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# The Property Tax in Latvia: System Structure and Current Challenges

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## **Abstract**

The aim of this paper is to analyze the current state and trends of real property taxation policy in Latvia. Particular importance is given to the general statistical and historical overview of real estate taxation (RET), cadastral valuation, and public opinion. The study covers the time from 1998 until the second quarter of 2018. Only published information from RAIM, CSB, the SLS, public institutions and agencies, mass media, and social networks were used for this study.

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## Abbreviations

CSB	Central Statistical Bureau
Cadastre IS	National Cadastre Information System
Cabinet	Cabinet of Ministers
EC	European Commission
EU	European Union
GDP	Gross Domestic Product
IMF	International Monetary Fund
LIPT	Law on Immovable Property Tax
ME	Ministry of Economics
MF	Ministry of Finance
MJ	Ministry of Justice
LR	Unified Computerized Land Register
RAIM	Regional Development Indicator Module
REMDIS	Real Estate Market Data Information System
RET	Real Estate Tax
PIT	Personal Income Tax
SLS	The State Land Service
VAT	Value Added Tax

# The Property Tax in Latvia: System Structure and Current Challenges

## Preface

Latvia's real property taxation system was established along with the restoration of property rights and the development of a property data recording system: the Land Register (LR) and Cadastre Information System (IS). As in most countries, property tax administration in Latvia is a responsibility of local government. Issues of fair property taxation were recently overridden by public discussions in the context of taxation of dwellings (sole properties of natural persons) in Latvia. The fiscal crisis (2008) caused local governments to seek new sources of revenue through taxing new objects, namely residential buildings and apartments. However, the general public disagreed on this issue. Currently, property tax and valuation related disputes are among the topics that raise questions about the competency and political will of Latvia's government.

## General Facts about Latvia

Latvia (officially named the Republic of Latvia) is one of the three Baltic States located in the Baltic region of Northern Europe, which renewed its independence in 1991 after the collapse of the Soviet Union. Latvia's population is in rapid decline. Since 1991, the Latvian population has dropped by almost 0.7 million people, or 30 percent. Its estimated population in 2018 is 1.93 million, which ranks 147<sup>th</sup> in the world. Latvia has a relatively low density (30 people per sq.km in 2017), ranking 150<sup>th</sup> in the world. The suburbanization trend is most evident in the agglomeration of Riga, where almost one million of the population live and work. The income inequality level in Latvia is high—the Gini coefficient was one of the highest in the EU in 2015. Latvia is currently the third poorest country in the EU. In 2015, the income of 20 percent of the richest population exceed that of 20 percent of the poorest population at a rate of 6.2 times (6.5 times in 2014). General country statistics (2011–2017) are shown in table 1.

**Table 1: General Statistics, Latvia (2011–2017)**

Parameter	2011	2012	2013	2014	2015	2016	2017
Area, thousand sq.km (Latvia CSB)	6,456	6,456	6,456	6,456	6,456	6,456	6,456
Density, people sq.km (Latvia CSB)	32	32	31	31	31	30	30
Population, millions (Resident population) (Latvia CSB)	2.07	2.04	2.03	2.00	1.99	1.97	1.95

Parameter	2011	2012	2013	2014	2015	2016	2017
Population, in cities, millions (Latvia CSB)	1.41	1.38	1.37	1.36	1.35	1.34	1.33
Population countryside area, millions (Latvia CSB)	0.67	0.66	0.66	0.64	0.64	0.63	0.62
Population Capital city Riga, thousands (Latvia CSB)	0.66	0.65	0.64	0.64	0.64	0.64	0.64
Population Riga suburb (Pierīga) thousands (Latvia CSB)	0.37	0.37	0.37	0.37	0.37	0.37	0.36
Population change, %	-1.21	-1.13	-1.12	-1.2	-1.11	-1.06	-1.01
Currency (Latvia CSB)	LVL (Latvia's lats)				EUR		
Total GDP at current prices, thousands EUR (Latvia CSB)	20302761	21885613	22786588	23618163	24320324	24925617	26856599
GDP per capita, EUR, at current prices (Latvia CSB)	9,861	10,762	11,321	11,843	12,300	12,721	13,855
GDP growth, % (Latvia CSB)	6.4	4.0	2.6	1.9	2.8	2.1	4.5
Average wage, EUR/month (Brutto) (Latvia CSB)	660	685	716	765	818	859	926
GINI index (Gini coefficient, %) (Eurostat)	35.1	35.7	35.2	35.5	34.5	34.5	34.5

Parameter	2011	2012	2013	2014	2015	2016	2017
Unemployment rate, % (Latvia CSB)	16.2	15.0	11.9	10.8	9.9	9.6	8.7
Interest rate for long term commercial loans, % (Bank of Latvia)	3.77	2.9	2.8	2.6	3.2	2.7	-
Average size of household (persons) (Latvia CSB)	2.48	2.47	2.43	2.4	2.44	2.41	2.34

Source: Central Statistical Bureau, Eurostat, Bank of Latvia

Latvia is a member of the United Nations (1991), the World Trade Organization (1998), the North Atlantic Treaty Organization (2004), the European Union (2004), the European Monetary Union (2014), and the Organisation for Economic Co-Operation and Development (2016).

### Economic Indicators

Latvia's GDP was 26.85 billion EUR in 2017. Latvia ranked 27th out of 35 OECD countries in terms of the tax-to-GDP ratio in 2016. In 2016, Latvia had a tax-to-GDP ratio of 30.2 percent compared with the OECD average of 34.3 percent. The composition of gross value added sectors (2016, % of GDP) are services (38.9 percent), manufacturing (12.5 percent), agriculture (3.2 percent), information and communication (4.8 percent), construction (5.2 percent), real estate activities (13 percent), and other sectors (22.4 percent).<sup>1</sup> In 2017, GDP (Q 4 against previous period) reached its highest growth since 2012.<sup>2</sup>

The Shadow Economy Index in Latvia amounted to 22 percent of GDP in 2017. Since 2014, the shadow economy decreased by approximately 1.5 percent per year.<sup>3</sup>

### Real Property Data Statistics

There were 5.7 million objects entered in the Cadastre IS of the SLS on January 1, 2018, including:

<sup>1</sup> Ministry of Finance: <https://www.kase.gov.lv/sites/default/files/2018-01/Republic%20of%20Latvia-December.pdf>

<sup>2</sup> Ministry of Economics: <https://www.em.gov.lv/lv/jaunumi/17835-iekaszemes-kopprodukts-2017-gada-sasniedz-vesturiski-augstako-limeni-latvijas-brivvalsts-pastavesanas-laika>

<sup>3</sup> [https://sseriga.edu/sites/default/files/2018-07/sseriga\\_shadow\\_economy\\_index\\_2009-2017.pdf](https://sseriga.edu/sites/default/files/2018-07/sseriga_shadow_economy_index_2009-2017.pdf)



Real estate:

- land estate (land with buildings)—0.8 million
- building estate (land for rent)—0.44 million
- apartments—0.6 million

Objects of real estate:

- land units—1.1 million
- building—1.4 million
- engineering structures—0.22 million

### **The Administrative Territorial Reform**

The Administrative Territorial Reform of 2009 has improved the administrative capacity of local governments, moving from almost 600 administrative units with 28 regions to 110 municipalities (local governments), 9 republican cities, and 5 planning regions.<sup>4</sup> In 2017, a new proposal was developed to divide Latvia into 10 counties in order to improve the operational capacity of local governments.

### **The Spatial Planning System**

Latvia traditionally has had three levels of spatial planning systems. All 110 municipalities have local territorial plans (since 2011), which are basic documents used to determine current and planned land use within their jurisdictions.

### **The Budget of Local Governments**

Local government budgets draw from the following sources: 80 percent of personal income tax revenue (PIT), all real estate tax revenue (RET), and guaranteed revenue from the central government consolidated budget income (19.6 percent excluding PIT, as of 2018). In 2018, the total estimated income of local governments is 1.67 billion EUR. The amount from RET is 2.37 million EUR (including debt).<sup>5</sup>

The richest municipalities<sup>6</sup> must pay a share of their incomes annually to the municipal financial equalization fund to support the poorest municipalities (127 million EUR in 2018). The income subdivision and dynamics of local governments are shown in figure 1.

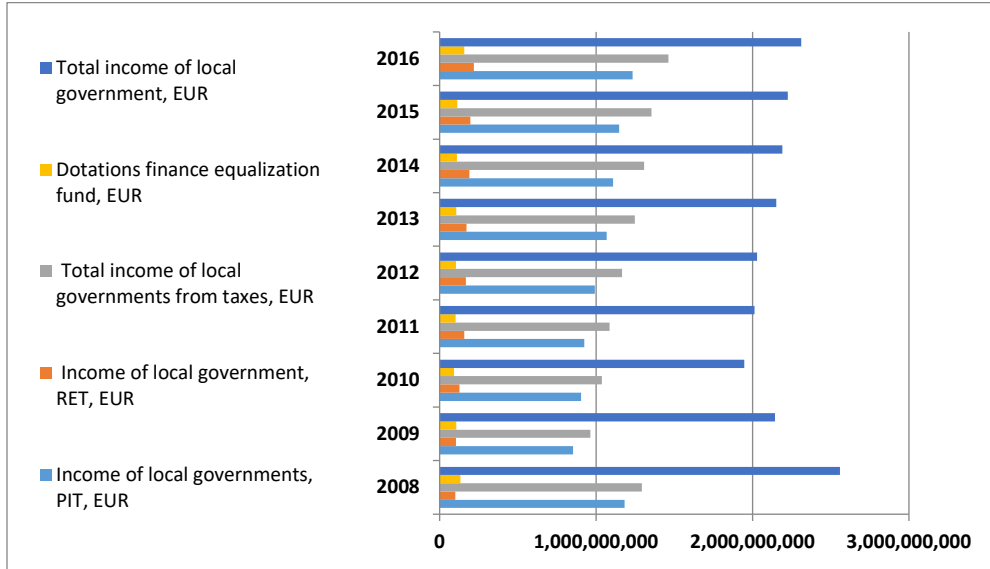
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<sup>4</sup> Wikipedia: [https://en.wikipedia.org/wiki/Administrative\\_divisions\\_of\\_Latvia](https://en.wikipedia.org/wiki/Administrative_divisions_of_Latvia)

<sup>5</sup> <https://stats.oecd.org/Index.aspx?DataSetCode=REVLVA#>

<sup>6</sup> Generally large cities and the richest counties of the Riga agglomeration.

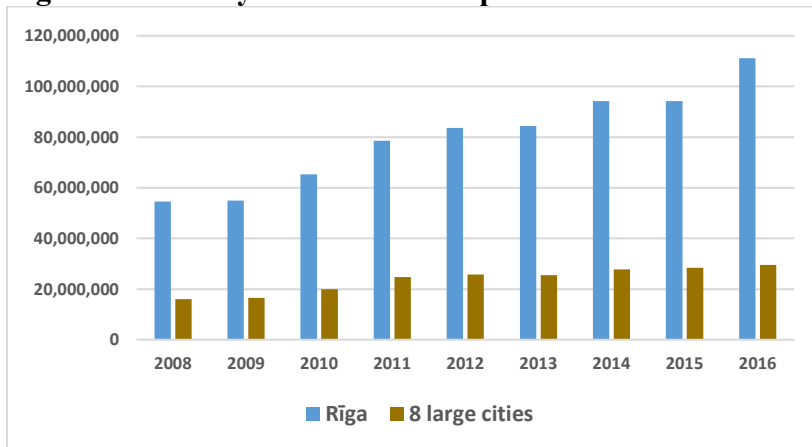
**Figure 1: Income Dynamics of Latvia’s Local Governments (2008–2016)**



Source: Regional Development Indicators Module

Collected income from RET in the Republican Cities is shown in figure 2.

**Figure 2: RET Dynamics in the Republican Cities of Latvia (2008–2016), in EUR**



Source: Regional Development Indicators Module

### Taxation Burden and its Context

In addition to the RET, Latvia has 13 taxes and 97 state and local duties whose rates and application are subject to specific tax laws and bylaws.<sup>7</sup> The tax burden (tax revenue against GDP) in Latvia reached 28.1 percent of GDP in 2016, which is one of the lowest in the EU. In comparison with other EU member states, effective tax rates on labor are high. The tax burden

<sup>7</sup> <http://www.liaa.gov.lv/en/trade/market-entry/taxation>

on low wage earners remains high at 41.9 percent in 2015, one of the highest rates in the EU (the EU average is 37 percent).<sup>8</sup>

Since 2010, Latvia's strategy of taxation (as recommended by the International Monetary Fund (IMF) and the European Commission (EC) has been to shift the tax burden from wages to consumption (also increasing the RET).<sup>9</sup> Also since 2010, the most important taxes for residents and companies (RET, PIT, VAT) were raised several times to ensure fiscal discipline and a low budget deficit (see table 2).

**Table 2: PIT. Companies Income Tax and VAT Rates, Latvia (2011–2017)**

Parameter	2011	2012	2013	2014	2015	2016	2017
PIT, %	25	25	24	24	23	23	23
Companies income tax, %	15	15	15	15	15	15	15
Micro companies income tax, %	9% from turnover - 100000 EUR	9% from turnover 100 000 EUR	9% from turnover - 100000 EUR	9% from turnover - 100000 EUR	9% from turnover - 70000 EUR	9% from turnover - 100000 EUR	12% from turnover - 70000 EUR
	20% above turnover 100000 EUR	20% above turnover 100 000 EUR	20% above turnover 100 000 EUR	20% above turnover 100 000 EUR	20% from turnover above 10000 EUR	20% from turnover above 100000 EUR	15% from turnover 7 000 - 100000 EUR
							20% from turnover above 100000 EUR
VAT, %	22	21	21	21	21	21	21

Source: Ministry of Finance, State Revenue Service

<sup>8</sup> Defined as workers earning less than two thirds of the average wage. Latvia has high labor taxes and very low capital taxes.

<sup>9</sup> The global economic crisis hit Latvia in early 2008. In order to overcome the impact of the economic crisis on the state budget, Latvia was granted a 7.5 billion EUR loan from the IMF and EC at the end of 2008. The lenders urged reforms within next three years' period. Latvia, along with other EU member states, signed a Fiscal Discipline Plan in 2012.

Latvia has recovered from the crisis, and now the budget deficit is low (0.1 percent in 2016).<sup>10</sup> Positive changes in the tax system were introduced in 2017. Under these reforms, as of 2018 the PIT rate and the amount of non-taxable income will be reduced for low-wage earners, which includes most of Latvia's taxpayers. This decision caused anxiety among municipalities and a discussion with the government concerning the locking in of a set amount of municipality tax income with respect to the government's budget.<sup>11</sup>

## **Real Property Taxation**

The history of the implementation of the RET and cadastral valuation in Latvia can be divided into two periods:

- the pre-crisis period (until 2008–2009)
- the post-crisis period (2009 to present)

### **Legislation**

The Law on Immovable Property Tax (LIPT) was adopted in 1997, setting forth the basic principles of property taxation, the taxable objects, tax reliefs, valuation, and information to be used, etc. In 2000 the market value-based mass valuation results were applied to tax calculation for urban land for the first time. In 2006, with adoption of the National Real Estate Cadastre Law, all valuation issues were separated from general property tax legislation.

There are no unified property tax administration principles in Latvia. Local governments manage property tax issues in accordance with their administrative capacity, their fiscal needs, and what the legislation allows them to do.

### **Responsible Authorities**

There are four main partners that are involved in the implementation of RET in Latvia: The Ministry of Finance (MF), the Ministry of Justice (MJ), the State Land Service (SLS), and local governments.<sup>12</sup> Their roles and functions are described in table 3.

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<sup>10</sup> <https://countryeconomy.com/deficit/latvia?year=2016>

<sup>11</sup> More information about effective tax rates available on the State Revenue Service website at <https://www.vid.gov.lv/lv>

<sup>12</sup> The interests of local governments are represented by non-governmental organizations in Latvia's Union of Local Governments and Association of Large Cities.

**Table 3: Main Partners Involved in Implementation of the RET**

Authority	Role	Duties
Ministry of Finance	Policy making	<ul style="list-style-type: none"> <li>• General principles,</li> <li>• Legislative initiative for taxation.</li> </ul>
Ministry of Justice	Policy making	<ul style="list-style-type: none"> <li>• General principles,</li> <li>• Appropriate legislative initiative, of property valuation, Cadastre, and ownership registration, (maintenance of LR).</li> </ul>
State Land Service	Executive body	<ul style="list-style-type: none"> <li>• Maintenance of the Cadastre IS, Cadastral valuation,</li> <li>• Surveying of buildings.</li> </ul>
Local Governments	Executive body Beneficiary of RET	<ul style="list-style-type: none"> <li>• Administration of RET,</li> <li>• Revenue collection in their jurisdiction,</li> <li>• Determination of land uses for taxation purposes,</li> <li>• Development of local spatial planning documents,</li> <li>• Issuing of building permissions.</li> </ul>

Cooperation with the Ministry of Environment and Regional Development (the spatial planning policy setting authority) and the ME (the authority for setting construction process policy) is also required due to the critical effect of property values on real estate development. The collected revenue from RET has continued to grow over the years (see figure 2).

### **Taxable Objects, Taxation Period, Taxpayers, and Exceptions**

The RET shall be imposed upon “tangible things”—land; buildings, including the buildings registered in the Cadastre IS but not put into use; and engineering structures.

The payers of the RET are:

- natural and legal persons, including non-residents—owners or persons with possession rights and their groups;<sup>13</sup> and
- persons that are users of state or municipal real property.

The RET becomes payable starting with the next calendar month after the occurrence of ownership or possession of real property, or right of use or leasehold for state or municipal property.<sup>14</sup> The taxation period of immovable property tax shall be the calendar year. The RET shall be calculated from the cadastral value of the immovable property tax object.<sup>15</sup> By February 15, local governments send taxpayers a payment notice indicating the amount of RET owed for the current tax year.<sup>16</sup> RET shall be paid once in each quarter or once a year by advance payment. The minimum RET for each taxpayer in each local government shall be 7 EUR (even in cases where taxpayers are eligible for tax relief).<sup>17</sup>

RET shall not be applicable for:

- Real property of local government, which is used by a local government city council;
- Real property owned by a foreign state, which is used for the needs of its diplomatic or consular offices
- Graveyards and real property owned by religious organizations, which are not used for economic activities
- Land in especially protected nature reserves, where economic activity is forbidden by law
- Real property which has been recognized as a state protected cultural monument
- Public waters, land under public roads, streets, railroads track
- Land that covers renewed or planted forest stands (young forest stands)
- Engineering structures owned by the state and municipality, and engineering structures that are not used for economic activity
- National sports facilities
- Buildings and engineering structures for agricultural production
- Buildings of national armed forces, prison, police, border guard, fire and rescue services, as well as of state security institutions
- Buildings of institutions financed by the state budget, buildings for education, health, social care, museums, libraries, and buildings used for the need of environment protection

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<sup>13</sup> The legal possessor of immovable property shall be considered: a person who enters into ownership in the course of land reform; a person whose property rights to buildings or engineering structures have been restored in accordance with the procedures laid down in law and who has assumed them; a person who has come into possession of immovable property on the basis of inheritance rights or on another basis.

<sup>14</sup> in the tax amount of one third, two thirds, or full quarter respectively.

<sup>15</sup> according to the value on January 1 of the taxation year.

<sup>16</sup> A payment notice regarding immovable property tax is an administrative act.

<sup>17</sup> If the calculated tax amount for the most deprived or low-income persons after the granting of relief at the rate of 90 percent is less than 7 EUR, the local government has the right to not send a payment notification to the taxpayer.

## **Procedure of Appeals**

The RET amount specified in the payment notice can be contested to the local government in conformity with the laws and regulations through a written request by the taxpayer. The amount shall be recalculated if an error is discovered during the review of the tax calculation. In Latvia's case, cadastral valuation plays a very important role with regard to the RET amount and fair tax policy due to the direct link between cadastral value and the sum paid by each single taxpayer. In case of errors or an update of cadastral value or the cadastral information used in calculation, the request must be addressed to the SLS. In fact, due to the fixed tax rate, taxpayers very often appeal to the SLS.<sup>18</sup>

## **The Tax Rates and Their Application**

Taxes on land and taxes on buildings are set separately using different rates. Current RET rates in Latvia vary from 0.2 percent to 3 percent depending on the cadastral value of the immovable property (land, buildings, engineering structures) assessed by SLS.

The LIPT assigns local governments limited power, based on the binding regulations issued by each municipality, to:

- set taxation policy within their jurisdiction in regard to tax rates (since 2013);
- impose tax on auxiliary buildings of residential real estates (in size larger than 25 sq. m., since 2014); and
- grant relief for residential estates of politically repressed persons (up to 50 percent) and for a separate vulnerable category of taxpayers (up to 90 percent, since 1998).

Local governments shall determine the effective tax rates and objects of taxation for the following taxation year according to their binding regulations by November 1 of the current year. The RET rates for the period from 1998 to 2018 are depicted in table 4.

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<sup>18</sup> Statistics are not available. Very often taxpayers argue against tax base (Regulation of the Cabinet).

**Table 4: Applicable RET Rates in Latvia from 1998 until 2018**

Period/year	Rate	Description	Note
Up to 2007	1.5%	For the buildings used for commercial purpose	Up to 2011, only buildings for commercial purpose were taxable.  Up to 2004, tax was calculated from booking value of the building.  Tax was calculated from inventory value of buildings used for commercial purpose.
Up to 2008	1.5%	For land	From assessed actual cadastral value of the land.
2008	1%	For land	From assessed actual cadastral value of the land
From 2010	1.5%	For land and buildings, which were used for commercial purposes, from the effective cadastral value.	From assessed actual cadastral value of the land and building
From 2011	1.5%	For engineering structures from assessed cadastral value of the building or premise groups.	New object of taxation. Engineering structures were register on the ground of declarations of owners,  Very small number of engineering structures are entered in the Cadastre IS.
2012	0.1%–0.3%	For buildings (dwellings) from assessed cadastral value of the building or premise groups.	New object of taxation.  Taxation rates:  0.1% of the cadastral value that does not exceed EUR 56,915,  0.2% of the cadastral share that exceeds EUR 56,915, but does not exceed EUR 106,715,  0.3% of the cadastral share that exceeds EUR 106,715.



Period/year	Rate	Description	Note
From 2012	0.2%– 0.6%	For buildings (dwellings) from assessed cadastral value of the building or premise groups.	Taxation rates:  0.2% of the cadastral value, that does not exceed EUR 56,915  0.4% of the cadastral share that exceeds EUR 56,915, but does not exceed EUR 106,715,  0.6% of the cadastral share, that exceeds EUR 106,715.
From 2014	3%	From assessed cadastral value of arable lands and land under ruins (brownfield, abundant property).	The RET rate exceeding regular rate (1.5% of the cadastral value) shall be determined by a local government only in case if the property is not maintained in accordance with the procedures laid down in laws and regulations.

Source: State Land Service, Ministry of Justice

### **The Implementation of the RET in the Post-Crisis Period**

From 2008 to 2010, a restriction stated that the tax charge of the current taxation period could not exceed the tax charge of the previous taxation period by more than 25 percent. This restriction was implemented to protect the owners from a rapidly increasing tax burden in the areas most in demand in the property market. It was evident from appeal cases that this principle was not clear to property owners from either a taxation or valuation perspective. This restriction was cancelled in 2010 due to property market decline. The fiscal crisis of 2008 had stimulated interest in new revenue sources of local governments, including capturing immovable property price increments. This challenge in 2010 led responsible authorities to revise the RET and cadastral valuation systems with the purpose of implementing a new strategy for building sustainable fiscal capacity for local governments (in fact to increase the revenue).

The RET rate for land increased from 1.0 percent to 1.5 percent of cadastral value (2010), and the same rate was applied to engineering structures and commercial and industrial buildings. Since 2010, the tax rate for uncultivated agricultural land is 3 percent of actual cadastral value of specific land. The IMF also recommended extending the RET base by introducing new tax objects and limiting exceptions.

In 2011, owners paid a “housing tax” imposed on residences (detached houses, apartments, summer cottages) for the first time, ranging from 0.1 percent to 0.3 percent of cadastral value of the building or apartment. "Housing" tax rates were doubled in 2012.

Since 2012, municipalities have a right to determine the application of the RET rate on the specific taxable objects (land, subsidiary buildings) in their territory. Since 2013, a rate of 1.5 percent was applied to taxation of unused residential buildings owned by legal entities in order to promote the rental market.

Since 2014, municipalities have started to actively utilize the legislated opportunities to apply different RET tax rates based on the identity of the taxpayer (that has a declared address and pays PIT, or is an owner of an unoccupied home or summerhouse) and make decisions on taxation of objects (to impose tax or not on auxiliary buildings). This decision was lawful (based on the experience of western countries with RET application), and was also based on the social, economic, and spatial developmental problems of Latvia:

- The shrinking of the population (a significant drop in PIT taxpayer numbers, which is the largest income source for municipalities)
- The depopulation of inhabited places resulting in an increased number of derelict and vacant housing
- Inner migration trends (relocation from peripheries to cities due to economic considerations and the suburbanization trend in the agglomeration of Riga and the border areas of large cities)

Currently, many municipalities (Riga, Jurmala, counties of Riga's agglomeration) use RET as an instrument to attract residents by offering tax relief (usually 50 percent) on owner occupied dwellings.

One of the most popular RET instruments used by municipalities, but most negative in the view of residents, was the setting of various RET rates for an owner's inhabited and uninhabited properties (second homes, summer cottages). This action by the municipalities is understandable. Because of a decrease in the number of residents, many municipalities suffered a decrease in their RET income, but the demands and costs of managing and making improvements to their municipality increased (RET is not a goal tax for infrastructure in Latvia). These questions were also a concern for those municipalities whose built-up areas had expanded (or new villages had been built) as a result of suburbanization and (or) had positive demographic indices. Substantial financial investment in new infrastructure and the social sphere were necessary. The municipality decision was also justified by the fact that in Latvia about 80 percent of residents own a property (one of the highest numbers in the Europe), many own several residential properties and they are sparsely populated (on average there are two people living in the property; the average household contains 2.3 people).

There are 1.04 million dwellings in Latvia. Their total area is 71 thousand sq. m. (35 sq. m. per inhabitant, CSB, 2014). Many properties belong to the residents living in the diaspora (owners whose property rights have been restored or those that have emigrated after the restoration of independence). At the same time, the building stock is in very poor condition (60 percent depreciation is average). 23 percent of all buildings were built before 1940; 67 percent from 1940 until 1990 (so called multi-level Soviet style block buildings, around 600,000 units; and 10 percent after 1991. Many properties were vacant (owners lived and paid PIT in another municipality or in other countries) or were rented out to none-declarable persons (municipalities

did not receive it in PIT). According to the 2011 Census, 20.6 percent of housing units were not permanently inhabited in Latvia (in Riga, 16.7 percent). 94 percent of all territory is occupied by agricultural land, woodland, and protected nature territories.<sup>19</sup>

The lack of a dwelling monitoring system in Latvia makes it difficult to acquire precise information on how many people live in those properties, how many properties one person owns, and the statistics of tenements. Latvia has a very insignificant number of tenements (statistics are very fragmentary) and new residential houses for rent are not being constructed, but in the new projects the properties are being offered for sale. The rental market is dominated by private properties (usually apartments). The rental market is not being controlled.<sup>20</sup>

These circumstances also affect the mobility of residents (they cannot move or easily sell property). In previous years (during the period of low prices and small RET payments), persons that were in possession of financial resources had acquired second homes either in the vicinity of their work places (being declared as their home towns) or to use as financial investments (to rent out or sell, or use for their children's wellbeing). Residents declare their address electronically and can quickly and easily change their declared address for different pragmatic reasons (social benefits offered by municipalities, childhood education, tax discounts, parking and public transport fees). With the actualization of base values and the improvement of cadastral valuation models, RET also grew—these taxes are directly linked to the cadastral value of properties. Because of these reasons, many cities and municipalities (especially in the high cadastral value zones) held the opinion that it is justifiable to apply different rates for owner occupied and unoccupied properties. In the case of a second home, the person's income level and social status were no longer taken into consideration toward RET rate determination. This policy was brought into action alongside already existing discounts for more vulnerable declared resident groups (poverty stricken, families with three children, poverty-stricken pensioners, politically repressed persons).

The most publicly discussed (also criticized) are the RET politics of the city of Riga (since 2015, applied for 2016), where the different RET rate applications for owner-occupied and unoccupied properties were determined by declared home addresses on January 1, 2015.<sup>21</sup>

The RET rate for unoccupied properties was 1.5 percent for land and considerably higher than 1.5 percent (in certain cases up to seven times higher than before) for a vacant building or apartment (instead of the 0.3%–0.6% rates stated by the law)<sup>22</sup>. This decision by the municipality of Riga had a noticeably positive effect—the number of Riga's residents in 2015–2016, for the first time in many years, showed a growth tendency. The weight of RET in the City of Riga's budget is substantial—16 percent in 2017. At the same time, the municipality of Riga offers RET

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<sup>19</sup> [http://lufb.luu.lv/Raksti/Journal\\_Baltic\\_Surveying/2015/Journal\\_Baltic\\_SurveyingVol3\\_2015.pdf](http://lufb.luu.lv/Raksti/Journal_Baltic_Surveying/2015/Journal_Baltic_SurveyingVol3_2015.pdf)

<sup>20</sup> Since 2016, The State Revenue Service has been controlling residents' home rent tax pay. The first law regarding property rent was confirmed in 2018 but has not yet been brought into action.

<sup>21</sup> At the end of 2014, due to the activity of the residents, the resident electronic address declaration system was blocked.

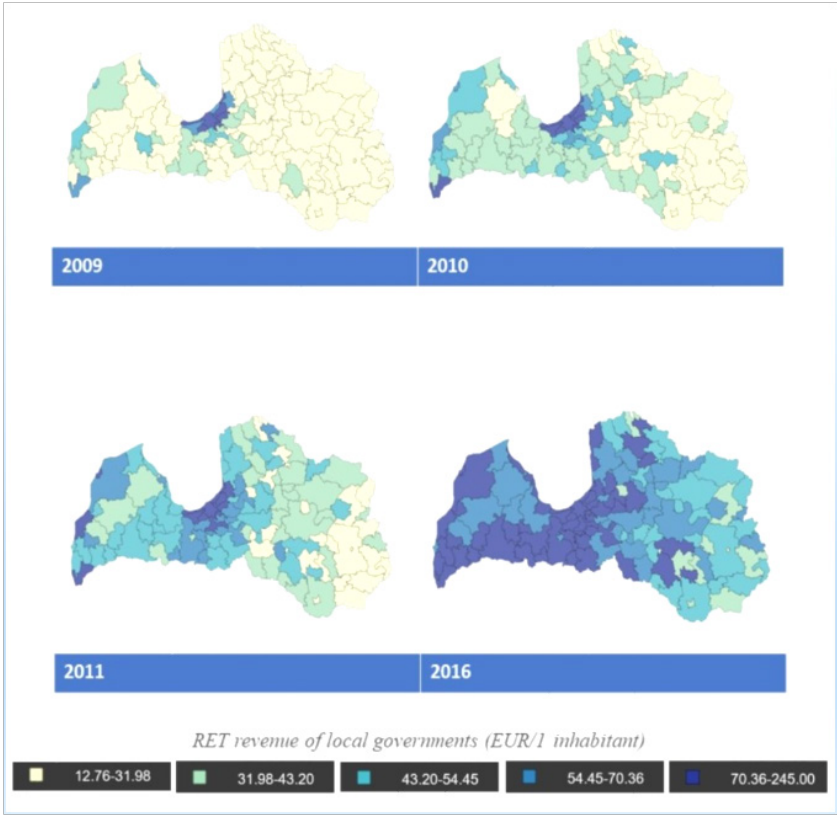
<sup>22</sup> The Law: The immovable property tax rate exceeding 1.5 percent from the cadastral value of the immovable property shall be determined by a local government only if the immovable property is not maintained in accordance with the procedures laid down in laws and regulations.

discounts to persons that own one property. Since 2016, property owners in the city of Riga receive a tax inapplicable size determination for a single dwelling: respectively in 2016, 50 sq. m.; in 2017, 40 sq. m.; and in 2018, 30 sq. m. It must be noted that the small regional city of Saldus (11.4 thousand residents in 2016) lost approximately 400 PIT taxpayers (a substantial part of their income), who had a second home in Riga. Nevertheless, other municipalities of the agglomeration of Riga later followed Riga’s example.

The political practice performed by several municipalities of subjecting Soviet era summer cottages (garden houses of gardening societies without amenities, often without infrastructure and lighting) to an increased RET has come under criticism.<sup>23</sup> This step has been taken by municipalities that have a large number of gardening societies. In most cases, these properties are the second properties of low-income pensioners.

In 2016, the revenue from RET grew by 22.8 million EUR or 115 percent. It is evident that the RET burden is growing. Spatial distribution of the RET burden is shown in figure 3.

**Figure 3: Spatial Distribution of the RET Burden in Latvia (2009–2015)**

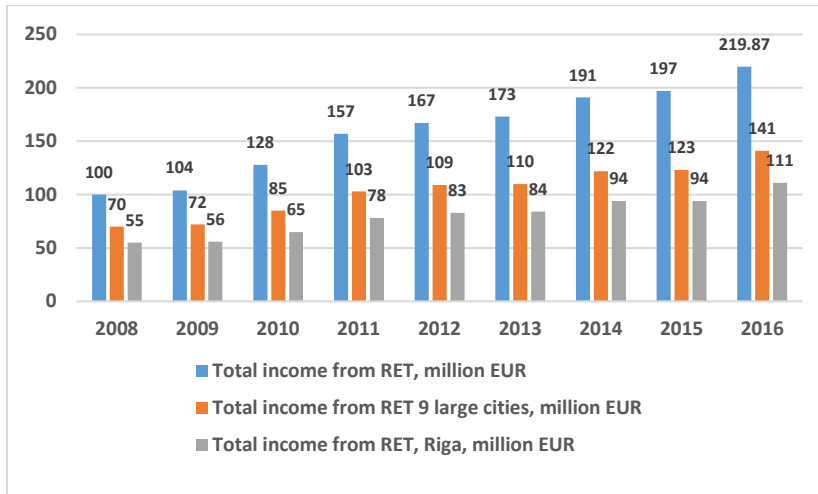


Source: Regional Development Indicators Module

<sup>23</sup> These houses have been assigned the purpose of residential use in the Cadastre IS.

Total RET revenue reached 219.87 million EUR in 2016 (see figure 4).

**Figure 4: RET Income Dynamics in Latvia (2008–2016), EUR**



Source: Regional Development Indicators Module

The largest RET revenue growth (17.1 million EUR) came from taxes on land that were related to changes in cadastral value of land used for farming and forestry, as well as protected natural areas and water objects, that became official in 2016.

### **Cadastral Valuation**

With the adoption of the LIPT (1997), the mass valuation (in Latvia, cadastral valuation) procedure became obligatory. The LIPT stated that the taxable value of a property shall be estimated according to its market value using the mass valuation approach. Cadastral valuation is the process of determining the value of a cadastre object, as calculated in accordance with the laws and regulations set by the Cabinet of Ministers. Cadastral values are used for various purposes.<sup>24</sup>

The process of cadastral valuation includes:

- the development of a cadastral value base, and
- calculation of cadastral value.

### **Legislation**

The cadastral valuation process adheres to rules and regulations within:

- the National Real Estate Cadastre Law (2006), which states principles of cadastral valuation, obligation of cadastral data updating, and appeal order; and

<sup>24</sup> <https://www.vzd.gov.lv/en/About%20us/scopes-of-activity/cadastral-valuation/>

- the Regulations of the Cabinet of Ministers’ “Regulations of Cadastral Valuation” (2006),<sup>25</sup> which states the procedure for cadastral valuation, including models.

Specific classifications are used for the grouping of objects by their usage types:

- Regulations of the Cabinet of Ministers “Classification of Real Estate Use Types and Determination and Change Order of Real Estate Usage” (2006) on land use, as stated by local municipalities
- Regulations of the Cabinet of Ministers “Classification of Types of Construction” (2009), which states the types of buildings in accordance with the project documentation.<sup>26</sup>

### **Classification**

More detailed sub-classifications take into account a property’s physical and economic characteristics, and specify the data to be collected, and the approach to be applied in valuation. The classifications are: residential, industrial, commercial, public, and rural properties. Land uses are determined by the municipalities, and the building type is determined by the surveyor in accordance with the project documentation of the building.

### **Objects of Valuation**

Land for construction purpose—9 groups, including:

- Land for single residential houses
- Land for multi-story residential buildings
- Land for construction of commercial objects
- Land for industrial objects

Rural (agricultural) land—3 groups, including:

- Agricultural (arable) land
- Forest land
- Land under waters

Buildings—67 types (9 groups)

### **The Value Base**

The value base shall be developed for land and buildings separately. The current legislation on development of the cadastral value base states that the base values shall be confirmed by the

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<sup>25</sup> [https://www.vzd.gov.lv/files/vzd\\_publicskais\\_paarskats\\_2012\\_eng\(1\).pdf](https://www.vzd.gov.lv/files/vzd_publicskais_paarskats_2012_eng(1).pdf) (p. 16); <http://www.fao.org/faolex/results/details/en/c/LEX-FAOC186866/>

<sup>26</sup> Complete list of all binding legal acts and bylaws in relation of cadastral valuation issues is available on the website of the SLS [www.vzd.gov.lv](http://www.vzd.gov.lv) . List of legislation in English is available: <http://www.vzd.gov.lv/en/laws-and-regulations-1/laws/>

Cabinet by June 15 and become valid on January 1 of the next year.<sup>27</sup> On this date, the cadastral values of all properties and cadaster objects registered in the Cadastre IS are automatically recalculated once changes to the base values are applied. Once approved, this information shall be used for the RET forecast for the following taxation year.<sup>28</sup> The development of the cadastral value base from the start of the information collection to the approval of the Cabinet as a government regulation (by June 15) lasts approximately one year.<sup>29</sup>

Since 1998, the SLS has maintained the Real Estate Market Data Information System (REMDIS) for collection of sales data from the LR. Today, information is exchanged between the SLS and LR daily. The SLS uses actual and precise market data for the development of the value base.

The value base for cadastral valuation consists of:

- Zone values—a map with homogenous zones. A separate zoning map has been developed for each real estate group
- Base values of the land, coefficients of standard area and correction for land for construction (development) purpose
- Base values of rural land—the land used in agriculture for six agricultural land quality groups and the land under woods for four forest land quality groups
- Base values for buildings, standard size of the building, and coefficients of corrections
- Base values for engineering structures

### **The History of Assessment**

Implementation started with urban land assessment (1998–2001), then building assessment (2001), rural land assessment (2000–2003), and engineering structures assessment (2010) (See figure 5).

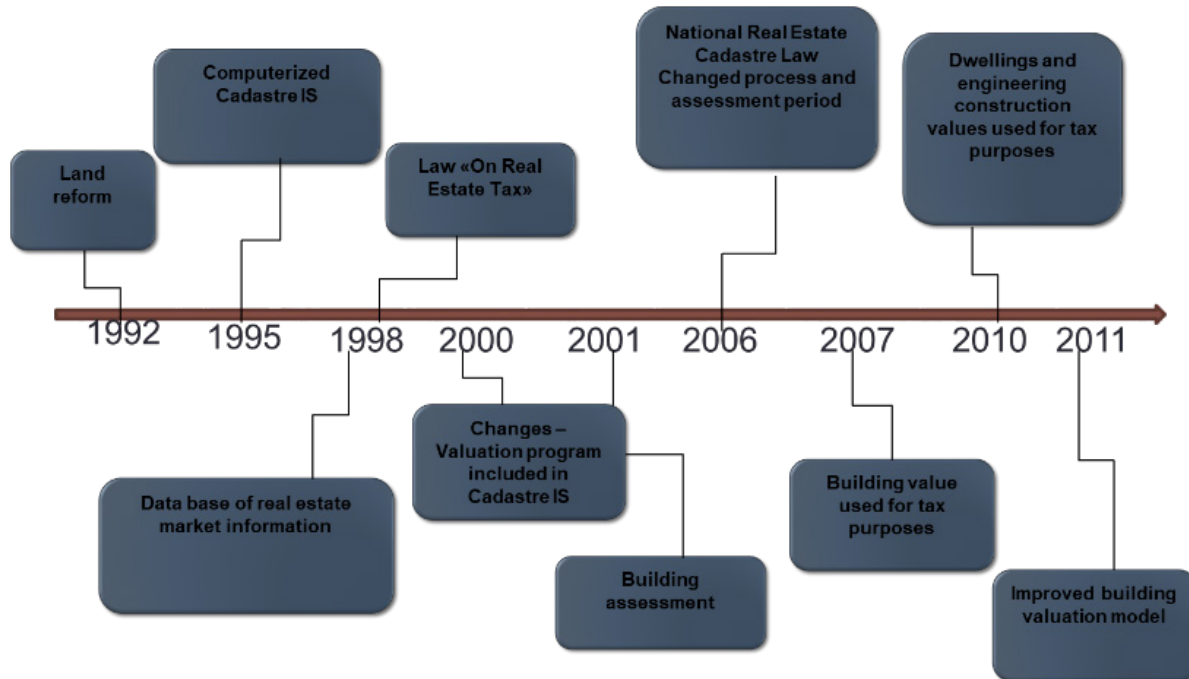
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<sup>27</sup> Section 67, <https://likumi.lv/ta/en/en/id/124247>; <https://www.vzd.gov.lv/en/About%20us/scopes-of-activity/cadastral-valuation/>

<sup>28</sup> The SLS performs an assessment forecast and publishes forecasted values in the SLS data distribution portal [www.kadastrs.lv](http://www.kadastrs.lv). Since 2016, due to a “frozen” tax base, the SLS does not publish assessed cadastral values forecasted values for the next taxation year.

<sup>29</sup> The process of the development of cadastral values consists of market data collection, database building, data analysis, model building and testing, report writing, communication (information sharing) with stakeholders—municipalities, ministries, institutions, NGI. Since 2007, the general public is not involved in public review of the value base.

**Figure 5: Main Steps in the Cadastral Valuation System Implementation (1992–2011)**



Source: The State Land Service

The first market based cadastral valuation of Latvia’s 76 cities and towns was accomplished in 1998–1999 (the so-called “Finnish Project”) under methodical supervision and consultation of the National Land Board of Finland and the Estonian Maaamet. It was intended to align the nominal price of land with the average market price for taxation purposes. The zoning for Riga was completed in 2002. In 2007, simultaneous development of zone values was started in all territories in the country.

Zonings (if necessary) were worked out cyclically (every four years and an update of the base value every two years), with properties divided into four real estate groups: rural real estate (separately for agricultural land and woods); dwellings; industrial construction; and commercial and social construction. Taking into account rapid fluctuations in the property market, since 2010 the update of base values has taken place every year. Therefore, the cycle for the development of zoning has remained the same.

In 2013, the order for the review of value zoning maps and valuation came into force. If changes took place in the zoning map of one real estate group, then other zoning maps were also to be reviewed.<sup>30</sup> The value zonings of other property groups that were applied to an estimation of mass values for 2012 were developed from 2008 to 2010:

- Agricultural land zoning—developed in 2010, applicable from January 1, 2011
- Forest land zoning—developed in 2010, applicable from January 1, 2011

<sup>30</sup> This means that zoning maps will be subject to changes annually.



- Industrial object zoning—developed in 2008, applicable from January 1, 2009
- Commercial object zoning—developed in 2008, applicable from January 1, 2010

In 2012, the review of residential building zones took place and actual industrial object zoning was applied for the valuation of engineering structures. Value zonings, indexes of cadastral value bases, base value tables, and valuation reports are accessible in the website of the SLS. Since the tax base was “frozen” in 2016, the SLS does not currently publish assessed forecasted values for the next taxation year. The dynamics of assessed cadastral values are depicted in table 5.

**Table 5: Dynamics of Assessed Cadastral Values (2011–2017)**

<b>A year</b>	<b>Administrative unit</b>	<b>Cadastral value, land, billion EUR</b>	<b>Cadastral value, buildings, billions EUR</b>	<b>Cadastral value, engineering structures, billion EUR</b>	<b>Cadastral value sum, in total, billion EUR</b>
<b>2017</b>	Riga	4.10	10.46	0.01	14.57
	8 republican cities	1.14	3.29	0.12	4.56
	Counties	2.54	5.32	1.22	9.08
	In total	7.78	19.07	1.36	28.20
<b>2016</b>	Riga	3.90	10.57	0.13	14.59
	8 republican cities	1.39	3.39	0.12	4.91
	Counties	4.78	6.36	1.11	12.24
	In total	10.07	20.32	1.36	31.74
<b>2015</b>	Riga	3.93	10.20	0.13	14.26
	8 republican cities	1.35	3.27	0.12	4.75
	Counties	3.90	5.15	1.06	10.12
	In total	9.19	18.62	1.31	29.12
<b>2014</b>	Riga	3.93	10.13	0.12	14.18
	Cities	1.35	3.19	0.19	4.74
	Counties	3.90	5.09	0.77	9.76
	In total	9.18	18.41	1.08	28.68

<b>A year</b>	<b>Administrative unit</b>	<b>Cadastral value, land, billion EUR</b>	<b>Cadastral value, buildings, billions EUR</b>	<b>Cadastral value, engineering structures, billion EUR</b>	<b>Cadastral value sum, in total, billion EUR</b>
<b>2013</b>	Riga	2.66	6.81	0.09	9.55
	8 republican cities	0.93	2.18	0.08	3.20
	Counties	2.55	3.49	0.51	6.55
	In total	6.15	12.48	0.68	19.30
<b>2012</b>	Riga	2.86	6.72	0.08	9.67
	8 republican cities	0.98	2.14	0.08	3.20
	Counties	2.52	3.40	4.07	9.98
	In total	6.36	12.26	4.23	22.85
<b>2011</b>	Riga	3.06	6.52	0.08	9.66
	8 republican cities	1.14	2.17	0.07	3.39
	Counties	2.54	3.31	0.46	6.30
	In total	6.74	12.00	0.61	19.35

Source: The State Land Service

## Valuation Models

Separate valuation models are developed depending on value-influencing parameters for land and buildings:<sup>31</sup>

- Building land (land for development purpose)
- Rural land
- Buildings (since 2012—three different models)
- Engineering structures<sup>32</sup>

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<sup>31</sup> Value calculation models are approved by the Regulation of the Cabinet and incorporated into the Cadastre IS for automated cadastral valuation.

## Land Valuation Models and Value Indicators

For assessment of key factors, valuation rules define two value calculation formulas (pricing models):

- Building land valuation model
- Rural land valuation model<sup>33</sup>

The building land (land for construction) valuation model requires consideration of the main building land value influencing factors: land use (the purpose of use of the land unit and related land area) and encumbrances that affected land value of the specific land parcel.

Value reduction principles on impact of encumbrances are set by general valuation rules. However, other factors (land base values, standard plot area, standard area correction coefficients) affecting the value must occur and be approved in valuation rules annually. Applied common coefficients for values are depicted in table 6. A standard area is set for the purpose of correctly evaluating varying size land parcels with a similar land use purpose.<sup>34</sup>

**Table 6: Common Correction Coefficients for Values (Land and Building)**

Correction	Description	Parameter (negative correction)
The physical condition of the building (in % from assessed value)	Physical depreciation of the building is recorded or updated in the Cadastre IS only on the basis of building cadastral survey procedure	The range from 1.0 (new buildings) until 0.1.  Values is “0” if depreciation of building reaches 80%.
Status of cultural heritage for building (in % from assessed value)	Reduction of cadastral value on the ground of the status of buildings.  A buildings physical condition and encumbrances (cultural monument) shall be analyzed as for detached house,	Until 2017:  - 45% less for national monument of culture  - 35% less for local monument of culture  In 2017 – was cancelled

<sup>33</sup> The rural land valuation model is applied to rural land units with the intended purpose of use for "agricultural land"; "forest land and specially protected natural areas, where economic activity is prohibited by laws and regulations"; and "land under water bodies". In other cases, the building land valuation model was applied.

<sup>34</sup> The real property market information confirms that the size of land unit impacts value. Land plots with a land area larger than standard (optimal) in certain area are usually priced less per one sq. m. than an optimal size land plot.

<b>Correction</b>	<b>Description</b>	<b>Parameter (negative correction)</b>
	multifunctional buildings and engineering structures.	From 2018:  30% less for national monument of culture
Encumbrances (land) in territories with national cultural monument status and in the territory of the Baltic Sea protection zone (in % from assessed value)	Reduction of assessed land value of the basis of registered encumbrances in the Cadastre IS.	Reduction – 20% from cadastral value of land.
Encumbrances – protected belts and engineering communication	On encumbered territory for urban land and rural land.	For urban land maximal reduction 45% from cadastral value of encumbered part of land parcel.  For rural land – maximum reduction 30% (if the entire land area is encumbered).

### **Land Valuation Models**

Land for construction purpose requires consideration of the main building land value influencing factors: land use (the purpose of use of the land unit and related land area) and encumbrances that affected land value of the specific land parcel (see table 7).

**Table 7: Factors for Assessment of Cadastral Value of the Land**

<b>Factors for the building land valuation model</b>	<b>Factors for the rural land valuation model</b>
<ul style="list-style-type: none"> <li>- Land use (purpose of use)</li> <li>- Area (standard, above the standard)<sup>35</sup></li> <li>- Encumbrances and their occupied areas.</li> </ul>	<p>Areas of purpose of use by types of land use:</p> <ul style="list-style-type: none"> <li>- agricultural land (plough-land, meadows, pastures, orchards)</li> <li>- woodland</li> <li>- land under buildings and yards</li> <li>- land under fish ponds</li> <li>- other land (bushes, marshes, land under waters, land under roads and other land)</li> <li>- Agricultural land quality</li> </ul> <p>Woodland quality, Encumbrances and their occupied areas, Influence of a residential building (1000 sq.m – residential purpose of land under residential building, if applicable).</p>

Standard areas depend on current land used for agriculture considering their quality—quality points are distributed to seven land quality groups. Woodland is divided into four quality groups.<sup>36</sup>

Standard areas for land for construction purpose are based on market data analysis. Standard areas for annual assessment come into force with new value bases. If a dwelling house is built on a land parcel in the countryside, 1000 sq. m. of the land area is considered to be land belonging to the building and is subject to be valued using the building land value base model.

### **Building Valuation and Base Indicators**

Valuation of buildings started in 2002, and the model developed gradually. As of 2004, local governments define the base values of buildings based on policies of the SLS. In 2007, the base values of types of buildings were defined by value zones. Considering that cadastral value was used for taxation purposes only for buildings used for economic activities, such a simplified model was permissible. In 2010, when residential buildings became subject to the RET, the model required qualitative improvement with regard to different improvements and amenities of

<sup>35</sup> Standard area is set for the purpose of correctly evaluating varying size land parcels with similar land use purpose. The real property market information conforms that the size of land unit affects value. Land plots with land area larger than standard (optimal) in certain area are usually is priced less per one sq.m than optimal size land plot.

<sup>36</sup> Analysis of assessed mass values in relation to market data shows necessity to improve the rural mass valuation model, changing the breakdown of agricultural land quality groups, separating the very poor, overgrown pastures, whose value is significantly lower, from lower quality arable land.

the building. Until 2012, the amenities of buildings (electricity, sewerage, basements, garages, sheds, patio, balconies, terrace, parking lot), location of a group of premises in the building (floor), and various uses for one building were not taken into account in value assessment. In 2012, building valuation was divided into three groups by applying different valuation models to those:

- Dwelling houses (one and two apartment houses)
- Multifunctional buildings (apartment buildings, office and trade buildings, if such contain at least one residential group of premises)
- Other non-residential buildings

Since 2012, the most important improvements to the model have occurred from acquisition of information (building year for valuation of new constructions) and valuation of amenities (promoting data actualization in the Cadastre).<sup>37</sup> Influencing factors of cadastral valuation of dwellings are shown in table 8.

**Table 8: Factors for Assessment of Cadastral Value of Dwellings**

Specific factors	Correction (decrease of the value)	Note
<ul style="list-style-type: none"> <li>- Location of buildings (value area)</li> <li>- Type of building (base value of stone, wood or summer houses)</li> <li>- The total area of residence (indoor, outdoor space, a barn, basement, garage)</li> <li>- Amenities and its insurance level (electricity and sewerage)</li> <li>- Physical condition of the building (foundations, walls, floors, roof)</li> </ul>	<ul style="list-style-type: none"> <li>- On entire building outdoor area – 0.3</li> <li>- On entire basement area – 0.6</li> <li>- On the entire barn area of the building – 0.3</li> <li>- On garage and barn areas, as part of the building total area – 0.6</li> <li>- If the house has not electricity – 0.6</li> <li>- If the house has electricity but no sewer – 0.8</li> </ul>	Base value of detached houses reflects the well-equipped buildings (the building interior).

If a specific building is not fully surveyed (registered in the Cadastre IS on the basis of mass campaign inventory or on the basis of the tax collection campaign of the municipality), the cadastral information would not contain such detailed information and these factors would not be considered in valuation (value can be simply assessed without correction).

Current amendments to registration rules propose simplification of the procedure for updating building data. These changes will allow owners to authorize their cadastral information based on

<sup>37</sup> The SLS charges for its services, e.g. building data actualization, and this makes it difficult to encourage taxpayers to update building data. Free of charge campaigns took place regarding data updating. Registration of engineering structures is still a less controlled process.

its documentation using a data declaration principle. This procedure is implemented only for registration of engineering structures. The model for valuation of multifunctional buildings is shown in table 9, the model for other non-residential buildings in table 10.

**Table 9: Factors for Assessment of Multifunctional Buildings**

Factors	Correction (decrease of the value)	Note
<ul style="list-style-type: none"> <li>- Location of buildings (value area)</li> <li>- The distribution of area (outdoor, indoor)</li> <li>- Area of groups of premises – residential, commercial (office, retail and wholesale, hotel space group), household (sharing, garages or other premises (basement))</li> <li>- For residential type of premises – location in the building (the ground, basement, other level)</li> <li>- For group of residential premises - amenities (sewerage and sanitary network)</li> <li>- For exterior of building material (wood, masonry)</li> <li>- Physical condition of the building (foundations, walls, floors, roof)</li> </ul>	<ul style="list-style-type: none"> <li>- On outdoor area – 0.3</li> <li>- On utility space group – 0.3</li> <li>- On spatial group that is located in a wooden apartment building – 0.8</li> <li>- On living space group that does not have a sewer and a sanitary network – 0.8</li> <li>- On living space group that has neither a sewer nor sanitary network – 0.6</li> <li>- On living space group that is located on the first floor – 0.9</li> <li>- On living space group that is located in the basement – 0.6</li> </ul>	<ul style="list-style-type: none"> <li>- Three or more apartment type buildings</li> <li>- An office building and retail building, if there is at least one group of residential premises</li> <li>- Other non-residential buildings, where the residential group of premises is greater than the building area of basic appropriate use of premises</li> </ul>

**Table 10: Factors for Assessment of Other Non-Residential Buildings**

<b>Factors</b>	<b>Correction (decrease of the value)</b>	<b>Note</b>
<ul style="list-style-type: none"> <li>- The location of the building (value zone)</li> <li>- The utilization of the building (type of building)</li> <li>- The total capacity of the building</li> <li>- The division of the building's area (indoor space, outdoor space)</li> <li>- The physical condition of the building (walls, foundation, façade, roof)</li> </ul>	<p>The types of buildings for which the outdoor area values are reduced, applying the lowering coefficient of 0.3, are specified in the valuation regulations.</p>	<p>Non-living space buildings' value base indicators that must be approved in the value base regulations are:</p> <ul style="list-style-type: none"> <li>- building type base values</li> <li>- building standard capacity and capacity correction coefficients</li> </ul>

Capacity-related correction coefficients are only applied to those non-living buildings whose capacity exceeds the approved standard capacity of the legislation. The valuation model for engineering structures is shown in table 11.

**Table 11: Factors for Assessment of Engineering Structures**

<b>Factors</b>	<b>Correction (decrease of the value)</b>	<b>Note</b>
<p>The capacity of the engineering structure and its physical condition.</p> <p>Extra analysis is performed regarding location (value zone) considering the actual and normative service length of the engineering structure.</p>	<p>The influence of physical condition from 1.0 to 0.3 if the physical condition (depreciation) is 70%.</p> <p>If the engineering structures' physical condition is calculated as being greater than 70%, then the engineering structures' physical condition is taken to be 70%.</p>	<p>Specific analysis for scaffolding bridges used in the production process of factories, embankments with a variety of types of shore strengthening, sea harbor docks and brick and reinforced concrete smoke stacks is required.</p>

The number of registered engineering structures in the Cadastre IS is very small—only 29,000 units (2016).



## Quality of Valuation

The SLS, the institution that performs cadastral valuation, has been constantly criticized by the public and involved institutions for the methodology used to determine the base of cadastral values and assessment (the models of valuation, the trustworthiness of the market information used and the adequacy of cadastral values in relation to the prices of the property market, the transparency of the estimation process, and the value reassessment process). The failure to establish a creditable tax base erodes taxpayer confidence, reduces compliance rates, and limits revenue performance. At the same time, it is evident that the SLS had a very short time to adapt the models to new taxation legislation since 2010. Some reports and audits have shown that assessed cadastral values do not correspond with market prices.<sup>38</sup> The Cadastre IS does not have available a base value information layer. Zoning maps and base values (for land and for buildings) are kept separately. The forecasted cadastral values for 2017 were not published. For 2018, values still have not been estimated and sent to municipalities.

## The Collective Resistance Against Residential Immovable Property Tax

In Latvia, this is the first time that “bottom-up” activity has raised public discussion regarding fair taxes on real property. The discussions about what kind of real property should be taxed and what should be the taxable value have one aim—to achieve an efficient RET system. In early 2016, by individual initiative, over 12,000 (currently more than 36,000) votes had been collected on the public initiatives portal Mana Balss (In English, “My Voice”)<sup>39</sup> calling for immediate cancellation of a recurrent tax on owners’ sole residential property, citing it as unconstitutional due to too steep a rise in mass values and taxes (see figure 6).

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<sup>38</sup> Latvia’s Local Government Survey has shown that almost 45 percent of cadastral values are incorrect. The State Auditor (2011) revision found that in 17 percent of randomly selected purchase transactions for land properties, the mass value is higher than the value of the purchase transaction, but for 83 percent it matches or is smaller than the value of the purchase transaction (including land properties not including woodland, where for 24 percent the mass value is higher than the value of the purchase transaction, but for 76 percent it matches or is smaller than the value of the purchase transaction). Latio LLC study (2013) has shown that the evident problem is the quality of cadastral data, as well as the model used for matching with market valuation techniques.

<sup>39</sup> In Latvian: *Par nekustamā īpašuma nodokļa atcelšanu vienīgajam īpašumam* <https://manabalss.lv/par-nekustama-ipasuma-nodokla-atcelsanu-vienigajam-ipasumam/show>

**Figure 6: Screenshot from the Website ManaBalss.lv—the Number of Collected Votes**



Source: [www.manabalss.lv](http://www.manabalss.lv).

The petition hearing took place in the Latvian Saeima (Parliament) and in the MF. The petitioners addressed their claim to Saeima deputies, the President of Latvia, and the President of the Ministers. They organized protest campaigns—usually meeting near Riga City Council and Latvia’s Saeima. The following decision was made by government: to “freeze” the cadastral values base proposal for 2017 until 2018, or until the MF would develop a sustainable solution (compromise) for the residential property tax.

Controversial topics, e.g., mass values versus applicable tax rate, human rights versus property rights and duties, property tax as an important municipal funding source, and dominant living standards, have been widely discussed in public media, social networks, and among politicians.<sup>40</sup> Currently, a compromise has not been achieved, but the initiators intend to contest the property tax in the Constitutional Court or European Court of Justice and to call for its annulment.

Petitioners claimed that application of that “rapidly growing tax burden” threatens their constitutional (also human) right to home and wellbeing, given its “expropriation” and “gentrification” nature. The experiences of other European countries has been used to defend the conceptual claim in Parliament and (later in December, 2017) in the Constitutional Court, such as the fact that in some countries the property tax on primary residence does not apply at all, or has been cancelled by the Supreme Court, or is a minimal (0.1 percent) amount, or that taxable values were “frozen” a long time ago. They also used the “positive” experiences of Estonia (residents pay property tax on land rather than on buildings) and Lithuania (people do not pay tax on dwellings) as examples. The amendments in the LIPT prepared by the political forces (a political party) offer to exempt from taxation one of the owner’s properties in which they reside

<sup>40</sup> Several political forces try to use this movement as a voting platform for the upcoming parliament election in October 2018. They are also developing a legislation proposal to attract voters.

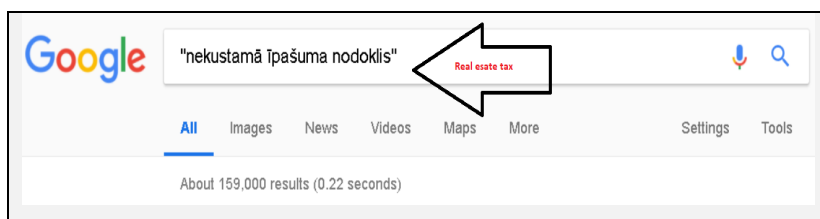
and have declared their address, as well as the land under particular building in cities and villages up to 1,500 sq. m., and in farmsteads of up to two hectares.

The activity in the social networks and the volume of protest activity (usually a very small number of supporters) suggest that the initiative has not achieved great support for the future. The initiative collects information on RET-related bankruptcy processes, RET debts, and municipalities' practice of RET debt acquisition. The theory that municipalities "kick out" residents due to a small debt has not been confirmed, although residents (for example in Riga) have received warnings even about a few cents worth of debt. The municipality of Riga explains that the notices are generated automatically in case of nonpayment.

An unofficial opinion is being voiced that there are approximately 100,000 people with RET debt in Latvia. However, this kind of information is provocative and complete statistics are unavailable. Similarly, in public debates (voting over a telephone in TV shows) in previous years these questions have not gained recognition (in comparison to healthcare and other taxes). Likewise, the initiative uses somewhat incomplete studies on RET rates in other countries, circulating this information on the internet and using a rather trendy interpretation of them (for example, RET does not apply to homes in European countries at all). Social media activity and results of internet searches with the key word "RET" during the months when RET is relevant (spring, when the report on the volume of RET is released) suggest that these questions have been pretty insignificant.

By placing keywords in quotation marks, Google displays homepages and other sources that mention this phrase in the "*nekustamā īpašuma nodoklis*" (in English, "real property tax"), as shown in figure 7. The search (for Latvia) displayed around 159,000 results with the top of the tag.

**Figure 7: Number of Google Searches with Keyword (Phrase) "*nekustamā īpašuma nodoklis*" (in English, Real Estate Tax)—Search Region: Latvia**



Source: Google AdWords Analytics

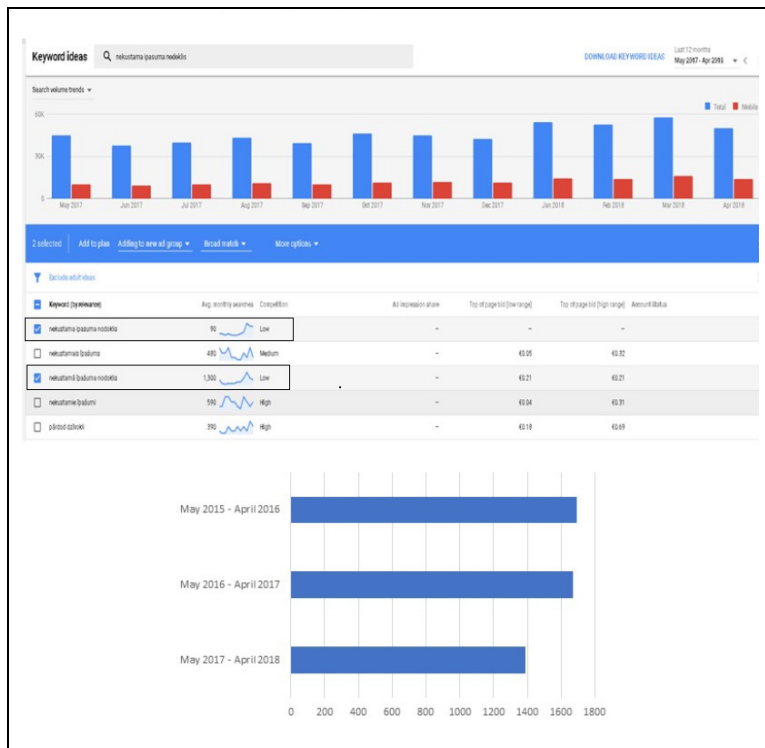
The keywords appear in the Google AdWords Keyword Planner tool. Accordingly, these results only show search results on the Google platform (see table 12 and figure 8).

**Table 12: Google AdWords Keyword Planner Statistics on Google Platform—Real Estate Tax**

<b>Period</b>	<b>Keywords</b>	<b>Number of searches</b>	<b>Searches in total</b>
May 2017– April 2018	“Real Estate Tax” (without the spelling of the Latvian language)	90	1690
	“Real Estate Tax” (without the spelling of the Latvian language)	1600	
May 2016– April 2017	“Real Estate Tax” (without the spelling of the Latvian language)	70	1670
	“Real Estate Tax” (without the spelling of the Latvian language)	1600	
May 2015– April 2016	“Real Estate Tax” (without the spelling of the Latvian language)	90	1690
	“Real Estate Tax” (without the spelling of the Latvian language)	1600	

Source: Google AdWords Analytics

**Figure 8: Google AdWords Keyword Planner Statistics Dynamics on Google Platform—Real Estate Tax**



Source: Google AdWords Analytics

Petitioners claim that collections from PIT shall be sufficient for budgets of municipalities (the RET portion is only around 6 percent, in Riga it is more than 10 percent). Petitioners were founded the NGI and intend to contest the property tax in the Constitutional Court or European Court of Justice seeking its annulment. Almost 36,000 votes have been collected to initiate a referendum for annulment of the residential property tax on primary residences (150,000 votes are needed, which is very high amount for Latvia).

### Conclusions

Until now, numerous controversial topics has been widely discussed in public media (press, television, and radio channels), social networks (Facebook communication), and among politicians, but a compromise has not been achieved yet. The demand has changed dramatically in the detached housing segment compared to the pre-crisis period. Purchasers demand the economic benefits—size of building and plot area, cheap, well-maintained, with developed infrastructure and access to public services.

Public discussions and activities obviously showed that there are problems with RET in Latvia, but for a rather small group. Despite the poor quality of cadastral values, only 2 percent of all property has high tax burden (mostly owners of detached houses). It is evident from public discussion and protests that only small number of people support the petitioners’ activities.

Admittedly, with the rise of cadastral values, RET rates have not changed, to keep RET affordable for residents that do not fall into any categories of those who receive RET relief. Similarly, there is a gradual understanding in society about the significance of RET— increasingly often, opinions are voiced that RET is necessary and is a disciplinary tax. Residents agree that higher RET rates should be applied to second homes. Information is being collected on rescuing RET due to tax debt.

It is apparent that society and institutions still have a rather shallow understanding of the significance of RET and its principles. For example, the MF could not convince the protesters that RET is an important income source for municipalities, but at the same time were blaming the problems on cadastral valuation. Taking into consideration the taxation practices of other European countries, currently there is also a dominant opinion that cadastral values should play a less important role in the determination of RET rates, but that RET should be considered a fixed tax. Although many adjustments will have to be achieved by reducing costs, that may not be enough. Therefore, some revenue increasing measures are inevitable. RET is one possible tax that could increase.

Currently, Latvia's cadastral valuation system requires a number of significant improvements to solve the main problems and to promote public confidence in the system of cadastral assessment. It is urgently necessary to develop a systematic and comprehensive process to acquire and update building data to ensure a functioning cadastral system for the future. This system will allow use of actual and sufficient data about the internal and external conditions of buildings for mass valuation purposes. The different data sets must be created for the specific building types.

In preparing for the main reform to increase revenue, it is necessary to adopt measures to protect the poorest people. The reform will be carried out to generate additional revenue of at least 0.5 percent of GDP. To ease the transition to a higher property tax, the reform could be implemented gradually over two years, providing additional measures to achieve the deficit target. The concept for improvement of building data collection and cadastral valuation has been cancelled.

In public discussion, there is the dominant opinion that RET is "unfinished homework" of the government before the approaching government elections in the autumn of 2018. Benefits from integrated property data management (the State Land Service's online geospatial data distribution portal at <https://www.kadastrs.lv/>), spatial development planning information system,<sup>41</sup> and building data information system also will contribute to improved functioning of the property taxation system and mass property valuation in Latvia.

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<sup>41</sup> <https://likumi.lv/ta/en/id/238807-spatial-development-planning-law>

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