

# Cadastral value update in 2025: How will it affect taxpayers? 3/46/24



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In early 2024, Parliament amended the National Cadastre Act to change how cadastral values of real estate (RE) are set from 1 January 2025. Two cadastral values will be calculated and recorded for each cadastral item on a temporary basis: fiscal and universal. Fiscal value will be equivalent to the current cadastral value and used to assess real estate tax (RET) and other duties. Universal value is to be used in accounting records, financial statements and land rent calculations.

Adopting the new base of cadastral values is a step towards improving the system and moving cadastral values closer to the current market situation, which the lawmaker plans to achieve over the next few years. This article looks at the new cadastral values, explores how those are set and assessed, as well as outlining a few practical points you might want to consider before the changes take effect in 2025.

## Current rules

The cadastral value of RE is currently used for calculating more than 16 charges, including RET, land register duty, and central or local government land rent. The current cadastral values were to be applied up to 2019 under the Cabinet of Ministers' Rule No. 838 of 23 December 2014, yet they have been frozen for several years to prevent an increase in the RET charge.

The current cadastral values are based on the market information for 2012 and 2013. Because the situation has changed significantly over the last decade, the current cadastral values do not provide a real or even approximate idea of fair value. A detailed assessment of whether cadastral values reflect the market situation can be found in the annotation to a bill titled 'The Cadastral Value Base for Universal Cadastral Value Assessment'.

Since these cadastral values no longer reflect today's RE market situation, the lawmaker has passed amendments to change the cadastral value base system and temporarily introduce two types of cadastral value: fiscal and universal.

## Two cadastral values for each property

During the cadastral value base system overhaul period, the lawmaker has determined that each property will have two cadastral values from 1 January 2025.

### *Fiscal value*

This value will be used to pay RET, calculate duties and set rents charged by central and local government. Fiscal value will match the current cadastral value based on the RE market data for 2012–2013 (this was also used in computing the cadastral value for 2024). So there are no grounds for an increase in RET or other duties that are calculated from the current cadastral value. This has also been confirmed by the Ministry of Finance and the Ministry of Justice in public discussions.

## *Universal value*

This value will provide a fairer view of property value because it will be based on information on RE market transactions over the period from 1 January 2012 to 1 July 2022, not exceeding 80% of the average RE price level on 1 July 2022. This will be used to set fees for statutory use of land in the case of a split property, as well as in accounting records and financial statements.

The new values will be publicly available on the National Land Service's website [kadastrs.lv](https://kadastrs.lv).

## **Practical considerations when using two cadastral values**

### *Using universal value in accounting records and financial statements*

The lawmaker has permitted entities to use universal value in their financial statements and accounting documents. Accounting standards prescribed by the Company and Consolidated Accounts Act permit organisations to use two models for recognising RE in their books: the cost model and the fair value model. Under the cost model, RE is valued at cost less accumulated depreciation and any impairment, with no post-acquisition revaluations. The fair value model provides for annual RE revaluations, with a profit or loss on revaluation being recognised in the profit and loss account. In this case there is no need to calculate depreciation because the property value is remeasured regularly.

RE transactions on the market are commonly done at prices meeting the market situation. So the cost model will use the value in the relevant period, likely to be based on the transaction price in the period of acquisition less depreciation (except for land) in future periods. However, the fair value model involves annual revaluations, ruling out the possibility of using universal value, which represents only 80% of the average RE price level on 1 July 2022. It would not make sense to use universal value in any of these situations because RE is valued and recognised according to specific accounting principles. In this context, the lawmaker's intention to use universal value might be out of line with statutory requirements.

We will be monitoring and waiting for the lawmaker to publish comments or guidelines explaining the intended practical application of universal value in accounting records and financial statements.

### *Land rent and purchase in the case of a split property*

From 2025, universal value will be used to set the fee for statutory use of land, which is 4% of its cadastral value but no less than EUR 50 a year. This charge is payable in specific cases where a building item (e.g. apartments in a multi-apartment residential building) sits on land owned by another person. The adoption of universal value is expected to push this charge up.

However, the lawmaker has determined that apartment owners can buy the underlying land at universal value from 1 January 2025. This can be done at the cadastral value for 2019 up to 31 December 2024.

### *RE purchase for central or local government needs*

The lawmaker has not determined how the amendments will affect RE purchases made for central or local government purposes. Where RE is purchased to satisfy public needs (e.g. to create public infrastructure), the transaction will be invariably priced according to the market (additionally considering any loss caused to the owner during the disposal) based on a valuation from a certified RE valuer, who is usually brought in for public procurement.

### *Using fiscal value to calculate land register duties and PIT*

The Cabinet of Ministers' Rule No. 1250 of 27 October 2009 provides for charging land register duty on the contract of RE sale or gift as a percentage of the RE value. We are to use the higher of disposal value or cadastral value for land register duty purposes. Thus, to set land register duty from 2025, we will have to measure fiscal value and disposal value. In fact, the cadastral value for land register duty purposes will remain unchanged if we compare it in 2024 and 2025.

It's also worth noting that fiscal value in particular cases will be treated as RE cost to calculate personal income tax (PIT) on the RE disposal if none of the exemptions in section 9 of the PIT Act applies:

1. An exchange of RE is made and the contract of exchange does not specify the value of RE obtained through the exchange.
2. RE was acquired before 2001 and there is no document to confirm the acquisition cost.
3. RE is either inherited or acquired under a deed of gift and the inheritance document or the deed does not specify any value.

## The cadastral value system is at an early stage of improvement

Clause 50 of the transitional provisions of the Cadastre Act provide that government agencies and people will use two cadastral values – fiscal and universal – as a temporary mechanism up to 15 June 2027.

After the period of transition, the lawmaker provides that new rules will come into force for cadastral value calculations and a new base of cadastral values, likely to apply for cadastral value calculations from 2029 because in future new cadastral value bases cannot be published later than 18 months before their effective date. This means the public will know the new values at least 18 months before they start to apply.

The Cabinet of Ministers has been mandated to improve the legislation on cadastral valuation and to approve a new base of cadastral values that will replace the current system of fiscal and universal values.

This suggests that the changes will be gradual, allowing time for the government and people to adapt to the new cadastral valuation rules.

So, by introducing universal value, the amendments will update the cadastral values to have them perform their basic function of giving everyone a better idea of the value of their property without creating an RET base. Although fiscal value no longer corresponds to reality, it will not change until a new tax policy is developed to prevent RET charges from increasing too much after the cadastral value update.