



Enhancing Property Tax Systems: Proposals for Slovakia and the Czech Republic

Ádám Pál* 

* Doctoral candidate, Ferenc Deák Doctoral School, University of Miskolc, Miskolc, Hungary. Researcher, Central European Academy, Budapest, Hungary. E-mail: pal.adam@centraleuropeanacademy.hu

Abstract

Property taxes are often overlooked in discussions on taxation policy, despite their potential to contribute significantly to stable and sustainable public budgets, especially at the local level. This paper provides an assessment of possible reforms to the property tax systems of Slovakia and the Czech Republic, with a focus on the feasibility and justification of transitioning to a value-based assessment system. While acknowledging the need for increased revenues from property taxes, the author expresses skepticism about the suitability of such a transition in the contexts of both countries. The findings nevertheless underscore the comparatively low revenue impact of property taxes in both nations, indicating a need for alternative strategies to enhance revenue generation. The author argues that a proactive utilization of municipal discretion and minor legislative modifications offer more feasible avenues for enhancing property tax revenues without necessitating profound structural changes.

Keywords

property tax, local municipalities, Slovakia, Czech Republic, value-based, area-based

1 Introduction

Property taxes¹ frequently evade the spotlight in discussions on taxation policy. Their significance and impact are often overshadowed by the dominance of discourse surrounding income and value-added types of taxes, especially considering the rapidly evolving landscape of international tax frameworks in the EU or the OECD. These initiatives are relegating property taxes to the periphery of fiscal dialogue, overlooking their potential to significantly contribute to stable and sustainable public budgets, particularly at the local level.

Taxes on property are recognized as one of the most efficient (Brys et al., 2016, 17; Slack & Bird, 2014, 3) and the least detrimental taxes to economic growth (Leodolter et al., 2022, 31). They serve as an ideal instrument for enhancing the stability and resilience of the taxation

¹ For the purposes of this paper, ‘property taxes’ should be understood solely as recurrent taxes on immovable property, effectively burdening property holding. Any references or discussions involving other types of property taxes (e.g., transaction taxes on immovable property) will be explicitly clarified in those sections. Property taxes not imposed on immovable property are beyond the scope of this article.

system by harmonizing with income and turnover-based taxes. Their complementary nature arises from the distinct characteristics and responses they exhibit in various circumstances, often operating inversely to one another (Shoup, 1983, 40–41). If employed together, this symbiotic relationship ensures a diversified revenue base, mitigating the vulnerability of the fiscal framework to economic fluctuations, with the property tax functioning as a stabilizing element. Incorporating property taxes into the general tax system therefore enables a more resilient and equitable approach to taxation, better equipped to navigate uncertainties and promote enduring fiscal stability.²

The unique traits of property taxes also position them as ideal instruments for local-level taxation (OECD, 2022, 3.3.1.), where they often serve as primary revenue sources for local governments, as may be observable notably in countries such as the US or the UK (Kecső, 2016). This prominence stems, among others, from the logical interplay between property values, community development, and the provision of essential local services, suggesting a strong interconnection between property taxation and localized governance. While the rationale behind their efficacy at this level will be further elaborated in subsequent sections, their widespread adoption on the local level³ hints at their perceived effectiveness in meeting the fiscal needs of local jurisdictions.

Slovakia and the Czech Republic have also been actively leveraging the advantages presented by property taxes for several decades now. In both countries, property taxes are levied on a recurring basis, with the generated revenue allocated to local municipalities. However, one problematic aspect of property tax has always been strongly present in both countries: the low revenue volume, a characteristic, which has been widely recognized as well (OECD, 2022, 3.2.2). While calls for the raise of property tax have regularly surfaced in the mentioned countries, even from experts (Radvan, 2012, 211; Kul'ka et al., 2022, 171), these proposals failed to prompt substantial action. Following the COVID-19 pandemic and subsequent energy crisis, which led to substantial budgetary challenges in both countries, the need for additional public revenue sources became apparent. Consequently, the issue of raising property taxes resurfaced with renewed intensity.

The present article aims to provide a critical assessment of recent proposals for reforming the property tax systems in Slovakia and the Czech Republic. In both countries, the proposed amendments were profound and shared certain similarities. The primary objective in each instance was a substantial increase in the property tax burden. Various proposals were put forward regarding how this should be accomplished. Among other recommendations, the frequently proposed idea to transition from an area-based property tax system to one based on property value reappeared again.

Considering the current regulatory framework and the specific circumstances of the studied countries, the author investigates the necessity and justification of making changes to the existing systems. While acknowledging the genuine need for increased revenues from property taxes, the author expresses skepticism about whether transitioning to a value-based system would be appropriate in the contexts of Slovakia and the Czech Republic.

² For instance, during the COVID-19 pandemic, Hungarian municipalities with a higher reliance on property taxes experienced comparatively less negative impact on their tax revenues than those with no or minimal reliance on such taxes (Pál, 2024, 139–140).

³ As of 2021, property taxes were levied in all OECD member countries (OECD, 2022, 3.2.1), with the majority allocating revenues from recurrent taxes on immovable property fully or largely to local governments (OECD, 2022, 3.2.2).

The above statements establish the foundation for the article's hypothesis: Transitioning to a value-based property tax system is unsuitable for Slovakia and the Czech Republic due to administrative and socio-economic constraints, necessitating alternative reform approaches. The following chapters of this study will offer an examination of the current property tax frameworks in both countries, followed by an assessment of proposed conceptual changes. These evaluations will be divided into several chapters and subchapters, delving into the necessity of augmenting the property tax burden, the ramifications of transitioning to a value-based assessment system, and the author's recommendations for potential reforms. Ultimately, the concluding chapter will revisit the hypothesis, drawing upon the analyses presented throughout the article.

Throughout the paper, the author will utilize inductive reasoning to demonstrate the impact and feasibility of the proposed changes to the existing property tax systems. This approach will be complemented by the usage of statistical indicators to provide a comparative understanding of the current systems in the studied countries, in addition to describing and analyzing the present legal and factual environment.

2 Current system of property taxation in Slovakia and the Czech Republic

2.1 Property taxation in Slovakia

Property taxation in Slovakia is governed by Act No. 582/2004 Coll. on Local Taxes and the Local Fee for Municipal Waste and Small Construction Waste (hereinafter referred to as the 'Act on Local Taxes'), more specifically its second part, sections 4 to 18. Section 4 divides property tax into three distinct subtypes: land tax, building tax, and apartment tax. The implementation of the property tax in Slovakia is discretionary, allowing municipalities the autonomy to determine whether to enact it within their respective territories (Hečková & Račková, 2006). Consequently, the administration of real property tax rests with the municipalities that choose to introduce it (Románová, 2021, 92).

Under the standard rules of property tax in Slovakia, the property owner is considered to be the taxpayer. However, there are exceptions where the tenant becomes the taxpayer, such as when the land or building is leased from the Slovak Land Fund, or when the lease agreement is for a minimum of 5 years and the tenant is registered in the land registry. Additionally, if the taxpayer cannot be identified according to the usual rules, the Act provides that the taxpayer is the individual or entity who actually uses the building or land. These provisions offer sufficient flexibility to address ambiguities present in land registers (Babčák, 2022, 395).

Section 17 paragraph 1 of the Local Taxes Act outlines common statutory exemptions that are applicable across all three subtypes of property tax and are mandatory, obligating municipalities to adhere to them. These include properties owned by the municipality acting as the tax administrator, by foreign states for diplomatic functions, and by registered churches utilized for education, research, and religious rituals. Additionally, exemptions apply to properties managed or owned by states, self-governing regions, universities, and public research institutions for educational and research purposes. Publicly accessible parks owned by institutional healthcare providers and properties of the Slovak Red Cross also benefit from tax waivers under the Act's provisions. Overall, the mandatory exemptions from property tax are reasonably restricted.

Paragraphs 2 and 3 of Section 17 grant municipalities significant discretion to implement additional exemptions or reduce tax obligations for specific property categories. These optional exemptions encompass properties owned by non-profit entities, specific land uses such as

cemeteries, parks, or sports facilities, protected natural areas, public infrastructure such as transportation or energy distribution systems, educational and healthcare institutions, buildings subject to usage restrictions due to reconstruction or environmental concerns, properties utilized by individuals facing financial hardship, elderly, or disabled persons for housing or transportation purposes, structures associated with agricultural production, and properties owned by registered social enterprises. Municipalities thus possess the authority to significantly broaden exemptions as they deem appropriate, aligning with local needs and administrative factors.

2.1.1 Land tax

The land tax applies to a very broad range of land types: agricultural land,⁴ economically exploited forest and water areas, gardens, built-up areas and yards, and construction plots (Sec. 6 para. 1). However, lands or their parts that have transportation communications or buildings subject to buildings or apartment tax constructed on them are not liable to land tax (Sec. 6 para. 2).

The tax base of land tax is set diversely. The tax base of agricultural lands, gardens, built-up areas, and yards, and building plots is determined as the area of the given land in square meters multiplied by the value set in the Annexes of the Act on Local Taxes (Sec. 7 paras. 1 and 2). While the tax in these cases appears to be based on land value, the values contained in the Annexes are fixed and have not been adjusted to reflect current market values (Vartašová & Červená, 2019, 37). Consequently, the tax calculation does not effectively function as a value-based tax in these instances. A value-based approach is more accurately implemented in the case of economically exploited forest and water areas, which are multiplied by a unit value determined based on property valuation regulations (Sec. 7 para. 3). To add complexity, municipalities are permitted by the Act on Local Taxes to use values specified in their municipal ordinances in certain cases.⁵ However, this value can only be used if the taxpayer does not demonstrate the value of land by an expert appraisal (Sec. 7 paras. 5–7).

Municipalities have the authority to adjust the standard rate of land tax, which is set at 0.25% by the Act on Local Taxes, through a municipal ordinance. This ordinance can be tailored to specific parts or areas within municipal territory. Different tax rates can be set for various land types, but there are maximum limits defined by law. For agricultural land, the municipality can set a tax rate up to five times the statutory rate, while for economically exploited forest and water areas, it can be up to ten times. Gardens, built-up areas and yards, and building plots can have a tax rate up to five times the lowest rate set in the municipal ordinance for any land type (Sec. 8 paras. 1 and 2). If municipalities exceed the statutory maximum rate, the standard rate of 0.25% applies (Sec. 8 para. 5).

2.1.2 Building tax

The building tax in Slovakia applies to all buildings, except those with residential units, which are subject to the apartment tax. The Act on Local Taxes also excludes structures like dams, water pipes, sewerage systems, flood protection facilities, and heat energy supply lines (Sec. 10). The tax amount is based on the area of the built-up land in square meters (Sec. 11).

⁴ Including arable land, pastureland, orchards, vineyards, and other cultivated areas.

⁵ Municipal ordinance values may replace those determined by property valuation regulations, those specified for building plots in the Annex, or when the Annex designates the value of agricultural land as 0.

The rate of building tax is specified in Section 12 of the Local Taxes Act. The standard building tax rate is established at 0.033 euros per square meter of built-up area. However, municipalities have the authority to adjust this rate, allowing for differentiation in tax rates among various types of buildings, to reflect variations in function or usage as well as specific areas within the municipal territory. This adjustment is subject to a maximum limit of ten times the lowest tax rate prescribed for any other building category. This construction implies that, unlike land tax, building tax rates do not have a fixed ceiling; municipalities determine them based on their relationship to one another rather than adhering to a fixed statutory rate, affording them discretion to influence the final tax amount significantly (Vartašová & Červená, 2019, 57–59). Municipalities may also levy a 0.33 euro charge per each upper level in multi-story buildings. This provision grants multi-story buildings a tax advantage over single-story ones of the same floor area, effectively capping the tax burden for each additional story at the equivalent of 10 square meters of the standard tax rate, irrespective of their actual size. The law also empowers municipalities to sanction negligent building owners through the establishment of coefficients multiplying the annual tax rate.

2.1.3 Apartment tax

The apartment tax applies to both apartments (flats) and non-residential premises within residential buildings, as long as at least one unit is owned by an individual or legal entity (Sec. 14). The tax is calculated based on the area of the premises in square meters (Sec. 15). Like in the case of the building tax, the annual statutory rate for the apartment tax is 0.033 euros, with municipalities empowered to adjust it by ordinance and vary it across different areas. However, the highest rate cannot exceed ten times the lowest rate set in such an ordinance. Additionally, tax rates for non-residential units may vary depending on their function (Sec. 16). Again, much like the building tax, the maximum rate for the apartment tax is not fixed by the statute but is instead relative to the rates set for other apartment units within the same municipality.

2.2 Property taxation in the Czech Republic

The regulation of property tax in the Czech Republic is detailed in Act No. 338/1992 Coll. of the Czech National Council on Immovable Property Tax (referred to as the ‘Immovable Property Tax Act’ or ‘IPTA’), which delineates its structural framework. Unlike in Slovakia, where the implementation of property tax is discretionary, the IPTA mandates property tax collection, rendering it compulsory under the law (Vartašová & Červená, 2022, 200). Accordingly, municipalities lack the authority to opt out of this tax. When considering only these characteristics, property tax can be viewed as a state tax. However, despite the centralized administration and centrally set attributes, revenue from property tax accrues entirely to the municipalities where it was collected. Moreover, municipalities retain some latitude in influencing the tax amount or determining certain structural components. Therefore, some scholars argue that, materially, property tax functions as a local tax (Radvan, 2019a; Marková, 2005).

The Immovable Property Tax Act divides property tax into two categories: land tax and tax on buildings and taxable units (Sec. 1). The subjects liable for property tax are structured similarly within both sub-categories and closely mirror those in Slovakia. As a general rule, the taxpayer is the owner of the property. Exceptions to this rule include instances where the property owner is the state, where properties are held by certain funds, where they are encumbered by a right to build, and certain specific cases of property leasing. Additionally,

users become taxpayers when the owner is unknown or when certain state authorities manage the property (Secs. 3 and 8 IPTA).

Sections 4 and 9 of the Immovable Property Tax Act provide extensive exemptions for land and building taxes, primarily targeting properties utilized for public purposes or interest. These exemptions cover properties owned by the state⁶, counties, and municipalities in their respective cadastral territories, and non-profit organizations. They extend to a wide array of public infrastructure objects, educational, religious, childcare, cultural, health, and social welfare facilities, as well as publicly accessible monuments. Properties belonging to economically vulnerable individuals, seniors, and individuals with disabilities are also waived from taxation, while other exemptions address environmental factors. All these exemptions are legislatively mandated, beyond the authority of local municipalities to revoke. Municipalities possess limited discretion to modify the extent of properties exempted from taxation. This can be accomplished through ordinances in only a few instances, such as granting indefinite waivers for agricultural land, providing a limited exemption for properties within designated industrial zones (up to five years), or exempting infertile or agriculturally unusable land. Consequently, most exemptions are obligatorily established by statutory law, leaving municipalities with comparatively restricted influence, particularly when contrasted with the Slovak regulation.

2.2.1 Land Tax

According to Section 2 of the IPTA, the subject of the land tax includes all plots registered in the land registry within the Czech Republic. Notwithstanding the exemptions mentioned earlier, exclusions only apply to areas occupied by taxable buildings or their parts, economically unused water and forest areas, zones designated for national defense, and land forming part of taxable units within residential buildings. Taxation in the Czech Republic is primarily based on the property's area, calculated per square meter as of the beginning of the taxable period. This applies to built-up areas, courtyards, development land, paved areas, and other types of land. However, there are cases where a modified *ad valorem* approach is applied: for agricultural land, the tax base is determined by multiplying the actual area of the land by the average price per square meter specified in a regularly updated ministerial decree. In the case of forest land, the tax base is either determined by the land price set according to existing price regulations or by multiplying the actual area by a fixed rate of 3.80 CZK (Sec. 5 IPTA). In the last case, the latter option is usually preferred in practice due to its cost-effectiveness (Radvan & Kranecová, 2021, 61).

Section 6 of the Immovable Property Tax Act sets fixed rates for land tax. Agricultural land is predominantly taxed at 1.35%, while permanent grassland and forest land carry a rate of 0.45%. Specific fixed rates per square meter then apply to various other types of land: 0.08 CZK for agriculturally unusable land, 1.80 CZK for paved agricultural areas, 9.00 CZK for other paved areas, 3.50 CZK for building plots, and 0.35 CZK for built-up areas, courtyards, and other land types. The base rate of 3.50 CZK for building plots is adjusted using a multiplier known as 'location rent' (Radvan, 2019b, 16), which varies depending on the size of the municipality where the plot is located. This multiplier ranges from 1.0 to 4.5, with intermediate values of 1.4, 1.6, 2.0, 2.5, and 3.5. Municipalities can modify this coefficient upwards by one and downwards by one to three categories through legally binding ordinances. These adjustments may differ among specific areas within the municipal territory.

⁶ Except in cases where they are used for business purposes or leased.

2.2.2 Tax on Buildings and Taxable Units

According to Section 7 of the Immovable Property Tax Act, the building tax applies to completed or occupied buildings, specific engineering structures,⁷ and parts of buildings registered in the land registry as separate units, known as ‘taxable units’, which are used for residential (flats) or non-residential purposes. If these units are subject to taxation within a building, the building itself, which contains them, is not subject to any further building tax.

The tax base for buildings is calculated based on their area in square meters, employing a straightforward unit-based approach. For taxable units, the tax base is determined by what is known as the ‘adjusted floor area’, calculated as the total floor area of the unit in square meters multiplied by a coefficient of 1.20. If there is any accompanying land associated with the taxable unit, the coefficient is adjusted to 1.22 (Sec. 10).

Generally, Section 11, paragraph 1 of the IPTA sets fixed rates per square meter of built-up area for building taxation as well: 3.50 CZK for residential buildings and their ancillary buildings (in the latter case, only for their area above 16 sq meters), 3.50 CZK for housing units (flats) and units not used for business purposes, 11.00 CZK for family recreation buildings and 3.50 CZK for other recreational buildings⁸, 14.50 CZK for garages, 3.50 CZK for buildings or taxable units utilized for agricultural, forestry, or water management business activities, 18.00 CZK for buildings or taxable units used for other business purposes, and 11.00 CZK for other taxable buildings. Nevertheless, under paragraph 2, these rates increase by 1.40 CZK for each additional above-ground floor if its area exceeds two-thirds of the built-up area for taxable structures not used for business purposes and one-third of the built-up area for taxable structures used for business purposes. Similar to Slovakia, multi-story buildings benefit from a tax advantage under this scheme. However, in the Czech Republic, this increment is mandated by law rather than being subject to the discretionary decision of municipalities.

The identical coefficients of the location rent, under the same conditions as described for building plots previously, apply to residential buildings, their associated structures, as well as flats and other taxable units not used for business purposes. However, concerning the tax on buildings and taxable units, municipalities are also empowered by the statute to introduce a multiplier of 1.5 for all the remaining building (and taxable unit) types that are not subject to the previously mentioned location rent (Sec. 11 paras. 4–6).

Section 11a of the IPTA imposes an additional tax burden on residential buildings and housing units (flats) that incorporate business premises (including accommodations). For residential buildings, this entails adding a tax on the area designated for business use, calculated at 3.50 CZK per square meter, to the tax for the residential area. In the case of housing units, the supplementary charge is determined by multiplying the adjusted floor area of the business premises by the positive difference between the tax rate applicable to the taxable unit used for the given kind of business activities (typically 18.00 CZK) and the standard housing unit rate (3.50 CZK). This provision notably disadvantages business operations within housing units compared to those within residential buildings, often resulting in multiple times higher effective tax rates for the former. Premises that are used for both residential and business purposes are not burdened with such an increase (Financial Administration of the Czech Republic, 2024, 8).

⁷ Chimneys and towers listed in the Annex to the Immovable Property Tax Act.

⁸ The rates double for recreational buildings in national parks, or Zone I protected areas.

2.2.3 Other common features of property tax in the Czech Republic

Starting from the tax period of 2024, a new inflation coefficient for property taxation came into effect. Any changes to the coefficient will be announced by the Ministry of Finance in the calendar year preceding the tax period it is effective for. The coefficient is determined based on the Consumer Price Index for Household Consumption for the month of May of the calendar year preceding the tax period, and the annual maximum increase of the coefficient is capped at 20%. For agricultural land, the inflation coefficient remains fixed at 1.0, as inflation is already factored into the tax base calculation as described above (Sec. 11f).

A pivotal provision for municipalities lies in Section 12 of the Property Tax Act, granting them authority to set local coefficients as the ultimate variable influencing the final amount of property tax due. These coefficients, ranging from 0.5 to 1.5 for agricultural lands, forests, and unusable land, and from 0.5 to 5.0 for other property types, allow municipalities to lower or raise the final tax amount according to their discretion. For the latter group, municipalities can establish varying coefficients for different areas within the municipal territory.

The property taxation system in the Czech Republic is notably intricate, primarily due to the incorporation of various coefficients that adjust the tax rate or the total tax liability. These coefficients serve as value-based proxies, enabling the tax system to consider the diverse qualities of properties within a framework primarily reliant on area-based assessments (McCluskey et al., 2021, 5). While some of these adjustments are mandated by law to ensure basic equity standards, municipalities retain a degree of discretion to introduce additional modifications, leveraging their familiarity with local conditions to tailor the tax burden even more precisely.

3 Assessing Suggestions for Property Tax Reform in Slovakia and the Czech Republic

As highlighted in the introductory section, recent fiscal challenges have reignited discussions regarding the reform of property taxation in Slovakia and the Czech Republic. Central to these discussions was the proposal to increase revenue generated from property tax. In addition to other suggested modifications, one proposed approach to accomplish this is the transition to a value-based assessment system (Jonáš, 2023; SITA, 2023; TASR, 2023). Additional proposals have been put forth, including suggestions regarding the redistribution of tax revenue between the state and municipalities (Hovorková, 2023). While the latter is indeed a significant matter as well, it will only be briefly addressed in this paper due to space constraints. The following subchapters will individually explore the justification for the tax increase, the definition of the tax base, and proposals for optimizing property taxation.

3.1 Is an increase in property taxes justified?

It is widely acknowledged in academic discourse that property tax does not rank among the highest revenue-generating taxes (Slack & Bird, 2014, 3–4; Grover et al., 2017, 93). Scholarly literature frequently highlights this aspect, particularly emphasizing its administrative costs relative to its revenue generation (Bahl & Wallace, 2008, 26). While property tax is not anticipated to yield revenue levels comparable to income or turnover taxes, its significance lies in its potential to serve as a meaningful instrument for reducing dependence on inter-governmental transfers. By these means, it can also mitigate the necessity for the central government to raise taxes or resort to borrowing to fulfill the expenditure requirements of sub-central government levels (Grover et

al., 2017, 92). Thus, property tax should function as a stabilizing component within the broader tax system.

To gain insight into the adequacy of property tax revenues in Slovakia and the Czech Republic, it is pertinent to examine international revenue statistics. Analyzing statistical data on property tax at both the OECD and EU levels provides a valuable international context for assessing the level of property tax collection, given the membership of both countries in these organizations and their comparable development status with other member states. According to data from the European Commission, in 2022, the average share of revenues from recurrent taxes on immovable property compared to GDP was 1.0% in both the Euro Area and the EU member states. In comparison, in Slovakia, this figure stood at 0.4%, and in the Czech Republic, it was even lower at 0.2% (European Commission, 2024). Similarly, data from the OECD for 2021 revealed that the average share of revenues from property tax as a percentage of GDP in all member states was also 1.0%, with Slovakia reporting a ratio of 0.5% and the Czech Republic 0.2% in the same year (OECD, 2024a).

Examining the revenue derived from all taxes imposed on immovable property, including those on immovable property transactions, widens the disparity further. The OECD average for 2021 increases to 1.9% of GDP, contrasting starkly with the values for Slovakia and the Czech Republic, which stay at 0.5% and 0.2% (OECD, 2024b), as neither country levies a property transfer tax, in contrast to most OECD nations.⁹ These findings indicate that revenues from property taxes in both countries significantly lag behind those in most other member states.

The statistical evidence supports the assertion that there is room for increasing property taxes in both Slovakia and the Czech Republic. This sentiment is echoed by experts in both countries (Radvan, 2012, 211; Vartašová & Červená, 2019, 37), who argue that current revenue levels have only a marginal, or less than desired, effect on the financial autonomy of local self-governments. A 2019 study showed that property tax revenues contribute to approximately 9% of the total incomes of Slovak municipalities, whereas at the Czech national level, this figure averages around 4% (Papuncová & Nováková, 2019, 328). These findings imply that recurrent taxes on immovable property struggle to fulfill their fiscal roles adequately, particularly when compared to other countries. While property tax revenue levels are relatively low in Slovakia, they are even more alarming in the Czech Republic. Furthermore, the absence of a property transfer tax in both countries could justify a higher burden of recurring property tax to partially compensate for this fiscal gap. Consequently, an increase in property tax burden appears justified in both countries. The next question pertains to how this increase should be achieved, which will be the focus of the subsequent investigation in this study.

3.2 The viability of transitioning to a value-based system

As described in the chapter on the regulatory framework of property taxation in Slovakia and the Czech Republic, both countries implement a predominantly area-based system, setting them apart among OECD countries.¹⁰ Area-based property taxes are often employed in developing or transitioning nations lacking a fully developed market economy or sufficient administrative

⁹ According to a 2022 OECD publication on housing taxation, 30 out of 38 OECD member states imposed transaction taxes on the acquisition of housing assets (OECD, 2022, 3.2.1).

¹⁰ Only four OECD countries use a predominantly are-based property tax: the Czech Republic, Israel, Poland, and Slovakia (OECD, 2022, 3.3.1.).

capacity (Connolly & Bell, 2009). Having such a system in place is therefore not regarded as commendable or optimal within the context of more advanced economies. Moreover, area-based taxation is frequently associated with the inability to generate sufficient revenue yield (Bell & Bowman, 2008, 365–369). Consequently, the value-based approach is seen as a tool to properly exploit the revenue potential of property taxation (Grover et al., 2017, 92). However, most importantly, the value-based approach is widely considered more equitable than the area-based approach (OECD, 2022, 3.3.1.). It is therefore no surprise that recent proposals to achieve higher property tax revenue by introducing a system fully or partly based on property values are not new ideas. Such proposals have emerged in both countries, also from government circles, over the previous years (Radvan, 2012, 182; Vartašová & Červená, 2019, 67–68), while similar suggestions were articulated by foreign experts as well (Bryson, 2010).

The rationale for favoring a value-based approach to property taxation appears to be well-founded. Ideally, property taxes should serve as a means for local authorities to finance local public services. When the quality of these services is high in a particular area, it typically corresponds to an increase in property values, not in physical size. The benefits of property tax are therefore manifesting in property values, making a value-based assessment logical and justified. Furthermore, an area-based approach aggravates the regressive nature of property tax, disproportionately burdening low-income taxpayers. Given that average household incomes tend to be higher in affluent neighborhoods compared to more economically disadvantaged areas, applying the same tax rate to properties of equal size results in a relatively heavier tax burden for households in less affluent regions. Additionally, there is a notable trend where properties in affluent urban areas (such as central districts of major cities) are smaller in size compared to rural properties, exacerbating relative inequalities further. Considering these factors, a value-based system appears to be more justified from a theoretical perspective.

Challenges emerge when implementing value-based taxation into practice. While area serves as a straightforward indicator, value is dynamic and relative, necessitating frequent updates. Transitioning to a value-based system demands careful planning and extensive collaboration among public entities. Preparatory measures must establish essential prerequisites, including reliable property rights registration, comprehensive transaction data, a transparent valuation framework, skilled personnel, and an effective tax collection system. Any deficiencies in these prerequisites present significant obstacles to successful implementation (Grover et al., 2017, 95–98).

Certain factors and peculiarities specific to Slovakia and the Czech Republic suggest potential challenges in meeting the aforementioned prerequisites. Slovak authors have underscored concerns regarding the reliability of the land registry (Babčák, 2022, 395) and the absence of transaction price records in land registries, except for agricultural and forest lands (Vartašová & Červená, 2019, 69). Similarly, in the context of the Czech Republic, issues such as the underdeveloped housing market and a significant population of asset-rich but economically disadvantaged individuals have been highlighted (Radvan, 2012, 211). While all these factors could impede reform efforts, a particularly concerning aspect common to both countries is the extreme fragmentation of their municipal structures. With nearly three thousand municipalities in Slovakia and over six thousand in the Czech Republic (OECD, n.d.), these small-scale administrative units lack the necessary financial and personnel resources to implement a value-based property tax system effectively. Consequently, the administration of such a system may need to be centralized under national authorities, as is currently the case in the Czech Republic but not in Slovakia.

The reason is that the implementation of a value-based system poses significant challenges not only due to its initial costs but also its ongoing maintenance demands. Market values

fluctuate over time, necessitating regular updates to prevent values used for taxation, from becoming disconnected from reality and rendering the system ineffective. However, conducting revaluations requires substantial resources, extensive information, and specialized expertise. Numerous examples of highly developed countries with established traditions of value-based taxation being unable to conduct periodic revaluations demonstrate the difficulty of maintaining up-to-date systems (Slack & Bird, 2014, 15).

Considering these difficulties, the administration of a value-based property tax is particularly costly in comparison to other types of taxes (Slack & Bird, 2014, 15). Hence, the implementation of a value-based system is economically viable only if it leads to a significant increase in revenue. And here lies another obstacle: the widely held unpopularity of the property tax. This sentiment is often attributed to the visibility and salience of property tax, as it cannot be easily avoided (one can hardly hide real property) or concealed like other taxes such as personal income tax or value-added tax (Cabral & Hoxby, 2012; Norregaard, 2013; Slack & Bird, 2014). Consequently, even if the reform is well-prepared and poised for implementation, public resistance may thwart its execution, as seen recently in the cases of Poland and Slovenia (Grover et al., 2017, 99). As noted by previous authors as well (Etel, 2019, 9–10; Vartašová & Červená, 2022, 207), the expected resistance to a significant increase in property tax burden is likely to be even more pronounced in Visegrád Group countries, to the extent that it would very probably foil the reform efforts. Considering all the aforementioned factors, the author does not advocate for the implementation of an ad valorem property tax as the optimal solution to increase revenue yield.

3.3 Suggested steps to increase property tax revenues

While the property tax systems in both Slovakia and the Czech Republic primarily rely on area-based assessments, they incorporate certain modifications that deviate from the pure area-based approach. Slovakia utilizes value multipliers for agricultural land, while the Czech system employs various coefficients. Additionally, municipalities in both countries have the authority to adjust tax burdens across different areas within their jurisdiction. These adaptations bring the systems closer to a value-based approach and help alleviate some of the inequities inherent to purely area-based systems.

The author questions whether a value-based property tax system really leads to increased tax revenues compared to an area-based system. Data from the European Commission reveal a gradual decline in the ratio of property tax revenues to GDP across both the EU and the Eurozone over the latest years (2018–2022). This trend persists in most member states despite the predominance of value-based assessments. Interestingly, countries employing a prevalently area-based approach have experienced either stagnation or only a slight decline in property tax revenues during the same period.¹¹

OECD findings also suggest that even value-based systems struggle to keep pace with property prices. From 1995 to 2020, housing prices have surged nearly threefold compared to property tax revenues (OECD, 2022, 3.2.2). However, during the period from 2009 to 2017, revenues from predominantly area-based property taxes in Slovakia managed to increase by 37% (Papuncová & Nováková, 2019, 327) despite minimal growth in housing prices during this time (National Bank of Slovakia, n.d.). This suggests that area-based systems, as examined in

¹¹ Between 2018 and 2022, the ratio of property tax revenues to GDP remained stagnant in Slovakia and the Czech Republic, while in Poland, it experienced a slight decrease of 0.1% (European Commission, 2024).

this paper, are not as static as often presented; they can generate increased property tax revenues without legislative intervention and can even rival ad valorem systems.

The adoption of an ad valorem property tax would be impractical in the Slovak and Czech contexts given its extensive administrative demands, anticipated high costs, and uncertain potential to generate significant revenue increases. The current area-based taxation system is favored in the author's perspective, as it maintains simplicity, a critical characteristic in the fragmented municipal structures of these countries. At the same time, it also offers mechanisms to achieve desired revenue growth without necessitating systemic overhauls. It is paramount that municipalities cleverly make use of these mechanisms.

Slovak municipalities enjoy the absence of maximal limits on their tax rates, granting them significant autonomy in revenue generation without external interference. They can utilize this flexibility to adjust tax rates individually based on their specific needs, as and when they deem it necessary. However, a gradual, synchronized increase in tax rates, collectively agreed upon within the interest association of municipalities, can enhance effectiveness and foster better public understanding, particularly when faced with potential opposition. Czech municipalities have a somewhat narrower leeway for tax adjustments, allowing for increases of up to five times the statutory amount through local coefficients in most cases. Despite this constraint, they still have substantial room for adjustments when required. Similarly, they can benefit from a coordinated approach to implementing gradual increases, akin to their Slovak counterparts.

Property tax is widely recognized as an ideal revenue source for local governments for several reasons summarized by Norregaard (2013, 14–15). Firstly, there is a clear linkage between property and the territorial jurisdiction of the municipality, ensuring certainty regarding tax obligations and entitlements. Secondly, the tax burden primarily falls on residents without significant spillover effects. Lastly, there is a logical association between property tax payments and the provision of local public services, as well as between property values and the benefits derived from these services. Therefore, residents should be the primary beneficiaries of the disbursement of property tax revenue. As was explained above, the current Slovak regulation – and to a large extent also the Czech one – corresponds to this explanation. Consequently, any suggestion to undermine the local essence of property tax would run counter to its intrinsic logic and purpose.

Another aspect of local taxes connected to this consideration is their significant role in fostering local accountability (OECD, 2022, 3.3.1). For property tax to genuinely serve as a local tax, it is crucial that municipalities, rather than the state, assume responsibility for the financial burden it entails. Nevertheless, political considerations may easily hinder the assumption of such responsibility in practice.

In 2023, the Czech Republic implemented a modest reform of property taxation in response to calls for increased tax revenue. The new rules, effective from 2024, brought adjustments such as an average 80% increase in tax rates across all property types and the introduction of an inflation coefficient. While these adjustments were undoubtedly necessary, they also demonstrate the cautious approach of municipalities in tackling the issue of low revenues. Instead of taking the initiative to increase tax burdens through adjustments in local coefficients, the Czech government effectively took on the responsibility by raising statutory rates and implementing the inflation coefficient centrally. The decision can be seen as a mixed one: while it shielded municipalities from assuming immediate responsibility, it also expanded the foundation from which they could potentially increase tax amounts in the future. It is imperative that municipalities demonstrate greater assertiveness in the coming years, rather than depending solely on state intervention.

In addition to municipalities utilizing their leverage to influence the tax amount, there are other means to increase the revenue yield of property tax in Slovakia and the Czech Republic.

One proposal suggested in Slovakia was the elimination of tax advantages for additional building stories (SITA, 2023). This trait is present in both the Slovak and Czech property tax systems. The proposal indeed holds validity. When building taxation is solely determined by ground area, it creates an unjust distinction between single-story and multi-story structures. Additional stories in buildings offer full utilization potential with minimal inherent usage limitations. Consequently, a taxation model based on the total usable floor area, accounting for all stories evenly, appears justified and equitable. This approach would also lead to an increase in property tax revenue.

In the Czech Republic, the enhancement of both local financial autonomy and the revenue potential of property tax could be achieved through a restructuring of exemptions. Presently, the list of exemptions is very broad, and, with only a few exceptions, all are legally mandated. This stands in contrast to the Slovak regulation, where municipalities have discretion over the majority of exemptions listed by the law. Implementing a similar system in the Czech Republic would bolster municipal autonomy and empower local governments to increase property tax revenues by limiting the category of exempted properties. Alternatively, both countries could consider revising their rather long list of exemptions to exclude certain items. In Slovakia, certain infrastructure objects currently classified as non-taxable properties could be reclassified as exemptions at the discretion of municipalities.

4 Conclusion

The property tax systems of Slovakia and the Czech Republic exhibit certain distinctions, yet they also share significant similarities. While Slovakia's system reflects a stronger emphasis on local autonomy, with municipalities possessing broader competencies, the two countries use very similar typologies, have analogous exemptions, and both largely rely on area-based assessments for determining property tax contributions.

The findings of the paper underscored the comparatively low revenue impact of property taxes in both countries, warranting a justified need for increased revenue generation. While the need for a rise in property tax revenues is evident, the author contends that the introduction of an ad valorem system may not represent the most effective solution. This assertion stems from several considerations. Firstly, the administrative burden associated with implementing a value-based valorem system poses significant challenges, particularly within the context of the fragmented municipal landscape prevalent in both Slovakia and the Czech Republic. Secondly, the costs associated with transitioning to and maintaining such a system may not align with the potential increase in property tax revenues it could generate, as this would likely be constrained by the anticipated public resistance to a sudden increase in property tax burdens. Alternative strategies that align more closely with the prevailing administrative and socio-economic realities of the region may, therefore, present a more viable solution.

The proactive utilization of municipal discretion to adjust tax burdens, as permitted by existing regulatory frameworks, presents a feasible way to enhance property tax revenues. Coordinated and gradual adjustments implemented across a multitude of municipalities can significantly improve the effectiveness of this endeavor. Minor legislative modifications, such as narrowing exemptions and granting municipalities more discretionary powers over exemption decisions, or eliminating tax advantages for multi-story buildings, can further contribute to bolstering revenue yields.

The author believes that both Slovakia and the Czech Republic can effectively enhance the revenue potential of their property tax systems without necessitating profound structural changes. Still, even minor adjustments necessitate comprehensive research and dialogue to ensure success. Effective communication regarding the significance of property tax and its role in funding local services is of crucial importance. Municipalities must prioritize the delivery of high-quality local services to demonstrate the tangible benefits of property tax to residents. Without understanding the correlation between property tax revenues and essential service provision, residents will likely refuse to endorse or tolerate necessary adjustments. Sharing and adopting best practices from other regions or municipalities can also offer valuable insights and guidance in enhancing property tax systems effectively.

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