

Proposal to abolish property tax on primary residence (2/9/20)

On 17 February a meeting of the Parliamentary Subcommittee on Tax Policy debated changes to the procedure for calculating real estate tax (RET). The Ministry of Justice has submitted proposals for abolishing RET on a person's primary residence worth up to EUR 100,000 and for substantially reducing the level of RET on homes with a cadastral value (CV) higher than that. There are plans to introduce a special value which, once a new CV base is adopted, would provide a mechanism for reasonable RET charges and strengthen everyone's right to a privately owned home.

The current rules

RET is a mandatory charge the owner of RE must pay to the municipality responsible for the area the RE is situated in. Under the current rules, RET calculations are based on CVs. Rural land is the exception, with a special value introduced for RET purposes that is manually calculated in addition to the CV outside the Cadastral Information System under the RET Act effective from 2016.

The current rate of RET on land, buildings or their parts and engineering facilities is 1.5% of their CV. This rate applies unless the municipality has issued binding regulations laying down a different procedure. The RET Act permits municipalities to determine a tax rate of 0.2–3% of CVs, and municipal regulations may grant relief equal to 25–90% of the tax rate.

The rationale behind the proposals

From an economic standpoint, the CV replaces any individually calculated market value to provide the government with information where an individual valuation is not efficient to make. The CV is the basis for calculating RET, various duties and land rents, as well as being used in transactions or disputes between owners of land and buildings.

Given the current RET rates and CV levels, a substantial group of RET payers already carry a disproportionate tax burden. Rising CV levels indicate a need to adopt an appropriate regulatory framework for reasonable RET charges.

The proposed changes

The Ministry of Justice's proposals provide for using two bases for RET calculation:

- the CV in general;
- a special value (SV) for RET purposes.

The proposals provide for calculating the SV of an individual dwelling house by subtracting EUR 100,000 from its CV and applying a coefficient of 0.2 to any remaining value. As a result, no RET would be payable on primary residences with a CV of up to EUR 100,000. To calculate the SV of residential development land, EUR 10,000 would be subtracted from its CV and a coefficient of 0.2 applied to any remaining value.

The proposals provide for charging RET on the SV of "primary residence" defined as an individual dwelling

house or apartment, with or without land, that is owned by an individual who has declared their domicile there.

If a dwelling house is not completely divided into apartment properties and is owned by one individual who has declared their domicile there, then RET is charged on the SV of the entire dwelling house. If a dwelling house is owned by two or more individuals who have declared their domicile there, then RET is charged on the SV of the group of dwelling premises.

According to the proposals, no other RET relief will be available if tax is charged on the SV.

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