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# Ad Valorem Property Taxation in the 2004 Accession States in Central and Eastern Europe

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## 2004 Accession States in Central and Eastern Europe

- Czech Republic;
  - Estonia;
  - Hungary;
  - Latvia;
  - Lithuania;
  - Poland;
  - Slovak Republic; and
  - Slovenia.
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## Contents

- Decentralisation and privatisation;
- Emergence of local services;
- Principles of local taxation;
- Nature of property tax systems;
- Shift from area to *ad valorem* tax bases;
- Drivers and barriers to *ad valorem* tax base;
- Conclusions.

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## Decentralisation and privatisation

- Decentralisation of functions and services;
- Improve delivery of local services;
- Privatisation and land restitution;
- Land registers, cadastres and databases;
  - Integrated systems (in Baltic States).

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## Emergence of local services

- Autonomy at local level;
- Services and funding should be linked;
- Reinforced by democratic process;
- Property tax:
  - Integral to process;
  - Varied reliance;
  - Different forms of property taxes;
  - Developing property market;
  - Ambition for *ad valorem* tax base.

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## Principles of local taxation

- Appropriate revenue source for local authorities;
- But:
  - Division of functions between central and local governments;
  - Level of revenue raised;
  - Area-based taxes initially;
  - Developing sophistication;
  - Use of technology.

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## Property tax systems – Land Taxes

- Levied by all states;
- Tax base and tax rates vary;
- Some introducing a market value base for land;
- Levied on owner:
  - To encourage productive use of land;
  - Less of a burden on residents;
  - Revenue raising;
  - Easy and cheap to administer; and
  - “politically less offensive”.

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## Land Tax

- Problems with remote owners;
- Reduced transparency;
- Uncertainty surrounding yields;
- High administrative costs;
- Limited tax base;
- Limited horizontal and vertical equity.

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## Buildings Tax

- All residential, commercial and industrial;
- Useable floor area;
- Exemptions include:
  - land limited by environmental protection measures;
  - Low income residents (e.g. Slovenia);
- Tax rates vary with use.

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## Administration

- Various;
  - Role of valuation;
  - Linkage with cadastre;
  - Split between central and local government;

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## Shift from area to *ad valorem* tax bases

- Emerging property markets;
- Alternative methods of assessing “value”:
  - Sophisticated area-based models;
  - Mass Appraisal techniques;
  - Simulation models;
  - Increased reliance on sales data.

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## Drivers and barriers to *ad valorem* tax base

- Maximising fairness and comprehension;
- Response to economic changes;
- Increased yield;
- Political will;
- Insufficient suitable market data;
- Development of non-market-based methods of valuation;
- Value-based taxes lack universal political support.

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## Conclusions

- Accuracy of valuations will increase as property markets become more active;
- Limited fiscal autonomy;
- Disparity between urban and rural yields;
- Danger of under use of property tax;
- Huge potential when integrated;
- Wider social benefits anticipated.

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Thank you very much.

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