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# FOREIGN EXPERIENCE IN REAL ESTATE TAXATION

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A R T I C L E I N F O.

**Keywords:** Tax system, object of taxation, tax base, real estate tax, tax rate, tax burden, tax administration, land and property taxes.

**Abstract**

In this article, due to the impossibility of determining the actual value of real estate objects for tax purposes in foreign countries, in order to prevent the emergence of an excessive tax burden and reduce its negative consequences, the value of real estate is usually set at a lower level than its value. At the same time, it was considered that in some countries the determination of taxable value is carried out based on the purpose of the property (residential or non-residential), in others - based on the type of real estate (land and other real estate).



Today, the real estate tax is in effect in more than 130 countries around the world. Each of these countries has its own property tax system. Nevertheless, some principles of this tax system remain unchanged and are reflected to one degree or another in the legislation of most countries.

In developed countries, property taxation is based on the real estate tax. In particular, real estate and net assets (wealth) as objects of ownership are taxed. Also, in developed foreign countries, various taxes (land and property tax, building or rental tax) are applied when taxing real estate. For comparison, in Uzbekistan, real estate taxation is carried out through local taxes, such as land and property taxes levied on legal entities and individuals. (see Table 1).

**Table 1. Types of real estate tax in foreign countries**[1]

| Tax name | Country of Tax Application |
|---|---|
| Land tax (Land value tax (LVT), Site value rating), tax on plots, landholding tax | Australia, Azerbaijan, Armenia, Belarus, Hungary, Kazakhstan, Kyrgyzstan, Lithuania, Moldova, Russia, Romania, Singapore, USA, Tajikistan, Taiwan, Ukraine, France, Switzerland, Estonia, Japan |
| Tax on agricultural land, Tax on nonagricultural land | Albania, Georgia, Spain, Poland |
| Forest land tax | Poland |
| Real estate tax (Real property tax, Tax on immovable properties) | Austria, Belarus, Greece, Italy, Canada, Latvia, Macedonia, Moldova, Mongolia, Netherlands, Norway, Poland, Slovakia, Turkey, Finland, Czech Republic, Sweden |
| Tax on property of natural persons | Azerbaijan, Great Britain, Ireland, France |

[1] Муаллифлар томонидан интернет маълумотлари асосида тайёрланган.

| Tax name | Country of Tax Application |
|---|---|
| (Council tax) | |
| Urban property tax | Poland |
| Tax on buildings | Albania, Hungary, Romania, France |
| Tax on unused industrial and commercial-domestic territories | Kyrgyzstan |
| Property tax | Armenia, Bulgaria, Denmark, Kazakhstan, Slovenia, USA |
| Property tax of legal persons (Enterprise real estate tax, Tax on property of enterprises, Business rates) | Azerbaijan, Great Britain, Georgia, Ireland, Lithuania, Russia, Tajikistan |
| Property tax of natural persons (Tax on property of physical persons) | Georgia, Russia |

It turned out that the level of income from these types of taxes in Uzbekistan corresponds to the lowest level in economically developed countries. In Uzbekistan, the share of property taxes in relation to GDP did not exceed 1%, while in developed foreign countries this share averaged 2%.

Comparative analysis of countries in terms of the level of income from real estate taxation shows that there is a large difference between them. Such a difference is due to the existing property taxes in these countries, as well as the peculiarities of their organization and the quality of tax administration (see Table 2).

**Table 2. Distribution of countries by income level from real estate taxation[2]**

| Property and land tax | Low-level | | Moderate | | High-level | |
|---|---|---|---|---|---|---|
| | Country | % | Country | % | Country | % |
| Share of land and property taxes in GDP | Estonia, Mexico, Czech Republic, Slovakia, Austria, Slovenian, Czech, Latvian, Norway Switzerland, Hungary, Portugal, Finland, Poland, **Uzbekistan** | 0,3-1,4 | Germany, Greece, Turkey, Russia Switzerland, Denmark, Ireland, Iceland, Italy, Netherlands, New Zealand Zealand, Spain | 1,5-2,4 | Japan, USA, Australia Israel, Korea, Luxemburg, Belgium Canada, France, Great Britain | 2,6-4,1 |
| Share of land and property taxes in state budget revenues | Estonia, Czech Republic, Austria, Slovak Slovenia, Mexico, Switzerland, Germany, Norway, Finland, and Denmark Hungary, Latvia, Netherlands, Portugal, | 0,8-4,4 | Turkey, Greece, Iceland, New Zealand to Zealand, to Ireland, Italy, Switzerland, Spain, Russia, Belgium, Chile, Japan | 4,9-9,4 | France Luxemburg, Israel, Australia, USA, Canada, Korea, Great Britain | 9,9-12,5 |

[2] Муаллиф томонидан интернет маълумотлари асосида тайёрланган

| **Property and land tax** | **Low-level** | | **Moderate** | | **High-level** | |
|---|---|---|---|---|---|---|
| | **Country** | **%** | **Country** | **%** | **Country** | **%** |
| | Denmark, Poland, **Uzbekistan** | | | | | |
| Share of land and property taxes in property tax revenues | Luxembourg, Switzerland, Turkey, Norway, Korea, Hungary, Belgium, Austria, Czech Republic, Germany, **Uzbekistan** | 2,8-49,2 | Ireland, Spain, Finland, Italy, Greece, Portugal, Australia, Netherlands, Iceland, France, Chile, Mexico, Denmark, Switzerland, Japan | 51,6-77,1 | Great Britain, Slovenia, Israel, Russia, Canada, New Zealand, Poland, USA, Slovakia | 81,4-100 |

In order to introduce a real estate tax in Uzbekistan, the experience of developed foreign countries was analyzed.

In Great Britain, "depending on the purposes of use of real estate, non-residential objects are taxed. In these taxes, the value of property subject to taxation is determined differently. Thus, for non-residential objects, the tax base is calculated from the rental value of the real estate, and for residential objects - from its cadastral value"[1].

"In Ireland, the real estate tax is applied to real estate used for commercial and residential purposes. Taxation of commercial real estate is based on the nominal value of the occupied area, and for residential premises - on data on the market value of real estate"[2]. Benefits will also be provided for unrealized, ownerless, unfinished, residential properties belonging to local authorities, as well as those used by international and charitable organizations.

As a rule, real estate objects related to infrastructure facilities (roads and railways, pipelines), belonging to the state, but located in local areas, are exempt from taxation. Immovable property objects not subject to taxation also include immovable property belonging to educational, healthcare institutions, charitable, and international organizations. For example, in Mexico and Estonia, "immovable property of international organizations and diplomatic missions belonging to municipal property is exempt from taxation"[3].

As in Uzbekistan, in most developed foreign countries, the cadastral value is the basis for determining the tax base when assessing real estate. Also, foreign countries have different approaches to determining the tax base.

In developed foreign countries, the real estate tax is determined based on the sale price of real estate objects, the amount of income received from leasing real estate (rent income), as well as other characteristics of these objects that directly affect the expected amount of income or capital growth.

It is noted that Belgium and Italy "will establish a tax base based on income from real estate. The tax base for real estate objects located in and outside the territories of these states is determined based on the approaches. The property tax base located in Belgium is determined by the tax authorities as the rental value of these properties. If the taxable real estate is located outside the country, the tax base is calculated based on the value determined as the sum of the assessed rental value and actual rental income" [4].

In Italy, "real estate is taxed on the basis of estimated income during revaluation. As a result, two categories of real estate - residential and non-residential - are multiplied by the coefficient for real estate purposes. Real estate located outside Italy is taxed based on the value (market value) established in the country where this property is located"[5].

In a number of developed countries, such as Hungary, Slovakia, Slovenia, and the Czech Republic, the tax base is determined based on the physical indicator (area) of real estate. For example, in the Czech Republic, land plots (excluding agricultural land) are subject to taxation depending on their area and type, taking into account the specifics of the territory where they are located. The tax base for agricultural land is calculated based on the purchase price of such land" [6].

In some developed foreign countries, when taxing real estate, the determination of the tax base is established independently at the local level. For example, "in Hungary, the tax base for land tax is the physical indicator (area) or value indicator (market value) of land"[4].

In Korea, "depending on the type of real estate, it is taxed at different rates, in particular, for land plots - from 0.2% to 4%, for buildings - from 0.25% to 4%, for houses - from 0.1% to 4%" [7].

In Portugal and Spain, "different rates are established for rural and urban real estate, while in Luxembourg, "the base rate of the real estate tax is set in the range from 0.7% to 1% for land plots with incomplete production and construction" [8].

In the Czech Republic, "land and property tax rates depend on the purposes of using the objects of taxation (for example, fields, vineyards, orchards) or on the areas occupied by meadows, pastures, lakes, forests"[6].

Denmark "The value of the building tax rate depends on the purpose of the real estate objects. In Denmark, the building tax rate should be increased for each floor if the building consists of several floors"[9].

In Slovenia, "various rates are provided for real estate objects used for commercial purposes, in the production sphere, residential real estate, as well as for agricultural land, forest lands, industrial and commercial purposes, electricity generation, construction, etc." [10].

In Sweden, "special rates are established for real estate objects used for industrial and commercial purposes, as well as rented apartments"[11].

In Poland, "the tax rate depends on the type of taxable real estate and the purpose of its use. The maximum real estate tax rate for land plots used for commercial purposes was 0.9 per square meter, for other land plots - 0.47, for residential buildings - 0.75, for buildings used for commercial purposes - 23.13, for other buildings - 7.77 Polish zloty" [12].

Local legislators are usually granted the right to change (reduce or increase) the tax rate within the limits established by law. For example, in Ireland, "the general tax rate at the local administration level can be changed by no more than 15%" [2].

Also, "in Germany, Poland, Austria, Luxembourg, and Italy, a change in the value of the tax rate is carried out by applying certain coefficients at the local level. For example, in Germany, "the basic property tax rate will be increased to 0.35%" [13].

It should be noted that in some developed foreign countries, a policy of effective use of the same type of real estate is being implemented at the local level by changing (reducing or increasing) tax rates. For example, in Finland, "starting from 2014, the application of a high tax rate for undeveloped lands by the authorities of densely populated cities has become mandatory. The inclusion of this measure in Finnish legislation is due to the need to encourage land owners to sell their land to developers" [14]. In Portugal, "the tax rate for real estate objects that have been idle or in a state of disrepair for more than 1 year increases 3 times every year"[15]. Another way to encourage the effective use of certain features is to establish additional tax payments. For example, in Chile, "for unfinished urban land, in addition to the real estate tax, an additional tax is levied" [16]. In Estonia, "in relation to land plots, the economic activity of which is restricted by law, the land tax is increased by 50%"[17]. In Switzerland, "property tax coefficients are not provided, and tax rates differ in each canton"[18].

In foreign countries, progressive tax rates are established, differentiated depending on the value of the objects of taxation. For example, in Slovenia, "for real estate objects with an estimated value of property subject to taxation exceeding 500 thousand euros, and in Ireland - more than 1 million euros, the tax rate will be increased by 0.25%"[2].

In Denmark, "buildings used in industrial facilities are taxed at a rate of 1% if their value does not exceed the established value. For industrial buildings whose tax base exceeds the value limit established by Danish legislation, taxation is set at 3%" [9].

In developed foreign countries, the reduction of the tax burden on residential real estate is carried out taking into account the socio-economic situation of the country. At the same time, the effectiveness of providing tax benefits is ensured based on the principle of purpose and necessity of their determination. For example, in France and Denmark, "it is considered acceptable that the property tax on the taxpayer's residential premises be withheld from their income" [19].

In Great Britain, "if the owner uses the property individually, the 25% personal property tax benefit applies to residential property. In addition, in Great Britain, tax benefits for real estate, which is a second-class residential building, are 50%, as well as for low-income households - 100%"[1].

For equal and fair distribution of the tax burden when taxing real estate, taxation must be based on their value characteristics and correspond to the calculated value of the objects of taxation.

In some countries, "reducing the tax burden on housing is carried out by providing tax benefits or reducing the tax rate. For example, in Finland, for real estate objects that are the taxpayer's permanent residence, the established base tax rate is reduced from 0.88% to 1.55%, from 0.37% to 0.8%.

In most developed countries, "data on the value of real estate are updated at a large interval. For example, in Portugal - every 3 years, in Turkey - every 4 years, in Great Britain - every 5 years, in Spain - every 8 years, in Norway - every 10 years, and in Denmark and Korea - annually. However, in practice, most developed foreign countries do not carry out real estate revaluation within the established or planned timeframes. As a result, "the assessed value of the property differs from its market value or annual rental value. Thus, in Austria, the calculation of the amount of tax liability for real estate tax is carried out on the basis of the cadastral value of real estate, determined in 1973, in Great Britain - in 1991, in Belgium - in 1975, and in Germany - in 1964. All countries index this value according to the inflation rate and adjust it taking into account" [20].

In Chile, "for tax purposes, the cadastral value of real estate is revalued once every 4 years, while the cadastral value takes into account adjustments that are inflated once every 6 months"[16]. Also, in order to prevent a sharp increase in tax liabilities, a limit of no more than 10% of the real estate tax will be established when revaluing real estate.

The main obstacle to constant revaluation is the lack of financial resources for their implementation. Therefore, municipalities that do not have sufficient financial resources are forced to index the taxable value of real estate (usually from 3 to 5 years). Thus, "in some countries, the revaluation is indexed using a single index (for example, the construction cost index, the consumer price index), while others use a combination of several indices. However, over time, constant indexation of the value of real estate leads to a significant difference between the cadastral and actual market value of taxable objects, and also does not allow updating the necessary information about real estate for tax administration purposes" [21].

It is known that "in foreign countries, due to the impossibility of determining the actual value of real estate objects for tax purposes, in order to prevent the emergence of an excessive tax burden and reduce its negative impact, the value of real estate is usually set at a lower level than its price. At the same time, in some countries, the taxable value is determined based on the purpose of the property (residential or non-residential), in others - based on the type of real estate (land and other real estate).

Thus, in Chile, the taxable value of real estate is 63% of the assessed value for residential real estate and 79% for non-residential real estate" [16]. Also, "real estate tax is levied in the amount of 70% of the current value of objects subject to land tax in Korea, 74% in Finland, and for buildings - 60% in Korea [31], 70% in Finland." In Hungary, "if land tax is levied based on the value of the land plot, the tax base is calculated from the value equal to 50% of the market value of the corresponding land plot"[4]. In France, "for lands owned by private ownership or used in forestry, the taxable value is set at 80% of the rental value of this land, and for other real estate - at 50%" [19]. In Norway, "taxes on urban real estate are levied on the value from 20% to 50% of the value of this real estate sold"[22]. In Portugal, "special adjustment coefficients are applied, which allow reducing the average price of the building, as well as the accounted and taxable value by area, type, quality, age, location, from 80% to 90% of the market value"[23]. In Luxembourg, "the property tax is reduced from 5% to 10% of the market value of objects subject to taxation" [8].

In recent years, a number of developed foreign countries have carried out tax reforms to increase the share of real estate tax in budget revenues and reduce the unfair distribution of the tax burden. Reforms aimed at improving the taxation of real estate in some foreign countries are presented in Table 3.

**Table 3. Real estate tax reforms implemented in foreign countries[3]**

| Country | Problem | Solution | Expected result |
|---|---|---|---|
| Great Britain | Absence of information on the actual value of real estate for tax purposes | Implementation of a differentiated system of tax rates and a real estate valuation system | A simple and stable source of tax revenues for the budget |
| Greece | Absence of information on the actual value of real estate for tax purposes | Taxation of real estate based on its location | Fair Tax Distribution |
| | | Application of the set-in zone multiplicity series | A multiplicative series contributes to the further progressive taxation of real estate |
| | Increased tax burden on taxpayers - individuals | Expansion of the list of taxable objects | Reduction of the tax burden on the main place of residence of taxpayers |
| Ирландия | Absence of information on the actual value of real estate for tax purposes | Implementation of a differentiated system of tax rates and a real estate valuation system | Stable and forecasted tax obligations for payers |
| | Real Estate Valuation for Taxation Purposes | Self-assessment of immovable property by taxpayers; Improvement of the quality of inspection by regulatory bodies against the assessed value of real estate | Reduction of budget expenditures for real estate revaluation |
| | Increase in tax burden as a result of the transition to taxation of real estate based on market value | The possibility of taxpayers withholding tax from the source of income; Provision of a tax payment grace period | Protection of low-income segments of the population |
| Italy | Absence of information | Expansion of the rights of | Fair Tax Distribution |

[3] Логинова Т.А. Реформирование налогообложения недвижимого имущества в России и в зарубежных странах // Проблемы Науки. 2016. – №36, – 78 с.

| Country | Problem | Solution | Expected result |
|---|---|---|---|
| | on the actual value of real estate for tax purposes | local authorities to increase (reduce) the tax rate, change the amount of tax benefits | |
| Canada | Ineffectiveness of the system for sorting real estate by value groups for tax purposes | Extension of the reassessment period for real estate; Increasing the demand for the purpose of applying the increased tax rate; Provision of a tax payment grace period | Reduction of the negative impact of real estate taxation on the account of equal tax distribution |

Analysis of the reforms being carried out in foreign countries to improve the taxation of real estate objects shows that various main measures have been taken to increase tax revenues to the budget from real estate objects. At the same time, as a result of the reforms, the range of taxpayers has been expanded by reducing the coverage of benefits, a differentiated system of tax rates has been established, and various tax payment opportunities have been provided, taking into account the financial situation of taxpayers.

It should be noted that the lack of sufficient information on the real value of real estate between countries, the differences in approaches to reducing the negative consequences of taxation are related to the directions of tax policy pursued in these countries.

The tax policy pursued in Greece implies a more equal distribution of the tax burden through "progressive taxation." Therefore, the absence of data on the actual value of real estate there is compensated by taxation depending on the area of their location. In Italy, priority was given to reforms aimed at creating conditions for the effective functioning of tax administration. In this regard, in order to increase revenues to local budgets and ensure their independence, the authority to determine real estate taxes has been transferred to local authorities. In Great Britain and Ireland, the main requirements for setting a differentiated tax rate, taking into account the assessed value of real estate, were the availability of simple and stable sources of tax revenues and constant and predictable tax liabilities for taxpayers"[2].

As a result of the reforms, the number of taxable persons in Ireland expanded. At the same time, to eliminate problems related to the lack of financial resources for taxpayers to pay their tax obligations, the legislation of Ireland provides for the possibility of granting a deferral for the payment of tax payments. In particular, for taxpayers whose gross income for one year is below the established amount, the payment of tax can be postponed until their financial condition improves. For taxpayers who have received a mortgage loan during the period of price increases in the real estate market, longer tax deferrals are established. Also, "a tax payment deferral may also be granted to a representative of a deceased taxpayer, if his property has not been sold or the right to it has not been transferred within 3 years after the death of the taxpayer. It should be borne in mind that in Ireland, in relation to the amount of deferred tax payments for one year, an additional tax is paid in the amount of 4% of the calculated tax amount"[2].

Analysis of the experience of foreign countries in real estate taxation showed that in some countries, despite differences or similarities in this tax, land and other real estate objects are taxed separately. At the same time, the main criterion for determining the procedure for taxing real estate objects is the differentiation of real estate by types of actual use. As a rule, certain types of non-residential real estate, in particular infrastructure and socially significant objects, are exempt from taxation. Reducing the burden on certain categories of the population in need of state protection is carried out by setting tax liabilities at the lowest level, taking into account the actual solvency of the taxpayer. In addition, the legislation of foreign countries often provides for the establishment of a minimum threshold value of residential real estate not subject to taxation.

The establishment of a differentiated tax rate contributes to a more fair distribution of the tax burden. As a rule, the tax rate for non-residential property is higher than for residential property. In addition, the use of a differentiated tax rate contributes to more efficient use of real estate and creates the possibility of obtaining additional revenues to the budget when taxing real estate. Some foreign countries apply different tax rates depending on the taxable value of real estate.

In most developed foreign countries, the assessed cadastral value of real estate serves as the basis for calculating the tax base. It should be noted that the cadastral (market) value of real estate, which requires maintaining the obtained results to date, is determined as a result of real estate valuation. However, for the purpose of carrying out work on updating the information necessary for taxation, the revaluation of this value within the established timeframe will not be carried out due to the lack of financial resources. Non-compliance with this leads to the emergence of significant discrepancies between the assessed and actual value of the property. Therefore, to prevent a decrease in real estate tax revenues to the budget, indexation of the value of real estate is usually carried out. However, revaluation of real estate for tax purposes leads to certain difficulties. The negative consequences arising from a decrease in the effectiveness of tax administration and uneven distribution of the tax burden are effectively mitigated by taxation based on a certain percentage of the value of real estate.

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