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The influence of local real estate management policy on community budgets

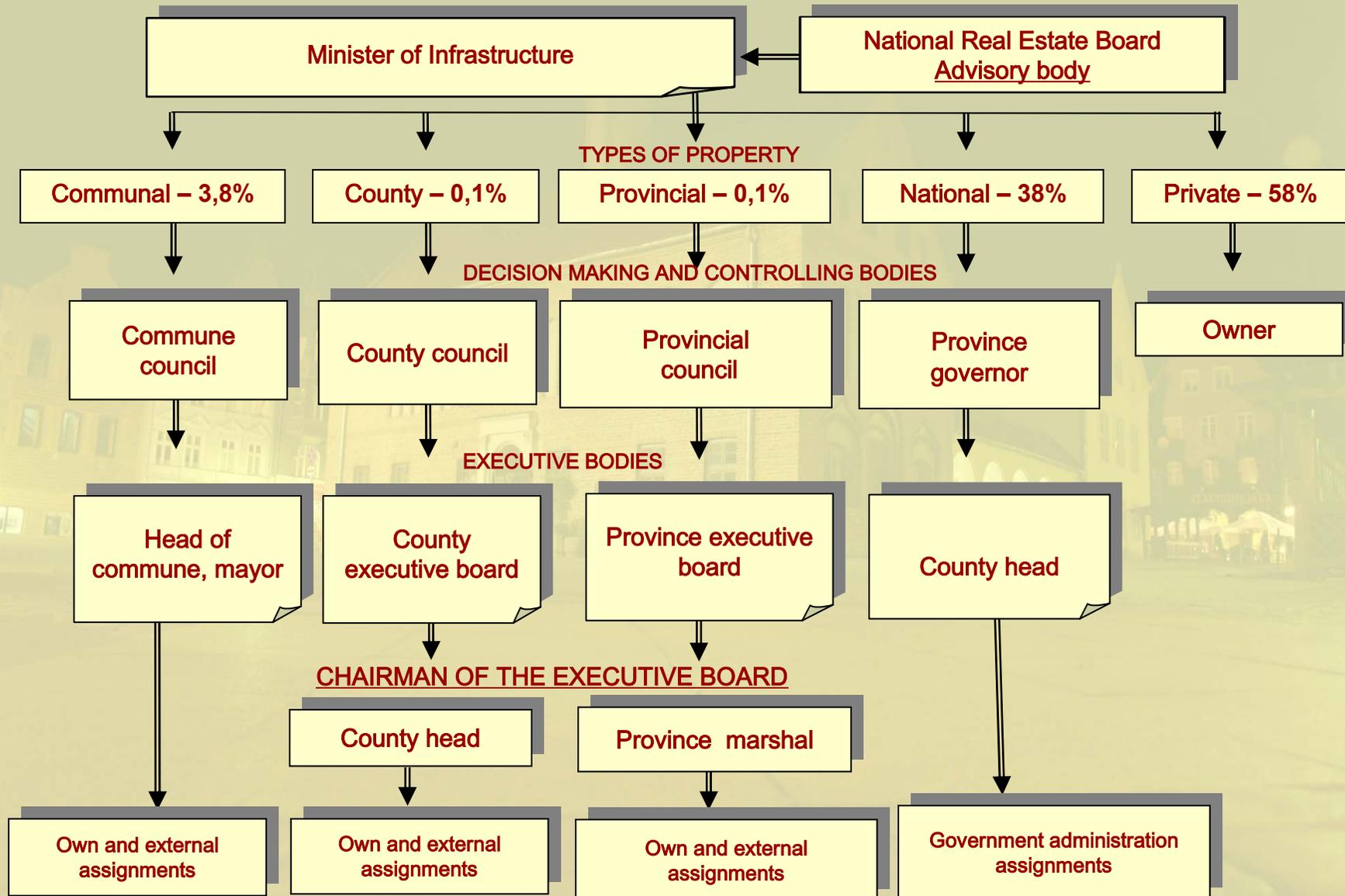
- 1. Introduction – The real estate management system in Poland**
- 2. The tax system in Poland**
- 3. The flows of community income related to real estate**
- 4. Conclusion – Possibilities for more effective real estate management**

1.The real estate management in Poland

1.1. What is land management?

- Land management and administration is a multi–aspect process and includes such elements as regulating real estate development, land use and protection, deriving income from sale, lease and taxes as well as settling disputes regarding the rights to real estates and the principles of their use. (P. Dale and Mc Laughlin - 1999).
- Land administration typically involves process that: manage public land, record and register private interests in land, assess land value, determine property tax obligations, define land use and management governance systems, and support the development application and approval process for land use. (T. Burns and K. Dalrymple - 2008)

1.2. The competence of government and local administrative bodies in real estate management



2.The tax system in Poland

2.1. The structure of taxes and charges on real estate categorised by beneficiaries

Revenue of the state	Revenue of communes	Revenue of individuals
1.1. Income tax	2.1. Real estate tax	3.1. Charges due to renting private property
1.2. Court fees	2.2. Agricultural tax	3.2. Charges due to lease of private property
1.2.1 For establishing land register	2.3. Forest tax	3.3. Leasing instalments due to leasing of private property
1.3 Charges and fees for excluding land from agricultural or forest production	2.4. Tax on donations and inheritance	3.4 Notaries fees
1.4 . Annual charges for durable management	2.5. Tax on civil law transactions	
1.5. Annual charges for the right of perpetual usufruct of state-owned land	2.6. Income tax (% share in the revenues of the central budget)	
1.6. Charges due to renting state-owned property	2.7. Planning charges	
1.7. Charges due to lease of state-owned property	2.8. System development fees (adjacent fees)	
1.8. Leasing instalments due to leasing state-owned property	2.9. Annual charges for durable (long term) management	
	2.10. Annual charges for the right of perpetual usufruct of community-owned property	
	2.11. Charges due to renting communal property	
	2.12. Charges due to lease of communal property	
	2.13. Leasing instalments due to leasing communal property	
	2.14. Charges for failure to build-up land purchased from the commune within a set period of time	

Source: prepared by the authors', based on (Tax System in Poland, 2008, Tax Ordinance 1997)

2.2. The flows of community income related to real estate

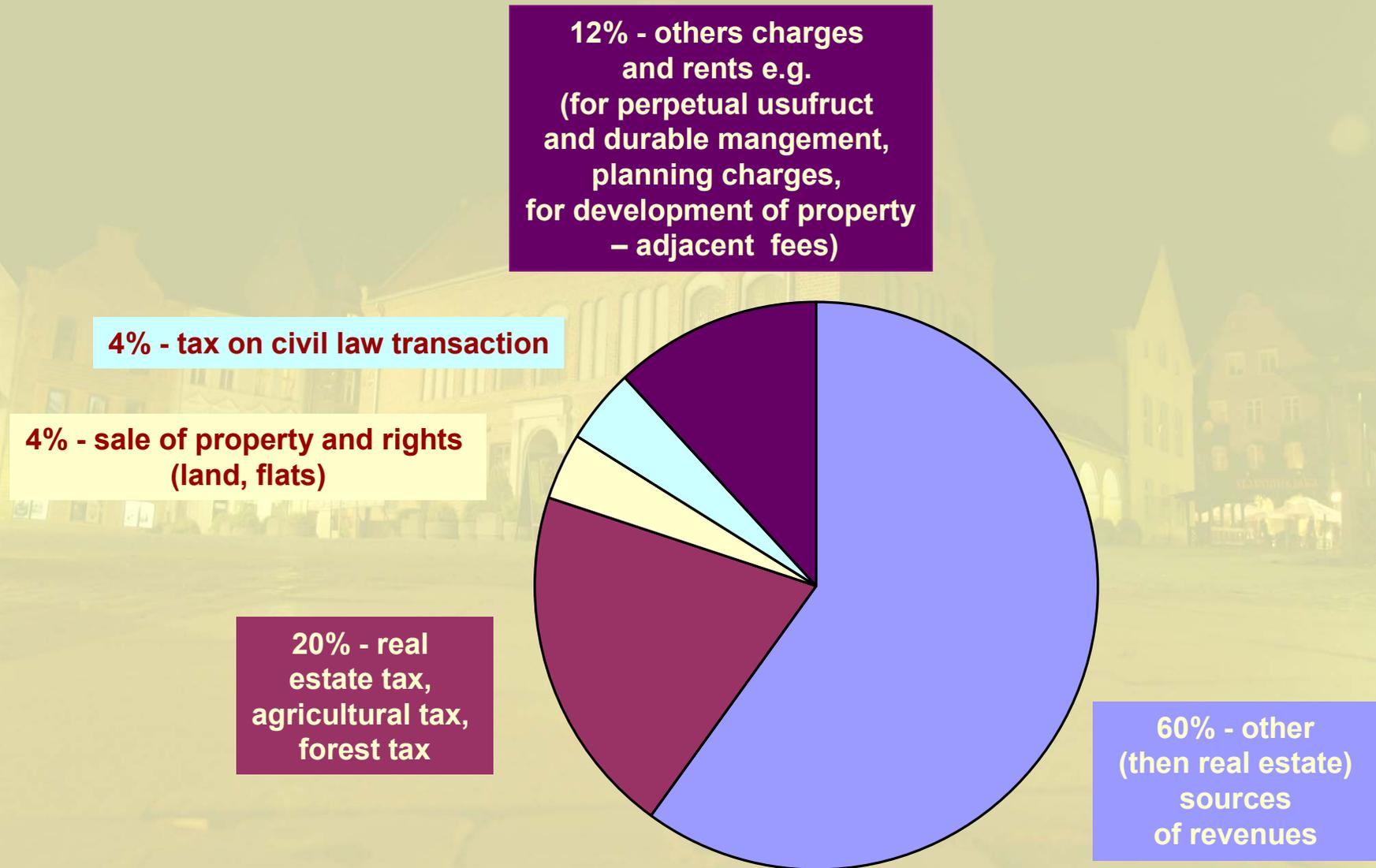
Types of taxes and charges	TAXABLE BASE	
	Manner of calculating the taxable base	Rates of taxes and charges in 2007
Real estate tax	Land and buildings – utility area, for structures – initial value determined in regulations concerning fixed assets depreciation	Maximum rates determined by the Minister of Finance $0.5 \max \leq T \leq \max$
Agricultural tax	Agricultural land – the number of comparative fiscal hectares (depending on the class of land, land use and land location in a tax district); other land – the number of hectares in a real estate cadaster	For 1 ha – the price of 2.5q of rye, announced by the Chairman of Central Office of Statistics
Forest tax	The number of comparative fiscal hectares (depending on the area of main tree species and quality class of tree stands) in a forest arrangement plan	For 1 comparative fiscal hectare – the equivalent of 0.200 m ³ of sawmill wood, announced by the Chairman of Central Office of Statistics

Types of taxes and charges	TAXABLE BASE	
	Manner of calculating the taxable base	Rates of taxes and charges in 2007
Tax on civil law transactions		
•sale	Market value	2%
•life–annuity	Market value	2%
•exchange – living quarters	Market value	2% (of the difference in value between the exchanged real estates)
– commercial facilities	Market value	2% – from the more expensive real estate
•establishing mortgage	Market value	0,1%
•Donations	Value of debt or obligations assumed by the recipient	2%
•Inheritance	Market value	2% of the amount exceeding the share in inheritance
•establishing servitude	Value of servitude	1%

Types of taxes and charges	TAXABLE BASE	
	Manner of calculating the taxable base	Rates of taxes and charges in 2007
Charges for perpetual usufruct – charge I	Market value of land ownership rights (without buildings)	$15\% \leq C \leq 25\%$ of the price of land
Charges for perpetual usufruct – annual charges	Market value of land ownership rights (without buildings)	$0,3\% \leq C \leq 3\%$ Depending on the land use
Charges for long time management	Market value of land ownership rights (land + buildings)	$0,1\% \leq C \leq 1\%$
Planning charge	Market value (without buildings)	Up to 30% of increase in land value
Adjacent charges (because of increase of real estate value)	Market value (before and after construction of technical structure facilities, before and after real estate division, before joining and division and after joining and division of real estate)	Up to 50% of increase in real estate value
Charges for failure to build up land purchased from the commune within a set period of time	Land market value	10% of the price of land
Rent for apartments	Cost value	Up to 0.03% of the cost value of the apartment
Rent for commercial facilities	Rent market value	Annually, according to the agreement with the tenant
Leasing fees	Rent market value	According to the agreement with the lessee

Source: prepared by the authors', based on (Tax Ordinance 1997, The Act of Real... 2004)

The average share of the major real estate related types of income in a communal budget



General conclusions

(according to literature and own investigations)

- **Real estate is a source of stable income remaining at a constant real level**
- **Local governments recognise that the property tax fees is a good land planning and land management tool**
- **More and more importance is attributed to efficient and well designed systems of information about real estates, especially in the processes of taking decisions concerning management of the land at present and in future**

Detailed conclusions according to situation in Poland

The main reasons in a lower income from property tax:

- Present system of real estate taxation does not take into account the principles of the market economy – the tax amount depends on the land and building area**
- There are discrepancies between the entries in the real estate cadaster and the information about the property in real estate tax register**
 - some owners do not send declarations about a change in taxable base until after several years of actually using the building**
 - delays are also recorded in transforming agricultural property into other, non-agricultural land**

The main reasons a low share of the charges in the communal budget:

- 1. Communes rarely update land value as a base for charges for perpetual usufruct of land (this is delayed in some communes by several years);**
- 2. Not all communes establish charge rates for changes in land use when they pass resolutions on an area development plan. This results in inability to calculate such charges in the future;**
- 3. Many communes are tardy in exacting rents from tenants of communal flats.**

Some communes' active policy is actively pursued in the sale of apartments and granting price discounts of 50 to 99% of the market value of an apartment.

The main activities to undertake by local authorities to increase community's own income!

- 1. Regulation of properties legal status and facilitation of services in local administration offices by integration of data from various sources – land cadastre, real estate register, tax register, spatial development plans to stimulate inflow of new investments,**
- 2. Public-private partnership participation in developing technical infrastructure and services accelerates meeting dwellers needs, and on the other hand, contributes to land value increase,**
- 3. Each commune should develop and follow a real estate management strategy. The strategy should take into account the possibility of adjusting the principles of real estate taxation to the solutions implemented in many countries of the European Union,**
- 4. Information on valuation and sale prices should be available for public to improve transparency in the property market,**

- 5. Access to internet and application of geoinformation technologies for spatial analysis and creation of land values maps prevent from under pricing in sale notaries acts and create favourable conditions for introducing new tax system based on real estate value,**
- 6. Making peoples conscious that their money paid to community budget contributes to improvement of their living conditions,**
- 7. Fees affordable to property owners (rates of adjacent fee and fee for perpetual usufruct of land) and frequent updates of property value as a base of fee for perpetual usufruct of land result in smaller number of appeal proceedings. It seams that the highest amount of the tax and fees should be adequate to stimulate development of community and the particular taxpayer as well,**
- 8. Communes should employ licensed real estate managers who possess a knowledge of real estate administration, but also knowledge necessary to make efficient property management decisions.**