GOING WEST OR GOING EAST – FUNDAMENTAL CHANGES IN THE GERMAN PROPERTY TAX SYSTEM

PRESENTED BY RENE GUDAT AT FIG WORKING WEEK 2011

Revenue of property tax

<table>
<thead>
<tr>
<th>Country</th>
<th>Property Tax Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Czech Republic</td>
<td>3%</td>
</tr>
<tr>
<td>Switzerland</td>
<td>4%</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>5%</td>
</tr>
<tr>
<td>Finland</td>
<td>5%</td>
</tr>
<tr>
<td>Sweden</td>
<td>5%</td>
</tr>
<tr>
<td>Austria</td>
<td>6%</td>
</tr>
<tr>
<td>Denmark</td>
<td>9%</td>
</tr>
<tr>
<td>Germany</td>
<td>15%</td>
</tr>
<tr>
<td>Belgium*</td>
<td>17%</td>
</tr>
<tr>
<td>Poland</td>
<td>25%</td>
</tr>
<tr>
<td>France</td>
<td>41%</td>
</tr>
<tr>
<td>Great Britain*</td>
<td>100%</td>
</tr>
</tbody>
</table>
**Agenda**

- Bases of assessment for property tax
- Current situation in Germany
- Attempts to reform the current property tax system in Germany
- Conclusion

**Basis of assessment (tax bases)**

- Used for estimation of tax liability
- Taxes mainly levied on land, buildings and structures; sometimes only land
- Technical or monetary parameter
- Area-based, value-based approaches; sometimes combinations
area-based approaches

- Based on units or area, e.g. usable floor space or area of land (area factor)
- Area multiplied with an area factor
- Could be corrected by use of the building or size of municipality

Market-value based approaches

- Market value-based
  - Linked directly to market value
  - Estimated by using comparable sales method, income capitalization method or replacement costs method
  - Sometimes mass appraisal approaches
  - Assumed to be the fairest basis of assessment; but expensive, time-consuming and requires experts

- Cadastral value-based
  - Lump sums or assumptions for different parameters
  - Sometimes huge differences between market and cadastral values; historical values
  - Cheap, easier to assess than market values
Different approaches in Europe

Current Situation in Germany

- 35 million objects: revenue of 10.8 Billion Euros

 property tax = standard assessment value × assessment factor × rates of assessment

- Standard assessment values:
  - Formally used for different taxes
  - Law: ought to be declared every six years; but last time: 1964 (West Germany)/ 1935 (East Germany)

- Assessment factors:
  - One for the whole country
  - Different assessment factors for different kinds of property

- Rates of assessment
  - Different factors of each municipality
  - One factor for the whole municipality
First Period: 1995 - 2002

- Standard assessment factors formally used for different kind of taxes
- Federal Constitutional Court criticized use of historic values (in 1995)
- Working group discusses three models:
  - Model A: area of land and usable floor space ought to be multiplied with different assessment factors; no connection to the market
  - Model B: uses standardized ground values and standardized replacement costs; but no really connected to the market
  - Model C: bases on standardized ground values and different assessment factors

Second Period: 2002 - 2006

- Modified Model B (First Period) was discussed: Use of standardized ground values and standardized replacement costs
- No depreciation by age discussed
- Combination of an area-based and a value-based approach
Current Period

- In 2006, the Federal Constitutional Court declared standard assessment values inadequate
- Three Models were discussed
  - Model that was discussed since 2002
  - Approach based on market values (mass appraisal; multiple regression model)
  - Third Model:

\[
basis \text{ of assessment} = (\text{land area} \times \text{equivalence factor}_\text{land} + \text{usable floor area} \times \text{equivalence factor}_\text{building})
\]

Conclusion

- Different tax bases in Europe and all over the world
- Area-based bases easier to assess, but market-value based bases are fairer
- Established markets and economies prefer market-value based approaches; (ways for a change of a system necessary!)
- Market-value approaches require comprehensive market information, but result market transparency
- Mass appraisal help to establish market-value based approaches; methodology needs systematization