European Property Taxation: Changing Times

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The study of property taxation in Europe offers special challenges because each country has a different definition of land and property, and a different approach to local property taxation. The term property often includes both land and buildings, but may also include plants and machinery as well as certain possessions, such as automobiles. In Denmark, for example, separate taxes may be levied on the land and property elements of a single holding.

Among the 41 counties in our study, we identified 61 different forms of local taxation. Most are based on annual value, usually assessed on a capital or rental basis, and are payable annually. While most countries tax the sale of property at the state level, the Czech Republic, Italy, Portugal, Slovakia and Spain levy such taxes locally. Yet, amid such diversity, a basic central pattern emerges. Each county, except Malta, operates some form of annual property tax on the use or occupation of land and/or property, usually levied at the local level, and the revenues contribute to the provision of local services.

Tax Reform and the European Union

Over the last 10 years France, Denmark, Germany, the Netherlands, Belgium, the United Kingdom and the Republic of Ireland have either completed or are in the process of completing substantial reforms to their taxation systems. Other countries have undertaken more minor reforms. Even some emerging democracies are reviewing and reforming their relatively new taxation systems in light of changes elsewhere. No individual tax exists in isolation, and all are affected by larger fiscal, economic and political developments. The reform of one tax will often have consequential effects on others, and property taxation in all its forms is no exception.

One impetus to tax reform in Europe is the European Union (EU). Fifteen of the countries in our study are members, and many other countries are in various stages of being considered for membership. Many countries are taking this opportunity to reform and improve their tax administration systems and to make their taxation rates competitive with those of other member states. Tax harmonization is not one of the declared aims of the EU, although it may be a natural consequence of many EU polices.

The main incentive for tax reform in Europe is coming from the states themselves. In one of the first signs of the problems caused by traditional national taxation systems, the Ministry of Finance in the Netherlands noted in the early 1990s that not only were businesses locating in the most tax-favorable areas but they also were buying goods and services from other countries where tax rates and other costs were lower. The close proximity of the Netherlands to Germany, France, Belgium and Luxembourg, as well as the good transport links between the countries, exacerbated the situation.

The introduction of the Single European Market has opened internal markets to foreign competition with the removal of trade barriers and the abolition of customs duties between member states. Business competitiveness now depends primarily on efficiency and the amount of taxation imposed by the national government, rather than on state aid and trade policies.

Approaches to Local Taxation

The Taxpayer

The majority of property taxes are payable by the owner. Of the 51 taxes we studied, 29 identified the owner as the taxpayer and 12 are paid by the occupier; the remaining 10 are sales-based taxes. The occupier figure was distorted because the United Kingdom accounted for 50 percent of this figure, due to differences in the implementation of its local taxes. In the Netherlands both parties can be taxed at different amounts. For sales-related taxes the results were less clear, with the taxpayer being the seller in half the cases and the purchaser in the other half.

Sources of Valuation Information

Many countries have some form of computerized cadastral system to record property-related information, and as part of the assessment process different levels of government usually exchange information. The nature and implementation of such systems vary considerably, from a series of different registers administered at various levels of government to a single register administered nationally.

The rights of the taxpayer to centrally held information also differ among countries. Some provide no rights to any information, while others provide notice whenever a new valuation or alteration is made. In some cases, valuation and comparable evidence may be made available at the request of the taxpayer.

Bases of Valuation

Three alternative approaches for the valuation bases are used most frequently. The Capital Value Approach is normally based on the open market value of the property at a specified baseline date, which may be a current date such as the start of the tax year. Sweden designates a date two years before the tax year. This approach has the advantage of giving valuation authorities more time to consider all the evidence available before arriving at their final valuations. The open market value is usually defined on the basis of a property's best and/or highest value.

The Rental Value Approach is based on the open market rental value at a specified date. England, Wales, Scotland and the Republic of Ireland specify a baseline date some time before the new values come into effect, as in Sweden. The open market rental value may be restricted by assumptions as to changes of use and alterations. The rationale is that the tax is levied on the occupier and the amount of tax is based on the current use of the property, not its potential value.

Properties not normally bought and sold in the market require alternative approaches to valuation. For example, the use of a revenue (or accounts) approach has been adopted in England and Wales for many types of leisure-related property, and its use is expected to increase. The cost approach, related to the cost of construction, also is widely accepted in England and Wales and in other European countries.

The Overall or Unit Approach relates to a property's size. The tax is levied at a prescribed rate per square meters or per unit, which may vary depending on the predominant use of the property. These rates may be loosely based on rental or capital values,

See **European Taxation** *page 6*

TABLE 1
Frequency of Revaluation of the Tax Base (Selected European Countries)

Country	Type of Tax	Date of Last Review and/or Frequency of Review
Albania	Property Tax	No revaluations since 1994
Austria	Real Estate Tax	Mid-1980s, with some updating of the valuation base through indexation
Bulgaria	Property Tax	No information available
Czech Republic	Land Tax Property Tax	Tax imposed on the sale of property Tax base changes only when a property is altered or use is changed
Denmark	County Real EstateTax Municipal Real Estate Tax *Ejendoms-vcerdiskat*	1997–every 4 years 1997–every 4 years Annual review at 1st January
Estonia	Land Tax	No revaluations since 1996
France	Property Tax Property & Land Tax Business Tax	1980—subsequent revaluation postponed; annual indexation (same for all three taxes)
Republic of Ireland	Residential Property Tax Rates	No longer applies Rolling program, between 5–10 years
Italy	Communal Real Estate Tax Tax on the gains from immovable property	No revaluation since 1993 Tax based on sale price
Macedonia	Property Tax	Annual—by change of tax rate only
Moldova	Commercial Enterprise Tax Personal Property Tax Land Tax	Annual—by change of tax rate only Annual—by change of tax rate only Tax rate fixed for 3 years, then reviewed
Netherlands	Onroerend-Goedbelasting (OGB)	1999—revaluations every 4 years
Poland	Urban Property Tax	Annual—by change of tax rate only
Portugal	Immovable Property Tax Property Tax	1988—annual indexation Imposed only on the sale of property
Romania	Building Tax Land Tax	Annual—accounts or insurance valuation Annual—by change of tax rate only
Slovakia	Land Tax	Imposed only on the sale of property
Spain	Urban Land Appreciation Tax Local Property Tax Local Business Tax (IAE)	Imposed only on the sale of property 1994—annual indexation Based on profit and rental value
Sweden	Real Estate Tax	1996; revaluations carried out on a rolling program basis every 6 years
Switzerland	Municipal Business Tax Real Property Transfer Tax	Annual—based on rent and profit Reflects market value on sale
UK—England	Council Tax Non-domestic Rating	No revaluations since 1993 2000—every 5 years
UK—Wales	Council Tax Non-domestic Rating	No revaluations since 1993 2000—every 5 years
UK—Scotland	Council Tax Non-domestic Rating	No revaluations since 1993 2000—every 5 years
UK—N. Ireland	Rates	No revaluations since 1997

European Taxation

continued from page 5

but are more often an arbitrary rate fixed by the appropriate taxation authority. In 1997 the Netherlands moved away from such a system in favor of a market-related capital value approach. Many new democracies have adopted the unit approach due to a lack of property information, a limited and restricted property market, and insufficient resources to enable the development of alternative systems. It is anticipated that many of these countries will move to a value-based system when resources and circumstances permit.

A number of other approaches are used under special circumstances. One is the capital value banding approach adopted for the valuation of residential property for the Council Tax in England, Wales and Scotland. In this approach property is ascribed to various value bands rather than valuing each individual property precisely. Another example is the local business tax, which includes the value of the property plus in the case of France a percentage of salaries and in the case of Spain and Switzerland the business profits.

Revaluation of the Tax Base

One of the key factors in examining European property tax systems is whether the valuations on which the tax is charged are up-to-date. Our research identified a very mixed picture: some countries have not revalued their tax bases for many years and others undertake revaluations regularly, every four or five years (see Table 1). Many countries have either no provision for regular revaluations or have postponed revaluations so often that their tax base bears little resemblance to current market values.

Indexation

Many countries have attempted to overcome the problems associated with infrequent revaluations by some form of indexation. Those countries performing annual revaluations may implement them through actual annual revaluations, indexation of an earlier revaluation or self-assessment declarations by the taxpayer. While annual indexation between regular revaluations every few years may ensure a relatively accurate tax base, its use becomes more questionable when the base has not been updated for 10 or 20 years. The position is made far worse in countries where the property market is changing rapidly, especially in major cities and towns. Any adopted index needs to be closely related to the property market in that location and to the specific property type. In most cases, however, the index is a single figure applied across the entire country and for all types of property.

Exemptions and Reliefs

Exemptions can be considered from two viewpoints: the nature of the property or the nature of the taxpayer. In addition, some countries have introduced arrangements that place a ceiling on the amount of tax payable. Some common features relating to the types of properties for which some form of relief may be granted are:

- land owned by the state and used for the provision of public services, such as schools, hospitals, cemeteries etc., if usually exempt or excluded from the tax legislation;
- land and property used for religious purposes;
- historic land and buildings;
- agricultural land.

Relief to taxpayers takes many forms and can include:

- relief to persons of retirement age;
- relief to disabled persons;
- relief of a percentage of the tax for certain owner-occupiers or remittance of an initial amount of the tax.

Calculating the Amount of Tax

The simplest systems for calculating tax payments adopt a given tax per square meter occupied. Once the area of the property is agreed, it is a relatively simple matter to apply a given tax rate to that area. In some countries, the assessed value must be multiplied by an index or co-efficient and then by a locally determined rate that can vary depending on the size of the authority levying the charge. In France, the situation is even worse for the business tax, where a series of limitations have to be calculated to ascertain whether a ceiling or cap applies to the taxable amount.

Appeal Systems

Most countries have a system by which the taxpayer may challenge the tax assessment or valuation, although that action generally does not postpone the payment of the tax. In some cases the first step is an informal approach to the authority, which may be able to resolve the dispute without the need for more formal action. Where a formal approach is adopted, the appeal may be dealt with as part of the general tax appeal process through the normal tax tribunals and courts, or it may be handled outside the normal tax system, often in courts and tribunals established for the purpose.

Tax Collection and Payment

In many countries taxes are collected by the national tax authority, often as part of the income tax process. This method has the advantage of being linked with national exemptions and benefits; the resulting tax is usually payable over the whole tax year. Under the second common method, the tax is paid directly to the relevant taxing authority, sometimes in installments.

Conclusion

European countries are constantly reviewing their tax systems and adopting the best features of other systems. This presents special challenges to a survey such as ours, but also enhances its potential impact by allowing comparative analysis to influence new legislation. One very important conclusion at this early stage of the research project is the importance of keeping the tax base up-to-date. This not only simplifies the entire valuation and collection process but also ensures a tax base that is more acceptable and understandable to taxpayers. During this year we propose to widen our research and complete data collection on other European countries. In addition, we will attempt to compare the amounts of revenue raised by each type of taxation and analyze them within the context of each country's local government and finance system.

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RELATED PUBLICATION

Peter K. Brown and Moira Hepworth. 2000. "A Study of European Land Tax Systems." Lincoln Institute Working Paper. 150 pages, $18, WP00PB1. Also available on the Institute website (www.lincolninst.edu).