

**International Studies Program
Working Paper 06-42
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Market-Value Property Tax: Market
and Market –Informed Valuation in
Russia, Ukraine, and the Baltic States**

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Data Challenges in Implementing a Market-Value Property Tax: Market and Market –Informed Valuation in Russia, Ukraine, and the Baltic States

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Introduction

In order for a property tax system to function effectively and efficiently it is important that the system possess a number of characteristics. These characteristics include long-term tenancy or ownership of real property, thereby creating a bundle of rights that can serve as a legitimate subject for taxation; a cadastre that uniquely identifies property parcels and those who hold the rights to the property; a scheme for valuation of the parcels; an apparatus for the collection of the levied tax; and an enforcement mechanism to insure the tax is not a voluntary payment. As transition and developing countries have moved their existing property taxation systems toward a market-based system or begun the process of developing a modern system of taxation, these requirements have posed various degrees of challenges for policymakers.

One challenge that can be substantial for transition countries is the assignment of taxable value to real property. Efforts to achieve this objective are important because determination of value is critical to establishing the economic and fiscal effects of the property tax and, in turn, deciding whether the tax is a suitable component of a country's fiscal arsenal. Ideally the valuation standard should be based on market-value yet

¹ The authors thank the Lincoln Institute for Land Policy for support of research upon which much of this work is based. Liucija Birskyte and Olha Krupa capably assisted with collection of information. Valentina Gerasimova helped obtain information on Russia and gave useful advice. The authors retain responsibility for any errors that might remain.

countries in transition are often hindered by inadequate, inaccessible, or limited data. In the absence of sufficient information to arrive at the market-value of property, they may choose to rely on a valuation system that can best be characterized as market-informed. In other words, they use what data are available to provide insight into how market forces affect the value of property.

This paper looks at the property tax systems in the Baltic States, Russia, and Ukraine. Emphasis is placed on the way each country assigns value to real property parcels. Because these countries are at different points in the development of their property tax systems and their access to data differs, they provide insight into the approaches they can be used to meet and conquer the valuation challenges countries in similar circumstances may encounter.

The Question of Property Tax Standards

Real property taxes may be based on several different standards. These include property size (area or volume), property size adjusted by simple location or quality indices, property valued according to an administrative formula, most recent transaction price for the property parcel, and current market value. While other standards may be simpler, more transparent, more politically appealing, and capable of yielding considerable revenue, it is generally accepted that current market value is the preferred basis for the valuation standard in a modern property tax system.²

There are five principal reasons for arguing that current market value provides the best base for the property tax. First, market value can be easily tested and refuted by the property holder. This possibility of refutation is critical because the values upon which taxes are based have generally been determined by an administrative process.³ Property holders need to be able to evaluate and to challenge the appropriateness of these assessments. If the valuation is based on a purely administrative standard, one that is internal and unique to the tax assessment process, the property holder cannot ascertain how well the assessment has been carried out or how fair it is relative to those of other property holders.⁴ With a market value based assessment standard it is feasible for the holder of the property to establish whether the value estimated for tax purposes is a reasonable representation of its market value. A comparison can be made between the subject property's valuation for tax purposes and transaction values for the property or

² Property taxes, even in developed countries, may be levied according to non-market value standards. For example, local governments in the state of Indiana raised most of their revenue from a property tax that explicitly was not based on current market value until the early years of the twenty-first century and California has used a non-market value standard since the late 1970s.

³ Simple area measures are the easiest to test, of course, but obvious differences in property quality make such a tax base inequitable and therefore less acceptable. However, the efficiency advantages of land taxation are just as applicable to an area-based land tax as one based on land value. As in other areas of taxation, simplicity of the tax is important, but other objectives of tax policy (equity, economic effects, yield, etc.) usually are viewed as more significant.

⁴ Even if the standard is accurately applied to the taxpayer's parcel, there is no certainty that it has been similarly applied to other parcels.

for closely comparable properties. If there is significant variation between the assessed value of the parcel and the recent sale price of the parcel or similar parcels, then there is reason to suspect the assessed value is not equitable. This simple test can signal the property owner whether preparation of a formal challenge to the assessed value might be worthwhile. Other valuation standards do not possess such an easily accessible test of validity.⁵

Second, market value of a real property parcel represents its contribution to the wealth of the owner of the parcel. To the extent the property tax represents a component of wealth taxation, market value is undeniably the most appropriate base. Owners of property with a high market value, all other things being equal, have greater affluence than those without such property holdings. Standards of value not directly associated with property value may not provide such a link to property value and affluence. This link is important if the tax system is designed with the intent to connect capacity to pay to the cost of government. The value of property provides an index of that capacity to pay.

Third, the market value of property is influenced by the quality and amount of local government services. To the extent that property tax revenue supports services, a tax on market value of that property represents a proxy charge for those services. Whether the local service in question is police and fire protection, environmental regulation, or primary and secondary education, citizens value them those services and can receive the services only by having property in the local service area. The quality of services provided can increase demand for property in the local service area thereby increasing the property value. A tax based on market value of parcels is an indirect way of pricing those local services. Property taxes not based on current market value fail to have this direct linkage between size of tax base and receipt of local services.

Fourth, valuation for tax purposes using a market value standard gives local government a partial stake in the gains from economic development and provides incentive to facilitate community growth and development. Growing economies create complications for governments – traffic congestion, pollution, need for protective services, etc. But growing economies increase property values. Allowing local governments to capture some of this increase in property value through a market-based property tax provides compensation for at least some of the costs associated with development and, hence, may reduce the extent of resistance to these developmental activities. In other words, current market based property taxation provides local governments with a means to be compensated for externalities associated with growth.

Finally, market value is the most easily understood concept of property value for the citizenry. It is what most people think of when reference is made to the value of property. Having a legal definition of the tax base which is consistent with what is commonly understood to be the tax base enhances transparency. Therefore, defining taxable value as market value represents a way to make the property tax more understandable to the general public.

⁵ The exception is a simple area measure, of course. That standard is easy to test.

In summary, there are significant reasons for favoring the use of current market value as the standard of valuation in property taxation. These reasons include improving transparency, efficiency, the ease of administration, and contestability. Other value measures may possess some of these characteristics but generally do not enjoy all of them.

The Problem

All property tax systems must face the fact that a good estimate of current market value may be difficult to obtain. The problems are particularly acute for industrial properties, even in countries with highly developed property taxation systems. Because industrial properties are frequently purpose-built for a specific site and of unique design and construction, their current market value is often subject to controversy, especially when the parcel is large, likely to bear a high property tax bill and constitutes a major share of the entire tax revenue of its host local jurisdiction. Because of the special nature of the property it often is difficult to identify reasonable comparable properties, a requirement when the goal is to determine what a willing and knowledgeable buyer would pay a similarly situated seller when there is no compulsion or time pressure surrounding the sale. Without comparable sales, the tax assessor lacks a clear context for estimating the valuation and the owner lacks a definite basis for contesting it. Recent sales can not be relied on to provide a test of validity of the assessment; depreciation is difficult to estimate making application of the summation approach difficult to apply; and use of the income approach is hindered due to the lack of income flow uniquely attributable to the parcel or comparables making calculation of a capitalization rate challenging. Despite the valuation concept being clear, its application is highly subjective for such properties, making the basis for contesting just as opaque as the initial assessment. As a result, the clear notion of market value dissolves into a test of negotiation between the assessor and the property owner.

The problems are seldom as severe for residential, commercial, or agricultural properties. Sufficient information is available to apply at least one of the standard approaches to appraised value for such parcels in countries with well-developed property taxation systems. At least the range for dispute between owner and assessor is much more narrowly constrained. But the fact remains that valuation involves estimation, not an accounting tabulation.

Problems are much more acute in countries moving away from command and control to a market-oriented economy. In these countries real property generally used to be held communally or by the state meaning real property transactions were not commonplace. As these countries attempt to construct a property tax system that is capable of providing greater support for local government finances, they face significant barriers to reaching their goal of using current market value as the valuation standard. This is the case even for types of properties that are routinely valued using this standard in countries with more developed systems.

The problem is largely one of data. As a World Bank report observes, “Conditions in developing and transitional economies make the property tax particularly difficult to administer, since the basic market data on which the property assessments are based is inaccessible or unreliable.”⁶ While this statement seriously overstates the problems for property taxation, per se, because productive property taxes need not employ a market value standard for valuation, it does indicate the nature of the problems encountered in implementing a property tax system based on current market value.

There are several sources of the data problem: limited amount of property in held by private individuals, limited number of arm’s length property transactions, special circumstances surrounding transactions that limit their usefulness in estimating market value (e.g., government on one side of the transaction), and limited publication of transaction and valuation data.

Despite a lack of complete market information, the use of a property tax is not precluded. Instead, the tax system may be based on market-informed valuations rather than market valuations. Experience in the transition countries examined here, as well as in other countries, clearly demonstrates how this second-best approach can still provide desirable outcomes.

Property Taxation and Market Value Data

With the end of the Soviet Union in 1991, Estonia, Latvia, Lithuania, Russia, and Ukraine all began transitions – at varying paces -- from centrally planned economies operated by dictatorial governments toward market-oriented democracies. The transition required revisions to practices of many years standing. Both economic structures and systems of government finance had to change in order to adapt to the new environment. These countries followed different paths in this transition, in regard to the development of local government finances, property ownership, and openness of information. The transition, even a decade and a half later, is still in progress.⁷ These differences in practices regarding property taxation, the relative importance of the property tax in local government finance, and the availability of and use of market value data are apparent in the brief review of property taxes in these countries that follows.

Estonia

Estonia has followed a property taxation path unlike that taken by other countries of the former Soviet Union (or most other countries for that matter). Rather than levy taxes on land and structures, in 1993 it adopted a tax on the capital value of land alone, including land owned by government, with the tax being paid both by owners of private land and

⁶ “Lithuania: Issues in Municipal Finance,” World Bank Report No. 23716-LT. (Washington, D. C.: World Bank, 2002), p. 18.

⁷ Estonia, Latvia, and Lithuania became members of the European Union in 2004.

by users of public land.⁸ In addition to providing revenue for local governments, the tax was integral to land reform and privatization in Estonia. It granted governments a stake in land development and, by making government owned land taxable, provided extra encouragement for privatization. It was also intended to stimulate productive use of land that had been privatized or restored to pre-Soviet owners.⁹

Local councils set tax rates between 0.5 and 2.5 percent, the limits established by the national government. Land is divided into eleven zones or types – residential land, commercial land, production land, mining area land, social purposes land, land under wetlands, land for transportation purposes, sewage are land, land for national defense purposes, environmentally protected land, agricultural land, and land without a use – and municipalities may impose classified rates across the zones. However, municipalities usually distinguish only arable land from other zones and apply a lower rate to it.¹⁰

In the early days of the land tax private ownership of land was limited, there were few market transactions of property, and ownership was frequently unclear. Nevertheless, the valuation standard was current market value, meaning many values had to be informed guesses at best. However, there has been and continues to be a clear and open process for arriving at the value estimates. .

County Cadastral Offices perform the valuations under the supervision of the National Land Board (Ministry of Environment), subject to approval of valuations by municipal governments. The National Land Board develops value zones for urban and rural lands. (A value zone is an area which has a similar value and similar uses that shaping that value.) For urban land, the area-based pricing zones are based on location, quality, and usage. For rural land, the area-based pricing zones are based on location, soil capability, and productivity. Values are per square meter, per hectare, or per square meter of building rights. The resulting land price zones are displayed on area maps at municipal offices, subject to appeal by taxpayers for two weeks before they become final. The National Tax Board (Ministry of Finance) administers billing, collection, and enforcement.

In the absence of data, land values were initially estimated using expert opinion that was, guided by whatever pricing information was available. For example, the land component of transactions in urban areas was estimated as a fixed share of transactions, with the share set at twenty percent in Tallinn and ten percent in Tartu.¹¹ Today more transaction data are available due to the growth and expansion of private land markets. Notaries are

⁸ The tax replaced Soviet-era taxes on buildings and land rent. Attiat Ott, “Land Taxation and Tax Reform in the Republic of Estonia,” *Assessment Journal* (January / February 1999): 40 – 49.

⁹ Land and building records had been maintained separately and a merger adequate to permit valuation of both land and buildings was believed not easily possible in reasonable time. Estonian law recognizes building ownership as a property right separate from land underneath the building. Complications encountered in the continuing Russian experiment to levy a tax on both land and buildings in Tver and Novgorod show this concern to be realistic.

¹⁰ Viktor Trasberg, “Land and Property Taxation in the Baltic States,” 43rd European Congress of the Regional Science Association, Jyvaskyla, Finland, August 27 – 30, 2003: p. 12.

¹¹ Aivar Tomson, “Estonia,” *American Journal of Economics and Sociology* 59 (November 2000); 207.

involved in every transaction and both the notary fee and a stamp duty depend on the transaction value. This has resulted in increased amounts of transaction data.

Since 1997 the National Land Board has been collecting real estate transaction data into a sales register (there were 56,000 transactions entered in 2004). According to the National Land Board, by 2002, 44 percent of land was privately owned. In 2004, the sales register reported 3,009 market transactions of unimproved residential land, 484 transactions of unimproved arable land, and 1,712 transactions of forest land. There were only a limited number of transactions involving unimproved commercial or industrial land. Many of the transactions were in Tallinn, Tartu, and Harjumaa.

Despite these transactions, relatively speaking land markets remain undeveloped and not transparent. This hinders the use of arriving at market valuations of land. Instead, the data help inform the County Cadastral Offices on what the appropriate valuations should be.¹²

Valuation results are available on the National Land Board website. Valuations must be publicly displayed for at least twenty days, with public notice of that display for at least ten days prior to the display, as required from the Land Valuation Act.

The land tax is administered by the central National Tax Board and transferred to municipalities. It generates only about ten percent of local government tax revenue, a share that has been stable for a number of years. The share is, however, much greater – a third of tax revenue – in the smallest municipalities, compared with larger units. This is true even though land prices are much lower in rural regions than in urban and coastal areas.

In sum, Estonia employs the current market standard for its tax on land. The values are based on information about unimproved land transactions and the process works to maintain transparency in the valuation. Property owners are given considerable information about the valuation process and about the values that the process has established. Appeals are initially to the local assessor and taxpayers may meet with appraisers during the public inspection period.

Latvia

The legal basis for the property tax in Latvia is the “Law on Immovable Property Tax” first passed on November 13, 1997.¹³ In essence, the property tax is a tax on land and businesses. Many types of property are exempt from taxation, including residential dwellings and apartments.¹⁴

¹² The most recent assessment was largely based on information in this register. General assessments for the land tax have been done in 1993, 1996, and 2001.

¹³ This law often is colloquially referred to as the “Law on Real Estate Tax.” The updated Law is available at [<http://unpan1.un.org/intradoc/groups/public/documents/UNTC/UNPAN018400.pdf>]

¹⁴ The major exemptions provided for by the 1997 law include: Dwellings and apartments

- Agricultural buildings

Currently the tax is applied to the cadastral value of land and the book value of buildings at a rate of 1.5 percent.¹⁵ On January 1, 2007 cadastral value will become the basis for taxation for both land and buildings.

Overall property tax revenue comprises a significant amount of total tax revenue in Latvia. In 2005 total tax revenue to the central government was 2,107 million Latvian Lat (LVL) and total tax revenue to local governments was an additional 439.1 million LVL. Property taxes constituted 2.4 percent of the 2546.1 million LVL total. In 2000 real property tax revenue amounted to 44.2 million LVL and constituted 18.8 percent of local tax revenue and 10.0 percent of all local revenue. By 2005 this amount had increased to 61.6 million LVL but represented a decreasing share of local tax revenue and overall local revenue, 14.0 and 7.7 percent respectively.¹⁶ Although all revenue raised from the property tax goes to the local governments in which the property is located,¹⁷ these units of government lack revenue autonomy because the central government establishes both the base and the rate of the tax.¹⁸

The State Land Service of the Republic of Latvia (SLS) has responsibility for maintaining the State Real Estate Cadastre System (Cadastre) and for performing regular

-
- Local government real property that is being used by the local government
 - Buildings used by institutions that are financed by the state budget
 - Foreign embassies
 - Land under public waterways and common use transportation networks, such as roads, city streets, railway tracks, bridges, trestles, etc.
 - Real property belonging to religious organizations that is not being used of economic purposes
 - Land and buildings that comprise a state-recognized cultural monument
 - Forest land that consists of renewed or cultivated forest stands
 - National recreation and sport center land and buildings
 - Buildings used for health, social welfare, educational, and cultural purposes

Property tax relief also is offered in the form of abatements. A 50 percent abatement is applied to the immovable property of politically repressed individuals who have owned or possessed the property for five or more years. In addition, local governments have the ability to provide for abatements for separate categories of immovable (real) property ranging from 25 to 90 percent of the tax owed. Law on Immovable Property Tax, <http://unpan1.un.org/intradoc/groups/public/documents/UNTC/UNPAN018400.pdf>, pp. 1-3; 5.

¹⁵ A real estate transfer duty also applies to purchaser of immovable property. A rate of 2 percent applies to the higher of the purchase price or cadastral value of the property or valuation for mortgage purposes. The maximum tax payable is LVL 30,000 (around \$53,500 in July 2006).

¹⁶ Ministry of Finance, Republic of Latvia, *Survey of the State Budget (December 2005)* [http://www.fm.gov.lv/image/file/Dec_2005a.pdf] The property tax share of total taxes collected in the country is only 4.38 percent, but all revenue is local. The personal income tax yields more revenue for local governments but it is a tax shared with the national government.

¹⁷ If the immovable property is located in more than one jurisdiction, the property tax is calculated and collected by each local government in proportion to the amount of property in each jurisdiction. Law on Immovable Property Tax,

<http://unpan1.un.org/intradoc/groups/public/documents/UNTC/UNPAN018400.pdf>, p. 4.

¹⁸ Richard M. Bird, "Real Estate Tax in Latvia," in Richard M. Bird and Enid Slack, *International Handbook of Land and Property Taxation* (Northampton, Massachusetts: Edward Elgar, 2004).

mass valuation of property.¹⁹ On a regular basis the SLS prepares lists of property data that are used by municipalities when they prepare tax bills. These lists of property data are printouts from the cadastre register that include addresses, cadastre identification numbers, and the property value.²⁰ The SLS also maintains a database of market data for real property that is used to prepare and update base cadastral values for land and after January 1, 2007 will be used for determining and updating cadastral values for buildings. The SLS calculates basic values for types of buildings and uses of land, determines value zones for municipalities, and estimates correction coefficients, all three basic components of the cadastral valuation process.²¹

From 1995 through 1999 the SLS used normative values to arrive at the cadastral valuation for land. Implementation of a mass valuation approach based on the market value of real property began in 1998 after the “Law on Immovable Property Tax” went into effect. During 1998 and 1999 these data were used to develop land value zones for municipalities. Land value zoning is similar to the value banding approach used to value residential properties in England, Scotland, and Wales. It has been argued that a banded property tax system is “...a useful interim measure for those transitional countries who have decided to move to a discrete *ad valorem* approach but where the infrastructure and administration is not yet in place (Central and East European countries).²² In 2000 the mass valuation system was used for property taxation, specifically for the valuation of land under structures in urban areas. In 2002 it was expanded to land under structures in

¹⁹ These activities are regulated by the “Law on Cadastre” The Cadastre includes data on real property that is essential for valuation and taxation. These data include cadastre identification numbers for land units and buildings, information about the physical parameters of land and buildings, surveying information, liens and restrictions on the property, information about land use and types of buildings, and valuation for taxation purposes.

²⁰ “Property Tax in Latvia: Present Situation,” presentation at the course *Introducing Market Value-Based Taxation of Real Property*, organized by the Lincoln Institute of Land Policy and the Center of Excellence in Finance, Slovenia, June 19-23, 2006.

²¹ “Institutions Involved in Realization of Real Estate Tax and Their Main Functions,” State Land Service of the Republic of Latvia, www.vzd.gov.lv/index.php?s=9&sub=9 An example of base values for land for real estate application (REA) which is the allowed use for a particular property is provided below for Land Value Zone No. 32 in the city of Riga:

A Set of REA or a Separate REA	LVL/m²
Agriculture	0.05
Forestry	0.10
One and two story dwelling houses	3.50
One and two story multi-apartment buildings	3.50
Three to five story multi-apartment buildings	3.90
Six and more story multi-apartment buildings	4.70
Offices and commercial buildings	10.00
Industrial Objects	4.00

“Kinds of Applications of Real Property,” State Land Service of the Republic of Latvia, www.vzd.gov.lv/index.php?s=9&sub=9

²² Frances Plimmer, William McCluskey, and Owen Connellan, “Property Taxation – Value Banding,” *New Directions in Valuation Methodologies II*, Fig XXII International Congress, Washington, D.C., April 19-26, 2002, p. 9 http://www.fig.net/events/fig_2002/fig_2002_abs/Ts9-2/TS9_2_plimmer_etal_abs.pdf#search=%22%22Value%20Banding%22%22

rural areas. Land fertility continues to serve as the basis for valuation for agricultural land purposes.²³

The SLS receives information about market transactions from property owners, sworn notaries, local governments, and Land Registry Offices. It uses the Cadastre to fulfill its responsibilities of developing and maintaining a single system for the cadastral valuation of real properties for property taxation purposes. Since 2004, it has used a real property market information system for property market data collection and analysis. The system seeks compatibility between cadastral and market values through creation of value zones. Land value zones have been established for the 26 district-level governments and base cadastral values for buildings have been established for seven republican cities that perform regional and municipal functions.

A number of factors affect the cadastral value of land.²⁴ These include the land area; the allowed use (REA) of the property; any encumbrances that may have been placed on the land; the basic land value for the land value zone in which the property resides; and the cadastral valuation correction coefficient.²⁵

Although the property tax rate of 1.5 percent currently is applied to the book value or balance value rather than the cadastral value of buildings, the SLS is poised to implement a system of cadastral valuation for buildings on January 1, 2007. Cadastral value is preferable to book value because the latter is based on construction costs minus depreciation without taking into consideration the current use of the building, its location,

²³ "Property Tax in Latvia: Present Situation," presentation at the course *Introducing Market Value-Based Taxation of Real Property*, organized by the Lincoln Institute of Land Policy and the Center of Excellence in Finance, Slovenia, June 19-23, 2006.

²⁴ Land value zoning divides the land area of municipalities into zones with comparable land values. The zones are composed using among other things information from real estate transactions and data on leases for land; and information on land value obtained from an analysis of the real estate market taking into consideration factors affecting value. When arriving at the land value zones the SLS takes into consideration the following factors:

- The market indicators (price levels) for the real estate market of the particular territory,
- The population and territorial area;
- The planning structure, functional distribution (distance) of the head office and the structural units;
- Intensity of development;
- Engineering facilities and the development of transport infrastructure in the territory;
- Existence and availability of social services, business and administrative institutions, trade and service facilities;
- Desirability and prestige of the territory,
- Cultural-historical and recreational potential of the territory;
- Geodesic and ecological criteria;
- Socio-economic indicators and other criteria affecting the land value in the particular territory.

Cadastral Valuation of Real Estate for Real Estate Taxation Purposes in Latvia (English Translation). State Land Service, Riga, Latvia, 2000, p. 10. www.vzd.gov.lv/faili/2000_CAD_VAL.doc

²⁵ The valuation correction coefficient adjusts the base value from the land value zone based on market information collected by the SLS. "Identification and Updating of Land Cadastre Value," State Land Service of the Republic of Latvia, www.vzd.gov.lv/index.php?s=9&sub=9

or changes in the real estate market. Cadastral value is based on data driven by real estate market activity.

The cadastral value of a building is affected by a number of factors including the type of building, the area or volume of the building, wear and tear of building, the basic value of the building in that land value zone, and the valuation correction coefficient.²⁶

Both the municipality in which the property is located and the SLS work cooperatively to determine the cadastral value. Cadastral value is defined as “...the real estate value calculated according to the common cadastral (mass) valuation principles on a specific date...” which is January 1st, the beginning of the taxation period.²⁷ Initial assessment occurs when land is registered with the Cadastre. The same procedure will be used to determine the initial cadastral value of buildings. Three types of property is subject to mass valuation -- land under structures, rural land, and buildings (structures) – relying on the sales (transaction) comparison, income capitalization, and cost approaches to valuation.²⁸

Currently mass revaluation or reassessment is conducted at least every five years with the SLS updating cadastral values more frequently if the latest market information for the relevant land zone indicates more than a ten percent divergence from the base values.²⁹ Municipalities can initiate updates of cadastral values annually if changes occur in the factors affecting the values in the particular zones and but property owners may request reassessments of their property at their own expense.³⁰ Beginning in 2007 approval for the basis of mass valuation will move to the Ministry of Finance from the SLS and mass valuation will take place annually, with a different uses being valued each year.³¹

²⁶ As is the case with the land value correction coefficient, the valuation correction coefficient adjusts the base value from the building value zone based on market information collected by the SLS. “Identification and Updating of the Cadastral Value of a Building,” State Land Service of the Republic of Latvia, www.vzd.gov.lv/index.php?s=9&sub=9

²⁷ *Cadastral Valuation of Real Estate for Real Estate Taxation Purposes in Latvia (English Translation)*. State Land Service, Riga, Latvia, 2000, p. 8. www.vzd.gov.lv/faili/2000_CAD_VAL.doc

²⁸ “Property Tax in Latvia: Present Situation,” presentation at the course *Introducing Market Value-Based Taxation of Real Property*, organized by the Lincoln Institute of Land Policy and the Center of Excellence in Finance, Slovenia, June 19-23, 2006.

²⁹ “Property Tax in Latvia: Present Situation,” presentation at the course *Introducing Market Value-Based Taxation of Real Property*, organized by the Lincoln Institute of Land Policy and the Center of Excellence in Finance, Slovenia, June 19-23, 2006 and United Nations Economic and Social Council, Economic Commission for Europe, Committee on Human Settlements, Sixty-third session, “Workshop on Mass Valuation Systems of Land (Real Estate) for Taxation Purposes.” September 12, 2002. <http://unece.org/hlm/documents/2002/hbp/hbp.2002.9.e.pdf#search=%22land%20value%20zones%20latvia%22>

³⁰ “Property Tax in Latvia: Present Situation,” presentation at the course *Introducing Market Value-Based Taxation of Real Property*, organized by the Lincoln Institute of Land Policy and the Center of Excellence in Finance, Slovenia, June 19-23, 2006.

³¹ “Property Tax in Latvia: Present Situation,” presentation at the course *Introducing Market Value-Based Taxation of Real Property*, organized by the Lincoln Institute of Land Policy and the Center of Excellence in Finance, Slovenia, June 19-23, 2006.

Taxpayers are afforded the opportunity to appeal to their municipality if they disagree with the amount of tax owed, the terms of payment, or with the designated use of their property (REA). Taxpayers also may appeal to the SLS when they determine an inconsistency in the mass valuation procedures, an incorrect valuation, or erroneous cadastre data.³²

All base values for the land value zones are available online at www.vzd.gov.lv. Updated information about the data and process used to estimate value is available in the local offices of the SLS. Specific mass valuation information on a particular parcel, a print out from the cadastre register, is available from the client service centers of the SLS or the internet for a fee. More recently the SLS has developed a website where anyone can access, free of charge, basic information about a cadastral object, including cadastral number of land, address, section number in the Land Book, cadastral numbers of physical objects on the land, and the location on cadastre map.³³

Market data are important for the cadastral valuation process in Latvia. While data on the number and frequency of market transactions are not readily available, it is clear that private ownership of real property is extensive in the county. In 2003 private farm land accounted for 45 percent of total land and 85 percent of the housing stock was private in 2004.³⁴

In sum, Latvia has moved from a normative basis of land valuation to a market-informed basis of valuation. Its use of land value zones has allowed it to move to a “discrete *ad valorem approach*” while the administrative structure and infrastructure, including the market transactions database continue to evolve and mature.

Lithuania³⁵

There are two property taxes in Lithuania. The first, a tax on land, applies to the cadastral value of both urban and rural land. The standard tax rate is 1.5 percent but a reduced rate of 0.5 percent applies to agricultural land. The second, a tax on the value of real property (excluding land) owned by legal entities (enterprises), applies at a rate of 1 percent. Starting in with 2007 the rate may vary from 0.3 percent to 1 percent depending upon the decision of the municipal councils. In addition, a land rent tax is levied on

³² “Property Tax in Latvia: Present Situation,” presentation at the course *Introducing Market Value-Based Taxation of Real Property*, organized by the Lincoln Institute of Land Policy and the Center of Excellence in Finance, Slovenia, June 19-23, 2006.

³³ “Property Tax in Latvia: Present Situation,” presentation at the course *Introducing Market Value-Based Taxation of Real Property*, organized by the Lincoln Institute of Land Policy and the Center of Excellence in Finance, Slovenia, June 19-23, 2006 and Rudzite, Signe, *Cadastre in Latvia*, Cadastre and Registers Data Exchange Division, Department of Cadastre and Registers, State Land Service of Latvia, 2006. http://www.fig.net/commission7/bled_2006/slides/ts08_01_rudzite_rozenberga_ppt.pdf#search=%22latvia%20law%20on%20cadastre%22

³⁴ Central Statistical Bureau of Latvia, <http://data.csb.lv>.

³⁵ “Developing and Implementing Mass Appraisal System in Lithuania” by Albina Alexsiene and Arvydas Bagdonavicius); the State Enterprise Centre of Registers. <http://www.registrucentras.lt/>; and Trasberg, Viktor, “Land and Property Taxation in the Baltic States,” presented at the 43rd European Congress of the Regional Science Association, Jyvaskyla, Finland, August 27 – 30, 2003.

renters of land, including both legal and natural persons. The rate is similar to the tax rate levied on landowners.³⁶

Property taxes, including the land tax, land rent tax, and real property tax, have increased in importance in Lithuania. From 1996 to 2005, revenue from the property taxes – land, land rent, and real estate – increased from 6 to 12 percent of municipal revenue. Over that same period, the land rent tax fell from 32.1 percent to 0.2 percent of property tax revenue, while the real estate tax share increased from 62.3 to 85.2 percent.³⁷ All proceeds from these taxes are returned to the sixty municipalities in the country.

The State Enterprise Centre of Registers (Centre of Registers) has responsibility for property registration, property valuation, and a number of other duties.³⁸ The Centre of Registers has collected sales information along with a physical inventory of real property since 1998.³⁹ When new real property is created or built, an inventory of it is completed and included in the Real Property Cadastre while ownership rights and other related information is recorded in the Real Property Register. When a property transaction occurs, data in the cadastre record do not change, but data in the real property register does. The sales price from the purchase or sale agreement is entered into the database.⁴⁰

³⁶ In January 2006 a new Real Property Tax Law was adopted, replacing the Law on Taxation of Real Property Belonging to Enterprises and Organizations. As a result of this new law, the real property tax was expanded to include real property owned by physical persons being used for commercial purposes.

³⁷ Trasberg, Viktor, “Land and Property Taxation in the Baltic States,” presented at the 43rd European Congress of the Regional Science Association, Jyväskylä, Finland, August 27 – 30, 2003, p. 16 and State Tax Inspectorate under the Ministry of Finance of Lithuania (A.Gaudutyte@vmi.lt), July 2006. The sharp increase in property taxes’ share of total tax revenues is due to the personal income tax changing in 2002 from a revenue source for municipal governments to a shared tax between local and municipal governments. The result was a decrease in municipalities’ tax revenues of 25 percent.

³⁸ The Centre of Registers has eleven branch offices located in ten county centers and one district center. These branch offices guide the operations of 39 local divisions located in various district centers and towns. The Centre of Registers and its various offices accept documents necessary to register real property, register real property and the rights associated with that property, issue documents concerning ownership of real property, and provide information services to owners and renters of real property.

³⁹ Data contained in the real property register includes immovable property such as land plots, new construction, flats in apartment buildings, etc.; cadastre information about this property; a map of the real property register; qualitative and quantitative data about the characteristics of the property; geographic information linking the property’s location and position relative to a national coordinate system; ownership information about the property; and legal information about the property, including the type of contract. Land parcels and buildings have been linked in the computerized real property system since the system was developed in 1998. The register links land parcels to buildings and cadastre and property registration in a single system. The computerized system covers the entire country with links from the central office to data banks in the county and district offices. Before 1997, when the Law on Real Property Register created the State Land Cadastre and Register, cadastre and the registration of buildings had been separate from land parcels. Cadastre and registration of buildings had been managed manually by the State Inventory Bureau.

⁴⁰ This database also includes property attributes including the address for the property, the type of property, and its use; the transaction date and price; year constructed; construction material; number of floors; and utility information such as heating, sewage, and gas. If the property is not a residence but instead a building, the database will contain information on the number of flats or apartments; type of foundation, roof, and construction materials; water supply; total area, living area, and supplemental area; and the value in reconstruction.

Until 2006 neither land nor real property was valued at market value, despite the presence of the infrastructure necessary to perform computer assisted mass appraisal. In fact, mass valuation of land based on market principles began in 2002 yet these values diverged from true market values; they were market-informed values. Taxable value for both land and real property were determined by applying adjustment coefficients to base value. Base value for land depended on its productivity and this was adjusted for location (how near it was to settlements and urban areas), availability of infrastructure, environmental conditions, etc. Base value for real property was based on replacement cost adjusted by a location coefficient.

The January 2006 Real Property Tax Law has changed the way property is valued. Taxable value (assessed value) is now the average market value arrived at using the comparable sales approach and the income approach. Computer assisted mass valuation is used for valuation and the taxable value is determined for a five year period. Land values are determined according to land value maps developed by the National Land Office. Other properties, such as manufacturing facilities and utilities are assessed using the reproduction cost method.

There is no formal evaluation of assessment quality. Assessment ratio studies are being performed by the Center of Registers with a view to perfect the methodology used for mass valuation of property. However, lack of reliable market data limits the scope and depth of such analysis.⁴¹

Appeals may be made if a taxable value is in dispute, as long as it is done by the designated date. Assessment appeals must be submitted to the property assessor (the Center of Registers) within 3 months after the assessment is made. The assessor has an obligation to reach the decision regarding the appeal within two months. If the taxpayer is not satisfied with the decision, they can appeal it in court. The enforcement of taxes is suspended until the decision is reached by the assessor or until the court verdict comes into effect. .

In 2006 the Center of Registers received 1,800 appeals, 800 of which contained single property assessments by independent appraisers. If the assessed value determined by mass valuation exceeds the independent assessment by more than 20 percent, the property is considered for revaluation.⁴²

Between 2003 and 2004 the land market in Lithuania became increasingly active, with the total number of land transactions increasing by 23 percent. Agricultural land parcels saw the greatest increase in transactions, increasing by 48 percent over the number of transactions in 2003. However, due to some restrictions placed on the purchasing of agricultural land that were imposed in spring 2003 that were connected to Lithuania's entrance into the European Union, the number of agricultural land transactions had

⁴¹ Telephone interview with Albina Aleksiene, 2006.

⁴² Telephone interview with Albina Aleksiene, 2006.

decreased 30 percent between 2002 and 2003. During the period from 2000 to 2003 the number of land sales accounted for 2.9 percent of total registered land parcels.⁴³

The increase in transactions for other types of land parcels increased more modestly with transactions of forest land increasing by 15 percent over 2003, with the total area sold increasing by 14 percent. Transactions for garden plots (dachas) went up six percent, and transactions for parcels for the construction of residential housing increasing by 4 percent. Not surprisingly, prices for all types of land increased between 2003 and 2004.

Residential sales transactions increased by 62 percent from 2000 to 2003. The sale of family houses increased by 9 percent compared to 2003 and the sale of apartments experienced a dramatic increase with a concomitant increase in prices. Unfortunately numbers are not available. The reason for these increases is attributed to speculative investment in real property due to EU accession, favorable credit conditions, and improved overall economic conditions.

Mass valuation data are available to both physical and legal persons on the internet for free. Taxpayers can determine the assessed value of their property by going to the Centre of Registers website and providing the unique number assigned to the parcel. In addition, taxpayers can receive information about the assessment of their property by mail or in person free of charge. The Center of Registers provides assessment data to tax administration electronically.

Despite an active market in property transactions, transaction data are not readily available to the public. The Centre of Registers website contains very little information on transactions. However, real estate brokers, banks, independent appraisers, etc., can obtain transaction information for a charge by signing a formal contract with the Center of Registers.

In sum, municipalities in Lithuania are becoming increasingly reliant on the property tax. As this has occurred, a lot of attention has focused on ensuring the infrastructure and the administrative structure are in place to support an evolving market-based property tax system. Mass appraisal techniques already have been employed to value property and, as property markets continue to develop, the data necessary to support a true market-based valuation approach are being collected. In the meantime, reliance is placed on a market-informed approach to valuation.

Russia⁴⁴

There are three separate and distinct property taxes in the Russian Federation. These are (i) the enterprise property tax, a regional tax on enterprise balance sheet values (excluding land), (ii) the personal property tax, a local tax on structures (apartments,

⁴³ www.kada.lt/ntr/stat/review2003/index.html

⁴⁴ The description of the Russian property tax system is based on Valentina Gerasimova *et al.*, "Land Value Taxation for Russian Local Governments: Evidence from Saratov Oblast," *Proceedings of the Ninety-eighth Annual Conference on Taxation of the National Tax Association* (forthcoming)

dachas, garages, etc.), and (iii) the land tax, a local tax on the cadastral value of all land.⁴⁵ None of these taxes are driven by current market values in the standard sense, although the land tax is based on values that attempt to be informed by market-like forces.

The Russian system draws a clear distinction between cadastral assessment and market appraisal. Market appraisals are done regularly for mortgages, for determining business capitalization, for insurance, etc., and standard appraisal techniques are employed, including use of the comparable sales approach. Cadastral assessment is done for taxation only. While the entities that perform cadastral assessment also do market appraisals (they are private firms working under contract), not all market appraisal firms perform cadastral assessment. Market appraisers obtain sales information from real estate brokers who assist in registration of transactions with the local branch of the Federal Registration Service (a complicated and time consuming process). Collection of these transaction data employs informal networks of cooperating brokers. Transaction prices are not officially recorded and there is no formal collection and dissemination of these data. Appraisers perform market value appraisals on the basis of property transactions involving private buyers and sellers, but the information they employ is not widely available and is regarded as proprietary. There are real property markets and there are market transactions, but price information from these transactions is not easily available to the public.⁴⁶ It is the impression of appraisers that the market value to cadastral value relationship varies. For example, in Saratov Oblast, market conditions have caused market values to be about half of cadastral value for agricultural land while properties in the central business district have market values to be four times that of cadastral values.⁴⁷ Transaction price information would, however, not be easily available to a typical taxpayer.

The important taxes for local finance are the personal property tax and the land tax. Both are value based, but neither is directly based on current market value. The personal property tax base is the inventory value of the property as established by the Bureau of Technical Inventory (BTI), a value established in a normative historic reproduction cost approach to valuation (cost less accumulated depreciation). This valuation scheme is little changed from the Soviet era.

⁴⁵ There is also a pilot real property tax (combined land and improvements) in Novgorod and Tver that replaces the land and personal property tax in those cities.

⁴⁶ Real estate is advertised for sale in newspapers, but seldom are prices given and those indicating a price are regarded by realtors as desperation sales. These asking prices are not seen as an accurate reflection of the ultimate transaction price. Listings for vacant land are rare. Also, the large collective farms were privatized into several large agricultural companies, not individual farms. Owners hold shares in these companies, not particular land parcels, and may sell these shares. The price from such a sale does not reflect the price of a real estate parcel so this potential source of bare land prices is not available.

⁴⁷ John L. Mikesell and C. Kurt Zorn, "Land Value Taxation in the Russian Federation: Analysis of Parcel Cadastral Value Assessments in Saratov Oblast," David C. Lincoln Symposium, Cambridge, Massachusetts, September 11, 2006.

The land tax is valued according to cadastral valuation. This system reforms a structure of normative values that made no pretense of relationship to market values.⁴⁸ The first cadastral assessment was done in 2002 (based 2000 data) and another is scheduled for 2007. The cadastral system divides land into seven categories with a distinct valuation scheme applied to each:

- i. agricultural land: Valuation is based on soil productivity and accessibility to markets for product. Net income is discounted to present value (discount rate of 3 percent)
- ii. industrial land: six categories of land valued according to estimated market value.
- iii. urban settlement land: value per square meter in cadastral blocks is established for fourteen categories of land use for each settlement, according to expert opinion. The value of a plot equals that coefficient multiplied by the area of the plot.
- iv. forest land:
- v. land under water resources: no value established.
- vi. land in specially protected areas: estimated market value
- vii. land reserves: government owned and not valued

Local Land Committees are responsible for cadastral valuation according to standards established by the Federal Agency for Cadastre of Immovable Property but using private contractors. The contractors are certified by the federal agency.

Valuation zones for cadastral values published in local newspapers. Parcel cadastral value are available for agricultural land, dacha and gardening cooperatives, industrial land, military land, and water land on the Federal Agency for Cadastre of Immovable Property website (www.kadastr.ru) for some, but not all, oblasts. Parcel information in urban areas is available from rayon administrations, not from websites. The website also provides the complete regulations used to establish the assessments and the cadastral quarter valuation coefficients by type of land use for valuation of urban settlement land in each urban area. It would be potentially possible for a taxpayer to view these valuations and regulations.

There are no provisions for appeal of cadastral valuations, should a property holder believe a property to be assessed at a wrong value.

In sum, Russia has moved toward a cadastral valuation system for land that is informed by market information and that employs valuation concepts that reflect market principles. Valuation is done by certified professionals. The standards for cadastral valuation are widely available. The valuation of structures remains normative. Market transactions for real property do occur regularly but there is no general distribution of information about

⁴⁸ Land could not be owned and sold until recent passage of the Land Code. Before that time, any effort to base land values on market transactions would have been hypothetical in the extreme. In many locations, the new valuations have brought huge increases in tax obligations. (See "The Cadastre Badly Hit the Population," *Rossiyskaya Gazeta*, September 5, 2006, Issue 4162.)

prices. There is no system for appeal of valuations. The land tax and the tax on structures are intended to constitute major revenue systems for a reformed system of local governments.

Ukraine

Ukraine includes the property tax in the list of the nation-wide taxes imposed by the central government (Law of Ukraine on the System of Taxation No.139 of 25.06.91). However, this tax has never been levied. Periodically, laws of Ukraine indicate the need for property tax introduction: for example, the Law of Ukraine “On the adoption of the state-wide program on the development of small cities” urges the Parliament to introduce property tax within a 3-month period (dated 04.03.2004), but the tax has not been enacted. Neither have a number of other real estate tax proposals made since the mid1990s. Local governments in Ukraine have virtually no fiscal autonomy, with almost all of their revenues coming from shares of national taxes assigned on a derivation basis.

In the absence of a general real estate tax, property assessment is still performed for various reasons including privatization, property insurance, transfer of ownership, collection of stamp duties, and mortgage registration. Assessment authorities include the Bureaus of Technical Inventory (deal with improvements), municipal departments of land resources (for land and zoning), State Property Fund (for state-owned properties), private realtors and property assessment bureaus. BTI is responsible for all property inventory and property ownership record-keeping as well as property registration. BTIs perform most of the valuation themselves. There are about 200 of these bureaus in Ukraine and they are financed by user fees and charges. Properties are usually assessed at owner’s request (usually upon the transfer of ownership) by using replacement cost method. Similar to the BTI, Committees of Land Resources keep registers of land rights and land inventory for the purposes of the land tax and privatization.

Land parcels are taxable since 1992 (Law of Ukraine on Payments for Land of 03.07.92). The approach is similar to that of Russia Federation: both leased from the state and privately owned land parcels are identically taxable. Tax revenue is generally aimed at land improvement and land monitoring purposes. Land is assessed based on average unit values (UAH/m²) adjusted for land quality, location and zoning of a specific parcel. The tax rate is set at 0.1% of the assessed value for agricultural lands and at 0.03% for orchards. For un-assessed parcels flat area-based tax applies. It varies from 0.015 to 0.21 UAH/m² depending on city/village size. The largest cities are subject to an upwards adjustment (1.2 – 3.0 times) and resort areas are subject to an additional upwards adjustment (1.5 – 2.5 times). Over the 1992-2006 this flat tax has increased 24 times (9 amendments to the law). Rate setting is performed by the municipalities and can vary within a 200% band from the abovementioned average rates. The land tax is further differentiated by land use type (i.e. adjusted upwards for residential uses, etc.). There is a range of exempt individuals and land uses. The land tax is levied by the local tax

authorities: legal entities calculate and submit the payment themselves, and individuals are billed by the tax inspection.⁴⁹

Most of the market value assessment is done by the real estate agencies or their associations. These companies track transaction data for residential and commercial properties in larger cities and construct weekly or monthly average real estate price indicators (UAH/m²).⁵⁰ These prices are usually organized by district and serve as guidance for individual investors as well as construction companies. These price data play no role in the land tax. Market transaction data are not available from official sources, nor are they generally publicized.

In sum, Ukraine levies a land tax that is basically driven by area of the parcel. Values are not based on current market value. Real property transactions are tracked by private firms but the information collected is not generally available.

Property Tax Assessment Options

Market data limitations do not preclude application of a local property tax that can still satisfy much of what would be expected of a good revenue source, so long as there is a system of long-term property holding, property transfer rights, and a good record of ownership claims. All the countries examined here meet those standards to a considerable degree.

Options do exist for countries adopting or seeking to change their system of property taxation. A unit tax on land or a cadastral (formula) assessment for land or land and structures can yield significant revenue for local government and a unit land tax would have exactly the same non-distorting impact on development decisions as a market value based tax limited to land. Such a tax would not involve the assessor in judgments about value of the parcel, thus having an advantage of objectivity, administrative simplicity, and transparency. It would also not penalize aggressive development of the property in any way.

A tax on market value has a clear advantage in terms of equity, ability to capture value associated with neighborhood amenities provided by social action, and potential for growth with the economy. Equity among property holders and prospects for growth of the tax base are particularly significant for local government finances. However, it is important to recognize that a productive property or land tax need not be based only on current market value and it is wrong to reject such taxes as a local revenue base automatically because of limited market data. Indeed, there even are some advantages from an area-based tax, even as the overall strength of market valuation is recognized.

⁴⁹ Enid Slack, "Property Tax Reform and Legislative Analysis in Ukraine." Unpublished report, June 1998., and Richard M. Bird, "Property Tax in Ukraine," in Richard M. Bird and Enid Slack, *International Handbook of Land and Property Taxation* (Northampton, Mass.: Edward Elgar, 2004).

⁵⁰ A source for such data: <http://www.domik.net/mod/main/indexes/?pg=value>

It is important to recognize, as Bird and Slack observe, that current market value assessment involves “inherent arbitrariness” in ways not characteristic of other taxes.⁵¹ The tax applies to a stock value, not a flow, and, for most properties, there is no recent transaction upon which to base the valuation. A transfer price gives strong evidence of the relative value of particular properties – but there is no such recent price for most properties. That makes the valuation inevitably arguable and, at best, the product of an informed but subjective opinion, even in the presence of the most active property markets. In a system of cadastral valuation, the critical question is the extent to which market transactions inform the valuation, whether appraisal approaches employ the techniques of market valuation, and whether property holders might use information from market transactions in contesting the administrative cadastral valuation.

The conditions of transition economies do not match those of active Western property markets and it is not appropriate to hold the property taxes developing in the Baltic States, Russia, and Ukraine to those expectations. Efforts at valuation will, at best, be “market-informed” valuations; it is not realistic to expect these valuations to meet the standards present where there are fully-developed private real estate markets. They will be inherently arbitrary valuations – but so are many of the valuations in the United States, Canada, and other countries with a long history of property taxation. A more appropriate consideration is whether the valuation model follows international standards for market-oriented mass assessment in which reasonable factors are expected to influence value and a standard valuation system, devised on that basis, is uniformly applied. Later tests involve transparency of assessments and information needed for the public to evaluate those evaluations. As Paugam outlines, valuation principles “should remain simple, avoid excessively detailed and heavy data requirements, and allow simple mass-valuation procedures.”⁵² These are reasonable standards for property taxation in the environment of all transition and developing countries.

Several points about cadastral assessment and current market value assessment are important. First, cadastral assessment can be an intermediate step toward market value assessment. Integration of market transaction data into the assessment formulas can become an important transition device. A “market-informed” valuation standard can have many of the advantages of a current market value assessment without all the data needs of full current market value assessment. One critical test is the extent to which property characteristics used in the valuation determine the taxable value of the property or whether they are used to estimate a value which the property holder might contest on the basis of transaction values. The former is pure administrative valuation; the latter is valuation informed by market value.

Second, transaction data has to be used with caution when transactions are few in number and when government is involved on either side of the transaction. These data are likely

⁵¹ Richard M. Bird and Enid Slack, “Taxing Land and Property in Emerging Economies: Raising Revenue...and More?” Conference on Land Policies for Urban Development, Lincoln Institute for Land Policy, Cambridge, Massachusetts, June 5-6, 2006: p. 14.

⁵² Anne Paugam, “Ad Valorem Property Taxation and Transition Economies,” World Bank ECSIN Working Paper No. 9, June 28, 1999: p. vi.

to be misleading indicators of true market value. Thin or non-existent real estate markets will eventually change so long as the principle of private ownership of property rights is accepted. Data for estimating current market value will improve.

Third, it is important to have objective, independent, clear, and transparent appeal standards and procedures. When transaction data are scarce or when the assessment standard is not current market value, there is no simple test of assessment accuracy for a property owner. In these instances, it is critical that there is a distribution of whatever the valuation standards are, often including publication of valuation maps for easy public inspection.

Finally, transition to current market value assessment requires local input into the development of cadastral valuation coefficients. Otherwise, patterns of valuation are likely to bear unreliable relationship to actual values. A standard that is reasonable in some regions may make no sense in others.

As property tax rates begin to generate reasonable revenue (and higher individual tax burdens), it will be critical for taxpayers to come to see the property tax as reasonably fair. This can be difficult if the tax burden is to be related to market values of properties (it is less complicated if the tax is area-based). Acceptance will require that taxpayers understand the concept driving valuations, that taxpayers see and understand the tax values for their properties and for their neighbors, and, if the standard is to be linked to current market values, that taxpayers are able to gain access to property transaction values. The countries studied here have made progress in some aspects of land and property taxation but, like many states of the United States, they still have a considerable way to go before their taxes can be judged fully acceptable according to ordinary evaluation standards.

The systems in this group of countries generally share three weaknesses with regard to having effective market-based property taxes: public access to assessment and transaction data for individual real property parcels, an easily-accessible appeal process for parcel holders who believe their assessments are excessive, and a system for evaluation of assessment quality. Improvements in these areas would make an important contribution to the quality of these taxes and would be important prerequisites to making their property taxes bear a greater share of the cost of government.

Conclusion

A property tax can provide a useful element in a local revenue portfolio. It can provide a degree of fiscal autonomy that allows that government to better respond to citizenry demands and allows a degree of governmental responsibility not available when revenues are centrally provided. The tax can have considerable local control while still involving a high degree of central involvement to take advantage of technical expertise that may be only available with the larger administrative unit. There are advantages to having current market value as the property tax base, but countries in transition may well have real

property markets that are not well developed and may not have instrumentalities in place for collection of reliable and complete information on market transactions. However, as the previous review of a group of transition states demonstrates, a number of these countries have made considerable progress in terms of gathering market information, using it in the valuation process, and in making it available to the public. In other instances, notably the Russian Federation, a market-informed cadastral valuation system can serve as a bridge toward a market value assessment standard. Such a system has the prospect for a useful tax structure when the prospects for a full current market value assessment standard are limited.