SOME PRACTICAL ISSUES OF PROPERTY TAX TRANSFORMATION

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Abstract

A system of property taxation should be understood as a group of taxes valid in a given country, related to ownership as well as the legal transfer of particular property elements, subject to taxation on the basis of currently valid legal regulations. Principally, their constructional ties with property should be manifested – apart from the object of taxation itself – in the construction of the taxation base. The object of taxation in property taxes is referred to a wide circle of events, often quite heterogeneous. With reference to property taxes, legal regulations should not omit (also with reference to implemented reforms) social and economic contexts of territorial self-government operations. It should be remembered that the expectations towards property taxes cannot be too high, we should also remember to take into account specific features of property taxes. Therefore in each tax policy shaped by legal norms there should be a postulate related to effective use of real estate, shaping rational special structure in cities and tax solutions ecology-oriented.

Key words: property taxation, subject and object to taxation, immovable property, revenue income.

Introduction

The notion of property constitutes one of the most ambiguous categories, differently defined and interpreted depending on a given field of science.

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Analyzing legal provisions of the EU countries which regulate the issues of tax accounting and tax law, we may determine the general properties of elements of property. These are: ability to generate future economic benefits, reference to transactions or other events realized in the past and remaining under control of the managing unit, which allows to enter them into the accounting system of a given entity.

Property as a subject of taxation

The concept of property has never been defined in the Polish law system. In its wide sense, it is understood as total assets and liabilities belonging to a particular entity. Such definition of property is opposed to its narrow term denoting the estate which entails only assets. In the latter definition, debts do not belong to property, but lower its economic value. Also in economics the property is understood exclusively as a sum of assets – property resources controlled by an individual and possessing reliably defined value. These assets are divided into fixed assets, composed of elements that are permanently engaged in a given unit, and current assets, composed of elements which constantly traded. In this understanding of property, liabilities are treated as means of its origin, and when we juxtapose them with assets, we will obtain a balance sheet[3]. In the legal sense, in the doctrine of civil law property has rather narrow meaning. This can be seen in the interpretation of the Civil Code provisions which use the concept of property – for example Article 863[4], 871[5], 875 concerning joint property of partners. The provision of Article 863 is absolutely binding and regulates the legal and material effects of gathering property on the basis of articles of association of a partnership. The regulation determining the regime of joint property of partners is applicable when such property is collected.

The establishment of a partnership as an obligation relationship is self-contained and does not depend on whether the joint property of partners was

[3] L.Etel, G.Liszewski, *Podatki majątkowe w Polsce – wybrane problemy*, Kancelaria Sejmu, Biuro Studiów i Ekspertyz, Report No 202, Warszawa 2002, p. 5.

[4] Compare S. Grzybowski [in:] *System prawa cywilnego*, volume III, part 2, p. 812; K. Pietrzykowski [in:] K. Pietrzykowski, Komentarz, volume II, 2004, p. 561). Quoted after: Kidyba A. (ed.) Gawlik Z., Janiak A., Kopaczyńska-Pieczniak K., Kozieł G., Niezbecka, E., Sokołowski T., *Kodeks cywilny. Komentarz*. Volume III. *Zobowiązania – cześć szczegółowa*. Opublikowano LEX 2010, komentarz do art. 863 k.c.

[5] Quoted after: A. Kidyba (ed.), Z. Gawlik, A. Janiak, K, Kopaczyńska-Pieczniak. G. Kozieł, E. Niezbecka, T. Sokołowski, *Kodeks cywilny. Komentarz.* Volume III. *Zobowiązania –* część szczegółowa. Opublikowano LEX 2010, komentarz do art. 871 k.c.

generated. The collection of such property may, but does not have to, be the consequence of establishing a partnership. The joint property is a derivative of the relationship of partnership, though not all articles of association have to evoke such legal and material effects. We may assume the existence of a civil partnership within which partners will oblige to act in a particular way, but none of them will be obliged to make any material contribution. Also the partnership activity will not generate any joint proprietary rights. Neither the establishment of the partnership nor its existence then is dependant, by the regulations, on the existence of joint property of partners.

Property taxes (on specified items of property)**,** comprise all taxes related to the ownership rights. From the perspective of the relationship between the tax burden and the taxpayer carrying it, we may differentiate direct and indirect taxes. A direct tax is when there is a precisely defined relationship between tax burden (type of tax, its amount, payment mode) and the taxpayer bearing it directly. Thus we have a relationship between the payment of the tax and direct carrying its burden by the taxpayer. So we have a convergence between the formal and material burden. Direct taxes burden the taxpayer in a way that is closely related to their income or property situation. Direct taxes comprise income taxes and property taxes. Direct taxes, especially property taxes are considered to be non-transferrable[6], which is not the case, therefore the criteria of the unity of a taxpayer and tax burden is not coherent[7]. We should assume therefore – taking into account the criterion of a relationship of the subject with attributable features – that direct taxes are those which are precisely related to permanent and non-transferrable features of a taxpayer or measures of economic activity ascribed to him through the ownership rights (income and property)[8].

Property taxation has both economic and legal aspects. In the economic aspect, a property tax is the one whose source is the taxpayer’s property. If property taxes are paid from obtained income, then they are nominal. If the source from which the tax is paid is the property, that we have real property taxes. Property taxes may burden both the property of individuals and business entities (subject of taxation criterion). We may also single out property taxes which may burden: possession of property, purchase or sale of property and increased value of property. Moreover, the taxation may cover the whole property or its particular elements. A property tax in its

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[6] More on transferability and advantages and disadvantages of direct taxes /in:/ G Szczodrowski, *Polski system podatkowy*, PWN, Warszawa 2007, p. 24-26.

[7] F.Grądalski, *Wstęp do teorii opodatkowania*, SGH, Warszawa 2004, p. 105.

[8] More in: A.B. Atkinson, *Optimal Taxation and the Direct versus Indirect Tax Controversy*, “Canadian Journal of Economics”, 1977, vol. 6., pp. 590-606.

normative aspect is a tax which, through the elements of a legal construction (subject and base of taxation) is tied to property[9].

Recurrent taxes on immovable property

Traditional land and property taxation – commonly referred to as property taxation – is based on the "*combined assessed value of land, buildings and improvements thereon*"[10]. This is the most widely used form of taxation and this is what they mean when a typical mayor and public finance official talk about land and property tax. However, this is not the only form of taxation associated with land. For example, various jurisdictions have over the years attempted to restrict taxes to ownership of land and put forward various justifications for doing so. When taxation is restricted to land or higher tax rates are imposed on land rather than buildings or improvements, then taxation takes the form of land value taxation (also called site value rating)[11].

Land value taxation (LVT), also known as recurrent property taxation, is often considered fair and progressive. As such, LVT claims to enhance efficiency of the use of land-based taxation in general and may discourage land and real estate speculation. The land value taxation in its pure form intends to let the landowners bear the full cost of the taxation with limited possibility to shift the cost to users (renters). In principle, land value approach does not enforce density and the timing for developing a parcel of land. Land value taxation advocates often argue for a single local land tax, at the expense of other factors of production (e.g. capital and labor). In so doing, land value taxation supports the abolition or reduction of taxation revenues (fees, rates, charges) from income, development, sales, various municipal services, building values, corporate profit etc.

Despite these arguments, land value capture and taxation has limited uptake and traction due to various challenges including legal and administrative issues (reforms needed to abolish other prevailing taxation systems and finding the appropriate institutional arrangements from local to central government role in land-based taxation), assessment methods (how to design and implement a fair valuation method and rolls – by area / site, income,

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[9] A.Gomułowicz, J.Małecki, *Podatki i prawo podatkowe*, LexisNexis, Warszawa 2004, pp. 140-141.

[10] See more: O. Connelan, *Land Value Taxation in Britain: Experience and Opportunities*, LILP, Cambridge 2004, Massachusetts.

[11] *Innovative Land and Property Taxation*, (ed.) Remy Sietchiping, United Nations Human Settlements Programme (UN-HABITAT), Nairobi, p. 4.

value increment, etc.- and its increments). Another variant of LVT argues for a modified land value taxation that supports a split-rate taxation system whereby the tax receipts separate the value or tax rate of land from the improvements on land. However, pure single land tax does not exist and "*in those jurisdictions where land value taxation has been tried, it has typically taken the form of a two-rate tax, not a pure land value tax*"[12]. In practice, many countries have adopted some forms of LVT along with property and other taxation and revenue sources (income, sale, increment, improvement, etc.). All surveyed European countries have at least one tax on property, and most have several. As illustrated in Table 1 some countries have more than one recurrent tax on immovable property.

Table 1. Property taxes imposed and distribution of property tax revenues

Country (EU member States)	**Property taxes utilized & relative reliance on each type of tax**						**Revenue recipients (% of total property taxes**		
	Recurrent, immovable	**Recurrent, net wealth**	**Estates, inheritance gifts**	**Financial & Capital transfer**	**Other non – recurrent**	**Other re-current property**	**central**	**State (regional)**	**local**
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Austria	Low	No	Mid	Mid	No	No	1,4	4,4	81,2
Belgium	High	Mid	High	High	Mid	No	11,3	51,6	37,1
Bulgaria	Mid	No	High	No	No	High	0,0	0,0	100,0
Croatia	Low	No	Low	Mid	No	No	51,7	0,0	48,3
Cyprus	Mid	Mid	Mid	Low	No	No	91,7	0,0	8,3
Czech R.	Low	No	Low	Mid	No	No	67,1	0,0	32,9
Denmark	Mid	Mid	Mid	Low	No	No	50,7	0,0	49,3
Estonia	Mid	No	No	No	No	No	0,0	0,0	100,0
Finland	Mid	No	High	Mid	No	No	55,4	0,0	44,6
France	High	High	High	Mid	No	Mid	19,3	0,0	80.7
Germany	Low	Mid	Mid	High	Mid	High	0,0	52,3	47,7
Greece	Low	Mid	Mid	High	Mid	High	87,8	0,0	12,2
Hungary	Mid	No	Mid	Mid	No	No	37,6	0,0	62,4

[12] See more: R.F. Dye, R.W. England, *Assessing the theory and practice of land value taxation*, Policy Focus Report of for the Lincoln Institute of Land Policy, 2010, p.12-13.

Ireland	High	No	Mid	No	No	No	19,4	0,0	80,6
Italy	Mid	Mid	Mid	No	No	Mid	4,5	0,0	95,5
Latvia	Mid	No	No	No	No	No	0,0	0,0	100,0
Lithuania	Mid	No	Low	No	No	No	0,0	0,0	100,0
Luxem-bourg	Mid	Low	Low	Mid	No	No	92,2	0,0	7,8
Malta	No	No	Mid	High	No	No	100,0	0,0	0,0
Netherlands	Mid	Low	High	High	No	Mid	69,3	0,0	30,7
Poland	High	No	Mid	No	No	Low	0,0	0,0	100,0
Portugal	Mid	No	Low	Mid	No	No	0,4	0,0	99,6
Romania	High	No	No	Low	No	No	2,8	0,0	97,2
Slovakia	Mid	No	Low	Low	No	No	0,6	0,0	99,4
Slovenia	Mid	Low	Mid	Low	No	No	0,0	0,0	100,0
Spain	High	Mid	High	High	Mid	No	0,7	58,9	40,4
Sweden	Mid	No	Low	Mid	No	No	60,8	0,0	39,2
United Kingdom	High	No	Mid	Mid	High	No	68,7	0,0	31,3
Reliance benchmarks	Indicated type of tax as a percentage of total taxes								
Low	≤ 0.0113	≤0.0010	≤0.0008	≤0.0073	≤0.0008	≤0.0001			
Mid	0.0114-0.032	0.0011-0.0241	0.0009-0.0105	0.0074-0.0151	0.0009-0.0021	0.0002-0.0073			
High	>0.032	>0.0241	>0.0105	>0.0151	>0.0021	>0.0073			

Source: *Property Tax Regimes in Europe*, The Global Urban Economic Dialogue Series, United Nations Human Settlements Programme, Nairobi 2013, p. 7-8.

Table 2. Base and Basis of Taxes on Immovable Property

County	**Land tax**	**Building Tax**	**Real Property (Land & Buildings) Tax**	**Movables Taxed**
(1)	**(2)**	**(3)**	**(4)**	**(5)**
Austria	--	--	Real Property Tax Grundsteurer): CV	--
Belgium	--	--	Onroerende Voorheffing/ Precompte Immobi-lier: Annual rental value (AV)	--

Bulgaria	--	--	Immovable Property Tax (1997; amended 1998): CV	Certain vehicles, aircraft, & vessels
Croatia	Tax on Unculti-vated Agricultural Land (2001): Area Unused Construc-tion Land Tax (2001): Area	Tax on Holiday Houses: Area	Unused Enterprise Real Estate Tax (2001): Area	--
Cyprus	--	--	Immovable Property Tax: CV	--
Czech R.	--	--	Real Estate Property Tax (1993): Area	--
Denmark	Land Tax (Grundskyld, 1926): CV	Service Tax (Daekningafgift, 1961): CV	Property Value Tax (Ejendomsvaerdis-kat,2000): CV	--
Estonia	Land Tax (1993): CV	--	--	--
Finland	--	--	Tax on Real Property (Kiinteistovero; fastighetsskatt, 1994): CV	--
France	Land Tax (Taxe Fonciere (sur les proprietes non baties)): AV	Housing Tax (Taxe d'Habitation): AV	Land & Building Tax (Taxe Fonciere (sur les proprietes baties)): AV Local Economic Contribution (Contribution Economique Territorale, 2010): AV	--
Germany	--	--	Real Property Tax (Grundsteurer, 1973): CV	Some livestock & agricultural machinery
Greece	--	Special Duty on Buildings Powered by Electricity (2011): Area	State (Large) Real Estate Tax (2010): CV Local Real Estate Duty (1997): CV	--

Hungary	Tax on Plots (1991)	Tax on Buildings (1991) Tourist Traffic Tax (on holiday houses)	--	--
Ireland	--	--	Rates: AV Non Principal Private Residence Charge (2009): Flat €200 charge Household Charge (2012): Flat €100 charge	--
Italy	--	Local Government Business Tax (Imposta comunale sull'industria, arti e professioni, 1989)	Communal Tax on Immovable Property (Imposta Comunale sugli immobili, 1993): AV	--
Latvia	--	--	Real Property Tax (1998): CV	--
Lithuania	Land Tax (1990, revised in 1992):CV	Real Property Tax (2006): CV	--	--
Luxembourg	--	--	Property Tax (Impot foncier, 1936): CV	--
Netherlands	--	--	Immovable Property Tax (Onroerende-Zaakbelasting or OZB, 1970): CV	Houseboats and the like can be taxed.
Poland	Agricultural & Forest Land Taxes: Area	--	Urban Property Tax (1991): Area	--
Portugal	--	--	Municipal Tax (IMI, 1989): CV	--
Romania	Tax on Land (1981): Area Fee for the use of State-owned land (1975)	Tax on Buildings (1981): CV	--	--

Slovakia	--	--	Real Estate Tax (1993): Area (agricultural land: CV)	--
Slovenia	Charge for Use of Building Ground (1995): CV	Property Tax (1988): CV	--	Certain ships
Spain	--	--	Real Estate Tax (Impuesto sobre Bienes Inmuebles): CV	--
Sweden	--	--	Real Estate Tax (Statlig Fastighetsskatt, 1985): CV	--
United Kingdom	--	--	Uniform Business Rate (England & Wales) Council Tax (England & Wales)	--

Notes:

'CV' means capital value; '
AV' means annual rental value (often the values are "cadastral" values, specifically used as the basis for the tax).
'Area' means the base is land area or some measurement of building area.

Source: *Property Tax Regimes in Europe*, The Global Urban Economic Dialogue Series, United Nations Human Settlements Programme, Nairobi 2013, p. 9-11.

Although table 2 focuses on recurrent taxes on immovable property, a few words about recurrent taxes on net wealth and taxes on real estate transfers (a tax on the transfer of wealth) are appropriate. Rudnick and Gordon[13] addressed both kinds, the latter being viewed as taxes on the transfer of wealth. Despite their conceptual appeal, recurrent taxes on net wealth seem to be in decline, although the pictures presented by revenue statistics and by system descriptions can conflict. However, European countries that make substantial use of recurrent taxes on net wealth include France, Luxembourg (on corporations), Norway, and Switzerland. Iceland has temporarily reintroduced a net wealth tax on residents[14].

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[13] R. Rudnick, R. Gordon, *Taxation of Wealth*, Thuronyi, V. (ed.), *Tax Law Design and Drafting,* Washington, 1996, International Monetary Fund. http://www.imf.org/external/pubs/nft/1998/tlaw/ eng/ch10.pdf

[14] See: European Union. (2011) *Taxation Trends in the European Union: Data for the EU Member States, Iceland and Norway*, <http://ec.europa.eu/taxation_customs/taxation/gen_info/economic_analysis/tax_structures/index_en.htm> (accessed 17 December 2011)

Property taxes as a source of local revenue

The discussion includes the reasons why land and property taxes (LPT) are often an important source of local revenue, what the options are for designing such taxes and what needs to be considered in their implementation. The case is put forward that land and property constitute an important base for mobilizing revenue to meet local needs. Land is immovable. Buildings and other immovable improvements on the land are difficult to hide. Those who benefit most from public investments will likely pay a larger share of the tax. Taxes on land and improvements can capture part of the increased land values that often result from public investments and improved public programs. By giving local authorities autonomous revenues, LPTs can foster improved local accountability and responsiveness. The various types of taxes applied to land and improvements are described, with an important distinction drawn between those LPTs that represent one-time taxes, fees and charges and the annual LPT that yields on-going revenue. The one-time taxes and fees are applied when something about the land changes, such as ownership or land use. The annual LPT applies to all taxable land. One-time taxes and fees are best used to fund specific projects, whereas the annual LPT can be used to fund continuing services or to underwrite modest debt levels. Four practice and capacity perspectives. To be effective, implementations of LPTs need to be informed by, if not constrained by, four considerations[15].

The LPT system should reflect and be sensitive to the accepted institutions and traditions related to land and property rights. If land is seen as an economic commodity in the local culture, and individual private ownership is accepted, then the incidence of the LPT should fall on land owners, and sanctions should include the government's right to seize and sell the land (eventually) if taxes are not paid. On the other hand, if land is viewed by the local culture as fundamental to achieving basic human rights, or if private ownership is foreign to the culture, then it will likely be more practical to make the occupants of land responsible for paying the tax. In such settings, tax administrators need to be able to use a combination of public exposure, the denial of taxpayer services and the pursuit of other taxpayer assets besides the land if the taxes are not paid. A national taxpayer identification system is of great value in such situations[16]. The fiscal cadastre

[15] See: R. Rudnick, R. Gordon, *Taxation of Wealth*, Thuronyi, V. (ed.), *Tax Law Design and Drafting,* Washington, 1996, International Monetary Fund. http://www.imf.org/external/pubs/nft/1998/tlaw/ eng/ch10.pdf.

[16] R. Bahl, *Property Tax Reform in Developing and Transition Countries*, Report prepared for the United States Agency for International Development under a contract with

will not help much with resolving boundary issues or in resolving competing claims to ownership, but it can be used to link taxpayers to parcels of land and document that linkage, thus contributing to a broader land inventory. In this, the interests of tax administrators and taxpayers are closely aligned[17]. Since different design options exist depending on the extent and maturity of urban land and property markets, it is critical that careful attention be paid to market conditions in different locations and for different types of property. In those areas and for those properties where real estate markets are active and information on market transactions can be obtained, valuation approaches based on capital market value, annual rental value or an approach tied closely to market transactions should be used to establish the tax base.

The tax revenue identity perspective. The revenue identity consists of five elements:

- the tax base,
- the tax rate,
- the ratio of properties on the fiscal cadastre to the total number of properties,
- the ratio of taxable property value recorded in the fiscal cadastre to total actual property value and,
- the ratio of taxes collected to taxes billed.

The eventual revenue received by the government is the product of these five elements. It is consequently important to consider the policy and administrative options for each, but the choices should be informed by knowledge of the four local considerations: rights related to land and property, the formal and informal systems for registering those rights, market conditions and administrative capacity[18].

Development Alternatives, Inc. under the Fiscal Reform and Economic Governance Task Order, 2009, GEG-I-00-04-00001-00 Task Order No. 07., p. 21-24; Rudnick, R. Gordon, R., *Taxation of Wealth*, V. Thuronyi, (ed.), *Tax Law Design and Drafting,* Washington, 1996, International Monetary Fund. http://www.imf.org/external/pubs/nft/1998/tlaw/ eng/ ch10.pdf. See also: *Property Tax Regimes in Europe*, The Global Urban Economic Dialogue Series, United Nations Human Settlements Programme, Nairobi 2013.

[17] R. Almy, *A Survey of Property Tax Systems in Europe*, a report prepared for the Ministry of Finance of Slovenia, 2012; R. Almy, R., Dornfest, A., D.Kenyon, *Fundamentals of Tax Policy*, Kansas City IAAO, 2007; R. Bahl, R., J. Martinez-Vazquez, J.M. Youngman, (eds). *Making the Property Tax Work: Experiences in Developing and Transitional Countries,* Lincoln Institute of Land Policy, Cambridge, 2007.

[18] Compare: J.M. Youngman, J.H. Malme, (eds.) *An International Survey of Taxes on Land and Buildings*, Kluwer Law and Taxation Publishers, Deventer 1994. See more: B. Yuan, K. Connolly, M. E. Bell., *A Compendium of Countries with an Area-Based Property Tax*, Working Paper Series, Lincoln Institute of Land Policy, Cambridge, 2009.

Defining the base for the LPT involves three policy decisions. First: if there is adequate administrative capacity to obtain and maintain the additional information required, both land and improvements can be taxed. There are also strong economic arguments for taxing land only, and a land-only tax may be the most effective way to extend the tax to informal settlements. Second: if real estate markets are fairly mature, there are good reasons to link taxable values to market values. But if real estate markets are not complete and reasonably well functioning, the better approach is to link taxable value to property attributes such as size and location. Administrative capacity should also play a role in this decision. Linking taxable value to market value is administratively much more demanding. And if access to land is generally viewed as essential to human rights there will likely be a preference for basing the LPT on property attributes while viewing property rights as economic commodities will tend to favor a market value approach, other things being equal. Third: if property ownership is well accepted, then taxing owners will likely be preferred. If individual ownership of land is not widely accepted, the tax obligation should fall on occupants or those who have beneficial use of the land. If formal property right registration systems are well established, then taxing owners may be preferred. In areas with incomplete formal property registration, occupants and users will likely be easier to identify. This will be true as well if land and property markets are limited. And without individual ownership and strong property registration systems it will generally prove to be administratively easier to tax occupants and users rather than owners[19].

Tax collections

Implementing or reforming the LPT in a country is a daunting task. The legal, technical and administrative considerations may seem overwhelming. The way forward can be broken down into a logical series of steps, some of which can be carried out concurrently[20].

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[19] Compare: W.J. McCluskey, F. Plimmer, *The Potential for the Property Tax in the 2004 Aaccession Countries of Central and Eastern Europe*, RICS Research Paper Series, vol. 7, no. 17, The Royal Institution of Chartered Surveyors, London, 2007; A. Müller, *Importance of the Recurrent Property Tax in Public Finance, Tax Policy & Fiscal Decentralization*, paper presented at the international conference on property and land tax reform sponsored by the Institute of Revenues, Rating & Valuation, Tallinn, Estonia, June 2003.

[20] See more: R. Bahl, *Property Tax Reform in Developing and Transition Countries*, Report prepared for the United States Agency for International Development under a contract with Development Alternatives, Inc. under the Fiscal Reform and Economic Governance

1. Begin by envisioning the desired outcome. This will require careful consideration of the four factors described in this guide, along with the desired policy goals, to assure that general principles and guidelines are adapted appropriately to local conditions.
2. Seek technical assistance. Most of the challenges confronted in any given context will have been encountered before in other settings. Learning from other's experiences can reduce both the time and the cost of the reform effort.
3. Create the legal framework. The LPT must have a sound footing in a well-crafted and appropriate legal framework.
4. Identify the resources needed and build an implementation team. The size of the team and the available resources will determine how quickly full implementation can be achieved.
5. Start with one city or even one sector of a large city. Secure the support of senior political leadership and community leaders in the selected area. It is better to limit the area initially selected until the implementation team is able to develop standard procedures that are effective and has a clear idea of its capacity.
6. Build or improve the fiscal cadastre. This step will involve a basic land inventory in the city or sector selected, but the initial information collected should be kept to a minimum.
7. Build public support. It is critical that the public in the selected area understand what the reforms are intended to accomplish and how the LPT will work.
8. Design the collection system carefully. Seek to minimize the compliance cost for taxpayers and the administrative costs of collection. Consider using utilities or other agents to facilitate collection[21].
9. Levy the tax. Be prepared to respond to taxpayer questions and appeals. Work closely with local media outlets so that they understand and can help explain the changes in the tax.
10. Trumpet success but aggressively pursue tax avoiders. The success of the reforms should be widely publicized, but it is just as important to publicize the fact that nonpayment will not be tolerated.

Task Order, 2009, GEG-I-00-04-00001-00 Task Order No. 07., p. 21-230; *Property Tax Regimes in Europe*, The Global Urban Economic Dialogue Series, United Nations Human Settlements Programme, Nairobi 2013.

[21] See: C. Crowe C., G. Dell'Ariccia, D. Igan, P. Rabanal, How *to Deal with Real Estate Booms: Lessons from Country Experiences*, IMF "Working Paper", No 4/2011; R. Grover, I. Anghel, V. Pamfil, *Developing quality training approaches for effective property tax administration*, ERES-ESSEC Education Seminar, Paris, December 2007; A. Paugam, *Ad Valorem Property Taxation and Transition Economies*, ECSIN, "Working Paper" No 9/1999; ERES-ESSEC Education Seminar, Paris, December 2007.

In the way to real estate property tax system

The design of real estate property tax system is in the last period a subject for debate, attracting attention in the political, social or academic debates. This is due because taxation on real estate property could be[22]:

a) New source of revenues. In a couple of European countries there is an important need to find new financial resources; the fact that real estate taxes are quite low in many countries creates the opportunity for these countries to obtain a convenient not expensive and short term solution.

b) New source of economic growth. There are recent studies which identified taxes on real estate property as some of the least detrimental to GDP.

c) A source of stability. Taxes on property are recurrent and offer an important advantage of a high stability of tax revenue flow, which facilitates a reliable budgetary planning.

d) A way to avoid future crisis. There are many voices which consider the favorable tax treatment of mortgages as one of the important contributing factors to the housing price bubble that has played an important role in the crisis in several countries[23].

The concept of the property tax transformation

The system of financing local government in Poland requires changes which would strengthen the share of own income[24] in self-government budgets and increase the autonomy of financial policies implemented by local authorities. Among the hotly debated proposals in Poland of strengthening the tax potential of local budgets one can differentiate:

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[22] See more: I. Anghel, R. Grover, *Opportunities and constraints on the development of real estate taxation in transitional countries*, 14 th Annual European Real Estate Society, www.eres.org, London, June 2007; J. Arnold, B. Brys, C. Heady, A. Johansson, C. Schwellnus, L. Vartia L., *Tax policy for economic recovery and growth*, "The Economic Journal", No 121/2011,pp. 59-80.

[23] See more: C. Crowe, G. Dell'Ariccia, D. Igan, P. Rabanal, *How to Deal with Real Estate Booms: Lessons from Country Experiences*, IMF "Working Paper", No 4/2011; R. Grover, I. Anghel., V. Pamfil, *Developing quality training approaches for effective property tax administration*, ERES-ESSEC Education Seminar, Paris, December 2007; A. Paugam, *Ad Valorem Property Taxation and Transition Economies*, ECSIN, "Working Paper" No 9/1999.

[24] We mean here strictly own incomes, especially taxes related to a certain scope of local tax authority, not the share in incomes from government taxes.

- Discussions concerning changes in the property tax;
- Concepts aiming at transforming shares in PIT into a local income tax;
- A concept of local sales value tax, recently formulated by W. Misiąg.

All these three directions deserve detailed analysis, however, our report concentrates most of all on the first of the above-listed options. There is no coincidence in the fact that property tax is the main source of income for self-governments in many countries. This is due to its features which make it a nearly ideal local tax:

- The tax base is relatively (at least compared to most other taxes) equally spread in the area;
- Allocating the income to a particular local authority is unequivocal (this feature differentiates property tax from PIT, where we also encounter problems while trying to determine the actual number of residents. There is also a problem of how to treat people with several places of residence. The problem of territorial equivocalness is even more acute in other taxes – for example CIT, or – in an even more dramatic form – in case of VAT);
- Allocating to a particular local authority prevents manipulations of possible taxpayers (for example in case of PIT we cannot exclude the possibility of fictitious migrations motivated only by the need for tax savings).

The concepts of changes to the property tax in Poland date back to as early as the first half of the 1990s, though none of them has ever been implemented. This report presents the concept which, in our opinion, meets several important criteria:

- It increases potential incomes of many local authorities;
- It is more fair than the currently used system;
- It is relatively simple and easy to implement.

The main subject of this report is to present the details of this proposal, together with the simulation of its financial implications for various categories of self-government. In addition, we briefly relate to a few issues connected with the main topic, namely:

- The issue of combining changes to property tax and accompanying changes to other segments of the system of financing self-governments, especially the way of calculating the general subsidy;
- The issue of connecting property tax to other burdens of similar nature – forest and agriculture taxes and perpetual usufruct fees;
- Discussion on the scope of tax power of local authorities.

I will try to present a thesis of positive effects which would be brought by the strengthening of local authorities incomes by local taxes. We may list several arguments, both political and economic ones, for such construction of the income system:

The system in which the major part of local budget comes from own resources develops responsibility of local governments towards their inhabitants. The shape of the commune budget largely depends on decisions concerning local taxes and fees. This helps strengthen political responsibility of councilors and executive authorities towards their voters as well as supports the interest of inhabitants in local public issues. In other words, such a system of incomes supports the development of local democracy.

Such a system also helps rationalize expenditure and search sources of possible economies. Local government politicians find it more difficult to increase expenditure if it is to be finances by increasing taxes imposed on their own voters (who may not be happy with such a solution) than in a situation when we receive the money from the central government.

The fiscal policy may be adjusted to local preferences. In one place, inhabitants may expect a higher level and better availability of services, even at the cost of higher local taxes, whereas in another place they will prefer poorer availability or higher payment for services only to keep local taxes as low as possible. If a significant part of income came from donations and subsidies, the implementation of such a policy, taking into account local preferences, would be impossible, as only own incomes can be shaped at the level of local government units.

A solution in which the majority of local authorities income is own income lowers the pressure on the amount of total public expenditure, especially on the size of expenditure from state budget. This is the consequence of the above-mentioned fact that in a situation of the dominant own income, attention is paid to seeking savings rather than on negotiating resources (transfers) with higher level authorities. Rattso[25] notices that in a situation where the dominant part of local authorities income comes from transfers, that is a situation in which the local community does not bear the direct burden of financing tasks, inhabitants are inclined to expect excessive supply of local services. On the other hand, local authorities – passing these expectations further – require bigger transfers, which are financed from taxes imposed on taxpayers in the whole country. Such system leads to increased pressure on higher public expenditure.

The postulated income structure also strengthens the position of local authorities in the country. Self-government becomes a partner contributing

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[25] J. Rattso, *Fiscal Controls in Europe: a Summary*. /in:/ B. Dafflon (ed.) *Local Public Finance in Europe: Balancing the Budget and Controlling Debt*. Cheltenhmam-Northampton: Edward Elgar, 2002.

to the financing of public tasks, rather than a client asking from "crumbles" from the government table.

With a high share of own income in local authorities budgets, local authorities become more interested in promoting local economic development (though this interest has also other reasons). Self-government politicians and managers will try to support development of economy just to increase budget incomes from their taxes.

Conclusions

The diversity of views on classifying taxes on agriculture and forest land, developed and undeveloped urban real estate as belonging to the categories of property taxes, revenue taxes or mixed taxes, encourage us o propose certain solutions limiting negative legal and economic phenomena within property taxes. From this perspective the following would be desirable:

1) To organize legal regulation of property taxes by adopting permanent, easily identifiable features;
2) Everywhere there is separate taxation of agriculture and forestry, general principles of taxation should be introduced (for example income tax – an example of a tax imposed on generating income, property tax on the value of possessed real estate – an example of taxation on resource, VAT tax – an example of a tax imposed on the use of income);
3) Taking into account mechanisms of substantive selection promoting development goals, limiting disturbances to the market mechanism;
4) Detailed analysis of necessary elements in the construction of taxes placing burden on real estate (for example residential, agricultural, forest and other) in order to reject the unjustified approach consisting in freely determining where these taxes belong;
5) To simplify tax constructions in order to eliminate elements typical of revenue taxes.

Analyzing the legal and formal division of taxes into direct and indirect ones, we should take the utmost care when dealing with criteria for determining the features of property taxes belonging to direct taxes. I believe we should constrain the features of direct taxes to the least controversial ones, namely:

1) Direct taxes are those imposed on the income or property belonging to a taxpayer or being at their disposal in a way that allows them to obtain gains property;
2) The object of taxation is identical with the actual source of tax (direct relationship), since generated income or possessed property directly refer to the money with which the tax will be paid;

3) Direct taxes are those directly related to taxpayers tax capacity, as they are imposed directly on the source of income;
4) Direct taxes are those with reference to which there are possibilities of using relevant administrative registers of taxpayers and their incomes and property (cadastres) for determining their taxes;
5) Direct taxes are those that are closely related with the effects of an economic activity.

The property tax system is founded by a number of principles: uniformity, neutrality, stimulation of direct investment, transparency, public acceptance, buoyancy and cost effectiveness. Uniformity: implies proportional taxation in correlation with the "ability to pay". A market value based system could represent a fiscal benefits because avoid the case in which taxpayers paying less than they might be willing to accept. Neutrality: a efficient tax system not distort economic decisions and encourage an optimal mix of factors of production (capital, workforce, management and land)[26]. Almost all local governments worldwide rely, at least to some extent, on property taxation to pay for local services. Economists have long argued that the property tax is a good tax for local government because it is fair (in relation to the benefits received from local services), it is difficult to evade, and it promotes local autonomy and accountability[27]. Although most of the literature talks about "the" property tax as if it were one tax, it is really two different taxes—a tax on residential property and a tax on non-residential property. To the extent that the property tax is levied only by local governments, it can be an important instrument of local autonomy. To ensure local autonomy, however, the tax cannot be used to any significant extent by other levels of government and tax rates must be set locally and not by a senior level of government. The extent to which local governments have exclusive rights over the property tax contributes to its role in promoting local autonomy[28]. The property tax is a highly visible tax. Unlike the income tax, for example, the property tax is not withheld at source. Rather,

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[26] See: I. Anghel, C. Sopis., *Valuation for property tax purpose. Analysis of the EU transitional countries.* http://www.fig.net/commission7/Hungary_2012/6.4_paper_anghel_et_al.pdf (date: 22.02.2105); R. Grover, I. Anghel, V. Pamfil, *Developing quality training approaches for effective property tax administration*, ERES-ESSEC Education Seminar, Paris, December 2007; A. Paugam, *Ad Valorem Property Taxation and Transition Economies*, ECSIN, "Working Paper" No 9/1999.

[27] R.M. Bird, *Subnational Revenues: Realities and Prospects.* Washington 2001, DC: World Bank Institute.

[28] See more: W.E. Oates, *Local government: An economic perspective*. /in:/ M.E. Bell, D. Brunori, and J.M. Youngman (eds.), *The Property Tax and Local Autonomy*, 9–26. Cambridge, Mass.: Lincoln Institute of Land Policy, 2010, p. 13.

taxpayers generally have to pay monthly mortgage payments to financial institutions[29].

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