

EURASIAN JOURNAL OF ECONOMICS AND FINANCE

<http://www.eurasianpublications.com>

DEVELOPMENT OF AD VALOREM REAL PROPERTY TAXATION SYSTEM IN MOLDOVA

Olga Buzu

Real Property Valuation Service, State Agency for Land Relations and Cadastre,
Republic of Moldova. Email: olbuzu@yahoo.com

Abstract

The author analyzes key aspects of the new ad valorem property taxation (AVT) system which is currently implemented in the Republic of Moldova and outlines ways of its further potential development. The author uses both systemic and synergistic approaches to develop a methodology for the assessment of the AVT system efficiency based on the multipurpose cadastre data. The study identifies key characteristics of the AVT system, as well as main problems associated with the implementation of the new property taxation system and with the compatibility of the fiscal and the real property cadastre data, and makes suggestions for further development of the AVT system in the country. The study allows to identify and maximize the benefits of the AVT system.

Keywords: Real Property Valuation, Ad Valorem Property Taxation, Assessed Value, Cadastre Value, Multi-Purpose Cadastre

JEL Classification: H21, H71, O23

1. Introduction

Real property tax is an important source of revenue for local budgets. For countries with developing economies, it is important to establish an effective system of real property taxation in order to create a basis for decentralization of public governance. The tax captures for local governments some of the increases in property values that are partially created by public expenditures. As McCluskey (1999, p.5) points out, real property is "visible, immobile, and a clear indicator of one form of wealth." The real property tax is especially attractive when compared with other potential sources of local tax revenue (Bird and Bahl, 2008). If well administered, it can represent a non-distortionary and highly efficient fiscal tool.

When countries in Central and Eastern Europe declared their independence and began to build (reconstruct) a market economy, they also started to reform their system of taxation, including taxation of the real property (e.g. Slovenia, Russian Federation, Belarus, and Lithuania).

There is a variety of approaches to taxation of real property in the world. In a number of countries, the tax is calculated on the basis of the area of tracts of land and buildings, while in others, the real property tax is calculated based on the market value of land and buildings. (Malme and Youngman, 2001).

Area-based systems have the advantage of administrative simplicity. Calculating property tax based on the area requires only area measurements thus obviating the need for costly collection and analysis of market data and revaluations. In addition, the measurement of area is more objective than estimations of market value of the property because assessors

make judgments on comparable properties on which to base their estimate of market value (Bahl, 1998). Area-based valuation is, therefore, less contestable than market-based valuation (Zorn *et al.* 2000).

Ad valorem property taxation (AVT) provides estimates of the tax amount based on the value of property. There is a variety of approaches to assessing the value of real property for taxation, such as normative assessment used in Ukraine, or the value at the last sale of the property used in California, USA. The assessment of the market value of real property for taxation purposes can be done in a variety of ways. On the one hand, when the assessment is carried out by independent assessors upon the request of tax authorities or property owners, it allows for the most accurate appraisal of the value of property. However, in this case, a number of subjective factors can affect the assessed value. Assessment of property value based on a simplified formula with standardized methods of market analysis and property valuation provides a less accurate, but adequate for the purposes of taxation, valuation, the so-called assessed value.

The development of ad valorem property taxation system is one of the main trends of tax reform in many countries. The transition to the new system of real property taxation is especially relevant in the emerging economies, where concepts of private property and market value are relatively new. Nowadays, the Republic of Moldova is implementing a comprehensive tax reform, which includes a new approach to real property taxation with estimated market value used as a basis for tax assessment. The multipurpose real property cadastre system, which is currently implemented in the country, plays an important role by providing adequate tax platform. Analysis of the real property cadaster and the fiscal cadastre, along with such issues as interoperability and ways to improve efficiency of the new property taxation system, are the purpose of this study.

The author used property taxation legislation of the Republic of Moldova and other countries and economics publications on the subject as a basis for the study, along with the data from the State Agency for Land Relations and Cadastre and State Tax Service of the Republic of Moldova.

2. Key Characteristics of the New Real Property Taxation System in the Republic of Moldova

Republic of Moldova is one of the newly independent states which emerged after the break-up of the Soviet Union. Since 2000, the country has been implementing a tax reform which includes transition to the new system of real property taxation.

Essential elements of the new tax policy are following:

- The basis of the tax is capital improved value (reflecting in one assessment the combined value of land and improvements);
- The assessed value is determined based on standard market methods of valuation;
- The object of taxation is real property, such as land parcels and/or improvements thereon, including buildings, structures, apartments, and other detached property. This also includes improvements in construction projects which are 50 percent complete;
- Taxpayers are natural and legal persons (both residents and non-residents of the Republic of Moldova) who are owners or holders of any rights in real property;
- Legislation establishes a minimum and a maximum tax rate. Local bodies of public administration establish a specific tax rate depending on economic circumstances prevalent within their jurisdiction and local budgetary requirements.

Currently, Republic of Moldova is in transition from the old system of real property taxation, based on inventory value, to the new ad valorem system. The new system has been implemented in Moldova since 2007. In the period of 2007-2009, the ad valorem system has been used only with respect to residential property in cities. In 2010, the new real property tax was levied on owners of commercial and industrial property, seasonal property, and garages. By 2014, the assessment included main categories of real property with the highest market values.