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Working Party on Land Administration
Third session
(Geneva, 17-18 November 2003)

**WORKSHOP ON MASS VALUATION SYSTEMS OF LAND (REAL ESTATE)
FOR TAXATION PURPOSES**

Report prepared by the delegation of the Russian Federation in cooperation with the secretariat

Introduction

1. The Workshop on mass valuation systems of land (real estate) for taxation purposes took place in Moscow from 28 to 29 June 2002. The Federal Land Cadastre Service of the Russian Federation organized the Workshop.
2. Representatives of the following twenty-nine countries participated: Armenia, Austria, Belarus, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Georgia, Germany, Greece, Hungary, Iceland, Italy, Kazakhstan, Latvia, Lithuania, Malta, Netherlands, Republic of Moldova, Romania, Russian Federation, Slovenia, Spain, Sweden, United Kingdom, Ukraine and the United States.

3. Mr. S. Say, Chief of the Federal Land Cadastre Service of the Russian Federation, opened the Workshop. He welcomed the delegations and underlined the importance of the Workshop's topic for the Russian Federation and other UNECE countries. He made particular reference to countries in transition, which are reforming public land and real property. Mr. S. Say presented the particularities of the land reform in the Russian Federation and stressed the fact that there were some 50 million new property owners in the country.

4. Mr. I. Grachev, Chairman of the State Duma Subcommittee for Realty, Mortgage and Appraising, welcomed the participants and reported on issues and problems related to mass valuation systems and taxation. He indicated that any sound taxation system should be based on valuations of real property that ensured a fair distribution of the tax burden on taxpayers.

5. Mr. N. Chulkov, of the Department of International Organizations of the Ministry of Foreign Affairs of the Russian Federation, considered UNECE as a major partner for the Russian Federation. He made a particular reference to a recent visit of its Executive Secretary to the Russian Federation.

6. Mr. G. Vinogradov, of the UNECE secretariat, made an introductory statement on the UNECE land administration activities. He reported on the preparation of the UNECE study on land mass valuation systems for taxation purposes in Europe. He stressed the need for valuation, which had evolved since governments in countries in transition had started to levy property tax. This had required a large number of properties to be valued at the same time.

7. Mr. B. Kjellson, Chairman of the Working Party on Land Administration, reported on its activities. He stressed the fact that this Workshop was well-timed and the topic was very important not only for countries in transition but for all UNECE member States. The subject of valuation of real property was very important for generating revenue from real property, and all UNECE countries could learn from each other's experience.

8. The following participants were elected chairpersons and moderators:

Session I: Mr. P. van der Molen (Netherlands), Chairperson
Mr. G. Muggenhuber (Austria), moderator
Mr. E. Kapustins (Latvia), moderator.

Session II: Ms. B. Lipej (Slovenia), Chairperson
Mr. P. Creuzer (Germany), moderator
Mr. H. O. Farnkvist (Sweden), moderator.

Session III: Mr. A. Muller (Denmark), Chairperson
Mr. T. Beardsall (United Kingdom), moderator
Ms. S. Bondarchouk (Russian Federation), moderator.

9. The following experts presented basic reports:

Session I: Mr. S. Say, Mr. A. Overchuk, Mr. O. Skufinskiy, Mr. V. Bezrukov (Russian Federation); and Mr. R. Wessely (Austria)

Session II: Ms. M. D. Aguado Fernandez (Spain), Mr. A. Muller, Mr. P. van der Molen, Mr. O. Ingvarsson (Iceland), and Mr. J. Valainis (Latvia).

Session III: Ms. C. Potsiou (Greece), Ms. O. Nesterova (Russian Federation), and Mr. S. Shavrov (Belarus).

10. On Friday (morning), 28 June, technical visits took place to the Moscow City Land Committee Office and the Sergiev-Pasad District Land Committee.

SUMMARY OF DISCUSSION AND CONCLUSIONS

Session I: Russian experience in land valuation

11. In the Russian Federation, the most important results of the ongoing reforms are the existence of various forms of landownership. Currently, 129.6 million ha or 7.6% of all land in the Russian Federation is in private ownership, the rest (92.4%) is in State or municipal ownership. At present there are more than 43 million landowners in the country. More than 5.5 million land transactions are registered annually. The State cadastre valuation of all agricultural land and forest land was completed by 2002 and cadastral valuation of urban land is expected to be completed by the end of 2002.

12. In the course of land reform (1991-2002) basic land laws were adopted and an institutional system of national land administration authority was set up. The following main legislative acts have been adopted recently: the Land Code; the Act on Land Management/Land-use Planning; the Act on State and Municipal Lands; the Act on the State Land Cadastre; and the Act on the Registration of Rights in Real Estate and Real Estate Transactions.

13. A mass inventory of land with different forms of ownership, registration of land plots in the State cadastre system and State valuation of land are being carried out. The attribution of land to the various forms of ownership is done in cooperation with local, regional and federal authorities, on the basis of the land cadastre and land-use planning. A nationwide modern land cadastre system is being introduced by the Federal Land Cadastre Service in all of its 89 local cadastre agencies (constituencies) as well as in more than 2300 districts and towns.

14. The current land tax system is based on normative values that were originally calculated in the early 1990s. It does not reflect the country's existing economic environment and the Government has decided to change land taxation and build it on the principles of transparency, fairness and market economics. The process of mass valuation has been prepared very carefully. Cadastral land valuation methodologies of seven land categories and other types of land use are

based on sales comparison, cost and income approaches. Russian experts have developed valuation models as well as corresponding software solutions. International experts have had an opportunity to test these models.

15. Cadastral land valuation carried out by public land agencies has a special role in the system of land tenure regulation. The Federal Land Cadastre Service carries out cadastral valuation of land through contracts with accredited public and private companies. It is envisaged that, as the system develops, the role of the private sector will increase. The State cadastre valuation of land system works in coordination with the State statistical offices, the taxation system and other information systems as well as with local and regional authorities.

16. The TACIS "Advice on Land Policy" project at the regional level was prepared with the following objectives:

- To carry out the Rostov-on-Don pilot project and test its methodology and software;
- To review the results of the cadastral valuation of the agricultural land of Rostov region;
- To carry out urban land valuation in the city of Rostov, with the help of the Russian Cadastre Centre "Zemlya".

The international experts involved in the project stated that the Russian Federation had developed an advanced system of mass valuation of land, based on internationally accepted practices.

17. The Workshop concluded:

(a) In countries in transition, real property valuation has become a major political objective in land administration for several reasons:

- It is needed to establish a fair property taxation system;
- Property valuation is increasingly important for setting up a real property market;
- Property valuation is essential for mortgage lending;
- It is important for developing an insurance market, to establish insurance values and related premiums;
- At municipal level, it is an important tool for the management of local budgets;

(b) The Federal Land Cadastre Service has made good progress in mass valuation of land with its clear vision and pragmatic approach;

(c) At the same time, the Federal Land Cadastre Service should try to avoid an unnecessary complex system of mass valuation;

(d) Too detailed an approach to mass valuation may hinder overall progress in this area; a simple approach, is needed for taxation purposes, although it may not be appropriate for other purposes;

(e) Cadastral valuation in the Russian Federation is an example of a modern mass valuation process, with an extensive use of hardware;

(f) The pilot project in Rostov-on-Don aims to ensure cooperation and data communication among more than 2000 different databases. If successful and expanded to a wider range of users, this project could lead to the creation of a nationwide spatial data infrastructure.

Session II: Institutional aspects of land (real estate) valuation

18. In the Netherlands, legislation provides for an assessment of the value of immovable properties to be carried out by municipalities every four years. Many municipalities contract private valuation companies to do the actual appraisals. A number of private companies, employing hundreds of licensed valuers, do a lot of research in IT-supported (mass-) valuation methods. These companies build databases with all relevant data, and create digital maps of taxable units as a layer over the existing digital cadastral map to facilitate cheap and quick mass valuation. To guarantee equal treatment of all citizens, the National Council for Real Estate Assessment was established. It supervises the correct demarcation and identification of the taxable objects, the market values, the correct relation between properties, the availability of assessment reports, the timing and correct action towards taxpayers. The Council employs 10 valuation officers to carry out field checks. National debate is currently focusing on: (a) cost control; (b) possibilities for shifting property valuation to the Ministry of Finance; (c) a proposal to end the municipal land and building tax in favour of a general remittance by the State to the municipalities; (d) consumer organizations' fear of the impact of booming market values of real estate.

19. In Denmark, since 1903 all properties have been reappraised every four years. All values assessed between two revaluations were estimated according to the price level of the previous revaluation. The owner could at any time request a new valuation for a fee. In 1981 computerized annual updates were introduced. Since 1998 annual revaluation of all real estate has been in effect. Valuation committees consisting of a chairperson and two members were established. The Ministry of Taxation appoints the members. They are instructed and paid by the Central Customs and Tax Administration. There are no professional requirements; it is a part-time job. The members are offered one-week training in valuation and are requested to attend briefings. Each committee is responsible for valuation in a certain area called "a valuation circle". Valuation circles can include one to three municipalities, or part of a municipality. Municipalities assist the valuation committees. The municipal staff prepare the valuation and make recommendations on values, but the formal decision rests with the valuation committees. Twenty-seven supervisory boards supervise the valuation procedures and results. The supervisory boards consist of the chairpersons of the valuation committees.

20. In Sweden, the Real Property Assessment Law defines procedures for property valuation. Legislation has references to general valuation methods. The sales comparison method is the most common, but the income method and the cost of production method could be applied for some types of real estate. Matters concerning property taxation are dealt with in a special section of the Ministry of Finance. Its National Tax Board is mainly responsible for the actual real property taxation. The National Land Survey of Sweden, a government agency under the Ministry of Environment, is responsible by law for updating the valuation models, it also maintains the sales price database, which is part of the land data bank system.

21. In Latvia, municipalities, the State Land Service and the State Revenue Service are responsible for the valuation and taxation of real estate. The State Land Service is responsible for collecting data on taxable property, on real estate sales, on real property owners and on mass

valuation. Taxation is based on cadastral values of land. Municipalities are responsible for calculating and collecting the tax. The State Revenue Service supervises this process. The basic principles of real estate tax valuation are specified in the Law on Real Estate Tax, adopted on 4 June 1997. Mass valuation (cadastral valuation) is based on an analytical assessment of the price level in the real estate market. Valuation of land and buildings is separate. Mass valuation should be done at least every five years. More than 70% of municipalities have computerized tax calculation and accounting programmes. Within the next two years it is planned to establish a common information system for all municipalities. It will be integrated with other State information systems.

22. In Spain, the mass valuation system is part of a comprehensive cadastre information system, which contains a large database with textual and graphic information about all urban and rural properties. The Local Finance Act of 1988 specifies valuation and taxation concepts. The cadastral values are related to the market values according to market analyses. The market analysis is coordinated for the whole country in order to obtain comparable cadastral values.

23. The Workshop concluded:

(a) General guidelines for the establishment of a land valuation system help to design simple and effective administrative procedures;

(b) All real estate owners should pay fair taxes, and to that end, there is a need for land and real property cadastres and registers, and a fair market value of land (real estate) should be established as a basis for taxation;

(c) In the UNECE countries, the major responsibility for mass valuation lies with the land administration, taxation or financial authorities;

(d) Mass valuation is generally carried out by the public sector, but in some countries (where the local governments are responsible for valuation) the private sector is also engaged, and in some cases it had an innovative approach to mass valuation;

(e) In the process of mass valuation and taxation it is desirable to set up close cooperation among land administration, financial and taxation authorities at all levels of administration (federal/State, regional, municipal);

(f) A reasonable profit should be gained from the tax revenue. It is suggested that a maximum of 3-5% of the tax revenue should be used for total administration costs (for data collection, mass valuation, tax billing, revenue collection, enforcement, appeals/dispute resolution);

(g) In some countries, valuers dealing with property tax are qualified taxation and valuation specialists, while in others they have no special training or they have taken only short courses;

(h) Fiscal decentralization is important, especially local government decisions on local tax rates. Although land (real estate) tax is more frequently seen as a local tax, the introduction of mass valuation models on a national level reduces general valuation costs and strengthens national economic integrity. Thus mass valuation should be considered as a joint exercise of local and central authorities.

Session III: Modern valuation models/international valuation standards

24. In the Netherlands, the value of residential property is assessed according to the following methods: comparison with recent sales prices of similar properties; comparison with a homogenous group of properties. Non-residential properties are appraised through: capitalization of gross rent; comparison with similar objects; and discounted cash flow valuation.

25. In Greece, there are three mass valuation systems: the 1985 objective real estate mass valuation system, which is applied to all areas that are legally recognized as urban areas; the 1996 objective building mass valuation system, which is applied to “buildings for special use” within urban areas (hotels, petrol stations, industrial buildings, sports centres, etc); and the objective land mass valuation system, which is applied to all other types of land and buildings.

26. In Belarus, mass valuation (cadastral) techniques were developed in 1998. The main principle is that cadastral value must be determined on the basis of the land market value. Value zoning is the basis for the mass appraisal model. Value zoning is based on the analysis of all major factors influencing land value (function, infrastructure, etc.). Zones value are fixed either by an expert (individual estimation) or by a normative method. The choice depends on the availability of market price information. Expert estimation takes precedence over normative valuation. Only when market price information is not available are zone values determined by a normative method. The results of mass valuation are presented on a value map, in value tables and in valuation reports. The local government authorizes the final mass valuation report.

27. In Iceland, the Land Registry Act (No. 6/2001) states that valuation is to be based on the market value of a property. The market value is updated at the end of each year, and the new updated value becomes the basis for taxation in the following year. The State and the municipalities levy taxes. Municipal property taxes are calculated as a proportion of the market value. State property tax is based on net assets according to tax returns. There is also a fire insurance valuation implemented under the Fire Insurance Act (No. 34/1999).

28. Slovenia is developing a new tax and valuation system to be introduced as part of a new property tax law in 2005. The main objective is to develop a mass valuation methodology based on the market value models. The new models which will be used as part of the future mass valuation system will cater for different types of real estate: apartments, family houses, garages, vacant land, agricultural land, offices, businesses, and industries. For all models the most important value factor is location. In the models the influence of location is indicated by value zones on a value maps. The models will be tested in at least three pilot projects in autumn 2002.

29. The Workshop concluded:

(a) In the valuation of real properties it is important to distinguish between individual valuation and mass valuation. The basic principles are the same, but the methods differ greatly. Individual valuation is done by an expert who estimates the market value of a particular property. The expert does individual valuation for a client, who needs this valuation for investment, mortgage or accounting purposes. The fee can be high, for example about US\$ 200 in Western Europe for a single-family house. Mass valuation is done on many properties for taxation purposes. The cost of the valuation per property must be very low and the accuracy will be much lower than for individual valuations. In a

Western country the total cost of mass valuation per single-family house needs to be as low as US\$ 5;

(b) The main approach in mass valuation is usually the comparable sales approach. Registered sales prices must be recorded and used for statistical analyses of how the market value of one type of properties is affected by location, size of land and size and quality of the building. The results of the statistical analyses are reflected in models, tables and maps used for calculating the taxable value of each property. A register with descriptions of land and buildings for each taxable property is needed. If there is not enough information on market sales of a particular type of property, then the income approach can be used. Rent income or estimated profit from the property can be used. If no income information exists then the cost approach can be used;

(c) The mass valuation process should be computerized. This increases the accuracy of the results and considerably decreases the cost of valuation. Information from many countries shows the advantages of computerizing valuation and making the valuation process more objective. Computerized valuation has successfully been used in United States, Denmark, the Netherlands and Sweden for 20 years or more. The process of mass valuation for tax purposes varies in Western Europe. Some countries have regular revaluations, when the market values for all properties are reassessed (for example Denmark, Netherlands, Iceland, Sweden and United Kingdom). In other countries property taxation is based on values that are very much lower than the true market values. In Germany for example the last revaluation took place in 1964, and in the east of the country in 1938. Regular revaluation cycles of real estate are an important element of mass valuation system. Revaluations should take place regularly (every three to five years);

(d) Estonia introduced a land tax based on market values in 1993. Latvia and Slovenia are in the process of basing their new property taxes on market values. The Russian Federation has almost completed its cadastral valuation for the land tax. Several other countries in transition are planning to base their property taxes on market values in the near future (Lithuania, Poland and Slovakia). Others continue to base their property taxes on the areas' characteristics, e.g. the tax is calculated as a certain amount per square metre of land and buildings, or on other value types than market value (for example, an inventory value). The cadastral valuation in the Russian Federation includes valuation methods for areas where the market is not yet active;

(e) An income approach is often used for agricultural properties, where the profit is estimated for different types of land in different areas. For urban land a number of value factors and expert opinions about values are used;

(f) There are no international standards for mass valuation. The European Union is involved neither in the taxation of properties, nor in the valuation of properties for taxation purposes. Further sharing experience of reforming mass valuation systems in different countries can be very useful for any country preparing or engaged in such reforms;

(g) To obtain better results and a higher efficiency from valuation and taxation, more attention should be given to education on land administration issues of both the authorities and the general public.