INTERNATIONAL MONETARY FUND

IMF Country Report No. 16/53

REPUBLIC OF SLOVENIA

TECHNICAL ASSISTANCE REPORT—THE 2013 PROPERTY TAX ACT: EVALUATION OF ITS DESIGN AND THE EMPLOYED MASS VALUATION SYSTEM

February 2016

This Technical Assistance report on the Republic of Slovenia 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 December 2015.

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International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

Fiscal Affairs Department

REPUBLIC OF SLOVENIA

THE 2013 PROPERTY TAX ACT: EVALUATION OF ITS DESIGN AND THE EMPLOYED MASS VALUATION SYSTEM

Martin Grote, Richard Borst, and William McCluskey

December 2015

CONTENTS **PAGE**

Figures

ABBREVIATIONS AND ACRONYMS

CAMA	Computer Assisted Mass Appraisal
CIT	Corporate Income Tax
CGT	Capital Gains Tax
COD	Coefficient of Dispersion
DG	Director General
DTA	Double Taxation Agreement
ETL	Extract, Transform and Load (an integrated database process for CAMA)
FAD	Fiscal Affairs Department
FARS	Financial Administration of the Republic of Slovenia
FDI	Foreign Direct Investment
GIS	Geographic Information System
GDP	Gross Domestic Product
GOS	Government of Slovenia
IMF	International Monetary Fund
IT	Information Technology
ITA	Income Tax Act
MESP	Ministry of Environment and Spatial Planning
MPS	Multi-Purpose System
MREVO	Mass Real Estate Valuation Office
OECD	Organization for Economic Cooperation and Development
PAYE	Pay-As-You-Earn
PIN	Property Identification Number
PIT	Personal Income Tax
PRD	Price Related Differential
RPR	Real Property Register
RPT	Real Property Tax
SEZ	Special Economic Zone
SMA	Surveying and Mapping Authority of the Republic of Slovenia
SMEs	Small and Micro Enterprises
SqM	Square Meter
TA	Technical Assistance
VAT	Value-added Tax

PREFACE

In response to two requests from the Slovenian authorities during the 2015 Spring Meetings in Washington, DC, and follow-up correspondence a technical assistance mission from the IMF Fiscal Affairs Department (FAD) visited Ljubljana during October 15-28, 2015 to review tax design elements of the Real Property Tax Act, No 101/13 that the Constitutional Court in Slovenia found unconstitutional, including an assessment of the accuracy of the adopted mass valuation system for real property. The mission was led by Martin Grote (FAD) and comprised William McCluskey and Richard Borst both (FAD external experts). This aide-mémoire contains the mission's conclusions and recommendations.

The FAD staff members met in the Ministry of Finance with the following Senior Officials: Mrs. Mateja Vraničar, State Secretary; Mrs. Irena Popovič, Director General; and other senior staff—Mrs. Neva Žibrik; Mrs. Tinar Humar, and Mrs. Špela Kač. The mission held discussions with senior officials from the Financial Administration of the Republic of Slovenia (FARS), including Mrs. Nada Čefarin, Financial Councilor; and her colleagues, Mrs. Sonja Urankar and Mr. Martin Poteko.

Extensive discussions were held with the Surveying and Mapping Authority (SMA) led by Mr Anton Kupic, Director General, and senior staff, including Mr. Franc Ravnihar (Director) and Mrs. Ema Pogorelčnik. The mission reviewed with staff of the Authority's Mass Real Estate Valuation Office their twenty-one mass appraisal models and in the process engaged intensively with Mr. Dušan Mitrović; Mr. Martin Smodiš; Mr. Andrej Glavica; and Mr. Marko Suhadolc.

The mission also sought the views of the representatives of local communities that benefit from the collection of property taxes and in this connection met with Mrs. Jasmina Vidmar, Secretary General, and Mr. Izidor Jerala of the Association of Municipalities of Towns of Slovenia; Mr. Staško Vešligaj of the Municipality of Maribor; and Mrs. Vilma Milunović of the Municipality of Koper.

The mission would like to express its gratitude for the full and effective cooperation received from the authorities and the constructive discussions with senior officials from the Ministry of Finance, the Financial Administration, the SMA and Mass Real Estate Valuation Office.

The mission is especially grateful for Mrs. Maja Vitežnik's excellent interpretation and translation support.

EXECUTIVE SUMMARY

This report provides to the Ministry of Finance a review of the current mass valuation appraisal system, and further policy directions on improved tax design for a property tax that would not invite Constitutional challenge, especially in respect of tax base definition, tax rate policy, and tax relief. These measures combined would broaden the base with less rate discrimination. The mission identified the following key structural problems as to the design of the real property tax and suggested corrective steps with the view to improving collections from property taxes across Slovenia:

Slovenia's low revenue generation from immovable property taxes (recurrent, charge for use of building ground, and transfer taxes) compares unfavorably against the EU average of 2.3 percent of GDP (2012), and it is also far below the unweighted OECD average of 1.82 percent of GDP in 2010. This long-term trend is recognized by the authorities and has prompted the renewed property tax modernization attempts. Unfortunately, the Constitutional Court rejected both the Real Property Mass Valuation Act and the Real Property Tax Act, instructing the authorities to reinstate previous legislation. The mission has suggested changes to the tax base definition, far less rate differentiation, and reserving property tax revenues for municipalities, in an effort to address most of the grounds on which Constitutional objections were found, while meeting the authorities' goals for the real property tax. One of which would be to gradually increase the currently very low average real property tax charge for natural persons (see Table 5).

The previously existing Real Property Tax and the Charge for the Use on Building Ground are based on the area of the parcel and building. There are several issues with these taxes including the lack of transparency in their application and the wide range of exemptions. Internationally, countries that previously relied on area based property taxes are moving to value based approaches. Slovenia has been engaged for over a decade in a process to introduce an *ad valorem* property tax. Significant progress has been made in terms of improving land registration systems and valuation methodologies which will support the introduction of the new property tax. Recommendations are suggested in terms of improving owner's/taxpayer's rights to appeal against the value determined by in the mass valuation system. It is further recommended that the value used for property tax should be fixed for a period of four years. Regular revaluations provided by the mass valuation system are aimed to provide a "shadow" market value that could be used for other purposes. The property tax market value can be indexed annually to provide a "shadow" market value that could be used for other purposes. Market value can be adjusted for property tax purposes (for other taxes such as property transfer tax or inheritance tax) where the value should reflect the appropriate date according to the purpose. It is recognized that property data within the Real Property Register requires improvement to deal with inaccuracies. Data quality and coverage can be improved if other government departments engage with the Surveying and Mapping Authority (SMA) to provide principal data and if municipalities give a commitment to update data on land for construction.

As to minimizing the current excessive rate differentiation, the mission calculates that if all property parcels with absolutely no exception would attract an *ad valorem* property tax, a single

rate of 0.33 percent would generate recurrent property tax revenue of 1.2 percent of GDP. This provides a phasing-in strategy over three years whereby commercial tax rates could be reduced significantly and residential properties' tax rate could be gradually ramped up to 0.33 percent. By recognizing that a property tax is a *benefit tax* the justification for a discriminatory rate structure within the commercial/industrial sector disappears. Adopting a single rate property tax would be best in theory and, hence, the government may want to consider a maximum of three rates for the residential, commercial and agriculture/forestry sector. Rate setting should be left to municipalities, but only within a centrally set rate range, with a floor or minimum rate. Any tax relief should be means tested. Municipalities' fiscal autonomy would be preserved by allowing them exclusive use of property tax revenues; and perhaps rewarded by an initial grant that recognizes adoption of sound property tax rates. Property taxes would continue to be collected by the Financial Administration. All of this would simplify the system and ease administration.

As part of the public consultation process, the mission suggests that the Ministry of Finance and Ministry of Infrastructure and Spatial Planning appoint an independent *Commission of Inquiry into Introducing a Revised Property Tax*. When a tax reform proposal such as the property tax in Slovenia has experienced repeated push-back either because of lack of information on the side of taxpayers or strong vested interests, a Commission constituted of a manageable number of experts and chaired by an independent legal professional (say a judge) could offer the country an opportunity to debate the tax revision more objectively. Its greatest value may indeed be in the public education domain; and it may sway the tax opponents to relent on their objections against a modernized property tax.

Two aspects of the computer-assisted mass appraisal system (CAMA) as implemented by the Valuation Office are noteworthy. The first is the design and configuration of the system itself. The user interface and the integration of spatial data with tabular data are consistent with worldwide best practices. The system is intuitive and easy to navigate. The plans to integrate the various data registers into a common and central database will make the system easier to manage and more reliable from a data integrity standpoint. The second is that the valuation methodology is designed to operate in an environment that has scarce market evidence. The model structures are sound and well thought out. The techniques to overcome sparse data are creative and fostered by necessity. Understanding the models' structures and calibration techniques does require an advanced knowledge of mathematics and statistics. To accommodate the vast majority of consumers of the system and its outputs, the Valuation Office has devised a series of relatively easy to understand table structures that capture the computational aspects of the rather sophisticated model formulations. Finally, the entire valuation effort could have a more efficient and well defined structure of staffing, responsibility, accountability and defined funding mechanisms that allow for the long term development of a world class organization. Proposals are put forward to address owner's rights to appeal against the assessed value of their property, including existing constraints in relation to time limits to make an informal review and onus of proof. The Report's key recommendations are recorded in Table 1.

Table 1. Slovenia: Summary of Recommendations

Chapter II: Tax Design Aspects of the 2013 Real Property Tax Act and the Constitutional Challenge
The authorities should not focus on trying to introduce a transitional revised scheme based on the two current property taxes but rather continue with its efforts to implement a value based property tax based on capital improved value.
A public relations and communication campaign should address the strengths of the value based property tax.
Undertake sufficient consultations with key stakeholders on Value Models, Value Zones, Value Levels and Value Tables.
Establish a public relations project to inform taxpayers about the process of mass valuation and their rights to appeal.
Develop an informal review process for taxpayers to query information on property values prior to any appeal process.
Provide detailed information on the Notification of Value of how the value of the property has been calculated.
The property tax should be calculated on 70-75 percent of the assessed market value.
Introduce constraints on taxpayers in terms of time to instigate an informal review, grounds of review and burden of proof.
SMA to develop an Informal Review and Appeal Project.
Some differentiation between residential and non-residential/commercial tax rates may be justifiable (power plants are commercial), but should remain within acceptable limits.
Consider introducing a third rate that applies uniformly for agriculture and forestry.
The tax rate on residential properties is currently low with room to increase this rate.
In lieu of reverting back to the old property tax system, consider a transitional approach whereby an amended property tax is introduced with initially low rates but increasing gradually to achieve the 1.2 percent of GDP revenue importance.
Limit exemptions to an absolute minimum.
Property tax 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.
Review independently from the Ministry of Finance all property tax amendments as flagged by the Constitutional Court.
Accept that a market-based property tax will be unpopular given perceived inaccuracies of the presumed tax base but in order to increase its acceptability link the introduction of an amended property tax to wider tax structure adjustments that would mitigate the asymmetry of benefits and costs between winners and losers of the property tax reform.
Avoid piecemeal adjustments of the real property tax.
Intensify the communication strategy around the choice of adopting a certain presumptive value of the tax base – e.g., a discounted market value.
Given the property tax' visibility and limited tax avoidance opportunities institute uniform national standards as to installments, means-tested deferrals and adoption of a common tax base definition, applicable to all municipalities.
To accommodate hardship cases, refrain from granting any tax incentive regimes such as tax holidays or capping of assessment values.
Preserve municipalities' fiscal autonomy in respect of exclusive use of property tax revenues and reward sound property tax rate choices by local communities through an initial grant that recognizes adoption of a sound property tax rates.
Appoint an independent *Commission of Inquiry into Introducing a Revised Property Tax* as part of a broader and more intensive public consultation process charged with assessing qualitatively and quantitatively the alternatives to rejected property tax design aspects.
The Commission should be chaired by a judge and should be supported by not more than 10 members representing local communities, tax practitioners, business sectors, and experts with the option of co-opting external academic experts.

The Commission should present to the Minister of Finance preferably a consensus view with a maximum of one minority report that may deviate from the consensus position.
The Commission hearings of evidence should be public and widely covered by the media.
Revised property tax legislation should be accompanied by the Commission's findings and proposals together with Government's response thereto by way of a white paper.
Reading debates on the property tax amendment law should be widely disseminated as it would enhance the standing of the Ministry of Finance and the SMA by having adopted all along mostly sound property tax policy positions.
Reinstate municipalities' exclusive use of property tax collections in order to maintain the strongest accountability link between service delivery and taxing powers of municipalities.
For national fiscal consolidation purposes negotiate the PIT revenue shares down as property tax collections are enhanced.
Chapter III: Property Registration: Land and Building Cadasters and the Real Property Register (RPR)
Correct data is core to the mass valuation system and processes should be put in place to ensure its accuracy.
Municipalities should be encouraged to engage with the SMA in providing correct data on land for construction purposes.
Over the longer term, the SMA should merge the Land and Building Cadasters into a central Real Property Register.
The SMA should systematically ensure that multi-purpose buildings have the correct use/s registered in the RPR.
Chapter IV: An Assessment of the Slovenian Mass Appraisal System (CAMA)
Consider the use of *Comparable Sales Valuation* method in areas of the country that are supported by sufficient sales to support the method.
Consider the use of geostatistical techniques such as the spatial hedonic model as it is generally more accurate than model formulations that assume uniform variance of the errors.
Continue with your stated plans to develop a new version of the CAMA system that employs an integrated database.
Move to a centralized organizational structure with carefully delineated and guaranteed responsibility, accountability, authority and funding to maintain the integrity of the real property database and the attendant valuation functions.
Recognize the need for a "Director of Mass Appraisal" to head up the centralized CAMA organization.
Recognize that CAMA estimates should be subject to a rigorous review process before being "finalized".
If CAMA estimates are used for establishing *ad valorem* tax charges, ensure that there is commensurate opportunity for taxpayers to make reasonable inquires as to the nature of their property value, and to contest the appraised value.
Only the Director of Mass Appraisal should be authorized to supply descriptive information on properties into a central database.
Property tax values should remain fixed for a period of 4 years to give stability and predictability in tax liabilities.
Indices can be applied annually to provide "shadow" market values and should be registered in the RPR.
The use of the values generated by the mass valuation system for other uses such as verifying property transfer prices, social transfers and expropriation could be beneficial and should be carefully considered.

This technical assistance report comprises an executive summary and four chapters: (1) Collections from Current Taxes on Real Property; (2) Tax Design Aspects of the 2013 Real Property Tax Act and the Constitutional Challenge; (3) Property Registration: Land and Building Cadasters and the Real Property Register; and (4) An Appraisal of the Slovenian Mass Appraisal System (CAMA).

I. COLLECTIONS FROM CURRENT TAXES ON REAL PROPERTY

A. Background to the Request for Technical Assistance

1. **The significance of property tax revenues in local finance varies widely across Central and Eastern Europe (CEE) and many of these countries feel the need to increase revenues.** Some countries that are using area-based systems are content with high revenue yields, but others that are generating low revenues are eager to move to a market value system in search of higher revenues. Yet, these regional property tax reform initiatives are not uniform and have not always produced the expected increase in revenues. Also, moving away from an area-based system has imposed political and technical costs of reassessment. In Slovenia, pursuit of an *ad valorem* taxation system, over the last decade, has now triggered a constitutional dispute that undermines the property tax system. Consequently, Slovenia is facing constitutional and political challenges in its goal to modernize its taxes on immoveable property in order to double its revenue take from 0.6 percent to at least 1.2 percent of GDP (i.e., recurrent property tax and transfer tax). Presently, Slovenia imposes a tax on immovable property owned by natural persons (i.e., buildings, garages, businesss premises) plus a charge for the use of building ground assessed on buildings and undeveloped land (on which capital improvements are allowed and planned but not yet constructed). They apply to both natural and legal persons (owner or user). Collections from both charges are wholly reserved for the 212 local governments.

2. **A Real Property Tax Act of 2013, substituting the two existing property tax systems with a "unified real estate tax", became effective 1 January 2014**. The goal was to impose it on all real estate. The tax base would have been market value, as appraised through a computer-assisted mass appraisal (CAMA) system. However, the Constitutional Court of Slovenia declared the new Acts to be unconstitutional due to flawed procedures and contested tax designs, forcing the authorities to reinstate the old regime with its low collection ratio.

3. **The mission sought to help formulate reform proposals that could increase the revenue importance of rural and urban immovable property taxes while recognizing current capacity constraints in the Slovenian valuation profession**. One of the mission's core outputs was to assess the accuracy of the adopted CAMA system, which is underpinning the market value-based property tax regime. The assessment entailed an audit of the specifications for the 21 models in the adopted CAMA system which make use of the comparable sales price method, cost method assessing the construction/replacement costs of specialized capital improvements, and the income method (i.e., effective or imputed annual rent). The mission also reviewed aspects of the tax that led to the Court's identified violations of the Constitution's fiscal principles, including the adopted tax rate differentiation, tax relief and exemptions, lack of proper objection and appeals procedures, and a new revenue-sharing dispensation for property taxes that was deemed to undermine local governments' guaranteed fiscal autonomy in regard to property tax collections.

B. Revenue Performance by Property Related Taxes

4. **Given that both the old property taxes are not linked to market value they evidence little volatility, even in times of global financial crisis** (Table 2 and 3). Taxes on the sale of immovable property do show volatility as this is due to the property transaction tax following property disposal events in the market—its revenue importance expressed as percentage of GDP dropped steeply from around an average of 0.15 percent before 2009 to an average of 0.09 for the crisis years 2009-2012. Transfer tax regained its pre-crisis revenue importance from 2013 onwards. Recurrent taxes on immovable property generate modest revenues, an average of 0.44 percent of GDP for the period 2004-11. Most of the taxes from property are generated by two recurrent taxes on real property: the property tax and the charge for the use of building ground. Over 2012-14, the revenue from immovable property taxes increased to an average of 0.53 percent of GDP.

Table 2. Slovenia: General Government Revenues, 2004 to 2014

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
						(in Percent)					
TOTAL REVENUES	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**
Current revenues/total revenues	97.2	96.2	95.7	96.2	96.4	94.7	93.1	93.7	93.5	92.6	92.8
Tax revenues/total revenues	91.2	90.9	90.8	91.1	90.9	89.9	86.8	88.2	87.5	85.9	85.1
						(in Percent of Tax Revenues)					
Taxes on income and profit	**20.72**	**20.60**	**23.26**	**22.87**	**24.70**	**21.65**	**19.39**	**20.62**	**20.25**	**16.90**	**18.08**
Individual taxes on income and profit	15.63	15.14	15.24	14.14	15.68	16.15	15.87	15.55	15.83	14.77	14.52
Corporate taxes on income and profit	5.08	5.46	8.01	8.73	9.02	5.50	3.49	5.05	4.40	2.10	3.55
Other taxes on revenue and profit	0.00	0.00	0.00	0.00	0.00	0.00	0.02	0.01	0.02	0.03	0.02
Social security contributions	**36.76**	**36.64**	**35.97**	**36.04**	**36.56**	**39.84**	**40.74**	**39.88**	**39.98**	**40.54**	**39.96**
Employees contributions	19.63	19.60	19.24	19.32	19.60	21.17	21.57	21.00	20.59	20.88	21.11
Employers contributions	14.55	14.54	14.31	14.35	14.55	15.72	16.02	15.60	15.75	15.91	15.53
Self - employed contributions	1.83	1.84	1.80	1.76	1.78	2.08	2.14	2.13	2.36	2.40	2.35
Other unallocable social security contributions	0.75	0.65	0.63	0.60	0.63	0.86	1.01	1.15	1.26	1.35	0.97
Taxes on payroll and workforce	**4.81**	**4.83**	**4.02**	**3.28**	**1.85**	**0.22**	**0.22**	**0.22**	**0.20**	**0.19**	**0.15**
Payroll tax	4.63	4.65	3.82	3.07	1.65	0.01	0.00	0.00	0.00	0.00	0.00
Tax on work-contracts	0.18	0.19	0.20	0.21	0.20	0.21	0.22	0.22	0.20	0.19	0.15
Taxes on property	**1.61**	**1.57**	**1.61**	**1.62**	**1.54**	**1.60**	**1.71**	**1.63**	**1.78**	**2.01**	**1.86**
Taxes on immovable property	1.13	1.13	1.18	1.10	1.11	1.28	1.35	1.33	1.45	1.61	1.41
Taxes on movable property	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Estate, inheritance and gift taxes	0.04	0.04	0.05	0.07	0.08	0.08	0.11	0.07	0.07	0.06	0.05
Taxes on sale of immovable property and on financial property	0.44	0.39	0.38	0.45	0.35	0.23	0.25	0.22	0.26	0.33	0.39
Domestic taxes on goods and services	**35.01**	**35.97**	**34.66**	**35.26**	**34.48**	**35.97**	**37.21**	**36.76**	**37.17**	**39.75**	**39.35**
General sales taxes, turnover, or value - added taxes	22.04	23.30	23.09	22.78	22.56	21.91	22.89	22.65	22.14	23.95	23.90
Other taxes on goods and services	0.58	0.42	0.29	0.21	0.22	0.23	0.24	0.23	0.43	0.85	0.81
Excises	8.89	8.83	8.13	9.08	8.71	10.92	11.20	11.07	11.89	11.79	11.30
Profits of fiskal monopolies	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Taxes on specific services	1.00	1.06	1.04	1.06	0.96	1.03	1.00	0.98	0.94	1.17	1.37
Business and professional licenses		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Motor vehicle fee	0.85	0.84	0.80	0.79	0.76	0.81	0.82	0.80	0.83	1.06	1.08
Other taxes on use of goods and services	1.17	1.11	0.92	0.86	0.77	0.76	0.74	0.74	0.67	0.70	0.67
Motor vehicle tax	0.47	0.41	0.40	0.48	0.51	0.32	0.31	0.29	0.26	0.23	0.21
Taxes on international trade and transactions	**0.79**	**0.36**	**0.43**	**0.92**	**0.86**	**0.70**	**0.71**	**0.76**	**0.63**	**0.61**	**0.59**
Custom duties	0.74	0.36	0.43	0.91	0.85	0.69	0.71	0.76	0.63	0.61	0.59
Other import duties	0.05	0.00	0.00	0.01	0.01	0.01	0.00	0.00	0.00	0.00	0.00
Other taxes	**0.31**	**0.04**	**0.05**	**0.02**	**0.01**	**0.02**	**0.03**	**0.13**	**0.00**	**0.01**	**0.00**
Other taxes not elsewhere classified	0.31	0.04	0.05	0.02	0.01	0.02	0.03	0.13	0.00	0.01	0.00

Source: Slovenian authoriities and Fund staff calculations

Table 3. Slovenia: General Government Revenues in Percent of GDP, 2004 to 2014

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
						(in Percent of GDP)					
TOTAL REVENUES	**40.46**	**40.98**	**41.07**	**39.84**	**40.42**	**39.84**	**40.81**	**40.61**	**41.68**	**41.02**	**41.54**
Current revenues	**39.34**	**39.41**	**39.28**	**38.31**	**38.98**	**37.71**	**37.99**	**38.05**	**38.99**	**37.98**	**38.54**
Tax revenues	**36.90**	**37.24**	**37.27**	**36.29**	**36.72**	**35.82**	**35.44**	**35.80**	**36.45**	**35.22**	**35.37**
Taxes on income and profit	**7.64**	**7.67**	**8.67**	**8.30**	**9.07**	**7.76**	**6.87**	**7.38**	**7.38**	**5.95**	**6.40**
Individual taxes on income and profit	5.77	5.64	5.68	5.13	5.76	5.79	5.63	5.57	5.77	5.20	5.13
Corporate taxes on income and profit	1.88	2.03	2.99	3.17	3.31	1.97	1.24	1.81	1.60	0.74	1.26
Other taxes on revenue and profit	-	-	-	-	-	-	0.01	0.00	0.01	0.01	0.01
Social security contributions	**13.56**	**13.64**	**13.41**	**13.08**	**13.43**	**14.27**	**14.44**	**14.28**	**14.57**	**14.28**	**14.13**
Employees contributions	7.24	7.30	7.17	7.01	7.20	7.59	7.64	7.52	7.51	7.35	7.47
Employers contributions	5.37	5.42	5.33	5.21	5.34	5.63	5.68	5.58	5.74	5.61	5.49
Self - employed contributions	0.67	0.69	0.67	0.64	0.65	0.74	0.76	0.76	0.86	0.84	0.83
Other unallocable social security contributions	0.28	0.24	0.23	0.22	0.23	0.31	0.36	0.41	0.46	0.48	0.34
Taxes on payroll and workforce	**1.77**	**1.80**	**1.50**	**1.19**	**0.68**	**0.08**	**0.08**	**0.08**	**0.07**	**0.07**	**0.05**
Payroll tax	1.71	1.73	1.42	1.11	0.61	0.00	-	-	-	-	-
Tax on work-contracts	0.07	0.07	0.07	0.08	0.07	0.08	0.08	0.08	0.07	0.07	0.05
Taxes on property	**0.60**	**0.58**	**0.60**	**0.59**	**0.57**	**0.57**	**0.61**	**0.58**	**0.65**	**0.71**	**0.66**
Taxes on immovable property	0.42	0.42	0.44	0.40	0.41	0.46	0.48	0.48	0.53	0.57	0.50
Taxes on movable property	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Estate, inheritance and gift taxes	0.01	0.02	0.02	0.02	0.03	0.03	0.04	0.03	0.03	0.02	0.02
Taxes on sale of immovable property and on financial property	0.16	0.15	0.14	0.16	0.13	0.08	0.09	0.08	0.09	0.12	0.14
Domestic taxes on goods and services	**12.92**	**13.39**	**12.92**	**12.80**	**12.66**	**12.89**	**13.19**	**13.16**	**13.55**	**14.00**	**13.92**
General sales taxes, turnover, or value - added taxes	8.13	8.68	8.61	8.27	8.29	7.85	8.11	8.11	8.07	8.44	8.45
Other taxes on goods and services	0.21	0.16	0.11	0.08	0.08	0.08	0.09	0.08	0.16	0.30	0.29
Excises	3.28	3.29	3.03	3.29	3.20	3.91	3.97	3.96	4.34	4.15	4.00
Profits of fiskal monopolies	-	-	-	-	-	-	-	-	-	-	-
Taxes on specific services	0.37	0.39	0.39	0.38	0.35	0.37	0.36	0.35	0.34	0.41	0.48
Business and professional licenses	-	-	0.00	0.00	-	-	-	-	-	-	-
Motor vehicle fee	0.32	0.31	0.30	0.28	0.28	0.29	0.29	0.29	0.30	0.37	0.38
Other taxes on use of goods and services	0.43	0.41	0.34	0.31	0.28	0.27	0.26	0.27	0.24	0.25	0.24
Motor vehicle tax	0.17	0.15	0.15	0.18	0.19	0.11	0.11	0.10	0.10	0.08	0.07
Taxes on international trade and transactions	**0.29**	**0.13**	**0.16**	**0.33**	**0.32**	**0.25**	**0.25**	**0.27**	**0.23**	**0.22**	**0.21**
Custom duties	0.27	0.13	0.16	0.33	0.31	0.25	0.25	0.27	0.23	0.22	0.21
Other import duties	0.02	0.00	0.00	0.00	0.00	0.00	-	-	-	-	-
Other taxes	**0.11**	**0.01**	**0.02**	**0.01**	**0.00**	**0.01**	**0.01**	**0.05**	**(0.00)**	**0.00**	**0.00**
Other taxes not elsewhere classified	0.11	0.01	0.02	0.01	0.00	0.01	0.01	0.05	(0.00)	0.00	0.00
Memorandum Item: Nominal GDP	*27,672.7*	*29,226.6*	*31,555.4*	*35,152.6*	*37,951.2*	*36,166.2*	*36,252.4*	*36,896.3*	*35,988.3*	*35,907.5*	*37,303.2*

Source: Slovenian authoriities and Fund staff calculations

5. **Property transfer taxes, especially at high rates, impact adversely on sustainable land use.** They encourage purchases of cheap land which is generally farther away from city centers and transport infrastructure, thereby contributing to costly urban sprawl. Also, they have a lock-in effect through tax minimization behavior which discourages transactions that might help put land to more efficient use. They also encourage the purchase of undeveloped land for new development at the expense of upgrading developed city areas. Since a well-designed recurrent property tax does not have these negative characteristics, the introduction of a modern *ad valorem* property tax should be pursued with vigor in Slovenia. This could afford over time a further reduction of the property transfer tax—potentially one of the trade-offs when introducing the amended real property tax.

C. Global Property Tax Collection Trends

6. **While there is considerable variation in property tax revenues across Europe and in OECD countries, Slovenia's low revenue importance of immovable property taxes compares unfavorably against the EU average of 2.3 percent of GDP (2012), and it is also far below the unweighted OECD average of 1.82 percent of GDP in 2010** (see Table 4). This lost opportunity is being recognized by the authorities, evidenced by first 1998 modernization initiatives to the real estate registration methods with the ultimate objectives of updating the

land and building cadasters, land registry, and agricultural land use database, all necessary steps towards introducing a modern market based property tax.[1] Taxes on real property are ideally suited for local governments, as the base cannot be moved across jurisdictional boundaries, and in many higher income countries they constitute a large percentage of local revenues.

7. **The level of economic development as measured by GDP per capita and urbanization play a substantial role in determining the level of recurrent property taxes across countries.**[2] Evidently, cross-country variation in property tax collection increases sharply with income level. Among the high income countries, reliance on immovable property taxes vary from nil or close to nil in Kuwait, Luxembourg, and Switzerland, to heavy reliance (revenue more than two percent of GDP) on this source in Canada, France, Japan, United Kingdom, and United States.

Table 4. Property Taxes in OECD Countries, 2010

					Taxes on Property		Recurrent Taxes on Immovable Property			
					General Government		General Government		Local Government	
Country	Year	OECD	WB Income Level	GDP/Capita (US$)	% of GDP	% of Total General Taxes	% of GDP	% of Total General Taxes	% of Total Local Taxes	% of General RTIP
Australia	2009	Yes	High income	44,816.93	2.48	9.33	1.45	5.59	100.00	62.03
Austria	2010	Yes	High income	45,270.84	0.54	1.28	0.23	0.56	15.17	88.89
Belgium	2010	Yes	High income	43,378.80	3.00	6.88	1.24	2.84	54.12	95.97
Canada	2010	Yes	High income	46,282.86	3.49	11.27	3.04	9.83	91.05	91.98
Chile	2010	Yes	Upper middle	12,570.73	0.76	3.64	0.53	2.54	40.33	98.49
Czech Republic	2010	Yes	High income	18,813.94	0.44	1.28	0.24	0.68	51.19	100.00
Denmark	2010	Yes	High income	56,369.20	1.93	4.00	1.38	2.87	10.79	100.00
Estonia	2010	Yes	High income	14,137.65	0.36	1.06	0.36	1.06	7.87	100.00
Finland	2010	Yes	High income	44,364.37	1.16	2.74	0.65	1.54	6.31	100.00
France	2010	Yes	High income	40,808.86	3.65	8.51	2.46	5.74	53.44	100.00
Germany	2010	Yes	High income	40,197.67	0.85	2.34	0.46	1.26	15.87	100.00
Greece	2009	Yes	High income	29,328.08	1.24	5.59	0.17	0.56	31.68	37.65
Hungary	2010	Yes	High income	12,845.41	1.16	3.04	0.35	0.91	14.19	100.00
Iceland	2010	Yes	High income	38,891.77	2.47	6.81	1.82	5.03	20.21	99.51
Ireland	2010	Yes	High income	46,298.09	1.56	5.59	0.88	3.17	100.00	100.00
Israel	2010	Yes	High income	29,264.07	3.12	9.63	2.32	7.15	95.18	99.74
Italy	2010	Yes	High income	34,154.38	2.02	4.71	0.59	1.39	9.04	100.00
Japan	2010	Yes	High income	43,014.64	2.70	9.91	2.14	7.86	30.01	100.00
Korea, Republic of	2010	Yes	High income	20,764.59	2.86	11.40	0.79	3.15	16.34	86.71
Luxembourg	2010	Yes	High income	105,509.30	2.65	7.25	0.07	0.20	4.55	100.00
Mexico	2009	Yes	Upper middle	7,970.16	0.30	1.71	0.19	1.10	57.39	68.75
Netherlands	2009	Yes	High income	48,151.04	1.49	3.90	0.69	1.81	48.10	97.25
New Zealand	2010	Yes	High income	32,225.99	2.16	6.89	2.11	6.53	89.16	100.00
Norway	2010	Yes	High income	85,055.45	1.24	2.90	0.34	0.79	4.82	83.78
Poland	2009	Yes	High income	11,275.06	1.23	3.86	1.20	3.78	28.59	100.00
Portugal	2010	Yes	High income	21,525.65	1.19	3.79	0.65	2.07	38.07	100.00
Slovak Republic	2010	Yes	High income	16,049.85	0.42	1.48	0.42	1.48	50.85	100.00
Slovenia	2010	Yes	High income	23,281.55	0.62	1.65	0.49	1.30	11.89	100.00
Spain	2010	Yes	High income	30,333.75	1.94	6.09	0.81	2.55	28.84	100.00
Sweden	2010	Yes	High income	49,078.05	1.10	2.41	0.80	1.74	2.62	53.45
Switzerland	2010	Yes	High income	67,766.36	2.22	7.50	0.09	0.30	1.34	71.59
Turkey	2010	Yes	Upper middle	10,062.43	1.06	4.12	0.24	0.94	9.96	100.00
United Kingdom	2010	Yes	High income	36,371.26	4.23	12.09	3.42	9.77	100.00	51.81
United States	2010	Yes	High income	46,900.39	3.21	12.98	3.07	12.44	73.03	96.68
Unweighted average (excl. Slovenia)	2010				1.82					

Source: OECD Revenue Statistics 2011.

8. **While the immovable property tax may not take up a central position in the revenue systems of most countries, it often contributes significantly to the financing of local governments.**[3] This is especially the case for European countries where recurrent property

[1] The long-term objectives of these reforms is the implementation of better harmonized real estate records, for modernizing real estate market valuation and taxation. Property values will be assessed through the methodology of mass real estate valuation generating presumptive market values for the property tax system.

[2] Norregaard, 2013.

[3] Ibid.

taxes are fully assigned to local governments, indicating that increased reliance on this source of revenue involves important issues of inter-governmental fiscal design. For example, the share of the immovable property tax in total local taxes is 100 percent in countries such as Australia, Ireland, the United Kingdom, and at least 15 other European countries, with an average of 30.6 percent in high income countries, and slightly more (34.4 percent) in middle income countries. The last column of Table 4 indicates that all of the immovable property tax revenue collected by government accrues to local governments in the large majority of OECD countries.

D. Current Taxes on Immovable Property

9. **Currently in Slovenia, real property attracts several taxes**: (1) The tax on Real Property; (2) The Charge for the Use of Building Ground; (3) The Property Transfer Tax; (4) Capital Gains Tax (CGT); and (5) Tax on the Profits due to Changes in Land Use. The first three are revenue sources for municipalities with CGT and tax on changes in land use being central government taxes. The tax on real property[4] was introduced in 1988 as the part of the overall reform of the national tax system (Civil Tax Act 1988). The charge for the use of building ground[5] was introduced in 1984 providing for the compensation for the use of building ground. The tax on the profits due to changes in the use of land[6] was introduced in 2012 and aimed at those capital gains realized when agricultural land is changed to building land.

Real property tax – wealth tax on multiple ownership of property parcels

10. **The Real Property Tax is a relatively unimportant tax for local governments and is levied on properties such as buildings, parts of buildings, apartments, garages, second homes and boats used for recreational purposes** (Bevc, 2000). The taxpayer is a natural person who is the actual/beneficial owner of the property. The taxable base for property is the "assessed value" according to specific criteria based on a points system as prescribed by the executive act to the Housing Act. The number of points is related to specific characteristics of the property such as area (m^2), age, quality and heating system and is uniform across the country. New owners of property must declare their acquisition to the Financial Administration of the Republic of Slovenia (FARS) as well as declaring data on specific property characteristics. FARS have their own data base to administer this tax though they can request data from the Real Property Register. The municipality set annually the value of the "m^2" and the value of the "point". The tax rates, depends on the type of construction and the assessed value and are generally progressive. For example, the tax rate for urban dwellings and garages varies from 0.10% to 1% of their assessed value, for second homes the rate ranges from 0.20% to 1.5%. For business premises the range is

[4] Official Gazette of the SRS, Nos. 36/88

[5] Building Land Act (Official Gazette of the SRS, Nos. 18/84, 32/85 and 33/89) and Construction Act (Official Gazette of the SRS, No. 110/02)

[6] Public Finance Balance Act 2012 (ZUJF).

from 0.15 to 1.25%. The tax base is the value of the buildings according to a 'point' system, which is calculated as follows: (number of points X value of the point/m^2)=value of the building/m^2; and (value of the building/m^2 X useful area in m^2)=value of the building. The value of the 'point' is determined each year by the municipality and can be adjusted annually. There are a number of exemptions from the real property tax, including buildings of less than 160 square meters,[7] buildings used for agricultural purposes and cultural or historic monuments. In addition, there is a temporary exemption for ten years to taxpayers who own newly constructed buildings or substantially renovated buildings where the value has increased by more than 50 percent.

Charge for the Use of Building Ground

11. **The Charge for the Use of Building Ground is determined by the municipality and is based on the "point" system.** Typically municipalities through their local ordinance on the Charge specify the zones within which the Charge is levied. Points are allocated based on such factors as type and quality of adjacent roads and footpaths, parking spaces, provision of lawns and recreation areas, sewerage systems, water, heating, electricity, telecommunication, use of the building, land utilization factor and commercial use of public areas. Overall, the system is complicated with little explanation as to how the range of "points" allocated are determined. Those liable to the Charge include legal persons and individuals, users or owners of undeveloped land, buildings and part of buildings. Undeveloped land is land available for construction with services such as water and electricity. There are also a number of exemptions including land and buildings used by the army, church, foreign embassies and international organizations. In addition, new buildings and apartments are given a temporary exemption for five years. There is a further partial or full exemption given for those taxpayers on low incomes. In addition, the municipality have significant autonomy in deciding exemptions of owners to this charge. This is largely unfettered and not sufficiently regulated by legislation. Municipalities maintain their own database for the Charge and annually send this to the FARS for them to administer the billing and collection. The database can then exclude properties given that there is no auditing or regulatory function to ensure comprehensive and full coverage of all properties.

12. **As noted each municipality maintains its own database for the Charge which results in 212 separate and individually configured databases and software that the FARS have to manage.** In addition, municipalities have separate databases for natural persons and for legal persons which in effect means there are 424 separate systems. There is no harmonization of the data structures which causes some administrative difficulties for the FARS.

13. **On behalf of 211 out of 212 municipalities, the FARS undertakes the billing for both the Real Property Tax and the Use Charge of Building Ground.** One municipality does not impose this Use Charge. The timing for the sending of bills depends on when the municipality

[7] The size exemption applies only when the owner or close relative (spouse, children, adopted children) live permanently in that building.

sends their data to the FARS. It undertakes some sample verification checks, any disputes are directed to the municipality for their consideration. When matters have been resolved the municipality "signs-off" and the FARS can then issue bills. For 2014, see Table 5 for the number of tax bills sent for both the Real Property Tax (RPT) and the Charge for the Use of Building Ground. Also, it reveals that current tax exemptions for residential buildings reduce the average annual tax liability for natural persons to a very low amount.

Table 5. Slovenia: Number of Property Tax Bills - 2014

Property Tax Bills in 2014		Number of Bills	Amount	Average Bill (Euro)
Real Property Tax		98,680	4,474,922	45
Charge for Use of Building Ground	Natural Persons	720,941	54,815,883	76
Charge for Use of Building Ground	Legal Persons	31,929	137,288,787	4,300
Source: Tax Authority				

14. **The number of appeals sent to the FARS against the Charge for the Use of Building Ground on average is 1.5 percent per annum.** For 2014 this represented some 11,285 appeals. The most common appeal related to ownership details and changes in the size of the property. Typically, new owners are not recorded in the municipality database. There would also be some confusion on how the size of the property has been determined. This represents quite a high rate of appeal which would imply that owners are not in compliance with the legislation. When the FARS receive an appeal the matter is referred to the municipality for their views on the issues raised by the taxpayer. On response by the municipality the FARS notify the taxpayer in writing. About 10 percent appeal to the second level. Overall, the time taken to settle the appeal is two months with some 64 percent settled with the prescribed time limit. The remaining 36 percent can take over 12 months for agreement—generally, evidencing effective administration by FARS.

Property Transfer Tax

15. **The Real Property Transfer Tax (Official Gazette 117/06) revised an earlier transfer tax on real property.** The transfer tax is levied at 2 percent of the contracted selling price or if the declared contract price is less than 80 percent of the generalized market value of the property then the latter value is applied, unless proven differently by individual valuation as provided by a taxpayer. The tax is payable by both domestic and foreign legal entities and individuals. Certain transactions are exempt such as the acquisition of new buildings, which is the first sale from a developer which may be subject to VAT on the value of construction. The legislation is national and administered by the FARS. Municipalities have no authority over this tax other than receiving the income from the FARS. The tax is not charged on: the transfer of property to diplomatic or consular missions where there is agreement on reciprocity; international organizations bound by international treaties; property transferred due to expropriation; the transfer of cultural monuments; and the transfer of agricultural land for the purposes of land consolidation.

Capital Gains Tax

16. ***Individuals*—attract capital gains tax (CGT) through the income tax system on the disposal of immovable property, irrespective if alienated in unchanged or changed condition.** Capital gains realized from the sale of immovable property after 20 years of holding period or acquired before 1 January 2002 are exempt from tax. Special rules are applicable to houses or flats if the owner occupied them for at least three years. The taxable base is the difference between sales proceeds and acquisition cost. There is no CGT on unrealized capital gains upon the point of emigration. Capital gains from the disposal of land, which since the acquisition has changed its function into building land, are subject to CGT. The taxable base is the sales price of the land reduced by the acquisition cost (it may also be a lump-sum cost). As to the CGT rate structure, capital gains are taxed separately at a 25 percent flat rate, then reduced by 10 percent after the first 5 years of the holding period and by 5 percent for every subsequent five years of the holding period and finally non-taxable after 20 years.[8]

17. **In the case of *companies* capital gains derived from the sale of any tangible or intangible assets are included in the ordinary taxable base and taxable at the general income tax rate.** Capital gains from the disposal of shares or other capital holdings in qualified companies are partly exempt from taxable income of the holding company. As in the case of natural persons, capital gains from the disposal of land, which since the acquisition has changed its function into building land, are subject to CGT.

18. **Capital gains from the disposal of building land, which has changed its functions since the acquisition and its re-categorization as building land at the disposal, are subject to a separate CGT.** Both for companies and natural persons the tax rates are as follows: (1) 25 percent if less than one year elapsed since the land was re-characterized as building land; (2) 15 percent if 1 to 3 years elapsed since the land was re-characterized as building land; (3) 5 percent if 3 to 10 years elapsed since the land was re-characterized; and (4) 0 percent if more than 10 years elapsed since the switch of land towards building land. The taxable base, for both natural and legal persons, is the sales price of the land minus the acquisition cost.

19. **The Slovenian CGT on the disposal of land after its re-characterization to higher value building land—commonly an accretion in value—is seemingly in support of sustainable land use and orderly spatial planning.** Jurisdictions increasingly apply tax or charging instruments to internalize the negative externalities into property prices, stemming from environmentally degrading urban sprawl and urbanization activities. Countries could use differentiated property tax rates as a policy instrument to mitigate these negative outcomes but

[8] Example: the tax rate for the first 5 years of the holding period is 25 percent; for a holding period of 5 to 10 years, the tax rate is 15 percent; for a holding period of 10 to 15 years, the tax rate is 10 percent; for a holding period of 15 to 20 years, the tax rate is 5 percent; and after 20 years of holding, capital gains are exempt from taxation.

this comes at a cost of increasing complexity and other challenges of deemed rate discrimination. The graduated CGT rate structure on disposal of re-characterized land in Slovenia addresses the speculative element of land hoarding but more may be needed to manage urban sprawl and to maintain vibrant inner cities which were established decades/centuries ago. This issue is further discussed under the section of the report on the Constitutional challenge regarding overly diverse tax rates.

Issues around the current property tax regime

20. **The use of multiple databases increases the complexity around the administration by FARS.** With each municipality having two distinct databases for the *Charge on Building Ground* creates some difficulties for the administration. There is a lack of harmonized data structures and IT platforms used by municipalities. A problem with having a multiplicity of databases is in regulating what data is being used. For example, there should be standards in determining the size of a building (e.g., *net internal*, or *gross internal*, or *gross external* surface area) and commercial/industrial property should be measured to the same standard as residential. Standardization of data is possible where one national database is used such as the Real Estate Register. Both the Real Property Tax and the Charge for the Use of Building Ground have permanent and temporary exemptions with the result that there is manipulation of data and complex administration. The residential 160m^2 exemption under the Real Property Tax incentivizes owners to under-declare the size of their property. The 5 year and 10 year exemptions for new and refurbished residential property results in a narrowing of the tax base. Also, the Charge for the Use of Building Ground is based on municipal ordinances with complex assessment processes. There is little transparency in how the various adjustment factors have been chosen and how the various "point" levels have been calculated.

21. **Currently, there is no external auditing of the data held by municipalities.** This would be important to ensure that equity and fairness between those being taxed and those not, is being achieved. Giving municipalities autonomy in deciding exemptions is problematic and not necessarily in the interests of national policy. For example, providing an exemption for industry or large shopping malls may create a disequilibrium in terms of location decision making. Ideally, data for the property tax should be nationally controlled under the SMA, with special reference to owner-declared changes in terms of property attributes. Data needs to be properly authenticated by the SMA through a proper legal process. The Real Property Register (RPR) is a national database on all parcels, buildings and parts of buildings in Slovenia and should be the only database used for the assessment for property tax. The proliferation of databases between national and local government is not an ideal situation. This contributes to duplication of effort, lack of reconciliation between the disparate databases and a waste of resources.

II. TAX DESIGN ASPECTS OF THE 2013 REAL PROPERTY TAX ACT AND THE CONSTITUTIONAL CHALLENGE

A. Benefits of Property Taxes

22. **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 also induce more efficient land use. 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.

B. The 2013 Real Property Tax Act

23. **On 1 January 2014, a new real estate tax based on market value was introduced—as a part-attempt to raise additional revenues in support of the fiscal consolidation program.** Property tax contributions in the "old' and now reinstated system reveal that commercial properties generate the lion share of property taxes (over 70 percent) with an average effective tax rate of 0.7 percent (tax on market value) vis-à-vis residential properties' effective rate of 0.08 percent. The effective tax rate dispersion among municipalities for residential properties ranges from 0.002 to 0.4 percent and for commercial properties between 0.1 and 3 percent. This reflects on municipal fiscal autonomy in determining rates and exemptions. The State level, keen to raise more revenues from a modern property tax on residential properties, also opted for a 50 percent retention of newly raised property taxes for the national level.

24. **For a variety of tax design reasons, the new consolidated tax was, however, annulled by the Constitutional Court on 31 March 2014**. As such, the former real property tax and Charge which applied before 1 January 2014 were reinstated. The proposed Real Property Tax Act of 2013[9] has the following design: (1) The tax base is assessed market value; (2) The property tax burden would be increased on residential properties; (3) The average effective tax burden will remain static for commercial properties; and (4) The goal was to double property taxes' revenue importance as a share of GDP from 0.6 to 1.2 percent. Other key provisions of the Real Property Tax Act of 2013 are the following: (1) Taxable property parcels include forest and agricultural land and to include all real estate in the Real Property Register (RPR); (2) The taxpayer is the owner (acquirer) or actual user of the property; (3) The tax base was the

[9] Official Gazette RS, No. 101/13 in 22/14 – decision of Constitutional Court.

Generalized Market Value as determined by mass appraisal valuation; (4) Tax rate differentiation is wide-ranging based on type of real estate:

- 0.15% for non-vacant residential property;
- 0.50% for vacant residential property;
- 0.75% for business and industrial property;
- 0.40% for energy production property;
- 0.30% for agricultural property; and
- 0.50% for other property.

Land was taxed depending on its type or purpose:

- 0.15% for agricultural land;
- 0.07% for forest land;
- 0.75% for business and industrial purposes;
- 0.40% for energy production purposes;
- 0.50% for building and other purposes; and
- 0.15% for land belonging to residential properties.

For illegal buildings, and residential properties whose value exceeded EUR 500,000, the tax rate was increased by 0.25 percent—resulting in a 0.4 percent rate; a 50 percent reduction was applied to the tax payable by disabled persons and those entitled to social benefits; (5) Relief was set for diplomatic and international institutions, humanitarian organizations, religious buildings and unproductive land; (6) Municipalities could unilaterally adjust rates by up to 50 percent in either direction for different types of real estate; (6) Every municipality was guaranteed the same revenue as in the previous system; (7) Transitional periods applied for the determination of the tax base: In 2014, the tax base for residential property was 80 percent of the generalized market value and in 2015 the tax base would have increased to 90 percent of that value.

C. Key Constitutional Challenges to the 2013 Act[10]

25. **With the introduction of the new Real Property Tax Act, the valuation results of the property valuation models that were approved by the Government in January 2012 came into renewed taxpayer focus.** A Generalized Market Value (GMV), as set by mass valuation, was recorded in the RPR for all real estate. The Surveying and Mapping Authority (SMA) was inundated over a couple of months by complaints about data informing the GMV on which the property tax would be applied. It revealed misunderstanding of the mass valuation system, dissatisfaction with assessed values, and the high rates of tax, prompting submissions for even more tax exemptions. In addition, the new revenue sharing dispensation eroded municipalities' previous exclusive access and use of recurrent property taxes. The Constitutional Court held that

[10] This section borrows heavily from Neva Žibrik, 2015, "The Process of Introducing a Modern Real Property Tax in Slovenia," unpublished paper by the Ministry of Finance, Republic of Slovenia. The problems and activities pursued after the first introduction of the real property tax in 2014 are described and the consequences of the Constitutional Court Decision No. U-I-313/13-86 of 21 March 2014 are briefly summarized.

both the Real Property Mass Valuation Act and the Real Property Tax violate a number of constitutional principles. The key objections are as follows:

a. Setting the *tax base as a General Market Value or appraisal value* is deemed unconstitutional due to insufficient procedures in the Real Property Mass Valuation Act;

b. The use of *different rates* for residential and unoccupied housing, for business real estate and energy plants, is inconsistent because rate differentiation breaches the non-discrimination or equality provisions. Also, it criticized the absence of objective criteria that would determine the tax rate selection;

c. *The lack of a sufficient appeals procedure against the tax base* determination constitutes the core constitutional violation since *no possibility exist for lodging a complaint* against all elements of the valuation, particularly, the inadmissibility to raise an objection against the value and data in the RPR;

d. The *50:50 revenue sharing split of the property tax between the state and municipalities* is unconstitutional; the tax should remain the exclusive revenue source for municipalities;

e. The *capping of municipalities' autonomy to change rates* by plus or minus 50 percent is unconstitutional as it restrains municipalities' ability to raise sufficient revenues.

26. **As to the Real Property Mass Valuation Act the Constitutional Court held that some mass valuation procedures for tax purposes are inconsistent with the Constitution**:

a. The determination of valuation models and valuation methods provides insufficient legal certainty while allowing essential elements of the system to be determined by governmental regulations, whereas *taxation should only be imposed through law*; and

b. The *limitations on the appeals process* by owners objecting against the assessed property value guarantees no material relief.

27. **The Constitutional Court did not order the line ministries to rectify cited violations of the Constitution within a certain timeframe.** Instead, it issued an order to withdraw in its entirety the Real Property Tax Act and prevent the Real Property Mass Valuation Act being used for taxation purposes. The Court also ruled that the previous property tax has to be reinstated. As the Constitutional Court continues to support a market value-based property tax, it instructed the government to amend the property tax in line with Constitutional principles. In the following sections, the Mission will outline alternatives—with reference to good international practice—that would address those provisions that were deemed discriminatory. Key reform areas are to define the tax base with reference to objective criteria; outlining a fair objection and appeals process; suggesting a minimum of rate differentiation; and preserving municipalities' fiscal autonomy in respect of the property tax. The chapter will conclude by stressing the importance and benefits of an independent public review and consultation process that would protect the Ministry against opportunistic sectoral lobbying against a revenue-productive property tax.

D. Policy Proposals for Addressing Constitutional Breaches

Tax Base—International Approaches

28. **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 real property (Bahl, 2009). 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. Table 6 provides a brief review of each of the main bases of the property tax (capital improved value, annual rental value, land value, building value and banding) 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.

29. **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.

Value-based assessment

30. **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. "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.

31. **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—generally buildings—affixed to the land, i.e., total value); (2) Unimproved land value or site value (i.e., land as if unimproved, thus ignoring any improvements effected 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 was constructed).

Table 6. Common Considerations for Selecting Property Tax Bases

Basis	Considerations	Countries
Capital value of land and improvements	**Functions effectively if the**re 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);	Canada, Germany, Finland, Italy, New Zealand, and the United States but also in "emerging" countries, e.g., Argentina, Brazil, Malaysia, and South Africa
	(2) Unimproved land value or site value (i.e., land as if unimproved, thus ignoring any improvements to that land);	Jamaica, selected councils in New Zealand and selected states in Australia (New South Wales, Queensland, and Western Australia)
	(3) A tax based on land and improvements as separate taxable objects (i.e., two separate taxes); and	Denmark, Grenada, and Namibia
	(4) A tax on the value of buildings only (i.e., ignoring the value of the land on which the building is constructed).	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 stepping stone toward a market-value based regime.	Czech Republic, India, Macedonia, Poland and Slovakia

Sources: McCluskey 1999; McCluskey and Franzsen 2005.

32. **In jurisdictions where the capital market is well-developed and a property valuers' profession is functioning adequately, this is the preferred system (Bird and Slack 2005).** It is common in OECD countries (e.g., Canada, Germany, Finland, Italy, New Zealand, and the United States), but also encountered in "emerging economy" 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. It is by its very nature a costly system to introduce and maintain.

33. **With the rental-value assessment approach the annual rent the property would command in the market is assessed.** It then assumes some percentage of that estimate as the taxable base. Generally, and economically important, this approach uses rents based on current patterns of property use. This difference means that whereas the capital value approach would tend to reflect the value in the highest alternative use of the property, and therefore tends to tax gains in value that the owner has not yet realized, the annual rental value approach does not. Rental value-systems are encountered in France, Ireland (for non-residential properties), the United Kingdom (residential properties), and many countries with a British colonial heritage (e.g., Australia, Hong Kong, India, Malaysia, Singapore, and Uganda). However, rental values on commercial property are an important component of the capital value approach, as rental values can be capitalized to obtain the capital value.

Area-based assessment

34. **Land area, building area, or both is the usual basis for a non-value area based property tax system.** Under area-based approaches, taxes are determined simply by multiplying measurements of area by the appropriate rate and any applicable adjustment coefficients. Thus, area-based systems tend to be simpler to administer since fewer attributes of market data need to be collected and analysed (Slack and Bird, 2015). There is no need for revaluations other than a review of the weights applied to adjustment factors. Area-based property taxes are more objective than value-based systems in that area measurements are less contestable than value determinations.

35. **On the other hand, area-based property tax systems are often perceived to be unfair.** In the absence of market-informed adjustment coefficients and tax rates, highly desirable properties can pay the same taxes as undesirable properties. Individual assessments bear little relationship to either ability to pay or benefits received, which reduces public acceptance (Paugam, 1999). Although taxpayers might see this as an advantage, area-based property taxes are less buoyant than value-based systems, unless frequent adjustments are made to tax rates and any adjustment coefficients (Almy, 2014).

36. **As suggested above, the disadvantages of area-based systems can to some extent be offset by the introduction of market-related adjustment coefficients.** Doing so reduces simplicity and objectivity, of course. Many urban area-based systems involve adjustment coefficients for the size of a municipality, the zone within a municipality, the story in a building in which an apartment is located etc. However, multiple adjustments increase the complexity to the point that the system becomes difficult to administer making the transition to a market value approach more acceptable (a case in point is the Netherlands).

Evaluation of basis for property tax

37. **The policy debate regarding the basis for a property tax on immovable property chiefly has to do with whether the tax should be value-based or based on area or some other measure.** Although there are different strengths and weaknesses, there has been a gradual shift toward capital value and away from area based approaches (Slack and Bird, 2015; McCluskey and Franzsen, 2013). This probably is a result of changes in land tenure patterns and immovable property markets, which make capital values easier to determine. Also, meaningful uniformity in effective property taxes and property tax burdens can only be achieved when assessments are based on market values. As property markets develop, there is a noticeable shift to market value-based taxation in countries that formerly used area-based systems.

Area-based vs. market-based assessment

38. **During the early 1990s Estonia, Lithuania, Latvia, Romania, Poland, Czech Republic, Hungary and Slovenia were contemplating the introduction of a value based property tax away from their current area based property taxes.** This trend could be explained by a growing appreciation of the inadequacy of the area based property tax, reliance on owner self-declaration, developments in creating land and building cadastres, property registration and property markets becoming more active and transparent (FDI-CEE, 2006). The area based systems had no relationship with the market value of the real estate being taxed and generated limited revenues from a static base. Estonia, Lithuania and Latvia now have well established value based property taxes whilst the introduction of such approaches has stalled in Romania, Poland, Czech Republic, Hungary and Slovenia. Montenegro, Macedonia and Kosovo are the latest countries to adopt property tax systems based on market values. This movement is explained by a growing understanding of the inadequacy of area based taxes inherited from the socialist era and the fact that a sufficiently developed ad valorem property tax could respond to the pressure to mobilize additional funds at the local level and to increase local financial autonomy.

39. **As already indicated, it is generally agreed amongst experts that where it is possible to use the market-value approach in practice, it provides the better tax base.** An area-based system may gradually be shifted to a market-value based system over time as the property market develops by weighting the area by indicators of quality and location (Rao, 2008; UN-Habitat, 2011). For example, a tax based on the number of square metres of a structure could be adjusted to reflect the quality of the unit and its location. For location, each municipality could be divided into zones to reflect different market values. A zone located in a desirable neighborhood would have a higher factor than a zone located in a less desirable suburb. Over time, zones could be defined more narrowly from entire neighbourhoods to sections of neighbourhoods to individual blocks. Eventually, such narrowing of zones comes close to approximating market value. Given the number and range of adjustments adopted by municipalities for the Charge on the Use of Building Ground there is less of a gap to bridge to move to a value based property tax.

What would be the preferred tax base option for the property tax in Slovenia?

40. **Slovenia at present has two area based property taxes namely, the Real Property Tax (RPT) and the Charge for the Use of Building Ground.** The base of the RPT is quite narrow with few taxpayers due to the exemption of residential property below 160m^2. The Charge has a broader base but again has exemptions on new and refurbished property. Agricultural and forestry land is also exempted from both taxes.

41. **Given the application of both taxes there will be cases where owners will have to pay both.** Having two local recurrent property taxes based on the same property can cause confusion as to their role and function. Typically, countries will have one recurrent property tax levied. It creates greater understanding and a more simplified administrative billing and collection system. Both the current property taxes have been in use since the 1980s and are generally recognized by municipalities as working well. Yet, analysis by the Ministry of Finance indicates the unfairness of these taxes in terms of effective tax rates. This unfairness to a large extent was the catalyst for the authorities to seek a fairer and more acceptable real property tax.

42. **Since the mid-1990s Slovenia has been working towards the introduction of a value based property tax.** The Real Estate Registration Modernization Project (2000-2005) began the process of establishing the building blocks necessary for an *ad valorem* property tax. These included; (1) Developing land and building cadasters; (2) Establishing a real property register; (3) Creating the legal framework for property ownership; (4) Providing the environment for housing finance and mortgage reform; and (5) Developing a real property valuation (mass) system. Since the completion of this World Bank funded project the authorities have been engaged in developing the necessary legislative underpinnings to support the property tax. It is clear to the mission that whilst the implementation of the value based property tax has been stalled it is important to continue with its implementation.

43. **The choice of improved capital value as the property tax base is in the view of the mission the correct one** (see Table 7)**.** The real estate market particularly for residential property is maturing with sales based on land and buildings together. There is a high level of public appreciation as to what market value means. For the commercial, agricultural and forestry sectors sales are occurring though commercial property tends to be moving towards a rental based market. The mission is minded that a transitional option could be to revise/amend the current property taxes. However, adopting this strategy would deflect attention from working towards the implementation of the value based property tax. Efforts should therefore focus on those elements that would create the necessary support for the revised value based property tax.

44. **The authorities should establish an improved public relations and communication plan.** This should concentrate on a holistic view that details the problems of the current property taxes, why a change to a value based system is appropriate and what the benefits to taxpayers will be with the new system. Whilst some of this work was previously undertaken it was lacking a cohesive and coordinated approach.

Table 7. Potential Basis for the Property Tax in Slovenia

Basis of property tax	Potential Applicability	Comments
Annual Rental Value	Limited	Insufficient rental evidence for all property types; commercial rentals used to determine capital improved value; need to further develop database on rental information
Capital Improved Value	Yes	Sufficient sales evidence for residential property types, agricultural and forestry land; limited sales for commercial and industrial property; developed sales register in place to record transaction prices
Site Value	None	Would be difficult to apply throughout the country due to the lack of bare land sales in urban areas; transaction evidence available for agricultural and forestry land; undeveloped land sales also available;
Area	Yes	Current system; narrow tax base with extensive exemptions
Buildings	Limited	Information held on buildings and improvements in the cadastre; few sales of buildings only; cost method used to determine capital value of specialized buildings

Recommendations

- The authorities should not focus on trying to introduce a transitional revised scheme based on the two current property taxes but rather continue with its efforts to implement a value based property tax based on capital improved value.

- A public relations and communication campaign should address the strengths of the value based property tax and the weaknesses of the current system.

Informal review and appeal process

45. **The proposed introduction of a value based real property tax in Slovenia requires the establishing of an informal review and appeal process to allow property owners to challenge their valuation**. The decision of the Constitutional Court affirmed the legal requirement for the mass valuation law to give owners the right of appeal. International best practice (IAAO, 2014) 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.

46. **Appeals against the property tax value are an important component within the property tax administration.** Appeals provide an opportunity for property owners to meet with the valuation department to inquire about their valuation. In the case of valuation disputes, an objection/appeal system should provide opportunities for informal meetings with the valuation department and formal processes before independent bodies are involved in the dispute resolution. These processes should assure taxpayers that valuations are correct, and equitable. Key components of any valuation appeal system are reliance on a clearly written procedures, a well-developed public relations program for notification, and avoidance of any actions that might suggest discrimination in the way objections/appeals are treated and resolved.

47. **What is important within the appeal process is the number of stages in the process and the time taken to obtain a final resolution to an appeal.** International practice in terms of property tax valuation challenge tends to favor a two stage process. The first stage is an informal notification to the organization responsible for the valuation—the SMA in the case of Slovenia. This would take the form of an informal telephone or in-office discussion during which verbally and in hard copy as much relevant information and explanation as possible is supplied to deal with the taxpayer's concerns. This discussion would conclude with one of the following outcomes: satisfied taxpayer with no further action required; decision by SMA to amend the value due to detection of some factual error; or decision by owner to make a formal objection.

48. **Should the taxpayer not agree with the informal decision the matter then becomes formal.** At this point, international best practice would suggest there be recourse to a fully independent professional body / panel / board which will determine the matter at least on matters of valuation. In Slovenia, however, there is no precedent for the establishing of such an independent body which can make a decision. Such a body, if properly established within the Ministry of the Environment and Spatial Planning (MESP) however, could make a recommendation to the appropriate "panel" within the MESP for them to make the official decision. The rationale behind having a professional body making a recommendation is principally based on the very technical nature of valuation particularly for high value real estate such as shopping malls, hotels and other complex real properties. Membership of tribunals and appeal boards could include property owners, valuers, real estate agents, accountants, academics, lawyers, and other knowledgeable persons. Ultimately, aggrieved taxpayers may appeal this decision to the Administrative Court of the Republic of Slovenia and from there to the Supreme Court and eventually the Constitutional Court. Should the decision be that having an advisory body is not appropriate the decision making panel within the Ministry should nonetheless request information from the Valuation Department on their earlier decision.

49. **The mass appraisal system in Slovenia is driven by establishing Value Models, Value Zones (by property type), Value Levels (20 levels have been settled on) and Value Tables (based on size and effective age).** Considerable analysis of sale transactions have been undertaken by the Valuation Department within the SMA to develop very technical valuation models and from there establish Value Zones, Value Levels and Value Tables. The combination of these elements along with data held in the Real Property Register determine what was described as the "generalized market value" of any specific property. It is very important that there should be widespread agreement on the above elements. These are the core of the mass valuation system and as such an appeal against any of these elements is not advisable. To achieve acceptance of the elements there must be widespread discussion and consultation with key stakeholders such as municipalities, large retailer groups, hotel and tourist bodies, agricultural bodies, business and other interested communities. Municipalities have an important role to play in terms of reviewing value zones and general property value levels particularly from residential property owners. The objective is to allow interested groups, communities and other bodies to put forward their views and recommendations. Ultimately, the various elements will have to be

approved by government and cannot then be publicly challenged until they are reviewed for a subsequent revaluation.

50. **Once the Value Models, Zones, Levels and Tables have been approved the next stage is the sending out to every property owner a notification of his/her property value.** Receipt of this notification begins the informal review and appeal process. It will be very important to mobilize a communication strategy to inform all property owners of the impending sending out of notification of values, what the notification is designed to do and the procedures to initially review. The Notification of Value at the very least should contain the quantitative data (extracted from the RPR) under which the value of the property has been calculated. To understand how the value has been calculated there should be on the notification a detailed and understandable breakdown of the valuation which shows the Value Zone in which the property is located, the Value Level applied and the selection of the appropriate figure from the Value Table. In addition, if there are any other adjustments made to the property such as an allowance for proximity to a motor-way, railway etc., these should be shown with the value effect.

51. **The Notification of Value should clearly specify the available review/appeal process.** It should be emphasized that the first stage in the process is an informal review and it should specify how the review process can be initiated (telephone, e-mail, office visit), what grounds of review the taxpayer is relying on, and the deadline within which the taxpayer must initiate the review. The objective of the informal review is to allow the Valuation Department of the SMA to make corrections to the property value where this is warranted. A further objective is to minimize the number of formal objections and therefore, a formal objection can only be initiated where the taxpayer has gone through the informal review process.

52. **The informal review should seek to clarify the issues of the taxpayer.** Therefore, the grounds of the review should be constrained: (1) The taxpayer is the owner of the property (therefore not possible to object against property that is not owned); (2) Data is incorrect; (3) The value is too high, and the taxpayer must provide evidence to support his/her view as it is not sufficient just to say the value is too high, or too low; and (4) Provide information on special circumstances. It is nonetheless important to remember that values at this stage can go up as well as down particularly if specific circumstances suggest this, such as superior view.

53. **The concept of special circumstances should be explained on the Notification of Value.** The mass valuation approach may not have the capability to reflect individual special circumstances that can affect a specific property or groups of property. Therefore, examples of special circumstances could be identified and articulated so as to assist taxpayers. Such circumstances could be proximity to a facility that has a negative effect on value e.g., major motor-way, land-fill site, quarry with heavy road traffic, etc.

54. **There could be an argument that for a review/appeal to be successful the value change must be greater than some pre-determined level, such as 10-20 percent.** This requirement should be clearly explained on the Notification of Value. The objective of this

constraint is to reduce the number of frivolous reviews that have little impact on the value of the property. The burden or onus of proof can also place a constraint on the taxpayer. Some international jurisdictions place the burden of proof solely on the complaint. In fact, legislation can state that the values determined by the valuation department are deemed to be correct until the contrary is proven. However, in the interest of open and transparent government the valuation department often assist the taxpayer in providing evidence to support the valuation.

55. **The SMA will have to consider on what basis the informal review and any subsequent appeal will be defended.** Challenges are typically against the value of the property. If the issues are about incorrect data these can be rectified quite easily. A more fundamental issue would be on the value of the property which would then require a comprehensive defense of the value based on actual "comparables". For residential properties this should not pose problems for those areas with sufficient sales. More complex will be challenges on high value commercial property. As part of the Informal Review and Appeal Project (see below) consideration should be given on strategies to defend assessed values.

56. **The informal review must be time constrained.** What the time limit should be to some extent is a balance between giving taxpayers time to consider their position and the potential number of reviews that the Valuation Department has to deal with. A period of 30 to 60 days would be normal to conclude an informal review. Following the informal review, the aggrieved taxpayer can initiate an appeal within a specified time period following the result of the informal review. The time for settling formal appeals depends on set administrative procedures. An expert panel could provide recommendations to the Ministry of the Environment and Spatial Planning.

57. **Within the revaluation cycle new properties will have to be added, or refurbished properties will require a revised valuation.** In these cases, the notification of value will allow the owner to have an informal review and further objection. This aspect is general maintenance of the assessed values designed to ensure that the tax base in kept up-to-date.

58. **The SMA Valuation Department should institute an Informal Review and Appeal Project.** The project's objective would be to identify amongst other things; (1) Public relations and media campaign to notify the public on the review/objection processes; (2) An estimate of the likely number of informal reviews and the number that may become formal objections; (3) A plan to handle the informal reviews such as setting up a Call Centre, the training of temporary staff and their number, establishing venues for taxpayers to meet with SMA staff, provision of sufficient phone lines; and (4) The likely resources required by SMA to handle the reviews. It is generally accepted that valuation is a process of estimation and is not an exact science. Valuation departments estimate the market value of property. However, estimating 100 percent of market value is very difficult even when there are more than sufficient sales to support the valuation. Matters become more difficult when transactions are limited and possibly not available at all. In cases like this valuations are not at 100 percent of market value but rather at some lower level such as 85-95 percent. It should be considered using a pre-determined percentage of their estimate of market value, say 70-75 percent as the property tax value or base. The percentage of

market value would be set in the Property Tax Act (if adopted). This would also have the effect of mitigating taxpayers' views on how high they believe the assessed value is if they are notified that for property tax 75 percent of market value will be applied.

Recommendations

- Undertake sufficient consultations with key stakeholders on Value Models, Value Zones, Value Levels and Value Tables.
- Establish a public relations project to inform taxpayers or the public about the process of mass valuation and their rights to review and object.
- Develop an informal review process for taxpayers to query information on their property values prior to beginning any formal objection process.
- Provide detailed information on the Notification of Value of how the value of the property has been calculated.
- The property tax should be calculated on 70-75 percent of the assessed market value.
- Introduce constraints on taxpayers in terms of time to instigate an informal review, grounds of review and burden of proof.
- The SMA is to develop an Informal Review and Objection Project.

Tax rate differentiation

59. **The 2013 Real Property Tax Act used rate differentiation to achieve multiple economic and social order functions.** The following rates apply: a low standard rate for natural person; a higher rate for vacant residential properties; an even higher rate of 0.7 percent for commercial businesses; for unimproved land 0.5 percent; and agricultural and forest land attract respectively 0.15 and 0.07 percent rates. Real estate owned and operated by power stations also benefit from a reduced rate, and a 50 percent reduction applies for taxpayers with disabilities. The rate differentiations were deemed discriminatory by the Constitutional Court. This can easily be avoided by adopting a single rate or a minimum of rate differentiation as it adversely affects the revenue ambitions of generating 1.2 percent of GDP. The mission estimated a required property tax rate of 0.33 percent if all 7.8 million parcels of property in the RPR would attract property tax[11] to generate 1.2 percent of the forecast 2015 GDP (€38,235 million[12]) or

[11] The calculation is based on property parcel values produced by the current CAMA system that shows how a single rate tax would operate under assumptions regarding the most important features of the current exemptions practice.

[12] Bank of Slovenia, October 2015 Macroeconomic Developments with Projections.

€458.83 million; a 0.35 percent rate if all agricultural land were to be excluded; and a 0.54 percent rate for remaining parcels with exemption of agriculture and residential units below 160 sq. m.—clearly illustrating the costly revenue losses from these tax expenditures (Table 8).

Table 8. Slovenia: Property Tax Rates for Achieving Revenues of 1.2 percent of GDP

Property Type	Value in million €	Tax Rate for Broadest Tax Base	Property Tax Revenue Raised at 0.33% on Broadest Base in mill €	Tax Rate with Agriculture Excluded	Property Tax Revenue Raised at 0.35%, no Agriculture in mill €	Required Tax Rate if Agriculture excluded and Exempting Residential Properties <160 SqM	Property Tax Revenue in mill € Raised at 0.54%, no Agriculture and Exempting Properties <160 SqM
Houses <160 SqM	19,175.00	0.33%	63.28	0.35%	66.84	0.00%	0.00
Houses>=160 SqM	32,006.00	0.33%	105.62	0.35%	111.56	0.54%	104.36
Apartments<160 SqM	28,370.00	0.33%	93.62	0.35%	98.89	0.00%	0.00
Apartment>=160 SqM	2,401.00	0.33%	7.92	0.35%	8.37	0.54%	154.40
Business premises	17,706.00	0.33%	58.43	0.35%	61.72	0.54%	13.07
Agricultural land	7,402.00	0.33%	24.43	0.00%	0.00	0.00%	0.00
Land for construction of buildings	6,718.00	0.33%	22.17	0.35%	23.42	0.54%	40.28
Industry	5,021.00	0.33%	16.57	0.35%	17.50	0.54%	36.56
Power Plants	4,635.00	0.33%	15.30	0.35%	16.16	0.54%	25.23
Forest	4,447.00	0.33%	14.68	0.35%	15.50	0.54%	24.20
Rest	11,158.00	0.33%	36.82	0.35%	38.89	0.54%	60.73
Total	**139,039.00**		**458.83**		**458.83**		**458.83**
	Implied Tax Rate Change			5.62%		64.92%	

Source: Slovenian authorities and Fund staff calculations.

60. **When considering property tax reforms in any country, there are five factors in the "property tax revenue identity" that inform the tax reform discussion:** (1) the tax base; (2) its valuation ratio; (3) the tax rate; (4) coverage ratio; and (5) collection ratio. These five factors can be expressed as a useful equation[13] that always reflects the operation of a land and property tax. They can be used to quantify the revenue loss if valuation, coverage, and collection ratios are influenced by other considerations (i.e., granting exemptions):

Revenue = Legally Defined Tax Base x Tax Rate x Valuation Ratio x Coverage Ratio x Collection Ratio

61. **In this expression, the defined tax base refers to the properties identified in the law as being subject to a property or land tax and the methods to be used to determine their taxable value.** The *valuation ratio* is the proportion of the fully defined value that is actually assessed for tax purposes. The tax rate is simply the rate applied against the tax base expressed as a value or area (sq ft/m^2). The *coverage ratio* refers to the proportion of properties that should be included in the base which have actually been identified and are included in the cadaster. The *collection ratio* refers to the proportion of assessed taxes that are actually collected. Ideally, the coverage, valuation, and collection ratios will all be one, or 100 percent. In practice this is almost never the case. The following example indicates how sensitive revenues respond to changes in the valuation, coverage, and collection ratios (the latter three ratios being identifiers of administrative effectiveness). Consider a case in which the legally defined base is the market value of all land and capital improvements (buildings) and the rate is set at one percent of that value annually. For a variety of reasons only 80 percent of the taxable land parcels have been identified and are included on the tax rolls. Moreover, the valuations are several years old,

[13] Kelly, 2000: 39.

resulting in properties being valued only at 90 percent of their current market value. The tax administration is effective in collections and enforcement, but only collects 85 percent of the tax liabilities due. According to the revenue identity only 61.2 percent of the theoretical revenue will be collected (see below):

Example: Revenue = Legally Defined Tax Base x Tax Rate (=0.01) x Coverage Ratio (=0.8) x Valuation Ratio (=0.9) x Collection Ratio (=0.85) or Revenue = Base *0.01*0.8*0.9*0.85 or just 61.2 percent of the theoretical revenue.

62. **Appropriately designed property taxes and rate structure could affect land use patterns.** Property taxation could reduce pressure on land development or re-direct it towards areas which are already well connected to infrastructure. Properly designed property taxes might support land use planning and reduce the environmental impact from transport and energy use. Municipalities could achieve this through rate selection from a band.

Globally accepted good practice in setting the tax rate

63. **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 9 summarizes international practices for rate-setting.

Which authority should set the rate?

64. **Tax rates for real property are either set by central government or locally with often some rate range restrictions from the center.** Local governments need 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. Balancing must be done transparently to hold local government accountable to the taxpayers. Setting the property tax *rate* locally is crucial for accountability on local taxation decisions (while central government determines the property tax *base*). It is common practice for central government to restrict rates to a statutory range to minimize inter-jurisdictional distortions from aggressive tax competition among local governments.[14]

65. **In contrast, uniformity of fiscal policies, and managing tax collections cost effectively, would support centralized rate setting.** The best strategy is likely to be a mix of the two, with a central authority establishing an acceptable rate band of a minimum and a maximum rate. It should never be zero with the view to forcing local governments to exploit at least some of their tax capacity. However, local governments should be authorized to selecting the final rate within the rate range. The second key policy decision with regard to rate setting is

[14] Franzsen and McCluskey, 2005.

rate differentiation according to different types of property—i.e., multiple rates. Administratively a single rate is strongly preferred. Less information is required and there are fewer opportunities for error with a single rate. If multiple rates are used, the number should be kept to a minimum.[15]

66. **A modern property tax system generally taxes only immovable property, in other words land and/or buildings or capital improvements, located in the relevant taxing jurisdiction.** Furthermore, the tax liability is generally determined by the ownership or occupation of "property". Many countries will differentiate on the basis of use (e.g., Australia, Canada, Ireland, South Africa, and the United Kingdom). For example, owners of residential properties may be taxed at one specific rate and non-residential property owners at another rate. Rate differentiation may also be informed by location (see Australia), e.g., property in specific zones or areas may be taxed at different rates.

Table 9. 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.

67. **A modern property tax system generally taxes only immovable property—i.e., land and/or buildings or capital improvements.** The tax liability is generally determined by the ownership or occupation of "property". Many countries will differentiate on the basis of use (e.g., Australia, Canada, Ireland, South Africa, and the United Kingdom). For example, owners of residential properties may be taxed at one specific rate and non-residential property owners at another rate. Rate differentiation may also be informed by location (see Australia), e.g., property in specific zones or areas may be taxed at different rates. Generally, rate differentiation complicates the design, the transparency and the administration of a property tax. Best practice is to determine centrally a rate range. In application, a municipality should—but rarely adhered to—only apply one rate for both residential and commercial properties. A similar rate would induce investment choices that are based on the best use of property.

[15] UN Habitat, 2011.

Differentiation between flat and graduated rate

68. **Globally, local governments often impose rates that are differentiated according to property class.** This could result in different rates per property class or complete tax relief for some property classes. Theoretically and ignoring the overriding simplicity imperative, tax rate differentials 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). For example, business may receive fewer public services than residential properties (i.e., schools, clinics, parks, etc.) and, hence, should attract a lower tax rate. This is rarely the case. Indeed, as in most countries the opposite holds; (2) In line with efficiency considerations, properties that are least elastic in supply could carry a higher tax burden. Normally, business investments tend to be more mobile than residential properties and, again, should be taxed more lightly than residential property. Yet, international evidence indicates the opposite, with much lower property rates for residential properties; and (3) Variable rates can be introduced to induce desired land use objectives. Some countries in Africa allow municipalities to apply higher rates on vacant buildable land within cities to encourage property development.

69. **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, Pakistan, and South Africa. Then again, some countries apply higher rates for commercial properties; or lower rates for selected industries and service providers such as manufacturing and tourism. Alternatively, the values of properties occupied by preferred business sectors or parts of the local electorate could be under-assessed; or local/central government could grant other kinds of tax relief by explicitly legislating zero or lower rates, issue tax credits, or tax deferrals. 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. There is therefore no strong economic case for higher tax rates on commercial or industrial properties as the tax is ultimately borne by households—in an inefficient manner. Differential higher taxation favoring residential over commercial properties may lead to the illegal use of residential properties for commercial or industrial enterprises.

70. **Rate differentiation complicates the design, the transparency and the administration of a property tax.** To conclude, a simple rate structure would enhance tax compliance and would, in the case of Slovenia, avert Constitutional challenges. Thus, best practice is to determine centrally a rate range, but in application, a municipality should only apply one rate for both residential and commercial properties (no relief for power plants), and possibly another rate for agriculture (rate differentiation between agriculture and forestry seems to be ill-advised). A similar rate would induce investment choices that are based on the best use of property. The tax burden would then shift from commercial to residential properties. 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.

Level of rate

71. **Internationally, property tax rates are mostly low, explaining partially property taxes' low revenue importance expressed as percentage of GDP.** As Slovenia wishes to raise revenues from the real property tax equal to 1.2 percent of GDP, it would either require an increase in nominal rates on a narrower base or a low rate of approximately 0.33 percent on the broadest possible base. Globally, tax rates for market value-based system typically range from 0.5 to 2 percent—the rate simulation in Table 8 suggests a range from 0.33 to 0.54 percent.

Recommendations

- Some differentiation between residential and non-residential/commercial tax rates may be justifiable (power plants are commercial), but should remain within acceptable limits.
- Consider introducing a third rate that applies uniformly for agriculture and forestry
- The tax rate on residential properties is currently low with room to increase this rate.
- In lieu of reverting back to the old property tax system, consider a transitional approach whereby the amended real property tax is introduced with initially low rates that gradually are being increased to achieve the 1.2 percent of GDP revenue importance.

Associated exemption and relief measures if rate differentiation is minimized

72. **Most of the tax expenditures in Slovenia's revised legislation are granted under the rubric of rate differentiation**. However, municipalities may elect to add other tax base related benefits which would undermine the standard of a harmonized property tax base definition—which is an option favored by FARS, given that they collect property taxes across the 212 municipalities. Receiving individual rate structure tables from municipalities in advance of the fiscal year already presents FARS with significant challenges. The same kind of variation for tax base assessment would impact adversely on the cost-effectiveness of the administration.

Globally accepted good tax design practice

73. **Political, socio-economic, and practical considerations seek to influence many facets of a tax instrument.** It can be achieved by way of—discounting the assessment (value reduction, value and area threshold/rebate, preferential valuation such as current use); tax rate differentiation (lower rate, tax holiday or 0 percent, phase-in of gradually higher rates, rate capping as discussed above); favourable arrangement of tax payments (e.g., extended tax deferral or income tax deductibility); and a narrowing of the base (e.g., exclusions, exemptions). 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 and wide-ranging exemptions often lead to significant revenue loss and erosion of the property tax base. This discussion may point to the Constitutional Court's bewilderment why certain activities enjoy property tax privileges vis-à-vis other overlooked perhaps equally deserving cases.

74. **Typical candidates benefiting from tax expenditure categories are as follows—**the poor and indigent; pensioners; unemployed taxpayers; foreign embassies; farmers; religious, charitable and educational institutions; sports clubs; political parties; conservation land; monuments and national heritage sites; linear infrastructure (pipe-, railway and transmission lines, water reservoirs); properties damaged by natural disasters (e.g., flooding, earthquakes, droughts); national and/or provincial/state governments. The reasons for relief are mainly—to alleviate actual and perceived hardship (the aged), social merit, or to counter the ability to shift the tax incidence, equity, and urban planning with closely associated environmental policy considerations. Given the high cost of tax relief as illustrated by the above revenue identity and the rate simulation, the mission would propose adoption of policies linked to rigorous *means testing* and by only considering the deferral of tax payments triggered by the disposal of real property. This should be a fail-proof way to pass the Constitutional Court's scrutiny.

International organizations and public benefit organizations

75. **Exemptions and 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 foreign 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, any of these 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, but rental lands owned by the church would attract property rates.

Low income households

76. **There are good reasons for introducing measures that shield low-income owners from potential adverse impacts of the property rates.** 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 as a consequence 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.

Tax expenditure budget for property tax relief measures

77. **With regard to property tax exemptions it is a good practice to review these periodically, 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 tax authorities at national and local level to monitor annually forgone property tax revenues on exempt property. The tax expenditure should be communicated to taxpayers that those who benefit from tax breaks do not assume this as a right but a privilege, paid by other non-favored sectors and taxpayers.

Recommendations

- Limit exemptions to an absolute minimum.
- Property tax 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.

Enhancing municipalities' fiscal autonomy under the 2013 Real Property Tax Act

78. **Under the pre-2013 Property Tax Act municipal finance dispensation the combined municipal budgets constitute approximately 13 percent of the consolidated state budget**. 65 percent of their resources stem from tax revenues of which 80 percent are PIT revenue shares transferred from the state to local level. Property taxes generate about 15 percent of municipal own tax revenues. The mission believes it is important to preserve municipalities' previously guaranteed fiscal autonomy in respect of property tax receipts and their functional responsibility to determine the respective valuation points and tax liability. By doing so, one further cited Constitutional violation would be eliminated.

79. **Fiscal decentralization principles suggest that decision-making processes concerning public service delivery should occur at the lowest level of government.** This enhances efficiency in the allocation of services. At a decentralized level, the above-mentioned policy processes could assist in designing a combination of expenditure programs and taxes where own revenue sources and the willingness to accept the associated tax burden, would enjoy a more sustainable and harmonious approach to localized public finance. The proposal of diverting 50 percent of property tax collection back to the national government is eroding the

key link of this political accountability framework because local residents are in a better position to determine their needs and articulate their priorities for service delivery. In order to pay for these public services, the closeness of a certain service delivered by the public sector and the financing thereof through user charges or fees, or taxes as a close approximation thereof, internalizes the important *benefit principle* in taxation.

Property taxes are ideal local government revenue instruments

80. **International experience indicates that the role of a property tax as primary revenue source of local governments could be enhanced if it becomes or maintains a central element in a fiscal decentralization strategy.** It would need broad consultation with all stakeholders on the structure and administrative reform requirements—this element was not vigorously pursued in the consultations that led to the adoption of the Real Property Tax Act. The focus should first be on the choice of a suitable tax base. The authorities should work towards the broadest possible tax base, since it enforces adherence to a simple taxation model but also gives full credence to the *benefit tax principle*. It must be emphasized that all the integral parts of a property tax must receive sufficient attention, i.e., property discovery and tax base coverage, valuation and assessment, setting appropriate tax rates, billing, collection, and enforcement. Also, the decentralized property tax must not militate against other reforms that may be required to achieve the decentralization goals—in fact, it should strengthen land use and planning policies.

81. **Laws, must be implementable given land tenure realities.** In the case of Slovenia it means that with the required amendments to the Real Property Tax Act other supportive legislation would need simultaneous adjustments towards a common objective of properly functioning tax collections without harming the local economy. The following Acts need to be amended—the Real Property Mass Valuation Act; the Real Estate Recording Act; the Spatial Planning Act; and the Construction Act. Also, to prevent the tax from falling into disrepair, a monitoring capacity must be developed and it would include regular assessments of the coverage of the valuation rolls, standards, and collection efficiency.

Recommendations

- Reinstate municipalities' exclusive use of property tax collections in order to maintain the strongest accountability link between service delivery and taxing powers of municipalities.

- For national fiscal consolidation purposes negotiate the PIT revenue shares down as property tax collections are enhanced.

E. Commission of Enquiry and Process of Taxpayer Consultation

82. **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 generally 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.

83. **The mission received conflicting presentations as to the hitherto adopted process of consultation with the broad spectrum of stakeholders in respect of the 2013 Real Property Tax Act.** Representatives of municipalities lamented that the business community was singled out as the preferred party in government consultations, whereas feedback and suggestions by municipalities were not sufficiently listened to and accommodated.[16] It is also not apparent that a high level political figure was and has been driving the property tax reform process so far. Any reintroduction of the amended real property tax act and its associated mass valuation legislation will, therefore, need to overcome material public and institutional resistance against a modern property tax system in Slovenia. The consultation strategy, public debates and parliamentary reading debates for amended legislation need to be carefully choreographed and executed. In this regard, the consultation process needs to be aware of the most common arguments against property taxes. Evidence suggest that it may need a more intense media campaign, decentralized consultations with communities across the country, and it may require the Ministry of Finance to appoint an independent "Commission of Inquiry" into the appropriateness of a revised property tax. It would generate renewed credibility in the consultation process. The Commission's findings would probably come out on the side of the Ministry of Finance, thereby enhancing further the public standing of the Ministry and its staff.

Political economy aspects of a property tax reform

84. **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 re-introduce a revised property tax in Slovenia should especially focus on the following aspects that may require policy trade-offs or special public educational efforts[17]—

[16] The mission can only relay back these sentiments—it is not in a position to assess the accuracy of these assertions. Yet, it appears that any new attempt of reintroducing an amended property tax will be highly politically charged which may suggest the need for an even more independent process than currently adopted under the Project Council model.

[17] Blöchliger, 2015.

- *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. Consequently, they put up massive 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 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.

- *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 and 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 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). Also, the tax is based on the gross and not-net value of the property, thereby ignoring cash flow limitations of mortgaged properties. This may translate into unaffordability for pensioners or the unemployed which can only be resolved through granting a credible tax deferral scheme where tax is paid whenever the property is sold or bequeathed.

85. **The communication strategy should focus on the asymmetry of winners and losers in the Slovenian property tax reforms.** The media campaign should focus therefore on enhancing the overall distributional fairness of the Slovenian tax system. It needs to highlight, for example, that owners of multiple property units like farms, forests and residential units who hitherto received public services without paying any *benefit tax* in return would now begin to make a contribution which could afford a commensurate lowering of overall property tax rates. Also, if the property tax would trigger a softening of property prices young couples would be put in a better position to acquire property of their own which has an important social benefit.

86. **Adoption of a few other general consultation and policy development approaches may improve chances for a successful introduction of the real property tax—**(for more options see Table 10). First and foremost, since the new property tax base is still a presumptive tax base established through mass appraisal method, it needs to be explained patiently and taxpayers should have a non-negotiable right to contest their property value on the basis of comparable facts. It would require ongoing and regular market value updates with the view to reducing over time inconsistencies. Secondly, introduce fair means-tested exemptions for low-income households with deferrals for the cash-constrained. Use the high visibility of property taxes to basically "shame" those who currently enjoy multiple exemptions and preferences for the cost of their local community services rendered to them and introduce possibly a monthly instalment system for discharging the property tax liability. Consider in the final analysis the introduction of transitional and phasing-in mechanisms with the view to reducing reform opposition, such as smoothing tax liabilities during the transition period (Blöchliger, 2015).

Table 10. Strategies for Introducing Property Tax Reforms

Property Tax Aspect and Problem	Promising Reform Approach	Problematic Reform Strategy
High visibility: of a property tax	Link tax reform to enhanced municipal service delivery; tax to be paid in multiple instalments; find easy payment options through the banking system and retailers	Property tax exemption; limiting the appraisal value or the overall tax liability (granting pure tax incentives)
Liquidity constraints: tax is burdensome for asset-rich and cash-poor households	Tax deferral to pensioners, and the unemployed	Property tax exemption or limiting the appraisal value; capping of overall tax liability (granting pure tax incentives)
Perceived regressivity: property tax can be higher as a percent of income for low-income households	Property tax credits; tax deferrals; bundle with other structural tax reforms (reducing tax wedge on labor income); link to municipal expenditure changes; low-income housing exemptions as a last option	Banding; classified tax rates; progressive tax rates; property tax exemptions; limiting/capping the appraisal value
Transitional volatility in tax liability: some taxpayers may experience large tax increases	Annual reassessment; indexing between revaluations; taxpayer education; easily accessible communication	Property tax exemption or limiting the appraisal value or the overall tax liability (granting pure tax incentives)
Presumptive taxbase: taxbase is not market value but a presumptive measure thereof	Taxpayer education; wide and frequent consultation; accessible and well-structured appeals process	Self-assessment or declaration of facts determining property value; classified property tax rates

Source: Bird and Slack, 2013.

87. **Since the property tax will be reinstated as an exclusive revenue source for local communities with no partial revenue sharing back to central government, ensure exploitation of the property tax capacity by each and every municipality.** This can be achieved by simply informing them that the PIT share will be reduced over time and that they have to exploit available revenue substitutes—see also the reference to a minimum property tax rate applicable to all local governments. Alternatively, remove the property tax base from any equalization allocations which would encourage municipalities to maintain a broad property tax base as all additional property tax revenues will remain their financing resource. Alternatively, develop an inter-governmental grants system that rewards greater municipal tax effort.

Adjusting the property tax review process in Slovenia

88. **The Constitutional Court supported in principle a property tax based on market values.** However, it instructed the government to prepare new solutions that are aligned to the Constitution with reference to determining the tax base, how tax rate differentiation can be

defended, and how to preserve fiscal autonomy of municipalities. These policy issues have to be resolved before a new law can be prepared. Flexibility in amending some of these parameters has been evidenced by the current government as it supports in principle a new system of real property tax but there is no unanimity in using market value as a tax base. It is now also apparent that fiscal autonomy for municipalities will be restored, retaining generated property tax revenues and by having the right to adopt certain policy instruments so that municipalities can pursue certain spatial, economic and social policies. The government has set up a special Project Council, as advisory body to prepare coordinated proposals, and a Project Group, which has to assess quantitatively the ideas proposed by the Council. The mission sees this as progress but has doubts as to being a sufficient condition for relaunching the legislative process successfully.

Deflect further property tax policy debate through an independent Commission of Inquiry

89. **When a certain tax reform proposal such as the property tax in Slovenia has experienced repeated push-back either because of lack of information on the side of taxpayers or strong vested interests, an independent Review Commission could offer a way out.** Such Commission constituted of a manageable number of experts and chaired by say a retired judge, could offer to a country an opportunity to debate the tax revision more objectively. Its greatest value may indeed be in the public education domain so that when finally the government adopts the Commission's policy proposals, earlier proponents against the reforms have been sufficiently exposed for the pursuit of their self-interest. The appointment of a special "one-off" Commission may assist the present government in deflecting political difficulties during the tax reform process. For example, a tax commission may be blamed for unpopular tax proposals, but it still provides a government with the opportunity to debate controversial tax options publicly.[18] Of course, it requires that the deliberations and hearing of evidence presented by stakeholders are fully public with a permanent presence of the media.

90. **Given the current property tax stalemate situation in Slovenia, the mission favors a tax review approach driven by such an independent Commission of Inquiry.** It is a strategy adopted by a number of Commonwealth countries. These commissions are usually appointed to advance extraordinary complex structural reforms which may face stubborn opposition. For example, Australia, Canada, India, Scotland, South Africa and the United Kingdom have used this institution when the normal tax policy machinery was unable to provide neutral advice on tax reforms. Commissions are appointed in addition to government's normal tax policy-making expertise and often consist of a panel of tax practitioners, business leadership, and local or international academics. Without the support of available tax specialists, even commissions rarely function effectively as they depend on research and secretarial inputs rendered by permanent staff in tax policy offices. In the case of Slovenia, the Project Group could fulfil this function.

[18] Bird (2003, pp. 10–18).

91. **The Commission's analytical work should be guided by a team of fiscal experts who can assess the economic and distributional impacts of the intended tax change.** The Commission should execute a terms of reference issued by the Ministry of Finance which would include the property tax provisions that violated Constitutional principles. The Ministry could also provide a list of common global policy practices for a modern property tax with special reference to tax rates, tax base, valuation approaches, and exemptions. Government could indicate its preferred options. It would then be up to the Commission to test the acceptability thereof based on its own quantitative and qualitative research and hearing of evidence. The already existing Project Group could be assigned that task which could be strengthened by coopting academia.

92. **In appointing a Commission, the Ministry should set a tight deadline so that the government is able to comment on the Commission report in form of a white paper and that revised property tax draft legislation can be circulated widely for comment well in advance of its intended date of introduction.** It is important that when drafting the white paper in reaction to the Commission's findings and proposals, the government's position on the Commission's recommendations should be well motivated. The process should also guard against a common tendency by governments to cherry-pick more acceptable recommendations without dealing with the more complex or negative sides of structurally consistent reforms. With the view to enhancing the public educational aspect of the Commission of Inquiry it is important that its deliberations are transparent. All public hearings must enjoy full media coverage. It will hopefully minimize reckless pursuit of narrow sectoral interests as other sectors would be alerted to the risk of proposals blatantly undermining horizontal and vertical equity principles. Moreover, the Commission should not exceed 10 members to ensure smooth operations and debate. The Ministry may indeed request in the terms of reference that minority reports should be restricted to one which would force the Commission's chair to forge a consensus view. It will make the ultimate Ministerial policy decision so much easier.

Recommendations

- Review independently from the Ministry of Finance all required property tax amendments as flagged by the Constitutional Court.
- Accept that a market-based property tax will be unpopular given perceived inaccuracies of the presumed tax base but in order to increase its acceptability link the introduction of an amended property tax to wider tax structure adjustments that would mitigate the asymmetry of benefits between winners and losers of the property tax reform.
- Avoid piecemeal adjustments of the real property tax.
- Intensify the communication strategy around the choice of adopting a certain presumptive value of the tax base – e.g., a discounted market value.

- Institute uniform national standards for installment payments, means-tested pay deferrals and adoption of a common tax base definition from which municipalities cannot deviate.

- Do not use tax incentive regimes such as tax holidays or capping of assessment values in order to mitigate hardship cases.

- Preserve municipalities' fiscal autonomy in respect of exclusive use of property tax revenues and reward sound property tax rate choices by local communities through an initial grant that recognizes adoption of a sound property tax rates system.

- Appoint an independent *Commission of Inquiry into Introducing a Revised Market Value-based Property Tax* as part of a broader and more intensive public consultation process, charged with assessing qualitatively and quantitatively the alternatives to rejected property tax design aspects.

- The Commission should be chaired by a judge and should be supported by not more than 10 members representing local communities, tax practitioners, business sectors, and experts with the option of co-opting external academic experts.

- The Commission should present to the Minister of Finance preferably a consensus view with a maximum of one minority report that may deviate from the consensus position.

- The Commission's hearings of evidence should be public and covered by the media.

- Revised property tax legislation should be accompanied by the Commission's findings and proposals together with Government's response thereto by way of a white paper.

- Reading debates on the property tax amendment law should be widely disseminated as it would enhance the standing of the Ministry of Finance and the SMA by having adopted all along mostly sound property tax policy positions.

III. PROPERTY REGISTRATION: LAND AND BUILDING CADASTERS AND THE REAL PROPERTY REGISTER

A. Current System

93. **The Land Cadastre is an official database on land parcels administered by the Surveying and Mapping Authority.** The cadastre contains information on 5.5 million parcels geographically grouped into 2,698 cadastral areas. It provides data on parcel number, spatial location (geo-reference), boundaries, size of parcel, land use and owner. The Buildings Cadastre is a database that contains relevant data on buildings and parts of buildings. This Database is linked to the Land Cadastre, Real Estate Register and the Land Registry databases. The cadastre provides descriptive data on such matters as owner, position of building, use, size of building (net floor area and useable floor area), floor plans and apartment and building number.

94. **The Land Register is a public register, which includes data about real rights on real properties.** The content of the Land Registry is based on private transfer contracts certified by notaries or by court decisions. Registrations are done by application only. The Land Registry database consists of the main register and collected documents (archives). The register contains real property entries that include rights on real property, mortgages, persons entitled to these rights and legal facts. The Land Register is managed by the Supreme Court of the Republic of Slovenia. The land registration process is conducted through the local land registry courts. They are responsible for registration of properties in their district. The Land Registry is characterized by two important legal principles: (1) Changes of rights to a real property do not take effect until they are registered in the Land Registry; and (2) The correctness of all titles recorded in the register is assumed as correct until the contrary is proven. In Slovenia the Land Registry and Cadastral databases are not yet fully integrated notwithstanding that data are in digital form.

95. **The Real Property Register (RPR) was established in 2008 and is the fundamental data driver for the mass valuation system.** It contains all data from the Land and Building Cadasters. It also contains data on buildings and parts of buildings that are not registered in the Building Cadaster, detailed data on characteristics of buildings, parts of buildings and land (such as year of reconstruction of the roof of the buildings, purpose of the land, and detailed characteristics of forestry land). The RPR data was built around information transferred from public databases, line ministries (such as agriculture), municipalities, aerial photography and manual inventory collection. The latter process (2006-07) involved over 1,900 data collectors' collection information on over 1 million buildings and 1.5 million parts of buildings. Today in the RPR there are 5.5 million of parcels, 1.2 million of buildings and 1.8 million of parts of buildings.

96. **The Sales Price Register (SPR) has been established by the Surveying and Mapping Authority (SMA) to extract sales and rental information from the Land Register.** This is raw data (approximately 26,000 sales transactions per year and some 30,000 rentals contracts per year) submitted by the new owner/renter of real estate. This data is enhanced and improved by the SMA and forms the basis of several of the valuation models. Additional data is obtained from the Tax Authority (based on information required for the transfer tax) and from sellers (via VAT

charges) and rental data from owners and tenants. Raw data on the SPR is provided free on the internet and is being utilized by various users such as real estate agents, academics, banks and other financial institutions.

97. **Considerable progress has been made by the authorities in establishing a robust and transparent land registration system.** Slovenia now has a comprehensive land registration system that is approaching full national coverage (some infrastructure, roads, rail networks etc. still require registration). In addition, separate land and building cadastres have been established along with the Real Property Register. Consideration should be given to integrate the Land Cadaster, Building Cadaster and Real Property Register into one centralized database as currently, transferring data between the cadasters and the RPR is not the most efficient mechanism to update the RPR.

98. **With regard to any real property tax, data is a fundamental component to ensure that the valuations determined are accurate.** Poor data within the system has to be corrected over time using various technological advanced techniques such as aerial photography, drone aerial technology, Google Street View, joining electronic data held by other government departments and the traditional techniques of using owner declaration and in-house field collection. Whilst the ultimate goal is to have "correct" data on all properties this will take time to achieve. The scale of this problem can be shown in terms of the amount of data held within the RPR – with some 84 million bits of data held on over a total of 7.5m valuation units (see Table 11). Each bit of information if incorrect can cause inaccuracy in the valuation.

Table 11. Slovenia: Number of Valuation Units of Main Property Types

Property type	Number of Valuation Units
Apartments	328,612
Houses	535,392
Garages	166,604
Offices	49,727
Shops	35,848
Land for Construction	83,265
Agricultural land	3,239,514
Forest land	1,616,922
Other	1,419,829
TOTAL	7,475,713

Source: Surveying and Mapping Authority

99. **It is important that data collected from owners is conducted through a legal process to ensure correct data is recorded in the RPR.** Data held in the RPR was communicated to 1.2 million owners on a valuation notice. The key objective being to request owners to check their data and to inform the SMA of incorrect data. This process did result in a significant number of owners saying that their property data was not correct. Improvements in the correctness of data does take time and it has to be accepted that not all data within the mass appraisal system will be correct. The SMA should develop procedures to engage with owners of multi-use properties to ensure that the correct uses are registered in the RPR. This would ensure

that the correct valuation model can be applied to the correct use. Examples were given of buildings comprising separate floors for retail, office and car-parking where all were valued only according to the registered use of the whole building such as retail. This could result in a significant over-valuation of the property.

100. **The SMA need to be self-critical in terms of the data they believe is important to undertake their key function of real property mass valuation.** It is essential that only characteristics actually needed for public use (e.g., valuation, etc.) should be collected and held within the RPR. Following from this data collection, procedures should be developed that would address how this data is collected, from which sources and how it can be verified. The biggest challenge of the SMA was not the initial data collection, but rather in setting up uniform data quality control checks which should reduce the risk of storing incorrect data; dealing with non-compliance in the submission of self-declaration; and engaging with other departments to share say building permit data.

101. **Equally important is the role of municipalities in providing to SMA information they hold on real property.** The engagement of municipalities within the data collection process is of crucial important particularly with regard to land planned for development. Municipalities through their spatial planning processes should be able to indicate what land is planned for development and serviced by infrastructure. At present there does appear to be a reluctance by some municipalities to share this information with the SMA.

Recommendations

- Correct data is core to the mass valuation system and processes should be put in place to ensure its accuracy.
- Municipalities should be encouraged to engage with the SMA in providing correct data on land for construction purposes.
- Over the longer term, the SMA should merge the Land and Building Cadasters into the Real Property Register—i.e., being one centralized database.
- The SMA should systematically ensure that multi-purpose buildings have the correct use/s registered in the RPR.

IV. AN ASSESSMENT OF THE SLOVENIAN MASS APPRAISAL SYSTEM (CAMA)

A. Goals of this Chapter

102. **Given the background leading up to the TA Mission conducted by the IMF, the most logical question that arises would be—"Is the Slovenian system of sufficient quality to serve as the basis for computing accurate and defensible market value estimates for multi-agency use?"** The question seems simple enough, but as with many important issues, there are many factors to be considered in its evaluation and the mission's assessment. Before moving on, the answer to the question is "yes, it is an excellent system, with elaboration". The elaboration provides the background relevant to supporting the mission's major findings. For example, what exactly is meant by the term Computer-Assisted Mass Appraisal (CAMA)? Related to that, what is meant by the term "system" in this context? The primary question will be answered, but in so doing additional information will be given as to the framework for understanding the mission's evaluation. Therefore, this chapter will address the following: (1) A working definition of CAMA; (2) A description of the framework in which a CAMA system operates; (3) Describe challenges unique to Slovenia for CAMA implementation; (4) Describe the features of a "Best Practices" CAMA system; (5) An evaluation framework; (6) Assessment of the existing CAMA system; and (7) Recommendations.

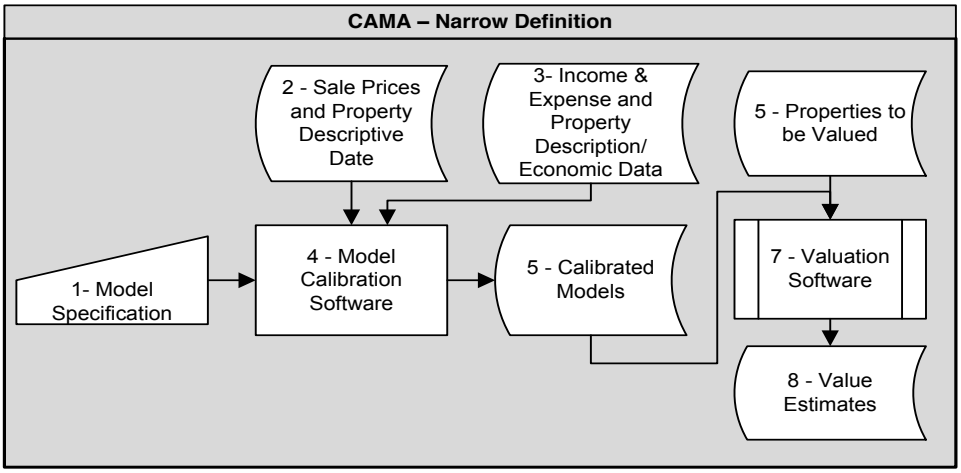
B. Working Definition of CAMA

Basic Definition

103. **The use of the term CAMA started in the United States in the 1970's.** It is now universally used around the world to refer to a system that uses multivariate statistics to arrive at an estimate of the value of real property. Definitions vary, but they can be categorized into two types, a narrow interpretation and a broader generalized interpretation. The narrow view can be described in a quite simple diagram.

104. **Figure 1 illustrates the narrow definition of CAMA**. It 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) Income and expense data and property descriptive data; (4) Model calibration software (usually a multivariate statistical method); (5) Calibrated models (some function of the input data with model coefficients determined. A mathematical expression for computing a value estimate); (6) Properties to be valued (property characteristics needed by the valuation model in computer readable form); (7) Valuation software (software to apply the calibrated model to the input property characteristics such that a value estimate is produced, a file of estimates is created and defined reports are produced or are capable of being produced); (8) Value estimates (a file or database of value estimates).

Figure 1. Narrow Definition of CAMA System – A Market Valuation Sub-System

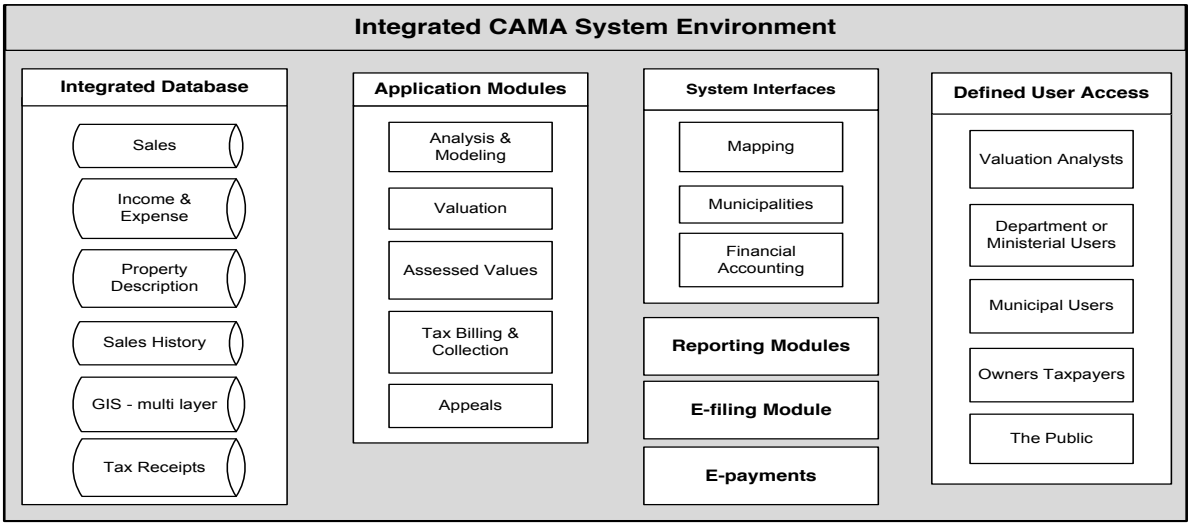


105. **This view of a CAMA system evolved in the formative years of CAMA development where the focus was on the analytical steps necessary to produce a value estimate.** The early days (1970-1980 approximately) were at times contentious where the academics and statisticians were challenging the established appraisal practitioners by introducing this new analytical methodology.

Comprehensive CAMA Definition

106. **A more comprehensive definition of CAMA addresses the broader environment in which the sub-system of Figure 1 is but one component**. Figure 2 provides an expanded view of the CAMA system. It provides some details on the contents of the major components of this broader definition of a CAMA system. Each major component of the systems is described in relation to Figure 2.

Figure 2. CAMA Wider Context



Integrated Database

107. **The concept of the integrated database is meant to distinguish between a collection of disparate silos of data and a truly integrated database.** Data silos are often "pseudo-integrated" by a process often referred to as Extract, Transform and Load (ETL). The ETL process is most often a necessary approach in the early years of implementing a CAMA system. It serves as an interim stage to achieving a warehouse of data for model development and valuation. It has serious drawbacks when data are frequently updated. Synchronization via ETL of all data sources must be repeated on a periodic basis to ensure a relatively current data warehouse. Assembling the data silos often means making judgement calls on how to match or join parcel data with other data sources that do not have a parcel reference.

108. **An integrated database affords numerous operational efficiencies as well as ensuring a higher degree of data integrity than is afforded by the repeated ETL process.** A full discussion of the benefits of integration is not the intent here, but a few examples will help bolster the argument. Consider the address of a property parcel. In most instances the address of a parcel is (or should be) unique. Often spelling and formatting along with abbreviations will lead to quite a number of descriptions of the same real word object. In an integrated database, the address need only be stored once and it becomes available, in standard format, to all users of the database. This is about data redundancy. Elimination of data redundancy also promotes data consistency.[19] Once a data item is updated, it becomes immediately available to all users. Data sharing among agencies and other organizations becomes a matter of providing views into the database to suit individual organizational needs. Better data security, storage, backup and recovery are all aspects of full featured data management systems software. In this regard, the components of a CAMA system database include: (1) Sales data (price, date, validity, source); (2) Income and expense data; (3) Property description data; (4) Sales history (sales prices and/or data and property data at time of sale); (5) Geographic information system (GIS) (multi-layer data); (6) Taxpayer contact/appeals information (if used for property tax purposes); and (7) Tax receipts (if used for property tax purposes).

Application Modules

109. **The application modules provide the usable functions of the system.** It is understood that in Slovenia the CAMA system is multi-purpose. In contrast, globally the focus of the CAMA is to typically support the property tax system with the view to making the process of valuations more cost-effective. Of the four modules listed below, two are specific to the property tax (PT) and two are supportive of a multi-purpose system(MPS):

- *Analysis/Modeling/Valuation* - Similar to Figure 1 – is often the module receiving the most focus in an organization, however it cannot function without he rest of the system (MPS);

[19] http://navdeep19.blogspot.com/2012/04/advantages-and-disadvantages-of.html.

- *Assessed Value* – converts market value to a taxable value, including applying exemptions, abatements and similar tax design constructs of the property tax;
- *Tax Billing and Collection* – prepares the tax bill and records payment activity (PT); and
- *Appeals Tracking* – schedules appointments and records actions by each appeal level (MP).

Reports Module

110. **In many, even most, CAMA systems the definition of a "report" implies the execution of a procedure (program) to achieve a purpose.** The purpose might be to calibrate a multiple regression analysis (MRA) model. It may be to provide a Sales Ratio Analysis, or a list of all value estimates. The term "report" does not necessarily imply printed paper. The report may produce a file used for analytical work. It is common that a large jurisdiction may have several hundred defined reports serving a variety of informational needs. Very common reports include running MRA, computing values, computing assessments or computing tax bills.

E-filing and e-payments modules

111. **The e-filing module could be considered as one more application module.** It is identified separately because the intent is that it is an outward facing (public) module that allows for submission of data ultimately to be used by the CAMA system. The distinction is that the submitted data are interim inputs to the valuation process. An example of what could be done by e-filing is gathering of income and expense data from marinas, power plants, fuel stations, hotels and other properties appropriately valued by the income approach. Similar to e-filing, e-payments is an outward facing module that allows for electronic payment of tax bills, either individually or in large groups such as by a mortgage company or bank.

Interfaces

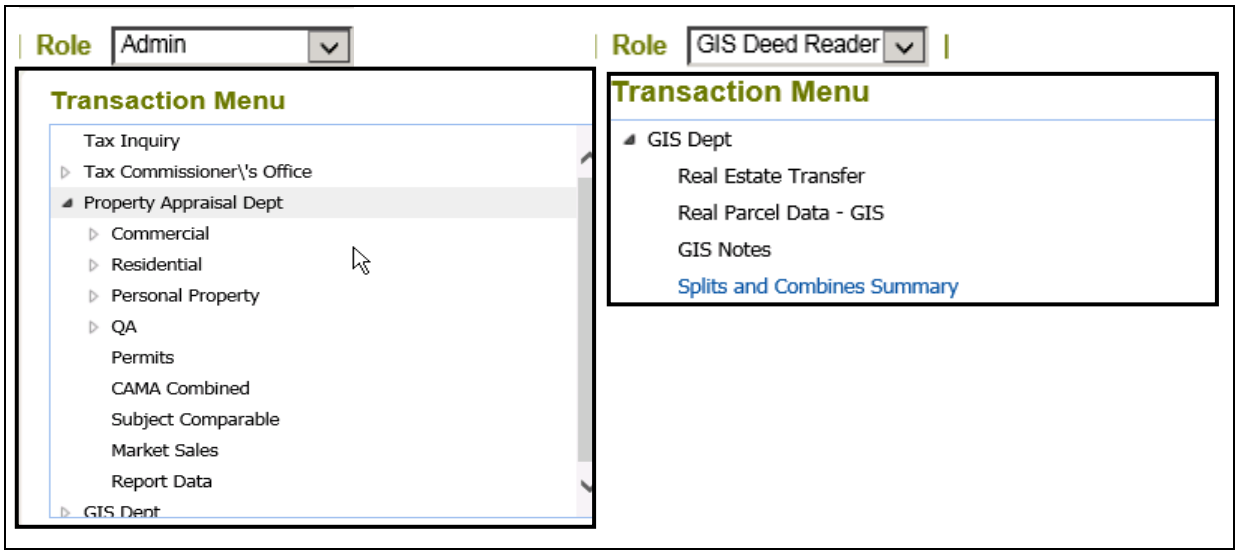
112. **Even the wider definition of a CAMA system has its limits.** Information from or provided to other organizations leads to the need to establish data interfaces. For example, it may or may not be within the definition of the CAMA system to perform actual map/GIS maintenance activity. This is more dependent on administrative matters, namely which organization is responsible for producing value estimates and which is responsible for maintaining maps. If it is an external function, then an interface must be established to keep the GIS data relevant to the CAMA system up to date. If one organization is responsible for both, then it is possible that the definition of CAMA includes map maintenance. A partial list of interfaces includes the following: (1) Mapping/GIS; (2) Financial - fund accounting; and (3) Municipalities – for example, electronic transmission of building permits.

Defined Access and role-based Application Permissions

113. **This topic refers to how the CAMA system is accessed by various individuals and organizations.** The scheme is that each user is assigned to one or more "roles". Each role is

given specific permissions regarding functionality and the ability (or not) to update data. So, for example, a person assigned the role "Admin" has the highest level access to the system and can perform all functions supported by the system. A "GIS Deed Reader" has a more restricted set of transactions that he or she can perform (see Figure 3). The same system can appear quite different based on the permissions granted to the user. Different users are analysts, departments, ministries, municipalities, property owners and taxpayers, and the general public.

Figure 3. CAMA: Differential Access of the System



Operational environment of a CAMA System

114. **In addition to the functional/modular description of a CAMA system (and the implied computing infrastructure) there are several significant topics to be addressed before an assessment of the existing Slovenian CAMA can be undertaken.** They include the following: (1) The legal framework describing the requirements for establishing market value estimates on all real property; (2) An organization whose mission is to produce *and defend* market value estimates; (3) A clear funding mechanism to support the organization responsible for the full CAMA function; and (4) A culture that understands that the property tax is a fundamental part of a comprehensive mechanism for raising the revenue necessary to finance the operations of local governments and their core service provisions.

Legal framework, the organization and its funding

115. **The recent history of the legal framework of the property tax in Slovenia is described in Chapters I and II in this TA report and is not repeated here.** What is important to note is the inclusion of a process that allows for the creation of regulations that cover the operational aspects of the goals of the law. The law should address the fundamental requirements of the CAMA function to include the definition and uses of "current market value" and how frequently it is to be updated. The mechanisms for establishing and updating market

values can be defined in regulations developed by the relevant ministry. The reason for such a distinction is that the law cannot anticipate all the social, economic and technological changes that might affect how values should be estimated over the lifetime of the law.

116. **The mission, after in-depth discussions with the authorities, finds that the concept of a valuation official (e.g., Director of Mass Appraisal) that can "certify" market value estimates needs to be established in law.** Most importantly, the consumer of the market value estimate needs to know the answer to the questions – *"who prepared these values?", and "do they have legal standing?"* The answers to these questions must be unambiguous. The values were prepared by the office of the Director of Mass Appraisal (for discussion purposes) according to the current law and its regulations. In turn, the Director of Mass Appraisal needs to be empowered with the authority to create an organization with adequate funding to achieve his or her legal responsibilities and requirements. Furthermore, it is best to identify for the Mass Real Estate Valuation Office the specific source of the on-budget funding such as a percentage of the real estate transfer tax, since a scarcity of budget resourcing could relatively quickly erode the Office' capacity to deliver highly accurate valuations that can withstand scrutiny by the market. In addition to the existence of the Director of Mass Appraisal, the law should describe unequivocally the construct of the Director of Mass Appraisal's office with its roles, responsibilities and to which organ of government it is assigned, with clear reference to orderly and stable budget resourcing.

C. Unique CAMA Implementation Challenges in Slovenia

117. **CAMA Systems have been used in many parts of the world since the 1970's.** Slovenia has recently joined the list of countries using mass appraisal approaches. In doing so, the country faced several challenges not necessarily encountered in other locations. In particular, the volume of sales transaction in Slovenia is very low compared to other developed countries (say the US). The analytical techniques that work well in "transaction rich" countries are dependent on an adequate supply of transactions that represent the broad spectrum of real estate in the country.

118. **In relation to the relatively recent adoption of CAMA for multi-purpose valuation, there is no well-defined organization responsible for the administration of the overall valuation process.** The major responsibility for valuation resides in the SMA, but valuation is only one aspect of CAMA administration. Consider the following taken from the SMA website:

"Land survey service is responsible for the basic data on space and real estate in the finalized databases and provides services pertaining to the registration of changes in space and on real estate properties, performs a coordination role in the field of the real estate system and spatial data infrastructure, and, in cooperation with the Ministry of Finance, is implementing mass real estate valuation with the goal of creating foundations for successful and efficient real estate administration and provision of data for objective and comprehensive real estate taxation as well as increased efficiency of the real estate market."

119. **The rules of good management require the assignment of responsibility and accountability in an unequivocal fashion**. The above arrangement is not "best practices". As stated previously, there are relatively few sales transactions upon which to build adequate statistical valuation models. The most common method of developing valuation models using multi-variate statistical techniques is to assign sales in a one-to-one fashion. That is—"a sale belongs to only one model". Given an adequate number of sales, say 5 percent per year, this approach provides enough sales to feed the "data hungry" methods required to achieve acceptable property valuation accuracy. However, the sales base of the most commonly used market models, apartments and houses, is less than 1 percent a year in Slovenia. This paucity of sales leads to one other complicating factor. There are vast areas of the country in which there are no or very few sales upon which to base a model. This is to be expected due to low number of real estate of a particular type in these areas, and already mentioned share of sales. In those areas, other tools are taken into account, including market simulation by using surrogate market value indicators. Fortunately, the SMA's Valuation Office is staffed with highly competent individuals who have devised valuation models and methods that can be calibrated on low volume and geographically sparse sales transaction sets**.**

120. **In Slovenia, just under 30 percent of all properties are taxed in terms of the property tax.** Table 12 reviews the total parcel count by type of property in Slovenia vis-à-vis the count of parcels by type and whether they are taxed or not. Here the point is that regardless of taxation status, the valuation of *all* properties must be included in the CAMA system because of the requirement that it serves as a multipurpose valuation system.

Table 12. Slovenia: Parcel Count by Type of Property

Property Type	Total Count of Property Type	Count Taxed
Houses <160SqM	277,279	0
Houses>=160 SqM	254,350	254,350
Apartments<160 SqM	321,531	0
Apartment>=160 SqM	4,052	4,052
Business Premises	79,142	79,142
Agricultural land	3,097,959	0
Land for Construction of buildings	240,837	240,837
Industry	32,553	32,553
Power Plants	2,417	2,417
Forest	1,539,447	0
Rest	1,626,146	1,626,146
Total	7,475,713	2,239,497
	Percent Taxed	29.96%
Source: Slovenian authorities and Fund staff calculations.		

D. CAMA System Evaluation

121. **This section will address the following topics:** (1) Description of findings; (2) Background assumptions; (3) Summary of the model structure; (4) Procedure for the

development of the valuation models; (5) Measurement of value estimates accuracy; (6) Evaluation; and (7) Recommendations.

Assumptions

122. **Certain assumptions are made in the discussions of this section.** Namely, the existence and description of a wide variety of data sources that are used in the model development and calibration process are not the focus of this discussion. For the sake of completeness a partial list of sources considered in the valuation process include:

Sales register	Land cadaster (SMA)	Future land use (municipalities)
Property register	Land register (SC)	Rural area land: Actual land use (MA)
Rents[20]	Spatial units register (SMA)	Rural area land: Forestry (MA)

Model Calibration

123. **During the TA Mission, the team was provided with extensive descriptions of the analyses and calibration methods used to arrive at the value tables for the direct sales comparison method and the income capitalization method.** The exchange of information took place over a period of four days including over 230 slides and lively interactive questions and answers. In other words, a detailed description of the calibration process is beyond the scope of this relatively brief document. Nonetheless the mission was provided enough detail to make a judgement that the personnel doing the calibrations are competent in the field of multivariate statistics, and the economics-based valuation theory.

Model Structure

124. **A number of processes are undertaken to arrive at a Value Table which comprises the major aspects of the valuation model**. The structure of the valuation table varies according to property type. For example, many of the tables determine a value based on "Size" and "Age" of the property. Additional property features such as decks are valued individually and added to the total. On the other hand, "Marinas and Ports" are valued by the income capitalization method and have in their valuation table elements such as number of berths.

Model Concepts

Methods

125. **There are three basic valuation methods used to achieve and estimate market value.** They are: (1) Sales Comparison; (2) Income Capitalization; and (3) Replacement Cost. These

[20] Rental transactions are included in the sales register.

methods are applied via 21 models according property type in line with the scheme of Table 13. Each element or cell of the table represents a separate model.

Valuation Zones

126. **The county is divided into a number of valuation zones**. A value zone is a geographic area where comparable properties have approximately the same market value. The zones are established by model. For example there are 382 Valuation Zones for houses and 329 for apartments, while there are two for marinas and ports and one for power generation.

Table 13. Model Assignments by Method

Property Type and Valuation Method		
Sales Comparison	**Income Capitalization**	**Replacement Cost**
Apartments	Power plants	Industry
Family houses	Mines	Heavy industry
Garages	Marinas and ports	Vineyard cottages
Business premises	Gas stations	Farm buildings
Offices		Public buildings
Land for the construction of buildings		Other buildings
Built land		Special properties
Agricultural land		
Forest land		
Other land		
Source: Slovenian authorities.		

Properties valued on Size and Age plus additional features

Relationship tables

127. **Relationship tables define the influence of "age" and "size" of a property on its market value.** A base value represents a percentage of a value of a norm object. They have the appearance shown in Table 14 which contains reference values for size and age. The values are in the form of a base value and a per square meter adjustment within the interval of "size".

Table 14. Slovenia: Example Relationship Table

Area (m2)		Effective Year Built										
		1929	1930 1944	1945 1954	1955 1964	1965 1974	1975 1984	1985 1994	1995 1999	2000 2004	2005 2009	2010
0-14	**Base Value**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
	Additional m2	20,700	22,000	22,700	24,000	25,300	26,000	27,300	28,700	30,000	32,700	34,000
15 - 29	**Base Value**	**31**	**33**	**34**	**36**	**38**	**39**	**41**	**43**	**45**	**49**	**51**
	Additional m2	15,300	16,000	16,700	17,300	18,000	18,700	19,300	20,000	20,700	22,000	23,300
30 - 49	**Base Value**	**54**	**57**	**59**	**62**	**65**	**67**	**70**	**73**	**76**	**82**	**86**
	Additional m2	12,500	14,000	14,500	15,000	15,500	16,500	17,500	18,500	19,000	20,000	21,000
50 - 74	**Base Value**	**79**	**85**	**88**	**92**	**96**	**100**	**105**	**110**	**114**	**122**	**128**
	Additional m2	11,200	12,400	12,800	13,200	14,000	14,400	14,800	16,000	16,800	17,200	17,600
75 - 99	**Base Value**	**107**	**116**	**120**	**125**	**131**	**136**	**142**	**150**	**156**	**165**	**172**
	Additional m2	10,800	11,200	11,600	12,000	13,200	13,600	14,400	14,800	15,600	16,000	16,400
100 - 129	**Base Value**	**134**	**144**	**149**	**155**	**164**	**170**	**178**	**187**	**195**	**205**	**213**
	Additional m2	10,500	11,000	11,300	11,700	12,300	12,700	13,300	14,000	14,300	14,700	15,300
130 -	**Base Value**	**166**	**177**	**183**	**190**	**201**	**208**	**218**	**229**	**238**	**249**	**259**
	Additional m2	10,300	10,700	11,000	11,500	11,900	12,300	12,700	13,200	13,700	14,200	14,600
Source: Slovenian Authorities.												

Value Level Tables

128. **This table specifies the value level of a standard home in a model.** Values are estimated in each value level. This allows for a systematic ability to vary market value estimates to reflect local conditions within a value zone.

Table 15. Slovenia: Portion of Value Level

Value Level	Reference Value
1	25.300
2	29.100
3	33.100
4	37.100
5	41.900
6	46.900
7	52.500
8	58.800
9	65.800
10	73.100
11	81.100
12	89.300
13	98.100
14	108.800
15	120.700
16	132.800
17	146.000
18	160.600
19	176.700

Source: Slovenian Authorities.

Value tables

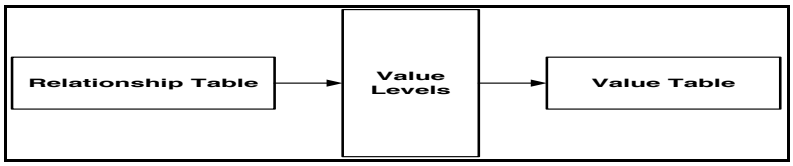
129. **Value tables are the realization of functions of real property data that influence the market value the most – size and age.** The interrelation among the three tables under discussion is shown in Figure 4. It can be seen that it was arrived at by multiplying the figures in the Relationship Table (Table 14) by the Factor for Value Level 7 (Table 15). The Value Tables have the appearance as illustrated in Table 16.

Table 16. Slovenia: Value Level Table (Partial Section or Extract)

Value Level 7												
Area (m2)		Adapted year of construction of the building										
		– 1929	1930 1944	1945 1954	1955 1964	1965 1974	1975 1984	1985 1994	1995 1999	2000 2004	2005 2009	2010
0-14	Base Value	0	0	0	0	0	0	0	0	0	0	0
	Additional m2	1.086,75	1.155,00	1.191,75	1.260,00	1.328,25	1.365,00	1.433,25	1.506,75	1.575,00	1.716,75	1.785,00
15 - 29	Base Value	16.275	17.325	17.850	18.900	19.950	20.475	21.525	22.575	23.625	25.725	26.775
	Additional m2	803,25	840,00	876,75	908,25	945,00	981,75	1.013,25	1.050,00	1.086,75	1.155,00	1.223,25
30 - 49	Base Value	28.350	29.925	30.975	32.550	34.125	35.175	36.750	38.325	39.900	43.050	45.150
	Additional m2	656,25	735,00	761,25	787,50	813,75	866,25	918,75	971,25	997,50	1.050,00	1.102,50
50 - 74	Base Value	41.475	44.625	46.200	48.300	50.400	52.500	55.125	57.750	59.850	64.050	67.200
	Additional m2	588,00	651,00	672,00	693,00	735,00	756,00	777,00	840,00	882,00	903,00	924,00
75 - 99	Base Value	56.175	60.900	63.000	65.625	68.775	71.400	74.550	78.750	81.900	86.625	90.300
	Additional m2	567,00	588,00	609,00	630,00	693,00	714,00	756,00	777,00	819,00	840,00	861,00
100 - 129	Base Value	70.350	75.600	78.225	81.375	86.100	89.250	93.450	98.175	102.375	107.625	111.825
	Additional m2	551,25	577,50	593,25	614,25	645,75	666,75	698,25	735,00	750,75	771,75	803,25
130	Base Value	86.888	92.925	96.075	99.750	105.525	109.200	114.450	120.225	124.950	130.725	135.975
	Additional m2	540,75	561,75	577,50	603,75	624,75	645,75	666,75	693,00	719,25	745,50	766,50

Source: Slovenian Authorities.

Figure 4. Interrelationship among Relationship Table, Value Level and Value Table



Tables Based on the Income Approach

130. **The Income Approach is applied to power generation plants, mines and quarries, ports and marinas, and gas stations.** It uses either the discounted cash flow or direct capitalization depending on the type of property. The value table for a gas station is used to illustrate Table 17. There are three value zones and the table is based on average quantity of petrol sold per year.

Table 17. Slovenia: Portion of the Value Tables for Gas Stations

Level 1		
Avg Sold O/I		Market
from	to	Value €
0	499.999	125.000
500.000	599.999	138.000
600.000	681.999	160.000
682.000	767.999	181.000
768.000	859.999	204.000
860.000	959.999	228.000
960.000	1.069.999	254.000
1.070.000	1.179.999	281.000
1.180.000	1.309.999	311.000
1.310.000	1.439.999	344.000

Level 2		
Avg Sold O/I		Market
from	to	Value €
0	499.999	150.000
500.000	599.999	165.000
600.000	681.999	192.000
682.000	767.999	218.000
768.000	859.999	244.000
860.000	959.999	273.000
960.000	1.069.999	305.000
1.070.000	1.179.999	338.000
1.180.000	1.309.999	374.000
1.310.000	1.439.999	413.000

Level 3		
Avg Sold O/I		Market
from	to	Value €
0	499.999	188.000
500.000	599.999	206.000
600.000	681.999	240.000
682.000	767.999	272.000
768.000	859.999	305.000
860.000	959.999	341.000
960.000	1.069.999	381.000
1.070.000	1.179.999	422.000
1.180.000	1.309.999	467.000
1.310.000	1.439.999	516.000

Source: Slovenian Authorities.

131. **The use of a table structure to capture the calculations involved in value estimation is not unique to Slovenia.** In fact, there is evidence of a similar technique being used in the United States circa 1980. See Gloudemans (1981) for a description of what he calls the "Base Home Approach". It is instructive to note the following parallels to the Slovenian implementation of the CAMA system. Taken directly from the journal article:

"It could perhaps be said that many assessors regarded the multiple regression system as a benevolent monster. They were generally pleased with the results that the beast produced but did not understand its nature. Consequently, they never really felt comfortable with it. At the same time, several taxpayer groups, partly in reaction to the higher appraisals produced by the models, attacked the regression system, emphasizing its complexity and the interpretive problems referred to above.

In 1977 the Arizona legislature contracted for two independent studies of the Arizona appraisal system, including the multiple regression models. The contractors were the International Association of Assessing Officers (IAAO) and Price Waterhouse. Both studies concluded that multiple regression had indeed improved appraisal equity in Arizona and should certainly be retained, but that its application should be overhauled. The more detailed study being that of the IAAO, made a number of specific recommendations in this regard.

Partly as a result of these studies, the legislature made a special appropriation to the Department of Revenue to implement the suggested reforms. For the first time, an Assessment Standards Section, responsible, among other things, for the development and implementation of new appraisal procedures and techniques, was created in the Division of Property and Special Taxes.' A work plan was developed for implementing various modifications to the state's computer-assisted appraisal system, including the regression models in particular. One of the key objectives in this regard was simplification of the regression models. This simplification had two major aspects. The first involved a re-specification of the models. The second involved a "repackaging" in terms of a "base home" approach that bears similarities to both the traditional cost and sales comparison approaches to value."

132. **The parallels to Slovenia are clear.** A new system was implemented that produced good estimates of value, but there was confusion among the municipalities and the taxpayers. As a result, the State Legislature enacted legislation to form a central department responsible for the CAMA systems and the models. In particular they wanted a simpler presentation of the multiple regression analysis (MRA) models and choose the "Base Home Approach" which is conceptually similar to what has been developed by the Valuation Office of the SMA.

Measurements - statistical results

133. **There are several factors determining the statistical performance of valuations models (Table 18)**. They include:

Table 18. Slovenia: Factors Influencing Valuation Model Performance

Factor	Comment
The underlying market dynamics	This is the real world and cannot be easily influenced. It is the ultimate limiting factor in obtaining good model performance
Quality of data	This is a matter of management control requiring resources for quality checking and data collection
Quality of Sales	Sales need to be screened to make sure they are representative of the open market
Quality of the valuation models	Under the control of and influence by the background of the valuation modeler

134. **There are sufficient sales to compute model performance on several, but not for all models.** What we have learned is contained in Table 19. These results reflect the reality of the Slovenian real estate market. The term "PRD" refers to what is called "Price Related Differential". The closer to 1.0 the better. COD refers to "Coefficient of Dispersion". It measures the variability about the median estimate/price ratio, the lower the number, the better. The apartment models are quite good considering the relatively few transactions available for model building. This is because there is a better understanding of supply and demand among the buyers and sellers. There is also less variation among units and age, size and location, all of which are very good variables for the estimation of value. Family houses, business premises and offices have more variability in the number of attributes needed to adequately describe each type. Also, there are more influences at work in the market that cause variability in a buyer and seller transaction. Stated differently, the Slovenian market for apartments is more efficient than any other property type's market.

Table 19. Model Performance Statistics

Model	Number of Zones	Share of Statistically Defined Value Level	Number of Sales	Price Related Differential	Coefficient of Dispersion
Apartments	329	56%	8,107	1,03	13,71
Family houses	382	62%	2,955	1,07	24,30
Business Premises	269	65%	1,238	1,10	24,71
Offices	155	66%	1,459	1,08	23,49
Source: Slovenian Authorities and Fund staff calculations.					

135. **As a means to validate the results obtained by the Valuation Office, a transaction file for all apartment sales in Ljubljana was requested by the mission.** A single valuation model was constructed starting with 8,441 sales with date range of 2010 forward. A plot of the Ratio of Estimated Value to Actual Price was constructed as shown in Figure 5. There are clearly some obvious outliers near or over 200 percent and near or below 50 percent. A very light outlier removal was performed: 89 (1.05%) of the 8,441 sales were removed and the model was recalibrated. Table 20 shows the statistical performance before and after outlier removal. It is interesting to note that the PRD and the COD of this model are very similar to that obtained for the revaluation. The results are derived on different sales sets, with the revaluation coming from an earlier time period. Data used for calibration of all the present revaluation models were time adjusted sales data from the period 2008 to July 2011. The final iterations were made on the market data for the period 2010-2011 (depending on the model). The data for the calculations of this chapter are from the period 2010 -2015, so the results are not directly comparable.

136. **The analysis was taken a step further with the computation of value estimates based on the comparable sales method which can be explained as follows**:

- Find the sale properties which are most comparable to the subject property to be valued;
- Adjust the price for each comparable property to account for differences between it and the subject's characteristics and also for the date of sale;
- Weigh these adjusted comparable sales estimates according to their similarity to the subject;
- Sum the weighted comparable sales estimates to get the final value estimate.

Figure 5. Slovenia: Ratio of Estimated Value to Actual Price vs. Actual Price

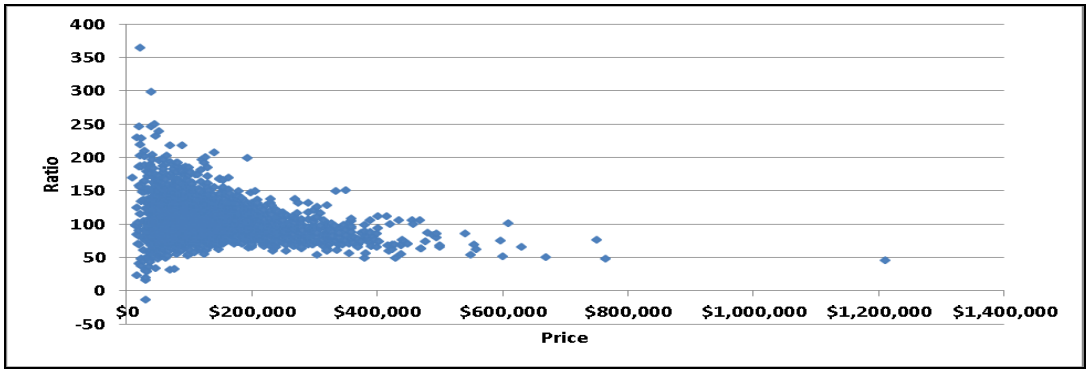


Table 20. Apartment Model Calibration Results

Model Statistics	Original	Outliers Removed	Revaluation
Total Valued	8,441	8,352	8,107
R squared	0.81	0.84	
Adjusted R squared	0.81	0.83	
COD	14.26	13.34	13.71
COV Median	20.05	17.83	
COV Mean	19.60	17.38	
Median	1.00	1.00	
Mean	1.02	1.02	
Weighted Mean Ratio	1.00	1.00	
PRD	1.02	1.02	1.03

Source: Fund staff calculations.

137. **The results in Table 21 show a noteworthy improvement in predictive accuracy as measured by the COD which is now 12.64 percent**. The improvement in predicative accuracy of the comparable sales method is typical and reflects the improvement of the value estimate by considering local adjustments to the base model. That is, the comparable sales method can be shown to be mathematically equivalent to correcting a base estimate from a model by considering the residual errors of the estimate in the region of the property being valued.

Table 21. Slovenia: Performance Statistics Ljubljana Apartments, Comparable Sales Method

Comparable Model: Ljubljana Apartments Model Results	
Unuseable Properties	0
Value Field	PRICE
MRA Model	Wiz OR
MRA Adjustment	No Adjustment
Calculate By	SimilarityWeightedMean
Exclude Self As Comparable	TRUE
Total Knowns Valued	8352 (100.00%)
R squared	0.85
Adjusted R squared	0.85
COD	12.64
COV Median	16.97
COV Mean	16.57
Median	1.01
Mean	1.03
Weighted Mean Ratio	1.01
Price Related Differental	1.02

Source: Fund staff calculations.

E. Evaluation of the Slovenian CAMA 2015

138. **It is understood that the CAMA system is multipurpose, with property tax as but one potential use**. We find it useful to provide an evaluation of the CAMA system as a mufti-purpose tool for use by the government and other public institutions of Slovenia; and then to add in a separate evaluation which would be specific to the property tax.

As a multi-Purpose CAMA system

139. **The mission finds as for the multi-purpose application of the Slovenian CAMA system as follows:**

- *Data Adequacy*—the procedures regarding data collection to support the valuation process are necessary and sufficient. There is no evidence of collection of extraneous or redundant information. In fact, it is very likely that additional data variables will be identified over time that will enhance the accuracy of the value estimates. Best practices are being followed in the data collection exercise.
- *System-interface*—the user interface is intuitive, fully functional and suitable to its purpose. Again, best practices are adopted.
- *Data Warehousing*—the data warehouse is assembled from several sources based on the previously described Export, Transform, and Load (ETL) method. It is adequate for the identified purposes, but does not constitute "best practices" as compared to other CAMA systems around the world.
- *Model Structures*—the models used for valuation are world class and most suited to the "thin market" (low transaction volume) characteristics of the Slovenian real estate market. Again, best practices are adopted.
- *Valuation Modeling Staff*—the mission finds that Slovenia has one of the finest groups of CAMA modelers assembled by any governmental organization in the world. It is not the largest, but it is among the very best. They are aware of, and use advanced statistical techniques to develop well-structured valuation models.[21] Without doubt, best practices are adopted throughout the operations.

The CAMA system supporting the property tax system

140. **The above observations are equally applicable to the property tax application.** However, there are additional requirements of the property tax that need to be addressed:

- *Taxpayer Needs*—assuming the adoption of an *ad valorem* property tax, the values computed by the CAMA system directly relate to the share or the tax burden paid by the individual owner. This leads to an enhanced scrutiny of the values over and above the use of values for other purposes that have a less direct connection affecting the income or expenses of an individual. For example, use of the CAMA output to compute a social benefit is less direct inasmuch as the value is used in a multi-factor benefits determination process. The value is not the only determinant, and not all property owners file for social benefits. The property tax is much more direct: tax liability = CAMA-determined value * tax rate. The negative reaction can also be a more widely experienced situation if the tax burden is shared by the majority of property owners/occupiers.

[21] This assessment has been made by an expert TA mission team member who has been active in the CAMA field for over 40 years and has gained extensive working experience and knowledge of practices in North America, the U.K., Australia, China, Malaysia, the Caribbean region, South Africa, etc.

- *Staffing and Organization*—handling public inquiries on the process of objections and appeals is not the best use of highly skilled CAMA modelers, not to mention the number of personnel that are required to adequately respond to taxpayer inquires/complaints.

- *Value Review Process*—CAMA Systems produce "value estimates" via appropriately applied statistical methods. It is customary in almost all jurisdictions using CAMA methods to include a value review process that ranges considerably in how the review is conducted. At one extreme, each estimate is reviewed in the field and the reviewer either agrees with it or makes data changes to improve value accuracy. A more moderate approach is to do the same process in the office using digital imagery in lieu of the field visit. When resources are more constrained, techniques are devised to screen for outlier value estimates which are in turn flagged for a review process. At the opposite extreme from the full field review is to accept the CAMA estimates which is accompanied with little or no further review.

Recommendations

- Consider the use of *Comparable Sales Valuation* method in areas of the country that are supported by sufficient sales to support the method. The rationale is that potential improvement in predictive accuracy and defensibility of the values will be achieved.

- Consider the use of geostatistical techniques such as the spatial hedonic model (spatial error model) as it is generally more accurate than model formulations that assume uniform variance of the errors.[22]

- The SMA should continue with their stated plans to develop a new version of the CAMA system that employs an integrated database. Gains in operation efficiency are known to be achieved in other jurisdictions that have followed this path.

- Move to a centralized organizational structure with carefully delineated and guaranteed responsibility, accountability, authority and funding to maintain the integrity of the real property database and the attendant valuation functions.

- Recognize the need for a "Director of Mass Appraisal" (or similar title) to head up the centralized CAMA organization.

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[22] The SMA's Valuation Office uses a generalized additive model for location, scale and shape (GAMLSS) as a geostatistical technique. This is a statistical model for a univariate response variable. The model assumes independent observations of the response variable 'y' given the parameters, the explanatory variables and the values of the random effects. The distribution for the response variable in the GAMLSS can be selected from a general family of distributions including highly skewed or continuous and discrete distributions. It allows modeling not only of the mean (or location) but also of the other parameters of the distribution of 'y', as parametric and/or additive nonparametric (smooth) functions of explanatory variables and/or random-effects terms.

- Recognize that CAMA estimates should be subject to a rigorous review process before being "finalized". Accordingly, staffing should be identified over and above the members of the CAMA modeling team to take on this additional and very important responsibility.

- If CAMA estimates are used for establishing *ad valorem* tax charges, make sure that there is commensurate opportunity for taxpayers to make reasonable inquires as to the nature of their property value, and to contest the appraised value.

- Given that Slovenia is the only jurisdiction known to the TA Mission that places the burden of supplying accurate property descriptive information on the property owner, consider re-assigning that responsibility to the office of the Director of Mass Appraisal.

141. **The International Association of Assessing Officer has recently released a comprehensive study of the staffing and funding levels in North America.** It is entitled *Staffing in Assessment Offices in the United States and Canada: Results of 2013 Survey*. While it is recognized that the European model of a CAMA organization is different than that of North America, the document (Journal of Property Tax Assessment and Administration • Volume 11, Issue 2) is likely to offer insights into staffing, budget and organization that may be translatable to the Slovenian setting.

F. Revaluation Cycles

142. **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 resources. In some jurisdictions (e.g., Hong Kong, Singapore, British Columbia (Canada), and Queensland (Australia)) all properties are reassessed annually. In other jurisdictions, the valuation cycle may be a fixed cycle of, for example, two years (Denmark), three years (Australia, New Zealand), four years (Ontario, Canada), five years (Malaysia), ten years (Jamaica) or even longer. An option used in some countries is to simply state that a general revaluation of all properties must be done at least once within a specified period, but that it may occur sooner if required by market conditions. 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. A further option is to have different valuation cycles for different property sectors for example, one could have a three year cycle along the lines of, residential property valued in Year 1, commercial and industrial property in year 2 and agricultural and forestry land in year 3. Then the cycle begins again.

143. **Annual revaluations whilst being attractive in that property tax values are kept current are relatively rare internationally.** They tend to be found in jurisdictions which have very dynamic and volatile property markets. In other countries with most stable property markets revaluation cycles tend to be in the range of 3-5 years. The actual costs of revaluation can be high even though technology and automated approaches can reduce these. The cost benefit of

annual revaluations should be carefully considered. Revaluations based on 3-5 year cycles have the advantage of stability and predictability in terms of tax liability for taxpayers.

144. **The advantages of a shorter cycle would include;** (1) Allow valuations to better respond to market value changes caused by changing economic conditions; (2) Able to implement improvements to value accuracy sooner; (3) Reduce the magnitude of valuation shifts between revaluations; and (4) Reduced need for tax policy tools such as transitional relief during a revaluation year. More frequent revaluations create uncertainty as both the new values and tax rates are unknown. The disadvantages of a short cycle would include; (1) Increased administrative costs (valuation notices sent out more frequently); (2) Municipalities may need to conduct more frequent reviews of tax rates; (3) Need for a very efficient administrative system; (4) Potential for higher levels of appeals tied to increased number of revaluation years; (5) More appeals would result in added administration costs; and (6) appeals may not be settled within the year and run-over into another revaluation year.

145. **While legislation may specify the period of revaluation cycles many countries have difficulty in adhering to the law.** There are many reasons for this including; (1) Revaluation costs; (2) Insufficient experienced staff; (3) Closeness to general elections; (4) Political interference; and (5) the state of the property market. Table 22 shows for a number of countries information on the basis of the property tax and frequency of revaluations.

Table 22. Valuation Cycle Information on Selected Countries

Country	Basis of Property Tax	Value Basis	Valuation Authority	Revaluation Cycle	Comments
Czech Republic	Area	–	Central	–	
Denmark	Land & Buildings; Land	MV	Central	2 yearly	Previously on an annual revaluation cycle
Estonia	Land only	MV	Central	3 yearly	Revaluations in 2001 and 2009
Hungary	Area	–	Local	–	
Kosovo	Buildings only	MV	Central/Local	3-5 yearly	No revaluation since 2007
Latvia	Land & Buildings	MV	Central	5 yearly	Update cadastral values annually
Lithuania	Land & Buildings separately	MV	Central	Annual updating	Revaluation in 2011
Moldova	Land & Buildings	MV	Central	3 yearly	Revaluations in 2005 (residential) and 2009 (commercial)
Netherlands	Land & Buildings	MV	Local	Annual	
Poland	Area	–	Local	–	

Source: IMF compilation.

146. **In Slovenia, the Mass Real Estate Valuation Act prescribes a four year valuation cycle.** However, there is a provision to allow for the annual indexing of values for prescribed categories of real estate. The authorities need to consider whether the "new" property tax will be based on a four year cycle with the property tax value remaining "fixed" during this cycle. A major issue to be considered is the potential number of informal reviews after the delivery of the "Notification of Value" to taxpayers. Some evidence can be drawn from the province of Ontario, which moved from an annual revaluation cycle to a four-year cycle in 2009 (see Table 23). On revaluation dates, which was 2009 and 2013 the number of reviews spike; but from 2009 the reviews decline significantly over the next three years. This pattern is typical and there is no reason to suggest that the same would not apply to Slovenia.

Table 23. Annual Valuation Reviews: Ontario, Canada

Year	2009	2010	2011	2012	2013
Number of reviews	198,572	108,952	34,601	42,868	147,548
Percent of total properties	4.24	2.3	0.72	0.88	2.99
Source: MPAC, Annual Report, 2014.					

147. **The mission would therefore suggest that the property tax values remain fixed for a period of four years.** However, the role that annual indices would have should be considered. Uplifting the property tax values by some index is similar to a revaluation of the property which would then require notification of values and permit owners to review and appeal such new values. Only uplifting values of some sectors of the real estate market could create inequities between sectors and possibly lead to legal challenges. A suggestion could be to use the annual indices to provide "shadow" values of property which track market values. There should then be a clear distinction between values used for property tax purposes and those "shadow" values. The use of the values generated by the mass valuation system for other uses such as verifying property transfer prices, social security transfers and, expropriation should be carefully considered. The mass valuation system can generate the value of a property at any point in time. The question is what is the primary purpose of the mass valuation system? There is no reason why a value determined for property tax purposes must also be used for other purposes. Obviously, if the system can be used for other purposes there are cost savings and economic efficiencies. The property tax value would be registered in the Real Property Register but would or should the "shadow" value also be registered which could then be used for other purposes?

Recommendations

- Property tax values should remain fixed for a period of 4 years to give stability and predictability in tax liabilities.
- Revaluations should be based on a four-year cycle.
- Apply indices annually to provide "shadow" market values as registered in the RPR.
- The use of the values generated by the mass valuation system for other uses such as verifying property transfer prices, social transfers and, expropriation should be carefully considered.

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