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ROMANIA

TECHNICAL ASSISTANCE REPORT ON IMPROVING REVENUES FROM THE RECURRENT PROPERTY TAX

June 2022

This technical assistance report on Romania was prepared by a staff team of the International Monetary Fund. It is based on the information available at the time it was completed in June 2022.

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Romania
Improving Revenues from the Recurrent Property Tax

Martin Grote and William McCluskey

Technical Report

June 2022

This technical assistance (TA) was provided with financial support from a multi-partner COVID-19 Crisis Capacity Development Initiative

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ABBREVIATIONS AND ACRONYNMS

ANAF	National Agency for Fiscal Administration
ANCPI	National Agency for Cadaster and Land Registration
ANEVAR	National Association of Authorized Romanian Valuers
ATU	Administrative Territorial Unit (local government administration)
AVM	Automated Valuation Model
CAMA	Computer Assisted Mass Appraisal
CGT	Capital Gains Tax
EU	European Union
FAD	Fiscal Affairs Department
FC	Fiscal Code
GIS	Geographic Information System
IMF	International Monetary Fund
INS	National Institute of Statistics
LGA	Local Government Authority
MoPF	Ministry of Public Finance
MoRDPA	Ministry of Regional Development and Public Administration
OECD	Organization for Economic Cooperation and Development
RON	Romanian lei (RON 4. 95 = Euro 1)
RRP	Recovery and Resilience Plan
SPR	Sales Price Register
SSCs	Social Security Contributions
TA	Technical Assistance
UNNPR	Uniunea Nationala a Notarilor Publici din Romania (union of public notaries)
WB	World Bank

PREFACE

At the request of the Romanian Minister of Public Finance (MoPF), a technical assistance (TA) mission remotely engaged from March 28 to April 11, 2022 with the authorities in Bucharest to evaluate design options for a revenue productive recurrent property tax. The mission of the International Monetary Fund's (IMF) Fiscal Affairs Department (FAD) comprised Martin Grote and William McCluskey (both FAD external experts). This TA report contains the mission's findings and recommendations.

At the MoPF , the mission met with the Minister, Mr. Adrian Câciu; Secretary of State, Mr. A. Chitu; Director-General: Macroeconomic Analysis, Mr. D. Matei; the Director-General: Tax Legislation, Mr. I. Ardeleanu; and the Deputy Director-General, Ms. E. Iordache.

The mission discussed property tax reforms with the Director-General, Mr. I. Ilie of the Local Taxes Directorate, Sector 3, in Bucharest. At the National Agency for Cadaster and National Registration (ANCPI), the mission reviewed with the Director, Mr. V. Grigorescu the progress with property registration and the sharing of cadaster information. At the Ministry of Regional Development and Public Administration (MoRDPA) the mission discussed with Mr. D. I. Marinescu (Director-General) and advisors planned legislative amendments to the building and land taxes.

The mission reviewed the process of property valuations with the National Association of Authorized Valuers in Romania (ANEVAR), represented by its President Mr. R. Timbus and Vice-President Mr. A. Vascu. Reform options and cost-effective administration of property taxes were discussed with the Country Manager Mr. D. Bumbăcea and Mr. D. Anghel (Head: Tax Consulting) in PWC; and Mr. V, Boeriu and Ms. A. Smedoiu (Partners in Deloitte). The mission exchanged information on local government finance with the World Bank Office in Bucharest: in particular with Ms. A. Akhalkatsi (Office Country Manager), Messrs. C. Pauna and M. I, Heroiu. To gain insight into the practical side of property tax administration, the mission met with senior staff in the revenue departments of a selection of big cities (Bucharest, Brasov, Cluj-Napoca) as well as with the association of small rural villages. The mission discussed with the National Union of Public Notaries (UNNPR) the key role of notaries in property transfers and their sharing of the property value grids with many stakeholders in Romania. Finally, the mission met with the Romania National Institute of Statistics on construction price indices.

The mission would like to express its gratitude for the excellent collaboration that was extended by the authorities. Furthermore, the mission is grateful to Mrs. Carmen Balasoiu (General Director: General Directorate for Strategy and Monitoring Processes, National Agency for Fiscal Administration, ANAF) and Mr. Elian C. Diculescu (Chief of Reform Unit, ANAF) for their sterling support in the planning of meetings, providing data resources, and the general execution of the mission. Finally, the mission would like to thank the interpreters, Mrs. Daniela Ionescu and Mrs. Silvia Statescu for their excellent translation support.

EXECUTIVE SUMMARY

The current area-based property tax system in Romania is inefficient, producing revenue below its potential, while the taxable value determination is inequitable and complex. Indeed, the property tax only generated 0.6 percent of GDP in 2021 vs. the average of 1.8 percent of GDP in the OECD economies, or 0.9 percent of GDP in EU-27. Meanwhile, significant scope for improving both buoyancy and efficiency of the property tax system exists, not least through the elimination of multiple exemptions, addressing the current inadequate and fragmented self-declaration system of residential buildings that translates into incomplete fiscal cadasters.

The best guiding principle for the property tax reform is to remind taxpayers that a property tax is in the first instance a *benefit tax*—*i.e.,* those consuming local public services should make a reasonable contribution to defraying their cost. Consequently, the authorities could as a first step, without changing the property value appraisal method, stop the erosion of the integrity of the property tax by minimizing exclusions, exemptions, or lower rate differentiations. A broad-based property tax, raised at modest rates, has the potential to make a bigger contribution to local authorities' own source revenues, which currently represent 3 percent of total consolidated government revenues—one of the lowest values in the EU.

Comprehensive property tax reform is complex, requiring both political and technical coordination, informed by realistic timelines. The property tax reform program should be based on five pillars: (1) simplicity in design and implementation; (2) centralized valuation with uniform standards underpinned by a centrally-created and managed legal cadaster and improved coordination and oversight over decentralized tax administrations with their respective fiscal cadasters; (3) the rationalization of central government agencies responsible for property registration, legalization, valuation and, most importantly, adhering to strict data sharing protocols that enable meticulous capturing of property sales price evidence; (4) careful preparation, sequencing and public communication of transition towards a market value-based property tax for residential buildings; and (5) a bolder rationalization of tax expenditures granted to commercial telecommunication structures, pipelines, or linear infrastructure improvements.

In respect of a recurrent property tax, there are two broad approaches to determine a taxable amount (i.e., assessing the tax base). The first approach—*value-based assessment*—utilizes methods and techniques that rely on market transactions to inform the value of property. The tax base is the combined capital value of land and improvements, or market value in short. The second approach—*non-value or area-based assessment*—utilizes methods that calculate the taxable amount with reference primarily to the size of the land and/or buildings. Romania's current residential building tax is area-based. It is generally agreed amongst experts that where it is possible to use the market-value approach in practice, since it provides the better, more buoyant, and more equitable tax base. A value-based assessment tends to better differentiate the tax burden between low-income and high-income households—accounting better for ability-to-pay or vertical equity.

Given these different tax bases, the authorities have expressed interest in a more comprehensive modernization program of the real property tax by reflecting market value within the valuation process. This reform will require a couple of years for preparation and introduction. Residential buildings and all types of land are currently assessed through the application of prescribed values and adjustment coefficients included in several tables contained in the Fiscal Code (FC). Non-residential buildings are assessed on the basis of construction costs. A key recommendation of the Mission is to view land, and the buildings constructed on the land, as a single property unit. The property market already recognizes residential and commercial property as a single tradeable unit. The various property indices that the National Institute for Statistics compile are based on market transactions reflecting land and building as a single property.

Following on from this is to consider the valuation implications in combining land and buildings. Currently, authorized valuers undertake the valuations of non-residential buildings ignoring the land component of the property. From a valuation perspective including the land would make the valuation more market value orientated and, hence, remove the artificiality of separating the value of buildings from that of the land, which is the value appreciating element of a property.

The challenge for residential dwellings and apartments is related to the scale of the problem given there are some 9 million properties. The current property tax is an administrative complexity as land and buildings are considered separately resulting in approximately 18 million assessments. Therefore, combing the land and buildings would ease the overall municipal administration. A further challenge must address how to introduce a market value based system that would not over-burden the local administration. The solution being suggested by the Mission is to move towards a self-declaration of property value by the owner. Under the present system owners are well used in having to self-declare information on their property to the municipal authorities. In support for this approach is the fact that the residential property market is very active generating a significant number of sales annually. There would be ample evidence to allow the owner to estimate the value of their property. In fact, the "Grid" system used by the Notaries Public would be an invaluable resource in identifying market value given it have been developed by authorized valuers for that very purpose. It is also designed to give granular property prices at small locational levels.

The self-declaration methodology being suggested is that of using a range of value bands. As valuation is not an exact science the use of bands gives the owner more confidence in being able to allocate their property to the correct band. This valuation approach is currently used in several countries including England, Scotland, Wales, and the Republic of Ireland. There are several advantages that should be noted: (1) the approach can be implemented quickly; (2) there would be minimal administrative costs; (3) as self-declaration is used there would be no appeals against assessed market values; and (4) given the use of value bands, the need to renew a self-declaration could be on a 5 to 10 years cycle.

International practice would tend to support the levy of property tax on large scale trans-national enterprises such as telecommunications, energy generation and other privatized utilities. They too are users of municipal services and therefore the argument would be that they should make a contribution to cover their costs. Their valuations are challenging, and examples adopted in other countries recognize the role of national government in determining the market value of these properties. Apportionment of the market value to respective municipalities provides a potentially important source of revenue.

Importantly, the granular reporting on property tax expenditures can significantly improve transparency and accountability in identifying budget support given through tax reductions and expose them to the same scrutiny as expenditure programs. The mission therefore recommends that the individual costs of the more pertinent property tax exemptions for technology parks, forestry activities, war veterans, non-government organizations, and state-owned buildings and structures should be carefully analyzed and reported. This could trigger an evaluation by the MoPF of whether the underlying policy purposes could best be achieved through other tax reliefs or direct expenditures.

The Report's main recommendations are recorded in Table 1. In the absence of granular real estate data, the potential revenue impact of only ***select*** recommendations was assessed. Under a conservative scenario, moving assessed property values closer to their market values could yield an additional 0.4 percent of GDP. Similarly, conservatively estimated yield from the rationalization of tax expenditures could afford an additional 0.1 percent of GDP.

Table 1. Summary of Recommendations

Current Property Tax Framework
The definition of building in the Fiscal Code should be simplified to remove the need for a building to have walls and roof
Proposed Property Tax Reforms—Transition to a Market Value Base
Extend the use of market values to both residential and non-residential property
Agricultural land to continue to be taxed on adjusted area basis and prescribed value levels
Single Taxable Property Unit
Combine land and buildings for residential and non-residential in the same ownership into a single property unit
Setting Property Tax Rate
Guarantee an element of fiscal autonomy to Administrative Territorial Units by setting a single property tax rate but which can be selected out of a centrally determined range of property tax rates
If commercial and residential properties benefit from the same level of municipal service, no rate differentiation in favor of residential properties is advised
Do not reintroduce progressive property tax rates for multiple properties owned by individuals
Property Tax Exemptions
Romania should limit exemptions to an absolute minimum
Property rates relief for low income households, the elderly and those in hardship should be granted on application, reviewed annually, and be means-tested
In the case of the elderly and only, if necessary, allow for the mortgaging of arrears of property rates which will get settled when the property is finally sold or bequeathed

Seek to provide separate revenue forgone (tax expenditure) estimates for some of the property tax incentives such as for tourism-linked real estate, linear infrastructure, incubators, and technology parks in order to debate their costs and benefits as they are coming up for an evaluation
The National Cadaster, Land Registration and Broadening the Property Tax Base
Record the number of properties by property type such as residential, non-residential. It would be advisable to collect more granular data on property type, e.g., dwelling house, retail, office, factory, hotel, etc.
Reconsider the re-introduction of the property tax on large private sector infrastructure entities, such as telecommunications and energy infrastructure
Data Capture for Property Tax Purposes
Make it mandatory that all official databases holding real property information should record the unique cadastral number so that information can be shared among different platforms
Develop protocols for the sharing of data between government entities such as the municipal fiscal cadaster and the national cadaster
Establish a Sales Price Register within the National Institute of Statistics
The National Institute of Statistics to consider the development of a residential property based Automated Valuation Model
Property Tax Valuation for Non-Residential Buildings and its Administration
In respect of non-residential property, the land and the buildings constructed on the land should be valued to market value comprising a single property unit
Non-residential property valuations should be undertaken at the same date of valuation
The larger municipalities should consider the benefits of an in-house valuation department
Self-declared Value Banding
Conduct analytical studies to calibrate more closely to the market the value tables and adjustment coefficients contained in the Fiscal Code
Evaluate the potential of introducing a value banding methodology for the residential property tax
Consider the option of Romanian residential property owners self-declaring the band they believe corresponds to the market value of their property

In Chapter I, the Technical Report analyzes the revenue importance of property taxes in Romania over time and compares these in the European context. Chapter II discusses the design shortcomings of the present building and land tax regimes, also highlighting the revenue forgone costs from the extensive range of property tax exemptions. Chapter III outlines the property tax reform agenda with special reference to available tax base options, tax rate choices, and measures that could broaden the tax base. Chapter IV provides an analysis of whether available property market transaction evidence exists in an accessible format, that would facilitate in the case of residential buildings a transition to a value self-declaration system and, henceforth, basing the recurrent property tax on a measure that is close to market values. The chapter reviews the availability and quality of property transaction data and discusses needed efforts to address the overly fragmented data information platforms in Romania.

I. REVENUE IMPORTANCE OF TAXES ON PROPERTY

A. Background

1. **The mission's objective is to assist Romanian authorities in making fuller use of the revenue potential of a recurrent property tax.** The current area-based property tax system in Romania is inefficient, producing revenue below its potential, while the taxable value determination is inequitable and complex. Indeed, the property tax only generated 0.6 percent of GDP in 2021 vs. the average of 1.8 percent of GDP in the OECD economies. Meanwhile, significant scope for improving the buoyancy of the property tax system exists, not least through the elimination of many exemptions, addressing the current inadequate self-declaration system of residential buildings that translates into incomplete fiscal cadasters. This undermines the coverage ratio of potential taxable properties. This in itself contributes to tax unfairness.

2. **Property tax reform hinges on the establishment of accurate registration of property parcels in both the legal and fiscal cadasters, followed by the determination of properties' appraised value that ideally should approximate market values.** In Romania, there is a significant divergence in property tax treatment between individuals and legal entities; the latter attract a building tax, with significantly different tax rates on valuations that are required to be updated to market value at least every 5 years. Natural persons, however, pay the property tax on the taxable value of a building which is a fixed amount per sq. meter adjusted by coefficients that account for differences in construction materials and available utilities. The area based valuations (for buildings) need to be reformed so that they approximate market values in different locations, with regular revaluation. Despite the efforts of international organizations, including the EU and the WB, Romania does not yet have a comprehensive and fully computerized cadaster system that could support property valuations throughout the country.

3. **The reforms of the building and land tax—including a migration from an area-based to a value-based taxation system—should be prioritized since it has the potential to raise higher revenues in support of Romania's Recovery and Resilience Plan (RRP).**[1] A revised recurrent property tax should seek to ensure consistent treatment between individuals and legal entities and move valuations closer to market values. This could be achieved by a range of reforms including reforming the area based valuations (for both land and buildings) to a self-declaration regime of market values for residential buildings that would ensure regular revaluations and thereby a natural buoyancy due to appreciating property values. Also, in line with previous IMF/FAD advice, treating individuals and legal persons the same for property tax purposes by differentiating tax rates according to use of the property, not ownership, and by

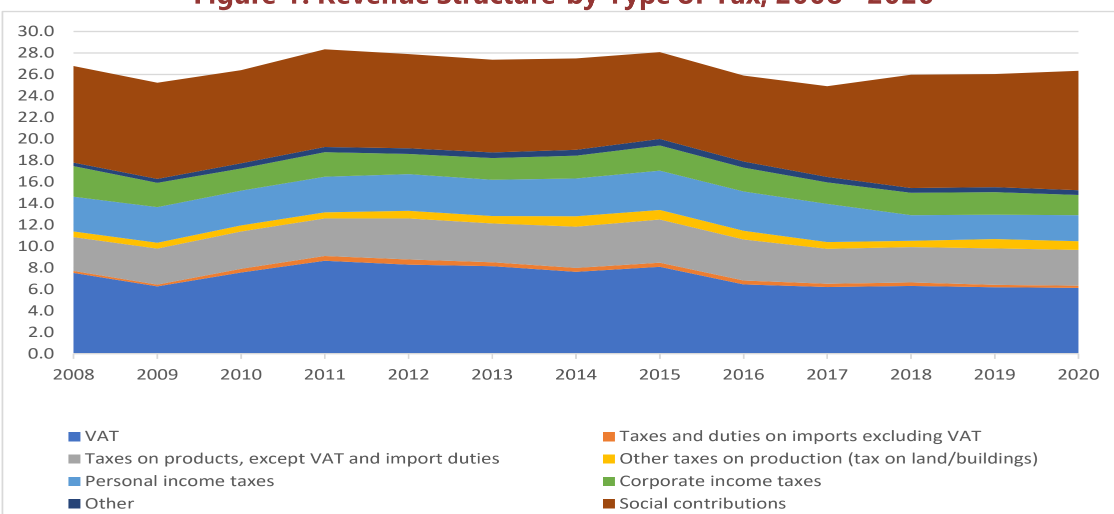
[1] The Recovery and Resilience Plan is an ambitious reform agenda covering four broad areas: revamping the fiscal structure (including modernization revenue administration, broadening the tax base and adopting a minimum inclusion income). The other reform areas are governance, environmental protection, and health and education.

rationalizing tax expenditures could contribute to the RRP which requires an increase in tax revenues of about 0.5 percent of GDP. This may also necessitate a higher tax rate with discretion for local authorities to set the rate within a small range determined by central government. It would probably also require the faster development of a digitalized cadaster which could support under a self-declaratory value determination easy and transparent access by property taxpayers to market transaction evidence of residential properties.[2]

B. Tax Structure and Enhancing Revenues

4. Romania has one of the lowest tax-to-GDP ratios in the European Union (EU) and this ratio has been decreasing—especially since 2015.[3] Regional comparison suggests that there is room for additional revenues as well as improvement in the composition of tax revenues—this is especially true for the recurrent property tax. While tax rates for all major taxes are in line with regional peers, the overall tax-to-GDP ratio lags behind comparative countries. This can result from narrow tax bases eroded through significant amount of tax expenditures (an estimated average of 4.6 percent of GDP for the period 2020 to 2024) or inefficient enforcement and collection. The high reliance on indirect taxes, especially on VAT, and on social security contributions (SSCs) is noteworthy (see Figure 1). Revenues from taxes on land and buildings stagnate during the period 2008 to 2020, despite the fact that property values are rising.

Figure 1. Revenue Structure by Type of Tax, 2008 - 2020



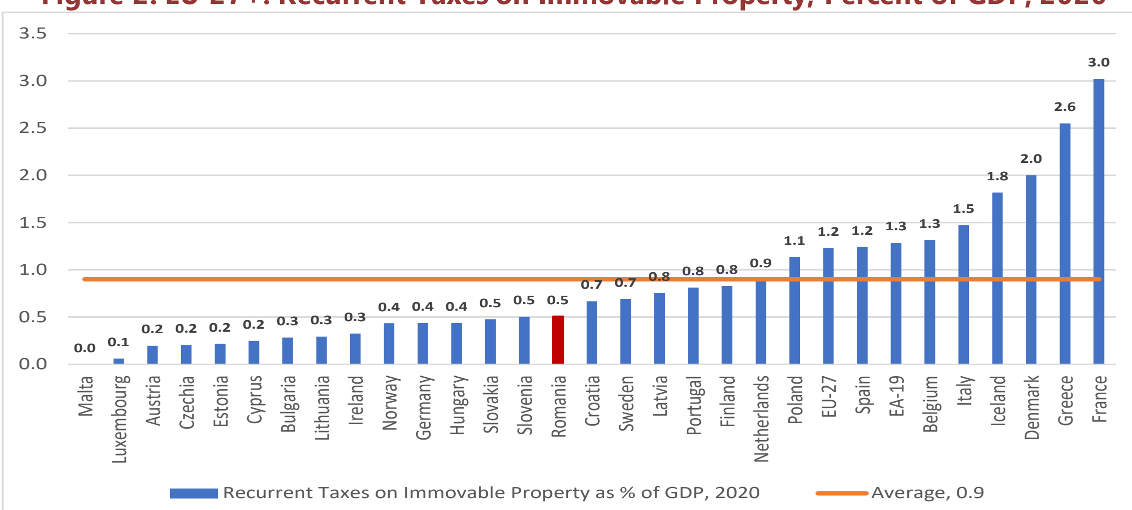
[2] See Norregaard, J., T. Matheson, P. Mullins, and R. Varsano, 2011. *Romania—Tax Policy Options for Simplicity, Fairness, and Growth.* Technical Assistance Advice Report, Fiscal Affairs Department, International Monetary Fund (Washington, DC).

[3] Strengthening revenue administration is key for raising collections towards average EU levels. It entails, according to accounting firms, a modernization of IT infrastructure and a strengthening of compliance risk management to fight tax avoidance. Rationalization of tax expenditures would translate into immediate revenue gains but would also reduce tax avoidance and leakage opportunities exploited by unintended beneficiaries of the tax preferences, Also, the potential gains from a strengthened revenue administration at local level could be sizeable too. See Benedek, D., N. Nersesyan, S. Beer, and B. Jacobs, 2020. *Romania—Tax Policy Options for a More Balanced and Productive Tax System,* Technical Assistance Advice Report, Fiscal Affairs Department, International Monetary Fund (Washington, DC) the 2020 IMF TA Report hereafter.

C. Revenue Importance of Property Taxes

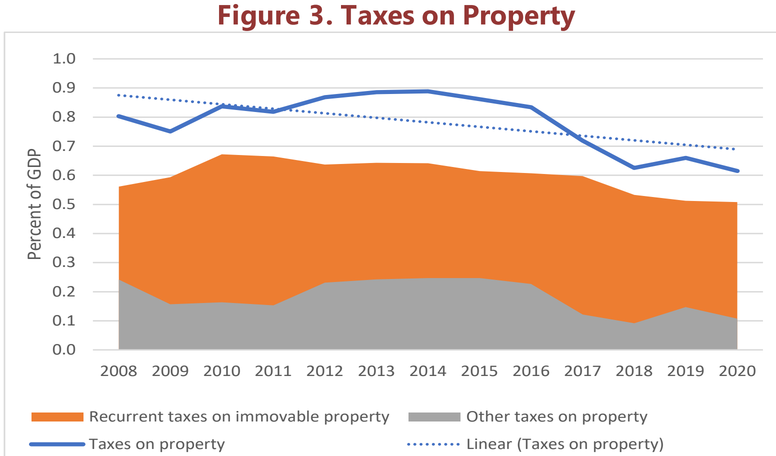
5. As to the recurrent property taxes in particular, Romania's revenue importance of 0.5 percent of GDP in 2020, is still below the EU average of 0.9 percent of GDP. Other property taxes in Romania are transfer duties and the land and building tax. Western European countries such as France, Denmark, Iceland etc., collect significant revenues from the recurrent property tax (Figure 2). But countries in Central Eastern and Southeastern Europe, perhaps with the exception of Poland, collect well below the EU-27 and EA-19 average for the recurrent property tax. They also rely to a greater extent on property transfer taxes. Romania seems to rely more on the recurrent property tax than the transfer duty (see Figure 3). The property tax charge per property in Romania is low: in 2021 for the city of Cluj-Napoca the average *land tax* charge (combining legal and natural persons) was €60, whereas for *building tax* it was €18, collecting in total €57 million in recurrent property taxes. Since 2019, the property tax on means of transport has a larger revenue significance than the land tax (Figure 5).

Figure 2. EU-27+: Recurrent Taxes on Immovable Property, Percent of GDP, 2020



Source: European Commission, DG Taxation and Customs Union, based on Eurostat data
Note: /1 EA-19 are 19 member states of the euro area

Figure 3. Taxes on Property



6. **For the period 2016-2019, 46 municipalities' average tax collections prove the revenue importance of the building tax.** In Bucharest, own source revenues account for about 21 percent of total income and for the group of municipalities on average 16.6 percent (Table 2).

Table 2. Revenues from Local Taxes and Fees in Select Cities, Average 2016-2019

in million Romanian lei	Total income	Tax on building from individuals	Tax on land from individuals	Tax on means of transport owned by individuals	Tax and duties on buildings from legal entities	Tax and duties on land from legal entities	Tax on means of transport owned by individuals/ legal entities	Own income	% own income from total
Sectorul 1	263.40	6.94	2.64	4.03	41.85	3.15	6.65	65.25	**24.80%**
Sectorul 2	197.45	7.02	1.56	4.59	24.21	1.47	4.16	43.00	**21.80%**
Sectorul 3	218.26	7.50	0.88	4.67	20.08	1.64	3.23	38.01	**17.40%**
Sectorul 6	173.47	6.04	0.80	3.59	19.84	1.87	2.68	34.83	**20.10%**
Municipiul Brasov	128.50	4.16	1.12	2.90	18.41	1.68	2.12	30.39	**23.70%**
Municipiul Constanta	142.84	5.51	1.63	3.46	14.72	2.81	2.23	30.35	**21.30%**
Municipiul Timisoara	166.32	5.05	1.11	3.79	15.40	1.35	2.16	28.87	**17.40%**
Municipiul Cluj-Napoca	188.68	5.78	1.54	3.44	12.27	1.16	2.52	26.72	**14.20%**
Sectorul 4	143.81	4.92	0.97	3.09	12.10	1.16	1.94	24.18	**16.80%**
Municipiul Iasi	145.66	3.76	1.13	2.55	12.27	2.65	1.51	23.87	**16.40%**
Municipiul Arad	89.09	4.20	2.52	2.43	10.16	2.16	1.44	22.91	**25.70%**
Municipiul Craiova	121.20	3.97	1.58	3.13	9.57	1.39	1.22	20.86	**17.20%**
Municipiul Oradea	127.29	4.68	1.85	2.48	7.51	1.99	1.85	20.36	**16.00%**
Municipiul Ploiesti	100.53	3.31	0.93	1.94	11.08	1.44	1.24	19.93	**19.80%**
Sectorul 5	120.22	4.73	1.33	3.28	7.77	0.66	1.86	19.64	**16.30%**
Municipiul Sibiu	87.87	3.16	0.94	1.65	11.04	0.89	1.34	19.02	**21.60%**
Municipiul Galati	115.35	3.23	0.99	2.30	9.66	1.57	1.20	18.96	**16.40%**
Municipiul Targu Mures	73.96	2.08	0.71	1.39	5.68	0.60	1.00	11.46	**15.50%**
Municipiul Pitesti	77.14	2.19	0.61	1.61	5.17	0.35	1.42	11.35	**14.70%**
Municipiul Slatina	41.84	1.05	0.31	0.68	6.57	0.92	0.40	9.93	**23.70%**
Municipiul Braila	64.42	2.60	0.82	1.69	3.05	0.67	0.71	9.55	**14.80%**
Municipiul Buzau	60.22	1.36	0.68	1.13	4.64	0.82	0.71	9.35	**15.50%**
Municipiul Baia Mare	61.59	1.66	0.56	1.37	4.24	0.59	0.93	9.35	**15.20%**
Municipiul Ramnicu Valcea	51.80	1.93	0.60	1.17	4.02	0.70	0.70	9.14	**17.60%**
Municipiul Satu Mare	51.73	2.33	0.67	1.28	3.54	0.42	0.77	9.02	**17.40%**
Municipiul Bacau	69.35	2.59	0.45	1.25	2.98	0.56	0.91	8.75	**12.60%**
Municipiul Suceava	52.63	1.55	0.40	1.16	3.65	0.43	0.71	7.91	**15.00%**
Municipiul Bistrita	41.67	1.27	0.54	0.94	3.06	0.44	0.56	6.81	**16.30%**
Municipiul Focsani	39.98	1.53	0.47	0.90	2.65	0.44	0.49	6.48	**16.20%**
Municipiul Drobeta Turnu Severin	46.08	1.56	0.60	1.06	2.16	0.71	0.31	6.40	**13.90%**
Municipiul Targoviste	47.42	1.20	0.54	0.80	2.71	0.42	0.51	6.19	**13.00%**
Municipiul Calarasi	31.39	0.90	0.35	0.54	3.04	0.97	0.38	6.17	**19.70%**
Municipiul Piatra Neamt	38.45	1.51	0.45	0.86	2.26	0.32	0.57	5.98	**15.50%**
Municipiul Targu Jiu	39.99	1.28	0.53	0.82	2.44	0.37	0.44	5.88	**14.70%**
Municipiul Tulcea	36.44	1.21	0.36	0.78	2.47	0.52	0.45	5.79	**15.90%**
Municipiul Deva	34.74	1.15	0.32	0.65	2.37	0.25	0.38	5.12	**14.70%**
Municipiul Alba Iulia	38.30	1.39	0.40	0.74	1.89	0.20	0.49	5.12	**13.40%**
Municipiul Zalau	30.67	1.01	0.28	0.83	2.02	0.37	0.38	4.89	**15.90%**
Municipiul Botosani	41.58	1.22	0.26	0.91	1.88	0.20	0.39	4.85	**11.70%**
Municipiul Sfantu Gheorghe	30.80	0.74	0.22	0.52	2.36	0.21	0.40	4.45	**14.50%**
Municipiul Giurgiu	27.74	0.80	0.34	0.49	1.31	0.56	0.22	3.71	**13.40%**
Municipiul Vaslui	26.94	0.86	0.36	0.51	1.34	0.32	0.26	3.66	**13.60%**
Municipiul Resita	29.09	1.06	0.24	0.71	1.11	0.25	0.25	3.61	**12.40%**
Municipiul Slobozia	20.97	0.61	0.28	0.43	1.39	0.33	0.35	3.40	**16.20%**
Municipiul Miercurea-Ciuc	22.50	0.60	0.32	0.40	1.25	0.28	0.32	3.18	**14.10%**
Municipiul Alexandria	21.25	0.51	0.28	0.37	0.39	0.17	0.24	1.96	**9.20%**

Source: World Bank

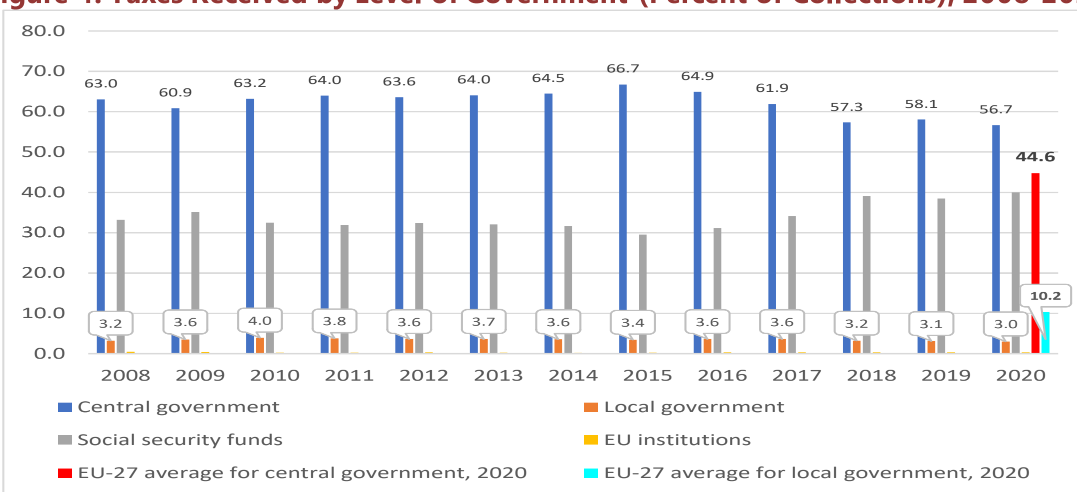
D. Fiscal Decentralization Framework in Romania

7. **Presently there are 3,228 subnational government units in Romania**. Each of these has local autonomy—or there is no subordination. The organization of sub-national government is based on a two-tier structure: 41 counties at an intermediate level plus Bucharest and, at the local level, 2,861 communes, 217 towns and 103 cities and the six sectors within the City of Bucharest. The ATUs vary greatly in size; the smallest has 98 inhabitants and the largest more than 400,000. The local authorities constitute taxing authorities. Questions about the rationalization of the large number of ATUs and issues of cost-effective fiscal decentralization are beyond the mission's remit, except to say, that establishing a buoyant property tax regime will be hugely beneficial for ATUs' greater reliance on own source revenues.

8. **In fact, more property tax revenues will alleviate problems with timely transfers from the center.** In 2018, ATUs' expenditures in Romania accounted for 23 percent of total government expenditures. Romanian subnational authorities remain highly dependent on

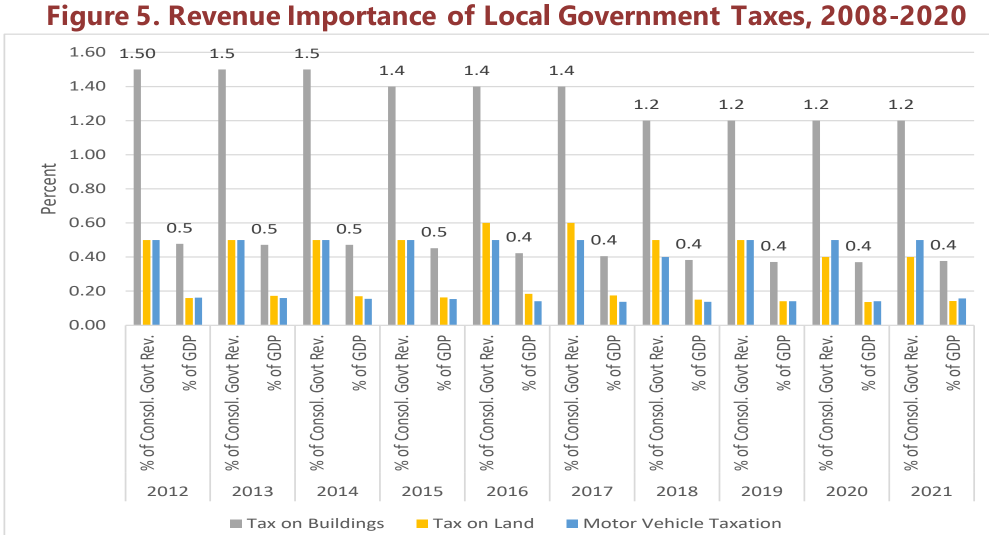
transfers from the center, as own revenues are able to cover only a small percentage of their financial needs. There are four major categories of revenues available to sub-national governments: current fiscal revenues (e.g., taxes on properties, land and mainly transportation vehicles (provided for by art 454 of the FC); current non-fiscal revenues (e.g., transfers/grants from the state budget); capital revenues (e.g., revenues from local assets); and other special resources (e.g., taxes and unused expenses from previous years).[4] Romanian revenue autonomy (own revenues vs. total resources available) at the sub-national level is lower than the EU average (see Figure 4), this entails a dependency on central government transfers that is higher than the EU average—56.7 percent for Romania vs. 44.6 percent for Europe (for 2020). Local own revenues represent 3 percent of total government revenues, one of the lowest values of the EU countries.

Figure 4. Taxes Received by Level of Government (Percent of Collections), 2008-2020



Source: European Commission, DG Taxation and Customs Union, based on Eurostat data.

Figure 5. Revenue Importance of Local Government Taxes, 2008-2020



9. To conclude is brief overview of local government finance in Romania, one notes that analysts suggest that the dependence of local authorities on transfers creates practical

[4] The EU's Assembly of Regional and Local Representatives on Romania's Fiscal Powers.

problems and uncertainties. Local authorities, before finalizing their annual budgets, must wait until national budget's rules and transfers to them are finalized. The method of calculating PIT and VAT based transfers lacks some predictability, clarity, and transparency. Moreover, delays in transferring funds from the central level impedes the smooth functioning of local authorities.[5] Hence, greater collections from buoyant recurrent property taxes would present an effective amelioration of the funding problem and should therefore add some urgency to the reforms.

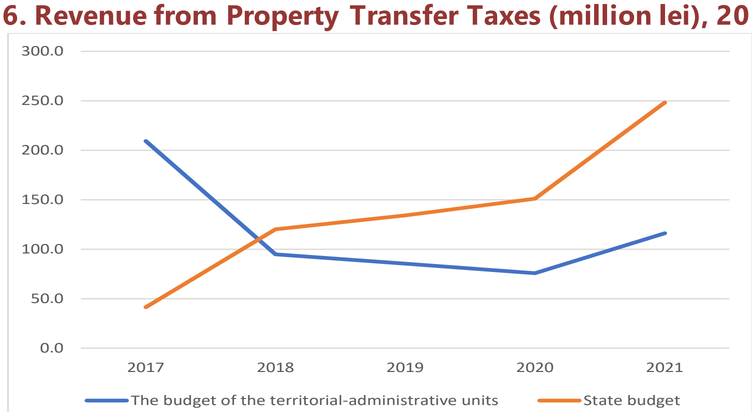
E. Transfer Taxes, Notary and Cadastral Registration Fees

10. There are a number of sporadic, transaction-driven fees in addition to the recurrent property tax. The transfer of immovable property in Romania attracts the following fees:

- A *notary fee* payable to the public notary authenticating the transfer deed; and
- A *registration fee* payable to the National Agency for Cadaster and Land Registration (ANCPI) for the registration of the ownership right of the purchaser over the acquired immovable property.

The notary fee, to which VAT is to be added, is computed on the value of the transfer deed and ranges from 2. 2 percent (but not less than RON 150) on values up to RON 15,000, to 0.44 percent plus RON 5,080 on values exceeding RON 600,001. Notary fees are payable by the buyer subject to the minimal fees established by the National Union of the Notaries. A cadastral registration fee is an amount which is due depending on whether the beneficiary of the registration is an individual or a legal person. For companies, the registration tax is 0.5 percent of the value resulting from the authenticating deed (i.e., usually such value is the purchase price) and 0.15 percent in case the buyer is an individual. Collection of transfer tax show a rising trend (Figure 6).

Figure 6. Revenue from Property Transfer Taxes (million lei), 2017-2021



11. In the case of natural persons, income from the disposal of immovable property is subject to a transfer tax of 3 percent on amounts exceeding RON 450,000 (art 111 of the FC). An exemption applies to immovable property received (1) through the state restitution

[5] Plaček et al., pp. 93-100.

process; (2) by inheritance if the inheritance process is finalized within 2 years from the death of the deceased (if period is exceeded, a 1 percent inheritance tax is payable); and (3) by donation from a spouse or from relatives up to the third generation. Income from transfer of property rights over a mortgage-backed property, for the purpose of covering the debt, is exempt from transfer tax.

12. **There is an established legislated anti-avoidance approach against willful under declaration of property transaction values.** If no verification of truthful value reporting by the parties to the property transaction were to happen, the transfer tax base would erode, reducing transfer tax collections. However, the National Union of Public Notaries (UNNPR) has an equally strong interest in the honest reporting of transaction values as the notary fees are calculated as a percent of the property realization values. For this twofold purpose, the UNNPR maintains regularly at a sizable annual cost to the 15 chapters of the Union a detailed data base of so-called grid values for purposes of transfer tax compliance and enforcement.

13. **The grid values are publicly available on the UNNPR website. Transaction data from the UNNPR are shared twice a year with the territorial tax body, i.e., National Agency for Fiscal Administration—ANAF (see art 113 of FC), and on a monthly basis with the National Statistical Institute of Romania.**[6] The report to the tax authorities includes a description of contracting parties, the values assumed into the transfer documents, the tax on the transfer values of real estate properties, and the notary fees levied on the transfer. Indeed, it is highly relevant instrument supporting the tax administration of transfer taxes, registration fees, capital gains tax, and, of course, it could also be repurposed for an effective annual revaluation of real estate to adopt a market-value based recurrent property tax (i.e., land and building tax). The grid values can also be accessed by any private persons who wishes to inform her/him about recent transaction values of property in a zone of a town or city. It is a public good adding a high degree of transparency to the real estate market in Romania. The maintenance of the grid value system is provided for in the FC.[7] Property value data bases are also available in the banking

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[6] The data are transmitted by the notarial offices on the basis of an electronic questionnaire on a monthly basis. The variable collected by way of the enquiry of prices of residential properties refers to the value declared by the parties in the transactions authenticated by the notaries public.

[7] According to art 111 (4) the transfer tax shall be calculated at the value declared by the parties in the act whereby the property right or its divisions are transferred. In case the declared value is lower than the minimum value established by the market research drawn up by the chamber of notaries public, the notary public shall notify that transaction to the tax bodies. The transfer tax will be calculated on the grid value and not the underdeclared value. If, however, the property transaction price is above the grid value, the property tax is being calculated as 3 percent on the realized transaction value and not the grid value. According to subparagraph (5) the 15 chambers of notaries public shall update at least once a year the market research which must contain information on the minimum values registered on the specific real estate market of the previous year and shall communicate them to the regional general directorates within the tax administration (ANAF). The transfer tax shall be calculated and be collected by the notary public before the authentication of the act or, as applicable, before drawing up the authentication for completing the succession of property rights. See also Matheson, T. , A. Swistak and R. Franzsen, 2013. *Romania—Efficient and Progressive Reform of Property and Natural Resource Taxation*, Technical Assistance Advice Report, Fiscal Affairs Department, International Monetary Fund (Washington, DC), the 2013 IMF TA Report hereafter.

sector, where commercial banks determine three values when evaluating loan applications for purposes of registering a mortgage: market value, book value and the "guarantee value" (determined by the banks' in-house risk departments when finalizing loans). Hence, in the grid value data base and data held by the private sector suggest that significant market data are available, but in the case of Romania it is fragmented. Migration towards a market value-based system for residential properties would require a consolidation and public access to these currently scattered data bases.

F. Previous TA Advice

14. The IMF Fiscal Affairs Department provided Technical Assistance Advice on modernizing the recurrent property taxes in 2011, 2013, and 2020.[8] Key recommendations of the proposed reform program are summarized in Box 1. The current mission develops further some of these key proposals, given that new evidence about Romania's revised periodic revaluation of real estate has been revealed. The annual, systematic reporting of property transaction values by the National Union of Public Notaries is a potential cornerstone for a transition from an area-based to a market value-based property tax. Also, throughout this report the mission will emphasize where this mission's recommendations support or repeat the previous reports' policy recommendations.

Box 1. Select Key Recommendations in the 2011, 2013, and 2020 IMF TA Reports

Recommendations of the 2011 TA Report:

- Reform the area-based valuations to make them closer to market values, for both land and buildings, and ensure regular revaluation.
- Treat individuals and legal persons the same for property tax purposes by applying a uniform tax rate for all taxpayers.
- Apply a uniform tax rate of at least 0.5 percent for land and buildings.
- Provide local authorities with discretion to set the rate within a small range (maximum and minimum rate) set by the central government.
- Mobilize funds to develop a computerized cadaster that includes nation-wide property valuations.

Recommendations of the 2013 TA Report:

Short-term (2014–15)—Building Tax

- Introduce the principle of property taxation on the basis of *use* rather than *ownership*, retaining the owner as primary taxpayer.
- Retain area-based "taxable values" and "book value" as distinct tax bases for residential and nonresidential building tax, respectively.
- Properties owned by individuals but used for nonresidential purposes must migrate from area-based "taxable values" to "book values".
- Properties owned by legal entities but used for residential purposes must migrate from 'book values' to area-based "taxable values"

[8] Benedek, D., N. Nersesyan, S. Beer, and B. Jacobs, 2020. *Romania—Tax Policy Options for a More Balanced and Productive Tax System,* Technical Assistance Advice Report, Fiscal Affairs Department, International Monetary Fund (Washington, DC) the 2020 IMF TA Report hereafter; and Norregaard, J. , T. Matheson, P. Mullins, and R. Varsano, 2011. *Romania—Tax Policy Options for Simplicity, Fairness, and Growth*. TA Report, Fiscal Affairs Department, International Monetary Fund (Washington, DC) the 2011 IMF TA Report hereafter.

- Stipulate in the Fiscal Code that local government authorities (LGA) discretionary exemptions must be quantified in the annual budget and justified in the LGA annual financial report.
- Mobilize funds to ensure comprehensive coverage of the cadaster and Land Registry.

Residential buildings

- Introduce a tax rate range, with a minimum of 0.2 percent and a maximum of 0.5 percent [in 2014].
- Introduce appropriate hardship relief programs (e.g., rebates) on the basis of a means test for cash-poor property owners who must annually reapply for relief.
- To ensure buoyancy in the tax base, the taxable values (lei/m2) should be regularly revised with reference to market value data and/or construction costs.

Nonresidential

- If necessary for revenue, the rate on business-owned/nonresidential properties could also be raised to 0.5-2 percent.
- If necessary to protect small businesses owned by individuals, a cap on the annual increase in tax liability could be introduced.
- Extend the definition of "building" or add a definition of "improvements" to capture infrastructure, including petroleum and mining installations, in the tax base.

<u>*Medium-term (2016–17)*</u>

- For residential, retain the area-based system and further refine the coefficients to approximate market value more accurately.
    - Adjust the tax rate range, with a minimum of 0.5 percent and a maximum of 1.0 percent, coupled with appropriate, targeted hardship relief.
- For nonresidential, take steps to introduce a market value system:
    - Identify all the steps required to establish market value assessments for property tax purposes.
    - Develop a detailed road map and implementation plan.

<u>*Long term (2018–20)*</u>

- Introduce a market value-based tax for nonresidential properties [by 2018 or 2019].
- Research the feasibility of a market value system for residential property.

Recommendations Land Tax

<u>*Short-term (2014–15)*</u>

- Increase the tax revenue from the tax on land by adjusting the coefficients and/or introducing a tax rate multiplier.
- Review and rationalize the current and proposed list of exemptions.

<u>*Medium-term (2016–17)*</u>

- Consider increasing the land tax rate on land in built-up areas that is vacant.

<u>*Long term (2018–20)*</u>

- If a market value tax is implemented in future, the need for two distinct taxes will disappear and the building and land taxes should be merged into a single property tax.

Recommendation Transfer Duty

- In the short term, retain the transfer tax at the current tax rates.

Recommendations of the 2020 TA Report:

- Merge the land and building tax into a single property tax to simplify administration.
- Use value-based assessment where market information allows, both for residential and nonresidential properties, while maintain the area-based assessment for other areas.
- Revisit and regularly update the area values and coefficients for the area-based assessment to closely follow market values.
- Extend the regular revaluation and indexation to all properties.
- Eliminate some exemptions from the land and building tax.
- Apply a uniform band of (0.5-1.3) percent for land and buildings and keep the discretion of local authorities to set the rate within this band.

II. THE CURRENT PROPERTY TAX FRAMEWORK IN ROMANIA

15. Romania has two separate recurrent property taxes, a tax on buildings and a separate tax on land. These taxes are further differentiated by the use of the building and by ownership. These two taxes are levied in terms of Chapter II and Chapter III of Title IX of the FC: Law No 227/2015 and are currently collected by municipalities. Property use is conveniently categorized into residential and non-residential buildings and ownership between individuals (natural persons) and legal entities (companies, and businesses).

16. The definition of building as provided by the FC, while trying to be all-inclusive, in reality, excludes certain structures, which from the perspective of a value-based property tax would nonetheless contribute to the value of the property. The current definition of "building" includes, *"… any construction situated above the ground and/or underground, regardless of its name and use, and which has one or several rooms that can serve as shelter for people, animals, objects, products, materials, plant, equipment and others similar, and the structural basic elements thereof are the walls and the roof, whatever the materials used for building them might be, including the constructions representing the supporting towers of eolian turbines and their foundations."* The interpretation of this definition would imply if a structure does not have walls and a roof it may not be assessed for the buildings tax. Currently, there could be instances where structures associated with both residential and non-residential property, for example, may not be assessed as they would not be covered by the definition. Some examples would be outdoor swimming pools, landscaping features and tennis courts. Ideally, all structures or improvements built on or under the land should be considered from the perspective as to whether they have a value influence on the whole property.

17. The definition goes on to define ancillary buildings as: "*buildings situated outside the dwelling place, as well as: kitchens, stable, basements, storerooms, barns, storehouses, warehouses, garages and others similar*." It is very difficult to include within the definition all possible descriptions for all types of buildings. Therefore, simplifying the definition to include as taxable elements those structures that are permanently constructed on or under the land.

A. Tax on Buildings

Residential buildings

18. Residential properties are in essence not valued but rather the tax liability is based on a prescribed base value provided in the FC.[9] The base value is related to the gross floor area of the building (and whether or not the building has connected utilities). This is then adjusted by applying coefficients to reflect the location of the property, the age of the building

[9] Art 458, FC: Law 227/2015

and in the case of apartments the number of floors and number of apartments in the building. The base assessment is prescribed in the FC. Table 3 shows the current assessment methodology that forms the base.

Table 3. Prescribed Amounts Associated with Residential Buildings

Type of building	With connected utilities such as water, sewerage, electricity, and heating	No connected utilities
	RON/m²	RON/m²
Reinforced concrete or bricks	1,000	600
Wood or stone	300	200
Dependency or ancillary building of reinforced concrete or bricks	200	175
Dependency or ancillary building of wood or stone	125	75
Basement or attic within the building used for residential purposes	75% of the building base value	75% of the building base value
Basement or attic within the building used for non-residential purposes	50% of the building base value	50% of the building base value

19. **The first step in assessing the taxable value for a residential building is to multiply the area (m^2) of the building by the relevant rate/m^2.** The second step is then to apply the location coefficients. A key adjustment is the location coefficient that is applied to reflect two aspects: (1) where in the locality is the property situated (4 location zones); and (2) the rank or status of the locality. Table 4 describes the coefficient matrix.

Table 4. Coefficient Matrix for Location

	Rank of the locality					
	0	I	II	III	IV	V
Zone within locality	Bucharest	Large city	City	Town	Commune	Village
A	2. 6	2. 5	2. 4	2. 3	1. 1	1. 05
B	2. 5	2. 4	2. 3	2. 2	1. 05	1
C	2. 4	2. 3	2. 2	2. 1	1	0.95
D	2. 3	2. 2	2. 1	2	0.95	0.9

20. **Owners of apartments can receive a modest discount.** If the apartment block comprises more than three floors and has more than eight apartments the adjustment coefficients are to be reduced by 0.10. In addition, an age discount can also be applied for older buildings. Buildings older than 100 years receive a 50 percent discount, 50 to 100 years the discount is 30 percent and buildings between 30 to 50 years the discount is 10 percent.

21. **The tables that are used for the assessment of residential buildings remain fixed until a new FC is passed into law.** Thus, to build some revenue buoyancy into the system the values in the tables are revised annually according to the rate of inflation. The FC[10] provides for the annual updating of any tax or any local tax, which consists of a certain amount in RON, or which is established on the basis of a certain amount in RON. The inflation rate adopted is that of

[10] Article 491 paragraph (1).

the previous fiscal year as determined by MOPF and the Ministry of Regional Development and Public Administration. For 2015/16, those amounts were indexed until April 30, 2015, based on the inflation rate for 2014, which was 1.1 percent. For fiscal years respectively 2017 and 2018, the tables were not indexed, because for the years 2015 and 2016 negative inflation rates were recorded, namely minus 0.6 percent and minus 1.5 percent, respectively.

Non-residential buildings

22. In the case of non-residential buildings, the assessment methodology is not based on the prescriptive approach as for residential property but rather on an estimate of the taxable value of the building.[11] In determining the taxable value the FC provides for several options: (1) the taxable value registered in the records of the tax body; (2) the amount resulting from a valuation report drawn up by an authorized valuer according to asset valuation standards in force at the valuation date; (3) the final value of the construction works, in case of new buildings, built during the previous fiscal year; and (4) the value of the buildings resulting from the act of transfer of the property right. In case the value is not specified in the documents certifying the property, the last value registered in the database of the tax administration is used.

23. There are cases where a building comprises both residential and commercial property (i.e., mixed use property). In these cases, the assessment of taxable value follows the separate uses being made of the building. The non-residential part of the property is valued by an authorized valuer and the residential part follows the prescribed assessment contained in Article 457 of the FC. This approach follows international practice.

Revaluations and unequal outcomes

24. The taxable value of non-residential buildings is to be updated every 5 years (previously values were updated every 3 years) based on a valuation report provided by an authorized valuer and compliant with the asset valuation standards in force at the valuation date. The administration of the varying revaluation dates must be closely monitored by the municipality. The reality is if a municipality has, for example, 5,000 non-residential buildings this could imply a different valuation date for each building. The owner can be penalized if the taxable value of the building has not been updated in accordance with the valuation schedule. The penalty for this failure is 5 percent.

B. Tax on Land

25. No tax rates are applied to determine the land tax but rather the tax is simply a fixed amount per hectare, depending on the location and use of the land. The tax assessment is the same irrespective of whether ownership is by individuals or legal entities. The land tax assessment is prescribed in the FC and is determined by taking into account the land

[11] Articles 458 and 460 of the FC: Law 227/2015

area, the location of the land within a locality, the ranking of the localities and the area and/or category of use of the land.[12] The tax on land depends on whether the land is located within an urban area and classified as land for construction or for agricultural land uses. Table 5 illustrates the level of tax payable per hectare, when land is located within an urban area and is either developed or available for construction.

Table 5. Level of Land Tax for Urban Land

Zone within urban area	Level of Land Tax - RON/ha					
	0	I	II	III	IV	V
A	8,282 - 20,706	6,878 - 17,194	6,042 - 15,106	5,236 - 13,090	711 - 1,788	569 - 1,422
B	6,878 - 17,194	5,199 - 12,998	4,215 - 10,538	3,558 - 8,894	569 - 1,422	427 - 1,068
C	5,199 - 12,998	3,558 - 8,894	2,668 - 6,670	1,690 - 4,226	427 - 1,068	284 - 710
D	3,558 - 8,894	1,690 - 4,226	1,410 - 3,526	984 - 2,439	278 - 696	142 - 356

26. The same ranking of localities (i.e., municipalities) and zone differentiation apply as in the case of buildings. Simply a fixed amount (RON/ha) is applied to the area of the land reflecting the location. Table 6 provides information on the prescribed amounts which are adjusted annually by the rate of inflation. According to Knight Frank[13] prime land for office or residential purposes in the center of Bucharest is selling for €2,000/m^2**.** Therefore, one hectare of land would have a €20 million selling price and with a low suggested tax rate of 0.001 percent, the tax liability would be €20,000. Under the current regime the land tax would equate to €4,185 representing approximately 20 percent of the tax that could be levied.

Agricultural land within urban areas

27. Land which is located inside an urban area and where the owner has registered the land in the agricultural register is assessed for land tax according to the category of use. The land tax is determined by: (1) multiplying land area, expressed in hectares, by the appropriate amount provided in Table 6; and (2) applying the coefficients pertaining to the rank of the locality as shown in Table 7.

Table 6. Land Tax on Agricultural Land Located within an Urban Area

	Urban Zones - RON/ha			
Category of Use	**A**	**B**	**C**	**D**
Arable land	28	21	19	15
Grazing land	21	19	15	13
Hay land	21	19	15	13
Vineyard	46	35	28	19
Orchard	53	46	35	28
Forestry land	28	21	19	15
Land with waters	15	13	8	0
Roads and railway land	0	0	0	0
Unproductive land	0	0	0	0

[12] FC, Art 463.
[13] Knight Frank, Research Report.

Table 7. Coefficients to Reflect the Rank of the Locality

Rank of Locality	Coefficient
0	8
I	5
II	4
III	3
IV	1. 1
V	1

28. Land outside of built-up urban areas is also liable to the land tax. In all cases the land must be registered in the "agricultural register." The land tax is assessed in accordance with Table 8 along with the coefficient shown in Table 7.

Table 8. Land Tax on Land Located Outside of Urban Areas

Category of Use	RON/ha
Construction land	22 – 31
Arable land	42 – 50
Grazing land	20 – 28
Hay field	20 – 28
Productive vineyard	48 – 55
Immature vineyard	0
Productive orchard	48 – 56
Immature orchard	0
Forest land	8 – 16
Land with water	1 – 6
Land with fishing rights	26 – 34

29. The tax on land is due by any individual who owns land situated in Romania and is computed as a fixed amount per square meter, based on certain criteria. The owners of degraded or contaminated plots, not included in the area for improvement, may be granted exemptions from land tax. Local councils may decide to increase the local tax up to 500 percent for buildings and land that have not been properly maintained and that are situated in towns.

Recommendation

- The definition of building contained in the FC should be simplified, to remove the need for a building to have walls and roof.

C. Tax Rate Structure

30. Prior to 2015 tax rates were based on ownership. This resulted in buildings owned by individuals being taxed at 0.1 percent, while buildings owned by legal entitles being taxed within a range of 0.25 – 1.5 percent. The move from an ownership to a use basis would create a more of a level playing field and effectively remove any arbitrage incentives. It would also significantly simplify the administration in that only the use of the property, residential or non-residential, is the governing factor in determining the tax liability. After 2015, residential buildings are taxed within the range 0.08 to 0.2 percent whilst non-residential property the range is 0.2 to 1.3 percent. Table 9 provides the range of property tax rates for a select group of 46 large municipalities (2021). It is obvious that only Bucharest sector 5 selected the maximum permissible tax rate of 0.2 percent for residential buildings.

Table 9. Level of Local Building, Land, and Vehicle Taxes in Key Municipalities

The Tax Rate Margins Allowed by the Fiscal Code	Residential Building Tax, Individuals	Non-residential Buildings Tax, Individuals	Residential Building Tax, Legal Persons	Non-residential Building Tax - Legal Entities	Tax per ha on Construction Land (Highest Value)	Tax per ha on Construction Land (Lowest Value)	Tax on a Dacia Duster	Surcharge for Neglected Buildings
Towns: Tax Rate Range	0.08%-0.2%	0.2%-1.3%	0.08%-0.2%	0.2%-1.3%	9112-22782 (Bucuresti) / 7568 - 18918 (Localitati Rang I)	3915 - 9786 (Bucuresti) / 1859 - 4650 (Localitati Rang I)	8.79 RON/2000 cm3	(Maximum Amount)
BUCUREȘTI - SECTOR 1	0.10%	0.20%	0.20%	1.50%	€ 2,277	€ 978	€ 13	500%
BUCUREȘTI - SECTOR 2	0.10%	0.20%	0.20%	1.50%	€ 2,337	€ 1,004	€ 13	500%
BUCUREȘTI - SECTOR 3					€ 0	€ 0		500%
BUCUREȘTI - SECTOR 4	0.10%	0.20%			€ 0	€ 0	€ 13	500%
BUCUREȘTI - SECTOR 5	0.20%	2.00%			€ 0	€ 0		500%
BUCUREȘTI - SECTOR 6	0.10%	0.20%	0.20%	1.50%	€ 2,194	€ 942	€ 13	500%
TIMIȘOARA	0.08%	0.60%	0.08%	1.30%	€ 2,751	€ 676	€ 6	500%
CLUJ-NAPOCA	0.20%	0.40%	0.10%	1.00%	€ 1,891	€ 465	€ 13	500%
PLOIEȘTI	0.09%	0.20%	0.18%	1.30%	€ 0	€ 0		500%
CONSTANȚA	0.11%	1.00%	0.20%	1.30%	€ 2,495	€ 511	€ 20	500%
BRAȘOV	0.10%	0.50%	0.20%	1.30%	€ 2,252	€ 531	€ 15	500%
CRAIOVA	0.08%	0.40%	0.20%	1.30%	€ 1,823	€ 448	€ 13	500%
IAȘI	0.08%	0.20%	0.08%	0.95%	€ 3,782	€ 930	€ 13	500%
SIBIU	0.08%	0.50%	0.20%	1.30%	€ 1,875	€ 438	€ 15	500%
ARAD	0.15%	1.30%	0.40%	1.30%	€ 1,920	€ 460	€ 17	500%
ORADEA	0.12%	0.70%	0.30%	1.15%	€ 2,200	€ 520	€ 14	500%
TÂRGU MUREȘ	0.85%	0.65%	0.20%	1.30%	€ 1,763	€ 411	€ 15	500%
GALAȚI	0.09%	0.60%	0.20%	1.30%	€ 1,941	€ 477	€ 14	500%
PITEȘTI	0.10%	0.30%	0.20%	1.30%	€ 1,894	€ 442	€ 13	300%
BACĂU	0.10%	0.75%	0.10%	0.75%	€ 1,760	€ 440	€ 18	500%
BUZĂU	0.12%	0.60%	0.20%	1.30%	€ 1,722	€ 402	€ 14	500%
SLATINA	0.08%	0.50%	0.20%	1.30%	€ 1,828	€ 426	€ 13	
BAIA MARE	0.12%	1.00%	0.30%	1.00%	€ 1,820	€ 460	€ 18	500%
SATU MARE	0.12%	0.70%	0.20%	1.30%	€ 1,662	€ 388	€ 15	500%
BRĂILA	0.11%	0.20%	0.50%	1.30%	€ 2,327	€ 572	€ 14	500%
RÂMNICU VÂLCEA	0.12%	0.50%	0.20%	1.25%	€ 1,640	€ 383	€ 14	500%
SUCEAVA	0.09%	0.50%	0.30%	1.80%	€ 1,813	€ 423	€ 14	500%
BISTRIȚA	0.08%	0.20%	0.08%	1.25%	€ 1,662	€ 388	€ 13	500%
TÂRGOVIȘTE	0,09%	0.50%	0.20%	1.20%	€ 1,723	€ 415	€ 14	500%
ALBA IULIA	0.10%	0.55%	0.27%	1.10%	€ 1,330	€ 310	€ 13	500%
DEVA	0.10%	0.20%	0.20%	1.30%	€ 1,601	€ 374	€ 14	500%
TULCEA	0.10%	1.00%	0.20%	1.10%	€ 1,640	€ 383	€ 13	500%
ZALĂU	0.10%	0.30%	0.10%	1.00%	€ 1,659	€ 387	€ 14	300%
PIATRA-NEAMȚ	0.10%	0.80%	0.20%	1.30%	€ 1,921	€ 449	€ 14	100%
FOCȘANI	0.10%	0.50%	0.20%	1.30%	€ 1,674	€ 418	€ 13	500%
CĂLĂRAȘI	0.10%	0.83%	0.21%	1.56%	€ 1,670	€ 398	€ 14	500%
GIURGIU	0.10%	0.40%	0.10%	1.30%	€ 1,511	€ 353	€ 13	500%
BOTOȘANI	0.09%	0.45%	0.11%	1.30%	€ 1,346	€ 314	€ 13	200%
SLOBOZIA	0.80%	0.20%	0.08%	1.30%	€ 1,346	€ 314	€ 13	500%
TÂRGU JIU	0.10%	0.40%	0.10%	1.30%	€ 1,330	€ 587	€ 14	500%
REȘIȚA	0.15%	1.00%	0.20%	1.00%	€ 1,511	€ 353	€ 20	500%
SFÂNTU GHEORGHE	0.08%	0.80%	0.12%	1.30%	€ 1,836	€ 310	€ 20	500%
MIERCUREA CIUC	0.10%	1.20%	0.20%	1.20%	€ 1,870	€ 436	€ 16	500%
DROBETA-TURNU SEVERIN	0.11%	0.55%	0.13%	0.63%	€ 1,875	€ 437	€ 13	500%
VASLUI	0.10%	1.30%	0.20%	1.60%	€ 1,761	€ 411	€ 15	500%
ALEXANDRIA	0.08%	0.20%	0.20%	0.50%	€ 2,126	€ 465	€ 14	500%

Source: World Bank

31. The simplified tax rate structure is welcome since it provides local authorities the autonomy to choose a tax rate within the given range.

	Building Tax Rate (%)
	Pre-2015
Individuals	0.1
Legal Entities	0.25 - 1. 5
	Post – 2015
Residential	0.08 - 0.2
Non-residential	0.2 - 1.3

32. The 2022 tax rates for properties in Cluj-Napoca are as follows: (1) 0.1 percent tax rate on the taxable value of residential buildings owned by natural or legal persons; (2) 0.2 percent tax rate on the taxable value of non-residential buildings owned by individuals; and (3) 1 percent tax rate on the taxable value of non-residential buildings owned by legal entities. For Constanta, the tax rates are: (1) for residential buildings belonging to individuals the tax rate is 0.1 percent of the taxation value; (2) for non-residential buildings owned by natural entities, the rate is 0.2 percent; (3) for residential buildings owned by legal entities, the tax rate is 0.2 percent; and (4) for non-residential buildings owned by legal entities, the tax rate is 1.5 percent. The evidence would show that there still appears to be taxation based on ownership.

33. Prior to 2016, individuals who owned more than one building, irrespective of their location in ATUs, were taxed at progressive rates. Given the fragmented information and property data bases in Romania, tax practitioners alerted the mission to the administrative difficulty in enforcing such progressive property tax rate regime—it was abolished for these reasons. However, more recent reform proposals by the MoRDPA seem to consider again the reintroduction of graduated tax rates for owning multiple properties. The mission's tax rate reform proposals are discussed in Chapters 3 and 4.

D. Tax Exemptions and other Tax Relief

34. Articles 456 and 464 of the FC (exemptions for building and land tax respectively), provide an extensive list of discretionary exemptions. Some exemption categories are aligned with global practice and could be maintained. Yet, there are a number of the exemptions benefitting a narrow group of taxpayers for socio-political reasons which may be reconsidered as they do not support the benefit principle that underscores the rationale for a property tax.

35. Some exemption examples for the building tax are provided hereafter:[14] state-owned buildings; buildings owned by foundations supporting cultural and humanitarian activities; places of worship of recognized religious denominations; funeral buildings; public education and sports buildings; public health care facilities; buildings of business incubators, industrial, scientific, and technology parks; buildings for hydrotechnical, hydrometric,

[14] The stipulation in the FC that building tax exemptions are only permissible as long as they are not being used for other economic activities used by unintended beneficiaries is a useful control mechanism.

hydrometeorological, oceanographic works; land reclamation and flood protection works; buildings in ports and navigable canals; structures linked to linear infrastructure (i.e., bridges, viaducts, aqueducts, dams, barrages, and tunnels; public railway infrastructure; historic monuments; buildings of the defense industry and the military; and structures in agriculture.

36. Since 2016, local councils may grant exemptions or building tax reductions for the following building classes: protected buildings besides monuments; buildings of non-governmental organizations; restituted buildings (that were expropriated between 1945–1989); buildings damaged through natural catastrophes; residential buildings of people earning less than the minimum salary; energy-efficient buildings, residential buildings in the Apuseni Mountains, Danube Delta; and owned by agricultural, consumption, and craftsmen cooperatives. The *land tax exemptions* provide tax relief for the same intended beneficiary classes liable for building tax but with some additional qualifications: degraded or polluted lands that are being rehabilitated; lands used for linear infrastructure such as pipelines, highways, European connector roads; and with effect from 1 January 2021, buildings and land used for providing touristic services for a maximum of 180 days in a tax year is reduced by 50 percent.

37. Romania records annually the property tax expenditures together with the revenue losses from tax incentives under the income tax system, social security contributions and VAT. The forgone revenues from the extensive list of tax expenditures for property taxes are estimated at a constant 0.2 percent of GDP for the period 2020-2024 (Table 10)**.** The revenue loss significance of some individual tax relief measures is unknown, but it would add to transparency and cost-efficient policy design if it were calculated and reported in the budget documentation. However, debating individual trends of revenue losses would require accessing more granular data from both national and subnational level.

Table 10. Tax Expenditures, Including Property Taxes, 2020-2024

	2020	2021	2022	2023	2024
Tax Expenditures* (million lei)	50,445	55,285	60,966	65,180	68,971
(% of GDP)	-4.8	-4.6	-4.6	-4.5	-4.4
of which:					
Corporate income tax (million lei)	3,677	4,389	5,061	5,345	5,738
(% GDP)	-0.4	-0.4	-0.4	-0.4	-0.4
Income tax (million lei)	13,221	13,875	14,540	15,111	15,682
(% GDP)	-1.3	-1.2	-1.1	-1	-1
VAT (million lei)	15,818	17,695	20,607	23,216	25,425
(% GDP)	-1.5	-1.5	-1.6	-1.6	-1.6
Social security contribution (million lei)	15,650	17,118	18,469	19,152	19,708
(% GDP)	-1.5	-1.4	-1.4	-1.3	-1.3
Local taxes and fees (million lei)	2,079	2,208	2,289	2,355	2,417
(% GDP)	-0.2	-0.2	-0.2	-0.2	-0.2
Memorandum item: GDP (million lei)	1,040,800	1,190,300	1,317,300	1,440,100	1,560,100

Source: Romanian Authorities.
Note: *The impact was estimated for expenses for which there are statistical reports. The tax expenditure calculation does not include exemptions that comply with EU Directives.

III. PROPOSED PROPERTY TAX REFORMS FOR ROMANIA

A. The Benefits of a Recurrent Property Tax

38. International experience suggests that a well-designed, broad-based property tax has many advantages. For example, local governments face the challenge of being assigned expenditure responsibilities that frequently remain unfunded given their own limited revenue raising powers, triggering a search for easy tax handles. The business community is generally the most popular tax target for local governments. Also, well-designed and properly administered property taxes are considered fair since they are imposed on property owners whose properties appreciate in value due to improvements in local roads, sewage, and rubbish removal services funded by enhanced collections. It is a progressive tax in that property tax incidence primarily rests on property owners. Property taxes may induce more efficient land use or spatial ordering. In addition, property taxes are good local taxes as they are levied on an immobile tax base: those who pay the tax also live in the jurisdiction where the local government services are provided.

39. Globally, taxes on immovable property remain the most unpopular taxes. Hence, introducing a real estate tax or fundamentally restructuring it by adopting changes to the base definition, revision of appraisal method, rationalizing exemptions, and relief; and moving towards more uniform rate structures will require well-timed, carefully executed consultations with taxpayers, local communities, tax practitioners and the revenue administration. The reason for this is that property taxes are very hard to avoid as the tax base is immobile; it is a highly visible tax base given that it is residence-based. If paid annually without the option of installments, it can cause cash flow problems for taxpayers. It is immaterial to taxpayers that these taxes have a benign impact on economic growth as they are less distortive than taxes on labor. The political economy of property taxes must therefore influence their design, the adopted period for decision-making processes, the approach towards implementation, and institutional changes.

Some quintessential property tax design principles

40. Fundamental property tax reforms are rare and often happen in a piecemeal fashion. Despite property taxes' often cited benefits as a tax tool, introduction of amendments to property taxes are often met by fierce skepticism, tax revolts, ending finally in failure. Hence, attempts to modernize the property tax system in Romania should expressly focus on the following aspects that may require policy trade-offs or special public educational efforts[15]—

- *Property taxes are capitalized in property prices, translating into lower property values as the tax burden rises.* Since property parcels are immobile, taxpayers have no exit strategy.

[15] Blöchliger, 2015.

Consequently, they put up considerable resistance early on which possibly can only be mitigated through a comprehensive tax reform package, reducing tax burdens elsewhere.

- *If the tax base is linked to market value, the tax design has to confront the issue of selling a presumptive tax base concept to taxpayers.* The tax is based on an estimated market value which can and will be contested. This is quite dissimilar to other taxes based on realization or deemed realization; transactions, measured income streams/flows; and sales or consumption. Assessing market values is expensive and contentious. Periodic value updates initiate each time negativity from taxpayers, insisting on transition rules for potentially higher tax payments. Thus, clearly communicating a discounted appraisal value (say 70-75 percent of market value) for tax purposes may be a minimum requirement.

- *The property tax liability is highly visible, the tax is often payable once a year without the option of installments with severe cash flow impact; also, it cannot easily be avoided.* In contrast, consumption taxes are payable frequently, tax is hidden in the price and income taxes on employment income is withheld at source. These factors contribute to the unpopularity of the property tax even though the high visibility is an important condition for a good local government tax as it improves efficiency, good governance, and accountability of public service delivery funded by decentralized taxes. Thus, a uniform national standard for paying over 12 installments the annual property tax liability may be advisable.

- *The property tax may be mildly progressive but less so than the personal income tax*. Thus, as property tax burdens rise, perceptions about distributional fairness can be enhanced by synchronizing simultaneously the reduction of the tax wedge on employment income.

- *Property taxes impact adversely on asset-rich but income-poor households as the tax is based on an illiquid asset* (no cash proceeds are available as would be the case in a capital gains realization event). The tax is based on the gross and not-net value of the property, thereby ignoring cash flow limitations of mortgaged properties, often translating into unaffordability for pensioners or the unemployed. This can only be resolved through granting a credible tax deferral scheme where tax is paid whenever the property is sold or bequeathed.

B. Design Options for a Buoyant Property Tax

41. This discussion of the most appropriate design of a recurrent property tax is relevant for improving the buoyancy of the Romanian building and land taxes. The analysis that follows, therefore, needs to cover design options for the tax base and tax rate, but it should in addition analyze aspects of the administration dealing with valuation, expanding the coverage of properties in respect of the recurrent property tax system, and all related aspects of collection and enforcement. The following chapter will discuss measures in support of improved coverage, valuation, and collection ratios.

42. International norms would dictate that the revenue from property tax should at least keep pace with inflation and be correlated with rising expenditure costs facing local government. Revenue buoyancy is related to two factors: (1) tax rates; and (2) growth in the tax base. Recurrent property taxes in Romania are stagnant averaging 0.6 percent of GDP for the period 2008 to 2020, and the lack of buoyancy is due to low property tax rates and almost no growth in the tax base due to the tax value determination of coefficients that deviate significantly from a market related value determination. Greater buoyancy could be achieved if the administration were to focus on expanding the number of parcels on the valuation list and to review the tax rates per budget cycle. Recommendations in this report would directly and indirectly improve growth in the tax base and ultimately enhanced revenue. This relationship between tax base, tax rate and administrative actions that improve the coverage, valuation and collection ratios can be captured in the so-called property tax revenue identity.

Revenue identity pointing to direction of reforms

43. When considering property tax reforms in any country, next to the selected tax base and tax rate, there are three factors in the "property tax revenue identity" that inform the tax reform discussion with reference to administrative efficiency: (1) The valuation ratio; (2) The coverage ratio; and (3) The collection ratio. These three factors can be expressed as a simple but useful equation[16] that reflects the operation of a land and building tax and can be used to quantify the revenue loss if valuation, coverage, and collection ratios are influenced by other considerations (i.e., granting exemptions):

Property Rates Collection = Tax base x Tax Rate x Valuation Ratio x Coverage Ratio x Collection Ratio

44. It is important to emphasize the need for strong administrative reform in supporting revenue raising activities. The revenue raising capabilities of the recurrent property tax are often discussed with reference to the so-called revenue formula.[17] This approach distinguishes between policy design and administrative capabilities in improving overall revenue efficiency. Of course, whilst polices on tax rates and exemptions can have a direct bearing on revenue productivity, they often are more difficult to implement due to resistance from taxpayers and the need to amend legislation.

45. In fact, property tax revenues can be substantially increased if municipalities improved administrative efforts. There are three administrative variables involved in the process, namely, the Coverage Ratio, the Valuation Ratio and the Collection Ratio, all being measured between 0 and 100 percent. The coverage ratio refers to the proportion of properties that should be included in the tax base which have actually been identified and are included in the fiscal cadaster. The valuation ratio is the proportion of the defined value of properties (often with reference to actual market values) that is actually assessed for tax purposes. Finally, the collection ratio refers to the proportion of assessed taxes (or tax liabilities) that are actually collected. The revenue efficiency of the property tax can be calculated by reference to the following approach (Box 2).

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[16] Kelly, 2000: 39.

[17] Kelly, R. , White, R. and Anand, A. 2020. *Property Tax Diagnostic Manual.* Washington, D. C. : World Bank Group.

Box 2. Revenue Efficiency: The Potential for the Property Tax

Revenue efficiency = Coverage Ratio x Valuation Ratio x Collection Ratio: e.g., if a municipality has a tax base coverage ratio of 90 percent, with a valuation ratio of 25 percent of market value, and the collection ratio is 95 percent of the billed tax liabilities. This would be capturing 21 percent of the potential property tax revenues (that is, 0.9 CVR * 0.25 VR * 0.95 CLR). In this case both the coverage and collection ratios are at acceptable levels. However, if the tax administration could improve the valuation ratio to 70 percent, the municipality would be able to collect 60 percent (that is, 0.9 CVR * 0.7 VR * 0.95 CLR) of the potential revenue yield. This would result in an increase of 86 percent (60–21)/21).

46. The sections that follow are focusing on the selection of a practical tax base (see above) and policy considerations with respect of the tax rate and relief (tax expenditures). The chapter thereafter addresses the administrative efficiency on the basis of the coverage, valuation and collection ratios and how these can be maximized.

C. Tax Base—a Review of International Practices

47. There are two broad approaches to determine a taxable amount (i. e., assessing the tax base). The first approach—*value-based assessment*—utilizes methods and techniques that rely on market transactions to inform the value of property. The second approach—*non-value or area-based assessment*—utilizes methods that calculate the taxable amount with reference primarily to the size of the land and/or buildings. The current residential building tax is area-based. The second approach—*area-based assessment*—utilizes methods that calculate the taxable amount with reference primarily to the size of the land and/or buildings. In countries where property markets are efficient and the valuation skills as well as capacity exist to determine credible property values on a significant scale and on a regular basis, capital value or rental value approaches may be the preferred options. Not surprisingly, capital and rental value systems are predominant in developed countries. Table 11 provides a brief review of each of the main bases of the property tax and an example of countries that apply the particular base. One of the over-riding factors that determines the most appropriate tax base is the quality of sale or rental transactions and the maturity of the real property market.

Table 11. Considerations for Selecting Property Tax Bases

Basis	Considerations	Countries
Capital value of land and improvements	Functions effectively if there are frequent sales transactions that can be objectively observed. In countries where property markets are efficient and the valuation skills as well as capacity exist, this approach is preferred. There are generally four approaches in determining the taxable object for purposes of a tax on the capital value of real property: (1) *Capital improved value* (i.e., the collective value of land and any improvements, total value); (2) *Unimproved land value or site value* (i.e., land as if unimproved, thus ignoring any improvements to that land); (3) *A tax based on land and improvements* as separate taxable objects (i.e., two separate taxes); and (4) *A tax on the value of buildings* only (i.e., ignoring the value of the land on which the building is constructed).	Canada, Germany, Finland, Italy, New Zealand, and the United States but also in "emerging" countries, e. g., Argentina, Brazil, Malaysia, and South Africa Jamaica, selected councils in New Zealand and selected states in Australia (New South Wales, Queensland, and Western Australia) Denmark, Grenada, and Namibia The Gambia, Ghana, and Tanzania
Banding	Combines assessment and taxation by allocating all dwellings to one of several value bands and by setting a tax rate for each of these value bands.	Great Britain and Ireland
Rental value of properties	This works best in the *absence of rent controls* and when rental is the principal form of holding residential and commercial property.	Australia, Hong Kong, India, Malaysia, Singapore, Uganda, and the United Kingdom
Area-based	This works well where no formalized land market exists and in the absence of sales data on which to base realistic market values. This approach could be applied to land only (rate/sq. ft. or rate/acre), or to buildings only (rate/sq. ft. of actual floor or usable floor area). It accommodates challenged tax administrations because of its inherent simplicity and provides a good initial steppingstone toward a market-value based regime.	India, Macedonia, Slovenia, and Slovakia

Source: McCluskey (1999)[18]; McCluskey and Franzsen (2005).[19]

Area-based assessment

48. An area-based approach is an option in an environment where value-based taxation is not feasible for political or practical reasons. This approach could be applied to land only (rate/sq. ft. or rate/acre), or to buildings only (rate/sq. ft. of actual floor or usable floor area). Area-based assessments were used extensively in former socialist countries where all land was nationalized and developed property markets did not exist. In area-based systems, there are two basic approaches: (1) A simple or strict per unit assessment (rate/sq. m.) without adjustment

[18] McCluskey, W. J. (ed.), 1999. *Property Tax: An International Comparative Review*, Ashgate Publishing Limited, Aldershot, England.

[19] McCluskey, W. J., and Franzsen, R. C. D. (eds.) 2005. *Land Value Taxation: An Applied Analysis*, Ashgate Publishing Group, Aldershot, England.

for factors such as location and/or use; or (2) A unit value assessment (rate/sq. m), with an adjustment for location, property use, or other factors (such as quality and age of the improvements). The Romanian building tax legislated tax value tables in the FC (art. 457) certainly is informed by this practice. The majority of countries utilizing an area-based system adjust the tax base with one or more factors, usually for location and use, but in some cases also for the quality and age of buildings and other improvements (e.g., in India, Kosovo, and Macedonia). These factors are introduced to approximate value but can create complexity for an otherwise simple system.

49. As property markets develop, there is a noticeable shift to market value-based taxation in countries that formerly used area-based systems. This is the case in Estonia, Latvia, Lithuania, Moldova, and Slovenia. Several South-Eastern European countries are currently in a transitional phase where area-based approaches are being applied, that closely approximate market value (about 80 percent, e. g., see Croatia, Kosovo, Macedonia, and Serbia). Bangalore and India utilize a hybrid system (Box 3) where the capacity to value land and improvements is challenged. This offers an alternative for Romania as the mission understood from preliminary discussions with the MoRDPA that the high cost of periodic valuation is a serious concern.

Box 3. Bangalore: A Pragmatic Approach to Property Tax

Bangalore, India, has a property tax system which is a *hybrid between an area-based system and a value-based system*. In 2000 the city introduced the "Self-Assessment Scheme" (SAS) in terms of which property owners declared the physical characteristics of their property. The process was transparent, and the mayor had the backing of opposition party politicians, the media and—most importantly—the majority of taxpayers. More than 60 percent of taxpayers filed their declarations within the prescribed 45-day period – an indication of taxpayer acceptance. In 2008, a unit area value (UAV) taxation system was introduced. The Unit Area Model/Value tax system (UAM) is determined with reference to the average rate of expected returns from a property per square foot per month, depending on the location and use of the property. The municipal corporation was classified into value zones based on published guidance values produced by the Department of Stamps and Registration, which are adjusted regularly. Over a three-year cycle the value increase must be at least 15 percent, ensuring buoyancy, and steadily increasing property tax revenues.

Value-based assessment

50. Two broad valuation approaches could be utilized for value-based assessment—*capital (or market) value assessment* and *annual rental value assessment*. To determine market value three standard valuation methods are commonly used: the "comparable sales" method; the "cost" method; and the "income" method. All three approaches require quality data that should be analyzed and interpreted by highly skilled professionals.

Capital value approaches

51. "Market value," "assessed value" and "cadastral value" are just some of the terms that are used in the context of capital value property tax systems. Few countries value to 100 percent of actual "market value" for purposes of the property tax. The relevant property tax or valuation law will usually contain a definition of the valuation standard, be it "market value" or "assessed value." From a policy and a practical point of view, and to increase the fairness of the system, it is essential that all properties are valued in a uniform manner with reference to the specified value standard.[20] To minimize on objections and appeals by property taxpayers, the assessment value is commonly a discounted market value (e.g., in the case of Slovenia's transition towards an automated valuation method, it was initially agreed that the property tax should be calculated on 70-75 percent of the assessed market value).

Area-based vs. market-based assessment

52. To emphasize, experts generally agree that where it is possible to use the market-value approach in practice, it provides the better, more buoyant, and more equitable tax base. A simple area-based assessment can result in the same tax burden for a person living in a dilapidated house as a person living nearby in a newly renovated house, assuming similar size houses. Therefore, a value-based assessment tends to better differentiate the tax burden between low-income and high-income households—accounting better for ability-to-pay.

Tax base—should this be regulated through uniform national legislation?

53. Determination of the tax base is a further important policy decision. In many countries this decision is made by central government, although in federal countries this decision may be at the state/provincial level (e. g., Australia, Canada, India, and the United States). Often a national law provides for only one, uniform tax base to be used country-wide (e. g., Egypt, Indonesia, and South Africa). However, it is noteworthy that some countries (or states, in federal countries) provide local governments with a choice of tax bases, for example to choose either capital value or rental value systems (e. g., Australia, Malaysia, Namibia, and New Zealand). Local governments can then determine which base is most appropriate in light of local circumstances. Another option is to allow different tax bases within a specific tax jurisdiction, on the basis of: (1) Location (e. g., urban versus rural property—as is done in Western Australia); (2) Whether developed or undeveloped (e. g., Côte d'Ivoire, and Senegal); or use (e. g., whether residential or non-residential—as is done in the United Kingdom).

D. Proposal for Romania: Transition to a Market Value Basis

54. The present property tax system in Romania, whilst having an element of simplicity, is still solidly anchored in a prescribed table-driven system. It is 'centralized' with the central government determining the basic structure (land vs. buildings tax; individual vs.

[20] If the tax base is linked to market value, the tax design has to confront the issue of selling a presumptive tax base concept to taxpayers. The tax is based on an estimated value which can and will be contested. This is quite dissimilar to other taxes based on realization or deemed realization; transactions, measured income streams or flows; or sales or consumption. Assessing market values is expensive and contentious. Periodic value updates initiate each time negativity from taxpayers, insisting on transition rules for potentially higher tax payments. Thus, communicating clearly a discounted appraisal value for tax purposes may be a minimum requirement.

company tax; specific table-based values vs. valuation). Furthermore, several adjustment coefficients are applied to determine the taxable value for residential properties and land. There is limited revenue buoyancy due to fixed taxable values and tax rates.

55. There are clear disadvantages associated with the present system, including in particular:

- It undoubtedly leads to (potentially large) variations in effective tax rates for similar economic activities across taxpayers, types of land and properties, locations, and over time in turn giving rise to resource misallocations and, hence, economic efficiency costs;
- It is also in all probability highly inequitable across individuals, specific uses, and locations—both horizontally (for taxpayers with broadly the same income) as well as vertically (across taxpayers at different income levels);
- With taxable values applied which are generally believed to be considerably below market values, the present system is generating revenues which are well below its potential and the EU-27 region; and
- As a local tax, but almost completely determined centrally, it is also deficient in terms of its function as a benefit tax, and it lacks transparency.

56. Contrary to the views of the 2011 IMF tax policy TA mission and based on new evidence on annual property value recording for the whole country, this mission concludes that there is now a strong argument to adopt market value as the basis of the valuation for both residential and non-residential property. In general, the market value of a residential property is related to the amenities (including schools, parks, retail outlets and transport access) of the neighborhood in which the residential property is located. Market values also better capture the value of infrastructure services of the neighborhood (such as paved roads, footpaths, and street lighting) which are commonly funded from local government budgets. Owners of more valuable properties would pay more under a market value-based assessment scheme. To the extent that there is normally a correspondence between market values and owners' incomes, a market value basis of assessment could also be progressive (i. e., higher income, better off owners would pay more). To best reflect the changes inherent in a dynamic economy and to maximize fairness and ease of understanding, assessments should be based on the current market value of property.

57. There is a sound rationale to support the recommendation for adopting market value for both residential and non-residential property. The real estate market is sufficiently robust to provide the necessary market transactions to support the property valuations. Other important factors would include: (1) the capacity of the registered valuation profession to provide the market value (land and buildings) for commercial property is of a high standard in Romania; (2) the "Grid" system provides objective evidence on the market value of residential property; and (3) the fact that house prices indices are published on a regular basis provides support for there being sufficient open market transactions occurring with transaction values systematically being captured.

58. Countries with mature real estate markets and reliable open market transactions tend to base their property tax assessment on estimates of market value. However, where the property market is immature the valuation approaches for property tax must reflect pragmatic solutions. Following independence in the early 1990s the majority of central and eastern European countries introduced property taxes based on area including Czech Republic, Hungary, Latvia, Lithuania, Poland, Slovenia, Slovak Republic, and Romania). However, over time several of these countries realized the inadequacy of the area-based property tax in terms of equity, fairness, and revenue buoyancy. Area-based systems had no relationship with the market value of the real estate being taxed and generated limited revenues from a largely static tax base. In addition, with fast moving developments in creating land and building cadasters, improvements in systematic property registration, and seeing property markets becoming more active and transparent supported the transition to a market-based property tax. Currently, Albania, Estonia, Latvia, and Lithuania have well established value-based property taxes whilst the introduction of such approaches is actively being considered in Bosnia and Herzegovina and Slovenia. More recently other countries including Kosovo, Montenegro, and Macedonia have made significant improvements in their property tax systems to incorporate market values. Table 12 illustrates the basis of property tax across central and eastern European countries.

Table 12. Basis of Property Tax in Selected Countries

Country	Basis of Property Tax	Comments
Albania	Market value	Transitioned from an area basis in 2018
Czech Republic	Area based	Range of adjustment coefficients applied
Estonia	Market value	Tax base only includes land
Greece	Market value	Land and buildings
Kosovo	Market value	Property tax initially only taxed buildings. Current system now includes market value of the land
Latvia	Market value	Land and buildings
Lithuania	Market value	Land and buildings
Macedonia	Market value of land and buildings	Average market values adopted
Moldova	Market value	Land and buildings
Montenegro	Market value	Average market values for location zones
Poland	Area based	Range of adjustment coefficients applied
Serbia	Market value of land and buildings	Average market values by location/zone; application of adjustment coefficients
Slovenia	Area based	Market value system for land and buildings has been developed
Slovak Republic	Area based	Range of adjustment coefficients applied

Source: Radvan, M., Franzsen, R., McCluskey, W. J. and Plimmer, F. (Eds). 2021. *Real Property Taxes and Property Markets in CEE Countries and Central Asia* Lex Localis, Institute for Local Self Government, Slovenia.

Recommendations:

- Extend the use of market values to both residential and non-residential property.
- Agricultural land to continue to be taxed on adjusted area basis and prescribed value levels.

Issues around the current land and building taxes

59. The current structure of the property tax in Romania does not explicitly incorporate any granular market value influences. The use of zones within localities and the ranking of localities does to some extent reflect value-based influences but in a rather blunt manner. The current property tax assessment approach in Romania is effectively a hybrid where non-residential buildings have to be valued (largely to an estimate of building cost) by an authorized valuer, whereas residential buildings and land is assessed on prescribed "value" levels with the application of specific adjustments.

60. The present assessment system does however offer an element of administrative simplicity in respect to the assessment of residential properties and land. However, there would be issues around the overall fairness and equity of the assessment approaches used. For example, the current adjustments used are rather blunt, for example, only having 4 location zones may be applicable in small towns but in larger cities such as Bucharest and Constanta it would be too few. For example, in Bucharest the adjustment coefficient to reflect location shows that the percentage difference between the highest value zone (A) and the lowest value zone (D) is 13 percent. It is unlikely that residential property prices across Bucharest vary by only 13 percent. When the ranking coefficients between the 4 urban areas of (Bucharest (0); Big cities (I); Cities (II); Towns (III)) are considered, the same issue arises.

Merge land and buildings together into one property unit

61. There is a strong case to merge the tax on land with the tax on buildings by virtue of having a single taxable value reflecting both land and buildings as one unit of property. If land and buildings are being transacted in the real estate market as a single unit of property this would give support to the property tax assessment following the market. Separating the land and building components introduces an element of artificiality which then becomes a potential issue for valuation. The issue being one of the availabilities of open market transaction evidence. Specifically, would there be sufficient evidence of the sales of just buildings and undeveloped land? This directly follows from the fact that property markets generate market values which include both the land and the buildings for individual properties – without identifying or distinguishing between what is the is the value of the land and what is the value of the building. Most real estate markets support the fact that property transactions generate market prices that include both the land and the building components as individual properties. This is the same for individual apartments within blocks where the sale price reflects the land value that the apartment block has been constructed on. Unification of the two taxes would make economic sense and also simplify administration and ease data collection.

62. The land under non-residential or commercial buildings should be valued along with the buildings as a single property unit. It is artificial to exclude from the valuation the underlying land parcel. By excluding the land component requires the buildings to be valued using the cost method when in reality the income approach or a discounted cashflow methodology would be more appropriate. By combining land and buildings into a single property unit would to a large extent simplify the valuation process and deliver valuations that are more in accord with the property market.

63. Residential buildings and land the buildings occupy are currently assessed under value tables with adjustment coefficients contained in the FC. As with non-residential property the land and buildings should be combined into a single property unit. This again is closely aligned with how the property market views the sale of residential property. In Romania it is questionable under the current property tax whether the owners of more valuable residential properties are paying more than those who own less valuable properties. There are two dimensions to tax equity. The first is the principle of horizontal equity. This principle requires that taxpayers in comparable situations should pay comparable amounts of tax. The desirability of applying this principle in tax design is largely uncontested. The second dimension can be described as vertical equity. The essential concept informing vertical equity is the view that those who are better off should contribute more than those who are not.

Recommendation

- Combine land and buildings for residential and non-residential in the same ownership into a single property unit.

E. Setting the Statutory Rate

64. The property tax liability is calculated by multiplying the assessed value with the rate. Given the size of the tax base the second most important element, the tax rate, determines the revenue potential of a property tax. Countries use different approaches for rate-setting. There are three key considerations as to the tax rate: (1) Who should determine rates; (2) Should there be a single rate or differentiation; and (3) How high should rates be? Table 13 summarizes international practices for rate-setting. Note in this regard the 5th practice from the top; i.e., applying a surcharge on underutilized or unimproved land. Indeed, also Romanian local authorities are authorized to increase the tax on land up to 500 percent for agricultural land that has not been used for two consecutive years, and for buildings and land within built-up areas that have not been properly maintained.

Table 13. International Practices with Property Tax Rates

Practice	Rationale
Flat *ad valorem* rate	Simplest way to tax property values.
Flat specific rate	Simplest way to tax an area base.
Progressive *ad valorem* rate	Establish more fairness for the system by taxing higher valued properties at higher nominal rates.
Differential rates applied to different types of property, with non-residential property usually attracting higher rates, agricultural and residential properties benefiting from lower rates.	Usually to protect agricultural property from higher taxes, and to capture the greater tax-paying capacity of commercial and industrial land.
Different rates applied to land/site and capital improvements/structures; surcharge rate applied as penalty for sterilizing valuable/potentially productive land or a penalty for underutilization (e.g., Brazil, Senegal and Venezuela).	To encourage the development of vacant and underutilized land.
A progressive tax rate is applied to the total value of an individual's land holding (e.g., Peru).	To put higher burden on concentration in property holdings or wealth concentration.
Annual increase in tax rates to compensate for the failure to revalue properties or adjust through indexing.	To protect revenues when revaluations are delayed.

Source: USAID, 2009

65. Property tax rates for real property are either set by central government or locally with some rate range restrictions from the center. There are marked differences between countries with respect to the fiscal autonomy of municipalities setting the property tax rates. In Cameroon, Egypt and Rwanda tax rates are determined centrally.[21] Romania allows for local discretion over tax rate-setting, but central government sets a range of rates from which the building and land tax rate can be selected. Botswana allows for local discretion over tax rate setting, but central government approval of locally determined tax rates is required. Uganda makes this rate-setting autonomy subject to prescribed legal minimum and maximum rates.

Which authority should set the rate?

66. Local fiscal autonomy is often regulated by a country's constitution. In the case of Romania, ATUs are tasked with the administration of the building and land taxes and the proceeds are the exclusive function of county councils, ATUs and / or communes.[22] What is important though is that a council needs to balance attentively the benefits of their services delivery with associated costs via the property tax system, payable by the local electorate—benefiting from the services (i.e., the property tax is justified through the principle of benefit taxation). Balancing must be done transparently to hold council governments accountable to the taxpayers. Setting the property tax *rate* locally is crucial for accountability on local taxation decisions. It is common practice for central/national government to restrict rates to a statutory range to minimize inter-jurisdictional distortions (through fiscal migration) from aggressive tax competition among council governments. Romania adopts this approach.

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[21] Franzsen and McCluskey, 2005.

[22] According to the Romanian Constitution's art 121, the public administration authorities, through which local autonomy is implemented in the communes and cities, are the elected local councils and the elected mayors. The local councils and the mayors cooperate as autonomous administrative authorities and manage public affairs in the communes and cities. The county council (art 122) is the public administration authority in charge of coordinating the activity of the communal and city councils, for the purpose of carrying out public services of interest to the county.

Differentiation between flat and graduated rate

67. Globally, local governments often impose rates that are differentiated according to property class—or to tax multiple property ownership at progressively higher rates This could result in different rates per property class and even result in complete tax relief for some property classes. Theoretically and ignoring for a moment the overriding simplicity imperative, differentiated tax rates may be justified on a number of grounds: (1) for fairness reasons in respect of benefits received (i.e., property tax being a benefit tax, the amount of local public services may vary across property categories); (2) in line with efficiency considerations, properties that are least elastic in supply could carry a higher tax burden; and (3) variable rates can be introduced to induce desired land use objectives. Alternatively, some countries in Africa—e. g., Botswana, Namibia, South Africa, and Liberia— allow municipalities to apply higher rates on vacant development land within cities to encourage property development.

68. Many jurisdictions specifically provide or at least allow for lower property tax rates in the case of residential properties. This is the case in countries such as Australia, Canada, India, Liberia, Pakistan, South Africa but also Romania. Then again, some countries apply higher rates for commercial properties; or lower rates for selected industries and service providers such as manufacturing and tourism or in some combination. As indicated above, the differential or favorable tax treatment of residences is not consistent with the concept of a benefit tax and therefore does not recognize the differential use of public services rendered by government structures (central or ultimately municipalities). In a tax purist sense, if commercial and residential properties benefit from the same level of municipal service, no rate differentiation in favor of residential properties is justified. Best practice suggests that one should pursue simplicity when it comes to rate-setting in order to minimize complexity in administration and to encourage compliance. If there is rate differentiation regarding quality, use of properties, and multiple property ownership, taxpayers will seek to artificially reclassify use or values simply to benefit from the lower rate. Hence, a single rate may be the correct approach as market valuations to a large extent already reflect differences in ability-to-pay—making discriminatory rates superfluous. Yet, in a simplified value-based or area-based system, however, differentiation may be more appropriate.

Level of rate

69. Internationally, and especially in developing countries, property tax rates are generally very low, explaining partially property taxes' low revenue importance expressed as percentage of GDP. If Romania intends to raise more revenues from property taxes, the target should perhaps be around the EU-27 average of 0.9 to 1.0 of GDP—thus, raising it from the current 0.5 percent of GDP. This goal would require an increase in nominal rates and/or a better approximation of actual market values for buildings and land through regular revaluations. Globally, tax rates for market value-based (land and improvements) systems typically range from 0.5 to 2 percent but are higher for land-only systems. Table 14 provides an overview of 26 European countries' recurrent property tax systems and tax rate levels. The current draft proposals in the Law on Local Public Finance seeks to end the differentiation between residential and non-residential buildings by proposing a single rate of 0.14 percent. This should be expressly provided in legislation. It is not yet clear whether this would be a uniform approach to set a single property tax rate for buildings, but within a range so that the current useful arrangement of providing for a rate range in support of greater fiscal autonomy for subnational governments (ATUs) can be maintained.

Table 14. Select European Countries' Property Tax Rates

	Country	Recurrent Property Tax	Tax Base	Tax Rate
1	Albania	Real estate tax determined by type of activity of business owning property	Assessed market value	0.05% of residential property value; 0.2% for commercial properties; 30% property value discount for unfinished buildings
2	Austria	Property tax, recurrent	Assessed unit value, being a certain value for tax purposes that is determined by local authorities.	In general, the tax rate is 0.1 – 0.2% annually
3	Belgium	Property tax, recurrent	Assessed value	Flemish region, it is generally 2.5% of the annual rental income; in the Brussels-Capital Region, it is 2.25%; and in the Walloon region, it is approximately 1.25%
4	Bulgaria	Annual property tax	Assessed value by local authority	0.15 - 0.45%
5	Cyprus	State tax	Assessed value	Graduated rate structure of 0.6 - 1.9%, depending on assessed value
6	Czech Republic	Local property tax	Assessed value and surface area:	up to 1%
			arable land	0.75%
			grasslands and forests	0.25%
			built-up area--sq. meter	0.008€/sq.m
			building plot, residential houses, aparts.	0.08-0.4€/sq.m
			recreational buildings	0.24-1.2€/sq. m
			commercial or industrial buildings	0.4-2€/sq. m
7	Denmark	Property value tax	Assessed value	0.92% - 3% (values exceeding €409,000)
		Municipal land tax	Value assessed for undeveloped land	amount determined by municipality, 3.4%
8	Finland	Municipal property tax	Taxable value or appraisal value	0.41-2% of value; 2-6% on vacant land
9	France	Land tax	80% of assessed rental value	0-10% but 2.3% average rate
		Property tax, buildings	50% of assessed rental value	4.5-29.26%, 17.04% average
		Furnished accommodation	50% of assessed rental value	4.5-29.26%
		Commercial buildings	50% of assessed rental value	4.5-29.26%
10	Germany	Property assessment	Historical property values lower than market value	0.26 to 1%, varies per fed state and use
11	Greece	ENFIA, uniform tax on owning real estate property	Surface area with coefficient adjustment for use, location	Buildings: €2-13/sq. m; Land: €0.0037 to 11.25€/sq. m; Supplementary progressive tax of 0.15 to 1.15% for properties valued above €250,000
12	Hungary	Building and land tax	Net floor space method or adjusted fair market value	Net floor space: rate of HUF1,100 to 2,018/sq. m or 3.6% of adjusted market value; *vacant building plot* with max rate of HUF200/sq. m
13	Ireland	Local property tax	Assessed values of residential/commercial buildings	0.1029% of first €1.05 mill market value of property; 0.25% for properties up to €1.75 mill; 0.3% for values above €1.75 mill
14	Italy			
15	Moldova	Recurrent Real Estate Tax and Land Tax	Estimated property value as determined for cadaster	Min rate of 0.05% - 0.4%, municipality sets higher rate for surface exceeding 100 sq. m
16	Netherlands	Property taxes vary by municipality	Assessed market/property value	0.1% to 0.3%
17	Norway	Local property tax	Local assessment of market value	0.2% and 0.7% depending on municipality
18	Poland	Buildings, structures, land	Buildings taxed on usable area; structures on initial value, land is area based	Tax rates annually fixed by municipalities within limits: commercial use land = PLN 1,03/sq. m; buildings for business = PLN25.74/sq. m; Structures taxed at 2% of initial value
19	Portugal	Municipal property taxes (IMI)	Tax registration value determined by valuation based on type of property, formula-based with reference to construction costs/sq. m; area, age etc	Urban real estate: 0.3 to 0.45% of registration value; Rural real estate taxed at 0.8%; real estate in tax havens taxed at 7.5%
20	Romania	Buildings & unimproved land	Taxable value as per legislated table	Residential buildings is 0.08-0.2% (natural/legal persons resp.); non-residential bldgs 0.2 to 1.3%, agriculture buildings 0.4%.
21	Serbia	Recurrent Real Estate Tax	Where taxpayer keeps book value of real estate	up to 0.40%
22	Slovakia	Land tax	Assessed value	0.25%
		Buildings and apartments	Surface area in sq. m	€9 for 4-floor office building; €0.89 one-floor building in rural area/sq.m
23	Slovenia	No recurrent property tax--just a charge on use of building and vacant land	Area-based charge on vacant land set aside for construction	Individually determined by local community
24	Sweden	Real estate tax on detached houses	Tax assessment value	Business premises: 1% of assessment value; Industrial property = 0.5%
25	Spain	Tax (IBI) on urban condominiums	Assessed value	0.4-1.1% of cadastral value
		Property tax on rural buildings	Assessed value	0.3-0.9%
26	Switzerland	Property taxes in tourist resort communities	Taxable value	0.1% to 0.15%; some cantons up to 0.3%

Sources: Union Internationale de la Propriete Immobiliere; OECD; IBFD Tax Summaries; Global Property Guide--Taxes and Costs; Tax Foundation, International Tax Competitive Index; PWC Worldwide Tax Summaries-December 2021.

70. As already recommended in the 2013 IMF TA report, both for policy and administrative reasons, the mission supports the proposal to eliminate progressive taxation of multiple properties owned by individuals. The primary justification for a property tax is to compensate for local service benefits delivered to property owners by the relevant LGA. The tax bill charged for a given property should therefore reflect the value of those services, regardless of who owns the property. Charging different owners of the same property different tax rates can interfere with the allocation of properties to their highest value use. Taxing successive properties at progressive rates is moreover administratively challenging, as it requires that LGAs know not only how many properties each individual in their own jurisdiction owns across all jurisdictions, but also, under the current system, their sequence of acquisition. This mission therefore agrees with the recommendations of the 2013 TA mission.

Recommendations

- Guarantee an element of fiscal autonomy to ATUs by setting a single property tax rate but which can be selected out of a centrally determined range of property tax rates.
- If commercial and residential properties benefit from the same level of municipal service, no rate differentiation in favor of residential properties is advised.
- Do not reintroduce progressive property tax rates for multiple properties owned by individuals.

F. Property Tax Relief

71. Political, socio-economic, and practical considerations seek to influence many facets of a tax instrument. These are often reflected in differentiated rates (see above), deductions, exemptions, thresholds, or tax holidays in order to accommodate economic hardship cases or to pursue some development or industrialization policy. In assessing whether to exempt certain properties from property tax the following key analytical questions need to be posed: (1) what cost does the exempt property impose on local (or central) government with regard to service delivery (e.g., water or sewage connections); (2) should the property be billed by user-charging for the costs it imposes; (3) does the property owner create public good benefits that exceed the value of tax forgiveness; and (4) would the tax exemption provide the owner with an unfair economic advantage? Numerous discretionary exemptions lead to significant revenue loss—in the case of Romania 0.2 percent of GDP for the last 5 years.

International organizations and public benefit organizations

72. To limit discretionary exemptions, relief from property rates should be restricted to properties that meet narrowly defined criteria. This includes properties that are tax exempt through international conventions such as embassies and multilateral organizations. It also includes merit use of land (e.g., schools and churches). Most jurisdictions apply such exemption lists for property taxation but not without controversy. In terms of best practice, exemptions for cultural or religious public benefit organizations, if maintained, should be carefully defined and qualified. For example, properties not directly used for the public benefit activity should be taxed and only the church sanctuary exempted from rates. Romania is keenly aware about this potential abuse and excludes all competing economic activities from such tax relief. Without careful restriction the exemption list may grow. An inclusive approach should be adopted imposing property taxes on all cultural, religious, and public benefit organizations. An alternative for this taxpayer category is, a discounted "service charge" in lieu of the standard real property tax. This approach has been adopted in Bangalore, India, where the charge raises 25 percent of the property tax. It applies to all exempt properties (e.g., government, and charities), except for places of worship and homes for the destitute.

Low-income households

73. There are good reasons for introducing measures that shield low-income owners from potential adverse impacts of the property taxes. Measures may entail forgiving property tax for those living in properties below a stated value or area threshold. The poor often live in areas with limited infrastructure and, hence, low assessment values for their properties. An exemption would accord some rough justice to areas where tax collection costs likely exceed the revenue take anyway. An area threshold is regressive because it gives more relief to luxury-home owners in good locations than to those in modest homes and mediocre locations. For this reason, some countries (e.g., South Africa) have adopted a value threshold for a market-value based property tax. The appropriate value threshold must be determined carefully so as not to be too generous or too restrictive. In addition, those households above the threshold seeking relief can be means tested or handled on a case-by-case basis.

Exemptions and relief for state-owned properties

74. Internationally, state-owned entities often benefit from property tax exemptions. The suggested rationale is that these are used for physical infrastructure operations, or property used for the delivery of broadly accessible public goods and services by the state such as the supply of electricity, water, road connection, and general administrative services. Most countries (e.g., Brazil, Indonesia, Jamaica, Pakistan, and the United States) in taxing real property follow this approach which seems quite acceptable. Central government uses local facilities and could contribute through property tax payments to the defraying of local government costs. Thus, in some countries, government-owned properties are indeed taxable (South Africa). Canada, the United Kingdom, and the US provide in legislation for the payment/contribution in lieu of taxes.

Tax expenditure evaluations of property tax relief measures

75. With regard to property tax exemptions, it is a good practice to review these periodically, e.g., say every five years. Renewal of relief would depend on successful evaluation. If exemptions no longer support the original purpose they should be withdrawn. Second, introduce a practice whereby all exempt properties are placed on the valuation roll, which would require the periodic revaluation and publishing of results. This would allow the rating authorities to monitor an annual tax expenditure record for forgone property tax revenues. Finally, while political and social rationale for keeping some of property tax expenditures could exist, policy makers should aim at halving the forgone revenue to 0.1 percent of GDP by curtailing the current property tax relief measures.

Recommendations

- Romania should limit exemptions to an absolute minimum.
- Property rates relief for low-income households, the elderly and those in hardship should be granted on application, reviewed annually, and be means-tested (*see 2013 IMF TA Report*).
- In the case of the elderly and only, if necessary, allow for the mortgaging of arrears of property rates which will get settled when the property is finally sold or bequeathed.
- Seek to provide separate revenue forgone estimates for some of the property tax incentives such as for tourism-linked real estate, linear infrastructure, incubators and technology parks in order to debate their costs and benefits as they are coming up for an evaluation.

IV. WOULD PROPERTY MARKET EVIDENCE AND VALUATION CAPACITY SUPPORT A VALUE-BASED PROPERTY TAX?

A. Administration of the Current Land and Building Tax

76. The Romanian government committed itself to the modernization of the current property tax. With the reforms, property taxes have the potential to become a significant revenue source for municipalities. It is often found that the principal reasons for the property tax in failing to meet its potential is: (1) tax revenues being given away through favorable exemptions (see discussion above); (2) the growth in the tax base not being buoyant; (3) static tax rates that do not change to reflect inflationary pressures; (4) increasing costs of administration; and (5) insufficient enforcement to tackle cumulative revenue arrears.

77. The success of a property tax depends, in large measure, on the effectiveness of its administration. This includes in particular the following elements: comprehensive identification and 'capture' of all relevant properties in the fiscal cadaster, based on extensive cooperation, information and data exchange between all relevant entities; development of the technical administrative 'infrastructure' and finally, effective collection of the tax.

78. Municipalities in Romania have a well-developed structure for the maintenance of their fiscal cadasters which appear to be comprehensive. Table 16 illustrates that larger municipalities have to manage large databases for residential and non-residential property. Whilst they have no valuation functions their in-year collection rates for both land and building property taxes are well within international norms (in the region of 90-95 percent). Generally, they have systems to identify previously un-declared buildings and monitor very closely building permit approvals. Electronic payment systems are varied, available, and convenient for taxpayers.

79. The property tax administration model involves a division of responsibilities between the national government and local municipalities. National government through legislation (the FC) prescribe the assessment or valuation approaches to be applied to both residential and non-residential property. Whilst local governments have the mandatory responsibility to implement and administer the land and building property tax within their jurisdiction. From a pragmatic perspective it is much easier for taxpayers/citizens to see who is levying the tax – and to hold the government accountable. For property tax this is local government. Their responsibility is significant, involving tax assessment, data collection, billing, collection and enforcement. For the larger municipalities these responsibilities are more than manageable but for the much smaller ones less so.

80. Municipalities for the administration of their own revenues must develop or procure their own administration systems. This has led to a fragmentation of ICT systems with limited inter-operability with national administrative systems. In particular, national government should have an interest in the property tax data held by municipalities. However, as noted above the ability to share this data is limited due to diverse and fragmented information platforms. For smaller, rural communes, collective action between them in procuring the same system could result in economies of scale. Draft legislation on a partnership approach between metropolitan areas and ATUs could also improve public policies and tax administration by capitalizing on the complementarities of developing common information and administrative platforms.

81. It is unlikely that many municipalities have embedded Geographic Information Systems (GIS) within their administrative processes. GIS has been proving to be a game changer in terms of enhancing the efficiency of revenue administration. Identification of properties on mapping is a powerful tool to manage, for example, collection delinquency, building permits, change of uses and others. However, GIS can be expensive to initially deploy and maintain and, hence, having support from other national entities can be valuable. The national cadaster has been working with Sector 5, Bucharest in establishing a GIS. Also, Cluj-Napoca have a functional GIS within the municipality.

B. The National Cadaster and Land Registration System

82. The Romanian Constitution under Article 44 protects private property rights.[23] Whilst the Constitution provides the foundation for guaranteeing rights in land and property it is the national cadaster through registration processes that provides the documentary information to manage ownership and thus providing security of tenure. Good land governance through a fit-for-purpose land registration system provides support for the development of real estate markets and confidence for those institutions involved in financing real estate purchases. In addition, land and property taxes based on market transactions relies heavily on the confidence given to buyers and sellers to engage in the market.

83. Romania has been working towards a fully comprehensive land and property registration system since the early 2000s. Support in this endeavor has been given by the World Bank (2010) and the European Union to extend the systematic registration of properties. In 2015, the National Cadaster and Land Book Program was launched with the aim to complete the registration of some 660 rural ATUs with funding from the European Union by 2023. Developing a modern, fully digitized, electronic land and property registration system has proven difficult resulting in slow progress in terms of the number of properties being registered and complete coverage of the national territory. A key constraint is the ongoing process of property restitution to former owners whose land was nationalized during the previous Communist era. A large number of restitution cases, primarily in rural areas, are pending compensation or the allocation of land. Failure to complete land restitution procedures that began in the 1990s impacts on vulnerable persons, including minority groups. To address this a national program of systematic registration has begun.

84. The ANCPI was established in 2004 (by Law No. 7/1996) by merging the cadaster from Ministry of Agriculture and land registry (Land Book system) from the Ministry of Justice. The ANCPI is now the organization having responsibility for the national cadaster and the registration of property rights. The ANCPI has created a modern digital cadastral platform based on proprietary software such as Oracle and ESRI (GIS) products though custom applications have been developed for specific business purposes. The national cadaster has been designed as a single cadaster rather than a group of cadasters such as separate cadasters for forestry, roads, railways, rivers, and lakes. ANCPI manages the national spatial infrastructure which is a collective of agencies and ministries that require access to the cadastral GIS data. Each agency or ministry is responsible for the collection of their own data characteristics however, they are obliged to submit to ANCPI the data that it must maintain including deeds of transfer and ownership information. Furthermore, the ANCPI operates through a devolved administrative structure having 42 cadaster and land registry offices at the county level and some 132 offices at

[23] (1) The property right, as well as the claims on the state, are guaranteed. The content and limits of these rights are established by law. Constitution of Romania 1991 (2003 amendments).

the local level. Having such geographic coverage promotes access to the cadaster given the size of Romania at approximately 230,000 km^2 (according to the World Bank[24]).

85. ANCPI estimate that 45 percent of some 40 million land and buildings are currently registered within the cadaster and the likely time to have full or systematic cadastral coverage will take some 10 years. This is largely because the sporadic land registration has been the main registration approach accounting for 90 percent of registrations. Sporadic land registration is a client-initiated application for adjudication and registration of one parcel of land or property, normally at the point of sale. For the transfer of the land or property to progress it must be registered, therefore, such a registration approach depends on the activity of the real estate market. Hence, the registration process is largely driven by those parties involved in the buying and selling of property. Sporadic registration, because it is dependent on a request will take some time to cover all un-registered properties. However, ANCPI is also engaged in a free systematic registration which is a government-initiated process of adjudicating land and property rights in a whole of municipality. To increase registration rates ANCPI is moving towards implementation of systematic land registration, with an initial focus on rural areas where the real estate market is less active with consequently fewer transactions. Urban areas such as Bucharest and Constantia would have some 80 to 90 percent of properties currently registered in the cadaster. Table 15 shows progress made in the number of registered properties.

Table 15. Number of Registered Properties

Year	Number of properties registered
2005 – 2016	9,188,028
2017	1,420,425
2018	1,578,066
2019	2,302,160
2020	2,179,709
2021	2,334,346
2022	251,939
TOTAL	19,254,673

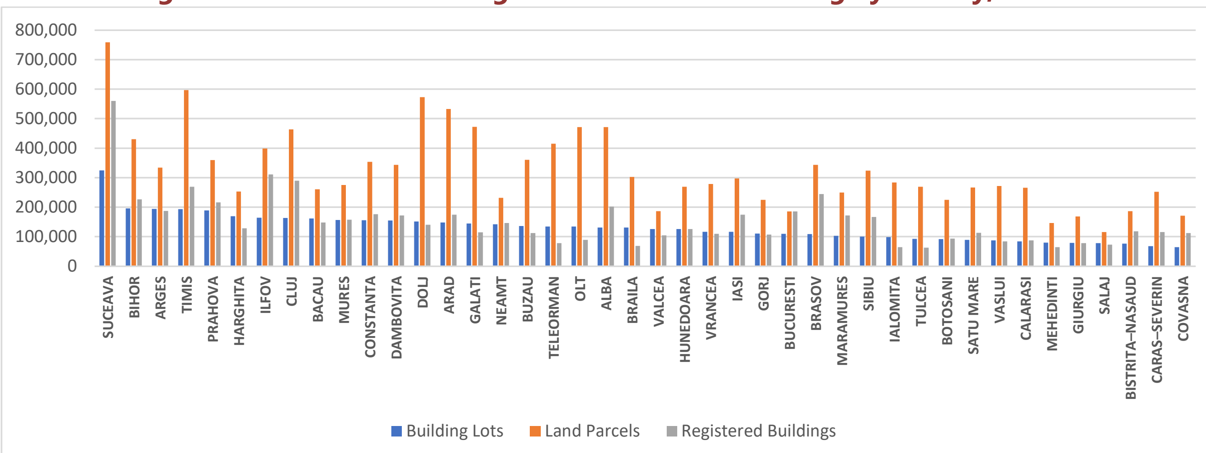
Source: ANCPI

86. The national cadaster contains quite extensive information on land and properties with the notable exception of transaction prices. Whilst there is a field within the cadastral database to record the transaction price that a property sells for, this is not a mandatory field to be filled in and, hence, such valuable information is not comprehensively collected. It represents a major gap within the data held by the ANCPI. However, it should be noted that all transaction prices are recorded by the notaries within their system and by municipalities through the declaration of property sales contracts by the respective parties to the transaction. Figure 7 records the distribution of registered land and buildings by county.

[24] https://data.worldbank.org/indicator/AG.LND.TOTL.K2?locations=RO

87. Data held in the cadaster includes relevant spatial (geo-referenced data to the national co-ordinates system) information, and textual data on both land and buildings. This includes, the unique cadastral number allocated to the building and/or the land parcel, property description, location/address, building size, categories of use, construction details, name of the owner, and proof of title ownership. The land register component (or Land Book) records the rights of owners and other legal rights or liens over land.

Figure 7. Distribution of Registered Land and Building by County, 2021



Source: ANCPI

88. Two key stakeholders that the ANCPI relies upon for receiving data are: (1) cartographic and land surveyors; and (2) notaries public. The surveyors have a key role in the inspection and measurement of land and buildings along with the delineation of land parcel boundaries. They have access to the database of the national cadaster to verify existing spatial information. The notaries are equally a critical stakeholder as they at the point of sale of a property provide ownership details. They also have important information on the actual sale price of the property. They are registered users of the cadaster. Access to parts of the cadaster is publicly available, though a small fee (RON 20) is payable for each search.

89. From the perspective of the current property tax the national cadaster is less important than in other neighboring countries. This is largely because the municipalities have developed their own fiscal cadasters that support their property tax system. The municipal fiscal cadasters include many properties that are not registered in the national cadaster particularly in rural areas. Also, a further feature of the municipal cadaster is that owners of property are under an obligation to make declarations in respect of their properties. This provides the local tax department with access to critical and comprehensive data, supporting enforcement.

C. The Property Tax Base

90. In line with many other countries the property tax base is largely constituted with residential and non-residential or commercial properties. The data held by municipalities would appear to be relatively comprehensive. However, there are sectors of property that are currently not part of the tax base. The IMF tax policy mission in 2014 recommended that some infrastructure property could be included and highlighted a number of international examples that would support this view. Currently, properties owned by national government are exempt from property tax. Hence, national companies (being part of linear infrastructure), i.e., electricity generation and distribution, railways, utilities, and airports would not be part of the tax base. However, other entitles with a national network that are privatized such as telecommunication companies, and renewable energy entities should contribute their share of property taxes.

91. The mission learned that in 2014 property tax was in fact levied on special properties, however, this was abandoned in 2017. This is unfortunate as large private sector enterprises utilize local services and should therefore make a contribution to their cost of provision. In some countries, the valuation of these unique types of property is centralized (United Kingdom, and several provinces in Canada) largely because they are national and cross the boundaries of many municipalities. The valuation approach is to determine a global value for the enterprise and then apportion this value between the municipalities if in fact the revenue is to be distributed to the local level.

92. Property taxes in Romania are typically described on the basis of ownership by reference to natural or legal persons. Municipalities gather data on the numbers of taxpayers rather than the number of properties. The number of taxpayers whilst useful does not give a clear indication as to the actual size of the property tax base. For example, one residential property may have joint owners which each responsible to pay their 50 percent of the tax. Hence two taxpayers and one property. Table 16 provides data on the number of buildings and land owned by national persons and legal entities. Clearly, for Brasov there is an increasing trend in the size of the tax base over the period 2019-2021. The total number of buildings has grown by 8 percent whilst land parcels have increased by 14 percent over the three-year period.

Table 16. Brasov and Constanta: Number of Buildings and Land Parcels

	2021		2020		2019	
Brasov	**Buildings**	**Land**	**Buildings**	**Land**	**Buildings**	**Land**
Natural Persons	147,620	180,398	141,691	168,980	135,845	157,900
Legal Persons	14,760	18,709	16,710	19,414	14,738	16,896
TOTAL	**162,380**	**199,107**	**158,401**	**188,394**	**150,583**	**174,796**

Constanta (2021)	**Buildings**	**Land**	**Cluj-Napoca (2021)**	**Buildings**	**Land**
Natural Persons	179,538	180,925		190,957	129,315
Legal Persons	3,245	3,102		1,341	4,659
TOTAL	**182,783**	**184,027**		**192,298**	**133,974**

Source: Municipality supplied data

Recommendations:

- Record the number of properties by property type such as residential vs. non-residential. It would be good if more granular data on property type could be collected such as apartment, dwelling house, retail, office, factory, hotels, etc.
- Reconsider the re-introduction of the property tax on large private sector infrastructure entities such as telecommunications and energy infrastructure.

D. Is there Enough Real Estate Market Evidence to Support a Value-based Property Tax?

93. 'Transparency' is a term widely used in the context of real property markets where a well-functioning market is a product of a free market economy. Thus, transparency is perceived both through the availability of market data and through the participants' reactions to them, which are typical features of efficient markets. Consequently, transparency determines the efficiency of the real estate markets, which are able to capture the relevant data and capitalize them in the market prices. A transparent property market can be characterized by the following: (1) the free flow of high-quality market information; (2) the availability of real estate price indices for market monitoring; and (3) the ability to access information on market transactions.

94. In jurisdictions where the property market is well-developed and a property valuers' profession is functioning adequately, market value is the preferred system. It is common in OECD countries (e.g., Canada, Germany, Finland, Italy, New Zealand, and the United States), but also encountered in "emerging" countries (e.g., Argentina, Brazil, Malaysia, and South Africa). In countries where the owner of land is also the owner of any improvements on the land, it would be conceptually difficult to determine separate values for the "land component" and the "building component". In such an environment land and buildings cannot be alienated or acquired separately and therefore there is only one single value. The property is perceived as a whole and therefore taxed with reference to the totality of its value. Whether properties are valued manually or utilizing computer-assisted mass appraisal (CAMA), a discrete "market value" is determined for every individual property.

95. The JLL Global Real Estate Transparency Index has ranked Romania at 35 out of 99 countries and is considered as a semi-transparent market. Evidence from international property consultancy companies operating in Romania supports the view of an active and vibrant real estate market, particularly in the larger urban areas.[25] There is growing international interest from investors acquiring large property investments in the retail and office sectors.

96. Romania's 1992 Constitution gives all citizens the right to own property and to leave that property by inheritance. Evidence would suggest that owner occupation of

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[25] CBRE Research, 2020. Market Outlook – Romania Report; Knight Frank, Romania Market Review 2020-2021.

residential property is in the region of 96 percent representing one of the highest in the European Union.[26] Figure 8 depicts the owner occupancy rates for selected EU countries. For Romania this would suggest that there is an active residential market with significant effective demand from potential buyers. The residential property market has been resilient and has shown steady growth.[27] Figure 9 illustrates the movement in the residential market since 2015.

Figure 8. Residential Owner Occupancy Rates in Selected EU Countries

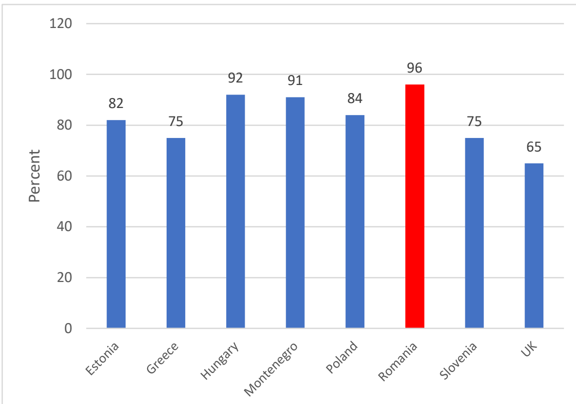
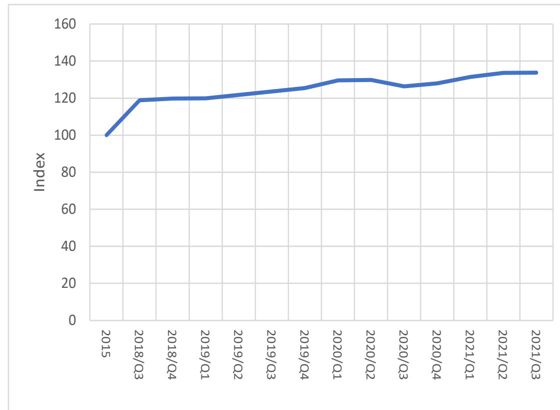


Figure 9. Romania: Index of Residential Property Prices – 2015 – 2021/Q3



Source: National Institute for Statistics (INS)

97. The fact that Romania has developed a basket of real property price indices is an indication that the market is mature and transparent. The National institute of Statistics (INS) produces a range on country wide indices on a quarterly basis including for apartments and dwellings in urban and rural areas, newly constructed dwellings, and apartments in Bucharest. They also produce a national house price index published quarterly by EuroStat.

98. Transaction data is forwarded electronically on a monthly basis by the notaries public to the INS. This is the primary data after a number of quality control checks are made that is used to develop the indices. The typical data that is provided by the notaries public include, area of building/apartment, are of land/dwelling houses, date of sale, age, construction materials, quality, location, ancillary buildings/garages, heating, and floor level (apartments).

E. Data for Property Tax Purposes

99. Property taxation requires accurate and accessible data on properties, taxpayers, and value indicators, such as sale prices. There are essentially two key data components that are important to a value-based property tax. The first relates to the data held on the tax base—i.e., the stock of properties that are liable to the property tax and the key characteristics held on each property. The second relates to data required to support the valuation of the tax base—i.e.,

[26] https://www. statista. com/statistics/246355/home-ownership-rate-in-europe/

[27] https://www. economy. com/romania/house-price-index/not-seasonally-adjusted

sales transactions. The property taxation system requires an accurate and comprehensive register of properties, and that register must be kept up to date to deal with new properties, sub-division of land and refurbishments to existing buildings.

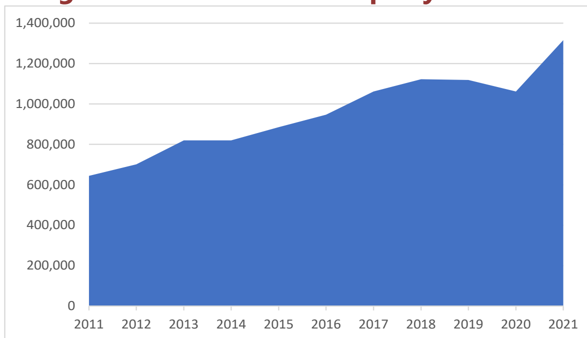
100. From a property tax perspective, the incomplete national cadaster and land register are not insurmountable problems. Unlike in several other European countries (Estonia, Latvia, Lithuania, and Slovenia) property taxes in Romania are not paid with reference to the records held in the national cadaster or land register, but on the basis of the self-declaration of property details by property owners at the municipality. All that is required is documentation (e.g., contracts) in possession of the owner, who declares the transaction in the property. In fact, the declaration is required from both the buyer and seller.

101. In moving towards a market value-based property tax, real property transactions / sales become a key data source. Transaction evidence is an invaluable component that tends to be a limited resource given the fluctuating level of transactions that occur on a year-to-year basis. An essential activity is being able to capture and register the transactions as they occur. Transactions should be viewed as a multi-purpose resource that not only supports market valuations but are also used for the development of real estate market sectorial indices such as single residential property, apartments, agricultural and urban land, and commercial real estate.

102. Notaries publics are mandated to share transaction evidence every six months with ANAF and on a monthly basis to the National Institute of Statistics. In 2008, a cooperation Protocol was signed between the National Institute of Statistics, the National Union of Notaries Public and the National Bank of Romania. The objective of this protocol was to support the sharing of real property transaction data with a view to compiling price indices for residential properties. The key information are the prices of residential properties that have been declared by the parties and authenticated by the notaries public.

103. Real estate indices are a useful tool in understanding how real estate markets are operating. The quantity of residential property sales would appear to exist as according to ANCPI in 2019 some 538,218 properties were sold and in 2020 the figure rose by 12 percent to 602,805. These sale figures represent around 6 percent of a total estimated residential stock of 9 million which is well within international norms for the number of properties that would typically be sold annually. Figure 10 shows an increasing trend in property transfers (buildings and land) for 2011-2021.

Figure 10. Number of Property Transfers



104. There are several institutions in Romania that are obliged to collect, store, and manage real property data. At present, the national cadaster collects both spatial and textual data on land and buildings. Notaries public are responsible for managing the transfer of properties and change in ownership, and share data on transaction prices. Municipalities, through self-declarations by owners, have detailed information on land and buildings. Unfortunately, these databases are fragmented and cannot exchange and share information.

105. The current property taxes in Romania rely heavily on information being self-declared by both individuals and legal entities. This typically relates to changes in ownership, sale or purchase of a property, size of land and buildings, the construction of new buildings or the completion of refurbishments. The declaration of land and building information for taxation purposes and for their registration in the records of the local municipalities is a legal obligation placed on owners. The building and land data submitted to municipalities essentially forms the fiscal cadaster used to levy the property taxes. In parallel to the fiscal cadaster is the national legal cadaster. Declaration of buildings for property tax purposes is not conditional on the registration with the national legal cadaster. Whilst the legal cadaster is not used for property tax purposes it can be used to check data that has been submitted by owners for example the size of the land parcel and buildings.

106. Given the wealth of data stored in the various databases, it should be possible to share data through a unique property number. The national cadaster creates for each registered land parcel and building a unique cadastral reference number. Reforms should seek to ensure that properties in all the databases carry the cadastral reference number, if available.

107. A remarkable "value" based resource is the "Grid" system that is primarily used by the Notaries Public. This system has extensive geographic coverage in Romania. The 15 Chambers of Notaries procure the services of authorized valuers to compile the system on an annual basis. What is unique about this system is the granularity of the detail in respect to properties. Cities, towns, communes are divided up into zones and within each zone are lists of streets or parts of streets. Tables of values for specific property types show data on the prices of apartments for example, detailed by size (m^2), number of rooms, quality of construction and age of building. The system provides typical prices which can be used as a guide to check transaction prices that have been declared by the parties on a sale. The "Grid" system is effectively a standalone database of detailed price related information primarily used for the single purpose of verifying property transaction prices for the transfer tax. Since the system is open to the public and free, it could have other uses, e.g., supporting a self-declared residential property tax.

108. Transaction price data is a fundamental component in transiting toward a value-based property tax. There is a need for a systematic process for the recording and analysis of market transactions. To support the real estate market and to improve market transparency many countries particularly in Eastern and Southern Europe have established property sales price and rental registers. These registers draw data from recognized authorities such as the national cadaster or notaries into separate databases, which are then subject to a range of statistical analysis (see examples in Box 4). These registers provide the data to develop real estate price indices, which are extremely useful in providing independent information on market activity.

Recommendations:

- Make it mandatory that all official databases holding real property information should record the unique cadastral number so that information can be shared among different platforms.
- Develop additional protocols for the sharing of data between government entities such as the municipal fiscal cadaster and the national cadaster

Sale price registers

109. Given the importance of transaction prices to the valuation of property, Romania should consider establishing a Sales Price Register (SPR) based on declared transaction prices. It would be important to allocate the function of establishing and maintaining the SPR to a national government institution. A suggestion would be to consider the National Institute of Statistics. The SPR would essentially be a separate database but with links to the national cadaster and databases held by the notaries. For international examples, see Box 4.

Box 4. Examples of Sale Price Registers in Other Countries

Sweden

The Swedish Mapping, Cadastral and Land Registration Authority (Lantmäteriet) is the holder of the Sales Price Register (SPR). The main function of the SPR is to support the assessment of properties for the real property tax. In this regard the data is fundamental to the work of Lantmäteriet in undertaking general assessments and revaluations. In addition, the sales transaction data is provided to Statistics Sweden.

Macedonia

The Registry for Prices and Leases (RPL) was introduced by the Agency for Real Estate Cadaster in March 2015. The RPL is based on the Law for Real Estate Cadaster (2013) and applied to the mass valuation of property. All transactions are linked to a GIS system with all parcels having GPS coordinates. Transactions are published with a limited amount of information (such as transaction date, location, use of property, area of property, and transaction price). Access to more detailed information is only available to professional users such as valuers, notaries, and local governments.

Slovenia

The Property Market Register (PMR) was introduced in 2007 and managed by the Surveying and Mapping Authority. The transaction data and rental contracts are provided to the Statistical Office of the Republic of Slovenia, the National

Bank of Slovenia, and the Macroeconomic Office of Slovenia. Transaction prices are widely used for mass valuation, property indices, individual valuation, and market research for different purposes and national statistics.

Republic of Ireland

The Residential Property Price Register is compiled by the Property Services Regulatory Authority (PSRA), using information declared to the Revenue Commissioners for stamp duty purposes. The Register provides information on all residential properties purchased since 1st January 2010. The PSRA does not in any way edit the data. It simply publishes, in a fully transparent manner, the data from the declarations which are filed with the Revenue Commissioners. The Commercial Leases Register is produced by the PSRA pursuant to the Property Services (Regulation) Act 2011. The Register includes information on commercial leases entered into since 1st January 2010 such as, address of the commercial property, date of the lease, term of years and the rent payable.

110. The data contained in the SPR would have multi-purposes that would be able to support a number of activities around the taxation of real property. An obvious and important activity would be to support the development of a house price index at national and possibly at county levels. The SPR could also be used to: (1) establish benchmark values for capital gains tax involving real estate; and (2) provide indicative average prices of residential property at both city and county levels.

111. A further use of the SPR data would be in the development of Automated Valuation Models (AVMs).[28] Models such as AVMs are becoming extremely useful for the valuation of residential property. They are a cost effective and quick solution which have been adopted by the banking and finance industries to speed up the mortgage approval process. AVMs can be used when sufficient transactional data exists to permit development of representative and valid statistical samples. The International Association of Assessing Officers define an AVM as a statistically based model that market analysts use to produce an estimate of market value based on market analysis of location, market conditions, transaction prices, and real estate characteristics from information that was previously collected. The distinguishing feature of an AVM is that it is a market valuation produced through mathematical modelling.

Recommendations:

- Establish a Sales Price Register within the National Institute of Statistics.
- The National Institute of Statistics to consider the development of a residential property based Automated Valuation Model.

F. The Importance of Key Actors in the Real Property Market

Role of Notaries Public

112. The notaries public provide a critical function within the real estate sector namely, handling the legal process of land registration and acting as an important tax collector for national government. One of the important taxes they collect is the property transfer which is based on the declared transaction price agreed between the parties. However, to guard against

[28] Standard on Automated Valuation Models, 2018. International Association of Assessing Officers, Kansas, United States.

the under-declaration of prices the notaries have regard to a system of "Grid" values. In essence, if the declared price is above the indicative grid value, then the transfer tax is based on the declared price. On the other hand, if the declared price is below the grid value, then the tax is based on the grid value.

113. Notaries have access rights to the national cadaster to check whether a property has been registered. As unregistered properties cannot be officially sold this is a mechanism to capture at least on a case-by-case basis unregistered land and buildings. Notaries are organized into Chambers that cover the territory of Romania. Currently, there are 15 Chambers with each Chamber covering two to three counties. Notaries are civil servants appointed by the Ministry of Justice and currently number some 3,000.

National Association of Authorized Valuers in Romania (ANEVAR)

114. In Romania, the need for the services of professional valuers is expanding particularly within the areas of mortgage valuations, property taxation, sale and purchase, international investment, and development purposes. The growing professional association of valuers is to some extent a reflection that the real estate market in Romania is maturing. ANEVAR was established in 1992 when it had around 500 valuer members. Membership has continued to grow and currently there are some 3,800 individual valuer members and 570 member organizations. In addition, ANEVAR has provided training to over 12,000 individuals. The association has a professional membership that covers the entire country.

115. In 2011, ANEVAR was incorporated under Government Ordnance No. 24/2011 which gives authorized valuer status to those qualified member valuers. This is critically important as several areas of valuation require the services of an authorized valuer, such as valuations for bank loans and market valuations for non-residential buildings for the building tax. The continued development of the real estate market both for domestic and international clients prompted ANEVAR to adopt the International Valuation Standards as provided by the International Valuation Standards Council. In 2012 ANEVAR developed the Romanian Valuation Standards which are compliant with the IVS. ANEVAR is also a member organization of The European Group of Valuers Association.

116. Romania would clearly have a sufficient pool of valuers to respond to any reforms that impacted on the valuation of non-residential buildings. Table 17 illustrates the scope of valuation work undertaken by ANEVAR valuers in 2020. By far valuations for mortgage lending dominate the professional work of valuers supporting the view of an active real estate market.

Table 17. Market Valuations Undertaken in 2020

	Individuals		Companies	
Purpose of Valuation	**Number of valuation reports**	**%**	**Number of valuation reports**	**%**
Financial reporting	2,989	2.8	5,759	4. 3
Mortgage lending	49,386	46.0	94,049	70.1
Legal/Court	4,644	4.3	1,209	0.9
Building taxation	31,110	29.0	14,974	11. 2
Others	19,286	18.0	18,107	13. 5
TOTAL	107,415		134,098	

Source: ANEVAR, 2022

117. The valuation of buildings for municipal tax purposes represents an important area of professional work for valuers (see Table 17). The FC mandates that only authorized valuers are permitted to undertake the valuation of buildings. Given the importance of this work ANEVAR have developed a specific valuation standard. Such valuations are governed by the Romanian Valuation Standards that includes Valuation Guidance Note – GEV 500 – *Determination of the Taxable Value of a Building*.

118. Authorized valuers are requested annually by the Chambers of Notaries to revise the "Grid" values applicable to all main types of real property. The detail and level of granularity contained in these "Grids" is excellent and clearly a great deal of effort goes into their compilation. They are primarily used by the Notaries Public as a checking mechanism to ensure that declared transaction prices are in accordance with market prices. Whilst authorized valuers develop the underpinning data the notaries do not share transaction data with the valuers. The evidence valuers use will be from their own information largely based on an ANEVAR repository of all valuation reports prepared by member valuers.

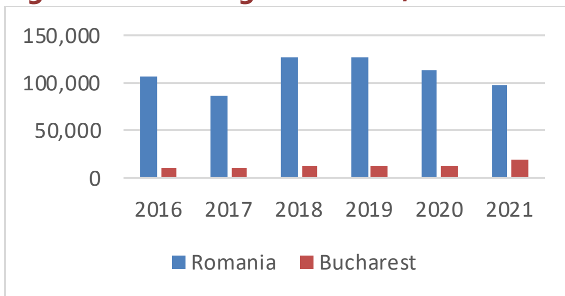
G. Property Tax Valuation for Non-residential Buildings

119. Non-residential buildings are assessed not to an estimate of market value but rather to a value based on construction costs. This estimated value is somewhat different to "book" value which is more of an accounting term and typically related to a value that has been depreciated annually since the acquisition of the property. The current valuation practice for buildings is to obtain a valuation report from an authorized valuer (valuer registered with ANEVAR) to undertake the cost based valuation to produce a taxable value. ANEVAR have developed a cost based resource which provides detailed estimates of costs for some 90 plus types of commercial buildings. These cost estimates also take into consideration the location of the buildings being valued, specifically including transportation costs.

120. It is mandatory for valuers to comply with the Romanian valuation standards and specifically Valuation Guidance Note – GEV 500: Determination of the Taxable Value of the Buildings. This guidance note provides details on the valuation methodology and the procedures that the valuer must comply with. Building valuations must be prepared every five years (previously it was every three years though the FC 227/2015 introduced the amendment).

Figure 11 illustrates the number of building valuations conducted by valuers in Romania and Bucharest.

Figure 11. Building Valuations, 2016 – 2021



Source: ANEVAR, 2022

121. **The owner of the building is responsible to pay for the valuation provided by an authorized valuer.** This approach abrogates any responsibility for valuation away from the municipality onto the owner. It represents a zero-cost which is obviously advantageous to the municipality. In most other international jurisdictions, it is the responsibility of the government (national or local) to undertake the valuations at their cost. The FC's amendment to increase the gap between valuations from every 3 years to 5 years was clearly to reduce the cost to owners.

122. **There would appear to be no quality assurance of the valuations provided unless municipalities do sample checking of the values.** The use of an authorized valuer is good practice given that they are mandated to follow prescribed valuation standards and would have recognized educational qualifications and professional training. Therefore, the valuations provided should meet specific quality standards, however, it is likely that municipal valuations will be undertaken by several valuers which could result in inconsistent valuation levels.

123. **The fact that not all buildings are valued as at the same valuation date created a lack of uniformity in the system.** International practice follows quite a different approach where all properties are valued at the same valuation date. The currently adopted process results in buildings being valued at different valuation dates. In fact, not all buildings need to have a valuation, as an example, for newly constructed buildings the construction price can be accepted. Under these current valuation approaches there is no uniformity: two identical buildings could have quite different assessed values due to being valued at different dates several years apart.

124. **The ideal situation would be to have all properties within a municipality valued to the same valuation date.** Not all municipalities would have to have the same valuation date. In fact, it would be preferable if they did not, given the large task to value all buildings in the country at the same time. Hence, to value all buildings within a municipality to the same valuation date would require a different approach.

Land on which buildings are constructed

125. The land on which the building(s) has been constructed is not part of the valuation process but rather the land is assessed according to a table of values contained in the FC. If the land is in the same ownership as the building, the preferred option would be to value the land and building as a single property unit. This approach would be more in line with how the real estate market views property, as land and buildings together. It would then allow the valuer to apply different valuation methodologies such as the income approach or discounted cash flow to value the property (this methodology is also covered by the Valuation Guidance Note – GEV500). It would then negate the need to have a separate assessment of the land as it would be reflected in the total property value.

126. Adopting market value as the value standard would necessitate a reassessment of the property tax base at regular intervals. The pace of economic change and volatility in the property market will rapidly make valuations dated, such that each taxpayer's relative share of the liability may no longer reflect current relative values. As values move relative to each other over time, with some locations or property sectors becoming more or less valuable relative to others, the distribution of liability for tax will become less appropriate. However, keeping that liability in line with current values assists the political credibility of the system as a tax basis.

127. Non-residential properties are required under the FC to be revalued every five years. This is in line with international norms which suggests that all properties should be revalued at least every 4–6 years.[29] The credibility and buoyancy of a value-based system are dependent on comprehensive and regular general revaluations. The periodicity is primarily determined by two issues: (1) the dynamics of the property market; and (2) the availability of valuation resources. In some jurisdictions (e.g., Hong Kong, Singapore, British Columbia (Canada), and Queensland (Australia)) all properties are revalued annually. In other jurisdictions, the valuation cycle may be legislated on a fixed cycle basis, for example, two years (Denmark), three years (Australia, New Zealand), four years (Ontario, Canada), and five years (Malaysia). The City of Cape Town, South Africa, is presently on a three-year cycle whereas the law stipulates that a revaluation must occur at least every four years.

Recommendations:

- In respect of non-residential property, the land and the buildings constructed on the land should be valued to market value comprising a single property unit.
- Non-residential property valuations should be undertaken at the same date of valuation.

[29] Standard on Property Tax Policy, 2020. International Association of Assessing Officers, Kansas, United States

H. Policy Choices in Valuation Administration

128. A critical question when considering the introduction of a market value based property tax is, who should have the responsibility for valuation? In the present context for Romania this has partially been addressed by authorized valuers undertaking non-residential property valuations. The bigger issue will be if residential properties are to be valued. Internationally, different approaches are adopted. There are various options available to authorities when valuing properties for purposes of property taxation. These are: (1) national government; (2) dedicated national government agency; (3) local government valuation department; (4) private sector; (5) self-assessment or -declaration of values; or (6) combination of the above. Table 18 illustrates across a number of countries the primary responsibility for valuation. In several countries including Estonia, Latvia and Lithuania the private sector has a partial involvement in the valuation process.

Table 18. Responsibility for Valuation in Selected Countries

Country	Responsibility for valuation	Comments
Albania	National government	Ministry of Finance
Czech Republic	Local government	National government establish adjustment coefficients
Estonia	National government	National Land Board
Greece	National government	Ministry of Finance
Kosovo	National government	Ministry of Finance
Latvia	National government	State Land Service
Lithuania	National government	National Center for Real Estate Registers
Macedonia	Local government	National government establish adjustment coefficients
Moldova	National government	National Cadastral Agency
Montenegro	Local government	National government establish adjustment coefficients
Poland	Local government	National government establish adjustment coefficients
Serbia	Local government	National government establish adjustment coefficients
Slovenia	National government	Surveying and Cadastral Agency
Slovak Republic	Local government	National government establish adjustment coefficients

Radvan, M. , Franzsen, R. , McCluskey, W. J. and Plimmer, F. (Eds). 2021. *Real Property Taxes and Property Markets in CEE Countries and Central Asia* Lex Localis, Institute for Local Self Government, Slovenia.

129. A centralized valuation administration has the following advantages: (1) It improves the chances that economies of scale will be realized in terms of valuation skills and the use of automated mass appraisal approaches; (2) It provides a single structure for dealing with all ratepayers throughout the country; (3) It permits the development of a single information system to support a national valuation; (4) It improves the quality of valuations through consistent and uniform processes; (5) A centralized valuation administration can be better equipped in terms of resources to deal with valuation activities that cross regional or local jurisdiction boundaries within the country. Disadvantages of a centralized valuation department would include: (1) Valuation may become remote from the locality in which the property is located and hence a loss of local knowledge; and (2) Unless there is a local dimension to the valuation department property owners may have considerable distances to travel to meet valuation officials.

130. Local valuation administration has the following advantages: (1) Familiarity with local conditions and better understanding of the local real estate market; (2) It is easier for property owners to see which government is administering the property rates; and (3) Better transparency in the valuation process through having locally based meetings with property owners. Disadvantages of a local valuation department would include: (1) The Lack of experienced staff with the requisite valuation skills; (2) Inability to value all specialized property within the local jurisdiction; and (3) Inability to retain staff resulting in a significant workflow and planning issues.

131. The out-sourcing of valuations to private sector valuers is common internationally. This is particularly the case when local government have responsibility for valuations, and they have insufficient capacity to undertake this work. Contracts with the private sector can involve doing valuations for all properties or specific types of property. A disadvantage of out-sourcing can be the cost though this can be made more cost effective if several municipalities collectively contract with the one valuation provider (a good example is in South Africa). There are international examples where municipalities who do not have the in-house valuation capacity contract out to firms in the private sector. In fact, there is a trend where valuation firms specialize in undertaking municipal valuations for property tax purposes. Examples include Netherlands, South Africa, New Zealand, and the state of Victoria, Australia.

132. Romanian municipalities currently would have no capacity to undertake property valuations. Allocating valuations responsibilities to this level of government would be difficult which has led to non-residential properties being valued by the private sector. Therefore, any changes in valuation responsibility would have to be mindful of the lack of capacity at the local level. Municipalities could recruit valuers to provide for in-house valuations, however, whilst cost could be an issue it would not be insurmountable. Clearly, in the short terms the private sector should continue to undertake non-residential property valuation (land and buildings).

Recommendation

- The larger municipalities should consider the benefits of an in-house valuation department.

I. Reform Options for the Recurrent Property Tax in Romania

133. The transition to adopting market value as the basis of the property tax should consider non-residential property separately from residential property. As recommended by the IMF Mission in 2020 this mission would also support the merging of land and buildings to comprise a single property unit. This would then provide for a single valuation of land and the buildings on the land reflecting on how the real estate market actually operates. Non-residential property would have a single valuation of market value and a single tax rate would then be applied. This would effectively remove the need to apply a separate tax rate on the land. Overall, the administration at the municipal level would be simplified.

Options for the valuation reform of residential property

134. Residential property has separate assessments of land and buildings that only have a loose connection to the market value of the property. The residential property market in Romania considers such property quite differently, namely as a *single property unit*. This view is reinforced by reference to the residential property indices produced by the National Institute for Statistics (INS). The indices for dwelling houses are derived from transaction prices that have a single value for the property.

135. There are essentially two options to reform the property tax on residential property. The first would look towards a revision of the tables contained in the FC. It is clear that the values and the adjustment coefficients could be re-engineered to align them more closely with market realities. The advantages of this approach would be the familiarity with the processes and procedures and simplicity of administration at the municipal level. The second option would be to consider those methodologies that could be used to move the valuations towards adopting market value.

136. Whilst Romania would face challenges in adopting a market value based approach for residential property there exists the necessary frameworks to achieve this. The scale of the valuation exercise would involve the assessment of some 9 million residential properties. Transitioning to value these properties to an estimate of market value would require a complete change in valuation processes. Different countries have adopted specific valuation methodologies to tackle the valuation problems associated with large numbers. There are two potential options that could be considered. The first option would require owners of residential property to make a self-declaration of the value of their property into one of a range of value bands. The second option, and technically the most challenging one, would be the use of a statistical approach referred to as CAMA.

137. Introducing a market value based solution for residential property will require significant investment into the design of new systems, including the development of institutional capacity. Decisions would need to be taken on whether to revise the current table based assessment approach or to adopt a more market orientated methodology. Having a focus on the former would be the easier option and in many ways the line of least resistance. The latter option would clearly result in a fairer and more transparent property tax.

Revision of the current assessment methodology

138. When it comes to reform options it is important to consider the status quo of the existing system. Key to the reform argument is the fact that the current prescribed residential land and building tax bears little relationship to the market value. The assessment tables and coefficients contained in the FC are a means whereby adjustments can be made to better reflect market value, but only if there is a calibration with market prices.

139. The relationship between the tables and coefficients and market prices needs to be clearly analyzed. The annual uplifting of the table values by the rate of inflation, whilst recognizing the importance of such indexing, it still may not be enough. Inflation rates in Romania over the past 3 to 4 years have been at historically low levels. What is required would be a detailed analytical study into the various coefficients with a view to recalibrating them to achieve assessments that are closer to current market prices. Table 19 illustrates the differences between the assessed value based on the tables and the market price of the two properties.

140. Significant differences are observed. The application of legislated FC coefficients to a surface area of a 50 square meter apartment gives an assessment value of €25,270 versus an average market price of €88,300. This is a ratio of 1:3.5. For a detached dwelling house, the ratio is 1:2.2—FC value of €86,000 versus average market value of €185,000.

Table 19. Comparison between Tables-based Assessment and Market Prices

Example: City Center Apartment in Cluj-Napoca	
Property details: 50m^2, constructed of reinforced concrete, all utilities connected, built 5 years ago; centrally located in Zone A.	
Current property tax assessment	**Adopting average market price**
50m^2 x 1,000 x 2. 5 = 125,000 RON (€25,270)	50m^2 x €1,766/m^2 = €88,300
Applying a tax rate of (0.1 percent) 0.001 x €25,270 = **€25**	Applying a tax rate of 0.000286 x €88,300 = €25
	Alternatively, applying a tax rate of 0.0005 x €88,300 = €44
Assuming land value reflected in assessed values	
Source: Cluj-Napoca, Real Estate Transaction Guide 2020, Veridio	
Example: Detached dwelling house in Cluj-Napoca	
Property details: 170m^2, land area 400m^2, constructed of reinforced concrete, all utilities connected, built 5 years ago; centrally located in Zone A.	
Current property tax assessment	**Adopting average market price**
170m^2 x 1,000 x 2. 5 = 425,000 RON (€86,000)	170m^2 x €1,766/m^2 = €185,000
Assuming land value reflected in assessed values	

Source: Cluj-Napoca, Real Estate Transaction Guide 2020, Veridio

141. A potentially easier option in reflecting market prices would be to adjust the table based assessed values and adjustment coefficients. Ideally, there should be more differentiation between the ranking of municipalities and between the zones within a locality. Indeed, larger cities could have more zones whilst smaller communes could have fewer. Much does depend on what the market evidence shows. In the short term (over the next year), the authorities could modify the current table-based approach for residential property. This means, up-dating the values in the tables as well as adjusting the coefficients. In fact, these adjustments could be calibrated with market evidence to ensure that the assessed values are closer to market values.

142. In the absence of granular data on real estate values, the observed differences between assessed and market values of the two property types in Cluj-Napoca could be used to estimate the potential revenue impact of moving assessed property values closer to their market values. Taking into account the vibrancy of the real estate market in Cluj-

Napoca—the most upmarket high-value city in Romania—the coefficient adjustments that was derived earlier, i.e., 3.5 for apartments and 2.2 for a detached dwelling, must be significantly adjusted before they can be extrapolated to the rest of the country. With apartments being the most prevalent building stock category in the cities, we use the derived factor of 3.5 but, *very conservatively,* half it to 1.8 for a country-wide application. The current recurrent property tax revenue importance in Romania is 0.5 percent of GDP. Moving assessed property values closer to their market values could conservatively yield an additional 0.4 percent of GDP (0.5 percent x 1.8 adjustment factor=0.9 percent of GDP).

143. The authorities could at the same time investigate the potential to move to a self-declared value banding system for residential property. A realistic timeline to have a working system would be two years. This would allow the authorities to pilot test the various components of a banding approach such as the number of bands, band widths and tax rates. In addition, this time period would enable modifications to the legislation to be made.

J. Self-declared Value Banding

144. Market value is a tried and tested basis of assessment that is internationally accepted, and by implication, readily understood by taxpayers all over the world. At any point in time, most homeowners will have a reasonable sense of the market value of the home in which they live by reference to recent sales and to officially and privately published data on house price movements. Where there is doubt in individual cases, estimates can be obtained from professional auctioneers or valuers. Owners therefore should be well placed to be able to estimate the value of their property. This in essence is at the core of self-declared banding as a system for property taxation.

145. The way that the current property tax system is designed results in few challenges by owners to the assessed values. This is largely because owners have to self-declare the information on which the assessed value is based. This is the case for residential buildings and land. In the case of non-residential buildings, the owner must obtain a valuation report. The only challenges would come from the municipality if they disagreed with information provided or valuations for non-residential property.

146. Any reform must be cognizant of the demands that may be placed on the existing property tax administration. In reforming the property tax on residential property, the maxim should be to keep the alternative option as simple as possible for both the taxpayer and the tax administration. New approaches have to be capable of being administered by all municipalities including the smallest and least capacitated. Therefore, the design of alternatives must not place undue burdens on both the municipality and the taxpayer alike.

147. Building on the well-established practice of self-declaration by owners it would be possible to design a market value-based property tax for residential property. A key factor in supporting this approach is the availability of transparent information relating to residential property market values. An active real estate market that produces significant numbers of property sales annually would be a strong indication of the availability of market prices.

148. There are significant advantages of this approach which would include the following. (1) Given that the estimated values would be self-declared there would be minimal objections for municipalities to deal with; (2) Normally, it is the national or local government that provide assessed values for property tax purposes. Therefore, they bear the cost of this valuation exercise. With self-declaration, municipalities would just have to bear the costs associated with the administration; and (3) Self-declaration allows for the assessment of large numbers of properties within a relatively short time frame, less than 18 months would not be unrealistic; and (4) Municipalities currently have comprehensive data on the owners of residential property that would allow for cross-checking of self-declared returns.

149. Self-declaration would have a number of issues that would need to be considered. A key concern would be under-declaration. This can be minimized if information supporting the declared value is also attached. As self-declaration is not an exact science it is important to appreciate that owners' estimate of market value are normally made in good faith. The principle would be to accept the declared values but have measures in place that can be applied if under-declaration becomes evident. For example, if a dwelling is sold for a price significantly higher than the declared value (say within 2 years of the declaration) the additional tax must be paid, plus interest. In those cases where no declaration is made the municipality could estimate the value of the property based for example on the "Grid" price used by the Notaries Public.

150. A key requirement for self-declaration is permitting owners to have recourse to several sources of market related information. These could include sale and purchase prices, asking prices of similar property on estate agents' websites, property insurance values, recent independent valuations conducted by authorized valuers for mortgage purposes and information held in the "Grid" system on the Notaries Public website.

151. The self-declaration of value for residential property is normally based on the owner identifying which value band the property should be allocated. Box 5 illustrates a banding approach used in the Republic of Ireland. This approach recognizes that property values are estimates and as such the band widths give some flexibility to that estimate. Table 20 illustrates the different banding regimes adopted for England, Scotland, and Wales. The banding scheme is designed at the country level as opposed to individual subnational governments.

Table 20. Banding Regimes for England, Scotland, and Wales

	England	Scotland	Wales
		In £	
A	up to 27,000	up to 40,000	up to 44,000
B	27,001 - 35,000	40,001 - 52,000	44,001 - 65,000
C	35,001 - 45,000	52,001 - 68,000	65,001 - 91,000
D	45,001 - 58,000	68,001 - 88,000	91,001 - 123,000
E	58,001 - 80,000	88,001 - 120,000	123,001 - 162,000

F	80,001 - 106,000	120,001 - 160,000	162,001 - 223,000
G	106,001 - 212,000	160,001 - 320,000	223,001 - 324,000
H	over 212,001	over 320,000	324,001 - 424,000
I			over 424,001

Source: HMRC, London.

Box 5. Self-declared Banding Scheme in Ireland

The Program of Financial Support for Ireland agreed with the EU and the IMF contained a commitment to introduce a local property tax (LPT). The introduction of the LPT in 2013 was the largest extension of self-assessment in the history of the State, with over 1.3 million taxpayers obliged to file LPT Returns and pay the tax in respect of around 1.9 million properties. The first valuation date was 1 May 2013. The valuations declared for that date determined tax liabilities for 2013 (half year), 2014, 2015 and 2016. The next revaluation date was due on 1 November 2016 which would determine tax liabilities for 2017, 2018 and 2019 however, the revaluation date was pushed back to 2019 to cover years 2020, 2021 and 2022.

The basic rate of 0.18 percent applies up to property values of €1m with a higher rate of 0.25 percent applying on the portion of value above the €1m threshold. In addition to the progressive rate structure, and to the extent that better off people tend to own more valuable properties, the LPT is a progressive tax particularly over the life cycles of taxpayers. Local authorities have had discretion to vary the LPT rates by up to 15 percent. For assessment purposes, property values are structured according to valuation bands of €50,000 in width, with an initial band applying to properties valued between €0 and €100,000. Tax liabilities are calculated by applying the tax rate (0.18 percent) to the mid-point of the band. Both Commissions on Taxation suggested that assessments based on self-declaration of property values by taxpayers would ease compliance for taxpayers. The establishment of a publicly accessible data base on residential property sales by the newly established Property Services Regulatory Authority (PSRA) would provide owners with reliable evidence on which to value their property.

Value Band	Valuation Band Range (€)	Mid-Point of Band (€)	Annual PT liability (€) @ 0.18%
1	0 –100,000	50,000	90
2	100,001–150,000	125,000	225
3	150,001–200,000	175,000	315
4	200,001–250,000	225,000	405
5	250,001–300,000	275,000	495
6	300,001–350,000	325,000	585
7	350,001–400,000	375,000	675
8	400,001–450,000	425,000	765
9	450,001–500,000	475,000	855
10	500,001–550,000	525,000	945
11	550,001–600,000	575,000	1,035
12	600,001–650,000	625,000	1,125
13	650,001–700,000	675,000	1,215
14	700,001–750,000	725,000	1,305
15	750,001–800,000	775,000	1,395
16	800,001–850,000	825,000	1,485
17	851,000 - 900,000	875,000	1,575
18	900,001–950,000	925,000	1,665
19	950,001–1,000,000	975,000	1,775
20	Over €1m		

152. Requiring residential owners to self-declare the market value of their property is becoming more widespread as an efficient way to deal with large numbers of residential properties. This approach requires good public relation campaigns and communications on how owners have to comply with the self-declaration requirements. Good examples can be found in Great Britain (England, Scotland and Wales) when in 1993 some 30 million residential properties were valued using owners' self-declaration of value. The Republic of Ireland in 2014 introduced a residential property tax based on owners' self-declared market values for 2 million properties.

153. A property value banding system relies upon the concept of dividing properties into different value bands according to an estimate of their market value for the purposes of determining a property tax bill. The process is one of estimation rather than valuation. Owners typically have a rough idea as to the value of their property and should therefore with a degree of accuracy be able to place their property into the appropriate band. There are essentially three key elements of banded system firstly, the number of value bands, secondly, the band widths, and thirdly, the tax rate per band. These elements can be modified in different ways to examine whether a banding system can perform adequately in terms of progressivity, a key factor in assessing the fairness of a tax.

154. In devising the bands, a balance should be struck between the width of the bands and avoiding substantial liability differences between adjacent bands. The creation of a sufficient number of taxation bands allows property owners to place their properties in an appropriate valuation band with confidence. They should be able to do so without potentially being exposed to disproportionate risks if they incorrectly position their properties by one or even two bands. The wider the band, the easier it is to carry out a self-assessment, but very wide bands run the risk of creating inequities between taxpayers as well as compliance challenges.

155. Owners are obliged to self-declare the band they believe corresponds to the market value of their property. They can just identify the band or use recent information to support their choice of band such as: (1) recent purchase of the property within last 3 years; (2) recent valuation of their property such as for a bank loan or other purposes; (3) recent insurance value of their property; and (4) asking prices of similar properties advertised on real estate agents' internet sites. If property is co-owned, only one declaration is required.

156. Self-assessment requires owners to honestly assess the value of their residential property. If owners follow government guidance honestly, the valuation is unlikely to be challenged. Challenges can be made where deliberate under-valuation has occurred. Owners are responsible for ensuring that they choose the correct value band for their property. If an owner sells their property, and there has been a substantial increase in value beyond the declared value, they could be liable for payment of back tax. Houses in the capital city selling for more than 25 per cent of their declared values are required to provide evidence to substantiate their original valuation; the level is set at 15 per cent in the rest of the country.

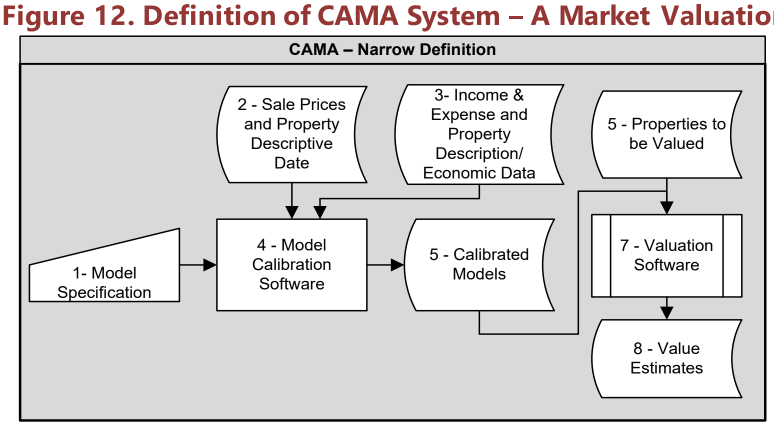
157. The introduction of a banding system for residential property tax purposes in Romania would be implementable. The supporting infrastructure is already in place with comprehensive residential property databases along with ownership information at each municipal government. The "Grid" system used by Notaries Public provides sufficient granular information on residential property prices for owners to estimate the value of their property. The real estate market for residential property is active, mature, and transparent.

158. To move to a banded system of property taxation would require planning and a strong public information campaign. Implementing a new valuation approach would have risks therefore it would be important to undertake detailed revenue modelling to measure any revenue impact at the individual taxpayer level. With any reform of this scale there inevitably would be "winners" and "losers" therefore being able to identify the issues early in the design process would be critical. Value banding would introduce a fairer and more equitable property tax for residential property whilst introducing an element of progressivity. A key advantage of a banded approach lies in its administrative simplicity and low cost of implementation. In addition, the system could be introduced within an 18-month timeframe though advice would be to ensure proper and diligent planning.

K. Automated Valuation Using Computer-Assisted Mass Appraisal

159. CAMA is now universally used by many countries (Denmark, Netherlands, Slovenia, Estonia, and Lithuania) and refers to a system that uses multivariate statistics to arrive at an estimate of the value of real property. A CAMA system is comprised of only a few components: (1) Model Specification (the mathematical form of the valuation model or models); (2) Sales Price and Property Descriptive Data; (3) Model Calibration (usually a multivariate statistical method); (4) Calibrated Models (Some function of the input data with model coefficients determined. A mathematical expression for computing a value estimate); (5) Properties to be valued (property characteristics needed by the valuation model in computer readable form); (6) Value Estimates. Figure 6 illustrates the main components of a CAMA system. The purpose of a CAMA system is to efficiently provide an accurate, uniform, equitable estimate of market value.

Figure 12. Definition of CAMA System – A Market Valuation



160. The core of the CAMA system would be to have an integrated database of properties rather than a series of separate data silos which requires decisions on how to match or join parcel data with other data sources that do not have a parcel reference. An integrated database affords numerous operational efficiencies as well as ensuring a higher degree of data integrity. The benefit of a CAMA methodology is that the developed statistical models can be applied to large numbers of properties, for example, all apartment buildings in large cities. Calibration techniques are largely in the domain of multiple regression analysis. The development of such approaches requires specific characteristic data on the population of properties to be valued along with transaction data. The essence of the methodology is that predictive models are built on the transaction data, tested for accuracy and quality, and then applied to the population.

161. The experience of other countries would suggest that the development of a CAMA solution would take several years (Slovenia would be a good example). There are degrees of complexity in the design as well as cost constraints that would be beyond the resources for small municipalities. Given these issues the more likely candidates to develop such as system would be national government or the larger municipalities. The situation is that municipalities in Romania have no experience in the development and application of such methodologies therefore it would take several years to build such technical capacity. The application of a CAMA approach would also bring into play the opportunity for taxpayers to lodge objections and appeals to the assessed values. This is one particular area that should not be under-estimated given the time required to deal with the challenges to the values. As a rule of thumb, following the valuation of all properties within a jurisdiction some 2 to 5 percent would be the subject of an appeal. Also, there are the costs involved in handling appeals such as legal fees, valuer fees and court costs.

162. Introducing a market value based property tax where estimates of value are undertaken by either national or local government would require an appeal system. International best practice[30] would suggest that what taxpayers want is a process from start to finish that is quick, cheap, simple, proportionate, stress free, rigorous, authoritative, and final. In view of this the following elements are important: (1) Independence from those whose decisions are being reviewed; (2) Timeliness and proportionality; (3) Process of informal hearing in an attempt to resolve the matter(s) in dispute; (4) Comprehensive information about the process that is non-technical; (5) Non-adversarial hearings that are not too daunting or legalistic; (6) Consistent and comprehensible decisions; and (7) Good value to the taxpayer. The develop of a CAMA solution for residential property whilst feasible would require significant institutional reforms. The technicalities of this approach would be well beyond the capacity and resources of municipal government. However, it would be within the competency of national government, though even here there would be significant challenges. This approach would take several years

[30] IAAO, 2014. *Standard on Assessment Appeals.* International Association of Assessment Officers. Kansas City, Missouri, United States.

to implement and would require significant investment in technology and human resources to administer and maintain the approach. Hence, the mission proposes the self-declared value banding system for Romania as a more immediate solution.

Recommendations

- Conduct analytical studies to calibrate more closely to the market the value tables and adjustment coefficients contained in the Fiscal Code.
- Evaluate the potential of introducing a value banding for the residential property tax.
- Consider the option of Romanian residential property owners self-declaring the band they believe corresponds to the market value of their property.

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