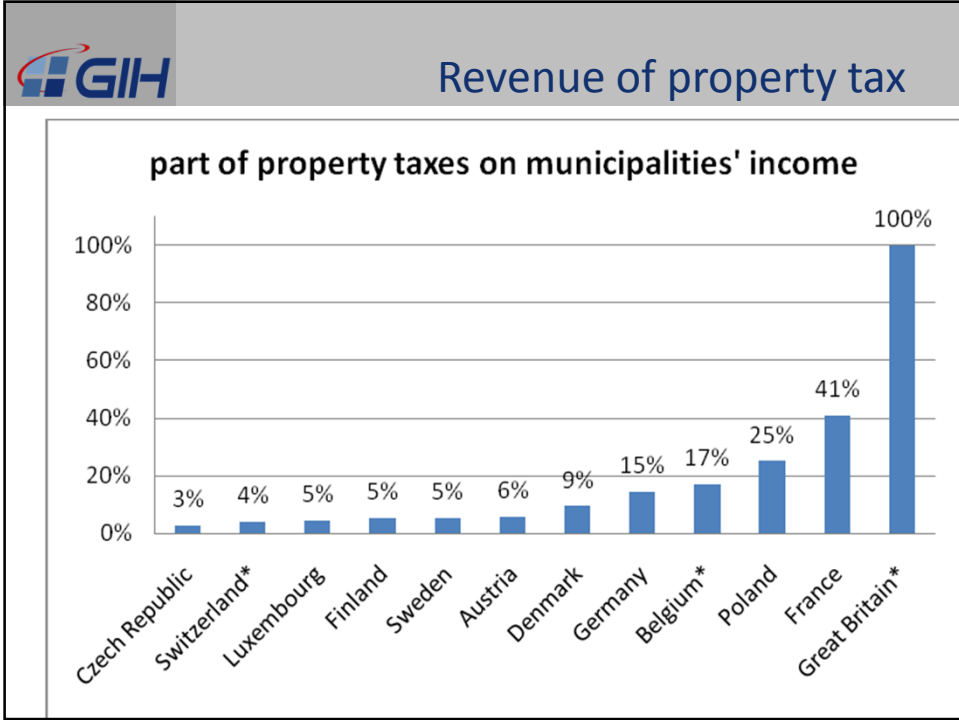







GOING WEST OR GOING EAST – FUNDAMENTAL CHANGES IN THE GERMAN PROPERTY TAX SYSTEM

PRESENTED BY RENE GUDAT AT FIG WORKING WEEK 2011

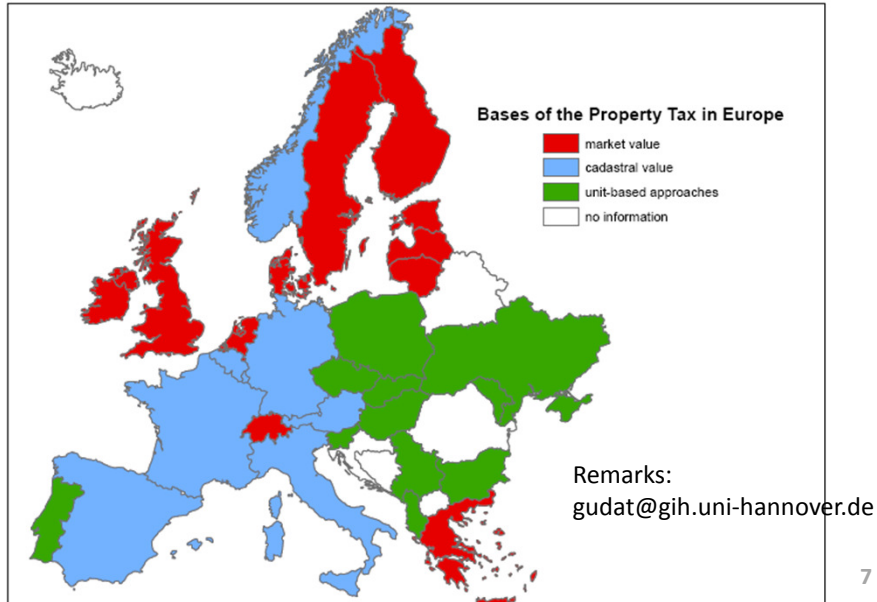


- Bases of assessment for property tax
- Current situation in Germany
- Attempts to reform the current property tax system in Germany
- Conclusion

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

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

- Market value-based
 - Linked directly to market value
 - Estimated by using comparable sales method, income capitalization method or replacement costs method
 - Sometimes mass appraisal approaches
 - Assumed to be the fairest basis of assessment; but expensive, time-consuming and requires experts
- Cadastral value-based
 - Lump sums or assumptions for different parameters
 - Sometimes huge differences between market and cadastral values; historical values
 - Cheap, easier to assess than market values



- 35 million objects: revenue of 10.8 Billion Euros
- $$\text{property tax} = \text{standard assessment value} \times \text{assessment factor} \times \text{rates of assessment}$$
- Standard assessment values:
 - Formally used for different taxes
 - Law: ought to be declared every six years; but last time: **1964** (West Germany)/ **1935** (East Germany)
 - Assessment factors:
 - One for the whole country
 - Different assessment factors for different kinds of property
 - Rates of assessment
 - Different factors of each municipality
 - One factor for the whole municipality
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- Standard assessment factors formally used for different kind of taxes
- Federal Constitutional Court criticized use of historic values (in 1995)
- Working group discusses three models:
 - Model A: area of land and usable floor space ought to be multiplied with different assessment factors; no connection to the market
 - Model B: uses standardized ground values and standardized replacement costs; but no really connected to the market
 - Model C: bases on standardized ground values and different assessment factors

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

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

basis of assessment = (land area × equivalence factor_{land} + usable floor area × equivalence factor_{building})

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

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