Ad Valorem Property Taxation in the 2004 Accession States in Central and Eastern Europe

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SUMMARY

This paper is based on research, recently completed, which investigated both the processes and the outcomes of the development of property taxation (for both land and buildings) in the 2004 accession states in Central and Eastern Europe.

Decentralisation, privatization and cadastre developments are linked into the emergence of local services and the need to develop a funding mechanism for devolved functions from central to local authorities. The paper reviews the principles which underpin the existing local property taxes including choice of system and some of the administration issues. However, it focuses on the nature of the property tax systems, the perceived advantages and disadvantages of the original area-based systems which are widespread within the CEE countries, and it discusses the motives and the prerequisites for a shift from area-based to value-based (*ad valorem*) taxes which is widely recognised as having major advantages over an area-based system.

The fundamental goals of privatization, decentralisation and democracy are themselves perceived as both drivers and beneficiaries of a market-based tax system and both the services and wider social advantages which are anticipated to accrue from a value-based tax system are clearly recognised within the data gathered for this research. However, the process continues – more advanced in some states than others – and provides an opportunity for all jurisdictions to review the rationale behind established systems in the light of rapid global and local changes.

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1. INTRODUCTION

This paper discusses the nature of real property[1] taxes in the eight central and eastern European countries which joined the European Union in 2004 (Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovak Republic and Slovenia.). The paper focuses on their various routes to achieving an *ad valorem* tax for local authorities, the development of land and property taxation within the states investigated and the different approaches to achieving an *ad valorem* property tax base. Underpinning this work is the range of issues, drivers and barriers which affect the different states, including the prospect of accession to the European Union which is recognised as one of the drivers behind the development of a property tax (Maliené, *et al.,* 2005).

The need to ensure decentralisation of functions and services is common to all of these states, and the opportunity to improve the delivery of public services and thereby improve the quality of life for their citizens is recognised as a vital goal for the central administrations. It is also seen as an integral component of tackling many of the challenges facing such countries in transition, including the demands on public services and growing expectations with regard to the quality of services (McCluskey and Plimmer, 2007)

However, alongside the moves towards decentralisation and it has also been necessary to deal with issues of privatisation and land restitution. For all of these reasons, as well as the need to introduce local revenue sources, it has been necessary to develop appropriate land registers, cadastres and databases to provide the necessary information to underpin real property taxes. Here too different approaches to land-based systems are evident within the subject states. In the Baltic States (Estonia, Latvia and Lithuania) integrated systems were developed, in part, to support mass appraisal techniques (Malme, 2004). In Slovenia, such data bases were proposed only during the 21st century (Žibik and Mitrović, undated: 6).

Local autonomy is extremely important in the jurisdictions covered by the research (see, for example, Bryson and Cornia, 2003: 48). The theory (expounded by Bryson and Cornia, undated: 110) is that:

. . . services provided by a lower level of government are more likely to correspond to the demands of the majority of citizens in a smaller community than services provided to the citizens of a larger community.

[1] 'Property' is a generic term and can be taken to encompass only real property and exclude personal property. In the context of this paper 'property' can be taken to imply land only or land including improvements.

It is generally recognised that the provision of services and their funding should be closely linked, particularly if the service providers, the municipalities, are to have the flexibility and responsibility to provide the range and level of services required and demanded by their local citizens, within a national legislative framework. This implies that the local nature of the service provision should be matched by the local nature of the funding source – or the main funding source. The link between municipal taxes paid by local citizens and the provision of local services is also reinforced within the democratic process through which citizens elect their municipal representatives and their accountability to their electorate. Thus, property tax is an opportunity to ensure independent local revenue for municipalities which can undertake local delivery of appropriate services in response to citizen demand (Malienė, *et al.*, 2005).

However, this principle is not universally applied in the same way throughout the areas studied. For example, since 2000, local authorities in Estonia receive all of the tax from land in their jurisdiction which is in private or state ownership, with central government retaining revenue from the properties not yet restituted or privatised (Almy, 2001: 14). In contrast, in Slovenia, where taxation is highly centralised, not all local authorities make use of a property tax because of the numerous exemptions and limitations to the taxpayer base (McCluskey and Plimmer, 2007: 79).

There is also evidence of a common ambition to introduce *ad valorem* tax bases, but, while real estate markets are developing to a point at which a value-based tax system can be supported by suitable, comprehensive open market transactional data, area-based systems predominate. This paper discusses how different states are progressing towards an *ad valorem* tax base and the drivers and barriers which affect the evolution of real estate taxation.

This paper investigates the different uses made of the ubiquitous land tax and the property (buildings and structures) taxes in these countries, discusses the valuation models – principles and practices, investigates the perceived benefits and prerequisites of an *ad valorem* property tax, and analyses the drivers and barriers to the introduction of *ad valorem* systems of taxation in each country.

2. DEVELOPMENT OF LAND AND PROPERTY TAXES

It is well recognised within the literature relevant to these countries that real property taxes are highly appropriate sources of revenue for local authorities (e.g. Balas and Kovacs, 1999).

. . . the property tax is the most widely used form of raising revenue for local governments throughout the world. This results largely from the inability of real property to shift location in response to the imposition of a tax, the potential for a more direct connection between the tax imposed and services provided locally, and the comparative simplicity of property tax administration. . . . Virtually all local governments depend to some extent on the property tax while several local governments depend almost exclusively on it . . . (Bettger, *et al.,* 1994)

In all of the jurisdictions investigated, a land tax is imposed with the revenue from this tax being spent by local authorities, but there is variation in the division of functions between central and local governments.

In some jurisdictions, the level of revenue raised is significant e.g. in Estonia, while in others, this is not the case. For example, in Hungary, Hegedűs (2002:8) comments that the amount of local tax paid by a household sector (6 - 8 billion HUF) equals the amount the household sector spends on cigarettes (7.5 billion HUF in 1998).

However, the nature of the existing (or originally introduced) tax bases and the circumstances which prevented the imposition of a value-based property tax system, led almost inevitably to a simple area-based tax. These were both appropriate and effective short-term measures while the prerequisites of a value-based system could be developed, including a thriving and healthy real estate market, ownership and land data bases and the political conviction of the advantages of an *ad valorem* property tax base.

2.1 Land Tax

All of the states investigated impose a land tax as a source of funding for local authorities. According to Malme and Tiits (2001:30), limiting the tax base to land alone was intended to encourage its productive use, stimulating owners of restitution rights 'to develop the property or sell it'. In Estonia, the land tax was originally imposed to encourage efficient economic use without the deterrent effect of a tax on buildings and to ensure a lesser burden on residents whose property holdings bore little relationship to ability to pay (Malme and Tiits, 2001: 30). It also provides revenue for local authorities to fund further fiscal decentralisation and privatisation (*ibid.*). According to Trasberg (2004a: 108), a land tax encourages the privatisation of government-owned land, its efficient economic use and avoids increasing the tax burden on residents. It is usually easier and cheaper to administer and is often "politically less offensive" (*ibid.*) than a tax on property (i.e. combined land and buildings).

A land tax can be criticised (Ott, 1999: 48) because of the capitalisation effects of the tax, the uncertainty surrounding returns on land, and the fact that information required to administer the tax is costly. High administrative costs (particularly in relation to yield) can lead to abandoning the tax altogether. It is also recognised (Trasberg, 2004a: 108) that taxing land alone limits the tax base for the spending authority and there is reduced transparency because taxpayers have no information about the market value of their sites. This, Trasberg (2004a: 108) argues, infringes the principle of horizontal equity.

In all states investigated, the taxpayer is the individual land owner, although in the Czech Republic, the lessee is the taxpayer where the owner is unknown (Anon, undated). The taxation of owners (rather than occupiers) causes problems in cases where, because of the privatisation programmes within these states, landowners (the taxpayers) live remote from the land on which they are liable to pay tax. Thus, in such situations, the tax burden is exported from the municipality where the land is located to that in which the taxpayer (the owner) resides (Trasberg, 2004a: 109). This has implications for the principles of democratic

accountability and decision-making in the jurisdictions in which tax levels are set. However, the land tax does force owners to either make some economic use of the land or to sell or lease it, in order to meet the tax bill.

In Slovenia, it is proposed that unpaid property taxes should become a "mortgage" on the land, to be redeemed when the land is sold (Žibik and Mitrović, undated). This has the advantage of removing a financial burden from those with no income to pay until such time as a real estate asset is sold and funding becomes available to pay the debt.

2.1.1 Tax Base

In each state, the definition of the land to be tax varies. For example, in the Czech Republic, the land tax is levied on the following kinds of registered land: arable soil, vineyards, hop fields, gardens, orchards, pasture, and building plots. In addition, only commercial forests are taxed, as are areas of water used for intense and commercial fish farms. In Estonia, the tax base is the capital value of land, without buildings, timber, plants or structures, (Malme and Tiits, 2001: 32). In Poland, there is both a land and forestry tax.

Table 1 Use of tax bases

	Tax base	Land	Buildings	Reforms planned
Czech Republic	Area	√	√	Delayed introduction of market value
Estonia	Market value	√		Move to include buildings
Hungary	Area	√	√	Delayed introduction of market value
Latvia	Market value	√	√	Introduced market value
Lithuania	Market value	√	√	Introduced market value
Poland	Area	√	√	Delayed introduction of market value
Slovenia	Area	√	√	Delayed introduction of market value
Slovakia	Area	√	√	Delayed introduction of market value

2.1.2 Tax Rates

Inevitably, tax rates vary. They are normally imposed by central government, either specifically or a range is identified and local authorities are able to choose the appropriate tax rate from within that range. In some states, the level of tax imposed is more complex. For example, in Estonia, the tax rates are fixed by the Estonian Parliament (between 0.5% and 2.0% of taxable values), allowing municipalities to determine their tax rates within this range.

In Hungary, central government sets the tax rates with an upper limit of HUF 200/m^2 or 1.5% of the 'market price' (Anon, 2006). In the Czech Republic, the tax base for taxable agricultural land is determined by multiplying the total area of the land by its average price, or in accordance with "valid price regulations", which are published annually (Anon, undated). For building plots in the Czech Republic, the taxable area is multiplied by 1.00 CZK; and for developed sites and courtyards, the taxable area is multiplied by 0.10 CZK. In both cases, the outcome is further adjusted by a coefficient, which reflects the population level within the municipalities. These coefficients range from 0.3 for municipalities with less than 300 inhabitants to 3.5 where inhabitants exceed 50,000. In Prague, the coefficient is 4.5.

2.2 Buildings Tax

Estonia does not tax buildings or structures (though the government is planning to extend rhw tax to include improvements) on buildings (Trasberg, 2004a; Deloitte, 2006), but all of the other jurisdictions levy such a tax. There are recognised advantages in taxing buildings (either as separate improvements on land or in combination with the land on which they exist). Such advantages include a greater market value which is attached to the buildings, as compared with the land alone, and this allows municipalities a larger (value) tax base as well as a tax base the range and value of which varies (normally increases) over time, and which allows similar variation in the funding and therefore the provision of services. In Lithuania, for example, the property tax revenue is ten times that of the land tax, because of the relative values of the tax bases.

There are discussion (Trasberg, 2004a: 111-112) about extending the tax base in Estonia to include buildings and improvements. Such a reform would increase the tax revenues five-fold and improve the visibility of costs of the community services to the taxpayers and also the transparency of how the market forms the property values on which tax is paid to the owners. This linkage is not clear with a land-only tax. A land tax requires a high level of detail regarding the nature of land, soil quality and other relevant attributes, which puts pressure on a tax which has such a modest yield. Also, a broader property tax will ensure that those owners who are not also residents pay a greater proportion of the costs of services from which their property benefits. However, widening the tax base will increased administrative costs and potentially discourage property improvement and investments. This may be a small price to pay for the increased revenues which a property (as opposed to a land) tax offers.

2.2.1 Tax Base for Buildings

Typically, all residential, commercial, industrial and agricultural buildings are liable to taxation. For example, in Hungary, a tax is levied on the useable area of floor space of privately-owned buildings, including residential and ancillary buildings e.g. garages and storehouses, as well as commercial and industrial premises. In two municipalities, a corrected market value is imposed (Balas and Kovacs, 1999: 7). In addition to being levied on urban properties, including buildings, parts of buildings, apartments and garages[2]. Excluded from the tax base are generally premises used for diplomatic purposes, state buildings, cultural monuments/buildings, educational and religious worship establishments, and land limited in use by environmental protection measures. In addition, social objectives are also reflected in the exemptions applied. For example, in Slovenia, where more than three family members reside in a taxable building, a 10% reduction in the tax base for the fourth and any subsequent family members is made. Also in Slovenia, new or renewed apartments are exempt for five years, and low income owners can be fully or partially exempt (Žibik and Mitrović, undated: 6).

[2] In Slovenia, the property tax is also levied on boats which are not used for business purposes, although small craft are not taxed (McCluskey and Plimmer, 2007: 79).

2.2.2 Tax Rates for Buildings

In the Czech Republic, different buildings are taxed at differing rates depending on their uses: for example, dwellings are taxed at CZK 1/m^2; residential properties with garages are taxed at CZK 4/m^2; industrial (including building, transport and energy industries) at CZK 5/m^2; and buildings accommodating other commercial activities at CZK at 10/m^2 (Anon, undated). For residential properties, flats and other separate non-residential premises, the result is then multiplied by a coefficient based on the population within the municipality, as for Land (refer above).

In Hungary, the rate at which the tax is levied is low, because of the perceived unfair character of the tax assessment methodology and to reflect the lack of economic means to meet the obligation (McCluskey & Plimmer, 2007: 52; Balas & Kovacs, 1999: 2). In Slovakia, too, the tax rate applied to buildings is "modest" (McCluskey and Plimmer, 2007: 79). In Slovenia, the municipalities are responsible for determining the tax base, using criteria provided by the housing department for the buildings tax. They use a points system for both land and buildings, and, in each case, fix the value of one point themselves (Žibik and Mitrović, undated: 6).

2.3 Administration

Within the jurisdictions under investigation, different approaches to property tax administration are evident. These include the role of valuation, the extent to which valuation and the identification of taxable land is linked into the cadastre, and the split of administration between central and local authorities. For example, the Czech Republic and Estonia have centralised property tax administrations but the Slovak Republic has decentralised it (Bryson and Cornia, 2003; 46; Trasberg, 2003: 12)

In Estonia, the land tax is an assigned revenue, with central government responsible for all aspects of administration (Trasberg, 2003). In Slovakia, the property tax is administered locally and municipal authorities enjoy substantial fiscal autonomy (Bryson and Cornia, 2003: 56). Indeed, according to Bryson and Cornia (undated: 115)," . . . *few other countries have placed as much of the administrative burden on the private citizen".*

In Slovenia, public finances are highly centralised, with local authority expenditure accounting for only 10% of total government expenditure (McCluskey and Plimmer, 2007: 77). Also, in Slovakia, both government and private firms are involved in the development of valuation methods and land value maps (*ibid.*: 71)

3. AD VALOREM PROPERTY TAX

In various countries throughout the world and from the statements made by professional associations involved in the taxation of real property (e.g. IAAO, 1997) recognise the inherent advantages of basing property taxes on market value (refer below). However, without a market for land (and more specifically, without a market for the full range of property types

taxes across the entire jurisdiction) it is not possible to establish such a valuation base. When the taxation of land and buildings was introduced in these states, they were emerging from a controlled economy where there had been no trade in real estate. In the absence of a real estate market, alternative methods of identifying "value" were needed.

. . . *the absence of developed property markets requires a choice among formulary values, price approximations, and non-value means of allocating the tax burden. A lack of reliable market prices together with a legacy of officially determined price levels has often encouraged the assignment of specific, sometimes arbitrary, property values for tax purposes.* (Malienė *et al.*, 2005: 24)

3.1 Area Based Models

In all states, there is evidence of area-based valuation models. However, over time, as property markets have developed, these area-based models have become more sophisticated and the move towards an *ad valorem* tax base, relying entirely on market transactions is clear. In Estonia, the tax base is the capital value of land, without buildings, timber, plants or structures, (Malme and Tiits, 2001: 32) assessed by "market value", initially using market simulation models which have been refined as the market has become more sophisticated. In Hungary, the land tax is based on the area of the land assessed, adjusted by 50% to the "corrected value" of the sites (Hegedűs, 2002: 8). There is potential to incorporate some additional differentials to reflect location and/or use into the tax base, but there is no further adjustment made (McCluskey and Plimmer, 2007: 52-3).

In Poland, both the land and forestry taxes are based on "conversion hectares" based on the area of the land, adjusted to reflect location, type of land and soil quality. In the Czech Republic, the tax is levied on a surface area of the building (which may be adjusted to reflect the number of over-ground floors). For flats and separate non-residential areas, the surface area is multiplied by 1.2 to arrive at the "modified area".

In Hungary, a tax is levied on the useable area of floor space of privately-owned buildings, including residential and ancillary buildings e.g. garages and storehouses, as well as commercial and industrial premises. In two municipalities, a corrected market value is imposed (Balas and Kovacs, 1999: 7).

Thus, area-based property taxes were both appropriate and effective short-term measures while the prerequisites of a value-based system could be developed, including a thriving and healthy real estate market, ownership and land data bases and the political conviction of the advantages of an *ad valorem* property tax. The literature available indicates that the goal for all states appears to be to achieve a value-based real estate tax base.

However, as land markets develop, they do not do so uniformly across the country. In Estonia, for example, significant increases in land values have taken place in capital and major municipal cities and in places of natural beauty (particularly coastal areas). In other rural areas, land prices remain relatively low (Trasberg, 2004a: 109), thus creating a disparity between the revenue-raising abilities of different municipalities.

3.2 Development of Market-based Valuations

The goal of a market-value based property tax was long recognised by many of the states researched. This is evident in, for example, the development of integrated cadastre, title registration and valuation systems. It is generally recognised (e.g. Malme, 2004) that Lithuania has been a leader in such integration, both to strengthen developing property markets and to support real estate taxation. In 2001, the Lithuanian State Land Cadastre and Register was funded to develop a mass appraisal system to underpin an *ad valorem* property tax base. To this end, land-value maps have been created and are used in municipal offices to demonstrate the values on which property taxes are based (*ibid.;* Bagdonavicius and Ramanuaskas, 2004). Mass appraisal techniques are used to value land in Lithuania, but, as yet, not buildings (Malienė *et al.*, 2005: 24).

In Estonia, the Estonian Land Board is responsible for land valuations. In the first years after the land tax was established in Estonia, simulation models were used to calculate the taxable value in the absence of a suitable land market (Trasberg, 2004a: 110). More recently, mass appraisal techniques have been introduced. Municipal governments approve the valuations and maps showing land prices are displayed at municipal offices (Ott, 199:43). (Slovakia also uses price maps' (Vavrovā, undated: 14).) Recently, increased maturity of the property market has resulted in greater reliance on sales prices (land and buildings) and the income and profits methods, as evidence on which to base taxable values (McCluskey and Plimmer, 2007: 45).

In Latvia, the State Land Service assesses the value of land using approximate market values, based on market transactional data, including consideration for the granting of leases. Although a central government organisation, the State Land Service operates from a number of regional departments.

However, it is clear that the sophistication of such valuation methods relies heavily on the availability of suitable and reliable market data, which itself relies on the emergence of an open, active, healthy and comprehensive market in real estate.

Despite the evidence of literature available which demonstrates the goal of an *ad valorem* tax base for all of the states investigated, Ott (1999:44) opines that "*a social objective is . . . served by defining the taxable base as the market value of land.*" To the extent that some jurisdictions are striving to achieve an *ad valorem* tax base, members of the public are given a clear indication of the market value of their real estate holdings through the tax system and to manage them accordingly. Such a definition also allows countries, such as Estonia, to refine their tax base over time, as markets provide more appropriate transactional data until a truly market-based assessment is achieved. Indeed, it was intended (Malme and Tiits, 2001: 31) that the development of the tax base was expected to help track price information as markets developed.

4. DRIVERS AND BARRIERS TO AD VALOREM PROPERTY TAXES

It is generally accepted (e.g. IAAO, 1997; para. 4.2) that there are advantages of maximising fairness and comprehension which accompany a market value basis of taxing real estate. Another of the recognised advantages of a property tax is its ability to respond to economic changes and thereby to maintain a buoyant revenue source. However, without an *ad valorem* tax base, this characteristic is undermined and municipalities find that they are increasingly forced to rely on other sources of finance, thereby undermining the future of the real estate taxes.

Ad valorem property taxes would radically increase the potential yield for municipalities. However, such a move would be possible only when certain conditions change. One of these is the political will to shift to an *ad valorem* tax base and there is evidence that not all countries have embraced the principle at policy making levels (e.g. Bird and Slack, 2004: 10). However, a more pragmatic barrier is the insufficiency of suitable and reliable property market data on which to assess an *ad valorem* tax base across the entire jurisdiction and for all tax property types and the skill base to interpret that data.

A proper valuation requires a clear definition of taxation property value, adequate evaluators and reliable data on property values. The land markets are still undeveloped and not transparent enough; it is impractical or difficult to use a market information as a valuation base. (Trasberg, 2004a: 109, writing about Estonia).

While recognising the difficulties involved (e.g. greater administrative burden, and the unpopular nature of the introduction of any new tax), Balas and Kovacs, (1999) advocate the restructuring of the tax system to involve the introduction of an *ad valorem* tax base as:

a realistic and desirable alternative . . . capable of securing stable revenue at real value for local governments, through utilizing the widest tax base . . .[and that] this tax best meets the demands of fairness in a country . . . where the rate of hidden income is extraordinarily high." (ibid., 27).

It is also opined (Bagdonavicius and Ramanauskas, 2004; Bettger *et al.*, 1994) that the absence of an open market for property and the resulting need to develop non-market-based methods of valuation contributed to distortion in the emerging land markets.

The Baltic States (Estonia, Latvia and Lithuania), have been at the forefront of implementing value-based property taxes (Malienė *et al.*, 2005: 24), with a clear intention to implement a true *ad valorem* tax base as soon as market conditions provide suitable and reliable evidence.

Lithuania introduced an Action Programme for 2001 – 2004 which gives priority to introducing market-based taxes on land and buildings and, with effect from 2006, the taxable value of land, buildings and constructions (as a combined property tax) is based on market values using both mass appraisal techniques and individual valuations (Malienė *et al.*, 2005: 24; Bagdonavicius and Deveikis, 2006). In Lithuania, the land market is relatively active, with

4% of parcels changing hands each year (58% of transfers occur within agricultural areas and 18% in the capital, Vilnius) (Steudler, 2004: 139).

In 2007, Hungary announced a real estate tax (which would replace five existing taxes) to take effect from January 2008, but there is political pressure to ensure that this should be part of a wider comprehensive tax reform measure (Anon, 2007a: 2007b).

Whilst Slovenia has indicated that it will move towards an *ad valorem* tax system little substantive progress has been made towards its introduction (Youngman and Malme, 2004: 13; McCluskey and Bevc, 2007:416). In Slovenia, a comprehensive reform programme, which includes the establishment of integrated databases, as well as a market value tax base and the introduction of mass appraisal models, is being developed, which is aimed at providing municipalities with a uniform, stable and independent source of finance (Žibik and Mitrović, undated). However, it is unclear how much progress has been made with this programme, because of a lack of political support (*ibid.,* 15).

While there is evidence that property markets in all of these countries are developing rapidly (albeit at differing rates), there is still some way to go before tax assessments based on a free and comprehensive open market become the norm for these countries. In the states under investigation, land (and property) markets are underdeveloped in comparison with other European Union countries. As a result, the opportunity to raise increased revenue based on *ad valorem* land values is expected to rise following accession in 2004 (Trasberg, 2004a: 109)

5. CONCLUSION

Property tax can be weighed against a number of criteria, including effective administration, low compliance costs, encouragement of economic efficiency, broad base which offers limited opportunities for distortions or behavioural changes, horizontal and vertical equity (refer Bryson and Cornia, undated). However, Bryson and Cornia, (undated: 116) opine that the one serious shortcoming of the property tax is that it rarely has any political support.

As the economies in general and property markets in particular strengthen, so the ability of administrations to improve the accuracy of their valuations will increase. This should ensure greater accuracy of revenue for municipalities which should, in turn, enhance the improvement of land uses over time (Ott, 1999: 49) However, the problem of limited fiscal autonomy and inadequate revenue and revenue bases threatens the ability of municipalities to carry out their statutory responsibilities and needs to be addressed (Trasberg, 2004a: 107).

As the demographic changes result in an increase in the urban population at the expense of the rural areas, the concentration of tax yields in cites (and particularly capital cities) will increase the disparity between the services provided throughout the jurisdictions. Without some kind of equalisation of resources, urban areas will be increasingly better served by their relatively wealthy municipalities which has the potential to cause social dissatisfaction. Bryson and Cornia (2003; 45) consider the property tax to be "*critically underused*", as a result of political and practical issues, and this, they opine, "*can be an impediment to successful*

decentralisation and undermine the welfare gains expected from that process." Low levels of revenue (e.g. in Hungary) tend to lead to a lack of accountability and a risk that the tax will be neglected e.g. there will be a lack of incentive to keep the tax base up to date, which will result in the tax falling into disrepute and being abandoned. However, it is recognised (Maliené *et al.,* 2005: 24) that low yields from assets which do not produce income to pay the tax may be appropriate in times of financial hardship.

However, the commitment and achievements to date by the Baltic states towards an integrated cadastre and taxation data base and an *ad valorem* tax base, with regular and frequent revaluations using mass appraisal techniques, demonstrate what can be achieved when there is state recognition of the importance of both the independence and functions of a local tier of government and the funding necessary to support such decentralisation.

There has long been a recognition of the goal of an *ad valorem* tax base to fund the services provided by local administrations. More fundamental goals of privatization, decentralisation and democracy are themselves perceived as both drivers and beneficiaries of a market-based tax system and both the services and wider social advantages which are anticipated to accrue from a value-based tax system are clearly recognised within the data gathered for this research. However, the process continues – more advanced in some states than others – and provides an opportunity for all jurisdictions to review the rationale behind established systems in the light of rapid global and local changes.

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