	Buildings	Movables	Other property-related taxes	Comments
Switzerland	Land Tax ¹	Land Tax			The 26 cantons are authorized to levy three (four?) types of taxes on property. Most levy the Land Tax (<i>Liegenschafts-oder grundsteuern</i>). The canton of Geneva levies a municipal business tax, which is a tax on persons engaged in commercial activity. The amount of tax is dependent upon the turnover of the business, the rental value of the premises where it is undertaken and the number of employees of the business.
Turkey	Immovable Property Tax ¹	Immovable Property Tax	Yes		
United Kingdom	Uniform Business Rate Council Tax	Uniform Business Rate Council Tax	See comments.		A longstanding property tax system known as Rates system was replaced in 1990 by the Uniform Business Rate on non-domestic (non-residential) property and by the Community Charge, which was a poll tax that replaced domestic rates. The Community Charge proved to be immensely unpopular, and it was replaced in 1993 with a capital value tax on residential property known as the Council Tax. The base of the Uniform Business Rate includes types of industrial property that would be classified as movable in other countries.

Notes:

1. Includes value of improvements to land.

A blank signifies that no information is available.

As will become clearer in later sections, some countries in both groups have severely neglected their property tax systems, and they provide few positive lessons. France and Germany are in this category. Others have introduced innovations that are worthy of further study. For example, the Hungarian constitution gives local governments unusual autonomy. Although they continue to rely on unrestricted central government grants, municipalities may choose from among five local taxes, including a property tax on buildings and a property tax on land plots. There also is a real property tax on tourism, which may be levied on summer-houses and the like, and a communal tax. According to Péteri and Lados in McCluskey 1999, the number of municipalities levying property taxes has steadily increased. The most popular property tax is the tax on non-residential buildings (nearly 600 in 1995); followed by the tax on plots (nearly 400), houses (nearly 200); and tourism property (about 150).

The three Baltic countries provide examples of rapid progress toward modern market value-based property tax systems. Estonia was first with a value-based land tax. Latvia is in the midst of a transformation from separate land and building taxes enacted in 1991 to an integrated real property tax. Lithuania has similar plans.

The property tax system of the Netherlands also is worthy of study. Subject to oversight by the central government, it gives municipalities full responsibility for property tax administration. Modern valuation methods are used, and many municipalities rely on contractors for valuation services.

1.2 Rationale for Recurrent Taxes on Property

Public finance experts usually advocate a diversified and balanced revenue system. That is, the system should include several taxes and other sources of revenue. A diversified revenue system makes it easier to find a balance among competing policy objectives, weather economic difficulties, and compete effectively in the global economy. A tax on the capital value or current market value of immovable property can be an important part of such a system. Such a tax has a stable and reliable base, which is attractive during economic swings. Property value can be a good measure of a taxpayer's wealth or ability to pay. Taxes on the annual rental value, or income-producing capacity, of property have similar advantages.

Taxes can influence how taxpayers behave. Ideally, according to market theory, taxes should be "neutral." That is, they should not distort how taxpayers behave. When taxes are neutral, market-pricing mechanisms produce the most "efficient" allocation of resources. Broad-based, proportional taxes tend to be neutral taxes.

Of course, taxes can be deliberately non-neutral in order to further some social or economic policy, such as to make housing more affordable or encourage economic development. On the other hand, non-neutral taxes, whether by accident or by design, also can encourage activities that run counter to societal goals. Taxes that inspire widespread avoidance (legal activities designed to reduce taxes) and evasion (illegal activities designed to reduce taxes) often fall into this category.

A tax on immovable property also is a suitable source of revenue for local governments. The immovability of the tax base makes clear which government is entitled to the tax revenue. If the property is security for the tax, it cannot be evaded. Local government services often are provided to properties or their owners and occupants. The tax captures for local government

some of the increases in the value of land that are partially created by public expenditures. A dedicated source of revenue promotes local autonomy. The visibility of property taxes focuses attention on the overall quality of governance and promotes accountability.

A tax on immovable property is relatively easy to administer. The base is easily identified. The tax is difficult to avoid. Of course, revaluations should be frequent to provide a buoyant base, particularly during periods of economic growth or inflation.

Information collected in the course of administering taxes on immovable property becomes part of a valuable fund of information that has numerous governmental and private uses. If up-to-date and publicly available, this information can play a key role in the development of orderly real property markets.

Despite their advantages—or maybe because of some of them—property taxes often are an underutilized source of revenue. Tax administration experts, who are schooled in income and consumption tax administration, sometimes fail to appreciate the relative advantages of a wealth tax. Valuers schooled in traditional single-property appraisal techniques disdain assessors and property tax valuations. The perceived unpopularity of property taxes, coupled with opposition from taxpayers who benefit from entrenched inequities encourages “legislative neglect.” These reasons, coupled with the perception that property taxes are costly to administer (because the costs of creating a fiscal cadastre and of valuation must be incurred before revenues are received and because compliance costs are ignored) often results in inadequate funding. Consequently, problems with property tax administration and property tax equity become self-fulfilling prophecies.

1.3 Property Tax Systems: An Overview

1.3.1 Design Principles

A number of principles underlie the design of property tax systems. They also can be used to evaluate existing systems. They fall into administrative, social justice, economic, and political categories. Some are complementary; others are mutually contradictory. In the final analysis, most are based on common sense. Notions of fairness, equity, and uniformity predominate. The principles include:

Uniformity. Uniformity implies proportional taxation, often in relation to “ability to pay.” A policy of uniformity may have a fiscal benefit in market value-based systems. In them, over-valued taxpayers complain most quickly about high taxes, which may cause governments to limit tax rates, resulting in under-valued taxpayers paying less in taxes than they might otherwise be willing to accept.

Neutrality. A uniform, broad-based tax is likely to be “neutral,” that is, not distort economic decisions. An efficient tax encourages an optimal mix of the factors of production (labor, capital, management, and land), which according to economic theory increases general welfare. High taxes on one factor of production tend to shift investment toward others with lower taxes. Of course, one must distinguish the initial impact of a tax from its ultimate incidence. For example, a tax levied on the owners of apartment buildings might be passed along to tenants in the form of higher rents. Such shifting might be part of the rationale for some forms of discriminatory taxation; businesses, in effect, are viewed as tax collectors.

Stimulation of Business Investment. The rationale for equitable taxation of business property is the need to provide a level playing field: overtaxed properties are at a competitive disadvantage. However, tax preferences and incentives—deliberate departures from the uniformity principle—are sometimes used to subsidize particular industries or to attract business and investment.

Openness or Transparency. Openness is a characteristic of democratic government. Open immovable property markets function better.

Public Acceptance. Public acceptance is the cumulative effect of many things, including level of tax, ease of payment, benefits received, openness, and perceived fairness. A genuine commitment to public service and a successful public information and assistance program can build public acceptance.

Buoyancy. Buoyancy refers to the ability of tax yields to rise (or fall) with the economy. Since property taxes are not transaction- or flow-based, buoyancy requires administrative actions, such as frequent revaluations, adjustments to property tax rates, or both.

Cost-effectiveness. Conceptually, a cost-effective property tax system is one in which virtually all taxable property is discovered, valuation and other assessment errors are minimized, tax collections approach 100 percent of the total amount due, and the costs of administration (including taxpayers' compliance costs) are minimized. In practice, it is difficult to express all effectiveness measures in monetary terms, and each criterion must be evaluated separately. The notion of cost-effectiveness embodies the economic concepts of marginal utility and diminishing returns. That is, a certain level of expenditure is needed before any measure of effectiveness can be achieved, but the optimal level of expenditure may be significantly below the level of expenditure that maximizes effectiveness. However, one can sometimes change a property tax system (for example, by installing a newer computer system) to achieve an increase in effectiveness without additional cost.

1.3.2 System Perspectives

Property taxation takes place in a dynamic and complex political and economic environment. Consequently, property tax systems are unavoidably complex. They can be described in different ways.

Elements. Property tax systems comprise people, policies, technology, data, and processes (figure 1-1). Policies and processes acquire legitimacy through legislation. The legislative framework of a property tax system should set out policy choices clearly, provide the environment for their achievement, and assign responsibilities. Laws, regulations, and court decisions establish the legal framework. Matters requiring legal support include organizational responsibilities, power to tax, liability for tax, property subject to tax, basis of tax, taxpayer rights and responsibilities, and so forth.

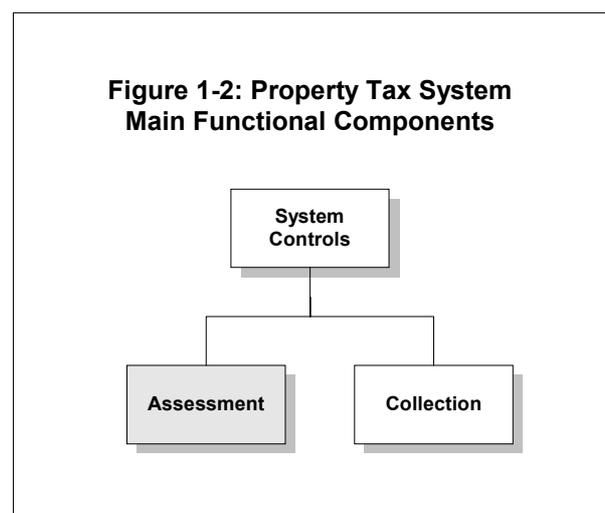
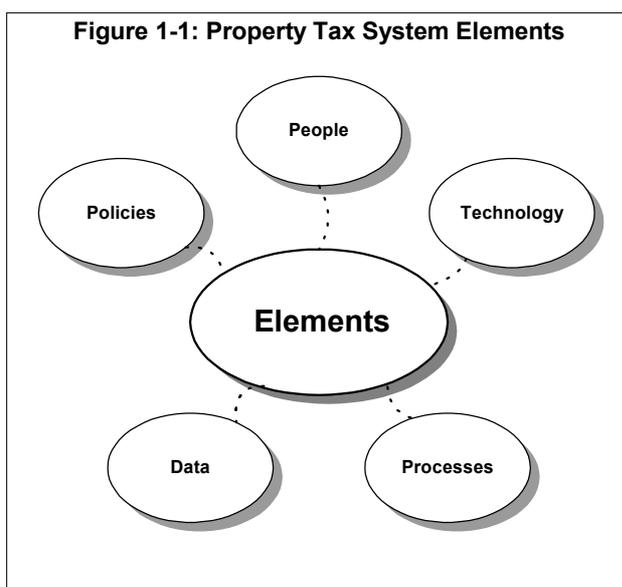
Functions. Functionally, a property tax system does three things. It identifies and links taxable subjects (taxpayers) and objects (taxable property). It produces tax assessments. It collects taxes. If any of these is done poorly, tax equity will suffer, revenue generation also may suffer, and public acceptance will erode. The achievement of the ultimate objective of a property tax system—an equitable, legal apportionment of property tax—requires careful planning and wise use of resources, sufficient data, and—in market value-based systems--a

mass appraisal program capable of producing accurate, supportable valuations. But the process does not stop with valuation. Exemptions and other tax relief measures must be applied. Valuation or tax notices must be issued and delivered to taxpayers. Taxpayers must be allowed to review their assessments and appeal them if they desire. Appeals must be processed. Tax payments must be received, properly accounted for, and deposited in the appropriate treasury. Taxpayers must be provided with sufficient information to fulfil their obligations. Taxpayer questions must be answered and their acceptance of new property tax systems obtained.

From the foregoing, it can be seen that the main functional components of a property tax system are an administrative or internal control component, an assessment component, and a collection component (figure 1-2). The administrative component controls the other two. It dictates powers and responsibilities (including the power to tax property). It provides resources and controls how they are used. The assessment component determines who is to pay a tax and the size of each taxpayer's share of total taxes. The assessment component may include a valuation system. The collection component bills, receives, accounts for, and distributes property tax payments. It also embraces efforts to ensure compliance.

Phases. As the process framework implies, there is a time dimension as well. Tax systems always are dynamic, not static. Taxation occurs in annual cycles. Often there are longer intervals between reassessments.

Linkages. A property tax system does not exist in isolation of other systems. Consequently, there are the linkages among the property tax system, its clients or stakeholders, and other systems. There are “internal” linkages when administrative responsibilities are divided among more than one agency. In a formal sense, the “clients” of the property tax system are the recipients of property tax revenues. At the same time, taxpayers should be satisfied that the system provides a legal, fair distribution of property tax burdens. At the process level, the main external linkages are with taxpayers, the land title system, building permit issuing authorities, and real estate professionals. Processes should be designed to facilitate common linkages.



1.3.3 Conclusion

As will be seen, a country may have more than one recurrent property tax. For example, a tax on land may differ from a tax on buildings. As also will be seen, variations in property taxation can occur among areas of a country, particularly countries with federal systems of government, such as Germany and Switzerland. The United Kingdom is another example, where differences exist between England and Wales, Northern Ireland, Scotland, and the smaller island territories of Isle of Man and Jersey. In addition, differences are possible in Hungary and Netherlands.

2. Property Taxation Powers, Recipients, and Revenues

Section 2 addresses fiscal issues. It covers the power to tax property (2.1) and recipients of property tax revenues (2.2). It provides summary information about property tax revenues in relative terms.

2.1 Power to Tax Property

The power to tax property may rest with the central government, regional or local governments, or both. Generally, a country's constitution would establish basic taxation powers. In most of the countries surveyed, the power to tax property rests with the central government. However, the Hungarian legislation enables municipalities to decide whether or not to tax property. Recent reforms in Netherlands allow municipalities to enact their own property tax by-laws. Switzerland, a federal country, also gives cantons and municipalities considerable discretion about whether and how to tax property.

2.1.1 Local Government Discretion

When all or a portion of property tax revenues are assigned to local governments, the central government may give local governments some power to set property tax rates, to decide which properties are to be taxed, and to grant exemptions and property tax relief beyond that called for in national legislation. Discretion over the tax base itself is limited in Europe. Denmark, Hungary, Netherlands, the Russian Federation, and Switzerland are exceptions. In Denmark, municipalities may elect to impose the Service Tax on non-residential buildings. In Hungary, local governments can decide which of five classes of property to tax and which of two bases of taxation. In Netherlands, local authorities had until 1997 the power to choose between capital value or floor area as a base for the Municipal Tax. The Russian Federation has enacted legislation that allows certain local authorities to institute market value-based property taxes. In Germany and Switzerland, *regional* governments (*länder*, and cantons, respectively) may have authority to limit rates chosen by local authorities.

When local governments have some discretion regarding property tax rates, central governments usually set upper limits on rates and may set lower limits. The objective of an upper limit may be to prevent a level of taxation that is deemed excessive. The objective of a lower limit often is to encourage a certain minimum level of property taxation and reduce the magnitude of central government grants. What the limits should be is a matter of political judgment. Following are brief descriptions of the autonomy local governments may have. (Among the countries that grant local governments little or no discretion over property tax rates are Albania, Armenia, Bulgaria, and Lithuania.)

Transitional Countries

- C *Armenia.* Local governments may grant exemptions when there is a need, although they are ignored when subventions are calculated.
- C *Czech Republic.* Municipalities may by decree apply coefficients to the tax rates set in the legislation to reflect differences in location and quality of buildings.
- C *Estonia:* There have been several changes in how land tax revenues are shared between the central government and municipalities. Beginning in 2000, revenues from

the land tax once again were shared between the central and local governments. However, rather than being shared on a percentage basis as they were in the past, they now will be shared based on where they originate. Local governments will receive the tax from properties owned privately or by the state. The central government will receive the tax from properties not yet restituted or privatised.

In 1999, local governments received all revenue from the land tax. They could set tax rates within the range allowed by law. The average tax rate for non-agricultural land was 1.5 percent in 1998 and 1.6 percent in 1999 (the allowable range was 0.5 to 2.0%). The average rate for agricultural land was 0.7% in 1998 and 0.76% in 1999 (allowable range: 0.3 to 1.0%). Municipalities also may reduce rates for individual properties (although such reductions are not taken into account in calculating grants to municipalities).

- C *Georgia*. Local authorities may increase or decrease the tax rates on specific plots of agricultural land by 20%, as long as the total amount of tax for the rural administrative unit is unchanged. They also set territorial ratios under the tax on non-agricultural land.
- C *Hungary*: Municipalities have the power to impose one or more local taxes, and in 1994, 1,500 of Hungary's 3,100 municipalities imposed some form of local taxation. The central government sets upper limits on tax rates. Municipalities also have the power to grant some exemptions (while others are mandated by the central government).
- C *Latvia*. Under the old land tax, municipalities could vary stated rates by plus or minus 50%.
- C *Lithuania*: The basic land tax rate is 1.5 percent of cadastral value, and the enterprise property tax rate is 1.5 percent. Municipalities may vary the property tax rate by 50 percent. Municipalities may reduce the taxes on particular properties or exempt them completely at the expense of their own budgets. (Following a 1995 reorganization, Lithuania has fifty-six municipal governments, a comparatively reasonable number.)
- C *Moldova*. Local authorities may grant tax relief from the land tax when there has been a natural calamity and other exceptional circumstances.
- C *Poland*: Parliament sets the rates for the agricultural and forest land taxes. The 1991 law gives local governments the right to set property tax rates subject to ceilings. They also may enact some exemptions and abatements. Exemptions derive from three sets of laws (exemptions in the law on local taxes and fees, exemptions granted by separate national legislation, and exemptions granted pursuant to the municipalities' powers to grant exemptions).
- C *Romania*: Municipalities may vary the rate on the property of legal persons under the building tax and the tax on land. The allowable range for buildings is 0.5% to 1.0% of balance sheet value.
- C *Russian Federation*. Local and regional authorities annually set rates for physical person and enterprise property taxes subject to legal maximums of 0.1% and 2%, re-

spectively. The land tax legislation sets limits on average per-hectare tax rates in each locality, and localities may vary actual rates within the area to account for differences in the desirability of the land and other factors.

- C *Slovak Republic.* Municipalities vary statutory land tax rates by as much as 100% and building tax rates by as much as 50% after application of population coefficients.
- C *Slovenia.* Municipalities decide property tax rates within the limits set by the central government.

Developed Countries

- C *Austria.* Property tax rates are a combination of the federal basic rate, which varies with the type of property, and locally determined commune multiple, which must not exceed 500 percent. Most communes have adopted the maximum multiple.
- C *Denmark.* Parliament has fixed the land tax rate for counties at 1%. Municipalities annually decide the land tax rate between the upper and lower limits set by Parliament (0.6% and 2.4%, respectively). In 1999, 43 of the 275 municipalities adopted the lowest rate, and 11, the highest. The average rate was 1.3%.

As noted, municipalities may elect whether to impose the service tax, and, if they do, they may select any rate that does not exceed the maximum established by Parliament (1.0% for business buildings and 0.5% for government buildings). In 1999, 29% of municipalities imposed the service tax on business buildings, and the average rate was 0.7%. Seventy-four percent imposed the service tax on government buildings, and the average rate was 0.488%. Counties also may impose the service tax on government buildings, and all did so at the maximum allowable rate of 0.375%.

Municipalities have the power to grant many categories of exemptions.

- C *Finland.* A municipality may set its rate within the ranges established in the Real Estate Tax Law (see section 5.4.1).
- C *France:* France has four levels of local government: (1) regions, (2) departments, (3) groups of communes (parishes), and (4) communes, of which there are 36,000. A commune property tax rate must be no greater than 2.5 times the average rate in the department or the national rate, if higher.
- C *Germany:* Property tax rates are a combination of the federal basic rate (*Steuer-messzahl*) and locally determined municipal coefficients (*Hebesatz*). Municipal coefficients range from 280 percent to 600 percent, which brings the effective rates to between 0.98 percent and 2.1 percent of the fiscal value of business property. The average rate is around 1.55.
- C *Ireland:* Local rating authorities set rates each year. In 1999, there were twenty-nine county councils, five county borough corporations, five borough corporations, and forty-nine urban districts.

- C *Italy.* Communes may adjust the upper and lower limits of the business income adjustment under the Local Business Tax. Under the Tax on Immovable Property, communes may select tax rates within legislated limits.
- C *Netherlands:* Municipalities may impose either, both, or neither of the owner's tax and the user's tax. Most impose both. Municipal tax by-laws need Royal Assent before taxes can be levied.
- C *Portugal:* Annually, municipalities (305 in total) determine the tax rate for urban properties within a range of 1.1% to 1.3% of value. (The tax rate on rural properties is fixed at 0.8%.)
- C *Sweden.* The real estate tax is a national tax.
- C *Switzerland:* Cantons and municipalities may choose one of a number of property tax systems. In some cantons, only the canton levies a property tax. In others, only communes levy property taxes. In the others, both the canton and the communes levy property taxes. However, cantons may place limits on commune property tax rates.

The Land Tax rate varies between 0.05 percent and 0.3 percent of the value.
- C *United Kingdom.* Under the Council Tax, about 500 local rating authorities determine the rate of tax for properties in band D, which sets the level of property taxation in the remaining bands (see section 5). Parliament establishes the tax rate under the non-domestic rates.

2.1.2 Rate Setting Approaches

International practice reveals several approaches to setting property tax rates. They may be:

1. Fixed in legislation,
2. Annually adjusted for inflation, or
3. Determined based on budgetary needs.

In addition, property tax rates may be single or compound (that is, built up from the rates of overlapping regional and local governments). France provides a good example. Its sub-national governmental structure comprises twenty-two regions, ninety-five departments (counties), nine metro districts, and 35,000 communes. Each sets rates subject to limits. Compound tax rates blur accountability. In Denmark, the land tax rate is the sum of the fixed county rate and the variable municipality rate.

Fixed rates or fixed ranges in rates are simplest to introduce. However, local governments have only a limited ability to set rates that match local needs and ability to pay. Moreover, yields cannot be easily predetermined, and, once maximum rates are reached, yields are totally dependent on the size of the property tax base. Inflation and infrequent reassessments may diminish revenues in real terms.

Countries with fixed rates include:

- C *Albania.* Parliament decides property tax rates.

- C *Belarus.*
- C *Bulgaria.* The rate differentials discussed in section 5.4.1 are fixed.
- C *Georgia.* The rate of tax on the property of physical persons is 0.1% of inventory (insurance) value, and the enterprise property tax rate is 1.0 percent of balance-sheet residual value.
- C *Hungary.* In 1996, the maximum rate for the land tax was 200 forints per square meter or 3% of value; the maximum rate for the building tax was 900 forints per square meter or 3%.
- C *Lithuania:* The Enterprise Real Estate Tax rate is fixed at 1 percent, and the Land Tax rate is fixed at 1.5 percent.
- C *Denmark.* Parliament has set the rate structure for the property value tax on residential properties (see section 5.4.1).

Providing for annual indexing (the second approach) adjusts for the effects of inflation. Provisions for annual adjustments vary considerably, as the following examples show:

- C *Moldova.* Rates are set annually in the budget law (see section 5.4.1).
- C *Poland:* The rate for the agricultural land tax is the value of five quintals of rye. The Ministry of Finance sets the maximum rates each year.
- C *Russian Federation.* Land tax rates are indexed to compensate for the effects of inflation.
- C *Slovak Republic.* Coefficients have been adjusted to account for inflation.
- C *United Kingdom:* Parliament sets the rates used for under the Uniform Business Rate. Different rates are set for England and Wales. The rate poundage also is adjusted for inflation using the retail price index (RPI).

When rates are based on budgetary needs (the third approach), the first step is to determine the amount of revenue desired from the property tax, which is called the property tax levy. This levy usually is the difference between planned expenditures and the revenues anticipated from other sources (fees, other taxes, grants from other tiers of government, and so forth). Mathematically, the property tax rate results from application of the following formula:

$$R = \frac{E - NPR}{AV} ,$$

where R is the rate of tax, E is the total approved budget, NPR is total estimated non-property-tax revenue, and AV is total assessed value. (The rate, R , can still be subject to limits.) This approach is taken in Netherlands, where there are no limits, except that annual increases in either the owner's tax rate or the user's tax rate cannot exceed 20 percent. Subject to any canton limits, municipalities in Switzerland also may set rates based on budgetary

needs. (Other countries in which property tax rates are based on local budgetary needs include Australia, Canada, and the United States.)

2.1.3 Revenue Sharing

Central governments may decide to share property tax revenues with local governments even when the latter have no autonomous rights. For example, land tax revenues in Estonia originally were shared between the central and local governments. The percentages changed over time, and as noted above, local governments eventually were given some discretion over rates. In the Russian Federation, land and physical person property taxes nominally are assigned to local governments, but the central government retains about 10% of collections. The enterprise property tax is assigned to regional governments (*oblasts*), but local governments receive about 50%.

2.2 Recipients of Property Tax Revenues

As noted in section 1.2, property taxes are considered especially appropriate for local governments. In many of the countries surveyed, local governments receive all or most of property tax revenues, even when the central government alone possesses the power to tax property.

According to Müller 1997, countries making increased use of property taxes in recent years include France, Portugal, Spain, Sweden, and the UK. There were no significant trends in Denmark, Netherlands, and Norway.

Although they have property tax laws on the books, Finland and Italy appear to receive little or no revenues from property taxes. Similarly, it appears that in 1998 any revenues from taxes on property in Germany were negligible (the last year for which property tax statistics were given was 1996). Austria, Luxembourg, and Switzerland also make little use of the property tax (Müller 1997).

It is worth noting that there are arguments for allocating a portion of property tax revenues to the central government. Having a direct fiscal stake in the property tax gives the central government a stronger reason to ensure that the law is administered properly and uniformly. It would be more likely to provide adequate funding for property tax administration. It would have stronger reasons to compel local governments to perform their responsibilities properly, such as submitting required data when needed. With adequate data, the central government would be better able to measure local property tax capacity and effort. The 1999 edition of the International Monetary Fund (IMF) *Government Finance Statistics Yearbook* shows the following *central* governments as receiving recurrent property tax revenues: Albania, Azerbaijan, Latvia, and Russian Federation. In addition, the central governments of Austria, Belgium, Denmark, Greece, Ireland, Spain, Sweden, and United Kingdom are listed as receiving revenues from recurrent property taxes.

Tables 2-1 and 2-2 present available data on recipients of property tax revenues. Sources include the IMF yearbook mentioned above, OECD, Paugam, and country presentations made at OECD property tax courses. Tables 2-1 and 2-2 also present recent statistics on property tax revenues. However, differences in currency, tax bases, and so forth make it difficult to make meaningful international comparisons of the fiscal importance of property taxes. Moreover, the only source of comparable statistics for most of the countries surveyed,

the International Monetary Fund, presents property tax statistics for central and local governments in non-comparable levels of detail. Measures that facilitate comparisons include property taxes as a percentage of all taxes or of all local taxes. Other measures are property taxes as a percentage of gross domestic product (GDP) and if the data are available, property taxes as a percentage of personal income. When the necessary data are available, effective property tax rates are another useful measure. An effective property tax rate (*ETR*) is property taxes paid (*PT*) as a percentage of the current market value of the property (*MV*), as in the following formula:

$$ETR = 100 \times \frac{PT}{MV} .$$

When valuations are out of date, “ratio study” data can be used to estimate effective tax rates using the following formula:

$$ETR = 100 \times \frac{PT}{AV} \times SAR,$$

where *AV* is assessed value and *SAR* is the sales assessment ratio, which is the reciprocal of the assessment-sales ratio. See section 3.2 for a discussion of assessment-sales ratio studies.

Table 2-1. Fiscal Arrangements in Transitional Countries

Country	Power to Tax Property	Revenue Recipients	Local Power to Change Rates	Property Taxes as a Percent of GDP (Year)	Other Indicators of the Importance of Property Taxes
Albania	Central government	Central government, but about 60 percent is given to local authorities	No		Property taxes are negligible
Armenia	Central government	Now 100%	No		
Belarus	Central government	Local governments receive about 75%	No		
Bosnia & Herzegovina					
Bulgaria	Central governments	Local governments receive about 50%	No		The property tax is about 0.5% of total taxes (1995)
Croatia		Local governments			
Czech Republic	Central government	Local governments	Yes	0.23 (1998)	2.66% of local revenues (1996-7)
Estonia	Central government	Central and local governments	Yes	0.41 (1998)	1-2% of all tax revenue.
Georgia	Central government	Local governments	No		Property taxes constitute less than 1% of total taxes (1994)
Hungary	Local governments	Local governments	Yes	0.15 (1996-7)	1.07% of local revenues (1996-7)
Latvia	Central government	Regional and local governments	Yes		12-13% of local revenues (1996-7)
Lithuania	Central government	Local governments	No	0.57 (1996-7)	10-11% of local revenues (1996-7)
Moldova					
Poland	Central government	Local governments	Yes	1.15 (1996-7)	13.9% of local revenues (1996-7)

Country	Power to Tax Property	Revenue Recipients	Local Power to Change Rates	Property Taxes as a Percent of GDP (Year)	Other Indicators of the Importance of Property Taxes
Romania	Central government	Local governments	Yes		Due to inflation, property tax revenues as a percentage of total local tax revenues in Romania have declined from 28% in 1996 to 19% in 1998 (but the revaluation is expected to reverse the trend).
Russian Federation	Central government	Central, regional, and local governments	Yes		
Slovak Republic	Central government	Local governments		< 0.8 (1996-7)	8.7% of local revenues (1996-7)
Slovenia	Central government	Local governments	Yes	0.44 (1996-7)	
Ukraine	Central government				
Yugoslavia					

Notes: A blank signifies that no information is available.

Table 2-2. Fiscal Arrangements in Developed Countries

Country	Power to Tax Property	Revenue Recipients	Local Power to Change Rates	Property Taxes as a Percent of GDP (Year)	Other Indicators of the Importance of Property Taxes
Austria	Central government	Communes	Yes	0.27 (1995)	1.8% (1995)
Belgium				1.15 (1995)	17.22% (1995)
Denmark	Central government	Local governments (municipalities & counties)	Municipalities: Land tax: rate must be between 0.6 % & 2.4%. Service Tax: fixed (1.0%)	1.42 (1979) 1.0 (1991) 0.96 (1998)	3.24% of local revenues (1995)
Finland	Central government	Local governments	Limited	0.48 (1995)	2.62% of local revenues (1995)
France	Central government	Local governments	Limited	1.14 (1979) 2.2 (1990) 1.63 (1995)	20.73% of local revenues (1995)
Germany	Central government	Local governments	Limited	0.37 (1979) 0.4 (1995)	6.82% of local revenues
Ireland	Central government	Local governments	Limited	1.16 (1979) 0.87 (1995)	7.91% of local revenues
Italy	Central government	Regional governments (10% of the business tax) and local governments		0.81 (1995)	6.8% of local revenues (1995)
Luxembourg		Central & local governments		0.14 (1995)	2% of local revenues (1995)
Netherlands	Local governments	Local governments	Limited	0.84 (1979) 0.6 (1991) 0.75 (1995)	5.34% of local revenues (1995). Effective tax rates seldom exceed 1%.
Norway					
Portugal				0.41 (1995)	8.63% of local reve-

Country	Power to Tax Property	Revenue Recipients	Local Power to Change Rates	Property Taxes as a Percent of GDP (Year)	Other Indicators of the Importance of Property Taxes
					nues (1995)
Spain	Central government	Local governments	None	0.13 (1979) 0.68 (1995)	6.91% of local revenues (1995)
Sweden	Central government	Central government	Fixed (1.5, 2.5, and 3.5%)	0.40 (1979) 0.93 (1995)	
Switzerland		Regional & local governments	Yes	0.18 (1979)	
Turkey	Central government	Local governments	Not applicable	0.25 (1979)	
United Kingdom	Central government	Local governments	Unlimited (under old Rates)	3.30 (1979) 3.26 (1995)	12.56% of local revenues (1995)

Note: A blank signifies that no information is available.

2.3 Measures to Compensate for Fiscal Disparities among Local Governments

Particularly with highly decentralized local government, a local government's own-source fiscal resources (tax capacity) may not match its citizens' demands for governmental services or may not be sufficient to fund mandated functions. Some localities have more resources than they need; others have less. As a result, national and higher-level regional governments like provinces often make grants to needy local governments to enable them to provide necessary services. Often, the property tax capacity and effort of a local government influences the size of the grant it is eligible to receive. This is the case in Denmark. In France, portions of certain grants to local governments are distributed in proportion to tax bases and a portion on the basis of effort. In Switzerland, a canton may make grants when a community taxes at the maximum allowable rate but cannot meet its revenue needs.

Another approach might be termed "tax base sharing." An example of this approach is the way "rates" (property taxes) on non-residential property are collected and distributed in the United Kingdom. Although the rates are collected locally, all revenues are transmitted to the central government, which then distributes them to local governments on the basis of the population of local governments (this approach also is taken in some places in Canada and the United States).

Grant calculation mechanisms often attempt to ensure that a local government is making full use of its property tax capacity. For example, the government may be required to use the maximum allowable tax rate, and the tax base lost through local option exemption and relief measures may be disregarded.

2.4 Payments in Lieu of Taxes

As with variations in the total value of property in each local government, there also are considerable variations in the distribution of tax-exempt properties, and localities with high concentrations of tax-exempt property (such as national capitals) obviously have a diminished property tax capacity. Some such localities may have an increased demand for certain services as well. National government agencies and some regional compensate for such losses in taxable property by providing special grants or payments in lieu of property taxes (the acronym "PILOT" is sometimes used to describe these compensation schemes).

In France, the large number of local governments result in substantial fiscal disparities. Under the Land and Building Tax, grants are made for some government property when losses from exemptions exceed 10% of tax yield, calculated on the basis of tax liability in the absence of exemptions. In 1987, PILOT payments totaled 5.2 billion francs.

Denmark partially avoids the need for payments in lieu of taxes by making central government properties fully liable for the land tax for municipalities and partially liable for the land tax to counties. In Estonia, the central government pays about one-third of all land tax revenues on state-owned forestland.

3. Administrative Arrangements

3.1 Introduction

Property taxation may be said to embrace (1) supervision and control; (2) fiscal cadastre maintenance, assessment, and sometimes valuation; (3) billing, collection, and accounting for revenues; and (4) appeal. It is common for these functions to be performed by different organizations. In such a situation, ensuring good communications, cooperation, and smooth data flows can be difficult. Similar considerations apply to links to organizations outside of tax administration, such as the legal cadastre, surveying and mapping agencies, agriculture ministries, and so forth. Property tax administrations must deal with stakeholders such as taxpayers (individually and through interest groups), tax recipients, and policy makers in legislative bodies. Section 3 discusses different administrative options for carrying out such responsibilities. Section 3 also addresses self-assessment, the role of the private sector, and automation. Available data on funding and staffing are presented. The section also touches on common institutional issues, such as the “orphan” status of the property tax administration, its weak powers to bring about effective coordination among institutions of equal status, the extent of devolution from central to local governments, the relationship between the legal cadastre and the fiscal cadastre, and if the property tax is value-based, which agency (agencies) should be responsible for valuation.

Tables 3-1 and 3-2 identify the main agencies responsible for property tax administration in Europe.

Table 3-1. Administrative Arrangements in Transitional Countries

Country	Supervision	Assessment		Collection	Notes
		Agency	Functions		
Albania		Building registration agency		Land, STI local office Buildings: Electric enterprise	
Armenia		Cadastral Department	Maintenance of cadastral records & valuation	State Revenue Ministry	
Belarus	Ministry of Finance			Tax authority	
Bosnia & Herzegovina					
Bulgaria					
Croatia					
Czech Republic	Ministry of Finance Financial Directorates	Financial Offices		Financial Offices	The 8 financial directorates and 223 financial offices are under the Ministry of Finance.
Estonia	Ministry of Finance National Tax Board	National Land Board County cadastral offices & local governments	Market monitoring and valuation modeling Carry out revaluations by applying models to individual properties	Local offices of National Tax Board	
Georgia	Tax Inspection of Georgia	Enterprises Municipalities / Inventory bureaus	Assessment of enterprise property Assessment of property of physical persons	Tax Inspection of Georgia	
Hungary	Ministry of Finance (collects statistics on local taxes)	Local technical departments Local tax departments	Residential property data	Local tax departments	There are 3,100 local governments

Country	Supervision	Assessment		Collection	Notes
		Agency	Functions		
Latvia		State Land Service	Valuation	State Revenue Service	
Lithuania	The Ministries of Environment and Agriculture oversee the SLCR, which has a central office responsible for supervision of branch and client service offices.	State Land Cadastre and Register (SLCR) State Tax Inspectorate Enterprises	Maintain land and building attributes Valuation Apply coefficients Self-assessment	State Tax Inspectorate (of the Ministry of Finance) with assistance from municipalities.	The SCLR has a central office, eleven branch offices, and thirty-six client service bureaus. The STI has fifty-six branch offices.
Moldova					
Poland	Ministry of Finance	Regional offices Municipalities <i>Vovoidships</i>	Maintain records on 56% of parcels Maintain records on 27% Maintain records on 7%	Local authorities, although tax offices are responsible for enforcing overdue payments.	Vovoidships are regional central government administrative areas.
Romania		Local authorities Legal persons		Local authorities	
Russian Federation	Ministry of Finance	Bureaus of Technical Inventories State Tax Service	Assessment of buildings Maintains registers of taxpayers	Local authorities mail land tax bills State Tax Service collects all property taxes	
Slovak Republic	Ministry of Finance	Local authorities	Assessment	Local authorities	There are 2,850 local authorities
Slovenia	Ministry of Finance	Local authorities		Tax authorities	Tax authorities are under the Ministry of Finance.
Ukraine					
Yugoslavia					

Note: A blank signifies that no information is available.

Table 3-2. Administrative Arrangements in Developed Countries

Country	Supervision	Assessment		Collection	Notes	
		Agency	Functions			
Austria		Ministry of Finance	Valuation	Communes		
Belgium						
Denmark	Ministry of Taxation (Central Customs and Tax Administration) coordinates property tax administration.	Central Customs and Tax Administration Municipalities and counties	Valuation Other	Municipalities and Counties Ministry of Taxation	Land & service taxes: All billing and collection functions Property Value Tax	The Central Customs and Tax Administration works with 224 three-member valuation committees.
Finland						
France		The Cadastre General Tax Directorate (<i>Direction Générale des Impôts</i>). Local governments	Register land plots and premises. Valuation Assist with property identification and data collection	Central government	Ownership information is recorded in the <i>Fichiers Cadastraux</i> , a register of deeds organized by cadastral number. There are about 313 property tax centers and four regional data processing centers.	
Germany		Central government Local authorities and states	Valuation Other	Local authorities and states		
Greece		Local governments		Local governments	Prior to 1993, the central government was responsible for property tax administration.	

Country	Supervision	Assessment		Collection	Notes
		Agency	Functions		
Ireland		Valuation Office Local authorities (90±)	Valuation Preparation of valuation lists		
Italy	Ministry of Finance	Communes	Assessment	Communes	
Netherlands	National Valuation Board (<i>Waarderingskamer</i>), which approves local revaluation plans, makes ratio studies.	Municipalities	Cadastre maintenance, valuation	Municipalities	Prior to 1992, the central government administered property taxes. The central government has developed a model local property tax by-law. Officially, the mayor and council of each municipality are responsible for assessment. Some delegate the responsibility to civil servants, while others hire companies to do the work.
Norway					
Portugal		DGCI (municipal valuation committees) IGC	Valuation of urban & some rural properties Valuation of other rural properties	DGCI Urban	DGCI stands for General Direction of Taxation, which has 22 district offices. IGC stands for Geographical and Cadastral Institute. Valuation committees are composed of two valuers appointed by DGCI and one by the municipality. There are rural and urban valuation committees.
Sweden	National Tax Board (<i>Riksskatteverket</i>) National Courts Administration	Tax Authorities National Land Survey Land register authorities (93) Local real estate assessment boards	Assessment Valuation, Real Property Register Land Register Assist with valuation	National Tax Board	

Country	Supervision	Assessment		Collection	Notes
		Agency	Functions		
Switzerland					Property tax responsibilities vary with the canton. Each canton has a manual deed or title registry.
Turkey		Ministry of Finance, Property Tax Department		Municipalities	
United Kingdom England and Wales		Valuation Office Agency Local assessors	Valuation	Local governments	
Scotland		Valuation Office			
Northern Ireland					

Note: A blank signifies that no information is available.

3.2 Supervision and Control

Section 3.2 is concerned with relationships among independent agencies involved in property tax administration in the same tier of government and with relationships between tiers of government. It is not about the management of any single agency (although that is important to successful property tax administration).

There is a need for a supervisory or control function when overall responsibility for property tax administration is divided among different agencies and tiers of government. Each agency or unit of government must be told about and held accountable for carrying out its responsibilities properly and in a timely fashion. Documents and data must flow smoothly through the property tax system.

When local governments have considerable latitude in setting tax rates, granting exemptions and relief, and the like, safeguards are needed to prevent a few local governments from under-assessing or under-taxing property in hopes of receiving a larger grant from the central government. This issue arises when a factor, such as taxable value per capita, is used in calculating the amount of the grant. There also is a need to guard against corruption.

Because responsibility for property tax administration is highly decentralized in the United States, the supervisory function is highly developed. Supervisory agencies typically have four broad, interrelated functions: (1) setting standards and specifications, (2) assisting and counseling local assessors and other property tax officials, (3) monitoring their performance and making other analyses, and (4) enforcing laws and regulations. The development of standards and specifications is necessary for effective, uniform administration of property tax laws. Assistance and counseling activities are helpful to and supportive of effective local government. Although essential to effective state supervision, monitoring and analysis often is seen by local governments as an intrusion or a threat. Enforcement is contentious and confrontational, with the state being in a resented position of power. However, enforcement actions are necessary when local practices do not come up to standards. The challenge a supervisory agency faces is achieving the balance of activities that results in the highest level of performance with the least consumption of resources and the least amount of stress. In other words, the more effectively a state encourages high-level performance and the more effective its assistance activities are, the less onerous its enforcement activities will need to be. In summary, the assessment supervision model combines effective programs for monitoring local conditions and local performance, a strong commitment to assisting when necessary, “counseling” when performance falls below expectations, and enforcing legal standards firmly and consistently. (Application of the American supervision model varies considerably. The executive branches of Connecticut, Delaware, and Hawaii exercise virtually no supervision of local assessors. At the other extreme, Maryland and Montana have supplanted local assessors. The remaining states are in between. For a current description of supervisory practices, see *Property Tax Policies and Administrative Practices in Canada and the United States*, International Association of Assessing Officers, 2000.)

An important technique for evaluating valuation performance is the *ratio study*. In a ratio study, ratios (R) of appraised values (A) to independent indicators of market value, preferably bona fide sales prices, (S) are calculated, as in the following formula:

$$R = A/S.$$

Statistics describing the general level of the ratios (such as the mean and median) and describing the uniformity of the ratios (such as the coefficient of dispersion and coefficient of variation) would be calculated for each local authority and for important categories of property in each authority. European countries that regularly make ratio studies include Denmark, Netherlands, and Sweden. (For more information on ratio studies, see a textbook like *Mass Appraisal of Real Property* published by the International Association of Assessing Officers in 1999).

Even in a highly centralized property tax system, there usually is some need for a supervisory function, and typically in Europe a ministry (often the Ministry of Finance) proposes legislation, prepares regulations, and generally oversees the taxation of property. Supervisory activities include the special administrative arrangements needed when revenues from a tax are shared between tiers of government. For example, a superior government may issue an order to a lower level of government with responsibility to collect taxes on its behalf (sometimes by specifying the rate and other times by specifying the amount).

In Denmark, the Central Customs and Tax Administration works with twenty-seven supervisory boards in supervising the work of the 224 local valuation committees. The three-member boards are composed of the chairmen of the valuation committees. The boards also participate in the appeals process. The Central Customs and Tax Administration may override the values set by the local valuation committee should the committee not have valid reasons for adjusting computer-generated values.

(See tables 3-1 and 3-2 for notes on supervisory activities.)

3.3 Assessment and Valuation

In this survey, the term “assessment” encompasses all the processes needed to produce an assessment list, which is a list of properties (or taxpayers) and the factors (such as property use, area, value, eligibility for exemptions, and so forth) that determine property tax liabilities (loosely, the “fiscal cadastre”). The scope of the section, therefore, includes varying institutional arrangements for identifying taxpayers and taxable properties, classifying them for purposes of taxation, valuing property, and granting of exemptions and other forms of property tax relief. The role of taxpayers also is discussed.

3.3.1 Fiscal Cadastre

A fiscal cadastre includes records about taxpayers and properties (land parcels, buildings, and other assessable property). International experience provides many different organizational designs. Responsibility for the fiscal cadastre may rest with the central government or given to local governments. At the central government level, organizational options include a surveying authority like SMA, a specialized agency, and a part of the tax administration.

3.3.2 Valuation

Valuation agencies may be part of the tax administration or part of another agency. Moreover, responsibility for the two main property tax valuation activities (the development of valuation models and, second, the application of those models to individual properties) may be given to a single agency or the responsibility may be divided. Sometimes taxpayers are

responsible for the latter activity (as in Turkey). Denmark and Spain are among the countries that develop models centrally and apply them locally. In Denmark, the Central Customs and Tax Administration is responsible for developing valuation models, and local valuation committees review computer-generated values and make final valuation decisions. Municipalities appoint provide secretarial assistance. In Spain, the Property Register and Tax Assistance Administration Center (CGCCT) monitors markets and develops valuation models that are applied by sixty-five subordinate regional organizations (area managements or *Gerencias Territoriales*).

An issue that arises is whether valuation (particularly the first task) should be a responsibility of an independent valuation agency or part of the property tax administration. The chief argument for independence is that it is more difficult to exert political pressure to skew valuations to achieve property tax policy objectives. Another argument is that specialized agencies are more likely to develop the expertise needed to value a wide range of properties for a variety of purposes. Disadvantages of independence stem from the fact that specialized valuation agencies often find it difficult to command the resources needed to execute revaluations. Traditionally schooled valuers often derive more satisfaction from doing single-property appraisals for such purposes as property acquisition or disposal than they do from mass appraisal. Independent valuation agencies are common in British Commonwealth countries.

3.3.3 Coordination of Values

One reason for assigning responsibility for valuation to the central government is that valuations for the property tax may be used for other purposes, such as forming part of the base of another tax. Valuations made for the property tax may be used in a net wealth tax (Austria, Germany, Spain, Sweden). In Italy, cadastral values (presumed annual values) are used as imputed income from owner-occupied houses and certain agricultural activities under income taxes. In addition, property tax valuations may be used as a test of the reasonableness of declared values under transfer taxes, gift taxes, and inheritance or estate taxes. When the assessed value is higher than the declared value, it may be used as the basis for the tax (Sweden).

In Netherlands, valuations made for municipal property tax assessments are used for water (polder) board taxes on built property and the central government taxes on imputed income and net wealth.

3.3.4 Self-assessment

Although the property tax administration is responsible for assessment in most property tax systems, an important feature of most systems is a requirement that taxpayers must provide information needed to administer the tax. Taxpayers may be obliged on provide information only on request, or they may have specific reporting requirements. For example, taxpayers commonly are required to disclose ownership of property, prices paid for property and the circumstances of sales. In annual value systems, owners or occupants typically are required to disclose rents paid or received, lease provisions, and, perhaps, expenses paid in maintaining the property. Taxpayers may be required to list and describe their property holdings. They also may be required to notify the tax administration of any changes in ownership or property attributes (Bulgaria, Slovenia, Turkey). Sometimes, taxpayers are required to calculate the assessments on their properties. This is particularly true of property taxes paid by

legal persons in transitional countries. Czech Republic, Poland, and the Slovak Republic are among the countries that require residential taxpayers to submit a return describing their properties. In Czech Republic, owners whose property holdings exceed 1 million Czech crowns in value are required to submit a return every three years.

In several transitional countries, where enterprises were originally state owned and well disciplined, property taxes paid by enterprises are self-assessed. The countries include Armenia, Belarus, Georgia, Lithuania, Poland, Romania, and Russian Federation.

There are two main advantages of self-assessment and similar mandatory reporting: (1) considerable data can be collected in a very short period of time (relative to the time it would take the property tax administration make property-by-property field inspections) and (2) administrative costs are reduced (while compliance costs are increased). The chief disadvantage of self-assessment is lack of accuracy and uniformity in reporting. These problems stem from lack of competence and willful acts of evasion.

Laws concerning self-assessment and other forms of mandatory reporting ordinarily should provide audit powers and sanctions to enforce compliance. In Georgia and the Russian Federation, taxpayers are required to maintain adequate records. The property tax administration also should be alert to attempts to corrupt auditors.

In the “developed country” group, Turkey makes greatest use of self-assessment. In Turkey, the taxpayer must figure both her or his valuation and the amount of taxes due. Tax return forms contain the information needed to calculate building values. Land value rates are published in books available in tax administration offices.

Other examples of self-assessment and mandatory reporting include:

- C *Czech Republic.* Taxpayers are to file a return, in which the taxes due are calculated.
- C *Romania.* All taxpayers are required to file a return.
- C *Denmark.* Questionnaires have been used to gather information about property attributes. Buyers or their lawyers are required to fill out a sales report form. Every four years, the Ministry of Housing and Urban Affairs requires owners of rental properties to report total annual rent (including the rental value of any owner-occupied premises).
- C *Netherlands.* Municipalities have the power to require owners to submit returns. Owners and tenants must supply rental information. Owners may also be required to give opinions of the value of their properties.
- C *Sweden.* Taxpayers are obliged to file returns on non-residential properties. They are used to obtain rental information and construction details. The return forms contain a mixture of questions and pre-printed data, which the owner is to verify. (Data on residential properties are contained in public registers.)

Taxpayers' compliance costs should be reasonable (kept to a minimum). Unnecessary information should not be requested. Another practice to avoid is charging fees essentially for the privilege of being taxed, such as the fees charged by some inventory agencies for valuations

made when property ownership is registered. As discussed in section 3.6, it is highly desirable to isolate property tax administration from land title registration.

3.4 Billing, Collection, and Enforcement

There are several general patterns of responsibility for property tax billing, collection, and enforcement: (1) the central government; (2) local governments; (3) other agencies, such as post offices, banks, and utilities; and (4) a mix of these arrangements.

Decisions regarding the assignment of responsibility for billing and collecting property taxes involve consideration of administrative capacity, taxpayer convenience, and fiscal interest. (Collection and enforcement procedures and practices are discussed in section 8.) Usually, the recipients of property tax revenues (such as municipalities) want some responsibility for property tax administration. Their interest in being responsible for collection has to do with gaining access to revenues sooner. They also have a direct interest in getting taxpayers to pay their taxes on time and, consequently, often are willing to take necessary enforcement actions.

Taxpayer convenience is achieved by having collection points near their homes and by allowing payments to be made by post, through banks, or other convenient means. Except when the taxpayer lives in another community (or state), local governments can provide convenient collection. Administratively decentralized collection agencies can provide similar convenience.

Countries in which the central government is responsible for collection include the following.

- C *Armenia.* After the introduction of the property tax, the State Revenue Ministry reorganized its land and property tax collection responsibilities, which required one-quarter of its total staff of 1,600. Considering this to be an excessive number, the government decided in 1998 that local governments should collect land and property taxes from physical persons.
- C *Estonia.* The fifteen local offices of the National Tax Board collect the land tax.
- C *Georgia.* The Tax Inspection of Georgia is responsible for property tax collection.
- C *Lithuania.* The regional offices of the State Tax Inspectorate collect land and enterprise property taxes.
- C *Denmark.* The new property value tax is collected centrally through income tax withholding.
- C *France.*
- C *Sweden.* Property taxes are collected through income tax withholding.

Municipalities collect property taxes in Hungary, Romania, Germany, and the United Kingdom.

Examples of mixed patterns include:

- C *Albania*. The land tax is collected by the state tax administration, and the building tax is collected by the electricity enterprise.
- C *Czech Republic*. Financial offices under the Ministry of Finance are responsible for collection, but banks also are authorized to accept property tax payments.
- C *Poland*. Larger cities are responsible for property tax collection, while state tax offices collect taxes on behalf of smaller municipalities.
- C *Slovenia*. As can be seen, property tax collection in Slovenia resembles other countries with a mixed pattern. Local tax authority offices collect the property tax. They also collect the charge for use of building ground on behalf of some municipalities (larger municipalities generally collect the charges themselves).

3.5 Appeal

A distinction between property taxes and other types of taxes lies with the respective roles of taxpayers and tax administrators. Income and consumption taxes largely are self-assessed; the role of the tax administration is to process taxpayers' returns and to evaluate the reasonableness of their assessments. In contrast, except for some personal property and unit property assessments, assessors usually determine the taxable base for the property tax, and the review and appeal process gives taxpayers the opportunity to review the reasonableness of their assessments and to challenge them if they so wish.

Usually, appeal processes have a number of hierarchical steps. At the lowest level, appeals are heard locally. As appeals are taken to higher levels, the hearing body has broad geographic jurisdiction. At the highest level, appeals are to the courts.

The following summarizes the administrative structure of appeal systems.

Transitional Countries

- C *Armenia*. Under the general law on taxes, taxpayers have a right of appeal to regional offices of the State Revenue Ministry and thereafter to the central office of the Ministry, which has established a special appeal committee. Appeals from the Ministry may be taken to the courts. In the case of land and property taxes, taxpayers may appeal the actions of the local governments and the Cadastre Department, as well as the actions of the State Revenue Ministry. However, these avenues are largely untested.
- C *Bulgaria*. There is an appeals structure.
- C *Czech Republic*. Appeals may be lodged with the eight financial directorates and from them to the Ministry of Finance.
- C *Estonia*. Appeals initially are to the local government. During the public inspections period, taxpayers may meet with appraisers.

- C *Lithuania.* Under the general law on appeal procedures, land and property taxes may be appealed to the Ministry of Finance and thereafter to the courts.
- C *Poland.* Taxpayers may appeal property tax assessment to a local appeal council. Taxpayers also can appeal any tax assessment to the district court and from there to higher courts, including the Senior Administration Court (also referred to as the main administrative court).
- C *Slovak Republic.* A taxpayer may appeal to the appellate body in one of thirty-eight district offices. The Minister of Environment and the Minister of Finance serve as the final appeal body.

Developed Countries

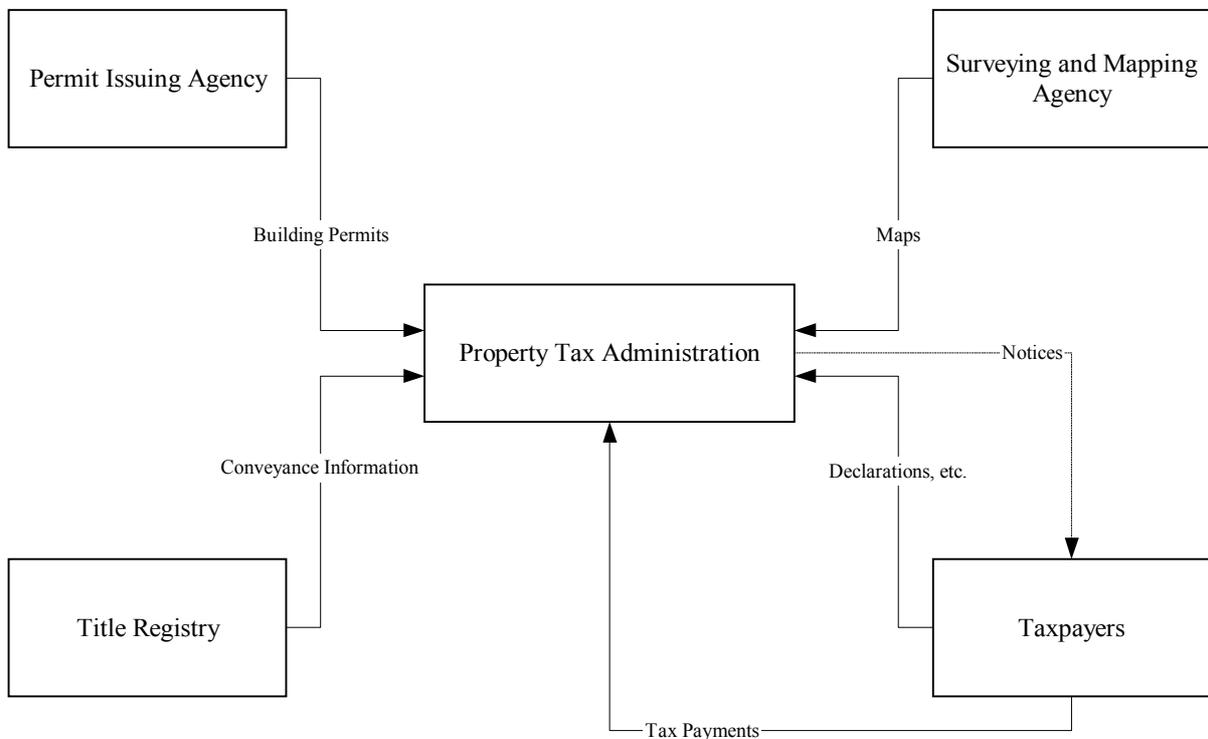
- C *Austria.* There is a three-stage appeal structure: (1) local offices of the Ministry of Finance, (2) the federal office, and (3) the federal court.
- C *Denmark.* There is a three-stage appeal structure: (1) local valuation committees, (2) regional supervisory boards, and (3) National Tax Tribunal.
- C *France.* A property taxpayer may make an “informal” appeal to the valuation official. All formal appeals are to the courts.
- C *Ireland.* Owners or occupiers may appeal valuations or revisions to the Commissioner of Valuation, who after investigation may confirm, reduce, or increase the assessment. Appellants and local authorities are entitled to notice of decisions. Further appeals may be made to the Valuation Tribunal (whose members are appointed by the Ministry of Finance). Appeals from the Tribunal may be made to the High Court and (on points of law) to the Supreme Court.
- C *Netherlands.* There is a three-stage appeal process: (1) to the mayor and aldermen, (2) the Tax Court, and (3) to High Court. In 1991, 0.246% of assessments were appealed to the Tax Court.
- C *Portugal.* The first level of appeal is to an ad hoc valuation committee composed of two valuers appointed by DGCI and one appointed by the taxpayer (the valuers come from an approved list). It makes a second appraisal
- C *Spain.* The area managements of the Property Register and Tax Assistance Administration Center hear appeals.
- C *Sweden.* There is a three-stage appeal process: (1) to the local property tax committee, (2) the administrative court, and (3) the courts for legal issues. There were 18,000 administrative-level appeals in 1990 and 1,400 to the court of appeals.
- C *Switzerland.* Initial formal appeals are to a local valuation and tax appeal commission. Thereafter, appeals may be made to a cantonal administrative review court and to the federal courts. There are few appeals.

- C *United Kingdom.* There is a four-tier appeal structure. Initially, a taxpayer may petition the valuation (or band assignment under the Council Tax) to the valuation or listing officer for an alteration to the valuation list. The second level of appeal is to a local Valuation Tribunal, which is a lay body. The third stage is the Lands Tribunal, which is a specialized central government body with the status of a court. Appeals on points of law may be taken to the Court of Appeal (and ultimately, to the House of Lords).

3.6 Institutional Linkages

As previously noted, linkages between the agencies responsible for property tax administration and the agencies responsible for title records, mapping, soil classification, building permits, business and population registers, and the like need to be established and maintained so that data needed in property tax administration flow regularly and efficiently. Similarly, property tax agencies need to establish similar linkages with their clients and stakeholders. Figure 3-1 illustrates typical linkages. However, as would be expected, there is considerable international variation in how functions related to property tax administration are organized. Other linkages also are common, such as a reliance on the Ministry of Agriculture for the data needed to tax agricultural land. For example, the property tax administrations in Albania, Czech Republic, and Georgia rely on their countries' ministry of agriculture for such things as soil classifications, agricultural land values, cadastral incomes, and so forth.

Figure 3-1. Property Tax System External Linkages



Several countries have taken initiatives to simplify institutional linkages, chiefly by consolidating land title-related functions in a cadastral agency. Title registration commonly is combined with surveying and mapping. Surveying agencies also may be responsible for valuation. However, as previously mentioned, it is desirable to separate property tax-related activities, such as property attribute data collection and valuation, from activities related to title registration. That is, the legal cadastre should be kept distinct from the fiscal cadastre. If buyers believe that one of the “costs” of title registration is property taxation, they will have an incentive to avoid registration or conceal the true nature of the transaction. For this reason, ordinary real property transfer tax rates should be kept low (say, less than 2 percent).

Following is a summary of the situation in several of the countries studied.

Transitional Countries

- C *Armenia.* The legal and fiscal cadastres are centralized under the Cadastre Department. It also is responsible for valuation. However, the State Revenue Ministry and local governments are responsible for property tax collection.
- C *Estonia:* Estonia currently has no unified system for linking data between the National Land Board, the National Tax Board, local governments, and the Ministry of Finance. There is no standard cadastral numbering system, and computer systems are not yet integrated.
- C *Georgia.* Responsibility for assessment (identifying taxpayers, inventorying their taxable property, and valuing the properties) was blurred in 1997. Legally, municipalities were responsible, but local technical bureaus actually did the work. As they had been made self-funding agencies, they were largely independent of the local authorities with which they were linked and of the Ministry of Urban Development and Construction that formerly supervised them. They viewed their database as proprietary. In essence, the administrative framework provided no effective procedures for compelling inventory bureaus to perform their responsibilities. In addition, in 1997, land and property registration became the responsibility of local branches of the State Department for Management of Lands, probably removing a lucrative source of revenue from the bureaus.
- C *Hungary:* Evidently, transaction data from market participants flows first to municipal fee offices, to land offices, and finally to municipal tax offices. . Local government fee offices (*Illetikhivatal*) maintain records related to transactions. There are 19 county fee offices plus 22 in Budapest. They operate within the local government administration, under the notary. Land offices (*Földhivatal*), which are part of the Ministry of Agriculture, manage the legal cadastre. They are administratively decentralized into 109 local offices. In addition, technical departments, which may cover several municipalities, register building permits, local master plans (zoning), and public utility information. These data generally are not integrated.
- C *Lithuania.* With the establishment of the State Land Cadastre and Register (SLCR) in 1997, Lithuania consolidated land record keeping activities that had been the responsibility of several ministries and other organization. As a result, there is very little need to establish most of the “external” institutional linkages shown in figure 3-1. The SLCR is responsible for maintaining records of real property rights (except mort-

gages, which are registered separately) and land and building attribute records. It also is responsible for valuation for property taxation and other purposes. It has a general responsibility to provide information about real property to members of the public and to governmental officials. There are separate population, enterprise, and address registers. Of course, an important “internal” linkage is that between SLCR and the State Tax Inspectorate.

- C *Poland.* Although Poland does not have a cadastre, there is a land title register.
- C *Slovak Republic.* While the Ministry of Finance supervises property taxation, the Ministry of Interior supervises local authorities, whose duties include property tax administration. The Ministry of Agriculture is responsible for valuation of agricultural land. The Cadastre provides copies of maps and cadastral records. It also is the central point for collecting price information, because notaries no longer collect that information.
- C *Slovenia.* The legal cadastre (register) is administered at the local government level under the supervision of the courts, which in turn are supervised by the Ministry of Justice. The Ministry of Environment and Spatial Planning supervises the Surveying and Mapping Authority, which is the lead organization in the real estate registration modernization project. The SMA maintains the land cadastre (register) and will be responsible for a building register. Currently, tax authorities maintain records on taxable building. The Ministry of Agriculture is responsible for the agricultural land cadastre.

Developed Countries

- C *Austria.* The Federal Computing Center maintains a system that comprises the cadastre and the land register.
- C *Denmark.* The Ministry of Interior is responsible for land and service tax legislation, while the Ministry of Taxation is responsible for property value tax legislation and for valuation legislation. The Ministry of Justice maintains the title book, and the National Survey and Cadastre maintains cadastral maps. Civil registration numbers of individuals are used to establish the link between properties and taxpayers. The property tax systems and the Civil Register are linked so that property tax records are automatically updated when a person notifies the Civil Register that he or she has moved. Business owners are similarly linked.
- C The land value system (section 3.8) relies on data on permitted land uses, which is transferred from the planning register.
- C *France.* The General Tax Directorate maintains links with notarial offices and with municipalities.
- C *Sweden.* As noted, the Swedish Land Data Bank System, which is maintained by the Central Board of Real Estate Data (CFD), comprises: the Real Property Register, which is maintained by national and local government cadastral offices supervised by National Land Survey; the Land Register which is maintained by ninety-three land register authorities, which are part of general district courts, and are administratively

supervised by the National Courts Administration; and a copy of the tax authorities' property assessment register. The CFD and the National Land Survey maintain the Property Price System, which contains records of sales since 1981. Related registers include a building register, and a mortgage register. The National Tax Board maintains the Property Tax Register used by the ten regional tax administrations. It is based on the land and building registers in the LDBS but contains additional information obtained from property tax returns.

- C *United Kingdom.* The Land Registry is the official register of owners of land in England and Wales. The records for any registered property would show who owns it, the date it was acquired, and the name of any secured lender.

Linkages with professional associations and non-governmental institutions also are important. For example, the Czech Ministry of Finance maintains liaison with associations of valuers. A similar situation exists in Lithuania.

3.7 Private Sector Involvement

Countries increasingly are turning to private-sector companies to provide services that once might have been provided by civil servants working for government agencies. Some governmental institutions increasingly resemble companies in that they depend on fees for services rather than exclusively relying on appropriations from governmental budgets. This trend probably started with the development of governmental computer systems by companies. It has expanded as government interest in privatization and "out sourcing" has increased.

In common with similar institutions in Canada, the Lithuanian State Land Cadastre and Register is a governmental enterprise, thereby bridging the gap between a pure governmental agency and a private company. Other countries, including Armenia and Georgia have created "self-funded" land and property record agencies. Although generally reasonable, such arrangements can have problems. One is a mandate to provide a governmental service (such as valuation) with compensation (Lithuania and Armenia). Another is a tendency of such agencies to regard the data in their custody as proprietary even when most of the data were compiled when they were fully funded by government (Georgia's inventory agencies). Such issues should be addressed early in the creation of non-budgetary agencies.

In Netherlands, in a pattern similar to provinces and states in Brazil, Canada, and the United States, municipalities increasingly contract with companies for valuation services (about half rely on firms and about half rely on governmental departments staffed with civil servants). Private-sector valuers and real estate agents in England and Wales did about 50 percent of the work involved in assigning residential properties to bands under the Council Tax. The former conservative government's policy of "competitive tendering" required governments to put out for bids services like property tax collection, although the existing governmental agencies providing those services also could bid.

Other countries have drawn upon companies on a smaller scale. Both the Czech and Slovak ministries of finance engaged non-governmental institutions and private firms to help develop valuation methods and land value maps. Similarly, the Estonian National Land Board has contracted with private valuers for help during its recent revaluations. Private valuers are used in appeals in Portugal.

Of course, taxpayers may hire people to help them with property tax matters. Many in the Slovak Republic turned to experts for help in measuring their properties and filling out their property tax returns.

As noted above, property tax administrations also are maintaining liaison with associations of valuers. Their relationships may involve establishment of required professional qualifications, training, testing and certification, and technical assistance. Appraisal associations are active in several transitional countries, including Armenia, Czech Republic, Estonia, and Lithuania. The Lithuanian Association of Property Valuers (*Lietuvos Turto Vertintojų Asociacija*) has been instrumental in the development of courses, educational materials, professional qualifications, and standards, and it maintains liaison with both the Ministry of Finance and the State Land Cadastre and Register.

The situation is similar in a number of developed countries. For example, the Valuation Office Agency and local rating authorities maintain links with several associations, including the Institute for Revenues, Rating, and Valuation (IRRV) and the Royal Institution of Chartered Surveyors (RICS).

3.8 Automation

The use of computers to store property tax records and assist with administrative processes including valuation is almost essential.² Computers increase analytical capabilities, perform routine calculations, and produce reports. They facilitate access to data and increase data security, especially from disasters like fire. Advanced computer-assisted mass appraisal (CAMA) systems facilitate market research; support all three approaches to value; identify comparable properties, including comparable sales, and assist with quality assurance. The best are integrated with tax administration and geographic information systems (GIS).

Progress is being made virtually everywhere in Europe in computerizing cadastral records and in developing computer-assisted property tax systems, including CAMA systems. Countries leading in the development of computerized cadastral systems include Denmark (where property tax systems are fully computerized and digital maps have been developed), Netherlands, and Sweden (where land, building, and sales registers are computerized and where digital maps are being developed). The United Kingdom first made widespread use of computers in the 1995 revaluation of non-domestic property, and tax billing, collection, and accounting by local authorities are commonly computerized. Developed western countries lagging in computerizing property registers and valuation include Switzerland (although digital cadastral maps are under development there).

Also, property tax systems are being integrated with GISs. As is the situation in Slovenia, integrating different systems is a challenge, especially when multiple organizations are involved, because each has its own vision of system functions.

Poorer countries like Albania and Portugal have very little automation. The following summarizes the situation in the countries surveyed.

² As long as the supply of electricity is reasonably reliable and as long as computer equipment can be secured.

Transitional Countries

- C *Czech Republic.* Tax administration is computer assisted. Tax return data are stored in computers, and tax liability calculations are automated. Bank and financial office systems are linked. Initially, there were difficulties reconciling payments made in banks with taxpayer accounts in financial offices.
- C *Estonia.* A new tax administration system for the National Tax Board was installed in 1998 and 1999. The database resides in a central computer, to which each local office is linked. The system holds data for 1998 and 1999, except for Tallinn, where data for 1999 only are held. There are linkages between the tax system and the business register and person register, and banks. Tax bills are automated. However, a system for administering delinquent taxes has not been completed. Future plans include linkages with local governments (as data from them now comes on paper). The cadastre is being automated.
- C *Lithuania.* The State Land Cadastre and Register is developing an integrated property administration system. The main element of the system is the central data bank of the real property register. A geographic information system (GIS) also is being developed. Branch and client service offices will be networked.
- C *Poland.* Computers are used in the assessment of taxes.
- C *Romania.* Larger municipalities are computerizing property tax procedures.
- C *Slovenia.* The real estate registration modernization project has components that would develop software solutions for property tax administration.

Developed Countries

- C *Denmark.* Since the 1960s, the Central Customs and Tax Administration and municipalities have developed the computer systems used in real property assessment and taxation. In 1981, two valuation systems were introduced: (1) the land value system (*Grundværdisystemet*) and (2) the property value system (*Forslagssystemet* or “proposal system”). The land value system automates the calculation of land values based on base rates developed by the local valuation committees for each land value area, which is based on permitted land use in the area). The property value system is a full-fledged system for estimating property values through statistical analysis.³ It is used in the valuation of one- to three-unit houses, condominium units, and summerhouses.
- C The National Survey and Cadastre developed a digital map of the country in 1997. It is not used in property tax administration because the user charge is considered too high.
- C *France.* In 1986, the General Tax Directorate began introducing a system known as MAJIC 2, which links each of the 313 local property tax offices to one of four regional data processing centers. It contains the information needed for property tax administration. The Directorate also is computerizing its cadastral mapping activities.

³ SAS (Statistical Analysis System) is the software used in statistical analysis.

- C *Germany.* Germany's complicated assessment procedure is computerized.
- C *Spain.* The Property Register and Tax Assistance Administration Center maintains computerized property registers.
- C *Sweden.* The Land Data Bank System (LDBS) comprises the Real Property Register, the Land Register, and a copy of the tax authorities' property assessment register. Related registers include a building register, a property sales price database, mortgage register. The LDBS contains textual information only. A project is underway to implement a digital cadastral (index) map. LBDS is an online system built around a central computer run by the National Land Survey. Terminals and PCs connected to the system number more than 25,000. The National Tax Board has an IT department (with 350 employees in 1999).

3.9 Taxpayer and Stakeholder Relations

Effective dissemination of information to the public about property taxation and taxpayer assistance programs are integral to public acceptance of a property tax, particularly when there is a culture of non-payment and when tax obligations have not been enforced in the past. Efforts to secure this acceptance should occur at all levels of government involved in property tax administration. Policy makers and tax administrators must communicate effectively with taxpayers. The rationale for the tax, how it is administered, and taxpayers' rights and responsibilities must be explained.

Records should be open and available for public inspection unless confidential information is involved. An accessible, effective appeal system is required (see section 9). Individual inquiries should be answered. The tax administration should demonstrate at every opportunity that the tax is being equitably administered.

Most countries require property tax administrations to issue notices of taxes due, if not of assessments. Countries requiring separate individual assessment notices include Denmark, Netherlands, Spain, Sweden, Switzerland, and the United Kingdom

As the following notes reveal, property tax administrations in a number of the countries surveyed have taken an active role in providing taxpayers and stakeholders with background information about property taxation and have addressed taxpayers' concerns.

Transitional Countries

Public information programs have been undertaken in Albania, Armenia, Czech Republic, Latvia, and the Slovak Republic.

- C *Estonia.* Before assessments are finalized in Estonia, valuation lists, maps, and comments must be open for public inspection for at least twenty days in each municipal office. This fact is publicized in newspapers and other media. Thereafter, the lists are finalized and tax notices (containing the assessment) are prepared.
- C *Latvia.* In conjunction with the 1997 valuation of land, the State Land Service provided each municipality with an "executive summary" of the results of the valuation

along with updated taxpayer lists. Regional and national level summaries also were prepared.

- C *Slovak Republic.* The Ministry of Finance credits an extensive public information and assistance program for much of its success in introducing the property tax to physical persons. Business taxpayers were less compliant, blaming steep tax differentials and the poor economy for their poor compliance.

Developed Countries

- C *Denmark.* Valuation lists and sales registers are public. A book of sales statistics is published twice a year. It is designed to provide valuation committees and the public with information about price trends. Beginning in 2000, property assessments are accessible over the Internet. Since 1996, assessment notices have shown how housing values are calculated.
- C *France.* Copies of cadastral registers are open to inspection in town halls.
- C *Sweden.* Assessment information is available online through 20,000 terminals located in banks, real estate agencies, and municipalities.

Tax records are not public in Georgia, Netherlands, Switzerland, and the United Kingdom. However, in Netherlands, a taxpayer can obtain a copy of the valuation report for his property and may be able to obtain some information about comparables. Information on comparables may be disclosed in court during appeals.

3.10 Funding and Staffing

To achieve political (popular) acceptance, revenue targets, and other goals, property taxes must be allocated sufficient human and technological resources and be well administered. Staffing requirements depend on such factors as the amount of work to be done, the time available, how work is organized, and available technology. Staff may be hired or work may be contracted out. Humans' abilities depend on their education, training, and experience. Adequate computer support boosts productivity. Budgets express available resources in monetary terms. The resources provided for property tax administration are a reflection of the political support for accurate and equitable property tax assessments. Management practices affect how well available resources are used. Directly or indirectly, citizens hold tax administrators accountable for their performance.

3.10.1 Funding for Property Tax Administration

The costs of administering a property tax are an important design consideration. Compliance costs as well administrative costs also should be considered.

A challenge that managers of property tax systems face everywhere is achieving cost-effectiveness—that is, an acceptably high level of performance at an acceptably low level of administrative cost. One aspect of cost-effectiveness is administrative costs as a percentage of property tax revenues (others would be costs per some measure of property tax equity). The objective would be to minimize this ratio.

Comparing administrative costs is difficult. Factors that affect absolute costs and costs per unit of revenue include differences in the coverage of property tax bases, whether taxes are based on area or value, the frequency of revaluations, the extent of automation, and whether there are other uses of valuation and cadastral data. The cost per unit of revenue also depends, in part, on effective tax rates. Other things being equal, the higher the effective tax rate, the lower the administrative cost. Another difficulty in analyzing funding (and staffing) is that many governmental budgeting and accounting systems do not permit segregating property tax-related costs from all costs. It is important to recognize that start-up costs usually are considerably greater than annual operation costs after a system has been working for several years. For reasons such as these, few statistics on direct expenditures or relative costs are available in the literature. However, available statistics are presented in table 3-3 and 3-4.

Certainly the costs of administering a property tax, expressed as a percentage of revenues, should be less than 100 percent, otherwise the tax would cost more to administer than it produced in revenue. In western countries, administrative costs in the range of 2 to 5 percent of revenues often are achieved.

Property tax administrators also should focus on the costs associated with taxing ordinary residential taxpayers relative to typical tax bills. When tax bills that are the equivalent to the cost of a package of cigarettes or a few beers, it is almost impossible to administer the tax cost-effectively. Some countries approach this problem by exempting properties under a certain value or area on the grounds of administrative efficiency. Also see section 5.4.8, which discusses a dilemma associated with the cost of administering exemptions.

As the costs of staff typically constitute the greatest proportion of administrative costs, efficient use of staff is very important. However, low levels of pay in the public service can distort the picture of administrative costs, because low levels of pay *and* competent administration cannot be sustained in the long run. The best staff likely will leave when better paying jobs can be found elsewhere. A permanently low level of pay is an invitation to corruption.

3.10.2 Staffing for Property Tax Administration

Generally the members of the staff of a property tax administration are full-time civil servants. Sometimes part-time boards are used. The members of these boards may be appointed by the property tax administration, local governments, and—occasionally—elected. In France, for example, elected members of local authorities help with data collection. Similarly, members of Swiss cantonal or communal valuation commissions may be elected.

The qualifications of valuers can be an important issue. International experience varies with respect to the importance of academic preparation, in-service training, and professional credentials. Also, the profession to which valuers belong also varies. Although valuation essentially is a form of economic analysis, in some countries valuers are architects, civil engineers, and surveyors. Within the field of valuation, there is growing recognition that the qualifications needed for mass appraisal are different from traditional forms of single property appraisal. Property tax valuers need skills in statistical analysis. As public servants, they need an appreciation of tax policy and public relations as well.

In Estonia, valuers generally are graduate surveyors.

Lithuania has developed qualifications and testing standards for property valuers. A board for the certification of valuers was established in 1995 under the Ministry of Finance. The more than seventy valuers with the State Land Cadastre and Register (out of a total staff of 1,370) must possess the relevant qualifications. These include a relevant university degree, relevant experience, and passing a qualification test. Valuers may specialize in real property, movable property, or business valuation. In 1999, a multilevel certification system was introduced.

In Austria, valuers receive extensive in-service training. In Netherlands, valuers for property tax purposes traditionally have belonged to Netherlands Association of Housing Agents and had its NFM qualification. Beginning in 1998, they were required to pass the examination for Immovable Property Assessment Valuers. Valuers are architects in Spain. Switzerland has no specific legal qualifications for valuation commissioners, but many come from the building trades and receive training from the Land Registry Office. In the United Kingdom, there are no legal requirements concerning rating valuers. Valuers generally are specialized surveyors who have obtained a qualification from a recognized professional body, such as the Institute for Rating, Revenues, and Valuation (IRRV) and the Royal Institution of Chartered Surveyors (RICS). Many are university graduates.

In Denmark, valuation model builders usually are economists. There are no professional requirements for membership in local valuation committees, who serve only part-time. However, they are offered a one-week course in valuation, and they must attend instructional meetings.

3.10.3 Statistics

Tables 3-3 and 3-4 contain available statistics on workloads, funding, and staffing.

Table 3-3: Workload, Funding, and Staffing Indicators in Transitional Countries

Country	Year	Workload			Funding	Staffing	Comments
		Taxpayers	Parcels	Buildings			
Albania	1996	385,000 (Farmers)		700,000		150	Buildings registered in 60% of districts; about 90% of agricultural land registered. Altogether, about 1,000 persons are involved in tax administration.
Armenia	1998	515,000 (Land tax) 700,000 (Property tax)	Estimates of the total number of rural and urban land plots range between 635,000 to 750,000.	340,000 (170,000 houses) (380,000 apartment units)			Estimates of the total number of ownership units range between 650,000 and 850,000, not including “illegal” structures built without official approval.
Belarus							
Bosnia & Herzegovina							
Bulgaria	1993			4,250,000			
Croatia							
Czech Republic		2,470,000					The Czech Republic estimated that 100 to 140 million Czech crowns were spent setting up its property tax system, including computers, cost of tax returns, financial office employees, and public information and relations. (Revenues totaled 12,067 million over 1996-1998, suggesting that the cost of administration is quite reasonable.)

Country	Year	Workload			Funding	Staffing	Comments
		Taxpayers	Parcels	Buildings			
Estonia	1996		253,000		The Land Board budgeted about 5 million Estonian crowns for the 1996 revaluation.	About 25% of parcels registered in land book and cadastre.	
Georgia	1997	33,500 (Enterprises)					
Hungary	1991					<p>In 1991, the estimated tax base for houses was 10 million m²; other building owned by households, 20 million m²; plots owned by households, 60 million m²; buildings owned by entrepreneurs, 120 million m²; and plots owned by entrepreneurs, 705 million m².</p> <p>A 1992 survey revealed that property taxes were more expensive to administer than the business (profits) tax (for which compliance costs probably are higher). As would be expected, administrative costs are relatively higher in smaller municipalities. Overall the cost of administering the tax on buildings was 13.1% of revenues. The ratio ranged from 15.5% for municipalities with fewer than 5,000 people to 12.4% (?) for municipalities with more than 50,000 people.</p>	
Latvia	1998		162,000 (In land		1,000,000 lats (Appropriated for the	160 (Estimated	

Country	Year	Workload			Funding	Staffing	Comments
		Taxpayers	Parcels	Buildings			
			cadastre) 134,000 (In land book) 575,000 (Appraised)		1997 land valuation program) 1,600,000 lats (Estimate of the funding needed)	number of appraisers needed) 42 (Esti- mated number of data entry operators needed)	
Lithuania	1999		746,000	2,000,000+		70 (Valuers)	<p>It is estimated that eventually there could be 2.5 million land plots and 3.5 buildings in the database. Also see "Review on Real Property Market."</p> <p>The Ministry of Finance reports that the land tax is uneconomic. Administrative costs average 4 litas per taxpayer, more than average revenues. The proposed solution is to exempt properties of minimal value (garden plots and so forth). An earlier proposal of a biennial (two-year) billing period was not accepted.</p> <p>The SLCR's valuers carry out market research, make valuations for property tax purposes, appraise individual properties, and work as building surveyors.</p>
Moldova							

Country	Year	Workload			Funding	Staffing	Comments
		Taxpayers	Parcels	Buildings			
Poland	1999	2,200,200 (Agricultural) 1,200,000 (Forestry) 5,400,000 (Urban)	28,700,000	4,600,000			There are 11 million ownership titles in perpetual book. Of the total number of buildings, 4.3 million are residential, of which 1.5 million are in urban areas. According to the 1988 census, there were 10.9 million dwellings, of which 7.1 million were in urban areas.
Romania	1999	10,000,000					
Russian Federation	1994	38,000,000 (Land) 30,000,000 (Physical persons) 1,500,000 (Legal persons)				30,000 (State Tax Service)	
Slovak Republic	1993	1,500,000					
Slovenia	1995	315,700 (Property taxpayers)					
Ukraine							
Yugoslavia							

Note: A blank signifies that no information is available.

Table 3-4: Workload, Funding, and Staffing Indicators in Developed Countries

Country	Year	Workload			Funding	Staffing	Comments
		Taxpayers	Parcels	Buildings			
Austria	1976		500,000 (Farm & forest) 1,300,000 (Other)				
Belgium							
Denmark	1998		1,915,600		672 (Valuation committee members)	Statistics are kept on the number of properties of each type. The number of valuation committee members was 3,840 before the introduction of computer-assisted mass appraisal systems in 1981.	
Finland							
France	1985	35,000,000 (Owners)	97,000,000	35,000,000		Property taxes are seen as costly to administer, due to the large number of taxpayers. Property tax administration consumes one-fourth of the resources of Ministry of Finance Tax Department, but produces only 4% of total tax revenue.	
Germany							
Greece							
Ireland	1991				75 (Valuers)	The complement of valuers is regarded as insufficient. Rating valuation is only one of their functions. (The Valuation Office also has administrative and clerical staff.)	
Italy							

Country	Year	Workload			Funding	Staffing	Comments
		Taxpayers	Parcels	Buildings			
Netherlands							Costs of administration in 1992 (?) averaged 6.48%. Smaller municipalities (less than 20,000 population) had higher costs (8.43%); mid-range municipalities (20-50 thousand, 6.69%; and larger (more than 50,000), lower (5.57%).
Norway							
Portugal	1999					670 (part-time valuers)	The cadastral register hold only about 50% of all properties.
Spain							
Sweden			3,800,000				The 1984-1990 reappraisal cycle cost more than 1 billion crowns. The 1990 reassessment of 1-2 family dwellings cost 513 million crowns or 230 crowns per statement. (Collection costs are embedded in income tax collection costs.)
Switzerland							
Turkey							
United Kingdom	1995		1,730,000 (Non-domestic properties)				There are about 400 local billing authorities.

Note: A blank signifies that no information is available.

4. Property Rights, Markets, and Related Institutions

4.1 Introduction

The setting of a property tax system affects its evolution and development. How a country regards private property is of particular importance. This section focuses on information on the situation in transitional countries. Topics include the legal framework, the legal cadastre, and market activity. In many of the countries surveyed, cadastral records are organized according to cadastral areas (or “communities”) derived from the original cadastral surveys made during the Austro-Hungarian Empire.

Although not exclusively a transitional country issue, one problem is that administrators and policy makers alike sometimes believe actual property prices are “unreasonable,” resulting in a belief that normative values are superior, rather than in doing the research necessary to understand why prices are the way they are.

4.2 Country Notes

Following are notes about the situation in the countries surveyed.

- C *Albania.* Housing was de-nationalized in 1990 (houses were sold to inhabitants). Agricultural land is being restituted. In 1996, ownership of 90% of agricultural land had been registered. Enterprises were being privatized. Market activity was limited.
- C *Armenia.* During the Soviet period, many houses were privately owned, including many city houses, farmhouses, and dachas built by their owners. These properties constituted an estimated 40 percent of the total housing stock, which is estimated at 750,000 units. Moreover, many of their owners were given the right to use the plots of land on which the buildings stood either permanently or indefinitely. Specific land allotments were also made to organizations. Up to 400 square meters in urban and 600 square meters in rural areas of these plots can now be privatized. Most other urban land has not been privatized. The reasons are complex, ranging from concerns about private stewardship to a lack of up-to-date land use plans, a lack of systems for allotting land and registering land titles, and lack of a pricing mechanism. Armenia has called on international donor organizations to assist with establishing appropriate systems.

Although the process was not well managed due to a lack of systems and other resources, most agricultural land in Armenia has been privatized, although the central government reserved 126,000 hectares of primarily pastureland, which can be rented. There are over 310,000 family (peasant) farms and about 1,200 collectives (the average holding is less than 1.5 hectares), and only 50,000 had been registered by 1997. Since 1994, it has been possible to sell agricultural land on the open market, but a lack of access to credit has hampered the development of land markets.

Efforts to privatize the 380,000 state-owned apartments began in 1989, when registered tenants could buy their apartments for a nominal price, and about 40,000 units were privatized during the four years of this program. In 1993, a new, free housing privatization law was passed under which tenants could acquire their apartments for a nominal processing fee. In the first sixteen months of the program, 108,000 units

were privatized. Legislation also is in place to convert apartment buildings into condominium structures.

Between 1994 and the end of 1997, about 7,300 enterprises had been privatized through vouchers or cash auctions. Voucher privatization, however, did not bring in substantial amounts of revenue, and the government has used the cash sale method since 1998 to complete the privatization process. While most small enterprises have been privatized, progress has been slower with large-size industrial enterprises. Progress also has been made in establishing capital markets. The lack of access to capital hampers purchases, so most sales are on a cash basis.

The title registration process borrows from the procedures for Soviet-era *propiskas* (passports). In the case of newly privatized property, the owner must present the passport and the governmental documents establishing the right to own or use the property to the Cadastre Department, pay the fees (which can be substantial), establish the valuation, and receive a new passport. In subsequent transfers, the buyer presents the contract for sale, which previously has been approved by a notary, and the existing passport. Prices are freely negotiated, but actual prices seldom are declared. Moreover, the requirement that the owner must pay for a valuation for property tax purposes as part of the title registration process created an incentive not to register property. Public access to ownership information is limited.

The capital, Yerevan, has an active apartment market, and there is a market for houses and offices. There also is a rental market for stores and offices, with supply generally exceeding demand. Markets in other regions are also emerging, as in the Ararat Valley, where several sales of agricultural property occur per month and successful auctions of residential building plots occur occasionally.

- C *Bulgaria.* Under a 1991 law, land was to be restituted to its pre-1946 owners. In some cases (such as when the land subsequently was built upon), former owners were to receive compensation. As of 1996, about 60 percent of agricultural land had been restituted. Other types of property were almost completely restituted. Nearly 90% of dwelling units are privately owned. Some enterprises were being privatized. There is a rental and sales market for real property, especially in cities. Demand for agricultural land was very low. Declared prices for residential property often substantially understate actual prices (partly because of a high transfer tax rate). Prices paid for business property sometimes are affected by the fact that they can be deducted from the profits tax.
- C *Czech Republic.* During the communist era, business property, agricultural property, and apartments were nationalized. Only family houses and recreational cottages were not. The Czech Republic began a restitution program in 1989, which has not been completed. There is a market for residential property of all types, and there is a rental market for commercial properties. Recorded prices generally reflect actual prices. Although financial offices have access to transfer tax returns and sales contracts, data on sales prices are not maintained in electronic form.
- C *Estonia.* Following the nationalization of all agricultural land in the 1940s, a 1989 law allowed individuals to create private farms on up to 50 hectares of land. Although the farmer did not have an ownership right, his right to use the land could be

inherited. A 1990 law on property established the principle of private ownership of land and buildings. Municipalities also were allowed to own property. Subsequent laws established the framework for the restitution of nationalized property and for the privatization of state-owned property, which began in 1993. For market activity, see Baltic survey.

- C *Georgia.* The privatization of agricultural land began in 1992, and large and small state-owned enterprises were being privatized in 1997. Housing privatization also had begun. The privatization of non-agricultural land was under study. There were common concerns that municipal governments would opt to retain land and lease it rather than sell it. Several entities, including the State Department for Management of Lands, the Ministry of Urban Development and Construction, and the municipalities would have a hand in deciding which land would be retained, which would be privatized, and how land may be used.

The absence of formal title documents was hampering the development of property markets, and the necessity for parcel-based land records to support property markets and land taxation was widely recognized. (It was said that until land could be registered, none was truly privatized.) Fortunately, modern legal and fiscal cadastral systems were being developed with the assistance of international donor organizations (see section 6).

- C *Latvia.* Privatization began in 1991, and dwellings are being restituted to their pre-1940 owners. The legal cadastre is being renewed, but title registration is not compulsory, so the number of properties registered in the land book is smaller than the number in the cadastre.

The State Land Service monitors market activity (both the volume of transactions and prices), which has fluctuated. There was considerable activity between 1992 and 1995, when a bank crisis occurred. Activity began to increase again in 1997. As would be expected, most of the sales are of flats. However, there is a commercial market in larger cities. There are few agricultural land and industrial sales.

- C *Lithuania.* Only citizens may own land. Lithuania has a restitution program and a two-phase privatization program. In the first phase, vouchers were issued. There is a ten-year moratorium on the sale of apartments acquired with vouchers. In the second phase, properties must be purchased. Most sales are by physical persons and involve dwelling houses and apartments. For market activity, see Baltic survey.

The State Land Cadastre and Register is the repository of title documents (there is a separate mortgage register). County managers' Administrations make initial decisions regarding restitution and have records of land parcels created during land reform. City and district municipalities are responsible for the privatization of their buildings. Notaries approve agreements on sale and purchase and other forms of real property transfer. The real estate register contains data about declared transaction prices.

- C *Poland.* Poland has a property market.

- C *Romania.* Agricultural land and (all?) buildings are being restituted. 85-90% of buildings now are privately owned. There is a market for housing, and demand reportedly is greater than supply (leading to prices that are not regarded as realistic).
- C *Russian Federation.* Land may be privately owned. Plots associated with summer-houses and the like are being privatized. Apartments and buildings are being privatized.
- C *Slovak Republic.* Slovakia had a restitution program, and state-owned enterprises were being privatized. Efforts to privatize state-owned flats were complicated by unsettled issues regarding building maintenance. Family and summerhouses constitute a major part of the property market.
- C *Slovenia.* Slovenia has a restitution program that is nearly complete. All types of land and buildings may be privately owned. There are active sales and rental markets, and recorded sales prices are regarded as reasonably accurate. Tax authorities gain access to sale price data through transfer tax administration.

5. Basic Features of Property Tax Systems

Basic features of a property tax system include (1) the definition of the taxpayer, (2) the types of property that must be assessed (that is, listed and inventoried), (2) the unit of assessment (such as, the land plot—or parcel—or the occupancy), (3) the basis for apportioning property tax burdens (commonly area or value), and (4) the properties or taxpayers that are or may be exempted or relieved from at least a portion of property tax burdens.

As will be seen, although property tax systems have similar features, there is tremendous diversity in the details. To provide a basis for comparison, system features are described in terms of how they approach or depart from a “reference system” based on principles of market economics with the following three characteristics:

- C All property—movable and immovable—would be assessed; none would receive exemptions.
- C Every property would be assessed at its current market value each year.
- C There would be a single, uniform tax rate that would be affordable by all and that would produce sufficient revenue.

Of course, such an “ideal” system would be politically and practically unattainable. All property tax systems necessarily involve compromises.

There are myriad ways to vary property tax burdens. They range from:

- C Excluding certain types of property such as public roads and water courses from assessment (that is, they never enter the property tax system)
- C Excluding certain categories of persons from the liability to pay property taxes (they also do not enter the system)
- C Varying the ways properties are assessed or valued
- C The valuation date (and revaluation frequency)
- C Varying tax rates
- C Making certain types of property or categories of property owners eligible for exemptions or otherwise relieving them of all or part of normal property tax obligations

As will be seen, differentiation of taxpayers, properties, and methods is commonplace. But defining classes is not always easy. As a result, there often are unintended consequences.

Table 5-1 and 5-2 summarize key features of property taxes in the countries surveyed.

Table 5-1: Key Features of Property Taxes in Transitional Countries

Country	Tax	Taxpayers	Objects	Base of Tax		Differentials			
				Value	Area	Ownership	Land & Buildings	Property Use	Other
Albania	Tax on Agricultural Land	Farmers	Farmland		Yes				Soil class
	Tax on Buildings	Owners & users	Buildings		Yes			Yes	
Armenia	Land Tax	Owners & users	Land	Agricultural: Cadastral income Non-agricultural: Cadastral value				Yes	Soil class Location
	Property Tax	Owners	Buildings, units in buildings, other structures, & certain movable property	Cadastral value				Yes	Value (primary residences)
Belarus	Land Tax	Owners or lessees	Agricultural & forest land, land of transportation facilities		Yes				Location
	Real Estate Tax	Persons who use real estate for production purposes	Certain buildings and improvements to land	Natural persons, insurance value Legal persons, balance value		Yes			Unfinished construction

Country	Tax	Taxpayers	Objects	Base of Tax		Differentials			
				Value	Area	Ownership	Land & Buildings	Property Use	Other
Bosnia & Herzegovina									
Bulgaria		Owners	Buildings	Normative value for buildings owned by natural persons; Balance value for buildings owned by legal persons					
Croatia		Owners	Country cottages & rest centers		Yes	Yes			Age of building (country cottages)
Czech Republic	Land Tax	Owners generally	Privately owned agricultural & forest land plots	Regulated price				Yes	
	Land Tax	Owners generally	Privately owned developed land plots		Yes				Municipality population
	Building Tax	Owners generally	Buildings and other defined structures		Yes			Yes	
Estonia	Land Tax	Owners generally	Land plots	Yes				Yes	
Georgia	Agricultural Land Tax	Owners & users	Agricultural land		Yes			Use	Location & soil class
	Non-agricultural Land Tax	Owners & users	Non-agricultural land		Yes				Location

Country	Tax	Taxpayers	Objects	Base of Tax		Differentials			
				Value	Area	Ownership	Land & Buildings	Property Use	Other
	Natural Persons Property Tax	Natural persons who own taxable objects	Buildings, structures, and units in buildings on urban land	Inventory (insurance) value					
	Enterprise Property Tax	Georgian enterprises, certain branches of Georgian enterprises, and foreign enterprises with “permanent establishments”	Certain balance sheet items (fixed assets, installed equipment, incomplete capital investment, intangible assets)	Balance-sheet residual value					
Hungary	Land tax	Owners	Privately owned land	Yes	Yes				
	Building tax	Owners	Privately owned buildings	Yes	Yes				
	Tourist traffic tax	Owners of holiday houses	Holiday houses		Yes				
Latvia	Old (1991) land tax	Owners and users	Land		Yes				Property value
	Old (1991) property tax	Owners generally	Capital assets and unfinished construction	Balance sheet value				Yes	
	New (1998) Real Property Tax	Owners	Land and buildings (land only in 1998 and 1999)	Cadastral value			Yes		
Lithuania	Enterprise Real Estate Tax	Certain enterprises		Tax Value		Yes			
	Land Tax	Owners	Agriculture land	Tax Value		Yes		Yes	
Moldova	Land Tax	Owners and users	Land		Yes			Yes	Soil quality

Country	Tax	Taxpayers	Objects	Base of Tax		Differentials			
				Value	Area	Ownership	Land & Buildings	Property Use	Other
	Property Tax	Owners	Buildings and constructions	Balance sheet value				Yes	
Poland	Agricultural & Forest Land Taxes	Owners generally	Land		Yes (“conventional hectares”)				Region & soil class
	Urban Property Tax	Owners generally	Buildings, and other identified property types		Generally			Yes	
Romania	Tax on Land	Owners of land	Urban land		Yes				Category of locality (town or city) & zone
	Tax on Buildings	Owners of buildings	Buildings	Balance sheet value or insurance value		Yes		Yes	Rural or urban area
	Land use fee	Legal persons	State-owned land, except agricultural		Yes			Yes	Category of the locality
Russian Federation	Land Tax	Owners & users	Land	Agricultural: cadastral value	Non-agricultural: area	Yes?			Rural & urban location
	Tax on Property of Physical Persons	Owners of buildings	Buildings	Inventory value					Municipal zone
	Tax on Enterprise Property	Legal persons		Balance sheet value					
Slovak Republic	Real Estate Tax	Owners generally	Land	Agricultural: cadastral	Non-agricultural: area			Yes	Population

Country	Tax	Taxpayers	Objects	Base of Tax		Differentials			
				Value	Area	Ownership	Land & Buildings	Property Use	Other
	Real Estate Tax	Owners	Buildings		Yes				
Slovenia	Charge for Use of Building Ground	Users and owners of land or buildings	Built & un-built urban land						
	Tax on Property	Owners or users	Buildings, parts of buildings, & ships	Buildings: Normative value	Ships: Length			Yes	Value
Ukraine									
Yugoslavia									

Notes: A blank signifies that no information is available.

When “owners generally” is indicated, users of state-owned property generally are designated as the taxpayer.

Under “value,” capital market value is the basis unless otherwise noted.

In Lithuania, Tax Value under the Enterprise Real Estate Tax is replacement cost less depreciation, assuming the same physical characteristics and use.

In Poland, the property tax base includes such constructions as tunnels, bridges, roads, railroad tracks, power lines, and industrial facilities.

Table 5-2: Key Features of Property Taxes in Developed Countries

Country	Tax	Taxpayers	Objects	Base of Tax		Differentials			
				Value	Area	Ownership	Land & Buildings	Property Use	Other
Austria	Real Property Tax	Owners		Yes				Yes	
Belgium									
Denmark	Land Tax	Owners	Land	Land value only					
	Service Tax	Owners	Administrative, commercial, and industrial buildings	Building value only					
	Property Value Tax	Owners	Owner-occupied dwellings & summerhouses	Property value					
Finland									
France	Land & Building Tax	Owners	Land and buildings	Annual					
	Housing Tax	Occupier	Housing	Annual					
	Business Tax	Businesses (owners & occupiers)	Business buildings and equipment (Also payrolls)	Annual					Property, payrolls
Germany	Property Tax	Owners	Land, buildings, agricultural machinery and livestock	Fiscal Value				Yes	
Greece									
Ireland	Rates	Users		Annual					
Italy	Tax on Im-movable Property	Owners		Cadastral value				Yes	
	Local Business Tax	Occupiers of business premises	Occupied areas of buildings		Yes			Yes	Area

Country	Tax	Taxpayers	Objects	Base of Tax		Differentials		
				Value	Area	Ownership	Land & Buildings	Property Use
Netherlands	Municipal Tax	Owners <i>and</i> users	Land, buildings, certain houseboats, and certain underground structures, like gas pipelines	Yes				
	Contributions to Polder Boards (built upon land)				Yes	Yes		
Norway								
Portugal				Yes				
Spain	Rural Land Tax	Owners						
	Urban Land Tax	Owners						
Sweden		Owners	Single-family houses, residential dwellings on agricultural land, rented residential buildings, and industrial buildings	Yes				Yes
Switzerland		Owners or beneficiaries (per cantonal law)						
Turkey	Immovable Property Tax	Owners generally	Land, buildings, machinery, and livestock					
United Kingdom	Council Tax	Resident owner or occupier	Places of residence	Yes				
	Uniform Business Rates	Same	Occupied non-residential real property	Annual				

Notes: A blank signifies that no information is available.

Under “value,” capital market value is the basis unless otherwise noted.

The text of OECD 1983 implies that the French Land and Building Tax is based on capital values.

Netherlands: The Municipal Tax: effectively is two taxes, one on owners and another on occupiers. Owner-occupants pay both.

Contributions to polder boards: owner.

Switzerland: Bases include market value, cadastral value (which is based on market value), and taxable value (which is a fraction (75-100%) of cadastral value. Also capitalized rent and fire insurance value (on buildings).

The UK's Council Tax deserves closer examination because of its many unusual and innovative features. As noted, it was introduced in 1993 after the politically disastrous experiment with the Community Charge, an unpopular poll tax that replaced domestic rates in 1990. The Council Tax is based on capital rather than annual values. However, individual valuations are not developed for each residential property. Instead, each property is assigned to one of eight value categories ("bands"), which are based on 1991 property prices. The value bands for England are displayed in the following table (Scotland and Wales each have different value ranges associated with each band due to generally lower price levels in those countries).

Band	Value range (£)	Tax rate (%)	Value differential (% of lower limit of band relative to band D)
A	40,000 or less	67	Indeterminate
B	40,001-52,000	78	56
C	52,001-68,000	89	76
D	68,001-88,000	100	100
E	88,001-120,000	122	129
F	120,001-160,000	144	176
G	160,001-320,000	167	235
H	More than 320,000	200	470

The banding concept has a number of advantages and disadvantages. Among the advantages was the speed with which it could be implemented and its relative simplicity. One of the shortcomings of the banding concept (as it is implemented in the UK) is the regressivity of the rate structure (as can be seen by comparing the rate differentials to the value differentials). Another shortcoming is the fact that a property remains in its band indefinitely, regardless of what happens in the market since 1991. In other words, the government still has no plans for a revaluation. A property can change bands only when physical changes are made that change its value and when it is sold. Needless to say, this policy results in considerable inequities in effective property tax rates.

5.1 Subjects (Taxpayers)

All legally constituted property tax systems must establish the person or body responsible for paying property taxes. The law should instruct the tax administration to whom tax bills should be sent and establish the legal liability for tax, which is especially important when the designated taxpayer fails to pay property taxes in full or on time. Regarding the designated taxpayer, the options are: (1) the owner of the property, (2) the occupant or user of the property, (3) the property itself regardless of who owns it or uses it, and (4) some combination of the above. Regarding the legal liability for paying a property tax, the alternatives are *in personam* (liability on the person) or *in rem* (liability on the property).

Historically, land tenure patterns and concentration of political power appear to have influenced choices about the subject of property taxes. For example, the former English rating system shielded the aristocracy from paying property taxes on property occupied by tenants. In contrast, owners generally are responsible for paying property taxes when land ownership is widespread. In any event, as property occupiers generally outnumber property owners, making owners liable for property taxes reduces the number of taxpayers and (other things being equal) the costs of administration. Enforcement also is simplified. However, where owners generally are responsible for paying property taxes, users may be made responsible

for paying the property tax when they use property owned by the state or when the owner is unknown. Making occupiers responsible for paying property taxes has the advantage of making the costs of local government services visible to more people, thereby improving democratic accountability. Conversely, when occupiers generally are liable and a property is vacant, the owner may be liable. Relief may be available, although the owner may have to document efforts to find a tenant. Similarly, it is desirable to make the owner liable when occupancy is temporary (less than a year).

Property tax laws naturally reflect the status of property ownership rights. Where ownership rights have not been established, users are designated as taxpayers. Several transitional economies distinguish between physical persons (living human beings, also known as natural persons) and legal persons (enterprises, also known as juridical persons), probably because former state enterprises had de facto property ownership rights. Now the distinctions may have more to do with policy objectives, such as preferential taxation of residential property, or with practical considerations (enterprises may have better records of their assets). Countries that distinguish between physical and legal persons include Armenia, Belarus, Hungary, Lithuania, Poland, Romania, and the Russian Federation. The property tax systems of the Czech Republic and Estonia contain no differences related to the type of person owning property (although they may classify owners as physical or legal persons for information purposes).

A fairly common area of concern is whether foreigners may own property. In addition to fundamental concerns that foreign ownership may somehow diminish a nation's sovereignty, there are concerns about wealthy foreigners buying up all the best properties (this concern also arises between more and less prosperous localities). Property tax systems may reflect these concerns. In Estonia, there is concern about foreign ownership, especially of resort land on islands.

Problems may arise when a property tax system attempts to distinguish between legal and physical persons and when domestic and foreign ownership, particularly when the classification has major ownership or tax consequences. The true "nationality" of an enterprise is increasingly difficult to determine. The owners of enterprises may avoid registering them, and businesses may put their properties in the hands of individuals. Lithuania attempts to get around these problems by making it clear that unincorporated businesses are subject to the Enterprise Real Estate Tax.

Another administrative issue is how to deal with properties that have multiple owners or occupiers. The main options are: (1) designate only one person as the taxpayer and (2) assess each person in proportion to their interest in the property. The first option simplifies administration and transfers to the property owners or occupants any problems with raising the money needed to pay the taxes. Advocates of the second approach stress its fairness to the part owners or occupiers who pay their shares; they have no responsibility for the amounts unpaid by others. Some laws allow persons who pay property taxes on behalf of another to establish a lien.

Among the examples of the first approach is the Netherlands, where under the user's property tax, the person with the greatest use receives the tax bill when the property is residential.

5.2 Taxable Objects

The objects (or coverage) of a property tax are the types of property for which the tax must be paid absent an exemption or other form of property tax relief. Property falls into two general categories:

- (1) Immovable (or “real”) property. Immovable property includes land, buildings, and other constructions or “improvements” to land (such as clearing and grading); and
- (2) Movable property. Movable property is all property that is not immovable. Movable property is subdivided into tangible and intangible property.

Most of the countries surveyed tax only real property. Several of the transitional countries include classes of industrial plant and equipment in the base of their enterprise property taxes. Initially, Armenia included many classes of movable property (including livestock) in its property tax base. However, the 1998 revision of the law removed several classes from the base, largely to simplify administration.

Precise categorization of property as movable or immovable can be difficult in practice. Three types of property are particularly problematic: “fixtures,” appurtenances, and some industrial plant and machinery. A fixture is an item of movable property that is attached to real property in such a way that it cannot be removed without causing “damage” to the real property. An appurtenance is a right that one property owner has over another’s property. Industrial plant and machinery such as are found in a chemical plant or oil refinery are problematic because of their value and the fact that they are functionally similar to buildings. Similarly, it is difficult to define “buildings” and other “constructions” separately. The distinctions become especially important whenever only one type of property is taxable or when there is a steep differential in taxation. In practice, governments “solve” such problems by resorting to arbitrary definitions, which may lead to efforts by taxpayers to alter their structures so that they qualify for the category with the lower rate of tax. Czech Republic has very detailed regulations defining buildings and structures. Ireland and United Kingdom have similar regulations concerning taxable industrial structures (production and motive power equipment are ratable in Ireland).

Other complications can arise. When there are separate taxes on land or on buildings, it is difficult in practice to estimate the market value of each component accurately. This problem also occurs under unified property taxes when the assessor is required to estimate the value of land and building separately. Fundamentally, when land in building is under a single ownership, buyers and sellers set a price for the combined property, not separate prices for the components. When a land plot is sold, the price will reflect its readiness for use, which may be the result of “improvements” such as clearing trees and grading made long ago. Parallel considerations apply to growing timber. This makes it difficult to implement a pure site value tax. When a building or a unit in a building is sold, its price will reflect the value of its location (essentially an element of land value). This makes it difficult to avoid taxing land, even when land is not in private ownership.

Other issues should be considered. Some types of property, such as public rights-of-way and routes of transportation (waterways, state-owned railroads, and streets and roads), often are excluded from cadastres and the property tax base on grounds of administrative convenience. This is a common practice, because there is no market evidence of the value of long-established public routes of transportation. Denmark follows this approach and also does not

assess churches and other normally exempt properties. However, the underwater land area under taxable houseboats is taxable in Netherlands.

Some transitional countries make only “registered” property taxable. Thus, persons who have customarily used land or buildings or have received property rights under a restitution or privatisation program may be reluctant to take the final steps to register their rights, because they will become liable for taxation. In Armenia, the State Revenue Ministry (formerly the State Tax Inspectorate) was reluctant to tax all farm plots because of the informal and contradictory way some local bodies made privatisation decisions. Other countries that tax only registered property include Albania.

Some transitional countries tax only land not covered by a building or structure. For example, Hungary allows taxation of only “net unimproved area.” The same is true in Czech Republic.

Other categories of property also may need to be addressed. These include oil and mineral rights (particularly when they are privately owned and when they may be separated from ownership of the surface land) and air rights and rights to subsurface space (such as caverns).

Perhaps fortunately, few European countries include movables in their property tax bases, as they give rise to additional administrative problems. One problem is determining which taxing district is entitled to tax readily movable property, such as vehicles, livestock, inventories, and intangible property (such as cash, stocks, and intellectual property).

5.3 Basis of Tax

The basis of a property tax is the quantity that is measured or estimated to decide each property's relative share of the total property tax burden. The two fundamental bases are value and non-value. Because countries with advanced economies usually adopt value-based property taxes eventually, this report does not deal with non-value systems in detail.

Some countries have made the choice of the basis of property taxation optional, as the following examples reveal.

C *Hungary.* Hungarian legislation allows municipalities to choose either area or corrected value as the basis for the land plot tax and building tax. The area base for the plot tax is net unimproved area. “Corrected value” is 50 percent of government-determined ‘assessed price,’ which corresponds to the average of observed market prices. As of 1999, only one municipality (Nyíregyháza) had implemented the ad valorem base (for non-residential property), because the tax department and the fee office were part of the same organization with a common database.

C *Netherlands.* Until 1997, Netherlands permitted municipalities to choose surface area or value. When surface area was chosen, coefficients for the nature, location, quality, and use of property were applied to bring assessments roughly into line with market values. The principle that area-based assessments had to reflect relative market values required numerous adjustments to the coefficients, because the High Court had ruled that taxes under the area base could not differ by more than 25 percent of taxes under a value base. Eventually, the government decided it would be simpler to allow only market value as a basis for local property taxes.

- C *Switzerland*: The basis (and other features) of property taxes varies with each Canton. Capital market value, capitalized rental value, productive value, and fire insurance value are among the bases used.

5.3.1 Non-Value

Land area, building area, or both is the usual basis for non-value property tax system, although other bases are possible (some building taxes are based on volumes, and the number of windows has been used). Under area-based property tax systems, taxes are determined simply by multiplying a measurement of area by a rate⁴. Area-based systems have the advantage of being simpler to administer. Only area measurements are needed. They are easier to implement, because market data do not have to be collected and analyzed. There is no need for revaluations. They also are more objective than value-based systems, in that area measurements are less contestable than value estimates. On the other hand, area-based property tax systems are less fair. Highly desirable properties pay the same taxes as undesirable properties. Individual assessments bear little relationship to either ability to pay or benefits received, which reduces public acceptance. Although taxpayers might see this as an advantage, area-based property taxes are less buoyant than value-based systems, unless frequent adjustments are made to rates.

The disadvantages of area-based systems can be offset by the introduction of adjustment coefficients. However, doing so reduces simplicity and objectivity (at the margins, classification is a matter of judgment). Most of the area-based systems in Europe involve adjustment coefficients.

Under an area-based system, it is desirable to have rules concerning the measurement of areas, particularly of buildings. External perimeter area generally is easiest to measure. However, it is difficult to apply this measure consistently to parts of buildings, such as apartments or shops, so internal measurements may need to be taken, despite the additional costs of doing so. Poland uses net internal area measurements.

In general, area-based systems are suitable only as long as revenues are negligible. Systems that require measurements of volumes are much more expensive to administer. They have little to recommend them.

5.3.2 Value

Meaningful uniformity in property taxation is achieved when effective property tax rates (property taxes as a percentage of property values) are roughly equal. Uniformity is most easily achieved when market value is the basis of the property tax.

When a measure of value is the basis for a property tax, there are several options: market value, restricted market value (such as current use value), or some notional (or normative) value. Moreover, value can be on a capital-value or an annual-value basis. Each basis will have advantages and disadvantages of a theoretical and practical nature. For example, annual

⁴ Poland's agricultural and forest land taxes are based on "conventional hectares." Actual area in hectares is multiplied by a coefficient based on soil productivity (and type of tree, in the case of the forest land tax) to arrive at conventional hectares. Conventional hectares are greater than actual area for the best land and less, for poor land.

value and capital value are not mathematically equivalent ways to apportion property taxes. Under annual value, only the current year's rental values figure in the valuation. Under capital value, the current and future years' rental values figure in the valuation. A country may use more than one basis. For example, agricultural property may be taxed on a current use or soil productivity basis, while urban property is taxed on a market value basis.

In value-based property tax systems, the basis may be the calculated value or a fraction of that value. For example, in Sweden, properties are taxed on the basis of 75 percent of their estimated market values. If a municipality selects value as the basis for land or building taxation, the assessment ratio is 50%. Sometimes the fraction varies with the use of the property or another factor. These are called differential or classified property tax systems. They are discussed in section 5.4.1.

When market value is the basis for taxation, factors that should be considered include (1) the rights valued and other valuation assumptions, (2) the valuation date, (3) the basis of valuation (the legal standard of value), and (4) revaluation frequency (see sections 7.1 and 7.3).

Annual value may be based on gross annual value or net annual value. In the former, the owner would be assumed to pay all operating expenses; in the latter, the occupier would be assumed to pay (specified) operating expenses (such as repairs and insurance, as is the case with the British non-domestic rates). (In the former British rating system, residential properties were valued on a gross basis.) Under either basis, actual rentals may be on a different basis, requiring valuers to make adjustments. For example, rents may be based in part on revenues generated by the tenant.

For a further discussion of valuation methods and procedures, see section 7.2.

5.3.3 Timing of Assessments and Liability for Tax

In the interests of fairness and certainty, it is necessary to specify the date of assessment and to specify the procedure for making changes in assessment when the status of a property changes after the assessment date.

Usually, the law specifies a date of assessment, and property is supposed to be assessed on the basis of its status on that date. There are several ways for dealing with changes in ownership or physical characteristics after that date. One is to ignore the changes until the next year. Another approach is for the assessment or collection agency to prorate taxes according to the fractions of the year before and after the change by issuing supplemental assessments or tax bills. Even when the change is ignored until the next year, the parties to a sale may provide for a proration of taxes in their sale/purchase agreement. Denmark follows the first approach, and the parties to a transfer settle which is responsible for what part of the taxes due in their settlement agreement.

Lithuania has a rule that any changes that occur in the first half of the year incur a tax liability for the entire year, while changes in the second half of the year do not incur the tax liability until the next year. In the Russian Federation, liability for taxes is figured on a monthly basis. The original owner is liable for taxes from 1 January to the first of the month in which the transfer occurred, and the succeeding owner is liable for the taxes for the balance of the year. In the Netherlands, holiday homes vacant on 1 January are presumed to be occupied by their owners.

5.4 Exemptions and Other Relief Measures

In principle, exemptions and other targeted forms of property tax relief should be kept to a minimum. They also should not be designed to benefit specific properties or taxpayers.

By reducing the property tax base, exemptions increase the proportional burden on other taxpayers and may reduce tax yields. To the extent that property taxes generally influence economic behavior, exemptions can be distortionary, because they may allow owners of exempt property to hold more property than they can use productively. Nevertheless, sound reasons for granting exemptions and other forms of property tax relief exist, and virtually all property tax systems provide them. Administrative simplicity is the chief rationale for exempting government property (they eliminate the need to "take money from one pocket and put it in another"). Exemption of certain non-governmental organizations can be rationalized on the ground that they provide socially worthwhile services that government otherwise might have to provide. Exemptions of charitable, educational, and religious properties fall into this category. Exemptions and relief for residential properties are intended to cushion residents from excessive property tax burdens. They are politically popular as well. Property tax incentives are intended to influence investment decisions and reward certain economic activities. The validity of these objectives is often questionable and the effectiveness of the measures may be limited.

There are many ways to provide property tax relief. The main approaches are to exclude classes of owners or property from assessment (see sections 5.1 and 5.2), reduce taxable value, or reduce the tax rate. Reducing taxable value may be accomplished indirectly, such as by invoking special valuation procedures. Some laws grant regional or local governments the power to grant additional exemptions and property tax relief measures. For example, municipalities in Netherlands may grant exemptions. Among others, they may grant an "efficiency exemption," which exempts low-value properties (properties whose value is no greater than 25,000 florins).

5.4.1 Differentials

It is common to classify property on the basis of its use and to vary the amount of tax exacted from property in each class. Several mechanisms may be used to establish these property tax differentials. The main options are differentials in assessment ratios, differentials in property tax rates, or both. The basis of valuation also may be varied, such as between market value and current use value. In area-based systems, different coefficients may be applied to the area measurements instead of, in addition to, rate differentials. Typically, agricultural and residential property is favored, and business property is not (Sweden is an exception to this generality). The ostensible purpose of differentials is to shift burdens to those better able to pay, but the real purpose often is to appease voters.

A number of ex-communist countries establish differentials based on the population of a municipality, location within a municipality, and story within a building. Such differentials are common in area-based systems, and they presumably are intended to reflect value patterns. Differentials based on soil classifications have the same purpose.

Land, buildings, and movables also may be taxed differentially. Of particular interest is a differential between land and buildings. Some have long advocated not taxing buildings or

taxing them at a lower rate than land. Estonia is an example of a country that taxes only land value. Denmark is an example of a country that, in effect, taxes buildings at a lower rate than land. The chief rationale of (a steep) differential between land taxes and building taxes is more efficient land use. The argument has two elements. First, as land essentially is fixed in supply, a uniform tax on land value cannot be avoided. Speculation or hoarding land is uneconomic. Second, taxing buildings is a disincentive to development. It also is argued that land value taxation is easier to administer than land and building taxation, because cadastral record keeping is simpler. Unfortunately, there are few, if any, examples of where the putative superiority of the preferential taxation of buildings has been demonstrated. There are several reasons for this. Disincentive effects of taxing buildings are trivial when effective tax rates are low. Taxing all land at its full market value collides with other policy objectives, such as affordable housing in cities and preserving farmland and open space. Valuation of land in developed areas, where site values are greatest, is more difficult, because, by definition, there are few vacant land sales. In this situation, indirect methods of estimating land values require estimates of building values, undercutting the economy-of-administration argument. The resulting land value estimates would be more subject to challenge on appeal. Although it would be theoretically possible to tax 100 percent of land rents under an annual value tax, under a capital value tax, the greater the percentage of rents that are taxed away, the smaller the tax base due to capitalization effects. Hence, there also is a revenue sufficiency problem with exempting buildings. Finally, it should be noted that some countries tax buildings more heavily than land.

Another dimension along which differentials may be constructed is the value of a property or the value of a taxpayer's holdings. Such differentials can be created by imposing progressive tax rates and are based on an "ability to pay" argument. Unfortunately, the argument for progressive rates is spurious, especially when applied to the value of individual parcels. Progressive rates based on individual parcel value have little or no correlation with the income or wealth of the taxpayer, especially when the property is mortgaged. High marginal effective rates encourage the subdivision of parcels and other efforts to avoid them. Armenia, Austria, Denmark, Latvia, and Slovenia have progressive property tax rate structures (while the UK has a regressive structure in its Council Tax as illustrated in section 5).

It is not uncommon for a mix of differentials to coexist in the same property tax system. Although they result in apparent contradictions, it is difficult to evaluate their effects because of differences in bases for property taxes. Estimating *effective tax rates* (taxes as a percentage of market value) would make it possible to do this when data on property prices can be obtained. However, it is generally reckoned that differentials on the order of 1:3 are sufficient to influence taxpayer behavior. As an example, in Germany (in 1976), urban property values were indexed up 40 percent, while agriculture and forest values were not. At the same time, the assessment ratio applied to forest and farm property was 60 percent, while the factor applied to urban property was only 38 percent. On top of this, average municipal property tax rates were higher for agricultural and forest properties than for urban properties. However, true assessment ratios (assessed values as a percentage of current market values) were much higher for urban property (nearly 50 percent) than for agricultural property (about 10 percent) or forest property (about 2 percent).

Infrequent revaluations have the effect of introducing de facto differentials. For example, in 1976 the level of value of most real property in Germany was nearly 50 percent of market values, but agriculture land values were less than 10 percent of market values and forestland was less than 2 percent.

Differentials based on measurements can have unintended incentive effects. For example, under Poland's area-based property tax, "corrections" are applied for low ceiling heights (ceilings less than 1.4 meters are not taxed, and ceilings between 1.4-2.2 meters are taxed at 50 percent). The second category would create a strong incentive to build new buildings with ceilings below 2.2 meters and possibly to construct false ceilings in existing buildings with ceilings over 2.2 meters.

Properties with multiple uses can create special problems. Because the two property taxes in the United Kingdom are based on how property is used (residential versus non-residential), special rules are needed for properties that are used both ways (so-called "composite hereditaments," such as residences combined with shops, hotels, etc.).

Tables 5-1 and 5-2 identify countries with property tax differentials. Additional details on some are provided below.

Transitional Countries

- C *Albania*. Agricultural land tax rates range from 15-60 USD per hectare (in 1996). The building tax rate ranges from 0.92 to 1.0 USD per square meter depending on use and location.
- C *Armenia*. Armenia has a usual variety of differential rate structures. Under the new property tax law, the marginal rates on primary residences range between 0.0 percent (for values under three million drams) and 0.8 percent (for values over 40 million drams). At an exchange rate of 500 drams to the dollar in 1998, the progressive rate structure exempts the first \$6,000 in value.
- C *Belarus*. There are land tax rate differentials that depend on stage of development, zones within Minsk, and population of smaller municipalities. There also are rate differentials under the real estate tax. State-owned enterprises pay the highest rate, followed by private enterprise, with individuals paying the lowest rate.
- C *Bulgaria*. Residential buildings are taxed at 0.2%; business, industrial, and other non-residential buildings, 0.4%, and certain holiday houses, 0.6%. There also is a rate surcharge for houses over a certain size.
- C *Croatia*. The tax on country cottages is based on four age categories, with the newest category paying the highest rate per square meter. The taxes on country cottages and rest centers are decreased by 75% for Croatian citizens.
- C *Czech Republic*. There are differential rates for agricultural land (including forest and fish farming): Arable land is taxed at 0.75% of average (cadastral) price; other land, 0.25%. There also are rate differentials for developed (non-agricultural) land: Courtyards and residual land are taxed at 0.1 crowns per square meter; developed land without buildings, 1 crown (multiplied by municipality size coefficients). Structure tax rates (in Czech crowns per square meter) are: Dwelling houses, 1; individual recreation (summer cottages, etc.), 3 (non-residential area 1); garages, 4; business, 1, 5, or 10, depending on use; and all other, 3. All of the structure rates also are multiplied by coefficients for population of the municipality.

- C *Estonia.* There are differential ranges in rates for (1) arable land and natural grassland (0.3 and 1.0%) and (2) other land (0.5 and 2.0%). In 2000, municipalities also may set the tax rate for forest land equal to the agricultural land rate.
- C *Georgia.* It should be noted that the Georgia property tax system contains substantial differentials in nominal rates for property owned by natural persons and enterprises (1:10) and especially between agricultural and non-agricultural land (1:60). Agricultural land tax rates depend on location, use classification, and quality rating; the range is 6 to 44 laries per hectare. Non-agricultural land tax rates depend on location. The base rate is 0.24 laries per square meter (2,400 laries per hectare).
- C *Latvia.* Under the 1991 land tax (which is being replaced), tax rates ranged between 0.5% and 4.0% based on the value of the property. Under the property tax, buildings were taxed at 1.0%, while plant and machinery were taxed at 0.4%.
- C *Lithuania.* Under the Land Tax, coefficients are applied to tax value to produce a net taxable value. For agricultural land, land owned by construction partnerships engaged in the construction of apartment houses and private houses, land of consumer cooperatives, and operative companies, the coefficient is 0.35. For land of gardeners' partnerships, land plots used for economic-commercial and other activities, 0.5.
- C *Moldova.* Under the land tax in 1996, separate per-hectare rates were established for three types of property: (1) agricultural land, in which case the rate depended on soil quality and the type of crop produced; (2) land in urban and rural areas occupied by housing and production buildings; and (3) land outside cities not used for agricultural production. Under the property tax, production property was taxed at 0.1% of balance value; commercial property, 0.5%, and hotels, restaurants, and casinos, 1.0%.
- C *Poland.* There are about six classes of property, and maximum rates in 1995 were as follows (USD per square meter): residential use building area, 0.09; commercial use building area, 3.32; other use building area, 1.11; structures, 2% of capital depreciation base; land under commercial use, 0.11; and land under other non-commercial use, 0.01. Agricultural and forestland are taxed on a productivity basis under the "conventional hectare" concept.
- C *Romania.* The land tax rate depends on whether the plot is in a town or a city (higher rate) and on the zone within the locality (the range is 50 to 2,400 leis per square meter). Buildings have differential rates for cities and rural localities (0.2% of taxable value in the former and 0.1% in the latter). Certain types of owners (craftsmen, professionals) pay higher than normal taxes. Private homes in towns are subject to higher rates when the number of rooms exceeds the number of family members.
- Under the land tax, rates vary with the category of the locality and with the zone within the municipality (land in each municipality is divided into four zones). In small towns and villages, only the first 1000 square meters is taxable under the land tax; any excess land would be subject to the agricultural income tax.
- C *Slovenia.* The rates on buildings generally range from 0.1% to 1.0%, depending on the value of the building or part of a building in question. However, the rates for

premises for rest and recreation range from 0.2% to 1.5%, and the rates for business premises range from 0.15% to 1.25% (the business rate is increased by 50% for certain business uses).

Developed Countries

- C *Austria.* In 1998, the state rate was as follows (value amounts are in Austrian schillings):

Property Class	Rate (%)	Property Class	Rate (%)
Agricultural land and forests		Rental residential	
First 50,000 of value	0.16	First 50,000 of value	0.01
Balance	0.20	Next 100,000 of value	0.15
Single-family houses		Balance	0.20
First 50,000 of value	0.05	All other property	
Next 100,000 of value	0.10	First 50,000 of value	0.10
Balance	0.20	Balance	0.20

- C *Denmark.* The property value tax on residential properties has a two-tier progressive rate structure. Properties up to 2.6 million Danish crowns are taxed at 1%. Any value above this amount is taxed at 3%.
- C *Finland.* The real estate tax rate that applies to buildings used for residential purposes ranges between 0.22 percent and 1.0 percent. The rate applicable to other kinds of immovable property ranges between 0.5 percent and 1 percent. A special rate between 1 percent and 3 percent can be applied to certain non-built immovable property with city zoning areas as from 2001.
- C *France.* Property and payrolls are taxed at different rates under the Business Tax.
- C *Germany.*
- C *Italy.* There is an eight-by-ten matrix of rates under the Local Business Tax based on business activity and area. In addition, there is an income adjustment to these rates, which may be varied by the commune. Rates are halved for low-income businesses and doubled for high-income businesses. The lower income limit can be adjusted by plus or minus 50%, and the upper limit, by plus or minus 40%.
- Cadastral values on holiday houses are increased by one third.
- C *Netherlands.* Since 1990, the owner rate cannot exceed 125 percent of user rate. In practice, this means that a municipality cannot levy only an owner tax.
- C *Sweden.* In addition to housing being assessed at 75 percent of estimated market value, the following tax rate differentials apply: Dwellings, 1.5 percent; houses divided into leasehold flats and in blocks of flats (*hyreshus*), 1.2 percent; business property in apartment buildings, 1.0 percent; and industrial property, 0.5 percent. Thus the Swedish rate differentials are opposite those of most countries.

- C *Turkey.* Land generally is taxed at 0.1 percent, while buildings generally are taxed at 0.2 percent. Building sites, however, are taxed at 0.3 percent, while dwellings are taxed at 0.1 percent.
- C *United Kingdom.* The system of value bands under the Council Tax effectively establishes a regressive rate structure.

5.4.2 Institutional Exemptions

Tables 5-3 and 5-4 provide information about countries that exempt various types of “institutional” properties. By “institutional,” I mean the exemption is granted to a legal person, rather than a physical person. Common exemptions include property owned by: (1) governments (central, regional, and local governments) and used for governmental purposes (including property of foreign states, such as embassies); (2) institutions that provide charitable, educational, and other quasi-governmental services and used for stipulated purposes (such as non-profit hospitals); and (3) religious institutions and used for religious purposes. Usually institutional exemptions are complete (100 percent) and are of indefinite duration. Initial applications and periodic reapplications may be required.

Government-owned properties, whether owned by the state or by municipalities, usually are not exempt unless they are used for governmental purposes. This also is true of land and buildings that are awaiting restitution but are currently controlled by the state or another governmental organization.

Table 5-3: Institutional Exemptions in Transitional Countries

	Embassies	Property of Government & Its Agencies	Public Areas	Educational Property	Hospitals	Religious Buildings	Cemeteries	Charities	Cultural & Historical Property
Albania		Exempt							Exempt
Armenia									Exempt
Belarus						Exempt	Exempt	Exempt	
Bosnia & Herzegovina									
Bulgaria	Exempt	Exempt	Exempt	Exempt					Exempt
Croatia	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt		Exempt	
Czech Republic	Exempt	Exempt	Exempt	Exempt					
Estonia	Exempt	Exempt	Exempt			Exempt	Exempt		
Georgia		Exempt (land)	Exempt	Exempt (land)				Exempt (land)	Exempt (land)
Hungary		Exempt		Exempt		Exempt		Exempt	Exempt
Latvia		Exempt		Exempt				Exempt	Exempt
Lithuania	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt		Exempt	
Moldova		Exempt	Exempt			Exempt		Exempt	Exempt
Poland	Exempt	Exempt		Exempt	Exempt	Exempt		Exempt	Exempt
Romania		Exempt				Exempt	Exempt		Exempt
Russian Federation				Exempt		Exempt			
Slovak Republic	Exempt	Exempt		Exempt	Exempt	Exempt	Exempt	Exempt	Exempt
Slovenia	Exempt (land)	Exempt (some from land)				Exempt (land)			Exempt
Ukraine									
Yugoslavia									

Note: A blank signifies that no information is available.

Table 5-4: Institutional Exemptions in Developed Countries

	Embassies	Property of Government & Its Agencies	Public Areas	Educational Property	Hospitals	Religious Buildings	Cemeteries	Charities	Cultural & Historical Property
Austria		Exempt		Exempt		Exempt		Exempt	
Belgium									
Denmark	Generally Exempt	Generally Exempt	Not assessed	Generally exempt	Generally exempt	Not assessed	Not assessed	Generally exempt	Exempt
Finland									
France	Exempt (a)	Exempt	Exempt	Exempt (b)	Taxable	Exempt (c)	Taxable	Taxable (d)	Taxable
Germany	Exempt	Generally Exempt	Concessions	Exempt	Exempt	Exempt	Exempt	Exempt	Concessions
Greece									
Ireland	Concessions	Exempt	Sometimes Exempt	Sometimes Exempt	Generally Taxable	Sometimes Exempt	Taxable	Exempt	Taxable
Italy	Exempt	Exempt				Exempt			Exempt
Netherlands	Exempt	Sometimes Exempt (e)	Exempt (e)	Taxable	Taxable	Exempt (e)	Sometimes Exempt (e)	Taxable	Taxable
Norway									
Portugal		Exempt				Exempt			Exempt
Spain	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt
Sweden	Exempt	Exempt	Sometimes Exempt	Generally Exempt	Exempt	Exempt	Taxable	Exempt	Taxable
Switzerland	Exempt	Exempt	Exempt	Exempt	Taxable	Exempt	Exempt	Exempt	Taxable
Turkey	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt	Taxable
United Kingdom	Exempt	Taxable	Sometimes Exempt	Concession (f)	Exempt (g)	Exempt	Taxable	Exempt	Taxable

Notes: A blank signifies that no information is available.

- (a) From Land and Building Tax and from Business Tax.
- (b) Taxable under the Land and Building Tax.
- (c) Liable for the Land Tax.
- (d) Some exemptions under the Property Tax.

- (e) Liable for the Contribution to Polder Boards.
- (f) Rate reduction.
- (g) If non-profit.

Countries exempting other types of property include:

Transitional Countries

- C *Belarus*. In addition to cemetery land, land tax is not levied when the land is occupied by social and cultural facilities, including social housing, organizations for the disabled; telecommunications facilities; and administrative purposes.
- C *Bulgaria*. Buildings owned by political parties and labor unions are exempt.
- C *Czech Republic*. Land and buildings used for improvement of the environment are exempt.
- C *Poland*. Under the forest land tax, old forest (more than forty years), protected forests, forests in national parks, and forests treated as historical monuments are exempt.
- C *Romania*. Certain categories are exempt from the fee for the use of state-owned land, including land used by public institutions, land that is unsuitable for agriculture and forestry, and land used for some investment purposes. Pipelines are exempt from the property tax.

Developed Countries

- C *Italy*. “Rural activities” are exempt from the Tax on Immovable Property.

5.4.3 Incentives and Other Tax Preferences

Property tax relief often is provided to encourage some socially or economically desirable activity. Common property tax incentives encourage agriculture, forestry, open space preservation, historic property preservation, environmental improvements, new industrial development, housing renovation, and the like. Incentives usually provide only a partial exemption. Except for agriculture, incentives usually are for a limited period, such as five to ten years. When they are of a fixed duration, they often are on a sliding scale basis. That is, the amount (percentage) of property tax relief is reduced in steps each year until the exemption is completely eliminated. Incentives available to individual properties often require an application, and they may be contractually enforced. That is, they are received only as long as contractual conditions are met. Penalties may be applied when property use is changed.

Although not as common, higher (as opposed to lower) taxation also can be used as an incentive. Under this approach, property taxes would be lowered to the normal level if the desirable activity occurs. The tax rate on unfinished construction in Belarus is ten times the rate on ordinary commercial enterprises. Lithuania taxed buildings that had been unused for more than one year at 5 percent instead of the usual 1 percent. It is unlikely that such punitive differentials are effective, especially when demand for the type of building in question is low or nonexistent.

Tax relief may be offered on an aware-wide basis. The goal is to stimulate property improvements and new development in an area that is economically depressed. Typically, all properties in a designated area have their property taxes frozen. Examples of such incentives include “enterprise zones” in Ireland and the UK.

Special property tax relief may be offered for properties damaged in a natural disaster, such as a flood or earthquake. However, Turkey in 2000 imposed a special extra property tax for one-year tax to pay for 1999 earthquake damages. The tax was equal to the property tax paid in 1999.

In principle, incentives should be sparingly used. They should have a strong justification and be carefully designed.

Examples of property tax incentives and preferences include:

Transitional Countries

- C *Armenia.* There is a 50% exemption for agricultural land used for research purposes and there are temporary exemptions for qualifying new agricultural undertakings. Agricultural buildings and railway structures are among the types of property that are exempt.
- C *Bulgaria.* New residential buildings owned by natural persons are exempt for five years. Buildings owned by the Ministry of Transport and used for air, rail, and water transport are exempt.
- C *Czech Republic.* Newly constructed owner-occupied single-family houses are exempt for 15 years. Restituted houses also are exempt for 15 years as long as they are not sold and as long as the saved taxes are used for repairs and improvements. Expenses for the maintenance of historic buildings can be deducted from property taxes.
- C *Estonia:* As noted in section 5.4.1, agricultural land benefits from a preferential tax rate. Municipalities also may lower the rate on individual properties when their most economical use is restricted by law (such as in nature preserve areas).
- C *Georgia.* Re-cultivated and resettled land receives a five-year exemption. “Mothballed” buildings are exempt. State-owned pastures and meadows also are exempt. Land and buildings used in transportation, telecommunications, electricity transmission, environmental protection, water supply, and fire protection are exempt.

Municipalities may impose “one-time” taxes that are substantially higher than normal when “new” allocations of non-agricultural land are made and when “new” temporary use rights are granted or when leases are assigned. The multiple can be fifty times the base rate of 0.24 laries per square meter in the first instance and ten in the latter. The “one-time” taxes could be discriminatory, and, at maximum multiples, could be confiscatory.
- C *Hungary:* Agricultural buildings are exempt from property taxation. Only plots above certain municipally determined sizes are taxed. Land owned by transport and telecommunication companies is exempt from the plot tax. Temporary lodgings are exempt from the building tax, although they may be subject to the tourist tax.
- C *Latvia.* Under the former property tax, agricultural property was exempt.

- C *Lithuania*: Forest land is exempt from the Land Tax. Newly acquired farmland plots and recovered farmland is exempt for three years after
- C *Poland*: Under the agricultural land tax, taxes are reduced in the first two years of production, when taxpayers increase the intensity of agricultural operations, and for farming in mountainous areas. Under the urban property tax, properties connected with harbors, transportation, and water power stations are exempt.

Taxes are abated for new buildings. Buildings used for agriculture or forestry are exempt. Enterprise garden plots are exempt under special legislation. Similarly, properties used in filmmaking are exempt. Properties listed in the historic buildings registry are exempt, provided they are in compliance with historic preservation regulations and not being used for commercial purposes.
- C *Romania*. An individual's first home is exempt for ten years after it was first built.
- C *Russian Federation*. Newly organized enterprises receive a temporary exemption. Agricultural enterprise property is exempt, as is the property of utility and transport enterprises.
- C *Slovak Republic*. New houses and apartments owned by physical persons are exempt for fifteen years. Electricity transmission property is exempt.
- C *Slovenia*. Land for new buildings and for apartments is exempt from the charge for use of building ground for five years. A ten-year exemption is granted to newly constructed buildings and for renovated buildings when their values are increased by 50%. Buildings used for agricultural purposes are exempt.

Developed Countries

- C *Denmark*. Agricultural and forestry properties benefit from reduced rates of tax. Property related to transportation and utility systems generally is not assessed or is exempt. Sports facilities generally are exempt.
- C *France*: Agriculture and forestry properties usually are exempt from the Land and Building Tax. New residences may be granted relief under the Housing Tax.
- C *Germany*: Building values of new residences under certain size limits (particularly low-cost housing) are exempt for ten years. A 10-year exemption applies in the five new *länder* for property used for housing, provided the house was built after 31 December 1980 but before 1 January 1992. Empty apartments are taxed at favorable rates. Agricultural land values are not indexed.
- C *Ireland*: Agricultural land is exempt from rates because of a 1978 supreme court decision which deemed that the 1852 valuations were unconstitutionally non-uniform. Mines are exempt from rates the first seven years after opening or re-opening.
- C *Netherlands*: Agricultural and forestry land (including horticultural land and greenhouses) are exempt from the Municipal Tax. Also exempt are natural sites and landed property that is part of an estate protected by the Nature Protection Act.

- C *Portugal*: There are temporary exemptions for owner-occupied and rented housing.
- C *Spain*: Agricultural land is taxed on the basis of net yield. Mines are exempt from the Rural Land Tax (but there is a special tax on such properties). Forests may be temporarily exempt from the Rural Land Tax.
- C *Sweden*: Agricultural land and forestland are not included in the property tax base. New residential properties are exempt for five years after construction and receive a 50 percent exemption for the next five.
- C *Turkey*: Turkey has extensive property tax preferences and incentives. They cover agriculture, fishing, shipbuilding, tourism, and industry. Provides property tax relief for new residences.
- C *United Kingdom*: Agricultural and forestry properties are exempt from Rates. There are “enterprise zones.” Vacant properties receive a full exemption for the first three months of vacancy and a 50 percent exemption thereafter under the Uniform Business Rate. Under the Council Tax, vacant houses receive a 50% tax reduction.

5.4.4 Personal Exemptions and Similar Relief Measures

Relief for residential property owners is provided in a large number of ways. Classified property tax systems (5.4.1) usually, but not always, favor residential property. Other relief measures may be comprehensive, favoring all residential property, or selective, favoring only the elderly, the disabled, those who provided qualifying military service, or those with lower incomes. An application may be required, and there may be means testing. Relief usually is restricted to the person’s principal residence, and only a portion of the assessed value (or area of the property) may be exempted from taxation, providing an element of progressivity in the property tax system. Such partial exemptions also are rationalized on the basis of administrative practicality, as it often is uneconomic to attempt to collect or enforce property tax obligations on very low-value properties or from very poor people (see section 5.4.8).

The practice of exempting properties under a certain land or building area runs the risk of encouraging the subdivision of larger properties in order to qualify for the exemption. Countries with this type of exemption include Hungary, Lithuania, Slovenia, and Netherlands.

Means testing may involve a flat family income limit, such that only persons with incomes below the limit qualify for relief. Another approach is to place limits on the proportion of income that can be taken by property taxes (these measures are called “circuit-breakers” in the US). Property taxes in excess of the limit may be waived or rebated. In comparison to blanket measures, the aim is to target relief where it is most needed. Local governments may be compensated for the loss of revenue.

Examples of personal exemptions and other relief measures include:

Transitional Countries

- C *Armenia*. In addition to the relief provided by its progressive property tax rate structure, Armenia offers partial exemptions to veterans and disabled persons.

- C *Estonia.* Municipalities could grant persons who received an old age or disability pension and whose right to use land arose before 1 July 1993 an exemption of up to 200 Estonian crowns from the land tax until 31 December 2000, provided they received no rental income from the land.
- C *Georgia.* Disabled persons receive a property tax exemption, and veterans and their relatives receive a non-agricultural land tax exemption.
- C *Latvia.* Under the former property tax, buildings owned by physical persons and not used for business purposes (that is, residences) were exempt.
- C *Lithuania:* Certain handicapped or ill persons, old age pensioners, and underage children may be exempted from the Land Tax, when the size of the land plots belonging to them does not exceed size limits established by municipal councils.
- C *Hungary.* Exempt from the building tax are poor social housing and properties of less than 100 m² in villages having fewer than 500 inhabitants. In addition, 25 m² per resident is exempt.
- C *Poland.* Under the agricultural land tax, farmers who are on military service receive a rate reduction.
- C *Romania.* Veterans, persons persecuted during the communist regime, and war widows receive property land and building tax exemptions.
- C *Russian Federation.* Residential property receives a partial exemption. Pensioners, some disabled persons, persons in the military service, and veterans also are eligible for exemptions.
- C *Slovenia.* In addition to the exemption of buildings of less than 160 square meters, property taxes are reduced by 10% for every family member in a household with more than three persons. Low-income taxpayers may be partially or wholly exempted from paying the charge for use of building ground.

Developed Countries

- C *Denmark.* Taxpayers aged 67 years or more are eligible for a reduction in their property value tax. The amount of the reduction depends on their income and on the value of their property (see section 5.4.1). The maximum reduction in the rate is 0.4 percentage points.

Similar to the policy in several US states that also have annual revaluation requirements, there is a cap on how much the property value tax may be increased in a single year. The maximum increase is the greater of 20% or 2,400 Danish crowns.

- C *France.* There is a “circuit-breaker” under the Property Tax. Also, there are statutory allowances based on family size. The old and infirm with low incomes may qualify for special tax relief on their principal residence under the land and building tax and the housing tax. For example, low-income persons over 75 are exempted.

- C *Ireland.* The residential property tax is payable on values over £101,000 at a rate of 1.5% when household incomes exceed £30,100. Because the threshold amounts are indexed to the consumer price index, revenues from the tax are negligible.
- C *Italy.* Under the Tax on Immovable Property, tax liabilities are reduced for primary owner-occupied residences.
- C *Netherlands.* Property taxes may be forgiven in cases of hardship, although the regulations allowing that are quite strict. Also, small, low-value residences are exempt from property taxes on grounds of “efficiency.”
- C *United Kingdom.* Single adult households receive a 25% tax reduction under the Council Tax. There also is a need-based relief scheme, under which it is possible to receive 100 percent tax relief. This is known as the Council Tax Benefit and is funded by the central government.

5.4.5 Deferrals

On an exception basis, it may be possible to obtain permission to delay payment of property taxes temporarily without incurring any penalties other than perhaps interest. A number of property tax systems make it possible for elderly people to defer property taxes on their residences indefinitely. Any unpaid tax may remain a lien on the property, which is repaid when owner sells the property or is recovered from the owner’s estate when he or she dies. The lien may be capped at the value of the property. Denmark allows taxpayers aged 65 years or more to defer the land tax related to either an owner-occupied dwelling or an owner-occupied summerhouse. OECD 1983 also reported that there was some possibility of deferring property taxes in France (in cases of hardship), Germany, Netherlands, Spain, Sweden (in cases of unemployment or sickness), Turkey, and United Kingdom.

5.4.6 Transitional Relief

When a revaluation occurs after a long interval or when a new property tax system is introduced, some taxpayers will experience dramatic increases in their property tax burdens (while others will experience commensurate decreases). As some of the increases may be economically or politically destabilizing, a program to phase-in large property tax increases may be desirable. Of course, such temporary property tax relief causes the previously overtaxed taxpayers to continue to bear indirectly the costs of the relief to the formerly undertaxed.

In conjunction with the residential Property Value Tax introduced in 2000, Denmark designed a scheme to “hold harmless” taxpayers who acquired their properties before 1998.

The United Kingdom has (very complicated) transitional relief provisions for transitional relief under non-domestic rates.

5.4.7 Indirect and Other Forms of Relief

Property tax relief may be provided indirectly. For example, property taxes may be offset against (deducted from) income taxes. In Hungary, property taxes paid by individuals were deductible only in 1995. Developed countries that provide for the deduction of property

taxes under income taxes include Denmark (personal income taxes); Finland (corporate income tax); France (taxes paid under the Land and Building Tax and Land Tax may be deducted from the corporate income tax); Germany (corporate income tax); Ireland (corporate income tax); Netherlands (individual and corporate income tax); Spain (individual and corporate income tax); Sweden (corporate income tax); Switzerland (individual and corporate income tax); Turkey (corporate income tax); and United Kingdom (corporate income tax). (Property taxes are not deductible from the personal income tax in Italy.) When there is both a personal and corporate income tax, there may be an incentive to transfer property from individuals to businesses (or vice versa) only to take advantage of the deduction.

5.4.8 Administrative Issues

Sophisticated exemption and relief measures illustrate a dilemma. If exemptions and relief measures are liberally granted, some undeserving taxpayers will benefit along with deserving taxpayers. On the other hand, the more stringent the eligibility criteria are, the more costly administration becomes. In other words, there is a tradeoff between the revenue lost from unwarranted exemptions and the increased cost of administration when exemptions are carefully granted.

Some types of property may be exempted from ordinary property taxation because they are difficult to value (see the discussion of unit or global values in section 7) or because it is difficult to assign their value to a particular taxing district. Examples of such properties include telecommunications systems; electricity, gas, water, and other public utility systems; railroads, pipelines, airlines, and the like; and mines. However, privately owned telecommunication, utility, and transportation enterprises may be subject to an alternative means of taxation. Similarly, oil wells and mines may be taxed on the minerals extracted rather than attempting to estimate the value of un-extracted minerals.

In Poland, public roads and rights-of-way; structures used exclusively for public transport; structures used for the generation and transmission of energy, gas, heat, fuel, and water; sewage systems; water reservoirs and water courses are exempt.

Exemptions may be granted for reasons of administrative convenience or efficiency. For example, Estonia exempts land that cannot be used economically, which is sensible as long as the conditions that prevent economic use prevail. Transitional countries that do not issue property tax bills when the amount due is small include Estonia, Slovak Republic, and Slovenia. As previously noted, small, low-value buildings are exempted in Netherlands on efficiency grounds. A similar exemption exists in Denmark. Some differential property tax systems (section 5.4.1) with very low tax rates on some classes of property result in property tax bills that are uneconomic to collect. It would be better to eliminate very low rates or to establish taxability thresholds or to grant partial exemptions.

It may be worth noting that some believe that even the poorest taxpayer should pay a minimum tax, because doing so completes a “social contract.” By paying tax, the taxpayer is entitled to hold public officials accountable for their performance. The argument is a variant on the old saying that “beggars cannot be choosers.”

Complications arise when an exempt property is partly used for a non-exempt purpose. Options include denying the exemption altogether or exempting only the part of the property that qualifies for an exemption. For example, facilities like airports often are exempt, but

parts such as the facilities used by private enterprises, including concessions like rental car agencies, shops, and so forth, usually are taxable. These may be assessed and taxed under ordinary rules or subjected to payments in lieu of taxes (see section 2.4). Bulgaria disallows exemptions of buildings rented to third parties and buildings in certain resorts. In Czech Republic, state-owned land and buildings are exempt provided they are not used for business activities or rented (except to other state budgetary organizations). Poland conditions many exemptions on non-commercial use. Denmark exempts only for the parts of a property that qualifies; the balance is taxed. Ireland has an “exclusive use” test in the granting of exemptions to properties used for religious worship, education of the poor, charitable purposes, and state or public purposes.

Similar complications can arise when a service that otherwise qualifies for an exemption is provided by a for-profit entity or when there is a private benefit, such as exempting agricultural land or privately owned historical property.

5.5 General Administrative Provisions

Property tax systems address a number of administrative issues. For example, they provide procedures for dealing with failures or omissions by taxpayers (such as incomplete or erroneous returns) and clerical and similar mistakes by the property tax administration. The aim of measures in these areas would be to adjust taxes already paid ("back taxes" when the payment was too low and refunds when it was too high). Usually a time limit would be set (such as three or four years) in making corrections. For example, the Tax Inspection of Georgia has the power to amend assessments in the case of errors or omissions. It has the power to do this within six years of the end of the tax year in question. Similarly, taxpayers may request refund for overpayments within the same six-year time frame.

6. Cadastral Systems

The term “fiscal cadastre” is loosely used here to represent the totality of records of assessable properties, taxpayers, assessments, and tax obligations. There are two basic types of fiscal cadastres: person (or taxpayer) based systems and property-based systems. Person-based cadastres have ancient origins and basically are lists of persons (physical or legal) and information about the properties they are known to possess. Although it is possible to list properties, by street, for example, property-based cadastres have been map-based since the Austro-Hungarian Empire perfected their conceptual design, which combines a geodetic control network, a coordinate system, cadastral maps and land registers. For two closely related reasons, this section concentrates on map-based cadastral system despite the fact that some transitional countries still rely on socialist-era person-based cadastres. First, the Slovenian Real Estate Registration Modernization Project involves the development of modern map-based cadastral records. Second, only by organizing land and building records geographically can a property tax administration be confident that all assessable properties have been discovered and correctly described. If a property is valuable and the property tax administration is conscientious, someone eventually will come forward and pay the property taxes due on it if there is a risk that a government can seize it. Person-based systems, in contrast are crucially dependent on owners declaring their property holdings. (Transitional countries with good company and population registers can justifiably continue to use person-based registers if there are no cadastral maps or if existing maps are incomplete or out-of-date.)

Section 6 focuses on processes related to developing and maintaining fiscal cadastres. The companion report, “Mass Appraisal Methodology Guidelines,” provides more information on processes specifically related to setting up a mass valuation system. Systems covered in section 6 include:

- C Cadastral mapping and parcel identification systems;
- C Land and building attribute databases;
- C Market evidence databases; and
- C Taxpayer record systems.

Cadastral data collection and management generally are regarded as the most expensive aspects of property tax administration, although the store of data may be valuable for other purposes. Consequently, property tax administrators should attempt to collect and maintain as economically as possible only data needed in property tax administration, unless there is an agreement to supply data needed by others (particularly in a GIS environment). Obviously, they need data for valuation, in support of values, and in tax administration to determine liability for taxation and the extent of taxability. Data management responsibilities encompass the determination of data needs, data capture methods, quality assurance, and data storage and retrieval. In a GIS environment, other public and private sector needs also should be taken into account.

Some descriptive notes on cadastral systems follow.

Transitional Countries

- C *Armenia.* In recognition of the need for proper map-based legal and fiscal cadastres to serve the needs of property market participants and to improve control over the

property tax base, the National Assembly in 1997 authorized the creation of a Cadastre Department, nominally under the Minister of Justice. Its functions include property title registration, property valuation for tax purposes, and monitoring. It is organized along functional lines, with registration and valuation departments, and it is establishing mapping and informatics departments. Registration, inventory, and valuation operations are decentralized in forty-seven field offices, including four in Yerevan. The department began title registration in 1998. Several international donor organizations have sponsored projects to modernize the title registration process, compile digital cadastral maps, and update the inventory of buildings. An integrated land and building database is being constructed.

- C *Bulgaria.* The cadastral system was not maintained during the socialist era.
- C *Czech Republic.* In the Czech Republic, there is a taxpayer register. Taxpayers are to file a return, in which the taxes due are calculated. Financial offices maintain records of property tax “assessments,” payments, and any taxes due. Efforts are underway to integrate the taxpayer register with the cadastre.
- C *Estonia.* Land tax records appear to be organized by taxpayer (difficulties have been encountered). The cadastral system is not fully developed; and only about 25 percent of the land has been registered in the cadastre and title book.
- C *Georgia.* Parcel-based legal and fiscal cadastres did not exist in Georgia during Soviet times. However, an evolution from Soviet-era land and building record-keeping systems was underway in 1997. Historically, land records consisted of topographical maps and of land allotment documents, which may or may not have indicated (accurately) the amount of land allocated. Moreover, allotment records generally were not readily accessible, as they were stored in the archives of city architects. No records existed of land that had not been formally allocated or that was used illegally.

Technical bureaus maintained better records of buildings and of apartment units. A record (“passport”) was prepared for each building and apartment. It contained information on construction materials, the size of the building or unit, and a perimeter sketch or floor plan. The drawings, dimensions, and area measurements were approximate. A passport may also have contained a sketch of the land allotted to the building.

With financial support from the German government, the State Department for Management of Lands (SDML) and the City of Tbilisi were working with a German firm, GTZ, in 1997 to develop a prototype land cadastre based on a computerized geographic information system (GIS) and a computerized register of property records (non-spatial data were being maintained in an Oracle database). In the GTZ design, digital orthophotographic base maps based on the Universal Transverse Mercator (UTM) projection were being compiled from recent aerial photographs.

Digital base maps were being compiled for the pilot study areas, and a cadastral “overlay” was being constructed. This was being accomplished by laying out apparent parcel boundaries on the base maps. Parcel (cadastral) numbers were assigned as parcels were delineated. Terrain features visible in the photographs that suggested areas of occupation, such as fences, building outlines, and streets were being used to de-

lineate parcel boundaries tentatively. The GTZ process included a field survey to confirm (and modify as necessary) tentative parcel boundaries with the parcel owner or occupant and with the owners or occupants of surrounding parcels. The cadastral maps were being compiled at a scale of 1:500, which is more than sufficient for property tax administration. The GIS would calculate land areas. The UTM coordinates also would facilitate spatial analysis of data associated with parcels, such as their selling prices.

When the information could be obtained during the field survey, the owner's (or user's) name was being added to the parcel record, which would enable the cadastral agency to create a provisional record of owners and users.

The Tax Inspection planned to accept registers of these records as an authoritative basis for taxation. This approach will enable the SDML and the Tax Inspection to compile a fiscal cadastre relatively quickly and economically. Although no field measurements were being made, I believed the tentative parcels were being defined with sufficient precision to serve as a basis for land taxation. When owners decided to register their title to real property officially, they could present, if they wished, more accurate evidence of parcel boundaries and land areas (such as a survey). Thus, the GTZ designed allowed the legal cadastre to be compiled on a sporadic, "as-needed" basis, while the fiscal cadastre could be comprehensive, although not authoritatively determinative of title.

- C *Hungary.* Local government fee offices (*Illetikhivatal*) maintain records related to transactions. There are nineteen county fee offices plus twenty-two more in Budapest. They operate within the local government administration, under the notary. They collect information on transaction prices. They have 'assessors.' They have a heavy workload and backlogs. The legal cadastre is managed by the land offices (*Földhivatal*), which are part of the Ministry of Agriculture. They are administratively decentralized into 109 local offices, including twenty-two in Budapest. Land records include identification of the owner, rights possessed and restrictions. They are organized by parcel identification number and detailed on maps. Land office data are being computerized. Technical departments, which may cover several municipalities, register building permits, local master plans (zoning), and public utility information. These data generally are not integrated. Péteri and Lados suggest that data flows from fee offices to land offices to tax departments. Larger cities have the capability to build property registration and valuation systems.
- C *Romania.* Romania also has a taxpayer register. All taxpayers may have to file a property declaration. As is typical in ex-communist countries, legal persons assess their property. Municipalities (local councils) define the zones.
- C *Russian Federation.* The State Revenue Service maintains registers of individual taxpayers and enterprises in each municipality. This makes it difficult to control taxpayers that have property in more than one municipality. Development of a land cadastre has begun. Bureaus of technical inventory maintain files on buildings. The files contain a copy of the passport.
- C *Slovenia.* The legal cadastre is based on the German land book (*grundbuch*) model. Currently, it is not computerized.

Slovenia is in the early stages of a massive real estate registration modernization project. The project includes the development of computerized title records, cadastral records and maps, and a property tax administration system.

Developed Countries

- C *Denmark.* The Central Customs and Tax Administration maintains the sale register used in valuation. The National Survey and Cadastre maintains the maps and supplies the land information used in property taxation. The municipalities have property tax offices that assign property numbers, and maintain building, valuation, and collection registers. There is an address system that allows buildings to be located with near certainty. It has standards for naming streets and numbering buildings and units in buildings. No field inspections are routinely conducted; much of the information about properties is from a 1976 owner questionnaire. Buyers are required by law to disclose prices. Valuation lists, sales registers, and sales ratios are made public.
- C *France.* The French cadastre historically served as the basis for property taxation. Legislation in 1956 made it compulsory to designate properties by their cadastral numbers for registration purposes. Owners are required to submit a form detailing changes in property attribute data. Tax lists are public.
- C *Ireland.* Local rating authorities are responsible for preparing and maintaining valuation lists. When they believe that the valuation of a property has changed (due to new construction or any other reason), they file a request with the Valuation Office for a new or updated valuation. Legally, the Valuation Office must process the request within six months.
- C *Netherlands.* The cadastral agency maintains the maps used in property taxation. Property attribute data are obtained from field surveys, and officials have the right to enter properties. Buyers are required by law to disclose prices. Municipalities are required to update a sales register continuously and to collect information on rentals and construction costs. Property tax data generally are not public.
- C *Sweden.* Land titles are registered. The cadastral agency maintains the maps used in property taxation. Owners are required to submit a form detailing changes in property attribute data. Although field inspections also are made, owners have no obligation to cooperate. Buyers are required by law to disclose prices. Taxpayers and others can access tax records online. Computerized sales and property attribute files are maintained.
- C *Switzerland.* Property attribute data are obtained from field surveys, and officials have the right to enter properties. Buyers are required by law to disclose prices. Property tax data are not public.
- C *United Kingdom.* Property attribute data are obtained from field surveys, and officials have the right to enter properties. For the non-domestic rates, [local?] registries maintain a continuously updated inventory of all properties organized by title. These are rapidly being computerized. Buyers are required by law to disclose prices for the Stamp Duty (transfer tax). Rental data also must be disclosed.

7. Valuation

This report describes valuation programs and practices. The focus is on capital value (rather than annual value) and on market value-based systems (rather than systems based on arbitrary, normative values). Detailed suggestions regarding valuation methods are the subject of the companion report, “Mass Appraisal Methodology Guidelines.”

7.1 Defining the Valuation Problem

In addition to defining the value basis for the property tax, the legislative framework should address the issues list below. The aim would be to simplify the valuation problem and to make it clear what the resultant valuations represented.

Property rights. Since actual market transactions involve different sets of property rights, it is normal to assume a standard set of property rights for reasons of fairness and administrative simplicity. Usually, it is assumed that the taxpayer possesses “fee simple” rights to the property, which are the totality of rights that may be privately possessed. That is, any private divisions of property rights (such as leases, mortgages, and leases) are ignored in determining the value of land and buildings (but these should be considered when screening sales data). On the other hand, certain rights reserved by government, such as the right to tax property, the right to control how property is used, and so on should be taken into account. For example, in the Netherlands, property is assumed to be vacant and unencumbered by a mortgage or a long-term lease.

Property use. As with an assumption regarding property rights, there should be a standard definition of the use of a property that is assumed for valuation purposes. There are two main choices: (1) the current use and (2) the most economic, legally permitted use (so called “highest and best” use). Current use and most economic differ when it can be safely assumed that a potential buyer would see a way to use a property more intensively or profitably in the future. As a result, actual prices tend reflect intended uses. Several transitional countries have provisions in their laws that resemble a most economic use standard by requiring the tax administration to disregard under-use of land (particularly agricultural land). In Denmark and Sweden, most economic use is assumed. In UK, the standard is actual use (as a result vacant land and buildings receive lower assessments).

There are two additional use-related issues that arise in property tax systems. One is how to value “special purpose” properties—properties that are uniquely designed to meet the needs of their current owners and for which there would be few, if any, buyers should their current owners decide to put them on the market. Certain governmental and industrial properties fall into this category. As long as such properties are being used for their intended purposes, the law often stipulates that the cost approach should be used and that depreciation allowances should be “normal.” (Owners generally contend that the properties are uneconomic and that valuation relief should be granted.)

The valuation of unfinished construction (essentially unusable property) is a concern in several transitional countries. Some believe that owners should be “forced” to complete the construction through punitive taxation. Before implementing such a policy, it would be advisable to determine whether adequate demand for the type of buildings existed. Otherwise, any further investments in finishing the buildings would not be economically warranted.

The date of valuation. Property tax systems specify many dates. Along with specifying the date of assessment and the date taxes are due, the law should specify a standard valuation date in a value-based property tax system. Practice varies with respect to how close the dates of valuation, assessment and taxation are. Ideally, they would be identical, but this is impractical. When the valuation date is the same as the assessment date, the valuer usually does not have enough market evidence near the assessment date to estimate values on that date confidently. One “solution” is to ignore the issue and to rely on available market value evidence. Another is to delay the tax due date (sometimes by as much as a year). Still another solution is to establish an “antecedent” valuation date (that is, a date earlier than the assessment date). Sweden and the UK have valuation dates two years before the values come into force, which seems excessive in an era of computer-assisted mass appraisal systems. Six to twelve months would be better. In the case of Sweden, however, a ratio study using sales in the year before assessments come into force is used to test the accuracy of the values.

In addition, consideration should be given to valuation methods (section 7.2) and revaluation frequency (7.3) in developing the legislative framework. Generally the government with the power to tax property (see section 2.1) also establishes valuation rules, including the frequency of reassessments.

7.2 Methods and Procedures

Valuation practices greatly affect the acceptability of the property tax. Use of recent bona fide sales and rents and internationally accepted valuation methods increases the likelihood that valuations will be perceived as accurate and fair. Although different terminology may be employed, there is widespread recognition of the three main valuation methods: (1) the sales comparison method, (2) the income capitalization method, and (3) the cost of construction method. Nonetheless, there can be uncertainty about which methods to use. For example, in the Czech Ministry of Finance there has been disagreement between responsible departments as to whether a very detailed cost approach or a direct sales comparison approach should be used.

Another question that arises is whether it is acceptable to be “conservative” in making value estimates for property tax purposes (that is, determining values that are a little less than 100% of market values). For example, the Danish Central Customs and Tax Administration aims to produce values that are about 5% less than actual market prices on the valuation date. It is generally agreed that such a practice is acceptable, because when taxpayers believe that the real market values are a little higher than their assessments, they are less likely to appeal. (In Canada and the US, some provinces and states have rules that require valuations to be within plus or minus 10% of the actual value.)

7.2.1 Codification of Valuation Methods

An issue is the extent to which valuation methods should be specified in statutes or regulations. In Netherlands and the United Kingdom (and also Canada and the US), the law merely establishes standards, and the assessor has considerable discretion regarding methods and the valuation models employed. In many other countries, valuation law essentially contains the valuation models. Discretion is limited after the valuation model has been incorporated in the law. When valuation methods are highly codified, taxpayers enjoy greater certainty about what their property tax obligations will be. On the other hand, maintaining equity is more

difficult unless the legislative framework facilitates frequent changes in the legislation or regulations governing valuation. The degree of codification of valuation methods also has implications for the appeal system and for supervision and control.

7.2.2 Special Valuation Problems

Some types of property, such as those of utility and transportation systems, present special valuation and assessment problems. Such systems may span more than country or local property tax district. When this happens, attempting to value the part of the system in each area would be artificial. The sum of the valuations of the property in each area mostly likely would bear little resemblance to an integrated valuation of the entire system. The best solution to this problem, then, is to attempt to value the entire system and then apportion to value to the various taxing districts. This approach is taken in Ireland and the UK in the valuation of utilities, and special “global” valuation methods are used.

Other types of highly specialized properties, such as industrial properties that are designed to the requirements of a single owner, also are difficult to value using ordinary valuation methods because of limited current market value evidence. One solution to this problem is to specify that the cost of construction be used. For example, in the Netherlands non-marketable properties are to be valued on the basis of estimated replacement costs corrected for functional or technical obsolescence (physical deterioration).

Ordinary types of real property may be subject to special valuation rules. Common examples of this are agricultural and forest property. These properties usually are valued on the assumption that they will continue to be used as they currently are. Furthermore, land is valued on its ability to produce crops, support livestock, or grow marketable timber. Consequently, soil type and other natural environmental factors are important in valuation. An issue in the valuation of forests, orchards, and the like is whether the growing trees should be valued (their value is not measured in Estonia).

The degree of sophistication varies considerably. For example, Albania has ten quality categories for agricultural land, while the Czech Republic has seven categories of land (it had forty-two categories before the 1993 reforms, although agricultural land taxes were paid only on the best twenty categories).

7.2.3 Non-market Valuation Methods

Some transitional countries continue to rely on “valuation” methods that make virtually no use of direct market evidence. At least as translated into English, the methods go by a variety of names, including “point differentiation” in the Slovak Republic. In addition to property taxation, there are used in setting land lease prices and selling prices for properties being privatized. The methods are based on soviet-era land desirability evaluation methods (similar methods apparently also exist in Austria and Germany). The basic approach is to use a “gravity” model to produce territorial indices. The approach, however, does not produce a base price; that must be set externally. The “expert” specifies a number of factors that are presumed to affect the desirability of a particular community or smaller area. In essence, areas are rated and ranked using combinations of objective and subjective criteria, such as population, urban infrastructure (streets, transportation, utilities, and so on), governmental and other services (schools, hospitals, shops, and so on), attractiveness of surroundings (the general quality of buildings), and environmental quality (biological, air, water). Although it

should be reasonably straightforward to rank each sub-criterion, absent evidence of actual market preferences, it would not be easy to decide whether, say, being less than a 100 meters from a church was more important than a low concentration of sulfur dioxide in the air. In practice, the opinions of experts or of a panel of people may be used to weight the various criteria. Although such evaluation methods provide an attractive way to compensate for a genuine lack of market data, over-reliance on them has two problems. First, persons expert in applying them tend to discredit actual market evidence, when it contradicts their notions about what is most important. Second, the methods tend to require extensive data that would be cost-prohibitive to maintain. A study in the Slovak Republic relied on eighty different criteria (200 had been considered initially). In contrast, most western market mass valuation models rely on only a dozen or so criteria.

Georgia provides a simple illustration of the approach. There, the seventy-nine urban settlements are ranked relative to Tbilisi according to six factors, including population, type of settlement, economy, elevation, and transportation access. That is, Tbilisi is to have a general territorial ratio of 1.0, and every other settlement has a ratio less than 1.0, with the lowest actual ratio being 0.25. Within each settlement, further differentiation in territorial ratios is possible. A common approach in larger settlements would be to establish three zones, the middle of which would have a coefficient of 1.0. The peripheral zone would have a lower coefficient, and the central zone, a higher coefficient (other countries set the central zone at 1.0 with the outer zones having progressively lower coefficients). Six territorial zones have been delineated in Tbilisi, and territorial ratios (indices) have been constructed.

7.2.4 Other Issues

Some replacement cost-estimating systems are based on volumetric (cubic meter) costs rather than area and lineal measurements. Doing so increases measurement difficulty and the likelihood of measurement areas. It is generally better to use the same measures that buyers of buildings and building contractors would use (such as area and ceiling or story height).

A common question in transitional countries is how best to develop a valuation system. A frequent strategy is to carry out a pilot project. These may be done by academics or by international development assistance contractors with varying degrees of official support. Brief descriptions of pilot projects can be found in the country notes below.

7.2.5 Country Notes

Notes on valuation methods and procedures follow.

Transitional Countries

- C *Armenia.* Under a draft of the new Law on Land Tax, both agricultural and non-agricultural land would be taxed on the basis of capital value, and the Cadastre Department is responsible for developing valuation methods. A general multiplicative model for valuing all types of land is under consideration. Land value would be a function of four factors (size, use, location and “quality”) and would be calculated by multiplying land area by a base rate and by applicable adjustment coefficients. The base rate could vary with use or with location, and there could be size adjustments.

Originally, enterprise property was valued on the basis of book value. With the 1998 revision to the property tax law, all buildings are to be valued on the basis of a valuation regulation.

Under the original valuation regulation (Decision 306), Soviet-era estimates of replacement costs of structures were modified by coefficients designed to make taxable values reflect some market factors. Basic cost rates per square meter or cubic meter were adjusted upward to convert from Soviet rubles to Armenian drams and to account for inflation (which required a multiplier of 75,000). Then the indexed costs were adjusted downward for factors that were assumed to diminish the value of the structure. The highest possible valuation was 0.98 of the inflation-adjusted base rate. The lowest was 0.00945. The factors reflected in the valuations included structural integrity, age, available infrastructure and facilities, story level, and geographic location (zone).

The new property tax law contains separate multiplicative valuation formulas for apartments and for detached houses and ancillary structures. The formula for valuing apartment units is comparatively straightforward, while the formula for houses is exceptionally complex. Under this formula, each story is valued separately on a cubic meter basis, as are fences and ancillary structures. Values based on Decision 306 were estimated to be 40 to 50 percent of market prices 1997, while the new valuation formula is expected to produce values that approximate 85 percent of market prices.

- C *Belarus.* The reference date for the valuation of the property of legal persons was 1 January 1994. The national statistical agency supplied the valuation data.
- C *Bulgaria.* As of 1993, normative values for residential property were based on 1951-era values, which were far below then-current costs or prices. Balance values were trended upward in 1992 and again in 1995 to reflect general price level trends. These adjustments could, of course, overstate the actual value of taxable assets.

According to the 1995 OECD country report, a pilot valuation project had been started in a large city. The first step was to estimate the market price of residential buildings using sales data. Successive stages were to estimate the value of business premises by capitalizing rental values. The profits basis was to be used to value hotels, restaurants, and the like. However, at the time many businesses were not profitable. Industrial properties were to be appraised using the cost approach.

- C *Czech Republic.* The Ministry of Finance approved a price decree that required a very detailed application of the cost approach.

Following advice from OECD technical assistance missions, the Ministry of Finance initiated two valuation pilot projects in 1995, one in a small municipality and another in a region of Prague. The aim was to develop simple price-per-square-meter models. Turnover in staffing delayed the completion of the projects. In addition, a Czech company was engaged to develop a land value map. Although the company did not disclose the data it analyzed to produce the map, the results appeared reasonable.

- C *Estonia.* In addition to the 1994 Law on Land Valuation, there are several decrees that deal with valuation methods.

Land value base rates are based on traditional sales comparisons, especially in urban areas where there are enough sales. The land area of the country is divided into “zones,” and a rate per square meter for each zone and each main type of property is determined. The basic valuation algorithm, therefore, is:

$$\text{Land value} = \text{Land area} * \text{zone rate.}$$

The initial valuation models took into account the size of the municipality, the influence from the nearest larger municipality, and the quality of the municipality (which combined environmental, transportation access, and social factors). Although the details of the models are not described in the literature available to me, the models were calibrated using a PEC spreadsheet program, and exponential functions were used to estimate the adjustments for the municipality factors. In rural areas, where there is little direct market evidence, values are extrapolated from areas where there is some evidence, so that there is a rational pattern in which similar properties have comparable values. Base rates developed from the mathematical calibration methods were reviewed by experts and sometimes modified to produce a more logical result. Experts also decided the zone rates based on available market information. Frequent revaluations make it possible to take into account new information and correct past mistakes. Agricultural, forest, and some urban lands are valued on the profits basis. In the case of forestland, it is difficult to ignore the value of the timber in determining the land values.

Estonia had help from Finland and Denmark in preparing for the 1993 revaluation (see Palmu and Vuorio).

In preparation for the 1996 revaluation, the City of Tallinn studied the local property market (Müller 1995). The studies were based on about 300 sales of unbuilt and developed land and on about 300 rents. A private valuation firm contributed to the studies.

- C *Georgia*. Inventory bureaus use Soviet-era insurance cost manuals in the valuation of buildings. Presumably, adjustments are made for the change in currency units and for inflation.
- C *Latvia*. The State Land Service (SLS) began to develop mass appraisal methods for the new (1998) real property tax in 1997, when land was valued (buildings were to be valued from 2000). The SLS’s Real Property Valuation Center (RPVC) was responsible for the work.

The land valuation program had the following four phases: development of the principles of mass appraisal, preparations, carrying out the valuation, and completion of municipality taxpayer lists. Because the work had to be completed in a very short time and with limited resources, the RPVC decided to use very simple valuation models and data that currently were available on maps and existing property lists (the data available from rural and urban areas differed). Preparations included estimating the amount of work to be done; surveying available resources (funding, staffing, and technical resources); elaborating the valuation methods; updating the legal framework, developing computer solutions; and training. The RPVC estimated it would

need 160 appraiser and 42 data entry operators. Delays in obtaining financing delayed the start of the project. Rural land was valued first, because available data were more complete. Except in Riga and its surroundings, taxpayer lists were completed by 15 January 1998. 575,000 parcels were appraised.

Pilot projects were used to refine valuation methods and estimate resource requirements.

- C *Lithuania.* Valuers with the State Land Cadastre and Register monitor market trends and quarterly revise the average values of land value zones.
- C *Moldova.* In 1996, a revaluation of enterprise property was underway. As noted, the basis of value was book (balance sheet) value indexed for inflation.
- C *Poland.* Computer-assisted mass appraisal methods have been tested in Krakow.
- C *Romania.* The building value regulation takes into account construction type, property use, and plumbing, heating, and electrical equipment. Deductions from basic values per square meter are made for depreciation.

There have been revaluations to account for inflation (including one in 1998). There are plans to recreate a valuation authority (perhaps one in each municipality). Agricultural land will be valued on the basis of productivity.

- C *Russian Federation.* Buildings ordinarily are valued on the basis of an insurance value regulation last updated in the 1980s. However, values have been subsequently indexed to account of currency changes and inflation. Enterprise assets are valued on the “average” balance sheet value (defined as (1) the sum of (a) 50% of the value at the beginning of the first month of the tax year, (b) the value at the beginning of each of the next eleven months, and (c) 50% of the value at the beginning of the first month of the next tax year; (2) all divided by 12). Depreciation is allowed.
- C *Slovenia.* Buildings are valued according to a “point” system. The number of points assigned a particular building depends on such factors as age, equipment, and location. A base value per square meter is multiplied by the number of points to arrive at a value per square meter, which in turn is multiplied by the useful area of the building to arrive at its taxable value. The cost of living index is used to update point values annually.

The central government and some municipalities have collaborated on pilot valuation projects.

Developed Countries

- C *Austria.* Fiedler (1998) reports that a 1955 value basis is used.
- C *Denmark.* Valuers in the Central Customs and Tax Administration develop mass appraisal models. They prefer to rely on the sales comparison approach when they can. They use the income approach for rented properties when sales are infrequent, and the cost approach is used for remaining types of property.

Separate estimates of land values are made for the Land Tax. Under the Service Tax, building values are derived from estimates of total property value minus estimates of land value. Estimates of total property value are made for the Property Value Tax. Mixed-use properties, such as business properties that contain an owner-occupied residence, require further separate estimates of each taxable component of the total property.

Land values are based on base rates (per square meter), which apply to all properties in a “land value area.” Land value areas constitute groups of properties with the same permitted land use and approximately equal desirability. Base rates are derived from vacant land sales and also by abstracting land values from improved property values by subtracting estimated building values. Four types of land value models are used: (1) an industrial/public use model, (2) a family house model, (3) a model for apartment blocks (and commercial uses), and (4) an agricultural model. The first model is simply price multiplied by land area. The family house model considers the size of the actual plot relative to a standard-size plot (normally about 800 m²). When the plot is larger than the standard plot, but not large enough to be subdivided into two or more building plots, the “excess” land is valued at a lower price per square meter, reflecting the economic principle of diminishing returns. When a plot is large enough to be subdivided, the costs of doing so are subtracted from the calculated value. The apartment block land valuation model considers the permitted building/land ratio. The agriculture land value model considers soil quality and price trends since the previous revaluation. More details on these models can be found in Müller 2000.

In the Property Value System (section 3.9), land values are subtracted from reported sales prices of one- to three-family houses, condominiums, and summerhouses to arrive at the indicated value of buildings. Multiple regression analysis (MRA) then is used to calibrate models for each property type that explain differences in the indicated values per square meter based on data on property location and construction attributes in the Building and Dwelling Register. The “base home” format is used to communicate the models to valuation committees and to property owners. (See Müller 2000.)

As noted, each three-member valuation committee is responsible for making final determinations about the value of the properties in an assigned area known as a “valuation circle.” A valuation circle may be part of a municipality or comprise several communities. Committee members review computer-generated preliminary value estimates (“proposals”) and make any necessary percentage adjustments in the values. They indicate the reason for the change by assigning a code. The code is made part of the property record, and the adjustment would be automatically made in the next revaluation (unless it was removed by the valuation committee).

Municipalities provide organizational support. They also may make recommendations about values, but they have no authority to determine taxable values.

- C *France.* Property tax assessments are based on highly generalized per-unit models (*tarifs*) by type and sub-type of property. To compensate for the lack of a recent revaluation, coefficients are used to update values, but they are at less than current market levels. Values are recognized as being inequitable.

In defining annual rental value, instead of actually analyzing expenses, a standard percentage is deducted from gross rental values to account for expenses. Fifty percent is deducted under the Land and Building Tax (*baties*) and 20%, under the Land Tax (*non-baties*). The difference in percentages presumably reflects building maintenance costs.

- C *Germany*. The property tax is based on fiscal value, which for residential and commercial property is determined as a multiple of the average rent per m² that could have been obtained for a comparable property. The multiples vary with such factors as size of community, age of structure, exterior construction, and use. Industrial properties are appraised using a summation approach. Construction costs are figured on a cubic meter basis. Use and construction quality are taken into account. Urban land values are based on average prices per m². Farmland is valued on the basis of soil classifications established in 1935. Fiscal values usually are lower than actual values. Valuers use officially adopted manuals. The manuals provide costs for various land improvements and other structures.
- C *Italy*. Building value estimates are based on factored “cadastral values.” The cadastral values are presumptive annual incomes, not actual rental incomes. However, they represent average or normal income. The capitalization factor for residential property is 100, while it can be 34, 50, or 100 for non-residential property, depending on how the property is used. Sales prices are used in the valuation of land under development.
- C *Netherlands*. 1997 legislation specifies the general methods municipal valuers are to use in appraising residential and non-residential properties. However, the valuers are free to choose the method or methods. Basically, sales comparison methods are used in residential property valuation, and income capitalization is used in non-residential property appraisal, except special-purpose properties. However, there is a national “network” of reference properties, whose valuation coefficients must be used. The cost approach also is used, in which case, land values are determined by sales comparison methods that consider land use planning rules. Technical, functional, and economic obsolescence are allowed. In the case of churches, historic structures, and the like, functional obsolescence reflects the actual use of the property.
- C *Portugal*. When Portugal converted from annual values to capital values, initially the existing annual values were converted by capital values simply by applying coefficients (capitalization factors). The factors were 15 for urban properties and 20 for rural properties. An additive model is used in valuing dwelling houses. It has four components: (1) the value of the building and the land on which it rests (V_1), (2) the value of any additional land, (3) the value of outbuildings, and (4) an adjustments component. V_1 itself is based on a multiplicative model (gross area * price per square meter (as determined by the Ministry of Public Works, probably estimated construction costs) * adjustment coefficients for location, depreciation, etc.). Rural land is assessed on a soil productivity basis.
- C *Spain*. The Property Register and Tax Assistance Administration Center makes market surveys, determines market areas, and develops models that underlie valuation

proposals that are developed regionally. Separate values are developed for land and for buildings.

- C *Sweden.* Residential properties are valued using computerized comparable sales methods. Separate values of land and buildings are determined for single-family houses; for other types of property, total value and land value are estimated, and building value merely is the difference. The valuation process requires the delineation of market areas (neighborhoods).
- C *Turkey.* Minimum land tax values are set by the tax administration for each site in towns, cities, and villages. The Property Tax Department publishes land value books, which for each municipality give land value rates by street and sometimes by street segment. The declared value may not be less than a fixed minimum value. The value of a building generally is fair market value, but it may not be less than the sum of the construction costs fixed by the Ministry of Finance and the Ministry of Public Works, taking into account the value of the land. The property tax returns contain basic building value schedules.
- C *United Kingdom.* In the UK (and much of the British Commonwealth), revaluations are supposed to be made every five years. After a revaluation, a new valuation list is produced. It remains in force (with amendments) until the next revaluation (because in an era of handwritten lists, it was not feasible to regenerate lists annually). Amendments to a list may be made by a valuation officer acting on her or his own initiative or—more usually—as the result of request (“proposal”) by an interested person (such as the taxpayer) or by the rating authority. The valuation officer may decline to accept the proposal, which decision may be appealed. The amended valuation also may be appealed.

7.3 Revaluations

The frequency with which valuations are updated and the methods used to update them are as important as the appraisal approaches used. In principle, revaluations should be frequent enough to maintain an acceptable degree of uniformity in effective tax rates. That is, valuations should be adjusted upward or downward to keep pace with market developments and changes in price levels (such as, inflation). Ideally, valuations would be updated annually if necessary, but this frequency is not common in Europe. More commonly, legislation specifies a revaluation schedule (see tables 7-1 and 7-2). When properties are reappraised on a fixed cycle, one option is to revalue all districts at the same time in one large project. Another is to stagger the reappraisals (so-called “rolling revaluations”).

Especially when the interval between reappraisals is long, indexing can maintain buoyancy. France and Germany follow this approach. If separate factors are developed for different property types and areas, overall valuation accuracy can be improved slightly, thereby increasing property tax equity. Indexing also can reduce shocks caused by reappraisals.

When the interval between revaluations is greater than a year, rules also are needed for valuing new properties and for revaluing properties that have undergone changes (also see section 5.3.3). For example, Netherlands requires properties to be revalued when changes affect values by 5% or 250,000 florins. There are two approaches to valuing properties after a general revaluation. One is to apply the existing valuation standards to new properties, which

may not be problematic as long as there have not been fundamental changes in property markets. This approach is taken in the UK. The other approach is to value the property as of the date of the new appraisal.

Long intervals between revaluations are a sure way to bring a property tax into disrespect, especially when the property tax administration ignores a legal requirement. The greater the disrespect, the less likely funding will be appropriated to conduct a revaluation, thereby perpetuating the situation. Rates in Ireland and domestic rates in the United Kingdom are examples of this phenomenon. In France, where indexing is allowed, valuations are so far out of date that they are meaningless. This situation is politically controversial because of the inequities and because those who benefit from outdated valuations oppose a revaluation.

Indexing also is used to adjust the balance sheet values of property in some transitional countries, including Bulgaria, which has experienced high levels of inflation.

The ability to update values as frequently as annually requires: (1) continuous market monitoring, (2) studies of valuation accuracy (ratio studies) and price trends, and (3) continuous maintenance of the land and building attribute database. Whenever there are significant trends in property prices in any segment of the property market or when ratio studies reveal that existing valuations no longer meet accuracy standards, the chief valuer should decide on an appropriate course of action. The basic options are (1) indexing the values, (2) recalibrating or updating existing valuation models, and (3) calibrating new models. It should be underscored that an annual valuation program *does not* require that every value be changed every year. Values need only to be changed when there is a clear indication based on market evidence that existing valuations no longer meet standards. Different strategies can be used for different segments of the property market.

Changing from intermittent revaluation projects to an annual reassessment program can offer major benefits. The most important is that property tax burdens are more equitably distributed. Changes in the composition of the tax base are more gradual, which reduces popular and political opposition to revaluations. Property owners can more easily predict what their property taxes will be, and taxing districts can better judge their property tax capacity. Lastly, the annual costs of an ongoing revaluation program often compare favorably with the annualized costs of periodic revaluations.

Table 7-1: Revaluation in Transitional Countries

Country	Revaluation Requirement	Recent Revaluations
Albania		
Armenia		
Belarus		
Bosnia & Herzegovina		
Bulgaria		1992, 1995 (industrial building values indexed)
Croatia		
Czech Republic		
Estonia	The law does not specify the frequency with which revaluations must be made.	1993 (the first), 1996, 2000
Georgia		
Hungary		
Latvia		
Lithuania		
Moldova		
Poland		
Romania		
Russian Federation		A revaluation to be effective in 1994 was started but its completion was delayed.
Slovak Republic		
Slovenia		Revaluations are made on a municipality basis.
Ukraine		
Yugoslavia		

Note: A blank signifies that no information is available.

Table 7-2: Revaluation in Developed Countries

	Revaluation Requirement	Recent Revaluations
Austria	Every 9 Years Indexing is done	1956, 1963, 1973, 198?
Belgium Denmark	Since 1998, property is revalued annually. Previously revaluations were every 4 years. Indexing is allowed	1981, 1986, 1992
Finland France	Land Tax and Land and Building Tax values updated every 2 years by indexing Property Tax, every 6 years	Land in 1961, buildings in 1970.
Germany Greece	Every 6 years "if possible." Every 2 or 3 years (per Fiedler 1998)	1935, 1964
Ireland		No general revaluations since the 1850s. Dublin and other cities have been revalued since then.
Italy	Cadastral values were updated at three-year intervals	
Netherlands	Beginning with 1995, every 4 years or less (was every 5 years or less)	1995 At least 20 municipalities make revaluations more frequently than required.
Norway Portugal Spain	Revaluations are made of groups of municipalities each year. Rural Land Tax every 5 years Urban Land Tax every 3 or 8 years (sources vary) (Fiedler 1998 reports that property is revalued annually.)	The number of revaluation projects increased substantially in 1989, and about 2,400 municipalities were revalued in 1990.
Sweden	Now every 2 years on a rolling basis (previously every 4 years and before that, every 6 years)	1-2 family in 1992, 1996 Rental, 1994
Switzerland	Usually every ten years but at canton's discretion	1979,
Turkey United Kingdom	Self assessment every 4 years Standard is every 5 years for non-domestic rates No revaluations are contemplated under the Council Tax	1979, Actual practice varies with country, although England and Wales are revalued together. Council Tax: 199356 Non-domestic, 1990, 1995, 2000 Northern Ireland, 1997

Note: A blank signifies that no information is available.

8. Collection and Enforcement

Effective collection is particularly challenging in countries that do not have a culture of paying taxes fully and voluntarily. Several of the countries in this survey have this problem with their property tax systems. This section attempts to outline the main elements and options of an effective property tax collection program.

Along with defining the liability for taxes, property tax laws define administrative responsibilities for collecting property taxes, provide for notice of tax obligations, set out payment procedures, and specify the actions the tax administration may take to collect delinquent taxes (arrears). Regarding payment procedures, property tax laws specify the number of installments (if any), when payments are due, and where and how property tax bills may be paid. Property tax laws (or general laws on tax administration) also detail the consequences of paying late or failing to pay. Well-designed property tax systems attempt to make it easier and less expensive to pay property taxes than to avoid them.

Most property tax systems issue tax notices (or bills) annually. Individual bills have the beneficial psychological affect of formally notifying the taxpayers that they have an obligation to pay, provide a financial control, and, more important, make it possible to use multiple payment points.

Usually, bills are mailed. When the postal service is not reliable or when owners are unknown, delivery may be to the property. (Armenia was forced to send tax collectors into the field in the early years of its land tax.) In any event, failure of the tax administration to deliver the required notices or failure of taxpayers to receive them ordinarily does not invalidate tax obligations.

A feature of the property tax that contributes to its unpopularity is the visibility and size of many annual property tax bills. One way to reduce their apparent size is to allow installment and partial payments. For example, Armenia allows owners of residential property to make any number of partial payments as long as the amount due is paid in full by 1 December of the year after the tax year in question.

Increasingly, tax collectors are trying other ways to make collection more convenient. Rather than requiring taxpayers to appear personally before the tax collector and to pay in cash, many systems allow taxes to be paid by check and direct debit. In addition to making payments to the tax collector, taxpayers may be able to pay their property taxes along with mortgage and utility payments, or they may be able to pay at banks or at the post. For example, in Albania, taxes may be paid in banks as well as in local government offices (which act as agents for the national government). In Czech Republic, banks may accept property tax payments in cash or check, and legal persons may make bank transfers. In the Slovak Republic, many payments are made at post offices.

Whether installments and partial payments are allowed may depend on the tax in question and on the amount of the property tax bill. To reduce administrative costs, installments may not be allowed when the total amount due is very small. When installment payments are at the taxpayer's option, the tax bill often contains coupons, one of which is to be submitted with each payment. Estonia takes this approach. Some transitional countries (including the Czech Republic) time installment due dates to coincide with harvest time, so that farmers will

have the cash to pay the tax. Netherlands allows taxpayers to request extensions, which normally would be granted (although interest would be charged).

Some countries, such as the Netherlands, permits tax collectors to accelerate payment deadlines when there are grounds to believe that the taxpayer or the taxable property will leave the jurisdiction of the tax collector (the municipality in the case of the Netherlands).

Property tax laws usually provide a variety of measures designed to make avoiding paying property taxes expensive. Penalties and interest are often charged on late payments as an incentive to speed payment, and discounts sometimes are offered for early payments. For either option to be effective, enforcement should be vigorous and the rate of interest (or discount) should be attractive. That is, the rate should be higher than market rates of interest. Countries charging interest, penalties, or both on overdue taxes include Armenia, Lithuania, Poland, Romania, Russian Federation, Denmark, and Netherlands.

After a stipulated period of delinquency (generally ranging from one to three years), property tax administrations usually have recourse to direct enforcement actions that usually involve a legal process. Usually, a demand for prompt payment is issued. If that is ignored, enforcement begins. *In personam* enforcement mechanisms include removal and sale of goods, attachments of pay and bank accounts, and imprisonment. *In rem* mechanisms include the creation of tax liens and confiscation of the real estate. Property tax liens usually have priority over other (private) liens.

Providing a quid pro quo can encourage payment of property taxes. Examples include making property taxes deductible from income taxes, not allowing a deed to be registered without proof of payment of property taxes (a tax clearance), and allowing mortgage interest to be deducted from income taxes only with proof of payment of property taxes.

Flexible payment arrangements complicate tax accounting and increase administrative costs. Consequently, some property tax systems require a single payment for tax assessments below a specified amount. Some systems levy no tax at all on any assessment under a minimum amount, while others levy a minimum tax on assessments up to some threshold.

An important gauge of the performance of a property tax system is collection efficiency. Two measures are of interest: (1) the percentage of property taxes assessed that are collected in the year that they first come due and (2) the percentage of accumulated obligations that are eventually paid (along with penalties and interest). Little information is available on collection efficiency in transitional countries. Property tax collections in Albania in 1994 and 1995 were only 15% and 25% of expected collections due to taxpayer resistance and the poor state of the economy. In Armenia, about 55% of agricultural land taxes are collected by the deadline, and enforcement measures generate another 15%. About 96% of Estonia's land taxes now are collected (in 1993, the collection ratio was 70%). Developed countries with high collection efficiency (close to 100 percent) include Denmark, Netherlands, Sweden, and the United Kingdom. According to Verbrugge, about 87% of taxpayers pay their bills on time in Rotterdam.

The date property taxes are due should, in theory, be close to the date of valuation or assessment in a market value-based property tax. This is difficult to achieve in practice because of the numerous administrative procedures (appeals, rate calculations, etc.) that must be completed before tax bills can be issued.

Table 8-1: Number of Payments and Available Enforcement Measures in Transitional Countries

Country	Tax	Number of Payments	Available Enforcement Measures
Albania		Agricultural land tax: 2 Tax on buildings: 4	Freezing bank accounts, confiscation of property, imprisonment. After one year, the State Revenue Ministry may apply to the courts to recover taxes due, and liens may be attached to bank accounts and cash. When these funds are insufficient, liens may be attached to property, which may be sold at auction to recover the debt. Any money remaining after satisfaction of the tax liability and auction expenses is returned to the taxpayer. Liens may also be attached to a taxpayer's receivables. Tax evaders are subject to fines and imprisonment.
Armenia		Agricultural land tax: 2 Enterprises: 4	
Belarus Bosnia & Herzegovina		Legal persons: 4	
Bulgaria		Building tax: 4 Land rent tax: 3	
Croatia		4 (2 for agricultural property)	
Czech Republic		Payments may be made to financial offices, banks, or by post, and legal persons may make bank transfers (see discussion of automation).	
Estonia		1 or 3	

Country	Tax	Number of Payments	Available Enforcement Measures	
Georgia	Agricultural Land Tax	1		
	Natural Persons Property Tax	2		
Hungary	Non-agricultural Land Tax & Enterprise Property Tax	4		
	Old land tax	4		
Latvia	Old property tax			
	New real property tax	4		
Lithuania	Enterprise Real Estate Tax			
	Land Tax	1		
Moldova	Land tax & property tax	4		When caught, evaders must pay the taxes due plus a fine of the same amount
	Agricultural land tax	4		
Poland	Forest land tax	2 (in advance)	Attachment of bank accounts, distress, and putting a lien on the property	
	Physical persons			
Romania	Legal persons	4		
	Land use fee	12		
	Building tax	4		
Russian Federation	Land Tax & Tax on Property of Physical Persons	4	Individual wages and property may be attached	
	Enterprise property tax	2		
		4		

Country	Tax	Number of Payments	Available Enforcement Measures
Slovak Republic			
Slovenia	Charge for use of building ground	2	
Ukraine	Property tax	4	
Yugoslavia			

Note: A blank signifies that no information is available.

Table 8-2: Number of Payments and Available Enforcement Measures in Developed Countries

Country	Number of Payments	Available Enforcement Measures
Austria	4	Past due taxes constitute a lien on the property. Properties may be auctioned. Rent or wages may be attached. Distraint of movables, sometimes without a court judgment may be used to enforce arrears. It also is possible to seize real estate. Unpaid taxes are a personal debt in Sweden, but the goods of a delinquent taxpayer may be seized and sold. No lien is attached to property. Attachment of earnings, distress of personal property, placement of a lien on the property, selling the property to satisfy the debt, bankruptcy, imprisonment
Belgium		
Denmark	Land and service taxes: Usually 2 or 4 at a municipality's option	
Finland		
France	1	
Germany	4	
Ireland	2 or 10	
Italy		
Netherlands	Usually 1 or 2 (At a municipality's option)	
Norway		
Portugal		
Spain	1	
Sweden	6	
Switzerland	1	
Turkey	2	
United Kingdom	1 to 12 (b)	

Notes: A blank signifies that no information is available.

- (a) Local authorities may authorize payment in installments. Four per Youngman & Malme.
- (b) Usually 10 or per agreement (Youngman & Malme).

9. Appeal

As noted in section 3.5, appeals processes give property taxpayers opportunities to review the reasonableness of their assessments and to challenge them if they so wish.

As previously noted, appeal processes usually have a number of hierarchical steps. At the lowest level, appeals are heard locally and informally. As appeals are taken to higher levels, the process becomes quite formal. At the local level, the distinction between an “informal” appeal or inquiry and a “formal” appeal may be blurred, as first-level “formal” appeals generally are conducted informally. However, a record of the appeal will always be made in a formal appeal, thereby protecting the taxpayer’s rights to higher appeals. In any event, “informal appeals” provide a good opportunity to clarify issues and correct factual errors without the expense of initiating a formal appeal. As previously noted, Denmark and France offer the opportunity to make an informal appeal.

Appeals systems establish who may appeal a property tax assessment and the time, place, and manner of filing an appeal. They specify the allowable grounds for an appeal. Overvaluation is a common ground in a value-based system. Some systems allow appeals on the basis of non-uniformity as well. Sophisticated legal systems specify standards of appeal (burdens of proof) and standards governing the admission of evidence. In Estonia, assessments may be appealed only on grounds that regulations were not followed or if the error is greater than 20 percent.

In appeals to a court, one issue is whether the court may consider only evidence contained in the record of lower-level appeals or whether it has investigatory powers. I believe UK is an example of the former and Sweden, the latter.

An appeal does not delay the date taxes are due in Denmark, Netherlands, Sweden, and Switzerland. It does in France. Further notes on appeal procedures follow.

Transitional Countries

- C *Armenia.* When a taxpayer challenges the actions of an employee of a regional tax inspectorate, the appeal must be lodged with the employee’s supervisor within 30 days of the action. If the taxpayer is not satisfied, further appeal may be made to the central of the State Revenue Ministry, which has established a special appeal committee. Decisions on appeals to the regional and central tax inspectorates must be made within 30 days. Further appeals may be made to the Primary Court, whose decision is final unless the procurator appeals to the Supreme Court of the Republic of Armenia. The Primary Court must render its decision within ten days, and its decision is effective after ten days. As previously noted, the application of these remedies to the land and property taxes largely are untested.
- C *Bulgaria.* An appeal does not delay the obligation to pay property taxes. A revaluation of business property resulted in a large number of appeals, some of which succeeded.
- C *Latvia.* Taxpayers have a right to appeal.

- C *Slovak Republic.* If a local tax authority overrides a taxpayer's return, the taxpayer may appeal that action.

Developed Countries

- C *Denmark.* As noted, a taxpayer may appeal to the local valuation committee to change its value determination. Appeals should be in writing and give the reasons for making the appeal. The main reasons for granting an appeal are data errors and the existence of factors that affect property value that were not considered during the valuation process. If the committee agrees with the taxpayer, the valuation is changed, and the taxpayer is informed. When the committee disagrees with the taxpayer, the appeal is referred to the supervisory board, and the taxpayer may ask for a meeting with the board or for the board to inspect the property. After considering the appeal, the board makes its decision and informs the taxpayer (the member from the taxpayer's area does not vote). Appeals of decisions of the supervisory boards may be taken to the National Tax Tribunal. Appeals to the Tribunal require a filing fee, which is returned if the Tribunal decides in the taxpayer's favor.

The number of appeals following the 1988 and 1992 revaluations approached 100,000 or about 5% of all properties (which is comparable to the volume of appeals after a revaluation in Canada and the US). Since the introduction of annual revaluations in 1998, the number of appeals has dropped to about 30,000 (or 1.5% of properties, which also is comparable to appeals rates in North America). About 6,000 appeals are forwarded to the supervisory boards, and about 500 are appealed to the National Tax Tribunal. The reduction in the number of appeals is attributed also to providing taxpayers with detailed information about how their properties were valued.

- C *France.* Fewer than 2% of assessments are appealed.
- C *Netherlands.* Since 1997, assessment notices in addition to tax bills are required. Appeals to the mayor and aldermen must be in writing. They are reviewed by an appraiser (who may be the person who made the original appraisal). The appellant may request a hearing with a civil servant. Decisions are tendered in writing. Professional representation is not required in appeals to the Tax Court. The Tax Court hears the parties to an appeal to it in private (thus protecting the confidentiality of data about the subject property and comparables) but gives its decisions in public. Taxpayers whose appeals are granted are entitled to interest.
- C *Sweden.* The first level of appeal is to the local real estate assessment board. About 7 percent assessments were appealed in the 1975 revaluation, half of which were revised. The second level of appeal is to the real estate assessment court (the chair of which is a county official). Municipalities also may appeal to the county court. Thereafter, appeals may be lodged with the Administrative Court of Appeal. Finally, on precedents or points of law, appeals may be made to the Supreme Administrative Court.
- C *United Kingdom.* Under the Council Tax, a taxpayer may only appeal the band assigned to his property.

10. Conclusions

Despite some similarities, great diversity characterizes the property tax systems of Europe. None of the systems offers the Republic of Slovenia a model to copy. However, a number of systems warrant further study. From my perspective, the Baltic countries are interesting because of their comparatively rapid progress toward the development of successful market value-based property tax systems. Hungary is interesting because of the discretion it has given to municipalities. Netherlands is interesting because of how it has devolved responsibility for property tax administration to its municipalities, because of its technical approaches to valuation, and because of the role played by the private sector in valuation. Denmark and Sweden are among the countries with advanced computer systems. Other countries offer attractive approaches to specific policy and technical issues. The paper by Anne Paugam, “Ad Valorem Property Taxation and Transition Economies,” offers wise counsel on simplicity, uniform taxation, and transparency, among other things.

Against standards such as hers, most European property tax systems offer examples of how *not* to do things. Alas, it seems it is human nature to ignore wise economic advice, at least in the design of property tax systems. There are countless examples of policy contradictions, needless administrative complexity, steep differentials in effective property tax burdens, and relief measures of dubious merit. Of course, it is difficult in a survey like to discover the reasons for many of the questionable design features. Some are ancient. Some are well-protected carryovers from earlier systems. Others are well-intentioned efforts to solve real problems.

The lesson for Slovenia should be aim for a coherent property tax policy. This requires that the advantages and disadvantages of every proposed departure from taxing real property uniformly on the basis of its current market value should be carefully evaluated. It is advisable to remember the “Law of Unintended Consequences.” It holds that people will find a way to bend policies and rules to their advantage, so that the original purpose of a property tax policy is not served. As a simple example of this law, the current exemption of buildings less than 160 square meters creates an incentive to erect buildings smaller than the size threshold. An attempt should be made to ensure that policies are mutually reinforcing; contradictory policies should be avoided.

An area of concern among members and potential members is the impact of European Union legislation and regulations on a country’s property tax policies and practices. It appears that currently the EU has no requirements that deal *directly* with property taxation. However, policies that favor decentralization have clear implications for property tax system design. National policies designed to subsidize agriculture and industry may come under scrutiny by the EU. (Conversely, EU subsidies may influence agricultural property prices.) In addition, the EU’s 1995 Data Protection Directive may have a bearing on data that can be regarded as public.

11. References

11.1 Overview

Countries for which I have information include:

Country	Information Sources
Albania	OECD CR 1996.
Armenia	Almy & Abrahamian 1999. Almy 1993-1998.
Belarus	OECD CR 1994. IBFD 1993.
Bosnia & Herzegovina	
Bulgaria	OECD CR 1996, 1995. Almy & King 1993. IBFD 1993.
Croatia	IBFD 1993.
Czech Republic	OECD CR 1999. McCluskey 1999. Müller & Almy 1996. Almy & Müller 1995. Almy, King, & Magor 1994. Almy, King, & Müller 1993. IBFD 1993. Hallerová, n.d.. Ryska, n.d.
Estonia	OECD CR 1999, 1994. Estonian Land Board 1999. McCluskey 1999. PHARE (Müller) 1995. PHARE 1994. Danish Ministry of Taxation 1993. Palmu & Vuorio, n.d. (circa 1993) IBFD 1993. Tiits, n.d. +
Georgia	Almy 1998. OECD CR 1994.
Hungary	OECD CR 1997, 1996. McCluskey 1999.
Latvia	OECD CR 2000(1, 1999, 1995, 1994, 1993. Rausis 1998. State Land Service 1997. Almy & Tiits 1996. IBFD 1993.
Lithuania	State Land Cadastre and Register. OECD CR 2000, 1999, 1996, 1995, 1994. Aleknavičius 1996. Almy & Tiits 1996.
Moldova	OECD CR 1996, 1994.
Poland	OECD CR 1996, 1995, 1994. Eckert & Epstein 2000. McCluskey 1999. IBFD 1993.
Romania	OECD CR 1999, 1998, 1996. IBFD 1993.
Russian Federation	GSU Consortium 1999. Malme 1996. IBFD 1993. +
Slovak Republic	OECD 1996, 1995. Almy, Charman, & Müller 1994. IBFD 1993.
Slovenia	OECD CR 2000, 1999, 1998, 1997, 1996. Almy & Engel-schalk 1995.
Ukraine	
Yugoslavia	

Note: "CR" stands for "country report."

Country	Information Sources
Austria	McCluskey 2001, Gloudemans 1976.
Belgium	
Denmark	OECD CR 2000, 1998 (by Müller). Youngman & Malme 1994. OECD 1983.
Finland	IBFD 2000
France	IBFD 2000. Youngman & Malme 1994. Le Cacheux 1991. Department of Taxes 1985. OECD 1983. +
Germany	IBFD 2000. Gloudemans 1976. OECD 1983.
Greece	IBFD 2000.
Ireland	McCluskey 1999. McCluskey 1991. OECD 1983.
Italy	IBFD 2000. Rey 1995.
Netherlands	McCluskey 1999. Youngman & Malme 1994. Verbrugge 1992. McCluskey 1991. Ministry of Home Affairs 1988. OECD 1983. Gloudemans 1976. +
Norway	IBFD 2000.
Portugal	McCluskey 1991. OECD 1983.
Spain	RussinésTorregrosa 1991. OECD 1983.
Sweden	IBFD 2000. Kjellson 1994. Youngman & Malme 1994. Hort et al. 1992. OECD 1983. Malmberg 1981. Gloudemans 1976.
Switzerland	McCluskey 2001, OECD 1983.
Turkey	IBFD 2000. OECD CR 1994. OECD 1983.
United Kingdom	OECD CR 2000 (By Charman). Sanderson 1995. Youngman & Malme 1994. Farrington 1992. McCluskey 1991. OECD 1983. Rating and Valuation Association 1981. Rating and Valuation Association circa 1980. Kay & King 1978. Gloudemans 1976. +

Note: "CR" stands for "country report."

11.2 Source List

This section lists major sources consulted during the preparation of this survey. They are of five types: (1) published works, (2) consultants' reports, (3) unpublished conference papers, (4) country presentations made by participants at OECD property tax courses and workshops, and (5) other works. Some websites were consulted, and copies of legislation were consulted when they were available.

The following forthcoming publication will be useful in a study of the property tax systems of selected transitional countries:

Malme, Jane H., and Joan M. Youngman. Forthcoming. *The Development of Property Taxation in Economies in Transition: Case Studies*. Washington, D.C.: World Bank Institute. This work will contain reports on Armenia (cited in section 11.2.5), the Czech Republic, Estonia, Poland, Russian Federation, and the Slovak Republic.

11.2.1 Published Works

Casanegra de Jantscher, Milka; Carlos Silvani; and Charles L. Vehorn. 1991. "Modernizing Tax Administration in Eastern Europe." A paper presented at the 1991 conference of the (U.S.) National Tax Association. It is an adaptation of paper included in *Fiscal*

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Paugam, Anne. 1999. "Ad Valorem Property Taxation and Transition Economies." ECSIN Working Paper no. 9. (ECSIN is the Infrastructure Sector Unit of the European and Central Asia Region of the World Bank.)

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11.2.4 OECD Country Presentations

The Organization for Economic Cooperation and Development (OECD) in 1992 began offering courses and workshops in property taxation to officials from post-communist countries in Europe and Asia. In recent years, delegations from countries participating in OECD property tax seminars have been asked to prepare written country reports. The following reports were consulted in this survey.

Albania: 1996

Bulgaria 1996, 1995

Czech Republic: 1999

Estonia: 1999

Hungary: 1997

Lithuania: 2000, 1999, 1996

Moldova: 1996

Poland: 1996, 1995

Romania: 1999, 1998, 1996

Slovak Republic: 1996, 1995

Slovenia: 2000, 1999, 1998, 1997, 1996

Earlier country presentations were given orally. These included Belarus 1994, Czech Republic (1994 and 1996), Estonia (1994), Georgia (1994), Latvia (1995, 1994, 1993), Lithuania (1995, 1994), Moldova (1994), Poland (1994), Russian Federation (1995, 1994, 1993), Slovenia (1995, 1994), and Turkey (1994).

11.2.5 Other

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