

**A Study of European Land Tax Systems**  
Second Year Report

P.K. Brown and M.A. Hepworth

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**Working Paper**

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## **Abstract**

The research seeks to examine the nature, scope and implementation of property taxation systems in Europe. The paper builds upon research carried out in 1999/2000 by the authors (under the David C. Lincoln Fellowship programme) in respect of 24 countries. This paper expands the coverage to some 42 countries but also widens the study to include an overview of government organisation within those countries. It also includes a brief description of the main sources of local government finance.

It first considers the main types of property taxation that can be found in Europe such as annual property taxes, inheritance taxes, value added tax etc. and attempts in a series of tables to compare the main features of each tax as adopted in the countries studied.

It then considers the background to the property taxation and deals with issues such as the current tax reforms that are being currently undertaken within Europe. It then outlines the impact of such changes for all aspects of property taxation. Consideration is then given to some of the key generic features of the systems implemented across Europe – the nature of the taxpayer, basis of valuation, exemptions, appeals etc. with a particular emphasis on annual property taxes. The final and major part of the work describes the current knowledge of around 190 the individual taxes, duties and levies as applied in the 42 countries studied.

## About the Authors

**Peter K Brown** is professor of property taxation at Liverpool John Moores University. He is a regular speaker on a wide variety of valuation, rating taxation matters and has presented papers both in Europe and South East Asia. He is editor of "Rating Digest" and author of a range of books and electronic publications including "Rating Cases", "NNDR InfoBase", "The Contractor's Basis" and "Receipts and expenditure Basis". He is a regular contributor to "Insight" the Institute of Revenue Rating and Valuation monthly publication. He is also editor of "The Impugner" published by the RICS. Recently he has served on a government committee looking into the valuation of plant and machinery and acted as an advisor to the Department of Environment Regions and Transport on taxation matters.

School of the Built Environment  
Liverpool John Moores University  
Clarence Street  
Liverpool L3 5UG  
United Kingdom  
+44 151 231 3606  
e-mail [P.K.Brown@btinternet.com](mailto:P.K.Brown@btinternet.com) or [bltpbrow@livjm.ac.uk](mailto:bltpbrow@livjm.ac.uk)

**Moira A. Hepworth** is head of policy and research for the Institute of Revenues, Rating and Valuation (IRRV) in London, England. She joined the IRRV's newly established Policy and Research section in 1989. Her work involves formulating and putting forward Institute policy on all aspects of local taxation and related property valuation matters, and disseminating information to the Institute's 6,000 members. Recent projects include a one-year study of council tax collection arrangements across Great Britain on behalf of the Scottish Executive Central Research Unit; earlier projects included examination of the incidence and impact of empty property rating in England and Wales, and research on community charge levels in Great Britain.

Head of Policy and Research  
Institute of Revenues Rating and Valuation  
41 Doughty Street  
London WC1 2LF  
+44 1636 813852  
e-mail [Moira.Hepworth@irrv.org.uk](mailto:Moira.Hepworth@irrv.org.uk) or [Moira.Hepworth@btinternet.com](mailto:Moira.Hepworth@btinternet.com)

## Table of Contents

A Study of European Land Tax Systems Second Year Report .....	1
1 Project Summary .....	1
2 Project Description .....	1
3 Research Approach .....	2
4 Introduction.....	2
5 Tax Reform At The Beginning Of The 21 <sup>st</sup> Century .....	4
6 Reform of Governance .....	6
7 Feature of European Property Taxation.....	7
7.1 Income Tax .....	7
7.2 Inheritance and Gift Taxes.....	8
7.3 Capital Gains Tax .....	14
7.4 Value Added Tax .....	15
7.5 Stamp Duty, Registration Duty, Property Transfer Tax .....	21
7.6 Wealth Tax.....	22
8 Local Government Finance.....	23
9 Nature of Local Property Taxation.....	30
10 Analysis of Approaches to Local Taxation.....	30
10.1 The Taxpayer (See Table 8).....	31
10.2 Sources of Valuation Information.....	31
10.3 Basis of Valuation.....	32
10.4 Revaluations.....	40
10.5 Exemptions and Reliefs .....	41
10.6 The Calculation of the Amount of Tax.....	49
10.7 Appeal Systems.....	49
10.8 Tax collection and payment.....	50
11 Albania.....	51
11.1 Government Organisation and Structure .....	51
11.2 Local Government Finance.....	52
11.3 Property Tax.....	54
11.4 Inheritance and Gift Tax .....	55
11.5 Wealth Tax.....	56
11.6 Other Taxes.....	56
12 Austria.....	57
12.1 Government Organisation And Structure .....	57
12.2 Local Government Finance.....	58
12.3 Real Estate Tax .....	59
12.4 Capital Gains Tax .....	61
12.5 Inheritance And Gift Taxes.....	61
12.6 Real Estate Transfer Tax.....	63
12.7 Value Added Tax .....	65
12.8 Other Taxes.....	66
13 Armenia.....	67

13.1	Property Tax.....	67
13.2	Land Tax .....	68
13.3	Wealth Tax.....	69
14	Belgium.....	71
14.1	Government Organisation And Structure .....	71
14.2	Income Tax .....	74
14.3	Inheritance tax.....	78
14.4	Other Taxes.....	80
15	Belorussia.....	85
15.1	Land Tax And Real Estate Tax.....	85
16	Bulgaria.....	87
16.1	Government Organisation And Structure .....	87
16.2	Local Government Finance.....	88
16.3	Immoveable Property Tax.....	89
16.4	Inheritance Tax .....	91
16.5	Tax On The Acquisition Of Property As A Gift Or For Consideration..	93
16.6	Wealth Tax.....	95
17	Croatia.....	97
17.1	Government Organisation And Structure .....	97
17.2	Local Government Finance.....	97
17.3	Advertisement Tax.....	98
17.4	Capital Gains Tax .....	99
17.5	Holiday Resort Homes Tax.....	99
17.6	Inheritance and Gift Tax .....	100
17.7	Tax On Idle Lands .....	101
17.8	Tax On Idle Real Property.....	103
17.9	Wealth Tax.....	104
17.10	Other Taxes.....	104
18	Cyprus.....	105
18.1	Government Organisation And Structure .....	105
18.2	Improvement Boards and Village Authorities .....	107
18.3	Capital Gains Tax .....	107
18.4	Gift tax .....	108
18.5	Immoveable Property (Towns) Tax.....	108
18.6	Immoveable Property Tax.....	108
18.7	Inheritance Tax (Estate Duty).....	110
18.8	Property Registration Fee .....	110
18.9	Stamp Duty And Transfer Fees.....	111
18.10	The Improvement Rate Law .....	113
18.11	Town Rate.....	113
18.12	Value Added Tax .....	113
18.13	Wealth Tax.....	113
19	Czech Republic .....	115
19.1	Government Organisation and Structure .....	115
19.2	Local Government Finance.....	116
19.3	Gift tax .....	116
19.4	Inheritance Tax .....	117

19.5	Levy On Withdrawal Of Land From Agriculture .....	120
19.6	Levy On Withdrawal Of Land From Forestry .....	120
19.7	Property Transfer Tax .....	121
19.8	Real Estate Property Tax – Building Tax .....	121
19.9	Real Estate Property Tax – Land Tax .....	123
19.10	Wealth Tax .....	125
20	Denmark .....	127
20.1	Government Organisation And Structure .....	127
20.2	Local Government Finance .....	129
20.3	Real Estate Tax .....	131
20.4	Municipal and County tax on the value of immovable property .....	133
20.5	Inheritance And Gift Tax .....	135
20.6	Registration Fee .....	136
20.7	Stamp Duty .....	137
20.8	Capital Gain Tax .....	137
20.9	Wealth Tax .....	137
21	Estonia .....	139
21.1	Government Organisation And Structure .....	139
21.2	Local Government Finance .....	139
21.3	Inheritance Tax .....	140
21.4	Land Tax .....	141
21.5	Stamp Duty .....	143
21.6	Wealth Tax .....	143
22	Finland .....	145
22.1	Government Organisation And Structure .....	145
22.2	Local Government Finance .....	146
22.3	Real Property Tax .....	147
22.4	Transfer Tax .....	148
22.5	Inheritance Tax .....	150
22.6	Gift Tax .....	152
22.7	Wealth Tax .....	154
23	France .....	157
23.1	Local and Regional Government .....	157
23.2	Tax Reform .....	157
23.3	General Property Related Taxes .....	158
23.4	Local Property Taxes .....	159
23.5	Business Tax .....	161
23.6	Taxe d’habitation .....	164
23.7	Taxe Fonciere Sur Les Propriétés Bâties & Taxe Fonciere Sur Les Propriétés Non Bâties .....	165
23.8	Other Taxes .....	167
24	Germany .....	169
24.1	Government Organisation And Structure .....	169
24.2	Local Government Finance .....	170
24.3	Real Estate Tax .....	170
24.4	Real Estate Transfer Tax .....	172
24.5	Succession And Gift Tax .....	173
24.6	Other Taxes .....	175

25	Greece .....	177
25.1	Government Organisation And Structure .....	177
25.2	Local Government Finance.....	178
25.3	Inheritance Tax .....	179
25.4	Tax on Gifts .....	181
25.5	Real Estate Transfer Tax.....	182
25.6	Stamp Duty .....	184
25.7	Tax On Major Real Estate.....	184
25.8	Wealth Tax.....	186
26	Hungary.....	187
26.1	Government Organisation and Structure .....	187
26.2	Local Government Finance.....	188
26.3	Building Tax .....	189
26.4	Communal Tax payable by Private Individuals.....	190
26.5	Duty On Gifts.....	191
26.6	Duty on Inheritance.....	192
26.7	Duty on Onerous Transfer of Property .....	193
26.8	Land Parcel tax .....	194
26.9	Other Taxes.....	195
27	Iceland.....	197
27.1	Government Organisation and Structure .....	197
27.2	Local Government Finance.....	197
27.3	Taxation .....	197
27.4	Real Property Tax .....	197
27.5	Inheritance Tax .....	197
27.6	Net Wealth Taxes.....	197
28	Ireland .....	199
28.1	Government Organisation and Structure .....	199
28.2	Local Government Finance.....	200
28.3	Capital Gains Tax .....	200
28.4	Gift Tax.....	203
28.5	Inheritance Tax .....	204
28.6	Rates (Pre Valuation Act 2001).....	206
28.7	Rates (Valuation Act 2001) .....	208
28.8	Residential Property Tax.....	213
28.9	Stamp Duty .....	217
29	Italy .....	224
29.1	Government Organisation And Structure .....	224
29.2	Local Government Finance.....	225
29.3	Imposta Comunale Immobiliare .....	226
29.4	Succession and Gift Duty.....	227
29.5	Tax On The Gains From Immoveable Property .....	228
29.6	Wealth Tax.....	229
29.7	Other Taxes.....	229
30	Latvia .....	231
30.1	Government Organisation And Structure .....	231
30.2	Local Government Finance.....	231
30.3	Introduction.....	232

30.4	Capital Gains Tax .....	232
30.5	Real Estate Tax .....	232
30.6	Wealth Tax.....	234
31	Luxembourg.....	235
31.1	Government Organisation and Structure .....	235
31.2	Local Government Finance.....	236
31.3	Inheritance Tax .....	236
31.4	Registration Duty.....	237
31.5	Tax On Land And Buildings.....	238
31.6	Wealth Tax.....	239
31.7	Other Taxes.....	240
32	Macedonia.....	241
32.1	Government Organisation And Structure .....	241
32.2	Local Government Finance.....	241
32.3	Capital Gains.....	242
32.4	Inheritance Tax .....	242
32.5	Property Tax.....	243
33	Malta .....	245
34	Moldova .....	247
34.1	Commercial Enterprise Tax .....	247
34.2	Personal Property Tax.....	248
34.3	Land Tax .....	248
35	Netherlands .....	251
35.1	Government Organisation and Structure .....	251
35.2	Local Government Finance.....	253
35.3	Onroerendezaakbelastingen (OGB).....	253
35.4	Succession Duty.....	258
35.5	Tax On Legal Transactions.....	259
35.6	Waterschap Levy .....	260
35.7	Wealth Tax.....	261
35.8	Other Taxes.....	262
36	Norway.....	263
36.1	Government Organisation And Structure .....	263
36.2	Inheritance Tax .....	264
36.3	Wealth Tax.....	265
37	Poland .....	267
37.1	Government Organisation and Structure .....	267
37.2	Local Government Finance.....	269
37.3	Introduction.....	270
37.4	Urban Property Tax.....	270
37.5	Inheritance tax.....	272
37.6	Real Estate Property Tax .....	273
37.7	Agricultural Property Tax .....	274
37.8	Other Taxes.....	276
38	Portugal.....	277
38.1	Government Organisation and Structure .....	277
38.2	Local Government Finance.....	278

38.3	Contribuido Autarquica .....	278
38.4	Inheritance And Gift Taxes.....	280
38.5	Property Transfer Tax .....	281
38.6	Other Taxes.....	283
39	Romania.....	285
39.1	Government Organisation and Structure .....	285
39.2	Local Government Finance.....	285
39.3	Building Tax .....	286
39.4	Land Tax .....	287
39.5	Other Taxes.....	288
40	Russia.....	289
40.1	Tax On Property Of Enterprises .....	289
40.2	Tax On Property Of Individuals .....	290
40.3	Land Tax .....	291
41	Slovak Republic .....	295
41.1	Government Organisation And Structure .....	295
41.2	Local Government Finance.....	296
41.3	Inheritance and Gift Tax .....	296
41.4	Land Tax .....	299
41.5	Tax on Buildings.....	300
41.6	Other Taxes.....	303
42	Slovenia.....	305
42.1	Government Organisation And Structure .....	305
42.2	Local Government Finance.....	305
42.3	Immoveable Property Transfer Tax.....	305
42.4	Inheritance And Gift Tax .....	306
42.5	Property Tax.....	308
42.6	Local Charge for the Use of Building Ground.....	309
42.7	Wealth Tax.....	310
43	Spain .....	311
43.1	Government Organisation and Structure. ....	311
43.2	Local Government Finance.....	312
43.3	Local Property Tax (IBI) .....	313
43.4	Succession And Gift Duty .....	314
43.5	Urban Land Appreciation Tax .....	315
43.6	Wealth Tax.....	317
43.7	Other Taxes.....	318
44	Sweden.....	321
44.1	Government Organisation and Structure .....	321
44.2	Local Government Finance.....	321
44.3	Real Estate Tax .....	321
45	Switzerland .....	325
45.1	Government Organisation and Structure .....	325
45.2	Local Government Finance.....	325
45.3	Land Tax (liegenschafts-oder grundsteuern) .....	326
45.4	Municipal Business Tax.....	326
45.5	Real Property Transfer Tax.....	326

45.6	Net Wealth Tax .....	326
46	Turkey .....	329
46.1	Government Organisation and Structure .....	329
46.2	Local Government Finance.....	329
46.3	Real Estate Taxes.....	329
46.4	Stamp duty .....	329
47	United Kingdom - England.....	331
47.1	Local Government Structure.....	331
47.2	Non-domestic Rating (Rates).....	332
47.3	Council Tax.....	345
47.4	Capital Gains Tax .....	355
47.5	Inheritance Tax .....	359
48	United Kingdom - Wales .....	363
48.1	Non-domestic rating.....	363
48.2	Council Tax.....	365
49	United Kingdom - Scotland .....	367
49.1	Local Government Organisation.....	367
49.2	Non-Domestic Rating .....	368
49.3	Council Tax.....	372
49.4	Inheritance Tax .....	374
49.5	Capital Gains Tax .....	374
50	United Kingdom - Northern Ireland .....	375
50.1	Introduction.....	375
50.2	Rates.....	375
50.3	Inheritance tax.....	380
50.4	Capital Gains Tax .....	380
51	Yugoslavia .....	381
51.1	Government Organisation and Structure .....	381
51.2	Local Government Finance.....	381
51.3	Real Estate Tax .....	381
51.4	Inheritance and Gift Tax .....	383
51.5	Urban Land Use Charge.....	383
51.6	Local Facilities Charge .....	384
51.7	Local Public Utility Duty.....	385
52	References.....	386
52.1	General References .....	386
52.2	Albania.....	386
52.3	Austria.....	387
52.4	Armenia.....	387
52.5	Belgium.....	387
52.6	Bulgaria.....	387
52.7	Croatia.....	388
52.8	Cyprus.....	388
52.9	Czech Republic .....	388
52.10	Denmark.....	388
52.11	Estonia.....	389
52.12	Finland .....	389

52.13	France.....	390
52.14	Germany.....	390
52.15	Greece .....	391
52.16	Hungary.....	391
52.17	Iceland.....	391
52.18	Ireland .....	391
52.19	Italy .....	392
52.20	Latvia .....	392
52.21	Lithuania .....	393
52.22	Luxembourg.....	393
52.23	Macedonia.....	393
52.24	Moldova .....	393
52.25	Netherlands .....	393
52.26	Norway.....	394
52.27	Poland .....	394
52.28	Portugal .....	395
52.29	Romania .....	395
52.30	Slovakia.....	395
52.31	Slovenia.....	396
52.32	Spain .....	396
52.33	Sweden.....	396
52.34	Switzerland .....	397
52.35	United Kingdom - England and Wales .....	397
52.36	United Kingdom - Scotland .....	398
52.37	Yugoslavia .....	398

## Tables

Table 1; Corporation and Income Tax Rates 2001 - European Comparison .....	8
Table 2; Inheritance and Gift Tax - European Comparison.....	10
Table 4; Capital Gains Tax - European Comparison .....	14
Table 5: Value Added Tax - European Comparison.....	19
Table 6; Stamp Duty, Registration Duty, Transfer Tax – European Comparison .....	22
Table 7; Wealth Tax - European Comparison .....	22
Table 8; European Allocation of Government Functions - European Comparison.....	29
Table 9: Annual Land and Property Taxes - European Comparison .....	39
Table 10; Annual Land and Property Taxes - Exemptions - European Comparison.....	48
Table 12: Albania; Government Organisation and Structure .....	51
Table 13: Albania; Allocation of Public Services.....	52
Table 14: Austria; Allocation of Public Services .....	58
Table 15: Austria; Inheritance Tax - Tax Classes.....	62
Table 16: Austria; Inheritance Tax Rates (2001).....	62
Table 17: Austria; Inheritance Tax Exemptions .....	63
Table 18: Austria; Real Estate VAT Rates .....	65
Table 19: Armenia; Property Tax Rates for Other Buildings .....	68
Table 20: Belgium; Allocation of Public Services .....	72
Table 21: Belgium; Revenu Cadastral - Index Co-efficients 1991 - 2001 .....	75
Table 22: Belgium; Revenu Cadastral - Dwelling House Relief.....	76
Table 23: Belgium; Revenu Cadastral - Calculation of Taxable Amount.....	77
Table 22: Belgium; Income Tax - Calculation of Income Tax .....	77
Table 25: Belgium; Income Tax Rates 2001 .....	78
Table 24: Belgium; Inheritance Tax - Walloon and Brussels Region between lineal relatives and between spouses .....	79
Table 25: Belgium; Inheritance Tax - Walloon and Brussels Region between collateral relatives and between non-relatives .....	79
Table 26: Belgium; Inheritance Tax - Flemish Region - lineal relatives, between spouses and between cohabitants.....	80
Table 27: Belgium; Inheritance Tax - Flemish Region - between brothers and sisters or between "others" .....	80
Table 28: Bulgaria; Inheritance Tax Rates For Spouses And Direct Family .....	92
Table 29: Bulgaria; Inheritance Tax Rates For Heirs Of A Collateral Line.....	92
Table 30: Bulgaria; Inheritance Tax - Tax Rates For Other Heirs .....	93
Table 31: Cyprus; Immoveable Property Tax Rates.....	109
Table 32: Cyprus; Property Registration Fee Rates.....	111
Table 33: Cyprus; Stamp Duty Rates.....	112
Table 34: Czech Republic; Gift Tax Relationship Classes.....	117
Table 35: Czech Republic; Inheritance Tax Relationship Classes .....	118
Table 36: Czech Republic; Inheritance & Gift Tax - Class 1 Taxpayers .....	118
Table 37: Czech Republic; Inheritance & Gift Tax - Class 2 Taxpayers .....	119
Table 38: Czech Republic; Inheritance & Gift Tax - Class 3 Taxpayers .....	120
Table 39: Czech Republic; Property Tax Rates.....	122
Table 40: Czech Republic; Property Tax, Location Coefficients .....	123
Table 41: Denmark; Allocation of Public Services .....	129
Table 42: Denmark; Local Lovernment Finance Income and Expenditure 1999.....	130
Table 43: Denmark; Amtskommunal grundskyld tax rates 1998 .....	132
Table 44: Estonia; Land Tax Revenue 1996 - 1999).....	143

Table 45: Finland; Inheritance Tax – Relationship.....	151
Table 46: Finland; Inheritance Tax Rates.....	151
Table 47: Finland; Inheritance Tax Rates Adjustment.....	151
Table 48: Finland; Gift Tax - Relationship.....	153
Table 49: Finland; Gift Tax Rates.....	153
Table 50: Finland; Gift Tax Rates Adjustment.....	153
Table 51: France Regions.....	157
Table 52: Germany; Inheritance and Gift Tax Reliefs.....	173
Table 53: Germany; Inheritance and Gift Tax Reliefs (Children).....	174
Table 54: Germany; Inheritance and Gift Tax - Tax Classes.....	174
Table 55: Germany; Inheritance and Gift Tax Rates.....	175
Table 56: Greece; Inheritance Tax Rates.....	180
Table 57: Cyprus; Tax on Major Real Estate Rates.....	185
Table 58: Ireland; Sources of Local Authority Income 2000.....	206
Table 59: Ireland; Appeal Fees.....	208
Table 60: Ireland; Residential Property Tax Value and Income Exemptions.....	217
Table 61: Ireland; Stamp Duty - Identification of Taxpayer.....	218
Table 62: Norway; Inheritance Tax Rates.....	265
Table 63: Norway; Wealth Tax Rates.....	266
Table 64: Poland; Local Government Income Sources 1995 - 1997.....	269
Table 65: Poland; Inheritance Tax - Classes of Taxpayer.....	273
Table 66: Poland; Inheritance Tax Rates.....	273
Table 67: Portugal; Inheritance & Gift Tax Rates.....	281
Table 68: Portugal; Tax rates <i>Imposto Municipal de Sisa</i> for residential property.....	282
Table 69: Russia; Tax On Property Of Individuals - Tax Rates.....	291
Table 70: Slovak Republic; Inheritance & Gift Tax - Class 1 Taxpayers.....	297
Table 71: Slovak Republic - Inheritance & Gift Tax - Class 2 Taxpayers.....	298
Table 72: Slovak Republic -Inheritance & Gift Tax - Class 3 Taxpayers.....	299
Table 73: Slovak Republic; Property Tax Rates.....	302
Table 74: Slovak Republic; Property Tax - Location Coefficients.....	302
Table 75: Slovenia; Inheritance Tax Relationship Classes.....	307
Table 76: Slovenia; Inheritance Tax Rates.....	307
Table 77: Spain; Maximum rates of <i>Impuesto sobre bienes inmuebles</i> .....	314
Table 78: Spain; Tax Rates adjusted for period of ownership <i>Impuesusto de valor de los terrenos de naturaleza urbana</i> .....	316
Table 79: Spain; Tax Rates <i>Impuesusto de valor de los terrenos de naturaleza urbana</i> .....	317
Table 80: Sweden; Revaluation programme.....	322
Table 81: Sweden; Real estate tax rates 1994 - 2000.....	323
Table 82: Sweden; Real Estate Tax Revenue 1997.....	323
Table 83: Sweden; Number and value of dwellings 1998.....	324
Table 84: Switzerland; Authority to Tax.....	326
Table 85: United Kingdom - England; Backdating of Appeals.....	341
Table 86: United Kingdom - England; Uniform Business Rate 1990 – 2000.....	342
Table 87: United Kingdom - England; Number of hereditaments 1990 - 1999.....	343
Table 88: United Kingdom - England; Rateable Values (1990 - 1999).....	343
Table 89: United Kingdom - England; NNDR Collection Rates (1998 - 1999).....	344
Table 90: United Kingdom - England; NNDR Contribution to Pool (1999 - 2000).....	344
Table 91: United Kingdom - England; Council Tax Bandings.....	351
Table 92: United Kingdom - England; Council Tax banding proportions.....	353

Table 93: United Kingdom - England; Number of dwellings in Valuation Lists at March 1999 (DETR) .....	354
Table 94: United Kingdom - England; Council Tax Income (DETR).....	355
Table 95: United Kingdom - England; Council Tax Collection Rates (DETR) .....	355
Table 96; United Kingdom - Capital Gains Tax Allowances - Non Business Assets	356
Table 97; United Kingdom - Capital Gains Tax Allowances - Business Assets .....	357
Table 98; United Kingdom; Inheritance Tax - Death Rates grossed up .....	360
Table 99; United Kingdom; Inheritance Tax - Death Rates .....	360
Table 100; United Kingdom; Inheritance Tax - Lifetime Rates grossed up.....	361
Table 101; United Kingdom; Inheritance Tax - Lifetime Rates .....	361
Table 102: United Kingdom - Wales; UBR 1990 - 2000 .....	364
Table 103: United Kingdom - Wales; Council Tax Bands .....	366
Table 104: United Kingdom - Scotland; UBR 1995 - 2000 .....	371
Table 105: United Kingdom - Scotland; Non-domestic Rating - Total Rateable Values and Income 1992 - 2000 .....	372
Table 106: United Kingdom - Scotland; Council Tax Bandings.....	373
Table 107: Scotland; Council Tax Rates 2000 - 2001 .....	374
Table 108: Northern Ireland; Rate Poundage .....	379

## **1 Project Summary**

The research project seeks to develop a comprehensive reference source in English regarding the nature, scope and implementation of property taxation systems in Europe, from an assessment and application viewpoint. It seeks to provide primarily the valuation practitioner and the academic and business sectors with clear and concise advice on local property taxation in Europe.

It was proposed that the whole research project would take three years to complete and the following paper outlines the position after the completion of the first year's work.

## **2 Project Description**

Whilst previous research has been undertaken into property taxation<sup>1</sup>, such work has tended to concentrate on the economic and fiscal aspects of the taxes or be specific to a limited range of countries.

The proposed research concentrates on the application of the tax as it affects the property owner or occupier; it looks at the issues from the point of view of the taxpayer. Surprisingly no single comprehensive English language source exists which documents the property taxation systems in Europe. This research will remedy that deficiency.

The effects of different taxation systems and tax rates applied in Europe are becoming increasingly important, especially for those countries within the European Union. Already problems are being encountered in such diverse areas as excise duty, Value Added Tax and income and corporation tax regimes. Not surprisingly, the impact of taxation is becoming an ever more important factor in deciding where to locate a business. Only recently the Dutch Ministry of Finance expressed particular concern over the differences in taxation regimes and rates across Europe and the effects that this was having on their economy.

The project seeks to develop a comprehensive and authoritative reference work on the local property taxation systems employed in each country. The research will provide answers to typical questions such as:

- Name of tax(es);
- Statutory Provision
- Purpose of the tax and to what purpose is the revenue put;
- How the tax base is set or established;
- Basis of valuation for tax purposes;
- Frequency of review of tax base;
- Nature of any exemptions or reliefs for classes of taxpayer;
- Challenges to tax base, valuation or assessment;
- Nature of taxpayer;
- Amount of tax;
- Frequency of payment;
- Identification of tax collector; and
- Typical examples of the application of the tax base;

In addition, the research will provide a general commentary and analysis of the approach adopted in each country.

### **3 Research Approach**

For the purposes of the research the English legal definition of land<sup>ii</sup> was adopted which not only includes the land itself but includes any fixtures (buildings) attached to the land and extends to anything growing on the land. The definition will also include anything under the surface of the land (minerals) as well as rights over the land, such as a right for an electricity cable which crosses the airspace.

The first stage of the research was initially undertaken by reference to published material in order to identify the full range of taxes that would form the detailed study. Where possible reference has been made to the original legislation though translation problems has meant that not all available material has been able to be fully studied by the time this second report is published. A number of governments have been able to make available English translations and where these are available no reference has been made to the original source. For the sake of consistency, terminology adopted in the official translations has been followed.

Supplementary publications by the various governments studied has also been reviewed with a view further detailing the practical interpretation of the legislation and to highlight some of the applications of the taxes. Publications by the various tax and statistical offices across Europe as well as the OECD and European Union has revealed a range of statistics on the amounts of revenues raised and other matters. Due to constraints of space it has not been possible to include this information at the present time. Reference has also be made to a wide range of tax and other material published throughout Europe. Substantial assistance has been obtained from the staff at the IBFD in Amsterdam, who have made not only their own publications available, but also their staff as well.

Currently further work on the verification of the data is underway. Contacts have been established with various governments and other bodies with a view to verifying our current understanding of the information as well as ascertaining missing information. Further work is being undertaken in an attempt to provide consistent and up to date tax revenue, collection and data for all countries. Given the nature of the work it is not uncommon for some published figures to be at least a year old.

### **4 Introduction**

As highlighted above, the purpose and eventual outcome of this research is not to produce a piece of academic research but rather the publication of a reference text on property taxation as implemented within Europe. Such a publication should be a useful reference work not only for advisors such as lawyers, accountants and property professionals but also to businesspersons who need advice as to what taxation liability they will incur if they rent or buy property in another European country. The normal tax regimes of most countries are more than well documented but property taxation is covered in less detail.

This working paper can only be a brief summary of the current state of the research and some of the more detailed information has had to be omitted from this paper.

Typical of the exclusions that have been made are the individual rates of taxes in those cases where they are set by the municipality. In some cases there can be over 2,000 different rates for just one tax. Where possible typical ranges have been included to put the tax burden into some form of context.

In order to assist further research a CD entitled “European Property Taxation” will be made available to other David C. Lincoln Fellows. This CD provides more detailed information not only on each county studied but also contains publications which are in the public domain from the various tax authorities.

There are many definitions of Europe but for the purpose of this paper we are including the following countries:

Albania‡	Austria	Armenia*	Belgium*
Belorussia*‡	Bulgaria‡	Croatia*‡	Cyprus*
Czech Republic‡	Denmark	Estonia‡	Finland*
France	Germany*	Greece*	Hungary‡*
Iceland*	Ireland	Italy	Latvia‡*
Luxembourg*	Macedonia‡	Malta	Moldova‡
Netherlands	Norway*	Poland‡	Portugal
Romania‡	Russia*‡	Slovakia‡	Slovenia‡*
Spain	Switzerland	Sweden	Turkey*
United Kingdom— England	United Kingdom— Wales	United Kingdom— Scotland	United Kingdom— Northern Ireland*
Yugoslavia*			

Countries marked with an “\*” are included in the main body of this paper for the first time. The United Kingdom has been divided into individual countries as each country operated local taxes on a different basis.

Countries marked with an “‡” fall within our description of the emerging democracies.

Whilst basic information is currently not available for some of the countries included in the research it is clear that every country, other than Malta and Norway, have some form of local property taxation system. Of the 40 counties outlined above there are approximately 190 different forms or implementations of local taxation of property. The majority of taxes are taxes based on an annual value, usually assessed on a capital or rental basis, and are levied annually. Some countries, particularly those where property systems and or records are not well developed may adopt a tax liability based on area.

Whilst most countries tax the sale of property in some form or other at state level, the Czech Republic, Italy, Portugal Slovakia and Spain, levy taxes on the sale of property at the local level.

## **5 Tax Reform At The Beginning Of The 21<sup>st</sup> Century**

One recurring feature observed in undertaking the research was the number of countries who were either currently reforming their taxation system or had recently completed such reforms. Even in the emerging democracies there was evidence of relatively new systems being reviewed and reformed in the light of activity taking place in other countries.

The introduction of the Single European Market has resulted in the removal of trade barriers and the abolition of customs duties between member states. The opening up of internal markets to foreign competition has meant that businesses are no longer protected by trade barriers and customs duties, nor can they rely on state aid any longer. How competitive a business is, now depends on how efficient they are and the amount of taxation imposed on them by their national government.

Probably the first signs of the problems caused by national levels of taxation was identified by the Ministry of Finance in the Netherlands in the early 1990's. The Ministry identified the problem that businesses were not only locating in the most tax favourable areas but could now buy goods and services from other countries where tax rates and other costs were lower. The close proximity of The Netherlands to Germany, France, Belgium and Luxembourg as well as the good transport links between the countries exacerbated the situation.

Over the last 10 years France, Denmark, Germany, The Netherlands, Belgium, United Kingdom and the Republic of Ireland have either completed or are in the process of completing substantial reforms to their taxation systems. Other countries have undertaken more minor reforms often in response to reforms that have been made in other countries.

No individual tax can be seen as a totally stand-alone tax and the reform of one tax will often have consequential effects on others. Property taxation in all its forms is no exception. Many forms of non-annual property taxes exist in Europe but these are usually levied at a national level though in some cases they can be levied by local government. Further details may be found on the accompanying CD, European Property Taxation.

At the same time countries were often taking the opportunity to bring the rates of taxation more into line with member states in order to ensure that they were fully competitive on membership. For example, Poland will phase a reduction in its corporate tax rate from 32% to 22% by 2004 and Bulgaria has already reduced its rate from 30% in 1999 to 25% in 2000. In Estonia, the Czech Republic and Poland a wide range of changes have also been made to various taxes that affect property ownership, leasing and investment. Germany also is undertaking a major tax reform which is due to be completed by 2005. The higher rate of Income Tax will fall from 53% in 1998 to 42% by 2005, the basic rate from 25.9% to 15%. At the same time personal allowance

will be increased by 21.95%. Corporation Tax will fall from 45% to 25% over the same period.

2001 saw the introduction of the new taxation system in the Netherlands. The principle objectives of the change included:

- stimulation of employment opportunity, and strengthening of the Netherlands' economic structure and international competitive edge;
- reduction of the burden of taxation on labour;
- promotion of sustainable economic development (“greening”);
- creation of a balanced and just burden of taxation;
- broadening and strengthening of the taxation base, through reduced and amended deductions;
- promotion of emancipation and economic independence;
- simplification of the taxation system.

One of the drivers of tax reform in Europe either directly or indirectly may be the European Union (EU) of which 15 of the countries studied are already members.<sup>iii</sup> In addition there have been applications for membership from many of the other countries which are in various stages of consideration. A recent survey<sup>iv</sup> highlighted that as part of the application process for membership of the EU, countries needed to reform and improve their tax administration systems. In the area of Valued Added Tax (VAT) all EU countries are required to follow the provisions of the 6<sup>th</sup> Directive. It was noticeable that many non EU countries have implemented their own VAT systems heavily based on the directive.

The effect of the change saw a marked change from direct to indirect taxation. It should be noted that as part of the revised taxation system, local property taxes were one of the first taxes to be reviewed and updated.

In the first report it was stated that

*“It is not one of the declared aims of the EU to bring about tax harmonisation though it does recognise that this may be a natural consequence of many of its policies.”*

Since that report in September 2000 the EU has issued a report “Tax policy in the EU” (ISBN 92-828-8734-0). In this report it reviewed the old policy where

*“there was not at first sight thought to be the same need for co-ordination on direct taxes (as VAT)”*

However, the report acknowledged that both people and companies will locate in countries where they will pay the least amount of tax and this will lead to tax competition between member states. It now recognises that there may be a case for the overall management (and control) of the different tax systems that operate in member states. The rationale for such control (or interference) being justified on the grounds of the need to protect other member states from unfair tax competition practices.

A more recent document “Tax policy in the European Union—Priorities for the year ahead” (Com(2001) 260 of the 23<sup>rd</sup> May 2001) attempts to formalise an EU tax policy and proposes a course of action to be adopted for its implementation. There is no doubt that as the EU takes more of an interest in taxation there will be, sooner or later, an impact on property taxation whether by central or local government.

It is in two main areas where taxation policy is within the remit of the EU. The first is Value Added Tax where a uniform standard rate of tax is applied across all member states, currently 12%. Furthermore the EU regulates the implementation of the tax across member states and will bring legal action against them where EU policy is seen to be breached. Such legal action occurred in *EC Commission v. United Kingdom* [1988] 3 CMLR 169 where the UK government was taken to court with regard to its implementation of VAT on property and other areas. As a consequence of the decision in this case the UK law had to be re-written. The approach to the application of VAT on property, though outside the scope of this paper, is very much an important issue to property owners and investors.

The second area of EU activity in the tax field is within the area of unfair competition, as outlined above. Governments may use the taxation system as a means of protecting one industry or another or as a means of helping a particular class of taxpayer. Recent examples include action against the Irish government giving tax relief to companies locating within the International Financial Services Centre, and investigations into incentives given to car producers in France, Spain, Germany and the UK. The result of such schemes can often put that local industry or taxpayer at a considerable business advantage over others from other EU member states. In such cases the European Commission may bring action against a member state for uncompetitive practices.

The EU was not originally seen as being the main driver for tax reform in Europe but rather that the main impetus is coming from the states themselves. Now however the situation has changed.

## 6 Reform of Governance

Since the late 1980’s the way that countries have been administered below the national government level has changed. In the emerging democracies often whole new systems of government have had to be introduced from state level downward. A few examples highlight some of the more recent and substantial changes that have taken place.

France	Introduction of a regional tier of government; forming the association of communes into more viable units of government.
Belgium	Substantial devolution of powers away from the national government to the states and the reinforcement of the federal nature of government.
UK	Devolution of powers to the Welsh Assembly and the Scottish Parliament, introduction of the Greater London Authority, reform of local government organisation in England, Wales and Scotland.

Ireland Reform of local government organisation.

Germany Merger of West and East Germany.

As a result of both the changes to national tax systems and to the governance of countries the form of local government finance has had to be reviewed.

## 7 Feature of European Property Taxation

This section seeks to review the main types of property taxation, duties and levies found in Europe and to highlight some of the main features of those taxes. In addition an attempt will be made to compare the application of the taxes across all European countries.

### 7.1 Income Tax

Whilst never the less an important tax with regard to property, income tax is outside the scope of this research. However, it is appropriate to note the Belgian approach to income tax and its consequence for property.

The Belgian approach is to assume that taxpayers receive a notional additional income (*Revenu cadastral*) related to the value of the property they occupy. As a result, their income tax liability is increased by this amount. Full details of the approach can be found on page 74.

Whilst these taxes are mainly levied by central government a number of countries such as Austria, Belgium, Croatia and Iceland all allow local government to levy their own income tax either as a separate tax or as an additional rate levied in addition to the national rate.

For the purposes of comparison, Table 1 shows the European rates of Corporation and Income Tax. The table also indicates where local government can levy an additional rate for either or both taxes.

Country	Corporation Tax		Income Tax	
	State	Local	State	Local
Austria	34%	3%		
Armenia	25%, 15%	-	15% - 30%	-
Belgium	40.17%	-	25% - 55%	Variable
Bosnia	30%	-	15% <sup>1</sup> , 25%	-
Bulgaria	25%	-	>40%	-
Croatia	35%	-	20% - 35%	18%
Cyprus	25%, 20%	-	20% - 40%	-
Czech Republic	31%	-	15% - 32%	-
Denmark	30%	-	6% - 15%	-
Estonia	26%	-	26%	-
Finland	29%	-	5% - 37.5%	-
France	37.77%	-	9.5% - 54%	-

<sup>1</sup> Applies to wages only

Country	Corporation Tax		Income Tax	
	State	Local	State	Local
Germany	25%	8% - 12%	19.9%	-
Greece	40%, 35%	-	0% - 45%	-
Hungary	18%	-	>40%	-
Iceland	30%, 38% <sup>1</sup>	-	26.08% + 5% surcharge	12.62%
Ireland	20%, 10%	-		-
Italy	36%, 19%	4.25%	18% - 45%	-
Lithuania	24%	-	29%	-
Latvia	25%	-	25%	-
Luxembourg	30%	10%	>47.15%	-
Netherlands	35%, 30%	-	32.35% - 52%	-
Norway	28%	-	28% - 53%	-
Poland	30%	-	19% - 40%	-
Portugal	32%	10%, 5%	12% - 40%	-
Romania	28%	-	?	
Russia	11%	19%	?	
Slovakia	29%	-	?	
Slovenia	35%	-	17% - 50%	-
Spain	35%	-	>48%	-
Switzerland	8.5%	9.9% - 24.7%	Varies <sup>2</sup>	-
Sweden	28%	20% - 30%	31%	-
Turkey	33%		?	
United Kingdom	30%	-	22% - 40%	-

**Table 1; Corporation and Income Tax Rates 2001—European Comparison**

Notes to Table 1

A “-” indicates that on the basis of current information, no local corporation or income tax is charged in these countries.

A “?” indicates that the information is not currently available.

## 7.2 Inheritance and Gift Taxes

Within the EU countries, with the exception of Sweden, most countries levy some form of inheritance and gift taxes. In the emerging democracies where there has not been a tradition of property ownership the incidence of inheritance and gift taxes is less common with only around half of the countries having such taxes.

In some cases they may be combined into a single tax, for example in Austria, Croatia, Denmark and Germany, or may be levied as separate taxes as in Bulgaria and Hungary.

The taxpayer is, in all but one country, the person receiving the gift or inheritance. In the exceptional case of the UK, the transferor (donor) is generally regarded as the

<sup>1</sup> Applies to partnerships only  
<sup>2</sup> Different rates apply to each Canton.

taxpayer but he has the choice as to who will pay the tax, the donor or donee. In this case the tax rate will vary depending on who is the actual taxpayer.

Many countries have adopted a general provision that where the tax is defaulted on by the taxpayer, they have the right to charge the other party.

The basis of valuation is generally the open market value of the property as at the date of death or gift with allowances being made for outstanding debts or other liabilities. The valuations are normally notified to the relevant tax authorities by the parties and the tax authority may accept the valuation supplied or obtain their own. Information concerning appeals is less clear but it is generally understood that most countries have some form of system whereby the valuation or calculation can be challenged by the taxpayer.

Most countries adopt a system of differential tax rates depending on the relationship of the donor to the donee. In addition a range of exemptions and reliefs are available and discussed in more detail in the relevant sections of each country.

**Table 2** shows the key features of the implementation of the Inheritance and Gift type taxes across Europe.

As can be seen in **Table 2**, the revenue from this source of tax generally is allocated to the state. In the case of Austria, the revenue is shared between the state and the local authority. In Bulgaria, Croatia, Germany, Spain and Slovenia, the revenue goes direct to the local government where the recipient lives.

**Table 2: Inheritance and Gift Tax—European Comparison**

Country	Tax	Taxable Event	Taxpayer	Tax Rate	Basis of Valuation	Threshold <sup>1</sup>	Exemptions	Payment	Tax Recipient		
									State	Local	Shared
Albania	Inheritances and gifts are specifically exempted from any form of tax										
Austria	Inheritance & Gift Tax (Page 61)	Inheritance Gifts	Recipient	2%—60%	OMV <sup>2</sup>	Varies with relationship of donor / donee	Varies with relationship of donor / donee	Single	70%	30%	S
Armenia	There are no Inheritance or Gift taxes in Armenia										
Belgium	Inheritance Tax (Page 78)	Inheritance	Recipient	3%—80%	OMV	500,000		Single			
Bulgaria	Inheritance Tax (Page 91)	Inheritance	Recipient	0.1%—20%	OMV	Varies with relationship of donor / donee	Varies with relationship of donor / donee	Single			
	Gift Tax (Page 91)	Gifts	Recipient	0.5%—5%	OMV	None	Yes	Single		L	
Croatia	Inheritance & Gift Tax (Page 100)	Inheritance Gifts	Recipient	5%—20%	OMV	None	Yes	Single		L	
Cyprus	Abolished with effect from 1 <sup>st</sup> January 2000										
Czech Republic	Inheritance Tax (Page 117)	Inheritance	Recipient	1.3%—35%	OMV	None	Varies with relationship of donor / donee	Single	S		
Denmark	Inheritance and Gift Tax (Page 134)	Inheritance Gifts	Recipient	15%, 36.25%	OMV	Varies	Yes	Single	S		

<sup>1</sup> Quoted in local currency.

<sup>2</sup> The tax is based on the “*Einheitswert*” which is meant to be the open market value but is not out of date and really is around 10%-20% of market value.

Country	Tax	Taxable Event	Taxpayer	Tax Rate	Basis of Valuation	Threshold <sup>1</sup>	Exemptions	Payment	Tax Recipient		
									State	Local	Shared
Estonia	No inheritance or gift tax but these can be taxed as part on normal income										
Finland	Inheritance Tax (Page 149)	Inheritance	Recipient	10%—16%	OMV	20,000	No	Single	S		
Germany	Succession and Gift Tax (Page 173)	Inheritance Gifts	Recipient	7%—50%	OMV	Varies	Limited	Single		L	
Greece	Inheritance Tax (Page 179)	Inheritance	Recipient	0%—25%	OMV	5,175,000	Yes	2 years	S		
Hungary	Duty on Inheritance	Inheritance	Recipient	2.5%—21%	OMV	300,000	Yes	Single			
	Duty on Gifts(Page 191)	Gifts	Recipient	5%—10%	OMV	150,000	Limited	Single			
Iceland	Inheritance tax	Inheritance Gifts	Recipient	0%—45%	OMV	Varies	?	Single	S		
Ireland	Gift Tax (Page 202)	Gifts	Recipient	20%	OMV	Varies	Yes	5 years	S		
	Inheritance Tax (Page 204)	Inheritance	Recipient	20%	OMV	Varies	Yes	5 years	S		
Italy	Succession and Gift Duty (Page 227)	Inheritance Gifts	Recipient	3%—33%	OMV	250,000,000	Limited	Single	S		
Lithuania	There are no Inheritance or Gift taxes in Lithuania										

Country	Tax	Taxable Event	Taxpayer	Tax Rate	Basis of Valuation	Threshold <sup>1</sup>	Exemptions	Payment	Tax Recipient		
									State	Local	Shared
Latvia	There are no Inheritance or Gift taxes in Latvia										
Luxembourg	Inheritance Tax (Page 236)	Inheritance	Recipient	2.5%—15%	OMV	50,000	Limited	Single	S		
Macedonia	Inheritance and Gift Tax (Page 242)	Inheritance Gifts	Recipient	3%—5%	OMV			Single	S		
Malta	There are no Inheritance or Gift taxes in Malta										
Moldova	There are no Inheritance or Gift taxes in Moldova										
Netherlands	Succession Duty (Page 258)	Inheritance	Recipient	>67%	OMV	None	Limited	Single	S		
Norway	Inheritance Tax (Page 264)	Inheritance	Recipient	8%—30%	OMV	200,000	Limited	Single	S		
Poland	Inheritance Tax (Page 272)	Inheritance	Recipient	3%—20%	OMV	Varies with relationship of donor / donee	Yes	Single	S		
Portugal	Inheritance and Gift Tax (Page 280)	Inheritance Gifts	Recipients	4%—50%	OMV	Varies with relationship of donor / donee	Yes	6 – 16 monthly instalments	S		
Romania	There are no Inheritance or Gift taxes in Romania										
Slovakia	Inheritance Tax (Page 296)	Inheritance	Recipient	1.3%—40%	OMV	Varies with relationship of donor / donee	Yes	Single	S		
Slovenia	Inheritance and Gift Tax	Inheritance Gifts	Recipient	5%—30%	OMV	None	Yes	Single		L	

Country	Tax	Taxable Event	Taxpayer	Tax Rate	Basis of Valuation	Threshold <sup>1</sup>	Exemptions	Payment	Tax Recipient		
									State	Local	Shared
	(Page 306)										
Spain	Succession and Gift Duty (Page 314)	Inheritance Gifts	Recipient	?	OMV	None	Yes	Single		L	
Switzerland	There are no Inheritance or Gift taxes in Switzerland										
Sweden	There are no Inheritance or Gift taxes in Sweden										
Turkey	There are no Inheritance or Gift taxes in Turkey										
United Kingdom	Inheritance Tax (Page 359)	Death or lifetime transfers of property	Donor or Donee	40%	Value Transferred	242,000		Single	S		
Yugoslavia	Inheritance Tax (Page 383)	Inheritance	Recipient	?	OMV		Yes	Single	S		

### 7.3 Capital Gains Tax

The treatment of capital gains from property varies considerably across Europe. In some countries capital gains are not taxable. That approach is an exception to the general rule that such capital gains are taxable.

Two common approaches are adopted to the taxation of capital gains. The first approach is that any capital gain is treated as part of the taxpayers normal income and assessed as part of their income tax liability. Where this approach is adopted, differential rates may be applied to different sources of income.

Some countries have adopted a specific Capital Gains Tax approach as can be seen from Table 3 below. In these countries, capital gains are taxed under a different set of rules from those of other forms of income.

Whether taxed as part of a separate capital gains tax system, or by income and corporation tax, in most countries the amount of gain can be reduced by the deduction of expenses incurred in the ownership of the property such as extensions, refurbishments and major repairs. In addition there is often some form of allowance to mitigate the effect of inflation over the time of ownership. In the case of Ireland, this takes the form of an allowance related to the consumer price index change over the period of ownership. In the UK a percentage reduction is allowed related to the type of asset and the period of ownership.

From a taxpayer's perspective, the taxation of such gains as part of income tax may be beneficial as expenses incurred in maintaining the assets may often be set off against other income as they are incurred. On a capital gains tax system the expenses can often only be set against tax as and when the property is sold.

Country	Capital Gains Tax
Austria	34%
Estonia	26%
Iceland	42%—47%
Ireland	20%
Macedonia	50%
Norway	28%
Portugal	16%—30%
Spain	18%
Switzerland	Varies
United Kingdom	40% (individuals)

**Table 3; Capital Gains Tax - European Comparison**

## 7.4 Value Added Tax

All countries with the exception of Albania and Malta, have implemented some form of Valued Added Tax system. For countries within the EU the form of VAT system is prescribed by the 6<sup>th</sup> Directive of the European Union. This directive seeks to impose a common VAT framework within Europe. The key features of such a system are:

Countries outside the EU, such as , have developed VAT systems broadly in line with the 6<sup>th</sup> Directive either on the grounds convergence in that they are in the process of applying for membership of the EU or on the basis of adopting a well tried and tested tax framework.

The application of VAT to property whether in the form of construction and refurbishment, or the sale and letting of property varies considerably throughout the countries studied.

### 7.4.1 Rates of Tax

Table 4, below shows the main rates of VAT charged on property and how certain common property transactions or events are treated across Europe.

Essentially there are four common rate descriptors used across Europe, with each country being free to adopt a different rate for each descriptor.

0%                    The imposition of a 0% of VAT on property generally goes against the 6<sup>th</sup> Directive as was upheld in the case of *EC Commission v. United Kingdom* [1988] 3 CMLR 169.

Standard Rate    The standard rate is the main rate at which VAT is charged. Typically this ranges from 15% to 25%. Under the 6<sup>th</sup> Directive, the standard rate should not be less than 15%.

Reduced Rate    Provision is made to charge lower rates of VAT on certain items. Many countries such as France, Luxembourg and Greece may have a number of reduced rates of VAT.

Exempt             The supply is exempt and therefore no VAT is charged.

It is important to appreciate the difference between a transaction being exempt and one subject to tax.

#### *Exempt Supply*

Where a supply is exempt, the person making the supply does not charge VAT. However, where VAT has already been paid, the amount of tax paid can not be reclaimed or offset. Consequently the exemption is more of a disadvantage than an advantage.

In order to assist the property industry provision has been made for the election for removal of the exemption. In such cases, the supply becomes taxable under the normal rules (see below).

#### *Taxable Supply*

In these cases the supply is subject to VAT at the prescribed rate and any input tax paid can be reclaimed by the person making the supply.

#### *The option to Tax*

Where property is exempt from VAT the taxpayer is not able to reclaim any input VAT that has been paid. Consequently where a taxpayer has incurred a considerable amount of VAT on say, refurbishment of the building) it will not be possible to reclaim the amount paid. Many countries have an option where the taxpayer can elect to bring the property into the VAT system. Where this election is made, the taxpayer then has to charge VAT on all aspects of supply (services, letting, sale etc) but has the ability to reclaim any VAT paid. The fact that the landlord charges the VAT either on the sale or letting of the property is immaterial to most businesses as they can reclaim any VAT they have paid through their own VAT account. The only time that the option to charge VAT will have an adverse impact on the property will be where the purchaser or tenant of the property is not registered for VAT (banks and insurance companies in the UK for example). In these cases, the imposition of VAT is effectively an increase in their costs which may mean that the property is not considered as suitable for occupation by these occupations.

When the option to tax is exercised different approaches exist as to the length of time that the option will have effect. In the UK, the exercise of the option is practically irrevocable, whereas in France, the option only lasts for 10 years but can be renewed.

#### *New Buildings*

Many countries treat new buildings differently to second hand one.

### European VAT Comparison

	Refurbishment	Construction	Sale - Commercial	Sale - Residential	Sale - Land	Letting - Commercial	Letting - Residential	VAT Rate	Threshold in local currency	Option to Tax
Albania	No VAT chargeable									
Austria	20%	20%	Exempt	Exempt	Exempt			20%	150,000	
Armenia	20%	20%	20%	20%	20%	20%	20%	20%	3 million	
Belgium	6%, 21%	6%, 21%	6%, 21%	6%, 21%	Exempt	Exempt	Exempt	21%		
Bosnia	10%	10%	20%	20%	20%	20%		20%		
Bulgaria			20%	Exempt	20%	20%	Exempt	20%		
Croatia	?	?	22%	Exempt	22%	22%	Exempt	22%		
Cyprus	?	?	Exempt	Exempt	Exempt	Exempt	Exempt			No
Czech Republic	?	?	Exempt	Exempt	Exempt	Exempt	Exempt	22%		Yes
Denmark	25%	25%	Exempt		Exempt			25%	80,000	
Estonia	?	?	18%	Exempt	18%	18%	Exempt	18%		
Finland	22%	22%	Exempt	Exempt	Exempt			22%	50,000	
France	19.6%	19.6%	19.6%	Exempt	19.6%	19.6%	Exempt	19.6%	70,000	Yes

### European VAT Comparison

	Refurbishment	Construction	Sale - Commercial	Sale - Residential	Sale - Land	Letting - Commercial	Letting - Residential	VAT Rate	Threshold in local currency	Option to Tax
Germany	16%	16%	Exempt	Exempt	Exempt	Exempt	Exempt	16%	25,000	Yes
Greece	8%, 18%	8%, 18%	8%, 18%	Exempt	Exempt	Exempt	Exempt	18%	2.5 million	?
Hungary	?	?	25%	25%	Exempt	25%		25%	?	?
Iceland	24.5%	24.5%	24.5%	24.5%	24.5%	24.5%	24.5%	24.5%	?	?
Ireland	12.5%	12.5%	12.5%			12.5%		20%	32,000	Yes
Italy	10%, 20%	10%	4%, 10%, 20%	4%, 10%, 20%	20%	Exempt	Exempt	20%	16 million	?
Lithuania	18%	18%	18%	18%	18%	18%	Exempt	18%	?	Yes
Latvia	18%	18%	Exempt	Exempt	Exempt	18%	Exempt	18%	?	?
Luxembourg	3%, 15%	3%, 15%	3%, 15%, Exempt		Exempt	Exempt	Exempt	15%	400,000	Yes
Malta	No VAT chargeable									
Moldova	20%	20%	20%	?	20%	20%	?	20%		?
Netherlands	19%	19%	19%	19%	19%	?	?	19%	23,000	Yes
Norway	?	?	Exempt	Exempt	Exempt	Exempt	Exempt	?	?	?
Poland	?	?	22%	22%	Exempt	22%	Varies	22%	?	?
Portugal	5%, 17%	5%, 17%	Exempt	Exempt	Exempt	Exempt	Exempt	17%	1.8 million	?

<b>European VAT Comparison</b>										
	<b>Refurbishment</b>	<b>Construction</b>	<b>Sale - Commercial</b>	<b>Sale - Residential</b>	<b>Sale - Land</b>	<b>Letting - Commercial</b>	<b>Letting - Residential</b>	<b>VAT Rate</b>	<b>Threshold in local currency</b>	<b>Option to Tax</b>
Romania	0%	0%	19%	19%	19%	19%	19%	19%	?	?
Russia	20%	20%	20%	20%	20%	20%	20%	20%	?	?
Slovakia	?	?	10%	10%	10%	10%	10%	10%	?	Yes
Slovenia	?	?	19%	19%	Exempt	19%	19%	19%	5 million	?
Spain	16%	16%	16%, Exempt	Exempt	Exempt	Exempt	Exempt	16%	1.3 million	Yes
Switzerland	?	?	Exempt	Exempt	Exempt	Exempt	Exempt	7.6%	?	Yes
Sweden	25%	25%	Exempt	Exempt	Exempt	Exempt	Exempt	25%	90,000	Yes
Turkey	?	?	17%, Exempt	17%, Exempt	17%, Exempt	17%, Exempt	17%, Exempt	17%	?	?
United Kingdom	17.5%	17.5%	Exempt	Exempt	Exempt	Exempt	Exempt	17.5%	54,000	Yes
Yugoslavia	?	?	?	?	?	?	?	17%	?	?

**Table 4: Value Added Tax - European Comparison**

**Notes to Table 4**

Where a tax rate and exempt appear in the same column it implies that in certain instances the supply will be exempt and others it will be taxable.

## 7.5 Stamp Duty, Registration Duty, Property Transfer Tax

Table 5 below shows the main taxes and rates of tax, that are incurred on the sale, transfer or registration of property.

As can be seen from the table the tax burden on the transfer of property can be significant. It should be also noted that in addition to these taxes, VAT or its local equivalent may also be payable (see Table 4).

Country	Stamp Duty	Registration Duty	Transfer Tax
Albania	-	-	-
Austria	1%		2%, 3%
Armenia	-	-	-
Belgium	BEF 6 – 300	5% , 12.5%	-
Belorussia			
Bulgaria	-	-	2%
Croatia	-	5%	5%
Cyprus	1.5% - 2.0%	5% - 8%	3% - 8%
Czech Republic	-	-	1% - 5%
Denmark	1,400 DKK plus 0.6%	-	1.5%
Estonia	0.2%	-	-
Finland	-	-	4%
France	-	4.8% - 7.1%	-
Germany	-	-	3.5%
Greece	-	-	9%
Hungary	3%	-	
Iceland	-	-	-
Ireland	3% - 9%	-	-
Italy	ITL 500 – 80,000	0.5% - 15%	-
Lithuania	0.3% 1.0%		
Latvia	0.5% - 3.0%	-	-
Luxembourg	LUF 75 - 400	6%	-
Macedonia	-	-	-
Malta	-	-	-
Moldova	-	-	-
Netherlands	-	-	6%
Norway	2.5%	-	-
Poland	2% - 5%	-	-
Portugal	8%	-	8%, 10%
Romania	-	-	7% - 16%
Russia	-		
Slovakia	-	-	5%
Slovenia	-		2%
Spain	0.5%	-	4%
Switzerland			1% - 2%

Country	Stamp Duty	Registration Duty	Transfer Tax
Sweden	-	-	-
Turkey	0.6%	-	-
United Kingdom	0.5%	-	-
Yugoslavia	-	-	-

**Table 5; Stamp Duty, Registration Duty, Transfer Tax – European Comparison**

## 7.6 Wealth Tax

A number of countries within Europe impose a Wealth Tax on all the assets of citizens and in some cases on certain businesses either worldwide or restricted to within the country concerned.

In these countries the effect of such a tax is a further annual tax on property assets in addition to any other annual property taxes that may be payable. Where a threshold is stated only wealth above this amount is taxed, in all other cases all wealth is taxed.

Table 6 shows the basic details of the main Wealth Taxes in Europe.

Country	Wealth Tax %	Threshold
Austria	Abolished 1/1/1994	
Finland	0.9%	1,1,000 FIM
Iceland	1.2%	5,277,058
Luxembourg	0.5%	
Norway	1.1%	
Spain	0.2% - 2.5%	
Switzerland	0.124% - 0.74% Corporate 0.2% - 5.25% <sup>1</sup>	
Sweden	0.35% - 5.25%	

**Table 6; Wealth Tax - European Comparison**

<sup>1</sup> The Wealth Tax applies equally to business and individuals

## 8 Local Government Finance

Whilst outside the main scope of the main research it is useful to briefly consider the how property taxation fits into the area of local government finance.

The main sources of financing local government adopted across Europe include:

- Local income tax
- Local property tax(es)
- Grants from central government
- Loans from central government
- Fees for the provision of services and income from property

The general the contribution of local property taxes to the total income is generally low though no reliable figures are currently available to show the contribution that these taxes make in each country.

Where possible in this paper we have sought to indicate the beneficiaries of the taxes, duties and levies considered. In general terms it can be suggested that annual property taxes tend to be allocated to local government and the non-recurring capital taxes allocated to the state. As with any generalisation there are exceptions. For example with regard to some non-recurring capital taxes in Croatia, Germany and Spain inheritance and gift taxes are allocated to the municipality and in Austria the revenue is shared 70% - 30% between the state and municipality. Also in Spain, the Urban Land Appreciation Tax (a form of capital gains tax) is also levied by the municipality.

There are a number of annual property taxes where the revenue is allocated to the state rather than local government.

In order to better understand the nature of local government finance in Europe it is necessary to have an overview of the different functions that such government performs in different countries.

In Table 7 below we have sought to identify some of the different roles and responsibilities for the provision of some common services throughout Europe.

	Agriculture	Building and Planning	Education	Employment	Environment	Fire	Health	Highways	Housing	Justice	Leisure and recreation	Libraries	Taxation	Police	Social Services	Strategic Planning	Telecoms	Transport Planning	Transport	Waste Collection And	Water Supply
Albania																					
State	√		√	√			√	√		√					√						
District/Region																√		√			
Municipal		√	√								√				√					√	√
Austria																					
States				√																	
Lander			√				√								√						
Communities		√	√								√	√	√						√		√
Belgium																					
State				√						√			√		√		√				
Regions	√	√		√	√								√						√		
Municipalities		√					√		√		√	√	√		√						
Bulgaria																					
State	√		√								√										
Regions																					
Municipalities				√	√						√		√		√						

	Agriculture	Building and Planning	Education	Employment	Environment	Fire	Health	Highways	Housing	Justice	Leisure and recreation	Libraries	Taxation	Police	Social Services	Strategic Planning	Telecoms	Transport Planning	Transport	Waste Collection And	Water Supply	
Croatia																						
State																						
Municipality		√		√	√			√	√		√				√				√	√	√	√
Cyprus																						
Municipality		√			√		√	√			√				√						√	
Czech Republic																						
Municipality		√	√		√										√						√	√
Denmark																						
State	√		√				√	√	√	√	√								√			
Counties	√		√				√	√	√		√				√	√			√	√		
Municipalities	√		√			√	√	√	√		√		√		√	√			√	√		√
Finland																						
State	√			√						√			√	√			√					
Regions		√														√			√			
Municipalities		√	√		√				√		√	√			√					√	√	√

	Agriculture	Building and Planning	Education	Employment	Environment	Fire	Health	Highways	Housing	Justice	Leisure and recreation	Libraries	Taxation	Police	Social Services	Strategic Planning	Telecoms	Transport Planning	Transport	Waste Collection And	Water Supply	
Germany																						
State	√			√						√			√		√		√					
Lander	√			√						√					√				√			
Municipalities		√					√		√		√		√		√				√	√	√	√
Greece																						
State	√		√	√			√			√			√	√			√					
Prefectures																√			√			
Municipalities		√						√	√		√				√				√	√	√	√
Communes		√						√	√		√				√				√	√	√	√
Hungary																						
State	√		√	√	√		√			√			√	√			√					
Municipality		√	√	√		√	√		√		√		√		√						√	√
Ireland																						
State	√		√	√	√		√	√		√			√	√	√	√	√	√	√			
Counties County Boroughs		√	√		√	√		√	√		√	√	√	√		√			√	√	√	√
BCs - UBC		√	√		√	√		√	√		√	√	√	√					√	√	√	√

	Agriculture	Building and Planning	Education	Employment	Environment	Fire	Health	Highways	Housing	Justice	Leisure and recreation	Libraries	Taxation	Police	Social Services	Strategic Planning	Telecoms	Transport Planning	Transport	Waste Collection And	Water Supply	
Italy																						
State	√		√		√		√			√			√		√		√					
Regions	√															√		√	√			
Communes		√	√	√				√	√		√		√	√	√			√	√	√	√	√
Luxembourg																						
State	√		√	√	√					√			√		√		√					
Municipality			√			√		√			√	√	√		√						√	√
Macedonia																						
State													√									
Municipality		√	√					√					√			√						
Netherlands																						
State										√			√									
Province				√											√	√			√			
Municipal			√				√	√	√				√								√	√

	Agriculture	Building and Planning	Education	Employment	Environment	Fire	Health	Highways	Housing	Justice	Leisure and recreation	Libraries	Taxation	Police	Social Services	Strategic Planning	Telecoms	Transport Planning	Transport	Waste Collection And	Water Supply	
Norway																						
State	√		√	√	√		√			√			√	√	√		√	√	√			
County			√				√	√			√				√			√				
Municipality			√			√	√	√				√	√		√					√	√	
Poland																						
State	√				√					√			√				√					
Voivodships			√	√	√		√	√			√				√			√	√			
Municipality		√	√	√	√			√			√		√		√					√	√	
Portugal																						
State	√		√	√						√			√	√								
Regions																√			√			
Municipalities		√			√		√				√		√					√		√	√	
Romania																						
State	√		√	√	√		√			√			√	√	√	√	√	√	√			
Municipality		√	√		√	√	√	√	√		√	√	√		√					√	√	
Slovakia																						
Regions	√		√		√		√								√	√			√			
Districts		√	√																	√	√	

	Agriculture	Building and Planning	Education	Employment	Environment	Fire	Health	Highways	Housing	Justice	Leisure and recreation	Libraries	Taxation	Police	Social Services	Strategic Planning	Telecoms	Transport	Transport Planning	Waste Collection And	Water Supply	
Slovenia																						
Municipalities																						
Spain																						
Regions			√						√						√				√			
Provinces			√			√			√						√				√			
Municipalities			√			√		√					√							√	√	
Sweden																						
Municipalities			√					√	√		√				√					√	√	
United Kingdom																						
State	√			√						√			√		√	√	√	√	√			
Municipalities		√	√		√	√	√	√	√		√	√	√	√	√					√		

**Table 7; European Allocation of Government Functions - European Comparison**

## 9 Nature of Local Property Taxation

Not all countries have adopted some form of annual property taxation though its adoption in some form or other is quite widespread.

The following countries do not have annual property taxation:

- Malta
- Norway

It is not possible, nor necessary, to provide an exhaustive definition of such a tax which would cover all eventualities. However given the purpose of the research, local property taxation has been taken to mean an annual tax on the use or occupation of land and/or property usually levied at local level and the revenues of which contribute to the provision of local services.

Some flexibility in the application of the definition needs to take place to recognise that due, often to the size of a country, the tax may actually be levied at a national level with the revenues remitted to the local level.

Furthermore, countries such as Spain, Portugal and Italy levy a local tax on the sale of property and France and Switzerland levy local taxes that include a profits tax element.

In the above working definition use is made of the word “property”. This can have many different legal definitions in the 40+ countries studied. In the majority of countries the term “property” will include both land and buildings but may also be extended to include plant and machinery as well as a variety of chattels. For example in Macedonia, the property tax includes cars, boats and airplanes.

In some countries separate taxes may be levied in respect of the land and property (buildings) elements of a holding. For example, in Denmark the *amtskommunal grundskyld* and *kommunal grundskyld* both apply to the land element only. Where there is a commercial building on the land **then *dakningsafgift*** will be also be payable but in respect of the building element only.

## 10 Analysis of Approaches to Local Taxation

Generally local property taxation is regarded as an annual tax on property based on its rental or capital value or related to its size. In this research has found that this is certainly the most common form of local property taxation encountered. Having said that, other types of specialised local property tax were noted which included:

- Tax on Advertising and Hoardings – France, The Netherlands. In other countries such as those in the UK, advertising hoardings are taxes as part of the general local taxation system (rates).
- Taxes on the use of municipal facilities – Netherlands, Slovenia, Yugoslavia. Here an additional annual property tax is placed on taxpayers who use the facilities of the municipality in some way. This is in addition to the normal local tax that they would pay,
- Tax on licensed premises – France, Luxembourg. Both countries levy an additional annual property tax on licensed premises in addition to charging for a license to carry out that business.

- Taxes on second homes –

In addition to the above additional annual taxes local taxes many also take the form of local income taxes, sales taxes, capital gains taxes, inheritance and gift taxes to mention some of the more common forms which are more traditionally associated with the taxation powers of the state, not the municipality.

For the remainder of this section we will concentrate on the more common form on annual property taxes.

### **10.1 The Taxpayer (See Table 8)**

The majority of taxes are payable by the owner. Of the 60 annual property taxes studied 32 identified the owner as the taxpayer and 26 were paid by the. In the case of owner occupied property the tax would be paid by the owner. In the remaining cases, the tax is paid by both the owner and occupier at different rates.

In the property tax systems in the emerging democracies where the tax falls on the owner, special provision is made that where the state remains the owner of residential or commercial property prior to its return to its former owners or privatisation, then the occupier is the taxpayer. Generally in these countries the state is exempt from property taxes and the above exception is seen as a means of ensuring a fair and equitable tax base.

### **10.2 Sources of Valuation Information**

Many countries have some form of cadastral system for the recording of property related information. The nature and implementation of such systems varies considerably from being a series of different registers often administered at various levels of government to a single register administered at national level. Most countries rely on the use of computers for the storage and processing of information.

As part of the assessment process there will usually be an exchange of information between the different levels of government involved and taxpayers can often be asked to supply additional information where appropriate. Even in those countries such as the Czech Republic, Macedonia, Poland and Moldavia, which have adopted a self assessment system, central information systems are used to ensure that the information given by the taxpayer is accurate and appropriate. In these countries the tax authorities have the right to challenge the valuation and substitute their own.

The rights of the taxpayer to access centrally held information differs considerably between countries ranging from no rights to being sent extracts of the register when a new valuation or alteration is made. In addition, valuation and comparable evidence may also be made available at the request of the taxpayer.

Many countries link their cadastre (or equivalent) to other taxes. For examples the transfer of property whether by sale, gift or inheritance can not be registered until the cadastre has been updated.

### **10.3 Basis of Valuation**

Three main approaches for the valuation basis of the tax have been identified.

#### **10.3.1 Capital Value Approach**

This is normally based on the (open) market value of the property as at specified baseline date. This may be a current date such as the start of the tax year or as in the case in Sweden, a date two years earlier than the tax year concerned. This has the advantage of ensuring the valuation authorities are able to consider all the evidence available before arriving at their valuations.

(Open)<sup>y</sup> Market value is usually defined on the basis of a property's best and/or highest value. This approach may give rise to potential valuation issues where a property is used for a purpose that cannot generate the best or highest value. It may be possible in some cases for the taxpayer to dispute what is the best and/or highest value particularly in mixed commercial areas where their properties are used for a wide range of uses, as well as raise arguments as to the value of such use.

#### **10.3.2 Rental Value Approach**

This is normally based on the open market rental value of the property as at specified date. A number of countries (England, Wales, Scotland and the Republic of Ireland) specify a baseline date (often termed the antecedent valuation date (AVD)) some time before the new values come into effect thus ensuring the valuation authorities are able to consider all the evidence available before arriving at their valuations. As with Sweden above, all the countries have adopted a valuation date two years prior to the valuations coming into force. In England, Wales and Scotland, this is likely to be reduced to 18 months as the computerisation of the analysis and valuation processes has meant that revaluations can now be done far quicker than previously.

The (open) market rental value may be restricted as to the assumptions that can be made with regard to considerations such as changes of uses and alterations. For example in England and Wales one is not permitted to envisage a change of use of a property to another higher value use nor is one permitted to envisage even minor physical changes to the property. The rationale for the approach is that the tax is levied on the occupier and the amount of tax is based on the use to which the property is actually put to, not its potential value.

The exception to the best and highest use is again the UK where the value is restricted to the current mode and category of use. This has the effect of putting a ceiling value on the assessment to its value for its current, rather than best use.

One problem that has been raised with the use of a rental approach is in those instances where some form of rent control restricts the rental value and hence distorts the basis of valuation. Whilst this criticism may be valid for some countries outside Europe, there is no evidence that any rent control is exercised in the countries that have adopted a rental value base.

Many properties are of such a nature that they would never let in the market and consequently alternative approaches to their valuation have to be adopted.

The use of a revenue (or accounts) approach has been adopted in England and Wales for many types of leisure related property and its use probably will increase over the next 5 years especially for some of the larger and complex network type properties such as gas, water and electricity. The cost approach which is related to the cost of construction is probably a more widely accepted approach both in England and Wales as well as other European countries. One must not underestimate the considerable difficulties of relating cost to rental value and testing that the resulting value is appropriate.

One approach which appears unique to England, Wales and Scotland is the use of a statutory formula for valuing industries such as gas, electricity, water, telecommunications and other similar properties. This removes a substantial number of the valuation problems associated with the valuation of such property but is somewhat removed from ascertaining its true rental value. It should be noted that the use of such a formula based approach will be abolished with effect from 1<sup>st</sup> April 2005 when more traditional means of valuation of these properties will have to be adopted.

#### 10.3.3 Overall or Unit Approach

The overall or unit approach does not relate to a property's values, neither rental nor capital but rather to its size. The tax is then levied at a prescribed rate per sq.m or per unit, which may vary depending on the predominant use of the property. These rates may be loosely based on rental or capital values but are more often an arbitrary rate fixed by the appropriate taxation authorities. This approach is more common in the emerging democracies where the land markets and record systems are less developed. In most cases it is the intention to change to a value based system when conditions permit. In Poland, for example, the Real Estate Property Tax (*Podatek od nieruchomosci*) will change to a valued based approach in 2003.

It is useful to note that in 1997, The Netherlands moved away from such a system in favour of a market related capital value approach. A number of countries in the emerging democracies have adopted the overall unit approach often due to a lack of property information, a limited and restricted property market as well as insufficient resources to enable the development of alternative systems. The move to a value based system will probably take place as and when resources and circumstances permit.

#### 10.3.4 Other Approaches

A number of other approaches have been encountered. The first is that of the capital value banding approach which has been adopted for the valuation of residential property for Council Tax within the England, Wales and Scotland. This approach is based on property being ascribed to various value bands rather than valuing each individual property precisely.

In France, Spain and Switzerland the *taxe professionnelle* and the Local Business Taxes both include the value of the property plus a percentage of salaries in the case of France, and the business profits in the case of Spain and Switzerland.

### Annual Property Taxes – European Comparison

Country	Tax	Taxable Item			Taxpayer			Basis of Valuation				Date Fixed	Revaluations
		Land	Building	Plant	Owner	Occ.	Both	Rental	Capital	Area	Other		
Albania	Property Tax	√	√		√					√			No revaluations since 1994
Austria	<i>Gründsteuer</i> - Real Estate Tax	√	√		√				√			Mid 1980's	Mid 1980's but some attempt has been made up update the valuation base by use of indexation. However values still fall well short of the market value of the property even after the application of indexation.
Armenia	Land Tax	√	X		√			√					
Belgium	<i>Revenu cadastral</i>	√	√	√		√		√				1980	10 years but 1990 and 2000 revaluations have been postponed.  Interim use of indexation adopted
Belorussia	Land and Real Estate Tax	√	√		√	√					√		
Bulgaria	Immoveable Property Tax	√ <sup>1</sup>	√		√					√			Annual change in rate per sq.m
Croatia	Tax on idle lands	√	X	X		√				√		-	Annual change in tax

<sup>1</sup> Excludes agricultural land

### Annual Property Taxes – European Comparison

Country	Tax	Taxable Item			Taxpayer			Basis of Valuation				Date Fixed	Revaluations
		Land	Building	Plant	Owner	Occ.	Both	Rental	Capital	Area	Other		
													rate per sq.m
	Tax on idle Real Property	X	√			√				√		-	Annual change in tax rate per sq.m
Cyprus	Immoveable Property Tax	√	√		√				√			1980	None specified
	Improvement Rate	√	√		√				√			1909	None specified
	Town Rate	√	√		√				√			1980	None specified
Czech Republic	Land Tax	√	X	X	√				√	√			Revaluation only on sale of property
	Real Estate Property Tax	X	√		√					√			Annual change in tax rate per sq.m
Denmark	<i>Amtskommunal grundskyld</i> – County real estate tax	√	X		√				√			1997	4 yrs with annual indexation
	<i>Kommunal grundskyld</i> – Municipal real estate tax	√	X		√				√			1997	4 yrs with annual indexation
	Municipal real estate tax on commercial buildings	X	√		√				√			1997	4 yrs with annual indexation
	<i>Ejendomsvoerdiskat</i>		√ <sup>1</sup>		√				√			2001	Annual
Estonia	<i>Maanraksuseadus</i> - Land Tax	√	X	X	√	√ <sup>2</sup>			√			1996	None specified
Finland	<i>Fastighetssakat</i> Real property tax	√	√		√				√			2001	Annual

<sup>1</sup> Applies to residential buildings only

<sup>2</sup> The user is only taxable where the ownership of the land has not been resolved.

### Annual Property Taxes – European Comparison

Country	Tax	Taxable Item			Taxpayer			Basis of Valuation				Date Fixed	Revaluations
		Land	Building	Plant	Owner	Occ.	Both	Rental	Capital	Area	Other		
France	<i>Taxe d'habitation</i> - Property Tax	X	√ <sup>1</sup>	X		√		√				1980	3 years but revaluations have been postponed an annual indexation adopted in the interim
	<i>Taxe sur le foncier bati</i> Property & Land Tax)	√	√		√			√				1980	3 years but revaluations have been postponed an annual indexation adopted in the interim
	<i>Taxe sur le foncier non-bati</i> - Land Tax												
	<i>Taxe professionnelle</i> - Business Tax		√	√		√		√				1980	3 years but revaluations have been postponed an annual indexation adopted in the interim
Germany	<i>Grundsteuer</i> Real estate tax	√	√		√				√			1964	6 years but no revaluations have taken place since 1964
Greece	Tax on major real estate	√	√		√				√			2001	Annual
Hungary	Building Tax	X	√		√				√	√			Not specified
	Land Parcel Tax	√	X	X	√				√	√			Not specified
Iceland	Real property tax Fasteigna-gjöld	√	√		√				√				Not specified
Ireland	Rates (Pre Valuation Act 2001)	√	√	√		√		√				1988	5 year rolling revaluations
	Rates (Post Valuation	√	√	√		√		√					5/10 year rolling

<sup>1</sup> Applies to residential buildings only

### Annual Property Taxes – European Comparison

Country	Tax	Taxable Item			Taxpayer			Basis of Valuation				Date Fixed	Revaluations
		Land	Building	Plant	Owner	Occ.	Both	Rental	Capital	Area	Other		
	Act 2001)												revaluations
Italy	<i>Imposta comunale sugli immobili</i> - Communal Real Estate Tax	√	√		√			√				1993	Not specified
Latvia	Real estate tax	√	√		√				√			2001	Annual
Luxembourg		√	√		√				√				
Macedonia	Property Tax	√ <sup>1</sup>	√		√				√			2001	Annual
Malta													
Moldova	Commercial Enterprise Tax	√	√			√						2001	Annual
	Personal Property Tax	√	√		√	√						2001	Annual
	Land Tax	√	X	X	√	√						2001	Annual
Netherlands	<i>Onroerend-Goedbelasting (OGB)</i>	√	√				√		√			Varies	4 year rolling revaluation
	Waterschap levy	√	√		√	√			√				
Norway													
Poland	Urban Property Tax		√		√					√		N/A	Annual change in tax rate per sq.m
	Agriculture Tax	√	X	X	√	√				√		N/A	Annual change in rate per sq.m
	Forrest Tax	√	X	X	√	√				√		N/A	Annual change in
Portugal	<i>Contribuigdo</i>	√	√		√			√	√ <sup>2</sup>			1988	Annual indexation

<sup>1</sup> Excludes agricultural land  
<sup>2</sup> Tax is based on a capitalised rental value

### Annual Property Taxes – European Comparison

Country	Tax	Taxable Item			Taxpayer			Basis of Valuation				Date Fixed	Revaluations
		Land	Building	Plant	Owner	Occ.	Both	Rental	Capital	Area	Other		
	<i>Autdrquica - Immoveable Property Tax</i>												
Romania	<i>Impozite si taxe locale Building Tax</i>	X	√		√				√ <sup>1</sup>			2001	Annual
	<i>Impozitul per teren - Land Tax</i>	√	X	X	√					√		N/A	Annual change in rate per sq.m
Russia	Tax on Property of Enterprises	√	√		√	√					√	2001	Annual
	Tax on Property of Individuals	√	√		√				√				
	Land Tax	√			√	√			√				
Slovenia	Property Tax	X	√		√						√	N/A	Annual indexation
Slovakia	Land Tax	√	X	X	√				√	√ <sup>2</sup>			Revaluation only on sale of property
	Tax on Buildings	X	√							√			Annual change in tax rate per sq.m
Spain	<i>Impuesto sobre bienes inmuebles - Local Property Tax</i>	√	√		√				√			1993	Annual indexation
Sweden	<i>Fastighetsskattelagen - Real Estate Tax</i>		√			√			√			Varies	4 year rolling revaluations
Switzerland	<i>liegenschafts-oder grundsteuern</i>												

<sup>1</sup> Capital value as state in accounts

<sup>2</sup> Tax is based either on the purchase price or a rate per sq.m.

Annual Property Taxes – European Comparison													
Country	Tax	Taxable Item			Taxpayer			Basis of Valuation				Date Fixed	Revaluations
		Land	Building	Plant	Owner	Occ.	Both	Rental	Capital	Area	Other		
	Municipal Business Tax	√	√			√					√	2001	Annual – based on rent and profit
England and Wales	Non domestic rates	√	√	√		√		√				1998	5 yrs
	Council Tax	X	√	X		√			√			1993	Not prescribed
Scotland	Non domestic rates	√	√	√		√		√				1998	5 yrs
	Council Tax	X	√	X		√			√			1993	Not prescribed
Northern Ireland	Rates	√	√	√		√		√					
Yugoslavia	Real estate tax					√							

**Table 8: Annual Land and Property Taxes - European Comparison**

**Notes to Table 8**

An “X” indicated that the item is not subject to the tax.

## 10.4 Revaluations

Table 8 shows the frequency at which the tax base is reviewed and updated in each of the countries.

One conclusion that must be raised from this research is the problems associated with the lack of a regularly updated tax base. Many countries have either no provision for regular revaluations of the tax base or have postponed such revaluations, often on many occasions. As a result the tax base bears little resemblance to the value on which it is stated to have been based, be it capital or rental value. The lack of an up-to-date tax base undermines the taxpayer's confidence in the tax and can have other unexpected consequences. For example, many other taxes or pieces of legislation may be linked directly or indirectly to the annual property tax assessment. For example in the UK compensation to tenants for improvements to rented property or for loss of tenure is related to a multiplier of the rateable value. In cases of compulsory purchase, again amounts of compensation are also related to the rateable value. In other countries often the amount of gift tax is related to the annual property tax value. In these cases the assessed capital value is taken to be the value of the gift thus removing the need for a specific valuation of the property at the time of making the gift. In Austria, for example, the assessed value is only between 10% and 20% of the true open market value.

### 10.4.1 Indexation

Many countries have attempted to overcome the problems associated with infrequent revaluations by some form of indexation. In Table 8 above, those countries where annual revaluations are indicated may implement that by either the use of actual annual revaluations, indexation of an earlier revaluation or by self assessment declarations made by the taxpayer.

Whilst annual indexation between regular revaluations of say 4 or 5 years may ensure a relatively accurate tax base its use becomes more questionable when the base has not been updated for 10 or 20 years. France is a good example of where the base was last reviewed anywhere between the mid 1970's and 1980's depending on the tax and the property and its location. The position is made far worse where the property market is changing rapidly, especially in major towns and cities. The effect may not be as bad in more rural areas. Cyprus adopts a 1909 value base for some of its property related taxes with no apparent provision for revaluation or indexation.

The use of indexation in the property field is common in continental Europe as the rents of commercial property are usually increased annually by an index to ensure the tenant is paying a rent approximating to the rental value of the property. In most countries the retail price index is often adopted whilst in others, such as France, an index has been specifically designed for the purpose (INSEE). Even in the area of property leasing it is considered that the use of such indexes will mean that the rent paid is often below that of the true rental value of the property. No index can truly be applicable for the whole area of the country where values are changing at different rates.

For local taxation purposes the same issues apply. Any index adopted needs to be closely related to the property market in that location and for the specific property type. In most cases, the index is a single figure applied across the whole of the country and for all types of property.

In France the total increase in the index since 1981 is 243%., but since 1988 the annual indexation has only been between 0% and 2% p.a.. The current index being 0% for land and 1% for buildings, which is far below the changes in property values especially in the Paris region.

## **10.5 Exemptions and Reliefs**

See Table 9

Whilst there are considerable variations across Europe the subject of exemptions can be considered from two viewpoints:

- Exemptions and reliefs which are given due to the nature of the taxpayer,
- Exemptions and reliefs which are given due to the nature of the property.

Countries may adopt either or both approaches.

Table 9 seeks to summaries the main exemptions from annual property taxes across Europe. The limitations of Table 9 must be emphasised as the exemptions listed are generic and may not truly reflect the actual situation. In addition, due to the nature of the table many of the exemptions available can not be included. The table does not cover exemptions due to the nature of the taxpayer, only due to the type of property.

It is not possible to produce a definitive list on exemptions which could be applied to all countries. However some common features can be identified as to the types of properties where some form of relief or exemptions may be granted.:

- Land owned by the state and used for the provision of public services, such as schools, hospitals, cemeteries etc. if usually exempt or excluded from the tax legislation (for example, Sweden, the Netherlands, Moldova, Czech Republic, Estonia)
- Land and property used for religious purposes (for example, Denmark, Czech Republic)
- Historic land and buildings (for example, United Kingdom, Portugal, Poland)
- Agricultural land (for example, Ireland, United Kingdom, Macedonia, Bulgaria)

With regard to relief to taxpayers, this takes many diverse forms and can include:

- Relief to persons of pensionable age (France, Moldova, Estonia),
- Relief to disabled persons (United Kingdom, Czech Republic, Moldova, Slovakia, Estonia, Poland, France)
- Relief of either a percentage of the tax for owner occupiers of residential accommodation (Bulgaria) or an initial amount of the tax can be remitted (France).

Although not considered reliefs in the normal sense associated with local taxation, some countries have also introduced often highly complex arrangements which limit the amount of tax payable. For example in the United Kingdom some form of

transitional relief limits the amount by which the non-domestic rating bill can be increased in any single year. Likewise in France, provisions also limit the amount of *taxe professionnelle* payable.

It is difficult to find a really common approach to this area other than the very limited areas described above. Most countries have developed systems that satisfy their individual needs and are often closely linked with other forms of taxation or state aid and benefits.

Country	Tax	Agricultural Land	Agricultural Buildings	Buildings	Vacant Property	State Property	Local Government Property	Public Spaces	Churches	Schools	Historic Building	Embassies	Charities	Hospitals
Albania	Property Tax													
Austria	<i>Grundsteuer</i> - Real Estate Tax					√	√	√	√	√		√	√	√
Armenia	Land Tax					√	√	√			√			
Belgium	<i>Revenu cadastral</i>													
Bulgaria	Immoveable Property Tax	√	√			√	√	√	√			√		
Croatia	Tax on idle lands													
	Tax on idle Real Property													
Cyprus	Immoveable Property Tax					√	√		√	√		√	√	√
	Improvement Rate								√			√	√	
	Town Rate								√			√	√	
Czech Republic	Land Tax													
	Real Estate Property Tax					√	√		√	√	√	√	√	√

Country	Tax	Agricultural Land	Agricultural Buildings	Buildings	Vacant Property	State Property	Local Government Property	Public Spaces	Churches	Schools	Historic Building	Embassies	Charities	Hospitals
Denmark	<i>Amtskommunal grundskyld</i> – County real estate tax								✓				✓	✓
	<i>Kommunal grundskyld</i> – Municipal real estate tax								✓				✓	✓
	Municipal real estate tax on commercial buildings								✓				✓	✓
	<i>Ejendomsvoerdiskat</i>													
Estonia	<i>Maanraksuseadus</i> – Land Tax					✓	✓					✓		
Finland	<i>Fastighetssakat</i> Real property tax	✓			✓	✓						✓		
France	<i>Taxe d'habitation</i> - Property Tax											✓		

Country	Tax	Agricultural Land	Agricultural Buildings	Buildings	Vacant Property	State Property	Local Government Property	Public Spaces	Churches	Schools	Historic Building	Embassies	Charities	Hospitals
	<i>Taxe sur le foncier bati</i> Property & Land Tax)  <i>Taxe sur le foncier non-bati</i> - Land Tax	√				↘			↘			↘		
	<i>Taxe professionnelle</i> - Business Tax													
Germany	<b>Grundsteuer</b> Real estate tax					√	√		√				√	
Greece	Tax on major real estate					√	√			√	√		√	√
Hungary	Building Tax					√	√	√		√			√	√
	Land Parcel Tax									√				√
Iceland														
Ireland														
	Rates (Pre Valuation Act 2001)	√	√											

Country	Tax	Agricultural Land	Agricultural Buildings	Buildings	Vacant Property	State Property	Local Government Property	Public Spaces	Churches	Schools	Historic Building	Embassies	Charities	Hospitals
		√	√					√	√	√			√	√
Italy	<i>Imposta comunale sugli immobili</i> - Communal Real Estate Tax													
Latvia	Real estate tax							√			√			
Lithuania														
Luxembourg						√	√					√	√	√
Macedonia	Property Tax	√	√			√	√		√	√		√		√
Malta														
Moldova	Commercial Enterprise Tax					√			√					
	Personal Property Tax													
	Land Tax													
Netherlands	<i>Onroerend-Goedbelasting</i> (OGB)	√					√	√	√					
	Waterschap levy													

Country	Tax	Agricultural Land	Agricultural Buildings	Buildings	Vacant Property	State Property	Local Government Property	Public Spaces	Churches	Schools	Historic Building	Embassies	Charities	Hospitals
Norway														
Poland	Urban Property Tax						√	√	√	√	√	√		√
	Agriculture Tax													
	Forrest Tax													
Portugal	<i>Contribuigdo Autdrquica</i> - Immoveable Property Tax										√			
Romania	<i>Impozite si taxe locale</i> - Building Tax													
	<i>Impozitul per teren</i> - Land Tax							√						
Slovenia	Property Tax										√			
Slovakia	Land Tax					√	√	√	√	√	√			√
	Tax on Buildings					√	√		√	√	√			√
Spain	<i>Impuesto sobre bienes inmuebles</i> - Local Property Tax					√	√			√			√	

Country	Tax	Agricultural Land	Agricultural Buildings	Buildings	Vacant Property	State Property	Local Government Property	Public Spaces	Churches	Schools	Historic Building	Embassies	Charities	Hospitals
Sweden	<i>Fastighetsskattelagen</i> -Real Estate Tax						✓		✓	✓	✓			✓
Switzerland	<i>liegenschafts-oder grundsteuern</i>													
	Municipal Business Tax													
England and Wales	Non domestic rates	✓	✓		✓				✓		✓	✓		
	Council Tax													
Scotland	Non domestic rates	✓	✓		✓				✓		✓			
	Council Tax													
Northern Ireland	Rates	✓	✓		✓				✓		✓			
Yugoslavia	Real Estate Tax													

**Table 9; Annual Land and Property Taxes - Exemptions - European Comparison**

## 10.6 The Calculation of the Amount of Tax

One comment that must be made is that calculating the amount of tax payable across Europe seems to be an unduly complicated process and no single system really stands out as being a simple system to understand. From the viewpoint of the taxpayer the process must seem unduly complicated and hard to understand.

The simplest systems appear to be those that are not based on value at all, but rather adopt a given tax per sq.m occupied (Albania, Bulgaria, Hungary Poland). Once the area of the property is agreed it is a relatively simple matter of applying a given tax rate to that area.

The United Kingdom's non-domestic rates system should be relatively simple being based on the value of the property multiplied by a single figure fixed each year. However the transitional arrangements hinted at above mean that most taxpayers and their advisors need to resort to a computer programme to ascertain the tax payable.

In other countries, the value needs to be multiplied by an index or co-efficient and then by a locally determined rate that can often vary depending on the size of the authority which is levying the charge. In France the situation is even worse for the *taxe professionnelle*, where a series of limitations have then to be calculated in order to ascertain whether a ceiling or cap applies to the taxable amount.

## 10.7 Appeal Systems

At the present time the picture is incomplete with regard to many countries. However most countries do have some form of system by which the taxpayer may challenge the tax assessment. In a number of cases the first approach (Scotland, Republic of Ireland, France) is often an informal approach to the authority which may be able to resolve the dispute without the need for a more formal approach.

Where a formal approach is adopted two approaches seem common:

- The appeal is dealt with as part of the general tax appeal process and will go through the normal tax tribunals and courts.
- The appeal is dealt with outside the normal tax system often in courts and tribunals established especially for the purpose.

The challenge of a tax assessment or valuation will not postpone the payment of the tax in the countries considered to date.

### 10.7.1 Costs

The Republic of Ireland can be singled out as being one country where each stage of the process will incur a charge which must be paid by the taxpayer before any appeal can be considered. Typically a charge would be around £200 IRL on first referral to the authorities and further charges will be incurred in the later stages.

The United Kingdom approach is that no costs are payable on the first appeal against a valuation which is heard by a specially constituted valuation tribunal and each party will pay their own costs. This ensures that taxpayers can challenge any assessment with the minimum of cost to themselves. However, should an appeal be made against the decision

of the tribunal considerable costs can be incurred both in court fees, typically up to £10,000 GBP plus legal fees, which in some recent cases have amounted to over £100,000 GBP. The fact that costs can be awarded against the losing party can make challenging an assessment an expensive proposition and one that many taxpayers may not be able to afford or to justify.

### **10.8 Tax collection and payment**

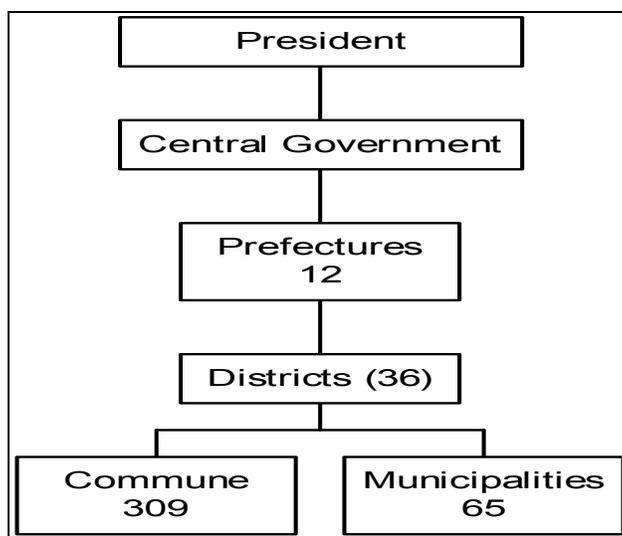
At the present time the picture is to some extent still incomplete with regard to some countries; however two approaches appear to be common:

- Tax is collected by the national tax administration often as part of the income tax process. Where this occurs, it is recognised that the taxes are not forms of income tax but the approach is used on the grounds of ease of collection both for the taxpayer and the tax collectors. This approach has the advantage that it can also be linked with any national reliefs and benefits to which the taxpayer may be entitled. Furthermore, from the taxpayer's perspective, it is payable over the whole of the tax year.
- Tax is paid direct to the authorities concerned. These authorities may also act on behalf of lower tier authorities with respect to tax collection. In these cases taxpayers can usually pay the tax in a series of instalments. There is a wide range of different approaches to payment by instalments both as regards the timing and the amount of each instalment.

## 11 Albania

### 11.1 Government Organisation and Structure

The current constitution of Albania came into force on the 28<sup>th</sup> November 1998. At the present time not all of the revised governmental structure has been implemented and the remaining changes will take place during a transitional period.



**Table 10: Albania; Government Organisation and Structure**

The highest level of government is the President who has a more ceremonial role but who is responsible for the appointment of the Prime Minister. The central government plays a substantial role in the government of the country. Beneath the central government tier are 12 Prefectures which are in turn divided into 36 districts.. The districts are further subdivided into 65 municipalities and 309 communes .

The new constitution makes provision for regional government and this will be introduced to replace the Districts. Provision is also made for the communes and municipalities to combine to provide services.

The following table shows some of the main functions of each tier of government.

Function	Central Government	District Region	Municipalities and Communes
Agriculture	√		
Building and Planning Applications			√
Defence	√		
Education	√		√
Employment	√		
Fire			

Function	Central Government	District Region	Municipalities and Communes
Health Services	√		
Highways	√		
Housing			
Justice & Courts	√		
Land Registry			√
Leisure			√
Transport		√	
Police			
Post and telecommunications	√		
Social/Welfare Services	√		√
Strategic planning and regional policy		√	
Taxation	√		√
Waste collection and disposal			√
Water Supply			√

**Table 11: Albania; Allocation of Public Services**

The Law On Organisation and Functioning of Local Governments (No. 8652, dated 31.07.2000) governs the roles and responsibility of local government and to some extent, local government finance.

## 11.2 Local Government Finance

85% of local government finance comes from central government subsidies and the remaining 15% is made up of local taxes, fees for services and loans. Detailed breakdowns of the figures are not available.

### *Regional Government*

Regionally derived revenues include:

- Unconditional transfers, including quotas of membership from the budgets of communes and municipalities, defined in the statute and in the annual budget of the region,
- for the performance of own and shared functions?;
- Conditional transfers for the performance of the functions and powers, delegated by municipalities and communes;
- Regional taxes defined by law;
- Fees for public services provided by the region as well as from other resources defined in Article 16 of this Law.

### *Municipalities and Communes*

Communes and municipalities shall be authorized to derive revenues from:

- local taxes and levies on the moveable and immoveable property, as well as on the transactions conducted on them.

- local taxes and levies on the economic activity of small businesses and on hotel residency, restaurants, bars and other services;
- local taxes and levies on the personal income derived from donations; inheritances, testaments, and from local lotteries;
- Other taxes and levies given by law

Local government revenues may generally be classified in three broad categories:

- Local taxes and fees
- Shared national taxes
- Transfers

Communes and municipalities shall be entitled to receive funds from national sources, including:

- Shared taxes, consisting of a portion of certain central government taxes, such as the

personal income tax and the company profit tax. These taxes shall be collected and distributed to communes and municipalities by the central government on a regular basis not

less than three times during the fiscal year. The part of the tax and levy which goes to their favour, as well as their collection and administration are determined by law for each

shared tax or levy.

- Unconditional transfers from the central government to commune and municipality

governments based on the ratio of exclusive and shared functions performed by the local

governments and for the purpose of achieving equalisation of resources among local governments.

- Conditional transfers from the central government.

The solid waste fee, business registration fee and stamp tax are local taxes and fees, as the full revenue belongs to the local governments. The only shared national tax is the property tax.

#### 11.2.1 Local Taxes and Fees

Local taxes and fees are those which are assessed and collected in the local authority, and for which the full amount collected is transferred to the local government.

There are between 10-20 local taxes and fees.

The most important ones, in terms of revenue, for local governments are

- the solid waste fee,
- the business registration fee,
- the market tax, and
- the small business tax.

The rates are typically fixed in Lek amounts. Local governments do not have the possibility to change the rates, as the rates are fixed by central government.

Although the law authorises the Ministry of Finance to make an annual adjustment of the tax base for all fixed taxes and fees according to the average annual inflation index, to date the Ministry has not availed itself of this tax rate adjustment.

The law also permits local governments to "establish temporary fees to pay for needed services," and the rates are to be set "with the agreement of the people of the district, municipality, or commune."

#### 11.2.2 Shared National Taxes

Shared national taxes are assessed and collected by the central government, based on national rules and procedures. The government shares a part of the revenues with the local government and retains the balance

The property tax is the only example of a shared national tax. The revenues of the tax are shared 80% / 20% between the central and local budgets respectively.

#### 11.2.3 Transfers

Transfers are generally additional resources made available to local governments through the national budget. They may be general transfers or earmarked for specific purposes. Such transfers are usually calculated by a formula, which may take account of different variables, based on defined policy goals, such as ensuring the financing of a basic level of local services, or taking account of local fiscal capacity (equalisation function).

### **11.3 Property Tax**

#### 11.3.1 Statutory Framework

Law No. 7805 for Property tax in the republic of Albania.

The property tax was established following a project undertaken by the US Treasury Department and the OECD. The tax was introduced on the 1<sup>st</sup> June 1994.

#### 11.3.2 Purpose of the tax:

Albania became a democracy with effect from May 1992 following the election of its first elected government. Following its election the government commenced the foundation of basic laws to cover areas such as the privatisation of enterprises, privatisation of state farms, state residential accommodation as well as the substantive area of commercial law. The government has introduced a series of taxation law including excise duty, profits taxes, income taxes and customs tariffs.

Property tax was one of the taxes introduced to assist with the provision of public services particularly at local level. Its further aim is to enable local government to become autonomous. As at June 1999, the local property tax accounted for around 15% of local government revenues.

#### 11.3.3 How the tax base is set or established:

No information available

11.3.4 Basis of valuation for tax purposes:

The tax is based on flat rates per square metre for different type of property.

11.3.5 Frequency of review of tax base:

The tax base has not been reviewed since it was introduced in 1994.

11.3.6 Nature of any exemptions or reliefs for classes of taxpayer:

No information available

11.3.7 Challenges to tax base, valuation or assessment:

No information available.

11.3.8 Nature of taxpayer:

The tax is paid by all persons who own land and building in Albania

11.3.9 Amount of tax:*Agricultural Land*

Agricultural land is divided into to 10 groups which relate to the fertility of the land. The rate of tax ranges from 1,500 Lek to 6,000 Lek per hectare.

*Buildings*

The tax rate of buildings varies with their use.

Typical examples are:

- Public buildings – 2 Lek per sq.m.
- Residential accommodation – 3 to 6 Lek per sq.m.
- Industrial buildings – 50 Lek sq.m
- Commercial and service industries – 100 Lek sq.m.

11.3.10 Frequency of payment:

For agricultural property two payments are made by the 31<sup>st</sup> August and the 30<sup>th</sup> November. For all other property a single payment is made by the 30<sup>th</sup> June.

Enforcement measures include the freezing of bank accounts, confiscation of property and imprisonment.

11.3.11 Identification of tax collector:

The tax is administered and collected by the central government though the revenues produced from the tax is returned to the local government.

11.3.12 Statistical Background

The tax base comprises around 385,000 farmers in respect of land and some 700,000 other persons in respect of buildings.

**11.4 Inheritance and Gift Tax**

There is no inheritance and gift tax and such items are specifically exempt from income tax.

**11.5 Wealth Tax**

There is no Wealth Tax in Albania.

**11.6 Other Taxes**

None

## 12 Austria

### 12.1 Government Organisation And Structure

The governmental structure is divided into tiers

- National or Federal Government
- Regional Government comprising of 9 Länder (Burgenland, Carinthia, Lower Austria, Salzburg, Styria, Tirol, Vorarlberg, Vienna) there are only 8 here.
- Local Government comprising 2,317 individual municipalities

#### 12.1.1 Federal Government

The federal government is primarily responsible for:

- Legislation
- Defence
- Taxation
- Labour

#### 12.1.2 Länder

Each Länder has its own constitution, parliament and government but is accountable to the federal government. It may raise its own taxes as well as sharing taxes with either the Federal government or the municipalities.

The main functions of the Länder include:

- Health services, some of which may be administered at municipal levels.
- Welfare services
- Primary and secondary education

In principal, the Länder should be self financing and any project carried out by the Länder will be funded by way of Länder imposed taxes. Under the Finance Equalisation Law a proportion of Federal taxes are assigned to the Länder.

#### 12.1.3 Municipalities

The main responsibilities of the municipalities include:

- Local roads
- Water supply
- Primary schools
- Building permits
- Planning and zoning
- Administration of kindergartens, hospitals
- Leisure

As with the Länder, municipalities are usually funded from local taxes (47.2% in 1992), grants from the Federal government (45.7% in 1992) and the Länder (7.1% in 1992).

The municipalities will generally tax land, property, drink ?? as well as charging fees for services provided such as waste disposal etc.

Function	Federal Government	Länder	Municipalities
Agriculture	√		
Building and Planning Applications			√
Defence	√		
Education	√	√	√
Employment	√		
Fire	√		
Health Services		√	√
Highways		√	√
Housing		√	
Justice & Courts	√		
Leisure and recreation			√
Transport	√		
Police	√		
Post and telecommunications	√		
Social/Welfare Services		√	
Strategic planning and regional policy	√		
Taxation	√	√	√
Waste collection and disposal			√
Water Supply			√

**Table 12: Austria; Allocation of Public Services**

## 12.2 Local Government Finance

The three levels of government and their finance are complex with each level of government having the right to raise taxes for its own purposes. A substantial amount of the tax revenue raised is shared between different levels of government.

Corporation Tax is retained by the Federal Government whilst Income Tax and Value Added Tax revenue are shared between the Federal Government and the Länder.

Certain provincial or municipal taxes, such as the Real Estate Tax may be exclusive to the municipality.

## 12.3 Real Estate Tax

### *Grundsteuergesetz*

#### 12.3.1 Statutory Provision

Real Estate Tax Law, BGBl. No. 149/1955 as amended.

#### 12.3.2 Purpose of the tax;

The tax provides a small part of the revenue of the municipality for the provision of local services. It is an annual tax on the ownership of property and is determined at municipality level.

#### 12.3.3 How the tax base is set or established;

No information available

#### 12.3.4 Basis of valuation for tax purposes;

The basis of valuation is the market value of the property as entered in the local land register. However these values are out of date and the entered value may vary considerably from the actual value of the property. The assessed tax value in general is about 10% to 20% of the open market value.

The assessed value is termed “*Einheitswert*”.

#### 12.3.5 Frequency of review of tax base;

The tax base is now very outdated being based on values relating to the market value of property in the 1980's. Some attempt has been made to index these values so that they relate more to current values, however a revaluation of the tax based is overdue.

#### 12.3.6 Nature of any exemptions or reliefs for classes of taxpayer;

The exemptions include:

- Property used by the public
- Property of the Austrian Federal Railways
- Property used by non profit making organisations,
- Hospitals, sports clubs, cemeteries, public transport
- Diplomatic property

#### 12.3.7 Challenges to tax base, valuation or assessment;

The taxpayer is able to challenge the valuation of a property. Such challenges are addressed to the local tax office of the municipality concerned.

#### 12.3.8 Nature of taxpayer;

The owner of the property is liable for the tax.

#### 12.3.9 Amount of tax;

The tax is made up of three components:

- The unit value (*Einheitswert*) ascribed to the property in the land register which roughly equates to its market value as at the date of the original valuation.

- The basic state rate of tax which is a single rate of tax which is applicable to the whole of the country. This rate will vary depending on the type of subject property.
- The municipality multiplier which must not exceed 500.

Most municipalities have now adopted the maximum multiplier of 500.

The State rate was as follows:

*Agricultural land and forests*

First 50,000 Austrian Schilling.	0.16%
Balance	0.20%

*Single family house*

First 50,000 Austrian Schilling	0.05%
Next 100,000 Austrian Schilling	0.10%
Balance	0.20%

*Let residential property*

First 50,000 Austrian Schilling	0.10%
Next 100,000 Austrian Schilling	0.15%
Balance	0.20%

*All other property*

First 50,000 Austrian Schilling.	0.10%
Balance	0.20%

12.3.10 Frequency of payment:

Payments are due:

- 15<sup>th</sup> February
- 15<sup>th</sup> May
- 15<sup>th</sup> August
- 15<sup>th</sup> November

Where the tax payable is less than 1,000 Austrian Schilling the full amount is payable by the 15<sup>th</sup> May.

12.3.11 Identification of tax collector:

The tax is collected at the level of the municipality.

### 12.3.12 Typical examples of the application of the tax base:

A family house situated in Vienna has an assessed value of 350,000 Austrian Schilling. The tax liability would be as follows:

First 50,000 @ 0.05%	25.00
100,000 @ 0.10%	100.00
Balance of 200,000 @ 0.20%	400.00
<b>Total</b>	<b>525.00</b>
 Multiple for commune	 500
<b>Total tax payable</b>	<b>2,625.00</b>

## 12.4 Capital Gains Tax

### *Einkommensteuer*

#### 12.4.1 Statutory Provision

Income Tax Law 1988, BGBl. No 400/1988 as amended.

Capital gains realised on the disposal of real estate are treated as taxable business income subject to corporate income.

In other cases capital gains (called "speculative" gains) are subject to individual income tax only if the sale is effected within 10 years of the real estate's acquisition. The period of 10 years is extended to 15 years for real estate for which construction expenses have been claimed in partial amounts within 10 years of purchase instead of regular depreciation.

The disposal of real estate (which includes both bare land and buildings) that has been owned for a minimum period of 7 years prior to the sale may qualify for a tax deferral of 100% if the proceeds are reinvested in qualifying replacement assets.

Corporate income tax is currently levied at the flat rate of 34%.

## 12.5 Inheritance And Gift Taxes

### *Erbschafts-und Schenkungssteuer*

#### 12.5.1 Statutory Provision

Succession duty and Gift Tax Law, BGBl. No. 141/1955 as amended.

The transfer property assets is subject to Inheritance and Gift Taxes on the market value of the property inherited and received. It is also payable by a company if property is transferred to the company by the deceased's estate.

Inheritance and gift taxes apply both to the transfer of assets on death and to gifts during one's lifetime. Both are taxed in the same manner and at identical rates

12.5.2 Basis of tax

The taxable base is the assessed value (*Einheitswert*) of real estate. In general the assessed value of real estate is lower than the fair market value.

The basis of valuation is intended to be the open market value which should equate to the “assessed value” but because this has not been continually updated since the 1980’s it is now substantially below the true market value.

12.5.3 Gifts

Inheritance and Gift Taxes are chargeable at progressive rates. Rates do not differ for non-resident and resident testators or donors.

12.5.4 Tax rates

The tax rates vary between 2% and 60%, depending on the amount of the inheritance or gift and the relationship of the beneficiary/donee to the testator/donor.

There are five tax classes:

Class I:	Spouses, Children, Stepchildren
Class II:	Grandchildren And Remoter Descendants
Class III:	Parents, Grandparents And Remoter Ancestors; Stepparents; Full And Half Siblings
Class IV:	Parents-In-Law, Sons-In-Law And Daughters-In-Law; First Generation Descendants Of Siblings
Class V:	All Other Persons

**Table 13: Austria; Inheritance Tax - Tax Classes**

Tax rate as a function of tax classes shown above.

Up to and including	Class I (%)	Class II (%)	Class III (%)	Class IV (%)	Class V (%)
100,000	2	4	6	8	14
200,000	2.5	5	7.5	10	16
400,000	3	6	9	12	18
600,000	3.5	7	10.5	14	20
800,000	4	8	12	16	22
1,000,000	5	10	15	20	26
1,500,000	6	12	18	24	30
2,000,000	7	14	21	28	34
3,000,000	8	16	24	32	38
5,000,000	9	18	27	36	42
10,000,000	10	20	30	40	46
15,000,000	11	21	32	42	48
20,000,000	12	22	34	44	51
40,000,000	13	23	36	46	54
60,000,000	14	24	38	48	57
>60,000,000	15	25	40	50	60

**Table 14: Austria; Inheritance Tax Rates (2001)**

In the case of a donation or inheritance of real estate, the inheritance or gift tax is increased by 2% (for spouses, parents, children, grandchildren, stepchildren or children-in-law) or 4% (others).

#### 12.5.5 Tax exemptions

The following allowances are available:

	<b>Class I</b>	<b>Class II</b>	<b>Class III</b>	<b>Class IV</b>	<b>Class V</b>
Of any transfer	30,000	30,000	6,000	6,000	1,500
Household effects	no limit	no limit	20,000	20,000	-
Other moveable assets	20,000	20,000	8,000	8,000	-
Gifts between spouses	100,000	-	-	-	-

**Table 15: Austria; Inheritance Tax Exemptions**

#### 12.5.6 Calculation of tax

Tax is calculated from the assessed value of real estate reduced by allowances. The tax has a 10 year accumulation period, i.e. gifts and bequests received within the previous 10 years are taken into account when calculating the tax due on the current transfer.

Where the same asset changes hands twice or more between Class I or Class II within 5 years, the tax due on the second and subsequent transfers is reduced to half.

If the asset changes hands within years 6 to 10 previous to the inheritance or donation, the tax is reduced to a quarter.

70% of the tax is remitted to the state government and 30% to the provincial government.

## **12.6 Real Estate Transfer Tax**

### ***Gründerwerbsteuer***

#### 12.6.1 Statutory Basis

Real Estate Transfer Tax Law, BGBl. No. 309/1987, as amended,

#### 12.6.2 Liability to tax

Austrian real estate transfer tax and registration fees are generally imposed on any transfer of ownership or beneficial ownership of any real estate.

Both the seller and the purchaser are liable to the transfer tax, but in most cases the contracting parties agree that the purchaser should bear all the tax liability.

#### 12.6.3 Basis of tax

The tax base is the transfer value of the real estate such as the purchase price, the value of an asset given in exchange or any consideration for the transfer. Where the real estate is sold, the tax is based on the actual proceeds.

The tax authorities may adjust the price upwards where it is below market value, for example, where the sale is to a related person.

If there is no consideration for the transfer the tax is based on the assessed value (*Einheitswert*). The assessed tax value in general is about 10% to 20% of the open market value. If the real estate is transferred in the course of a reorganisation of a going concern 200% of the assessed value forms the basis.

#### 12.6.4 Tax rate

The current tax rate is 3.5%. If the transfer is between husband and wife or between close relatives, the tax rate is reduced to 2%.

Upon registration with the land title register, the purchaser has to pay a registration fee of 1%.

#### 12.6.5 Tax exemptions

Existing tax exemptions are only of minor importance. For example, if Austrian real estate is transferred through inheritance or donation, no real estate transfer tax has to be paid.

Where the valued transferred is less than Austrian Schilling 15,000, the transfer is tax exempt.

#### 12.6.6 Calculation of tax

A building is sold at a price of Austrian Schilling 5 million. The taxes are calculated as follows:

Real estate transfer tax (3.5%)	Austrian Schilling 175,000
registration fee (1%)	Austrian Schilling 50,000

#### 12.6.7 Prerequisite to registration

Real estate transfer tax must be paid as a prerequisite for registration of the real estate in the name of the new owner.

#### 12.6.8 Plant and machinery

That part of the purchase price applicable to machinery and other equipment belonging to a "business plant" (*Betriebsanlage*) is not subject to real estate transfer tax or registration fee. If possible, the value of machinery and other equipment should therefore be stated separately in the purchase contract.

#### 12.6.9 Acquisition by way of gift

The acquisition of real estate by way of gift is exempt.

#### 12.6.10 Leases

Normally, no real estate transfer tax is payable on the grant of a lease. Real estate transfer tax, however, is payable if the investor acquires the right to erect a building on land owned by another person.

## 12.7 Value Added Tax

### *Umsatzsteuer*

#### 12.7.1 Statutory Provision

1994 Turnover Tax Law, BGBl. No. 663/1994 as amended.

#### 12.7.2 Liability to tax

Liability to Value Added Tax (VAT) arises if a person or business engages in commercial and/or professional activities exceeding a turnover of Austrian Schilling 300,000 p.a. Businesses not exceeding a turnover of Austrian Schilling 300,000 p.a. and which are exempt can opt to be treated as not VAT exempt and thus be able to reclaim any input tax.

#### 12.7.3 Basis of tax

The calculation base for VAT is the taxable turnover.

The acquisition of real estate is not subject to VAT.

With effect from 19 June 1998, the vendor may waive the exemption, which would be appropriate if the supply is made to another business.

VAT is payable on construction and improvement expenditure.

#### 12.7.4 Tax rate

The standard rate on goods and services is 20%, the reduced rate is 10%. For transactions and income derived from real estate, the following tax rates apply:

Selling real estate	0% or 20% when opted
Rental of real estate, where the tenant carries on a business	0% or 20% when opted
Rental of residential property	10%

**Table 16: Austria; Real Estate VAT Rates**

#### 12.7.5 Tax exemption

Selling real estate and renting real estate when used for business purposes is not subject to VAT, but the vendor may opt to charge VAT.

Making use of the option is appropriate when real estate is rented or sold to other businesses that are entitled to recover the VAT paid.

#### 12.7.6 Rental income

Rents received are exempt from VAT, but again the owner of the real estate may opt to charge VAT on rents received, provided the tenant carries on a business. If the owner opts to charge VAT on rents, the owner may recover all VAT arising on costs incurred in purchasing, managing and maintaining the real estate.

Rental of residential property (including holiday homes) is always subject to VAT at the reduced rate of 10%.

## 12.8 Other Taxes

Other property related taxes, duties and levies include:

### 12.8.1 Holiday (Second) Home tax

#### ***Zweitwohnsitzabgabe***

Levied under the provisions of the Second Home Levy Law. LGBl. No. 87/1997.

Certain municipalities, namely in Vorarlberg, impose a holiday home tax. The taxpayer is the person using a dwelling as a second residence (owner or tenant). The amount of tax depends on the municipality and on the size of the apartment or house.

### 12.8.2 Land Value Levy

#### ***Bodenwertabgabe***

Levied under the provisions of the Real Estate Tax Law, BGBl. No. 149/1955 as amended.

Undeveloped building lots are subject to a special federal tax called "***Bodenwertabgabe***". The tax is calculated as 1% of the assessed value of the undeveloped building lots.

### 12.8.3 Real Estate Registration Duty

Upon registration with the land title register, the purchaser has to pay a registration fee of 1%.

### 12.8.4 Stamp duty and Legal Duties

#### ***Stempel – und Rechstebühren***

Levied under the provisions of the Duties Law, BGBl. No. 267/1957 as amended. A variable rate duty is payable on the drawing up of legal documents.

### 12.8.5 Wealth Tax

The Austrian version of the "wealth tax" was abolished with effect from 1<sup>st</sup> January 1994.

## 13 Armenia

### 13.1 Property Tax

The property tax is imposed by the Law on Property Tax of 27 December 1997

#### 13.1.1 Purpose of the tax;

The tax is an annual tax on property.

#### 13.1.2 How the tax base is set or established;

No information available.

#### 13.1.3 Basis of valuation for tax purposes;

The value of a building determines the amount of tax to be paid on property

#### 13.1.4 Frequency of review of tax base;

No information available

#### 13.1.5 Nature of any exemptions or reliefs for classes of taxpayer;

The following items are exempted from property tax:

- road and building equipment;
- reservoirs;
- historical and cultural property, etc.
- property of budget organisations and the Central Bank of Armenia

#### 13.1.6 Challenges to tax base, valuation or assessment;

The taxpayer can challenge a tax assessment. In the first instance this is to the regional office of the State Revenue Ministry and then to the central Ministry who have established an appeals division.

Appeals may also be taken through the court system.

For the property tax, appeals can also be made against the valuation of the property in which case the appeal is to the Cadastre Department.

#### 13.1.7 Nature of taxpayer;

Property tax applies to individuals, legal persons and enterprises without the status of a legal person who own property in the territory of Armenia.

#### 13.1.8 Amount of tax;

Property tax of buildings are calculated at following annual rates:

- a) for public and industrial buildings: 0.5 %;
- b) for garages and cottages owned by individuals: 0.2 %;
- c) for other the following table applies

<b>Taxable base (AMD)</b>	<b>Tax rate (%)</b>	<b>Cumulative tax (AMD)</b>
0 – 3,000,000	0	0
3,000,001 - 10.000,000	0.1	100
10,000,001 – 20,000,000	0.2	7,100
20,000,001 – 30,000,000	0.4	27,100
30,000,001 – 40,000,000	0.6	67,100
>40,000,001	0.8	127,100

**Table 17: Armenia; Property Tax Rates for Other Buildings**

13.1.9 Frequency of payment:

The tax is payable in four quarterly payments and must be fully paid by the 1<sup>st</sup> December of the tax year.

13.1.10 Purpose to which tax is put:

No information available.

13.1.11 Identification of tax collector:

The State Revenue Ministry is responsible for the administration and collection of the tax.

After one year the State Revenue Ministry may apply to the courts to recover taxes outstanding. Where there are insufficient funds, property may be sold. The taxpayer may also be fined and/or imprisoned.

## **13.2 Land Tax**

13.2.1 Purpose of the tax:

The tax is an annual tax on land.

13.2.2 How the tax base is set or established:

No information available.

13.2.3 Basis of valuation for tax purposes:

The land “cadaster” (valuation system) is used to determine both the value of the land and the tax rates.

For land used for agricultural purposes the taxable base is the net income, based on the “cadastral” value of the land

13.2.4 Frequency of review of tax base:

No information available.

13.2.5 Nature of any exemptions or reliefs for classes of taxpayer;

Exemptions include:

- national parks,
- newly established orchards,
- vineyards, and
- villagers' unions using the land on a collective basis for two years after having been founded.

Partial exemption is granted to:

- scientific institutions and organisations using land for research and experiments

13.2.6 Challenges to tax base, valuation or assessment;

The taxpayer can challenge a tax assessment. In the first instance this is to the regional office of the State Revenue Ministry and then to the central Ministry who have established and appeals division.

Appeals may also be taken through the court system.

For the property tax, appeals can also be made against the valuation of the property in which case the appeal is to the Cadastre Department.

13.2.7 Nature of taxpayer;

Land tax applies to owners of land and permanent or temporary users of land.

13.2.8 Amount of tax;

The rate is 15% of the net income.

For land that is not used for agricultural purposes, the taxable base is 0.5 - 1% of the "cadastral" value of the land.

13.2.9 Frequency of payment;

The tax is payable in 2 half yearly payments and must be fully paid by the 1<sup>st</sup> December of the tax year.

13.2.10 Purpose to which tax is put;

No information available.

13.2.11 Identification of tax collector;

The State Revenue Ministry is responsible for the administration and collection of the tax.

After one year the State Revenue ministry may apply to the courts to recover taxes outstanding. Where there are insufficient funds, property may be sold. The taxpayer may also be fined and/or imprisoned.

### 13.3 Wealth Tax

There is no wealth tax in Armenia.



## 14 Belgium

### 14.1 Government Organisation And Structure

Constitutional reforms since 1970 have turned Belgium from a unitary state into a federal state consisting of one federal authority, three Communities (Flemish, French and German-speaking) and three Regions (the Flemish, the Walloon and the bilingual Brussels Capital Region). Each one is endowed with substantial exclusive powers on its territory and is governed by its own parliament and government.

The various Communities and Regions conclude with each other and with the federal authority cooperation agreements relating to common powers.

#### 14.1.1 Powers Conferred Upon The Communities, Regions And State

The federal State retains powers in the following areas:

- defence
- justice
- finances
- social security
- parts of public health
- employment
- monetary policy
- home affairs.
- foreign relations without prejudice to the foreign policy powers vested in the Communities and the Regions.

The Regions are mainly responsible for economic activity within their territory. In addition, the Regions are also responsible for the supervision of the local government.

The Communities exercise powers in personal or local matters.

Each tier of government will have some responsibility for common issues and there is consequently some degree of either sharing or over-lapping of powers.

The main allocation of powers and responsibilities between the main three levels of government is shown in Table 18, below.

<b>Function</b>	<b>Federal Government</b>	<b>Regions</b>	<b>Provinces and Municipalities</b>
Agriculture		√	
Building and Planning Applications		√	√
Defence	√		
Education			√
Employment	√	√	
Energy		√	

<b>Function</b>	<b>Federal Government</b>	<b>Regions</b>	<b>Provinces and Municipalities</b>
Environment		√	
Finance	√		
Foreign Policy	√		
Foreign Trade		√	√
Health Services			√
Home Affairs	√		
Housing		√	
Justice & Courts	√		
Language			√
Leisure and recreation			√
Transport		√	
Post and telecommunications	√		
Public works		√	
Social/Welfare Services	√		√
Strategic planning and regional policy		√	
Taxation	√	√	√

**Table 18: Belgium; Allocation of Public Services**

#### 14.1.2 Provinces and municipalities

Provinces and municipalities are subordinate authorities. They are on a lower level of the framework than the federated and the federal authorities who can impose certain tasks on provinces and municipalities.

As laid down in the Constitution, the provinces and municipalities are solely concerned with matters of respectively provincial and municipal interest.

Belgium has 10 provinces which are governed by directly elected provincial councils, a provincial government and a governor. The provincial governor, the members of which are elected from the provincial council, acts as an executive presided by the governor, who is appointed by the federal authorities.

The province's assignments include maintenance of civil order, town and country planning, road maintenance and control. The province also supervises the municipalities and the municipal administration.

The provinces can take initiatives in the field of education, culture, sports etc. The provincial authority can act in any matter of provincial interest insofar as it respects the powers of the municipalities and these matters have not been regulated by a higher authority.

The municipalities' functions include the maintenance of civil order, the organisation of elections, the conclusion of civil marriages, the granting of building permits, the

maintenance of roads etc. The municipalities have important tasks in the social field as well, for each municipality has a Public Centre for Social Welfare.

#### 14.1.3 The Financial Autonomy Of The Regions And Communities

Article 170 of the Constitution states that in Belgium, regions and communities, provinces, municipalities, associations of municipalities and agglomerations have taxing power. The taxing power is a power predominantly shared with the federal government.

Besides the tax allocations of the federal state, the "tax sharing" mechanism and the taxation powers transferred from the federal level to the regions and communities, the latter entities also have an autonomous taxation power. This puts the Belgian regions and communities on the same level of financial autonomy as the German Lander or the Swiss cantons.

By virtue of the January 16th, 1989 Finance Law, as amended, a new system for the financing of the communities and the regions came into force. The German speaking Community's financing is not governed by this special law.

The current system is based on two principles:

- financial responsibility for communities and regions and
- solidarity between the communities and the regions.

#### 14.1.4 The Regions

Apart from loans the regions have five sources of revenue:

- Autonomous regional taxes;
- An indexed portion of the proceeds of the individual income tax;
- The regions are entitled to levy an additional tax within the limits of the Belgian Economic and Monetary Union;
- solidarity contributions.
- environmental charges

#### 14.1.5 The Communities

The Communities are predominantly dependent on the assignment of a portion of the "shared" taxes.

These are:

- The radio and TV fees ;
- A portion of the proceeds of the personal income tax; and
- Value Added Tax (VAT).

Besides the "shared" taxes, the Communities have other sources of financing at their disposal:

- Some minor specific federal allocations,
- Some non tax receipts and
- The possibility to take on loans.

The amount of VAT allotted is indexed and remains, in general, constant in real terms. The apportionment is 57.55 % for the Flemish Community and 44.45 % for the French Community with the remainder going to the German speaking province.

In 1995, the "shared tax" proceeds represented 75 % of the total revenues of the Flemish Community and Region. In the same year, approximately 48 % of the individual income taxes levied, and 57 % of VAT was transferred by the federal government to the respective Communities.

## **14.2 Income Tax**

### ***Impôt Des Personnes Physiques; Revenu cadastral***

#### 14.2.1 Statutory Provision

Income Taxes Code 1992

For the purposes of Income Tax a deemed cadastral income (*revenu cadastral*) is assessed for all properties in Belgium and the value listed in the Land or Rating Register maintained by the Ministry of Finance.

#### 14.2.2 Purpose of the tax:

The tax is an element of the national income tax system and as such revenues obtained are directly fed into the revenues of the Federal government.

#### 14.2.3 How the tax base is set or established:

The Ministry of Finance is responsible for the valuation of all property in Belgium. All properties are meant to be revalued every 10 years (termed "a general equalisation") but the last revaluation was carried out in 1980. Following the postponement of the 1990 revaluation, indexation of cadastral income has taken place. (see below).

#### 14.2.4 Basis of valuation for tax purposes:

The taxable amount of real estate income is determined either on the basis of the cadastral income or on the basis of the current rent of the property. The cadastral income is based on the 1<sup>st</sup> January 1975 rental value of the property. Where a property was not let at that date provision is made for comparison to be made with similar property.

#### 14.2.5 Frequency of review of tax base:

The tax base should be reviewed every 10 years but the last revaluation was carried out in 1980 and based on the annual value in 1975.

In the absence of 10 years revaluations the government have attempted to update the values by indexation since 1990.

<b>Year</b>	<b>Index Co-efficient</b>
1991	1.0503
1992	1.0828
1993	1.1003
1994	1.1398
1995	1.1669
1996	1.1840
1997	1.2084
1998	1.2281
1999	1.2399
2000	?
2001	1.2538

**Table 19: Belgium; Revenu Cadastral - Index Co-efficients 1991 - 2001**

14.2.6 Nature of any exemptions or reliefs for classes of taxpayer:

Due to the nature of the tax, the reliefs and exemptions are part of the normal income tax system. However some reliefs specifically apply:

*Interest on Loans*

Interest is eligible for relief when it relates to debts incurred for the sole purpose of acquiring or maintaining property. Where the acquisition of property is by inheritance, the interest accruing from any loan taken out to pay inheritance tax is deductible to the extent that it relates to that property.

The amount of any deduction may not exceed the amount of the taxable income from the property. Where a taxpayer has incurred a loan in order to buy a dwelling-house, for example, and has no other income from immovable property, the deductible interests may not exceed the indexed cadastral income of that dwelling-house.

*Lump-Sum Deduction From The Cadastral Income Of A Dwelling-House*

This is granted on the cadastral income of a dwelling house. This deduction is inflation adjusted according to the same co-efficients as the cadastral income.

For 2000 income, this deduction amounts to 150,500 BEF with the following increases :

- 12,500 BEF for the spouse,
- 12,500 BEF for each dependent person,
- 12,500 BEF for each child having been dependent on the tax payer when living in the house in question.

The standard deduction is made up of the basic deduction and of any increases which may apply thereto.

Where the total net income does not exceed 1,067,000 BEF an additional deduction is made which is equal to half the difference between the cadastral income and the standard deduction.

The total deduction cannot exceed the cadastral income in respect of which it is granted.

<b>Example</b>			
<b>Lump-sum deduction from cadastral income of a dwelling-house</b>			
<b>Cadastral income</b>	<b>Family situation</b>	<b>Other net income</b>	<b>Deduction</b>
40,000	married, two children	600,000	40,000
180,000	married, one child	500,000	175,500
180,000	married, one child	1,800,000	177,750

**Table 20: Belgium; Revenu Cadastral - Dwelling House Relief**

The deduction does not apply to the parts of the dwelling-house used by the owner to any professional activity or which are occupied by persons who are not part of the household.

#### *Advance Payment*

Self employed persons are required to make advance payment of tax as follows:

- for the first quarter (AP1), no later than April 10th
- for the second quarter (AP2) no later than July 10th;
- for the third quarter (AP3), no later than October 10th;
- for the fourth quarter (AP4), no later than December 20th.

Where an advance payment is made a deduction of 4% of the tax due can be made. Non-self employer persons who make advance payments can also claim the deduction.

#### 14.2.7 Challenges to tax base, valuation or assessment:

Taxpayers can challenge the Land or Rating Register valuation by reference to the appropriate department in the Ministry of Finance.

#### 14.2.8 Nature of taxpayer:

The taxpayer is the owner of the property and the Ministry of Finance maintains a list of all owners who are liable to pay the tax.

#### 14.2.9 Amount of tax:

In the absence of an actual rent being received from the property the tax is based on the cadastral income. From this amount the taxpayer can deduct any interest on loans on the purchase of the property or improvements.

The taxpayer's dwelling-house represents a special case where the taxable income is granted a lump-sum relief and the withholding tax is partly credited against the taxpayer's income tax liability.

	<b>Type of real property</b>	<b>Taxable income</b>
a	It is the taxpayer's dwelling-house	The indexed cadastral income
b	It is not the taxpayer's dwelling-house, but it is not leased (a second residence, for example)	The indexed cadastral income increased by 40%
c	It is used by its owner for the purpose of a trade or business	No taxable income from immoveable property; it is deemed to be a professional income
d	It is leased to a natural person who does not use it for the purpose of a trade or business	The indexed cadastral income increased by 40%
e	It is leased: <ul style="list-style-type: none"> <li>- to a natural person who uses it for the purpose of a trade or business</li> <li>- to a company</li> <li>- to any other legal person except those listed in (f)</li> </ul>	- the net rent may not be less than the indexed cadastral income increased by 40%
f	It is leased to a legal person not being a company, for purposes of underlease to one or more natural persons in order to be used exclusively as a dwelling-house	The indexed cadastral income increased by 40%

**Table 21: Belgium; Revenu Cadastral - Calculation of Taxable Amount**

The above amount is added to the other income of the taxpayer. The actual calculation of the eventual tax liability follows the outline below:

<b>Calculation of Income Tax</b>	
	<b>Taxable income taxed according to Table 23</b>
Less	tax reduction for dependents
Less	tax reductions for long-term savings and for expenses paid for work or services performed in the framework of local employment agencies, and increased tax reduction for savings for house purchase
Less	tax reduction for replacement income
=	reduced basic tax
Less	tax reduction for foreign income
=	<b>Principal ATI</b> (aggregated taxable income)
Plus	tax on separately taxed income
=	<b>Principal</b>
Less	withholding taxes, tax credits, advance payments and other allowable items
Plus	increases for no or insufficient advance payment
Less	bonus for advance payment
=	<b>"Federal" tax</b>
Plus	regional and municipal surtaxes
Plus	additional crisis tax
Plus	tax increase
=	<b>Amount payable by or to the taxpayer</b>

**Table 22: Belgium; Income Tax - Calculation of Income Tax**

The rates of tax are on a progressive scale as shown in Table 23, below.

<b>Income</b>	<b>Marginal rate</b>
0 - 258,000	25 %
258,000 - 342,000	30 %
342,000 - 488,000	40 %
488,000 - 1,123,000	45 %
1,123,000 - 1,684,000	50 %
1,684,000 - 2,470,000	52.5 %
more than 2,470,000	55 %

**Table 23: Belgium; Income Tax Rates 2001**

14.2.10 Frequency of payment:

Tax is deducted at source as part of salary. Where the tax payment is not via deductions by payroll then the tax must be paid in four instalments:

- for the first quarter (AP1), no later than April 10th
- for the second quarter (AP2) no later than July 10th;
- for the third quarter (AP3), no later than October 10th;
- for the fourth quarter (AP4), no later than December 20th.

14.2.11 Purpose to which tax is put:

The tax is part of the general income tax revenues and is not allocated for specific purposes.

14.2.12 Identification of tax collector:

The tax is collected through the general income tax system by the Ministry of Finance. Where surtaxes are imposed by the regions or municipalities these are collected as at the same time and the amount remitted to the authority concerned.

### **14.3 Inheritance tax**

#### ***Droits de succession et de mutation par décès***

14.3.1 Statutory Provisions

Book 1 of the Succession Duty Code No. 308 of 31<sup>st</sup> March 1936 as amended.

14.3.2 Taxable persons

The heirs and legatees, resident or non-resident, are taxable persons for the purposes of inheritance tax (*droits de succession*). The liability is incurred at the time of death of the deceased and based on the value of the estate.

The inheritance tax and the transfer duty upon death are calculated by means of a declaration which must be filed by the legal successors within 5, 6 or 7 months after the decease, according as to whether the testator died in Belgium, in Europe or elsewhere.

14.3.3 Tax base

If the deceased was resident in Belgium at the time of death, inheritance tax is levied on the worldwide property. If the deceased was resident abroad at the time of death, death duties are levied on the value of the immovable property situated in Belgium, without deduction of any debt.

The tax is computed on the open market value of the property each beneficiary is entitled to receive from the estate.

14.3.4 Rates

The inheritance tax rates are determined on the basis of the proximity of relationship between the deceased and the beneficiary and on the basis of the beneficiary's share in the estate. Different rates apply depending on whether the deceased was resident in the Flemish region, or in the Brussels or Walloon regions as is shown in the tables below.

<i>Bracket of the net share in BEF</i>		<b>Tax rates in %</b>
<b>from</b>	<b>to (including)</b>	<b>Upon lineal relatives and between spouses</b>
1	500,000	3
500,000)	1,000,000	4
1,000,000	2,000,000	5
2,000,000	4,000,000	7
4,000,000	6,000,000	10
6,000,000	8,000,000	14
8,000,000)	10,000,000	18
10,000,000	20,000,000	24
more than	20,000,000	30

**Table 24: Belgium; Inheritance Tax - Walloon and Brussels Region between lineal relatives and between spouses**

<b>Bracket of the net share in BEF</b>		<b>Tax rate in %</b>		
<b>from</b>	<b>to (including)</b>	<b>Between brothers and sisters</b>	<b>Between uncles or aunts and nephews or nieces</b>	<b>Between all other persons</b>
1	500,000	20	25	30
500,000	1,000,000	25	30	35
1,000,000	3,000,000	35	40	50
3,000,000	7,000,000	50	55	65
more than	7,000,000	65	70	80

**Table 25: Belgium; Inheritance Tax - Walloon and Brussels Region between collateral relatives and between non-relatives**

Bracket of the net share in BEF		Tax rates in % Upon lineal relatives and between spouses
from	to	
1	2,000,000	3
2,000,000	10,000,000	9
more than	10,000,000)	27

**Table 26: Belgium; Inheritance Tax - Flemish Region - lineal relatives, between spouses and between cohabitants**

Taxable amount in BEF		Tax rates in %	
from	to	Between brothers and sisters	Between "others"
1	3,000,000	30	45
3,000,001	5,000,000	55	55
more than	5,000,001	65	65

**Table 27: Belgium; Inheritance Tax - Flemish Region - between brothers and sisters or between "others"**

#### 14.4 Other Taxes

Other property related taxes, duties and levies include:

##### 14.4.1 Bill-Posting Tax

This tax is levied on all placards posted in the view of the public, as well as on illuminated signs, etc (Art. 188 and following CTASD).

A whole series of exemptions are provided, notably relating to signs and certain bills in pursuance of the law or a judicial ruling, notices put up by public authorities and certain public establishments, certain notices relating to worship, notices relating to elections, etc (Art. 194 and 198 CTASD).

The tax base is on the surface area of the poster concerned.

##### 14.4.2 Capital Gains From Undeveloped Real Property

These capital gains are only taxable where the following conditions are all met :

- the real property is situated in Belgium,
- the sale occurs less than eight years after the acquisition for valuable consideration or less than three years after a gift and less than eight years after the acquisition by the grantor for valuable consideration.

The taxable amount is determined on the basis of the transfer price, from which may be deducted :

- the purchase price and acquisition costs,
- a 5% revaluation of the purchase price and acquisition costs for each full year of ownership between the acquisition and the alienation.

#### 14.4.3 Capital Gains Tax

These capital gains are only taxable as miscellaneous income (under income tax provisions) where all of the following conditions are met :

- the property is situated in Belgium,
- it is not the taxpayer's dwelling-house,
- the sale occurs less than five years after the acquisition for valuable consideration, or less than three years after a gift where the grantor had acquired the property himself for valuable consideration less than five years before.

The taxable amount is determined on the basis of the transfer price, from which may be deducted :

- the purchase price and acquisition costs,
- a 5% revaluation of the purchase price and costs for each full year of ownership,
- the costs of renovation work carried out by a contractor on behalf of the owner between the time of acquisition and the time of sale.

#### 14.4.4 Flemish Soil Clean Up Order

The Flemish Soil Clean-up Order is aimed at safeguarding the quality of the soil in Flanders by imposing a duty to clean up the soil in cases where a critical level of soil pollution is reached.

This obligation is imposed on the operator, the owner or the person having control over the soil. Since 1<sup>st</sup> October 1996, before transferring a piece of land, the transferor has had to provide the transferee with a “soil certificate”. This certificate is issued by the Flemish Waste Management Authority and provides the transferee with information on such soil pollution as is known.

A preliminary soil investigation is required before any transfer of land on which potentially polluting industrial activity is (or was) carried out. On the basis of the results, the authority may require a second, more thorough investigation to be carried out, in order to determine the exact extent of the pollution. If a critical pollution level has been reached the transfer will only be allowed if the transferor draws up a soil clean-up plan, gives a formal commitment to clean up the land and offers adequate financial guarantees covering his obligations

These obligations apply to all transactions relating to a “transfer of land” as defined by the Flemish Soil Clean-up Order. This not only refers to the transfer of ownership but also comprises:

- Transactions granting or terminating contractual rights to use certain property :
- lease contracts, business leases or concession agreements for an aggregate period exceeding 9 years and financial leasing contracts.
- Operations vesting or terminating limited real rights: long leases or building rights.
- Business operations : mergers or demergers.

Any breach of these obligations carries a criminal penalty (up to 20 billion BEF). Moreover, the purchaser and authority may apply for the transfer to be avoided.

#### 14.4.5 Municipal Surcharge

The municipalities may levy surcharges on the national Income Tax. The rates vary from 0% to 8.5%, according to the municipality (average rate being 7% - 7.5%). Regional and community governments are also entitled to levy surcharges on income tax.

#### 14.4.6 Stamp Duty

*Droits de timbre*. Levied under the Code on Stamp Duty which imposes a duty on documents of between BEF 6 and BEF 300.

#### 14.4.7 Registration duty

##### ***Droits d'enregistrement, d'hypothèque et de greffe***

Code on Registration Duty, mortgage Duty and Court Duties.

The purchase of any property in Belgium must be registered by the purchaser who is responsible for the payment of 12.5% Registration Duty. The duty is based on the open market value of the property and a penalty of 37.5% is imposed on both the vendor and purchaser where there is an attempt to sell the property at an artificial price in an attempt to avoid the duty.

Where a property is sold within 2 years of the original purchase 60% of the tax can be reclaimed.

Where property is purchased by either an individual or business whose main purpose is the sale and purchase of property a reduced registration duty of 5% is charged.

#### 14.4.8 Value Added Tax (VAT)

The basic concepts of the VAT regime - such as taxable persons, nature of the goods, delivery of goods and supply of services - have been brought into line with the 6th E.C. Directive so that the basic Belgian regulations are comparable to those applicable in the other E.U. Member States.

For property transactions, the VAT regime includes some distinctive features which can be summarised as follows:

- A taxable person is any person who regularly carries out an economic activity that the Belgian VAT Code regards as supplies of goods or services. A company may be considered as taxable for VAT purposes even though it only performs tax-exempt transactions; in such a case the company will not be able to deduct input VAT.

With regard to certain property transactions, it should be noted that a person who is not considered as taxable may become so for a specific transaction. Such a person will, however, have to opt for the VAT regime under the forms and within the time limits prescribed by law.

- Supply of goods means the transfer of the right to dispose of tangible property as an owner. Goods particularly cover tangible property, and some rights in rem

giving the holder thereof a right of use over immovable property. The above definition means that land and buildings are goods for the purposes of the Belgian VAT legislation.

However, according to the Belgian VAT Code, the supply of immovable property and the letting thereof are mostly VAT-exempt transactions.

The VAT regime will only be applicable to the supply of “new” buildings, and certain rights in rem relating to those buildings can be subject to VAT provided that certain conditions are met by the seller.

A building is any construction on which property tax is levied as immovable property, which means that land is never subject to VAT, but rather to registration duties.

A building is considered as new for VAT purposes until 31 December of the year after the year in which it was first assessed to property tax. This first assessment usually takes place during the year following the year the building is first occupied.

- Supply of services means any transaction which does not constitute a supply of goods. In principle, supplies of services in connection with real property fall within the scope of the VAT legislation. Most of these transactions, however, are exempt under Belgian tax law.

As a general rule, the letting of property is VAT exempt, with exception of:

- letting of space to park vehicles;
- letting of space to store goods;
- renting furnished accommodation and renting camping areas;
- rental of safes which are immovable by nature;
- leasing immovable property where certain conditions are met

Although the letting is VAT exempt, the landlord may provide services to the tenant which are subject to VAT.

As the letting of property is VAT exempt, the landlord does not have any right to deduct input VAT.



## 15 Belorussia

At the present time limited information is available and the information below is only a brief description at this stage.

### 15.1 Land Tax And Real Estate Tax

These two taxes were adopted in December 1991.

#### 15.1.1 Taxpayers

The land tax is levied on the owner or lessee of land, while the real estate tax is levied on those legal or natural persons who use buildings and other improvements to land for production purposes.

#### 15.1.2 Taxable base

The land tax rates are specified in a series of tables, depending on the location of the land. In populated areas, land with new development is taxed more heavily than land in the course of development. The real estate tax is levied on the value of buildings and offices and other improvements to land.

#### 15.1.3 Tax rates

The land tax rates range from 47,700 roubles to 124,800 roubles per hectare in Minsk, from 2,000 roubles to 4,400 roubles per hectare in small villages and from 10 roubles to 132 roubles per hectare for unpopulated land. Owners of agricultural land need only pay land tax.

The real estate tax is levied on state-owned and governmental entities at a rate of 5% on the value of existing structures. Private enterprises pay 2% and individuals pay 0.1%. The tax with respect to newly initiated building projects involving production facilities is 30% on the estimated value of the future facilities.

#### 15.1.4 Exemptions

Land tax is not levied on: -

- social and cultural facilities, as well as social housing;
- fixed assets owned by organisations for the disabled;
- production facilities belonging to the telecommunications service;
- cemeteries; and
- land to which administrative buildings are attached.

#### 15.1.5 Assessment and collection

Legal persons must determine the tax payable and submit the calculations by the 15th of the month, following the month of the quarterly invoicing to the tax authority.

The real estate tax is due annually on 1 January.



## 16 Bulgaria

### 16.1 Government Organisation And Structure

Bulgaria is a unitary state with local self-government based on a constitution drawn up in 1991.

The Local Self-government and Local Administration Act (State Gazette No77/17 September 1991 as amended) provides the basic legal framework for local government. Under the constitution, the country is divided into municipalities and regions. Other administrative territorial units and bodies of self-government may be established by law.

#### 16.1.1 Regions

There are nine regions. They are administrative territorial units entrusted with the conduct of regional policy, the implementation of state policy at the local level, and ensuring the co-ordination of national and local interests

Each region is headed by a regional governor assisted by a deputy regional governor and by the regional administration. The regional governor ensures the implementation of the state's policies, safeguards the national interests, upholds law and public order, and exercises administrative control over the activities of municipal authorities

The regional governor defines the functions and the number of the staff of the regional administration. There are typically six administrative units, dealing with:

- state policy and territorial development;
- state-owned property;
- legal matters;
- defensive and mobilisation preparation;
- civil defence; and a
- administrative-economic services and subsidies.

#### 16.1.2 Local Government

Municipalities are the basic administrative unit and are regulated through the Local Government and Local Administration Act (State Gazette No.77/1991 as amended)

Municipal councils are elected directly for a four-year term. The mayor is head of the executive in the municipality and is elected by the municipal council for a term of four years

The basic functions of the municipal council include:

- to determine the policy of the municipality with regard to development,
- the preservation of the environment
- health,
- social welfare
- educational
- culture activity

- to determine its own structure
- to determine the structure and the functions of the municipal administration
- to pass the municipal budget
- to set local fees
- to decide on the management of municipal-owned property and municipal enterprises and trade companies.

A municipality is entitled to own municipal property, which it must use in the interest of the local community

## **16.2 Local Government Finance**

Municipalities have their own budgets and independently govern them according to the Municipal Budgets Law, adopted in 1998. The relationship between the local budgets and the state budget is regulated by the Organic Budget Law (State Gazette 67/1991).

Central funds can be made available in the form of subsidies, subventions or state revenue cessions. The amount of central funds to local government and the modalities for their allocation are determined in the annual State Budget Law.

The municipality has under the Local Taxes Act the power to charge the following local taxes and fees and use the revenues raised for local purposes..

### 16.2.1 Local Taxes:

- Immoveable property tax;
- Inheritance tax;
- Gift tax;
- Property transfer tax;
- Tax on transport vehicles
- Other local taxes regulated by a law.

### 16.2.2 Local Fees For:

- Garbage;
- Use of market places, auction places, pavements, squares, street lanes;
- Use of kindergartens, day care centres, vacation centres, hostels, social care centres and other forms of social service;
- Holidays or medical treatment in a resort;
- Extraction of quarry materials;
- Technical services;
- Administrative services;
- Dog fees;
- Purchase of grave plots;
- Safeguard and protection of agriculture plots;
- Other local fees determined by a law.

The main provisions for local property taxation is contained in the Local Taxes and Fees Act 1997 as amended by SG Nos. 71, 83, 105 & 153/1998. This Act makes specific provision for a number of property taxes to be levied by the municipality:

- Immoveable property tax;
- Inheritance tax;
- Gift tax;
- Property transfer tax;

### **16.3 Immoveable Property Tax**

#### 16.3.1 Statutory Provision

The main provisions for this tax are articles 10 – 28 Local Taxes and Fees Act 1997 as amended.

#### 16.3.2 Purpose of the tax;

The tax is one of a number of local raised taxes that provide a substantial part of funding of local government. It is an annual tax on the ownership of property.

#### 16.3.3 How the tax base is set or established;

The tax applies to all property regardless of whether used or disused but excludes land and buildings used for agricultural purposes.

Taxpayers are required to make a return to the tax authorities in the location of the property indicating what property they own by the 1st February each year.

#### 16.3.4 Basis of valuation for tax purposes;

The tax is based on rates provided by the legislation and updated annually.

#### 16.3.5 Frequency of review of tax base;

The rates for the valuation are fixed by legislation and updated annually.

#### 16.3.6 Nature of any exemptions or reliefs for classes of taxpayer;

A range of exemptions are available under article 24, including:

- Public municipal property;
- Public state property, except in cases where state-owned property is used by persons who are not exempt from the tax;
- Public reading-halls
- Buildings owned by other countries and occupied by consular or diplomatic missions under conditions of reciprocity;
- The buildings of the Bulgarian red cross;
- Buildings used by graduate schools and by the academies for education and research activity;
- Places of worship of the legally registered religious beliefs in the country;
- Parks, sports grounds, playgrounds and similar properties for public use;
- Museums, galleries, libraries;
- Buildings, exclusive of residential buildings, used directly for the purposes of operating the public transport;
- Agricultural buildings of agricultural producers which are used for agricultural activity;

- Temporary structures used for assisting the construction of a new building or equipment until the latter is completed and occupation is taken;
- Buildings which have been duly condemned as endangered from collapse or in hazardous
- Sanitary state, for a period of 5 years as from the date of issue of the initial certificate.
- Real properties the title on which has been restored by law and which are not fit for use, for a period of 5 years. The tax on the above real properties, which are used by the state, the municipalities, the public organisations or companies of which they are part, inclusive of those privatised, shall be due by the users.

The following reliefs are available under article 25:

- For property used as a main residence the tax shall be due with a 50% reduction.
- For property used as a main residence of an impaired person of the first or second category of disability the tax shall be due with a 75% reduction.

16.3.7 Challenges to tax base, valuation or assessment;

Challenges to the notice of assessment can be made under the Tax Procedures Act.

16.3.8 Nature of taxpayer;

The taxpayer is the owner of the land, buildings or rights (article 11). Where a property is owned by more than one person then each person is liable proportionally to the extent of his ownership.

Where building are built on land owned by the state or municipality the owner of the building is liable for the tax.

16.3.9 Amount of tax;

The tax rate is levied at 1.5 per BGL 1,000 of value and 3 per BGL 1,000 for amounts over BGL 100 million.

The rate is reduced by 50% if the property is the taxpayers residence or by 75% for a disable person.

16.3.10 Frequency of payment;

The tax is payable in quarterly instalments on 31<sup>st</sup> March, 30<sup>th</sup> June 30<sup>th</sup> September and 30<sup>th</sup> November and with a 5% discount payable if the total amount is paid by 31<sup>st</sup> March.

16.3.11 Identification of tax collector;

The tax is collected by the State Tax Administration Authority Office responsible for the municipality on behalf of the municipality. The tax is remitted to the municipality concerned.

## **16.4 Inheritance Tax**

### ***Danak Verkhu Nasledstvata***

#### 16.4.1 Statutory Provision

The main provisions for this tax are articles 29 - 43 Local Taxes and Fees Act 1997 as amended.

#### 16.4.2 Purpose of the Tax

Inheritance tax is levied on the world wide property of Bulgarian citizens and on property owned in Bulgaria for non-citizens (article 29). The tax extended to moveable and immovable property as well as any rights associated with it.

The tax is payable the persons inheriting the property.

#### 16.4.3 Basis of Valuation

The basis of valuation is provided by article 33

Inherited property, with the exception of exempt property, shall be determined at the moment of establishment of the inheritance, as follows:

- Immoveable property - based on the tax assessment in accordance with annex 2 Local Taxes and Fees Act 1997;
- Foreign exchange and precious metals - according to the central rate of the Bulgarian National Bank;
- Securities - according to their market value, and in cases when the market value cannot be established without considerable difficulties, those shall be valued according to their nominal value;
- Transport vehicles - according to their insurance value;
- The remaining moveables and rights - according to their market value;
- Enterprises and equity interest in companies or co-operatives - according to their market value;

#### 16.4.4 Exemptions and Reliefs

The assets of the taxable inherited property as determined under Article. 33 shall be reduced by:

- The amount of the liabilities of the deceased whose grounds and amount have been established, as of the date of establishment of the inheritance, if no property exempt from inheritance tax shall be acquired against these liabilities. Liabilities to creditors shall not be subtracted, whose receivables have expired by limitation or have not been performed within the six-month period specified in article 32;
- The rights and claims which the heirs have transferred to the state or municipalities under the established procedures and within the six-month period specified in article 32;
- Funeral expenses amounting to no more than 1,000,000 bgl;

The following are exempt from inheritance tax (article 38):

- Property of people who have died for the Republic of Bulgaria or while discharging official Duties, or in production accidents or natural disasters;

- Property inherited by the state, the municipalities, the Bulgarian Red Cross, public reading halls
- And other legal entities which are not merchants;
- Usual and common household furnishings;
- Minor agricultural equipment;
- Libraries and musical instruments;
- Objects of art the author of which is the deceased, any of the heirs or their relatives of direct
- Descent without limitation, and for the collateral line up to the fourth degree;
- The pensions which have not been received by the deceased;
- Property located abroad and belonging to Bulgarian citizens for which inheritance tax has been paid in the respective country;

Special provision is made for quick succession relief under article 39. Where the property has been inherited within one year only 40% of the value shall be included. For 2 years 50% and for 3 years 60% of the value.

#### 16.4.5 Payment of Tax

Tax should be paid within 2 months of the receipt of the notice of assessment.

#### 16.4.6 Amount of Tax

Article 36 provides for different levels of tax depending on the relationship of the deceased to the person inheriting the property.

<b>Inherited share in BGL</b>	<b>Tax Rate</b>
< 15,000,000	non-taxable
from 15,000,001 to 50,000,000	0.1% for the amount above 15,000,000
from 50,000,001 to 100,000,000	35,000 + 0,2% for above 50,000,000
from 100,000,001 to 200,000,000	135,000 + 1% for above 100,000,000
from 200,000,001 to 500,000,000	1,135,000 + 2% for above 200,000,000
from 500,000,001 to 1,000,000,000	7,135,000 + 5% for above 500,000,000
> 1,000,000,000	32,135,000 + 10% for above 10,000,000,000

**Table 28: Bulgaria; Inheritance Tax Rates For Spouses And Direct Family**

	<b>Tax Rate</b>
< 15,000,000	0,1%
from 15,000,001 to 50,000,000	15,000 BGL+ 0.2% for above 15,000,000
from 50,000,001 to 100,000,000	85,000 BGL+ 0.5% for above 50,000,000
from 100,000,001 to 200,000,000	335,000 BGL+ 1.5% for above 100,000,000
from 200,000,001 to 500,000,000	1,835,000 BGL+ 3.5% for above 200,000,000
from 500,000,001 to 1,000,000,000	12,335,000 BGL+ 6% for above 500,000,000
> 1,000,000,000	42,335,000 BGL+ 12% for above

**Table 29: Bulgaria; Inheritance Tax Rates For Heirs Of A Collateral Line**

<b>Inherited share in BGL</b>	<b>Tax Rate</b>
< 15,000,000	3%
from 15,000,001 to 50,000,000	450,000 BGL + 3.5% for above 15,000,000
from 50,000,001 to 100,000,000	1,675,000 BGL + 4% for above 50,000,000
from 100,000,001 to 200,000,000	3,675,000 BGL + 5% for above 100,000,000
from 200,000,001 to 500,000,000	8,675,000 BGL + 7% for above 200,000,000
from 500,000,001 to 1,000,000,000	29,675,000 BGL + 10% for above 500,000,000
> 1,000,000,000	79,675,000 BGL + 20% for above 1,000,000,000

**Table 30: Bulgaria; Inheritance Tax - Tax Rates For Other Heirs**

Each heir or taxpayer will receive a specific note of assessment.

16.4.7 Challenges to Assessment

Notices of assessment may be challenged and the Tax Procedure act provisions apply to all disputes.

16.4.8 Nature of the taxpayer

The taxpayer is the person(s) who inherited the property (article 31).

The taxpayer has 6 months in which to file the return and where there is more than one heir to the estate, this may be filed by any of the heirs and shall be binding on them all.

**16.5 Tax On The Acquisition Of Property As A Gift Or For Consideration**  
***Danak Darenie***

16.5.1 Statutory Provisions

The main provisions for this tax are articles 44 - 51 Local Taxes and Fees Act 1997 as amended.

16.5.2 Purpose of the tax;

The tax is a tax on the transfer of property.

16.5.3 How the tax base is set or established;

The tax is levied on property acquired as a gift, as well as immovable property, limited real rights on immovable property and motor vehicles acquired for consideration. The tax also extends to property acquired in any other way for no consideration, as well as loans repaid by remission.

The person acquiring the asset is required to make a return to the tax authorities within one month of acquiring the asset.

16.5.4 Basis of valuation for tax purposes:

The market value of the gift or the amount of consideration.

16.5.5 Nature of any exemptions or reliefs for classes of taxpayer:

The property acquired as gifts by the following shall be exempt (article 48):

- The state and the municipalities;
- Bulgarian healthcare, educational, cultural and scientific budget organisations, as well as
- social care centres and “Mother and Child” establishments;
- The Bulgarian Red Cross;
- The organisations of and for the handicapped, represented on a national scale;
- Property transferred for no consideration in execution of an obligation arising by operation of law;
- Gifts to the benefit of public reading halls;
- Property acquired in accordance with the provisions of the Transformation and Privatisation of
- State and Municipal Enterprises Act;

16.5.6 Challenges to tax base, valuation or assessment:

No information available.

16.5.7 Nature of taxpayer:

The tax is paid by the successor in title to the property, and in cases of property exchange, by the person acquiring the more expensive possession, unless otherwise agreed.

Where it is agreed that both parties are to be liable for the tax they will share the tax liability and the other party shall be the guarantor.

16.5.8 Amount of tax:

Under Article 47 the amount of tax varies depending on whether the property was acquired as a gift or by purchase.

In cases of gifted property the tax is based on the value of the property transferred, to the amount of:

- 0.5% for gifts between relatives of direct descent and between spouses;
- 0.7% for gifts between brothers and sisters, and to nephews/nieces;
- 5% for gifts between persons other than those indicated above

In cases of acquisition of property for consideration the tax is 2% of the value of the property transferred, while in property exchange, on the assessment of the property having a higher value.

16.5.9 Frequency of payment:

A single payment

16.5.10 Purpose to which tax is put:

The tax provides general revenues of the municipality and is not allocated for a specific purpose.

16.5.11 Identification of tax collector;

The tax is collected by the State Tax Administration Authority Office responsible for the municipality on behalf of the municipality. The tax is remitted to the municipality concerned.

The taxpayer is required to make the appropriate returns within one month of the acquisition of the asset.

**16.6 Wealth Tax**

Bulgaria has no wealth tax.



## 17 Croatia

### 17.1 Government Organisation And Structure

In the framework of its self-government a municipality has the following responsibilities:

- Ensures the conditions for the development of economic, social, public utility and other activities and services of importance for the territory of the municipality;
- Ensures the conditions for zone and town planning and for the protection of the human environment, unless otherwise stipulated by a special law;
- Provides for the arrangement of settlements, quality of housing, public utility facilities, performance of public utility and other service activities as well as the local infrastructure, unless stipulated otherwise by law;
- Ensures local needs of the population in the area of child care, education and instruction, public health (outpatient departments, medical centres, etc.), Health protection of animals and protection of plants, social welfare, culture, technical culture, physical culture and sports, unless otherwise stipulated by law;
- Manages the municipal property;
- Establishes public institutions and other legal entities, in conformity with the law, for the purpose of realising certain economic, social, utility and other social interests and needs of the population.
- Settles other matters, too, in conformity with the law on the basis of a decision passed by the municipal council and in conformity with the county and municipal statutes, some jobs pertinent to the self-government sphere of the municipality can be transferred to the county or rather to the local self-government.

### 17.2 Local Government Finance

The Law on Local Self Government provides a range of sources of income for local government:

- Income from moveable and immoveable property,
- Income from companies and other legal entities they own,
- Income from concessions,
- Income from the sale of immoveable and moveable assets,
- Gifts, inheritances and legacies,
- Municipal, town and county taxes and indemnities and fees,
- Assistance and subsidies of the Republic of Croatia foreseen in the government budget, or by a special law,
- Subsidies from the government budget for the tasks of state administration transferred to their jurisdiction,
- Other revenues stipulated by the law.

### 17.3 Advertisement Tax

Taxed under the Law of Local Taxes.

#### 17.3.1 Purpose of the tax:

The tax is revenue of the municipality or the city at the area of which the advertisement is located.

#### 17.3.2 How the tax base is set or established:

Article 60 provides for the taxation of advertisements:

*“used for promotion of products and services of corporate bodies and natural persons which includes all advertising panels, flags, sign-posts, other boards and notices, and all the other objects used for promotion of a certain product or a service placed on public areas.”*

A municipality or a city may prescribe by its decision what is considered a public area.

#### 17.3.3 Basis of valuation for tax purposes:

##### **Article 62**

Advertisement Tax is a fixed amount not exceeding Kuna 1,000 per advertisement.

#### 17.3.4 Frequency of review of tax base:

##### **Article 63**

Local authorities may vary the rate of tax subject to the above maximum of 1,000 Kuna.

#### 17.3.5 Nature of any exemptions or reliefs for classes of taxpayer:

Exemptions under article 64 include:

- Advertisements published in press or in public media.

#### 17.3.6 Challenges to tax base, valuation or assessment:

No information available.

#### 17.3.7 Nature of taxpayer:

##### **Article 61**

The taxpayers are corporate bodies and individuals which have posted advertisements in a public area.

#### 17.3.8 Amount of tax:

##### **Article 62**

The amount must not exceed Kuna 1,000 per advertisement.

#### 17.3.9 Frequency of payment:

The tax is paid in a single annual payment within 15 days of the notice of assessment.

17.3.10 Identification of tax collector;

The tax is administered by the local tax authority to whom all returns should be made and who will issue notices of assessment.

**17.4 Capital Gains Tax**

There is no specific capital gains tax in Croatia. Income from any capital gain is taxed as part of the normal income or corporation tax account of the taxpayer.

**17.5 Holiday Resort Homes Tax**17.5.1 Purpose of the tax;

The tax provides general revenue for the local authority in which the home is located.

17.5.2 How the tax base is set or established;

The following property is subject to the tax:

- Resort homes and apartments and resort centres.
- A resort home is defined as any building or part thereof, or an apartment used on seasonal or temporary basis.
- A resort centre is also a resort home.
- Resort homes, which? are not farm buildings where agricultural machines, tools, other accessories, and alike are placed.

The taxpayer is required to make returns to the tax authorities in the home's location, by the 31<sup>st</sup> March each year indicating their ownership of a relevant property.

17.5.3 Basis of valuation for tax purposes;

The tax is not a value based tax but is levied at a rate per sq.m of floor area. However the amount of tax should reflect the location, age, condition of infrastructure, and other circumstances related to use of holiday resort homes.

17.5.4 Frequency of review of tax base;

The tax rate is prescribed by law (see below) but can be changed by the municipality and should reflect the age location etc. of the subject property.

17.5.5 Nature of any exemptions or reliefs for classes of taxpayer;

- holiday resort homes that are not suitable for use.
- Holiday resort homes as referred to under the Paragraph (1) of this Article 46 are holiday resort homes or resort centres that are not suitable for use because of war devastation or natural disasters (floods, fires, earthquakes).
- holiday resort home or resort centres used for accommodation of refugees.
- A municipal or city authorities may make a decision to prescribe other exemptions from holiday resort homes tax for economic or welfare reasons.

17.5.6 Challenges to tax base, valuation or assessment;

No information available.

17.5.7 Nature of taxpayer:

Taxpayers are the owners of the homes in the holiday resorts.

17.5.8 Amount of tax:

- From Kuna 5 to 15 per square metre of usable area of a holiday resort home.
- The amount of tax on holiday resort homes is prescribed by a decision by municipal or city authorities.
- A municipal or city authorities shall prescribe the amount of tax on holiday resort homes depending on the location, age, condition of infrastructure, and other circumstances related to use of holiday resort homes.

17.5.9 Frequency of payment:

Single annual payment made within 15 days of delivery of the tax assessment.

17.5.10 Identification of tax collector:

The local tax authority.

## 17.6 Inheritance and Gift Tax

17.6.1 Statutory Provision

Laws on Local taxes

17.6.2 Purpose of the tax:

The tax is levied for the purposes of contributing to the funding of local government.

17.6.3 How the tax base is set or established:

Under Article 9 there is an obligation of the person receiving the gift or inheritance to notify the tax authorities within 15 days of the end of the month in which it was received.

17.6.4 Basis of valuation for tax purposes:

The basis of the tax is the market value of the property.

17.6.5 Nature of any exemptions or reliefs for classes of taxpayer:

Under Article 11 the tax on inheritance and gifts is not paid by:

- Spouse, direct descendants and ancestors, as well as adopted children and adopted parents of the deceased or of the donor;
- Brothers and sisters, their direct descendants, and sons-in-law and daughters-in-law of the testator or donor, when inheriting or receiving farmland as a gift, if the agriculture is their only source of income;
- Brothers and sisters, their direct descendants, and sons-in-law and daughters-in-law of the testator or donor if they lived in the common household with the testator at the moment of his death or with the donor at the moment of receiving the gift.;
- Corporate bodies and individuals to whom the republic of Croatia or a unit of local self-administration and administration donates or gives real property free from payment as a damage compensation or for other reasons related to the patriotic war;

- Former spouses when governing mutual ownership relations;
- The government and units of local self-government and government, government bodies, public institutions, religious communities, trusts and foundations, red cross and other relief organisations

17.6.6 Challenges to tax base, valuation or assessment:

No information available.

17.6.7 Nature of taxpayer:

The taxpayer is the person who received the inheritance or gift. Where the inheritance or gift is renounced provision is made for the eventual recipient to pay the tax.

17.6.8 Amount of tax; (article 10)

- (1) Tax on inheritance and gifts is paid at a rate of 5% to 20%.
- (2) The amount of tax on inheritance and gifts is established by the decision of county authorities, depending on the value of the property inherited or received as a gift and on the degree of kinship between the testator and the heir or between the donor and the person receiving the gift.

17.6.9 Frequency of payment:

The tax is paid in a single instalment.

**17.6.10** Identification of tax collector:

Article 12

The tax is administered by the local tax authorities to whom the return referred to above should be made. The authorities will determine the amount of tax due and issue an account, which must be paid with 15 days of receipt.

## **17.7 Tax On Idle Lands**

17.7.1 Purpose of the tax:

The tax is the revenue of the municipality or city at the area of which the idle farmland is located.

17.7.2 How the tax base is set or established:

The tax is charged on:

- Idle lands which are not cultivated for two consecutive years.
- Idle lands are such lands that by its size, class, and crops, may be cultivated for agricultural purposes, but the owner or other persons do not cultivate it.
- Tax on idle lands is not paid on the lands with an area less than one hectare.

The taxpayer is required to make returns to the tax authorities in the homes location, by the 31<sup>st</sup> March each year indicating their ownership of a relevant property.

17.7.3 Basis of valuation for tax purposes:

The basis of the tax is the surface area of idle farmlands expressed in hectares. The amount of tax should reflect the location, size, class, crop, and other circumstances of importance for the use of idle farmlands.

- 17.7.4 Frequency of review of tax base:  
The municipality may review and change the amount of tax charged.
- 17.7.5 Nature of any exemptions or reliefs for classes of taxpayer:  
Article 52 provides for exemptions for:
- Land of an area less than one hectare.
  - The land made available to the municipality or the city for temporary use to other persons.
- A municipality or a city may decide on exemptions from the tax, depending on the location (mountain, hill), size, class, and crop of the land, and in case of the taxpayer's disability caused by age, disease, and alike.
- 17.7.6 Challenges to tax base, valuation or assessment:  
No information available.
- 17.7.7 Nature of taxpayer:  
**Article 49**  
The owner, holder, or lessee of idle farmlands. In case of farming household, the tax is charged on the household member registered as its representative in the land registry records.
- 17.7.8 Amount of tax:  
**Article 51**  
Tax is Kuna 100 to Kuna 1,000 per hectare of idle lands.
- Amount of tax on idle farmlands shall be prescribed by the decision of the municipal or city authorities.
- The municipal or city authorities shall prescribe the amount of tax on idle farmlands depending on the location, size, class, crop, and other circumstances of importance for the use of idle farmlands.
- 17.7.9 Frequency of payment:  
The tax is paid in a single annual payment within 15 days of the notice of assessment.
- 17.7.10 Identification of tax collector:  
**Article 53**  
The tax is administered by the local tax authority to whom all returns should be made and who will issue notices of assessment.

## 17.8 Tax On Idle Real Property

### 17.8.1 Purpose of the tax:

The tax is revenue of the municipality or the city at the area of which the idle real property is located.

### 17.8.2 How the tax base is set or established:

#### **Article 54**

The tax is levied on real property intended for business activities (offices, manufacturing and other business premises) that is idle. This means property in which no business is carried out in the preceding two years.

The taxpayer is required to make returns to the tax authorities in the homes? location, by the 31<sup>st</sup> March each year indicating their ownership of a relevant property.

### 17.8.3 Basis of valuation for tax purposes:

#### **Article 56**

The basis of the tax is usable area of the real property expressed in square metres.

The amount of tax can vary per square metre, which is fixed locally.

### 17.8.4 Frequency of review of tax base:

The amount of tax can be reviewed and changed by the local authority.

### 17.8.5 Nature of any exemptions or reliefs for classes of taxpayer:

#### **Article 58**

The following are exempt from the tax:

- property not used for periods of less than two years.
- property put at disposal to the municipality or the city for temporary use by other persons.
- A municipality or a city may prescribe exemptions from tax on idle real property in case of force majeure, natural disasters, or if there are other obstacles for their use.

### 17.8.6 Challenges to tax base, valuation or assessment:

No information available.

### 17.8.7 Nature of taxpayer:

#### **Article 55**

An enterprise, individual or a corporate body, owner of the real property.

### 17.8.8 Amount of tax:

#### **Article 57**

The state prescribes an amount of tax which can be varied by the municipality.

Tax is Kuna 5 to 15 per square metre of usable surface area of the real property.

17.8.9 Frequency of payment:

The tax is paid in a single annual payment within 15 days of the notice of assessment.

17.8.10 Identification of tax collector:

The tax is administered by the local tax authority to whom all returns should be made and who will issue notices of assessment.

**17.9 Wealth Tax**

There is no Wealth Tax in Croatia.

**17.10 Other Taxes**

Other property related taxes, duties and levies include:

17.10.1 Property Transfer Tax

The purchaser of property is liable to pay a 5% property transfer tax. The tax is based on the market value of the property at the time of transfer.

If the transferred property is subject to VAT, then no transfer tax is payable.

The tax should be paid within 30 days of the acquisition of the property.

17.10.2 Value added tax

The standard rate of VAT is currently 22%.

The tax is levied on the lease of all property (other than residential).

## 18 Cyprus

### 18.1 Government Organisation And Structure

#### 18.1.1 District Administration

Cyprus is divided into six administrative districts. These are Nicosia (the island's capital and seat of government), Famagusta, Limassol, Paphos, Larnaca and Kyrenia.

Each district is headed by a District Officer who is essentially the local representative or extended arm of the central government. The District Officer holds a position analogous to Prefect in France and Commissioner in other countries. The District Officer acts as the chief co-ordinator of the activities of all Ministries in the District. District Officers report and are answerable to the Ministry of the Interior, which is headed by a Permanent Secretary.

#### 18.1.2 Local Government

There are three types of local authorities:

- Municipalities,
- Improvement Boards and
- Village Authorities.

Municipalities account for about 60 per cent of the population, while 85 Improvement Boards and 352 Village Authorities cover the rest of the population.

The functions of Municipalities are determined by the Municipalities' Law of 1985. Their finances derive from municipal taxes, fees and duties as well as state subsidies.

#### 18.1.3 Municipalities

In October 1985 the Municipalities' Law 111 of 1985, was passed and this law has since been amended by 25 amending Laws.

The structure of municipalities is defined by the 1985 Law.

Mayors are elected directly by the citizens for a term of five years and are the executive authority of the municipalities. Municipal Councils, which are the policy-making bodies of the municipalities, are elected directly by the citizens for a term of five years, but separately from the Mayor. The Council appoints the members of the Administrative Committee. The latter's duties include the preparation of the municipality's budgets and annual financial statements, the provision of assistance and advice to the Mayor in the execution of his duties, co-ordination of the work of other committees appointed by the Council and the carrying out of any other duties entrusted to it by the Council or the Mayor.

The principal positions and offices in a municipality are also specified in the relevant legislation and these are the positions of the Municipal Secretary, the Municipal Engineer, the Treasurer and the Medical Officer of Health.

### *Functions*

The Municipalities' Law defines the duties which municipalities must perform and describes those which they have the authority to perform.

According to the new Law, the Municipal Council will perform, depending on its financial condition, all or any of the following main duties within its municipal limits.

It will provide for:

- The naming of all roads and the numbering of the buildings;
- Control and provide for public health;
- Provide for social, sanitary and medical services;
- Grant or issue any licence provided by the law;
- Provide for the construction of water supply and sewerage systems;
- Provide for the construction, cleanliness and lighting of streets and bridges;
- Provide for the proper and sanitary collection, disposal and treatment of waste;
- Take measures for the protection of the environment and the good appearance of the municipality.
- To provide for the safety and comfort of all persons who go to the beach or use public swimming pools;
- Promote artistic, cultural, educational, athletic and any other similar activities;
- Provide for the establishment and regulation of municipal markets;
- Impose a duty on all payments made for admission to any public entertainment;
- Provide for the payment of fees by persons licensed to manage hotels.

The Municipal Council may, subject to the approval of the Council of Ministers:

- Issue, amend or revoke Bye-laws for any purposes provided by the Law
- Conclude contracts with other local authorities for carrying out works of public benefit or for providing service, jointly;
- Provide for the control of any nuisance;
- Impose an annual tax in respect of all immoveable property situated within the municipal boundaries;
- Impose tolls on any goods brought within its municipal boundaries;
- Regulate and control traffic, with the concurrence of the Chief of Police.

In addition to the Municipalities' Law, there are several laws giving municipalities powers and outlining duties other than those already mentioned. Under the provisions of the Streets and Buildings Regulation Law, the Municipal Council is the appropriate authority and has the power to issue permits for the construction of and alteration to buildings, for laying out or dividing land, issue certificates of approval with regard to any work for which a permit has been granted and collect fees relating thereto. Under the provisions of the Town and Country Planning Law, the principal municipalities of Nicosia, Limassol, Larnaca and Paphos have been delegated the power to act as planning authorities, issuing planning permits authorising the development of immoveable property and exercising planning control.

Sewerage Boards, which operate independently, consist of the Municipal Councils and Mayors act as Chairmen. Their duties are described in the Sewerage Systems Law (No. 1 of 1971) and include the construction, supply, maintenance, expansion and operation of Sewerage Systems. The Sewerage Boards have their own services and

staff, while their income comes from the imposition of taxes and fees on the users or land owners.

#### 18.1.4 Finances

The main sources of revenue of municipalities are municipal taxes, fees and duties (professional tax, immoveable property tax, hotel accommodation tax, entertainment tax, tolls, fees for issuing permits and licences, for refuse collection, weighing fees, fees for water provision, rental income, fines, income from the management of beaches, etc.) as well as state subsidies.

Taxes, duties and fees represent the major source of revenue while state grants and subsidies amount to only a small percentage of the municipalities income. The central government usually finances major infrastructural projects undertaken by the municipalities and this financial assistance depends very much on each individual project.

### **18.2 Improvement Boards and Village Authorities**

The other branches of local government in Cyprus are Improvement Boards and Village Authorities, which are established in all major rural areas. For every village or group of villages established as an Improvement Area, there is an Improvement Board, the functions of which are generally similar to those of municipalities, although structurally different. The Improvement Board is made up of elected members serving for a five-year period. The District Officer or a representative of his office is Chairman of the Board.

The District Officer is appointed by the government as its local representative in each District and acts as chief coordinator and liaison for the activities of all Ministries in Districts and is accountable to the Ministry of Interior. With the exception of some Improvement Areas which are financially better off, the central government provides administrative and technical assistance to most Improvement Boards through civil servants employed in the District Office.

The responsibilities of Improvement Boards cover:

- Public health,
- Construction and maintenance of roads,
- Collection and disposal of waste,
- Cleaning, lighting and naming of roads,
- Regulation of trade and business, as
- The promotion of the area.

Improvement Boards issue Bye-laws which are subject to central government approval. The revenue of the Boards consists of state subsidies as well as taxes and fees collected from the residents of their area.

### **18.3 Capital Gains Tax**

There is no specific Capital Gains Tax in Cyprus, rather the income from any gain is taxed under the normal income tax or corporation tax rules.

#### **18.4 Gift tax**

There is no tax on gifts in Cyprus.

#### **18.5 Immoveable Property (Towns) Tax.**

This tax is levied on all properties within areas defined as “towns”.

The rate of tax is up to 1.5% of the 1909 valuation of the property (this was the previous valuation date for the Immoveable Property Tax). Property belonging to the State and Improvement Boards are exempt as are churches charitable organisations and diplomatic property.

The tax is payable by the 30<sup>th</sup> June and there is a penalty charge of 5% where payment is received after 30<sup>th</sup> September.

#### **18.6 Immoveable Property Tax**

##### 18.6.1 Statutory Framework

##### 18.6.2 Purpose of the tax:

The tax is an annual tax on the owners of property and the revenue raised provides income for the State.

The valuations provided under this tax also form a base for the Improvement Rate Law, Town Rate and The Immoveable Property (Towns) Tax.

##### 18.6.3 How the tax base is set or established:

The tax is principally administered by the Lands and Survey Department under the Immoveable Property Tax of 1980, as amended.

##### 18.6.4 Basis of valuation for tax purposes:

Under the law the Land and Surveys Department made a valuation of the market value (highest and best use) of all immoveable property in Cyprus as at 1 January 1980.

The immoveable property tax is calculated on the market value of the immoveable property as at 1 January 1980.

The main method of valuation adopted is comparison based on open market sales. The use of the contractor's and profits basis is seldom used as they are not regarded as being reliable by the courts.

The valuation as at 1<sup>st</sup> January 1980 is much lower than the actual present value.

##### 18.6.5 Frequency of review of tax base:

The tax base has not been reviewed since 1980.

Where a property changes (extensions, changes of use etc.) provision is made for the valuation to be amended by the Director of Lands and Surveys Department. The Director may request information about the property and carry out an inspection. Where the valuation is amended the taxpayer must be notified and has 30 days to object to the revised assessment.

18.6.6 Nature of any exemptions or reliefs for classes of taxpayer:

Exemptions to the tax include:

- Property owned by the State, Municipality or Community
- Churches, places of religious worship
- Non profit making organisations
- Diplomatic premises

18.6.7 Challenges to tax base, valuation or assessment:

Where a taxpayer wishes to challenge a valuation, the first stage is to write to the Director of the Lands and Survey Department who will review the matter. Where the taxpayer is dissatisfied with that decision the matter may be brought before the District Court with a further right of appeal to the High Court.

Where a challenge is made to a valuation the tax is still payable under the normal provisions pending resolution of the challenge.

18.6.8 Nature of taxpayer:

The taxpayer is the registered owner of the real estate.

18.6.9 Amount of tax:

The tax rate is based on a sliding scale as shown below.

Value of property (CYP)	Rate (%)
1 -100,000	0
100,001 -250,000	0.20
250,001 -500,000	0.30
over 500,000	0.35

**Table 31: Cyprus; Immoveable Property Tax Rates**

18.6.10 Frequency of payment:

The tax is payable on or before 30<sup>th</sup> September each year.

Penalties exist for late payment at 9%. Other enforcement provisions apply which include fines and imprisonment for the more severe cases. Where property is transferred from one person to another the owner will be required to prove that all outstanding tax has been paid.

18.6.11 Purpose to which tax is put:

The tax is part of the general revenue of the state and is not allocated for specific purposes.

18.6.12 Identification of tax collector;  
The tax is collected by the local offices of the central government.

18.6.13 Typical examples of the application of the tax base;  
If the value of real estate today is at CYP 1 million, the valuation of such property as at 1 June 1980 would not exceed CYP 40,000. Therefore in most instances the immoveable property tax today is insignificant.

## **18.7 Inheritance Tax (Estate Duty)**

18.7.1 Statutory Framework  
The Estate Duty Law was repealed with effect from 1 January 2000, i.e. the estates of persons who die after 1999 are not subject to estate duty.

At the same time, a new law, "The Estate of Deceased Persons (Taxation Provision) Law of 2000", was enacted with effect from 1 January 2000. This law maintains the obligations of the administrators of the estate or the heirs of the deceased to the tax authorities. These obligations include a requirement to submit to the Income Tax Office a statement of all of the assets (moveable and immoveable) and the liabilities of the deceased at the date of death.

## **18.8 Property Registration Fee**

18.8.1 Statutory Framework

18.8.2 Purpose of the tax;  
The fee is a fee on the registration and transfer of property and forms part of the general State revenues.

18.8.3 How the tax base is set or established;  
Property registration Fee is payable on the acquisition of real estate are calculated on the purchase price.

18.8.4 Basis of valuation for tax purposes;  
Open market value.

18.8.5 Nature of any exemptions or reliefs for classes of taxpayer;  
None

18.8.6 Challenges to tax base, valuation or assessment;  
No information available.

18.8.7 Nature of taxpayer;  
The taxpayer in respect of the registration fee is the purchaser.

18.8.8 Amount of tax;

Value of property (CYP)	Rate (%)
1 - 10,000	5
10,001 -20,000	6
20,001 -35,000	6.5
35,001 - 50,000	7
50,001 - 75,000	7.5
over 75,000	8

**Table 32: Cyprus; Property Registration Fee Rates**18.8.9 Frequency of payment;

A single payment prior to the registration of the property.

18.8.10 Identification of tax collector;

The Director of Inland Revenue Vizantiou, Aipias & Archirokastrou Str., Strovolos, Nicosia, Cyprus

The Director of the Land and Surveys Department Michalakopoulou 29 Str., Nicosia, Cyprus

18.8.11 Typical examples of the application of the tax base;

Real estate is acquired at a purchase price of CYP 100,000.

Stamp duty is required if the purchase agreement is signed beforehand and the payment is to be made by instalments. The value of the stamp depends on the contents of the purchase agreement.

The transfer fee for a real estate purchase at CYP 100,000 is CYP 2,000.

If a transfer of mortgage is involved, the charge on the mortgage is 1% of the principal amount of the mortgage.

18.8.12 other issues

It should be noted that both the Stamp Duty and the Registration Duty must be paid before the property can be registered.

**18.9 Stamp Duty And Transfer Fees**18.9.1 Statutory Framework18.9.2 Purpose of the tax;

The duty is a duty on the registration and transfer of property and forms part of the general State revenues.

18.9.3 How the tax base is set or established;

Stamp duty is governed by the Stamp Duty Law and is payable on documents drawn up in Cyprus as well as on those drawn abroad relating to property situated in Cyprus or to transactions which are to take place in Cyprus.

In the absence of any agreement to the contrary, the stamp duty is payable by the person who receives the benefit or service. In the case of estate purchase, the contract taxpayer is the purchaser.

18.9.4 Basis of valuation for tax purposes;

Stamp duties on the acquisition of real estate are calculated on the purchase price.

18.9.5 Nature of any exemptions or reliefs for classes of taxpayer;

Exemptions include:

- Property acquired by inheritance or gift

18.9.6 Challenges to tax base, valuation or assessment;

No information available.

18.9.7 Nature of taxpayer;

The taxpayer is the person to whom the property is transferred but the transaction may specify a different person.

18.9.8 Amount of tax;

The First Schedule of the Stamp Duty Law sets out the instruments chargeable to stamp and the stamp duty payable..

receipts for sums up to CYP 20	2 cents
receipts for sums over CYP 20	4 cents
cheques	3 cents
letters of credit	CYP 1
letters of guarantee	CYP 2
contracts up to CYP 100,000	CYP 1.50 per thousand
- over CYP 100,000	CYP 2 per thousand
- without fixed sum	CYP 20

**Table 33: Cyprus; Stamp Duty Rates**

18.9.9 Frequency of payment;

A single payment must be made prior to the transfer of property being able to be registered.

18.9.10 Identification of tax collector;

The Director of Inland Revenue Vizantiou, Aipias & Archirokastrou Str., Strovolos, Nicosia, Cyprus

The Director of the Land and Surveys Department Michalakopoulou 29 Str., Nicosia, Cyprus who will deal with any valuation matters or disputes.

#### 18.9.11 Other Issues

It should be noted that both the Stamp Duty and the Registration Duty must be paid before the property can be registered.

#### **18.10 The Improvement Rate Law**

This tax is levied on all properties within an Improvement Area.

The rate of tax is up to 1.5% of the 1909 valuation of the property (this was the previous valuation date for the Immoveable Property Tax). Property belonging to the State and Improvement Boards are exempt as are churches charitable organisations and diplomatic property.

The tax is payable by the 30<sup>th</sup> June and there is a penalty charge of 5% where payment is received after 30<sup>th</sup> September.

#### **18.11 Town Rate**

This tax is levied on all properties within the area of any municipality.

The rate of tax is 0.5% of the 1980 valuation of the property. Property belonging to the State and Improvement Boards are exempt, as are churches, charitable organisations and diplomatic property.

The tax is payable by the 30<sup>th</sup> June and there is a penalty charge of 5% where payment is received after 30<sup>th</sup> September.

#### **18.12 Value Added Tax**

The basic principles of VAT follow the common EU model.

The registration threshold is CYP 12,000 p.a. and the basic standard rate is 10%

The sale and letting of property is exempt from VAT and therefore it is not possible to reclaim any VAT paid.

#### **18.13 Wealth Tax**

There is no wealth tax in Cyprus.



## 19 Czech Republic

### 19.1 Government Organisation and Structure

The Czech Republic is a parliamentary republic.

The constitution of the Czech Republic provides for a president of the republic (Head of State) who is elected by the two chambers of parliament for a five-year term. Legislative power is vested in the parliament. The government is the main source of executive power and is composed of the Prime Minister and Ministers.

Judicial power is exercised by independent courts.

#### 19.1.1 Decentralised State Administration

District offices are state administrative bodies with general authority to act on behalf of the State in the implementation of State policy at the district level. They are governed by the Act on District Offices (No. 425/1990 coll., as amended) and form the foundation of the territorial state administration system. There are 72 district offices for the 75 territorial districts of the Czech Republic.

#### 19.1.2 Regional Government

Following the introduction of the new constitution Regional government was abolished and the district offices act in a semi regional government role. At the present time a form of regional government is slowly being re-introduced.

#### 19.1.3 Local Government

The most important legal basis for local self-government is the constitution. Besides the constitution, the other principal laws relating to the local government are the Act on Municipalities (No. 367/1990 coll., as amended), and the Act on the Capital City of Prague (No. 418/1990 coll., as amended).

A municipality is the basic local government unit and are required or empowered to:

- Adopt a development programme for the municipal territory and control its implementation;
- Manage municipal assets;
- Adopt and manage the municipal budget;
- Set down types and rates of municipal levies;
- Organise local referenda and implement their results;
- Agree on changes to municipal borders;
- Join voluntary corporations of municipalities;
- Execute tasks in the areas of social affairs, education, public health care and culture;
- Establish the municipal police force;
- Ensure facilities for street cleaning and waste removal and disposal; and
- Provide water supplies, drainage and cleaning waste water.

Municipalities can also execute certain tasks of state administration on behalf of the state. These are called "transferred competences".

## **19.2 Local Government Finance**

Local authorities manage their affairs independently under the provisions laid down by the Act on Budgetary Rules (No. 576/1990 coll., with later amendments) and the Act on Accounting (563/1991 coll., with later amendments).

According to 1997 budget figures, the sources of municipal revenue were taxes (50.5%), grants allocated from the state budget (25.5%), revenue from organisations founded by municipalities (15.8%), capital income (6.7%), and administrative fees levied by municipal authorities (1.5%). While taxes represent the largest part of municipal revenue, the municipalities themselves may not create new taxes.

## **19.3 Gift tax**

### ***Dan darovací***

#### 19.3.1 Statutory Provision

Law No. 357/1992 Coll., as amended by No. 151/1997, 203/1997, 227/1997, 169/1998, 95/1999, 27/2000 Coll.

#### 19.3.2 Purpose of the tax:

The tax is a tax on the value of any gift of moveable and immoveable property.

#### 19.3.3 How the tax base is set or established:

The tax is based on the value of any gift of moveable or immoveable property made within the Republic acquired by a recipient with returns made to the tax authorities by the recipient.

#### 19.3.4 Basis of valuation for tax purposes:

The value of the gift received.

#### 19.3.5 Nature of any exemptions or reliefs for classes of taxpayer:

Acquisition of moveable personal things of individuals (unless the things were included in the donor's business property for a year prior to acquisition) if the value does not exceed CZK 1 000 000 in persons in I. category, CZK 60 000 in II. category and CZK 20 000 in III. category. The same amounts are exempt concerning deposits and financial means.

#### 19.3.6 Challenges to tax base, valuation or assessment:

No information available.

#### 19.3.7 Nature of taxpayer:

The person who receives the gift or benefit of the gift.

The acquirers (beneficiary/donee) are classified in three categories:

Class 1:	all descendants, spouses and all ascendants;
Class 2:	brothers and sisters, persons who shared the household with the taxpayer for at least 1 year and had charge of the household or who were maintained by the taxpayer, spouses of children, nephews, nieces, uncles and aunts;
Class 3:	all other individuals and legal persons

**Table 34: Czech Republic; Gift Tax Relationship Classes**

19.3.8 Amount of tax:

The rates in class 1 range from 1 % to 5 %, in class 2 from 3 % to 12 % and in the third class from 7 % to 40 % (dependent on the height of tax base).

19.3.9 Frequency of payment:

The tax is payable as a single payment within 30 days of the notice of assessment being received from the tax authorities.

19.3.10 Purpose to which tax is put:

The tax revenues forms part of central government tax revenues (approx 1.6% [inclusive of inheritance tax] of tax revenues in 1998).

19.3.11 Identification of tax collector:

The state tax authorities.

## 19.4 Inheritance Tax

### *Dan dedická*

19.4.1 Statutory Provision

The inheritance and gift tax is regulated by Act 357/1992, as amended by No. 151/1997, 203/1997, 227/1997, 169/1998, 95/1999 Coll.

19.4.2 Purpose of the tax:

The tax is levied on the value of property acquired by heirs.

19.4.3 How the tax base is set or established:

The tax is based on the value of the property within the Republic acquired by an heir with returns made to the tax authorities by the heirs.

19.4.4 Basis of valuation for tax purposes:

The basis of the tax is the value of the property after payment of any debts and liabilities of all property located within the Czech Republic.

19.4.5 Nature of any exemptions or reliefs for classes of taxpayer:

Some of the exemptions include:

- property owned outside the Czech Republic,
- Certain exemptions apply to legacies to charitable and similar organisations.

19.4.6 Challenges to tax base, valuation or assessment;

No information available.

19.4.7 Nature of taxpayer;

The recipient of the gift or the beneficiary is the taxpayer.

19.4.8 Amount of tax;

The rate of tax is based upon the relationship with the transferor.

Class 1:	all descendants, spouses and all ascendants;
Class 2:	brothers and sisters, persons who shared the household with the taxpayer for at least 1 year and had charge of the household or who were maintained by the taxpayer, spouses of children, nephews, nieces, uncles and aunts;
Class 3:	all other individuals and legal persons

**Table 35: Czech Republic; Inheritance Tax Relationship Classes**

The following tables gives the various rates of tax but the actual tax payable is reduced by 50% for all classes of taxpayer.

Class 1:		
Taxable base less than 1 million CZK		1% chargeable
More than	Less than	
1 million	2 million CZK	10,000 + 1.3% of the amount over CZK 1 million
2 million	5 million CZK	23,000 + 1.5% of the amount over CZK 2 million
5 million	7 million CZK	68,000 + 1.7% of the amount over CZK 5 million
7 million	10 million CZK	102,000 + 2.0% of the amount over CZK 7 million
10 million	20 million CZK	162,000 + 2.5% of the amount over CZK 10 million
20 million	30 million CZK	412,000 + 3.0% of the amount over CZK 20 million ,
30 million	40 million CZK	712,000 + 3.5% of the amount over CZK 30 million
40 million	50 million CZK	1,062,000 + 4.0% of the amount over CZK 40 million
50 million and more CZK		1,462,000 + 5.0% of the amount over CZK 50 million

**Table 36: Czech Republic; Inheritance & Gift Tax - Class 1 Taxpayers**

Less than 1 million		3%
More than	Less than	
1 million	2 million CZK	30,000 + 3.5% of the amount over CZK 1 million
2 million	5 million CZK	65,000 + 4% of the amount over CZK 2 million
5 million	7 million CZK	185,000 + 5% of the amount over CZK 5 million
7 million	10 million CZK	285,000 + 6% of the amount over CZK 7 million
10 million	20 million CZK	465,000 + 7% of the amount over CZK 10 million
20 million	30 million CZK	1,165,000 + 8% of the amount over CZK 20 million
30 million	40 million CZK	1,965,000 + 9% of the amount over CZK 30 million
40 million	50 million	CZK 2,865,000 + 10.5% of the amount over CZK 40 million
50 million and more		CZK 3,915,000 + 12% of the amount over CZK 50 million the rates

**Table 37: Czech Republic; Inheritance & Gift Tax - Class 2 Taxpayers**

Not more than CZK 1 million		7%
Less than	More than	
1 million	2 million CZK	70,000 + 9% of the amount over CZK 1 million
2 million	5 million CZK	160,000 + 12% of the amount over CZK 2 million
5 million	7 million CZK	520,000 + 15% of the amount over CZK 5 million
7 million	10 million CZK	820,000 + 18% of the amount over CZK 7 million;
10 million	20 million CZK	1,360,000 + 21% of the amount over CZK 10 million
20 million	30 million CZK	3,460,000 + 25% of the amount over CZK 20 million
30 million	40 million CZK	5,960,000 + 30% of the amount over CZK 30 million
40 million	50 million	CZK 8,960,000 + 35% of the amount over CZK 40 million

50 million and more	CZK 12,460,000 + 40% of the amount over CZK 50 million
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**Table 38: Czech Republic; Inheritance & Gift Tax - Class 3 Taxpayers**19.4.9 Frequency of payment:

The tax is payable as a single payment within 30 days of the notice of assessment being received from the tax authorities.

19.4.10 Purpose to which tax is put:

The tax revenues forms part of central government tax revenues (approx 1.6% [inclusive of gift tax] of tax revenues in 1998).

19.4.11 Identification of tax collector:

The state tax authorities.

**19.5 Levy On Withdrawal Of Land From Agriculture**

Taxed under Law No. 334/1992 Coll., as amended by Law No. 98/1999 levies a variable amount per hectare on land withdrawn from agricultural use. The amount of the levy varies with the location and quality of the land and is paid by the person withdrawing the land from agricultural use.

40% of the levy is remitted to the municipality with the remaining 60% going to central government.

**19.6 Levy On Withdrawal Of Land From Forestry**

Taxed under Law No. 289/1995 Coll., levies a variable amount per hectare on land withdrawn from forestry use. The amount of the levy is based on a formula:

$$PP \times CD \times f$$

where

PP is the average forest production of timber (6.3m<sup>3</sup> per hectare)

CD is the price of timber in the area of withdrawal

F is the environmental factor which can vary between 1.4 and 5.0

Where the withdrawal is permanent, a multiplier of 50 is applied to the above annual levy.

The levy is paid by the person withdrawing the land from agricultural use.

40% of the levy is remitted to the municipality with the remaining 60% going to central government.

## 19.7 Property Transfer Tax

Regulated by Act 357/1992, as amended. This is a tax payable on the transfer of property. The tax is payable by the vendor but the purchaser must guarantee the payment should the vendor default. Where property is jointly owned or jointly purchased the principle of joint and several liability applies. The tax is based on the higher of the sale price or the value determined by the application of the Price Decree, which specifies how the property should be valued. The vendor has to inform the tax authorities of the transfer within 30 days. The tax rate is 5% which is payable within 30 days of the notice of assessment.

## 19.8 Real Estate Property Tax – Building Tax

### *Dan z nemovitosti*

#### 19.8.1 Purpose of the tax:

The tax thought administered by the state is regarded as a local tax with the revenues raised being remitted to the authority in which the property is situated.

#### 19.8.2 How the tax base is set or established:

The tax is based on the principle of self assessment where the onus is placed on the taxpayer to make appropriate returns to the tax authorities. Taxpayers will be issued with a tax return and guidance notes which they have to complete and return by the 31<sup>st</sup> January. This form will include details of any exemptions and reliefs which they wish to claim together with details of their tax calculation and liability.

#### 19.8.3 Basis of valuation for tax purposes:

The tax is based on the area of the building which is to be measured on a prescribed basis. The area is then multiplied by the rate appropriate for that use and adjusted according to the size of the municipality in which it is situated.

It is the responsibility of the taxpayer to prepare his own assessment.

#### 19.8.4 Frequency of review of tax base:

The tax base will change as and when the size of a property or its use changes.

#### 19.8.5 Nature of any exemptions or reliefs for classes of taxpayer:

A range of reliefs and exemptions apply which include:

- Buildings such as barrages, water supply systems, sewers, energy constructions and public thoroughfares;
- Buildings owned by the state or municipalities, by churches, political parties, schools, museums, galleries, libraries, health and social institutions, cultural monuments;
- Buildings used for public transport and ecology;
- Dwelling houses owned and used by disabled persons;
- 5-year exemption for constructions in which heating by coal has been replaced by an ecological system of heating.

Temporary exemptions from the tax are granted to specified residential buildings.

A 15-year exemption applies to:

- Newly constructed dwelling houses used only by the owner or by his closest relations or to newly constructed dwelling houses with owner-occupied units;
- Dwelling houses which had been expropriated, confiscated or nationalised and have been returned to the former owners or their heirs;
- Rooming-houses constructed before 1948 and occupied predominantly by tenants.

19.8.6 Challenges to tax base, valuation or assessment:

The Administration and Collection of Taxes Act regulates the administration of all taxes within the Republic. Appeals must be made within 30 days of notification of the tax assessment. The appeal must contain prescribed information otherwise it will be returned to the taxpayer who must supply the information in not less than 15 days.

The appeal is dealt with by the person who made the original assessment whose decision is final. It is possible for the matter to be referred to a tax court for decision by the tax authority.

An appeal against the tax does not result in the delay in payment of any amount due.

19.8.7 Nature of taxpayer:

The owner or beneficial owner of the property.

19.8.8 Amount of tax:

The rates are calculated per square metre of the built-up area according to the use of the building, as follows:

Residential buildings,	CZK 1
Weekend and recreation buildings,	CZK 3
Isolated garages,	CZK 4
Buildings used for agricultural production, forestry or water enterprises,	CZK 1
Industrial and energy property	CZK 5
Other buildings used for business purposes,	CZK 10
Any other buildings or construction not mentioned above,	CZK 3

**Table 39: Czech Republic; Property Tax Rates**

The rates are increased by CZK 0.75 m<sup>2</sup> for each additional floor, if the building is of more than one floor.

The size of the municipality in which the building is located determines the final amount of the above rates. The rates are multiplied by the coefficients indicated below:

<b>Coefficient</b>	
0.3	in municipalities with not more than 300 inhabitants;
0.6	in municipalities with not more than 600 inhabitants;
1.0	in municipalities with not more than 1,000 inhabitants;
1.4	in municipalities with not more than 6,000 inhabitants;
1.6	in municipalities with not more than 10,000 inhabitants;
2.0	in municipalities with not more than 25,000 inhabitants.
2.5	in municipalities with not more than 50,000 inhabitants;
3.5	in municipalities with more than 50,000 inhabitants;
4.5	in Prague

**Table 40: Czech Republic; Property Tax, Location Coefficients**

Where a room in a house is used for business purposes the rate is increase by CZK 2.00. Municipalities may reduce the coefficient in certain circumstances.

19.8.9 Frequency of payment:

Other taxpayers are liable to pay the tax in four equal instalments on or before 31<sup>st</sup> May, 30<sup>th</sup> June, 30<sup>th</sup> September and 30<sup>th</sup> November for the current year. If the tax does not exceed CZK 1,000, it is payable in one lump sum on or before 31<sup>st</sup> May.

19.8.10 Identification of tax collector:

The taxes are collected and administered by the Financial Offices at district level under the supervision of the Ministry of Finance.

Tax returns are sent to all taxpayers who must return them not later than 31<sup>st</sup> January. Where there have been no changes since the last return was made, a further return is not required. The taxpayer has to calculate his own tax liability and claim any reliefs or exemptions on the tax return.

Where tax is unpaid the authorities may obtain the outstanding amounts either by way of salary deduction or straight from a taxpayers bank account. Provision is also made for property to be sold to pay any outstanding tax.

Penalties are payable on late payments at the rate of 0.1% of the amount outstanding. The tax collected is part of the revenues of the municipality in which it is collected.

## **19.9 Real Estate Property Tax – Land Tax**

### ***Dan z nemovitosti***

19.9.1 Introduction

Real Estate Property tax under the act 338/1992, as amended, is divided into two separate taxes, Land Tax and Building Tax. Each is considered separately in the following sections.

19.9.2 Purpose of the tax:

The tax though administered by the state is regarded as a local tax with the revenues raised being remitted to the authority in which the property is situated.

19.9.3 How the tax base is set or established;

The tax is based on the principle of self assessment where the onus is placed on the taxpayer to make appropriate returns to the tax authorities. Taxpayers will be issued with a tax return and guidance notes which they have to complete and return by the 31<sup>st</sup> January. This form will include details of any exemptions and reliefs which they wish to claim together with details of their tax calculation and liability.

19.9.4 Basis of valuation for tax purposes;

The tax is based on the purchase price of the land for agricultural land . For other land, the tax is based on a prescribed amount per square metre adjusted by a location coefficient, which relates to the size of the municipality.

19.9.5 Frequency of review of tax base;

For agricultural land, the tax base does not change until such a time as the property is sold, when the sale price will become the new basis of for the tax.

19.9.6 Nature of any exemptions or reliefs for classes of taxpayer;

A range of exemptions and reliefs are available which include:

- Land owned by the state or by municipalities;
- Land used by churches, political parties, schools, museums and galleries, libraries and state archives, health and social institutions, parks, natural reservations and other land used in the public interest;
- Newly re-cultivated land, but not forests; the exemption is for 5 years;
- Newly cultivated forests, 25 years;
- Land used for public transport;
- Developed areas that are built up by constructions which are subject to the tax on buildings.

Where a taxpayer wishes to claim an exemption or relief this must be made when he completes his annual tax return.

19.9.7 Challenges to tax base, valuation or assessment;

The Administration and Collection of Taxes Act regulates the administration of all taxes within the Republic. Appeals must be made within 30 days of notification of the tax assessment. The appeal must contain prescribed information otherwise it will be returned to the taxpayer who must supply the information in not less than 15 days.

The appeal is dealt with by the person who made the original assessment whose decision is final. It is possible for the matter to be referred to a tax court for decision by the tax authority.

An appeal against the tax does not result in the delay in payment of any amount due.

19.9.8 Nature of taxpayer;

The taxpayer is the owner or beneficial owner of the land.

Where the land is owned by the state or where the owner is not known, the user of the land is the taxpayer.

19.9.9 Amount of tax:

For agricultural land, two rates of tax apply depending on the use to which the land is put to. Arable land, hop-fields, vineyards, gardens and orchards are taxed at a rate of 0.75% of the purchase price.

Meadows, pastures, forests and lakes with fish farming are taxed at a rate of 0.25% of the purchase price.

Land used for other purposes is taxed according to its area and type and by reference to the size of the municipality in which it is situated.

For land with planning permission the tax is charged at a rate of CZK 1.00 m<sup>2</sup>. All other land is taxed at CZK 0.10 m<sup>2</sup>. These rates are multiplied by a coefficient which is based on the size of the municipality.

The coefficient is:

- 0.3 if the land is situated in villages with not more than 300 inhabitants,
- 2.5 in a town with more than 25,000 but not more than 50,000 inhabitants, and
- 4.5 in Prague.

The municipality has the right to reduce or increase the coefficient.

19.9.10 Frequency of payment:

Taxpayers involved in agricultural operations pay the tax in two equal instalments on or before 31 August and 30 November for the current year.

Other taxpayers are liable to pay the tax in four equal instalments on or before 31<sup>st</sup> May, 30<sup>th</sup> June, 30<sup>th</sup> September and 30<sup>th</sup> November for the current year. If the tax does not exceed CZK 1,000, it is payable in one lump sum on or before 31<sup>st</sup> May.

19.9.11 Identification of tax collector:

The taxes are collected and administered by the Financial Offices at district level under the supervision of the Ministry of Finance.

Tax returns are sent to all taxpayers who must return them not later than 31<sup>st</sup> January. Where there have been no changes since the last return was made, a further return is not required. The taxpayer has to calculate his own tax liability and claim any reliefs or exemptions on the tax return.

Where tax is unpaid the authorities may obtain the outstanding amounts either by way of salary deduction or straight from a taxpayers bank account. Provision is also made for property to be sold to pay any outstanding tax.

Penalties are payable on late payments at the rate of 0.1% of the amount outstanding.

The tax collected is part of the revenues of the municipality in which it is collected.

**19.10 Wealth Tax**

There are no wealth taxes in the Czech Republic.



## 20 Denmark

### 20.1 Government Organisation And Structure

The Danish system of local government is laid down in the Danish constitution which also gives central government the authority to change the system of local government. The last major reform of local government in 1970 - where a comprehensive reform of local government structure, fields of responsibility and financing changed the scope of local government.

Denmark at regional level is divided into 14 counties and at the local level into 275 municipalities.

Each and every municipality belongs to a county, except for the two metropolitan municipalities of the capital, Copenhagen and Frederiksberg, each of which performs the dual function of county as well as municipality. The rule is that the counties are not superior to the municipalities. Counties and municipalities each have their own tasks, consequently both municipalities and counties are commonly referred to as local government.

The transfer of functions has continued since 1970, and includes important reforms, such as social security reforms, which transferred responsibility for the social security system to the municipalities.

#### 20.1.1 Municipal and County Roles and Responsibilities

The municipalities are responsible for a long number of public service tasks within the social sector, education, technique, environment, culture etc. The municipalities also administer all sorts of social benefits. They are also responsible for primary school (7-16 years), culture- and leisure time activities such as libraries, subsidies to sport clubs etc. As regards the environment, the municipalities are responsible for local roads, environment protection, town planning, water supply, the sewage system etc. Finally, the municipalities are responsible for the local industrial and employment policy and administer the system of local income taxes.

The main principle for conferring tasks on the counties is twofold.

Firstly, the counties have tasks which are delegated to them for geographical reasons. Typically, these are tasks which affect all municipalities within a county, such as the responsibility for hospital services.

Secondly, the counties are given tasks that are complicated and technically demanding and therefore require an administrative machinery which is not available in the average municipality as is the case with a number of tasks in environmental protection and conservation.

The counties are mainly responsible for hospital care and primary, curative as well as for health promotion initiatives. In education the counties are responsible for secondary education. The counties are also responsible for regional planning and maintenance of regional roads, environmental protection, co-ordination of regional economic development etc.

	State	Counties	Municipality
Security, police	√		
Fire protection			√
Civil protection	√	√	√
Justice	√		
Civil status register	√		√
Statistical office	√	√	√
Electoral register			√
Pre-school education			√
Primary education			√
Secondary education		√	√
Vocational and technical	√		√
Higher education	√		√
Adult education		√	√
Other			√
Hospitals		√	√
Health protection	√	√	√
Kindergarten and nursery			√
Family welfare services		√	√
Welfare homes		√	√
Social security		√	√
Other			√
Housing	√	√	√
Town planning			√
Regional/spatial planning		√	√
Water & sewage			√
Refuse collection & disposal			√
Cemeteries & crematoria			√
Slaughterhouses			
Environmental protection		√	√
Consumer protection			√
Theatres & concerts	√	√	√
Museums & libraries	√	√	√
Parks & open spaces			√
Sports & leisure			√
Religious facilities			
Other cultural facilities			√
Roads	√	√	√
Transport	√	√	√

	State	Counties	Municipality
Urban road transport	√	√	√
Urban rail transport	√		
Ports	√		√
Airports	√	√	√
Other traffic & transport	√	√	√
Gas			√
District heating			√
Water supply			√
Agriculture, forests, fishing	√	√	√
Electricity			√
Economic promotion			√
Trade & industry			√
Tourism	√	√	
Other economic services			√

**Table 41: Denmark; Allocation of Public Services**

## 20.2 Local Government Finance

The Finance Reform in 1970 included a re-arrangement of the financing of municipal and county tasks. After the reform, some of the reimbursement schemes concerning municipal services were replaced by general grants (block grants).

The reason for changing from reimbursement grants to general grants was to create a better interaction between the municipal competence and financial responsibility, as reimbursement grants tended to weaken this interaction.

The transition to general grants meant that financially municipalities became able to decide task priorities more freely, and at the same time had better possibilities to plan the municipal services according to local needs.

### 20.2.1 Municipal And County Taxation

The ability to make priorities as regards expenditure is closely connected with the responsibility for financing that expenditure. This is the main reason why Danish local government is first of all financed through local taxes and general block grants.

Current revenue comprises different items. All expenses for sewers, waste disposal are fully met by the users through specific payments. Several local authorities run supply of water, district heating and electricity (in this situation, costs are also covered by the users according to consumption). Furthermore, parents pay partly for the costs for children attending nursery schools and kindergartens.

As the principal part of the yield derives from taxes, and the individual municipality and county can influence the yield itself (e.g. ordinary municipal income tax constituting 90 per cent and municipal land tax constituting 8 per cent of the tax yield), the right to impose taxes independently is of crucial importance to the degree of local self-determination in Denmark. Only a small fraction of the total local tax

revenue comes from shared taxes, i.e. taxes raised by the central government of which the local authority receives a certain share.

There are no formal limits to the size of the local income tax rate. The counties raise on average almost 10 per cent on taxable (assessed) income and the municipalities raise on average almost 20 per cent (1994) ranging from 13 per cent to more than 22 per cent.

As in many other European countries Denmark has been reviewing its tax laws for a number of reasons. Firstly as a means of slowing down what was considered to be too high a level of consumer spending but also to have regard to the competitiveness of Danish businesses with Europe. The majority of changes were introduced as a result of legislation enacted in June 1998. The majority of changes relate to the various levels of income tax within the country but there were changes to the implementation of the various real estate taxes.

For example a new tax, *Ejendomsvoerdiskat*, replaced the former provisions relating to the taxation of owner occupied properties and this is considered in more detail on page 132.

<b>Income</b>	<b>%</b>
Services and facilities	23.40%
Reimbursements	12.10%
Other financing	0.30%
Subsidies, including VAT	6.40%
Taxation	57.80%
<b>Net expenditure on services,</b>	<b>%</b>
Roads, environments, etc.	6.70%
Primary and secondary schools	19.50%
Libraries, leisure, public information	8.80%
Children's day care	18.70%
Care of the elderly	21.10%
Administration	16.30%
Other services	9.50%

**Table 42: Denmark; Local Government Finance Income and Expenditure 1999**

### 20.3 Real Estate Tax

In practice Denmark has three variations of the tax but which for most purposes can be considered to be a single tax.

- a county real estate tax (*amtskommunal grundskyld*);
- a municipal real estate tax (*kommunal grundskyld*); and
- a municipal real estate tax on commercial buildings (*dakningsafgift*).

#### 20.3.1 Purpose of the tax:

The tax provides part of the income for county and municipal tiers of government. Whilst somewhat dated figures indicate that in 1994 all forms of land tax accounted for around 7% of income for counties and municipalities.

#### 20.3.2 How the tax base is set or established:

The taxes are jointly administered by the central government and the municipalities. A computerised land and property record system records details of property transactions and tenure. Additional information may also be supplied to the government by the municipality to assist the valuation process.

#### 20.3.3 Basis of valuation for tax purposes:

Both the county real estate tax (*amtskommunal grundskyld*) and the municipal real estate tax (*kommunal grundskyld*) are based on the market value of the land element of the holding.

For the municipal real estate tax on commercial buildings (*dakningsafgift*) the tax is based on the value of the building only excluding the land, which is taxed as described above.

#### 20.3.4 Frequency of review of tax base:

The valuation base is updated every four years with annual indexation being applied.

#### 20.3.5 Nature of any exemptions or reliefs for classes of taxpayer:

A range of exemptions are reported which include:

- places of religious worship,
- hospitals,
- transport undertakings,
- communication undertakings,
- properties occupied for charitable purposes,
- cemeteries.

The exemptions relate solely to type of building rather than the nature of the owner or occupier of them.

Where a property is used for business purposes the tax paid may be deducted as an expense for income tax purposes.

20.3.6 Challenges to tax base, valuation or assessment;

Taxpayers may challenge the valuation of their property by appealing to the Local Appeal Commission and then to the National Tax Tribunal. The time for appeals is limited.

In order to assist taxpayers a range of information is published or made available to them in order to understand how the value has been arrived at.

20.3.7 Nature of taxpayer;

The owner of the land or buildings is liable for the payment of the tax.

20.3.8 Amount of tax;

The amount of county real estate tax (*amtskommunal grundskyld*) is fixed at 1%. For the county real estate tax (*amtskommunal grundskyld*) the rate is determined by the commune but must be in a prescribed range which is currently between 0.6% and 2.4%. For Copenhagen and Fredericksburg the rate of the municipal real estate may vary between 1.6% and 3.4%. However for the 1999 tax year the rate for Copenhagen was increased to 3.9%. Figures are not available for the current tax year.

The following table shows the rate for some other major towns and cities.

<b>Commune</b>	<b>Tax Rate %</b>
Ålborg	2.70
Århus	2.89
Dronninglund	2.00
Hørsholm	1.80
Odense	2.24

**Table 43: Denmark; Amtskommunal grundskyld tax rates 1998**

20.3.9 Frequency of payment;

The frequency of payment can be determined by each municipality. Generally the payments are either half yearly or quarterly.

20.3.10 Identification of tax collector;

The taxes are collected by the municipalities in which the land or property is situated.

Where taxes are unpaid provision is made for a charge to be registered against the property which may result in the eventual forced sale of the property to pay the outstanding amounts.

## **20.4 Municipal and County tax on the value of immoveable property**

### ***Ejendomsvoerdiskat***

#### 20.4.1 Statutory Provision

This tax was introduced by Law 425 of the 26<sup>th</sup> June 1998 on a “Municipal and County tax on the value of immoveable property” (EVSL) with effect from 1<sup>st</sup> January 2000 and replaced the former tax on the rental value of owner occupied dwellings. Essentially the tax is a development of the county and municipal real estate taxes described above..

One significant feature of the tax is that for Danish citizens it applies to residential property throughout the world.

#### 20.4.2 Purpose of the tax:

The tax is an annual tax on the ownership of property. The tax provides part of the income for county and municipal tiers of government.

#### 20.4.3 How the tax base is set or established:

The taxes are jointly administered by the central government and the municipalities. A computerised land and property record system which records details of property transactions and tenure. Additional information may also be supplied to the government by the municipality to assist the valuation process.

#### 20.4.4 Basis of valuation for tax purposes:

The tax is based on the value of the residential land and buildings as at the 1<sup>st</sup> January in the tax year (EVSL section 4(2) and section 5(1) and Chapter B). This will include detached and semi detached houses, apartments and summer cottages and any other form of residential property (EVSL, section 4(1)).

There were approximately 85,000 sales of residential property in 1997 and this appears to be a reasonably consistently level of sales over the last 20 years. The government will publish sales figures and their relationships to assessed values to ensure the tax basis is fair and equitable.

#### 20.4.5 Frequency of review of tax base:

The tax is reviewed annually as at the 1<sup>st</sup> January each year.

#### 20.4.6 Nature of any exemptions or reliefs for classes of taxpayer:

The tax does not apply where a property is let to a tenant (EVSL section 1(1)). In addition for tax to be payable the property must be capable of occupation for residential purposes (see explanatory note to EVSL).

Where property was acquired prior to 1<sup>st</sup> July 1998 the rate of tax can be reduced by between 0.2% and 0.6% but any reliefs will cease on the transfer of the property (EVSL section 6(1) and section 7). These reliefs were broadly based on reliefs, which were available under the previous tax regime and have been reincorporated into the new legalisation.

The tax is not deductible for income tax purposes.

Persons who have reached the age of 67 are granted a 0.4% reduction of the value of the property, subject to a maximum of DKK 6,000 for all-year houses and a maximum of DKK 2,000 for week-end houses. The reduction depends on the income - in that in 2001 the reduction is reduced by 4% of an income basis above DKK 139,300 for single persons and above DKK 214,200 for married pensioners (at 2001 level).

In addition to the above exemptions and reliefs, provision is made to limit annual increases as a result of annual changes in valuations.

20.4.7 Challenges to tax base, valuation or assessment:

No information available.

20.4.8 Nature of taxpayer:

The tax applies to the resident and non-resident owners of residential property and will include foreign nationals whether resident in Denmark or not. For Danish citizens the tax applies to all their residential property worldwide. Where a property is transferred during the tax year the tax will need to be apportioned.

20.4.9 Amount of tax:

1% of the value of the property upto DKK 2,815,000 in 2001 and 3% on the excess value. Where property was acquired prior to 1<sup>st</sup> July 1998 the rate of tax can be reduced by 0.2%. In the event of any change of owners, the reduction will lapse

For all who acquired a single-family or two-family house or week-end house on or before 1<sup>st</sup> July 1998 the property value tax is reduced by a further amount corresponding to 0.4% of the value of the property, subject to a maximum of DKK 1,200. In the event of any change of owners, the 0.4% reduction will lapse.

20.4.10 Frequency of payment:

The tax is collected with a taxpayers income tax though it is emphasised that this is not regarded as a tax on income but rather an administratively convenient way to collect the tax.

20.4.11 Identification of tax collector:

The taxes are collected by the municipalities in which the land or property is situated.

Where taxes are unpaid provision is made for a charge to be registered against the property which may result in the eventual forced sale of the property to pay the outstanding amounts.

## 20.5 Inheritance And Gift Tax

### 20.5.1 Purpose of the tax:

The tax is on the inheritance of property and the receipt of certain gifts of property.

### 20.5.2 How the tax base is set or established:

The taxpayer is required to make returns to the tax authorities on receipt of the inheritance or gift.

### 20.5.3 Basis of valuation for tax purposes:

The market value of the inheritance or gift.

### 20.5.4 Nature of any exemptions or reliefs for classes of taxpayer:

There are a range of exemptions which include:

- Inheritances by surviving spouses
- Gifts of less than DKK 42,500 or DKK 15,800 if the donee is the spouse of a child.
- Gifts between spouses

### 20.5.5 Challenges to tax base, valuation or assessment:

No information available

### 20.5.6 Nature of taxpayer:

The receipting of the inheritance or gift.

### 20.5.7 Amount of tax:

Inheritance tax is 15% of the taxable net assets when the receivers are the deceased's children and their issue, a surviving spouse of a deceased child or stepchild, parents, or a separated or divorced spouse.

Inheritance tax is 36.25% of the taxable net assets when the receivers are any others than the persons mentioned above.

Gift tax is charged at 15% on gifts and advances on inheritance to children, stepchildren, and their issue, a surviving spouse of a deceased child or stepchild, and parents. Gifts to grandparents and stepparents are subject to gift tax at 36.25%.

Gift tax is only charged at the part of the gift that exceeds DKK 42,500 or DKK 15,800 if the donee is the spouse of a child.

### 20.5.8 Frequency of payment:

A single payment.

### 20.5.9 Purpose to which tax is put:

The tax forms part of the general state revenues and is not allocated for a specific purpose.

- 20.5.10 Identification of tax collector;  
National tax authorities.

## **20.6 Registration Fee**

The Registration Fee was introduced with effect from the 1<sup>st</sup> January 2000 and replaced Stamp Duty which was abolished from that date.

- 20.6.1 Purpose of the tax;  
The fee is charged on the registration of all real estate transactions within Denmark
- 20.6.2 How the tax base is set or established;  
The taxpayer makes the appropriate declaration to the tax authorities. At the same time the Land Registry will also make certain that the registration fee has been paid prior to the land being registered.
- 20.6.3 Basis of valuation for tax purposes;  
The fee is based on the transfer price of the property transferred. However, the sale price can not be less than its assessed value for real estate tax purposes. If this is the case then the assessed value is substituted.
- No deductions can be made from the valuation for mortgages or other debts and the value of the property will be inclusive of VAT.
- 20.6.4 Nature of any exemptions or reliefs for classes of taxpayer;  
None.
- 20.6.5 Challenges to tax base, valuation or assessment;  
No information available.
- 20.6.6 Nature of taxpayer;  
The person acquiring the property is liable for the payment of the tax.
- 20.6.7 Amount of tax;  
The fee is based on DKK 1,400 plus 0.6% of the acquisition price
- 20.6.8 Frequency of payment;  
A single payment made at the same time the property is registered.
- 20.6.9 Purpose to which tax is put;  
No specific allocation is made in respect of the revenues raised from this tax.
- 20.6.10 Identification of tax collector;  
The Danish Central Customs and Tax Authorities) are located at:
- Told-og Skattestyrelsen Ostbanegade 123  
2100 Copenhagen
- Their web site is: [www.toldskat.dk](http://www.toldskat.dk)

20.6.11 Typical examples of the application of the tax base:

Acquisition price	1,000,000
Registration fee	
Fixed fee	1,400
0.6% of acquisition price	6,000
Total registration fee	7,400

**20.7 Stamp Duty**

Stamp duty was abolished with effect from 1<sup>st</sup> January 2000.

**20.8 Capital Gain Tax**

There is no specific capital gain tax in Denmark. Any gain is taxed as part of the normal income or corporation tax system.

**20.9 Wealth Tax**

There is no Wealth Tax in Denmark.



## 21 Estonia

### 21.1 Government Organisation And Structure

Estonia is a unitary state and parliamentary republic.

#### 21.1.1 Decentralised State Administration

County governments are central administrative units at the regional level. Currently, there are 15 counties in Estonia.

The county government is responsible for organising and co-ordinating the work of national institutions at the local level and for implementing national policies pursuant to the law and the orders of government and ministers.

The county governor heads the county government, which consists of the county government office and departments.

The responsibilities of the county governor include, the co-ordination of co-operation between the ministries and other national government institutions and the local government bodies.

The county governor must also exercise supervision over the legitimacy of legislation adopted by local government units of that county and over the legitimacy and purposefulness of the involvement of state assets in the use or control of local governments units..

#### 21.1.2 Regional Government

There is no regional government system in Estonia.

#### 21.1.3 Local Government

Local government was restored with the local council elections in 1989. After the local council elections in 1993, the counties became state administrative units in the regions, and towns and rural municipalities were established as units of local government. The local council may also establish a part of a town or rural municipality as a local government unit with limited rights.

There are 47 towns and 207 rural municipalities in Estonia. For purposes of the protection of joint interests and fulfilment of joint tasks, municipalities and towns can work together or establish unions of local governments. Currently, there are seventeen regional and two national unions of local governments in Estonia.

### 21.2 Local Government Finance

According to the constitution, all local issues are managed and resolved by local authorities who have an independent budget. Duties may be imposed on local authorities only subject to the law or under an agreement with them, and expenditure related to state duties that are imposed on a local government must be funded from the state budget.

The local government budget procedure is provided in the Municipal and Town Budget Act, Local Taxes Act and the Act on Correlation between Municipal and Town Budgets and the State Budget.

In 1997, the largest part of local government budgets, approximately 72%, derived from individual income tax revenues; 17.5% from the National Support Fund; about 5% from land tax revenues; about 4.1% from national financial investment revenues; and about 0.6% from charges for the right to use natural resources.

One feature of local government finance is that the revenues of some taxes may be shared between central and local government. For example, 55% of income tax and 50% of the Water Extraction Tax is assigned to the municipality

On the other hand, certain taxes are allocated solely to one tier of government. For example, 100% of the Land Tax is assigned to the municipality

The Law of local Taxes 1994 provides a range of taxes and fees that can be raised by local government. They include:

- Poll tax is paid by inhabitants aged 18-65 of the municipality or town.
- Local income tax – enterprises located in the municipality or town, whose income is subject to the Law on Income Tax.
- Sales tax – enterprises registered and natural persons engaged in entrepreneurship active in the administrative territory of the municipality or town.
- Boat tax – owners of boats, yachts and launches whose length does not exceed 12 metres.
- Commercial and advertisement tax – individuals and legal entities for commercials and advertisements displayed within the administrative area of the local government as well as those on the public transport registered to individuals or legal entities residing and located within the territory of the local government.
- Tax on Closing Roads and Streets – individuals and legal entities in the case of organizing demonstrations, processions and other events, as well as construction work requiring the closure of roads, streets, squares, parks or recreation areas.
- Motor Vehicle Tax – individuals and legal entities motor vehicle registered in the national register.
- Tax on Keeping Animals – owners of animals, which is subject to tax within the territory of the municipality or town.
- Entertainment Tax – organisers of recreational activities or owners of recreational establishment within the territory of the municipality or town.

### **21.3 Inheritance Tax**

There is no inheritance tax in Estonia but gifts and inheritances can be taxed as part of income tax.

## 21.4 Land Tax

### *Maanraksuseadus*

#### 21.4.1 Statutory Provision

The tax was introduced by the Land Tax Act 1993 on the 1<sup>st</sup> July 1993 as part of its general policy of reformation of the taxation system. The new tax replaced an earlier form of land tax which was levied at both national and local level.

#### 21.4.2 Purpose of the tax:

The tax forms part of the income of each municipality and there is no specific purpose to which the income generated has to be attributed. The tax is seen as one of a number of means

The tax contributes between 1% and 5% to a municipalities revenue but in rural areas this can be around 20% to 30%. In 1997 it was reported that 264 million EEK was raised from the tax which is approximately 0.5% of total tax revenue.

With effect from the 1<sup>st</sup> January 2000 the revenue raised by the tax is to be divided between the central government and the municipality. Income from owners will be distributed to the municipality but income from occupiers will be retained by central government until such a time as the land ownership can be resolved.

#### 21.4.3 How the tax base is set or established:

The tax is administered by the Estonian National Land Board who are responsible for all valuations. The National Land Board has offices in the various counties, which work in close conjunction with the municipality.

The National Land Board has a cadastral system which records details of property within the country, including

- Registration of natural and legal rights
- Registration of ownership and other rights including mortgages
- Registration of restrictions on the rights to possess, use and disposal of property
- Registration of obligations of property owners and rights of other parties.

In addition the National Land Board will coordinate the whole valuation process.

#### 21.4.4 Basis of valuation for tax purposes:

The valuation basis is laid out in the Law of Land Valuation 1993 as amended. This law provides four classes of land for valuation purposes:

- Urban land
- Agricultural land
- Forest land
- Other land

The valuations are undertaken by the Estonian Land Board.

The tax is only levied on land only and is based on the open market capital value of the land.

For the majority of land the valuation is carried out on by the analysis of sales of land but for agricultural land and forestry land the use of a profits approach is adopted. The use of the contractors and investment bases of valuation are also approved.

The date of valuation is the 30<sup>th</sup> June in the year in which the assessment is undertaken.

21.4.5 Frequency of review of tax base:

The tax base was last reviewed in 1996.

21.4.6 Nature of any exemptions or reliefs for classes of taxpayer:

A limited number of exemptions are reported which include:

- Property where economic activities are prohibited by law.
- Property owned by foreign nationals
- Cemeteries
- Places of religious worship
- Public land
- Nature reserves

Various reliefs are available primarily to agricultural and forestry land where the use of the land is restricted. In such cases the extent of relief will be 25%, 50% or 75% depending on the degree to which the land can be used is limited.

Special provision is made for old age pensioners and disabled persons where a municipality can decide the degree of relief up to a maximum of 200 EEK. These exemptions came to an end in December 2000.

21.4.7 Challenges to tax base, valuation or assessment:

Each municipality is responsible for publicising all assessment, which should be on display for a period of not less than 20 days. Taxpayers have rights to inspect any valuation report, maps as well as the results of the analysis of comparable information.

The taxpayer has the right to appeal against the assessment on a number of grounds:

- The assessment is not in compliance with the legislation,
- The assessment does not comply with the appropriate methodology for that type of property,
- That the error in the valuation is greater than 20%.

The appeal right extends only to property owned by the taxpayer and there are no rights of appeal against third parties. Where a taxpayer wishes to challenge an assessment it must be made within 14 days of the assessment being published and the National Land Board must determine the appeal within a further 14 days.

21.4.8 Nature of taxpayer;

The owner of the land is the taxpayer but under transitional arrangements for the introduction of the tax users of the land may be liable for the tax. At the present time aspects of land ownership within the country have still to be settled. Consequently up to 31<sup>st</sup> December 2000 where the ownership of land has not been settled, the user of the property will be liable for the tax.

21.4.9 Amount of tax;

The annual land tax rate ranges between 0.5% and 2.0% of the taxable value of the land (between 0.3% and 0.7% for agricultural land) and is established by the municipal council

21.4.10 Frequency of payment;

The taxpayer may choose to pay in up to four quarterly in equal instalments.

21.4.11 Identification of tax collector;

The National Land Board assesses all land for the purposes of taxation.

The tax is collected on behalf of the municipalities by the National Tax Board. Any unpaid tax is treated as a debt and may result in the property being sold in order to satisfy the debt.

21.4.12 Statistical Background

Year	Tax Revenue	% of local revenue that tax generates
1996	119.7	3.47%
1997	173.5	4.36%
1998	191.5	3.92%
1999	221.1	4.43%

**Table 44: Estonia; Land Tax Revenue 1996 - 1999)**

## 21.5 Stamp Duty

A 0.2% stamp duty is levied on all transfers of real property.

## 21.6 Wealth Tax

There is no wealth tax in Estonia.



## 22 Finland

### 22.1 Government Organisation And Structure

The country is administered at three levels:

- State
- Regional
- Municipal

#### 22.1.1 Regional Councils

Inter-municipal co-operation is highly developed in Finland. There are joint municipal authorities which are responsible for the regional duties of the municipalities. The most important of these authorities are statutory and are responsible for regional development and planning, special health care, and the care for mentally disabled..

The region of Aland has the status of an autonomous region.

Supreme authority rests with the regional council. Its members are elected by the councils of the member-municipalities for a four year term, which is the same as the municipal election period. Most of the council members are also members of municipal councils and are therefore elected to these mandates through the municipal elections. The administrative and executive body is the board whose members are elected by the council.

Most of the activities are funded by the member municipalities according to their shares of the expenditures of the regional council. Municipalities receive governmental grants for the statutory duties of the regional council, i.e. regional physical planning and the activities of regional development authorities.

Regional councils are joint municipal authorities which have two major statutory duties. Regional councils are responsible for regional physical planning according to the Building Act. According to the Regional Development Act the councils function as regional development authorities in their respective regions. This means that they are responsible for general regional policy planning and for the preparation of regional development programmes. The councils supervise the implementation and co-ordination of the regional development measures.

#### 22.1.2 Local Government

The Local Government Act divided Finland into 455 municipalities. All enjoy the same legal status, bear the same responsibilities, exercise the same authority, and have the same democratic bodies and administrative organisation. The independent status of municipalities is confirmed in the Constitution.

The principal decisions of the Local Council focus on the following matters:

- Approval of the municipal plan objectives and their implementation
- Approval of the annual budget and supplementary budgets

- Confirmation of the main charges and fees
- Major decisions regarding planning and the surrender of land
- Major real estate sales
- Decisions concerning the municipal organisation
- Selection of members of the local committees and other bodies
- Appointments to the most important positions

Local authorities provide the basic services for community residents. They are responsible for the following public activities:

- Comprehensive schools,
- Upper secondary schools, vocational schools and education,
- Libraries,
- Cultural and leisure-time services.
- Child Daycare,
- Care for the elderly and the disabled,
- Socially targeted housing,
- Income support for those in need,
- Health centres that provide primary and secondary health care and dental services,
- Supervision of land use and building activity within their areas,
- Street construction and maintenance,
- Water supply and sewerage,
- Co-ordination of waste disposal and energy supply,
- Protection of the local environment.

## 22.2 Local Government Finance

Municipalities have the right to levy taxes on every resident and real estate owner within the municipality. Local governments obtain a substantial proportion of their income, on the average close to 40%, through municipal taxes. The proportion varies in individual municipalities between 30% and 70%.

Local governments may use tax revenues to perform their functions without restrictions, and they are also entirely free to set the actual tax rates applied. Currently the average income tax rate is 17.53%, but the range is from 15% to 20% . The average real estate tax rate based on the assessable value of estate is 0.47% percent, the tax rate for permanent residential buildings 0.22% and the tax rate for summer cabins and similar leisure time installations 0.67%.

Municipalities can also apply a higher real estate tax rate on power plants and nuclear power plants. Municipalities also get a share of the national company tax (45 % of the total).

Complementary to the tax funding, local governments derive income from charges and fees for managing the local energy and water supplies. Local governments also operate other businesses such as ports, public transport, telecommunications and sewage networks. These activities are sometimes handled via a majority holding in a limited company. Similar to the setting of local taxes, the governments have significant power in determining fees and charges.

The third source of municipal income is State grants and subsidies, usually paid out because the municipalities have undertaken various services which were originally provided by the State. These grants and subsidies, obtained primarily for providing educational, health and social services, account for varying percentages of municipal revenue depending on the financial status of the municipality. On the average the State subsidies constitute 30% percent of total revenues.

## **22.3 Real Property Tax**

### ***Fastighetssakat***

#### 22.3.1 Statutory Provision

The tax is levied under the provisions of the Act on Real Property Tax of 20<sup>th</sup> July 1992 (654/1992).

#### 22.3.2 Purpose of the tax:

The main income for local authorities is from a local income tax whose rates varied for 2000 from 15.50 to 19.75%. The property tax is provides the local authority with additional income for the provision of local services.

#### 22.3.3 How the tax base is set or established:

Real property which is situated in Finland is subject to real property tax.

#### 22.3.4 Basis of valuation for tax purposes:

The basis of valuation is that which is used for the Wealth Tax, being the market value of the property at the end of each year.

#### 22.3.5 Frequency of review of tax base:

Annually updated to the value of the property at the end of the year.

#### 22.3.6 Nature of any exemptions or reliefs for classes of taxpayer:

The exemptions include:

- Land used in forestry or agriculture,
- Public spaces, roads, parks, cemeteries,
- Property owned by the municipality within its own boundaries
- Diplomatic premises.

#### 22.3.7 Challenges to tax base, valuation or assessment:

No information available.

#### 22.3.8 Nature of taxpayer:

The owner of the property at the beginning of the tax year.

### 22.3.9 Amount of tax;

The real property tax is based on the taxable value of the real property. Tax rates may vary in different municipalities between 0.5 % and 1.0 % and are set by the municipality each year.

The rate for permanent residences is between 0.22% and 0.5%.

### 22.3.10 Frequency of payment;

Tax notices are served upon the taxpayer in July. The first instalment of the tax is payable by 20<sup>th</sup> September and the second instalment by the 2<sup>nd</sup> November. Where the tax liable is less than FIM 1,000 a single payment must be made.

### 22.3.11 Purpose to which tax is put;

The revenues from the tax is available as general revenue of the municipality.

### 22.3.12 Identification of tax collector;

The tax is administered and collected by the local authorities.

### 22.3.13 Statistical Background

Real estate taxation raised 2.7 billion FIM in 1997 of which 2.05 billion FIM is collected in respect of buildings and the remainder, 625 million FIM is from payments in respect of land. In 1999 the amount raised was 2.73 billion FIM and 68 million FIM was reported as outstanding at the end of the year.

Some 1.6 million demand notes are issued each year and 85% are for less than 1,000 FIM.

In 2000 the amount of property tax contributed 0.4% of the revenues of the City of Turku.

## **22.4 Transfer Tax**

### *Varainsiirtovero*

#### 22.4.1 Statutory Provision

The tax is levied under the provisions of the Transfer Tax Act of 29<sup>th</sup> November 1996 (931/1996).

#### 22.4.2 Purpose of the tax;

The tax is a tax on the transfer by way of sale of any property.

#### 22.4.3 How the tax base is set or established;

The duty is on the purchaser to make the necessary tax declaration to the tax authorities.

Where the transfer is effected by use of an estate agent the notification to the tax authorities will be undertaken by the estate agent and a copy of the notification given to the purchaser as proof of notification

22.4.4 Basis of valuation for tax purposes:

Market value of the property transferred.

22.4.5 Nature of any exemptions or reliefs for classes of taxpayer:

The exemptions include:

- Property owned by the state
- where the tax due is less than FIM 50
- the transfer of a first home by persons aged between 18 and 39.
- acquisition of property as a gift (see gift tax, page 152)
- acquisition of property through inheritance (see inheritance tax, page 150)

22.4.6 Challenges to tax base, valuation or assessment:

The taxpayer can challenge the amount of tax by appealing to the Provincial Administrative Court.

22.4.7 Nature of taxpayer:

The purchaser of the property. In some cases the former owner may be liable where confirmation has not been sought that the new owner has paid the tax.

22.4.8 Amount of tax:

4% of the value transferred.

Where the tax is not paid at the appropriate time, the tax is increased by 20% per 6 month period subject to a maximum surcharge of 100%.

22.4.9 Frequency of payment:

Single payment.

Where the transfer is effected by use of an estate agent the notification to the tax authorities will be undertaken by the estate agent and a copy of the notification given to the purchases as proof of notification.

22.4.10 Purpose to which tax is put:

The tax forms part of the normal state revenues and is not allocated to a specific purpose.

22.4.11 Identification of tax collector:

The tax is administered and collected by the National Board of Taxes.

## 22.5 Inheritance Tax

### *Perintovero*

#### 22.5.1 Purpose of the tax:

The tax is a tax on the inheritance of property under the provisions of the Inheritance and Gift Tax Act of 12<sup>th</sup> July 1940 (378/1940).

#### 22.5.2 How the tax base is set or established:

Provision is made for an advance determination of tax liability to be made. In such cases the application must be made by the recipient of the gift to their local tax office. A payment of FIM 800 is charged for all advance rulings and they are legally binding but can not be challenged.

The beneficiaries of the inheritance is required to make the appropriate tax return to the tax authorities within 3 months of the death of the person concerned.

#### 22.5.3 Basis of valuation for tax purposes:

The tax is based on the market value of the property as at the date of the death. The valuation is based on the value of the estate that each beneficiary receives, not the value of the estate as a whole.

#### 22.5.4 Nature of any exemptions or reliefs for classes of taxpayer:

- inheritances of less than FIM 20,000.

#### 22.5.5 Challenges to tax base, valuation or assessment:

The taxpayer can challenge the amount of tax by appealing to the Provincial Administrative Court.

#### 22.5.6 Nature of taxpayer:

The taxpayer is the beneficiary receiving the inheritance.

#### 22.5.7 Amount of tax:

The amount of tax varies depending on:

- the relationship of the deceased to the beneficiary (see Table 45 below)
- the basic tax rate based on the value of the inheritance (see Table 46 below), and
- the tax rate adjustment depending on relationship of the deceased to the beneficiary (see Table 47 below).

<b>Class</b>	<b>Relationship</b>
1	the donor's spouse, child, spouse's child, adopted child, father, mother, adoptive parents and the direct heirs of the donor's child or adopted child, and the cohabitant referred to in section 7, paragraph 3, of the Income Tax Act (a person who lived with the donor in conditions similar to marriage and was earlier married to the donor or has or has had a child with the donor);
2	the donor's brother, sister, half brother or sister, and their descendants;
3	other relatives and non-relatives

**Table 45: Finland; Inheritance Tax – Relationship**

<b>Value of taxable portion</b>	<b>Standard amount at lower limit</b>	<b>Tax % on the proportion exceeding the lower limit</b>
20,000–100,000	500	10
100,001–300,000	8,500	13
300,001	34,500	16

**Table 46: Finland; Inheritance Tax Rates**

Class 1	Tax according to the table
Class 2	Tax is double the amount indicated by the table
Class 3	Tax is triple the amount indicated by the table

**Table 47: Finland; Inheritance Tax Rates Adjustment**

22.5.8 Frequency of payment;

A single payment is made following determination of liability.

22.5.9 Purpose to which tax is put;

The tax forms part of the normal state revenues and is not allocated to a specific purpose.

22.5.10 Identification of tax collector;

The tax is administered and collected by the National Board of Taxes via their local tax offices.

Provision is made to increase the tax payable when the return has been made late, is incomplete or the taxpayer has been grossly negligent in providing the information.

## 22.6 Gift Tax

### *Lahjave*

#### 22.6.1 Statutory Provision

The tax is levied under the provisions of the Inheritance and Gift Tax Act of 12<sup>th</sup> July 1940 (378/1940).

#### 22.6.2 Purpose of the tax:

The tax is a tax on the gift of property or the advance inheritance of it (sometimes termed a “lifetime transfer”).

#### 22.6.3 How the tax base is set or established:

Provision is made for an advance determination of tax liability to be made. In such cases the application must be made by the recipient of the gift to their local tax office. A payment of FIM 800 is charged for all advance rulings and they are legally binding and can not be challenged.

The receipting of the gift is required to make the appropriate tax return to the tax authorities within 3 months of the gift but where the gift is for less than FIM 20,000 no return needs to be made.

#### 22.6.4 Basis of valuation for tax purposes:

The tax is based on the market value of the property as at the date of the gift.

#### 22.6.5 Nature of any exemptions or reliefs for classes of taxpayer:

Gifts of less than FIM 20,000 are exempt.

#### 22.6.6 Challenges to tax base, valuation or assessment:

The taxpayer can challenge the amount of tax by appealing to the Provincial Administrative Court.

#### 22.6.7 Nature of taxpayer:

The taxpayer is the recipient of the gift or in the case of a minor, his or her trustee.

#### 22.6.8 Amount of tax:

The amount of tax varies depending on:

- The relationship of the deceased to the beneficiary (see Table 48 below),
- The basic tax rate based on the value of the inheritance (see Table 49 below), and
- The tax rate adjustment depending on relationship of the deceased to the beneficiary (see Table 50 below).

<b>Class</b>	<b>Relationship</b>
1	the donor's spouse, child, spouse's child, adopted child, father, mother, adoptive parents and the direct heirs of the donor's child or adopted child, and the cohabitant referred to in section 7, paragraph 3, of the Income Tax Act (a person who lived with the donor in conditions similar to marriage and was earlier married to the donor or has or has had a child with the donor);
2	the donor's brother, sister, half brother or sister, and their descendants;
3	other relatives and non-relatives

**Table 48: Finland; Gift Tax - Relationship**

<b>Value of taxable portion</b>	<b>Standard amount at lower limit</b>	<b>Tax % on the proportion exceeding the lower limit</b>
20,000–100,000	500	10
100,001–300,000	8,500	13
300,001	34,500	16

**Table 49: Finland; Gift Tax Rates**

Class 1	Tax according to the table
Class 2	Tax is double the amount indicated by the table
Class 3	Tax is triple the amount indicated by the table

**Table 50: Finland; Gift Tax Rates Adjustment**

22.6.9 Frequency of payment:

A single payment is made following determination of liability.

22.6.10 Purpose to which tax is put:

The tax forms part of the normal state revenues and is not allocated to a specific purpose.

22.6.11 Identification of tax collector:

The tax is administered and collected by the National Board of Taxes via their local offices.

Provision is made to increase the tax payable when the return has been made late, is incomplete or the taxpayer has been grossly negligent in providing the information.

## 22.7 Wealth Tax

### 22.7.1 Purpose of the tax:

The tax is a tax on the value of all of a taxpayer's assets at the end of each tax year.

### 22.7.2 How the tax base is set or established:

Returns are made to the national tax authorities each year.

### 22.7.3 Basis of valuation for tax purposes:

The tax is based on the value of the taxpayer's assets as at the end of each tax year. Property is based on the open market value. Building values are based on the current replacement cost less an age and depreciation allowance. The minimum replacement value of a building is 20%.

Building land is based on values supplied by the National Board of Taxes for each municipality. Agricultural land is based on the average yield of the land multiplied by 7 and for forests, the yield of the land multiplied by 10.

### 22.7.4 Nature of any exemptions or reliefs for classes of taxpayer:

The exemptions include:

- Certain farm property,
- Livestock,
- Seeds,
- Fertiliser,
- The value of the taxpayers residence is reduced by FIM 50,000,
- The value is reduced by any outstanding debts,
- If the amount of income tax, sickness insurance premium and wealth tax exceeds 70% of taxable income, the amount over 70% is remitted.

### 22.7.5 Challenges to tax base, valuation or assessment:

The taxpayer can challenge the amount of tax by appealing to the Provincial Administrative Court.

### 22.7.6 Nature of taxpayer:

The taxpayer is the person owning the assets.

### 22.7.7 Amount of tax:

FIM 1,100,000 is taxed at FIM 500 plus 0.9% of the excess.

### 22.7.8 Frequency of payment:

Single annual payment.

### 22.7.9 Purpose to which tax is put:

The tax forms part of the normal state revenues and is not allocated to a specific purpose.

22.7.10 Identification of tax collector;

The tax is administered and collected by the National Board of Taxes.

Provision is made to increase the tax payable when the return has been made late, is incomplete or the taxpayer has been grossly negligent in providing the information.



## 23 France

### 23.1 Local and Regional Government

Since 1980 France has moved from one of the most centralised systems of public administration in Europe to one embracing a substantial degree of decentralisation. This has involved the creation of a new tier of government at regional level, but also substantial delegation of policy responsibilities, expenditures and revenues to the existing institutions of sub-national government.

France has a broadly three-tier structure:

- The upper-tier authorities are called regions; there are 26 regions altogether and 22 in the metropolitan area not clear. These are:

Alsace,	Aquitaine,
Auvergne,	Basse-Normandie,
Bourgogne,	Bretagne, Centre,
Champagne-Ardenne,	Corse,
Franche-Comte,	Haute-Normandie,
Ile-de-France,	Languedoc-Roussillon,
Limousin,	Lorraine,
Midi-Pyrenees,	Nord-Pas-de-Calais,
Pays de la Loire,	Picardie,
Poitou-Charentes,	Provence-Alpes-Cote d'Azur,
Rhone-Alpes	

#### Table 51: France Regions

- Départements constitute the middle tier of decentralised government. There are in all 100 Départements with 96 in the metropolitan area
- Communes are the lowest geographical level of government; there are 36,763 communes of which 36,551 are in Metropolitan France.

### 23.2 Tax Reform

France, along with many other European countries, is currently undertaking a substantial and important review of its taxation system. For some time it has been suggested that the French tax laws have become not only outdated but also very difficult for the even the tax professionals to understand. One of the reasons for this is due to the tendency of French governments to change tax laws, and/or to introduce concessions and make other alterations as a result of direct action by one group of workers or another. The fuel protests of 2001 is a classic example, in which to satisfy protesters, rather than changing duty on fuel, the government made changes to the income tax system to increase amounts that could be written off against the business.

In other cases, the government have made changes to the tax laws but these have never been implemented for fear of public protest. Consequently the tax system has

been in need of an overhaul for some time. It has not just been the state of French tax laws that has made the reform necessary but also, and probably more importantly, the often high levels of taxation imposed in France has made French business often uncompetitive as well as discouraging foreign investment.

The taxation of property has often been at the centre of the reform activity. One of the major changes has been to the registration duty payable on the transfer of commercial and residential property. The old registration rate for commercial property was 15.585% to which had to be added Valued Added Tax (TVA) at around 20% (19.6% from 1<sup>st</sup> April 2000) as well as the normal legal and other fees. Consequently buying property was a very expensive business and the subsequent sale of the property would usually only take place when the property has increased substantially in value as to offset the taxes paid.

With effect from the 1<sup>st</sup> January 1999 the rate of registration duty was reduced to 4.89%. For residential property the rates have been reduced from 7.81% and 7.1% to 6.21% and 5.41% respectively. For residential building land the rate will be 4.8% and the transaction will no longer be subject to valued added tax.

The effect of these changes has been to revitalise the property market and to greatly reduce the cost of buying and selling property as well as removing the need to devise costly tax efficient schemes to avoid the previous high tax liability.

### **23.3 General Property Related Taxes**

Prior to examining the main local property taxes it is important to note some of the more unusual property taxes that can apply in France, especially in the Paris region. Many of these taxes relate to planning issues but never the less are a form of property taxation usually within the control of the local authority.

**Parking Tax** – where a development is not able to provide sufficient car parking spaces as provided by the development plan the owner/developer will have to pay tax amounting to 63,400 FF per parking space with effect from 1<sup>st</sup> October 1999 (62,500 FF for 1998). This figure is reviewed annually and is paid to the local authority.

**Tax on foreign owned property** –property in France which is not used for business purposes is subject to an annual tax amounting to 3% of the market value of the property; payable by the owners.

**Office Tax within the Paris Region** – the tax is paid by the owners of office accommodation in the “Ile de France” region. The tax is payable to the local authority based on the are of the accommodation and the rates are increased annually by the cost of construction index (INSEE). The basic principle is that all commercial and professional premises used for management, administration, secretarial or information technology purposes and public administration premises are subject to the tax but shops, workshops, hangars, garages and storage premises specially designed for sanitary, social, educational, sports or cultural activities are excluded.

The rates of tax for office use are:

- 74 FF m<sup>2</sup> for most of the arrondissements of Paris, Nanterre and Boulogne-Billancourt
- 44 FF m<sup>2</sup> in the remaining arrondissements of Paris, Antony and the départements of Seine St Denis and Val de Marne;
- 21 FF m<sup>2</sup> in the départements of Seine et Marne, les Yvelines, l'Essonne and Val d'Oise.

For commercial premises the tax rate is 12 FF m<sup>2</sup> and for storage premises 6 FF m<sup>2</sup>.

Certain exemptions apply to the tax as follows:

- office space with an area of less than 100 m<sup>2</sup> (1,764 sq.ft)
- commercial space with an area of less than 2,500 m<sup>2</sup> (26,910 sq.ft)
- storage premises with an area of less than 5,000 m<sup>2</sup> (53,820 sq.ft)

The tax is payable by the 1<sup>st</sup> March each year.

**Tax on creation of office space in the Paris Region** – a tax is imposed on all plans to develop office or research premises within the Ile de France region. The tax is also charged where an existing building is converted to office or research use. The tax for new developments is assessed and paid when the plans are submitted for approval and is levied at the rate of 1,600 FF, 1,000 FF and 400 FF per m<sup>2</sup> depending on location. For conversions the tax is charged when the declaration is filed with the authority.

**Surdensity tax (versement pour dépassement du plafond légal de densité)** – this tax was generally repealed in 1986 but authorities were able to vote to retain it. Paris is one such area. The tax is levied where a person constructs a building whose size exceeds the size of the lot on which it is built. In Paris the threshold is 150% of the lot size. The tax is the difference in the value of the land and that which would have been required to build the development if the ceiling was not to be exceeded.

**Lease contribution (contribution annuelle représentative du droit de bail)** – this tax was introduced in 1999 and replaced the former lease duty (*droit de bail*) applies to lease which are not subject to TVA. In such case as tax is levied at a rate of 2.5% of the agreed rent. It should be noted that the current level of TVA is 19.6%.

#### 23.4 Local Property Taxes

Local taxes in France can be split broadly into two types, direct and indirect. The four main direct local property taxes account for nearly 80% of local tax revenues are the following:

- Taxe d'habitation (Property Tax)
- Taxe sur le foncier bâti (Property + Land Tax)
- Taxe sur le foncier non-bâti (Land Tax)
- Taxe professionnelle (Business Tax)

The main indirect taxes include registration fees, car registration fees, electricity tax, etc and are outside the scope of this research.

In 1990, the communes received approximately 55% of receipts from local taxes, the départements 33% and the regions nearly 10%. The communes and groupements receive most of their fiscal resources from the four main direct taxes (over 85%) identified above. This is compared with the départements and regions who receive between 50-60% from the four main taxes and so rely heavily on income from other sources.

For each of the direct taxes they should be based on the value of the property (*valeur localative*) as shown in the various land value registers, In practice however, the values shown in the registers are very dated and will vary considerably from that of market value. Theoretically, at least, the registers should be kept up-to-date, with owners making annual returns of any new construction, demolition, changes in use etc. and by annual increases in the rental valuation based upon national rental value increases. Every three years property values are meant to be reviewed based on actual changes in value in the geographical locality and every 6 years properties are meant to be revalued individually.

Unfortunately such revaluations have not been undertaken and the last individual revaluation of a geographical region was in 1980 with many areas still being based on 1970 values. Consequently the actual tax base is considerably out of date.

In order to update the tax base annual increases have been applied. In 1997 the increase co-efficient was 1.01 for all properties other than industrial buildings for which the co-efficient was 1.0.

In 1990 the government introduced a new law (Law 90-669) which changed the rules for the determination of the tax base. The legislation introduced a new term “*évaluation cadastrale*” (land records evaluation) to replace the old term *valeur localative*.

The new evaluation technique classifies all land parcels into four main groups:

- Private residential property
- Public housing
- Business properties
- Industrial properties

Where appropriate, the above groups can be further broken down into sub-groups for more detailed analysis.

A committee was to be established to divide the country into areas with broadly similar rental markets. For each of these areas, groups would be formed in conjunction with the local elected officials and taxpayers to arrive at a rate per metre for each of the property groups and categories as at 1<sup>st</sup> January 1990. The idea being that the taxable value of any property could be found by applying the rate per metre to the actual size of the property which then could be adjusted by a co-efficient to reflect the actual physical state of the property (range 0.85 – 1.15).

A similar approach was to be adopted for undeveloped land and agricultural land.

Once the 1990 valuation had been determined they would remain constant between revaluations.

The law of 1990 has not been implemented as the government has constantly delayed its application and it would seem probable that the above changes will never be actually implemented as other changes have also occurred.

Since the passing of the 1990 law other changes are now taking place which affects the implementation of the tax base, especially the *taxe professionnelle* which will be considered in more detail on page 165.

### 23.5 Business Tax

#### *Taxe Professionnelle*

The tax was introduced in 1975 as a means of creating a stable tax base for the funding of local government. Whilst not strictly a property tax as it includes also taxes on salaries incurred in the business it is currently one of the most important local taxes from a business viewpoint.

The tax is currently in the process of being reformed but the full impact of these reforms will not be fully implemented until 2003 when the salary element of the tax will have been phased out. At that stage the tax will relate solely to the rental value of the property plus the rental equivalent of the other assets employed in the business.

#### 23.5.1 Purpose of the tax:

The tax provides a substantial element of the funding for local government.

#### 23.5.2 How the tax base is set or established:

The tax is made up of two distinct elements:

- the rental value of the assets used in the business. This includes both property and personal assets of the enterprise,
- 18% of the gross annual salaries paid to the local employees.

The main element of the tax is assessed by the taxpayer.

Companies make their own returns direct to the tax authorities. In the 2000 tax year they will make their return for the tax year 1999 and this will be based on the situation as existed in 1998. The return will include:

#### 23.5.3 Capital Assets of the Business

This will be made up of:

##### *Real Property*

The real property element is based on the assessed rental value of the property (*valeur locative cadastrale*) as at a prescribed date, 1980, which is then adjusted by a coefficient to allow for changes in value. Both rental values and coefficients bear little resemblance to market rents. For developed land the 50% deduction will apply but there is no deduction for undeveloped land.

*Personal Property*

This will include items such as plant and machinery tools, vehicles, office furniture and equipment etc. The value of the items is rentalised at around 16% of cost.

*Payroll element*

This includes all salaries required for the business.

The payroll element of the tax is being phased out by the 1999 Finance Law. This will mean that by the end of 2003 this element will no longer apply. In the meantime, the government has introduced transitional provisions to scale down this tax element. For 1999 the amount of tax will be reduced by 100,000 FF, for 2000 it will be reduced by 300,000 FF, 2001 by 1,000,000 FF and 2002 by 6,000,000 FF.

23.5.4 Basis of valuation for tax purposes;

See above,

23.5.5 Frequency of review of tax base;

In theory the property tax element should be reviewed every 3 years but in practice the 1990 revaluation was postponed and has been postponed on several occasions since then. The other tax elements are updated annually.

23.5.6 Nature of any exemptions or reliefs for classes of taxpayer;

Certain classes of taxpayer are exempt and these have been considered under the heading of "Nature of the Taxpayer".

The communes may give exemptions of upto 50% for a variety of entertainment uses.

A range of temporary exemptions and reliefs have been granted to encourage the development of enterprises.

*Regional Development*

This is given where a taxpayer engages in a qualifying business in a specifically designated area.

*New Enterprises*

Certain new businesses undertaken by an individual will be exempt from the tax for a 5 years period.

*Urban redyanamisation Zones*

With effect from 1<sup>st</sup> January 1997 all existing businesses within a designated zone will be exempt from the tax for a period of 5 years. Communes however have the power to opt out of this exemption if they wish.

*Tax Free Zones*

Properties located in tax free zones will be exempt from the first 3 million FF of the tax for 5 years.

### 23.5.7 Challenges to tax base, valuation or assessment;

A taxpayer may challenge his assessment though in most cases the tax is levied on information supplied by the taxpayer. In the first instance this is done by writing to the tax authorities asking them to reconsider the tax assessment and this will resolve most challenges. A formal appeal can be made to the tax courts where appropriate.

### 23.5.8 Nature of taxpayer;

The taxpayer is any individual or legal entity engaging in a non-salaried activity. There are a number of exemptions to the tax which include:

- Artists,
- Craftsmen,
- taxi drivers, ambulance men, fishermen, members of craft co-operatives are exempt subject to certain conditions,
- Professional painters sculptors, designers,
- Lyric and dramatic artists,
- Authors and composers,
- University professors,
- Midwives,
- Nurses,
- Lawyers undertaking professional training,
- Sportsmen.

Certain business activities are also exempt which include:

- Publishing and press agencies,
- Door to door sales persons,
- Labour organisations,

### 23.5.9 Amount of tax;

The amount of tax varies from commune to commune but rates of between 5% and 25% are common with an average of around 20%.

There are a number of additional provisions which affect the amount of tax payable. For example where a commune charges below the national rate of tax and additional "equalisation tax" is payable of either 0.8%, 1.25% or 1.75% depending on the difference between the rate charged and the national average. These rates will change from 2000 as part of the phasing out of the payroll element of the tax.

Provision is also made for there to be a tax ceiling which is based on a sliding scale depending on the amount of "value added" by an enterprise.

### 23.5.10 Frequency of payment;

The tax is normally paid as a single payment but where the tax liability is over 10,000 FF two payments are permitted.

### 23.5.11 Identification of tax collector;

The tax is administered by the national tax authorities.

## 23.6 Taxe d'habitation

### 23.6.1 Purpose of the tax:

The tax provides part of the income for both the commune and the Départements for the provision of local services. With effect from the 2000 tax year, no part of the income from the tax will be remitted to the regions.

### 23.6.2 Nature of taxpayer:

Dwelling tax is a local tax which is paid annually by the occupier (whether owner, tenant or otherwise) of a dwelling on 1<sup>st</sup> January of the relevant year (arts. 1407 and 1408 Code générale des impôts).

An owner who occupies property will be subject both to property tax (*taxe foncière*) and dwelling tax (*taxe d'habitation*), whereas if the property is let the owner will only pay property tax, the dwelling tax (*taxe d'habitation*) being borne by the tenant.

### 23.6.3 Identification of tax collector; and

The tax is administered mainly by the central tax administration but the communes provide them with additional property related information.

### 23.6.4 How the tax base is set or established:

As was indicated in the introduction to this section the tax base is very outdated, being based on rental values dating to 1980 and in some instances, 1970.

### 23.6.5 Basis of valuation for tax purposes:

The basis of valuation is the assessed rental value of the property (*valeur locative cadastrale*) as at a prescribed date, 1980, which is then adjusted by a co-efficient to allow for changes in value. Both rental values and coefficients bear little resemblance to market rents.

### 23.6.6 Frequency of review of tax base:

In theory the tax base should be reviewed every 3 years but in practice the 1990 revaluation was postponed and has been postponed on several occasions since then. The reforms that are currently being undertaken in respect of the *taxe professionnelle* may result in a revaluation when completed in 2003), but this is speculation at the present time.

### 23.6.7 Nature of any exemptions or reliefs for classes of taxpayer:

There are a range of exemptions and reliefs which include:

- Property subject to the *taxe professionnelle*,
- Property occupied by diplomats and persons working for specified international organisations,
- Low income households,
- The elderly (over 60).,
- Disabled persons,
- Persons in receipt of state benefits,
- Reliefs are available depending on the number of dependents in the household as at the 1<sup>st</sup> January each year.

With effect from the 2000 tax year new rules will apply to restrict the amount of tax payable depending on the income of the taxpayer. This will only apply to low income families and those receiving state benefit. The new rules will be based on the income received in the previous tax year.

First family share	103,710 FF
Second family share	24,230 FF ceiling increase
Third family share	19,070 FF ceiling increase
Additional family share	19,070 FF ceiling increase

A family share is calculated in accordance with the income tax legalisation. Where a taxpayer qualifies for relief, then the amount of tax payable is reduced by the amount by which the bill exceeds 4.3% of the taxable income.

23.6.8 Challenges to tax base, valuation or assessment:

A tax payer may challenge his assessment. In the first instance this is done by writing to the tax authorities asking them to reconsider the tax assessment and this will resolve most challenges. A formal appeal can be made to the tax courts where appropriate.

23.6.9 Amount of tax:

The tax is set individually by each commune and typically ranges from between 5% and 15% of assessed value.

23.6.10 Frequency of payment:

Payment of the tax takes place towards 15 October or 15 November of each year after notice to pay has been issued by the tax authorities.

The tax may be paid in monthly instalments at the taxpayer's option.

**23.7 Taxe Foncière Sur Les Propriétés Bâties & Taxe Foncière Sur Les Propriétés Non Bâties**

23.7.1 Purpose to which tax is put:

The tax provides part of the income for the commune and the Départements and regions for the provision of local services. The tax levied is distributed to the three tiers of local government

Communes and groupements – 70%  
Départements 25%  
Regions – 6%

23.7.2 Nature of taxpayer:

The owner of the property.

It should be noted that where a property is owner occupied, both the *taxe d'habitation* and *taxe foncière* will both be payable.

23.7.3 Identification of tax collector; and

The tax is administered by mainly be the central tax administration but the communes provide them with additional property related information.

23.7.4 How the tax base is set or established:

As was indicated in the introduction to this section the tax base is very outdated being based on rental values dating to 1980 and in some instances, 1970.

23.7.5 Basis of valuation for tax purposes:

The basis of valuation is the assessed rental value of the property (*valeur locative cadastrale*) as at a prescribed date, 1980, which is then adjusted by a co-efficient to allow for changes in value. Both rental values and coefficients bear little resemblance to market rents.

23.7.6 Frequency of review of tax base:

In theory the tax base should be reviewed every 3 years but in practice the 1990 revaluation was postponed and has been postponed on several occasions since then. The reforms that are currently being undertaken in respect of the *taxe professionnelle* may result in a revaluation when completed in 2003), but this is speculation at the present time.

23.7.7 Nature of any exemptions or reliefs for classes of taxpayer:

A range of exemptions and reliefs may be given which include:

- publicly owned buildings used for public services which do not generate income,
- buildings used for public religious worship,
- property owned by foreign states used for housing diplomatic missions,
- buildings used for agricultural activities, other than the farmhouse itself (art. 1382 Code générale des impôts),
- Disabled persons,
- Persons in receipt of state benefits.

Newly developed properties enjoy a temporary (in some cases, partial) exemption of 2 years (art. 1383 Code générale des impôts) except where the acquisition has been financed in whole or in part by means of a subsidized interest-free loan.

Long-term exemptions ranging from 10 to 25 years apply to certain welfare housing projects (arts. 1384, 1384a and 1385 Code générale des impôts).

For the *taxe foncière sur les propriétés non bâties* a range of exemptions are also available including:

- forests (30 year exemption),
- where there has been some form of natural disaster,
- where there has been an outbreak of disease.

23.7.8 Challenges to tax base, valuation or assessment:

A tax payer may challenge his assessment. In the first instance this is done by writing to the tax authorities asking them to reconsider the tax assessment and this will resolve most challenges. A formal appeal can be made to the tax courts where appropriate.

### 23.7.9 Amount of tax;

The tax rates are fixed at commune level and can vary considerably from commune to commune. For 1999 for one Départements alone the range was between 9.16% to 23.17% for the *taxe fonciere sur les propriétés bâties* and from 25% to 75% for the *taxe fonciere sur les propriétés non bâties*. For the *taxe fonciere sur les propriétés bâties* the tax is charged on 50% of the rental value. The 50% deduction allows for costs associated with the ownership of the property.

For the *taxe fonciere sur les propriétés non bâties* on undeveloped land the tax is charged on 80% of the rental value. The 20% deduction allows for costs associated with the ownership of the property.

### 23.7.10 Frequency of payment;

Payment of the tax takes place after the notice to pay has been given by the tax authorities (usually toward October November of each year).

The taxpayer may elect to pay the tax by monthly instalments each equal to 10% of the previous? years tax, by way of a standing order.

## 23.8 Other Taxes

Other property related taxes include:

- Forestry Tax (Taxe forestiere). This is a tax on the produce of forests and is charged by the State at a rate which varies between 0.12% and 1.2% and is collected on a quarterly basis.
- Duty on Drinking Premises (Taxe specialitie sur debits de boissons). This is tax on property serving alcohol beverages and the rate ranges between 15% and 30% of the annual licence fee.
- License Fee for Drinking Premises (Droit de licence sur les debits de boissons). This is an annual license fee payable to the municipality each January. The fee varies depending and the size of the municipality and the rate determined by the municipality.



## 24 Germany

### 24.1 Government Organisation And Structure

The German constitution states that Germany shall be a democratic and social federal state and that the constitutional status of the Länder shall conform to the principles of the republican, democratic and social state governed by the rule of law within the meaning of the Basic Law.

Subject to these conditions the Länder can shape their constitution and are endowed with their own powers.

The Länder have the status of states and they can make laws through their parliaments, administer them through their own governments and have an independent judicial system.

Article 28 of the Basic Law guarantees that the municipalities have the right to manage all the affairs of the local community on their own responsibility.

The Federal Republic of Germany has two levels of government:

- the Federal Government
- the State or Lander Governments

Each state has two levels of government:

- the State Government and
- local Governments.

Under the Basic Law the prime responsibility for legislation rests with the Länder which has autonomous powers are in the areas of education, culture, local law and public safety and order. The Federal government is only empowered to legislate where specifically stated in the Basic Law. Foreign affairs, defence, monetary policy, air transport, post and telecommunications, economic and labour law, competition law, shipping and road transport are all federal matters.

#### 24.1.1 Local Government Organisation

There are sixteen states in Germany, five new states in East-Germany and eleven in West-Germany.

The "local level" includes local governments and municipalities ("Städte and Gemeinden") and districts (Kreise). The range of tasks carried out by them varies between the states. They often carry out the tasks of social assistance, waste disposal and hospitals. Currently there are 426 counties with roughly 16,000 municipalities and additional 117 cities which also fulfil the tasks of districts.

Länder, municipalities and districts are jointly responsible for the function of law and order, education and highways. In addition, comparatively large cities without an intermediate district level fulfil these functions.

The duties of the municipalities and counties include:

- Health care and hospitals,
- Some welfare services,
- Housing,
- Cultural affairs,
- Recreation,
- Refuse collection etc.,
- Sewerage etc.,
- Water supply,
- Electricity,
- Public local transport.

## 24.2 Local Government Finance

The Basic Law states that the federal government and the states shall decide separately on the expenditure resulting from the carrying out of their respective tasks and duties.

Where the states act as agents of the federal government, it must finance the resulting expenditure.

Article 106 of the Basic Law deals with apportionment of tax revenues. It states that the revenue of income tax, corporations taxes are to be apportioned to the three levels of government.

30% of local government finance comes from fees charged by government for its services. Income from the real estate tax (*Grundsteuer*) accounts for only 0.5% of the municipalities income. One of the main sources of local authority finance is the business tax which is a form of local income tax.

## 24.3 Real Estate Tax

### *Grundsteuer*

#### 24.3.1 Purpose of the tax:

The tax is levied under the provisions of the Real Estate Tax Law of 7<sup>th</sup> August 1973 as amended. The tax is an annual tax on the ownership of property.

#### 24.3.2 How the tax base is set or established:

The tax is based on the value of the subject property as a result of a general revaluation every 6 years carried out by the State and local government under fairly rigid valuation guidelines. As outlined below no revaluations have taken place since 1964.

24.3.3 Basis of valuation for tax purposes:

The valuation base (*Einheitswert*) is determined by three main methods of valuation. The rental principle is based on the gross rental value. Gross rent is determined by discounting the sum of the future income stream from business land and property.

For agricultural land a form of “beacon method” is used where a sample of farms are valued on the rental principle and then individual farms are assessed on the basis of how their characteristics fit with those of the beacon.

For domestic properties imputed rents are determined by applying multipliers actual rents by given factors so that they approximate to current values.

Capital valuation is used when there is limited rental evidence. This method is used on properties or land that are owned by the user. This typically applies to hotels, factory sites etc.

Vacant land valuations are determined by an imputed market valuation determined from observations of sales of similar sites.

Certain plant and machinery is taxable and its valued based on its replacement cost.

24.3.4 Frequency of review of tax base:

The last valuation of property took place in 1964. Consequently the values on which the tax is levied are considerably out of date. Revaluations are intended to be carried out every 6 years.

24.3.5 Nature of any exemptions or reliefs for classes of taxpayer:

- Property belonging to public authorities
- Property used for public, charitable or religious purposes
- Land use for sport

24.3.6 Challenges to tax base, valuation or assessment:

No information available.

24.3.7 Nature of taxpayer:

The owner

24.3.8 Amount of tax:

No information available.

24.3.9 Frequency of payment:

Quarterly

24.3.10 Purpose to which tax is put:

The tax raised is used by the municipality to directly contribute to the provision of services at that level.

24.3.11 Identification of tax collector;  
Municipality

24.3.12 Wealth Tax (Vermögensteuer)  
Whilst the law providing for the collection of a wealth tax is still in force, wealth tax has not been collected since 1997 following a ruling of the Federal Constitutional Court.

#### **24.4 Real Estate Transfer Tax** ***Grunderwerbsteuer***

24.4.1 Purpose of the tax;  
The tax is a tax on the transfer of real property.

24.4.2 How the tax base is set or established;  
The taxpayer is required to make a return to the tax authorities on the purchase of property and to pay the tax before the transfer can be registered.

24.4.3 Basis of valuation for tax purposes;  
The purchase price of the property or equivalent if not at arm's length. Where the transfer is subject to VAT the gross price will be taken.

24.4.4 Frequency of review of tax base;  
Single payment

24.4.5 Nature of any exemptions or reliefs for classes of taxpayer;

- Certain transfers between related persons are exempt
- Transfers between partners within a partnership are exempt

24.4.6 Challenges to tax base, valuation or assessment;  
No information available.

24.4.7 Nature of taxpayer;  
Both the vendor and purchaser of the property are subject to the tax

24.4.8 Amount of tax;  
3.5%

24.4.9 Frequency of payment;  
Single payment.

The tax must be paid before the transfer of the property can be registered.

24.4.10 Purpose to which tax is put;  
The revenues raised are allocated to the Lander

24.4.11 Identification of tax collector;

The local tax authority

24.4.12 Typical examples of the application of the tax base:

A property is purchased for 400,000 DMK and there is a 200,000 DMK mortgage outstanding.

Purchase price	400,000
Mortgage outstanding	200,000
Total value	600,000

Tax @ 3.5%

**24.5 Succession And Gift Tax*****Erbschaft-Und Schenkungsteuer***24.5.1 Purpose of the tax;

The tax is a tax on the transfer of property by way of inheritance or by deed of gift.

24.5.2 How the tax base is set or established;

Returns are made to the tax authorities following the inheritance of the property or the deed of gift.

24.5.3 Basis of valuation for tax purposes;

The value of the estate received after deduction of expenses and debts.

24.5.4 Frequency of review of tax base;

Not applicable.

24.5.5 Nature of any exemptions or reliefs for classes of taxpayer;

The following are some of the exemptions and reliefs:

- Gifts made for religious, charitable purposes or for the public benefit,
- DMK 500,000 plus a 40% allowance on the acquisition of business assets.

The following allowances, which can be set against the tax, are available:

	<b>Class I</b>	<b>Class II</b>	<b>Class III</b>
	<b>(DMK)</b>	<b>(DMK)</b>	<b>(DMK)</b>
Spouse	600,000		
Children	400,000		
Others	100,000	20,000	10,000

**Table 52: Germany; Inheritance and Gift Tax Reliefs**

Grandchildren have allowances of DMK 100,000 available. If the parents are no longer alive, the allowances increase to DMK 400,000.

The following special allowances are available for children and young people, but only in case of death:

Age	DMK
up to 5	100,000
5 -10	80,000
10 -15	60,000
15 - 20	40,000
20 - 27	20,000

**Table 53: Germany; Inheritance and Gift Tax Reliefs (Children)**

24.5.6 Challenges to tax base, valuation or assessment:

No information available.

24.5.7 Nature of taxpayer:

The person receiving the gift or inheritance

24.5.8 Amount of tax:

The tax rates vary between 7% and 50%, depending on the amount of the inheritance or gift, and the relationship of the beneficiary/donee to the testator/donor.

There are three tax classes as follows:

Tax Class	
Tax class I	Spouses with their children and stepchildren; grandchildren; Parents and grandparents (only in case of inheritance).
Tax class II:	Parents and grandparents (in case of gifts); Brothers and sisters-with their children; Parents-in-law; Stepparents; Children-in-law; and Divorced spouses.
Tax class III:	all other people

**Table 54: Germany; Inheritance and Gift Tax - Tax Classes**

<b>Taxable income</b>	<b>Class I</b>	<b>Class II</b>	<b>Class III</b>
Up to	(%)	(%)	(%)
100,000	7	12	17
500,000	11	17	23
1,000,000	15	22	29
10,000,000	19	27	35
25,000,000	23	32	41
50,000,000	27	37	47
over 50,000,000	30	40	50

**Table 55: Germany; Inheritance and Gift Tax Rates**

24.5.9 Frequency of payment:

A single payment following notice of assessment.

24.5.10 Purpose to which tax is put:

The income raised by the tax is assigned to the Lander governments.

24.5.11 Identification of tax collector:

The local tax authority

**24.6 Other Taxes**

**Insurance Tax (Versicherungssteuer)** – 13.75% tax is levied on building insurance and 14% on content insurance, which are paid to the federal government.

**Tax on Second Residences (Zweitwohnungssteuer)** – the tax is levied in all but three Lander (Bavaria, Saraland and Thuringen). The tax is based on the rental value of the property and the charged at rates between 5% and 20% or fixed rates varying between 300DMK to 4,800 DMK p.a. The tax is payable quarterly and revenue raised is allocated to the city of municipality where the property is located.



## 25 Greece

### 25.1 Government Organisation And Structure

In 1994 the Greek Parliament reformed regional and local government system (laws 2218/94 and 2240/94) by establishing elected prefectural councils.

The main changes were:

- the allocation of powers and funds to municipalities and communities, as well as a maximising the degree of decentralisation between the regional and local government .
- Area councils covering municipalities and communities set up to broaden the development process, allowing co-operation between municipalities and communities.
- The regional composition of the country reinforced by extending the role of the Regions which, in addition to planning, scheduling and co-ordinating development, become the decentralised units of state administration.
- A Regional Development Fund set up as a development policy instrument and as a way of decentralising national and community resources.
- The municipalities and communities are being helped to carry out their functions and to reorganise their powers.
- All powers are being made exclusive with the abolition of any overlaps.

At sub central level Greece is administratively divided into prefectures (nomoi), municipalities (demes) and communities (koinotetes).

The basic levels of administration are the municipalities, which at the present total 441 and the communities, of which there are 5.828. There is no difference between these two types of administrations. Demes are the major cities, normally with populations of more than 5.000, whereas koinotites are in rural areas with smaller towns or villages and at least one primary school within its boundaries.

The 51 prefectures are de-concentrated units of central government, covering certain decentralized state services and formulating proposals to the central government on works and policies of national importance concerning the region.

Through the prefectural system, the state also have extensive control over the Greek municipalities. All provisions issued by the municipalities and communes are under the supervision of the prefecture.

The prefectures are subdivided into provinces (eparchies), which are geographical areas covered by certain decentralized state services.

Until 1980, the Greek local authorities had fairly limited areas of responsibility, related to elementary services such as water supply, waste collection and recreation. There has been a decentralisation of responsibility to the Greek local authorities with new areas of responsibility are for instance child care, care for the elderly and housing assistance.

Since 1995, there has been an ongoing process of transferring powers and funds to local government.

The exclusive responsibility of the municipalities include the construction, maintenance and running of water supply and gas systems, drainage, refuse collection, woodland, recreation areas and cemeteries. They are also responsible for the construction and maintenance of municipal and communal roads, squares and bridges, urban transportation and local sports facilities. Finally, the municipalities administrate parking restrictions and collect penalties.

The "shared" responsibility between the state and the municipalities are mostly cultural services. In practice, this means that both central government and municipalities can set up, run and support libraries, museums, orchestras, theatres, archaeological areas etc.

The public housing stock is mostly administrated by the central government.

Within the social sector most of the functions of local authorities involve shared responsibility. Local authorities are not obliged to perform social services, but responsibility may be passed to them on request, and if they have the resources to finance social services. In areas such as elderly care, youth centres and kindergartens a large number of municipalities have become actively involved. The local authorities have no independent responsibilities in the educational sector.

## 25.2 Local Government Finance

The main source of local revenues are central government transfers - either in the form of tax sharing or grants. Together these two sources of finance constitute approximately 55% of all local government revenues.

Since 1989, ordinary grants have gradually been replaced by a tax revenue sharing system.

Local government receives shares from the following central government taxes:

- Personal Income tax: 20%
- Corporate Income tax: 20%
- Motor Vehicle tax: 50%
- Property tax 15%

Fees and charges account for approximately 25% of local government revenue. The main rationale of fees and charges is to cover the cost of providing different services. For some services, there are no limits to the level of charges or fees, whilst others are limited by law. Street-cleaning and refuse removal account for nearly 50% of the user charges collected by the local government. Other important user charges are charges on electric lighting, water supply and hotel charges for tourists.

### 25.2.1 Local taxes

The Greek municipalities have very limited authority to set their own taxes. However, there are four types of taxes over which local government has some control.

These are:

- Taxes on electrified areas: The base for this tax is the surface area of an immovable property. Upper and lower limits of the tax rate are determined by the central government.
- Taxes on immovable property - the basis of the tax being the value of the property. Again, central government places lower and upper limits on the tax rates.
- Advertisement tax. The base for this tax is the surface of the advertisement or advertisement expenses.
- Other taxes include beer taxes and taxes on olive oil production.

The local government in Greece has no legislative power to set or collect local taxes. All local taxation in Greece is levied under central government legislation. All town taxes are collected by central government on behalf of local authorities, although some of the larger municipalities can administer the raising of revenue from taxation.

## 25.3 **Inheritance Tax**

### 25.3.1 Purpose of the tax:

The tax is a tax in the transfer of property by inheritance under the provisions of Decree Law 118/1973 as amended.

### 25.3.2 How the tax base is set or established:

Returns must be made to the appropriate tax authority within 6 months of death.

Where the return is not made within the required time limit an additional charge of 3.5% will be levied per month subject to a maximum of 300%. 1.5% additional tax will levied for late payment subject to maximum of 200% and an additional 3% per month of the tax payable subject to a maximum of 300% where an inaccurate return has been made.

### 25.3.3 Basis of valuation for tax purposes:

The tax is based on the net value property transferred to each heir.

Certain deductions can be made from the market value as described below.

### 25.3.4 Frequency of review of tax base:

Not applicable.

25.3.5 Nature of any exemptions or reliefs for classes of taxpayer;

- the State and municipalities, churches, monasteries, the community of the Holy Sepulchre, the monastery of Mount Sinai, and legal persons governed by public law; those persons are not obliged to submit tax declarations;
- non-profit making legal persons established or to be established in Greece, providing they are shown to be pursuing charitable or educative purposes, or purposes of national interest;
- foreign natural persons where exemption is provided for by international agreement, subject to there being reciprocity;
- Greek political parties, provided they are recognised by Parliament;
- any person expressly exempted by legal provision.

In addition to the above general exemptions there are a series of reliefs for the transfer of agricultural land, residential property transferred to members of the family, handicapped persons.

In arriving at the value of the property the following may be deducted:

- debts owed on the inheritance
- funeral, legal and incidental costs associated with the death

25.3.6 Challenges to tax base, valuation or assessment;

No information available

25.3.7 Nature of taxpayer;

The tax is payable by the person acquiring the property by inheritance.

25.3.8 Amount of tax;

The amount of tax varies depending on the relationship of the deceased to the person inheriting the property

Category I (spouse, children, parents):

Taxable share (GRD)	Tax rate (%)
first 5,175,000	0
next 10,500,000	5
next 45,000,000	15
over 60,675,000	25

**Table 56: Greece; Inheritance Tax Rates**

For inheritances up to GRD 9,775,000 the tax payable is reduced by 60%;  
For inheritances between GRD 9,775,000 and 39,100,000 the tax payable is reduced by 30%.

25.3.9 Frequency of payment;

24 interest free monthly instalments subject a minimum of GRD 100,000 per instalment.

25.3.10 Purpose to which tax is put:  
The revenue is remitted to the state and not allocated for a specific purpose.

25.3.11 Identification of tax collector:  
The State Tax Authority.

Where a return has not been made and no assessment raised, the liability will lapse after 10 years or 15 years where no return has been made.

Provision is also made that inherited property can not be transferred until such as time as a certificate has been obtained showing that the tax due has been paid.

## **25.4 Tax on Gifts**

25.4.1 Purpose of the tax:  
The tax is levied on the receipt of gifts of property or parental provision.

25.4.2 How the tax base is set or established:  
Both donor and donee are responsible for making the appropriate tax returns which should be submitted to the tax authority before the gift is made. Where there is no formal deed of gift, the recipient is liable for making the return.

The tax become liable when the gift is made,

25.4.3 Basis of valuation for tax purposes:  
The tax is based on the market value of the gift.

25.4.4 Frequency of review of tax base:  
Not applicable.

25.4.5 Nature of any exemptions or reliefs for classes of taxpayer:

- the State and municipalities, churches, monasteries, the community of the Holy Sepulchre, the monastery of Mount Sinai, and legal persons governed by public law; those persons are not obliged to submit tax declarations,
- non-profit making legal persons established or to be established in Greece, providing they are shown to be pursuing charitable or educative purposes, or purposes of national interest,
- foreign legal persons (non-profit-making and charitable), provided there is reciprocity,
- foreign nationals where exemption is provided for by international agreement, subject to there being reciprocity,
- transfers by the State, municipalities or legal persons governed by public law, of moveable or immoveable property,
- assistance and once-and-for-all compensation paid by insurance organisations or funds to the widow, children or parents of a deceased insured person.

- 25.4.6 Challenges to tax base, valuation or assessment:  
No information available.
- 25.4.7 Nature of taxpayer:  
The recipient of the gift or provision.
- 25.4.8 Amount of tax:  
The amount of tax depends on the relationship between the donor and donee.
- 25.4.9 Frequency of payment:  
24 interest free monthly instalments subject a minimum of 100,000 \*\*\* per instalment.
- 25.4.10 Purpose to which tax is put:  
The revenue is remitted to the state and not allocated for a specific purpose.
- 25.4.11 Identification of tax collector:  
The State Tax Authority.

Where a return has not been made and no assessment raised, the liability will lapse after 10 years or 15 years where no return has been made.

## **25.5 Real Estate Transfer Tax**

- 25.5.1 Purpose of the tax:  
The tax is a tax on the transfer of real estate under the provisions of Emergency Law 1521/1950 as amended.
- 25.5.2 How the tax base is set or established:  
The taxpayer is responsible for making his tax declaration to the appropriate authorities

The tax applies to the following transfers:

- the expropriation of full or restricted title, whether with the suspensive or annulling option or subject to repurchase,
- the establishment of a usufruct or other servitude,
- the transfer of the real estate of a company or partnership to its members,
- the relinquishment of the property in real estate or of a right over real estate, or of the title to a ship,
- the expropriation of real estate in the public interest,
- the restitution of a dowry consisting of real estate,
- the division of real estate between its joint owners.

Where the return is not made within the required time limit an additional charge of 3.5% will be levied per month subject to a maximum of 300%. 1.5% additional tax will levied for late payment subject to maximum of 200% and an additional 3% per

month of the tax payable subject to a maximum of 300% where an inaccurate return has been made.

25.5.3 Basis of valuation for tax purposes:

Market value of the property transferred

25.5.4 Frequency of review of tax base:

Not applicable

25.5.5 Nature of any exemptions or reliefs for classes of taxpayer:

25.5.6 Exemptions

Vendor and purchaser are exempted from real estate transfer tax on:

- Transfers to refugees and transfers of State-owned real estate,
- Compulsory expropriation of land,
- Transfers where the purchaser is the State, a legal person governed by public law, a municipality, a church or a monastery,
- The return of expropriated property,
- The part of the value of real estate transferred from a non-profit-making co-operative to its members, which was subject to tax when the real estate was purchased by the co-operative,
- The compulsory purchase of real estate in the public interest by the State or by legal persons governed by public law,
- Transfers of real estate between the State and legal persons governed by public law,
- Purchase of first residence by a natural person, subject to certain conditions (threshold for married and unmarried persons, no right of full ownership for any other house, etc.),
- Certain contracts for the purchase or exchange of agricultural land, and any installations thereon, used exclusively for farming, are exempt from real estate transfer tax.

25.5.7 Reliefs

The transfer tax on the purchase of real estate is reduced to half insofar as the taxable value is covered using capital imported from abroad:

- By Greeks who are working or have worked abroad in any capacity for at least six years,
- By Greek seamen who are working or have worked for at least six years on Greek or foreign-registered vessels undertaking voyages abroad, even if they have also put in at Greek ports, and whose basic wage or salary is stipulated in the pay scale in force for the time being as being paid in foreign exchange,
- Greeks established abroad for at least six years.

25.5.8 Challenges to tax base, valuation or assessment:

No information available.

25.5.9 Nature of taxpayer:

The purchaser of the property which can include the state or other public body where the property is compulsorily acquired.

- 25.5.10 Amount of tax:  
9% for the first GRD 4,000,000 and 11% on the excess. Where property is situated in an area covered by a fire station the rate is increased by 2%.

Municipalities may elect to charge an additional 3% tax on top of the above rates.

- 25.5.11 Frequency of payment:  
Single payment.

- 25.5.12 Purpose to which tax is put:  
The tax revenues are not allocated to a specific use.

- 25.5.13 Identification of tax collector:  
The State Tax Authority. Where the municipality has elected to charge the tax, this will be remitted to it by the state.

Where a return has not been made and no assessment raised, the liability will lapse after 5 years

## **25.6 Stamp Duty**

Stamp Duty is payable under the provisions of the Law No 4755/1930 as amended and it is charged in respect of the sale or lease of property. The rate is 3% of the value, payable within 5 days of the transfer taking place.

## **25.7 Tax On Major Real Estate**

- 25.7.1 Purpose of the tax:  
The tax is an annual tax on the ownership of property over prescribed limits under the provisions of the Law No 2459/1997.

- 25.7.2 How the tax base is set or established:  
All persons are required to submit annual returns as to the value of their property subject to the exemptions below.

Where the return is not made within the required time limit an additional charge of 3.5% will be levied per month subject to a maximum of 300%. 1.5% additional tax will levied for late payment subject to maximum of 200% and an additional 3% per month of the tax payable subject to a maximum of 300% where an inaccurate return has been made.

- 25.7.3 Basis of valuation for tax purposes:  
The market value of the property as at the 1<sup>st</sup> January each year.

- 25.7.4 Frequency of review of tax base:  
The tax is based on the value of the property on the 1<sup>st</sup> January each year so it is kept constantly up to date.

25.7.5 Nature of any exemptions or reliefs for classes of taxpayer;

- Real estate belonging to the State; legal persons under public law; churches and monasteries; social security,
- Funds and organisations; non-profit making organisations; embassies and consulates for the real estate that they use (on the basis of reciprocity),
- Agricultural or forest land which a farmer cultivates himself or works on as a primary activity,
- Real estate used for production or the exercise of commercial activity, from industrial, mine, quarry, handicraft, commercial, agricultural farming
- Hotel and generally professional enterprises, as well as the real estate as primary occupation by charitable foundations,
- 50 % of sites belonging to hotel undertakings which are used for tourism purposes; buildings under construction, for seven years after the building permit,
- Public educational enterprises, real estate taxed as inherited, for two years after the inheritance;
- Real estate of major archaeological value.

In addition for personal taxpayers, the first GRD 69,000,000 if unmarried and GRD138,000,000 if married, plus GRD 17,250,000 per child is exempt. For companies the exemption is GRD 69,000,000 or GRD 172,500,000 if occupied for non-profit making purposes.

25.7.6 Challenges to tax base, valuation or assessment;

No information available

25.7.7 Nature of taxpayer;

The owner of the property

25.7.8 Amount of tax;

Tax on Major Real Estate Rates – Private Individuals				
Step	Tax rate per step	Amount of tax per step	Total taxable property	Total tax
50,000,000	0.3 %	150,000	50,000,000	150,000
50,000,000	0.4 %	200,000	100,000,000	350,000
50,000,000	0.5 %	250,000	150,000,000	600,000
100,000,000	0.6 %	600,000	250,000,000	1,200,000
100,000,000	0.7 %	700,000	350,000,000	1,000,000
Above	0.8%			

**Table 57: Cyprus; Tax on Major Real Estate Rates**

For business the rate of tax is 0.7 %. A lower rate of 0.35 % is charged for Greek or (subject to reciprocity) foreign non-profit-making organisations pursuing socially useful, religious, charitable or educational aims; as well as for Greek foundations carrying out socially useful activities.

25.7.9 Frequency of payment:

Tax is payable in three two-monthly instalments in May, July and September. A 5% discount is given for a lump sum payment.

25.7.10 Purpose to which tax is put:

The tax is not allocated to a specific purpose.

25.7.11 Identification of tax collector:

State Tax authority on behalf of the municipality.

**25.8 Wealth Tax**

There is no wealth tax in Greece

## 26 Hungary

### 26.1 Government Organisation and Structure

Hungary is a unitary state. The Constitution was adopted in 1949 but in October 1989, it was comprehensively amended and restructured. Since then, it has been further amended on a number of occasions.

The constitution regulates, *inter alia*, the basic organisational structures of the state and the powers and responsibilities of different institutions, including the judiciary, the legislature, the executive, the head of state, the constitutional court, the armed forces, the police, local government and public prosecutors.

The constitution defines Hungary as “an independent and democratic constitutional state” that is based on the rule of law.

#### 26.1.1 Regional Government

There is no regional government in Hungary.

#### 26.1.2 Local Government

The constitution stipulates that any citizen of a village, a town, the capital and its districts, or a county is entitled to the right of local self-government. Local government means autonomous and democratic management of local public affairs by the communities concerned and the exercise of local public authority in the interests of the local population.

To implement this provision of the constitution, the former Soviet-type county and municipal local government system was fundamentally transformed. The main elements of this change are the identification and separation of central affairs, county affairs and municipal affairs, with substantial decentralisation of authority, subsidiarity, and financial autonomy.

Hungary has 3,131 local governments units. There are 19 counties and four types of municipalities:

- 2,913 villages
- 195 towns
- 22 cities with county rights
- Budapest, the capital, which is divided into 23 districts and has a special status

The Local Self-Government Act sets out provisions for county and municipal government and determines the basic principles of the separation of central and local affairs.

Local governments are legal entities and may pass by-laws. They are free to regulate public affairs with a local interest (local social questions not covered by law, such as local services). Local governments are entitled to the right of free association and may create special interest associations. The most popular type of association deals with joint administration of certain local tasks.

In accordance with the law, the chief tasks of local government include:

- Local development,
- Re-settlement,
- Protection of the built and natural environment,
- Housing management,
- Water management,
- Sewage,
- Maintenance of public cemeteries,
- Maintenance of local public roads and public areas,
- Local public transport,
- Garbage collection,
- Settlement clearing,
- Fire protection,
- Local public security,
- Collaboration with local energy suppliers,
- Employment promotion,
- Primary education,
- Health care and social services,
- Enforcement of the rights of national and ethnic minorities.

Local governments may voluntarily undertake any local matter not covered by legal provisions and not reserved for another authority.

County governments are also legal entities. They execute tasks laid down by law. An Act may require county governments to provide public services of a regional character, i.e. covering large parts of the county territory. A county government may issue decrees within the range of its own activities and may call county referenda.

County governments must provide services such as

- Secondary education,
- Vocational training,
- Student hostels,
- Special health care beyond basic care, if these services are not provided by municipal governments.

## **26.2 Local Government Finance**

Financial transfers to local government consist of grants (general and earmarked), equalising grants and shared tax revenues. These sources account for the bulk of local government revenues.

## 26.3 Building Tax

### *Építményad*

#### 26.3.1 Statutory Provision

The tax is levied under the provisions of Law Nr. 100 of 1990

#### 26.3.2 Purpose of the tax;

The tax is an annual tax on property.

The tax forms part of the revenue of local government but is not allocated for a specific purpose.

#### 26.3.3 How the tax base is set or established;

No information available but the right to impose the tax is at the discretion of the local authority.

#### 26.3.4 Basis of valuation for tax purposes;

The tax is calculated on

- the net floor space of the building as calculated in square metres, or
- the adjusted market value of the building.

#### 26.3.5 Frequency of review of tax base;

No information available.

#### 26.3.6 Nature of any exemptions or reliefs for classes of taxpayer;

Tax-exempted items are including

- temporary residential buildings,
- buildings used for the purposes of social, health care, child welfare and educational institutions,
- buildings owned by budgetary organs, public service organisations and the church.

#### 26.3.7 Challenges to tax base, valuation or assessment;

No information available.

#### 26.3.8 Nature of taxpayer;

The owner of the building on the first day of the calendar year.

#### 26.3.9 Amount of tax;

The annual maximum tax rates are

- HUF 900 per square metre, or
- 3% of the adjusted market value.

#### 26.3.10 Frequency of payment;

No information available.

#### 26.3.11 Purpose to which tax is put;

The revenue is not allocated for a specific purpose.

26.3.12 Identification of tax collector;  
The municipality.

**26.4 Communal Tax payable by Private Individuals**  
*Magánszemélyek kommunális adója*

- 26.4.1 Statutory Provision  
The tax is levied under the provisions of Law Nr. 100 of 1990.
- 26.4.2 Purpose of the tax;  
The tax is an annual tax on property which may be levied at the discretion of the municipality.
- 26.4.3 How the tax base is set or established;  
No information available.
- 26.4.4 Basis of valuation for tax purposes;  
The tax is levied at a rate per property rather than being based on a rental or capital value.
- 26.4.5 Frequency of review of tax base;  
Not applicable.
- 26.4.6 Nature of any exemptions or reliefs for classes of taxpayer;  
None,
- 26.4.7 Challenges to tax base, valuation or assessment;  
No information available.
- 26.4.8 Nature of taxpayer;  
The taxpayer is the person:
  - who is the owner of the building structure on the first day of the calendar year,
  - who owns the ground plot on the first day of the calendar year,
  - who rents flats not owned by private persons
- 26.4.9 Amount of tax;  
The tax is determined by each municipality subject to a maximum of HUF 12,000 per property.
- 26.4.10 Frequency of payment;  
Quarterly.
- 26.4.11 Purpose to which tax is put;  
The tax is allocated to the municipality for the provisions of services.
- 26.4.12 Identification of tax collector;  
The municipality.

## 26.5 Duty On Gifts

### *Ajándékozási Illeték*

#### 26.5.1 Statutory Provision

The tax is levied under the provisions of the Law Nr. 93 of 1990.

#### 26.5.2 Purpose of the tax:

The tax is a tax in the receipt of gifts of property and or property rights.

#### 26.5.3 How the tax base is set or established:

Taxpayers are required to make return to the tax authority on the receipt of such a gift or property right.

#### 26.5.4 Basis of valuation for tax purposes:

The tax is based on the open market value of the gift less and outstanding debts or liabilities.

#### 26.5.5 Frequency of review of tax base:

Single payment.

#### 26.5.6 Nature of any exemptions or reliefs for classes of taxpayer:

Exemptions include:

- Gifts of property valued at less than HUF 150,000 net.

#### 26.5.7 Challenges to tax base, valuation or assessment:

No information available.

#### 26.5.8 Nature of taxpayer:

The donee is responsible for the payment of the tax.

#### 26.5.9 Amount of tax:

Rates depend on the relationship between the deceased and heir:

- Class I: children, spouse, parents; the rate is 11%,
- Class II: other close relatives; the rate is 15%,
- Class III: others; the rate is 21%.

For immovable property the rates are reduced to 2.5%, 4%, 5%.

#### 26.5.10 Frequency of payment:

Single payment.

#### 26.5.11 Purpose to which tax is put:

The tax is designated as a “shared tax” between the state and local government on a 50%/50% basis.

- 26.5.12 Identification of tax collector;  
The tax is collected by the state tax authority and 50% is remitted to local government.

## **26.6 Duty on Inheritance**

### ***Öröklési illeték***

- 26.6.1 Statutory Provision  
The tax is levied under the provisions of Law Nr. 93 of 1990.
- 26.6.2 Purpose of the tax;  
The tax is a tax on the inheritance of property.
- 26.6.3 How the tax base is set or established;  
Returns are required to be made on the passing of property by inheritance to the tax authorities.
- 26.6.4 Basis of valuation for tax purposes;  
The tax is levied on the open market value of the property inherited less the value of any outstanding bets or liabilities.
- 26.6.5 Frequency of review of tax base;  
Not applicable.
- 26.6.6 Nature of any exemptions or reliefs for classes of taxpayer;  
Exemptions include:
  - Inheritance for domestic scientific, artistic, educational etc. purposes,
  - Shares and other securities,
  - Inheritances not exceeding the market value of HUF 300.000,
  - The house of the surviving spouse,
  - Land where the recipient builds a house within 4 years of the inheritance.
- 26.6.7 Challenges to tax base, valuation or assessment;  
No information available.
- 26.6.8 Nature of taxpayer;  
The person receiving the inheritance.
- 26.6.9 Amount of tax;  
Rates depend on the relationship between the deceased and heir:
  - Class I: children, spouse, parents; the rate is 11%,
  - Class II: other close relatives; the rate is 15%,
  - Class III: others; the rate is 21%.

For immovable property the rates are reduced to 2.5%, 4%, 5%.
- 26.6.10 Frequency of payment;  
Single payment.

- 26.6.11 Purpose to which tax is put:  
The tax is designated as a “shared tax” between the state and local government on a 50%/50% basis.
- 26.6.12 Identification of tax collector:  
The tax is collected by the state tax authority and 50% is remitted to local government.

## **26.7 Duty on Onerous Transfer of Property**

### ***Visszterhes vagyónátruházási illeték***

- 26.7.1 Statutory Provision  
The tax is levied under the provisions of Law Nr. 93 of 1990.
- 26.7.2 Purpose of the tax:  
The tax is a tax on the transfers of property.
- 26.7.3 How the tax base is set or established:  
The taxpayer is required to make a return to the tax authority on the transfer of property.
- 26.7.4 Basis of valuation for tax purposes:  
Open market value of the property transferred.
- 26.7.5 Frequency of review of tax base:  
Not applicable.
- 26.7.6 Nature of any exemptions or reliefs for classes of taxpayer:  
Exemptions include:
  - The acquisition of ownership of a plot of land, where the party acquiring it builds a house within 4 years;
  - Acquisition by the nature conservation administrator of the right of management of nature conservation areas owned by the State;
  - Acquisition of property by an economic organisation through reorganisation
  - When the newly established economic organisation(s) will become the legal successor(s) of the former one(s) etc.
- 26.7.7 Challenges to tax base, valuation or assessment:  
No information available.
- 26.7.8 Nature of taxpayer:  
The purchaser or person acquiring the property.
- 26.7.9 Amount of tax:  
The rate of on the transfer of property is 10% of the market value of the property acquired.

For residential property, the rate of tax is, per flat, 2% up to HUF 4 million and 6% of the amount of market value in excess.

26.7.10 Frequency of payment:

Single payment.

26.7.11 Purpose to which tax is put:

The tax is one of a number of taxes designated as a “shared tax” with the revenues being equally shared by the state and municipality.

26.7.12 Identification of tax collector:

The tax is collected by the state tax authority with 50% of the revenue being remitted to the municipality.

## **26.8 Land Parcel tax**

### ***Telekadó***

26.8.1 Statutory Provision

The tax is levied under the provisions of Law Nr. 100 of 1990.

26.8.2 Purpose of the tax:

The tax is an annual tax on land which may be levied at the discretion of the municipality.

26.8.3 How the tax base is set or established:

No information available.

26.8.4 Basis of valuation for tax purposes:

Two alternative approaches to the tax liability are possible.

- the actual area of the parcel as calculated in square metres, or
- the adjusted market value of the parcel.

26.8.5 Frequency of review of tax base:

Not applicable.

26.8.6 Nature of any exemptions or reliefs for classes of taxpayer:

The exemptions included:

- Land with a building prohibition,
- Taxpayers engaged in public transport services;
- The safety zone of buildings;
- Parcels registered in the forestry sectors etc.

26.8.7 Challenges to tax base, valuation or assessment:

No information available.

26.8.8 Nature of taxpayer:

The owner of the land on the 1<sup>st</sup> January.

26.8.9 Amount of tax;

The tax is charged on one of two bases which is decided by the municipality:

- HUF 200 per square metre, or
- 3% of the adjusted market value.

26.8.10 Frequency of payment;

Single payment.

26.8.11 Purpose to which tax is put;

The tax revenue is allocated to the municipality for its own use.

26.8.12 Identification of tax collector;

The municipality.

## **26.9 Other Taxes**

Other property related taxes, duties and levies include:

26.9.1 Local Tourism Tax on Buildings (*Helyi idegenforgalmi adó éptiemény utá*)

This is a tax levied under Law Nr. 100 of 1990, payable by all owners of non residential buildings and is based on the area of the building. The rate of tax is fixed by the municipality subject to a maximum rate of HUF 900 sq.m.. The tax revenues are retained by the municipality for their own usage.

26.9.2 Wealth Tax

There is no wealth tax in Hungary.



## 27 Iceland

### 27.1 Government Organisation and Structure

No information available.

### 27.2 Local Government Finance

Iceland levied both national and local income taxes. For the current year the national rate is 26.08% (plus a surcharge of 7%) and the municipal rate is 12.6%.

### 27.3 Taxation

At the present time there is very limited information on the nature of the various taxes levied in Iceland. What follows is only a brief summary some of the more important taxes.

### 27.4 Real Property Tax

#### *Fasteigna-gjöld*

Real estate tax is levied at the municipal level at a rate of between 0% and 1.57% depending on the location and type of the real estate. The tax base is a special real estate evaluation price determined by the Valuation Office of Iceland.

### 27.5 Inheritance Tax

Inheritance tax is payable to a special inheritance tax fund and is not assessed by the tax authorities. The rate of the tax is 0% if the person inheriting the assets is the deceased's spouse or if the deceased and the heir had been living together as a couple. Children and grandchildren pay a progressive tax from 5% to 10%, depending on the value of the inherited assets. More distant relatives and unrelated heirs pay a higher tax (up to 45%). Inherited assets are not included in taxable income if inheritance tax has been paid on them.

### 27.6 Net Wealth Taxes

Companies are subject to a 1.2% net wealth tax and 0.25% extraordinary net wealth tax on their net wealth at the end of each calendar year. A general net wealth tax is also assessed on individuals' taxable assets less their liabilities. The tax rate is 1.2% on the tax base exceeding ISK 3,651,749 and an extra 0.25% on the base exceeding ISK 5,277,058



## 28 Ireland

### 28.1 Government Organisation and Structure

The Republic of Ireland is a unitary state with a written constitution. Compared to the rest of the European Union, a relatively low proportion of government expenditure responsibilities has been devolved to sub-central tiers of government. There is no regional tier of government, and the present, predominantly unitary, structure of local government largely results from reforms which took place in the nineteenth century. The Irish government has recently initiated a series of studies considering options for the reform of the Irish system of sub-central government. Legislation in the form of Local Government Act 2001 on the further reform of local government has recently been approved by The Dial. The timescale for the implementation of these reforms has still to be formulated.

#### 28.1.1 Structure Of Government

The present structure of local government in the Republic of Ireland is largely a legacy of nineteenth century British administration. The democratisation of existing local administrations occurred in two stages over the course of the last century. Elected urban councils were introduced by the Municipal Corporations (Ireland) Act of 1849. County councils were democratised by the 1898 Local Government (Ireland) Act. Local authorities in Ireland lack a firmly defined constitutional role, operating under ultra vires provisions in the absence of any general right of competence.

The basic structure of local government is effectively a unitary single tier system. At present, there is no regional tier of government and only a patchy and partial sub-county tier, confined to the urban areas. The principal local authorities are the twenty-nine Counties and the five County Boroughs. In addition, there are a smaller set of urbanised Borough Corporations and Urban District Councils. These are sometimes regarded as the lower tier of local government in Ireland. However, although they always fall within the area of a County they tend to take on most of the principal functions of local government or choose to transfer functions to their relevant County on an agency basis.

The Local Government Act 2001 aims to:

- Enhance the role of the elected member,
- Support community involvement with local authorities in a more participative local democracy,
- Modernise local government legislation, and provide the framework for new financial management systems and other procedures to promote efficiency and effectiveness,
- Underpin generally the programme of local government renewal.

## 28.2 Local Government Finance

Local government finance comes from three primary sources:

- Government grants,
- Fees and charges made by local government,
- Rates (approx. 26% in 1995).

In 1999 the government set up the Local Government Fund (£570 million) to improve the funding of local government. This fund was intended to increase funding by 26% in 1999 and then be increased in line with inflation. The funding came from an additional £270 million from central government and the remaining coming from the allocation of motor taxation revenues to local government. At the same time motor taxation rates were to be increased by 3% for the next 6 years.

## 28.3 Capital Gains Tax

### 28.3.1 Purpose of the tax;

The tax is a tax on the gain made by the sale of an asset under the provisions of the Taxes Consolidation Act 1997 as amended.

### 28.3.2 How the tax base is set or established;

Tax returns are made to the Revenue Department before the 31<sup>st</sup> January of the year following the gain. Capital Gains Tax is a “self assessment” tax where the liability for making the tax declaration, return and tax calculation rests with the taxpayer in the first instance.

### 28.3.3 Basis of valuation for tax purposes;

The market value of the asset disposed of less allowances. In calculating the taxable amount the following can be deducted from the disposal proceeds:

- Cost of acquiring the asset,
- Cost of improvements,
- An adjustment figure based on the consumer price index to adjust for inflation in the holding period.

Special provisions are made for the disposal of property held prior to the introduction of Capital Gains Tax on the 6<sup>th</sup> April 1974.

### 28.3.4 Frequency of review of tax base;

Not applicable.

### 28.3.5 Nature of any exemptions or reliefs for classes of taxpayer;

The exemptions include:

- The taxpayer’s main residence
- Wasting assets with a life of less than 50 years (leasehold property)

In addition to exemptions, a number of reliefs are available:

- The first IEP 1,000 of any gain
- Sale of an asset for less than IEP 2,000

Where the taxpayer is 55 or over and disposes of his farm or business

- If the disposal is to his child, the transaction is not taxable.
- If the disposal is outside the family but worth less than IEP 200,000 it is not taxable
- If the disposal is outside the family but worth more than IEP 200,000 the liability is 50% of the difference between the actual consideration and IEP 200,000.

28.3.6 Challenges to tax base, valuation or assessment:

An appeal against the assessment of capital gains tax may be made to the Revenue within 30 days of the issue of the tax notice.

28.3.7 Nature of taxpayer:

The person disposing of the asset.

28.3.8 Amount of tax:

20% for transfer other than development land where the rate is 40%.

28.3.9 Frequency of payment:

Single payment should be made by the 1<sup>st</sup> November of the year of assessment.

Failure to submit a return on time will result in a surcharge being added to the basic capital gains tax liability. The surcharge is either:

- 5% of the amount of the tax subject to a maximum of £10,000 where the return is submitted before 31 March in the year following the end of the year of assessment, or
- 10% of the amount of the tax subject to a maximum of £50,000 where the return is submitted after 31 March in the year following the end of the year of assessment.

28.3.10 Purpose to which tax is put:

The revenue is not allocated to a specific purpose.

28.3.11 Identification of tax collector:

Revenue department

28.3.12 Typical examples of the application of the tax base:

28.3.13 Example 1 - Liability on sale of investment property

In August 1999 a married couple sold a house for £100,000. The cost of sale amounted to £4,000. They had bought the house in August 1973 for £5,600. The market value of the house at 6 April 1974 was £6,000. The couple had added an extension costing £4,000 to the house in March 1980. The house was not their principal private residence and it was not development land. The couple had other chargeable gains in the tax year 1999/00 which used up their respective annual capital gains exemption\*.

## Calculation of gain 1999/00

Sale Price		100,000
Less: Expenses of sale		4,000
		96,000
Deduct		
Value on 6 April 1974 adjusted for inflation		
i.e. £6,000 x 6.313 =	37,878	
1980 Expenditure, adjusted for inflation:		
i.e. £4,000 x 3.139 =	12,556	50,434
Chargeable Gain		45,566
Taxable @ 20%		£9,113

28.3.14 Example 2 - Liability on sale of development land

A holding of 10 acres of land, which was acquired in 1968, was sold in August 1999 for commercial development\*. The sale price was £300,000 and the costs of disposal were £10,000. At 6 April 1974 its market value was £50,000 and its "current use value at that date was £8,000. The vendor is single and had no other chargeable gains in 1999/00. The chargeable gain is computed as follows -

Proceeds		300,000
Less / expenses of sale		10,000
		290,000
Deduct for value at 6 April 1974:-		
(i) Current use value, adjusted by indexation		
i.e. £8,000 x 6.313 =	50,504	
(ii) Development value (market value less current use value)		
i.e. £50,000 - £8,000 =	42,000	92,504
Net gain		197,496
Less Personal Exemption		1,000
Chargeable Gain		196,496
Tax @ 40%*		£78,598

\* If the land in question had planning permission for residential development or was zoned for residential development under a County Development Plan etc. the rate of tax applicable would be 20%. Also, if the disposal had taken place on or after 1 December 1999 the rate of tax would be 20%.

## 28.4 Gift Tax

### 28.4.1 Statutory Provision

The tax is levied under the provisions of the Capital Acquisitions Taxes Act 1976 as amended.

### 28.4.2 Purpose of the tax;

The tax is a tax on the receipt of gift.

### 28.4.3 How the tax base is set or established;

The tax becomes payable if a prescribed tax threshold is exceeded in the tax year, with the donee responsible for making the appropriate return to the Revenue (Form I.T. 38). In some cases the donor is also responsible for making the return.

The tax applies to gifts of:

- Cash
- Jewellery
- Cars
- Land and property
- Creation of life tenancies

Returns must be made within 4 months of making or receiving the gift.

### 28.4.4 Basis of valuation for tax purposes;

Market value of the gifted property less any outstanding debts or liabilities.

### 28.4.5 Frequency of review of tax base;

Not applicable.

### 28.4.6 Nature of any exemptions or reliefs for classes of taxpayer;

The main exemptions include:

- The first £1,000 of all gifts
- Gifts between spouses
- Gifts of certain dwelling houses
- Gifts for public or charitable purposes.

There are 3 tax free thresholds:

- Group A - £300,000 applicable to a child whose parents are dead and made by grand parents
- Group B - £30,000 where the gift is to brothers, sisters, nephews and nieces
- Group C £15,000 where the donor is not included in classes A or B.

### 28.4.7 Challenges to tax base, valuation or assessment;

An appeal against the assessment of gift tax may be made to the Revenue within 30 days of the issue of the tax notice.

- 28.4.8 Nature of taxpayer:  
The donee is the taxpayer but there are provisions for the donor to become liable where the donee defaults.
- 28.4.9 Amount of tax:  
20%
- 28.4.10 Frequency of payment:  
The tax is payable as a single amount within 4 months of the gift. Where the gift is property the tax may be paid by 5 annual instalments.  
  
Late payments are charged interest at 1% per month from the date of gift.
- 28.4.11 Purpose to which tax is put:  
The revenue from the tax is not allocated to a specific purpose.
- 28.4.12 Identification of tax collector:  
Capital Taxes Division  
Dublin Castle  
Dublin 2

## **28.5 Inheritance Tax**

- 28.5.1 Statutory Provisions  
Capital Acquisitions Taxes Act 1976 as amended.
- 28.5.2 Purpose of the tax:  
The tax is a tax on the receipt of an inheritance.
- 28.5.3 How the tax base is set or established:  
Inheritance tax is a Self Assessment tax since 1 September 1989 where the taxpayer has the duty to make returns at the appropriate time.  
  
The obligation to make an inheritance tax return rests with the person who receives the inheritance. A return (form I.T. 38) must be lodged with the Revenue. This should be done within 4 months of the valuation date.  
  
The valuation date in respect of an inheritance is the date on which the benefit is retained or set aside for the benefit of the successor.
- 28.5.4 Basis of valuation for tax purposes:  
Open market value of the inheritance less any debts or other liabilities.
- 28.5.5 Frequency of review of tax base:  
Not applicable.

28.5.6 Nature of any exemptions or reliefs for classes of taxpayer;

The main exemptions are:

- Inheritances taken by spouses.
- Inheritances for public or charitable purposes.
- Inheritance of a dwelling-house taken on or after 1 December, 1999 provided certain conditions are fulfilled.
- Pictures, prints, books or other items which are of national, scientific or artistic interest are exempt from inheritance tax provided certain conditions are fulfilled.

28.5.7 Challenges to tax base, valuation or assessment;

An appeal against the assessment of inheritance tax may be made to the Revenue within 30 days of the issue of the tax notice.

28.5.8 Nature of taxpayer;

The person inheriting the property is the taxpayer but provision is made for the estate to become liable in the event of default.

28.5.9 Amount of tax;

20%

There are three tax-free thresholds depending on the relationship between the person receiving the inheritance and the person who gave the inheritance.

**Group A:** £300,000. This applies to a parent, child and to a grandchild under the age of 18 of the donor whose parent is dead.

**Group B:** £30,000. Included in this class are brothers, sisters, nephews and nieces.

**Class C:** £15,000. This applies to a successor who does not come under Class A or B.

The thresholds are index linked and will be increased in line with inflation in future years.

28.5.10 Frequency of payment;

The tax must be paid within 4 months of the valuation date. Interest on late payment is payable at 1% per month from the valuation date.

The tax on an inheritance of a house or lands may be paid in five yearly instalments.

28.5.11 Purpose to which tax is put;

The revenue from the tax is not allocated to a specific purpose.

28.5.12 Identification of tax collector;

Capital Taxes Division  
Dublin Castle  
Dublin 2

## 28.6 Rates (Pre Valuation Act 2001)

The rating system in Ireland is currently being reviewed following the publication in June 2000 of the Valuation Bill 2000 which substantially updates the system. This section deals with the system as currently implemented and the next section will deal with the revised system.

### 28.6.1 Purpose of the tax:

The tax currently provides around 37% of income for County and Urban Borough Councils and 20% for County Councils. As can be seen from below local authorities obtain their income from a variety of other sources but the amount raised from rates is directly within the control of the rating authority, with each authority setting an annual rate in the £ according to its needs. The new legislation however will enable the government to cap any increases following a revaluation. The contribution of rates to local government finance has decreased over the years with councils funding their activities by charging for individual services.

	County Councils %	County Boroughs %	Urban District Councils %
Grants	33.4	18.3	9.2
Goods/Services	24.8	31.7	33.8
Rates	19.3	36.4	37.0
General Fund	22.5	13.6	20.0
Total:	100.0	100.0	100.0

**Table 58: Ireland; Sources of Local Authority Income 2000**

In 1994 the amount of rates collected amount to £323 million.

### 28.6.2 How the tax base is set or established:

The valuation element of the tax is administered by the Valuation Office. They are responsible for the initial valuation of all relevant properties.

The upkeep of the Valuation List remains with the local authority and the procedure is laid down in s.3 Valuation Act 1988.

- Applications for revision of an assessment is made to the local authority by the owner, occupier, rating authority or the Commissioner of Valuation.
- All applications are forwarded to the Commissioner of Valuation each month. Where the application is made by other than the owner or occupier the owner and occupier must be notified.
- Each application must be determined within 6 months
- The Commissioner will issue a list of determinations made each quarter not later than the 10<sup>th</sup> day after the end of the quarter.
- Following receipt of the revised list each rating authority must publish a notice indicating their receipt of the list and where it can be inspected. They must also notify the owner of the outcome and advise them of their rights of appeal against the determination.

Appeals against a determination must be made within 28 days in writing and served on the secretary of the Rating Authority. The grounds on which the appeal is made must be specified and a fee is payable in respect of the appeal.

Where agreement can not be reached provision is made of the appeal to be heard by a Valuation Tribunal whose decision is final on valuation matters. A right of appeal exists to the High Court on points of law only.

#### 28.6.3 Basis of valuation for tax purposes:

The basis of valuation is the “net annual value” (NAV) of a property which is the rental value of the property on a full repairing and insuring lease being the net income to the landlord from a hypothetical tenant.

The NAV is reduced to give the rateable value of the property. A figure of 0.63 of the 1988 NAV is adopted in Dublin, Cork, Limerick Galway and Waterford and 0.5 is applied elsewhere.

#### 28.6.4 Frequency of review of tax base:

The tax base is reviewed in two main areas:

- periodic rating revaluations, and
- revisions of assessments

##### *Revaluations*

The last rating revaluation came into effect in November 1988. The tax base has not been reviewed since that date but the new Valuation Bill 2000 makes provisions for the whole of the tax base for each rating authority to be revalued (re-based) over a 5 year rolling programme. Once this has been completed, regular revaluations will then take place every 5 and 10 years, thus maintaining an up-to-date tax base.

##### *Revisions*

During the life of the Valuation List provision is made for revisions to be made to keep the list up to date with regard to new properties, demolitions and other alterations to properties. Approximately 12,000 such revisions are made each year.

Where a ratepayer wishes to have his rating assessment reviewed he must approach his local authority with his request and pay a fee currently £100 (IRL). The local authority will then approach the Valuation Office to carry out the review and to see whether revision is appropriate and to provide a new valuation. Revisions to the Valuation List are made four times a year and notified to the Local Authority. Where a revision is made it does not come into effect until the following financial year.

#### 28.6.5 Nature of any exemptions or reliefs for classes of taxpayer:

Domestic and agricultural property is outside the scope of the tax.

#### 28.6.6 Challenges to tax base, valuation or assessment:

Other than revisions to the valuation list for such matters as material changes in circumstances as considered above, challenges to the general level of values contained in the Valuation List can only be made within 28 days of the publication of the valuation.

Appeals are made direct to the Local Authority and must state the grounds on which it is made. The actual appeal will be dealt with by the Valuation Office and should the ratepayer still be dissatisfied with the outcome he may appeal to the Valuation Tribunal. Further appeals on points of law only are possible to the higher courts.

Fees are payable and the current rates are:

<b>Rateable Valuation of Property</b>	<b>Appeal Fees</b>	<b>Tribunal Appeal Fees</b>
Less than IR£25.00	50.00	75.00
IR£25 to IR£99	100.00	100.00
IR£100 to IR£499	150.00	200.00
IR£500 or over	225.00	300.00

**Table 59: Ireland; Appeal Fees**

28.6.7 Nature of taxpayer:

The occupier of the property.

28.6.8 Amount of tax:

The amount of tax is determined by each Rating Authority and can vary considerably from one authority to another. The tax rates for the 2000 tax year vary from 35 pence to 57 pence depending on the location of the property.

28.6.9 Frequency of payment:

Information not available

28.6.10 Purpose to which tax is put:

The fundamental purpose of the tax is the provision of funding of local authority activity. This is supplemented by grants and charges made by the authority for its services.

28.6.11 Identification of tax collector:

There are a number of different parties involved in the tax process. The valuation of all the properties is the responsibility of the Commissioner of Valuation who is appointed by the state. The responsibility for the setting of the actual rate of tax and its collection and enforcement is the responsibility of each individual rating authority.

## **28.7 Rates (Valuation Act 2001)**

28.7.1 Overview

The Irish rating legislation has been amended by the Valuation Act 2001 which became law during the summer of 2001.

The Act revises the rating legislation and provides for a revaluation of all properties in a controlled manner. The new legislation is seen as a means to ensure greater transparency of the tax base for all parties as well as providing a modern tax base.

It provides that domestic and agricultural land and buildings will not be rated.

It is anticipated that it will take up to 5 years to complete the revaluation of all properties and subsequent to that, regular revaluations of all properties will take place every 5 to 10 years as required.

Provision is made to ensure that the taxpayers liability should not increase in real terms following a revaluation by providing for a cap on the rates that can be charged by the rating authority.

#### 28.7.2 How the tax base is set or established:

Under the legislation the Commissioner of Valuation after consultation with the Minister and the Rating Authority may make what is termed a “Valuation Order”. The effect of such an order is to trigger off a revaluation of all relevant property within the rating authorities area. (s.19)

The Commissioner will also appoint a “Valuation Manager” who will be responsible for undertaking the work. (s.19)

The Valuation Order will also specify a single date by reference to which the value of all the relevant property will be ascertained and will specify the date on which the “Valuation List” will be published (s.20). This date must no be longer than 3 years after making the Valuation Order.

Once the Valuation List has been prepared and published the Valuation Manager is required to write to the occupiers of all the relevant properties providing them with a Valuation Certificate showing the new net annual value for their property.

Provision is made that during the life of a Valuation List for the occupier, rating authority or any interested third party to apply to the Commissioner for a revision of the list in respect of a property (s.27). This revision may take account of any material change of circumstances of an individual property between revaluations, to place new properties on the valuation lists, or to correct any errors on the valuation lists.

#### 28.7.3 Basis of valuation for tax purposes:

The valuation basis is on what is termed “net annual value” (s.48). which is defined as:

*“net annual value” means, in relation to a property, the rent for which, one year with another, the property might, in its actual state, be reasonably expected to let from year to year, on the assumption that the probable average annual cost of repairs, insurance and other expenses (if any) that would be necessary to maintain the property in that state, and all rates and other taxes and charges (if any) payable by or under any enactment in respect of the property, are borne by the tenant.”*

The act makes special provisions (s.50) that for the determination of the value of any property on the contractor’s basis (properties which typically would never let in the market such as airports, schools, colleges etc.)

The adoption of a prescribed rate (5%) for decapitalisation of cost removes much of the argument as to the choice of such a rate though may from a valuation viewpoint cause other problems.

#### 28.7.4 Special Valuation Provisions

##### *Plant and Machinery*

Section 51 provides that certain items shall be taken into account in arriving at the net annual value.

- Any specified plant and machinery (s.51)(a) and Schedule 5)
  1. Constructions affixed to a relevant property (whether on or below the ground) and used for the containment of a substance or for the transmission of a substance or electric current, including any such constructions which are designed or used primarily for storage or containment (whether or not the purpose of such containment is to allow a natural or a chemical process to take place), but excluding any such constructions which are designed or used primarily to induce a process of change in the substance contained or transmitted.
  2. All fixed furnaces, boilers, ovens and kilns.
  3. All ponds and reservoirs.
- The water or other motive power (if any) of the property (s.51)(b)
- All cables, pipelines and conduits whether underground, on the surface or overhead and including all pylons, supports and other constructions which pertain to them) that form part of the property. (s.51(c))

##### *Public Utilities*

Provision has been made in s.53 for the global valuation of a public utilities properties rather than individual assessments of the constituent parts and for such valuations to be entered in a central valuation list.

#### 28.7.5 Frequency of review of tax base:

The legislation effectively provides that the Commissioner of Valuation shall undertake a revaluation for each Rating Authority every 5 to 10 years as considered appropriate (s.25).

#### 28.7.6 Nature of any exemptions or reliefs for classes of taxpayer:

Schedule 4 provides a list of property which are not rateable. These include:

- Agricultural land
- Land developed for horticulture.
- Land developed for forestry.
- Land developed for sport.
- Farm buildings.
- Any domestic premises.
- Any land, building used exclusively for the purposes of public religious worship.
- Any land, building used by a body for the purposes of caring for sick persons, for the treatment of illnesses or as a maternity hospital
- Any burial ground or crematorium which is not established or operated for the purposes of making a private profit.

- Any land, building occupied by a school, college, university, institute of technology or any other educational
- Any art gallery, museum, library, park or national monument which is normally open to the general public and which is not established or maintained for the purpose of making a private profit.
- Property occupied by the national museum of Ireland, the national library of Ireland, the national gallery of Ireland, the Irish museum of modern art company, the arts council, the heritage council, the national concert hall company, the Chester Beatty library, or the national theatre society limited.
- Any buoy, beacon or lighthouse.
- Any land, building occupied for the purpose of caring for elderly, handicapped or disabled persons
- Any building or part of a building used exclusively as a community hall.
- Any land, building or part of a building which is occupied by a charitable or similar organisation that uses the land, building or part exclusively for charitable purposes and otherwise than for private profit, or
- Any land, building or part of a building occupied by a society established for the advancement of science, literature or the fine arts and which is used exclusively for that purpose and otherwise than for private profit.
- Any turf bog or turf bank used exclusively for the purpose of cutting turf or for making turf mould there from for fuel or manure.

In addition to the exemptions and reliefs contained in Schedule 4 the legislation also contains a number of further exemptions:

- Property occupied by the State (s.15(3))
- Certain fisheries (s.15.(4))

#### 28.7.7 Challenges to tax base, valuation or assessment:

Provision is made in ss. 30 - 40 of the legislation for an appeals procedure.

This provides that an occupier, an occupier of other relevant property in the same rating area, a rating authority or an interested third party can appeal in writing to the Commissioner in respect of a property's valuation. Such an appeal must be made within 40 days of the publication of the Valuation List.

Fees are payable in respect of any appeals made. At the present time there is no information with regard to the likely level of fees to be charged but currently a fee of £100 (IRL) is payable for requests for the revision of an assessment.

The appellant is required to specify the grounds on which he considers the rateable valuation to incorrect and what ought to be the rateable valuation. Where the appeal is made by any other person other than the occupier of the property, the occupier must be advised that an appeal has been made.

The Commissioner is required to make a decision within 6 months of receipt of the appeal. Once the decision of the Commissioner is known, the appellant may make a further appeal to the Valuation Tribunal within 28 days of the Commissioner's

decision but it must again specify the grounds on which he considers the rateable valuation to be incorrect and what ought to be the rateable valuation.

The Valuation Tribunal must decide within 6 months of receipt of appeal. A subsequent right of appeal is available to the High Court and Supreme Court on a point of law only. This must be done within 21 days of the Tribunal's decision.

Provision is also made that in relation to decisions by the Tribunal or higher courts the valuation list will be amended as appropriate and this will extend to other properties where similar circumstances also apply if so required.

#### 28.7.8 Nature of taxpayer:

Rates are only levied on "relevant property" which is defined in Schedule 3. The range of property is wide and the following indicates the scope of the coverage.

- (a) buildings,
- (b) lands used or developed for any purpose and any constructions affixed thereto which pertain to that use or development,
- (c) railways and tramways, including running line property and non-running line property,
- (d) harbours, piers, docks and fixed moorings,
- (e) mines, quarries, pits and wells,
- (f) rights of fishery,
- (g) profits a prendre, other than rights of fishery,
- (h) tolls,
- (i) easements and other rights over land,
- (j) rights to drill for and take away petroleum,
- (k) canals, navigations and rights of navigation,
- (l) advertising stations and land and any buildings used as advertising stations,
- (m) electricity generating stations.
- (n) the entire networks subsumed in a public utility undertaking
- (o) any building or part of a building or lands or waterways or harbours directly occupied by the State, including lands or buildings occupied by any Department or office of State, the Defence Forces or the Garda Síochána or used as a prison or place of detention.

#### 28.7.9 Amount of tax:

As under the current system the actual rate in the pound will be determined by the various rating authorities (see

#### 28.7.10 Frequency of payment:

No information available

#### 28.7.11 Purpose to which tax is put:

Rates are used to directly fund local authority expenditure on their services.

#### 28.7.12 Identification of tax collector:

There are a number of different parties involved in the tax process. The valuation of all the properties is the responsibility of the Commissioner of Valuation who is appointed by the state.

The responsibility for the setting of the actual rate of tax and its collection and enforcement is the responsibility of each individual rating authority.

#### 28.7.13 Other Information

The implementation of the act is now under consideration and the announcement of the programme of rolling revaluations is awaited.

### **28.8 Residential Property Tax**

Residential Property Tax was abolished with effect from 5 April, 1997 but provisions remain in force to ensure that all tax outstanding will be paid when the property is sold, thus providing a fairly effective anti-avoidance measure.

The following section outlines the basis of the tax prior to its abolition and then considers the provisions to ensure that all outstanding taxable amounts have been paid.

#### 28.8.1 Overview

Residential property tax was an annual tax chargeable on the market value of residential property owned and occupied on the 5th of April each year – the valuation date. The tax was charged at 1.5% on the excess of the market value of all the residential properties owned by a person over a given exemption limit and was payable provided the income of the household exceeded an income exemption limit.

#### 28.8.2 How the tax base is set or established:

The tax was based on two factors:

- whether the market value of the property was over an annually specified level, and
- whether the household income was also over an annually specified level.

A residential property is defined as:

- a building, or part of a building, used or suitable for use as a dwelling, and
- the gardens attaching to the dwelling

Usually a residential property will consist of a house and garden. If a building is divided into apartments, each apartment will form a separate residential property if owned and occupied by different persons.

A residential farm building will include the dwelling house with any garden, but will not include any out-houses, sheds or lands apart from the garden.

A house which is let by a person will not form part of that person's residential property but may form part of the residential property of the lessee.

A person's foreign property was chargeable to Residential Property Tax where that person was domiciled in Ireland. If, therefore, a person was domiciled in the Republic and owned an apartment in Spain which was available for his/her occupation, the apartment would form part of that person's residential property.

### 28.8.3 Basis of valuation for tax purposes:

#### *Property Element*

For Residential Property Tax the value of a residential property on 5 April is defined as the best price which the property would have been expected to obtain if sold on the open market on that date. In valuing the property no deduction should be made for a mortgage or any other charge affecting the property.

Special provisions apply where a property has been altered or improved to cater for a disabled person normally residing at the property, the market value of the property on 5 April can be reduced by the value attributed to such alterations or improvements.

The valuation of the property for the tax is undertaken by the taxpayer with or without the aid of professional assistance. However any value submitted by taxpayer in respect of his property will be subject to review by the Revenue Commissioners, and if the Commissioners consider that the value has been understated, they may re-value the property and assess the tax on the revised value. The taxpayer has the right to appeal against any value proposed by the Revenue Commissioners.

#### *Income Element*

In general, household income means the aggregate gross income, from all sources, of the owner and all other persons who normally reside in the residential property. However, the income of any resident in the property who was not an owner and who was aged 5 or over, or was permanently incapacitated is excluded. Where any of the owners was aged 5 years or over on 5 April, household income was confined to that of the owner only - the income of other persons living in the property is excluded.

Where any of the owners was permanently incapacitated, the income of any person (who is not an owner) living in the property as a result of the medical condition of the owner is excluded.

Where the owner is a widowed person, the income of any person (who is not an owner) living in the property as a result of the owner having dependent children is excluded.

### 28.8.4 Frequency of review of tax base:

The nature of the tax ensures that it is the property element of the tax is updated annually as property values change both upwards and downwards.

### 28.8.5 Nature of any exemptions or reliefs for classes of taxpayer:

#### *Valuation Base*

Special provisions apply where a property has been altered or improved to cater for a disabled person normally residing at the property, the market value of the property on 5 April can be reduced by the value attributed to such alterations or improvements.

*Household Income Base*

Marginal relief applies where the gross household income for the tax year exceed a given level. For the tax year 1995/96 this was £30,100 and did not exceed £40,100 (£45,100 for owner aged 65 or over on 5 April, 1996)

28.8.6 Challenges to tax base, valuation or assessment:

The amount of tax payable is assessed by the taxpayer following a carefully prescribed format. Consequently the taxpayer as such should not need to challenge the assessment as he has arrived at it himself.

However, the Revenue Commissioners have the right to challenge both the valuation of the property or the income figures and may where not happy with those submitted by the taxpayer may substitute alternative figures and amend the assessment accordingly. In such cases the taxpayer will have the right to challenge the alternative figures.

28.8.7 Nature of taxpayer:

The tax is charged on the owner(s) of occupied property. The owner is defined as follows:

A person will be regarded as owner if that person, whether solely or jointly, -

- Holds a freehold interest in the property
- Holds the property under a lease of more that 50 years
- Is the owner under a mortgage
- Rents the property where
  - (i) the duration of the lease is 50 years or less and
  - (ii) the rent payable is less than 80% of the open market rent (at the time when the rental agreement was made).

A person is not regarded as owner if he/she

- (i) is chargeable to income tax in relation to the occupation of the property or
- (ii) pays a full market rent, or
- (iii) occupies the property under a caretaker's agreement.

"Occupied" is defined, in relation to a residential property, as having the use thereof, whether actually used or not. The words "whether actually used or not" cover the case of a holiday home which may be used as a residence during the year but may not actually be occupied by the owner on 5 April in a particular year. A residential property will not, however, be taken to include a property which is normally let by a person but happens to be temporarily unlet on a valuation date (5 April) in any year.

Where a person is in the process of selling one property and has purchased another, only one property will be liable to Residential Property Tax (generally this will be the property in which the person is residing and where furniture is located on the relevant valuation date).

28.8.8 Amount of tax:

1.5% of the excess of the open market value over the prescribed amount.

28.8.9 Frequency of payment;

Payment of Residential Property Tax for valuation date 5 April, 1996 is due on 1 October, 1996 and may be made in one lump sum on that date.

However, an option of payment by instalments is available. Under the instalment option 25% of the tax due must be paid on or before 1 October, 1996 with the balance, together with 5% of that balance, to be paid in 10 equal instalments commencing on 15 November, 1996 and ending on 15 August, 1997.

Interest at 1.25% per month or part of a month is payable in respect of late payments.

28.8.10 Identification of tax collector;

The Revenue Commissioners,  
Collector-General,  
Apollo House,  
Tara Street,  
Dublin 2.

28.8.11 Post Abolition Provisions

As explained above Residential Property Tax was abolished with effect from 5<sup>th</sup> April 1997 but provisions are in force to ensure that any tax due during that period has properly been paid. The technique adopted is to require vendors of property to provide the purchaser with a certificate showing the tax liability has been discharged, as explained below.

Since 1 August, 1993 any person selling a residential property valued in excess of a specified open market value threshold (£138,000 in 1998), must provide the purchaser with a certificate from the Revenue Commissioners indicating that all Residential property Tax due for years for which the tax was in operation has been paid. Failure of the vendor to provide such a certificate will mean that the purchaser is obliged to deduct an amount from the purchase price and remit it to the Revenue Commissioners.

The amount to be deducted is 1.5% of the difference between the sale price and the market value exemption limit multiplied by the number of years that the vendor has owned the property, up a maximum of 5 years.

However, the tax clearance arrangements in the case of sales of houses above a specified value threshold have been maintained. The value threshold which relates exclusively to the tax clearance procedure, is £138,000 in 1998 and applies to house sale contracts executed on or after 5 April, 1998.

Once a contract for sale is drawn up the vendor should seek a certificate from the Revenue Commissioners showing that the appropriate amount of tax has been paid otherwise the sale may be delayed.

<i>Residential Property Tax Exemption Limits</i>		
<b>Valuation Date</b>	<b>Market Value</b>	<b>Income Limit</b>
5 April, 1983	£65,000	£20,000
5 April, 1984	£65,622	£22,030
5 April, 1985	£66,491	£23,395
5 April, 1986	£68,728	£24,468
5 April, 1987	£69,971	£25,307
5 April, 1988	£74,321	£25,795
5 April, 1989	£82,772	£26,654
5 April, 1990	£91,000	£27,800
5 April, 1991	£96,000	£28,500
5 April, 1992	£90,000	£27,500
5 April, 1993	£91,000	£28,100
5 April, 1994	£75,000	£25,000
5 April, 1995	£94,000	£29,500
5 April 1996	£101,000	£30,100
5 April, 1997	£115,000	-
5 April, 1998	£138,000	-

**Table 60: Ireland; Residential Property Tax Value and Income Exemptions**

## **28.9 Stamp Duty**

### 28.9.1 Statutory Provision

The duty is levied under the provisions of the Stamp Duty Act 1891 as amended, particularly by the Finance Act (No.2) 2000.

### 28.9.2 Purpose of the tax;

Stamp duty is a tax on documents. For the most part, these are legal documents used in the transfer of property or are documents which create rights for the parties concerned.

### 28.9.3 How the tax base is set or established;

Documents must be presented by the taxpayer to the Revenue for stamping.

### 28.9.4 Basis of valuation for tax purposes;

The market value of the asset.

### 28.9.5 Frequency of review of tax base;

Not applicable.

### 28.9.6 Nature of any exemptions or reliefs for classes of taxpayer;

Exemptions include:

- transfer of any property between spouses,
- A transfer of any property between a divorced couple where the transfer is made on foot of certain specified court orders,

- A transfer to an Owner Occupier of a new house/apartment where a Floor Area Certificate has been issued by the Department of the Environment and Local Government,
- Certain Financial Instruments,
- Certain conveyances, transfers or leases of land to a body established for charitable purposes,
- A transfer of land to a Young Trained Farmer.

Reliefs include:

- Transfer of property between associated companies.
- Certain transfers of reconstructions and amalgamations of companies.
- A transfer to an Owner Occupier of a new house/apartment without a floor area certificate.
- A transfer of property (other than shares) to certain relatives, (e.g. parent, grandparent, step-parent, child, brother, sister, half-brother, half-sister, aunt, uncle, niece, or nephew).

#### 28.9.7 Challenges to tax base, valuation or assessment:

Appeals against the determination of stamp duty can be made initially informally to the Stamp Duty Office and then formally to an independent tribunal.

#### 28.9.8 Nature of taxpayer:

The taxpayer can be identified from Table 1 below.

Transfer on sale of land, houses, shares	The purchaser or transferee
Mortgage	The mortgagee.
Lease	The lessee
Transfer of property as a gift	Any of the parties to the transfer

**Table 61: Ireland; Stamp Duty - Identification of Taxpayer**

#### 28.9.9 Amount of tax:

The table show the different rates of Stamp Duty.

	<b>FTB</b>	<b>OO</b>	<b>T</b>	<b>IN</b>	<b>I</b>	<b>Non Res</b>
Does not exceed £5,000	E	E	E	3%	9%	E
£ 5,001 - £ 10,000	E	E	E	3%	9%	1%
£ 10,001 - £ 15,000	E	E	E	3%	9%	2%
£ 15,001 - £ 25,000	E	E	E	3%	9%	3%
£ 25,001 - £ 50,000	E	E	E	3%	9%	4%
£ 50,001 - £ 60,000	E	E	E	3%	9%	5%
£ 60,001 - £100,000	E	E	3%	3%	9%	6%
£100,001 - £150,000	E	3%	4%	3%	9%	6%
£150,001 - £170,000	3%	4%	4%	4%	9%	6%

£170,001 - £200,000	3%	4%	5%	4%	9%	6%
£200,001 - £250,000	3.75%	5%	5%	5%	9%	6%
£250,001 - £300,000	4.5%	6%	7%	6%	9%	6%
£300,001 - £500,000	7.5%	7.5%	7%	7.5%	9%	6%
Over £500,000	9%	9%	9%	9%	9%	6%

FTB = First Time Buyer;

OO = Owner Occupier;

T = Transitional;

IN = Investor (new);

I = Investor (second-hand);

E = Exempt;

Non-Res. = Non-Residential.

The following definitions apply:

#### *Residential property*

Residential property is defined as a building or part of a building which at the date the deed is signed was used or was suitable for use as a dwelling. The definition also includes the normal domestic out-houses, yard, garden, etc., up to an area of one acre.

#### *First time buyer*

A First Time Buyer is a person, (or, where there is more than one purchaser, each of such persons):

- who has not on any previous occasion, either individually or jointly, purchased or built on his/her own behalf a house (in Ireland or abroad) and
- where the property purchased is occupied by the buyer, or a person on his behalf, as his/her only or principal place of residence and
- where no rent, other than rent under the rent-a-room-scheme, is derived from the property for five years after the date of the current purchase.

#### *Owner occupier*

An owner occupier is a person who purchases a house which is to be occupied by the purchaser, or a person on his behalf, as his only or principal place of residence and no rent, other than rent under the rent-a-room scheme, is derived from the property for a period of five years from the date of the current purchase.

#### *Investor*

An Investor includes any person who does not qualify as a First Time Buyer or an Owner Occupier. A person purchasing a second house, including a holiday home, is regarded as an Investor even where no rent is obtained from the letting of the property. This is because the property is not occupied as a principal place of residence.

#### 28.9.10 Frequency of payment:

Stamp duty is paid in a single payment by presenting the documents, together with the payment, to either the Dublin or Cork Stamp Duty Office. Normally, the solicitor who is dealing with the purchase of the property submits the documents to Revenue for stamping.

There are significant penalties for failure to pay stamp duty on time. These are:

- a fixed penalty of £20, plus
- interest from the date of first execution of the deed, up to the date of payment at a rate of 1% per month or part of a month, plus
- further penalties of:
  - 10% of the duty where the delay is between 1 and 6 months;
  - 20% of the duty where the delay is between 6 and 12 months,
  - 30% of the duty where the delay is more than 12 months.

In the event of non-payment of the duty and penalties, Revenue may enforce payment through the Courts or the Sheriff.

In addition, there are serious restrictions on the use that can be made of unstamped or incorrectly stamped documents. For example:

- such documents cannot be used as evidence in court proceedings other than criminal proceedings or proceedings brought by Revenue to recover stamp duty;
- ownership of property cannot be registered in the Land Registry or with the Registry of Deeds unless the document transferring title is correctly stamped;

#### 28.9.11 Purpose to which tax is put:

Not allocated for a specific purpose.

#### 28.9.12 Identification of tax collector:

Stamp Duty Office,  
Capital Taxes Division,  
Stamping Building,  
Dublin Castle,  
Dublin 2.

Stamp Duty Office,  
Government Buildings,  
Sullivan's Quay,  
Cork.

### 28.9.13 Typical examples of the application of the tax base:

#### *Example 1*

Sean, a First Time Buyer, purchases a house for £179,000. The rate of duty is 3%. The duty payable on the deed is:

£179,000 at 3% = £5,370

#### *Example 2*

Mary purchases a warehouse for £200,000. The rate of duty is 6%. The duty payable on the deed is:

£200,000 at 6% = £12,000

#### **Mixed property**

Where the property purchased is mixed i.e. is partly residential and partly non-residential, for example, living quarters over a shop or a farm sold together with the farmhouse, the residential rate of duty will only apply to the residential element.

#### *Example 3*

Brendan, who is not a First Time Buyer, purchases a building for £500,000. It comprises a retail shop at ground floor level and a residential apartment overhead which he will occupy as his principal place of residence. The amount of consideration attributable to the residential apartment is £200,000. The stamp duty payable on the deed is:

Retail shop £300,000 at 6%	£18,000
Residential apartment £200,000 at 4%	£ 8,000
Total	£26,000

#### *Example 4*

Mary leases a house for 2 years for an annual rent of £16,950. Duty payable is calculated at 1% as follows:

£16,950 at 1% = £169.50  
Rounded up = £170

#### *Example 5*

Flowers Limited lease a shop for 10 years at a rent of £4,000 per year for the first five years and £7,000 for the remaining years. The average annual rent is, therefore, £5,500. The duty payable is £55 calculated as follows:

£5,500 at 1% = £55

*Example 6*

Black & Company Limited lease a shop for 42 years for £15,000 per year with a rent review every 5 years. The duty payable is £910 calculated as follows:

£15,000 at 6% =	£900
Rent review =	£ 10
Total =	£910



## 29 Italy

### 29.1 Government Organisation And Structure

Italy is a unitary state. It is organised into a number of tiers of government:

- The state
- The regions
- The communes

#### 29.1.1 The regions

The regions were created by the Constitution of 1948. However, regions' names and jurisdictions stem from the political division existing before the political unification of the country.

The most important feature of regional governments in Italy is their legislative powers. From this point of view, regional government in Italy can be classified in the middle between regions in a unitary and a federal structure of government. Regional governments are involved in legislative, regulative and planning activities, leaving direct administration activities and services delivery to the provinces and communes.

#### 29.1.2 The communes

The commune is the core of local government in Italy and they are increasing in their variety and complexity of functions. At present there are 8,102 communes in Italy. Their demographic size, and consequently the size of their budgets, personnel and properties etc. vary greatly.

##### *Communal tasks and functions*

Despite the variation in the size, the legal responsibilities and functions of the communes are uniform across the country.

The role and powers of the communes have been strengthened through the Basic Act 142/1990, and their political and structural organisation has been somewhat modified. The law also envisages more incentives for small units to merge, and defines a "metropolitan" level of government, which, however, has not yet been implemented. In the aftermath of Act 142 a wholly-new era of privatisations of non-institutional local functions (parking lots, theatres, swimming pools, gas and water distribution etc.) has begun, together with the participation of local authorities in private corporations, (*societa' per azioni*) dealing with public services at the communal or provincial level.

In 1995, important changes in accounting and budget procedures, reflecting the new "privatisation" wave, have also been introduced.

The commune performs several regulatory functions:

- Town planning and zoning and the issue of building permits;
- Planning of commercial activities and the issue of trading permits;
- Urban police;
- Urban traffic;

- Citizens and poll records;
- Environmental controls.

They also provide the following services:

- Communal road construction,
- Maintenance and lightening;
- Urban transports; aqueducts;
- Sewage;
- Garbage collection and disposal;
- Public housing
- Gas distribution for domestic and small business activities;
- Electricity production and supply (only in some case);
- cemeteries;
- Local parks and gardens.
- Nursery schooling;
- Pre-school and compulsory education building;
- Social care for the elderly;
- Sports facilities;
- Local museum and theatres.

## 29.2 Local Government Finance

In 1973 a review of local government taxes resulted in the abolition of a number of local based taxes. As a result the power of local government to raise revenue was reduced and government grants became of increasing importance.

In a White Paper, published in 1981, entitled "Reorganising Taxation on Immoveable Property", the Italian Ministry of Finance suggested solution to the problems of the lack of revenue raising powers of local government.

Two new taxes were introduced:

- a Local Business Tax (ICIAP, i.e. the "Imposta comunale sull'industria, arti a professions"),
- a Communal Tax on Immoveable Property (ICI, i.e. the "Imposta Comunale sugh Immobili"),

In addition to grants and income from the above taxes, charges for services make a substantial contribution to local government revenues.

### **29.3 Imposta Comunale Immobiliare** ***Communal Real Estate Tax (ICI)***

#### 29.3.1 Statutory Provision

The tax is levied under the provisions of Law No. 421 of the 23<sup>rd</sup> October 1992.

#### 29.3.2 Purpose of the tax;

The tax was introduced in with effect from the 1<sup>st</sup> January 1993 and replaced what amounted to a local tax on the capital appreciation of property.

#### 29.3.3 How the tax base is set or established;

The tax applies to all land and property located in the commune.

#### 29.3.4 Basis of valuation for tax purposes;

The tax is based on the cadastral value of the property which is the rental value of the property as recorded in the land register (*cadastro*). The rent is attributed to a specified unit which may be a building, part of a building, the number of rooms or an area devoted to a particular use.

Property is further divided into 4 groups A – D which relate to the type of property. Each group is given a ratio which is 100 apart from offices where the ratio is 50 and shops where the ratio is 34.

#### 29.3.5 Frequency of review of tax base;

No information available.

#### 29.3.6 Nature of any exemptions or reliefs for classes of taxpayer;

Owner occupiers of residential property are entitled to a credit of 200,000 Lira.

#### 29.3.7 Challenges to tax base, valuation or assessment;

No information available.

#### 29.3.8 Nature of taxpayer;

The tax is paid by the owner of any property whether resident or not.

#### 29.3.9 Amount of tax;

The tax is determined annually by each commune but must be set within nationally prescribed limits of a minimum of 4% and a maximum of 7%.

For 1999, the following is indicative of some of the rates that were charged:

Milan 5.0%  
Rome 6.9%  
Naples 7.0%  
Turin 6.0%

A range of penalties can apply:

- 2.5% on late or unpaid tax,
- Penalty of 50% - 100% of outstanding tax where an incorrect turn is made or no return made.

29.3.10 Frequency of payment:

The tax is payable in two instalments:

- 55% of the tax is payable by the 30<sup>th</sup> June
- 45% of the tax is payable by 20<sup>th</sup> December.

See above for penalties for late payment.

29.3.11 Identification of tax collector:

The tax is administered and collected by the individual commune.

29.3.12 Typical examples of the application of the tax base:

An office has 6 rooms and the notional value entered into the *catastro* is 1,025,000 per room.

Total notional income = 6 rooms @ 1,025,000 per room = 6,150,000.

ICI notional income = 6,150,000 x 50 (prescribed ratio) = 307,500,000

ICI tax = 307,500,000 x 4% = 1,230,000

## 29.4 Succession and Gift Duty

### *Imposta sulle successioni e donazioni*

29.4.1 Purpose of the tax:

The tax is a tax on the acquisition of property by inheritance or gift under the provisions of DLgs No. 346 of 31<sup>st</sup> October 1990 and DL No. 640 of 4<sup>th</sup> December 1997.

29.4.2 How the tax base is set or established:

Returns are made by the heirs or the recipient of a gift to the District Registry office.

29.4.3 Basis of valuation for tax purposes:

The market value of the property transferred.

29.4.4 Frequency of review of tax base:

Not applicable.

29.4.5 Nature of any exemptions or reliefs for classes of taxpayer;

Exemptions and reliefs include:

- Inheritances or gifts to the direct line or between spouses where the value is less than ITL 250,000,000,
- Goods of historic value,
- Gifts to charities, welfare services, public bodies, educational bodies,
- Gifts to the state, provinces and municipalities.

29.4.6 Challenges to tax base, valuation or assessment;

No information available.

29.4.7 Nature of taxpayer;

For property acquired by inheritance, the heirs are liable for all the tax (not just on the element relating to them).

For gifts, both donor and donee are the taxpayer.

29.4.8 Amount of tax;

The amount of tax is based on two progressive scales:

- The first is on the total value of the inheritance or gift and ranges from 3% to 27%.
- The second is based on the share of gift or inheritance and varies depending on the relationship between the parties. It ranges from 3% to 33%.

29.4.9 Frequency of payment;

Single payment

29.4.10 Purpose to which tax is put;

The revenues is State revenue but not allocated to a specific purpose.

29.4.11 Identification of tax collector;

State Tax authority payable to the District Registry Office

## **29.5 Tax On The Gains From Immoveable Property**

This tax is currently being phased out and will not be charged after 1<sup>st</sup> January 2003. It has been replaced by the *Imposta comunale sugli immobili* (Communal Real Estate Tax). However until 1<sup>st</sup> January 2003 both taxes can be charged where property was acquired prior to 1<sup>st</sup> January 1993.

29.5.1 Statutory Provision

The tax is levied under the provisions of DRP No. 643 of 26<sup>th</sup> October 1972

29.5.2 Purpose of the tax;

The tax is a tax on the capital gains arising out of the disposal of property. Originally the municipality was the beneficiary of the tax but in 1993 the benefit was transferred

to the state following the introduction of the Communal Tax on Property (Imposta comunale Immobiliare)

29.5.3 How the tax base is set or established:

The tax rates are set nationally.

29.5.4 Basis of valuation for tax purposes:

The tax applies only to property purchased before the 1<sup>st</sup> January 1993 and is levied on the increase in value of the property between the date of acquisition and the date of sale. Where improvements and alternation have taken place these can be taken into account in the tax assessment.

29.5.5 Frequency of review of tax base:

Not applicable.

29.5.6 Nature of any exemptions or reliefs for classes of taxpayer:

All property acquired after 31<sup>st</sup> December 1992 is not subject to the tax.

29.5.7 Challenges to tax base, valuation or assessment:

No information available.

29.5.8 Nature of taxpayer:

The owner of the property interest.

29.5.9 Amount of tax:

5% for a 20% increase over the original value  
 10% for the next 30% increase over the original value  
 15% for the next 50% increase over the original value  
 20% for the next 50% increase over the original value  
 25% for the next 50% increase over the original value  
 30% for the part of the increase in value exceeding 200% of the original value.

29.5.10 Frequency of payment:

Single payment on transfer of property.

29.5.11 Identification of tax collector:

The State Tax authority.

## 29.6 Wealth Tax

There is no wealth tax in Italy

## 29.7 Other Taxes

The range of other taxes and duties include:

- Communal Tax on advertising and bill posting (*Imposta comunale sulla pubblicita e diritti sulle pubbliche affisioni*) is a local tax on all advertisements and posters. The rate varies depending on the size of the poster, the duration of its display etc.

- Stamp Duty (*Imposta di bollo*). The tax is charge on the preparation and registration of certain legal documents and range from ILT 500 to 80,000. The registration of property falls within the provisions of a separate registration tax.
- Registration Tax (*Imposta di registro*). This is based on the market value of the property being transferred and payable by the purchaser. The tax rate varies between 0.5% to 15%. For the purchase of a “first house” the rate is 4%. Certain other property transactions are charged at a flat rate of ITL 250,000.
- Mortgage Tax and Cadastral Duty (*Riposte ipotecarie e castali*). Duty of between 0.5% and 2% is charge on the registration of a mortgage. For property transfers to be amended in the Cadastral Register a charge of 4% is made.

## 30 Latvia

### 30.1 Government Organisation And Structure

Latvia is a unitary, democratic republic. It operates a two tier system of government:

- The state
- Local government

#### 30.1.1 Local Government

There is a two level system of local government in Latvia consisting of 69 towns, one regional and 483 rural municipalities on the first level, and 26 districts on the second level.

In addition, there are seven cities which combine these two levels into one, thereby fulfilling the functions of both the first-level and second-level local governments.

According to the Law on Local Governments, the main functions of towns and rural municipalities are the organisation of public services for inhabitants and activities in the fields of education, culture and primary health and social assistance. The towns and the other municipalities determine and collect local taxes and dues in accordance with the respective laws. The district governments possess responsibilities in the fields of health, education, culture and social assistance at the district level.

### 30.2 Local Government Finance

The basic laws regulating local government taxes and fees are the following:

- Law on Local Governments;
- Law on Taxes and Fees;
- Law on Real Estate Tax;
- Law on Personal Income Tax.

In the Law on Local Governments, municipalities have been given the right to introduce local fees, set their amount, decide tax rates, as well as exemptions. In addition, they are obliged to collect the taxes and fees (Article 14). It is in the power of the municipal council to “pass binding regulations on introduction of municipal duties and establish tax rates in cases specified by law” (Article 21)..

The general Law on Taxes and Fees sets the overall framework and stipulates the list of taxes and fees. Specific tax laws are to be implemented for each separate tax and these laws should be consistent with the general law. Specific tax laws may also give local governments the right to apply tax exemptions to the payments to be transferred to local budget (Article 3).

The two main taxes transferred to the budget of the local government are the real estate tax and a 71.6% share of the personal income tax (the remaining share is allocated for the national health fund).

The real estate tax is regulated by the Law on Real Estate Tax, regulations and the instructions developed by the State Revenue Service.

From 2002, once the full cadastre is completed, buildings and constructions will also be taxed according to cadastral value, per Article 3 of the Law on Real Estate Tax. Until then, the tax rate for buildings and constructions will be applied based on the annual average balance-sheet value or on inventory value established by the State Land Service, if there is no balance-sheet. Full implementation of the cadastral value, should lead to an increase in real estate tax revenues after 2002. In addition, individual residential houses and apartments in multifamily complexes are presently exempt, but will be included in the real estate tax base from 2004.

The real estate tax is the only tax that is administered by local governments. The Law on Personal Income Tax allocates 71.6% of revenues to the budget of the local government according to the taxpayer's place of residence.

### **30.3 Introduction**

With effect from the 1<sup>st</sup> January 2000 the Law on Immoveable Property Tax 1997 became operative and replaced the former legislation. As a result of this act from January 2000 the tax will now be levied on land and buildings.

Associated with the changes in the tax on property other tax changes are also being undertaken. For example, the new Income Tax Law become effective from 1<sup>st</sup> January 2000 and fundamentally changes the basis of the taxation of income.

### **30.4 Capital Gains Tax**

There is no specific capital gains tax in Latvia. However provision is made to tax short term gains (within 12 months) if the purpose of the sale was speculation to make such a gain.

### **30.5 Real Estate Tax**

#### ***Nekusta Ma Ipasuma Nodoklis & Ipasuma Nodoklis***

#### 30.5.1 Statutory Provision

Law on Immoveable Property Tax 1997.

#### 30.5.2 Purpose of the tax:

The tax is one of the taxes providing revenue for local authorities with which to provide local services. It currently provides approximately 10% of the revenue of the local authorities.

With effect from the 1<sup>st</sup> January 2000 the tax is levied on both land and buildings.

#### 30.5.3 How the tax base is set or established:

See below.

#### 30.5.4 Basis of valuation for tax purposes:

Article 4 provides the outline basis of valuation.

The value of the real estate is the value of the land, houses and buildings determined for the purpose of tax calculation on the basis of uniform principles. The basis of valuation is established by the State Land Service and is based on the value of the land in the year prior to valuation. The value will reflect the potential of the site including any restrictions on its use.

The actual approach to the valuation process is undertaken using mass appraisal techniques rather than valuing each piece of land individually.

The cadastral value of land is determined by formula, and urban and rural sites have different criteria and weightings based on the following:

- The location of the site,
- The area of the site,
- The land use,
- The agricultural productivity of rural land,
- Existing easements,
- Market value,
- building use,
- Volume; area,
- Number of floors,
- Materials used,
- Physical depreciation,
- Year of issuance of certificate of occupancy.

30.5.5 Frequency of review of tax base:

The tax base is kept up to date and provision is made for annual updates of the valuations.

30.5.6 Nature of any exemptions or reliefs for classes of taxpayer:

A range of reliefs and exemptions are available including:

- Land where use is prohibited by law
- Recreational facilities
- Cultural land and buildings
- Newly planted forests

Local authorities are able to grant reliefs ranging from 25% to 90% for certain categories of taxpayers.

30.5.7 Challenges to tax base, valuation or assessment:

A general appeal provision is provided by Article 10 which incorporates the provision of the Law and Taxes and Duties with regard to appeals.

30.5.8 Nature of taxpayer:

The owner of the land is responsible for the payment of the tax.

30.5.9 Amount of tax:

The tax is levied at 1.5% of the cadastral value with effect from 1<sup>st</sup> January 2001. The tax rate will be reduced to 1% of the cadastral value on the 1<sup>st</sup> January 2002.

### 30.5.10 Frequency of payment;

The tax is paid in four instalments on:

- 31<sup>st</sup> March
- 15<sup>th</sup> May
- 15<sup>th</sup> August
- 15<sup>th</sup> November

Provision is made for the whole of the tax liability to be paid as a single sum in advance.

Article 6 makes it the responsibility of the taxpayer to notify the municipality if no tax demand has been received by the 15<sup>th</sup> February.

### 30.5.11 Identification of tax collector;

The tax is collected by the municipality who calculate the amount of tax payable based on the entries in the land cadastre. (Article 3)

The tax is charged on a calendar year basis.

Different parties have different responsibilities within the tax setting, administration and collection sphere.

- Drafts proposals for real estate tax policy and the relevant legal acts;
- Supervises the application of the real estate tax in the municipalities.
- maintains and updates the national real estate cadastre, including the cadastral survey, cadastral registration and cadastral valuation of real estate;
- Develops and maintains the basis for cadastral valuation of real estate (base value of land and buildings, zoning of values, building adjustment ratios) based on the information from the real estate market as well as to calculate the cadastral value;
- Accounts for real estate, updates data in the cadastral register as well as prepares a list of objects subject to the real estate tax for each specific municipality throughout the country;
- In addition to the administration of the real estate tax, the state land service prepares an aggregate of cadastral values of real estate in the country and the change dynamics of every municipality for future taxation periods to be submitted to the Ministry of Finance.

#### *Municipalities:*

- Determine and amend land use, except for real estate owned by the national government;
- Review the base values of the land as specified by the state land service, as well as the draft zoning of the land values, ensuring public discussion and co-ordination;
- Administer the collection of the real estate tax in its territory.

## **30.6 Wealth Tax**

There is no wealth tax in Latvia.

## 31 Luxembourg

### 31.1 Government Organisation and Structure

Luxembourg operates a two tier system of government as follows:

- The State
- The Municipalities

The statutory basis of the local government in is laid down in a law of 1843, regarding municipal and district organisation, and several articles in the amended Constitution of 1868. This legislation has been supplemented by various laws and decrees, where the most recent laws aim at meeting the requirements for democracy, efficiency and local autonomy in modern government.

By the revision of the Municipal Law in 1988, central government control over the municipalities became less extensive, and the municipalities were given the right to bring central government decisions concerning local government before the Court.

The basic unit of local government is the municipalities. There are 118 municipalities in Luxembourg. For administrative purposes the country is divided into three districts, each of which is headed by a commissioner appointed by the central government. This official has no executive powers, his main function being to serve as a liaison between the central government and the municipalities.

The overall political leadership of the 118 municipalities is exercised by a municipal council. The responsibilities of the council cover all aspects of local administration, including the passing of budgets, approval of policy regulations, appointment of local staff and overall provision and organisation of public services, etc.

The main areas of responsibility are supply services such as

- the water supply,
- cleaning of municipal roads and buildings,
- sewerage and waste-water treatment,
- fire service and for
- municipal safety arrangements (traffic, buildings etc.)..

Some social activities such as nurseries, kindergartens, care of the elderly and old people's homes are carried out by the municipalities. The municipalities can also choose to provide various forms of cultural and leisure activities such as libraries, theatres, museums etc., but are responsible for the establishment and maintenance of municipal sports facilities.

The municipalities have some responsibility for the provision of pre-school arrangements and primary school education. However, the direct responsibility for educational establishments is shared between central government, the municipalities and private organisations.

### 31.2 Local Government Finance

The main sources of local government finance are:

- General Grants 31%
- Specific grants 4%
- Local Taxes 34% of which property taxes account for 5% of total local revenue with the Trade Tax making up the remaining 95%.
- Charges 31%

### 31.3 Inheritance Tax

#### *Droits De Succession*

#### 31.3.1 Statutory Provision

The tax is levied under the provisions of the Law of 27<sup>th</sup> December 1817 as amended.

#### 31.3.2 Purpose of the tax;

The tax is a tax on the inheritance of property.

#### 31.3.3 How the tax base is set or established;

Returns are made by the taxpayer on inheritance of property.

#### 31.3.4 Basis of valuation for tax purposes;

Market value of the property as at the date of death.

#### 31.3.5 Frequency of review of tax base;

Not applicable.

#### 31.3.6 Nature of any exemptions or reliefs for classes of taxpayer;

Any inheritance to direct descendants or any spouse is exempt.

The first LUF 50,000 is exempt.

#### 31.3.7 Challenges to tax base, valuation or assessment;

No information available.

#### 31.3.8 Nature of taxpayer;

All residents of Luxembourg and non residents on property in Luxembourg

#### 31.3.9 Amount of tax;

The tax rate varies between 2.5% and 15%

#### 31.3.10 Frequency of payment;

Single payment.

#### 31.3.11 Purpose to which tax is put;

The tax is the revenue of the state and not assigned to a specific use.

#### 31.3.12 Identification of tax collector;

State Tax Authority.

## **31.4 Registration Duty**

### ***Droits d'enregistrement***

#### 31.4.1 Statutory Provisions

The tax is levied under the provisions of the Laws of 23<sup>rd</sup> December 1913 and 7<sup>th</sup> August 1920 as amended.

#### 31.4.2 Purpose of the tax:

The tax is a tax on the registration of property and certain securities.

#### 31.4.3 How the tax base is set or established:

The tax becomes payable when documents are submitted for registration.

#### 31.4.4 Basis of valuation for tax purposes:

The open market value of property.

#### 31.4.5 Frequency of review of tax base:

Not applicable.

#### 31.4.6 Nature of any exemptions or reliefs for classes of taxpayer:

None

#### 31.4.7 Challenges to tax base, valuation or assessment:

No information available.

#### 31.4.8 Nature of taxpayer:

The purchaser of the property (or securities)

#### 31.4.9 Amount of tax:

6%.

In cases of bankruptcy and some rural property the rate is reduced to 1.2%.

For low cost housing the rate is LUF 500.

#### 31.4.10 Frequency of payment:

Single payment made on registration of the property transfer.

#### 31.4.11 Purpose to which tax is put:

Revenues are not allocated to a specific purpose.

#### 31.4.12 Identification of tax collector:

State tax authority.

## **31.5 Tax On Land And Buildings**

### ***Impot Foncier***

#### 31.5.1 Statutory Provisions

The tax is levied under the provisions of the Law on land and buildings of 1<sup>st</sup> December 1936 as amended.

#### 31.5.2 Purpose of the tax:

The tax is an annual tax on all land and buildings within a municipality.

#### 31.5.3 How the tax base is set or established:

No information available.

#### 31.5.4 Basis of valuation for tax purposes:

All land and property is valued as prescribed by the valuation law to what is described as “standard value”, essentially the market value of the property.

#### 31.5.5 Frequency of review of tax base:

No information available.

#### 31.5.6 Nature of any exemptions or reliefs for classes of taxpayer:

Exemptions include:

- Real estate belonging to public corporations
- Real estate used by charitable, sporting, religious or scientific purposes
- Hospitals
- Public roads and waterways
- Cemeteries
- Diplomatic property

#### 31.5.7 Challenges to tax base, valuation or assessment:

No information available.

#### 31.5.8 Nature of taxpayer:

The owner of the land or buildings.

#### 31.5.9 Amount of tax:

The tax is calculated by first taking between 7% and 10% of the assessed “standard rate” depending on the type of property. To this value a multiplier ranging from 2 to 7.5 (depending on the type of building and fixed by the municipality) is applied.

For farms, the multiplier ranges between 2 and 5.

#### 31.5.10 Frequency of payment:

The frequency of payment will vary with the amount of the tax liable, being either annual, quarterly or monthly.

#### 31.5.11 Purpose to which tax is put:

The tax is used by the municipality as part of its revenue.

- 31.5.12 Identification of tax collector;  
The municipality.

### **31.6 Wealth Tax** ***Impot Sur La Fortune***

- 31.6.1 Statutory Provision  
The tax is levied under the provisions of the Wealth tax Law of 16<sup>th</sup> October 1934 as amended.
- 31.6.2 Purpose of the tax;  
The tax is a tax of the total wealth of persons and legal persons.
- 31.6.3 How the tax base is set or established;  
Taxpayers are required to make annual returns to the tax authorities. The tax is calculated on a three-year basis with an element being updated annually.
- 31.6.4 Basis of valuation for tax purposes;  
The market value of the assets less any outstanding debts and other liabilities.
- 31.6.5 Frequency of review of tax base;  
The base is updated every 3 years.
- 31.6.6 Nature of any exemptions or reliefs for classes of taxpayer;  
Certain organisations are exempt from the tax.  
  
Individual taxpayers are given a LUF 100,000 tax free allowance.
- 31.6.7 Challenges to tax base, valuation or assessment;  
No information available.
- 31.6.8 Nature of taxpayer;  
All persons and legal persons (except partnerships) having assets located in Luxembourg.
- 31.6.9 Amount of tax;  
0,5%
- 31.6.10 Frequency of payment;  
Quarterly.
- 31.6.11 Purpose to which tax is put;  
The tax is State revenue but not allocated for a specific purpose
- 31.6.12 Identification of tax collector;  
State Tax Authority

### **31.7 Other Taxes**

Other property related taxes, duties and levies include:

31.7.1 **Stamp Duty (*Droit de timbre*)**

This is charge on a wide range of legal documents and can typically range from LUF 75 to LUF 400. (See also Registration Duty).

31.7.2 **Mortgage tax (*Droits d'hypothèque*)**

This is a tax on the registration of a mortgage (or re-registration) with the rate being between 0.5% and 1% of the value.

31.7.3 **Tax on licensed premises (*Taxe sur des debits de boissons alcooliques*)**

A one of payment of between LUF 2,500 and LUF 10,000 is payable on opening a bar plus an annual tax ranging from LUF 1,000 to LUF 3,000 p.a..

## 32 Macedonia

### 32.1 Government Organisation And Structure

The constitution defines the Republic of Macedonia as “a sovereign, independent, democratic and social state” in which sovereignty derives from, and belongs to, the citizens.

Government is exercised by a two-tier system of government:

- The State
- The municipalities.

#### 32.1.1 Local Government

The constitution guarantees the right to local self-government. This right is exercised in the municipalities as the units of local government..

A Law on Local Government was passed in November 1995 (No. 52/1995). This law regulates the mission, responsibilities, organisation and functioning of local authorities and citizen participation in local decision-making. Macedonia has 123 municipalities.

The functions of the municipalities include:

- Adoption of development programmes for the city or town;
- Adoption of a municipal budget and a financial statement;
- Adoption of programmes for land use;
- Determine tax bands and collect taxes in accordance with the law;
- Organise the construction and maintenance of local roads and streets;
- Take initiatives, provide opinions and suggestions for the development of facilities for cultural and sports events, pre-school education, primary health care, social and child protection, and other activities at the municipal level;
- Form administrative bodies;
- Establish public services, institutions and enterprises and oversee their work;
- Establish high schools in accordance with the law; and
- Give opinions concerning the establishment of primary schools.

### 32.2 Local Government Finance

Municipalities are financed from their own resources and revenues and budgetary allocations from the government. The Law of Communal Taxes outlines the range of taxes, fees and charge that may be made by local government.

### 32.3 Capital Gains

Gains on the disposal of real property, securities and other forms of participation in a business are taxable.

The taxable gain (or allowable loss) is the difference between the disposal proceeds and the revalued purchase cost of the asset. The revaluation is carried out in accordance with the relevant accounting regulations.

In the case of real property, expenditure on major repairs and improvements are taken into account, as are transaction taxes.

A short-term capital gain on the disposal of securities, i.e. a gain arising on securities held for less than 12 months, is taxable in full. Only 50% of a long-term gain on securities, i.e. a gain on securities held for 12 months or more, is taxable. Similarly, only 50% of a gain arising on the sale of a share in a business is taxable.

Losses arising on disposals of securities held for 12 months or more may be set off against other capital gains: any excess can be carried forward for up to 3 years.

### 32.4 Inheritance Tax

#### 32.4.1 Statutory Provision

The Law on Property Tax of 30 December 1993.

#### 32.4.2 Purpose of the tax;

The tax is a tax on the receipt of property by inheritance or by way of gift.

#### 32.4.3 How the tax base is set or established;

Tax is due when an inheritance "arises" or a gift agreement is signed and the taxpayer is obliged to submit a return within 15 days.

#### 32.4.4 Basis of valuation for tax purposes;

The open market value of the property.

#### 32.4.5 Frequency of review of tax base;

Not applicable.

#### 32.4.6 Nature of any exemptions or reliefs for classes of taxpayer;

None.

#### 32.4.7 Challenges to tax base, valuation or assessment;

No information available.

#### 32.4.8 Nature of taxpayer;

The person obtaining the property by way of gift or inheritance.

32.4.9 Amount of tax;  
 3% - for taxpayers of the "second order of heirs";  
 5% - for taxpayers of the "third order of heirs", or unrelated to the donor.

32.4.10 Frequency of payment;  
 Single payment within 15 days of receipt of the tax notice.

32.4.11 Purpose to which tax is put;  
 The revenue is assigned to the state as part of its general revenue.

32.4.12 Identification of tax collector;  
 The state tax authority who will issue tax notices.

Proof of payment of the tax is required before property can be registered.

### **32.5 Property Tax**

32.5.1 Purpose of the tax;  
 The tax goes towards providing for services at local level.

32.5.2 How the tax base is set or established;  
 The tax is based on a largely self assessment basis with the taxpayer being liable to make appropriate returns to the tax authority. This will include details of the valuation of the property which is the subject to the return. The tax authority has the right to challenge any details submitted or any valuation and may substitute their own figure, where appropriate.

The tax applies to the following categories of property

- Non-agricultural land, residential accommodation, business premises, offices, holiday accommodation, recreational buildings, garages and other buildings and structures; and
- Passenger cars with an engine capacity in excess of 1.8 litres, buses, freight motor vehicles and trailers, tractors, combines, floating vessels and aircraft.

32.5.3 Basis of valuation for tax purposes;  
 The tax is based on the market value of the property in the tax year concerned.

32.5.4 Frequency of review of tax base;  
 Annual.

32.5.5 Nature of any exemptions or reliefs for classes of taxpayer;  
 The exemptions include:

- Agricultural land and buildings;
- Business premises other than administrative offices;
- Construction sites;
- Public buildings and land used by government bodies or local authorities or not used for commercial exploitation;

- Land and buildings used for (non-commercial) educational, cultural, scientific, social, health and sporting purposes;
- Religious buildings;
- Facilities owned by public enterprises;
- Land and buildings owned by diplomatic and consular missions;
- Residential accommodation in certain mountain regions;
- Dams, reservoirs, irrigation schemes and environmental protection facilities;
- Roads, railways, harbours, airports and other (non-commercial) infrastructure facilities;
- Bodies of water not used for economic purposes; and
- Land used for open-cast mining and geological exploration.

A 50% reduction in tax is applicable to the taxpayers own residential accommodation.

32.5.6 Challenges to tax base, valuation or assessment:

As the tax is based on the taxpayers self assessment of his liability the right to challenge the assessment rests with the tax authority who may substitute a different value where appropriate.

32.5.7 Nature of taxpayer:

The owner of the property is liable for the tax.

32.5.8 Amount of tax:

For immovable property the tax rate is 0.1% and for moveable property it is 0.05%.

32.5.9 Frequency of payment:

The tax is payable in 4 quarterly instalments.

32.5.10 Identification of tax collector:

The tax is administered by the national tax authority.

The tax return must be submitted by the 31<sup>st</sup> January each year or within 15 days of change of ownership of the property. Formal notification of the tax due will be made by the 31<sup>st</sup> March.

### **33 Malta**

As at September 2001, there are no local property taxes levied in this country.



## 34 Moldova

### 34.1 Commercial Enterprise Tax

- 34.1.1 Purpose of the tax:  
No information available.
- 34.1.2 How the tax base is set or established:  
The tax is levied on all immovable property used for commercial purposes by a corporate body. The tax is based on the self assessment principle whereby the taxpayer makes an annual form return to the tax authorities and calculates the amount of tax that is due.
- 34.1.3 Basis of valuation for tax purposes:  
The tax is levied on the market value of the property.
- 34.1.4 Frequency of review of tax base:  
Annual.
- 34.1.5 Nature of any exemptions or reliefs for classes of taxpayer:
- property that is administered or used by institutions and organisations paid for by the state unless used for entrepreneurial purposes;
  - property for civil defence purposes
  - property used for religious worship..
- 34.1.6 Challenges to tax base, valuation or assessment:  
No information available.
- 34.1.7 Nature of taxpayer:  
The user of the property is liable of the tax.
- 34.1.8 Amount of tax:  
The tax is charged at a rate of 1%.
- 34.1.9 Frequency of payment:  
No information available.
- 34.1.10 Identification of tax collector:  
The taxpayers must calculate the amount of tax due themselves in accordance with the applicable tax rate. Enterprises must pay the tax on a quarterly basis before the 20th of the month following the preceding quarter.

## 34.2 Personal Property Tax

- 34.2.1 Purpose of the tax:  
No information available.
- 34.2.2 How the tax base is set or established:  
The tax is levied on all immoveable property used for commercial purposes by an individual. The tax is based on the self assessment principle whereby the taxpayer makes an annual form return to the tax authorities and calculates the amount of tax that is due.
- 34.2.3 Basis of valuation for tax purposes:  
The tax is levied on the market value of the property.
- 34.2.4 Frequency of review of tax base:  
Annual.
- 34.2.5 Nature of any exemptions or reliefs for classes of taxpayer:  
A range of reliefs and exemptions are available which include:
- property of persons who have reached pension age
  - disabled persons
  - persons who are unable to work.
- 34.2.6 Challenges to tax base, valuation or assessment:  
No information available.
- 34.2.7 Nature of taxpayer:  
The owner or user of property is liable for the tax.
- 34.2.8 Amount of tax:  
The rate of tax is 1% on buildings and equipment used for business purposes and 0.05% in the case of buildings and equipment that are not used for such purposes.
- 34.2.9 Frequency of payment:  
Each local authority may determine the frequency of payment.
- 34.2.10 Identification of tax collector:  
The tax is administered by each local authority.

## 34.3 Land Tax

- 34.3.1 Purpose of the tax:  
No information available.
- 34.3.2 How the tax base is set or established:  
The tax was introduced with effect from 1<sup>st</sup> January 1993 and is a tax on the ownership and use of land.

- 34.3.3 Basis of valuation for tax purposes:  
The tax is assessed on an area basis as registered within the cadaster.
- 34.3.4 Frequency of review of tax base:  
The tax is to be reviewed every 3 years but this really applies to the rate of tax rather than its basis of assessment.
- 34.3.5 Nature of any exemptions or reliefs for classes of taxpayer:  
No information available.
- 34.3.6 Challenges to tax base, valuation or assessment:  
No information available.
- 34.3.7 Nature of taxpayer:  
The tax is payable by the owner or the user of the land.
- 34.3.8 Amount of tax:  
The rate of tax varies depending on the use of the land. For agricultural land the rate varies between 16.79 roubles and 2.28 roubles per hectare. For land in urban areas the rate varies from 0.05 roubles per m<sup>2</sup> to 1.50 roubles m<sup>2</sup>.  
  
The tax rate is fixed for a period of 3 years.
- 34.3.9 Frequency of payment:  
No information available.
- 34.3.10 Identification of tax collector:  
No information available.



## 35 Netherlands

### 35.1 Government Organisation and Structure

There are three tiers of government in the Netherlands:

- State,
- Provincial
- Municipal.

Matters of national interest are the responsibility of central government, while many tasks have been decentralised to the local authorities at provincial and municipal level. Functional powers in relation to water management are in the hands of the water boards.

The provincial and municipal authorities exercise powers of two types in relation to legislation and administration: autonomous and devolved powers. In exercising its autonomous powers, a province or municipality may adopt ordinances in respect of matters which affect it directly. Such ordinances may not conflict with existing national legislation or, in the case of municipal ordinances, with ordinances issued by the provincial authorities in whose territory the municipality is located. Devolved powers mean that the provinces and municipalities are required to collaborate in the implementation of central government measures. As far as municipalities are concerned, this also applied to measures adopted by the province in which they are situated.

The way government is organised is at present undergoing a process of change. This involves a process of further decentralisation, such that more powers and responsibilities are being transferred from the centre to the provinces and municipalities. The aim is to reduce the distance between the public and the government, and to reduce bureaucracy. Under the Municipalities Act, municipalities with populations of over 100,000 are now permitted to set up municipal districts with their own district councils. So far this has only happened in Amsterdam and Rotterdam. Another trend, which is particularly visible in urban areas, is towards closer co-operation in relation to local government and local government reorganisation. Municipalities are working together to tackle common problems, for example traffic and environmental issues. This may be done at regional level

Provinces and municipalities have three sources of revenue: local taxes and charges, and grants from central government. Most of the central government funding comes in the form of special-purpose grants from the Provinces or Municipalities Funds. In addition, the local authorities receive a general grant, which in principle they may use as they see fit. Municipalities' own sources of revenue include property tax, court fees and local charges. They may also levy such taxes as dog tax and tourist tax.

#### 35.1.1 Provinces

The Netherlands is divided into twelve provinces. The provincial authorities have responsibilities in the fields of environmental management, spatial planning, energy, social work, sport and cultural affairs. The government of each province is made up of the provincial council, the provincial executive and the Queen's Commissioner. The

members of the provincial council are directly elected for four years by Dutch nationals of voting age who are resident in the province. The number of members depends on the province's population. The members of the Council then elect some of their number to serve as the provincial executive. The Queen's Commissioner, appointed by central government for a term of six years, chairs both the provincial executive and the provincial council.

The twelve provinces

Groningen  
 Friesland  
 Drenthe  
 Overijssel  
 Gelderland  
 Utrecht  
 North Holland  
 South Holland  
 Zeeland  
 North Brabant  
 Limburg  
 Flevoland

### 35.1.2 Municipalities

There are currently 548 municipalities in the Netherlands although the number is set to fall over the next few years. The government aims at improved efficiency through local government reorganisation, with smaller municipalities being amalgamated or subsumed into larger ones. Municipalities have responsibilities in the fields of water supply, traffic, housing, management of public-authority schools, social services, health care, sport, recreation and culture.

Municipal government comprises the council, the municipal executive (comprising the mayor and the aldermen), and the mayor. The municipal authorities are subject to oversight by the provincial authority and central government, though in practice this duty of oversight is exercised with great restraint. The municipal council is directly elected, for a term of four years, by an electorate comprising local residents aged 18 and over, including foreign nationals who have been legally resident in the Netherlands for at least five years. Nationals of EU Member States are entitled to vote in municipal elections as soon as they are resident in the Netherlands.

The municipal council elects some of its number to serve as aldermen, the number of council members and aldermen being dependent on the municipality's population. The mayor is nominated by the Queen's Commissioner of the relevant province and appointed for a term of six years, with the option of reappointment, by central government. The mayor and the aldermen are responsible for the day-to-day administration of their municipality. The mayor chairs both the municipal executive and the council. The executive implements decisions taken by central government and the relevant provincial executive.

### 35.1.3 Water Authorities

Water authorities - public-law bodies like the state, the provinces and the municipalities - are one of the oldest forms of democratic government in the Netherlands. Some date back to the Middle Ages. Water management is obviously a matter of great importance given that over half the country lies below sea level. The water authorities are responsible for protecting the land against the water. Their work includes the construction and maintenance of dams, dykes and locks, the control of water flows and levels, and the maintenance of water quality. The general council of a water authority is traditionally elected by the owners of real property in the area it covers, while the executive committee and the chairperson are appointed by central government.

## 35.2 Local Government Finance

Property taxes were introduced in the Netherlands in 1970 replacing the old “land tax” and the “personal property tax” levied by central government, “the public street tax” and the “fire insurance tax”, levied by the municipalities. The introduction of property taxes throughout the country has taken some time with the last municipality reforming its tax system as late as 1980.

In the Netherlands the municipalities have the power to levy four taxes on moveable and immovable property.

Immovable property taxes (*onroerende-zaakbelastingen*):

- a tax levied on those who have a right *in rem* over immovable property; and
- a tax levied on those who use immovable property.

Moveable property taxes (*belastingen op roerende woon-en bedrijfsruimten*):

- a tax levied on those who have a right *in rem* over non-immovable residential accommodation or working accommodation which is of a permanent nature and is to be used permanently; and
- a tax levied on those who use non-immovable residential accommodation or working accommodation which has a permanent nature and is to be used permanently.

## 35.3 Onroerendezaakbelastingen (OGB)

### 35.3.1 Purpose of the tax:

The tax provides municipalities with extra income which it can use for its own purposes unlike some government grants which can only be used for specific purposes. About 80% - 90% of municipal budgets is based on general and special grants.

### 35.3.2 How the tax base is set or established:

The main statutory provision governing property taxes is the Municipality Act and the Immovable Property Assessment Act 1997 which made changes to the implementation of the tax. The tax is payable by both the owner and user of the property. Different rates of tax may apply to dwellings and non residential property. Where a property is owner occupied, that both taxes are payable by the same person.

The tax is levied and administered by each municipality and they are responsible for the valuation of all the “tax objects” in their area. This may be done by valuers employed by the municipality or sub-contracted out to other municipalities or to private firms of valuers. From 1998 appraisers must have passed the examination of the Immoveable Property Assessment Valuer and the NFM qualification of the Netherlands Federation of Housing Agents.

In identifying the tax object to be assessed, a distinction is made between:

- (a) a building
- (b) land which has not been built upon
- (c) appurtenances.

The tax object may be:

- (a) a building with its appurtenances, which would include the common example of a house with garage, sheds and garden;
- (b) property where the land (as distinct from buildings) is the predominant factor, and an example would be a playing field with changing rooms and incidental car parking;
- (c) where a building, or land, as described above under (a) or (b) is used, or intended to be used, in parts, as separate units then each separate occupation will form a separate tax object.
- (d) formerly independent units which are now used together with one occupier and one owner, will be considered as one tax object. However, formerly independent units, now used as one, but with two or more owners, will be considered as two or more tax units;
- (e) a complex consisting of a number of buildings as described in (a) or land as described in (b) which are occupied together by one person or legal entity will be considered to be one tax object providing they “belong together according to common opinion”

The first general revaluation being based on values as at 1<sup>st</sup> January 1995 with subsequent revaluations being every four years. The revaluation results per 1<sup>st</sup> January 1999 are used for the years 2001 – 2004.

As part of its duty to carry out revaluation the municipality is required to register all sales transactions, all leases and building prices for commercial property and land values. In addition to the registers, the municipalities have the powers to call for returns both under their own bye laws as well as the Immoveable Property Assessment Tax Act. This allows them to obtain information such as rental information and construction plans.

Whilst revaluation are the responsibility of each municipality the National Valuation Board will also monitor the progress and implementation.

Where a property is altered between revaluations, provision is made for an assessment to be reviewed in the following circumstances:

- The splitting up or merging of delineated properties or of parts of such properties which results in a change in the value of the property, to which property was added of more than 5 per cent or more than 250,000 guilders or in a change of the value of the property from which property was removed of more than 5 per cent or more than 250,000 guilders;
- Changes in value as consequence of building of (additional) property, removal, improvement, demolition or destruction, which results in a change

Where a change in the valuation is made it will only become operative in the next financial year.

### 35.3.3 Basis of valuation for tax purposes:

The basis of the tax is the market value of the property. This is defined as:

*“the true economic value of determined as that which could be assigned to property if re and unencumbered right could be transferred for immediate and complete acquisition by a purchaser of property in its actual condition”*

In ore familiar terms this is effectively the open market value of the property with vacant possession without any mortgage or other form of encumbrance. In addition the valuer must no have regard to the fact that the property is let or subject to a lease.

For properties which would not normally be sold on the open market a contractor’s basis (adjusted replacement cost) approach is to be adopted unless the market value of the property is higher.

Residential property will be valued by one of the following methods:

- Comparison with reference to residential properties;
- Comparison with properties in a homogenous group of residential properties;
- Statistical models; or
- Combinations of the above methods.

Non-residential property will be valued by one of the following methods:

- Capitalisation of the gross rent;
- Comparison to other similar properties; or
- Discounted cash-flow valuation.

For the corrected replacement value the value of the land is to be added to the value of the building. The value of the land is determined by comparison, reflecting the land use planning rules. The value of the building is calculated by reference to the cost of building an identical replacement building, corrected for technical obsolescence in relation to its remaining useful life and for functional obsolescence based on economic obsolescence, antiquated construction methods and excessive running costs.

In determining the corrected replacement value for church buildings and buildings of historical interest which are not listed, the functional obsolescence is to be applied in such a way that the value is equivalent to the utilisation value.

The functional obsolescence is determined in such a way that the value is equal to the operating value of the property reflecting the relationship to economic developments in the particular sector concerned.

There is legal precedence of the highest court that for commercial non-marketable property (i.e. hotels, leisure parks, refineries etc.) that the outcome of the adjusted replacement costs may not be more than that which the income approach delivers.

#### 35.3.4 Frequency of review of tax base:

The tax base is reviewed every 4 years.

#### 35.3.5 Nature of any exemptions or reliefs for classes of taxpayer:

A range of properties are exempted from the tax. These include the following categories:

- Cultivated land which is professionally exploited for agriculture or forestry purposes. According to the Municipality Act this also includes properties built on such cultivated land.
- Landed property that is part of an estate protected by the Nature Protection Act.
- Natural sites, including dunes, moorland, sand-drifts, swamps and lakes, administered by nature corporations.
- Public roads, waterways and lanes for public transportation by rail, including all constructions, but not railway stations.
- Machinery which can be removed whilst retaining its value as machinery and which is not considered to be built property.
- Property that is mainly used for public worship, or meetings of spiritual societies. Not included are such parts of buildings which are used as residences.
- Water-defence works and water-control works that are administered by public authorities. Excluded are such parts of buildings that are used as residential accommodation..
- Water-purification plants administered by public authorities. Excluded are such parts of buildings used as residential accommodation..
- Foreign embassies and consulates except the honorary-consulates.

In addition to the above statutory exemptions further valuation provisions exclude the following uses from being included in any valuation:

- Properties used for public service by the municipality except those used for education.
- Street furniture provided for the general public, such as lampposts, seats, traffic-lights and traffic-signs, monuments, fountains, gates, etc.
- Public gardens, parks and ponds owned or managed by the municipality.

- Cemeteries, crematoria and urn-gardens, except for those parts used as residential accommodation.

Municipalities also have the power to exempt lower valued properties with a value not exceeding 25,000 guilders. This exemption will apply to both the tax on the owner and the occupier of any tax object.

#### 35.3.6 Challenges to tax base, valuation or assessment:

Two distinct appeal procedures exist. Objections can be made against the notice of assessment. The municipality has then to explain the valuation it has undertaken. The objection must state the reasons for the objection so that the municipality may respond to them.

Following a revaluation the municipality is required to serve on the taxpayer an assessment before the 1<sup>st</sup> March. This is the formal notification of the value of the property and which may be used for other tax purposes. This notice is valid for the life of the revaluation (four years). Should the assessment change in that time due to changes in the property (see above) then a new assessment notice will be served. The assessment notice will give the name of the taxpayer and details of all properties within the municipality for which he is being taxed. The right of objection against the assessment notice runs from when the notice is served on the taxpayer.

Where an objection is made it must be in writing indicating the ground of the objection and served on the appointed tax authority of the municipality within six weeks of the assessment notice being served. Where the appeal is against an assessment notice it will be reviewed by an appraiser and a written decision sent to the taxpayer.

Appeals against this decision can be made to the Tax Court within six weeks of the original decision. Further appeals may be made to the High Court.

#### 35.3.7 Nature of taxpayer:

The tax is paid by both the owner and occupier of the property. Where the property is owner occupied, both taxes will be paid by the same person.

#### 35.3.8 Amount of tax:

The rate of tax is determined by each municipality. Differential rates are allowed between residential and no residential properties. A different amount may be set for the owner and occupier but not more than 100% - 125% respectively.

As indicated above, the tax is payable by both the owner and occupier of property within the municipality. The owner's tax must not exceed 125% of the users (occupiers) tax.

#### 35.3.9 Frequency of payment:

Payments are normally made into the bank or bank giro with some municipalities accepting cash payments. Payments are due on the last day of the month in which the tax bill was served and the second payment due two months later.

Special arrangements can be made for payments may be made by instalments over the tax year and the use of direct debits is common.

35.3.10 Identification of tax collector:

The tax is collected under the responsibility of each municipality.

They are also responsible for the enforcement of the tax and provision is made for a bailiff to levy distress.

## **35.4 Succession Duty**

### ***Successierechten***

35.4.1 Statutory Provision

The tax is levied under the provisions of the Law on Succession Duties 1956 of 28<sup>th</sup> June 1956 as amended.

35.4.2 Purpose of the tax:

The tax is a tax on persons receiving inheritances, legacies or gifts.

35.4.3 How the tax base is set or established:

The taxpayer has the duty to make a return to the tax authority on receipt of a legacy, gift or inheritance.

35.4.4 Basis of valuation for tax purposes:

The open market value of the property received.

35.4.5 Frequency of review of tax base:

Not applicable.

35.4.6 Nature of any exemptions or reliefs for classes of taxpayer:

The exemptions and reliefs include:

- Bequests and gifts to the state, provinces and municipalities
- Bequests and gifts to certain museums

35.4.7 Challenges to tax base, valuation or assessment:

No information available.

35.4.8 Nature of taxpayer:

The person receiving the gift, legacy or inheritance.

35.4.9 Amount of tax:

The tax rate varies depending on the relationship of the parties. The maximum rate for gifts etc. to children is 27% and to unrelated persons, 68%.

35.4.10 Frequency of payment:

Single payment but the taxpayer may request an extended period in which to pay.

35.4.11 Purpose to which tax is put:  
The revenues for part of the state revenue and are not allocated to a specific purpose.

35.4.12 Identification of tax collector:  
State Tax Authority.

### **35.5 Tax On Legal Transactions** ***Belastingen Van Rechtsverkeer***

35.5.1 Statutory Provisions

The tax is levied under the provisions of the Law governing the tax on legal transactions of 24<sup>th</sup> December 1970 (stb. 1970,611) as amended.

35.5.2 Purpose of the tax:

The tax is a tax on the transfer of property, property rights and certain insurances and share transfers.

35.5.3 How the tax base is set or established:

The taxpayer must submit the transfer deed to the tax authorities for registration either as soon as the deed is drawn up. Provision is made for monthly or quarterly declarations for certain types of deeds.

35.5.4 Basis of valuation for tax purposes:

The market value of the property or property right transferred.

35.5.5 Frequency of review of tax base:

Not applicable.

35.5.6 Nature of any exemptions or reliefs for classes of taxpayer:

The exemptions and reliefs include:

- Property which is subject to VAT
- Acquisitions by children
- Acquisition by public organisations
- Agricultural land and buildings
- Acquisition of horticultural buildings.

35.5.7 Challenges to tax base, valuation or assessment:

No information available.

35.5.8 Nature of taxpayer:

The taxpayer is the person acquiring the property or property right.

35.5.9 Amount of tax:

6% for property

35.5.10 Frequency of payment:

Single payment made when the transfer is registered.

35.5.11 Purpose to which tax is put:  
Revenue provides part of the state tax revenues.

35.5.12 Identification of tax collector:  
State Tax authority.

### **35.6 Waterschap Levy** ***Waterschapbelastingen***

35.6.1 Purpose of the tax:  
This is a tax on property located within an area managed by a Waterschap board under the provisions of the Waterschap law of 6<sup>th</sup> June 1991 as amended.

35.6.2 How the tax base is set or established:  
The tax base is established by the Waterschap who will publish their valuations.

35.6.3 Basis of valuation for tax purposes:  
The tax is based on the market value of the land (excluding buildings) within the area of the board and on buildings, based on the replacement value of those buildings plus an allowance for depreciation.

For persons situated in the area of the board, the rate is fixed at a rate per household.

35.6.4 Frequency of review of tax base:  
No information available.

35.6.5 Nature of any exemptions or reliefs for classes of taxpayer:  
None

35.6.6 Challenges to tax base, valuation or assessment:  
No information available.

35.6.7 Nature of taxpayer:  
The owner of land, buildings and households situated within the areas of the Waterschap.

35.6.8 Amount of tax:  
The amounts vary between Waterschap's who have the powers to fix their own rates. Within each board there will be a different rate for land, buildings and households.

35.6.9 Frequency of payment:  
Single payment.

35.6.10 Purpose to which tax is put:  
The tax is allocated for the purposes of drainage, roads, dykes and bridges within the area of the Waterschap.

- 35.6.11 Identification of tax collector;  
The Waterschap administers, collects and values the tax within their area of responsibility.

### **35.7 Wealth Tax** ***Vermogensbelasting***

- 35.7.1 Statutory Provision  
The tax is levied under the provisions of the Wealth Tax Law 1964 (stb. 520) as amended.
- 35.7.2 Purpose of the tax;  
The tax is a tax on the total wealth of people living in the Netherlands and Dutch citizens resident abroad.
- 35.7.3 How the tax base is set or established;  
Taxpayers are required to make annual returns to the tax authorities detailing their wealth. Where the taxpayer fails to make a return, the tax authority will estimate the tax liability.
- 35.7.4 Basis of valuation for tax purposes;  
The tax is based on the open market value of the assets less any liabilities.
- 35.7.5 Frequency of review of tax base;  
The tax base is updated to market value each year.
- 35.7.6 Nature of any exemptions or reliefs for classes of taxpayer;  
Exemptions and reliefs include:
  - Legal rights of usufruct
  - Money invested in ones own business
  - Pension rights
  - Certain personal property
- 35.7.7 Challenges to tax base, valuation or assessment;  
No information available.
- 35.7.8 Nature of taxpayer;  
Persons living in the Netherlands or other persons owning property in the Netherlands.
- 35.7.9 Amount of tax;  
7%.
- 35.7.10 Frequency of payment;  
Single payment.
- 35.7.11 Purpose to which tax is put;  
The revenues are not allocated for a specific purpose.

- 35.7.12 Identification of tax collector;  
The tax is administered and collected by the State Tax authority.

### **35.8 Other Taxes**

There are a range of other property related taxes, duties and levies which include:

- 35.8.1 Tax on public advertisements (Belasting op openbare aankondigingen).  
This is a municipal tax and the rate is determined by each municipality.
- 35.8.2 Parking tax (*Parkeerbelasting*).  
This is a municipal tax levied on all parking spaces. The rate is determined by each municipality.
- 35.8.3 Tax on the right of user (*Baatbelasting*).  
This is another municipal tax paid by property owners who benefit from facilities provided for by the municipality. The rate is determined by each municipality.

## 36 Norway

### 36.1 Government Organisation And Structure

Norway is divided into 435 municipalities and 19 county municipalities. Oslo is classified as being both a county municipality and a municipality.

The county municipalities and municipalities have the same administrative status whilst central government has the overriding authority and supervision of county municipal and municipal administration.

Most of the welfare services provided are produced by the county municipalities and municipalities. Local government services represent two thirds of Norway's production of public services.

The framework for the activities of the county municipalities and municipalities is laid down by the parliament (Storting) through legislation and decisions regarding local government financing. The Storting determines the division of functions between the different levels of government, i.e. central government, county municipalities and municipalities. Government can only assign new functions to local government by means of legislation or decisions made by the Storting. However, it is an important principle that county municipalities and municipalities voluntarily may assume tasks or functions that have not been assigned to others by law.

Central government is responsible for:

- Higher education and universities,
- The national insurance scheme,
- The armed forces,
- The national road network,
- Railways,
- Labour market training schemes,
- Courts and the police force,
- Prisons,
- Foreign policy,
- Policy regarding refugees and immigrants,
- Two of the main hospitals

The county municipalities are responsible for:

- Upper secondary schools,
- Hospitals and specialist health service,
- Child welfare institutions
- Institutions for the care of drug and alcohol abusers,
- County roads,
- Transport
- Museums.

The municipalities are responsible for:

- Nurseries/kindergartens,
- Child welfare,
- Primary and lower secondary schools,
- Public libraries,
- Primary health care,
- Financial support for welfare clients,
- Care for the elderly and disabled,
- Fire departments,
- Harbours,
- Municipal roads,
- Water supply,
- Sewage,
- Garbage collection and disposal,
- Organisation of land usage within the municipality

## **36.2 Inheritance Tax**

### ***Lov Om Avgift Pd Arv Og Visse Gayer***

#### 36.2.1 Purpose of the tax:

The tax is levied on all gifts and inheritances.

#### 36.2.2 How the tax base is set or established:

Inheritance tax is levied on all inheritances and on certain gifts, as follows:

- (a) gifts to persons who at the time of the gift are the nearest heirs *ab intestato* of the donor or his or her spouse and gifts to foster children;
- (b) gifts to any persons provided for in the donor's will at the time of the gift;
- (c) gifts to linear descendants of persons mentioned under (a) and (b), above;
- (d) gifts to spouses of persons mentioned under (a), (b) and (c), above;
- (e) gifts to corporate entities, foundations, etc. in which any persons mentioned under (a), (b), (c) or (d), above have an interest comparable to that of an owner or participant or where distributions by these bodies mainly benefit members of certain families;
- (f) gifts to any person made within 6 months prior to the donor's death;
- (g) gifts to any person provided for in the donor's will at the time of his death or to a spouse of such person, if such gifts are made within 5 years prior to the donor's death.

#### 36.2.3 Basis of valuation for tax purposes:

Market value at the date of death or gift.

#### 36.2.4 Nature of any exemptions or reliefs for classes of taxpayer:

Certain gifts are exempted, like occasional gifts rendered before the donor's death, periodical gifts for support or educational purposes as long as the gifts have been used before the donor's death, and, to some extent, gifts for the benefit of the public.

The first NOK 200 000 is exempt from inheritance tax

36.2.5 Challenges to tax base, valuation or assessment;

No information available.

36.2.6 Nature of taxpayer;

The persons who acquire the inheritance or gift are liable to this tax

36.2.7 Amount of tax;

	To children/parents	To others
Of the first NOK 200 000:	No tax	No tax
Of the next NOK 300 000:	8 per cent	10 per cent
Of excess amount:	20 per cent	30 per cent

**Table 62: Norway; Inheritance Tax Rates**

36.2.8 Frequency of payment;

A single payment.

36.2.9 Purpose to which tax is put;

Revenues from the tax is not allocated to a specific purpose/

36.2.10 Identification of tax collector;

National tax authorities.

36.2.11 Typical examples of the application of the tax base;

The inheritance tax amounted to NOK 923 million in 1999 compared with NOK 909 million in 1998.

### 36.3 Wealth Tax

36.3.1 Purpose of the tax;

The tax is an annual tax on the value of assets held by the taxpayer.

36.3.2 How the tax base is set or established;

The basis of the assessment is the taxpayer's net capital on 1<sup>st</sup> January in the assessment year.

Gross capital is, for wealth tax purposes, defined as all moveable and immoveable property and outstanding claims. Property without market value is not considered taxable capital nor is goodwill or personal trading rights.

36.3.3 Basis of valuation for tax purposes;

The value of all assets

36.3.4 Nature of any exemptions or reliefs for classes of taxpayer;

Part of the market value of furniture and other personal property (except private cars and pleasure craft) less than NOK 100,000 are exempt.

Real property located outside Norway is exempt.

With effect from 2001 the government announced that it proposed to exempt business assets from the tax.

36.3.5 Challenges to tax base, valuation or assessment:

No information available.

36.3.6 Nature of taxpayer:

All residents of Norway.

36.3.7 Amount of tax:

The national tax rates are progressive while the municipal tax rate is flat. The table below shows the rates applicable to individuals (income year 1998):

<b>Amount (NOK)</b>		<b>Rate (%)</b>
Municipal tax (class 1 and 2)	<120,000	0
	>120,000	0.4 - 0.7
National tax (class 1)	<120,000	0
	120,000 - 540,000	0.2
	>540,000	0.4
National tax (class 2)	<150,000	0
	150,000 - 580,000	0.2
	>580,000	0.4

**Table 63: Norway; Wealth Tax Rates**

36.3.8 Frequency of payment:

Annual

36.3.9 Purpose to which tax is put:

Tax forms part of the revenue of both the central and local governments.

36.3.10 Identification of tax collector:

The tax is payable to both the state and municipality.

## 37 Poland

### 37.1 Government Organisation and Structure

Poland is a parliamentary republic. Under the current government arrangements the state administration has been decentralised to *voivodships*. In addition there are forms of regional and local government as described below.

#### 37.1.1 Decentralised State Administration

The basic unit of decentralised state administration is the *voivodship* of which there are now 16.

Since 1 January 1999 there has been a dual structure of public administration at *voivodship* level. It consists, on the one hand, of *voivodship* self-governments that have independent legal identities, their own budgets, and extensive powers in the area of economic policy. On the other hand, the state-appointed *voivode* is responsible for ensuring that national policies are implemented and enforced within the *voivodship* and that state institutions operating in the region perform their functions appropriately.

#### 37.1.2 Regional Government

Since 1 January 1999, 16 new *voivodships* constitute the system of regions in which regional economic policies are developed and implemented.

The responsibilities of *voivodship* governments are concentrated in three major areas:

- Economic development
- Sustainable development
- Higher order public services.

The major functions of *voivodship* governments include:

- Education: post-secondary schools, certain secondary and vocational schools, teacher training colleges, *voivodship* libraries, high schools, including vocational ones, with a regional reach;
- Health protection: specialised facilities within a regional service area, medical emergency and ambulance services, spas and health resort facilities;
- Culture: cultural institutions within a regional service area, preservation of cultural assets;
- Social welfare: facilities within a regional service area, including shelters, orphanages and old age homes;
- Modernisation of rural areas;
- Territorial development;
- Preservation of the natural environment;
- Water management, land amelioration and maintenance of hydraulic installations;
- Roads and transport, particularly with respect to the modernisation, maintenance and protection of *voivodship* roads.

*Voivodships* and the two levels of local self-government, counties and communes, are assigned a share of the personal and corporate income tax receipts collected within their boundaries..

### 37.1.3 Local Government

There are 2,489 communes in Poland. Local administration at the communal level operates under the Law on Local Self-Government of 1990.

The Constitution contains a general presumption in favour of local government competence. It stipulates that "local self-government shall perform public tasks not reserved by the Constitution or statutes to the organs of other public authorities".

The general rule of the 1990 law is that the commune satisfies the collective needs of its community, in particular in the following areas:

- Territorial planning,
- Property administration,
- Environmental protection;
- Communal roads, bridges, squares, streets, traffic management;
- Water supply, sewage, waste removal;
- Local public transport;
- Public health protection;
- Social assistance;
- Communal housing;
- Education up to the primary school level;
- Culture;
- Sport;
- Marketplaces and halls;
- Parks and green areas;
- Communal cemeteries;
- Public order and fire protection;
- Maintenance of structures of public utility.

At the beginning of 1999, 308 counties (*powiats*), including 65 town counties, were established as a higher tier of local self-government.

Their major tasks include:

- Secondary education: post-elementary schools, vocational and special schools;
- General responsibility for the operation of the public health service institutions (financed from the health funds);
- Organising and providing social welfare services that extend beyond communal boundaries;
- Sanitary and epidemiological supervision;
- Maintenance of public order and collective safety;
- Support of cultural institutions whose activities extend beyond communal boundaries;
- Road construction and maintenance;
- Building supervision, as well as the registry and exchange of land, water management and environmental protection;

- Flood and fire precautions, prevention and management of natural disasters;
- Promotion of economic activities;
- Counteracting unemployment;
- Protection of consumer rights;
- Maintenance of county facilities and public utilities.

### 37.2 Local Government Finance

A law of 1990 regulates the financial basis of the activities of local self-government on a temporary basis.

Besides revenues from civil law liabilities and profits from their enterprises, communes may gather local taxes (real estate property tax, agricultural tax, and tax on means of transport), and some charges and duties (notably stamp duty). They also benefit from some state taxes (15 per cent of the individual profit tax, and 2 per cent of corporate tax), and have a right to state subsidies.

Table 64 below show the main sources of finance for local government and the significance of each source.

	1995	1996	1997
<b>Total Revenue</b>	100.00	100.00	100.00
<b>Own Revenues</b>	40.00	35.00	35.30
Real Estate Tax	14.10	11.40	11.20
Transport Tax	3.00	2.70	2.90
Agricultural Tax	2.60	2.20	2.00
Stamp Fees	3.70	3.40	3.30
Asset Sales	3.10	3.60	4.00
Various Services	2.60	2.00	1.90
Rents and Leases	1.20	1.00	0.90
Other Income	9.70	8.60	9.10
<b>Shared Taxes</b>	23.10	25.40	24.30
Corporation Income Tax	2.30	1.80	1.80
Personal Income Tax	20.70	22.70	22.40
<b>Grants</b>	20.60	13.90	14.10
Delegated	13.70	7.30	7.50
Commissioned	2.60	1.70	1.80
Own	4.20	4.80	4.80
<b>Extra budgetary</b>	1.00	1.30	2.30
<b>General Subsidy</b>	15.20	25.30	24.10

**Table 64: Poland; Local Government Income Sources 1995 - 1997**

### 37.3 Introduction

Poland has had a long tradition for levying property taxes for the funding of local government reaching back prior to the democratisation of the country in 1980. However the significance of the taxes fell and it was only when local self government was re-introduced in the mid 1990's that the fiscal significance of property taxes was increased. With effect from 12<sup>th</sup> January 1991 local government became self financing and the Urban Property Tax was one of the more important means that authorities had for raising revenue. The Law on Local Taxes and Duties of 1991 effectively provides for three different tax provisions – urban property, forestry and agricultural land.

The current system is based on an area basis but work is currently being undertaken to develop a value based scheme for the urban property tax. It was proposed that such a scheme would be introduced by 1999 but at present the implementation appears to have been delayed.

### 37.4 Urban Property Tax

#### 37.4.1 Statutory Provision

The tax was introduced in 1991 and is regulated by the Law on Local Taxes and Duties of 1991 (JL 1991 no. 9, item 31, as amended).

#### 37.4.2 Purpose of the tax;

Local government in Poland is self financing and the urban property tax is one of the elements that goes to fund the whole range of services that are provided by local government.

#### 37.4.3 How the tax base is set or established;

The tax is levied on all property other than that subject to tax as either agriculture or forestry.

The actual tax rates are determined by each municipality but the maximum rate is prescribed by central government. The maximum rate is linked to the rate of inflation over the previous three quarters.

#### 37.4.4 Basis of valuation for tax purposes;

The tax is based on the area of the land or building measured on a net internal basis (i.e. deducting the area of staircases, corridors and lift shafts etc.). Where the height is between 1.4m and 2.2m then 50% of the area is used. For additional? floors under 1.4m in height no account is taken of them in the area.

#### 37.4.5 Frequency of review of tax base;

The tax being based on area is reviewed annually as is the tax rate.

#### 37.4.6 Nature of any exemptions or reliefs for classes of taxpayer;

Certain types of buildings and land are exempt:

- buildings or parts thereof used by local authorities;
- Buildings and land which are "historic monuments";

- Buildings and land owned by foreign governments and international organisations, on the basis of reciprocity;
- Buildings or parts thereof used by schools, hospitals, cultural, charitable and other public institutions and associations;
- Land used for railway, airport and harbour installations;
- Land used for public roads, pipelines and water power stations;
- State and communal forests; and
- Buildings and land owned by religious groups and their institutions.

Exemptions can be granted either:

- By the Law on Local Taxes and Duties of 1991,
- By separate legislation (for example, place of religious worship, properties used by the disabled),
- By local grant (for example, property used by charities).

#### 37.4.7 Challenges to tax base, valuation or assessment:

No information available.

#### 37.4.8 Nature of taxpayer:

The taxpayer is the owner of property regardless of whether in occupation or not. The tax applies to all property that is not otherwise taxed as either forestry or agricultural land. For public sector property (owned by the state or municipality) the taxpayer is the person who has the right to use the property on behalf of the state or municipality. For municipal housing the taxpayer is the management company.

#### 37.4.9 Amount of tax:

The rates of tax differ for residential and commercial property and are fixed by the municipality but may not exceed.

- PLZ 0.38 per m<sup>2</sup> of dwellings and their parts,
- PLZ 13.47 per m<sup>2</sup> of buildings connected with economic activity,
- PLZ 4.49 per m<sup>2</sup> of other buildings and their parts,
- 2% of the value of fixed installations,
- PLZ 0.46 per m<sup>2</sup> for land connected with economic activity,
- PLZ 0.06 per m<sup>2</sup> for other land (not subject to agricultural or forestry tax).

#### 37.4.10 Frequency of payment:

For private individuals the tax is payable in four instalments on the 15<sup>th</sup> of March, May, September and November. For corporate owners they are required to self assess themselves for the tax and make a return not later than the 15<sup>th</sup> of January and tax is then payable on the 15<sup>th</sup> of each month.

#### 37.4.11 Identification of tax collector:

Generally the larger municipalities will collect the tax themselves but smaller ones may have the task performed for them by the state.

## **37.5 Inheritance tax**

### ***Podatek od spadków i darowizn***

#### 37.5.1 Statutory Provision

The tax is levied under the provisions of Tax Law of July 28., 1983.

#### 37.5.2 Purpose of the tax:

The tax is a tax paid by the person who inherits property on the value inherited.

#### 37.5.3 How the tax base is set or established:

The taxpayer must make returns to the tax authorities advising them of the amount of any inheritance.

The tax is levied on the net value of property and money (excluding debts) acquired through inheritance, gift. Taxable property received from the same person over a 5-year period is treated as a single acquisition, and the value of all property received is aggregated.

#### 37.5.4 Basis of valuation for tax purposes:

The net value of the property.

#### 37.5.5 Nature of any exemptions or reliefs for classes of taxpayer:

The following exemptions and allowances apply to:

- Gifts or inheritances not exceeding PLZ 7,510 for Class 1 recipients, PLZ 5,670 for Class 2 recipients and PLZ 3,820 for Class 3 recipients;
- Furniture, bedding, clothing and similar items;
- Farms and contributions from rural cooperatives;
- Restaurants, hotels and workshops if the recipient is in Class I and continues the business for at least 5 years;
- Author's rights and gifts from social enterprises;
- Gifts from abroad, provided foreign currency is transferred through the Polish Bank; - machines and tools obtained from abroad by craftsmen and farmers;
- All or part of a dwelling house or apartment (depending on the class of the recipients, but not exceeding 110 square metres); and
- Certain gifts from abroad to religious institutions.

#### 37.5.6 Challenges to tax base, valuation or assessment:

The Tax Law provides general rights of taxpayers with regard to various administrative matters regarding all taxes and includes rights of appeal against any tax assessment.

#### 37.5.7 Nature of taxpayer:

Individuals who receive inheritances or gifts are subject to the tax on the portion they receive.

Taxpayers are classified into three classes (by virtue of their relationship with the deceased or donor), and the exemptions from the tax and the rates depend on this classification. The classification is as follows:

Class	Recipients included
1	Spouse, children (including adopted and stepchildren, sons and daughters In-law), parents, brothers and sisters
2	Children of brothers and sisters, spouses of brothers and sisters
3	Other beneficiaries and recipients

**Table 65: Poland; Inheritance Tax - Classes of Taxpayer**

37.5.8 Amount of tax:

Class	Value PLZ	Rate (%)
1	8,010	3%
	8,010 to 16,020	PLZ 240 plus 5% on excess over PLZ8,010
	>16.020-	PLZ 640 plus 7% on the excess of PLZ 16,020
2	8,010	7%
	8,010 to 16,020	PLZ 560 plus 9% on excess over PLZ 8,010
	>16.020	PLZ 1,281 plus 12% on the excess of PLZ16.020
3	8,010	12%
	8,010 to 16,020	PLZ 961 plus 16% on excess over PLZ 8,010
	>16.020	PLZ 2,242 plus 20% on the excess of PLZ16.020

**Table 66: Poland; Inheritance Tax Rates**

37.5.9 Frequency of payment:

Single payment.

37.5.10 Purpose to which tax is put:

The tax is part of the revenue of the municipality and not allocated for a particular purpose.

37.5.11 Identification of tax collector:

National tax authorities.

### 37.6 Real Estate Property Tax

#### *Podatek od nieruchomości*

37.6.1 Statutory Provision

The tax is levied under the provisions of Law of January 12., 1999.

37.6.2 Purpose of the tax:

The tax is an annual tax on the owners of property.

37.6.3 How the tax base is set or established:

The tax is administered by the municipality within the overall control of the ministry of Finance.

- 37.6.4 Basis of valuation for tax purposes:  
The basis of assessment is the area of the property.  
  
With effect from 2003 it is proposed that the basis of tax will change to a value related approach as opposed to the current area basis.
- 37.6.5 Frequency of review of tax base:  
The tax base will only change when the size of the property changes.
- 37.6.6 Nature of any exemptions or reliefs for classes of taxpayer:  
A range of exemptions apply and each municipality has the power to grant further exemptions and reliefs.
- 37.6.7 Challenges to tax base, valuation or assessment:  
The Tax Law provides general rights of taxpayers with regard to various administrative matters regarding all taxes and includes rights of appeal against any tax assessment.
- 37.6.8 Nature of taxpayer:  
The owner of the property or the perpetual lessee.
- 37.6.9 Amount of tax:  
The rate of tax is set by each municipality but with the maximum annual rate determined by the Ministry of Finance.  
  
In 1999 the maximum rates were:
- |                       |           |
|-----------------------|-----------|
| Residential buildings | 0.33 PLZ  |
| Commercial buildings  | 11.95 PLZ |
| Other buildings       | 3.98 PLZ  |
| Commercial land       | 0.40 PLZ  |
| Other land            | 0.05 PLZ  |
- 37.6.10 Frequency of payment:  
Half yearly (in advance).
- 37.6.11 Purpose to which tax is put:  
Revenue raised from the tax is allocated to the municipality for its own purposes.
- 37.6.12 Identification of tax collector:  
The municipality.

### **37.7 Agricultural Property Tax**

#### ***Podatek rolny***

- 37.7.1 Statutory Provision  
The tax is levied under the provisions of the Law on Agricultural Property Tax of 15. November 1984.

37.7.2 Purpose of the tax:

The tax is an annual tax on the ownership of agricultural property.

The tax is levied in addition to normal income taxes on agricultural revenue. It is proposed that the tax will in the near future be linked to income tax.

37.7.3 How the tax base is set or established:

The tax is the responsibility of the municipality and covers all agricultural property.

37.7.4 Basis of valuation for tax purposes:

The tax base is the "conventional hectare" which is the actual number of hectares multiplied by a coefficient relating to the fertility of the land, the location of the farm and the type of agriculture practised or crop grown.

37.7.5 Frequency of review of tax base:

Not applicable.

37.7.6 Nature of any exemptions or reliefs for classes of taxpayer:

Exemptions include:

- Land occupied by the State or municipality.
- Arable land, class V, VI and VIz
- Land along the border line
- Plough land, meadows, pasture with drainage system
- Arable area on which the farm production has been ceased for 3 years (up to 20% of the total are of the farm)
- Land that was used to be a waste land and was brought into cultivation is exempted for 5 years, and in the following 2 years there is a tax relief
- Land received as a result of the exchange or merge exempt for 1 year, in the following 2 years tax relief
- Area of the lakes, where flowing water, dams and water containers supplying people with water are located,
- Waste land
- Land used for activity other than agricultural
- Land which on the basis of administrative decisions is considered as for not for agricultural purposes.
- Land of no worth for agricultural activity
- Land of historical interest which fulfils certain conditions
- Land used for activity other than agricultural

In addition, there are a series of reliefs which range from 20% to 75% of the tax payable.

37.7.7 Challenges to tax base, valuation or assessment:

The Tax Law provides general rights of taxpayers with regard to various administrative matters regarding all taxes and includes rights of appeal against any tax assessment.

37.7.8 Nature of taxpayer:

The owner of the property.

- 37.7.9 Amount of tax:  
For land measured in conventional hectares, the rate of tax is the value of 5 cwt of rye. The tax rate is updated twice a year to equate to the market price of rye.
- 37.7.10 Frequency of payment:  
The tax is paid in four annual instalments on 15<sup>th</sup> of March, May, September and November.
- 37.7.11 Purpose to which tax is put:  
The tax is part of the revenue of the municipality.
- 37.7.12 Identification of tax collector:  
The municipality.

### **37.8 Other Taxes**

Other property related taxes, duties and levies include:

- 37.8.1 Forest tax  
The forest tax was introduced by the law on forests of 1991 (jl 1991 no. 101, as amended) This tax applies to all owners of forests and to occupiers of state or communally owned forests. Limited reliefs are available to forests that are at least 40 years old and forests that are treated as "historical monuments".
- The taxable base is the "conventional hectare". Conventional hectares are the actual number of hectares multiplied by a coefficient relating to the fertility of the land and the main species of trees growing in the forest. The coefficient ranges from 2.30 (firs) to 0.20 (aspen). The rate of the tax is the average price of 0.2 cubic metres of the timber per 1 conventional hectare. In respect to national parks, natural reservations and protected forests, the tax rate is the price of 300 kg of rye per 1 hectare. This tax is paid in four annual instalments as above.
- 37.8.2 Stamp Duty  
Stamp duty is levied on the transfer of property and property rights and is regulated by the Law on Fiscal Duties of 1989 (JL 1989 No. 4, item 23, as amended).
- Taxable transfers include the disposal and acquisition of moveable and immoveable property or other property rights if the property transferred exceeds PLZ 50 in value.
- The rates of duty are:  
2% of the value of moveable property;  
5% of the value of immoveable property; and  
2% of the value of other property rights.
- The market value is substituted for the price stated if the sales contract differs significantly from the market value.
- 37.8.3 Wealth tax  
There is no wealth tax in Poland

## 38 Portugal

### 38.1 Government Organisation and Structure

Portugal is a parliamentary republic. It operates a three-tier system of government:

- The State
- The Regions
- Local government. This is in turn divided into two further tiers as described below.

#### 38.1.1 Local Government

The Portuguese Constitution lays down both the structure and the principles underlying local government. It is stated that local government should be three-tier in structure with freguesias (parishes) at the lowest level of government, municipios (municipalities) at the mediate level and regios (regions) at the top.

It was originally envisaged that the regions would play a powerful role in the structure of local government at an administrative level, but their introduction at the mainland of Portugal has still not been completed.

The law determines that local authorities may develop activities that correspond to the particular interest of their respective populations. The functions developed by the local authorities and the central government are not completely delimited, except in what concerns public investment, for which a delimitation is made. Thus, both the local authorities and central government have been accepting the rule according to which the local authorities develop the functions they have traditionally been developing, and the central government all the others. These limitations are due mainly to financial reasons.

#### *Municipalities*

The permitted activities of the local authorities as laid out in the Portuguese law is vague as it is stated that the municipalities can play an important social, cultural and economic role in the local community.

The municipalities are involved in the following activities:

- Public investment policies (infrastructure, municipal buildings, housing etc.)
- Provision of health and social facilities,
- Distribution of water and energy,
- Provision of public transport,
- Cultural and leisure facilities,
- Primary education (excl. Teaching staff),
- Town planning,
- Refuse collection,
- Tourism (information, facilities etc.).
- Environmental protection

### *Parishes*

The parishes tend to have a loosely defined role in the local community, and their power lies in the extent to which they can exercise influence on the municipal policy making.

## **38.2 Local Government Finance**

Through the Law on Local Finance of 1979 (revised in 1984 and 1987), some fundamental principles has been established:

- Local authorities manage their own property and finances
- Local authorities have the power to elaborate on and approve the plans of activities, the budget, balances and accounts, to have their own revenues and expenses, and to manage their own assets and to obtain credit.
- Any transfer to the municipalities of new functions must be followed by the transfer of the corresponding financial means.

The main sources of finance of local government in Portugal are taxes, grants, charges and loans. Since the Law of Local Finance of 1979 the role of the local taxes has increased.

## **38.3 Contribuigdo Autarquica**

### ***Immoveable Property Tax (CA)***

#### 38.3.1 Statutory Provision

The tax is levied under the provisions of DL No. 442-C/88 as amended.

#### 38.3.2 Purpose of the tax;

The tax is one form of revenue that is used by the municipality for the provision of local facilities.

#### 38.3.3 How the tax base is set or established;

The tax applies to all property and will include certain types of moveable property (plant and machinery) so long as it has been in situ for at least 12 months. The tax is based on ownership as at the 31<sup>st</sup> December each year.

#### 38.3.4 Basis of valuation for tax purposes;

The tax is based on the notional rental value of the property as at 31<sup>st</sup> December 1988. This base value is updated each year by 4% for property in urban areas and 2% for property in rural areas. The maximum uplift is limited to 100% of the notional 1988 rental value.

This value is then capitalised at 15 years purchase for property in urban areas and 20 years purchase for property in rural areas.

#### 38.3.5 Frequency of review of tax base;

The tax base was last reviewed in 1988 but is updated by 4% for urban property and 2% for rural property each year subject to a maximum of 100%.

38.3.6 Nature of any exemptions or reliefs for classes of taxpayer;

A range of exemptions are available for, :

- National monuments
- Properties of historic interest
- Property held by property investment funds.

Relief is given for 7 years for property relating to tourist use, restored hotels or residential accommodation for tourists.

For residential accommodation the following exemptions are also available:

- For property developed as part of a housing development and let out, then the property will be exempt for between 10 and 15 years.
- For property as the taxpayers main residence and occupied as such for a minimum of 6 months exemptions for 4, 7 or 10 years is allowable depending on whether the value does not exceed 31,310,000, 25,900,000 or 20,700,000 Escudos (PTE) respectively.

38.3.7 Challenges to tax base, valuation or assessment;

No information available

38.3.8 Nature of taxpayer;

The owner of property.

38.3.9 Amount of tax;

The tax rate for rural property is 0.8% and between 0.7% and 1.3% for urban property. The minimum rate will be charged unless the municipality orders otherwise. The municipality will review the rate annually.

38.3.10 Frequency of payment;

The tax is paid in two instalments in April and September of the following year when the tax exceeds 30,000 PTE, otherwise it must be paid in a single instalment by April the following year.

38.3.11 Identification of tax collector;

The tax is collected by the state on behalf of the municipality and the money is remitted back to them.

38.3.12 Typical examples of the application of the tax base;

Assume a property has a rental value of 360,000 PTE per annum as at 1988.

The current rental value on the basis of indexation would be:

$$360,000 \times (1 + 0.04)^{12} = 360,000 \times 1.601032 = 576,372 \text{ pesetas}$$

$$576,372 \times 15 \text{ years purchase} = 8,645,574 @ 1.3\% = 112,392 \text{ pesetas}$$

In the above example it is assumed that the tax rate for the municipality is 1.3%.

38.3.13 Statistical Background

For the 1999 tax year 52 municipalities adopted a rate of 1.3%, 30 applied 1.2%, 35 applied 1.0% and the remaining 191 applied a rate below 1.0%.

**38.4 Inheritance And Gift Taxes*****Imposto Sobre As Sucessoes E Doacoes***38.4.1 Purpose of the tax:

The tax is a tax on both the inheritance of property and the gift of property.

38.4.2 How the tax base is set or established:

Returns are made to the tax authorities.

38.4.3 Basis of valuation for tax purposes:

The market value of the property.

38.4.4 Frequency of review of tax base:

Not applicable.

38.4.5 Nature of any exemptions or reliefs for classes of taxpayer:

Exemptions include:

- Transfer between spouses, PTE 700 000,
- Transfer to relatives in the descending line PTE 700 000,
- Transfer to parents, PTE 350 000,
- All transfers, effected free of charge or as a result of death, of a value not exceeding PTE 70 000.
- Inheritances, legacies and gifts received by bodies of public interest and public utilities, and also by museums, libraries and schools, and educational, scientific, literary, artistic, charitable, philanthropic and welfare institutions or associations.
- The central government and any government departments, even if they have legal personality; local authorities and federations and associations thereof.
- Transfers to the surviving spouse and children or, in the event of their death, to relatives in the ascending line, of units in securities investment funds up to a limit of PTE 500 000 each and of units in property investment funds also up to PTE 500,000 each.
- Transfers to the surviving spouse or relatives in the ascending line of deposits on retirement savings accounts up to a limit of PTE 1,740,000.

*Reliefs*

- Where a property is acquired twice within a 5 year period the amount of tax on the second transfer is reduced by 50%.

38.4.6 Challenges to tax base, valuation or assessment:

No information available.

38.4.7 Nature of taxpayer:

The tax is payable by the heirs in the case of inherited property and the donees in the case of gifts.

38.4.8 Amount of tax;

The amount of tax varies depending on the relationship between the donor and donee and the value of the estate or gift as shown in the table below.

	Tax Rates						
	<700,000	700 001 – 2,750,001	2,750,001 – 7,000,000	7,000,001 – 13,750,000	13,750,001 – 34,500,000	34,500,001 – 68,500,000	>68,500,001
To minors		4	7	10	14	18 2?	23
To spouses		6	9	12	16	20	25
To relatives in the ascending line or between brothers and sisters	7	10	13	16	21	26	32
Between relatives three times removed	13	17	21	25	31	38	5
Between other persons	16	20	25	30	36	43	50

**Table 67: Portugal; Inheritance & Gift Tax Rates**

38.4.9 Frequency of payment;

The tax is paid in 6 monthly instalments. Provision is made for more smaller instalments subject to a maximum of 16 in certain cases. Where the taxpayer makes a single payment a discount will be received.

38.4.10 Purpose to which tax is put;

The tax revenue is not allocated for a specific purpose.

38.4.11 Identification of tax collector;

State tax authority.

### 38.5 Property Transfer Tax

#### *Imposto Municipal de Sisa*

38.5.1 Purpose of the tax;

The tax is a locally levied tax on the transfer of property. As with the *Contribuigdo Autarquica* it is used as revenue for the provision of local services.

38.5.2 How the tax base is set or established:

The tax is charged on all transfers of property which includes:

- Sales of exchanges of property
- Purchases of quotas or similar rights in a company if then the person owns more than 75% of the company.
- Leases and sub-leases of over 30 years

38.5.3 Basis of valuation for tax purposes:

The basis of valuation is the higher of either:

- The sale price of the property, or
- The *Contribuigdo Autarquica* updated by the annual amount and multiplied by either 15 or 20 depending whether urban or rural property.

For the sale of long leases (over 30 years), the tax is based on the higher of either:

- The sale price, or
- The annual rent multiplied by 20 years purchase.

38.5.4 Frequency of review of tax base:

Not applicable.

38.5.5 Nature of any exemptions or reliefs for classes of taxpayer:

A range of exemptions and reliefs are available including:

- Residential property where the price is less than 11,170,000 PTE
- Building purchased for resale and where the resale takes place within 3 years

38.5.6 Challenges to tax base, valuation or assessment:

No information available.

38.5.7 Nature of taxpayer:

The tax is paid by the person acquiring the interest.

38.5.8 Amount of tax:

The basic rate of tax is 10% for property in urban areas and 8% of property in a rural area..

For the purchase of residential land and property the tax rates are as shown

<b>Taxable Amount (Escudos)</b>	<b>Marginal Rate of Tax %</b>
up to 11,170,000	0
11,170,001 -15,300,000	5
15,300,001 - 20,400,000	11
20,400,001 - 25,500,000	18
25,500,001 - 30,900,000	26
over 30,900,001	10

**Table 68: Portugal; Tax rates *Imposto Municipal de Sisa* for residential property**

38.5.9 Frequency of payment:

The tax is payable at the time of purchase.

38.5.10 Identification of tax collector;

The tax is collected by the state on behalf of the municipality and the money is remitted back to them.

**38.6 Other Taxes**

Other property related taxes, duties and levies include:

38.6.1 Stamp Duty (Imposto del solo)

8% stamp duty is payable on the transfer of property



## 39 Romania

### 39.1 Government Organisation and Structure

According to the Constitution, Romania is a sovereign, independent, unitary and indivisible national state, with a republican form of government.

The government organisation is divided into the following two tiers:

- The State
- Local government

Regional government does not exist as an elected for of government but local governments are able to combine at a regional level for the better planning and provision of services.

For purposes of regional development, Romania is divided into eight development regions, established by Law no. 151/1998. However, these regions have not yet had any impact on the administrative structures of the country.

#### 39.1.1 Local Government

Elected communal, town and county government is defined in the Constitution (articles 120 and 121) and in Law no. 69/1991 on local public administration (with subsequent amendments) Article 120 identifies elected local councils and mayors as the public administration authorities by whom local autonomy in communes and towns is exercised. Local councils and mayors act as autonomous administrative authorities and manage public affairs in communes and towns.

According to article 121, the county council is the public administration authority co-ordinating the activity of the communal and town councils and carries out public services of county-wide interest.

Local councils have the right to organise their own public services in order to exercise and manage the powers and responsibilities established by law, within the limits of the relevant legal provisions and available financial resources.

Local councils have the right to take initiatives and decisions in matters of local interest, except where they fall under the competency of another public authority.

### 39.2 Local Government Finance

The finances of communes, towns and counties are managed according to the law and in accordance with the principle of local autonomy.

Local public administration authorities have the right to own sufficient resources in accordance with their competencies, and they can freely manage them.

Local public administration's revenues consist of resources collected within their territory and other sources, notably central financial transfers. The distribution of revenues from taxes and transfers from the state budget, annually established by the

law on the state budget, falls under the responsibility of the county council, together with the general county directorate for public finances and state financial control. This is carried out after consultation with mayors and communal and town local councils.

### **39.3 Building Tax**

#### ***Impozite si taxe locale***

#### 39.3.1 Statutory Provision

The law 25/1981, decree 425/1981 and law 45/1992 provides the statutory background for the imposition of the tax.

#### 39.3.2 Purpose of the tax:

The tax is one of the sources of revenue for the provision of local services. Municipalities have the powers to raise taxes in a number of different areas, of which land and property is just one.

#### 39.3.3 How the tax base is set or established:

The tax is an annual tax payable by the owner of all buildings to the local municipality.

The rates of tax are set by the state. Following the Government Emergency Ordinance 62/1998 the tax rates were changed with effect from 1<sup>st</sup> January 1999.

#### 39.3.4 Basis of valuation for tax purposes:

The tax is based upon the value of the building as stated in the accounts of the business on the 1<sup>st</sup> January in the previous tax year. Where no figure is available, the tax authorities may undertake a valuation of the property on which the tax will then be based.

For buildings held by individuals, the value is the estimated value of the building for insurance purposes. Where no figure is available, the tax authorities may undertake a valuation of the property on which the tax will then be based.

#### 39.3.5 Frequency of review of tax base:

Annually.

#### 39.3.6 Nature of any exemptions or reliefs for classes of taxpayer:

The principal private dwelling of the taxpayer is exempt for the first 10 years after it was built.

Following the Government Emergency Ordinance 62/1998 agricultural buildings were granted a 50% reduction in tax until the 31<sup>st</sup> December 1999. The ordinance also gave exemption from the tax to oil, gas and salt wells, oil and gas pipelines, energy plants and bridges and tunnels.

#### 39.3.7 Challenges to tax base, valuation or assessment:

No information available.

39.3.8 Nature of taxpayer;

The taxpayer is the owner of any building.

39.3.9 Amount of tax;

For buildings owned by businesses the rate of tax ranges from 0.5% to 1.0% depending on the use to which the property is put to (with effect from 1<sup>st</sup> January 1999).

With effect from 1<sup>st</sup> January 1999 the tax rate for individuals is between 0.1% and 0.2%. and the former locational element no longer applies.

Private houses will be subject to a higher tax where they occupy a property with more rooms than family members.

39.3.10 Frequency of payment;

The tax is payable by two equal instalments in the 31<sup>st</sup> March and the 30<sup>th</sup> September.

39.3.11 Identification of tax collector;

No information available.

### **39.4 Land Tax**

#### ***Impozitul per teren***

39.4.1 Statutory Provision

The law 25/1981 and law 45/1992 provides the statutory background for the imposition of the tax.

39.4.2 Purpose of the tax;

The tax is one of the sources of revenue for the provision of local services. Municipalities have the powers to raise taxes in a number of different areas, of which land and property is just one.

39.4.3 How the tax base is set or established;

The tax is an annual tax payable by the owner of all land to the local municipality. The rates of tax are set by the state.

39.4.4 Basis of valuation for tax purposes;

The tax is levied at a rate per m<sup>2</sup> for the land depending on whether located in a city or a town. The tax relates only to the area of the land, not its value.

39.4.5 Frequency of review of tax base;

Not applicable.

39.4.6 Nature of any exemptions or reliefs for classes of taxpayer;

A number exemptions apply which include:

- Land which is not suitable for buildings or farming,
- land used for sports and recreation,
- land used for harbours, airports and other similar grounds,

- land used for tax-free buildings.

39.4.7 Challenges to tax base, valuation or assessment:

No information available.

39.4.8 Nature of taxpayer:

The owner of the land is liable for the payment of the tax.

39.4.9 Amount of tax:

Following the Government Emergency Ordinance 62/1998 the tax rates were changed with effect from 1<sup>st</sup> January 1999. The rates now range from 50 Lei m<sup>2</sup> (40 Lei 1998) to 2,400 Lei m<sup>2</sup> (50 Lei 1998).

39.4.10 Frequency of payment:

The tax is payable by two equal instalments in the 31<sup>st</sup> March and the 30<sup>th</sup> September.

39.4.11 Identification of tax collector:

No information available.,

### 39.5 Other Taxes

Other property related taxes, duties and levies include:

39.5.1 *Taxe asupra transferului proprietati mobiliare si imobiliare* (Property Transfer Tax)

This tax is payable on the value of property being transferred. Provision is made for the insurance value of the property to be substituted in prescribed circumstances. The tax is payable by the purchaser of the property and the rates vary depending on the value of the property and range from 7% for property valued at 20,000 Lei to 16% for property over 160,000 Lei. The registration of the transferred property will incur an additional fee of 2% of its value.

## 40 Russia

At the present time limited information is available.

### 40.1 Tax On Property Of Enterprises

#### 40.1.1 Statutory Provision

The tax on property was introduced by the law of 13 December 1991. It was subsequently amended with retroactive effect from 1 January 1995.

#### 40.1.2 Purpose of the tax:

The tax on property is designed to encourage enterprises to dispose of unused property.

The tax is assigned to governments of the autonomous republics, oblast and similar administrative-territorial subdivisions.

#### 40.1.3 Identification of the Taxpayer:

The taxpayers of the property tax are all domestic, international, and foreign companies and organisations and their structural subdivisions "which have property at their disposal located in Russia, its continental shelf and exclusive economic zone".

Full partnerships are also liable to property tax.

#### 40.1.4 Basis of Valuation:

Under the decree of 22 December 1993 the tax is imposed on fixed assets, intangible assets, stocks and expenses accounted for on the balance sheet. The taxable base is the annual average value of the property of an enterprise. This is defined as the sum of one half of the property value on 1 January of the current year and one half on 1 January of the subsequent year, and the sum of the property value estimated for each intervening month, all divided by 12.

Depreciation of fixed and intangible assets and trade discounts are excluded in determining the taxable base.

Under the amendments which were introduced by the December 1992 law, the following amounts are excluded from the taxable base:

- contributions to the funds which are used to pay pensions and social benefits; - amounts frozen in the vensheconombank (as on 1 January 1992);
- loans granted by an enterprise to employees; and
- in the case of banks and insurance companies the taxable base includes only fixed and current assets.

#### 40.1.5 Nature of any Exemptions or Reliefs:

The following enterprises are exempt from the property tax on any property that has no commercial application:

- enterprises financed by the state budget, executive authorities or the bar;
- enterprises engaged in producing, processing and storing agricultural products;

- religious organisations and ethnic-cultural associations; and
- public utilities including transport, laundries, etc.

Irrespective of the type of legal entity, the following categories of property are exempt from the property tax:

- property used exclusively for education and culture (i.e. Property of museums, libraries, recreational facilities for youth, etc.); and
- property used to build buffer stock for enterprises experiencing seasonal fluctuations.

#### 40.1.6 Amount of Tax:

The decree established a maximum rate of property tax of 2%. Determination of specific rates is left to local authorities. In Moscow the rate of tax has been set at 1.5%. Local authorities can also introduce relief from the tax.

#### 40.1.7 Payment of tax

The law provides for the advance payment of the property tax on the basis of the estimated average annual value of the property. The tax is paid quarterly. A final assessment is made at the beginning of the year following the year for which the tax is payable.

## 40.2 Tax On Property Of Individuals

#### 40.2.1 Statutory Provision

The law on property of individuals was approved by the parliament on 9 December 1991. This law replaced the law on local taxes of 1980 (insofar as it concerned the tax on owners of buildings) and the law on owners of transport vehicles of 1988.

#### 40.2.2 Purpose of the tax:

The tax is an annual tax on property which is defined to include:

- houses, apartments, garages, other premises, buildings and constructions; and
- motor boats, helicopters, airplanes and other transport vehicles (except automobiles, motor cycles and other vehicles with respect to which contributions are made to the road fund).

#### 40.2.3 How the tax base is set or established:

No information available.

#### 40.2.4 Basis of valuation for tax purposes:

The tax is assessed on the value of the property.

#### 40.2.5 Frequency of review of tax base:

No information available.

#### 40.2.6 Nature of any exemptions or reliefs for classes of taxpayer:

The law exempts certain categories of taxpayers from the tax (e.g. Heroes of the soviet union, persons awarded the order of glory, certain groups of disabled persons, participants of the civil war or world war II, persons entitled to benefits in connection

with the Chernobyl disaster). In addition, pensioners and military personnel (are exempt from paying the tax on buildings.

40.2.7 Challenges to tax base, valuation or assessment;

No information available

40.2.8 Nature of taxpayer;

The owner

40.2.9 Amount of tax;

With effect from 1 April 1999, the flat tax rate for this category was replaced by progressive rates. The local authorities may set rates within the following limits:

<b>Inventory value of property (RUR)</b>	<b>Tax rate (%)</b>
Up to 300,000	0.1
300,000- 500,000	0.1 - 0.3
Over 500,000	0.3 - 2

**Table 69: Russia; Tax On Property Of Individuals - Tax Rates**

The rates of tax for transport vehicles range from 0.15 to 0.5 roubles per horsepower.

40.2.10 Frequency of payment;

The tax is assessed and collected by the state tax authorities. If the tax was not paid for a particular year, the state tax authorities have up to, 3 years to collect it. Likewise, if the tax was erroneously collected for a given year, a correct assessment may be made up to 3 years afterwards.

40.2.11 Purpose to which tax is put;

The revenues are assigned to the municipality.

40.2.12 Identification of tax collector;

State Tax Authority

### **40.3 Land Tax**

40.3.1 Statutory Provision

Law Of The Russian Federation On Payments For Land, of 11 October 1991

40.3.2 Purpose of the tax;

The tax is an annual tax on land.

40.3.3 How the tax base is set or established;

No information available

40.3.4 Basis of valuation for tax purposes;

No information available

40.3.5 Frequency of review of tax base;

No information available.

40.3.6 Nature of any exemptions or reliefs for classes of taxpayer;

The following legal persons and individuals are exempt from the land tax:

- national parks, botanical gardens;
- enterprises and individuals engaged in traditional industries in locations where small ethnic groups reside;
- research organisations, laboratories and similar establishments; agricultural or forestry institutions which use land for scientific or educational purposes, as well as for testing agricultural samples of agriculture;
- establishments of culture, art and cinematography; educational, health care, sports and recreational facilities financed by the state or trade unions; and religious organisations whose land has monuments protected by the state;
- users of land which needs re-cultivation; the exemption is for the first 10 years of use;
- participants of world war II;
- certain categories of disabled persons;
- persons who suffered from the Chernobyl disaster;
- individuals who start operating a farm; the exemption is for 5 years after the land was given to them; the exemption is not denied if the land is not used for fanning;
- military men who are given land for building houses; the exemption is for that part of the tax which goes to the republican budget;
- lands used by the army for defence purposes, in accordance with special legislation;
- enterprises that maintain land used as recreational camps for children and teenagers;
- higher educational establishments, scientific research institutions;
- state communication services;
- military personnel who have been given land for building houses;
- recreation centres owned by the state and municipal bodies; and
- scientific institutions.

40.3.7 Challenges to tax base, valuation or assessment;

No information available.

40.3.8 Nature of taxpayer;

The payers of the land tax are enterprises (irrespective of the form of organisation), International associations, enterprises with foreign investments, foreign legal persons (referred to here collectively as "legal persons"), as well as individuals who own, use or lease land in the Russian federation.

40.3.9 Amount of tax;

No information available

- 40.3.10 Frequency of payment;  
No information available
- 40.3.11 Purpose to which tax is put;  
No information available
- 40.3.12 Identification of tax collector;  
No information available



## 41 Slovak Republic

### 41.1 Government Organisation And Structure

Slovakia is a unitary state and a parliamentary republic with a parliamentary system of government. It is operated on a two-tier system of government (state and local government) but with a decentralised state administration.

#### 41.1.1 Decentralised State Administration

A new system of decentralised state administration is made up of eight regional and 79 district offices. Most policy areas of local state administration are administered within these offices. Only tax offices, customs offices, military administration offices, inspection administration and some miscellaneous bodies carry out their activities outside these offices.

Regional and district offices exercise state administration in the area of:

- Agriculture, forestry and hunting
- Land registry
- Civil protection of the population
- Control
- Culture
- Education, youth and physical education
- Environment management
- Finances, prices and administration of state property
- Fire protection
- General internal administration
- Health care
- International co-operation
- Public and concession procurement
- Regional development
- Regional development strategy
- Social affairs
- State defence
- State veterinary care
- Trade license business and consumer protection
- Transportation and road management

#### 41.1.2 Regional Government

There is currently no regional self-government in Slovakia but consideration is being given to its introduction.

#### 41.1.3 Local Government

Local state administration bodies and local self-government bodies have by virtue of law strictly separated competencies. At the same time co-ordination principles in the solving of particular situations (such as territorial planning and emergency situations) are determined.

There are 2,871 municipalities in Slovakia, of which 136 had the status of a town and four were military districts.

Local self-government bodies may freely associate with other local governments and may form regional or interest organisations.

#### **41.2 Local Government Finance**

The budgets of municipalities and towns are parts of the public budgets. They are connected to state budget and the state funds local budgets by revenues from shared taxes (income tax and road tax), which represent 22.7% of total revenues of municipalities. Further, purpose-bound and non-purpose bound grants and transfers of current and capital character represent 17.5 % of total incomes of municipalities. Other revenues come from the municipality's own activities (including real estate tax, 10.9%) and loans, 9.5%.

Municipalities' budget revenues in 1997 represented a total amount of 28.8 billion Koruny (SKK) and expenditures were 26.6 billion SKK. Expenditures were oriented mostly to services to citizens (47.5% of total) and to administration (21.2% of total). Capital expenditures represented 37.6% of total municipalities' and towns' expenditures

#### **41.3 Inheritance and Gift Tax**

##### 41.3.1 Purpose of the tax:

The tax is a tax on the lifetime transfer, gift or inheritance of property.

##### 41.3.2 How the tax base is set or established:

Taxpayers are required to make appropriate returns to the tax authorities within 30 days of the transfer.

##### 41.3.3 Basis of valuation for tax purposes:

The basis of the tax is the value of the property after payment of any debts and liabilities.

##### 41.3.4 Nature of any exemptions or reliefs for classes of taxpayer:

No information available.

##### 41.3.5 Challenges to tax base, valuation or assessment:

No information available.

##### 41.3.6 Nature of taxpayer:

The recipient of the gift or the beneficiary is the taxpayer.

41.3.7 Amount of tax;

The tax rates are dependent upon the relationship between the donor and donee.

Class 1: all descendants, spouses and all ascendants;

Class 2: brothers and sisters, persons who shared the household with the taxpayer for at least 1 year and had charge of the household or who were maintained by the taxpayer, spouses of children, nephews, nieces, uncles and aunts;

Class 3: all other individuals and legal persons

The following tables gives the various rates of tax but the actual tax payable is reduced by 50% for all classes of taxpayer.

Taxable base less than 1 million SKK		1% chargeable
More than	Less than	
1 million	2 million SKK	10,000 + 1.3% of the amount over SKK 1 million
2 million	5 million SKK	23,000 + 1.5% of the amount over SKK 2 million
5 million	7 million SKK	68,000 + 1.7% of the amount over SKK 5 million
7 million	10 million SKK	102,000 + 2.0% of the amount over SKK 7 million
10 million	20 million SKK	162,000 + 2.5% of the amount over SKK 10 million
20 million	30 million SKK	412,000 + 3.0% of the amount over SKK 20 million ,
30 million	40 million SKK	712,000 + 3.5% of the amount over SKK 30 million
40 million	50 million SKK	1,062,000 + 4.0% of the amount over SKK 40 million
50 million and more SKK		1,462,000 + 5.0% of the amount over SKK 50 million

**Table 70: Slovak Republic; Inheritance & Gift Tax - Class 1 Taxpayers**

Less than 1 million		3%
More than	Less than	
1 million	2 million SKK	30,000 + 3.5% of the amount over SKK 1 million
2 million	5 million SKK	65,000 + 4% of the amount over SKK 2 million
5 million	7 million SKK	185,000 + 5% of the amount over SKK 5 million
7 million	10 million SKK	285,000 + 6% of the amount over SKK 7 million
10 million	20 million SKK	465,000 + 7% of the amount over SKK 10 million
20 million	30 million SKK	1,165,000 + 8% of the amount over SKK 20 million
30 million	40 million SKK	1,965,000 + 9% of the amount over SKK 30 million
40 million	50 million	SKK 2,865,000 + 10.5% of the amount over SKK 40 million
50 million and more		SKK 3,915,000 + 12% of the amount over SKK 50 million the rates

**Table 71: Slovak Republic - Inheritance & Gift Tax - Class 2 Taxpayers**

Not more than SKK 1 million		7%
Less than	More than	
1 million	2 million SKK	70,000 + 9% of the amount over SKK 1 million
2 million	5 million SKK	160,000 + 12% of the amount over SKK 2 million
5 million	7 million SKK	520,000 + 15% of the amount over SKK 5 million
7 million	10 million SKK	820,000 + 18% of the amount over SKK 7 million;
10 million	20 million SKK	1,360,000 + 21% of the amount over SKK 10 million
20 million	30 million SKK	3,460,000 + 25% of the amount over SKK 20 million
30 million	40 million SKK	5,960,000 + 30% of the amount over SKK 30 million
40 million	50 million	SKK 8,960,000 + 35% of the amount over SKK 40 million

50 million and more	SKK 12,460,000 + 40% of the amount over SKK 50 million
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**Table 72: Slovak Republic -Inheritance & Gift Tax - Class 3 Taxpayers**41.3.8 Frequency of payment:

Single payment.

41.3.9 Purpose to which tax is put:

Tax forms part of the general state tax revenue and is not allocated for a specific purpose.

41.3.10 Identification of tax collector:

National Tax authorities.

**41.4 Land Tax**41.4.1 Statutory Provision

The tax is regulated by Act 317/1992, as amended, effective from 1 January 1993.

41.4.2 Purpose of the tax:

The tax is an annual tax on the ownership of land.

41.4.3 How the tax base is set or established:

The legislation covers two taxes firstly, the tax on land, and secondly the tax on buildings.

41.4.4 Basis of valuation for tax purposes:

The tax is based on the purchase price of the land for agricultural land. For all other land, the tax is based on a uniform per m<sup>2</sup>.

41.4.5 Frequency of review of tax base:

For agricultural land, the tax base does not change until such a time as the property is sold, when the sale price will become the new basis of for the tax.

41.4.6 Nature of any exemptions or reliefs for classes of taxpayer:

A range of exemptions and reliefs are available which include:

- Land owned by the state or by municipalities;
- Land used by churches, political parties, schools, museums and galleries, libraries and state archives, health and social institutions, parks, natural reservations and other land used in the public interest;
- Newly re-cultivated land, but not forests; the exemption is for 5 years;
- Newly cultivated forests, 25 years;
- Land used for public transport;
- Developed areas which are built up by constructions which are subject to the tax on buildings.

41.4.7 Challenges to tax base, valuation or assessment;

No information available.

41.4.8 Nature of taxpayer;

The owner of the land is the taxpayer. Where land is owned by the state, the occupier of the land is liable for the tax.

For agricultural and forest land which has been let for greater than 5 years, the lessee will be liable for the tax.

41.4.9 Amount of tax;

For agricultural land, two rates of tax apply depending on the use to which the land is put to. Arable land, hop-fields, vineyards, gardens and orchards are taxed at a rate of 0.75% of the purchase price.

Meadows, pastures, forests and lakes with fish farming are taxed at a rate of 0.25% of the purchase price.

Land used for other purposes is taxed according to its area and type and by reference to the size of the municipality in which it is situated.

The tax on other land is calculated according to its area. The annual tax for land with planning permission is 1 SKK per m<sup>2</sup> and for all other land the tax is 0.10 SKK per m<sup>2</sup>.

41.4.10 Frequency of payment;

Tax is payable in four equal instalments on or before 31<sup>st</sup> March, 30<sup>th</sup> June, 30<sup>th</sup> September and 30<sup>th</sup> November for the current year.

Tax on arable land, hop-fields, vineyards, gardens and orchards is, however, payable in three instalments: 20% of the tax on or before 30<sup>th</sup> April, 30% on or before 31<sup>st</sup> August and 50% on or before 30<sup>th</sup> November for the current year.

If the annual tax of an individual does not exceed 500 SKK or of a legal person 5,000 SKK, the tax must be paid in one lump sum on or before 31<sup>st</sup> March.

41.4.11 Identification of tax collector;

Tax returns are sent to all taxpayers by the state tax authorities who must return them not later than 15<sup>th</sup> March. Where there have been no changes since the last return was made, a further return is not required.

## 41.5 Tax on Buildings

41.5.1 Statutory Provision

The tax is regulated by act 317/1992, as amended, effective from 1 January 1993.

41.5.2 Purpose of the tax;

The tax is an annual tax on the ownership of buildings.

41.5.3 How the tax base is set or established;

No information available.

41.5.4 Basis of valuation for tax purposes;

The tax is based on the area of the building which is to be measured on a prescribed basis. The area is then multiplied by the rate appropriate for that use and adjusted according to the size of the municipality in which it is situated.

41.5.5 Frequency of review of tax base;

The tax base will change as and when the size of a property or its use changes.

41.5.6 Nature of any exemptions or reliefs for classes of taxpayer;

A range of reliefs and exemptions apply which include:

- Buildings such as barrages, water supply systems, sewers, energy constructions and public thoroughfares;
- Buildings owned by the state or municipalities, by churches, political parties, schools, museums, galleries, libraries, health and social institutions, cultural monuments;
- Buildings used for public transport and ecology;
- Dwelling houses owned and used by disabled persons;
- 5-year exemption for constructions in which heating by coal has been replaced by an ecological system of heating.

Temporary exemptions from the tax are granted to specified residential buildings.

A 15-year exemption applies to:

- Newly constructed dwelling houses used only by the owner or by his closest relations or to newly constructed dwelling houses with owner-occupied units;
- Dwelling houses which had been expropriated, confiscated or nationalized and have been returned to the former owners or their heirs;
- Rooming-houses constructed before 1948 and occupied predominantly by tenants.

41.5.7 Challenges to tax base, valuation or assessment;

No information available.

41.5.8 Nature of taxpayer;

The owner or beneficial owner of the property.

41.5.9 Amount of tax;

The rates are calculated per square metre of the built-up area according to the use of the building, as follows:

Residential buildings,	SKK 1
Weekend and recreation buildings,	SKK 3
Isolated garages,	SKK 4
Buildings used for agricultural production, forestry or water enterprises,	SKK 1
industrial and energy property	SKK 5
other buildings used for business purposes,	SKK 10
any other buildings or construction not mentioned above,	SKK 3

**Table 73: Slovak Republic; Property Tax Rates**

The rates are increased by SKK 0.75 per m<sup>2</sup> for each floor, if the building more than one floor.

The size of the municipality in which the building is located determines the final amount of the above rates. The rates are multiplied by the coefficients indicated below:

Coefficient	
0.3	in municipalities with not more than 300 inhabitants;
0.6	in municipalities with not more than 600 inhabitants;
1.0	in municipalities with not more than 1,000 inhabitants;
1.4	in municipalities with not more than 6,000 inhabitants;
1.6	in municipalities with not more than 10,000 inhabitants;
2.0	in municipalities with not more than 25,000 inhabitants.
2.5	in municipalities with not more than 50,000 inhabitants;
3.5	in municipalities with more than 50,000 inhabitants;
4.5	in Bratislava

**Table 74: Slovak Republic; Property Tax - Location Coefficients**

Where a room in a house is used for business purposes the rate is increase by a maximum of SKK 10.00.

41.5.10 Frequency of payment;

Tax is payable in four equal instalments on or before 31<sup>st</sup> March, 30<sup>th</sup> June, 30<sup>th</sup> September and 30<sup>th</sup> November for the current year.

If the annual tax of an individual does not exceed 500 SKK or of a legal person 5,000 SKK, the tax must be paid in one lump sum on or before 31<sup>st</sup> March.

41.5.11 Identification of tax collector;

Tax returns are sent to all taxpayers by the state tax authorities who must return them not later than 15<sup>th</sup> March. Where there have been no changes since the last return was made, a further return is not required.

## **41.6 Other Taxes**

There are a number of other property related taxes, which include:

### **41.6.1 Property Transfer Tax – (regulated by act 318/1992)**

This is a tax payable on the transfer of property. The tax is payable by the vendor but the purchaser must guarantee the payment should the vendor default. Where property is jointly owned or jointly purchased the principle of joint and several liability applies. The tax is based on the higher of the sale price or the value determined by the application of the Price Decree, which specifies how the property should be valued. The vendor has to inform the tax authorities of the transfer within 30 days. The tax rate is 5% which is payable within 30 days of the notice of assessment.



## 42 Slovenia

### 42.1 Government Organisation And Structure

Slovenia is a unitary state with a parliamentary system of government. It operates a two-tier system of government (state and local government) but with a decentralised state administration.

#### 42.1.1 Decentralised State Administration

Decentralised administrative bodies of the ministries. There are 58 administrative units that have been set. The government appoints heads of the after consulting the municipal councils.

#### 42.1.2 Regional Government

There is no regional government in Slovenia.

#### 42.1.3 Local Government

On 1 January 1995, a new system for organising public administration and local self-government came into force. New municipalities were created and council and mayoral elections took place on 4 December 1994.

Slovenia has introduced a single-tier system of local government. In the new system, a municipality usually performs only local tasks. It only performs state tasks if it consents to do so. An exception applies to cities and towns that have the status of a "city municipality

At present, there are 192 municipalities, but this number may rise in future. Municipalities can join and form provinces or other larger self-governing communities.

### 42.2 Local Government Finance

Municipalities are, in principle, self-financed from local taxes and other duties, and from revenues received from municipal property. Economically underdeveloped municipalities that cannot ensure the execution of their tasks from their own financial resources receive additional funding from the state budget. The activities of provinces or other larger self-governing communities are financed by the municipalities that created these communities.

### 42.3 Immoveable Property Transfer Tax

#### *Davek Na Promet Nepremicnin*

#### 42.3.1 Statutory Provision

The tax is levied under the provisions of the Law on Tax on Transfer of Immoveable property (Official Gazette Nos. 57/99).

#### 42.3.2 Purpose of the tax;

The tax is levied on the sale of all immoveable property.

- 42.3.3 How the tax base is set or established:  
The taxpayer makes a return within 15 days of the date of contract to the local tax administration.
- 42.3.4 Basis of valuation for tax purposes:  
Market value of the property at the date of disposal. Where a property is not sold at market value, the tax administration may adjust the price accordingly.
- 42.3.5 Nature of any exemptions or reliefs for classes of taxpayer:  
The following transfers are exempt:
  - transfers to diplomatic and consular missions and other international organisations according to international contracts and conventions;
  - transfers made under the privatisation process;
  - transfers of agricultural land; and
  - transfers connected with enforcement of tax collection.
- 42.3.6 Challenges to tax base, valuation or assessment:  
None.
- 42.3.7 Nature of taxpayer:  
The vendor is liable for the tax.
- 42.3.8 Amount of tax:  
2% of the disposal price.
- 42.3.9 Frequency of payment:  
Single payment on disposal of the property.
- 42.3.10 Purpose to which tax is put:  
The tax revenues are allocated to local government.
- 42.3.11 Identification of tax collector:  
The local tax administration.
- The local tax administration must deal with all returns within 30 days and the taxpayer has a period of 30 days from the notification of the amount of tax to pay.

#### **42.4 Inheritance And Gift Tax**

##### ***Davek Na Dediščine In Darila***

- 42.4.1 Statutory Framework:  
Law on Tax on Citizens (Official Gazette Nos. 36/88, 8/89, 48/90, 8/91, 14/92, 7/93, 18/96)
- 42.4.2 Purpose of the tax:  
The tax is levied on all gifts and the inheritance of property.

42.4.3 How the tax base is set or established;

The recipient of the gift or inheritance must inform the tax authorities within 15 days of the receipt of the gift that it has been received. The taxpayer has 30 days to pay the tax from notification of the amount due.

42.4.4 Basis of valuation for tax purposes;

The basis of valuation is the market value of the gift or property transferred less any liabilities, debts or similar encumbrances.

42.4.5 Nature of any exemptions or reliefs for classes of taxpayer;

- individuals classified under Class 1
- taxpayers who inherit a house or apartment and who own only one house or apartment
- themselves and have lived in the same house as the decedent; and
- farmers who inherit land.

42.4.6 Challenges to tax base, valuation or assessment;

No information available.

42.4.7 Nature of taxpayer;

The recipient of the gift or inheritance is responsible for the payment of the tax.

42.4.8 Amount of tax;

Class I:	all direct descendants and spouses;
Class II:	parents, siblings and their descendants;
Class III:	grandparents, and
Class IV:	others.

**Table 75: Slovenia; Inheritance Tax Relationship Classes**

Class II	5% to 14%
Class III	8% to 17%
Class IV	11% to 30%

**Table 76: Slovenia; Inheritance Tax Rates**

42.4.9 Frequency of payment;

A single payment is made within 30 days of notification of the amount due.

42.4.10 Purpose to which tax is put;

The revenues raised from the tax is allocated to local government.

42.4.11 Identification of tax collector;

The tax is administered by the Ministry of Finance.

## 42.5 Property Tax

### *Davek Od Premoženja*

#### 42.5.1 Statutory Framework:

Law of Tax on Citizens (Official Gazette Nos. 36/88, 8/89, 48/90, 8/91, 14/92, 7/93, 18/96)

#### 42.5.2 Purpose of the tax:

The tax is an annual tax on the value of property.

#### 42.5.3 How the tax base is set or established:

No information available.

#### 42.5.4 Basis of valuation for tax purposes:

The taxable base for urban premises is their ascertainment value according to special criteria issued by the Government.

The value of buildings or second homes is undertaken on a point system.

Number of points x value of the point/m<sup>2</sup> = value of the building/m<sup>2</sup>

Value of the building/m<sup>2</sup> x useful area in m<sup>2</sup> = assessed value of the building

The value of the point is determined yearly by municipality.

#### 42.5.5 Frequency of review of tax base:

The rate of tax is updated annually by the cost of living index.

#### 42.5.6 Nature of any exemptions or reliefs for classes of taxpayer:

The following are exempt from the property tax

- buildings of less than 160 square metres;
- buildings used for agricultural purposes;
- cultural monuments; and
- there is a temporary exemption for ten years to taxpayers who own a newly constructed buildings.
- Business premises, used by owner or user for business activity;
- Temporary exemption of 10 years for new buildings and for repaired or renewed buildings, if the value of these buildings is increased with renovation for more than 50%;
- For tax payer with more than 3 family members, who live with him in his own house, the tax is decreased for 10% for 4th member and for every additional family member;

#### 42.5.7 Challenges to tax base, valuation or assessment:

No information available.

#### 42.5.8 Nature of taxpayer:

The actual or beneficial owner of the property.

- 42.5.9 Amount of tax;  
The tax rate for urban premises depends of the type of construction and their value. The tax rate for urban dwellings varies from 0.10% to 1% of their value. The tax rates on premises used for rest and recreation are within the range of 0.20% to 1.50% of their value.
- 42.5.10 Frequency of payment;  
No information available.
- 42.5.11 Purpose to which tax is put;  
The tax is one of a range of taxes that forms part of the revenues of the municipality.
- 42.5.12 Identification of tax collector;  
No information available.

## **42.6 Local Charge for the Use of Building Ground** *Nadomestilo za uporabo stavbnega zemljišca*

- 42.6.1 Statutory Provisions  
Building ground law (Official Gazette Nos. 18/84, 32/85, 33/89, 24/92, 24/97)
- 42.6.2 Purpose of the tax;  
The tax is an annual tax on building land and buildings.
- 42.6.3 How the tax base is set or established;  
No information available.
- 42.6.4 Basis of valuation for tax purposes;  
No information available.
- 42.6.5 Frequency of review of tax base;  
No information available.
- 42.6.6 Nature of any exemptions or reliefs for classes of taxpayer;  
Exemptions include;
  - land and buildings used by army, church and foreign embassies;
  - for new buildings or apartments - temporary exempt for 5 years;
  - for people with low incomes - partial or full exemption.
- 42.6.7 Challenges to tax base, valuation or assessment;  
No information available.
- 42.6.8 Nature of taxpayer;  
The owner or occupier of building land.
- 42.6.9 Amount of tax;  
The tax is fixed by each local authority.

42.6.10 Frequency of payment;

No information available

42.6.11 Purpose to which tax is put;

The tax is the revenue of the local authority.

42.6.12 Identification of tax collector;

The local authority.

#### **42.7 Wealth Tax**

There is no wealth tax in Slovenia.

## 43 Spain

### 43.1 Government Organisation and Structure.

Spain is a parliamentary monarchy and its administration is heavily based on a regional structure.

Since the restoration of parliamentary democracy in Spain in 1978, there has been a substantial decentralisation, based on the creation of the new regional tier of government, the Autonomous Communities. The provinces and municipalities, by contrast, are longer-established, having formed the basis for a two-tier structure of local administration prior to 1978.

Spain is now a unitary state with three levels of decentralised government:

- Regions or "Autonomous Communities" (ACs),
- Provinces,
- Municipalities.

Development of the ACs since 1978 has been a gradual process, and has proceeded at an uneven pace. The structure of ACs has not been specified in the Constitution, but has been the outcome of a process of decentralised initiative, originally intended to permit those regions with a strongly nationalistic identity to choose a more decentralised system of government.

The ACs that have been established have been of two basic types, with "high" and "low" responsibilities. ACs established as a result of the referendum process have been able to claim a broader range of functions and powers than those established without referendum, although those in the latter situation have the possibility of moving to the group with "high" responsibilities after five years. Of the 17 ACs, 7 have been entitled to an immediate "high" level of responsibilities. In practice, the main difference in the range of responsibilities between the two groups has been in the assignment of certain health and education functions, which are operated at AC level in the case of those with "high" responsibilities, but by central government in the case of the rest.

There are a total of 50 provinces, of which seven cover an area identical to that of one of the new ACs; these seven have been renamed Autonomous Communes, and combine the functions of both the provinces and the ACs in a single body.

There are currently 8078 municipalities.

The functions of the central government, ACs, provinces and municipalities are not sharply separated, and there is considerable overlapping. Education and health services are assigned to some but not all of the ACs, and are otherwise the responsibility of the centre. Responsibility for housing, roads and transport, welfare services and economic development is divided between the centre, the ACs and, in some cases, the provinces, whilst responsibility for community services, local transport, and sports and cultural facilities is divided between all three levels of

sub-central government. Responsibility for the supervision and financing of local government is divided between central government and the ACs.

The range of functions performed by municipal governments in Spain is not limited to a defined list of functions; under the Constitution they are guaranteed a degree of autonomy, and have the right to intervene in any matter which concerns their interests. The 1985 Local Government Act has laid down a list of compulsory municipal functions, but beyond this list, municipalities are able to undertake other services and functions benefiting the local community. The compulsory functions which municipalities must perform vary according to the size of the municipality; all must provide street lighting, sewage, water supply, road surfacing, cemeteries, food regulation, and refuse collection, whilst larger municipalities are required to perform a wider range of services (e.g. fire services in municipalities over 20,000 inhabitants and public transport in municipalities over 50,000 inhabitants).

## **43.2 Local Government Finance**

### **43.2.1 Autonomous Communities**

The principal source of revenues of the Autonomous Communities is their entitlement to a share of the receipts from certain major taxes under the control of the central government.

They also receive revenues from a limited number of "ceded" taxes: stamp duties and property transfer tax, wealth tax (net worth tax), death duties and gift taxation, and gambling taxes. These are taxes which are still governed by legislation of the central government, but are administered by the ACs. The ACs are entitled to retain all of the revenue collected in their area.

Autonomous Communities have negligible tax-raising powers of their own. They are in principle entitled to levy surcharges on the ceded taxes and on the personal income tax (although, in the case of the personal income tax, only one case exists where an AC has levied such a surcharge, this being the case of a surcharge levied by the Basque Country to finance the costs of repairing flood damage in 1984). They are also entitled to levy taxes of their own on bases which do not overlap with the bases of central government taxes. So far few of the ACs have made use of the scope to levy their own surcharges or taxes. A few ACs have levied additional taxes on gambling; also, one has levied a tax on under productive land, and another an excise tax on oil products.

### **43.2.2 Provinces**

The provinces are heavily dependent on transfers of revenue from the central government. Until the introduction of VAT at the start of 1986, the provinces had been entitled to a share of the revenues from the general sales tax. Subsequently, their entitlement to revenues from taxation was confined to a limited surcharge on the municipal business tax.

### 43.2.3 Municipalities

The bulk of the revenues of the municipalities come from their own sources of finance. Municipalities raise tax revenues from property taxes, a vehicle tax, and a local business tax. Fees and charges are also a particularly significant source of revenue at the municipal level.

## **43.3 Local Property Tax (IBI)**

### ***Impuesto sobre bienes inmuebles***

#### 43.3.1 Statutory Provision

The tax is levied under the provisions of the Law No. 39 of 28<sup>th</sup> December 1988 and came into force on the 1<sup>st</sup> January 1990.

#### 43.3.2 Purpose of the tax:

Annual tax on the capital value of land and buildings. The income raised contributes to the revenues of the commune for the provision of local services.

#### 43.3.3 How the tax base is set or established:

No information available.

#### 43.3.4 Basis of valuation for tax purposes:

The tax is based upon the cadastral value of the property. This is based on 1993 values and an indexation figure of 3.5% p.a. is then applied to give the current value of the property. The indexation of cadastral values is not mandatory but is at the discretion on the communes. Where they do apply indexation the tax rate may be reduced for 3 years after the indexation.

#### 43.3.5 Frequency of review of tax base:

The cadastral base has not been changes since 1994 when it was based on 1993 values.

#### 43.3.6 Nature of any exemptions or reliefs for classes of taxpayer:

No information available.

#### 43.3.7 Challenges to tax base, valuation or assessment:

The exemptions include:

- property owned by the State for defence purposes
- property owned by the church
- property owned by the Red Cross
- diplomatic premises.

#### 43.3.8 Nature of taxpayer:

The taxpayer is the owner of the property.

#### 43.3.9 Amount of tax:

The basic rate of tax is 0.4% for property situated in urban areas and 0.3% for property situated in rural areas. Communes have the powers to charge higher rates of tax depending on the population of the commune as indicated in

	(maximum %)	Rate On Rural Land (maximum %)
Up to 5,000 inhabitants	0.85	0.65
up to 20,000 inhabitants	0.95	0.75
up to 50,000 inhabitants	1.0	0.8
up to 100,000 inhabitants	1.05	0.85

**Table 77: Spain; Maximum rates of *Impuesto sobre bienes inmuebles***

43.3.10 Frequency of payment:

No information available.

43.3.11 Identification of tax collector:

The tax is administered by the commune or local authority.

#### **43.4 Succession And Gift Duty**

##### ***Impuesto sobre sucesiones y donaciones***

43.4.1 Statutory Provision

The tax is levied under the provisions of the Law No 29 of the 18<sup>th</sup> December 1987 as amended.

43.4.2 Purpose of the tax:

The tax is a tax on the inheritance of property or its receipt by means of a gift.

43.4.3 How the tax base is set or established:

Returns are made to the tax authorities within the autonomous communities either on receipts of the gift or by the estate on death.

43.4.4 Basis of valuation for tax purposes:

The basis of valuation is the open market value of the property given or inherited by each person less any liabilities and some death related expenses.

43.4.5 Frequency of review of tax base:

Single payment.

43.4.6 Nature of any exemptions or reliefs for classes of taxpayer:

The exemptions include:

- The transfer of one own home of value up to 20,000,000 Pesetas (ESP).
- Certain securities
- Life insurance policies acquired before 19<sup>th</sup> January 1987.

95% relief from the tax can be given in respect of certain one man or small businesses.

Whilst not specifically a relief or exemption, provision is made for different rates of taxes depending on the relationship of the parties concerned.

- 43.4.7 Challenges to tax base, valuation or assessment:  
No information available.
- 43.4.8 Nature of taxpayer:  
The person receiving the inheritance or gift.
- 43.4.9 Amount of tax:  
No information available
- 43.4.10 Frequency of payment:  
Single payment.
- 43.4.11 Purpose to which tax is put:  
The revenues are remitted to the autonomous communities as part of their normal revenue.
- 43.4.12 Identification of tax collector:  
The tax is administered by and collected by the tax authorities in the autonomous communities. They also have limited rights to vary the application of the tax but may not increase the overall tax burden.

### **43.5 Urban Land Appreciation Tax**

#### ***Impuesto de valor de los terrenos de naturaleza urbana***

- 43.5.1 Statutory Provision  
No information available.
- 43.5.2 Purpose of the tax:  
The tax is a form of capital gains tax imposed by the local commune. Revenues raised are part of the income from the provision of local services.
- 43.5.3 How the tax base is set or established:  
Not applicable.
- 43.5.4 Basis of valuation for tax purposes:  
The basis of valuation is the increase in valuation of the land between acquisition and disposal.  
  
The increase in value is first calculated and then multiplied by the appropriate rate given in Table 78 as fixed by the commune. The tax is then charged at a fixed rate depending on the size of the commune as indicated in Table 79.
- 43.5.5 Frequency of review of tax base:  
Not applicable.
- 43.5.6 Nature of any exemptions or reliefs for classes of taxpayer:  
The exemptions include the following:

- Land owned by the State, Regional or local governments
- Land owned by educational establishments
- Land owned by charities
- Land owned by the social security system.
- The Red Cross

43.5.7 Challenges to tax base, valuation or assessment:

No information available.

43.5.8 Nature of taxpayer:

The tax is payable by the transferor but where the transfer takes place as a result of inheritance or as a gift, the tax is payable by the transferee.

43.5.9 Amount of tax:

The amount of tax is based on four factors:

- The period of ownership
- The size of the commune where the property is situated, and
- The rate determined by the commune with the prescribed range having regard to the period of ownership (Table 78)
- An actual rate determined by the commune with the prescribed range (Table 79)

The range of tax rate is prescribed by central government but the actual rate is determined by the commune within the individual bands.

<b>Period of Ownership</b>				
<b>Population</b>	<b>0 - 5 years</b>	<b>5 - 10 years</b>	<b>10 - 15 years</b>	<b>16 - 20 years</b>
Up to 50,000 inhabitants	2.4% - 3.1%	2.1% - 2.8%	2.0% - 2.7%	2.0% - 2.7%
100,000 inhabitants		2.3% - 3.0%	2.0% - 2.8%	2.1% - 2.7%
500,000 inhabitants	2.7% - 3.4%	2.5% - 3.2%	2.2% - 2.9%	2.2% - 2.8%
1,000,000 inhabitants	3.0% - 3.6%	2.7% - 3.4%	2.5% - 3.1%	2.3% - 2.9%
over 1,000,000 inhabitants	3.1% - 3.7%	2.9% - 3.7%	2.6% - 3.2%	2.4% - 3.0%

**Table 78: Spain; Tax Rates adjusted for period of ownership *Impuesto de valor de los terrenos de naturaleza urbana***

<b>Population</b>	<b>Minimum Rate %</b>	<b>Maximum Rate (%)</b>
Up to 5,000 inhabitants	16	26
up to 20,000 inhabitants	17	27
up to 50,000 inhabitants	18	28
up to 100,000 inhabitants	19	29
over 100,000 inhabitants	20	30

**Table 79: Spain; Tax Rates *Impuesto de valor de los terrenos de naturaleza urbana***

43.5.10 Frequency of payment:

Single payment.

43.5.11 Identification of tax collector:

Tax is administered at commune level.

43.5.12 Typical examples of the application of the tax base:

Assume a property had been owned for 10 years in a municipality with a population of 110,000 persons. The increase in value is 100,000 PTE.

Taxable amount = 3% (Table 78) x 10 years = 30%

Taxable amount = 30% of 100,000 = 30,000 PTE

Tax payable = 30,000 PTE @ 30% (Table 79) = 9,000 PTE.

The above example assumes tax rates as indicated in Table 78 and Table 79.

## **43.6 Wealth Tax**

### ***Impuesto Sobre El Patrimonio***

43.6.1 Statutory Provision

The tax is levied under the provisions of the Law No. 19 of 6<sup>th</sup> June 1991 as amended. The Basque country have a separate law in relation to its Wealth Tax.

43.6.2 Purpose of the tax:

The tax is a tax on the value of all of a taxpayer's assets. The decision whether to levy the tax is determined by each autonomous community.

43.6.3 How the tax base is set or established:

The tax is assessed on a self-assessment basis with taxpayers making annual returns.

43.6.4 Basis of valuation for tax purposes:

The tax is based on the value of all assets less any outstanding liabilities i.e., the net wealth, as at the 31<sup>st</sup> December each year.

- 43.6.5 Frequency of review of tax base:  
Non applicable
- 43.6.6 Nature of any exemptions or reliefs for classes of taxpayer:  
The exemptions include:
- Property forming part of Spain's heritage
  - Works of art
  - Household furniture
  - Certain securities and pension rights.
  - The first ESP 17,300,000 of net wealth
  - Property and property rights assigned to a business
- 43.6.7 Challenges to tax base, valuation or assessment:  
No information available.
- 43.6.8 Nature of taxpayer:  
All persons living or having property in Spain.
- 43.6.9 Amount of tax:  
The tax is based on 8 bands ranging from 0.2% on net wealth of less than ESP 27,262,000 to 2.5% on net wealth above ESP 1,744,768,000
- 43.6.10 Frequency of payment:  
Single payment – the possibility of paying by instalments is prohibited.
- 43.6.11 Purpose to which tax is put:  
The revenue from the tax is assigned to the autonomous communities
- 43.6.12 Identification of tax collector:  
The local tax authority (autonomous communities) administer and collect the tax. In addition, they have certain legislative powers over the tax.

### **43.7 Other Taxes**

There are a number of other property related taxes which should be noted:

- 43.7.1 Local Business Tax (Impuesto sobre actividades economicas) (IAE)  
This is an annual local tax on individuals and businesses undertaking business within Spain. The tax contains a number of different elements which include a locally determined quota for the type of business, the size of the business property, and a locational adjustment. The maximum tax chargeable is 15% of the notional average profit of the business.
- 43.7.2 Declaracion de Obra Nueva.  
Tax is payable by the owner on the completion of new construction at 0.5% of the declared value.

- 43.7.3 Impuesto sobre radicación  
This is a local tax levied on industrial and commercial activities. This is an annual tax, the amount varies depending on the location
- 43.7.4 Chamber of Commerce Tax  
A levy of 2% of the Corporation Tax is paid to the local Chamber of Commerce
- 43.7.5 IVA or VAT  
The standard rate is 12% but reduced to 6% on the sale of new private housing. construction works bear IVA at 12%, commercial rents are taxed at 12%.
- 43.7.6 Impuesto sobre transmisiones patrimoniales (ITP)  
Tax on transfer of property. Real property is taxed at 6% of value, and personal property at 4% and leases at 1%.
- 43.7.7 Tax on construction, installation and works (Impuesto sobre construcciones, instalaciones y obras).  
This is a relatively new tax charged by local authorities on the owners of property where construction works is carried out. The maximum rate of tax is 2.4%.



## 44 Sweden

### 44.1 Government Organisation and Structure

Sweden is a constitutional monarchy with a parliamentary form of government. It operates on a two-tier system:

- The state
- Local government

County councils and municipalities or communes play an important part in the public sector. There are 23 county councils, each with a popularly elected council entitled to levy an income tax and responsible chiefly for health and medical care in its area as well as certain types of education and vocational training.

There are 286 municipalities. Each has a popularly elected council with the right to levy income taxes and charge fees for various services. They thus have discretion to a great extent over service provision, but are required to ensure some basic services for which they receive considerable subsidies from central government. Responsibilities include housing, roads, water supply, sewerage, basic education, child and old-age care, and cultural and leisure activities.

### 44.2 Local Government Finance

The main sources of local government finance are:

- Local Income Tax and other Local Taxes, 48%
- Charges
- Grants, 26%

### 44.3 Real Estate Tax

#### *Fastighetsskattelagen*

#### 44.3.1 Purpose of the tax:

Owner occupiers of property are deemed to received the benefit of not having to pay rent for the property which they occupy. Consequently the real estate tax is seen as a means of taxing this implied benefit. Where the tax is levied on a taxpayer whose business is the letting out of property the amount of tax payable can be deducted as an expense from the gross income for income tax purposes.

#### 44.3.2 How the tax base is set or established:

With effect from 1996 the tax base is determined by the Tax Authority in each county and they are assisted by the National Land Survey of Sweden. The National Land Survey maintains a computerised database containing sales details of all properties.

#### 44.3.3 Basis of valuation for tax purposes:

The “assessed value” for the tax is 75% of the market value of the property for its best and highest use. The reduction to 75% provides a cushion against any valuation error that may occur. The date of valuation is two years preceding the revaluation.

From 1996 the values of property have been increased annually by indexation. However indexation of family dwellings and apartments was frozen in 1997 as a result of a rapidly rising property market.

For residential property there is a substantial evidential base for determining the assessed value. A valuation approach based on the analysis of comparable sales is adopted. Typically there are just under 60,000 sales of residential property each year. Where the use of a property is restricted by some form of statutory use, such as a planning restriction, then the valuation must take account of that restriction.

#### 44.3.4 Frequency of review of tax base:

The tax base is reviewed every 6 years with a rolling programme of revaluations depending on the class of property. The current cycle commenced in 1996 with the revaluation of family houses.

The following table shows the programme for the next 4 years.

Property Class	Next Revaluation	Basis of assessment	Last Revaluation	Basis of assessment
Apartment buildings	2000	75% of 1998 value	1994	75% of 1992 value
Industrial	2000	75% of 1998 value	1994	75% of 1982 value
Special Property	2000	75% of 1998 value	1994	75% of 1982 value
One and two family dwellings	2002	75% of 2000 value	1996	75% of 1984 value
Agriculture and forestry	2004	75% of 2002 value	1998	75% of 1986 value

**Table 80: Sweden; Revaluation programme**

#### 44.3.5 Nature of any exemptions or reliefs for classes of taxpayer:

A range of property are exempt. These include:

- Churches and other religious buildings
- Prescribed public buildings
- Educational premises
- Cultural buildings

In addition to the above exemptions, new dwellings are exempt from the tax for the first 5 years and then taxed at 50% of the standard rate for the following 5 years.

#### 44.3.6 Challenges to tax base, valuation or assessment:

Taxpayers may challenge their assessed value and must do so before the 15<sup>th</sup> December. Appeals are heard by the tax courts and are usually informal with the taxpayers representing themselves. Professional representation is only common in exceptional circumstances.

44.3.7 Nature of taxpayer;

The owner of the property is responsible for the payment of the tax. Where a property is let out to another family then the income is taxed on the same basis as income from capital.

44.3.8 Amount of tax;

The table below show both the current rates of tax for the various types of property together with rates for the last 6 years.

<b>Property Class</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>
	%	%	%	%	%	%	%
One & two family dwellings	1.50	1.50	1.70	1.70	1.70	1.50	1.50
Apartment buildings	1.50	1.50	1.70	1.70	1.70	1.30	1.20
Commercial	-	-	1.00	1.00	1.00	1.00	1.00
Industrial	-	-	0.50	0.50	0.50	0.50	0.50
Hydro electric	-	-	0.50	342	2.21	0.50	0.50

**Table 81: Sweden; Real estate tax rates 1994 - 2000**

44.3.9 Frequency of payment;

The tax is collected though the income tax system and the payments of wages and salaries.

44.3.10 Identification of tax collector;

The tax is collected as part of the normal income tax system and paid directly through wages and salaries. Sweden has both a national and local income tax system and the amount of real estate tax is added to these amounts.

44.3.11 Typical examples of the application of the tax base;

No information currently available

44.3.12 Statistical Background

<b>Property Class</b>	<b>Total Assessed Value – SEK billion</b>	<b>Tax Revenue - SEK million</b>
One & two family dwellings	909	14,729
Apartment buildings	453	5,626
Commercial	285	2,846
Industrial	283	1,414
Hydro electric	73	2,482
	2,003	27,097

**Table 82: Sweden; Real Estate Tax Revenue 1997**

In 1998 the typical family home in Stockholm County was valued at SEK 780,000 and a similar property in Västernorrland was valued at SEK 314,000.

	<b>Number</b>	<b>Total Assessed Value SEK billion</b>	<b>Average Value SEK thousand</b>
One & two family dwellings	1,516,000	702	463
Buildings for seasonal use	369,000	99	270
	1,884,000	802	426

**Table 83: Sweden; Number and value of dwellings 1998**

## 45 Switzerland

### 45.1 Government Organisation and Structure

Switzerland is a confederation of states composed of 23 cantons, or rather 26 cantons and half-cantons. Political decision taking is more frequently based on direct democratic procedures than in any other country.

There are three levels of administration - federal, cantonal and local - are each autonomous and independent in carrying out their constitutionally defined tasks. Cantons are free to determine their operational structure; thus there is a variety of administrative systems according to the size and preferences of each canton.

The cantons are responsible for their own organisation and that of their constituent municipalities, and also for the maintenance of law and order, relations between the State and the Church, health and sanitation, public works, taxation, land use planning, cultural affairs, education, etc. They oversee the execution of most of the federal laws, in which case they are supervised by the federal administration.

The 3,021 Swiss municipalities fulfil a double administrative function. They are the bodies of politically autonomous communities and are also the local executive organs of cantonal governments. The organisation of the municipalities as well as their degree of autonomy vary from canton to canton.

Usually the municipalities are autonomous in areas such as the organisation of local authorities, local landuse planning, or local police. The majority of the municipalities have a community assembly or open meeting of all citizens which takes place regularly. The larger municipalities elect their own "parliaments" and have introduced various instruments of direct democracy.

### 45.2 Local Government Finance

For its size, the nature of finance for each tier of government is complex. Each tier has the ability to levy a range of taxes as shown in the table below.

<b>Confederation</b>	
Taxes on Income and Wealth	Taxes on Goods and Services
Income tax	Value Added Tax
Tax on net profit	Stamp duties
Withholding tax	Tobacco tax
Military and civil service exemption tax	Beer tax
	Tax on distilled spirits
	Mineral oil tax
	Motor vehicle tax
	Customs duties (import and export duties)
<b>26 Cantons</b>	
Income and net wealth taxes	Motor vehicle taxes
Poll tax or household tax	Entertainment taxes

Tax on net profit and on capital	Dog taxes
Inheritance and gift taxes	Stamp duties
Capital gains tax	Tax on hydraulic power stations
Real estate tax	Sundry taxes
Taxes on transfer of immoveable property	
<b>3,000 Municipalities</b>	
Income and net wealth taxes	Dog taxes
Poll tax or household tax	Entertainment taxes
Tax on net profits and on capital	Sundry taxes
Inheritance and gift taxes	
Capital gains tax	
Real estate taxes	
Taxes on transfers of immoveable property	
Trade tax	

**Table 84: Switzerland; Authority to Tax**

Given the complex nature of taxation in the country it is beyond the scope of this work to give anything more than a brief overview.

Three property related taxes can apply in Switzerland. The actual application of the tax varies considerably from canton to canton.

**45.3 Land Tax (liegenschafts-oder grundsteuern)**

Most cantons levy the Land Tax on the value of property as shown in the local land register. The rate of tax varies between 0.05% and 0.3% of the value.

**45.4 Municipal Business Tax**

This tax is only levied in the canton of Geneva. It is a tax on individuals engaged in commercial activity. The amount of tax is dependent upon the turnover of the business, the rental value of the premises where it is undertaken and the number of employees of the businesses.

**45.5 Real Property Transfer Tax**

The tax is levied by the cantons on the transfer of property. It may also be levied on the transfer of shares in a property company. The taxpayer varies depending on the canton but can be either the vendor, purchaser or both. Typically the tax varies between 1% and 2% of the value transferred.

**45.6 Net Wealth Tax**

A net wealth tax is levied in all Cantons and municipalities.

In general, total property is subject to tax. Total property means all of the taxpayer's assets and rights which have a cash value. These are usually taxed at market value.

Taxable property includes in particular real estate, moveable capital assets, redeemable life and annuity insurances, business assets and, in some cantons, household equipment.

Actual debts as well as personal allowances are deductible from gross property . The value of net wealth for assessment purposes is based on a given day; the rates are generally progressive.

The tax is either assessed as at the end of the year or the start of the year depending on the Cantons concerned. In some cases, an average of two years wealth will be taken, otherwise it is based on a single year.



## 46 Turkey

### 46.1 Government Organisation and Structure

No information available.

### 46.2 Local Government Finance

No information available.

### 46.3 Real Estate Taxes

Building tax and land tax are two different taxes imposed by the real estate tax law (*emlak vergisi, evk*). The taxpayer is the same for both taxes: a legal person or individual who owns the property or the usufruct or enjoys the benefits as an owner. The tax base is the fair market value.

The rate of building tax is 0.5% (0.4% on residences). The rate of land tax is 0.35% (0.6% on building sites). Both taxes may be levied on the same property.

Since 1986 these taxes are collected at the municipal level, as a municipal tax.

### 46.4 Stamp duty

Stamp duty is levied on a variety of transactions involving contracts, notes receivable and payable, letters of credit, financial instruments, the sale or purchase of share capital and subsequent increases therein. The following are examples of the rates: 0.6% on contracts specifying the price; TRL 254,700 on corporate tax returns; TRL 125,700 on income tax returns; and 0.36% on letters of credit.



## 47 United Kingdom - England

### 47.1 Local Government Structure

The structure of local government varies across the country:

Within London, there is a dual tier of principal authorities, comprising the London Boroughs, the City of London and the Greater London authority which came into existence on the 2nd July 2000.

The Greater London Authority is a new and unique form of strategic citywide government for London. It is made up of a directly elected Mayor and a separately elected Assembly. The Mayor prepares strategies to deal with London wide issues, and co-ordinates action on a London wide basis.

The Greater London Authorities main areas of responsibilities are:

- Transport
- Planning
- Economic development
- Environment
- Policing
- Fire and emergency planning
- Culture
- Health

In the six metropolitan areas (Greater Manchester, Merseyside, South Yorkshire, Tyne and Wear, West Midlands and West Yorkshire), most services are run by Metropolitan Districts. Police services, passenger transport and, in some cases, waste disposal are the responsibility of joint bodies.

Areas outside London and the metropolitan areas are called shire areas and most of these have two principal tiers of local authority. These share the responsibility for providing all local services apart from police, for which there are separate police authorities covering counties or combination of counties. The lower tiers are known as shire districts. Some of these are entitled, for historic reasons, to call themselves cities or boroughs. Districts deal with local services such as housing, refuse collection and local taxation. The upper tiers are known as shire counties and these authorities have responsibility for services considered to be most appropriately administered centrally over a number of districts. For example strategic planning, education and social services are all administered at county level. In some shire areas there is a minor third tier of authority known as a parish and town council. These sub principal authorities have a number of tasks, notably providing local services such as playing fields and community centres and acting as consultation points on issues such as planning applications.

There are 46 unitary authorities in the shire areas. The first of these were created on 1<sup>st</sup> April 1995, 13 on 1<sup>st</sup> April 1996, 13 on 1<sup>st</sup> April 1997 and a final 19 unitary

authorities on 1<sup>st</sup> April 1998 to replace the 2 tier system in their areas. Combined fire authorities were also established to provide fire services in the shire areas affected.

## **47.2 Non-domestic Rating (Rates)**

### 47.2.1 Statutory Provision

Local Government Finance Act 1988, as amended,

### 47.2.2 Background

Non-domestic Rating is probably the oldest form of taxation within the country with its origins dating back to 1601. As a result of its age the tax has developed considerably over the centuries with there being a substantial body of case law precedent to help the practitioner interpret the legislation.

The tax is a tax on the occupation of a property which for taxation purposes is termed a "hereditament". Certain tests have been laid down by case law to see what property constitutes a "hereditament". To be a taxpayer (rateable occupier) the person must again satisfy certain tests which have also been laid down by case law.

Each property is assessed for tax on the basis of what is termed the "rateable value" which is the rent which the property would let for on an annual tenancy on full repairing and insuring terms. The date on which the tax is based is prescribed by statute as being the 1st April 1998 for the 2000 Rating List. The interpretation of "rateable value" has been decided by the courts.

Certain items of plant and machinery may also be rateable and their value will also be reflected in the rating assessment.

There are two types of Rating List – Local Rating Lists that relate to all properties within a Billing Authority's area and a Central Rating List which contains the assessments of network type properties such as gas, water, telecommunications type properties.

The actual amount a ratepayer (rateable occupier) pays in respect of his property (rateable hereditament) is determined by his rating assessment. This figure is multiplied by the Uniform Business Rate (UBR) to arrive at the amount of rates due. The UBR is a single figure determined by Parliament each year which covers all of England. There are separate figures for Scotland and Wales.

The amount of rates payable may in certain circumstances be different from the above due to the affect of what is termed "transitional relief". This is a system that was introduced in 1990 to phase in alterations in a ratepayers liability between one rating list and an other, thus to some extent overcoming large changes in tax liability between one year and the next. This changes the taxpayers liability whereby increases or decreases are phased in over a period of time.

In order to keep the tax base up to date the rateable values are reviewed every 5 years by what is termed a "Revaluation". This means that all properties are revalued to a new tax base termed the "antecedent valuations date" (AVD). The last revaluation

came into force on 1st April 2000. This revaluation was based on values as at 1st April 1998. The next revaluation will be effective from 1/4/2005.

Certain properties are exempt from rates.

As properties physically change during the five year life of a rating list their assessments can be reviewed both upwards and downwards. However, in order to maintain a fair tax base the changed properties are always valued by reference to values as at the AVD but having regard to circumstances as at the date of alteration of the list or proposal.

Ratepayers have the right in certain circumstances to challenge their assessment.

As at 1999 there were approximately 1.5 million hereditaments with a total rateable value of £34,626,000,000 and the total income from the tax was £11.96 billion.

#### 47.2.3 Purpose to which tax is put:

The tax is not set aside for specific purposes but rather the amounts collected are paid into a central pool together with other tax revenue.

The amounts which are distributed to local authorities for them to spend in the provision of services is determined each year by the Local Government Finance Settlement.

#### 47.2.4 Statutory Framework

The main statutory provisions in respect of Non-domestic Rating are contained in the Local Government Finance Act 1988, as amended. This enabling legislation has resulted in a substantial number of statutory regulations (Statutory Instruments) to be made in respect of a wide range of matters.

#### 47.2.5 How the tax base is set or established:

The Valuation Office Agency is responsible for the determination of the Rateable Value of all properties for the purposes of non-domestic rating. In addition it prepares and maintains the Rating Lists on which tax payable is assessed. Billing Authorities are responsible for the collection and enforcement of all amount due and undertake this work as agent for the Department of the Environment, Transport and the Regions.

Prior to a new Rating List coming into force the government will prescribe a single date on which the value of all properties will be assessed. This is termed the antecedent valuation date (AVD). This date is usually 2 years before the date the Rating List will come into force.

In order to undertake the valuations the Valuation Office will require occupiers of property to complete a form of return which indicates the lease terms on which they occupy the property. These forms are then analysed by valuers within the Valuation Office to determine the appropriate level of rental value within each locality. From this information it is then possible to value each property on the statutory basis whether owner occupied or rented. Much of the analysis and valuation is undertaken by computer with the final adjustments and refinements being done by valuers.

The draft Rating Lists must be published by December in the year prior to which they will come into force and the actual Rating List comes into force on the 1<sup>st</sup> April of the year of revaluation. For the 2000 Revaluation the Rating Lists have been published on the internet (<http://www.voa.gov.uk>) for the first time.

Once the List is in force the Valuation Office have a duty to maintain the list which involves having regard to new properties, extensions, demolitions and changes in the extent of occupation of property as well as other factors. It is also responsible for dealing with all queries and appeals relating to the assessments of each property.

The Billing Authority is responsible for issuing demand notices and ensuring that the tax is collected and for all enforcement issues.

#### 47.2.6 Nature of taxpayer:

The tax is levied on the “rateable occupier” of all non-domestic hereditaments. The rateable occupier will usually be the tenant of the property where it is rented or the owner in all other cases. The term “rateable occupier” is not defined but rather has been derived from a long series of legal decisions.

There are no exemptions for a particular class of ratepayer with exemptions being related to the property use or type.

With effect from 1<sup>st</sup> April 2000 the Crown, which was previously exempt, is liable to pay non-domestic rates.

#### 47.2.7 Basis of valuation for tax purposes:

The tax is levied only in respect of non-domestic property. The act does not define such property but rather defines what is domestic and consequently what is not liable to the tax.

In order for there to be a liability to the tax two pre-conditions apply.

Firstly there must be a “rateable occupier” as explained above and secondly there must be a “rateable hereditament”. The term “rateable occupier” relates to the person who will ultimately be liable to and responsible for the payment of the tax whilst the term “rateable hereditament” relates to the identification of the property on which the tax is going to be based.

The valuation basis is contained in paragraph 2(1) of Schedule 6, Local Government Finance Act 1988, as amended:

2.-(1) The rateable value of a non-domestic hereditament none of which consists of domestic property and none of which is exempt from local non-domestic rating shall be taken to be an amount equal to the rent at which it is estimated the hereditament might reasonably be expected to let from year to year [on these three assumptions

- (a) the first assumption is that the tenancy begins on the day by reference to which the determination is to be made;

- (b) the second assumption is that immediately before the tenancy begins the hereditament is in a state of reasonable repair, but excluding from this assumption any repairs which a reasonable landlord would consider uneconomic;
- (c) the third assumption is that the tenant undertakes to pay all usual tenant's rates and taxes and to bear the cost of the repairs and insurance and the other expenses (if any) necessary to maintain the hereditament in a state to command the rent mentioned above.

Where a property contains both domestic and non-domestic accommodation (for example, a shop with living accommodation above) it is termed a “composite hereditament”. In valuing this type of property no value should be attributed to the domestic element of the property.

The act gives no guidance on the interpretation or implementation of the valuation framework but there has been considerable case law that provides guidance to the valuer.

The following valuation assumptions are to be envisaged:

- That the landlord and tenant envisaged in the statutory definition of rateable value are hypothetical and do not have to be the same persons as those who actually own or occupy the actual property. Generally it is to be assumed that the actual occupier will potentially be a possible occupier for the property unless there is an indication to the contrary.
- Whilst the statutory definition of rateable value provides that the property is let for a year, it is to be assumed that the tenant will have a reasonable prospect of continuance, though will not have the security associated with a traditional lease of the property.
- It has to be assumed that the property is vacant and to let, ready for immediate occupation.
- It has to be assumed that there is only property to rent and the potential for a person to own property does not exist.
- It has to be assumed that the tenant comes fresh to the property with an open mind and has no previous knowledge of the property or the neighbourhood.
- The property must be valued as it exists and one is not allowed to envisage structural alternations or different modes and categories of use.

#### 47.2.8 Compilation Of New Rating Lists

The date of valuation for the 1990 Rating List was 1<sup>st</sup> April 1998 (the antecedent valuation date), 1<sup>st</sup> April 1993 for the 1995 Rating List and the 1<sup>st</sup> April 1998 for the 2000 Rating List. However, in arriving at the rateable value regard shall be had to the rental values as at that date, but in arriving at that rental value regard shall be had to the following matters as they exist on the date that the new list comes into effect.

- (a) matters affecting the physical state or the physical enjoyment of the hereditament,
- (b) the mode and category of occupation of the hereditament,

- (c) the quantity of minerals or other substances in or extracted from the hereditament,
- (d) matters affecting the physical state of the locality in which the hereditament is situated or which, though not affecting the physical state of the locality, are nonetheless physically manifest there, and
- (e) the use or occupation of other premises situated in the locality of the hereditament.

#### 47.2.9 Alteration Of Rating Lists

Where the Rating List is altered by the Valuation Officer or as a result of a proposal then the factors above (a - e) shall be taken as they exist as at the date of proposal.

##### *Tone Of The List*

**Schedule 6 paragraph 5 and 6** Local government Finance Act 1988 provide that when either compiling the list, or when arriving at an assessment on the alteration of the list certain matters contained in paragraph 7 shall be taken into account as they are assumed to be on the day the alteration is entered into the list or on the date the proposal is made.

The matters are –

- matters affecting the physical state or physical enjoyment of the hereditament,
- the mode and category of occupation of the hereditament,
- the quantity of minerals or other substances in or extracted from the hereditament, matters affecting the physical state of the locality in which the hereditament is

#### 47.2.10 Frequency Of Review Of Tax Base:

Section 41(2) of the Local Government Finance Act 1988 provides that the Rating List shall be compiled every 5 years with effect from the 1<sup>st</sup> April 1990.

The current 2000 Rating List came into effect on the 1<sup>st</sup> April 2000 and it is expected that the next list will become effective on the 1<sup>st</sup> April 2005.

In order that the assessments of all properties fair and equitable, a prescribed date of valuation is set for each revaluation, termed the “antecedent valuation date” (AVD). Usually this is two years earlier than the revaluation becomes effective. Consequently all properties are revalued as at the AVD which ensures that the assessment of all properties are comparable with each other.

#### 47.2.11 Nature Of Any Exemptions Or Reliefs For Classes Of Taxpayer:

Schedule 5 of the Local Government and Finance Act 1988 sets out a series of exemptions from non-domestic rating.

The main provisions are:

*Agricultural premises - paragraph 1, Schedule 5, Local Government Finance Act 1988*

The exemption applies to agricultural land and buildings. Agricultural land is defined as:

2.-(1) Agricultural land is-

- (a) land used as arable, meadow or pasture ground only,
  - (b) land used for a plantation or a wood or for the growth of saleable underwood,
  - (c) land exceeding 0.10 hectare and used for the purposes of poultry farming,
  - (d) anything which consists of a market garden, nursery ground, orchard ....., or
  - (e) land occupied with, and used solely in connection with the use of, a building which (or buildings each of which) is an agricultural building
- \*\*\*\*\*

The act further provides what is not agricultural land.

(2) But agricultural land does not include-

- (a) land occupied together with a house as a park,
- (b) gardens (other than market gardens),
- (c) pleasure grounds,
- (d) land used mainly or exclusively for purposes of sport or recreation, or
- (e) land used as a racecourse.

The definition of agricultural buildings is legally more complex and can, and often does, give rise to many disputes arising out of the changes that are currently affecting farming. Essentially for an agricultural building to be exempt from rates it must be occupied together with agricultural land and used solely in connection with agricultural operations on the land, or it is or forms part of a market garden and is used solely in connection with agricultural operations at the market garden.

The interpretation of words “used solely” have caused substantial problems over the years as have the consideration of “agricultural operations”. With the vertical integration of farming systems it is sometimes very difficult to distinguish where farming stops and an industrial process commences.

*Places of religious worship - paragraph 11, Schedule 5, Local Government Finance Act 1988*

Generally churches and church halls will be exempt from non-domestic rating. If the property is occupied by an organisation other than the Church of England or the Church of Wales, it must be registered as a place of religious worship.

For exemption to apply the act requires the property to be available for “public religious worship” and if the public are excluded for whatever reason the exemption will not apply.

*Property used for the disabled - paragraph 16, Schedule 5, Local Government Finance Act 1988*

Provision is made for many types of property used by the disabled to be exempt from non-domestic rating.

The exemption relates to property to the extent that it consists of property used wholly for any of the following purposes-

- (a) the provision of facilities for training, or keeping suitably occupied, persons who are disabled or who are or have been suffering from illness;
- (b) the provision of welfare services for disabled persons;
- (c) the provision of facilities under section 15 of the Disabled Persons (Employment) Act 1944;
- (d) the provision of a workshop or of other facilities under section 3(1) of the Disabled Persons (Employment) Act 1958.

The definition of person who is disabled is if he is blind, deaf or dumb or suffers from mental disorder of any description or is substantially and permanently handicapped by illness, injury, congenital deformity or any other disability for the time being prescribed for the purposes of section 29(1) of the National Assistance Act 1948.

In addition a series of more minor exemptions cover:

- Fish Farms - paragraph 9, Schedule 5, Local Government Finance Act 1988
- Sewers - para 13, Schedule 5, Local Government Finance Act 1988
- Certain property of Trinity House - paragraph 12, Schedule 5, Local Government Finance Act 1988
- Public Parks - paragraph 15, Schedule 5, Local Government Finance Act 1988
- Air-raid protection works - para 17, Schedule 5, Local Government Finance Act 1988 -
- Swinging moorings - para 18, Schedule 5, Local Government Finance Act 1988
- Road crossings over watercourses, etc. paragraph 18A , Schedule 5, Local Government Finance Act 1988
- Property in enterprise zones - para 19, Schedule 5, Local Government Finance Act 1988
- Property occupied by visiting forces etc. - para 19A(1), Schedule 5, Local Government Finance Act 1988

*Charities*

Where a property is occupied by a charity then the amount of rates charges on the property is reduced by 80%. Billing Authorities may grant upto 100% discretionary relief.

The Treasury is currently undertaking a review of taxation as it affects charities. In March 1999 it published its "Review of Charity Taxation". In this document it highlighted the problems that authorities have in deciding whether to grant the additional discretionary relief to charities. It would appear that the government will issue clearer guidelines as to the issues that an authority should take into account when considering the exercise of its discretion.

*Rural shops & Post Offices*

Provision is made under Schedule 1, Local Government and Rating Act 1997 for certain rural shops and post offices to be eligible for 50% relief from rates.

*Unoccupied property*

Where property is unoccupied the maximum rates that can be charged is limited to 50% of the occupied rate. Where the property is either warehousing or industrial then no rates can be charged.

The conditions are that-

- (a) the whole hereditament has, subject to paragraph (3), been unoccupied for a continuous period not exceeding three months;
- (b) its owner is prohibited by law from occupying it or allowing it to be occupied;
- (c) it is kept vacant by reason of action taken by or on behalf of the crown or any local or public authority with a view to prohibiting the occupation of the hereditament or to acquiring it;
- (d) it is the subject of a building preservation notice as defined by section 58 of the town and country planning act 1971 or is included in a list compiled under section 54 of that act;
- (e) it is included in the schedule of monuments compiled under section 1 of the ancient monuments and archaeological areas act 1979;
- (f) it is a qualifying industrial hereditament;
- (g) its rateable value is less than £1,900;
- (h) the owner is entitled to possession only in his capacity as the personal representative of a deceased person;
- (i) there subsists in respect of the owner's estate a bankruptcy order within the meaning of parts viii to xi of the insolvency act 1986;
- (j) the owner is entitled to possession of the hereditament in his capacity as trustee under a deed of arrangement to which the deeds of arrangement act 1914 applies;
- (k) the owner is a company which is subject to a winding-up order made under the insolvency act 1986 or which is being wound up voluntarily under that act;
- (l) the owner is entitled to possession of the hereditament in his capacity as liquidator by virtue of an order made under section 112 or section 145 of the Insolvency Act 1986.

"qualifying industrial hereditament" means any hereditament other than a retail hereditament in relation to which all buildings comprised in the hereditament are-

- (i) constructed or adapted for use in the course of a trade or business; and
- (ii) constructed or adapted for use for one or more of the following purposes, or one or more such purposes and one or more purposes ancillary thereto:
  - (b) storage (including the storage or handling of goods in the course of their distribution) ;
  - (c) the working or processing of minerals;
  - (d) the generation of electricity; and

"retail hereditament" means any hereditament where any building or part of a building comprised in the hereditament is constructed or adapted for the purpose of the retail

provision of (i) goods, or (ii) services, other than storage for distribution services, on or from the hereditament.

### *Hardship*

Billing Authorities have general powers under section 49, Local Government Finance Act 1988 to remit either the whole or part of any rate liability where the ratepayer would sustain hardship. However in exercising such powers the authority must also have regard to the interests of other taxpayers.

Where an authority exercises such powers it is always subject to challenge by the District Auditor and councillors may find themselves personally liable to such amounts if it can be shown that they have not exercised their powers with due regard.

#### 47.2.12 Challenges to tax base, valuation or assessment:

The Non-Domestic Rating (Alteration of Lists and Appeal) Regulations 1993 S.I. No. 291 and the Non-Domestic Rating (Alteration of Lists and Appeals) (Amendment) (England) Regulations 2000 SI No. 598 make the provisions for certain parties to challenge the rating assessment.

With effect from the 1<sup>st</sup> April 2000 ratepayers or their representatives may appeal against a rateable value entered into the 2000 Rating List as prescribed by the regulation below.

Circumstances in which proposals may be made

4A.-(1) The grounds for making a proposal to alter a list are as follows-

- (a) the rateable value shown in the list for a hereditament was inaccurate on the day the list was compiled;
- (b) the rateable value shown in the list for a hereditament is inaccurate by reason of a material change of circumstances which occurred on or after the day on which the list was compiled;
- (c) the rateable value shown in the list for a hereditament by reason of an alteration made by a valuation officer is or has been inaccurate;
- (d) the rateable value or any other information shown in the list for a hereditament is shown, by reason of a decision in relation to another hereditament of a valuation tribunal, the Lands Tribunal or a court determining an appeal or application for review from either such tribunal, to be or to have been inaccurate;
- (e) the day from which an alteration is shown in the list as having effect is wrong;
- (f) a hereditament not shown in the list ought to be shown in that list;
- (g) a hereditament shown in the list ought not to be shown in that list;
- (h) the list should show that some part of a hereditament which is shown in the list is domestic property or is exempt from non-domestic rating but does not do so;
- (i) the list should not show that some part of a hereditament which is shown in the list is domestic property or is exempt from non-domestic rating but does so;
- (j) property which is shown in the list as more than one hereditament ought to be shown as one or more different hereditaments;

- (k) property which is shown in the list as one hereditament ought to be shown as more than one hereditament;
- (l) the address shown in the list for a hereditament is wrong;
- (m) the description shown in the list for a hereditament is wrong; and
- (n) any statement required to be made about the hereditament under section 42 of the Act has been omitted from the list.

The appeal should be made on the prescribed form to ensure that all the required information is provided otherwise the appeal may be held to be invalid. Ratepayers need to appreciate that the date on which the appeal is made will affect how far back any reduction in the assessment may go.

Appeals made by	Date to which any reduction may be back dated
30 September 2000	1 April 2000
31 March 2001	1 October 2000
31 March 2002	1 April 2001
31 March 2003	1 April 2002
31 March 2004	1 April 2003
31 March 2005	1 April 2004

**Table 85: United Kingdom - England; Backdating of Appeals**

Appeals against a rating assessment by the Valuation Tribunal are seen as a low cost means of determining valuation disputes with each party being responsible for its own costs and there being no hearing or other costs or fees involved. However if a ratepayer is dissatisfied with the outcome of the Valuation Tribunal they may appeal to the Lands Tribunal. This is a far more formal type of hearing where ratepayers must be legally represented. Tribunal Fees associated with the hearing can be quite considerable even before taking into account fees for legal representation and the cost of expert witnesses.

#### 47.2.13 Amount of tax:

The following table show the amount of the uniform business rate (UBR) since 1990. These figures apply to England only.

The amount by which the UBR can increase per year is governed by Schedule 7 of the Local Government Finance Act 1988 which effectively limits changes to the change in the retail price index (RPI) over the year September to the previous September and having regard to the changes in total rateable values over that period.

<b>Uniform Business Rate 1990 – 2000</b>			
<b>Year</b>	<b>UBR</b>	<b>Year</b>	<b>UBR</b>
1990/91	£0.347	1996/97	£0.449
1991/92	£0.386	1997/98	£0.458
1992/93	£0.402	1998/99	£0.474
1993/94	£0.416	1999/00	£0.489

1994/95	£0.424	2000/01	£0.416
1995/96	£0.432	2001/02	

**Table 86: United Kingdom - England; Uniform Business Rate 1990 – 2000**

In principle the amount of rates payable by the ratepayer should be determined by the following formula:

$$\text{Rateable Value} \times \text{UBR} = \text{Rates Payable}$$

However the situation is not so simple as the government has introduced a scheme to cushion the changes in tax liability between rating revaluations. The property market changed a good deal between the 1995 and 2000 revaluations. Transitional relief is a scheme for phasing in the effects of this change on ratepayers' bills.

As a guide, individual rate bills will not go up in 2000/01 because of the revaluation by more than 12.5%, before allowing for inflation, or down by more than 5%, again before inflation. Many will change by less than these amounts and the actual amounts the ratepayer may have to pay will depend on a number of factors as explained below.

Limits will also apply to increases and decreases in the following years over the life of the scheme until the taxpayer is paying the new full amount as calculated above.

#### 47.2.14 Frequency of payment:

Bills are normally sent out to ratepayers in the March of the preceding tax year and will set out the various ways in which the ratepayer can pay the bill. Most businesses will pay their bill by 10 equal instalments commencing in April of the tax year concerned. Alternatively the account can be paid in two equal instalments in April and September.

#### 47.2.15 Identification of tax collector:

The tax is collected by Billing Authorities on behalf of the central government. They are responsible for the notification of the amounts payable, collection and enforcement of the tax. They will deal with any queries with regard to the tax other than the determination of rateable values which is the responsibility of the Valuation Office.

#### 47.2.16 Statistical Background

*Number of hereditaments (1999 - 1999) (hundred thousands)*

Table 87 below show the number of properties in the Rating List between 1990 and 1999 classified into the main property categories.

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Commercial	1,190	1,211	1,227	1,230	1,227	1,223	1,228	1,225	1,223	1,279
Shops & Cafes	576	572	570	567	565	562	497	491	488	484
Offices	223	234	243	248	251	252	255	255	257	258
Other	392	405	413	415	411	409	476	479	478	537
Licensed premises	55	55	55	55	55	60	59	59	59	60

Entertainment	95	95	94	93	92	87	87	87	81	80
Public utility	15	15	15	15	15	9	8	8	9	9
Educational	42	42	42	42	41	41	41	41	41	41
Miscellaneous	53	53	59	58	58	56	55	55	56	56
Industrial										
Total hereditaments	1,450	1,471	1,492	1,493	1,488	1,476	1,478	1,475	1,469	1,525

**Table 87: United Kingdom - England; Number of hereditaments 1990 - 1999**

*Rateable Values (1990 – 1999) (Hundred thousands)*

Table 88 shows the total rateable values for each of the different categories of property in England. 1990 was the first revaluation of all commercial property since 1973. A revaluation also took place in 1995 and it can be observed that the total rateable values fell subsequent to the revaluation. This was as a result of a general fall in property values across the country but most particularly in the south each of England.

Whilst revaluations are only carried out every 5 years the Valuation Office must keep the rating list up to date for such matters as alterations to properties, new property being built, demolitions, changes of use and alterations. Consequently the changes in rateable values from one year to another reflect such changes.

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
All classes	32,916	34,214	35,608	35,263	34,129	33,912	34,245	34,299	33,906	33,649
Domestic										
Commercial	19,566	20,659	21,440	21,336	20,662	19,626	19,822	19,859	19,733	20,649
Shops &										
Cafes	7,229	7,382	7,472	7,335	7,068	7,780	6,049	5,959	5,860	5,840
Offices	6,787	7,545	8,093	8,239	8,027	5,587	5,630	5,640	5,624	5,575
Other	5,550	5,732	5,876	5,762	5,568	6,260	8,098	8,259	8,249	92,34
Licensed										
premises	679	691	696	679	642	968	969	970	680	997
Entertainment	951	994	1025	1022	988	1009	1018	1033	1044	1045
Public utility	3,485	3,493	3,518	3,505	3,424	3,445	3,469	3,488	3,380	3,361
Educational	1,981	1,994	1,970	1,883	1,813	1,873	1,883	1,894	1,773	1,672
Miscellaneous	806	324	1,375	1,367	1,319	1,429	1,500	1,494	1,494	1,439
Industrial	5,448	5,559	5,593	5,470	5,280	5,550	5,584	5,561	5,540	5,463
	32,916	33,714	35,617	35,262	34,128	33,900	34,245	34,299	33,644	34,626

**Table 88: United Kingdom - England; Rateable Values (1990 - 1999)**

*Collection Rates*

The nature of the tax means that the total tax burden is a known figure and accurate figures are available to show how effective collection rates are. Collection rates have been over 96% for many years which compares very favourably with other forms of taxation and are higher than for the other form of local taxation in England, Council Tax.

	1999	1998
All England	97.1	96.7
Inner London Boroughs (including the City of London)	97.0	95.6
Outer London Boroughs	95.1	93.8
London Boroughs	96.2	94.9
Metropolitan Districts	97.0	97.1
Unitary Authorities	97.0	96.8
Shire Districts	97.7	97.7

**Table 89: United Kingdom - England; NNDR Collection Rates (1998 - 1999)**

*Non-domestic Rating Income by Region*

Table 90 shows the income raised by non-domestic rating by region. It further shows the reductions to that income for transitional relief, other reliefs and the cost of collection.

Region	Gross Yield (a)		Reliefs (b)				Allowances for		Contribution to pool (d)
	Before Transitional Relief	After Transitional Relief	Empty & partly occupied property	Charitable & non profit occupiers, rural shops and post offices	Net yield after allowances for (c)	losses	Collection		
North East	568	539	33	22	446	5	3	437	
North West	1,480	1,391	114	48	1,131	12	9	1,110	
Merseyside	286	269	23	16	212	3	2	207	
Yorkshire & The Humber	1,277	1,204	77	43	997	11	8	978	
East Midlands	1,012	975	67	35	803	8	6	790	
West Midlands	1,442	1,362	100	48	1,117	12	8	1,097	
Eastern	1,463	1,420	99	60	1,160	11	8	1,141	
London	3,386	3,319	236	144	2,703	50	17	2,630	
South East	2,261	2,191	132	91	1,810	17	12	1,780	
South West	1,171	1,128	64	47	936	9	8	918	
<b>England</b>	<b>14,346</b>	<b>13,799</b>	<b>945</b>	<b>554</b>	<b>11,315</b>	<b>138</b>	<b>82</b>	<b>11,088</b>	

**Table 90: United Kingdom - England; NNDR Contribution to Pool (1999 - 2000)**

Notes:

- (a) Gross yield is based on the gross rateable value on local lists at 31 December 1998 multiplied by the 1999/00 non-domestic rate multiplier (48.9p).
- (b) Loss of income to the pool due to (i) mandatory 50% rating of certain empty properties and full exemption from empty property rating, plus mandatory amounts lost to the pool from partly-occupied premises and (ii) 80% mandatory relief for charitable occupiers, plus amounts lost to the pool due to additional relief given to charities and non-profit making organisations at the discretion of the local authority.

- (c) Net rate yield after taking into account prescribed allowances for changes in rateable values during the year.
- (d) Contribution figure includes City of London £6.5m offset.

The cost of collecting the tax equates to approximately 0.74% of the revenues raised.

#### 47.2.17 Current Issues

The Government published “Modernising Local Government Finance: A Green Paper” in September 2000 which makes proposals to change the way in which local government is funded as well as alterations to the non-domestic rating system. At the present time the paper is out for consultation (closing date December 2000) and it is envisaged that any changes would not be effective until the next revaluation in 2005.

The main proposed changes affecting non-domestic rating are:

##### *Introduction of a local business rate*

As has been highlighted in this section the UBR is set nationally and is outside the control of local authorities. The government is now considering allowing local authorities to levy a supplementary local rate in addition to the UBR. The circumstances in which authorities can levy such a rate will be controlled and the maximum amount will not exceed 5% of the UBR and it can not increase at more than 1% p.a. over the UBR.

##### *Additional Relief For Small Business*

The government have proposed that 50% mandatory relief will be given to small business with a rateable value of below £3,000 and this would be tapered for assessments up to £8,000.

##### *Frequency of revaluations*

The government is seeking advice on the frequency of revaluations and whether the 5 yearly revaluations are still appropriate.

##### *Transitional Arrangements*

The transitional arrangements for phasing in of changes in liability following a revaluation is being considered. The government are prepared to see transition being abolished but currently wish to retain the scheme in some format. They wish any new scheme to be self financing.

##### *Foot and Mouth*

As a result of the foot and mouth epidemic the government has introduced additional rate relief for a range of agricultural property previously not exempt and for various property in rural areas.

### **47.3 Council Tax**

Council Tax was introduced on the 1<sup>st</sup> April 1993 following the repeal of the highly unpopular Community Charge.

Prior to 1990 all properties were subject to rates but in 1990 the Local Government Finance Act 1988 abolished rates on domestic property and introduced a new tax, the

Community Charge. The Community Charge was a fundamental shift in the way the government sought involve all residents of an area in its local government and to expand the tax base used to finance local government services. It made everyone over 18 liable for the tax thus considerably widening the tax base from that of the old rating system where only the owner or occupier of the property was liable. It made provision that the maximum relief anyone could obtain from the tax was 80%. This tax increased the number of taxpayers from around 20 million to 40 million.

It was hoped that as everyone one in the local authority area would be paying some element of the tax they would take more interest in the affairs of the authorities and also ensure that their money was been appropriately spent. In practical terms many persons failed to register for the Community Charge and many others refused to pay. As a result collections rates were initially low and the tax was expensive to collect. So unpopular was the tax that the government raised the rate of Value Added Tax by 2.5% to enable it to reduce the amount of Community Charge by £140.

The opposition to the tax was so great that with effect from the 1<sup>st</sup> April 1993 the tax was abolished and replaced with the Council Tax which was more comparable with the previous system of local taxation but where the valuation basis had been changed from an annual rental value to a capital value basis. Due to the nature of the tax base it is relatively easy to identify all the relevant property in an area and it is a tax which is difficult to evade and collection rates usually exceed 95%.

It is essentially a tax on the occupation of dwelling and is based upon its capital value as at 1<sup>st</sup> April 1991. The tax does not rely on individual valuations but rather each property is assigned to a value band which overcomes some of the difficulties with an individual valuation.

Each Billing Authority is responsible for determining its own level of Council Tax but the government have the power to cap the level of tax for an authority in certain circumstances. The amount of tax can vary considerably from one authority to another. For example for 2000/2001 the lowest charge for Band D is £374 (Westminster) to £1,172 (Liverpool) with the average being £853.

#### 47.3.1 Purpose of the tax:

The tax is one of the elements of local government income and is used to provide local services. The amount of the tax is directly controlled by the authority (as opposed to the UBR which is fixed nationally).

#### 47.3.2 How the tax base is set or established:

The main statutory provisions relating to the Council Tax are contained in the Local Government Finance Act 1992 and the various regulations made under the powers of that Act. The Council Tax (Situation and Valuation of Dwellings) Regulations 1992 (SI No. 550) as amended by The Council Tax (Situation and Valuation of Dwellings) (Amendment) Order 1994 contain, inter alia, the basis of valuation to be adopted when banding for Council Tax purposes.

The Act required that all “dwellings” be valued on the statutory basis and entered into the appropriate band of value. For each Billing Authority area a list of all the dwellings and their bandings are published in the Valuation list. The actual

valuations/bandings was the overall responsibility of the Valuation Office Agency but in practice much of the work was undertaken a local valuers with the Valuation Office agency being responsible for the overall co-ordination, quality control and the production of the Valuation List.

Whilst the Act contains provisions for changing the banding of a property in certain circumstances these are rarely invoked. When the tax was originally implemented it was envisaged that there would be frequent revaluations of property and amendments to the banding ranges to keep the tax base up to date. However there has been no revaluation to date but in the consultation document published in September 2000, "Modernising Local Government Finance: A Green Paper", the government announced their proposal to revalue all property subject to council tax. The date for the revaluation and the changes to the values bands has not been announced but is not likely until 2005 at the earliest.

*Definition of "Dwelling"*

The property which is subject to the tax is termed a "dwelling" and these are defined in s.3 of the act:

- 3.-(1) This section has effect for determining what is a dwelling for the purposes of this Part.
- (2) Subject to the following provisions of this section, a dwelling is any property which -
- (a) by virtue of the definition of hereditament in section 115(1) of the General Rate Act 1967, would have been a hereditament for the purposes of that Act if that Act remained in force; and
  - (b) is not for the time being shown or required to be shown in a local or a central non-domestic rating list in force at that time; and
  - (c) is not for the time being exempt from local non-domestic rating for the purposes of Part III of the Local Government Finance 1988 Act ("the 1988 Act");
- and in applying paragraphs (b) and (c) above no account shall be taken of any rules as to Crown exemption.
- (3) A hereditament which -
- (a) is a composite hereditament for the purposes of Part III of the 1988 Act; and
  - (b) would still be such a hereditament if paragraphs (b) to (d) of section 66(1) of that Act (domestic property) were omitted,
- is also, subject to subsection (6) below, a dwelling for the purposes of this Part.
- (4) Subject to subsection (6) below, none of the following property, namely -
- (a) a yard, garden, outhouse or other appurtenance belonging to or enjoyed with property used wholly for the purposes of living accommodation; or
  - (b) a private garage which either has a floor area of not more than 25 square metres or is used wholly or mainly for the accommodation of a private motor vehicle; or

(c) private storage premises used wholly or mainly for the storage of articles of domestic use, is a dwelling except in so far as it forms part of a larger property which is itself a dwelling by virtue of subsection (2) above.

(5) .....

(6) .....

Consequently houses, flats, bungalows and maisonettes all count as dwellings provided that they are at least partly used for domestic purposes. If part of the property - for example, an annex - is entirely separate and self-contained, that, too, will count as a separate dwelling in its own right. Mobile homes and houseboats will also count as dwellings if they are someone's main home. Certain other properties, however, such as houses occupied by more than one household who share cooking and washing facilities (for example, groups of bed-sits or some hostels) will generally only be treated as one dwelling.

#### 47.3.3 Nature of taxpayer:

The taxpayer is defined as the "liable person" and is defined by s.6. For each dwelling there must be a "liable person" who will be either:

- A resident freeholder;
- A resident leaseholder - this includes tenants
- A resident statutory or secure tenant;
- A resident licensee;
- A resident;
- The owner where the dwelling has no residents

A "resident" must also be a person who is 18 years or over who lives in the dwelling as their only or main home.

It means that owner-occupiers or resident tenants usually have to pay the tax. If the property is empty, or it is no-one's main home, the owner is responsible for the bill.

Special provisions for determining who is the liable person in respect of properties in multiple occupation, hostels, nurses homes, residential homes, religious communities, service occupation and vicarages.

In some cases there may be more than one person who is responsible for paying the bill –this is termed joint liability. Generally, husband and wives of people who are liable are jointly responsible for paying the bill if they live in the same dwelling. This will also apply where a man and woman are living together as husband and wife.

Councils have powers to seek information to ascertain who is the liable person and they have powers to levy a penalty of £50 where the required information is not supplied to them. Where a dispute arises over a person's liability they may appeal to a Valuation Tribunal.

47.3.4 Nature of any exemptions or reliefs for classes of taxpayer;*Exemptions*

Article 3 of the Council Tax (Exempt Dwellings) Order 1992 (SI No. 558) provides for a series of exemptions to Council Tax subject to it falling into one of the following classes.

- CLASS B: Owned by a charity and unoccupied for less than 6 months.
- CLASS C: Vacant for less than 6 months.
- CLASS D: Unoccupied and are sole or main residence by owners/tenants living or being detained in prison or mental care.
- CLASS F: Unoccupied following death of occupier where either probate not yet granted or less than 6 months have elapsed since its grant.
- CLASS G: Occupation is prohibited.
- CLASS H: Kept for occupation by ministers of religion.
- CLASS I: Unoccupied but were previously homes of owners or tenants not with class F but who have their main residence elsewhere in order to be cared for by reason of their old age, disablement, illness past or present, alcohol or drug dependence, or past or present mental disorder.
- CLASS J: Home of owners or tenants who are resident elsewhere to take care of others.
- CLASS K: Home of people resident elsewhere for the purpose of their studies and have been students either throughout the period since the last occupier ceased to occupy the dwelling as his sole or main residence or have become students within 6 weeks of that time.
- CLASS L: Which are in the possession of a mortgagee.
- CLASS M: Dwelling occupied or managed by educational establishment or charitable body and provided predominately for occupation of study.
- CLASS N: Wholly occupied by students.
- CLASS O: Part of armed forces accommodations other than for visiting armed forces.
- CLASS P: Where at least one person is a member of visiting armed forces within the Act.

CLASS Q: In the possession of trustee in bankruptcy.

CLASS R: Dwelling consisting of a pitch or mooring not occupied.

### *Reliefs*

In addition to the above exemptions certain discounts are also available.

Where there is only a single person over 18 living in a property then the Council Tax liability is reduced by 25%. Certain persons are to be excluded when deciding how many persons live in a particular dwelling.

- Apprentices
- Youth Training Trainees
- Students
- Student Nurses
- Resident Hospital Patients
- People Living In Residential Care Homes, Nursing Homes, Mental Nursing Homes And Hostels Providing A High Level Of Care
- People Who Are Severely Mentally Impaired
- People Staying In Certain Hostels Or Night Shelters
- Monks And Nuns
- 18 And 19 Year Olds
- Carers
- People In Prison
- Members Of Visiting Forces, International Headquarters And Defence Organisations

Where a property is no ones main home, such as empty property or second homes then the liability is reduced by 50%.

For the lower income groups a substantial and complex series of Council Tax benefits exists to help with the payment of the tax and approximately 20% of all taxpayers receive some amount of benefit to assist them in paying the tax. The extent and nature of the benefits is outside the scope of this work but additional references are given at the end of the section for those wishing to research the matter further.

#### 47.3.5 Basis of valuation for tax purposes:

Each dwelling is placed in a Valuation List in one of eight valuation bands, ranging from A to H. The list will show only the band to which dwelling has been allocated, not its actual value.

Valuations are carried out by Valuation Office Agency. The basis of valuation is the "capital value" of each dwelling. Valuation lists can only be compiled fairly by assessing the values of dwellings on one common date. 1<sup>st</sup> April 1991 is the date which was chosen for this exercise.

The statutory basis for the valuation is contained in The Council Tax (Situation and Valuation of Dwellings) Regulations 1992 (SI No. 550) as amended by The Council Tax (Situation and Valuation of Dwellings) (Amendment) Order 1994.

Article 6 provides the framework:

- (2) The assumptions are:-
- (a) that the sale was with vacant possession;
  - (b) that the interest sold was the freehold or, in the case of a flat, a lease for 99 years at a nominal rent;
  - (c) that the dwelling was sold free from any rentcharge or other encumbrance;
  - (d) except in a case to which paragraph (3) or (3A) applies, that the size, layout and character of the dwelling, and the physical state of its locality, were the same as at the relevant date;
  - (e) that the dwelling was in a state of reasonable repair;
  - (f) in the case of a dwelling, the owner or occupier of which is entitled to use common parts, that those parts were in a like state of repair and the purchaser would be liable to contribute towards the cost of keeping them in such a state;
  - (g) in the case of a dwelling which contains fixtures to which this subparagraph applies, that the fixtures were not included in the dwelling;
  - (h) that the use of the dwelling would be permanently restricted to use as a private dwelling; and
  - (i) that the dwelling had no development value other than value attributable to permitted development.

Consequently capital values are arrived at by estimating the amount each dwelling might have been sold for on the open market, subject to the above assumptions, if it had been sold on 1<sup>st</sup> April 1991.

The range of values, based on 1991 prices, which each band covers, for England, is as follows:

<b>Band</b>	<b>Range of values (at 1 April 1991)</b>
A	Up to £40,000
B	Over £40,000 and up to £52,000
C	Over £52,000 and up to £68,000
D	Over £68,000 and up to £88,000
E	Over £88,000 and up to £120,000
F	Over £120,000 and up to £160,000
G	Over £160,000 and up to £320,000
H	Over £320,000

**Table 91: United Kingdom - England; Council Tax Bandings**

Because council tax valuations are always based on the price a property would have fetched if it had been sold on 1<sup>st</sup> April 1991, any increase or reduction in a dwelling's value which results from general changes in the housing market will not affect its valuation.

The banding of a dwelling establishes its value relative to other dwellings in a local area. Changes in the housing market will mean that house prices will vary over time,

both upwards and downwards. Generally speaking, though, such changes will occur in the value of all properties in the area and will not affect the relative values which the bandings represent.

Individual dwellings may be re-banded after the valuation list is compiled, for

- If the property decreases in value because part of it is demolished, because the physical state of the local area changes or because alterations have been carried out to make it suitable for use by a person with a physical disability;
- If the occupier starts or stops using part of the dwelling to carry out a business, or the balance between business and domestic use changes (composite hereditaments);
- If the property increases in value because the occupier has carried out improvements to it, such as building an extension, but the banding will not be looked at until such time as it (or any part of it) is sold. Any change in the banding will take effect only from the date of the sale.

#### *Special Cases*

Where a property is occupied by a disabled person then any special fixtures designed to make the dwelling more suitable for a person with a physical disability which add to its value would have been disregarded.

On the other hand, if the dwelling has special fixtures which reduce its value, they should be taken into account in deciding which valuation band the dwelling should be in.

#### 47.3.6 Frequency of review of tax base;

The tax base has not been reviewed since its introduction in 1993. Whilst the act enables Listing Officers to update the banding of properties on sale this has generally not been implemented.

As explained earlier the government announced in September 2000 its intention to undertake a revaluation of all properties for council tax purposes. The date of the revaluation has not yet been announced.

#### 47.3.7 Amount of tax;

The amount of Council Tax is fixed annually by the Billing Authority. The amount of any increase that can be charged may be capped by central government where it considers that such an increase is inappropriate.

Within a Billing Authority area, the council tax bill for each of the different bands will differ according to proportions laid down by law. The proportions are:

Band A	6
Band B	7
Band C	8
Band D	9
Band E	11
Band F	13
Band G	15
Band H	18

**Table 92: United Kingdom - England; Council Tax banding proportions**

If the council tax for a dwelling in band A is £120, the council tax for one in band D will be one and a half times that amount (6:9) - £180 - for one in band H three times that amount (6:18) - £360 - and for a dwelling in band F, it will be £260 (6:13). These proportions are fixed by law and can not be changed by a Billing Authority.

47.3.8 Frequency of payment;

Taxpayers have great flexibility in the choice of payment frequency for their tax liability. Most taxpayers pay the tax in 10 equal instalments commencing in the April though they may also pay in two equal instalments in April and September.

47.3.9 Challenges to tax base, valuation or assessment;

Taxpayers have the right to challenge a range of matters relating to their Council Tax liability. However in a number of cases the period in which and challenge can be made is restricted

The reasons for challenge could include:

- The Billing Authority is sending bills to the wrong person;
- The dwelling should be an exempt dwelling;
- The amount of the bill is incorrect, for example if you think a discount should apply or if the council has not reduced the bill for a disability.

In all the above circumstances the taxpayer would write to the Billing Authority giving reasons for their complaint. The authority has two months to make a decision. If the taxpayer disagrees with the authority's decision, or if it has not acted within the two months, he can make a formal appeal to a Valuation Tribunal.

- That a penalty has been levied.  
Where a penalty has been levied an appeal must be made to the Valuation Tribunal within 2 months.

Where the taxpayer wishes to challenge the banding of a dwelling then there are restrictions on when the appeal may be made.

- Where the appeal is against the original banding of the dwelling all appeals had to be made before the 30<sup>th</sup> November 1993. However where there is a change of taxpayer then they must appeal within 6 months of becoming the taxpayer.

- Where the appeal is to enter a new dwelling into the list or to remove a dwelling from the list the appeal can be made at any time.
- Where the appeal is to have regard to a demolition to a property or a change in the locality the appeal may be made at any time.
- Where the property has become or ceased to be a composite dwelling or that there has been a change in the proportions so used, the appeal can be made at any time.
- Where there has been a decision of either the Valuation Tribunal or High Court decision the appeal must be served within 6 months of the decision.

#### 47.3.10 Identification of tax collector:

The tax is administered by “Billing Authorities” which are a District Council, a London Borough Council or the Council of the Isle of Scilly. They are responsible for the notification, collection and enforcement of the tax. They will deal with any queries with regard to the tax other than the banding of property, which is the responsibility of the Valuation Officer.

#### 47.3.11 Current Issues

The Government published “Modernising Local Government Finance: A Green Paper” in September 2000 which makes proposals to change the way in which local government is funded as well as alterations to the council tax system. At the present time the paper is out for consultation (closing date December 2000) and it is envisaged that any changes would not be effective until the next revaluation in 2005. The key issue regarding Council Tax is that the government has proposed that all properties should be revalued in the near future with a view to having regard to changes in values and relativities across the country.

#### 47.3.12 Statistical Background

Number of dwellings (thousands)									
	Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H	Total
Valuation band ranges	Under £40,000	£40,001 - £52,000	£52,001 - £68,000	£68,001 - £88,000	£88,001 - £120,000	£120,001 - £160,000	£160,001 - £320,000	Over £320,000	
North East	674	155	154	75	37	17	10	1	1,121
North West	1,016	446	407	230	134	66	45	5	2,349
Merseyside	311	107	98	45	23	11	8	1	603
Yorkshire & the Humber	1,009	417	345	176	110	53	32	3	2,144
East Midlands	700	399	315	175	99	48	29	3	1,767
West Midlands	735	553	420	229	141	76	47	5	2,205
Eastern	334	491	608	390	233	126	86	10	2,279
London	107	419	824	781	469	230	190	51	3,071
South East	293	554	871	667	447	266	215	29	3,341
	372	530	498	333	220	111	66	6	2,137
<b>England</b>	<b>5,552</b>	<b>4,072</b>	<b>4,538</b>	<b>3,100</b>	<b>1,912</b>	<b>1,003</b>	<b>728</b>	<b>113</b>	<b>21,018</b>
<b>% in Band</b>	<b>26.4</b>	<b>19.4</b>	<b>21.6</b>	<b>14.7</b>	<b>9.1</b>	<b>4.8</b>	<b>3.5</b>	<b>0.5</b>	<b>100.0</b>

**Table 93: United Kingdom - England; Number of dwellings in Valuation Lists at March 1999 (DETR)**

Table 93 shows the breakdown of the numbers of dwellings in each band sorted by the regions in which they are located.

	<b>Gross Tax Income</b>	<b>Council Tax Benefits</b>	<b>Reorganisation/ Transitional reduction</b>	<b>Net Tax Income</b>
1993/94	8,912	1,583	374	6,995
1994/95	9,239	1,688	104	7,447
1995/96	9,777	1,788	27	7,962
1996/97	10,460	1,884	2	8,574
1997/98	11,241	1,961	15	9,265
1998/99	12,332	2,051	11	10,270
1999/00	13,278	2,066	0	11,214

**Table 94: United Kingdom - England; Council Tax Income (DETR)**

<b>Receipts of council taxes as a proportion of the annual collectable debit</b>			
	<b>1997/98:</b>	<b>1998/99</b>	<b>1999/2000</b>
Inner London	88	88	89
Outer London	94	94	93
All London	92	92	92
Metropolitan Districts	95	95	95
Unitary Authorities	94	95	95
Shire Districts	97	97	97
Shire Areas	97	97	97
<b>England</b>	<b>95</b>	<b>96</b>	<b>96</b>

**Table 95: United Kingdom - England; Council Tax Collection Rates (DETR)**

Collection rates for Council Tax have remained steady for the last two years with the worst collection rates being in the Inner London Boroughs.

#### **47.4 Capital Gains Tax**

##### **47.4.1 Statutory Provision**

Capital Gains Tax Act 1979, as amended.

##### **47.4.2 Purpose of the tax:**

The tax is a tax on any gains of the sale of an asset realised after the 31<sup>st</sup> March 1982.

47.4.3 How the tax base is set or established:

All taxpayers are required to make annually a “self assessment return” to the Inland Revenue indicating all income which will include any capital gains received during the tax year (6<sup>th</sup> April – 5<sup>th</sup> April).

47.4.4 Basis of valuation for tax purposes:

The basis of valuation is the open market value (usually sale price adopted) at the date of disposal, less allowable expenditure and an allowance for inflation during the holding period.

Where property was owned prior to 31<sup>st</sup> March 1982 a valuation at that date may be required.

For periods of ownership between 1982 and 6<sup>th</sup> April 1998 taxpayers would be allowed to deduct an “indexation allowance” being the difference in the retail price index in that period.

With effect from 6<sup>th</sup> April 1998 a simpler system was adopted based on a percentage related to the time of ownership.

<b>Gains on non-business assets</b>	
Number of whole years in qualifying holding period	Percentage of gain chargeable
1	100
2	100
3	95
4	90
5	85
6	80
7	75
8	70
9	65
10 or more	60

**Table 96; United Kingdom - Capital Gains Tax Allowances - Non Business Assets**

<i>Gains on business assets</i>	
Period asset held (years)	Percentage of gain chargeable (%)
0 – 1	100
1 – 2	87.5
2 – 3	75

3 – 4	50
> 4	25

**Table 97; United Kingdom - Capital Gains Tax Allowances - Business Assets**

Where the ownership spans both periods, both methods need to be adopted.

In calculating the amount of gain only expenditure of a capital nature over the period of ownership can be deducted. Annual expenditure (repairs, insurance, management) is allowed against income tax.

47.4.5 Frequency of review of tax base;

Not applicable.

47.4.6 Nature of any exemptions or reliefs for classes of taxpayer;

A range of exemptions apply dependent upon the nature of the taxpayer and the nature of the asset .

The following persons and organisations are exempt:

- (a) The Crown.
- (b) Persons not resident or ordinarily resident in the UK, except in relation to their UK assets
- (c) Certain quasi-government organisations such as:
  - (i) British Museum;
  - (ii) Atomic Energy Authority;
  - (iii) Historic Buildings and Monuments Commission for England.
- (d) International organisations (as specified by the International Organisations Act 1968) such as United Nations.
- (e) Charities which qualify for income tax relief .
- (f) Approved Superannuation schemes, retirement annuity funds and pension funds
- (g) Housing associations and self-build schemes
- (h) Local authorities.
- (i) Unregistered friendly societies.
- (j) Trade unions.
- (k) Unit and investment trusts.
- (l) Offshore funds in certain circumstances .
- (m) Visiting armed forces and diplomatic agents.

The following transaction are exempt:

- (a) Annuities and capital payments from a Superannuation fund.
- (b) Motor vehicles.
- (c) Chattels.
- (d) Debts imposed of by the original creditor, other than a debt on a security
- (e) Decorations for velour and gallantry, unless acquired by purchase.
- (f) Foreign currency acquired for personal expenditure.
- (g) Private residence of the taxpayer
- (h) Insurance policies
- (i) Savings certificates and non-marketable securities issued under the National Loans Act 1979 and 1968.
- (j) Settlements with certain exceptions .

- (l) Qualifying corporate bonds
- (m) Government securities.
- (n) Sterling-denominated permanent interest bearing shares from building societies

In addition to the above, the following gains and transactions are exempt:

- (a) Transactions between husband and wife
- (b) Gifts for the public benefit.
- (d) Damages or compensation.
- (e) Agricultural grants made under the Agriculture Act 1967.
- (f) Personal equity plans, if the relevant conditions are met
- (g) Works of art.
- (h) Transfers on termination of a settlement
- (i) Legacies
- (j) Disposal of woodlands
- (k) (From 6 April 1988) capital gains which accrued before 31 March 1982
- (l) Gifts to charities and (from 13 March 1989) registered housing associations.

#### 47.4.7 Challenges to tax base, valuation or assessment:

Challenges can take two different form.

Where the challenge is against a valuation of property either where on open market value has been substituted for an actual sale price (i.e. at more or less than market value) or against the valuation of the property as at the 31<sup>st</sup> March 1982 the District Valuer (Government Valuer) will deal with the dispute. Where a resolution is not forthcoming, the matter can be referred to the Lands Tribunal whose decision is final on all valuation matters.

Where a challenge is in relation to the calculation of the tax liability (allowable expenditure etc.) the matter will initially be dealt with by the Inland Revenue and again where a resolution is not forthcoming the matter will be referred to an appeals tribunal.

#### 47.4.8 Nature of taxpayer:

Capital gains tax is payable by individuals, trusts and partnerships. There are special provisions for husband and wife, trusts) and partnerships.

Companies and other corporate bodies pay corporation tax on their capital gains. However, almost all the rules are the same

The tax is charged on any person or body resident or ordinarily resident in the UK

#### 47.4.9 Amount of tax:

40%

#### 47.4.10 Frequency of payment:

Two payments on the 31<sup>st</sup> January and 31<sup>st</sup> July.

47.4.11 Purpose to which tax is put:  
The tax revenue is not allocated to a specific purpose.

47.4.12 Identification of tax collector:  
Inland Revenue

## **47.5 Inheritance Tax**

47.5.1 Statutory Provision  
Inheritance Tax Act 1984

47.5.2 Purpose of the tax:  
The tax is a tax on the receipt of property by means of inheritance. In addition it also taxes certain transfers made during the lifetime of the taxpayer.

Certain property transactions which take place during one's lifetime are potentially taxable if the taxpayer dies within 7 years of making the gift.

47.5.3 How the tax base is set or established:  
Returns are made to the Inland Revenue on the death of the taxpayer or when a relevant lifetime transfer has taken place.

47.5.4 Basis of valuation for tax purposes:  
The basis of valuation will depend on whether the taxable event is a lifetime transfer or death.

Open market value of the property as at the date of death.

Where the transfer is a lifetime transfer the basis of valuation is the difference between the value of the estate before the transfer and its value after the transfer. This means that the value may be more than the market value as it will also include any depreciation of the remaining property as a result of the taxable transfer.

47.5.5 Frequency of review of tax base:  
Not applicable.

47.5.6 Nature of any exemptions or reliefs for classes of taxpayer:  
A range of exemptions apply which include:

- Transfers of property between husband and wife
- Gifts for national purposes
- Annual gifts of less than £3,000

In addition certain reliefs are also available for agricultural and business property.

47.5.7 Challenges to tax base, valuation or assessment:  
Challenges can take two different form.

Where the challenge is against a valuation of property the District Valuer (Government Valuer) will deal with the dispute. Where a resolution is not forthcoming, the matter can be referred to the Lands Tribunal whose decision is final on all valuation matters.

Where a challenge is in relation to the calculation of the tax liability (allowable expenditure etc.) the matter will initially be dealt with by the Inland Revenue and again where a resolution is not forthcoming the matter will be referred to an appeals tribunal.

#### 47.5.8 Nature of taxpayer:

The taxpayer is normally the donor. Provision is made for the donor to elect that the donee is to be the taxpayer.

It is important to appreciate the significance of this decision. Where the donor pays the tax, the amount of the transfer will not only include the value of the property but also the value of the “gift” of the tax as well.

#### 47.5.9 Amount of tax:

The amount of tax varies according to:

- Whether the transfer is a lifetime transfer
- Whether the donor or donee pay the tax.

It should be noted that lifetime transfers are taxed at 50% of the rate on death.

Gross taxable transfer	Gross cumulative transfer	Rate of tax
<£242,000	0 - £242,000	Nil
>£242,000		40% for every £1 above £242,000

**Table 98; United Kingdom; Inheritance Tax - Death Rates grossed up**

Grossing up of specific transfers on death which do not bear their own tax

Net Transfers	Tax payable thereon
<£242,000	Nil
>£242,000	66.66% for every £1 above £242,000

**Table 99; United Kingdom; Inheritance Tax - Death Rates**

## Chargeable lifetime transfers after 5/4/01

Gross taxable transfer	Gross cumulative transfer	Rate of tax
<£242,000	0 - £242,000	Nil
>£242,000		20% for every £1 above £242,000

**Table 100; United Kingdom; Inheritance Tax - Lifetime Rates grossed up**

## Chargeable lifetime transfers after 5/4/01 (Grossing Up)

Net Transfers	Tax payable thereon
<£242,000	Nil
>£242,000	25% for every £1 above £242,000

**Table 101; United Kingdom; Inheritance Tax - Lifetime Rates**47.5.10 Frequency of payment:

Single payment. Provision is made for payments to be made by instalments over 10 years. In such cases interest is payable at the statutory rate of 11%.

47.5.11 Purpose to which tax is put:

The tax revenue is not allocated for a specific purpose.

47.5.12 Identification of tax collector:

Inland Revenue



## 48 United Kingdom - Wales

### 48.1 Non-domestic rating

The non-domestic rating system in Wales is essentially the same as in England however since the devolution of local taxation powers to the Welsh Assembly in 1999 some differences in approach and application have become apparent. It is expected that over a period of time other differences in approach will become evident.

This section deals only with the differences in the approaches at the present time (September 2000).

#### 48.1.1 Purpose of the tax:

As England.

#### 48.1.2 How the tax base is set or established:

As England.

#### 48.1.3 Basis of valuation for tax purposes:

The valuation provisions are virtually identical to those in England but special provisions apply in respect of:

- Network type properties (gas, electricity, water etc.) which are to appear in the Welsh Central Rating List (Central Rating List (Wales) Regulations 1999 No. 3453)
- The valuation of water undertakings (The Water Undertakers (Rateable Values) (Wales) Order 2000 No. 299)
- British Gas (BG plc (Rateable Value) (Wales) Order 2000 No. 352)
- Railways (The Railtrack plc (Rateable Value) (Wales) Order 2000 No. 555)
- Docks and harbours (The Docks and Harbours (Rateable Values) (Wales) Order 2000 No. 948)
- Plant and machinery (The Valuation for Rating (Plant and Machinery) (Wales) Regulations 2000 No. 1097)
- Electricity supply property (Electricity Supply Industry (Rateable Values) (Wales) Order 2000 No. 1163)

#### 48.1.4 Frequency of review of tax base:

As England.

#### 48.1.5 Nature of any exemptions or reliefs for classes of taxpayer:

As England.

#### 48.1.6 Challenges to tax base, valuation or assessment:

The regulations for appealing against a rating assessment in Wales is governed by The Non-Domestic Rating (Alteration of Lists and Appeals) (Amendment) (Wales) Regulations 2000 No. 792. These regulations generally follow the English regulations though there are some minor differences in wording and the numbering of the regulations.

48.1.7 Nature of taxpayer;

As England.

48.1.8 Amount of tax;

The UBR for Wales is different from that in England though the legal framework for its calculation is the same.

<b>Uniform Business Rate 1990 – 2000</b>			
<b>Year</b>	<b>UBR</b>	<b>Year</b>	<b>UBR</b>
1990/91	£0.368	1996/97	£0.405
1991/92	£0.408	1997/98	£0.414
1992/93	£0.425	1998/99	£0.429
1993/94	£0.440	1999/00	£0.443
1994/95	£0.448	2000/01	£0.412
1995/96	£0.390	2001/02	to be fixed

**Table 102: United Kingdom - Wales; UBR 1990 - 2000**

The regulations regarding the calculation of the amounts payable is governed by The Non-Domestic Rating (Chargeable Amounts) (Wales) Regulations 1999 S.I. No. 3454 and these differ significantly from those that apply in England.

The Welsh scheme is based up on the premise that only smaller businesses are in need of transitional protection and transitional relief only applies to those properties with an assessment of less that Rateable Value £25,000.

After a restriction to a 10% increase on the 1999/2000 liability in the first year to allow a period of adjustment to the revised liabilities, the scheme switches to a calculation based on the difference between the amount payable and the liability generated by the revised Rateable Value, and relief is given of two-thirds of this difference in the second year of the revaluation and one-third of the difference in the third year so that by April 2003 all properties will be paying the correct amount of rates, effectively prior to the antecedent valuation date for a revaluation in 2005. In order to pay for this relief there are restrictions on decreases but these are significantly less stringent than in England at 15% in the first year, 30% in the second year and 45% in the third year by which time again all properties will be paying their rateable value multiplied by the non-domestic rate for Wales. These percentages are not adjusted for cost of living indexation.

For decreases in liability the amount payable is reduced by 15% in the first year, 30% in the second and 45% in the third year by which time the property will be pay rates based on the multiplier of the UBR and the rateable value.

48.1.9 Frequency of payment;

As England.

48.1.10 Purpose to which tax is put;

As England

48.1.11 Identification of tax collector;

The tax is collected on behalf of the government by the Billing Authorities for each local authority area.

**48.2 Council Tax**

Council Tax was introduced on the 1<sup>st</sup> April 1993 following the repeal of the highly unpopular Community Charge.

Prior to 1990 all properties were subject to rates but in 1990 the Local Government Finance Act 1988 abolished rates on domestic property and introduced a new tax, the Community Charge. The Community Charge was a fundamental shift in the way the government sought involve all residents of an area in its local government and to expand the tax base used to finance local government services. It made everyone over 18 liable for the tax thus considerably widening the tax base from that of the old rating system where only the owner or occupier of the property was liable. It made provision that the maximum relief anyone could obtain from the tax was 80%. This tax increased the number of taxpayers from around 20 million to 40 million.

It was hoped that as everyone one in the local authority area would be paying some element of the tax they would take more interest in the affairs of the authorities and also ensure that their money was been appropriately spent. In practical terms many persons failed to register for the Community Charge and many others refused to pay. As a result collections rates were initially low and the tax was expensive to collect. So unpopular was the tax that the government raised the rate of Value Added Tax by 2.5% to enable it to reduce the amount of Community Charge by £140.

The opposition to the tax was so great that with effect from the 1<sup>st</sup> April 1993 the tax was abolished and replaced with the Council Tax which was more comparable with the previous system of local taxation but where the valuation basis had been changed from an annual rental value to a capital value basis. Due to the nature of the tax base it is relatively easy to identify all the relevant property in an area and it is a tax which is difficult to evade and collection rates usually exceed 95%.

It is essentially a tax on the occupation of dwelling and is based upon its capital value as at 1<sup>st</sup> April 1991. The tax does not rely on individual valuations but rather each property is assigned to a value band which overcomes some of the difficulties with an individual valuation.

Each Billing Authority is responsible for determining its own level of Council Tax but the government have the power to cap the level of tax for an authority in certain circumstances. The amount of tax can vary considerably from one authority to another. For example for 2000/2001 the lowest charge for Band D is £551 for Conwy to the highest in Neath Port Talbot at £837 with the average being £674.

48.2.1 Purpose of the tax;

As England

48.2.2 How the tax base is set or established;

As England

48.2.3 Basis of valuation for tax purposes;

The value of the bands for Wales are as follows:

Band	Range of values (at 1 April 1991)
A	Up to £30,000
B	£30,001 - £39,000
C	£39,001 - £51,000
D	£51,001 - £66,000
E	£66,001 - £90,000
F	£90,001 - £120,000
G	£120,001 - £240,000
H	£240,000

**Table 103: United Kingdom - Wales; Council Tax Bands**

48.2.4 Frequency of review of tax base;

As England

48.2.5 Nature of any exemptions or reliefs for classes of taxpayer;

As England

48.2.6 Challenges to tax base, valuation or assessment;

As England

48.2.7 Nature of taxpayer;

As England

48.2.8 Amount of tax;

The rates vary from authority to authority..

48.2.9 Frequency of payment;

As England

48.2.10 Purpose to which tax is put;

As England

48.2.11 Identification of tax collector;

The tax is set and collected by the following Billing Authorities which are responsible for their own local authority area.

## 49 United Kingdom - Scotland

The Scottish legal system varies considerably from that in England especially as it affects property. Consequently the many of the tax systems have had to be amended to accommodate such differences. With regard to national taxation (imposed by the UK parliament) this applies equally to all countries within the UK. For local taxation each country operates a different system though based on a common theme.

Over the last 10 years the government and its agencies have made substantial steps to harmonise the local tax systems but the recent devolution of powers to the Scottish Parliament has resulted in some of this work being undone.

### 49.1 Local Government Organisation

#### 49.1.1 1975 Reorganisation

Following the recommendations of a Royal Commission the Local Government (Scotland) Act 1973 was passed to provide a new structure of local government in Scotland with effect from 16<sup>th</sup> May 1975. This system, which applied until 31<sup>st</sup> March 1996, operated on a two-tier basis, with 9 regional councils and 53 district councils. The main functions and responsibilities of the regional councils were:

- Education
- Social Work
- Police
- Fire
- Water and Sewerage
- Strategic Planning
- Roads and Road Safety
- Public Transport
- The main functions and responsibilities of the district councils were:
- Local Planning\*
- Development Control\*
- Urban Development\*
- Housing
- Building Control\*
- Libraries
- Leisure & Recreation
- Except in Borders, Dumfries and Galloway and Highland, where function was regional.

The 3 Islands Councils - Orkney, Shetland and the Western Isles - were responsible for all the services carried out by both regional and district councils with the exception of fire and police services. For the purpose of these services, they combined with Highland Regional Council. In addition, Orkney and Shetland Islands Councils combined for valuation purposes as did Highland Regional and the Western Isles Islands Councils.

### **Current Structure**

The current structure of local government was established by the Local Government etc (Scotland) Act 1994 and came into effect on 1<sup>st</sup> April 1996. The structure consists of 29 unitary authorities, which have replaced and taken over the functions of the 53 District and 9 Regional Councils established in 1975. The 3 Islands Councils remain unchanged. The 32 councils are responsible for all local government services administered by their predecessors with the following main exceptions:

- Water and sewerage, where 3 public water authorities - the North of Scotland, West of Scotland and East of Scotland Water Authorities - now have responsibility; and
- The reporters to Children’s Panels, responsibility for which now lie with the Scottish Children's Reporters Administration.

In the lead-up to the reorganisation of local government in 1994, it was decided that the structure of 8 police forces and 8 fire brigades in Scotland should remain unaltered. In consequence of that decision and the disappearance of regional councils as police and fire authorities, new joint boards were constituted to administer the Central Scotland, Grampian, Strathclyde and Tayside police forces and fire brigades, and the joint boards for Highland and Islands and Lothian and Borders were reconstituted. Only in Dumfries and Galloway and Fife does the Council, as police or fire authority, directly administer the force or brigade for their area.

### **49.2 Non-Domestic Rating**

Due to the different legal system that operates in Scotland some of the terms used in non-domestic rating are different from those in the rest of the United Kingdom.

#### **49.2.1 Purpose of the tax:**

The tax provides part of the funding for local government provided by the Scottish Executive and parliament.

#### **49.2.2 How the tax base is set or established:**

For the purposes of the tax the whole of Scotland is divided up into valuation areas with its own assessor. It is the duty of the assessor to value of the “lands and heritages” within their area and to enter those “subjects” (hereditaments) into the Valuation Roll.

The Assessors have formed a non statutory body, The Scottish Assessors’ Association which enables them to co-ordinate research and assist in the preparation of valuation schemes. In addition, the association liases with the Valuation Office Agency in England and Wales in respect of harmonisation of valuation approaches and other matters of joint interest.

Prior to a new Valuation Roll coming into force the Secretary of State will prescribe a single date on which the value of all properties will be assessed. This is termed the antecedent valuation date (AVD). This date is usually 2 years before the date the Rating List will come into force.

In order to undertake the valuations the Assessors will require occupiers of property to complete a form of return which indicates the lease terms on which they occupy the property. These forms are then analysed by valuers within the Assessor's Office to determine the appropriate level of rental value within each locality. From this information it is then possible to value each property on the statutory basis whether owner occupied or rented. Much of the analysis and valuation is undertaken by computer with the final adjustments and refinements being done by valuers.

#### 49.2.3 Basis of valuation for tax purposes:

The tax applies to "lands and heritages" which shall "extend to and include" all:

- (a) lands and houses;
- (b) shootings and deer forests (when actually let)';
- (c) fishings;
- (d) woods, copse and underwood "from which revenue is actually derived";
- (e) ferries;
- (f) piers
- (g) harbours, quays, wharfs, docks;
- (h) canals, railways;
- (i) mines, minerals, quarries-"provided always that no mine or quarry shall be assessed unless it has been worked during some part of the year "to which such assessment applies" and coal works;
- (j) waterworks, limeworks, brickworks, ironworks, gasworks, factories;
- (k) all buildings and pertinents thereof; and
- (l) such class or classes of plant and machinery as may be prescribed.

The basis of valuation is governed by s.6(8) Valuation for Rating (Scotland) Act 1956 provides that land and heritages should be valued to "net annual value" which is defined as:

"the rent at which the lands and heritages might reasonably be expected to let from year to year if no grassum or consideration other than the rent were payable in respect of the lease and if the tenant undertook to pay all rates and to bear the cost of the repairs and insurance and the other expenses, if any, necessary to maintain the lands and heritages in a state to command that rent."

The following valuation assumptions are to be envisaged:

- That the tenancy is an annual tenancy with a reasonable prospect of continuance.
- That no payments or other considerations are made for the grant of the tenancy other than rent.

The majority of property will be valued on a rental basis having regard to the analysis of rental evidence in that locality. Where reliable rental information is not available for that they of property then the Assessor will adopt either the Revenues Principle having regard to the receipts and expenditure from the property as a means of measuring rental value (ski slopes, harbours are often valued on this basis) or the Contractor's Principle. This approach is used for the valuation of most types of property which are not let including industrial property, plant and machinery and public utilities.

49.2.4 Frequency of review of tax base:

The Valuation Roll is revalued every five years, usually at the same time as the revaluations in England and Wales.

49.2.5 Nature of any exemptions or reliefs for classes of taxpayer:

Unlike the English approach which defines what is excluded from rating, the Scottish approach is based on what is included within the definition of lands and heritages.

Various provisions have been made to exclude certain types of property. These include:

- Domestic property
- Welfare structures and special facilities for the disabled
- Sewers
- Public parks
- Block storage heaters
- Fish farms
- Stud farms

In addition to the above exemptions provision is made for the sole general store or post office in a qualifying rural settlement receives mandatory rates relief of 50% % if its rateable value is less than £6,000.

Other rural business premises can qualify for discretionary relief of up to 100% if their rateable value is less than £12,000.

49.2.6 Challenges to tax base, valuation or assessment:

Following a revaluation all ratepayers should be sent a notice showing their entry in the Valuation Roll. This will normally be around the March prior to the Roll coming into force. Where the ratepayer is does not agree with an entry an appeal may be made not later than the 30<sup>th</sup> September in the year the new Roll came into effect.

Provisions are also made for appeals to be made where there is a new owner, tenant or occupier of the property but this musty be made within 6 months of the change. Proposals may be made where there has been a material change in circumstances affecting a property (demolition, change in use, alterations etc).

Where it is not possible to agree the assessment with the Assessor the matter will be hear by the Valuation Appeal Committee (VAC) and a right of appeal against their decision is to the Lands Tribunal for Scotland. Appeals to the higher courts are possible on pints of law.

The following statistics indicate the number of appeals received up to the end of 1998 for the 1995 Valuation Roll.

For the period April 1<sup>st</sup> 1995 to December 31<sup>st</sup> 1998, 124,014 non-domestic rating appeals have been lodged with Assessors. 103,798 appeals were lodged against the 1995 revaluation.

Of the 124,014 appeals lodged for April 1<sup>st</sup> 1995 to December 31<sup>st</sup> 1998, 121,400 (97.9%) were disposed of in the following manner :

- 112,735 (90.9%) were disposed of by the Assessors prior to hearing.
- 2,402 (1.9%) were disposed of by the Valuation Appeal Committee.
- 5,190 (4.2%) were dismissed for non-attendance.
- 1,073 (0.9%) cases were referred to the Lands Tribunal for Scotland.

Following the 1995 revaluation, a total of £2.7 billion rateable value was subject to appeal. Appeals settled up to December 31<sup>st</sup> 1998 resulted in an 8.2% reduction (£196 million) in the £2.4 billion appealed rateable value settled to date.

#### 49.2.7 Nature of taxpayer:

The occupier of the property is usually the person liable for the payment of the rates. Under the Scottish system when a new Valuation Roll is prepared the Assessor must send a copy of the roll entry to “each person who is a proprietor, tenant, or occupier of lands or heritages which are included in the Valuation Roll”.

#### 49.2.8 Amount of tax:

The UBR for Scotland is shown in the table below:

<b>UBR 1999 - 2000</b>	
<b>Year</b>	<b>UBR</b>
1995/96	£0.432
1996/97	£0.449
1997/98	£0.458
1998/99	£0.474
1999/00	£0.489
2000/01	£0.458

**Table 104: United Kingdom - Scotland; UBR 1995 - 2000**

As with England and Wales the Scottish Parliament has approved a transitional arrangement scheme whereby the change in rate liability as a result of the revaluation is phased in over a period of time. The Scottish system varies from both the English and Welsh systems.

#### 49.2.9 Frequency of payment:

Bills are normally sent out to ratepayers in the March of the preceding tax year and will set out the various ways in which the ratepayer can pay the bill. Most businesses will pay their bill by 10 equal instalments commencing in April of the tax year concerned. Alternatively the account can be paid in two equal instalments in April and September.

#### 49.2.10 Identification of tax collector:

The tax is collected by the individual local authorities.

#### 49.2.11 Statistical Background

Table 105 shows the increase in the total value of the Valuation Roll between 1992 and 2000 together with the tax yield. The increase in Rateable Values in 1995 was as a result of the revaluation of all non-domestic property carried out in that year.

Financial year	Non domestic rating Rateable Values (000s)	Non domestic rating income (£000s)
1992-93	2,689,650	1,213,795
1993-94	2,699,635	1,150,655
1994-95	2,768,841	1,115,423
1995-96	3,663,912	1,218,909
1996-97	3,775,326	1,332,052
1997-98	3,804,547	1,327,179
1998-99	3,751,927	1,438,847
1999-00	3,744,863	1,505,976

**Table 105: United Kingdom - Scotland; Non-domestic Rating - Total Rateable Values and Income 1992 - 2000**

As at April 1999 there were just under 200,000 non-domestic subjects included in the Valuation Roll, 75% of which had a rateable value of less than £10,000.

### 49.3 Council Tax

Council Tax was introduced on the 1<sup>st</sup> April 1993 following the repeal of the highly unpopular Community Charge.

Prior to 1990 all properties were subject to rates but in 1990 the Abolition of Domestic Rates (Scotland) Act 1987 abolished rates on domestic property and introduced a new tax, the Community Charge. The Community Charge was a fundamental shift in the way the government sought involve all residents of an area in its local government and to expand the tax base used to finance local government services. It made everyone over 18 liable for the tax thus considerably widening the tax base from that of the old rating system where only the owner or occupier of the property was liable. It made provision that the maximum relief anyone could obtain from the tax was 80%. This tax increased the number of taxpayers from around 20 million to 40 million.

It was hoped that as everyone one in the local authority area would be paying some element of the tax they would take more interest in the affairs of the authorities and also ensure that their money was been appropriately spent. In practical terms many persons failed to register for the Community Charge and many others refused to pay. As a result collections rates were initially low and the tax was expensive to collect. So unpopular was the tax that the government raised the rate of Value Added Tax by 2.5% to enable it to reduce the amount of Community Charge by £140.

The opposition to the tax was so great that with effect from the 1<sup>st</sup> April 1993 the tax was abolished and replaced with the Council Tax which was more comparable with the previous system of local taxation but where the valuation basis had been changed from an annual rental value to a capital value basis. Due to the nature of the tax base it is relatively easy to identify all the relevant property in an area and it is a tax which is difficult to evade and collection rates usually exceed 95%.

It is essentially a tax on the occupation of dwelling and is based upon its capital value as at 1<sup>st</sup> April 1991. The tax does not rely on individual valuations but rather each

property is assigned to a value band which overcomes some of the difficulties with an individual valuation.

Each Billing Authority is responsible for determining its own level of Council Tax but the government have the power to cap the level of tax for an authority in certain circumstances. The amount of tax can vary considerably from one authority to another. For example for 2000/2001 the lowest charge for Band D is £836 in Shetland to £1,177 in Midlothian with the average being £1,035.

49.3.1 Purpose of the tax;

As England.

49.3.2 How the tax base is set or established;

In Scotland the valuations are undertaken by the Assessors who are responsible to the Inland Revenue. The basic procedures are the same in Scotland as identified in England though governed by separate legislation.

49.3.3 Basis of valuation for tax purposes;

<b>Band</b>	<b>Range of Values (as 1<sup>st</sup> April 1991)</b>
A	Less than £27,000
B	Over £27,001 and up to £35,000
C	Over £35,001 and up to £45,000
D	Over £45,001 and up to £58,000
E	Over £58,001 and up to £80,000
F	Over £80,001 and up to £106,000
G	Over £106,001 and up to – £212,000
H	Over £212,000

**Table 106: United Kingdom - Scotland; Council Tax Bandings**

49.3.4 Frequency of review of tax base;

As England.

The revaluation of the tax base which has been proposed for England has not yet been announced for Scotland though it is expected shortly.

49.3.5 Nature of any exemptions or reliefs for classes of taxpayer;

As England.

49.3.6 Challenges to tax base, valuation or assessment;

As England.

49.3.7 Nature of taxpayer;

As England

49.3.8 Amount of tax;

Varies by authority..

**Table 107: Scotland; Council Tax Rates 2000 - 2001**

49.3.9 Frequency of payment;

Taxpayers have great flexibility in the choice of payment frequency for their tax liability. Most taxpayers pay the tax in 10 equal instalments commencing in the May though they may also pay in two equal instalments in April and September.

49.3.10 Identification of tax collector;

The tax is collected by the local authorities.

**49.4 Inheritance Tax**

As England

**49.5 Capital Gains Tax**

As England

## 50 United Kingdom - Northern Ireland

### 50.1 Introduction

Northern Ireland differs from the rest of the United Kingdom in that it has retained the rating system for domestic property, never having introduced either the Community Charge nor Council Tax.

### 50.2 Rates

#### 50.2.1 Purpose of the tax:

The tax is an annual tax on property.

#### 50.2.2 How the tax base is set or established:

The valuations for the tax are undertaken by the Lands Valuation Agency, an executive agency of the Ministry of Finance and Personnel. They undertake the valuations by calling for “rent returns” from all occupiers of rented property. These returns will detail the leases on which the property is held and will become the basis of evidence on which the assessments are based.

#### 50.2.3 Basis of valuation for tax purposes:

The basis of valuation is “net annual value” (NAV) which

*“...shall be the rent, one year with another, the hereditament might, in its actual state, be reasonably expected to let from year to year, the probably annual costs of repair, insurance and other expenses necessary to maintain the property in its actual state, and all rates, taxes or public charges, if any, being paid by the tenant.”*

The valuation date for the current list was 1<sup>st</sup> April 1995. For the 2003 revaluation the date will be 1<sup>st</sup> April 2001.

#### 50.2.4 Frequency of review of tax base:

The 4<sup>th</sup> revaluation of non-domestic property came into effect on the 1<sup>st</sup> April 1997. A revaluation has been announced to come into force on the 1<sup>st</sup> April 2003.

#### 50.2.5 Nature of any exemptions or reliefs for classes of taxpayer:

Exemptions include:

- Agricultural land and buildings,
- public parks,
- ‘new’ mines,
- lighthouses,
- cemeteries,
- fishing and shooting rights.
- Industrial - Factories and the like are entitled to 100% Industrial Derating when the principal use is factory use.

- Charities and ‘Public Benefit’ - Properties not occupied for profit and used for public, charitable, religious, science or fine arts purposes.
- Nursing and Residential Homes - Residential Homes are entitled to 100% relief.
- Disablement Apportionment - Dwelling houses incorporating special facilities for a disabled person (100% relief on specially adapted additions to the normal accommodation of the dwelling).
- Freight Transport - relief for properties such as docks, harbours and railways.
- Sports Clubs - 65% for qualifying parts of certain sports clubs, not established for profit, which are used for a range of prescribed recreational activities.
- Community Use - Halls used for ‘Community purposes’ eg Youth clubs, Sunday Schools, Play groups may be entitled to partial relief depending on the extent of such usage.

In addition to the above exemptions, some reliefs also apply.

#### *Domestic Property*

The Housing Benefit Scheme enables those domestic ratepayers on low incomes or on income support to apply for assistance towards the payment of their rates. Housing Benefit is awarded by way of a rebate, with 100% of an individual ratepayer's bill being granted in certain circumstances. Over 60,000 claims for Housing Benefit were received in 1997/98 of which over 70% were successful.

#### *Transitional Relief*

While revaluation itself has not affected the total Northern Ireland non-domestic rate burden, it will ensure a more equitable redistribution of the burden.

Revaluation has resulted in the total non-domestic NAV in Northern Ireland rising from around £130 million to around £820 million. This equates to an average rise in value of around 6.3 times. The Regional and District Rates in the pound which apply this year to non-domestic properties are significantly lower than last year to reflect the fact that the valuation basis has increased. Properties which have experienced NAV growth above average (where the average is the weighted regional / district growth factor) will bear a higher rate liability than they would have done in the absence of revaluation and vice versa.

#### *Rate Bill Calculation*

Rate bills are calculated by multiplying a property's Net Annual Value (NAV) by the Regional and District ‘rates in the pound’. Non-domestic NAVs are now based on rental values at 1 April 1995 and it is these which have been used to calculate 1997/98 rate bills. Prior to the recent revaluation non-domestic NAVs were based on rental values current in 1976.

A relief scheme has been introduced with effect from 1 April 1997 under the Rates (Transitional Relief) Order, NI 1997, which provides temporary transitional support to rate payers of small non-domestic properties (or the non-domestic element of properties) in Northern Ireland which are most adversely affected by revaluation. Transitional Relief is automatically calculated for each eligible property by the Rates Collection Agency (RCA) and is separately identified on the rates bill.

*Eligibility for Transitional Relief*

To qualify for the Transitional Relief Scheme a non-domestic property must satisfy both the following eligibility criteria:

- The property must have an NAV (on the new valuation basis) of £10,000 or less at 1st April 1997; and
- must have a current rate bill at least 25% above the bill which would have applied had no revaluation occurred.

Transitional Relief will not apply to new non-domestic properties which have been billed for the first time in 1997/98 and have not been valued previously at 1976 values by VLA

*Calculation of Transitional Relief*

The effect of revaluation on an individual property's bill is the difference between its current bill (calculated using the new valuation basis) and a hypothetical base case bill which identifies what that property's liability would have been had no revaluation taken place (calculated using the previous valuation basis). Under Transitional Relief Scheme arrangements, rate payers of small non-domestic properties will be fully liable for any increase which is up to 25% greater than the base case bill. Transitional support is calculated on rate bill increases of eligible properties which are 2.5% or more above the base case bill (Table 1 illustrates the calculation of transitional relief).

*Duration of the Scheme*

Transitional relief will be phased over a three year period. For 1997/98, the scheme's first year. Transitional Relief will fully abate any eligible property's rate bill increase which is 25% or more above the base case. Two thirds and one third of any increase which is 25% or more above the base case will be abated in years two (1998/99) and three (1999/2000) of the scheme respectively (see Table 1). Rate payers eligible for the scheme will be liable for the full rate bill after this three year period.

#### 50.2.6 Challenges to tax base, valuation or assessment:

*Non-domestic Property*

If a ratepayer is dissatisfied with the valuation of his property he has the right to appeal. If an appeal results in a property's NAV changing, for the purposes of calculating transitional relief, the new appealed valuation will be treated as though it had existed at 1 April 1997.

Article 12 of the 1977 Rates (Northern Ireland) Order allows for a temporary reduction in rate bills applying to properties during the process of an appeal. Non-domestic ratepayers eligible for Transitional Relief who appeal their new valuation will not be able to claim any further discount under Article 12 of the above Order.

If the ratepayer is not satisfied with the Valuation Assessment he may appeal to the Commissioner of Valuation within 28 days of the date of the Certificate notifying you of the decision. The appeal should relate only to the circumstances which existed at the date of the District Valuer's certificate.

*Lands Tribunal for Northern Ireland*

If the ratepayer is still not satisfied with the Commissioner's decision he may appeal to the Lands Tribunal within 21 days of the date of the decision.

50.2.7 Nature of taxpayer:

The occupier of the property

50.2.8 Amount of tax:

The amount of tax the ratepayer will pay is based on two elements, the District Rate and the Regional Rate. Table 108 below shows the rate in the £ for both domestic and non-domestic properties for 2000/2001. The difference in amount in the £ between the non-domestic ratepayer and the domestic rate payer is due to the different dates of valuation used.

District	Non-Domestic District Rate Poundage	Non-Domestic Regional Rate Poundage	Non-Domestic Rate Poundage	Domestic District Rate Poundage	Net Domestic Regional Rate Poundage	Domestic Rate Poundage
Antrim	16.00	28.15	44.15	93.75	107.13	200.88
Ards	14.58	28.15	42.73	97.04	107.13	204.17
Armagh City & District	16.79	28.15	44.94	107.70	107.13	214.83
Ballymena	14.88	28.15	43.03	86.50	107.13	193.63
Ballymoney	18.50	28.15	46.65	101.83	107.13	208.96
Banbridge	17.01	28.15	45.16	98.00	107.13	205.13
Belfast	18.67	28.15	46.82	123.18	107.13	203.31
Carrickfergus	19.64	28.15	47.79	106.99	107.13	214.12
Castlereagh	13.61	28.15	41.76	84.63	107.13	191.76
Coleraine	16.28	28.15	44.43	96.00	107.13	203.13
Cookstown	14.16	28.15	42.31	95.57	107.13	202.70
Craigavon	18.73	28.15	46.88	103.41	107.13	210.54
Derry	19.40	28.15	47.55	121.23	107.13	228.36
Down	17.04	28.15	45.19	110.98	107.13	218.11
Dungannon	13.08	28.15	41.23	89.00	107.13	196.13
Fermanagh	13.63	28.15	41.78	94.00	107.13	201.13
Larne	17.02	28.15	45.17	113.00	107.13	220.13
Limavady	15.45	28.15	43.60	99.70	107.13	206.83
Lisburn	14.42	28.15	42.57	91.69	107.13	198.82
Magherafelt	14.56	28.15	42.71	92.66	107.13	199.79
Moyle	18.98	28.15	47.13	109.00	107.13	216.13
Newry & Mourne	17.96	28.15	46.11	113.94	107.13	221.07
Newtownabbey	20.03	28.15	48.18	110.28	107.13	217.41

North Down	16.11	28.15	44.26	119.09	107.13	226.22
Omagh	16.25	28.15	44.40	114.80	107.13	221.93
Strabane	15.58	28.15	43.73	102.00	107.13	209.13
TOTALS						
Domestic Regional Rate Poundage Less DRAG (Domestic Rate Aid Grant) =			178.53			
Net Domestic Regional Rate Poundage			71.40			
			107.13			

**Table 108: Northern Ireland; Rate Poundage**

The amount payable is determined by taking the properties rating assessment and multiplying it by the appropriate rate in the pound for the authority concerned.

For example, a house situated in Omagh with a rateable value of £300 would pay:

$$£300 \times 209.13 = £618.26$$

50.2.9 Frequency of payment;

Payments can be made once a year for the year ahead, twice a year for the months ahead or by 10 monthly instalments, normally beginning in April-May. Payments beginning after May will be spread over the remaining number of months ending in February.

There may be some variation to these arrangements if a bill falls outside the normal April billing cycle. Domestic ratepayers paying in full by one single payment will qualify for 4% discount (if paid by the discount date shown on the Rate Account).

Payment can be made by:

- by Direct Debit or Standing Order through a Bank or Building Society;
- by cash or cheque at any bank or post office, (a rent payment card for payments at the Post Office is available on request)
- by cash, cheque or postal order at any RCA Regional Office;
- by cheque or postal order through the post to any RCA Regional Office.
- by standing order through any bank or building society;

50.2.10 Purpose to which tax is put;

Rates are a property based tax designed to raise revenue to make a contribution towards the cost of local services within Northern Ireland. The Rating system in Northern Ireland consists of two elements:-

- a District rate fixed by each District Council to meet the cost of the services it provides, for example, street cleansing and leisure facilities; and
- a Regional Rate struck by the Department of Finance and Personnel to help pay for services such as education, roads and water.

50.2.11 Identification of tax collector;

Rates are collected in Northern Ireland by the Rates Collection Agency who have offices throughout the country.

### **50.3 Inheritance tax**

As England

### **50.4 Capital Gains Tax**

As England

## 51 Yugoslavia

### 51.1 Government Organisation and Structure

No information available.

### 51.2 Local Government Finance

No Information available.

### 51.3 Real Estate Tax

#### 51.3.1 Purpose of the tax:

The tax is an annual tax on the ownership of property.

#### 51.3.2 How the tax base is set or established:

No information available.

#### 51.3.3 Basis of valuation for tax purposes:

No information available.

#### 51.3.4 Frequency of review of tax base:

No information available.

#### 51.3.5 Nature of any exemptions or reliefs for classes of taxpayer:

The following real estate is exempt:

- Real estate with a taxable base not exceeding YUN 30,000, provided that the taxpayer does not have other taxable rights or, if he does, that his aggregate taxable base does not exceed YUN 30,000;
- Public-owned land;
- Buildings owned and used by the government;
- Buildings and land of foreign diplomatic and consular missions, under the condition of reciprocity;
- Buildings and land which are the property of churches, temples, monasteries and mosques;
- Buildings and land which are cultural monuments;
- Buildings and land used for educational, cultural, scientific, welfare, medical, humanitarian or sports purposes;
- Fanning buildings;
- Agricultural or forestry land which is reclaimed for agricultural production - for the period of 5 years;
- Roads, ports, railway tracks and airports and objects for environmental protection;
- Dams;
- Ship elevators in waterways;
- Urban construction land;
- Shelters for people or objects in case of war; and
- Objects used for public utilities.

A taxpayer who cedes land for exploitation, without compensation, to a refugee expelled from Croatia after 1 August 1995 is exempt.

If the real estate is let for commercial purposes for a period which lasts at least 183 days (whether or not consecutively) within a period of 12 months, the tax exemption does not apply. In addition, the taxpayer whose total taxable base for the owned registered shares in a limited liability company does not exceed YUN 20,000 is exempt.

The offshore companies act in Montenegro introduced an exemption from the property tax for offshore companies and foreign nationals employed by them with respect to all immovable property located in Montenegro.

51.3.6 Challenges to tax base, valuation or assessment:

No information available.

51.3.7 Nature of taxpayer:

The owner of the property.

51.3.8 Amount of tax:

The property tax is levied on all real estate at the flat rate of 0.4%. Exceptionally, in case of the tax on the cadastral yield the rate is 1.5%, however, a municipal surtax at the rate of 1% is also allowed. The rate of property tax on registered shares and shares in a limited liability company is 0.25%.

A taxpayer residing in his own apartment or house is granted a tax credit in a range between 50% and 80% of the tax liability, depending on the number of the members of his household. The tax will also be reduced where members of the taxpayer's family (but not the taxpayer himself) reside in his apartment or house: the credit ranges from 10% to 80%, depending on the number of members of the household. A taxpayer over 65, residing in his own house or apartment smaller than 60 m<sup>2</sup> and situated in a rural area, provided that he is living in the household where all the members are over 65 and that the house or apartment is not left for commercial purposes, is granted a tax credit of 75% of the tax liability.

In Montenegro, the tax on immovable property (e.g. An apartment or a house) is levied at the rate of 0.25%, with the tax credit for a taxpayer residing in his own apartment or house ranging from 30% to 70%, depending on the number of members in his household. The rate of the tax on a vacation house, however, is 0.5%, and the tax on immovable business property is levied at the rate of 0.20%. As in Serbia, the tax on agricultural land is actually replaced by the tax on the land's cadastral yield. The tax rate is 3%, unless the land is not cultivated, in which case the rate is 12%.

51.3.9 Frequency of payment:

The property tax is assessed in accordance with the facts reported in the tax return in the first taxable year. In subsequent years the tax return should be submitted only in case of changes of facts relevant to the liability. The property tax is paid quarterly.

51.3.10 Purpose to which tax is put:

The revenue is devoted to the purposes of the local authority.

51.3.11 Identification of tax collector:

The municipality.

## 51.4 Inheritance and Gift Tax

51.4.1 Taxpayers

Inheritance and gift tax is paid by individuals who inherit property or receive it as a gift. A legal entity which receives property as a gift is also liable for this tax.

51.4.2 Taxable base

The taxable object is real estate which is inherited or received as a gift. In addition, the taxable object is moveable property, money, saving deposits or monetary claims if the market value of each item exceeds the average monthly gross wage in the previous year.

The taxable base is the market value of the property inherited or received as a gift at the time of tax assessment, after deducting the debts and expenses encumbering the property. The tax becomes due when the court decision on inheritance becomes finally binding, or at the time the gift contract is concluded or, in case when such a contract is not concluded in writing, at the time the gift is received.

51.4.3 Exclusions

The exclusions from inheritance and gift tax are as follows:

- No inheritance and gift tax is paid by an heir or donee who is in the first order of succession relative to the deceased or donor, who is his spouse or grandson (grand-daughter);
- If the inherited or donated property is used for carrying out agricultural activities, inheritance and gift tax is not paid by a farmer - heir or donee who is in the second order of succession relative to the deceased or donor, provided that he lived in the same household with the deceased or the donor for at least 5 years;

## 51.5 Urban Land Use Charge

The urban land use charge is a local tax levied for each square metre of space used. The rates vary according to the location, quality of the area concerned and industry in which the urban land is used. For the city of Belgrade the amounts of the urban land tax, expressed in YUN per square metre and fixed as of 1 July 1996, are as follows:

<b>Zone of the city</b>	<b>1 zone</b>	<b>2 zone</b>	<b>3 zone</b>	<b>4 zone</b>
<b>Industry</b>				
Apartments	0.1194	0.0896	0.0597	0.0299
Manufacturing				
subgroup a	0.1224	0.1045	0.0776	0.0328
subgroup b	0.4030	0.3433	0.2538	0.1045

Handicraft services				
subgroup a	0.2986	0.2538	0.1791	0.0746
subgroup b	0.8957	0.7613	0.5374	0.2239
Trade, hotels and restaurants				
subgroup a	0.8509	0.7464	0.5374	0.2090
subgroup b	4.7768	4.1797	3.0154	1.1703
Education, culture, social welfare, etc.				
Subgroup a	0.0448	0.0448	0.0269	0.0090
subgroup b	0.1194	0.1194	0.0717	0.0239
Banking, insurance, supply of electricity, oil trading, ptt, lottery, etc.				
Subgroup a	3.1646	2.7705	1.9824	0.7882
Subgroup b	7.9116	6.9264	4.9559	1.9704

The quality of the location decreases with the number of the zone.

The amounts of the urban land use charge are adjusted monthly by the retail price index.

For apartments, the charge must be paid no later than the 5th day of the month following the month concerned, while in other industries the charge must be paid no later than the 15th day of the relevant month. The charge for the apartments and business premises used by natural persons may be collected with the public utilities fees.

Land used for military purposes, parks, playgrounds, streets, cemeteries, dams, cultivation, public parking, churches, water supply, supply of electricity and heat, etc. Is exempt.

A taxpayer who participates in financing activities in Belgrade may be eligible for a tax credit of up to 50%, in proportion to the invested funds. A tax credit (ranging from 10% to 30%) is also given to users of the urban land if the streets are without water supply, canals or asphalt.

### 51.6 Local Facilities Charge

The local facilities charge is a local tax imposed to cover the use of streets, squares, public parks, public illumination, etc. It is levied on:

- Payroll (in which case an employer is the taxpayer);
- Paid royalties (the payer of royalties is the taxpayer);
- "implicit salary" of the entrepreneur ; and
- Income from agriculture and forestry (the same individual who is the payer of the personal income tax on cadastral income from agriculture and forestry is the taxpayer).

The rate of this charge in Belgrade is 4%. For the assessment, withholding, collection, due periods, etc..

### **51.7 Local Public Utility Duty**

A local public utility duty is charged on various taxpayer's activities, including the use of public space for business purposes, keeping of gambling machines, performance of music in restaurants and keeping of dogs.

The company name disclosure duty is the most significant form of this levy. In the city of Belgrade the duty varies from YUN 166.67 to YUN 833.33 per month, depending on the quality of the area concerned. For small and medium enterprises the duty is decreased by 40% and 20%, respectively. It is also decreased by 40% in rural areas of the city and for legal entities engaged in manufacturing, agriculture or construction. Legal entities engaged in supplying essential services to the city are granted a 60% reduction, and sole entrepreneurs an 80% reduction. Each taxpayer may opt for one such relief. Company name disclosure duty must be paid no later than the 15th day in the month concerned. In case of taxpayers who pay the tax on business income according to a lump sum, the relevant provisions on paying such tax apply.

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