

Land (Real Estate) Mass Valuation Systems for Taxation Purposes in Europe

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Preface

As part of the work program for 2000 – 2001 the United Nations Economic Commission for Europe Working Party on Land Administration has decided to make the study on land (real estate) mass valuation systems for taxation purposes that exist in the UN ECE region.

The objective of the study is to achieve a better understanding of the present situation with mass valuation of land (real estate) for taxation purposes and to facilitate professional contacts between officials who are responsible for mass valuation of land in their countries. The findings of the research are expected to provide government and local administrators as well as representatives of real estate valuation community with summarized data on what legal and practical approaches are used in the UN ECE region to perform mass valuation of real estate for taxation purposes. The study also attempts to find out for what other purposes the mass valuation is used for.

This study is based on a questionnaire, which seek answers to thirty-five questions classified under three main headings:

- (a) Organizational and legal aspects of mass real estate valuation system for tax purposes;
- (b) Methodical aspects of real estate valuation system;
- (c) Real estate tax system.

The Study Report is sponsored, prepared and published by the Federal Land Cadastre Service of Russia. It includes all replies received from 29 countries of the UN ECE Region. The respondents from these countries were kept informed on the progress made in the preparation of this Report and every effort was made to verify with them the accuracy of information presented.

Land (real estate) taxation issues are extremely country-specific. In the course of the study it became evident that respondents at times demonstrated different angles of understanding of issues that were brought up by the questionnaire. To a certain extend this had complicated summarizing and analysis of replies. For this reason this publication leaves readers with the opportunity to make their own conclusions about mass valuation systems for taxation purposes that currently exist in Europe. Annex 1 of the paper lists original replies from countries as respondents have provided them.

I am grateful to the UN ECE Working Party on Land Administration for supporting the idea of this study and to Olga Nesterova, Oleg Skufinskiy and Svetlana Bondarchuk of the Federal Land Cadastre Service of Russia who together with the helpful and friendly advice from the Bureau members of the Working Party on Land Administration assisted me in the development of the study questionnaire. I am also grateful to Natalia Ruskova of the Federal Land Cadastre Service of Russia and to Sergey Shibalov of Federal Cadastre Center “Zemlya” for their help in preparing the study results for publication. I particularly appreciate John Manthorpe a former Chief Land Registrar of the HM Land Registry in London who’s example guided me through this work. This publication became possible only due to the input that was given from the people in the UN ECE member countries who have donated their time and effort to provide their informative replies to the questionnaire.

I hope that this publication would become the first step to a further deeper study of land (real estate) taxation systems and their role in economy.

If you do have any comments or enquiries please contact me at the address below:

Alexey L. Overchuk
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Federal Land Cadastre Service of Russia

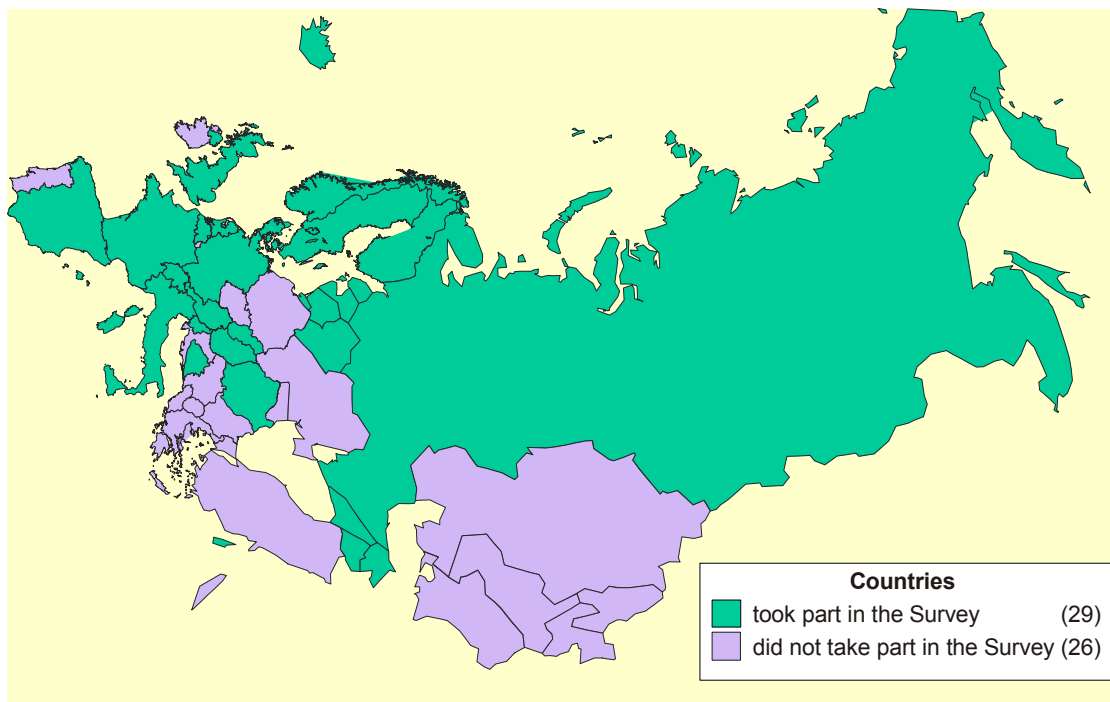
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Summary of Responses

In November 2000 the Study Questionnaire on Land (real estate) mass valuation system for taxation purposes was circulated among all relevant authorities in the countries of the UN ECE Region. Copies of the Questionnaire and the attached letter can be found in Annex 2.



The following UN ECE member countries have send in their replies to the Questionnaire on Land (real estate) mass valuation system for taxation purposes:

- | | | |
|---------------------------|-----------------|------------------------|
| 1. Armenia | 11. France | 21. Norway |
| 2. Austria | 12. Georgia | 22. Romania |
| 3. Azerbaijan | 13. Germany | 23. Russian Federation |
| 4. Belarus | 14. Hungary | 24. Slovak Republic |
| 5. Belgium | 15. Iceland | 25. Slovenia |
| 6. Bosnia and Herzegovina | 16. Italy | 26. Spain |
| 7. Cyprus | 17. Latvia | 27. Sweden |
| 8. Denmark | 18. Lithuania | 28. Switzerland |
| 9. Estonia | 19. Malta | 29. United Kingdom |
| 10. Finland | 20. Netherlands | |

It is hoped that information from the following UN ECE member countries may be available to be included in the next edition of the Report:

- | | | |
|--|-------------------------|------------------------------|
| 1. Albania | 11. Kazakhstan | 21. Turkey |
| 2. Andorra | 12. Kyrgyzstan | 22. Turkmenistan |
| 3. Bulgaria | 13. Liechtenstein | 23. Ukraine |
| 4. Canada | 14. Luxembourg | 24. United States of America |
| 5. Croatia | 15. Monaco | 25. Uzbekistan |
| 6. Czech Republic | 16. Poland | 26. Yugoslavia |
| 7. Former Yugoslav Republic of Macedonia | 17. Portugal | |
| 8. Greece | 18. Republic of Moldova | |
| 9. Ireland | 19. San Marino | |
| 10. Israel | 20. Tajikistan | |

Section A. Organizational and Legal Aspects of the Mass Land (Real Estate) Valuation System for Tax Purposes

Land (real estate) systems of mass valuation operate throughout the world either as a part of land administration systems or as a part of fiscal systems that are using land cadastre data for taxation and other purposes.

The need for mass valuation has evolved when governments started to apply property tax that has required a large number of properties to be valued at the same time while maintaining low valuation costs. It is generally assumed that all land (real estate) owners should pay fair taxes.

Mass valuation of real estate is defined as a systematic valuation of groups of real estate units performed on a certain date with the help of standard procedures and statistical analysis while individual valuation is focused on determining the value of individual property units. Mass valuation is performed in public interests.

- The majority of responding countries (72%) have reported to have systems of mass valuation of land for taxation purposes.
- 14% have reported to start to develop systems of mass valuation for taxation purposes. All these countries represent transitional economies.
- 14% do not have systems of mass valuation of land for taxation purposes. These countries have a net wealth tax based on the value of assets. They also have other types of taxes that are levied on real estate¹.

It is mostly common that land administration authorities are responsible for mass valuation of land (real estate) and maintenance of appropriate databases. In many countries that responsibility is also delegated to taxation or finance authorities. In some countries local authorities play leading role in valuation of real estate. Most responses also show land administration authorities playing a leading role in development and implementation of mass valuation techniques.

The same agencies are usually also responsible for development and implementation of mass valuation techniques and methodologies. Mass valuation is performed by the public as well as by the private sector.

Mass valuation of land for taxation purposes is a relatively new phenomenon. It has began to develop at the beginning of the XX century when governments have started to be interested in applying relatively inexpensive homogeneous, accurate and fair approaches to assessment of all property units for taxation purposes. In later years mass valuation was greatly influenced by rapid development of statistical models and computer technologies.

A significant amount of responding countries indicates that systems of mass valuation for taxation purposes were started to develop after 1990. Most of them can be characterized, as transitional economies where real property valuation has become an issue after the introduction or restoration of private property rights in land.

- 45% started development of mass valuation system of land for taxation purposes after 1990.

Identification of objects of taxation is critical to operation of mass valuation systems. Respondents have indicated different visions of what is regarded in their countries as objects of mass valuation for taxation purposes. These views are closely related to understanding of meanings of terms land and real estate that exist in different nations. While in some countries land is only understood as the surface of Earth in other countries the term land also includes improvements attached to it. The majority of respondents have indicated that objects of mass valuation are land and improvements. There are also respondents that show unimproved land, as been an object of mass valuation while improvements are evaluated separately. The Study has also revealed in some countries different approaches to identifying objects of mass valuation in urban and rural areas.

¹ These countries are Bosnia-Herzegovina, Hungary, Malta and Norway. Although they have not given their responses to Part A and Part B of the Questionnaire they are still included in these two parts as respondents who have declared not have such systems.

Majority of countries regulates mass valuation through national legislations.

Introduction of mass valuation systems for taxation purposes may take years of preparatory work for the system to become operational. That is why in some countries where land valuation is in development stage these activities are performed on the basis of resolutions of the executive government or on methodologies developed with certain government agencies. This concerns countries that are shifting from normative land value figures to value indicators based on commonly accepted market mass valuation principles.

Financing of mass valuation activities is mostly performed by central governments. Some responses indicate that financing of mass valuation is a result of joint efforts of central, regional and local authorities. A few respondents have mentioned that mass valuation is financed by fees or on commercial basis. The responses reflect that local authorities might act as users of cadastral data needed for creation lists of taxpayers. In such cases local authorities pay fees to holders of information for the use of data.

- 55% respond to have central government budget to be the main source of mass valuation activities;
- 17% show that this activity is jointly financed through central and local budgets;
- 7% report to have fees as a financing source.

Regular revaluation cycle of land (real estate) is an important element of mass valuation system. Revaluations are necessary to maintain the level of revenue provided by land (real property) taxes that could otherwise be affected by inflation. Other reasons for revaluations are changing market values of real properties and need to support the principle of fairness within a taxation system. The frequency of revaluation is usually specified in national legislations. It is common for revaluations to occur every four or five years. In recent years some jurisdictions have introduced more frequent revaluations. It has mainly become possible due to development of information technologies. On the other hand there are a number of countries where revaluations have not taken place for many years.

Indexation within regular revaluation cycle is another way to adjust taxable property values. The level of indexation is relative to the development of real estate market and inflation rate. Responses indicate that the number of countries that use indexation is just slightly greater than the number of countries that are not using indexation. Countries with annual revaluation cycles do not have indexation practices.

In majority of cases when changes affecting property values are significant, the data from individual valuations is used to improve the accuracy of mass valuation. The data obtained from real market transactions or through individual valuations of property is entered into general valuation models that yield new assessed land (real property) values.

It is common that the valuation data is open to public. A considerable number of responses have indicated that only persons with recognized interests have access to valuation data basis. Some countries also maintain data basis that are closed to public.

- 41% respond to have valuation data open to public
- 27% show valuation data to be partly open
- 14% do not allow public access to valuation data

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