AREA-BASED VERSUS VALUE-BASED RECURRENT TAXATION OF IMMOVABLE PROPERTY*

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ABSTRACT

The paper presents an overview of the theoretical and practical experience of both the immovable property taxation forms (area-based and value-based) concerning the different aspects of micro and macro efficiency, equity and the "ability to pay" aspects as well as the fiscal and technical aspects, with the special emphasis on (post)transition economies – new EU members. The EU recommendations in this area, especially concerning the shift of tax burden from (labour) income to property, are pointed out. The comparative analysis of relevant taxation in the EU member countries is presented, pointing out that some of them, which have fulfilled the formal requirement of the recurrent taxes on immovable property introduction, still implement a simpler form – the area-based one.

Keywords:

recurrent taxes on immovable property, value-based taxation, area-based taxation, user charges, property taxation

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1 INTRODUCTION

A recent research of the relationship between the tax structure and the economic growth has brought one of the oldest (and neglected) taxes – the recurrent tax on immovable property in the focus of attention of academics and policy makers. It turned out that "property taxes, and particularly recurrent taxes on immovable property, seem to be the most growth-friendly" (Arnold, 2008, 2) and it was confirmed by the other research also suggesting a shift from other taxes (especially concerning labour and capital) towards property (Johansson et al. 2008; OECD, 2010; Arnold et al. 2011; Xing 2011; Xing, 2012; European Commission, 2014a, 44; European Commission 2014b). Although those analyses do not compare area-based and value-based taxes, it could be pointed out that an increase in immovable property taxation (shift in tax burden), is, as literature suggests, less possible to achieve inside the area-based assessments. In many countries, where the recurrent taxes on immovable property are low or almost not existing (such as Croatia), they offer a potential source of the increasing revenue, which is especially important for the fiscal consolidation, but also fiscal decentralization (since they are mostly local government revenues). Regarding equity, the idea that the tax burden should be borne primarily by those earning higher than the average incomes, especially in times of crisis and fiscal consolidation, is increasingly accepted (for instance see Hills 2013; Piketty 2013 and especially IMF 2013).

Property taxes are especially now - in the (post)crises and fiscal consolidation period in the center of interest of academics and also policy makers around the globe[1] (e.g. OECD 2010; Norregaard, 2013; IMF 2013; Garnier et al. 2014.) Recurrent taxes on immovable property are directly related to two out of six tax policy priorities which are derived from the main priorities in the European Semester (Garnier et al, 2014). Only in 2014, eleven Member States were recommended to shift their tax burden from labor to recurrent immovable property tax and/or reform the recurrent property taxation, one of them being Croatia. Almost a half of the EU Member States shifted a part of the tax burden to the recurrent immovable property taxes (Garnier et al, 2014, 23) and still nineteen (according to the 2012 data) could increase the revenue from these taxes by around half a percentage point of their share in the GDP or even more by bringing the property tax revenue into line with the EU average. This is especially true for the new members and the (post)transition countries, where this "key tool for fiscal decentralization" is still underutilized (European Commission, 2014b, 55-56; McCluskey and Plimmer, 2011; Sedmihradská, 2010). The EC insisting for Croatia to introduce the real recurrent immovable property tax is a part of that process.

The Croatian tax authorities created a comprehensive proposal for value-based immovable property tax (Ministarstvo financija, 2012), which should have replaced the existing area-based utility charges/fees ("communal charge" and monument annuity) and the area-based tax on holiday houses. Although the proposal was created back in 2012, it is (still) being rejected by the current economic policy makers. Among the biggest problems of the value-based property tax introduction are the value assessment problems, the possible negative influence on immovable property prices. Both problems, at least in the first stage of this process, could be avoided by a simple transformation of the existing area-based communal charge (utility fee) into the real recurrent immovable property tax, which could still be generally area-based (including the immovable property location and purpose), not earmarked and with the tax (charge/fee) burden left on the same level. There is no remarkable difference between the user charges/fees (such as utility fee /communal charge) in Croatia, that are, of course, some simple area-based taxes and nominal immovable property area-based taxes, such as for instance the Croatian tax on holiday houses[3]. The difference is mostly nominal, including the earmarking of the user charges that is often misguided. Furthermore, the Croatian utility/communal charge/fee is closer to a tax, since (although locally arbitrary and not precisely related to

[1] The recent immovable property tax reforms or reform plans include (not exhaustively) Cambodia, several Caribbean countries, China, Croatia, Cyprus, El Salvador, Egypt, Greece, Hong Kong SAR, Ireland, Kyrgyzstan, Latvia, Liberia, Lithuania, Namibia, the Netherlands, Romania, Serbia, Singapore, Slovenia, Spain, Vietnam… (Norregaard, 2013: 5; Garnier et al, 2014: 29-30). However, they are not processed smoothly. So, for instance, the institutional court in Slovenia annulled the new progressive immovable property tax in 2014, while the Croatian proposal from 2012, planned to be put in force in 2016, is now "on stance". However, the EC right in May 2015 insisted on its introduction as planned.

[2] The nine Member States have increased their base and/or the rate in the period 2011-2014 (Garnier et al, 2014: 29).

the immovable property market) it takes into account the location (not only in a way that it differs for the different local units, but also inside them). There is a greater difference between the area-based and the value-based immovable property taxes than the area-based immovable property taxes and user charges[4].

The bulk of this paper presents the overview of pros and cons of the recurrent immovable property taxation taking into account both its forms (area-based taxes/charges and value-based taxes) concerning the different aspects of the micro and macro efficiency, equity and benefit versus the "ability to pay" aspects as well as the fiscal and technical aspects[5], with the special emphasis on the new EU members. The EU recommendations in this area, especially concerning the shift of tax burden from (labor) income to property, have already been pointed out in the Introduction. The second part of the paper entails the comparative analysis of the recurrent immovable property taxation of the new EU member countries, pointing out that some of them, which have fulfilled the formal requirement of the recurrent immovable property tax introduction, still implement its simpler form – the area-based one.

2 IMMOVABLE PROPERTY TAXATION ARGUMENTS ASSESSED IN LIGHT OF AREA-BASED VERSUS VALUE-BASED TAXATION

2.1 Benefit principle

There is a strong notion of the local property tax as a user charge (payment) for the local services (especially in the Anglo-Saxon countries with higher importance of that tax) indicating that this tax, in conjunction with the local zoning ordinances, produces what is effectively a system of benefit taxation that promotes efficient location and fiscal decisions on the part of households (Hamilton, 1976; Oates, 1999; Norregaard, 2013, 19)[6]. According to this concept, this tax is not distorting in a way that it not affects the capital intensity and property values, but the level of public services only. In relation to a broader and well known Tibout effect, where people "vote with their feet", the immovable property tax is a price of the local public goods and people will choose the location offering the best local services according to their preferences[7,8].

Since the immovable property value reflects quality and the quantity of services supplied by the local governments benefiting the owners, which is reasonable and fair, from the benefit principle point of view, for the value-based property tax to be the base of financing the local expenditures (e.g. Musgrave, Musgrave 1999, 440; Bahl and Martines-Vasquez, 2007, 3; Norregaard, 2013, 15; EC, 2012, 18)[9]. However, the similar benefit principle arguments could be put in favor of the area-based taxation – the local property taxes/user charges (based on location and area).

[3] The OECD (2014: 327) in its classification of taxes denotes that the recurrent taxes on immovable property "can be in the form of a percentage of an assessed property value based on a national rental income, sales price, or capitalized yield; or in terms of other characteristics of the immovable property (for example, size or location) from which a presumed rent or the capital value can be derived". It is also stated (OCD, 2014: 322) that "earmarking of a tax for the specific purposes does not affect the classification of tax".

[4] However, the introduction of the other variables additional to value, such as location (if included properly), property type, age, etc. introduces the value-based elements in the area-based assessment, so there are a lot of borderline cases or combinations of both methods. The overview of value-based and non-value based assessments is given by the IAAO Technical Standards Committee, 2014 and Kukić and Švaljek, 2012.

[5] It should be pointed out that the arguments in favor/against the value-based tax could be weakened as the system departures from the real market value of the property.

[6] However, some new findings challenge this well-known "Benefit View" concerning the efficient allocation of both housing and services in communities related to the zoning ordinances (e.g. Coate, 2011).

[7] However, the use of the income tax at the local level could reflect the benefit approach, as well (Ahman et al, 2014).

[8] From the public choice perspective, this local immovable property tax is a good way of financing the local expenditures for it promotes an effective decision making at the local government level, since it provides "an accurate set of signals, or "tax-prices," that make clear to local taxpayer-voters the costs of the public programs on which they must make decisions" (Oates, 1999). However, a well designed local user charge could serve the same function.

[9] The mutual positive influence of the local services on the immovable property price and the negative influence of the immovable property tax are a part of the numerous further studies and debates (e.g. Musgrave, Musgrave, 1999: 440-456; Fischel, 2001; Ahmad et al, 2014).

2.2 Efficiency: capital taxation

The most empirical work points to the capital (and also consumption) notion of the local immovable property tax. It is traditionally considered as an efficient and the "second best" solution of the taxing imputed rent on the owner occupied housing (EC, 2012: 16; Norregaard, 2013, 16; Oates, 1999...)[10], which is in accordance with the logic of the S-H-S comprehensive income concept[11] and thereby also reduces the efficiency loss generated by the other parts of the tax system related to the owner occupied housing (non-taxation of the imputed interest and the capital gains and a possible deduction of the mortgage interest). The notion of this tax as a ("missing") part of the capital income taxation as well as its notion as a part of the consumption taxation (e.g. EC, 2012, 16) are in effect not really contrasted since the imputed rent is at the same time the capital income and the consumption. Here, of course, the value-based taxation, reflecting the imputed rent, is superior to any form of the area-based taxation.

However, such capital/consumption taxation still could have a distorting effect on the local decisions and tend to discourage the use of capital in a housing market (e.g. Zodrow, 2001; Bahl and Bird, 2008)[12] although probably less than the other available tax bases aside from the user charges (Oates, 1999; Bahl and Bird, 2008). However, a newly introduced tax (or the increase in the existing one) could be fully capitalised into the immovable property prices and this would mean an immediate and one-time loss for the existing owners, but the new owners would not be affected, so the tax could be regarded as neutral to the investment (EC, 2012, 14).

2.3 "Ability to pay" principle

For the countries almost not having general recurrent taxes on property, a traditional question about appropriateness of using this historically primary, but practically still additionally implemented indicator of ability to pay is to be put forward (e.g. Musgrave, Musgrave, 1999, 44). It is often accompanied by the "control" mechanism of this tax in relation to the comprehensive income tax, since the taxation of property is a way to tax the evaded incomes as well as the incomes that should be taxed according to the comprehensive S-H-S theoretical requirements, but are not captured by the personal income tax in practice. However, the comprehensive personal net-wealth tax - the synthetic property tax according to the ability to pay the principle is a much better solution. The immovable property tax is the "second best" solution, but the fact that the introduction of the net-wealth tax is almost impossible for the (post)transition and the developing countries (and still very complicated for developed countries), makes it much more attractive even in this way.[13] Of course, the user charge on the immovable property (area-based taxation) is in this context a complete inappropriate solution.

2.4 Equity: (income) progressivity

IIt is generally assumed that the property taxes, including the recurrent taxes on immovable property (mostly proportional in relation to its base[14]), are progressive (in relation to the personal income). Especially now in the time of the crises, this request for progressivity is increasingly accepted, not only in the field of income (especially capital incomes), but also the property taxation in general (e.g. Hills 2013; Piketty 2013, IMF 2013). From this point of view, the net wealth tax (that is progressive even to its base) is much better, but a hardly accomplishing solution, leaving the immovable property tax as an adequate "second best" solution again. As already noted, the immovable property normally represents a larger share of wealth and

[10] Including imputed rent on owner occupied housing in the personal income tax is very complex and demanding. Only few countries tax imputed rents (include it in the personal income tax base).
[11] This „ability to pay" principle is discussed later.
[12] The immobility argument – the strongest efficiency argument in favor of the immovable property tax – must be précised in a way that only land is truly immobile, while capital invested in structures, particular non-residential ones, is indeed mobile. So, higher taxation could move capital to local units with lower taxation. If the general level of such taxes is low, such as in a developing and (post)transitional countries, this problem could be less pronounced.
[13] Furthermore, the immovable property represents the largest share of households' wealth i.e. between 66 and 75% (EC, 2012, 22).
[14] It could be progressive to its base also (due to the different rates as well as the basic allowance – exemption). Some of the examples include Slovenia, Cyprus, Denmark, Latvia and Ireland (IBFD, 2015; EC, 2015).

moreover, rich people tend to have a property of a higher value. The local immovable property user charges are, here again, a complete inappropriate solution[15].

One of the biggest problems with the immovable property taxes (as well as the area based user charges), which is especially pronounced in the (post)transitional and developing countries with less mobile working force, pensioners and the entire families concerning the existing immovable property, is the one of the low income households with the relatively high valued immovable property (e.g. EC, 2012, 23). This problem is often connected with the rising property prices (and taxes), but could be present also in the rising area based user charges. The often stated advantage – that the immovable property tax provides an important incentive for an efficient use of the property (e.g. EC, 2012, 16) provides only a partial solution to the problem (depending on the efficient use availability as well as the level of height/regressivity of the tax). The problem could be corrected/mitigated but additional refinements of the tax code are needed. For instance, an income exemption limit below which the immovable property tax is not payable with a marginal relief for those with the incomes just above the limit (Keane et al, 2012). Alternatively, if the amount of the immovable property tax exceeds a certain income percentage, the tax could be reduced/phased out and this could be further linked to the family circumstances, age or disability (OECD, 2010).

2.5 Local fiscal autonomy and decentralization

The fiscal decentralization cannot be achieved without the autonomous own local revenues. Unlike other taxes, a right immovable property tax fulfils all the requirements for a "good" local tax and is almost without an exception assigned to the local government. Logically, the "countries that seek a greater fiscal decentralization will rely more heavily on the property taxation" (Bahl and Martinez-Vasquez, 2007, 8) and the "demand for the use of the property taxation derives in part from the level of decentralization" (Bahl and Martinez-Vasquez, 2007, 10)[16]. However, although the property tax is considered to be a key tool for the fiscal decentralization and an almost perfect revenue source for the local governments, it still plays a minor role in the local revenues of the transition countries (Sedmihradska, 2010; McCluskey and Plimmer, 2011), although some progress has been done in the last years.

Unlike major taxes that could be local government revenues due to the tax sharing or local surcharges and surtaxes (such as corporate and personal income tax) or as some minor additional "entrepreneurial" and sales taxes, only the immovable property tax is in general "own-source" local revenue with no tax base competition with the general government.[17] This tax is traditionally regarded as a "good" local tax (e.g. Oates, 1999; Bird, 2011, 3-5; Bahl and Bird, 2008, 8-10), where the local government "possesses" the entire relatively immobile tax base, resulting revenues/expenditures and has some discretion over the tax rates, so this benefit principle tax "offers the greatest promise for an effective local fiscal decision making" (Oates, 1999).

The introduction/strengthening of this tax, which is an important source of finance for the local governments, can reduce the dependency of the local governments on transfers (or of shared taxes) thereby strengthening the local fiscal autonomy, influenced also by an extent to which the local governments have control over this tax (e.g. Bird, Slack, 2004, 2; Norregaard, 2013, 15). It can also induce desired shifting away from the labor (or corporate income) taxation at the local level only. It is important to have an autonomous

[15] The equity aspect depends on the underlying incidence assumptions. Besides the mainstream notion of "new view" (Mieszkowski, 1972; Rosen and Gayer, 2008, 525) where the immovable property tax is borne by the capital and the landowners (predominantly with the higher incomes) with its resulting progressivity, the "old view" assumes this tax being shifted to the renters, consumers and labor which makes it regressive (EC, 2012, 18; Rosen and Gayer, 2008, 524) or proportional (Oates, 1999; Rosen and Gayer, 2008, 524). Equity/incidence issues are much more complicated and less clear for the (post)transition and the developing countries, but the resent research suggests that the tax is borne by the owners of capital and land and progressive (Sennoga *et al.*, 2007).
[16] The estimation is based on a panel of 70 countries for 1990, 1995 and 2000.
[17] One of the important exceptions for the developed countries is Sweden, where tax revenues belong to the central government (EC, Taxes in Europe Database, 2015). Furthermore, there is also a case where this is the central government tax, but most of the revenue goes (due to the tax sharing) to the local governments (China, Indonesia and Jamaica are the examples of the developing countries – Bahl, 2013, 4). Table 1 shows both situations for the new EU members.

expenditure decision of the local government, which is restricted if the immovable property is burdened by some area-based utility charge (fee) with the earmarking to the restricted expenditure list (as is the case in Croatia, for instance). A true value-based immovable property tax has no such boundaries. However, even an area based tax (not a user charge) could be suited in this way, but still limited.

2.6 Unpopularity

Some advantages of the immovable property tax such as transparency, visibility, a user charge (benefit) element and a small evasion cause its big disadvantage – resistance among taxpayers[18]. This is related to their importance (burden and fiscal aspect). In the countries with the most immovable property tax burden (such as US) it is strongly pronounced, so it could be concluded for sure that the value-based taxes are here much more unpopular than smaller area-based taxes or charges.

2.7 Administrative aspects

The biggest problem of the truly value based property taxes (that could be mostly avoided by the area based utility charges/taxes) are the valuation problems and costs. "In many (EU) countries the taxable values of properties are outdated, but only a few have announced a revaluation of the cadastral values" (Garnier et al., 2013, 23). The revaluation is connected with the very high administrative costs. They are especially high and troublesome at the time of the introduction of the "real" – value based immovable property tax, presenting its greatest disadvantage in comparison with the area-based user charge/tax. Furthermore, the use of the outdated values can undermine the biggest advantage of the value-based immovable property tax – this one of equity (especially concerning the changes across the different regions or in times of inflation/recession), but also the financial (fiscal) one (especially in times of the rise in prices) due to the inelasticity of this tax (e.g. EC, 2014b, 24; Bahl and Martinez – Vasquez, 2007. 7)[19].The problem of the high administrative costs and the lack of the administrative capacity in general is especially significant in the developing and transitional countries. That strongly undermines the fiscal (and other) importance of these taxes for the local governments there (e.g. Bahl and Martinez – Vasquez, 2007, 5-6, 14-15, Bahl and Bird, 2008, 15; McCluskey and Plimmer, 2011, 130-132; Bahl, 2013, 29-30; Ahmad et al., 2014, 24-27).

2.8 Fiscal aspects

Although the area-based assessments have lower administrative costs (that improves the revenue yield), the "local governments are not likely to move to a higher intensity of the property tax use with this approach" (Bahl and Martinez-Vasquez, 2007, 15). The area-based assessments may avoid the problems of instability, but they "rarely raise significant revenue, for arbitrary levies are politically acceptable only when they remain at the nominal levels" (Malme Youngman and, 2004, 2). In addition, their revenues do not automatically increase with the economic growth and/or inflation (and result in the rising expenditure needs)[20]. This is also related to the already mentioned local fiscal autonomy and decentralization.

2.9 Economic Growth

As already mentioned in the Introduction, the recurrent taxes on the immovable property, seem to be the most growth-friendly compared to the other taxes, which calls for the tax shifting towards those taxes (Arnold, 2008, 2; Johansson et al. 2008; OECD, 2010; Arnold et al. 2011; Xing 2011; Xing, 2012; European Commission, 2014a, 44; European Commission 2014b). Although those analyses do not compare the area-based and the value-based taxes, it could be pointed out that an increase in recurrent immovable property taxation (shift in tax burden), is, as the literature suggests, less possible to achieve inside the area-based assessments.

[18] From the seventies until today the property tax has been viewed as the worst tax in the US by the public opinion (Cole and Kincaid, 2006). A similar research for Sweden yielded the same results (Hammar et al, 2008).
[19] On the other hand, in times of recession and the immovable property prices downturn, the use of the old values can preserve the related revenue downturn of the local governments (Mikesell and Liu, 2013).
[20] This could be mitigated/avoided by the frequent adjustments. On the other hand, the same problem could be presented with the value-based taxes, if the property prices are not regularly updated.

3 COMPARATIVE ANALYSIS FOR NEW EU MEMBER STATES

Unlike 15 EU countries that in general apply the value-based taxation, some new EU member states (including Croatia as the newest one) still apply the area-based taxation. It is applied directly or indirectly using the specific formulas.

The overview of recurrent taxation on the immovable property (real estate), with the concentration of building, especially the residential ones, in the EU 12 (for 2012) is presented in the Table 1.[21]

Table 1. The recurrent taxes on the immovable property (real estate) in the new EU MS: Basic Data for buildings/ flats (land excluded)

Country	Tax base (including exemption/relief for owner occupied housing)	Tax rate
Bulgaria	C: **Assessed value** (according to the tables adjusted annually); if the balance value (for the business units) is higher, thean this value is applied	L: within the limits (range) set by the law: 0,01-0,45% 50% discount for the main residence
Cyprus	C: **Market value** of the immovable property on the 1st January 1980	C: progressive rates: 0.6 – 1,9%
Czech Republic	C: Generally the **ground floor area** (m²) of the building. For flats and the non-residential premises - the floor area multiplied by a coefficient of either 1.22 / 1.2.	C/L: from CZK 2 per m² (for the residential houses) to CZK 10 per m² (for the business premises); multiplied by the coefficients depending on the size of the municipality and its discretionary power
Estonia	Land tax only	
Hungary	C/L: depending on the decision of L: the **net floor space** (m²) or the **adjusted market value** = 50% of the market value determined under the statutory provisions (exemption available for handicapped and retired people)	C/L: either a maximum of HUF 1,852/ m² or a maximum of 3.6% (actual rates determined by a municipality)
Latvia	C/L: **Cadastral value** - determined by the State Land Service	C/L: basic: 1.5; private residences: 0.2-0.6%
Lithuania	C: average market value determined by the mass appraisal; for the specified immovable property - determined by the recoverable value (cost) method.	C/L: up to EUR 220,000 - 1%, above it - 0.5% for the physical persons for the non-commercial purposes; 0.3-3% for other real estates depending on the municipality
Malta		
Poland	C: usable **floor area** for buildings, the depreciation value for fixed installations/constructions	L: PLN 0.75/m² for the residential buildings,> rates for other buildings, 2% for construction
Romania	C/L: for individuals: taxable value determined by applying the taxable values provided by the law per m² depending on the nature of the building, its location, age and purpose (exemption for the disabled persons and war veterans); for legal persons: book value	C/L: individuals: 0.1% (tax increased by 65% to 300% for each next property), legal persons: 0.25-1.5%, depending on the building's location and book value.

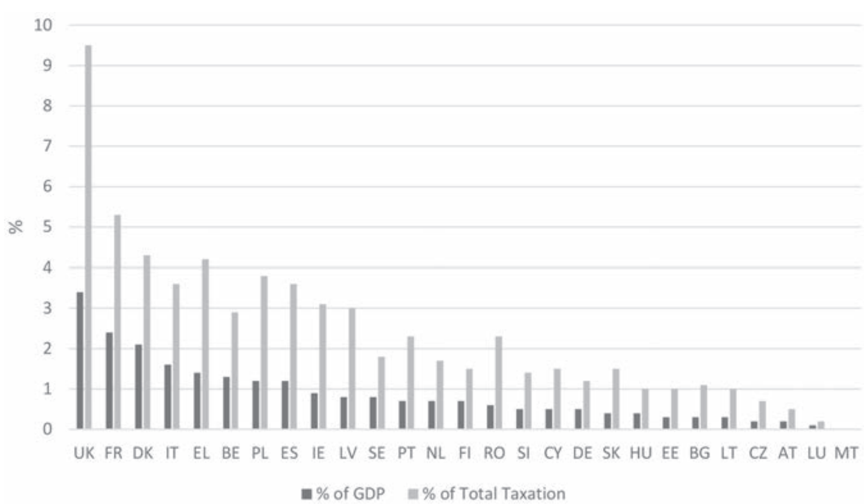
[21] It must be kept in mind that some minor taxes and especially user charges related to property not officially regarded as taxes (as in the case of Croatia, for instance) could be not covered by this official overview.

Country	Tax base (including exemption/relief for owner occupied housing)	Tax rate
Slovakia	L: the size of the built-up **area** / floor area in **m²**	L:EUR 0.033 per m^2, municipality may increase or decrease it (may not exceed 10 times lowest rate)
Slovenia	New real estate tax introduced on 1.1.2014, but annulled by the Constitutional Court on 31.3. 2014. The former land compensation duty (charge for the use of the building land) and the property tax (on buildings) were reinstated:	
Land comp.duty	L: the **useful area**	L: determined by the municipalities in absolute amount for each tax object
Property tax	C: **value** determined by the law (the first 160 m^2 exempt for owner occupied housing)	Progressive; depended on the type of the premise and its value: from 0.1% to 1.5%

Notes:
C – Tax base/tax rate is set by the central government
L – Tax base / tax rate is set by the local government
Cyprus: The beneficiary is the central government.
When the total value of the person's (individual/legal person) immovable property in the Republic, is under €12,500, it is not taxable; Lithuania: the beneficiary is the central government together with the local government.
The taxable value of the immovable property also may be the market value of the immovable property as determined by the individual valuation of the immovable property. Taxpayers may submit a request to a property value to consider the value of the immovable property determined by an individual valuation if it differs from the value determined by the previous methods by more than 20 per cent of the value of the immovable property.
Source: Authors, based on the European Commission, 2015a and European Commission 2015b and IBFD, 2015.

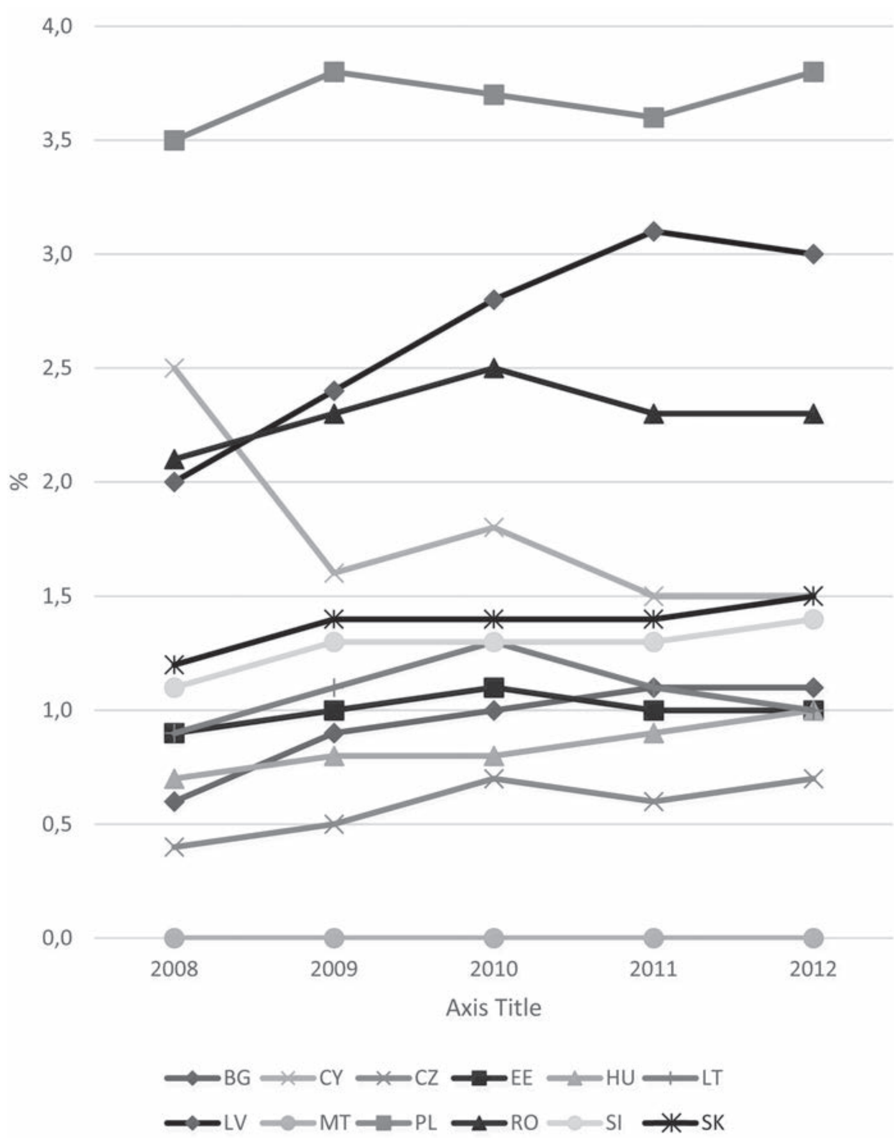
It will be interesting to compare the relative amount and share of the recurrent immovable property tax burden (especially in comparison with the EU15 also) as well as its dynamics during the last economics and financial crises. The results are presented in the Graph 1 and the Graph 2.

Graph 1. The Recurrent Taxes on the immovable property as % of the GDP and as % of the Total Taxation (EU, 2012)



Source: Authors, based on: European Commission 2014a. Taxation trends in the European Union - Data for the EU Member States, Iceland and Norway, Luxembourg.

Graph 2. The Recurrent Taxes on the immovable property as % of the Total Taxation (EU 12, 2008-2012)



Source: Authors, based on: European Commission 2014a. Taxation trends in the European Union - Data for the EU Member States, Iceland and Norway, Luxembourg

As expected, the new MS with a relatively underdeveloped recurrent immovable property taxation have lower tax burden of the recurrent immovable property (real estate) in comparison with the EU 15 (with a more developed taxation in general). The same could be concluded for the tax structure, where this taxation plays a minor role. However, inside the group of the new member states it could not be concluded that the countries with the area-based taxation have a generally lower tax to the GDP ratio (or lower share of the recurrent immovable taxes in the total taxation). The insight into the development of the latter share during the economic and financial crises gives some support to the idea that the area-based systems have less potential for the revenue raising and the tax shifting.

4 CONCLUSION

The literature analysis of the pros and cons of the area-based and value-based recurrent immovable property taxation reveals a superiority of the area-based assessments concerning the administrative costs and the (un)popularity among taxpayers, while the value-based taxation seems to be superior concerning most of the remaining criteria (efficiency, equity and ability to pay principle, fiscal aspects and growth) and especially the fiscal decentralization. However, the benefits of the area-based assessment are particularly important for the small (post)transition and developing countries and some benefits of the value-based taxation could be achieved also with the area-based assessments, but at a smaller scope. Earmarking is an additional drawback of the area-based user charges (not "real" taxes).

The comparative analysis of the new EU member states reveals that most of them still apply the area-based taxation. Although they also yield relatively significant fiscal results, it seems that the potential for a desirable tax shifting (toward those taxes) is higher with the value-based taxation in the long run.

The biggest problems of the immovable property tax introduction in Croatia are the value assessment problems, a possible negative influence on the property prices and a resulting fear of the general public. However, they could be avoided in the first stage of this process by a simple transformation of the existing communal charge (utility fee) into the simple immovable property tax. This tax could still be the area-based in principle, but with an improved inclusion of the property location and its purpose. The unchanged tax burden in the short run accompanied by the exclusion of earmarking, would offer a greater scope of the fiscal decentralization.

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