

PECULIARITIES OF ASSESSING REAL ESTATE BY MARKET VALUE FOR THE TAXATION PURPOSE

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Abstract: This article is devoted to the analysis of the economic consequences of expanding the revenue base of the state budget and the fact that property taxation plays a crucial role in enhancing the property competitiveness and creating a taxable base.

Keywords: local taxes, market value of property, real estate, cadastral value, personal card, tax elements.

Introduction. Decree of the President of the Republic of Uzbekistan PD-4947 “On the Strategy for further development of the Republic of Uzbekistan” as of February 7, 2017 is considered to be one of the basic documents covering the expansion of the revenue base of local budgets (Decree, 2017).

The third direction of the ACTION STRATEGY on five priority directions of development of the Republic of Uzbekistan for 2017-2021 is entitled “Priorities of development and liberalization of the economy”. It outlines the solution of the following topical issues:

- ensuring balance at all levels of the state budget while maintaining the social orientation of expenditures, improving inter-budgetary relations aimed at strengthening the revenue part of local budgets;

- ensuring comprehensive and efficient use of natural, mineral, industrial, agricultural, tourism and labor potential of each region to accelerate socio-economic development, enhance living standards and increase the incomes of the population.

The implementation of these tasks will result in the sustainable development of industries and regions, as well as in the increase of the source of income of local budgets.

On June 29, 2018, the President of the Republic of Uzbekistan Sh.M.Mirziyoyev signed the Decree № PB-5468 “On the Concept of improving the tax policy of the Republic of Uzbekistan”, which specified a number of crucial issues challenged by the tax sector (Decree, 2018).

The following statement is determined as the seventh problem in this Decree:

“...Due to the inefficiency of the mechanisms of administration of local taxes and charges, their collection level is inadequate, as well as it is not possible to fully take into account the real estate and land plots and objectively determine their value”.

The results of the public discussion in order to solve these existing systemic problems have been outlined in the Decree of the President of the Republic of Uzbekistan PD-5468 “On the Concept of improving tax policy of the Republic of Uzbekistan” in direction III of the “Action Strategy on five priority directions of development of the Republic of Uzbekistan for 2017-2021” in reliance upon the recommendations of the International Monetary Fund, the World Bank and international experts’ opinions. They are as follows:

1. The following aspects have been determined as one of the prior directions of the concept of improving the tax policy of the Republic of Uzbekistan:

- optimization of number of taxes through their unification, as well as consolidation of taxes with a similar tax base, reduction and simplification of tax reporting, minimization of operating costs.

The management and rational use of real estate determines the economic significance of real estate.

The economic significance of real estate in the formation of the base of local budget revenues is high and is one of the income sources.

Indeed, inefficiency of local tax and charges administration mechanisms necessitates a systematic approach to this issue through the implementation of appropriate measures in this area, including development and widespread application of relevant scientific proposals and practical recommendations.

LITERATURE REVIEW

Currently, the priorities of tax policy are aimed at raising budget revenues, expanding the base of local budget revenues by improving tax administration, as well as unifying taxes.

Although property and land taxes do not constitute a major part of the state budget, they definitely play an important role in shaping the state budget. The system of taxation of land and property has been existing for ages, and scholars of economics have expressed different views on its taxation. The following table summarizes the views of economists in this regard:

Table 1.

Theoretical approaches to substantiate the concepts of taxation with the account of the real estate peculiarities *

Property object	Purpose for use	Approach to taxation
Land plot	Production	- Depending on the product generated (G. George) - Taxation is based on the estimated or actual rental value (A.Smith)
	Land plots of cities	- Confiscation of buildings without growth value (DJ.St.Mill) - Deduction of land under buildings from the taxable base (A.R.J. Tyurgo)
Buildings and other objects of capital construction	Rent	- Taxation of rental income (physiocrats) - Taxation of construction costs and land lease (A.Smith)
The following real estate is not considered an object of taxation		
Residential buildings	Place for residence	- Determining a non-taxable minimum based on the taxpayer's income (A.J. Tyurgo)
	Luxury	- Inclusion of objects which are beyond the basic needs into the taxable base. (N.I.Turgenev) (I.I.Yanjul); - Introduction of a progressive tax system, taking into account the real estate belonging to the taxpayer (I.I. Yanjul)

* Developed by the researcher on the basis of the literary sources.

François Quesnay (1694–1774), the founder of the doctrine of physiocrats, pointed out the following as one of the main directions of public spending:

- land tax imposed from the land owners;
- admitted as one of the ways to cover public expenditures through taxation of income from renting of housing or real estate.

We also agree with this opinion, and this practice is reflected in the parameters of the annual state budget of the Republic of Uzbekistan.

François Quesnay (1757) pointed out that such a method of earning income would be a cost to the taxpayer and a non-labor-intensive benefit (Quesnay, 2008).

Herbert Simon (1943), an American political economist, and Dick Netzer (1966), an economist, expressed an opinion, that the amount of land and real estate tax leased on real estate taken for rent would reduce demand for real estate and rental payments.

According to the proposal of Drojjina I.A. a Russian scientist, there should be introduced a real estate tax which should combine a property tax paid by legal entities, a property tax levied on individuals and a land tax (Drojjina, 2005).

Mihina E.V. in her research papers analyzed the impact of the introduction of real estate tax on the base of local budget revenues and made appropriate recommendations (Mihina, 2005).

We believe that in the views of the above-mentioned scientists, the socially low-income layers of the population are not adequately taken into account.

Loginova T.A. in her scientific papers noted, that the introduction of real estate and its implementation in practice should take into account the social layers of the population (Loginova, 2018).

Moreover, Niyazmetov I.M., an Uzbek scholar, suggested a gradual transition to a real estate tax, which would apply equally to legal entities and individuals, leaving only real estate as part of the property tax (Niyazmetov, 2008).

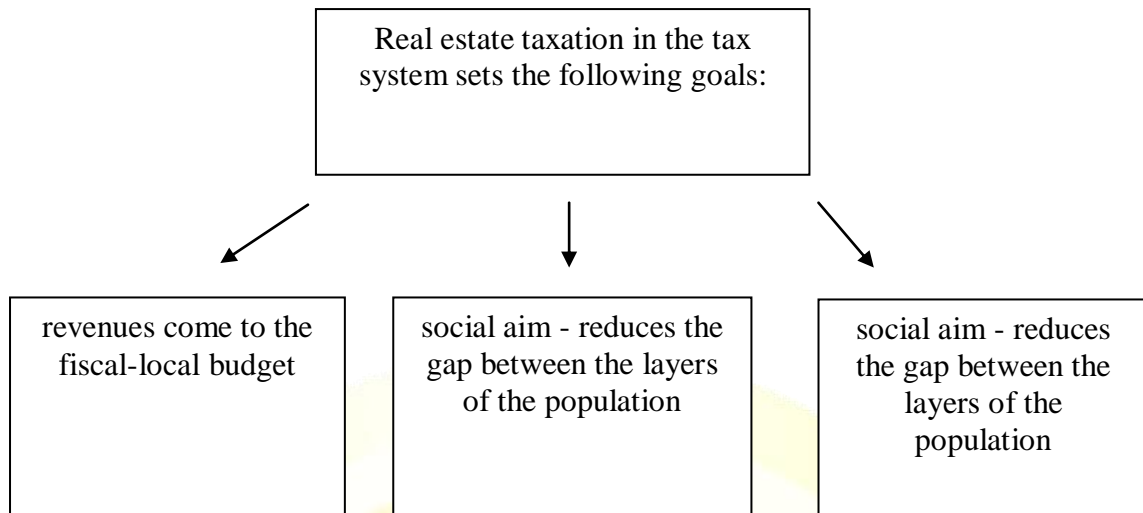
We also agree with the above statement on the gradual introduction of the real estate tax and in our opinion, the following measures would be appropriate:

- taking into account the average annual residual value while determining the property tax for legal entities;
- we would like to emphasize the need to develop a particular cadastral or (market) pricing systems for individuals.

In our opinion, the introduction of the real estate tax is based on the level of socio-economic development of the state and regions, efficient use of land and property resources, further strengthening of property rights of the population.

In reliance the statements specified above, it is necessary to formulate a system of resource and property taxation on the basis of the market economy requirements.

Analysis and results. The accurate definition of the tax policy of the state ensures the rational use of real estate.



Purpose for taxation of the real estate[†]

Currently real estate taxation applies to over 100 countries around the world. Some countries do not have a property tax. In Estonia, for example, real estate is not taxed. The same situation is witnessed in Slovakia and Sweden.

Each state has its own system of property tax.

In world practice, the real estate tax is levied on land and buildings constructed on it, residential or business facilities. In some countries, real estate tax has been introduced instead of property and land tax, having united these two taxes (USA, Italy, Spain, Japan).

The proposal to introduce this tax in the Russian Federation was put forward in 2002. This tax commenced to be applied to some regions of the Russian Federation (Domnina and etc., 2014).

In some countries, property and land taxes are applied separately (Turkey, France, Uzbekistan).

Table 2.

Elements of real estate tax in the world practice

№	Tax elements	Note
1	Taxpayers	Real estate owners and tenants
2	The object of taxation	Land and property (above ground building, structure, etc.)
3	Tax base	Market value or estimated value that is approximated by the appraisal authorities
4	Methods of determining the value of real estate	Income method, cost method, comparison method
5	Real estate appraisal agencies	Tax authorities, appraisal bodies
6	Tax rate	Fixed and in percentages
7	Incentive	Provided to the particular social layers of the population
8	Type of tax	Local

[†] Developed by the researcher on the basis of the literary sources.

It is obvious from the data in this table that the main tax base is the determination of the value of real estate at market prices for tax purposes (Batashev, 2019).

The designation of real estate close to the cadastral or market value enhances the competitiveness of the property and serves to protect the rights of the property owner.

The variety of methods of determining the value of real estate serves the mutual interests of both parties.

Table 3

The object of property tax in the countries throughout the world[‡]

№	Countries	Object for taxation	Tax rate	Incentives
1	Republic of Belarus	From the cadastral value. Apartments, courtyards, cottages, garden houses	0,1- for individuals and individual entrepreneurs 0,2- or individuals and individual entrepreneurs who have 2 apartments and more	For individuals: - one room of a multi-room house belonging to an individual; - pensioners; - disabled people of groups I and II; For legal entities: - the coefficient is not set in the first year of the facility operation/ year 2 - 0,2 coefficient year 3 – 0,4 coefficient year 4 – 0,6 coefficient year 5 – 0,8 coefficient - the tax rate itself applies during the remaining years.
2	Russian Federation	From the cadastral value. Real estate, apartments, houses, any objects intended for living purposes	0,1% - for the objects with the area not exceeding 50 sq.m., intended for living or gardening purposes, as well as for non-completed buildings intended for residence; 2% - applies to the property assessed in the amount up to 300 000 rubles	Provided with the account of the incentive amount and square meters. - 50 sq.m. – for houses; - 20 sq.m. - for apartments; - for one room with the value of 10 sq.m.; 0,5% - from all other taxable objects; In this regard: - veterans of the wars; - pensioners; - disabled people of groups I,II are completely exempted from taxation.
3	Canada	From the market value of the land and property combined	1-2% from the value of the real estate	The following individuals are exempted from taxation: - pensioners; - low-income people; - families supporting their parents-pensioners; - users of paid medical services; - citizens buying medicine at their own expense

[‡] Developed by the researcher on the basis of the analysis.

4	France	From the market value of the property. Tax for living in the real estate, real estate tax	0,5-1,5% from the property value	The following categories are not considered to be objects for taxation: - buildings and constructions belonging to state or local authorities; - buildings (embassies) belonging to another state; - buildings of government agencies (universities, hospitals, etc.); - buildings of religious organizations; - buildings used for agricultural activities
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The table shows that each country has its own characteristics in the taxation of real estate. In recent years, in order to reform the tax system, experts from the World Bank and the International Monetary Fund have been involved and their relevant proposals have been studied and implemented in practice.

Until January 1, 2018, the system of determining the inventory price of buildings and structures used to be effective

Table 4

Conditionally set values for real estate tax calculation[§]
(million UZS)

№	Years	For regional centres and Tashkent city	In other towns and rural areas	Note
1	2016	20,328	8,833	conventional value is the inventory value is not available
2	2017	20,328	8,833	conventional value is the inventory value is not available
3	2018	210,0	90,0	conventional value is the inventory value is not available
4	2019	210,0	90,0	conventional value is the inventory value is not available
5	2020	210,0	84,0	conventional value is the inventory value is not available

Since January 1, 2018 there has been introduced the system of determining the value of real estate in cadastral appraisal for tax purposes. As a result, the share of property tax in the budget revenues has increased significantly. In 2020, the base for the conditional value of the property is determined in the amount of *forty-two million UZS*. The conditional

[§] Developed by the author on the basis of data from the annual budget parameters

value of the property has been set at five times the conditional value in Tashkent and Nukus cities, as well as in regional centers, and twice as much in other cities and rural areas. It is obvious, that the tax burden has decreased.

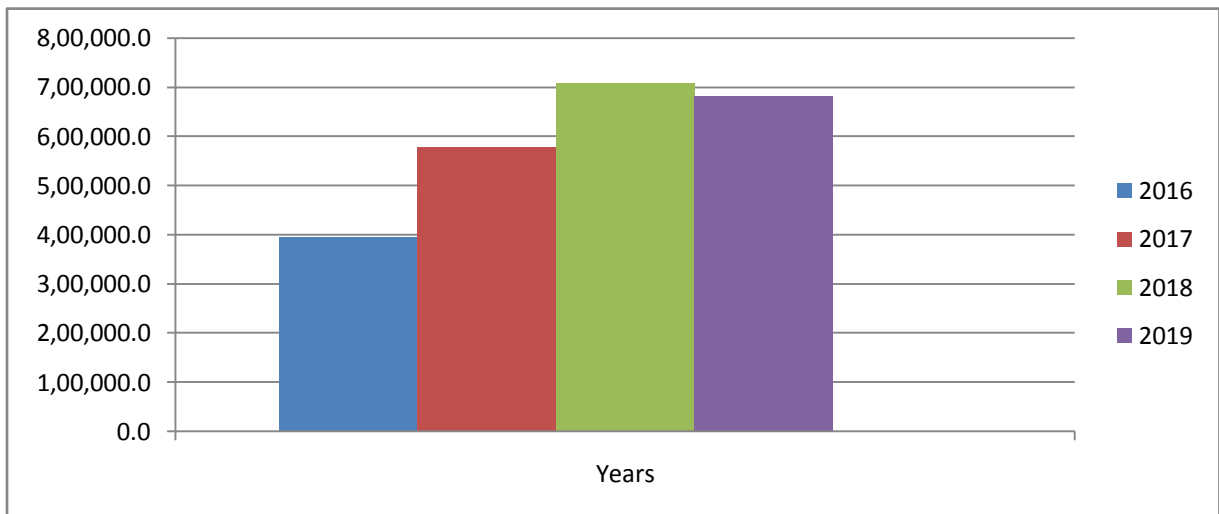


Chart 1. The share of taxes in the budget revenue (million UZS)**

The chart shows that the share of property tax revenues in the budget is rather high. However, it can be seen that in 2018 it has decreased^{††}.

In reliance upon the experience of developed countries, real estate taxes play a significant role in total tax revenues.

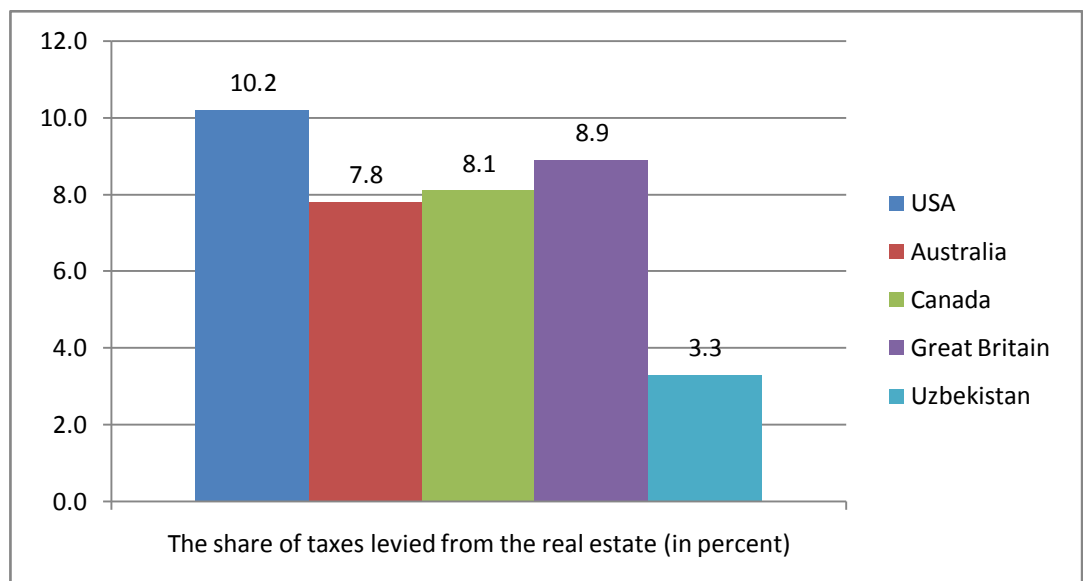


Chart 2. The share of real estate taxes in total tax revenues in developed countries (Ochilov, 2018)

The chart illustrates that the share of property taxes levied in Uzbekistan is low. The main reasons for this fact are the seventh systemic problem outlined in the Decree of the

** This chart has been developed by the author on the basis of the State Tax Committee data

†† Developed by the researcher on the basis of the State Tax Committee of the Republic of Uzbekistan

Republic of Uzbekistan Sh.M. Mirziyoyev PD-5468 “On the Concept of improving tax policy of the Republic of Uzbekistan” as of June 29, 2018 which states that “**Due to the inefficiency of the mechanisms of administration of local taxes and levies, their level of collection is insufficient, as well as the inability to fully account for real estate and land plots and objectively determine their value**”.

Moreover, due to incomplete integration of the database of the cadastral organization with the tax authorities, there is a discrepancy in the data of taxpayers. The following drawbacks are observed in cadastral programs:

- The difference between the owner of the object to which the cadastral number is assigned and the actual owner. When the cadastral number is dialed, the owner of the property turns out to be another person.

- Several cadastral numbers are referred to the name of one property owner.

When a cadastral organization enters an object into the program, that object does not appear on the day the information is entered into the database of the tax authority.

It will take some time for this information to appear in the relevant program of the tax authority. Once the taxpayer’s data is entered into the cadastral organization’s specialized accounting program, the data does not appear directly in the database of the relevant program of the tax authority. The taxpayer must return to the tax authority after a certain period of time to know the amount of tax to be paid.

Improper development of the cadastral organization program complicates the inconvenience of tax collection, the ability to determine the number and base of taxpayers.

Conclusion. On the basis of clause 12 of the Resolution of the President of the Republic of Uzbekistan PR-4086 “On the forecast of the main macroeconomic indicators of the Republic of Uzbekistan for 2019 and parameters of the state budget and budget targets for 2020-2021” as of December 26, 2018, the Ministry of Finance of the Republic of Uzbekistan in cooperation with the State Tax Committee shall study the international experience and submit proposals to the Cabinet of Ministers on the application of increased rates of property tax for individuals for the second and subsequent housing stock, as well as country houses until May 1, 2019 (Resolution, 2018).

In our opinion, such a system of taxation has been introduced and implemented in practice in Belarus among the countries listed in the table above.

We would suggest using some aspects of the Belarusian experience.

Currently, the duplication and complexity of land tax calculation in the accounting of property and land taxes owned by individuals, calculation of taxes according to the established procedure, application of benefits and a number of other tax elements create difficulties and problems for taxpayers.

In particular:

- Two personal cards are referred to for one object;
- Payments are made to two accounts for one object;
- Taxpayers must make payments to two accounts for one object.

In reliance upon the statements specified above, we propose the following measures:

1. Based on the experience of developed countries introduce real estate tax by combining property and land taxes.

As a result, the mechanism of tax calculation will be simplified, the principle of fairness and transparency will be ensured. Tax accounting and payment process will be simplified and, as a result, its costs will be reduced.

2. The processing speed of the software product shall increase.

3. Over 7 million personal cards belonging to individuals will be reduced.

4. Current indebtedness from property or land taxes owned by individuals is reduced due to overpayments.

5. The tax payment mechanism will be simplified.

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