DOI: https://doi.org/10.37075/EA.2022.4.03 Economic Alternatives, 2022, Issue 4, pp. 606-625

Analysis of Real Estate Taxation in the European Union's Countries

Received: 08.12.2021
Available online: 30.12.2022

Paul Cosmin Alin Enăchescu*

Abstract

Taken as a whole, this study focuses on the analysis of real estate taxes in the European Union from 2006 to 2018. In this context and for this period, the data presented may suggest the orientation and correlation of property taxation with the tax base, depending on the stages of the business cycle. In other words, it aims to present a comparative and theoretical assessment of real estate taxation systems of the European Union countries between 2006 and 2018.

The topicality and purpose of the topic lies in the fact that property taxation was one of the sources that generated important public funds necessary for the existence of states and contributed to their development. The level of originality of this study derives from the analysis of property taxes for the reference period and is presented in relation to other important macroeconomic indicators, while presenting the main real estate valuation systems used by EU states. Moreover, fiscal policies have made a significant contribution to correcting market failures. These were due to several factors, including the extreme exegesis of banks in lending between 2006 and 2018 which amplified the effects of the economic crisis that began in 2008, culminating in 2009 with a major economic recession; and in the EU it has translated into a significant decrease in GDP and tax revenue by 2.3% over the previous year. Consequently, a tax system designed in compliance with key principles, such as the neutrality of fiscal measures, certainty, fairness or the effectiveness of taxation, could help to achieve economic balance. And in this context amplified by changes in real estate, fiscal policy needs to be flexible enough to mitigate the future effects of national and international crises. In terms of the limitations of this study, we note the discrepancy between the data provided by the OECD and Eurostat, most likely due to the different calculation methodology, but which does not affect the conclusion that can be drawn from their interpretation. The interpretation of the results highlights the need for an individual analysis of property tax in each EU Member State.

Keywords: economic policy, fiscal policy, property tax, real estate indicators

JEL: A13, B49, C13

INTRODUCTION

In this article the state of knowledge on the delimitation of the concept of real estate taxation is presented, with arguments and opinions on the dynamics and perspective of the tax system in Europe.

* PhD Student, University of Craiova, Romania, enachescucosmin@yahoo.com

This study examines the dynamics of real estate taxation in the European Union (EU) between 2006 and 2018. At the same time, this study seeks to identify the challenges that may arise for implementation of property taxation in Europe. To achieve these goals, the study places particular emphasis on the evolution of property tax revenues and the classification of real estate appraisal systems, to facilitate the identification of viable options.

From a scientific point of view, we can refer to the property tax as the compulsory collection of a percentage of the value of a property owned by a natural or legal person without immediate or direct consideration and non-refundable in order to satisfy general or local economic interests (Spatari, 2020).

In another, more comprehensive approach, property taxation has been defined as the amount of taxes levied on the use, ownership or transfer of ownership. These include taxes on real estate or net worth, taxes on the transfer of ownership of property, inheritance, donation and taxes on financial and capital transactions (OECD, 2021).

A first step in designing and implementing property taxation is to correctly identify the phase of the business cycle. In times of economic growth, fiscal policy needs to be anti-cyclical or neutral, at least to avoid overheating markets. In order to stimulate economic activity during a period of crisis, shock or any other unforeseen event, fiscal policy needs to be stimulating, by generating fiscal impulses.

For this purpose, the direct comparison method was chosen. This approach provides an opportunity to understand and clarify the main issue of the implementation of property taxation in the Member States of the European Union in the context of legislative changes in the period 2006-2018. The data and information presented in this study come from extensive literature and statistical sources.

LITERATURE REVIEW

Real estate taxation was the oldest known source of income, and fiscal policy was an incentive or a factor of inhibition in the dynamics of the real estate market. Real estate taxation was also considered appropriate due to the fact that it involves high transparency, stability and predictability at relatively low administrative and compliance costs, playing an important role in financing local public services. Land taxation has also been one of the few sources of public revenue growth that has not affected economic efficiency, the main explanation being that the base could not be changed or moved in response to fiscal policy (Youngman, 2016). Therefore, the taxable base is immovable and, therefore, the tax was primarily borne by the residents.

Compared to other taxes or income tax, however, the property tax is not popular precisely because of its transparency, which favors competitive pressure between states (Youngman, 2016; Kitchen, Slack and Hachard, 2019). For example, in the United States, the disadvantages of these taxes have been monitored in 43 from 48 states. They were characterized as unfair, unrelated to the benefits received by the taxpayer or his ability to pay. They were also criticized for the lack of a relationship of reciprocity proportional to the increase in property value. Moreover, it seems that they did not provide enough income to meet the needs of the local community. Last but not least, real estate taxes have been criticized for their negative effects on price, with an effect on choosing the best destination for property and on urban development (Anderson, 2006).

If we go into even more detail, it is about the taxation of two categories of goods, namely buildings and land and, for which, the value of the tax is established according to variables established within the limits of national and local legislation.

According to their own meanings, property taxes have been assigned an important role in the economic circuit of each state. Property taxation was one of the sources that generated important public funds necessary for the existence of the state and that contributed to its development. In the historical evolution of property taxes, different characterizations and doctrinal theories have alternated meant to justify their role or importance, in fact aiming to balance national budgets or mitigate the effects of economic crises (Poterba, 1992; Oprea, Mehdian and Stoica, 2013; Anghel and Poenaru, 2014; Meliveo, 2014; Lovells, 2017; Kouki, 2018; Ernst & Young, 2019).

The growing need for public financial resources has necessitated successive changes in the structure or level of direct and indirect taxes, as well as in the way they are set and collected. In the years of the last century there have been repeated changes in the structure and level of taxes. At the same time, there have been important changes in the way of placing and collecting taxes and fees that have also influenced property taxes (Văcărel, 2006; Oprea, Mehdian and Stoica, 2013).

In its historical evolution, the property tax has undergone a permanent reform and has been the basis for the development of modern economies. For example, from a purely historical point of view, the law of real estate taxation or land law has developed on the European continent from a mix of feudal law, on the one hand, and Roman law, on the other (Schmid, Hertel and Wicke, 2005).

Continuing to position ourselves on a time scale, economic history has recorded important changes in the fiscal policy promoted by the states of the world. In the twentieth century, radical changes took place as a result of the preparation and conduct of wars, the intensity of economic crises and their remediation, the expansion of infrastructure, the modernization of the administrative apparatus, the implementation of new social, ecological or environmental measures any other kind. Instead of real taxes, the dominant category during the Middle Ages and in the early stages of the modern era, personal taxes were introduced. Starting with the period 1913–1916, personal taxes were placed on income and profit, on wealth and its circulation or on wealth. Due to the introduction of personal taxes, it was possible to differentiate between tax burdens. This systematic distribution took into account not only the nature and size of the taxable matter, but also the marital status of the taxpayer or the legal form of organization of companies (Văcărel, 2006).

The direct imposition was, in principle, proportional, being considered as responding better to the principles of the classical liberal doctrine, respectively of equality before the law. Frequently, taxation was made either in different installments depending on the nature or source of the taxable object: real estate and agricultural holdings, securities, trade, industry, banks, liberal professions, remuneration, pensions etc., or in equal shares, without differentiation (Văcărel, 2006).

In the 1960s and the following period, the current developed by economists asserted that the shocks of fiscal policies were the basis for variations in real estate activities. Following the development of this trend, for example, in the USA, the change in taxes in

the 1980s (the Law on the Taxation of the Economic Recovery of 1981) encouraged real estate investments during this period. Also, when the orientation of fiscal policy became restrictive, real estate investments were substantially reduced (Poterba, 1992).

In the contemporaneity marked by the alternation of budgetary austerity measures with those of fiscal relaxation, policy makers considered that real estate can be an important tax base, largely due to its inflexible nature.

An important number of studies such as Poterba (1992); Meliveo, (2014); OECD, (2014); Kouki, (2018); UHY, (2020) stressed the importance of real estate taxation, there are certain advantages in this regard. Thus, first of all, the vicissitudes of taxpayers in evading the payment of these taxes are highlighted. In addition, the efficiency of the property tax in terms of its collection is assessed. And as a result of the fact that the taxes imposed on real estate are incorporated, to a large extent, in the obtainable price, the impact on the economic behavior is much diminished in relation to the income or transaction tax.

Fischel (2001) also mentioned that local authorities were the main beneficiaries of property taxes, while promoting local autonomy from a financial point of view. To a large extent, this financial independence was perceived by taxpayers due to the connection between the services provided at the local level (medical units, schools, infrastructure, etc.) and the value of the property. In this case, property values increased simultaneously with the share of taxes and duties in the value of property (OECD, 2014).

In some cases, fluctuations in taxes and fees between years, but also between quarters, can occur even when all actors behave rationally and there is no anticipated uncertainty, given certain institutional features or some unique features of the commercial property market, such as construction reception delays, longer rental periods and low yields or financing methods. According to Wheaton's 1999 statement quoted by David and Zhu (2004), all this can lead to a distinct dynamic behavior of real estate cycles as well as interaction with the financial system and the real economy in different ways.

The extent to which real estate taxation has helped to achieve economic balance reveals the relationship of interdependence or the relationship between expenditure and taxation. In this sense, fiscal policy can have an observable effect on price developments due to the fact that the structure of the tax system creates the susceptibility to facilitate the acquisition of real estate by credit.

In Japan, for example, the taxation of real estate transactions did not have an impact on the development of prices during the period of growth in the 1990s. In the Netherlands, the effect of the tax increase was limited, but there was a leverage effect on households (Crowe et al, 2011b; Kouki, 2018).

In the phases of expansion or austerity, the question arose whether real estate taxation could be an effective tool in restricting the growth of real estate prices during the period of economic recovery (Meliveo, 2014; Hogan, 2017). Among the arguments in favor of using the mix of fiscal policies through the use of property taxes would be that monetary policy is not an effective countercyclical tool, most often the real estate price cycle is not correlating with the business cycle.

Moreover, the period of growth of the real estate bubble before 2008 had the effect of increasing the cost of financing by increasing interest rates (Collins and Senhadji, 2002; Davis and Zhu, 2004; Nicolescu A. et all,

2016). However, in most cases, the use of property tax for counter-cyclical purposes has brought an important increase in options when tax makers have considered reducing or increasing revenues, reducing or increasing other taxes.

Obviously, a pattern is being drawn according to which in the period of economic boom the states should increase the taxes on real estate transactions to the detriment of the property taxes. The main explanation is that this method affects a much smaller percentage of the population, only those who choose to trade. However, here too there is a risk of discouraging real estate transactions. Thus, in general, a balance between real estate taxes and real estate transaction taxes seems difficult to achieve, as the latter present certain risks to budgetary stability and, in addition, may create major distortions in the valuation process, more likely favoring technical resolution of a legal nature. Finally, interactions from a wide range of economic policies need to be considered (Crowe et al., 2011a).

Consequently, at the stage of the economic cycle in which austerity fiscal policy is one of the few options available to tax makers, real estate taxation seems to be an important source of tax revenue for the state budget. Due to its inflexibility, property taxation has not had an effect on economic growth, especially when it takes the form of recurring taxes. As previously mentioned, the proportion in which budgets were built on real estate taxation, differs from state to state.

One factor that complicates fiscal predictability is the difficulty in obtaining concrete data or information about similar projects and/or market specificity. Esoteric, this asynchronism of statistical data is really important only if the correlational study can be performed scrupulously. Another investment peculiarity that adds to the volatility of the real estate market can be associated with both financing issues and tax rules or other policies.

For example, on the other hand, two major components of US tax law - the 1981 Economic Recovery Act (ERTA) and the 1986 Tax Reform Act, which largely eliminated the effects of ERTA - have had unusually strong effects on lending, balance and yields of the commercial real estate markets of the 1980s. For example, between 1984 and 1991, as a consequence of a faulty bank valuation process, total non-performing loans increased from 3.1% to 5.2% and net borrowing rates increased from 0.7% to 1.6% (Federal Deposit Insurance Corporation, 1996).

In another approach, a significant number of studies suggest that overvaluation was a widespread practice during real estate boom periods, so borrowers were able to obtain larger, excessively risky mortgages in recession (Nakamura, 2010; Meliveo, 2014; Montalvo and Raya, 2018).

In order to have an immutable and transparent system of real estate taxation, tax makers have developed and implemented various policies. They were mainly focused on a broad, simple tax base, adjusted regularly and determined according to the destination of the property, its value or the total area.

Regardless of the approach chosen to establish its own structure, the tax base is required to accurately reflect the value of the property in order to establish tax rates, whether it is various housing services or the transfer of ownership. In the practice of property taxation, various property valuation systems have proven to be more or less effective in estimating the value of taxation and are generally used as the main methods in

most countries. Thus, in the light of their own experiences, governments have peremptorily used one of the two main methods for valuing property, valuation by area and value. The latter was approached according to price or rental income (OECD, 2018).

Valuation based on market analysis, as in any sector of the economy, represents the process by which the position in the marketing chain of a residential property or service is identified and studied. As the basis for determining the best uses, this relationship reveals the degree of imbalance between supply and demand. At the same time, the market analysis outlines the conditions that could influence in this respect, given that the value of a property is in close interdependence with its competitiveness on the market. The relationships between economic trends and real estate valuation have been widely debated in the literature, being essential in the (re) definition of the most profitable use (Nicolaescu et al., 2016).

The best use valuation (CMBU) is widely used in any modern real estate market (Norregaard, 2013). The concepts used in this theory are quite diverse, but all have highlighted the use that results in the highest net income. According to Nicolaescu et. al (2016), in order to best meet the specific requirements regarding the best use of a subject property, four tests are required for the evaluation of CMBU:

- the legal permissibility of each country or area, in compliance with the specific legal norms, for obtaining the authorization (license) of the subject property;
- physical possibility, in compliance with the environmental, sanitary, urban planning requirements, etc.;
- the financial feasibility or the ratio between capital and return on investment, taking into account specific financial considerations;
- maximum productivity or the combination of all productive factors.

In terms of knowledge and analysis in all its aspects and implications in classical economic theory, CMBU analysis has traditionally been associated with residual land analysis. This analysis assumes that the income stream is dependent on both the land and the related constructions. As the main source, the value of the land (free or built) is the difference between the value of the project and the cost of building, including entrepreneurial profit.

The CMBU analysis seems to have best met the four factors of production - land, labor, capital and entrepreneurship. However, the last three factors were remunerated only after obtaining a benefit from owning or using the subject land. At the same time, the best use of the built land is correlated with the use of the property given by the constructions that belong to it and in accordance with the market requirements (Nicolaescu et al., 2016).

Valuation based on land value and location refers to the market approach to land, and taxation according to this criterion has been used in a significant number of states. According to this evaluation principle, the land has value because it offers a potential utility due to the location (Norregaard, 2013).

On the other hand, according to Nicolaescu et al., (2016), the value of land is a distinct analysis, and the concepts that influence the achievable result are:

a) anticipation - refers to the anticipation of future income;
b) change - refers to the change of the land surface and which may bring changes in

the offer caused by natural events, mining activities, hydrotechnical works, etc.;
c) supply and demand - for locations in different locations;
d) the principle of substitution - is based on the shared analysis of the subject property;
e) the principle of equilibrium - is applicable when the equilibrium state is not stable, influencing the value of the property.

The market approach, also known as *sales comparison* or *direct comparison* - is the process where the value is obtained from the comparative analysis of the subject property with similar properties, recently listed or traded. Items are tested against market data, compared to data pairs and indexed to economic characteristics, where they generate revenue.

The cost assessment, similar to the income approach and the market approach, is based on the comparison of market data, and the value of the property reflects the sum between the value of the land, that of its subsidiary constructions and the developer's profit.

Income valuation is*,* in short, a traditional approach that mathematically estimates the ability of real estate to generate benefits reasonably. However, there are some practical limitations due to the fact that the property right is rarely owned entirely and individually by a person, there are mortgages, different types of receivables and expenses, fixed or variable, which share the potential benefits. Although the concept is simple, establishing the tax base is difficult to implement, despite the fact that a significant number of countries have rent control systems (The World Bank, 2014a).

In these circumstances, Western European countries applied approaches based on the value of properties, and the tax base was defined according to the value and the income approach. In contrast, 75% of Eastern European countries have opted for the principle of area taxation (The World Bank, 2014a).

A small group of states have used the real estate market valuation in determining taxable amounts. Among the countries that updated prices regularly were Denmark (twice a year), the Netherlands (one update per year) and Sweden (one update every three years). In the period between 2006 and 2018, Portugal and Poland applied quality coefficients to determine the market value, in an exegesis as close as possible to reality (The World Bank, 2014a; The World Bank, 2014b; PricewaterhouseCoopers, 2018; OECD, 2021).

METHODOLOGY

The methodology applied in this study was the mixed comparison of the revenues collected by EU Member States from real estate taxation between 2006 and 2018, according to Eurostat statistics. Also, for the analyzed period, an annual average was achieved at European level, highlighting the states that had substantial deviations from the average of EU revenues. The use of this method offered the possibility to study the dynamics of real estate taxation in relation to GDP as a reference base, thus establishing the proportional levels and the pace of development of real estate taxation for the reference period.

Following the analysis of the main valuation systems, the use of the property tax breakdown method has determined the contribution of the main taxes and levies on real estate in the EU Member States, locating in time and space the origin of the results. At the same time, the division by year allowed

to highlight the deviations of property taxes and duties from the evolution registered in the period 2006 - 2018. Also, the division and grouping by place of taxation was useful in the economic-financial analysis of the main strategies adopted by EU Member States. At the same time, this methodology made it possible to establish and contribute each EU Member State to the formation and modification of the final result.

RESULTS AND DISCUSSION - Dynamics of real estate taxation in the states of the European Union

At European level, there is no single system of property taxation and the transfer of ownership of real estate. Due to the inconsistency of these systems, most states have opted for their own tax system, which contributes to increasing capital mobility and liberalizing the economy. This has created many market peculiarities, with price fluctuations and sales dynamics, given that real estate performance has often been shown to be related to the overall performance of the economy (World Bank; 2014a; Lovells, 2017; Kouki, 2018 ; Kitchen, Slack and Hachard, 2019; Taxes and fees, 2021).

In the 21st century, the most modern, fair and flexible tax systems have opted to determine the value of the property according to destination and value, and the establishment of administrative mechanisms for efficient collection has ensured a high degree of compliance. This calculation methodology underlined the modern administrative support, the collection of taxes and fees through third parties, but also the importance of property cadastre or consolidation of the real estate appraisal process, taking into account economic development programs, labor market mobility, budget deficits or indebtedness of state (OECD, 2014; World Bank, 2014a; Youngman, 2016; Kleven, Kreiner, and Saez, 2016; Saez and Zucman, 2019; UHY, 2020; Taxes and Fees, 2021).

In the analysis of the property tax, it is important to distinguish two components: land and buildings (Norregaard, 2013, Nicolaescu et al., 2016). While the outcome of land valuation increases in proportion to economic development, construction requires capital and effort, and investment is required to maintain its structural integrity and value. Thus, a withdrawal of capital from a city or region has the potential to change the structure and destinations of buildings, while lack of maintenance or abandonment can lead to demolition (Youngman, 2016).

We further address the issue of how property taxes have evolved in the EU. In this regard, the main source of documentation was the OECD and EU reports.

For international comparisons, behind the average figures of real estate taxation in OECD countries are large discrepancies between the different periods we are referring to. It should be noted that there are some insignificant discrepancies between the OECD data and those provided by the EU, which were caused by the methodologies by which they were established.

However, the differences encountered do not alter the conclusions drawn from the analysis of the relationship between real estate taxes and GDP or the share of property taxes in the total taxes collected. Taking into account these shortcomings, in the period between 2006 and 2018, property tax revenues increased in the 37 OECD countries, averaging 0.1% as a percentage of GDP (OECD, 2021). At the same time, the average income from property taxes in OECD countries as a share of GDP was 0.3% lower

than the percentage obtained in the EU for the reference period (European Commission, DG Taxation and Customs Union, based on Eurostat data, 2021).

At European level, it is significant that the legislation did not provide for common rules to clarify the taxation of citizens who own or transfer property in the EU, in order to bring tax systems in line with their approximation, the subjects referring to the functioning of the internal market, reducing economic fluctuations and better addressing cross-border issues.

Overall, some properties in all EU countries were tax-exempt between 2006 and 2018, creating the conditions for disproportionate tax burdens. Property taxes, even those with relatively high levels such as those found in the US, appear to have had a small but significant influence on investment decisions at that location and therefore on the job market (Bartik, 1991; OECD; , 2014; World Bank, 2014a; OECD, 2021).

Thus, each EU Member State or even region had its own definition of "property taxation" (Eugenio Cerutti, Jihad Dagher and Giovanni Dell'Ariccia, 2015). To point out the differences explained by the real estate powers granted to the regions, they existed in countries such as Spain and less in federal states such as Belgium, Austria and Germany. In these states, real estate legislation, such as environmental and zoning rules, has been partly the responsibility of regional authorities. In France, the Alsace Moselle region has retained some peculiarities derived mainly from German law, especially with regard to the real estate registration system (Schmid, Hertel and Wicke, 2005).

Depending on the fiscal policy of each country, the amounts collected were substantially different in the EU Member States. For example, in countries where the level of taxation was lowest, the resulting revenues are about 12 times lower (Estonia 0.4% of GDP) than in countries with the highest level of taxation (UK 4.2% of GDP). Equally important, with regard to OECD countries positioned on the European continent, the largest tax increases were located in EU member states (OECD, 2014; World Bank, 2014a; OECD, 2021).

Thus, in the EU the average tax revenue increased in the period 2006-2018 from 2.3% to 2.5%, relative to GDP. Moreover, in the above-mentioned range, the EU-27 average increased by 0.3% and in the euro area the increase was 0.4%.

In the years leading up to the financial crisis of 2009, the value of GDP in the EU member states has been on the rise since 2005 and lasted until 2008, thus being able to refer to a distinct part of a cycle with continuous economic development. It turns out that during this period the Member States have experienced economic growth which, according to the economic cycle, is entering the phase of economic boom.

This period of growth and economic expansion was due to several factors, including the extreme exegesis of banks in granting loans and which, in turn, amplified the growth of services and goods. The global financial crisis, which began in 2008 with the bankruptcy of Lehman Brothers, culminating in a major economic recession in 2009, has been translated into a significant drop in GDP and tax revenues by 2.3% compared to the EU the previous year.

In 2009, as a result of the global economic crisis, the average real value of real estate sales experienced a major depreciation. In most of the states analyzed, this financial crisis culminated in a decrease in property

tax revenues. The revival of real estate assets that started in 2009 was the consequence of some of the first anti-crisis measures taken by the governments of the affected states.

In the EU, another important provision has regulated the application of the value added tax (VAT) rate to new construction. Although the normal VAT rate was charged in all Member States, each country set its own rates, ranging from 27% in Hungary to 17% in Luxembourg (europa.eu, 2021a; europa.eu, 2021b).

In many developed countries, such as France (4.6%), the United Kingdom (4.2%) or Belgium (3.5%), revenues from property taxation by central, regional and local authorities have a higher share in GDP compared to the less developed countries, they allowed in the period 2006-2018 a significant surplus of options regarding the implementation of economic policies, such as, for example, those with a role in achieving economic equilibrium (Figure 1).

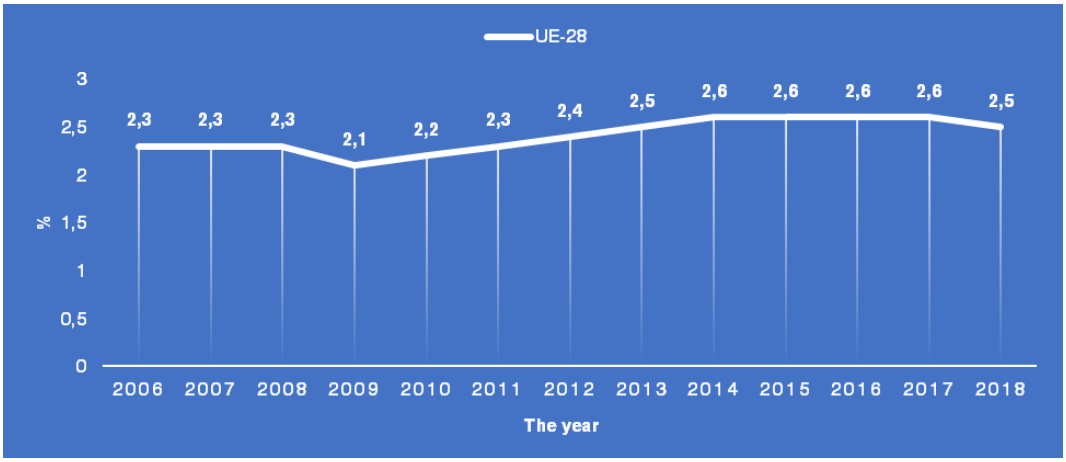

Figure 1. Property taxes in the EU-28 (% of GDP) in the period 2006-2018
Source: European Commission, DG Taxation and Customs Union, based on Eurostat data

It is constructive to scrupulously follow the changes in the ratio between property taxes in the EU and GDP from 2006 to 2018.

This is how the collection of property taxes has evolved and the ranking of all thirty EU member states as a share of GDP and separate EU 28 averages, including Croatia received in the organization during this period, and EU 27 and EA 19.

During the years 2009-2018, interest rate hikes and declining returns on other asset classes encouraged the real estate market. Real estate investment has thus become one of the safest investments, and taxes and fees collected as a result of real estate transactions have been an important source of revenue for EU budgets (Meliveo, 2014; Oprea et al., 2013; Hogan Lovells, 2017).

According to data presented by the European Commission, DG Taxation and Customs Union, based on Eurostat data, the countries with the highest real estate taxation as a share in GDP in 2006 were the United Kingdom (4%), Spain (3.2%), France (3.1%) and Belgium (3.1%). In 2009, after the financial crisis, the highest share of GDP in property taxes was recorded in the United Kingdom (3.9%), France (3.1%) and Belgium

(2.9%). In the EU, in 2009 and the previous year, the average real estate tax as a share in GDP was 1.8%, the lowest level in the period 2006-2018.

In the period 2010-2018, there were increases in the revenues of EU Member States from property taxation as a share of GDP. The largest increases were in countries such as France, the United Kingdom, Belgium and Greece. Under these circumstances, the average income from property taxation as a share of GDP experienced an upward trajectory in the EU-28, which began in 2010 (2.2%) and peaked in 2017 (2.6%).

In 2018, there was a decrease in property tax revenues by 0.1% compared to the previous year. This year, countries such as Finland (€ 3,400 million), the Netherlands (€ 12,940 million) and Poland have a middle position among EU Member States with a high share of some property taxation and relatively low tax rates. 8,574 million euros), Portugal (4,532 million euros) or Italy (42,978 million euros).

On the other hand, the modest level of the share of real estate taxes in the GDP of other EU Member States in the reference period, such as Eastern European countries, suggests significant fiscal shortcomings and anachronistic administrative support in relation to the financing of budget deficits.

Although property taxation has strong economic foundations, and the collection of this income has been a practice used in all EU countries, this issue has been given priority in only a few Member States. In other words, the modest level of collection and / or the low share of property taxes in GDP did not give Eastern European governments the flexibility to draw up annual budgets, especially in the context of cyclical developments or emergencies caused by various extrinsic factors.

The data presented show that the lowest share of EU property taxes in total taxes collected was recorded in 2009, as a result of the economic crisis that began in 2008.

In the following years, many countries reduced their income tax. In the period 2010-2015, recurrent property taxation was a viable option to transfer the tax burden to other sources, independent of salary income; monetary policy is not considered an effective tool for this purpose. This reasoning was based on the assumption that transaction taxes were likely to discourage real estate dynamics. These taxes also had a negative impact on labor mobility, caused by the high level of costs for changing ownership (europa.eu, 2017a; europa.eu, 2017b).

During the period under review, real tax reforms have been implemented in EU member states in terms of property taxation or at least significant adjustments to existing tax systems. These concerned both direct taxes, in particular taxes on income from the sale of real estate owned by individuals and taxes on profits of legal persons, as well as indirect taxes, in particular the fees for authentication, registration or cancellation of privileges.

To give an example from the UK, in order to ensure the fairest possible market value, tax equity and real estate tax efficiency, the property tax was determined after 2014 following the conclusions of an annual valuation report, prepared either by the owner, or by an authorized expert in this regard (GOV.UK, 2014).

In Denmark, Luxembourg or the Netherlands, the taxation of property during the reference period was based on the "imputed rent" principle. This system involves a theoretical estimate of rental income, in the event that it has been rented. In improving this system, the existence of mortgage's interest

deductibility was taken into account, which tends to decrease the cost of owner-occupied housing compared to tenant-occupied housing (Barrios et al., 2019).

Since 2017, the Norwegian tax administration has determined housing values based on statistical information on property sales. For evaluation, criteria such as location, area, floor, year of construction or type of dwelling were taken into account. The tax value was obtained by applying a percentage between 25% and 75% of the value, depending on the destination of the home, primary or secondary (The Norwegian Tax Administration, 2021).

It should be noted that, following the success of a pilot project in 2002, from 2005 onwards the mass assessment by income was fully automated in Lithuania, the general cadastre database being posted on the institution's website, easily accessed in order to establish tax decisions and tax obligations, social programs or other public needs. In 2014, evaluation reports for 2.2 million plots of land were approved by the National Land Service within the Ministry of Agriculture. Also, based on 288 models, 3.5 million buildings were evaluated, 1.2 thousand areas were classified in terms of value, this mass process being expanding (Bagdonavičius, 2014).

Both the model and the mass evaluation procedure in Lithuania, along with those in Slovenia, Belarus and Poland, are based on the experience of countries such as the USA or Sweden. In these countries, the mass assessment system has been operating successfully for decades, with the results being used mainly for tax purposes, in particular to determine the tax base. The results of the mass valuation have also been used in banking and insurance activities, but also for the purpose of accounting and taxation of inheritances or donations etc. (Bondar and Kulyk, 2021).

It should be noted that in 2006 the share of property taxes in total EU taxes collected ranged from 1.2% in Estonia to 12% in the United Kingdom. In 2018, this ratio ranged from 1.1% in Lithuania to 12.4% in the United Kingdom.

These figures hide great inequalities between EU states and between periods of the business cycle. Thus, the largest negative differences between 2006 and 2018 were registered in Ireland (-3.5%), Cyprus (-2.4%) or Spain (-1.3%).

On the other hand, the share of the EU property tax in the total taxes collected took place in a significant number of states, including: France (+ 2.7%), Luxembourg (+ 2.5%), Greece (+ 1.2%), Italy (+ 0.9%), Finland (+ 0.9%), Belgium (+ 0.8%) and Bulgaria (+ 0.8%).

EU statistics monitored the evolution of the share of property tax revenues in total EU-27 taxes between 2006 and 2018. From this point of view, this ratio was more modest, namely: 5% in 2006 or 4.9% in 2007.

From the information presented (Figure 2), this idea is clear - the importance of EU property tax, as a share of total taxes collected.

Figure 2. The share of property tax in the EU-28 (%) in the total taxes collected
Source: European Commission, DG Taxation and Customs Union, based on Eurostat data

The importance of property taxation in the total taxes collected increased between 2006 and 2018 by 0.3% in the EU-28. Thus, this ratio registered 6.1% in 2006 and 6% in 2007 and 2008. The minimum value of the share of property tax in the total taxes (5.5%) was registered in 2009, after this period to have a weak oscillating evolution, with a maximum value of 6.8% in 2015.

The minimum values were recorded in 2008 (4.5%) and in 2009 (4.6%). After this period, as in the case of the EU-28, the importance of real estate taxation in total taxes had the same increasing and slightly oscillating evolution, the highest share of this ratio being found in 2015, respectively of 5.8%. According to Eurostat statistics, the largest increase in property taxation in total EU taxes collected during the period under review (+0.6) took place in euro area countries (EA-19).

However, the share was lower for EU-28, but inferior than EU-27. Taking into account the disparities between countries, this ratio varied between 4.7% (the value recorded in 2008) and 6% (value identified in 2015, 2016 and 2017), and in 2018 the property tax will amount to 5.8% of total taxes.

Real estate tax changes during the reference period took place not only in the countries that joined the EU during this period, but also in those with a long history in the EU, the proportions being more or less significant.

The share of EU property tax in the total taxes collected was closely interdependent with the role and function of local governments and the tax model implemented. From this last point of view, regardless of the share of recurring taxes in the total real estate taxation, the local administrations were the beneficiaries of the amounts collected from periodic taxes, with some isolated exceptions.

In 2018, the ratio of recurring real estate taxes to total taxes collected ranged from 2.6% in Luxembourg to 81% in Estonia and 100% in Slovakia or the United Kingdom.

The conclusion that can be drawn from the analysis of recurrent real estate taxation in the EU as a share of GDP for the reference period is that public decision makers have progressively identified this tax practice as a constant source of revenue. Thus, in the

period 2006-2018, in all EU countries, the share of recurring taxes on real estate in GDP increased by 0.3% in the EU-28 and by 0.4% in the EU-27 and the euro area.

The share in GDP of recurrent property taxes in the EU states, taken together, increased between 2010 and 2016, as a result of the implementation of countercyclical fiscal, monetary and banking policies generated by the economic crisis that took place in 2009 (Figure 3).

Figure 3. Total recurring real estate tax in the EU-28 (% of GDP)
Source: European Commission, DG Taxation and Customs Union, based on Eurostat data

In 2018, the average growth rate of recurrent real estate taxation as a share in GDP showed a certain downward trend. This trend has been transposed in the EU-28 by a decrease from 1.6% in 2017 to 1.5% in 2018, while at the level of the EU-27 or EA-19 the reversal of the trend is imperceptible.

All this while the increase in revenue from recurring property taxation as a share of GDP shows that in countries such as France, the United Kingdom or Greece, growth above the EU average contributes in whole or in part to achieving economic equilibrium. However, as a result of fiscal policies implemented in France, the importance of recurring property taxation as a share of GDP decreased in 2018 by 0.2% compared to 2016.

And in countries such as Denmark, Italy, Belgium and Spain, recurring tax revenues as a share of GDP have been one of the most important sources of funding for local governments in this time frame, according to the role assigned by central public decision makers. However, some countries have allocated a significant percentage of local government revenues to central government.

Portugal, Finland and Latvia (0.8%), Sweden and Croatia (0.8%), Poland (0.7%) or Ireland (0.6%) among the EU countries with a high share of regular property taxation and those with a lower taxation, have a middle position in 2018. These states have alternated their policies of attracting tax revenue from recurring property taxation with other independent sources.

Similar disparities between countries have also been observed in terms of the share of recurrent real estate taxation in GDP. Malta, like other countries such as Luxembourg or Austria, collected much less significant public budgets in 2018 from recurring property taxation.

On the other hand, some countries, such as Malta and Luxembourg, have been noted

for their ability to attract revenue from local government-independent sources of funding.

As for France, this country had a share of recurrent taxation in 2018 of 68.3% of total taxation, Italy of 58.1% and Portugal of 36%.

Narrowing the comparison to the countries of the former Soviet Union, Poland had in 2018 a share of recurring taxes of 66.6% in total real estate taxes, Croatia of 56.3%, Hungary of 46.1%, Germany of 37.5 %, and Bulgaria 36.8%.

Revenues from recurring taxes on real estate accounted for about 85% of the total property tax in 2018. Analyzing this data, the European average in terms of the share of recurring taxes in total taxes, respectively EU-28 of 60.5%, EU-27 of 56.4% and EA-19 of 55.2%.

Therefore, in countries such as the United Kingdom, Estonia or Romania, the revenues obtained from recurrent taxation in 2018 were one of the most important sources of funding for local governments, according to the role assigned by central public decision makers.

Recurring property tax measures in 2018 generated revenue in all EU member states. At the same time, the proportion of recurring property taxes in total taxes in the EU-27 was € 168,738 million.

The proportion of recurring property taxes in total taxes in EA-19 was € 151,242 million (Figure 4).

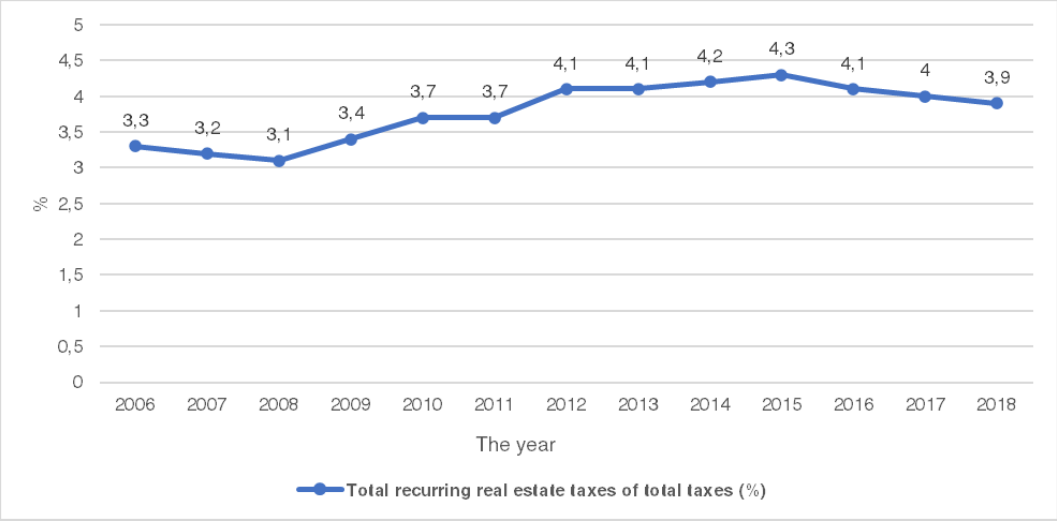

Figure 4. Total recurring real estate taxes in the EU-28 of total taxes (%)
Source: European Commission, DG Taxation and Customs Union, based on Eurostat data

The highest increase in this ratio was in the EA-19 (+ 1.0%), preceded by the EU-27 (+ 0.8%) and the EU-28 (+ 0.6%).

Another important role in the transfer of real estate rights has been attributed to taxes (Figure 5).

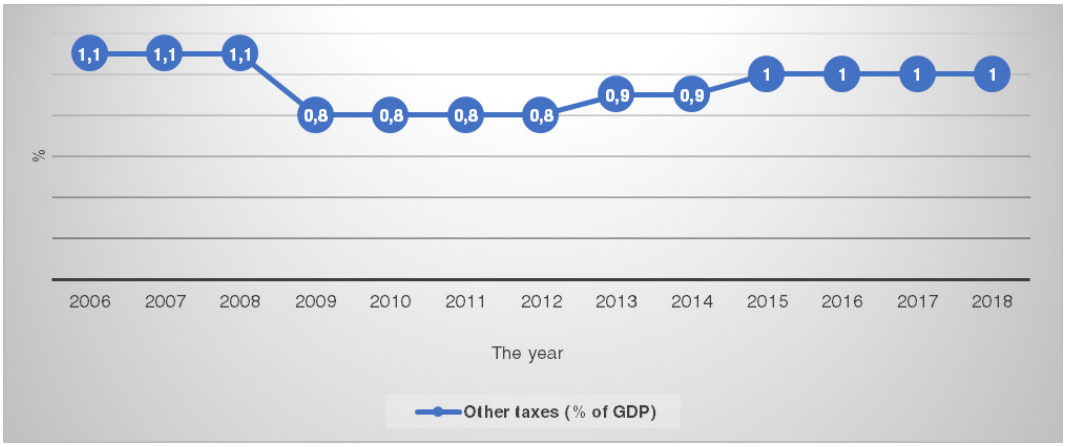

Figure 5. EU-28 real estate taxes (% of GDP) - Other taxes
Source: European Commission, DG Taxation and Customs Union, based on Eurostat data

For an accurate comparative analysis, specific transfer fees reached 2.5% of GDP in Luxembourg in 2018, a ratio higher than in 2006 by about 1.3%.

In Belgium, too, the share of taxes in GDP increased during this period by 0.5%. In Spain, a decrease of 0.1% was noticed despite the fact that in 2018 the share of taxes represented 1.5% of GDP.

The share of other real estate taxes in GDP in 2018 was 1% in the EU-28 and EU-27. In this timeframe, in the EA-19 this ratio was 1.1% of the GDP. The lowest taxes were collected in Slovakia (0%), Lithuania (0%) and Estonia (0.1%).

CONCLUSION

At the European level, the inconsistency of property taxation systems and the transfer of the right to real estate assets has been highlighted. The real estate appraisal process has been affected not only by local economic factors and regional developments, but also by economic trends. In our opinion, the valuation process is very likely to be affected by the business climate and investor confidence in the economy. Thus, the efficient functioning of a real estate market is focused on the theories on the peculiarity of the traded goods and the behavior of the participants, subject to their imperatives, a hypothesis in which each property is unique and its position in space is fixed.

In order to have an immutable and transparent system of real estate taxation, tax makers have developed and implemented various policies. They were mainly focused on a broad, simple tax base, adjusted regularly and determined according to the destination of the property, its value or the total area.

The comparison between states, from this point of view, reveals the strategies regarding the taxation of property and the efficiency in the collection campaigns. On the one hand, the information presented may suggest the orientation of fiscal policy according to the stages of the economic cycle. On the other hand, the decrease or increase in property tax revenues can be attributed to changes in legislation in order to attract resources to public budgets.

Starting from modern valuation systems, there are successful models that periodically detect the market value and through which

the income from property taxation can be increased. Although these issues have been addressed as a matter of priority in a limited number of countries, the collection of taxes and duties has proved to be a unanimous practice.

In the practice of real estate taxation, various property valuation systems have proven to be more or less effective in estimating the value of taxation and have generally been used as primary methods in most countries.

In the light of their own experiences, EU governments have peremptorily used one of the two main methods for valuing property, area and value. The latter was approached based on price or rental income.

In most states, the tax rate has been set exclusively by local authorities, and the tax base has been determined by central authorities. As for the tax exemptions, they were applied by the local authorities in France and Slovakia. In the other states, these were established by the central authorities or by both administrative levels.

With regard to the establishment of the tax base, tax obligations, deductions and exemptions for the various types of property taxes, the efficiency of the property tax was directly proportional, in a significant percentage, to the distribution of responsibilities between the central, regional and local administrative levels. In a broader context, the efficiency of the collection of property taxes and duties also depended on the size and functions of local governments.

Comparatively analyzing the taxation of real estate in the most modern, fair and flexible tax systems, we exemplified the countries that determined the value of the property according to destination and value. At the same time, the establishment of administrative mechanisms for efficient collection has ensured a high degree of compliance.

REFERENCES

Anderson, N., (2006), ,,Property Tax Limitations: An Interpretative Review", National Tax Journal, 59(3), pp. 685-694. Available at: <http://www.jstor.org/stable/41790349>

Anghel, I, Poenaru, V, (2014). A New Perspective for Understanding Real Estate Market in Romania, *Revista de Evaluare*, no. 9 (2), pp. 1-31. Available at: <http://www.appraisers.org/docs/default-source/discipline_rp/poenaru-a-new-perspective-for-understanding-real-estate-market-in-romania.pdf?sfvrsn=2>

Bagdonavičius, (2014). Mass valuation system in Lithuania, Conference on Property Valuatin and Taxation for Fiscal Sustainability and Improved Local Governance in Europe and Central Asia. Available at: <https://www.registrucentras.lt/bylos/dokumentai/conferency/Mass%20Valuation%20System%20in%20Lithuania.pdf>

Barrios, S, Cécile, D., Ivaškaitė-Tamošiūnė, V, Reut, A, Torres, E.V., (2019). Housing taxation: a new database for Europe, JRC Technical Reports, JRC Working Papers on Taxation and Structural Reforms, Nr. 08/2019. Available at: <https://ec.europa.eu/jrc/sites/default/files/jrc118277.pdf>

Bartik, T. J., 1991. Who Benefits from State and Local Economic Development Policies? Kalamazoo, MI: W.E. Upjohn: Institute for Employment Research. Available at: < https://doi.org/10.17848/9780585223940>

Bondar, M.I., Kulyk, A.A., (2021) Foreign Experience of Real Estate Mass Appraisal, Problems of Theory and Methodology of Accounting, Control and Analysis, DOI:10.26642/pbo-2021-48-3-12. Available at: <https://www.researchgate.net/publication/352026686_Foreign_

experience_of_real_estate_mass_appraisal>

David, E.P., Zhu H., (2004). Bank Lending and Commercial Property Cycles: Some Cross-country Evidence, BIS Working Papers, 150, pp. 1-45. Available at: <https://www.bis.org/publ/work150.pdf>

Collins, C., Senhandji, A., (2002). Lending Booms, Real Estate Bubbles and the Asian Crisis, IMF Working Paper, International Monetary Fund, pp. 1-46. Available at: <https://www.imf.org/external/pubs/ft/wp/2002/wp0220.pdf>

Crowe, C., Dell'Ariccia, G., Igan, D., Rabanal, P., (2011a). ,Policies for Macrofinancial Stability: Options to Deal with Real Estate Booms, IMF STAFF Disscution Note, SDN 11/02, International Monetary Fund. Available at: <https://www.imf.org/external/pubs/ft/sdn/2011/sdn1102.pdf>

Crowe, C., Dell'Ariccia, G., Igan, D., Rabanal, P., (2011b). ,How to Deal with Real Estate Booms: Lessons from Country Experiences", *Journal of Financial Stability*, 2013, vol. 9, Nr. 3, pp. 300-319. Available at: <https://econpapers.repec.org/article/eeefinsta/v_3a9_3ay_3a2013_3ai_3a3_3ap_3a300-319.htm>

Ernst&Young, (2019). The Polish Real Estate Guide 2019, Edition Poland The real state of real estate, pp. 1-162. Available at: <https://www.ey.com/Publication/vwLUAssets/Raport_Przewodnik_po_Polskim_Rynku_Nieruchomo%C5%9Bci_2019/$FILE/Real%20Estate%20Guide_book_2019.pdf>

European Commission, (2017a). Banking and financial stability, Thematic sheet - European Semester. Available at: <https://ec.europa.eu/info/sites/info/files/file_import/european-semester_thematic-factsheet_banking-sector-financial-stability_ro.pdf.>

European Commission, (2017b). Thematic Sheet, European Semester. Available at: <https://ec.europa.eu/info/sites/info/files/file_import/european-semester_thematic-factsheet_taxation_ro_0.pdf.>

European Commission, (2020). Data on Taxation. Available at: <https://ec.europa.eu/taxation_customs/business/economic-analysis-taxation/data-taxation_en.>

European Union, (2021a). VAT Rules and Rates. Available at: <https://europa.eu/youreurope/business/taxation/vat/vat-rules-rates/index_en.htm>

European Union, (2021b). Mortgage Loans. Available at: <https://europa.eu/youreurope/citizens/consumers/financial-products-and-services/mortgages/index_ro.htm>

Federal Deposit Insurance Corporation, (1996). Commercial Real Estate and the Banking Crises of the 1980s and Early 1990s, Chapter 3, Volume I, pp. 137-165. Available at: <https://www.fdic.gov/bank/historical/history/137_165.pdf>

Fischel, W., (2001). Homevoters, Municipal Corporate Governance, and the Benefit View of the Property Tax, *National Tax Journal*, 54(1), pp. 157-173. Available at: <http://www.jstor.org/stable/41789539>

GOV.UK, (2014). Annual Tax on Enveloped Dwellings. Available at: <https://www.gov.uk/guidance/annual-tax-on-enveloped-dwellings-the-basics>

Hogan Lovells, (2017). Trends in Cross-border Real Estate Investment and the Changing Tax Landscape", pp. 1-52. Available at: <https://www.hoganlovells.com/en/~/media/8bf8b4c4e9164cb2b17ddad03160a77b.ashx>

Kitchen, H., Slack, E., Hachard, T., (2019). Property Taxes in Canada: Current Issues and Future Prospects, Institute on Municipal Finance and Governance, Nr. 27, pp. 1-23. Available at: <https://tspace.library.utoronto.ca/bitstream/1807/98034/1/Perspectives-27-Kitchen-Slack-Hachard-Property-Tax-Issues-Prospects.pdf>

Kleven, H.J., Kreiner, C.T., Saez, E., (2016). Why Can Modern Governments Tax So Much? An Agency Model of Firms as Fiscal Intermediaries, *Economica*, Vol. 83, Issue 330. Available at: <https://eml.berkeley.edu/~saez/kleven-kreiner-saezEMA16.pdf>

Kouki, T., (2018). The Effects of Government Policies on Real Estate Sector, Royal Institute of Technology Department of real estate and construction management, Architecture and Building Environment, TRITA-ABE-MBT-18128. Available at: <http://www.diva-portal.org/smash/get/diva2:1229490/FULLTEXT01.pdf>

Meliveo, J., (2014). Tax Incentives and the Housing Bubble: the Spanish Case, Universidad Complutense de Madrid, pp. 1-33. Available at: https://www.ucm.es/data/cont/docs/518-2014-09-25 TFG%20final%20Jorge%20Meliveo.pdf

Montalvo, J.G., Raya, J.V., (2018). Constraints on LTV as a Macroprudential Tool: a Precautionary Tale. Oxford Economic Papers, Volume 70, Issue 3, July 2018, Pages 821–845, https://doi.org/10.1093/oep/gpy007. Available at: <https://academic.oup.com/oep/article-abstract/70/3/821/4948656?redirectedFrom=fulltext>

Nakamura, L. I., (2010). How much is that home really worth? Appraisal bias and house-price uncertainty. Business Review, Federal Reserve Bank of Philadelphia, issue Q1, pages 11-22. Available at: <https://ideas.repec.org/a/fip/fedpbr/y2010iq1p11-22.html>

Nicolaescu A., Popa-Bochiș A., Stan A., Dan C., Demetrescu C., Ababei D, Haşmăşan R., Popa S., Nicolaiciuc S., (2016). Evaluarea proprietatii imobiliare, București: Iroval

Norregaard, J., (2013). Taxing Immovable Property. Revenue Potential and Implementation Challenges. IMF Working Paper, Fiscal Affairs Department, WP/13/129. Available at: <https://www.imf.org/external/pubs/ft/wp/2013/wp13129.pdf>

OCDE, (2014). The Political Economy of Property Tax Reform, OCDE Working Papers on Fiscal Federalism, No. 18, pp. 1-37. Available at: <https://www.oecd-ilibrary.org/docserver/5jz5pzvzv6r7-en.pdf?expires=1612779523&id=id&accname=guest&checksum=7BF40BFCC9B532C5B41B0BC491F8ED7F>

OCDE, 2018. Available at: <https://www.oecd.org/>

OCDE, (2021), ,,Tax on Property", OCDE, No. 10.1787/213673fa-en. Available at: <https://data.oecd.org/tax/tax-on-property.htm>

Oprea, F., Mehdian, S., Stoica, O., (2013). Fiscal and financial stability in Romania – an owerview, Transylvanian Review of Administrative Sciences, No. 40 E/2013, pp. 159-182. Available at: <https://rtsa.ro/tras/index.php/tras/article/viewFile/148/144>

Poterba, J.M., (1992). Tax Refarm and Hausing Market the Late 1980s: Who Knew What, and When Did They Knaw It?, Lynne Browne and Eric Rosengren, eds., Real Estate and Credit Crunch. Federal Reserve Bank of Boston, Conference Series No. 36, 230-251. Available at: <https://link.springer.com/article/10.1023/A:1007753421236>

PricewaterhouseCoopers, (2018). Real Estate Going Global Worldwide country summaries. Tax and legal aspects of real estate investments around the globe, pp. 1-929. Available at: <https://www.pwc.com/gx/en/asset-management/assets/pdf/real-estate-going-global-report-2018.pdf >

Saez, E., Zuckman, G., (2019). How would a progressive wealth tax work? Evidence from the economics literature, Brookings Papers on Economic Activity, pp. 437-533. Available at: <https://www.brookings.edu/wp-content/uploads/2020/10/Saez-Zuchman-final-draft.pdf>

Spatari, M., (2020). Inechitatea sistemului fiscal din România. Cazul impozitului pe proprietate". Fundaţia Friedrich Ebert (FES),

Economie și finanţe. Available at: <http://library.fes.de/pdf-files/bueros/bukarest/16862.pdf>

Schmid, C.U., Hertel, C., Wicke, H., (2005). Real Property Law and Procedure in the European Union. European University Institute (EUI) Florence/European Private Law Forum Deutsches Notarinstitut (DNotI) Würzburg, General Report. Available at: <https://www.eui.eu/Documents/DepartmentsCentres/Law/ResearchTeaching/ResearchThemes/EuropeanPrivateLaw/RealPropertyProject/GeneralReport.pdf>

The Norvegian Tax Administration, (2021). Tax Value of Housing. Available at: <https://www.skatteetaten.no/en/rates/tax-value-of-housing/?year=2017#rateShowYear>

The World Bank, 2014a. Property Tax in Romania - Review of Development and Implementation, in the Context of EU and OECD Practices. Available at: <https://mfinante.gov.ro/documents/35673/343871/677814PropertytaxationRomania_ROM12082015.pdf>

The World Bank, 2014b. Tax evasion issues in transnational corporation taxation. Available at: <https://www.mfinante.gov.ro/static/10/Mfp/afaceri_europene/677814ReportInternatTaxAvoidanceIssuesTaxationCompaniesRO12082015.pdf>

UHY, (2020). Taxes on buying a home now averaging nearly 5% worldwide – with some economies charging over 10%. Available at: <https://www.uhy.com/taxes-on-buying-a-home-now-averaging-nearly-5-worldwide-with-some-economies-charging-over-10/>

Văcărel, I., (2006). Trends in the evolution of the tax systems of OECD member countries, the European Union and Romania, Revista Calitatea vieţii, XVIII, nr. 3-4, 2007, p. 339–381. Available at: <https://www.revistacalitateavietii.ro/2007/CV-3-4-2007/08.pdf>

Youngman, J, (2016). Legal and Policy Issues for the Property Tax in the United States, Cambridge, Massachusetts: Lincoln Institute of Land Policy. Available at: <https://www.lincolninst.edu/sites/default/files/pubfiles/a-good-tax-full_2.pdf>

www.i-interface.com/en/services/real_estate/tips/taxes.html, (2021). Taxes and Fees. Available at: <https://www.i-interface.com/en/services/real_estate/tips/taxes.html>