



LINCOLN INSTITUTE  
OF LAND POLICY

## Current Situation and Practice in Estonia

Mass valuation and the property tax: development and implementation. Financing of local governments. Approaches to the taxation of residents. New developments, trends, and challenges

# Current Situation and Practice in Estonia

- Mass valuation and the property tax:
  - development and implementation
- Financing system and financial sources for local governments
- Approaches to the taxation of residences
- New developments, trends, and challenges
  - COVID-19 impact and possible solutions on property taxation

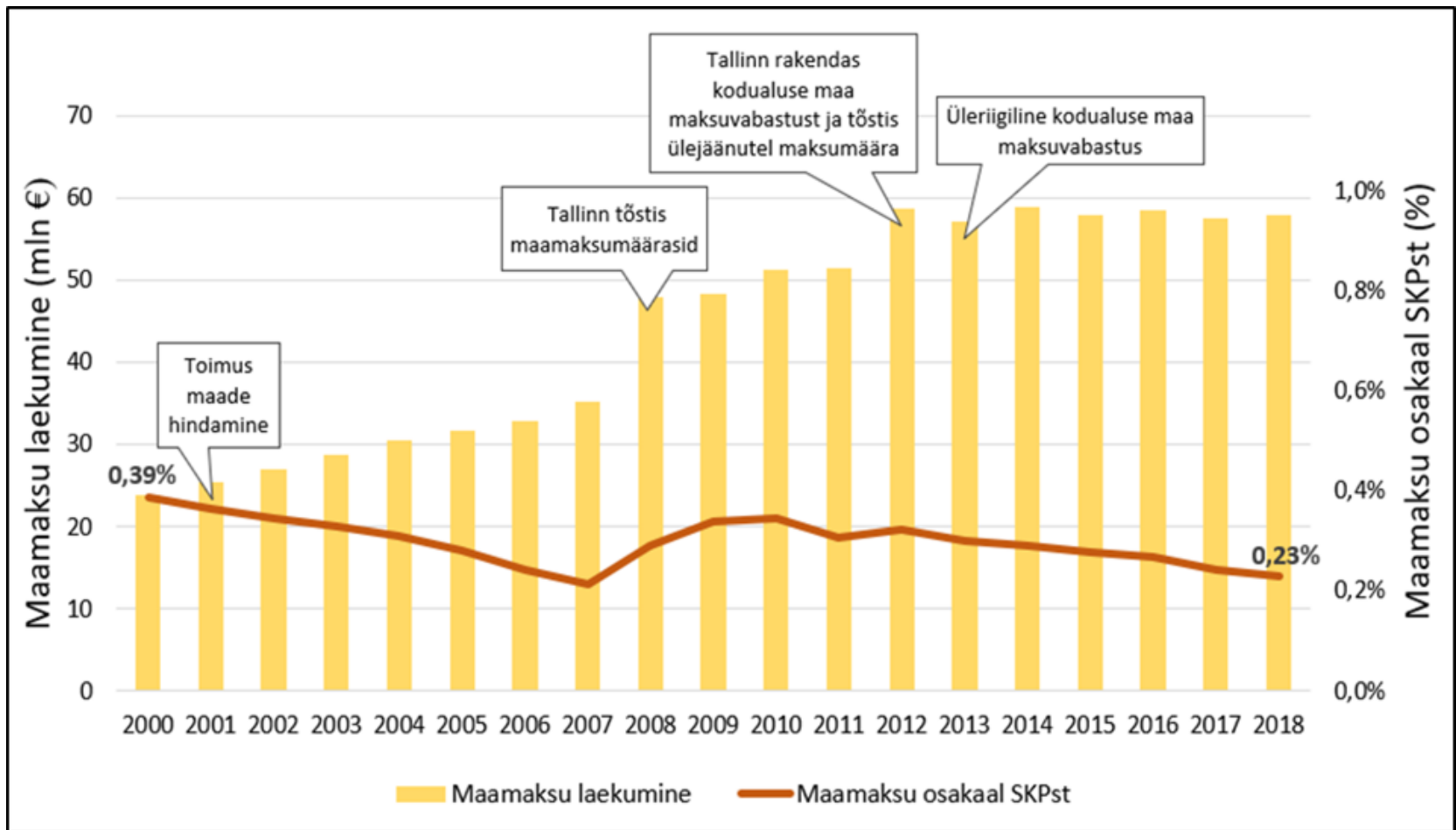
# Current Situation and Practice in Estonia

Mass valuation and the property tax:  
– development and implementation

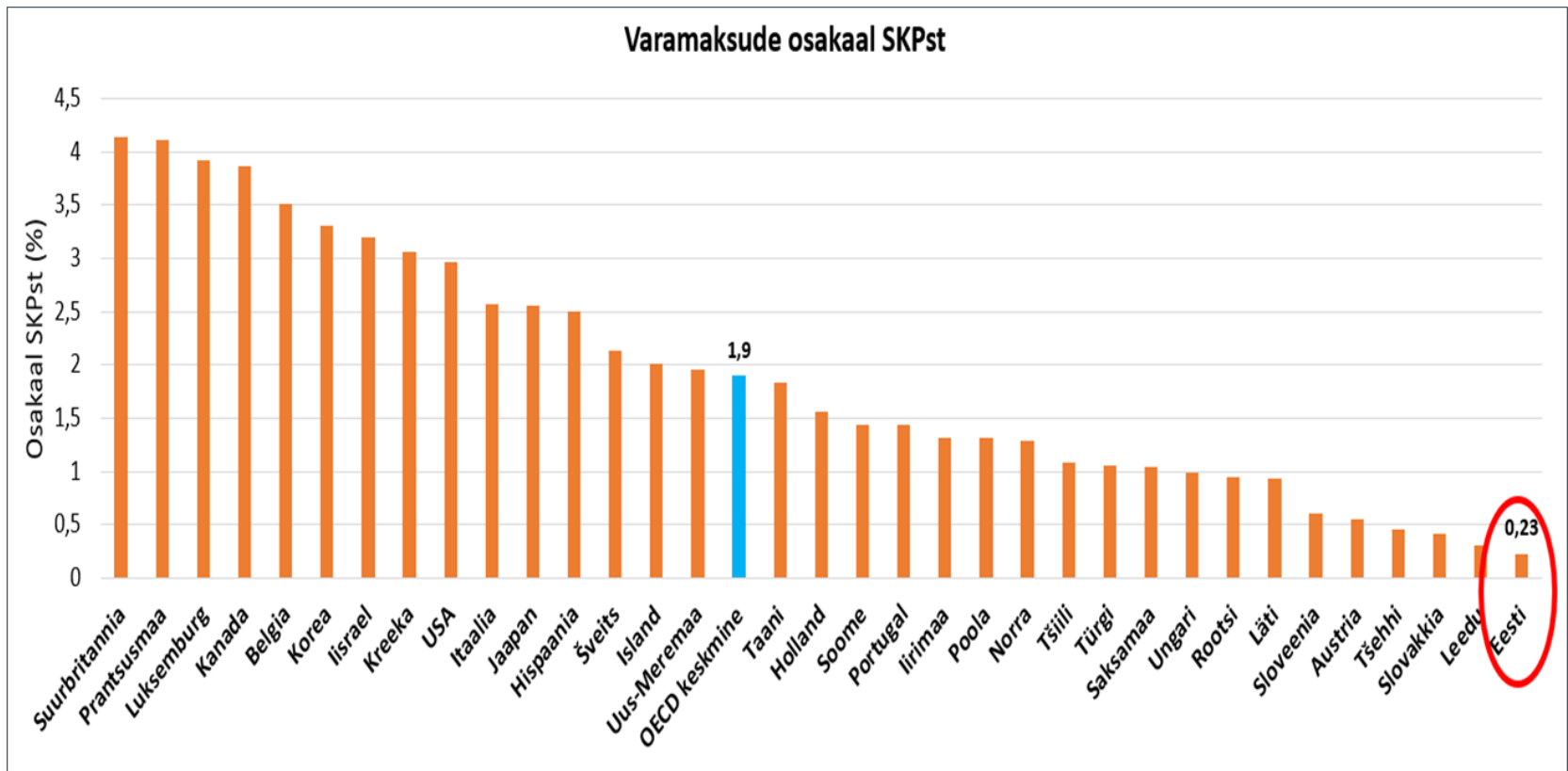
## Current Situation and Practice in Estonia: Main Features of Land Tax in Estonia

- Land Tax Act
- Exemptions are limited
- Levied on the value of land
- Collection: National Tax Board
- Revenues: Municipality
- Tax rates: annually decided by municipalities:
  - 0.1-2.5%
  - 0.1-2.0% agricultural land
- Land Valuation Act
- Valuations (1993; 1996; 2001)
- value zones; location, size, zoning, permitted use & restrictions, quality, etc.
- Valuation: National Land Board
- Sales register

# Share of Property Tax in GDP



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# Current Situation and Practice in Estonia

Financing system and financial sources for local governments

# Financing of Local Governments

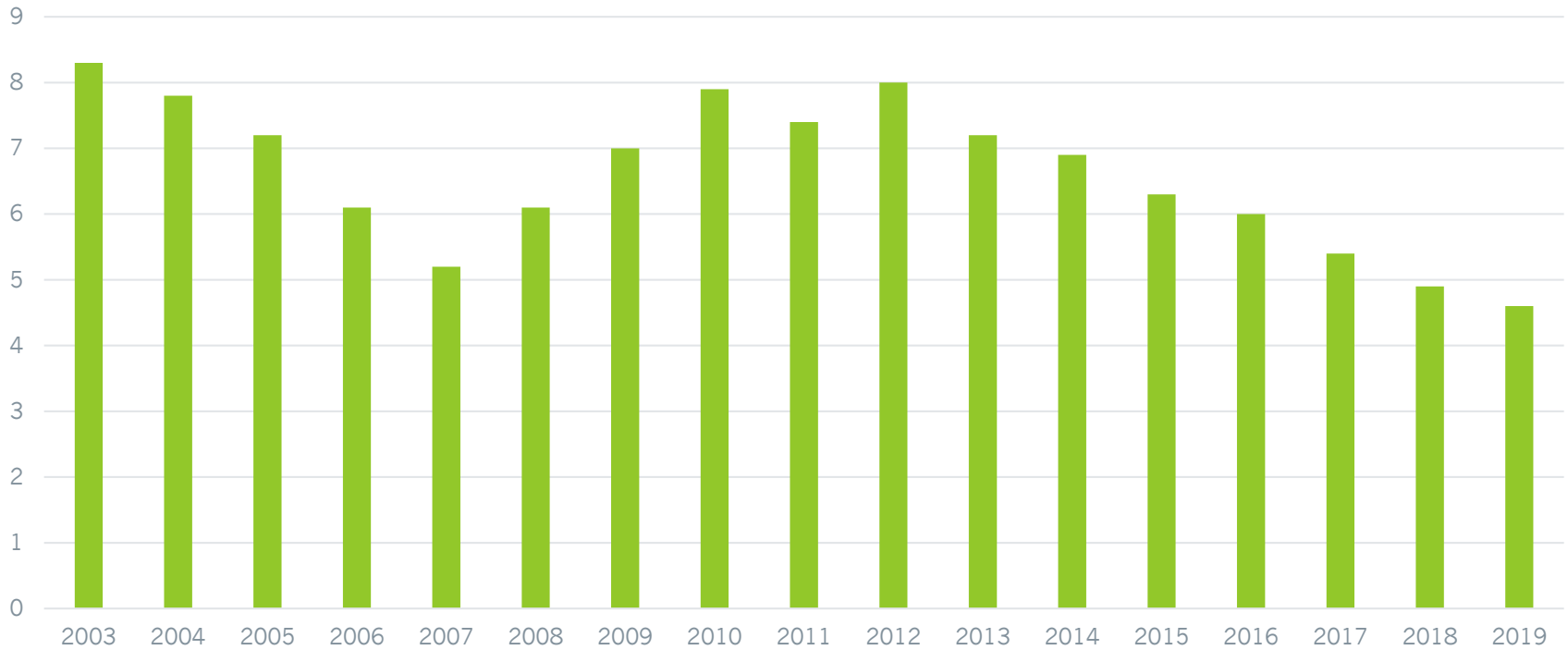
Local Taxes, MEUR





# Financing of Local Governments

Land Tax of all tax revenues %



# Current Situation and Practice in Estonia

Approaches to the taxation of residences

# Approaches to The Taxation of Residents

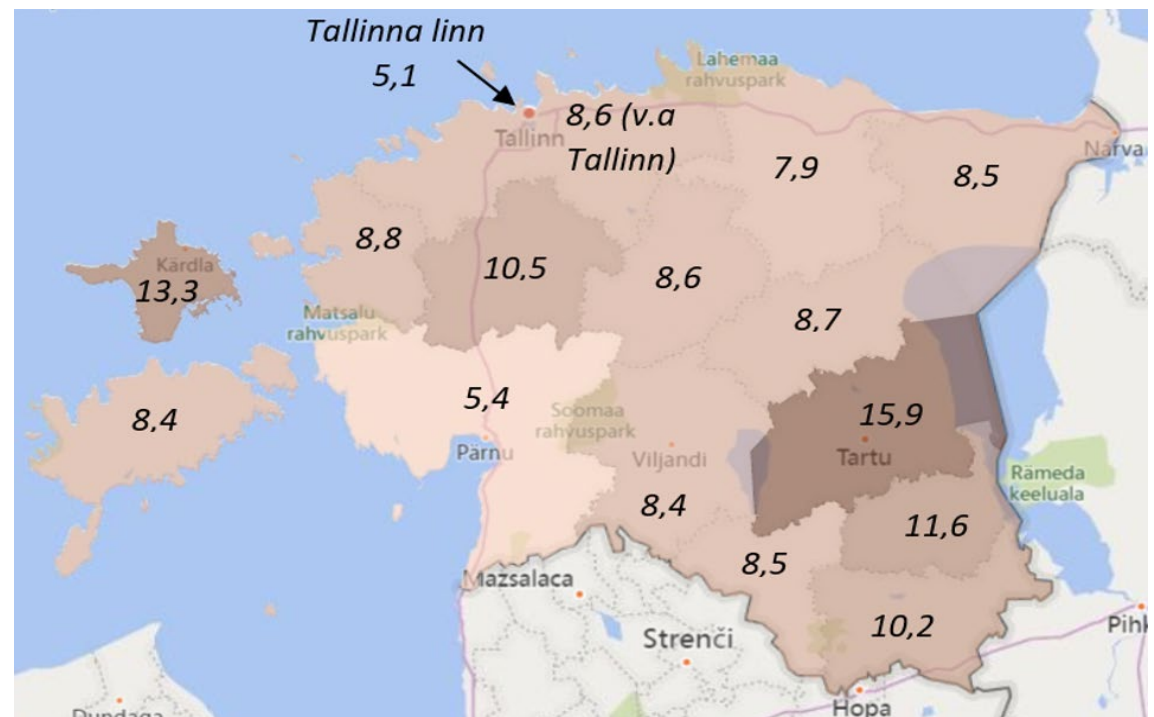
- Taxpayer is exempted on condition:
  - land for residential use
  - one property per taxpayer/owner of land
  - who is permanently registered (living) there
  - area based:
    - up to 1500 sq/m in urban areas
    - up to 2 ha in rural areas

# Mass Valuation & Property Tax

New developments, trends, and challenges

## Increase of Land Value 2001–2018 (Change in Times)

<b>Estonia</b>	<b>7.2</b>
Residential Land	8.8
Agricultural & forestry land	11.6
Industrial & commercial land	5.1



# New Developments, Trends, and Challenges

- Elections 2015
  - 2015/2016
  - National Land Board and Ministry of Environment made a proposal for mass valuation, amendment of the Land Valuation and Land Tax regulation
  - Low political support
    - Main issue: tax burden might increase too much
- Elections 2019
  - Government action program, incl.:
    - Proposals for regular assessment of land, amendments to the Land Valuation Act
    - Amendments to the Land Tax Act arising therefrom
  - April 16, 2020 – substantive decision of the Cabinet of Ministers

# New Developments, Trends, and Challenges

April 16, 2020

Decision of the Cabinet of Ministers

1. Make the regular assessment of the land periodic and carry it out every four years thereafter (2022, 2026, 2030...)
2. Carry out the next regular land assessment in 2022. The year of preparation is 2021
3. Implement the results of the regular assessment in 2024 for taxation.

# New Developments, Trends, and Challenges

- Taxation must be as market-based as possible
- The tax burden on the landowner must not increase sharply
- A gradual increase in the land tax would move towards the indicators of the share of GDP at the beginning of 2000
- Increasing the autonomy of local governments in order to enhance dialogue and improve the quality of services



# Timetable for the Changes

- 2020-2021
  - Amendments to legislation
  - Creation & development of a valuation information system
- 2022
  - Valuation, publication of valuation results, handling of objections
- 2023
  - Tax administration and local governments: preparation for tax administration
  - Changes in charges in user agreements\*
- 2024
  - Tax on a new basis
  - Calculation of user charges on a new basis\*

\* usufruct, lease agreement, right of superficies on national land reserve

# New Developments, Trends, and Challenges

- Current tax rates
  - 0.1-2.5%
  - 0.1-2.0% agricultural land
- New tax rates
  - 0.1 – 1.0%
  - 0.1 – 0.5% Residential, agricultural & forest lands

In order to avoid a jump in land tax due to both land valuation and tax rate increases:

- apply a 10% limit to the annual increase of land tax for the landowner
- If the 10% increase in land tax per year is less than 5 euros, the land tax may be increased by 5 euros per year

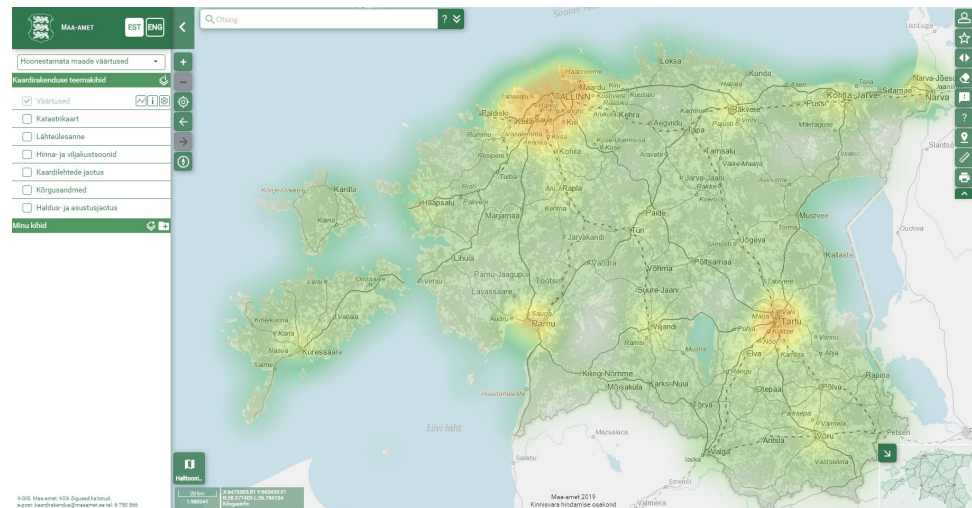
# New Developments, Trends, and Challenges

- The municipality may continue to set different rates for different purposes, but in three groups:
  - Residential land
  - Agricultural land and forest land
  - Other uses, including commercial land, etc.
- Provide for the principle that increases in land tax rates must be introduced at least six months before the start of the new financial year

# Valuation: Land Board

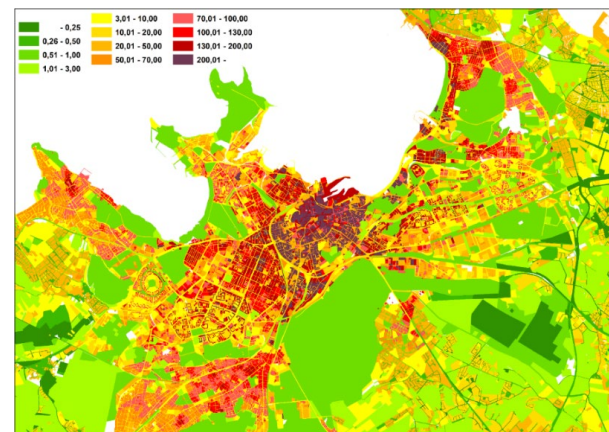
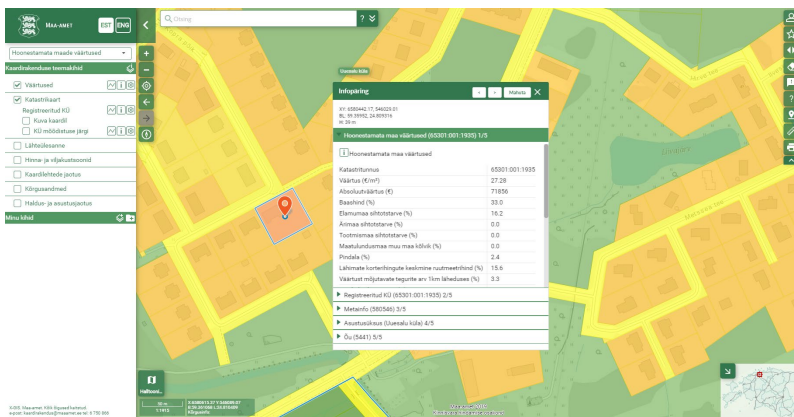
- Mass valuation, based on data in registries, no site inspections, valuation date
- Land Cadastre, GIS, digital maps: location, size, characteristics of parcels
  - detail planning (incl. registry of buildings), restriction areas, soils, forest habitat types
  - Sales registry of all properties
- Regression analysis: hedonic regression models, GWR models

Calculation of the value  
for each registered parcel

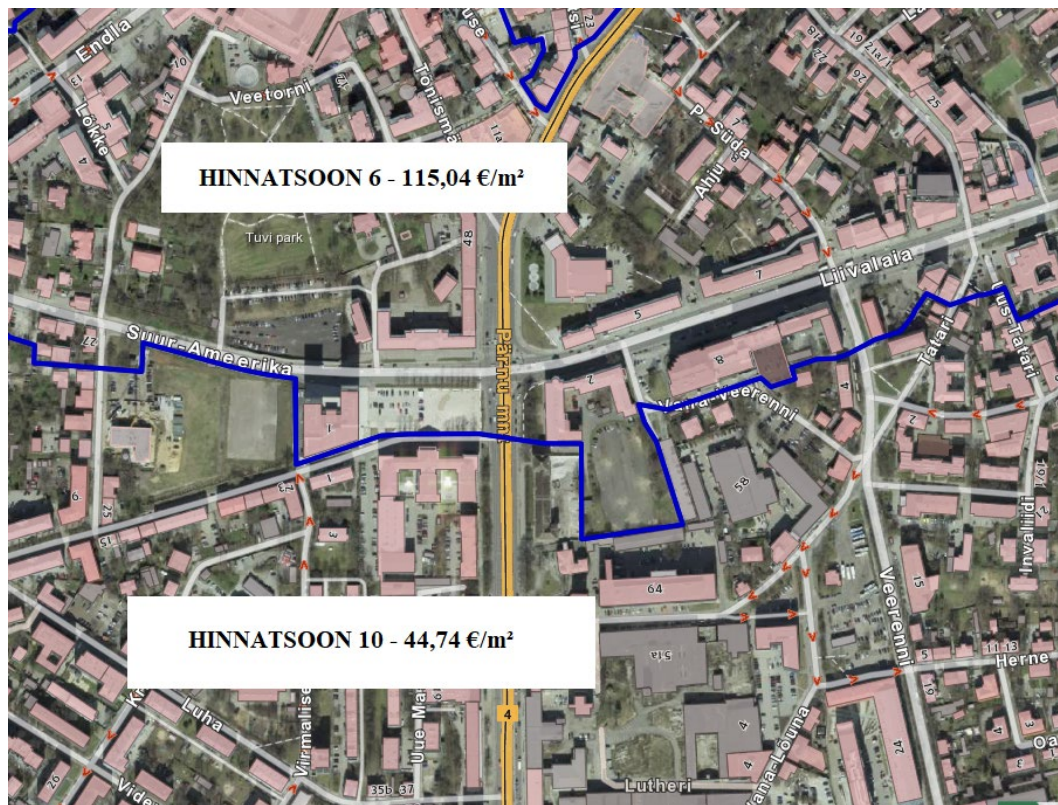


## For each land unit, a value taking into account its characteristics is found on the basis of market transactions

- Land valuation information system
  - Valuation inputs and valuation formulas
  - X-Road services for collecting data necessary for evaluation and disseminating evaluation results (for ex.: to the Tax and Customs Board)
  - Module of procedures where the current and historical value of land is kept, including calculation procedures and justifications for data adjustment
- A map application will be created for the public
  - You can get acquainted with new land values, along with the calculation process
  - Suggestions for corrections and complaints can be submitted



## Example of the Value Zones in Tallinn (2001)



Land value zoning was implemented from 1993-2001

Mass valuation models make it possible to dispense with resource-intensive and controversial zoning and to calculate a value based on transactions that takes into account the specificities of each plot (2022).

## Building Rights on The Basis of a Detailed Plan (Example In Tallinn) and Value

	Maakri 23	Maakri 30
Area of land (sq. meter)	548	1268
Area of building right (sq. meter)	877	12130
Value of building right one sq. meter	500 EUR	400 EUR
Value of land based on building right	438,500 EUR	4,852,000 EUR
Value of land one sq. meter	800.2 EUR	3,826.5 EUR
Average land value sq. meter in zone*	2,310 EUR	2,310 EUR
Value of the land based on average*	1,265,880 EUR	2,929,080 EUR



Building rights are taken into account, because the possibility to build on a larger scale increases the value of the land plot.

# New Developments, Trends, and Challenges

COVID-19 impact & possible solutions on  
property taxation



## COVID-19 Economic Impact

### Government Policy:

- comprehensive financial package to support the economy, reduce unemployment trends
  - including some temporary deferrals of tax liabilities
- no specific policy related to Land Tax

- GDP is declining ~ 7% (2020)
- Property market is slowing down
  - sales & leases
  - there is a lot of pressure on prices

Sales transactions March vs. April 2020

\* the most critical Covid-19 area

Sales transactions	Estonia (total)	Saaremaa*
undeveloped land	- 18.5%	- 72.0%
apartment properties	- 35.1%	- 57.1%

# COVID-19 Impact

## Notarial Remote Certification

- 01.02.2020
  - The possibility of remote certification will be implemented in the near future in a pilot project and will enable notarial acts to be performed in Estonian foreign missions. With remote certification, you can make transactions with shares of a private limited company, power of attorney, submit applications for marriage and divorce, and applications for succession. It is also possible to cancel and assign real rights and a commercial pledge.
- 03.04.2020
  - The possibilities of recently launched notarial remote certification are expanding significantly. In the future, it will also be possible to prove, for example, real estate transactions across the video bridge without leaving your home or office.
- 06.04.2020
  - It is possible to perform all notarial acts outside foreign missions by means of remote certification, except for the confirmation of the conclusion and divorce of a marriage and entering into a marriage and divorce.

# Thank you

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